



EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 7 April 2010
ECFIN/F1/Ares(2010)184006

SLOVENIA: MACRO FISCAL ASSESSMENT
AN ANALYSIS OF THE JANUARY 2010 UPDATE OF THE STABILITY
PROGRAMME

The Stability and Growth Pact requires each EU Member State to present an annual update of its medium-term fiscal programme, called 'stability programme' for countries that have adopted the euro as their currency and 'convergence programme' for those that have not. The most recent update of Slovenia's stability programme was submitted on 29 January 2010.

The attached technical analysis of the programme prepared by the staff and under the responsibility of the Directorate-General for Economic and Financial Affairs (DG ECFIN) of the European Commission, was finalised on 24 March 2010. Comments should be sent to 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' autumn 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 10 November 2009) and (iii) the commonly agreed methodology for the estimation of potential output and cyclically-adjusted balances.

Based on this analysis, the European Commission adopted a recommendation for a Council opinion on the programme on 24 March 2010. The ECOFIN Council is expected to discuss the opinion on the programme on 16 April 2010.

* * *

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/sgp/index_en.htm

TABLE OF CONTENTS

1. INTRODUCTION.....	4
2. KEY CHALLENGES IN THE ECONOMIC DOWNTURN AND THE POLICY RESPONSE.....	5
3. MACROECONOMIC OUTLOOK.....	7
4. GENERAL GOVERNMENT BALANCE.....	9
4.1. Budgetary implementation in 2009.....	9
4.2. The programme's budgetary strategy for 2010.....	12
4.3. The programme's medium-term budgetary strategy.....	14
4.4. Risk assessment.....	17
5. GOVERNMENT DEBT AND LONG-TERM SUSTAINABILITY.....	19
5.1. Recent debt developments and medium-term prospects.....	19
5.1.1. Debt projections in the programme.....	19
5.1.2. Assessment.....	21
5.2. Long-term debt projections and the sustainability of public finances.....	22
5.2.1. Sustainability indicators and long-term debt projections.....	22
5.2.2. Additional factors.....	24
5.2.3. Assessment.....	25
6. FISCAL FRAMEWORK AND QUALITY OF PUBLIC FINANCES.....	25
6.1. Fiscal framework.....	26
6.2. Quality of public finances.....	26
7. OVERALL ASSESSMENT.....	27
ANNEX. COMPLIANCE WITH THE FORMAT AND CONTENT REQUIREMENTS FOR STABILITY AND CONVERGENCE PROGRAMMES.....	29

1. INTRODUCTION

This document assesses the January 2010 update of Slovenia's stability programme, which was submitted to the European Commission on 29 January 2010¹ and covers the period 2009-2013. The programme builds on the budget for 2010-2011 that was adopted by the Slovenian National Assembly in November 2009. The update was approved by the government and presented to the National Assembly for discussion in its committees.

This assessment is structured as follows. Section 2 discusses the key challenges for public finances in Slovenia. Section 3 assesses the plausibility of the macroeconomic scenario underpinning the public finance projections of the stability programme against the background of the Commission services' economic forecasts². Section 4 analyses budgetary implementation in the year 2009, the budgetary plans for 2010 and the medium-term budgetary strategy. It also assesses risks attached to the budgetary targets. Section 5 reviews recent debt developments and medium-term prospects, as well as the long-term sustainability of public finances. Section 6 discusses institutional features of public finances. Finally, Section 7 concludes with an overall assessment of the programme. The annex provides a detailed assessment of compliance with the code of conduct, including an overview of the summary tables from the programme.

¹ The English language version was submitted on 2 February 2010.

² This assessment uses the Commission services' autumn 2009 forecast, published on 3 November 2009, as a benchmark. However, more recent information that has become available since then has also been taken into account to assess the risks to the programme scenario.

Table 1. Comparison of key macroeconomic and budgetary projections

		2008	2009	2010	2011	2012	2013
Real GDP (% change)	SP Jan 2010	3.5	-7.3	0.9	2.5	3.7	3.5
	COM Nov 2009	3.5	-7.4	1.3	2.0	n.a.	n.a.
	SP Apr 2009	3.5	-4.0	1.0	2.7	n.a.	n.a.
HICP inflation ⁴ (%)	SP Jan 2010	5.7	1.0	1.5	2.5	2.7	2.7
	COM Nov 2009	5.5	0.9	1.7	2.0	n.a.	n.a.
	SP Apr 2009	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Output gap ¹ (% of potential GDP)	SP Jan 2010	5.7	-3.4	-3.9	-3.2	-1.5	0.1
	COM Nov 2009 ²	5.7	-3.3	-3.3	-2.8	n.a.	n.a.
	SP Apr 2009	4.4	-2.3	-3.5	-3.1	n.a.	n.a.
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	SP Jan 2010	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	COM Nov 2009	-6.0	-0.7	-0.1	-0.5	n.a.	n.a.
	SP Apr 2009	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
General government revenue (% of GDP)	SP Jan 2010	42.4	42.4	43.2	42.9	42.7	42.5
	COM Nov 2009	42.4	43.2	43.2	42.9	n.a.	n.a.
	SP Apr 2009	42.7	41.9	42.4	42.4	n.a.	n.a.
General government expenditure (% of GDP)	SP Jan 2010	44.2	48.1	48.9	47.1	45.9	44.2
	COM Nov 2009	44.2	49.5	50.2	49.9	n.a.	n.a.
	SP Apr 2009	43.6	47.1	46.4	45.8	n.a.	n.a.
General government balance (% of GDP)	SP Jan 2010	-1.8	-5.7	-5.7	-4.2	-3.1	-1.6
	COM Nov 2009	-1.8	-6.3	-7.0	-6.9	n.a.	n.a.
	SP Apr 2009	-0.9	-5.1	-3.9	-3.4	n.a.	n.a.
Primary balance (% of GDP)	SP Jan 2010	-0.7	-4.6	-3.9	-2.3	-1.1	0.4
	COM Nov 2009	-0.7	-4.8	-5.1	-4.9	n.a.	n.a.
	SP Apr 2009	0.2	-3.6	-2.2	-1.6	n.a.	n.a.
Cyclically-adjusted balance ¹ (% of GDP)	SP Jan 2010	-4.3	-4.2	-4.0	-2.8	-2.4	-1.6
	COM Nov 2009	-4.5	-4.8	-5.4	-5.6	n.a.	n.a.
	SP Apr 2009	-2.9	-4.1	-2.3	-2.0	n.a.	n.a.
Structural balance ³ (% of GDP)	SP Jan 2010	-4.3	-4.2	-4.0	-2.8	-2.4	-1.6
	COM Nov 2009	-4.5	-4.7	-5.4	-5.6	n.a.	n.a.
	SP Apr 2009	-2.9	-4.1	-2.3	-2.0	n.a.	n.a.
Government gross debt (% of GDP)	SP Jan 2010	n.a.	34.4	39.6	42.0	42.7	42.1
	COM Nov 2009	22.5	35.1	42.8	48.2	n.a.	n.a.
	SP Apr 2009	22.8	30.5	34.1	36.3	n.a.	n.a.

Notes:
¹Output gaps and cyclically-adjusted balances from the programmes as recalculated by Commission services on the basis of the information in the programmes.
²Based on estimated potential growth of 3.3%, 1.2%, 1.2% and 1.4% respectively in the period 2008-2011.
³Cyclically-adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are zero according to the most recent programme and 0.1% of GDP in 2009, deficit-increasing, according to the Commission services' autumn 2009 forecast.
⁴SP January 2010 provides for CPI instead of HICP.
Source:
Stability programme (SP); Commission services' autumn 2009 forecasts (COM); Commission services' calculations.

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

This section describes recent economic and budgetary developments for Slovenia, forming the background against which the current programme assessment should be viewed, and outlines the key challenges to be addressed by future economic policies.

In the years preceding the crisis, Slovenia enjoyed solid economic growth driven by buoyant exports and investment. At the same time, 2007 saw the emerging of strong inflationary pressures, along with a widening external deficit as low real interest rates fuelled credit, domestic demand and imports, while accelerating wage growth started to threaten competitiveness. Rapid expansion ended in the final quarter of 2008 when the Slovenian economy was hit hard and rather abruptly by the global crisis, chiefly through

the trade channel given Slovenia's high degree of openness. Real GDP in 2009 as a whole is now estimated to have contracted by 7.8%, the biggest contraction since 1991 and one of the sharpest falls in the euro area. The banking sector, which relied heavily on foreign borrowing, was affected through tighter refinancing possibilities on the international financial markets. In the second quarter of 2009 the economy entered a mild recovery, driven by net exports. Having reached a low level of just above 4% in the last quarter of 2008, the unemployment rate approached 7% one year later. The economic downturn after a phase of emerging risks of overheating and competitiveness losses is bringing about some adjustment in the economy, namely as regards inflation and the external balance. After peaking in the third quarter of 2008 at 2.7 pps., the inflation differential with the euro area gradually decreased to some 0.5 pp. in the final quarter of 2009. According to the Commission services' forecast, favourable terms of trade developments in 2009 and weak domestic demand holding back import growth are leading to an improvement of the external deficit towards a broadly balanced position in 2010-2011.

The Slovenian budgetary position deteriorated rapidly: from 1.8% of GDP in 2008, the general government deficit increased to 5.7% of GDP in 2009 according to the update. The increase was driven not only by the working of automatic stabilisers but also by the strong inherent dynamics of social transfers and the public sector wage bill, as well as by various discretionary measures, including measures to respond to the crisis taken in line with the European Economic Recovery Plan (EERP). The latter, which were adopted in two packages in December 2008 and February 2009, consist mainly of temporary measures aimed at stemming the deterioration in the labour market, strengthening the stability of the financial system and enhancing growth potential and competitiveness by stimulating additional investment in new technologies and R&D. Further support to the economy came from tax decisions taken before the onset of the crisis, reducing the tax burden on companies. Overall, the budgetary cost of the recovery measures is estimated at around 1½% of GDP in 2009. In light of the increasing deficit, the Council decided on 2 December 2009 on the existence of an excessive deficit in Slovenia and set a deadline for the correction of this situation at 2013 (see Box 1 for details on the Excessive Deficit Procedure – EDP - for Slovenia).

Besides returning to sound public finances by correcting the excessive deficit and further reforming the pension system to curb age-related expenditures, in line with the Council's EDP recommendations, key challenges for the Slovenian economy are strengthening its resilience and regaining competitiveness so as to be able to benefit fully from the global economic recovery and support potential growth. This requires better alignment of wage and productivity developments and accelerating the pace of structural reforms, including a reform of the labour market and a more effective research and innovation strategy. As the banking sector still has limited access to foreign borrowing and credit risks are rising, another challenge will be to strengthen financial markets and ensure adequate financing for firms.

The stability programme update broadly acknowledges the same challenges. To underpin the return to sound public finances, it puts forward plans for the withdrawal of the fiscal stimulus by end-2010 and the phasing-out of financial support as financial market conditions improve, and recognises the need to implement an expenditure-driven fiscal consolidation strategy that ensures correcting the excessive deficit by 2013. To improve long-term fiscal sustainability and potential growth, the update advocates the implementation of the government's plans for economic policy measures and structural reforms. These plans are presented in some detail in a strategic document, *Exit strategy*

2010-2013³, which was adopted by the government on 4 February 2010. They include an increased focus on active labour market measures, in line with the flexicurity principle, improving the efficiency of the social protection system and major adjustments in the pension and health care systems, together with institutional adjustments aimed at improving the functioning of product and financial markets and the public administration.

3. MACROECONOMIC OUTLOOK

Against the background of the current macroeconomic situation and the main policy challenges set out in the previous section, this section makes an assessment of the plausibility of the macroeconomic scenario underpinning the public finance projections of the programme.

