Banking crisis intensifies in Slovenia

By Markus Salzmann
6 August 2012

After Greece and Spain, now Slovenia, once the "model pupil" of the European Union in Eastern Europe, is slipping into the vortex of the European banking crisis. The former Yugoslav republic, which joined the EU in 2004 and introduced the common European currency in 2006, is becoming the "Spain of Eastern Europe", as the *Financial Times Deutschland* wrote.

Recently, the Slovenian Ministry of Finance confirmed that the country's largest bank needed additional assistance of €500 million. The Nova Ljubljanska Banka (NLB) holds bad loans totalling €1.5 billion. It had already received emergency funding of €380 million in late June.

The government in Ljubljana announced that it now also plans to check the loans of Slovenia's second and third largest banks, and submit a recovery plan for the entire financial sector. In discussion is the setting up of a "bad bank" that takes over the bad loans of financial institutions. The National Economic Institute estimates that Slovenian banks hold bad loans totalling at least €6 billion.

The Slovenian state is the largest shareholder in the Nova Ljubljanska Banka, controlling 45 percent of its shares. The Belgian financial group KBC, which owns 25 percent, itself received state assistance during the financial crisis, and had to give up its holdings under pressure from the EU. The second largest bank in the country, Nova Kreditna Banka Maribor, is 50 percent state-owned.

The Moody's rating agency had lowered the credit rating of both institutions in the spring, citing a "marked deterioration in the loan portfolio".

Slovenia is among the Eastern European countries hardest hit by the financial crisis. After EU accession in 2004, an enormous housing bubble was created, which burst after the outbreak of the financial crisis in 2008. Many Slovenian companies, especially in the construction industry, went bankrupt.

The outlook now is very bleak. After Slovenia went into recession in 2011, the economy will shrink further in 2012. Analysts expect a two percent decline this year.

Two weeks ago, interest rates on ten-year Slovenian government bonds rose temporarily to over seven percent. The right-wing government in Ljubljana claims it can manage without foreign aid, but should the banks' situation deteriorate, a request for help from Brussels is quite likely. Prime Minister Janez Jansa has already acknowledged that the situation in the banking sector is "uncertain".

The costs of the banking crisis are enormous for this country of two million inhabitants. The rating agency Fitch puts the cost of bailout out the banks at three billion euros, while others expect it to reach five billion. If bond yields do not soon fall below five percent, Slovenia will not avoid needing EU aid, according to Raiffeisen analyst Gunter Deuber.

Marc Ostwald of Monument Securities Ltd. Told *Die Welt*: "Slovenia has long been on the verge of a bailout. It depends to some extent on what happens to the banks, and to some degree on other events."

So far, with Greece, Portugal, Ireland, Spain and Cyprus, five countries have required EU aid. All financial aid is subject to rigorous austerity conditions.

In May, the Slovenian government adopted an austerity plan for 2012 and 2013 to rescue the banks. Public expenditure this year will be cut by €800 million, and €750 million next year. In 2013, the budget deficit should fall back below the limit of 3 percent of GDP. If Slovenia comes under the European rescue mechanism, further austerity measures will follow.

Before introducing the new cuts, which will particularly hit the public sector, the Slovenian parliament approved a reduction in corporation tax,

© World Socialist Web Site

which it lowered from 20 to 18 percent. It will fall by another percentage point every year from now on, reaching 15 percent by 2015, one of the lowest rates in Europe.

The economic situation in Slovenia is symptomatic of all Eastern Europe and the Balkans. According to a study by the Vienna Institute for International Economic Studies (WIIW), of the six European countries whose economies will contract in 2012, four are in South Eastern Europe: Bosnia-Herzegovina (-0.5 percent), Serbia (-1 percent), Slovenia (-1.5 percent) and Croatia (-1.5 percent).

Should the crisis in Greece escalate, moreover, southeastern Europe would be affected particularly hard, the WIIW wrote.

The situation is also critical in neighbouring Croatia, which is scheduled to join the EU next year. Economic conditions in Croatia were "extremely difficult" and will get "worse," Finance Minister Slavko Linic recently told the media. Croatia's gross national product is declining steadily, and only the unemployment rate is climbing.

Linic described the course the government would take: "To really solve our problems, we should actually spend more, but we have no choice but to continue to save."

Croatia's gross domestic product in the first quarter fell again by 1.3 percent.

The Balkan countries—Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, Montenegro, Romania and Serbia—have still not recovered economically to the level of 2008. Weak growth rates and declining industrial production are fuelling unemployment.

In Serbia, the official unemployment rate rose in from 14 to almost 24 percent in 2007-2011.

To contact the WSWS and the
Socialist Equality Party visit:

http://www.wsws.org

© World Socialist Web Site