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Assessment of the 2017 stability programme for

Slovenia

(Note prepared by DG ECFIN staff)

CONTENTS

1. INTRODUCTION

On 28 April 2017, Slovenia submitted its 2017 stability programme (hereafter called stability programme), covering the period 2017-2020.

Slovenia is currently subject to the preventive arm of the stability and Growth Pact (SGP) and should ensure sufficient progress towards its medium-term objective (MTO). As the debt ratio was 83.1% of GDP in 2015 (the year in which Slovenia corrected its excessive deficit), thus exceeding the 60% of GDP reference value, Slovenia is also subject to the 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. After the transition period, as of 2018, Slovenia is expected to comply with the debt reduction benchmark.

This document complements the Country Report published on 22 February 2017 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 2017 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's forecast. Section 4 assesses compliance with the rules of the SGP, including on the basis of the Commission forecast. 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.

2. MACROECONOMIC DEVELOPMENTS

Slovenia's real GDP grew by 2.5% in 2016, up from 2.3% in 2015. Growth was driven by rising consumption and exports, but held back by decreasing public investment, which resulted from a slow start of the new programming period of EU funds. While public investment decreased, investment in machinery and equipment still increased by 10.8%. Private consumption, backed by rising employment, wages and consumer confidence, was the main driver of GDP growth. Exports continued to grow at a robust rate, but their net contribution to GDP growth was dampened by rising imports.

In 2017, the stability programme projects the GDP to grow by 3.6%. Growth is expected to be driven by private consumption and investment. Export growth is projected to continue, but the increasing imports are expected to reduce its net contribution to growth. Employment growth is expected to continue, reducing the unemployment rate from 8% in 2016 to 7% in 2017. Inflation, driven by the increase in energy prices, is forecast to accelerate significantly, from -0.2% in 2016 to 1.8% in 2017. Despite the projected increase in inflation, real consumption growth is forecast to be 3.6%.

In 2018, GDP is expected to grow by 3.1%. Thereafter, growth is projected to amount to 2.6% in 2019 and 2020. Growth is forecast to continue to be driven by domestic demand, but in the outer years the growth contribution of net exports is expected to increase again. Unemployment rate is projected to fall to 5.7% by the end of 2020. Inflation is expected to decrease in 2018 to 1.6% and to accelerate thereafter to around 2%.

The growth forecast has been revised upwards compared to previous programmes. In the 2016 stability programme, growth in 2017 was forecasted at 2.4%, and in the 2017 Draft Budgetary

Plan this forecast was increased to 2.9%. The upward revision in the 2017 stability programme is based on the better-than-expected outcome in 2016 and on the positive developments at the end of 2016 and beginning of 2017.

The stability programme forecast is broadly in line with the Commission's 2017 spring forecast. For 2017 the Commission forecasts growth at 3.3%, 0.3 pp lower than in the stability programme. The composition of growth is broadly similar. For 2018, the Commission’s growth forecast is 0.1 pp lower. The Commission projects a less rapid acceleration of employment growth in 2017 than the stability programme. In 2017, the stability programme projects an acceleration of wage growth to 4.1% whereas the Commission forecast is 2.7%. In the Commission’s 2017 spring forecast, the GDP deflator is projected to grow by 1.5% in 2017, while the stability programme assumes 1% growth. The difference stems mainly from different assumptions regarding export prices.

Overall the stability programme is based on plausible macroeconomic assumptions.

The negative output gap is expected to close in 2017 when the output gap, as recalculated by the Commission based on the information in the programme, following the commonly agreed methodology, stands at 1.1%. In 2018 the output gap reaches 1.9%. The output gap, as calculated by the national authorities in the programme, stands at 0.3% in 2017 and 1.1% in 2018. According to the stability programme, the difference arises from the fact that the national authorities project the potential output based on a t+6 forecast. This results in a higher potential growth rate and therefore smaller positive output gaps in 2017 and 2018.

Table 1: Comparison of macroeconomic developments and forecasts

	2016	2017		2018		2019	2020
	COM	COM	SP	COM	SP	SP	SP
Real GDP (% change)	2.5	3.3	3.6	3.1	3.2	2.6	2.6
Private consumption (% change)	2.8	3.3	3.5	3.0	2.7	2.0	2.0
Gross fixed capital formation (% change)	-3.1	6.3	7.0	6.4	7.0	6.0	5.5
Exports of goods and services (% change)	5.9	5.8	6.0	5.4	5.1	4.8	4.8
Imports of goods and services (% change)	6.2	6.4	6.5	6.1	5.6	5.1	5.1
Contributions to real GDP growth:							
- Final domestic demand	1.4	3.2	3.5	3.1	3.1	2.3	2.3
- Change in inventories	0.8	0.0	0.1	0.0	0.1	0.0	0.0
- Net exports	0.3	0.2	0.2	-0.1	0.1	0.3	0.3
Output gap[1]	-0.4	1.4	1.1	2.5	1.9	1.9	1.6
Employment (% change)	2.0	1.9	2.2	1.6	1.5	1.0	0.6
Unemployment rate (%)	8.0	7.2	7.0	6.3	6.4	6.0	5.7
Labour productivity (% change)	0.5	1.4	1.4	1.5	1.7	1.6	1.9
HICP inflation (%)	-0.2	1.5	1.8	1.8	1.6	2.0	2.1
GDP deflator (% change)	0.6	1.5	1.0	1.8	1.7	1.7	1.8
Comp. of employees (per head, % change)	2.2	2.7	4.1	3.4	3.6	3.6	4.0
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	6.1	6.4		6.3			

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 2017 spring forecast (COM); Stability Programme (SP).

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. DEFICIT DEVELOPMENTS IN 2016 AND 2017

In 2016, the deficit amounted to 1.8% of GDP (down from 2.9% in 2015), below the projections in the 2017 Draft Budgetary Plan and the previous stability programme. This was mainly due to higher-than-expected current revenues and a drop of 34% in public investment (following the end of the 2007-2013 EU funding period). At the same time, expenditure on the compensation of employees increased by more than expected (6.3%) in the Draft Budgetary Plan (5.4%) and in the previous stability programme (4%). Interest expenditure increased in 2016 by 0.9%, whereas a decrease was expected in the Draft Budgetary Plan and in the previous stability programme. This difference is due to a statistical treatment by Eurostat of the buyback of bonds denominated in US dollars that differed from the expectations of the national authorities. The buyback of bonds amounted to 2.6 billion US dollars (i. e. nearly 30% of total US$ debt portfolio exposure). In addition, the adverse impact on the general government balance of the activities of the Bank Asset Management Company (BAMC) decreased significantly, from 1% of GDP in 2015 to 0.1% of GDP in 2016.

