



THE GOVERNMENT OF THE REPUBLIC OF SLOVENIA

# STABILITY PROGRAMME

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*AMENDMENTS 2017*

Ljubljana, April 2017

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## Preface

### *Status of the Stability Programme (SP)*

The Stability programme for 2017 was prepared while taking into account the Ordinance on the framework for the preparation of the general government budget for the 2018-2020 period, adopted by the National Assembly on 20 April 2017 as per the Fiscal Rule Act (hereinafter referred to as ZFisP). As per the Act, the framework determines the target balance and the largest possible extent of general government expenditure for an individual fiscal year and target balances and the largest possible extent of expenditure from individual public finance budgets for the next three years, i.e. 2018, 2019 and 2020. At the same time, growth in GDP is forecast to be 3.6% due to changed circumstances (The Spring Forecast of Economic Trends for 2017; IMAD) and is expected to be about 3% in the next two years. After the high rise of employment last year, this year, based on further strengthening of economic growth, a similar (2.2%) is expected, and as a result unemployment will decrease to 90 thousand people, according to this year's average. The stimulation of the nominal growth of the average gross wage in the private sector will originate from higher economic growth and a further decrease of unemployment. Drop of unemployment is also related to the restrictions on companies searching for qualified workers, which will put additional pressure on wage growth. In the general government, the increase of labour costs will be a result of the release of promotions and the wage grid, as well as the agreed gradual mitigations of other restrictive measures in the field of providing funds for labour costs. This year, inflation will grow to about 2%, in particular due to higher energy prices, and under the gradual rise of basic inflation, it will stay at a similar level in the next two years. As a result, the Ordinance for 2017 for the Health Insurance Institute of the Republic of Slovenia (hereinafter referred to as: ZZZS) is also amended; due to trends in the labour market and higher than envisaged economic activity, ZZZS records further growth in revenue also in 2017, and with the income, also an unplanned increase in expenditure linked to wage compensation during temporary absence from work and medical products and medical devices. Moreover, ZZZS will start to implement a special government project in 2017 to shorten waiting times in health care and increase the quality of medical treatment, while the provision of funds to cover expenditure on financing trainees, specialisation and tertiary health care (i.e. costs which do not entail direct financing of health-care services) will be gradually transferred from the ZZZS to the national budget.

### *Link to the Stability and Growth Pact (SGP)*

In the past, the Stability Programme served as a Slovenian medium-term fiscal framework (or its complement). As in the previous year, it also presents the amendment to the budgeting framework as per Article 6 of the ZFisP, where the target for general government balance and the largest extent of general government expenditure are determined in accordance with Article 3 of the ZFisP. Slovenia is thus meeting the requirements of Council Directive 2011/85/EU on requirements for the budgetary frameworks of Member States.

After the EDP notification<sup>1</sup> for 2016 in April, Slovenia had recorded a general government deficit of EUR 733 million or 1.8% of GDP. After the preliminary publication<sup>2</sup> of SORS of 31

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<sup>1</sup> Publication of 20 April 2017, SORS: <http://www.stat.si/StatWeb/en/News/Index/6630>

March 2017, the general government deficit was EUR 609 million or 1.5% of GDP. After the EDP notification, the general government deficit increased by EUR 124 million or 0.3 percentage points according to the EUROSTAT methodology. The main reason for the revision is a correction of interest expenditure, which also includes changes in EUR/USD currency exchange within the scope of bonds, denominated in US dollars, issued in the 2012-2014 period. The revision of general government deficits was also conducted for years from 2013 on.

According to the latest data, general government deficit declined by EUR 393 million or 35% compared to 2015. The general government generated a primary surplus in 2016 (deficit minus interest expenditure). This was EUR 542 million or 1.4% of GDP, and was EUR 404 million higher than in 2015. In 2016, the general government deficit was lower than a year before, mainly due to lower general government expenditure. This was 2.6% lower compared to 2015. Lower gross investments had the biggest impact on the decrease of general government expenditure. They amounted to EUR 1.222 billion, which is EUR 611 million less than in the previous year. Lower capital transfers also had a positive effect on lower expenditure. These were by EUR 291 million or 62.1% lower compared to 2015. In terms of expenditure, expenditure related to compensation of employees was in particular higher than in 2015, i.e. by EUR 273 million or 6.3%. In 2016, expenditure of interests amounted EUR 1,275 million or 3.2% of GDP, which is EUR 12 million more than in 2015. Total general government revenue was lower by EUR 81 million or 0.5% in 2016 compared to 2015, i.e. in particular due to lower revenue from EU funds. In 2016, it was EUR 402 million or 45.5% lower for public finance budgets than in 2015. The funds from this source were reduced mainly due to the conclusion of the EU financial perspective for 2007-2013. In 2016, total revenue from taxes and social contributions were EUR 608 million or 4.3% higher than in 2015. Here, revenue from taxes (EUR 365 million) and revenue from social contributions (EUR 243 million) increased by the same percentage, i.e. 4.3%.

The Government of the Republic of Slovenia insists on the projected path that the structural fiscal balance will be offset by the end of 2020 according to assessments of when Slovenia's medium-term fiscal objective (MTO) will have been met. Since Slovenia has not yet achieved its MTO, the transitional period and the rule of Article 15 of the ZFisP apply, i.e. that the structural deficit must be gradually reduced towards the MTO in a manner which compliant with the Stability and Growth Path. During the convergence, the ZFisP does not provide for the speed of adjusting or the formula for calculating the upper threshold of expenditure. According to the Government's estimate, the cyclical position of the Slovenian economy is not as favourable as assessed in the EC's calculations. In Slovenia, there is surplus in the current account on the balance of payments, and unemployment is above the long-term average. Investment rates, industrial production and finally also the GDP growth rates are not at the levels before the crisis, and it is thus impossible to claim that the Slovenian economy is overheating merely on the basis of the EU common methodology, as is claimed by the EC, particularly since the calculations of domestic and other international institutions (IMF and OECD) do not confirm this.

#### *Connection with the National Reform Programme (NRP)*

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<sup>2</sup> Publication of 31 March 2017, SORS: <http://www.stat.si/StatWeb/en/News/Index/6594>

The contents of the SP and the NRP complement and overlap. The SP focuses on macroeconomic development, fiscal policy and public finance, and the NRP describes measures, projected structural reforms within the European Semester and the attainment of the objectives of the Europe 2020 Strategy.

#### *Spring forecast of the Institute of Macroeconomic Analysis and Development (IMAD)*

On 30 March 2017, the Government of the Republic of Slovenia was familiarised with the Spring forecast, in which this year's economic growth is marked by further export growth, a rise in private consumption and the return to growth of gross fixed capital formation. The Government of the Republic of Slovenia uses macroeconomic assessments and IMAD forecasts to prepare annual target scenarios in the Stability Programme.

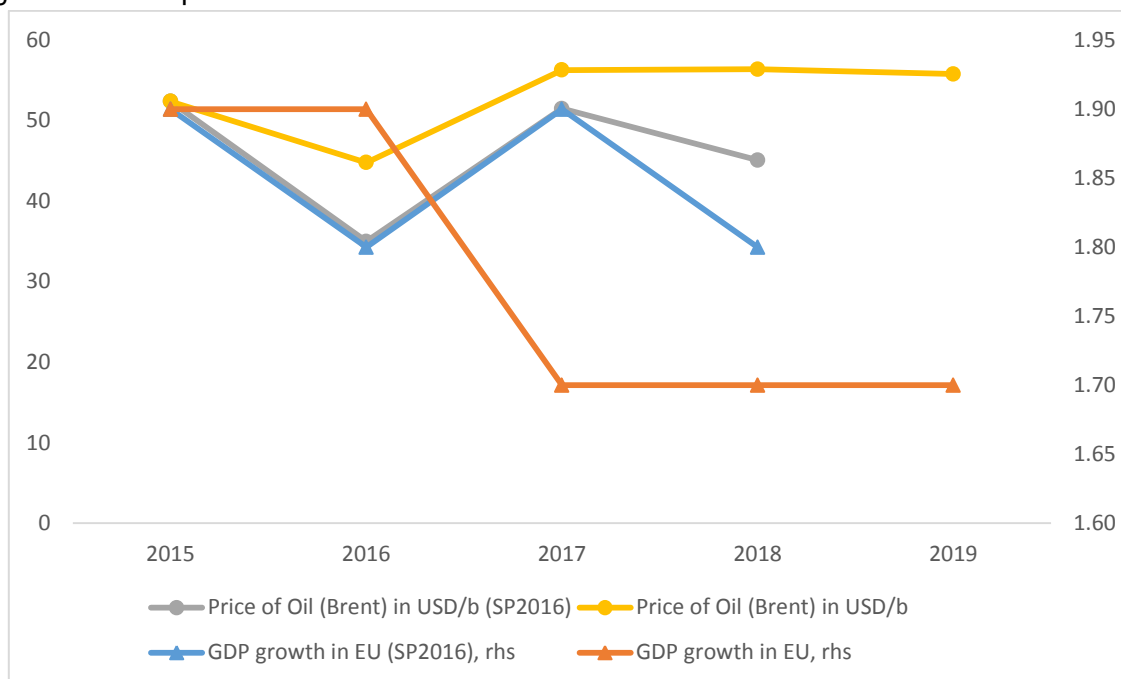
## **1. REVIEW and GENERAL ECONOMIC POLICY**

In 2016, the GDP growth rate was 2.5% in Slovenia, which is more than envisaged in the 2016 Stability Programme (SP16). The ongoing economic recovery in the last four years seems sustainable and is reflected in stable employment, with a 2% growth in 2016, which is more as anticipated in the SP2016. To a certain extent, this is also a result of reforms stimulating the labour market. Trust in the economy triggered by the recapitalisation of banks, reforms and sustainable fiscal consolidation contributed to adjusting the sources of economic growth to domestic demand. The competitiveness and increase in market shares of companies in foreign markets provide firm foundations for further economic recovery. Most of the excessive macroeconomic imbalances were also improved. The indebtedness of the corporate sector was reduced significantly. Nevertheless, some indicators show that there is still a lack of demand in the economy: relatively high short-term unemployment, low, but increasing wage growth, further deleveraging of corporate sector and a large surplus in the current account of the balance of payments. Nevertheless, we assess that the Slovenian economy gradually approaches to the potential output, whereby economic growth is the result of a wider range of factors of economic growth.

### **1.1. Assumptions about the international environment, macroeconomic trends and prospects**

The international environment will continue to have a positive effect on economic growth in Slovenia in the next few years. In 2016, GDP growth rate in EU was in accordance with the forecasts (IMAD, March 2016). A similar growth scenario is also envisaged in the next three years. The recovery in the EU will be a result of rising private consumption and increasing employment. The increase of employment will have a positive impact on trends in household consumption, while higher prices will reduce real disposable income per household. Investments will remain moderate, while exports will gradually grow due to the external demand. EU economic activity is declining and closing up the negative output gap (EC 2017). In 2016, oil prices significantly increased, and it is expected that the price level will be somewhat higher, but stable, from 2017 on. As a result, total inflation in the euro area will increase in 2017, and slightly decrease in 2018. The US dollar/euro exchange rate will remain close to the average level from March 2017.

Figure 1: Assumptions about the international environment



Source: Ministry of Finance, IMAD forecast

Taking into account the realisation in January and February and forward prices, the technical assumption of an average price for a barrel of Brent oil is 56 USD/barrel in 2017, which implies significant growth compared to the average price in the previous year. According to the available data from futures contracts, the price of oil is set to stay at a similar level in the next two years. The assumption about price trends of non-energy raw materials also anticipates a further decline in 2017 after last year's drop. The technical assumption for the average value of the euro against the US dollar is 1.067 USD/EUR for 2017.

Table 1: Assumptions about the international environment

	2016	2017	2018	2019
USD/EUR ratio (annual average) (euro area and ERM II members) <sup>1</sup>	1.107	1.067	1.068	1.068
Nominal effective rate	0.8	-0.1	0.0	0.0
GDP growth in EU	1.9	1.7	1.7	1.7
Growth of relevant export markets <sup>2</sup>	3.6	4.1	4.4	4.6
Oil price (Brent, USD/barrel)	44.8	56.3	56.4	55.8

Source: IMAD, Spring Forecast 2017. Notes: 1 For the 2017–2019 period: the technical assumption on the basis of average values between 1 and 17 February 2017; 2 Real imports of goods and services from trade partners weighted by means of Slovenian export rates to these countries.

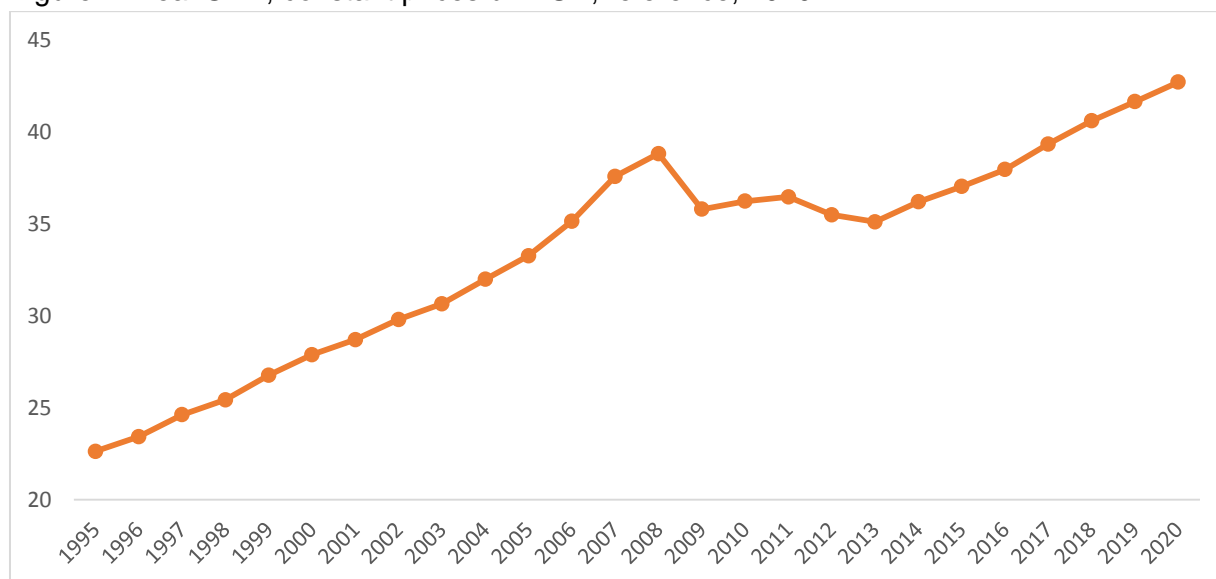
Table 2: Assumptions of the 2017 Spring forecast of economic developments (IMAD) according to economic growth in Slovenia's major foreign trade partners in the 2017-2019 period

	2016	2017	2018	2019
		Spring forecast (March 2017)		
EU	1.9	1.7	1.7	1.7
Euro area	1.7	1.6	1.6	1.5
Germany	1.9	1.6	1.6	1.4
Italy	0.9	0.9	1.0	1.0
Austria	1.5	1.5	1.5	1.3
France	1.2	1.3	1.5	1.6
Croatia	2.9	2.9	2.5	2.3
Russia	-0.4	1.0	1.3	1.6

Source: Eurostat (for 2016); Consensus Forecasts, February 2017; Eastern Consensus Forecasts, February 2017; EC Winter Forecast, February 2017; ECB staff macroeconomic projections, March 2017; IMF World Economic Outlook Update, January 2017; IMAD assessment.

In 2016, economic growth in Slovenia was 2.5% and was higher than the forecast in SP16. Growth also increased in the second half of 2016 (seasonally adjusted). The reason for the higher realised economic growth from the forecast was the positive impact of external demand also with strengthened domestic demand, which is becoming an increasingly important factor in economic growth. Exports were higher than forecast, and this was also influenced by the improved competitiveness of Slovenian economy. The market shares of Slovenian exporters abroad also increased for fourth consecutive year. Despite the fact that the imports also rose quickly in 2016, Slovenia recorded the highest current account surplus in the last 20 years. It was 6.8%. With more balanced recovery, the economy will exceed the GDP level of 9 years ago in 2017 (i.e. in 2008).

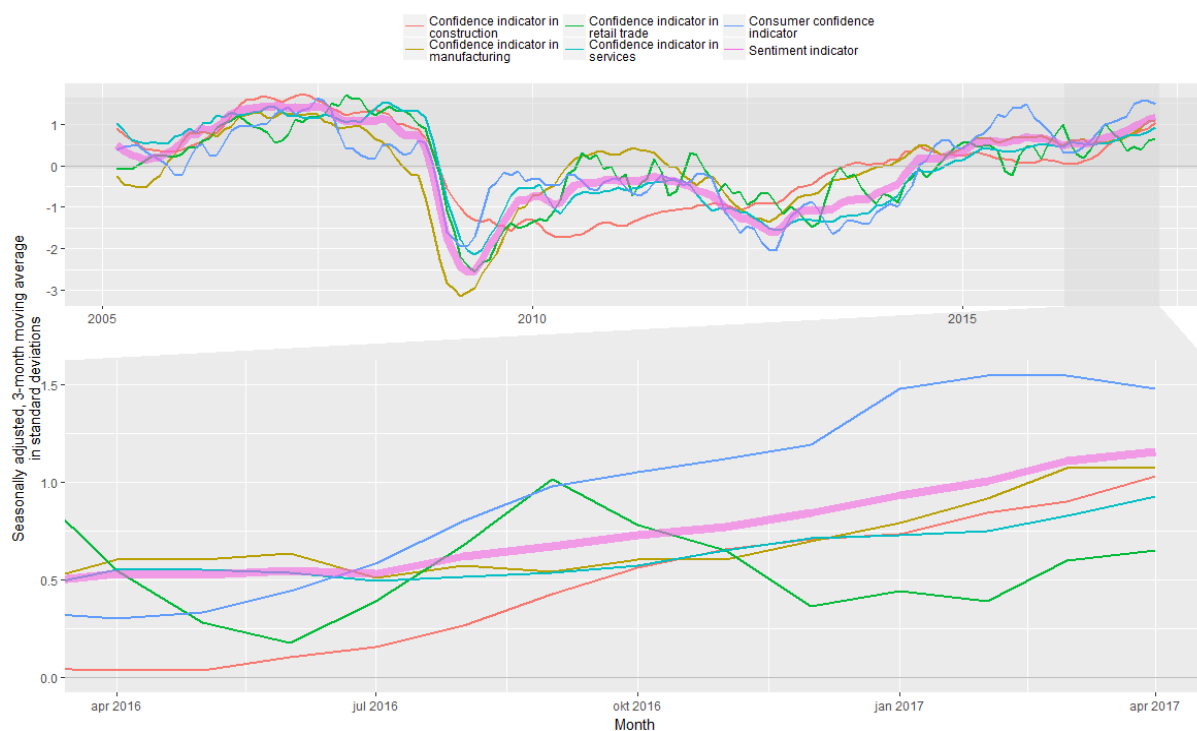
Figure 2: Real GDP, constant prices bn EUR, reference, 2010



Source: SORS, IMAD forecast

The strengthening of domestic demand in the previous year was mainly a consequence of the strong growth of private consumption, which increased by 2.8%, since total investments in the economy declined due to the decrease of public investments. Customer confidence indicators are now at similar levels as they were before the crisis, while the restoration of confidence in the domestic economy is attributed to the credibility of bank recapitalisation, and the guidelines on fiscal policy and sustainable recovery, which is largely reflected in employment.

