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COMMISSION RECOMMENDATION

of 5.3.2014

regarding measures to be taken by Slovenia in order to ensure a timely correction of its excessive deficit

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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficits of the Member States in the euro area[1], and in particular Article 11(2) thereof,

Whereas:

(1) According to Article 126 of the Treaty on the Functioning of the European Union (TFEU), Member States shall avoid excessive government deficits.

(2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation.

(3) On 2 December 2009 the Council decided, in accordance with Article 126(6) TFEU that an excessive deficit existed in Slovenia. On 21 June 2013 it issued a recommendation to correct the excessive deficit by 2015 at the latest[2], in accordance with Article 126(7) TFEU and Article 3 of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure[3]. To this end, Slovenia should (i) put an end to the present excessive deficit situation by 2015; (ii) reach a headline general government deficit target of 4.9% of GDP in 2013 (3.7% of GDP without 1.2% of GDP one-off expenditure to recapitalise the two largest banks as estimated in June 2013), 3.3% of GDP in 2014 and 2.5% of GDP in 2015, which was considered consistent with an annual improvement of the structural balance of 0.7% of GDP in 2013, 0.5% of GDP in 2014 and 0.5% of GDP in 2015, in order to bring the headline general government deficit below the 3% GDP threshold by 2015, based on the Commission updated 2013 Spring Forecast; (iii) rigorously implement the measures already adopted to increase mainly indirect tax revenue and reduce the public sector wage bill and social transfers, while standing ready to complement them with additional measures if their yield would prove less than foreseen or if any measure is repealed by the justice system; and (iv) specify, adopt and implement new structural consolidation measures, on top of those already included in the Commission updated 2013 Spring Forecast that are necessary to achieve the correction of the excessive deficit by 2015.

[1] OJ L 140, 27.5.2013, p. 11.

[2] All documents related to the excessive deficit procedure of Slovenia can be found at: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/slovenia_en.htm

[3] OJ L 209, 2.8.1997, p. 6.

(4) The Commission reviewed the report on effective action submitted by Slovenia on 1 October 2013 against the background of the Commission Autumn 2013 forecast, published on 5 November 2013, and concluded that Slovenia had taken effective action in 2013 and that no further steps in the Excessive Deficit Procedure were then needed. In its Opinion of 15 November 2013, the Commission also assessed that the Draft Budgetary Plan of Slovenia was compliant with no margin.

(5) The Commission 2014 Winter Forecast (Commission forecast hereafter) projects the headline deficit at 14.9% in 2013 which is above the EDP target (4.9% of GDP). However, without one-off expenditure relating to the recapitalisation of the banks, the deficit is projected at 4.6% in 2013. In 2014 the deficit is forecast at 3.9% (including 0.6% of GDP of banking recapitalisation), above the EDP requested 3.3% of GDP. On the basis of the current policy, the deficit is expected to remain above the 3% of GDP reference value in 2015.

(6) According to the Commission forecast, the general government gross debt-to-GDP ratio will reach 71.9% and 75.4% in 2013 and 2014, respectively. The sharp increase from 54.4% of GDP in 2012 results from the bank recapitalisations and the transfer of impaired banking assets to the Bank Asset Management Company (BAMC).

(7) The Commission forecast estimates the change in the structural balance at 0.4 pp and 0.3 pp. of GDP in 2013 and 2014 respectively. However, when corrected for the revenue shortfalls/windfalls and revisions in potential growth calculations, the corrected structural adjustment is estimated at 0.6 and -0.1 pp. of GDP in 2013 and 2014. This falls slightly short of the 0.7 pp. of GDP recommended for 2013 and is well below the 0.5 pp. recommended for 2014.

This assessment of the fiscal effort is complemented by a bottom-up assessment of the additional discretionary measures implemented by the authorities since the Council recommendation of 21 June 2013 and not included in the EDP baseline scenario. Based on this assessment, the fiscal effort for 2013 amounts to around 0.9% of GDP, i.e. just below the 1% of GDP of additional consolidation measures mentioned in the EDP recommendation as consistent with reaching the structural target for 2013. For 2014, the bottom-up analysis assesses the overall size of the consolidation measures adopted after the June 2013 EDP recommendation at 1% of GDP, falling short of the 1½% of GDP of additional consolidation measures requested in June 2013 EDP recommendation as consistent with reaching the structural target for 2014. The overall (cumulated) effort delivered over the period 2013-14 falls short of the recommended targets according to both the adjusted change in the structural balance (by 0.7% of GDP) and bottom-up calculations (by 0.6% of GDP).

Based on the Commission forecast, the Commission therefore considers that there are risks to the achievement of a durable correction of the excessive deficit by 2015.

(8) Regulation (EU) No 473/2013 complements the Stability and Growth Pact with an enhanced coordination and surveillance framework for budgetary policies in euro area Member States. In particular, it allows for a closer monitoring of those Member States which are in the excessive deficit procedure, in order to ensure a timely correction of excessive deficits in the euro area. In this context, it provides for the Commission to adopt a recommendation to a Member State when it detects a risk of non-compliance with the deadline recommended by the Council to correct the excessive deficit.

(9) According to Article 11(2) of Regulation (EU) No 473/2013, the Commission in its recommendation may ask for the full implementation of the measures provided for in the initial recommendations and/or the adoption of other measures within a timeframe consistent with the deadline for the correction of its excessive deficit,

HAS ADOPTED THIS RECOMMENDATION:

Slovenia should make efforts to ensure full compliance with the Council recommendation of 21 June 2013.

(i) To this end, Slovenia should take the necessary steps to ensure that the structural effort recommended by the Council is met.

(ii) Slovenia should report on measures responding to this recommendation in a dedicated section in its forthcoming 2014 Stability Programme.

This recommendation is addressed to Slovenia.

Done at Brussels, 5.3.2014

For the Commission
Olli REHN
Vice-President