REPUBLIC OF SLOVENIA
Fiscal Consolidation

11 February 2014

Saša Jazbec, Budget Directorate, Ministry of Finance

Agenda

- Background
- 2009-2011 Fiscal Measures
- 2012-2013 Fiscal Consolidation Measures and Accompanying Steps
- Further Fiscal Objectives

Slovenia: Key Background Information

Macro-Economics

- **Highest GDP per capita** among new EU members from Central Europe (17.172 EUR in 2012).
- **Export-driven economy** with value-added export goods.
- **Gross national savings** above EMU average (20.8% of GDP in 2012).
- **Current account surplus in 2013** (6.9% of GDP end of September 2013).

Public Finance

- **General government Revenues** ranged from 42.4 – 44.2 % of GDP, **GG Expenditures** from 44.3 – 49.9 % of GDP (2008-2013 period).
- **Rigid Public Expenditure structure** with relatively high share of social policy related programmes.
- In **Excessive Deficit Procedure** since December 2009.
- **Low indebtedness to GDP ratio** compared to other EMU countries (Private sector debt 125.3% in 2012, general government debt of **54.4% in 2012, 72.9% in 2013**).

2012-2013 Reforms

- **Strengthened banking system** (comprehensive AQR and ST finalized, three systemic banks recapitalized in Dec 2013, NPL's transferred to **BAMC**).
- **Improved sustainability of pension system.**
- Enhanced adjustment capacity through **enacted labour market reform.**
- **Parliament endorsed medium-term Fiscal Rule into the constitution.**
- **Imposed tighter conditions on the calling of referendum.**

2009-2011 Fiscal Measures Aimed at Addressing the Crisis

- 2008 general government deficit: 1.9% GDP.
- 2009, GG deficit: 6.3% GDP due to revenue shortfalls and discretionary use of measures aimed at mitigating the crisis effects:
  - Subsidies for retaining jobs and for self-employment,
  - Guarantee schemes for company loans,
  - Automatic stabilisers (unemployment benefits) exceeded budgeted amounts.
- The measures were in place until 2011 and the recorded GG deficit was 5.9% GDP in 2010 and 6.3% GDP in 2011, including one-off measures (recapitalization of Slovenian companies and contributions to first Greek bailout programme).

2012: Progress Made Towards Fiscal Consolidation

Policy Measures Underway

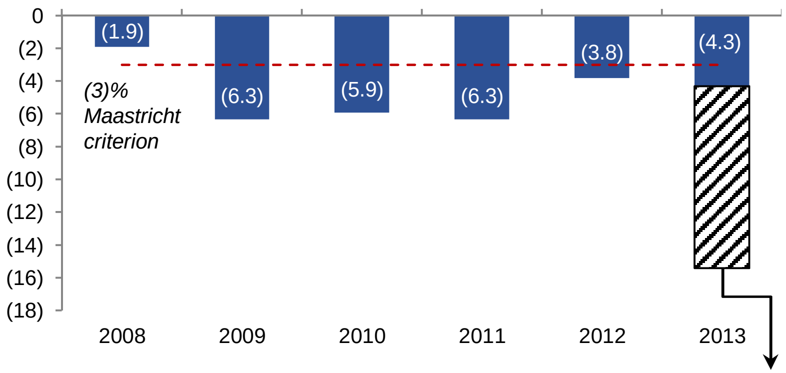
- **Fiscal Balance Act** of May 2012 brought about various measures:
- **Public sector wage bill cut** by 3% in 2012 (and additionally by 1.3% in 2013).
- **Rationalization of other benefits** and reimbursements to employees in public sector.
- **No indexation of pensions.**
- **Cuts** in certain **benefits** related to labour market, social and family policies.
- Reduction of **capital transfers** (134 mio EUR in 2012, 459 mio EUR in 2011).
- New **pension** and **labour market** legislation passed.

