GOVERNMENT OF THE REPUBLIC OF SLOVENIA

DRAFT BUDGETARY PLAN 2017

Ljubljana, 17 October 2016

Content:

Annex (DBP tables)

1. Summary

The primary objective of Slovenian fiscal policy is to ensure sustainable but also effective public finances in medium term. The objectives for 2016 and 2017 follow the requirements and recommendations of the European Council within the framework of commitments under the Stability and Growth Pact, and are in compliance with the excessive deficit procedure and afterward with the preventive arm. In line with the EU Council recommendations from June 2013, Slovenia had to bring down the general government deficit below 3% of GDP by the end of 2015. Eurostat EDP assessment from 10TH of October 2016 shows that we have overreached our target, general government deficit was recorded at 2.7 % of GDP for 2015.

Slovenia will pursue its fiscal target of achieving general government deficit of 2.2% of GDP in 2016 and 1.3% of GDP in 2017, the headline deficit which insures path toward balanced structural balance, as is stated in constitution. Achieving this scenario in the medium term calls for a mix of fiscal responsibility and structural measures translated into material laws, support to carefully selected investment and measures to increase competitiveness.

The Draft budgetary plan for 2017 is for the first time drafted along with the Decree on general government framework 2017–2019 changes in accordance with the Fiscal Rule Act (hereinafter: FRA). As per the Act, the framework determines the target balance and the ceiling of general government expenditure for an individual fiscal year and target balances and expenditure ceilings of individual public finance budgets for the next three years, i.e. 2017, 2018 and 2019. Under this assessment, the general government structural balance is to be balanced around 2020, following policy objective of boosting economic growth beside fiscal consolidation. The objective of achieving the MTO, alongside the objective of ensuring the adequate socio-economic circumstances of individuals and boosting domestic consumption is high on agenda.

The Government of the Republic of Slovenia insists on the projected path that the structural fiscal balance will be offset around 2020 according to assessments when Slovenia's medium-term fiscal objective (MTO) will have been met. Since Slovenia has not yet achieved its MTO, the transitional period and the rule of Article 15 of the FRA apply that the structural deficit must be gradually reduced towards the MTO in a manner which will be compliant with the SGP. During the convergence period, the FRA does not provide for the speed of adjusting nor the formula for the calculation of the (upper threshold of) expenditure ceiling. According to the Government's estimate, the cyclical position of the Slovenian economy is not as favourable as assessed in the EC's calculations (particularly since the calculations of other international institutions (IMF and OECD) do not confirm the EU calculations either).

In order to be compliant with MTO path and FRA, Slovenia assumes further improvement in general government balance for 2016 by 0,7 (or 0,5 % of GDP), i.e. from -2.9% (-2,7 % GDP) in 2015 to -2,2% of GDP in 2016, corresponding to structural effort consolidation of 0.7% of GDP (or 0,5% of GDP) in 2016. To move forward on path toward MTO, structural balance will need to be reduced by 0.7% of GDP, so that fiscal effort in 2017 is fully compliant.

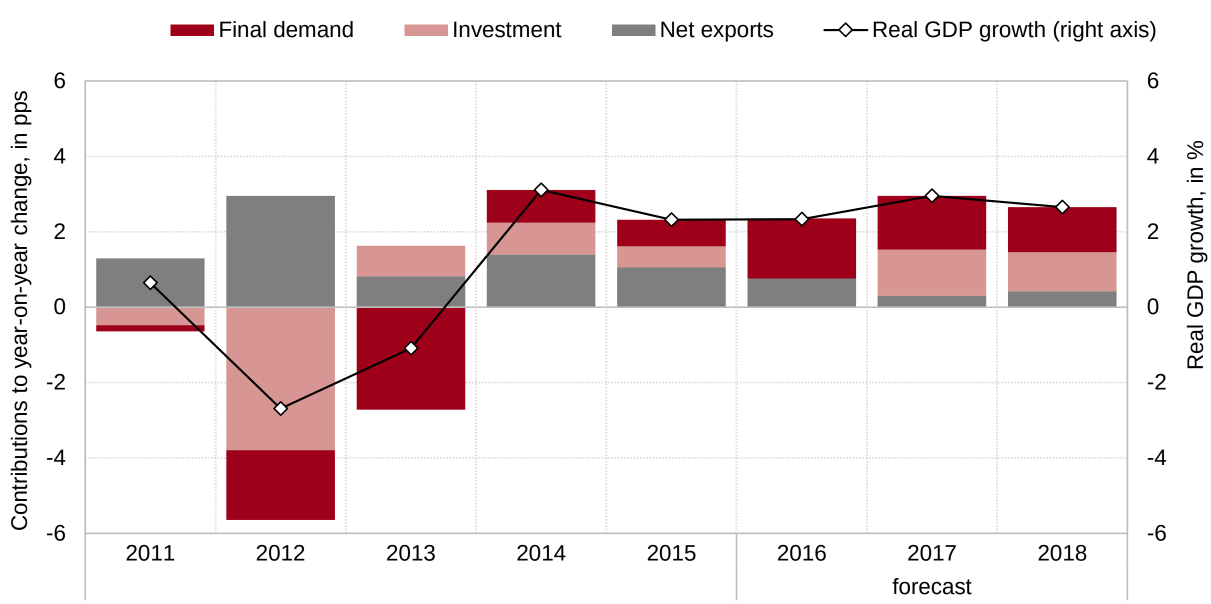
While the Republic of Slovenia exited EU excessive deficit procedure in 2015 while achieving the peak of general government debt of 83.2% of GDP, it is now committed to complying with the EU rules tackling excessive debt procedure. Slovenia intends to reduce budget cash reserves over the medium term, while in longer term continuing fiscal consolidation with adequate nominal GDP growth and privatisation will support sufficient general government excessive debt reduction.

2. Macroeconomic assumptions of the budget proposal

The macroeconomic projection for the DBP (IMAD Autumn Forecast 2016) is based on late-August 16 forecasts by international institutions, which expect economic growth in the euro area to maintain its pace and in the main trading partners outside of EU to gradually improve. As a result, foreign demand will strengthen in the period 2017–2018. For the domestic environment, the forecast assumes that stable conditions in the banking system could contribute to a gradual increase in bank lending, and that fiscal consolidation will continue.

Economic growth is expected to continue in 2016–2018 and will be more broad-based. Exports will continue to be the main driver of growth, fuelled also by competitiveness gains in the tradable sector.

Chart 1: Contributions to GDP growth



Source: SORS; Autumn forecast 2016, IMAD

At the same time the recovery of domestic demand will be gaining pace. Household consumption, supported by the marked improvement in labour market conditions and a high level of consumer confidence, will continue to grow. Throughout the period, a further growth in investment in machinery and equipment, which started in 2014, and a gradual rebound in housing investment growth are expected. With high capacity utilisation, the growth in private investment primarily reflects the favourable expectations of businesses, the persistence of low interest rates, strong business performance and the improving ratio of profit to debt. From 2017 onwards, higher growth will also be recorded for government investment co-financed by EU funds. Government consumption will also continue to increase, primarily on account of public sector pay rises, a larger number of employees and an increase in some other forms of expenditure, particularly health care.

In line with expected economic growth, favourable labour market trends will persist. Towards the end of the forecasting period, the labour market will be increasingly affected by changes in the demographic structure, particularly the contraction of the working-age population. Wages are expected to rise steadily in the private sector, but the growth rate will slow down in the public sector after 2016 (high). Consumer prices will rise in the next two years, but inflation will remain relatively low.

Estimate of output gap 2016, 2017

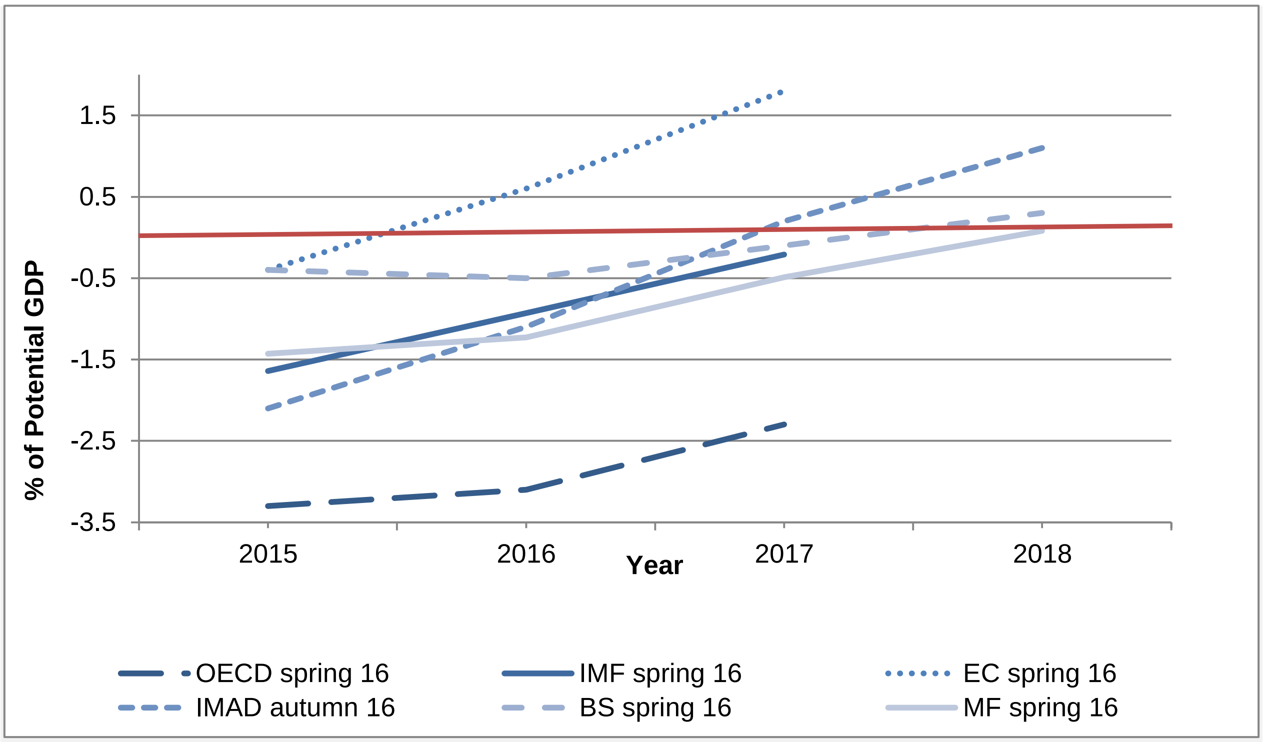
As stated by the European Commission assessment of the Slovene Stability Program 2016 there is significant uncertainty regarding the calculation of potential growth and the output gap in the case of Slovenia. This is because cyclical unemployment while decreasing is still elevated, the balance of the current account is recording large surplus (6.7% of GPD in 2016), in 2015 the economy experienced deflation and in 2016 very low inflation (0.1%), and domestic demand is recovering but still well below pre-crisis level. This suggests that Slovenian economy still has a negative output gap and a claim that Slovenian economy is overheating clearly lacks of empirical support as for example merely calculated on the basis of the EU common methodology. The economy is approaching its potential, however it is still below. Also other estimates suggest that this is the case (see chart below). According to the calculations of Ministry of finance, output gap (OG) is estimated to reach -1.23 % of GDP in 2016 and – 0.49 % of GDP in 2017.

Table 1: Output gap estimates (% of GDP)

	2015	**2016**	**2017**	**2018**
OECD spring 16	-3.3	-3.1	-2.3	
IMF spring 16	-1.64	-0.93	-0.21	
EC winter 16	-0.4	0.7	1.9	
EC spring 16	-0.4	0.6	1.8	
IMAD spring 16	-1.5	-1	-0.1	0.6
IMAD autumn 16	-2.1	-1.1	0.2	1.1
BS spring 16	-0.4	-0.5	-0.1	0.3
MF spring/autumn16	-1.43	-1.23	-0.49	0.08

The Ministry of finance and EC estimate both are made using Cobb-Douglas production function. Nevertheless, given the counterintuitive results in the estimates of output gap for Slovenia there is need of urgent work to be carried out regarding the methodology of estimates of NAWRU. Regression analysis based on plausibility test of Slovenian output gap clearly indicates that OG calculation is mostly influenced by unemployment rate and thus implicitly a high NAWRU driven by cycle. NAWRU for Slovenia is well above historical pre-crisis levels being highly influenced by the recent shocks. OG for Slovenia is closed already in 2016 with NAWRU at 8,4% (interpreted as structural unemployment).

