



**GOVERNMENT OF THE REPUBLIC OF SLOVENIA**

***NATIONAL REFORM PROGRAMME 2013-2014***

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**MAY 2013**

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APPENDIX 1: Report on measures for the implementation of country-specific recommendations (CSR) and on the main structural changes in 2012

APPENDIX 2: Report on measures to achieve the objectives of EU 2020 and other commitments made in 2012

## 1 INTRODUCTION

The National Reform Programme is the Government's medium-term plan of priority measures and projects focused on achieving the objectives of the EU 2020 Strategy. This document is the core of the European Semester and together with the Stability Programme presents the foundation for preparing country-specific recommendations to Member States, which are drafted at the end of the semester by the European Commission and approved by the European Council.

The National Reform Programme 2013-2014 has been drafted according to precise guidance and the structure devised by the European Commission. The Government's key orientations or main priorities and macroeconomic standpoints are presented. The priority measures in 2013 and 2014 are a response to the recommendations in the In-Depth Review of the European Commission<sup>1</sup>, and they consider the guidelines and action plan according to individual areas. The document also comprises a chapter on the fulfilment of recommendations in 2012 and the review of measures which contribute to the main objectives of the EU 2020. The final chapter describes the process of preparing and coordination the National Reform Programme.

In 2012, Slovenia adopted reforms and measures which reflect most of the country-specific recommendations made to Slovenia within the European Semester 2012<sup>2</sup>. The key recommendations are:

- Balancing public finances. According to the ESA 95 methodology, public finance deficit reached 4.0% of the GDP in 2012, which is 2.4% less than in 2011.
- Stabilisation of the banking system. To stabilise the banking system, legislation to solve the problem of the non-performing assets of banks was enacted, which facilitates the strengthening of banks and their lending capacity.
- Pension reform. Enables sustainable growth in public finance expenditure for pensions at least until 2020.
- Labour market reform. Contributes to reducing labour market segmentation and to employment flexibility.

This shows the country's commitment to the common objectives of the EU, while taking into account its specific circumstances and requirements. Slovenia will continue to implement measures and reforms in 2013 and 2014.

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<sup>1</sup> [http://ec.europa.eu/economy\\_finance/economic\\_governance/macroeconomic\\_imbalance\\_procedure/index\\_en.htm](http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm)

<sup>2</sup> [http://ec.europa.eu/economy\\_finance/economic\\_governance/sgp/convergence/programmes/2012\\_en.htm](http://ec.europa.eu/economy_finance/economic_governance/sgp/convergence/programmes/2012_en.htm)

## 2 MACROECONOMIC ENVIRONMENT

The **international economic environment** in 2012 was marked by a double-dip recession in the eurozone. The sovereign debt crisis and related negative trend in financial markets, the impact of the fiscal consolidation and slowdown in global trade growth were the main reasons for last year's decline in GDP in the eurozone of 0.6%, following two years of recovery.

**Economic activity in Slovenia** declined by 2.3% in 2012, and will continue to fall in 2013. In its spring forecast the Institute of Macroeconomic Analysis and Development (IMAD) forecasts a 1.9% decline in GDP in 2013. The downward revision of the forecast is the result of the anticipated deterioration of the situation in the international environment and a further decline in final consumption.

**Table 1: Key indicators of economic growth, Slovenia 2010–2016**

Real growth in %	2011	2012	2013 n	2014 n	2015 n	2016 n
Gross domestic product	0.6	-2.3	-1.9	0.2	1.2	1.6
Export (goods and services)	7.0	0.3	1.2	3.3	4.9	5.3
Import (goods and services)	5.2	-4.3	-0.7	2.4	4.4	4.9
Private consumption	0.9	-2.9	-4.0	-1.3	0.5	1.0
Gross fixed capital formation	-8.1	-9.3	-0.5	0.8	1.5	1.5
Government consumption	-1.2	-1.6	-2.9	-0.6	-0.1	0.3

Source: Statistical Office, February 2013, and IMAD, Spring Forecast of Economic Trends, March 2013

Following relatively high growth in 2011, **exports** remained at the 2011 level, while a significant decline in domestic consumption led to a decline in **imports** by 4.3%. Accordingly, the current account recorded a surplus of 2.5% of GDP. On the basis of anticipated trends in the most important export markets, a slight recovery in exports is anticipated in 2013. Due to a minor decline in domestic consumption, a decline in imports in 2012 will be smaller compared to the previous year. The current account of the balance of payments surplus will further increase.

**Domestic demand** declined significantly in 2012. Household consumption was down by 2.9% government consumption by 1.6% and gross fixed capital formation by 9.3%. As bad labour market trends, restrictive payment and human resources policy in the public sector, and the further rationalisation of public spending continue, household and state demand will be reduced also in 2013 (by -4.0 and -2.9%, respectively). Investments will see a smaller reduction compared to the previous four years (-0.5%), mainly due to the planned national investments related to the accelerated drawing of EU funds and construction of a large energy facility.

The situation in the **labour market** was further aggravated in 2012. Due to the decline in economic activity, employment (according National accounts statistics) also decreased (by -1.3%) last year. The registered unemployment rate was up by 0.2 percentage points to 12.0%, while the survey-based unemployment rate grew by 0.7 percentage points to 8.9%. In 2013, employment will decline more than last year (by -1.6%). Considering such trends and a significant rise in the number of unemployed at the end of last year, unemployment will also be much higher this year (registered 13.4% and survey-based 10.0%). In 2012, nominal gross wages remained unchanged, while real income declined for the first time in twenty years. The nominal growth in wages in the private sector slowed considerably and public sector pay was reduced. Due to a further decline in economic activity and fiscal restrictions, average gross pay is expected to decline in real terms also in 2013.

The growth in **consumer prices** in 2012 was 2.7%; in 2013, it is expected to slow down, assuming there are no shocks from international environment.

**Table 2: Employment, wages, productivity, labour costs and inflation 2010–2016**

Annual growth in %	2011	2012	2013 n	2014 n	2015 n	2016 n
Employment (according to SNA)	-1.6	-1.3	-1.6	-0.8	0.0	0.2
Unemployment (ILO in %)	8.2	8.9	10.0	10.0	9.4	9.1
Salary per person employed (real, gross)	0.2	-2.4	-1.8	-0.6	0.3	0.4
Productivity (GDP per person employed, real)	2.2	-1.1	0.1	1.0	1.2	1.5
Labour costs per product unit (nominal)	-0.6	0.7	0.6	0.0	/	/
Inflation (end of year)	2.0	2.7	1.9	1.7	2.1	2.0

Source: Statistical Office February 2013, and IMAD, Spring Forecast of Economic Trends, March 2013

### 3 KEY ECONOMIC POLICY ORIENTATIONS FOR 2013–2014

Priority measures and reforms in Slovenia are based on the following findings:

- Slovenia has healthy macroeconomic foundations.
- Slovenia faces macroeconomic imbalances: the excessive indebtedness of companies and burdened bank balances with non-performing loans.
- The household sector is one of the least indebted sectors in the EU; public debt is below the EU average.
- Slovenia also faces institutional deficiencies in the decision-making process, and these deficiencies limit the country in decisive and efficient reactions to changes in the environment.

With the aim of re-establishing economic growth, Slovenia will have to eliminate deficiencies and imbalances.

Imbalances in the Slovenian economy are manageable and can be corrected with a suitable policy mix and sequence of measures. On this basis and with this objective, the measures, which Slovenia will implement in 2013 and 2014 and which are presented in this document, have been devised. By correcting imbalances, the conditions for achieving economic growth and creating jobs will be facilitated.

In order to revive economic growth, Slovenia will give priority to implementing measures for banking system recovery and deleveraging of companies.

The objectives are defined in the framework of three key pillars:

- 1) Institutional changes in decision-making processes
- 2) Measures for enhancing economic growth in the short-term
- 3) Improvement of competitiveness for sustainable growth in the long-term

#### **FIRST PILLAR: Institutional changes in decision-making processes**

**Strengthening the fiscal framework** Slovenia will fulfil its commitment on including the fiscal rule in the Slovenian legal system and improve institutional set-up in relation to enhanced economic governance at the EU level.

**Referendum legislation.** Stricter requirements will be enforced regarding referendum initiatives and content-related restrictions will be defined.

**Voting legislation.** By changing the electoral system, Slovenia will enable more unified and stable governing coalitions and enable transparency and enhance the possibility of choosing among individual candidates.

**Institutional aspect of corporate governance.** Slovenia will redefine the mechanisms for managing strategic investments and at the same time ensure that the state will withdraw from the ownership of non-key investments .

#### **SECOND PILLAR: Measures for enhancing economic growth in the short-term**

- a. Boosting economic activity

**Bank recovery.** Reducing the shares of non-performing assets in banks and ensuring capital adequacy at a level comparable to the EU average are key measures to improve financing conditions and for orderly corporate deleveraging. The Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act is being intensively enforced with the full utilisation of the whole range of available measures. The Bank Assets Management Company (BAMC) is the institutional platform for realising the provisions of this Act, with the objective of implementing the key measures (transfer of non-performing assets from banks to the BAMC and recapitalisations) in 2013.

**Corporate deleveraging and restructuring.** Although the indebtedness of the private sector as a percentage of GDP in Slovenia is below the EU average, the level of companies' indebtedness

impacts the ability of the economy to recover. A systematic approach to corporate deleveraging will be based on three elements: (i) improving the bankruptcy framework, legislative framework for financial restructuring of companies (insolvency legislation, compulsory settlements), and a new out-of-court procedure for corporate deleveraging, which will be regulated by a special act; (ii) ensuring fresh capital from the private sector, mainly in the form of foreign indirect investments parallel to privatisation procedures; (iii) selective measures through the BAMC and the state to support individual companies with a successful business model and economic viability and fully in line with state aid rules.

**Corporate governance improvement.** The basis for improving the management of state-owned enterprises is the Slovenian Sovereign Holding Act. Its purpose is to establish concentrated investment management in order to achieve stable ownership and the sustainable maximisation of the profitability and value of these investments, and consequently to achieve a positive impact on the liquidity of public finances.

**Privatisation.** Slovenia wishes to strengthen its commitment to privatisation by implementing procedures for fast withdrawal of the state from the economy. In May, the Government prepared the first set of companies for privatisation and submitted it to the National Assembly for confirmation.

b. Balancing public finances

**Reducing the general government deficit.** In the short term, the structural deficit will be reduced by measures to limit general government expenditure and increase tax revenues, which are defined in the Stability Programme. The Government's objective is to achieve a structural balance until 2017, which will enable the reduction of the country's deficit below the 3% GDP level until 2014. For 2013, the Government plans a deficit of 4.2% of GDP which, due to the one-off effects of the already implemented and expected recapitalisations in the banking sector, will amount to 7.9% of GDP.

**Long-term stabilisation of the general government debt** below 55 % of GDP. Short-term measures to stimulate the economy will be partly financed through borrowing, but will be neutralised in terms of public finance in the long term by revenues from the privatisation of banks and state-owned enterprises as well as sale of claims and assets of the BAMC. Slovenia will also prepare the bases for further revision of the pension system for guaranteeing long-term financial sustainability and decent pensions after 2020.

### THIRD PILLAR: Improvement of competitiveness for sustainable growth in the long-term

The third pillar includes a wide range of measures which contribute to enhancing growth conditions in the long term and attaining the objectives of EU 2020, and support short-term measures to boost the growth. They are divided into six broad areas:

- i) Efficient rule of law
- ii) Promotion of foreign investments
- iii) Labour market flexibility
- iv) Efficiency of the public sector
- v) Encouraging entrepreneurship
- vi) Concern for health and the environment

To improve **the efficiency of the rule of law** measures are being planned to optimise the network of courts and simplify legislative solutions. The implementation of the adopted **labour market reform** will be strengthened by changes in the area of preventing and restricting undeclared labour and employment, the regulation of student work, minimum wage and regulated professions. Slovenia will strive to **enhance the inflow of foreign direct investments** and at the same time strengthen the internationalisation of domestic companies. To improve the **business environment**, more efficient procedures of spatial planning and the acquisition of building permits, further elimination of administrative barriers, and the enhancement of the quality of public sector will be implemented. For simpler financing and operation of companies, measures will be implemented to support the growth and development of companies during their entire life cycle. Due to the limited budget resources available to boost the economy, the key source of investments will be funds from EU cohesion **policy**. In order to support the key priorities Slovenia will also take measures in the fields of **public health, social policy, environment and energy**.

## 4 REFORM MEASURES PLANNED FOR 2013 AND 2014

To manage imbalances, Slovenia will implement the measures within the scope of three broad pillars: institutional changes, measures for the short-term revival of the economy, and measures to improve competitiveness and sustainable growth in the long-term.

### 4.1. FIRST PILLAR: Institutional changes to decision-making processes

**Strengthening the fiscal framework and national fiscal rules.** The Government is pursuing three goals: (1) setting the fiscal rule in national legal order; (2) ensure greater transparency in public finances; (3) increase the flexibility of public spending by strengthening the principle of integrity of the budget (4) increase expenditure efficiency and (5) increase the efficiency of tax collection.

The Government will in the legal procedure for amending constitution in the National Assembly support the solution that Slovenia should add the fiscal rule to its Constitution, as it has made commitments by signing the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. The Government expects that the discussion in the National Assembly on constitutional changes will be concluded by May 2013. Within the following six months, the fiscal rule integrated into the Constitution will have to be upgraded with an implementation act and amended Public Finance Act, in which the procedure of adopting or amending the state budget will have to be upgraded. This will fully satisfy the requirements of legal acts passed at the EU level to strengthen economic governance. To increase the effectiveness of tax collection, the Government will complete the project to merge the tax and customs authorities into a Financial Administration, who will act in accordance with the principle of user-oriented public administration.

**Amendments to referendum legislation.** A unique referendum model enables a simple application of referendums. The proposal to amend Article 90 of the Constitution of the Republic of Slovenia was filed in September 2012. The Constitutional Commission has concluded the constitutional and auditing procedure and the proposal for the amendment will be discussed for the second time in May 2013. If the result is positive, the National Assembly will adopt an ordinance designating the Constitutional Act Amending the Constitution with the proposed amendments:

- A call for a referendum may be requested by at least 40,000 voters. A referendum cannot be demanded by members of the National Assembly or members of the National Council.
- Limitations on the content of a call for a referendum is determined (on acts on emergency actions to guarantee national defence, safety or to eliminate the consequences of natural disasters, on acts on taxes, customs and other obligatory duties, and on the act passed to implement the national budget, on acts ratifying international contracts, and on acts eliminating unconstitutionality in the field of human rights and fundamental freedoms).
- The referendum rejection model is defined; an act is rejected at a referendum if a majority of voters vote validly against it, on condition that at least one fourth of all voters vote against an act.

**Voting legislation** Weak coalitions constitute significant problem in the current electoral system and, consequently, even unstable governments. The latter can disable the ability to intervene rapidly and make fast decisions, especially in crisis situations which require speedy and effective implementation of key reform measures. Disregarding the fact that reform abilities are improving, these weaknesses in the electoral system may at any moment cause a new political crisis and instability.

Therefore, the Government will strive to change the voting system, which will lead to transparency and the possibility of choosing among individual candidates, thus enabling a simpler choice in elections to the National Assembly. Along with changes to the election system, the objective to enhance the unity and stability of governing coalitions should also be pursued.

**Institutional aspect of corporate governance.** A concentrated investment management will be established in order to achieve stable ownership and sustainable maximisation of profitability and value of these investments. Asset management will be based on a long-term strategy in which the state's objectives regarding the management of its assets in the medium term will be clearly defined, what will also send a positive signal to potential investors.

## 4.2. SECOND PILLAR: Measures for enhancing economic growth the short-term

### 4.2.1. Boosting economic activity

#### Bank recovery

Reducing the shares of non-performing assets in banks and ensuring capital adequacy are key measures to improve financing conditions and regulate corporate repayments. Insufficient capital adequacy and a high share of non-profitable loans are a great burden on the banking system, increasing the credit risks of banks and reducing the banks' ability to take loans in international financial markets.

The stabilisation of the banking system will be conducted in accordance with a comprehensive strategy, the first phase of which ensures solutions regarding the non-performing assets of banks and recapitalisation, which will be followed by the consolidation of the banking sector and privatisation of state shareholdings in banks. The objective of this strategy is to create a well-capitalised banking system, which efficiently performs the role of financial mediator in the business sector, and ensures the profitability of the sector in addition to good corporate governance.

The Bank Assets Management Company (BAMC) is the institutional platform for bank rehabilitation. The company already operates within the scope of a special act (Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act – ZUKSB<sup>3</sup>).

The issue of a BAMC bond guaranteed by the state is envisaged for the purchase of the non-performing assets of banks. ZUKSB anticipates guarantees of up to EUR 4 billion. The BAMC is part of the general government sector, since the state will take over the majority of risks, meaning that the BAMC bonds present a one-off increase in general government debt, which will gradually decrease depending on the dynamics of sales or liquidation of acquired assets.

Parallel to the procedure of transferring non-performing assets from banks to the BAMC, the recapitalisation of banks by the state will be carried out if it proves impossible to attract a private investor. On the basis of a review of bank assets and stress tests implemented by the Bank of Slovenia, an estimated EUR 900 million will be required to recapitalise banks. In addition to the estimated capital deficit arising from the transfer of debt to the BAMC, the amount of required recapitalisation must also cover the minimal supervision requirements deriving from the SREP-ICAAP process, within which the amount of capital sufficient to cover all the risks to which banks are exposed from the first year on will be determined. The amount of the capital thus determined is significantly higher than the amount sufficient to meet the minimum capital adequacy of 8%. As one of the indicators of the risk profile of a bank, which serve as the basis for determining higher capital requirements of the bank, the results of a micro stress tests conducted by the Bank of Slovenia are also used in the aforementioned process.

The objective is to complete the first transfers of non-performing assets to the BAMC by the end of June, and to complete the majority of transfers before the end of the third quarter of 2013. Together with the transfers, the recapitalisation of banks will be carried out by the state in order to ensure capital adequacy. The preparations for bank rehabilitation have been in progress since September 2012 and re in the final stage prior to transferring the first non-performing assets to the BAMC. Activities already implemented are:

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<sup>3</sup> ZUKSB is flexible and enables sufficient measures for bank rehabilitation; however, it has to be implemented as soon as possible. Nevertheless, possible changes to the act are being examined, i.e.:  
 the prolongation of the BAMC's life span (deleting the 5-year period of establishment) in order to avoid situations when the BAMC could be put in the position of a 'seller under pressure' due to time limitations;  
 to enable the entry of other owners to join the BAMC (the Republic of Slovenia is currently the only shareholder). In case of more than 50% private ownership of the BAMC, such a change would enable deconsolidation from the public sector, and the provision of assets for the BAMC would no longer impact the public deficit;  
 the deletion of the provision that the BAMC must sell at least 10% of the assessed value of acquired assets each year;  
 legal regulation of the option and conditions to issue state guarantees to companies.



**Box 1: Classification of types of non-performing assets and their quantification**

The transfer of non-performing bank assets to the BAMC is planned in several packages, since it is sensible to structure assets into groups, so that individual groups with regard to the characteristics of debtors or characteristics of assets which are considered as insurance present a homogenous whole to the creditor in terms of management and realisation. The optimal implementation of transfer will be identified for each group of assets (the method of guaranteeing compensation for the takeover of bank's risk items). The transfer of too many heterogeneous assets to the BAMC would not be considered optimal in management terms. The transfer packages below could enable the maximum effect on reducing the share of non-profitable bank assets and the most optimum effect on reducing the banks' capital requirements; they could also enable the most optimal management by the BAMC.

- The first package: claims against clients in bankruptcy procedures;
- The second package: claims against non-payers insured with real property;
- The third package: other claims (against restructuring companies, including financial holdings).

**Claims against debtors in bankruptcy** procedures comprise the largest share of non-payers. The transfer to the BAMC is reasonable for these claims, primarily because the resolution of such claims and the creditor's application (bank or after the transfer to the BAMC) is limited to the legal aspects of the bankruptcy procedure, which demands specific knowledge, and the resolution of such claims is the least favourable for banks from the time aspect.

**Claims insured with residential real property** are considered separately, as it possible to resolve such assets by the BAMC transferring them to the Housing Fund or any other specialised company for management.

