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**SLOVENIA – REVIEW OF PROGRESS ON POLICY MEASURES RELEVANT FOR  
THE CORRECTION OF MACROECONOMIC IMBALANCES**

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## Executive summary

**This is the eighth specific monitoring report under the Macroeconomic Imbalance Procedure (MIP) for Slovenia, which was identified experiencing imbalances in the 2017 European Semester.** The imbalances concerned fiscal risks, deleveraging, investment and growth prospects as well as weaknesses in the banking sector. This report reviews the latest developments and policy initiatives undertaken by the Slovenian authorities relevant for the correction of the imbalances identified in the 2017 Country Report and targeted by the 2017 country-specific recommendations for Slovenia. The cut-off date for this report is 16 November 2017.

**According to the Commission Autumn forecast, the economy continues to grow at a solid rate of 4.7% in 2017.** Growth has been driven by domestic demand while the contribution from net exports has remained strong. Net international investment position has continued to improve but remains just above the indicative scoreboard threshold. The government debt declined to 78.5% of GDP at the end of 2016. Job creation has been recorded across several sectors and the unemployment rate is decreasing. Deleveraging has eased considerably while the credit flow towards the household and non-financial corporations turned positive at the end of 2016. Investment is projected to recover over the forecast horizon, albeit it remains below its historic average and the EU average.

**Reforms to ensure long-term sustainability of public finance are in the preparatory phase.** The government deficit is projected to decline to 0.8% in 2017 and improve further in 2018 and 2019. Public debt decreased to 78.5% of GDP in 2016 with further reductions in sight. The ageing population is set to put considerable pressure on public finances in the long term. The key objectives to reform the pension system have been agreed. Some elements of health care reform were adopted while the draft laws on financing for health care insurance and on long-term care are still being prepared. The performance of state-owned enterprises is improving under the management of the Slovenia Sovereign Holding. Members of the Fiscal Council were appointed in 2017.

**A strong recovery and sustained policy actions have further stabilised the banking sector.** Non-performing loans (NPLs) has continued to decrease rapidly and a toolkit to prevent, identify and manage NPLs for SMEs was prepared. The Bank Asset Management Company (BAMC) is in a position to fulfil its mandate, act independently and contribute to the restructuring of the corporate sector. The privatisation of the largest bank (NLB) has been put on hold unilaterally by Slovenia and negotiations with the Commission are ongoing.

**Relevant measures have been either adopted or are in the pipeline to improve business environment.** Measures on spatial planning, building permits and construction services have been adopted and will be implemented as of mid-2018. In addition, the new draft act on investment promotion is about to enter the parliamentary procedure. The SME test is applied for all new legislation since 2016 to assess the possible effect on SMEs. These measures are expected to partly compensate for the negative impact of lengthy administrative procedures.

**In conclusion, the government is on track with many reforms necessary for rebalancing the economy while limited action has been taken to ensure long-term sustainability of public finance.** Recent reforms aim to maintain stability within the banking sector. In addition, relevant reforms are on-going to bring investment back to its long-term sustainable

trend and sustain competitiveness. However, further action is needed to address the projected increase in age-related expenditure on the long run.

**Table 1: Key findings on implementation of policy reforms<sup>1</sup>**

On track	Wait-and-see	Action wanted
<ul style="list-style-type: none"> <li>• Operationalisation of the Fiscal Council</li> <li>• Preparations for pension reform</li> <li>• Adoption of some parts of the health care reform (e.g. Health Services Act, Patients' rights law)</li> <li>• Banking sector consolidation and restructuring</li> <li>• Improvement of corporate governance of SSH and BAMC</li> <li>• Adoption of planning and building legislation overhaul</li> <li>• Increased efficiency of civil justice and reduced length of proceedings</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of measures to improve business environment (Single Document)</li> <li>• Access to alternative sources of finance</li> <li>• The new legislation on investment promotion</li> <li>• Deregulation of professions</li> <li>• Judicial map reform</li> <li>• Adoption of the amended Public Finance Act</li> </ul>	<ul style="list-style-type: none"> <li>• Adoption of measures to ensure sustainability and adequacy of pension system</li> <li>• Adoption of Health Care and Health Insurance Act and Long-Term Care Act</li> <li>• Privatisation of the NLB</li> <li>• Property tax reform</li> </ul>

<sup>1</sup> The table classifies reforms under review on the basis of their respective adoption and implementation process, uncertainty and their level of detail. "On track" are measures for which the legislative or implementation process has been completed or is progressing well according to the foreseen timeline, and which are expected to be sufficiently effective. "Wait and see" are measures for which the legislative process is on-going, but is still in a relatively early phase, or measures for which there is still uncertainty on the complete implementation and effectiveness. "Action wanted" are measures for which limited or no action has been taken, or measures that have been announced but which are not sufficiently detailed yet to be assessed.

