EUROPEAN
COMMISSION

Brussels, 28.11.2014
SWD(2014) 8813 final

COMMISSION STAFF WORKING DOCUMENT

Analysis of the draft budgetary plan of SLOVENIA

Accompanying the document

COMMISSION OPINION

on the draft budgetary plan of SLOVENIA

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1. INTRODUCTION

Slovenia has submitted a Draft Budgetary Plan for 2015 on 15 October in compliance with Regulation (EU) No 473/2013 of the Two-Pack. Additional information, by way of annex to the plan including additional information on the specific measures underpinning the plan, was submitted on 24 October. Slovenia is currently subject to the corrective arm of the Pact. The Council opened the Excessive Deficit Procedure for Slovenia on 2 December 2009 and recommended to correct the excessive deficit by 2013. On 21 June 2013, the Council concluded that Slovenia had taken effective action but adverse economic events with major implications on public finances had occurred, and issued revised recommendations based on Article 126(7) TFEU. Slovenia was recommended to correct the excessive deficit by 2015. On 5 March 2014, the Commission addressed an autonomous recommendation to Slovenia under Article 11 of Regulation (EU) No 473/2013, considering that it was at risk of non-compliance with its obligations. In this recommendation, the Commission called on Slovenia to take the necessary steps to ensure that the structural effort recommended by the Council was met. The Council recommendation of 8 July 2014 indicated that the Stability Programme could be considered to partly respond to the Commission recommendation.

Section 2 of this document presents the macroeconomic outlook underlying the Draft Budgetary Plan and provides an assessment based on the Commission Forecast. The following section presents the recent and planned fiscal developments, according to the Draft Budgetary Plan, including an analysis of risks to their achievement based on Commission Forecast. In particular, it also includes an assessment of the measures underpinning the draft budgetary plan. Section 4 assesses the recent and planned fiscal developments in 2014-2015 (also taking into account the risks to their achievement) against the obligations stemming from the Stability and Growth Pact. Section 5 provides an analysis of implementation of fiscal-structural reforms in response to the latest country-specific recommendations adopted by the Council on 8 July 2014. Section 6 summarises the main conclusions of the present document.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The macroeconomic scenario underpinning the Draft Budgetary Plan projects real GDP to increase by 2.0% and 1.6% in 2014 and 2015, respectively. The key drivers of growth are continued strong performance of exports and gross fixed capital formation, mainly through EU funded projects. Private consumption is expected to turn positive in 2014 after several years of contraction. Following the forecast increase in GDP the labour market is expected to improve, with employment and compensation of employees per head both expected to increase in 2014 and 2015 after several years of contraction. Relative to the 2014 Stability Programme, real GDP growth for 2014 and 2015 have been revised upwards mainly due to better than expected gross fixed capital formation and improved private consumption in the first half of 2014.

Compared to the Draft Budgetary Plan, the Commission Forecast projects considerably stronger real GDP growth in 2014 (2.4% vs. 2%) and a slightly stronger growth in 2015 (1.7% vs. 1.6%), resulting from a larger contribution from exports and larger increase in gross capital formation. Assessed against currently available information, the Draft Budgetary Plan's macroeconomic scenario for both years appears cautious. Risks to the growth outlook are lower growth in public investment expenditure than anticipated and the external environment. In particular, exports in 2015 and 2016 could suffer from weakening activity in some of Slovenia’s main export partners in the Balkans and Commonwealth of Independent States (CIS).

Box 1: The macro economic forecast underpinning the budget in Slovenia

The macroeconomic scenario underpinning the Draft Budgetary Plan is the Autumn 2014 Forecast of Economic Trends produced by the Institute of Macroeconomic Analysis and Development (hereinafter IMAD) and made available to the Ministry of Finance on 17 September.

The Ministry of Finance uses IMAD's forecast to underpin its budgetary planning documents. The independent status and tasks of IMAD are stipulated in a specific Resolution. Until the adoption of the Act amending the Government of the Republic of Slovenia Act (2000), IMAD was technically a body within the Ministry of Economic Relations and Development. In accordance with this law, it was reorganised as an **independent government office** managed by a Director who answers directly to the President of the Government.

So far IMAD has produced regular economic forecasts twice a year (in March and October) to underpin the stability programme update in April and the draft budget in the autumn, and additional forecasts to support other possible planning documents (i.e. supplementary budgets).

