GOVERNMENT OF THE REPUBLIC OF SLOVENIA

NATIONAL REFORM PROGRAMME 2014-2015

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INTRODUCTION

The National Reform Programme is the Government's medium-term plan of priority measures and projects focused in part on achieving the objectives of the EU 2020 Strategy. This document is at the heart of the economic policy coordination process and reflects national priorities in the framework of EU-level policies. Together with the Stability Programme it forms the basis for drawing up the budget plan. The European Commission uses this document to formulate specific annual recommendations for the Member States, which are then confirmed by the European Council.

By introducing the European semester, which is a yearly cycle of economic and fiscal policy coordination in the EU, the Member States harmonise their fiscal and economic policies with the objectives and the rules agreed at the EU level. The European Semester includes a clear timeline according to which the Member States receive recommendations (guidelines) on the EU level and then submit their draft policies (national reform programmes and stability of convergence programmes) which are then evaluated on the EU level. After they have been evaluated, the Member States receive individual recommendations for their budget and reform policies (and are also given recommendations for eliminating macroeconomic imbalances, as in the case of Slovenia). The Member States should take into account all recommendations in establishing their budgets for the following year. The purpose of the European Semester is to ensure healthy finances, stimulate economic growth and prevent excessive macroeconomic imbalances in the EU.

At the end of May 2013, Slovenia received an evaluation of its National Reform Programme and Stability Programme 2013 together with the Council's recommendations relating to Slovenia's National Reform Programme 2013 and the Council's opinion on Slovenia's Stability Programme 2012-2016[1]. The evaluation includes nine recommendations which address the key areas covered by measures and form the core of this document. The priority measures and projects for 2014-2015 are also a response to the recommendations provided in the In-Depth Review of the European Commission in March 2014[2], which addresses macroeconomic imbalances and takes into account the guidelines and the action plan for individual areas.

[1] http://ec.europa.eu/economy_finance/economic_governance/sgp/convergence/programmes/2012_en.htm
[2] http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/op109_en.htm

1. ECONOMIC POLICY FRAMEWORK AND GOALS

The framework of Slovenia's development strategies puts the well-being of the population at the forefront. This will be achieved through the following **strategic objectives**:

a. **Economic development:** kick-starting economic growth and interrupting the trend of Slovenia's divergence from the EU average in terms of economic development.
b. **Social development:** increasing the well-being of the population.
c. **Environmental development:** stopping merely passive, cyclically-dependent changes by transforming them into permanent structural changes.

To achieve these objectives, Slovenia will use **its competitive advantages and potentials:**

- **Rich natural resources:** wood, water, fertile soil, renewable energy sources.
- **Geostrategic position:** freight, rail and maritime transport, diverse landscape.
- **Flexibility of a small economy:** export orientation, SMEs, flexibility.
- **Human resources:** highly qualified workforce, qualified researchers.

The National Reform Programme of the Republic of Slovenia is the **Government's medium-term plan** of priority measures and projects focused in part on achieving the objectives of the EU 2020 Strategy. The document is a core of the European Semester and, together with the Stability Programme, represents the foundation for drawing up country-specific recommendations for the Member States, which are drafted at the end of the Semester by the European Commission and approved by the European Council. In this way Slovenia is pursuing an economic policy in accordance with the guidelines and priorities set at the EU level[3], and simultaneously with the objectives that conform to the situation and potentials of Slovenia's economy and society.

In 2013, Slovenia adopted the following measures to improve imbalances with effects over a number of years, which are being implemented intensively:

- Fiscal balance measures and constitutional amendments. According to the ESA 95 methodology, the general government deficit reached an estimated 4.4% of GDP in 2013 (14.7% of GDP – bank recapitalisation included) and the general government debt was estimated at 71.7% of GDP.
- The stabilisation of the banking system, the establishment of an environment for the restructuring of businesses, the Bank Assets Management Company (BAMC), (ensuring financial strength).
- Business restructuring is being carried out intensively under the combination of a harmonised process and adopted legislation between banks, the BAMC and the Bank of Slovenia.
- Full BAMC functionality has been ensured in cooperation with independent experts.
- The effects of the pension reform and labour market reform are visible and some new measures are being prepared (the rationalisation of the healthcare system).
- Improvement of the business environment (increased efficiency of judicial proceedings, initiation of privatisation processes, reduced administrative barriers).

