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Assessment of the 2019 Stability Programme for

Slovenia

(Note prepared by DG ECFIN staff)

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EXECUTIVE SUMMARY

Slovenia is subject to the preventive arm of the SGP. Since Slovenia's public debt is above the 60% of GDP reference value of the Treaty, it also needs to ensure sufficient progress towards compliance with the debt reduction benchmark.

Growth in economic activity in Slovenia is set to slightly slow down in 2019 and 2020 compared to 2018. In 2020, growth would remain below potential, so that the output gap would start to close. Economic growth is forecast to be driven by domestic demand, with net exports' contribution turning negative. Private consumption is expected to be supported by rising employment and increase in wages. Investment is expected to continue growing, albeit at slower pace than in 2017 and 2018. Investment is supported by strong corporate balance sheets and apparent capacity constraints in the private sector, and by the expected increase in the absorption of EU funds in the public sector. Slovenia's exports are projected to continue to grow stronger than the Slovenian export market in general, but increased consumption and investment are expected to lead to even faster import growth. According to the Commission 2019 spring forecast, GDP growth is set to decrease from 4.5% in 2018 to 3.1% in 2019 before reaching 2.8% in 2020. This is lower than in the scenario underlying the Stability Programme.

The general government surplus improved to 0.7% of GDP in 2018. The 2019 Stability Programme plans the surplus to increase to 0.9% of GDP in 2019 and then to improve gradually by 0.1 percentage point of GDP per year until 2022. In structural terms, based on output gap as recalculated by the Commission, the budget balance deteriorated to a structural deficit of 0.7% of GDP in 2018. However, taking into account the high degree of uncertainty regarding Slovenia's output gap estimates and applying a constrained judgement based on the output gap indicated by the plausibility tool, the structural balance would improve to a surplus of almost 0.1% of GDP. This suggests that Slovenia was close to its medium-term budgetary objective of a structural surplus of 0.25% of GDP in 2018. In 2019, the planned improvement of the structural balance by 0.2% of GDP would fall below the required adjustment. The structural deficit is forecast to improve to 0.3% of GDP in 2020, close to the medium-term budgetary objective, which was lowered to a structural deficit of 0.25% of GDP. Risks to the short-term fiscal outlook come from the macroeconomic side, such as a worsening of the international environment, which would negatively affect revenues. In addition, some of the announced measures which have not yet been adopted but would have a negative budgetary impact if implemented were not included in the 2019 Stability Programme. Due to the projected increase in ageing costs, especially for pensions, Slovenia faces medium fiscal sustainability risks in the long term.

Based on both the Commission 2019 spring forecast and the 2019 Stability Programme, Slovenia is at some deviation in 2018, at risk of significant deviation in 2019 and at risk of some deviation in 2020 from the adjustment path towards the MTO. In both 2019 and 2020, Slovenia is forecast to comply with the debt reduction benchmark.

1. INTRODUCTION

On 26 April 2019, Slovenia submitted its 2019 Stability Programme (hereafter called Stability Programme), covering the period 2019-2022[1]. The government approved the draft programme and submitted it to the Parliament together with the medium-term fiscal budgetary framework on 9 April 2019.

Slovenia is currently subject to the preventive arm of the the Stability and Growth Pact (SGP) and should ensure sufficient progress towards its medium-term budgetary objective (MTO). As the debt ratio was at 82.6% of GDP in 2015 (the year in which Slovenia corrected its excessive deficit), exceeding the 60% of GDP reference value, Slovenia was also subject to transitional arrangements as regards compliance with the debt reduction benchmark during the three years following the correction of the excessive deficit (transitional debt rule). In this period, it should ensure sufficient progress towards compliance with the debt reduction benchmark. After the transition period, as of 2019, Slovenia is expected to comply with the debt reduction benchmark.

This document complements the Country Report published on 27 February 2019 and updates it with the information included in the Stability Programme.

Section 2 presents the macroeconomic outlook underlying the Stability Programme and provides an assessment based on the Commission 2019 spring forecast. The following section presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview on the medium-term budgetary plans, an assessment of the measures underpinning the Stability Programme and a risk analysis of the budgetary plans based on Commission forecast. Section 4 assesses compliance with the rules of the SGP, including on the basis of the Commission forecast. Since Slovenia is flagged by the plausibility tool, this section includes a box on the application of constrained judgement. Section 5 provides an overview on long-term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework. Section 7 provides a summary.

[1] The English version of the Stability Programme was submitted on 13 May 2019.

2. MACROECONOMIC DEVELOPMENTS

Slovenia's real GDP grew by 4.5% in 2018, slightly less than the 4.9% growth recorded in 2017. Growth was broad-based, with the strongest contribution arising from domestic demand. Private consumption grew by 2.2%, public consumption by 2.6% and investments by 10.6%. Net exports contributed positively to growth (0.3 percentage points of GDP), with exports growth (7.2%) slightly lower than imports growth (7.7%). Slovenia's current account surplus reached 7.3% of GDP in 2018. Employment grew by 3.0% and unemployment rate fell to 5.1%, down from 6.6% in 2017.

In 2019, the Stability Programme projects real GDP growth to reach 3.4%, with a small negative contribution (-0.1 percentage point of GDP) from net exports. Private consumption is expected to grow at 2.9% and investment at 7.7%. In 2020, growth is expected to slow down to 3.1% as domestic demand decelerates. Investment growth is expected to remain dynamic but to decelerate somewhat, to 7.0%. In 2021 and 2022, the growth decelerates further, as the contribution from net exports becomes slightly more negative in the future. The labour market is expected to tighten further over the forecast horizon with the unemployment rate falling to 3.4% by 2022, below the historical low of 4.4% recorded in 2008. Compensation per employee is expected to increase at around 5.5% per year over the period.

The outcome for 2018 real GDP growth was weaker than expected in the 2018 Stability Programme (5.1%) and somewhat higher than projected in the 2019 updated Draft Budgetary Plan (4.4%). Due to the lower expected contribution from net exports, the growth forecast in the current Stability Programme has been revised downwards compared to both the 2018 Stability Programme (3.8% in 2019 and 3.2% in 2020) and the 2019 updated Draft Budgetary Plan (3.7% in 2019).

The Stability Programme's macroeconomic outlook for 2019-2020 is slightly more dynamic than the Commission 2019 spring forecast. For 2019, the Commission expects growth at 3.1%, i.e. 0.3 percentage points of GDP lower than in the Stability Programme. The same difference exists in the 2020 forecast with the Commission expecting real GDP growth at 2.8% compared to 3.1% in the Stability Programme. The Commission expects a more moderate acceleration of private consumption growth over 2019 and 2020. In the Commission forecast, the negative contribution from net exports is projected to strengthen in 2020. The Commission is forecasting stronger employment growth in both 2019 and 2020, however, with lower labour productivity increase. In 2019, the GDP deflator is expected to grow somewhat slower in the Commission 2019 spring forecast (2.4% vs. 2.7% in the Stability Programme) but faster in 2020 (2.9% vs. 2.5% in the Stability Programme).

The output gap, as recalculated by the Commission based on the information in the programme following the commonly agreed methodology, is estimated at 3.3% of potential GDP in 2018. It is projected to increase to 3.4% in 2019 and is projected to narrow to 3.0% in 2020 and thereafter to decline to 0.6% by 2022. As calculated by the national authorities in the Stability Programme, the output gap is estimated to have been 1.7% of potential GDP in 2018, widen to 2.4% in 2019 and to 2.6% in 2020. Based on the Commission 2019 spring forecast, the output gap is identical to the (recalculated) output gap in 2019 but closes somewhat faster in 2020 – reaching 2.8% of potential GDP.

