



EUROPEAN COMMISSION  
DIRECTORATE GENERAL  
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 20 May 2020

**Assessment of the 2020 Stability Programme for  
Slovenia**

*(Note prepared by DG ECFIN staff)*

## CONTENTS

EXECUTIVE SUMMARY.....	3
1. INTRODUCTION .....	4
2. MACROECONOMIC DEVELOPMENTS .....	4
3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS .....	6
3.1. Deficit developments and medium-term strategy and targets .....	6
3.2. Measures underpinning the programme .....	8
3.3. Debt developments .....	12
3.4. Risk assessment.....	13
4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT .....	13
4.1. Compliance with the deficit criterion .....	13
4.2. Compliance with the debt criterion.....	14
4.3. Compliance with the required adjustment path towards the medium-term budgetary objective in 2019 .....	14

## EXECUTIVE SUMMARY

- On 6 April 2020, the Commission provided guidelines to the Economic and Financial Committee on how the format and content of the 2020 Stability and Convergence Programmes can be streamlined in light of the exceptional circumstances related to the Covid-19 pandemic. This assessment takes into account the severe constraints that Member States faced in providing the information usually required in their Programmes. The assessment focuses on the near term in light of the high uncertainty attached to the projections.
- Slovenia's economy grew by 2.4% in 2019. In 2020, the economy is expected to contract by 8.1% and 7.0% based on the 2020 Stability Programme and the Commission 2020 spring forecast, respectively. The 2020 Stability Programme forecasts a weaker recovery of 3.5% in 2021, compared to the Commission projection of 6.7%.
- Based on the 2020 Stability Programme, the headline balance is planned to deteriorate significantly from a surplus of 0.5% of GDP in 2019 to a deficit of 8.1% of GDP in 2020, above the Commission projection of 7.2% of GDP. According to the Commission 2020 spring forecast, the deficit is expected to improve to 2.1% of GDP in 2021.
- The main policy measures adopted to mitigate the impact of the COVID-19 pandemic on employment, household real income and liquidity shortages include higher healthcare spending, short-term work schemes for temporarily laid-off employees and the self-employed, compensations for workers remaining in the workplace, financial aid for vulnerable groups, crisis bonus for public sector employees and tax deferrals. The 2020 Stability Programme estimates those measures to have a negative budgetary impact of 4.4% of GDP. The liquidity measures, without budgetary impact, are estimated to amount to 5.1% of GDP, including 4.8% of GDP of guarantees. The Commission estimates the budgetary impact of the measures to be somewhat lower in 2020, at 3.9% of GDP, as all tax deferrals are considered liquidity measures without budgetary impact.
- The debt-to-GDP ratio decreased from 70.4% of GDP in 2018 to 66.1% of GDP in 2019. The 2020 Stability Programme plans the general government debt to increase significantly to 82.4% of GDP in 2020, slightly below the Commission projection of 83.7% of GDP. In 2021, the Commission forecasts the public debt to reach 79.9% of GDP.
- The macroeconomic and fiscal outlook are affected by high uncertainty due to the outbreak of the COVID-19 pandemic.

## 1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2020 Stability Programme<sup>1</sup> of Slovenia covering the period 2020-2021 (hereafter called the Programme), which was submitted on 30 April 2020<sup>2</sup>. The note also assesses Slovenia's compliance with the preventive arm of the Stability and Growth Pact in 2019. The government approved the programme on 30 April 2020 and it was adopted by the Parliament on 11 May 2020.

Slovenia is currently subject to the preventive arm of the Stability and Growth Pact. As the debt ratio was 66.1% of GDP in 2019, exceeding the 60% of GDP reference value, Slovenia is also subject to the debt reduction benchmark.

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact. The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. In its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit the activation of the clause. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Slovenia is among those Member States who have triggered national escape clauses to suspend budgetary constraints set by their national fiscal rules, as part of the effort to accommodate the budgetary implications of the outbreak.

## 2. MACROECONOMIC DEVELOPMENTS

Slovenia's real GDP grew by 2.4% in 2019, somewhat lower than the 4.1% growth recorded in 2018. The economy slowed down in the second half of the year compared to the first half when growth momentum was higher. Growth was broad-based, with the strongest contribution arising from domestic demand. Private consumption grew by 2.7%, public consumption by 1.6% and investments by 3.2%.

