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# Assessment of the 2015 Stability Programme for

# SLOVENIA

*(Note prepared by DG ECFIN staff)*

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## 1. INTRODUCTION

This document assesses Slovenia's April 2015 Stability Programme (hereafter called Stability Programme), which was submitted to the Commission on 30 April and covers the period 2014-2019. It was approved by the government and presented to the national parliament for a debate without a vote.

Slovenia is currently subject to the corrective arm of the Stability and Growth Pact. The Council opened the Excessive Deficit Procedure for Slovenia on 2 December 2009 and recommended to correct the excessive deficit by 2013. On 21 June 2013, the Council concluded that Slovenia had taken effective action but adverse economic events with major implications on public finances had occurred, and issued revised recommendations based on

Article 126(7) TFEU. Slovenia was recommended to correct the excessive deficit by 2015. The year following the correction of the excessive deficit, Slovenia will be subject to the preventive arm of the Pact and should ensure sufficient progress towards its MTO. As the debt ratio in 2015 is projected at 81.6% of GDP, exceeding the 60% of GDP reference value, during the three years following the correction of the excessive deficit Slovenia is also subject to the transitional arrangements as regards compliance with the debt criterion, during which it should ensure sufficient progress towards compliance.

This document complements the Country Report published on 26 February 2015 and updates it with the information included in the Stability programme. Section 2 presents the macroeconomic outlook underlying the Stability Programme and provides an assessment based on the Commission 2015 spring forecast. The following section presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview on the medium term budgetary plans, an assessment of the measures underpinning the Stability Programme and a risk analysis of the budgetary plans based on Commission forecast. Section 4 assesses compliance with the rules of the Stability and Growth Pact, including on the basis of the Commission forecast. Section 5 provides an overview on long term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework and the quality of public finances. Section 7 summarises the main conclusions.

## 2. MACROECONOMIC OUTLOOK

After a prolonged recession, the Slovenian economy grew by 2.6% in 2014. The turnaround, which was much stronger than envisaged in last years' Stability Programme, was predominately driven by exports but improvements were also experienced on the domestic side. Exports grew by 6.3% and investment increased by 4.8% due to a large increase in public investment, mainly EU-funded projects. Unemployment decreased slightly from 10.1% in 2013 to 9.7%, in line with the economic recovery. As exports outpaced imports, the current account surplus increased to 5.3% of GDP in 2014.

The macroeconomic projections underpinning the programme[1] prepared by the Institute of Macroeconomic Analysis and Development (IMAD), foresee real GDP growth by 2.4% in

[1] External environment assumptions of the Stability Programme are in line with the assumptions of the COM spring forecast. Both foresee similar or the same growth in main trading partners, better competitiveness on foreign markets due to weaker euro and a period of lower and slowly rising oil prices.

2015, 2.0% in 2016 and 2.1% in 2017. Growth is expected to continue over the forecast horizon supported by a sustained growth of exports and slightly improved consumer and business confidence.

The Commission's 2015 spring forecast expects real GDP to grow by 2.3% in 2015, decelerating to 2.1% in 2016, broadly in line with the programme. The key drivers of the projected growth in 2015 are net exports and continued high investment by the government mostly through EU-funded projects. In 2016, government investment is expected to fall sharply due to the start of a new funding period (2014-2020) which is expected to be a main reason for the slight growth deceleration to 2.1%.

The growth composition however differs with the programme envisaging a sharper drop in investment in 2016 than foreseen by Commission 2015 spring forecast, and the programme contains a more positive view on private consumption and exports. Private consumption is forecast to grow 1.1% in 2015 and 1.6% in 2016, compared to the Commission 2015 spring forecast of 0.7% and 1.3%. This appears slightly optimistic when taking into account IMAD's projected prudent growth of compensation of employees of (per head) 0.9% in 2015 and 2.0% in 2016, compared to the Commission's spring forecast of 1.6% and 1.9%. In addition, the reduction in the unemployment rate envisaged in the Stability Programme is notably larger than the Commission 2015 spring forecast, especially considering similar GDP growth. Overall, assessed against the Commission's spring forecast (but also taking into account more recent information) the Stability Programme's macroeconomic assumptions appear plausible.

The economic outlook is much more optimistic than in the previous programme, where real GDP growth of 0.7% and 1.3% was expected for 2015 and 2016 respectively. The driver of this revised outlook is much stronger investment for 2015 and higher net exports in 2016. The decline in investment in 2016 is larger than what was envisaged in the previous programme update.

The output gaps[2] as recalculated by the Commission based on the information in the programme, following the commonly agreed methodology are more negative than those underpinning the Commission's spring forecast. The output gap (recalculated) is estimated to close in 2017 in line with last years' programme update.

[2] The recalculated output gaps are significantly smaller than the ones presented in the programme; the recalculated output gaps indicate the output gap turning positive in 2017. However, this programme envisages that the output gaps remain negative throughout the programme horizon.

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

| | 2014 | | 2015 | | 2016 | | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|
| | COM | SP | COM | SP | COM | SP | SP | SP | SP |
| Real GDP (% change) | 2.6 | 2.6 | 2.3 | 2.4 | 2.1 | 2.0 | 2.1 | 2.2 | 2.2 |
| Private consumption (% change) | 0.3 | 0.3 | 0.7 | 1.1 | 1.3 | 1.6 | 1.8 | 1.9 | 1.9 |
| Gross fixed capital formation (% change) | 4.8 | 4.8 | 4.3 | 4.8 | 0.3 | -2.0 | 4.0 | 5.0 | 5.0 |
| Exports of goods and services (% change) | 6.3 | 6.3 | 5.2 | 5.6 | 5.3 | 6.2 | 5.0 | 5.0 | 5.0 |
| Imports of goods and services (% change) | 4.1 | 4.1 | 3.8 | 5.2 | 4.5 | 4.7 | 5.2 | 5.4 | 5.4 |
| *Contributions to real GDP growth:* | | | | | | | | | |
| - Final domestic demand | 1.0 | 0.8 | 0.9 | 1.7 | 1.1 | 0.5 | 1.7 | 2.0 | 2.0 |
| - Change in inventories | -0.2 | -0.2 | 0.0 | 0.2 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| - Net exports | 1.9 | 1.9 | 1.4 | 0.7 | 1.0 | 1.6 | 0.4 | 0.2 | 0.3 |
| Output gap[1] | -2.7 | -2.6 | -1.2 | -1.4 | -0.1 | -0.5 | 0.1 | 0.6 | 0.8 |
| Employment (% change) | 0.7 | 0.7 | 0.5 | 0.8 | 0.5 | 0.6 | 0.7 | 0.7 | 0.7 |
| Unemployment rate (%) | 9.7 | 9.7 | 9.4 | 9.2 | 9.2 | 8.6 | 7.9 | 7.3 | 6.6 |
| Labour productivity (% change) | 2.0 | 2.0 | 1.8 | 1.5 | 1.6 | 1.5 | 1.4 | 1.5 | 1.6 |
| HICP inflation (%) | 0.4 | 0.2 | 0.1 | -0.2 | 1.7 | 1.0 | 1.4 | 1.4 | 1.5 |
| GDP deflator (% change) | 0.4 | 0.4 | 0.3 | 1.1 | 1.1 | 0.3 | 1.0 | 1.4 | 1.5 |
| Comp. of employees (per head, % change) | -0.2 | -0.5 | 1.6 | 0.9 | 1.9 | 2.0 | 2.5 | 2.6 | 2.6 |
| Net lending/borrowing vis-à-vis the rest of the world (% of GDP) | 5.8 | n.a. | 7.4 | n.a. | 6.8 | n.a. | n.a. | n.a. | n.a. |

Note:

[1]In percent 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 2015 spring forecast (COM); Stability Programme (SP).*

## 3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

### 3.1. Deficit developments in 2014

The deficit in 2014 amounted to 4.9% of GDP (down from 15.1% of GDP in 2013), 0.8 % of GDP higher than the target in the previous programme and 0.5% of GDP higher than that of the Draft Budgetary Plan. The key driver of the deviation from the Draft Budgetary Plan was a non-financial one-off not factored in at the time, namely the impact of the scheme to repay deposit holders of Ljubljanska Banka approved by the Government in December 2014. In addition, relative to the previous Stability Programme, there was a larger increase in interest expenditure, a larger transfer to the pension fund and higher expenditure on gross fixed capital formation in 2014 than previously anticipated. The deficit was 1.6% of GDP above the excessive deficit recommendation of 3.3%.

