Mounting government crisis in Slovenia

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At the end of September, Slovenia's government declared for the first time that it would apply for support for the country's highly indebted banks from the European Union (EU). Until then, the centre-left coalition led by Prime Minister Alenka Bratusek had repeatedly opposed the subordination of the country to the EU's permanent bailout fund (ESM), while imposing their own strict austerity and privatisation measures.

Slovenia has been a candidate for a bailout from the ESM and International Monetary Fund (IMF) for some time. The European Central Bank has already allegedly pressed the government to apply for funds from the ESM. A final decision is expected after the results of the banks' stress tests, which are due in November.

The crisis situation has recently intensified, as two smaller banks were shut down by the central bank because they had huge amounts of bad loans on their books. Slovenia's banks, which are mainly controlled by the state, are sitting on bad debt totalling more than €7.5 billion, which is equivalent to more than 20 percent of GDP.

In addition, Slovenia has been severely affected by the global economic crisis due to its dependence on exports. The head of the central bank Bostjan Jazbec stated recently that the domestic economy would contract this year by 2.6 percent, much more than the 1.9 percent previously anticipated.

All estimates suggest that the recession will continue until 2015 in the country that has been an EU member since 2004. Although Slovenia's economic output forms only a tiny fraction of the EU's overall output, a further bailout programme would sharply diminish the trust of the markets in the Euro zone, as several analysts have noted.

The European Commission and Eurogroup chairman Jeroen Dissjelbloem has demanded energetic reforms from the government. The government presented a draft budget earlier this month, aimed at cutting the budget from 7.9 percent to 3 percent by 2015. The budget is to be adopted in parliament at the end of November.

Prime Minister Alenka Bratusek explained that although the budget was "risky", it was the only way to solve the country's problems without the assistance of the EU and IMF. The government has already passed an austerity programme earlier this year. It increased VAT to 22 percent, reduced wages in the public sector and offered up 15 state companies for privatisation.

At the end of last year and in early 2013, hundreds of thousands participated in demonstrations against the radical spending cuts. Prior to the outbreak of the financial crisis, the unemployed, pensioners and single parents were already living in poverty. Since then, the number of those in poverty has sharply increased. Currently 15 percent of Slovenians live below the poverty line. Roughly 45 percent of those employed earn less than €600 per month. Officially, the average wage in Slovenia is €900.

The crisis has led to sharp conflicts within the ruling elite. Bratusek has tied the passage of the budget to a vote of confidence in her government in order to force through the cuts. "The budget is the most important document of every government. Therefore I find it reasonable to attach it to a vote of confidence," she stated.

However, although Bratusek was able to win the vote in cabinet, the conflict is by no means over. Within the governing coalition and her own party disputes are intensifying.

Bratusek's party, Positive Slovenia (PS), cancelled its long planned party conference at the end of September to prevent an escalation of the political crisis. A struggle over the vote for party leader was threatened at the congress, which was originally planned for October 19. Ljubljana mayor Zoran Jankovic, who founded the party in 2011, was contemplating the removal of Bratusek and taking over the leadership himself once again.

Bratusek announced she would resign as head of government if she lost the party leadership. This would have inevitably led to new elections, delaying the austerity measures and making the acceptance of an EU bailout unavoidable. For these reasons, the leadership of the PS backed Bratusek and postponed the congress for two years. The deputy leader of the PS, Masa Kociper, justified this to the press by saying that "the interests of the state are more important than those of the party."

The PS's coalition partners, the Social Democrats (SD) and the Pensioners' Party (DeSus), declared that they would give up their place in the government if Jankovic took over the leadership of the party. Jankovic resigned as party leader in February, clearing the way for the foundation of the coalition under Bratusek. The two coalition partners had refused to cooperate with Jankovic, who is implicated in a number of corruption scandals.

Business circles welcomed the cancellation of the PS's party congress. "Catastrophe prevented, a sigh of relief for Slovenia's credit worthiness," remarked Abbas Ameli-Renani from the Royal Bank of Scotland. In the opinion of analysts, international assistance is still likely to be required. According to Bratusek, at this point the amount of money required by the banks is "completely unknown." As a result, the government is planning further cuts. "We are preparing further intensive measures so that we do not need to ask for assistance."