The plausibility tool developed by the Commission in consultation with the Member States points to a high degree of uncertainty surrounding the output gap estimates for Slovenia provided by the commonly agreed methodology. The analysis based on the constrained judgement approach can be found in Box 2 in section 4.

Overall, the Stability Programme is based on slightly favourable macroeconomic assumptions.

Table 1: Comparison of macroeconomic developments and forecasts

	2018		2019		2020		2021	2022
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	4.5	4.5	3.1	3.4	2.8	3.1	2.8	2.7
Private consumption (% change)	2.2	2.2	2.5	2.9	3.2	2.4	2.2	2.2
Gross fixed capital formation (% change)	10.6	10.6	7.5	7.7	7.4	7.0	7.0	7.0
Exports of goods and services (% change)	7.2	7.2	5.4	5.1	5.6	5.3	4.7	4.6
Imports of goods and services (% change)	7.7	7.7	6.2	6.0	7.2	5.8	5.4	5.4
Contributions to real GDP growth:								
- Final domestic demand	3.6	3.6	3.2	3.4	3.5	3.0	2.9	2.9
- Change in inventories	0.6	0.6	0.0	0.1	0.0	0.0	0.0	0.0
- Net exports	0.3	0.3	-0.1	-0.1	-0.8	0.1	-0.1	-0.2
Output gap[1]	3.3	3.3	3.4	3.4	2.8	3.0	1.9	0.6
Employment (% change)	3.0	3.0	2.3	2.0	2.1	1.0	0.6	0.4
Unemployment rate (%)	5.1	5.1	4.8	4.3	4.6	3.9	3.7	3.4
Labour productivity (% change)	1.5	1.4	0.8	1.4	0.6	2.1	2.2	2.3
HICP inflation (%)	1.9	1.7	1.8	1.6	2.1	1.9	2.2	2.2
GDP deflator (% change)	2.3	2.3	2.4	2.7	2.9	2.5	2.6	2.4
Comp. of employees (per head, % change)	4.0	4.4	4.8	5.4	3.7	5.6	5.7	5.2
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	6.8	6.8	6.0		5.4			

Note:

[1]In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission 2019 spring forecast (COM); Stability Programme (SP).

3. Recent and planned budgetary developments

3.1. Deficit developments in 2018 and 2019

In 2018, the Slovenian general government finances improved significantly from a balanced budget in 2017 to a surplus of 0.7% of GDP. However, as the positive output gap further widened, the structural deficit deteriorated from 0.5% of GDP in 2017 to 0.7% of GDP in 2018. The outturn headline surplus is higher than the 2018 Stability Programme forecast, but slightly lower than projected in the 2019 updated Draft Budgetary Plan. Compared to the 2018 Stability Programme, the headline surplus exceeded the expectations by 0.3 percentage points of GDP. Both higher revenues and lower expenditure contributed to the difference, despite the less favourable macroeconomic developments than expected in the 2018 Stability Programme. On the revenue side, the largest revisions arose from lower-than-expected capital transfers and higher-than-expected sales and property income. The latter was strongly impacted by particularly high dividends from NLB. On the expenditure side, intermediate consumption turned out to be higher than planned whereas the compensation of employees and other current transfers were revised downwards. The 2019 updated Draft Budgetary Plan envisaged a slightly higher surplus for 2018, at 0.8% of GDP. The lower outturn is explained by lower-than-expected indirect taxes and higher-than-expected public investment and intermediate consumption.

In 2019, the Stability Programme projects a headline surplus of 0.9% of GDP. The structural deficit recalculated by the Commission on the basis of the information in the programme according to the commonly agreed methodology is forecast to improve slightly to 0.6% of GDP. The projected headline balance is well above the estimate of 0.2% of GDP in the 2018 Stability Programme. This improvement largely results from the upward revision in revenues. Compared to the 2018 Stability Programme, taxes and social contributions were revised upwards significantly, in line with stronger labour market conditions. The increase was even higher as a share of GDP, due to the denominator effect from lower expected nominal GDP growth. Also, the expenditure is set to increase, driven by higher projected intermediate consumption and compensation of employees. The latter is expected to pick up due to the public sector pay rise negotiated with the labour unions in the end of 2018 and the increase in minimum wages. The headline surplus in the 2019 updated Draft Budgetary Plan stood at 0.6% of GDP in 2019 – above the projections in the 2018 Stability Programme but below the current estimate. Compared to the 2019 updated Draft Budgetary Plan, the upward revision in the headline surplus was also mainly driven by higher expected revenues, especially from social contributions and indirect taxes.

Compared to the Stability Programme, the Commission 2019 spring forecast projects a lower headline surplus in 2019, at 0.7% of GDP. Revenues as a share of GDP are the same in both forecasts. On the expenditure side, the Commission forecasts higher intermediate consumption. This is offset by lower public investment, which is expected to increase over the course of 2019 and 2020 more gradually than in the government forecast. As a result, due to the denominator effect, the expenditure as a share of GDP is forecast to increase more strongly in the Commission projections, leading to a lower headline surplus.

3.2. Medium-term strategy and targets

The Stability Programme plans a gradual improvement of the headline surplus, from 0.7% of GDP in 2018 to 1.2% of GDP in 2022. Due to the increasing positive output gap calculated by the national authorities, the planned structural balance (at face value) is expected to

deteriorate in 2019 and 2020. Thereafter, as the positive output gap starts closing, the structural balance (at face value) is expected to improve, thus, reaching a surplus of 0.1% of GDP in 2022. The (recalculated) output gap starts closing already in 2020 and at a faster pace than in the Stability Programme, leading to a stronger improvement in the (recalculated) structural balance to a surplus of 0.8% of GDP in 2022.

Table 2: Composition of the budgetary adjustment

(% of GDP)	2018	2019		2020		2021	2022	Change: 2018-2022
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**43.1**	**43.2**	**43.2**	**43.0**	**42.6**	**41.8**	**41.4**	**-1.7**
of which:								
- Taxes on production and imports	14.1	14.0	14.0	14.0	13.7	13.4	13.1	-1.0
- Current taxes on income, wealth, etc.	7.8	7.9	7.8	7.9	7.8	7.8	7.8	0.0
- Social contributions	14.8	15.0	15.1	15.0	15.1	15.2	15.2	0.4
- Other (residual)	6.4	6.2	6.3	6.1	6.0	5.5	5.2	-1.2
Expenditure	**42.4**	**42.5**	**42.2**	**42.1**	**41.6**	**40.7**	**40.2**	**-2.2**
of which:								
- Primary expenditure	40.4	40.8	40.6	40.6	40.2	39.4	39.0	-1.4
of which:								
Compensation of employees	10.9	11.2	11.2	11.2	11.1	10.9	10.7	-0.2
Intermediate consumption	6.3	6.2	6.0	6.1	5.9	5.6	5.5	-0.8
Social payments	16.5	16.5	16.3	16.2	16.2	16.1	16.1	-0.4
Subsidies	0.8	0.8	0.8	0.8	0.8	0.7	0.7	-0.1
Gross fixed capital formation	3.6	3.9	4.1	4.1	4.1	4.1	4.1	0.5
Other (residual)	2.3	2.4	2.2	2.3	2.2	2.0	1.9	-0.3
- Interest expenditure	2.0	1.6	1.6	1.5	1.5	1.3	1.2	-0.8
General government balance (GGB)	**0.7**	**0.7**	**0.9**	**0.9**	**1.0**	**1.1**	**1.2**	**0.4**
Primary balance	**2.7**	**2.3**	**2.6**	**2.4**	**2.4**	**2.4**	**2.3**	**-0.4**
One-off and other temporary	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.1
GGB excl. one-offs	**0.8**	**0.8**	**1.0**	**1.0**	**1.1**	**1.1**	**1.2**	**0.3**
Output gap[1]	3.3	3.4	3.4	2.8	3.0	1.9	0.6	-2.7
Cyclically-adjusted balance[1]	-0.8	-0.9	-0.6	-0.4	-0.4	0.2	0.8	1.7
Structural balance[2]	**-0.7**	**-0.8**	**-0.6**	**-0.3**	**-0.3**	**0.2**	**0.8**	**1.6**
Structural primary balance[2]	1.2	0.8	1.1	1.2	1.1	1.5	2.0	0.8

