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COMMISSION OPINION

of 21.11.2018

on the Draft Budgetary Plan of Slovenia

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING SLOVENIA

3. On the basis of the Draft Budgetary Plan for 2019 submitted on 15 October 2018 by Slovenia, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013. The Draft Budgetary Plan was submitted on the basis of unchanged policies by the new government which took office on 13 September 2018.

   The Commission sent a letter to Slovenia on 19 October 2018 to highlight the importance of the submission of an updated Draft Budgatery Plan and Slovenia replied on 22 October 2018.

4. Slovenia is subject to the preventive arm of the SGP. On 13 July 2018, the Council recommended Slovenia to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.1 % in 2019, corresponding to an annual structural adjustment of 0.65 % of GDP towards the medium-term budgetary objective (MTO) of 0.25 % of GDP.[1] As its public debt amounted to 82.6 % of GDP in 2015, the year in which the excessive deficit was corrected, Slovenia also needs to make sufficient progress towards compliance with the debt reduction benchmark in 2018 and ensure compliance with the debt reduction benchmark in 2019.

5. According to the Commission 2018 autumn forecast, the Slovenian economy is expected to grow by 4.3 % in 2018 and 3.3 % in 2019. Based on the DBP, the economy is expected to grow by 4.4 % in 2018 and 3.7 % in 2019. The DBP forecast includes stronger contribution from net exports than the Commission 2018 autumn forecast, also investments are projected to grow faster. Therefore, the DBP scenario for 2019 appears favourable. The macroeconomic forecasts have been produced by Slovenia's independent fiscal authority. In order to ensure compliance with the requirement of Regulation (EU) No 473/2013, the draft Budget Act to be transmitted to the national parliament should be based on an independently produced macroeconomic forecast.

[1] Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of Slovenia and delivering a Council opinion on the 2018 Stability Programme of Slovenia, OJ C 320, 10.9.2018, p. 106.

6. For 2018, the Draft Budgetary Plan projects a general government surplus of 0.5 % of GDP and a (recalculated) structural deficit[2] of 0.7 % of GDP, broadly in line with the Commission 2018 autumn forecast. For 2019, the Draft Budgetary Plan projects a somewhat lower surplus of 0.2 % of GDP and a (recalculated) structural balance of -1.4 % of GDP. Those figures are below the Commission 2018 autumn forecast of 0.4 % of GDP and -1.0 % of GDP, respectively. The difference in the 2019 estimates arises from an assumption of a lower estimated output gap and a smoother public investment profile over 2019 and 2020 in the Commission 2018 autumn forecast, instead of a peak in 2019 projected in the DBP.

7. While the tax wedge on labour for low-income earners in Slovenia is above the Union average, the Draft Budgetary Plan includes no new measures that affect the tax wedge on labour. With respect to the Recommendation of 13 July 2018 addressed by the Council to Slovenia to adopt reforms on health care and long-term care, draft bills have been prepared. However, no new measures have been specified to ensure the long-term sustainability of the pension system.

8. The plausibility tool developed by the Commission in consultation with Member States points to a high degree of uncertainty surrounding the output gap estimate provided by the commonly agreed methodology. That uncertainty has been reflected in the Recommendation of 13 July 2018, which includes an adjustment requirement of 0.65 % of GDP for 2019 instead of the requirement of 1 % of GDP.

9. On 11 July 2017, the Council recommended Slovenia to ensure that the nominal growth rate of net primary government expenditure[3] does not exceed 0.6 % in 2018, corresponding to an annual structural adjustment of 1.0 % of GDP.[4] At the same time, it was stated that the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes will need to take due account of the goal of achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of public finances. Following the Commission's assessment of the strength of the recovery in Slovenia while giving due consideration to its sustainability challenges, carried out in the context of its opinion on Slovenia's Draft Budgetary Plan, a fiscal structural effort of at least 0.6 % of GDP is required for 2018, without any additional margin of deviation over one year. This corresponds to a nominal rate of growth of net primary government expenditure not exceeding 1.5 %. Taking that into account in the overall assessment, there is a risk of a significant deviation from the recommended adjustment path towards the medium-term budgetary objective in 2018. In particular, the Draft Budgetary Plan projects an expenditure benchmark gap of 0.9 % of GDP. Based on the structural balance, the gap amounts to 1.3 % of GDP. That conclusion is in line with the Commission 2018 autumn forecast which points to a gap of 1.6 % of GDP and 1.4 % of GDP based on the expenditure benchmark and the structural balance, respectively.

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[2] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

[3] As part of the agreement on the EFC Opinion on "*Improving the predictability and transparency of the SGP: a stronger focus on the expenditure benchmark in the preventive arm"*, which was adopted by the EFC on 29 November 2016, the expenditure benchmark, that is the maximum allowable growth rate of expenditure net of discretionary revenue measures, is expressed in nominal terms as from 2018.

[4] Council Recommendation of 11 July 2017 on the 2017 National Reform Programme of Slovenia and delivering a Council opinion on the 2017 Stability Programme of Slovenia, OJ C 261, 9.8.2017, p. 109.

For 2019, for Slovenia to comply with the requirements of the preventive arm, the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs, should not exceed 3.1 %, corresponding to an annual structural adjustment of 0.65 % of GDP. According to the Draft Budgetary Plan, the expenditure benchmark points to a risk of some deviation in 2019 (gap of 0.3 % of GDP) whereas the (recalculated) structural balance indicates a risk of significant deviation (gap of 1.4 % of GDP). At the same time, both pillars point to a risk of significant deviation over 2018 and 2019 taken together. Overall, the Draft Budgetary Plan is assessed to project a risk of significant deviation from the requirements of the preventive arm in 2019. That conclusion is confirmed by the Commission 2018 autumn forecast, which indicates a risk of significant deviation for both pillars for 2019 (gaps of 0.6 % and 0.8 % of GDP based on the expenditure benchmark and the structural balance, respectively) and over 2018 and 2019 taken together.

10. The Draft Budgetary Plan indicates that government debt-to-GDP ratio will decline from 70.3 % in 2018 to 66.6 .% in 2019, similar to Commission's projection of 66.3 %. The Draft Budgetary Plan does not include sufficient information to assess compliance with the transitional arrangements to make sufficient progress towards compliance with the debt reduction benchmark. Based on the Commission 2018 autumn forecast, Slovenia is projected to make sufficient progress towards compliance with the debt reduction benchmark in 2018 and the debt reduction benchmark is projected to be met in 2019.

11. Overall, while acknowledging the no-policy-change nature of its projections, the Commission is of the opinion that the Draft Budgetary Plan of Slovenia is at risk of non-compliance with the provisions of the Stability and Growth Pact. In particular, the Commission projects a risk of significant deviation from the required adjustment towards the medium-term budgetary objective for both 2018 and 2019. Therefore, the Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2019 budget will be compliant with the SGP.

The Commission is also of the opinion that Slovenia has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 13 July 2018 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the CSRs will be made in the 2019 Country Reports and assessed in the context of the country-specific recommendations to be proposed by the Commission in May 2019.

As soon as possible and as a rule at least one month before the draft budget law is planned to be adopted by the national parliament, the authorities are invited to submit to the Commission and the Eurogroup an updated Draft Budgetary Plan.

Done at Brussels, 21.11.2018

For the Commission
Pierre MOSCOVICI
Member of the Commission