Revenue outturns for 2014 (45% of GDP) were higher than previously anticipated (44.2% of GDP)**.** While total tax revenue was slightly lower than previously anticipated (22% vs. 22.4% of GDP) this was more than offset by higher other revenues (7% vs. 6.2% of GDP). The main driver of this was higher than expected drawdowns from EU funds due to changes in the

treatment of EU funds by the Statistical Office. Expenditure was considerably above what was anticipated in the previous programme update (49.8% vs. 48.1% of GDP). This is driven by the issues outlined above and also expenditure slippages for compensations of employees and intermediate consumption (18.3% vs. 17.6% of GDP). This was due to unforeseen maintenance of railways that cost 0.3% of GDP in 2014.

The structural budget balance deteriorated by 0.3% of GDP to -2.5% of GDP. This was in line with the (recalculated) structural balance for last year's Stability Programme but worse than the -2.2% of GDP envisaged at the time of the Draft Budgetary Plan. The deviation was due to a higher primary deficit mainly driven by larger gross fixed capital formation expenditure.

### 3.2. Target for 2015 and medium-term strategy

***The target for 2015***

In 2015, the authorities target a deficit of 2.9% of GDP, which is above the excessive deficit procedure recommendation of 2.5% of GDP but below the 3% Treaty reference value. No additional bank recapitalisation needs are envisaged in the programme. The programme expects a continued increase in gross fixed capital formation in 2015, which is partially offset by higher revenue from taxes due to the improved macroeconomic scenario. For 2015, the structural balance recalculated by the Commission on the basis of the information in the programme according to the commonly agreed methodology, is marginally lower than that of the Commission's spring forecast (-2.3% vs. -2.4% of GDP). This deviation is due to different output gap estimations.

The targeted deficit for 2015 has increased marginally since the Draft Budgetary Plan by 0.1% of GDP. An expected increase in revenues does not fully offset expenditure pressures. The deficit target for 2015 is above the target in last year's Stability Programme (2.9% vs. 2.5% of GDP) as a result of a considerable increase in expected expenditure, driven by higher gross fixed capital expenditure and government consumption expenditure. Taxes are expected to fall slightly year-on-year but the overall expected tax revenue is higher than the previous programme due to an improved macroeconomic environment. Overall, the 2015 deficit target is in line with the Commission 2015 spring forecast. The composition of public finances is broadly the same as in the Stability Programme, envisaging slightly higher gross fixed capital formation expenditure in 2015 and slightly lower intermediate consumption than that in the spring forecast. The measures underpinning 2015 remain largely unchanged since the Draft Budgetary Plan and were adopted in the supplementary budget in February 2015. The key risk to both the Stability Programme and the spring forecast is expenditure slippages, in particular with respect to intermediate consumption, as evidenced in 2014.

***The medium-term strategy***

The programme focuses on a reduction of the headline deficit from 4.9% of GDP to 0.9% of GDP by the end of the programme period, which according to the authorities, would result in a structural balance at the medium term objective (MTO) in 2020. The definition of the MTO (a balanced budget), remains the same as the previous programme and is in line with the objectives of the Pact. However, it is now postponed from 2017 to 2020 beyond the programme period.

The programme envisages an improvement in the structural balance at face value of 0.6 pp of GDP in 2016. However, the (recalculated) structural balance is envisaged to improve by 0.2 pp. of GDP in 2016. This difference is due to different output gap estimations. The Commission's spring forecast envisages a deterioration of the structural balance by 0.5% of GDP in 2016. The difference between the two is due to the no policy change scenario underpinning the spring forecast, which envisages more expenditure pressures and also a less negative output gap. Looking beyond 2016, the consolidation effort remains broadly constant throughout the programme period, but below Stability and Growth Pact requirements. The (recalculated) structural balance is envisaged to improve by 0.2 pp. of GDP annually in 2017-18 and by 0.4 pp. in 2019. The key change between the 2015 and the 2014 programme is the pace of the correction: the 2014 programme planned a much faster reduction in the headline and structural deficits despite a worse macroeconomic outlook. Better economic times are thus not used to step up consolidation, to the contrary.

However, neither the previous programme nor the 2015 Stability Programme specify the measures that underpin the projections for the later years. The authorities plan to focus on structural measures to achieve the projected adjustment. A sizeable reduction in gross fixed capital formation is planned in 2016 (29% year-on-year) due to the end of the drawdown period from the 2007-2013 EU fund programmes. It is expected to fall further in 2017 and remain at 3.6% of GDP for 2018. Beyond 2016, the adjustment relies on continued containment of expenditure over the programme horizon, focusing on further reductions in compensation of employees and intermediate consumption (as a % of GDP).

**Table 2: Composition of the budgetary adjustment**

| (% of GDP) | 2014 | 2015 | | 2016 | | 2017 | 2018 | 2019 | Change: 2014-2019 |
|---|---|---|---|---|---|---|---|---|---|
| | COM | COM | SP | COM | SP | SP | SP | SP | SP |
| **Revenue** | **45.0** | **44.8** | **44.7** | **43.4** | **43.1** | **42.5** | **42.0** | **41.5** | **-3.5** |
| *of which:* | | | | | | | | | |
| - Taxes on production and imports | 15.0 | 14.8 | 14.7 | 14.7 | 14.7 | 14.6 | 14.5 | 14.3 | -0.7 |
| - Current taxes on income, wealth, etc. | 7.0 | 7.1 | 6.9 | 7.2 | 7.0 | 7.0 | 6.9 | 6.9 | -0.1 |
| - Social contributions | 14.7 | 14.7 | 14.6 | 14.5 | 14.8 | 14.8 | 14.7 | 14.6 | -0.1 |
| - Other (residual) | 8.2 | 8.2 | 8.5 | 7.0 | 6.6 | 6.1 | 5.9 | 5.7 | -2.5 |
| **Expenditure** | **49.8** | **47.7** | **47.6** | **46.2** | **45.3** | **44.3** | **43.4** | **42.4** | **-7.4** |
| *of which:* | | | | | | | | | |
| - Primary expenditure | 46.6 | 44.6 | 44.5 | 43.3 | 42.4 | 41.7 | 40.9 | 40.0 | -6.6 |
| *of which:* | | | | | | | | | |
| Compensation of employees | 11.6 | 11.2 | 11.2 | 11.3 | 11.1 | 10.9 | 10.7 | 10.4 | -1.2 |
| Intermediate consumption | 6.7 | 6.5 | 6.4 | 6.3 | 6.5 | 5.9 | 5.8 | 5.7 | -1.0 |
| Social payments | 18.5 | 18.1 | 18.0 | 18.1 | 17.9 | 17.6 | 17.3 | 17.0 | -1.5 |
| Subsidies | 0.9 | 0.8 | 0.9 | 0.9 | 0.6 | 0.7 | 0.7 | 0.7 | -0.2 |
| Gross fixed capital formation | 5.1 | 5.5 | 5.6 | 4.2 | 3.9 | 3.6 | 3.6 | 3.5 | -1.6 |
| Other (residual) | 3.9 | 2.5 | 2.5 | 2.5 | 2.6 | 3.0 | 2.9 | 2.8 | -1.1 |
| - Interest expenditure | 3.3 | 3.1 | 3.1 | 2.9 | 2.9 | 2.6 | 2.5 | 2.4 | -0.9 |
| **General government balance (GGB)** | **-4.9** | **-2.9** | **-2.9** | **-2.8** | **-2.3** | **-1.8** | **-1.4** | **-0.9** | **4.0** |
| **Primary balance** | **-1.6** | **0.2** | **0.2** | **0.2** | **0.7** | **0.9** | **1.1** | **1.4** | **3.0** |
| One-off and other temporary measures | -1.1 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 1.1 |
| **GGB excl. one-offs** | **-3.7** | **-2.9** | **-2.9** | **-2.9** | **-2.3** | **-1.8** | **-1.4** | **-0.9** | **2.8** |
| Output gap[1] | -2.7 | -1.2 | -1.4 | -0.1 | -0.5 | 0.1 | 0.6 | 0.8 | 3.5 |
| Cyclically-adjusted balance[1] | -3.6 | -2.3 | -2.3 | -2.7 | -2.1 | -1.9 | -1.7 | -1.3 | 2.3 |
| **Structural balance (SB)[2]** | **-2.5** | **-2.4** | **-2.3** | **-2.9** | **-2.1** | **-1.9** | **-1.7** | **-1.3** | **1.2** |
| Structural primary balance[2] | 0.8 | 0.7 | 0.8 | 0.0 | 0.8 | 0.7 | 0.8 | 1.1 | **0.3** |