Table 2: Comparison of macroeconomic developments and forecasts

	2009		2010		2011		2012	2013
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	-7.4	-7.3	1.3	0.9	2.0	2.5	3.7	3.5
Private consumption (% change)	-1.7	-2.0	-0.2	0.0	1.6	1.0	2.3	2.5
Gross fixed capital formation (% change)	-24.8	-21.0	-0.6	-2.0	2.5	3.0	7.0	4.0
Exports of goods and services (% change)	-18.5	-17.9	2.4	4.1	4.0	6.8	7.5	7.5
Imports of goods and services (% change)	-21.0	-19.8	0.5	1.8	3.5	4.9	7.2	6.5
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	-7.4	-6.6	-0.1	-0.7	1.5	1.3	3.4	2.8
- Change in inventories	-2.3	-2.5	0.3	0.2	0.1	0.0	0.0	0.0
- Net exports	2.4	1.8	1.1	1.4	0.4	1.2	0.3	0.7
Output gap ¹	-3.3	-3.4	-3.3	-3.9	-2.8	-3.2	-1.5	0.1
Employment (% change)	-2.6	-2.4	-2.0	-1.6	-0.3	-0.9	0.7	0.7
Unemployment rate (%)	6.7	5.7	8.3	6.7	8.5	7.3	7.2	6.8
Labour productivity (% change)	-4.9	-5.0	3.4	2.5	2.3	3.4	3.0	2.8
HICP inflation (%)	0.9	n.a.	1.7	n.a.	2.0	n.a.	n.a.	n.a.
GDP deflator (% change)	3.2	4.2	1.1	0.6	1.9	2.0	2.2	2.1
Comp. of employees (per head, % change)	2.9	3.6	1.7	2.0	3.1	3.8	5.0	4.8
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-0.7	n.a.	-0.1	n.a.	-0.5	n.a.	n.a.	n.a.
<u>Note:</u>								
¹ In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.								
<u>Source:</u>								
Commission services' autumn 2009 forecasts (COM); Stability programme (SP).								

The macroeconomic scenario underlying the update is the September 2009 forecast by the Institute of Macroeconomic Analysis and Development (IMAD), which projects a fall in real GDP by 7.3% in 2009, followed by positive growth rates of 0.9% and 2.5% in 2010 and 2011, respectively. A similar contraction of real GDP in 2009 was projected in the Commission services' autumn 2009 forecast, but based on quarterly national accounts data up to Q4-2009⁴ released by the national statistical office on 1 March 2010, the

³ The document *Exit strategy 2010-2013* can be seen as complementing the January 2010 update of Slovenia's stability programme. It was sent to the National Assembly for approval on 5 February 2010, which is a pre-requisite for the adoption of implementing acts.

⁴ For the year 2009 as a whole, gross fixed capital formation decreased by 21.6% and household final consumption expenditure by 1.4%. As exports dropped by 15.6%, while imports fell by 17.9%, net exports contributed positively to real GDP growth, by 2.1 pps. Inventories made a negative contribution to growth, by 3.5 pps.

decline is now estimated to have been even sharper, at 7.8%. The programme scenario for 2010-2011 is broadly in line with the Commission services' forecast, although the growth projection of the former is somewhat lower for 2010 and higher for 2011, based on a slightly different external scenario.⁵ The two scenarios differ in particular on the recovery profile for investment in 2010 and for private consumption and net exports in 2011 (see Table 2). As the carryover for real GDP growth in 2010 from the quarterly national accounts data released on 1 March 2010 is significantly lower than incorporated in the Commission services' autumn 2009 forecast, the programme's lower growth projection for 2010 looks more plausible. According to the programme, risks to the projected economic outlook, particularly for 2010, are "exceptionally high and distributed asymmetrically towards lower-than-predicted economic growth".

Over the period 2012-2013, which is not covered in the Commission services' autumn 2009 forecast, the programme's macroeconomic scenario foresees average real GDP growth of 3.6%, driven by a strong rebound of exports, itself supported by growth in market shares, and marked growth in gross fixed capital formation and imports. This scenario appears optimistic in light of the nature of Slovenia's manufacturing exports, which are characterised by low technology intensity, cost competition, and a geographical orientation towards EU/euro area countries, where the upturn is expected to be milder than in the rest of the world.

As regards cyclical conditions, the output gap, as recalculated by the Commission services based on the information in the programme following the commonly agreed methodology, is estimated to have turned sharply negative in 2009 and to open up further in 2010. The recalculated output gap would then start narrowing in 2011 before turning slightly positive in 2013.

In both scenarios, employment is projected to continue declining – alongside rising unemployment – up to 2011, but in the programme these negative developments are less pronounced in 2009 and 2010 and more protracted into 2011 (levels of the unemployment rate in the two scenarios are not comparable because they reflect different labour force definitions). Quarterly national accounts data up to Q4-2009 released on 1 March 2010 seem to confirm the projection of a lower fall in employment in the programme scenario, probably thanks to a more significant impact of the labour market subsidy schemes put in place by the government to respond to the crisis than foreseen in the Commission services' autumn 2009 forecast. However, the withdrawal by end-2010 of these schemes could entail a higher increase in unemployment than projected in the programme as a more significant proportion of employees no longer covered by the schemes might lose their jobs. Furthermore, according to IMAD,⁶ the recently adopted gradual increase in the minimum wage between 2010 and 2012 might result in employment falling more than projected over the programme horizon. Reflecting the lagged impact of the economic downturn on the labour market, real labour productivity growth is estimated to have declined sharply in 2009 according to the programme's macroeconomic scenario, as the fall in output outpaced that of employment, and is projected to start growing and exceeding real wage growth again in 2010, as output growth resumes while employment continues to fall.

⁵ In particular, the programme's macroeconomic scenario, which was finalised before the Commission services' autumn 2009 forecast, assumes lower real GDP growth in the EU as a whole and in Slovenia's main trading partners in 2010. The external assumptions underlying this scenario are accordingly slightly more pessimistic than in the Commission services' autumn 2009 forecast.

⁶ IMAD Economic Mirror, January 2010, p. 19. The decision to increase the minimum wage between 2010 and 2012 was adopted in February 2010 and is thus neither incorporated in the Commission services' autumn 2009 forecast nor in the programme scenario.

Both sets of forecasts expect wages to record relatively modest growth in 2010, reflecting the depressed labour market, before accelerating from 2011. To some extent, wage growth in the private sector reflects a composition effect as job losses are concentrated among low-wage employees in the manufacturing and construction sectors. The programme's macroeconomic scenario assumes a partial freeze of public sector wages in 2010 and, unlike the Commission services' forecast, does not include the October 2009 agreement on the postponement to October 2010 and October 2011 of the previously planned wage increases (see Box 2 in Section 4), which implies higher wages in the public sector and thus in the whole economy over 2010 and 2011.⁷ The programme states that the incorporation of this agreement would imply 0.5 pp. higher wage growth in both 2010 and 2011, but considers that this higher growth will likely have only limited implications for private consumption and GDP growth, given the depressed conditions in the labour market. Looking at the projections for employment and wage growth together, the projected growth of the wage bill for the total economy is higher in the programme update in 2010 whereas it is broadly similar in the two forecasts in 2011.

Since projections for HICP inflation are not provided in the update, the assessment of the plausibility of the inflation assumptions is based on the GDP deflator and the CPI⁸. The assumed gradual increase in inflation over the forecast horizon is compatible with the expected economic rebound and higher oil prices, and therefore appears realistic. It must be noted that the programme's macroeconomic scenario projects growth of the GDP deflator for 2009 that is 1 pp. higher than in the Commission services' forecast and appears implausibly high in light of the quarterly national accounts data released after the programme submission.

Overall, assessed against currently available information, the update's macroeconomic scenario seems to be based on plausible growth assumptions until 2011 and favourable growth assumptions thereafter. The projected employment decline and the corresponding increase in the unemployment rate could turn out worse than expected in both the programme scenario and the Commission services' autumn 2009 forecast following (i) the phasing-out of the temporary labour market support schemes if not accompanied, where necessary, by activation and training policies that favour job reallocation and workers' re-skilling, as well as (ii) the gradual increase in the minimum wage between 2010 to 2012. The programme's projections for inflation appear realistic.

4. GENERAL GOVERNMENT BALANCE

This section consists of four parts: the first three discuss the budgetary implementation in the year 2009, the budgetary plans for 2010 and the medium-term budgetary strategy in the programme and the final part analyses the risks attached to the budgetary targets.

4.1. Budgetary implementation in 2009

According to the programme, the general government deficit is estimated at 5.7% of GDP in 2009, up from 1.8% reached in 2008. While interest expenditure is estimated to have remained broadly stable as a share of GDP, the primary balance strongly deteriorated. As detailed above, this was due to the working of the automatic stabilisers, the strong in-built dynamics of social transfers and the public sector wage bill, as well as

⁷ The agreement was signed after the September 2009 forecast by IMAD was published. It must be noted that the budgetary projections in the programme do include this agreement.

⁸ As in the preceding stability programme the update provides projections for the national CPI, which is forecast to reach 1.5% in 2010, 2.5% in 2011, 2.7% in 2012 and 2.1% in 2013. The Commission services' autumn 2009 forecast projects 1.7% and 2.0% respectively in 2010-2011.

various discretionary measures, including measures to respond to the crisis amounting to some 1½% of GDP which the government adopted in line with the EERP. Stimulus measures appear to have been timely, adequately targeted to the households and companies most affected by the economic downturn and temporary, in light of their planned gradual withdrawal in the course of 2010.

The Commission services' autumn 2009 forecast projected a somewhat higher deficit, at 6.3% of GDP, due to higher projected expenditure but also reflecting a lower nominal GDP (in particular, a lower GDP deflator).

Table 3: Budgetary implementation in 2009

	2008		2009	
	Planned	Outcome	Planned	Outcome
	SP Apr 2009	SP Jan 2010	SP Apr 2009	SP Jan 2010
Government balance (% of GDP)	-0.9	-1.8	-5.1	-5.7
Difference compared to target ¹	-0.9		-0.6	
Difference excluding denominator effect ^{1,2}			-0.5	
<i>Of which:</i> due to a different starting position end 2008			-0.9	
due to different revenue / expenditure growth in 2009			0.6	
p.m. Residual ³			-0.1	
<i>p.m. Nominal GDP growth (planned and outcome)</i>			-1.4	-3.4
Revenue (% of GDP)	42.7	42.4	41.9	42.4
Revenue surprise compared to target ¹	-0.3		0.5	
Revenue surprise excluding denominator effect ^{1,2}			-0.4	
<i>Of which:</i> due to a different starting position end 2008			-0.3	
due to different revenue growth in 2009			-0.1	
p.m. Residual ³			0.0	
<i>p.m. Revenue growth rate (planned and outcome)</i>			-3.2	-3.4
Expenditure (% of GDP)	43.6	44.2	47.1	48.1
Expenditure surprise compared to target ¹	-0.6		-1.0	
Expenditure surprise excluding denominator effect ^{1,2}			-0.1	
<i>Of which:</i> due to different starting position end 2008			-0.6	
due to different expenditure growth rate in 2009			0.6	
p.m. Residual ³			-0.1	
<i>p.m. Expenditure growth rate (planned and outcome)</i>			6.5	5.1
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.				
<i>Source: Commission services</i>				

Table 3 compares the projected outcome for the general government balance, revenue and expenditure (as a percentage of GDP) in 2009 as presented in the new stability programme with the targets from the previous update of the programme. Differences between estimated outcome and targets (excluding the impact of unanticipated GDP developments which may have affected the ratio, referred to as the 'denominator effect') are decomposed into the impact of a different starting position (i.e. the outcome of 2008 may also have been different from what was anticipated in the previous programme update) and the impact of differences in the revenue / expenditure growth rate from the planned growth rates⁹.