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

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

Source :

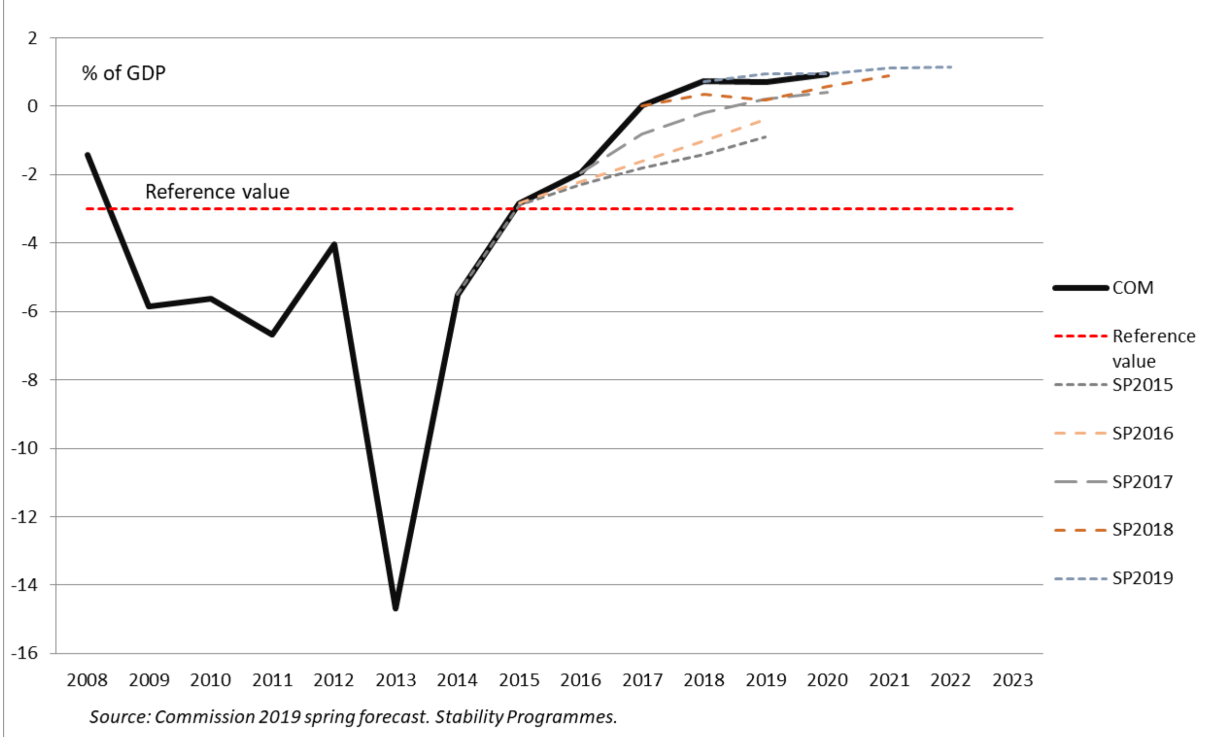
Stability Programme (SP); Commission 2019 spring forecast (COM); Commission calculations.

The MTO set in the Stability Programme is a structural surplus of 0.25% of GDP in 2019 and a structural deficit of 0.25% of GDP in the period 2020-2022. The MTO reflects the objectives of the Pact. After a fiscal expansion in 2018, the Stability Programme projects that the fiscal stance starts tightening somewhat in 2019. For 2020, as the structural improvement is expected to continue and given the lower MTO in 2020, the structural balance is expected to be close to the MTO, which is also confirmed by the Commission 2019 spring forecast. Based on the Stability Programme, Slovenia is projected to overachieve the MTO in both 2021 and 2022.

The adjustment path in the Stability Programme has improved compared to the 2019 updated Draft Budgetary Plan. While the latter was planning a 0.7% of GDP structural balance deterioration in 2019, the Stability Programme now expects a 0.2% of GDP structural improvement. When assessing the 2019 updated Draft Budgetary Plan based on the Commission 2019 ad-hoc forecast, the Commission's opinion was that the fiscal adjustment projected for 2019 was not compliant with the provisions of the SGP. The Commission invited the authorities to take the necessary measures within the national budgetary process to ensure that the 2019 budget was compliant. However, although Slovenia's structural balance is forecast to improve, this is not sufficient to comply with the SGP.

Based on Figure 1, the successive programmes have improved the forecast of general government balance since 2016. This is mainly due to the better-than-expected economic growth in recent years and higher-than-expected revenues.

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



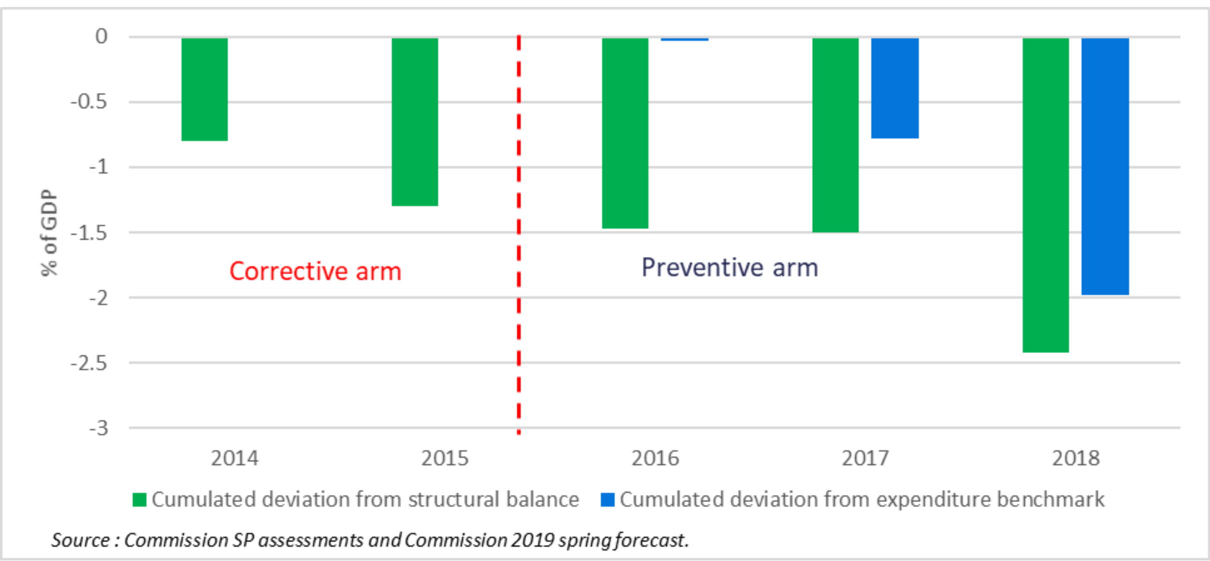
Source: Commission 2019 spring forecast. Stability Programmes.