---

<sup>1</sup> The Stability Programme submitted by Slovenia does not indicate that it also constitutes the national medium-term fiscal plan required under Article 4(1) of Regulation 473/2013.

<sup>2</sup> The Stability Programme contains only short-term budgetary projections, in line with the guidelines for a streamlined format of the 2020 Stability and Convergence Programmes in light of the COVID-19 outbreak, provided by the Commission services on 6 April 2020. The English version of the Stability Programme was submitted on 8 May 2020.

Net exports contributed positively to growth (0.5 percentage points of GDP), with exports growth (4.4%) slightly higher than imports growth (4.2%). Slovenia's current account surplus reached 6.8% of GDP in 2019. Employment grew by 2.4% and the unemployment rate fell to 4.5%, down from 5.1% in 2018.

On 12 March 2020, Slovenia declared the epidemic due to the increasing number of cases of coronavirus infection. The country closed schools and educational institutions as well as recreational and entertainment facilities. Public transport was fully closed and border crossing restricted, while cargo transport was continuing. For consumers, only food stores, pharmacies and some vital services were allowed to operate. However, production was mostly able to continue, only limited by the constraints deriving from the lack of childcare and public transport facilities. People were generally prohibited of movement outside the municipality of their residence, except for work. Consistently with the measures taken, the number of cases and deaths (adjusted for population) has been among the lowest in the EU. The Parliament decided on extensive measures to alleviate the difficulties for the companies and to minimise the impact on employment. Also liquidity measures were provided (see Section 3.2). Nevertheless, in April economic confidence and sentiment indicators declined to the values previously encountered in 2009.

The 2020 Stability Programme projects real GDP to decline by 8.1% in 2020. Based on the programme, investments as well as exports would decline by one fifth in 2020 while private consumption would decrease by a more moderate 3.1%. In 2021, the economy is expected to recover by 3.5%. Private consumption is expected to decline further, whereas investment and exports are forecast to recover about a half of the losses of 2020.

Based on the Commission 2020 spring forecast (hereafter Commission forecast), real GDP is expected to decline by 7% in 2020. Compared to the 2020 Stability Programme, less impact is expected from the fall of exports and investments and a more negative impact is expected from the fall of private consumption. In 2021, the recovery would be much stronger than projected in the 2020 Stability Programme.

The macroeconomic scenario underpinning the 2020 Stability Programme was prepared by the Institute of Macroeconomic Analysis and Development (IMAD), which is an independent government office.

**Table 1: Comparison of macroeconomic developments and forecasts**

	2019		2020		2021		2022	2023
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	2.4	2.4	-7.0	-8.1	6.7	3.5	n.a.	n.a.
Private consumption (% change)	2.7	2.7	-6.1	-3.1	6.3	-0.4	n.a.	n.a.
Gross fixed capital formation (% change)	3.2	3.2	-13.0	-18.5	11.7	7.0	n.a.	n.a.
Exports of goods and services (% change)	4.4	4.4	-12.4	-19.4	13.5	10.0	n.a.	n.a.
Imports of goods and services (% change)	4.2	4.2	-11.4	-19.4	14.8	7.8	n.a.	n.a.
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	2.3	2.3	-4.8	-4.6	5.3	1.2	n.a.	n.a.
- Change in inventories	-0.4	-0.4	-0.3	-1.7	1.0	0.0	n.a.	n.a.
- Net exports	0.5	0.5	-1.9	-1.8	0.3	2.2	n.a.	n.a.
Output gap <sup>1</sup>	3.0	2.8	-5.7	-7.0	-1.9	-6.0	n.a.	n.a.
Employment (% change)	2.4	n.a.	-2.7	n.a.	2.0	n.a.	n.a.	n.a.
Unemployment rate (%)	4.5	n.a.	7.0	n.a.	5.1	n.a.	n.a.	n.a.
Labour productivity (% change)	0.1	n.a.	-4.4	n.a.	4.6	n.a.	n.a.	n.a.
HICP inflation (%)	1.7	1.6	0.5	0.7	1.2	2.7	n.a.	n.a.
GDP deflator (% change)	2.4	2.4	2.1	3.3	0.9	1.4	n.a.	n.a.
Comp. of employees (per head, % change)	4.5	n.a.	1.6	n.a.	1.2	n.a.	n.a.	n.a.
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	6.5	n.a.	6.4	n.a.	6.4	n.a.	n.a.	n.a.