Figure 3: Movement of confidence indicators and economic climate



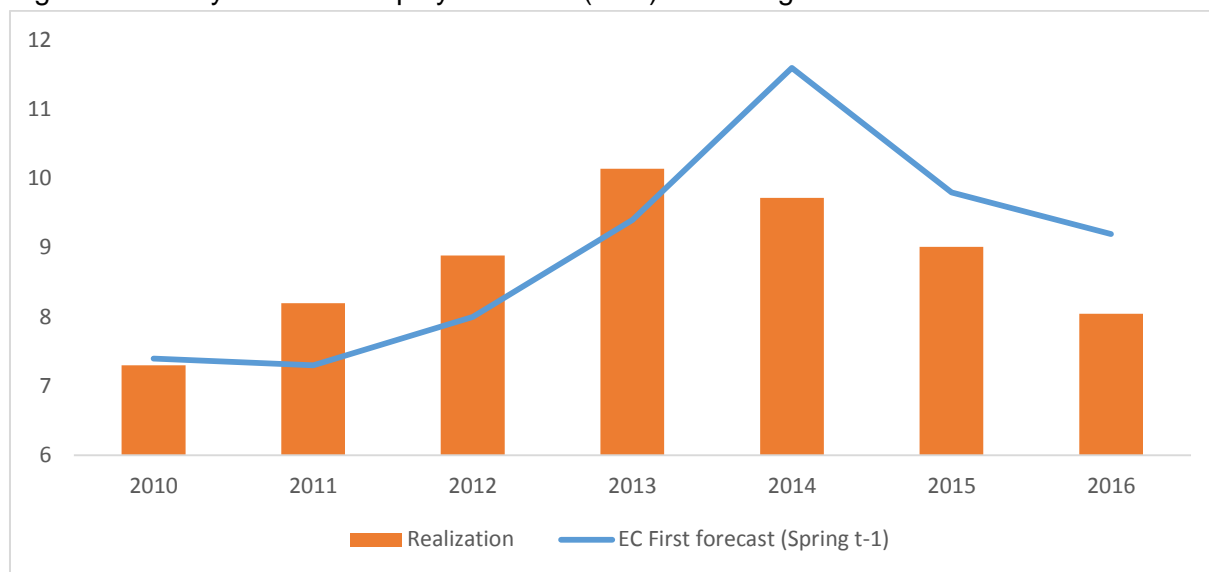
Source: SORS, calculations of the Ministry of Finance

A decline in investment activity in 2016 is in particular the consequence of the relatively small government investments due to the conclusion of the previous financial perspective of the European Union. Private investments in machinery and equipment in 2016 were relatively high (10.8%), which partially compensated the drop in government investments. Government consumption was relatively high due to the increase of expenditure on wages and social transfers in the previous two years. Despite the rise of oil prices in the second half of the previous year, last year Slovenia recorded deflation for the second consecutive year (somewhat less than the year before), which is mainly a consequence of the lack of domestic demand.

In 2016, employment increased by 2%, which is the highest employment rise since the beginning of the crisis in 2008. At the same time, the improvement of labour market conditions was reflected in the unemployment rate, which was 8% in the previous year and 1 percentage point lower than a year before. From the start of recovery, most forecasts of unemployment for the next year, including the forecasts of the European Commission, are always higher than realised. This significantly affects the assessment of potential growth. Despite wage growth, which somewhat increased in the previous year, inflation remains at a historically low level.



Figure 4: Survey-based unemployment rate (in %) according to ADS



Source: SORS, calculations of the Ministry of Finance

Table 3: Economic growth and related indicators

Rate of change in %	ESA Code	Level in 2016	2016	2017	2018	2019	2020	2021
		Level in million EUR						
1. Real GDP	B 1 g		2.5	3.6	3.2	2.6	2.6	2.6
2. Nominal GDP	B 1 g	39,769	3.1	4.7	4.9	4.4	4.4	4.4
Real GDP components								
3. Private consumption	P3	20,574	2.8	3.5	2.7	2.0	2.0	2.0
4. Government consumption	P3	7,530	2.6	1.0	0.9	0.6	0.6	0.6
5. Gross fixed capital formation	P51	7,322	-3.1	7.0	7.0	6.0	5.5	5.5
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+	511	1.3	1.4	1.4	1.4	1.3	1.3
7. Exports of goods and services	P6	31,440	5.9	6.0	5.1	4.8	4.8	4.8
8. Imports of goods and services	P7	27,608	6.2	6.5	5.6	5.1	5.1	5.1
Contribution to real GDP growth (in percentage points)								
9. Domestic consumption		35,937	2.2	3.5	3.1	2.3	2.3	2.3
including: Changes in inventories and net acquisitions of valuables	P52+	511	0.8	0.1	0.1	0.0	0.0	0.0
10. External balance of goods and services	B11	3,833	0.3	0.2	0.1	0.3	0.3	0.3

Source: SORS: Spring Forecast 2017, IMAD.

## 1.2. Medium-term scenario

The economic recovery will continue in 2017. According to forecasts, GDP growth (3.6%) will be the highest in the last 10 years. With the positive contribution of the foreign trade balance, the main factor will be domestic consumption, within the scope of which growth will be based

on a balanced contribution from private consumption and investments. With a comparable level of employment growth and somewhat lower increase of real labour costs, the contribution of the growth of private consumption will remain at a similar level as in the previous year. Investments will reach the highest level since the start of the crisis in 2008. Due to high levels of utilisation of production capacities, the private investments in machinery and equipment will significantly rise, and the investments in the construction of residential real estate will increase. Growth will also be stimulated by government investments, which will increase due to increased drawing of EU funds. Government consumption will increase, but not as much as in the previous two years. Compared to 2016, export growth will somewhat improve in 2017; import growth will be higher than export growth for the second consecutive year, as a result of increasing private consumption and investments. Consequently, the current account balance will decline, but will remain relatively high (4.8%).

The rise of consumer prices will accelerate to approximately 2% in 2017, mainly due to higher energy prices (oil). Basic inflation, arising from rising prices of services, will also increase. The core inflation trends in 2016 and forecasts for the following years clearly show Slovenia overcoming deflationary conditions and in a situation in which price rises would have to stabilise in the medium term at a level compliant with the ECB's objective.

Table 4: Price developments

<i>Rate of change in %</i>	2016	2017	2018	2019	2020	2021
1. GDP deflator	0.6	1.0	1.7	1.7	1.8	1.8
2. Private consumption deflator	-0.5	1.7	1.4	1.7	1.8	1.7
3. Consumer price index (annual average)	-0.1	1.8	1.6	2.0	2.1	2.0
4. Government consumption deflator	1.9	3.3	2.7	2.0	2.1	2.4
5. Gross fixed capital formation deflator	0.4	1.4	2.2	2.1	2.0	2.0
6. Export price deflator (goods and services)	-1.2	1.7	1.0	1.2	0.7	0.7
7. Import price deflator (goods and services)	-2.0	3.0	1.1	1.2	0.6	0.6

Source: SORS, Spring Forecast 2017, IMAD.

Favourable results in the labour market, which to a certain extent are the result of past reforms (described in detail in the chapter on the impact of reforms), will continue in 2017. This year will mark one of the highest ever levels of employment growth in the country. As a result, unemployment will decrease significantly for the second consecutive year (by 1 percentage point). The decline of the number of unemployed, which began at the beginning of 2014, was even more notable last year than in the year before.

In 2016, employment increased by 2%, which is the highest employment rise since the beginning of the crisis in 2008. At the same time, the improvement of labour market conditions was reflected in the unemployment rate, which was 8% in the previous year and 1 percentage point lower than a year before. From the start of recovery, most forecasts of unemployment for the next year, including the forecasts of the European Commission, are always higher than realised. This significantly affects the assessment of potential growth. Despite wage growth, which somewhat increased in the previous year, inflation remains at a historically low level.

Table 5: Labour market developments

	Level 2016 (in 000)	2016	2017	2018	2019	2020	2021
Employment (number of employed) <sup>1</sup> , growth	961	2.0	2.2	1.5	1.0	0.6	0.5
Employment by hours, growth in %	1,615,936	1.7	2.2	1.5	1.0	0.6	0.5
Survey unemployment rate, %	79.65	8.0	7.0	6.4	6.0	5.7	5.4
Labour productivity, (EUR 1000 per employee) <sup>2</sup>	41.4	0.5	1.4	1.7	1.6	1.9	2.1
Compensation of employees <sup>3</sup> , in EUR millions	19,740	4.4	6.4	5.2	4.6	4.7	4.5
Compensation per employee <sup>3,4</sup> , in EUR 1000	20.550	2.4	4.1	3.6	3.6	4.0	4.0

Source: SORS, Spring Forecast 2017, IMAD.

Notes: <sup>1</sup> Employed population, national accounts definition (domestic concept). <sup>2</sup> Real GDP is taken into account, <sup>3</sup> Nominal growth. <sup>4</sup> Full-time employees are taken into account.

In 2018, economic growth will slow down and remain at about 2.5% in the medium term. The growth of domestic demand, which will be a balanced combination of investment and final consumption growth, will contribute more to growth than the external trade balance. Private consumption growth will moderate, particularly as the result of lower employment growth. The growth of investments will make a similar contribution to GDP as in 2017, while the growth of government consumption will slow down as a consequence of the deceleration of employment in the public sector and growth of expenditure on goods and services.

In connection with the government plan for drawing European funds, government investments will increase again after last year's significant drop, which will also decisively contribute to the growth of total investment activity, which declined in the previous year.

In general, nominal wage dynamics in the economy will remain stable until 2020, when the situation in the labour market will become tight, as the lack of a suitable work force takes effect. Demographic change, in particular the reduction of the number of working-age population (aged between 20 and 64) will affect the situation in the labour market in the coming years.

The growth of economic activity and employment will influence the further reduction of the number of unemployed in the 2018-2019 period. After last year's highest growth in an average gross wage per employee in the last five years, it will increase even more in the 2018-2019 period. The acceleration of nominal growth in the private sector will derive from higher economic growth and the reduction of unemployment, but will nevertheless remain compliant with productivity growth due to its tendency to preserve a competitive position (in particular in the tradable sector).

The medium-term scenario of economic trends from the Spring forecast of economic developments is based on the assumed stable trends in the international environment and further gradual consolidation of public finance in the general framework of programme guidelines. Assuming the continuation of a stable situation in international financial markets, the consolidation will contribute to the favourable access of the government to funding sources. In addition to rising domestic consumption, exports will remain the main factor of economic growth. Private consumption will rise by about 2%. Together with a stable situation

in the banking system, the improved accessibility of funding sources and their structure will stimulate a rise in investments in the corporate sector, which will be relatively high in the period of the scenario (5.5%). As a result, economic activity will increase in the medium term by 2.6% per year on average. The output gap will be positive in this period, but will not exceed 1.5% of GDP.

Table 6: Key macroeconomic indicators for the period until 2022

	Spring forecast	
	2017-2019	2020-2022
Gross domestic product, real growth in %	3.1	2.6
Exports of goods and services	5.3	4.8
Imports of goods and services	5.7	5.1
Private consumption	2.7	2.0
Government consumption	0.9	0.6
Gross fixed capital formation	6.7	5.5
Employment (SNA), growth in %	1.5	0.5
Registered unemployment rate (in %)	9.1	7.7
Survey-based unemployment rate (in %)	6.5	5.4
Average number of registered unemployed in thousands	85.1	72.9
Inflation, annual average	1.8	2.0

Source: Projections of the Spring Forecast 2017, IMAD, March 2017.

### 1.3. Comparison of the GDP forecast (and quality) with the previous programme

The forecast for GDP growth was higher or revised upwards for the whole programming period compared with the previous Stability Programme. Economic growth in 2016 (2.5%) exceeded the expectations of domestic and foreign institutions, i.e. it was higher by 0.8 of a percentage point compared to the projection in last year's Stability Programme. This was the result of exports, which increased somewhat more than the year before. The situation in the labour market improved significantly, with the higher growth of employment and wages, so growth of disposable household income also increased. This raised the consumer confidence, which contributed to the significant growth of personal consumption. Due to the relaxation of austerity measures from 2012 and 2013, government consumption also increased. Exports increased somewhat more than a year before. The growth of personal investments in equipment and machinery also had a positive impact on economic growth, which was indicated by the high utilisation of production capacities, good business results and lower indebtedness of companies. Other financing terms also improved. Only public investments did not record favourable movements; they reduced significantly due to a temporary deceleration in drawing European funds upon entering the new financial perspective.

No significant changes of the economic growth structure are expected. The growth factors in 2017 will be similar to those in 2016. The key growth factors remain exports, due to foreign demand and the better competitive position of Slovenian companies abroad, and personal

consumption, which is slowly but constantly increasing. The accelerated growth in comparison with 2016 will be mainly characterised by (government) investments in 2017 and 2018. In favourable economic times, the situation in the labour market continues to improve, and IMAD as well as the European Commission expect further improvement and the recovery of the economy.

Table 7: Comparison with forecasts in the 2016 Stability Programme

<i>% of GDP</i>	2016	2017	2018	2019	2020
<b>1. Growth of GDP</b>					
2016 Stability Programme	1.7	2.4	2.3	2.3	2.3
2017 Stability Programme		3.6	3.2	2.6	2.6
Difference		1.2	0.9	0.3	0.3
<b>2. General government balance</b>					
2016 Stability Programme	-2.2	-1.6	-1.0	-0.4	
2017 Stability Programme	-1.8	-0.8	-0.2	0.2	0.4
Difference	0.7	0.8	0.8	0.6	
<b>3. General government debt</b>					
2016 Stability Programme	80.2	78.2	76.5	73.8	70.8
2017 Stability Programme	79.7	77.0	74.3	70.9	67.5
Difference	0.5	1.2	2.2	2.9	3.3

Source: Ministry of Finance

The primary risks concerning the realisation of the basic scenario of the economic growth forecast relate to political uncertainty in the international environment. The uncertainties particularly relate to the future framework of the EU's operations and mainly concern Brexit, the results of elections in countries in the euro area and at the same time to the change in economic policy in the USA. In the domestic environment, positive risks related to investment dynamics predominate. In addition to revitalised crediting and lower uncertainty in the business environment, private investments could be higher than in the basic scenario. If disposable income increases even more due to more favourable trends in the labour market, household consumption could also increase. On the other hand, there is a risk that government investments in 2017 might be lower than in the basic scenario under the risk exposure of a different dynamics of drawing EU funds compared to those envisaged in government plans.

Table 8 shows the differences in forecasts made by individual institutions. IMF, the European Commission (EC), OECD, IMAD and the Bank of Slovenia, which could also significantly affect the calculations of potential growth and consequently the general government balance as well as output gaps.

Table 8: Comparison of forecasts for Slovenia (real GDP growth in %)

	Spring 2016			Autumn 2016			Winter 2017			Spring 2017		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
IMF	1.9	2.0	1.7	2.3	1.8	1.6	-	-	-	2.5	2.5	2.0
EC	1.7	2.3	-	2.2	2.6	2.2	2.5	3.0	3.0	-	-	-
OECD	1.5	2.3	-	2.0	2.4	2.3	-	-	-	-	-	-
IMAD	1.7	2.4	2.3	2.3	2.9	2.6	2.4	3.2	2.8	2.5	3.6	3.2
BS	1.9	2.5	2.6	2.2	2.5	2.6	-	-	-	-	-	-

Source: IMAD (March 2016, September 2016, March 2017), BS (June 2016, December 2016), OECD (June 2016, November 2016), IMF (April 2016, October 2016, April 2017\* before the amended publication of May 2017), EC (May 2016, November 2016, February 2017).

The GDP growth forecast for 2016, which was the basis for budgetary planning in autumn 2015, was somewhat underestimated by the EC (1.9%) and relatively in line with the IMAD forecast (2.3%) according to the realisation in 2016 (2.5%). For 2017, the budgetary documents were drawn up with the 2016 Autumn forecast (IMAD 2.9%, and EC 2.6%). In the 2017 Winter forecast for Slovenia for 2017 and the next year, the European Commission forecasts 3.0% economic growth, which is somewhat higher than in the Autumn forecast. The improved economic growth is a result of favourable trends in the labour market and consequently the increase of private consumption. Similar to IMAD, the European Commission also forecasts that exports remain the key factor in improving economic activity and employment, the same applies to household consumption. The latest spring forecasts even indicate higher growth of 0.7% in 2017 compared to the 2016 Autumn forecast (IMAD 3.6%, EC – the EC has not made its Spring forecast yet).

Table 9: Comparison of forecasts for 2016 and 2017 (GDP growth in %)

	For 2016						For 2017					
	Autumn 2015	Winter 2016*	Spring 2016	Autumn 2016	Winter 2017	Spring 2017	Autumn 2015	Winter 2016*	Spring 2016	Autumn 2016	Winter 2017	Spring 2017
IMAD	2.3	2.3	1.7	2.3	2.4	2.5	2.3	2.3	2.4	2.9	3.2	3.6
EC	1.9	1.8	1.7	2.2	2.5	-	2.5	2.3	2.3	2.6	3.0	-

Source: European Commission and IMAD. \* IMAD Autumn forecast; special Winter forecast was not published.

The assessment of the performance of forecasts for Slovenia's GDP made by domestic and foreign institutions was prepared on the basis of publications of official statistical data on real economic growth for 2016. The institutions' forecasts were underestimates, since actual economic growth was higher in 2016.

Table 10: Errors in forecasts of real economic growth by individual institutions for 2016

Realisation: 2.5%	2015 Spring forecast for 2016		2015 Autumn forecast for 2016		2016 Spring forecast for 2016		2016 Autumn forecast for 2016	
	Forecast	Error in percentage points	Forecast	Error in percentage points	Forecast	Error in percentage points	Forecast	Error in percentage points
IMAD	2.0	-0.5	2.3	-0.2	1.7	-0.8	2.3	-0.2
BS	1.8	-0.7	1.9	-0.6	1.9	-0.6	2.2	-0.3
GZS	1.8	-0.7	1.8	-0.7	2.0	-0.5	2.3	-0.2
EC	2.1	-0.4	1.9	-0.6	1.7	-0.8	2.2	-0.3
IMF	1.9	-0.6	1.8	-0.7	1.9	-0.6	2.3	-0.2
WIIW	1.8	-0.7	2.2	-0.3	2.0	-0.5	2.4	-0.1
OECD	1.9	-0.6	1.9	-0.6	1.3	-1.2	2.0	-0.5
Consensus	2.0	-0.5	2.2	-0.3	2.1	-0.4	2.2	-0.3

Source: forecast of individual institutions, IMAD calculations.