Slovenia's structural adjustment fell short of the targets laid down in the 2013 EDP recommendation by 0.8% of GDP in 2014 and by 0.5% of GDP in 2015, leading to a cumulative deviation of around 1.3% of GDP. Since the correction of the excessive deficit in 2015, Slovenia has been subject to the preventive arm of the SGP and has been recommended to ensure an annual structural adjustment of 0.6% of GDP towards the MTO in both 2016 and 2017. In 2016, the improvement of the structural balance fell short of the recommendation by around 0.2% of GDP thereby further increasing the cumulative deviation to 1.5% of GDP. The expenditure benchmark pointed to a minor deviation below 0.1% of GDP from the recommended effort in 2016. Even though the structural cumulative deviation remained broadly unchanged in 2017, the cumulative deviation based on the expenditure benchmark increased to 0.8% of GDP. For 2018, Slovenia has been recommended to achieve a structural adjustment of 1.0% of GDP. However, due to the revised structural position in 2017, based on the 2018 outturn data and the Commission 2019 spring forecast a structural adjustment of 0.7% of GDP is now required for Slovenia to reach its MTO in 2018. The outturn of the

structural balance for 2018 fell significantly below the recommendation by around 0.9% of GDP, thus, increasing the cumulative deviation to around 2.4% of GDP. Also, the expenditure benchmark pointed to a further deviation by 1.2% of GDP leading to a cumulative deviation of 2.0% of GDP.

Overall, over 5 years the cumulative structural deviation has been steadily increasing, especially in 2018. When considering only the deviation accumulated during the period under the preventive arm (difference between the cumulative deviation in 2015 and 2018), the cumulative deviation from the requirements for the expenditure benchmark (2.0% of GDP) is above the one for the structural balance (1.1% of GDP). It therefore appears that for Slovenia the expenditure benchmark pillar has been more stringent.

Figure 2: Cumulative deviations of the preceding five years from the upper limit for net growth of government expenditure and from structural effort requirements (in % of GDP)



Source : Commission SP assessments and Commission 2019 spring forecast.

3.3. MEASURES UNDERPINNING THE PROGRAMME

For 2020, the Stability Programme includes new measures to reduce expenditure on social transfers with an overall budgetary impact of 0.2% of GDP. The government has announced changes to the Social Assistance Benefits Act, which would exclude the supplement for active work from cash social assistance. Also, the government has proposed amendments to the Labour Market Regulation Act which would decrease the maximum duration of receiving the unemployment benefit from 25 to 19 months. In addition, the contributory period for being eligible for the unemployment benefit would increase from 9 to 12 months in the last 24 months. Moreover, tighter sanctions would be implemented in case of a refused participation in active employment policy programmes. The Stability Programme envisages one-off expenditure of 0.1% of GDP in both 2019 and 2020, pertaining to several lawsuits (i.e. compensation for erased deposit holders of Ljubljanska Banka, return of agricultural land).

The Commission 2019 spring forecast considers the estimates provided in the Stability Programme for labour market and social activation measures as well as one-off expenditure as appropriate. However, for 2019, the Commission 2019 spring forecast considers the increase in the exemption of annual holiday allowance from income tax and social security

contributions from 70% to 100% of average wage as a revenue measure with a negative budgetary impact, while it is part of the baseline in the Stability Programme.

Main budgetary measures included in the Programme

Revenue	**Expenditure**
2020	
	• Measures for labour market functioning and social activation (-0.2% of GDP) • One-offs pertaining to several lawsuits (0.1% of GDP)
2021	
	• Measures for labour market functioning and social activation (-0.2% of GDP) • One-offs pertaining to several lawsuits (0.1% of GDP)
2022	
	• Measures for labour market functioning and social activation (-0.2% of GDP)
Note: The table refers to the main measures included in the 2019 Stability Programme that have an incremental budgetary impact over the programme period. The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.	

3.4. DEBT DEVELOPMENTS

The public debt ratio has been on a declining path since its peak at 82.6% in 2015. The debt-to-GDP ratio reached 70.1% of GDP in 2018, broadly in line with the projections in the 2019 updated Draft Budgetary Plan. Compared to the 2018 Stability Programme, the public debt ratio was revised upwards by 0.8 percentage points of GDP, mainly due to the higher-than-expected stock-flow adjustment and the denominator effect from lower GDP.

The Stability Programme projects public debt to decline further to 65.4% and 61.3% of GDP in 2019 and 2020, respectively. The 2019 projections are slightly below the ones in the 2019 updated Draft Budgetary Plan, mainly due to the higher primary balance. The estimates are broadly in line with the previous Stability Programme. While the debt-decreasing impact of the primary balance has been revised upwards for both years, the nominal GDP has been revised downwards.

For both 2019 and 2020, the Commission 2019 spring forecast for the public debt ratio is broadly in line with the projections in the Stability Programme.

Table 3: Debt developments

(% of GDP)	Average 2013-2017	2018	2019		2020		2021	2022
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**77.2**	**70.1**	**65.9**	**65.4**	**61.7**	**61.3**	**57.9**	**54.7**
Change in the ratio	4.1	-3.9	-4.2	-4.7	-4.2	-4.1	-3.4	-3.2
Contributions[2]*:*								
1. Primary balance	**2.1**	**-2.7**	**-2.3**	**-2.6**	**-2.4**	**-2.4**	**-2.4**	**-2.3**
2. "Snow-ball" effect	**0.3**	**-2.7**	**-2.0**	**-2.4**	**-2.1**	**-2.0**	**-1.9**	**-1.6**
Of which:								
Interest expenditure	2.9	2.0	1.6	1.6	1.5	1.5	1.3	1.2
Growth effect	-1.8	-3.1	-2.1	-2.2	-1.7	-1.9	-1.6	-1.5
Inflation effect	-0.8	-1.6	-1.6	-1.8	-1.8	-1.6	-1.6	-1.3
3. Stock-flow adjustment	**1.7**	**1.5**	**0.2**	**0.3**	**0.3**	**0.4**	**1.0**	**0.8**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

Notes:

[1] End of period.

