GOVERNMENT OF THE REPUBLIC OF SLOVENIA

# Draft budgetary plan 2019

*25 January 2019*

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## 1. Introduction

In accordance with the provision of paragraph one of Article 6 of the Fiscal Rule Act (Official Gazette of the Republic of Slovenia [*Uradni list RS*], No. 55/15; hereinafter: the ZFisP) and Article 108 of the Rules of Procedure of the National Assembly (Official Gazette of the Republic of Slovenia [*Uradni list RS*], Nos 92/07 – official consolidated version, 105/10 and 80/13), in November 2017 the National Assembly adopted the Ordinance on the framework for the preparation of the general government budget for the 2018–2020 period (Official Gazette of the Republic of Slovenia [*Uradni list RS*], No. 21/17). The ordinance lays down the target balance and the maximum level of general government expenditure for an individual fiscal year and target balances and the maximum level of expenditure from individual public finance budgets for the next three years on a cash basis. In accordance with Article 6 of the ZFisP and Regulation (EU) No 473/2013 (the Republic of Slovenia submitted to the European Commission the Draft Budgetary Plan under a no-policy-change scenario within the set time limit, i.e. by 15 October 2018), the Government of the Republic of Slovenia announced the Amendments of the State budget for 2019.

The Amendment to the Ordinance on the framework for the preparation of the general government budget for the 2018–2020 period (OdPSD18–20) (hereinafter: the Framework) for 2019 provides fiscal projections on the basis of current trends (by monitoring budget outturn for the last ten months), updated projections (autumn forecast by IMAD) and the proposed Implementation of the Republic of Slovenia's Budget for 2018 and 2019 Act (hereinafter: the ZIPRS). The Framework in Article 3 lays down the 0.4% of GDP as target balance and 20,610 million EUR as the maximum level of expenditure for the general government (The Framework lays down target balance and maximum level of expenditure also for other public finance budgets; state budget, the pension and disability insurance fund, the health insurance fund and municipal budgets according to cash flow). The impact on the higher level of maximum expenditures for the state budget (40% of general government) have particularly adopted new measures that are coming into force in 2019: agreement on wage policy in the public sector, impact of the Social Assistance Benefits Act, agreed new amount of the lump sum expenditure for municipalities and the level of annual grant for the pensioners.

Given that the Government of the Republic of Slovenia took office only on 13 September 2018, it was not possible to adopt policies and measures in the interim period that would have an impact on the 2019 budget, the public finance budget or the general government sector. It has happened before that the Framework was amended outside the time limits set in the ZFisP, and this only for one year, with the other two years remaining unchanged. In such cases, the Framework ensures regular operation and the transfer of legal obligations to fiscal policy. An important element is that, in the spring, as part of the European Semester (in accordance with the SGP rules and Council Directive 2011/85/EU), in the medium term (at least a 3-year future period), the Framework will provide medium-term or multi-annual guidelines for fiscal policy.

By way of the Draft Budgetary Plan – under a policy change scenario (hereinafter: the DBP), the Government is amending the Ordinance Amending the Framework for 2019, thereby complying with Regulation (EU) No 473/2013, as it is supplementing the submitted DBP (based on a no-policy-change assumption) with targeted policies and subsequently submitting it to the European Commission and the Eurogroup. The DBP has been drawn up in accordance with new budget scenarios prepared by the Ministry of Finance and takes into account all applicable legal acts, in particular the new ZIPRS.

In the DBP, the Republic of Slovenia sets out all general government revenue and expenditure for the coming year and the measures in force and their effects in 2019 in respect of salaries in the public sector and social transfers and increased spending from the health insurance fund budget and local community budgets. For three years since the excessive deficit procedure for Slovenia was closed, Slovenia has placed a special emphasis on the debt rule. The debt rule is indeed the main guideline in economic policy development, whereby Slovenia will strive to maintain the positive nominal general government balance (and on the mid-term consequently concern for the long-term public finance sustainability). If this does not transpire, the appropriate mix of economic policies or appropriate economic growth cannot be ensured, as everything is submitted to the required (over-)rapid fiscal consolidation. The Ministry of Finance has several times drawn the attention of the broader expert public and the European Commission to the inappropriate setting of a medium-term objective (MTO), where contingent liabilities related to population ageing are overstated compared to the existing debt, which is why meeting yearly targets on the way towards the MTO (merely a mathematical calculation) in the transitional period in accordance with the ZFisP may result in irreversible consequences for the economy. The Republic of Slovenia also finds problematic the matrix of the required appropriate fiscal efforts, because it relies on an output gap and the mathematically determined limits for the required annual fiscal efforts, which do not reflect economic reality. In the past, the Republic of Slovenia carried out reforms in the labour market and pension reform; in the medium term, new challenges will have to be addressed: a demographic fund will be established, rationalisation in healthcare is expected, administrative barriers are being eliminated and measures to increase productivity are planned (including measures for the unloading the tax burden on labour costs). In any case, more permanent reforms and the lagging behind in terms of development cannot be part of the annual cycle in connection with budgets. In addition, since the adoption of the Stability and Growth Pact (the SGP) and the economic governance package (Six Pack + Two Pack), Slovenia has not been entitled to a single flexibility clause for deviation from the MTO (neither in structural nor in investment terms), which shows that the specifics of small open countries have not been taken into account or that the time limits for fiscal consolidation are unrealistic from the point of view of the political cycle (which does not necessarily coincide with the economic cycle).

Under the assumption of changed policies, Slovenia complies with the requirements of the SGP (the Stability and Growth Pact) with regard to the debt rule. The general government debt is decreasing more than foreseen in 2019, for 3.7 p.p due to efficient debt management and implemented privatization (2018: 70.3%; 2019: 66.6%). Debt rule will be met at the end of the medium-term period in this Government's term of office (below 60%). In the past period, Slovenia ranked second among EU Member States (behind Ireland) in terms of debt reduction as a percentage of GDP. Slovenia will continue activities to achieve long-term sustainability of public finances in accordance with the rules in such a way so as not to inhibit economic growth, e.g. by reducing the expenditure limit due to the accelerated absorption of EU funds; as regards commitment appropriations, Slovenia will no longer reduce investment, but will maintain the levels achieved. (After the crisis, the real growth in fixed capital formation remained negative and in 2017 finally reached the year-on-year growth rate of 10%, and investment now finally reached 20% of GDP). For Slovenia, it is important to maintain economic growth and increase productivity, while maintaining an appropriate level of general government debt.

Table 1: General government targets

| % of GDP | 2017 | 2018 | 2019 |
|---|---|---|---|
| Net lending / net borrowing | 0.07 | 0.84 | 0.55 |
| Structural balance | 0.01 | 0.08 | -0.44 |
| Gross debt | 74.1 | 70.3 | 66.0 |

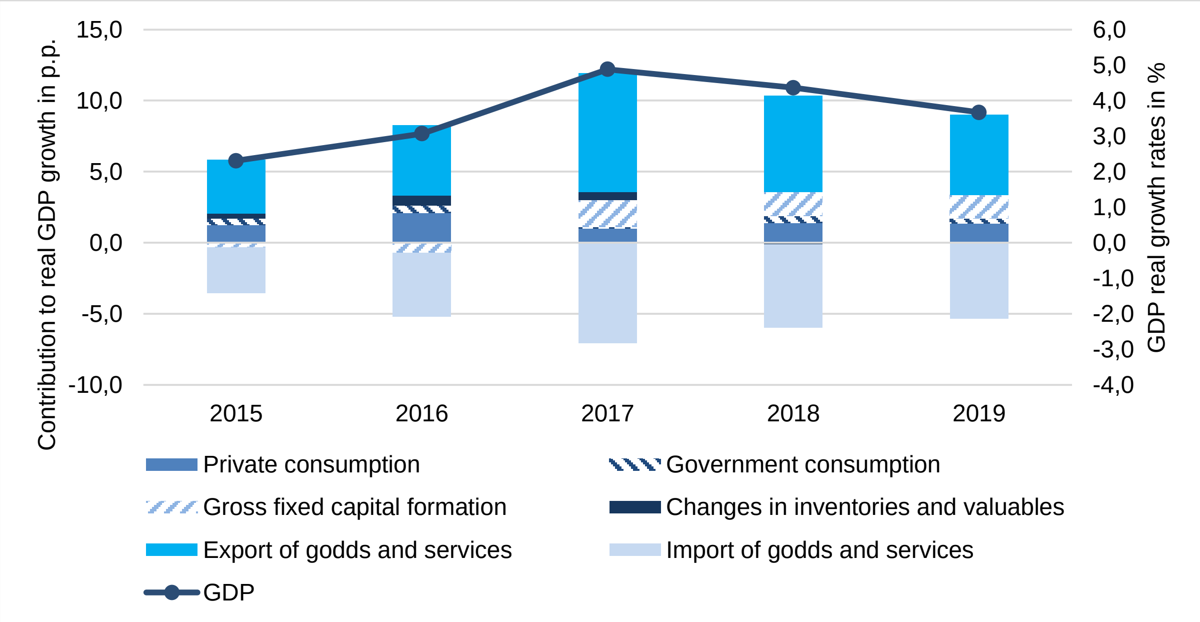
Source: SURS, Ministry of Finance.

With the revised DBP and on the basis of first data on realization of state budget in 2018 projects a general government surplus of 0.8% for 2018 and a lower surplus of 0.5% of GDP for 2019. The general government surplus is a result of gradually abolishment of the austerity measures, positive economic trends, active management of the debt in the period of low interest rates and curbed public spending until this year. In the 2015–2018 period, the average increase in revenue was 4.5% and exceeded the increase in expenditure (the average increase in expenditure in the 2015–2018 period being 1.0%) by 3.5 percentage points. In 2017-2018 the structural balance was achieved (from the calculation point of view, considering the real output gap unadjusted on Slovenian specifics). Consequently, it could be suggested that the mid-term goal was achieved. However this does not hold because the balance was reached in the period of austerity measures or because the level of the expenditures is not anchored on the long term according to the level of revenues in normal cycle (and according to the potentional new liabilities).

## 2. Macroeconomic outlook and expectations

In 2018 Slovenia recorded economic activity growth for the fifth consecutive year. The growth in economic activity is faster than the growth of potential output. The growth is broadly based and has not overheated. The improvement in Slovenia's export competitiveness and an increase in its market share in foreign markets have also contributed to high export growth, which was slowing in 2018. Despite the relatively high economic growth in the first three quarters of 2018 and the average GDP growth rate of 4.5%, which is explained by the strong investment cycle related to local elections and some other large investments projects, economic growth is forecast to slow in 2019. In the autumn forecast (by IMAD), which is used in macroeconomic projections in the draft budgetary plan, economic growth is projected to fall from 4.4% in 2018 to 3.7% in 2019. In its autumn 2018 forecast, the European Commission also predicted that economic growth would slow from 4.3% in 2018 to 3.3% in 2019. Lower growth is the result of transition of both the Slovenian economy and the economies of the most important trading partners into a more mature phase of the business cycle.

Figure 1: Gross domestic product by expenditures




Source: IMAD 2018 Autumn Forecast

The slowing of economic growth in 2018, as seen in exports in the third quarter, is due to a decrease in foreign demand, in particular a decrease in foreign trade in the euro area. In the next two years, export growth is expected to moderate, since the GDP growth in the euro area is expected to be in line with the further slowing of foreign trade growth (Figure 1). The expected higher growth of imports particularly influenced by domestic consumption factors, will slightly reduce the surplus in the current account balance of payments. Further growth in domestic demand is expected. Private consumption growth will also be affected by a slightly faster wage growth, which will not have a negative impact on the external competitiveness of Slovenian export sector, as it will not exceed the productivity growth. The investment cycle of companies will continue mainly due to the growth of credit activity of banks and accessibility of favorable sources of financing. In particular, growth of investment in machinery and equipment and growth of housing investment is expected.

Favourable economic activity in 2018 is reflected in favourable trends in the labour market, with a substantial increase in employment and a reduction in the unemployment rate, yet with an increasingly pronounced structural mismatch. Labour market is facing increasingly limited supply, especially in activities with lower productivity and wage levels below average and activities requiring specific vocational skills.  On the other hand, Slovenia faces the outflow of highly qualified personnel. Beside, the supply is already affected by demographic factors. With economic growth slowing in 2019, favourable trends in the labour market will continue, but at a more moderate pace. Inflation will increase slightly, running a little above 2% by 2020. This will be due to a further increase in demand, a rise in oil prices and prices of services and related increase in cost pressures.