Due to the complexity of resolving non-profitable **claims against financial holdings** (due to the impact on the operations of subsidiaries), this group of claims is suitable for transfer if the problem of excessive indebtedness of the holding and financial manipulation of subsidiaries can be more efficiently resolved within the BAMC and within a determined time frame (e.g. holding bankruptcy or conversion of BAMC claims, sale of subsidiaries and liquidation of the holding).

Parallel to the rehabilitation of non-performing bank assets, restructuring procedures for certain companies will be carried out (see below). Special attention will be dedicated to **claims against companies in restructuring procedures**, which on the basis of restructuring and a sustainable business model are able to ensure long-term successful operations. The criteria for the selection of companies to be made for consideration within the scope of measures stipulated by ZUKSB will be defined in cooperation with the Bank of Slovenia.

- the Measures of the RS to Strengthen the Stability of Banks Act has been passed;
- the executive act has been passed;
- a detailed review of the portfolios of the target banks (bottom-up analysis) by an independent appraiser has been performed;
- the analysis of capital requirements on the basis of stress tests (top-down analysis) has been performed;
- the methodology to determine the transfer price has been harmonised by institutions;
- the BAMC has been established and is operating;
- non-executive and temporary executive directors have been appointed;
- the classification of the types of non-performing assets to be transferred has been prepared (five segments of non-performing assets);
- the target banks have been invited to prepare a draft initiative to implement the measures under ZUKSB by the end of April.

Currently in preparation:

- preparation of the first bank to enter the procedure for the application of the measure;
- preparation of the process, contractual bases;
- a detailed list of the non-performing assets to be transferred.

Next steps:

- the Government will take a formal decision regarding the inclusion of banks in the BAMC measures by the end of May;
- an independent auditor will be selected to transfer individual categories of assets to the BAMC on the basis of a realistic assessment of their long-term economic value;
- a formal initiative will be proposed to the European Commission to ensure the compliance of measures with the rules on state aid;
- after receiving a positive opinion from the European Commission, the BAMC will conclude a contract and the first transfers of assets will take place.

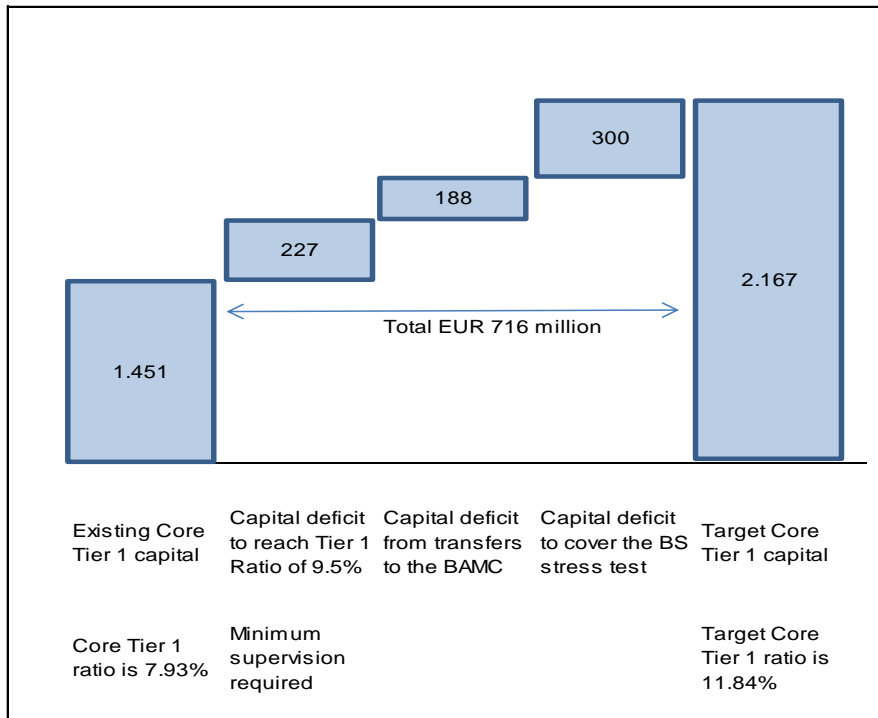
**Box 2: Transfer to the BMC in numbers**

The three largest banks have been identified for transfer to the BAMC. On the basis of a review of the banks' assets and stress tests, the Bank of Slovenia has assessed that:

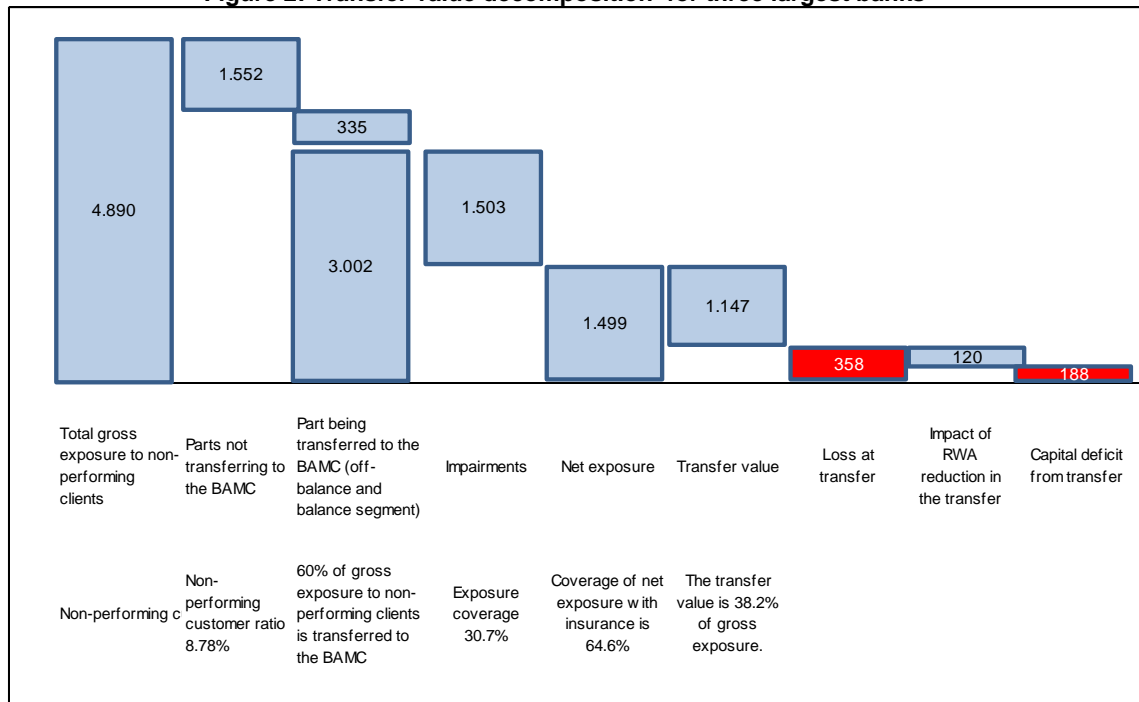
- banks will have to be recapitalised with up to EUR 900 million;
- the scope of the transferred non-performing assets to the BAMC amounts to EUR 3,337 million, with a transfer value of EUR 1,147 million, which yields an average transfer price of 38%;
- banks have formed impairments on the non-performing assets to be transferred to the BAMC worth EUR 1,503 million, which means coverage of 30.7%;
- after the transfer of non-performing assets to the BAMC, the percentage of non-performing assets in the banking system will be reduced from 16.9% to 10.4%, and from 24.6% to 8.8% in the three participating banks.

In EUR million	Prior to the transfer of non-performing assets	Transfer of non-performing assets	After the transfer of non-performing assets
<b>Banking system</b>			
Gross exposure	47,653	-2,191	45,462
Gross exposure to non-performing clients	8,063	-3,337	4,726
Non performing client ratio	16.92%		10.40%
<b>Three banks expected to be addressed by the BAMC</b>			
Gross exposure	19,870	-2,191	17,679
Transfer value		1,147	
Gross exposure to non-performing clients	4,890	-3,337	1,552
Non performing client ratio	24.61%		8.78%

**Figure 1: Capital deficit for three target banks**



**Figure 2: Transfer value decomposition for three largest banks**



Note: see also Bank of slovenia [www.bsi.si](http://www.bsi.si)

### Corporate deleveraging and restructuring

A systematic approach to corporate deleveraging will be based on three elements: (i) improving the bankruptcy framework, the legislative framework for financial restructuring of companies (insolvency legislation, compulsory settlements), and a new out-of-court procedure on corporate deleveraging, which will be regulated by a special act; (ii) ensuring fresh capital from the private sector, mainly in the form of foreign indirect investments parallel to privatisation procedures; (iii) selective measures through the BAMC and the state to support individual companies which have a successful business model and economic viability. Measures will be fully in line with state aid rules. The state will follow next principles:

- State aid is intended only for companies with a sustainable business model. The private rescue of companies is the preferred option.
- State aid complies fully with the EU rules for both procedures (rescuing, restructuring) and amounts (and pertaining amounts of own participation).
- This is a one-off state intervention to ensure a long-term solution.
- Long-term solutions are formed in the business restructuring programme, which is appropriately supervised by the state.
- The suitable distribution of burdens to all stakeholders (owners, banks, other creditors) is ensured.
- All transactions are carried out in accordance with an independent appraisal provided by an independent consultant.
- The scope of state measures, in terms of public finances is in compliance with the strategy presented in the Stability Programme and the framework adopted for each budget.
- After performing restructuring, the state accelerates the sale of acquired shares or liquidation of instruments.

Legal instruments to support deleveraging and restructuring process

Upon the proposal of the Government, the National Assembly passed amendments to the **Act Governing the Rescue and Restructuring Aid for Companies in Difficulty** (ZPRPGDT) on 24 April 2013. This aspect of rescuing companies in trouble must be implemented in accordance with the EU rules on state aid for restructuring companies. The changes are aimed at loosening the conditions and forms for providing aid to companies in trouble, but still within the EU legal framework. The main changes are:

- The introduction of additional forms of state aid by supplementing existing forms (loans, subsidies, interest rate subsidies and guarantees) with the possibility of rescuing and restructuring companies in trouble with a cash and non-cash equity investment and with the conversion of claims arising from loans granted and guarantees paid. This measure will be reserved for exceptional cases of restructuring companies of extreme importance to Slovenia and its national economy and will also influence the consolidation of whole economy
- The act abolishes the cap on the amount of state aid to individual companies in trouble, which was previously set at EUR 10 million.
- The act abolishes the restriction on granting aid to companies in which the state has an equity share exceeding 25%. This solution is essential to improving the system of granting state aid, especially when many companies are over-indebted and need state aid for their rescue, and it is not sensible to exclude certain companies as potential recipients of state aid.
- Allows the real time control of guarantee schemes based the realization of the planned cash flows.

The Government has made changes to the **Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act** (ZFPIPP), while the Act Amending the Banking Act and the Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act have already been adopted, which will improve insolvency proceedings and the entire business environment. The principal objectives of the proposed ZFPIPP are:

- to provide better possibilities for the efficient and real restructuring of insolvent companies (preserving healthy cores of the economy),
- to prevent and limit the influence of the bodies of an insolvent debtor on its decisions, which in compulsory settlement proceedings would be contrary to the objectives of the proceedings, protection of creditors and new investors,
- to improve the position of the creditors' committee and individual creditors,
- to improve the position of creditors-workers of an insolvent debtor,
- to prevent biased influence of entities connected with the debtor in terms of interests and status on insolvency proceedings,
- to ensure greater efficiency in the procedure for selling assets at public auctions,
- to ensure that the ministry responsible for justice efficiently supervises the work of receivers and to strengthen the position of receivers by temporarily suspending the appointment of receivers in new cases,
- to ensure more efficient operations at the State Attorney's Office regarding the exercise of the state's rights in insolvency proceedings and to eliminate inconsistencies established in practice.

In order to provide better possibilities for the efficient and real restructuring of insolvent companies, and preserve healthy cores of the economy, the following is proposed:

- to enact simplified compulsory settlements for sole traders and micro-sized companies, which will represent a considerably cheaper and faster procedure of financial restructuring for these entities;
- to amend regulations on increasing the share capital of an insolvent debtor in compulsory settlement proceedings on the basis of a decision of the creditors' committee, including converting receivables to equity stakes;
- to determine the possibility of transferring the business management of an insolvent debtor to the buyer of new shares,
- to amend voting rules on compulsory settlement, which means that a higher ratio is required in a vote on compulsory settlement regarding the receivables that a creditor transfers to a debtor

in the procedure to increase share capital with new non-cash contributions if the creditor also pays for the contribution;

- to grant a temporary exemption from submitting a takeover bid or facilitate the temporary exercise of voting rights to a violator in the case of ensuring the capital adequacy of a company, its long-term solvency or financial restructuring.

In order to prevent and limit the influence of the bodies of an insolvent debtor on its decisions, which in compulsory settlement proceedings is contrary to the objectives of the proceedings, and to ensure better protection for creditors and new investors, a limitation on the supervisory body's authority and the insolvent debtor's assembly, and the option to transfer business management pursuant to the new Article 199.c are proposed.

To improve the position of the creditors' committee, and all creditors and individual creditors, the right of the creditors' committee to review documentation is extended. The decision making of the creditors' committee at all correspondence sessions is regulated. A new power of the creditors' committee is defined, i.e. with the votes of all its members and without explanation, the committee may require creditors to vote on the dismissal of the appointed receiver if the receiver no longer enjoys their trust, and, at the same time, to vote on the appointment of a new receiver. To prove the conditions for the commencement of bankruptcy proceedings, additional rebuttable assumptions of insolvency or longer-lasting illiquidity are determined. The interim payment dynamics of receivables during the compulsory settlement repayment is determined by law. The proposed amendments allow an objection due to the violation of creditors' right to equal treatment, according to which, if successful, the court will order the necessary measures to eliminate such unequal treatment, usually by issuing instructions to the receiver on his or her work.

To improve the position of creditors-workers of an insolvent debtor, new priority receivables are determined: compensation for unused annual leave for the current year. The proposed amendments determine an exemption from paying in advance the initial costs of bankruptcy proceedings. A new reason for an objection to compulsory settlement management is also defined, i.e. if an insolvent debtor is more than 15 days in arrears in the payment of wages to the amount of the minimum wage or in the payment of taxes and contributions which the payer has to calculate or pay the wages.

To ensure the efficient supervision of the work of receivers by the ministry responsible for justice, amendments on reviewing the insolvent debtor's documentation, conditions for the issuance and revoking of permits, temporarily suspending the appointment of receivers in new cases, changing the structure of disciplinary bodies and strengthening the cooperation between courts and the Ministry of Justice are proposed.

One of the main reasons for lengthy bankruptcy proceedings are civil procedure affairs relating mainly to challenges to legal acts and proceedings in order to determine the existence of declared receivables, the rights to separate settlement and of exclusion. Thus two novelties are proposed in the proposed amendments:

- regulating compulsory mediation in insolvency proceedings and consent mediation prior to an action being filed, and
- an arrangement which will explicitly anticipate a court or out-of-court amicable settlement of a dispute, to which consent will be issued by the court as well as by the creditors' committee if established.

Amendments to ZFPPIPP-E have already been adopted by the Government, while their passage through the National Assembly is expected in the first half of 2013. Regarding simplified compulsory settlement proceedings intended mainly for SMEs, the proposal determines that the new regulation is to come into force in 2014; thus the first measurable data from this field will be available at the end of 2014.

To establish a more efficient legal framework for out-of-court restructuring of companies (i.e. a more efficient out-of-court debt conversion mechanism), the competent ministry, pursuant to positions assumed by the Government of the Republic of Slovenia on 25 April, will prepare by the end of May 2013 a proposal for an act which, in accordance with the latest recommendations of the OECD, will regulate the area of systemic corporate deleveraging. The act will regulate new procedures. It will

define the enhanced procedure for conversion, which will be carried out under an agreement on the financial restructuring of a company between the insolvent debtor and creditors concluded before launching insolvency proceedings (pre-court restructuring). The act will also define the regular conversion procedure which can begin after the insolvency proceedings are introduced or commenced under ZFPPIPP, but only subject to the fulfilment of the act, including an adequate proposal for the conversion of claims into equity of the insolvent debtor and approval of the proposal by an appropriate majority of creditors.

- Deleveraging in accordance with this act will be defined as a reduction of share capital to offset the accumulated loss and the loss from revaluation after the opening balance sheet and, simultaneously, as an increase in share capital with a non-cash contribution, i.e. conversion of claims from creditors into equity of shareholders or company members (conversion of debt into capital) and restructuring of other liabilities, in particular a reduction in interest rates, extension of maturity and partial write-off.
- Protection of the rights of existing owners – corporate rights holders will be ensured in the conversion process by giving them the opportunity to prove to the court within a specified time limit that appropriate liquidity has been ensured or that they have sufficient capital or assets at their disposal to prevent repeated illiquidity within the specified time limit. At the same time, their rights will be protected by setting the criteria for the conversion rate, as already regulated by the provisions of the Companies Act concerning the squeeze out of small shareholders or the incorporation of a company into a parent company.
- Any creditor, shareholder or company member the insolvent debtor's management will be able to submit a proposal for conversion. The equal treatment of all creditors – those who voted for conversion and those who opposed it or abstained from voting – must be ensured in all conversion procedures. A special act may be adopted in order to give special status to individual types of creditors participating in the conversion, such as creditors-employees or creditors-suppliers.
- If conversion is outvoted, the procedure will continue in accordance with the provisions of ZFPPIPP. If conversion is confirmed by a vote, the court will issue a decision to stop the bankruptcy or compulsory composition proceedings. The act will provide for measures to prevent further insolvency of companies restructured in this way.

The second set of measures will be aimed at resolving **the problem of over-indebted or undercapitalised companies**, and will be based on reducing excessive debt levels, as well as on ensuring additional capital. Existing owners and creditors will be the first in line to act, and additional activities are anticipated to mobilise other private capital sources, also through international institutions such as the European Bank for Reconstruction and Development, and the International Finance Corporation. At the state level, the restructuring will be carried out in cooperation with other institutions (BAMC, SID Bank, SSH, PDP, Slovene Enterprise Fund), which will support endeavours to restructure companies through existing instruments. The state will intervene only if company owners, banks and other stakeholders commence company recovery procedures on their own initiative. It will work as a stimulus and another boost for market stakeholders to launch the restructuring process themselves, and ensure the majority of resources for the financial, technological and innovation recovery of the production process. The stabilisation, financial consolidation and increased production of these companies will produce multiplier effects in the entire economy. All measures implemented by the state will be subject to EU rules on state aid.

### **Improving corporate governance**

The regulation of management of state assets in Slovenia has thus far been inefficient. Management was dispersed among several legal entities, which resulted in lack of coordination and conflicts due to the different goals of individual operators. The objective of the new management system of state-owned companies is to sustainably maximise the profitability and value of investments owned by the state. This means that the state will redefine the mechanisms for strategic investment management and, at the same time, ensure the exit of the state from the ownership of all non-key investments.

The basis to improve capital assets management is the Slovenian Sovereign Holding Act (ZSDH) the purpose of which is to establish concentrated investment management in order to achieve stable ownership and the sustainable maximisation of profitability and value of these investments and consequently to improve the liquidity of public finances. Asset management will be based on a more

consistent corporate management system, primarily on a **long-term strategy** in which objectives of the state regarding the management of its assets will be clearly defined, which will send a positive signal to potential investors. Due to uniform management, it will also be easier to monitor the attainment of the objectives.

Management processes will be simpler, more transparent and predictable, as they will be implemented on the basis of the strategy and other documents foreseen in the ZSDH. The management will certainly be more transparent, and the realisation of management principles will be monitored by the National Assembly, to whom the Slovenian Sovereign Holding (hereinafter referred to as SSH) will have to report annually, and the report will have to be based on a presentation of indicators for all the companies in which SSH has a capital investment.