Note:

<sup>1</sup> In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Commission 2020 spring forecast (COM); Stability Programme (SP).

### 3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

#### 3.1. Deficit developments and medium-term strategy and targets<sup>3</sup>

In 2019, the Slovenian general government surplus decreased slightly from 0.7% of GDP in 2018 to 0.5% of GDP. The structural deficit deteriorated from 0.6% of GDP in 2018 to 0.8% of GDP in 2019. The outturn headline surplus was 0.4 and 0.3 percentage points of GDP lower than projected in the 2019 Stability Programme and the 2020 Draft Budgetary Plan, respectively. Compared to the 2019 Stability Programme, the social transfers turned out to be significantly higher-than-expected. The lower outturn compared to the 2020 Draft Budgetary Plan is mainly explained by lower-than-expected revenues from indirect taxes, capital and other current revenue.

In 2020, the Stability Programme projects a headline deficit of 8.1% of GDP, as a result of a strong drop in revenues due to the economic contraction and an even

<sup>3</sup> In light of the activation of the general escape clause, the measures taken in response to the coronavirus outbreak in 2020 are not treated as one-off and are thus not excluded from the estimation of the structural budget balance.

stronger increase in expenditure. The latter is largely driven by the interplay of automatic stabilisers and the adopted temporary measures to mitigate the economic and social impact of the COVID-19 pandemic. Based on the 2020 Stability Programme, the measures are estimated to increase the general government deficit by 4.4% of GDP in 2020 (see Section 3.2). They include (i) higher healthcare spending; (ii) wage and social security contribution compensation for temporarily laid-off workers and the self-employed; (iii) pension contribution compensation for workers remaining in the workplace; (iv) one-off payments for vulnerable groups; (v) crisis bonus for public sector employees performing hazardous or over-time work; and (vi) tax deferrals. The Commission forecast expects a lower deficit of 7.2% of GDP in 2020, in line with slightly higher growth projections (see Section 2) and lower estimated budgetary impact of adopted relief measures (see Section 3.2).

The 2020 Stability Programme does not provide details on fiscal developments for 2021 and beyond. The Commission projects the headline deficit to improve to 2.1% of GDP in 2021.

**Table 2: General government budgetary position**

(% of GDP)	2019	2020		2021		2022	2023	Change: 2019-2023
	COM	COM	SP	COM	SP	SP	SP	SP
<b>Revenue</b>	<b>44.2</b>	<b>44.8</b>	<b>43.7</b>	<b>44.0</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<i>of which:</i>								
- Taxes on production and imports	13.8	13.6	13.0	13.6	n.a.	n.a.	n.a.	n.a.
- Current taxes on income, wealth, etc.	8.1	8.1	7.4	7.8	n.a.	n.a.	n.a.	n.a.
- Social contributions	16.1	16.5	16.7	15.9	n.a.	n.a.	n.a.	n.a.
- Other (residual)	6.3	6.5	6.6	6.7	n.a.	n.a.	n.a.	n.a.
<b>Expenditure</b>	<b>43.7</b>	<b>51.9</b>	<b>51.8</b>	<b>46.0</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<i>of which:</i>								
- Primary expenditure	42.0	50.1	50.1	44.3	n.a.	n.a.	n.a.	n.a.
<i>of which:</i>								
Compensation of employees+Intermediate consumption	17.5	20.0	19.5	18.6	n.a.	n.a.	n.a.	n.a.
Compensation of employees	11.4	13.0	13.1	12.2	n.a.	n.a.	n.a.	n.a.
Intermediate consumption	6.1	7.0	6.5	6.4	n.a.	n.a.	n.a.	n.a.
Social payments	17.5	20.1	20.5	18.4	n.a.	n.a.	n.a.	n.a.
Subsidies	0.8	3.2	3.2	0.8	n.a.	n.a.	n.a.	n.a.
Gross fixed capital formation	3.8	4.1	4.3	4.1	n.a.	n.a.	n.a.	n.a.
Other (residual)	2.4	2.7	2.6	2.5	n.a.	n.a.	n.a.	n.a.
- Interest expenditure	1.7	1.8	1.7	1.7	n.a.	n.a.	n.a.	n.a.
<b>General government balance (GGB)</b>	<b>0.5</b>	<b>-7.2</b>	<b>-8.1</b>	<b>-2.1</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Primary balance</b>	<b>2.3</b>	<b>-5.3</b>	<b>-6.5</b>	<b>-0.3</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
One-off and other temporary measures	-0.1	-0.1	0.0	0.0	n.a.	n.a.	n.a.	n.a.
<b>GGB excl. one-offs</b>	<b>0.6</b>	<b>-7.0</b>	<b>-8.1</b>	<b>-2.1</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Output gap <sup>1</sup>	3.0	-5.7	-7.0	-1.9	n.a.	n.a.	n.a.	n.a.
Cyclically-adjusted balance <sup>1</sup>	-0.9	-4.5	-4.7	-1.2	n.a.	n.a.	n.a.	n.a.
<b>Structural balance<sup>2</sup></b>	<b>-0.8</b>	<b>-4.4</b>	<b>-4.7</b>	<b>-1.2</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Structural primary balance <sup>2</sup>	0.9	-2.5	-3.0	0.5	n.a.	n.a.	n.a.	n.a.
<b>Gross debt ratio</b>	<b>66.1</b>	<b>83.7</b>	<b>82.4</b>	<b>79.9</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>