Slovenia will pursue its fiscal objective of achieving a general government deficit target of 3.2% of GDP in 2014 and 2.4% in 2015, excluding any one-off expenditure. To attain this scenario in the medium-term fiscal effort, the strategy sets out a combination of economic policy and structural and institutional changes. The changes must reflect permanent and structural measures whilst also taking into account the fiscal risks involved.

In the years 2014–2015, the Slovenian Government will continue with and enhance the implementation of measures and activities aimed at promoting economic growth and increasing the welfare of the population. The following priorities are crucial for attaining these goals:

[3] http://ec.europa.eu/europe2020/making-it-happen/annual-growth-surveys/index_en.htm

- **Fiscal stability** by achieving a structurally balanced budget by 2017;
- **Increasing employment** to an active working population of 850,000.

This year, Slovenia will achieve 0.5% economic growth and in 2015 0.7% economic growth, based on the further strengthening of export growth and stabilisation of household consumption. The increase in investments at the end of 2013 has had a significant impact in terms of this year's higher level of economic activity, thus paving the ground for the gradual elimination of macroeconomic imbalances, primarily for once again achieving economic growth and creating jobs. In order to boost economic growth, Slovenia will give priority to the implementing measures set out **in the three key pillars** described in the National Reform Programme:

- **Financial pillar:**
  - Recovery of the banking system
  - Corporate deleveraging and restructuring
  - Insolvency
- **Corporate governance and privatisation**
  - Slovenian Sovereign Holding (SSH)
  - Ongoing privatisation
- **Fiscal pillar**
  - The fiscal rule
  - Medium-term fiscal planning.
  - Long-term fiscal sustainability and consolidation.

Equally important are the measures for **reviving economic growth in the short term** (Chapters 3.3, 3.6 and 3.7) and improving competitiveness for long-term sustainable growth. Alongside the focused measures for improving the business environment, such as deregulation and reduction of administrative barriers, these measures are at the forefront of the new financial perspective 2014-2020 (Chapter 5) and the reorientation towards refundable financing sources. Funds will be allocated in line with guidelines on the transition to a circular, low-carbon society/economy.

2. MACROECONOMIC AND FISCAL FRAMEWORK

In this year, Slovenia will attain economic growth of 0.5 per cent, and 0.7 in 2015; this will be based on the further strengthening of growth in exports and stabilising of consumption in households[4]. Positive developments in the last quarter of the previous year, especially the strengthening of investments, have had a significant impact in terms of this year's higher level of economic activity. The increased growth in exports of goods will result from accelerated growth of exports to the main EU trading parties. Depending on the technological complexity, further increased growth in export of more technology intensive products, in particular medicinal and pharmaceutical products, is expected.

The continuation of public finance consolidation will lead to further limitations on government spending (-1.5 %). The forecast takes into account the continuation of the restrictive policy in the area of employment and labour costs. The average gross wage will increase owing to the payment of overdue remuneration for promotions from 2011 and 2012, while other expenditure connected with labour will reduce significantly.[5] As in the past year, the rationalisation of expenditure on goods and services will continue; however, social benefits in kind will also decline.

[4] Spring forecast of economic trends, IMAD, March 2014
[5] In accordance with the agreement with the public sector trade unions, the amount of funds earmarked for holiday bonus for annual leave in 2014 will be considerably lower than in 2013, when in addition to the reduced payment in accordance with the

In the domestic environment, the recovery of the banking system enabled easier access to sources of financing and thus contributed to reducing uncertainties between economic entities. This year, private consumption as a result of the austerity policy in the public sector will fall by 0.4%, which is less than initially expected. The strengthening of private-sector wage growth in the 2014-2015 period will result from a recovery in economic activity and further growth in productivity. In 2014, the registered unemployment rate will reach 13.6%, and the reinforced active employment policy programmes in 2015 will ensure that it does not rise.

In 2014, **the employment rate will bottom out**, and its recovery in the next two years will only be gradual because of the characteristic delay in the response of the market. At the beginning of the economic recovery, it is expected that companies will increase the number of hours worked per employee and not the number of employees, while a faster improvement in labour market conditions will also hold back the needed restructuring of indebted companies.

