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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 report on Slovenia is the fifth specific monitoring report under the Macroeconomic Imbalances Procedure (MIP) for countries experiencing imbalances, which require specific monitoring identified in the 2015 European Semester. It reviews the latest developments and policy initiatives undertaken by the Slovenian authorities relevant for the correction of the imbalances identified in the 2015 Country Report and targeted by the 2015 country-specific recommendations for Slovenia. The cut-off date for this report is 30 October 2015.

Slovenia's economy grew by 3.0% in 2014 and is expected to grow by 2.6% in 2015. Growth has been driven by net exports but is expected to become broader based with an increasing contribution from domestic demand. Strong export performance in 2015 and the fall in energy and commodity prices contributed to a further increase of Slovenia's current account surplus. As a result, Slovenia's net international investment position (NIIP) continued to improve. Though at a much slower pace, deleveraging in the corporate sector is on-going, partially weighing on investment. The recovery of the labour market has gained momentum and job creation has been recorded across several sectors. Unemployment decreased to 9.6% in Q2 2015 and is expected to decline further. The draft budgetary plan targets a deficit of 2.2% of GDP in 2016 with the measures underpinning it split almost 40/60 between revenue and expenditure. The debt-to-GDP ratio is projected to peak at 84% of GDP in 2015 before falling to under 81% of GDP in 2016.

Several key policy measures have been recently implemented. The incumbent government has been in office for more than a year. Several important measures recommended by the 2014 and 2015 CSRs have been adopted over the summer 2015 including the Fiscal Rules Act, the Asset Management Strategy for SOEs and a strategy and action plan for the development of the public administration. Furthermore, new Supervisory and Management Boards for SSH were appointed and three SOEs including NKBM from the list of 15 were privatised.

Reforms adopted in previous years continue to yield benefits. The latest evaluation of the 2013 pension reform suggests that the system is sustainable until 2023. Nevertheless, Slovenia needs to continue to reform its pension system in order to ensure its long-term sustainability. The 2013 labour market reform has brought about some positive results, but the use of fixed-term contracts continues to increase and segmentation remains an issue. According to preliminary data on the functioning of courts, the number of pending cases has further decreased, but this may also be driven by lesser workload. The insolvency legislation adopted in 2013 represents progress compared to the previous regime, allowing more restructuring opportunities to companies in financial difficulties. The situation of the Slovenian banking sector has further stabilised with all banks reporting profits in the first half of 2015. Capital ratios are above the EU average and banks have access to sufficient liquidity. Non-performing loans continue to decrease in absolute and relative terms. The Bank Asset Management Company (BAMC) is now fully operational and continues to play an important role in the restructuring of the corporate sector.

While the government has maintained the overall pace of structural reforms to correct the imbalances, reforms in a number of policy areas need to be accelerated. In order to ensure the long-term fiscal sustainability of the pension and healthcare system some key parameters need to be adjusted. According to the 2015 Ageing Report, Slovenia's public pension system shows the second highest projected pension spending increase in the long-run. The publication of the White Book, which would set out policy options for a further pension reform, is planned for end of 2015. The Fiscal Rule Act was finally passed in July 2015 but the establishment of the Fiscal Council has been delayed. The necessary revisions to the Public Finances Act are under preparation and expected to be adopted by the government in February 2016. Several important initiatives in the area of healthcare and long-term care are under preparation. The health expenditure review was finalized in October while a comprehensive analysis of the healthcare system is ongoing. However, further determined action is required to adopt a comprehensive reform of the healthcare and long-term care system in 2016. Strong corporate governance in the BAMC needs to be maintained. A number of privatisation transactions have been postponed and are now lacking a clear timeline. Progress in the area of improving the business environment and enhancing the efficiency of the public administration (both of key relevance for improving country's competitiveness) is less evident. Given the mixed implementation record to date in these areas, there is a need to enhance the coordination between the ministries and to strengthen the governance and monitoring arrangements to ensure successful implementation of the strategy.

In conclusion, the Slovenian authorities have continued to drive the reform agenda, but a number of important measures still need to be fully implemented and accelerated. The strong recovery of the economy offers the opportunity to maintain the reform momentum. The reform process is not yet complete and the full and effective implementation of recently adopted measures will be the main challenge for the future.

Table 1: Key findings on implementation of policy reforms[1]

On track	Wait-and-see	Action wanted
• Expenditure review of the healthcare sector • Asset Management Strategy for SOEs • Banking sector restructuring • Corporate sector restructuring • Corporate governance of SOEs • Increased efficiency of civil justice and reduced length of proceedings • Implementation of the programme to fight corruption • Introduction of compulsory cash registers	• Comprehensive analysis of the healthcare system • Changes to the minimum wage • Asset performance criteria for SOEs • Annual state assets management plan • Privatisation of the remaining companies on the list of 15 • Amendments to the BAMC legislation • Improved access to finance for SMEs • Implementation of the Single Document • Deregulation of professions • Implementation of strategies for development of public administration, internationalisation and FDI	• Establishment of Fiscal Council • Adoption of the Public Finances Act • Preparation of the White Book on the future pension reform • Adoption of healthcare and long-term care reform • Introduction of recurrent property taxation • Maintenance of strong corporate governance in the BAMC • Simplification of spatial planning and building permits • Improvement in employability of low-skilled and older workers; tackled long-term unemployment • Inter-ministerial coordination

[1] The table classifies reforms under review on the basis of their respective adoption and implementation process and their credibility and 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 28 November 2014, the European Commission presented, in the context of the Macroeconomic Imbalances Procedure (MIP), its fourth Alert Mechanism Report[2] 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 26 February 2015[3] –examined the nature, origin and severity of macroeconomic imbalances and risks in Slovenia. In the accompanying Communication[4], the Commission concluded that "Slovenia continues to experience macroeconomic imbalances, which require specific monitoring and decisive policy action". In particular, the Commission emphasised risks related to weak corporate governance, a high level of state ownership, a still high corporate leverage, and an increasing public debt.

In April 2015, Slovenia submitted its Stability Programme[5] and National Reform Programme[6], respectively outlining updated fiscal targets and planned 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 four country-specific recommendations (CSRs) on 13 May 2015 which were subsequently adopted by the Council on 14 July 2015.[7] The CSRs addressed to Slovenia concern a wide range of policy domains: sustainable public finance and national fiscal frameworks, the pension system, healthcare and the long-term care systems, wage developments and other labour market issues, banking and corporate restructuring, privatisation and governance of state-owned enterprises and the functioning of the courts. All CSRs were considered relevant in the context of the MIP.