The 2017 deficit is expected to improve to 0.8% of GDP, better than targeted in the 2017 Draft Budgetary Plan and the 2016 stability programme. After the considerable fall in public investment in 2016, the government plans an increase amounting to 20% in 2017, in line with the start of the current EU financial programming period. After an unexpected increase in 2016, interest expenditure is projected to decrease considerably in 2017 (by 22%) owing to the 2016 buyback of bonds denominated in US dollars and the issuance of euro bonds with lower interest rates. A lower level of pre-financing will also reduce interest expenditure in 2017 and 2018. In addition, buoyant social contributions are expected to contribute to the reduction of the government deficit in 2017. Even though the compensation of public employees (3.8%), social transfers (1.9%) and intermediate consumption (1.4%) are projected to continue to increase year-on-year, as a percentage of GDP they are expected to decrease. The temporary measures to limit the growth of public wages that entered into force in 2009 started to be reversed in 2016. For 2017, the authorities reached an agreement with the trade unions in order to reverse only some of the measures, namely the value of the salary scales, promotions, partial pay for annual leave and pension premiums. The wages were increased for healthcare professionals and further negotiations are underway for possible increases in other professions. Expenditure on social transfers (excluding pensions) is planned to increase by 1.9 % in 2017, mainly via easing the eligibility criteria for social assistance benefits and for social transfers in kind (such as, school meals, medical products and devices). Expenditure on pensions in 2017 is planned to increase by 2.1% due to the indexation of pensions and the expected increase in the number of pensioners. The increase could be higher if an annual bonus for all pensioners was decided.

3.2. MEDIUM-TERM STRATEGY AND TARGETS

The target of the stability programme is to reduce the headline deficit from 1.8% of GDP in 2016 to a surplus of 0.4% of GDP in 2020. By then, the planned structural balance is expected to be in balance (0.0% of GDP). The recalculated[1] structural deficit is expected to have improved to 0.2% of GDP.

The medium-term objective (MTO) chosen in the stability programme corresponds to a balanced budget to be achieved in 2020, within the stability programme horizon. This MTO is below the updated minimum MTO for Slovenia, 0.25% of GDP as revised in 2016 for the period 2017-2019. The MTO in the stability programme is thus not in line with the requirement of the SGP. Therefore, the level chosen for the MTO does not allow to properly address Slovenia's sustainability challenges.

In 2017, the authorities target a headline deficit of 0.8% of GDP, well below the deficit projection in the 2017 Draft Budgetary Plan (1.3% of GDP) and the target in last year's stability programme (1.6% of GDP). In 2017, both total revenues and total expenditure are expected to increase year-on-year, by 4.4% and 2.1% respectively. Total revenue is expected to increase more than projected in the 2017 Draft Budgetary Plan (3.7%). The higher revenues are driven by higher social contributions and tax revenues due to the positive macroeconomic outlook. In addition, capital transfers are projected to increase in line with higher projected EU financing for public investment. On the expenditure side, total expenditure is expected to increase by 2.1% whereas the projected increase in the 2017 Draft Budgetary Plan was 1.4%.

[1] Cyclically-adjusted budget balance net of one-off and temporary measures, recalculated by the Commission on the basis of the information provided in the stability programme, using the commonly agreed methodology.

Current expenditure was expected to grow by 1.7% in the 2017 Draft Budgetary Plan, while the current programme projects an increase of 0.7%. In addition, compared to the 2017 Draft Budgetary Plan projections, the compensation of employees and social transfers are expected to be higher while all other components of current expenditure are expected to be lower, in particular intermediate consumption, subsidies and interest expenditure. The decrease in interest expenditure by 8% in the 2017 Draft Budgetary Plan is far smaller than the stability programme projection of a 22% decrease. In part, the difference can be explained by the higher interest expenditure in 2016, creating a higher year-on-year decrease larger than expected. The projected growth on the expenditure side is mostly due to higher public investment. Its expected increase by 20.1% is considerably above the projected increase by 5.7% in the 2017 Draft Budgetary Plan. In 2017, the increase in revenues is expected to offset expenditure pressures, thus the deficit improves.

The 2017 deficit target in the stability programme is considerably lower than the Commission's 2017 spring forecast (0.8% vs. 1.4% of GDP). In 2017, on the revenue side the authorities' projections (43.5% of GDP) are broadly in line with the Commission's spring forecast (43.4% of GDP). However, on the expenditure side the Commission expects total expenditure to amount to 44.8% of GDP, while the authorities' project 44.4% of GDP. This is mainly due to different projections regarding the compensation of employees, intermediate consumption and interest expenditure. Interest expenditure alone explains the difference in the headline deficit. The Commission also projects a decrease in interest expenditure but not as large as the authorities', mainly due to the different statistical recording concerning the buyback operations. The Commission follows Eurostat's methodology, according to which these operations are recorded using the current rates instead of fixed rates in the contract.

Measures underpinning the 2017 target remain largely unchanged since the 2016 Draft Budgetary Plan. While the Commission's spring forecast includes 0.2% of GDP of one-off measures and does not include revenue measures mandated by law, the authorities consider 0.4% of GDP of one-offs and an additional 0.3% of GDP due to revenue mandated by law.[2] However, revenue measures mandated by law and additional one-offs included are not specified. The one-offs are on the expenditure side and deficit improving. While the recalculated structural balance for 2017 stands at -0.9% of GDP, the Commission's spring forecast projects a structural balance of -1.8% of GDP. Most of the difference stems from the headline deficit (0.6% of GDP higher in the Commission's forecast) and the different amount of one-offs (0.2% of GDP lower in the Commission's forecast).

For 2018, the stability programme projects a deficit of 0.2% of GDP, considerably below the 2016 stability programme (1% of GDP) and the Commission's spring forecast (1.2% of GDP). In 2018, on the revenue side the Commission expects total revenue to amount to 42.9% of GDP, while the authorities project 43.7% of GDP. This is mainly due to different projections regarding social security contributions. However, this is offset by the authorities' higher projections of gross fixed capital formation. Thus, the main difference in the headline deficit results from the authorities' projections of current expenditure items, particularly intermediate consumption, compensation of employees and interest expenditure. The latter two alone, explain the difference in the headline deficit.

