GOVERNMENT OF THE REPUBLIC OF SLOVENIA

DRAFT BUDGETARY PLAN

2018

Sector for public finance analyses and coordination of economic policy

October, 2017

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1. Summary

The 2018 Draft Budgetary Plan presents an assessment of the development of Slovenian general government finances in 2017 and 2018 as well as the Government's assessment of progress towards the medium-term objective (MTO).

At the end of September 2017, Statistical Office of the Republic Slovenia (SORS) published updated general government deficit and debt statistics. According to SORS the general government deficit was 1.9% of GDP in 2016. According to the Ministry of Finance's September 2017 forecast, the general government deficit in 2017 will be 0.8% of GDP and a surplus of 0.4% in 2018 is foreseen. The European Commission's view in May 2017 was:

- Based on the Commission's 2017 spring forecast, the projected deterioration of 0.1% of GDP in the structural balance points to a risk of a significant deviation from the recommended structural adjustment of 0.6% of GDP in 2017. The growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the expenditure benchmark, pointing to a risk of some deviation in 2017.
- In 2018, based on the Commission 2017 spring forecast, the projected deterioration of 0.5% of GDP in the structural balance points to a risk of a significant deviation from the recommended structural adjustment of 1.0% of GDP. The growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the expenditure benchmark, also pointing to a risk of significant deviation in 2018.
- This calls for an overall assessment. Given the current cyclical conditions and the significant uncertainty surrounding them, it is important that the fiscal stance strikes the right balance between both safeguarding the ongoing recovery and ensuring the sustainability of Slovenia's public finances. The Commission noted that, in carrying out its future assessments, it stands ready to use its margin of discretion in cases where the impact of large fiscal adjustment on growth and employment is particularly significant. In that context, it will make use of any updated information regarding the projected position in the economic cycle of each Member State and work closely with the Council to that effect.

Slovenian government is committed to continue the policy path and achieve structural fiscal balance by the end of 2020 in line with Slovenia's MTO. Since Slovenia has not yet achieved its MTO, the transitional period and the rule of Article 15 of the national Fiscal Rule Act apply, i.e. that the structural deficit must be gradually reduced towards the MTO in a manner compliant with the Stability and Growth Path. The government plans to reduce the nominal general government balance to -0.8% of GDP in 2017 and to achieve a surplus of 0.4 of GDP in 2018 and further on a surplus of 0.8 GDP in 2019. The nominal general government balance will continue to improve and MTO will be achieved. In this way, Slovenia will also record a significant improvement in the primary general government balance, which has been positive since 2015. This will mark the path towards the medium-term sustainability of public finances in 2020.

The medium-term objective and compliance with the requirements of the preventive arm of the Stability and Growth Pact

According to Commission's view in May 2017 Slovenia meets the transitional debt rule and is therefore subject to the Minimum Linear Structural Adjustment (MLSA) in the three years following the Excessive deficit procedure (EDP) abrogation in 2016. Due to a change in the statistical methodology relating SWAPs from spring on, consolidated gross debt of the general government at the end of the second quarter of 2017 amounted to EUR 33,268 million or 79.8% of GDP. The debt increased mainly due to higher debt in long-term securities. Most of the debt was generated at the central government level (78.4% of GDP). According to the stability programme, Slovenia is expected to be compliant with the transitional debt rule in 2017 and 2018, also the structural effort indicates compliance with the transitional debt rule.

Slovenia is subject to the requirements of the preventive arm of the Stability and Growth Pact that relate to progress towards the MTO. The achievement of the MTO or the progress towards it is assessed with the aid of two pillars, the change in the structural balance and the expenditure benchmark. Slovenian MTO for the structural budgetary position is +0.25% of GDP. The Government aims to achieve the MTO at the latest in 2020 (as agreed by 2/3 majority in parliament when adopting Fiscal Rule Act).

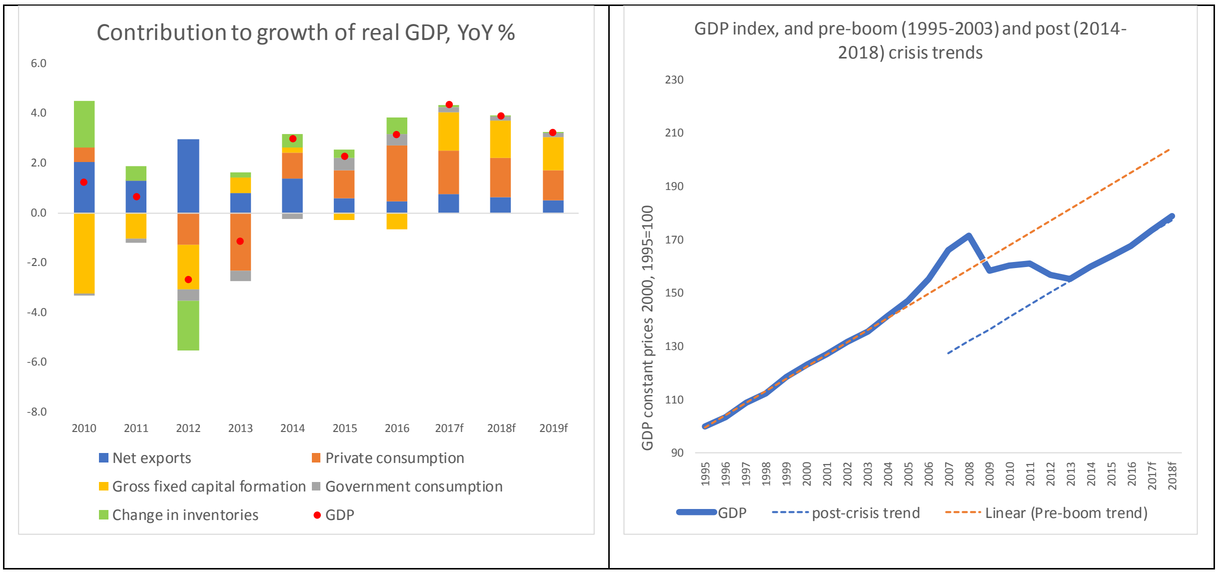
Slovenia is required, in accordance with the country-specific recommendations approved by the Council in July 2017, to make a structural adjustment towards the MTO of 0.6 of GDP in 2017. In 2018 the adjustment requirement is 1 % of GDP.

According to the Ministry of Finance’s autumn 2017 forecast (based on IMAD), the structural balance in 2018 will be -0.14 % in ratio to GDP. There is no deviation relative to the required adjustment if we take into account the possible use of margin of appreciation, since fiscal effort is estimated at 0.6% of GDP. The cumulative deviation for 2017–2018 will be 0.4% of GDP. Expenditure benchmark requirements will also be met according to Ministy of finance estimations and taking into account GDP deflator (t-1) from European Commission forecast. In this way the prorposed Draft Budgetary plan concludes that Slovenia will be compliant with preventive arm SGP rules in 2018.

2. Macroeconomic assumptions of the budget proposal

The budget proposal is based on the Autumn 2017 Macroeconomic Forecast made by the Institute of Macroeconomic Analysis (IMAD)[1]. The forecast is based on assumptions that economic conditions of Slovenia's main trading partners continue to improve. It takes into account major institutions and consensus forecasts' upward revisions of growth forecasts in main trading partners for the period 2017-2019. The growth scenario foresees export growth acceleration this and next year and step up recovery in domestic demand (Figure 1). **The latest macroeconomic projections predict 4.4% GDP growth for this year; in the next two years the broad-based economic growth will continue, hovering between 3% and 4%.** The faster export growth is explained not only by better international environment but also by improvement in Slovenia's export competitiveness. Recovery of domestic demand is underpinned by sustained increase in household consumption and acceleration of private investment. Improvement in labour market conditions and the high level of consumer confidence have positive influence on household demand. Private investment is accelerating this year and it is expected to remain strong during the next two years. This is explained by the high levels of capacity utilization and investment confidence and improvement in non-financial corporate sector balance sheets. This sector has strongly deleveraged over the past 3 years and generated strong savings which are reflected in large current account surpluses. Government investment after the substantial decline in 2016 due to the end of EU financial perspective is foreseen to recover starting this year.

Figure 1: Growth scenario for Slovenia



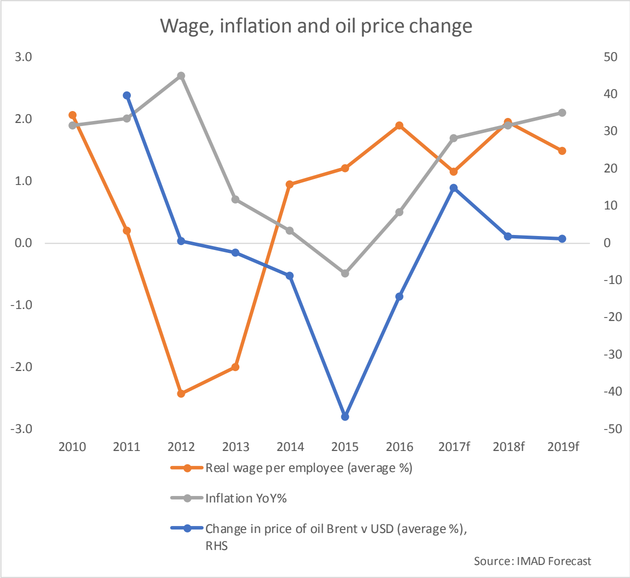
Source: IMAD 2017 Autumn Forecast, MoF calculation

The economy is clearly on a recovery path. Real GDP growth after 9 years of the beginning of the global financial crisis is going to reach in 2017 a level close to 2008. Current data and the forecast suggest that despite the enormous economic disruption of the double-dip recession, the long-term trend growth might not have been affected permanently (Figure 1). GDP dynamics in the aftermath of the crisis (2009 - 2013) shows that only a shift in the trend level prior to the boom has or might have taken place. An indication of such broad development and foreseen sustainability of such positive trend is that forecasted GDP growth rates, consistent with the ongoing sustained decrease in average unemployment rate from 8% in 2016 to 5.8% in 2019, are encompassing low wage growth and

[1] http://www.umar.gov.si/fileadmin/user_upload/napovedi/jesen/2017/aJN-2017-splet.pdf

inflation rates (Figure 2). The low inflation environment until 2019 is consistent with recovery and no major shock to oil prices are envisaged besides the one taken place this year and affecting current inflation (Figure 2).

Figure 2: Low inflation, wage growth will not exceed that of productivity



Employment is rising in practically all institutional sectors, a continuation of these trends is also suggested by the indicators of expected employment, which remain at the highest levels since the onset of the crisis. Unemployment will consequently drop further. However, over the coming years employment growth will be increasingly affected by demographic factors, i.e. the expected contraction of the working-age population. **In 2017–2019 wage growth will remain moderate and will not exceed productivity growth.** Inflation is expected to hover around 2%, in the next few years, provided there are no global commodity prices shocks.

2.1. Spring vs. autumn forecast

The 2017 Autumn forecast compared to the 2017 Spring forecast predicts better economic developments, based on revised data for 2012–2016 period by SORS; better economic performance during the current year and improved outlook.

Table 1: Real growth rate (%)	2017		2018		2019
	Mar. 2017	Sep. 2017	Mar. 2017	Sep. 2017	Sep. 2017
GDP	3.6	4.4	3.2	3.9	3.2
Exports	6	8.8	5.1	7.5	6.1
Imports	6.5	8.9	5.6	7.7	6.3
External balance of goods and services (Contribution to GDP growth)	0.2	0.7	0.1	0.6	0.5
Private consumption	3.5	3.3	2.7	3	2.3
Government consumption	1	1.1	0.9	0.9	0.9
Gross fixed capital formation	7	9	7	8	7
Changes in inventories and net acquisition of valuables (% of GDP)	0.1	0.1	0.1	0	0

Source: IMAD Autumn Forecast 2017

Reflecting a better international environment, the major changes in the macroeconomic outlook for the period 2017-2019 derive from higher export and import growth rates reflected in upward revision of contribution of net export to GDP growth. The most recent forecast reviewed GDP growth rates forecast for the years 2017 and 2018 by 0.75 p.p. About two thirds of the improvement is due to the increase in the contribution of net exports and the rest is mainly increase in investment. The revised forecast importantly foresees better labour dynamics as reflected in lower unemployment (average 0.2 p.p.) and higher employment. Real wage per employee is lower in 2017 than envisaged (0.3 p.p.) but increases for such difference in 2018. Inflation is also lower than forecasted in 2017 while in 2018 remains as previously foreseen.

2.2. Slovenia's Position in the Business cycle

With economic recovery momentum, it is difficult to question the notion that the output gap in Slovenia is in a range in which it can be regarded as closed. Regarding the type of recovery, it is difficult to concur with estimates of large positive output gaps suggesting that the economy is in an overheating phase. Commission's spring 2017 output gap estimates for Slovenia are 1.4 % in 2017 and 2.5 % in 2018 (Table 2). These are, among EU countries, the third highest in 2017 and the highest in 2018. Such big positive output gaps are not reflected in overheating conditions in the Slovene economy.

