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SLOVENIA: MACRO FISCAL ASSESSMENT

AN ANALYSIS OF THE APRIL 2009 UPDATE OF THE STABILITY PROGRAMME

The Stability and Growth Pact requires each EU Member State to present an annual update of its medium-term budgetary programme, called "stability programme" for countries that have adopted the euro as their currency and "convergence programme" for those that have not.

The attached technical analysis of the programme, prepared by the staff of, and under the responsibility of, the Directorate-General for Economic and Financial Affairs (DG ECFIN) of the European Commission, was finalised on 24 June 2009. Comments should be sent to Jan Komarek (Jan.Komarek@ec.europa.eu) and Mitja Košmrl (Mitja.Kosmrl@ec.europa.eu). The main aim of the analysis is to assess the realism of the budgetary strategy presented in the programme as well as its compliance with the requirements of the Stability and Growth Pact. However, the analysis also looks at the overall macro-economic performance of the country and highlights relevant policy challenges.

The analysis takes into account (i) the Commission services' spring 2009 forecast, (ii) the code of conduct ("Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 11 October 2005) and (iii) the commonly agreed methodology for the estimation of potential output and cyclically-adjusted balances. Technical issues are explained in an accompanying methodological paper prepared by DG ECFIN.

Based on this technical analysis, the European Commission adopted a recommendation for a Council opinion on the programme on 24 June 2009. The ECOFIN Council adopted its opinion on the programme on 7 July 2009.

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All these documents, as well as the provisions of the Stability and Growth Pact, can be found on the following website:

http://ec.europa.eu/economy_finance/about/activities/sgp/main_en.htm

1. INTRODUCTION

This document assesses the April 2009 update of Slovenia's stability programme. Following the September 2008 parliamentary elections a new government took office in November 2008 and the update was submitted on 23 April 2009[1]. The update was approved by the government and presented to the Slovenian Parliament for discussion in its committees. It covers the period 2008-2011 and builds on the supplementary budget for 2009 adopted by the Parliament in March 2009, with however an updated macroeconomic scenario. This assessment takes into account all currently available information, notably the Commission services' spring 2009 forecast and information on the economic outlook released subsequently, as well as the stimulus packages adopted by the Slovenian authorities in response to the economic downturn and the second supplementary budget that was adopted by the government after the programme submission, on 17 June.

2. MAIN CHALLENGES IN THE ECONOMIC DOWNTURN AND THE POLICY RESPONSE

Slovenia has enjoyed solid economic growth in recent years, averaging 5% over the period 2004-2008. GDP per capita in PPS reached almost 90% of the EU average in 2007. Economic performance has been marked by rapid growth in exports and investments. Over time, the degree of openness of the economy, measured as the share of exports and imports in GDP, has grown markedly, from 97% of GDP in constant prices in 1995 to 154% of GDP in 2008.

The high exposure to external demand has implied that the Slovenian economy has been severely hit by the global crisis (see Figure 1 in Annex 2). Activity decelerated markedly throughout 2008, with a steep fall in the final quarter. The effect of the global crisis came on top of rising unit labour costs affecting exports, in turn limiting investment and weakening confidence. In addition, while supported by a strong increase in employment and wages, private consumption was held back by high inflation and falling consumer confidence. The slowdown in economic activity turned into recession in the last quarter of 2008 and current economic indicators point to worsening conditions in Slovenia, most notably in terms of investment. Assuming a (subdued) global recovery, well-functioning financial markets and preserved competitiveness, a slow recovery is expected in 2010. Having reached a low level of just above 4% in the second half of 2008, the unemployment rate started increasing in early 2009 and could rise to more than 7% by 2010. Reflecting not only rising food and energy prices but also buoyant domestic demand, inflation picked up markedly in the course of 2008. From an average of 5.5% in 2008, the inflation rate is projected to moderate significantly going forward, while remaining above the euro area level. Based on the Commission services' spring 2009 forecast, the output gap is expected to turn sharply negative in 2009 and to widen in 2010. Against this background, the Slovenian economy is expected to enter economic "bad times" in 2009.

The Slovenian budgetary position is deteriorating rapidly, from a deficit of 0.9% of GDP in 2008 to 5.5% of GDP in 2009 according to the Commission services' spring 2009 forecast. This is the result of the working of automatic stabilisers, the strong dynamics of social transfers and the public sector wage bill and various discretionary measures. On top of tax relief benefiting companies decided before the onset of the crisis, the government adopted measures to support the economy using the room for fiscal manoeuvre offered by the moderate deficit and debt levels going into the crisis. At the same time, given the need to

[1] The English language version was submitted on 24 April 2009.

improve the long-term sustainability of public finances, consolidation measures have been taken and the update announces further savings to stem the rapid rise in the deficit.

An immediate key challenge in the current crisis situation will be to stabilise financial markets and ensure adequate access to credit for firms. The Slovenian financial sector has weathered the crisis relatively well as it is not severely exposed to toxic assets. However, banks are vulnerable due to their increased reliance on short-term foreign borrowing to finance a credit boom that outstripped the growth of domestic deposits. In view of the widening external deficit, a second challenge will be to ensure adequate wage policies as exports' performance suffers not only from the fall in external demand but also from weakening competitiveness. Thirdly, to strengthen resilience and enhance potential growth, structural reforms need to be pursued. For instance, an effective research and innovation strategy, implemented in close cooperation with the business sector, would help increase the technological content of exports. A final challenge is to return to budgetary consolidation and improve the long-term sustainability of public finances through a reform of the pension system, together with the pursuit of active ageing.

Box: Measures to help stabilise the financial system

Slovenia adopted several measures to strengthen the stability of and confidence in the financial sector. In autumn 2008 an unlimited government guarantee on bank deposits of individuals was introduced. In addition, the government is entitled to utilise the following types of measures: (i) loans to, and equity investments in, credit institutions, (re-)insurance companies and pension companies; (ii) government guarantees to credit institutions for refinancing operations; and (iii) purchases of claims from credit institutions. All these measures are planned to be phased out by the end of 2010. The ceiling on the overall volume of government guarantees has been set at EUR 12 billion (33% of GDP). A second set of measures, adopted in early 2009, consists of a government guarantee scheme for bank loans to enterprises and the recapitalisation of the Slovene Export and Development Bank and of the Fund for Entrepreneurship (together amounting to 0.6% of GDP). Finally, the government has temporarily deposited the proceeds of some recent bond issuances with banks.

The government has responded to the European Economic Recovery Plan with stimulus measures aiming on the one hand at stemming the deterioration in the labour market and on the other hand at enhancing growth potential through incentives to encourage investment, especially in new technologies and R&D, and aid the restructuring process. In addition, ongoing infrastructural investment (railways, motorways, energy etc.) should provide support to the construction sector, which accounts for a higher proportion of gross value added than on average in the euro area and is expected to cool. While the new government has mainly focussed on dealing with the short-term challenges, it has also established working groups on pensions and other social transfers as well as on health and long-term care. These should put forward their proposals for reforms by the end of 2009.

3. MACROECONOMIC SCENARIO

According to the updated stability programme, real GDP is projected to fall by 4% in 2009 and to recover to positive and increasing growth afterwards[2]. The macroeconomic scenario for 2009 underlying the update is broadly in line with the Commission services' spring 2009 forecast. The update is somewhat less pessimistic on the contribution of final domestic demand and also foresees a more positive contribution from net exports but this is more than

[2] The macroeconomic forecast presented in the update was elaborated before the publication of the update and as such does not reflect the new deficit targets and additional consolidation measures presented therein.

offset by a very large negative contribution from the change in inventories. For 2010, the update foresees slightly higher growth than the Commission services due to a more positive outlook for all demand components except inventories. For 2011, which is not covered by the Commission services' spring 2009 forecast, real GDP growth projected in the programme seems plausible taking into account average potential growth on the condition that competitiveness is preserved.

On 9 June, the statistical office released real GDP data for the first quarter of 2009 (showing a decline by 6.4% on a quarterly basis and 8.5% year-on-year) that signal a stronger contraction of economic activity in 2009 than expected in the Commission services' spring 2009 forecast. The contraction in the first quarter was driven by a steep fall in gross fixed capital formation as well as by the change in inventories (but a full breakdown of the Q1-2009 results on a seasonally-adjusted basis has not been published so far). The carry-over after the first quarter implies a contraction of economic activity by more than 8% for 2009 as a whole. Prospects for Q2-2009 appear unfavourable given the strong contraction of industrial production recorded in April (by almost 4% on a monthly basis). In the light of this, real GDP growth in 2009 in Slovenia could be even lower than projected in the programme.

Table I: Comparison of macroeconomic developments and forecasts

	2008		2009		2010		2011
	COM	SP	COM	SP	COM	SP	SP
Real GDP (% change)	3.5	3.5	-3.4	-4.0	0.7	1.0	2.7
Private consumption (% change)	2.2	2.2	-0.4	-0.6	0.6	1.0	2.0
Gross fixed capital formation (% change)	6.2	6.2	-13.6	-12.0	-1.1	1.0	4.0
Exports of goods and services (% change)	3.3	3.3	-11.8	-8.6	-0.3	1.7	5.4
Imports of goods and services (% change)	3.5	3.5	-12.0	-10.3	-0.6	1.6	5.2
Contributions to real GDP growth:							
- Final domestic demand	3.5	3.5	-3.5	-3.2	0.6	1.4	2.7
- Change in inventories	0.2	0.2	-0.4	-2.2	-0.1	-0.5	-0.1
- Net exports	-0.2	-0.2	0.5	1.4	0.2	0.1	0.1
Output gap[1]	3.2	4.4	-1.3	-2.3	-2.7	-3.5	-3.1
Employment (% change)	2.9	2.9	-4.7	-5.4	-0.6	-1.7	-0.4
Unemployment rate (%)	4.4	4.4	6.6	6.0	7.4	7.0	7.0
Labour productivity (% change)	0.6	0.6	1.3	1.5	1.4	2.8	3.1
HICP inflation (%)	5.5	n.a.	0.7	n.a.	2.0	n.a.	n.a.
GDP deflator (% change)	4.0	4.0	1.9	2.7	2.0	1.2	2.1
Comp. of employees (per head, % change)	8.5	8.7	2.3	2.7	3.1	4.2	4.3
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-5.6	n.a.	-4.6	n.a.	-4.4	n.a.	n.a.

Note:

[1]In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.

Source :

Commission services' spring 2009 forecasts (COM); Stability programme (SP)

Although the projected fall in employment for the period 2009-2010 is more pronounced in the update than in the Commission services' spring 2009 forecast, the unemployment rate is lower, which reflects different labour force assumptions. There is therefore a risk that unemployment rises faster than projected in the update, even though it is difficult to predict the responsiveness of the labour force in the current circumstances. As wages per capita are projected to grow more strongly in the update than in the spring forecast, the growth in the total wage bill is broadly similar in both sets of forecasts. The economy-wide figures for average wage growth mask significant differences between the private and public sectors. In the private sector, average wages would rise only slightly in 2009 as firms pursue savings on payroll costs, while public sector wages are planned to increase substantially in 2009-2010 (see Section 4.2 below)[3].

Since the update does not provide projections for HICP inflation, the assessment of plausibility of the inflation assumptions is based on the GDP deflator and the CPI[4]. The inflation assumptions in the update appear realistic.

The macroeconomic scenario in the update includes the impact of the measures that can be expected to support the economy (stimulus measures as well as tax decisions taken before the onset of the crisis, see above). The update mentions, for instance, that the decline in employment in 2009 would be even more pronounced without the wage subsidy for shorter working hours.

Concerning the challenges mentioned in the preceding section, the update’s macroeconomic scenario reflects the impact of the current financing difficulties for firms, while highlighting that the measures put in place by the government should alleviate these problems. The current account deficit, which reached 5.6% of GDP in 2008, is expected to narrow to just above 2% of GDP in 2009[5], a more pronounced improvement than in the Commission services’ spring 2009 forecast. Competitiveness is not mentioned as a key challenge in the update. According to the update, after the significant increase in 2008, real unit labour costs would fall in 2009 and broadly stabilise in 2010.

Overall, assessed against currently available information, the programme’s macroeconomic scenario appears to be based on favourable assumptions. Economic growth in 2009 could be lower than projected in the programme and the recovery could be more muted in 2010. Also in the light of this, the rise in unemployment could be somewhat faster than foreseen in the update. By contrast, the projections for inflation appear realistic. The programme's inflation prospects and the underlying moderation in unit labour cost growth in the medium term imply some containment of the competitiveness losses that Slovenia has been experiencing in recent years.

4. BUDGETARY STRATEGY

4.1. Budgetary implementation in 2008

According to the November 2007 update of the stability programme, the general government deficit was planned to reach 0.9% of GDP in 2008. The April 2009 EDP notification reported an outcome perfectly in line with the target, against lower GDP growth than envisaged (outturn in real terms at 3.5% against 4.6% planned, and 7.7% versus 8.4% in nominal terms). However, the significantly better starting position arising from the fact that the 2007 outcome

[3] According to the Commission services' spring 2009 forecast, wages per capita are expected to increase by 0.5% in 2009 and 1.5% in 2010 in the private sector and much faster in the public sector, by 8.1% in 2009 and 8.5% in 2010. The corresponding figures in the stability programme are 0.5% and 2.0% for the private sector and 6.6% and 8.5% in the public sector.

[4] The update provides projections for the national CPI, which is forecast to reach 0.4% in 2009, 1.6% in 2010 and 2.6% in 2011 (from 5.7% in 2008). The Commission services’ spring 2009 forecast is somewhat higher, with 0.7% and 2.0% respectively in 2009-2010.

