Impact of international finance and other institutions on key policies in Slovenia

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March 2015
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<th>Abbreviation</th>
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<tbody>
<tr>
<td>BAMC</td>
<td>Bank Asset Management Company</td>
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<tr>
<td>CADTM</td>
<td>Committee for the Abolition of Third World Debt</td>
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<td>CEE</td>
<td>Central and Eastern Europe</td>
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<td>CPC</td>
<td>Commission for the Prevention of Corruption</td>
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<td>EBITDA</td>
<td>Earnings before interest, taxes, depreciation and amortisation</td>
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<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>EC</td>
<td>European Commission</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<td>EIB</td>
<td>European Investment Bank</td>
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<td>ERM</td>
<td>European Exchange Rate Mechanism</td>
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<td>EU</td>
<td>European Union</td>
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<td>Eurodad</td>
<td>European Network on Debt and Development</td>
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<td>FDI</td>
<td>Foreign direct investment</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>GRA</td>
<td>General Resources Account</td>
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<td>ICAN</td>
<td>International Citizen Debt Audit Network</td>
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<td>IFI</td>
<td>international financial institution</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>NCB</td>
<td>National Central Bank</td>
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<td>NKBM</td>
<td>Nova Kreditna Banka Maribor</td>
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<td>NLB</td>
<td>Nova Ljubljanska Banka</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>PM</td>
<td>Prime Minister</td>
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<td>PS</td>
<td>Positive Slovenia party</td>
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<td>R&amp;D</td>
<td>Research &amp; Development</td>
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<tr>
<td>SDO</td>
<td>Public authorities trade union</td>
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<td>SDS</td>
<td>Slovene Democratic Party</td>
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<td>SMC</td>
<td>Party of Miro Cerar</td>
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<td>SSH</td>
<td>Slovenian Sovereign Holding</td>
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<tr>
<td>UL</td>
<td>United Left</td>
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<tr>
<td>UMAR</td>
<td>Urad za makroekonomske analize in razvoj</td>
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<tr>
<td>VAT</td>
<td>Value added tax</td>
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<td>ZSSS</td>
<td>Association of Free Trade Unions of Slovenia</td>
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<td>ZUJF</td>
<td>Public Finance Balance Act</td>
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Executive summary

It is broadly perceived and has been shown repeatedly that recommendations made by international financial and other institutions such as the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) focus mainly on reducing the social role of the state to a considerable extent. A weaker role for the state allows for a liberalised economic environment, in which movement of capital across borders is deregulated and hence easy, while social protection standards and workers’ rights are weakened.

This study shows that this has also been the case in Slovenia. An analysis of various policy measures that were advocated by international financial institutions (IFIs) and other international actors reveals that these actors played a major role in shaping Slovenia’s national policies, laws and practices. The impact of IFIs and other institutions has increased especially since 2008, when Slovenia was hit by the economic crisis. The crisis opened the doors for these institutions to exercise an increasing role in influencing decision-makers and in shaping policy reforms in Slovenia. This study shows that they played a visible role in reducing the strength of the public sector, in shifting priorities in taxation, organising the financial sector, reducing rights within the pension, health and education systems, encouraging privatisation and labour market reforms.

The purpose of this study is to lay the groundwork for understanding the recent economic and political crisis and power dynamics in Slovenia. The study tries to: offer an insight into the impacts of IFIs and other international organisations on Slovenia’s recent reforms; identify the key actors and their role in suggesting, designing and implementing the reforms; understand how and between which sectors the burden of economic adjustments is divided; and explore the shift in the balance between the universal and targeted approach in the provision of services from the public budget.

To this end, this report first offers an overview of the situation in Slovenia prior to the 2008 crisis, exploring how the crisis was triggered and how it evolved. Secondly, it tries to identify various international actors and their role in the shaping of national measures. In this aspect the study addresses structural problems of power relations and dynamics of European Union (EU) governance by presenting the relationships between the national and international (economic and social) policy-makers and their efforts. Finally, the study analyses the country’s macroeconomic policies and illustrates their impact on various sectors, thus providing an insight into which sectors are the major winners or losers in the reforms.

One of the key messages that Slovenia received from IFIs and other institutions is that fiscal consolidation and improved conditions for competitiveness of the economy are a must. This is the major reason why, from 2012 onwards, austerity packages were put in place that impacted some of the key policies in Slovenia. The year 2012 could be seen as a milestone period when the new laws, policies and practices were introduced and adopted in the name of solving the crisis.

The adoption of the Public Finance Balance Act (ZUJF) in 2012 was one of the important legislative changes. Another change was introduced at the end of 2012, when Slovenia’s Constitutional Court banned referendums that could block economic reforms aimed at averting an international bailout. The Court explained the ban by saying that constitutional values like the development of the economic system, social security and international obligations of the state have a priority over the right to demand a referendum because of the gravity of the economic crisis. In 2013, the next key step in the change of legislation in Slovenia was made: the introduction of the ‘golden fiscal rule’ into the constitution. The rule says that the state may not create debts to cover its workings, but the rule can be – in special circumstances – temporarily breached (the law
that will operationalise this rule has not yet been adopted).

These changes represented the basis for major shifts in a palette of policies. One key step was the restructuring of the banking system, whereby a Bank Asset Management Company (BAMC) was set up to strengthen the financial capacity and sustainability of system banks, and consequently to promote economic growth. The key state-owned banks were bailed out. Another institution, the Slovenian Sovereign Holding (SSH), was designed to restructure state-owned companies, with the key requirement of privatising 15 companies. The profit tax rate gradually decreased from 23 per cent in 2007 to 17 per cent in 2013, while at the same time increasing the tax relief rate from 4.4 per cent in 2003 to 6 per cent in 2012. The public sector became a target for numerous measures to cut costs, from limited new employment in the public sector to the reduction of wages. The pension system was reformed to equalise and raise the retirement age of men and women to 65 years, to prolong the period taken into account in the calculation of pension, and more such steps. The pensions and social transfers were moved to the social care sector. With these changes the social allowance basically became a loan from the state, which the receiving party (and its successors) has to pay back.

This study examines the influence of IFIs and other economic actors through four different lenses. First, through publicly accessible data and analyses of the impacts made by IFIs and others. Second, by comparing responses and adopted measures of Slovenian governments to the recommendations and guidelines of the identified international actors. Third, the study highlights the so-called revolving door phenomenon, suggesting direct personal connections of particular influential decision-makers to IFIs and other international organisations. Finally, the study looks into the trends of increasing official meetings between Slovenian decision-makers and international actors, which can also indicate a kind of influence of external polices on national policies.

The analysis through all four different lenses shows that the IFIs and other actors did have a significant impact on the strengthening of the free market logic in Slovenian key policies. Another relevant finding of the study is that there has been a lack of transparent and accountable political decision making with regard to new policies and measures. Even the governments’ ideological orientation did not play a role: all four governments in the analysed period followed the same policy direction advocated by the IFIs, without questioning or putting it under the scrutiny of the Slovenian people.

For this reason the Slovenian government is perceived as a keen partner to national and international corporate elites that see an opportunity in taking part in the yields that neoliberal policies are promising to deliver. The lack of sovereign strategies and unquestioning allegiance unfounded of IFIs are threatening to deepen the crisis in Slovenia rather than helping to solve it. Hence Slovenia needs a thorough shift in its policy direction.

This study suggests the following key steps for such a shift:

- immediately stop austerity measures
- develop a strategy for Slovenia through broad public participation
- establish public control over the banking sector
- introduce a different kind of fiscal reform
- defend the social state
- strengthening good corporate governance
- carry out a public audit of Slovenia’s public debt
- secure full employment
- encourage participatory democracy
- abolish the use of gross domestic product GDP as the main development indicator.
I. Introduction

This study presents and analyses the impacts of austerity measures that were promoted by international financial institutions (IFIs), such as the International Monetary Fund (IMF), European Central Bank (ECB), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), and other international economic organisations, including the European Commission (EC) or the Organisation for Economic Co-operation and Development (OECD), on some of the key policies in Slovenia. Although this study is mainly focused on IFIs, it also analyses the role of non-financial institutions. The purpose of the current study is to lay the groundwork for understanding the recent economic and political crisis and power dynamics in Slovenia. This report tries to illustrate how the involvement of IFIs is leading to the disintegration of social and environmental components of key Slovenian policies.

The social aspect of European integration has become the main challenge in ensuring that integration becomes a positive force. The inability to preserve a strong social dimension by introducing wide-ranging austerity measures and reform packages has led to an EU governance crisis that is contributing to the violation of the social and environmental rights because of economic development. The view of US economists Paul Krugman and Joseph Stiglitz is that European leaders do not understand economics, are ignorant of well-known remedies and are applying suicidal policies as a result (George, 2012).

The discussion about the impacts on Slovenian social and economic policies by IFIs and other international economic organisations reveals that these organisations have been exercising an increasing role in influencing and shaping Slovenian policies, laws and practices. This case study argues that IFIs and other international organisations have played a major role in reducing the strength of the public sector, especially by influencing social policies (pension system, health and education), state revenues (taxation), encouraging privatisation and weakening workers’ rights. The impacts of IFIs’ involvement have increased in particular since 2008, when, like many other European countries, Slovenia was hit by the financial and economic crisis.

The issue is that IFIs and other international organisations attach strict policy change conditions (recommended reforms) to their loans. According to the 2014 Eurodad report Conditionally Yours, the number of policy conditions per loan has risen in recent years (Griffiths and Todoulos, 2014), despite IMF efforts to ‘streamline’ their conditionality (Independent Evaluation Office of the IMF, 2008). Eurodad counted an average of 19.5 conditions per programme. However, the IFIs do not exercise their impact only through loans, but in the Slovenian case mostly through offering recommendations and policy guidelines (e.g. compilation of staff papers, press releases, policy notes, working papers, missions to member states, etc.) that are delivered to the countries in crisis.

It is broadly perceived and has been shown repeatedly that conditions and recommendations from IFIs and other institutions focus mainly on reducing the social role of the state to a considerable extent. This allows for a liberalised economic environment with relaxed and deregulated movement of capital in and from countries, while at the same time reducing standards of social protection, workers’ rights and environmental regulation. In times of crisis, questions are raised about the current economic and political system. It is argued that “at the heart of failing of the mainstream of the economics profession in general, to meaningfully re-think economic development policy, lies an incapacity and/or unwillingness to break with neoclassical theory” (Vernengo and Ford, 2014). In this respect, the rapid expansion of the financial market has created governance gaps in numerous policy domains and highlights the need to move away from conventional wisdom (Ruggie, 2008).
Against this backdrop, the current study follows these broad objectives:

- to provide an overview of the development of the economic and political situation from the pre-crisis period until today;
- to acquire an insight into the impacts on Slovenia’s recent reforms;
- to identify the key actors and their role when reforms are recommended and put in place;
- to understand how and between which sectors the burden of economic adjustments is divided;
- to explore a shift in the balance between universal and targeted approaches in service provision from the public budget.