Fiscal Consolidation Underway

- **Fiscal Deficit** of -4.3% of GDP in 2013 (excluding bank recapitalizations). Budgeted deficit of -3.2% and -2.5% of GDP in 2014 and 2015 respectively.
- Structural budget deficit reduced by 0.6%
- Adopted Fiscal rule to achieve budget structural balance over medium term
- General government debt to GDP estimated at 72.9% after banks recapitalization

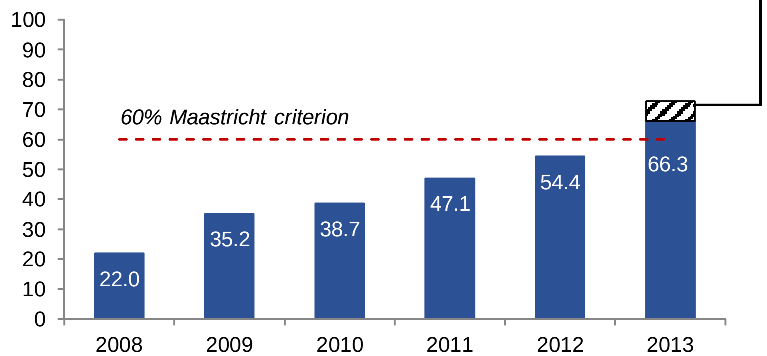
If the balance of EUR 2.3 bn in the government's single treasury account is taken into account, the net general government debt stands at 66.3% of GDP.

General Government Balance (% of GDP)[1]



Headline deficit in 2013 increased to -15.4% due to banks recapitalizations (one-offs amounted 11.1% of GDP).

General Government Gross Debt (% of GDP)