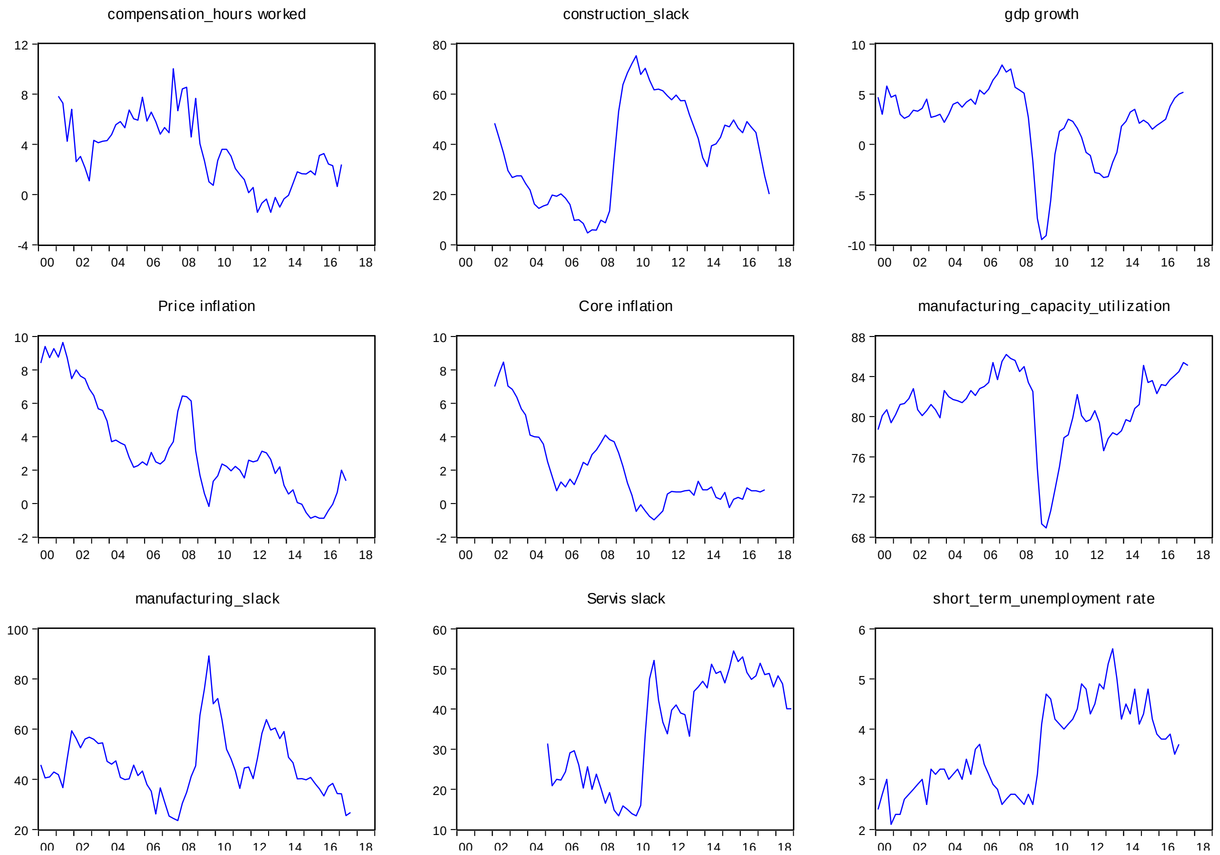
Considering the healthy growth trend prior to the boom in 2007, the GDP growth rate in 2016 was 3.1 % and in 2017 is forecasted 4.4%. The European Commission's (EC) estimates of the increase of potential GDP for Slovenia, based on the common methodology, by 1.6 p.p. in 2017 and 1.9 p.p. in 2018 seems too low. The EC estimates of potential output growth for Slovenia are almost the same than those of Germany which is a developed economy while Slovenia has still room for income catching up. The estimates imply that the trend growth instead of only shifting (Figure 1) has changed in slope which is not clear from economic indicators.

Table 2: Output gap estimates, % potential output	2016	2017	2018
IMF (May 2017)	-1,2	0,0	0,6
OECD (June 2017)	-2,2	0,1	1,3
European Commission (Spring 2017)	-0,4	1,4	2,5

The behaviour of key economic variables in Slovenia exhibits recovery but does not show signs of overheating (i.e. excess aggregate demand over supply). We refer to those variables included in the so-called output gap plausibility tool including price and wage dynamics and other relevant macroeconomic variables.

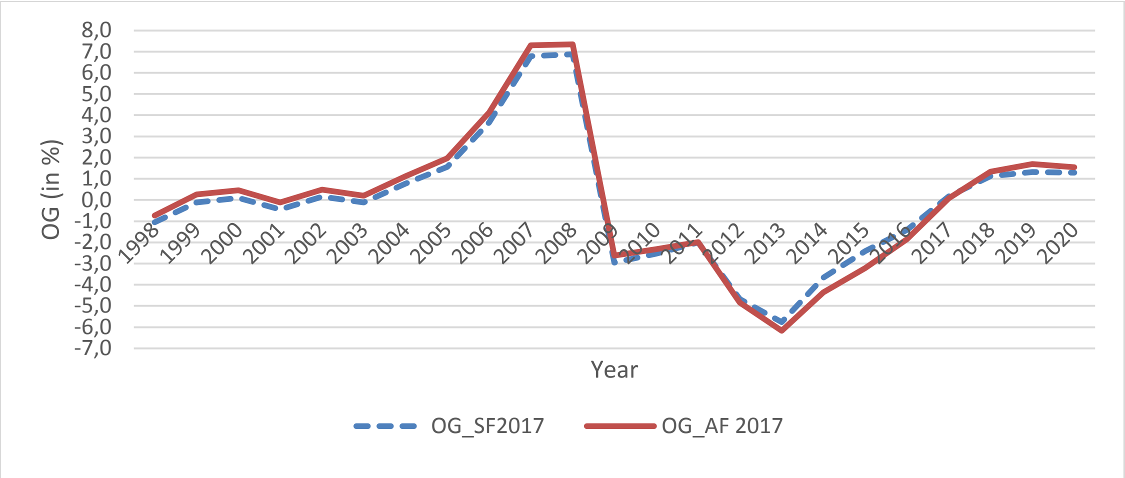
While capacity utilization and slack in the manufacturing sector are at their respective levels prior to crisis, which reflect the strong export bias of the Slovene economy and the structural shift in the post crisis period, most indicators are still below the critical levels exhibiting excess demand over supply reached in the period of fast economic growth of 2006 – 2008 (Figure 3). This is the case of the indicators of slack in the sectors of services and construction. Very importantly, short-term unemployment is still relatively high as well as long-term unemployment. Wage and price inflation dynamics are subdued. External surplus is quite sizable in terms of current account 5.2 % of GDP and trade balance 9.2 % of GDP (2016). Credit to non-financial corporate sector started to recover finally this year, after 6 years of contraction.

Figure 3:Economic indicators



Based on current economic indicators and their forecast for the period 2018-2019, the large positive value of the EC output gap estimates for this and next year seems too high and does not reflect them appropriately.[2]

Figure 4: Output gap Slovenia, vintages 2017



Source: MoF

[2] Given the different volatility of output gap estimates for »new« and »old« member countries is is also questionable whether the ranges defining bad, good and normal times are approprate.

Revision of potential output estimates for the recent past taking into account successive forecasts also indicate that it is most likely that backward estimates of potential output are going to be revised upwards. Therefore, determining fiscal policy based on counterintuitive output gap estimates does not seem justified and can be detrimental to welfare. Calculations of potential growth and the output gap for Slovenia in 2017 prepared by Ministry of Finance indicate, that Slovene economy is close to its potential in 2017, with latest estimates of OG for 2017 around 0.1%. The calculations of the Ministry of Finance indicate that after the recession, the economy could for the first time exceed its potential more significantly in 2018 (MoF estimate 1.3 %).

3. Key facts about fiscal consolidation in Slovenia

Since the start of the sovereign debt crisis, Slovenia, as many Euro area countries have adopted fiscal consolidation measures in an attempt to reduce fiscal imbalances and preserve their sovereign creditworthiness. Against this background, many authors and observers (e.g., Batini et al. (2012), IMF (2012)) have argued in favour of a more temperate approach to fiscal consolidation since the drag of fiscal restraint on economic growth could lead to an increase rather than a decrease in the debt-to-GDP ratio. As such fiscal consolidation may turn out to be self-defeating when the position of the business cycle is not well identified. In particular, the fall in the GDP growth rate, under weak economic conditions, which follows a consolidation episode, at least in the short run, would affect the debt-to-GDP ratio.

Slovenian government actively started with restrictive fiscal policy and strict austerity measures already in the 2012 by adopting the Fiscal Balance Act, which significantly cut the general government expenditure. Expenditures excluding those related to bank recapitalization decreased by 4.2%. In particular, compensation of employees in public sector declined by 2.6% and by additional 4.8% in 2013 and 1.7% in 2014. The fall of expenditure in goods and services was 5.4% and in gross capital formation 4.1% in 2012.

Figure 5: Real GDP growth Slovenia and EU, 2005-2017

Source: SORS, EC

These sharp declines had strong negative impact on GDP through drop in final consumption of households and general government and investments. The fiscal contraction lead to a decline of real GDP of 2.7% in 2012 and put the economy in a double-dip recession that continued in 2013 by 1.1% loss of GDP (Figure 5). On the basis of mentioned experience on adopted fiscal consolidation with too extensive austerity measures the government proceeded with more gradual and focused consolidation approach resulting in reduction of government expenditure and consequently moderate reduction of deficit with a limited impact on the economy. Therefore, the general government deficit (excluding bank recapitalization) decreased from 4.7% of GDP in 2013 to 1.9% of GDP in 2016 as follows: 0.3 percentage points in 2014; 1.5 p.p. in 2015 and 1 p.p. in 2016. The government plans to further reduce the deficit in the next two years by approximately 2,2 p.p. (in 2017 and 2018 by 1.1 p.p. and reach a nominal surplus of 0.4% of GDP in 2018.

The ongoing consolidation also has a positive effect on general government debt, which peaked in 2015, especially due to borrowing for the purpose of bank recapitalization. In 2016, there was a large drop in the debt ratio from 82.6% to 78.5% of GDP. Slovenian government is committed to continue the policy path and achieve structural fiscal balance by the end of 2020 in line with Slovenia's MTO. Since Slovenia has not yet achieved its MTO, the transitional period and the rule of Article 15 of the national Fiscal Rule Act apply, i.e. that the structural deficit must be gradually reduced towards the MTO in a manner which is compliant with the Stability and Growth Path.

3.1. Slovenian economy is improving but not yet at pre-crisis levels

Slovenia's economic performance has been improving since 2014, but in 2016 real GDP level was still below that of 2008 by 1.9 %. The international crisis and banking crisis in Slovenia profoundly disrupted economic activity. However, recent data suggests that despite the enormous disruption the long-term trend growth might not have been affected permanently. GDP dynamics in the aftermath of the crisis (2009 - 2013) shows that only a shift in the trend level has or might have taken place. This explains why the estimates of potential output growth and its level are being successively revised upwards in new estimates.

There is no doubt about the ongoing economic recovery since 2014 and of its acceleration, particularly this year. Export performance has been strong and domestic demand is still improving. The ongoing and type of recovery in which GDP growth exceed domestic demand is taking place without signs of negative imbalances or pressures in wages and prices. The key issue for the implication of current and future fiscal policy is defining the position of the economy in the business cycle. If we want to understand and answer the question, we need to understand what was going on with the economy in the past, so at the final stage of the pre-crisis cycle – just before the beginning of the global crisis in time period 2005-2008. During economic expansion from 2005 on, the Slovenian economy recorded extremely high economic growths – the highest 6.9% in 2007, when it was well above average growth of European Union (EU28), reaching 3.1%. The main driver of Slovenian growth were gross fixed capital formation, based mostly on borrowing abroad, which grew by 12.0% and exports, that increased by 13.6% in 2007. Also in 2006 both mentioned aggregates of expenditure grew by double figure. High economic growth in these two years was based on both domestic and foreign demand. It can be assumed that Slovenian economy was overheating.

The global economic crisis had a significant impact on Slovenian economy in 2009, when GDP change was again among the highest in the EU; this time negative – decline by 7.8%. The drop of world demand effected our economy even more, due to increased exposure of our export oriented economy – so after a drop of foreign demand (-16.6%) also domestic demand decreased, especially the gross fixed capital formation (-22.0%). In the years after the first drop foreign demand gradually increased (in 2016 it reached a 6.4 increase) while domestic growth – final consumption and gross fixed capital formation – is still picking up after severe falls in 2009-2013 period. In the last three years Slovenia reached moderate growth, in 2016 a 2.9 increase was observed.

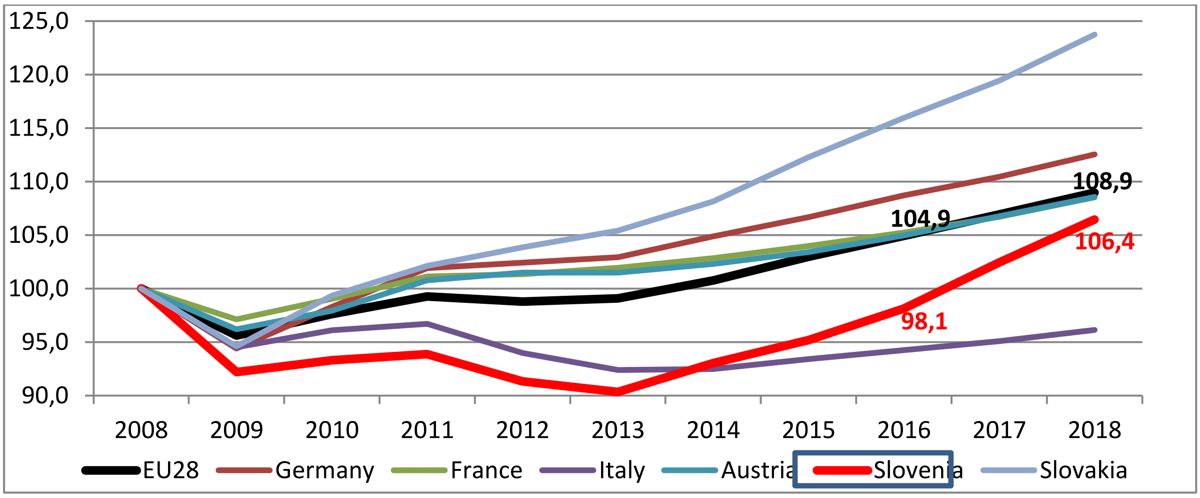
Table 3: Real GDP growth in %	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
European Union	3,8	2,2	1,3	1,3	2,5	2,1	3,3	3,1	0,4	-4,4
Slovenia	4,2	2,9	3,8	2,8	4,4	4,0	5,7	6,9	3,3	-7,8

Source: SORS, Eurostat

Based on the movement of two main expenditure aggregates, it can be assumed that Slovenian economy is slowly entering into the upper part of the economic cycle. This is also reflected in a comparison of economic growths of EU members (Figure 6). In 2016 Slovenia still did not reach the pre-crisis level of GDP– 1.9 percent point needed to pre-crisis 2008 level. That should be, according to the IMAD latest autumn forecast projections, reached in 2017, when Slovenia will record 4.4% real growth. In 2016 almost all countries have reached or exceeded their pre-crisis levels.

The share of general government revenue remained quite stable in the whole observed period, in 2016 it was 43.6%. Nevertheless it has to be mentioned that also due to higher economic nominal growth rates of GDP in the last three years the share of expenditure decreased faster, which was achieved through a favorable and stable fiscal policy.

