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COMMISSION OPINION

of 21.11.2023

on the Draft Budgetary Plan of Slovenia

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(Only the Slovenian text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013[1] lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan, by 15 October, setting out the budgetary targets for the forthcoming year, and outlining the main aspects underlying the budgetary outlook for general government and its subsectors.

3. On 8 March 2023, the Commission adopted a Communication[2] providing fiscal policy guidance for 2024, which confirmed that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023.

4. On 26 April 2023, the Commission presented three legislative proposals[3] to implement a comprehensive reform of the EU fiscal framework. The central objective of the proposals is to strengthen public debt sustainability and to promote sustainable and inclusive growth through reforms and investments. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023[4] and on 27 October 2023[5], the objective is to conclude the legislative work in 2023. As a new legal framework, based on the outcome of the ongoing economic governance review, is not yet in place, the current legal framework continues to

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[1] Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, (OJ L 140, 27.5.2013, pp. 11).

[2] Communication from the Commission to the Council, 'Fiscal policy guidance for 2024', 8.3.2023, COM(2023) 141 final.

[3] Commission Proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, 26.4.2023, COM(2023) 240 final; Commission Proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, 26.4.2023, COM(2023) 241 final; Commission Proposal for a Council Directive amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, 26.4.2023, COM(2023) 242 final.

[4] Council Conclusions on 'Orientations for a reform of the EU economic governance framework' of the ECOFIN Council meeting, 14.3.2023, 6995/1/23 – REV 1.

[5] European Council meeting (26 and 27 October 2023) – Conclusions, EUCO 14/23

apply. The fiscal component of the Spring 2023 country-specific recommendations included elements of the legislative proposals of 26 April 2023 that were consistent with the existing legislation.

5. As announced in its fiscal policy guidance for 2024[6], the Commission will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with the existing legal provisions. Member States were invited to take this into account when executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024.

6. The Recovery and Resilience Facility[7] provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union’s energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level (‘REPowerEU objectives’)[8]. The Facility will strengthen the resilience and potential growth of Member States’ economies, which contributes to job creation and sustainable public finances. Part of this support takes the form of non-repayable financial support (“grants”), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.

7. Economic policy should continue to tackle the risks linked to high inflation and address long-term challenges. Despite declining, inflation in the euro area remains a key concern. It is essential that inflation continues to fall and that inflation expectations remain well anchored, with consistent monetary and fiscal policies, while remaining agile in the face of high uncertainty. In particular, emergency energy support measures taken to respond to the energy price shock should be wound down, using the related savings to reduce the government deficits, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, these should be targeted at protecting vulnerable households and firms, as well as be fiscally affordable and preserve incentives for energy savings. Furthermore, Member States should continue to preserve nationally financed public investment and ensure the effective absorption of grants under the Recovery and Resilience Facility and of other EU funds, in particular to foster the green and digital transitions.

CONSIDERATIONS CONCERNING SLOVENIA

8. On 13 October 2023, Slovenia submitted its Draft Budgetary Plan for 2024. On that basis and taking into account the Council Recommendation to Slovenia of 14 July

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[6] Communication from the Commission to the Council, ‘Fiscal policy guidance for 2024’, 8.3.2023, COM(2023) 141 final.

[7] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, (OJ L 57, 18.2.2021, p. 17).

[8] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

2023[9], the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

9. On 24 May 2023, the Commission adopted a report under Article 126(3) of the TFEU[10]. That report assessed the budgetary situation of Slovenia, as its general government deficit was planned to exceed 3 %-of-GDP Treaty reference value in 2023 according to the 2023 Stability Programme. The report concluded that the deficit criterion was not fulfilled.

10. According to the Draft Budgetary Plan, Slovenia's real GDP is projected to grow by 2.8% in 2024 (1.6% in 2023), while HICP inflation is forecast at 3.9% in 2024 (7.6% in 2023). In turn, according to the Commission 2023 autumn forecast, Slovenia's real GDP is projected to grow by 2.0% in 2024 (1.3% in 2023), while inflation is forecast at 3.9% in 2024 (7.5% in 2023).

The main differences between the two sets of projections reflect lower gross fixed capital formation and private consumption in the Commission 2023 autumn forecast for 2024.

Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be more favourable than the Commission's 2023 autumn forecast for 2024, while it is in line for 2023.

Slovenia complies with the requirement of Article 4(4) of Regulation (EU) No 473/2013, since the Draft Budgetary Plan is based on independently produced macroeconomic forecasts.

11. According to the Draft Budgetary Plan, Slovenia's general government deficit is projected to decrease to 3.8% of GDP in 2024 (from 4.5% in 2023), remaining above 3% of GDP. This decrease is mainly driven by lower subsidies due to withdrawal of the measures to mitigate the economic and social impact of high energy prices, lower capital transfers from a projected peak in 2023, and lower compensation of employees after the freezing of public sector wages. Additional one-off expenditures for reconstructions following the August 2023 floods are estimated to account for 0.8% of GDP in 2024[11]. However 0.3 pp. of these additional one-off measures are projected to be financed from the EU Solidarity Fund. The general government debt-to-GDP ratio is set to decrease to 68.9% at the end of 2024 (from 69.9% at the end of 2023).