Notes:

<sup>1</sup> Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

<sup>2</sup> Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme (SP); Commission 2020 spring forecast (COM); Commission calculations.

### 3.2. Measures underpinning the programme

For 2020, the 2020 Stability Programme includes temporary measures taken in response to the COVID-19 outbreak with an overall negative budgetary impact of 4.4% of GDP. The measures increase the healthcare spending for the purchase of medical equipment and introduce sick leave pay for all workers from the first day on. The labour market related measures include short-term work schemes, entailing the payment of wage compensations and social security contributions for the temporarily laid-off workers and the workers unable to come to work due to force majeure. In addition, employers fulfilling certain conditions are exempted from paying all pension and disability insurance contributions for working employees. The negatively affected self-employed, farmers and religious workers receive monthly income payments and are exempted from paying their social security contributions. Moreover, the public sector employees performing hazardous or overtime work receive a crisis bonus up to 100% of the basic salary. Other main budgetary measures include one-off payments in the amount of between EUR 30 and EUR 300 for vulnerable groups (pensioners, large families, students and persons with low income) and remuneration payments for employees performing public services which could not be provided during the pandemic. Tax deferrals are also planned to contribute to the increase in headline deficit.

In addition to the budgetary measures, the 2020 Stability Programme envisages liquidity measures in the amount of 5.1% of GDP. These comprise of a debt moratorium and a guarantee scheme for new loans, with state guarantees in the total amount of 4.8% of GDP, tax deferrals (0.2% of GDP) and deferral of social security contributions for the self-employed (0.1% of GDP). Although not explicitly reported in the 2020 Stability Programme, the policy package also includes around EUR 600m (1.3% of GDP) to be made available to economic operators with revised conditions from the existing financial mechanisms available at the state-owned export and development bank. This bank will also provide EUR 200m (0.4% of GDP) for new measures, while the Slovenian Enterprise Fund will provide EUR 115m (0.3% of GDP) for small and medium-sized companies.

Overall, the measures taken by Slovenia are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak.<sup>4</sup> Those measures appear to constitute a timely, temporary and targeted response to cushion the shock induced by the COVID-19 pandemic. The full implementation of those measures, followed by a refocusing of fiscal policies towards achieving prudent medium term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term. Those measures are expected to mitigate the negative impact on employment and household real income and to ease the liquidity shortages for companies (see Section 2). In the first half of May 2020, around 13% of employees started receiving wage compensations from the Slovenian Employment Service. The estimates provided in the 2020 Stability Programme for budgetary measures and guarantees are broadly in line with the Commission forecast. However, the Commission forecast includes tax deferrals as liquidity measures without a negative budgetary impact in 2020.