In 2013, Slovenia will continue to improve corporate governance in which the state holds a stake. This will be based on the Slovenian Sovereign Holding Act (ZSDH), with certain amendments passed by the National Assembly on 24 April 2013. The main solutions are:

- introducing the supervision of the operations of SSH and its affiliated companies by the Court of Audit of the Republic of Slovenia, which ensures greater transparency and rationality in the operations of SSH in the long term;
- simplification of the transitional investment management regime, and relations between Slovenska odškodninska družba, d.d. (hereinafter referred to as SOD), SSH, Kapitalska družba (hereinafter referred to as KAD), DSU, družba za svetovanje in upravljanje (hereinafter referred to as DSU), Modra zavarovalnica (hereinafter referred to as MZ), PDP, Posebna družba za podjetniško svetovanje (hereinafter referred to as PDP) and the Government of the Republic of Slovenia;
- in the transitional period, until the implementation of the classification, the introduction of the independent management of capital assets of the Republic of Slovenia by SOD, which were managed by AUKN until the adoption of ZSDH. These are investments the total book value of which does not exceed EUR 20 million or in which the Republic of Slovenia does not hold a minimum of 25% stake or 25% of voting rights;
- the prescribed obligation to adopt the Corporate Governance Code, which has to be adopted by the management board of SOD, and which will more precisely regulate concrete activities regarding managing companies with state capital investments will ensure expert and mainly predictable investment management, which is the condition for the responsible and successful management of state assets;
- establishing the opportunity to exercise the damage liability of members of management or supervisory bodies of SOD or SSH by the Republic of Slovenia, which in addition to the introduction of the obligation to report to the National Assembly on the proposal of the Government will be the basis for the efficient, economic and responsible management of companies with state-owned assets by SOD;
- deleting the transitional provision on implementing the recapitalisation of SSH with real estate of the Republic of Slovenia. The problem of the real estate of the Republic of Slovenia in ZSDH will be comprehensively solved with the next (thorough) amendments to ZSDH;
- deleting the provision on the transfer of the Fund for Financing the Decommissioning of Krško Nuclear Power Plant to SSH;

Pursuant to the adopted amendment, SOD, as the predecessor of SSH, will be required to get a consent from the National Assembly on the proposal of the Government only for disposal, but no longer for the management of state-owned assets if the total book value of an investment exceeds EUR 20 million, or if the state holds at least a 25% stake or 25% of voting rights, and these investments were managed by the Capital Assets Management Agency of the Republic of Slovenia until the introduction of ZSDH.

Pursuant to the adopted amendment, until the implementation of the classification, KAD, SOD, MZ, DSU and PDP will require consent from the National Assembly on the proposal of the Government for the disposal of state-owned assets if the total book value of an investment exceeds EUR 20 million, or if these companies hold at least a 25% stake or 25% of voting rights.

In the next step, Slovenia will take a comprehensive approach to making those essential legislative changes which follow the adopted coalition agreement. These changes relate primarily to SSH being only the manager of state-owned assets, while the state remains the owner. In addition, only a comprehensive strategy of managing state-owned assets, following the example of similar strategies

of developed OECD Member States, will be prepared instead of the classification and guidelines as interim documents. The strategy of managing state-owned assets will be prepared in the last quarter of 2013 and will clearly define:

- (i) strategic investments in which the Republic of Slovenia will retain its ownership stake. This group comprises investments performing specific public functions or, for other reasons, dictating the retention of the state's stake, which may be either a majority or portfolio stake,
- (ii) investments intended for privatisation.

Amendments to the act and strategy of managing state-owned assets will also define the most suitable organisational form for managing both types of asset. They will ensure that those implementing the strategy are obliged to comply with the OECD Principles of Corporate Governance and OECD Guidelines on Corporate Governance of State-owned Enterprises. The aforementioned amendments will be submitted for passage by the National Assembly no later than by the end of June.

### **Privatisation**

Regardless of the changes in legal bases and the preparation of the comprehensive strategy of managing state-owned assets, the Government wants to strengthen its commitment to privatisation by implementing some procedures and the fast withdrawal of the state from the economy. In May, the Government will prepare the first set of companies for privatisation and submit it to the National Assembly for approval. The list of companies to be privatised consists of two parts:

- (i) procedures in progress; thus the Government wants to send a clear signal that it does not intend to intervene in selling procedures which have already begun;
- (ii) procedures which will commence in 2013: these include the further sale of non-key state-owned assets, and the commencement of privatisation procedures for an additional three to five companies.

The main objective of privatisation procedures is to achieve the highest possible purchase price and thus budget revenue, where the direct owner is the Republic of Slovenia. However, the key objective of the sale of individual types of state-owned assets cannot be to achieve the highest possible purchase price, and thus budget revenue due to wider macroeconomic interests of the state related to the economic development. By selling these types of state-owned asset, achieving macroeconomic objectives must be ensured at the same time, i.e. primarily achieving the permanent existence and development of an individual asset, permanent and stable economic growth, improving the quality and capacity of public services, and ensuring a more successful and competitive economic system.

## **4.2.2. Balancing public finances**

### **Reducing the general government deficit <sup>4</sup>**

To resolve the imbalances in Slovenia, measures of fiscal consolidation are as urgent as measures to boost economic growth. Slovenia is a small open economy, so measures to consolidate public finances must be prepared in a way not to have significant negative effects on the competitiveness of the economy. Thus these measures will be based primarily reduction of general government expenditure. To achieve urgent rapid progress in consolidation, the Government assesses that certain measures relating to revenue, permanent and temporary, with immediate positive financial effects are required. This will provide the time needed to take additional measures to manage the scope of general government expenditure.

The overall target of these measures is estimated at approximately EUR 1 billion annually, one third of which will be contributed by the financial effects of general government revenue measures and two thirds by the financial effects relating to general government expenditure.

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<sup>4</sup> For more detail see Stability Programme 2013.



In selecting the set of measures relating to general government expenditure, Slovenia will pursue the policy undertaken at the beginning of 2012 and take additional measures to proportionately distribute the burden of consolidation of public finances across all segments of public expenditure.

On the expenditure side, further measures to limit public sector labour cost volume, and expenditure on pensions and social transfers will be taken. Besides, expenditure on investments and investment expenses, mainly those co-financed by resources from EU funds, will also be limited. Through the whole program period the government will strictly implement the policy of reducing the number of employees' for one percent annually as well as other organizational and program changes with permanent positive effects on public expenditures. The Government has, moreover, the aim of the abolition of all indexation mechanisms.

On the revenue side, the government primary attention is put to measures improving the efficiency of tax collection and reducing the size of the informal economy (illegal construction, cash transactions, etc.). Regarding taxation, government will apply measures that are least harmful to economic growth. In terms of fiscal impacts the change in the VAT rate<sup>5</sup>, which is scheduled to come into force by 1 July 2013 is the most important. In addition, changes of property taxation are planned for implementation by 1 January 2014. The in corporate income tax rate will be kept at the current level of 17% from 2014 on. If those measures, on both the expenditure and the revenue side, will not ensure the achievement of fiscal targets the so-called crisis tax on income will be introduced as a temporary measure in January 2014.

The Government's objective is to reduce the general government deficit below 3% of GDP by 2014. The Government is planning a general government deficit of 4.2% of GDP in 2013, which, however, will amount to 7.9% of GDP due to the one-off effects of the already implemented and expected recapitalisations in the banking sector. A medium-term objective regarding public finances is permanent structural balance, which is in accordance with the proposed constitutional rule of a balanced budget.

### **Long-term public debt stabilisation**

The goal pursued by Slovenia regarding the general government debt will be its stabilisation below 55% of GDP. The pension reform in force from the beginning of 2013 will significantly contribute to this and, according to estimates, ensure financial sustainability until 2020. To adequately respond to demographic movements and ensure financial sustainability, regular discussions with social partners will be held in the field of pension and disability insurance.

Activities for a further overhaul of the system to ensure long-term financial sustainability and decent pensions also after 2020 are envisaged in 2013 and 2014.

The year 2013 will be devoted to a more detailed analysis of the actual effects of the reform, especially the influence of raising the actual retirement age, and the preparation of new incentives of the financial sustainability of the system in the light of the results produced. For this purpose, a group of experts will be appointed to prepare starting points for a discussion on further changes to pension and disability insurance with effects after 2020. A micro-simulation model will be prepared by the end of 2013.

A discussion paper on the pension and disability insurance system after 2020 is expected to be finalised in 2014. It will discuss:

- the introduction of automatic mechanisms for adjustments to the retirement age,
- the introduction of a compulsory second pension insurance pillar, which will provide for an additional source of income to the majority of pensioners.
- changes to the systemic nature of the pension scheme (primarily in terms of introducing a points-based system).

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<sup>5</sup> Already envisaged in Public finance balance Act

### 4.3. THIRD PILLAR: Improving competitiveness for sustainable growth in the long-term

The third pillar includes a wide range of measures which contribute to enhancing growth conditions in the long term and attaining the objectives of EU 2020, and support short-term measures to boost the growth. They are divided into six thematic sections: i) efficient rule of law, ii) promotion of foreign investments, iii) labour market flexibility, iv) efficiency of the public sector, v) encouraging entrepreneurship, and vi) concern for health and the environment.

#### 4.3.1. Effective rule of law<sup>6</sup>

Activities to ensure greater efficiency in the work of all judicial authorities in the judicial system (courts, prosecution, state attorney's office, enforcement officers, notaries, court experts, certified appraisers and court interpreters) will continue in 2013 and 2014. Among the objectives of the measures is a **reduction in the number of judges per 100,000 citizens** and a change in the ratio between court staff and judges (relieving the burden on judges of non-judicial duties and ensuring an adequate number of support staff per judge) and a change in the structure of court staff in the long term. Organisational and legislative measures are being planned to optimise the network of courts and simplify legislative solutions, which will enable the courts to make faster decisions. At the same time, the measures will be aimed at reducing the number of unresolved cases and ensuring the conditions to shorten the duration of trials. In order to make the judicial system more efficient, measures of the 'extended arm' of the judicial branch of power, such as court experts, interpreters, appraisers and enforcement officers, whose work can also contribute to making decisions in court proceedings within a reasonable time, will be adopted.

The activities of the **e-justice** project will continue, especially in order to eliminate administrative barriers, make court information systems more accessible to external users, introduce additional user-friendly electronic services (e.g. e-court fees, e-notifications, e-serving, e-applications, e-auctions, e-offences (recording court decisions on offences and penalty points), automatic speech recognition, the integration of an e-justice interoperable spine, the computerisation of records and registries).

#### Box 4: Situation in the judicial system at the end of 2012

- litigation in local courts took 13.2 months on average (actual), while the expected duration was 11.7 months;
- the average duration of enforcement cases is over 20 months;
- litigation in district courts took 15.2 months on average (actual), while the expected duration was 12.9 months;
- commercial cases in district courts took 14.2 months on average (actual duration), while the expected duration was 12.9 months;
- litigation of individual and collective labour disputes in labour and social courts took 12 months on average;
- litigation of social disputes in labour and social courts took 12.4 months on average;
- litigation of criminal cases in district courts took 18.3 months on average;
- it took the higher courts 4.6 months on average to resolve complaints in civil cases and 4.7 months on average in commercial case;
- the number of incoming major cases in comparison to 2011, when the total of cases pending was 180,470, decreased by 7.2% to 167,528;
- a total of 1,197,784 cases were resolved (7% more than in 2011), of which 186,456 were major cases (2.2% less than in 2011).

The period between the acceptance of a case in court and scheduling of the first hearing in major cases in courts of first instance of general jurisdiction in 2012 took 9.6 months on average in district courts and 8.1 months in local courts.

#### Situation in courts regarding personnel at the end of 2012

- total number of judges: 983 or 47.7 per 100,000 citizens;
- total number of court personnel: 3,330;
- judge/court personnel ratio: 3.4.

<sup>6</sup> The area of effective judiciary and, above all, the priority policies of optimisation of the work of the judicial system is included also in the strategy Judiciary 2020, which was confirmed in June 2012 also by the Government of the RS and was prepared in accordance with the guidelines of the umbrella strategy of the EU, Europe 2020.

The process of creating short-term solutions in the priority areas of civil commercial proceedings, enforcement procedures, insolvency proceedings<sup>7</sup> and of the objective of reducing the number of unresolved cases takes into account the latest recommendations of the Organisation for Economic Co-operation and Development (OECD) - Economic Survey of Slovenia 2013<sup>8</sup> and the results of the 'Review of the situation in the area of justice of the EU'<sup>9</sup> (Justice Scoreboard) regarding the situation of judicial systems in the EU Member States, which was prepared by the European Commission and officially published on 27 March 2013. All objectives and solutions will be implemented in dialogue and cooperation with the judiciary as an independent branch of government.

#### Priority areas and target values by 2014

##### **Civil commercial proceedings**

- the duration of cases in commercial cases in courts of first instance will be reduced, i.e. 30% of cases will be settled within two to three months, 50% of cases within a year, while the remaining cases ('major' disputes) will be assigned in less than nine months;
- the duration of legal cases in courts of first instance will be reduced, i.e. litigation in local courts will take nine months on average, while litigation in district courts will generally take 11.5 months;
- higher courts will settle complaints in civil commercial cases within three months on average.

The target values by 2014 will be reached with a combination of organisational measures which are under the jurisdiction of the Supreme Court of the Republic of Slovenia, and appropriately amended regulatory bases, which will be prepared by the Ministry of Justice in dialogue and cooperation with the judiciary as an independent branch of government (primarily amendments to the Courts Act, the Judicial Service Act and Court Rules). In terms of organisational changes, the emphasis will be on efforts to introduce a model to facilitate the settlement of cases in 2013 and 2014 in other district courts on the basis of the encouraging results of the Triaža project for commercial disputes which was introduced on 1 July 2012 by Ljubljana District Court<sup>10</sup>. The model is expected to be introduced in the remaining three district courts in 2013 in order to increase the efficiency of resolving civil commercial cases in these courts.

In terms of the complementary regulatory component, the ministry will prepare appropriate legislative amendments to the Courts Act and the Judicial Service Act by the end of 2013, in which the essential changes will concern the transfer of tasks to the lowest possible level of jurisdiction, while all administrative tasks on the filing and resolution of routine or simple cases (for example, small claims disputes) would be transferred to the authority of court staff.

**Enforcement cases.** It can be concluded from the trend of enforcement cases that the judicial system has managed the caseload of enforcement cases for several years, but that it is still burdened with a relatively high number of cases pending from previous periods. This was also established by the European Commission in the 'Review of the situation in the area of justice of the EU', with data referring to the situation in 2010.

The number of resolved enforcement cases in local courts, given an unchanged caseload, will increase by 5% in 2013 and a further 5% in 2014. The target values will be attained with a combination of organisational measures which are under the jurisdiction of the Supreme Court of the Republic of Slovenia, and appropriately amended regulatory bases, which will be prepared by the Ministry of Justice in dialogue and cooperation with the judiciary as an independent branch of government, with an emphasis on amendments to the Enforcement and Securing of Civil Claims Act, which will be fully prepared in 2014 at the latest.

<sup>7</sup> Details about insolvency legislation can be found in Chapter 4, Recommendation 6.

<sup>8</sup> April 2013; OECD (2013), OECD Economic surveys: Slovenia 2013, OECD Publishing.

<sup>9</sup> COM(2013) 160 final; <[http://ec.europa.eu/justice/newsroom/news/130327\\_en.htm](http://ec.europa.eu/justice/newsroom/news/130327_en.htm)>. Pregled je bil izdelan na podlagi podatkov iz leta 2010.

<sup>10</sup> Ljubljana District Court, primarily because of the implementation of the Triaža project, resolved in 2012 16 % more civil commercial cases than in 2011, with the quotient of resolution of the caseload in 2012 standing at 105 % (i.e. 5 % more resolved cases than the caseload), which is almost 10% more than in 2011, when the court resolved only 95.3% of the caseload of civil commercial cases. Source: Opening of the judicial year 2013, Supreme Court of the RS, 11 February 2013.

**Insolvency procedures.** Amendments to ZFPPIPP-E<sup>11</sup> have already been adopted by the Government, while their adoption by the National Assembly is expected in the first half of 2013. A proposal regarding the procedure of simplified compulsory settlement for SMEs is for the new regulation to enter into force in 2014.

**Labour and social disputes.** The duration of cases in individual and collective labour and social disputes will be reduced by 2014 to nine months on average. On the basis of the results of the Triaža pilot project for commercial disputes, the aforementioned model for shorter duration of cases could be implemented in the field of trials in labour and social cases, where it is especially appropriate due to many collective cases.

**Minor offence proceedings.** The duration of minor offence cases in courts will be reduced by 2014 from 7.7 to five months, and the duration of cases regarding requests for judicial protection in minor offence cases from 10.4 to six months.

**The transfer of jurisdiction** to decide on judicial protection, pursuant to financial acts from the Supreme Court of the Republic of Slovenia to the Constitutional Court of the Republic of Slovenia. The jurisdiction to decide on judicial protection pursuant to the act regulating banking, act regulating financial instruments, act regulating takeovers, act regulating audits, act regulating insurance operations, and act regulating preventing the restriction of competition is transferred from the Supreme Court of the Republic of Slovenia to the Constitutional Court of the Republic of Slovenia. The proposed regulation ensures the protection of the right to legal remedies under Article 25 of the Constitution of the Republic of Slovenia. Its purpose is also to relieve the Supreme Court.

**Rationalisation of trials in criminal cases.** In the field of criminal law, a project is underway regarding cases of specialised departments for trials in the most complicated cases of organised and commercial crime, terrorism, corruption and other similar criminal offences, with the following objectives:

- the pre-trial hearing is held within 45 days of the finalisation of the criminal charge;
- the timeline of hearing an individual case is published at the pre-trial hearing;
- main hearings are fixed in a concentrated manner (in specialised cases, twice a week, and in 'traditional' cases, once a week);
- to solve specialised cases within six months of the finalisation of the action of indictment;
- phases of the procedure are implemented by taking into account the time limits laid down (Courts Act, the first set of amendments);
- the structure of criminal panels and panels of five judges is suitably arranged (Courts Act, the first set of amendments).

**Reducing the number of unresolved cases** in the judicial system. The number of unresolved cases in the judicial system, given an unchanged caseload, will decrease by 3% annually in 2013 and 2014. The objectives will be attained by combining organisational measures under the jurisdiction of the Supreme Court, and suitably amending regulatory bases, which will be prepared by the Ministry of Justice in dialogue and cooperation with the judiciary as an independent branch of government. The time from receiving a case to fixing a hearing will be significantly shortened in all types of cases.

Target situation regarding personnel on 31 March 2014:

- total number of judges: 927 or 45 per 100,000 citizens
- total number of all court personnel: 3480
- judge/court personnel ratio: 3.8

Within this measure, the Lukenda project will be resumed to a limited extent. The proposal will be prepared by the Supreme Court. The prerequisite for additional human resources will be the reorganisation of business activities and achievement of the objectives of renewal projects. The Supreme Court, being at the top of the legislative branch of government, will assess which court meets the conditions for personnel to be temporarily enhanced.

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<sup>11</sup> A more detailed explanation of objectives and solutions is included in Chapter 6.1 'Changes to improve the business environment'

### 4.3.2. Promotion of foreign direct investment

Slovenia supports new foreign direct investment (FDI), as it recognises it as an excellent tool for stimulating and growing a technologically advanced and competitive economy, a reduction in unemployment, improved well-being and Slovenia's better integration in international trade.

Despite the competitive advantages which Slovenia has as an FDI destination, due to its geographical position, labour force education and skills, relatively well-developed infrastructure, numerous obstacles to the greater extent of FDI in Slovenia remain. Despite the measures that have already been taken, the situation is not satisfactory. A thorough improvement of the business environment for domestic and foreign investors is one of the Government's main objectives. The ongoing efforts will be upgraded with systematic monitoring of obstacles in the business environment and their elimination.

The obstacles to foreign (and domestic) investors and the possibility for their elimination fall within the competence of various state bodies, thus in April 2013 the Government appointed an inter-ministerial coordinating committee in order to provide strategic guidelines and coordinate work in relation to measures aimed at attracting FDI. The final objective is to establish a stable and attractive business and investment environment, which will make Slovenia a desirable and competitive destination.

In 2013, the new joint agency SPIRIT was launched to provide a comprehensive information, studies and analyses in the field of FDI, and provide comprehensive support to investors in their search for business opportunities by creating account management for cooperation with foreign investors.

In 2013 and 2014, the FDI promotion as a part of the EUR 17 million annual budgets to encourage FDI in Slovenia (EUR 13.3 million was available in 2012), will focus on the following activities:

- providing financial incentives for foreign investments or larger investment projects;
- information, consulting and other services for foreign investors;
- promoting and marketing Slovenia and its regions as an FDI destination.