## 1. Introduction

On 16 November 2016, the European Commission presented, in the context of the Macroeconomic Imbalance Procedure (MIP), its sixth Alert Mechanism Report<sup>2</sup> to underpin the selection of Member States requiring an in-depth investigation into the existence and extent of macroeconomic imbalances. The subsequent In-Depth Review in the Country Report on Slovenia – published on 22 February 2017<sup>3</sup> – examined the nature, origin and severity of macroeconomic imbalances and risks in Slovenia. In its Communication published on 22 February 2017<sup>4</sup>, the Commission concluded that "Slovenia is experiencing imbalances". In particular, the Commission emphasised that weaknesses in the banking sector, corporate indebtedness, and fiscal risks constitute vulnerabilities. In April 2017, Slovenia submitted its Stability Programme<sup>5</sup> and National Reform Programme (NRP)<sup>6</sup>, respectively outlining fiscal targets and policy measures to improve its economic performance and unwind imbalances. On the basis of an assessment of these plans, the Commission proposed a set of three country-specific recommendations (CSRs)<sup>7</sup>, which were subsequently adopted by the Council on 11 July 2017<sup>8</sup>. The CSRs addressed to Slovenia concern: sustainable public finance, the pension, health and long-term care systems, public procurement in health sector, labour market issues, banking sector restructuring, governance of SOEs, better business environment and more efficient public administration. CSRs 1 and 3 were considered to be MIP relevant.

In the framework of a regular assessment of progress of the delivery of reforms, a specific monitoring mission to Slovenia was conducted on 9 -10 November 2017. The present report assesses the latest key policy initiatives<sup>9</sup> undertaken by the Slovenian authorities also in the light of the findings of the monitoring mission<sup>10</sup>.

The assessment of fiscal targets was published on 22 November 2017 in the Commission's Opinion on Slovenia's 2018 Draft Budgetary Plan<sup>11</sup>, taking into account the outcome of the Commission's 2017 Autumn Forecast.

Slovenia has requested technical support provided by the Commission's Structural Reform Support Service (SRSS) to help implement reforms in various areas such as: public administration and justice, growth and business environment, healthcare, education, and the financial sector. In particular, the SRSS provides technical support aimed at attracting foreign direct investment, tackling the issue of non-performing loans (project concluded), and establishing a Health System Performance Assessment.

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<sup>2</sup> [https://ec.europa.eu/info/sites/info/files/2017-european-semester-alert-mechanism-report\\_en\\_0.pdf](https://ec.europa.eu/info/sites/info/files/2017-european-semester-alert-mechanism-report_en_0.pdf)

<sup>3</sup> <https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-slovenia-en.pdf>

<sup>4</sup> <https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-reports-comm-en.pdf>

<sup>5</sup> <https://ec.europa.eu/info/sites/info/files/2017-european-semester-stability-programme-slovenia-en.pdf>

<sup>6</sup> <https://ec.europa.eu/info/sites/info/files/2017-european-semester-national-reform-programme-slovenia-en.pdf>

<sup>7</sup> [https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-specific-recommendations-commission-recommendations\\_-\\_slovenia.pdf](https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-specific-recommendations-commission-recommendations_-_slovenia.pdf)

<sup>8</sup> [http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017H0809\(23\)&from=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017H0809(23)&from=EN)

<sup>9</sup> Details on the policy measures taken can be found in the overview table in the Annex

<sup>10</sup> Previous MIP specific monitoring reports were published in November 2014, February and December 2015, October 2016. See respectively

[http://ec.europa.eu/economy\\_finance/economic\\_governance/documents/20141224\\_si\\_imbalances\\_epc\\_report\\_en.pdf](http://ec.europa.eu/economy_finance/economic_governance/documents/20141224_si_imbalances_epc_report_en.pdf), [http://ec.europa.eu/economy\\_finance/economic\\_governance/documents/201503\\_si\\_imbalances\\_epc\\_report\\_en.pdf](http://ec.europa.eu/economy_finance/economic_governance/documents/201503_si_imbalances_epc_report_en.pdf) [http://ec.europa.eu/economy\\_finance/economic\\_governance/documents/201512\\_si\\_imbalances\\_epc\\_report\\_en.pdf](http://ec.europa.eu/economy_finance/economic_governance/documents/201512_si_imbalances_epc_report_en.pdf) and [https://ec.europa.eu/info/sites/info/files/file\\_import/201611\\_si\\_imbalances\\_epc\\_report\\_en\\_1.pdf](https://ec.europa.eu/info/sites/info/files/file_import/201611_si_imbalances_epc_report_en_1.pdf)