Notes:

[1]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.

[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

*Source*:

*Stability Programme (SP); Commission 2015 spring forecasts (COM); Commission calculations.*

***Measures underpinning the programme***

The programme indicates areas in which the authorities will seek to generate saving and efficiency gains. However, the specific measures and timeline for introduction are not always specified. The measures underpinning the 2015 target remain largely unchanged since the Draft Budgetary Plan and were adopted in the supplementary budget in February 2015. With respect to 2016, on the revenue side the authorities indicate that the measures will include actions to reduce red tape, increase the efficiency of the collection of taxes and a restructuring of the tax burden to improve the business environment. On the expenditure side, the authorities indicate that short-term measures introduced in recent years to contain the paybill and social transfers would be replaced by other measures with comparable financial effect. The intention is that growth in public sector wages will not exceed that of the private sector where wages will follow trends in productivity. Discussions with the trade unions with respect to 2016 have only recently commenced.

**Main budgetary measures**

| Revenue | Expenditure |
|---|---|
| **2014** | |
| • Biodiesel - the abolition of the excise duty refund (0.05% of GDP in 2014 / full year impact 0.1% of GDP)<br>• Increase of excise duty on fuels, alcohol and tobacco (0.1% of GDP in 2014 / full year impact 0.2% of GDP)<br>• Continued measures to tackle grey economy (0.2% of GDP) | • Cancelled indexation of pensions (-0.1% of GDP)<br>• Cancelled indexation of public sector wages (-0.15% of GDP)<br>• Cancelled promotions for 2014 (-0.15% of GDP)<br>• Lower transfers to indirect budgetary users (-0.1% of GDP)<br>• Payment of promotions relating to 2011-2012 (+0.2% of GDP) |
| **2015** | |
| • Introduction of excise duty on added sugar and other additives in drinks (0.1% of GDP)<br>• Increase of the tax rate on financial services and on sales of insurance services from 6.5% to 8.5% (0.1% of GDP).<br>• Restrictions to exemptions from CO2 duties (0.1% of GDP)<br>• Measures to improve tax collection efficiency (0.1% of GDP) | • Prolongation of measures to contain the paybill (-0.6% of GDP)<br>• A reduction in transfers to municipalities (-0.2% of GDP)<br>• Reform of subsidies (-0.2% of GDP) |
| Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure. | |

### 3.3. Debt developments

Debt increased sharply to 80.9% of GDP in 2014 from 70.3% in 2013. The outturn for 2014 was slightly lower than what was envisaged in the Draft Budgetary Plan (82.2% of GDP in 2014) due to less than planned issuances at the end of the year as large cash buffers were already accumulated during the year and a higher denominator than expected. Overall stock-flow adjustments in 2014 were sizeable mainly due to further significant accumulation of cash buffers amounting to 14% of GDP at the end of 2014. Relative to the 2014 Stability Programme, the debt level was higher due to a higher primary deficit and considerable pre-financing for 2015. Debt is expected to increase further under the programme to 81.6% in 2015, which is broadly in line with the Commission 2015 spring forecast.

The general government gross debt is projected to remain above the 60% of GDP reference value for the duration of the programme. For 2016, the authorities indicate a reduction of

almost 3% of GDP in gross debt, which is significantly more than what is envisaged in the Commission's spring forecast, based on a no policy change scenario, where debt is expected to increase slightly. The reduction envisaged in this year's programme is lower than the 5% of GDP reduction envisaged in the previous programme. Debt is expected to rise again in 2017 before falling during the later years of the programme to 78.2% of GDP in 2019. The programme indicates that the weighted average interest rate on issued debt fell from 4.6 % in 2013 to 2.7 % in 2014. The authorities forecast that interest expenditure as a share of GDP will fall throughout the forecast period. The impact of inflation on debt for 2015-16 differs between the Commission 2015 spring forecast and the programme, due to different import deflators. The Commission spring forecast envisages the deflator turning positive in 2015 whereas the Stability Programme expects this only to happen in 2016.

Despite better growth prospects and lower interest repayments than the previous programme, the decline in debt expected is considerably lower. Indeed, in the previous programme debt was forecast to stand at just over 70% of GDP in 2018. In fact, the primary balance surplus envisages in this programme update from 2015 onwards is considerably lower than the last programme due to higher forecast expenditure and lower forecast revenue over the programme horizon.