[2] Revenues mandated by law refer to situations in which Member States have revenue sources that are linked by law to certain expenditure items, so that when expenditure increases, revenue automatically also increases to fund the higher expenditure.

Under a no-policy-change assumption, until an agreement is reached with the trade unions for 2018, the Commission will consider a complete reversal of the remaining public wage bill temporary measures. The Commission's spring forecast includes 0.1% of GDP of one-offs compared to 0.4% of GDP in the stability programme. The additional one-offs of the stability programme are on the expenditure side and deficit improving, however they are not specified. While the recalculated structural balance for 2018 is -0.7% of GDP, the projection according to the Commission's spring forecast is -2.3% of GDP. The difference (1.6% of GDP) is explained by the different projections of headline deficit for 2017 (1% of GDP higher in the Commission's forecast), the different assessment regarding one-offs (0.3% of GDP lower in the Commission's forecast) and different levels for the output gap. The latter leads to different measures of the cyclical component of the deficit (the cycle worsens the structural balance by 0.3% of GDP in the Commission's forecast).

The stability programme projects a surplus in the headline deficit over the stability programme horizon reaching 0.4% of GDP in 2020. This stands in contrast with the 2016 stability programme, which projected the deficit of -0.4% of GDP at the end of the programme horizon in 2019. The 2017 stability programme frontloads the effort and projects the largest year-on-year decline in the structural deficit for 2017. The improvement in the structural deficit is based on a considerable reduction in the expenditure to GDP ratio while the revenue to GDP ratio is expected to remain relatively constant. Neither the 2016 stability programme nor the 2017 stability programme specify the measures that underpin these projections.

The targets in the 2017 stability programme are more demanding than in previous programmes.

Table 2: Composition of the budgetary adjustment

(% of GDP)	2016	2017		2018		2019	2020	Change: 2016-2020
	COM	**COM**	**SP**	**COM**	**SP**	**SP**	**SP**	**SP**
Revenue	**43.6**	**43.4**	**43.5**	**42.9**	**43.7**	**43.0**	**42.3**	**-1.3**
of which:								
- Taxes on production and imports	14.8	14.8	14.7	14.5	14.4	14.2	14.0	-0.8
- Current taxes on income, wealth, etc.	7.5	7.5	7.4	7.5	7.4	7.4	7.3	-0.2
- Social contributions	15.0	14.8	15.2	14.6	15.2	15.2	15.2	0.2
- Other (residual)	6.3	6.3	6.2	6.3	6.7	6.2	5.8	-0.5
Expenditure	**45.5**	**44.8**	**44.4**	**44.0**	**43.9**	**42.8**	**41.8**	**-3.7**
of which:								
- Primary expenditure	42.3	41.8	42.0	41.3	41.8	40.8	40.0	-2.3
of which:								
Compensation of employees	11.5	11.5	11.4	11.5	11.2	11.0	10.9	-0.6
Intermediate consumption	6.5	6.4	6.3	6.2	6.1	6.0	5.8	-0.7
Social payments	18.0	17.5	17.5	17.0	17.3	17.1	17.0	-1.0
Subsidies	0.8	0.9	0.9	1.0	1.0	0.8	0.8	0.0
Gross fixed capital formation	3.0	3.1	3.5	3.3	3.8	3.8	3.5	0.5
Other (residual)	2.4	2.3	2.3	2.2	2.4	2.2	2.0	-0.4
- Interest expenditure	3.2	3.0	2.4	2.8	2.1	2.0	1.8	-1.4
General government balance (GGB)	**-1.8**	**-1.4**	**-0.8**	**-1.2**	**-0.2**	**0.2**	**0.4**	**2.2**
Primary balance	**1.4**	**1.6**	**1.6**	**1.6**	**1.9**	**2.2**	**2.2**	**0.8**
One-off and other temporary	0.0	-0.2	-0.4	-0.1	-0.4	-0.3	-0.2	-0.2
GGB excl. one-offs	**-1.8**	**-1.2**	**-0.4**	**-1.1**	**0.2**	**0.5**	**0.6**	**2.4**
Output gap[1]	-0.4	1.4	1.1	2.5	1.9	1.9	1.6	2.0
Cyclically-adjusted balance[1]	-1.7	-2.0	-1.3	-2.4	-1.1	-0.7	-0.4	1.3
Structural balance[2]	**-1.7**	**-1.8**	**-0.9**	**-2.3**	**-0.7**	**-0.4**	**-0.2**	**1.5**
Structural primary balance[2]	1.6	1.2	1.5	0.5	1.4	1.6	1.6	0.1

Notes:

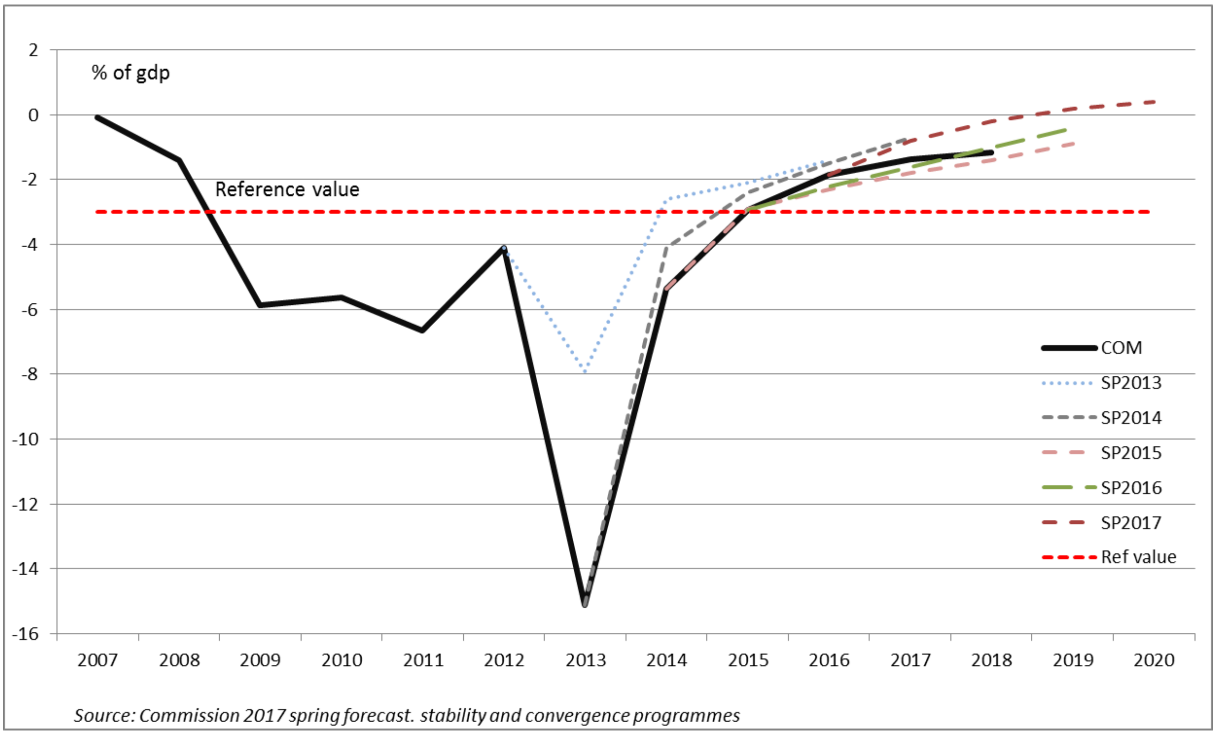
[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