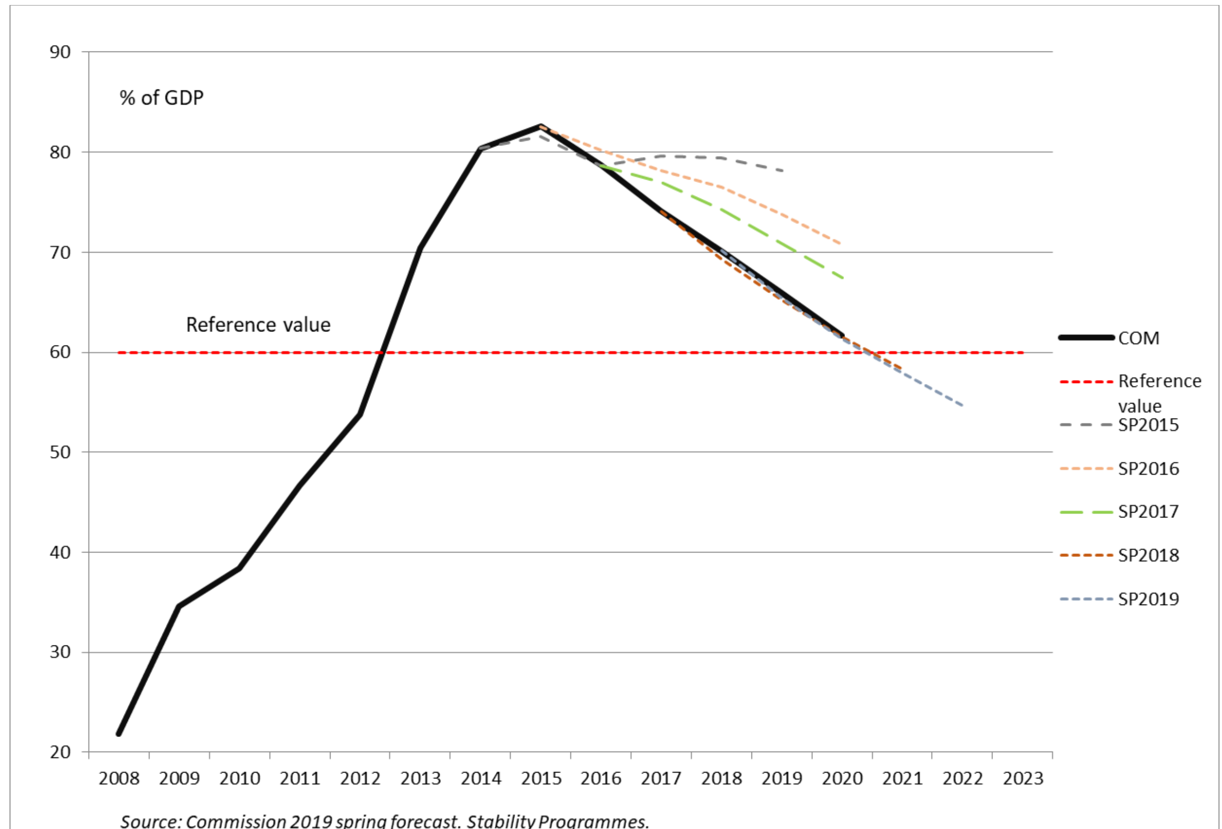
[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source :

Commission 2019 spring forecast (COM); Stability Programme (SP), Commission calculations.

Earlier Stability Programmes typically improved the forecast of the general government gross debt ratio, due to the better-than-expected economic growth. Although the nominal GDP was revised downwards in the current Stability Programme, due to the higher expected headline surplus, the debt-to-GDP ratio is projected to be broadly in line with the 2018 Stability Programme (see Figure 3). According to both Stability Programmes, the debt ratio is forecast to fall below the 60% of GDP reference rate in 2021.

Figure 3: Government debt projections in successive programmes (% of GDP)



3.5. RISK ASSESSMENT

On the expenditure side, the main risks underlying the deficit projections in the Stability Programme stem from pressure to further increase public sector wages and social transfers. The emergence of unexpected one-offs, for instance due to unfavourable court rulings, poses an additional downside risk.

On the revenue side, the main risks are mainly related to the materialisation of downside risks in the international environment. Compared to the Commission 2019 spring forecast, the Stability Programme is based on more favourable macroeconomic projections for 2019 and 2020. In addition, the Stability Programme includes expenditure decreasing labour market and social activation measures that have been credibly announced but not yet adopted by the Parliament. Furthermore, the Stability Programme does not take into account some measures with a potential negative budgetary impact that have been announced without providing any further details.

On the upside, the proceeds from the planned privatisations of Abanka and NLB pose an upside risk to the projected debt levels.

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

Box 1. Council Recommendations[2] addressed to Slovenia

On 13 July 2018, the Council addressed recommendations to Slovenia in the context of the European Semester. In particular, in the area of public finances the Council recommended to Slovenia to 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.

4.1. Compliance with the debt criterion

After it corrected its excessive deficit in 2015, Slovenia was in the transition period for the following three years and made sufficient progress towards compliance with the debt reduction benchmark in 2018. In 2019 and 2020, as its debt ratio is still expected to exceed the 60% of GDP reference rate of the Treaty, Slovenia needs to comply with the debt reduction benchmark. Based on both the Stability Programme and the Commission 2019 spring forecast, the debt reduction benchmark is expected to be met in both years, with a gap of more than 7% of GDP.

Table 4: Compliance with the debt criterion

	2018	**2019**		**2020**	
		SP	**COM**	**SP**	**COM**
Gross debt ratio	**70.1**	**65.4**	**65.9**	**61.3**	**61.7**
Gap to the debt benchmark [1,2]		-7.4	-7.3	-7.5	-7.3
Structural adjustment [3]	-0.2				
To be compared to:					
Required adjustment [4]	-6.6				

Notes:

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

[2] Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

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

[4] Defines the remaining annual structural adjustment over the transition period which ensures that – if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections for the previous years are achieved.

Source :
Commission 2019 spring forecast (COM); Stability Programme (SP), Commission calculations.

[2] OJ C 320, 10.9.2018, p. 103.

4.2. Compliance with the MTO or the required adjustment path towards the MTO

For 2018, in line with the commonly agreed adjustment matrix under the Stability and Growth Pact, Slovenia was recommended to achieve a structural adjustment of 1.0% of GDP, corresponding to a nominal growth rate of net primary government expenditure below 0.6%. However, due to the revised structural position in 2017, based on the 2018 outturn data and the Commission 2019 spring forecast a structural adjustment of 0.7% of GDP is now required for Slovenia to reach its MTO in 2018. This corresponds to a nominal growth rate of net primary government expenditure below 1.3%. In 2018, both the expenditure benchmark and the structural balance point to significant deviation (gaps of 1.2% and 0.9% of GDP, respectively). Following the Commission's assessment of the strength of the recovery in Slovenia, while giving due consideration to its sustainability challenges, a fiscal structural effort of 0.6% of GDP was required for 2018, without any additional margin of deviation over one year. This corresponds to a nominal rate of growth of net primary government expenditure not exceeding 1.5%. At the same time, Slovenia is flagged by the plausibility tool, pointing to uncertainty regarding the output gap estimates. Based on constrained judgement, the use of the plausibility tool's central estimate for the output gap would improve the structural balance from a deficit of 0.7% of GDP to a surplus of almost 0.1% of GDP in 2018. This suggests that Slovenia was close to its MTO of a structural surplus of 0.25% of GDP in 2018. Thus, given the high degree of uncertainty regarding the output gap estimates, Slovenia is found to be at some deviation from the required adjustment path towards the MTO in 2018.