Chart 2: Output gap estimates (% of GDP)



Source: MoF, IMAD, BoS, OECD and IMF, 2016

3. Budgetary objectives

Pursuant to FRA, Slovenian parliament adopted Decree on general government fiscal framework (budgets) 2017 – 2019. Decree was presented and adopted as parliamentarian decree and in accordance to FRA determines the expenditure ceilings for general government units and target balances for four units. General government expenditure ceiling for fiscal year 2017 is agreed at 18.419 million EUR and for 2018 at 18.537 mio EUR. Also according to FRA, up to 15th September in current year government can propose new ceilings, if it recognizes new or changed circumstances.

Table 2: General government framework, September 2016

Institutional unit	Year	GG balance (% GDP)	Max expenditure(million €)
Central government	2017	-1.7	9.527
	2018	-0.9	9.573
	2019	-0.9	9.416
Local governments	2017	0.0	1.992
	2018	0.0	2.117
	2019	0.0	2.115
Pension fund	2017	0.0	5.166
	2018	0.0	5.246
	2019	0.0	5.329
Health fund	2017	0.0	(2.573) 2.608*
	2018	0.0	(2.638) 2.687*
	2019	0.0	2.710

*new ceiling in parliamentary approval.

Source: MoF

Slovenia plans to gradually reduce the general government balance and the cyclically-adjusted balance in the medium-term period. Therefore, when planning public finance, we focus on structural measures that will have a permanent impact on the structure and efficiency of public finance. Key structural measures for attaining the objectives of public finance in the field of revenue include restructuring the burdens of public taxes, reducing administrative barriers and improving the effectiveness of collecting public taxes. In the field of public expenditure, these will be reflected in Agreement on measures in the field of salaries and other labour costs in the public sector aiming to balance public finances for the year 2016. Also social transfers will be aligned only with public finance goals (i.e. restrictions based on previous years).

When meeting the commitments of the Stability and Growth Pact and the FRA during the transitional period when the medium-term objective has not been met yet, we comply with the requirements. As reflected with numbers in table 2, the growth of general government expenditure lags behind the growth of general government revenue and potential so that a share is always ‘saved’ or earmarked for approximation to the medium-term objective. The target scenario also notes the assumption that the potential GDP growth is lower than the real GDP growth or the output gap is slowly closing (and in medium term not exceeding 1 % of GDP), which points to an additional discrepancy of the calculations made according to the applicable methodology of the European Commission.

3.1 Recent developments in public finance

Upon the revision of general government deficit for 2015 by SORS (or/and EUROSTAT) on 10th of October 2016, the deficit decreased by 0.2 percentage point of GDP to 2.7% of GDP compared to the first publication on 15th od September 2016. (also in spring 2016, deficit was firstly 2.2% of GDP, then increased to 2.9% of GDP). The change was and is again primarily the result of differences in observing transactions of one of the general government units, i.e. the Bank Assets Management Company (BAMC). The changes are the result of subsequent observance of impairments and write-offs of NPL by the BAMC.

The most significant change compared to approved state budget for year 2016 (comparing year 2016 vs. 2016 year as per DBP 2016, in October 2015) is in decrease of revenues and expenditures, especially in connection with EU funds. Overall general government balance remains at same level, i.e. -2,2 % of GDP.

On expenditure side we can recognise decreases in earmarked (-0.1 % of GDP) and EU (-0.6 % of GDP) funds. State budget balance improved also because of new nominal GDP.

Beyond governmental control are corrections of EU and also institutional units that should be under governmental control (i.e. BAMC) but are according to law independent, working on market conditions.

That is why we compare also on cash basis consolidated revenues and expenditures, where the impact is quite high (1 percentage point of GDP) But negative developments are compensated by higher revenues.

Table 3: Current estimate of general government balance 2016 and difference to approved budget in DBP 2016

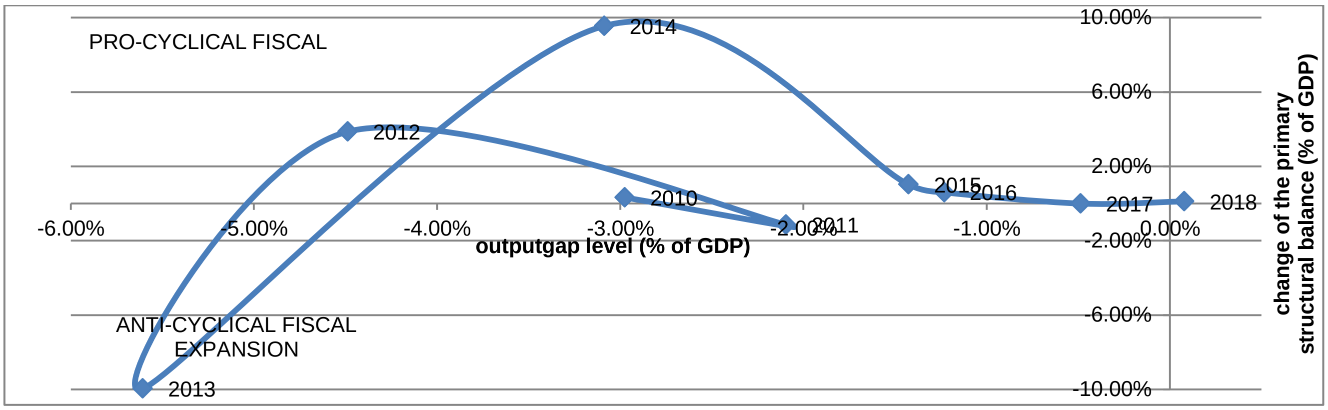
	2016		*2016*		*2017*		***difference from 2016***	
	mio EUR	*% of GDP*	mio EUR	% of GDP	mio EUR	% of GDP	mio EUR	% of GDP
GG budget balance	*-864.5*	*-2.2*	-877.9	-2.2	-521.3	-1.3	-13.4	0.0
STATE BUDGET								
Revenues:	*8,701.0*	*21.8*	8,425.0	21.3	8,846.0	21.4	-276.0	-0.5
Tax	*7,169.0*	*18.0*	7,201.4	18.2	7,374.0	17.8	32.4	0.2
Non tax	*479.0*	*1.2*	575.0	1.5	508.0	1.2	96.0	0.3
EU budget	*1,001*	*2.5*	611.7	1.5	929.0	2.2	-389.3	-1.0
Expenditures	*9,417.1*	*23.6*	9,176.1	23.2	9,527.0	23.0	-241.0	-0.4
Central budgetary funds - integral	*8325.9*	*20.9*	8365.2	21.1	8,222.0	19.9	39.3	0.3
Earmarked funds	*366*	*0.9*	333.3	0.8	316.8	0.8	-32.7	-0.1
EU funds	*725.3*	*1.8*	477.5	1.2	810.6	2.0	-247.8	-0.6
State budget balance	*-839.3*	*-2.1*	-751.0	-1.9	-681.4	-1.6	88.3	0.2
GENERAL GOVERMENT S.13 cash principle								
Consolidated revenues	*17,303.5*	*43.3*	17577.2	44.4	17,812.0	43.0	273.7	1.0
Consolidated expenditures	*18,168.0*	*45.5*	18392.8	46.4	18,333.7	44.3	224.8	0.9
Consolidated budget balance	*-941.9*	*-2.4*	-815.6	-2.1	-559.4	-1.4	126.3	0.3

Source: MoF

3.2 Structural balance and expenditure benchmark

Fiscal position of Slovenia can be presented taking into account the change of the structural primary balance and the cyclical indicator of output gap (level or year on year change – more stable since many revisions of output gap). Based on these indicators it is possible to assess the policy stance to the economic cycle (need for fiscal stimulus in bad times or significant consolidation in good times).

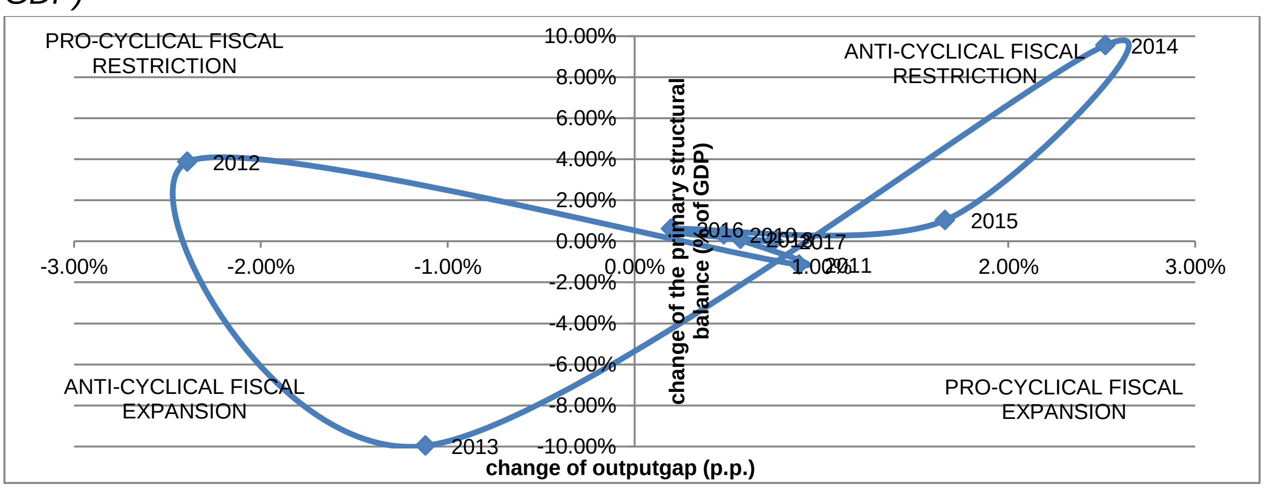
Chart 3: Change of primary structural balance compared to output gap level (% of GDP)



Source: MoF

According to these two indicators it can be said that policy in 2013 was anti cyclical fiscal followed by years of fiscal restrictions. Saving from interests payments (change in expenditure composition) are used for foster economic growth within the budget constraint given by fiscal targets in accordance with EU. Since output gap is slowly closing also in 2017 we expect moderate anti-cyclical fiscal policy or neutral.

Chart 4: Change of primary structural balance compared to output gap change (% of GDP)



Source: MoF

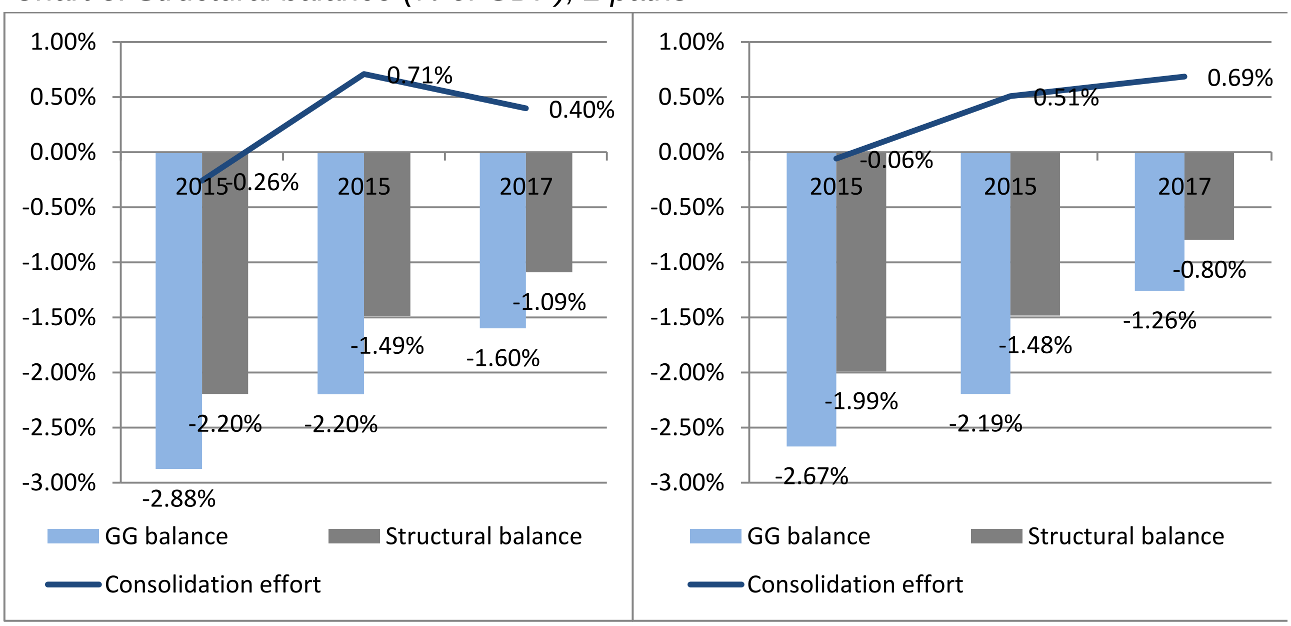
As already explained at the beginning, Slovenian estimates of output gap differ from EC, and as a consequence, the assessment of adjustment of general government balance for effects of economic cycle, differs too. Results of structural balance, i.e. general government balance under assumption that economy performs at potential level, excluding one-offs and temporary budgetary measures, are pointing at anti-cyclical fiscal restrictions. According to FRA, development of structural balance should be basis for setting fiscal targets (but also we should be compliant with SGP rules).