[5] As a result of a lower deficit on merchandise trade and on factor incomes, where lower net outflows of dividends and reinvested earnings are expected. This projection for the current account is mentioned in the text of the stability programme. The external balance is not shown in the standard tables of the stability programme.

was a surplus instead of a deficit – a difference of just over 1 percentage point of GDP, mainly due to lower-than-foreseen expenditure - together with stronger revenue growth in 2008 than budgeted could have led to a much better outturn in 2008. This was not the case because expenditure growth was much higher than planned.

Revenue was planned to increase by 6.4% in 2008 according to the November 2007 update of the stability programme but eventually rose by 7.1%, with positive surprises in personal income tax, social contributions and non-tax revenue. Expenditure was budgeted to rise by 7.4% but increased by 10.7%. Expenditure overruns were recorded mainly in public investment, social transfers and compensation of employees.

4.2. Near-term budgetary strategy

According to the April 2009 update of the stability programme, the general government deficit is targeted to widen significantly, from 0.9% of GDP in 2008 to 5.1% of GDP in 2009. This represents a substantial upward revision compared to the deficit target of 3.7% of GDP in the March 2009 supplementary budget and to the original target of 0.6% of GDP set in the budget for 2008-2009 adopted in November 2007. The upward revision of the 2009 target compared to the March 2009 supplementary budget results from the revised underlying macroeconomic scenario with substantially lower real GDP growth (from +0.6% to -4%).

Table II presents the main measures affecting budgetary developments in 2009 according to the stability programme. These include interventions to support the economy, consisting of measures taken before the onset of the crisis as well as the government's stimulus packages presented in December 2008 and February 2009. Together they add up to almost 2% of GDP. The table also presents consolidation measures to help finance the stimulus packages and stem the deterioration in the deficit. They include expenditure savings on intermediate consumption and investment underpinning the deficit target of 5.1% of GDP, which are announced, but not yet fully specified, in the stability programme.

After the submission of the programme, on 17 June, the government adopted a second supplementary budget including a mix of consolidation and stimulus measures, which is not yet adopted by Parliament. It only partly confirms the savings measures announced in the stability programme and thus points to a higher deficit target for 2009 (see Section 4.4 below).

The aim of the measures to support the economy is to mitigate the impact of the crisis on production capacity and jobs. They act on both the revenue and expenditure sides of the budget. Some of the recovery measures are financed by a re-prioritisation of funds within ministries and therefore have a neutral budgetary effect.

Based on the information in the stability programme, the expenditure ratio is set to rise steeply, by 3½ percentage points, to just above 47% of GDP. Subsidies, the government wage bill and social transfers are each expected to increase by at least 1 percentage point of GDP. The main expenditure measure to support the economy is the wage subsidy to encourage shorter working hours but its cost is likely to be much lower than planned in the update (0.6% of GDP) in view of the low take-up so far (see Section 4.4 below). Subsidies to increase investment and R&D and support to SMEs and start-ups would further stimulate the economy. A significant increase in the wage bill as a percent of GDP is targeted, mainly as a result of the implementation of the decision to eliminate "wage disparities"[6]. However, the

[6] Agreement on the new pay system, which aims at eliminating existing pay differences among the various professions in the public sector by 2010, was reached in July 2007. Public sector employees were planned to receive four wage increments, amounting to a total increase of 13% in average pay or 1.1% of 2008 GDP

government has already taken steps to limit the increase and further adjustments are planned for 2010, which need to be negotiated with the social partners[7]. Social transfers are planned to rise markedly, mainly as a result of (automatic) indexation arrangements. The dynamics of transfers in kind are affected by the extension of support for kindergarten care and student meals. Public investment would remain constant as a percent of GDP (it was the second highest in the euro area in 2008) and the government is determined to maximise financing from EU funds.

Table II. Main budgetary measures for 2009

Revenue measures[1]	Expenditure measures[2]
Measures in response to the downturn	
• Elimination of payroll tax (-0.6% of GDP)[3] • Reduction of corporate tax rate by 1 percentage point, from 22% to 21% (-0.1% of GDP)[3] • Additional investment allowance for companies (-0.1% of GDP)[3] • Additional investment allowance for sole proprietors (-0.2% of GDP)	• Wage subsidy for shorter hours worked (0.6% of GDP) • Support for SMEs and start-up companies (0.1% of GDP) • Subsidies for investment in new technologies and R&D (0.2% of GDP)
Other measures	
• Increase in excise duties (0.9% of GDP)	• Public sector wage bill (0.2% of GDP) (implementation of decision to eliminate “wage disparities” (0.4% of GDP)[3] partly offset by measures to restrain the wage bill) • Increases in specific transfers in kind (0.1% of GDP)[3] • Adjustments to public investment (-0.5% of GDP)[4] • Savings on intermediate consumption (-0.4% of GDP)[4]

Notes:

[1] Estimated impact on general government revenue

[2] Estimated impact on general government expenditure

[3] Measure decided before mid-2008

[4] Measure announced in the programme

Source: Commission services and April 2009 update of the stability programme

The revenue ratio is foreseen to fall by 0.8 percentage point in 2009 according to the update, to close to 42% of GDP, driven by the economic downturn and different forms of tax relief benefitting firms. The latter include a further lowering of the corporate income tax rate and tax allowances for investment. A further kind of tax relief for companies, namely the phasing-out of the payroll tax by the end of 2008, affects indirect taxes. In order to stem the widening

(IMAD, Slovenian Economic Mirror, June 2008). The most significant pay increases are for workers in sectors such as culture, social security and healthcare, while workers in education are expected to see their wages increase the least given their more generous wage rises in the past. The first two instalments were paid out in September 2008 (accrued back to May 2008) and January 2009.

[7] In February 2009, it was decided to (i) postpone the third instalment of the “wage disparities” from September 2009 to January 2010, (ii) forego the adjustment of wages to inflation foreseen for July 2009 and (iii) restrict performance-related pay. The programme also plans zero growth in employment in the public sector.

of the deficit, the government has increased excise duties on tobacco, alcohol and energy products. The net result of these two measures is that indirect taxes are planned to increase marginally as a percentage of GDP. The share of social contributions in GDP will remain broadly unchanged.

Table III: Composition of the budgetary adjustment

(% of GDP)	2007	2008		2009		2010		2011	Change: 2008-2011
	COM	**COM**	**SP**	**COM**	**SP**	**COM**[1]	**SP**	**SP**	**SP**
Revenue	**42.9**	**42.7**	**42.7**	**42.2**	**41.9**	**42.1**	**42.4**	**42.4**	**-0.3**
of which:									
- Taxes on production and imports	14.6	14.0	14.0	14.2	14.1	14.2	14.4	14.4	0.4
- Current taxes on income, wealth, etc.	9.5	9.3	9.3	8.9	8.5	8.9	8.6	8.6	-0.7
- Social contributions	14.0	14.3	14.3	14.2	14.4	14.1	14.4	14.3	0.0
- Other (residual)	4.9	5.0	5.1	4.9	4.9	4.9	5.0	5.1	0.0
Expenditure	**42.4**	**43.6**	**43.6**	**47.7**	**47.1**	**48.6**	**46.4**	**45.8**	**2.2**
of which:									
- Primary expenditure	41.1	42.4	42.4	46.1	45.6	46.8	44.7	44.0	1.6
of which:									
Compensation of employees	10.6	10.8	10.8	11.9	11.8	12.5	11.7	11.5	0.7
Intermediate consumption	5.9	6.1	6.1	6.5	6.1	6.6	6.0	6.0	-0.1
Social payments	16.3	16.6	16.6	18.0	17.8	18.1	17.7	17.8	1.2
Subsidies	1.6	1.6	1.6	2.1	2.7	2.0	2.2	1.7	0.1
Gross fixed capital formation	3.7	4.2	4.2	4.4	4.2	4.4	4.1	4.1	-0.1
Other (residual)	3.0	3.2	3.2	3.1	3.0	3.1	2.9	2.9	-0.3
- Interest expenditure	1.3	1.2	1.2	1.6	1.5	1.8	1.7	1.8	0.6
General government balance (GGB)	**0.5**	**-0.9**	**-0.9**	**-5.5**	**-5.1**	**-6.5**	**-3.9**	**-3.4**	**-2.5**
Primary balance	**1.8**	**0.2**	**0.2**	**-3.9**	**-3.6**	**-4.7**	**-2.2**	**-1.6**	**-1.8**
One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GGB excl. one-offs	**0.5**	**-0.9**	**-0.9**	**-5.5**	**-5.1**	**-6.5**	**-3.9**	**-3.4**	**-2.5**
Output gap[2]	4.5	3.2	4.4	-1.3	-2.3	-2.7	-3.5	-3.1	-7.5
Cyclically-adjusted balance[2]	-1.7	-2.5	-2.9	-4.9	-4.1	-5.2	-2.3	-2.0	0.8
Structural balance[3]	**-1.7**	**-2.5**	**-2.9**	**-4.9**	**-4.1**	**-5.2**	**-2.3**	**-2.0**	**0.8**
Change in structural balance		*-0.8*	*-1.2*	*-2.4*	*-1.2*	*-0.3*	*1.8*	*0.3*	
Structural primary balance[3]	-0.4	-1.3	-1.7	-3.3	-2.6	-3.4	-0.6	-0.2	1.4
Change in structural primary balance		*-0.9*	*-1.3*	*-2.0*	*-0.9*	*-0.1*	*2.0*	*0.4*	

Notes:

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the information in the programme.

[3]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:
Stability programme (SP); Commission services' spring 2009 forecasts (COM); Commission services' calculations

Given the widening of the structural deficit[8] (as recalculated by the Commission services on the basis of information in the programme using the commonly agreed methodology) by 1¼ percentage points of GDP, the planned fiscal stance in 2009 is expansionary. Due to the rise in the interest burden, the structural position in primary terms worsens less, by close to 1 percentage point of GDP. This reflects the impact of the measures listed in Table II (around 0.4% of GDP in total) and the strong dynamics of social transfers and the wage bill.

[8] The structural deficit is the cyclically-adjusted deficit net of one-off and other temporary measures.

The box in Section 2 describes the measures put in place to enhance the stability of the financial sector and help restore banks' refinancing channels, which should also ease credit conditions for companies. In addition, several schemes were set up to provide financial support to companies, e.g. help to overcome liquidity problems and long-terms loans for specific R&D projects. These measures do not affect the general government balance (guarantees increase expenditure if and when called).

Section 7 assesses how the response to the European Economic Recovery Plan corresponds to the criteria of timeliness, targeted nature and temporariness laid out therein.

4.3. Medium-term budgetary strategy

The programme's medium-term strategy is to reduce the general government deficit over the programme period, through a frontloaded adjustment. After peaking at just over 5% of GDP in 2009, the nominal deficit is foreseen to fall to 3.9% of GDP in 2010 and 3.4% of GDP in 2011. The primary deficit is set to improve slightly faster given the projected rise in the interest burden.

The structural balance would, according to the Commission services' calculations based on the programme, improve by 1¾ percentage points of GDP in 2010 and ¼ of a percentage point in 2011. This points to a fiscal stance that is restrictive in 2010 and broadly neutral in 2011, when growth is projected to have picked up to 2.7%. The programme confirms the medium-term objective (MTO) for Slovenia as a structural deficit of 1% of GDP. While embodying progress towards the MTO from 2010 onwards, it does not, however, foresee to achieve the MTO within the programme period. The update also highlights that the latest data and output gap calculations show that the MTO was not achieved in 2007, as was stated on the basis of the previous programme and the information available at the time.

The programme envisages "withdrawing the fiscal stimulus in line with economic recovery by 2011". This is evident in the projected cut in government expenditure as a share of GDP by 1¼ percentage points between 2009 and 2011, which is mainly driven by a decline in subsidies by 1 percentage point. This reflects the phasing-out of the wage subsidy scheme in 2010 and of the remaining stimulus measures on the expenditure side in 2011. The projected rise in the interest burden is more than offset by a decline in compensation of employees as a share of GDP as a result of the announced, but not yet negotiated, further reform of the wage system. Furthermore, the programme announces that the nominal amounts allocated to pensions and other social transfers will remain constant until the end of 2010 at the level reached in the first half of 2009, which is likely to require additional measures and according to the programme would entail savings of 0.5% of GDP in 2010. The programme foresees that social transfers remain broadly constant as a percentage of GDP between 2009 and 2011. Further adjustments are announced to public investment, which is targeted to drop by 0.1 percentage point of GDP in 2010.

The revenue-to-GDP ratio is envisaged to rise by ½ of a percentage point in 2010 and to remain constant in 2011. The most marked rise would occur in indirect taxes in the year 2010, which is however not explained in the programme. Although the final step in the gradual reduction in the corporate income tax rate, to 20% in 2010, is included in the budgetary targets, direct tax revenue is expected to increase marginally as a share of GDP in 2010.

4.4. Risks to the budgetary targets

The different elements taken into consideration for the overall risk assessment are as follows.

First, as highlighted in Section 3 above, assessed against currently available information, economic growth in 2009 could be lower than projected in the programme and the recovery could be more muted in 2010. The projected rise in the unemployment rate in the update seems to be on the low side, which constitutes a small upside risk to social transfers (less than 0.1% of GDP) as unemployment benefits do not represent a significant proportion of social payments (see Annex 1).