2012 – 2013 Accompanying Steps: Reforms Achieved

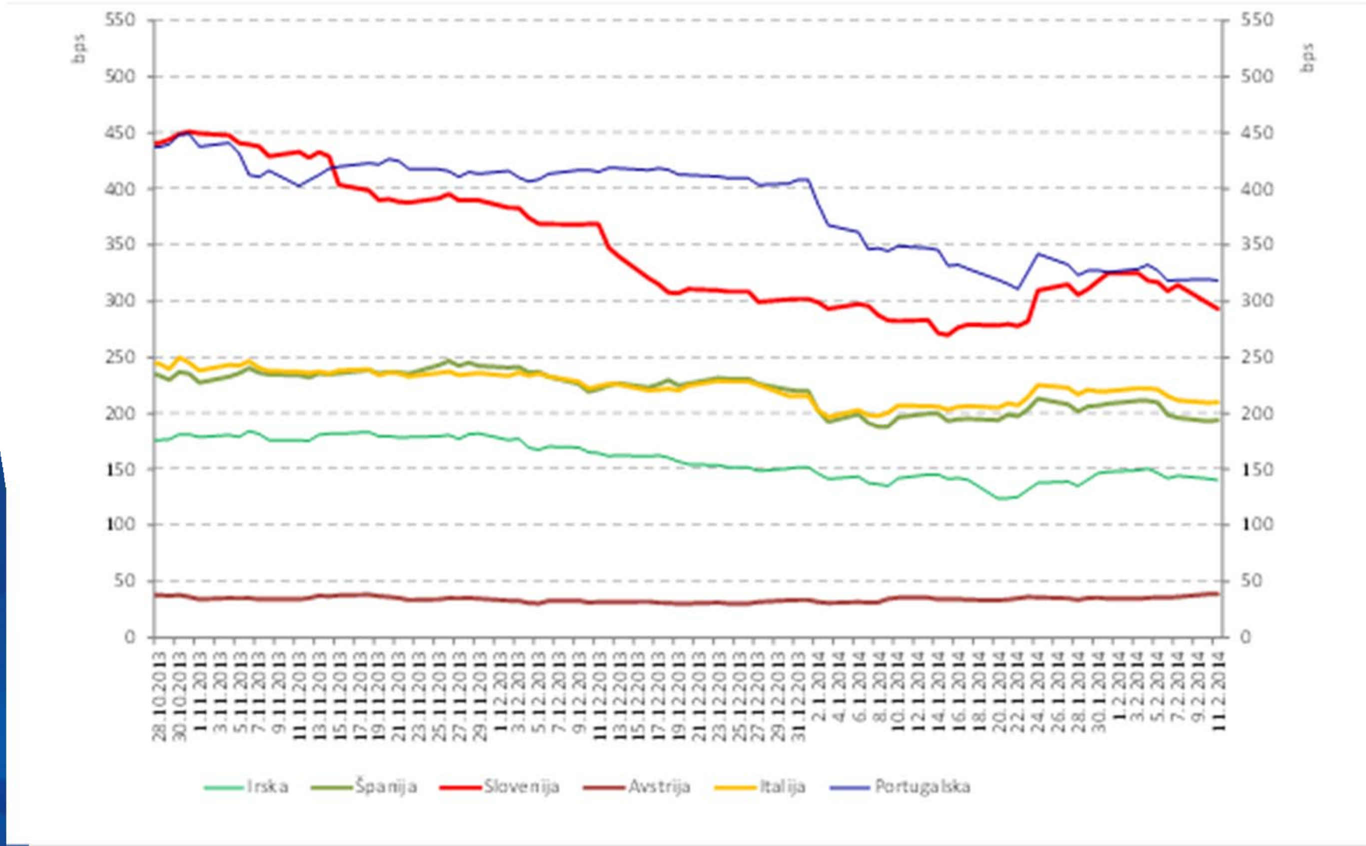
1 **Parliament Endorsed fiscal rule into constitution** (24.5.2013)	Parliament mustered the necessary two-thirds majority (78/90) to endorse the introduction of the **balanced budget rule into the Constitution**	✓
2 **Reformed Pension system** (1.1.2013)	Adopted pension reform ensures sustainability of pension system, public finance and adequacy of pension benefits to support long term sustainability	✓
3 **Labour market Reform** (1.3.2013)	Adopted labour reform to streamline the employment protection, labour market flexibility and to reduce the labour market segmentation **Reduction in unemployment benefit to encourage labour demand**	✓
4 **Tightened Conditions on the calling of referendum** (24.5.2013)	End of May 2013 The Parliament amended the Constitution to impose tighter conditions on the calling of referendum on fiscal issues with support of 86 out of 90 MPs votes	✓
5 **Strenghtened Banking System** (12.12.2013)	The capital shortfall at the banks covered by the review would amount to EUR 4.778 bn under the adverse scenario. **Key capital shortfalls of systemic banks yet addressed by the Government.**	✓

Government Priorities

Key Economic Priorities Set by the Government

Priority	Actions	Comments
Fostering Growth	▪ Cleaning banks balance sheet ▪ Orderly deleveraging corporate sector ▪ Privatization of cleaned banks and restructured corporates ▪ Corporate governance improvement	▪ Systemic banks recapitalized and ongoing transfers of non-performing assets on BAMC to be completed in Q1 2014 ▪ Transfers expected to be completed by April 2014 ▪ Bankruptcy legislation improved ▪ Privatization underway (list of 15 companies to be sold) and revised law on State Sovereign Holding
Fiscal Consolidation	▪ Further Reduction of Government structural deficit ▪ Implementing Fiscal Rule ▪ Stabilization of General Government debt growth	▪ Focus on recurrent expenditure supplemented with revenue measures in case needed ▪ 0.6% structural deficit reduction in 2013 ▪ Fiscal rule bylaw finalized and adopted in H1 2014 ▪ One-off effects arising from cleaning banks and deleveraging corporates will be off-set by privatization ▪ Modernized real estate taxation started in 2014

First results: market confidence increased, ratings stable, credit spreads tighter (10 yr EUR)



