EU demands further austerity in Slovenia

By Markus Salzmann
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The former Yugoslavian republic of Slovenia is being pressured by the European Union (EU) and International Monetary Fund (IMF) to implement severe spending cuts on a par with those enforced in Greece and Cyprus. This includes cuts to wages in the public sector, reforms to pensions and social welfare, and cuts to education and healthcare budgets.

Although large protests against austerity measures and corruption led in February to the resignation of the right-wing government of Janez Jansa, a "centre-left" coalition under Alenka Bratusek is continuing the social attacks.

During her first trip abroad as head of government, Prime Minister Bratusek announced after a meeting with EU commission President Jose Manuel Barroso in Brussels that she would work "day and night" to ensure the reorganisation of the banks, a task which she saw as the country's main issue. "Slovenia faces big challenges," Baroso said. But after the meeting with Bratusek, he felt "that Slovenia would rise to these challenges."

Along with Spain, Slovenia displays the greatest economic problems in the EU, according to the EU Commission. Olli Rehn, the economic and monetary affairs commissioner, based his assessment on a recently released investigation of 13 EU states. The governments in Madrid and Ljubljana would have to quickly counteract the imbalances, the assessment urged. "Strong political action is immediately necessary," it declared. The country's indebtedness had risen sharply and the risks for the banking sector were high. To counteract the negative trends, Slovenia had to "act swiftly and decisively."

The first priority, in the opinion of an OECD (Organisation for Economic cooperation and Development) report was "to help the banking sector stand on its feet again." Slovenia was threatened by a long period of weak growth and limited access to the financial markets, it added. Therefore "additional and radical measures are necessary as soon as possible."

The reforms introduced by the previous Jansa government are not sufficient, according to the OECD. While it welcomed the creation of a "bad bank", where toxic assets can be transferred, it criticised this for not going far enough. The OECD also recommended the privatisation of the banks, since the largest three institutions are controlled mainly by the state.

The viable banks would in this way be saved and fully privatised, while other ailing institutions would be allowed to go bust. According to the credit rating agency Fitch, the three main banks need 2 billion Euros of fresh capital this year alone.

The OECD anticipates Slovenia's economy will contract by a further 2.1 percent this year. The interest on 10-year government bonds has climbed close to 7 percent. The banks hold bad property loans which would cost the equivalent of 20 percent of GDP to repay. The Slovenian Central Bank has predicted a contraction of 1.9 percent of GDP this year, a decline only slightly less than that of last year.

For these reasons, Slovenia is viewed as the next candidate for the EU's bailout fund. In a survey by Reuters, 26 out of 49 analysts assumed that Slovenia will need external help. A few months ago, only 16 experts expected that to be necessary.

The IMF also wants rapid action. IMF economist Jörg Decressin Jüngst indicated that measures should be taken quickly to deal with the banking crisis. The international finance institutions fear the bankruptcy of Slovenia could trigger a chain reaction. "If Slovenia fails, which country will be next?" asked Andrew Birch, an analyst with HIS. "Malta? Italy?"

Before entering government, Prime Minister Bratusek stated that her administration would get through the crisis without imposing further cuts. She is now determined to privatise two state-owned companies this year, including a bank, she declared, “that would be a very good sign for the finance markets.”

Bratusek has already announced the first steps in the plans to privatise the firms. Earlier in the year before the change of government, her party had opposed the plans of Jansa’s administration to sell off state assets. According to media reports, Bratusek aims to sell the second largest bank, Nova Kreditna Banka Maribor (NKBM).

Bratusek also announced that the austerity programme should be finalised by May 9 at the latest, and handed over to the EU in Brussels. The austerity measures will include an increase in VAT. Bratusek has spoken out explicitly in favour of tax rises, but opposed any plan to tax wealth.

A new labour law came in to force on April 12, negotiated between the trade unions, business organisations and the previous government. The law includes a reform of the labour market in areas which were seen by business representatives as being too heavily regulated. Layoffs will be easier to enforce due to shorter notice periods. Through the option of “temporary layoffs”, companies will be able to force workers into unemployment for months during periods of economic crisis.

Bratusek’s coalition is made up of her "Positive Slovenia" party, the Social Democrats (SD), the Liberals (DL), and the Pensioners’ Party (DeSus), and is supported strongly by the trade unions.

Under these conditions, petty-bourgeois forces are attempting to expand their influence and betray any genuine struggle against the brutal austerity measures. The Italian-Slovenian historian Jože Pirjevec recently founded the Solidarity party—“For a Just Society.” Perjevec was a leading figure in the protest movement and has regularly criticised the “unjust” policies of the corrupt ruling elite.

However, the 73 year old is an experienced politician and a committed proponent of the capitalist system. He has been a member of the Liberal Democrats (LDS) since 2005. The LDS was the dominant ruling party in the aftermath of the break-up of Yugoslavia. The LDS governed with only a short interruption between 1994 and 2004, preparing the way for Slovenia’s entry in to the EU. This was linked to deep cuts in social welfare, wage reductions and privatisations.

The LDS emerged out of the Socialist Youth Association (ZSMS), the youth movement of the Communist party. Slavoj Zizek, the well-known academic and author, was presidential candidate for the LDS in 1990. In 2002, the party’s long-serving chairman Janez Drnovsek became Slovenia’s president. In parliamentary elections in 2004, the LDS suffered massive losses and was forced in to opposition. Since then, the party has only achieved 1-2 percent of the vote and is close to being disbanded.