EUROPEAN
COMMISSION

Brussels, 27.2.2019
C(2019) 2002 final

COMMISSION OPINION

of 27.2.2019

on the updated Draft Budgetary Plan of Slovenia

{SWD(2019) 202 final}

(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 (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. After the general election on 3 June 2018, the new government submitted on 15 October 2018 a Draft Budgetary Plan on the basis of unchanged policies. On 25 January 2019, it submitted an updated Draft Budgetary Plan for 2019. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

   The Commission sent a letter to Slovenia on 30 January 2019 asking for further information and the reply by Slovenia of 4 February has been taken into account in the Commission's assessment of budgetary developments and risks.

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 of 0.25 % of GDP.[1] As its public debt amounted to 82.6 % of GDP in 2015, the year in which it corrected its excessive deficit, Slovenia also needed to make sufficient progress towards compliance with the debt reduction benchmark in 2018 and needs to ensure compliance with the debt reduction benchmark in 2019.

5. According to the Commission ad-hoc forecast[2], the Slovenian economy is expected to grow by 4.4 % in 2018 and 3.1 % in 2019. Based on the updated Draft Budgetary Plan, the economy is expected to grow by 4.4 % in 2018 and 3.7 % in 2019. In both forecasts, the economy is projected to grow above its potential with a positive output gap, which indicates the need to strengthen the fiscal position of the country so as to

[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. 103.

[2] The Commission published its winter 2019 forecast (interim) on 7 February 2019. It only includes projections for GDP growth and inflation. In order to assess the updated Draft Budgetary Plan, the Commission complemented its winter 2019 forecast for Slovenia by a fully-fledged “ad-hoc” forecast, including in particular projections for the general government balance and the structural balance.

have sufficient fiscal space should the economic cycle deteriorate. The updated Draft Budgetary Plan forecast includes a stronger contribution from domestic demand (including investment) as well as net exports than the Commission ad-hoc forecast. Therefore, the updated Draft Budgetary Plan scenario for 2019 appears favourable. Slovenia complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently produced macroeconomic forecasts.

6. For 2018, the updated Draft Budgetary Plan projects a general government surplus of 0.8 % of GDP and a (recalculated) structural deficit[3] of 0.4 % of GDP, broadly in line with the Commission ad-hoc forecast. For 2019, the updated Draft Budgetary Plan projects a somewhat lower surplus of 0.6 % of GDP and a (recalculated) structural balance of -1.1 % of GDP. Those figures are below the Commission ad-hoc forecast of 0.7 % of GDP and -0.6 % of GDP, respectively. The difference in the 2019 estimates arises from an assumption of a lower estimated positive output gap and a smoother public investment profile over 2019 and 2020 in the Commission ad-hoc forecast compared to the updated Draft Budgetary Plan.

7. For 2019, the updated Draft Budgetary Plan includes measures to reduce expenditure with an overall budgetary impact of 0.2 % of GDP. A 0.1 % of GDP reduction in compensation of employees results from restricting promotion-related payments until December 2019. Another 0.1 % of GDP decrease in government spending is due to a partial freeze of social transfers and soft measures improving the performance of social measures. The updated Draft Budgetary Plan also envisages one-off expenditure of 0.1 % of GDP per year in both 2018 and 2019 which includes expenditure pertaining to a court ruling regarding interest compensation for deposit holders of Ljubljanska Banka and to a lawsuit concerning return of agricultural land. In its ad-hoc forecast the Commission also considers as discretionary expenditure measures the extraordinary indexation of pensions and the increase in annual pension allowance in 2019, whereas they are part of the baseline in the updated Draft Budgetary Plan.

   While the tax wedge on labour for low-income earners in Slovenia is above the Union average, the updated 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, the Slovenian authorities have prepared draft bills. However, they have specified no new measures 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 was reflected in the Recommendation of 13 July 2018, which includes an adjustment requirement of 0.65 % of GDP for 2019 rather than the requirement of 1 % of GDP that would have derived from the commonly agreed adjustment matrix under the Stability and Growth Pact.

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

9. On 11 July 2017, the Council recommended Slovenia to ensure that the nominal growth rate of net primary government expenditure[4] would not exceed 0.6 % in 2018, corresponding to an annual structural adjustment of 1.0 % of GDP.[5] At the same time, the Council stated that the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes would 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. Such a fiscal structural effort corresponds to a nominal rate of growth of net primary government expenditure not exceeding 1.5 %. Taking it 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 updated Draft Budgetary Plan projects the nominal growth rate of net primary government expenditure to exceed the recommended expenditure benchmark of 0.6 %, with a gap of 0.9 % of GDP. Based on the structural balance, the gap to the required adjustment of 1.0 % of GDP amounts to 1.0 % of GDP. That conclusion is in line with the Commission ad-hoc forecast which points to a gap of 1.7 % of GDP and 1.1 % of GDP based on the expenditure benchmark and the structural balance, respectively.

In 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 updated Draft Budgetary Plan, the expenditure benchmark shows a gap of 0.5 % of GDP, pointing to some deviation and close to the threshold indicating significant deviation, whereas the (recalculated) structural balance indicates a risk of significant deviation (gap of 1.3 % of GDP). The difference in the conclusions reached based on the two approaches is mainly explained by the large revenue shortfalls projected in the updated Draft Budgetary Plan, which affect only the structural balance. The expenditure benchmark is thus considered to give a more accurate picture of the planned fiscal effort. Hence, an overall assessment based on the updated Draft Budgetary Plan points to a risk of some deviation from the requirements of the preventive arm in 2019. However, for 2018 and 2019 taken together, an overall assessment indicates a risk of significant deviation since, on average, in the two-year period the net primary expenditure is planned to increase above the recommended rate. Based on the Commission ad-hoc forecast, both pillars indicate a risk of significant deviation in 2019 (gaps of 0.7 % and 0.8 % of GDP based on the expenditure benchmark and the structural balance, respectively) and over 2018 and 2019 taken together. The large difference in the 2019 estimates for structural deterioration between the Commission ad-hoc forecast (0.1% of GDP) and the

[4] 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.

[5] 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. 105.

updated Draft Budgetary Plan (0.7% of GDP) is mainly due to the lower public investment and the smaller positive output gap in the Commission ad-hoc forecast. Following an overall assessment, the Commission ad-hoc forecast points to a risk of significant deviation from the recommended adjustment path towards the medium-term budgetary objective in 2019 and in 2018 and 2019 taken together. This indicates that the expected increase in net primary expenditure in fact is larger than what would be required to ensure that sufficient fiscal space is built.

10. The updated Draft Budgetary Plan indicates that government debt-to-GDP ratio will decline from 70.3 % in 2018 to 66.0 .% in 2019, similar to Commission's projection of 66.2 %. The updated 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 ad-hoc forecast, Slovenia is projected to have made 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, the Commission is of the opinion that the updated 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 in 2019 and in 2018 and 2019 taken together. 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. There is a comprehensive description of progress made with the implementation of the CSRs in the 2019 Country Reports and the Commission will assess that progress in the context of the country-specific recommendations it proposes in May 2019.

Done at Brussels, 27.2.2019

For the Commission
Pierre MOSCOVICI
Member of the Commission