Who needs Troika when you have Triglav?

At the press conference on Monday, October 28, wrapping up the International Monetary Fund's (IMF) review of the Slovenian economy Antonio Spilimbergo, the fund's Head of Mission to Slovenia, said there is already a troika in Ljubljana: Triglav. Like a troika, Triglav (Slovenia's highest mountain and national symbol) has three points. Of course, Spilimbergo was not referring to the mountain itself as the solution. Rather, he was referring to Prime Minister Alenka Bratušek, Finance Minister Uroš Čufer and the head of the Slovenian Central Bank Boštjan Jazbec, key government actors in pushing forward a reform agenda endorsed by the IMF.

The troika, composed of the IMF, the European Commission and the European Central Bank, has been the primary European mechanism for addressing the sovereign debt crisis. For almost a year now Slovenia has been getting considerable attention from the troika. This is a result of its sizable banking debts, estimated around 8 billion Euro, though other parts of the economy (such as employment) are performing better than the European average. The local and international media even speculated that Slovenia could be the "next Cyprus". This speculation alone hurt the local economy by creating a negative perception of Slovenia as an investment site and pushing up the rates offered on government bonds. This prompted PM Bratušek to go to Brussels and convince the European Commission of Slovenia's ability to manage the banking debt on its own, gaining a one year window before the troika would consider imposing any international bail outs.

Around the same time, at the end of September 2013, Slovenia held its annual Foreign Direct Investment (FDI) conference in Ljubljana. FDI is, according to statements from the conference, one mechanism for Slovenia to move out of the crisis. Privatization is one of the most direct ways

to attract FDI, and together, privatization and foreign investment are seen as part of the solution for getting past the crisis. Along with the implementation of the Bank Asset Management Company (BAMC – a bank to take over and recapitalize non-performing "toxic" assets), the privatization program is a carry over from the last administration.

In general, the current government has moved quickly on economic reforms since the summer. Among the key steps taken have been delinking income tax from inflation, which will likely produce higher taxes as more people will be moved into higher tax brackets through inflation; a ban on the use of property as collateral against debts; the privatization of Aerodrom Ljubljana was initiated; and reforms to property tax laws. In addition, Slovenia started a "stress test" in the domestic banking system, the results of which will be made public during the course of November. This stress test will produce precise data for the potential bail out, as this test the level to which are bank properly capitalized vis-à-vis a potential crisis.

This brings us to the IMF and its analysis of Slovenia. Reviewing the concluding statement of 29.10.2013, the proposed program to address the crisis is remarkably similar to that which the government is already pursuing. The IMF acknowledges changes to the property tax code as a good step, and supports FDI as both a source of revenue and a job creation mechanism, particularly for the youth. The statement also put a lot of emphasis on the need for the BAMC to absorb the toxic assets (to organize a bail-out) once the results of the stress tests are known. One area where there is divergence is in the heavy emphasis on further cuts to social spending by the IMF. While the Bratušek government has supervised the last round of consolidation of public finances, there seems to be a preference for first addressing the reforms and privatizations, particularly in the wake of wide spread popular mobilizations against the government between November 2012 and April 2013.

In this context, where the current government is following a similar path to that which the IMF would have them follow, and we can assume similar conditions would be put on any troika organized bail out, then what is the role of the IMF and the Troika in general? The IMF has a long history of intervention in the region of ex-Yugoslavia. Dating back to the debt crisis of the early 1970s, the IMF provided conditional loans to Yugoslavia. The reform program demanded at that time was similar to today – privatization, easier access to the local market for foreign investment

as well as fiscal consolidation. The reforms initially caused greater economic misery that both hardened social divisions and opened public space for nationalist streams by the late 1980s.

A troika bail-out today would likely impose harsher terms on reforms to public finances and privatizations than those the government is itself pursuing. Based on the historical example and looking at Greece today, there is no reason to think the initial social effects would be different in Slovenia if cuts are favoured over GDP growth. It would also certainly have a negative effect on the economy as the focus would be servicing loans. Consequently its ability to attract FDI would be harmed and it would make borrowing of further loans, not to mention the interest offered on government bonds, very high.

In addition, it is an open question how effective these bail-outs have been. A question opened by the IMF itself last spring when they casually admitted in their report on Greece that they miscalculated the multiplier that defined the speed and depth of the cuts in relation to the size of the economy. As a result, the cuts themselves were much more extensive than the economy could endure. This has lead to a collapse of much of the middle classes and a rapid increase in poverty levels. Another social indicator of these cuts has been the rise in HIV and drug abuse rates amongst the poorest classes and vulnerable social groups. Greece is also not much closer to climbing out of their crisis, despite a projected return to growth in the next year.

Yet Slovenia doesn't only pursue a softer version of these reforms to avoid the above conditions. It is possible that there is actually no choice to be made. If the government doesn't reform, they will be surely be sanctioned formally by the Troika and informally through financial institutions, such as rating agencies. These financial institutions can hurt the economy by simply portraying Slovenia as hostile to the market and investment, or suggesting the country is too risky for investment.

In this way, the troika is achieving its functioning without having to intervene. They both discipline the euro-zone and produce its economy by having the power to impose conditions and insisting that reforms fall within a narrow frame. Moreover, examples from the rest of the Euro-zone suggest that cuts are doing more damage than good. Yet the only choice for the state seems to be to institute harsh reforms on its own with an uncertain outcome. If they do not, they face

even harsh conditions of a financial attack followed by a bailout where outcomes are equally uncertain.

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