IMF increases pressure on Slovenia

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7 February 2014

The International Monetary Fund (IMF) is increasing pressure on Slovenia to reduce its budget deficit and pay for the costs of the bailout of the banks by layoffs in the public service, cuts to social spending and privatisation of publicly owned companies.

In a press release dated January 17, the IMF's executive board recommended "more ambitious public employment reduction, better targeting of social transfers, and specific cuts in transfers and subsidies." The statement went on: "Reducing the role of the state, including through privatisation, is particularly important."

The IMF report upon which the recommendations are based paints a picture of the terrible economic and social conditions prevailing in this country located between the Alps and the Adriatic Sea. Twenty-three years after its separation from Yugoslavia and the introduction of capitalism—after having once been the model state within Yugoslavia—Slovenia finds itself in an economic blind alley.

"The combination of an overly indebted corporate sector and weak banks has led to a vicious circle of deepening recession, mounting bankruptcies, rising nonperforming loans (NPLs), and further deleveraging," the IMF wrote. "The economy now has contracted for eight consecutive quarters, after a sharp contraction in investment…weighed down by deep fiscal cuts, stagnant wages, and growing uncertainty…. Real GDP has fallen by 11 percent from its pre-crisis peak, the largest output loss among the euro area members after Greece."

Both the private and public sectors are highly indebted, the report stated. "Public debt has more than doubled since 2008, reaching 55 percent of GDP by end-2012, and is set to increase sharply after bank restructuring," according to the IMF. As a consequence, interest rates for state debt are "about 2 percentage points higher than in similarly rated Spain and Italy." Companies must pay on average 90 percent of profits on interest: "the average interest bill to earnings ratio has reached 90 percent, pushing into the red companies that might be viable with lower debt."

The economy is also to contract by 1.7 percent this year, and state indebtedness will rise to 78 percent of GDP. The three largest banks, including the Nova Ljubijanska Banka, have received around €3 billion (US$4 billion) in public funds to prevent their collapse. Two smaller banks went bankrupt last year.

The recipe being proposed by the IMF to resolve the crisis will only deepen it further. Layoffs, social cutbacks and wage cuts will intensify the recession, while the profits of the international and Slovenian banks will rise.

The Slovenia chamber of trade and commerce (GZS) has also demanded stepped-up reforms. Bank bailouts and debt reduction were not enough, stated GZS president Samo Hribar Milic. Fundamental reforms in the health care system and changes to labour laws were necessary.

Prime Minister Alenka Bratusek is currently trying to impose deep cuts in health care. Recently, she proposed the former president of the court of auditors, Igor Šoltes, as future health minister. His predecessor resigned in November, after his attempted reforms had failed.

Slovenia is not unique. In several other eastern European countries, economic conditions are catastrophic. The position of the banks is becoming ever more precarious. Banks in western Europe have been rolling back financing for their subsidiaries in eastern Europe significantly since 2011. In the second half of 2013, this trend accelerated further, according to figures from the IMF and the European Bank for Reconstruction and Development (EBRD).

Asim Husain, vice president of the IMF's European division, views this as a "development which is significant and cause for concern.” In Slovenia and Hungary, in particular, funds had dropped by the equivalent of roughly 20 percent of economic output. There has also been a major capital outflow in Croatia, Romania and Serbia, he said.

Western European banks have withdrawn a total of approximately €120 billion from the region since the global financial crisis of 2008. However, the funds from the “recent wave of capital flight from the second half of 2013 have not yet been counted within this,” reported the Austrian daily *Der Standard*. In addition, businesses are massively indebted, and the economy in countries such as Romania and Hungary has been stagnant for some time.

The EBRD decided in 2008 that Slovenia no longer required support. Six years later, the bank has now corrected its verdict. It has opened a new office in Slovenia and will support the government with the reform of the financial sector, the sale of 15 state-owned companies, which are being sold virtually free of charge, and the reorganisation of the heavily indebted business sector.

The EBRD has to date praised the Bratusek government for its strict programme of spending cuts and reforms. Disagreements have emerged recently, however, as with the government’s decision to maintain a minority stake in the Nova Ljubijanska Banka, which blocked its full privatisation.

The privatisation of 15 state-owned companies selected by the government last year is currently under way. Gores Group, an investment firm with its headquarters in Los Angeles, has had its bid accepted for a majority stake in the firm Fotoma, which specialises in the production of laser technology for medical, dental and aesthetic use, and has been extremely profitable thus far. The final takeover is to take place in this quarter.

Negotiations for another dozen state-owned companies will continue in the coming months. These include Telekom, Ljubijana Airport, the airline Adria Airways, and the country’s second largest bank, NKBN. There are two interested parties in NKBN—the Hungarian OTP and the EBRD.

The supermarket chain Mercator is to be sold to its Croatian rival Agrokor. Negotiations have been ongoing since 2011 and had previously failed mainly due to the low offers from Agrokor. Under pressure from the government, a rapid sale is now more likely.

The government can rely on the trade unions to support privatisation, which has been met with widespread opposition among the population. Lidija Jerkic, chair of the metal workers union, welcomed privatisation as the only option left in the face of the economic crisis.

The trade unions collaborated with the privatisation of the paint manufacturer Helios and justified it to the workforce.

Bruno Reja, the trade union representative for Fotoma, stated on the company’s takeover by a US investor that one could “only hope” that the company would remain in its current form. At the same time, he prepared the workforce for layoffs to come, commenting, “We do expect drastic changes, however, as happened with other companies sold to foreigners, like layoffs or closing of whole departments.”

The Social Democrats, in coalition with Positive Slovenia, are in agreement with the austerity programme. While they regularly campaigned against spending cuts and privatisations in order to contain public anger, they now stand firmly behind Bratusek.