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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 is the third specific monitoring report (the first of the second year) under the Macroeconomic Imbalances Procedure (MIP) for Slovenia.[1] It reviews the latest macroeconomic and policy developments in Slovenia since the endorsement of the country-specific recommendations (CSRs) in July 2014, which target the correction of the imbalances identified in the In-depth report (IDR) in March 2014. The cut-off date for this report is the 4th of November 2014.

Despite delays in reform implementation because of the unexpected elections, welcome progress has been made in several important areas where the necessary political decisions were already in place. Continued decisive measures in the banking sector helped ease market pressure and support the ongoing economic recovery. Albeit with a slight delay, the strategy and business plan for the Bank Asset Management Company (BAMC) have been finalised. The outcome of important structural reforms implemented in 2013 (pension and labour market reform and insolvency framework) have been monitored and evaluated with positive results.

Nevertheless, several important measures still remain to be implemented. The Fiscal Rules Act remains outstanding. The expenditure review, envisaged in the health sector has yet to be launched despite the end 2014 CSR timeline. The level of non-performing corporate loans remains elevated, weighing on the profitability of banks. The Slovenian Sovereign Holding (SSH) has been established but little progress has been made in formulating a strategy and appointing a new supervisory board for the SSH despite the end July 2014 deadline established in the law. While the corporate governance code, which will enhance the management of state-owned entities (SOEs) has been prepared it has not been adopted yet. Limited progress has been made in establishing a centralized task force and agreeing on a coherent strategy for corporate restructuring. Similarly, progress regarding the implementation of reforms to improve the business environment has been slow. Several structural reforms have been delayed, specifically the Long-Term Care Act, initially planned for November 2014, has been postponed to late 2015 and the Student Work Act, initially planned for April 2014, has been postponed to mid-2015.

The new government since taking office in September has signalled strong political commitment to regain reform momentum and to promptly adopt several key outstanding reforms. The government has reconfirmed its commitment to meeting the EDP deadline of 2015 and submitted a Draft Budgetary Plan in a timely manner. A draft Fiscal Rules Act has already been prepared and discussed with Commission staff. The government plans to adopt the latter in January 2015, following consultations with parliamentary parties as the law requires qualified majority. The government plans to launch the expenditure review in the healthcare sector in the coming months. A blueprint for the Social Agreement has been approved, with a view to reaching agreement with social partners by end 2014 in

[1] The first report has been published in November 2013 and the second one has been published in February 2014 (http://ec.europa.eu/economy_finance/economic_governance/documents/si_imbalances_epc_ report_en.pdf and http://ec.europa.eu/economy_finance/economic_governance/documents/20140224_si_ imbalances_epc_ report_en.pdf).

line with the CSR timeline. The work on the master plan for corporate restructuring and the strategy underpinning foreign direct investment is ongoing, with the objective to complete both documents by year-end.

Success will critically hinge on maintaining broad public and political support in order to promptly deliver and implement necessary reforms in key areas. The authorities now need to focus on strengthening implementation capacity, streamline initiatives and ensure a coordinated approach is adopted by all relevant stakeholders. Speeding up financial and operational restructuring of distressed companies will require strong coordination by the Ministry of Finance (MoF) and the Bank of Slovenia (BoS). While the BoS and the BAMC have played a lead role, the administration will have to adjust and strengthen its capacities in this area. In order to improve the effective implementation of existing policy instruments addressing the business environment the government will have to streamline the fragmented institutional landscape. Numerous existing strategies need to be prioritised and implemented. An update of this report is planned for February 2015, the focus between now and then should be on addressing outstanding reforms and the underlying macroeconomic imbalances.

1. Introduction

In November 2013, the European Commission presented, as part of the MIP, its third Alert Mechanism Report to underpin the selection of Member States requiring an in-depth investigation. The subsequent third In-Depth Review[2] for Slovenia examined the nature, origin and severity of macroeconomic imbalances and risks. The Commission concluded that "Slovenia continues to experience excessive macroeconomic imbalances, which require specific monitoring and continuing strong policy action". In April 2014, Slovenia submitted its Stability Programme and National Reform Programme (NRP), outlining fiscal targets and policy measures to restore economic growth and help unwind imbalances. On the basis of an assessment of these plans, the Commission proposed a set of eight CSRs[3], which were subsequently adopted[4] by the Council in July 2014. The CSRs addressed to Slovenia concern: sustainable public finance and national fiscal frameworks, the pension system, wage developments and other labour market issues, banking sector consolidation and restructuring, privatisation and governance of state-owned enterprises, corporate restructuring, including the functioning of the courts and the evaluation of the insolvency framework, better business environment and more efficient public administration. All CSRs were considered to be MIP relevant.

Moreover, the first CSR addressed to euro-area Member States[5] called for an assessment of progress in delivering on reform commitments by euro-area Member States with excessive imbalances. The Commission therefore put in place a specific monitoring of policy measures that could contribute to the unwinding of imbalances. This report assesses the main policy measures taken by Slovenia since April 2014.[6] For this purpose, a first specific monitoring mission to Slovenia was conducted on 15-17 October 2014 only three weeks after the new government took office. An update of the present report is planned for February 2015.

In order to avoid an overlap of surveillance processes, this report does not provide an assessment of Slovenia's Draft Budgetary Plan (DBP)[7] and the progress towards reducing the deficit in line with the targets recommended to Slovenia under the Excessive Deficit Procedure (EDP). A detailed assessment and opinion on the DBP will be published in November 2014 in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

[2] http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp187_en.pdf
[3] http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_slovenia_en.pdf
[4] http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_council_slovenia_en.pdf
[5] http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_council_euroarea_en.pdf
[6] Details on the measures taken can be found in the overview table in annex 3.
[7] http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/dbp/2014/2014-10-15_si_dbp_en.pdf

2. Recent macroeconomic developments

After shrinking by 1.0% in 2013, real GDP is forecast to grow by 2.4% in 2014. Slovenia is re-emerging from the recession. While potential growth has begun to recover, it remains significantly below pre-crisis levels (see Graphs 1 and 2 in Annex 1). In the first half of 2014, the economy grew considerably higher than expected (2.5% y-o-y). Growth has been predominately export-driven but domestic demand has also started to show signs of recovery. Private consumption supported by lower increase in energy and food prices (0.9% 12-month average in August 2014), improving sentiment and decreasing unemployment (8.9% in September 2014) has contributed to this improvement. The recovery in investment expenditure has been driven mainly by construction financed through EU funds.[8] Strong industrial production in the summer months points to positive growth also in Q3-2014. While national forecasters revised their recent projections considerably upwards, they forecast deceleration of economic growth in 2015 and only a marginal pick-up in 2016. The deceleration in 2015 is to be driven by a slowdown in gross fixed capital formation, mainly due to expected lower growth in public investment. However, private investment in equipment and machinery is expected to pick up progressively and support growth going forward. The Commission's 2014 Autumn Forecast shares the same growth profile but projects higher rates (1.7% in 2015 and 2.5% in 2016).

The rising current account surplus reflects relatively strong export performance as well as weak domestic demand and public and private sector deleveraging. The current account balance recorded a surplus of 4.8% in 2013 and it is expected to peak at 6.2% in 2014, before starting to decline marginally as of 2015 (see Graph 3 in Annex 1). The NIIP has improved considerably from the peak level of -45.2% of GDP in 2012 to -39% in the first half of 2014. Private sector debt is decreasing for the third consecutive year, driven almost entirely by a fall in corporate indebtedness. The non-financial corporate sector net borrowing position has turned positive since 2013. Households' indebtedness is already among the lowest in the EU, nevertheless the sector has also been actively deleveraging. The banking sector has strongly deleveraged in the last 20 months (~17% of GDP) and the loan-to-deposit ratio has fallen from 140% in 2008 to 100% in September 2014. Despite the ongoing deleveraging, which is expected to continue, domestic demand is now slowly picking up and will contribute to the expected reduction of the current account surplus.