<sup>11</sup> Commission Opinion C(2017) 8026

## 2. Outlook and recent developments on imbalances

### Recent economic developments and outlook

**Slovenia's economy continued to grow at a strong pace in the first half of 2017.** Domestic demand and net exports both continued to expand. Investment increased by 10 % in the first half of 2017, driven by non-residential construction and machinery and equipment. According to the Autumn forecast, solid growth is set to continue in the second half of the year projected at 4.7 % in 2017.

**Real GDP growth is forecast to reach 4 % in 2018 and 3.3 % in 2019, driven mainly by domestic demand.** Private consumption is expected to remain strong over the forecast horizon, supported by growing employment, wages and bank lending. Similarly, investment is expected to grow at a high rate due to strong external and domestic demand, improving financing conditions and stronger corporate balance sheets. Exports performance is forecast to remain robust, supported by stable unit labour costs and continued gains in price competitiveness. Imports are forecast to grow in line with domestic demand, gradually neutralising the growth contribution of net exports. Slovenia's current account surplus is expected to decrease moderately in both 2018 and 2019. Inflation is forecast to reach 1.5 % in 2018 and 1.8 % in 2019.

**Employment growth remains high in most sectors.** The employment rate has been on the rise for the third year in a row. However, employment is expected to decelerate over the forecast horizon, as labour shortages increase in the tightening labour market. The unemployment rate is expected to decline from 8 % in 2016 to 5.2 % in 2019. As the unemployment rate approaches its natural rate, wage pressures are set to rise.

### Developments as regards imbalances

In February 2017 Slovenia was found to be experiencing macroeconomic imbalances. The imbalances relate to fiscal risks, corporate indebtedness and weaknesses in the banking sector. Below is an update of the developments as regards the imbalances.

#### Fiscal risks

Public debt peaked at 82.6 % of GDP in 2015 and decreased to 78.5 % of GDP in 2016. It is projected to remain on the declining path and reach 72 % of GDP by 2019. According to the Commission Autumn forecast, the deficit is projected to decline to 0.8 % of GDP in 2017 while in 2018 a balanced budget is expected. Performance of SOEs managed by the Slovenia Sovereign Holding has further improved in 2016. The overall profitability target of 6.3 % in 2016 as measured by ROE was almost reached. Dividend pay-outs in 2017 have been higher by 38 % compared with 2016.

#### Deleveraging, investment and growth prospects

The quarterly volume of investments declined by almost 50 % between the third quarter of 2008 and the first quarter of 2016. Thereafter, investment has been on an upward path. Private investment growth accelerated to 5 % in 2016 and is expected to grow by around 10 % per year in 2017-2019. Nevertheless, its share in GDP is expected to remain below the

historical average and the EU average. Weak private investment has contributed to a significant downward shift in Slovenia's potential growth, from 3-4 % prior to the crisis to less than 1 % after the crisis. Nevertheless, potential growth started to recover and is estimated at 2 % in 2017<sup>12</sup>. The private sector's investment and growth capacity remain affected by deleveraging though deleveraging pressures are coming to an end. Since its peak in 2010 of 115 % of GDP private sector debt decreased to 81.4 % of GDP in 2016. The recovering credit growth to private sector is expected to halt this trend. High leverage in the corporate sector is not systemic but remains concentrated in a handful of large companies and among SMEs. Household debt is amongst the lowest in the EU. While foreign direct investment (FDI) stock is relatively low in Slovenia (37.8% of GDP in Q1-2017), FDI inflows increased strongly from 2014 onwards and averaged 4 % of GDP per year. The contribution of net reinvested earnings to the increase in FDI inflows turned positive in the last two years, as opposed to the post-crisis years.

#### Financial sector and private debt

The situation of the Slovenian banking sector has further improved. All financial institutions are well capitalised. Their average solvency ratio remained stable at 18.8 % from first quarter of 2016 to the first quarter of 2017. Banks have access to sufficient liquidity. Their profitability has improved, with Return-on-Equity (ROE) soaring from 3.5 % in 2016 to 7.8 % in 2017 thanks to significantly lower impairments. However, maintaining it at this level will be challenging in the current low interest rate environment. Credit lending is picking up strongly. Households and corporate credit grew respectively by 7.9 % and 7.1 % year-on-year in September 2017.