Figure 6: GDP growth rates (2008=100) in EU 28 and some member states

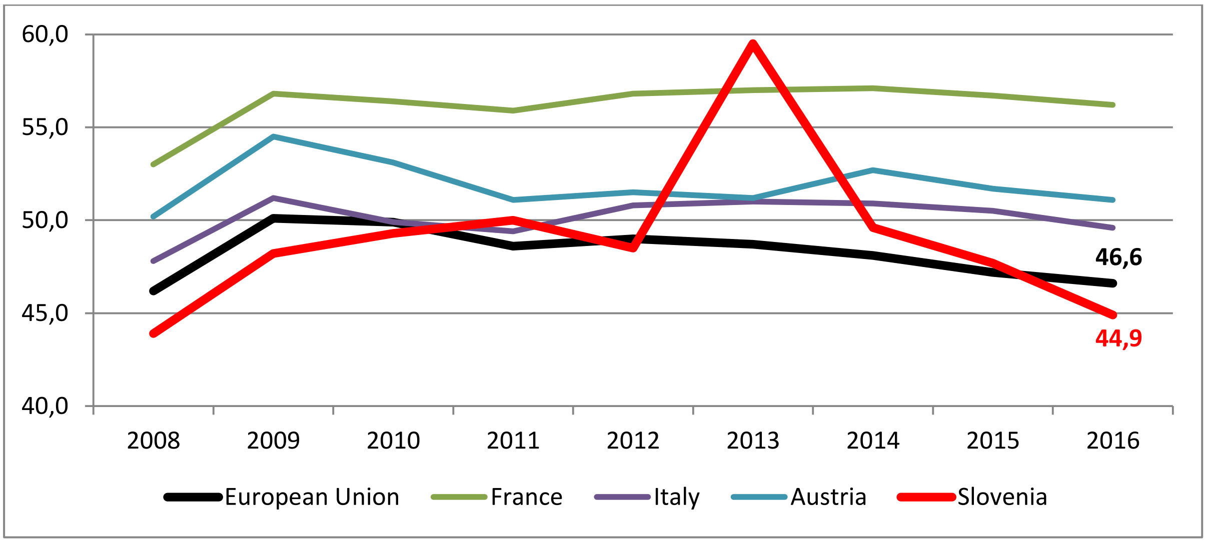


Source: Eurostat 27.9.2017, IMAD Autumn forecast 2017, EC Spring forecast 2017

Slovenia generated the lowest general government deficit just before the start of the crisis (0.1% of GDP), while in the second wave of the crisis (in 2013) the deficit was the highest (15.1% of GDP), due to the recapitaisations of financial sector. In the period before the crisis Slovenia was in a relatively good condition, while revenue and expenditure were relatively stable, the share of expenditure in GDP in average in this period (1995-2008) was 45.5%, while during the crisis and after (2009-2016) period the share increased on 49.7%. The share has significantly changed over the observed period; it started to grow in the first wave of crisis (in 2009 it reached 48.2%) till 2012, when the Fiscal Balance Act was adopted, and the share of expenditure in GDP decreased slightly by 1.5 percent points (from 50.0% to 48.5%), which than increased on 59.5% due to capital transfers (D.99) for bank recapitalisation. With the adoption of conservative fiscal policy the share declined in

2016 to 44.9% of GDP, especially due to the slowing the growth of expenditure for goods and services (P2) and compensation of employees (D1) in 2012-2014 period and by the reduction of expenditure on GFCF (by 29.2% in 2016 relative to previous year) in 2015-2016 period. Similar restrictive fiscal policy will be implemented further on in 2017–2019 period.

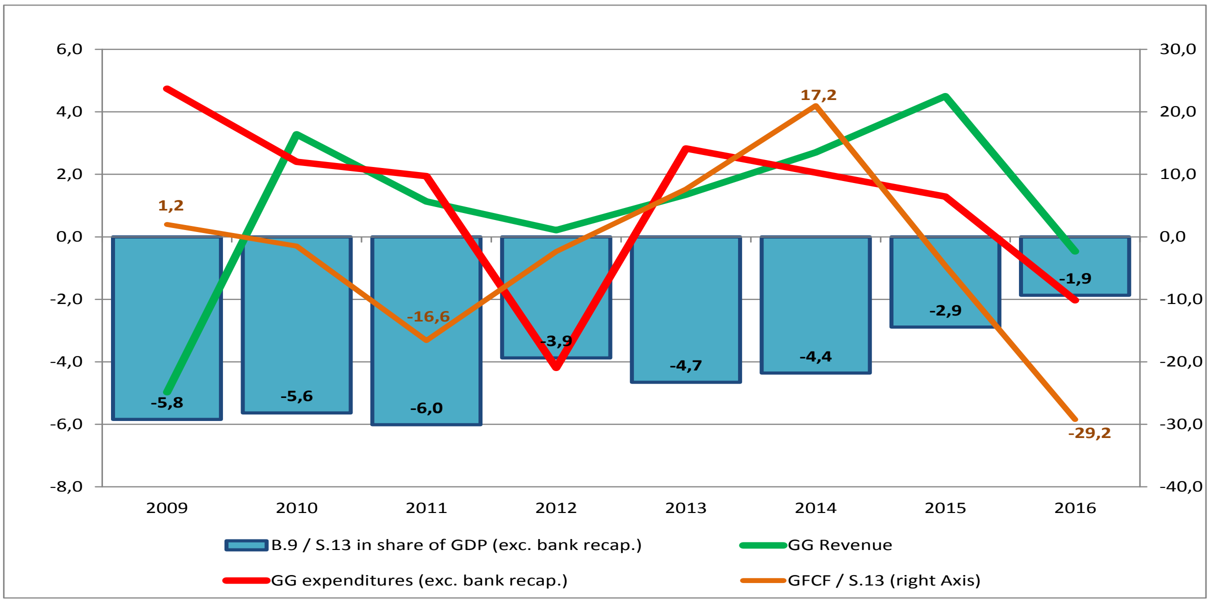
Figure 7: General government expenditures in % of GDP EU and some member states



Source: Eurostat 27.9.2017, SORS 27.9.2017

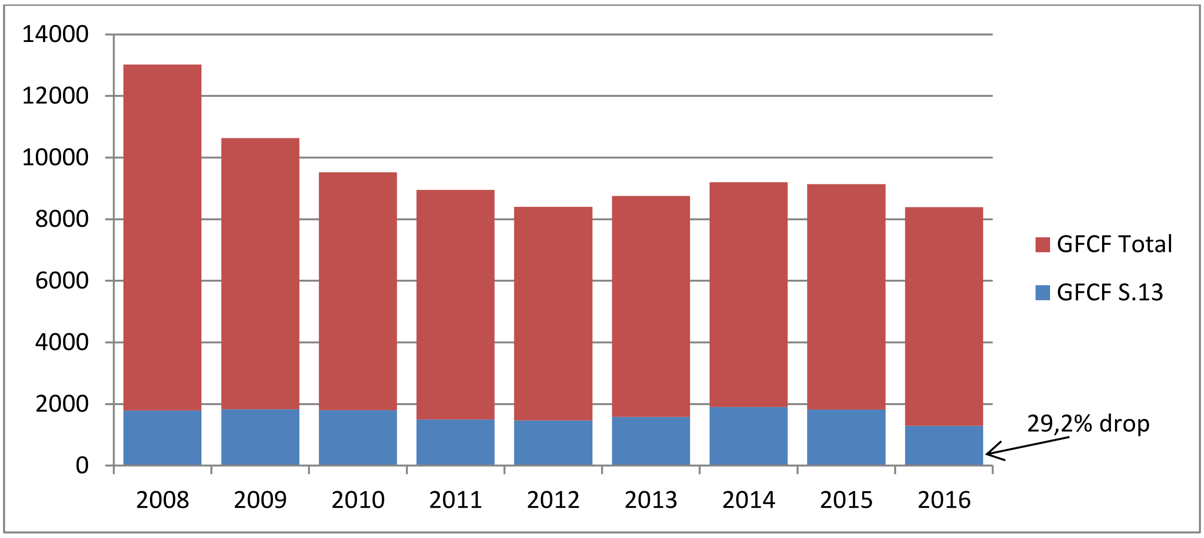
Slovenian economy is also very sensitive to investment activity, where EU funded public investments were in the lead and need to be replaced with private sector investment activity. We are showing (Figure 9) decline in gross fix capital formation (mostly because of connections to EU funds & public investment decline). Investment rates (see Figure 8) are not at the levels before the crisis. This also contributed to slower potential GDP growth.

Figure 8: Growth rates of general government revenues/expenditures/gross fix capital formation and net lending, Slovenia 2009-2016



Source; SORS, MoF calculations

Figure 9: Gross fixed capital formation total and general government



Source; SORS, MoF calculations

3.2. Recent developments in public finances

Consolidated general government budgetary accounts of four public finance budgets (i.e. the central government budget account, the aggregated accounts of local government budgets and both social insurance funds – pension and health fund) without consolidated budgetary flows between government institutional units represent around 70% of total general government account. On the basis of the latest available data on consolidated general government budgetary accounts in 2017 *(January – July 2017)*, the total revenue is higher in nominal value of EUR 731 million, which shows 8.2% nominal increase compared to the same time period of the previous year *(January – July 2016)*. In the same comparison, the sum of total expenditure is also higher in nominal value by EUR 245 million in 2017, which represents nominal increase by 2.6% in total expenditure compared to the same time period of the previous year. The consolidated general government budgetary deficit of EUR 395 million in cash terms is projected for this year (- 0.9% of GDP). This is an improvement of 0.7 percentage points since 2016 final outturn, supported mainly by strengthening state budget position and stronger projections of nominal GDP level in 2017.

Tax revenue, which is the largest component of total revenue, is forecast to grow nominally by 5.7% in 2017 compared to the final outturn in 2016, primarily due to higher expectations on revenues associated with domestic consumption (excise duties, value-added tax and corporate income tax). Also social security contributions (14.2% of GDP) and individual taxes on income and profit (due to higher employment and wage growth) are expected to be important contributors to annual increase of tax revenues in 2017. Compared to the previous year outturn , the total expenditures at nominal value are expected to increase in 2017 (from EUR 16,497 million to EUR 17,138 million), but expressed in relation to GDP, total expenditures are expected to decrease from 40.8% to 40.1%, respectively. Both, current expenditure and current transfers, continue to represent the largest estimated outturn of total expenditure in 2017 (36.5% of GDP), of which transfers to individuals and households are expected to reach 15.6% of GDP and total wages and employers contributions 9.3% of GDP.

Table 4: Revision of 2013-2016 data within October EDP reporting	2013	2014	2015	2016
Total general government revenue	**6**	**-18**	**-14**	**58**
Property income (D4Rec)	0	0	-4	-41
Output (P11+P12+P131)	0	-21	-8	-19
Capital transfers (D9Rec)	6	3	0	130
Other current transfers (D7Rec)	0	0	-2	-7
Other transactions	0	0	-1	-5
Total general government expenditure	**-100**	**-32**	**-18**	**79**
Compensation of employees (D1Pay)	0	0	-18	-5
Intermediate consumption (P2)	1	-24	-5	-1
Property income (D4Pay)	2	-12	-12	-56
Social benefits (D62+D632Pay)	0	0	-1	-67
Other current transfers (D7Pay)	-1	1	22	115
Gross fixed capital formation (P51G)	0	0	-8	75
Investment grants and other capital transfers (D92+D99Pay)	-103	1	3	21
Other transactions	0	2	2	-2
Net lending (+) / net borrowing (-) (B9)	**106**	**13**	**4**	**-21**

According to the October EDP reporting – release on Main aggregates of the general government, Slovenia, 2013-2016[3] – Slovenia recorded a general government deficit of EUR 754 million or 1.9% of GDP in 2016. After previous release of SURS, April EDP reporting[4], the general government deficit was estimated at EUR 733 million or 1.8% of GDP. Revision of figures, EUR 21 million or 0.1 of a percentage point, was mainly based on the new data sources that were not yet available at the April EDP release. Also revision of 2013-2015 data was conducted. Looking at the sequence of non-financial general government accounts with the revision revenue amount EUR 17.410 million, which is EUR 58 million higher than before, due to capital transfers (D.9 Rec) which increased by EUR 130 million, while other changes of flows on revenue side mainly reduced this positive effect.

Similar changes were recognized at the expenditure side. Total general government expenditure amount EUR 18.165 million, by revision an increase of EUR 79 million was made, due to increase of other current transfers (D.7 Pay) by EUR 115 million and Gross fixed capital formation (P.51g) by 75 million EUR. These increases were mainly reduced by negative changes of the Property income (D.4 Pay) – EUR 56 million and Social benefits (D62+D63 Pay) – EUR 67 million.

[3] Publication of 27 September 2017, SURS: http://www.stat.si/StatWeb/en/News/Index/6973
[4] Publication of 20 April 2017, SURS: http://www.stat.si/StatWeb/en/News/Index/6630

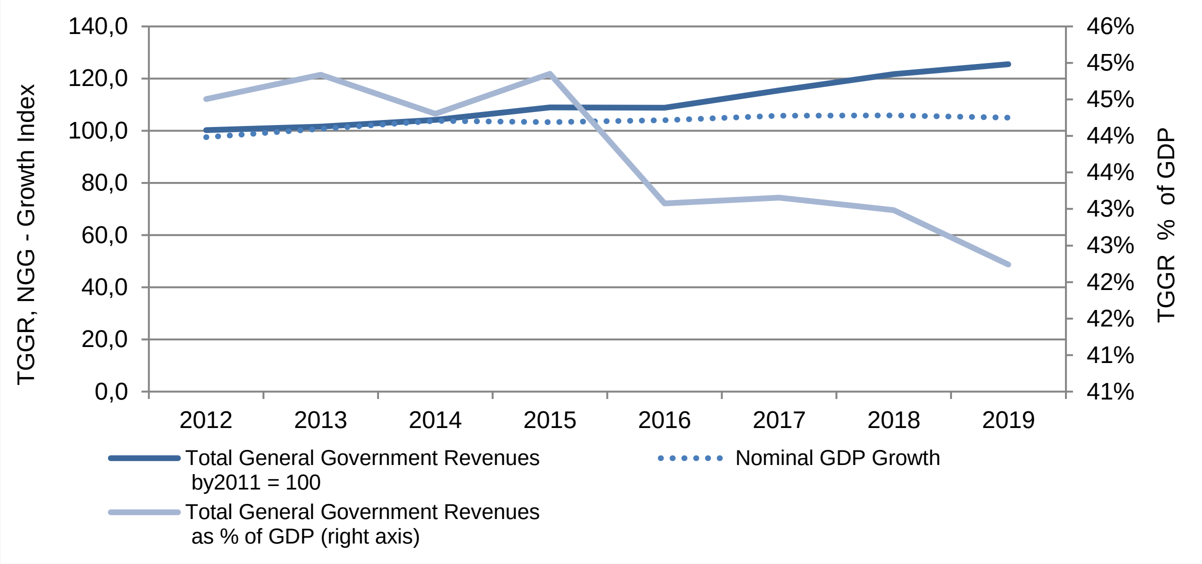
4. Budgetary objectives

4.1. Revenues and expenditures in 2018

Revenues developments

General government revenues are expected to stay at the similar level around 43.0 % of GDP in 2018 compared to current estimate for 2017. This is a consequence of higher GDP growth (5.9 % nominally) compared to the nominal growth of general government revenues which are expected to rise 5.4 % compared to current estimate for 2017. Higher growth of GDP as a consequence of higher growth in gross fixed capital formation, exports and imports of goods and services compared to the growth of private and government consumption has a decreasing affect on the share of revenues in GDP.