Investments related to the utilisation of EU funds will contribute to maintaining investments at a similar level to last year. After carrying out the corporate repayment process, private construction and business investments will start to expand.

In the 2014-2015 period, the current account of the balance of payments will record a significant surplus. This year, the surplus will increase slightly (to 6.9 % GDP) due to factors similar to last year. This year, the surplus of regular transfers will increase, particularly because of the plan to increase utilisation of European funds.

In assuming the further absence of price shocks from the international environment and a weak recovery in economic activity, inflation will remain low this year and in the next two years.

Enhanced trust in Euro debt capital markets is reflected in the fact that in October 2013, surcharges on Slovenian Eurobonds with 10-year and 5-year maturity decreased by approximately 260 basis points to the pre-crisis level of 3.9% of the expected yield for the 10-year maturity and 2.6% for the 5-year maturity in bonds denominated in Euros. In January 2014, based on the implemented measures to stabilise the banking system and the fact that Slovenia itself ensured budgetary resources for the recapitalisation of systemically important banks, Moody's credit rating agency changed Slovenia's credit rating with a negative outlook to a credit rating with a positive outlook, while Slovenia's credit rating of A- given by the S&P credit rating agency remained unchanged.

3. MEASURES TO ACHIEVE ECONOMIC POLICY OBJECTIVES AND EU COUNCIL RECOMMENDATIONS

In 2013, the Slovenian Government adopted and implemented measures to address EU Council Recommendations in connection with Slovenia's National Reform Programme 2013 covering guidelines in nine areas:

- reinforcement and implementation of the medium-term budgetary strategy with adequately defined structural measures and adopted additional measures to correct the excessive deficit in a sustainable manner,
- ensuring the long-term sustainability of public finances and limiting the costs of ageing,
- wage developments, including the minimum wage, support competitiveness and job creation,
- contracting an independent external adviser to conduct a system-wide bank asset quality review in the entire system and providing additional capital if necessary,
- reviewing the bank regulatory framework and, based on this review, strengthening supervisory capacity, transparency and statistical disclosures,

Fiscal Balance Act, back-pay for 2012 was also paid. Additionally, the reduction in premium payments for supplementary pension insurance throughout 2014 will have contribute to a reduction in other work-related expenditures.

- acceleration of the reform of regulated services, including a significant reduction of entry barriers for these professions, and an improved business environment,
- further reduction of the length of judicial proceedings in civil and commercial cases and the number of pending cases,
- adoption of a management strategy for state owned-assets (classified into core and non-core state assets), operational Slovenia Sovereign Holding (SSH),
- an adequate legal framework for out-of-court restructuring that is coherent with the existing provisions on insolvency and provides incentives for both creditors and shareholders to reach out-of-court restructuring agreements.

3.1 Recommendation no. 1: REINFORCEMENT OF THE BUDGETARY STRATEGY: CORRECTION OF THE EXCESSIVE DEFICIT AND RESTRICTION OF DEBT GROWTH

Recommendation no. 1:
For 2013 and beyond, implement and reinforce the budgetary strategy, supported by sufficiently specified structural measures, to ensure the correction of the excessive deficit by 2015 in a sustainable manner and the improvement of the structural balance specified in the Council recommendation under the EDP. After the correction of the excessive deficit, pursue a structural adjustment effort that will enable Slovenia to reach the MTO by 2017, as it should be determined in accordance with the Stability and Growth Pact. Durable correction of the fiscal imbalances requires the implementation of ambitious structural reforms, which would increase the adjustment capacity of the economy and boost potential growth and employment. Safeguard growth-friendly spending, adopt measures to improve tax compliance and implement measures on the expenditure side underpinned by systematic reviews of public expenditure at all government levels. To improve the credibility of consolidation, complete the adoption of a general government budget balance/surplus rule in structural terms, make the medium-term budgetary framework binding, encompassing and transparent, and strengthen the role of independent bodies monitoring fiscal policy by the end of 2013. Take measures to gradually reduce the contingent liabilities of the state.