The authorities are currently preparing an overhaul of the legislation underpinning Slovenia's fiscal framework, including independent bodies, in order to comply with the EU legal requirements on fiscal governance as well as the Treaty on Stability, Coordination and Governance in EMU. Whereas this overhaul will include the establishment of a fiscal council, it is expected that IMAD will preserve its role of a producer of macroeconomic forecasts underlying budgetary planning documents.

Table 1. Comparison of macroeconomic developments and forecasts

	2013	2014			2015		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	-1.0	0.5	2.0	2.4	0.7	1.6	1.7
Private consumption (% change)	-3.9	-0.4	0.5	0.4	0.7	1.3	0.9
Gross fixed capital formation (% change)	1.9	-0.5	4.5	4.6	1.0	2.5	2.7
Exports of goods and services (% change)	2.6	4.2	3.7	5.1	4.8	4.3	4.5
Imports of goods and services (% change)	1.4	3.5	3.1	3.0	5.2	4.2	3.5
Contributions to real GDP growth:							
- Final domestic demand	-2.0	-0.4	1.0	0.7	0.6	1.0	0.7
- Change in inventories	0.1	0.2	0.3	0.0	0.2	0.2	0.1
- Net exports	1.0	0.8	0.6	1.7	0.1	0.4	1.0
Output gap[1]	-4.8	-2.2	-2.7	-2.7	-1.7	-1.5	-1.6
Employment (% change)	-1.5	-0.4	0.6	0.4	0.0	0.4	0.6
Unemployment rate (%)	10.1	10.2	10.0	9.8	10.0	9.9	9.2
Labour productivity (% change)	0.5	0.9	1.4	2.0	0.7	1.2	1.1
HICP inflation (%)	1.9	0.3	0.3	0.4	1.1	0.6	1.0
GDP deflator (% change)	1.4	0.5	0.2	0.0	1.0	0.6	0.3
Comp. of employees (per head, % change)	1.9	0.6	0.1	0.8	1.1	1.4	1.3
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	4.8	n.a.	-4.4	6.9	n.a.	-2.8	6.8

Note:

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

Source :

Stability programme 2014 (SP); Draft Budgetary Plan 2015 (DBP); Commission 2014 autumn forecast (COM); Commission calculations.

3. RECENT AND PLANNED FISCAL DEVELOPMENTS

3.1. Deficit developments

The Draft Budgetary Plan identifies measures to contribute to the correction of the excessive deficit by 2015 and to ensure the consolidation of public finances in a sustainable manner. The general government deficit targets, stand at 4.4% and 2.8% of GDP in 2014 and 2015, respectively. Without bank support, the deficit target would stand at 3.5% of GDP in 2014. There are no one-offs included for 2015. Compared to the 2014 Stability Programme the targeted deficit is somewhat higher in 2014 and 2015. The Draft Budgetary Plan indicates this increase is driven by a larger increase in interest expenditure, a larger transfer to the pension fund and higher expenditure on gross fixed capital formation than previously anticipated.

The Commission Forecast projects the general government deficit for 2014 to be in line with the Draft Budgetary Plan forecast, at 4.4% of GDP. For 2014, the most significant change since the Stability Programme was the repealing[1] of the real estate tax by the Slovenian Constitutional Court (0.5% of GDP).