To this end, the study first offers an outline of the situation in Slovenia prior to the 2008 crisis, looking at how the crisis was triggered and how it evolved. It represents an attempt to understand the role of international actors in the making of social policy in the country. The study reviews some of the conceptual and analytic frameworks in an effort to identify the involvement of IFIs and other international institutions in Slovenia. It addresses the structural problems of power relations and dynamics of EU governance by presenting the relationships between the national and international (economic and social) policies and their struggles. Second, the case study tries to identify various international actors and their role in the shaping of national measures. In this aspect, the study addresses structural problems of power relations and the dynamics of EU governance by presenting the relationships between the national and international (economic and social) policy-makers and their efforts. Finally, the study also analyses the country’s macroeconomic policies and illustrates their impact on various sectors. By doing this the study gives an insight into how the burden of economic adjustments has been divided across different sectors and which of them are the major winners or losers. Finally, the study summarises the main conclusions and offers a framework of recommendations for a thorough shift away from the neoliberal approaches that were offered to Slovenia by IFIs and other actors in response to the crisis.

Methodology

A short note on the methodology is offered to explain the approaches used and difficulties encountered. The main approaches used to compile this study were: a) desk research of available materials (articles, studies, analyses); and b) interviews with several experts from different fields. To obtain some information on the influence of IFIs on institutions, such as the Bank of Slovenia or the Ministry of Finance, requests for information and/or interviews were sent to these institutions, but were rejected. This is why the key method applied was secondary research of existing literature (articles, regulations, reports, analyses).

Prior to conducting the interviews, the desk research helped to outline the key issues and to inform the interview guide. The format of a semi-structured interview allows for some improvisation compared to the interview guide approach. This is why the form of a semi-structured in-depth interview was used to conduct the research. Although a protocol was used, some of the questions were addressed to interviewees, while some of the questions were added to obtain additional information from the interviewees (e.g. to further clarify some attitudes or opinions).

The interviews with the experts helped to establish a good context for understanding the overall situation, yet they mostly did not yield detailed information about the specific impacts of IFIs on the policies. To this end further desk research was used to collect information and data for the analysis. Where possible, information is based on sources from official institutions, such as national reform programmes. However, as the analysis of impacts was largely absent, this was gathered through articles, which presented the analyses or opinions of different actors, from academic experts to representatives from political organisations or trade unions.

As it was difficult to investigate the impacts of IFIs, a few approaches were combined. The first angle of showing the impact of IFIs was the analysis of the recommendations of IFIs and/or other organisations. Responses from Slovenia were

8,68 billion EUR (based on exchange rate of 2008)
put side by side with the received recommendations to see how Slovenia followed these recommendations. The next step was to point out where the responses (measures, regulations, changes, budget cuts, etc.) adopted the neoliberal doctrine to abandon the interests of society and prioritise the interests of business or the economy. This was done through publicly accessible data and analyses of the impacts made by IFIs and others.

In parallel with this approach, the study conducted a power analysis, which consisted of three steps:

1. Analysis of the political actors and their relations.
2. Analysis of the official meetings conducted between the variety of political or economic actors and IFIs to determine the external influence on national policies; and
3. Identification of manifestations of the revolving door phenomenon (following people with influence through different institutions) that suggest direct personal connections of particular influential decision-makers with IFIs and other international organisations.
The main milestones in Slovenia in political and economic terms over the last decades have been: independence in 1991, accession to the EU in 2004 and accession to the Eurozone in 2007. To understand the context of the crisis in Slovenia the sections below provide an overview of the pre-crisis and crisis (economic and policy) events. The events form the foundation for further analysis on how IFIs influenced the country’s policies and illustrate their impact on various sectors starting from the pre-crisis period until today. According to several sources (Breznik and Mencinger personal communication 2014; Furlan, 2014), it is argued that there are three distinct periods that mark the pre-crisis and crisis period:

- the period of domestic accumulation-based growth from 1994 to 2004;
- the period of debt-fuelled growth from 2004 to 2008; and
- the period of crisis from the end of 2008 until today, with the crisis peak in 2012-2013.

2.1 Domestic accumulation-based growth: 1994-2004

The first identified period is the so-called ‘domestic accumulation-based growth’ between 1994 and 2004, when the average real rate of economic growth was around 4.1 per cent; the sovereign debt was very low, never exceeding 30 per cent of gross domestic product (GDP); the foreign debt of the state was less than 10 per cent of GDP on average (Statistični urad RS, 2014b; Statistični urad RS, 2014c). This period was characterised by the emerging domestic elite who favoured domestic accumulation of capital over foreign capital and were largely export-oriented.

Another characteristic was the restricted inflow of foreign direct investments (FDI), which can be attributed to several reasons (Mencinger, 2002). While neighbouring Eastern bloc countries rushed towards the free market, Slovenia took a more cautious approach in the 1990s. Privatisation was limited and in many cases the buyers – senior management of companies – were closely related to the government. The money needed to buy businesses came from state-owned banks. In other words, the internal buyouts of company shares favoured domestic over foreign owners. Also important in this period were strong trade unions and relatively high wages, which made the country less attractive for FDI (Svetličič, 2007).

In terms of IFIs’ involvement in Slovenia, this period is marked by Slovenia’s accession to several IFIs. It became a member of the IMF in 1992, which also meant that Slovenia inherited its share of the Yugoslav debt: “disbursement in 1992 represents the allocation to the respective member of its share due from the former Socialist Federal Republic of Yugoslavia” (IMF, 2015a). Slovenia joined the European Bank for Reconstruction and Development (EBRD) during the same year (EBRD, 2014b).

2.2 The gambling period: 2004-2008

The period from 2004 to 2008 was the so-called ‘gambling period’. Slovenia witnessed a shift from domestic accumulation-based growth to a debt-fuelled growth that was related also with the change of government that coincided with the process of Slovenia’s accession to the EU and the European Exchange Rate Mechanism (ERM II) in
During this period Slovenia witnessed an accelerated economic growth. The GDP growth reached an impressive 6.9 per cent in 2007 (Statistični urad RS, 2014b). After 2004, Slovenian banks started to borrow extensively from abroad and only a small part of the loans was directed towards households. In this respect, the vast majority of bank loans went to the corporate sector. The corporate debt was around 117 per cent of GDP in 2005, but reached 148 per cent in 2008, which was high above the EU average (Brelih and Repovž, 2010). Slovenian banks suddenly gained access to cheap loans from abroad, which led to an important shift in bank financing from deposits to foreign capital markets (Statistični urad RS, 2007). Another crucial shift after 2004 was a change of currency from tolar\(^1\) to euro. In January 2004 the state deficit was only 2.4 per cent of GDP and it reached 6.1 per cent of GDP in 2009 (Statistični urad RS, 2014c).

European integration facilitated a transfer of wealth and power from the periphery to rich countries through debt instruments and trade relations (Laskaridis, 2014). Therefore, the inflow of loans due to accession to the EU and entrance to the Eurozone caused a new dynamic, where the interests of the capital owners dominated the integration. Some argue that such a way of achieving European integration determined the centre-periphery relations in Europe (Millet et al., 2013). The financial markets drove down borrowing costs and flooded capital markets. In this respect, Živković argues that as a new member of the Eurozone, “Slovenia was no longer able to devalue its currency to keep its exports competitive and so could only maintain growth by becoming dependent on cheap foreign loans for growth” (Živković, 2013). In this respect, Breznik added that “the European institutions looked away, pretending that Slovenian problems are not a result of their past politics and delivering advice as to how to reassure financial markets” (Breznik, 2013).

To summarise, in economic terms that meant market failure by making the price of borrowing too low, and in political terms it represented an unsustainable model of growth driven by creditors’ recklessness. In 2004 Slovenia became a member of the EU and its institutions. By accepting the euro as a currency in 2007, it became a member of the Eurozone.

2.3 The crisis: 2008 to today

The crisis in the economy

The crisis began to emerge at the end of 2008. The country was badly hit by the global 2008 crisis and its GDP growth rate fell to 3.3 per cent in 2008 and plummeted to -7.8 per cent in 2009 (Statistični urad RS, 2014b).

Figure 1: Slovenian debt by sector

Source: Brelih and Repovž, 2010

Figure 2: GDP growth rate in %

Source: Statistični urad RS, 2014b

\(^1\) The tolar was the currency of Slovenia from 8 October 1991 until the introduction of the euro on 1 January 2007.
The public debt reached 37.9 per cent of GDP in 2010 and skyrocketed to 80 per cent of GDP in 2014, reaching nearly €30.34 billion (Statistični urad RS, 2014b; Statistični urad RS, 2014e). The Slovenian sovereign debt crisis was aggravated after the turmoil in the Eurozone.

The increase in public debt was mainly a result of declining tax revenues due to the fall in economic activity and lowering of the corporate profit tax. It was also a result of a parallel rise in welfare spending triggered by the crisis (Ministrstvo za finance, 2015a). The sovereign debt also rose due to government interventions into the banking sector. Namely, in 2009 the government mitigated the problems of liquidity in the banking sector by increasing state deposits in the three Slovenian state-owned banks (Furlan, 2014). Therefore, the government borrowed money to cover its current expenditures or to repay old debts. It is argued that “as a consequence, public debt, which was much lower than the debt held by private corporations, burst” (Millet et al., 2013). It shows that public debt levels were not the cause of the crisis, but a consequence.

The sovereign debt crisis that followed was a logical outcome of the recession and the crisis rooted in the corporate sectors.

State borrowing mostly took the form of long-term bonds, but this form was expensive for the state. In November 2011 the yields on 10-year government bonds rose above 7 per cent and exceeded the 7 per cent limit yet again in January and August 2012. Slovenia was downgraded at the financial markets from rating Aa3 to A1 in December 2012 by the rating agency Moody’s (Inman, 2012). The government feared that political uncertainty and reliance on exports to the EU would trigger a further downgrade in the rating and consequentially a sharp rise in borrowing costs. However, the most critical period is over for now, since the yields on 10-year government bonds have fallen below 4 per cent on the secondary market (Zhang, 2013). International media reported at the time that Slovenia narrowly avoided an international bailout for its debt-laden state-owned banks by bailing them out with €3.3 billion from its own budget (Novak and Radosavljevic, 2014).

Slovenia raised money again on the international financial markets in November 2013, when it sold its €1.5 billion worth of bonds with a 4.7 per cent yield and three-year maturity. The bonds were sold to a single investor, but despite the calls of the Information Commissioner to reveal the name of the investor, the government refuses to do so. Prime Minister Bratušek said in 2013 that revealing the investor’s name would make it harder for Slovenia to raise capital in the future (Slovenian Times, 2013b). Slovenia also sold 3.5 billion of dollar bonds in February 2014, explaining that an overhaul of the nation’s banking industry the previous year helped to reduce the risk of a bailout.
The sale – arranged by Barclays plc, Goldman Sachs Group Inc. and JPMorgan Chase & Co. – had a price tag of over €5 million. Slovenia’s government again did not want to reveal who the buyers of its bonds were (Cerni et al., 2014). In October 2014, Slovenia issued €1 billion in seven-year bonds at a yield of just under 2.4 per cent (Slovenian Times, 2014). This testifies to a highly peculiar international situation: the financial investors hold huge cash assets and, faced with very low interest rates in their regions, they are on the lookout for higher yields.

