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COMMISSION OPINION

of 18.11.2020

on the Draft Budgetary Plan of Slovenia

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(Only the Slovene text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan by 15 October, presenting the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

3. On 20 March 2020, the Commission adopted a Communication[1] on the activation of the general escape clause[2] of the Stability and Growth Pact. In its Communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the conditions to activate the general escape clause were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission[3]. As indicated in the Annual Sustainable Growth Strategy 2021[4] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[5], Member States should continue to provide targeted and temporary fiscal support in 2021 in a context where the general escape clause is activated, while safeguarding fiscal sustainability in the medium term.

4. On 27 May 2020, the European Commission put forward its proposal for the creation of a new recovery instrument Next Generation EU[6], alongside the proposal for the reinforced long-term budget of the EU for 2021-2027[7]. This proposal includes the

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[1] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

[2] The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn.

[3] https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

[4] Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

[5] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

[6] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - Europe's moment: Repair and Prepare for the Next Generation, Brussels, 27.5.2020, COM(2020) 456 final.

[7] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - The EU budget powering the recovery plan for Europe, Brussels, 27.5.2020, COM(2020) 442 final.

establishment of a Recovery and Resilience Facility offering large-scale financial support for both public investments and reforms. By contributing to the economic recovery and by providing financial support to strengthen the economy's long-term growth, the Recovery and Resilience Facility will help public finances to return to more favourable positions in the near term and will contribute to strengthening their sustainability in the medium and long term.

CONSIDERATIONS CONCERNING SLOVENIA

5. On 15 October 2020, Slovenia submitted the Draft Budgetary Plan for 2021. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

6. On 20 July 2020, the Council recommended Slovenia[8] to take all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Slovenia to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

   On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as Slovenia's general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled. In light of the exceptional

   uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

7. According to the Commission 2020 autumn forecast, Slovenia's economy is expected to contract by 7.1% in 2020, driven by a fall in domestic demand, and then grow by 5.1% in 2021. The Draft Budgetary Plan projects a milder contraction of 6.7% in 2020, followed by an expansion of 5.1% in 2021. Both investment and, to a lesser extent, private consumption are set to decrease significantly in 2020. The rebound projected in 2021 is driven by a strong increase in investment and a recovery in private consumption. Overall, the differences in the composition of growth between the two forecasts are small in both years. The Draft Budgetary Plan expects the impact of the crisis on the labour market to remain subdued due to the large fiscal response aimed at supporting employment. In 2020, employment is expected to decline by 1.5% and the unemployment rate to increase to 5.6%, from 4.5% in 2019. The situation in the labour market is forecast to improve marginally in 2021, with employment set to rise by 0.3% and the unemployment rate to fall by 0.2 percentage points. The Commission projects more favourable labour market developments, with unemployment rising to only 5% in 2020 and then falling to 4.8% in 2021.

   Slovenia complies with the requirement of Regulation EU No 473/2013 since the draft budget is based on independently-produced macroeconomic forecasts.

[8] Council Recommendation of 20 July 2020 on the national Reform Programme of Slovenia and delivering a Council opinion on the 20X20 Stability Programme of Slovenia, OJ C 282, 26.8.2020, p. 157.

8. The Draft Budgetary Plan forecasts a headline deficit of 8.6% of GDP in 2020. The Commission 2020 autumn forecast projects a similar deficit of 8.7%. The revenue-to-GDP ratio is slightly higher than projected by the Commission due to a faster increase in proceeds from social contributions. The expenditure-to-GDP ratio is broadly in line with the one in the Commission forecast, although the Draft Budgetary Plan projects a higher increase in public investment. Differences in the growth of subsidies and other current expenditure to GDP between both projections result from a different statistical treatment of the discretionary measures. For 2021, according to the Draft Budgetary Plan the deficit is expected to narrow to 6.6% of GDP, helped by the expected economic rebound and reversal of discretionary COVID-19-related emergency measures. Although the ratio of public spending to GDP falls by almost 3 percentage points compared to 2020, it remains at a significantly higher level in 2021 than before the pandemic, in part due to a sharp increase in public investment. The Commission forecasts a slightly lower deficit of 6.4% of GDP in 2021. The difference stems primarily from a lower expected increase in public investment.