Table 2. Composition of the budgetary adjustment

(% of GDP)	2013	2014			2015			Change: 2013-2015
	COM	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**45.2**	**46.4**	***45.3***	**45.2**	**45.5**	***44.4***	**44.5**	**-0.7**
of which:								
- Taxes on production and imports	14.8	15.9	*15.3*	15.2	15.5	*15.2*	15.1	0.3
- Current taxes on income, wealth, etc.	7.2	7.5	*7.1*	7.2	7.5	*7.1*	7.2	-0.2
- Capital taxes	0.1	0.1	*0.1*	0.1	0.0	*0.0*	0.1	-0.1
- Social contributions	15.0	15.3	*14.8*	14.8	15.2	*14.7*	14.7	-0.3
- Other (residual)	8.0	7.6	*8.0*	7.9	7.3	*7.5*	7.4	-0.5
Expenditure	**59.7**	**50.5**	**49.7**	**49.6**	**47.9**	**47.2**	**47.4**	**-12.5**
of which:								
- Primary expenditure	57.2	47.1	46.3	46.2	44.6	44.1	44.2	-13.1
of which:								
Compensation of employees	12.5	12.0	11.6	11.5	11.6	11.0	11.1	-1.5
Intermediate consumption	6.8	6.5	6.4	6.4	6.5	6.4	6.2	-0.4
Social payments	19.2	19.8	18.7	18.7	19.6	18.0	18.3	-1.2
Subsidies	1.1	0.9	1.0	0.9	0.6	0.5	0.8	-0.5
Gross fixed capital formation	4.3	4.6	5.2	5.1	4.3	5.7	5.5	1.4
Other (residual)	13.3	3.3	3.5	3.5	2.0	2.5	2.3	-10.8
- Interest expenditure	2.5	3.4	3.3	3.3	3.3	3.2	3.2	0.6
General government balance (GGB)	**-14.6**	**-4.1**	**-4.4**	**-4.4**	**-2.4**	**-2.8**	**-2.9**	**11.8**
Primary balance	**-12.0**	**-0.7**	**-1.1**	**-1.1**	**0.9**	**0.3**	**0.3**	**12.4**
One-off and other temporary	-10.5	-0.9	-0.9	-0.6	0.0	0.0	0.0	10.5
GGB excl. one-offs	**-4.1**	**-3.2**	**-3.5**	**-3.8**	**-2.4**	**-2.8**	**-2.9**	**1.3**
Output gap[1]	-4.8	-2.2	-2.7	-2.7	-1.7	-1.5	-1.6	3.1
Cyclically-adjusted balance[1]	-12.3	-3.1	-3.1	-3.1	-1.6	-2.1	-2.2	10.3
Structural balance (SB)[2]	**-1.8**	**-2.2**	**-2.2**	**-2.5**	**-1.6**	**-2.1**	**-2.2**	**-0.2**
Structural primary balance[2]	0.7	1.2	1.1	0.8	1.7	1.1	1.0	0.4

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 2014 (SP); Draft Budgetary Plan 2015 (DBP); Commission 2014 autumn forecast (COM); Commission calculations.

In 2015, the Draft Budgetary Plan indicates a deficit of 2.8%, which is above the EDP target of 2.5% but below the 3% EDP reference value. The consolidation strategy focuses predominantly on expenditure cuts amounting to 2.4% of GDP. For 2015, the government has

[1] A real-estate tax, to take effect as of January 2014 and replace the existing levies, was expected to contribute an additional EUR 200 million annually however, in March 2014 the Slovenian Constitutional Court repealed the act underpinning the tax citing that the law does not specify the methods of real estate evaluation.

proposed the prolongation of several measures and a further reduction in the overall pay bill. Furthermore, it plans to achieve significant savings from centralisation of public procurement and provision of IT services, as well through changes in government subventions and financing of municipalities. On the revenue side, the government proposes measures that would generate an additional 0.3% of GDP in revenue[2].

The Commission Forecast for the deficit in 2015, which incorporates estimates of measures included in the Draft Budgetary Plan for 2015, is 2.9% of GDP. Compared to the Draft Budgetary Plan, tax revenues are broadly in line with the Draft Budgetary Plan though slightly higher given the more positive macroeconomic forecast. The reduction in compensation of employees and social payments expected in the Commission's forecast is less than what is projected in the Draft Budgetary Plan, whereas the reduction in intermediate consumption is higher in the forecast. This is partly due to classification of proposed measures and that some of the wage bill measures are still under negotiation.

Risks to public finance projections are tilted to the negative side for several reasons. There are risks that the estimated yield of the measures underpinning the Plan, particularly in relation to compensation of employees are not fully realised. The deadline for the recapitalisation of Gorenjska Banka was extended until end-2014 and the state may have to provide capital if private sources cannot be found. In July 2014, the European Court of Human Rights in Strasbourg ruled that Slovenia has to repay deposit holders of Ljubljanska Banka within one year of the ruling. The potential fiscal impact on the general government deficit of these two matters is unclear and is not incorporated in the Draft Budgetary Plan or the forecast.

The projected change in the structural balance[3] in the Draft Budgetary Plan is estimated at -0.4% and 0.1% of GDP in 2014 and 2015, respectively. The estimated deterioration in the structural balance for 2014 is in line with the projection in the 2014 Stability Programme while the estimated improvement in 2015 is much lower, which is consistent with its less ambitious headline deficit target for 2015. Relative to the Draft Budgetary Plan, the Commission Forecast also projects a greater deterioration in the structural balance in 2014 and a greater improvement in 2015. The driver[4] of this deviation is largely the difference in classification of one-offs measures in 2014.