[8] This is predominantly due to the n+2 rule with 2014-2015 as last two years for absorption from 2007-2013 programmes.

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

3.1. Measures related to public finances and public debt sustainability

The authorities submitted the Draft Budgetary Plan (DBP) in line with the 15 October deadline, which indicates a timely correction of the EDP by 2015. The government has targeted a reduction in the deficit to 2.8% of GDP in 2015 (from a projected 4.4% of GDP in 2014). The Commission Autumn Forecast 2014 envisages a deficit of 2.9% of GDP in 2015 and a further decline to 2.7% of GDP is forecasted under a no-policy change scenario in 2016. The consolidation strategy as outlined in the DBP focuses predominantly on expenditure cuts. For 2015, the government has proposed the prolongation of several temporary measures and a further reduction in the overall pay bill. Furthermore, it plans to achieve significant savings from centralisation of public procurement and provision of IT services, as well through changes in government subventions and financing of municipalities. On the revenue side, the government proposes measures that would generate an additional 0.3% of GDP in revenue[9].

According to the DBP, the general government gross debt ratio is expected to increase in 2014 to 82.2% of GDP (from 70.4% of GDP in 2013). In 2013, the public debt increased to 70.4% of GDP, from 53.4% in 2012, reflecting the recapitalisations of banks, the state aid granted to support the transfers of non-performing loans to the Bank Asset Management Company in December 2013, as well as higher debt-servicing costs and a primary deficit. In 2014, the authorities took advantage of the more favourable market conditions and have considerably frontloaded their financing needs for 2015, building up significant cash buffers in 2014. This stock of debt along with the forecast deficit for 2015 results in a further increase in the debt, projected to peak at 83.2% in 2015 (Graph 4).

The pension reform has shown initial positive results and is expected to enhance the long-term sustainability of public finances. The pension reform[10], adopted in December 2012, taking effect from January 2013, has shown positive first effects despite the reform being subject to transitional arrangements until December 2014. The Ministry of Labour, Family, Social Affairs and Equal Opportunities published a first evaluation report[11] in spring 2014. The inflow of new applicants in the first nine months of 2014 has been 45% lower than in the same period of 2012 and 10% lower than in the same period of 2013. The average retirement age increased for both men and women and 80% of new retirees completed the full duration of the statutory working life (40 years). Certain fiscal savings have been realised over 2013-14 and further containment of the pension-related expenditures is expected for the period 2014-20. Despite this reform, pension expenditure in 2060 is projected[12] to rise to

[9] This would be achieved through the introduction of excise duties on added sugar in drinks and an increase in the tax on financial services, insurance business and increased efficiency of collection.
[10] Pension and Disability Insurance Act (Zakon o pokojninskem in invalidskem zavarovanju, published in the Official Gazette of the Republic of Slovenia no. 96/12, 39/13, 99/13 - ZSVarPre-C, 101/13 - ZIPRS1415 in 44/14 - ORZPIZ206).
[11] http://www.mddsz.gov.si/fileadmin/mddsz.gov.si/pageuploads/dokumenti__pdf/dpd/Analiza.PIZ.pdf
[12] Assuming no indexation of pensions to inflation. Indexation of pensions is currently frozen and the Coalition Agreement indicates this will continue until economic growth reaches 2.5%.

about 15.5%[13] of GDP (instead of 17.2% previously projected). Despite this improvement in the projections the level remains among the highest in the EU. These more favourable projections are not solely the product of the pension reform but include also new favourable projections on fertility and migration in line with the EUROPOP2013 data. The new preliminary projections do not provide estimates for adequacy of pensions. Elements of a further pension system reform to ensure long-term stability of the pension system (post 2020) will be discussed in the context of a White book, including the establishment of a demographic reserve fund and possible reforms to the supplementary pension system.

Expenditure review in the health care sector is yet to be launched. The CSRs request the expenditure review to be launched by the end of 2014 with a view to realising budgetary savings in 2015. However, the launch of the review has been postponed and the new government now plans to launch it in the first half of 2015. The expenditure review in the health care sector would be a starting point for improving cost-effectiveness, quality and service delivery as well as to explore internal synergies and savings. Based on the results of the review the government intends to prepare a comprehensive healthcare reform until end of 2015.

Long-term budgetary pressures stem from increasing demand for long-term care (LTC). At the end of 2013, the government adopted a blueprint for the long-term care reform[14] and the related legislation was expected to be passed in November 2014, as indicated in the national reform programme. However, the adoption of the legislation has been postponed until the end of 2015. The government's new strategy is to address LTC in the framework of wider discussion on the sustainability of the healthcare sector, including the reform of the health care insurance schemes in order to ensure appropriate funding for LTC.

Slovenia achieved limited progress in improving its fiscal framework. Slovenia is the only country that has not yet transposed the directive on budgetary frameworks into its national legislation. Given the change in government the authorities are currently preparing revised draft Fiscal Rule Act, in compliance with the Treaty on Stability, Coordination and Governance in the European Monetary Union, which requires the establishment of a fiscal council and secondary European legislation on fiscal governance (in particular Council Directive 2011/85/EU on requirements for budgetary frameworks). According to the Slovenian Constitution, as amended in May 2013, the general government budget balance/surplus rule should have been adopted by end November 2013. A reasoned opinion was issued to Slovenia on 16 October 2014 requesting they notify measures to implement the Directive within two months of receipt of the reasoned opinion. A draft of the legislation was shared with the Commission on 28 October 2014 and the new government's intention is to adopt the Fiscal Rule Act in January 2015.

[13] According to the Slovenian micro simulation model.
[14] http://www.mddsz.gov.si/nc/si/medijsko_sredisce/novica/article/1966/7227/

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

Slovenia has taken further decisive policy action to stabilise the banking sector.[15] In 2014, the authorities continued to introduce measures to stabilise the banking system and the consolidation and deleveraging of the banking sector continued. The recapitalisation of the third largest bank (Abanka) with a further EUR 243 million and the transfer of EUR 1 087 million (gross value) of non-performing assets from its balance sheet to the BAMC were completed in October 2014[16]. The recapitalisation of Banka Celje is planned by end 2014. The banks' balance sheets have significantly contracted, mainly due to negative credit growth and the transfer of assets to the BAMC. Liquidity risks have eased, funding costs have decreased, and following significant losses in the past three years, the top three domestic state-owned banks have returned to profit since the beginning of 2014. Although the recent ECB comprehensive assessment identified a joint capital shortfall of EUR 65.3 million for both NKBM and NLB[17], the exercise found that the impact on 2014 of the restructuring measures already taken to improve structural profitability and the maintenance of retained earnings in the banks will cover the shortfalls identified for both banks.

The BAMC strategy and business plan have been prepared. The strategy is currently being considered by the authorities with a view of finalising and publishing it in November 2014, which implies a slight delay compared to the deadline indicated in CSR 4 (September 2014). Certain amendments to the legislation establishing the BAMC, including prolonging the BAMC's life span, still need to be adopted by the government and the Parliament. The BAMC has so far received assets with a total gross value of approximately EUR 4.5 billion (net value EUR 1.5 billion) from three state-owned banks. The physical transfers of the loan files from NLB and NKBM have been recently completed, while the Abanka transfer is still on-going and expected to be finalised in the beginning of 2015. The BAMC has acquired additional corporate exposures at market price from two smaller domestic banks in wind-down (Probanka and Factor Banka) with a view to consolidating loans to borrowers already existing in its portfolio. Further transfers from Banka Celje and potentially Gorenjska Banka are expected in 2015. About two thirds of the exposures are in default, where the objective of the BAMC will be to acquire the collateral (mostly real estate but also some equity and company assets) and sell it either individually or as part of a structured portfolio. The remaining approximately 100 cases in the portfolio of the BAMC are companies that appear to have a viable core activity but urgently need to be financially and operationally restructured.