The lowest forecasts for 2016 were in Spring 2016, namely by 0.4 to 1.2 percentage points lower compared to the final realisation in 2016. To a large extent, this deviation is a consequence of worse forecasts by international institutions in terms of global economic growth due to the higher risk of a significant worsening of situation in China, which evidently lowered expectations concerning export growth in 2016 compared to previous forecasts. The actual realisation of exports in 2016 was then more positive, and domestic consumption also

improved. Thus, the spring forecasts for 2016 came close to the realisation, deviations were small, namely from -0.1 to -0.5 percentage point (most forecasts were -0.2 or -0.3% lower). In the 2015 autumn forecast for 2016, which was the basis for the preparation of amendments to the state budget for 2016, realisation was most consistent with the IMAD expectations (the forecast was lower by -0.2%), in the 2016 spring forecast for the current year with Consensus (the forecast was lower by -0.4%), in the 2016 autumn forecast for the current year with WIIW (the forecast was lower by -0.1%).

#### **1.4. 2016 fiscal review and the position in the economic cycle**

According to current data, the general government deficit in 2016 reached 1.8% of GDP, which is 0.4% less than was expected in the 2016 Stability Programme. The lower deficit is mainly due to lower government expenditure, which was 2.6% lower than in 2015, and this was influenced by significantly lower gross investments, which are EUR 611 million lower than in the previous year, according to the SORS findings. Although the total revenue of the general government decreased by 0.5% due to the drop of revenue from the EU in 2016, we recorded 4.3% growth of tax revenue, as well as 8.6% growth of property income.

In 2016, Slovenia thus reduced the nominal deficit by over 1 percentage point and thus successfully reduced long-term fiscal risks. Conservative fiscal planning and more favourable cyclic trends as expected also made an important contribution to the improvement. An overview according to general government units reveals that central government units outside the state budget also had a significant impact on performance in 2016. A surplus was noted in the budgets of municipalities, public institutions, agencies and public funds, including the Slovenian Sovereign Holding (SSH). The deficit of KAD and BAMC was also somewhat lower than expected.

Published preliminary data on the amount of last year's fiscal deficit and improved economic forecast by IMAD confirm that Slovenia is higher in the economic cycle than was initially expected, and at the same time they reveal that a more favourable fiscal result and new economic forecast are a consequence of cyclic effects and government measures to promote economic growth, e.g. tax restructuring.

Between 2017 and 2020, Slovenia will continue its gradual consolidation of public finance by reducing the nominal general government balance in 2017 to -0.8% of GDP and in 2018 to -0.2% of GDP. The nominal general government balance will continue to improve in the programming period and achieve a surplus in an estimated amount of 0.2% GDP already in 2019. In this way, Slovenia will also record a significant improvement in the primary general government balance, which has been positive since 2015. This will mark the path towards the medium-term sustainability of public finances in 2020.

The nominal reduction of the general government deficit is not entirely reflected in the improved structural fiscal balance, in which the impact of the economic cycle and one-off events are excluded. According to our calculations, the structural fiscal balance improved by 0.8% in 2016, while a 0.5% improvement is projected for 2017. This means that the nominal improvement is not entirely the consequence of the adjustment of public expenditure structure, but is rather influenced by cyclic factors (revenue growth, lower expenditure on investments) as well. Therefore, it is crucial that Slovenia implement the set permanent

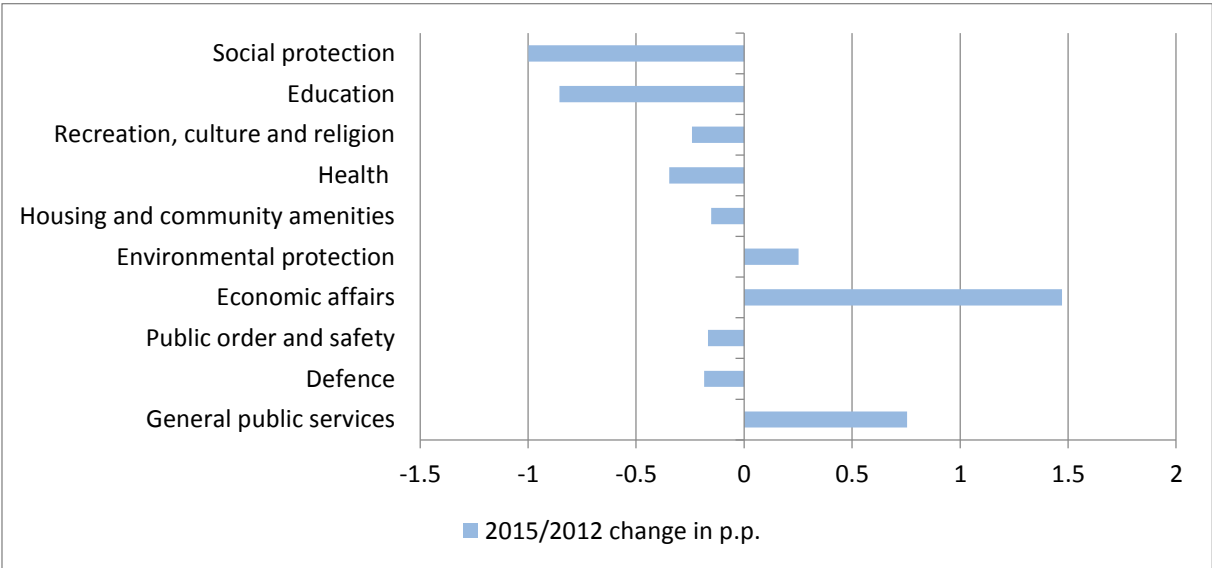
structural measures and reforms in the programming period, which will also improve the structure of public finances and investments that will enhance potential growth.

Under such favourable cyclic trends, the applicable arrangement in the field of fiscal policy, which is stipulated by the Constitution and the Fiscal Rule Act and is also defined by the European rules, still demands a restrictive fiscal policy until a long-term sustainable medium-term fiscal objective is achieved. The fiscal policy and planning the path to finalise public finance consolidation will remain focused to support stable economic growth and thus provide better welfare for all in the future.

- The structure of general government expenditure according to the purpose

The structure of general government expenditure according to purpose shows the long-term accumulated structure of public finances. The data published for 2015 are divided according to the types of expenditure, as stipulated by the methodology of the 2010 European System of Accounts and according to the purposes of expenditure as defined by Classification of the Functions of Government (COFOG classification). In comparison with the past publication of the COFOG statistics, the structures of expenditure are partially changed in the entire time series of data due to methodological improvements. In 2015, expenditure on social protection was the highest (17.4% GDP) according to the functional classification. More than one half of expenditure in this field was intended for the elderly (particularly old-age pensions). In comparison with the previous year, expenditure on social protection nominally increased by 0.3%. The movement of expenditure within the field of social protection varied: expenditure on the elderly increased (by 1.5%), illness and disability (by 2.3%) and other forms of social exclusion (by 4.4%). Slovenia allocated 6.7% of GDP or EUR 2,590 million for health care in 2015 (0.2 percentage point of GDP more than in the previous year). One half of the increase related to hospital health-care services.

Figure 5: Changes in the share of general government expenditure according to the 2012-2015 purpose (in % of GDP)



Source: SORS.

Slovenia allocated 6.8% of GDP for public administration, most of which related to expenditure on servicing general government debt (interest). Expenditure allocated for this purpose increased by 2.3% in 2015 compared to the previous year. In 2015, 5.6% of GDP



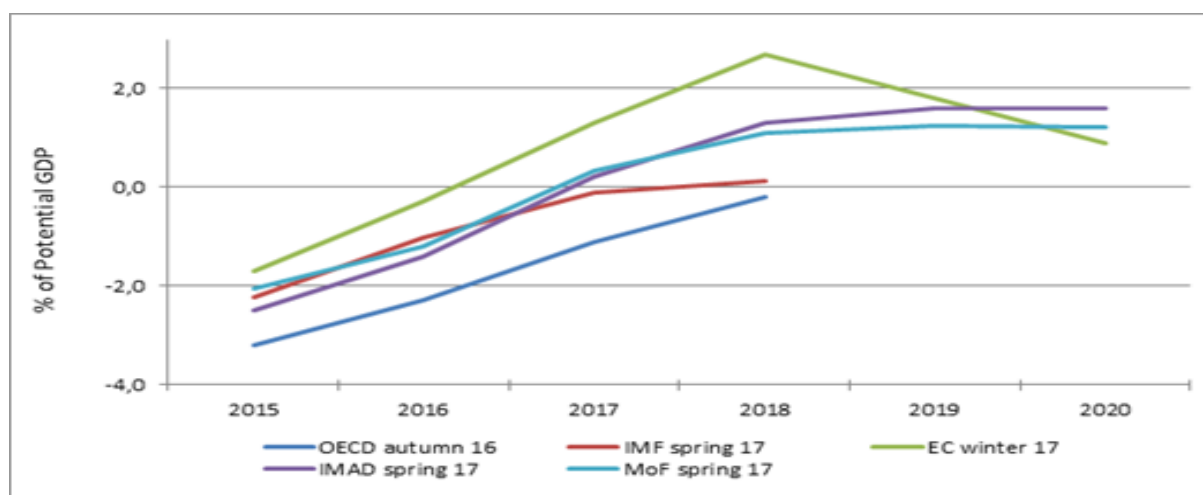
were allocated to education. Economic activities include expenditure on general economic and commercial affairs, general labour affairs, agriculture, forestry, fishing and hunting, manufacturing and construction, the production and distribution of fuels and energy, transport and other economic activities. In 2015, Slovenia allocated 6.0% of GDP for economic activities, while for other purposes it allocated: 1.6% of GDP for public order and safety (approximately the same amount as in the previous year), 1.6% of GDP for recreation, culture and religion, 1.0% of GDP for environmental protection, 0.8% of GDP for defence and 0.6% of GDP for housing and community development.

The comparison of shares of expenditure between 2012 and 2015 shows the greatest increase of the share allocated for economic activities and public administration. Regarding the expenditure on economic activity, expenditure on general economic and trade services and services related to employment nominally increased the most. Within expenditure on public administration, the share allocated to servicing general government debt increased most in 2015 compared to 2012. Expenditure on social protection gradually declined in the 2012-2015 period after an increase at the beginning of the crisis.

- Assessment of the output gap and positions in the economic cycle

The European Commission<sup>3</sup> and the European Central Bank<sup>4</sup> established that there are great uncertainties in the calculation of output gap<sup>5</sup>, as well as in the assessment of the position of individual country in the cycle. IMAD assessments and the calculations of the Ministry of Finance based on the Spring forecast show that Slovenia will reach the positive output gap in the forecast period. According to the Ministry of Finance (as well as OECD and IMF), the gap is closing more slowly than expected and does not exceed 1.5% of GDP. This means that by 2020, Slovenia will not be positioned high in the economic cycle and the economy will not overheat. The Bank of Slovenia and OECD data are available only from autumn 2016 forecast.

Figure 6: Assessment of the output gap (in % of GDP), different institutions



Source: Ministry of Finance, IMAD, OECD, IMF, EC

<sup>3</sup> [https://ec.europa.eu/info/publications/economy-finance/quarterly-report-euro-area-grea-vol14-no3-2015\\_en](https://ec.europa.eu/info/publications/economy-finance/quarterly-report-euro-area-grea-vol14-no3-2015_en)

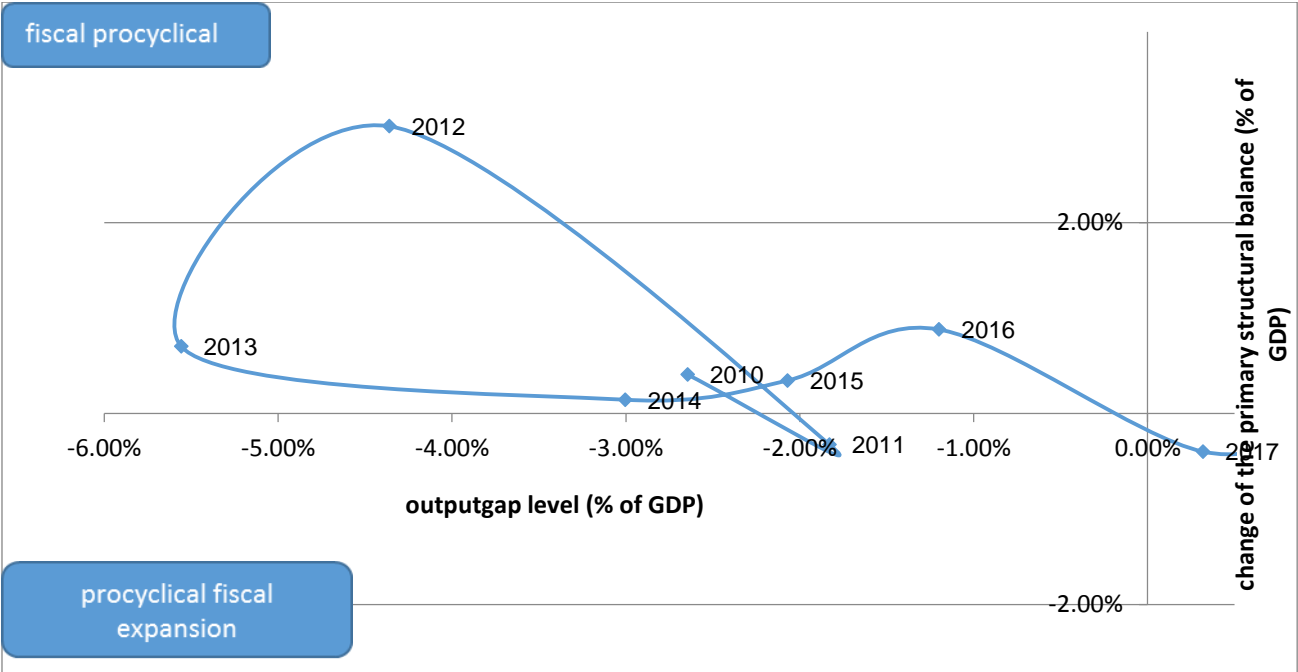
<sup>4</sup> <https://www.ecb.europa.eu/pub/pdf/scpops/ecbop156.en.pdf?12f64165c5623d34b98b978cbe614ed9>

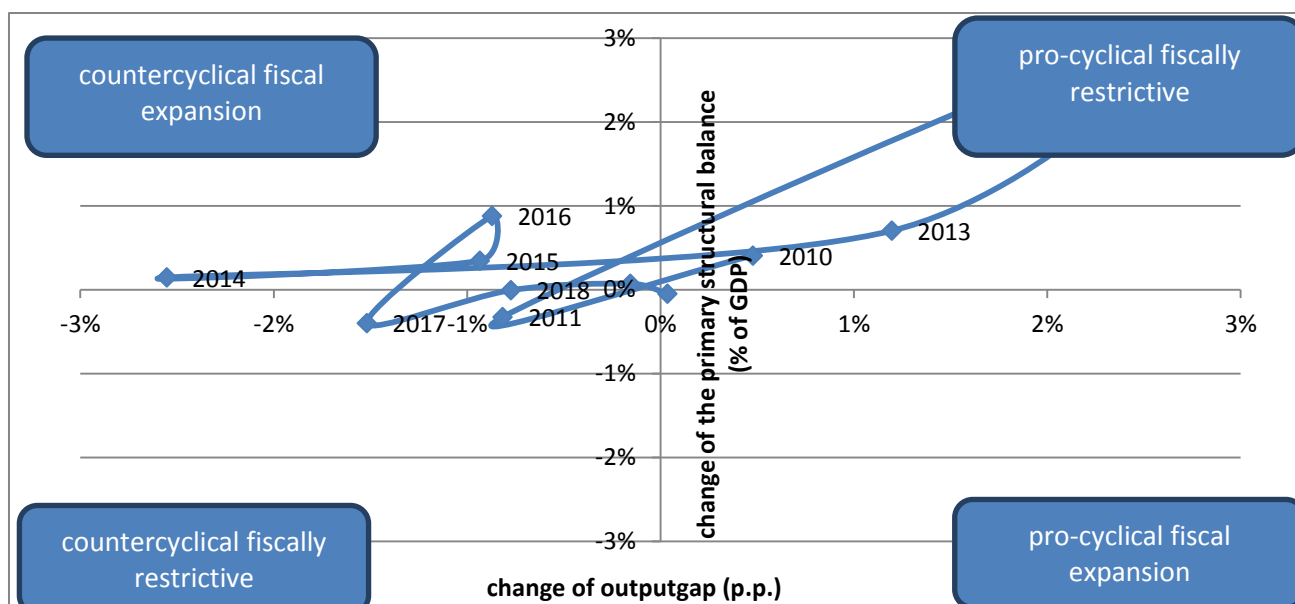
<sup>5</sup> The output gap is the difference between actual and potential GDP expressed in percentages of potential GDP, and is one of the indicators which the EC stresses when establishing the situation of the economic cycle.

The differences between the MF and EC calculation are mainly the result of different periods of forecast since the IMAD and MF assessments are based on forecasts for a longer period (t+6), while the EC forecasts are made for a significantly shorter period (t+2). The differences in assessing the output gap derive from forecasts of macroeconomic factors and input data. The credibility of the output gap, which is an unstable macroeconomic indicator, since its value has changed significantly in the recent years following new calculations, significantly affects on the assessment of ex-ante and ex-post fiscal policy.

Fiscal policy is a system or series of measures used by the government to affect general government revenue and expenditure. In this way, the government achieves long-term and short-term economic objectives. The measures of fiscal policy have a direct impact on the national budget, other public finance budgets (ZZZS, ZPIZ and municipalities) and the amount of budgetary surpluses and deficits of all general government units (S.13). An expansive fiscal policy is a policy used by the government to stimulate and increase (expansion) economic activity in the country (and thus affect the increase in GDP). A restrictive fiscal policy is a fiscal policy used by the government to limit economic activity to prevent the economy from overheating. The goal of a restrictive policy is to maintain moderate economic growth, limit inflation, prevent the emergence of economic bubbles and reduce or eliminate the budget deficit that occurred during the previous implementation of an expansive fiscal policy and stimulation of the economy.

Figure 7: Change in primary structural fiscal balance compared to the level of output gap (in % of GDP) (top) and with a change of output gap (in % points of GDP) (bottom)





Source: Ministry of Finance

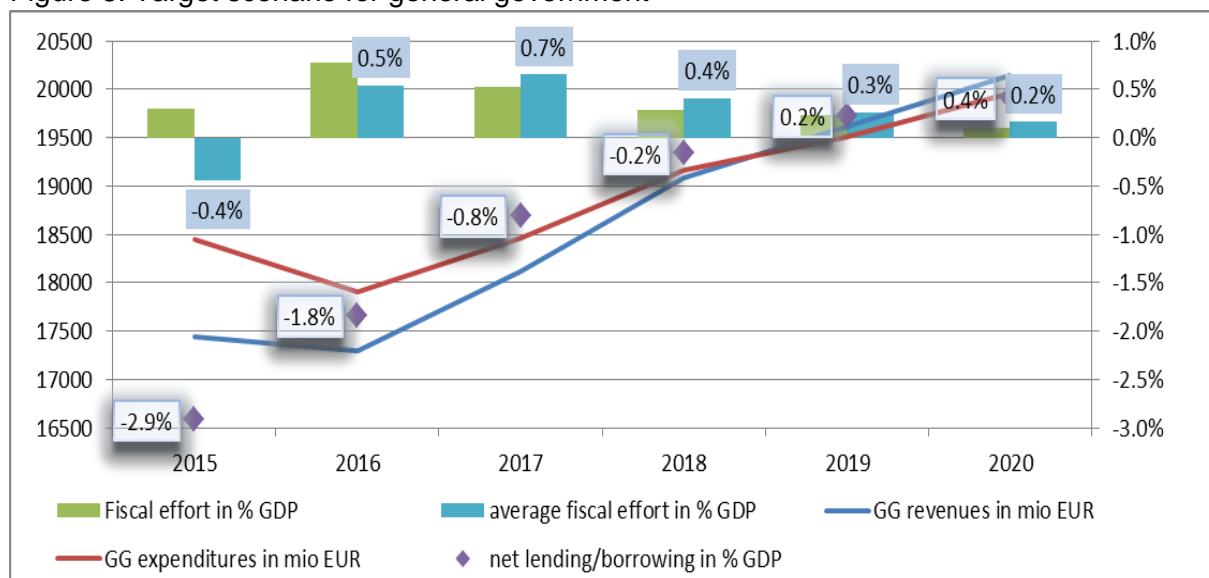
The fiscal position of Slovenia may also be assessed as a change of the primary structural fiscal balance and the cyclic indicator of the output gap (the change at the year-year level, which is more stable than new calculations). Based on this, we may assess the effects of the policy on the economic cycle, which must be fiscally stimulative in unfavourable economic times and be directed towards further consolidation in favourable economic times. If we compare the respective indicators, we may conclude that fiscal policy was restrictive in 2013, followed by an expansion, and from 2015 on we have been gradually consolidating and fiscal policy is becoming neutral.

