

ROBERT GOLOB FORMS SLOVENIA'S NEW GOVERNMENT

Analysis & implications of the country's new coalition government

2 June 2020

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| Issues & Sectors | Change of Government in Slovenia, Slovenian Parliamentary Elections |
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Following April's parliamentary elections, won by the newly emerged green-centrist Freedom Movement, the Slovenian parliament has approved the country's new government. The incoming government is led by former state energy executive Robert Golob as Prime Minister and supported by a three-party coalition that enjoys a comfortable majority in the state legislature.

The final restructuring of the Golob Government has been held up by a protest by the former ruling SDS party against changing the government structure, however it looks set to initiate reforms in a number of areas, with serious implications for the corporate sector. Putting the country and its economy on a more progressive track will take priority, while the green and digital transitions will also be significant areas of focus.

Below, Aretera provides further insight into the formation of the new government, the forthcoming restructuring, the likely policy priorities and headline implications for investors.

This memo will cover:

| | |
|---|---|
| Post-election landscape | 2 |
| The new composition of the Slovenian parliament | 2 |
| Government structure & policy priorities | 3 |
| The composition of the new government | 4 |
| Conclusions | 5 |

POST-ELECTION LANDSCAPE

On 1st June, the new three-party parliamentary majority of the Slovenian National Assembly behind Robert Golob, the country's newly sworn-in Prime Minister, approved his Cabinet of Ministers, voting his three-party coalition government into office.

The vote comes after the Robert Golob-led Freedom Movement (GS), a newly emerged green-centrist formation, scored a surprise victory in the country's parliamentary elections held on 24th April¹. Set up only in January, GS outperformed all polling expectations, defeating its main electoral rival, the right-wing populist Slovenian Democratic Party (SDS) and ousting former Prime Minister Janez Janša from government. The result was widely interpreted as a victory over illiberalism.

Freedom Movement's victory has brought tectonic changes to Slovenia's multi-party politics. The centre-right Let's Connect Slovenia movement (also an SDS ally in the former government), the LMŠ party of former Slovenian Prime Minister Marjan Šarec (2018-2020), the centre-left Party of Alenka Bratušek (SAB), another former Slovenian PM (2013-2014), the nationalist SNS and the Democratic Party of Pensioners in Slovenia (DeSUS), also a former coalition member, all fell out of parliament.

While the Freedom Movement won the elections, the party secured only 41 of the 90 MP seats, leading to coalition talks with two other left-wing formations: the centre-left Social Democrats (SD), which secured seven seats, and the green-leftist Levica, which holds five seats. Following the completion of the three-party coalition talks, the Slovenian parliament confirmed Robert Golob as PM in May.

With the new composition of the country's parliament, Slovenian politics will continue to be shaped by its multi-party nature and – as before – a hung parliament, however the number of party stakeholders in parliament has drastically decreased.

THE NEW COMPOSITION OF THE SLOVENIAN PARLIAMENT

| Party/Alliance | Number of MPs | Affiliation |
|--|---------------|-----------------------|
| Freedom Movement (GS – green-centrist, environmentalist, social-liberal, pro-EU) | 41 | Government |
| Slovenian Democratic Party (SDS – right-wing populist, Eurosceptic) | 27 | Opposition |
| New Slovenia – Christian Democrats (NSi – centre-right) | 8 | Opposition |
| Social Democrats (SD – centre-left) | 7 | Government |
| Levica (hardline left-wing, eco-socialist) | 5 | Government |
| Italian and Hungarian minorities | 2 | Confidence and supply |
| Total | 90 | |

¹ See [here](#) for our overview of the Slovenian parliamentary elections held on 24 April

GOVERNMENT STRUCTURE & POLICY PRIORITIES

Under the coalition agreement, the Golob Government will initially have 17 members, ahead of a restructuring yet to be finalised. The former ruling SDS party suspended the Act on Government in May with a proposal to hold a consultative referendum aimed at keeping the government structure in its current form and delaying the confirmation of the new government. This move posed an unexpected obstacle to forming the new government under the structure proposed by the new ruling coalition, meaning that the new government's structure is not yet final. Three new ministers will be appointed later, possibly before July when the parliament heads for summer recess. The final new structure will include 20 ministers.

Political instability will continue to be a liability factor. Combined, the three coalition parties hold 57 of the 90 seats in Slovenia's parliament, allowing the government to function with the support of a comfortable majority. While their ideological similarities and joint opposition to the Janša-led SDS will likely keep the governing parties together, Slovenia has a long history of coalition disputes, disintegration of parties and minority governments. Differences between the moderate left and the more progressive parties and politicians could be among the main destabilizing factors. At the same time, losing one of the two coalition partners would still mean that the Freedom Movement could continue to govern.

Progressive issues are at the top of Golob's agenda. Reflecting the ideological background of the new ruling parties, the coalition agreement envisages moving the country's economy in a more progressive direction. Alongside planned reforms in taxation, healthcare and the public sector, green and digital issues, workers' rights and the rule of law will all likely be among the main priorities. The new government will also aim to reset the country's ties with the EU and continue supporting Ukraine as Russia's war continues.