⁹ Mathematically, the difference in the revenue ratio in Table 3 can be expressed as:

$$\rho^o - \rho^p = \underbrace{\frac{1+r^p}{1+g^p} \Delta \rho_{-1}}_{\text{Base effect}} + \underbrace{\frac{\rho_{-1}^o}{(1+g^o)(1+g^p)} \Delta r}_{\text{Revenue growth effect}} - \underbrace{\frac{\rho_{-1}^o}{(1+g^o)(1+g^p)} \Delta g}_{\text{Denominator effect}} + \underbrace{\frac{\rho_{-1}^o (r^o g^p - r^p g^o)}{(1+g^o)(1+g^p)}}_{\text{Residual}}$$

In the previous programme, the deficit target was set at 5.1% of GDP. The worse-than-planned outcome is explained by the more negative starting position from 2008, when the deficit turned out 0.9 pp. of GDP greater than estimated in the previous programme, itself reflecting both higher expenditure and lower revenue as a share of GDP. This negative surprise was partly offset by different dynamics of expenditure and revenue in 2009 compared to plans, with expenditure growth in particular turning out lower than planned in the preceding programme (the first time this has happened since 2005).

The revenue-to-GDP ratio is set to have stabilised in 2009, compared with a fall by 0.8 pp. planned in the preceding programme. Although nominal GDP is now estimated to have fallen more sharply than foreseen in the previous programme (3.4% versus 1.4%), revenues declined only marginally more than budgeted (3.4% versus 3.2%). As anticipated, the tax yield was negatively affected by various forms of tax relief benefitting firms – namely, the further lowering of the corporate income tax rate (by 1 pp. to 21%), the phasing-out of the payroll tax and tax allowances for investment. Furthermore, taxes on production and imports proved to be some 0.5 pp. of GDP lower than expected, which is mainly explained by lower VAT and excise duty revenues. However, the demand composition of the GDP contraction – biased towards non tax-rich components, namely exports and investment – helps to explain the relative resilience of tax revenue. In addition, social contributions and current taxes on income and wealth¹⁰ are estimated to have been higher than expected, by 0.6 pp. and 0.3 pp. of GDP respectively, as wage growth was stronger and the employment decline less dramatic than expected.

The expenditure-to-GDP ratio is anticipated to have increased by 3.9 pps. of GDP from 2008. This compares with the increase of 3.5 pps. that was planned in the previous programme. This higher outcome is explained by the denominator effect (i.e. lower nominal GDP than anticipated driving up the expenditure ratio), whereas the estimated actual expenditure growth in nominal terms, at 5.1% relative to 2008, is below the target set in the preceding programme. While compensation of employees and social transfers are estimated to have increased above expectations, interest expenditure and subsidies appear to have increased substantially less than expected. The contribution of the temporary labour and product market subsidies to the increase in expenditure is estimated at around 0.3% of GDP, significantly less than projected in the previous programme. In particular, some ½% of GDP was initially planned for the subsidy scheme for reduced working hours, but its take-up by employers fell short of the government's expectations. In light of the deterioration in the labour market, the government later reallocated part of the budgeted funds to a new subsidy scheme for employees temporarily on forced leave and a new programme encouraging vocational training, self-employment and occupational mobility, with budgetary impact mainly in 2010.

No one-off measures are reported in the programme for 2009 (as in the previous update). By contrast, the Commission services' autumn 2009 forecast incorporates a deficit-increasing one-off measure (-0.1% of GDP) in 2009.

where r is the growth rate of revenue and g is the growth rate of GDP. The subscript -1 refers to the previous year's value. Superscripts o and p refer to the outcome and the planned value respectively. Similar for the expenditure ratio.

¹⁰ Taxes on income and wealth are higher also due to the reclassification of the TV licence fee, which has been decided to be included among the general government revenue.

Box 1: The excessive deficit procedure (EDP) for Slovenia

On 2 December 2009 the Council adopted a decision stating that Slovenia had an excessive deficit in accordance with Article 126(6) of the Treaty on the Functioning of the European Union (TFEU). At the same time, the Council addressed a recommendation under Article 126(7) TFEU specifying that the excessive deficit had to be corrected by 2013.

In particular, Slovenia was recommended to bring the general government deficit below 3% of GDP in a credible and sustainable manner by taking action in a medium-term framework. Specifically, the Slovenian authorities should implement the fiscal consolidation measures in 2010 as planned, ensure an average annual structural budgetary adjustment of ¾% of GDP over the period 2010-2013, specify the measures that are necessary to achieve the correction of the excessive deficit by 2013, cyclical conditions permitting, and accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected. Also, they should, in order to reduce the risks to the long-term sustainability of public finances, further reform the pension system with a view to curbing age-related expenditures as soon as possible. The Council established the deadline of 2 June 2010 for the Slovenian government to take effective action to implement the fiscal consolidation measures in 2010 as planned and to outline the measures that will be necessary to progress towards the correction of the excessive deficit. The Slovenian authorities were also requested to report on progress made in the implementation of these recommendations in a separate chapter in the updates of the stability programmes which will be prepared between 2009 and 2013.

4.2. The programme's budgetary strategy for 2010

For 2010, the programme targets the general government deficit to stabilise at 5.7% of GDP. The central government deficit would contribute 5.1 pps. to the general government deficit, with the remaining 0.4 pp. and 0.2 pp. resulting from the local government level and the health insurance fund respectively.

General government revenue is projected to increase by 0.8 pp. of GDP compared to the estimated outcome for 2009. The expenditure-to-GDP growth is also set to increase by 0.8% of GDP. This is mainly due to growth in the cost of the debt service, due to over-borrowing in 2009 to improve the liquidity of the financial system and a marginally higher implicit interest rate on the debt. The primary expenditure ratio is projected to rise slightly but the primary deficit would narrow by 0.7 pp, to just below 4% of GDP.

Table 4 presents the main budgetary measures for 2010. It includes both the measures that were adopted with the budget for 2010 by the National Assembly on 25 November 2009 and measures that were already decided in previous years. On the revenue side, further direct tax relief is granted through the final step of the gradual reduction of the corporate income tax rate, by 1 pp. to 20%; and through an additional tax allowance for socially vulnerable people. The budget also foresees some revenue-raising measures to compensate for the loss of revenue from the above direct tax measures, namely a further increase in excise duty rates and revised CO₂ emission taxation (which, however, has yet to be defined and adopted). Taken together, discretionary measures on the revenue side have a broadly neutral budgetary impact. The budgeted increase in the revenue ratio is driven by taxes on production and imports and "other" revenue. In particular, the projected increase in indirect taxes shown in Table 5 (0.7 pp. of GDP) is higher than the above discretionary measures and the modest nominal growth in private consumption would suggest. While the budget for 2010 explains that excise duties on energy products are to benefit from a rise in the quantity of mineral oils used as propellant sold and that VAT revenues are set to rise because of lower VAT refunds relative to 2009, the indirect

tax projections still seem to rely on favourable assumptions regarding tax buoyancy.¹¹ Direct taxes as a share of GDP are expected to stabilise, reflecting higher disposable incomes.

More significant measures are planned on the expenditure side, generally confirming the authorities' intention to pursue an expenditure-based consolidation. While the temporary stimulus measures will continue to weigh on the 2010 budget, expenditure savings amounting to around 1¼ % of GDP compared to a no-policy change scenario will be pursued through measures aimed at containing growth in public sector wages and social transfers, as well as capital transfers. However, the primary expenditure ratio is still planned to rise by 0.2 pp. of GDP due to strong in-built expenditure dynamics.

Table 4. Main budgetary measures for 2010

Revenue measures ¹	Expenditure measures ²
<ul style="list-style-type: none"> • Further reduction of the corporate income tax rate by 1 percentage point, from 21% to 20% (-0.1% of GDP)³ • Additional tax allowance for socially vulnerable people (-0.15% of GDP) • Further increase in excise duties on tobacco and energy products (0.1% of GDP) • Revised CO₂ emission taxation (0.15% of GDP) 	<ul style="list-style-type: none"> • Decrease in capital transfers (-0.5% of GDP) • Amended indexation rules of social benefit rates, esp. pensions (-0.2 % of GDP) • Further postponement of wage increases in the public sector and related measures (-¾% of GDP) • Labour market stimulus measures (0.1% of GDP)
<p>Notes:</p> <p>¹ Estimated impact on general government revenue</p> <p>² Estimated impact on general government expenditure</p> <p>³ The decision to reduce the corporate income tax rate was taken in 2006.</p> <p>Source: Commission services and budget for 2010</p>	

In 2010 pensions will be indexed to 50% of wage growth rather than the usual 100%, while social transfer rates other than pensions will be indexed to 50% of inflation rather than being fully indexed. This should save 0.2 pp. of GDP compared to the no-policy change scenario. Still, social transfers (including pensions) are projected to increase at a dynamic pace, by 0.5 pp. of GDP, also driven by the rising number of eligible recipients, especially of old age pensions.

Unlike the programme's macroeconomic projections (see Section 3), the budgetary projections do incorporate the October 2009 agreement with the social partners to contain the public sector wage bill. This agreement should yield savings amounting to some ¾% of GDP compared to the expenditure that would have been sustained under the original July 2007 agreement aimed at eliminating existing wage differences among the various professions in the public sector by 2010 (see Box 2). Subject to the implementation of all the provisions stipulated in the agreement and the announced 1% reduction in public sector employees, the government wage bill in 2010 is expected to decrease slightly, by 0.1 pp. of GDP, compared to 2009.

The programme also foresees some containment in growth of intermediate consumption through policies aimed at improving efficiency in the public sector. However, this expenditure item is still projected to increase by 0.1 pp. of GDP in 2010. Gross fixed capital formation is set to increase by some 0.2 pp. of GDP, mainly planned to be directed to railway infrastructure, but conditional upon the collection of the earmarked revenues from the revised CO₂ emission taxation (which is yet to be adopted).

¹¹ By contrast to 2009, when VAT refunds were relatively large reflecting high exports over 2008, VAT refunds in 2010 are estimated to be more modest due to lower exports over 2009.

Finally, the planned drop in capital transfers by 0.5 pp. of GDP, which drives the projected reduction in other expenditure by 0.6 pp. of GDP, reflects the government's intention to make increased use of EU funds. This will require a further increase in Slovenia's absorption capacity of EU funds.

Box 2: The wage agreement in the public sector

In July 2007, after long negotiations, the government and the public sector trade unions signed an intersectoral collective agreement for the public sector, introducing a new pay system aimed at eliminating existing pay differences among the various professions in the public sector by 2010. Four wage increments were foreseen between 1 January 2008 and 1 March 2010, amounting to an estimated total increase of 13% in average pay, or 1.1% of 2008 GDP (IMAD, Slovenian Economic Mirror, June 2008). The most significant pay increases were supposed to be for workers in sectors such as healthcare, social security and the public administration (IMAD, Slovenian Economic Mirror, October 2009). It must be noted that this agreement came after a period of relative wage restraint in the public sector (i.e. public wage growth was limited to only half of forecast inflation between 2004 and 2007), so as to facilitate qualification for EMU.

The first two instalments of the pay increase were paid out in September 2008 and January 2009. IMAD (Slovenian Economic Mirror, October 2009) estimates that the growth of public sector wages after the first two instalments already reached 11%, due to larger-than-expected rises in overtime payments, arrears and other ancillary payments. The third and fourth instalments were to be paid out in September 2009 and March 2010. However, in consideration of the adverse impact of the global economic downturn on the Slovenian public finances, an austerity pay deal was signed by the government and the public sector trade unions in February 2009. The deal stipulated that the third instalment be postponed until 1 January 2010. It also stipulated the reduction of performance-related and overtime bonuses, a nominal freeze of annual leave bonuses in 2009 and the cancellation of the usual annual indexation of pay to expected inflation foreseen for July 2009.