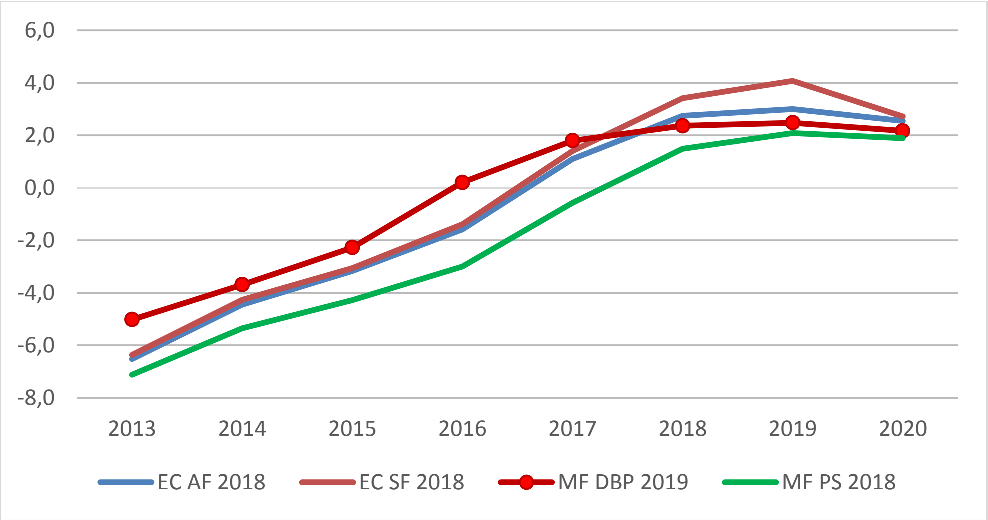
Table 2: Economic growth and related indicators

| | ESA Code | 2017 (Levels million EUR) | 2017 (rate of change) | 2018 (rate of change) | 2019 (rate of change) |
|---|---|---|---|---|---|
| 1. Real GDP | B1*g | | 4.9 | 4.4 | 3.7 |
| of which: | | | | | |
| Attributable to the estimated impact of aggregated budgetary measures on economic growth | | | | | |
| 2. Potential GDP | | | 2.3 | 2.8 | 3.3 |
| Contributions | | | | | |
| Potential GDP contributions: Labour | | | 0.6 | 0.9 | 1.1 |
| Potential GDP contributions: capital | | | 0.2 | 0.4 | 0.5 |
| Potential GDP contributions: total factor productivity | | | 1.5 | 1.5 | 1.6 |
| 3. Nominal GDP | B1*g | 43,000 | 6.5 | 6.4 | 6.1 |
| Components of real GDP: | | | | | |
| 4. Private consumption expenditure | P.3 | 22,305 | 1.9 | 2.7 | 2.6 |
| 5. Government consumption expenditure | P.3 | 7,837 | 0.5 | 2.7 | 2.0 |
| 6. Gross fixed capital formation | P.51 | 7,962 | 10.7 | 9.0 | 8.5 |
| 7. Changes in inventories and net acquisition of valuables (% of GDP) | P.52 + P.53 | 715 | 1.7 | 1.5 | 1.4 |
| 8. Exports of goods and services | P.6 | 35,637 | 10.7 | 8.2 | 6.6 |
| 9. Imports of goods and services | P.7 | 31,455 | 10.3 | 8.0 | 7.1 |
| Contribution to real GDP growth: | | | | | |
| 10. Final domestic demand | | 38,818 | 3.6 | 3.5 | 3.4 |
| 11. Changes in inventories and net acquisition of valuables | P.52 + P.53 | 715 | 0.6 | -0.1 | 0.0 |
| 12. External balance of goods and services | B.11 | 4,181 | 1.3 | 0.9 | 0.3 |

Sources: SURS, IMAD 2018 Autumn Forecast, Ministry of Finance, SAEP

With economic growth slowing, but still exceeding the growth of potential output, the positive output gap (MF DBP 2019) will peak in 2019 and then start to gradually close (Figure 2). Similar trends regarding the output gap are projected by the European Commission in the autumn forecast (European Commission, Autumn 2018 Forecast).

Figure 2: Output gap estimates (% of GDP)

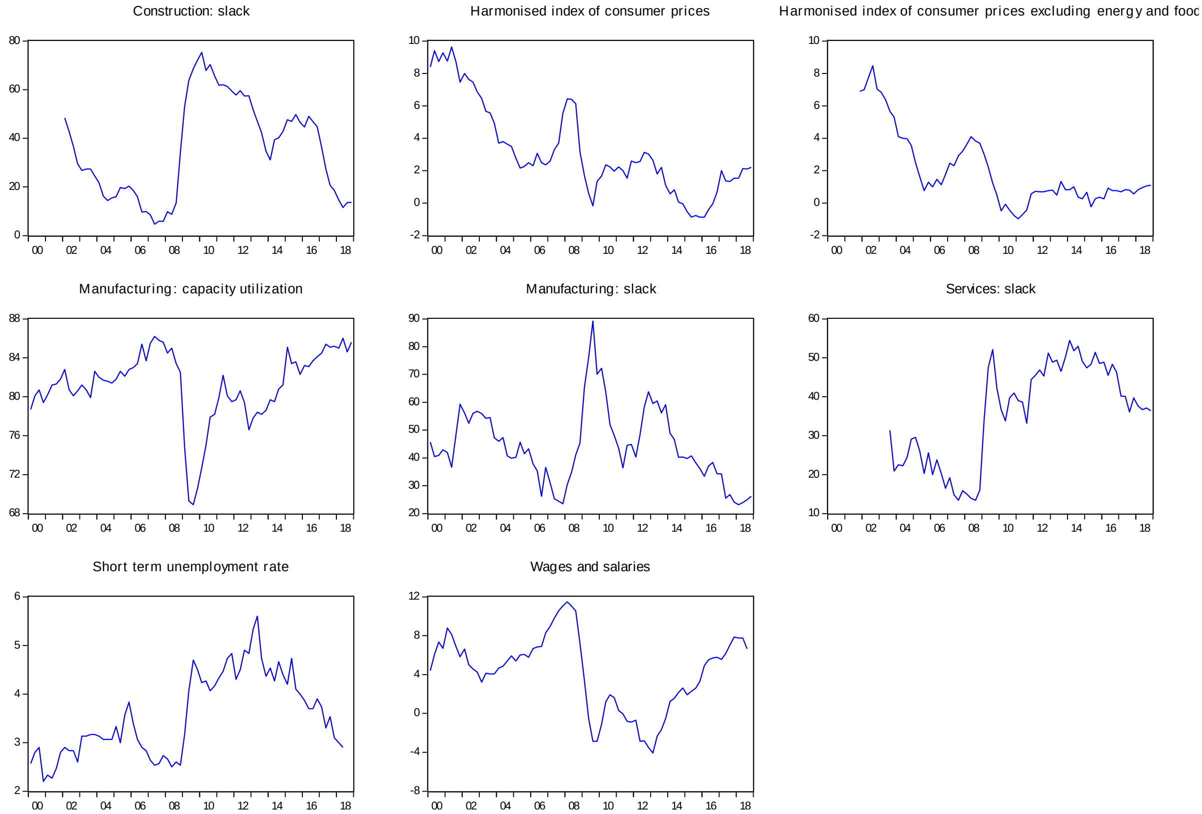



Source: Ministry of Finance, SAEP

Despite the positive output gap estimates in recent years and this year, which are also reflected in the movement of the relevant indicators of the gap between aggregate demand and supply (Figure 3) and positive trends in the labour market, including the lack of labour force, the economy does not show signs of overheating.

There has been a temporary slowdown in payment dynamics, while inflation remains relatively low (1.4% year-on-year change in December 2018) and is mainly a result of the rise in energy prices.. In Slovenia a pick-up in wage growth is expected in 2019, but in general it will be in line with productivity growth. Higher wage growth is expected in the wider public sector, particularly in 2019, as a result of the planned relaxation of the remaining measures to contain the costs of wages in the public sector introduced with the Fiscal Balance Act (the ZUJF) and the concluded strike agreements.

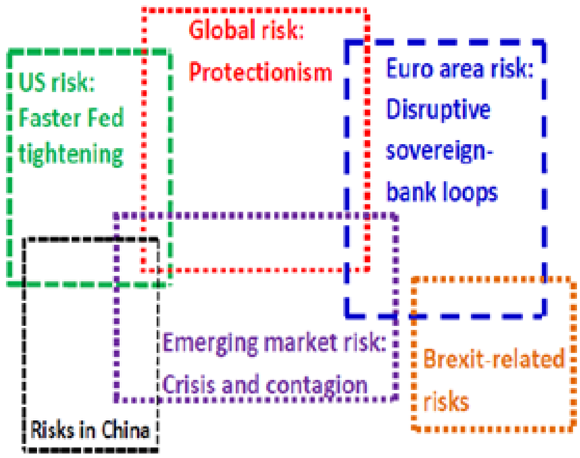
Figure 3: Dynamics of selected business cycle indicators




Source: Ministry of Finance, SAEP

Risks in the international environment which may have a negative impact on growth in the coming years are related to the protectionist measures of the US, uncertainty about economic policies in the EU and the withdrawal of the UK from the EU. Risk factors in the domestic environment are, in particular, demographic trends and changing tax policy and excessive wage growth in the medium term. More investment and private consumption growth in the domestic environment may lead to higher GDP growth than projected.

Figure 4: Risks related to the macroeconomic forecast

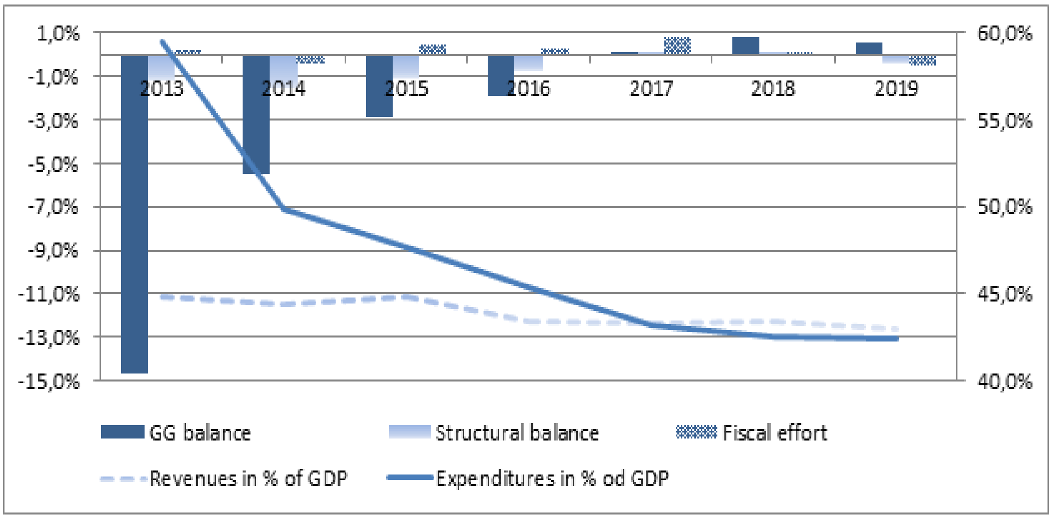



Source: European Commission, Autumn 2018 Forecast

## 3. Fiscal policy

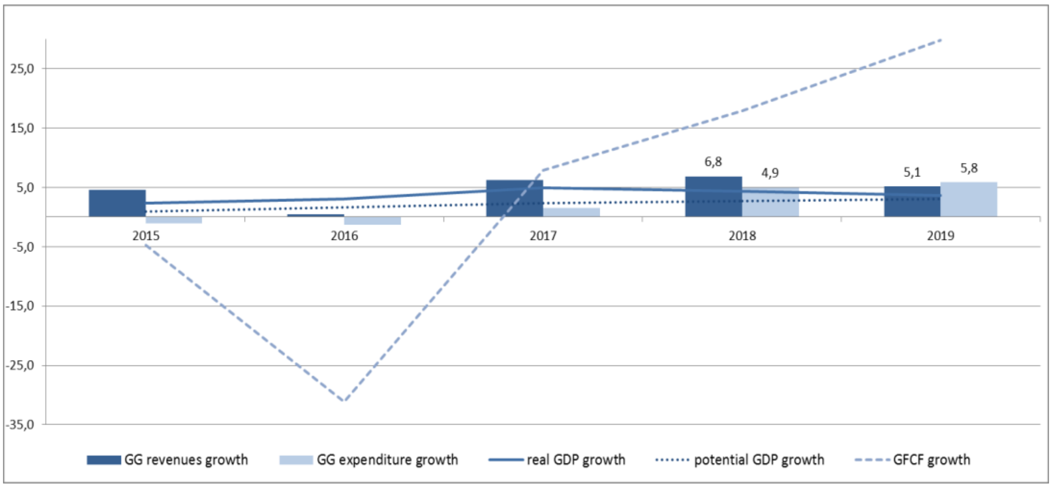
Economic growth in 2017 and 2018 had a significant impact on the improvement in public finances, which is evident in increased inflows of tax revenues. Employment increased and companies created more added value and improved their business performance. Due to the improved situation in the labour market, the pension and disability insurance fund and the health insurance fund more easily complied with their obligations. Good fiscal results are also due to somewhat reserved investment activity, where higher expenditure was expected (the changed dynamics of the absorption of EU funds). Accordingly, the Government gradually abolished the majority of measures undertaken to alleviate the consequences of the economic crisis in past years. Pensions are again indexed, and there are more possibilities arising from social security rights.

Figure 5: General government revenues and expenditure, balance and fiscal effort (% of GDP)




Source: SURS; calculations and projections by the Ministry of Finance

Figure 6: Growth in general government revenue, expenditure and primary expenditure, real and potential GDP growth, and investment growth




Source: SURS; calculations and projections by the Ministry of Finance

In the 2015–2017 period, real GDP increased from 2.3% to 4.9%. On the basis of IMAD autumn forecast, real GDP is projected to continue to grow in the future, however at a more moderate pace ( 4.4% in 2018 and 3.7% in 2019).

General government revenue was increasing throughout the 2015–2017 period. General government revenue increased by 4.5% in 2015 compared to the previous year and in 2016 and 2017 by 0.4% and 6.2% respectively. A similar increase is expected in 2018, as general government revenue is expected to increase by 6.8% compared to the previous year and by 5.1% in 2019.