**Table 4: Plan for allocating non-refundable financial incentives within a public tender**

Public tender	Anticipated number of supported projects	New jobs	Amount of allocated incentives	Assessment of value according to the allocated incentive
Year 2013	<b>18</b>	<b>500</b>	EUR 7.8 million	3x
Year 2014	<b>20</b>	<b>600</b>	EUR 10 million	3x

Source: Ministry of Economic Development and Technology

**Table 5: Plan of allocating non-refundable financial incentives by a special procedure**

Special procedure	Anticipated number of supported projects	New jobs	Anticipated amount of allocated incentives	Assessment of the total value of investments
Year 2013	<b>2</b>	<b>200</b>	EUR 60 million	EUR 400 million
Year 2014	<b>2</b>	<b>50</b>	EUR 50 million	EUR 350 million

Source: Ministry of Economic Development and Technology

#### **Box 5: Internationalisation**

In accordance with the Programme for Stimulating the Internationalisation of Companies 2010–2014 and to boost its **international recognition and competitiveness**, Slovenia will support the following areas:

- informative technology, educational and counselling activities (web portals and counselling, advertising and promotional material, education for international business, market research in foreign markets);
- presentations of the Slovenian economy at home and abroad (economic delegations, group presentations of the Slovenian economy at international fairs, individual presentations at international fairs, support for Slovenian business clubs abroad).

The **new foreign markets** in which we would particularly like to strengthen our activities have been recognised as essential for the achievement of our goals: the Russian Federation, Turkey, Azerbaijan, Kazakhstan, India and the People's Republic of China. These are the countries (excluding the EU and the Western Balkans) for which most Slovenian exports are destined. In this respect, the following objectives have been set:

- concerted action of all institutions in the international guidance and stimulation to the economy;
- increasing the growth of exports by 1% in 2013 and 3% in 2014;
- increasing the number of entries of Slovenian companies into new markets (for example, a new product, new service, new market, new region) and increasing the share of total exports in selected priority markets;
- increasing the number of exporters, especially in markets outside the former Yugoslavia and the EU.

The main challenge for the Slovenian economy in this respect is to achieve a greater differentiation of its own products and services, generating higher added value and creating and exploiting new market niches.

### 4.3.3. Labour market flexibility

**The new labour legislation**, that introduces the concept of flexicurity, reduces segmentation in the market, and increases the effectiveness of the legal protection of workers entered into force in April 2013. After the effective date of the act, the impact on segmentation in the labour market (the share of fixed-term contracts by age groups), flexibility (flows to and from unemployment, mobility between jobs) and on labour court proceedings (the number and duration of court proceedings, share of decisions on unlawful termination, share of decisions on reintegration) will be monitored. A survey of employers and workers whose employment relationship has been terminated will be conducted. The findings will serve as a basis for possible further amendments. In the area of labour costs, the Employment Relationship Act allows for a different regulation of collective bargaining agreements in certain cases. The relevant ministry regularly monitors the content of collective bargaining agreements concluded on the basis of the new legislation.

**Wages policy.** In 2013, the Government set an objective on further reducing labour costs in the entire public sector. In addition to the restrictive human resources policy, additional measures to rationalise and optimise operations are planned for indirect budget users (public institutes, funds, agencies). The Government has been negotiating the issue with social partners.

**Minimum wage.** In 2013, the Government in dialogue with social partners will prepare changes to the minimum wage system to make it more equitable, while at the same time making the economy more competitive.

**Preventing undeclared work and Labour inspectorate.** In the field of undeclared work a new law is to be adopted by the end of the year. Higher fines for both workers and employers who engage in undeclared work are foreseen: those who report employers engaged in undeclared work will be exempt from paying a fine, while undeclared workers will be automatically employed by the employer. The effectiveness of supervision will be enhanced by expanding the powers and increasing the number of inspectors who carry out on-site supervision. At the same, fines for violations will be increased as a deterrent measure. By the end of 2013, amendments to the Labour Inspectorate, with the aim of increasing efficiency and establishing appropriate legal basis to sanction the most common violations of labor laws and legislation in the field of safety and health at work will be adopted.

**Student work.** In the process of adopting the new labour legislation, it was agreed with the social partners that changes to the regulations in should be prepared immediately. We intend to regulate student work (in social and public dialogue) in accordance with the principle 'any work counts', which means that this form of work would increase state budget revenues with social contribution payments, while providing individuals with social security and recognised work experience. In order to prevent unfair competition, a lowest hourly rate for student work will be determined. A thorough analysis, of the situation (workload allocation, sector diversification, the transition into regular work and social status, age, degree, majoring in education and performance opportunities to students who are engaged in this type of work, etc..) and the effects of past actions in this area (ZUJF), prepared by August 2013, will be the starting point for action. Measures will be aimed at preventing abuse and supplemented by the eVŠ information system, which facilitates the acquisition of data on student statuses. The Government will discuss the new legislation at the end of October 2013 at the latest. The National Assembly is expected to confirm it by March 2014.

**Regulated professions.** In 2013 and 2014, the programme to streamline the regulation of professions and activities will continue as part of the establishment of the Point of Single Contact (PSC) business portal<sup>12</sup>. The inter-ministerial working group has been drafting proposals for the reform of, or

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<sup>12</sup> The project Establishment of the Point of Single Contact for support in procedures for acquiring permits for the pursuit of regulated activities, services and professions in Slovenia means the establishment of a transparent and simple way of obtaining information from one place about regulations and the establishment of suitable information solutions to simplify the acquisition of permits for both domestic and foreign providers. The project is managed by the ministry responsible for public administration.

improvement to, the legislation, conditions, and procedures for practising activities and professions. In 2012, the Government adopted the 1<sup>st</sup> package of measures to reform regulations on crafts, tourism and construction, while the 2<sup>nd</sup> package on veterinary medicine, real estate, lawyers, detective activities and driving school activities will be adopted in May and streamlined by the end of 2013. The streamlining of regulation of professions in commerce will also be carried out. Considering the fact that the regulation of professions and activities in fields influencing people's life and health, and environmental protection, will be retained, consumer protection will not be at risk. In relation to the PSC project, legislation in the following areas will also be reformed in the 2013–2015 period: health care, social policy, safety and security, commerce, justice, environment, transport and logistics, hospitality industry, energy, finance, education, sport, culture, agriculture, other personal and business services.

#### 4.3.4. Efficient public sector

In the public sector, the objectives are aimed at eliminating administrative barriers and reducing bureaucracy; achieving better quality legislation; rational, optimal and more efficient business operations (including information technology and e-services); open, economical and transparent activities; user-orientation - improving services and increasing the quality of human resource management. This will be achieved through several measures:

- establishment of a unified platform for systemic promotion of the efficiency and effectiveness of operations, including inspection services (simplified statement of quality policy, models of management by objectives, quality according to CAF model etc.);
- reform of the physical and online 'VEM points' (All in One Place) to support domestic and foreign entrepreneurs (in connection with the PSC project - point of single contact);
- providing high quality and effective legislation (public involvement, regulatory impact assessment, evaluation etc.);
- simplifying procedures and reducing bureaucracy of administrative authorities, local authorities and other government bodies;
- reform of administrative units and the introduction of administrative districts (increasing the quality and streamlining and optimising services);
- reducing administrative delays in the most critical areas - in cooperation with the competent departments (environmental permits, social rights etc.) and by reforming administrative statistics;
- implementation of e-government projects (friendly and efficient e-business, electronic public procurement system, e-serving). The result will be a new modern e-Government portal with a single login system, simplified identification of users in one place, and automation of business and integration with backup systems;
- implementation of measures for the transition to complete e-business in state administration and with promotion of e-services, and encouraging of citizens to use e-services (development of a central authentication system through which users will be able to access e-services in a uniform manner, also by modern mobile devices, and a central system for e-signatures and e-signature verification);
- with the implementation of the project of interoperability and e-data interchange (friendly and efficient service to other ministries and public authorities). The results of this will provide efficient, reliable and secure operations and expand the use of components of the central interoperability infrastructure;
- development and upgrading of both the tax and customs information systems, which will facilitate tax service activities as well as simplify the fulfilment of tax obligations by taxpayers;
- increasing efficiency, economy and transparency of the government information technology;
- establishment of a more flexible system for rewarding employees based on their work results, reducing the role of automatic determination of wages, and modernisation of the employee system;
- realisation of e-recruitment with the aim of transparency, simplification of processes and increased quality in the implementation of recruitment procedures in public administration bodies;
- professional supervision of municipal regulations;
- reducing a democratic deficit at a local level. The result of this will be a legal regulation of new forms of informal cooperation with the citizens. The implementation deadline is 31 December 2013;
- effective prosecution and prevention of corruption (amendments to the Political Parties Act and the Elections and Referendum Campaign Act, amendments to the Act on the Access to Information of Public Character, amendments to the Integrity Act, the upgrade of forms and

- methods of joint work of public prosecutors and the police, and more effective analytical support for the detection and investigation of economic crime and corruption);
- by improving the efficiency of inspection services with greater coordination and directing role of the inspection board (less bureaucracy in procedures, IT support etc.);
  - development of the systemic land legal environment for the operation and development of non-government organisations.

**Eliminating administrative barriers.** In 2013, the Government will implement additional 162 measures under the project 'Minus 25%'<sup>13</sup> thus reducing administrative and other regulatory burdens on the economy by EUR 360 million. Therefore, procedures for obtaining permits for foreigners will be simplified (point of single contact) with the aim of openness to foreign investment; the burden in the area of statistic and other types of reporting will be reduced; new procedures for obtaining distance permits will be introduced; procedures in the field of tourism will be simplified; the unnecessary burden of keeping work records will be eliminated; online and physical VEM points for domestic and foreign business entities will be modernised; a spatial information system will be established with a unified procedure for obtaining spatial and environmental permits; the projects e-public procurement and e-serving will be implemented and tax procedures and forms will be simplified etc. The government will also implement measures which will enable the **adoption of more qualitative legislation**. In 2013 and 2014, special emphasis will be placed on SMEs. Therefore, a pilot project for the implementation of a methodology to assess the effects on the economy ("SME" methodology) will be introduced. The project will be conducted in collaboration with the business sector.

**More efficient procedures for spatial planning and the acquisition of building permits:** In 2012, changes to three acts regulating this field (Construction Act, Spatial Planning Act and Act regarding the siting of spatial arrangements of national significance in physical space) were made in order to simplify or shorten procedures in the preparation of spatial acts and building permits. Key changes include:

- eliminating the mandatory requirement to acquire project conditions from consent authorities,
- eliminating the mandatory audit for complex and demanding buildings,
- shortening deadlines for issuing permits, and establishing the principle that the regulations governing the field in question cannot regulate deadlines in any other way,
- abolishing the option to suspend the procedure for issuing a building permit if the consent authority's response is negative after the expiry of the deadline,
- determining simplified rules for the participation of third-party participants in the procedure for issuing building permits – an oral hearing is no longer mandatory in all cases, and the fiction of service of invitations and decisions is established; if the investor concludes a contract with a land owner which proves the right to build, it is considered that third-party participants agree to the construction and are only served a building permit;
- eliminating the obligation to connect the building to power and public utility lines if the planned building is self-sufficient and the solutions take into account technological progress;
- a clearer definition of the term 'building maintenance' facilitates the energy-saving restoration of buildings,
- eliminating the need to acquire an opinion on compliance with the municipal spatial plan from the Ministry of Infrastructure and Spatial Planning after the municipality has acquired all the opinions of spatial planning authorities,
- establishing the rule that a negative opinion of a spatial planning authority after the expiry of the deadline cannot suspend the procedure for adopting the spatial plan,
- reducing the number of spatial planning authorities,
- introducing a short procedure for minor expansions of construction land areas (up to 5,000 m<sup>2</sup>) which constitute the completion of an existing built-up area when this is required to preserve and develop economic activities at existing locations<sup>14</sup>.

<sup>13</sup> In the period 2009-2012, 230 measures were implemented (see [www.minus25.gov.si](http://www.minus25.gov.si) or [www.minus15.gov.si/en](http://www.minus15.gov.si/en)).

<sup>14</sup> Constitutional Court of the Republic of Slovenia conducts the proceedings to review the constitutionality of this provision. It issued a decision that the implementation of this provision must be suspended until the final decision.



The effects of these amendments to the extent which will enable an implementation analysis are expected to be seen in 2013. Moreover, in 2013 and 2014, the following measures will be implemented:

- continue the programme of eProstor projects: establishment a spatial information system, designing a system for monitoring spatial development and updating common infrastructure for spatial information,
- encourage local communities to accelerate the preparation of municipal spatial plans (90 by the end of 2013),
- include spatial planning issues in the preparation of regional development programmes, with an emphasis on forming comprehensive regional urban development projects and reconstructing brownfield areas,
- prepare amendments to regulations to better incorporate environmental assessment procedures in the preparation of spatial planning acts,
- 13 new national spatial plans will be adopted in 2013 for investment in state transport and energy infrastructure,
- the National Housing Programme will boost investments in the functional and energy-saving restoration of apartments, construction of public apartments in areas where they are most needed, and the construction of apartments for vulnerable population groups.

#### 4.3.5. Promoting entrepreneurship

To support entrepreneurship and innovativeness, the Ministry of Economic Development and Technology will carry out activities in accordance with the Programme of Measures for Promoting Entrepreneurship and Competitiveness 2007-2013, the Programme for the Promotion of Technological Development and Innovations for 2013 and Slovenian Industrial Policy 2014-2020, which was adopted in February 2013. In order to boost the activities of the Slovenian Industrial Policy 2014-2020, action plans (for sustainable construction, for sustainable mobility, to promote design in companies, etc.) are being prepared for individual sectors through economic initiatives. 'Wood is beautiful', an action plan to improve the competitiveness of the forest-wood chain in Slovenia by 2020 is already being implemented.

**Table 6: Challenges and technological and industrial areas of priority in Slovenia**

Challenge	Priority technological areas*	Key industrial sectors*
environmental and energy challenges, and efficient use of natural resources based on sustainable production and consumption	environmental technologies (technologies for efficient energy use, including the economic consumption of energy, technologies for renewable energy sources and for increasing material efficiency, etc.)	energy/smart systems
		sustainable construction
		manufacturing (especially wood processing industry, metal industry, electrical and electronics industry)
		chemical and processing industry
sustainable mobility	technologies for sustainable mobility	automotive industry
food, health and ageing population	biotechnology and other technologies related to the challenge	pharmaceutical industry
		food processing and sustainable food production
		sustainable tourism
potential of key enabling technologies (KET)	nanotechnologies, micro- and nano-electronics, photonics, biotechnology, advanced materials, advanced production and process technologies	ICT
		electrical industry and electronics
		new materials
		metal-processing industry, engineering and tool-making

Source: Ministry of Economic Development and Technology

\* All technological areas and industrial sectors are interrelated, with no clear-cut boundaries between them. The technologies referred to also support other industrial sectors, which is why only key sectors of application are indicated with certain technologies. Industrial sectors do not relate to definitions according to the standard classification of activities, as their meaning is broader.

To promote entrepreneurship and innovation in order to support the growth and development of companies throughout their life cycle, and to increase the value added per employee, and encourage the creation of new businesses and new jobs, the following measures are planned:

1. measures to provide a comprehensive, effective and transparent supporting environment for the promotion of entrepreneurship and innovation, such as:
  - financing support services as part of VEM entry points at local level,
  - financing the implementation of tasks of university incubators,
  - financing the activities of offices of technology transfer (transfer technologies in public research organisations in Slovenia),
  - financing subjects to support the national innovation system,
  - promoting entrepreneurship.
2. measures to encourage the creation, growth and development of companies in the form of:
  - subsidies for start-ups of new innovative companies,
  - stimulation of fast-growing companies,
  - refundable financing sources: (i) with equity financing (venture capital), (ii) debt financing (guarantees with subsidised interest rate, micro-loans for micro and small companies).
3. measures to promote innovation and entrepreneurial investments in research and development:
  - co-financing development activities and technological investments and equipment,
  - promoting the employment of researchers and strengthening R&D departments in companies,
  - promoting non-technological innovations, including industrial design,
  - promoting international technological development projects,
  - measures for investments in areas of smart specialisation:

In 2013, a new united agency SPIRIT began its operation in the field of promoting entrepreneurship, innovation and technological development which will carry out the professional and developmental tasks of promoting the competitiveness of the economy.

Also to be implemented are measures related to the Action plan for the implementation of the Small Business Act 2012–2013, with a special emphasis on:

- changing the entrepreneurial culture and attitude to entrepreneurship, primarily among young people, through encouraging creativity, innovativeness and an entrepreneurial spirit; non-financial measures: preparation of better legislation and further removal of administrative barriers. A point of single contact has been established where information on the conditions for performing activities, and at a later date, electronic support for procedures for issuing various permits will be available.
- Financial instruments directed towards refundable financing sources through the Slovene Enterprise Fund, SID Bank and other financial institutions (the Eco Fund, the Regional Development Fund, etc.). Direct incentives will be intended primarily for special target groups, such as companies in early development phases or in the internationalisation phase. A strong emphasis is being put on social challenges (environment, energy efficiency) falling within the responsibility of the ministry responsible for the environment.
- A comprehensive support environment for companies and entrepreneurship, both at national and local level, where the guideline is ‘content instead of form’.

In order to improve access to sources of funding for companies, the Ministry of Economic Development and Technology provides:

- bank loan guarantees with interest rate subsidies through the Slovene Enterprise Fund, which implements financial engineering instruments for SMEs, in accordance with the Programme on financial engineering instruments for micro, small and medium-sized companies in Slovenia for the period 2009-2013<sup>15</sup> as part of the Enterprise Fund.

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<sup>15</sup> In 2012, refundable financing sources as part of PIFI were implemented through the Slovene Enterprise Fund and SID Bank.

- micro loans through the Slovene Enterprise Fund,
- loans for the development and investment projects of companies are also granted by SID Bank, which also handles the development, provision and promotion of innovative and long-term financial services as supplements on the financial market with a view to enable the sustainable development of Slovenia.

The Slovene Enterprise Fund will continue to provide its products through three financial lines, i.e. a guarantee/credit line for SMEs, a subsidy line for SMEs and a line for equity financing. Financial assets within these lines will be divided into two programming sets with respect to technology intensity, innovation and potential for growth: into innovative companies with the potential for fast growth and companies developing less intensively.

Companies from the first programming set will be eligible for a total of EUR 86.63 million in 2013, while companies from the second set will be eligible for a total of EUR 35.53 million. In 2013, SMEs will thus be able to dispose of a total of just over EUR 122 million in financial assets under favourable terms, with which the Enterprise Fund is expected to support approximately 717 projects with a total investment value of almost EUR 158 million. Companies in the first programming set are expected to be eligible for a total of EUR 37.76 million in 2014 and companies in the second set for a total of EUR 35.53 million. In 2014, SMEs will thus be able to dispose of a total of somewhat more than EUR 73.29 million in financial assets obtained under favourable terms, with which the Enterprise Fund is expected to support approximately 588 projects with a total investment value of just over EUR 142 million.

In 2013 and 2014, SID Bank will continue to provide the financial market with supplementary financial services in the form of i) SID Bank's long-term specific credit lines through commercial banks, ii) loans with the status of state aid as part of the measure of financial engineering for the promotion of technological and developmental projects 2011–2013, iii) micro-loans from the Slovene Enterprise Fund as part of the implementation of the second phase of the micro financing measures, iv) state guarantees in accordance with the Act on Guarantees of the Republic of Slovenia for Financing the Investments of Enterprises and v) security for loans and investments. Financial services will be funded by SID Bank through borrowing on international markets and from supranational institutions, such as the European Investment Bank, the Council of Europe Development Bank, or implemented as an agent for the Republic of Slovenia, or ensured by combining funds through the stimulation and development platform. This platform represents a new approach for the use of fiscal revenues and will significantly contribute to implementing operational programmes of the European Cohesion Policy in 2014–2020 and other financial instruments of the European Union.

#### Using the available resources to boost the economy: Cohesion Policy in 2013 and 2014

Due to the limited budgetary resources to boost the economy, EU cohesion policy funds will represent the key sources of investment. Priority is given to projects that yield the highest possible added value and contribute to job creation. The 2013 budget foresees EUR 1.1 billion of cohesion funds and in the 2014 budget EUR 839 million. The most important areas of investment and measures are knowledge (co-financing the connection of studies with the needs of the economy and the sustainable development of society 2013-2015, inter-company educational centres, staff training, programmes to increase employment), entrepreneurship and innovation (calls by the Slovene Enterprise Fund, a public tender on regional development, tourism projects, state roads and cycling connections, investment in railway infrastructure), achieving green development (energy-saving restoration of buildings, environmental infrastructure construction projects), inclusive society (sports and cultural facilities, emergency centres), and the scope of R&D in relation to the economy: 17 development centres, 8 centres of excellence and 7 competence centres.

