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COMMISSION OPINION
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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.
2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING SLOVENIA

3. On the basis of the Draft Budgetary Plan for 2016 submitted on 15 October 2015 by Slovenia, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.
4. Slovenia is currently subject to the corrective arm of the Pact. The Council opened the Excessive Deficit Procedure for Slovenia on 2 December 2009 and recommended to correct the excessive deficit by 2013, a deadline which was extended to 2015 on 21 June 2013. Slovenia should reach a headline general government deficit target of 4.9% of GDP in 2013 (3.7% of GDP without 1.2% of GDP one-off expenditure to recapitalise the two largest banks as estimated in June 2013), 3.3% of GDP in 2014 and 2.5% of GDP in 2015, which was considered consistent with an annual improvement of the structural balance of 0.7% of GDP in 2013, 0.5% of GDP in 2014 and 0.5% of GDP in 2015.
5. The macroeconomic scenario underpinning the Draft Budgetary Plan projects real GDP to increase by 2.7% in 2015 and by 2.3% in 2016, higher than the growth rates projected in the 2015 Stability Programme. Compared to the Draft Budgetary Plan, the Commission 2015 autumn forecast projects marginally lower real GDP growth in 2015 and considerably lower growth in 2016, due to an expected smaller contribution from net exports and a lower increase in private consumption. The fall in oil and commodity prices is expected to lead to negative inflation in 2015 and a low inflation rate of 0.8% in 2016. Assessed against currently available information, the Draft Budgetary Plan's macroeconomic scenario for 2015 appears plausible whereas for 2016 it appears favourable. Risks to both the Draft Budgetary Plan and the Commission's 2015 autumn forecast are tilted to the downside, as events in the external environment and potentially slower absorption of EU funding than currently anticipated could hamper growth.
6. Regulation (EU) No 473/2013 requires the draft budget to be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic scenario underpinning the Draft Budgetary Plan is the Autumn 2015 Forecast of Economic Trends produced by the Institute of Macroeconomic Analysis and Development

(IMAD). The independent status and tasks of IMAD are stipulated in a specific Resolution.

7. The general government deficit targets in the Draft Budgetary Plan amount to 2.9% of GDP in 2015 and 2.2% of GDP in 2016. Compared to the 2015 Stability Programme, the deficit planned in the Draft Budgetary Plan remains unchanged for 2015, despite the improved macroeconomic environment, and is marginally lower for 2016. The decline in 2016 is driven by higher tax revenues due to the improved macroeconomic environment notably the expected recovery in domestic demand.

Interest expenditure as a percentage of GDP has increased significantly in recent years from 2.0% of GDP in 2012 to 3.0% of GDP in 2015 and is projected to decline slightly to 2.9% of GDP in 2016. It has however, as a percentage of GDP, evolved broadly in line with previous vintages of the Stability Programmes, as the savings from the lower interest rate environment have been offset by the sharp increase in debt as the authorities increased cash buffers. Slovenia's budget has thus not benefited from interest windfalls in recent years.

8. The Commission 2015 autumn forecast projects the general government deficit for 2015 to be in line with the Draft Budgetary Plan forecast, at 2.9% of GDP. For 2016, the deficit is projected at 2.4% of GDP, 0.2% of GDP higher than in the Draft Budgetary Plan, reflecting slightly lower estimates for tax revenues given the less optimistic macroeconomic forecast for domestic demand and higher EU budget contributions. The main risks to the deficit projection are that the costs pertaining to refugees could be considerably higher. In fact, on 29 October the authorities announced that the net budgetary impact in 2016 is expected to be 0.1% of GDP higher than foreseen in the Draft Budgetary Plan. In addition, the activities of the Bank Asset Management Company (BAMC) in the workout of its loan book may have a greater impact on public finances than currently anticipated. Furthermore, the public sector pay-bill savings underpinning the Draft Budgetary Plan are still under negotiation with the Trade Unions; the non-materialisation of these savings poses a risk to the budgetary projections for 2016.
9. The Draft Budgetary Plan projects a sharp increase in government debt in 2015 of 3.3% of GDP, reaching 84% of GDP. This is considerably higher than the debt projection in the 2015 Stability Programme. The increase was mainly driven by significant stock flow adjustments. The authorities took advantage of historically low rates and accumulated a sizeable cash buffer. In 2016, the debt ratio is projected to decline, offsetting the increase in 2015 and also due to stock flow adjustments. The Commission 2015 autumn forecast envisages the debt profile to develop in a similar manner to that in the Draft Budgetary Plan.
10. The Draft Budgetary Plan envisages the prolongation of several temporary measures adopted in recent years to contain expenditure and increase revenue while easing some of the constraints on the public-sector pay bill. On the revenue side, the temporary increase in VAT introduced in 2013 is being made permanent and additional measures are being adopted to fight the grey economy and improve tax compliance. On the expenditure side, several measures to contain the public sector pay-bill are being prolonged; however, the current freeze on promotions is expected to end in 2016. These pay-bill savings amounting to approximately 0.7% of GDP are still under negotiation with the Trade Unions.
11. In 2015, the Draft Budgetary Plan projects a headline deficit of 2.9% of GDP, which is below the 3%-of-GDP reference value in the Treaty and in line with Slovenia's