## 2. FISCAL PROSPECTS, FRAMEWORK AND ECONOMIC POLICY OBJECTIVES

### 2.1. Medium-term balance of general government

Since 2015, the Government of the Republic of Slovenia has insisted on the projected path that the structural fiscal balance will be offset by the end of 2020, based on assessments by the Ministry of Finance, when Slovenia's medium-term fiscal objective (MTO) will have been met. Since Slovenia has not yet achieved its MTO, the transitional period and the rule that the structural deficit must be gradually reduced towards the MTO in a manner which is compliant with the SGP apply. The speed of convergence is not governed by the ZFisP, which also does not provide the formula for calculating the upper threshold of expenditure during the convergence. In Slovenia, there is a surplus in the current account on the balance of payments, and unemployment is above the long-term average. Investment rates, industrial production and finally also GDP growth rates are not at the levels as they were before the crisis, and it is thus impossible to claim that the Slovenian economy is overheating, as is claimed by the European Commission, merely on the basis of the EU common methodology. These assessments do not confirm the calculations of domestic and other international institutions (IMF and OECD). In the medium term, Slovenia fulfils the requirements, since it achieves the required average fiscal effort in the 2016-2019 period.

Figure 8: Target scenario for general government



Source: Ministry of Finance; existing methodology of the EC; calculations of the MF.

The published preliminary data on the level of the general government deficit for 2016 indicated that, after the first publication of SORS of 30 March 2017, the deficit estimated according to the 2016 realisation and forecasts of the Ministry of Finance and calculations on the basis of four public finance budgets was 0.2% lower than expected by the MF, namely 1.5% of GDP. The change is mainly due to differences in past GDP revisions due to EU funds corrections and higher gross investments, while the effects of individual general government units were not explained. The official publication of SORS of 20 April 2017 again increased the general government balance to -1.8% of GDP (i.e. by 0.3% more) due to the correction for interest costs related to the impact of currency exchange transactions in the 2012-2014 period, i.e. the recorded costs of interest payable on bonds that arise from dollar bonds. From the IMAD Autumn to the unofficial Winter forecast, in addition to the SORS publication (and final confirmation, harmonised with Eurostat), the input data changed significantly and made managing the fiscally restrictive policy much more difficult. Slovenia remains on the projected path, but in a manner which does not endanger economic growth or the well-being of its citizens.

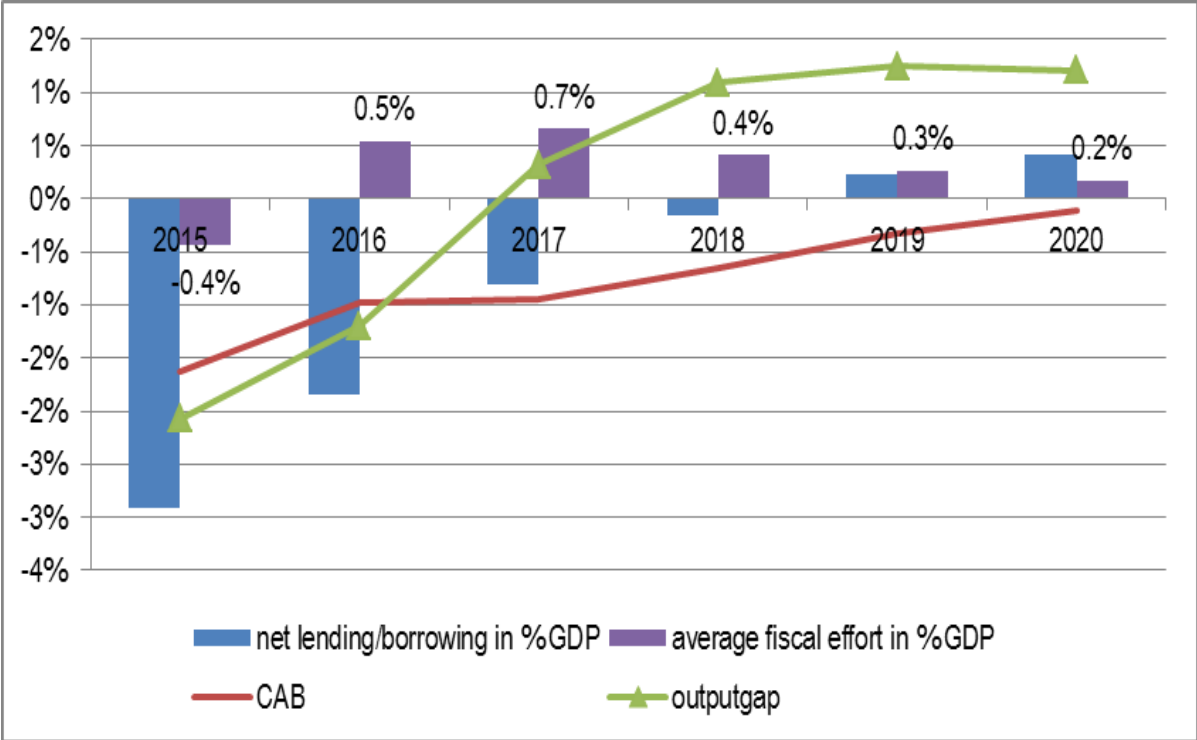
Table 11: Path to the target scenario for general government (ESA–2010)

in EUR million	2016	2017	2018	2019	2020
Revenue	17,352	18,123	19,087	19,614	20,146
in % of GDP	43.6	43.5	43.7	43.0	42.4
Expenditure	18,085	18,460	19,158	19,512	19,952
in % of GDP	45.5	44.4	43.9	42.8	41.9
Target nominal deficit/surplus	-733.1	-336.9	-71.5	+102.7	+194.3
in % of GDP	-1.8	-0.8	-0.2	+0.2	+0.4
Target structural deficit	-443.5	-243.1	-129.0	-26.9	+16.3
in % of GDP	-1.1	-0.6	-0.3	-0.1	0.0
<b>Fiscal effort in % of GDP</b>	<b>0.8</b>	<b>0.5</b>	<b>0.3</b>	<b>0.3</b>	<b>0.1</b>
<b>Average fiscal effort</b>	<b>0.6</b>	<b>0.7</b>	<b>0.4</b>	<b>0.3</b>	<b>0.2</b>

Source: Ministry of Finance

Slovenia plans to gradually reduce the general government balance and the cyclically-adjusted balance in the medium-term period. Therefore, when planning public finance, we focus on structural measures that will have a permanent impact on the structure and efficiency of public finance.

Figure 9: General government balance and cyclically-adjusted balance, in % of GDP



Source: Ministry of Finance; existing methodology of the EC; calculations of the MF.

Key structural measures for attaining the objectives of public finance in the field of revenue include restructuring the burdens of public taxes, reducing administrative barriers and improving the effectiveness of collecting public taxes. In the field of general government expenditure, these will include an appropriate gradual elimination of short-term measures, which will influence the restrictive increase in expenditure for these purposes. Among others, these measures were determined in the past in the ZUJF, the ZIPRS and the Agreement on measures to reduce the extent of wages and other regulations for 2016 and beyond, while the others will be replaced by other systemic measures which will be used to achieve comparable financial effects. With this approach, there emerge the so-called opportunity savings used to create a fiscal space to finance legal and other priority expenditure, which also provides the appropriate level of tightening expenditure on the path to the MTO.

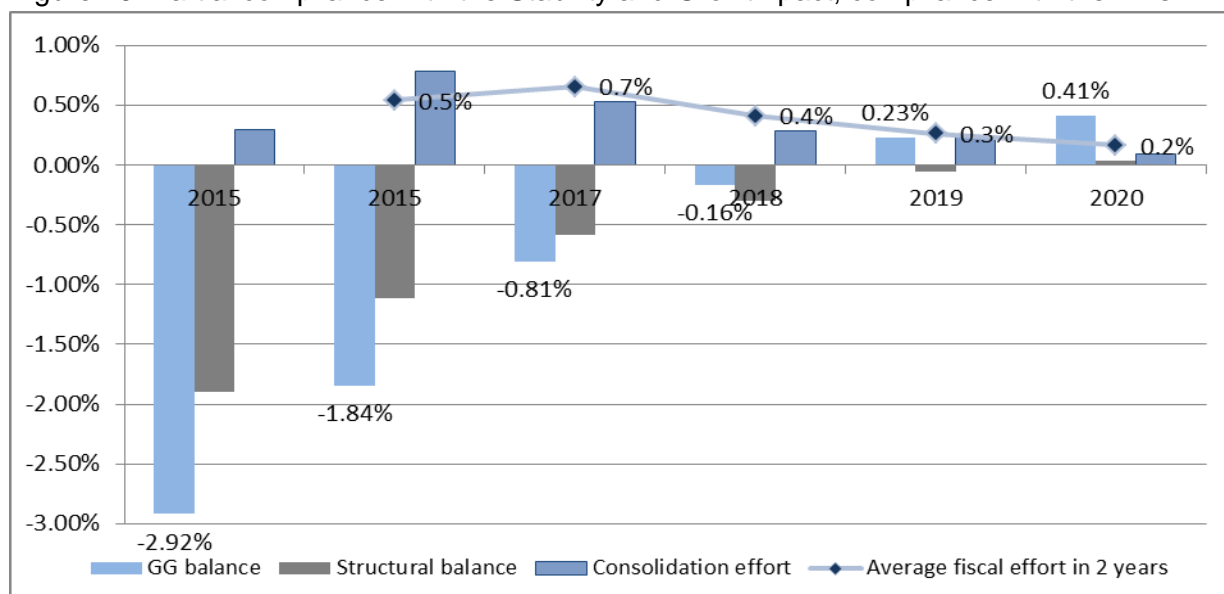
Table 12: Cyclical developments

<i>in % of GDP</i>	ESA code	2016	2017	2018	2019	2020
<b>Real GDP growth (%)</b>		2.5	3.6	3.2	2.6	2.6
Net lending/borrowing of general government	B.9	-1.8	-0.8	-0.2	+0.2	+0.4
Interest expenditure	D.41	3.2	2.4	2.1	2.0	1.8
One-off and other temporary measures		0.2	0.4	0.4	0.3	0.2
Potential GDP growth (%)		1.6	2.1	2.4	2.4	2.6
Contributions:						
- labour		0.7	0.9	1.0	0.8	0.8
- capital		0.1	0.2	0.4	0.6	0.7
- total factor productivity		0.8	0.9	1.0	1.0	1.0
<b>Output gap</b>		<b>-1.2</b>	<b>0.3</b>	<b>1.1</b>	<b>1.2</b>	<b>1.2</b>
Cyclical budgetary component		-0.6	0.1	0.5	0.5	0.5
Cyclically adjusted balance		-1.3	-1.0	-0.7	-0.3	-0.1
Changes in cyclically-adjusted general government balance		0.6	0.3	0.3	0.3	0.2
Structural deficit		-1.1	-0.6	-0.3	-0.1	0.0
<b>Changes in structural deficit (fiscal effort)</b>		<b>0.8</b>	<b>0.5</b>	<b>0.3</b>	<b>0.3</b>	<b>0.1</b>
<b>Average fiscal effort</b>		<b>0.6</b>	<b>0.7</b>	<b>0.4</b>	<b>0.3</b>	<b>0.2</b>

Source: Ministry of Finance

To achieve compliance and persist on the projected path, the figure below shows the movement of the general government balance, structural fiscal balance, the amount of fiscal effort and the two-year average achieved and planned fiscal effort (for partial compliance in the years until 2019 according to the rules of the Stability and Growth Pact).

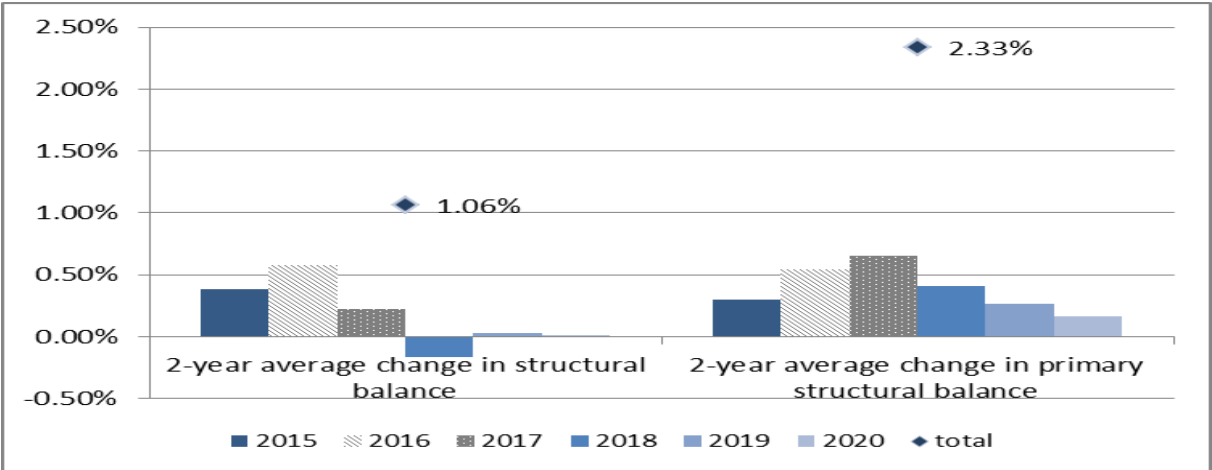
Figure 10: Partial compliance with the Stability and Growth pact, compliance with the ZFisP



Source: Ministry of Finance

In order to achieve the requested fiscal efforts, Slovenia must pursue a medium-term objective (MTO), and thus achieve minimum fiscal consolidation starting in 2015 in a total amount of 2.33% of GDP. If we evaluate the primary structural fiscal balance, the respective amount is 1.06% of GDP. According to the figure below, we may conclude that Slovenia is progressing towards the medium-term objective on the projected path, particularly if we take into account the two-year averages of the fiscal effort.

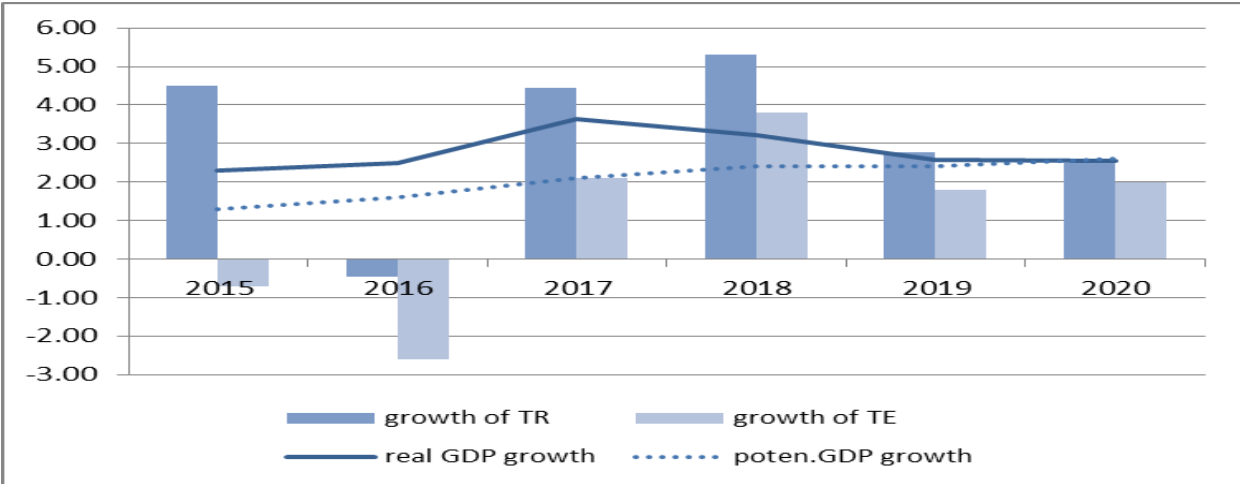
Figure 11: The interim change in the (primary) structural fiscal balance and required fiscal effort (in % of GDP)



Source: Ministry of Finance

When meeting the commitments of the Stability and Growth Pact and the Fiscal Rule Act during the transitional period when the medium-term objective has not yet been met, Slovenia follows the requirements. As displayed in Figure 12 below, we thus observe that growth in general government expenditure lags behind growth in general government revenue and potential output, so that a share is always 'saved' or earmarked for approximation to the medium-term objective. The target scenario is also based on the assumption that potential GDP growth is lower than real GDP growth, or the negative output gap by 2017, while afterwards Slovenia will reach a two-year average of the required fiscal effort and partially comply with the rules of the Stability and Growth Pact in pursuing the MTO.