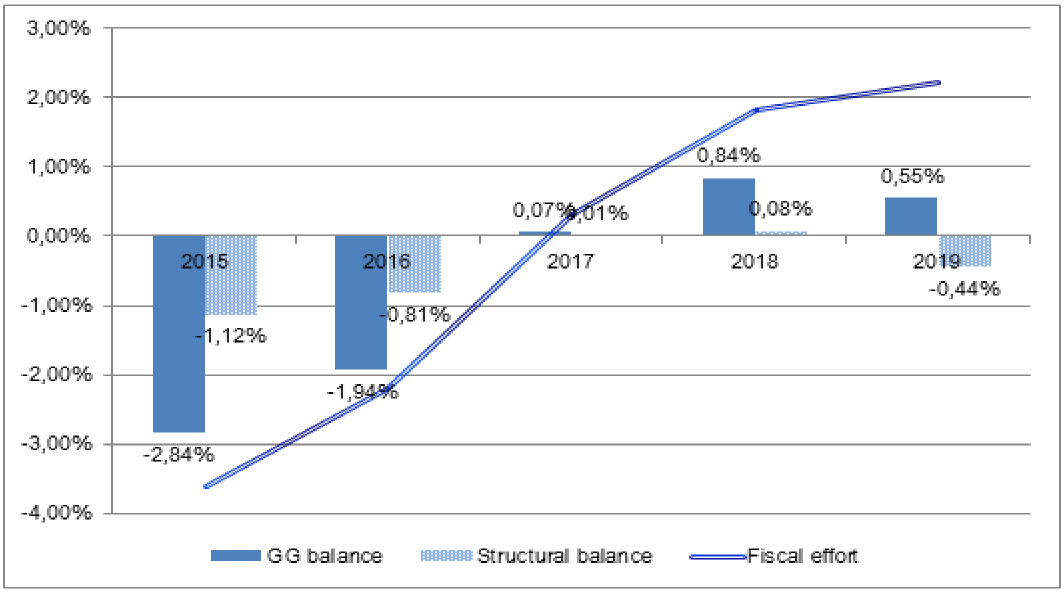
In the 2015–2017 period, general government expenditure decreased by 1.1% in 2015 and by 1.4% in 2016 compared to the previous year. However, in 2017 general government expenditure increased by 1.5% and will continue to rise in the coming years. General government expenditure is projected to increase by 4.9% or EUR 910 million in 2018 and by 5.8% or EUR 1,134 million in 2019.

## 3.1. General government sector under a policy change scenario

In order to achieve the required fiscal efforts, Slovenia must progress towards and remain at the medium-term objective (MTO). The possible economic scenario deteriorates structural balance in 2019 (in 2018 the structural balance was balanced despite no policy-change-scenario which was in force for almost 10 months of 2018). In spite of this, the Government of the Republic of Slovenia is of the opinion that balancing public finance is possible in the medium term (by the end of its mandate, end of 2022).

Evaluating current fiscal consolidation in the 2015–2019 period (a total of 1.1% of GDP), this goal is realistically achieveble by 2022 regardless of the way forward towards reaching MTO = 0 (it will be presented within the Stability Programme for the next three-year period). As seen in the figure below, we can conclude that Slovenia is progressing on the path towards its medium-term objective, in particular if we take into account the fiscal efforts achieved in previous years, and certainly meets the debt rule requirement.

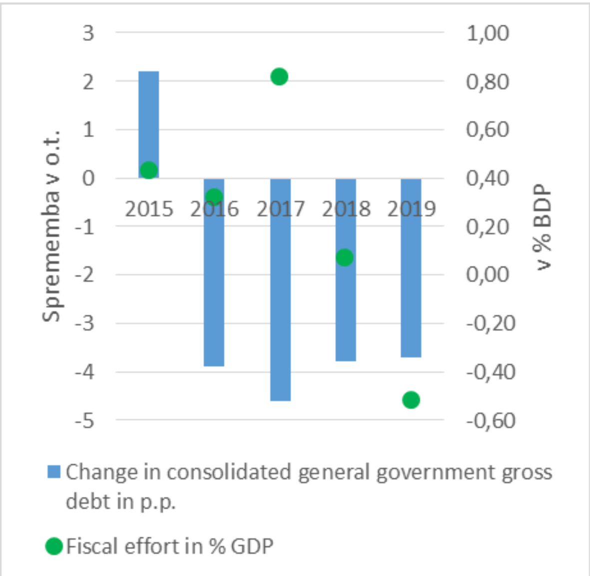
Figure 7: General government balance and structural balance, % of GDP – target scenario, output gap MF (EC methodology)

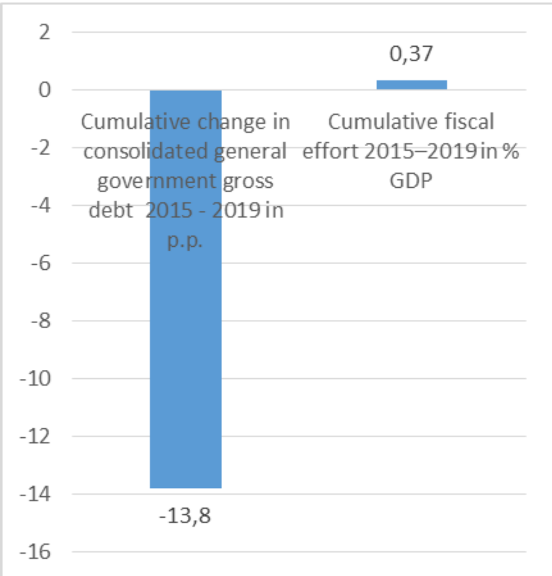



Source: SURS; calculations and projections by the Ministry of Finance

In the Draft Budgetary Plan, the Republic of Slovenia projects a general government balance surplus (higher by 0.35 percentage points of GDP than under the no-change-policy scenario in October 2018). Since October, revenue growth rate has increased from 4.8% to 5.1%, with expenditure growth exceeding revenue growth by 0.7 percentage point of GDP. The general government expenditure growth rate increased from 5.7% (October 2018) to 5.8% (December 2018) as a result of the adopted measures and adjustments.

Figure 8: Change in consolidated general government gross debt and cumulative fiscal effort (2015–2019)




Source: Calculations and projections by the Ministry of Finance

Table 3: Consolidated general government balance

| | ESA Code | 2018 (% of GDP) | 2019 (% of GDP) |
|---|---|---|---|
| Net lending (EDP B.9) by sub-sector | | | |
| 1. Net lending/net borrowing: General government | S.13 | 0.84 | 0.55 |
| 2. Net lending/net borrowing: Central government | S.1311 | 0.8 | 0.4 |
| 3. Net lending/net borrowing: State government | S.1312 | | |
| 4. Net lending/net borrowing: Local government | S.1313 | 0.1 | 0.1 |
| 5.Social security funds | S.1314 | 0.0 | 0.0 |
| 6. Interest expenditure | EDP D.41 | 2.0 | 1.6 |
| 7. Primary balance | | 2.8 | 2.2 |
| 8. One-off and other temporary measures | | -0.09 | -0.05 |
| 8.a Of which one-offs on the revenue side: general government | | | |
| 8.b Of which one-offs on the expenditure side: general government | | -0.09 | -0.05 |
| 9. Real GDP Growth (%) (=1 in Table 1a) | | 4.4 | 3.7 |
| 10. Potential GDP Growth (%) (=2 in Table 1a) | | 2.8 | 3.3 |
| Contributions | | | |
| -Labour | | 0.9 | 1.1 |
| -Capital | | 0.4 | 0.5 |
| -Total factor productivity | | 1.5 | 1.6 |
| 11. Output gap (% of potential GDP) | | 1.8 | 2.2 |
| 12. Cyclical budgetary Component (% of potential GDP) | | 0.9 | 1.0 |
| 13. Cyclically adjusted balance (1-12) (% of potential GDP) | | -0.1 | -0.55 |
| 14. Cyclically adjusted primary balance (13+6) (% of potential GDP) | | 1.9 | 1.15 |
| 15. Structural balance (13-8) (% of potential GDP) | | 0.1 | -0.4 |

Source: Calculations and projections by the Ministry of Finance; SURS past series

### *3.1.1. General government revenue*

In 2018 general government revenue is expected to increase by EUR 1,268 million or 6.8% compared to the previous year, amoutingto EUR 19,861 million. High revenue growth in 2018 is largely due to high revenues from taxes, in particular taxes on production and imports and taxes on income and wealth. In 2018 taxes on production and imports will amount to EUR 6,543 million, increasing by EUR 402 million or 6.5% compared to the previous year. This increase will be mostly due to higher revenues from VAT, which will increase by 9.0% or EUR 314 million. Higher revenues from taxes on income and wealth will be largely attributable to higher revenues from personal income tax (EUR 231 million or 10.5%) and from corporate income tax (EUR 100 million or 13.1%) as a result of the favourable situation in the labour market and the general economic situation. There will also be an increase in revenues from social contributions, which will rise by EUR 438 million or by 6.9%. Property income, in particular income arising from distributed profits of state-owned companies, will significantly contribute to revenue growth in 2018. Distributed profits will increase by EUR 79 million or by 25.0% in 2018 compared to the previous year, and this despite the super dividend, which in 2018 is estimated at EUR 193 million.

A further increase in general government revenue is projected for 2019 however it is expected to be more moderate. General government revenue will increase by EUR 1.017 million or by 5.1%, totalling EUR 20,878 million. In 2019, as in 2018, revenues from taxes will increase most significantly. Revenues from taxes on production and imports will increase by EUR 211 million or 3.2%, mainly due to higher revenues from VAT (EUR 194 million or 5.1%). Revenues from taxes on income and wealth will also be higher, mainly due to personal income tax (EUR 162 million or 6.6%), while an increase in revenues from corporate income tax will be more moderate (EUR 36 million or 4.2%). There will also be an increase in revenues from social contributions (by EUR 371 million or by 5.5%). Revenues from distributed profits ofstate owned companies will decrease by EUR 47 million or 11.8% in 2019 compared to 2018, partly as a consequence of high payments made on that basis into the state budget in 2018 (from NLB and Telekom). Other general government revenue will also contribute to an increase in revenues in 2019. Revenues from production for the market and own final consumption will increase by EUR 22 million or 1.8%, and revenues from capital transfers, in particular, will increase by EUR 210 million or 80.0%. Such an increase will be largely due to higher investment grants from the EU budget.

### *3.1.2. General government sector expenditure*

The Implementation of the Republic of Slovenia's Budget Act for 2018 and 2019 (hereinafter: the ZIPRS1819, December 2018), has regulated the content with the requirements by the organic laws and presents a change from the non policy change scenario. The entry into force of the ZIPRS will result in financial consequences for **the 2019 state budget.** The following permitted increased expenditures of the state budget are mainly influenced by newly adopted measures with effect in 2019: the agreement on wage policy in public sector, the effect of The Law on Social Assistance, higher lump sums for municipalities as well as the amount due to an extraordinary pension indexation.The same effect (0.1% of GDP) as with social benefits (partial non-adjustment of transfers) may be considered with policy change scenario for General Government sector due to non-payments of regular performance-related bonuses and performance-related bonuses for an increased scope of work as well as permanent amendments to the Public Sector Salary System Act which provide for promotion-related payment in December (with effect on compensation of employees).

In addition to the ZIPRS, the Draft Budgetary Plan takes into account the Agreement on salaries and other payments of labour costs in the public sector concluded in December 2018 and annexes to collective agreements prepared on the basis thereof and amendments to the Public Sector Salary System Act. In the Draft Amending Budget for 2019 the highest increase in bugetary expenditure is planned for the folowing policies, compared to the adopted budget of the Republic of Slovenia for 2019 (hereinafter adopted budget 2019): social protection by EUR 165.5 million, education and sport by EUR 103.2 million, payments to the EU by EUR 59.7 million, entrepreneurship and competitiveness by EUR 54.2 million and environmental protection and environmental infrastructure by EUR 53.0 million. On the other hand, expenditures for the debt service included in the Draft Budgetary Plan for 2019 decrease by EUR 32 million compared to the adopted budget for 2019 while the pension security expenditure in the form of transfer to ZPIZ will decrease by EUR 244.7 million (due to higher receivables from the social contributions to ZPIZ).

It was also necessary to determine the new amount of the lump sum payments to municipalities for 2019, considering that in the ZIPRS, the lump sum expenditure amount was determined at the end of 2017 and does not take into account calculations using the latest data that affect the amount of municipal expenditure. An agreement with representative associations of municipalities was also concluded. The increase in the maximum level of expenditure for **municipal budgets** is due to an increase in municipal revenue from personal income tax and financial equalisation and the funds received from the EU budget. On the basis of the agreement on the amount of lump sum expenditure concluded between the Government of the Republic of Slovenia and associations of municipalities, in 2019 municipalities will receive the entire revenue from personal income tax to which they are entitled under the act governing the financing of municipalities and will also be entitled to financial equalisation from the state budget. Municipalities will also receive more funding from the EU budget under the European cohesion policy. Municipalities will use additional funds arising from personal income tax and financial equalisation to perform their ongoing mandatory tasks under the law and additional funds from the EU budget for investment projects under the Agreement for the development of regions for 2014–2020. Their final balance on a cash basis is expected to remain the same, recording a surplus of 0.1% GDP.

Since paragraph four of Article 95 of the Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia [*Uradni list RS*], Nos 96/12, 39/13, 99/13 – ZSVarPre-C, 101/13 – ZIPRS1415, 44/14 – ORZPIZ206, 85/14 – ZUJF-B, 95/14 – ZUJF-C, 90/15 – ZIUPTD, 102/15, 23/17, 40/17 and 65/17) stipulates that the amount of annual grant shall be laid down in the act governing the implementation of the Republic of Slovenia's budget, the proposed amendment to the ZIPRS1819 also stipulates the amount of annual grant under the aforementioned act. If the amount of annual grant was not laid down in the act governing the implementation of the Republic of Slovenia's budget, this would mean that such a grant could not be paid. On the basis of the outturn of expenditure of **the pension and disability insurance fund** in the period from January to October 2018, the new estimate of expenditure for 2018, and the new estimate of an increase in the number of beneficiaries of rights provided under pension and disability insurance for 2019, the amount of expenditure of the Pension and Disability Insurance Institute of Slovenia for the implementation of compulsory pension and disability insurance will be EUR 70 million lower than the ceiling set in the Ordinance for 2019. It is envisaged that the main savings in expenditure of the Pension and Disability Insurance Institute of Slovenia will be due to the following:

- on the basis of the number of actual beneficiaries of pensions and wage compensations in the period from January to October 2018 and, consequently, a new estimate of such beneficiaries for 2018, the average number of beneficiaries of pensions is planned to decrease by 0.4 percentage points and the number of beneficiaries of wage compensations by 0.1 percentage points in 2019, resulting in a decrease in expenditure on pensions and wage compensations;

- due to new macroeconomic baselines provided by IMAD in the Autumn Forecast of Economic Trends 2018, issued in September 2018, the rate of regular indexation of pensions and other benefits is planned to decrease by 0.2 percentage points in 2019, resulting in a decrease in expenditure on pensions and wage compensations;
- consequently, due to the lower rate of increase in the number of beneficiaries of pensions and wage compensations and the lower rate of regular indexation of pensions and other benefits, it is planned that the contribution for the health insurance of pensioners will decrease.