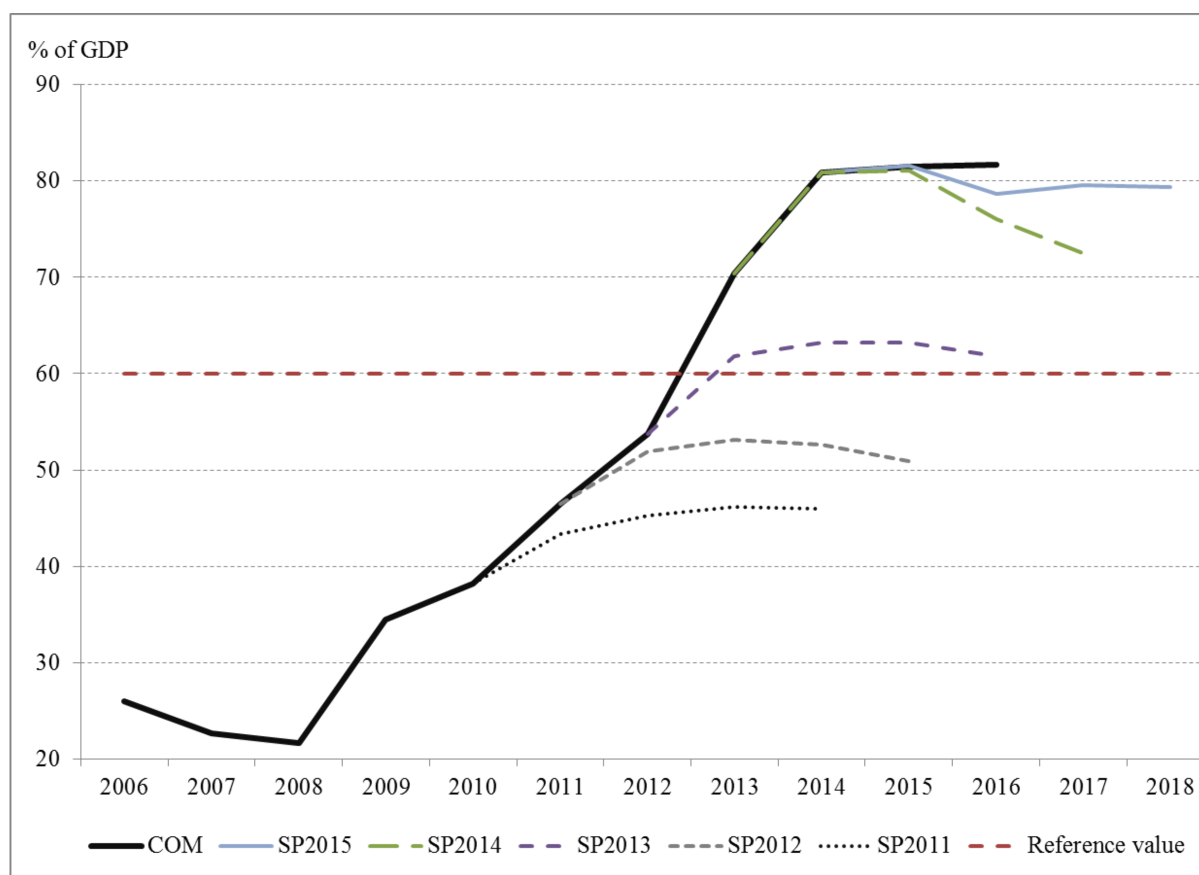
**Table 3: Debt developments**

| (% of GDP) | Average 2009-2013 | 2014 | 2015 | | 2016 | | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|
| | | | COM | SP | COM | SP | SP | SP | SP |
| **Gross debt ratio[1]** | **48.6** | **80.9** | **81.5** | **81.6** | **81.7** | **78.7** | **79.6** | **79.4** | **78.2** |
| Change in the ratio | 9.7 | 10.6 | 0.6 | 0.7 | 0.2 | -2.9 | 0.9 | -0.2 | -1.2 |
| *Contributions[2] :* | | | | | | | | | |
| **1. Primary balance** | **5.6** | **1.6** | **-0.2** | **-0.2** | **-0.2** | **-0.7** | **-0.9** | **-1.1** | **-1.4** |
| **2. "Snow-ball" effect** | **2.1** | **1.2** | **1.0** | **0.4** | **0.4** | **1.0** | **0.3** | **-0.2** | **-0.5** |
| *Of which:* | | | | | | | | | |
| Interest expenditure | 1.9 | 3.3 | 3.1 | 3.1 | 2.9 | 2.9 | 2.7 | 2.5 | 2.3 |
| Growth effect | 0.6 | -1.8 | -1.8 | -1.9 | -1.7 | -1.6 | -1.6 | -1.7 | -1.7 |
| Inflation effect | -0.3 | -0.3 | -0.2 | -0.8 | -0.9 | -0.3 | -0.7 | -1.1 | -1.1 |
| **3. Stock-flow adjustment** | **2.0** | **7.7** | **-0.2** | **0.5** | **0.0** | **-3.2** | **1.5** | **1.2** | **0.7** |
| *Of which:* | | | | | | | | | |
| Cash/accruals diff. | | | | | | | | | |
| Acc. financial assets | | | | | | | | | |
| *Privatisation* | | | | | | | | | |
| Val. effect & residual | | | | | | | | | |

Notes:
[1] End of period.
[2] 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 2015 spring forecast (COM); Stability Programme (SP), Commission calculations.*

**Figure 1: Government debt projections in successive programmes (% of GDP)**




Source: Commission spring 2015 forecast; Stability Programmes

### 3.4. Risk assessment

***Deficit developments***

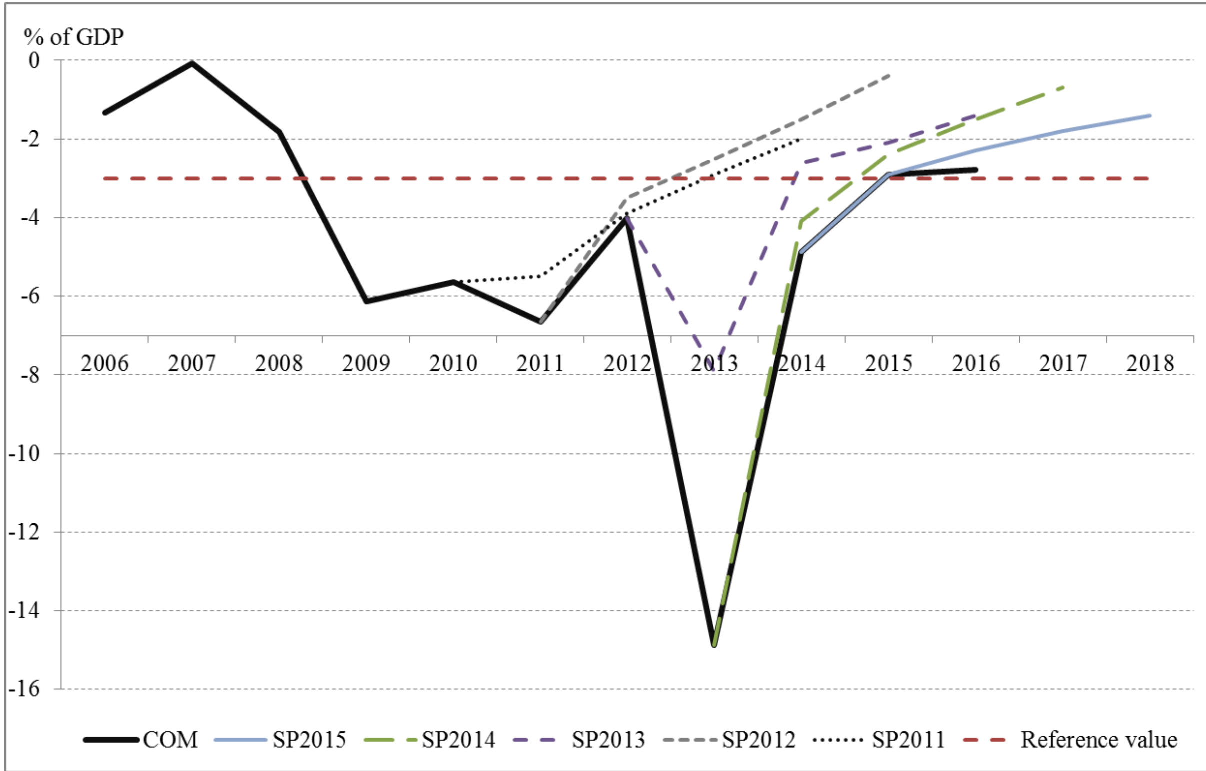
The main risk to the headline deficit targets is the emergence of unforeseen one-off expenditure items and possible expenditure slippage. No one-off expenditure is envisaged over the forecast horizon. The materialisation of one-off expenditures in particular with respect to the financial sector restructuring, but also following court rulings, have posed significant risks to the deficit forecast for Slovenia in recent years. In December 2014, the Government approved a scheme to repay deposit holders of Ljubljanska Banka, while the impact of the principal payments has already adversely affected the 2014 deficit. The timing of the payment of the interest relating to these deposits is unclear and represents a negative risk to the general government deficit over the forecast horizon.

The risks to the macroeconomic outlook are broadly balanced. Improving business confidence and investment projects supported by the investment plan for Europe may result in higher-than-forecast growth rates for private investment. By contrast, slower absorption of funds under the new EU fund programmes may result in a greater decline in public investment in 2016 than currently anticipated.

The key risk to the structural balance targets is that measures producing a sufficient structural effort might not be adopted in time to achieve the desired structural improvements. The

programme indicates that the authorities plan to replace temporary consolidation measures with structural measures that derive a similar fiscal yield. However, the specific measures and the timeline for implementation remain unclear. It is envisaged that more than two thirds of the adjustment in the coming years will come from a reduction in expenditure. However, there is a risk that expenditure slippages, in particular with respect to government consumption expenditure, could adversely impact the deficit and structural balance targets.