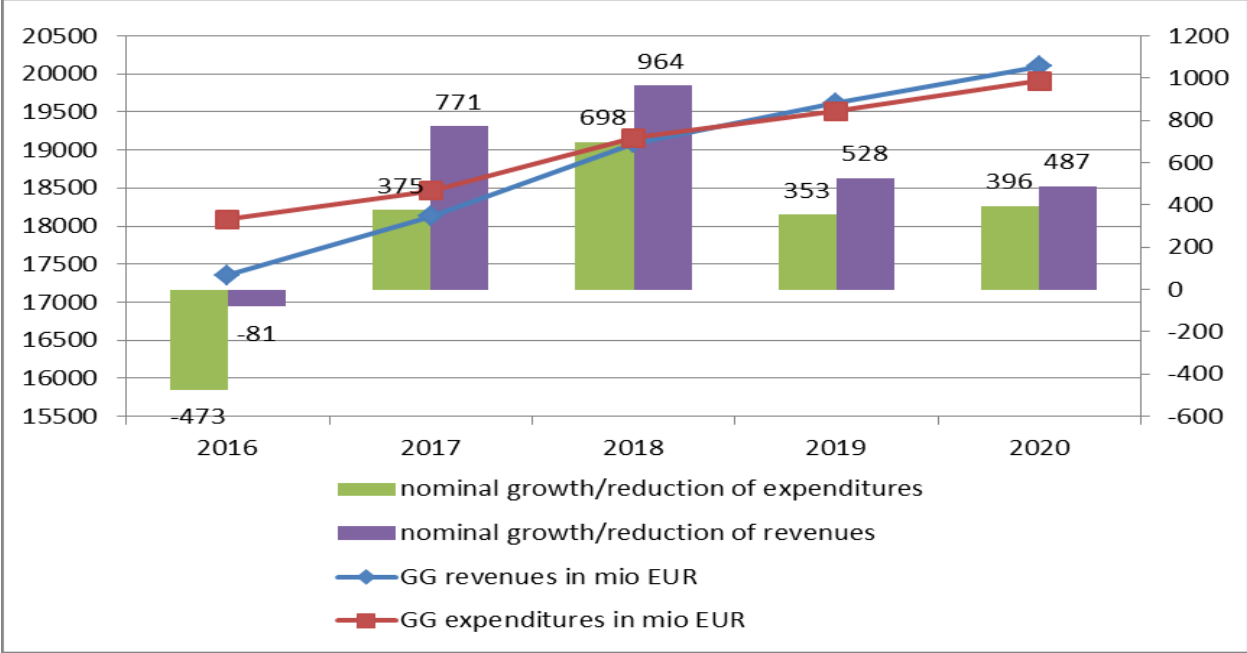
Figure 12: Growth in general government revenue, expenditure, real and potential GDP growth, in %



Source: Ministry of Finance

The figure below shows the changes needed in general government expenditure to achieve the objectives of public finance in order to be compliant with the fiscal rule. The amounts of increase in revenue/expenditure from 2017 onwards are shown in EUR million on the right axis, where the increase in expenditure lags behind the increase in revenue.

Figure 13: General government revenue and expenditure, and necessary changes in general government expenditure in EUR million



Source: Ministry of Finance; existing methodology of the EC; calculations of the MF.

An additional criterion to verify compliance with the Stability and Growth Pact is a somewhat recast criterion of expenditure benchmark (or expenditure rule). According to the extended Stability and Growth Pact, the assessment of approximation to the medium-term objective, in addition to the fiscal effort, must also take into account the growth in expenditure in comparison with potential GDP growth<sup>6</sup>. The growth in general government expenditure (expenditure benchmark) requires a reduction in so-called cleared (non-cyclic) expenditure. Thus, all expenditure that is not ‘under government control’ (they are cyclic) are eliminated from general government expenditure: unemployment benefits, interest, EU funds balanced with EU revenue, gross fixed capital formation – an average. Then, we take into account/reduce nominal expenditure for an incremental increase in revenue (additional revenue which constantly increases the base), and according to the rule, we also subtract one-off expenditure. Then we calculate the nominal growth rate or reductions in the cleared expenditure, which we adjust to the deflator from the 2016 Spring forecast (t-1) and obtain the real rate.

Slovenia complies with the expenditure rule, which determines the highest permitted real or nominal level of expenditure, since by taking into account the manner of calculation, the required reduction is -0.14 (based on the convergent margin to achieve 0.6% of GDP of the fiscal effort and a 10-year Slovenian average of potential GDP growth).

<sup>6</sup> The expenditure growth rate should not exceed potential GDP growth, unless the surplus is balanced with discretionary revenue measures. This will enable the approximation to the target structural fiscal balance. If expenditure increases faster than potential GDP, the structural fiscal balance worsens and vice versa.

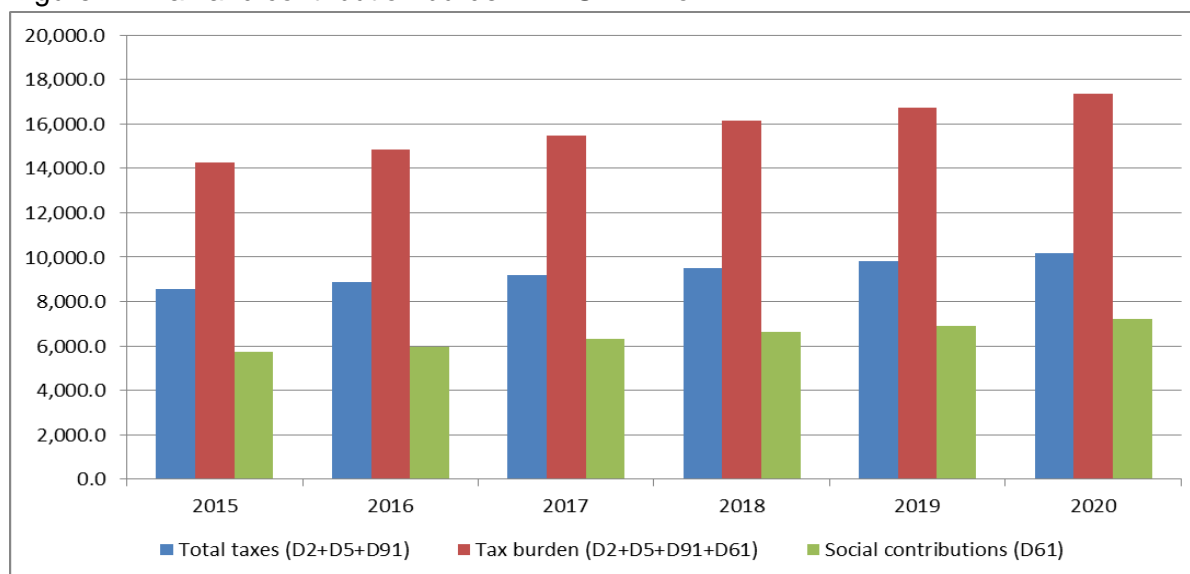


## 2.2. General government revenue

General government revenue fell 1.6% in 2016 compared to the previous year, but was in particular influenced by lower revenue from EU funds, which also reflected in lower expenditure. Total revenue from taxes increased by 4.3% in 2016, of which revenue from taxes on income and property increased by 6.9% and revenue from taxes on production and imports by 2.9%. Revenue from social contributions increased nominally by 4.3% in the same comparison. Slovenia also recorded an increase in non-tax revenue, in particular arising from the more favourable performance of companies in which the Republic of Slovenia has a share and is entitled to profit sharing.

Due to the favourable situation in the labour market and movements in the wage bill, revenue from income tax in 2016 increased by 4.7%, while revenue from social contributions increased nominally by 4.3%. The outturn of value added tax was somewhat below expectations, which is to a great extent due to the already mentioned lower investment activity of the government. Higher growth was recorded in revenue from excise duty (2.4%), since a stable economic environment and recovery in the labour market influenced the quantities of energy sources sold. Due to the changed situation in the capital market and interest rates, a 47.7% increase was recorded for revenue from interest. Part of the increase in this revenue is attributed to the accumulated interest of an additional issue of bonds of the Republic of Slovenia for the purpose of debt management transactions.

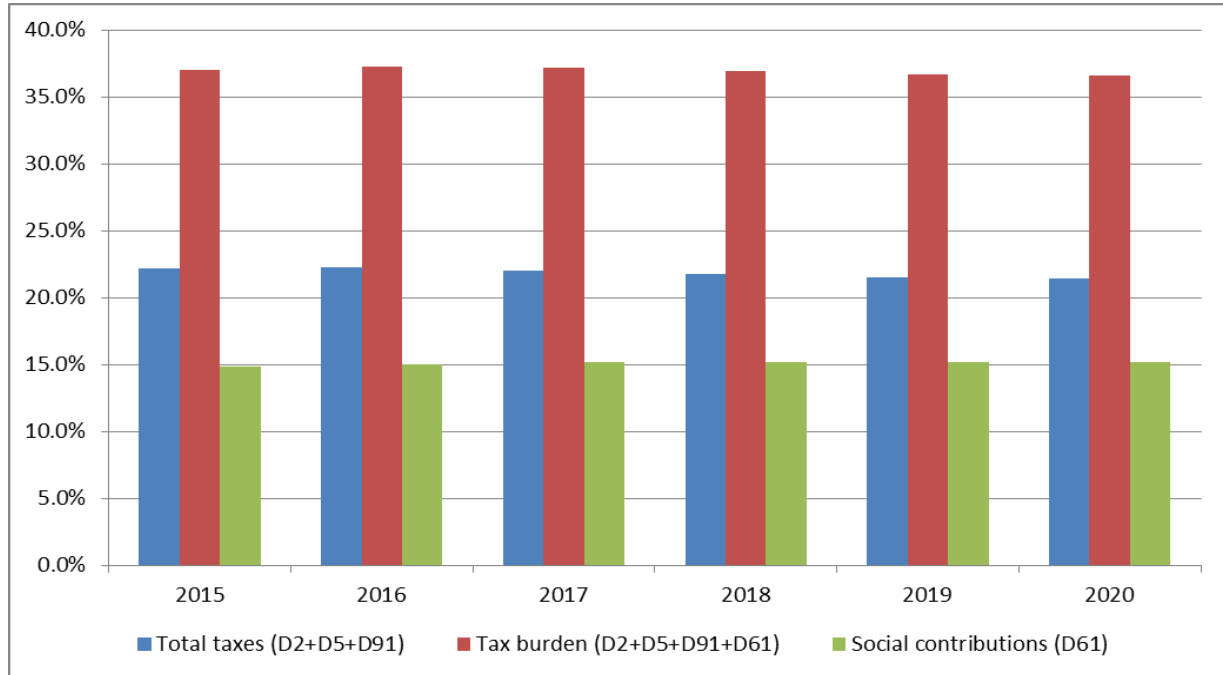
Figure 14: Tax and contribution burden in EUR million



Source: Ministry of Finance

Revenue from profit participation and dividends and surpluses of revenue over expenditure in 2016 were 5.8% higher, which we attribute to higher and stable economic growth and efficient state asset management, which complies with the Slovenian Sovereign Holding Act.

Figure 15: Revenue of four public finance budgets (consolidated) in % of GDP



Source: Ministry of Finance

#### - Tax restructuring

In 2016, a series of activities was focused on finding solutions to unburden labour within the scope of restructuring tax burdens. This means that the need to reduce the tax burden on labour demanded the preparation of countermeasures to achieve a neutral effect on public finances and thus prevent direct interference in other rights and liabilities financed from public funds. The adopted Act amending the Personal Tax Act and Act amending the Corporate Income Tax Act stipulate the measures to reduce the tax burden on labour and measures to replace the lost revenue. The solutions which provide for a reduction of the tax burden on labour are set by introducing:

- I) special taxation of a part of the wage for operational performance;
- II) change in the scales for personal income tax assessment; and
- III) increase of the income threshold for additional tax relief.

The measures reducing the tax burden on labour disburden taxable persons with a comparatively higher personal income tax burden, which causes jobs to be preserved and created in fields which were moved abroad due to the high tax burden, which on the other hand, this will also have a positive impact on companies' productivity and efficiency.

The Act amending the Corporate Income Tax Act provides for the relocation of the effects of higher revenue from corporate income tax to disburden labour, which is expected to have better effects on economic growth and competitiveness, according to the current tax structure. In the period before the introduction of the new property tax, we expect that the amount of the received land rent for use of building grounds will increase due to the improved system of land rent for use of building grounds, which will also enable an easier transition to the new property taxation system.

Eliminating administrative obstacles, non-competitive elements of the tax system and introducing measures to improve the efficiency of collecting public taxes will lead to the adoption of new measures in the field of tax in 2017 and 2018.

- Non-tax revenue management

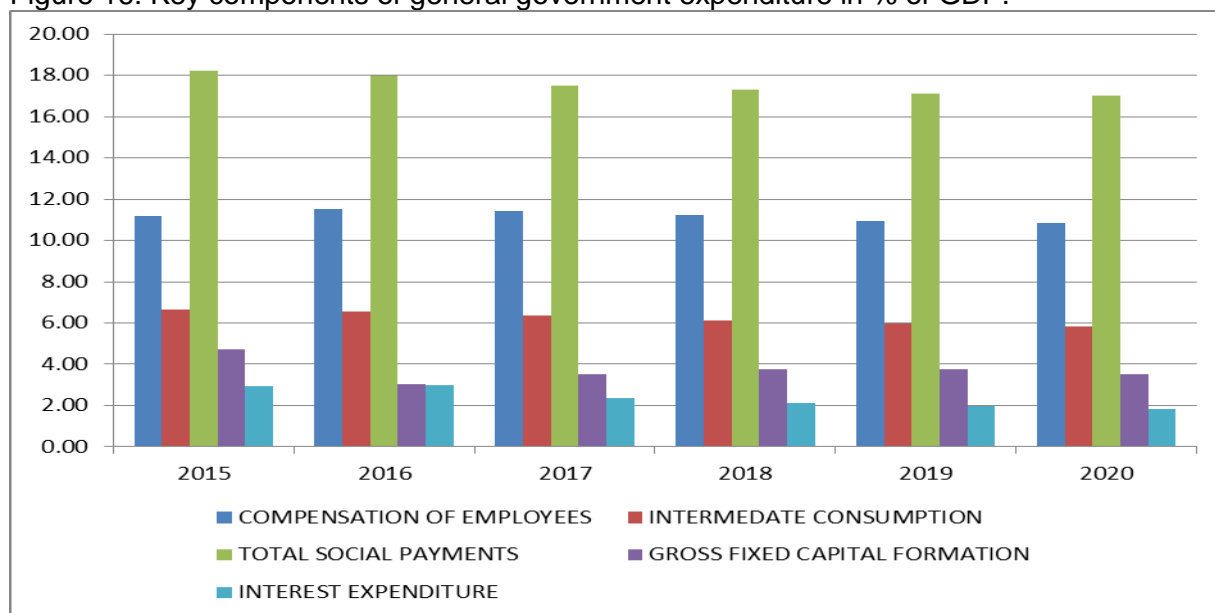
State asset management is implemented pursuant to the Slovenian Sovereign Holding Act, which centralises the management system for state-owned assets and which are managed by the Slovenian Sovereign Holding (SDH) according to the principle of independence; it also manages all equity investments owned by the Republic of Slovenia, namely on its behalf and for its account. SDH is implementing the privatisation procedures of 15 state-owned companies, which were adopted by the National Assembly on 22 June 2013, whereby 8 privatisation procedures were already concluded. The Management Strategy, adopted in 2015, stipulates further measures in the field of state-owned asset management. Pursuant to this strategy, SDH will carry out 20 privatisation procedures in 2017, and implement measures to improve the efficiency of state-owned asset management in other companies. Due to the programme of selling state-owned companies up to 2020, we expect a gradual reduction of revenue from dividends. Due to the ECB interest rate policy and the specifics of financial markets, we expect no significant changes in the field of revenue from interest received in the next years.

### **2.3. General government expenditure**

In 2016, the development of general government expenditure was characterised by significantly lower spending on gross fixed capital formation, which is why Slovenia recorded 2% lower expenditure at the general government level than in 2015. Compared to the GDP, the general government expenditure was 45.5%. In terms of the purposes of use, expenditure on gross fixed capital formation was reduced by 33.6% during the transition to the new financial perspective. In 2016, on the other hand, Slovenia recorded an increase in expenditure on compensation for employees by 6.3%, social benefits by 2.6% and pensions by 1.2%. Intermediate consumption increased by 1.3%. In 2016, expenditure on interest increased nominally, namely by 0.9%, and was 3.2% of GDP, which is 0.1 percentage point of GDP less than in 2015.

General government expenditure in the amount of EUR 18.460 billion is planned for 2017, which is 2.1% more than the realisation in 2016. Its share of GDP is thus reduced from 45.5% to 44.3% of GDP. The growth in general government expenditure then increases slower than nominal GDP by the end of the programming period, and therefore its share of GDP is gradually reduced to below 42% of the estimated GDP in 2020. This is compliant with the objective of attaining a gradual reduction in general government balance in addition to the planned higher revenue.

Figure 16: Key components of general government expenditure in % of GDP.



Source: Ministry of Finance

- Compensation of employees

Compensation of employees in the structure of general government expenditure is somewhat reduced in the programming period to below 11% of GDP and grows slower than nominal GDP.

Representative public sector unions and the Government of the Republic of Slovenia concluded the *Agreement on measures for labour costs and other measures in the public sector* in December 2016. The measures relate to wages and other labour costs and some other measures in the public sector for 2017, and partly also for 2018. Compensation of employees will therefore be 3.8% higher in 2017, and 3% in 2018. Thus, the Government succeeded in partially stopping the rise in labour costs by a gradual relaxation of measures that applied since 2009. While the negotiations on other relaxations will continue, some measures are thus already relaxed (value of wage grid, promotions, partially annual leave allowance and supplementary pension insurance premiums) and will influence particularly the rise in labour costs after 2018. In its negotiations with the unions, the Government of the Republic of Slovenia will continue to strive to conclude a multiannual agreement to make general government fiscal planning predictable and stable.

- Social benefits

According to the assessment, the volume of expenditure on social transfers (pensions excluded) will increase by 1.9% in 2017 and by 3.9% in 2018. This rise, which is slower than the nominal growth of the GDP, is mainly a consequence of some changes in the field of financial social assistance (pension support for a wider group of pensioners) and social benefits in kind (more beneficiaries of school meals, higher expenditure on medical products and medical technical devices).

With the improved situation in the labour market, transfers for the unemployed should fall by 12.5% in 2017, and then maintained at the same level until the end of the programming period.

Expenditure on pensions increase by 2.1% in 2017 due to the already implemented 1.15% pension indexation in February and according to the foreseen growth in the number of pensioners. The decision to pay an annual bonus to all pensioners also affects the growth. Pension indexation is foreseen for 2018 as per the Pension and Disability Insurance Act, namely according to the formula of 60% of average wage growth and 40% of inflation, which means indexation of 2.7% according to current assessments. At the same time, the payment of a "full" annual bonus in the amount of EUR 140 million is foreseen. Thus, pension costs will rise by 4.4% altogether. The provision of a minimum pension in the amount of EUR 500 per month is also foreseen for 2017 and 2018, namely for all pensioners with a full period of years of service upon retiring.

- Interest expenditure

Interest expenditure, which fluctuated around 3% of GDP in recent years, will gradually decrease to the assessed level of around 2% of GDP from 2017 on. Accordingly, active debt management and a gradual reduction of general government debt are foreseen. Expenditure on interest is thus expected to decrease by 0.8% of GDP in 2017.

- Subsidies

Granting subsidies will be stimulated again by initiating the drawing of funds of the European perspective in 2017 and 2018. The majority of subsidies will be paid in the field of agriculture, while the highest increase is expected in the field of research, development and innovations and employment.

- Gross fixed capital formation

In 2017, gross fixed capital formation financed from public funds will be increased by 20% to 3.5% of GDP in comparison to 2016, and by 12.9% to 3.8% of GDP in 2018. Given the major drop in 2016, an increase is expected. The level of gross fixed capital formation from public funds is foreseen at EUR 1.4 to 1.5 billion per year, and still does not reach the levels before the crisis. It is also anticipated that the drawing of EU funds supporting 'classic' investments into supporting 'soft content', i.e. investing in people, knowledge and development, will be redirected. Slovenia plans key investments in transport and transport infrastructure (national roads, railway infrastructure, train sets, sustainable mobility), energy (HPP on the Lower Sava River) and to establish a production zone for a major foreign investment.

