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Realignment of the party system – Slovenia before the elections

ALEŠ MAVER AND UROŠ URBAS

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The coalition government under Social Democrat Prime Minister Borut Pahor lost the support it needed in Parliament and early elections had to be called for 4 December, one year before completing its term of office. What are the reasons for this development? Which parties are now seeking votes in the »political marketplace«? What coalitions are possible after 4 December? And what challenges will the new government face?

Why did the government of Prime Minister Borut Pahor fail?

Although the governing coalition was homogeneously left-wing, it could not work together and registered no significant achievements. The next government will thus be compelled to achieve something. Due to the deteriorating economic situation – for 2012 1 per cent GDP growth, 1.3 per cent inflation, 8.4 per cent unemployment and a 5.3 per cent budget deficit are predicted – the goals will be economic.

The biggest success of the current government was the referendum on the border dispute with Croatia. In June 2010, citizens narrowly voted for the government proposal to solve the border dispute between Croatia and Slovenia with the help of the International Court.

But without other clear objectives and centred on the personality of the prime minister, the government could only fail. Already at the beginning of its term it got its diagnosis of the crisis completely wrong: it expected the crisis to be over in a year or two and indeed the government was sure that demand, exports and economic growth would return to pre-crisis levels. The government's main policy was to increase financial aid for the unemployed and to convince companies not to

make people redundant. Nevertheless, the unemployment rate increased by 75 per cent to 107,000 over three years. This policy was financed by loans of 8 billion euros, which doubled the public deficit.

However, Prime Minister Pahor overestimated his popularity in a situation in which everybody hoped that the economic crisis would soon be over. The governing parties had completely different priorities: they were seeking economic rents; they could not resist the pressure of lobbies and made concessions; and they were too preoccupied with scandals and other affairs emerging from the ranks of the governing coalition.

Electoral history and development of the party system

Since the re-introduction of the multi-party system Slovenia has held general elections in 1990, 1992, 1996, 2000, 2004 and 2008. The imminent elections will be the first early elections ever held in the country.

They had to be called because the four-party centre-left government was first reduced to a minority government, after the Democratic Pensioners Party DESUS and the Zares party (For real, new politics) left it in 2011 and after losing a vote of confidence in September 2011. Only 36 members of parliament – 28 from the social democratic SD, five from the liberal democratic LDS and three former Zares and DESUS members – voted for, 51 against (SDS, Zares, SLS, SNS, DESUS and minorities). The failure of Pahor's cabinet, combined with a general perception that the parties of the left were in severe crisis, triggered tectonic changes in this part of the political spectrum. Several new political initiatives have been launched since September 2011.

Once again, as so often before in its electoral history, Slovenia is experiencing a far-reaching realignment of its party system.

The first democratic elections in 1990 were won by an Opposition coalition known as Demos (Democratic Opposition of Slovenia), formed by various newly established parties, both centre-right and centre-left, opposed to the ruling Communists (then called the League of Communists of Slovenia-Party of Democratic Renewal) and their allies. Since the coalition was very heterogeneous, it fell apart quickly after it had achieved its main goals: independence for Slovenia and the democratisation of the political system. The first elections after independence in December 1992 were won by the Liberal Democratic Party (LDS) which developed from the former regime-sponsored Union of Socialist Youth, headed by Dr Janez Drnovšek, former President of Yugoslavia, to which Slovenia belonged until 1991.

The Liberal Democrats absorbed some centre-left and centrist components of the Demos coalition, which enabled them to increase their share of the vote from 23.5 percent in 1992 to 27 percent in 1996 and to 36.3 percent in 2000. They thus dominated the left of the political spectrum for more than a decade. The Social Democrats, on the other hand, which emerged from the former single party, declined from 18.5 per cent of votes cast in 1990 to 13.6 per cent in 1992 and only 9 per cent in 1996, but managed to get more than 12 per cent in 2000.