Second, expenditure could grow faster than planned in the programme. Together with public investment, government consumption (the wage bill and intermediate consumption) and social transfers are at the centre of the government's consolidation efforts but they are also the areas in which significant overruns were recorded in 2008. As suggested by the second supplementary budget, adopted after the programme submission, the expenditure savings announced in the stability programme for 2009 on intermediate consumption and investment may not be realised fully. Indeed, the targeted savings in the new supplementary budget are less than half those foreseen in the programme. Concerning the government wage bill, the programme does not present the details of the announced further reform of the wage system. Half of the very significant increases under the agreement to eliminate wage disparities (which came after a period of very subdued wage growth until 2007) have now been paid out and a strong commitment will be needed to contain public sector wage growth as indicated in the programme. The same applies to the envisaged restraint in social transfers (given well-established indexation arrangements and an ageing population), where different working groups are expected to make proposals for reforms by the end of 2009. The stability programme's expenditure projections are also conditional on the phasing-out of the stimulus measures. Even though the recovery measures on the expenditure side (mainly in the form of subsidies) are planned to be valid for either one or two years, it may be difficult to ensure their full reversibility, especially if a more protracted recession than currently foreseen were to unfold. For the year 2009, the main recovery measure is the wage subsidy to encourage shorter working hours, which is likely to be less costly than planned in the update (0.6% of GDP) in view of the low take-up so far. This might be explained by the stringent conditions attached to the scheme, whereby participating companies are neither allowed to dismiss employees for business reasons during the concerned financial year nor to pay out management bonuses. The second supplementary budget acknowledges this and the cost of this scheme is revised downward from 0.6% of GDP to 0.2% of GDP. However, the savings are fully offset by additional stimulus measures in the form of transfers and other subsidies (see Section 7).

Third, as mentioned above, the planned increase in tax revenue as a percent of GDP in 2010, especially in indirect taxes, is not substantiated in the programme and is thus subject to downside risks. The programme aims at "maximising the withdrawal" from EU funds to finance investment. In view of a track record of absorption capacity difficulties, however, achieving the envisaged increase in drawdowns will be a challenge.

Fourth, Slovenia's track record has been good in the recent past in the sense that, until 2007, budgetary outcomes tended to be better than projected. However, it should be borne in mind that this good track record was established in favourable economic conditions, which no longer apply. In the period 2006-2008, revenue growth was consistently higher than budgeted, while expenditure growth turned out higher than planned in each year.

Overall, the budgetary targets are subject to downside risks throughout the programme period. Economic growth could be lower than projected in the programme. As suggested by the supplementary budget adopted after the submission of the programme, the expenditure savings announced in the stability programme for 2009 on intermediate consumption and investment may not be realised fully. There are also risks of expenditure overruns in view of the recent track record and because the consolidation measures underpinning the envisaged restraint in especially the wage bill and social transfers have to be further specified and negotiated. Also, it might be difficult to ensure the planned reversal of the stimulus measures on the expenditure side, which consist mainly of subsidies. On top of the impact of possibly lower economic growth, revenue shortfalls may materialise from 2010 onwards, given that the projected rise in indirect taxes as a share of GDP in 2010 is not substantiated in the programme.

The measures to enhance the stability of the financial sector (see the box in Section 2) constitute a possible further risk to the budgetary targets in view of the government's sizeable guarantees (expenditure would increase if and when guarantees are called).

5. DEBT DEVELOPMENTS AND LONG-TERM SUSTAINABILITY

5.1. Debt developments

Table IV: Debt dynamics

(% of GDP)	average 2002-06	2007	2008		2009		2010		2011
			COM	SP	COM	SP	COM	SP	SP
Gross debt ratio[1]	**27.3**	**23.4**	**22.8**	**22.8**	**29.3**	**30.5**	**34.9**	**34.1**	**36.3**
Change in the ratio	-0.1	-3.3	-0.6	-0.6	6.4	7.7	5.7	3.6	2.2
Contributions[2] *:*									
1. Primary balance	**0.3**	**-1.8**	**-0.2**	**-0.2**	**3.9**	**3.6**	**4.7**	**2.2**	**1.6**
2. "Snow-ball" effect	**-0.3**	**-1.3**	**-0.5**	**-0.5**	**1.9**	**1.8**	**1.0**	**1.0**	**0.2**
Of which:									
Interest expenditure	1.8	1.3	1.2	1.1	1.6	1.5	1.8	1.7	1.8
Growth effect	-1.1	-1.6	-0.8	-0.8	0.8	0.9	-0.2	-0.3	-0.9
Inflation effect	-1.0	-1.0	-0.9	-0.9	-0.4	-0.6	-0.6	-0.4	-0.7
3. Stock-flow adjustment	**0.0**	**-0.2**	**0.1**	**0.2**	**0.6**	**2.3**	**0.0**	**0.4**	**0.4**
Of which:									
Cash/accruals diff.	0.5	0.5		n.a.		n.a.		n.a.	n.a.
Acc. financial assets	-0.6	-0.5		n.a.		n.a.		n.a.	n.a.
Privatisation	-1.5	-3.1		n.a.		n.a.		n.a.	n.a.
Val. effect & residual	0.2	-0.1		n.a.		n.a.		n.a.	n.a.

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source :

Stability programme (SP); Commission services' spring 2009 forecasts (COM); Commission services' calculations

The programme projects a substantial increase in the gross debt-to-GDP ratio – by more than 13 percentage points - between 2008 and 2011. A large part of this rise would occur in 2009, as the primary balance turns into a sizeable deficit and nominal GDP contracts. The latter, together with rising interest expenditure, would imply a relatively large debt-increasing snow-ball effect. In addition, the recapitalisation of two state-owned financial institutions and liquidity operations in support of the financial system, including increased deposits held with the banking system (see the box in Section 2), entail a large debt-increasing stock-flow adjustment. The Commission services' spring 2009 forecast anticipates a more moderate increase in the debt ratio this year. This is essentially due to significantly smaller financial transactions recorded below the line, while the primary deficit is expected to be larger.

Thanks to the planned gradual reduction in the primary deficit and the projected return to positive and increasing economic growth, a more moderate increase in the debt ratio is envisaged in the remaining years covered by the programme. The stock-flow adjustment is projected to further increase the debt level in both 2010 and 2011, although to a lesser extent, but this is not explained in the programme. The main reason for the divergence in projected debt developments in 2010 between the programme and the Commission services' spring 2009 forecast is the significantly higher primary deficit expected in the latter, which however is based on a no-policy change assumption.

Risks to the debt projections in the programme follow from the risks attached to the budgetary targets mentioned in Section 4.4. In addition, the stock-flow adjustment could turn out higher-than-planned if the banking sector required additional capital injections or liquidity due to a deeper economic and financial crisis than currently assumed.

5.2. Long-term sustainability

This section presents sustainability indicators based on long-term age-related government spending as projected by the Member States and the EPC in 2009 according to an agreed methodology.[9]

Table 3 in Annex 2 shows that age-related spending is projected to rise by 12.7% of GDP between 2010 and 2060, above the EU average. Table 4 in Annex 2 presents sustainability indicators for two scenarios. Including the increase in age-related expenditure and assuming that the structural primary balance remained at its 2008 level, the sustainability gap (S2)[10] would amount to 10.9% of GDP, about 4 percentage points higher than in the assessment on the basis of the previous update of the stability programme, which is due to a lower estimated structural primary balance in the starting year. The starting budgetary position is not sufficient to stabilise the debt ratio over the long term and entails a risk of unsustainable public finances even before considering the long-term budgetary impact of ageing.

While the "2008 scenario" already reflects a weakening of the budgetary position, the "programme scenario", which is based on the end-of-programme structural primary balance, shows a smaller gap. If the budgetary consolidation planned in the programme were achieved, risks to the long-term sustainability of public finances would be somewhat mitigated.

Based on the assumptions used for the calculation of the sustainability indicators, Figure 4 in Annex 2 displays the projected debt-to-GDP ratio over the long term. For an overall assessment of the sustainability of public finances, other relevant factors are taken into account. They are summarized in Table 5 in Annex 2.

Slovenia appears to be at high risk with regard to the long-term sustainability of public finances. The long-term budgetary impact of ageing is well above the EU average, mainly as a result of a relatively high projected increase in pension expenditure as a share of GDP over the coming decades. The budgetary position in 2008 estimated in the programme, which is worse than the starting position of the previous programme, compounds the budgetary impact

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[9] Economic Policy Committee and the European Commission (2009), 'The impact of aging on public expenditure: projections for the EU-27 Member States on pensions, health care, long-term care, education and unemployment transfers (2008-60)', *European Economy* No. 2/2009. European Commission (2006), The long-term sustainability of public finances in the European Union, European Economy No. 4/2006. European Commission (2008), *Public finances in EMU – 2008, European Economy* No. 4/2008.

[10] The S2 indicator is defined as the change in the current level of the structural primary balance required to ensure that the discounted value of future structural primary balances (including the path of property income) covers the current level of debt.

of population ageing on the sustainability gap. Reducing the primary deficit over the medium term, as foreseen in the programme, and a further pension reform aimed at curbing the substantial increase in age-related expenditures, in particular by encouraging longer working lives, would contribute to reducing the high risks to the sustainability of public finances.

6. INSTITUTIONAL FEATURES OF PUBLIC FINANCES

There appears to be scope for improvement in some of the fiscal policy dimensions that come under a broad-based definition of the quality of public finances. First, budgetary implementation in 2006-2008 highlights the risk of expenditure overruns. As the fiscal consolidation planned in the programme relies much on expenditure restraint, the capacity to control expenditure becomes crucial. In this context, the implementation of the savings planned on the total wage bill and social transfers, including pensions, will represent an important test for the Slovenian government. Second, but related to the above, several studies suggest that there is scope for improving public spending efficiency in Slovenia, particularly in the area of health care.[11] Increasing spending efficiency becomes particularly important when trying to contain expenditure growth without compromising the level of services provided. To achieve this goal, the government intends to introduce performance-based budgeting as from the next budgetary cycle for 2010-2011. The programme however does not provide details on how this is intended to be done in practice.

With respect to the fiscal framework, the programme reports that the government intends to revise the Law on Public Finances with a view to clarifying some of the underlying definitions, gradually introducing the accruals principle for national accounting purposes and making the presentation of the balance sheet for the entire government sector a compulsory feature. These changes will allow better aligning the fiscal framework used at the national level with the one used for reporting to the European Commission in line with SGP requirements.

While not mentioned in the programme, the unique feature of the Slovenian budgetary process, whereby budgets covering a rolling two-year period are adopted, was not applied in 2008-2009, due to the elections and change in government. It is assumed that in autumn 2009 the budget for 2010 will again cover a two-year period.

7. ASSESSMENT

This section assesses the budgetary strategy, taking into account risks, in the light of (i) the adequacy of the fiscal stimulus package in response to the Commission Communication of 26 November 2008 on the European Economic Recovery Plan (EERP) as agreed by the European Council in December 2008 and the overall fiscal stance; (ii) the criteria for short-term action laid down in the above-mentioned Commission Communication; and (iii) the objectives of the Stability and Growth Pact.

In response to the EERP, Slovenia adopted two stimulus packages, in December 2008 and February 2009. Their aim is to stem the deterioration in the labour market and enhance growth potential. The key measures are a subsidy per employee to companies that reduce working time and incentives to encourage investment, especially in new technologies and R&D, and aid the restructuring process. Together with tax relief benefiting companies decided before the onset of the crisis, the measures would add up to almost 2% of GDP and

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11 See the assessment of the November 2007 update of the stability programme, available at http://ec.europa.eu/economy_finance/publications/publication12160_en.pdf.

would be partly financed by the already adopted and announced consolidation measures. The working of the automatic stabilisers, ongoing infrastructural investment and the strong dynamics of social transfers (especially due to indexation arrangements) and the public sector wage bill (owing to the agreement to address “wage disparities”) further support the economy. After the submission of the programme, a third package of measures, re-allocating part of the funds from the previous two packages in light of the low take-up of the wage subsidy scheme, was adopted by the government and incorporated in the June second supplementary budget. It envisages a lump-sum transfer to disadvantaged individuals and further support to the labour market, mainly in the form of a new two-year subsidy scheme for wage compensation to temporarily redundant workers.

The measures appear to be an adequate response to the economic downturn given that the room for fiscal manoeuvre offered by the moderate deficit and debt levels going into the crisis is constrained by the long-term sustainability challenge. The structural deficit is projected to widen by more than 1 percentage point of GDP in 2009 according to the programme and more significantly according to the Commission services' spring 2009 forecast. Other factors limiting the available fiscal space are (i) the increase in interest rate spreads on 10-year government bonds vis-à-vis Germany; (ii) the sizeable government guarantees extended as part of the measures to help stabilise the financial sector; and (iii) weakening competitiveness.

The Commission Communication on the EERP sets out a number of criteria for assessing countries' measures in reaction to the downturn. In particular, measures should be timely, targeted and temporary. The measures taken by the Slovenian authorities can be regarded as *timely*, since most of them were adopted in December 2008 and February 2009. The set of measures can also be regarded as *targeted*. In particular, the measures aim at stemming the deterioration in the labour market and enhancing growth potential. Concerning the labour market, the adopted measures could help limit the rise in unemployment but would exacerbate labour market rigidity if not reversed as soon as economic conditions improve. The new lump-sum transfer to disadvantaged individuals will help support households’ purchasing power. The remaining measures mainly benefit firms, in the form of tax relief and subsidies to encourage investment, especially in new technologies and R&D, and help the restructuring process, which should increase growth potential. They could in particular contribute to upgrading the technological intensity of Slovenian manufacturing, to the benefit of the country's competitive advantage. The expenditure-related stimulus measures (subsidies) are intended to be *temporary* – valid for one or two years – but their full reversibility might be difficult to ensure, especially if a more protracted recession than currently foreseen were to unfold. The remaining measures, including those decided earlier - in particular the phasing-out of the payroll tax and the further cut in the corporate income tax (CIT) rate - are of a permanent nature (in fact, a further cut in the CIT rate should take effect in January 2010). As residential and commercial construction is cooling, the ongoing infrastructural investment should provide support to the construction sector. The measures adopted by the authorities are related to the medium-term reform agenda and the country-specific recommendations proposed by the Commission on 28 January 2009 under the Lisbon Strategy for Growth and Jobs and endorsed by the Spring European Council on 19 March.