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

Source :

Stability Programme (SP); Commission 2017 spring forecasts (COM); Commission calculations.

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



3.3. MEASURES UNDERPINNING THE PROGRAMME

The stability programme indicates the areas in which the authorities will seek to generate savings and efficiency gains. Nevertheless, the specific measures and timeline for their introduction are not always specified. Measures underpinning the stability programme remain largely unchanged from the 2017 Draft Budgetary Plan. On the revenue side, the authorities indicate that the measures will address the tax burden on labour. Measures envisaged include restructuring of taxes, removing administrative and anti-competitive barriers and further improving the efficiency of the tax collection. The authorities also plan to introduce a new real estate tax. No timeline or evaluation of these measures has been provided.

On the expenditure side, the authorities indicate that the measures to reduce the general government deficit will be related to compensation of employees and social benefits. The temporary measures to contain the growth of public wages, which entered into force in 2009, started to be reversed in 2016. For 2017, the authorities reached an agreement with the trade unions to reverse only some measures, namely the value of the salary scales, promotions, partial pay for annual leave and pension premiums. The stability programme projects a 3.8% increase in the compensation of public sector employees in 2017, this growth rate is lower than it would be if all the measures currently in place to contain public wage growth were withdrawn. However, no agreement has been reached with the trade unions for 2018 and beyond and negotiations are still ongoing.

In 2017, the Commission's spring forecast includes one-offs amounting to 0.2% of GDP compared to 0.4% of GDP in the stability programme. These are one-offs on the expenditure side and deficit improving. They concern the interest expenditure pertaining to the court ruling regarding interest compensation to repay deposit holders of Ljubljanska Banka (also included in 2018) and the court case of the Fund for Craftsmen and Entrepreneurs (FCE). For 2018, the Commission's spring forecast includes one-offs amounting to 0.1% of GDP compared to 0.4% of GDP in the stability programme. Until detailed information is put forward, the additional one-offs of the stability programme cannot be assessed and taken into account by the Commission. Furthermore, the stability programme includes 0.3% of GDP of revenue mandated by law, which is not specified in the stability programme.

Main budgetary measures (in % of GDP)

Revenue	**Expendıture**
2016	
• Temporary personal income tax bracket taxed at 50% in 2016-17 (0.04% of GDP in 2016) • Introduction of cash registers – to fight grey economy (0.1% of GDP) • VAT increase made permanent (0.1% of GDP)	• Investment on the main regional roads (+0.03% of GDP in 2016, 0.05% - 0.1% of GDP in 2017, 0.1% of GDP in 2018) • Limit of recreational pension allowance (-0.1% of GDP) • More efficient public procurement (-0.1% of GDP)
2017	
• Efficiency of tax collection (0.3% of GDP) • Increase in the corporate tax rate from 17% to 19% (0.1% of GDP) • Decrease in the personal income taxes and in taxation of bonuses paid by employers (-0.3% of GDP)	
Note: 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

After the almost fourfold increase in public debt since 2008 (from 21.6% of GDP in 2008 to 83.1% of GDP in 2015), the public debt started to decrease in 2016 when its ratio to GDP decreased to 79.7% of GDP. Both the stability programme and the Commission's 2017 spring forecast expect the debt ratio to decrease further in 2017 and 2018. The 3.4 pps. decrease in the debt ratio in 2016 was higher than the projected 2.9 pps.in the 2017 Draft Budgetary Plan and in the 2016 stability programme (to 80.2% of GDP in both). The decline in the debt ratio was due to economic recovery, improvement in the general government deficit and the reduction of the previously accumulated cash buffers. The latter are estimated to have decreased from 16 % of GDP at the end of 2015 to 13 % of GDP at the end of 2016.

In 2017 and 2018, public debt is projected to stand at 77.0% and 74.3% of GDP respectively. These projections are below the ones in the 2017 Draft Budgetary Plan and in the previous stability programme (at 78.2% and 76.5% of GDP in both).

In 2017 and 2018, the stability programme projections for the public debt ratio are somewhat below the Commission's 2017 spring forecast. This is mainly due to a different snowball effect stemming from different projections of interest expenditure.

Table 3: Debt developments

(% of GDP)	Average 2011-2015	2016	2017		2018		2019	2020
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**67.1**	**79.7**	**77.8**	**77.0**	**75.5**	**74.3**	**70.9**	**67.5**
Change in the ratio	9.0	-3.5	-1.9	-2.7	-2.3	-2.7	-3.4	-3.4
Contributions[2] :								
1. Primary balance	**4.2**	**-1.4**	**-1.6**	**-1.6**	**-1.6**	**-1.9**	**-2.2**	**-2.2**
2. "Snow-ball" effect	**1.7**	**0.7**	**-0.7**	**-1.1**	**-0.8**	**-1.5**	**-1.1**	**-1.2**
Of which:								
Interest expenditure	2.6	3.2	3.0	2.4	2.8	2.1	2.0	1.8
Growth effect	-0.5	-2.0	-2.5	-2.7	-2.3	-2.3	-1.9	-1.8
Inflation effect	-0.5	-0.5	-1.1	-0.8	-1.3	-1.2	-1.2	-1.2
3. Stock-flow adjustment	**3.1**	**-2.8**	**0.4**	**0.1**	**0.2**	**0.7**	**-0.1**	**0.0**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