Operational programmes for withdrawal of funds from the next multi-annual financial framework 2014-2020 are being drafted, but they will be finally formed only after the adoption of relevant legislation relating to the MFF 2014-2020 at EU level.

#### Knowledge and creativity

Measures in the area of education will be directed towards:

- introducing forms and methods of work that increase key and vocational skills and various types of literacy. Panel discussions on the further development of vocational education and the

possibility of introducing dual vocational education are being prepared, in which an active role will be played by social partners, headmasters, teachers, and foreign experts with relevant experience in the field;

- greater openness of schools towards the local community (school - the centre of the local community) and promoting innovation and entrepreneurship of young people. The role of inter-company educational centres (MIC) will continue to strengthen, as well as their development role in the planning and development of vocational skills, new professional standards, and programming of professional training for the needs of regional economies;
- more flexible transitions from education to employment and to increase the mobility of pupils, students and experts and the rotation of teachers to and from advisory institutions and universities;
- developing and encouraging key skills (reading, financial, ICT, sustainable skills);
- increasing cultural and social capital in underprivileged regions;
- including vulnerable groups in the education system more successfully;
- improving cooperation between higher education institutions, the economy and the public sector;
- improving cooperation between higher education institutions and public research institutes, which includes exchanging personnel;
- gradually connecting universities and small public research institutes, etc.
- training of entrepreneurs and employees - development and promotion of key professional competencies.

In Slovenia, the scope of cultural and creative industries is not yet well developed; therefore, the Ministry of Culture is planning investment and programme novelties in this field. For the development of this area, the National Programme for Culture 2013-2017 will establish effective mechanisms of cooperation between culture, economy, science and education, and also support for projects and programmes that will take place at the intersection of local, national and international areas. By 2014, investment will be made for the implementation of new programmes and new jobs with high added value and for promotion of creativity in the development of the economy. One part refers to the creative industries in a narrower field of design and architecture (Rog centre etc.), and another part to the ambitious projects of cultural tourism (Villa Vipolže, Military History Park Pivka, Ljubljana Castle, etc.). The target by 2015 is to create at least 100 jobs with these projects, which will be funded with the implementation of activities in the market.

#### **4.3.6. Care for health, society and the environment**

##### Accessible and quality health care

The public health care system in Slovenia is based on the principles of solidarity and wide accessibility. Since the onset of the economic crisis, the gap between the health needs of the population and health care financing options has increased significantly. The problem of financial sustainability of the health care system is caused by:

- inefficiencies in work organisation and the public health service network, which reflect historical circumstances and individual interests at the local and state level;
- the method of financing, which in changed economic conditions and due to the reduction of revenue from contributions for the currently valid health rights does not ensure the financial sustainability;
- changed demographic structure and the growing number of chronic non-communicable diseases;
- new procedures, technologies, innovative medicinal products and new medical technical devices.

The current (short-term) measures were aimed primarily at increasing revenue and reducing expenditure of the public health fund. Long-term financial sustainability of the health care system will be achieved through structural reforms in the following areas:

##### **i. Organisation and public health service network (Health Services Act - ZZDej):**

- Determining the network and strengthening the **primary level** of health care are crucial for long-term stability of the health system. By strengthening the primary level, we will relieve the pressure on the secondary health care level and reduce costs in the long term because the more

comprehensive treatment at the primary level will reduce the scope of referrals to higher levels where treatment costs are considerably higher. Smaller units (health centres) will be organisationally connected into larger units.

- Determining the network and more rational organisation of **hospital care**: greater integration of individual health care providers at the secondary level will be specified by law, resulting in more efficient management of resources. Integration of health care providers over a wider area will enable specialisation of public institutions at the level of acute treatment, more efficient implementation of public procurement and joint implementation of support activities. Such organisation will be more efficient in terms of costs and quality of treatment.
- Organisationally more effective management and measures in the field of public health. Two national public health institutes with regional units were formed from one national and ten regional public institutes in accordance with amendments to the Health Services Act. The final adoption will lead to more effective, uniform and balanced development of public health.
- Strict **separation between public and private health care** (public and private funds) with a focus on public health.
- Regulation of **specialisations**: planning, calls for tender, programme, duration. Introduction of the secondment programme for doctors of medicine is also planned.
- Regulation of the system of granting **concessions**.
- A more efficient process of **integrating health treatment** at primary, secondary and tertiary levels with a focus on patient treatment.
- **More responsible management** of the resources available to provide quality health services

The deadline for the adoption of the proposal to the Health Services Act is November 2013. Financial impacts are long-term, 1.5% in 2014 and up to 5% of resources in the following years.

ii. **Financing of health care** (Health Care and Health Insurance Act - ZZVZZ). A change in two phases is planned:

- **Intervention act** in the context of the amendments to ZZVZZ, which will lead to the adoption of urgent measures to improve the financial situation in health care and increase solidarity by eliminating disparities in health care contributions. This will also be the starting point for a comprehensive amendment to ZZVZZ. The intervention act will also include measures to implement the Directive on cross-border healthcare, which comes into force in October 2013. The adoption deadline is July 2013. Financial impacts: estimated increase in annual revenues is EUR 93 million.
- **The new ZZVZZ** will lead to the adoption of systemic measures for long-term sustainability of the public health system, while solidarity and reciprocity will continue to be provided. A market-based mechanism and competitiveness will be established for ordering and leasing services. The extent of rights will be determined anew and in greater detail by separating health services to those which are covered by the compulsory health insurance/s, and others which will have to be paid for 'out of one's own pocket' or covered by an additional voluntary insurance. We will increase the responsibility of individuals for their own health. Obligations that do not belong to the compulsory health insurance (CHI) will be excluded (funeral grants, death grants, research funding etc.). The adoption deadline is June 2014. The financial effects will be long-term and will contribute to the sustainability of the health care system.

iii. **The supply of medicinal products and medical and technical devices** (MTD)

We will ensure effective control in the trading of medicinal products, availability, safety and cost-effectiveness. The new **Medicinal Products Act** will transpose into Slovenian legislation two EU directives regulating the area of pharmacovigilance and the prevention of counterfeit medications entering the market. The deadline for adoption is September 2013.

The area of financing, organising and ensuring an effective network of pharmacies is regulated by **The Pharmacies Act**, where the pharmaceutical treatment is being carried as an additional activity that will improve the state of polypharmacy and reduce the amount of unused and wasted medicinal products. The adoption deadline is November 2013.

The direct savings resulting from the two acts have been estimated at EUR 15 million annually. Long-term savings are also expected due to improved treatment.

**E - Health:** the implementation of the **e-health** project will contribute to simplified and more efficient processes and improved flow of information and will lead to greater control over health services. An interoperable spine was established, and by the end of 2013 we will begin with pilot projects of e-prescription and e-appointment.

#### Social security and social inclusion

- By the end of 2013, the amendment to the **Exercise of Rights to Public Funds** Act and the Financial Social Assistance Act will be adopted. Changes are planned to simplify decision-making procedures regarding individual rights to take into account more up-to-date income data which serves as the basis for decisions on rights, and to make certain changes in the consideration of property in deciding on eligibility for transfers and subsidies.
- A proposed act regulating the activity of long-term care and insurance for long-term care will be prepared by the end of 2013. It also envisages a definition of the contribution which will have to be paid not only by the population in active employment, but also by the population not in active employment; by combining all funds for long-term care in one place and introducing other changes, this will ensure the financial sustainability of the long-term care system. The purpose of the act is to enable the development of a uniform and comprehensive system of long-term care and contribute to reducing the risk of poverty among the elderly. The act will combine health care and social security services into a single system, while priority in the provision of services will be given to those provided at a beneficiary's home or in the local environment. A special emphasis will be put on prevention, early rehabilitation and the use of ICT.
- **The reorganisation of social work centres** begins in 2013 in order to improve the availability of their services. Social work centres will strengthen their role as links with the services of other government organisations (regional employment offices, health care services, school advisory services, police etc.) as well as non-governmental organisations operating various programmes for vulnerable groups. A trial reorganisation of social work centres will begin in the second half of 2013 in one of the smaller Slovenian regions.
- The further development of programmes for **social activation** intended for individuals from vulnerable groups who have particular difficulty finding employment and/or are far removed from the labour market because of their problems or certain characteristics is planned for 2013 and 2014. The connection between social activation programmes and the development of social entrepreneurship will be made.
- Implementing plans at national and regional levels will be prepared on the basis of the Resolution on the national social security programme for the period 2013–2020. The plans will detail the objectives for the development and modernisation of social security services and programmes focusing on the expansion of services, the introduction of modern innovative approaches, the strengthening of professional autonomy and the expansion of community forms of assistance and security. The Strategy for developing social entrepreneurship for the period 2013–2016 will be adopted by the end of June 2013, providing the basis for preparing and financing measures to implement the stated strategy.

#### Stimulating employment

- Special incentives will be given to employers who will include their employees in state-approved programmes of Training for Life Success. The objective of these special programmes is to develop the fundamental abilities to perform one's work to a high standard, creating the conditions for preserving and increasing the level of fundamental abilities in the workplace. The target group are less educated adults (ten or fewer years of schooling), mostly residents of rural areas. In 2013 and 2014, the Ministry of Culture plans to establish support systems to improve the situation and work opportunities for self-employed and unemployed cultural workers. For this purpose, it is implementing the project 'New Career Prospects', to promote the employability of unemployed and self-employed people up to the age of 37 by including them in the implementation of music and performing arts programmes of public institutes established by the state. A public call for applications to include young fine artists in the exhibition projects of galleries will enable the inclusion of young fine artists in the labour market, while the project

'Let's invite an artist – encourage creativity' will invite persons up to 36 years of age with a higher education degree in arts or social sciences to teach culture and arts in educational institutions. The objective of this is to attract at least forty artists and incorporate them into public cultural programmes.

- In order to encourage the employment of older people, 18-month subsidies will be given for full-time employment, which is expected to result in more people from the target group entering the labour market.
- To promote the development of social entrepreneurship in the area of public work, some funds will be earmarked to implement public work programmes and establish type B social enterprises, in which vulnerable groups of people would be employed. The most appropriate content to encourage the establishment of type B social enterprises will be determined in the catalogue of public work (for example, home assistance for the elderly and disabled, social assistance on farms, certain programmes for environmental protection and the development of areas of public use, assistance in developing and facilitating tourism, assistance with information and communication technologies).
- Revision of measures to promote the employment of people with disabilities to enable them to earn a living through their own work in the open labour market. **The employment of disabled persons will be encouraged** with a comprehensive reform of tax and contributions relief and direct incentives for workers and employers, by improving opportunities for life-long learning and training and with programmes intended to promote active job-seeking.
- The Ministry of Culture plans to change the regulatory bases to improve the possibilities of the self-employed in culture.

#### Transport, infrastructure and energy

- The annual fee on the use of motor vehicles is a stable earmarked source of financing investments in, and maintenance of, the public transport infrastructure, which increased by 20% in November 2012. Its total financial effect is EUR 22 million per year. Before 2012, the funds were spent on the public railway infrastructure, while since 2012, the possibility to use earmarked funds was expanded to the entire public transport infrastructure, which is particularly important for financing the development of the national road network.
- The system of financing the purchase of new **eco-vehicles** is being prepared, namely cargo vehicles and buses (vehicle categories: N<sub>2</sub> and N<sub>3</sub>, and M<sub>2</sub> and M<sub>3</sub>), with engines that meet the EURO VI emission requirements. These vehicles are more environmentally friendly in terms of their emission properties.
- Also being prepared is a programme to develop the public transport infrastructure in the Republic of Slovenia for the period 2013–2020, with a vision up to 2030; the objective is to define priority investments in transport infrastructure in the coming years based on transport needs, economic viability, environmental concerns, stimulation of the economy and balanced regional development.
- The project of integrated public passenger transport will introduce a uniform ticket system and coordinate the timetables of railway passenger transport, bus lines and city transport. The system of subsidising monthly tickets for secondary school and higher education students will be supplemented with half-yearly and annual tickets and amended criteria which will additionally encourage the use of public transport. In accordance with the established system of integrated public passenger transport, a new public procurement for concessions will be prepared.
- With the support scheme for the use of **renewable energy sources**, a total of 108 MW in production devices were installed and connected to the grid in 2012. Due to the high costs burdening electricity consumers, the scheme will be revised so that its coverage is limited to the funds available, while promoting more cost-effective technologies. Additionally, funding for the scheme will also be secured from other sources, so that the costs of promotion will not be charged exclusively to electricity consumers.
- As part of the scheme to increase energy efficiency, which stipulates the obligation to make energy savings of 1% annually for suppliers of all energy products, the share of savings made by energy distributors within the framework of their programmes is also increasing.
- A revised National Energy Programme (NEP) was drafted in 2011, and the public discussion of the programme has ended. The preparation of the strategic document, the National Energy Concept, which will outline the policies for achieving the commitments of the climate and energy package, is anticipated on the basis of the Programme.

Care for the environment

- In order to improve the quality of watercourses, the construction of adequate infrastructure for drainage and the treatment of wastewater will be stimulated; these activities will be facilitated also with aid from the EU. The facilitated construction of drinking water supply infrastructure will also continue. In the process of flood risk management, a total of 61 areas were defined where significant flooding occurs and in which the greatest amount of damage can occur during extreme flooding. The framework for monitoring flood risk management activities covers the construction and non-construction anti-flood measures which could contribute to boosting or kick-starting the economy, especially the construction sector.
- Measures in waste management will continue to focus on establishing an adequate regional infrastructure and the elimination of old burdens. Operational programmes will be adopted in 2013 and measures to reduce the quantity of waste and attain the objectives related to their processing and re-use will be prepared on their basis, so that the area of waste management can become an opportunity for development and new green jobs, making Slovenia a society with closed material loops.
- All seven plans for air quality will be prepared in 2013, which will be aimed at reducing excessive pollution by PM10 particles. In order to implement the plans, financial and other incentives will be needed to activate investments of households in thermal insulation and more up-to-date heating systems. The development of district heating systems will have to be enabled. Measures in transport are primarily aimed at increasing the share of public transport at the expense of private vehicle transport.
- Forests, which cover 60% of Slovenia's territory, are important for green development. New forest management plans determine a considerably higher felling rate and the investments needed to ensure that forests produce sustainable economic effects in the future. In order to increase the competitiveness of the forest-wood chain in Slovenia, a special action plan has been adopted, its key objectives being to create a market for wood products and services, accelerating felling and improving the maintenance of forests, increasing the quantity and processing of wood at higher levels of complexity and with new technologies, and new jobs and increased added value per employee in the wood processing industry.
- In fisheries and aquaculture, measures will continue to be implemented to improve the energy efficiency of fishing vessels, and investments will be made in aquaculture and processing facilities and also in increasing production and ensuring greater self-sufficiency in fish supplies.
- As part of the **Rural development programme**, we will implement agricultural and environmental measures whose objective is to establish a balance between agricultural production and environmental and nature protection, such as measures to reduce erosion and increase the content of organic matter in soil; also to be implemented are measures to adjust to the requirements for farming in water protection areas, to introduce more environmentally friendly types of farming, to adjust to environmental standards and climate change, and to preserve agricultural production in less favoured areas. The promotion of the concept of sustainable agriculture will contribute to the appropriate management and preservation of natural resources (quality of water, air and soil) and biodiversity.<sup>16</sup>

## 5 ACHIEVING COUNTRY-SPECIFIC RECOMMENDATIONS OF THE EUROPEAN COMMISSION FROM 2012

### Recommendation 1: Public finance

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Implement the 2012 budget and reinforce the budgetary strategy for 2013 with sufficiently specified structural measures, standing ready to take additional measures so as to ensure the timely correction

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<sup>16</sup> The Resolution on strategic guidelines for the development of Slovenian agriculture and food technology by 2020 (Official Gazette of the Republic of Slovenia, No. 25/11).



of the excessive deficit in a sustainable manner and the achievement of the structural adjustment effort specified in the Council recommendations under the Excessive Deficit Procedure. Thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards an appropriate medium-term objective for the budgetary position, including meeting the expenditure benchmark. Strengthen the medium-term budgetary framework, including the expenditure rule, by making it more binding and transparent

In 2012, Slovenia made the first serious cut in the scope and structure of general government expenditure since the crisis began. By reducing wages in the public sector, funds for some social transfers and costs of health care services, and by shrinking investment consumption, the general government deficit fell to 4.0% in 2012 (ESA 95)<sup>17</sup>. This was also influenced by some measures in the field of revenues, primarily an increase in excise duties, the introduction of a carbon tax on fuels and an increase in some environmental fees.

### Measures adopted in 2012 with the Fiscal Balance Act

To achieve structural adjustment of general government expenditure, the Fiscal Balance Act (hereinafter referred to as ZUJF) led to a series of actions that affect the financial obligations of the state. The most important were measures to limit labour costs, which apply to all employees in the public sector (defined by the Public Sector Salary System Act: state authorities and self-governing local communities, public agencies, public funds, public institutes and public utility institutes, and other public law entities which are direct users of the state budget or local community budgets). The data show that the gross wages of legal entities in the public sector in 2012 were approximately 1.5% lower than in 2011, with the measures coming into force in the second half of 2012. In addition to a further freezing of salary indexation, promotions and limitations on performance bonuses, reductions in basic salaries, holiday pay<sup>18</sup>, and other personal income of employees, and the elimination of the third and fourth quarter of wage disparities were implemented. In addition to the aforementioned, the established measures include:

- reducing the amount of unemployment benefit: unemployment benefit is paid in the amount of 80% of the basis for the first three months, and 60% of the basis for a further nine months. After this period, the benefit is paid in the amount of 50% of the basis. At the same time, the upper limit of unemployment benefit was reduced;
- reducing child care benefit to 90% of the basis;
- limiting child care benefit from 2.5 to 2 times the average salary;
- abolishing child benefit for families with higher incomes;
- in the calculation of childbirth benefit and large family benefit, a means test is taken into account;
- reducing the kindergarten fee subsidy for the second child at kindergarten to 30%, while kindergarten remains free for all other children;
- subsidies for school meals are given only to socially disadvantaged pupils and secondary school students;
- subsidies for school meals for higher education students are abolished between 15 July and 15 August;
- subsidies for self-employed persons in the field of culture are related to a means test;
- lower annual pensioners' allowances, i.e. inversely proportional to the amount of the pension;

<sup>17</sup> Detailed information on the financial impacts of the measures described in this section is given in the Stability Programme 2013.

<sup>18</sup> On 16 March 2013, a higher labour court decided that the second paragraph of Article 176 of the Fiscal Balance Act specifying the amount of holiday pay of public servants for 2012 was inconsistent with the Constitution of the Republic of Slovenia. Due to the aforementioned, in 2013, savings from state labour costs will be lower than planned in the amount of the difference in repayments.

- pensions not based on contributions paid are lower<sup>19</sup>;
- increased concession fee for student work from 12 to 23%, and a lower share of this fee received by student work agents (diverted to a scholarship fund);
- limited amount of sickness benefit covered by a health insurance company;
- abolishing compensation for sick leave for the unemployed;
- modifying price standards for medical technical devices;
- lowering the share of coverage for health care services from compulsory health insurance.

On the revenue side, at the beginning of 2012, the Fiscal Balance Act introduced solutions which increased state revenues from taxes by burdening incomes and transactions which do not have a direct negative impact on the competitiveness of the economy. The purpose of all the measures on the revenue side of the budget was to distribute the burden of the costs of the consolidation of public finances among taxable persons evenly, limit abuses in the field of taxes, improve the efficiency of tax collection and ensure additional state revenue by additionally taxing certain activities. The adopted act includes some tax measures which have already had impact on the revenue in 2012 or from 1 January 2013 onwards:

- the rise in the general rate of capital income tax and tax on profit generated by the disposal of derivative financial instruments from the current 20 to 25% from 2013 onwards as a permanent measure;
- as from 2013, the tax scale for assessing personal income tax is modified, so that the limit of the 41% bracket is shifted. Thus a personal income tax rate of 41% will be applied to incomes in the amount of 1.5 times the average salary, on the assumption that only the general personal income tax allowance and compulsory social security contributions, which are considered a deduction item, will be taken into account. As a temporary measure, a new, fourth tax bracket was added to this scale for 2013 and 2014 for incomes above the amount of five average salaries at the rate of 50%;
- introduction of an additional vessel tax in 2013, which will provide revenue for the state budget, not municipal budgets (as applies to the current vessel tax);
- introducing (on 1 July 2012) the additional vehicle tax applicable to vehicles with cylinder capacity of 2,500 cc or more (or to motorcycles with cylinder capacity of 1,000 cc or more);
- introduction of a tax on the immovable property of legal entities and natural persons with a total value of over EUR 1 million if this property is not used to perform activities. The tax is paid at the 0.5% rate for property worth between EUR 1 and 2 million, and 1% for property worth over EUR 2 million. The introduction of this tax is temporary, i.e. the tax will only be paid in the second half of 2012, 2013 and 2014;
- introduction of a tax on profit due to changes in land use which, in 2013, introduced a new anti-speculative profit levy, which is generated due to a change in land use usually from agricultural to building land.