Table 13: No policy change projections

	ESA Code	2016	2017	2018	2019	2020
		in % of GDP				
Total revenue at unchanged policies	TR	43.6	43.5	43.6	42.9	42.0
Taxes on production and imports	D.2	14.8	14.7	14.4	14.1	13.8
Total expenditure at unchanged policies	TE	45.5	45.1	44.7	43.8	42.9
Compensation of employees and intermediate consumption	D.1+P.2	18.1	17.8	17.5	17.4	17.0
Social benefits	D.62 +D.631	18.0	17.6	17.5	17.4	17.3
Net lending/borrowing	B.9	-1.8	-1.5	-1.1	-0.9	-0.9

Source: Ministry of Finance

In terms of the respective measures, the evaluated measures and difference from the targeted gradual reduction of the general government balance in addition to the planned higher revenue may be summarised in the measures related to the compensation of employees and social benefits from 2018 on. In 2019 and 2020, these are joined by the loss of a more efficient collection of land rent for use of building grounds as a consequence of a more efficient model of real estate valuation in a scenario without changes in policies.

- Migration costs, claiming one-off costs

Due to the unforeseen migration costs (in 2015), the costs of influx of migrants also increased in 2016 (realised in the amount of EUR 27.5 million). Administrative costs (wages and contributions) amounting to EUR 8.9 million were the most notable in the cost structure (monitored by government reports). The other part is attributed to the costs of non-profit organisations, local communities and other operating costs (EUR 10.3 million), while transport costs, health-care costs, initial entry costs (social work centres, leasing and similar) account for EUR 6.7 million. Meanwhile, the contribution for Turkey to tackle migrant crisis was EUR 1.6 million. In the unstable situation, we assess that costs related to migrants will remain at the same level in 2017. These costs also include the costs incurred in countries on the external Schengen border due to the implementation of EU rules related to an increased level of official controls.

On the basis of assessments of migrant flows, migration costs in 2017 are estimated at 0.07% of GDP (EUR 30 million), which we want to enforce as the derogation 'clause' from the MTO or the calculation of structural effort in accordance with the agreed manner at the EU level.

In 2016, the one-off expenditure was EUR 39.4 million (settlement of unpaid old foreign-currency deposits, which were transferred in the 1990s to Croatian banks and paid to savers (unpaid deposits), payment of interest). We assess that one-off expenditure will increase to around 0.35% of GDP in 2017 and 2018 due to lawsuits (denationalisation, investment dispute and other) and payments of liability interest related to foreign-currency savers, which is expected to double in 2017 in relation to 2016.

## **2.4. General government debt**

Consolidated gross government debt at the end of 2016 amounted to EUR 31,677 million or 79.7% of GDP, which was EUR 394 million less than in 2015 when amounted EUR 32,071 million or 83.1% of GDP. Central government debt in 2016 amounted to EUR 31,122 million or 78.3% of GDP and represents the main decrease of government debt. Local government level debt amounted to EUR 758 million or 1.9% of GDP, which was EUR 28 million less than in 2015 when amounted EUR 786 million or 2,0 % of GDP. In 2016 social security funds generated a very low debt. It amounted to EUR 1 million.

Following the Public Finance Act, financing of the central government budget execution and debt management operations, in a given fiscal year allows the government to borrow, within

a given fiscal year, for financing the deficit of central government budget including the Lending and Repayment Account deficit and financing debt repayments in the current and following two fiscal years. Due to favourable market conditions at debt capital markets in 2016 the Republic of Slovenia has used the possibility of pre-financing in a total amount EUR 700 million while following all the requirements from the SGP Debt rule. In the following years, the Republic of Slovenia aims to reduce the pre-financing up to EUR 500 million.

After further increase of general government debt from 2013 to 2015, the debt ratio fell to 79.7% of GDP at the end of 2016. In the next medium term, further decrease of general government debt is expected. The debt ratio is expected to fall to 67.5% of GDP at the end of 2020. The debt dynamics will be driven primarily by GDP growth and the central government debt dynamics. Local government debt is expected to remain at 2% of GDP.

Table 14: General government debt development

in % of GDP	ESA Code	2016	2017	2018	2019	2020
1. Gross debt		79.7	77.0	74.3	70.9	67.5
2. Change in gross debt ratio		-3.6	-2.7	-2.7	-3.4	-3.4
3. Primary balance		1.4	1.6	1.9	2.2	2.1
4. Interest expenditure	EDP D.41	3.2	2.4	2.1	2.0	1.8
5. Stock flow adjustment		-2.5	0.1	0.8	-0.1	-0.1
p.m. implicit interest rate on debt		3.7	3.4	3.3	3.2	3.2

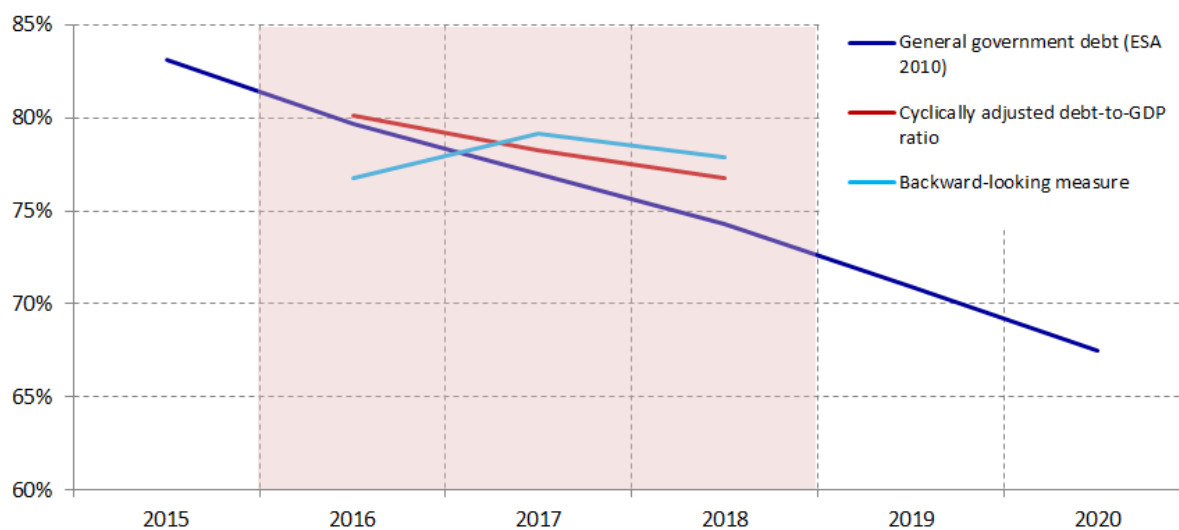
Source: Ministry of finance

Member states, which exit excessive deficit procedure, need to comply with the diminishing debt rule, which states that a member state is non-compliant with the debt requirement, if its general government debt is greater than 60% of GDP and is not sufficiently diminishing and approaching 60% of GDP at a satisfactory pace. The concept of "sufficiently diminishing" and the "satisfactory pace" are defined in Regulation 1467/97 as being fulfilled, if the differential of the debt with respect to the reference value has decreased over the previous three years at an average rate of 1/20th per year as a benchmark. The Regulation then specifies three conditions under the Debt rule relating to various different benchmarks: backward-looking measure; forward-looking measure and cyclically adjusted debt to GDP ratio.

Since the Republic of Slovenia exited EU excessive deficit procedure in 2015 with deficit of 2.9% and with achieving the peak of general government debt of 83.1% of GDP, it now needs to comply with the EU rules tackling excessive debt procedure.

While transitional arrangements are in place until end 2018, the projections in figure below show that the debt rule would be met from 2016. The debt ratio would be below the forward-looking debt benchmark, i.e. the benchmark for 2016 requires a forecasted debt to GDP ratio in 2018 to be lower, which is fulfilled. Forward-looking benchmark uses forecasts made by the European Commission on the basis of unchanged policies. As it is shown below from 2017 on, both the actual and cyclically adjusted debt ratios comply with the backward looking benchmark.

Figure 17: General government debt development (% GDP) from SGP Debt rule perspective



Source: Ministry of finance

### 3. QUALITY OF PUBLIC FINANCES and IMPACT OF STRUCTURAL REFORMS

Some key instruments were introduced recently to improve the quality of public finances. In March 2017, after adopting the Fiscal Rule Act, the National Assembly confirmed and appointed the Fiscal Council. As an independent and autonomous state authority, it will prepare and publish assessments regarding the compliance of the public finance policy with fiscal rules, regulations governing public finances, or EU regulations relating to economic governance in Member States.

The amendment to the Public Finance Act is being prepared in order to continue the progress of the system of public finances. The proposed act emphasises medium-term planning. The result of strategic budget planning is a medium-term fiscal framework for implementing the principle of a medium-term balance of revenue and expenditure for all general government units budgets without borrowing. For this purpose, using the proposed provision, a new document entitled 'The national development policy programme' has been drafted, which includes developmental guidelines and those government priorities that are crucial for the development of Slovenia. In addition, a medium-term fiscal policy is introduced; with both documents, we follow the precautionary principle when planning the general government budgets. The proposed act places even more focus on the significance of the programming budget, and thus Slovenia undertakes to implement budgetary funding pursuing objectives, results and progress. It determines a uniform arrangement of financing indirect users from the budget, the mandatory preparation of two annual budgets at the local level and mandatory preparation of two annual financial plans for all budget users. It limits the borrowing of indirect budget users, and determines a partial centralisation of the internal audit of public finances, since this improves control. The definition of "public funds" is also new, and, in addition to general government revenue and expenditure, includes all revenue and expenditure of budget users and assets of public finance budgets and budget users.



Within the scope of the measures enhancing the fiscal strategy, in 2015 and 2016 Slovenia presented reviews of expenditure for selected fields for the first time. The Government took note and addressed the proposed measures in the field of social security and pension protection, while two reviews of expenditure on education and culture are in the preparation phase. Expenditure will continue to be reviewed in the future. In this way, we will systematically review individual fields of public expenditure, and provide arguments to support proposed measures to improve the effectiveness of public spending in selected areas.

In terms of the impact on public finances, it should be mentioned that Slovenia undertook a series of important measures and structural reforms in the past years. Key measures included the recapitalisation of banks and the transfer of non-performing bank assets to the Bank Asset Management Company, and also the renewal of legislation in the field of managing insolvency procedures, which enabled the restructuring of companies' debts, significantly improved domestic and foreign trust in the Slovenian economy and changed the direction of gloomy GDP and employment forecasts. This is also indicated by the unusually high deviation of GDP realisation in 2014 from the forecast for the respective year which was prepared in autumn 2013. Sustainable and gradual fiscal consolidation also had an important impact on enhancing confidence in the economy. Among the structural reforms, Slovenia also made major changes in the field of labour market, pensions and the business environment. These reforms directly address the needs of the business environment, particularly the labour market, and their effects are visible over a longer period. Their content and assessment of their impact on the potential output are briefly presented below.

- Pension system reforms which affect the labour market: increasing the retirement age

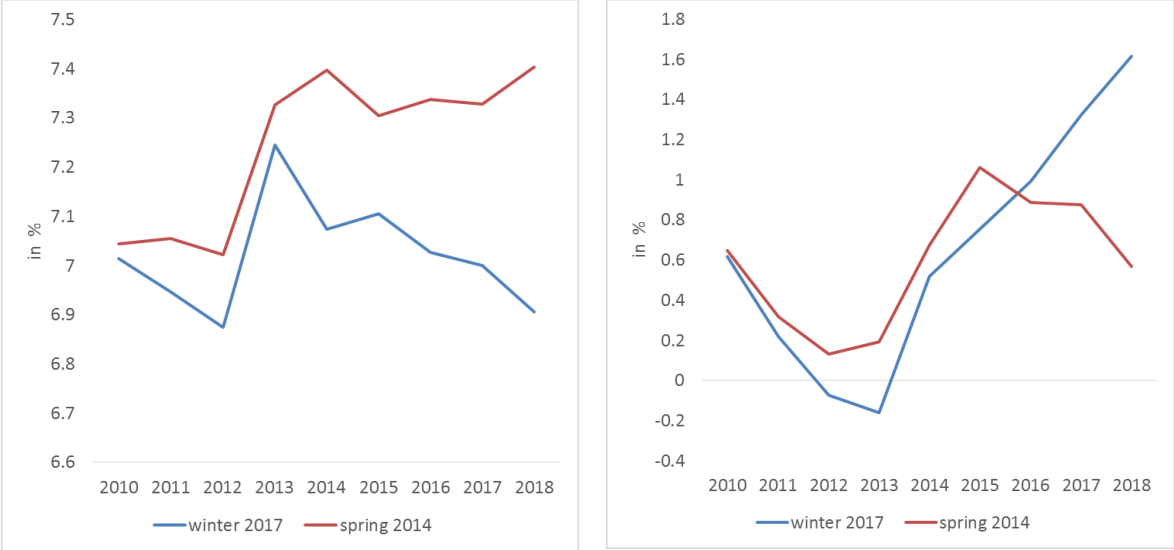
The pension reform started in January 2013. The two key measures of the reform which affect the labour market are the raised retirement age and incentives to employ older people, thus increasing the labour supply. The statutory retirement age for men and women was raised to 65 years (before the reform, it was 63 years for men and 61 years for women) in addition to at least 15 years of insurance period. The conditions for early retirement were also tightened by increasing the required service to 40 years and the lowest retirement age to 60 years. Based on the public discussion on the White Paper considering further measures in the field of pension system, consultation with social partners will take place regarding measures that could be introduced as a priority soon after the end of transitional periods of the current pension reform.

- Labour market reforms: increased flexibility and reduction of labour market duality

In terms of potential output, the labour market reform is important, since it increases employment flexibility and reduces labour market duality, which together improves the efficiency of labour force reallocation in Slovenia. The recast legislation on the labour market started to be implemented in April 2013. The purpose of the change is to improve labour market flexibility and reduce its duality. In April 2014, the reform of so-called "student work" entered into force, which further reduced labour market duality in Slovenia. Regarding employment flexibility, the legislation on the labour market simplified procedures for signing and terminating employment contracts and reduced the costs of dismissal of workers and employees employed for an indefinite period (notice periods and severance). To reduce labour market duality within the scope of this reform, the differences in the rights arising from

different types of employment contracts were reduced and new restrictions on signing fixed-term employment contracts were introduced.

Figure 18: NAWRU alternative assessments and assessments of potential growth based on NAWRU assessments



Source: European Commission

- Impact of reforms on potential output

The pension system reform increased the level of employment of the elderly population, while the labour market reform enhanced the employment flexibility and reduced the labour market duality. We assess that the reforms contributed to reducing structural unemployment measured by the unemployment rate, which does not put additional pressure on wage growth (NAWRU), and thus also on the higher growth of potential output.

Taking into account the restrictions in the breakdown of unemployment to structural and cyclical factors (the latter are also included in the NAWRU assessment), we assess that all labour market reforms contributed to an average reduction in structural unemployment by a maximum of 0.3 percentage points, which is in line with the increase in potential output growth.

**4. SENSITIVITY ANALYSIS**

**4.1. Sensitivity analysis of general government balance to movements of GDP**

The key risks of forecast economic trends derive from the international and domestic environment. Negative risks in the international environment relate to international political uncertainty due to the results of elections in some important trade partners in the EU, EU operation and measures in the USA. In the domestic environment, the risks are associated with investment dynamics and household consumption. Private investment can increase if lending is revived. With slower dynamics of drawing EU funds than forecast, state

investments may decrease. Household consumption may be higher than expected if trends in the labour market are even more favourable (IMAD, 2017).

The sensitivity analysis displays possible fluctuations in general government balance relating to fluctuations in economic activities. The analysis foresees higher or lower economic growth from the basic forecast used in the Stability Programme calculations. The first scenario assumes economic growth higher than 0.5 of a percentage point per year in the period from 2018-2020. The second scenario anticipates lower economic growth, by 0.5 of a percentage point.

Table 15: Sensitivity analysis of general government balance to GDP movements (deviations from the basic projection)

	2018	2019	2020
Increased GDP growth by 0.5 percentage point – deviation from the basic projection			
Revenue	-0.02	-0.08	-0.11
Expenditure	-0.21	-0.43	-0.63
Balance	0.18	0.36	0.52
Reduced GDP growth by 0.5 percentage point – deviation from the basic projection			
Revenue	0.04	0.06	0.08
Expenditure	0.23	0.42	0.62
Balance	-0.18	-0.36	-0.54

Source: Ministry of Finance

Note: The analysis foresees 0.99% sensitivity of revenue (in relation to revenue from taxes and social contributions (and - 0.04% sensitivity of expenditure. The GDP deflator, derived from the 2017 Spring Forecast, remains constant in both scenarios.

In the case of higher GDP growth, the general government balance would improve by 0.18 of a percentage point of GDP in 2018 and by 0.52 of a percentage point of GDP in 2020. Lower economic activity could cause the general government balance to worsen in comparison with the basic scenario. In 2018, the balance would decrease by 0.18 of a percentage point of GDP or 0.54 of a percentage point in 2020.

#### 4.2. Debt sensitivity analysis

Basic influence on the level of borrowing costs and costs of servicing the existing debt in the future is expected to come from ECB monetary policy through quantitative easing program (PSPP), the level of ECB main refinancing operations fixed rate (0%), which is expected to stay such at least by the end of the year 2017, and deficit volumes of the state budget. In the sensitivity analysis we assume that the ECB will keep the interest rate at the current level in the near future, followed by a gradual increase. The impact of the term structure of interest rates is already embedded in the baseline scenario and additionally increased by 0.5 percentage points in the sensitivity analysis

In case that the ECB interest rate increases by 0.5 percentage points in 2017, this leads to an increase of costs of new borrowing by 0.0384 percentage points of GDP in 2018 and 0.0697 percentage points of GDP in 2019. In this case the state budget debt would increase by 0.0343 percentage points in 2018 and 0.0274 percentage points in 2019. In case that the government deficit increases by 1 percentage point in 2017, the interest costs as a percentage of GDP would increase by 0.0143 percentage points in 2018 and 0.0183 percentage points in 2019.

Table 16: Sensitivity of interest payments and debt repayments of the state budget (in % of GDP)

	Change in ECB interest rate		Change in deficit		Change in ECB interest rate and deficit	
	Interest	Debt	Interest	Debt	Interest	Debt
Year	In percentage points					
2017	0.0168	0.0168	0.0000	1.0000	0.0168	1.0168
2018	0.0384	0.0343	0.0143	0.9531	0.0527	0.9874
2019	0.0697	0.0274	0.0183	0.9133	0.0880	0.9407
2020	0.0931	0.0200	0.0197	0.8749	0.1128	0.8949

Source: Ministry of finance

In October 2012, May 2013 and February 2014 Republic of Slovenia issued all together 9.25 billions US dollar bonds while at the same time executed USD-EUR cross currency swaps to fully hedge (i.e. for interest and principal repayments) against the exchange rate risk.

Since 2016 the Ministry of Finance has carried out four liability management transactions of buying back US dollars bonds in the total amount of USD 3,215,608,000 (i. e. one third of the total USD debt portfolio exposure). Simultaneously, a cheaper euro bonds were issued to facilitate buybacks with a significant interest savings for the state budget and ultimately with the overall positive net present value of the carried out transactions.

