

Slovenia: a new prime minister for hard times

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The snap parliamentary election of 13 July has significantly remodelled the Slovenian political scene; the newly created centre-left Party of Miro Cerar (SMC) won over one third of the seats and most likely the prime minister's office as a consequence of the election. Cerar, the leader of the party, is a law professor and a constitutionalist but also a political novice, and his views on the key issues linked to the need to reform public finances are unknown. According to Eurostat's estimates Slovenia's public debt next year will exceed 81% of GDP. It has averted the risk of its banking system going bankrupt, but remains plunged in economic stagnation. Furthermore, as a eurozone member state, it is obliged to conduct a number of reforms (above all, the pension system reform). The outgoing cabinet led by Alenka Bratusek had successes in this area. Nevertheless, the voters were definitely critical about her government. The Party of Miro Cerar has a strong electoral mandate. However, this mandate is not an expression of support for a specific reform programme but rather for a rectification of political life. The moves of the government of Slovenia, a member state of the eurozone, are also being watched by the European Commission, which has the right to impose fines on countries delaying reforms.

The success of the newcomers

The victory of the Party of Miro Cerar (34.5%) in the second snap election in the past three years and the fact that voter turnout was low by Slovenian standards (51%) serve as proof of continuing disillusionment with the traditional right- and left-wing parties and political life as a whole. Positive Slovenia, the centre-left party which won the election in 2011 with a 28% support level, this time got less than 3% of the votes. The SMC owes its victory to the popularity of its leader, who has an impeccable reputation as an expert on law. He is also known as the son of the greatest athlete in Slovenian history and a former minister of justice. The election campaign of his party, which was established six weeks before the election, was based on the high level of confidence in Cerar, and his role as the party leader was to a great extent restricted to making generalised declarations on combating corruption and cleaning up political life. Cerar's previous political experience has been limited to participation in the commission which developed the text of the constitution of 1991 and advising parliament on legal issues. In turn, his party members include politicians linked to the centre-left Liberal Democracy of Slovenia (LDS), which co-formed the government coalitions in the 1990s and whose deputy president was Cerar's mother.

The economic situation

Slovenia needs to face numerous challenges resulting from the poor condition of public finances and economic stagnation. The immediate priority of the new government will be to

find a way to mitigate the increasing public debt, which has risen over the past year from 54.8% of GDP (Q1 2013) to 78.7% of GDP (Q1 2014). In addition to this, the new cabinet will have to finalise the process of putting the state-dominated banking sector back on its feet after the previous government established a so-called “bad bank”, which has taken on more than 3 billion euros of unpaid loans, thus lifting the burden off the banking system. The European Commission has for years been encouraging Ljubljana to embark upon an ambitious structural reform programme. However, reforms have been blocked through referenda or have caused coalition governments to break up. The pension system reform is the source of greatest controversy in the country. According to the European Commission, the stability of this system could be upset already after 2020. The pension reform has been obstructed over the past few years by the Democratic Party of Pensioners of Slovenia (DeSUS), which has been a member of consecutive cabinets. DeSUS is the third strongest party in the new parliament and a potential coalition partner for SMC. If Miro Cerar decides to co-operate with the pensioners’ party, this will be a clear indicator of the direction his government. Owing to the recent issue of bonds worth 4.5 billion euros, the new government will have the guarantee that it will be able to cover the expenses by mid 2015. This gives Cerar time to prepare the programme for reforms and privatisation. However, if the interest rate on the 10-year bonds remains at the present low level (3.1–3.3%), it cannot be ruled out that the new government will choose to delay unpopular decisions.

Privatisation prospects

The expected level of economic growth this year is at 0.8% of GDP and this will prolong the period of crisis and stagnation which started in 2009. The Cerar government may not hope for an economic revival soon, so it will be forced to either raise taxes and make serious budget cuts or to conduct extensive privatisation, a solution which has thus far been avoided in the Slovenian economy due to fear of the dominance of foreign capital in this country with a population of two million. The privatisation plan presented by the previous government, which covered fifteen companies, has been shelved since the government fell in May. So far two companies have been sold as part of the plan. Cerar has promised to resume privatisation, which in his opinion should however exclude “strategic infrastructural firms.” This may mean that the previous government’s efforts to sell shares in Telekom Slovenije and Aerodrom Ljubljana (Ljubljana Airport) will be discontinued. In turn, the privatisation of Nova Kreditna Banka Maribor, one of the largest banks, may be finalised. Hungary’s OTP is one of the banks interested in taking it over.

Possible scenarios for the formation of a government coalition

The Party of Miro Cerar is viewed as a centre-left political force, although its leader has avoided any ideological declaration and has emphasised that he is ready to co-operate with almost all political parties. The right-wing Slovenian Democratic Party (SDS), which came second in the recent election (21%), has been the only party he has ruled out co-operation with. The leader of SDS, former prime minister Janez Jansa, was imprisoned three weeks before the election and is serving a two-year sentence on charges of corruption linked to the scandal concerning Finnish Patria armoured personnel carriers. Jansa has appealed to the Supreme Court, and SDS is arguing that the Patria issue has been blown out of proportion with the intention to liquidate the political opposition. The scandal which has been ongoing since 2006 and the trial have consolidated SDS’s electorate, firmly establishing it as a

strong opposition party. It has, however, reduced its chances of taking power.

Besides SDS, almost all parliamentary parties could form a coalition with SMC. In addition to DeSUS, the potential coalition partners could be the United Left (6%), the Social Democratic Party (6%) and the new centre-left party established by the former prime minister, the Alliance of Alenka Bratusek (4.3%), as well as the centre-right New Slovenia (5.5%). It cannot be ruled out that Miro Cerar, who has emphasised the need to overcome old political divides, will attempt to form a grand coalition, which will at the same time guarantee more stable support to his government in parliament. The makeup of the new government should be known in the second half of September.