3.2. Debt developments

The Draft Budgetary Plan forecasts the general government gross debt ratio to increase in 2014 to 82.2% of GDP (from 70.4% of GDP in 2013) and to increase further to 83.2% of GDP in 2015. Relative to the 2014 Stability Programme, the debt projections are higher due to a higher primary deficit and considerable pre-financing for 2015. The higher base and the projected lower primary surplus drive the difference between the Draft Budgetary Plan for 2015 from the Stability Programme. Neither the Draft Budgetary Plan nor the Commission 2014 Autumn Forecast incorporate proceeds from the ongoing privatisation process, which represents a positive risk to the debt developments.

[2] This would be achieved through the introduction of an excise duty on added sugar in drinks and an increase in the tax on financial services and insurance business.

[3] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the Draft Budgetary Plan, using the commonly agreed methodology.

[4] The Draft Budgetary Plan in its calculation of the structural balance only treats expenditure on bank recapitalisations as one-offs whereas the Commission forecast also incorporates one-offs revenues from the auction of 4G license, super dividend from State Owned Entities and the net impact of the one –off payment of promotions relating to 2011-2012.

Table 3. Debt developments

(% of GDP)	2013	2014			2015		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**70.4**	**80.9**	**82.2**	**82.2**	**81.1**	**83.2**	**82.9**
Change in the ratio	17.0	9.2	11.8	11.8	0.2	1.0	0.7
Contributions[2]*:*							
1. Primary balance	**12.0**	**0.7**	**1.1**	**1.1**	**-0.9**	**-0.3**	**-0.3**
2. "Snow-ball" effect	**2.3**	**2.7**	**1.8**	**1.7**	**2.0**	**1.3**	**1.5**
Of which:							
Interest expenditure	2.5	3.4	3.3	3.3	3.3	3.1	3.2
Growth effect	0.5	-0.4	-1.4	-1.7	-0.6	-1.3	-1.4
Inflation effect	-0.7	-0.4	-0.1	0.0	-0.8	-0.5	-0.3
3. Stock-flow adjustment	**2.6**	**5.8**	**9.0**	**9.1**	**-0.8**	**0.0**	**-0.5**
Of which:							
Cash/accruals difference		n.a.	n.a.		n.a.	n.a.	
Net accumulation of financial		n.a.	n.a.		n.a.	n.a.	
of which privatisation proceeds		n.a.	n.a.		n.a	n.a.	
Valuation effect & residual		n.a.	n.a.		n.a.	n.a.	

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

Source:

Stability programme 2014 (SP); Draft Budgetary Plan 2015 (DBP); Commission 2014 autumn forecast (COM); Commission calculations.

3.3. Measures underpinning the draft budgetary plan

The Draft Budgetary Plan consolidates predominantly through the prolongation of expenditure measures introduced in recent years, without however specifying them. On 24 October 2014, the authorities submitted additional information, by way of an annex to the DBP, specifying the measures underpinning the Draft Budgetary Plan. However, the amount of deficit-reducing measures identified in the annex is lower than what was presented in the Draft Budgetary Plan – at 1.94% of GDP vs. 2.66% in the DBP. The Draft Budgetary Plan indicated an additional reduction in GFCF from a NPC scenario (0.35% of GDP) which was not included in the annex. Despite the reduction, the authorities still project this will increase to 5.7% of GDP in 2015 (5.2% of GDP in 2014). It also included savings of 0.94% of GDP from the pay bill whereas the annex includes pay bill specific measures amounting to 0.64% of GDP. The latter are the prolongation of several measures (as introduced in previous years) including: freeze on promotions, freeze on regular performance payments, freeze of premia for supplementary collective pension insurance, reduction in employees. Furthermore, the authorities plan to lower the bonuses for working years, Sunday work and academic titles. These measures are currently under negotiations with trade unions. The authorities plan to achieve significant savings from the centralisation of public procurement and provision of IT services (0.3% of GDP). Several measures to reduce the social payments bill amounting to

0.3% of GDP in 2015 are also incorporated in the Plan. A change in the financing[5] of the pensioner's bonus (0.1% of GDP) is envisaged, but this is deficit neutral. A reduction in transfers to municipalities (0.2% of GDP) and subsidies (0.2% of GDP) is also planned.