---

<sup>4</sup> [https://ec.europa.eu/info/sites/info/files/communication-coordinated-economic-response-covid19-march-2020\\_en.pdf](https://ec.europa.eu/info/sites/info/files/communication-coordinated-economic-response-covid19-march-2020_en.pdf)



For 2020, the Commission forecast also includes additional measures. Those comprise of revenue measures adopted in 2019 to reduce the tax burden on labour with an overall negative budgetary impact of 0.2% of GDP and one-off expenditure of 0.1% of GDP, pertaining to several lawsuits (i.e. compensation for erased deposit holders of Ljubljanska Banka, return of agricultural land).

According to the Fiscal Council, the measures adopted to fight the pandemic are similar in content and scope to those of other countries. However, the complexity of the measures may have an impact on delays and the effectiveness of their implementation. The Fiscal Council estimates those measures to have a negative budgetary impact of 3.8% of GDP in 2020.

**Table 3: Discretionary measures adopted in response to COVID-19 outbreak**

List of measures	Description	ESA Code (Expenditure / Revenue component)	Adoption Status	Budgetary impact (% of GDP)	
				2020	2021
<b>Measures in the field of labour market and social security contributions</b>	Wage compensations for employees waiting at home	D.3	Adopted	1.32	
	Payment of social security contributions for employees waiting at home	D.3	Adopted	0.66	
	Exemption from payment of contributions for pension and disability insurance for working employees	D.3	Adopted	0.36	
	Sick leave pay for all workers during the epidemic from the first day onwards by the Health Insurance Institute instead of the employer	D.3	Adopted	0.13	
	Payment of a monthly basic income for the self-employed workers, farmers etc.	D.62	Adopted	0.23	
	Exemption from payment of social security contributions for the self-employed workers, farmers etc.	D.62	Adopted	0.08	
<b>Measures in the field of education and science</b>	Covering wages for market activities of indirect budgetary units	D.1	Adopted	0.01	
	Financing of private kindergartens	D.62	Adopted	0.02	
<b>Measures in the field of social protection</b>	One-time solidarity assistance for pensioners	D.62	Adopted	0.16	
	One-time solidarity assistance for vulnerable groups	D.62	Adopted	0.03	
	One-time solidarity assistance for students	D.62	Adopted	0.02	
	One-time solidarity assistance for large families	D.62	Adopted	0.01	
<b>Measures in the field of public sector wages</b>	Reduction of salaries of all high functionaries by 30%	D.1	Adopted	-0.00	
	Allowances for special working conditions for direct budgetary units	D.1	Adopted	0.11	

	Allowances for special working conditions for indirect budgetary units	D.1	Adopted		0.26	
	Allowances for special working conditions for indirect local budgetary units	D.1	Adopted		0.05	
<b>Other expenditure measures</b>	Purchase of medical, protective equipment and accessories	D.63	Adopted		0.39	
	Payment of remuneration for employees performing public services which could not be provided during the pandemic	D.62	Adopted		0.11	
<b>Measures in the field of agriculture, forestry and food</b>	Compensations for the mooring fee in fishing ports (40% of total compensation)	D.62	Adopted		0.00	
	Financial aid to holders or members of agricultural households infected with COVID-19 in the amount of 80% of the minimum wage (granted only to those who are insured by the Pension and Disability Institute as farmers)	D.62	Adopted		0.00	
	Reduced tax base for income tax prepayment from the cadastral income and lump sum estimation of income per hive	D.51	Adopted		-0.00	
	Exemption from payment of water right concessions	D.29	Adopted		-0.00	
	Exemption from payment of charges for the use of water	D.29	Adopted		-0.01	
	Reduced tax base for income from water rights, granted with water permits	D.29	Adopted		-0.00	
<b>Tax measures</b>	Unsettled and unpaid prepayments for economic activity imposed on each individual income	D.51	Adopted		-0.04	
	Unsettled and unpaid prepayments of corporate income tax	D.51	Adopted		-0.24	
	Deferred tax payments	D.21	Adopted		-0.11	
				<b>Total</b>	<b>4.35</b>	

Source: Stability Programme.

**Table 4: Guarantees adopted in response to COVID-19 outbreak**

<b>List of measures</b>	<b>Description</b>	<b>Adoption Status</b>	<b>Maximum amount of contingent liability (% of GDP)</b>	
<b>Guarantees</b>	Guarantees for the liquidity of the companies	Adopted		4.8
			<b>Total</b>	<b>4.8</b>

Source: Stability Programme.