Notes:

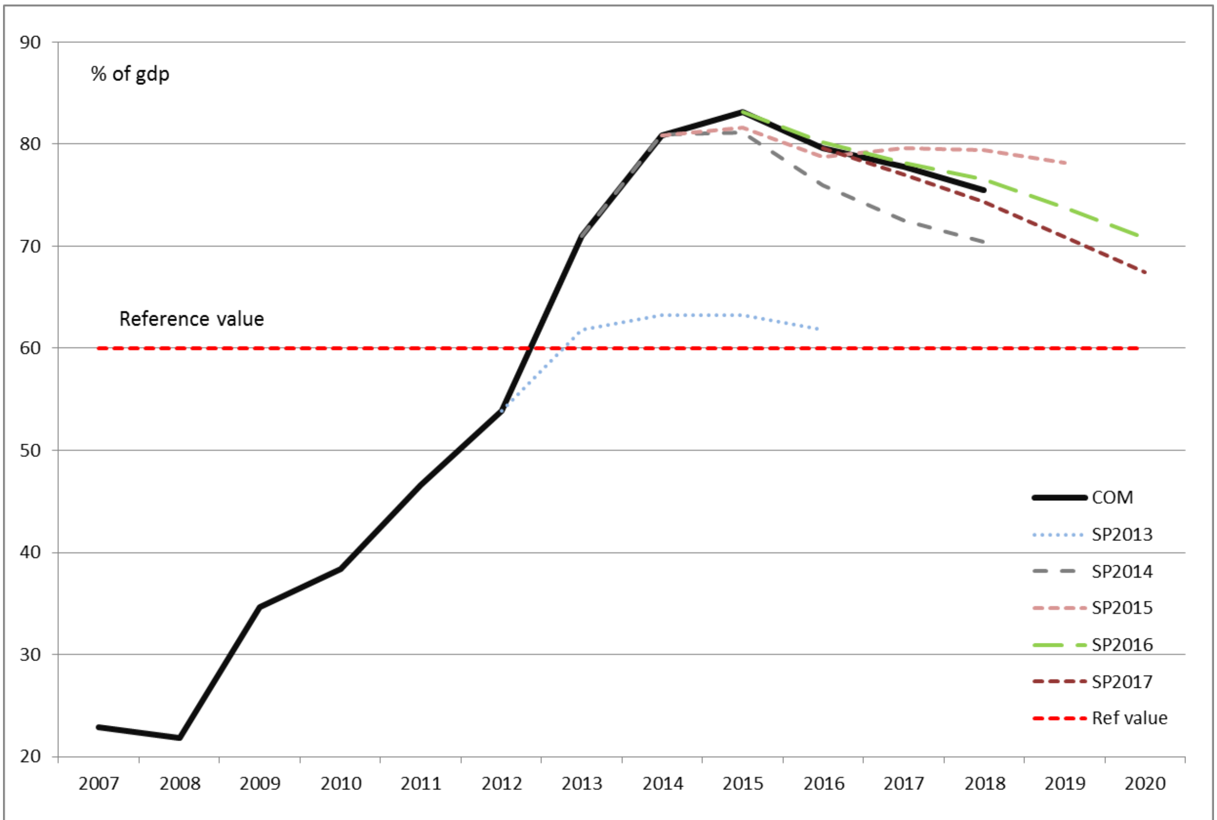
[1] End of period.

[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 2017 spring forecast (COM); Stability Programme (SP), Comission calculations.

Figure 2: Government debt projections in successive programmes (% of GDP)



Source: Commission 2017 spring forecast. stability and convergence programmes

3.5. RISK ASSESSMENT

The risks underlying the stability programme deficit projections are primarily on the expenditure side, particularly on public wages and social transfers, the activities of the Bank Asset Management Company (BAMC) and unforeseen one-off expenditure items. In addition, the lack of concrete measures which have an impact on the structural effort constitutes a risk to the programme implementation. On the revenue side, the main risks are related to external factors and are tilted on the upside.

The key risk to the structural balance targets is that the measures to produce the required structural effort are not specified in the programme. Both the specific structural measures and the timeline for their implementation are unclear. The stability programme indicates that the authorities plan to gradually phase-out the temporary measures which limit the increase of public wages, while the Commission's forecast considers a full reversal of these measures in 2018 until an agreement is reached with the trade unions. As already mentioned, further expenditure pressures on social transfers could arise, notably if an annual bonus for all pensioners was to be considered.

An additional risk to the headline deficit targets is the emergence of unexpected expenditure one-offs and possible expenditure slippages. In the past, the materialisation of one-off expenditures in particular with respect to the financial sector restructuring, but also following unfavourable court rulings, have resulted in sizeable increases in the deficit. Over 2013-16, one-offs contributed to more than 10% of GDP to the total deficit.

A risk to the deficit projections arises from the impact of the activities of the BAMC. In 2015, the BAMC undertook several activities as part of the work out of its loan book. These included debt for equity swaps, debt for real estate swaps and debt write offs. The outturn data for 2015 indicates that total capital transfers arising from the operations of the BAMC in 2015 amounted to 1% of GDP, instead of 0.2% expected previously. In 2016, the adverse impact on the general government of the activities of BAMC decreased significantly, to 0.1% of GDP. However, there are still risks linked to the market conditions. Additionally, it is difficult to predict the impact of the BAMC transactions on the national accounts due to the complexity linked to their statistical treatment.

Risks to the growth outlook are tilted to the upside. Upside risks are primarily domestic, as improving sentiment, better access to credit and positive decisions regarding some large investment projects under consideration could increase investment more than expected. The risks to the downside are mainly external and relate to the future development of energy and raw materials prices. There are also risks associated with the dynamics of public investment (and absorption of EU funds).

With respect to the projected level of debt in Slovenia, if the deficit targets and the reduction of the precautionary cash-buffers planned in the stability programme do not materialise, debt levels could be higher throughout the programme's horizon.On the other hand, proceeds from the ongoing privatisation process represent a positive risk to the projected debt levels. According to the stability programme, the level of guarantees provided by Slovenia will fall considerably over the programme horizon, from 14.5% of GDP in 2017 to 7.7% of GDP in 2020. Within this, the amount of guarantees to the financial sector is projected to fall from 1.6% to 1.4% of GDP.