The NPL ratio for the banking sector was 10.8 % at end-June 2017, down from 14.8 % a year earlier. Sales continue to account for most of the NPL reduction while write-offs have slowed down. The share of corporate non-performing loans has continued to decline to reach 23.9 % at end-June 2017, down from 31.3 % a year prior, and is projected to decline further. The overall performance of master restructuring agreements (MRAs) is improving, but a sizable proportion remains unsuccessful. More generally, restructured loans needs to be monitored due to the continuously increasing re-default rate, which reached 27 % by March 2017.

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<sup>12</sup> [https://ec.europa.eu/info/publications/economy-finance/european-economic-forecast-autumn-2017\\_en](https://ec.europa.eu/info/publications/economy-finance/european-economic-forecast-autumn-2017_en)

### 3. Progress with policy implementation

#### 3.1 Reduction of fiscal risks and public indebtedness

This section describes measures to address fiscal risks, to ensure long-term fiscal sustainability of the healthcare, long-term care and pension systems and to reduce risks related to state-owned enterprises.

**After peaking at 82.6 % of GDP in 2015, Slovenia's public debt has decreased to 78.5 % in 2016 and is projected to stay on a decreasing path.** In 2017 and 2018, the debt-to-GDP ratio is projected to decline to 76.4 % and 74.1 % of GDP respectively, mainly on the back of robust economic growth, the reduction of interest expenditure and scaling down of the previously accumulated large cash buffers. The government deficit is projected to decline to 0.8% in 2017 and become balanced in 2018.

**The members of the Fiscal Council were appointed in 2017 after a significant delay while the adoption of the amended Public Finance Act is still pending.** In July 2015, the Slovenian parliament passed the Fiscal Rules Act (FRA), providing the legal basis for the establishment of a Fiscal Council. In addition, the FRA introduced a medium-term budgetary framework for the general government. To make it operational, the Public Finance Act would need to be amended, but the amendments have not been adopted yet. In July 2017, the Commission decided to refer Slovenia to the Court of Justice of the EU for its failure to fully notify transposition measures related to EU Directive 2011/85. The authorities aim at adopting the amended Public Finance Act by the end of 2017.

**The introduction of a revised version of the real estate tax was postponed to 2020.** Revenues from recurrent immovable property taxation are considerably below the EU average. The Mass Valuation Act to assess the value of properties was adopted by the Government in September 2017 while its adoption by the Parliament is expected in January 2018. Mass valuation is to be applied to all properties in mid-2019. Afterwards, the property Tax Act is expected to be introduced by 2020 at the latest.

**The government does not intend to put forward the required legislation on pension reform before the general elections in 2018.** Nevertheless, based on the White Paper on pension reform, published in April 2016, "Starting points for the modernisation of the Pension and Disability Insurance System in the Republic of Slovenia" were adopted by the Economic and Social Council in July 2017. The starting points represent the agreement of social partners on the elements of the future reform. The ambition of the reform is to achieve an average fiscally sustainable replacement rate of approximately 70 %, with 60 % coming from the first (public) pillar and approximately 10 – 12 % coming from supplementary pension schemes but the measures are still broadly defined.. The social partners did not agree on linking pension age with life expectancy. It is anticipated that the changes in pension system will become effective after 2020 but the phase-in period has not yet been outlined.

**Additional measures are under consideration to ensure the long term sustainability and adequacy of the pension system.** One option is to increase the take-up of the supplementary pension schemes<sup>13</sup>. Currently, around 63 % of those in the first (public) pillar are enrolled in

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<sup>13</sup> Supplementary pensions (the second pillar) include i) occupational compulsory supplementary pension insurance for specific professions, (ii) individual and collective voluntary supplementary pension insurance.



the 2<sup>nd</sup> pillar while only about 20,000 pensioners receive pensions from the 2<sup>nd</sup> pillar. Despite the high number of those enrolled, the average amount of savings per person is low. Another option concerns the creation of a Demographic Fund to reserve some assets for the period when the pension expenditure reaches the highest level as share of GDP. There has been so far no broad agreement regarding the setup and functioning of this fund.