### **3.3. Debt developments**

In 2019, the government debt-to-GDP ratio continued declining, from 70.4% of GDP in 2018 to 66.1% of GDP. This was driven by the primary surplus, the denominator effect from higher nominal GDP and the negative stock-flow adjustments.

The 2020 Stability Programme expects the public debt to increase significantly to 82.4% of GDP in 2020, below the Commission projection of 83.7% of GDP. Based on both the 2020 Stability Programme and the Commission forecast, the projected increase in the debt-to-GDP ratio is driven by the high primary deficit, the denominator effect from lower nominal GDP and the high stock-flow adjustments due to tax deferrals and pre-financing for 2021. The higher public debt ratio in the Commission forecast compared to the 2020 Stability Programme is mainly driven by the higher expected stock-flow adjustments. Due to the recovering economy and the temporary impact of relief measures, the Commission forecasts the public debt to fall below 80% of GDP in 2021.

**Table 5: Debt developments**

(% of GDP)	Average 2014-2018	2019	2020		2021	
			COM	SP	COM	SP
<b>Gross debt ratio<sup>1</sup></b>	<b>77.2</b>	<b>66.1</b>	<b>83.7</b>	<b>82.4</b>	<b>79.9</b>	<b>n.a.</b>
Change in the ratio	0.1	-4.3	17.6	16.3	-3.9	n.a.
<i>Contributions<sup>2</sup>:</i>						
<b>1. Primary balance</b>	<b>-0.9</b>	<b>-2.3</b>	<b>5.3</b>	<b>6.5</b>	<b>0.3</b>	<b>n.a.</b>
<b>2. “Snow-ball” effect</b>	<b>-0.6</b>	<b>-1.6</b>	<b>5.2</b>	<b>4.9</b>	<b>-4.2</b>	<b>n.a.</b>
<i>Of which:</i>						
Interest expenditure	2.8	1.7	1.8	1.7	1.7	n.a.
Growth effect	-2.5	-1.6	4.9	5.6	-5.2	n.a.
Inflation effect	-0.9	-1.6	-1.5	-2.3	-0.7	n.a.
<b>3. Stock-flow adjustment</b>	<b>1.6</b>	<b>-0.5</b>	<b>7.0</b>	<b>4.7</b>	<b>0.0</b>	<b>n.a.</b>
<i>Of which:</i>						
Cash/accruals diff.						
Acc. financial assets						
Privatisation						
Val. effect & residual						

Notes:

<sup>1</sup> End of period.

<sup>2</sup> The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:

Commission 2020 spring forecast (COM); Stability Programme (SP), Commission calculations.

### 3.4. Risk assessment

The macroeconomic and fiscal outlook are affected by high uncertainty due to the outbreak of the COVID-19 pandemic. The pandemic could become more severe and last longer than assumed, requiring more stringent and longer lasting containment measures. This would result in worse economic and fiscal outcomes. It could also require further fiscal policy measures. That would result in worse fiscal outcomes but help to mitigate the economic impact. An additional risk stems from the considerable size of public guarantees issued in response to the crisis.

## 4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

### 4.1. Compliance with the deficit criterion

According to the Stability Programme, Slovenia’s general government deficit is expected to reach 8.1% of GDP in 2020, thereby exceeding the Treaty reference value of 3% of GDP. This provides prima facie evidence of the existence of an excessive deficit in Slovenia for the purposes of the Treaty and the Stability and Growth Pact. The Commission has therefore prepared a report under Article 126(3)

TFEU, which analyses Slovenia's compliance with the deficit criterion of the Treaty. Overall, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.

#### **4.2. Compliance with the debt criterion**

As the debt ratio was 66.1% of GDP in 2019, exceeding the 60% of GDP reference rate of the Treaty, Slovenia needs to comply with the debt reduction benchmark. In 2019, the debt reduction benchmark was met, with a gap of nearly 7% of GDP. Based on the Commission forecast, the debt reduction benchmark is expected not to be met in 2020 and to be respected in 2021.