Nevertheless, the Slovenian economy witnessed a sharp fall in exports (which decreased by 16.1 per cent in 2009) (Statistični urad RS, 2014a). The heavily indebted and leveraged corporate sector was caught in an unfavourable situation of decreasing loan flows. Since enterprises were largely financed by bank loans, their losses accumulated on the balance sheets of the banks in the form of non-performing loans (BAMC, 2015b). In this context, the situation was made worse in 2010 when the Bank of Slovenia increased the capital requirements for the banks. This contributed to a further contraction of the lending activity (Furlan, 2014). The sovereign debt crisis that followed was a logical outcome of the recession and of the crisis rooted in the corporate sector.

2.4 The political crisis

The crisis wave did not only hit the national economy, but it also spread to the political sphere. The fact is that the last government in office that held on to power for the whole mandate (four years), was the Slovene Democratic Party (SDS) government led by Janez Janša from 2004-2008. From this point on, the nation went through a process of different governments changing office. It can therefore be argued that the economic crisis triggered and powered also political instability in Slovenia.

In 2008, social democrats won the elections, with Borut Pahor becoming the Prime Minister (PM). His government lasted until September 2011, when the National Assembly cast a vote of no confidence against his government.

After the elections in early 2012, the governing coalition was again led by Janez Janša. The new government quickly began to show its tendency towards more aggressive neoliberal economics. PM Janša responded to the economic crisis by attacking the liberal media and the public sector, especially education and culture.

However, at the beginning of 2013, a scandal changed the political landscape. The Slovenian Independent Commission for the Prevention of Corruption (CPC) revealed with their investigation that two major party leaders – PM Janša (SDS) and Zoran Janković (Positive Slovenia party – PS), had violated the law by failing to properly report their assets to the CPC (Komisija za preprečevanje korupcije, 2014). The scandal prompted the resignation of PM Janša. This and the massive public demonstrations at the end of 2012 and the beginning of 2013 that took place in several towns, as well as constant frictions within the ruling coalition, brought about a subsequent change in government.

In January 2013, Alenka Bratušek of Positive Slovenia (PS) became the new PM after the vote of no confidence regarding PM Janša. What followed was more or less a continuation of the same policies. PM Bratušek was doing exactly the same as her predecessors (left and right wing): setting up BAMC, ‘bad bank’, to centralise bad debt, privatising state companies and reducing state expenditure (CNN, 2013). PM Bratušek submitted her resignation in May 2014, concluding one of the shortest government terms in Slovenia’s history. The international media described the early elections in July 2014 as the country’s struggle to continue with economic recovery (Financial Times, 2013; Economist, 2013; Novak, 2013a).

In July 2014, a newly established Party of Miro Cerar (SMC) won the elections. Several new political parties entered the 2014 elections, among which was the United Left (UL) party. The UL are unique in that they are currently the only political voice against austerity measures and further expansion of neoliberal tactics. Their agenda advocates different proposals, such as debt write-off, workers’ management, democratic control of banks and state corporations. Despite the opposition from the UL, the new government is fully committed to continuing neoliberal reforms. In this respect, the key actions are a full divestment of state shares in 15 state-owned companies, measures to make Slovenia appealing for FDI and increasing competitiveness of companies by restructuring them and improving their corporate governance.

It is interesting to observe that austerity measures and structural reforms remained the priority for all four different governments (left and right) and for all four different political agendas.
3. Involvement of IFIs

3.1 Impacts of the Troika

The Troika made up of the EC, ECB and IMF monitors countries in severe economic trouble that receive financial loans provided by the EU and the IMF and organises review missions in the countries (TroikaWatch, 2014). Slovenia did not sign the so-called Memorandum of Understanding with the Troika institutions. For that reason, Slovenia was not officially under the Troika’s supervision. However, the Troika has been closely monitoring Slovenia’s developments and guiding its policies. Slovenia regularly hosts review missions from the IMF and ECB as their member. However, in the last year there were visits also from other EU institutions, like the EU Parliament, European Council, Eurogroup President etc. (Vlada Republike Slovenije, 2014b). Some argue that there was an important promotion of the Troika policies for ‘fiscal consolidation and boosting competitiveness’, so that austerity policies, privatisation and the weakening of social and labour rights could be put in place (Trumbo et al., 2014).

**European Commission (EC)**

One of European institutions taking part in the Troika is the EC and it is known as the executive institution of the EU. To reach the targets of the Europe 2020 strategy, the EU has set up a yearly cycle of economic policy coordination called the European Semester. Each year, the EC undertakes a detailed analysis of Member States’ plans of budgetary, macroeconomic and structural reforms and provides them with recommendations for the next 12-18 months (European Commission, 2015). Slovenia answers the recommendations through annual National Reform Programs.

The EC recommended to Slovenia a comprehensive review of health expenditure at all levels, and an agreement based on public consultations on measures to ensure the sustainability of the pension system and limit expenditure on long-term care. Moreover, as a result of a breach of the 3 per cent deficit ceiling prescribed by the Stability and Growth Pact, the EC launched an excessive deficit procedure against Slovenia and set 2013 as the deadline for correcting the deficit and later extended its deadline to 2015 (Urad RS za makroekonomske analize in razvoj, 2014). Other key challenges identified by the EC are the restructuring of the banking and corporate sector, improvement of the governance of state-owned enterprises and the correction of its imbalances (European Commission, 2014a). In 2014 the EC issued eight country-specific recommendations for Slovenia to improve its economic performance. These are: public finances; sustainability of pensions; labour market and wage-setting; restructuring of the financial sector; continued privatisation; corporate restructuring and insolvency proceedings; reduction of obstacles to doing business in Slovenia; efficiency of the public administration (European Commission, 2014b).

**European Central Bank (ECB)**

Another Troika institution, the ECB, has become not only the enforcer of monetary policy, but also of policies concerning wages, labour, privatisation and liberalisation. However, the ECB is an undemocratic institution that does not disclose minutes or internal memos, yet wields an extraordinary amount of power over policy and positions. The ECB decides the monetary policy for all its members and is prohibited from loaning directly to governments. Instead, governments borrow by issuing bonds (Laskaridis, 2014).

**International Monetary Fund (IMF)**

The IMF has not had any active transactions with Slovenia for over a decade now. Hence its role is limited, apart from the impacts of IMF through the Troika. However, the IMF regularly conducts its formal annual monitoring of Slovenia,
the so-called Article IV Consultation-Staff Report (IMF, 2015b). To this end, the IMF issues an annual surveillance report, which is conducted as part of the IMF’s responsibility for surveillance of risks to economies as described in other parts of this study. In its last published Article IV in 2015, it advocates for:

- addressing high non-performing loans – strengthening bank governance;
- restructuring the corporate sector and further reducing the role of the state in the economy;
- consolidating public finances through structural measures and implementation of structural reforms (IMF, 2015b).

In its report IMF heavily promotes the Bank Asset Management Company (BAMC) as a tool that Slovenia should make full use of when considering non-performing loans or restructuring the corporate sector.

3.2 Other IFIs and economic policy-makers

In this section, the study looks at other IFIs and economic policy-makers such as the European Investment bank (EIB), European Bank for Reconstruction and Development (EBRD), OECD and European institutions such as the EC and the Council of the European Union.

European Bank for Reconstruction and Development (EBRD) and European Investment Bank (EIB)

Slovenia has regular relations with the EIB and the EBRD which, although it is not an EU institution, plays a visible role. Their most known and visible involvement in Slovenia is the lending for the new coal power plant in Šoštanj. This project became very controversial as it not only closed investment options for the Slovenian energy sector for the next decades, but it has also shown how corruption can double the investment cost and lead to annual losses of tens of millions of euros (Živčič, 2014). In spite of on-going fraud investigations by the European anti-fraud office OLAF and the Slovene police, both EBRD and EIB disbursed their €250 million and €550 million loans to the investor.

The EBRD opened its office in Slovenia in 2014. It has been involved in 69 projects (48 per cent in industry, commerce and agribusiness; 44 per cent in energy and 4 per cent in the banking sector). It directed €806 million net investments into the Slovenian economy, of which 56 per cent went to the private sector (EBRD, 2014a). The EBRD has adopted a new strategy for Slovenia, identifying the corporate sector, the financial sector and energy efficiency as three priority areas for the Bank’s work in Slovenia in the period 2014-2017. In this respect, it would “participate in the privatization of enterprises currently under state control, either through debt or equity financing” and “assist in bank asset restructuring, support healthy banks with medium term funding for the real sector, and help build up alternative funding channels” (EBRD, 2014c). These policies show many similarities with the Troika’s recommendations. The listed EBRD policies basically promote privatisation of public services and liberalisation of strategic markets (finance, energy, transport and communications) (Trumbo et al., 2014).

Organisation for Economic Co-operation and Development (OECD)

In spite of not being categorised as an international financial institution, the role of the OECD has also been analysed to some extent for this study. As an OECD member since 2010, Slovenia is closely monitored by the organisation (OECD, 2014), which not only observes what goes on in the country, but also provides recommendations on its economic (and other) activities. The most recent recommendations from the OECD in 2015 promoted ideas such as “adopt a more ambitious pension reform” and “limit the growth in the minimum wage”, followed by “reduce the scope of public ownership in the economy” and “introduce tuition fees in public higher education” (OECD, 2015).

European Council (EC) and Council of European Union

The European Council discussed “growth, competitiveness and jobs” as the second point on its meeting agenda in 26. and 27. June 2014, and highlighted that it would “endorse country-specific recommendations to guide Member States in their structural reforms, employment policies and national budgets” (Council of the European Union, 2014). Their recommendations are in line with the recommendations of the Council of the European Union (Council of Ministers) in 2014, on the Reform Programme of
Slovenia and the stability programme. On this basis, Slovenia needs to take action in the following areas (based on Official Journal of the European Union, 2014):

- to ensure correction of the excessive deficit;
- to ensure adequacy of pensions – statutory retirement age and encouraging private contributions to the pension system;
- ensuring that wage developments, including the minimum wage, would support competitiveness, domestic demand and job creation;
- to continue with privatisation of state-owned banks – NKBK and Abanka;
- to continue to implement the privatisations announced in 2013;
- to finalise a corporate restructuring; and
- to reduce obstacles to doing business in Slovenia.
4. Structural adjustments and key reform measures

Generally speaking, one could argue that similarities between the recommended policy measures to resolve the crisis are one of the characteristics of the Eurozone crisis and an example of how one economic idea can successfully be converted into accepted wisdom. This chapter outlines the key steps that were taken to translate the Troika’s recommendations into policies and measures in Slovenia. The short presentation and analysis of the Slovenian political scene in this chapter is important to understand the context of the economic decisions made over the last few years.

Toussaint (2014) explains that it is not the interest of the core Eurozone countries to re-launch growth and reduce asymmetries between the strongest and weakest economies in the EU, but to make their companies more profitable and increase their competitiveness. Furthermore, he believes that the governments of the periphery countries are a keen partner, as the national elites see an opportunity for themselves to take part in the yields promised by neoliberal policies (Toussaint, 2014). This is why the rhetoric of the Slovenian government and the media was that “Slovenia will not have to ask for international financial aid if we adopt the needed reforms ourselves” (Urad Vlade RS za komuniciranje, 2012b). The government and media have actively cultivated myths about the causes of the crisis in order to justify the prescribed neoliberal policies.