On the revenue side, the government proposes several measures that would generate an additional 0.3% of GDP in revenue. The temporary personal income tax bracket taxed at 50% introduced in 2013 is being prolonged for another year (0.04% of GDP), the tax on financial services introduced in 2013 will be increased from 6.5% to 8.5% (0.04% of GDP). The rate of the sales tax on insurance services will also increase from 6.5% to 8.5% (0.05% of GDP) and restrictions to exemptions from CO2 duties based on the "polluter pays" principle are being introduced (0.1% of GDP). Ongoing measures to improve tax collection efficiency (0.1% of GDP) and the introduction of an excise duty on added sugar and other additives in drinks (0.02% of GDP) complete the revenue raising measures.

The estimate of the budgetary impact of the consolidation measures specified in the annex to the Draft Budgetary Plan appears broadly plausible on current information and is to a large extent reflected in the Commission Forecast. The latter assumes lower savings from the planned expenditure measures but this is expected to be partly offset by a lower increase in GFCF in 2015.

These measures assist in the durable correction of the fiscal imbalances, as requested in the Country Specific Recommendations issued to Slovenia in July 2014. However, the structural adjustment estimated at 0.2% of GDP is lower than the requested 0.5% of GDP effort.

Table 4. Main discretionary measures reported in the DBP

A. Discretionary measures taken by General Government - revenue side

Components	Budgetary impact (% GDP) (as reported by the authorities)		
	2014	**2015**	**2016**
Taxes on production and imports	0.7	0.2	0.0
Current taxes on income, wealth,	0.1	0.0	0.0
Capital taxes	n.a.	n.a.	n.a.
Social contributions	0.1	0.0	0.0
Property Income	n.a.	n.a.	n.a.
Other	0.0	0.0	0.0
Total	0.9	0.3	0.0

Note:
The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that revenue increases as a consequence of this measure.

Source: *Draft Budgetary Plan 2015*

[5] The plan proposes that EUR19 m for pensioner's bonus is going to be provided from the pension fund, KAD.

B. Discretionary measures taken by general Government- expenditure side

Components	Budgetary impact (% GDP) (as reported by the authorities)		
	2014	**2015**	**2016**
Compensation of employees	-0.5	-0.9	0.0
Intermediate consumption	-0.2	-0.1	0.0
Social payments	-0.2	-0.6	0.0
Interest Expenditure	n.a.	n.a.	n.a.
Subsidies	0.0	-0.2	0.0
Gross fixed capital formation	0.0	-0.5	0.0
Capital transfers	0.0	0.0	0.0
Other	n.a.	n.a.	n.a.
Total	-0.9	-2.4	0.0

Note:

The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that expenditure increases as a consequence of this measure.

Source: Draft Budgetary Plan 2015

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

Box 2. Council recommendations addressed to Slovenia

On 21 June 2013, the Council recommended Slovenia under Article 126(7) of the Treaty to correct its excessive deficit by 2015. To this end, Slovenia should (i) put an end to the present excessive deficit situation by 2015; 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 is 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 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.

On 8 July 2014, 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 reinforce the budgetary strategy with sufficiently specified structural measures, for the year 2014 and beyond to ensure correction of the excessive deficit in a sustainable manner by 2015 through the achievement of the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. A durable correction of the fiscal imbalances requires a credible implementation of ambitious structural reforms to increase the adjustment capacity and boost growth and employment. After the correction of the excessive deficit, pursue a structural adjustment of at least 0.5% of GDP each year, and more in good economic conditions or to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. To improve the credibility of fiscal policy, complete the adoption of a general government budget balance/surplus rule in structural terms, make the medium-term budgetary framework binding, encompassing and transparent, and establish the necessary legal basis for a functioning fiscal council defining its remit within the budgetary process and introducing clear procedural arrangements for monitoring budgetary outcomes as soon as possible. Launch a comprehensive review of expenditure covering state and local government levels, direct and indirect budget users and municipality-owned providers of utilities and services in the area of health care by the end of 2014 with a view to realising budgetary savings in 2015 and beyond.

4.1. Compliance with EDP recommendations

The general government deficit targets in the Draft Budgetary Plan amount to 4.4% of GDP in 2014 (including bank support of 0.9% of GDP) and 2.8% of GDP in 2015. There are no one-off measures included for 2015. The deficit targeted in the Draft Budgetary Plan is higher for 2014 and 2015 than the 2014 Stability Programme. This increase, as indicated in the Draft Budgetary Plan, is driven by a larger increase in interest expenditure, larger transfers to the pension fund and higher expenditure on gross fixed capital formation than previously anticipated.