The ceiling includes a regular and extraordinary indexation (December 2019) and annual grants in the amount of EUR 140 million.

As a result of an increase in the ceiling of expenditure for **the health insurance fund** on a cash basis for 2019 from EUR 2.944 billion to EUR 3.055 billion, the Health Insurance Institute of Slovenia will be able to allocate EUR 111 million more funds for the implementation of the compulsory health insurance scheme compared to the maximum level of expenditure for 2019 currently in force, or as much as EUR 173 million more funds compared to the outturn estimate for 2018. It is envisaged that the Health Insurance Institute of Slovenia will allocate the majority of additional funds to increasing expenditure on the provision of health services, i.e.:

– increasing prices of health services and programmes to offset the effects of negotiations with trade unions. Article 66 of the Health Care and Health Insurance Act (Official Gazette of the Republic of Slovenia [*Uradni list RS*], No 72/06 – official consolidated version, 114/06 – ZUTPG, 91/07, 76/08, 62/10 – ZUPJS, 87/11, 40/12 – ZUJF, 21/13 – ZUTD-A, 91/13, 99/13 – ZUPJS-C, 99/13 – ZSVarPre-C, 111/13 – ZMEPIZ-1, 95/14 – ZUJF-C, 47/15 – ZZSDT, 61/17 – ZUPŠ and 64/17 – ZZDej-K) also lays down that wages and other benefits shall be taken into account in determining the price of programmes in accordance with regulations, collective agreements and other general acts;
– extending the scope of health programmes and services to reduce waiting times and the number of waiting patients. The report of the National Institute for Public Health ("National Monitoring of Waiting Times", monthly report of 1 September 2018) shows that on 1 September 2018 the number of waiting patients was 157,170, of whom 66,567 had been waiting for longer than the permissible waiting time. For reasons stated above, a proportion of funds will be used to increase the scope of health programmes and services.
– A smaller proportion of funds will be used for obligations paid by the Health Insurance Institute of Slovenia as they arise, such as cash sickness benefits and benefits for medicinal products, medical devices and vaccines.

All four budgets together with the rest of the units within general government sector may be combined and illustrated by using the main aggregates of the general government sector (Table 4). Compensation of employees will increase by 6.0% in 2019 (in 2018 the increase is expected to amount to 6.2%). Under the no-policy-change scenario (October 2018), compensation of employees will increase by 1.2 percentage points in 2019 (nominal growth index 2019/2018). Intermediate consumption will increase also due to government priorities in relation to national security policy (defense, police) by 1.2 percentage points and social benefits will decrease by approximately 0.5 percentage point compared to October 2018 no-policy-change scenario. Despite the adopted act on social benefits, the Ministry of Labour, Family, Social Affairs and Equal Opportunities is committed to improving the performance of social measures so that no additional expenditure will be required. An increase in gross fixed capital formation has been recorded (the growth rate being 16.9% in 2018 and 31.8% in 2019). There has been a significant reduction in interest expenditure (by 15.6% in 2018 and by a further 10% in 2019).

Table 4: General government revenue and expenditure forecasts

| | ESA Code | 2018 (% of GDP) | 2019 (% of GDP) |
|---|---|---|---|
| **General government (S13)** | | | |
| **1. Total revenue target** | TR | 43.42 | 43.02 |
| **Of which:** | | | |
| **1.1 Taxes on production and imports** | D.2 | 14.30 | 13.92 |
| **1.2 Current taxes on income, wealth, etc** | D.5 | 7.81 | 7.78 |
| **1.3 Capital taxes** | D.91 | 0.03 | 0.03 |
| **1.4 social contributions** | D.61 | 14.89 | 14.80 |
| **1.5 Property income** | D.4 | 1.09 | 0.91 |
| **1.6 Other** | | 5.30 | 5.59 |
| **p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)** | | 37.03 | 36.52 |
| **Total expenditure target** | TE | 42.58 | 42.47 |
| **Of which:** | | | |
| **2.1 Compensation of employees** | D.1 | 11.18 | 11.16 |
| **2.2 Intermediate consumption** | P.2 | 6.16 | 6.08 |
| **2.3 Social payments** | D.62,D.63 | 16.77 | 16.37 |
| **Of which unemployment benefits** | | 0.35 | 0.30 |
| **2.4 Interest expenditure( =9 in table 2.a)** | EDP D.41 | 1.98 | 1.63 |
| **2.5 Subsidies** | D.3 | 0.69 | 0.67 |
| **2.6 Gross fixed capital formation** | P.51 | 3.49 | 4.26 |
| **2.7 Capital transfers** | D.9 | 0.51 | 0.40 |
| **2.8 Other** | | 1.81 | 1.88 |

Source: Calculations and projections by the Ministry of Finance

One offs are the same as reported in Stability Programme in April 2018 (along with settlement of interest on unpaid old foreign-currency deposit holders, a lawsut concerning the restitution of agricultural land is also included).

The key measures of 0.2% of GDP (the difference to a no-policy-change scenario) at the general government level are the following:

- permanent amendments to the Public Sector Salary System Act which provide for promotion-related payment as late as in December (0.1% of GDP) and

- partial non-adjustment of transfers to individuals and households and partial non-adjustment of income limits for the exercise and determination of amounts of rights from public funds; and all soft measures of the Ministry of Labour, Family, Social Affairs and Equal Opportunities that will increase or improve the performance of social activation measures and active employment policy (in terms of revenue) – 0.1% of GDP.

### 3.2. Expenditure benchmark and discretionary measures

In the country-specific recommendations, the European Commission called on Slovenia to ensure that the nominal growth rate of net primary general government expenditure does not exceed 3.1 % in 2019, which corresponds to an annual structural adjustment of 0.65 % of GDP. Considering the path pursued by public finance budgets and, more broadly, the general government sector, the net growth rate of expenditure is 5.2% (calculations by the Ministry of Finance) and deviates from the requirements.

Table 5: Expenditure benchmark

| | 2017 (Levels million EUR) | 2017 (% BDP) | 2018 (% BDP) | 2019 (% BDP) |
|---|---|---|---|---|
| 1. Expenditure on EU programmes fully matched by EU funds revenue | 397,7 | 0.92 | 1.08 | 1.74 |
| 1a. Investment expenditure fully matched by EU funds revenue | 74 | 0.16 | 0.29 | 0.63 |
| 2. Cyclical unemployment benefit expenditure | 8 | 0.02 | 0.02 | 0.03 |
| 3. Effect of discretionary revenue measures | | | | |
| 4. Revenues increased mandated by law | | | | |

Source: Calculations and projections by the Ministry of Finance on the basis of the last Implementation plan for Operational Programme for the Implementation of the European Cohesion Policy 2014 - 2020 (INOP)

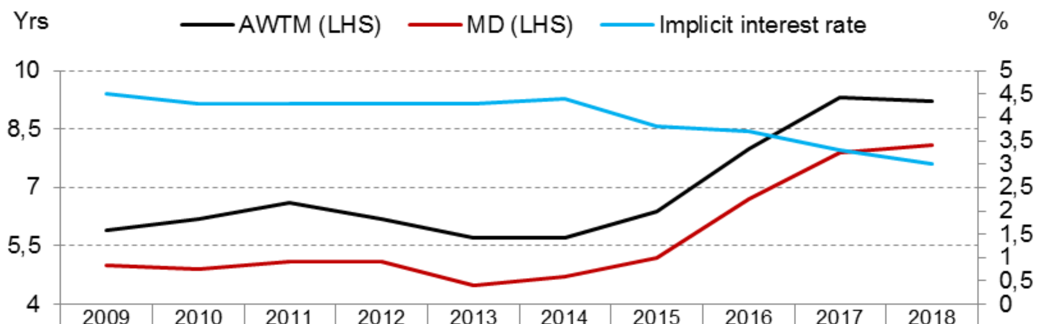
In 2019 measures in the field of family policy will be relaxed and higher financing for annual grant to pensioners and an additional indexation of pensions will be provided. This has a positive impact on the on the objective of pension adequacy. More investment by the general government sector is envisaged compared to the initial plan, which will have a favourable effect on further growth. Slovenia has made more progress towards achieving the target growth rate, but in order to fully reach it, it will have to additionally reduce expenditure, what would have a negative impact on the economic growth and absorption of EU funds.

### 3.3. Debt and contingent liabilities

Since the beginning of ECB quantitative easing, which began with the programme of purchase of government bonds on 9 March 2015, the Ministry of Finance has been actively reducing the risk of refinancing the state budget debt through the issue of Eurobonds with a significantly longer maturity and has subsequently also pursued active cross-currency management of state budget debt. In a period of a prevailing environment of low (or even negative) interest rates and low required yields in the euro debt capital markets for the Republic of Slovenia, the Ministry of Finance executed seven cross-currency debt management transactions (EUR–USD) and early refinanced 55% of the more expensive USD debt portfolio with cheaper long-maturity Eurobonds. Bonds were issued with maturities of 10, 16, 20, 24 and 30 years. The average time to maturity of state budget debt increased from 5.7 years in 2013 to an estimated 9.2 years in 2018. The duration of state budget debt increased from 4.5 years in 2013 to an estimated 8.1 years in 2018. At the same time, the average (implicit) interest rate on state budget debt was decreasing throughout the period, reaching 3% in 2018.

Since 2014 the long term financing cost of the central government budget has been reduced significantly close to EUR 300 million from EUR 1,083 million in 2014 (2.9% GDP) to estimated EUR 785 million in 2019 (1.6% GDP). Important part of this reduction is a result of active debt management in the amount of EUR 115.8 million EUR on a yearly basis. The residual effect on the central government budget interest bill level is attributed to low interest rate environment in the euro debt capital markets in respect to debt refinancing and financing of the central government budget. The share of state budget debt denominated in USD (all obligations are paid in euros) decreased from 25% to today's 8.2%.

Figure 9: Characteristics of state budget debt
Modified duration (MD), average weighted time to maturity (AWTM) and implicit interest rate

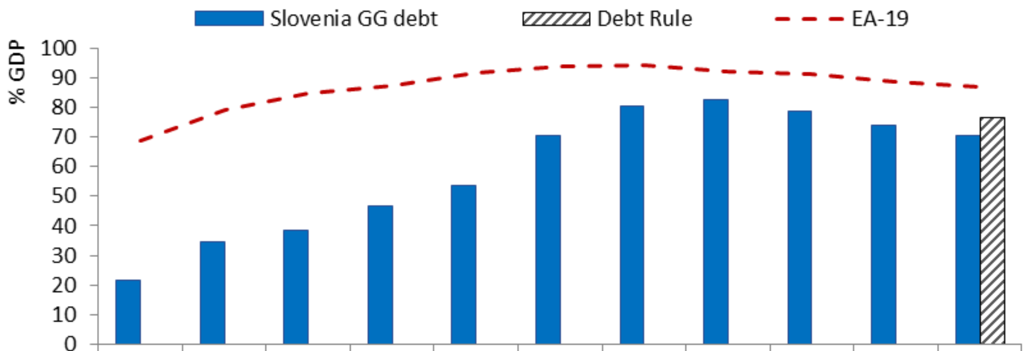



| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| AWTM (LHS) | 5,9 | 6,2 | 6,6 | 6,2 | 5,7 | 5,7 | 6,4 | 8,0 | 9,3 | 9,2 |
| MD (LHS) | 5,0 | 4,9 | 5,1 | 5,1 | 4,5 | 4,7 | 5,2 | 6,7 | 7,9 | 8,1 |
| Implicit interest rate | 4,5 | 4,3 | 4,3 | 4,3 | 4,3 | 4,4 | 3,8 | 3,7 | 3,3 | 3,0 |

Source: Ministry of Finance

The Republic of Slovenia exited the excessive deficit procedure in 2015, recording a deficit of 2.9% of GDP; since 2016, taking into account the highest achieved level of general government debt of 82.6% of GDP in 2015, it has been obliged to reduce its excessive debt (22.6% of GDP) in accordance with EU rules. The 2016–2018 period is considered to be a transitional period, with certain specifics of the regulatory framework regarding the speed of debt reduction. The Republic of Slovenia fully complies with the debt rule, as the projected general government debt/GDP ratio for 2018 (70.3% of GDP) is below the ratio required, as shown in the figure below. The difference between Slovenia's general government debt as a share of GDP and the euro area average increased after 2015, when that difference was the smallest, i.e. −9.5 percentage points of GDP, and is estimated to reach −16.6 percentage points in 2018.