In 2019, Slovenia was recommended to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.1%, corresponding to an annual structural adjustment of 0.65% of GDP. Based on the Stability Programme, the growth of nominal primary government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the applicable expenditure benchmark with a gap of 0.8% of GDP, pointing to a risk of significant deviation. The (recalculated) structural balance is planned to improve by 0.2% of GDP, falling short of the required adjustment with a gap below 0.5% of GDP, indicating a risk of some deviation at the margin. Both pillars point to a risk of significant deviation over 2018 and 2019 taken together. The difference between the potential GDP growth estimate underlying the structural balance and the medium-term potential GDP growth used to set the expenditure benchmark explains part of the difference between the two indicators. The reading of the fiscal effort based on the structural balance, as compared to the expenditure benchmark, continues to benefit from decreasing interest expenditure, while revenue shortfalls are projected in 2019. As the expenditure benchmark is considered to give a more accurate picture of the fiscal effort, an overall assessment based on the Stability Programme points to a risk of significant deviation in 2019 and over 2018 and 2019 taken together.

Table 5: Compliance with the requirements under the preventive arm

(% of GDP)	2018	2019		2020	
Background budgetary indicators[1]					
Medium-term budgetary objective (MTO)	0.3	0.3		-0.3	
Structural balance[2] (COM)	-0.7	-0.8		-0.3	
Setting the required adjustment to the MTO					
Structural balance based on freezing (COM)	-0.5	-0.8		-	
Position vis-à-vis the MTO[3]	Not at MTO	Not at MTO		Not at MTO	
Required adjustment[4]	0.6*	0.7		0.5	
Required adjustment corrected[5]	0.6*	0.7		0.5	
Corresponding expenditure benchmark[6]	1.5	3.1		4.0	
Compliance with the required adjustment to the MTO					
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Change in structural balance[7]	-0.2	0.2	-0.1	0.2	0.5
One-year deviation from the required adjustment[8]	-0.8	-0.5	-0.7	-0.3	0.0
Two-year average deviation from the required adjustment[8]	-0.4	-0.7	-0.8	-0.4	-0.4
Expenditure benchmark pillar					
Net public expenditure annual growth corrected for one-offs[9]	4.5	5.3	6.8	3.9	4.9
One-year deviation adjusted for one-offs[10]	-1.1	-0.8	-1.4	0.0	-0.3
Two-year deviation adjusted for one-offs[10]	-0.9	-0.9	-1.2	-0.4	-0.8
Finding of the overall assessment	**Some deviation**	**Significant deviation**	**Significant deviation**	**Some deviation**	**Some deviation**

Legend

'*Compliance*' - the recommended structural adjustment or a higher adjustment is being observed.

'*Some deviation*' - a deviation from the recommended structural adjustment is being observed, but it is below the threshold for a significant deviation.

'*Significant deviation*' - a deviation which has reached or breached the threshold for a significant deviation (i.e. 0.5% of GDP over one year, 0.25% of GDP over two years on average).

'*Irrelevant for the Significant Deviation Procedure*' - a SDP would not be opened only based on the two-year deviation if the MTO was reached (at the time of the freezing or on the base of the last storage) in one of the two years.

Notes

* In 2018, Slovenia has a requirement of 0.7% of GDP corresponding to the distance to MTO. However, following the Commission's assessment of the strength of the recovery while giving due consideration to its sustainability challenges, the Commission considered that a fiscal structural effort of at least 0.6% of GDP would be adequate in 2018, without any additional margin of deviation over one year. That corresponded to a nominal rate of growth of net primary expenditure not exceeding 1.5%.

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points is allowed in order to be evaluated as having reached the MTO.

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

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

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, 2018 edition, p. 38.). In case of a SDP, the requirement corresponds to the Council recommendation when available; otherwise it refers to the Commission recommendation to the Council.

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

[6] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[7] Change in the structural balance compared to year t-1. Ex post assessment (for 20XX-1) is carried out on the basis of Commission 20XX spring forecast.

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

[9] Net public expenditure annual growth (in %) corrected for discretionary revenue measures, revenue measures mandated by law and one-offs (nominal).

[10] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source:

Stability Programme (SP); Commission 2019 spring forecast (COM); Commission calculations.

Based on the Commission 2019 spring forecast, both the expenditure benchmark and the structural balance indicate a risk of significant deviation in 2019 (gap of 1.4% and 0.7% of GDP, respectively) and over 2018 and 2019 taken together. The differences between the

underlying potential GDP growth rates used in the calculation of both pillars partly explain the difference between the two indicators. Furthermore, the structural balance benefits from the projected revenue windfalls and declining interest expenditure while it is negatively affected by a lower GDP deflator. After taking all these factors into account, the Commission 2019 spring forecast confirms the assessment of a risk of significant deviation in 2019 and over 2018 and 2019 taken together.

Box 2. Implementation of the "constrained judgement" approach and its impact in the context of fiscal surveillance

The objective of the plausibility tool is to have a transparent and economically grounded tool to statistically test the plausibility of the output gap estimates for individual Member States estimated on the basis of the commonly agreed methodology. To this end, the Commission developed, in consultation with the Member States, an objective screening tool based on a set of cyclically relevant indicators as well as thresholds/ranges – to signal cases when the outcomes of the common method could be interpreted as being subject to a large degree of uncertainty and therefore deserving of further investigation on the part of the Commission. In such cases, the Commission carries out an "in depth" analysis, which could lead to the application of a "constrained" degree of judgement in conducting Member States' budgetary assessments. The constrained judgement approach allows the Commission – under limited and specific circumstances – to depart from the output gap estimates of the commonly agreed methodology in its assessment of the cyclical position of the Member State concerned.

Regarding Slovenia, the plausibility tool provided indications that the output gap for 2018, estimated on the basis of the commonly agreed methodology, may be counterintuitive. The output gap, as calculated on the basis of the common methodology, is estimated to have increased to 3.3% of potential GDP in 2018 (from 1.3% in 2017) and is forecast to increase further to 3.4% in 2019 and then decrease to 2.8% of potential GDP in 2020. The plausibility tool estimates the 2018 output gap at 1.5% of potential GDP, significantly lower than the one based on the commonly agreed methodology. The plausibility tool estimate indicates that the amount of idle capacities that are available for production (manufacturing capacity and labour force) may be higher than estimated on the basis of the production function method. The estimate can be also influenced by the relatively short time series. The estimates based on the common methodology for the output gap are above the ones derived from the HP filter (1.8% in 2018) and those of OECD (0.9% in 2018) and IMF (1.2% in 2018).

Those factors confirm that for Slovenia the output gap estimate based on the common methodology is subject to a high degree of uncertainty. The estimates of the output gap are followed by sizeable downward revisions over time. For instance, the 2016 output gap was revised downwards from -0.4% of potential GDP in the Commission 2017 spring forecast to -1.6% based on the Commission 2019 spring forecast. The current estimate is even below the estimate of -1.0% of potential GDP indicated by the plausibility tool in spring 2017. Given that the difference between the 2018 output gap estimates calculated by the plausibility tool and the commonly agreed methodology is much larger compared to spring 2017, it appears appropriate to apply the constrained judgement based on the plausibility tool estimate of the output gap. For 2018, even though the output gap estimate following a constrained judgement would not change the conclusion of Slovenia being in good times, it would strongly affect the structural balance estimate, which would increase to a structural surplus of almost 0.1% of GDP. This suggests that Slovenia was close to its MTO of 0.25% of GDP in 2018.