**Part of the health care reform legislation has been adopted by the parliament, but the act that is expected to reform funding and the contracting process in the health care system is still under consideration.** The draft Health Care and Health Insurance Act is expected to be adopted by the government by the end of 2017 after already being subject to public consultation. The latest draft proposes diversification and consolidation of the health care revenues, as well as transformation of the current form of supplementary health insurance into a compulsory levy towards the public health insurer. Some expenses that were paid by the medical insurance (specialisations, apprenticeships, learning and training) have been already transferred to the state budget. In addition, the draft law proposes selective contracting on the basis of efficiency and quality of services. The recent adoption of the amended Health Services Act is improving transparency and allocation of concessions while the Patients' Rights Act provides a new framework on the rights and obligations of those seeking appointments. In 2016, joint public procurement was expanded in healthcare to the most frequently used medical equipment. All hospitals submitted data on recent purchases and prices of medicinal products and devices. The procurement data register was published end of February 2017. Despite recent progress further measures to increase efficiency of health care spending without compromising access to quality care are still pending. The reform of the hospital network is in a early phase.

**The draft new law on long-term care is under public consultation.** The draft law is planned to be adopted by the government by the end of 2017 in order to enter the legislative procedure in the beginning of 2018. It aims to establish a sustainable, high quality and accessible care system which combines the health and social aspects of care with integrated long-term care services. The bill introduces a new compulsory insurance fee to finance the services covered by the law. The new funding source is expected to generate revenue of about EUR 110 million annually, below the EUR 300 million needed. Public funds will cover 70% of the formal long-term care costs, whereas 30% would be out of pocket payments. It's foreseen that the law will enter into force in 2020.

**Improving the governance and performance of state-owned enterprises (SOEs) is a key priority while progress with pending privatizations remains limited.** 2016 was the first year of full implementation of the new corporate governance framework and the authorities are not envisaging any further regulatory initiative, as it is considered too early to draw definitive conclusions. Nevertheless, future targets may need to be revised to allow for greater flexibility in view of the different sectors where SOEs are active. In addition, variable remuneration of the management bodies or other incentivizing tools could boost professional management. Although most of the SOEs earmarked for privatization in a 2013 decision of the Parliament have been sold, there are still some outstanding cases, notably Telekom Slovenije for which no timeline has been fixed.

**Overall, the authorities are preparing reforms to ensure long-term sustainability of public finance.** The key objectives to reform the pension system have been agreed. Some parts of the health care reform were adopted while the draft law on long-term care is being prepared. Nevertheless, further action is needed to address the projected increase in age-related expenditure on the long run.

### **3.2. Restructuring of the banking and corporate sector**

This section describes measures to resolve non-performing loans, to restructure the banking and corporate sector and to facilitate the access to alternative financing sources.

**Further reforms have improved the stability of the banking sector.** The consolidation and restructuring of the sector progressed with a merger of three banks and the completed wind down of two smaller banks. However, the privatisation of the largest bank (NLB) has been put on hold unilaterally by Slovenia and negotiations with the Commission are ongoing. The preparations for the privatisation of Abanka in 2019 are being launched. Banks followed their NPL target plans which are monitored by the Bank of Slovenia (BoS) and the Single Supervisory Mechanism (SSM). Backed by the technical assistance of the European Commission and in cooperation with the World Bank, the BoS issued in March 2017 the Handbook for Effective Management and Workout of SME NPLs. The handbook includes a complete toolkit to prevent, identify and manage NPLs in this segment.

**The BAMC is in a position to fulfil its mandate and act independently.** A business strategy for the years 2017 to 2022 was adopted in December 2016, aiming to ensure the highest possible return to the state and to fully redeem bonds backed by state guarantees by 2022. The BAMC significantly contributes to the restructuring of the corporate sector and is expected to return profits for 2017 on the back of improving margins on loan and collateral sales as well as easier access to bank refinancing. However, the statistical treatment of BAMC's transactions has an impact on the budget balance. The state thus has to monitor the transactions carefully. Allowing for private ownership participation in the BAMC could mitigate this risk.

**Measures have been prepared to improve access to alternative sources of financing.** EUR 370 million is to be channelled by end 2018 into the areas of SMEs, RDI, energy efficiency and urban development through Fund of Funds managed by the Slovene Export and Development Bank (SID) bank, and financial intermediaries. In addition, the Slovene Enterprise Fund has entered into a new investment initiative called the Central Europe Fund of Funds, which plans equity investments in the region's SMEs and will be managed by the European Investment Fund. In total, at least EUR 160 million is foreseen to be available for investments into Central European businesses.

**Overall, recent reforms aim to maintain stability within the banking sector.** A toolkit to prevent, identify and manage NPLs for SMEs was prepared and the BAMC is in a position to fulfil its mandate and act independently. The government has taken some measures to improve access to alternative sources of finance.

### **3.3. Competitiveness, business environment, public administration and labour market**

This section describes measures to increase the employability of low-skilled and older workers, to reduce the administrative burden on business and to modernise public administration.