In light of the continued deterioration of public finances over the course of 2009, in October 2009 the government and the social partners agreed on a further postponement of the two remaining instalments under the July 2007 agreement, to October 2010 and October 2011, respectively. They also agreed that no performance-related bonuses would be paid out until November 2011 and that overtime bonuses will be limited to 30% of the basic salary, while in July 2010 wages will be indexed to only 50% of expected inflation.

Overall, in 2010 the Slovenian budgetary strategy set out in the programme is broadly consistent with the EDP recommendation under Article 126(7) adopted by the Council on 2 December 2009 (see Box 1) to implement consolidation measures in 2010 as planned. Consolidation comes from the expenditure side and is intended to curb expenditure dynamics, leading to lower expenditure in 2010 than under the "no-policy change scenario". However, given strong in-built expenditure dynamics, the primary expenditure ratio is still planned to increase slightly. Against this background, the planned fiscal stance in 2010 is only mildly restrictive with the structural balance (as recalculated by Commission services based on the information in the programme following the commonly agreed methodology) set to improve by just ¼ pp. of GDP in 2010. Given the steep increase in the interest burden, however, the underlying budgetary position in structural primary terms would improve by more (¾ pp. of GDP).

4.3. The programme's medium-term budgetary strategy

This section describes the medium-term budgetary strategy outlined in the programme - and how it compares with the one in the previous update - as well as the composition of the budgetary adjustment, including the broad measures envisaged.

In line with the Council recommendation under Article 126(7), the aim of the programme's medium-term budgetary strategy is to reduce the deficit below the reference value of 3% of GDP by 2013, the deadline for the correction of the excessive deficit set by the Council. Nominal deficit targets are projected at 4.2%, 3.1% and 1.6% of GDP for 2011, 2012 and 2013, respectively. While interest expenditure is projected to gradually increase to 2.1% of GDP by 2013, due to the increasing debt, the primary deficit is planned to continue decreasing over the programme period and turn into a small surplus by 2013. Over the period 2010-2013, an average annual structural improvement of just below $\frac{3}{4}$ pp. of GDP is planned, which is broadly consistent with the Council recommendation under Article 126(7). However, the planned structural adjustment is unevenly distributed over the period. As shown in Table 5, the adjustment is back-loaded and the restrictive fiscal stance is concentrated in 2011 and 2013, when the recalculated structural balance is planned to improve substantially, by $1\frac{1}{4}$ and $\frac{3}{4}$ pp. of GDP, respectively. In structural, primary terms, the average effort over the 2010-2013 period amounts to more than $\frac{3}{4}$ pp. of GDP.

The programme confirms the medium-term objective (MTO) for the Slovenian budgetary position of a structural deficit of 1% of GDP, as originally set in 2005. According to the recalculated structural balances used in this assessment, the MTO will not be reached within the programme period (whereas it would do so by 2013 according to the programme due to a different calculation for the structural balance). In any case, while the debt is below the 60% of GDP Treaty reference value, in view of the new methodology (see Box 3) and given the most recent projections and debt level, the MTO chosen by Slovenia does not appear to take sufficiently into account the implicit liabilities related to ageing.

Box 3: The medium term objective (MTO) for Slovenia

As noted in the Code of Conduct¹², the MTO aims to (a) provide a safety margin with respect to the 3% of GDP deficit limit; (b) ensure rapid progress towards fiscal sustainability; and (c) allow room for budgetary manoeuvre, in particular taking into account the needs for public investment. The MTO is defined in cyclically-adjusted terms, net of one-off and other temporary measures. On 7 July 2009, the ECOFIN Council took note of a new methodology for setting MTOs, ensuring that implicit liabilities (costs related to ageing populations, in particular projected healthcare and pension expenditure) are also accounted for.

Specifically, the country-specific MTOs should take into account three components: (i) the debt-stabilising balance for a debt ratio equal to the (60% of GDP) reference value (dependent on long-term potential growth), implying room for budgetary manoeuvre for Member States with relatively low debt; (ii) a supplementary debt-reduction effort for Member States with a debt ratio in excess of the (60% of GDP) reference value, implying rapid progress towards it; and (iii) a fraction of the adjustment needed to cover the present value of the future increase in age-related government expenditure. This implies a partial frontloading of the budgetary cost of ageing irrespective of the current level of debt. In addition to these criteria, MTOs should provide a safety margin with respect to the 3% of GDP deficit reference value and, for euro area and ERM II Member States, in any case not exceed a deficit of 1% of GDP.

As communicated by the authorities, the MTO of Slovenia is -1.0% of GDP. In view of the new methodology and given the most recent projections and debt level, the MTO does not appear to take sufficiently into account the implicit liabilities related to ageing, despite the debt being below the Treaty reference value.

¹² "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 on 10 November 2009, available at: http://ec.europa.eu/economy_finance/sgp/legal_texts/index_en.htm

Table 5: Composition of the budgetary adjustment

(% of GDP)	2008	2009		2010		2011		2012	2013	Change: 2009-2013
	COM	COM	SP	COM	SP	COM ¹	SP	SP	SP	SP
Revenue	42.4	43.2	42.4	43.2	43.2	42.9	42.9	42.7	42.5	0.1
<i>of which:</i>										
- Taxes on production and imports	14.0	14.0	13.6	14.4	14.3	14.3	14.2	14.0	13.8	0.2
- Current taxes on income, wealth, etc.	9.0	8.9	8.8	8.7	8.8	8.7	8.7	8.9	9.0	0.2
- Social contributions	14.3	15.0	15.0	14.6	14.9	14.5	15.0	14.9	14.9	-0.1
- Other (residual)	5.2	5.3	5.0	5.5	5.2	5.5	5.0	4.9	4.8	-0.2
Expenditure	44.2	49.5	48.1	50.2	48.9	49.9	47.1	45.9	44.2	-3.9
<i>of which:</i>										
- Primary expenditure	43.1	47.9	46.9	48.3	47.1	47.9	45.3	43.9	42.1	-4.8
<i>of which:</i>										
Compensation of employees	11.1	12.6	12.5	12.4	12.4	12.6	11.8	11.4	11.0	-1.5
Intermediate consumption	6.0	6.5	6.2	6.5	6.3	6.4	6.0	5.7	5.5	-0.7
Social payments	16.7	18.6	18.6	18.8	19.1	18.8	18.9	18.4	18.2	-0.4
Subsidies	1.6	2.5	2.1	2.4	2.2	1.9	1.8	1.8	1.3	-0.8
Gross fixed capital formation	4.3	4.4	4.4	4.5	4.6	4.5	4.2	4.0	3.8	-0.6
Other (residual)	3.4	3.3	3.2	3.6	2.6	3.6	2.5	2.4	2.2	-1.0
- Interest expenditure	1.1	1.6	1.2	1.9	1.8	2.0	1.8	2.0	2.1	0.9
General government balance (GGB)	-1.8	-6.3	-5.7	-7.0	-5.7	-6.9	-4.2	-3.1	-1.6	4.1
Primary balance	-0.7	-4.8	-4.6	-5.1	-3.9	-4.9	-2.3	-1.1	0.4	5.0
One-off and other temporary measures	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GGB excl. one-offs	-1.8	-6.3	-5.7	-7.0	-5.7	-6.9	-4.2	-3.1	-1.6	4.1
Output gap ²	5.7	-3.3	-3.4	-3.3	-3.9	-2.8	-3.2	-1.5	0.1	3.4
Cyclically-adjusted balance ²	-4.5	-4.8	-4.2	-5.4	-4.0	-5.6	-2.8	-2.4	-1.6	2.6
Structural balance³	-4.5	-4.7	-4.2	-5.4	-4.0	-5.6	-2.8	-2.4	-1.6	2.6
<i>Change in structural balance</i>		-0.2	0.3	-0.7	0.2	-0.2	1.2	0.3	0.8	
Structural primary balance ³	-3.3	-3.1	-3.0	-3.6	-2.2	-3.6	-1.0	-0.4	0.5	3.5
<i>Change in structural primary balance</i>		0.2	0.3	-0.4	0.8	-0.1	1.2	0.5	0.9	
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' autumn 2009 forecasts (COM); Commission services' calculations										

The medium-term budgetary consolidation strategy continues to rely on a broad-based containment of primary expenditure. Accordingly, the primary expenditure ratio is planned to decrease by 5 pps. between 2010 and 2013. The programme provides indications of the broad measures – or rather principles – that are planned to drive this decline but these still have to be fully specified and adopted. They hinge upon enhanced efficiency in the public sector and the rationalisation of the provision of public services and of social protection.

All primary expenditure items are set to decline as a share of GDP between 2010 and 2013. Subsidies would fall by 0.9 pp. of GDP, first in 2011 owing to the planned gradual withdrawal of the fiscal stimulus over 2010 and again in 2013 due to an anticipated marked decline in start-up subsidies thanks to the projected improvement in the labour market. In spite of the planned pay increases in public sector wages in October 2010 and October 2011, compensation of employees is set to decline by around 1.4 pps. of GDP through further reductions in public sector employment and prolonged restrictions on performance-related pay and overtime bonuses. A common framework for public procurement is planned to generate sizeable savings in intermediate consumption, resulting in a fall of this expenditure item by 0.8 pp. of GDP between 2010 and 2013. It is hoped that a single entry point for social transfers with a new information system, improved transparency and targeting and other amendments to the social security system

will, with the support of the economic recovery, help curb the dynamics of social transfers. The projection of this expenditure category also includes the application of a new indexation formula for pensions – the so-called Swiss formula, based on an average of wage and inflation growth, instead of wage growth only as is currently the case – which is expected to enter into force in 2011 but has not yet been adopted. A reduced coverage of medicines and health services by the compulsory health insurance and more restrictive rules for sickness leave compensation could generate further savings. Overall, social transfers should fall by 0.9 pp. of GDP between 2010 and 2013. Finally, declining "other" expenditure as a share of GDP (by 0.4 pp. between 2010 and 2013) reflects planned further drops in capital expenditures given the government's intention to continue making increased use of EU funds.

The revenue-to-GDP ratio is expected to gradually decline by some 0.7 pp. of GDP to 42.5% of GDP in 2013. Falls are expected in taxes on production and imports (-0.5 pp. of GDP) and in other revenues (-0.4 pp.), whereas current taxes on income and wealth are set to increase slightly, by 0.2 pp. of GDP, and the social contributions ratio would remain stable. Since the programme does not announce substantial new tax measures in relation to production and imports, it is difficult to understand why revenues from these sources would decrease their share in GDP, other than by observing that the economic recovery over the programme horizon will be driven by non tax-rich demand components (exports and investment), whereas more tax-rich private consumption is projected to remain relatively weak. The programme announces that additional revenues should come from growth in the underlying tax bases as well as from better enforcement of existing tax rules. The recovery in the gross operating surplus, positive real wage growth and increasing employment in 2012 and 2013 could explain the increase of taxes on income and wealth.

Finally, two changes in compulsory levies are planned to be introduced in the coming years. First, a new real estate tax is envisaged, but the programme explains that the government does not expect substantially higher revenues from it. Second, the document *Exit strategy 2010-2013* discusses the possible introduction of a cap on social contributions for higher incomes, but this is not mentioned in the stability programme.

4.4. Risk assessment

This section discusses the plausibility of the programme's budgetary projections by analysing various risk factors. For the period until 2011, Table 5 compares the detailed revenue and expenditure projections in the Commission services' autumn 2009 forecast, which are derived under a no-policy change scenario, with those in the updated programme. However, although the assessment uses the Commission services' forecast as a benchmark, it also takes explicitly into account all available information about more recent developments.

The different elements taken into consideration for the overall risk assessment are listed below.