[15] In December 2013, the state injected EUR 3.2 billion of capital in five domestic state-owned banks. For more details please consult the second monitoring report "Slovenia - Monitoring of policy progress under the Macroeconomic Imbalance Procedure", 20 February 2014, page 10-12 (http://ec.europa.eu/economy_finance/economic_governance/documents/20140224_si_imbalances_epc_report_en.pdf).

[16] State aid decision of the European Commission of August 2014: http://europa.eu/rapid/press-release_IP-14-926_en.htmn

[17] For more details, please consult information published on the ECB web page: https://www.ecb.europa.eu/ssm/assessment/html/index.en.html

The operational restructuring of the three major state-owned banks (NLB, NKBM and Abanka) and the wind-down of the two smaller domestic banks are progressing in line with the approved plans. Trustees have been appointed for each of the banks and are monitoring and regularly reporting, to the European Commission, on the implementation of the plans and the progress achieved. The winding-down plans of Probanka and Factor Banka could be finalised ahead of time, with the full repayment of deposits and the return of the banking licences still in 2015 (the original plan foresaw the winding-down by end 2016).

The privatisation of NKBM is broadly on track, while the privatisation of Abanka may be delayed. On 7 October 2014, the authorities received two binding offers for NKBM. Negotiations are now in the final stage and the government aims to sign the sales agreement by the end of the year in line with the deadline set in CSR 4. The results of the recent ECB comprehensive exercise have not affected this process. In the case of Abanka, a new plan based on a merger scenario with Banka Celje was submitted to the Commission in October 2014, in line with the commitment provided in the restructuring plan[18]. According to the new plan, the sales process of the combined bank will be launched once the merger is completed. In light of these developments since the issuance of the CSRs, there is a risk that the CSR deadline to prepare Abanka for privatisation in 2015 might be missed.

Various supervisory initiatives have been launched, but the comprehensive action plan for banks still needs to be formalised. Following the conclusion of the Asset Quality Review and Stress Test exercise conducted in 2013, the Bank of Slovenia (BoS) requested the banks involved to follow-up on the main findings and implement corrective measures by the end of 2014. BoS will perform on-site inspections to assess the proper implementation of the corrective measures in January 2015. The implementation of the recommendations made by the IMF on the operational efficiency of BoS is ongoing and will be complemented with additional measures defined in cooperation with the EBRD (e.g. efficiency of on-site and off-site supervision, methods for assessing the functioning and composition of banks' supervisory boards, internal control systems). All these initiatives are welcome but need to be incorporated into a single comprehensive action plan. This will assist in monitoring progress, reduce duplication and enhance the transparency of the process.

Corporate restructuring is progressing slowly as substantial challenges still lie ahead and continue to delay the successful financial and operational restructuring of viable companies. Despite the transfers to the BAMC and other policy actions taken to date, the levels of NPLs remaining on banks' balance sheets are still high relative to pre-crisis levels. The rising volume of NPLs in the first half of 2014 is partly the result of the introduction of a stricter, universal NPL definition (following the EBA guidance) and also the deteriorating quality of foreign assets of domestic banks[19] which were not transferred to the BAMC. The banks' workout capacity has been reinforced but specialised staff is scarce and the task of resolving both domestic and foreign NPLs is demanding. Restructuring of the over-leveraged corporate sector remains a key challenge for the banking sector and the Slovenian economy

[18] Further details available here: http://europa.eu/rapid/press-release_IP-14-926_en.htmn

[19] The foreign direct lending portfolio of domestic banks includes a diverse mixture of mostly bilateral corporate and real estate development loans in ex-Yugoslav and other Balkan countries.

as a whole. The Bank of Slovenia has played an active role in identifying the remaining shortcomings in the process as well as coordinating and monitoring individual cases. BoS' initiatives have been driving the progress on critical restructuring cases. However, a coordinated strategy for corporate restructuring is still outstanding. The lack of coordination amongst the various stakeholders, including state-owned entities as well as the different time horizons and conflicting objectives (e.g. the BAMC and the state banks in a wind-down procedure) remains a key obstacle to successful restructuring.

The progress on establishing a centralised task force and agreeing on a restructuring master plan is so far limited. This is partly due to the lack of government in recent months but also due to the lack of ownership by the ministries and other stakeholders. Going forward, a strong commitment by the new government to maintain the momentum in individual cases is required. The authorities are currently preparing a draft master plan and the intention is to have a first draft by end-November 2014.

The privatization programme is gradually recommencing as the new government has expressed its commitment thereto. A list of fifteen companies was endorsed by the National Assembly in 2013 for an expedited privatization,[20] out of which four companies have already been divested. Highlights include the completion of the sale of the airport, Aerodrom Ljubljana, in October 2014, and the fact that the sale process of the biggest asset, Telekom Slovenije, has been re-launched, including the infrastructure, with the deadline for the submission of binding offers set in January 2015. The authorities have provided an updated outline of the progress made and of the indicative timelines for the different procedures, which are run by the Slovenian Sovereign Holding (SSH) in cooperation with or by other state funds (see table in Annex 2). No progress has been made with respect to a divestment schedule beyond the initial 15 companies identified.

The legislator has empowered the Slovenian Sovereign Holding (SSH) to perform its duties in the areas of state assets management and divestment. However the SSH's asset management strategy, a new privatization plan and the appointment of a new supervisory board are still pending. In June 2014, the ex-Slovenska odškodninska družba, d.d. ("SOD") fund was transformed into SSH following the amendment of its articles of association,[21] in accordance with the new law adopted in late March 2014.[22] Several steps have been taken as regards the further corporate transformations of SSH foreseen in the law and the preparation of certain governance acts.[23] In order to perform its mandate, SSH needs to have a strategy

[20] The decision was taken on 21 June 2013 following a proposal made by the Government on 15 May 2013 (Sklep o soglasju k odtujitvi naložb Republike Slovenije, Kapitalske družbe pokojninskega in invalidskega zavarovanja, d. d., Slovenske odškodninske družbe, d. d., Modre zavarovalnice, d. d., D.S.U, družbe za svetovanje in upravljanje, d. o. o. in Posebne družbe za podjetniško svetovanje, d. d., published in the Official Gazette of the Republic of Slovenia, no. 52/2013).

[21] See announcement available at http://www.sdh.si/en-us/about-sdh/company-details.

[22] Law: Zakon o Slovenskem državnem holding-1 ("ZSDH-1"), published on 11 April 2014 in the Official Gazette of the Republic of Slovenia (No. 25/2014).

[23] In July 2014, SSH acquired 13.7% of the shares in the fund Posebna družba za podjetniško svetovanje, d d. ("PDP") from the consultancy & management firm Družba za svetovanje in upravljanje d.o.o. ("DSU"), this paves the way for the forthcoming merger, i.e. the absorption of PDP by SSH. In October 2014, SSH acquired all the assets (including shares in different companies) owned by DSU, in compliance with the timeline set forth

reflecting the country's strategic and development objectives and specifying the classification of state assets in strategic, important and portfolio investments, out of which the latter may be freely disposed of. The deadline laid down in the law for the government to table its proposal in the parliament for a strategy and a new supervisory board for SSH (July 2014) has been missed. According to the revised plans, the strategy is now expected to be decided by the government by December 2014 and endorsed by the Parliament in the first quarter of 2015, whereas the candidates for the supervisory board are to be nominated by the government in January 2015. Thereafter, the government is to approve a new divestment schedule for state assets, valid for the next 1-2 years.