4. Compliance with the provisions of the stability and Growth Pact

Box 1. Council recommendations addressed to Slovenia

On 12 July 2016, the Council addressed recommendations to Slovenia in the context of the European Semester. In particular, in the area of public finances, the Council recommended Slovenia to "achieve an annual fiscal adjustment of 0,6 % of GDP towards the medium-term budgetary objective in 2016 and in 2017. Set a medium-term budgetary objective that respects the requirements of the Stability and Growth Pact.".

4.1. Compliance with the debt criterion

As Slovenia was under the excessive deficit procedure (EDP) on 8 November 2011, it is under the transitional debt rule and therefore subject to the Minimum Linear Structural Adjustment (MLSA) in the three years following the EDP abrogation in 2016.

According to the stability programme, Slovenia is expected to be compliant with the transitional debt rule in 2017. Specifically, the recalculated structural effort of 0.6% of GDP in 2017 is considerably above the required MLSA of -0.8% of GDP. For 2018, the recalculated structural effort underpinning the stability programme also indicates compliance with the transitional debt rule.

This is confirmed based on the Commission's 2017 spring forecast. Slovenia is expected to be compliant with the transitional debt rule in 2017, when the structural effort (0.1% of GDP) is above the required adjustment (-1.3% of GDP). In 2018, the structural effort also indicates compliance with the transitional debt rule.

Table 4: Compliance with the debt criterion

	2016	2017		2018	
		SP	COM	SP	COM
Gross debt ratio	**80**	**77.0**	**77.8**	**74.3**	**75.5**
Gap to the debt benchmark [1,2]					
Structural adjustment [3]	0.4	0.6	-0.1	0.2	-0.5
To be compared to:					
Required adjustment [4]	-0.6	-0.8	-1.3	-3.3	-3.2

Notes:

[1] Not relevant for Member Sates 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 (S/CP) budgetary projections for the previous years are achieved.

Source :
Commission 2017 spring forecast (COM); Stability Programme (SP), Comission calculations.

4.2. Compliance with the adjustment path towards the MTO

In the 2017 stability programme, Slovenia confirms that the budgetary impact of the exceptional inflow of refugees was significant in 2016 and provides adequate evidence of the scope and nature of these additional budgetary costs. The associated expenditure is estimated at 0.07% of GDP in 2016 and the required adjustment towards the medium-term budgetary objective for 2016 is reduced to take into account these costs. In the same programme, the same request was made for 2017, also for 0.07% of GDP, of which the Commission will only consider the incremental impact, amounting to 0.01% of GDP. A final assessment, including on the eligible amounts, will be made in spring 2018 on the basis of observed data as provided by the Slovenian authorities for 2017.

In 2016, the structural balance is projected to have improved by 0.4% of GDP, pointing to a risk of some deviation from the recommended adjustment of 0.6% of GDP (deviation of -0.2% of GDP). The growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to have been in line with the expenditure benchmark, leading to compliance. This calls for an overall assessment. The fiscal effort as calculated by the improvement in the structural balance is biased due to revenue windfalls and volatility in public investment. The expenditure benchmark is considered to be the more appropriate indicator of Slovenia's underlying fiscal effort. Therefore, Slovenia complied with the requirements of the preventive arm in 2016.

For 2017, based on the stability programme, the projected improvement of 0.6% of GDP in the recalculated structural balance points to compliance with the recommended structural adjustment. The growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to be below the expenditure benchmark, also pointing to compliance in 2017 (no deviation). In addition, over 2016 and 2017 taken together, both pillars point to compliance (no deviation). Therefore, Slovenia is expected to comply with the requirements of the preventive arm in 2017.

Based on the Commission's 2017 spring forecast, the projected deterioration of 0.1% of GDP in the structural balance points to a risk of a significant deviation from the recommended structural adjustment of 0.6% of GDP in 2017. The growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the expenditure benchmark, pointing to a risk of some deviation in 2017 (deviation of almost -0.5% of GDP). In addition, over 2016 and 2017 taken together, both pillars point to a risk of significant deviation. While the structural balance pillar points to a deviation of -0.5% of GDP, the expenditure benchmark points to a deviation of -0.3% of GDP. Thus, an overall assessment must be carried out. In 2017, the structural balance is negatively affected by revenue shortfalls. The expenditure benchmark is considered to be a more appropriate indicator of Slovenia's underlying budgetary position. Turning to the expenditure benchmark, as the reference rate reflects a lower potential growth rate than the one from the spring forecast, it is considered to underestimate the fiscal effort. Taking into account this factor, the deviation of the expenditure benchmark from the requirements would be smaller. Therefore, the assessment over the two-year period also points to the risk of some deviation. The overall assessment thus points to a risk of some deviation in 2017. This conclusion does not change if the budgetary impact of the exceptional inflow of refugees is deducted from the requirement.

In 2018, according to the stability programme, the projected improvement of 0.2% of GDP in the structural balance points to a risk of a significant deviation from the recommended structural adjustment of 1.0% of GDP. The growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to be below the expenditure benchmark, pointing to compliance in 2018. In addition, over 2017 and 2018 taken together, while the structural balance points to significant deviation (-0.4% of GDP), the expenditure benchmark points to compliance (0.2% of GDP). This calls for an overall assessment. In 2018, the structural balance is biased, mostly due to revenue shortfalls. The expenditure benchmark is considered to be a more appropriate indicator of Slovenia's underlying budgetary position. The expenditure benchmark indicates compliance both in the one-year assessment and over the two years. Therefore, the overall assessment thus points to compliance in 2018.

In 2018, based on the Commission 2017 spring forecast, the projected deterioration of 0.5% of GDP in the structural balance points to a risk of a significant deviation from the recommended structural adjustment of 1.0% of GDP. The growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the expenditure benchmark, also pointing to a risk of significant deviation in 2018 (deviation of -1.1% of GDP). In addition, over 2017 and 2018 taken together, both pillars point to a risk of significant deviation. This calls for an overall assessment. In 2018, the structural balance is negatively affected by revenue shortfalls. The expenditure benchmark is considered to be a more appropriate indicator of Slovenia's underlying budgetary position. Turning to the expenditure benchmark, as the reference rate reflects a lower potential growth rate than the one from the spring forecast, it is considered to underestimate the fiscal effort. Taking into account this factor, the deviation of the expenditure benchmark from the requirements would be smaller but still point to a risk of significant deviation. The overall assessment thus points to a risk of significant deviation in 2018.