For the parties on the centre-right which were usually junior partners in LDS-led »mixed coalitions« it proved difficult to maintain their position. Voters generally punished them for their cooperation in Drnovšek's cabinets. The position of main centre-right party was held by Christian Democrats in the period from 1990 to 1996, by the mainly agrarian and centrist Slovenian People's Party (SLS) from 1996 to 2000 and by the former Social Democratic Party of Slovenia (SDSS) which was later renamed the Slovenian Democratic Party (SDS) from 2000 on. That party managed to defeat LDS in the 2004 elections, winning 29 per cent of the votes cast against the 23 per cent won by the Liberal Democrats. The defeat triggered the almost total demise of the former governing party. Only a small part of it remained, while some prominent members joined the Social Democrats (SD) or formed a new party, Zares.

The Social Democrats, headed by Borut Pahor, managed to take advantage of transformations on the right after 1997. They became dominant on the centre-left and led the so-called »Left-wing troika« (*Levi trojček*) to a narrow victory over Janša's SDS in the 2008 elections. SD won 29 of the 90 seats of the Lower House of the Slovenian Parliament, SDS 28, Zares nine and the centre-left Democratic Party of Pensioners (DESUS) seven. The Liberal Democrats (LDS), the Slovenian People's Party (SLS) and the populist Slovenian National Party (SNS) won five seats each. Two seats are traditionally reserved for representatives of the Italian and Hungarian national minorities. The government was formed by SD, Zares, DESUS and LDS (49 seats in the National Assembly) and sworn in on 21 November 2008, with Borut Pahor as Prime Minister.

The new party landscape before the 2011 elections

There are four main players in the electoral campaign:

- Zoran Janković: former CEO of the biggest Slovenian retail company Mercator, fired under the government of prime minister Janez Janša in 2005 and now mayor of Ljubljana, who recently formed his own party, Positive Slovenia;
- Janez Janša: leader of the main opposition party SDS (Slovenian Democratic Party) and prime minister between 2004 and 2008, during the period of economic growth;
- Borut Pahor: leader of the ruling Social Democratic Party (SD);
- Gregor Virant: former minister for civil services in the government of PM Janez Janša and leader of his own Party, Lista Gregorja Viranta (Gregor Virant List).

The most important centre-left grouping is the movement founded and headed by the popular, but controversial Mayor of Ljubljana, Zoran Janković, who won the mayoral election in the capital in 2006 and 2010 with more than 60 per cent of the vote. His list holds the absolute majority in the City Council. On 11 October 2011 he launched a new movement, Positive Slovenia, after a group of prominent left-wingers – including former

head of state Milan Kučan and former leader of the National Assembly France Bučar – in a rather unusual move urged him to do so. He quickly attracted most left-wing voters, endangering the further political existence of the established left-wing parties, including Pahor's Social Democrats. His movement also encouraged some former Social Democratic MPs to change their allegiance (for example, Renata Brunskole, mayor of Metlika municipality and Melita Župevc, former spokesperson for the Presidential Campaign of current head of state Danilo Türk).

Apart from Janković's list and the Social Democrats, on the left only DESUS enjoys enough support to overcome the parliamentary threshold of 4 per cent. The liberal left-wing parties LDS and Zares will probably fail to win any parliamentary representation due to Janković's emergence at the national level.

There are also two other new movements on the left. One, the Sustainable Development Party of Slovenia (TRS), is headed by former ombudsman Matjaž Hanžek and is a populist left-wing grouping. This grouping might clear the threshold of 4 per cent, while the other, the Movement for Slovenia, headed by the mayors of Bohinj and Kočevje municipalities (the latter is a former SD member), is fairly unimportant.