The management of the state assets shall be governed by a new corporate governance code to be adopted by the Slovenian Sovereign Holding (SSH). In September 2014, the management board of SSH prepared a draft corporate governance code to replace the older one stemming from the SOD era. Its finalisation and implementation depends on it being adopted by the supervisory board, which is expected to take place in November 2014. The corporate governance code along with other tools, such as codes of conduct and compliance officers, constitute the reply of the authorities to the call for better management of state-owned enterprises.

3.3. Measures related to competitiveness, investment institutional capacity

The competitiveness of the Slovene economy has been declining since the early 2000s. In the 2014 Global Competitiveness Report[24] Slovenia ranked 70th, down 42 places since 2002[25]. Major weaknesses noted were the developments in the financial sector, the general political environment, the slow privatisation process in the past, the cumbersome business environment, in particular lengthy administrative procedures, the lack of administrative capacity and corruption (see Graph 5 in Annex 1). The European Commission's 2014 Industrial Competitiveness report[26] concludes that little has been done to address these weaknesses. Structural issues negatively affect domestic companies and make Slovenia less attractive for foreign direct investment (FDI). The stock of FDI has been stagnating since 2011 and the flow of FDI was negative in 2013.

In order to revert this trend and reap the benefits of the ongoing privatisation process, the government is preparing a medium-term programme for attracting FDI. The programme is expected to be adopted in December 2014 and will provide for a new initiative, a one stop shop for foreign investors. Potential investor will have access to all necessary information on one internet portal and will be able to request all necessary documents (including building permits) via this portal. This could significantly reduce the long waiting

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in the law. Furthermore, SSH prepared a management policy in September 2014, which determines the principles and procedures for SSH, discharging its duties and is expected to be approved by its supervisory board in November 2014.

[24] http://www.weforum.org/reports/global-competitiveness-report-2014-2015

[25] https://www.scribd.com/doc/6295861/Global-Competitiveness-Report-2002-2003-Executive-Summary

[26] http://ec.europa.eu/enterprise/policies/industrial-competitiveness/monitoring-member-states/index_en.htm

times for licences and permits. Despite the current constraints of fiscal consolidation, tax reliefs on investments[27] and customised after-entry support are offered to investors.

The effects of initiatives to cut red tape by 25% and improve the legislative and business environment need time to fully materialise. The 'Single Document'[28] lists measures in 16 different areas to reduce the administrative burden. Its implementation is broadly on track. The Single Document has simplified several processes including spatial planning, building permits and business licencing (construction permits have been facilitated by eliminating the requirement to obtain permission from the water and sewerage provider). However, the 2015 Doing Business report[29] notes that the overall time needed to obtain a construction permit remains high (212 days). A special online portal 'Stop Bureaucracy'[30] provides people/citizens with the opportunity to suggest measures for cutting red tape.

Institutional shortcomings reduce the beneficial effects of reforms on the economy. Important institutional challenges are becoming more pronounced as the Criminal Police, the Commission for Prevention of Corruption, the Competition Protection Authority (CPA) and the Court of Auditors conduct independent investigations into white-collar crimes. Given the importance of their work, the current level of resources to these bodies should be maintained in order to ensure the investigations can continue in a transparent and independent manner. The institutional challenges of the budgetary autonomy and independence of the CPA have gained wider attention with the general public but further measures could be required. First initiatives to step up the combating and prevention of corruption have been taken in March 2014, when the previous government adopted a programme with 15 measures to fight corruption.[31] The first interim report[32] was published in May 2014 and a second interim report is pending (initially planned for October, but postponed to end 2014).

Centralisation of public procurement shows initial positive results. The pilot project of common public procurement in the health care sector (part of the list of 15 measures to fight corruption) shows that substantial savings can be realised if tenders are handled centrally. During the pilot phase, three tenders of 300 medical products (or one fifth of products ordered) have been completed and costs have been cut by 12% (from EUR 75 million to EUR 57 million). After the pilot phase, the scope of common public procurement will be extended to 500 medical products. The extension of this approach to the whole health care sector and to the public sector as a whole would provide further substantial benefits. In the next phase, common technical specifications will be drafted centrally for all hospitals. The decision on how to organize the centralisation of public procurement (either in the framework of the

[27] Slovenia offers 100% tax relief on investments into R&D and 40% tax relief on investments in production facilities; both tax reliefs are applicable also to domestic businesses.

[28] http://www.stopbirokraciji.si/novice/artikel/enotni-dokument/

[29] http://www.doingbusiness.org/Custom-Query/slovenia

[30] http://www.stopbirokraciji.si/

[31] http://www.mju.gov.si/fileadmin/mju.gov.si/pageuploads/IJZ/Program_ukrepov_Vlade_RS_za_preprecevanje_korupcije-marec2014.pdf

[32] http://www.mju.gov.si/fileadmin/mju.gov.si/pageuploads/IJZ/Prvo_vmesno_porocilo_Vlade_RS_za_preprecevanje_korupcije_maj_2014.pdf

ministry or specialised agency for public procurement as foreseen in the coalition agreement) is still outstanding.

The functioning of the courts in resolving commercial, civil and enforcement cases improved, although the length of trials and the number of unresolved cases remains considerable. According to preliminary data, positive trends in the clearance rates and the disposition times have been maintained and pending cases have been further reduced.[33] However, the results regarding litigious commercial and civil cases can be partially attributed to a decreased in the number of new cases in 2014. A large surge in incoming insolvency cases (mostly insolvencies on companies and personal insolvencies), which can partly also be attributed to new and amended reorganization procedures and financial incentives for filing an insolvency introduced in 2013, has led to an increase in the pending insolvency cases, but the commercial courts seem to be reacting to accommodate the influx. In the area of enforcement, further improvements are expected as a result of recent amendments to enforcement legislation, which entered into force in July 2014.[34]

The latest legislative amendments to the insolvency framework represent progress compared to the previous regime, although the impact on debt restructuring is not yet known. In September 2014, the authorities presented the preliminary conclusions of the on-going evaluation exercise of the laws adopted in 2013 (ZFPPIPP-E and ZFPPIPP-F)[35] which amended and complemented the insolvency law.[36] The key finding of the evaluation is that the new framework allows more reorganization opportunities to companies in financial difficulties. In addition, the existence of such legal tools has reportedly offered an indirect incentive to the parties to negotiate and reach out-of-court settlements. The next evaluation report to be submitted in January 2015 is to include a quantitative assessment based on data such as the classification of debtors, the amount of debt involved, the extent of adherence to the restructuring plans and other indicators if available. Practitioners, such as judges and lawyers, could contribute in the qualitative assessment. Conclusions need to take into account the feedback by all stakeholders and authorities concerned.

Limited progress has been made in ensuring that wage developments support competitiveness and job creation. The government proposed a comprehensive Social

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[33] The pending litigious commercial cases reduced from 13.932 (end of 2013) to 11.198 (end of September 2014); in the same period, partially due to a decrease in the number of incoming cases, the clearance rate improved from 114,6% to 133,5% and the disposition time decreased from 10,6 to 9,2 months. Regarding litigious civil cases, the results in the same period (2013 compared to September 2014) have been less pronounced, with the higher value pending litigious civil cases decreasing from 9.487 to 8.956 (and disposition time remaining around 12 months), and lower value pending litigious civil cases decreasing from 12.673 to 11.211 (and disposition time decreasing from 11,6 to 9,8 months). As for the enforcement cases, the clearance rate in September 2014 was 108,6% compared to 101,9% in 2013 and pending cases were reduced from 201.705 to 176.585 in the same period.