These assessments are based on the matrix of preventive arm requirements agreed with the Council, which takes into account (i) the cyclical position of the economy, as assessed on the basis of output gap estimates using the commonly agreed methodology as well as the projected real GDP growth rate, and (ii) debt sustainability considerations. Given the current cyclical conditions and the significant uncertainty surrounding them, it is important that the fiscal stance strikes the right balance between both safeguarding the ongoing recovery and ensuring the sustainability of Slovenia's public finances. The Commission noted that, in carrying out its future assessments, it stands ready to use its margin of appreciation in cases where the impact of large fiscal adjustment on growth and employment is particularly significant. In that context, it will make use of any updated information regarding the projected position in the economic cycle of each Member State and work closely with the Council to that effect.

Table 5: Compliance with the requirements under the preventive arm

(% of GDP)	2016	2017		2018	
Initial position[1]					
Medium-term objective (MTO)	0.0	0.3		0.3	
Structural balance[2] (COM)	-1.7	-1.8		-2.3	
Structural balance based on freezing (COM)	-1.7	-1.8		-	
Position vis-a -vis the MTO[3]	Not at MTO	Not at MTO		Not at MTO	
(% of GDP)	**2016**	**2017**		**2018**	
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Required adjustment[4]	0.6	0.6		1.0	
Required adjustment corrected[5]	0.5	0.6		1.0	
Change in structural balance[6]	0.4	0.6	-0.1	0.2	-0.5
One-year deviation from the required adjustment [7]	-0.2	0.0	-0.7	-0.8	-1.5
Two-year average deviation from the required adjustment [7]	-0.1	0.0	-0.5	-0.4	-1.1
Expenditure benchmark pillar					
Applicable reference rate[8]	-0.6	-0.7		0.6	
One-year deviation adjusted for one-offs[9]	0.0	0.0	-0.5	0.3	-1.1
Two-year deviation adjusted for one-offs[9]	0.0	0.0	-0.3	0.2	-0.8
PER MEMORIAM: One-year deviation [10]	0.0	-0.2	-0.7	0.3	-0.9
PER MEMORIAM: Two-year average deviation [10]	0.5	0.1	-0.3	0.1	-0.8
Conclusion					
Conclusion over one year	Overall assessment	Overall assessment	Significant deviation	Overall assessment	Significant deviation
Conclusion over two years	Overall assessment	Compliance	Significant deviation	Overall assessment	Significant deviation

Notes

[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 (p.p.) 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, page 38.).

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

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2014) is carried out on the basis of Commission 2015 spring forecast.

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

[8] 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.

[9] 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.

[10] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law 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 2017 spring forecast (COM); Commission calculations.

5. LONG-TERM SUSTAINABILITY

Slovenia does not appear to face fiscal sustainability risks in the short run according to the S0 indicator, which captures short-term risks of fiscal stress stemming from the fiscal, as well as the macro-financial and competitiveness sides of the economy.

Based on the Commission forecast and a no-fiscal policy change scenario beyond the forecast horizon, government debt, at 79.7% of GDP in 2016, is expected to decrease to 74.1% in 2027, thus remaining above the 60% of GDP Treaty threshold. Over this horizon, government debt is expected to have peaked in 2016. This highlights high risks for the country from debt sustainability analysis in the medium term. The full implementation of the stability programme would put debt on a decreasing path and bring it below the 60% of GDP reference value in 2027.

The medium-term fiscal sustainability risk indicator S1 is at 2.1 pps. of GDP, primarily related to the high level of government debt and the projected ageing costs contributing 1.2 pps. and 0.9 pps. of GDP respectively, thus indicating medium risks in the medium term. The full implementation of the stability programme would reduce the sustainability risk indicator S1 to -0.1 pps. of GDP. Overall, risks to fiscal sustainability over the medium-term are, therefore, high[3] . Fully implementing the fiscal plans in the stability programme would decrease those risks.

The long-term fiscal sustainability risk indicator S2 (which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path) is at 6.2 pps. of GDP. In the long-term, Slovenia therefore appears to face high fiscal sustainability risks, primarily related to the projected ageing costs contributing 5.6 pps. of GDP. Full implementation of the stability programme would put the S2 indicator at 5.1 pps. of GDP, leading to a somewhat lower long-term risk.

[3] For detailed information on the analysis and conclusions see Annex A8 "Assessment of fiscal sustainability challenges: criteria used": European Commission, Debt Sustainability Monitor 2016, available at https://ec.europa.eu/info/publications/debt-sustainability-monitor-2016_en

Table 6: Sustainability indicators

Time horizon				No-policy Change Scenario		Stability / Convergence 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				**HIGH risk**			
	DSA [2]			HIGH risk			
	S1 indicator [3]			2.1	MEDIUM risk	-0.1	LOW risk
	of which						
		Initial Budgetary Position		0.1		-1.7	
		Debt Requirement		1.2		0.7	
		Cost of Ageing		0.9		0.9	
		of which					
			Pensions	0.4		0.5	
			Health-care	0.3		0.3	
			Long-term care	0.2		0.2	
			Other	0.0		0.0	
Long Term				**HIGH risk**		**MEDIUM risk**	
	S2 indicator [4]			6.2		5.1	
	of which						
		Initial Budgetary Position		0.6		-0.7	
		Cost of Ageing		5.6		5.7	
		of which					
			Pensions	3.4		3.5	
			Health-care	0.9		0.8	
			Long-term care	1.0		1.0	
			Other	0.3		0.4	

Source: Commission services; 2017 stability/convergence programme.

Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2017 forecast covering until 2018 included. The 'stability/convergence 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 2015 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 2031. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2019 for No-policy Change scenario and from last available year for the SCP 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 2015 and Debt Sustainability Monitor 2016.

6. FISCAL FRAMEWORK

The Fiscal Rules Act (FRA) was passed by the Slovenian Parliament and entered into force in July 2015. The Act introduced a numerical rule, which establishes limits for general government expenditure that vary depending on whether there is a positive or negative output gap. Overall, growth in expenditure should be contained to below growth in revenue taking into account where the economy is in the cycle as measured by the output gap. However, this rule is only applicable after the country has reached its medium-term objective (MTO). Given that the stability programme only envisages this to happen in 2020, the rule is therefore not applicable over the programme horizon. According to the FRA, during the period when Slovenia converges towards the MTO the adjustment path should be in line with the requirements of the Stability and Growth Pact (SGP). A detailed assessment of this is provided in Section 4.2. Based on the information provided in the stability programme, the planned fiscal performance in Slovenia appears to be only partially compliant with the requirements of the applicable national fiscal rules.