**Figure 2: Government balance projections in successive programmes (% of GDP)**




Source: Commission 2015 spring forecast; Stability Programmes

## ***Debt developments***

The materialisation of unexpected one-off expenditure items could pose a risk to the projected debt levels but a reduction in the cahs buffer and proceeds from the ongoing prviatisation process represent a positive risk. While the level of contingent liabilities assumed by Slovenia is forecast to fall, it remains higher than the EU average. According to the programme, guarantees amounting to 22% of GDP were outstanding in 2014. The calling of any of these guarantees could adversely impact forecast debt levels. On the other hand, Slovenia has identified a list of fifteen companies for privatisation of which five companies have been already divested. Proceeds from this ongoing privatisation process and a reduction in the accumulated cash buffer (14% of GDP) represent positive risks to debt levels.

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

**Box 1. Council recommendations addressed to Slovenia**

On 21 June 2013, the Council recommended Slovenia under Article 126(7) of the Treaty to correct its excessive deficit by 2015. To this end, Slovenia should (i) put an end to the present excessive deficit situation by 2015; (ii) reach a headline general government deficit target of 4.9% of GDP in 2013 (3.7% of GDP without 1.2% of GDP one-off expenditure to recapitalise the two largest banks as estimated in June 2013), 3.3% of GDP in 2014 and 2.5% of GDP in 2015, which is consistent with an annual improvement of the structural balance of 0.7% of GDP in 2013, 0.5% of GDP in 2014 and 0.5% of GDP in 2015, in order to bring the headline general government deficit below the 3% GDP threshold by 2015, based on the Commission updated 2013 spring forecast; (iii) rigorously implement the measures already adopted to increase mainly indirect tax revenue and reduce the public sector wage bill and social transfers, while standing ready to complement them with additional measures if their yield would prove less than foreseen or if any measure is repealed by the justice system; and (iv) specify, adopt and implement new structural consolidation measures, on top of those already included in the Commission updated 2013 spring forecast that are necessary to achieve the correction of the excessive deficit by 2015.

On 8 July 2014, the Council addressed recommendations to Slovenia in the context of the European Semester. In particular, in the area of public finances the Council recommended to Slovenia to reinforce the budgetary strategy with sufficiently specified structural measures, for the year 2014 and beyond to ensure correction of the excessive deficit in a sustainable manner by 2015 through the achievement of the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. A durable correction of the fiscal imbalances requires a credible implementation of ambitious structural reforms to increase the adjustment capacity and boost growth and employment. After the correction of the excessive deficit, pursue a structural adjustment of at least 0.5% of GDP each year, and more in good economic conditions or to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. To improve the credibility of fiscal policy, complete the adoption of a general government budget balance/surplus rule in structural terms, make the medium-term budgetary framework binding, encompassing and transparent, and establish the necessary legal basis for a functioning fiscal council defining its remit within the budgetary process and introducing clear procedural arrangements for monitoring budgetary outcomes as soon as possible. Launch a comprehensive review of expenditure covering state and local government levels, direct and indirect budget users and municipality-owned providers of utilities and services in the area of health care by the end of 2014 with a view to realising budgetary savings in 2015 and beyond.

### 4.1. Compliance with the EDP recommendations

Slovenia's headline deficit in 2014 amounted to 4.9% of GDP, considerably above the 3.3% of GDP target set in the context of the EDP partly due to banking sector-related one-offs and other exceptional one-off items. Furthermore, the structural balance is estimated, based on the Commission 2015 spring forecast, to have deteriorated by 0.3% of GDP in 2014.

When adjusted for the downward revision in potential output growth since the time when the EDP recommendation was issued and the impact of the composition of economic growth and

employment on revenue, the annual adjusted structural effort in 2014 (-0.4% of GDP) falls significantly short of the recommended annual structural effort (0.5% of GDP). Based on a bottom-up assessment which estimates the size of the additional fiscal effort on the basis of the discretionary revenue measures and the expenditure developments under the control of the government between the baseline scenario underpinning the June 2013 excessive deficit procedure recommendation and the Commission 2015 spring forecast, the fiscal effort for 2014 was 1.2% of GDP, below the recommended 1.5% of GDP.

In 2015, Slovenia is projected to reduce its excessive deficit below the 3% Treaty reference value. At the same time, the fiscal effort is below what is recommended by the Council both based on the structural balance and the amount of discretionary measures taken. The structural balance is forecast to improve by 0.1% of GDP, below the recommended 0.5% of GDP structural effort.

Furthermore, the adjusted structural effort (-0.1% of GDP) in 2015 falls considerably short of the recommended effort (0.5% of GDP). The bottom-up assessment indicates a fiscal effort of 1.4% of GDP slightly below the recommended effort of 1.5% of GDP.

On a cumulative basis for 2013-15 the adjusted structural effort (-0.5% of GDP) falls considerably short of the recommended effort of 1.7% of GDP. The cumulative fiscal effort[3] measured by the bottom up method (2.6% of GDP) falls short of the recommended effort of 4% of GDP.

[3] The figures for 2013 have been adversely impacted by revisions to national accounts data since our assessment based on outturn data for 2013 in spring 2014, mainly due to updated data sources figures, for an amount of 0.9% of GDP.

**Table 4: Compliance with the requirements of the corrective arm**

| (% of GDP) | 2014 | 2015 | |
|---|---|---|---|
| | COM | SP | COM |
| **Headline balance** | | | |
| Headline budget balance | -4.9 | -2.9 | -2.9 |
| EDP requirement on the budget balance | -3.3 | -2.5 | |
| **Fiscal effort - change in the structural balance** | | | |
| Change in the structural balance[1] | -0.3 | 0.3 | 0.1 |
| Cumulative change[2] | -0.4 | -0.1 | -0.3 |
| Required change from the EDP recommendation | 0.5 | 0.5 | |
| Cumulative required change from the EDP recommendation | 1.2 | 1.7 | |
| **Fiscal effort - adjusted change in the structural balance** | | | |
| Adjusted change in the structural balance[3] | -0.4 | - | -0.1 |
| of which: *correction due to change in potential GDP estimation (α)* | -0.7 | - | -0.6 |
| *correction due to revenue windfalls/shortfalls (β)* | -0.6 | - | -0.4 |
| Cumulative adjusted change [2] | -0.4 | - | -0.5 |
| Required change from the EDP recommendation | 0.5 | 0.5 | |
| Cumulative required change from the EDP recommendation | 1.2 | 1.7 | |
| **Fiscal effort - calculated on the basis of measures (bottom-up approach)** | | | |
| Fiscal effort (bottom-up)[4] | 1.2 | - | 1.4 |
| Cumulative fiscal effort (bottom-up)[2] | 1.3 | - | 2.6 |
| Requirement from the EDP recommendation | 1.5 | 1.5 | |
| Cumulative requirement from the EDP recommendation | 2.5 | 4.0 | |

Notes

[1]Structural balance = cyclically-adjusted government balance excluding one-off measures. Structural balance based on programme is recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology. Change compared to t-1.

[2] Cumulated since the latest EDP recommendation.

3 Change in the structural balance corrected for unanticipated revenue windfalls/shortfalls and changes in potential growth compared to the scenario underpinning the EDP recommendations.

[4]The estimated budgetary impact of the additional fiscal effort delivered on the basis of the discretionary revenue measures and the expenditure developments under the control of the government between the baseline scenario underpinning the EDP recommendation and the current forecast.

*Source* :

*Stability Programme (SP); Commission 2015 spring forecasts (COM); Commission calculations.*

### 4.2. Compliance with the debt criterion

Assuming the durable correction of the excessive deficit in 2015, Slovenia would be subject to the preventive arm from 2016 onwards. As Slovenia was in EDP on 8 November 2011, Slovenia would be in a transition[4] period in 2016 regarding compliance with the debt rule. According to national plans, Slovenia is expected to make sufficient progress towards compliance with the debt criterion in 2016. Specifically, according to the Stability Programme, the recalculated structural effort of 0.2 pp. of GDP in 2016 is sufficient progress towards compliance with the debt criterion. However, based on the spring forecast, progress would not be sufficient(-0.5 pp. of GDP vs. 0.2 pp. of GDP). . Beyond 2016, the recalculated structural effort of the stability programme indicates insufficient progress towards the debt criterion.