Moreover, the first CSR addressed to euro-area Member States[8] calls for a regular assessment of the delivery of reforms in those Member States which require specific monitoring within the framework of the MIP. Hence, the present report assesses the latest key policy initiatives[9] undertaken by Slovenia.[10] For this purpose, a specific monitoring mission to Slovenia was conducted on 21-23 September 2015. An update of this present report is planned for the beginning of 2016 and it will be integrated in the forthcoming 2016 Country Report on Slovenia.

This report reflects the content of the update of Slovenia's 2016 Draft Budgetary Plan (published mid-October 2015)[11]. In order to avoid an overlap of surveillance processes, it does not provide an assessment of the revised fiscal targets. The latter assessment will be published in November 2015 in the Commission's opinion on Slovenia's 2016 Draft Budgetary Plan, taking into account the outcome of the Commission's 2015 Autumn Forecast.

[2] http://ec.europa.eu/europe2020/pdf/2015/amr2015_en.pdf
[3] Later republished as European Economy Occasional Paper no. 224: http://ec.europa.eu/economy_finance/publications/occasional_paper/2015/pdf/ocp224_en.pdf
[4] http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_comm_en.pdf
[5] http://ec.europa.eu/europe2020/pdf/csr2015/sp2015_slovenia_en.pdf
[6] http://ec.europa.eu/europe2020/pdf/csr2015/nrp2015_slovenia_en.pdf
[7] http://ec.europa.eu/europe2020/pdf/csr2015/csr2015_council_slovenia_en.pdf
[8] http://ec.europa.eu/europe2020/pdf/csr2015/csr2015_council_euro_en.pdf
[9] Details on the policy measures taken can be found in the overview table in the Annex.
[10] Previous MIP specific monitoring reports were published in November 2014 and February 2015. See respectively http://ec.europa.eu/economy_finance/economic_governance/documents/20141224_si_imbalances_epc_report_en.pdf and http://ec.europa.eu/economy_finance/economic_governance/documents/201503_si_imbalances_epc_report_en.pdf
[11] http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/dbp/2015/2015-10-15_si_dbp_en.pdf.

2. Recent macroeconomic developments

Slovenia's economy grew by 3.0% in 2014 and is expected to continue to grow solidly over the forecast horizon. The favourable trend continued in the first half of 2015, when the economy expanded by 2.7% y-o-y. Growth has been driven by net exports and increasing domestic demand. Household consumption recovered rapidly, boosted by an improved labour market, rising consumer confidence and persistent low inflation. The Commission's 2015 Autumn Forecast foresees a temporary deceleration of growth to 1.9% in 2016, mainly due to contraction of public investment after its exceptional growth in 2014-2015, as 2015 is the end of the programming period of EU funding. Growth of private investment is forecast to progressively accelerate as capacity utilisation levels remain above historical average. Deleveraging pressures are progressively easing and business sentiment is improving. The expected growth in private investment is not sufficient to fully offset the dynamics in public investment, leading to an overall decline of investment in 2016. Private consumption is set to grow faster in 2016 driven by improving employment, increasing wages, recovering housing market and increased household confidence. These effects are expected to continue throughout the forecast horizon, with private consumption being the main contributor to growth of 2.5% in 2017 (Graph 1).

Strong export performance in 2015 and a fall in energy and commodity prices resulted in a further increase in Slovenia's large current account surplus. Slovenia continued to gain export shares on EU markets and maintained large current account surpluses in the first eight months of 2015. As a result, NIIP improved to -40.3% of GDP in the second quarter of 2015. The current account surplus is expected to stay at historically high levels, boosted by the positive trade balance and projected exports growth above 5%. The surplus should start to decline with rising imports, which are expected to grow with increasing household consumption and the gradual recovery in oil and commodity prices (Graph 2).

While at a much slower pace, the deleveraging trend is expected to continue, partially weighing on investment. Faced with high indebtedness, accumulated in the pre-crisis years, Slovenia's corporate sector responded with significant deleveraging, which is still ongoing. As a result, investment is still well below the historical average. Further deleveraging needs of the private sector are estimated at 10-20% of GDP[12], but the deleveraging process is expected to evolve at a slower pace and to be concentrated in corporates in difficulties. Household indebtedness is among the lowest in the EU (Graph 3).

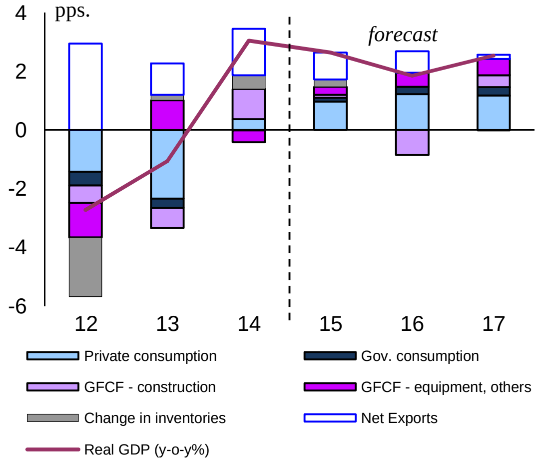
The recovery on the labour market has gained momentum and became more broad-based. The outflow from inactivity to the labour force recently increased for the first time since the crisis, thus signalling better job prospects. Nevertheless, labour market prospects for the vulnerable groups remain unfavourable, notably for low skilled, older workers and the long-term unemployed. In addition, indications of labour market segmentation persist, mainly a result of firm's cautious stance in offering permanent contracts (Graph 4).

The government plans to continue to reduce the budget deficit while loosening some of the constraints on public sector pay. The Draft Budgetary Plan (DBP) targets a deficit of 2.2% of GDP in 2016; slightly below the 2.3% envisaged in the Stability Programme. The measures underpinning the DBP are split almost 40/60 between revenue and expenditure.

[12] http://ec.europa.eu/economy_finance/publications/european_economy/2014/pdf/ee7_en.pdf.

