Bracing for Austerity in Slovenia

The Slovenian political terrain continues to shift as the **austerity debate** takes center stage. In the fall and winter, political news was focused on the surprising electoral victory of Positive Slovenia, their subsequent inability to form a coalition government and the eventual success of the right in doing that. Now attention is shifting to the economy. The current government, composed of parties including the Pensioners, the centrist Virant List and the right wing SDS (Slovenian Democratic Party), has immediately begun preparing the state and the public for cuts. **Prime Minister Janes Janša** announced as much upon returning from the European Union summit last week. The arrival of the Troika on the 8 of March also suggests as much.

But the government will also need to begin preparing for the **negative public response**. The question remains, in what direction will the public response push the government? Is it likely to move in the direction of Hungary, where the government ignored EU rules and began using the Central Bank to deal with bad loans in the banking sector, thereby taking the country into a nationalistic direction? Or will it take a European perspective and avoid nationalizing the economic situation?

No cuts have yet occurred under the new administration, however, on the level of financial markets and the European economy, a couple factors are contributing to the insecurity in Slovenia. It is this insecurity that makes cuts seem inevitable. On factor is the **credit rating downgrade by both Moodys and Standard and Poors** back in December and January respectively. The downgrades reflect the markets position that an economy needs to become more flexible through a reduced debt and tax burden, and a looser regulation on business, in order to respond to the crisis. This should then give banks more security (thus incentive) to extend loans again, which will prompt growth.

The second factor is the recent review by BusinessEurope, an association representing 20 million businesses in Europe. In this report, the assessment was that Slovenia was failing to implement reforms that would enable to the business community to return to profitability. According to the report, this has hurt both investment and production, which remain at very low levels.

As these questions are debated the **Troika** of the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF) will be assessing the situation in Slovenia. This Troika was initially established to respond to the crisis in Greece, where it functioned as a negotiator between the government and the **banking sector**. It appears they are now taking on a more expansive role in Europe. Their objective seems to be analyzing the economic situation in Slovenia from the position of the elite EU institutions and banks and supporting the negotiations on where to apply austerity.

Although the public debt (the debt owed by the government) remains well below 60% of GDP, and thus well below the E.U. average of 80%[1], the Janša government announced a budget shortfall (around 5% of GDP[2]) that demands significant **cuts to public spending**. The country has returned to moderate economic growth in 2011, but unemployment continues to rise. While austerity would mean further rise in **unemployment**, but the government is justifying this with the logic that a flexible, liberalized market will be more innovative and competitive, eventually reducing unemployment and restructuring the economy. The skepticism on cutting your way out of a crisis is growing as the situation in Greece is failing to stabilize.

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1 http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx and http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

2 https://www.cia.gov/library/publications/the-world-factbook/geos/si.html

The precise **cuts and reforms** have yet to be made clear, but they are expected initially in the area of culture and education. The Minster of Education, Science, Culture and Sport, Žiga Turk, has indicated that the Slovenian Film Center and Public Agency for Books will lose their autonomous status. Incorporating them back into the state will reduce the number of staff and thus the cost. Janša himself stoked fears that if cuts in **education** were not undertaken, there would be no money in the fall to pay teachers. Indeed, cuts in **international cooperation** have already taken the place in the removal of scholarships for foreign students (prior to the formation of the new government). Other measures include a possible tax on financial transactions, a reduction of welfare payments and pension reform, though this would likely face resistance within the coalition from the Pensioners Party.

Following the E.U. Summit at the end of February, Janša now has another mechanism for imposing austerity: the **European Fiscal Pact**. This agreement, which still needs to be ratified, will impose the 'golden rule' of balanced budget on the 17 economies of the Eurozone. Designed to avoid future sovereign debt crises on the level of Greece, this measure effectively writes austerity into the law of each country on the Euro. Janša recognizes this will be a difficult, painful process, but sees no other way forward.

The public reaction however, will challenge these cuts. Already students and cultural workers have mobilized against reforms in the last two months, and there has been a growing opposition to austerity since the **15 October Movement** began challenging the idea that austerity is a solution. Further more, there is expected to be a public mobilization when the Troika are in Slovenia, the media is increasingly focusing on the bad practices of banks and the many housing evictions in Slovenia. These evictions, in some cases due to debts under 150 Euro, are being linked to the leverage banks are gaining in the restructuring of the economy.

So as the Troika arrives to help the state negotiate its austerity regime with banks and financial markets, another negotiation will take place on the streets and in the popular debates. **Popular mobilizations against austerity** are happening all across Europe and a European-wide demonstration against the ECB expected in May. Slovenia is no exception in this regard. The Janša government will thus face serious challenges and instability as they try to impose the reforms.

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