The centre-right was, until recently, much more homogenous. It was dominated by the main opposition force, the liberal-conservative European People's Party-affiliate the Slovenian Democratic Party (SDS), headed by former Prime Minister Janez Janša since 1993. It enjoys the most stable support of any current party, winning 29.1 per cent in the general election of 2004, 29.3 per cent in 2008 and 26.8 per cent in 2009 European elections. In the 2010 municipal elections it was by far the strongest single party. SDS was widely expected to emerge as relative winner after the upcoming poll (with support between 30 and 40 per cent). But this has changed since the emergence of Janković's movement, on the one hand, and because of a liberal split from the party led by the most popular SDS politician Gregor Virant, former Minister of Public Services, on the other hand. His list quickly emerged as the second force on the centre-right, although trailing SDS in most polls. Other opposition parties – the centrist Slovenian People's Party (SLS) and the Christian Democratic NSI (which is not represented in the current Parliament), as well as the populist

SNS – are currently achieving levels of support close to the parliamentary threshold (4 per cent) or – as in the case of NSI and SNS – clearly below it, which makes their political future uncertain.

According to most polls, the two leading parties of the centre-right, SDS and the Gregor Virant List, are clear frontrunners. Currently, they have every chance of winning an outright majority between themselves. But it is anything but certain that they will cooperate after the elections because the relations between their leaders, Janša and Virant, are pretty poor at the moment. On the centre-left, Positive Slovenia is the dominant force, but is trailing both the abovementioned parties at least by several percentage points. Its support is also fairly unequally divided between the west and east of the country, its strongholds being Ljubljana and its environs. None of the other centre-left parties can expect even a double-digit result. The SD might stage something of a recovery, however, and only SD and Desus have a realistic chance of clearing the threshold. The left-wing liberal parties LDS and Zares seem virtually wiped out.

Crucial problems facing the new government

There are two crucial challenges for any new government: to reduce the budget deficit and to stimulate the economy in order to create new jobs and increase domestic demand. Slovenian GDP fell by more than 8 per cent in 2009, while in 2011 growth will be not higher than 1.5 per cent. For 2012, there is some hope of achieving 2 per cent, but some forecasts expect no more than 1 per cent. Unemployment will remain above 8 per cent, and the budget deficit will rise to 5.7 per cent.

The state of the banking system – which will need additional capitalisation – constitutes another major problem. The question is, where can the state-owned banks obtain the capital they need? The biggest Slovenian state-owned bank, NLB, needs additional capital of between 500 million and one billion euros. The second biggest state-owned bank, NKBM, was listed on a Warsaw stock exchange this year and, due to government intervention, the state's share was increased. However, the bank needs new capital. The reason for the losses of both banks are loans issued between 2005 and 2007 for management buyouts, all of which failed. The

international rating agencies have already downgraded Slovenia, making capital on international markets more expensive, while further downgrades are expected. Another major issue is how to achieve a slimmer and more effective public sector, and how to reduce the number of employees. During the past two decades the number of employees in the public sector has multiplied: many new agencies were established to create jobs for political supporters.

Possible solutions being discussed include launching new infrastructure projects (estimates go up to 3 billion euros). These include investing in a third pier at Luka Koper, estimated as costing up to 500 million euros. The government wishes to attract German investors into the joint venture, which was first mooted before 2008. Investment is also possible in the railway system, especially between Koper and Divača, between Ljubljana and the Karavanke tunnel and between Maribor and Šentilj; these investments may cost up to 700 million euros. Ljubljana airport has investment plans costed at up to 90 million euros. Possible investors are being sought, especially in Arab countries. The highway system needs major investment: from Draženci to Gruškovje (connection to the Croatian highway to Varaždin); from Postojna to Pivka (connection to the Croatian port Rijeka); and from Bela Krajina to Bosiljevo (connection to Dalmatia). There are plans for two large energy systems: the hydroelectric power plant Kozjek (which already has a building licence) and many hydroelectric power plants on the river Srednja Sava.