In this respect, a good example of promoting and implementing the policies of the core Eurozone countries is the study conducted by the National Central Bank (NCB) in 2014 on the view of the Bank of Slovenia on strategic challenges for economic policies in Slovenia. The study argued that Slovenia needs the efficiency of judiciary systems, privatisation, improvements in balance sheets through BAMC, etc., which would be in line with the recommendations of IMF and EC. The study also urges for the rationalisation of the cost in education, health system reform, pension reform, reform of the labour market, reorganisation of local administration and more efficient use of social transfers (Banka Slovenije, 2014). This way, the study highlights the three sets of measures (saving the banking system, consolidating public finances and securing the political support for these measures) that were recommended also by IFIs (Slovenian Times, 2013a).

4.1 Key austerity measures and conditionality design

For the purpose of this study, austerity measures are understood as cutting public expenditure on social services, imposing wage freezes or reductions and spending cuts in both the public and private sector. Moreover, new laws and non-transparent governance mechanisms are being put in place that lock in austerity for citizens, and secure deregulation for business (Corporate Europe Observatory, 2014).

In an interview for the Slovenian daily paper Delo, Benoît Coeuré – member of the ECB Executive Board – emphasised that, “Both the Slovenian government and central bank have a very good understanding of what has to be done. This relates to three key issues. The first is financial sector restructuring. Second, there is the fiscal dimension, where you need to bring down the fiscal deficit, but it is also very important to bring down the public debt. And the third aspect is obviously economic reform” (European Central Bank, 2014). He also warned that “one of the key policy actions is privatization, which can be very useful both to improve the efficiency of the companies and banks and also to reduce Slovenia’s debt level” (European Central Bank, 2014). The EC also expressed expectations that Slovenia would continue to carry out fiscal consolidation measures and structural reforms despite the crisis in the ruling party PS in 2014 that was threatening to undermine the government. In June 2014, the EC presented Slovenia with eight country-specific recommendations (European Commission, 2014a) on how the reforms in Slovenia were to be implemented.

Slovenia’s answer to implementing austerity measures were the National Reform Programmes of 2011-2015. They consist of three key areas (Urad RS za makroekonomsko analizne razvoj, 2014):

- the financial pillar (restructuring of the banking system, delivering and restructuring of companies’ insolvency);
- corporate governance and privatisation (Slovenia Sovereign Holding, privatisation); and
- the fiscal pillar (the fiscal rule, medium-term fiscal planning, long-term debt sustainability, consolidation).
The reforms related to these three pillars are presented in detail later in this chapter, but first let us have a look at how the legal basis for the reforms was put in place.

### 4.2 Legal basis for the reforms

In 2012, a wave of reforms was activated by the adopted Public Finance Balance Act (ZUJF) (Uradni list, 2012), thus approving the government’s austerity package with the goal of avoiding a further increase in the deficit. To achieve this goal, the budget was reduced and a package of measures was adopted, effectively amending 39 laws (Breznik personal communication). PM Janša explained the move: “The adoption of the austerity package and the revised budget was only the necessary precondition for Slovenia’s exit from the crisis towards sustainable growth and increased well-being” (Urad Vlade RS za komuniciranje, 2012a).

However, not everyone agreed with the usefulness of the move. Chief negotiator for the trade unions, Branimir Štrukelj, expressed concern about ZUJF: “I doubt that 30% can be taken from public servants... This would literally incapacitate education, including the university and research. I don’t think that this is the wisest way of doing things.” Drago Ščernjavic of SDO – the public authorities’ trade union – suggested that the government should also put in place measures to boost budget income so that the public sector workers would not be the only ones to carry the burden of reducing the deficit (Slovenian Times, 2012b).

A call for a referendum on the law introducing measures to boost the stability of the banking system, including the BAMC, bad bank, was requested by the KNG union of the chemical industry out of fear for what would happen with companies in bank portfolios, while the referendum on the holding to manage all state assets was requested by the opposition Positive Slovenia. The Constitutional Court found that the referendum on setting up bad bank – BAMC, and a sovereign holding – SSH, would be unconstitutional (Urad Vlade RS za komuniciranje, 2012c). Therefore, it rejected both the trade union and the opposition, and banned the referendums that could block economic reforms aimed at averting an international bailout in December 2012. The government asked the Court to ban the referendums, claiming that the enforcement of the austerity laws was crucial to ensure the country’s medium-term financial stability. The Court explained the ban by saying that constitutional values like the development of the economic system, social security and international obligations of the state have a priority over the right to demand a referendum because of the gravity of the economic crisis. The verdict can, nevertheless, also be interpreted as the limitation of the right to hold referendums or simply as an obstacle to democracy (Novak, 2012).

The government reported that the decision of the Constitutional Court to reject a motion for a referendum on the Act on the Measures of the Republic of Slovenia to Strengthen Bank Stability and the Act on the Slovenian Sovereign Holding sends a positive signal to the international community and financial markets. The positive effect of the decision translated into the movement of Slovenia’s bond yields, which in the case of dollar bond fell by 0.49 percentage points from 5.36 per cent to 4.87 per cent, with a further fall expected (Vlada Republike Slovenije, 2012b). In this way, the international financial markets remain a significant budgetary resource for Slovenia’s economy.

### 4.3 Restructuring of the banking system

Restructuring of the banking system was strongly supported and promoted by the IMF, EC and ECB. After the ECB’s Governing Council meeting in Slovenia in 2012, the governor of the NCB, Marko Kranjec, commented that, “All microeconomics indicators currently show that Slovenia will not have to ask for international financial aid, if it passes bold measures to stabilize public finances, reforms the pension system and labour market and shores up its banking sector”. The IMF mission head Antonio Spilimbergo said in his report: “Slovenia must implement the necessary reforms” (Urad Vlade RS za komuniciranje, 2014a). ECB President Mario Draghi commented that the ECB agreed with the assessment of the IMF on whether or not Slovenia will need international aid. Slovenian PM Janša commented that, “Slovenia has full potential to get out of
when he met Draghi after a session of the ECB. PM Janša explained that the Slovenian State Holding (SSH) was set up for the purpose of restructuring state-owned companies to fulfil one of the policy measures and "this is also an instrument which will enable further transparent privatization of these assets".

In March 2012, the Slovenian Finance Minister presented the financial measures (finding a strategic partner for the NLB bank, the introduction of the golden fiscal rule in the Constitution and the guidelines for the 2012 supplementary budget) adopted by the new government to a delegation of ECB and the EC. The delegation was visiting Slovenian banks to assess their readiness for macroeconomic imbalances such as loss of competitiveness, high debt or asset bubbles (Slovenian Times, 2012a).

In September 2012, the government adopted a bill to set up BAMC in an effort to clean non-performing loans from banks’ balance sheets. The BAMC, wholly publicly owned, aims "to strengthen the financial capacity and sustainability of system banks, and consequently promote economic growth" (BAMC, 2015a). In other words, it was designed to restructure publicly owned banks. The BAMC was strongly supported and promoted by the IMF, EC and ECB according to their country specific recommendations. The amount of non-performing loans on banks' balance sheets rose constantly and now €4.5 billion of these non-performing loans have been transferred to the BAMC (BAMC, 2015a). According to Gandrud and Hallerberg (2014), BAMC imposed the largest average haircut in Europe at 71 per cent.

Apart from giving BAMC a visible role in the bank system reform and hence in the Slovenian economy, it is also worrisome that the government decided to put foreign managers in control of BAMC. What is even more troubling is that the selected managers have an obvious connection to the Troika. Lars Nyberg, Arne Berggren and Carl-Johan Lindgren, who are members of the board of BAMC, have previously served in Troika institutions. Lars Nyberg was President of the ECB crisis management group and a member of a high-level expert group on financial supervision in the EU. Arne Berggren was a member of the IMF ‘Troika’ team in Spain; and his colleague Carl-Johan Lindgren worked for the IMF as well.

In January 2014, the Slovenian government nominated a new non-executive director of the board of BAMC, Mitja Mavko from the Ministry of Finance (now employed at the EBRD). He was the Head for International Financial Relations and his main role was to maintain relations with IFIs. BAMC was also strongly supported by the NCB’s Governor Boštjan Jazbec, who previously worked as a consultant for the IMF. This most likely explains why Slovenia is facing severe pressure to impose Troika-induced measures (BAMC, 2015c).

The lack of transparency over the functioning of the BAMC raises concerns that taxpayers’ money will pay for all financially suspect aspects of the banks’ non-performing loans, while the ‘good parts’ of the banks will be sold to foreign banks and investors at a very low price. Transparency is an on-going issue of the BAMC. For example, the top managers’ employment contracts were until recently not disclosed to the public, even though the Slovenian Information Commissioner asked BAMC to be transparent as it is fully owned by the state (UKOM, 2014b).

The IMF encouraged the authorities to use the tools provided by the BAMC and pushed for an insolvency law to restructure the bank and corporate sector. In this respect, the IMF stressed that BAMC “has the tools to achieve a quick resolution of impaired assets” and insolvency law is essential to ease “deleveraging through debt-to-equity swaps while allowing nonviable firms to be wound down efficiently” (IMF, 2013). The IMF said in March 2013 that it expected Slovenia would need to recapitalise its three largest state-owned banks (NLB, NKBM, Abank) with €1 billion (Novak, 2013b). The EC told Slovenia in May 2013 it should prepare for the planned sale of state assets as part of the efforts to avoid international bailout. Moreover, it said Slovenia should hire independent external advisers to conduct a system-wide bank asset quality review – stress-tests. As explained by Oli Rehn, from the EC, “Once fully implemented, this reform strategy, as spelled out in the reform program in the letter I’ve received from minister Čufer, should lead to a sustainable correction of imbalances and to improvement of market sentiment” (Novak and Santa,
2013). At the end of the year Rehn commented, “I look forward to the effective implementation of the strategy for banking-sector repair and modernization outlined today by the Slovenian authorities” (Rousek and Steinhauser, 2013).

In addition, in 2013 the new NCB Governor Jazbec argued that Slovenians must change their mind-set and approach to the management of the economy and the state. He added that, “we lived beyond our means”, but the study argues it was not “we” who took on the credit but the government. It was not “we” either who spent the money, but the state. This myth can be dispelled also by examining figures for income inequality that show ‘we aren’t all in this together’. Numerous proposals exist that look at the attempts to reduce the deficit by increasing taxes rather than decreasing government spending: high personal incomes, large wealth, and corporations (Laskaridis, 2014).

It is argued that public debt is often used to oblige countries to open their markets to foreign direct investment (FDI), to privatise public services that could generate profit for private companies, or even to stimulate frequent changes in the government (ICAN, 2014). This study observes that ‘structural reforms’ frequently mean privatisation. Therefore, the privatisation of public services and liberalisation of strategic markets (finance, energy, transport and communications) became the everyday policy of European governments (Trumbo et al., 2014). The EC already highlighted in pre-accession reports on Slovenia that “Slovenia is considerably behind its peers in large-scale privatisations” (Georgieva and Riquelme, 2013).