Structural balance

Slovenia is determined to ensure the compliance with the medium-term objective of the general government sector (but it really depends on rules for BAMC overall that cannot be subject of revision every half year).

In Draft budgetary plan 2017 two options are presented with -2.9% GDP general government balance and afterwards with -2.7% GDP deficit in 2015 as starting points. In order to be compliant with MTO path and FRA, Slovenia assumes further improvement in general government balance for 2016, by 0,7 (or 0.5 % of GDP), i.e. from -2.9% (-2.7 % GDP) in 2015 to -2.2% of GDP in 2016, which corresponds to structural effort consolidation of 0.7% of GDP (or 0.5% of GDP) in 2016. To move forward on path toward MTO structural balance will need to be reduced by 0.7% of GDP, so that fiscal effort in 2017 is fully compliant.

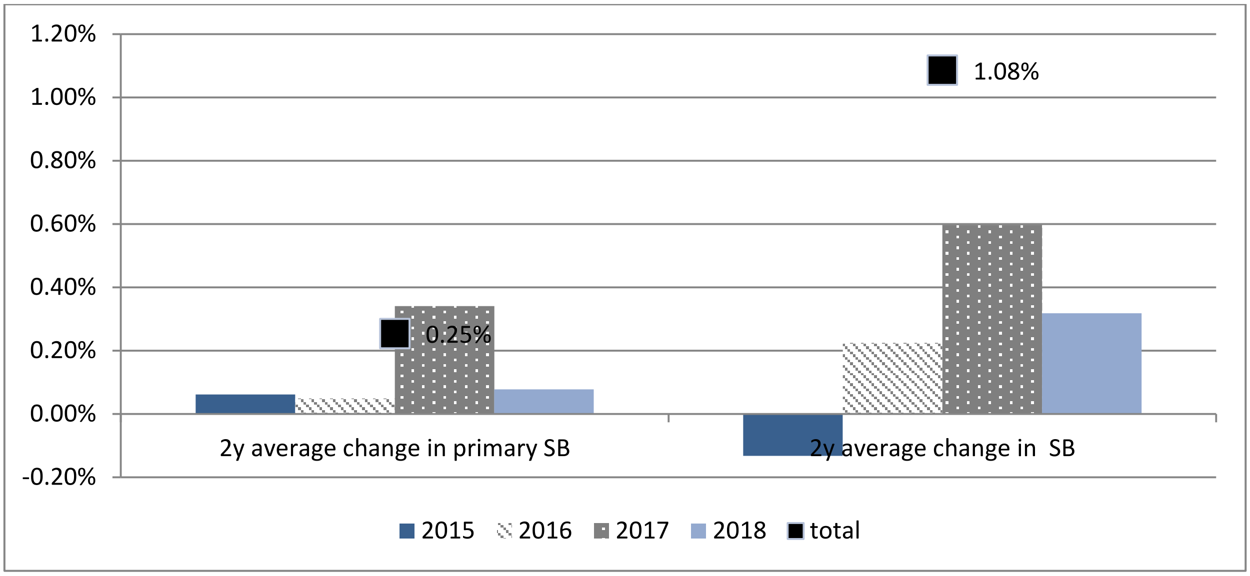
Chart 5: Structural balance (% of GDP), 2 paths



Source: MoF

If Slovenia meets its fiscal objectives, it should be approaching structural balanced budget in medium term. To achieve this objective, consolidation of structural balance in the amount of approximately 2 percentage points from 2015 on is needed. If compared year on year changes either in primary structural balance or structural balance, we can see in chart below that Slovenia moves on viable path of consolidation. From 2015 to 2017 consolidation in amount of 1.1% GDP will be achieved (considering also previous consolidation) (also year on year real scenario shows demanded effort).

Chart 6: year change in (primary) structural balance and total 3 year effort (% of GDP)



Source: MoF

Expenditure benchmark

Also expenditure aggregate as supplementary tool to structural balance is assessed in DBP. Progress in fiscal consolidation (growth of expenditure aggregate adjusted for expenditures not under governmental control – interest expenditures, changes in unemployment benefits, EU funds, 3-year average of gross fixed capital) is compared against the permitted growth reference rate. We compute nominal growth of net expenditures; translate it to real growth by means of GDP deflator (IMAD average from previous two forecasts (t-1)).

According to calculation of convergence margin (table 4) in line with SGP, the rule implies a reduction in net expenditure in 2017 of 0,04% to achieve a structural balance adjustment of 0,6%. Slovenia in case of 2017 fulfils also these criteria.

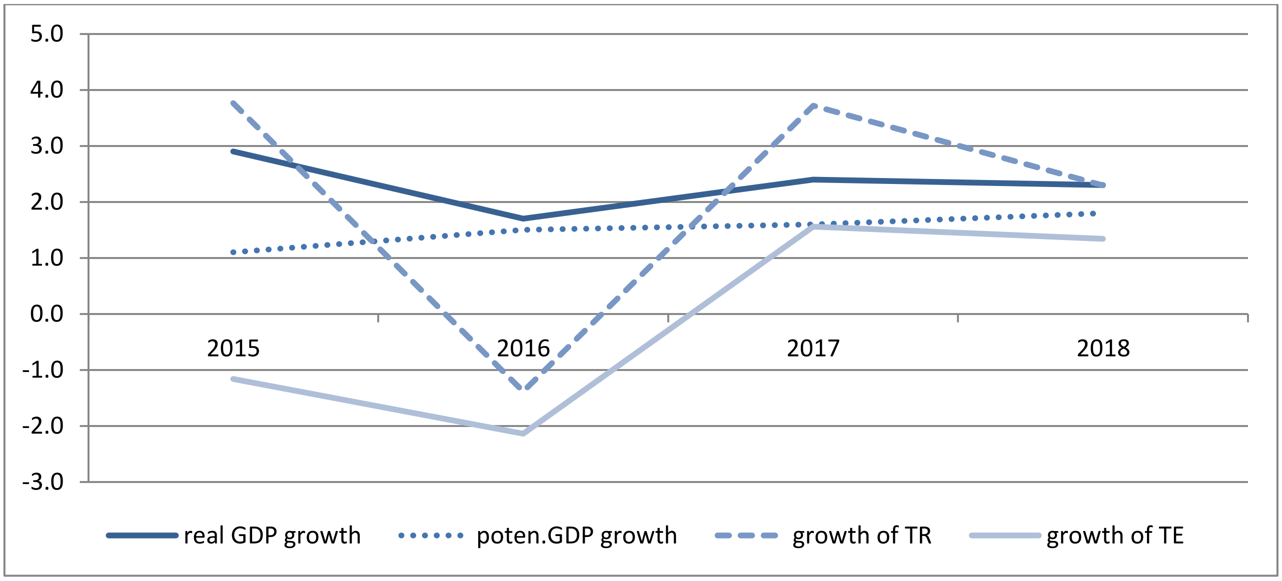
Table 4: Expenditure benchmark for Slovenia for 2017

Total expenditure as % of GDP	45.13
interest expenditure as % of GDP	2.81
Primary expenditure as % of GDP	42.32
convergence margin	1.2
convergence margin recomputed to 0,6% structural adjustment	1.42
Medium term potential growth (rr= t-5 do t+4)	1.38
Expenditure benchmark	-0.04

Source: MoF

When meeting the commitments of the Stability and Growth Pact and the Fiscal Rule Act during the transitional period when the medium-term objective has not been met yet, we comply with the requirements. As displayed in chart below, we thus observe that the growth of general government expenditure lags behind the growth of general government revenue and potential product so that a share is always 'saved' or earmarked for approximation to the medium-term objective. The target scenario also notes the assumption that the potential GDP growth is lower than the real GDP growth or the negative output gap until 2018.

Chart 7: Growth rates y-y for GDP and potential, TE in TR



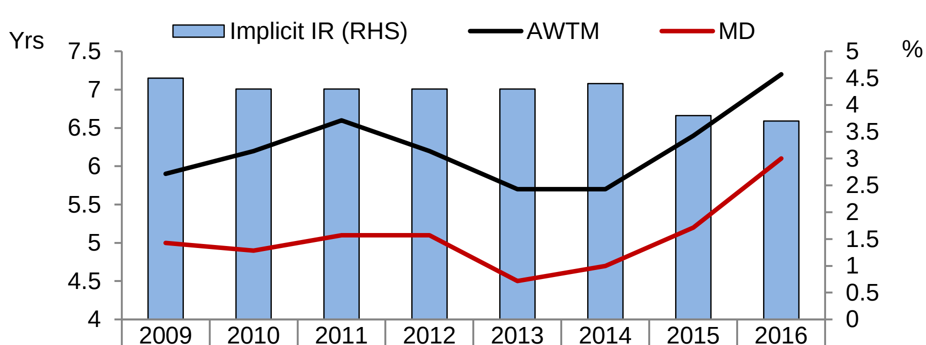
Source: MoF

3.3 General government debt developments

Since 2014 the long term financing cost of the central government budget has been reduced significantly while the modified duration of the debt portfolio was increased. In this respect Slovenia is getting closer to those advanced debt management objectives DMOs within OECD group of countries which pursue the same key strategic debt management objectives in such historically low interest rate environment. Slovenian implicit interest rate on state budget debt portfolio has been decreasing since 2014. Accordingly, the interest bill savings, due to refinancing of debt at lower yields and active debt management of US$ debt portfolio via exchanging it with much cheaper euro bonds, already left a significant positive effect in the whole budget expenditure

State budget debt accounts for nearly 90% of the general government debt. Key focus of the state treasury in this respect is to extend the duration of the debt portfolio, hence reducing roll-over risk, while reducing implicit interest rate at the same time. While the diminishing debt rule starts to have its traction with the year 2016, the way how to seize the prevailing favourable euro debt capital market conditions is to actively exchange more expensive US$ bonds with euro bonds with contained effect on the state budget debt increase. Achieving positive net present value of a such debt management transaction is a key prerequisite. Slovenia happens to be one of the most active debt managers in 2016. Nearly 20 % of the state budget US$ debt portfolio was exchanged with cheaper euro bonds in May and September 2016. Slovenia will continue to pursue such strategy as long as US and euro markets stay conducive.

Chart 8: State Budget Debt Portfolio Duration, Average Weighted Time to Maturity and Implicit Interest Rate



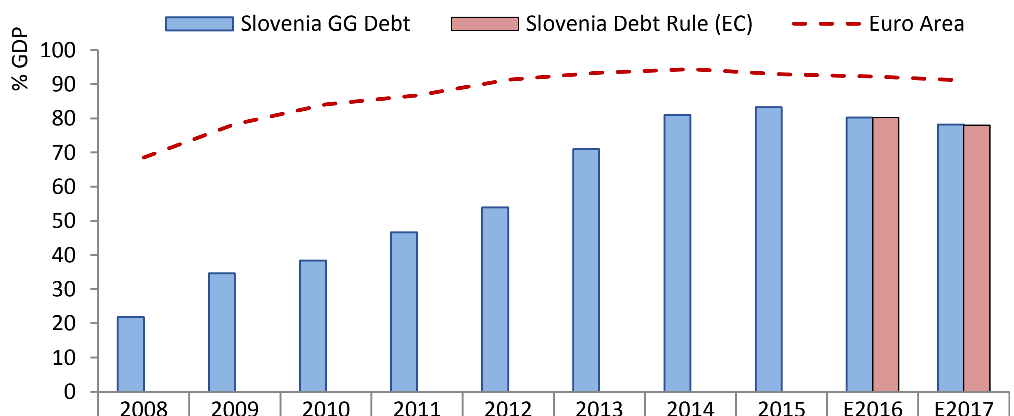
	2009	2010	2011	2012	2013	2014	2015	2016
Implicit IR (RHS)	4.5	4.3	4.3	4.3	4.3	4.4	3.8	3.7
AWTM	5.9	6.2	6.6	6.2	5.7	5.7	6.4	7.2
MD	5.0	4.9	5.1	5.1	4.5	4.7	5.2	6.1

Source: MoF

While the Republic of Slovenia exited EU excessive deficit procedure in 2015 and with achieving the peak of general government debt of 83,2% of GDP, it is now committed to complying with the EU rules tackling excessive debt procedure. Slovenia intends to reduce budget cash reserves over the medium term, while in longer term continuing fiscal consolidation with adequate nominal GDP growth and privatisation will support sufficient general government (excessive) debt reduction.