Regarding compliance of the budgetary strategy with the requirements in the Treaty and the Stability and Growth Pact, and taking into account the risks to the budgetary targets, the deficit will not be brought back below the 3% of GDP reference value by the end of the programme period (2011). Also in light of information contained in the second supplementary budget, adopted after the submission of the programme, the 2009 deficit is likely to widen substantially, possibly beyond the programme target. The budgetary stance in the programme in 2010 and 2011 would not ensure an adequate structural improvement in view of the long-term sustainability challenge, unless the above-mentioned risks to the budgetary targets are addressed, in particular by reversing the stimulus as the recovery takes hold, implementing further consolidation measures and ensuring tight control over expenditure. Furthermore, the envisaged adjustment in 2011 should be speeded up in view of the projected strengthening of economic growth.

ANNEX 1. SPECIAL TOPIC: SOCIAL PROTECTION IN SLOVENIA

1. INTRODUCTION

The Commission services' assessment of the end-2007 update of the stability programme[12] acknowledged the healthy position of the Slovenian public finances, in particular as a general government surplus had been reached in 2007 and the general government debt was among the lowest in the euro area. However, it also warned that a tighter fiscal stance than envisaged at the time by the national authorities appeared to be warranted in the light of the strong inflationary pressures and that the long-term sustainability of the public finances continued to be at high risk under the significant pressure coming from an ageing population. The Council therefore invited Slovenia to improve the long-term sustainability of public finances, in particular by further reforming the pension system.

Only one year away from that assessment, the situation of the Slovenian public finances has significantly deteriorated and is set to worsen further over the next months. The general government balance turned into a deficit in 2008, from a surplus in 2007. According to the programme, the general government deficit is set to widen significantly in 2009, to 5.1% of GDP. Although still relatively low, the debt ratio is expected to increase rapidly. In this context, the government is called to keep tight control over government expenditure. This will be particularly challenging as regards social protection. Coming on top of the significant pressure from population ageing, the expected increase in unemployment due to the economic downturn will cause expenditure on social protection to increase and growth in social contributions will be curbed. It will be hard for the government to maintain stability of the tax and contribution system without reducing social protection. The programme itself recognises that, to return to a fiscal consolidation path, social transfers will need to be “rationalised” in favour of those most in need and announces that the nominal amounts allocated to social transfers other than unemployment benefits will remain constant until the end of 2010 at the level reached in the first half of 2009.

As useful background information to understand the key challenges for the Slovenian public finances, this Annex examines patterns and trends of social protection expenditure in Slovenia. It also looks at a selection of outcome indicators to assess the efficiency of social protection expenditure with regard to poverty and inequality reduction.

The remainder of this Annex is organised as follows. Section 2 defines social protection and presents the key features of social protection expenditure in Slovenia in a comparative perspective. Section 3 focuses on the two major functions of social protection expenditure, namely old age/survivors and sickness/health care. Complementing the previous sections which focus on past developments, section 4 takes a forward-looking view by presenting the latest available projections for the medium to long run of public social protection expenditure against the background of demographic change. Based on key indicators of social inclusion and the income distribution, Section 5 draws a tentative assessment of the efficiency of social protection expenditure in promoting social cohesion and fighting poverty. Section 6 concludes.

[12] Available at http://ec.europa.eu/economy_finance/publications/publication12160_en.pdf.

2. SOCIAL PROTECTION IN SLOVENIA FROM A EUROPEAN PERSPECTIVE

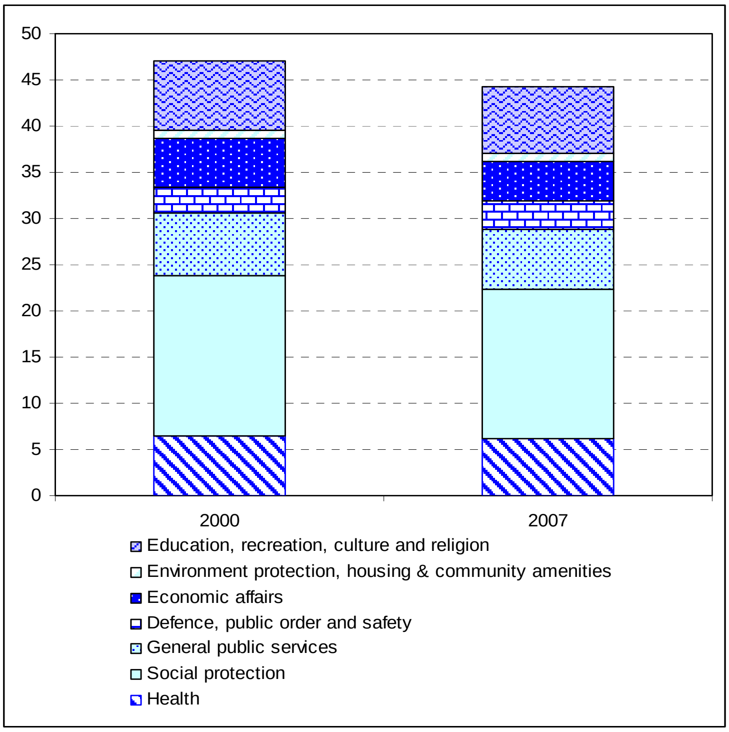
While the importance of social protection is widely recognised, there exists no universally accepted definition of its scope. Definitions vary as regards the actors involved (recipients and providers of social protection) as well as the risks or needs addressed by it.[13] As this analysis will make ample use of Eurostat's ESSPROS database, the broad definition of social protection underlying that compilation serves as a benchmark:

"Social protection encompasses all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, provided that there is neither a simultaneous reciprocal nor an individual arrangement involved.

The list of risks or needs that may give rise to social protection is, by convention, as follows: Sickness/Health care; Disability; Old age; Survivors; Family/children; Unemployment; Housing; Social exclusion not elsewhere classified (n.e.c.)."[14]

Figure 1: Primary expenditure by function in Slovenia, 2000 and 2007

(% of potential GDP)



Source: COFOG database, AMECO

According to this definition, the scope of social protection extends beyond social security (i.e., social protection offered or imposed by the government) to also include benefits provided by private schemes, but does not include personal provision. However, in practice, most of social protection spending is public and is therefore of central importance for public finances. Indeed, national accounts data on general government expenditure by function (according to the COFOG classification) show that social protection, together with health care

[13] A critical overview of conventional definitions can be found in Stephen Devereux and Rachel Sabates-Wheeler (2004), Transformative social protection, IDS Working Paper 232.

[14] EUROSTAT (2008), ESSPROS Manual.

spending,[15] is by far the most sizeable general government expenditure category in Slovenia and the other EU countries; in many cases, it represents more than half of that spending.

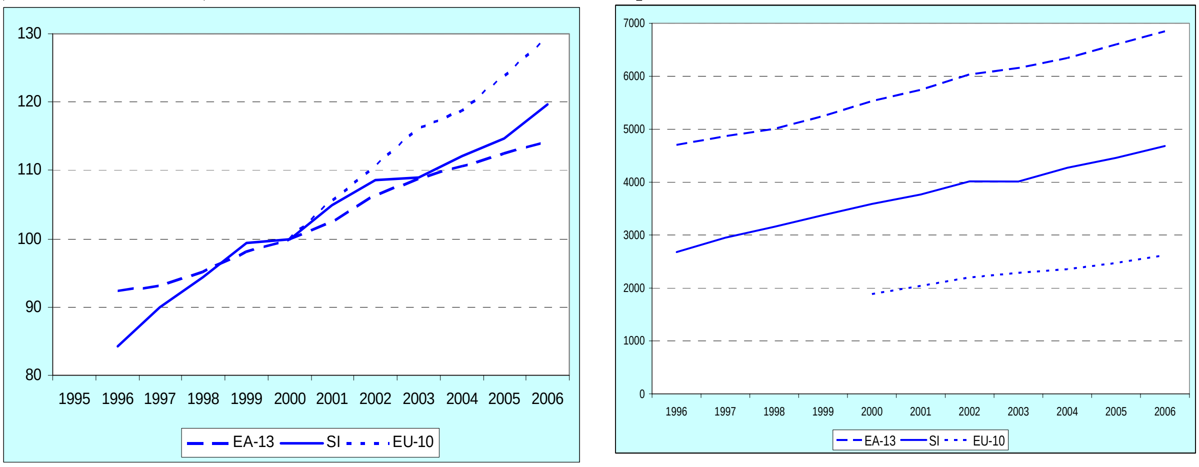
Over the period 2000 to 2007, the relative importance of social protection and health care has remained broadly stable in Slovenia, at around half of total general government expenditure, whereas in the euro area (EA-13) it has increased steadily since 2001 and the opposite trend has been recorded on average in the recently acceded Member States (EU-10) in the shorter period 2003-2007 for which data are available. In Slovenia, this occurred in the context of a declining share of general government expenditure in potential GDP (Figure 1).

The ESSPROS database has longer time series for all Member States and contains more detailed information on the type of protection provided in each country and its financing.[16] Thus, the analysis in the remainder of this section and the next will be based on this richer database.

Figure 2: Developments of social protection expenditure, 1996-2006

Panel A: Social protection expenditure in real terms (index; 2000 = 100)

Panel B: Social protection benefit spending in PPS per capita



Source: Eurostat, ESSPROS database

Social protection expenditure has increased in all Member States in the recent past. In Slovenia, it increased by almost 20% in real terms over the period 2000-2006. This exceeded the average increase in the EA-13 recorded over the same period (14%), but fell short of the increases in social protection expenditure recorded in the recently acceded Member States except Slovakia (Figure 2, Panel A). These trends can be seen as part of a slow convergence process, as also confirmed when looking at per capita benefit expenditure in purchasing power standards (PPS – see Figure 2, Panel B). In 2000, per capita spending on social protection in PPS in Slovenia was at 65% of the EA-13 average but around 190% of the EU-

[15] When looking at COFOG data we combine the categories "social protection" and "health" so as to broadly have the same scope as in the above ESSPROS definition. The two definitions do not coincide fully; for details, see section 4.5.1 in EUROSTAT (2007), Manual on sources and methods for the compilation of COFOG Statistics. Note that in the remainder of this Annex, whenever referring to social protection expenditure, we mean as defined in ESSPROS, or as close as possible to it (e.g. when using COFOG data).

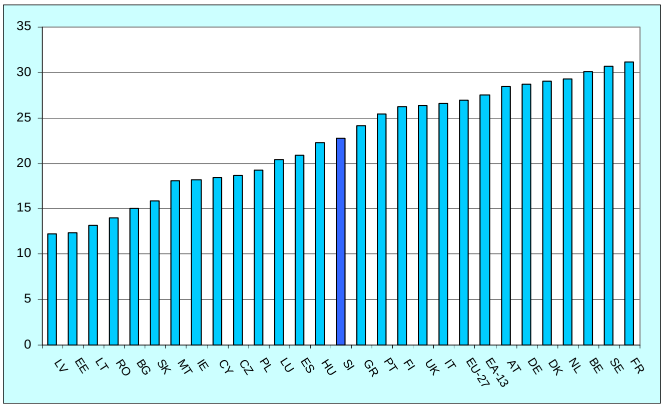
[16] The ESSPROS database also includes, at least in principle, private in addition to public expenditure on social protection. A limitation that applies to both the ESSPROS and the COFOG databases is the fact that they measure social protection expenditure on a gross basis; taking account of differences in the tax treatment of benefits in Member States might lead to a slightly different picture. See the Technical Annex to the Joint Report on Social Protection and Social Inclusion 2006, Commission Staff Working Document SEC(2006) 523.

10 average. Six years later, the gap in per capita expenditure between the EA-13 and Slovenia as well as between Slovenia and the EU-10 was somewhat narrower.

Figure 3 shows where these developments have led in terms of total social protection expenditure as a share of GDP in 2006 in each EU Member State. Slovenia ranks below the EU average but above all other recently acceded Member States.