The FRA also provides the legal basis for the establishment of a Fiscal Council, an independent state authority that will - among other things – monitor the respect of the above-mentioned rule. Despite the Act providing for the commencement of the appointment of the Fiscal Council within fifteen days of the act coming into force, the members of the Fiscal Council were only appointed on 21 March 2017. In the context of the 2017 stability programme and the budgetary framework for the period 2018-2020, the Fiscal Council issued an Opinion urging the government to take further structural measures in order to be compliant with the fiscal rules.

According to the national authorities, in order to make the Fiscal Rules Act fully operational, amendments to the Public Finance Act are necessary. Moreover, the revised Public Finance Act constitutes one of the legal vehicles transposing into the national legislation the EU Directive 2011/85 on requirements for national budgetary frameworks, which Member States were obliged to complete by the end of 2013. Initially the government committed to having the revised Public Finance Act adopted within six months following the adoption of the Fiscal Rules Act. However, this deadline was repeatedly postponed and the revised act has not yet been submitted to the Parliament for deliberation.

The stability programme indicates that it constitutes the national medium-term fiscal plans (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 2017 Forecast of Economic Trends produced by IMAD and was made available to the Ministry of Finance on 31st March 2017. The independent status and tasks of IMAD are stipulated in a specific Resolution. IMAD produces economic forecasts twice a year (in March and October) to underpin the stability programme in April and the draft budget in autumn, and additional forecasts to support other possible planning documents (i.e. supplementary budgets).

7. SUMMARY

The medium-term budgetary objective — a balanced budget in structural terms, an objective which does not respect the requirements of the Stability and Growth Pact — is planned to be reached by 2020. However, based on the recalculated structural balance, the medium-term budgetary objective would not be met by the programme horizon.

In 2016, Slovenia complied with the recommended adjustment path towards the MTO.

In 2017, based on the stability programme Slovenia is expected to meet the requirements under the preventive arm of the SGP. However, based on the Commission spring forecast there is a risk of some deviation from the adjustment path towards the MTO.

In 2018, based on the stability programme Slovenia is expected to meet the requirements preventive arm of the SGP. However, based on the Commission spring forecast there is a risk of significant deviation from the adjustment path towards the MTO.

With respect to the debt criterion, both the stability programme and the Commission 2017 spring forecast indicate sufficient progress towards compliance with the debt criterion in 2017 and 2018.

8. ANNEXES

Table I. Macroeconomic indicators

	1999-2003	2004-2008	2009-2013	2014	2015	2016	2017	2018
Core indicators								
GDP growth rate	3.8	4.9	-1.9	3.1	2.3	2.5	3.3	3.1
Output gap [1]	0.1	3.9	-3.7	-3.3	-1.8	-0.4	1.4	2.5
HICP (annual % change)	7.4	3.6	2.0	0.4	-0.8	-0.2	1.5	1.8
Domestic demand (annual % change) [2]	3.7	4.7	-3.7	1.8	1.4	2.4	3.5	3.5
Unemployment rate (% of labour force) [3]	6.6	5.6	8.1	9.7	9.0	8.0	7.2	6.3
Gross fixed capital formation (% of GDP)	26.3	27.8	21.0	19.6	19.5	18.4	19.1	19.8
Gross national saving (% of GDP)	25.0	27.3	22.0	26.0	25.4	26.7	26.5	26.7
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-3.1**	**-1.2**	**-7.5**	**-5.4**	**-2.9**	**-1.8**	**-1.4**	**-1.2**
Gross debt	**25.9**	**24.8**	**48.9**	**80.9**	**83.1**	**79.7**	**77.8**	**75.5**
Net financial assets	**12.8**	**10.8**	**-4.5**	**-20.6**	**-24.5**	**n.a**	**n.a**	**n.a**
Total revenue	43.0	42.9	43.8	44.7	45.2	43.6	43.4	42.9
Total expenditure	46.1	44.1	51.3	50.1	48.1	45.5	44.8	44.0
of which: Interest	2.2	1.4	1.9	3.3	3.3	3.2	3.0	2.8
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.0**	**-6.4**	**4.1**	**6.8**	**3.4**	**2.3**	**2.9**	**2.8**
Net financial assets; non-financial corporations	**-89.5**	**-107.3**	**-117.4**	**-109.8**	**-97.4**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**7.5**	**4.2**	**6.7**	**11.0**	**9.8**	**n.a**	**n.a**	**n.a**
Gross capital formation	17.4	20.1	12.5	10.9	11.5	12.8	13.3	13.9
Gross operating surplus	17.3	19.4	18.5	19.7	19.9	19.6	19.8	20.2
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**2.7**	**4.4**	**4.8**	**4.8**	**5.7**	**5.4**	**4.9**	**4.7**
Net financial assets	**64.5**	**71.2**	**66.6**	**70.3**	**70.1**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	43.9	42.9	44.7	43.1	43.0	42.5	42.6	42.7
Net property income	1.5	1.4	1.3	1.4	1.2	0.8	0.9	0.8
Current transfers received	19.9	18.8	20.8	20.3	19.6	19.3	18.8	18.2
Gross saving	8.3	9.6	8.3	8.3	9.1	8.8	8.4	8.1
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.3**	**-3.2**	**1.4**	**6.6**	**6.4**	**6.1**	**6.4**	**6.3**
Net financial assets	**4.6**	**21.0**	**48.7**	**49.1**	**41.9**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-1.7	-1.1	3.0	7.5	9.1	9.6	9.3	8.9
Net primary income from the rest of the world	-0.1	-1.4	-0.9	-0.1	-2.3	-1.2	-1.3	-1.4
Net capital transactions	-0.2	0.0	0.6	0.4	1.0	-0.9	0.2	0.5
Tradable sector	47.2	46.8	44.6	46.7	46.9	47.4	n.a	n.a
Non tradable sector	40.1	41.0	42.3	39.6	39.5	39.0	n.a	n.a
of which: Building and construction sector	5.5	6.3	5.4	4.9	4.7	4.1	n.a	n.a
Real effective exchange rate (index, 2000=100)	90.8	93.3	98.7	95.7	93.9	94.7	94.3	94.4
Terms of trade goods and services (index, 2000=100)	103.3	101.8	99.8	99.4	100.7	101.6	101.1	101.1
Market performance of exports (index, 2000=100)	81.0	96.2	101.9	105.7	105.2	107.1	108.2	108.7

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 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 2017 spring forecast