The central government issues guarantees to certain entities predominantly within the public sector, on a case by case basis, for projects such as the construction of highways and railways. In 2009 to 2010 for the purpose of facilitating borrowing in the markets under the “crisis prevention programme”, 2.2 billion EUR of guarantees were extended to four banks. The debt of banks under the “financial crisis programme” and the measures to strengthen bank stability was largely settled on 31 July 2012 and fully extinguished by 30 June 2015.

Chart 9: General Government Debt, Euro area average, Debt rule level

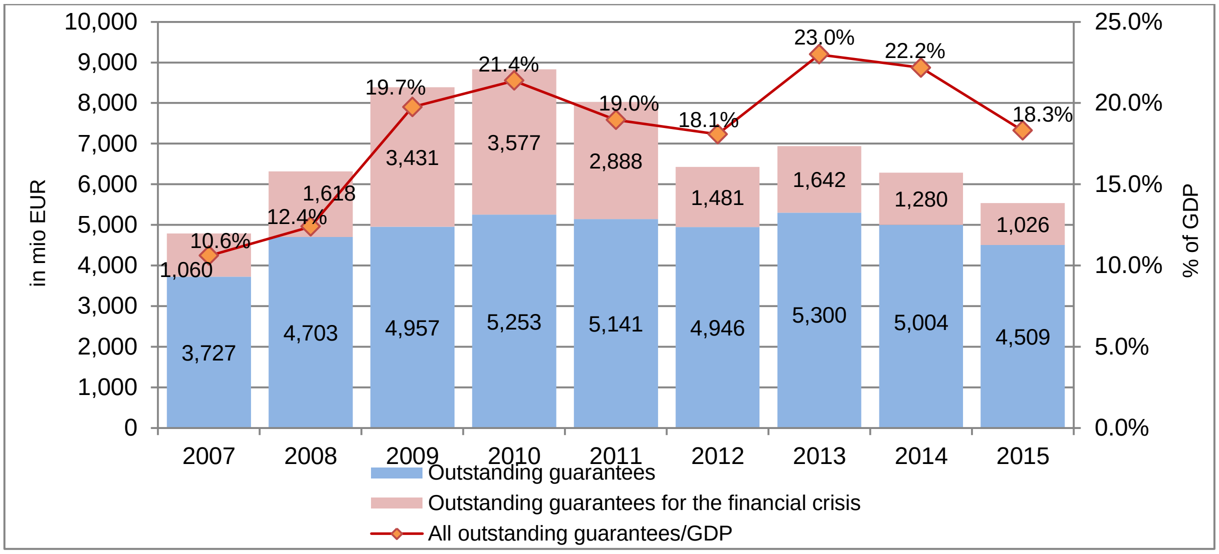


	2008	2009	2010	2011	2012	2013	2014	2015	E2016	E2017
Slovenia GG Debt	21.8	34.6	38.4	46.6	53.9	71	81	83.2	80.2	78.2
Slovenia Debt Rule (EC)									80.2	78.0
Euro Area	68.5	78.3	84.1	86.7	91.3	93.4	94.4	92.9	92.2	91.1

Source: Ameco database, MoF

The total amount of central government guarantees outstanding as at 30 June 2016 was 6,798.5 million EUR, comprising 866.5 million EUR of guarantees for the financial sector.

Chart 10 : Outstanding guarantees

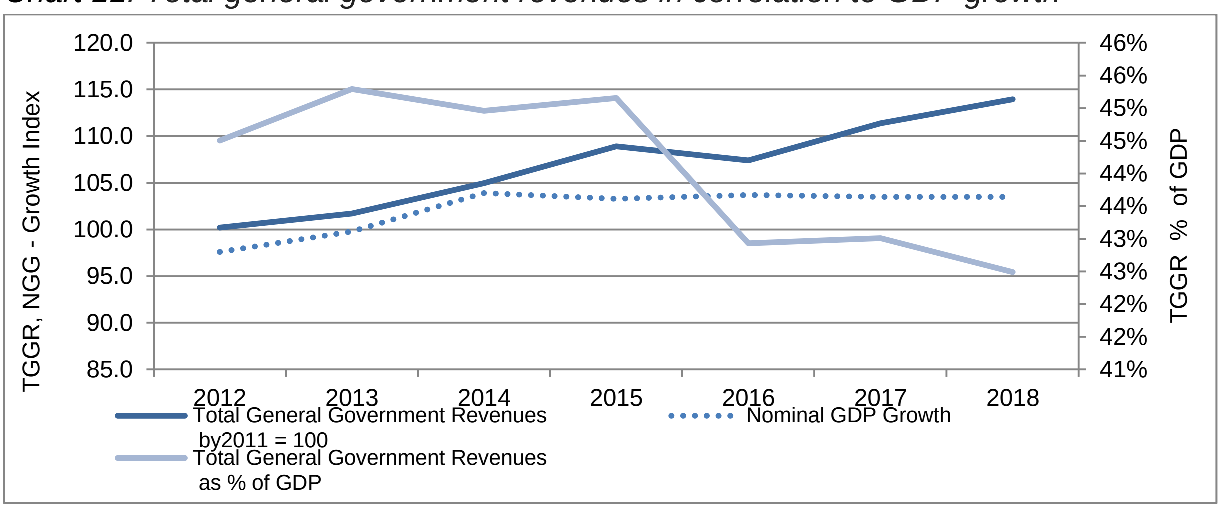


Source: MoF

3.4 Revenue targets of general government budget

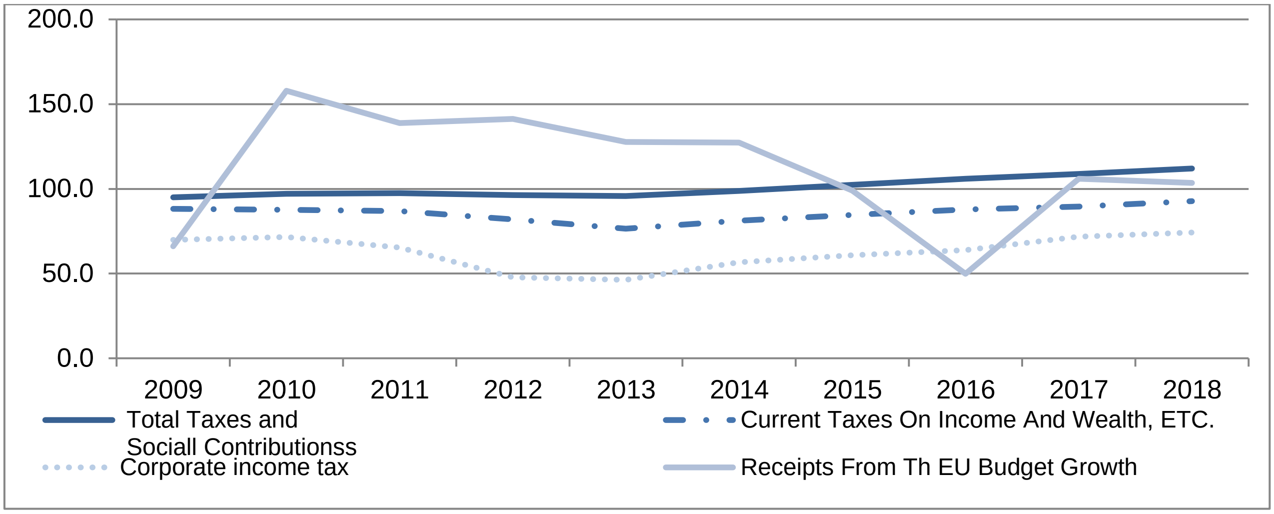
The current budgets expect a rise in general government revenues to 43.0 % of GDP in 2017 compared to 42.9 % of GDP currently estimated for 2016. The rise is largely attributable to higher revenues from EU funds in 2017 (estimated around 2.0 % of GDP) compared to the estimate of the current year (1.2 % of GDP) where the draw-down of EU funds has been halted due to delays in implementation of the current multiannual financial framework. Nonetheless faster draw-down of EU funds compared to the GDP growth is expected in 2017 and on, since all the delays and issues regarding the slowdown have been solved.

Chart 11: Total general government revenues in correlation to GDP growth



Source: MoF

Chart 12: Main revenue categories (base year = 2011)



Source: MoF

All tax revenues are nominally increasing however due to a tax restructuring measures they are slightly lagging in comparison to GDP. Revenues from total taxes for 2016 are estimated at around 21.95 % of GDP while the forecast for the year 2017, despite of 2.1 % nominal growth shows a slight decline in comparison to GDP where the estimate in total tax revenues tops at 21.65 % of GDP.

3.5 Expenditure targets of general government budget

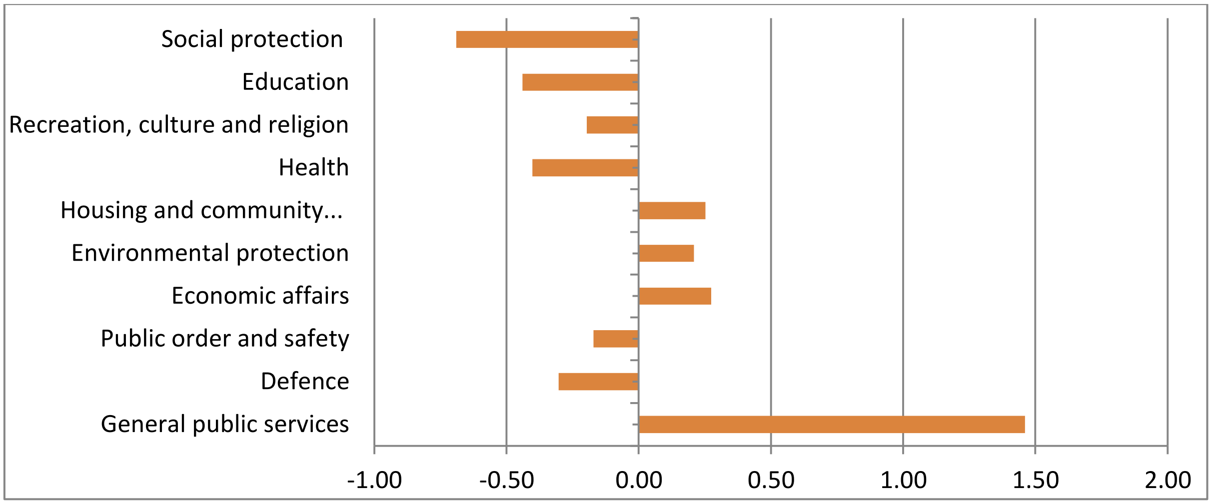
General government expenditure is set at 44.3% of GDP in 2017, compared to 45.1 % of GDP currently estimated for 2016. A slight decrease compared to current estimates for 2016 is noted in compensation of employees as well as in social transfers. We also note a decrease in interest expenditures that are coming down to 2.4% of GDP from 3.1% in the peak year 2014. Gross fixed capital formation is expected to pick up only slowly to 2.5% of GDP after a plunge in 2016, from peak in 2014 when a 5.1% of GDP was recorded.

Table 5: General government expenditure and revenue targets, broken down by main components

	ESA Code	2016 levels	2016 (% of GDP)	2017 (% of GDP)	2018 (% of GDP)
General government (S13)		€ million			
1. Total revenue target	TR	17174.3	42.93	43.01	42.49
Of which					
1.1 Taxes on production and imports	D.2	5855.2	14.64	14.46	14.28
1.2 Current taxes on income, wealth, etc	D.5	2916.6	7.29	7.18	7.17
1.3 Capital taxes	D.91	8.7	0.02	0.02	0.02
1.4 social contributions	D.61	5990	14.97	14.97	14.92
1.5 Property income	D.4	429.7	1.07	0.89	0.76
1.6 Other		1974.1	4.94	5.49	5.34
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		14770.4	36.92	36.62	36.4
2.Total expenditure target	TE	18052.3	45.13	44.27	43.32
Of which					
2.1 Compensation of employees	D.1	4546.4	11.36	11.25	10.9
2.2 Intermediate consumption	P.2	2639	6.6	6.65	6.52
2.3 Social payments	D.62,D.63	7141.2	17.85	17.47	17.11
Of which unemployment benefits					
2.4 Interest expenditure(=9 in table 2.a)	EDP D.41	1125.4	2.81	2.44	2.34
2.5 Subsidies	D.3	440.4	1.1	1.27	1.34
2.6 Gross fixed capital formation	P.51	1015.9	2.54	2.59	2.59
2.7 Capital transfers	D.9	269.6	0.67	0.42	0.31
2.8 Other		874.4	2.2	2.18	2.21

General Government expenditures based on COFOG classification have not changed significantly in the period from 2011 to 2014. Biggest change has been an increase of expenditures on general public services. Break down of those expenditures shows an increase in the field of executive and legislative organs, financial and fiscal affairs and external affairs, however most of the increase has been due to higher public debt. On the other side the biggest decline of expenditures has been in the area of social protection. This was mostly due to decrease of unemployment and sickness and disability benefits. Overall expenditures have decreased for 0.2 percentage points in the period form 2011 until 2014.