The Draft Budgetary Plan assumes grants of 0.6% of GDP and expenditure of 0.6% of GDP under the Recovery and Resilience Facility. These are included in the revenue and expenditure projections. For the time being, since the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission forecast assumes in the budgetary projections for 2021 the 10% pre-financing of Recovery and Resilience Facility grants and treats it as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact. In the case of Slovenia the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 168 million in 2021.[9] On the expenditure side, in line with its no-policy change assumption, the Commission forecast includes expenditure related to the Recovery and Resilience Facility of 0.2% of GDP that is sufficiently detailed and credibly announced.[10]

The Draft Budgetary Plan indicates that government debt-to-GDP ratio will decrease from 82.4% at the end of 2020 to 80.9% in 2021, compared to Commission's projection of 82.2% and 80.2%, respectively.

9. The Draft Budgetary Plan reports discretionary fiscal measures with a direct budgetary impact in 2020 in response to the COVID-19 outbreak and its related economic effects of EUR 2.7 billion (6% of GDP). These consist of expenditure-increasing measures totalling EUR 2.4 billion (5.3% of GDP) and revenue-decreasing measures costing EUR 0.3 billion (0.7% of GDP).[11] Expenditure

[9] Indicative number based on the Council Presidency compromise proposal for the RRF Regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament.

[10] The treatment of the Recovery and Resilience Facility (RRF) in the Commission's 2020 autumn forecast is explained in detail in Box I.4.3 of the European Commission's Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). In line with the customary no policy-change assumption, the forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of the Recovery and Resilience Plans. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

[11] The Draft Budgetary Plan recorded the tax deferrals as discretionary measures in Table 5, but explained that these affect the cash flow of the state budget without decreasing revenue in accrual terms.

measures in 2020 included healthcare spending (0.7% of GDP) and additional employment in the public sector, and allowances for special working conditions (0.6% of GDP). Employment support schemes in the amount of 2.9% of GDP were introduced. Those include measures entailing the payment of wage and social security contribution compensation for the temporarily laid-off and employees with reduced hours, pension contribution compensation for workers remaining in the workplace, and social security contributions compensation and basic income for self-employed workers. To alleviate the negative social impact of the pandemic, one-off allowances were introduced in spring for pensioners, students, large families, recipients of social assistance and income support. A tourism voucher scheme was set up to support businesses most affected by containment measures. In addition, Slovenia announced measures that, while not having any direct impact on the deficit, contributed to providing liquidity support to businesses. Those include deferred and unpaid prepayments and deferred payments of income taxes and taxes on products, which contributed to the loss of revenue of 0.7% of GDP in cash flow terms, as well as public guarantees and loan deferral schemes with the allocation of EUR 2.2 bln (4.8% of GDP). The take-up of the guarantees as of September 2020 is estimated at 0.15% of GDP. The Commission 2020 autumn forecast includes broadly similar estimates of the measures reported in the Draft Budgetary Plan. According to the Commission forecast, while measures amounting to 5.2% of GDP are temporary, another 0.2% of GDP appear not to be temporary or matched by offsetting measures. Overall, the measures taken by Slovenia in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

10. For 2021, the Draft Budgetary Plan presents a set of new expenditure measures aimed at supporting the COVID-19 pandemic response and extends some of the existing measures beyond 2020. Those measures imply a budgetary impact of almost 1% of GDP. In particular, additional spending is planned in the area of health. This includes new healthcare programmes, improved access to healthcare services, purchases of protective equipment, and expenditure on microbiological research and COVID-19 testing. A few measures announced in the 2020 Stability Programme are planned to extend beyond 2020, including allowances for special working conditions for healthcare workers. All the measures in the Draft Budgetary Plan are presented in sufficient detail and thus included in the Commission forecast, with no difference in their assessment. However, the Commission forecast also includes the extraordinary indexation of pensions adopted in 2020. According to the Commission forecast, while measures amounting to 1% of GDP are temporary, another 0.2% of GDP appear not to be temporary or matched by offsetting measures.

11. The Commission is of the opinion that the Draft Budgetary Plan of Slovenia is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Slovenia are supporting economic activity against the background of considerable uncertainty. Slovenia is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

    It is anticipated that Slovenia will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the

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Consistently, the Commission forecast does not include any deficit-increasing impact of these measures.

Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

Done at Brussels, 18.11.2020

For the Commission
Paolo GENTILONI
Member of the Commission