Based on both the Stability Programme and the Commission 2019 spring forecast, Slovenia is expected to be close to its MTO in 2020 (gap below 0.1% of GDP). Thus, the current assessment points to a risk of some deviation in 2020. At the same time, Slovenia has a

requirement that the nominal growth rate of net primary government expenditure should not exceed 4.0% in 2020, corresponding to an improvement of the structural balance by 0.5% to achieve the MTO in 2020. While the expenditure benchmark would currently point to a risk of some deviation in 2020, it would point to a risk of significant deviation from the requirement in 2019 and 2020 taken together, based on the Commission 2019 spring forecast. Based on the Stability Programme, while the expenditure benchmark would point to compliance in 2020, it would also point to a risk of significant deviation from the requirement in 2019 and 2020 taken together. If the structural balance is no longer projected to be close to the MTO in future assessments, an overall assessment would need to take into account a possible deviation from the requirement.

5. DEBT SUSTAINABILITY ANALYSIS AND FISCAL RISKS

Slovenia does not appear to face fiscal sustainability risks in the short run.[3]

Based on Commission 2019 spring forecast and a no-fiscal policy change scenario beyond the forecast horizon, government debt, projected at 65.9% of GDP in 2019, is expected to decrease to 46.7% in 2029, thus falling below the 60% of GDP Treaty threshold. Over this horizon, government debt is projected to peak in 2019. Sensitivity analysis shows similar risks.[4] Overall, this highlights low risks for the country from debt sustainability analysis in the medium term. The full implementation of the Stability Programme would put debt on a more clearly decreasing path by 2029, remaining below the 60% of GDP reference value in 2029.

The medium-term fiscal sustainability risk indicator S1[5] is at -0.7 percentage points of GDP, primarily related to the favourable initial budgetary position contributing -2.0 percentage points of GDP, which more than compensates the contribution of projected ageing costs of 1.2 percentage points of GDP. This indicator thus signals low risks in the medium term. The full implementation of the Stability Programme would put the sustainability risk indicator S1 at -2.1 percentage points of GDP. Based on the debt sustainability analysis and the S1 indicator, overall medium-term fiscal sustainability risks are, therefore, low. Fully implementing the fiscal plans in the Stability Programme would decrease those risks.

The long-term fiscal sustainability risk indicator S2 is at 4.8 percentage points of GDP. In the long term, Slovenia therefore appears to face medium fiscal sustainability risks, primarily related to the projected ageing costs contributing 5.2 percentage points of GDP. Full implementation of the programme would put the S2 indicator at 4.1 percentage points of GDP, leading to a slightly lower long-term risk while the S2 risk category would remain medium.[6] The debt sustainability analysis discussed above points to low risks so that, overall, long-term fiscal sustainability risks are assessed as medium for Slovenia.

The Slovenian government has announced a reform of the pension system, in particular an increase in the retirement age and enhanced possibilities to combine pensions with employment. In addition, the government proposed to increase the pension benefits to improve their adequacy. However, it is still unclear how and by when the proposed measures would be implemented and what would be the budgetary impact. Moreover, the draft laws to reform the healthcare and long-term care sectors are under preparation but the adoption date has not been set.

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[3] This conclusion is based on the short-term fiscal sustainability risk indicator S0. See the note to Table 6 for a definition of the indicator.

[4] Sensitivity analysis includes several deterministic debt projections, as well as stochastic projections (see Fiscal Sustainability Report 2018 for more details).

[5] See the note to Table 6 for a definition of the indicator.

[6] The projected costs of ageing that are used to compute the debt projections and the fiscal sustainability indicators S1 and S2 are based on the projections of the 2018 Ageing Report.

Table 6: Debt sustainability analysis and sustainability indicators

Time horizon			Commission Scenario		Stability Programme Scenario	
Short-term			**LOW risk**			
S0 indicator [1]			0.1			
	Fiscal subindex		0.1	LOW risk		
	Financial & competitiveness subindex		0.2	LOW risk		
Medium-term			**LOW risk**			
DSA [2]			LOW risk			
S1 indicator [3]			-0.7	LOW risk	-2.1	LOW risk
of which	Initial Budgetary Position		-2.0		-2.9	
	Debt Requirement		0.1		-0.5	
	Cost of Ageing		1.2		1.3	
	of which	Pensions	0.6		0.8	
		Health care	0.3		0.3	
		Long-term care	0.1		0.1	
		Other	0.1		0.1	
Long-term			**MEDIUM risk**			
DSA [2]			LOW risk			
S2 indicator [4]			4.8	MEDIUM risk	4.1	MEDIUM risk
of which	Initial Budgetary Position		-0.4		-1.3	
	Cost of Ageing		5.2		5.4	
	of which	Pensions	3.4		3.6	
		Health care	0.8		0.7	
		Long-term care	0.7		0.7	
		Other	0.4		0.4	

Source: Commission services; 2019 Stability Programme.

Note: the 'Commission' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commission 2019 spring forecast until 2020. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2018 Ageing Report.

[1] The S0 indicator of short term fiscal challenges informs the early detection of fiscal stress associated to fiscal risks within a one-year horizon. To estimate these risks S0 uses a set of fiscal, financial and competitiveness indicators selected and weighted according to their signalling power. S0 is therefore a composite indicator whose methodology is fundamentally different from the S1 and S2 indicators, which quantify fiscal adjustment efforts. The critical threshold for the overall S0 indicator is 0.46. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.36 and 0.49*.

[2] Debt Sustainability Analysis (DSA) is performed around the no fiscal policy change scenario in a manner that tests the response of this scenario to different shocks presented as sensitivity tests and stochastic projections*.

[3] The S1 indicator is a medium-term sustainability gap; it measures the upfront fiscal adjustment effort required to bring the debt-to-GDP ratio to 60% by 2033. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2021 for Commission scenario and from last available year for the SP scenario); it must be then sustained, including financing for any additional expenditure until the target date, arising from an ageing population. The critical thresholds for S1 are 0 and 2.5, between which S1 indicates medium risk. If S1 is below 0 or above 2.5, it indicates low or high risk, respectively*.

[4] The S2 indicator is a long-term sustainability gap; it shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical thresholds for S2 are 2 and 6, between which S2 indicates medium risk. If S2 is below 2 or above 6, it indicates low or high risk, respectively*.

* For more information see Fiscal Sustainability Report 2018.

6. Fiscal framework

The Slovenian fiscal rule is a structural balanced budget rule for the general government, as defined in the Fiscal Rules Act (FRA). The FRA also includes an expenditure ceiling, setting limits for general government expenditure dependent on the envisaged level of general government revenue, the position of the economy in the cycle and the MTO (when GDP is below potential) to ensure that the general government budget is in structural balance or in structural surplus over the medium term. However, this rule is only applicable once the country has reached its MTO. As long as Slovenia has not achieved its MTO, according to the FRA, the compliance with the adjustment path should be assessed against the requirements of the Stability and Growth Pact. Therefore, based on the (recalculated) structural balance, the fiscal performance in Slovenia appears to broadly comply with the requirements of the applicable numerical fiscal rule in 2020 and to comply with the applicable national numerical fiscal rule as of 2021.