In turn, according to the Commission 2023 autumn forecast, Slovenia's general government deficit is projected to decrease to 3.3% of GDP in 2024 (from 3.7% in 2023), while the general government debt-to-GDP ratio is set to decrease to 68.4% at the end of 2024 (from 69.3% at the end of 2023).

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[9] Council Recommendation on the 2023 National Reform Programme of Slovenia and delivering a Council opinion on the 2023 Stability Programme of Slovenia, OJ C 312, 1.9.2023, p. 224.

[10] Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 24.5.2023, COM(2023) 631 final.

[11] According to the Draft Budgetary Plan, one-off measures have a deficit-increasing impact of 1.2% of GDP in 2024 (0.6% of GDP in 2023). These one-off measures relate to short term emergency costs for reconstructions after floods in August 2023. According to the Draft Budgetary Plan one-off measures will among others finance emergency measures on public infrastructure (transport and water infrastructure), reconstruction of damaged public and private buildings and assistance to households and businesses. This is in line with the assessment embodied in the Commission 2023 autumn forecast.

For 2023, the main differences between both sets of projections reflect lower subsidies and lower gross fixed capital formation in the Commission 2023 autumn forecast, as well as lower capital transfers due to implementation risks from protracted administrative procedures for preparation of projects, limited construction capacity, and protracted tendering procedures. For 2024, the main differences between both sets of projections reflect lower capital transfers in the Commission 2023 autumn forecast as well as lower gross fixed capital formation as in 2023. These differences reflect a tendency by Slovenia to overstate planned capital spending in the budget and the emergency buffers therein. This often leads to higher current spending, notably social transfers and ad-hoc expenditure measures. For 2024, the Commission furthermore projects higher revenue from social contributions than the Draft Budgetary Plan.

12. Based on the Commission's estimates, the fiscal stance[12] is projected to be contractionary at 1.5% of GDP in 2024, following a broadly neutral fiscal stance of -0.2% in 2023.

13. The Draft Budgetary Plan assumes that expenditure amounting to 0.7% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.5% of GDP in 2023[13]. This is in line with the assumptions underlying the Commission 2023 autumn forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Slovenia. The Draft Budgetary Plan also assumes expenditure backed by loans from the Recovery and Resilience Facility, amounting to 0.2% of GDP in 2024, compared with 0.1% of GDP in 2023.

14. According to the Commission 2023 autumn forecast, taking into account the information contained in the Draft Budgetary Plan, the measures adopted to mitigate the economic and social impact of the increase in energy prices are planned to be fully wound down by the end of 2023. In addition, the Draft Budgetary Plan includes new revenue and expenditure measures for 2024 that are not directly related to energy price developments. On the revenue side, these include a freezing of personal income tax brackets and a fall in personal income tax revenue, due to a conversion of a voluntary part of the health contribution into mandatory. The expenditure measures include a freeze on social transfers, except for pensions, and on public sector salary scales, and higher transport subsidies. The aggregate cost of these measures is estimated by the Commission at -0.3% of GDP in 2024 and is expected to have a permanent impact on public finances. Furthermore, the authorities are preparing an act for reconstruction after the floods that is expected to entail additional spending needs and additional sources of revenue for 2024 and beyond. The budgetary implications of the act are not included in the Draft Budgetary Plan nor in the Commission 2023 autumn forecast.

[12] The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

[13] Slovenia received 0.4% of GDP of non-repayable support ("grants") from the Recovery and Resilience Facility by November 2023.

15. On 14 July 2023, the Council recommended that Slovenia ensures a prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure[14] in 2024 to not more than 5.5%. According to the Commission 2023 autumn forecast, Slovenia's net nationally financed primary expenditure is projected to increase by 2.9% in 2024[15], which is below the recommended maximum growth rate. This is in line with what was recommended by the Council.

16. Moreover, the Council recommended that Slovenia take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Slovenia should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.

According to the Commission 2023 autumn forecast, the net budgetary cost[16] of energy support measures is projected at 0.9% of GDP in 2023 and 0.0% in 2024 and 2025. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 0.9% of GDP in 2024, whereas net nationally financed primary expenditure[17] provides a contractionary contribution to the fiscal stance of 1.5% of GDP in that year.

The energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council. Moreover, the related savings are projected to be used to reduce the government deficit. This is in line with the Council recommendation.

17. In addition, the Council recommended that Slovenia preserves nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions.

According to the Commission 2023 autumn forecast, nationally financed public investment is projected to remain stable at 5.0% of GDP in 2024 (from 5.0% of GDP in 2023) and, therefore, it is expected to be preserved. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues

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[14] Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

[15] This takes into account 1.6% of GDP one-off measures in 2024, relating to short term emergency costs for reconstruction after floods in August 2023 (as well as 0.9% of GDP one-offs in 2023, relating to the same cause). 0.2 pps. of these one-off measures in 2023 and 0.4 pps. of them in 2024 are projected to be financed from the EU Solidarity Fund. On 14 July 2023, the Council also referred to the devastating floods that hit Italy in May 2023 and agreed that the cost of direct emergency support related to those floods would be taken into account in subsequent assessments of compliance and would, in principle, be considered as one-off and temporary measures. A similar approach has been followed with regard to the devastating floods that hit Slovenia in August 2023.