**In 2017, Slovenia has adopted legislation that overhauls the process of spatial planning and building permits.** The legislation will enter into force in June 2018. The new legislation introduces possibility for individualised planning documents and binding building pre-

permits. Ability by various administrative units to block the projects has been restricted. Coordination between the government stakeholders is enhanced and a fast-track procedure for building permits was introduced.

**The implementation of the Single Document, which concerns the reduction of administrative barriers, continues.** The document contains around 300 measures while new measures can be included. In 2017, 25 measures have been completed and 10 are being implemented. Since January 2016, a "SME test" is applied on newly prepared legislation under ordinary legislative procedure to determine the legislation's impact on smaller enterprises. In November 2017 the act on investment promotion was approved by the government. The act puts domestic and foreign investment on equal footing, and defines strategic investments. Proactive and individual based approach is proposed to be implemented for the strategic projects to speed up the procedure as much as possible.

**Projects to increase the efficiency of public administration have been prepared.** They concern fully IT integrated competency model, training models, management by objectives and career development. The conclusion of the draft Act on Civil Servants aiming to increase the efficiency of the public sector has been delayed further. Financial services of 9 regional administrative units were merged into one in 2017 and further streamlining of processes is envisaged.

**The employment of older workers has somewhat improved thanks to cyclical upturn, previous pension reform and active labour market measures.** In 2016 the employment rate of older workers increased by 1.9 pps to 38.5 %, however, it remains significantly below the EU average (55.2 %). Two new ALMP measures are being prepared for older workers - Active until retirement (subsidy programme) and Support for companies for active aging of the workforce (workshops). In addition, the temporary tax relief and exemption from paying social security contributions for employers hiring older workers (55+ unemployed) were extended. As a response to an aging society the government prepared a Longevity Society Strategy for Slovenia that is formed on a concept of active ageing.

**The justice system further reduced backlogs and average length of proceedings.** In Jan.-Sept. 2017, the total backlog decreased by 11%. The courts continued to resolve more cases than they received, despite resolving fewer cases than in the past. The average length in 1st instance commercial and civil cases further decreased to around 11 months. The influx of personal insolvency and restructuring cases decreased by more than 30%, but liquidation cases increased by 9%. The length in insolvency cases decreased (to 339 days in liquidations without distribution of assets, and to 200 days in restructuring). New projects aim to improve the quality of the justice system (e.g. publication of all 1st instance judgments). However, the delayed judicial map reform is at risk of remaining unfinished during the current parliamentary term.

**Overall, relevant measures have been either adopted or are in the pipeline to improve business environment.** The most important measures concern the reform of the spatial planning, building permits and construction services and the forthcoming act on investment promotion. These measures are relevant for bringing investment back to its long-term sustainable trend and for sustaining competitiveness.

## Annex 1: Overview table of MIP-relevant reforms

MIP objective: Reduction of fiscal risks and public indebtedness			
Public finances and taxation			
Fiscal policy and fiscal governance			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<p><b>Expected by end 2017:</b> The Government will adopt the revised Public Finance Act.</p>	<p><b>July 2015:</b> Fiscal Rule Act (adopted by the Parliament with 2/3 majority)</p> <p><b>September 2016:</b> Tax reform to shift tax burden from labour to capital (adopted by the Parliament) entered into force on 1<sup>st</sup> January 2017.</p> <p><b>November 2017:</b> 2018 budget was adopted by the Parliament. Target deficit for 2017 is 0.8% of GDP and for 2018 a surplus of 0.4% of GDP is planned.</p>	<ul style="list-style-type: none"> <li>• <b>March 2017:</b> the members of the Fiscal Council were appointed. The Fiscal Council has been operationalized, providing assessments on Stability Programmes and draft budgets.</li> <li>• Active debt management policy <b>over 2016-17</b> has resulted in lower interest expenditure</li> </ul>	<p>2017 CSR (1) – Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Slovenia’s public finances. Adopt and implement the proposed reform of the healthcare system and adopt the planned reform of long-term care, increasing cost-effectiveness, accessibility and quality care. Fully tap the potential of centralised procurement in the health sector. Adopt the necessary measures to ensure the long-term sustainability and adequacy of the pension system.</p>
Long-term sustainability of public finances, including pensions			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>• <b>July 2017:</b> agreement between the social partners regarding the main features of the upcoming pension reform</li> </ul>			<p>2017 CSR (1) – Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking</p>