Brand new bond issue

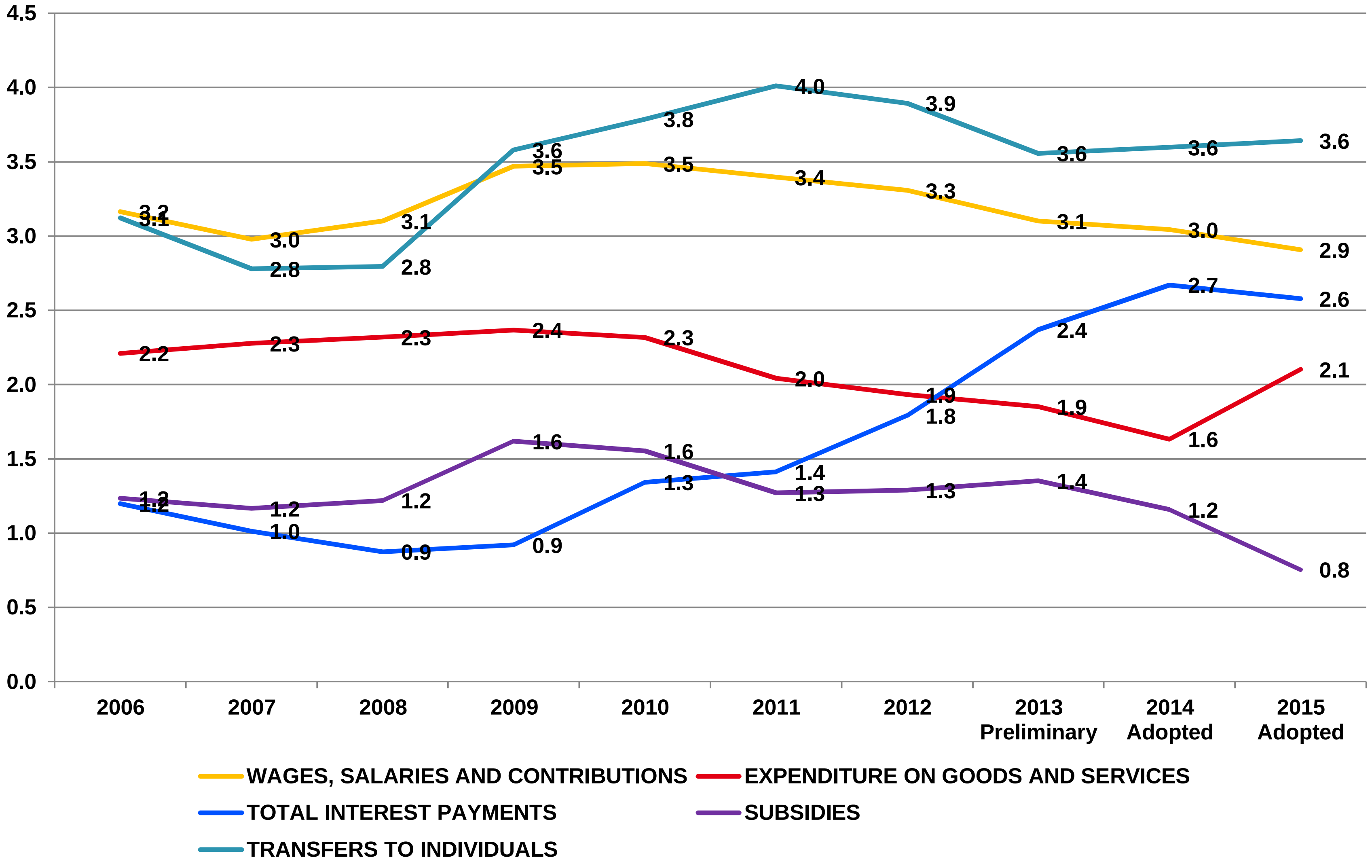
- Key data:

Issuer:	The Republic of Slovenia	
Rating:	Ba1/A-/BBB+ (stb/stb/neg)	
Format:	144A / Reg S	
Denominations:	USD 200k + 1k	
Law/Listing:	English / Luxembourg Stock Exchange	
Lead Managers:	Barclays, Goldman Sachs International, J.P. Morgan	
Tranches:	5-years	10-years
Maturity:	18 February 2019	18 February 2024
Size	$1.5bn	$2.0bn
Re-offer price:	99.331%	98.247%
Yield (s/a)	4.275%	5.480%
Coupon (s/a):	4.125%	5.250%
Spread to UST:	T+280.0bps	T+280.0bps

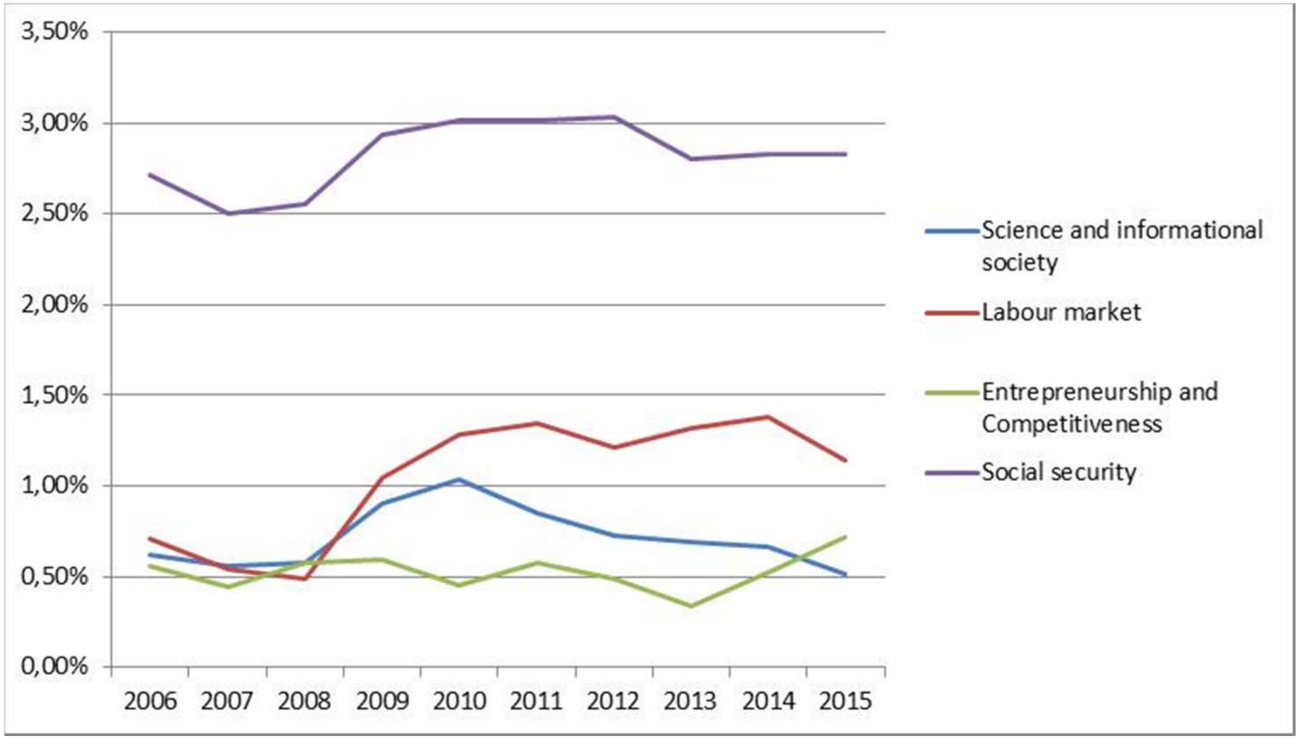
- *Ljubljana, 10 February 2014.* The Republic of Slovenia has successfully priced a USD 3.5bn dual tranche benchmark offering.

- The offering garnered a combined order book in excess of USD 16bn, which is the largest order book for a CEEMEA sovereign syndication in 2014 to date, despite the significant tightening of re-offer levels with initial price guidance of UST's +300-312.5bps area for both the 5- and 10-year tranches.

