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COMMISSION OPINION

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING SLOVENIA

3. On the basis of the Draft Budgetary Plan for 2015 submitted on 15 October and additional information submitted on 24 October by Slovenia, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Slovenia is subject to the corrective arm of the Stability and Growth Pact. The Council opened the Excessive Deficit Procedure for Slovenia on 2 December 2009 and recommended to correct the excessive deficit by 2013. On 21 June 2013, the Council concluded that Slovenia had taken effective action, but that adverse economic events with major implications on public finances had occurred and issued a revised recommendation. The Council recommended Slovenia to reach a headline general government deficit target of 4.9% of GDP in 2013 (3.7% of GDP without 1.2% of GDP one-off expenditure to recapitalise the two largest banks as estimated in June 2013), 3.3% of GDP in 2014 and 2.5% of GDP in 2015, which was considered consistent with an annual improvement of the structural balance of 0.7% of GDP in 2013, 0.5% of GDP in 2014 and 0.5% of GDP in 2015. On 5 March 2014, the Commission addressed a recommendation to Slovenia under Article 11 of Regulation (EU) No 473/2013, considering that it was at risk of non-compliance with its obligations. In this recommendation, the Commission called on Slovenia to take the necessary steps to ensure that the structural effort recommended by the Council was met.

5. The macroeconomic scenario underpinning the Draft Budgetary Plan projects real GDP to increase by 2.0% and 1.6% in 2014 and 2015, respectively, higher than the growth rates projected in the 2014 Stability Programme. The key drivers of growth are the strong performance of net exports and gross fixed capital formation, mainly through EU funded projects. Compared to the Draft Budgetary Plan, the Commission 2014 autumn forecast projects stronger real GDP growth in both 2014 and 2015, resulting from a larger contribution from net exports and larger increase in investment expenditure. Assessed against currently available information, the Draft Budgetary Plan's macroeconomic scenario for both years appears cautious.

6. Regulation (EU) No 473/2013 requires the draft budget to be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic scenario underpinning the Draft Budgetary Plan is the Autumn 2014 Forecast of Economic Trends produced by the Institute of Macroeconomic Analysis and Development (IMAD). The independent status and tasks of IMAD are stipulated in a specific Resolution.

7. The general government deficit targets in the Draft Budgetary Plan amount to 4.4% of GDP in 2014 (including bank support of 0.9% of GDP) and 2.8% of GDP in 2015. There are no one-off measures included for 2015. The deficit targeted in the Draft Budgetary Plan is higher for 2014 and 2015 than in the 2014 Stability Programme. This increase, as indicated in the Draft Budgetary Plan, is driven by a larger increase in interest expenditure, a larger transfer to the pension fund and higher expenditure on gross fixed capital formation than previously anticipated.

8. The Commission 2014 autumn forecast projects the general government deficit for 2014 to be in line with the Draft Budgetary Plan forecast, at 4.4% of GDP. For 2015 the deficit is projected at 2.9% of GDP which includes slightly more cautious estimates of the yields from the measures announced in the Draft Budgetary Plan. Possible one-offs that may emerge in 2015 pose a risk to the deficit projections.

9. The Draft Budgetary Plan forecasts the general government gross debt ratio to increase in 2014 to 82.2% of GDP (from 70.4% of GDP in 2013) and to increase further to 83.2% of GDP in 2015. Relative to the 2014 Stability Programme, the debt projections are higher due to a higher primary deficit and considerable pre-financing for 2015. The Commission forecasts the debt ratio at 82% of GDP in 2014 and to peak at 83% in 2015. Neither the Draft Budgetary Plan nor the Commission 2014 autumn forecast incorporate proceeds from the ongoing privatisation process, which represents a positive risk to the debt developments.

10. The Draft Budgetary Plan consolidates predominantly through the prolongation of several expenditure measures including measures to contain the pay bill and the introduction of some additional new measures including the reduction in certain pay allowances. These measures are currently under negotiations with trade unions. The authorities plan to achieve significant savings from the centralisation of public procurement and changes to the financing of subsidies. On the revenue side, the government proposes to prolong several tax measures introduced in recent years and to improve tax collection efficiency. The estimate of the budgetary impact of the consolidation measures specified in the additional information submitted on 24 October to the Draft Budgetary Plan appear plausible on current information and are reflected in the Commission 2014 autumn forecast.

11. The headline deficit targets planned in the Draft Budgetary Plan at 4.4% and 2.8% of GDP in 2014 and 2015, respectively, are above the EDP headline deficit targets of 3.3% and 2.5% of GDP for the same years but below the 3% of GDP Treaty reference value for 2015. The Commission 2014 autumn forecast also expects a deficit above the EDP targets but below 3% of GDP in 2015. According to the Commission 2014 autumn forecast, the change in the structural balance is estimated at -0.7% of GDP for 2014 and 0.3% of GDP in 2015. The annual adjusted structural effort in 2014 (-1.1% of GDP) falls significantly short of the recommended annual structural effort (0.5% of GDP) and is slightly below it in 2015 (0.3% of GDP vs. 0.5% of GDP). Over 2013-15 the estimated cumulative adjusted structural effort (-1.2% of GDP) falls considerably short of the recommended effort (1.7% of GDP).

Based on a bottom-up assessment of the latest available outturn data, the fiscal effort for 2013-14 falls short of the additional consolidation measures deemed necessary to reach the structural targets spelled out in the EDP recommendation. However, for 2015, the effort based on the bottom-up method is estimated at 2.1% of GDP, considerably above the recommended 1.5% of GDP.

12. Regarding fiscal-structural reforms, a pilot project with respect to centralised public procurement has been commenced. While this is a step in the right direction, the comprehensive review of expenditure in the area of health care, which was due to be launched by the end of 2014, has yet to be commenced. The Fiscal Rule Act, in compliance with the Treaty on Stability, Coordination and Governance in the European Monetary Union, has yet to be adopted. Additional measures to ensure the sustainability of the pension system beyond 2020 and to contain age-related expenditure on long-term care are required.

13. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Slovenia, which is currently under the corrective arm, is broadly compliant with the provisions of the Stability and Growth Pact. While the Draft Budgetary Plan envisages a timely correction of the excessive deficit as the headline balance is projected to be brought below 3% of GDP in 2015, the recommended fiscal effort in structural terms is not expected to be met. The Commission invites the authorities to stand ready to take the necessary measures within the national budgetary process in order to ensure that the 2015 budget will be compliant with the Stability and Growth Pact.

    The Commission is also of the opinion that Slovenia has made limited progress with regards to the structural part of the fiscal recommendations issued by the Council in the context of the 2014 European Semester and thus invites the authorities to accelerate implementation.

Done at Brussels, 28.11.2014

For the Commission
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Member of the Commission