<ul style="list-style-type: none"> <li>• Analysis of measures to improve the functioning of the complementary pension schemes is to be carried out over <b>2017-18</b>.</li> <li>• Working group to improve the disability pension system was set up</li> <li>• Idea of establishing Demographic Fund to stabilise the future pension expenditure was put forward in <b>mid-2017</b> but the consultation process did not produce consensus between the stakeholders</li> </ul>			<p>into account the need to strengthen the ongoing recovery and to ensure the sustainability of Slovenia's public finances. Adopt and implement the proposed reform of the healthcare system and adopt the planned reform of long-term care, increasing cost-effectiveness, accessibility and quality care. Fully tap the potential of centralised procurement in the health sector. Adopt the necessary measures to ensure the long-term sustainability and adequacy of the pension system.</p>
<p>Long-term sustainability of healthcare system</p>			
<p><i>Announced measures</i></p>	<p><i>Adopted measures</i></p>	<p><i>Implemented measures</i></p>	<p><i>Sources of commitment</i></p>
<ul style="list-style-type: none"> <li>• Health care and health insurance act is expected to be approved by the government <b>before the end of 2017</b>. It is expected to reform the financing of the healthcare system</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Second half of 2017</b> saw adoption on several legal acts concerning the healthcare system: <ul style="list-style-type: none"> <li>○ Healthcare act modification puts forward transparency and clearer rules on concessions;</li> <li>○ Medical practitioner act modification channels additional funds from central government budget to cover the costs incurred in training activities</li> <li>○ Patients rights act modification sets time limits for each urgency level and allows the better management of waiting lists.</li> <li>○ Act on intervention measures allows to improve the finances of hospitals subject to efficiency</li> </ul> </li> </ul>	<p>Expended use of centralised public procurement is visible <b>over 2017</b></p>	<p>2017 CSR (1) – Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Slovenia's public finances. Adopt and implement the proposed reform of the financing of the healthcare system and adopt the planned reform of long-term care, increasing cost-effectiveness, accessibility and quality care. Fully tap the potential of centralised procurement in the health sector. Adopt the necessary measures to ensure the long-term sustainability and adequacy of the pension system.</p>

	increasing measures under the control of Ministry of Health		
Long-term sustainability of long-term care			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>Draft Long-Term Care act in public consultation, expected to be submitted to the government by <b>year end 2017</b>.</li> </ul>			2017 CSR (1) – Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Slovenia’s public finances. Adopt and implement the proposed reform of the healthcare system and adopt the planned reform of long-term care, increasing cost-effectiveness, accessibility and quality care. Fully tap the potential of centralised procurement in the health sector. Adopt the necessary measures to ensure the long-term sustainability and adequacy of the pension system.
Reduction fiscal risks of SOEs - Management of state assets			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
N/A	N/A	<b>2015-2017:</b> A comprehensive framework for the management of State-owned Enterprises (SOEs) by the Slovenian Sovereign Holding (SSH) including an asset management strategy, annual management plans and other management acts.	2017 CSR 3: Improve the financing conditions, including by facilitating a durable resolution of non-performing loans and access to alternative sources of financing. Ensure the full implementation of the bank asset management company strategy.

			Reduce the administrative burden on business deriving from rules on spatial planning and construction permits and ensure good governance of state-owned enterprises.
Reduction fiscal risks of SOEs – Privatisation of state assets			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<b>MIP objective: Restructuring of the banking and corporate sector</b>			
<b>Financial sector</b>			
Restructuring of banking sector			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<b>2017 - 2018:</b> NLB will be partly privatised in a more gradual manner (i.e. a first tranche of 50% by the end of 2017; a second tranche of 25% by the end of 2018, with Slovenia keeping a blocking a minority of 25%). Slovenia later unilaterally suspended the sale of the NLB altogether and is looking for alternative solutions with the Commission.			2017 CSR 3: Improve the financing conditions, including by facilitating a durable resolution of non-performing loans and access to alternative sources of financing. Ensure the full implementation of the bank asset management company strategy. Reduce the administrative burden on business deriving from rules on spatial planning and construction permits and ensure good governance of state-owned enterprises.
Governance of the BAMC			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>