The Fiscal Balance Act also introduced a mechanism on the basis of which the Government may raise the general VAT rate in 2014 by a maximum of three percentage points if the established excessive deficit exceeds 3% of GDP in 2013.

### **Measures to enhance general government revenue in 2013 and 2014**

In the budgets for 2013 and 2014, the Government adopted some additional measures to secure general government revenue for the state budget. On the other hand, stimulating tax amendments were adopted, the objective of which was primarily to boost the economic activity and simplify administration regarding volunteer fulfilment of tax obligations by taxable persons in order to support

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<sup>19</sup> On 14 March 2013, the Constitutional Court of the Republic of Slovenia decided to revoke the second, third and fourth paragraphs of Article 174 of ZUJF, which reduced certain types of pension. This means that the effect of the section of ZUJF referring to lowering expenditure on pensions will not be realised to the anticipated extent.

the economic growth and achieve public finance sustainability. Some essential measures affecting general government revenue in 2013 and 2014 are:

- the threshold for mandatory entry to the VAT system was raised from the current EUR 25,000 to EUR 50,000 of taxable turnover, which will significantly simplify the tax operations of the smallest legal entities and, at the same time, facilitate the actual introduction of administrative simplification in the field of assessing tax on income from self-employment and corporate income tax;
- gradual increase in the minimum excise duty on cigarettes, and modification of the ratio between the specific and proportional excise duty. As an additional measure, an amendment to the excise duty act gave the Government additional powers to change the amount of excise duties on energy products, electrical energy, alcohol and alcoholic beverages, and tobacco products, including the power to act in the field of the repayment range of excise duties for certain purposes, which will permit the Government to adjust excise duty policy quickly in the light of the actual economic and public financial situation;
- the introduction of lump-sum taxation on income, within which the tax base is determined by establishing the flat rate rather than actual expenses. For the smallest business entities, this means the creation of a supportive business environment to develop new entrepreneurial ideas and such taxation arrangement may have a stimulative effect on the scope of the existing activities and on recording new business entities;
- a limitation on tax loss utilisation from previous tax periods; this right is limited to a maximum of 50% of tax base in a tax period. The primary objective of the measure is to achieve predictability and higher budget revenue;
- the special tax relief for students is lowered by 25%;
- cedular taxation for income from leasing property at the proportional rate of 25%;
- a tax on financial services taxes commissions charged by financial institutions for performing financial services, and which in accordance with the act on value added tax are exempt from VAT, including the services of insurance brokers and agents. The only exceptions are investment fund management services and services related to securities transactions, as they are the subject of taxation of the anticipated European tax on financial transactions. The act came into force on 1 March 2013;
- amendments to the Tax Act on Banks Balance Sheet Assets, which put a stronger emphasis on the public financial aspect of charging this tax in comparison with the act applicable until then and thus intensified the conditions to reduce tax liabilities;
- in 2013, the Government changed the burdening of motor vehicles so that the annual fee for motor vehicles increases progressively;
- environmental and concessions fees were raised due to a simultaneous increase in budget revenue and the promotion of environmental protection. In terms of budget revenue, it is essential to increase the CO<sub>2</sub> duty by 15%, including the carbon duty on fuel. The essence of environmental fees is to encourage dischargers and users to use natural resources efficiently and sustainably in order to preserve the environment, and stimulate the economic growth facilitated by green or environmentally friendly technologies;
- due to additional burdening of persons owning real estate of greater value, the circle of taxation with taxes on immovable property of greater value has expanded. The lower threshold for 2013 and 2014 was lowered from EUR 1 million to EUR 500,000 in value, and the taxation included all residential property, except properties in the public domain.

During the discussion of budget proposals for 2013 and 2014, it was agreed to introduce two new indirect taxes: a tax on some sugar containing beverages and a tax on lottery tickets in the system of organising conventional games of chance, in order to increase the general government revenue. Two new acts must be passed to introduce these taxes.

The Government will continue pursuing the policy of adjusting excise duties to the market situation and seeking an appropriate balance between the objectives of consolidating public finance and ensuring a competitive business environment by taking into account the economic circumstances.

One of the crucial set of measures to consolidate public finances are the activities to reduce tax evasion. The Government has prepared measures which will contribute to a simpler and more transparent tax system, which will ensure the more complete collection of taxes, with lower costs for

meeting tax obligations by taxable persons and managing the tax collection system by tax authorities. Adopted measures pursue primarily objective of reducing the informal economy and unfair competition, while the government also adopted measures to promote tax culture, improve payment discipline and encourage voluntary and in particular timely payment of tax liabilities.

The Government expects additional effects for greater effectiveness of fiscal control also from the merger of the Tax Administration and Customs Administration into one financial service for collecting general government revenue; however, this will mainly produce an effect in the long run.

### Measure to lower labour costs in the public sector

With the implementation of the measures of ZUJF in 2012, the number of employees in the public sector began to fall. Until the adoption of the Act, the number of employees had been falling gradually since 2006 only in the administrative part of the public sector, while it had been constantly increasing in the service section. Three sets of measures which affect the costs of the operation and savings in the public sector were adopted with ZUJF, namely:

- limiting the number of employees, and limiting concluding contracts in the public sector,
- lowering the wages of public sector employees (an across-the-board cut of 8% with a simultaneous elimination of discrepancies in basic wages and abolition of protected wages),
- unification of the systemic regulation and lowering of reimbursements of costs and other income of public sector employees.

The policy to reduce the number of employees as well as the volume of funds required for the wages of public sector employees will continue in 2013 and 2014.

**Table 7: Movement in the number of employees and the lump-sum for wages of public sector employees**

	December 2011	May 2012	December 2012	February 2013	Difference Feb 2013/May 2012
Number of employees	160,868	161,826	159,214	157,534	-4,292 or 2.7%
Lump-sum for wages (EUR)	293,754,100	296,082,477	282,588,724	276,077,528	-20,004,949 or 6.8%

Source: The Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES) Note: \* Number of employees employed by legal entities on the basis of hours worked.

The growth in the number of employees who are subject to the Public Sector Salary System Act accelerated further in 2009, when the private sector had already responded to the crisis by cutting the workforce, and has slowed down under 1% only in the last two years, while the number of employees in the private sector has been falling since 2009. The reported growth in the number of public sector employees in 2012 year-on-year is the result of the fact that the number of public sector employees was still increasing in the first half of 2012, and started falling in June 2012 with the implementation of ZUJF. It is therefore completely reasonable to expect negative year-on-year growth in the number of public sector employees in 2013.

**Table 8: Year-on-year growth in the number of employees\* according to AJPES' data (in %), 2006–2012**

	2006	2007	2008	2009	2010	2011	2012
Total number of employees	2.7	3.1	2.4	-4.5	-2.6	-1.6	-1.6
<b>In the public sector (according to the Public Sector Salary System Act)</b>	<b>1.0</b>	<b>0.4</b>	<b>0.9</b>	<b>1.2</b>	<b>1.3</b>	<b>0.7</b>	<b>0.5</b>
In the private sector**	3.3	4.0	2.9	-6.3	-3.8	-2.4	-1.9

Source: The Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES) Note: \* Number of employees employed by legal entities on the basis of hours worked. \*\* The private sector is comprised of legal entities excluding legal entities in the public sector (according to the Public Sector Salary System Act).

The rapid growth in pay in the government sector (and public services activities) in 2008 and 2009 came to a complete stop in 2010 and 2011 due to austerity measures and their amendments since 2009 and due to the general and public finance situation, while it was reduced in 2012 with the implementation of ZUJF. The first austerity measures entered into force a year after the introduction of the long-planned reform of the salary system, due to which the growth in pay was relatively high precisely in 2008 and 2009, while in the activity of the private sector it had already begun to level off due to the crisis. Due to low economic activity, the slowing down of the latter was stopped primarily by the rise in the minimum wage, while in 2011 and 2012, increasing unemployment, relatively low inflation, a further decline in economic activity and the aspirations of companies to preserve their competitive position also greatly decreased the growth of pay in activities in the private sector.

**Table 9: Nominal growth in gross pay per employee (in %), 2006–2012**

	2006	2007	2008	2009	2010	2011	2012
Total	4.8	5.9	8.3	3.4	3.9	2.0	0.1
<b>1. Activities of public services (OPQ)</b>	<b>3.5</b>	<b>4.1</b>	<b>10.1</b>	<b>6.7</b>	<b>-0.1</b>	<b>0.0</b>	<b>-2.2</b>
2. Other activities (A to N and R to S)	5.3	6.8	7.8	1.8	5.1	2.6	0.8
<b>S13 Government sector</b>	<b>3.7</b>	<b>4.1</b>	<b>10.2</b>	<b>7.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-2.2</b>
<b>Public sector according to the Public Sector Salary System Act (AJPES)</b>	<b>3.5</b>	<b>3.6</b>	<b>10.0</b>	<b>7.4</b>	<b>0.1</b>	<b>0.1</b>	<b>-2.2</b>

Source: Statistical Office, AJPES, calculations by IMAD.

## Recommendation 2: Sustainability of the pension system

Take urgent steps to ensure the long-term sustainability of the pension system, while preserving the adequacy of pensions, by (i) equalising the statutory retirement age for men and women; (ii) raising the statutory retirement age in line with increasing life expectancy; (iii) reducing early retirement possibilities; and (iv) reviewing the indexation system for pensions. Increase the employment rate of older workers also by further developing active labour market policies and lifelong learning measures.

### Change in the pension system

In 2013, the new Pension and Disability Insurance Act (ZPIZ-2) entered into force. The change in the pension system in Slovenia was urgent for two reasons: the the financial sustainability of the pension fund and prevention of further reductions in pensions. By achieving these objectives, Slovenia established a fairer, more reliable and financially more efficient pension system, which is still based on intergenerational solidarity. This means that active workers pay contributions from their income, thus ensuring pensions for retirees. The pension system remains fair to all generations, as well as to future pension recipients, who provide pensions to current pensioners by paying contributions. Thus pension payments and contributions must be as balanced as possible, and the financial burden distributed fairly between generations.

The most important amendments to ZPIZ-2 are:

- equalising the retirement age for men and women by determining the ‘full’ retirement age of 65 if the insured person fulfils a minimum 15-year contribution payment period;
- restrictive deduction system (reducing pensions) in the case of early retirement – reducing pensions by 3.6% for each retirement year before the age of 65. At the same time, the retirement age for acquiring the right to early pension is raised to 60 years of age if an individual (man/woman) has accumulated the minimum 40 years of pensionable service;
- a new formula for pension indexation according to which pensions will be indexed at 60% of average wage growth in the Republic of Slovenia and 40% growth in consumer prices.

Regarding the establishment of an automatic mechanism on the basis of which raising the retirement age would be carried out in line with the prolongation of life expectancy, it needs to be clarified that the reform was adopted with the consent of social partners; however, the aforementioned mechanism could not be introduced into the discussions due to the short time available for passing the legislation, but it will be part of the further systemic reform of pension insurance in the future.

**Old-age retirement.** For people about to retire, the new act anticipates gradual transitional periods, on account of which the minimum conditions for acquiring the right to old-age pension will be raised gradually. This means that the transition to the new regulation will be much easier, while the conditions for old-age pensions will be less strict for both men and women, as stipulated by ZPIZ-2 for retirement at the end of these periods. The retirement age for acquiring old-age pensions will be lowered on account of children, compulsory military service and inclusion in the insurance scheme prior to the age of 18, but only in cases when the insured person meets the requirement of 40 years of pensionable service without purchasing additional years.

**Early retirement.** The new act anticipates early retirement before the prescribed age of 65. An insured person will be able to acquire the right to early retirement at the age of 60 years if they complete at least 40 years of pensionable service; it has to be noted, however, that due to the renewed permanent deduction system, early retirement will affect the amount of pension received. A pension, with regard to pensionable service achieved, will be lowered by 0.3% for each month under the age at which a person meets the conditions for old-age retirement. The conditions for early retirement will also be raised gradually, i.e. by 2018 for men and by 2019 for women.

**Partial retirement.** Insured persons will have the right to partial retirement, which already exists in the current system, but the new act introduces some novelties. The option to retire partially will also be given to the self-employed, farmers and partners, and working hours will be even more flexible (but a minimum of four hours daily). In addition to part of the salary, insured persons will also receive a partial pension in the percentage corresponding to the shortening of full working hours up to the age of 65 increased by 5%. Partial pensions will thus be intended to stimulate the extension of work and later retirement of insured persons.

**Pension base.** In order to calculate the pension base for old-age and early pensions, the period of 24 consecutive years of insurance from 1 January 1970 onwards which are the most favourable to the insured person will be taken into account. During the transitional period, the calculation period for determining the pension base will be extended annually by one year, starting with 19 years in 2013, 20 years in 2014; only in 2018 will a person who wishes to retire have his/her pension calculated on the basis of the 24 most favourable consecutive years. It should be furthermore explained that the new method of calculating pensions will stop the further reduction in the amount of pensions, ensuring a decent pension for retirees. At the same time, the pension scheme will be made more just in accordance with the principle of greater interdependence between contributions and payments. The amount of pension will depend more on the contributions paid than it currently does, while only periods for which contributions were paid will be calculated in pensionable service.

**Purchasing pensionable service.** The option to purchase pensionable service will still exist. ZPIZ-2 will enable insured persons or beneficiaries of pensions to meet the conditions or receive a more favourable pension assessment by purchasing insurance for periods not included in pensionable service.

**Bonuses for prolonged activity and deductions for early retirement.** Bonuses are formed as incentives to individuals to continue working after meeting the minimum conditions for early or old-age retirement. People are also encouraged to remain employed by adjusting pensions in the event of their leaving the labour market early. **Therefore, an assessed (early) pension of an insured person will be reduced by 0.3% (men and women) for each month of retirement prior to the age of 65 (for both genders). Due to the fact that the statutory age will be raised gradually to 65, and that pensionable service for early retirement will also be raised gradually (for women from 38 years to 40), deductions are determined correspondingly.**

**Informative personal record – greater transparency for greater solidarity.** The objective of introducing an informative personal record of compulsory insurance is to ensure additional transparency in the entire pension system and thus enhance the confidence of insured persons in the system. An informative personal record of compulsory insurance is to be established, where information for each insured person and his/her calculated and paid contributions will be recorded separately. This will allow the insured person to verify in real time and with just a few clicks whether the employer has actually paid contributions for his/her pension and disability insurance. The

informative personal record for each insured person included in compulsory insurance will be maintained by the Pension and Disability Insurance Institute of the Republic of Slovenia.

**Incentives for employers.** ZPIZ-2 stipulates certain incentives for employers to employ older and younger workers, and mothers with children under three, and for entrepreneurs registering an independent activity for the first time. The incentives are determined in the form of lower employers' contributions for workers over 60 (30% reduction in employers' contributions) and for workers meeting the conditions for early retirement (50% reduction in employers' contributions).

### Active employment policy

Along with the tightening of retirement conditions, a greater number of projects whose priority is to ensure long-term employability in terms of acquiring competences and training of the older population in the labour market, and extended working life are being implemented as part of the active employment policy. Inclusion in the existing programmes and their anticipated expansion to new ones will improve the inclusion of the elderly in the labour market, together with the implementation of the aforementioned stricter retirement criteria.

In accordance with the 'Guidelines for the implementation of active employment policy' (AEP) measures for the period 2012-2015, the AEP programmes will be implemented in order to rapidly activate primarily the elderly, the young and other unemployed persons. One of the important target values for 2015 is a 15% share of the elderly included in AEP measures. The active employment policy targets older unemployed persons in all active employment policy measures. In 2012, a total of 29,191 unemployed persons were included in AEP measures, 4,821 (17%) of whom were over 50.

**Table 10: Persons included in AEP measures in 2012 (number)**

AEP measure	Unemployed	Unemployed older than 50	Employed	Employed older than 55
<b>Training and education</b>	12,397	1,641	4,117	135
<b>Employment incentives</b> (subsidy programmes for the employment of groups of unemployed persons who are difficult to employ)	1,861	850		
<b>Job creation</b> (public work programmes)	6,656	1,277		
<b>Promotion of self-employment</b> (intended for unemployed persons who wish to become self-employed and thus realise their entrepreneurial idea)	8,277	1,053		

Source: Ministry of Labour, Family, Social Affairs and Equal Opportunities.

The most important programmes of AEP are 'Employ me/Encouraging the employment of hard-to-employ unemployed persons', the training and education of employed persons, and public work programmes:

- In 2012 and 2013, the Employment Service of Slovenia issued public tenders with the programme 'Employ me/Encouraging the employment of hard-to-employ unemployed persons'. The purpose of the programme is to provide incentives in a way that facilitates the unemployed persons from the target group being re-included in the working environment, reduces their social exclusion and poverty, and improves their employment opportunities. The target group are also persons over 50 who have been registered as unemployed for a minimum of three months. In 2012, 1,773 unemployed persons were included in the 'Employ me' programme, 839 of whom were over 50 (47%).
- The 'Training and education of employed persons' programme is implemented by the Slovene Human Resource Development and Scholarship Fund. The purpose of the programme is for employers to begin systematically investing in employees and thus contribute, in accordance with the needs in the labour market, to eliminating structural inconsistencies, improving the training of human resources, and to enhancing mobility and employability. The programme's added value is that it corresponds to the actual needs for reducing the deficit in general and vocational competences in the labour market, as it anticipates, in addition to co-financing from

the European Social Fund, a certain share of co-financing by employers whose employees are included in the programme. In 2012, 4,117 employed persons were included in the measure.

- As a programme of active employment policy, **public work** are intended to stimulate work and social inclusion, and improve the competence and working skills of vulnerable groups of unemployed persons, which include persons over 50. The purpose of public work is to stimulate the creation of employment programmes and create new jobs by attracting local communities to solve the problem of unemployment in their region. The purpose is also to encourage non-profit employers to create programmes in the public interest of local communities or the state, which will be appropriate for the employment of target groups of unemployed persons. In addition to the Employment Service of Slovenia, partners in the implementation of public work programmes are also public work contracting authorities and providers. By implementing public work programmes in 2012, we contributed to greater general employment and lower unemployment among the target group of unemployed persons over 50. Thus, in 2012, 3,762 unemployed persons were included in public work programmes, 1,227 of whom were over 50 (33%). The public work programme is set to continue in 2013.
- The Ministry of Culture published public tenders to select development projects to enhance the employability of vulnerable social groups in the field of culture and to support their social inclusion. In 2012, 23 projects were supported by tenders, which improved employability of members of vulnerable groups, as 11 posts were newly established. The programme will continue in 2013.

### **Life-long learning measures**

The annual adult education programme determines the education programmes and activities to be implemented and (co-)financed from the state budget and from the funds of the European Social Fund.

The ministry responsible for labour has been implementing the training and education measures included in the AEP among activities in the field of life-long learning. Priority tasks are aimed at acquiring national vocational qualifications, and establishing and confirming knowledge and competences acquired during informal education. The emphasis is on investing in upgrading skills, knowledge and competences - which are crucial to improving a person's value and employability - on-the-job training and all activities that contribute to improving the competitiveness and qualifications of the individual. As in all AEP programmes, the elderly are considered a priority group regarding inclusion in training and education programmes.

### **Recommendation 3: Stability of banks**

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Take the required steps to build sufficient capital buffers in the banking sector and strongly promote the cleaning of balance sheets so that appropriate lending to productive activities can resume. Obtain fully-fledged third party verification of systemically important banks' stress loan-loss estimates.