[34] "Zakon o spremembah in dopolnitvah Zakona o izvršbi in zavarovanju" published in the Official Gazette of the Republic of Slovenia, no. 53/2014.

[35] "Zakon o spremembah in dopolnitvah Zakona o finančnem poslovanju, postopkih zaradi insolventnosti in prisilnem prenehanju – ZFPPIPP-E" published in the Official Gazette of the Republic of Slovenia, no. 47/2013; and Law "Zakon o spremembah in dopolnitvah Zakona o finančnem poslovanju, postopkih zaradi insolventnosti in prisilnem prenehanju – ZFPPIPP-F" published in the Official Gazette of the Republic of Slovenia, no. 100/13.

[36] See details in the table in Annex 3.

Agreement[37] at the end of October which is now negotiated with the social partners and is expected to be finalised by the end of 2014, the deadline set in the CSRs. In the agreement, the government proposes to examine measures that would increase the level of employment and increase competitiveness of the Slovene economy through containment of labour costs (wages grow slower than productivity). A governmental working group will review tax burden (social contributions) on employers from the different forms of contractual work arrangements. The plan is to address labour market segmentation between employment and other types of contracts through the equalisation of non-wage cost (social contributions and taxes payable by employers) of various types of contracts but keep the differences in the flexibility of the contracts (especially for student work). This study will be finalised by the end of 2014 and concrete measures will be proposed in early 2015. One such measure, awaiting the results of the study, is the Student Work Act (SWA). While the SWA was prepared by the previous government, in spring 2014, its adoption will be postponed to mid-2015 in order to link the revised arrangements for student work with the overall strategy on labour costs.

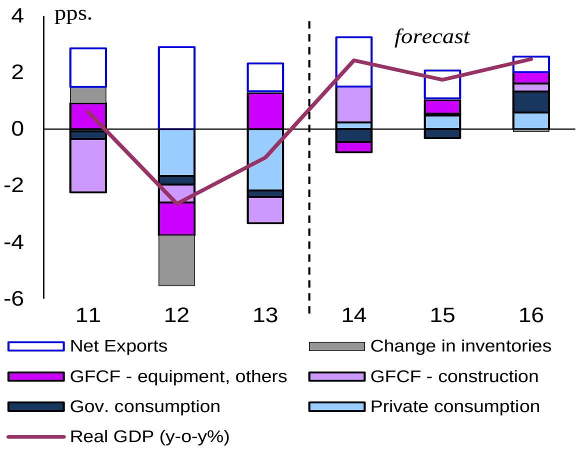
Labour market segmentation was reduced by the 2013 labour market reform[38]. The reform reduced protection for permanent contracts, simplified the dismissal procedures and reduced dismissal costs. The effects of the reform will become more evident over a longer time period, but the first evaluation of the reform was presented in April 2014 and pointed towards decreased segmentation and increasing use of permanent contracts and in-company flexibility measures (renegotiation of six collective sector-wide agreements). The latest available data from July 2014 reconfirm these findings.

[37] http://www.vlada.si/fileadmin/dokumenti/si/Sporocila_za_javnost/2014/sevl6-14.pdf

[38] Labour Market Regulation Act (Zakon o urejanju trga dela, published in the Official Gazette of the Republic of Slovenia no. 80/10) has been supplemented by three amendments of the law, namely ZUTD-A (published in Official Gazette of the Republic of Slovenia no. 21/13), ZUTD-B (published in Official Gazette of the Republic of Slovenia no. 63/13), ZUTD-C (published in Official Gazette of the Republic of Slovenia no. 100/13) and Employment Relationship Act (Zakon o delovnih razmerjih, published in the Official Gazette of the Republic of Slovenia no. 21/13 and 78/13).