[16] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

[17] This contribution is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, as well as expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

from EU funds, including Recovery and Resilience Facility grants, is expected to increase to 1.8% of GDP in 2024 (from 1.6% of GDP in 2023).

18. Furthermore, on 14 July 2023, the Council also recommended that, for the period beyond 2024, Slovenia continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.

The Draft Budgetary Plan does not include budgetary projections beyond 2024. Public finances beyond 2024 are expected to be impacted, inter alia, by the pending act for reconstruction after the floods which will determine spending needs and additional sources of revenue and by the currently negotiated public sector wage system reform.

19. Finally, on 14 July 2023, the Council also recommended Slovenia to ensure the long-term fiscal sustainability of the healthcare and long-term care systems, as well as to rebalance tax revenues towards more growth-friendly and sustainable sources. On 21 July 2023, Slovenia adopted new legislation on long-term care that will fully enter into force by the end of 2025. A new contribution to finance long-term care will be implemented as of July 2025. The impact on long-term sustainability has not yet been fully assessed. Moreover, according to the Draft Budgetary Plan, a health-care reform is also being prepared and the guidelines for health policy in 2024 and 2025 have been presented. An act is expected to introduce measures, including of a permanent nature, to reduce the expenditure of the Health Fund. The Ministry of Labour, Family, Social Affairs and Equal Opportunities presented starting points for the pension reform to the social partners, including a possible higher retirement age, a revised pension indexation formula and changes to the calculation of the pension base. An additional pension insurance would be stipulated in a separate act. The government has submitted to the public sector trade unions starting points for the reform of the public sector pay system and an elimination of disparities in basic salaries and the negotiations are ongoing.

20. According to the Commission's forecast, the growth of net nationally financed primary expenditure is projected to respect the recommended maximum growth rate in 2024.

Moreover, according to the Commission 2023 autumn forecast, and taking into consideration the information included in Slovenia's Draft Budgetary Plan, the emergency energy support measures are expected to be wound down by the end of 2023. The related savings are projected to be fully used to reduce the general government deficit in 2024.

Furthermore, Slovenia is expected to preserve nationally financed public investment. Slovenia should also continue to ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds.

Overall, the Commission is of the opinion that the updated Draft Budgetary Plan of Slovenia is in line with the Council Recommendation of 14 July 2023.

At the same time, the Commission projects Slovenia's headline budget deficit at 3.3% of GDP in 2024, above the Treaty reference value of 3% of GDP, and the government debt ratio at 68.4% in 2024, above the Treaty reference value of 60% of GDP but 6.0 percentage points of GDP below the ratio at end 2021.

The Commission is also of the opinion that Slovenia has made some progress with regard to the structural elements of the fiscal recommendations made by the Council on 14 July 2023 and thus invites the Slovenia's authorities to make further progress.

A comprehensive description of progress made with the implementation of the Council's country-specific recommendations will be included in the 2024 Country Report and assessed in the context of the Council's country-specific recommendations to be recommended by the Commission in spring 2024.

Table: Key macroeconomic and fiscal figures

	2022	2023		2024	
	Outturn	**DBP**	**COM**	**DBP**	**COM**
Real GDP (% change)	2.5	1.6	1.3	2.8	2.0
HICP inflation (%; annual average)	9.3	7.6	7.5	3.9	3.9
General government balance (% of GDP)	- 3.0	- 4.5	- 3.7	- 3.8	- 3.3
Primary balance (% of GDP)	- 1.9	- 3.3	- 2.5	- 2.5	- 2.0
General government gross debt (% of GDP; at end-year)	72.3	69.9	69.3	68.9	68.4
	COM	**COM**		**COM**	
Fiscal stance (*) (% of GDP)	- 1.8	- 0.2		1.5	
Fiscal adjustment (**) (% of GDP)	-1.9	0.4		1.5	
Change in total net budgetary cost of energy support measures (***) (% of GDP)	1.0	- 0.1		- 0.9	
Growth in net nationally financed primary expenditure (% change) (A)				2.9	
Recommended maximum growth rate of net nationally financed primary expenditure (****) (% change) (B)				5.5	
Difference from recommended growth in net nationally financed primary expenditure (pps.) (B-A)				2.7	

Notes:

(*) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal stance.

(**) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, as well as expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net nationally financed primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal adjustment.

(***) Energy support measures less revenue from new taxes and levies on windfall profits by energy producers.

(****) According to the Council Recommendation 'on the 2023 National Reform Programme of Slovenia and delivering a Council opinion on the 2023 Stability Programme of Slovenia', (OJ C 312, 1.9.2023, p. 224).

(*****) Excess in growth of net nationally financed primary expenditure over the recommended maximum growth rate, expressed as a percentage of GDP.

'DBP' 2024 Draft Budgetary Plan, 'COM' Commission 2023 autumn forecast.

Done at Brussels, 21.11.2023

For the Commission
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