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COMMISSION OPINION

of 24.11.2021

on the Draft Budgetary Plan of Slovenia

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(Only the Slovenian text is authentic)

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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, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact 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 by 15 October, presenting the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.
3. On 20 March 2020, the Commission adopted a Communication[1] on the activation of the general escape clause[2] of the Stability and Growth Pact. In that Communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the conditions to activate the general escape clause were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission.[3]
4. On 3 March 2021, the Commission adopted a Communication providing further policy orientations to facilitate the coordination of fiscal policies.[4] In that Communication, the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken on the basis of an overall assessment of the state of the economy, with the level of economic activity in the EU or euro area compared to pre-crisis levels (end-2019) as a key quantitative criterion. On 2 June 2021, on the basis of the Commission's 2021 spring forecast, the Commission considered that the conditions to continue to apply the general escape clause in 2022 and to deactivate it as of 2023 were met.[5] Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

[1] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

[2] The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn.

[3] https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

[4] Communication from the Commission to the Council on one year since the outbreak of COVID-19: fiscal policy response, Brussels, 3.3.2021, COM(2021) 105 final.

[5] Communication from the Commission on economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy, Brussels, 2.6.2021, COM(2021) 500 final.

5. Next Generation EU, including the Recovery and Resilience Facility, supports a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 established the Recovery and Resilience Facility[6] which provides financing support for the implementation of reforms and investments, notably to promote the green and digital transitions, thereby strengthening the economies' resilience and potential growth. Part of this support is in the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the EU budget. By contributing to economic recovery and to strengthening long-term growth, it supports public finances, growth and job creation in the medium and long term.

6. On 2 June 2021, the Commission emphasised in its communication that the coordination of national fiscal policies remains crucial to underpin the recovery. In this context, the Commission set out its view that the overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. Fiscal policy should remain agile and adjust to the evolving situation as warranted, and a premature withdrawal of fiscal support should be avoided. Once health risks diminish, fiscal measures should gradually pivot to more targeted measures that promote a resilient and sustainable recovery. Finally, with economic activity gradually normalising in 2021, Member States' fiscal policies should become more differentiated in 2022, taking into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. All Member States should preserve nationally financed investment. As the recovery takes hold, fiscal policy should prioritise higher public and private investment, supporting the transition towards a green and digital economy.

   In its recommendations on the 2021 Stability Programmes on 18 June 2021, the Council also recommended that, when economic conditions allow, Member States should pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, investment should be enhanced to boost growth potential.

   The Council, on 13 July 2021, further recommended to euro area Member States[7] to take action, individually and collectively within the Eurogroup, in the period 2021–2022 to ensure a policy stance that supports the recovery from the COVID-19 crisis. When the epidemiological and economic conditions allow, emergency measures should be phased out while combatting the social and labour market impact of the crisis. Recalling the need for prudent medium-term fiscal positions and debt sustainability, while enhancing investment, the Council also called for particular attention to the quality of budgetary measures.

   The recovery of the European economy has been strengthening, thanks to the improved health situation and easing of pandemic control restrictions. The volume of output in the euro area is expected to return to its pre-pandemic level by the end of the year. However, bottlenecks in global supply and rising energy and commodity prices have been increasingly weighing on activity in the EU. This together with production bottlenecks, due to the shortage of some input components and raw materials, and capacity constraints vis-à-vis booming demand both in the EU and internationally have been putting upward pressure on consumer prices.

[6] OJ L57, 18.2.2021, p.17.

[7] Council Recommendation of 13 July 2021 on the economic policy of the euro area, OJ C 283, 15.7.2021, p. 1.

7. On 18 June 2021, in its recommendations on the 2021 Stability Programmes, the Council highlighted that the established indicators of fiscal adjustment set out in Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. Specifically, the assessment of the overall fiscal stance at the current juncture should take into account the transfers from the EU budget (such as those from the Recovery and Resilience Facility). Furthermore, the assessment also needs to take into account the phasing-out of crisis-related temporary emergency measures that were designed to support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions, while their withdrawal is accompanied by the easing of lockdown restrictions that will support growth.

   Accordingly, the fiscal stance in 2021 and 2022 is measured by the change in primary expenditure (net of discretionary revenue measures), excluding crisis-related temporary emergency measures but including expenditure financed by grants under the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth.[8] Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally financed primary current expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures) and investment.