Figure 10: General government debt, euro area average, debt rule (backward-looking benchmark$b_t < bb_t$)

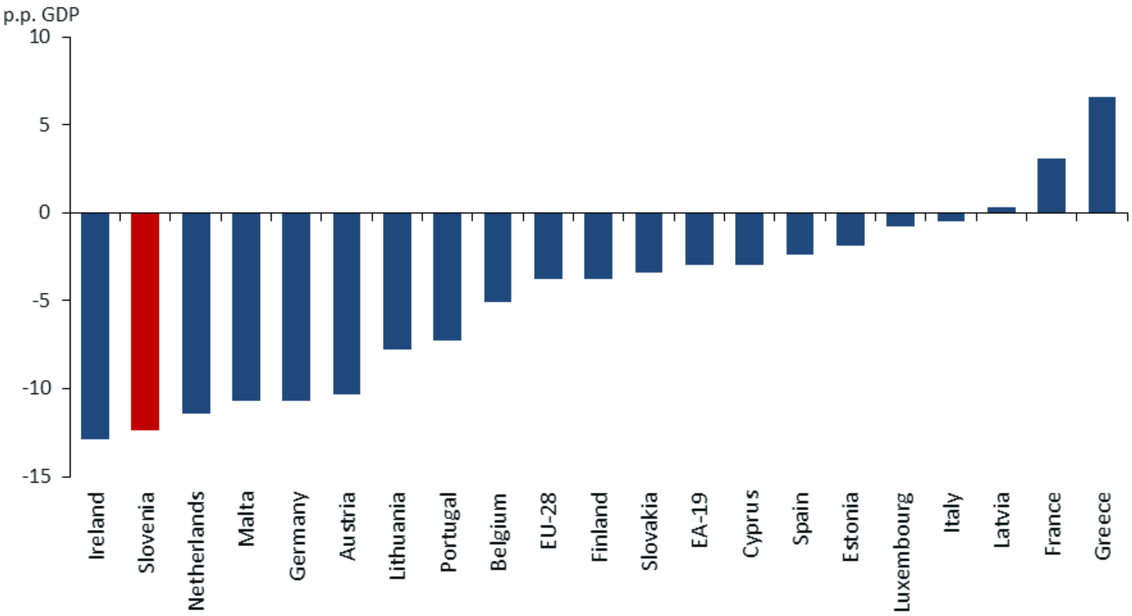



| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | E2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Slovenia GG debt | 21,8 | 34,6 | 38,4 | 46,6 | 53,8 | 70,4 | 80,3 | 82,6 | 78,7 | 74,1 | 70,3 |
| Debt Rule | | | | | | | | | | | 76,5 |
| EA-19 | 68,7 | 79,2 | 84,8 | 87,3 | 91,7 | 93,9 | 94,2 | 92,1 | 91,1 | 88,8 | 86,9 |

Source: European Commission, AMECO database for EA-19, Ministry of Finance, 3 December 2018

The figure below shows that, in terms of speed of reducing general government debt-to-GDP ratio, Slovenia is ranked second among euro area countries (only behind Ireland), with its debt-to-GDP ratio having declined from 82.6% BDP in 2015 to estimated 70.3% BDP in 2018.

Figure 11: General government debt dynamics in the 2015–E2018 period




Source: Eurostat for 2015, EC AMECO database, 3 December 2018

The outstanding guarantees of the Republic of Slovenia as at 30 September 2018 amounted to EUR 5,907 million, of which EUR 669 million were guarantees to the financial sector (S. 12). The assessment of outstanding guarantees of the Republic of Slovenia at the end of 2018 and 2019 was made on the basis of certain assumptions regarding the repayment of existing guarantees and the granting of new ones. The quota for new guarantees is planned by the act governing budget implementation. For 2018 the quota was EUR 500 million, and separately EUR 350 million for guarantees of SID bank. Experience from previous years shows that the actual use of the quota is low; indeed in 2017 and 2018 the quota was not used, as all guarantees issued in 2017 were used for refinancing existing obligations, and in 2018 no guarantees were issued. In the above-mentioned years the quota for SID bank was not used. In accordance with the act governing budget implementation the quota for 2019 is EUR 500 million, and separately EUR 350 million for guarantees of SID bank.

## 4. Connection between the DBP and EU 2020

The budgetary plan for 2019 also includes measures to implement the country-specific recommendations issued by the European Council in June 2018 (for more detail, see the tables below). With this, we will continue our efforts to implement the main structural changes to ensure long-term stability in the coming years and will report on the implementation progress in the National Reform Programme.

Table 6: Country specific recommendations for SI

| CSR | 2018 recommendations | State of play |
|---|---|---|
| 1 | 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. | In December, the Government of the Republic of Slovenia prepared (Parliament adopted on December 21, 2018) decree on the framework for the preparation of general government budgets for the period 2018-2020 (hereinafter referred to as the framework) for 2019. The framework presents fiscal projections on the basis of current developments (monitoring the implementation of ten months) updated projections (autumn forecast of IMAD), and follows the Law on Execution of budgets for the years 2018 and 2019 (as well as all legislative changes in 2018). In the DBP, all the revenues and expenditures of the general government as well as the current measures with effects in the year 2019 on public sector wages and social transfers, as well as the increase in the amount of health budget and local community budgets, are presented for the next year.Three years after exiting the excessive deficit procedure, special emphasis is given to the debt rule. The debt rule is an essential guide in the design of economic policies. The second goal is the sustainability of public finances, with Slovenia striving to maintain the positive nominal balance of the general government. Otherwise, we cannot provide an adequate set of economic policies, nor the appropriate level of economic growth, because everything is a subject to a fast-paced fiscal consolidation.<br><br>Under the assumption of changed policies, Slovenia complies with the requirements of the SGP (Stability and Growth Pact) in terms of the debt rule. Debt of the country is still above 60% of GDP (2018: 70.3% of GDP, 2019: 66.6% of GDP), but it is steadily decreasing with predicted dynamics; the criterion will be completed at the end of the medium term period or at the end of the mandate of this government (below 60% of GDP). Slovenia has been in the second place among the EU Member States (after Ireland) in decreasing the debt in % of GDP. Slovenia will continue its activities to achieve the long-term sustainability of public finances in accordance with the rules, in a way it doesn't inhibit economic growth, (for example, reducing the expenditure limits due to the accelerated absorption of EU funds, which requires spending rights) will no longer reduce investment, but at least maintain the achieved levels. The medium-term objective will be achieved at the end of the government mandate (by 2022). |
| | Adopt and implement the healthcare and health insurance act and the planned reform of long-term care. | The new Health Care and Health Insurance Act was drafted in 2016, and submitted for public discussion and the opinion of social partners at the beginning of 2017. Harmonisation of the proposed act with the representatives of the Economic and Social Council and other key stakeholders continued in the same year. At the beginning of 2018, the proposed act was submitted to the Economic and Social Council and the coalition partners.<br><br>The draft includes provisions to regulate rights at the level of the law, which will be clearly defined. The Health Insurance Institute of Slovenia (ZZZS) will become an active buyer. An important part of the regulation in the draft law relates to the method and sources of financing, with the financial sustainability of the health system closely linked to solidarity, equity and accessibility. In the new legislation, more emphasis will also be placed on strengthening controls, both over payers and over operators.<br><br>In 2019, the work of the new Government will continue to work on |

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| | | the draft law, in accordance with the guidelines outlined in the Coalition Agreement on Cooperation in the Government of the Republic of Slovenia for the 2018-2022. The new planned timeline for the Act is the following:<br>- to conclude another / a new round of discussions with key stakeholders, including social partners early in 2019, with the aim to put a revised draft in public consultation by the end of spring.<br>- to complete the interministerial coordination in autumn 2019 with the aim to submit before the end of autumn the proposal of the Act to the Government for its approval.<br><br>At the same time, the financing of some of the expenditures currently paid by the Health Insurance Institute has been gradually transferred to the state budget by 2020 (amendments to the Medical Practitioners Act). In 2019, the focus will be on measures to manage waiting times and stabilize the operations of hospitals.<br><br>In cooperation with the European Commission’s Structural Reform Support Service, certain projects are being implemented. One of them is a two-year project, Distribution of healthcare providers and health workforce in Slovenia'. The purpose of the project is to build capacities,develop tools and establish mechanisms for managing the public health-care service network from the viewpoint of fair access, the changing needs of the population, high-quality and safe health care and the rational use of resources.<br><br>The new systemic arrangement of the long-term care was prepared in 2017 in the proposal of Act on long-term care and long-term care insurance. In 2019 the MoH continues working upon the draft which has been reviewed and amended, taking into account many comments received from public consultation and also taking into account the Coalition Agreement of the new Government.<br><br>The proposal pursues basic objectives, such as access to high-quality services, sustainable financing, comprehensive care of LTC users, promotion of care at home or in the community. In 2018 started implementation of pilot projects within the framework of the pilot projects proposed legislation solutions in the field of long term care are tested in three pilot environments (urban, rural and semi-rural) in Slovenia’s eastern cohesion region. In certain sections, the preparation of pilot projects is also supported by the Structural Reform Support Service of the European Commission. |
| | Ensure the long-term sustainability and adequacy of the pension system, including by increasing the statutory retirement age and by restricting early retirement. | Positive effects of the latest pension reform are becoming more and more visible. Long-term projections of expenditure on pensions reveal that the pension system is sustainable (in the short term).<br>Due to the higher social security contributions collected (as a result of the growth of gross wages and rise in number of employed) projections show that total tax revenue of the Pension and Disability Institute will be higher that planned (78,3 % of all revenues of the Institute – 2,7 % higher than planned in the financial plan for 2018.<br><br>Overall revenues of the Institute for the period January – June 2018 are higher than planned (50.4%) whereas expenditures are lower and have reached 48.1% of those planned for 2018.<br><br>In recent years, the inflow of all new old-age pensioners was reduced from 29,914 persons in 2012 to 13,117 persons in 2017.<br>The rate of the rise in the average number of old-age pensioners in 2017 was considerably below the growth in previous years and |

| | | |
|---|---|---|
| | | lowest in the last 20 years. The annual rise in the number of old-age pensioners, excluding partial pensioners, amounted to only 1% in 2017 (about 4% before 2014), while the rise in the number of all pensioners amounted to 0.2% (about 3% before 2014). Both rates are the second lowest in last 21 years (the lowest was in 2016, 0.8%) and show the effects of the pension reform.<br>The ratio between the number of insured persons and compulsory insurance pension recipients is also improving, and has increased from 1.38 in 2013 to 1.49 in 2017.<br><br>The actual average retirement age for new pension beneficiaries is increasing for men and women. In 2017, the average age of women upon retirement was 60 years and 2 months, which is 1 year and 8 months more than in 2013. For men, the age has increased since 2013 by 1 year and 2 months to 62 years and 1 month in 2017.<br><br>Following the adoption of the White Paper on Pensions,[1] the Economic and Social Council adopted the 'Starting points for renewal of the pension and disability insurance system' in mid-2017, which was an important step towards the further development and stability of the public pension system. Trust among all generations in the public pension system is increasing and is important particularly in terms of social dialogue. Joint starting points set suitable amount of pension and financial sustainability of the public pension system as two equivalent objectives. Social partners agree that an additional increase in the actual retirement age is necessary, and simultaneous or earlier measures in the labour market which contribute to the early employment of young people and prolonged activity of the elderly. The objective of the document is to adopt new legislation in this field by the end of the transitional periods of the current pension legislation (by 2020), which would be implemented gradually with longer transitional periods subject to previous agreement. On the basis of the policies in the 'Starting points', statutory amendments in the field of pension and disability insurance in Slovenia effective after 2020 will be prepared on time and will be adopted according to a standard procedure in cooperation with social partners. |
| | Increase the employability of low-skilled and older workers through lifelong learning and activation measures. | In 2017, some legislative bases to further improve the functioning of the labour market were adopted, particularly in the field of effectively activating the elderly, the less educated, the young and long-term unemployed people.<br><br>When the Labour Market Regulation Act in 2017 was amended, additional incentive for employing people with lower or upper secondary education who receive unemployment benefits was introduced. Measures for sanctioning violations while registered with the Employment Service of Slovenia were also adopted in regard to the unemployed in order to activate and reintegrate them into the labour market. Bothe changes came into force in 2018.<br><br>In 2019, special activities will also be continued, aimed at integrating people who have lost their jobs into labor market. By providing comprehensive support to people in the form of information, motivation, career counseling, various training and education, it will facilitate the transition to new jobs or new employment and prevent their transition into unemployment. |

[1] http://www.mddsz.gov.si/fileadmin/mddsz.gov.si/pageuploads/dokumenti__pdf/dpd/2Bela_knjiga_o_pokojninah.pdf

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|---|---|---|
| | | In addition to the existing measures for long-term unemployed persons, the preparation of a special integration employment plan was introduced in 2017. After 12 months of unemployment, the Employment Service of Slovenia prepares an assessment of the situation, advantages and fields for improving employment possibilities. While adjusting working with the long-term unemployed and the elderly, cooperation with social work centres was also enhanced.<br><br>Several measures to promote employment of the elderly were implemented and they will also continue in the future. These measures also include the project, 'Active until retirement', within the framework of which employers receive financial incentives. There is also an intervention measure reducing labour costs for employers and the 'Zaposli.me' project. Special attention is given also towards the companies with measures 'Comprehensive enterprise support for the active ageing of the workforce'. The measures aim is to increase competences of elderly, support for companies for the active ageing of the workforce.<br><br>Several measures were implemented within the framework of the Youth Guarantee Scheme which facilitate the transition from education to the labour market in the short and long term. One of the long-term measures is the ongoing upgrade of the consulting process at the Employment Service of Slovenia to increase the quality of consulting offered to the unemployed and to empower young people to assume responsibility for efficiently managing their own careers. In 2018, in the framework of lifelong learning, Career centers for young people are also established, with the appropriate aim of empowering young people to plan their careers.<br><br>In the first half of 2018, the measure of training workshops for employers in the field of social entrepreneurship began, which enables the unemployed person practical training for a specific job with the help of mentors, and after completion of the training, the subsidized employment for at least six months.<br><br>Another project was also initiated in 2017 whose purpose was to obtain a comprehensive insight into precarious work and the effects of such work on the individual and society as a whole, and to obtain the basis for forming further measures to limit the adverse effects of precarious work from the viewpoint of legal, economic, social and health protection. Solutions regarding the increasing impact of digitalisation on work processes will be sought in the future. |
| 2 | Develop alternative sources of financing for fast-growing companies. | The key measure in the field of financing promotion in past period was the implementation of preparatory activities for the project, 'Financial instruments 2014–2020' (EU funds). The Ministry of the Economy as the intermediary body and the SID bank concluded the funding agreement in the amount of EUR 253 million, which also includes the Investment Strategy and the Business and Financial Plan of the Fund of Funds by 2023. The implementation of financial instruments will take place through financial intermediaries, which the SID bank will select as per the funding agreement. Activities to improve access to funding for medium-sized, small and micro enterprises through the SID bank, the Public Fund of the Republic of Slovenia for Entrepreneurship and the Slovenian Regional Development Fund will be further implemented. |