Figure 10: Total general government revenues growth (in % of GDP)

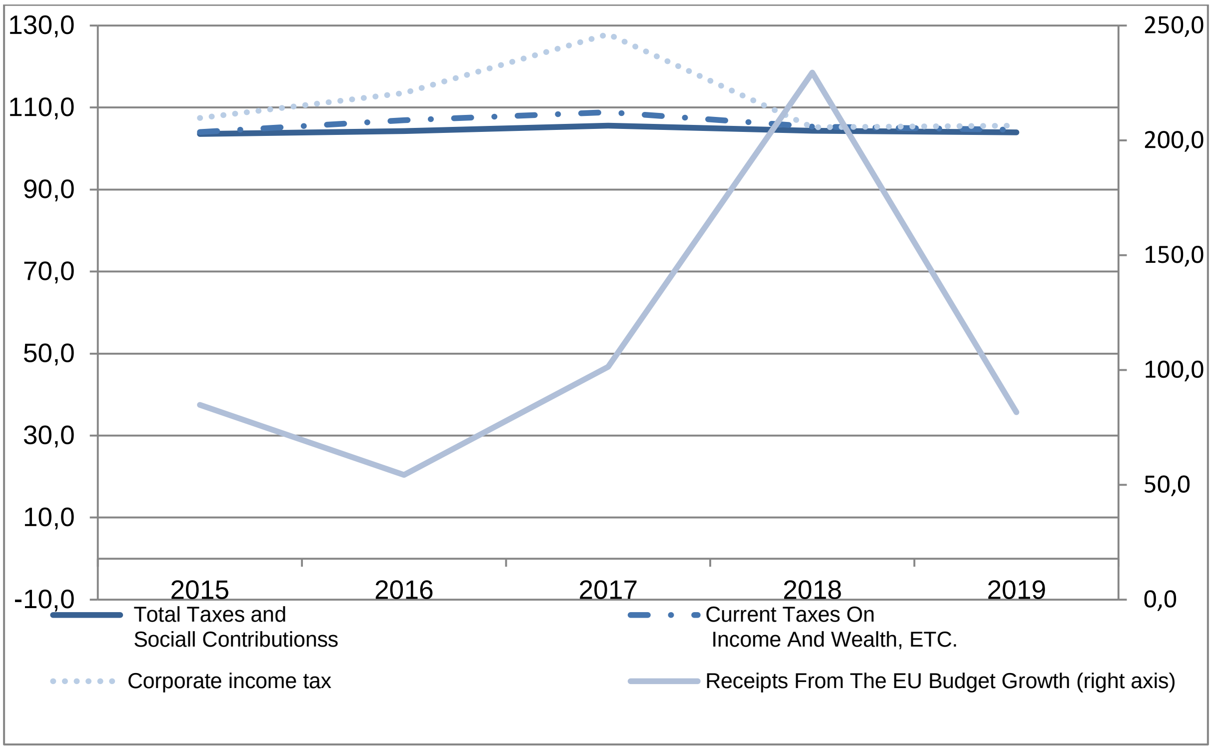


Source: MoF

The nominal rise in revenues is largely attributable to higher revenues from EU funds in 2018 (estimated around 1,1 bn eur – 2.6 % of GDP, compared to 0,5 bn eur in 2016 in cash terms) compared to the estimate of the current year (1.2 % of GDP). Faster decrease of EU funds compared to the GDP growth is expected in 2019 and on, since all the delays and issues regarding the slowdown are expected to have been solved.

All tax revenues are nominally increasing due to a stable economic environment and past implementation of restructuring measures, however they are slightly lagging in comparison to GDP as previously mentioned above. Revenues from total taxes for 2018 are estimated at around 21.5 % of GDP while 5.7 % rise of taxes on income is contributed by good labor market conditions, lower unemployment rate, expected growth in wages, a stable economic environment. Therefore expected rise in social contributions, personal income tax and corporate income tax is appropriately followed.

Figure 11: Main revenue categories (y-y growth in revenues categories)



Source: MoF

Taxation upadate

Envisidged changes in taxation are expected to be in force from 1.1.2018. In general, changes of The Amendment to the Tax procedure Act refer to some administrative simplification and allow card-paying of compulsory duties at the administrative body. Changes of tax acts will continue in the direction of further restructuring of tax burdens, improving the efficiency of collecting public duties and reducing administrative burdens. The solutions maintain the administrative simplicity of the tax system, a more even distribution of the financial burden, which means a comparable burden on taxpayers in a comparable situation. This has followed the fundamental principle of fiscal policy, that is, the equality of the system.

Personal income tax changes include:

a) measures to prevent abuse of the flat-rate expense scheme for entrepreneurs: the aim of this measure to reduce the abuse follows primarily the equality of the system in such a way that the additional elements of the system reduce the attractiveness of using it only as an instrument for reducing the tax liability;
b) special tax scheme for income from employment of posting employees from Slovenia abroad or from abroad to Slovenia with the aim of creating more competitive conditions for the Slovenian economy by attracting new knowledge into the Slovenian economic and research area
c) increase of the tax relief for student work from the current 75% of the general relief to the total amount of general relief;
d) change of the additional general tax relief in a way that it becomes more linear because in a current system it causes marginal tax rate to be over 100 % for some taxpayers.

Minor changes to the Corporate income tax Act are proposed due to new International Financial Reporting Standards 9 and with the purpose to implement measures to prevent abuse of the flat-rate expense scheme for small companies.

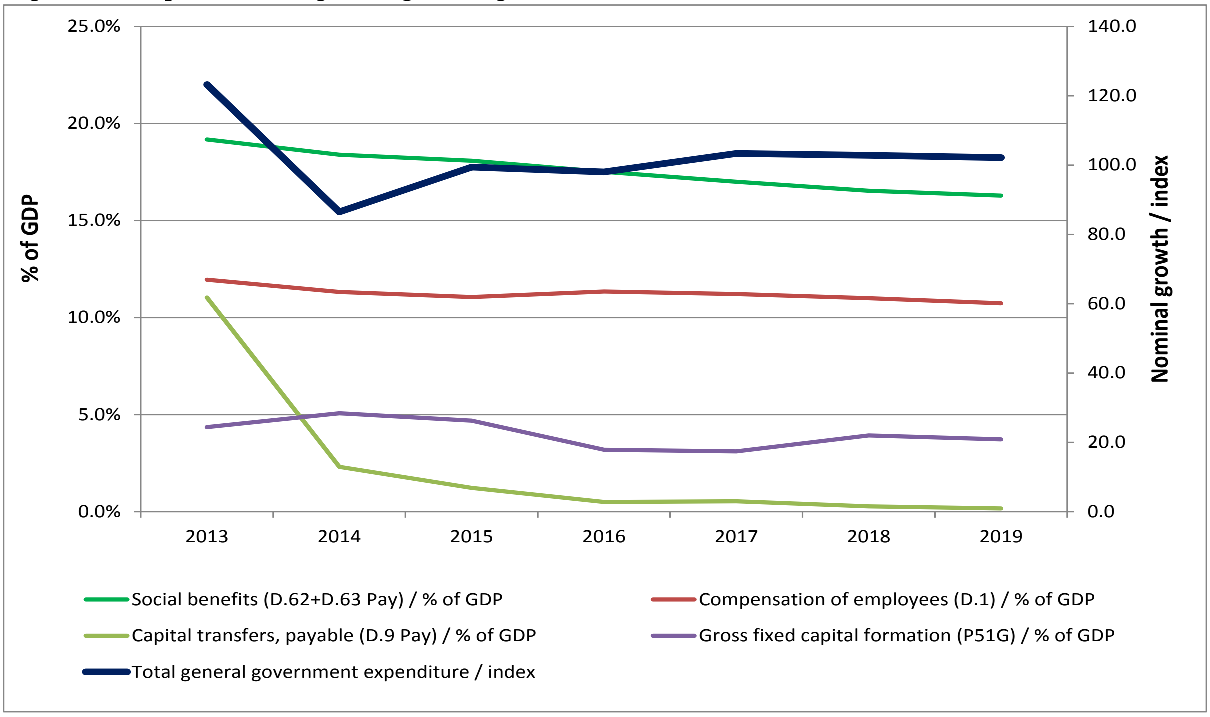
Amendments to the Fiscal Validation of Receipts Act introduce a permanent option for the taxpayer to freely decide on the method of carrying out the process of fiscal validation of the receipts by either using certified cash registers with on-line transmission of data to the Financial Administration or by using a bound book of invoices previously numbered (registered) by the tax authority.

Expenditures development

The consolidated general government budgetary balance (4 budgets) is expected to achieve a surplus of 0.2% of GDP in 2018. The general government budgetary primary surplus, which is the general government budgetary accounts position before interest rates are accounted for, is estimated to reach 2.1% of GDP in 2018. The total revenues are expected to be EUR 1,247 million higher in 2018 than estimated for 2017 or nominally increased by 7.4%. Receipts from the EU budget are expected to be EUR 627 million higher in 2018 and reach a target of 2.5% of GDP. Compared with the projections for 2017, total expenditure will nominally increase by 4.4% (from EUR 17,138 million to 17,887 EUR million).

Based on budget proposals for 2018-2019 and new projections general government expenditure in 2018 amounts to EUR 19.296 million or 42.6% of GDP. The share in GDP is declining since 2013 on from 59.5%, compared to 2017 it declined by 1.3 percentage points.

Figure 12: Expenditure targets of general government account



Source: MoF

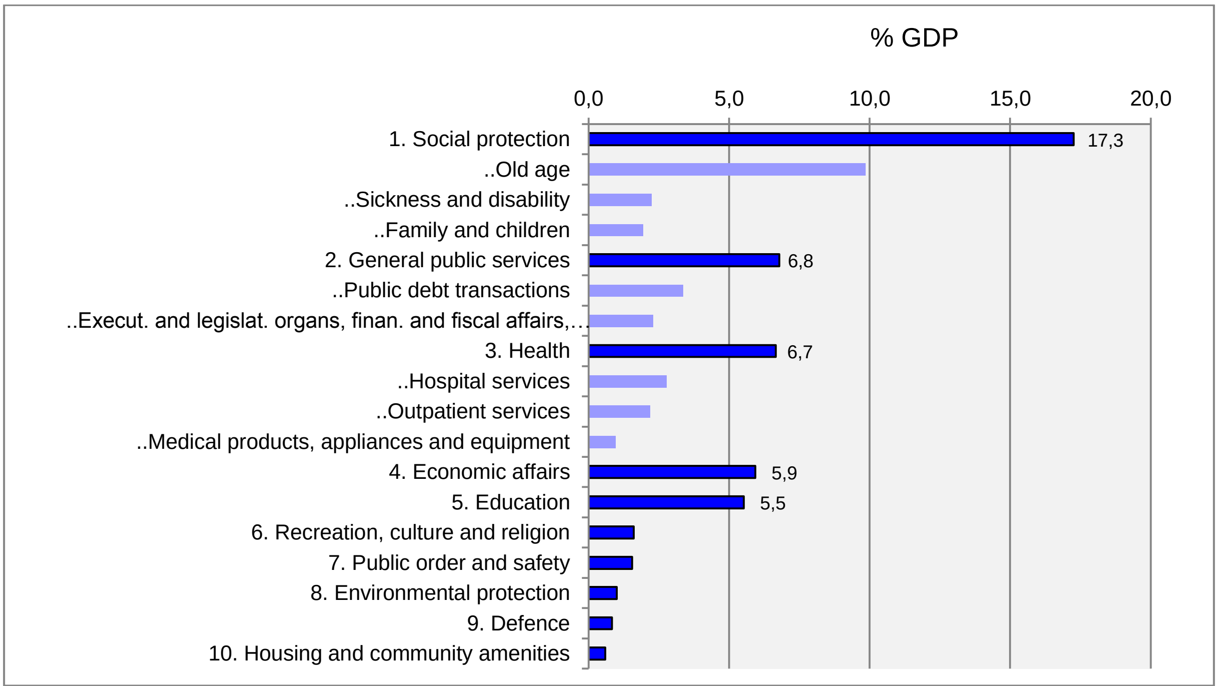
Expenditure structure remains quite stable from 2014 on. The largest proportion of expenditure in 2018 (16.5%) represents Social benefits (D.62+D.63 Pay), whose share declines by 0.5 percentage points in comparison with 2017. A small decline is also anticipated by Compensation of employees

(D.1 Pay) from 11.2% in 2017 to 11% of GDP in 2018. From 2013 on share of expenditure on Interest (D.41 Pay) is slowly decreasing and is also expected to do so in future (from 3.2% in 2013 to 1.9% in 2017).While the expenditure on Gross fixed capital formation (P.51G) will increase to 3.9% from 3.1% in 2017.

4.2. General government expenditure based on COFOG classification

The figure below presents data on general government expenditure by economic function according to the international Classification of the Functions of Government (COFOG) in the framework of the European System of National Accounts (ESA 2010). In Slovenia, expenditure on social protection remained by far the most important COFOG item. In 2015, as a percent of GDP, most of government expenditure was devoted to social protection (17.3% of GDP). Social protection includes expenditure on different risks and needs such as sickness, disability, old age, children, unemployment and other social exclusion. Of total government expenditure for social protection over half was dedicated to old age (particularly old-age pensions). Compared to the previous year, expenditure for social protection nominally increased by 0.3% of GDP; from EUR 6,686 million to EUR 6,706 million. In the same comparison expenditure trends within the field were different: expenditure for old age increased by 1.5%, for sickness and disability by 2.3%. Expenditure for unemployment decreased by 13.3% and for family and children by 3.5%. 6.8% of GDP was spent for general public services. The main category of general public services refers to public debt transaction (interest payment). In 2015 expenditure for general public services decreased over 2014 by 3.6%. For health 6.7% of GDP was spent in Slovenia in 2015 (0.2 p.p. more than a year before). This function includes expenditure for general, specialized and hospital medical services, for medicines and other medical products, appliances and equipment, for applied research for health and other activities on health. Half of expenditure for health in 2015 was spent on hospital services.