Chart 13: General government expenditures based on COFOG, change in 2014 on 2011 in p.p.



Source: SORS

3.6 Expenditure and revenue projections under the no-policy change scenario

Under no policy change scenario revenues would decrease to 42.8% of GDP. This estimate includes the effects of tax restructuring that is broadly neutral: the revenue losses due to lowering personal income tax brackets will be neutralised with increase of corporate income tax rate and also with efficiency gains from tax collection. Also we estimate the efficiency gains (tax registers, stricter controls, less administrative burdens) as discretionary effect of 0.2% of GDP.

No policy change scenario would bring total expenditures up to 44.6% of GDP. This estimate includes a release of all measures in public wages in 2017, full indexation of pensions and full indexation of social transfers, which would come into force if no measures were taken.

3.7 Description of discretionary measures included in the draft budget

Tax restructuring in favour of the economy and employment

In autumn 2016 legal proposals for restructuring tax burden were adopted by the government and sent to parliament. The aim of the proposed measures is reducing the tax burden of mid-income wage earners on one hand and to neutralize the revenue loss with increasing corporate income tax rate from 17% to 19% and more efficient tax collection on the other hand.

Solutions that will bring down the total tax burden on labour are set with:

- Specific tax treatment on the performance based salary,
- Changes in the brackets for personal income tax,
- The income threshold for additional general relief.

Performance relief will be focused on the most productive and creative jobs, which generally contribute more to the added value generated in enterprises. Changes in income tax brackets aim to reduce the tax wedge on earners / employees receiving income above 1.6 of average wage. This measure promotes the employment of highly educated and highly productive workforce, thus increasing the competitiveness of the Slovenian economy. At the same time, the proposed increase of the threshold for general tax relief prevents that the recipients of the minimum wage who are performing night work and work on Sundays, holidays and non-working days, would receive lower net earnings, due to the loss of additional general tax relief.

To further improve the efficiency of tax collection, changes are being made to eliminate the anomalies in the existing system and increase the legal safety for taxpayers, especially by eliminating the possibility of avoiding payment of public charges which in the end would increase horizontal equality. Tax registers were introduced in 2016 for cash transactions by certifying the accounts with the tax authorities. Positive effects are already noted and will have further positive effects, both in terms of increase in revenue in VAT, corporate income tax, personal income tax, income from operations and income tax and other duties as well as indirectly in reducing the informal economy.

Further steps towards the reduction of administrative barriers and simplification of tax procedures are being implemented with the amendment of the VAT Act, which administratively simplifies taxpayers charging VAT on imported goods and improves their liquidity and financing conditions, as they no longer need to finance the import VAT.

Expenditure policy still anchored in wages, pensions and social transfers

In the five years of ongoing fiscal consolidation Slovenian government has bound a large portion of measures on restrictive public sector wage policies that have been gradually and partly released in 2016 (promotions in 2016 and increase of wage scale from 1. 9.2016 on). Other measures are still valid (limitations of performance payments, holiday bonuses, collective additional pension insurance, and delay of promotion payments). In budget preparations for 2017 no further release is envisaged, although wages policy in public sector for 2017 is still under negotiation with trade unions. The Government will negotiate with the public sector trade unions, to reach a new agreement, which will, together with sound and restrictive personnel policy enable containment of public sector labour cost in line with fiscal targets.

In the field of expenditure for social transfers, the limitations remain valid in 2017, while the pensions will, in accordance to Act on Budget Execution, and increase by 1% in 2017. This is less than it would be within indexation set under the Act of pension insurance.

Table 6: List of measures in 2017

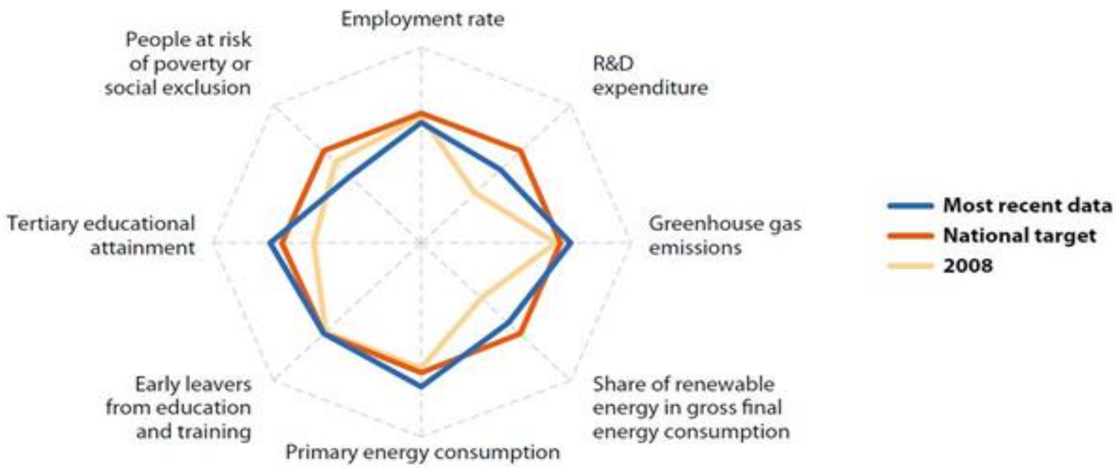
List of measures	*Detailed description*	*ESA Code*	*Adoption Status*	*Budgetary impact*	
				2017 % GDP	2018 % GDP
Restrictive wage policy in public sector	Further measures in preparation	D.1	For 2016 valid, for 2017 negotiation	0.28	0.1
Measures in the area of social care and family and pensions	Family and social allowances; pensions (prolongation of restrictions, tied to anchor)	D.62	In procedure	0.02	0.2
Efficiency of tax collection	Efficiency of tax collection (tax registers…)	D.211	Implemented	0.2	0.0

4. Linking DBP with CSR of the European Commission

The EU's growth and jobs strategy for the current decade, striving to pave the way to a smart, sustainable and inclusive future, envisages measures to overcome the economic crisis and move beyond it by addressing the structural weaknesses in the European economic model. The final objective is to deliver high levels of employment, productivity and social cohesion in the Member States, while reducing the impact on the natural environment.

Most recent data for Slovenia shows that Slovenia is well on the way to reach the national targets in most areas. Slovenia has already met the education targets, reduction of GHG emissions and target on energy efficiency. Slovenia is well on the way of reaching the R&D spending and renewable energy target. After a period of continuous deterioration between 2008 and 2013, the employment rate increased to 69.1 % in 2015, thus reducing the distance to the national target to 5.9 percentage points. The number of people at risk of poverty is slowly declining. Slovenia has in the past years introduces several measures to increase employment rate of young, elderly and low-skilled workers which will gradually show in improving of the two indicators.

Chart 14: Economic policy measures and budgetary plan aimed at achieving the common EU2020 goals and Country Specific Recommendations



Source: Eurostat

In the next two year period Slovenia will focus on increasing productivity and stimulating the investment cycle including labour market measures that will increase employability. Priority financing will be in **infrastructure, energy saving, R&D and employment**.

In the **transport sector** investments in public infrastructure and the maintenance and development of the national road network are envisaged. In the context of sustainable mobility, focus will be on promoting integrated public transport system, consequently simplifying the use of public transport and affordability of public transport services, provision of road safety and traffic management policies.

In the field of **energy efficiency**, providing the conditions for reliable, competitive and environmentally sustainable supply to consumers with energy and energy services is essential. To improve energy efficiency, funds will be allocated -for energy renovation of public sector buildings and the energy rehabilitation of private apartment buildings, assistance to households who are facing the problem of energy poverty, education, awareness and training if the field of energy rehabilitation and energy efficiency measures. In the field of renewable energy sources, more funds will be earmarked for financing projects of expansion and construction of new district heating systems and the financing of investments in the construction of facilities for the production of electricity from renewable energy sources that are less utilized.

More resources will be devoted to strengthening the infrastructure for **research and innovation**, promotion of investment in research and development and the development of broadband services.

In 2017 and 2018 new measures are planned to **enhance active participation in employment**. These measures include promoting equal opportunities and active participation and improve employability, such as social activation and integration of employment programs, multi-generation centers for families, learning workshops in the field of social entrepreneurship, improvement of the quality evaluation system non-formal and informal acquired skills for successful integration into the labour market, the regional scholarship scheme, competence centers for human resources development, development of community programs and services for adults and children for an independent life.

Key areas of economic and fiscal policies in the next two years will be focused also on implementation of country specific recommendations.

In the next two-year period measures and activities will be implemented aimed at balancing and introduction of an effective, sustainable and development-oriented **health care system**. The measures will be aimed at optimization of medical care and establishing of an integrated system of long-term care. Changes in the financing of health care will be focused on the system of reciprocity and solidarity. Given the strength of the need for sustainability, focus will be on development of primary health care, with the co-ordinated development and regionally-oriented functioning of the secondary clinical areas of expertise. Special attention will be paid to the implementation of the most critical investment projects, based on the needs of patients, inadequacy and obsolescence of existing capacities.

In 2016 a series of activities were focused towards **reducing labour taxation** in the context of the tax burden distribution reform. The proposed changes in tax legislation will ease the burden on taxpayers, which have comparatively higher burden of income tax, which will lead to the preservation and creation of jobs. This relief is focused on the most productive and creative workers, which generally contribute more to the added value generated in enterprises.

Slovenia is also following the obligations regarding the governance and the performance of **state-owned enterprises** and consolidation of **banking sector**.

In July 2015, the National Assembly adopted the first strategy for managing state capital investments, which include the management objectives, expectations of the country and the classification of government-owned companies to strategic. On the basis of the

strategy, the Annual Plan of Capital Investments for 2016 was adopted in December 2015.
To further ensure the stability of the banking system it is essential to continue to actively reduce NPL's and improve the structure of loan portfolios and investments. This is the crucial role of Slovenian Sovereign Holding as the company carrying out the management rights of state-owned banks.

5. Comparison with Stability Programme

The Stability Programme 2016 was based on the data from Spring Economic Forecast made by the Institute of Macroeconomic Analysis and Development (IMAD). It anticipated GDP growth of 2.9 in 2015. The current data also made by IMAD anticipates lower economic growth in 2015; however estimates for the following years have been corrected upwards. The forecasts for GDP growth are 2.3% in 2016, 2.9% in 2017 and 2.6% in 2018. Exports will remain the key driver of economic activity over the entire forecasting period.

Table 7: Forecast of selected economic indicators

	Stability Programme 2016				***DBP***			
	2015	**2016**	**2017**	**2018**	**2015**	**2016**	**2017**	**2018**
Real GDP (%)	2.9	1.7	2.4	2.3	2.3	2.3	2.9	2.6
Government consumption	0.7	0.9	0.2	0.1	2.5	2.0	1.3	0.7
Gross fixed capital formation		3.3	3.4	3.4		2.5	2.6	2.6
Unemployment rate (ILO) (%)	9.0	8.6	8.1	7.5	9.0	8.3	7.5	6.9
Current account balance	7.3	7.5	6.8	6.3	5.2	6.7	5.6	5.3

Source: Stability Programme 2016

Government consumption rose last year for the first time since 2010. Its growth was underpinned by the increase in intermediate consumption, expenditure on social benefits in kind and cash, and the consumption of fixed capital. It will continue to increase in the next two years, but this growth will be somewhat weaker than in 2016. The growth is mostly attributed to public sector pay rises (higher employee compensation), a larger number of employees and an increase in some other forms of expenditure, particularly health care.

In 2016 employment continues to rise, not only in most private sector activities but also in the public sector owing to the relaxation of hiring restrictions. A considerable decline in unemployment is forecast, even greater than it was in Stability programme.

The current account surplus will remain high in 2016–2018. Strong export performance and modest investment activity were again the reasons for the high surplus in 2015 (5.2% of GDP). In 2016 the total surplus will continue to widen, driven primarily by the further growth of the surplus in international trade in merchandise and services; a gradual decline is expected in the next two years.