Slovenia has a Fiscal Council, an independent state authority that – among other things – monitors the respect of the above-mentioned rule. The Fiscal Council has reviewed the Stability Programme and concluded that the projected fiscal trends are not compliant with the national numerical fiscal rules in 2019 and that the envisaged level of general government expenditure for 2019 would be above the level set in the medium-term budgetary framework[7]. The Fiscal Council assessed that Slovenia would achieve its MTO in 2020-2022 and would respect the national numerical fiscal rules. However, the Fiscal Council points to significant negative risks associated with the projections in the Stability Programme. Those risks consist of announced measures with a negative budgetary impact that are not included in the Stability Programme, possible deterioration of the macroeconomic environment and potential requirements to increase expenditure. Moreover, the Fiscal Council emphasised that the favourable economic conditions should be used to implement structural reforms that would have a positive impact on long-term sustainability, given the rapid ageing of the population.

The Stability Programme indicates that it constitutes the national medium-term fiscal plan (NMTFPs), as required by Art. 4.1 of Regulation No 473/2013. However, neither the Stability Programme nor the National Reform Programme includes specific indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact.

The macroeconomic scenario underpinning the Stability Programme is the Spring 2019 Forecast of Economic Trends produced by the Institute of Macroeconomic Analysis and Development (IMAD). The independent status and tasks of IMAD arise from legislation. IMAD produces economic forecasts twice a year (in March and October) to underpin the Stability Programme in April and the Draft Budgetary Plan in autumn.

[7] The framework for the preparation of budgets over 2018-2020 adopted in December 2018.

7. SUMMARY

In 2018, Slovenia's structural deficit deteriorated by 0.2% of GDP, below the required improvement of 0.7% of GDP. However, applying a constrained judgement based on the output gap estimate from the plausibility tool would improve the structural balance to a surplus of almost 0.1% of GDP. This suggests that Slovenia was close to its MTO of a structural surplus of 0.25% of GDP in 2018. Thus, taking into account the high degree of uncertainty regarding the output gap estimates, Slovenia is found to be at some deviation from the recommended adjustment path towards the MTO.

According to the Stability Programme, Slovenia plans a growth rate of government expenditure, net of discretionary revenue measures, which is above the applicable expenditure benchmark rate in 2019. Slovenia also plans an improvement of the structural balance by 0.2% of GDP in 2019, below the recommended adjustment. Slovenia plans to be close to its MTO in 2020, while the expenditure benchmark would point to a risk of a significant deviation from the requirement over 2019 and 2020 taken together. If the structural balance is no longer projected to be close to the MTO in future assessments, an overall assessment would need to take into account a possible deviation from the requirement. This path implies that based on the Stability Programme, there is a risk of significant deviation in 2019 and a risk of some deviation in 2020 from the required adjustment path towards the MTO. Based on the Commission 2019 spring forecast, these conclusions are confirmed.

Based on the Stability Programme, compliance with the transitional debt rule is ensured in 2018 as well as with the debt reduction benchmark in 2019 and 2020. This is confirmed by the Commission 2019 spring forecast.

8. ANNEXES

Table I. Macroeconomic indicators

	2001-2005	2006-2010	2011-2015	2016	2017	2018	2019	2020
Core indicators								
GDP growth rate	3.6	1.9	0.4	3.1	4.9	4.5	3.1	2.8
Output gap [1]	0.9	2.2	-4.6	-1.6	1.3	3.3	3.4	2.8
HICP (annual % change)	5.6	3.0	1.3	-0.2	1.6	1.9	1.8	2.1
Domestic demand (annual % change) [2]	3.1	1.3	-1.0	2.9	3.9	4.6	3.5	3.9
Unemployment rate (% of labour force) [3]	6.4	5.7	9.2	8.0	6.6	5.1	4.8	4.6
Gross fixed capital formation (% of GDP)	25.8	26.4	19.5	17.5	18.5	19.7	20.7	21.7
Gross national saving (% of GDP)	25.4	25.6	22.7	24.2	27.3	29.1	29.5	29.7
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.4**	**-2.8**	**-6.7**	**-1.9**	**0.0**	**0.7**	**0.7**	**0.9**
Gross debt	**26.6**	**28.7**	**66.7**	**78.7**	**74.1**	**70.1**	**65.9**	**61.7**
Net financial assets	**8.2**	**5.7**	**-16.7**	**-31.0**	**-29.2**	**n.a**	**n.a**	**n.a**
Total revenue	43.3	42.7	44.4	43.4	43.2	43.1	43.2	43.0
Total expenditure	45.8	45.6	51.1	45.3	43.2	42.4	42.5	42.1
of which: Interest	1.9	1.3	2.6	3.0	2.5	2.0	1.6	1.5
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-3.1**	**-4.1**	**5.8**	**2.3**	**1.5**	**0.3**	**-0.3**	**-0.3**
Net financial assets; non-financial corporations	**-92.9**	**-114.7**	**-108.9**	**-88.7**	**-84.6**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**6.7**	**3.4**	**9.4**	**8.5**	**7.2**	**n.a**	**n.a**	**n.a**
Gross capital formation	17.6	17.8	11.6	11.9	13.3	14.7	15.3	16.0
Gross operating surplus	17.8	19.5	18.9	19.5	20.4	20.4	20.3	20.7
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**3.6**	**4.6**	**4.4**	**4.3**	**4.8**	**5.9**	**5.8**	**5.0**
Net financial assets	**71.3**	**69.7**	**67.5**	**70.8**	**70.9**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	43.4	43.3	43.0	42.7	42.7	42.9	43.5	43.6
Net property income	1.5	1.4	1.3	1.1	1.1	0.9	0.4	0.3
Current transfers received	19.9	18.9	20.8	19.7	18.8	18.1	17.9	17.5
Gross saving	8.8	9.3	7.6	8.0	8.4	9.1	9.1	8.5
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-1.9**	**-2.3**	**3.5**	**4.6**	**6.3**	**6.8**	**6.0**	**5.4**
Net financial assets	**6.7**	**35.8**	**48.7**	**40.5**	**35.7**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-0.5	0.0	5.5	9.2	9.7	9.5	8.8	8.1
Net primary income from the rest of the world	-0.9	-1.8	-1.7	-2.6	-1.8	-1.3	-1.4	-1.3
Net capital transactions	-0.3	0.4	0.5	-0.8	-0.8	-0.5	-0.8	-0.7
Tradable sector	47.2	45.3	45.7	46.6	47.0	47.2	n.a	n.a
Non tradable sector	40.4	42.2	40.9	40.0	39.9	39.9	n.a	n.a
of which: Building and construction sector	5.4	6.6	4.9	4.6	4.8	5.2	n.a	n.a
Real effective exchange rate (index, 2000=100)	91.7	96.5	96.7	95.2	95.9	96.9	98.0	98.9
Terms of trade goods and services (index, 2000=100)	103.4	101.6	98.9	101.6	101.1	100.9	100.5	101.0
Market performance of exports (index, 2000=100)	86.4	100.5	104.0	106.8	111.9	115.8	118.1	120.2

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2010 market prices.

[2] The indicator on domestic demand includes stocks.

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

Source :

AMECO data, Commission 2019 spring forecast.

Mandatory variables not included in the Stability Programme

A small number of variables were not included in the Stability Programme. These are: levels for 2018 (Table 1b); net lending/borrowing vis-à-vis the rest of the world (Table 1d); total revenues and expenditures in 2007 and 2010 and age-related expenditures of them (Table 7); assumptions on short-term and long-term interest rates, GDP growth for world excluding EU and world import volumes, excluding EU (Table 8).
Not included mandatory variables do not impede the Commission's ability to assess the Stability Programme on the basis of the Programme's assumptions.