Figure 3: Social protection expenditure in the EU Member States, 2006

% of GDP



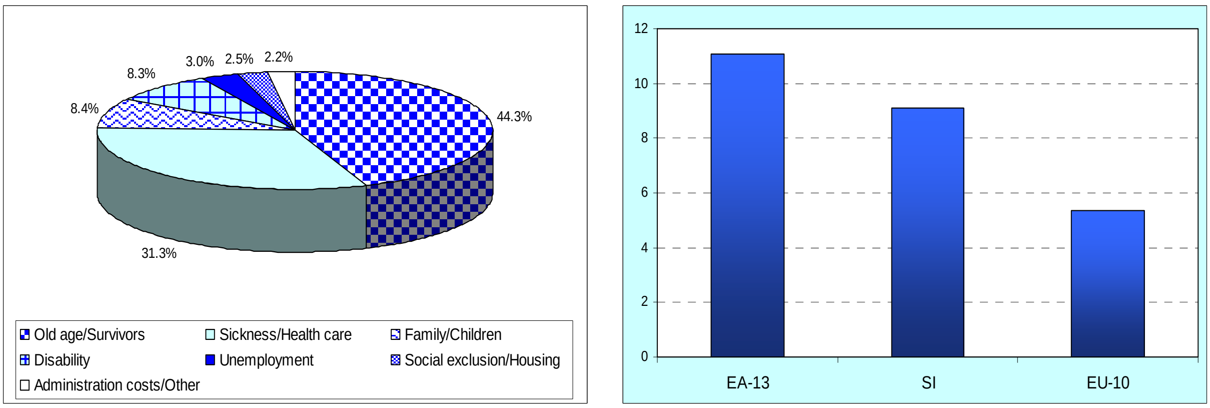
Source: Eurostat, ESSPROS database

As in most EU countries, social security contributions finance the bulk of social protection in Slovenia. This reflects the fact that, while both the insurance and assistance principles are in place, insurance is the most important one. The share of social security contributions in total receipts was in fact somewhat higher in Slovenia (68%) than in the EU as a whole (less than 60%) in 2006. Conversely, general government contributed around 31% to the financing of social protection in Slovenia in 2006, less than in the euro area and the EU as a whole.

Figure 4: The composition of social protection expenditure, 2006

Panel A: The composition of social protection expenditure by functions in Slovenia

Panel B: Share of means-tested benefits in social benefit spending



Source: Eurostat, ESSPROS database

Regarding the composition of social protection expenditure in Slovenia, old age is in quantitative terms the "need" that absorbs most resources, like in most other EU countries. In 2006, expenditure on this and the closely related survivors' function accounted for 44% of total social protection expenditure (Figure 4, Panel A), broadly the same as in the EA-13 group but less than in the EU-10 (at over 50%). Second in importance was expenditure on sickness and health care, to which Slovenia dedicated a larger share of social protection expenditure (31%) than the EA-13 (28%) or the EU-10 (26%). Around 8% of expenditure went to each of the categories family/children and disability. The remaining functions, which together accounted for about 5.5% of total social protection expenditure in Slovenia, were, sorted by quantitative importance, unemployment, social assistance and housing. The EA-13 group spent a higher share of total expenditure on these functions (just less than 9%), mainly due to higher spending on unemployment benefits.

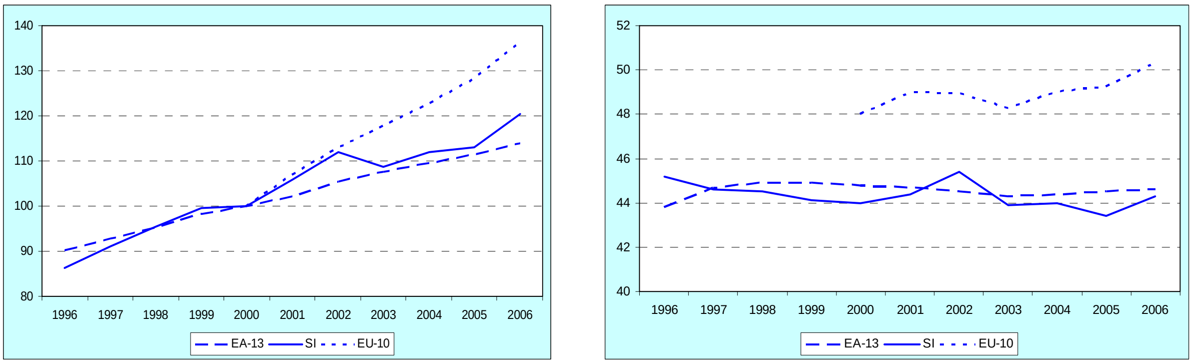
Around 9% of social protection benefits were means-tested in Slovenia in 2006, some 2 pp below the euro area average but significantly more than in the other recently acceded Member States (Figure 4, Panel B). As in many other euro area countries, social assistance in Slovenia is a last-resort social benefit which acts as a final safety-net to fight poverty. Given the rather narrow coverage under the unemployment insurance scheme, social assistance represents the predominant form of income support for the unemployed.[17]

3. SOCIAL PROTECTION EXPENDITURE ON OLD AGE, SURVIVORS AND HEALTH IN SLOVENIA

Over the last decade, spending on benefits in the old age and survivors functions in Slovenia increased more rapidly than on average in the euro area, but less than in the recently acceded Member States taken together (Figure 5, Panel A). In 2006, the latest year for which data are available, this spending category recorded an acceleration. As a result, its share in total social protection expenditure increased by almost 1 pp in that year, after having steadily decreased from its 2002 peak (Figure 5, Panel B). Part of this acceleration may be related to the change in the indexation regime of pensions that was introduced in 2005: from a mixed system where pensions were indexed on both earnings and prices, the government introduced full indexation to earnings in order to boost the purchasing power of pensioners.

Figure 5: Expenditure on old age and survivors, 1996-2006

Panel A: Spending on old age and survivors in real terms (index; 2000 = 100) | *Panel B: Spending on old age and survivors as a share of total social protection expenditure (in %)*

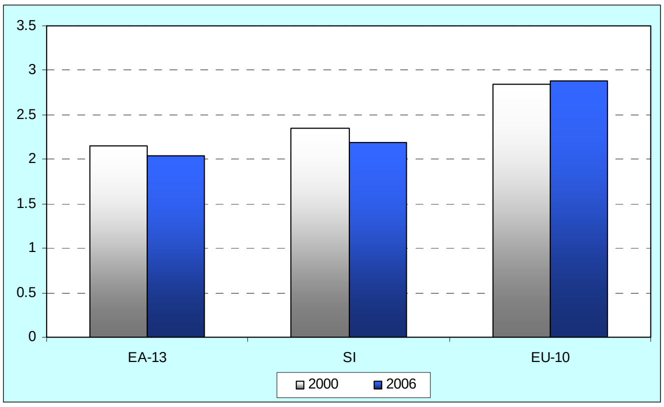


Source: Eurostat, ESSPROS database

When adjusted by the share of the elderly in the total population, spending per capita on these two functions is more than twice that on the total population (Figure 6), in Slovenia as much as in all other countries, but less so than for the average of the recently acceded Member States. The orientation of social spending towards the elderly has however fallen between 2000 and 2006 in both Slovenia and the euro area on average.

[17] In 2007, some 38% of the registered unemployed received social assistance while 23% received unemployment benefits and 39% received no benefit. See OECD (2009), Accession Review of Labour Market and Social Policies of Slovenia.

Figure 6: The age orientation of social protection expenditure,* 2000 and 2006



* Social spending on old age and survivors benefits as a share of total social benefit spending, divided by the share of the elderly (aged 60 or more) in the total population.
Source: Eurostat - ESSPROS database and demographic statistics.

As the bulk of old age and survivors social protection expenditure goes to pensions, differences over time and across countries in the measure shown in Figure 6 reflect variations in effective retirement ages and the employment rate of older workers, the coverage and replacement rates offered by the pension system, as well as the time spent receiving an old age pension. Between 2002 and 2006, the effective exit age from the labour market[18] in Slovenia increased by more than 3 years. This corresponded to a significant increase in the employment rate of older workers (55 to 64 years), by more than 10 pp. These increases, which exceed those recorded for the average of the euro area, can partly be explained by the changes introduced with the 1999 pension reform.[19] However, Slovenia still lags well behind the euro area on both measures: in 2007, the employment rate of older workers was 33½% in Slovenia as against 43% in the euro area and the effective exit age was one year lower (around 60 as against 61, respectively). The latter measure is also still much lower than the statutory retirement age. Differences are particularly marked for women.

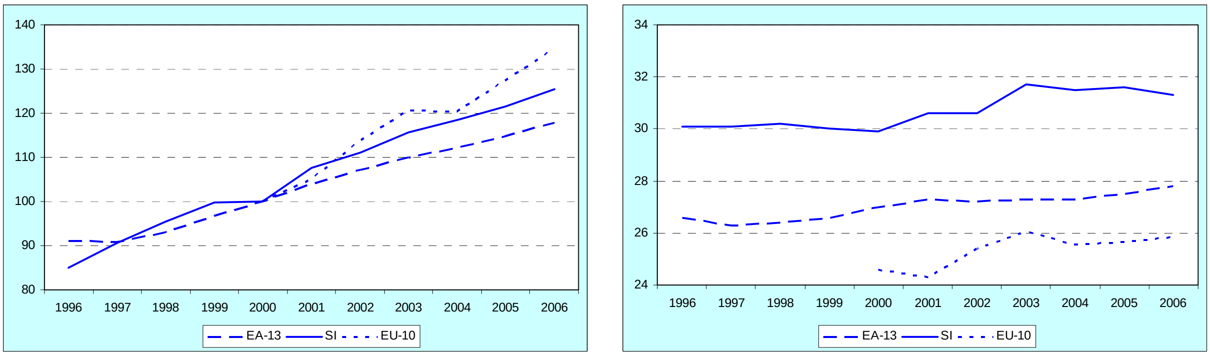
As regards expenditure on *sickness and health care*, the picture for growth in real terms over the decade 1996-2006 is very similar to that for the group old age and survivors as well as for total social protection expenditure: Slovenia's growth path lies in between the EA-13 and the EU-10. As a share of total social protection expenditure, sickness and health care expenditure in Slovenia exceeded the EA-13 share by 4 percentage points on average, and increased sharply between 2000 and 2003 (see Figure 7).

[18] This indicator, compiled by Eurostat, gives the average age at which active persons definitively withdraw from the labour market. It is based on a probability model considering the relative changes of activity rates from one year to another at a specific age. The activity rate represents the labour force (employed and unemployed population) as a percentage of the total population for a given age. The indicator is based on the EU Labour Force Survey.

[19] For details on the reform see Section 2.3 of the macro-fiscal assessment of the end-2007 update of the stability programme.

Figure 7: Expenditure on sickness and health care, 1996-2006

Panel A: Spending on sickness and health care in real terms (index; 2000 = 100) | *Panel B: Spending on sickness and health care as a share of total social protection expenditure (in %)*



Source: Eurostat, ESSPROS database

The Commission services' macro-fiscal assessment of the end-2007 update of the stability programme analysed the efficiency of public health spending in Slovenia and concluded it is below average. In particular, while expenditure for health services in per cent of GDP is marginally higher than in the euro area and considerably higher than for the other new Member States in 2006, desired health outcomes such as life expectancy at birth, standardised death rates or infant deaths per 1000 life births are around average. The government is aware of the need to increase the efficiency of health services, also with a view to ensuring its financial sustainability in the long term, and is therefore paying attention to prevention and the monitoring of quality standards of hospital care.[20]

4. MEDIUM AND LONG-TERM PROJECTIONS FOR AGE-RELATED GOVERNMENT EXPENDITURE

While the current level of social protection expenditure in Slovenia is not high by international comparison, medium and long-term projections for age-related government expenditure show that budgetary pressure due to demographic developments is higher in Slovenia than in most other EU Member States. In particular, projections by the EU Economic Policy Committee show that public expenditure on pensions in Slovenia would increase by 8.8 pp of GDP between 2007 and 2060, as against less than 3 pp projected for the euro area and just 1 pp for the EU-10[21].

As highlighted in previous assessments, this reflects a combination of factors. First, Slovenia will be among the EU countries most affected by demographic change, also due to fertility rates being among the lowest in the EU. According to the EPC projections, the old-age dependency ratio[22] is expected to increase substantially by 2060, from 23% in 2008 to 62% in 2050, whereas the ratio would "only" reach 54% in the euro area. Second, Slovenia continues to lag behind the euro area in terms of the employment rate of older workers. Third, whereas Slovenia already introduced a substantial parametric reform to its pension system in 1999, which has helped to reduce the share of public pension expenditure in GDP in the short run, the system's conditions continue to be relatively favourable compared to other EU countries. In particular, the 2005 decision to index pensions fully to gross wage growth implies spending

[20] See Joint Report on Social Protection and Social Inclusion 2009 – Country Profiles, Commission Staff Working Document, SEC (2009) 255.

[21] See also Section 5.2 of the main text.

[22] The ratio of the population aged over 65 to the working age population aged 15 to 64 years.

pressures. At the same time, the system still entails substantial incentives to retire early, despite the corrective mechanisms introduced by the 1999 pension reform.[23]

According to the EPC projections, the expected increase in government expenditure on all other age-related categories such as health care, unemployment benefits and education will exceed average EU trends over the 2007-2060 period. Taking into account all categories of age-related public expenditure, the projected increase for Slovenia until 2060 is just below 13 pp of GDP. This compares with 5 pp for the euro area and 2 pp for the EU-10. Only Greece and Luxembourg appear to face even higher expenditure growth.

As a result of these developments, Slovenia appears to be at high risk with regard to the long-term sustainability of public finances (see Section 5.2 of the main text). As highlighted by the Council in its assessment of previous programmes, this calls for further reforming age-related social protection, in particular the pension system. In particular, change should focus on promoting longer working lives. Within the framework of an effective active ageing strategy, a possible measure could be the introduction of an automatic response to demographic changes into the system, for instance in the form of an adjustment factor related to life expectancy. The pension indexation system should also be revised. Postponing the reform efforts to the future would not allow phasing in changes gradually and spreading the associated costs over several cohorts of the population. Also, the fact that pensioners make up a rapidly increasing share of the Slovenian electorate, adding to the political difficulty of introducing changes to age-related expenditure systems, highlights the urgency of further reforms. Indeed, political difficulties are evident as pension legislation amendments and modifications proposed by the government in 2006 failed to be adopted due to a lack of sufficient political consensus.