Table 8: Comparison with the Stability Programme

Net lending	*2016*	*2017*	*2018*
DBP (1)	-2.2	-1.3	-0.8
Stability Programme (2)	-2.2	-1.6	-0.4
Difference (1-2)	0	0.3	-0.4

Source: Stability Programme 2016

Annex to the DBP: Required tables

Table 0.i) Basic assumptions

	2015	2016	2017	2018
Short-term interest rate (annual average)	0,0	-0,3	-0,4	-0,4
Long-term interest rate (annual average)	1,2	0,7	0,6	0,8
USD/€ exchange rate (annual average)	1,110	1,116	1,118	1,118
Nominal effective exchange rate	-2,8	0,8	-0,1	0,0
World excluding EU, GDP growth				
EU GDP growth	2,2	1,8	1,6	1,9
Growth of relevant foreign markets	3,7	4,0	4,5	4,9
World import volumes, excluding EU				
Oil prices (Brent, USD/barrel)	52,4	42,5	49,0	52,0

Table 0.ii) Main assumptions

	2015 (Levels)	2016 (Levels)	2017 (Levels)	2018 (Levels)
1. External environment				
a. Prices of commodities*	-17,5	-2,0	3,0	3,0
b. Spreads of German Bond	1,14	1,15 (Jan-Sep)		
2. Fiscal policy				
a. General Government net lending/ net borrowing				
b. General gross debt				
3. Monetary policy / Financial sector / Interest rates assumptions				
a. interest rates				
i. Euribor	-0,02	-0,25 (Jan-Sep)		
ii. Deposit rates	0,37	0,22 (Jan-Aug)		
iii. Interest rates for loans	2,91	2,23 (Jan-Aug)		
iv. Yields to maturity of 10 year government bonds	1,66	1,26 (Jan-Sep)		
b. Evolution of deposits	3,4	6,2 (Aug yoy)		
c. Evolution of loans	-6,8	-8,7 (Aug yoy)		
d. NPL Trends	9,9	7,3 (Jul)		
Demographic trends				
a. Evolution of working age population**	1294,73	1283,13	1272,26	1259,64
b. Dependency ratios***	28,8	30,0	31,1	32,3
Structural dependencies				

Table 1.a. Macroeconomic prospects

	ESA Code	2015 (Levels)	2016 (rate of change)	2017 (rate of change)	2018 (rate of change)
1. Real GDP	B1*g	38.6	2.3	2.9	2.6
of which					
Attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP			1.5	1.6	1.8
Contributions					
Potential GDP contributions:Labour			0.8	0.7	0.6
Potential GDP contributions:capital			0.2	0.3	0.5
Potential GDP contributions: total factor productivity			0.5	0.5	0.7
3. Nominal GDP	B1*g	38.6	3.7	3.5	3.5
Components Of real GDP					
4. Private consumption expenditure	P.3	20.1	2.3	2.2	2.0
5. Government consumption expenditure	P.3	7.2	2.0	1.3	0.7
6. Gross fixed capital formation	P.51	7.5	-4.0	6.0	5.0
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	0.2	1.3	1.3	1.4
8. Exports of goods and services	P.6	30.1	5.7	5.5	5.0
9. Imports of goods and services	P.7	26.5	5.3	5.9	5.1
Contribution to real GDP growth					
10. Final domestic demand		34.8	0.8	2.5	2.1
11. Changes in inventories and net acquisition of valu	P.52 + P.53	0.2	0.7	0.1	0.1
12. External balance of goods and services	B.11	3.5	0.8	0.3	0.4

Table 1.b. Price developments

	ESA Code	2015 (Levels)	2015 (rate of change)	2016 (rate of change)	2017 (rate of change)	2018 (rate of change)
1. GDP deflator			1,0	1,4	0,6	0,9
2. Private consumption deflator			-0,7	-0,2	1,1	1,2
3. HICP*			-0,5	0,1	1,4	1,5
4. Public consumption deflator			0,5	2,2	2,0	1,5
5. Investment deflator			1,8	0,9	2,0	2,0
6. Export price deflator (goods and services)			-0,1	-1,8	0,7	0,5
7. Import price deflator (goods and services)			-1,4	-3,3	2,0	1,2

Note:*national index

Table 1.c. Labour market developments

	ESA Code	2015 (Levels)	2015	2016	2017 (rate of change)	2018 (rate of change)
1. Employment, persons		941,5	1,1	1,9	1,4	1,1
2. Employment, hours worked		1589007	1,5	1,9	1,6	1,3
3. Unemployment rate (%)		9,0	9.0	8.2	7.5	6.8
4. Labour productivity, persons			1,2	0,4	1,5	1,5
5. Labour productivity, hours worked			0,8	0,4	1,3	1,3
6. Compensation of employees	D.1	18,9	2,8	4,7	4,0	3,4
7. Compensation per employee (EUR)		20.075	1,6	2,7	2,5	2,3

Table 1.d. Sectoral balances

	ESA Code	2015 (% of GDP)	2016 (% of GDP)	2017 (% of GDP)	2018 (% of GDP)
1. Net lending/borrowing vis-a-vis the rest of the world	B.9	6,1			
of which					
- Balance on goods and services		9,1	10,4	9,6	9,3
- Balance of primary incomes and transfers		-3,9	-3,6	-4,0	-4,0
- Capital account		1,0			
2. Net lending/borrowing of the private sector	B.9				
3. Net lending/borrowing of general government	EDP B.9				
4. Statistical discrepancy		-1,5			

Note: Balance of payments statistics.

Table 2.a. General government budgetary targets broken down by subsector

	ESA Code	2016 level	2016 (% of GDP)	2017 (% of GDP)	2018 (% of GDP)
Net lending (EDP B.9) by sub-sector		€ million			
1. Net lending/net borrowing: General government	S.13	-877,9	-2,2	-1,3	-0,8
2. Net lending/net borrowing: Central government	S.1311	-751	-1,88	-1,65	-0,71
3. Net lending/net borrowing: State government	S.1312				
4. Net lending/net borrowing: Local government	S.1313	0	0	0,06	0,06
5.Social security funds	S.1314	-20,9	-0,05	0	0
6. Interest expenditure	EDP D.41	1125,4	2,81	2,44	2,34
7. Primary balance		247,4	0,28	0,62	1,18
8. One-off and other temporary measures			0,12	0,23	0,02
9.Real GDP Growth(%) (=1 in Table 1a)			2,33	2,95	2,65
10.Potential GDP Growth(%) (=2 in Table 1a)			1,52	1,61	1,76
Contributions					
-Labour			0,83	0,74	0,61
-Capital			0,18	0,33	0,45
-Total factor productivity			0,5	0,54	0,7
11. Output gap (% of potential GDP)			-1,23	-0,49	0,08
12. Cyclical budgetary Component (% of potential GDP)			-0,59	-0,23	0,04
13. Cyclically adjusted balance (1-12) (% of potential GDP)			-1,61	-1,03	-0,87
14. Cyclically adjusted primary balance (13+6) (% of potential GDP)			0,10	0,20	0,00
15. Structural balance (13-8) (% of potential GDP)			-1,48	-0,80	-0,85

2.,4.,5. in cash terms.

Table 2.b. General government debt developments

	ESA Code	2016 level	2016 (% of GDP)	2017 (% of GDP)	2018 (% of GDP)
		€ million			
1. Gross debt		320679.4	80,2	78,2	76,5
2. Change in gross debt ratio		-119.5	-3,0	-2,0	-1,7
Contributions to changes in gross debt					
3. Primary balance		247.4	0,6	1,2	1,5
4. Interest expenditure	EDP D.41	1125.4	2,8	2,4	2,3
5. Stock-flow adjustment		-880.6	-2,2	-0,5	0,1
of which:					
- Differences between cash and accruals					
- Net accumulation of financial assets					
of which:					
- privatisation proceeds					
- Valuation effects and other					
p.m.: Implicit interest rate on debt			3,5	3,2	3,1
Other relevant variables					
6. Liquid financial assets		5167	12,92	9,00	8,69
7. Net financial debt (7=1-6)		26900.9	67,25	69,20	76,55
8. Debt amortization (existing bonds) since the end of the previous year		2459.8	6,15	5,46	4,31
9. Percentage of debt denominated in foreign currency			0,12	0,11	0,11
10. Average maturity			7,52	7,65	7,95

1/ As defined in Regulation 479/200.

2/ Projections Ministry of Finance, Treasury.

3/ Source State Budget before swap.

Table 2.c Contingent liabilities

	2016 (% of GDP)	2017 (% of GDP)	2018 (% of GDP)
Public guarantees	0,154	0,122	0,099
Public guarantees: linked to the financial sector	0,019	0,016	0,016

1/In accordance with the Classification of Institutional Sectors (SKIS) data "Of which: linked to the financial sector" contains the data of outstanding guarantees for S.12, Financial corporations

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components

	ESA Code	2016 level	2016 (% of GDP)	2017 (% of GDP)	2018 (% of GDP)
General government (S13)		€ million			
1. Total revenue at unchanged policies	TR	17174.3	42.93	42.79	42.49
Of which					
1.1 Taxes on production and imports	D.2	5855.2	14.64	14.24	14.28
1.2 Current taxes on income, wealth, etc	D.5	2916.6	7.29	7.18	7.17
1.3 Capital taxes	D.91	8.7	0.02	0.02	0.02
1.4 social contributions	D.61	5990	14.97	14.97	14.92
1.5 Property income	D.4	429.7	1.07	0.89	0.76
1.6 Other		1974.1	4.94	5.49	5.34
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		17771.4	36.92	36.4	36.4
Total expenditure at unchanged policies	TE	18052.3	45.13	44.57	43.63
Of which					
2.1 Compensation of employees	D.1	4546.4	11.36	11.53	11
2.2 Intermediate consumption	P.2	2639.3	6.6	6.65	6.52
2.3 Social payments	D.62,D.63	6331.7	15.83	15.5	15.33
Of which unemployment benefits					
2.4 Interest expenditure	EDP D.41	1125.4	2.81	2.44	2.34
2.5 Subsidies	D.3	440.4	1.1	1.27	1.34
2.6 Gross fixed capital formation	P.51	1015.9	2.54	2.59	2.59
2.7 Capital transfers	D.9	269.6	0.67	0.42	0.31
2.8 Other		771.9	1.93	1.75	1.7

Table 4.a General government expenditure and revenue <u>targets</u>, broken down by main components

	ESA Code	2016 levels	2016 (% of GDP)	2017 (% of GDP)	2018 (% of GDP)
General government (S13)		€ million			
1. Total revenue target	TR	17174	42,93	43,01	42,49
Of which					
1.1 Taxes on production and imports	D.2	5855,2	14,64	14,46	14,28
1.2 Current taxes on income, wealth, etc	D.5	2916,6	7,29	7,18	7,17
1.3 Capital taxes	D.91	8,7	0,02	0,02	0,02
1.4 social contributions	D.61	5990	14,97	14,97	14,92
1.5 Property income	D.4	429,7	1,07	0,89	0,76
1.6 Other		1973,8	4,93	5,5	5,34
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		14.770.4	36,92	36,62	36,4
Total expenditure target	TE	18052,3	45,13	44,27	43,32
Of which					
2.1 Compensation of employees	D.1	4546,4	11,36	11,25	10,9
2.2 Intermediate consumption	P.2	2639	6,6	6,65	6,52
2.3 Social payments	D.62,D.63	7141,2	17,85	17,47	17,11
Of which unemployment benefits		176,8	0,44	0,37	0,34
2.4 Interest expenditure(=9 in table 2.a)	EDP D.41	1125,4	2,81	2,44	2,34
2.5 Subsidies	D.3	440,4	1,1	1,27	1,34
2.6 Gross fixed capital formation	P.51	1.015.9	2,54	2,59	2,59
2.7 Capital transfers	D.9	269,6	0,67	0,42	0,31
2.8 Other		900,6	2,25	2,12	2,16

1/ P.11+P.12+P.131+D.39D.7+D.9(other than D.91

2/ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions D.995), if appropriate.

3/ TR-TE = B.9.

4/ Includes cash benefits (D.621 and D.624) and in kind benefits (D.631, under ESA2010 D.632) related to unemployment benefits.

5/ D.29pay + D.4pay (other than D.41pay) +D.5pay +D.7pay +P.52+P.53+K.2+D.8.