There are also plans to sell off state assets. For example, the sale of parts of the biggest bank, NLB, to the Belgian KBC are being discussed. There are many reasons to favour the Belgians, who already own 25 per cent of the bank and have not been allowed to increase their share to date. They know the bank's strengths and weaknesses and they could give it additional capital and open up new markets for it. Among politicians private equity funds are not welcome because of stricter cost cutting and the likelihood that they will sell the bank later to the highest bidder, for example, from Asia. There are plans to sell state-owned companies, such as Telekom Slovenija, the insurance company Zavarovalnica Triglav and others. For Telekom Slovenija, there is interest from Russian, German and Austrian telecoms, and for Zavarovalnica Triglav especially from private equity funds. Finally, there is the option of raising taxes. But higher

VAT and a new real estate tax alone would not suffice to stabilise public finances. Cuts in budgetary expenditure are unavoidable. From 2008 to 2011, Slovenian state revenues totalled 8 billion euros, but cuts in public expenditure could not bring expenditure below 10 billion. It is unsustainable for a small economy such as Slovenia's to have a budget deficit over 5 per cent.

Moreover, many analysts expect that the new government will try to change the constitution to get rid of two restrictions. The first is that the public deficit must not exceed 48 per cent of GDP. If the new government fails to abolish this restriction, public financing might turn out to be extremely difficult and developments in Slovenia could even emulate the Greek scenario. Since the Slovenian government could not manage any serious structural reform during the period 2008-2011, the financial markets have already pushed the interest rates of Slovenian bonds beyond the threshold of 7 per cent for 10-year bonds. The second restriction to be got rid of are the elements of the referendum legislation which potentially block structural changes. Probably MPs' right to call a referendum (at present, only ten MPs are needed to call a referendum) will be abolished. A second option would be to raise the number of signatures required to call a referendum from 40,000 to 60,000.

Slovenia is at a crucial point in the opening up of its economy. Some major companies are in the process of being sold and foreign investors are among their bidders. If Slovenia sells some of its large companies, which are burdened with debts due to unsuccessful MBOs, it will be more open to the European and international economies. Among the main companies on the for-sale list is the retailer Mercator. The biggest Croatian food producer Agrokor launched a bid in a consortium with foreign financial institutions. The Swedish group Bonnier, the German-Swiss joint-venture Ringier-Axel Springer and a private equity fund, represented by the German media manager Andre Warneke, are interested in buying the biggest Slovenian publishing company Delo. A Serbian investor, MK Group, wants to buy the food producer Žito. Adria Airways has attracted interest from Lufthansa, Air France-KLM, British Airways, Turkish Airlines and even Arabic and Indian companies. Next year, two medium-sized Slovenian banks may be sold: Abanka and Banka Celje, besides the sale of the biggest bank, NLB.



Possible coalitions

So far, only a few parties have explicitly excluded cooperation with any other party or list after the election. Janša has declared that there is no possibility of a Grand Coalition between his and Pahor's party (a similar conclusion was recently drawn by Prime Minister Pahor), but after the changes in the party landscape such statements have become all but irrelevant, although there is long-standing rancour between Janša and Janković. According to most polls, the centre-right is expected to hold a comfortable majority in the new National Assembly, but there are tensions between Janša and Virant, too. Much depends on who wins a majority in the Parliament. A coalition between SDS and Positive Slovenia might be unlikely, but cooperation between Virant and Janković is possible. On the other hand, according to the polls it would be surprising if the centre-left – consisting of Janković List, SD, Desus and other left-wing par-

ties – even came close to a majority. Besides, there are currently considerable tensions between Janković and SD (although some party members, including Metlika mayor Renata Brunskole, have already given their support to the Ljubljana mayor).

Thus, the question of who will form the next government is entirely open, especially after head of state Danilo Türk – who was supported by left-wing parties during his 2007 electoral campaign – indicated he may not appoint the relative winner of the election as »formateur«. This was broadly understood to be directed against opposition leader Janša, with whom the President has very poor relations. Gregor Virant could therefore become the kingmaker or even end up as Prime Minister. The prospects of the ruling Social Democrats seem to be fairly uncertain at the moment, but both the centre-right and centre-left of the political spectrum will probably experience many changes in the near future.

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