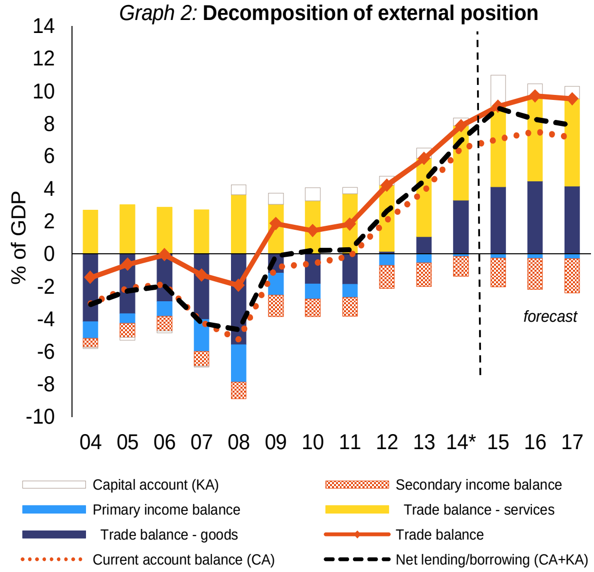
According to the Plan, the debt-to-GDP ratio is projected to peak at 84% of GDP in 2015 before falling to below 81% of GDP in 2016. This increase in 2015 is largely driven by the continued accumulation of cash buffers due to favourable market conditions.

Graph 1: **Slovenia - Real GDP growth and contributions**



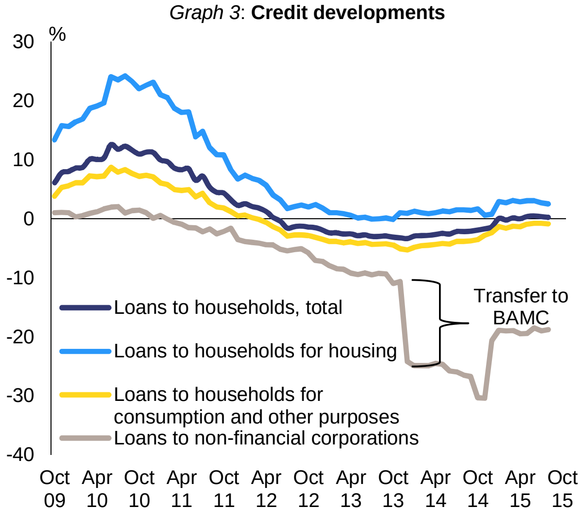
Source: DG ECFIN, Autumn Forecast 2015

Graph 2: **Decomposition of external position**



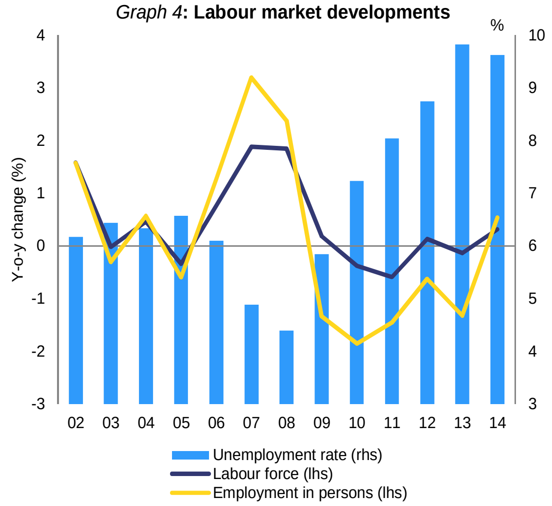
Source: Eurostat, Autumn Forecast 2015

Graph 3: **Credit developments**



Source: BSI

Graph 4: **Labour market developments**



Source: Ameco, Eurostat

3. State-of-play of MIP-relevant reforms

3.1. Measures related to public finances and public debt sustainability

In 2015, according to the Commission's autumn forecast the general government deficit is projected to decline to 2.9%, mainly due to the continued implementation of consolidation measures adopted in recent years and the expiration of several one-offs. The implementation of the 2015 budget appears to be on track and the authorities have reaffirmed their commitment to reducing the deficit to below 3% of GDP in 2015, in line with the Excessive Deficit Procedure (EDP) deadline. Revenues are slightly higher than previously anticipated due to higher domestic consumption, however this additional revenue has been largely offset by the larger than anticipated impact of operations by the Bank Asset Management Company (BAMC) in the work out of its loan book. On 15 October 2015, the authorities submitted the Draft Budgetary Plan (DBP), which targets a deficit of 2.2% in 2016 and is based on favourable growth assumptions. The plan estimates an improvement in the structural balance of 0.6% of GDP in 2016, in line with the Council's recommendation to Slovenia. The projected reduction in the deficit is driven by a sharp decline in public investment (33% y-o-y reduction) due to the end of the 2007-13 financing period under the EU fund programmes. In addition, the DBP envisages higher tax revenues due to the continuation of the higher VAT rate, measures to tackle the grey economy and an improved economic environment, particularly increased domestic demand. Compensation of employees is expected to increase in 2016 as the government proposes to provide for the payment of bonuses to public sector workers. However, negotiations with the trade unions on the pay bill are still ongoing. [13]

The main risks to the deficit are that the costs related to refugees could be considerably higher than estimated by the government. Since the submission of the Draft Budgetary Plan, the Slovenian government has announced that the net budgetary impact due to exceptional refugee inflow is expected to be 0.1 % of GDP higher than foreseen in the DBP. Furthermore, the activities of the Bank Asset Management Company (BAMC) in the workout of its loan book may have a greater impact on public finances than currently anticipated. Moreover, the public sector pay-bill savings underpinning the Draft Budgetary Plan are still under negotiation with the Trade Unions. The non-materialisation of these savings poses a risk to the fiscal projections for 2016.

The Fiscal Rule Act has been passed, but the appointment of the Fiscal Council appears to be further delayed. The Fiscal Rule Act (FRA) was passed by the Slovenian parliament in July 2015. The implementation of the law will be overseen by the Fiscal Council, an independent state authority that will consist of three members, who are experts in the fields of macroeconomics or public finances. Due to a lack of sufficient interest, the deadline for the call for applicants was extended until end-September 2015. Given that only three applications have been received, the authorities are considering rerunning the call for applicants. Therefore, it now appears that the establishment of the Fiscal Council has been further delayed and the members may not be appointed until February 2016. The council members will be proposed by the government and the confirmation of their appointment by the parliament will require 2/3 majority. The necessary revisions to the Public Finances Act, to allow for the revision of the budgetary process, are under preparation and expected to be adopted by the government in February 2016. The amendments aim to strengthen the rules

[13] The negotiations on the public sector wage bill have been concluded on 6 November after the cut-off date of this report.

for direct and indirect budgetary users and define the role of the Court of Auditors in the implementation of budgets.