Figure 13: General government expenditure by function (based on COFOG) in 2015



Source: SORS

Note: Data on COFOG level I and some main categories on COFOG level II.

4.3. Structural balance and expenditure benchmark

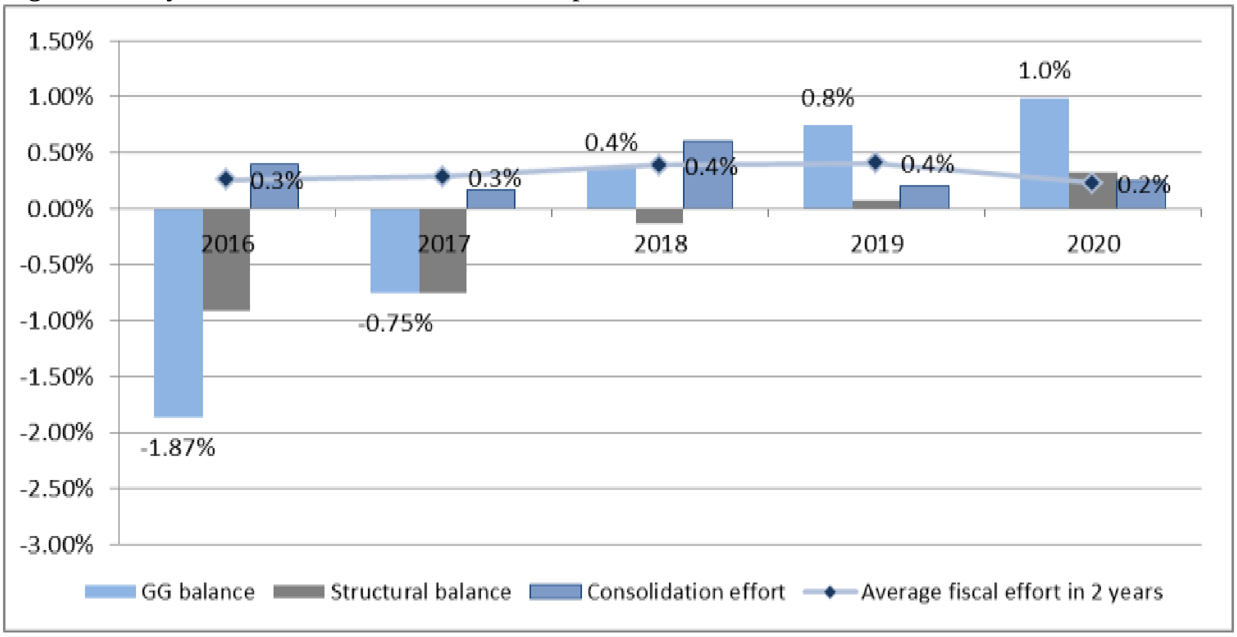
Monitoring of the government's fiscal policy is based on two analytical indicators that clarify the fiscal stance of the country. Both of them provide analytically precise results comparing the official headline balance of general government:

a. Structural balance is the main indicator representing the headline balance of the general government adjusted for economic cycle effects and one-off and temporary budgetary effects. The medium-term budgetary objective of the Slovenia is set to reach a structurally balanced budget, defined by structural surplus of 0.25 per cent of GDP. The analysis of the structural balance is focused on year-on-year changes specifying the consolidation effort. In line with the existing methodology, strength of fiscal consolidation is used to assess the pace towards the medium-term budgetary objective (MTO).

b. The second indicator is the expenditure benchmark, assessing the year-on-year growth of the general government expenditures. The expenditure benchmark brings the fiscal control mechanism by defining the growth of the expenditures controlled by the government. The expenditure growth should not exceed the potential economic growth unless the overrun is explained by additional revenue measures.

Since 2015, the Government of the Republic of Slovenia has insisted on the projected path that the structural fiscal balance will be reached by the end of 2020, based on assessments by the Ministry of Finance, when Slovenia's medium-term fiscal objective (MTO) will have been met. Since Slovenia has not yet achieved its MTO, the transitional period and the rule that the structural deficit must be gradually reduced towards the MTO in a manner which is compliant with the SGP apply. The speed of convergence is not governed by the Fiscal rule Act (FRA) which also does not provide the formula for calculating the upper threshold of expenditure during the convergence. In the medium term, Slovenia fulfils the requirements, since it achieves the required average fiscal effort in the 2017-2019 period and MTO is met by 2020.

Figure 14: Key fiscal inidicators relevant to compliance criteria



Source: MoF

The nominal reduction of the general government deficit is not entirely reflected in the improvement of the structural fiscal balance, in which the impact of the economic cycle and one-off events are excluded. According to Ministry's calculations, the structural fiscal balance improved by 0.4% in 2016 while 0.2 % in 2017 and 0.6% in 2018 improvements are projected (Figure 14). This means that the nominal improvement is not entirely the consequence of the adjustment of public expenditure structure, but is rather influenced by cyclical factors (revenue growth, lower expenditure on investments). Therefore, it is crucial that Slovenia implement the set permanent structural measures and reforms, which will also improve the structure of public finances and investments that will enhance potential growth.

- <u>Compensation of employees</u>

Compensation of employees in the structure of general government expenditure will grow slower than nominal GDP in 2018 and 2019. With the aim to reduce expenditures (compensation of employees in public sector) several measures related to the labour costs were implemented in the past years. Recently the measures were partially abolished due to the improvement of the public finances and macroeconomic situation. The government also took measures to remove the anomalies of the wage system (classification and comparison of different jobs). Consequently the compensation of employees in public sector will increase in 2018 (1% higher in 2018 than in Stability programme).

However according to the agreement between the government and trade unions in public sector in the end of 2016 (*Agreement on measures for labour costs and other measures in the public sector)* there are important saving measures still valid in 2018. The measures are related to the restrictive payments of the bonuses for work performance and lagged payments related to the work promotion. In addition the government restricted new hiring in the public sector (with a few exemptions) with the new Budget Execution Act (lower than 1% increase in employment).

- <u>Social benefits</u>

Expenditure on pensions will increase by 4.4% in 2018 due to the already implemented 1.15% pension indexation in 2017 and both, regular and extraordinary indexation in 2018 (taking into account also the foreseen lower growth in the number of pensioners). The decision to pay an annual bonus to all pensioners also affects the growth. Regular pension indexation is foreseen for 2018 as per the Pension and Disability Insurance Act, namely according to the formula of 60% of average wage growth and 40% of inflation.

According to the assessment, the volume of expenditure on social transfers will increase by 3.0% in 2018 and by 3.4% in 2019. This rise, which is slower than the nominal growth of the GDP, is mainly a consequence of some changes in the field of social benefits in cash (pension allowance for a wider group of pensioners) and social benefits in kind (more beneficiaries of school meals, higher expenditure on medical products and medical technical devices). Several measures in relation to the social transfers will be prolonged in 2018 with Budget Execution Act, meaning that indexation mechanisms will not be released. Besides, the parental leave compensation rate remains 90% and the maximum amount is limited. The Government also proposed the prolongation of the restriction of the use of employment incentive for elderly employees defined in the Pension and Disability Insurance Act and of the measure related to stimulation of the employment of unemployed elderly persons defined in the Intervention Measures for the Labour Market Act. The aim of substitution is to narrow the target group. Also the restrictive income eligibility criteria for receiving social scholarships will be partly extended to 2018.

The prolongation of different measures is possible due to systemic provisions set in the law, limiting the releases to the GDP growth rate and to the increase of the employment rate "anchors". According to the official data the increase of employment rate will not exceed the anchor (set at 1.3%). According to latest SORS[5] data employment rate 20-64 will increase by 0.9 p.p.in 2016.

With the improved situation in the labour market, transfers for the unemployed should decilne by 10% in 2018, and then maintained at the same level until the end of the programming period.

- Interest expenditure

Interest expenditure, which fluctuated around 3% of GDP in 2016, will gradually decrease to the level of around 2.6% of GDP in 2017 and further on bellow 2 pp of GDP in 2018 as a consequence of active debt management and a gradual reduction of general government debt.

- Gross fixed capital formation

In 2017, gross fixed capital formation financed from public funds will be increased by 25% to 3.1% of GDP in comparison to 2016, and by 30% to 3.9% of GDP in 2018. Given the major drop in 2016, an increase is expected in following years. The level of gross fixed capital formation from public funds is foreseen at EUR 1.7 to billion per year, and still does not reach the levels before the crisis. It is also anticipated that the drawing of EU funds supporting 'classic' investments will be redirected into supporting 'soft content', i.e. investing in people, knowledge and development.

Slovenia was under-investing in railway infrastructure in the past. In order to compensate the lag more financial resources will be allocated to enhance its capacity. Two major investments are envisaged to start in 2017 and 2018: construction of second railway track Divača-Koper and purchase of trainsets. Public finance consolidation plan has obliged government to cut spending in the public sector and find also other resources. For construction of the second railway track a multilayer blending approach will be applied: equity contribution from hinterland country (Hungary), grants of Connecting Europe Facility, grants of European Cohesion Fund, loans from international and domestic financial institutions. Invested financial resources will be paid back primarily by the users of infrastructure (increased usage fee on the railway, highway mark up for heavy motor vehicles, port tax for logistic operators in the Port of Koper) and by the state budget.

- Migration costs, claiming one-off costs

Due to the unforeseen migration costs the costs of influx of migrants are summed up to 58 mio EUR of which 8,2 mio EUR in 2017.

In 2017, the one-off expenditure was EUR 21 million (settlement of unpaid old foreign-currency deposits, which were transferred in the 1990s to Croatian banks and paid to savers (unpaid deposits), payment of interest). We assess that one-off expenditure will increase to around 0.35% of GDP due to lawsuits (denationalisation, investment dispute and other) but this is now postponed to 2018 (15 mio EUR of interest and 15 mio EUR extra for denationalization).

- Major reforms in future years (health care reform and long term care)

[5]http://pxweb.stat.si/pxweb/Dialog/varval.asp?ma=0762003E&ti=&path=../Database/Demographics/07_labour_force/02_07008_active_pop_ADS/01_07620_active_pop_ADS_quart/&lang=1

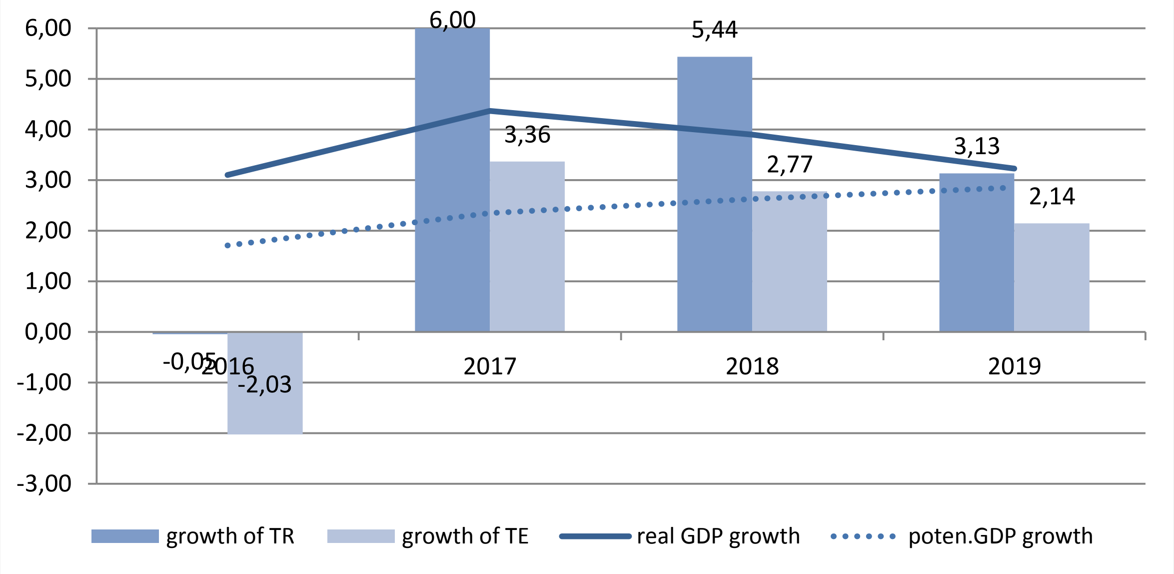
The health care reform and accompanying acts are in the pipeline. The main draft of Health Care and Health Insurance Act is in the public consultation. The proposal addresses key issues, such as stabilisation of revenues and better quality and access of service provision. The stabilisation of revenues is planned to be achieved through the increased diversity of the financial resources. Some of the activities like the traineeships, specialised training and education are to be financed directly through the State Budget from 2017 onwards. The proposal is defining basket of services that have to be covered by the compulsory insurance. The changes are proposed in planning and coordinating mechanism between the Ministry of Health, Health Insurance Institute and providers. In the next two years action will be taken to further strengthen the role of general practioners and extend the mandatory joint public procurement to medical devices.

The new law on the long term care is planned to be submitted for public discussion in October 2017. To encourage the process, a new Directorate for long term care was created in the Ministry of Health. The directorate is responsible for the preparation of the new law, implementation of the pilot projects and for overall reform process. The aim is to create an integrated long term care system with more emphasis on the formal home based care services, non-formal long term care services and services to support individuals to stay independent and in their homes longer. The law will clearly define the basket of services covered by long term care, assessment criteria's to entry the system, multifunctioning teams and single entry points at the regional offices of the Health Insurance Institute. In the next two years two pilot projects in two regions of Slovenia will be implemented to test and assess the new system, according to the outcomes the law will be changed.

Table 5: List of measures	**Detailed description**	**ESA Code**	**Adoption Status**	**Budgetary impact**	
				2018	2019
				% GDP	% GDP
Restrictive wage policy in public sector	Further measures in preparation	D.1	For 2018 valid, for 2019 negotiation	0,3	0,2
Measures in the area of social benefits	Social allowances; parental leave (frozen price indexation, tied to anchor)	D.62+D63	Valid for 2018 via Budget Execution Law	0,1	0,1

When meeting the commitments of the Stability and Growth Pact and the Fiscal Rule Act during the transitional period when the medium-term objective has not yet been met, Slovenia follows the requirements. As displayed in Figure 15 below, we thus observe that growth in general government expenditure (in 2018 and 2019) lags behind growth in general government revenue and potential output, so that a share is always 'saved' or earmarked for approximation to the medium-term objective. The target scenario is also based on the assumption that potential GDP growth is lower that real GDP growth.