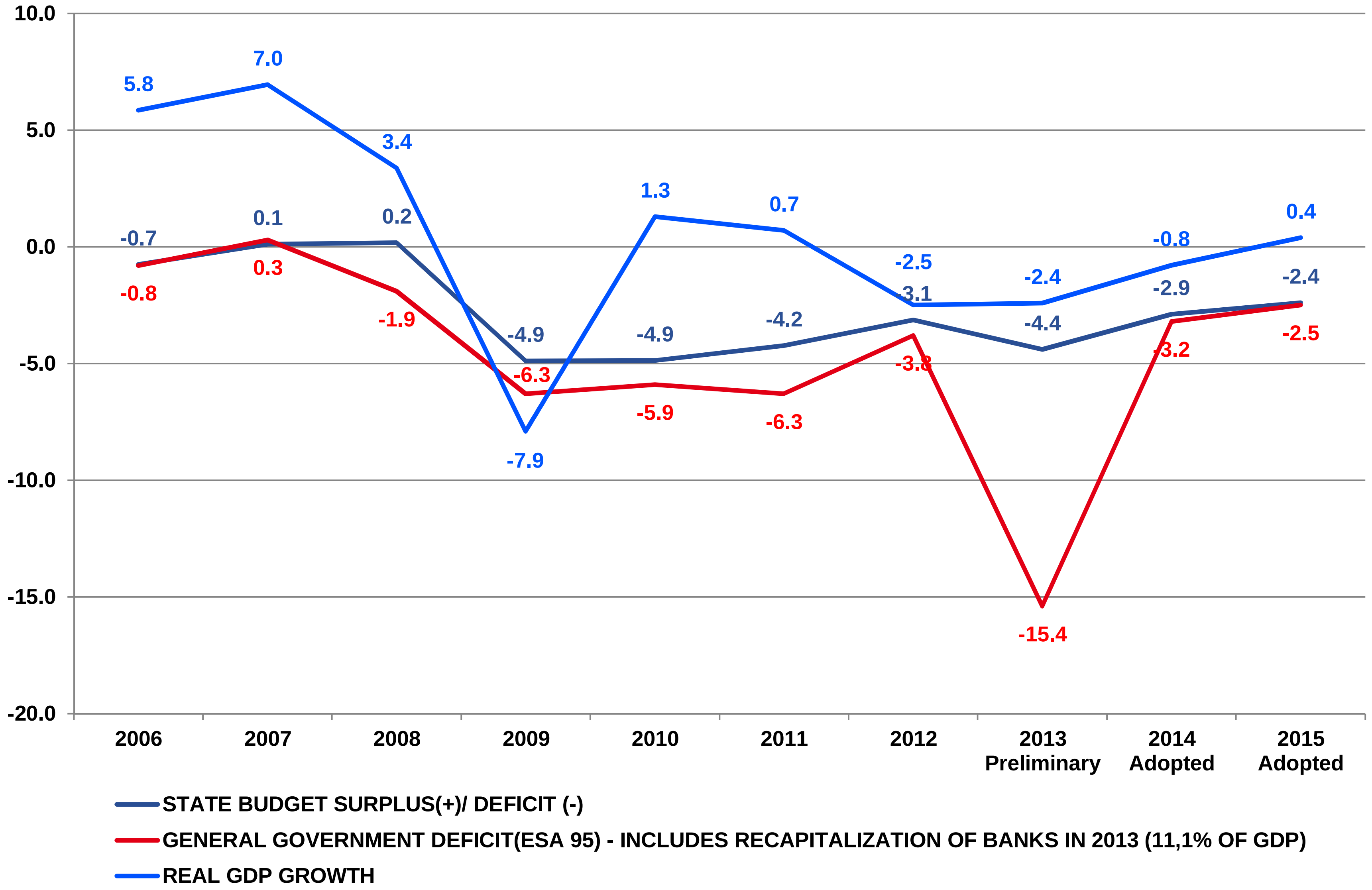
State Budget Expenditures (% of GDP)