The main argument the government uses in support of privatisation is a reduction of the high public debt through selling of state-owned companies. Another commonly heard argument is that Slovenia promised to the international community to privatise state-owned companies. The Institute of Macroeconomic Analysis and Development of the Republic of Slovenia claims that “privatisation could strengthen governance, improve competitiveness and accelerate development, which ultimately results in higher fiscal revenue” (Urad RS za makroekonomske analize in razvoj, 2014).

The IFIs and other international economic policy-makers welcomed the privatisation programme, the coherent state-owned enterprise management strategy and a centralised management agency (IMF, 2014a). With this in mind, Slovenia established a new institution in 2014, the Slovenian Sovereign Holding (SSH), to implement the divestment of 15 state-owned companies, including the second largest bank (NKBM), the largest telecom operator (Telekom Slovenije), the national airport (Aerodrom Ljubljana), the biggest national food corporation (Žito Group) and other assets (Slovenian Sovereign Holding, 2014).

However, it is becoming more and more evident that, even if Slovenia sells the companies at the best possible price (which is rather unlikely), the country’s public debt would decrease only by less than 3 per cent. To protect its decision to privatise in spite of such a low yield for deficit reduction, the government argues that Slovenia needs to privatise the companies to show its commitment to the promises that Slovenia made to the international community in terms of privatisation. In this context, the current PM Cerar announced that the government was committed to reforms that will make Slovenia a more appealing destination for foreign investors (Faculty of Economics, 2014).

4.4 Required privatisations through Slovenian sovereign holding

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4.5 Fiscal consolidation

One of the key messages that Slovenia received from Brussels (Vlada Republike Slovenije, 2013) and other institutions (IMF and OECD) is that fiscal consolidation is a must (IMF 2015b, OECD 2015). This is why in 2012 the Public Finance Balance Act (ZUJF) was adopted to represent the grounds for a package of austerity measures that impacted some of the key policies in Slovenia. The fiscal consolidation was supposed to be conducted so as not to adversely affect the
The national reform programme for 2012-2013 called for ‘growth friendly fiscal consolidation’ and ‘reducing the tax burden of the economy’ (Vlada Republike Slovenije, 2012). The first step was the introduction of the so-called ‘fiscal rule’ to the Constitution of Slovenia. This rule was included in the Constitution in 2013 (Državni zbor, 2013), while now the talks are still under way on how to operationalise this rule. The rule limits the increase of the national debt in the long run by preventing the state from increasing debt for running its services (Vlada Republike Slovenije, 2014a).

To reduce the pressure on the economy and ‘invite foreign investments’ (Dernovšek, 2011), one key step was to gradually reduce the tax on corporate profits from the nominal rate of 23 per cent in 2007 to 17 per cent in 2013 (and aiming at 15 per cent), while at the same time increasing the tax relief rate from 4.4 per cent in 2003 to 6 per cent in 2012 (Kordež, 2013).

To balance out the loss of income for the budget from the profit taxation, other fiscal consolidation steps on the income side of the budget had to be implemented:

- Increasing the value added tax (VAT) rate from 20 per cent to 22 per cent and from 8.5 per cent to 9.5 per cent (MT Skupina, 2013; Vlada Republike Slovenije, 2013).

- Taxing financial transactions: a new 6.5 per cent tax was introduced in 2012 to tax provisions gained by financial transactions (Fidermuc, 2012).

- Making public companies that do not pay taxes: Companies that owe more than €5,000 for over 90 days to the tax authorities are publicly listed (Fidermuc, 2012).

![Figure 4: Profit tax rates and rates for tax relief](image)

Source: Kordež, 2013
• Increasing the excise duties on cigarettes and alcohol (Vlada Republike Slovenije, 2012).

• Introducing a new rank of incomes that are taxed with a 50 per cent rate (previously 41 per cent was the highest rate) (Vlada Republike Slovenije, 2012; Konto, 2013).

• Increasing the tax rate for taxation of capital income from 20 per cent to 25 per cent (Vlada Republike Slovenije, 2013); however, it should be noted that capital incomes are not taxed progressively as the 25 per cent rate is applied to all capital incomes (Ministrstvo za finance, 2015b).

• Introducing tax relief for investments: a company can reduce the tax basis to the amount of 40 per cent of the investment sum (Vlada Republike Slovenije, 2013; Mercina, 2013).

It should be noted that some of the listed measures represent a welcome change, such as the tax on financial transactions or the introduction of a new high income class with a higher tax rate. Another important highlight is that there was a governmental proposal to tax real estate (Vlada Republike Slovenije, 2012). However, after the law was passed, the constitutional court declared it invalid because it would be against the constitution (Fidermuc, 2014). With this decision also the tax on real estate of higher value was scrapped. This was beneficial for the owners of higher value real estate, but the state budget lost about €20 million in income (Fidermuc, 2015).
5. Pressures applied from regional and international actors

There is another interesting indicator of how influence can be detected: official visits of Slovenian high-level officials like the Prime Minister (PM) and Finance Ministers abroad. The interest of regional actors can also be ascertained by officials’ visits to Slovenia. Both types of visits have increased over the last few years, especially since 2012.

The data gathered in Tables 1 and 2 show who visited Slovenia and how the number of international visits increased in the period 2011 to 2014.

Table 1: Visits to Slovenia

<table>
<thead>
<tr>
<th>Year and number of visits</th>
<th>2011 (5 visits)</th>
<th>2012 (7 visits)</th>
<th>2013 (8 visits)</th>
<th>2014 (11 visits)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Germany</td>
<td>Germany</td>
<td>Austria</td>
<td>Germany</td>
</tr>
<tr>
<td>2</td>
<td>Russia</td>
<td>Russia</td>
<td>Russia</td>
<td>Russia</td>
</tr>
<tr>
<td>3</td>
<td>Norway</td>
<td>Sweden</td>
<td>China</td>
<td>China</td>
</tr>
<tr>
<td>4</td>
<td>EU (The President European Council)</td>
<td>Italy</td>
<td>Japan</td>
<td>Italy</td>
</tr>
<tr>
<td>5</td>
<td>IFIs (IMF)</td>
<td>EU (President European Council)</td>
<td>EU (Eurogroup president)</td>
<td>Austria</td>
</tr>
<tr>
<td>6</td>
<td>/</td>
<td>IFIs (IMF)</td>
<td>IFIs (twice from IMF)</td>
<td>Spain</td>
</tr>
<tr>
<td>7</td>
<td>/</td>
<td>IFIs (ECB President)</td>
<td>IFIs (EBRD)</td>
<td>France</td>
</tr>
<tr>
<td>8</td>
<td>/</td>
<td>/</td>
<td>/</td>
<td>Luxembourg</td>
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<tr>
<td>9</td>
<td>/</td>
<td>/</td>
<td>/</td>
<td>EU (President of the European Parliament)</td>
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<tr>
<td>10</td>
<td>/</td>
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<td>/</td>
<td>EU (President of the European Council)</td>
</tr>
<tr>
<td>11</td>
<td>/</td>
<td>/</td>
<td>/</td>
<td>IFIs (IMF)</td>
</tr>
</tbody>
</table>

Source: Vlada Republike Slovenije, 2014c

Table 1 shows an increase in visits, with a notable increase over the last few years. Particularly interested actors in the last few years have come from IFIs (7 visits), EU (5 visits), Germany (3 visits), Russia (3 visits), Austria (2 visits), Italy (2 visits), China (2 visits), etc.
A similar increase in visits can be seen also in the opposite direction. Slovenian PMs and Financial Ministers have visited an increasing number of countries in the last few years (see Table 2).

<table>
<thead>
<tr>
<th>Year and number of visits</th>
<th>2012 (3 visits)</th>
<th>2013 (7 visits)</th>
<th>2014 (9 visits)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Brussels – Monetary and Economic Affairs Commissioner, Olli Rehn</td>
<td>Germany</td>
<td>Germany</td>
</tr>
<tr>
<td>2</td>
<td>Luxembourg – Eurogroup President Jean-Claude Juncker</td>
<td>Italy</td>
<td>UK</td>
</tr>
<tr>
<td>3</td>
<td>Russia – Vladimir Putin and PM Dmitry Medvedev</td>
<td>Russia</td>
<td>EBRD (in London)</td>
</tr>
<tr>
<td>4</td>
<td>/</td>
<td>France</td>
<td>Norway</td>
</tr>
<tr>
<td>5</td>
<td>/</td>
<td>China – during the summit of Central and Eastern Europe</td>
<td>Italy (Milan)</td>
</tr>
<tr>
<td>6</td>
<td>/</td>
<td>London – Slovenian Finance Minister (investor meetings)</td>
<td>Brussels – President of the European Parliament Jean-Claude Juncker</td>
</tr>
<tr>
<td>7</td>
<td>/</td>
<td>Brussels – Slovenian Finance Minister (investor meetings)</td>
<td>Brussels – President of the European Parliament Martin Schulz</td>
</tr>
<tr>
<td>8</td>
<td>/</td>
<td>/</td>
<td>London – Slovenian Finance Minister (investor meetings)</td>
</tr>
<tr>
<td>9</td>
<td>/</td>
<td>/</td>
<td>New York – Slovenian Finance Minister (investor meetings)</td>
</tr>
</tbody>
</table>

Source: Vlada Republike Slovenije, 2014b
6. Specific effects on Slovenia’s key policies

The Slovenian governing elite and IFIs frequently present a myth that Slovenia’s public sector is too big and should be reduced. However, the claimed ‘disproportionate size’ of the public sector is contradicted by official figures. As can be seen from the figure below, Slovenia is below the OECD average regarding the employment in the public sector (OECD, 2013).

![Figure 5: Employment in general government as a percentage of the labour force (2000 and 2008)](image)

Yet an important feature of the reforms was to reduce the size of the public sector. With this in mind, the key reform measures that have been adopted so far include (Vlada Republike Slovenije, 2014d):

- introducing the ‘golden fiscal rule’ to the Constitution
- reducing number of employees, wages and material costs in the public sector
- limiting growth of pensions and social transfers
- rationalisation of functioning of budget users (public services)
- limiting the grey economy and correspondingly increasing tax income
- taxing financial services
- reducing income tax deductions
- increasing VAT rates from 20 per cent to 22 per cent and from 8.5 per cent to 9.5 per cent.

Further details on how these measures impacted Slovenia’s key policies are provided in the sub-sections below.

6.1 Privatisation

Slovenian privatisation is not an abstract process. It has been taking place for a while now and the listed 15 companies under SSH management are not the first ones the government intends to sell.

In 1998, the company Aquasystems in Maribor (Slovenia’s second biggest city) built a sewage treatment plant. It was the first project of public-private partnerships in the country. The result of this project is now visible. The company ended last year with a record profit of €3.8 million, the price of urban water in Maribor is 350 per cent higher than in Ljubljana (the capital), where these activities are not privatised. In the case of Maribor, it is not taken into account that approximately €6 million was paid by the municipality to Aquasystems due to a badly written concession contract. Recently, municipalities have mainly been giving concessions for the services of treatment plants, water
supply, waste collection, maintenance of local roads, construction of public buildings, car parks, markets, etc. In theory it is possible to write a good contract, but “212 municipalities are understaffed and lack knowledge to compete with corporations”, according to Jan Žan Oplotnik, speaking on behalf of the municipalities involved in the negotiations for a solution to these problems (Mekina, 2014).