First, while the update's macroeconomic scenario seems to be based on plausible growth assumptions until 2011, real GDP growth could be lower than projected in the programme thereafter. In addition, the projected fall in employment in 2011 - and the corresponding increase in the unemployment rate - could prove worse than expected following (i) the phasing-out of the temporary labour market support schemes, if not accompanied, where necessary, by activation and training policies that favour job reallocation and workers' re-skilling, as well as (ii) the gradual increase in the minimum wage between 2010 to 2012. As a consequence, the revenue projections put forward in the programme for those years may be overestimated while on the expenditure side there

is a slight risk of under-estimation attached to the projected increase of social transfer payments in 2011, driven by unemployment benefit spending.

Second, the deficit ratio in 2010 could turn out higher than targeted due to the materialisation of risks on both the revenue and the expenditure side. In particular, the projected substantial growth in indirect taxes seems to be only partially substantiated by measures in the programme and on the high side given the subdued outlook for private consumption. On the expenditure side, current expenditure may exceed plans in light of the track record. Furthermore, the projected marked decline in capital expenditure is not explained in the programme other than by stating that there will be an increased use of EU funds, which might be challenging in view of gaps in the absorption capacity.

Third, bearing in mind that the expenditure-saving measures adopted for 2010 in the end still imply a slight increase in the primary spending ratio, it is evident that the envisaged 5 pps. cut in this ratio planned over the rest of the programme period is subject to clear risks. In particular, the size of the envisaged retrenchment should be seen against the strong inherent expenditure dynamics and overruns witnessed in recent years, especially in the wage bill and social transfers (including pensions), both of which are planned to make a sizeable contribution to deficit reduction. The wage bill may turn out higher than expected due to a smaller decline in public sector employment and wage drift from promotions. The foreseen cut in social transfers as a share of GDP will be difficult to achieve in view of the rising number of pensioners (pensions account for some 63% of total transfers). The marked drop in start-up subsidies projected for 2013 might be based on optimistic employment assumptions. Finally, capital expenditure may again turn out to be more dynamic than projected. These risks are compounded by the fact that the expenditure-containment measures that are incorporated in the budgetary projections, including the new indexation formula for pensions, have not yet been fully specified and adopted. Also, the measures that should lead to enhanced efficiency in the public sector and the rationalisation of the provision of public services and of social protection are only announced and some of them can be expected to remain subject to the outcome of negotiations with the social partners. Recent experience has shown that the outcome of such negotiations tends to water down original retrenchment plans.

Fourth, the downside risks on the revenue side for the period 2011-2013 stemming from the favourable macroeconomic scenario may be offset if the projected drops in indirect taxes and other revenue ratios (which are not substantiated in the programme) do not materialise. Some new tax measures are announced in the programme or in the document *Exit strategy 2010-2013* (e.g. a new real estate tax and a cap on social contributions), but it is difficult to assess their budgetary impact at this stage.

Finally, it must be noted that although Slovenia has established a good track record in budgetary execution in the recent past, with better-than-expected outcomes until 2007, this was achieved in favourable economic conditions which ended in 2008. Over 2006-2007, revenue and expenditure growth was higher than budgeted, and expenditure growth turned out substantially higher in 2008. In 2009, for the first time since 2005, total expenditure growth was estimated as below expectations, but growth of the most dynamic expenditure items, namely, compensation of employees and social transfers, was still estimated as higher-than-expected.

Overall, the programme's budgetary targets are subject to downside risks throughout the programme period, which increase over time. In 2010, the risks appear to be on both the revenue and the expenditure sides, whereas from 2011 onwards they are driven by a greater risk of expenditure overruns, as the underlying expenditure restraint measures, which will need to be very significant, still have to be fully specified and adopted, while some of them can be expected to be subject to the outcome of negotiations with the social

partners. The government should stand ready to adopt further consolidation measures in case risks related to the fact that the macroeconomic scenario of the programme is more favourable than the scenario underpinning the Article 126(7) Recommendation materialise.

5. GOVERNMENT DEBT AND LONG-TERM SUSTAINABILITY

This section is in two parts. The first part describes recent debt developments and medium-term prospects, including risks to the outlook presented in the programme. The second part takes a longer-term perspective with the aim of assessing the long-term sustainability of public finances.

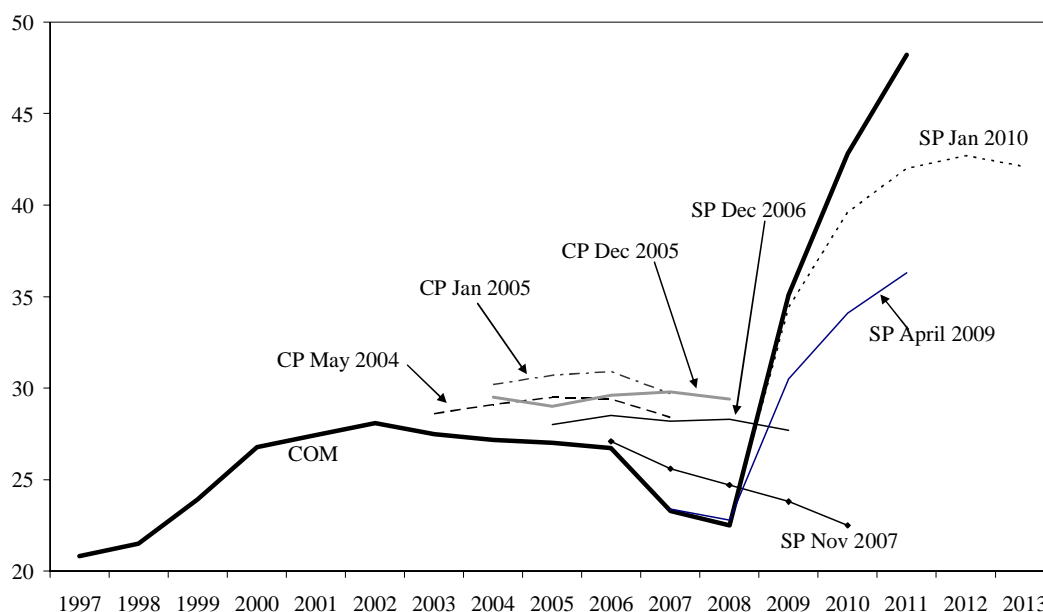
5.1. Recent debt developments and medium-term prospects

5.1.1. Debt projections in the programme

After declining by around 4 pps. between 2006 and 2008, to 22.5% of GDP, the programme estimates the government gross debt ratio to have risen markedly in 2009, by close to 12 pps. of GDP, to 34.4%. The programme projects the debt will increase further substantially between 2010 and 2011 and end the programme period at some 42% of GDP.

Almost half of the large rise in the debt ratio in 2009 owes to the stock-flow adjustment, reflecting recapitalisations and above all liquidity operations to support the financial sector. The remainder is mostly due to the increase in the primary deficit, while rising interest expenditure and the fall in nominal GDP together contribute less to the increase. The previous update planned the debt at 30.5% of GDP in 2009 because it incorporated a significantly lower stock-flow adjustment. By contrast, the Commission services' autumn 2009 forecast projects a marginally higher debt in 2009 (35.1% of GDP) on account of a larger deficit projection, higher interest expenditure and the lower estimated GDP deflator.

Figure 1: Debt projections in successive programmes (% of GDP)



Source: Commission services' autumn 2009 forecast (COM) and successive stability programmes

The debt ratio is projected to remain below the Treaty reference value throughout the programme period but a further increase – by around 8 pps. of GDP – is expected in 2010 and 2011 from still sizeable primary deficits and rising interest expenditure, by which time increasing nominal GDP should start to have a positive effect. The stock-flow adjustment is planned to turn negligible and remain so until the end of the programme period. After a further slight increase in 2012, to 42.7% of GDP, a modest fall in the debt ratio (by some 0.5 pp. of GDP) is expected in 2013, driven by the return to a primary surplus position and a debt-reducing snow-ball effect.

Table 6: Debt dynamics

(% of GDP)	average 2003-07	2008	2009		2010		2011		2012	2013
			COM	SP	COM	SP	COM	SP	SP	SP
Gross debt ratio¹	26.3	22.5	35.1	34.4	42.8	39.6	48.2	42.0	42.7	42.1
Change in the ratio	-0.9	-0.9	12.6	11.9	7.8	5.2	5.3	2.4	0.7	-0.6
<i>Contributions²:</i>										
1. Primary balance	-0.1	0.7	4.8	4.6	5.1	3.9	4.9	2.3	1.1	-0.4
2. "Snow-ball" effect	-0.5	-0.5	2.6	1.8	1.1	1.3	0.4	0.2	-0.3	-0.3
<i>Of which:</i>										
Interest expenditure	1.6	1.1	1.6	1.1	1.9	1.8	2.0	1.9	2.0	2.0
Growth effect	-1.2	-0.8	1.7	1.7	-0.4	-0.3	-0.8	-0.9	-1.5	-1.4
Inflation effect	-0.9	-0.8	-0.7	-1.0	-0.4	-0.2	-0.8	-0.8	-0.9	-0.9
3. Stock-flow adjustment	-0.4	-1.1	5.2	5.5	1.6	0.0	0.0	-0.1	0.0	0.1
<i>Of which:</i>										
Cash/accruals diff.	0.0	-1.3		n.a.		n.a.		n.a.	n.a.	n.a.
Acc. financial assets	-0.5	0.6		n.a.		n.a.		n.a.	n.a.	n.a.
<i>Privatisation</i>	-1.5	-0.8		n.a.		n.a.		n.a.	n.a.	n.a.
Val. effect & residual	0.1	-0.4		n.a.		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 :										
<i>Stability programme (SP); Commission services' autumn 2009 forecasts (COM); Commission services' calculations</i>										

5.1.2. Assessment

The programme's projections for the debt ratio are consistently lower than those put forward in the Commission services' autumn 2009 forecast. The gap between the two projections widens in 2010, when the Commission services' forecast projects a larger primary deficit and a still positive stock-flow adjustment, under the assumption of further support to the financial sector. Based on a no-policy change assumption, the Commission services' forecast still projects a higher primary deficit that would bring the debt ratio to 48% of GDP by 2011.

Almost all the debt is denominated in euro with a fixed interest rate. With newly issued bonds in the course of 2009, the government started the process of better integrating the Slovenian debt instruments into the euro area in order to improve liquidity and transparency and reduce debt risks. By guaranteeing two commercial banks' bond issues, the total amount of state guarantees increased markedly to some 19% of GDP in 2009.

In view of the risks to the budgetary targets described in Section 4.4, compounded by uncertainty about the stock-flow adjustment from financial sector support, the evolution of the debt ratio in the years from 2010 might be less favourable than projected in the programme. On the positive side, the debt could be reduced by the proceeds from the privatisation of state-owned companies, as mentioned in the programme.

5.2. Long-term debt projections and the sustainability of public finances

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 methodology¹³.

5.2.1. Sustainability indicators and long-term debt projections

Table 7 shows that age-related spending is projected to rise by 12.7 pps. of GDP between 2010 and 2060, significantly above the EU average (4.6 pps.). Sustainability indicators for two scenarios are presented in Table 8. 'The 2009 scenario' is based on a no-policy-change assumption and the 2009 structural primary balance as a starting year, while 'the programme scenario' takes into account the consolidation planned in the programme up to 2012 and is based on the projected 2012 structural primary balance as a starting position. Including the increase of age-related expenditure and assuming that the structural primary balance remains at its 2009 level, the sustainability gap (S2)¹⁴ would amount to 12.2% of GDP; about 1.3 percentage points more than in last year's assessment, 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 "2009 scenario" reflects the weakening of the budgetary position, partly due to the economic crisis (see Section 4.1.), the "programme scenario", which is based on the end-of-programme structural primary balance, shows a smaller sustainability gap. If the budgetary consolidation planned in the programme were achieved, risks to long-term sustainability of public finances would be somewhat mitigated.