A comprehensive reform of the tax system has been announced as a priority for 2016. The authorities propose that the restructuring of the tax system would be implemented in a fiscally neutral manner, as the intention is to restructure the tax burden by shifting tax away from labour and abolishing inefficient tax allowances in corporate taxation. It however needs to be clarified how the abolishment of these tax allowances could compensate such a tax shift. A steering committee on tax issues was established in spring 2015 and it is currently reviewing the existing tax legislation as well as discussing options with relevant stakeholders. The committee is composed of members of the government, trade unions, employers, representatives of SMEs and craft and other tax experts.

The authorities are continuing the fight against the ''grey economy'' with the introduction of compulsory cash registers from January 2016. The authorities estimate that recent measures introduced to fight tax evasion have resulted in an increase in overall tax revenues amounting to EUR 100 million in 2015. This is largely due to increased voluntary compliance. Compulsory cash registers will be introduced from January 2016. The authorities estimate the measure will yield an additional EUR 75 million in 2016.

According to the Commission's autumn forecast debt increased considerably in 2015 and is projected to reach 84% of GDP by end 2015 before declining in 2016. This increase was due in large parts to the continued accumulation of cash buffers and pre-financing operations undertaken by the Treasury. The cash buffer is forecast to stand at 15% of GDP at end 2015. Debt is forecast to decline to just below 81% of GDP in 2016 as the authorities start to reduce the cash buffers. In 2015, the focus was on refinancing medium term debt (2017-19) at lower interest rates and extending the maturity profile of Slovenia's debt. In July 2015, Slovenia issued its first ever 30 year bond (EUR 300 million at a coupon rate of 3.125%), the longest maturity issued to date.

The upcoming health care reform will focus on financial sustainability, health system funding, purchasing and payment practices, and improving primary health care. The comprehensive review of the health care system undertaken in cooperation with the World Health Organisation (WHO) and the European Observatory on Health Systems and Policies is ongoing. The report on the health expenditure review was finalised in October while the reports covering other aspects of the comprehensive review of the health care system (funding, purchasing and payment practices, service delivery) are to be finalised in November. The government aims to adopt the Resolution on the National Health Care Plan 2015–25, a strategic document which could serve as a basis for the forthcoming health care reform, by end of 2015. Based on the comprehensive review and the Resolution, the new Health Care and Health Insurance Act and the revised Health Services Act are expected to be adopted by the government in the first half of 2016 and by the parliament in the second half of 2016. As to long term care, the authorities report that the law will be adopted by the parliament by end of 2016. Coordination between the healthcare and LTC reform is needed as the former has to clarify the financing of LTC.

The latest evaluation of the 2013 pension reform confirms positive results, but key parameters still need to be adjusted to ensure fiscal sustainability beyond 2023. Under the legislation a large majority of those who retired (90% of all) have 40 years or more of contributory period. Nevertheless, according to the 2015 Ageing Report, Slovenia's public pension system shows the second highest projected pension spending increase in the long-run. Up to 2060, public pension expenditures are projected to increase by 3.5 p.p., from 11.8 % in 2013 to 15.3 % of GDP. In terms of pension adequacy, the authorities report that according to the base case the net replacement ratio is projected to increase in the long run by 3 p.p. to about 62 %. The preparation of the White Book, which would set out policy options of a further pension reform to ensure long-term sustainability of the pension system and adequacy of pensions, has been delayed to the end of 2015.

3.2. Measures related to the restructuring of the banking and corporate sector and the high level of state ownership in the economy

The situation of the Slovenian banking sector has further stabilised. All banks have reported profits in the first half of 2015. Capital ratios are above the EU average and banks have access to sufficient liquidity. Lending has stabilised with an increase of lending to households in the first half of 2015 while lending to non-financial corporations has stagnated. Slightly increasing deposits are reducing the overall funding needs of banks. Non-performing loans continue to decrease in absolute and relative terms, albeit their level remains high, especially in the corporate sector, as well as in the SME sector.

The withdrawal of the state from the banking sector and the consolidation of the sector are gradually progressing. A sales and purchase agreement for NKBM was signed on 30 June 2015 between the government (current owner), Apollo and the EBRD (the buyer). The closing of the sale is expected by the end of 2015. The privatisation process of NLB could start in the coming months with the objective to complete the process by the end of 2017. Abanka Vipa and Banka Celje were merged on 5 October 2015 and the privatisation process of the merged entity could commence shortly. The foreign owners of two banks (Raiffeisen and Sberbank) and one branch (Zveza Bank) have announced their intention to exit the market.

In order to continue to play an important role in the restructuring of the corporate sector strong corporate governance in the BAMC needs to be maintained. In the first half of 2015 the BAMC generated EUR 173 million in cash by actively managing its loan portfolio. Recent major transactions include the sale of Pivovarna Laško, the sale of a portfolio of claims towards ACH, Adria Airways, Elan, the sale of claims and shares in Polzela and Sistemska tehnika and the successful financial and operational restructuring of Cimos. According to the authorities, a number of outstanding amendments to the BAMC law, including the extension of the lifetime from 2017 to 2022, are expected to be approved by the parliament by end of this year. The orderly wind-down of Factor Banka and Probanka is on track and plans for transferring the remaining assets of both banks to the BAMC and revoking their banking licences by the end of 2015 are currently in discussion. In October 2015, the BAMC adopted its strategy for the period 2017-22 and the top management of the BAMC was reshuffled. It is important that the new set up maintains the strong governance of the BAMC, continues the progress with the ongoing restructuring cases and dispels all doubts as regards the political interference in the work of the BAMC.