The Commission 2014 Autumn Forecast projects the general government deficit for 2014 to be in line with the Draft Budgetary Plan forecast, at 4.4% of GDP. For 2015, the deficit is projected at 2.9% of GDP which includes slightly more cautious estimates of the yields from the measures announced in the Draft Budgetary Plan. Compared to the Draft Budgetary Plan, tax revenues are slightly higher given the more positive macroeconomic forecast. Any one-offs that may emerge in 2015 pose a risk to the deficit projections.

According to the Commission 2014 Autumn Forecast, the change in the structural balance is estimated at -0.7% of GDP in 2014 and 0.3% of GDP in 2015. When adjusted for the downward revision in potential output growth since the time when the EDP recommendation was issued and the impact of the composition of economic growth and employment on revenue, the annual adjusted structural effort in 2014 (-1.1% of GDP) falls significantly short of the recommended annual structural effort (0.5% of GDP). In 2015, the adjusted structural effort is estimated to be insufficient to meet the recommended fiscal effort (0.3% of GDP vs. 0.5% of GDP). Over 2013-15 the estimated cumulative corrected structural effort (-1.2% of GDP) falls considerably short of the recommended effort (1.7% of GDP).

Based on a bottom-up assessment which estimates the size of the additional fiscal effort on the basis of the discretionary revenue measures and the expenditure developments under the control of the government between the baseline scenario underpinning the June 2013 excessive deficit procedure recommendation and the Commission 2014 autumn forecast, the fiscal effort for 2013-14 falls short of the additional consolidation measures mentioned in the June 2013 EDP recommendation as consistent with reaching the structural target. For 2013, the effort based on the latest available outturn data[6] indicates an effort of 0% of GDP vs. the recommended effort of 1% of GDP. For 2014, the effort is estimated at 1% of GDP vs. the

[6] Revisions to the historic national accounts data due to updated data sources has resulted in a revision of the estimated fiscal effort as calculated by the bottom up approach in 2013 from the 1% of GDP calculated in Spring 2014 to 0%. This technical revision does not impact the assessment of effective action already taken for 2013.

recommended effort of 1.5% of GDP. However, for 2015, the effort based on the bottom-up method is estimated as 2.1% of GDP, considerably above the recommended 1.5% of GDP.

Based on the Draft Budgetary Plan and the Commission Autumn 2014 forecast Slovenia is forecast to reduce the deficit below the 3% of GDP Treaty reference value in 2015. However, the fiscal effort underpinning this recommendation is forecast not to be met. Slovenia is therefore expected to broadly comply with the EDP recommendation.

Table 5. Compliance with the EDP recommendation

(% of GDP)	2013	2014		2015	
	COM	DBP	COM	DBP	COM
Headline balance					
Headline budget balance	-14.6	-4.4	-4.4	-2.8	-2.9
EDP requirement on the budget balance	-4.9	-3.3		-2.5	
Fiscal effort - change in the structural balance					
Change in the structural balance[1]	0.0	-0.4	-0.7	0.2	0.3
Cumulative change[2]	0.0	-0.4	-0.7	-0.2	-0.4
Required change from the EDP recommendation	0.7	0.5		0.5	
Cumulative required change from the EDP recommendation	0.7	1.2		1.7	
Fiscal effort - adjusted change in the structural balance					
Adjusted change in the structural balance[3]	-0.4	-	-1.1	-	0.3
of which: *correction due to change in potential GDP estimation (α)*	-0.5	-	-0.6	-	-0.5
correction due to revenue windfalls/shortfalls (β)	-0.1	-	-0.2	-	-0.5
Cumulative adjusted change [2]	-0.4	-	-1.5	-	-1.2
Required change from the EDP recommendation	0.7	0.5		0.5	
Cumulative required change from the EDP recommendation	0.7	1.2		1.7	
Fiscal effort - calculated on the basis of measures (bottom-up approach)					
Fiscal effort (bottom-up)[4]	0.0	-	1.1	-	2.1
Cumulative fiscal effort (bottom-up)[2]	0.0	-	1.0	-	3.2
Requirement from the EDP recommendation	1.0	1.5		1.5	
Cumulative requirement from the EDP recommendation	1.0	2.5		4.0	

Notes

[1]Structural balance = cyclically-adjusted government balance excluding one-off measures. Structural balance based on DBP are recalculated by Commission on the basis of the Draft Budgetary Plan scenario using the commonly agreed methodology. Change compared to t-1.

[2] Cumulated since the latest EDP recommendation.

