Slovenia’s Jazbec Inherits Indebted Banks to Avert Bailout (2)
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(Updates markets in sixth paragraph, adds Finance Minister’s comment in seventh, shares in 12th.)

By Boris Cerni and Agnes Lovasz

April 3 (Bloomberg) -- Slovenia’s new central bank governor inherits a financial system rife with bad debt that is threatening to push the country into becoming the sixth euro member to ask for an international bailout.

Bostjan Jazbec, a 43-year-old International Monetary Fund expert, was approved by lawmakers in Ljubljana yesterday to take the helm of Banka Slovenije from Marko Kranjec when his mandate expires in mid-July. He will also assume Kranjec’s seat on the European Central Bank’s Governing Council.

Jazbec needs to restore public confidence at home and investors’ faith abroad in Slovenia’s banks as the economy struggles with its second recession since 2009, sparking a rash of corporate bankruptcies that have saddled lenders with a pile of bad debts.

“The problems aren’t insurmountable,” Jazbec, who helped set up Kosovo’s central bank, said in an interview late yesterday. “We know we have to rebuild the banking system. With a common effort from all policy makers we can carry this through to ensure that assistance from outside the country won’t be needed.”

Worries that the two-week-old government of Prime Minister Alenka Bratusek will fail to implement a 4 billion-euro ($5.1
billion) plan to prop up banks and lose access to financing abroad boosted borrowing costs at a time when the Alpine nation is looking to tap bond markets.

Falling Yield

The yield on Slovenia’s dollar-denominated bonds maturing in 2022 dropped 15 basis points from yesterday to 5.848 percent at 11:55 a.m. in Ljubljana, data compiled by Bloomberg show, after climbing to a record 6.382 percent on March 27.

Slovenia is in no rush to come to the market and sell benchmark bonds, Finance Minister Uros Cufer said in an interview with the STA newswire today. The situation isn’t “critical” and the government will continue with fiscal consolidation, Cufer said, “but in such a way as not to damp economic activity further.”

Slovenia adopted the euro at the start of 2007, becoming the first post-Communist nation to make the switch. Pumping out exports such as household appliances from Gorenje d.d., the small open economy outperformed that of Europe’s common currency area for most of the past decade.

Stalled Economy

The debt crisis has since stalled the economic momentum built up by many smaller euro countries such as Malta and Slovenia and forced them to distance themselves from the banking crisis that forced Cyprus to accept a 10 billion-euro bailout emergency-aid accord with the European Union and the IMF on March 25.

Slovenian banks such as Nova Ljubljanska Banka d.d. and Nova Kreditna Banka Maribor d.d. have been hit by the recession and the collapse of the construction industry, the pre-crisis driver of growth. Bad loans account for about a fifth of economic output.

Nova Kreditna, which had a 205 million-euro loss last year, was one of four banks that failed last year to meet European capital targets set by regulators. Bank of Cyprus Pcl, Cyprus Popular Bank Pcl, known as Laiki Bank, and Italy's Banca Monte dei Paschi di Siena SpA were the others. Laiki was closed as part of the island nation's bailout.

Shares Tumble

Nova Kreditna fell to a record low in Ljubljana, plunging 11 percent to 68 eurocents at 11:55 a.m. The bank lost 80 percent of its value in the 12-month period.

The government must "show it's serious" and give details on its plan to salvage the economy and stabilize banks to avoid having to follow in the footsteps of Cyprus, Greece, Portugal, Ireland and Spain and ask for an international bailout, outgoing governor Kranjec said yesterday.

While none of Slovenia's banks have required emergency liquidity assistance, local banks have borrowed "a lot" from the ECB, Kranjec said, without giving further details. The central bank will act if its sees that urgent capital is needed, he said.

"The crisis is also an opportunity to stop with the poor management of state assets," Jazbec said.

Austerity Pledge

Bratusek last week pledged that her government will press ahead with austerity measures to improve public finances, which she said were in "bad shape," and rebuild the banking system.

"It's up to the government ultimately to push forward policies dealing with the banking sector," Peter Attard Montalto, a London-based strategist at Nomura Holdings Inc., said in a phone interview. "The main issue for the central bank probably is to keep up pressure on the government, more rhetoric like we've seen today."

The economy will contract 1.9 percent this year and grow 0.5 percent next year, the central bank said earlier today in a statement. Gross domestic product contracted 3 percent in the fourth quarter.

Standard and Poor's yesterday lowered its credit rating for Nova Kreditna to Bpi from BBpi, citing a deterioration in the quality of the state-owned bank's assets.

"Theoretically they shouldn't need a bailout," said Montalto. "But the market can withdraw funding and then you get a downward spiral to a bailout."

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