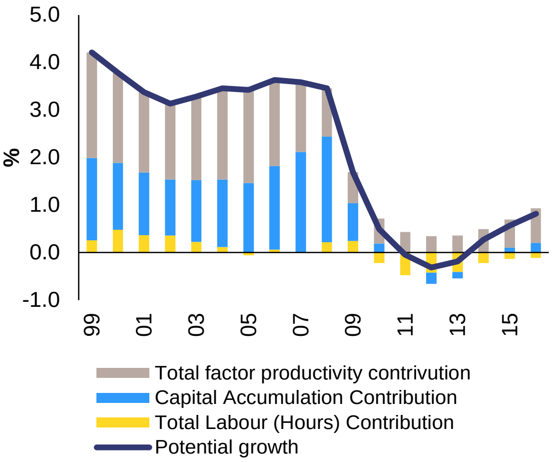
Annex 1: Graphs

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



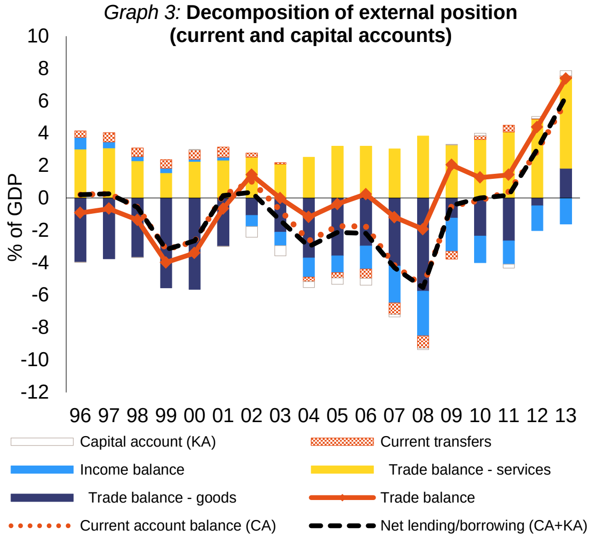
Source: DG ECFIN, Autumn Forecast

Graph 2: **Potential growth and components**



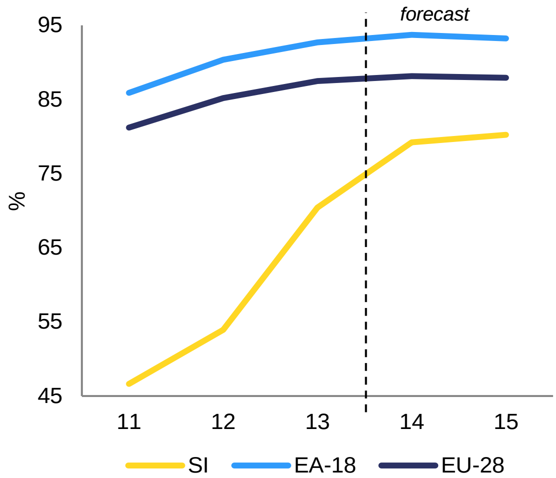
Source. DG ECFIN, Autumn forecast

Graph 3: **Decomposition of external position (current and capital accounts)**



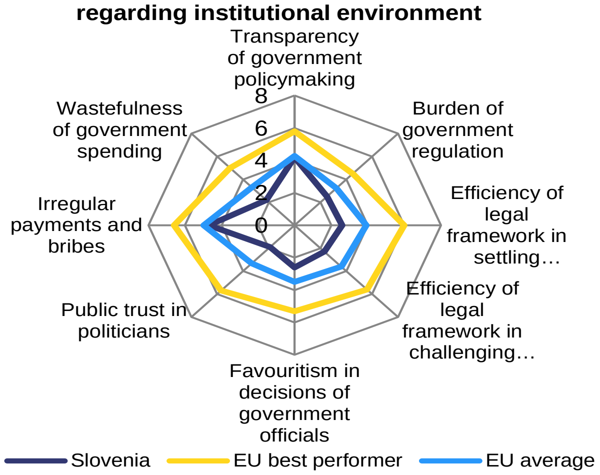
Source: Eurostat

Graph 4: **Public debt-to-GDP ratio**



Source: AMECO

Graph 5: **Selected perception indicators regarding institutional environment**



Source: World Economic Forum 2014-15 Global Competitiveness Report

Annex 2: 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.			Preparation	1st phase	2nd phase				
Entity	**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**	**Comments******
ADRIA AIRWAYS	10	72%/96%	Dec 14	Mar 15*	Apr 15*	Jun15*	Jul15*	-	In the **preparatory phase** (on-going discussions with BAMC regarding the debt and the way to proceed; estimating the price etc.). Potential bidders want to see a haircut on the debt side. In the meantime a new professional supervisory board has taken office.
ADRIA AIRWAYS TEHNIKA	5	52%/100%	Nov 13	Feb 14	May 14	Oct 14	Dec 14*	-	In **2nd phase** (after an extension for the submission of binding offers was granted). Currently negotiating with the bidders following the submission of their offers. Run by PDP (SSH is kept informed on the basis of an agreement with PDP; in this respect, it is noted that SSH appointed two members to the Board of Directors of PDP in May 2014).
AERODROM LJUBLJANA (listed)	234	65%/73%	Dec 13	May 14	May 14	Jul 14	Sep 14	Oct 14	**Successfully completed.** 75.5% shares sold to Fraport AG Frankfurt Airport Services Worldwide in consideration of EUR 15.9 million6.50 (for the 6.82% stake held by SSH) and EUR 118,8 million (for the 50.67% stake held by the Republic of Slovenia).
CINKARNA CELJE (listed)	163	31%/73%	Apr 14	Nov 14	Dec 14*	Feb 15*	Mar 15*	-	In **1st phase** (process launched on 1 Oct 14). Environmental due diligence in progress. Consortium of sellers (SSH, KD, MZ, etc.).
ELAN	37	75%/100%	Jun 13	Sep 13	Oct 13	Oct 14	Dec 14*	-	In **2nd phase**. State aid issues involved. Run by PDP (SSH is kept informed as abovementioned). In parallel to the on-going divestment process, potential investors are reportedly engaged in (separate) negotiations with the different creditors (such as BAMC and Gorenjska Banka) on the financial debt restructuring of the company.

FOTONA	15.2	70%	-	-	-	-	Jan 14	Mar 14	**Successfully completed**. PDP has already received EUR 12.7 million, and may receive another EUR 0.4 million in two years after closing, if additional conditions are fulfilled.
GOSPO DARSKO - RAZSTA – VIŠČE	22	31%	-	-	-	May 14	-	-	**Temporarily suspended** due to the submission of unacceptable offers.
HELIOS (listed)	139	18%/73%	May 12	-	-	-	Oct 13	Apr 14	**Successfully completed**. 73.1% shares sold to Remho Beteiligungs GmbH in consideration of EUR 13.8 million (for the 9.54% stake held by SSH).
NOVA KBM	560	100%	Jan 14	Jul 14	Aug 14	Oct 14	Dec 14*	-	In **2nd phase** - binding offers received and draft share purchase agreements sent to bidders. Negotiations on the deal to be finalized following the results of the asset quality review exercise.
PALOMA	6.5	71%	Aug 14	Dec 14*	Jan 15*	Feb 15*	Apr 15*	-	In the **preparatory phase.** Assessing needs for new capital and preparing/determining the structure of the transaction (capital increase).
TELEKOM SLOVENIJE (listed)	955	72%/73%	Oct 13	May 14	Jun 14-Dec 14	Jan 15*	Feb 2015*	-	In **2nd phase** (updating the data room for the due diligence). The process has just restarted after being put on hold on government plans to divide the asset (in infrastructure and services). New government has confirmed that it no longer has these plans. A new time table of the sales process has been prepared. The company is performing very well and is expected to attract substantial interest.
TERME OLIMIA BAZENI & TERME OLIMIA	27	28,8%/75%	Dec 14*	Jun 15*	Jul 15*	Sep 15*	Oct 15*	-	Companies merged in September 2014 into one company, Terme Olimia. Considered as a new asset. As a result thereof, process is expected to be treated under the Strategy of the SSHA-1 (in the new wave of privatizations), and will be **no longer followed under this list**.
ŽITO GROUP (listed)	46	27%/51%	Mar 14	Oct 14	Nov 14*	Jan 15*	Mar 15*	-	In **1st phase** (process launched in Oct 14). The 2nd phase will be launched as soon as a process letter is sent to the selected investors.
AERO	2.2	1%	-	-	-	-	-	Oct 14	**Debt to equity swap and change of ownership** (it qualifies as a **successful completion** since it will be no longer followed under this list). A decrease of share capital and a debt-to-equity

									conversion took place in Oct 14. State–owned % decreased from 32.60% to 1.44%. The company is now owned by its former creditors / banks, which will be in charge of any further divestment initiatives.
UNIOR (listed)	22,8	45%	-	-	-	-	-	-	In the **preparatory phase.** The company is heavily indebted and will first go through restructuring. The plan is to split the non-core business (tourism programme) and do an asset sale thereof rather than privatizing the whole company.

Source: Slovenian Sovereign Holding (SSH), reporting progress as on 4 November 2014.
* Estimated dates.
** For listed companies market value on LJSE on October 27th 2014, for all the others audited book value of equity as at the end of 2013.
*** 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"), *Posebna družba za podjetniško svetovanje, d d.* fund ("PDP"), *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.
**** The acronyms used in the table stand for the entities mentioned above. In addition, "BAMC" stands for the Bank Asset Management Company, "KD" stands for *KD Skladi druzba za upravljanje, d.o.o.*

Annex 3: Overview of MIP-relevant reforms

MIP-relevant recommendation	Measures announced in NRP	Deadline NRP	Progress
I. Measures related to public finances and public debt sustainability			
[CSR 1] Reinforce the budgetary strategy with specified structural measures, for the year 2014 and beyond to ensure correction of the excessive deficit in a sustainable manner by 2015 through the achievement of the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. A durable correction of the fiscal imbalances requires a credible implementation of ambitious structural reforms to increase the adjustment capacity and boost growth and employment.	• Slovenia will pursue its fiscal objective of achieving a general government deficit target of 3.2% of GDP in 2014 and 2.4% in 2015, excluding any one-off expenditure. • To attain this scenario in the medium-term fiscal effort, the strategy sets out a combination of economic policy and structural and institutional changes, including extending the duration of austerity measures in the area of wages and social transfers until active working population reaches 850,000.	N/A	• **15 October:** The authorities submitted the Draft Budgetary Plan (DBP). The government projects the deficit in 2014 to reach 4.4% of GDP and decline to 2.8% of GDP in 2015 predominantly through expenditure measures. • **24 October:** The government submitted additional details of the new measures underpinning the DBP. On the expenditures side that would, in total, bring EUR 607 million savings and measures on revenue side that would bring EUR 108 million additional revenues.
[CSR 1] After the correction of the excessive deficit, pursue a structural adjustment of at least 0.5% of GDP each year, and more in good economic conditions or to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path.	• Maintain fiscal stability by achieving a structurally balanced budget by 2017 and enhance medium-term fiscal planning.	N/A	• **15 October:** According to the DBP, the general government gross debt ratio is expected to increase in 2014 to 82.2% of GDP (from 70.4% of GDP in 2013) and peak at 83.2% in 2015.
[CSR 1] To improve the credibility of fiscal policy, complete the adoption of a general government budget balance/surplus rule in structural terms, make the medium-term budgetary framework binding, encompassing and transparent, and establish the necessary legal basis for a functioning fiscal council defining its remit within the budgetary process and introducing clear procedural arrangements for monitoring budgetary outcomes as soon as possible.	• Adoption of the Fiscal Rule Act (FRA) in 2014. • Establishment of the Fiscal Council as an independent government authority. • Adoption of the Public Finance Act will follow the FRA and will include detailed provisions defining the drafting, implementation and monitoring of the budget of all general government institutional units.	2014	• **May 2013:** The Slovenian Constitution was amended to provide the basis for the general government budget balance/surplus rule. • **October 2014:** Slovenia is the only country that has failed to transpose the directive on budgetary frameworks. A reasoned opinion was issued to Slovenia on 16 October 2014 requesting that they notify measures to implement the Directive within two months of receipt of the reasoned opinion. A draft of the legislation was shared with the Commission on 28 October.
[CSR 1] Launch a comprehensive review of expenditure covering state and local government levels, direct and indirect budget users and municipality-owned providers of utilities and services in the area of health care by the end of	• NRP does not mention expenditure reviews. • NRP does mention the e-Health project that will contribute to the rationalisation of health care and introduction of central public procurement (purchasing medicines, medical devices and	N/A	• **No progress.**