5. SOCIAL SITUATION, EFFECTIVENESS AND EFFICIENCY OF SOCIAL PROTECTION SPENDING

Given that one of the main purposes of social protection is to promote social cohesion and fight poverty and social exclusion, analysing such indicators will provide an indication of the efficiency of social protection expenditure in Slovenia. However, it is important to note that this is only a partial picture given that social protection expenditure also has the broader role of providing an effective and mutual interaction between the Lisbon objectives of greater economic growth and more and better jobs, which cannot be captured by these indicators alone.

Slovenia performs relatively well in terms of the share of the population at risk of poverty, defined as individuals living in households whose disposable income is below 60% of the national equivalised median income[24] (see Figure 8). Also the intensity of poverty, as measured by the relative median at-risk-of-poverty gap,[25] appears to be less severe in Slovenia than the EU average. A more general look at the inequality of the income distribution shows that the latter is not very pronounced in Slovenia by international comparison. In 2007, the Gini coefficient of the Slovenian income distribution was 23; no EU

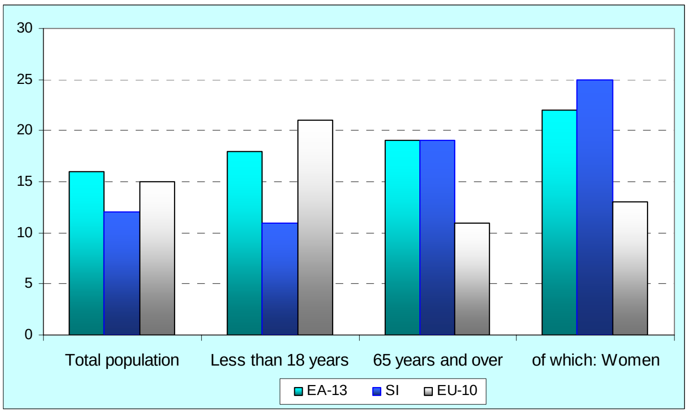
[23] See IMF (2006), IMF Country Report No. 06/250, pp. 54 ff for a comprehensive analysis of these incentives.

[24] Equivalised median income is defined as the household's total disposable income divided by its "equivalent size", to take account of the size and composition of the household, and is attributed to each household member (including children). The goal is to take account of the fact that e.g. two people living together need more, but not twice as much, income as one person living alone, to achieve a comparable standard of living.

[25] Defined as the difference between the median equivalised income of persons below the at-risk-of-poverty threshold and the threshold itself, expressed as a percentage of the threshold.

Member State had a lower coefficient. The ratio of the income shares of the top and bottom quintiles of the income distribution for the overall population shows a similar picture.

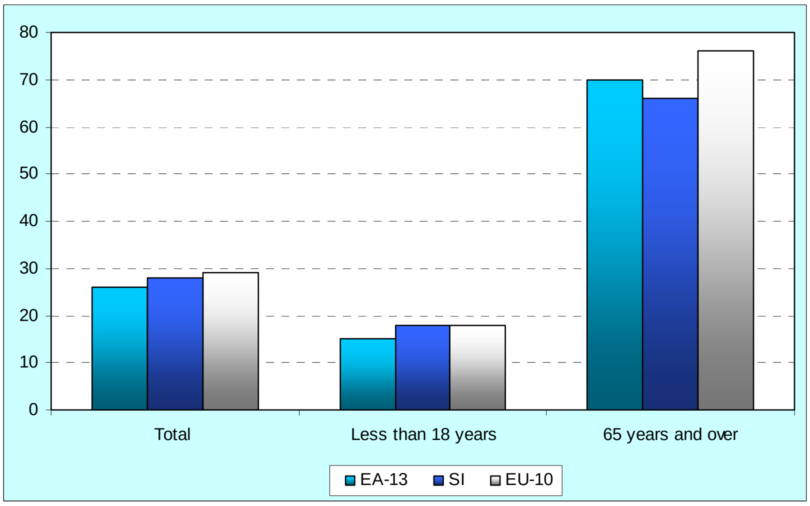
Figure 8: At-risk-of-poverty rates: for the total population and by age group, 2007 (%)



Source: Eurostat

Looking more in detail at the above measures reveals some vulnerabilities. While the 2007 poverty figure for children (aged below 18 years) is among the lowest in the EU, it is relatively high for certain groups of the population, namely people above 65 years, especially women. In fact, the gender gap regarding the risk of poverty in old age (at 14 pp in 2005) is more than double that in both the EU-10 and the EA-13. This highlights that it will be important to take the particular vulnerability of older women in Slovenia into account in the design of further reforms of the pension system.

Figure 9: The impact of social transfers on the at-risk-of-poverty rate, total population and by age group, 2007



Source: Eurostat

Does the relatively positive picture from social indicators imply that social protection spending is more efficient in Slovenia than in other Member States as regards poverty and income inequality reduction? To answer this question, we compare the at-risk-of-poverty rate based on the income distribution before and after transfers.[26] Looking at these data, the

[26] In interpreting these results it is important to bear in mind that they do not take into account behavioural changes due to different incentives that would occur in the absence of transfers.

efficiency of the transfer system in Slovenia seems to be satisfactory, given that the percentage point reduction in the at-risk-of-poverty rate for the overall population achieved through transfers in 2007 was slightly higher than for the EA-13 (Figure 9). Nevertheless, it has to be taken into account that the pre-transfer at-risk-of-poverty rate was already lower in Slovenia than in the EU as a whole, implying a larger relative reduction in this country. Once again, looking at the different age groups' at-risk-of-poverty rates in more detail, transfers seem to be less efficient in Slovenia than in the EU-10 or EA-13 in reducing the poverty risk of older citizens (65+ age group).

6. CONCLUSIONS

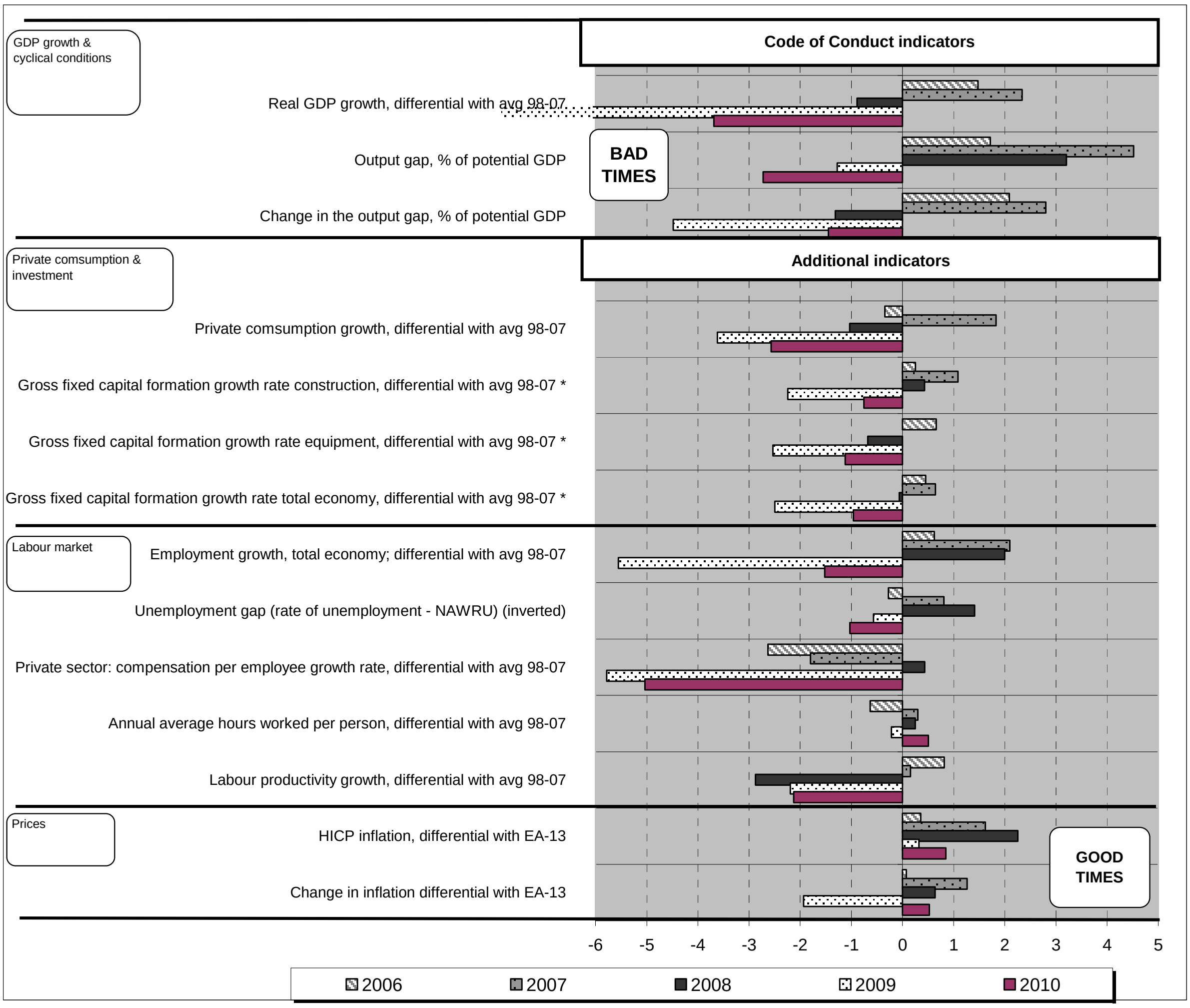
By international comparison, social protection expenditure in Slovenia currently does not present an excessive burden for public finance as it accounts for a somewhat lower share of total government expenditure than on average in the euro area. However, looking at projected developments of age-related general government expenditure shows that reforming the social protection system is urgent in view of demographic changes. This applies especially to the pension system despite the fact that an earlier reform contributed to a reduced share of old-age related expenditure in GDP in the short run. Indeed, the fact that pensions have since 2005 been fully indexed to wages again reduces the benefits of the pension reform even in the short run. A further argument against postponing reforms any longer is the fact that political difficulties in the implementation of such reforms is likely to increase, with pensioners already having a strong representation in parliament and the electorate's ageing advancing quickly.

Social indicators such as at-risk-of-poverty rates seem to indicate that social protection expenditure is relatively efficient in Slovenia with regard to poverty and inequality reduction. However, there appears to be scope for enhancing its efficiency, in particular with respect to elderly women. The fact that the incidence of poverty in old age is higher in Slovenia than for the euro area and the EU-10 average points to a double challenge for future pension reforms in Slovenia: that of addressing the long-term sustainability of the system, while at the same time ensuring adequacy of pension payments to the especially vulnerable group of older women. Furthermore, it must be noted that Slovenia’s relatively positive results in terms of social inclusion must be related to a large extent to the favourable labour market situation so far. It remains to be seen whether the social protection system will be able to cope with the pressures stemming from rising unemployment in the current crisis.

In this context, increasing the efficiency and effectiveness of social expenditure will be a key challenge for Slovenia in the coming years in order to secure both the quality and long-term fiscal sustainability of social protection and the public finances in general.

ANNEX 2. ADDITIONAL TABLES AND FIGURES

Figure 1: Good and bad economic times



* These variables have been divided by their standard deviation over the period 2003-2010, with a view to reducing their variability relative to other variables in the graph.

Source: Commission services' spring 2009 forecast (COM)

Table 1: Budgetary implementation in 2008

	2007		2008	
	Planned **SP Nov 2007**	**Outcome** **COM**	**Planned** **SP Nov 2007**	**Outcome** **COM**
Government balance (% of GDP)	-0.6	0.5	-0.9	-0.9
Difference compared to target	**1.1**		**0.0**	
Of which : due to a different starting position end 2007			1.1	
due to different revenue / expenditure growth in 2008			-0.9	
p.m. Denominator effect and residual [2,3]			-0.1	
p.m. Nominal GDP growth (planned and outcome)			8.4	7.7
Revenue (% of GDP)	43.0	42.9	42.2	42.7
Revenue surprise compared to target [1]	**-0.1**		**0.5**	
Of which : due to a different starting position end 2007			-0.1	
due to different revenue growth in 2008			0.3	
p.m. Denominator effect [2]			0.3	
p.m. Residual [3]			0.0	
p.m. Revenue growth rate (planned and outcome)			6.4	7.1
Expenditure (% of GDP)	43.6	42.4	43.2	43.6
Expenditure surprise compared to target [1]	**1.2**		**-0.4**	
Of which : due to different starting position end 2007			1.2	
due to different expenditure growth rate in 2008			-1.2	
p.m. Denominator effect [2]			-0.3	
p.m. Residual [3]			-0.1	
p.m. Expenditure growth rate (planned and outcome)			7.4	10.7

Notes:

[1] A positive number implies that the outcome was better (in terms of government balance) than planned.

[2] The denominator effect captures the mechanical effect that, if GDP turns out higher than planned, the ratio of revenue or expenditure to GDP will fall because of a higher denominator. Although the denominator effect can be very significant for revenue and expenditure separately, on the balance they usually largely cancel against each other.

[3] The decomposition leaves a small residual that cannot be assigned to the previous components. The residual is generally small, except in some cases where planned and actual growth rates of revenue, expenditure and GDP differ significantly.