OBJECTIVES: Fiscal stability by achieving a structurally balanced budget by 2017 and long-term sustainability of public finances

The objectives of Slovenia's fiscal policy for 2014 and 2015 are in compliance with the requirements and recommendations of the European Council based on the commitments under the Stability and Growth Pact and with the excessive deficit procedure. Slovenia plans to further reduce the general government balance to 3.2% of GDP in 2014 and 2.4% of GDP in 2015. This should enable Slovenia to achieve the required improvement of the general government structural balance; the structural position is aimed to be be balanced in 2017, thus meeting the medium-term fiscal objective.

The objectives will be met through the following measures for:
1. **economic growth** through corporate deleveraging, corporate access to financing at competitive prices, privatisation, predictable tax environment, elimination of administrative barriers and consistent sectoral policy (described in recommendations 8 and 9);
2. **spending restrictions**, e.g. extension of the existing austerity measures for as long as possible, reductions of the public sector wage bill and the number of public sector employees, increased efficiency, elimination of redundant authorities and laws and reduction of subsidies (described in recommendations 1 and 9);
3. **structural adjustments** (longer maturity), e.g. streamlining the health sector, launch of debate on pension reform, reform of municipalities and their funding, shift to refundable sources (described in recommendations 2 and 9).

In order to correct the excessive deficit in a sustainable manner, Slovenia **strengthened its strategy for fiscal balance** in 2013. Slovenia introduced additional measures in the area of wages and labour costs in the public sector, and limited the increase of pensions and social transfers. Its fiscal policy will also focus on measures to increase revenue. The key measure was an increase of VAT and an active approach to curbing the shadow economy.

Preliminary estimates show that Slovenia's measures have allowed it to conclude the 2013 financial year within the objectives. The general government deficit according to ESA95 is estimated at 4.4% of GDP. Budget revenue was 1.4% lower than planned, which is primarily due to lower revenues from personal income tax resulting from lower wages. This was also reflected in lower expenditure in relation to wages and social contributions. Expenditure did not meet the target values primarily owing to poor implementation of projects co-financed by European Union funds. Total expenditure was 3.3% lower than planned.

Asset quality reviews and stress tests were carried out in Slovenia in 2013 to **provide stability in its banking system**. In December 2013, Slovenia earmarked a total of EUR 3.012 billion for the recapitalisation of the three biggest banks in which the state has holdings. Slovenia provided cash (in the amount of two thirds of the required funds) and market government bonds (one third) for recapitalisation. The state also provided capital for two banks in the process of orderly wind-down. Recapitalisation in 2013 thus totalled EUR 3.877 million or 10.3% of estimated GDP.

The recapitalisation of banks significantly increased the general government debt, which at the end of 2013 amounted to 71.7% of GDP. For this reason Slovenia spends annually 3% of its GDP on interest alone. Pursuant to the European Union's provisions[6], Slovenia has already incurred excessive debt, so that immediately after the end of the excessive deficit procedure it will have to bring its debt below 60% of GDP as required by the Stability and Growth Pact. The key to a system-wide reduction of debt is not just economic growth but primarily coordinated action in the areas of privatisation, corporate deleveraging and fiscal balance. Only a consistent and credible economic policy coupled with a stable economic environment will deliver results.

3.1.1. Achieving the medium-term fiscal framework for general government

In view of the fiscal strategy and the fact that the excessive deficit must be corrected through the planned correction of macroeconomic imbalances, the objectives set out in Chapter 2 are attainable in 2014 through a restrictive budgetary policy and a shift to refundable sources (away from non-refundable sources).

On the expenditure side, public funds and institutions will be streamlined in 2014[7] and transfers to them reduced by using surpluses from previous years[8]. Conditions for the efficient provision of non-commercial public services will be defined. Regulations and administrative acts will have to define clearly all specific details of performing a non-commercial public service (the nature and duration of obligations of non-commercial public services, scope of activities, parameters for calculation, supervision and review of remuneration for performing non-commercial public services, refund of excessive remuneration, etc.) in such a way that persons in the private sector could be granted concessions for performing these non-commercial public services, while persons in the public sector will be given a clear definition of public powers arising from regulations and administrative acts. The operations of these legal persons must be kept separate by criteria such that records on the performance of commercial activities and the activities of non-commercial public services are kept separate.