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In order to accelerate credit flows to the non-financial sector, ensure conditions for disposing of the state capital investments in banks and establish responsibility for the debt and investments that are considered as impairments on bank balance sheets, the Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act (ZUKSB) was drafted, and came into force on 28 December 2012. In addition to the state guarantee for the borrowing of banks from the Bank of Slovenia to ensure liquidity as a last resort, the act provides the legal basis for transferring banks' non-performing assets to the Bank Assets Management Company and, as a second step, the opportunity to recapitalise banks if the transfer of these non-performing assets does not result in the banks' capital requirements being met. The act is therefore flexible enough to ease the credit crunch and restore the required financing of good commercial projects, as the banks will release the capital bound by the non-performing assets following their transfer.



**Table 11: Activities performed under the Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act:**

Activity	Phase of the procedure	Anticipated implementation deadline
Establishing the Bank Assets Management Company (BAMC)	The Articles of Association of the BAMC have been adopted and BAMC was entered in the court register	
Appointing non-executive directors of the BAMC	Already appointed	
Appointing acting executive directors of the BAMC	Already appointed	
Appointing executive directors	Yet to be appointed	The public tender must be published within six months following the entry into force of ZUKSB.
Drafting executive acts	The Regulation on the implementation of measures to strengthen the stability of banks has been adopted.	
Appointing the inter-ministerial commission members	Already appointed	

Source: Ministry of Finance.

The criteria and conditions that banks must meet in order to be entitled to the measures and the criteria and conditions regarding individual measures are determined in the 'Regulation on the implementation of measures to strengthen the stability of banks' adopted on 19 March 2013. The Government will decide on the measures on the basis of the proposals of the inter-ministerial committee, which will draft the proposals after reviewing a bank's business strategy. Other criteria and conditions to determine and implement the measures to strengthen the stability of banks that are subject to the Regulation refer to:

- increasing the share capital and other capital instruments of the bank (the criteria and conditions to increase the share capital of banks and banks' participation with own resources);
- assuming bank risks by the BAMC (the criteria for assuming risks, types of risk which may be assumed and which may be covered; type of assuming or covering risks, including the criteria; rights for the retransfer of risk items to a bank participating in the measures under this Regulation, and issues of valuation of the transferred risk items);
- issuing a state guarantee for the liabilities assumed by a single-purpose company (the criteria and conditions for the grant of a state guarantee, types of risk which may be covered by the guarantee for the liabilities of the single-purpose company, and commission on guarantees issued).

### **The Bank of Slovenia strengthening supervision**

Amendments to the Banking Act, which entered into force at the end of 2012, established an efficient legal regime for supervisory measures by the Bank of Slovenia to solve the problems that the banking system has been facing in the aggravated situation due to the limitations on ensuring suitable financing sources, primarily ensuring capital adequacy in accordance with the requirements of the Bank of Slovenia or the European Banking Authority (EBA). The proposal pays particular attention to early intervention and tools to rescue banks. For this purpose, the Act provides the Bank of Slovenia with additional emergency measures to safeguard the public interest when the stability of the financial system is threatened, whereby the measures will be used if the bank does not fulfil its obligations (the main criterion being capital adequacy).

## Recommendation 4: Labour market

Adjust employment protection legislation as regards permanent contracts in order to reduce labour market segmentation, in consultation with social partners and in accordance with national practices<sup>20</sup>, in consultation with social partners and in accordance with national practices. Further tackle the parallel labour market caused by student work.

At its session on 5 March 2013, the National Assembly enacted labour market reform in the form of the new Employment Relationship Act (hereinafter referred to as ZDR-1) and the Act Amending the Labour Market Regulation Act (hereinafter referred to as ZUTD). Both acts were passed with wide political and social support, and with the consent of social partners, who directly participated in the formation of final solutions during the negotiation process.

### Changes in the field of employment relationships

The objectives of the new legislation are:

- to actually establish the concept of flexicurity,
- to reduce labour market segmentation,
- to enhance the efficiency of protection by labour legislation and prevent abuses,
- to harmonise legislation with the decisions of the Constitutional Court of the Republic of Slovenia, other national legislation and international regulations in this field.

On the basis of the OECD employment protection index of permanently employed workers from 2008 – 2.98, Slovenia had one of the worst ratings of the Member States in this field. According to the calculations of the Institute of the Republic of Slovenia of Macroeconomic Analysis and Development using the same methodology, the measures provided for by the labour market reform will reduce the employment protection index of permanently employed workers to level 2, which is the average for OECD Member States. The approximation of employment protection indices of permanently employed workers and workers with fixed-term employments will alongside other measures to reduce the differences between the various forms of work, additionally stimulate a reduction in labour market segmentation.

### Reducing the costs of permanent employment

The longest notice period when an employer terminates an employment contract for business or incapacity reasons is shortened from 120 to 60 days. A longer notice period (80 days) applies only when a worker has been employed for at least 25 years and the collective bargaining agreement covering this activity does not determine a different notice period. In the case of terminating an employment contract for reasons of culpability, the notice period is shortened from one month to 15 days.

**Table 12: Notice periods**

Duration of employment	1 year	2 years	3 years	5 years	10 years	15 years	17 years	20 years	25 years	26 years
Notice period (business and incapacity reasons)	15 days	30 days	32 days	36 days	46 days	56 days	60 days	60 days	60 days	80 days

The labour market reform facilitates the inclusion of workers in adequate measures in the labour market already during the notice period. During absence from work, when a worker is included in adequate measures in the field of labour market once a week during the notice period, the ESS reimburses the employer with 70% of the worker's basic salary as compensation for the gross salary paid to the worker by the employer during the absence from work.

<sup>20</sup> The expression *razdrobljenost* from the official translation is understood as segmentation, but nevertheless the expression from the official translation is used in the remainder of the text.

When an employment contract is terminated due to business or incapacity reasons, the amount of severance pay is reduced. The worker is entitled to severance pay in the amount of 1/5 of the base for employment from one to ten years (previously from one to five years), 1/4 of the base for employment from ten to twenty years (previously from five to ten years), and 1/3 of the base for employment over twenty years (previously over fifteen years) with the employer.

#### Measures to encourage the employment of the elderly

In order to boost work among older people, the age of workers provided with special protection from dismissal has been gradually rising. The regulation in ZDR-1 follows the rise in age anticipated for retirement by pension legislation. The special protection against dismissal is enjoyed by workers meeting the age condition of 58 years and workers who do not meet the age condition, but lack five years or less to meet the conditions for old-age retirement. The changes in the field of severance payment upon retirement provide an additional incentive to employ the elderly. The new act retains the long-service bonus as a compulsory constituent of pay. The act determines the right, while the conditions for its acquisition and the amount itself are determined by the collective bargaining agreement for the activity.

#### Enhancing flexibility

The new act regulates in more detail the possibility to task workers during their employment with other work, if this possibility is not otherwise regulated with a special act or collective bargaining agreement. The act defines the cases (in order to preserve employment or ensure the uninterrupted flow of the work process) and conditions (suitability of the other work, time limit of three months, retaining the most favourable payment for work) when such an obligation may be imposed on a worker in written form. Additionally, ZDR-1 provides small employers with greater internal flexibility, as they may temporarily transfer workers to perform a suitable job (job which requires education one level lower).

The new act introduces the practice of 'temporary lay-off', which reduces wage compensation to 80% of the basic wage, unlike the current legislation whereby a worker who cannot be guaranteed work by the employer is entitled to 100% compensation. The employer may refer a worker in written form to wait for work at home for a maximum of six months in an individual calendar year, which includes possible multiple, shorter referrals.

#### Other measures to reduce labour market fragmentation

The act limits the conclusion of fixed-term employment contracts by preventing the conclusion of one or more consecutive fixed-term contracts for the same job the uninterrupted duration of which was longer than two years (except in explicitly specified cases). The right to severance pay is also determined for the case of the expiry of a fixed-term employment contract, except in cases when fixed-term employment becomes permanent employment, or if the worker continues working on the basis of a permanent employment contract, or if the worker does not conclude a permanent employment contract for a suitable job offered to him or her by the employer upon the expiry of the fixed-term employment contract.

The new act stipulates the exemption from the payment of the employer's contribution in the event of unemployment for the first two years of permanent employment; on the other hand, the amount of the contribution in the case of concluding a fixed-term employment contract is set at five times the usual contribution due to the significantly greater risk of unemployment than in the case of concluding a permanent employment contract.

Additional measures regarding the payment of contributions to prevent labour market fragmentation are also provided for by the new pension legislation. ZPIZ-2 thus stipulates certain incentives for employers to employ older and younger workers, and mothers with children under three, and for entrepreneurs registering an independent activity for the first time. The incentives are determined in the form of lower employers' contributions for workers, e.g. for workers over 60 (30% reduction in employers' contributions) and workers meeting the conditions for early retirement (50% reduction in employers' contributions).

In addition, ZDR-1 stipulates that the number of referred workers must not exceed 25% of the number of employees (the basis is all employees, i.e. permanently employed workers and workers in fixed-term employment); this quota does not include workers with permanent employment contracts who ensure that work is performed.

#### Enhancing the legal protection of employees to prevent abuses

In order to prevent abuses in practice in the form of establishing 'shell companies', the new act introduces joint and several liability for the employer/transferor of receivables in cases when the transferor may sufficiently influence or could influence the business decisions of the acquirer. If the employer/transferor is not the majority owner of the acquirer, i.e. he or she cannot influence business decisions of the acquirer, a subsidiary obligation of the transferor is introduced. In addition, the act stipulates that the years of employment with both employers are taken into account regarding all rights associated with years of employment.

The act establishes a new legal basis for the extraordinary termination of an employment contract by a worker if an employer has not paid social security contributions for the worker for three consecutive months. In cases when the employer does not pay a worker's salary or other income, the worker will be able to file an application for enforcement and request enforcement at the competent court, as the act defines a written payslip as an authentic document. The act provides a worker with the opportunity to enforce the payment of wage compensation at the Health Insurance Institute if the employer is obliged to pay the worker wage compensation for health insurance, but fails to do so.

#### Amendments to legislation regulating the labour market

The main objectives of the act amending the Labour Market Regulation Act (ZUTD) are:

- greater flexibility in the labour market (by allowing pensioners to perform temporary and occasional work, by enabling workers to register with the ESS during the notice period),
- reducing the traps of unemployment with changes to unemployment benefits,
- eliminating administrative barriers.

**The mandatory registration of a job vacancy at an employment service is abolished** and the obligation of publication at the Employment Service of Slovenia (ESS) for employers in the public sector and corporate entities majority-owned by the state is introduced.

**The possibility of temporary and occasional work of pensioners is introduced**, in relation to which the act determines:

- the lowest hourly rate,
- limitations on the scope of work performed for an individual employer, the period for performing the work and amount of annual earnings,
- elements of contracts for temporary or occasional work,
- a special duty as a result of performing the work, and the manner of its calculation and payment deadline,
- penalties for non-compliance with the restrictions on performing temporary or occasional work, and other provisions of this act referring to providing and performing this work (supervision: Labour Inspectorate of the Republic of Slovenia).

**The entry procedure in the register of providers of AEP programme activities is amended.** The procedure for selecting providers of the AEP programme activities is facilitated and simplified, and the entry in the register of external contractors is also allowed to representative organisations of trade unions and representative employers' associations, as they provide the AEP programme activities.

**Certain changes regarding public work are determined.** The amendments eliminate problems in the implementation of the statutory exception to the rule that a person may be included in public work for a maximum of one year; in addition, they introduce the possibility of a municipality approving a public work programme on condition of 100% financing.

The right of a worker whose employment relationship has been terminated for business or incapacity reasons to be entered in the register of jobseekers during the notice period is determined.

The acquisition of the right to unemployment benefit for unemployed people under 30 years of age who will have accumulated an insurance period of at least six months within the preceding 24 months is enabled.

**Conditions on utilising the exception to the principle of insurance period utilisation are tightened.** To determine the duration of the right, unemployment benefit is calculated on the basis of the entire insurance period of an insured person who, when re-exercising the right, meets the age condition of a minimum of 57 years or the condition of the achieved insurance period of a minimum of 35 years (alternatively); the conditions have so far been a minimum of 55 years of age and 30 years of insurance period, but both conditions had to be met simultaneously.

**The rule on the utilisation of the right to the remainder of the unutilised right is changed.** Insured persons who will also be entitled to the new right to unemployment benefit will no longer be entitled to the right to utilise the remainder of the benefit (i.e. to the remainder of the right from the previous period). If the unutilised remainder is longer than the new right, they will be able to decide which right to exercise; if they choose the remainder, the unconsidered insurance period will for this reason be taken into account at the potential next calculation of the new right.

**The procedure for acquiring data to calculate unemployment benefit is simplified.** The basis for unemployment benefit calculation will be established on the grounds of data from the calculation of withholding tax on REK forms; hitherto, these data have been provided by employers on special forms prescribed by the ESS.

**Content changes in the procedure for terminating the registration in the record** of unemployed persons and persons included in the AEP programmes are introduced:

- determine the removal from the record of unemployed persons and persons included in AEP programmes on the date on which the reason for termination occurs (hitherto, on the date the reason for termination was established);
- change to the actual jurisdiction of the court deciding disputes on the removal of a person from the record of unemployed persons and persons included in AEP programmes; the social court will have the jurisdiction over decisions instead of the administrative court;
- a different definition of the beginning of the period for re-entry in the record of unemployed persons, which ensures that the unemployed can re-enter the record within six months of the date of removal.

### **Coverage of student work**

The implementation of the Fiscal Balance Act determined a new amount of concession fee for student work (raised from 12 to 23%) and a new allocation that ensures that most of the funds are earmarked for scholarships. Student relief on personal income tax was reduced by a quarter in 2013. By raising the concession fee, student work is becoming less competitive than regular forms of work, which indirectly contributes to reducing segmentation in the labour market. We will proceed with systemic changes of student work within the social and civil dialogue soon.

Reports on the work of 29 student service centres show that the number of student work referrals in 2012 declined by 7.2% (for secondary school students by 10.4% and for students by 5.6%) compared to 2011. The number of realised referrals was 6.3% lower than in 2011 (8.2% for secondary school students and 5.3% for students). The number of hours of student work carried out was reduced by 10.7% (by 14.8% for secondary school students and by 2.4% for students).

### **Recommendation 5: Education and qualifications**

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Improve the matching of skills with labour market demand, particularly of low-skilled workers and tertiary graduates, and continue reforms of vocational education and training.

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## Improving the compliance of qualifications with labour market demand

**At the secondary school level**, enrolment policy strategy is most important. The ministry responsible for education is planning measures to promote vocational education and concrete projects linking the entrepreneurial environment with the education system, expert discussion on vocational education reform and its placement in the Slovenian qualification framework. To achieve this objective, the Ministry commenced:

- concrete projects to connect the entrepreneurial environment with the education system (co-financed with cohesion funds, with which the effect of internationalisation and mobility and transfer of good practices is achieved);
- promotion of entrepreneurial initiatives of vocational school students under the mentorship of schools;
- presentation of vocational and professional education, with which we want to change the reputation and recognisability of this field of education;
- updating enrolment criteria for secondary schools in order to modernise the transition to secondary education, and provide schools with adequate distinctiveness, objectivity and transparency,
- renewing vocational courses and the project 'Career counselling' (vocational courses should be revised and modernised, while career counselling should be furnished with quality topics and incorporated into the education system),
- discussions on challenges and development in vocational education: discussion of the connection of the educational system and entrepreneurial environment, advantages and disadvantages of the dual system, the implementation of the status of vocational education and promotion of excellence in vocational education).

Amendments to the Vocational Education Act, amendments to the Gimnazije Act and the proposed Slovenian Qualifications Framework Act are being drafted. Discussions on the proposed amendments, which are aimed at improving success, efficiency and quality in education, but primarily international comparability, are planned for the second half of 2013.

**In the field of higher education**, the ministry responsible for higher education has prepared a thorough analysis of the labour market in order to establish the extent to which key sets of higher education data comply with the situation in the labour market. The labour market was analysed in terms of numbers of invitations to enrol in higher education institutions, students enrolled and graduates. It has been established that these aspects are not considered sufficiently in the formation of annual prospectuses or the provision of places for them in individual higher education institutions.

In addition to the data on the situation and trends in higher education and the labour market, long-term projections of the development of Slovenia and its labour market must be considered in the creation of enrolment policy and in structuring the annual invitation to enrol in higher education institutions. The ministry responsible for education will implement the measures stated in the Resolution on the National Programme of Higher Education 2011–2020:

a) short-term measures:

- promotion of internationalisation,
- improving the quality of higher education;

b) long-term measures:

- improving cooperation between higher education institutions and the corporate and non-corporate sectors (this envisages the creation of consultative forms for dialogue with employers in the preparation of study programmes and inclusion of personnel from the non-academic sphere, especially the corporate sector, in implementing the procedures of expert study programmes);
- improving the cooperation between higher education institutions and public research institutes (this includes mutual transition of personnel between higher education institutes and public research institutes);
- gradually connecting universities and small public research institutes.

**Life-long career orientation and measures of the active employment policy**

Pursuant to the Labour Market Regulation Act, this includes services in the labour market, i.e. activities facilitating the identification of abilities, competences and interests for decision-making in the field of employment, education, training and the selection of occupations, which include: acquiring information about the labour market, independent career management, basic and in-depth career counselling and learning about the skills of career management, which lead to a better coordination of supply and demand in the labour market. Life-long career orientation must be ensured for all groups of working age population, i.e. the school-age youth, employed and self-employed, and unemployed. These services are currently provided for unemployed persons and school-age youth through the Employment Service of Slovenia and concessionaires. The employed are meanwhile provided with certain active employment policy programmes, which include the elements of life-long career orientation. Measures:

- regional career centres for elementary and secondary school youth,
- enhancing career orientation for unemployed persons,
- active employment policy intended for employed persons to enhance their skills and competitiveness, and the development of new innovative approaches in this field
- greater involvement of the social partners in the development and implementation of lifelong career orientation.

**Recommendation 6: Opening of markets, business environment**

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Take further steps to strengthen market opening and speed up the reorganisation of professional services. Improve the business environment through (i) implementing the reform of the Competition Protection Office, (ii) establishing a framework for state-owned enterprises guaranteeing arms-length management and high standards of corporate governance and (iii) improving bankruptcy procedures, in particular in terms of timeliness and efficiency.

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**Restructuring the Competition Protection Office of the Republic of Slovenia**

2012 saw the restructuring of the Competition Protection Office of the Republic of Slovenia as a body within the Ministry of Economic Development and Technology into the independent Slovenian Competition Protection Agency. The Act Amending the Prevention of Restriction of Competition Act, which refers principally to the bodies of the agency, their appointment and competences, was passed by the National Assembly of the Republic of Slovenia, and the Decision on the Establishment of the Slovenian Competition Protection Agency was published in the Official Gazette. Following the appointment of the bodies of the agency by the National Assembly of the Republic of Slovenia on the proposal of the Government, the agency was entered in the court register on 31 December 2012, thus meeting all the conditions to commence operations. Sixteen people were newly employed at the agency.

**Changes in the field of managing the state-owned assets**

At the end of 2012, the new Slovenian Sovereign Holding Act (ZSDH) was enacted, which will facilitate the concentration of management of Slovenia's investments in order to achieve stable ownership and sustainable maximisation in investment yields and value. This, in turn, will facilitate the achievement of economic and developmental objectives, as well as public interest objectives, the establishment of a transparent system for managing state-owned assets by optimising management costs, and the fulfilment of the obligations of Kapitalaska družba pokojninskega in invalidskega zavarovanja, d.d. (Pension Fund Management) and Slovenska odškodninska družba, d.d. (Slovenian Compensation Company) as determined by law. The new act anticipates the formation of Slovenian Sovereign Holding (SSH), whose role initially assumed by Slovenska odškodninska družba. In the SSH, all Slovenia's investments will be concentrated and therefore managed from one place. Thus the Act simplifies the management structure, defines the purpose and criteria of management of state-owned assets more clearly, and forms unified state reserve assets. The key document for transparent management is the Management of State-Owned Assets Strategy, which includes a classification of

investments, defining them in terms of their importance (strategic, important and portfolio investments) and determining the target shares of individual investments. The classification has not yet been harmonised.

### **Improving bankruptcy proceedings**

Improving insolvency proceedings is also expected to enhance the business environment. In 2012, the Act Amending the Banking Act and the Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act were passed with the objective of strengthening the stability of banks and enhancing their efficiency vis-a-vis debtors, especially those involved in insolvency proceedings and those not yet involved in insolvency proceedings but where the threat of inadequate capital already exists. By ensuring more efficient and faster repayment to banks by their insolvent debtors, a better business environment will be provided for other business entities.