**Table 5. Compliance with the debt criterion**

| | 2016 | | 2017 | | 2018 |
|---|---|---|---|---|---|
| | **SP** | **COM** | **SP** | **COM** | **SP** |
| Gap to the debt benchmark [1,2] | n.r. | n.r. | n.r. | n.r. | n.r. |
| Structural adjustment [3] | 0.2 | -0.5 | 0.2 | n.a. | 0.2 |
| *To be compared to:* | | | | | |
| Required adjustment [4] | 0.2 | 0.2 | 0.3 | 0.5 | 0.3 |

Notes:

[1] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[2] 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.

[3] Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[4] 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.

Source*:*
Commission 2015 spring forecast (COM); Stability Programme (SP), Commission calculations.

### 4.3. Compliance with the MTO or the required adjustment path towards the MTO

Assuming a timely correction of the excessive deficit Slovenia would be subject to the preventive arm from 2016 onwards. Given that Slovenia is forecast to have a debt-to-GDP

[4] A "transition period" applies to countries that were in EDP on 8 November 2011. It starts the year after the correction of the excessive deficit. For example, a MS for which the Council abrogated the EDP on the basis of notified data for year 2011 will be subject to the transition period in 2012-2014. Thereafter, this MS should show a debt-to-GDP ratio fully compliant with the debt benchmark, i.e. sufficiently diminishing towards the 60% reference value.

above 60% and the (recalculated) output gaps is above -1.5% of GDP, this implies an annual improvement in the structural balance of 0.6% of GDP per year.

At face value, the planned adjustment in the Stability Programme for 2016 is in line with the requirements. However, recalculated structural effort of 0.2% of GDP falls short of the required effort of 0.6% of GDP pointing to some deviation based on the structural balance pillar. According to the information provided in the Stability Programme, the growth rate of government expenditure, net of discretionary revenue measures, will exceed the applicable expenditure benchmark rate deviating by 1.1% of GDP in 2016, pointing to a significant deviation. Therefore, an overall assessment needs to be carried out. The annual potential GDP growth rate (0.9%) used in the computation of the structural balance is considerably higher than the medium term rate (0.5%) used in the calculation of the expenditure benchmark. Given that the macroeconomic outlook in Slovenia is expected to be better than suggested by the medium term potential growth indicator, the structural balance pillar is found to be the relevant indicator for the assessment. In light of this, based on the Stability Programme there is a risk of some deviation from the adjustment path towards the MTO in 2016.

Based on the Commission 2015 spring forecast, under the usual no-policy change basis, the projected 0.5% of GDP deterioration in the structural balance would lead to a significant deviation from the required 0.6% of GDP adjustment towards the MTO. In addition, the growth rate of government expenditure net of discretionary revenue measures is expected to exceed the expenditure benchmark by 1.2% of GDP in structural balance terms in 2016. Therefore, both indicators point to a significant deviation from the required adjustment path towards the MTO.

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

| (% of GDP) | 2016 | |
|---|---|---|
| **Initial position**[1] | | |
| Medium-term objective (MTO) | 0.0 | |
| Structural balance[2] (COM) | -2.9 | |
| Structural balance based on freezing (COM) | - | |
| **Position vis-a -vis the MTO**[3] | Not at MTO | |
| (% of GDP) | **2016** | |
| | **SP** | **COM** |
| **Structural balance pillar** | | |
| Required adjustment[4] | 0.6 | |
| Required adjustment corrected[5] | 0.6 | |
| Change in structural balance[6] | 0.2 | -0.5 |
| *One-year deviation from the required adjustment* [7] | -0.4 | -1.1 |
| *Two-year average deviation from the required adjustment* [7] | In EDP | In EDP |
| **Expenditure benchmark pillar** | | |
| Applicable reference rate[8] | -0.7 | |
| *One-year deviation* [9] | -1.1 | -1.2 |
| *Two-year average deviation* [9] | In EDP | In EDP |
| **Conclusion** | | |
| Conclusion over one year | Overall assessment | Significant deviation |
| Conclusion over two years | In EDP | In EDP |

Notes

[1] 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 is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] 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 28.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1.

[7] The difference of the change in the structural balance and the required adjustment corrected.

[8] 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 not at its MTO.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law 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.

*Source* :

*Stability Programme (SP); Commission 2015 spring forecasts (COM); Commission calculations.*

## 5. LONG-TERM SUSTAINABILITY

The analysis in this section includes the new long-term budgetary projections of age-related expenditure (pension, health care, long-term care, education and unemployment benefits) from the 2015 Ageing Report[5] published on 12 May. It therefore updates the assessment made in the Country Reports[6] published on 26 February.

Government debt is expected to remain above 80% of GDP in the medium term under a no policy change scenario, considerably above the 60% of GDP Treaty threshold. However, the full implementation of the programme would put debt on a clearly decreasing path by 2030, although remaining above the 60% of GDP reference value in 2025 (69% of GDP).

Slovenia appears to face high fiscal sustainability risks in the medium and long term. The medium-term sustainability gap, at 2.8 % of GDP, is primarily related to the high level of government debt (1.5 pp. of GDP in 2015) and the projected ageing costs (contributing 0.6 pp. of GDP until 2030). In the long-term, Slovenia appears to face high fiscal sustainability risks, primarily related to, the projected ageing costs (contributing 5.5 pp. of GDP) over the very long run. The long-term sustainability gap shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path is 6.5 % of GDP.

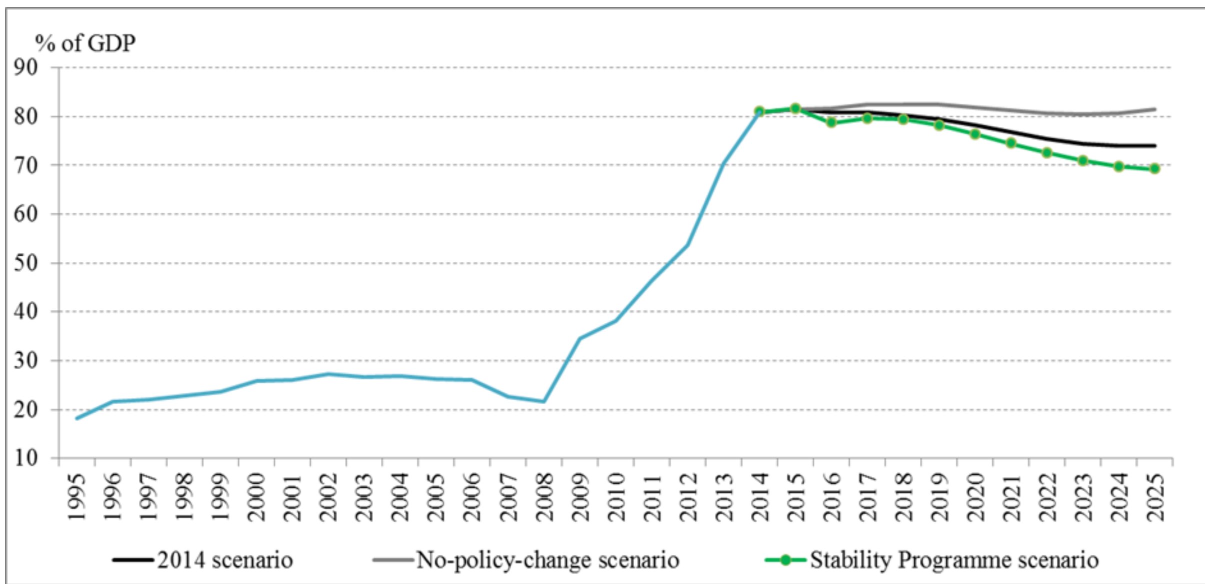
It is therefore appropriate for Slovenia to continue to implement measures that reduce risks to fiscal sustainability in the short term and to reduce government debt. Further containing age-related expenditure growth appears necessary to contribute to the sustainability of public finances in the medium and long term.