Access to finance remains a pertinent issue for Slovenian SMEs. As the number of SMEs reporting deterioration in the banks' willingness to provide loans is still one of the highest levels in the EU[14], the government is working on framework conditions that could facilitate

[14] 2014 SAFE survey from ECB

access to finance for SMEs. In April 2015 the government relaxed the promotional bank's (SID Bank) credit and eligibility conditions for SMEs and approved the extension of five credit lines with the objective to provide access to finance to additional 2500 SMEs. The Slovenian Enterprise Fund has provided funding to innovative SMEs through seed financing (seed capital in the form of convertible loans and equity capital) in combination with coaching services (so called twin projects). Both SID Bank as well as the Slovenian Enterprise Fund could play an important role in facilitating projects backed from the European Fund for Strategic Investment (EFSI fund).

The Slovenian Sovereign Holding (SSH) has been conferred with the powers to carry out its mission. In July 2015, the parliament adopted the Asset Management Strategy (Strategy) and appointed a new supervisory board for the SSH; the latter, appointed a new management board on 26 October 2015. The Strategy, which is necessary to the functioning of the SSH under the new regulatory framework[15], defines Slovenia's strategic objectives in the management of SOEs, serves as the legitimizing basis for further divestments of state assets and classifies SOEs in different categories. The strategy classifies 100 directly owned SOEs in the three categories strategic, important and portfolio. From these 100 SOEs, 55 are classified as portfolio investments (which are potentially eligible for full privatisation), while the remaining 45 SOEs qualify as strategic or important assets. However, the former represent only 4 % of direct state ownership in terms of book value of equity. Moreover, the Strategy has a limited scope as about 500 indirect state shareholdings (>25 %) are not explicitly covered by it. Proceeds expected from the management of assets in 2016 shall be specified in an annual plan to be endorsed by SSH in November 2015 and thereafter approved by the government. Taking into account international benchmarking, the SSH has prepared a draft set of asset performance criteria, subject to the government's approval, with the aim of ensuring the professional management of SOEs. A revision of the strategy is foreseen by July 2016. The next version could be more specific as regards indirect shareholdings and take into account other general economic implications like the impact of state ownership on growth, internationalisation and competitiveness of companies active in liberalised markets.

The ongoing privatisation efforts, based on a decision taken by the parliament in 2013, have made further progress.[16] The sale processes for NKBM (second biggest bank) and ELAN (a sports products manufacturer), have been completed in June and July 2015, respectively. Also, the listed food company Zito was sold in April 2015. A number of procedures have stalled or have been postponed and are now lacking a clear timeline, most notably the sale of Telekom Slovenije. The authorities have provided an updated overview of the progress made regarding the privatisation of the companies on the list of 2013 and of the indicative milestones for the different procedures currently being run by the SSH (Annex 1).

3.3. Measures related to competitiveness, business environment and institutional capacity

Slovenia's efforts to improve its competitiveness have yielded mixed results. Improvements were made in competitiveness rankings that include macroeconomic indicators

[15] The law "ZSDH-1" was published on 11 April 2014 in the Official Gazette of the Republic of Slovenia (no. 25) and entered into force after 15 days.
[16] The decision was taken on 21 June 2013 following a proposal made by the government on 15 May 2013 (Official Gazette of the Republic of Slovenia, no. 52/2013).

given that confidence increased significantly and the economy has been expanding in the period 2014-15.[17] Progress has been recognized by the IMD, where Slovenia improved overall in the world competitiveness ranking from 55 to 49 in 2015 [18] and by the World Bank, where Slovenia advanced 6 places compared to 2014. While red tape for businesses was cut mainly due to the introduction of the new insolvency framework that substantially simplified the procedure, the situation regarding spatial planning and building permits worsened.[19] Regulatory burden in several other areas such as labor, taxation, and professional services coupled with financing constraints for SMEs remain obstacles for doing business in Slovenia and negatively impact investment and growth.

Measures to improve the business environment have been adopted but the benefits for businesses have yet to materialize. Despite initial delays substantial deregulation of professions has taken place (by October 2015 the number of regulated professions decreased from 323 to 242). Slovenia is taking part in the mutual evaluation of regulated professions at the EU level. In this context, it will be assessed whether the remaining restrictions are proportionate and justified by the general interest. Furthermore, the fourth report on the implementation of the Single document[20] published in July 2015 shows that 50 % of the proposed measures have been implemented to date, while the remaining measures are due to be implemented over the period 2016-17. The implementation of some important measures (such as simplification of spatial planning and building permits) has been delayed. Public consultations on the revision of the Strategy on spatial planning were launched in mid-October; while the legal acts on construction and spatial planning are pending to be adopted by end-2015.[21] The authorities plan to upgrade the Single document into an internal and external management tool with the objective to improve the monitoring of the implementation of the measures. The measures will be assigned to clusters in line with those of the WEF Competitiveness Index and published on the portal "Stop bureaucracy".[22] Progress will be measured based on set milestones and clearly allocated responsibilities. Moreover, the Internationalization and the FDI strategy still needs to be implemented.

Public administration in Slovenia is heading towards reform. In the framework of ex-ante conditionalities for the ESI funds 2014-2020 the authorities adopted a long term strategy and a two year action plan, which aim at modernizing public administration and increasing its efficiency.[23] By mid-2016 the authorities plan to conduct a functional in-depth analysis of all administrative entities with the objective to propose an optimized model of public administration by end-2016. A particular focus of the reform is the establishment of a fully-fledged e-government system. As many public services already offer certain e-services it will be a challenge to harmonize existing models and establish full interconnectivity of existing registers, which is a basic prerequisite for the "once only" principle.

[17] The WEF's Global Competitiveness Report 2015-16 placed Slovenia on 59th place, 11 ranks higher than last year but still down 31 ranks since 2002. http://reports.weforum.org/global-competitiveness-report-2015-2016/economies/#economy=SVN
[18] http://www.imd.org/uupload/imd.website/wcc/scoreboard.pdf
[19] Slovenia comes 29th among 189 countries in the Doing Business Report 2016 from the World Bank. The time needed to obtain a building permit in Slovenia worsened (from 212.5 days in 2015 to 224.5 days in 2016). http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB16-Full-Report.pdf
[20] The Single document, adopted in October 2013, proposed more than 260 measures to cut red tape in Slovenia.
[21] http://www.mop.gov.si/si/delovna_podrocja/prostorski_razvoj_na_nacionalni_ravni/prenova_strategije_prostorskega_razvoja_slovenije/
[22] http://www.stopbirokraciji.si/birokracija-stop/
[23] The Strategy for development of public administration 2015-2020 was adopted in April 2015 and the action plan for its implementation for the period 2015-16 was adopted in July 2015. http://www.mju.gov.si/si/delovna_podrocja/kakovost_v_javni_upravi/strategija_razvoja_javne_uprave/

While the awareness of the importance of structural reforms in the area of business environment and public administration has increased, poor coordination of the stakeholders represents a possible impediment to the implementation of the adopted measures. Prompt implementation of the Single Document and the Strategy for development of public administration is at risk given that resistance to the proposed reforms exists among the relevant stakeholders. The governance of the implementation of the strategy needs to be enhanced and a change of the institutional and organizational mind-set will be required to overcome the current "silo" structure that impedes efficient cross-ministerial coordination.