CONSIDERATIONS CONCERNING SLOVENIA

8. On 15 October 2021, Slovenia submitted the Draft Budgetary Plan for 2022. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

9. On 18 June 2021, the Council recommended that in 2022 Slovenia[9] maintains a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserves nationally financed investment.

   The Council also recommended to pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the national budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery; to prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition; and to give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

   On 2 June 2021, the Commission issued a report under Article 126(3) TFEU.[10] This report discussed the budgetary situation of Slovenia, as its general government deficit in 2020 exceeded the 3% of GDP Treaty reference value, while its general government debt exceeded the 60% of GDP Treaty reference value and did not

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[8] The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the Recovery and Resilience Plan and can boost Slovenia's potential growth.

[9] Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Slovenia, OJ C 304, 29.7.2021, p. 116.

[10] Report from the Commission prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, Brussels, 2.6.2021, COM(2021) 529 final.

respect the debt reduction benchmark. The report concluded that the deficit criterion was not fulfilled and the debt criterion was not complied with.

10. According to the Commission 2021 autumn forecast, the Slovenian economy is expected to grow by 6.4% in 2021 and 4.2% in 2022, while inflation is forecast at 1.7% in 2021 and 2.1% in 2022. Based on the forecast underlying the Draft Budgetary Plan, GDP is projected to grow by 6.1% in 2021 and 4.7% in 2022, while inflation is estimated at 1.4% in 2021 and 2.0% in 2022. Domestic demand is expected to be somewhat weaker in the Draft Budgetary Plan than in the Commission's forecast in 2021 and similar in 2022, whereas net exports are projected to be higher in both years. Over the two years taken together, however, the real growth forecasts are rather similar. The GDP deflator is higher in the Commission's forecast, thus nominal GDP is somewhat higher.

    Overall, the macroeconomic assumptions underpinning the Draft Budgetary Plan are plausible in both 2021 and 2022.

    Slovenia complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently produced macroeconomic forecasts.

11. Slovenia submitted its Recovery and Resilience Plan on 30 April 2021. The Council approved the assessment of Slovenia's Recovery and Resilience Plan on 28 July 2021. A pre-financing payment of Recovery and Resilience Facility grants of 0.5% of GDP was made to Slovenia in September 2021. The Draft Budgetary Plan assumes that expenditure amounting to 0.3% of GDP in 2021, 0.5% in 2022 , 0.7% in 2023, 0.7% in 2024, 0.7% in 2025 and 0.3% in 2026 will be funded by non-repayable financial support (grants) from the Recovery and Resilience Facility. Expenditures financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government deficit and debt. The plan also assumes expenditure financed through loans from the Recovery and Resilience Facility, with a direct impact on the general government deficit and debt amounting to 0.6% of GDP in 2023, 0.1% in 2024, 0.2% in 2025 and 0.3% in 2026. The Commission's forecast includes a similar amount of expenditures financed by Recovery and Resilience Facility grants in its budgetary projections. Simulations by the Commission services show that the Recovery and Resilience Plan, together with the rest of measures of the European Union Recovery Instrument, has the potential to increase the GDP of Slovenia by between 1.1% and 1.7% by 2026, not including the possible positive impact of structural reforms, which can be substantial.[11]

12. In its 2022 Draft Budgetary Plan, Slovenia's general government deficit is planned to decrease from 7.5% of GDP in 2021 to 5.4% of GDP in 2022, mainly due to the phasing out of the temporary COVID-19 measures and robust economic growth. The general government debt ratio is planned to decrease from 78.5% of GDP in 2021 to 77.5% of GDP in 2022. These projections are in line with the Commission's forecast. However, the Commission's forecast projects higher revenues from indirect taxes thanks to a more favourable macroeconomic scenario, and somewhat lower investment compared to the Draft Budgetary Plan based on the budget under-execution in past years. This is partly offset by lower projected revenues from the income taxes due to the changes to corporate income taxes adopted by the parliament

[11] These simulations reflect the overall impact of NGEU, which also includes funding for ReactEU, and increased funding for Horizon Europe, InvestEU, JTF, Rural Development and RescEU.

in October 2021 as well as changes to personal income taxes adopted by the government in May 2021 and currently being discussed by the parliament, which are not incorporated in the Draft Budgetary Plan.

The outlook for public finances continues to be subject to the high uncertainty that surrounds the macroeconomic projections, including risks related to the evolution of the pandemic and possible scarring effects. In 2022, investment budget execution remains a challenge based on the experience from past years, including 2021 with risks tilted to the downside if investment execution is not stepped up going forward.