Table 4.b Amounts to be excluded from the expenditure benchmark

	2015 levels € million	2016 levels € million	2015 (% of GDP)	2016 (% of GDP)	2017 (% of GDP)	2018 (% of GDP)
1. Expenditure on EU programmes fully matched by EU funds revenue	1087.1	238.1	2.82	0.60	1.96	1.99
1a. Investment expenditure fully matched by EU funds revenue	738.2	183.1	1.91	0.46	1.15	1.21
2. Cyclical unemployment benefit expenditure	25.08	7.3	0.07	0.02	0.05	0.02
3. Effect of discretionary revenue measures	123	75	0.32	0.19	0.22	
4. Revenues increased mandated by law[1]						

1/not applicable.

Table 4.c General government expenditure by function

4.c.i) General government expenditure on education, healthcare and employment[1]

1/not applicable.

4.c.ii) Classification of the functions of the Government

	COFOG Code	2014 (% of GDP)[1]	2016 (% of GDP)	2017 (% of GDP)	2018 (% of GDP)
1. General public services	1	6,06			
2. Defence	2	1,16			
3. Public order and safety	3	1,81			
4. Economic affairs	4	5,44			
5. Environmental protection	5	0,78			
6. Housing and community amenities	6	0,64			
7. Health	7	6,97			
8. Recreation, culture and religion	8	1,88			
9. Education	9	6,36			
10. Social protection	10	18,70			
11. Total expenditure (=2 in Table 2c)					

Table 5.a Discretionary measures taken by General Government

List of measures	Detailed description	ESA Code	Adoption Status	Budgetary impact	
				2017	2018
				% GDP	% GDP
Restrictive wage policy in public sector	Further measures in preparation	D.1	For 2016 valid, for 2017 negotiation	0,28	0,1
Measures in the area of social care and family and pensions	Family and social allowances; pensions (prolongation of restrictions, tied to anchor)	D.62	In procedure	0,02	0,2
Efficiency of tax collection	efficiency of tax collection (tax registers…)	D.211	Implemented	0,2	0,0

Table 5.b Discretionary measures taken by Central Government

Table 5.c Discretionary measures taken by sub-sectors of the General Government[1]

1/not applicable.

Table 6.a Country specific recommendations - CSR

CSR	2016 recommendations	State of play
1	*Following the correction of the excessive deficit, 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.*	Headline deficit for 2016 is estimated at 2.2 % of GDP. Budgets for 2017, 2018 are under preparation. General government deficit for 2017 is projected at 1.6 % of GDP and in 2018 at 1.0 % of GDP. This is based on the General government framework adopted by the Parliament in April 2016 that defines maximum expenditure levels also for state budget. It also follows adopted Stability programme. Slovenia plans to gradually reduce the general government balance and the cyclically-adjusted balance in the medium-term period. Therefore, when planning public finance, we focus on structural measures that will have a permanent impact on the structure and efficiency of public finance. Key structural measures for attaining the objectives of public finance in the field of revenue in 2017 and 2018 include restructuring the burdens of public taxes, reducing administrative barriers and improving the effectiveness of collecting public taxes. In the field of public expenditure, these will comprise the transfer of appropriate short-term measures in systemic legislation;
	Strengthen the fiscal framework by appointing an independent fiscal council and amending the Public Finance Act.	The Fiscal Council as an independent authority is being established with this Fiscal Rule Act (adopted in 2015), which also regulates its operation. First and second calls for candidates were not successful. A new Public Finance Act will define in more detailed manner responsibilities in budget planning in accordance with the EU requirements[1]. Slovenia will integrate into its legislation the Medium-Term Budgetary Framework which will determine the path to attaining public finance objectives, and facilitate greater stability and predictability when planning measures. Preparation is ongoing and a draft Act is expected to be adopted by the government later in 2016.
	Complete and implement the reform of the long-term care and healthcare systems, making them more cost-efficient to ensure long-term sustainability of accessible and quality care.	The activities related to long term care reform are ongoing and related to the: -preparation of the act (until end of 2016), In the period after CSR for LTC was adopted, the ministries responsible for social affairs and health continued their activities in the drafting of the text on the act on long-term care insurance and long-term care. In this regard several solutions

[1] Council Directive on requirements for budgetary frameworks of the Member States (2011/85)

	on the future organization and administration of this area were prepared and they are still a subject of political harmonisation. -preparation of the assessment tools, methodology and training modules to be implemented in the pilot project (with the support of ESF funding). In this context, both ministries together with the European Commission are preparing a two day event, which will be devoted to political decision makers and professionals working in the field of long-term care. -preparation of the pilot project (implementation in 2017) with the support of ESF funding Both ministries are intensively involved (together with a wider group of stakeholders) on preparing the basis for a pilot project, which will begin after the completion of the so called assessment pilot project will be finished. <u>Health reform</u> is ongoing. The following main measures were adopted (or are in implementation): - the working group is preparing the new Health Care and Health Insurance Act proposal. - adoption of the changes in the legislation related to the pharmacies activities (Pharmacies Act was approved by the Government of the Republic of Slovenia in July (28th July 2016) and has been submitted to the legislative process in the National Assembly. The adoption and publication is expected by the end of the year.) - further implementation of joint public procurement; - In the context of introducing IT solutions in health care system, which have been developed within the eHealth project, electronic prescription and dispensing of medicinal products is in full use in Slovenia and over 85% of prescriptions are already being prescribed in digital way. Most activities in 2016 refer to the introduction of electronic medical appointments. - The National Strategy of development of Primary Care in Slovenia until 2025 is under preparation.
By the end of 2017, adopt the necessary measures to ensure the long-term sustainability and adequacy of the pension system.	The White book for the <u>pension and disability insurance reform</u> after 2020 was prepared and is currently in public consultation. In the consultation process the working group under the Economic and Social Council was established with the aim to discuss and to prepare a set of agreed solutions based on the White book proposals for the discussion at the Economic and Social Council until end of the 2016.

2	*In consultation with social partners, increase the employability of low-skilled and older workers, including through targeted lifelong learning and activation measures.*	As an important complementary measure to the ongoing activities based on White book on pensions a document “Older people and the labour market in Slovenia” was prepared and is being discussed with the relevant stakeholders. It includes measures for the increasing of the employment rate for people over 55 years with the emphasis on measures for prolonging their working lives and for improving their employability. Amended document and the action plan for the implementation of measures is to be submitted to Government for its adoption by mid October 2016. Active labour market policy measures (according to The Guidelines for Active Labour Market Policy Measures 2016-2020) are being implemented and targeting low skilled and older workers (and long term unemployed) in order to increase their employability. There are several programmes being implemented in the framework of the European Social Fund cohesion policy 2014-2020, also targeting older people and low skilled in the field of employment and lifelong learning (On the job training, Informal education and training, Program Employ.me, Project learning for the young adults). Furthermore, a programme **Active ageing at work –** support for organisations for better management of older workers - is to start in October 2016 and will continue through 2022. For <u>older workers</u> (55+) financial incentives such as tax relief (enshrined in the Corporate Income Tax Act and Income Tax Act) and exemption from paying social security contributions (Act on the Intervention Measure on the Labour Market) for employers who employ older worker (55+, unemployed) are still in place. Under the intervention measure employer is exempted from the payment of social security contributions for up to 24 months for employment of older worker. The measure is in place from 1.1.2016 till 31.12.2017. In the first 6 months of the implementation (January – June 2016) we record 676 older works being newly employed under this measure, 60 % of them are male. The Slovenian Qualifications Framework Act was adopted at the end of 2015 and came into force on July 12, 2016. Act links education system and labour market since it ensures transparency of different types of qualifications and therefore the transparent system of individuals' qualifications are provided to employers in Slovenia and EU. In April 2016, the Minister of Labour, Family, Social Affairs and Equal Opportunities adopted the Rules on Public Document for Supplementary Qualifications (in force since July 2016) and appointed the Expert Commission for SQF and EQF that, in

		accordance with the act, determined the criteria for inclusion of additional qualifications in the SQF.
3	*Improve the financing conditions for creditworthy business, including by facilitating durable resolution of non-performing loans and access to alternative financing sources.*	The Slovenian Government Office for Development and European Cohesion Policy (GODC), jointly with the Ministry of Agriculture, Forestry and Food (MAFF) has **conducted the ex-ante assessment for the implementation of Financial Instruments (FIs) under Thematic Objectives** (TOs). The proposed **Investment Strategy consists of five investment funds, which include several financial products and a Technical Assistance facility**, which provides grants to Financial Intermediaries and Final Beneficiaries. A **two-stage structure with a FoF** seems the most appropriate for Slovenia at this stage. The proposed structure with a single-FoF and thematic sub-funds is in line with the regulations and entails a number of benefits, such as having a single governance structure and a single counterpart, greater critical mass, economies of scale, cost efficiency and potential to exploit synergies between sub-funds. The funding agreement with FOF manager will be signed by the end of the year. **Programme of implementing financial incentives 2015-2020** of Ministry of Economic Development and Technology (MoEDT) has been adopted and the state aid schemes have been approved by the Ministry of Finance. These incentives **include: grants and financial instruments**. MoEDT and its **implementing (financial) institutions Slovene enterprise fund (SEF) and SID bank** and implementing agency SPIRIT implemented several measures to improve better access to finance for SMEs and micro enterprises: • Grants for start-ups – for innovative start ups, for start ups in the field of wood processing and for start ups from less developed regions with high unemployment rate (SEF) • grants for RDI, social enterprises, trade fairs, investments in problem regions, etc. (MoEDT, SPIRIT), • Microcredits for micro enterprises and microcredits for social enterprises (SEF) • Loans fund for SMEs (SID bank) • Guarantees for bank loans with subsidies of interest rate (SEF). • Seed capital (convertible loans and equity investment). The seed capital is combined with the mentoring schemes. Besides the direct measures, the MoEDT has prepared the proposal of changes of Act on supportive environment which includes also the proposals for better access to finance. **Draft law on the central credit register** is under preparation and it is expected to be implemented until the end of 2016.

		The draft law lays down the legal framework governing the establishment and operation of a central credit register and an electronic information exchange system by Banka of Slovenia. The credit register will be a centralized collection of data concerning credit transactions with natural persons and business entities and concerning credit risks and other exposures in relation to business entities.

	Ensure the proper implementation of the bank asset management company strategy.	**Update on transfers of NPL to BAMC.** In February 2016, the Government merged Factor banka and Probanka with the BAMC after both banks settled all of their existing liabilities, with the exception of the obligations owed to the Government, which were transferred to the BAMC. BAMC took over 196 million EUR of assets from Factor banka and 228 million EUR of assets from Probanka. The majority of the acquired assets are loans that have been a subject to financial due diligence. The merger gives the State an opportunity to find a more optimal time for disposing the assets of Factor banka and Probanka. Through efficient restructuring processes and transparent selling procedures with equal treatment of bidders, BAMC will be able to secure better outcomes for taxpayers than what would be generated in the case of finishing orderly winding down processes of both institutions by the end of the year. The merger brings no changes for the clients of any of the three institutions, as all the contracts between clients and Factor banka or Probanka respectively remain in force. BAMC formed a subsidiary (NPLPort) which will provide support services in the management of the credit portfolio of BAMC, their services will be offered on the market to the banks (management of their NPL's) and buyers of bad loans. BAMC aims to sell NPLPort possibly this year. **Defined indicators**. In March 2016 the Government defined a set of key performance indicators in the period 2016-2018 in the context of the document "Guidelines for the operation BAMC". These indicators are the following: (1) "minimum generated inflows" must be 161 mio EUR per year, (2) "generated inflows divided by initial transfer value of the assets" must be 10% per year, (3) "economic return on equity" (EROE) must be 8% per year, (4) "cost efficiency" (operating expenses divided by average assets under management) must 1,6% in 2016, 1,8% in 2017 and 1,9% in 2018. Government has in June 2016 found out that BAMC currently follows the realization of these indicators. First and foremost BAMC sells the property in accordance with the provisions of ZUKSB and has since the beginning of its operation till 31.7.2016 generated 615.5 million inflows. The complexity of the BAMC's portfolio increased significantly with the acquisition of Probanka and Factor banka. In this respect is soon expected that BAMC will submit revised business plan for the period 2016-2022.
4	*Take measures to modernise public administration and reduce the administrative burden on business.*	The **updated Single Document** is published on the website in a manner that provides a clear agenda for progress with activities, responsibilities and deadlines for specific actions. The aim of all these activities is to create a transparent tool for managing key strategic objectives at the national and