The continued positive trend in the functioning of courts was largely driven by lower workload. In the first eight months of 2015 the number of pending cases in the Slovenian court system was lower by 15 % compared with 2014. This may have been to a large extent the result of a further decrease in incoming cases of approximately 10 %, given that the number of resolved cases also decreased at similar pace. A reassessment on the courts' efficiency for 2015 will be drawn when data for the entire year is available, given that current statistics (January-August 2015) include also court holidays which have an impact on total performance. The project of updating business processes in courts was extended and now also shows positive results in enforcement cases. In parallel, a number of additional measures and interventions in the judicial system are under consideration to further tackle delays in civil and criminal trials and increase transparency in the operations of the judiciary.

An ongoing evaluation exercise is expected to confirm that the new insolvency framework supports corporate restructuring. A report demonstrating the impact of the 2013 reforms concludes that increased opportunities for reorganisation are now at the disposal of businesses. Small and micro companies started using the new simplified compulsory settlement procedure. According to the authorities, the sharp drop in the number of preventive restructuring and standard compulsory settlement proceedings is attributed to the increased use of informal out-of-court restructuring agreements, supposedly incentivised by the introduction of the new tools. The length of preliminary proceedings remains relatively low from 9 to 42 days, whereas the length of main reorganisation proceedings, which is influenced by procedural deadlines, remains significant and ranges from 129 to 292 days. The recovery rate in in-court restructuring proceedings (compulsory settlement) is on average 37 %.

In September 2015, the trade unions filed a legislative proposal to the parliament to change the definition of the minimum wage. The draft law is expected to be adopted in the parliament and enter into force in January 2016. According to the proposal the allowances (for working at night, on Sunday and on holidays) would be excluded from the minimum wage, i.e. the allowances would be paid separately from the gross minimum wage. Employers have strongly opposed the proposal with the argument that the 'de facto' increase in the minimum wage will reduce industries' competitiveness. There is no conclusive evidence on the exact number of workers affected by the proposed new provision. The authorities expect limited impact both on the public and private sector (as many employers already pay allowances in addition to the minimum wage). An analysis on the socio-economic impacts of the minimum wage in Slovenia is ongoing and due to be finalised by May 2016.

Active labour market policies and targeted legislative measures aimed at supporting long-term unemployed, older and the low-skilled workers are under preparation. The government is preparing a proposal for a special intervention act (as already exists for youth) to introduce temporary exemptions for paying social security contributions for employers who employ workers older than 55 years (regardless of the type of hiring contract). The government is aiming for the legislation to be in force as of January 2016 until December 2017. Guidelines for active labour market policy measures 2016-2020 have been adopted. They focus on long-term unemployed, older and low skilled workers. In cooperation with the OECD, an activation review is in preparation, which will encompass the review of all active labour market policy measures and their impact assessment. The review is due to be completed by July 2016.

Annex 1: Progress on privatizations

State of play for on-going processes as regards the companies earmarked for privatization following a decision taken by the parliament in 2013. Progress up to 23 October 2015.			**Preparation**	**1st phase**	**2nd phase**				**Comments**
Entity** / Sector or business**	**Market value of company (EUR million)****	**% identified for disposal: State-owned % / total percentage incl. consenting shareholders*****	**Selection of financial advisor**	**Request for non-binding offer**	**Due diligence by investors**	**Request for binding offer**	**Signing of SPA**	**Closing**	
ADRIA AIRWAYS / Airline	9.9	91.58%	Feb 15	Jun 15	Jul - Sept 15	Sept 15	Nov 15*	-	In the **2nd phase**. Binding bids have been submitted. Negotiations in progress.
ADRIA AIRWAYS TEHNIKA / Maintenance, repair and overhaul	5.1	52.33%/100%	Nov 13	Feb 14	May14 / Oct 14/ Jan-Feb 15, Aug 15	Mar 15, Sept 2015	Jan 16*	-	In the **2nd phase**. Binding bids have been submitted. Negotiations in progress.
AERODROM LJUBLJANA (listed) / Airport operator	234	65%/73%	Dec 13	May 14	May 14	Jul 14	Sept 14	Oct 14	**Successfully completed.** 75.5% shares sold to Fraport AG Frankfurt Airport Services Worldwide for the price of EUR 15.9 million (as regards the 6.82% stake held by SSH) and EUR 118.8 million (as regards the 50.67% stake held by the Republic of Slovenia).
CINKARNA CELJE (listed) / Chemical processing	70.1	31%/73%	Apr 14	Nov 14	Jan-Feb 15	April 15	-	-	Due to environmental compliance issues no satisfactory bids were received. **The process was terminated** in August 2015. Relaunching has not been scheduled yet.
ELAN / Manufacturer of	0.001	75%/100%	Jun 13	Sept 13	Oct 13 – April 15	April 15	July 15	Sept 15	**Successfully completed**. 100.0 % stake sold to Wiltan Enterprises Limited and Merrill