SSH is managed by Matej Runjak. He also led a consortium that sold the Slovenian company Helios to the Austrian company Ring. Helios was sold under such terms that Ring won the award “Deal of the Year” in London for the best acquisition in Europe in the category of transactions from 100 million to a billion dollars. Moreover, Runjak was involved also in the saga of Mercator (a retailer of consumer goods and one of the largest corporate groups in Slovenia, as well as in the entire region of South Eastern Europe). Even though several esteemed Slovenian economists had argued on the grounds of their calculations that selling Mercator would be devastating for the national economy as well as for the banks, it was sold to Croatian food and retail group Agrokor. The new owner is already pressuring Slovenian food suppliers to decrease their prices if they want their cooperation to continue.

When the national Airport Brnik was sold, SSH reached “a very high price”. However, a few days later Reuters offered an opinion by the analyst Dirk Schlamp from DZ Bank, who commented that in the case of the Brnik’s privatisation was multiple of EBITDA “typical for this sector”. How powerful SSH is could be seen also in July 2014 when the government asked SSH to halt the privatisation process and in turn SSH threatened a lawsuit if the government did not repeal its decision (Mekina, 2014).

Moreover, in October 2014 the new government pushed ahead with the sale of Telekom Slovenia to please investors (Novak and Radosavljević, 2014). Citigroup analyst Jaromir Sindel estimated the 15 companies could generate between €500 million and €750 million (Rousek, 2014).

6.2 Labour market

Slovenia is dealing with an ongoing unemployment problem. The unemployment rate in September 2014 was 12.3 per cent, while the youth unemployment rate reached one third (Zavod RS za zaposlovanje, 2014; MMC RTV/STA, 2014). In this respect, the IMF suggested that the main problem in the labour market is segmentation between a group of workers with relatively secure jobs and benefits entitlement, and another group, disproportionately young, who can only find work through short-term contracts and is thus always the first to be fired when things go wrong (IMF, 2014b). The IMF also suggested that the labour market must be more flexible to facilitate corporate restructuring (IMF, 2013). Slovenia also received a recommendation from the EC to adjust legislation so as to protect employees with regular contracts, as well as to better organise the student labour market, which represents unfair competition especially in the segment of youth employment. Furthermore, the EC and ECB recommended that Slovenia should limit the growth of salaries in order not to threaten Slovenia’s competitiveness and job creation. The same recommendations could be heard from some multinational companies (Slovenian Times/STA, 2014).

Therefore, the government adopted a package of labour market reforms, consisting of a new Employment Act and revised Labour Market Act. The Parliament adopted the proposals in March 2013 (Vlada Republike Slovenije, 2012; Lukič, personal communication).

The key reform package aims to reduce the segmentation of the labour market (regular vs. temporary contracts). This is done through the following measures, of which the first two do not necessarily mean reduction of workers’ freedoms, while the others have a negative impact on these freedoms:

- **Regulation of student labour**: Student labour represents an inexpensive alternative to employment, especially in the segment of youth employment. Student labour was more heavily taxed than before and tax deduction for income tax was reduced. Student labour is now also subject to social security taxation, which would
ensure social security and recognition of working experience;

- **Prevention of work without contracts:** This was done mainly by raising the fines and stimulating voluntary reporting. Also planned is the introduction of a voucher system for complementary employment (cleaning, gardening...), which would introduce social, pension and health contributions also for this kind of employment (Vlada Republike Slovenije, 2014a);

- **Salary reduction:** Salaries are organised with collective agreements for the public and private sector. Nevertheless, collective agreements leave some room for manoeuvre, which the crisis exploited to reduce the base salary and fringe benefits. In 2012, the average salary declined by 2.4 per cent in real terms, for the first time in the last 20 years. Public sector salaries have – due to austerity measures that have gradually been put in place since 2009 – declined by 2.2 per cent in 2013 (Vlada Republike Slovenije, 2014a);

- **Shorter cancellation terms and reduction of severance pay:** Shortening of cancellation terms from 120 to 60 days and reducing severance pay (Vlada Republike Slovenije, 2014a);

- **Expanding the scope of work:** To increase flexibility of employment, the new law on employment allows for the worker to do other work than specified in an employment contract;

- **Reducing payment for ‘temporary waiting for work’:** Until now the worker was entitled to 100 per cent salary if the employer could not secure work; from now on they will only be entitled to 80 per cent (Vlada Republike Slovenije, 2014a).

For employment in the public sector, the objective remains to further reduce costs. Apart from limiting (practically stopping) further employment in the public sector, the government is looking also for optimisation and rationalisation potentials across the sector. Reduction of wages is one of those potentials and in 2014 wage reduction was in place throughout the year (as opposed to 2013). In 2015 the objective is to reduce the costs by an additional 5 per cent, for which all the previously listed austerity measures will remain in place, and to implement further cuts in the number of public sector employees (Vlada Republike Slovenije, 2014a).

The IMF welcomes the described reforms that reduce the segmentation of the labour market and increase flexibility as a step in the right direction, but warns that its effectiveness needs to be closely monitored and assessed (IMF, 2013). It also favours measures to maintain the cost of public sector salaries (IMF, 2014b). However, the ZSSS trade union confederation is less excited about the reforms, saying that recommendations are a continuation of the “mantra of structural reforms” while failing to contain a single word on the rule of law and the fight against abuse of the labour market (Slovenian Times/STA, 2013b).

### 6.3 Social transfers

At the beginning of 2012 a new system for social transfers was put in place. In this field Slovenia has received no special guidance from the Troika, but as it was necessary to 'stabilize the public finances' (Vlada Republike Slovenije, 2013), which is the mantra of the Troika, this chapter offers a short overview of relevant events. There was a recommendation of the Bank of Slovenia, however, to make social transfers and subsidies more efficient (Banka Slovenije, 2014).

The Public Finance Balance Act (ZUJF) adopted in 2012 changed most of the social transfers permanently and in the more sensitive area (family care) linked them to the condition of 2.5 per cent economic growth. Limited growth of social transfers will remain in place until 850,000 people are employed. The need to 'stabilise the public finances' invariably leads to the shrinking of some social rights. The key changes were moving the rights to social allowances (Ministrstvo za delo, družino, socialne zadeve in enake možnosti, 2014; Ministrstvo za delo, družino, socialne zadeve in enake možnosti, 2012) and state pension (which had until then been a part of the pension system) into social care, in addition to
centralising social transfers by merging property and income to establish the basis for social allowance (Dnevnik/STA, 2012). By introducing these changes, the social allowance basically became a sort of a loan from the state, which the receiving party (or its successors) has to pay back (Breznik, personal communication; Dnevnik/STA, 2012). Social work centres were reorganised and data digitalised and centralised in order to ensure a better overview of the property and incomes of the applicants for social support (Vlada Republike Slovenije, 2014a).

One visible characteristic of the reforms in this field is that the social transfers are moving more and more from universal ones to targeted and conditional ones; while this trend has been observed for a decade already, the recent austerity measures made it even clearer (Trbanc et al., 2015).

During the transition to the new system, the centres for social work were delayed in paying the transfers, which caused people to visit the centres in search of their funds. The government reacted promptly by directing security guards into the centres for social work (Breznik, personal communication). Meanwhile, the official data on the number of poor and socially marginalised people across the country shows a rise from 335,000 in 2007 to 410,000 in 2013 (Lukič, 2014).

The assessment of the impact of the implemented changes shows that the new social measures have led to an increase in poverty (Amnesty International Slovenia, 2013; Trbanc et al., 2015). The lower middle class has been hit the hardest, especially the people who are right above the level for social allowances and people who are employed, but receive very low or irregular income (Trbanc et al., 2015).

6.4 Health

Slovenia’s health system, which is financed from public funds, is overburdened and non-transparent (Vlada Republike Slovenije, 2013). The economic crisis has added additional pressure to the system by widening the gap between the health-related requirements of citizens and the possibilities to finance the health system (Vlada Republike Slovenije, 2012). The health system reform is hence part of the reform package when austerity is discussed (Novak, 2010).

The government’s policy is therefore to introduce long-term changes by introducing the following measures (Ministrstvo za finance, 2015a):

- reorganising the health network through bigger organisational units and more cases handled at the primary level (which would reduce the workload of the more expensive secondary level)
- making better connections between secondary health providers
- introducing consistent separation between the public and private funds for the health system with the emphasis on the public funds
- possibly introducing competition into the field of obligatory health insurance
- introducing market mechanisms into the procurement of health services
- revising the rights to make a distinction between the health services covered by the obligatory insurance and those covered from people’s own pockets
- making changes in the financing of long-term care, which is currently subject to several different systems (pension, health, social support)
- arranging joint public procurement for the public health system.

A study of the situation in the health system (Majcen and Čok, 2014) shows that there are several options for stabilising it (see Table 3):
In all scenarios with direct private payments the payments would mostly affect elderly people who live on pensions. In the scenarios with increased worker participation, the low-income workers would be affected the most. The study also warns that increasing workers’ participation would have an impact on the international competitiveness of Slovenia and cause the reduction of incomes for the state budget. The public debate on how to reform the health system will continue, but from the outcomes of the study and lessons learned from experience in other sectors, one can speculate that the result will be the adoption of scenarios with direct service fees and towards privatisation of health public services.

Table 3: Scenarios for the organisation of the health insurance

<table>
<thead>
<tr>
<th>In million EUR</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
<th>Scenario 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions of the worker</td>
<td>161.8</td>
<td>0</td>
<td>647.4</td>
<td>0</td>
<td>323.7</td>
</tr>
<tr>
<td>Direct private payments</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Participation in prescription</td>
<td>0</td>
<td>11.8</td>
<td>0</td>
<td>23.6</td>
<td>23.6</td>
</tr>
<tr>
<td>Participation in the first doctor’s visit</td>
<td>0</td>
<td>45.8</td>
<td>0</td>
<td>93.6</td>
<td>93.6</td>
</tr>
<tr>
<td>Annual deductible franchise</td>
<td>0</td>
<td>99.1</td>
<td>0</td>
<td>534.1</td>
<td>210.8</td>
</tr>
<tr>
<td>Direct private payments together</td>
<td>0</td>
<td>157.7</td>
<td>0</td>
<td>651.3</td>
<td>328</td>
</tr>
<tr>
<td>Health system together</td>
<td>161.8</td>
<td>157.7</td>
<td>647.4</td>
<td>651.3</td>
<td>651.7</td>
</tr>
<tr>
<td>State budget</td>
<td>-40.7</td>
<td>0</td>
<td>-160.6</td>
<td>0</td>
<td>-81.1</td>
</tr>
</tbody>
</table>

**Scenario 1**: Keeping additional voluntary insurance and increasing the worker’s contribution to compulsory health insurance from 13.45% to 14.65%

**Scenario 2**: Keeping additional voluntary insurance and introducing direct participation with private payments (participation in prescription €1, participation in first doctor’s visit €10, annual deductible franchise €100)

**Scenario 3**: Eliminating additional voluntary insurance and increasing the worker’s contribution to compulsory health insurance from 13.45% to 18.65%

**Scenario 4**: Eliminating additional voluntary insurance and introducing direct participation with private payments (participation in prescription €2, participation in first doctor’s visit €20, annual deductible franchise €950)

**Scenario 5**: Eliminating additional voluntary insurance and increasing the worker’s contribution to compulsory health insurance from 13.45% to 15.85% plus introducing direct participation with private payments (participation in prescription €2, participation in first doctor’s visit €20, annual deductible franchise €250).