		operational level, which will also present a work of individual ministries and the Government as a whole. The implementation of **SME test** is taking place in accordance with the timetable. By June 2016, the use of the module for SME test is compulsory for new laws. Ministry of Economic Development and Technology oversee the preparation of SME tests by departments. In the following months, the module will be integrated into the system of the Government Office for Legislation called MEPED (Modular Environment for the Preparation of Electronic Documents). **Deregulation of activities and professions in Slovenia:** Review of the following professions and activities is underway: funeral activity, construction, surveying and mapping activity, chimney sweeps, real estate, driving schools, lawyers, veterinary and welfare. These activities are undertaken in cooperation of three ministries, namely Ministry of Economic Development and Technology, Ministry of public Administration and Ministry of Labour. **Digital transformation** The State Cloud was completed in December 2015, while a fully-interoperable government IT cloud infrastructure is planned for 2020 with Hybrid and Innovative Clouds. All new IT projects are now implemented as cloud services, they are standardised and have common infrastructure, which has a great impact on quality of services and generates savings. The renewed state Portal e-Uprava went live in November 2015 and ensures full interconnectivity of 30 back offices, registers and data bases with estimated savings for public administration to 0.5 mio EUR on annual basis while total savings are almost twice as high. **Public Procurement** The improvements of the legal framework in the field of public procurement have simplified requirements and costs, which is particularly beneficial for the SMEs. The Ministry of Public Administration developed the system that ensures the execution of public procurement procedures electronically. They will be fully operational in 2017. To the existing modules, this year e-Catalogue and e-Dossier were added. Mandatory e-auctions and e-reversed auctions and generate important cost effectiveness (7% of savings). Savings for joint public procurements are estimated to 5-10% (16 mio EUR for two years).
	Improve the governance and the performance of state-owned enterprises.	Management of State-owned enterprises (SOE) in Slovenia is fully in line with the OECDs Guidelines for corporate governance of SOEs. In July 2015 the National Assembly was appointed **new**

		members of the SSH Supervisory Board who are experts in finance, corporate management, liability and asset management and corporate law, and adopted the first **Asset Management Strategy**. **The annual plan is for the SSH** a basic tool for management, acquisition (e.g. recapitalisation) and disposal of assets. The annual plan is composed of General Part, which is publicly available, and of Special Part, which is declared as business secret and is publicly unavailable. According to the **General Part** the SSH will in 2016 among 46 assets, classified in the Strategy as portfolio, **start the privatisation in 31 SOEs** and continue privatisation processes in companies from the list of 15 (Paloma and Unior). The SSH has already launched disposal of some minority and also major shares in 16 companies (see annex 1), among them also in **NLB**, the largest bank in Slovenia. In accordance with the commitments, the Republic of Slovenia has to reduce its stake in NLB to 25% +1 until the end of 2017. If circumstances on international financial markets shall be positive, the IPO will start at the end of this year. In the case of Telekom Slovenija and Cinkarna Celje new privatisation processes will start after business restructuring and preparation of companies in the way of maximisation of the company value. On the possible **revision of the Strategy** the decision has not been taken yet. In the Strategy it is written that within one year from the adoption the document shall be reviewed by the Government, and, in case of any changed economic and other circumstances, its amendments or a new strategy will be proposed to the National Assembly, for its adoption. As it is a political document it is hard to predict what changes shall be made, but our goal is to (1) further reduce a number of strategic and important assets, (2) elimination of the prohibition of the concentration and dispersed ownership by private owners in some important assets.

Table 6.b Goals and Targets set in Strategy for growth and jobs

National 2020 headline targets			Measures	Description of direct relevance to address the target
Employment goals				
EU 2020 goals	National goals 2020	Current situation	Implementation of active employment policy measures	Active employment policy measures will be targeted on most vulnerable groups (older people, long term unemployed, low-skilled and youth) that need support for efficient entrance to the labour market despite more favourable trends. The measures as employment incentives and employment creation projects will have positive impact on the outflow from unemployment to employment.
75% of the population aged 20-64 should be employed	75 %	68,3 % (2012) 67,2% (2013) 67,7% (2014) 69,1 % (2015)	Design of policy measures focused on older people in the labour market	The document “Older people and the labour market in Slovenia” will include a comprehensive set of measures the aim of which is to contribute to higher employment rate and improved employability of older workers and prolongation of their working lives.
			Implementation of youth guarantee scheme	The implementation of the measures under the scheme has positive impact on better transit of youth from education to labour market and reduction of youth unemployment.
			Measures related to investment in human resources, various training to increase competences and better responsiveness to the needs (measures for the quality and promotion of the vocational and professional education and training, introduction of new flexible learning methods, on the job training, institutional training etc.)	The aim of the measures is to increase skills, key competences and enhance availability of lifelong learning for target groups’ higher employability and higher probability for staying on the labour market.
			Gradual introduction of apprenticeship models	The measure will increase employability of the participants.
R&D target				
EU 2020 goals	National goals 2020	Current situation	Further promotion of incentives for connecting of research, innovation and private sector	Implementation of R&D projects for cooperation with private sector and for researchers and their mobility. First call for 4-year research programmes was launched. 9 proposals is co-financed from ERDF (total value 55 M €). Programmes cover all priority areas as defined in S3. In September 2016 call for researchers at the beginning of their career is planned. Its main focus is on mobility of researchers back to Slovenia as well as among research institutions and companies. The key challenges are the efficiency and structure of these investments, and the
3% of the EU's GDP should be invested in R&D	3 %	2,8% (2012) 2,58 % (2012) 2,59% (2013) 2,39 % (2014)		

				transfer of research achievements to the economy. The call covers programmes on TRL 3-6, whilst parallel and complementary call was launched by Ministry of Economic development and Technology, covering TRL 6-9, in order to transfer research results to the economy in fastest possible way. Adoption of the of Smart specialization strategy. S3 was adopted in 2015.
			Promotion of international research projects	Promotion of cooperation in international projects for scientific infrastructure and cooperation for establishment of European research infrastructure, active cooperation in construction and operation of the Facility for Antiproton and Ion Research in Europe. Revision of NRRI 2001-2020 is in the final phase. Slovenia was actively engaged in implementation of several ESFRI and other international infrastructure projects in 2016. In 2016 attention will be paid to connecting and seeking synergies between structural and investments funds, and Horizon 2020. Implementation of Teaming call and support for its second generation is planned in the last quarter of 2016.
GHG emission goal				
EU 2020 goal	Slovenia 2020 goal	Current situation in Slovenia	Top government priorities with an important contribution to meeting GHG emissions reduction targets: - Environmental Fiscal Reform; with the long term goal of eliminating EHS - Complete renovation of private and public buildings, including energy refurbishment and inclusion of RES	Report on implementation of the Operational programme for reduction of GHG emissions to 2020 adopted in January 2016 show that all ESD sectors (transport, energy use in households, services, non-ETS industry, agriculture, waste management) have reduced emissions and projections show that the targets will be met in the long run. However, since emissions in the transport sector show high volatility and can resume with the growth of GDP, some uncertainties with respect to meeting the annual ESD targets remain. Biggest contributions to meeting the targets are measures agreed at the EU level (emissions standards for cars, taxation of energy, etc.) Climate change fund, replenished by the revenues from ETS auctioning, is being fully earmarked for climate measures (yearly up to 16 mio), currently mainly dedicated to energy efficiency measures in the buildings sector and renewable energy. There are many other measures in specific sectors underway or planned, with a special effort dedicated to aligning fiscal, energy and climate policies.
Greenhouse gas emissions should be reduced by 20% compared to 1990	Greenhouse gas emissions can increase up to 4% compared to 2005 in ESD sectors (Decision 406/2009/ES)	Emissions in ESD sector (Decision 406/2009/ES) were lower in 2014 than the annual target by as much as 15.2%, first estimates indicate that in 2015 emissions remain under the target (the annual target surpassed by 14.0%)		
			Implementation of NREAP, NEEAP, OP GHG 2020, Transport Development Strategy, Smart Specialization Strategy, ...	
Renewable energy goal				
EU 2020 goal	Slovenia 2020 goal	Current situation in Slovenia	Action plan on RES adopted in 2010,	Further promoting the use of potentials of renewable energy sources, particularly

Share of renewable energy in gross final energy consumption (20 %)	25 % share of renewable energy in gross final energy consumption	21,5 % (2013) 21,9 % (2014)	updating in 2016	biomass and heat pumps for heating and hydro and PV for electricity production. A new regulation to promote self-sufficiency with electric energy from renewable energy sources is adopted.
National goal on energy efficiency				
EU 2020 goal	Slovenia 2020 goal	Current situation in Slovenia	National Action Plan for Energy Efficiency 2014-2020 Long-term strategy to stimulate investment in energy renovation of buildings in public	The measures relate to the promotion of energy renovation of public and residential buildings and, energy efficiency in SMEs.
Energy efficiency should improve by 20%	20% Energy Efficiency improvement Primary Energy Consumption in 2020 up to 7,125 mio toe	Primary and final energy in line with trajectory. Target for public buildings and energy savings in final energy consumption not achieved in 2014.		
Early school leaving goal				
EU 2020 goal	Slovenia 2020 goal	Current situation in Slovenia	Model of quality, evaluation and self-evaluation for the pre-university education system Project learning for young adults (ongoing)	Implementation of the model will maintain a low share of early school leaving. Measure is implemented with a goal to encourage young unemployed to return to educational system or employment. Due to the difficulties in motivating these young people, the program aims primarily at improving their skills and enhancing their employability through project-based learning in groups and personalized support. The program has already been implemented in the past and has achieved good results. In 2013 48% of participants continued their education, 26% entered employment, 18% continued their education while working and 6% started their own business. The program will continue to be carried out with some minor improvements regarding its relevance to labour market..
The share of early school leavers should be under 10%	5 %	4,4 % (2012) 3,9 % (2013) 4,4% (2014) 5,0 % (2015)		
Tertiary education goal				
EU 2020 goal	Slovenia 2020 goal	Current situation in Slovenia	Implementation of incentive for cooperation between higher education and the social and economic environment at the micro level	Of particular importance is the monitoring of outcome of higher education in the form of graduate employability. The measures that link the implementation of programs in conjunction with the economy and the environment (direct partnership between student and business: practical competences, innovation, creativity ...) increase employability and effectiveness of higher education. Consequently, this affects the first target of increasing the employability of 2020.
At least 40% of 30-34 years old should have completed a tertiary or equivalent education	40 %	39,2 % (2012) 40,1 % (2013) 41,0% (2014) 43,4 % (2015)		
			Established e-VS (Electronic higher education), the information system	In 2015 module for university selection procedure for entry is inforce. The system is a web-based application available to all accredited higher education institutions. - Established a higher education institutions base, study programmes base, students and graduates base,

		- Is a single point for the enrolment application, - Will provide a module for assisting entry selection procedure, an electronic filing system for tender of enrolment and a module assisting higher education institutions financing.
	Career centers and counselling	The implementation of user-adjusted approaches to career counselling and the introduction of new forms of counselling, which will facilitate efficient career planning for students from enrolment to employment (new approaches in next year).
	New Higher Education Act, Currently in the procedure in the Parliament (adoption envisioned before December 2016)	Its goals include: - Implementing transparent and stable system of financing higher education - Opening the system internationally (Foreign study language) - Flexibility of the system – increasing flexibility of study programmes (institutional accreditation, evaluation, modifications) - Implementing an inclusive system of managing higher education institutions - Monitoring the employment of graduates (within electronic HE)
	Public tender for co-financing of upgrading activities of career centers in higher education in period 2015-2012; published in Official Gazette on June 17 2016	Its goals are: - Forming groups of employers according to study areas - Common standards for monitoring competences and knowledge - Strategies for employing graduates and monitoring their employment - Exchange of good practice, results, experiences - Enhancing ties on international level

Prevention of poverty and social inclusion goals

EU 2020 goals	National goals 2020	Current situation	The changes of the Social Security Act (2016)	The amended act provides legal basis for the implementation of social activation programmes the aim of which is improvement of social and employment competences of the social transfer recipients and other vulnerable groups.
Poverty should be reduced by lifting at least 20 million people out of the risk of poverty or social exclusion	Decreasing of the number for 40.000 persons relative to the base year 2010 - 366.000	392.000 (2012) 410.000 (2013) 410.000 (2014) 385.000 (2015)		

Table 7. Divergence from latest SP.

	ESA Code	Year 2016	Year 2016	Year 2017	Year 2018
		€ million	% GDP	% GDP	% GDP
Target general government net lending/ net borrowing	B.9				
Stability Programme		-871,4	-2,2	-1,6	-1,0
Draft Budgetary Plan		-877,9	-2,2	-1,3	-0,8
Difference		-6,5	0	0,3	0,2
General government net lending projection at unchanged policies	B.9				
Stability Programme			n.a.	-1,9	-1,7
Draft Budgetary Plan				-1,6	-1,14
Difference				0,3	0.02