		<b>December 2016:</b> a business strategy for the years 2017 to 2022 was adopted.	2017 CSR 3: Improve the financing conditions, including by facilitating a durable resolution of non-performing loans and access to alternative sources of financing. Ensure the full implementation of the bank asset management company strategy. Reduce the administrative burden on business deriving from rules on spatial planning and construction permits and ensure good governance of state-owned enterprises.
Resolution of NPLs			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
		<b>March 2017:</b> the BoS issued the Handbook for Effective Management and Workout of MSME NPLs, backed by the technical assistance of the European Commission and in cooperation with the World Bank.	2017 CSR 3: Improve the financing conditions, including by facilitating a durable resolution of non-performing loans and access to alternative sources of financing. Ensure the full implementation of the bank asset management company strategy. Reduce the administrative burden on business deriving from rules on spatial planning and construction permits and ensure good governance of state-owned enterprises.
Access to finance			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li><b>Beginning of 2018:</b> SID bank will choose the financial intermediaries</li> </ul>		<b>Over 2017 and 2018:</b> Continued implementation of the funding schemes	2017 CSR 3: Improve the financing conditions, including by facilitating a



<p>to work with its fund of funds channelling EUR 370 million into SME, RDI, energy efficiency and urban development financing.</p> <ul style="list-style-type: none"> <li>• Slovenia Enterprise Fund has entered into Central European Fund of Funds investment initiative, making equity investments.</li> </ul>		<p>by Slovenia Enterprise Fund and SID bank</p>	<p>durable resolution of non-performing loans and access to alternative sources of financing. Ensure the full implementation of the bank asset management company strategy. Reduce the administrative burden on business deriving from rules on spatial planning and construction permits and ensure good governance of state-owned enterprises.</p>
<b>MIP objective: Competitiveness, business environment, public administration and labour market</b>			
<b>Labour market</b>			
Active labour market policies			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>• <b>2017:</b> Further prolongation of existing measures to encourage employment of older workers (temporary tax relief and exemption from paying social security contributions for employers hiring older workers (55+ unemployed).</li> <li>• Two new measures being prepared for older workers <b>for 2018</b> - Active until retirement (subsidy programme) and Support for companies for active aging of the workforce (workshops).</li> </ul>		<p><b>2017:</b> Subsidy scheme to improve the access of elderly workers to the labour market</p>	<p>2017 CSR 2: Intensify efforts to increase the employability of low-skilled and older workers, particularly through targeted lifelong learning and activation measures.</p>
Labour market reform			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>

<p><b>2017:</b> Action plans to tackle labour market challenges arising from the aging society.</p>	<p>Longevity Society Strategy adopted in <b>2017</b></p>		<p>2017 CSR 2: Intensify efforts to increase the employability of low-skilled and older workers, particularly through targeted lifelong learning and activation measures.</p>
<p><b>Public administration and business environment</b></p>			
<p>Business environment</p>			
<p><i>Announced measures</i></p>	<p><i>Adopted measures</i></p>	<p><i>Implemented measures</i></p>	<p><i>Sources of commitment</i></p>
<p>Act of investment promotion adopted by the government in <b>November 2017</b></p>	<ul style="list-style-type: none"> <li>• Reform of spatial planning and construction legislation becoming into force in <b>mid-2018</b></li> </ul>	<ul style="list-style-type: none"> <li>• SME tests carried out on routine basis since the <b>beginning of 2017</b></li> <li>• Completion of 25 measures in the Single Document <b>over 2017</b></li> </ul>	<p>2017 CSR 3: Improve the financing conditions, including by facilitating a durable resolution of non-performing loans and access to alternative sources of financing. Ensure the full implementation of the bank asset management company strategy. Reduce the administrative burden on business deriving from rules on spatial planning and construction permits and ensure good governance of state-owned enterprises.</p>
<p>Public administration</p>			
<p><i>Announced measures</i></p>	<p><i>Adopted measures</i></p>	<p><i>Implemented measures</i></p>	<p><i>Sources of commitment</i></p>
<p><b>Over 2017:</b> preparation of a project concerning IT-integrated competency model, training models, management by objectives, career development</p>		<p>Merger of financial services of 9 regional administrative units <b>in 2017</b></p>	<p>2017 CSR 3: Improve the financing conditions, including by facilitating a durable resolution of non-performing loans and access to alternative sources of financing. Ensure the full implementation of the bank asset</p>

			management company strategy. Reduce the administrative burden on business deriving from rules on spatial planning and construction permits and ensure good governance of state-owned enterprises.
Civil justice			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
N/A	N/A	During <b>2016-17</b> : Case management systems; monitoring data warehouse; and other initiatives to improve the efficiency of court functioning and the quality of justice.	2017 CSR 3: Improve the financing conditions, including by facilitating a durable resolution of non-performing loans and access to alternative sources of financing. Ensure the full implementation of the bank asset management company strategy. Reduce the administrative burden on business deriving from rules on spatial planning and construction permits and ensure good governance of state-owned enterprises.