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WATH CRISIS? A LOOK AT THE SLOVENIAN ECONOMIC SITUATION

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As protests die down in Slovenia, it is a moment to take a serious look at the economic situation that is very much at the heart of this recent unrest. As reports come in that some families are unable to provide new shoes for their kids, that students are missing school because the school bus is too expensive, it is clear that there is a deepening social and economic crisis unfolding.

People are genuinely struggling to meet their basic needs on a daily basis. Yet one might be forgiven for looking at the general economic situation in Slovenia and asking: where is the crisis? But this is precisely the question that needs to be asked.

Slovenia is in a moment when the state has passed austerity measures in two separate rounds despite reports from the International Monetary Fund (IMF) now questioning the effectiveness of austerity measures. Furthermore, the constitutional court's controversial decision to restrict any referendum on the bad bank (*slaba banka*) and the union muted resistance suggests the location core of the crisis is perhaps not so obvious. In short, there are no alternatives being offered by state institutions and opportunities for the public to create and demand alternatives also appears to be closing.

Slovenia emerged from the Yugoslav Federation as a largely industrialized, export economy. The austerity measures applied in Yugoslavia during the 1980s hastened Slovenia's exit before the economy was ruined. But the combination of privatizations, market reforms and the loss of the Yugoslav market wiped out much of the industry over the first decades of independence. Then in 2008 the current crisis wiped out the construction industry and has caused some to question the size of the welfare state. Currently Slovenia generates over 70 percent of the gross domestic product (GDP) from the service sector. But this transformation from industry to service is taking place in a economic climate where little credit is available and few new jobs are being created.

Still, on basic economic indicators, Slovenia projects a mixed picture, but is far from disaster. Sovereign public debt is 10 percent below the maximum allowed by the Maastricht treaty. Gross Domestic Product (GDP) growth is low, around 1 percent annually, yet Slovenia has seen only one year of negative growth (2009) since the start of the global crisis and holds a positive current account balance. It is one of only 10 countries in Europe to do so.

Where the economy doesn't look too good is in the high budget deficit, around -6 percent (Germany is at -1 while Greece is at -9.4), but with consistent growth after only one year of economic contraction in 2009, the deficit should not cause a panic. Unemployment is approaching 12 percent, and has grown consistently since the crisis started in 2008. The average for the European Union is 9.5 percent. Finally, and perhaps most importantly, there is the insolvency issue of Slovenian banks. This is at the heart of the crisis here.

The other economic indicators are decidedly mixed; not as strong as Germany, but much better of than Greece or Spain. Yet no major political party or public figure is offering an alternative to austerity and potential European Union bailout. Even the newly inaugurated president of the Republic, Borut Pahor, a former leader of the Social Democrats, ran a campaign in support of the cuts proposed by the government.

The main problems the Slovenian economy has are global financial markets and access to credit. The banking crisis, which has plagued much of Europe and North America, has profoundly shaken the financial markets and made credit much less accessible. The debt level of Slovenian banks (around six billion Euros) translated into a credit crunch, cutting of national industries, such as construction, from the cheap loans they needed to continue operating. In turn a downgrade from international rating agencies such as Moody's, and Standards and Poors, reduced or led to reduced confidence and investments in the market. The basic picture on the financial side then is that Slovenian financial institutions have been unable to find sources of credit to cover their debts.

This lack of loans has pushed particularly the banks into a cycle of increasing debt as they do not have the liquidity to cover their financial obligations. In this climate of contraction, the government instituted austerity measures in order to pre-emptively calm the markets and appease the business community. These measures must be pre-emptive as the economic data cited above is far from disastrous. The cuts put into effect last summer and again in the forthcoming budget are primarily aimed at reducing the public sector wage bill.

The first round last summer cut 3 percent and the budget for 2013 envisions a further reduction of 5 percent to the public sector wages. All of this translates into a crisis in the financial markets that has imposed itself on the real sectors of the economy. Yet, one can make the argument that the financial market is disconnected from the daily reality of people and that the real economy is not actually collapsing. This argument puts into question the necessity of such drastic cuts. So another aspect of austerity must be considered. As the government attempts to cut its operating costs it is doing so partly through privatizations.

Unlike many former socialist block countries, Slovenia followed a more gradual path to

privatization. As such, it has retained a fairly large welfare state. It was already clear during the elections that privatization would be pursued regardless of who was leading the government. Perhaps this crisis in the financial markets and the ongoing transformation of the economy from industrial to service has been seized as an opportunity to push through specific reforms. These seem to be the agenda of most of the political leadership in Slovenia, since even the unions have not offered any significant resistance.

But even though there are economic arguments behind these liberalizations, they are not being bought by the public. The corruption scandal involving Prime Minister Janez Janša and Ljubljana mayor Zoran Janković is only the latest indication that these reforms seem to be favouring a specific, and select community in Slovenia, and that all these reforms may be little more than crisis politics. Accusations that this is a government bending to the will of the markets, and that they are criminals, are rife.

People are indeed suffering in their daily lives, and don't see how their sacrifices are justified; they are demanding that the whole political class go.

Yet even as this situation unfolds here, there are indications that attunes towards the regulation of markets is shifting. Slovenia is one Euro zone member that endorsed the recent decision by 11 states to introduce the “Robin Hood” tax on financial transactions. While it is unclear exactly how this mechanism will function, it signals that the state is at least aware that new forms of revenue need to be taped.

How much the public pressure has pushed them into this tax, nor how seriously the states will pursue them, is impossible to say for now. But if it is done properly it should provide some stability in the daily lives of people, even if it does not address the more fundamental problems of distribution and opportunity in this crisis.

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