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| | The Slovene Enterprise Fund enables access to favourable financial resources in the form of subsidies for start-ups and seed capital (convertible loan, equity injections) combined with grants in the form of mentoring, training and networking, micro loans, and guarantees for bank loans with interest rate subsidies. The Fund also participates in the CEFOF (Central Europe Fund of Funds), while the SID bank granted favourable loans for the operations of MSMEs, microfinancing, hiring, investing and RDI from the Loan Fund for MSMEs (4 loan lines). It was also successfully implementing the instrument of 'patient loans' and developed concepts of new measures to promote investment and exports, which will commence in 2018. The Slovenian Regional Development Fund enabled access to favourable loan sources and to a lesser extent also in combination with subsidies or subsidies alone (in regions where autochthonous national communities live). It also published a tender for regional providers of guarantee schemes to whom long-term financial contributions for the implementation of regional guarantee schemes were transferred. In addition to the foregoing measures of implementing institutions, funding for RDI promotion through the Ministry of the Economy (MGRT) and the Public Agency SPIRIT. |
| Lower the barriers for market entry through the revision of product market regulation and limiting administrative burden. | The adopted Investment Promotion Act includes a novelty concerning the equalising of domestic and foreign investors, since the same measures to encourage investment are introduced for domestic and foreign investors (investment incentives, conditions, criteria and procedure for allocating investment incentives, such as subsidies, incentives in the form of loans, guarantees and subsidised interest rates; a self-governing local community may sell real property to a company at a price lower than the market price on the basis of a direct contract on the purchase of real property). The Act also determines activities to promote investments and the internationalisation of companies. Strategic investment is determined in particular, including the determination of meeting the conditions. The Act also defines a new expropriation purpose for strategic investments, which are in the public interest and which contribute to the public benefit by accelerating economic growth and employment and balanced regional development. |
| Enhance competition, professionalisation and independent oversight in public procurement. | In 2017 the use of electronic auctions continued, especially in the public administration (from 77 executed eAuctions in 2016 to 177 eAuctions in 2017). From 2015 to 2017 the execution of joint procurements increased in the number of procedures by more than 500 percent (from 78 to 448), and in the value of almost 300 percent (from 104 million € to 305 million €). The implementation of transparent procedures has increased significantly; from 2015 to 2017 the number of negotiated procedures without prior publication has halved (from 20% to 10.6%).<br><br>In 2018, the renewal of the information system for the implementation of electronic public procurement (eJN) continued, and as of 1.4.2018, a complete electronic submission of tenders and requests to participate was launched, which greatly enhances the transparency of public procurement. The eJN system also enables electronic public opening of tenders, electronic negotiations, electronic supplementation of tenders and electronic management of procedures to conclude a contract whose estimated value is below the thresholds for the use of the Public Procurement Act (PPA).<br><br>In May 2018, the Action Plan for Improving System and |

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| | | Professionalization in Public Procurement with 27 detailed measures and short and medium-term objectives was adopted with the aim of improving the quality and efficiency of the public procurement system. The Action Plan includes activities on central level, offered by the Ministry of Public Administration (training, counselling, guidelines, etc.), informatization of the entire public procurement process that enables easier conducting of public procurement procedures on one hand and better monitoring of spending on the other and encouraging joint public procurement. We will continue to pay special attention to the promotion and effective implementation of strategic public procurement, social criteria and solutions that will prevent social dumping and achieve a comprehensive computerization of procedures, including legal protection in public procurement procedures. In 2018 several free lectures on green and social public procurement were given, template procurement documentation on electronic submission and social aspects to procurement procedures was prepared, diagrams visualizing all procurements procedures were published, etc. All measures are done in line with achieving a higher level of professionalization and competence of persons concluding public procurement procedures.<br><br>In November 2018 an amendment to PPA came into force that enforces the socials aspects in public procurement (the obligatory use of social award criteria in some work-intensive fields, obligatory verification of contractors every half year if they fulfill the social and fiscal criteria, etc).<br><br>In late 2017 an amendment to the Legal Protection in Public Procurement Procedures Act came into force. The amendment offers a higher level of legal protection and security through oral hearing before the NRC (National Review Commission), plenary session of NRC – uniform application of laws and practice, creation of electronic system for legal protection procedures in public procurement (i.e. eRevision system), simplified rules on calculation of fees in public procurement procedures and through contestability of concluded public procurement contracts. |
| | Carry out the privatisations according to the existing plans. | The implementation of the individual objectives of the government's capital management strategy is defined in the annual management plan submitted by SDH to the Government for approval by the end of November. On 14 November 2018 listing of Shares of NLB bank on Ljubljana Stock Exchange and on London Stock Exchange saw a successful closure by SSH of the first step of NLB's privatisation process, as stipulated by the State Assets Management Strategy. The Republic of Slovenia has thereby also satisfied the first set of commitments given to the European Commission with regard to the NLB's privatisation, as a result of the state aid provided to NLB in 2013 (as amended in 2018). 59.1% of NLB Shares have been sold in the IPO process. The proceeds from the sale amounted to EUR 669,5 million, 90% of proceeds is intended for debt reduction of the Republic, and 10% for Demographic Reserve Found. The remaining proportion of Shares of up to 75% minus one Share will be sold by the end of 2019. The Republic of Slovenia committed to divest its entire shareholding in Abanka through a competitive bidding process. The Slovenian Sovereign Holding leads the sale process with the objective of executing a sale and purchase agreement by no later than 30 June 2019. |

Table 7: EU 2020 targets - Slovenia

| | Europe 2020 – National objectives and latest developments | |
|---|---|---|
| | *Employment rate: 75%*<br>*2017: 73,4%* | The level activity (20-64 years) has been gradually increasing in recent years, reaching 73.4% in 2017 and 75.5% in the second quarter of 2018 (the target is 75% for 2020).<br>Active labour market policy measures are aimed at increasing the employability of vulnerable groups (older, lower and secondary educated, young and long-term unemployed). Over the first eight months of 2018, more than 21,000 people were enrolled in the ALM, which is 28% more than in the same period of 2017 and almost 85% of all inclusions in 2017. Among all included most of them were the long-running unemployed (37.9%), young people up to 29 years old (28.89%), older than 50 years (27%) and lower educated (23.6%). At the annual level (2017), the share of unemployed older people aged 50 and over included in AML increased to 26%. The proportion of unemployed persons with low education is also increasing. In 2017, 4,565 people with lower education were included in various AML programs, representing 18.2% of all involved in this period.<br>In order to increase the employment of the long-term unemployed, the preparation of a special integration employment plan was introduced in 2017. In 2017, 29.8% of all long-term unemployed were included in ALM. The target for 2018, of 35% will be exceeded, as almost 38% of the long-term unemployed participated 2018 among all those involved in ALM measures.<br><br>In recent years, several concrete measures have been implemented to encourage the employment of elderly in the form of subsidies or lower labor costs. We also note a greater share of older people who remain in employment despite the fact that they fulfill the conditions for retirement. This is the result of the introduction of a new measure, adopted by amendments to the pension legislation in 2015 (ZPIZ-2B). It is a special legal incentive to postpone the right to retirement at a later time after fulfilling the conditions for it. In 2017, the average number of users of 20% of early or old-age pensions increased by 47.3% in comparison with 2016 (to 6460 users). More recent measures are, in particular, encouraging the adaptation of enterprises to older employees, and the project is a full-fledged support for Active Aging Workforce. In this context, a catalog of measures and good practices and measures for the effective management of the aging workforce was formulated and published in 2017. In 2018, thematic workshops for managers were conducted. From 2017 to 2020, there are also several tenders for the development of senior management strategies for older employees and for raising their competencies, while also envisaging the selection of pilot projects for innovative solutions to maintain the productivity of older employees in companies. In the challenges of the aging of the |

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| | | population, the strategy of a long-living society was adopted in 2017, which sets out the framework for action (employment or work activity, healthy and safe life of all generations, social inclusion and the creation of an environment for activity throughout life) and provides for the preparation of action plans. In order to ensure consistency and follow-up of the strategy, the Council for Intergenerational Cooperation has been established. The Resolution on the National Program of Occupational Safety and Health is also in the process of adoption. Measures to ensure a high level of safety and health at work, prevention and good health of workers are a necessary prerequisite for extending working lives. Extension of working life is strongly dependent on the appropriate adaptation of jobs and work organization, including working time, access to jobs and job interventions for older workers. The strategy also provides for the preparation of practical guidelines for risk assessment, with emphasis on the risks faced by certain groups of workers. Implementation documents of the national program are three-year action plans, which will define concrete measures, action providers, financial resources, deadlines and the manner of monitoring the implementation of measures.<br><br>With the current economic growth, the improvement of conditions in the labour market and the demographic situation, the lack of certain workers, particularly low and semi-skilled workers, can be detected in Slovenia. To this end, Slovenia is concluding bilateral agreements regarding employment with target countries, and in compliance with the action plan of the current Economic Migration Strategy 2010–2020, it introduced a uniform procedure for work permits and adopted a list of occupations in shortage, where no prior control of the labour market exists. |
| | *Investment in R&D: 3% of GDP*<br><br>*2016: 2%* | The share of public and private investments in research and development in Slovenia is at the EU average. Since 2013, when it reached 2.6% of GDP, it has dropped to 2% of GDP in 2016 because GDP was growing faster than investments in research and development. Slovenia has thus already increased public funds by 12% in 2018 in comparison to 2017. Key challenge remains long term and sustainable financing, which is essential for institutional strategic planning.<br><br>To improve the integration of education, science and business/non-business sectors in order to establish regular and ongoing dialogue between key stakeholders to identify measures to improve cooperation, the consulting body has been meeting. In the priority fields defined in S4 – the Slovenian Smart Specialisation Strategy – strategic development and innovation partnerships (SDIP) were established; these combine relevant stakeholders from the business sector, public research institutions, universities or faculties, individual schools and also non-governmental organisations in certain cases. In 2017, the SDIPs drew up action plans for programmes of common development, internationalisation and human resources development. They also act as discussion partners with the state regarding necessary |

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| | systemic measures. In this way, S4 is becoming a central lever for establishing and enhancing dialogue between key stakeholders in science, the business sector and education, whereby it also significantly affects the complex development transformation of the Slovenian economy.<br><br>In addition to current measures, the introduction of certain new ones has began in 2018 in the field of research activity, an increase in funds for operations of institutions and universities, the purchase of research equipment, support for researchers at the beginning of their research path and the possibility of additional complementary measures. Research fields are being enhanced, since additional cooperation will be enabled on projects which strengthen the European Research Area, e.g. PRIMA, ERA-NET and engagement within ESFRI projects.<br><br>Unrealised measures from the Research and Innovation Strategy of Slovenia 2011–2020 are also being drafted, through which research institutions would become more competitive and have more opportunities to focus their research on certain topics. The institutions would be entitled to additional funds if their work is successful and they attain the set indicators. More flexibility is anticipated with regard to the awarding of researchers. Closer cooperation with the business sector and improved autonomy of institutions when marketing knowledge obtained through research work would be established with a national consortium of offices for technology transfer (enhancing cooperation between the business sector and research organisations, supporting commercialisation of developed solutions, promoting demand and enhancing the development competences of institutions).<br><br>Within structural funds, the preparation and implementation of most measures are anticipated, with the emphasis on enhancing cooperation between the business sector and the academic sphere and stimulating researchers at the start of their career, including their mobility. Measures involving research infrastructure will be promoted. The implementation of the InnoRenew project is underway, which is a new, internationally comparable and competitive centre of excellence in the field of the wood industry, establishment of super computer center will also be supported. Investments in research infrastructure will also be supported within the Research Infrastructure Roadmap.<br><br>A project to establish the Centre for Creativity was instigated in November 2017, which will stimulate companies to connect with the cultural and creative sectors for the development of new and innovative products. This also includes promoting entrepreneurship in specific and new fields of establishing and using traditional crafts, skills, technologies and materials for upgrading brands in connection with culture and protected assets (e.g. cultural landscape, knowledge, techniques, folk customs etc.). |