Source : Commission services

Table 2: Evolution of budgetary targets in successive programmes

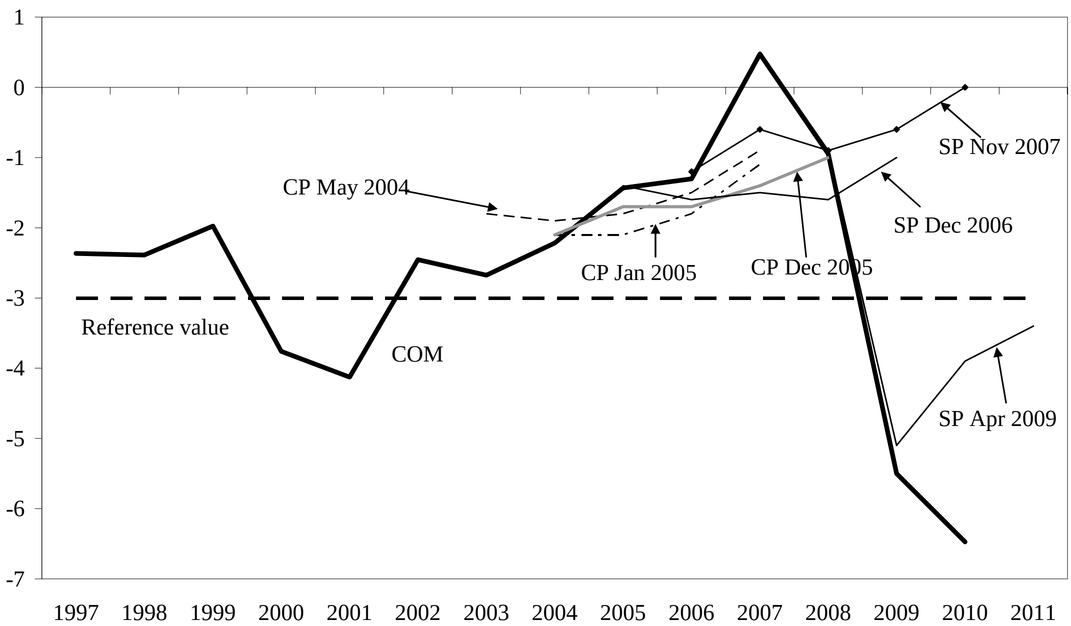
		2007	2008	2009	2010	2011
General government balance (% of GDP)	**SP Apr 2009**	**0.5**	**-0.9**	**-5.1**	**-3.9**	**-3.4**
	SP Nov 2007	*-0.6*	*-0.9*	*-0.6*	*0.0*	*n.a.*
	COM Jan 2009	0.5	-0.9	-5.5	-6.5	n.a.
General government expenditure (% of GDP)	**SP Apr 2009**	**42.4**	**43.6**	**47.1**	**46.4**	**45.8**
	SP Nov 2007	*43.6*	*43.2*	*42.1*	*41.3*	*n.a.*
	COM Jan 2009	42.4	43.6	47.7	48.6	n.a.
General government revenue (% of GDP)	**SP Apr 2009**	**42.9**	**42.7**	**41.9**	**42.4**	**42.4**
	SP Nov 2007	*43.0*	*42.2*	*41.5*	*41.3*	*n.a.*
	COM Jan 2009	42.9	42.7	42.2	42.1	n.a.
Structural balance[1] (% of GDP)	**SP Apr 2009**	**-1.6**	**-2.9**	**-4.1**	**-2.3**	**-2.0**
	SP Nov 2007	*-0.8*	*-1.0*	*-0.7*	*-0.1*	*n.a.*
	COM Jan 2009	-1.7	-2.5	-4.9	-5.2	n.a.
Real GDP (% change)	**SP Apr 2009**	**6.8**	**3.5**	**-4.0**	**1.0**	**2.7**
	SP Nov 2007	*5.8*	*4.6*	*4.1*	*4.5*	*n.a.*
	COM Jan 2009	6.8	3.5	-3.4	0.7	n.a.

Note:

[1]Cyclically-adjusted balance excluding one-off and other temporary measures. Cyclically-adjusted balances according to the programmes as recalculated by the Commission services on the basis of the information in the programmes. One-off and other temporary measures are zero according to the most recent programme and according to the Commission services' spring 2009 forecast.

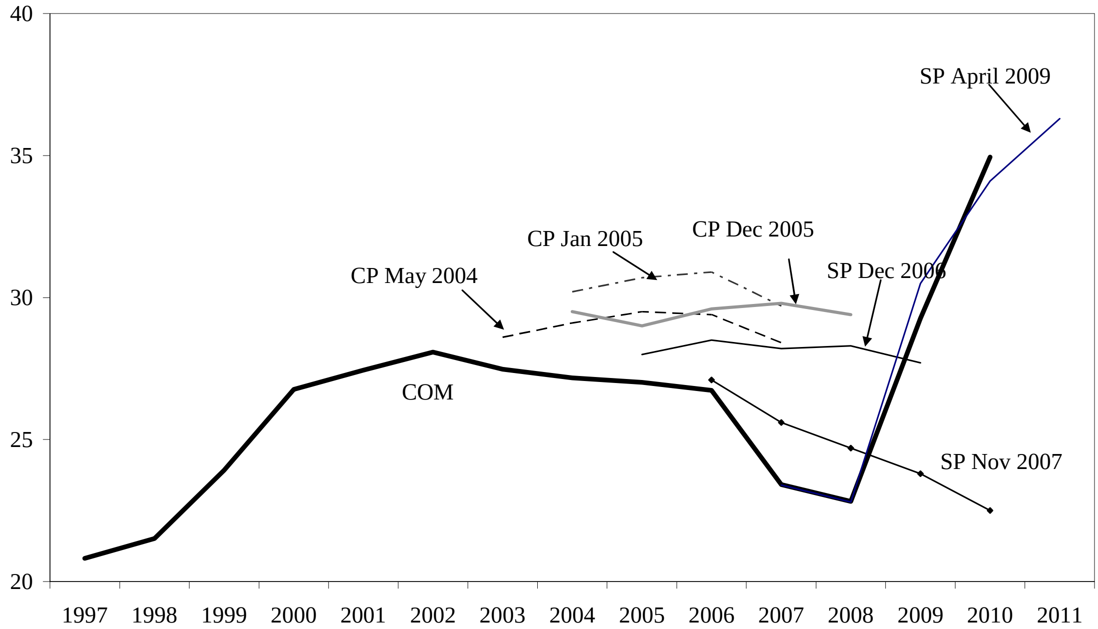
Source :
Stability programmes (SP); Commission services' spring 2009 forecasts (COM)

Figure 2: Government balance projections in successive programmes (% of GDP)



Source: Commission services' spring 2009 forecast (COM) and successive convergence (CP) and stability programmes (SP)

Figure 3: Debt projections in successive programmes (% of GDP)



Source: Commission services' spring 2009 forecast (COM) and successive convergence (CP) and stability programmes (SP)

Table 3: Long-term age-related expenditure: main projections

(% of GDP)	2007	2010	2020	2040	2060	Change 2010- 60
Total age-related spending	**22.9**	**23.1**	**24.9**	**31.7**	**35.8**	**12.7**
- Pensions	9.9	10.1	12.3	16.8	18.6	8.5
- Healthcare	6.6	6.7	7.2	7.9	8.5	1.7
- Long-term care	1.1	1.1	1.3	1.9	2.9	1.7
- Education	5.1	4.8	4.9	5.0	5.6	0.7
- Unemployment benefits	0.2	0.2	0.2	0.2	0.2	0.0
Property income received	**0.7**	**0.7**	**0.6**	**0.6**	**0.5**	**-0.2**

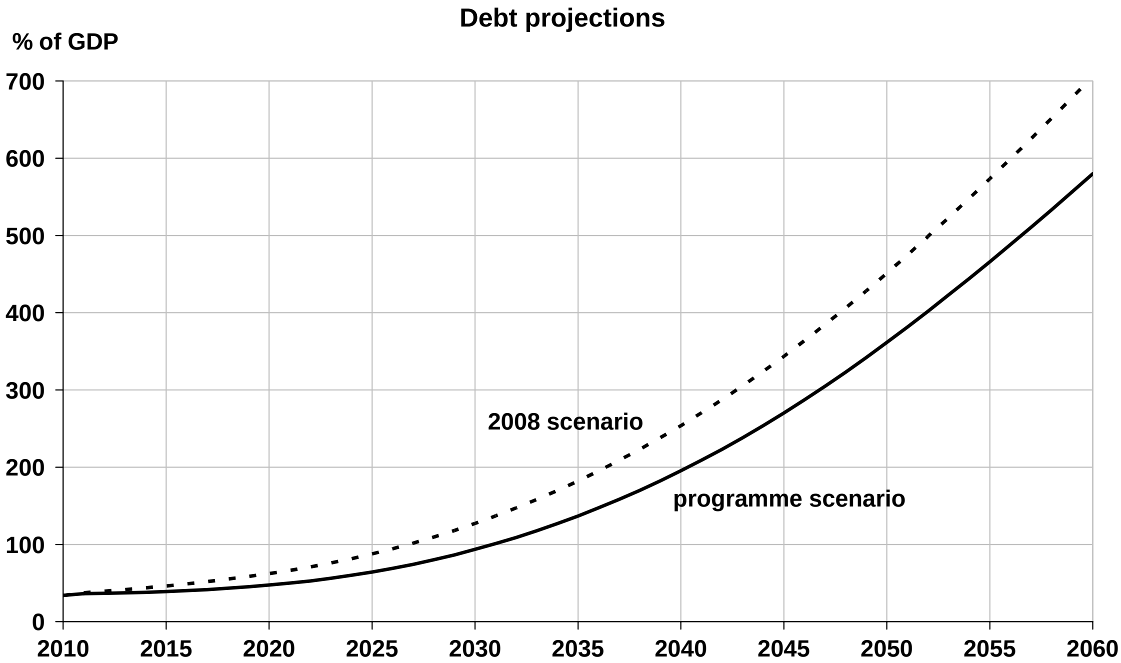
Source: Economic Policy Committee and Commission services.

Table 4: Sustainability indicators and the required primary balance

	2008 scenario			Programme scenario		
	S1	**S2**	**RPB**	**S1**	**S2**	**RPB**
Value	7.9	10.9	8.5	6.3	9.3	8.5
of which:						
Initial budgetary position (IBP)	2.4	2.5	-	0.9	1.0	-
Debt requirement in 2050 (DR)	-0.3	-	-	-0.3	-	-
Long-term change in the primary balance (LTC)	5.7	8.4	-	5.7	8.4	-

Source: Commission services.

Figure 4: Long-term projections for the government debt ratio



Note: Being a mechanical, partial-equilibrium analysis, the long-term debt projections are bound to show highly accentuated profiles. As a consequence, the projected evolution of debt levels should not be seen as a forecast similar to the Commission services' short-term forecasts, but as an indication of the risks faced by Member States.
Source: Commission services.

Table 5: Additional factors

	Impact on risk
Debt and pension assets	na
Decline in structural balance until 2010 in COM Spring 2009 forecast	-
Significant revenues from pension taxation	na
Alternative projection of cost of ageing	+
Strong decline in benefit ratio	na
High tax burden	na
Non-age related budgetary measures with intertemporal effect	na

Note: '-': factor tends to increase the risk to sustainability, '+': factor tends to decrease the risk to sustainability. 'na': not applicable.
Alternative projections are often presented in the programmes, whose assumptions often diverge from the common method. Projections currently discussed in the Economic Policy Committee but not yet published, are for the time being also considered "unofficial".
An explanation on these factors can be found in chapter IV of: European Commission (2006), The long-term sustainability of public finances in the European Union, European Economy No. 4/2006.
Source: Commission services.

ANNEX 3. COMPLIANCE WITH THE CODE OF CONDUCT AND TABLES FROM THE PROGRAMME

The tables on the following pages show the data presented in the April 2009 update of the Slovene stability programme, following the structure of the tables in Annex 2 of the code of conduct. Compulsory data are in bold, missing data are indicated with grey-shading.

The programme update broadly adheres to the code of conduct *model structure*.

As regards the code of conduct *data requirements*, not all the compulsory and optional data specified in Annex 2 of the code of conduct, as amended by the September 2007 EFC, are provided in the programme.

Gaps in the *compulsory data* concern net lending/borrowing vis-à-vis the rest of the world for the years 2009 to 2011 in Table 1d and some of the basic assumptions in Table 8.

Gaps in the *optional data* are as follows: Table 1b (HICP); Table 1c (Employment and labour productivity in terms of hours worked); Table 1d (Capital account – figures for 2009 to 2011; Net lending/borrowing of the private sector; statistical discrepancy); Table 2 (nominal government consumption); Table 3 (entire table missing); Table 4 (the different subcategories of the stock-flow adjustment of general government debt developments; the data series on liquid financial assets and net financial debt); Table 5 (Cyclically-adjusted primary balance and the structural balance); Table 7 (age-related expenditure and some sub-categories of total revenue).