Figure 15: Growth in general government revenue, expenditure, real and potential GDP growth, in %



Source: MoF

According to the extended Stability and Growth Pact, the assessment of approximation to the medium-term objective, in addition to the fiscal effort, must also take into account the growth in expenditure in comparison with potential GDP growth[6]. The growth in general government expenditure (expenditure benchmark) requires a reduction in so-called cleared (non-cyclic) expenditure. Thus, all expenditure that is not 'under government control' (they are cyclic) are eliminated from general government expenditure: unemployment benefits, interest, EU funds balanced with EU revenue, gross fixed capital formation – an average. Then, we take into account/reduce nominal expenditure for an incremental increase in revenue (additional revenue which constantly increases the base), and according to the rule, we also subtract one-off expenditure. Then we calculate the nominal growth rate or reductions in the cleared expenditure, which we adjust to the deflator from the 2017 Spring forecast (t-1) and obtain the real rate.

Council recommendation on the 2017 National Reform Programme of Slovenia and delivering a Council opinion on the 2017 Stability Programme of Slovenia, in the light of its fiscal situation and notably of its debt level, calls to further adjust towards an appropriate medium-term budgetary objective. According to the commonly agreed adjustment matrix under the Stability and Growth Pact, that adjustment translates into a requirement of a nominal growth rate of net primary government expenditure[7] which does not exceed 0.6 %. It would correspond to a structural adjustment of 1% of GDP. Under unchanged policies, there is a risk of a significant deviation from that requirement in 2018.

In the Country Specific Recommendations, the Council took note that the Commission intended to take into account the cyclical situation of a Member State in the context of its overall assessment of

[6] The expenditure growth rate should not exceed potential GDP growth, unless the surplus is balanced with discretionary revenue measures. This will enable the approximation to the target structural fiscal balance. If expenditure increases faster than potential GDP, the structural fiscal balance worsens and vice versa.

[7] Net government expenditure is comprised of total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a 4-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

compliance with the preventive arm of the SGP. Slovenia announced application for a degree of discretion, when considering departures from the fiscal adjustments implied by the matrix, specifically in the phase of assessing compliance. Its degree of discretion results from the specific terms of Article 6(3) of Council Regulation (EC) No 1466/97. Slovenia expects to be assessed on the basis of two overriding principles: equal treatment and predictability regarding both criteria's (structural balance and expenditure benchmark). Since the requirement of a nominal growth rate of net primary government expenditure should not exceed 0.6 % and it corresponds to a structural adjustment of 1% of GDP. On the other hand Commission has also reflected in CSR to consideration, when taking policy action, to achieving fiscal stance that contributes to both strengthening the ongoing recovery and ensuring sustainability of Slovenia's public finances.

According to the Ministry of Finance's autumn 2017 forecast (based on IMAD), the structural balance in 2018 will be -0.14 % in ratio to GDP. There is no deviation relative to the required adjustment if we take into account the possible use of margin of appreciation, since fiscal effort is estimated at 0.6% of GDP. The cumulative deviation for 2017–2018 will be 0.4% of GDP. Expenditure benchmark requirements will also be met according to Ministy of finance estimations and taking into account GDP deflator (t-1) from European Commission forecast. In this way the prorposed Draft Budgetary plan concludes that Slovenia will be compliant with preventive arm SGP rules in 2018.

Table 6: Net lending (EDP B.9) by sub-sector	**ESA code**	**2017 (% of GDP)**	**2018 (% of GDP)**
1. Net lending/net borrowing: General government	S.13	-0.8	0.4
2. Net lending/net borrowing: Central government	S.1311	-0.9	0.3
3. Net lending/net borrowing: State government	S.1312		
4. Net lending/net borrowing: Local government	S.1313	0.1	0.1
5.Social security funds	S.1314	-0.0	-0.1
6. Interest expenditure	EDP D.41	2.6	1.9
7. Primary balance		1.9	2.3
8. One-off and other temporary measures			
8.a Of which one-offs on the revenue side: general government			
8.b Of which one-offs on the expenditure side: general government		0.05	0.1
9. Real GDP Growth(%) (=1 in Table 1a)		4.4	3.9
10.Potential GDP Growth(%) (=2 in Table 1a)		2.3	2.6
Contributions			
-Labour		0.7	0.7
-Capital		0.1	0.3
-Total factor productivity		1.4	1.6
11. Output gap (% of potential GDP)		0.1	1.3
12. Cyclical budgetary Component (% of potential GDP)		0.05	0.6
13. Cyclically adjusted balance (1-12) (% of potential GDP)		-0.8	-0.3
14. Cyclically adjusted primary balance (13+6) (% of potential GDP)		1.8	1.7
15. Structural balance (13-8) (% of potential GDP)		-0.75	-0.2

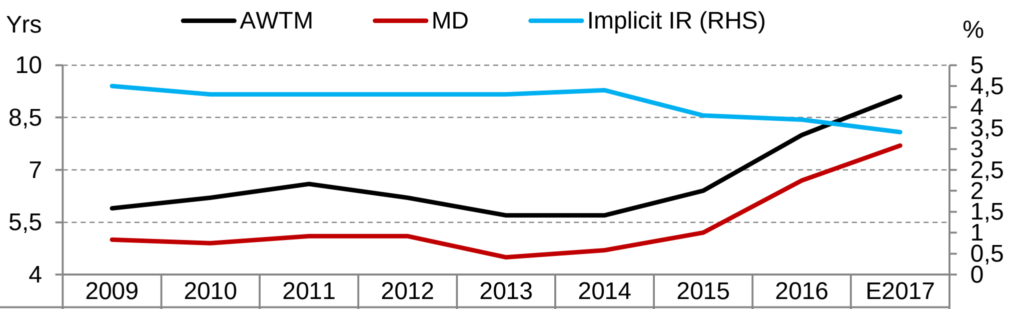
Source: MoF

4.4. Debt developments and guarantees

Since 2014 the long term financing cost of the central government budget has been reduced significantly while the modified duration of the portfolio was increased. In this respect Slovenia is advancing more closer to those DMOs within OECD group of countries which pursue the same key strategic debt management objectives in such historically low interest rate environment in euro area. Slovenia implicit interest rate on state budget debt portfolio has been decreasing since 2014. Accordingly, the interest bill savings, due to refinancing of debt at lower yields and active debt management of US$ debt portfolio via exchanging it with much cheaper euro bonds, in the whole budget expenditure already left a significant positive effect.

State budget debt accounts for 90% of the general government debt. Key focus of the state treasury in this respect has been to extend the duration of the debt portfolio, hence reducing roll-over risk, while reducing implicit interest rate at the same time. While the diminishing debt rule starts to have its traction with the year 2016, the way how to seize the prevailing favourable euro debt capital market conditions is to actively exchange more expensive US$ bonds with euro bonds with contained effect on the state budget debt increase. Achieving positive net present value of such debt management transaction has been and is a key prerequisite. Slovenia happens to be one of the most active debt managers in last two years. 50.1 % of the state budget US$ debt portfolio was exchanged with cheaper euro bonds in so far six cross-currency liability management transactions since May 2016 (three such transactions in year 2017 and three in year 2016).

Figure 16: State Budget Debt Portfolio Duration, Average Weighted Time to Maturity and Implicit Interest Rate

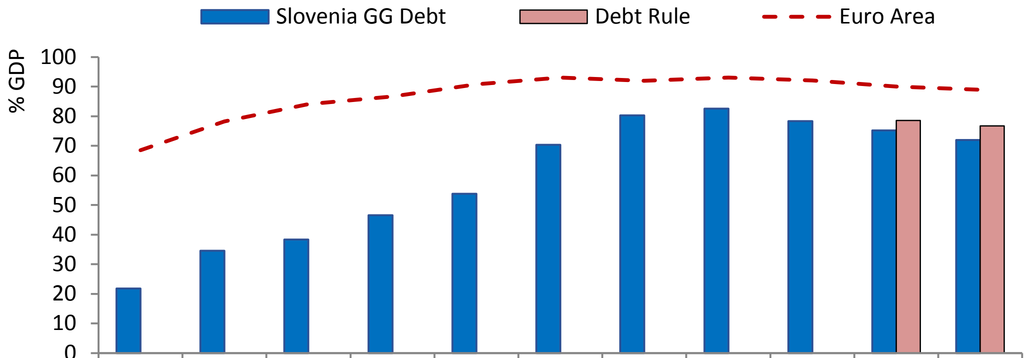


	2009	2010	2011	2012	2013	2014	2015	2016	E2017
AWTM	5,9	6,2	6,6	6,2	5,7	5,7	6,4	8,0	9,1
MD	5,0	4,9	5,1	5,1	4,5	4,7	5,2	6,7	7,7
Implicit IR (RHS)	4,5	4,3	4,3	4,3	4,3	4,4	3,8	3,7	3,4

Source: MoF 28.9.2017

While the Republic of Slovenia exited EU excessive deficit procedure in 2015 and with achieving the peak of general government debt of 82.6% of GDP (deficit of 2.9%) it is now committed to comply with the EU rules tackling excessive debt procedure. Slovenia intends to reduce budget cash reserves over the medium term, while on longer term continuing fiscal consolidation with adequate nominal GDP growth and privatisation will support sufficient general government excessive debt reduction. Since transitional arrangements are in place until end 2018, the projections show that the debt rule would be met from 2016. The debt ratio is to be below the forward-looking debt benchmark, i.e. the benchmark for 2016 requires a forecasted debt to GDP ratio in 2018 to be lower, which is fulfilled. Forward-looking benchmark uses forecasts made by the European Commission on the basis of unchanged policies. From 2017 on, both the actual and cyclically adjusted debt ratios comply with the backward looking benchmark.

Figure 17: General Government Debt, Euro area average, Debt rule level (backward-looking benchmark)

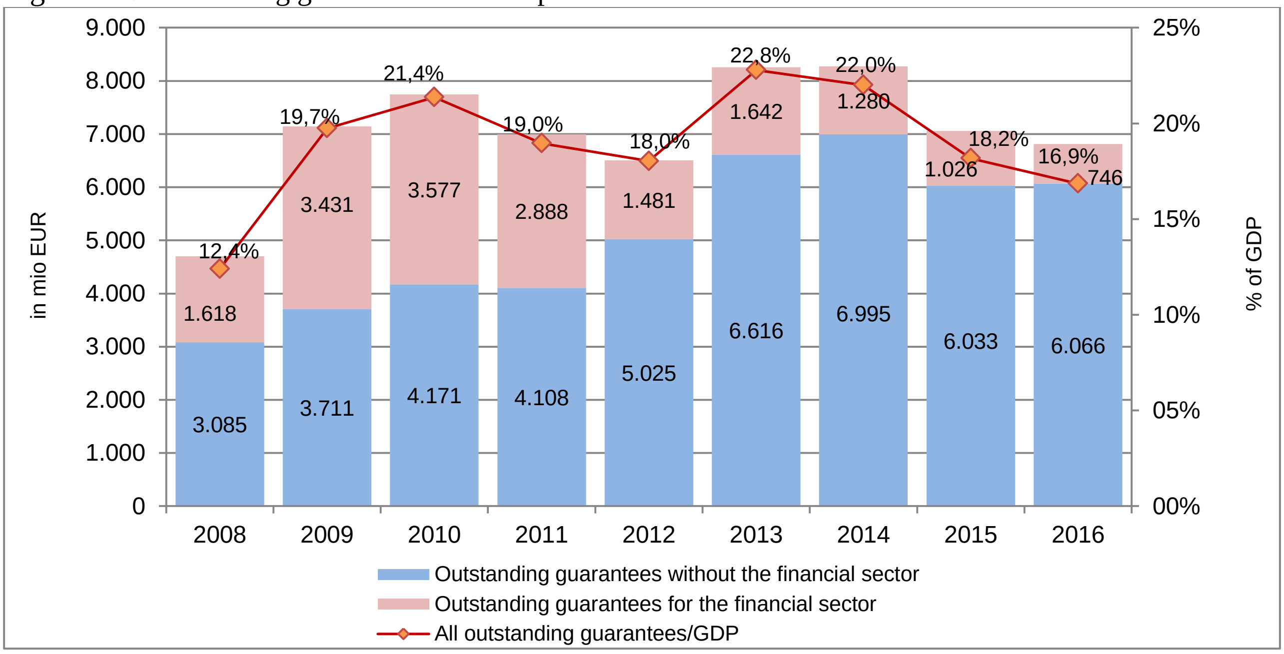


	2008	2009	2010	2011	2012	2013	2014	2015	2016	E2017	E2018
Slovenia GG Debt	21,8	34,6	38,4	46,6	53,8	70,4	80,3	82,6	78,4	75,2	72
Debt Rule										78,6	76,7
Euro Area	68,5	78,3	84,1	86,7	90,8	93,1	92	93,1	92,1	90	89

Source: Ameco database, MoF, 28.9.2017

The central government issues guarantees to certain entities predominantly within the public sector, on a case by case basis, for projects such as the construction of highways and railways. In 2009 to 2010 for the purpose of facilitating borrowing in the markets under the “crisis prevention programme”, 2.2 billion EUR of guarantees were extended to four banks. The debt of banks under the “financial crisis programme” and the measures to strengthen bank stability was largely settled on 31 July 2012 and fully extinguished by 30 June 2015. The total amount of central government guarantees outstanding as at 30 June 2017 was 6,383.9 million EUR, comprising 669.5 million EUR of guarantees for the financial sector.

Figure 18 : Outstanding guarantees of the Republic of Slovenia for 2007-2016



Source: Ministry of Finance
Note: In accordance with the Classification of Institutional Sectors (SKIS) data " Outstanding guarantees for the financial sector" contains the data of outstanding guarantees for S.12, Financial corporations.