Table 7: Long-term age-related expenditure: main projections

(% of GDP)	2007	2010	2020	2030	2040	2060	Change 2010-60
Total age-related spending	22.9	23.1	24.9	28.0	31.7	35.8	12.7
- Pensions	9.9	10.1	11.1	13.3	16.1	18.6	8.5
- Healthcare	6.6	6.8	7.3	7.8	8.2	8.5	1.7
- Long-term care	1.1	1.2	1.4	1.8	2.2	2.9	1.7
- Education and unemployment benefits	5.4	5.1	5.1	5.2	5.2	5.8	0.7
Property income received	0.7	0.7	0.6	0.6	0.6	0.5	-0.1

Source: Economic Policy Committee and Commission services.

¹³ Economic Policy Committee and the European Commission (2009), '2009 Ageing Report: Economic and budgetary projections for the EU-27 Member States (2008-60)', *European Economy* No. 2/2009. European Commission (2009), 'Sustainability Report 2009, *European Economy* No. 9/2009. European Commission (2008), 'Public finances in EMU – 2008', *European Economy* No. 4/2008..

¹⁴ The S2 indicator is defined as the change in the current level of the structural primary balance required to make sure that the discounted value of future structural primary balances (including the path of property income) covers the current level of debt.

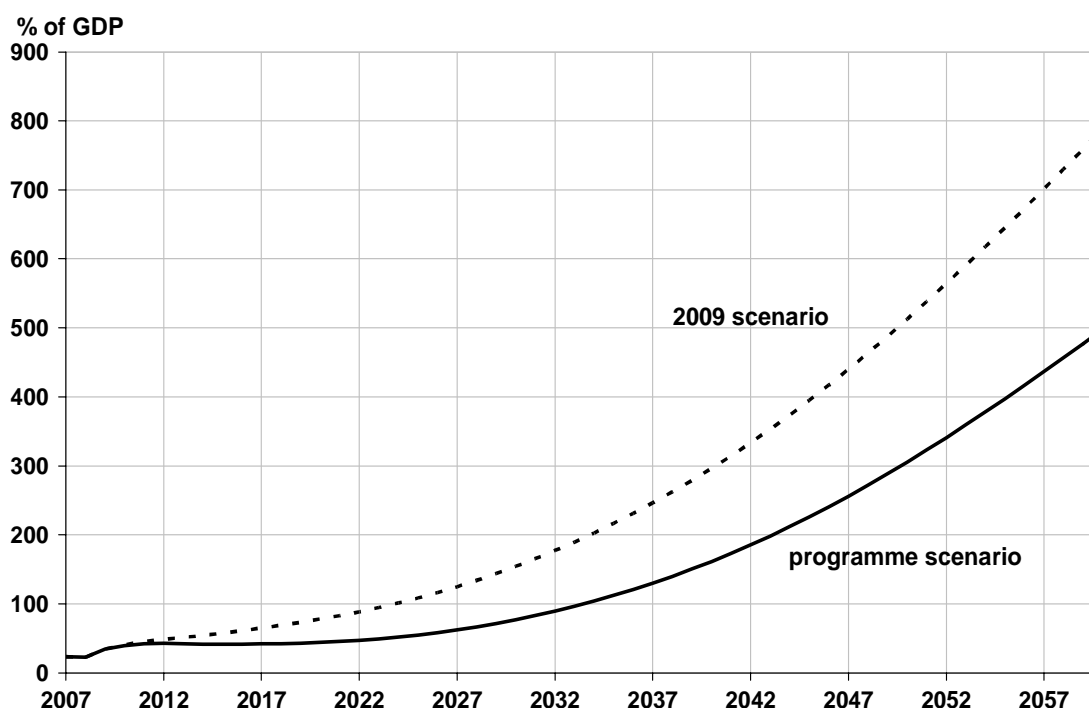
Table 8: Sustainability indicators and the required primary balance

Value	2009 scenario			Programme scenario		
	S1	S2	RPB	S1	S2	RPB
Value	9.4	12.2	8.6	5.6	8.6	8.5
<i>of which:</i>						
Initial budgetary position (IBP)	4.0	4.1	-	0.3	0.4	-
Debt requirement in 2060 (DR)	-0.1	-	-	-0.2	-	-
Long-term change in the primary balance (LTC)	5.5	8.1	-	5.5	8.1	-

Source: Commission services.

Based on the assumptions used in the projection of age-related expenditure and the calculation of the sustainability indicators, Figure 3 displays the projected debt ratio over the long term.

Figure 2: Long-term projections for the government debt ratio



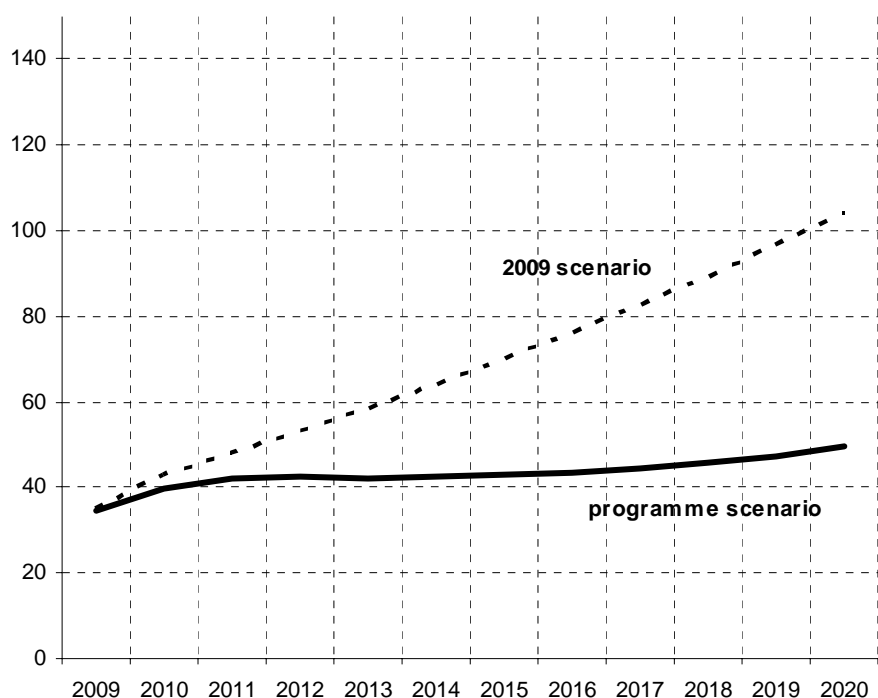
Note: Being a mechanical, partial-equilibrium analysis, the long-term debt projections are bound to show highly accentuated profiles. As a consequence, the projected evolution of debt levels should not be seen as a forecast similar to the Commission services' short-term forecasts, but as an indication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

Source: Commission services' calculations

Based on the alternative assumptions presented in Commission services' autumn 2009 forecast publication¹⁵, Figure 4 shows the projected medium-term trajectory of the debt ratio. The debt ratios in both the 2009 and programme scenarios are on increasing trends. However, according to the programme scenario, the debt ratio would remain relatively stable until 2016, but would resume a slightly increasing trend thereafter.

¹⁵ Section 3.5 in European Commission (2009), 'European Economic Forecast – autumn 2009', European Economy No. 10/2009. This scenario assumes that the output gap caused by the economic crisis will be closed by 2017.

Figure 3: Medium-term projections for the government debt ratio



Source: Commission services' calculations

5.2.2. Additional factors

For an overall assessment of the sustainability of public finances, other relevant factors are taken into account (Table 9). Individually and overall, these factors do not change the assessment of the sustainability risk of public finances.

Table 9: Additional factors for the assessment of long-term sustainability risks

	Impact on risk
Debt and pension assets	na
Decline in structural balance until 2011 in COM Autumn 2009 forecast	na
Alternative projection of cost of ageing	na
Strong decline in benefit ratio	na
High tax burden	na
Difference between S1 and S2	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 V of: European Commission (2009), Sustainability Report 2009, European Economy No. 9/2009.

Source: Commission services.

The government is well aware of the challenges it faces in shaping its pension policy in view of population ageing. A comprehensive proposal for pension reform, with a view to ensuring the long-term financial sustainability of the system while preserving pension adequacy, was put forward by an expert working group and submitted to public debate in

September 2009. This proposal is described in the government's *Exit Strategy 2010-2013*, adopted in February 2010, whereas the programme only briefly lays out the medium-term plans for parametric changes in the pension system that are to be implemented within the programme horizon. The proposal for reform includes (i) a parametric reform of the current system to enter into force by 1 January 2011, that would apply to all insured persons born before 1960, or who will be 55 or over on 1 January 2015, and (ii) a systemic reform, to enter into force on 1 January 2015, that would apply to all those born in or after 1960 and who will be below the age of 55 on 1 January 2015.

The aims of the parametric reform are to: strengthen incentives/disincentives to retire later/earlier; extend working lives (also by gradually equalising retirement ages for men and women); strengthen the relationship between contributions paid and benefit amounts while preserving solidarity within the system; modify indexation;¹⁶; and increase transparency by providing clearer information to prospective pensioners on the amount of contributions paid and benefits accrued. Some changes to the supplementary pension insurance system are also proposed. Namely, compulsory supplementary pension insurance will be organised at the professional level and the voluntary supplementary schemes will be modernised. As for the proposed systemic reform, a new multi-pillar system is envisaged. The current 1st pillar would be split into a zero and a 1st pillar. The former would guarantee a universal flat-rate pension with the aim to protect old people from poverty. It will be financed with a portion of pension insurance contributions and the state budget. The 1st pillar would be organised as a notional defined contribution scheme. The 2nd and 3rd pillars will retain the characteristics of the existing compulsory and voluntary supplementary schemes, as modernised in the first phase of the reform.

5.2.3. Assessment

The long-term budgetary impact of ageing is significantly higher than the EU average, mainly as a result of a relatively high increase in pension expenditure as a share of GDP over the coming decades. The budgetary position in 2009, as estimated in the programme, compounds the budgetary impact of population ageing on the sustainability gap. Ensuring primary surpluses over the medium term and implementing structural reforms, including a further pension reform to curb the substantial increase in age-related expenditure, would contribute to reducing the high risks to the sustainability of public finances. Pension reform could usefully build on the planned two-step reform that is presented in the government's *Exit Strategy 2010-2013*, adopted in February 2010.

Medium-term debt projections until 2020 that assume GDP growth rates will only gradually recover to the values projected before the crisis and tax ratios will return to pre-crisis levels, show that the budgetary strategy envisaged in the programme until 2013, taken at face value, would stabilise the debt ratio for some years but would not stop it from resuming a slightly increasing trend towards 2020.

6. FISCAL FRAMEWORK AND QUALITY OF PUBLIC FINANCES

This section is subdivided into two elements: the fiscal framework and the quality of public finances in a broader sense.

¹⁶ The programme, but not the *Exit Strategy 2010-2013*, specifies the plan to replace the current full indexation to wage growth with the so-called Swiss formula, based on an average of wage and inflation growth and already incorporates its budgetary impact in the projections, even though this measure still needs to be adopted (see Section 4.3).

6.1. Fiscal framework

The adoption of rolling two-year central government budgets and a ceiling on local government's total stock of debt are established positive features of the Slovenian fiscal framework. Still, there is room for improvement in Slovenia's fiscal governance. For example, a key weakness of the rolling two-year central government budgets is that the targets set for the second year are subject to revisions in the following year's budget and are thus not binding. Furthermore, budgetary implementation in 2006-2008 and, to some extent, 2009, highlights the risk of expenditure overruns. In the Commission services' database on fiscal frameworks for the 27 EU countries,¹⁷ the country ranks below average with respect to its numerical fiscal rules.