### **Economic public procurement**

Considering the economic situation in recent years, a package of acts was adopted in 2012, which established a more transparent and simpler IT-supported public procurement system, with reduced bureaucracy, in order to ensure the economic and transparent consumption of public funds and prevent potential abuse in selecting contractors in public procurements. This ensured greater transparency in awarding contracts, substantive decision-making on offers and reduced costs for participating in public procurement procedures, and thus enhanced the competitiveness and more economic consumption of public funds. At the end of 2012, the ministry adopted the Education Strategy Regarding Public Procurement for 2013 and 2014, and, in cooperation with the Administration Academy at the Ministry of Justice and Public Administration, carried out several free presentations of the new legislation.

### **Recommendation 7: Growth in wages**

Following consultation with social partners and in accordance with national practice, ensure that growth in wages, including minimum wage adaptation, supports competitiveness and job creation.

In 2012, nominal gross wages per employee remained unchanged, while real income fell (by 2.4%) for the first time in twenty years, which contributed to improving the competitiveness of the Slovenian economy which is among the lowest in the eurozone in terms of costs.

Wage growth in the private sector was noticeably adjusted to economic activity last year,<sup>21</sup> as it was, in spite of the final increase in, and adjustment to, the minimum wage, merely 0.5%, which is much less than in the previous two years (2.6% in 2011 and 5.6% in 2010).<sup>22</sup> In 2012, the gross wage in the public sector<sup>23</sup> was nominally lower, by 0.9%, than in 2011, which was decisively influenced by the 3-per-cent reduction in public sector wages in June.<sup>24</sup> Due to the austerity measures adopted with amendments since 2009, the gross wage in the government sector nominally declined by 2.2% last year, following two years of stagnation. In addition to the decline in wages in the government sector, which accounts for most of the public sector, the growth in wages in publicly traded companies also declined slightly. At the end of 2012, publicly traded companies carried out significantly fewer non-standard payments than in the previous year, which slightly slowed wage growth, which nevertheless remained above average<sup>25</sup> (2.0%).

<sup>21</sup>In 2010 and 2011, in the prevailing conditions of low economic activity and slightly modified structure of employees, the wage growth in the private sector was mainly influenced by the growth in the minimum wage.

<sup>22</sup>In private non-financial companies, it slowed down considerably (0.6%; 2.7% in 2011), while in financial companies, gross wages were even slightly lower than the year before (-0.1%; 1.2% in 2011). It was also lower in most activities (in addition to construction, mainly in service activities), while its growth in industry slowed down the least.

<sup>23</sup>The national accounts include the government sector and publicly traded companies (source: SORS).

<sup>24</sup>With the introduction of ZUJF, the wages of all public employees were reduced by 8%, while at the same time they were paid the last two quarters of wage disparities.

<sup>25</sup>In non-financial publicly traded companies, 1.9%, and in financial companies 1.5%.



## 6 PROGRESS TOWARDS NATIONAL EUROPE 2020 TARGES

### 6.1 Objective regarding research and development

To invest 3% of GDP in research and development by 2020 (2011: 2.47%)
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The statistical data on investment in R&D for 2011 show that total funds for research and development were 2.47% of GDP. The majority of funds for R&D came from the business sector (73.9%), the government sector (14.3%) and the higher education sector (11.8%).

Most funds for all gross domestic expenditure for research were contributed by companies (61.2%), government funds (31.5%) and funds from abroad (7%). In addition to reducing the integral budget, an important source of approaching the objective is with the use of cohesion funds. In addition to direct measures (subsidies), indirect measures, among which is an increase in relief for research and development, which amounts to 100% of investment funds, also contribute to achieving the objectives. Since 2011, research funds have been reduced, and, at the same time, we have taken an active approach to ensuring the maximum financing from structural funds and improving the efficiency of their use.

The National Research and Innovation Strategy 2011–2020 (NRIS) contains highlights which will both enhance international competitiveness and strengthen knowledge-based production and services. A special emphasis is put on the greater autonomy of public research organisations, which in addition to scientific excellence will have to become more socially responsible and contribute to greater competitiveness. The objective of the NRIS is to boost private investments in research and investments from public funds, 60% of which will be intended for projects in cooperation with the business sector. In addition, a special emphasis is put on improving the access of companies to refundable and commercial financing sources for research, technological development and the commercialisation of new products and services based on our own knowledge.

We will continue to encourage the employment, and training of researchers and developers in the economy, as well as reinforce the support for the strategic development projects of companies and facilitate their participation in technological development programmes (e.g. ESA) and demonstrative projects, which will facilitate the companies' development and first demonstrations of state-of-the-art technologies in global markets.

Development centres of the Slovenian economy at sectoral and regional level are projects of the Ministry of Economic Development and Technology. The projects combine the critical mass of knowledge from individual fields and infrastructure for the further development and formation of new companies. Combining infrastructure and development cores of companies ensures the basis for the formation and development of new innovative, technological and spin-off companies. In 2013 and 2014, EUR 68 million (from the total EUR 179.5 million) will be intended for 17 projects, and 658 new jobs and 266 new companies are planned to be created.

In 2013, the ministry responsible for science plans to participate in four new ERA-NET projects and continue tenders for projects already in progress, and also to participate in Joint Programming Initiatives and promotional activities to include Slovenian researchers in initiatives at the EU level. The Ministry of Economic Development and Technology plans to be included in the Eurostars 2 initiative for industrial research, which is worth more than EUR 1 billion.

To improve the institutional environment, and due to the growing complexity of the international (EU) research environment, measures to professionalise national support institutions (national contact points network) have been designed, which will be operationalised in the process of establishing the new network within the framework of Horizon 2020.

As part of the integration of research infrastructure (ESFRI), the Research Infrastructure Development Plan is being implemented, within which at least five ESFRI projects will be institutionalised in 2013 and 2014. The plan is to continue to cooperate actively on constructing a large infrastructure FAIR, where the in-kind contribution of Slovenia is an important encouragement to the development of high-technology in Slovenia.

## 6.2 Objectives in the field of education

The share of early school-leavers will not exceed 5% (2011: 4.2%).

Slovenia is below the threshold of the 5% early school-leavers share. To keep the focus on the objective, preventive orientation in primary and secondary schools is ensured in various forms: study assistance, remedial classes, internal differentiation of classes, the possibility to prolong primary school education and an individual education plan, where the school and student together prepare a plan of when and in what manner the individual will be educated and meet his or her obligations. These measures do not only refer to an individual year, but have been implemented in the education system for several years.

Some other measures also contribute to the low share of early school-leavers. The first is the possibility for anyone who has concluded at least the seventh grade of primary school, and thus completed primary education, and meets other conditions determined by the educational programme to be included in education to acquire secondary vocational education.<sup>26</sup> Young people who have not completed a regular primary school course may be included in primary education as adults, free of charge.<sup>27</sup>

Parallel to preventive orientation in primary and secondary schools, various education programmes, financed from European funds, which facilitate the acquisition of publicly verified education for all who have left the education system early, are being implemented. The programme 'Project Learning for Young Adults' is intended for school-leavers aged between 15 and 25.

40% of the younger population aged between 30 and 34 will complete tertiary education (2011: 37.9%).

According to the data from a survey on manpower for the second quarter, the share of young people (aged 30 to 34) with tertiary education in 2012 increased to 39.1%, thus Slovenia is very close to the EU 2020 objective. The increase in the share is associated with the high inclusion of young people in tertiary education and a rise in the number of tertiary education graduates aged 34 or less, which is also associated with the introduction of the Bologna study programmes, where the average duration of the study from the enrolment to graduation is shorter as compared to the old programmes.<sup>28</sup> These are long-term measures anticipated in the Resolution on the National Programme of Higher Education 2011–2020. Further measures to attain the objective are primarily:

- measures to preserve or enhance the high level of higher education availability,
- measures to enhance the efficiency of studies,
- ensuring free regular study at levels one and two once in a lifetime,
- including less represented population groups in higher education,
- establishing a unified and transparent system of social transfers for studies,
- improving the conditions for studying and establishing transparent conditions to exercise rights deriving from student status (e.g. limiting the utilisation of transfers to a certain number of years, etc.).

Slovenia has, among other things, also established the eVŠ (electronic higher education) information system, which facilitates the transparency and monitoring of higher education in Slovenia, as it includes data on higher education institutions, publicly verified study programmes, students,

<sup>26</sup> Pursuant to Article 23 of the Vocational Education Act (Official Gazette of the Republic of Slovenia, No. 79/2006).

<sup>27</sup> According to the Constitution of the Republic of Slovenia (Official Gazette of the Republic of Slovenia, No. 33/1991), primary education is mandatory and financed from public funds.

<sup>28</sup> In 2011, the average duration of studies in old higher education undergraduate studies (professional and academic study programmes) was 6.8 years, and 4.0 years in the Bologna programmes of the first degree (professional and academic study programmes).

graduates, higher education lecturers and assistants, and researchers. By establishing the eVŠ record of students and graduates, Slovenia will acquire an analytical tool to monitor the operation of the higher education system regularly, and to streamline and develop higher education policies. It will also acquire a central source of data on student statuses and other types of data required to verify the rights to study financed by the state and financial aids.

### 6.3 Objectives in the field of climate and energy

The following national objectives regarding climate and energy will have been attained by 2020:

- greenhouse gas emissions in those fields not included in trading with emission coupons (transport, agriculture, waste disposal, household and services) may be increased by 4% by 2020 as compared to 2005;
- increase in the share of renewable energy sources in final consumption to 25%;
- enhancing the efficiency of energy use.

#### Reducing greenhouse gas emissions (GHG)

An action plan of measures to reduce GHG emissions for the period 2013–2020 will be prepared, which will simultaneously combine measures to improve the efficiency of energy use and measures to achieve a 25% share of renewable energy sources in final energy consumption. The main goal of the plan is for increases in GHG emissions in fields not included in trading with emission coupons (transport, agriculture, waste disposal, household and services) to be kept at no more than 4% by 2020 as compared to 2005.

Forests have a special influence on attaining climate and energy objectives. They significantly contribute to the greenhouse gas sink and thereby to a more favourable balance of carbon at the country level. By 2020, we will ensure the further accumulation of the growing stock and thus enable Slovenia to suitably incorporate the carbon sink into the efforts to attain the objectives of commitments on climate.

#### Increase the share of renewable energy sources in final consumption to 25%

The objective of increasing the share of renewable energy sources (RES) in final energy consumption to 25% by 2020 is being realised. Available informal data for 2011 indicate that the annual interim objective defined in RES AP (Renewable Energy Sources Action Plan) is being met, as the share of total final energy consumption from RES amounted to 18.9% (16.11% in 2005). The objective for the gross final energy consumption from RES for heating and cooling is being successfully met, while in the field of electrical energy consumption, we are falling behind the anticipated pace: the share of gross final energy consumption from RES for electrical energy amounted to 30.8%, which is 1.5 percentage points less than planned for this year and 8.5 percentage points less than the objective for 2020; the 27.3% share of RES in gross final energy consumption for heating and cooling in 2011 also exceeds the anticipated share defined in RES AP for this year. The reason is lower energy consumption for heating and cooling in households (reduced by 15% since 2005), while the use of RES for heating and cooling has grown, which reflects the success of measures to enhance RES and efficient energy use. The share of gross final energy consumption from RES in transport amounted to 2.2% (79% of the attainment of the interim objective).

#### Enhancing the efficiency of energy use

At the end of 2009, the Decree on energy savings at end-users was adopted, on the basis of which the Government determined, in accordance with the objective of the 'National Efficiency Energy Action Plan for the period 2008-2016' for suppliers of all energy products to achieve 1% in annual energy savings with final customers.

The annual interim objectives of efficient energy use are determined every three years in the National Energy Efficiency Action Plan for the period 2008-2016 (NEE AP). By 2010, a total of 1,317 GWh of final energy were saved by taking into account the early activities. The achieved savings were 2.8%, which is 0.3% of reference final energy consumption more than the interim target saving. The next interim target saving will be estimated for the period up to and including 2013. By 2020, 10,809 GWh

of energy savings must be achieved to attain the objective of a 20% improvement in energy efficiency in accordance with the commitments of the new Directive on energy efficiency. In 2014, a new national action plan will be drawn up, which will determine measures and energy savings by 2020; the objective will be expressed as the level of final and primary energy in 2020.

In Slovenia, over 150 educated independent experts are available to prepare energy performance certificates; they will receive licences in the near future. The register of independent experts and the register of authorisations have been established. A public tender to select a contractor to prepare an electronic register of energy performance certificates has been published.

#### 6.4 Objectives for the labour market and social security

By 2020, 75% of the population aged between 20 and 64 will be working (2011: 68.4%).
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The most important measures to achieve a higher level of working population in 2012 include the new pension legislation, the objective of which is to raise the actual retirement age, whereby it defines higher retirement conditions (65 years of age for men and women) and determines additional financial incentives in the form of reduced contributions for employing both old and young people. Additional measures in this field are anticipated with labour market reform, which, in accordance with the pension reform, gradually raises the age of workers with ensured special protection against dismissal, narrows the circle of beneficiaries of severance pay at retirement who have been employed by their last employer for at least five years, and amends the provisions regarding the long-service bonus in a way that the determination of the amount and type of bonus is left to social partners within collective agreements.

In addition to amendments to labour and pension legislation in 2012, more important measures to encourage employment are included in the active employment policy programmes. The funds according to the AEP measures in 2012 were aimed at measures and programmes which led to direct employment, and those which, for unemployed persons, represent acquiring new knowledge and skills to enhance their employability and competitiveness in the labour market (training and education).

#### Employment of young people

The issue of the employment of young people is being resolved by intensifying specific active employment policy measures intended for young people i.e. those who dropped out of school and those who want, or who in order to improve their employability must, acquire additional education (project learning for young adults, institutional training, training for life success, formal education, national vocational qualifications) or want to undergo training (on-the-job training, encouragement to employ job seekers in the field of social protection).

In November 2012, the programme '**Confidently into the World of Entrepreneurship 2013**' commenced; it is partly financed by the European Union from the European Social Fund. The programme introduces the model of mentoring and additional training adapted to groups which will develop their own business ideas and prepare whatever is necessary to establish a company. By the end of 2013, a total of 250 unemployed persons will have been included in the programme. In 2012, the funds from the programme 'Self-employment 2010' were raised by EUR 19 million.

In 2012, the programme '**Encouraging the employment of first job seekers in the field of social protection – trainees**', which is implemented by the Social Chamber of Slovenia, continued successfully in 2012 with the annual tender. Its purpose is the acquisition and improvement of the competences, knowledge and skills of first job seekers in the field of social protection. 399 trainees have been included in the programme so far, 81 of whom have already passed the professional examination to perform work in the field of social security. The programme will continue in 2013 and 2014, and is partly financed by the European Union.

Indirect financing of corporate scholarships within the implementation of **unified regional scholarship schemes** is intended to balance the availability and needs for human resources in individual regions. In addition, it contributes to a more harmonised regional development by encouraging educated

manpower to return from educational centres to the region. In 2013, six programmes of regional scholarship schemes in 12 regions are being implemented.

An important active employment policy programme to encourage the employment of young people is the public tender '**First Challenge**' published last year. This employment subsidy will facilitate the faster integration of young people into the working environment and thus improve their chances of employment. At the end of 2012, 2,649 unemployed persons were included in the 'First Challenge' programme.

In the first half of 2013, the ministry responsible for agriculture will publish a public tender for young **farmers taking over a farm** who are under 40 years of age. This provides a non-refundable, one-off grant for the transfer of a farm to a younger person in order to improve the age structure of farmers, boost the development capabilities of transferred farms and thus increase productivity in agriculture (approximately EUR 5 million will be put out to tender).

Additional leverage of youth activation is also required by implementation of youth employment measures within the EU adopted youth scheme guarantees, with the hope that the utilization of funds will be flexible enough to allow additional funding as Slovenia recorded the highest relative increase in youth unemployment in the EU in 2012.

### **Social entrepreneurship**

On the basis of the adopted Social Entrepreneurship Act, the adoption of the 'Strategy for the development of social entrepreneurship for the period 2013-2016' is anticipated in the first half of 2013; this will be the basis for drafting and co-financing measures to implement this strategy. Considering the challenges highlighted by stakeholders, the strategy will focus on raising awareness of the significance of social entrepreneurship and its principles, upgrading the entrepreneurial environment for the needs of social entrepreneurship, and encouraging the employment of people from vulnerable groups.

The ministry responsible for agriculture will publish a new tender in 2013 to support the commencement or modernisation of non-agricultural activities and thus create new jobs, as well as an additional source of income for farms, and contribute to improving the social and economic situation of farms.

The number of persons at high risk of poverty or social exclusion will have been reduced by 40,000 by 2020 as compared to 2008, when this number stood at 360,000 (2011: 386,000).

### **Social security and social inclusion**

At the beginning of 2012, a new system for exercising rights from public funds came into force, which includes a single entry point (social work centres, which decide on the rights by means of the information system connected to various administrative data sources). The procedure for claiming transfers, subsidies and payments which do not depend on the financial situation of individuals and families was simplified, and greater transparency, efficiency and fairness in granting rights from public funds which depend on the financial situation of applicants were achieved. The minimum benefit (basic amount of cash social assistance) was raised at the beginning of 2012 from EUR 230.61 to EUR 260 (pursuant to the Financial Social Assistance Act, the minimum benefit should have been raised to EUR 288.81, but the enforcement of the Act of Intervention Step because of Economic Crisis in December 2011 and the Fiscal Balance Act in mid-2012 reduced the rise in the minimum wage in comparison with that originally anticipated). To encourage recipients of the minimum income to work (cash social assistance), an allowance in the amount of 28% of the minimum income was determined for adults working from 60 to 128 hours per month, and 56% of the minimum income for adults working more than 128 hours per month. Decision-making regarding minimum pension support was transferred from the pension system to the social transfer system, whereby the circle of beneficiaries was expanded and the retirement age raised (women aged over 63 and men over 65, and persons permanently unemployable or permanently incapable of work).

In the second half of 2012, the Employment Service and the competent ministry prepared the first tender for providers of social activation programmes. The purpose of the procurement is to develop such programmes for the target group of inactive persons which will enable psycho-social rehabilitation, encourage inactive individuals to enter or return to the labour market, enhance their flexibility and employability, facilitate the transition from inactivity to employment or other options (inclusion in AEP measures, training and education), and thus prevent inequality and social exclusion. The implementation of social activation programmes will begin in March 2013; the programmes will continue until mid-2015. Some 1,550 people on average are anticipated to take part in the programmes annually.

In the conditions of the aggravated social consequences of the crisis, the Government ensured additional funds at the end of 2012 to provide subsidies for school meals for pupils and students in primary and secondary schools. All secondary school and higher education students living at least five kilometres away from school were provided with a monthly pass for public transport at a unified subsidised price.

In 2012, the National Programme of Social Protection for the period 2013–2020 was prepared. It is the key development document in the field of social protection, as it determines the basic starting points and principles for developing the system, the key objectives in the field of social protection, the network of public social security services and programmes, and defines the manner of implementing the programme and its monitoring, and the responsibility of individual players at different levels. The Programme was adopted by the National Assembly of the Republic of Slovenia in April of 2013. The National Programme of Social Protection for the period 2013–2020 is also a formal framework for developing new services.

## **7 PROCESS OF PREPARING THE NATIONAL REFORM PROGRAMME**

The National Reform Programme has been drafted on the basis of guidance from the European Commission, which precisely prescribe the new structure of the document. The contents of the document have been complemented by measures arising from recommendations that the Commission made in the In-Depth Review published on 10 April 2013.

The National Reform Programme was harmonised at the inter-ministerial level, whereby the Government of the Republic of Slovenia took note of the draft document at its regular session held on 23 April 2013. The draft document was then considered at the session of the Economic and Social Council and the following committees of the National Assembly: Committee on Finance and Monetary Policy, the Committee on the Economy, Committee on Education, Science, Sport and Youth, the Committee on Labour, Family, Social Policy and Disability and the Committee on EU Affairs.

The discussions at the Economic and Social Council and the committees of the National Assembly have been taken into account *mutatis mutandis* in the final version of the National Reform Programme that was finally confirmed at the session of the Government of the Republic of Slovenia on 9 May 2013.