5. Country specific recommendations

CSR	2017 Recommendations	State of play
1	Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which translates into a substantial fiscal effort for 2018. When taking policy action, consideration should be given to achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of Slovenia's public finances.	Slovenia will fulfill demanded fiscal effort, i.e. 0.6 pp of GDP, while using margin of appreciation (regarding evaluation of position in cycle). Further fiscal consolation relies on lags behind growth of expenditures behind the growth of revenues (so called earmarking). Also not all measures in field of social transfers were releases (parental leave, scholarships, incentives for older workers, non-indexation of social transfers) and non-full releases of compensation per employees. There are some postponed investments in general government, what also affects future budgetary years.
	Adopt and implement the proposed reform of the healthcare system and adopt the planned reform of long-term care, increasing cost-effectiveness, accessibility and quality care. Fully tap the potential of centralised procurement in the health sector.	On 19 September 2017 the National Assembly of the RS adopted the Act Amending the Health Services Act and the Act on intervention measures to ensure the financial stability of public health care institutions established by the Republic of Slovenia. Act Amending the Medical Practitioners Act was adopted by the National Assembly of the RS on 12 July. A kick-off meeting of the project on the distribution of healthcare providers and health workforce in Slovenia supported by the Structural Reform Support Service of the European Commission is scheduled for October 2017. On 26 September 2017 the National Assembly of the RS adopted the Act Amending the Patient Rights Act. Implementation of e-health solutions in healthcare continues. Referral in electronic form was made obligatory this year. Activities are carried out to have all waiting lists of patients completely automatically collected from information systems on a daily basis. The Long Term Care Act is under preparation. It will be submitted for public discussion in October 2017. Activities for piloting proposed legislative solutions with the help of EU structural funds are on-going. The Structural Reform Support Service of the European Commission supports work in this area with the technical assistance.
	Adopt the necessary measures to ensure the long-term sustainability and adequacy of the pension system.	In July 2017, the Economic and Social Council adopted a document which includes a number of measures, agreed among Government and social partners, for further development of the pension system in Slovenia. On the basis of the document, statutory amendments in the field of pension and disability insurance in Slovenia, effective after 2020, will be prepared. Agreed measures aim at ensuring the fiscal sustainability of the pension system and providing decent pensions.
2	Intensify efforts to increase the employability of low-skilled and older workers, particularly through targeted lifelong learning and activation measures.	In 2016, 6,386 unemployed persons aged over 55 were employed, which is 35% more than in 2015 and 38.5% more than in 2014. In the first eight months of 2017, the positive trend of employment of older unemployed continues. NEW MEASURES: - On 26. September 2017 the Parliament adopted the Amendments of the Labour Regulation Act. The Act introduces a new incentive to employ unemployment benefit recipients with lower and middle level of education. If they are employed before the expiry of unemployment benefit entitlement they will

		be entitled to a salary allowance in the amount of 20% of the last paid unemployment benefit. The allowance will be paid for the remaining duration of entitlement to unemployment benefit, but no longer than 6 months. - On 28. September 2017 the Government submitted to the Parliament a proposal for the Intervention Act, which extends the implementation of the measure of promoting the employment of persons aged over 55 years. Under the intervention measure employer is exempted from the payment of social security contributions for up to 24 months for employment of older worker. The measure is in place from 1.1.2016 until 31.12.2017, if the proposed Act is adopted by the parliament, the measure will be extended till 31.12.2019. - In September 2017 Ministry of Labour, together with PES, introduced a new, pilot programme Actively Till Retirement. The new ALMP programme aims to promote employment of unemployed persons, aged over 55, by offering a subvention for employment. The employment must last until retirement. - In June 2017, the new ALMP programme “Employment Promotion Training Programs” has been adopted. The implementation will start in 2018. It will focus on raising knowledge, skills and competences of unemployed persons from vulnerable groups (e.g. aged over 50, long term unemployed, persons with education level under ISCED 3 etc.). The training will be conducted by the Inter-Company Training centres and adjusted to labour market needs. - In 2017, the new programme aimed at older workers has been introduced, which aims to encourage a delayed retirement and to increase the employability of older workers. - In 2017 Slovenia is continuing with implementation of the programme Competence Centres for Human Resources Development. Slovenia is also implementing OECD project Skills Strategy that will help Slovenia to take more concrete actions relating to national skills system.
3	Improve the financing conditions, including by facilitating a durable resolution of non-performing loans and access to alternative sources of financing.	Slovenia continues to perform broadly in line with the EU average in the area of access to finance, and it has been steadily improving its performance. According to the results of the annual survey of SMEs prepared by the Chamber of Commerce and Industry of Slovenia, already in 2016, access to finance <u>was no longer the main obstacle to SMEs’ further development and growth</u>, for the second year in a row. Slovene SMEs are mainly financed by their own internal resources. The alternative financial instruments like crowdfunding are only emerging in Slovenia, representing a minor share of financial resources available for SMEs. Policy measures in area of access to finance are provided mostly by Slovenian Investment and Development Bank (SID) and public funds such as the Slovene Enterprise Fund (SEF), the Slovenian Regional Development Fund and the Housing Fund. In 2016 and the first quarter of 2017, were implemented the following new measures: - SID Bank opened two new credit lines (so-called ‘patient loans’) for improving the capital of SMEs that are over-indebted but have a healthy core business and present promising business models, - SPIRIT Slovenia introduced a ‘Business process voucher’, grants to support improvements and renovations in companies’ business processes - SPIRIT Slovenia launched a public call for ‘Complementing

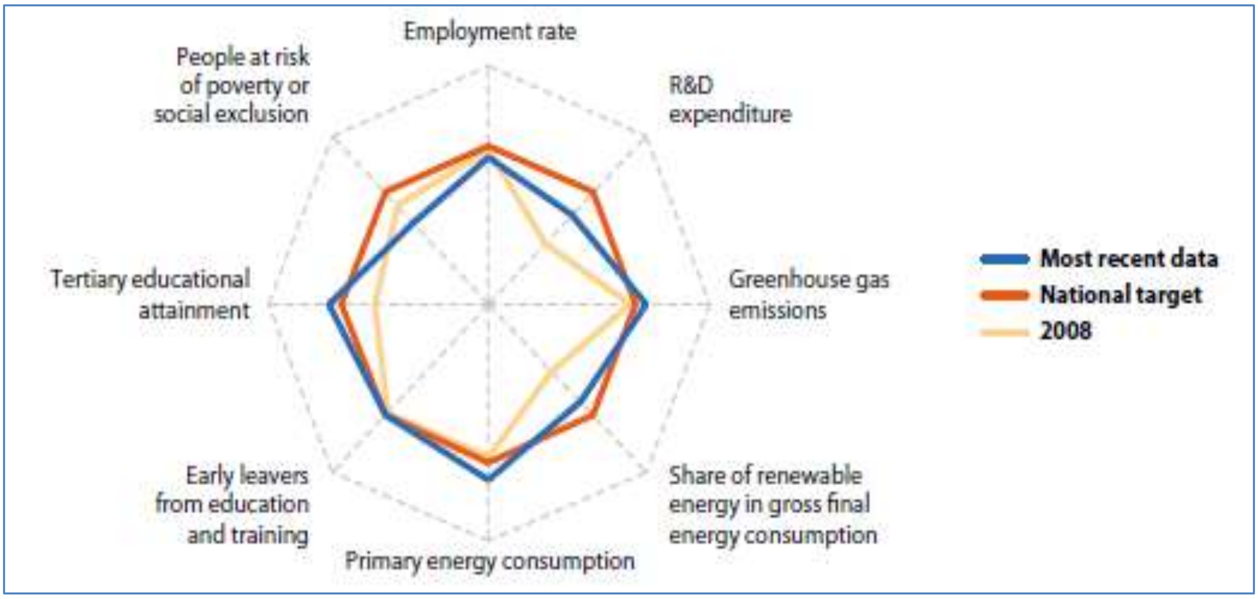
		the SME Instrument under Horizon 2020' Measures offered by Slovene Enterprise Fund (start-up grants, microcredits, guarantees for bank loans with subsidies of interest rate) continued as they were well accepted by SMEs and shown good results. Also blending of grants and financial instruments was implemented. Slovenia prepared a new system of managing and implementing the financial instruments in the period 2014 – 2020 from European Structural and Investment Funds The new model of implementing financial instruments through fund of funds based on the ex-ante analysis and EIB analysis determined five fields of financial gap: SMEs, RDI, urban development, energy efficiency and agriculture. By October 2017: - the Key elements of financial instruments 2014-2020 were adopted by the Government of RS. (June 15, 2017), - The Implementation plan of financial instruments 2018-2019 was adopted by the Government of RS - The activities for selection of fund of funds' manager were done and the draft financial agreement was prepared. The plan is that the first tranche will be paid into fund of funds by the end of 2017. The implementation of financial instruments will start in 2018.
	Ensure the full implementation of the bank asset management company strategy.	At the end of 2016 Government approved »Business strategy DUTB 2016 – 2022«. The document is in line with BAMC's mission defined in ZUKSB and the guidelines adopted by the Government. The supervision of the BAMC is performed by Ministry of finance. Its main task is to monitor the BAMC's achievement of the key performing indicators until the end of 2022 as defined in Guidelines set by the Government. Since inception until the end of 2016 BAMC generated 862.8 million EUR of inflows, representing almost 43% of assets transferred to BAMC. Also in 2016 and in the first quarter of 2017 BAMC highly exceed the statutory target of cash generation from transferred and merged assets. In accordance with the law the lifespan of BAMC is limited by the end of 2022. The assets remaining in BAMC's management at the end of 2022 are going to be, in accordance with Article 36 of ZUKSB, transferred to SSH or other institution as decided by the owner. BAMC projects to have 79.4 million EUR of claims and 8.9 million EUR of real estate at the end of its lifetime.
	Reduce the administrative burden on business deriving from rules on spatial planning and construction permits.	Drafts of the new Spatial Planning Act, new Construction Act and new Act on Civil Engineering and Architectural Services are in the parliamentary procedure, with adoption planned in December 2017 and enforcement in June 2018.
	Ensure good governance of State-owned enterprises.	Slovenian Sovereign Holding Act, adopted in 2014, was fully implemented in 2015, when performance criteria and final management acts, Asset management Strategy and Annual management plan, were adopted. According to Annual management report for 2015, presented to the National Assembly in December 2016, ROE of state owned companies was raised from 1.8 % in 2014 to 4.7 % in 2015. First data show that state portfolio ROE in 2016 will be 6.0 %.

Linking DBP with EU 2020 Strategy Targets

Recent data for Slovenia shows that Slovenia is well on the way to reach the national targets in most areas. By reducing its GHG emissions in non-ETS sectors by 2.7 % since the ESD base year, Slovenia remained below its target of a maximum increase of 4 % by 2020. The country has already met both of its education targets, with only 4.9 % of the population aged 18 to 24 leaving school early and 44.2 % of 30 to 34 year olds having tertiary educational attainment in 2016. Since 2009, it has continuously met its target on energy efficiency, which requires a primary energy consumption of 7.3 Mtoe or less. In 2014, Slovenia was closer to meeting its commitments on R&D expenditure and renewable energy than the EU as a whole was to meeting its collective commitments.

After a period of continuous deterioration between 2008 and 2013, the employment rate increased to 70.1 % in 2016, thus reducing the distance to the national target to 4.9 percentage points. Slovenia has in the past years introduces several measures to increase employment rate of young, elderly and low-skilled workers which will gradually show in improving of the indicator. Between 2008 and 2016, the number of people at risk of poverty or social exclusion in Slovenia increased by 10 000, which translates into a gap of 50 000 people to the respective target. Slovenia will end part of the austerity measures that were implemented during the crisis in the field of social security transfers starting with 1January 2018. This will affect social transfer recipients and other vulnerable groups.

Figure 19: EU 2020 targets



Source: Eurostat

6. Comparison to Stability programme 2017

The Stability Programme 2017 was based on the data from Spring Economic Forecast made by the Institute of Macroeconomic Analysis and Development (IMAD). It anticipated GDP growth of 2.5% in 2016. The current data from Autumn Economic Forecast, also made by IMAD, anticipates higher economic growth in 2016 (3.1% of GDP). In comparison with the last update programme, the estimates on GDP growth over the whole forecast horizon have been corrected upwards. The Autumn forecast predicts 4.4% GDP growth for this year. In the next two years the broad-based economic growth will continue (hovering between 3% and 4%). The key drivers of this year's faster growth are the high growth of exports and the dynamics of government investment. Export growth will also remain high in the next two years. Domestic demand is expected to remain a significant factor of growth in 2017 – 2019. Over the longer term, the highest uncertainty is related to the way of dealing with demographic change, one of the key factors that will affect the dynamics of economic growth.

Table 7: Difference SP vs DBP Net lending/borrowing	**2017**	**2018**	**2019**
DBP (1)	-0.8	+0.4	+0.8
Stability Programme (2)	-0.8	-0.2	+0.2
Difference (1-2)	0.0	+0.6	+0.6
General government debt			
DBP (1)	75,2	71,7	68,0
Stability Programme (2)	77.0	74.3	70.9
Difference (1-2)	-1,8	-2,6	-2,9

Source: MoF

Government consumption is expected to be low in 2017 – 2019, although it will rise at higher rate than targeted in the 2017 Stability Programme. The projected 2017 growth of government consumption arises mainly from further employment growth in the general government sector and the growth of spending on goods and services, though this remains moderate. Similar trends are also expected for 2018 and 2019. Unemployment is expected to decline, even greater than it was forecasted in Stability Programme. The current account surplus will remain high in 2017 – 2019 (at around 5% of GDP). It will continue to reflect primarily the deleveraging process in the private sector and still low level of domestic consumption, particularly investment. The surplus was also attributable to the improvement in export competitiveness of the tradable sector. The slight narrowing of the surplus this year is largely related to deterioration in terms of trade amid higher prices of oil and commodities than last year.

In line with economic indicators, the general government balance is expected to improve over the forecast horizon. The latest estimates confirm the 2017 general government deficit target of 0.8% of GDP set in the 2017 Stability Programme. The general government balance is projected better by 0.6 percentage points than targeted in the 2017 Stability Programme and to reach a surplus of 0.4% of GDP in 2018. The headline balance is expected to achieve in even higher surplus of 0.8% of GDP in 2019.

Table 8: Comparison with forecasts of selected economic indicators	Stability Programme 2017				DBP			
	2016	2017	2018	2019	2016	2017	2018	2019
Real GDP growth (%)	2.5	3.6	3.2	2.6	3.1	4.4	3.9	3.2
Government consumption	2.6	1.0	0.9	0.6	2.5	1.1	0.9	0.9
Gross fixed capital formation	-3.1	7.0	7.0	6.0	-3.6	9.0	8.0	7.0
Unemployment rate (ILO) (%)	8.0	7.0	6.4	6.0	8.0	6.8	6.2	5.8
Current account balance	6.8	4.6	4.4	4.4	5.2	4.7	5.1	5.3

Source: MoF

Table 9 shows the differences in forecasts made by individual institutions: IMF, the European Commission (EC), OECD, IMAD and the Bank of Slovenia, which could also significantly affect the calculations of potential growth and consequently the general government balance as well as output gaps. Economic growth in 2016 (3.1% of GDP) exceeded the expectations of domestic and foreign institutions. The lowest forecasts for 2016 were in Spring 2016, namely by 1.2 to 1.6 percentage points lower compared to the final realization in 2016.