The projected ageing costs pose a challenge in Slovenia. Especially, the contribution from pension and long term care expenditure is particularly high. The long term projected ageing costs are driven by the costs relating to pensions (3 pp. of GDP) and long-term care (1.1 pp. of GDP). Slovenia has made some progress in alleviating the pressures on the mid-term sustainability of pension system but not beyond 2020. An evaluation of the impact of the 2012 pension reform show positive results. A white paper on the long term sustainability of pensions is due in mid-2015. The Law on Establishment and Functioning of the demographic fund is due in June 2015. No progress has yet been made regarding the long term pension reform. The blueprint for the long-term care reform was adopted in September 2013. Age-related expenditure on long-term care lacks targeting of benefits to those most in need and is mainly focussed on institutional instead of home care. The adoption of reform has been postponed to the end of 2015 in order to allow prior decision on health insurance reform including the question of sources to finance overall healthcare and long-term care. A review of the healthcare system has provided the basis for reform which for now has not been initiated.

[5] See http://ec.europa.eu/economy_finance/publications/european_economy/2015/ee3_en.htm

[6] See http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

**Figure 3: Gross debt projections (% of GDP)**




Source: Commission 2015 spring forecast; Stability Programme; Commission calculations

## Table 7: Sustainability indicators

| | Slovenia | | | European Union | | |
|---|---|---|---|---|---|---|
| | **2014 scenario** | **No-policy-change scenario** | **Stability Programme scenario** | **2014 scenario** | **No-policy-change scenario** | **Stability/ Convergence Programme scenario** |
| S2* | 5.6 | 6.5 | 5.6 | 1.4 | 1.7 | 0.4 |
| *of which:* | | | | | | |
| Initial budgetary position (IBP) | 0.3 | 1.0 | 0.0 | 0.4 | 0.5 | -0.7 |
| Long-term cost of ageing (CoA) | 5.3 | 5.5 | 5.6 | 1.0 | 1.1 | 1.1 |
| *of which:* | | | | | | |
| pensions | 2.8 | 3.0 | 3.4 | 0.0 | 0.1 | 0.1 |
| healthcare | 1.0 | 0.9 | 0.8 | 0.8 | 0.7 | 0.6 |
| long-term care | 1.1 | 1.1 | 1.0 | 0.7 | 0.7 | 0.6 |
| others | 0.4 | 0.4 | 0.4 | -0.4 | -0.3 | -0.2 |
| S1** | 1.6 | 2.8 | 1.5 | 1.4 | 1.8 | 0.5 |
| *of which:* | | | | | | |
| Initial budgetary position (IBP) | -0.1 | 0.6 | -0.8 | -0.4 | -0.3 | -1.6 |
| Debt requirement (DR) | 1.3 | 1.5 | 1.6 | 1.7 | 1.9 | 1.8 |
| Long-term cost of ageing (CoA) | 0.5 | 0.6 | 0.7 | 0.1 | 0.3 | 0.4 |
| S0 (risk for fiscal stress)*** | 0.16 | : | | : | | |
| *Fiscal subindex* | 0.35 | : | | : | | |
| *Financial-competitiveness subindex* | 0.08 | : | | : | | |
| Debt as % of GDP (2014) | 80.9 | | | 88.6 | | |
| Age-related expenditure as % of GDP (2014) | 24.6 | | | 25.6 | | |

Source: Commission, 2015 Stability Programme

Note: the '2014' scenario depicts the sustainability gap under the assumption that the structural primary balance position remains at the 2014 position according to the Commission 2015 spring forecast; the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commission 2015 spring forecast until 2016. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2015 Ageing Report.

* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.

** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady adjustment in the structural primary balance to be introduced over the five years after the foercast horizon, and then sustained, to bring debt ratios to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year for five years after the last year covered by the spring 2015 forecast (year 2016) is required (indicating an cumulated adjustment of 2.5 pp.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.

*** The S0 indicator reflects up to date evidence on the role played by fiscal and financial-competitiveness variables in creating potential fiscal risks. It should be stressed that the methodology for the S0 indicator is fundamentally different from the S1 and S2 indicators. S0 is not a quantification of the required fiscal adjustment effort like the S1 and S2 indicators, but a composite indicator which estimates the extent to which there might be a risk for fiscal stress in the short-term. The critical threshold for the overall S0 indicator is 0.43. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.35 and 0.45.

# 6. FISCAL FRAMEWORK AND QUALITY OF PUBLIC FINANCES

## 6.1. Fiscal framework

Despite a constitutional amendment, Slovenia is one of the few countries where the adoption of the legislation transposing the new EU fiscal governance requirements into the national legal order has been delayed and is still ongoing. The Slovenian Constitution was amended in May 2013 to provide the basis for the general government budget balance/surplus rule and stipulated that the implementing act would be adopted within six months (by end November 2013). Given the limited progress in this area, the Commission addressed a Country Specific Recommendation (CSR) to Slovenia in July 2014 to complete the adoption of the necessary

legislation underpinning the balanced budget rule and establish the legal basis for an independent fiscal council as soon as possible. [7] The draft Fiscal Rules Act was adopted by the government in December 2014 and passed first reading by the parliament in January 2015. The second reading has been delayed and is expected to take place in May 2015. The draft Act also provides the legal basis for the establishment of a Fiscal Council whereby the appointment of the Fiscal Council members will commence within fifteen days of the act coming into force and the Council should establish its rules of procedure within 3 months after its members are appointed. Given the delays in adoption of the Fiscal Rules Act there are clear risks that the Fiscal Council will not be operational for the 2016 budgetary cycle.

The macroeconomic scenario underpinning the Stability Programme was produced by the Institute of Macroeconomic Analysis and Development (IMAD). The independent status and tasks of IMAD are stipulated in a specific Resolution. IMAD produces economic forecasts twice a year (in March and October) to underpin the Stability Programme in April and the draft budget in autumn, and additional forecasts to support other possible planning documents (i.e. supplementary budgets). The Stability Programme indicates that it constitutes the national medium-term fiscal plans (NMTFPs), as required by Art. 4.1 of Regulation No 473/2013. However, , neither the Stability Programme nor the National Reform Programme include specific indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact.

## 6.2. Quality of public finances

The programme indicates several reforms to enhance the efficiency of public expenditure including reforms to the procurement system. On 1 February 2015, the use of e-auction systems became mandatory for ministries, bodies within ministries and government services. The programme indicates a unified electronic system for public tenders will be introduced to ensure more transparent use of public funds in financing individual programmes. However, no timeline for the introduction of this system has been specified. Furthermore, a project to centralise the state's real property management will be initiated in 2015. The goal of the project is to reduce operating costs, investment and current maintenance, and reduce the costs of rent.

Measures to reduce administrative barriers and enhance the efficiency of tax collection will be pursued over the programme horizon. The authorities plan to amend the Tax Procedure in order to simplify tax collection procedures and eliminate administrative barriers for taxable persons. In order to reduce the grey economy, certified cash registers with on-line transfer of data to the Financial Administration of the Republic of Slovenia will be introduced by the end of 2015, which the authorities expect will improve the competitiveness of the business environment and raise the productivity of the business sector.

The programme indicates that the authorities will prepare for the introduction of a revised version of the real estate tax that was repealed by the constitutional court in early 2014. However, the tax burden of a revised real estate tax if introduced would remain at the same level as under the existing system of property taxation even though recurrent taxation of

[7] This section complements the Country Report published on 26 February 2015 and updates it with the information included in the Stability Programme.

immovable property is considerably below the EU average (0.5% of GDP in 2012 vs. an EU average of 1.5%).