Table 1a. Macroeconomic prospects

	ESA Code	2007 Level	2007 rate of change	2008 rate of change	2009 rate of change	2010 rate of change	2011 rate of change
1. Real GDP	B1*g	n.a.	6.8	3.5	-4.0	1.0	2.7
2. Nominal GDP	B1*g	34470.9	11.2	7.7	-1.4	2.3	4.9
Components of real GDP							
3. Private consumption expenditure	P.3	17984.4	5.0	2.2	-0.6	1.0	2.0
4. Government consumption expenditure	P.3	6095.6	2.5	3.7	3.2	3.8	3.2
5. Gross fixed capital formation	P.51	9477.5	11.9	6.2	-12.0	1.0	4.0
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	n.a.	4.0	4.2	1.9	1.3	1.2
7. Exports of goods and services	P.6	24186.5	13.8	3.3	-8.6	1.7	5.4
8. Imports of goods and services	P.7	24635.9	15.7	3.5	-10.3	1.6	5.2
Contributions to real GDP growth							
9. Final domestic demand		-	6.3	3.5	-3.2	1.4	2.7
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	1.8	0.2	-2.2	-0.5	-0.1
11. External balance of goods and services	B.11	-	-1.3	-0.2	1.4	0.1	0.1

Table 1b. Price developments

	ESA Code	2007 Level	2007 rate of change	2008 rate of change	2009 rate of change	2010 rate of change	2011 rate of change
1. GDP deflator		n.a.	4.1	4.0	2.7	1.2	2.1
2. Private consumption deflator		n.a.	4.1	6.5	0.2	1.5	2.6
3. HICP[1]		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
4. Public consumption deflator		n.a.	2.1	5.3	4.1	4.9	2.8
5. Investment deflator		n.a.	3.9	4.0	0.0	1.3	2.5
6. Export price deflator (goods and services)		n.a.	2.9	1.8	-0.6	0.7	1.3
7. Import price deflator (goods and services)		n.a.	2.3	4.0	-3.1	2.3	2.1

[1] Optional for stability programmes.

Table 1c. Labour market developments

	ESA Code	2007	2007	2008	2009	2010	2011
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. Employment, persons[1]		962.6	3.0	2.9	-5.4	-1.7	-0.4
2. Employment, hours worked[2]		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3. Unemployment rate (%)[3]		50.5	4.9	4.4	6.0	7.0	7.0
4. Labour productivity, persons[4]		35.8	3.7	0.6	1.5	2.8	3.1
5. Labour productivity, hours worked[5]		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
6. Compensation of employees	D.1	n.a.	5.9	6.0	-2.1	0.9	1.3
7. Compensation per employee		n.a.	6.2	8.7	2.7	4.2	4.3

[1]Occupied population, domestic concept national accounts definition.

[2]National accounts definition.

[3]Harmonised definition, Eurostat; levels.

[4]Real GDP per person employed.

[5]Real GDP per hour worked.

Table 1d. Sectoral balances

% of GDP	ESA Code	2007	2008	2009	2010	2011
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	n.a.	n.a.	n.a.	n.a.	n.a.
of which :						
- Balance on goods and services		-1.3	-2.9	0.2	-0.6	-1.0
- Balance of primary incomes and transfers		-2.7	-3.0	-2.7	-3.2	-3.2
- Capital account		0.4	0.2	n.a.	n.a.	n.a.
2. Net lending/borrowing of the private sector	B.9	n.a.	n.a.	n.a.	n.a.	n.a.
3. Net lending/borrowing of general government	EDP B.9	0.5	-0.9	-5.1	-3.9	-3.4
4. Statistical discrepancy		n.a.	n.a.	n.a.	n.a.	n.a.

Table 2. General government budgetary prospects

	ESA Code	2007 Level	2007 % of GDP	2008 % of GDP	2009 % of GDP	2010 % of GDP	2011 % of GDP
Net lending (EDP B.9) by sub-sector							
1. General government	S.13	162.5	0.5	-0.9	-5.1	-3.9	-3.4
2. Central government	S.1311	135.3	0.4	-0.5	-4.5	-3.5	-2.9
3. State government	S.1312	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
4. Local government	S.1313	-33.3	-0.1	-0.4	-0.2	-0.1	-0.1
5. Social security funds	S.1314	60.6	0.2	0.0	-0.4	-0.3	-0.4
General government (S13)							
6. Total revenue	TR	14789.9	42.9	42.7	41.9	42.4	42.4
7. Total expenditure	TE[1]	14627.3	42.4	43.6	47.1	46.4	45.8
8. Net lending/borrowing	EDP B.9	162.5	0.5	-0.9	-5.1	-3.9	-3.4
9. Interest expenditure	EDP D.41	442.6	1.3	1.2	1.5	1.7	1.8
10. Primary balance[2]		605.1	1.8	0.2	-3.6	-2.2	-1.6
11. One-off and other temporary measures[3]		0.0	0.0	0.0	0.0	0.0	0.0
Selected components of revenue							
12. Total taxes (12=12a+12b+12c)		8305.2	24.1	23.3	22.6	23.0	23.1
12a. Taxes on production and imports	D.2	5024.5	14.6	14.0	14.1	14.4	14.4
12b. Current taxes on income, wealth, etc	D.5	3272.0	9.5	9.3	8.5	8.6	8.6
12c. Capital taxes	D.91	8.7	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D.61	4813.7	14.0	14.3	14.4	14.4	14.3
14. Property income	D.4	247.0	0.7	0.7	0.4	0.4	0.4
15. Other[4]		1424.0	4.1	4.3	4.5	4.6	4.6
16=6. Total revenue	TR	14789.9	42.9	42.7	41.9	42.4	42.4
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[5]		13118.9	38.1	37.7	37.0	37.5	37.3
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1+P.2	5686.8	16.5	16.9	17.9	17.7	17.5
17a. Compensation of employees	D.1	3641	10.6	10.8	11.8	11.7	11.5
17b. Intermediate consumption	P.2	2045.8	5.9	6.1	6.1	6.0	6.0
18. Social payments (18=18a+18b)		5626.6	16.3	16.6	17.8	17.7	17.8
18a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131	662.0	1.9	1.9	2.2	2.0	2.0
18b. Social transfers other than in kind	D.62	4964.6	14.4	14.7	15.5	15.7	15.8
19=9. Interest expenditure	EDP D.41	442.6	1.3	1.2	1.5	1.7	1.8
20. Subsidies	D.3	549.7	1.6	1.6	2.7	2.2	1.7
21. Gross fixed capital formation	P.51	1290.3	3.7	4.2	4.2	4.1	4.1
22. Other[6]		1031.3	3.0	3.2	3.0	2.9	2.9
23=7. Total expenditure	TE[1]	14627.3	42.4	43.6	47.1	46.4	45.8
p.m.: Government consumption (nominal)	P.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

[1]Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

[2]The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

[3]A plus sign means deficit-reducing one-off measures.

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

[5]Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.

[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

Table 3. General government expenditure by function

% of GDP	COFOG Code	2006	2011
1. General public services	1	n.a.	n.a.
2. Defence	2	n.a.	n.a.
3. Public order and safety	3	n.a.	n.a.
4. Economic affairs	4	n.a.	n.a.
5. Environmental protection	5	n.a.	n.a.
6. Housing and community amenities	6	n.a.	n.a.
7. Health	7	n.a.	n.a.
8. Recreation, culture and religion	8	n.a.	n.a.
9. Education	9	n.a.	n.a.
10. Social protection	10	n.a.	n.a.
11. Total expenditure (=item 7=23 in Table 2)	TE[1]	n.a.	n.a.

[1]Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

Table 4. General government debt developments

% of GDP	ESA Code	2007	2008	2009	2010	2011
1. Gross debt[1]		23.4	22.8	30.5	34.1	36.3
2. Change in gross debt ratio		-3.3	-0.6	7.7	3.6	2.1
Contributions to changes in gross debt						
3. Primary balance[2]		-1.8	-0.2	3.6	2.2	1.6
4. Interest expenditure[3]	EDP D.41	1.3	1.2	1.5	1.7	1.8
5. Stock-flow adjustment		-0.2	0.1	2.2	0.4	0.3
of which:						
- Differences between cash and accruals[4]		n.a.	n.a.	n.a.	n.a.	n.a.
- Net accumulation of financial assets[5]		n.a.	n.a.	n.a.	n.a.	n.a.
of which:						
- privatisation proceeds		n.a.	n.a.	n.a.	n.a.	n.a.
- Valuation effects and other[6]		n.a.	n.a.	n.a.	n.a.	n.a.
p.m.: Implicit interest rate on debt[7]		5.3	5.4	6.6	5.8	5.5
Other relevant variables						
6. Liquid financial assets[8]		n.a.	n.a.	n.a.	n.a.	n.a.
7. Net financial debt (7=1-6)		n.a.	n.a.	n.a.	n.a.	n.a.

[1]As defined in Regulation 3605/93 (not an ESA concept).

[2]Cf. item 10 in Table 2.

[3]Cf. item 9 in Table 2.

[4]The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

[5]Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

[6]Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant.

[7]Proxied by interest expenditure divided by the debt level of the previous year.

[8]AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted in stock exchange; including mutual fund shares).

Table 5. Cyclical developments

% of GDP	ESA Code	2007	2008	2009	2010	2011
1. Real GDP growth (%)		6.8	3.5	-4.0	1.0	2.7
2. Net lending of general government	EDP B.9	0.5	-0.9	-5.1	-3.9	-3.4
3. Interest expenditure	EDP D.41	1.3	1.2	1.5	1.7	1.8
4. One-off and other temporary measures[1]		0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth (%)		3.3	3.2	2.7	2.6	2.5
contributions:						
- labour		0.1	-0.2	-0.2	-0.2	-0.4
- capital		2.7	2.7	2.5	2.4	2.4
- total factor productivity		0.5	0.7	0.4	0.4	0.6
6. Output gap		4.6	4.9	-1.9	-3.5	-3.3
7. Cyclical budgetary component		1.8	1.9	-0.7	-1.4	-1.3
8. Cyclically-adjusted balance (2 - 7)		-1.3	-2.9	-4.4	-2.6	-2.1
9. Cyclically-adjusted primary balance (8 + 3)		n.a.	n.a.	n.a.	n.a.	n.a.
10. Structural balance (8 - 4)		n.a.	n.a.	n.a.	n.a.	n.a.

[1]A plus sign means deficit-reducing one-off measures. One-offs are not shown in the programme but were clasified to be zero through contacts with the Slovenian authorities.

Table 6. Divergence from previous update

	ESA Code	2007	2008	2009	2010	2011
Real GDP growth (%)						
Previous update		5.8	4.6	4.1	4.5	n.a.
Current update		6.8	3.5	-4.0	1.0	2.7
Difference		1.0	-1.1	-8.1	-3.5	n.a.
General government net lending (% of GDP)	EDP B.9					
Previous update		-0.6	-0.9	-0.6	0.0	n.a.
Current update		0.5	-0.9	-5.1	-3.9	-3.4
Difference		1.1	0.0	-4.5	-3.9	n.a.
General government gross debt (% of GDP)						
Previous update		25.6	24.7	23.8	22.5	n.a.
Current update		23.4	22.8	30.5	34.1	36.3
Difference		-2.2	-2.9	6.7	11.6	n.a.

Table 7. Long-term sustainability of public finances

% of GDP	2007	2009	2010	2020	2030	2050
Total expenditure	41.49	40.99	41.07	42.41	46.34	59.54
Of which: age-related expenditures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pension expenditure	10.10	10.25	10.31	11.24	13.42	18.39
Social security pension	0.10	0.10	0.10	0.11	0.15	0.20
Old-age and early pensions	7.01	7.24	7.32	8.44	10.44	14.70
Other pensions (disability, survivors)	1.54	1.49	1.48	1.36	1.25	1.28
Occupational pensions (if in general government)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Health care	5.81	5.83	5.90	6.45	7.32	8.99
Long-term care *(this was earlier included in the health care)*	0.76	0.78	0.80	0.97	1.20	1.81
Education expenditure	5.39	5.22	5.17	5.09	5.23	5.34
Other age-related expenditures	0.55	0.52	0.53	0.49	0.55	0.74
Interest expenditure	1.06	0.66	0.65	0.63	1.17	6.97
Total revenue	41.76	40.52	40.59	41.54	41.81	41.26
Of which: property income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Of which : from pensions contributions (or social contributions if appropriate)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pension reserve fund assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Of which : consolidated public pension fund assets (assets other than government liabilities)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Assumptions						
Labour productivity growth	3.6	3.6	3.7	3.1	1.8	1.7
Real GDP growth	4.8	4.5	3.4	2.6	0.8	0.8
Participation rate males (aged 20-64)	75.8	75.8	75.4	75.8	74.2	73.9
Participation rates females (aged 20-64)	66.7	67.5	68.0	70.8	69.1	69.3
Total participation rates (aged 20-64)	71.4	71.8	71.8	73.4	71.7	71.6
Unemployment rate	4.9	4.6	4.6	4.6	4.5	4.5
Population aged 65+ over total population	15.9	16.4	16.6	20.4	25.3	32.5

[1]Years used are 2007, 2009, 2010, 2020, 2030, 2050

Table 8. Basic assumptions

	2007	2008	2009	2010	2011
Short-term interest rate[1] (annual average)	n.a.	n.a.	n.a.	n.a.	n.a.
Long-term interest rate (annual average)	n.a.	n.a.	n.a.	n.a.	n.a.
USD/€ exchange rate (annual average) (euro area and ERM II countries)	n.a.	1.471	1.275	1.269	1.269
Nominal effective exchange rate	n.a.	0.5	-0.1	0.0	0.0
(for countries not in euro area or ERM II) exchange rate vis-à-vis the € (annual average)	n.a.	n.a.	n.a.	n.a.	n.a.
World excluding EU, GDP growth	n.a.	n.a.	n.a.	n.a.	n.a.
EU GDP growth	n.a.	0.9	-3.9	-0.3	1.9
Growth of relevant foreign markets	n.a.	1.0	-10.2	1.0	4.9
World import volumes, excluding EU	n.a.	n.a.	n.a.	n.a.	n.a.
Oil prices (Brent, USD/barrel)	n.a.	96.9	45.0	55.0	60.0

[1]If necessary, purely technical assumptions.

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