MIP-relevant recommendation	Measures announced in NRP	Deadline NRP	Progress
2014 with a view to realising budgetary savings in 2015 and beyond.	equipment) in the health sector by July 2014.		
[CSR 2] Agree measures to ensure the sustainability of the pension system and adequacy of pensions beyond 2020, encompassing adjustments of key parameters, such as linking the statutory retirement age to gains in life expectancy and encouraging private contributions to the second pillar of the pension system.	• Analysis of the effects of the 2012 pension reform up to the end of April 2014. • Preparation of the public debate on the pension and disability insurance system after 2020 (so called White book).	N/A	• **April 2014:** first evaluation pointed towards a reduced inflow of new pensioners and an increase in average working age. • **September 2014:** new data confirm these findings. Along with new projections on fertility and migration, the reform shows important fiscal savings.
[CSR 2] Contain age-related expenditure on long-term care by targeting benefits to those most in need and refocusing care provision from institutional to home care.	• The Government adopted the blueprint for long-term care, personal assistance and long-term care insurance in September 2013 and the law is to be adopted in November 2014.	November 2014	• **September 2013:** The blueprint for LTC, as adopted under the previous government, remains valid, however the adoption of the law will be postponed to the end of 2015.
II. Measures related to restructuring of the economy, SOEs and banks			
[CSR 4] Complete the privatisation of NKBM in 2014 as planned, prepare Abanka for privatization in 2015, continue the prompt implementation of restructuring plans of the banks in receipt of state aid and the necessary consolidation of the banking sector.	• Fully implement restructuring programmes for NLB and NKBM by the end of 2017. • Sale of state ownership in banks will be done in transparent manner and within the time frame set • Strategy of gradual consolidation of the banking system in terms of a reduction of the total banking system assets and number of banks. • Implementation of measures to strengthen the stability of banks that will not manage to cover the capital deficit: recapitalisation and transfer of assets from Banka Celje is foreseen in 2014. For Gorenjska banka, the Government extended the commitment for potential recapitalisation.	NKBM end of 2016 and NLB end of 2017	• **October 2014:** The operational restructuring of the three major state-owned banks (NLB, NKBM and Abanka) and the wind-down of the two smaller domestic banks (Factor Banka and Probanka) is progressing in line with the approved plans. • **October 2014:** The privatisation of NKBM is on track. The authorities received 2 binding offers. • **October 2014:** There is a risk that the deadline for Abanka will be missed. A new plan based on a merger scenario with Banka Celje has been submitted to the Commission. According to the plan the sales process of the combined bank will be launched once the merger is completed.
[CSR 4] Based on the lessons from the asset quality review and stress test finalise the comprehensive action plan for banks in August 2014, including specific measures to improve governance, supervision, risk management, credit approval process and data quality and availability.	• Implementation of the Capital Requirements Directive, CRDIV and further definition of elements of prudential requirements; • Implementation of the Regulation conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions and Bank Recovery and Resolution Directive by drafting a new banking act. • The establishment of the comprehensive credit bureau in the framework of the Bank of Slovenia	N/A	• **October 2014:** Various supervisory initiatives have been launched. The comprehensive action plan for banks still needs formalisation. • **October 2014:** Amendments to the banking legislation, including the transposition of CRD IV, the establishment of a Resolution Fund and a revision of the rules for the treatment of connected clients are currently in public consultation.

MIP-relevant recommendation	Measures announced in NRP	Deadline NRP	Progress
	will improve transparency and reduce the asymmetry of banking data.		
[CSR 4] Reinforce banks' capacity to work out NPL by strengthening the internal asset management and restructuring units.	N/A	N/A	• **October 2014:** Despite the transfers to the BAMC, the NPLs remaining on banks' balance sheets are still high relative to pre-crisis levels.
[CSR 4] Clarify the mandate of the BAMC by publishing a comprehensive management strategy and business plan by September 2014, detailing its role in restructuring of its assets, redemption targets, budgets, asset management plans and expected returns, while ensuring adequate resources.	• The BAMC management board will adopt a five-year business plan defining the target return on equity, overall return on assets and the profitability. The business plan must also include a plan for the disposal of BAMC assets. The management board must also adopt a financial plan with a timetable for all BAMC revenues and expenditure in a financial year and a plan for mobilising financial resources. The business strategy and financial plan must be prepared in such a way as to maintain sufficient liquidity.	September 2014	• **October 2014:** BAMC strategy and business plan have been completed. The strategy is currently under consultation between the authorities with a view to finalisation and publication in November 2014, which implies a slight delay compared to the deadline indicated in CSR 4 (September 2014). Certain amendments to the legislation establishing the BAMC, including prolonging the BAMC's life span, need to be adopted by the government and the Parliament.
[CSR 5] Continue to implement the privatisations announced in 2013 with the time-frames set.	• Implementation of the approved privatisation procedures in accordance with the time frame for the 2014-2015 period. • The sale procedure for 15 companies approved by the Slovenian National Assembly is running according to the set time frame.	N/A	• **October 2014**: Four companies from the list have been divested, including Aerodrom Ljubljana. The sale of Telekom Slovenije has been re-launched. • The authorities have provided an updated timeline and milestones in the on-going processes (see Annex 2).
[CSR 5] Adopt a strategy for the Slovenian Sovereign Holding with a clear classification of assets in line with the timeline and definitions established in the 2014 Slovenian Sovereign Holding Act.	• To ensure a transparent management system for state-owned assets, SSH has been established in April 2014; • Adoption of the management of state-owned assets strategy by July 2014.	July 2014	• **April – July 2014:** A draft strategy has been prepared by the Ministry of Finance and SSH shortly after the adoption of the law, however it has not yet been approved by the government and therefore it has not been submitted to the Parliament for its approval.
[CSR 5] By November 2014, commit to a short-term (one- to two- year horizon) divestment schedule for a number of well-targeted assets with a clear time scale.	N/A	N/A	• **No progress.**
[CSR 5] Make SSH fully operational as a vehicle for the management of assets remaining in state ownership and divestment of the assets earmarked according to the management acts, within the time frame stipulated by the law.	• To make the SSH fully operational, the management of state-owned assets strategy will be adopted. The document should be adopted by the end of July 2014.	July 2014	• **April – July 2014:** See above as for the Strategy. • **September 2014:** The SSH management board adopted a draft asset management policy, which needs to be further endorsed by its supervisory board. • **July 2014 & October 2014:** SSH acquired DSU's assets (in PDP and other companies). • **No progress** as to the appointment of a new supervisory board.