The authorities are assessing options to shift tax from labour and also plan to study the scope and effects of existing tax relief and potential abolish inefficient tax reliefs. The programme indicates they will focus on the unification of bases for calculating social contributions. A situation analysis indicated discrepancies between burdens on various types of labour, which may produce anomalies in the labour market. While the tax wedge for different family types and wages is at or below the EU average, the social contributions for the high earners among the employees are much higher (15 % of GDP in 2013 compared to the EU average of 13.5 % of GDP). This is mainly because there is no cap on social contributions for employees. However, when all elements of taxation are considered the tax wedge on labour for the average-wage single earner (42.3 % in 2013) is below the EU average (44.8 %).

## 7. CONCLUSIONS

In 2014, Slovenia achieved a headline deficit of 4.9% of GDP, above the target under the EDP. Moreover, the fiscal effort has not been delivered on the basis of the top-down or the bottom-up method.

Slovenia plans to correct its excessive deficit by the 2015 deadline set by the Council and to ensure an improvement of the structural balance of 0.6% of GDP in 2016. Based on spring forecast, in 2015, Slovenia is indeed projected to reduce its excessive deficit below the 3% Treaty reference value. However, the fiscal effort is not projected to be delivered and the margin to the 3% of GDP reference value of the Treaty is narrow.

Assuming abrogation of the EDP in 2015, Slovenia will be subject to the preventive arm of the Pact. As from 2016, based on programme data recalculated by the Commission the effort is estimated to fall short of the requirements. Furthermore, the growth rate of government expenditure, net of discretionary revenue measures, in 2016 is higher than the applicable expenditure benchmark. Based on the Commission 2015 spring forecast, there is a risk of significant deviation in 2016 based both on the structural balance and the expenditure benchmark pillar.

With respect to the debt criterion, the recalculated structural effort of the Stability Programme indicates sufficient progress towards compliance with the debt criterion in 2016. However, based on the spring forecast, progress would not be sufficient.

ANNEX

## Table I. Macroeconomic indicators

| | 1997-2001 | 2002-2006 | 2007-2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Core indicators** | | | | | | | | |
| GDP growth rate | 4.2 | 4.1 | 0.9 | -2.6 | -1.0 | 2.6 | 2.3 | 2.1 |
| Output gap [1] | -0.1 | 1.7 | 1.5 | -4.0 | -4.7 | -2.7 | -1.2 | -0.1 |
| HICP (annual % change) | 8.0 | 4.4 | 2.9 | 2.8 | 1.9 | 0.4 | 0.1 | 1.7 |
| Domestic demand (annual % change) [2] | 4.2 | 3.7 | 0.2 | -5.6 | -2.1 | 0.8 | 1.0 | 1.2 |
| Unemployment rate (% of labour force) [3] | 6.9 | 6.4 | 6.1 | 8.9 | 10.1 | 9.7 | 9.4 | 9.2 |
| Gross fixed capital formation (% of GDP) | 26.6 | 26.1 | 24.8 | 19.2 | 19.7 | 20.1 | 20.8 | 20.5 |
| Gross national saving (% of GDP) | 24.8 | 26.2 | 24.9 | 22.0 | 24.3 | 25.1 | 25.8 | 25.7 |
| **General Government (% of GDP)** | | | | | | | | |
| **Net lending (+) or net borrowing (-)** | **-3.0** | **-2.0** | **-4.1** | **-4.0** | **-14.9** | **-4.9** | **-2.9** | **-2.8** |
| **Gross debt** | **24.1** | **26.6** | **32.7** | **53.7** | **70.3** | **80.9** | **81.5** | **81.7** |
| **Net financial assets** | **15.3** | **10.2** | **4.8** | **-7.9** | **-18.7** | **n.a** | **n.a** | **n.a** |
| Total revenue | 42.6 | 43.2 | 42.7 | 44.6 | 45.0 | 45.0 | 44.8 | 43.4 |
| Total expenditure | 45.6 | 45.2 | 46.8 | 48.6 | 59.9 | 49.8 | 47.7 | 46.2 |
| *of which: Interest* | 2.3 | 1.7 | 1.4 | 2.0 | 2.5 | 3.3 | 3.1 | 2.9 |
| **Corporations (% of GDP)** | | | | | | | | |
| **Net lending (+) or net borrowing (-)** | **-1.7** | **-4.3** | **-2.4** | **2.8** | **13.2** | **5.1** | **4.5** | **3.9** |
| **Net financial assets; non-financial corporations** | **-88.3** | **-96.4** | **-118.0** | **-118.8** | **-109.7** | **n.a** | **n.a** | **n.a** |
| **Net financial assets; financial corporations** | **9.5** | **5.6** | **4.3** | **9.3** | **13.2** | **n.a** | **n.a** | **n.a** |
| Gross capital formation | 17.2 | 18.2 | 16.6 | 11.3 | 11.8 | 11.8 | 12.2 | 13.2 |
| Gross operating surplus | 16.5 | 18.4 | 19.4 | 18.4 | 18.9 | 19.9 | 20.3 | 20.8 |
| **Households and NPISH (% of GDP)** | | | | | | | | |
| **Net lending (+) or net borrowing (-)** | **2.3** | **4.3** | **4.7** | **4.0** | **6.2** | **5.7** | **5.8** | **5.6** |
| **Net financial assets** | **59.7** | **71.2** | **71.1** | **71.5** | **75.3** | **n.a** | **n.a** | **n.a** |
| Gross wages and salaries | 44.4 | 43.3 | 44.0 | 44.8 | 44.1 | 42.5 | 42.1 | 41.6 |
| Net property income | 1.5 | 1.4 | 1.2 | 1.1 | 1.1 | 1.0 | 1.1 | 1.1 |
| Current transfers received | 19.5 | 19.7 | 19.4 | 21.7 | 21.5 | 20.5 | 20.0 | 19.8 |
| Gross saving | 8.3 | 9.4 | 9.2 | 7.2 | 9.1 | 8.0 | 8.1 | 7.9 |
| **Rest of the world (% of GDP)** | | | | | | | | |
| **Net lending (+) or net borrowing (-)** | **-2.5** | **-2.0** | **-1.6** | **3.1** | **4.8** | **5.8** | **7.4** | **6.8** |
| **Net financial assets** | **4.2** | **9.8** | **38.4** | **47.0** | **40.8** | **n.a** | **n.a** | **n.a** |
| Net exports of goods and services | -2.4 | -0.3 | 0.4 | 4.4 | 6.0 | 8.1 | 9.2 | 9.5 |
| Net primary income from the rest of the world | 0.4 | -0.7 | -1.5 | -0.7 | -0.7 | -1.5 | -1.9 | -1.9 |
| Net capital transactions | 0.0 | -0.4 | 0.1 | 0.1 | 0.0 | 0.5 | 2.0 | 1.2 |
| Tradable sector | 47.7 | 47.1 | 44.9 | 45.4 | 46.1 | 46.4 | n.a | n.a |
| Non tradable sector | 39.3 | 40.6 | 42.4 | 41.4 | 40.3 | 39.9 | n.a | n.a |
| *of which: Building and construction sector* | 5.7 | 5.5 | 6.3 | 5.1 | 4.6 | 4.9 | n.a | n.a |
| Real effective exchange rate (index, 2000=100) | 91.1 | 92.0 | 97.7 | 96.8 | 98.0 | 95.6 | 92.6 | 91.7 |
| Terms of trade goods and services (index, 2000=100) | 102.7 | 103.2 | 101.1 | 97.6 | 98.5 | 99.3 | 98.9 | 98.3 |
| Market performance of exports (index, 2000=100) | 78.7 | 88.9 | 101.5 | 103.4 | 104.3 | 106.7 | 107.5 | 107.2 |

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source:
*AMECO, Commission 2015 spring forecast (COM).*