[6] Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, Article 4
[7] (in accordance with OECD recommendations about the simplification of legal and organisational forms used by the public sector, and with IMF recommendations)
[8] Amendment to the Republic of Slovenia Budget Implementation Act

Wage reduction on the basis of an agreement with the public sector trade unions will be in place throughout 2014 (as opposed to 2013), and this will considerably **balance out** the payment of overdue remuneration for promotions from 2011 and 2012. Other expenditure connected with labour will also be reduced.

In 2015 expenditure will be limited by an **extension of the validity of measures from 2013-2014**[9] and coupled to the target of 850,000 active working inhabitants. The goal pursued in negotiations with the representative public sector trade unions is to reduce **labour costs** by 5% in 2015. An extension of the validity of all measures adopted (in the Fiscal Balance Act – *ZUJF*, the Republic of Slovenia Budget Implementation Act – *ZIPRS*, and the Act amending the Public Sector Salary System Act – *ZSPJS-R*), including a reduction in the number of employees, plus additional measures to implement this objective, will be proposed.

Measures associated with **transfers** will be extended or modified system-wide in 2015 compared to 2014 or until the target of 850,000 active working people is achieved. The above-mentioned areas have an impact on the central budget or central government (including 10 state funds, 354 central government units in education, 29 in health, 28 in social assistance, 39 in culture and research, 16 in agriculture and forestry and 31 other units) and on social insurance funds (Pension and Disability Insurance Institute, Health Insurance Institute, and KAD). They also have a significant impact on 2,138 units at the local level.

Additional influence in terms of consolidation at the local level is anticipated through the **change to the system of financing municipalities** in such a way that the determination of adequate spending will no longer be based on the non-standardized spending of all municipalities in the previous four-year period through the standardised and limited share of expenditures for the functioning of a municipality; in addition to personal income tax, other municipal sources will be allocated to cover the adequate spending. The change will encourage municipalities to interconnect (in particular regarding the currently dispersed finance for investments), and municipal budgets will be subject to systematic control by the Court of Audit.

The project of curbing the **shadow economy**, which has already produced visible results[10], will be continued and, in addition to this, the Government will **enhance the efficiency of tax collection** through the following two measures:

- Enable those companies that are capable of regularly paying their current taxes, to reprogramme their debt in such a way that social security contributions are paid while taxes are paid within a reasonable term of payment. Within this period, the debtor is charged a revaluation interest instead of the default interest in an amount indicating that the measure is not state aid.
- Restructuring companies on the basis of the amended Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP) in such a way that companies for which the creditors and owners achieve an agreement on restructuring are enabled to reprogramme their financial debt in a manner that does not endanger restructuring.

Slovenia will support an arrangement (including at the EU level) which will, within the EU, ensure tax correctness, and regulate and harmonise the legislation and rules combating tax fraud, tax evasion, aggressive tax planning and tax havens.

In April 2014, the Slovenian Government adopted **additional fiscal balance measures** following the Supreme Court's decision on real property tax. The Government will compensate for the reduction in

[9] from the Fiscal Balance Act – *ZUJF* and the Republic of Slovenia Budget Implementation Act – *ZIPRS*

[10] According to assessments, these measures are expected to bring an additional EUR 69 million, mostly in connection with VAT, in 7 months (August 2013–February 2014).

revenue through additional rationalisation in the public sector and through decreased transfer payments to public institutes and agencies, along with increased excise duty and higher revenues from dividends of state-owned companies.

In case these measures do not suffice to achieve the fiscal objectives, the Government will adopt additional measures.

3.1.2. Strengthening the institutional infrastructure to provide fiscal stability

Slovenia has amended Article 148 of the Constitution to implement provisions of the Treaty[11]. In this way the fiscal balance principle, which in the long term limits government borrowing by preventing the government from increasing its debt for current operations, has been implemented at the highest level. The Constitutional Act lays down that an act adopted by the National Assembly **by a two-thirds majority vote of all deputies** shall regulate the implementation of a constitutional principle and define exceptional circumstances in which a derogation may be possible. Therefore the drafting of such an act requires political consensus and, at the same time, the Slovenian Government aims to draft the text of the aforementioned Act in a way that would facilitate its actual implementation.