Source: Majcen and Čok, 2014
6.5 Pensions

In Slovenia, almost 600,000 people of a population of 2 million are retired and each pension is supported only by 1.5 workers. The minimum guaranteed pension is only €439, which is not enough to eliminate poverty among retired people (Böhm, 2014). The pension system is further threatened by an aging population (Vlada Republike Slovenije, 2014a) and the economic crisis, which reduces the income for the pension fund (Pogačar, 2014; Sourbes, 2011). The government proposed a pension system reform that was approved by the parliament in December 2010. It included higher retirement age, as well as a lower replacement rate on pensions and changing the way in which pensioners can access their second-pillar retirement savings. The reform has been criticised by several trade unions as well as by the opposition, with unions launching a successful court appeal opposing the proposals, which resulted in a referendum. The Slovenian government was defeated in the pension reform referendum in June 2011. Proposals to raise the retirement age were planned to help tackle an increasing deficit in the country’s pension system, but were rejected (Slovenian Times/STA, 2013a).

The EC and ECB recommended that Slovenia should reform the pension system in order to secure its longevity. The recommendation was to make the retirement age equal for men and women, ensure the raising of the retirement age by linking it to lifetime expectancy, ensure sufficient level of pensions, reduce possibilities for early retirement and review the indexation system for pensions (Vlada Republike Slovenije, 2013). The next recommendation was to reduce the costs of long-term care and redirect care from institutional care to care at home. The EC has warned that pension expenditure is so high as to place Slovenia’s entire public finances at risk. The head of the IMF argued that, without a pension reform, Slovenia’s economic growth would slow down due to the growing government expenditure and increased costs of borrowing. The OECD said that making people work longer is the only way governments can keep pension systems in existence without cutting other benefits (Read, 2011).

In response to this recommendation, the Slovenian parliament approved the pension system reform in December 2013. The key elements of the reform (Böhm, 2014; Ministrtvo za delo, družino, socialne zadeve in enake možnosti, 2012) were to equalise and raise the retirement age of men and women to 65 years, prolong the period which serves as the basis for the calculation of the pension, from 18 to 24 years, lower the replacement rate on pensions and change the way pensioners can access their second-pillar retirement savings. The reform discourages early retirement by reducing pensions by 0.3 per cent for each month missing to 65 years. Pension indexation consists of 60 per cent on the basis of growth of salaries and 40 per cent on the basis of inflation (Cvelbar, 2012). The plan is still to work on the second pillar (additional insurance) and system change of the pension scheme, while at the same time opening a public debate on the pension system after 2020. The first assessment of reform impacts is that savings have been achieved, but not to the extent that would be achieved if the objective of a sufficient level of pensions had not been pursued (Vlada Republike Slovenije, 2014a).

The planned public debate on further changes in the pension system will undoubtedly be an interesting one as the government is likely to try to wriggle out of the pension system crunch by proposing that private insurance should enter the scheme.

6.6 Education

Whereas in the past education might have had other purposes, now its primary function seems to be to serve the needs of the market and “represent a basis for [further] education and development of creative, entrepreneurial and innovative individuals” (Vlada Republike Slovenije, 2014a). The Troika recommended that Slovenia should improve the consistency of qualifications in line with the demand on the labour market, especially for low-qualified workers and high
school graduates, and continue the reforms of the educational sector (Vlada Republike Slovenije, 2014a). The crisis called for austerity measures also in the education sector.

There were two major (and visible) attempts to expand the scope of tuition fees, at university level one in 2011 (Delo, 2011) and one in 2013 (Krašovec, 2013), but both were resisted by the students. Still, a few measures were put in place to reduce costs in education (Vlada Republike Slovenije, 2013):

- Changing the education norms and standards, which in practice means more children/students per teacher/professor. This decision was based on the finding of international research that smallness of the group is not a condition for the quality of education and good achievements.
- Public financing is to enable development of network of high education centres in major economic centres, which would contribute to the further development of those centres following the employment of students: faculties are stimulated to see how many of their students find employment, so that knowledge and competences which enable better employment options for the graduates are prioritised.
- Ministry of Education analysed the market to match the needs of the market with the enrolment places.
- Companies as future employers are also part of the national agency for quality in the higher education as external experts.
- In the high school sector, the Ministry of Education is implementing specific projects for linking with businesses (financed from cohesion funds), stimulating the entrepreneurial initiatives of students, leading a debate on how to best link education and business (Vlada Republike Slovenije, 2013; Vlada Republike Slovenije, 2014a).

6.7 Citizens’ rights

In the field of citizens’ rights we can observe several mechanisms that have been set in motion by the crisis. Those mechanisms adversely affect the basic citizens’ rights in several ways.

The most alarming is the change in the rules for a referendum. In 2012 the government proposed a change to the Constitution (Vlada Republike Slovenije, 2014a), which was approved by the Parliament in May 2013 (Kupec, 2013). The Constitutional Court explained its support for the changes by saying that constitutional values like the development of the economic system, social security and international obligations of the state “have an advantage over the right to demand a referendum considering the gravity of the economic crisis” (Urad Vlade RS za komuniciranje, 2012c).

The change in referendum rules implies several limitations. Before the change it was possible to call a referendum through three mechanisms (citizens, Parliament, National Council), while under the new rules only 40,000 citizens can demand a referendum. In addition, the issues on which a referendum can take place were also limited: a referendum cannot decide on the issues of: a) laws on measures for the defence of the state, state security or elimination of consequences of natural disasters; b) laws on taxes, tariffs and other mandatory taxes and charges; c) laws on state budget execution; d) laws on ratification of international treaties; and e) laws that eliminate the unconstitutionality of human rights and fundamental freedoms.

The last new measure is the rejection of referendum. As many of the laws are closely related to the budget or other mandatory taxes and charges, fears arise that this would be the limiting factor for putting different issues on the referendum (Trampuš, 2013). The burden of deciding what can be a referendum issue will be placed on the Constitutional Court, which has had a history of ‘unusual’ decisions (e.g. the court allowed a referendum
on human rights, but prevented a referendum on financial questions) (Trampuš, 2013).

Another field where rights are affected is the increased efficiency of the jurisdiction system. Measures to make the jurisdiction system leaner include, among others, also the reduction in the number of judges per 100,000 inhabitants and balancing the number of support staff for judges. Simplification of the jurisdiction solutions would be another measure to enable faster work of the courts (Vlada Republike Slovenije, 2014a).

Amnesty International Slovenia (Amnesty International Slovenia, 2013) warns that the austerity measures influenced a variety of economic and social rights, mainly of already severely marginalised parts of society. It highlights that the state must secure human rights in spite of the recession.

Many other cases of breaching citizens’ rights happened in Slovenia in the period of 2008 to 2015, ranging from legally prosecuting critical journalists (Mirovni inštitut, 2015), refusing to legalise the status of 25,671 people who were simply erased from Slovenia’s register of population in 1992 (Amnesty International Slovenia, 2015) and the criminalisation of more than 220 people who took part in protests against political elites, the disintegration of the welfare state and system corruption between October 2012 and April 2013 (Mirovni inštitut, 2014), to unequal rights of Roma people (Amnesty International Slovenia, 2013). However, these issues are not covered in more details in this report, as they cannot be directly linked with the influence of IFIs on Slovenia.
This study argues that IFIs and other international organisations have influenced Slovenia’s policies, laws and practices. This was shown through four aspects:

- publicly accessible data and analyses on the impacts;
- response to recommendations from IFIs and others;
- revolving door phenomenon;
- meetings of Slovenian decision-makers and IFIs.

By accepting external policy advice without any critical consideration and yielding to extensive international pressure, the Slovenian decision-makers of various political orientations merely followed the prescriptions that IFIs and other institutions recommended in order to gain improved competitiveness, flexibility and a more welcoming environment for FDIs that benefit mostly foreign companies, financial markets, other international actors and the national elite.

Another key conclusion is that there is a lack of political decision-making with regard to austerity measures and corresponding reforms; instead, decision-makers have merely followed the prescribed steps. There is a lack of debate, with measures simply being implemented. Even the political orientation of the governments does not play a role – a series of four governments has blindly followed the recipes being handed out by IFIs and others.

On the one hand, the conclusion could be that the governing elites see the neoliberal measures as a window of opportunity for increasing their power and well-being (wealth) and hence accepting them as recipes that are not to be questioned. However, on the other hand, one can conclude that Slovenian political leaders simply do not know how to handle the current situation (Mencinger, personal communication; Lukič, 2014) and regard guidance from IFIs as a welcome gift.

In spite of the many things that went from bad to worse, it can be observed that there are still a few bright spots. In the pension and health system, for example, not all is left to the doctrine of neoliberalism and these are some of the last public benefits that we need to defend (Marn, 2015).

One important conclusion is also that there are still many aspects that need to be studied further in order to get a clearer picture of the role that the IFIs and other institutions play in Slovenia. One of the issues that could be looked at in more detail is how much the adoption of neoliberal policies is a result of the recommendations of IFIs and other institutions and to what extent it can be attributed to national decision-makers’ support of neoliberal doctrines.

Another issue that could be explored further is the impact of Slovenia on the policies of the EU, IFIs and other institutions. Slovenia is a member of all the institutions covered in this study. As such it could, in theory, influence the policies and positions of these institutions. Hence the question is how much Slovenia actually co-shapes the policies of IFIs and other institutions and not only to what extent it follows them.

It is also clear that Slovenia wants to be under the umbrella of institutions like the EU, IMF or OECD. It is therefore not surprising that Slovenia follows the recommendations of these institutions. This is why arguing that all the recommendations are enforced upon Slovenia is not fully in place and the issue should be explored further. To provide a clearer picture it would be interesting to conduct a study of the power relations between the various institutions.
actors: the power roles of the Troika institutions, relations with the EU institutions and roles of the Slovenian institutions. Also a further analysis of the leverages that the IFIs and other institutions have to exercise their role in countries would provide a better understanding of the situation. One relevant aspect would be to analyse the position of Slovenia on EU policies, as it would shed some light on how much Slovenia impacts EU policies and whether the support to neoliberal policies exists only at EU level or also at the Slovenian level. Another interesting exploration would be into the information about meetings of lower officials with the IFIs and other institutions, where policies and measures are negotiated. These aspects are beyond the scope of this study, but would be interesting to explore further.

7.2 Recommendations

This study highlights that a lack of sovereign strategies and uncritical following of IFI recommendations are conspiring to deepen the crisis in Slovenia rather than helping to solve it. When the crisis is at its worst is the moment when we should rethink various existing alternatives. Slovenia has been in crisis since 2008, yet instead of thoroughly rethinking its vision and strategies, Slovenia’s policy-makers and opinion leaders are looking to IFIs and other international organisations to offer solutions.

