SLOVENIA’S STRESS TEST AND TO WHOM THE STRESS?

On Thursday, December 12, 2013 Slovenia announced the results of a stress test on eight domestic and foreign-owned banks. In this context, the stress test is a deep and comprehensive review of a bank’s assets and their quality (how likely are they to perform as expected; will loans be repaid, etc). The stress test was conducted by a group of international experts and private firms including Deloitte and Ernest & Young, two of the worlds largest audit firms. It was further supervised by a steering committee composed of the Bank of Slovenia and the Ministry of Finance, and observers from the European Commission, the European Central Bank and the European Banking Authority. The results of this test indicate a need for about €4,78 billion in recapitalization funds for these banks.

Although the bail-out amount represents close to 10 percent of Slovenia’s GDP, the results are considered something of a victory for the government. Particularly as it is attempting to get out of recession and throw off the image that it will be the next Eurozone country to seek a bailout from the European Union. Initial reactions to the figure have been positive; it is only marginally higher than anticipated by the state itself; it is a manageable amount that can be dealt with using the states own funds; €1,6 billion of the required amount must be provided by the five smaller banks in the test by June 2014, while the state will immediately recapitalize the remaining €3 billion to the three largest bank (NLB, NKBM and Abanka). Of this amount, 2 billion will come directly from the state, just under one billion from raising securities and an additional amount of 441 million will be attained through a process called “bail-in”, in which bank obligations to certain bond holders will be written off.

The initial response of the markets has, at the time of writing, also been favorable, with a further drop in the 10 year yield of Slovenian bonds (down to 5.34% from almost 7% at the beginning of September), indicating a growing sense of confidence in the safety of investing in Slovenia. European political elites have also viewed the test results as positive. Both Olli Rehn of the European Commission and Jeroen Dijsselbloem of the eurogroup of Eurozone ministers were quick to comment, suggesting Slovenia will not need international or European help.

All of this represents a perfect vindication for Prime Minister Alenka Bratušek, who told CNN reporter Richard Quest shortly after taking office in 2013 that Slovenia could deal with the problems on its own. But beyond the personal success of the prime minister, the satisfaction of markets and Europe’s political elite, how much of this “good news” extends to people living in Slovenia?

In all this celebration one needs to closely examine what exactly the stress test and its results really mean. It seems almost common knowledge now that austerity is a very

poor means of addressing short-term financial problems in a sovereign debt crisis, or any other crisis for that matter. Even if the austerity is self-imposed, it produces insecurity by removing social safety nets, a decline in employment and production, local investment, and so on. Yet this is precisely the path Slovenia has followed for some time now. Since the crisis has started in 2008, unemployment has climbed from 5 to over 10 percent, the budget deficit is up to 3.2 percent and public debt is expected to go above 74 percent after the bailout. Retirement has been reformed so that a person must have 40 years of contributions to the pension and be no less than 60 in order to retire, or they must wait until 65 regardless of their contributions. In addition, the state introduced the rule of balanced budget into the constitution in May 2013 with automatic corrections to limit public spending and with the three rounds of budgetary cuts, wages in the public sector were cut by 10 percent and taxes have been increased on VAT, the income of self-employed and on property. Last year unprecedented demonstrations took place, in which these economic questions initially took center stage, particularly in the eastern city of Maribor. But corruption eventually smothered the other issues raised during this uprising, and contributed to the fall of the center-right government and the instillation of Bratušek and the Positiva Slovenija party at the head of a new ruling coalition. But with the energies of the protest channeled into individual cases of corruption, it also meant that the new coalition was able to continue with exactly the same economic policies of its predecessor.

This is an economic path of bank bail-outs, privatizations and multiple reductions in state expenditure. In fact, close examination of the recent International Monetary Fund (IMF) reform recommendations for Slovenia (November 2013) reveals that the state has practically preempted the report. It has already initiated all the reforms, including the creation of the Bank Asset Management Corporation (BAMC – the bad bank), liberalizing the labor market, and privatizing state-owned industries, to varying degrees.

The cost of these reforms is being borne by the residents in the form of taxes and sovereign debts (to be repaid by future generations) used to pay for recapitalizing the banks. But it is also manifesting in access to university being transferred to the availability of scholarships or the ability to pay tuition, for example doctoral studies cost about €10,000 now and scholarships for foreign students have been cut; and reduced wages in the public sector, amounting to about 10 percent so far. It is also seen through the falling labour standards, where trade unions (and the liberal and socialist left) remain largely paralyzed between trying to protect workers in a situation where industrial production is disappearing and where precarious workers remain a confusing and even antagonistic subject for them to deal with. In short, the only way the state seems able to generate income is through taxing an increasingly poor population, selling assets, which provides a single cash injection but no long term revenues, and though foreign investments. The banking hole revealed by the stress test is another means of justifying this policy.

Surprisingly, with the stress test delivered and with time gained to manage the debt crisis alone, the population is again focused on corruption. A demonstration was organized on Friday, December 13 under the slogan "capitalism is corruption", where most of the critique was on the corruptive behavior of elites as a result of capitalism, but still only proposing new elites, this time socialist, as the solution. The international news, such as Reuters, is also putting focus on corruption, only now

pointing to the communist legacy as contributing to this debt crisis. This bears uncanny resemblance to the “ottoman legacy” cited by Jean-Claude Junker, where the Greek crisis was pinned on the lazy and tax-evading Greek worker, apparently an inherited work-ethic from ottoman times. While the “communist legacy” at least avoids this blatant racism, it firmly place the blame in past times, thus reifying the current system of liberal capitalism as the only way forward. But in both cases emphasis on a systemic nature of this debt crisis, spread across Europe, falls away. Instead, the crisis in Slovenia is portrayed as result of greedy individuals socialized in a nepotistic communist system.

We are then left with the question of how the situation will develop in the future. On matters concerning the banking sector, the government has already taken the first steps. The BAMC received €200 million to start taking over the non-productive assets clogging the whole banking system. In the case of NLB and NKBM this transfer will be carried out by the end of the year, and by early 2014 for Abanka. In addition, the majority shares held by the state in NLB, NKBM and Abanka, will be privatized and two additional banks, Probanka and Faktor Banka, are being wound down using government funds.

The state is celebrating an early success with the release of the stress test data, which appears to have convinced both financial markets and EU politicians that the debt crisis is manageable. But this was also an important test for the European Union in order to see how it might both organize stress tests and recapitalizations in the future. At the same moment that Slovenia announced the test results, the European parliament was announcing legislation enabling the ‘bail in’, first used in Cyprus and again now in Slovenia, as a method of addressing banking crises. There certainly seems to be no alternative proposed on the institutional level from this particular path of managing the crisis and social, anti-capitalist movements are still struggling to impose themselves in the debate. Whether the path is a sustainable one remains an open question. Much will depend, over the next months on how people respond to the increasing pressure of living under the cuts and if markets are really convinced Slovenia is doing the right thing, two positions that could not be further apart.

David Brown