The impact of change in the floating interest rate to the existing state budget debt, expressed as a percentage of GDP, is minimal as the bulk of government debt has fixed interest rate, thus the change in interest rate affects primarily new borrowing. The share of debt with fixed interest rate is estimated at 98.9% in 2017.

#### 4.3. Risks for fiscal forecast

##### - Risk assessment matrix

The risk assessment matrix states the most likely risks and the assessment of the probability that could have an impact on the estimated economic growth. The major negative risks from the international environment are particularly associated with the results of elections in some trade partners and the measures relating to Brexit and the new administration in the USA. In the domestic environment, the risks mainly relate to the dynamics of public investments, while the possibility of even higher growth depends on private investments and household consumption.

Table 17: Deviation of the risk assessment matrix from the forecast economic growth

Risk	Probability	Impact
<b>International environment</b>		
Future framework of EU operation (Brexit, results of elections in some Member States and trade partners, etc.)	Medium	Measures associated with Brexit can affect the share of exports in the medium-term Unfavourable election results could also reduce the growth in demand of Slovenian trade partners.
New measures of the USA administration	Medium	The results of some measures announced by the new administration and their effects are very uncertain.
A significant change in oil prices	Low	The rise in oil prices and other raw materials could also be higher than estimated.
<b>Domestic environment</b>		
Political uncertainty	Medium	National Assembly elections are scheduled for 2018.
Investment dynamics	Medium	There is uncertainty in the future dynamics of private investments, which could be higher than in the basic scenario if the credit cycle is initiated, and uncertainty in the business environment is further reduced. This year, state investments could also be lower if the dynamics of drawing EU funds are different.
Change in household consumption (disposable income, consumer confidence)	Medium	There are positive risks in final consumption that mainly arise from favourable trends in the labour market. Higher employment could lead to a higher increase in disposable household income. Average household consumption could cause higher price rises than anticipated.

Source: Ministry of Finance

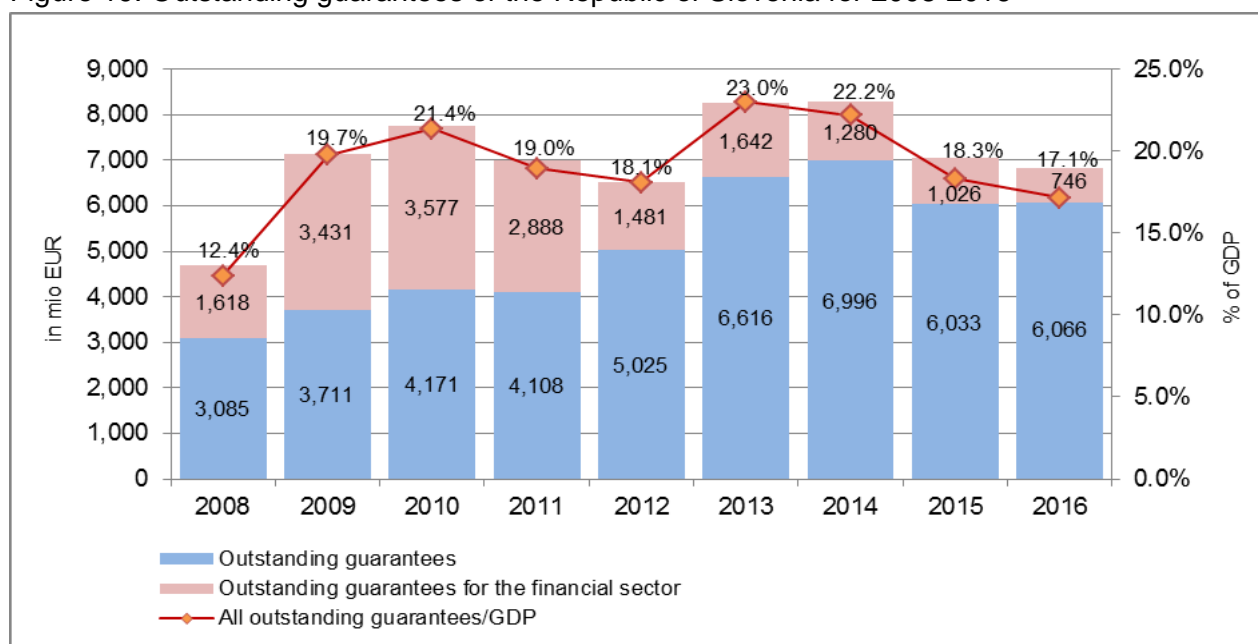
#### - Guarantees

According to the Constitution, the granting of guarantees in the Republic of Slovenia is possible only by virtue of a law. In the system of guarantees of the Republic of Slovenia, two types of acts have been developed, general and special. A general act regulates the granting of government guarantees to a wider range of recipients. The Act Governing the Rescue and Restructuring Aid for Companies in Difficulty is an example of a general act. Special acts are intended for specific recipients, e.g. the acts on guarantees to Družba za avtoceste v Republiki Sloveniji, d.d. (Motorway Company of the Republic of Slovenia), Slovenski državni holding, d.d. (Slovenian Sovereign Holding), etc.

The Republic of Slovenia may issue government guarantees to public or private sector entities. Most of the guarantees in the private sector were granted to companies in difficulties. Relatively high levels of this type of guarantee are being called on, while no guarantees for the public sector are being called on. The issuing of government guarantees by the Republic of Slovenia is regulated by a systemic act. The annual quota is set by the act governing the execution of the state budget, while the state may also issue guarantees outside the quota if this is permitted by an individual act.

The balance of guarantees of the Republic of Slovenia as of 31 December 2016 is EUR 6,813 million, of which the balance of government guarantees for the liabilities of financial sector (S 12) is EUR 746 million.

Figure 19: Outstanding guarantees of the Republic of Slovenia for 2008-2016



Source: Ministry of Finance

Table 18: Projection of outstanding guarantees of the Republic of Slovenia for the 2017-2020 period

	Balance as of 31 December 2017		Balance as of 31 December 2018		Balance as of 31 December 2019		Balance as of 31 December 2020	
	in EUR million	in % of GDP	in EUR million	in % of GDP	in EUR million	in % of GDP	in EUR million	in EUR million
Guarantees of the Republic	6,055	14.5%	5,069	11.6%	4,264	9.4%	3,683	7.7%
including: financial	669	1.6%	669	1.5%	669	1.5%	669	1.4%

Source: Ministry of Finance

Note: \* In accordance with SKIS classification, legal entities with a SKIS mark S12 are included.

The data below display the assessment of outstanding guarantees of the Republic of Slovenia at the end of the year, which was prepared on the basis of certain assumptions relating to the repayment of existing guarantees and approvals of new ones. The planned quota for new guarantees for 2017 as per the Implementation of the Republic of Slovenia's

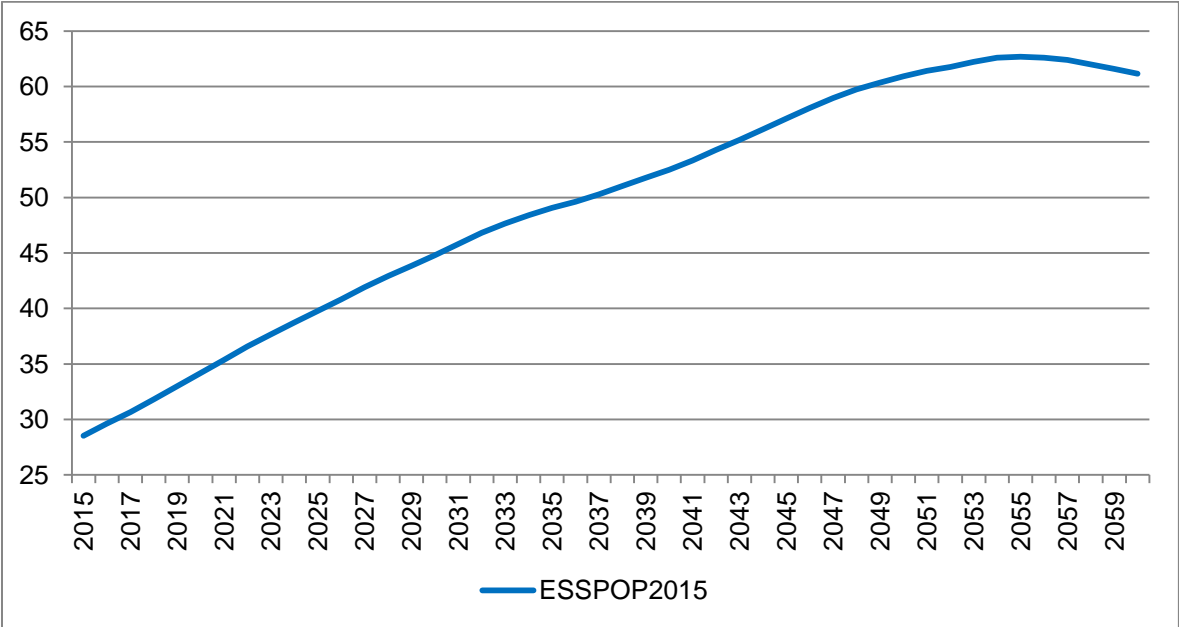
Budget is EUR 1 billion, and EUR 350 million for guarantees of SID Bank, d.d. The experience from previous years shows that the actual use of the quota is low: only 5.7% in 2015 and 14.8% in 2016, while it was not used at all for SID Bank d.d.

In 2016, EUR 0.11 million was used for the realisation of government guarantees of the Republic of Slovenia according to the Republic of Slovenia Guarantee Scheme Act, the Act on the Natural Persons Guarantee Scheme of the Republic of Slovenia and the Act Governing the Rescue and Restructuring Aid for Companies in Difficulty. For 2017, the use of funds is assessed to the maximum of EUR 5 million; the same applies to 2018.

**5. LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES**

Demographic projections and related challenges are the key elements of further development and the long-term sustainability of public finance. In 2017, new population projections were published that will also affect the new projections of expenditure related to population ageing which are being prepared at the EU level and will be published in 2018. In the final year of projections (2060), new population projections are slightly less favourable than previously, in particular due to the lower value of anticipated net migrations. The level of old-age dependency will additionally increase after 2040.

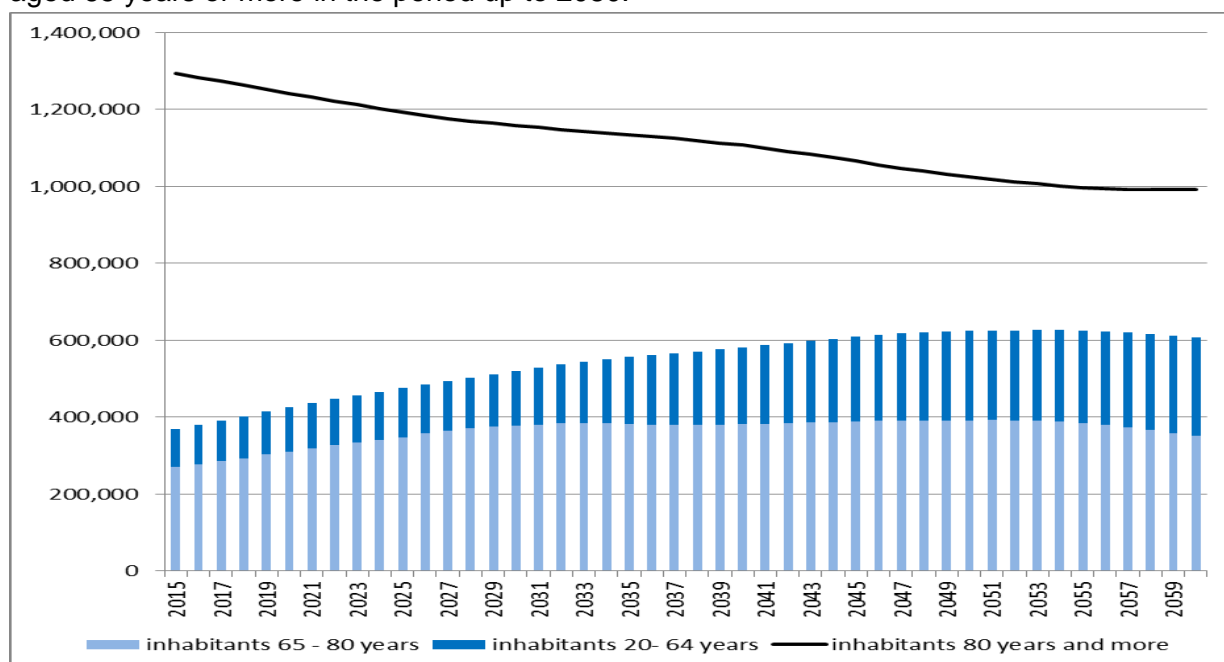
Figure 20: 2015 population projections – movement of the old-age dependency ratio (the ratio between the number of people aged 65 or older and the number of population of working age from 20 to 64)



Source: Eurostat, 2017.

According to new projections, 61 people aged 65 years or more will be dependent on 100 people of working age in 2060. The number of people aged 80 years or more is also increasing, and will comprise more than 42% of people aged 65 or more in 2060 (currently 27%). The new projections also show that the working-age population additionally will also decline after 2040.

Figure 21: Projections of developments of the working-age population and the population aged 65 years or more in the period up to 2080.



Source: Eurostat, 2017.

Table 19 shows our new model calculations of general government expenditure by 2060, taking into account the EC assumptions in the 2015 Ageing Report. The positive economic activity and labour market trends and lower number of new pensioners in recent years due to the effects of the pension reform reduced expenditure related to ageing (as a percentage of GDP) compared to the previous projection, particularly at the beginning of the period and in the medium term. Towards the end of the projection period, the amount of expenditure related to ageing is similar to previous projections, which is the result of the demographic projections described above (lower level of assumed net migrations). Again, the projections indicate the urgency of structural changes that will have an impact on long-term fiscal sustainability.

Table 19: Long-term sustainability of public finances (base year 2016), without changes in policy

<i>in % of GDP</i>	2016	2020	2030	2040	2050	2060	Difference 2060– 2010
Total general government expenditure	41.5	40.7	42.9	47.1	52.8	57.9	16.4
Total age-related expenditure	24.2	24.3	26.1	28.7	31.1	31.5	7.3
Pensions	10.9	10.8	11.8	13.9	15.5	15.4	4.4
Old-age and early pensions	7.6	8.2	9.4	11.4	12.7	12.6	5.0
Disability pensions	1.2	1.2	1.0	0.9	0.9	0.9	-0.3
Other pensions	2.1	1.4	1.4	1.6	1.8	1.9	-0.2
Health care	5.6	5.8	6.3	6.6	6.7	6.7	1.1
Long-term care	1.0	1.1	1.2	1.5	1.8	1.9	0.9
Education	5.3	5.4	5.6	5.5	5.8	6.1	0.8



Other age-related expenditure	1.4	1.3	1.2	1.2	1.3	1.4	0.0
Wage compensations	0.4	0.3	0.3	0.3	0.3	0.2	-0.1
Subsidies	1.0	1.0	1.0	1.0	1.0	1.0	0.0
State investments	2.4	2.4	2.4	2.4	2.4	2.4	0.0
Total primary expenditure	38.8	38.7	40.2	42.9	45.3	45.7	7.0
Interest expenditure	2.7	2.0	2.7	4.1	7.4	12.1	9.4
<b>Total general government revenue</b>	<b>39.8</b>	<b>40.3</b>	<b>40.1</b>	<b>39.5</b>	<b>39.2</b>	<b>39.1</b>	<b>-0.7</b>
<b>Assumptions</b>							
Labour productivity growth	0.5	1.9	1.8	1.8	1.7	1.5	1.0
Real GDP growth	2.50	2.80	1.33	1.14	1.11	1.44	-1.06
Real GDP growth per inhabitant	2.40	2.80	1.33	1.14	1.12	1.45	-0.95
Male activity rate (20-64 years)	80.7	83.9	82.8	81.8	82.6	83.0	2.3
Female activity rate (20-64 years)	71.7	75.5	77.7	76.7	77.6	78.0	6.3
Total activity rate (20-64 years)	75.4	79.8	80.3	79.4	80.2	80.6	4.6
Unemployment rate	8.0	9.0	6.6	6.3	6.3	6.3	-3.4
Share of population aged 65 years or more	18.2	20.7	25.2	28.3	30.6	30.2	12.1

Source: Ministry of Finance, Institute for Economic Research.

Note: The model includes new ESSPOS2015 demographic projections and IMAD spring assessments of economic trends from 2017 to 2022 (labour productivity, wage growth, inflation and implicit GDP deflator). After 2022, the EC assumptions from the 2015 Ageing Report are used. By 2016, the actual values are used; from 2016 on model projections are applied.

#### - Long-lived Society Strategy

The Government of the Republic of Slovenia accepted the information on the strategy and initiated a public discussion on the Long-lived Society Strategy, since wider consent and commitment of individual stakeholders are needed for its realisation (IMAD, 2017). Demographic trends require an adjustment to individual fields of society and systems, because the age structure of population is changing and life expectancy is increasing. For this reason, the vision of the strategy is to ensure welfare and quality of life under the changed demographic conditions. It takes into account important trends in the global environment, e.g. technological development (digitalisation and robotisation of society), flexibilisation of labour market and a different concept of life cycle. The new conceptual framework comprises and stimulates activities and creativity in all periods of life, emphasises health considerations and intergenerational relations.

The development goals of the strategy:

- welfare of all generations, and decent and safe ageing in domestic environment;
- integration of all generations in the economic, social and cultural spheres according to their preferences and needs, and intergenerational relations;
- maintaining and improving the physical and mental health of people of all ages.

The strategy includes four pillars with guidelines for action:

1. Employment/activity (provision of labour force, adjustment of jobs, intergenerational transfer of knowledge, access to education and new possibilities to develop jobs).

2. Independence, health and security of all generations (promotion of a healthy lifestyle, reduction of health inequalities, prevention of handicaps, adjusted system of social protection – pension, health and long-term care system)
3. Inclusion in society (intergenerational cooperation, promoting the use of ICT, preventing age discrimination, personal security of the elderly, volunteerism, cultural activity and political and civil participation).

An environment providing activities throughout the entire life period (adaptation to changes in consumption, adjustment of living conditions and traffic infrastructure, regional adjustments and educating the elderly for an independent life).

- Demographic reserve fund

The conceptual bases of the Demographic Reserve Fund Act foresee restructuring KAD into a demographic reserve fund which preserves the concept of corporate management as per the ZSDH-1 (SSH is the central manager, the fund independently manages investments in which it owns an asset). The period of demographic reserve fund accumulation is 20 years in order to collect as much capital as possible and thus provide higher annual payments. An additional 10% from dividends from the financial assets of the Republic of Slovenia managed by SSH is added to permanent sources of funding (10% of purchase prices, dividends). After the accumulation period, the fund pays to ZPIZ all revenue from management reduced by agreed eligible costs, and thus the underlying fund assets do not decrease and the long-term operation of the fund is provided.