One of the reasons could be that there is no solid knowledge base at home. It is true that there is still more research to be done on how IFIs and other international organisations have affected state choices in response to the crisis in Slovenia, but there is also a problem of the already existing gaps in the policy-making environment in Slovenia. In this context, many national experts agree that in most cases the national policy-making is not based on independent systemic and systematic research work. Moreover, there is a lack of organisations that could look at the field of political economy with a critical eye. The existing organisations working in the field of political economy are the ones coming from the academic sphere – research institutes based within universities and organisations that are part of government institutions like the ministries, the Bank of Slovenia and other government agencies, like the Institute for Macroeconomic Analysis and Development.

There is another alarming issue related to policy-making. Namely, the conditions for doing systemic and systematic research are poor because of a lack of stable and continuous funding. The financing that would fund systemic and systematic research and enable improved expertise and knowledge of research and policy-makers is not available. Financing is related to the specifics of project work where a project applicant or researcher depends on a funder’s interests. In practice this means that research moves from one field of work to another, without the continuation or follow up that is necessary to make progress, without improvements or monitoring. Lastly, research work is not taken seriously. In some cases it is even ignored. It is often not taken into consideration when national policy-makers adopt policies, laws and practices.

In view of the above, the recommendations of this study are based mostly on international sources and very few domestic ones. Many different political, economic, social or academic positions have dealt with the open challenges, described in the previous chapters. This includes non-governmental organisations such as CEE Bankwatch Network, Eurodad (European Network on Debt and Development) or Corporate Watch. It also includes progressive think-tanks and academic associations like Research & Degrowth, the Transnational Institute (TNI), Corporate Europe Observatory (CEO), the Institute for Labour Studies or the Bretton Woods Project, and campaigning groups like International Citizen debt Audit Network (ICAN), the Committee for the Abolition of Third World Debt (CADTM), Attac or SOMO (Centre for Research on Multinational Corporations).
These recommendations therefore do not try to reinvent policy options, but are rather based on existing proposals and recommendations (see Združena levica, 2014; Kallis, 2014; Institut za delavske študije, 2014; SOMO, 2014; Molina, 2011) to the described problems that have been debated in many arenas in recent years.

The recommendations do not advocate new institutional innovations, but rather present some policy options while bearing in mind the socio-economic and ecological foundations of our society. There are no value-free and ready-made institutional innovations that would improve the system, but only options one may choose (Domazet, 2014).

**Immediate stopping of austerity measures**

Austerity measures bring the country into a vicious circle that leads to strong reduction in social services, increased power and profits of businesses and even more inequalities in Slovenian society. This is why the first step is to immediately abandon the austerity programme. Austerity adversely influences the welfare state, democracy and citizen’s rights. We therefore need a swift analysis of the situation, followed by an open debate to reach a new social consensus on the vision of the country’s development.

**Develop a strategy for Slovenia through broad public participation**

Slovenia’s last accepted development strategy (Urad RS za makroekonomske analize in razvoj, 2005) is long overdue (it expired in 2013). The process of preparing a new development strategy started in 2013, but was stopped in order finalise Slovenia’s programming for the use of European funds in the period 2014-2020. These events left the country without a clear strategy and with a strong orientation towards the EU funding and its policies. It is hence the last moment to correct the mistakes and re-launch a discussion about which direction Slovenia would like to pursue. The discussion should be based on public participation and bear in mind the well-being of all people in Slovenia. A clear strategy for assuring the well-being of everyone in Slovenia will help the country to be less dependent on guidance from IFIs and other international organisations, as well as closing the opportunities for different interest groups to hold the state hostage to their objectives.

**Establishing public control over the banking sector**

Instead of privatising its major banks, Slovenia must establish public control over their management and implement good corporate governance. As it became clear in recent years, the problem of the state-owned banks is not their ownership, but their bad governance (managers whose decisions are politically based, lack of public monitoring). Therefore, a regulatory framework must be strengthened to avoid further irrepressible financial endeavours of banks. Slovenia needs accountable bank management to support necessary investments. This cannot happen through financing the losses of banks’ gambling with public money, nor through subsidising the profits of private banks via bad banks. Therefore, the study recommends strengthening the regulation of banks, exposing their functioning to the scrutiny of the public eye and properly sanctioning those who are responsible: the management should be held accountable for their irresponsible or corrupt decisions (Bembič, 2014).

**A different kind of fiscal reform**

There are a few key steps to the fiscal reform that can make the public finances work for the public and not just for the markets and elites. An important step would be the so-called green tax reform, which would shift the taxation from work to energy and resources. At the same time taxation should be even more progressive than it is, whereby the tax on the lowest incomes would be reduced and significantly higher taxes should be imposed on the highest
incomes. To strengthen the progressiveness of taxation, the tax basis should be reformed. At the moment the income from work is taxed progressively while capital income is taxed with a flat rate of 25 per cent. Both sorts of income should be integrated into one basis for progressive taxation.

The long-debated, but never implemented (because of political resistance) tax on real estate should be put in place. Another key step is to stop subsidies for polluting activities and to shift the public funds into socially and environmentally more useful activities. More information on this recommendation can be found in Umanotera’s guide for green fiscal reform (Umanotera, 2013).

The next very important step is to restrict tax havens. Slovenian and Slovenia-based international companies are massively avoiding the payment of taxes (Kocbek, 2014). To tap on those taxes and deliver them into the budget, mechanisms should be introduced to prevent money flowing into tax havens. It should support the development of a mandatory accounting standard that includes country by country reporting of corporate tax payments. The state should also introduce a withholding tax on interest and royalty payments to tax havens. The government should increase the transparency of corporate structures and tax payments by requiring registries of company ownership (to prevent letter box companies), by removing the possibility of fiscal secrecy by Slovenian private and legal entities in tax havens, opening access to company accounts, stopping banks from offering services of tax optimisation, introducing the so-called Tobin Tax (at each exchange of a currency into another a small tax would be levied) and increasing the transparency of the account books of companies. It should also take a proactive position on combating tax havens and harmful preferential tax regimes at the international level.

Along with the listed steps for a different kind of fiscal reform, public participation in the preparation and implementation of public budgets must be strengthened. This is basically a precondition for the previous steps to yield results. Numerous cases show that participatory budgeting works well in practice, which is why introducing this practice to Slovenia would be a must in order to address some of the problems that this report deals with.

**Defence of the welfare state**

This report shows that, under the guidance of IFIs and other actors, Slovenia is moving towards the disintegration of the welfare state and privatisation of social systems such as education, health or social security. These policies must be stopped and the trend must be reversed back to fully universal social rights. Public services must be universally available to all people as they otherwise create inequality in access. Financing of public services should be ensured through a fiscal reform. The myths about competition between the public and private sector, which has been highlighted in the study, should be abolished and the role of the public sector in resolving the crisis should be acknowledged.

**Strengthening of good corporate governance**

Instead of privatisation of companies, the government must establish a framework for good governance in state-owned and other companies. The first step is to stop the privatisation process, which has been demanded by more than 14,000 people in Slovenia (Mladina, 2015). Mechanisms to ensure good corporate governance by employees are: a policy of open accountancy books, whereby everyone can have access to company books; a policy of employees and (local or wider) community appointing the management; a policy of a company development pact between management, employees and community; employee voting on important decisions; fixing the ratio between the minimum and maximum salary to 1:5; elected directors etc.
Public audit of Slovenia’s public debt

In several countries the audit of public debt revealed that some parts of the debt are illegitimate (Keucheyan, 2014). This is why also Slovenia should commission a group of independent experts, monitored by the public, to review the public debt. Adding ‘public’ to audit means that this action should have the widest possible base. The goal is to simply and clearly establish which debts serviced the needs of the public and enable a collective decision on how to handle the debt. The goal of an audit is to clarify and understand what lies behind the public debt and mobilise public opinion by providing the evidence and arguments necessary for answering the questions such as: Where does the debt come from? How does public debt work? Was the debt created in the interest of public? Who profits? Until the work of the group is finished, the state should put a moratorium on the payment of the debt.

Securing full employment

Instead of pushing workers into the corner by following the demands of IFIs and other international organisations to further reduce the minimum wage in order to improve the competitiveness of the Slovenian economy, Slovenia has to embrace other options, such as the previously discussed green tax reform, to ensure employment and competitiveness. A key precondition is to demand that all forms of work are protected with basic labour and social rights, while all incomes enable decent living.

One possible solution is the institute of job guarantee, whereby the state would act as job guarantor or employer, which would secure jobs at the societal minimum wage. This concept establishes employment as a political right rather than an economic category. A universal basic income (monetary or non-monetary) could be another option. This minimum income should be paid without any requirement or stipulation to all people in Slovenia. The suitability of any of the concepts for Slovenia should be established through an open public debate.

Another step would be the gradual reduction of the working week to 32 hours or less (until full employment is reached) and to support companies and organisations that want to implement work-sharing through a favourable regulatory framework.

A different, yet important approach is to develop a strategy for economic activities. Instead of letting the ‘invisible hand’ of the market guide the strategies of the economy, the state should develop strategies that fit Slovenia and its competitive advantages. In this way it would be possible to re-industrialise with supporting branches that offer many jobs, but at the same time keeping environmental limits in mind. Detailed recommendations can be found in Umanotera’s guide on new employment potential (Umanotera, 2014).

It is also important to create a stimulating environment for solidarity across society: support with subsidies, tax exemptions and legislation for the not-for-profit co-operative economic sector that facilitates the de-commercialisation of spaces and activities of care and creativity, by helping mutual support groups, shared childcare and social centres.

Participatory democracy

Slovenian governments have been looking for help in dealing with the crisis outside its borders, yet very limited attempts have been made to engage its own population in debating the measures that could solve the crisis. This must be changed and it must be changed at several levels. In the first place, we need to democratise the state, its institutions and its processes. To some extent, the existing regulatory framework has already been adjusted for

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2 More cases available at http://www.citizen-audit.net/
wider public participation, but this needs to be enacted properly. Of course, further improvements are needed (for example, the introduction of the vote of no confidence), but the first step should be the application of all the rules. An institute of participatory citizens’ forums should be introduced for generating ideas, debating solutions and joint decision-making. Civil society should be stimulated and supported to participate in forming key decisions.

**Abolish the use of GDP as the main development objective and indicator**

"*In theory, growth is needed to pay off debts, create new jobs or increase the incomes of the poor. In practice, we have had decades of growth, yet we are still indebted, with our youth unemployed and poverty as high as ever. We were indebted to grow and now we are forced to grow to pay off debts.*” explains Kallis (2014). Hence we need a new approach that is not based on the logic of everlasting expansion and growth. Breaking with the idea of eternal growth does not have to mean recession and austerity, but meticulous rethinking of the way our societies and economies function to achieve well-being for all. The first step is to consult the people of Slovenia about the nature of well-being and prosperity. Only in this way can we agree what to measure as well-being and which indicators of prosperity to follow for the well-being of all citizens.
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Personal communication


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This report has been produced with the financial assistance of the European Union. The contents of this publication are the sole responsibility of the author and can in no way be taken to reflect the views of the European Union.

This report has been coordinated and published by the European Network on Debt and Development (Eurodad).