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| *Greenhous gas emission target: +4% (comparison to 2005)* | Second annual report on the implementation of the OP of the GHG emissions by 2020 shows that Slovenia is well on track to meet its national target in the field of emissions reduction within non ETS industries. In 2015 greenhouse gases emissions (GHG) from non ETS industries were lower from the national annual target by as much as 13.4%. However in 2015 the emissions within non ETS industries increased by 2.2% compared to the previous year. First estimates indicate that this trend will continue also in 2016 due to 7.4% increase of the emissions in transport which may result in the 3.7% growth of total emission within non ETS industries. The assessment of the achievement of the targets according to 406/209/ES remains positive despite the increase of the GHG emissions.<br>The report observes in detail that financial assets available for the implementation of the programme are aligned with the plan. The effect of the public finance used on the reduction of GHG emissions and the economic growth and employment might be significantly higher in case that enough human capacity as well as increased training for implementation of measures and established processes of stakeholder cooperation in the early phase of designing and implementing measures will be available for the implementation of the OP GHG 2020.<br><br>Potential for reduction of the GHG emissions in the field of agriculture, namely the plant production, is visible particularly in the use of more energy efficient technologies, more efficient use of nitrogen which includes the type, amount, time and the way the fertilisers are used, optimising fertilisation based on the soil analysis and the fertilisation plan, soil management, following an appropriate rotation with high enough share of legume and revegetation of soil. |
| *Renewable energy target: 25%* | In 2005, the share of renewable energy sources (RES) in the final total energy consumption was 16.2% and in 2016 it was 21.3%, which is 0.5% below the annual target set. The reason for this is the lag in the implementation of the program in the field of transport and electricity. In order to increase the share of RES in the use of gross final energy to 25% by 2020, the key role play the incentives for the production of heat and electricity from RES through the Operational Program for the Implementation of the European Cohesion Policy for the period 2014-2020, the ECO Fund and the Energy Agency, yearly allocate funds for the support scheme for electricity from RES. |
| *Energy efficiency target 82,86 Twh* | Within the framework of the AN URE 2020, Slovenia has set the goal of improving energy efficiency by 2020, so that the use of primary energy in 2020 will not exceed 7,125 million toe (82,86 TWh). For 2016, Slovenia remains within the indicative target of 78.2 TWh, but in comparison with the previous year it increased by 5%. The reason is, in particular, a 3.9% increase in end-use energy consumption, with an increase in all sectors in 2016. This has shown that short-term but high growth in the use of final energy, in which of the sectors, can also lead to the growth of primary energy consumption. A significant |

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| | contribution to the use of primary energy is represented by the transport sector with as much as 39% of total energy consumption. The latter is highly variable in this sector, and the impact of energy efficiency measures (EEUs) on energy use in this sector is limited. In the industry where the use of final energy increased by 1%, the energy intensity will be further reduced to achieve the indicative target for 2020. In the household sector, where in 2016 the value was 10% above the indicative target for 2020, it will be necessary to ensure the continuation of EEU measures with an appropriate volume and intensity. |
| *Early school leaving : 5%*<br><br>*2017: 4.3%* | Regarding early school leaving, Slovenia has already realised the objective of the Europe 2020 Strategy (less than 10%). According to Eurostat, 4.3% of young people aged between 18 and 24 in Slovenia in 2017 left school before they obtained a secondary education, which is lower than the EU average (10.7%). Slovenia thus ranks among the three most successful countries, where the share is below 5%.<br><br>To prevent early school leaving, Slovenia introduced preventive measures, which enable the identification of students at risk of leaving school, the provision of expert and learning assistance and inclusion in the consulting process at school. Furthermore, Slovenia dedicates a lot of attention to measures to provide safe and stimulating learning environments, which encompasses the enhancement of social skills, tolerance and respect for diversity, and also enables the development and attainment of the highest possible level of creativity. Several measures are aimed at establishing a stimulating school environment for students with migrant backgrounds, who leave school early more frequently than their peers in Slovenia and the EU. In 2016, as many as 15.6% of children born abroad left school early in Slovenia; however, this share was reduced in 3 years by almost 1%.<br><br>Measures to successfully integrate migrant children from other linguistic and cultural environments in education include Slovenian language lessons as a second language, lessons in native languages, the training of teachers in multiculturalism as a new form of co-existence etc. A literacy programme in Slovenian for foreign speakers was adopted, with a special programme for adults aged between 15 and 18, which enables their integration into primary education. A website was also set up with information for managements of schools, teachers, parents and the interested public on various aspects of the integration of migrants.<br><br>Amendments to the Gimnazije Act and the Vocational Education Act were passed in 2017, which particularly focus on facilitated and suitable integration of migrant secondary school students into education.<br><br>Materials on teaching and learning Slovenian as a second language, which are available |

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| | online, were produced with the help of the European Social Fund. The public procurement, 'Enhancing social and civic competences of expert workers (2016–2021)', was also published, which will focus on empowering expert workers to successfully integrate migrant children, primary school pupils, secondary school students and university students and majority-culture children through programmes of professional training. In addition to promoting intercultural dialogue and acceptance of diversity, one of the project's objectives is the preparation of a proposal for a programme of work with migrant children which will include a justified and recommended number of Slovenian language lessons for a migrant child, i.e. in pre-school education, primary education by educational periods and secondary education. The programme will be prepared by June 2018. The development projects which are underway are aimed at drafting a proposal for a programme of work with migrant children in regular education and enhancing teachers' competences when integrating migrant children. Special attention is dedicated to children with international protection and unaccompanied minors, since line ministries cooperate in their accommodation in residence halls, their care and their integration into the education system. |
| *Tertiary education: 40%*<br><br>*2017: 46.4%* | In 2017, 46.4% of citizens aged between 30 and 34 in Slovenia had completed higher education. Thus, the objective of the Europe 2020 Strategy (40%) has already been accomplished.<br><br>Changes already applied in 2017, which were the result of the amended Higher Education Act, affect particularly the system of financing and managing higher education institutions. These were granted more flexibility and responsiveness regarding the needs of the labour market, and simultaneous optimisation of their operations. Annual budgetary resources for study activity are gradually being increased until 1% of GDP is reached, i.e. no later than in 15 years from the entry into force of the Act. In comparison to 2015, resources increased by as much as 5.9% in 2016, and in 2017, they were 2.5% higher compared to the year before.<br><br>A proposal of solutions for a completely new method of defining public service in the field of higher education, granting (and withdrawal) of concessions and changes in work and pedagogical obligations has been prepared.<br><br>With the help of structural funds, Slovenia is implementing numerous measures also in higher education. Public procurements were completed in higher education, particularly with the aim of internationalising higher education (visits of students abroad, project hosting at Slovenian higher education institutions, hosting of foreign experts and higher education professors at Slovenian higher education institutions). This field will also be topical in the coming years, since resources for the mobility of higher education professors and experts will be again awarded through procurements. |

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| | The training of higher education professors to introduce innovative flexible forms of learning and teaching, to improve the quality of higher education and to enhance the transfer of skills and knowledge to students and also the knowledge of didactic use of ICT will be promoted. The mobility of students from socially disadvantaged environments will be further encouraged. The purpose of this activity is to enhance the international mobility of Slovenian students from socially disadvantaged environments in exchanges abroad, with complementary financing of mobility through the Erasmus+ programme. A system for monitoring the employability or employment of higher education graduates will be established. Projects of cooperation with the business and non-business sectors in the local and regional environments will be supported, including students' projects for examining various creative and innovative solutions for the challenges of the non-business and non-profit sectors. Career centres have fully come to life at higher education institution. |
| *Reducing the population at risk of poverty and social exclusion: - 40.000 persons*<br>*2017:-16.000* | Slovenia is one of the countries that have been hit hard by the economic crisis, which is also shown by the growth of indicators that measure poverty and social exclusion. Negative trends stopped in 2014, and since then, we have recorded a decrease in both the at-risk-of-poverty rate and social exclusion indicators (which are below the EU average). According to the latest statistics published in June 2018, the poverty rate again dropped to 13.3%.<br>From 2019 all austerity measures in the field of social care are eliminated. At the same time, new measures that have a direct impact on reducing the rate of poverty and social exclusion have been adopted. With changes of sectoral legislation, minimum wage is raised to EUR 886.63 in 2019 and to EUR 940.58 in 2020.<br>The amendments to the Exercise of Rights from Public Funds Act in 2017 reintroduced the seventh and eighth income classes for child benefit (from 64% to 99% of average net wage per family member). It is anticipated that about 50,000 children will be additionally entitled to child benefit. The amended Parental Protection and Family Benefits Act adopted in 2018 abolishes the austerity measure of linking the right to childbirth allowance to the threshold, and reinstitutes this right as universal, which means that it will no longer be means tested. From 1st January 2019 the Act on the exercise of rights from public funds set the basic amount of minimum income to EUR 392.75 and is adjusted according to the law that regulates the adjustment of transfers to individuals and households.<br>Amendment to the Pension and Disability Insurance Act introduced a new instrument of a guaranteed amount of the lowest old-age or disability pension in the amount of EUR 500, i.e. if the old-age or disability pension for legally prescribed full pensionable service as per current regulations fails to reach the relevant amount. Pension indexation has been implemented twice in 2018, i.e. in addition to regular indexation as per the systemic act by |

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| | | 2.2% in January, and extraordinary indexation by 1.1% in April. Both actions have a positive effect on reducing the risk of poverty of the elderly, particularly single elderly women, who are among the most exposed to the risk of poverty. In 2019, pension will also be adjusted twice a year, i.e. in addition to regular indexation as per the systemic act by 2.9%, and extraordinary indexation by 1.5% in December.<br>To improve efficiency, quality and accessibility, the reorganisation of social work centres is also underway. The reorganisation includes a change in organisational structure, indicative calculation and a social activation project. |

# Annex to the DBP 2019: Required tables

## Table 0.a. Basic assumptions

| | 2017 | 2018 | 2019 |
|---|---|---|---|
| Short-term interest rate (annual average)[1] | -0.3 | -0.3 | -0.2 |
| Long-term interest rate (annual average)[2] | 1.1 | 1.1 | 1.3 |
| USD/€ exchange rate (annual average)[3] | 1.129 | 1.182 | 1.150 |
| Nominal effective exchange rate | 0.5 | 0.7 | 0.0 |
| World excluding EU, GDP growth | - | - | - |
| EU GDP growth | 2.4 | 2.1 | 1.9 |
| Growth of relevant foreign markets[4] | 6.0 | 4.7 | 4.7 |
| World import volumes, excluding EU | - | - | - |
| Oil prices (Brent, USD/barrel) | 54.3 | 71.6 | 72.2 |

Source: IMAD 2018 Autumn Forecast. Notes: [1] 3-month EURIBOR, data for 2018 is the average of Jan-Sep 2018; [2] yield to maturity of 10-year government bond, data for 2018 is the average of Jan-Sep 2018 (source: Bloomberg.com); [3] for the 2018–2019 period: the technical assumption on the basis of average values between 1 and 20 August 2018; [4] real imports of goods and services from trade partners weighted by means of Slovenian export rates to these countries.

## Table 0.b. Main assumptions

| | 2017 (Levels) | 2018 (Levels) | 2019 (Levels) |
|---|---|---|---|
| 1. External environment | | | |
| a. Prices of commodities[1] | 8.0 | 5.8 | 2.0 |
| b. Spreads of german Bond | 0.87 | 0.58 (Jan-Sep) | |
| 2. Fiscal policy | | | |
| a. General Government net lending/ net borrowing *(in million EUR)* | 28,4 | 386,4 | 269,1 |
| b. General gross debt *(in million EUR)* | 31,859.1 | 32,146.9 | 32,029.3 |
| 3. Monetary policy / Financial sector / Interest rates assumptions | | | |
| a. interest rates | | | |
| i. Euribor | -0.3 | -0.3 (Jan-Sep) | |
| ii. Deposit rates | 0.13 | 0.15 (Jan-July) | |
| iii. Interest rates for loans | 2.34 | 2.11 | |
| iv. Yields to maturity of 10 year government bonds | 1.14 | 1.08 (Jan-Sep) | |
| b. Evolution of deposits | 4.6 | 6.5 (Aug yoy) | |
| c. Evolution of loans | 3.8 | 4.4 (Aug yoy) | |
| d. NPL Trends | 3.6 | 2.8 (July) | |
| Demographic trends | | | |
| a. Evolution of working age population[2] | 1,272.7 | 1,262.6 | 1,252.1 |
| b. Dependency ratios[3] | 31.2 | 32.4 | 33.6 |
| Structural dependencies | | | |

Notes: [1] Prices of commodities: non-energy commodities in USD, change in %; [2] 20-64 years, 1. January of year; [3] 65+/20-64*100, annual average.
Source: SURS, IMAD and Ministry of Finance.

## Table 1.a. Macroeconomic Prospects

| | ESA Code | 2017 (Levels million EUR) | 2017 (rate of change) | 2018 (rate of change) | 2019 (rate of change) |
|---|---|---|---|---|---|
| 1. Real GDP | B1*g | | 4.9 | 4.4 | 3.7 |
| of which: | | | | | |
| Attributable to the estimated impact of aggregated budgetary measures on economic growth | | | | | |
| 2. Potential GDP | | | 2.3 | 2.8 | 3.3 |
| Contributions | | | | | |
| Potential GDP contributions: Labour | | | 0.6 | 0.9 | 1.1 |
| Potential GDP contributions: capital | | | 0.2 | 0.4 | 0.5 |
| Potential GDP contributions: total factor productivity | | | 1.5 | 1.5 | 1.6 |
| 3. Nominal GDP | B1*g | 43,000 | 6.5 | 6.4 | 6.1 |
| Components Of real GDP: | | | | | |
| 4. Private consumption expenditure | P.3 | 22,305 | 1.9 | 2.7 | 2.6 |
| 5. Government consumption expenditure | P.3 | 7,837 | 0.5 | 2.7 | 2.0 |
| 6. Gross fixed capital formation | P.51 | 7,962 | 10.7 | 9.0 | 8.5 |
| 7. Changes in inventories and net acquisition of valuables (% of GDP) | P.52 + P.53 | 715 | 1.7 | 1.5 | 1.4 |
| 8. Exports of goods and services | P.6 | 35,637 | 10.7 | 8.2 | 6.6 |
| 9. Imports of goods and services | P.7 | 31,455 | 10.3 | 8.0 | 7.1 |
| Contribution to real GDP growth: | | | | | |
| 10. Final domestic demand | | 38,818 | 3.6 | 3.5 | 3.4 |
| 11. Changes in inventories and net acquisition of valuables | P.52 + P.53 | 715 | 0.6 | -0.1 | 0.0 |
| 12. External balance of goods and services | B.11 | 4,181 | 1.3 | 0.9 | 0.3 |

Source: SURS, IMAD 2018 Autumn Forecast, Ministry of Finance, SAEP

## Table 1.b. Price developments

| *Change, %* | ESA Code | 2017 (Levels) | 2017 (rate of change) | 2018 (rate of change) | 2019 (rate of change) |
|---|---|---|---|---|---|
| 1. GDP deflator | | | 1.6 | 1.9 | 2.3 |
| 2. Private consumption deflator | | | 1.7 | 2.5 | 2.2 |
| 3. HICP[1)] | | | 1.4 | 1.8 | 2.1 |
| 4. Public consumption deflator | | | 2.7 | 2.2 | 3.6 |
| 5. Investment deflator | | | 1.5 | 2.4 | 2.8 |
| 6. Export price deflator (goods and services) | | | 2.5 | 2.1 | 1.7 |
| 7. Import price deflator (goods and services) | | | 3.0 | 2.6 | 1.9 |

Source: SURS, IMAD 2018 Autumn Forecast. Note: [1)] National index.