The green and digital sectors will take priority in new investments. Investing and supporting foreign investments in the green economic transition will be a natural focus for the green-centrist Freedom Movement, as well as for the Social Democrats and the eco-socialist Levica – not least due the EU's quest to rid itself of energy dependence on Russia. The new PM is also likely to prioritize smart solutions in the energy sector, as well as digitalization, artificial intelligence and cybersecurity. Investing in human capital and innovation could also take priority as the government is set to focus on building a knowledge-based economy.

Companies should prepare for a series of tax amendments. The progressive economic agenda of the new coalition includes renewing the corporate tax relief system and increasing the real estate tax, while the government will also stop further lowering of the personal income tax. Klemen Boštjančič, the country's new Finance Minister, said the cabinet will first review the economic and financial situation of the country and promised to establish a predictable tax environment.

At the same time, the government aims to center tax policy around investments in the digital and green transition, development and innovation, as well as supporting starts-ups and encouraging investment in these companies. However, Minister Boštjančič also hinted examining the "extra profits" of energy companies and the effective level of the corporate income tax. The government also intends to reform taxation in the SME sector. The measures could potentially include changes in CIT rates and abolishing certain tax reliefs. The Slovenian corporate sector recorded a strong rebound in 2021, with overall revenue increasing by 24% to €120.3 billion and net profits totalling €5.7 billion, almost doubling the figure of the year before.

The government takes office in a challenging economic environment. Russia's war against Ukraine has inevitably weakened Slovenia's growth prospects, however the country remains less exposed to the war in comparison to other CEE countries. According to the latest forecast of the European Commission, GDP growth this year is likely to slow to 3.7% from a previously projected 4.2%. Inflation is projected to climb to 6.2% in 2022, with public debt rising to 74.1% of the country's GDP.

THE COMPOSITION OF THE NEW GOVERNMENT

| Cabinet Member | Position | Portfolio/Responsibility | Affiliation |
|-------------------------------|------------------------------|---|-------------|
| Robert Golob | PM | - | GS |
| Danijel Bešič Loredan | Deputy PM & Minister | Health | GS |
| Tanja Fajon | Deputy PM & Minister | Foreign Affairs | SD |
| Luka Mesec | Deputy PM & Minister | Labour, Family, Social Affairs, Equal Opportunities | Levica |
| Klemen Boštjančič | Minister | Finance | GS |
| Tatjana Bodnar | Minister | Interior | GS |
| Sanja Ajanović Hovnik | Minister | Public Administration | GS |
| Dominika Švarc Pipan | Minister | Justice | SD |
| Igor Papič | Minister | Education, Science & Sports | GS |
| Asta Vrečko | Minister | Culture | Levica |
| Matjaž Han | Minister | Economic Development & Technology | SD |
| Uroš Brežan | Minister | Environment & Spatial Planning | GS |
| Irena Šinko | Minister | Agriculture, Forestry & Food | GS |
| Bojan Kumer | Minister | Infrastructure | GS |
| Emilija Stojmenova Duh | Minister (without Portfolio) | Digital Transformation | GS |
| Matej Arčon | Minister (without Portfolio) | Slovenes Abroad | GS |
| Aleksander Jevšek | Minister (without Portfolio) | Development & EU Cohesion Policy | SD |

As noted above, the soon-to-come restructuring of the government will result in adding three new ministers. Former PM Alenka Bratušek, the head of the SAB party that fall out of parliament, will join the government as Infrastructure Minister from the Freedom Movement quota. Levica politician Simon Maljevac will head the Ministry of Labour, Family and Social Affairs, while the GS-nominated Darjo Felda will serve as Education Minister. The restructuring will lead to a separate Climate and Energy Ministry (to be headed by Bojan Kumer), while Levica's Deputy PM, Luka Mesec, will be named Minister for a Solidarity-Based Future, with other responsibility areas also likely to be reassigned.

CONCLUSIONS

The Golob Government takes office with a dedicated green-leftist agenda, with the economy, the environment, labour rights and digitalization all key priorities. Following two years of an economically right-wing government, PM Golob and his Cabinet is preparing a series of reforms that will likely include taxation, healthcare, energy, while companies in Slovenia should prepare for a series of tax amendments.

The green and digital transition is highly likely to be among the main priorities when it comes to investing and supporting foreign investments. Energy policy will receive special attention as Slovenia hopes to advance the green economic transformation and contribute to the EU's aim of decreasing dependence on Russian energy.

The new government is supported by a comfortable majority in Slovenia's parliament, however the country's multi-party politics – combined with its history of coalition crises and minority governments – inevitably includes the risk of political instability that could lead to coalition fractures in the future.

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*If you would like to schedule a discussion of this paper, please contact:
Dominik Istrate, Advisor for Central and Eastern Europe at d.istrate@areterapa.com*



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