sport products									Lynch International for the price of EUR 1,000 and the amount of illegal state aid (aprox. EUR 12 mio with interests included; recovered in September 2015).
FOTONA / Manufacturer of laser systems	15.2	70%	-	-	-	-	Jan 14	Mar 14	**Successfully completed**. 70 % shares sold to Gores Laser Holdings, L.P. for the price of EUR 12.7 million.
GOSPO DARSKO - RAZSTAVIŠČE / Organisation of fairs and exhibitions	22	31%	-	-	-	May 14	-	-	**Unacceptable offers** were received. Relaunching has not been scheduled yet.
HELIOS (listed) / Chemical industry, manufacturer of coatings	144.7	18%/73%	May 12	-	-	-	Oct 13	Apr 14	**Successfully completed**. 77.93% shares sold to Remho Beteiligungs GmbH for the price of EUR 106 million (SSH received EUR 13.8 million for its 9.54% stake).
NOVA KBM / Banking sector	250.0	100%	Jan 14	Jul 14	Aug 14 – Jan 15	Jan 15	June 15	Mar 16	**SPA for 100 % shares owned by the Republic of Slovenia was signed in June 2015**. Buyer: Bidco (80 % owned by Apollo and 20 % by EBRD). The price for 100 % stake: EUR 250 million. Completion is subject to certain conditions.
PALOMA / Manufacturer of hygienic paper products	9.0	71%	Aug 14	Mar 15	Apr-May 15	May 15	-	-	**In the process of the capital increase. In 2nd phase**. Binding offer received. Process run by Paloma. The current shareholders will exit following a take-over bid after the capital increase.
TELEKOM SLOVENIJE (listed) / Telecommunications	477.1	72%/73%	Oct 13	Jul 14	Jun 14-April 15	April 15	-	-	Following final bidder's withdrawal from negotiations **the process was terminated** in August 2015. Relaunching has not been scheduled yet

ŽITO (listed) / Food industry	64.1	27%/51%	Mar 14	Oct 14	Dec 14 – Jan 15	Jan 15	Apr 15	Oct 15	**Successfully completed**. 51,55 % shares sold to Podravka, d.d. for the price of EUR 33 million (SSH received EUR 7.9 million for its 12.26 % stake).
UNIOR (listed) / Tool producer & tourism	24.4	45%	-	-	-	-	-	-	In the **preparatory phase.** The company is heavily indebted and will first go through restructuring. The possibility is to split the non-core business (tourism programme) and proceed with the asset sale rather than privatizing the whole company.

Source: Slovenian Sovereign Holding (SSH), reporting progress as on October 23th 2015.

* Estimated dates.
** For listed companies market value on LJSE on September 30th 2015; For all the others audited book value of equity as at the end of 2014; For successfully completed transactions (Helios, Fotona, Elan, Žito and Aerodrom) and transactions with signed SPA's (Nova KBM): Purchase price.
*** State-owned refers to stakes held directly by either of the following: the Republic of Slovenia, the Slovenian Sovereign Holding ("SSH"; ex-*Slovenska odškodninska družba, d.d.* fund, "SOD"), *Kapitalska družba, d.d.* fund ("KAD"), *Družba za svetovanje in upravljanje d.o.o.* consultancy and management firm ("DSU"), and *Modra zavarovalnica d.d.* insurance company ("MZ"). Through shareholders' agreements, there have been established consortia of sellers holding larger stakes.
**** Following companies have been eliminated from the initial version of the list: (i) AERO (self-adhesive materials) which has undergone a debt-to-equity swap, thus diluting previous state owners, and has been in bankruptcy since April 2015; (ii) TERME OLIMIA (tourism) which qualifies as a new asset following a merger of September 2014 and therefore will be no longer followed under this list.

Annex 2: Overview of MIP-relevant reforms

Reduce public indebtedness			
Public finances and taxation			
Fiscal policy & fiscal governance			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in November 2015: The state budget for 2016 incorporating the Draft Budgetary Plan will be voted on by parliament in mid-November. **Expected in February 2016:** Establishment of Fiscal Council. Procedure for appointment of the members of the Fiscal Council started in September and requires 2/3 majority of the parliament. **Expected in February 2016:** Revision of Public Finance Act.	**July 2015:** Fiscal Rule Act was adopted by 2/3 majority in the parliament. **September 2015:** 2016 and 2017 budgets were adopted by the government. Target deficit for 2016 is 2.2% and for 2017 1.7% of GDP. **October 2015:** The Draft Budgetary Plan (DBP) was submitted on 15 October and at face value targets a structural improvement of 0.6% of GDP in 2016 in line with the Council recommendation.		CSR (1) – 2015 "Ensure a durable correction of the excessive deficit in 2015, and achieve a fiscal adjustment of 0.6% of GDP towards the medium-term objective in 2016. Adopt the Fiscal Rule Act and revise the Public Finance Act."
Long term sustainability of public finances, including pensions			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in December 2015: White book on the future reform of the pension system (post-2020).		**September 2015:** Evaluation of the effects of the 2013 pension reform concludes that the system is sustainable until 2023.	CSR (1) – 2015 " … advance long-term reform of the pension system..."
Social inclusion			
Healthcare			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*

Expected in November 2015: Final report of comprehensive review of health care system undertaken in cooperation with the World Health Organisation (WHO) and the European Observatory for Health Policies (5 reports). **Expected in December 2015:** Resolution on National Health Care Plan 2015 – 2025. **Expected in autumn 2015;** Adoption of Act on investment in public hospitals by parliament. The purpose of the act is to ensure a stable source of financing so that hospital investment becomes more sustainable. **Expected in July 2016**: Proposal on shortening waiting lists. Its purpose is to identify the causes of the waiting times and propose measures to prevent their occurrence. **Expected in the second half of 2016** Adoption of Health Care and Health Insurance Act and revision of the Health Services Act by parliament.		**October 2015:** Finalisation of the report on the health expenditure review.	CSR (1) – 2015 " … By end of 2015 adopt a healthcare and long-term care reform."
Long-term care			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in October 2015: Analysis of the existing system of LTC. The study will be a basis for subsequent legal acts focussing on the improvement of the current LTC system. **Expected in 2016:** Adoption of LTC act by parliament.			CSR (1) – 2015 " … By end of 2015 adopt a healthcare and long-term care reform."