Implementation of measures to strengthen the fiscal framework in Slovenia began in 2009 and further measures are envisaged. The programme reports that the government intends to revise the Law on Public Finances with a view to gradually introducing the accruals principle for national accounting purposes. Furthermore, with the budget for 2010 and 2011, the government introduced performance-based budgeting, whereby the budgetary lines are translated into 16 "development policies" representing the main strategic objectives pursued by the public administration. A new fiscal consultative body for the independent evaluation of fiscal policies and the monitoring of expenditure efficiency was set up in autumn 2009. The council, which is composed mainly of academics, has been mandated to prepare a first report on the state of and challenges to the Slovenian public finances by spring 2010. It will then contribute to the preparation of the next budget for 2011-2012. Finally, the programme announces the government's intention to introduce in the coming years a fiscal rule linking nominal growth of expenditure to potential growth, but no details are provided as to the timing and modalities of this project.

If consistently implemented, these initiatives could help support the planned fiscal consolidation. Performance-based budgeting should bring value added also in terms of transparency and centralisation of the budgetary procedures, while the budget is already based on economic assumptions of the independent government Institute of Macroeconomic Analysis and Development.

6.2. Quality of public finances

Several studies suggest that there is also scope for improving public spending efficiency in Slovenia, particularly in the area of health care. Increasing spending efficiency becomes particularly important when trying to contain expenditure growth without compromising the level of services provided. Indeed, the expenditure-based adjustment set out in the programme update hinges upon enhanced efficiency in the public sector and the rationalisation of the provision of public services and social protection. To this end, a number of initiatives are envisaged, such as a unified information system and a single entry point for social transfers and the redefinition of the standards for public services, taking into account quality aspects, possibly with an increase of co-financing by users.

On the revenue side, the 2006 tax reform, which gradually reduced the personal and corporate income tax rates, phased out the payroll tax and introduced investment tax allowances, was intended to strengthen labour supply incentives and give impetus to capital formation. An additional tax allowance for low-wage earners was introduced with the budget for 2010. As the economic crisis kicked in, these changes in the tax system are

¹⁷ See DG Ecfm database on fiscal governance at: http://ec.europa.eu/economy_finance/db_indicators/fiscal_governance/index_en.htm

being partially financed with an increase in excise duties, with further increases being announced in the programme, thus gradually moving the tax burden from incomes, particularly of low-income earners, towards indirect taxes. The plans to revise environmental taxation and to introduce a new real estate tax can also be seen as a step towards enhanced efficiency of the tax system. Other initiatives announced in the programme in the taxation area concern new provisions to fight tax evasion and avoidance.

7. OVERALL ASSESSMENT

Taking into account risks attached to the budgetary targets discussed above, this section assesses the appropriateness of the fiscal strategy in relation to the Council recommendations under Article 126(7) of 2 December 2009 with a view to correcting the excessive deficit and the budgetary objectives of the Stability and Growth Pact, against the background of the current economic situation, the debt and long-term sustainability position of the country, and the institutional features of its public finances.

As mentioned in Section 4.2 above, the budgetary strategy for 2010-2013 set out in the programme, taken at face value, can be regarded as broadly in line with the Council's EDP recommendations. The average fiscal effort over the period 2010-2013 is, at 0.65%, just below the $\frac{3}{4}\%$ of GDP as recommended by the Council, but the planned structural adjustment is unevenly distributed over the period: it is back-loaded and the restrictive fiscal stance is concentrated in 2011 and 2013, when the recalculated structural balance is planned to improve substantially, by $1\frac{1}{4}$ pp. and $\frac{3}{4}$ pp. of GDP respectively. In structural primary terms, the average effort over the 2010-2013 period amounts to just above $\frac{3}{4}$ pp. of GDP.

The budgetary outcomes could be worse than targeted in the programme and this possibility increases over the programme period. In 2010, the projected substantial growth in indirect taxes seems to be only partially substantiated by measures in the programme and on the high side given the subdued outlook for private consumption. Expenditure growth outcomes have exceeded plans in recent years and this situation could reoccur. From 2011 onwards, there is a greater risk of expenditure overruns, as the underlying measures have not yet been fully specified or adopted, while some of them can be expected to be subject to the outcome of negotiations with the social partners. Furthermore, the size of the envisaged retrenchment should be seen against the strong inherent expenditure dynamics and overruns witnessed in recent years, especially in the wage bill and social transfers (including pensions), both of which are planned to make a sizeable contribution to deficit reduction. The projected marked decline in capital expenditure throughout the programme period is not substantiated in the programme other than by stating that there will be an increased use of EU structural funds, which may be challenging in view of gaps in absorption capacity. Risks on the revenue side relate to the favourable macroeconomic scenario after 2011, although the planned drop in the revenue ratio is not substantiated in the programme.

Overall, in 2010 the budgetary strategy set out in the programme is broadly consistent with the Council recommendations under Article 126(7). From 2011 on, taking into account the risks mentioned above, the budgetary strategy may not be fully consistent with these recommendations. In particular, the broad consolidation measures indicated for 2011-2013 need to be fully specified, adopted and implemented and the consolidation plans for the entire period would need to be sufficiently strengthened to address the risks from less favourable GDP growth and slippages on the expenditure or revenue side. Such a strengthening would also appear warranted in view of the high risks to long-term

sustainability. Taking risks into account, the average fiscal effort over the period 2010-2013 may fall further short of the $\frac{3}{4}$ pp. of GDP recommended by the Council.

To help support the planned containment of expenditure growth, the government is adopting measures to strengthen expenditure control and the fiscal framework. In addition, the planned initiatives to enhance public sector efficiency and rationalise the provision of public services and of social protection should work towards the same purpose. Even if the full and consistent implementation of the planned fiscal consolidation strategy implies the return to a primary surplus by 2013, there remain high risks with regard to the long-term sustainability of public finances. Setting a more ambitious medium-term objective (MTO) and implementing a further pension reform aimed at curbing the substantial increase in age-related expenditure would allow addressing these risks. The latter could usefully build on the planned two-step pension reform that is presented in the government's *Exit Strategy 2010-2013*.

* * *

ANNEX. COMPLIANCE WITH THE FORMAT AND CONTENT REQUIREMENTS FOR STABILITY AND CONVERGENCE PROGRAMMES

This annex provides an assessment of whether the programme respects the requirements of Section II of the code of conduct (guidelines on the format and content), notably as far as (i) the model structure (Annex 1 of the code of conduct); (ii) the formal data provisions (Annex 2 of the code of conduct); and (iv) other information requirements is concerned. It also assesses to what extent Country followed up on the Council's recommendation to report on progress made in the correction of the excessive deficit, in a separate chapter of the programme (iii).

(i) Model structure

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

(ii) Data requirements

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 2013 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; Net lending/borrowing of the private sector; Statistical discrepancy); Table 2 (Nominal government consumption); Table 3 (entire table missing); Table 4 (Different subcategories of the stock-flow adjustment of general government debt developments; Liquid financial assets; Net financial debt); Table 5 (Cyclically-adjusted primary balance; Structural balance); Table 7 (Age-related expenditure; Some sub-categories of total revenue).

The tables on the following pages show the data presented in the January 2010 update of 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.

(iii) Separate chapter on progress made in the correction of the excessive deficit

In its recommendations under Article 126(7) of 2 December 2009 with a view to bring the excessive deficit situation to an end, the Council also invited Slovenia to report on progress made in the implementation of the Council's recommendations in a separate chapter in the updates of the stability programmes. Slovenia broadly complied with this recommendation.

(iv) Other information requirements

The table below provides a summary assessment of the adherence to the other information requirements in the code of conduct.

* * *

The SCP...	Yes	No	Comments
<i>a. Involvement of parliament</i>			
... mentions status vis-à-vis national parliament.	X		
... indicates whether Council opinion on previous programme has been presented to national parliament.	X		
<i>b. Economic outlook</i>			
... (for euro area and ERM II Member States) uses "common external assumptions" on main extra-EU variables.		X	
... explains significant divergences with Commission services' forecasts ¹ .	X		
... bears out possible upside/downside risks to economic outlook.	X		
... analyses outlook for sectoral balances and, especially for		X	

The SCP...	Yes	No	Comments
countries with high external deficit, external balance.			
<i>c. Monetary/exchange rate policy</i>			
... (CP only) presents medium-term monetary policy objectives and their relationship to price and exchange rate stability.			Not applicable
<i>d. Budgetary strategy</i>			
... presents budgetary targets for general government balance in relation to MTO and projected path for debt ratio.	X		MTO as set in 2005
... (in case new government has taken office) shows continuity with respect to budgetary targets endorsed by Council.			Not applicable
... (when applicable) explains reasons for deviations from previous targets and, in case of substantial deviations, whether measures are taken to rectify situation (+ provides information on them).			Not applicable
... backs budgetary targets by indication of broad measures necessary to achieve them and analyses their quantitative effects on balance.	X		
... specifies state of implementation of measures.	X		
<i>e. "Major structural reforms"</i>			
... (if MTO not yet reached or temporary deviation is planned from MTO) includes comprehensive information on economic and budgetary effects of possible 'major structural reforms' over time.		X	
... includes quantitative cost-benefit analysis of short-term costs and long-term benefits of reforms.		X	
<i>f. Sensitivity analysis</i>			
... includes comprehensive sensitivity analyses and/or develops alternative scenarios showing impact on balance and debt of: a) changes in main economic assumptions b) different interest rate assumptions c) (for CP only) different exchange rate assumptions d) if common external assumptions are not used, changes in assumptions for main extra-EU variables.	X		Partially
... (in case of "major structural reforms") analyses how changes in assumptions would affect budget and potential growth.	X		Partially
<i>g. Broad economic policy guidelines</i>			
... provides information on consistency with broad economic policy guidelines of budgetary objectives and measures to achieve them.	X		
<i>h. Quality of public finances</i>			
... describes measures to improve quality of public finances, both revenue and expenditure sides.	X		
<i>i. Long-term sustainability</i>			
... outlines strategies to ensure sustainability.	X		
... includes common budgetary projections by the AWG and all necessary additional information (esp. new relevant information).	X		
<i>j. Other information (optional)</i>			
... includes information on implementation of existing national budgetary rules and on other institutional features of public finances.	X		
<p>Notes: SCP = stability/convergence programme; CP = convergence programme ¹To the extent possible, bearing in mind the typically short time period between the publication of the Commission services' autumn forecast and the submission of the programme.</p> <p>Source: Commission services</p>			

Tables from Annex 2 of the code of conduct

Table 1a. Macroeconomic prospects

	ESA Code	2008	2008	2009	2010	2011	2012	2013
		Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	<i>n.a.</i>	3.5	-7.3	0.9	2.5	3.7	3.5
2. Nominal GDP	B1*g	37135	7.4	-3.4	1.4	4.6	6.0	5.7
Components of real GDP								
3. Private consumption expenditure	P.3	19580	2.0	-2.0	0.0	1.0	2.3	2.5
4. Government consumption expenditure	P.3	6735	6.2	3.2	-1.5	0.0	2.4	2.5
5. Gross fixed capital formation	P.51	10742	7.7	-21.0	-2.0	3.0	7.0	4.0
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	1201.0	3.2	0.7	0.9	0.9	0.9	0.8
7. Exports of goods and services	P.6	25134	2.9	-17.9	4.1	6.8	7.5	7.5
8. Imports of goods and services	P.7	26258	2.9	-19.8	1.8	4.9	7.2	6.5
Contributions to real GDP growth								
9. Final domestic demand		-	4.3	-6.6	-0.7	1.3	3.4	2.8
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	-0.7	-2.5	0.2	0.0	0.0	0.0
11. External balance of goods and services	B.11	-	-0.1	1.8	1.4	1.2	0.3	0.7

Table 1b. Price developments

	ESA Code	2008	2008	2009	2010	2011	2012	2013
		Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		<i>n.a.</i>	3.8	4.2	0.6	2.0	2.2	2.1
2. Private consumption deflator		<i>n.a.</i>	5.3	0.5	1.5	2.5	2.7	2.7
3. HICP¹		<i>n.a.</i>	5.7	1.0	1.5	2.5	2.7	2.7
4. Public consumption deflator		<i>n.a.</i>	5.9	3.7	0.8	3.0	3.8	3.4
5. Investment deflator		<i>n.a.</i>	4.2	0.2	1.5	1.7	2.2	2.2
6. Export price deflator (goods and services)		<i>n.a.</i>	1.6	-0.8	1.0	0.8	1.1	1.1
7. Import price deflator (goods and services)		<i>n.a.</i>	3.6	-5.9	2.4	1.3	2.1	2.1

¹ SP provides CPI instead of HICP

Table 1c. Labour market developments

	ESA Code	2008	2008	2009	2010	2011	2012	2013
		Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. Employment, persons¹		989	2.8	-2.4	-1.6	-0.9	0.7	0.7
2. Employment, hours worked ²		<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
3. Unemployment rate (%)³		46	4.4	5.7	6.7	7.3	7.2	6.8
4. Labour productivity, persons⁴		38	0.7	-5.0	2.5	3.4	3.0	2.8
5. Labour productivity, hours worked ⁵		<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
6. Compensation of employees	D.1	18955	10.1	0.0	0.0	3.1	5.7	5.7
7. Compensation per employe		19141	7.0	3.6	2.0	3.8	5.0	4.8

¹Occupied population, domestic concept national accounts definition.