## Table 1.c. Labour market developments

| | ESA Code | 2017 (Levels) | 2017 (rate of change) | 2018 (rate of change) | 2019 (rate of change) |
|---|---|---|---|---|---|
| 1. Employment, persons[1] | | 986 | 2.8 | 2.8 | 1.5 |
| 2. Employment, hours worked | | 1,601,859 | 1.0 | 4.8 | 2.7 |
| 3. Unemployment rate (%) – *ILO unemployment rate* | | 67,5 | 6.6 | 5.5 | 4.9 |
| 4. Labour productivity, persons | | 40,470 | 1.9 | 1.5 | 2.1 |
| 5. Labour productivity, hours worked | | 25,0 | 3.8 | -0.4 | 0.9 |
| 6. Compensation of employees[3] | D.1 | 21,203 | 6.5 | 7.9 | 6.8 |
| 7. Compensation per employee[3),4] in 000 EUR | | 21.494 | 3.7 | 4.9 | 5.2 |

Source: SURS, IMAD 2018 Autumn Forecast. Notes: [1] Employed population, national accounts definition (domestic concept), [2] Real GDP is taken into account, [3] Nominal growth, [4] Full-time employed are taken into account.

## Table 1.d. Sectoral balances

| | ESA Code | 2017 (% of GDP) | 2018 (% of GDP) | 2019 (% of GDP) |
|---|---|---|---|---|
| 1. Net lending/borrowing vis-a-vis the rest of the world | B.9 | 6.3 | | |
| of which: | | | | |
| - Balance on goods and services | | 9.7 | 10.0 | 9.7 |
| - Balance of primary incomes and transfers | | -2.6 | -3.2 | -3.3 |
| - Capital account | | -0.8 | | |
| | | | | |
| 2. Net lending/borrowing of the private sector | B.9 | | | |
| 3. Net lending/borrowing of general government | EDP B.9 | 0.07 | 0.84 | 0.55 |
| 4. Statistical discrepancy | | | | |

Source: SURS, IMAD and Ministry of Finance.

## Table 2.a. General government budgetary prospects

| | ESA Code | 2018 (% of GDP) | 2019 (% of GDP) |
|---|---|---|---|
| Net lending (EDP B.9) by sub-sector | | | |
| 1. Net lending/net borrowing: General government | S.13 | 0.84 | 0.55 |
| 2. Net lending/net borrowing: Central government | S.1311 | 0.8 | 0.4 |
| 3. Net lending/net borrowing: State government | S.1312 | | |
| 4. Net lending/net borrowing: Local government | S.1313 | 0.1 | 0.1 |
| 5.Social security funds | S.1314 | 0.0 | 0.0 |
| 6. Interest expenditure | EDP D.41 | 2.0 | 1.6 |
| 7. Primary balance | | 2.8 | 2.2 |
| 8. One-off and other temporary measures | | -0.09 | -0.05 |
| 8.a Of which one-offs on the revenue side: general government | | | |
| 8.b Of which one-offs on the expenditure side: general government | | -0.09 | -0.05 |
| 9. Real GDP Growth (%) (=1 in Table 1a) | | 4.4 | 3.7 |
| 10. Potential GDP Growth (%) (=2 in Table 1a) | | 2.8 | 3.3 |
| Contributions | | | |
| -Labour | | 0.9 | 1.1 |
| -Capital | | 0.4 | 0.5 |
| -Total factor productivity | | 1.5 | 1.6 |
| 11. Output gap (% of potential GDP) | | 1.8 | 2.2 |
| 12. Cyclical budgetary Component (% of potential GDP) | | 0.9 | 1.0 |

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| 13. Cyclically adjusted balance (1-12) (% of potential GDP) | -0.1 | -0.55 |
| 14. Cyclically adjusted primary balance (13+6) (% of potential GDP) | 1.9 | 1.15 |
| 15. Structural balance (13-8) (% of potential GDP) | 0.1 | -0.4 |

Source: Ministry of Finance.

## Table 2.b. General government debt developments

| | ESA Code | 2018 (% of GDP) | 2019 (% of GDP) |
|---|---|---|---|
| 1. Gross debt | | 70.3 | 66.0 |
| 2. Change in gross debt ratio | | -3.8 | -4.3 |
| Contributions to changes in gross debt: | | | |
| 3. Primary balance | | 2.5 | 1.8 |
| 4. Interest expenditure | EDP D.41 | 2.0 | 1.7 |
| 5. Stock-flow adjustment | | 1.1 | -0.1 |
| of which: | | | |
| - Differences between cash and accruals | | | |
| - Net accumulation of financial assets | | | |
| of which: | | | |
| - privatisation proceeds | | | |
| - Valuation effects and other | | | |
| p.m.: Implicit interest rate on debt | | 3.0 % | 2.6 % |
| Other relevant variables: | | | |
| 6. Liquid financial assets | | 10.8 | 8.2 |
| 7. Net financial debt (7=1-6) | | 59.5 | 57.8 |
| 8. Debt amortization (existing bonds) since the end of the previous year | | 4.0 | 4.7 |
| 9. Percentage of debt denominated in foreign currency | | 0.1 | 0.1 |
| 10. Average maturity | | 9.2 | 9.3 |

Source: Ministry of Finance.

## Table 2.c. Contingent liabilities

| | 2018 (% of GDP) | 2019 (% of GDP) |
|---|---|---|
| Public guarantees | 12.7 | 11.1 |
| Public guarantees: *linked to the financial sector | 1.5 | 1.4 |

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

Table 3: General government expenditure and revenue projections at unchanged policies broken down by main components

| | ESA Code | 2018 (% of GDP) | 2019 (% of GDP) |
|---|---|---|---|
| General government (S13) | | | |
| 1. Total revenue at unchanged policies | TR | 43.42 | 43.06 |
| Of which: | | | |
| 1.1 Taxes on production and imports | D.2 | 14.30 | 13.92 |
| 1.2 Current taxes on income, wealth, etc | D.5 | 7.81 | 7.78 |
| 1.3 Capital taxes | D.91 | 0.03 | 0.03 |
| 1.4 social contributions | D.61 | 14.89 | 14.83 |
| 1.5 Property income | D.4 | 1.09 | 0.91 |
| 1.6 Other | | 5.30 | 5.59 |
| p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995) | | 37.03 | 36.56 |
| Total expenditure at unchanged policies | TE | 42.58 | 42.68 |
| Of which: | | | |
| 2.1 Compensation of employees | D.1 | 11.18 | 11.27 |
| 2.2 Intermediate consumption | P.2 | 6.16 | 6.08 |
| 2.3 Social payments | D.62,D.63 | 16.77 | 16.47 |
| Of which unemployment benefits | | 0.35 | 0.31 |
| 2.4 Interest expenditure | EDP D.41 | 1.98 | 1.63 |
| 2.5 Subsidies | D.3 | 0.69 | 0.67 |
| 2.6 Gross fixed capital formation | P.51 | 3.49 | 4.26 |
| 2.7 Capital transfers | D.9 | 0.51 | 0.40 |
| 2.8 Other | | 1.81 | 1.88 |

Source: Ministry of Finance.

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

| | ESA Code | 2018 (% of GDP) | 2019 (% of GDP) |
|---|---|---|---|
| General government (S13) | | | |
| 1. Total revenue target | TR | 43.42 | 43.02 |
| Of which: | | | |
| 1.1 Taxes on production and imports | D.2 | 14.30 | 13.92 |
| 1.2 Current taxes on income, wealth, etc | D.5 | 7.81 | 7.78 |
| 1.3 Capital taxes | D.91 | 0.03 | 0.03 |
| 1.4 social contributions | D.61 | 14.89 | 14.80 |
| 1.5 Property income | D.4 | 1.09 | 0.91 |
| 1.6 Other | | 5.30 | 5.59 |
| p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995) | | 37.03 | 36.52 |
| Total expenditure target | TE | 42.58 | 42.47 |
| Of which: | | | |
| 2.1 Compensation of employees | D.1 | 11.18 | 11.16 |
| 2.2 Intermediate consumption | P.2 | 6.16 | 6.08 |
| 2.3 Social payments | D.62,D.63 | 16.77 | 16.37 |
| Of which unemployment benefits | | 0.35 | 0.30 |
| 2.4 Interest expenditure( =9 in table 2.a) | EDP D.41 | 1.98 | 1.63 |
| 2.5 Subsidies | D.3 | 0.69 | 0.67 |
| 2.6 Gross fixed capital formation | P.51 | 3.49 | 4.26 |
| 2.7 Capital transfers | D.9 | 0.51 | 0.40 |
| 2.8 Other | | 1.81 | 1.88 |

Source: Ministry of Finance.

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

| | 2017 (Levels million EUR) | 2017 (% of GDP) | 2018 (% of GDP) | 2019 (% of GDP) |
|---|---|---|---|---|
| 1. Expenditure on EU programmes fully matched by EU funds revenue | 397,7 | 0.92 | 1.08 | 1.74 |
| 1a. Investment expenditure fully matched by EU funds revenue | 74 | 0.16 | 0.29 | 0.63 |
| 2. Cyclical unemployment benefit expenditure | 8 | 0.02 | 0.02 | 0.03 |
| 3. Effect of discretionary revenue measures | | | | |
| 4. Revenues increased mandated by law | | | | |

Source: Ministry of Finance.

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

| | 2018 (% of GDP) | 2018 | 2019 (% of GDP) | 2019 |
|---|---|---|---|---|
| Education | | | | |
| Health | | | | |
| Employment | | | | |

Note: [1)] Not available for 2018 and 2019

## Table 4.c.ii. General government expenditure by function[1)]

| | COFOG Code | 2016 (% of GDP) | 2017 (% of GDP) | 2018 (% of GDP) | 2019 (% of GDP) |
|---|---|---|---|---|---|
| 1. General public services | 1 | 6.6 | 5.9 | | |
| 2. Defence | 2 | 0.9 | 0.9 | | |
| 3. Public order and safety | 3 | 1.7 | 1.6 | | |
| 4. Economic affairs | 4 | 4.6 | 4.3 | | |
| 5. Environmental protection | 5 | 0.6 | 0.5 | | |
| 6. Housing and community amenities | 6 | 0.4 | 0.5 | | |
| 7. Health | 7 | 6.7 | 6.6 | | |
| 8. Recreation, culture and religion | 8 | 1.4 | 1.4 | | |
| 9. Education | 9 | 5.5 | 5.4 | | |
| 10. Social protection | 10 | 16.8 | 16.2 | | |
| 11. Total expenditure (=2 in Table 2c) | TE | 45.3 | 43.2 | | |

Source: SURS (data for 2016 and 2017). Note: [1)] Not available for 2018 and 2019.

## Table 5. Discretionary measures

| | ESA Code | 2017 (% of GDP) | 2018 (% of GDP) | 2019 (% of GDP) | 2020 (% of GDP) | 2021 (% of GDP) | 2022 (% of GDP) | 2023 (% of GDP) |
|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | |
| Taxes on production and imports | D.2 | | | | | | | |
| Current taxes on income, wealth, etc | D.5 | | | | | | | |
| Capital taxes | D.91 | | | | | | | |
| Social contributions | D.61 | | | | | | | |
| Property income | D.4 | | | | | | | |
| Other | P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91) | | | | | | | |
| Expenditure | | | | | | | | |

| | | |
|---|---|---|
| Compensation of employees | D.1 | -0.1 |
| Intermediate consumption | P.2 | |
| Social payments, of which, where applicable, unemployment benefits including cash benefits and in... | D.62+D.63+D.621+ D.624+D.631 | -0.1 |
| Interest expenditure | EDP D.41 | |
| Subsidies | D.3 | |
| Gross fixed capital formation | P.51 | |
| Capital transfers | D.9 | |
| Other (other than D.41) | D.29+D.4+D.5+D.7+ P.52+P.53+K.2+D.8 | |

Source: Ministry of Finance.

## Table 7. Divergence from latest SP

| | ESA Code | 2017 (% of GDP) | 2018 (% of GDP) | 2019 (% of GDP) |
|---|---|---|---|---|
| Target general government net lending/borrowing | | | | |
| Stability plan | EDP B.9 | 0.03 | 0.35 | 0.18 |
| Draft budgetary plan | EDP B.9 | 0.07 | 0.84 | 0.55 |
| Difference | | -0.04 | -0.49 | -0.37 |
| General government net Lending projection at unchanged policies | | | | |
| Stability plan | EDP B.9 | 0.03 | 0.35 | 0.18 |
| Draft budgetary Plan | EDP B.9 | 0.07 | 0.84 | 0.39 |
| Difference | | -0.04 | -0.49 | -0.21 |

Source: SURS, Ministry of Finance.