Drafting the aforementioned Act requires some demanding alignments and the presentation of possible scenarios of fiscal projections that are highly sensitive to macroeconomic assessments and forecasts. This is also a reason why Slovenia slightly lags behind in its adoption of the Fiscal Rule Act and, consequently, in the amendment to the Public Finance Act. This does not mean that Slovenia is breaching the dynamics of alignment with the fiscal objective laid down in the EU rules. To the greatest extent possible, the Government policy stems from these outlines and takes them into consideration. In this connection, the Government is striving to find solutions that would provide medium-term macroeconomic stability and balance by regulating economic measures through institutional changes while taking into account the necessary structural changes.

– The Fiscal Rule Act will lay down the method and time-frame for the implementation of the medium-term balance between the revenues and expenditures of state budgets and define the medium-term fiscal target, the fiscal rule itself and those exceptional circumstances in which a derogation from the fiscal rule may be possible, and establish the fiscal council as an independent government authority and lay down its competences as well as the method of abrogation of its derogations from the fiscal rule.
– The Public Finance Act will follow the Fiscal Rule Act and will include detailed provisions defining the drafting, implementation and monitoring of the budget of all general government institutional units (in addition to the national budget, pension and health insurance funds, municipal budgets and other institutional units which are included in sector S.13 under the Decree on the standard classification of institutional sectors). Moreover, the aforementioned Act will also define the mandatory conduct of all public finance users. This conduct applies to the drafting of budgets, their implementation, borrowing, assumption of liabilities, recording etc. Special attention has been paid to supervision, and the Act will also define sanctions for violations. As a result, the supervisory mechanisms for managing fiscal imbalances will ensure the medium-term balance.

Key tasks for 2014 - 2015:

- Extending the duration of austerity measures in the area of wages and social transfers until the level of 850,000 of the active working population is achieved;
- Adoption of the Fiscal Rule Act in 2014;
- Amendment to the Public Finance Act for functioning in the entire general government;
- Strengthening medium-term fiscal planning;
- Amendment to the Financing of Municipalities Act;
- Rationalisation of public services and institutes.

[11] Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (the so-called fiscal pact).

3.2 Recommendation no. 2: LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES AND LIMITING THE COSTS OF AGEING

Recommendation no. 2:
Strengthen the long-term sustainability of the pension system beyond 2020 by further adjusting all relevant parameters, including through linking the statutory retirement age to gains in life expectancy, while preserving the adequacy of pensions. Contain age-related expenditure on long-term care and improve access to services by refocusing care provision from institutional to home care, sharpening targeting and means-testing of benefits, and reinforcing prevention to reduce disability/dependency.

OBJECTIVES:

- Containing the growth of the age-related expenditure through a decrease in the growth of numbers of newly retired persons, with the simultaneous provision of decent pensions; and
- Putting in place a long-term care system; and
- Rationalisation and optimisation of public health care providers.

Slovenia belongs to those countries where the share of elderly people in the population has been increasing most rapidly, which poses a significant risk and points to high potential public finance obligations in future decades. In addition to the expenditure on pensions, age-related expenditure is also reflected in an increase in health care and long-term care costs. Slovenia needs to adapt in all these areas.

3.2.1. Pensions

First assessments of the pension reform show positive short-term effects, as well as favourable medium-term effects on fiscal sustainability. In the first seven years of the pension reform, pension expenditure compared to that before the reform will decrease, only to gradually increase again later on, but it will be based on the difference achieved in these years, so that the total expenditure on pensions will still be less than it would have been without the reform. The share of expenditure on pensions will rise from the current 11% of GDP to just over 16% of GDP by 2060.

The reform is bringing savings, but the effects are not as pronounced because the goal of an appropriate level of pensions has also been pursued. A large element of sustainability and/or financial savings has been lost owing to the provision of an adequate replacement rate for future generations of pensioners, thereby also securing and/or protecting their social and material status. In the long term, the volume of national budget transfers to the pension budget to cover pension expenditure will be reduced in part owing to the effects of the pension reform.

Owing to the effect of transition periods, the pension reform yielded positive results even in the first year, since it virtually stopped the growth of new old-age pensioners. The inflow of new applications for old-age retirement (15,512) in 2013 was lower than in previous years (25,262 in 2012).