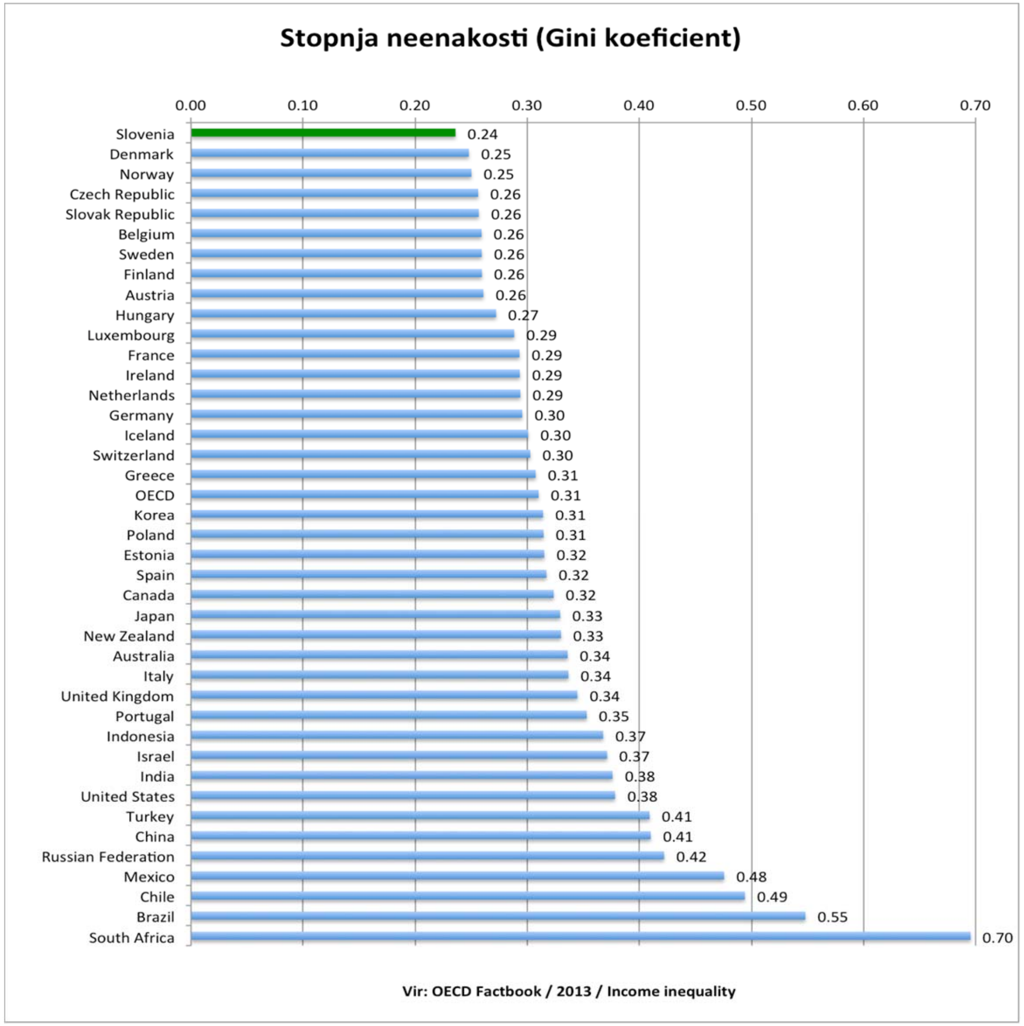
State Budget Expenditures – by policies (% of GDP)



Real GDP growth and budget balance (% of GDP)



2013 Income Inequality – a proof of a social state still in place!



Fiscal Consolidation – Growth friendly? Not really. Social state friendly? Statistically yes.

Ministry of Finance
Republic of Slovenia