#### **4.3. Compliance with the required adjustment path towards the medium-term budgetary objective in 2019<sup>5</sup>**

In 2019, Slovenia was recommended to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.1%, corresponding to an annual structural adjustment of 0.65% of GDP. The structural balance is estimated to have deteriorated by 0.2 percentage points of GDP in 2019. Both the expenditure benchmark and the structural balance point to significant deviation in 2019 (gaps of 1.3% and 0.9% of GDP, respectively) and over 2018 and 2019 taken together (average gaps of 1.2% and 0.8% of GDP, respectively). Based on the outturn data and the Commission forecast, the ex-post assessment suggests a significant deviation from the adjustment path towards the medium-term budgetary objective in year 2019.

---

<sup>5</sup> The possible retroactive impact on output gap estimates as a result of the recession induced by the COVID-19 outbreak and the possibility of abnormal responses of government revenues to major swings in economic activity underline that compared to the structural balance the expenditure benchmark is likely to provide a more reliable and predictable indicator in times of severe economic downturn.

**Table 6: Compliance with the requirements under the preventive arm**

	(% of GDP)	2019	2020	2021		
<b>Background budgetary indicators<sup>1</sup></b>						
(1)	Medium-term objective (MTO)	0.25	-0.25	-0.25		
(2)	Structural balance <sup>2</sup> (COM)	-0.8	-4.4	-1.2		
<b>Setting the required adjustment to the MTO</b>						
(3)	Structural balance based on freezing (COM)	-0.8				
(4) = (1) - (3)	Position vis-a-vis the MTO <sup>3</sup>	Not at MTO				
(5)	Required adjustment <sup>4</sup>	0.65				
(6)	Required adjustment corrected <sup>5</sup>	0.65				
(8)	Corresponding expenditure benchmark <sup>6</sup>	3.1				
<b>Compliance with the required adjustment to the MTO</b>						
		COM	COM	SP	COM	SP
<b>Structural balance pillar</b>						
(8) = Δ (2)	Change in structural balance <sup>7</sup>	-0.2				
(9) = (8) - (6)	One-year deviation from the required adjustment <sup>8</sup>	-0.9				
	Two-year average deviation from the required adjustment <sup>8</sup>	-0.8				
<b>Expenditure benchmark pillar</b>						
(10)	Net public expenditure annual growth corrected for one-offs <sup>9</sup>	6.4				
(11) = (10) - (8)	One-year deviation adjusted for one-offs <sup>10</sup>	-1.3				
	Two-year deviation adjusted for one-offs <sup>10</sup>	-1.2				
<b>Finding of the overall assessment</b>		Significant deviation				
<b>Compliance with the debt criterion</b>						
<b>Transition period</b>						
	Required structural adjustment (MLSA) <sup>11</sup>					
	Structural adjustment <sup>12</sup>					
<b>After transition period</b>						
	Gap to the debt benchmark <sup>13,14</sup>	-6.8	2.8	n.a.	-2.8	n.a.

**Legend**

'Compliance' - the recommended structural adjustment or a higher adjustment is being observed.

'Some deviation' - a deviation from the recommended structural adjustment is being observed, but it is below the threshold for a significant deviation.

'Significant deviation' - a deviation which has reached or breached the threshold for a significant deviation (i.e. 0.5% of GDP over one year, 0.25% of GDP over two years on average).



**Notes**

<sup>1</sup> The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

<sup>2</sup> Structural balance = cyclically-adjusted government balance excluding one-off measures.

<sup>3</sup> Based on the relevant structural balance at year t-1.

<sup>4</sup> Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.).

<sup>5</sup> Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

<sup>6</sup> Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

<sup>7</sup> Change in the structural balance compared to year t-1. Ex post assessment (for 2019) is carried out on the basis of Commission 2020 spring forecast.

<sup>8</sup> The difference of the change in the structural balance and the corrected required adjustment.

<sup>9</sup> Net public expenditure annual growth (in %) corrected for discretionary revenue measures, revenue measures mandated by law and one-offs (nominal).

<sup>10</sup> Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

<sup>11</sup> Defines the remaining annual structural adjustment over the transition period which ensures that - if followed - Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections for the previous years are achieved.

<sup>12</sup> Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

<sup>13</sup> Not relevant for Member States that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

<sup>14</sup> Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

**Source:**

Stability Programme (SP); Commission 2020 spring forecast (COM); Commission calculations.