deadline for correction. The correction appears durable as both the Draft Budgetary Plan and the Commission 2015 autumn forecast project a further reduction in the deficit in 2016. However, the cumulated change in the structural balance over 2013-2015 is -0.6% of GDP, well below the recommended 1.7% of GDP. The cumulated change in the adjusted structural balance is -0.8% of GDP. Based on a bottom-up assessment, the cumulated fiscal effort over 2013-2015 is estimated at 2% of GDP, also well below the recommended 4% of GDP.

12. Once a sustainable correction of the excessive deficit is achieved, Slovenia would have to comply with the requirements of the preventive arm of the SGP. The Draft Budgetary Plan does not include sufficient information to assess compliance with the transitional debt rule. However, based on the Commission 2015 autumn forecast, Slovenia is making sufficient progress towards compliance with the debt rule in 2016.
13. The recalculated structural effort planned in the Draft Budgetary Plan points to a deviation of 0.2% from the required adjustment of 0.6% of GDP, whereas the growth rate of government expenditure, net of discretionary revenue measures, is below the applicable expenditure benchmark rate in 2016. Given that expenditure matched by EU funds is overestimated in the Draft Budgetary Plan, the structural balance appears to better reflect the fiscal effort at the current juncture. According to an overall assessment of the Draft Budgetary Plan, there is a risk of some deviation from the required adjustment path towards the MTO in 2016. The Commission 2015 autumn forecast indicates a deviation of 0.4% of GDP from the recommended structural adjustment based on the structural balance pillar, while net expenditure would exceed the benchmark by 1.2% of GDP in 2016, thereby pointing to a risk of significant deviation. As public investment is smoothed in the calculation of the expenditure benchmark whereas a permanent reduction in public investment is envisaged in 2016, the expenditure benchmark overstates expenditure growth in 2016. Therefore, the structural balance appears to better reflect the fiscal effort at the current juncture. According to the overall assessment based on the Commission 2015 autumn forecast, there is a risk of some deviation from the required adjustment path towards the MTO in 2016, but the deviation is close to significant.
14. With respect to fiscal governance, the Fiscal Rules Act (FRA) was finally passed by the Slovenian Parliament in July 2015. The implementation of the law will be overseen by the Fiscal Council, which has yet to be established. The government intends to adopt revisions to the Public Finance Act (PFA) in February 2016, to allow for the revision of the budgetary process including amendments to strengthen the rules for all budgetary users and to stipulate the role of the Court of Auditors regarding budget implementation.
15. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Slovenia which is currently under the corrective arm and could become subject to the preventive arm from 2016 in case a timely and sustainable correction of the excessive deficit is achieved, is broadly compliant with the provisions of the Stability and Growth Pact. In particular, there is a risk of some, but close to significant, deviation from the adjustment path towards the MTO in 2016. The Commission therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the SGP.

The Commission is also of the opinion that Slovenia has made some progress with regard to the country-specific recommendations issued by the Council in the context

of the 2015 European Semester relating to fiscal governance and invites the authorities to make further progress. A comprehensive assessment of progress made with the implementation of the CSRs will be made in the 2016 Country Reports and in the context of the Country Specific Recommendations adopted by the Commission in May.

Done at Brussels, 16.11.2015

For the Commission
Pierre MOSCOVICI
Member of the Commission