²National accounts definition.

³Harmonised definition, Eurostat; levels.

⁴Real GDP per person employed.

⁵Real GDP per hour worked.

Table 1d. Sectoral balances

% of GDP	ESA Code	2008	2009	2010	2011	2012	2013
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
<i>of which :</i>							
- Balance on goods and services		-3.0	1.8	2.4	3.2	2.9	3.0
- Balance of primary incomes and transfers		-3.1	-2.2	-2.6	-3.3	-3.5	-3.3
- Capital account		<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
2. Net lending/borrowing of the private sector	B.9	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
3. Net lending/borrowing of general government	EDP B.9	-1.8	-5.7	-5.7	-4.2	-3.1	-1.6
4. Statistical discrepancy		<i>n.a.</i>	optional	optional	optional	optional	optional

Table 2. General government budgetary prospects

	ESA Code	2008	2008	2009	2010	2011	2012	2013
		Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending (EDP B.9) by sub-sector								
1. General government	S.13	-667.3	-1.8	-5.7	-5.7	-4.2	-3.1	-1.6
2. Central government	S.1311	-460.9	-1.2	-5.1	-5.1	-3.8	-2.8	-1.4
3. State government	S.1312	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
4. Local government	S.1313	-212.8	-0.6	-0.4	-0.4	-0.3	-0.2	-0.1
5. Social security funds	S.1314	6.3	0.0	-0.2	-0.2	-0.1	-0.1	-0.1
General government (S13)								
6. Total revenue	TR	15756.2	42.4	42.4	43.2	42.9	42.7	42.5
7. Total expenditure	TE ¹	16423.5	44.2	48.1	48.9	47.1	45.9	44.2
8. Net lending/borrowing	EDP B.9	-667.3	-1.8	-5.7	-5.7	-4.2	-3.1	-1.6
9. Interest expenditure	EDP D.41	411.3	1.1	1.2	1.8	1.8	2.0	2.1
10. Primary balance²		-256	-0.7	-4.6	-3.9	-2.3	-1.1	0.4
11. One-off and other temporary measures³		0	0.0	0.0	0.0	0.0	0.0	0.0
Selected components of revenue								
12. Total taxes (12=12a+12b+12c)		8534.5	23.0	22.4	23.1	23.0	22.9	22.8
12a. Taxes on production and imports	D.2	5162.6	13.9	13.6	14.3	14.2	14.0	13.8
12b. Current taxes on income, wealth, etc	D.5	3360.9	9.1	8.8	8.8	8.7	8.9	9.0
12c. Capital taxes	D.91	11	0.0	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D.61	5311.4	14.3	15.0	14.9	15.0	14.9	14.9
14. Property income	D.4	306.8	0.8	0.5	0.5	0.4	0.4	0.4
15. Other⁴		1603.4	4.3	4.4	4.6	4.6	4.5	4.5
16=6. Total revenue	TR	15756.2	42.4	42.4	43.2	42.9	42.7	42.5
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)⁵		13846.0	37.3	37.5	38.0	38.0	37.8	37.7
Selected components of expenditure								
17. Compensation of employees + intermediate consumption	D.1+P.2	6350.4	17.1	18.7	18.7	17.9	17.2	16.5
17a. Compensation of employees	D.1	4111.5	11.1	12.5	12.4	11.8	11.4	11.0
17b. Intermediate consumption	P.2	2238.9	6.0	6.2	6.3	6.0	5.7	5.5
18. Social payments (18=18a+18b)		6192	16.7	18.6	19.1	18.9	18.4	18.2
18a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131	719.8	1.9	2.3	2.3	2.3	2.2	2.1
18b. Social transfers other than in kind	D.62	5472.2	14.7	16.2	16.7	16.6	16.3	16.0
19=9. Interest expenditure	EDP D.41	411.3	1.1	1.2	1.8	1.8	2.0	2.1
20. Subsidies	D.3	606.3	1.6	2.1	2.2	1.8	1.8	1.3
21. Gross fixed capital formation	P.51	1603.8	4.3	4.4	4.6	4.2	4.0	3.8
22. Other⁶		1259.8	3.4	3.2	2.6	2.5	2.4	2.2
23=7. Total expenditure	TE ¹	16423.5	44.2	48.1	48.9	47.1	45.9	44.2
p.m.: Government consumption (nominal)	P.3	n.a.	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	2007	2012
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.

¹Adjusted 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	2008	2009	2010	2011	2012	2013
1. Gross debt¹		n.a.	34,4	39,6	42,0	42,7	42,1
2. Change in gross debt ratio		n.a.	11,9	5,2	2,5	0,7	-0,7
Contributions to changes in gross debt							
3. Primary balance²		n.a.	4,6	3,9	2,3	1,1	-0,4
4. Interest expenditure³	EDP D.41	n.a.	1,2	1,8	1,8	2,0	2,1
5. Stock-flow adjustment		n.a.	5,4	0,0	0,0	0,0	0,0
<i>of which:</i>							
- Differences between cash and accruals ⁴		n.a.	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.	n.a.
<i>of which:</i>							
- privatisation proceeds		n.a.	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.	n.a.
p.m.: Implicit interest rate on debt⁷		n.a.	5,0	5,2	4,9	5,1	5,1
Other relevant variables							
6. Liquid financial assets ⁸		n.a.	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.	n.a.

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

²Cf. item 10 in Table 2.

³Cf. item 9 in Table 2.

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

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

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

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

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

Table 5. Cyclical developments

% of GDP	ESA Code	2008	2009	2010	2011	2012	2013
1. Real GDP growth (%)		n.a.	-7.3	0.9	2.5	3.7	3.5
2. Net lending of general government	EDP B.9	n.a.	-5.7	-5.7	-4.2	-3.1	-1.6
3. Interest expenditure	EDP D.41	n.a.	1.2	1.8	1.8	2.0	2.1
4. One-off and other temporary measures¹		n.a.	0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth (%)		n.a.	2.2	2.0	2.2	2.2	2.3
contributions:							
- labour		n.a.	0.1	0.3	0.1	-0.2	-0.4
- capital		n.a.	1.4	1.3	1.3	1.4	1.4
- total factor productivity		n.a.	0.7	0.4	0.8	1.0	1.2
6. Output gap		n.a.	-3.3	-4.3	-4.0	-2.5	-1.3
7. Cyclical budgetary component		n.a.	-0.9	-1.5	-1.4	-1.0	-0.7
8. Cyclically-adjusted balance (2 - 7)		n.a.	-4.8	-4.2	-2.8	-2.1	-1.0
9. Cyclically-adjusted primary balance (8 + 3)		n.a.	-3.6	-2.4	-1.0	-0.1	1.1
10. Structural balance (8 - 4)		n.a.	-4.8	-4.2	-2.8	-2.1	-1.0

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

Table 6. Divergence from previous update

	ESA Code	2008	2009	2010	2011	2012	2013
Real GDP growth (%)							
Previous update		3.5	-4.0	1.0	2.7	n.a.	n.a.
Current update		3.5	-7.3	0.9	2.5	3.7	3.5
Difference		0.0	-3.3	-0.1	-0.2	n.a.	n.a.
General government net lending (% of GDP)	EDP B.9						
Previous update		-0.9	-5.1	-3.9	-3.4	n.a.	n.a.
Current update		-1.8	-5.7	-5.7	-4.2	-3.1	-1.6
Difference		-0.9	-0.6	-1.8	-1.2	n.a.	n.a.
General government gross debt (% of GDP)							
Previous update		22.8	30.5	34.1	36.3	n.a.	n.a.
Current update		22.5	34.4	39.6	42.0	42.7	42.1
Difference		-0.3	3.9	5.5	5.7	n.a.	n.a.

Table 7. Long-term sustainability of public finances ¹

% of GDP	2008	2009	2010	2020	2030	2050
Total expenditure	42.9	41.7	45.5	44.1	49.0	65.7
Of which: age-related expenditures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pension expenditure	10.1	10.1	10.3	10.4	12.4	16.9
Social security pension	0.1	0.1	0.1	0.1	0.1	0.2
Old-age and early pensions	7.1	7.1	7.2	7.6	9.4	13.2
Other pensions (disability, survivors)	2.4	2.4	2.4	2.3	2.4	2.8
Occupational pensions (if in general government)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Health care	4.3	4.3	4.6	4.7	5.4	6.7
Long-term care (<i>this was earlier included in the</i>	1.0	1.0	1.1	1.3	1.7	2.7
Education expenditure	5.1	5.0	5.2	4.8	4.9	5.0
Other age-related expenditures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Interest expenditure	0.9	0.9	1.6	1.6	3.3	13.0
Total revenue	43.6	41.4	40.1	39.4	38.8	37.4
Of which: property income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Of which</i> : 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.
<i>Of which</i> : 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	3.7	3.6	3.7	3.1	1.8	1.7
Real GDP growth	4.6	4.5	3.4	2.6	0.8	0.8
Participation rate males (aged 15-64) ²	76.3	75.8	75.4	75.8	74.2	73.9
Participation rates females (aged 15-64) ²	66.9	67.5	68.0	70.8	69.1	69.3
Total participation rates (aged 15-64) ²	71.7	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	16.1	16.4	16.6	20.4	25.3	32.5

¹Data supplied for years 2008, 2009, 2010, 2020, 2030, 2050 instead of 2000, 2005, 2010, 2020, 2030, 2050.

²Data supplied for ages 15-64 instead of 20-64.

Table 8. Basic assumptions

	2008	2009	2010	2011	2012	2013
Short-term interest rate¹ (annual average)	n.a.	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.	n.a.
USD/€ exchange rate (annual average) (euro area and ERM II countries)	1.47	1.38	1.43	1.43	n.a.	n.a.
Nominal effective exchange rate	0.5	0.2	0.0	n.a.	n.a.	n.a.
(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.	n.a.
World excluding EU, GDP growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EU GDP growth	0.9	-4.2	0.2	1.6	n.a.	n.a.
Growth of relevant foreign markets	-1.7	-13.7	2.0	6.0	n.a.	n.a.
World import volumes, excluding EU	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Oil prices (Brent, USD/barrel)	96.9	63.0	75.0	80.0	n.a.	n.a.

¹If necessary, purely technical assumptions.