

Slovenia is defending itself against bankruptcy

Jakub Groszkowski, Słowenia broni się przed bankructwem

On 9 May the centre-left Alenka Bratusek government, which has been in power for two months, presented a reform plan for 2013-2014 that is intended to help lift Slovenia out of the banking and economic crisis. The state-dominated Slovenian banking system has 7 billion euros of unpaid loans (approximately 20% of GDP). About 18% of these debts have been incurred by the construction sector which has been in serious crisis for six years. Under the government's plans, 3.3 billion euros in unpaid loans from the three largest banks (controlled by the state) will be transferred to a state-owned bad bank. These three banks will then receive 0.9 billion euros from the state, which will increase this year's deficit of public finance to 7.8%. The capitalisation of banks is meant to stimulate Slovenia's economy which shrank by 2.3% last year and to curb unemployment which currently stands at 13.5%. The government intends to obtain funds to pay off the debts of the banks and to boost economic growth through the privatisation of 15 large companies. Additional funds will be ensured by an increase in VAT (from 20% to 22%) and cuts in budget-financed salaries. The government's ambition is to reduce the deficit of public finance to 3.3% in 2014.

Commentary

- Despite being mentioned as a potential recipient of aid from the euro zone rescue fund, Slovenia is effectively coping with the threat of insolvency. Although the rating agency Moody's lowered the country's rating to speculation category on 30 April, several days after that Ljubljana sold off its bonds for US\$ 3.5 billion without a problem, ensuring its financial security for this year. The reform plan will strengthen market confidence in the Slovenian economy. The sustainability of this confidence will, however, depend on two factors: the consistency with which the government implements the reforms, and the economic situation in the euro zone countries which are the main recipients of Slovenian exports (mainly Germany, Italy, Austria and France).
- It should be expected that the reforms will be received with criticism by a Slovenian society which is tired of the economic crisis and distrustful of the political elite which has barely changed in the last 20 years. Strong trade unions will be the main opponent to Alenka Bratusek's government. The government was formed following a reshuffle on the political scene, not as a result of an election and thus its social mandate is relatively

weak for such an ambitious reform plan. Another problem faced by the four-party coalition is the lack of coherence in terms of its manifesto. It cannot be ruled out that the implementation of the reforms will trigger a wave of protests and strikes analogous to those of December 2012 and January this year. The social unrest is being exacerbated by corruption scandals. In a recent report by Ernst & Young, Slovenia was named the most corrupt country in the EU.

- Privatisation, so far quite limited and open mainly to domestic investors, will be particularly important for the Slovenian reform plan. A considerable number of huge companies is still controlled by the state. The financial crisis will make it more difficult to find attractive buyers, in particular for the Nova KBM bank, airlines and the Ljubljana airport. This will be even more the case since potential investors are aware of the pressure the Slovenian government is currently having to deal with.