Restructuring of the banking and corporate sector and the high level of state ownership in the economy			
Financial sector			
Restructuring of banking sector			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in November 2015: Adoption of amendments to the BAMC by the Parliament.	**October 2015:** BAMC adopted strategy for period 2017-22.		CSR (3) – 2015 "Bring down the level of non-performing loans in banks by introducing specific targets. Improve credit risk monitoring capacity in banks. Maintain strong corporate governance in the BAMC…"
Access to finance			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in October 2015: Programme of financial mechanisms 2015-2020. Basis for state aid and de minimis schemes. The ex-ante assessment of the programme will show the financial gap and propose the management structure for the implementation and monitoring of financial instruments.		**June 2015:** SID bank and the authorities agreed on simplification of requirements for SMEs. **October 2015**: A range of financial instruments are offered by the Slovenian Enterprise Fund (SEF) and SID bank for SMEs (grants for start-ups, seed capital, guarantees with subsidies and interest rate and direct and indirect loans).	CSR (3) – 2015"… Take measures to improve access to finance for SMEs and micro companies…"
Structural policies			
Management of state-owned enterprises (SOEs)			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in November 2015: Adoption	**July 2015:** Asset Management Strategy	**July 2015:** The National Assembly	CSR (3) – 2015 "... Adopt a strategy for

of the asset management performance criteria by the Government. **Expected in November 2015:** Adoption of annual management plan by the supervisory board of SSH. Its implementation is subject to the approval of the Government.	was adopted by the parliament.	appointed five members of the Supervisory Board of the SSH. **Oct 2015:** A new management board for SSH has been appointed.	the Slovenian Sovereign Holding with a clear classification of assets, implement an annual asset management plan and apply performance criteria."
Privatisation			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
		Ongoing privatisations on the basis of a parliament decision taken in June 2013: **July 2015:** Privatisation of ELAN (sports products manufacturer). **June 2015:** Privatisation of NKBM (bank). **April 2015:** Privatisation of ZITO (food industry).	CSR (5) – 2014 " Continue to implement the privatisations announced in 2013 with the time-frames set…"
Competitiveness, business environment and institutional capacity			
Labour market policies			
Wages and wage setting			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in May 2016: Comprehensive analysis of the economic and social effects of the minimum wage. The analysis will be the basis for the possible changes of the minimum wage. **Expected in 2016:** Comprehensive tax reform which shifts tax burden away			CSR (2) – 2015 "Review, in consultation with the social partners and in accordance with national practices, the mechanism for setting the minimum wage, and in particular the role of allowances, in light of the impact on in-work poverty, job creation and competitiveness…"

from labour (including at the minimum wage) to indirect taxes.			
Labour market reform			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in 2016: Preparation of a comprehensive tax reform which would further decrease differences in tax burden among various forms of work to address labour market segmentation. **Expected in 2016:** Analysis to evaluate judicial practice related to dismissals under permanent contracts. **Expected in 2016:** Empowerment of the Labour inspectorate to tackle segmentation on the labour market.			Recital (10) – 2015 "…An evaluation of the 2013 labour market reform shows that labour market restrictions have decreased, but structural problems persist as regards the long-term unemployment and the low employment rates of low-skilled and older workers."
Active labour market policies (ALMP)			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected by end-2015: Special intervention act to introduce temporary exemptions from paying social security contributions for employers who employ workers older than 55 years (regardless of the type of contract). The government is aiming for the legislation to be in force as of January 2016 and would be valid until December 2017. **Expected by end-2015:** Guidelines for Active Labour Market Policy Measures 2016-2020. Focus on long-term unemployed, older workers, low-skilled and young. **Expected in July 2016:** Final report on			CSR (2) – 2015 "… Increase the employability of low skilled and older workers. Take measures to address long-term unemployment and provide adequate incentives to extend working lives."

an activation review, done in cooperation with the OECD, which will encompass the review of all active labour market policy measures.			
Skills mismatch			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in 2016: Slovenia will participate in OECD project new national skills strategy in particular for more efficient anticipation of future competences needed in labour market. The project will start end-2015 and last throughout 2016.			CSR (3) – 2014 "…Address skills mismatches by improving the attractiveness of vocational education and training and by further developing cooperation with the relevant stakeholders in assessing labour market needs."
Expected in 2016: New apprenticeship law and national qualification framework act.			CSR (3) – 2014 "…Address skills mismatches by improving the attractiveness of vocational education and training and by further developing cooperation with the relevant stakeholders in assessing labour market needs."
Public administration and business environment			
Business environment			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected by end-2015: Simplification of spatial planning procedures and building permits. **Expected by mid-2016:** SME test **Expected by end-2016:** Strategy on	**April 2015:** Strategy for internationalization 2015-2020. **May 2015:** International challenges 2015-2016 (action plan for implementation of the strategy).	**September 2015:** Establishment of the Internationalization Council. **October 2013:** 54% of initially suggested measures of single document were implemented.	CSR (7) - 2014 " Reduce obstacles to doing business in Slovenia in key areas for economic development rendering the country more attractive to foreign direct investment particularly through

spatial planning.			accelerated liberalisation of regulated professions, reduction of administrative burden including leaner authorisation schemes..."
Public administration			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected by end-2015: revised e-government portal **Expected in early 2016:** upgrade of portals that serve businesses (EUGO and e-VEM).	**April 2015:** Strategy for the development of public administration 2015-2020. **July 2015:** Action plan 2015-2016 for the implementation of the strategy.	**October 2015:** Revised law on public procurement adopted in parliament **September 2015:** Implementation of full e-procurement for tenders of the Ministry of Public Administration. **January 2015:** Implementation of e-invoicing.	CSR (8) - 2014 "Take effective measures to fight corruption, enhancing transparency and accountability, and introducing external performance evaluation and quality control procedures."
Corruption			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
	January 2015: Programme of 11 perennial measures to fight corruption (zero tolerance of corruption). **May 2015:** Law on systemic investigation of infrastructural project of national importance. **August 2015:** Interim report on the implementation of the anti-corruption programme.		CSR (8) - 2014 "Take effective measures to fight corruption, enhancing transparency and accountability, and introducing external performance evaluation and quality control procedures."
Civil justice			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected by end-2015: Tackling trial absenteeism on unjustified grounds.			CSR (4) - 2015 " Ensure that the reforms adopted to improve the efficiency of civil

Expected in early-2016: Adoption of a long-term strategy for the development of the judicial system. **Forthcoming in 2016:** Establishment of a single first instance court. Facilitating alternative dispute resolution systems. In the "judicial supervisor" context it is anticipated to enable the publication of most of the judgements of courts.			justice help reduce the length of proceedings."
Insolvency framework			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
	September 2015: A new release of the evaluation report was published in the context of the continuous evaluation of the recent reforms to the insolvency framework.		CSR (6) - 2014 "…Evaluate recent changes in the insolvency legislation by September 2014, being ready to introduce any additional necessary measure."