3 Change in the structural balance corrected for unanticipated revenue windfalls/shortfalls and changes in potential growth compared to the scenario underpinning the EDP recommendations.

[4]The estimated budgetary impact of the additional fiscal effort delivered on the basis of the discretionary revenue measures and the expenditure developments under the control of the government between the baseline scenario underpinning the EDP recommendation and the current forecast.

Source :

Draft Budgetary Plan 2015 (DBP), Commission 2014 autumn forecast (COM), Commission calculations

5. Implementation of fiscal-structural reforms

In July 2014, the Commission addressed eight Country Specific Recommendations (CSRs) to Slovenia, including several fiscal structural reforms including enhancing Slovenia's fiscal framework, enhancing the long-term sustainability of public finances by reforming pensions and long-term care and Slovenia was requested to take decisive action to fight corruption. Slovenia's progressing in addressing all CSRs is currently being assessed in the context of the Macro Imbalance Procedure and an update will be published shortly.

With respect to tackling corruption and the fight against the grey economy, in 2013, the authorities introduced several measures aimed at strengthening tax compliance and tackling the shadow economy. In particular, measures for stricter monitoring of and limitations on cash transactions, prevention of undeclared work and employment, improved cooperation and clearer competences of inspection bodies, control of construction activities and prevention of illegal construction as well as measures for closer supervision of economic sectors subject to fraud risks. The authorities indicate that during the 12-month period to August 2014 of the 0.9% of GDP increase in VAT collected; 0.2% of GDP was a result of these measures. Furthermore, the tax and customs authorities were merged in August 2014 and the authorities expect to generate an additional 0.1% of GDP in 2015 from measures to improve efficiency of tax collection.

The Draft Budgetary Plan also indicates that a pilot project related to centralised public procurement for particular groups of pharmaceutical products, shows positive signs and that prices have decreased by 12%. While this is a step in the right direction, the comprehensive review of expenditure in the area of health care, which was due to be launched by the end of 2014, has yet to be commenced. The government now plans to undertake the expenditure review in the first half of 2015. Expenditure review in health care system would be a starting point for improving cost-effectiveness, quality and service delivery.

The Draft Budgetary Plan indicates that the pension reform, taking effect from January 2013, has shown positive initial effects despite the reform being subject to transitional arrangements until December 2014. The Ministry of Labour, Family, Social Affairs and Equal Opportunities has published an evaluation report in spring. This indicates that the inflow of new requests for pensions in first nine months of 2014 was 45% lower in in the same period of 2012 and 10% lower than in the same period of 2013, while 80% of retired people completed the full duration of working life (40 years).

In order to improve the credibility of fiscal policy, the authorities are currently preparing legislation on Fiscal Rule Act, in compliance with the Treaty on Stability, Coordination and Governance in the European Monetary Union and secondary European legislation on fiscal governance (in particular Council Directive 2011/85/EU on requirements for budgetary frameworks). The Slovenian Constitution was amended in May 2013 to provide the basis for the general government budget balance/surplus rule the amendment stipulating that the implementing act would be adopted within six months (by end November 2013). Nevertheless, Slovenia is the only country that has not transposed the directive on budgetary frameworks into its national legislation. In light of this, a reasoned opinion was issued to Slovenia on 16 October 2014 requesting they notify measures to implement the Directive within two months of receipt of the reasoned opinion. If measures are not notified, the Commission may refer Slovenia to the Court of Justice and request financial penalties. The new government's intention is to adopt the Fiscal Rule Act in January 2015.

6. OVERALL CONCLUSION

The headline deficit targets presented in the Draft Budgetary Plan for 2014 and 2015 are above the headline deficit targets recommended in June under the EDP but the 2015 deficit is below the 3% of GDP Treaty EDP reference value. The corrected structural effort is significantly short of the required effort in 2014 and short of the required structural effort in 2015. Based on a bottom-up assessment of the latest available outturn data, the fiscal effort for 2013-14 falls short of the additional consolidation measures mentioned in the June 2013 EDP recommendation as consistent with reaching the structural target. However, for 2015, the effort based on the bottom up is calculated as 2.1% of GDP, considerably above the recommended 1.5% of GDP.

Overall, the Draft Budgetary Plan of Slovenia envisages a timely correction of the excessive deficit as the headline balance is projected to be brought below 3% of GDP in 2015. However the recommended fiscal effort in structural terms is not expected to be met.

In addition, Slovenia has made limited progress with regards to the structural part of the fiscal recommendations issued by the Council in the context of the 2014 European Semester.