MIP-relevant recommendation	Measures announced in NRP	Deadline NRP	Progress
[CSR 5] By September 2014, adopt and implement a corporate governance code for state-owned enterprises to ensure professional, transparent and independent management.	• Adoption of the Corporate Governance Code for state-owned companies by the end of September 2014.	September 2014	• **September 2014:** A new draft corporate governance code was prepared by the management board of SSH in September 2014. Its adoption by the supervisory board of SSH is expected in November 2014.
[CSR 6] Finalise a corporate restructuring master plan by the end of 2014 with clear priorities and effective implementation process.	N/A	N/A	• **October 2014:** The progress on agreeing on a restructuring master plan is so far limited.
[CSR 6] Set up a central corporate restructuring task force monitoring and coordinating the overall restructuring process, providing the necessary expertise, guidance and advice, and facilitating the negotiation process between all stakeholders involved.	• The Government is planning to establish a working group with the aim of monitoring, promoting and coordinating restructuring processes with a scope of drawing up proposals for legislation, coordination of restructuring processes, attracting foreign equity and debt financing, participation in NPL transfers, supervision of restructurings and so on. One of its first tasks will be to draw up an action plan on corporate governance in restructured companies.	N/A	• **October 2014:** The progress on establishing a central corporate restructuring task force is so far limited. • **October 2014:** The lack of coordination amongst the various stakeholders, including state-owned entities with different time horizons and conflicting objectives (e.g. the BAMC and the state banks in a wind-down procedure) remains a key bottleneck for restructuring.
[CSR 6] Establish a list of the most urgent restructuring cases, while maximising the recovery value for creditors.	N/A	N/A	• **October 2014:** The Bank of Slovenia has played an active role in identifying the remaining shortcomings in the restructuring process as well as coordinating and monitoring individual cases based on a priority list they have identified. • **October 2014:** The BAMC has approximately 100 cases in its portfolio that appear to have a viable core activity but urgently need to be financially and operationally restructured. Work on restructuring these companies is on-going.
[CSR 6] Promote the use of the available legal mechanisms and international best practices to all stakeholders in the restructuring process.	N/A	N/A	• **October:** Despite the positive initiatives by the BoS and the numerous ideas being discussed, implementation is lagging behind and the corporate restructuring process remains uncoordinated.
III. Measures related to the institutional capacity, competitiveness and investment			
[CSR 3] Following consultation with social partners and in accordance with national practices, develop a comprehensive Social Agreement (SA) by the end of 2014 ensuring that wage developments, including the minimum wage, support competitiveness, domestic demand and job	• Possible increase of the role of collective bargaining over institutions influencing labour costs and flexibility, with the aim of creating jobs without aggravating the social status of low-income employees. • Comparison of costs of individual forms of work	2014	• **October 2014:** the government adopted its proposal for the Social Agreement 2014-2018. • **October 2014:** the government started negotiations with social partners and civil servants trade unions over intended cuts into civil servants wage bill.

MIP-relevant recommendation	Measures announced in NRP	Deadline NRP	Progress
creation. Redefine the composition of the minimum wage and review its indexation system.	and identification of measures that ensure their comparability.		
[CSR 3] Take measures for further decreasing segmentation, notably addressing the efficiency of incentives for hiring young and older workers and the use of civil law contracts.	• Evaluation of amended labour market regulations. • Implementation of the Youth Guarantee and the Youth Initiative. • Adoption of the Prevention of Undeclared Work and Employment Act (end of April 2014).	N/A	• **April 2014:** adoption the Prevention of Undeclared Work and Employment Act • **August 2014:** entry into force of stricter inspection procedures.
[CSR 3] Adopt the Act on Student Work.	• Adoption of the act governing the temporary and occasional work of students, which provides a new regulatory framework for student work (June 2014);	June 2014	• **April 2014:** the draft of the Student Work Act has been prepared but it will be postponed to mid-2015 in order to match it with the overall strategy.
[CSR 3] Prioritise outreach to non-registered young people ensuring adequate public employment services capacities.	N/A	N/A	• **October 2014:** project co-financed by the European Social Fund will make public employment services more user friendly.
[CSR 3] To increase employment of low-skilled and older workers, adapt the working environment to longer working life and focus resources on tailor made active labour market policy measures, while improving their effectiveness.	• Targeted measures of the Active Employment Policy for the most vulnerable groups in the labour market: young, long-term unemployed, elderly, less educated.	N/A	• **October 2014:** The progress on addressing labour market mismatches has been so far limited
[CSR 3] Address skills mismatches by improving the attractiveness of vocational education and training and by further developing cooperation with the relevant stakeholders.	N/A	N/A	• **October 2014:** The progress on addressing skills mismatch has been so far limited.
[CSR 7] Reduce obstacles to doing business in Slovenia in key areas for economic development rendering the country more attractive to foreign direct investment particularly through accelerated liberalisation of regulated professions, reduction of administrative burden including leaner authorisation schemes.	• Slovenia is active in terms of simplify business environment and eliminating administrative barriers. • Proposals for reform of regulated services and professions with the aim of reducing deregulation and regulations on the recognition of professional qualifications. • Reduced use of subsidies and grants, increase used of refundable sources of financing. Subsidies will be limited only to narrow target groups and purposes (initial growth stage, risk sharing in early research and development).	N/A	• **October 2014:** Out of 256 measures proposed by the Single document, 64 have been implemented, 104 are in the process of being implemented and 86 are pending for action. • **Forthcoming in December 2014:** strategy on FDI
[CSR 7] Ensure sufficient budgetary autonomy for the Competition Protection Agency and increase its	• The CPA has been restructured and can implement its tasks (financial plan was not		• **October 2014:** CPA is formally budgetary autonomous and institutionally independent.

MIP-relevant recommendation	Measures announced in NRP	Deadline NRP	Progress
institutional independence.	reduced) in the framework of the adopted programme.		
[CSR 7] Streamline priorities and ensure consistency between the 2011 Research and Innovation and the 2013 Industrial Policy Strategies with the upcoming strategies on Smart Specialisation and Transport, ensure their prompt implementation and assessment of effectiveness.	N/A		• **August 2014:** 2nd draft of Smart Specialization, which will be a platform the development Slovenia and selection of five priority thematic areas, which would promote public-private partnerships and exports.
[CSR 8] Take effective measures to fight corruption, enhancing transparency and accountability, and introducing external performance evaluation and quality control procedures.	N/A		• **March 2014:** Government programme of 15 measures in order to fight corruption. • **May 2014**: interim report on realisation of the programme. Four measures (laws) have been adopted, other are in the process of implementation.
[CSR 6] Further reduce the length of judicial proceedings at first instance in litigious civil and commercial cases including cases under the insolvency legislation, and the number of pending cases, in particular enforcement and insolvency cases.	• Activities for greater efficiency in the work of all judicial authorities (courts, prosecution, state attorney's office, enforcement officers, notaries, court experts, certified appraisers and court interpreters) will continue in 2014-15. • Training of judges to be enhanced through the Strategy of Human Resource Development in Justice and the Judicial System up to 2020. • Field of enforcement will be digitalised to be carried out relatively fast and at a low cost.		• **July 2014:** A new law introducing amendments in enforcement procedures entered into force on 30 July 2014. • **October 2014:** Preliminary Court statistics for the period January – September 2014 released (positive trends are maintained, however length of trials and backlogs remain significant).
[CSR 6] Evaluate recent changes in the insolvency legislation by September 2014, being ready to introduce any additional necessary measure.	N/A		• **September 2014:** Preliminary findings of an on-going evaluation exercise by the authorities. According to its preliminary findings, there has been an increase in initiated reorganization proceedings (156%) during the period January – August 2014 compared to 2013. At the same time, the rate of successfully terminated proceedings increased by 100%.