For 2017, the budgetary documents were drawn up with the 2016 Autumn forecast (IMAD 2.9% and EC 2.6%). In the 2017 Spring forecast the European Commission forecasts for Slovenia for 2017 3.3% economic growth and for 2018 3.1% economic growth, which is somewhat higher than in the Autumn forecast. The EC announced higher expectations on economic growth, driven by improved labour market conditions and consequently the increase of private consumption and investment. Similar to IMAD, the European Commission also forecasts that exports remain the key factor in improving economic activity. According to IMAD's Spring 2017 estimates, the GDP will rise by 2.6% in 2019, which is slightly less than predicted in the latest estimate made by the Bank of Slovenia (3.0%). The latest IMAD's Autumn forecast for 2017 projects further improvement and recovery of the economy. According to the latest IMAD estimates, real GDP growth will strengthen considerably this year (4.4%) and then hovering between 3% and 4% in the next two years.

Table 9: Comparison of forecasts for Slovenia (real GDP growth in %)	**Spring 2016**				**Autumn 2016**				**Spring 2017**				**Autumn 2017**			
	2016	2017	2018	2019	2016	2017	2018	2019	2016	2017	2018	2019	2016	2017	2018	2019
IMF	1.9	2.0	1.7	1.5	2.3	1.8	1.6	1.6	2.5	2.5	2.0	2.0	3.1	4.0	2.5	2.1
EC	1.7	2.3	-	-	2.2	2.6	2.2	-	2.5	3.3	3.1	-	-	-	-	-
OECD	1.5	2.3	-	-	2.0	2.4	2.3	-	2.5	3.8	3.1	-	-	-	-	-
IMAD	1.7	2.4	2.3	-	2.3	2.9	2.6	-	2.5	3.6	3.2	2.6	3.1	4.4	3.9	3.2
BS	1.9	2.5	2.6	-	2.2	2.5	2.6	2.5	2.5	3.5	3.1	3.0	-	-	-	-

Source: IMF (April 2016, October 2016, April 2017, October 2017), EC (May 2016, November 2016, April 2017), OECD (June 2016, November 2016, June 2017), IMAD (March 2016, September 2016, March 2017, September 2017), BS (June 2016, December 2016, June 2017).

7. Annex with DBP tables

Table 0.i) Basic assumptions

	2016	2017	2018
Short-term interest rate (annual average)	-0,3	-0,3	-0,3
Long-term interest rate (annual average)	0,8	1,1	1,3
USD/€ exchange rate (annual average)	1,107	1,128	1,178
Nominal effective exchange rate	1,0	0,5	0,7
World excluding EU, GDP growth			
EU GDP growth	1,9	2,0	1,9
Growth of relevant foreign markets	3,9	4,6	4,7
World import volumes, excluding EU			
Oil prices (Brent, USD/barrel)	44,8	51,4	52,3

Table 0.ii) Main assumptions

	2016 (Levels)	2017 (Levels)	2018 (Levels)
1. External environment			
a. Prices of commodities*	-2,0	7,5	2,1
b. Spreads of german Bond	1,01	0,90 (Jan-Aug)	
2. Fiscal policy			
a. General Government net lending/ net borrowing	-754,4	-321,1	161,5
b. General gross debt	31.730,43	32.165,88	
3. Monetary policy / Financial sector / Interest rates assumptions			
a. interest rates			
i. Euribor	-0,26	- 0,33 (Jan-Aug)	
ii. Deposit rates	0,21	0,14 (Jan-Jul)	
iii. Interest rates for loans	2,24	2,13 (Jan-Jul)	
iv. Yelds to maturity of 10 year government bonds	1,15	1,27 (Jan-Aug)	
b. Evolution of deposits	6,5	5,4 (Jul yoy)	
c. Evolution of loans	-1,4	3,1 (Jul yoy)	
d. NPL Trends	5,5	4,6 (Jul)	
Demographic trends			
a. Evolution of working age population**	1283,2	1272,7	1262,6
b. Dependency ratios***	30,1	31,2	32,4
Structural dependencies			

Note:
*Non-energy commodities in USD, change in %
**20-64 years, 1. January of year
***65+/20-64*100, annual average

Table 1.a. Macroeconomic prospects

	ESA Code	2016 (Levels)	2016 (rate of change)	2017 (rate of change)	2018 (rate of change)
1. Real GDP	B1*g	40,059	3,1	4,4	3,9
of which					
Attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP			1,7	2,3	2,6
Contributions					
Potential GDP contributions:Labour			0,6	0,7	0,7
Potential GDP contributions:capital			-0,1	0,1	0,3
Potential GDP contributions: total factor productivity			1,2	1,4	1,6
3. Nominal GDP	B1*g	40,418	4,1	5,8	5,9
Components Of real GDP					
4. Private consumption expenditure	P.3	21,6	4,2	3,3	3,0
5. Government consumption expenditure	P.3	7,6	2,5	1,1	0,9
6. Gross fixed capital formation	P.51	7,1	-3,6	9,0	8,0
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	0,5	1,1	1,1	1,1
8. Exports of goods and services	P.6	31,4	6,4	8,8	7,5
9. Imports of goods and services	P.7	27,7	6,6	8,9	7,7
Contribution to real GDP growth					
10. Final domestic demand		36,3	2,0	3,5	3,2
11. Changes in inventories and net acquisition of valu	P.52 + P.53	0,5	0,7	0,1	0,0
12. External balance of goods and services	B.11	3,7	0,5	0,7	0,6

Table 1.b. Price developments

	ESA Code	2016 (Levels)	2016 (rate of change)	2017 (rate of change)	2018 (rate of change)
1. GDP deflator			0,9	1,4	1,9
2. Private consumption deflator			-0,3	1,6	1,2
3. HICP*			-0,1	1,5	1,6
4. Public consumption deflator			2,6	2,8	3,3
5. Investment deflator			0,7	2,2	2,5
6. Export price deflator (goods and services)			-1,4	2,5	0,8
7. Import price deflator (goods and services)			-2,2	3,3	0,7

Note: *National index.

Table 1.c. Labour market developments

	ESA Code	2016 (Levels)	2016 (rate of change)	2017 (rate of change)	2018 (rate of change)
1. Employment, persons		959,7	1,9	2,7	1,7
2. Employment, hours worked		1599810	0,7	2,9	1,9
3. Unemployment rate (%)		8,0	-1,0	-1,2	-0,6
4. Labour productivity, persons			1,1	1,6	2,2
5. Labour productivity, hours worked			2,5	1,4	2,0
6. Compensation of employees	D.1	19,9	5,3	6,5	5,8
7. Compensation per employee		20.745	3,3	3,6	4,0

Table 1.d. Sectoral balances

	ESA Code	2016 (% of GDP)	2017 (% of GDP)	2018 (% of GDP)
1. Net lending/borrowing vis-a-vis the rest of the world	B.9	2,8		
of which				
- Balance on goods and services		9,2	9,0	9,3
- Balance of primary incomes and transfers		-4,0	-4,3	-4,2
- Capital account		-0,7		
2. Net lending/borrowing of the private sector	B.9			
3. Net lending/borrowing of general government	EDP B.9	-1,9	-0,8	0,4
4. Statistical discrepancy				

Note: Balance of payments statistics.

Table 2.a. General government budgetary targets broken down by subsector

	ESA Code	2017 (% of GDP)	2018 (% of GDP)
Net lending (EDP B.9) by sub-sector			
1. Net lending/net borrowing: General government	S.13	-0,75	0,36
2. Net lending/net borrowing: Central government	S.1311	-0,86	0,29
3. Net lending/net borrowing: State government	S.1312		
4. Net lending/net borrowing: Local government	S.1313	0,12	0,11
5.Social security funds	S.1314	-0,02	-0,05
6. Interest expenditure	EDP D.41	2,61	1,93
7. Primary balance		1,86	2,29
8. One-off and other temporary measures			
8.a Of which one-offs on the revenue side: general government			
8.b Of which one-offs on the expenditure side: general government		0,05	0,07
9.Real GDP Growth(%) (=1 in Table 1a)			
10.Potential GDP Growth(%) (=2 in Table 1a)		2,3	2,6
Contributions			
-Labour		0,7	0,7
-Capital		0,1	0,3
-Total factor productivity		1,4	1,6
11. Output gap (% of potential GDP)		0,1	1,3
12. Cyclical budgetary Component (% of potential GDP)		0,05	0,62
13. Cyclically adjusted balance (1-12) (% of potential GDP)		-0,80	-0,26
14. Cyclically adjusted primary balance (13+6) (% of potential GDP)		1,81	1,67
15. Structural balance (13-8) (% of potential GDP)		-0,75	-0,20

Table 2.b. General government debt developments

	ESA Code	2017 (% of GDP)	2018 (% of GDP)
1. Gross debt		75,2	71,7
2. Change in gross debt ratio		-3,3	-3,5
Contributions to changes in gross debt			
3. Primary balance		1,9	2,3
4. Interest expenditure	EDP D.41	2,6	1,9
5. Stock-flow adjustment		0,27	1,02
of which:			
- Differences between cash and accruals			
- Net accumulation of financial assets			
of which:			
- privatisation proceeds			
- Valuation effects and other			
p.m.: Implicit interest rate on debt		3,5	2,7
Other relevant variables			
6. Liquid financial assets		9,20	7,96
7. Net financial debt (7=1-6)		66,02	63,77
8. Debt amortization (existing bonds) since the end of the previous year		5,65	4,08
9. Percentage of debt denominated in foreign currency		0,11	0,10
10. Average maturity		8,92	8,59

Note: 8., 9. and 10. ... data for the State Budget.

Table 2.c. Contingent liabilities

	2017 (% of GDP)	2018 (% of GDP)
Public guarantees	12,4	10,9
Public guarantees: linked to the financial sector*	1,6	1,5

Note: *In accordance with the Classification of Institutional Sectors (SKIS) data "Of which: linked to the financial sector" contains the data of outstanding guarantees for S.12, Financial corporations.

Table 3. General government expenditure and revenue projections <u>at unchanged policies</u> broken down by main components

	ESA Code	2017 (% of GDP)	2018 (% of GDP)
General governement (S13)			
1. Total revenue at unchanged policies	TR	43,16	42,99
Of which			
1.1 Taxes on production and imports	D.2	14,30	13,91
1.2 Current taxes on income, wealth, etc	D.5	7,63	7,59
1.3 Capital taxes	D.91	0,02	0,02
1.4 social contributions	D.61	14,75	14,66
1.5 Property income	D.4	1,11	1,03
1.6 Other		5,34	5,77
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		36,70	36,18
Total expenditure at unchanged policies	TE	43,91	43,06
Of which			
2.1 Compensation of employees	D.1	11,20	11,33
2.2 Intermediate consumption	P.2	6,60	6,12
2.3 Social payments	D.62,D.63	16,99	16,63
Of which unemployment benefits			
2.4 Interest expenditure	EDP D.41	2,61	1,93
2.5 Subsidies	D.3	0,87	0,87
2.6 Gross fixed capital formation	P.51	3,11	3,92
2.7 Captial transfers	D.9	0,53	0,27
2.8 Other		2,00	1,98

Table 4.a. General government expenditure and revenue targets, broken down by main components

	ESA Code	2017 (% of GDP)	2018 (% of GDP)
General governement (S13)			
1. Total revenue target	TR	43,16	42,99
Of which			
1.1 Taxes on production and imports	D.2	14,30	13,91
1.2 Current taxes on income, wealth, etc	D.5	7,63	7,59
1.3 Capital taxes	D.91	0,02	0,02
1.4 social contributions	D.61	14,75	14,66
1.5 Property income	D.4	1,11	1,03
1.6 Other		5,34	5,77
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		36,70	36,18
Total expenditure target	TE	43,91	42,63
Of which			
2.1 Compensation of employees	D.1	11,2	11,00
2.2 Intermediate consumption	P.2	6,60	6,12
2.3 Social payments	D.62,D.63	16,99	16,53
Of which unemployment benefits			
2.4 Interest expenditure(=9 in table 2.a)	EDP D.41	2,61	1,93
2.5 Subsidies	D.3	0,87	0,87
2.6 Gross fixed capital formation	P.51	3,11	3,92
2.7 Capital transfers	D.9	0,53	0,27
2.8 Other		2,00	1,98

Table 4.b Amounts to be excluded from the expenditure benchmark

	2016 (Levels)	2016 (% of GDP)	2017 (% of GDP)	2018 (% of GDP)
1. Expenditure on EU programmes fully matched by EU funds revenue	0,4776	1,18	1,49	2,00
1a. Investment expenditure fully matched by EU funds revenue	0,0672	0,17	0,40	0,99
2. Cyclical unemployment benefit expenditure	0,0072	0,02	0,02	0,04
3. Effect of discretionary revenue measures				
4. Revenues increased mandated by law				

Note: Levels are in EUR billion.

Table 4.c General government expenditure by function

Table 4.c.i) General government expenditure on education, healthcare and employment[1]

1/not applicable

Table 4.c.ii) Classification of the functions of the Government

	COFOG Code	2015 (% of GDP)	2016 (% of GDP)	2017 (% of GDP)	2018 (% of GDP)
1. General public services	1	6,8			
2. Defence	2	0,8			
3. Public order and safety	3	1,6			
4. Economic affairs	4	5,9			
5. Environmental protection	5	1,0			
6. Housing and community amenities	6	0,6			
7. Health	7	6,7			
8. Recreation, culture and religion	8	1,6			
9. Education	9	5,5			
10. Social protection	10	17,3			
11. Total expenditure (=2 in Table 2c)	TE	47,8			

Table 5.a Discretionary measures taken by General Government

List of measures	Detailed description	ESA Code	Adoption Status	Budgetary impact	
				2018	2019
				% of GDP	% of GDP
Restrictive wage policy in public sector	Further measures in preparation	D.1	For 2018 valid, for 2019 negotiation	0,3	0,2
Measures in the area of social benefits	Social allowances; parental leave (frozen price indexation, tied to anchor)	D.62+D.63	Valid for 2018 via Budget Execution Law	0,1	0,1

Table 5.b Discretionary measures taken by Central government

Table 5.c Discretionary measures taken by sub-sectors of the General Government[1]

1/not applicable

Table 7. Divergence from latest SP

	ESA Code	2016 (% of GDP)	2017 (% of GDP)	2018 (% of GDP)
Target general government net lending/borrowing				
Stability plan	EDP B.9	-1,8	-0,8	-0,2
Draft budgetary plan	EDP B.9	-1,9	-0,8	0,4
Difference		-0,1	0,0	0,6
General government net Lending projection at unchanged policies				
Stability plan	EDP B.9	-1,9	-1,6	-1,1
Draft budgetary Plan	EDP B.9	-1,9	-0,8	-0,1
Difference		0,0	0,8	1,0