ANNEX. EDP RELATED TABLES

Table A1. Baseline scenario underlying the EDP recommendation

% of GDP	2012	2013	2014	2015
Revenues	45.0	45.0	44.2	43.9
Current revenues	44.6	44.3	43.5	43.1
Discretionary measures with impact on current revenue[1]	0.1	0.5	0.0	0.0
Expenditure	49.0	50.5	49.1	49.4
Real GDP growth (%)	-2.3	-2.0	-0.1	1.3
Nominal GDP growth (%)	-2.0	-0.6	1.0	3.1
Potential GDP growth (%)	-1.1	-1.1	-0.7	-0.2
Structural balance	-2.7	-2.6	-3.4	-4.7
General government balance	-4.0	-5.5	-4.9	-5.5
p.m CAB methodology revenue elasticity	0.9	0.9	0.9	0.9
p.m Apparent revenue elasticity	0.6	4.0	-0.9	0.8
p.m Output gap (% of potential output)	-2.7	-3.6	-3.1	-1.9

Note:
[1] Measures clearly specified and committed to by governments ahead of the recommendation
Source: Commission staff working document accompanying the June 2013 EDP recommendation to Slovenia

Table A2. EDP scenario underlying the EDP recommendation

% of GDP	2012	2013	2014	2015
Real GDP growth (%)	-2.3	-2.2	-1.2	0.3
Potential GDP growth (%)	-1.3	-1.4	-1.0	-0.5
Structural balance	-2.8	-2.1	-1.6	-1.1
General government balance	-4.0	-4.9	-3.3	-2.5
p.m Output gap (% of pot. output)	-2.5	-3.3	-3.5	-2.8

Source: Commission staff working document accompanying the June 2013 EDP recommendation to Slovenia

Table A3. Current estimates of the macroeconomic and fiscal developments

% of GDP	2013	2014	2015	2016
Revenues	45.2	45.2	44.5	44.0
Current revenues	44.8	44.5	43.8	43.4
Discretionary measures with impact on current revenue (EUR bn)	0.5	0.2	0.1	0.0
Expenditure	59.7	49.6	47.4	46.6
Real GDP growth (%)	-1	2.4	1.7	2.5
Nominal GDP growth (%)	0.4	2.4	2.1	3.2
Potential GDP growth (%)	-0.2	0.3	0.6	0.8
Structural balance	-1.8	-2.5	-2.2	-2.8
General government balance	-14.6	-4.4	-2.9	-2.7
p.m CAB methodology revenue elasticity	1.0	1.0	1.0	1.0
p.m Apparent revenue elasticity	-4.2	0.1	0.1	0.7
p.m Output gap (% of pot. Output)	-4.8	-2.7	-1.6	0.1
Source: Commission 2014 autumn forecast				

Table A4. Adjustment of apparent structural effort for the revision in potential growth – details of calculation

	Potential GDP growth underlying the Council Recommendation (%)	Potential GDP growth at the time of assessment (%)	Forecast error (%)	Structural expenditure (t-1) % of GDP	Correction coefficient α (% of nominal potential GDP)
	(1)	(2)	(3)=(1)-(2)	(4)	(5)=(3)*(4)/100
2013	-1.4	-0.2	-1.2	46.0	-0.5
2014	-1.0	0.3	-1.3	46.5	-0.6
2015	-0.5	0.6	-1.0	47.5	-0.5

Table A5. Adjustment of apparent structural effort for the unexpected revenue windfalls / shortfalls – details of calculation

	Change in current revenues (yoy) (billions of national currency)		Discretionary current revenue measures (billions of national currency)		Nominal GDP growth assumptions (%)		Current revenues in year t-1 (billions of national currency)		Revenue gap (billion of national currency)*	Correction coefficient β (% of nominal potential GDP)
	2013EDP	2014AF	2013EDP	2014AF	2013EDP	2014AF	2013EDP	2014AF		
	(1)	(1')	(2)	(2')	(3)	(3')	(4)	(4')	(5)=[(1')-(2')-ε*(3')*(4')]-[(1)-(2)-ε*(3)*(4)]	
2013	-0.2	0.3	0.2	0.5	-0.6	0.4	15.5	15.9	0.0	-0.1
2014	-0.1	0.3	0.0	0.2	1.0	2.4	15.3	16.2	-0.1	-0.2
2015	0.4	0.1	0.0	0.1	3.1	2.1	15.1	16.5	-0.2	-0.5