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Table 1.a: Economic growth and related indicators

	<i>Rate of change in %</i>	ESA Code	2016 level	2016	2017	2018	2019	2020
			million EUR					
1.	Real GDP	B 1 g		2.5	3.6	3.2	2.6	2.6
2.	Nominal GDP	B 1 g	39,769	3.1	4.7	4.9	4.4	4.4
Real GDP components								
3.	Private consumption	P3	20,574	2.8	3.5	2.7	2.0	2.0
4.	Government consumption	P3	7,530	2.6	1.0	0.9	0.6	0.6
5.	Gross fixed capital formation	P51	7,322	-3.1	7.0	7.0	6.0	5.5
6.	Changes in inventories and net acquisition of valuables (% of GDP)	P52+ P53	511	1.3	1.4	1.4	1.4	1.3
7.	Exports of goods and services	P6	31,440	5.9	6.0	5.1	4.8	4.8
8.	Imports of goods and services	P7	27,608	6.2	6.5	5.6	5.1	5.1
Contribution to real GDP growth (in percentage points)								
9.	Domestic consumption		35,937	2.2	3.5	3.1	2.3	2.3
	including: Changes in inventories and net acquisitions of valuables	P52+ P53	511	0.8	0.1	0.1	0.0	0.0
10.	External balance of goods and services	B11	3,833	0.3	0.2	0.1	0.3	0.3

Source: SORS: Spring Forecast 2017, IMAD.

Table 1.b: Price developments

	<i>Rate of change in %</i>	2016	2017	2018	2019	2020	2021
1.	GDP deflator	0.6	1.0	1.7	1.7	1.8	1.8
2.	Private consumption deflator	-0.5	1.7	1.4	1.7	1.8	1.7
3.	Consumer price index (annual average)	-0.1	1.8	1.6	2.0	2.1	2.0
4.	Government consumption deflator	1.9	3.3	2.7	2.0	2.1	2.4
5.	Gross fixed capital formation deflator	0.4	1.4	2.2	2.1	2.0	2.0
6.	Export price deflator (goods and services)	-1.2	1.7	1.0	1.2	0.7	0.7
7.	Import price deflator (goods and services)	-2.0	3.0	1.1	1.2	0.6	0.6

Source: SORS, Spring Forecast 2017, IMAD.

Table 1.c: Labour market developments

		2016 level	2016	2017	2018	2019	2020
		in 000					
1.	Employment (number of employed) <sup>1</sup> , growth in %	961	2.0	2.2	1.5	1.0	0.6
2.	Employment by hours, growth in %	1,615,936	1.7	2.2	1.5	1.0	0.6
3.	Unemployment rate according to labour force survey, in %	79.65	8.0	7.0	6.4	6.0	5.7
4.	Labour productivity <sup>2</sup> (per employee), growth in %	41.4	0.5	1.4	1.7	1.6	1.9
5.	Compensation of employees <sup>3</sup> , in EUR million, growth in % (D.1)	19,740	4.4	6.4	5.2	4.6	4.7
6.	Compensation per employee <sup>3,4</sup> , growth in %	20,550	2.4	4.1	3.6	3.6	4.0

Source: SORS, Spring Forecast 2017, IMAD. Notes: <sup>1</sup> Employed population, national accounts definition (domestic concept), <sup>2</sup> Real GDP is taken into account, <sup>3</sup> Nominal growth, <sup>4</sup> Full-time employed are taken into account.

Table 1.d: Sectoral balances

<i>in % of GDP</i>	ESA code	2016	2017	2018	2019	2020
Net lending/borrowing	B.9 (S.1)	6.1				
of which:						
Import and export balance of goods and services	B.11	9.6	8.6	8.3	8.3	8.3
Balance of primary incomes and current transfers	B.12	7.0				
Capital account	D.9 (rec-pay)	-0.8				
Net lending/borrowing of the private sector	B.9 (S.1-S.13)	7.7				
Net lending/borrowing of the general government	B.9 (S.13)	-1.5	-0.8	-0.2	0.2	0.4
Statistical discrepancy		N/A				

Source: SORS, publication of 31 March 2017, Ministry of Finance, Spring Forecast 2017, IMAD.

Table 2.a: Consolidated general government balance

	ESA Code	Level 2016	2016	2017	2018	2019	2020	
		million EUR	% of GDP					
<b>General government surplus/deficit by subsectors (B.9)</b>								
1.	General government units	S.13	-733.1	-1.8	-0.8	-0.2	0.2	0.4
2.	Central government units	S.1311	-729.1	-1.8	-0.9	-0.2	0.1	0.3
3.	Regional government units	S.1312	...	...	...	...	...	...
4.	Local government units	S.1313	66.6	0.2	0.1	0.1	0.2	0.1
5.	Social security funds	S.1314	-70.5	-0.2	0.0	0.0	0.0	0.0
Total general government sector (S.13)								
6.	Total general government revenue	TR	17,352.1	43.6	43.5	43.7	43.0	42.3
7.	Total general government expenditure	TE	18,085.2	45.5	44.4	43.9	42.8	41.8
8.	Net lending/borrowing	EDP B.9	-733.1	-1.8	-0.8	-0.2	0.2	0.4
9.	Interest expenditure	EDP D.41	1,274.7	3.2	2.4	2.1	2.0	1.8
10.	Primary balance		541.6	1.4	1.6	1.9	2.2	2.2
<b>Selected component of revenue</b>								
12.	Total taxes (12a + 12b + 12c)		8,904.8	22.4	22.0	21.8	21.5	21.4
a.	Taxes on production and imports	D.2	5,897.6	14.8	14.7	14.4	14.2	14.0
b.	Current taxes on income and wealth	D.5	2,994.9	7.5	7.4	7.4	7.4	7.3
c.	Capital taxes	D.91	12.3	0.0	0.0	0.0	0.0	0.0
13.	Social security contributions	D.61	5,968.4	15.0	15.2	15.2	15.2	15.2
14.	Property income	D.4	503.8	1.3	0.9	1.0	0.7	0.6
15.	Other revenue		1,975.1	5.0	5.5	5.8	5.6	5.1
16.	16.=6. Total revenue	TR	17,352.1	43.6	43.5	43.7	43.0	42.3
	Tax burden (D.2+D.5+D.61+D.91-D.995)		14,871.4	37.4	37.2	36.9	36.7	36.5
<b>Selected components of expenditure</b>								
17.	Compensation of employees and intermediate consumption	D.1+P.2	7,187.4	18.1	17.8	17.3	16.9	16.7
a.	Compensation of employees	D.1	4,586.6	11.5	11.4	11.2	11.0	10.9
b.	Intermediate consumption	P.2	2,600.8	6.5	6.3	6.1	6.0	5.8
18.	Social benefits		7,142.3	18.0	17.5	17.3	17.1	17.0

a.	Social transfers in kind	D.6311, D.63121, D.63131	796.5	2.0	2.0	2.0	2.0	1.9
b.	Social benefits and cash aid	D.62	6,345.9	16.0	15.5	15.3	15.2	15.1
19.	19=9. Interest expenditure	D.41	1,274.7	3.2	2.4	2.1	2.0	1.8
20.	Subsidies	D.3	319.7	0.8	0.9	1.0	0.8	0.8
21.	Gross fixed capital formation	P.51	1,212.5	3.1	3.5	3.8	3.8	3.5
22.	Capital transfers, expenditure	D.91	178.1	0.5	0.3	0.2	0.1	0.1
23.	Other expenditure		770.5	1.9	2.0	2.2	2.1	1.9
24.	23.=7. TOTAL EXPENDITURE	TE	18,085.2	45.5	44.4	43.9	42.8	41.8

Source: Ministry of Finance.

Table 2.b: No policy change projections

	ESA Code	2016	2017	2018	2019	2020	
		in % of GDP					
1.	Total revenue at unchanged policies	TR	43.6	43.5	43.6	42.9	42.0
a.	Taxes on production and imports	D.2	14.8	14.7	14.4	14.1	13.8
2.	Total expenditure at unchanged policies	TE	45.5	45.1	44.7	43.8	42.9
a.	Compensation of employees and intermediate consumption	D.1+P.2	18.1	17.8	17.5	17.4	17.0
b.	Social benefits	D.62+D.631	18.0	17.6	17.5	17.4	17.3
3.	Net lending/borrowing	B.9	-1.8	-1.5	-1.1	-0.9	-0.9

Source: Ministry of Finance.

Table 2.c: Expenditure benchmark

	2016	2016	2017	2018	2019	2020	
	million EUR	in % of GDP					
1.	Expenditure fully related to EU budget revenue	477.58	1.20	1.65	2.61	1.98	1.84
a.	of which: investments fully related to EU budget revenue	67	0.57	1.46	0.96	1.18	0.00
2.	Cyclical unemployment benefit expenditure	7.20	0.02	0.05	0.01	0.00	0.01
3.	Effect of discretionary revenue measures		0	0.19			
4.	Revenue increases mandated by law	N/A	N/A	0.33	N/A	N/A	N/A
5.	One-off and other temporary measures	66.95	0.17	0.37	0.36	0.26	0.15

Source: Ministry of Finance.

Table 3: General government expenditure by function

	*	COFOG code	2015	2010	2011	2012	2013	2014	2015
			million EUR	in % of GDP					
1.	Public administration	1	2,637.2	5.6	5.8	5.8	6.7	7.3	6.8
	including: Servicing of general government debt		1,311.9	1.8	2.0	2.2	2.8	3.4	3.4
2.	Defence	2	326.8	1.5	1.2	1.0	1.0	0.9	0.8
3.	Public order and safety	3	603.1	1.9	1.8	1.7	1.8	1.6	1.6
4.	Economic affairs	4	2,304.8	5.1	5.8	4.6	15.3	6.2	6.0
	- including: Bank rehabilitation		0.0	0.0	0.7	0.2	10.1	0.9	0.0
5.	Environmental protection	5	388.9	0.7	0.8	0.8	0.8	1.0	1.0
6.	Housing and community development	6	232.1	0.7	0.6	0.8	0.7	0.9	0.6
7.	Health care	7	2,589.8	7.0	7.1	7.1	6.9	6.5	6.7
8.	Recreation, culture and religion	8	623.8	2.2	1.9	1.9	1.8	1.7	1.6
9.	Education	9	2,146.5	6.5	6.4	6.5	6.5	6.0	5.6
10.	Social protection	10	6,705.6	18.1	18.7	18.5	18.8	17.9	17.4
	<b>TOTAL GOVERNMENT EXPENDITURE</b>	<b>TE</b>	<b>18,558.6</b>	<b>49.3</b>	<b>50.0</b>	<b>48.6</b>	<b>60.3</b>	<b>50.1</b>	<b>48.1</b>

Source: Ministry of Finance \*According to EDP notification.

Table 4: General government debt

	<i>in % of GDP</i>	ESA Code	2016	2017	2018	2019	2020
1.	Level of gross debt		79.7	77.0	74.3	70.9	67.5
2.	Changes in gross debt		-3.6	-2.7	-2.7	-3.4	-3.4
3.	Primary balance		1.4	1.6	1.9	2.2	2.2
4.	Interest	EDP D.41	3.0	2.4	2.1	2.0	1.8
5.	Adjustments		-2.5	0.1	0.8	-0.1	-0.1
6.	Implicit interest rate of the debt		3.7	3.1	2.9	2.7	2.7

Source: Ministry of Finance.

Table 5: Cyclical developments

	<i>in % of GDP</i>	ESA code	2016	2017	2018	2019	2020
1.	Real GDP growth (%)		2.5	3.6	3.2	2.6	2.6
2.	Net lending/borrowing of general government	B.9	-1.8	-0.8	-0.2	0.2	0.4
3.	Interest expenditure	D.41	3.2	2.4	2.1	2.0	1.8
4.	One-off and other temporary measures		0.2	0.4	0.4	0.3	0.2
5.	Potential GDP growth (%)		1.6	2.1	2.4	2.4	2.6
	Contributions:						
	- labour		0.7	0.9	1.0	0.8	0.8
	- capital		0.1	0.2	0.4	0.6	0.7
	- total factor productivity		0.8	0.9	1.0	1.0	1.0

6.	Output gap		-1.2	0.3	1.1	1.2	1.2
7.	Cyclical budgetary component		-0.6	0.1	0.5	0.5	0.5
8.	Cyclically adjusted balance (2–7)		-1.3	-1.0	-0.7	-0.3	-0.1
9.	Changes in cyclically-adjusted general government balance		0.6	0.3	0.3	0.3	0.2
10.	Structural deficit (8–4)		-1.1	-0.6	-0.3	-0.1	0.0
11.	Changes in structural general government deficit		0.8	0.5	0.3	0.3	0.1

Source: Ministry of Finance of the Republic of Slovenia.

Table 6: Comparison with forecasts in the 2016 Stability Programme

	% of GDP	2016	2017	2018	2019	2020
1. Growth of GDP						
2016 Stability Programme	1.7	2.4	2.3	2.3	2.3	2.3
2017 Stability Programme		3.6	3.2	2.6	2.6	2.6
Difference		1.2	0.9	0.3	0.3	0.3
2. General government balance						
2016 Stability Programme	-2.2	-1.6	-1.0	-0.4		
2017 Stability Programme	-1.8	-0.8	-0.2	0.2	0.4	
Difference	0.4	0.8	0.8	0.6		
3. General government debt						
2016 Stability Programme	80.2	78.2	76.5	73.8	70.8	
2017 Stability Programme	79.7	77.0	74.3	70.9	67.5	
Difference	0.5	1.2	2.2	2.9	3.3	

Source: IMAD, SORS and the Ministry of Finance of the Republic of Slovenia.

Table 7: Long-term sustainability of public finances (base year 2016)

<i>in % of GDP</i>	2016	2020	2030	2040	2050	2060	2060 – 2010 difference
Total general government expenditure	41.5	40.7	42.9	47.1	52.8	57.9	16.4
Total age-related expenditure	24.2	24.3	26.1	28.7	31.1	31.5	7.3
Pensions	10.9	10.8	11.8	13.9	15.5	15.4	4.4
Old-age and early pensions	7.6	8.2	9.4	11.4	12.7	12.6	5.0
Disability pensions	1.2	1.2	1.0	0.9	0.9	0.9	-0.3
Other pensions	2.1	1.4	1.4	1.6	1.8	1.9	-0.2
Health care	5.6	5.8	6.3	6.6	6.7	6.7	1.1
Long-term care	1.0	1.1	1.2	1.5	1.8	1.9	0.9
Education	5.3	5.4	5.6	5.5	5.8	6.1	0.8
Other age-related expenditure	1.4	1.3	1.2	1.2	1.3	1.4	0.0
Expenditure on goods and services, other transfers							
Wage compensations	0.4	0.3	0.3	0.3	0.3	0.2	-0.1
Subsidies	1.0	1.0	1.0	1.0	1.0	1.0	0.0
State investments	2.4	2.4	2.4	2.4	2.4	2.4	0.0



Total primary expenditure	38.8	38.7	40.2	42.9	45.3	45.7	7.0
Interest expenditure	2.7	2.0	2.7	4.1	7.4	12.1	9.4
Total general government revenue	39.8	40.3	40.1	39.5	39.2	39.1	-0.7
Assumptions							
Labour productivity growth	0.5	1.9	1.8	1.8	1.7	1.5	1.0
Real GDP growth	2.50	2.80	1.33	1.14	1.11	1.44	-1.06
Real GDP growth per inhabitant	2.40	2.80	1.33	1.14	1.12	1.45	-0.95
Male activity rate (20-64 years)	80.7	83.9	82.8	81.8	82.6	83.0	2.3
Female activity rate (20-64 years)	71.7	75.5	77.7	76.7	77.6	78.0	6.3
Total activity rate (20-64 years)	75.4	79.8	80.3	79.4	80.2	80.6	4.6
Unemployment rate	8.0	9.0	6.6	6.3	6.3	6.3	-3.4
Share of population aged 65 years or more	18.2	20.7	25.2	28.3	30.6	30.2	12.1

Source: Ministry of Finance, Institute for Economic Research

Table 7.a: Balance of guarantees of the Republic of Slovenia

	Balance as of 31 December 2017*		Balance as of 31 December 2018*		Balance as of 31 December 2019*		Balance as of 31 December 2020*	
	in EUR million	in % of GDP	in EUR million	in % of GDP	in EUR million	in % of GDP	in EUR million	in % of GDP
Guarantees of the Republic of Slovenia	6,055	14.5	5,069	11.6	4,264	9.4	3,683	7.7
within: financial sector**	669	1.6	669	1.5	669	1.5	669	1.4

Source: Ministry of Finance Notes: \*Projections of the Ministry of Finance. \*\* In accordance with classification, legal entities with SKIS mark S12 (SID banka d.d.) are included.

Table 8: Assumptions about the international environment

	2016	2017	2018	2019
USD/EUR ratio (annual average) (euro area and ERM II members) <sup>1</sup>	1.107	1.067	1.068	1.068
Nominal effective rate	0.8	-0.1	0.0	0.0
GDP growth in EU	1.9	1.7	1.7	1.7
Growth of export markets <sup>2</sup>	3.6	4.1	4.4	4.6
Oil price (Brent, USD/barrel)	44.8	56.3	56.4	55.8

Source: IMAD, Spring Forecast 2017. Notes: 1 For the period 2017–2019: technical assumption on the basis of the average rate in February 2017; 2 Real imports of goods and services from trade partners weighted by means of Slovenian export rates to these countries.

Table 9.a: Assessment of migration and refugee costs according to functional categories (EUR 000)

	2014	2015	2016	2017
	000 EUR			
Reception and accommodation of applicants for international protection	0	1,665	2,586	340* (1351,7)
Transport costs	0	2,266	3,519	463* (1840,7)
Health-care costs	0	359	557	73*

				(290,2)
Administrative costs	0	11,506	8,925	3,011* (11970,6)
Contribution for Turkey	0	0	1,549	2,299* (9139,9)
Other costs	0	6,654	10,335	1,360* (5406,8)
<b>Total</b>	<b>0</b>	<b>22,450</b>	<b>27,472</b>	<b>7,546*</b> <b>(30000)</b>

Source: Ministry of Finance

\* assessment including April 2017

Table 9.b: Assessment of migration and refugee costs according to ESA categories (EUR 000)

	2014	2015	2016	2017
	000 EUR			
Compensation of employees (D.1)	0	11,506	8,925	3,011* (11970.6)
Intermediate consumption (P.2)	0	10,769	18,275	4,500* (17890.3)
Gross fixed capital formation (P.51)	0	175	272	36* (143.1)
<b>Total</b>	<b>0</b>	<b>22,450</b>	<b>27,472</b>	<b>7,546*</b> <b>(30,000)</b>
EU contributions	0	0	8,563	14*
Net impact on general government balance without EU funds	0	21,450	18,909	7,533*
<b>Net impact on general government balance as % of GDP</b>	<b>0.00%</b>	<b>0.06%</b>	<b>0.05%</b>	<b>0.02% /</b> <b>(0.075%)</b>

Source: Ministry of Finance

\* assessment including April 2017

Table 9.c: Additional information relating to migrants in Slovenia

	2014	2015	2016	2017*
1. Arrivals of migrants (total no. of people, including people in transit)	385	277	1,308	192
2. Arrivals of migrants in transit (total no. of people)	-	-	-	-
3. First-time registered migrants (total no. of people)	358	259	1,266	186
4. Approved (total no. of people)	44	46	170	41

\* Information as of 31 March 2017.

Source: Ministry of Finance