13. The Draft Budgetary Plan includes crisis-related temporary measures with an overall expenditure increasing impact of 4.1% of GDP in 2021 and 0.5% in 2022. For 2021, most of the crisis-related measures have been introduced in 2020, including the public sector bonus for special working conditions, wage compensations for workers waiting at home, the short-time work scheme, special assistance in the form of a monthly basic income for the self-employed, coverage of fixed costs for companies, single payment solidarity assistance for vulnerable groups and other measures in healthcare, tourism and agriculture. A new tranche of tourism vouchers has been issued in 2021, while the validity of old vouchers has been extended until the end of 2021. The increase in the minimum wage in 2021 has been partly subsidised. For 2022, the Draft Budgetary Plan does not include any new discretionary measures, only the prolonged temporary COVID-19 measures. Based on the Commission's forecast, the crisis-related temporary emergency measures will decrease from 5.1% of GDP in 2020, to 3.8% in 2021 and 0.4% in 2022. The difference with the Draft Budgetary Plan is that the latter envisages one-off expenditure of 0.04% of GDP in 2021 and 0.2% of GDP in 2022 pertaining to lawsuits and penalties which are part of the baseline in the Commission's forecast. In addition, unlike the Draft Budgetary Plan, the Commission's forecast takes into account the tax reform of personal income tax and corporate income tax with an overall revenue reducing impact of 0.5% of GDP in 2022.

According to the Draft Budgetary Plan, gross fixed capital formation is expected to increase from 5.3% of GDP in 2021 to 6.8% of GDP in 2022. These projections are higher than in the Commission's forecast, mainly due to higher nationally financed investment expenditure. In 2021, Slovenia has updated the list of priority investments for restarting the economy after the COVID-19 epidemic. The amendment to the Investment Promotion Act is planned to enter into force in 2021 with the aim to transform investment to raise productivity and support the green economy, and to strengthen value chains. Also, the Act on Research, Development and Innovation Activities is planned to enter into force in 2022, which will enable an increase in public spending in the respective areas.

Some of the measures, such as the adoption of the amendments to the Construction Act and the Spatial Planning Act, Strategy for the Greening of Educational and Research Infrastructure, Act on the Promotion of the Use of Energy from Renewable Energy Sources and others are aimed at supporting the green and digital transition as recommended by the Council on 18 June 2021. In addition, a package of amendments to social legislation, amendments to the Labour Market Regulation Act and adoption of a short-time work scheme are expected to strengthen the social protection system and contribute to a sustainable and inclusive recovery. The planned reforms on healthcare, long-term care and pensions are expected to address the issue of long-term sustainability of public finances. However, in terms of the composition of public finances, Slovenia's government has adopted a revenue

decreasing tax reform which would put a strain on fiscal sustainability. A complete assessment of the fiscal-structural reforms implemented by Slovenia will be done in the context of the assessment of the implementation of the Recovery and Resilience Plans and the 2022 Country Report.

14. The fiscal stance, which excludes crisis-related temporary emergency measures while including the impact on aggregate demand from investment financed by both the national and the EU budgets, notably the Recovery and Resilience Facility, is projected in the Commission's forecast at -2.5% of GDP in 2022.[12] Slovenia is projected to use the Recovery and Resilience Facility in 2022 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 1 percentage point of GDP in 2022 compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.5 percentage points in 2022.[13] The growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 0.9 percentage points to the overall fiscal stance.

15. The Draft Budgetary Plan does not include budgetary projections beyond 2022, although it refers to the government's medium-term budgetary strategy to reduce the general government deficit to 3.3% of GDP in 2023 and 2.8% in 2024. In turn, government debt is envisaged to decline to 76% of GDP in 2023 and 74.8% in 2024.

16. In 2022, based on the Commission's forecast and including the information incorporated in Slovenia's Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive, as recommended by the Council. Slovenia plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Slovenia plans to preserve nationally financed investment.

    The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. While most of the measures are addressing the Council Recommendation, the adopted tax reform may put a strain on the sustainable and inclusive recovery.

    Taking into account the strength of the recovery, Slovenia is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

Done at Brussels, 24.11.2021

For the Commission
Paolo GENTILONI
Member of the Commission

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[12] A negative sign of the indicator corresponds to an excess of primary expenditure growth compared with medium-term economic growth, indicating an expansionary fiscal policy.

[13] Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0.1 percentage point of GDP.