The actual retirement age of new old-age pensioners in 2013, during the first year of the reform, increased by two months in women, whereas in men, the retirement age fell (by 4 months). This decrease was primarily due to the fact that in 2013, retirement was taken mainly by individuals who at an early age completed a relatively long period of pensionable service with no additional purchase, while the other insured persons who were older and had completed fewer years of pensionable service were not able to retire as the reform no longer allows for acknowledgement of an added qualifying period (years of study, years of military service). In addition, in 2013 retirement was taken mostly by those persons who were entitled to the protection of their expected rights under the previous legislation, whereby men could still claim a lower pensionable age based on the children they had. By contrast, a positive trend in women was recorded, with their actual retirement age increasing by 2 months within a year.

In 2013, **the completed pensionable service** in new (old-age) male pensioners rose by 10 months, whereas in female pensioners this period was increased by almost a year (11 month).

Key tasks for 2014-2015:
- Analysis of the effects of the 2012 pension reform up to the end of April 2014.
- Preparation of the ground for a public debate on the pension and disability insurance system after 2020. This will include proposals of possible measures for the long-term sustainability of the pension system and, simultaneously, an appropriate level of pensions, based on the effects of the reform, demographic development of the population and further elimination of certain benefits that reduce the effects of the reform - lowering of the age. This document will be the basis for reflection on the credit system introduction and further development of second pillar pension insurance.

3.2.2. Health

The starting point for the reform of health care is based on the principles of increasing the efficiency of funding and organisation. Taking into account different studies, the focus of scrutiny is on the health insurance benefit package, a shift from in-patient to out-patient treatment and care, streamlining funding schemes, expanding the health insurance contribution basis for students who work, adjustment of insurance for pensioners and funding for long-term care.

A key measure in the coming period will be the rationalisation and optimisation of public health care service providers, which will introduce **central public procurement** (purchasing medicines and medical devices and equipment) as the first and simplest measure. New solutions to **central implementation of services** will be provided, e.g. central implementation of support services (the shape of a community, retaining the legal personality of providers but taking into account the principle of regional organisation). The possibilities for a more rational organisation of health care providers in the public health care network will be examined. Activities in the e-Health project that will significantly contribute to the **rationalisation of health care** will be continued, such as a summary of the electronic health record, clinical registry of patients, the paperless hospital project, IT support for preventive health care for children and adolescents; mobile support for patient monitoring, IT support for community health nursing and electronic access to health data, introduction of ultrasound examinations in remote clinics and a terminology server.

Key tasks for 2014-2015:
- Rationalisation and optimisation of public health care providers
- Introduction of central public procurement

3.2.3. Long-term care

Slovenia does not have a comprehensive long-term care system; instead, the range of services and benefits intended for people who need long-term care are provided within the health care system, pension and disability insurance and welfare systems, and special care systems for people with disabilities. The same applies to the area of personal assistance to disabled people. The introduction of a long-term care system will be closely linked to modifications and adjustments in the health care and pension systems.

Just over 60,000 persons, of whom more than 40,000 are over 65 years old, are included in different types of services and benefits. Approximately 41,500 persons are included in formal long-term care (various forms of institutional care, help in the home, community nursing service, home care assistant). In addition, approximately 19,000 persons per year, who receive various forms of cash benefits for long-term care, are provided with services offered by non-formal providers, especially family members, neighbourhood assistance, NGOs and humanitarian organisations. Some 800 persons annually are included in personal assistance programmes.[12]

Public and private expenditure on long-term care accounted for 1.32% of GDP in 2011, of this 0.98% of GDP was public expenditure and 0.31% of GDP private expenditure. From 2003 to 2011, these expenses increased more than nominal GDP, which led to an increase of 0.31 percentage points in the share of GDP in the same period.

With a view to comprehensively addressing population-ageing issues, the Government adopted the principles for an act governing long-term care, personal assistance and long-term care insurance in September 2013. **The deadline for adoption by the Government is November 2014. Key objectives are**:

- to introduce solidarity financing of long-term care according to the principles of social insurance, and a long-term financially sustainable system;
- to increase social security and the quality of life of people who have reduced self-care capacity and need help in performing daily activities;
- access to quality services and/or rights to long-term care for those who need them; priority is given to those forms of assistance and support that allow beneficiaries to remain in their home environment;
- to link long-term care providers in a comprehensive, cost-efficient and effective system;
- to develop prevention and promote rehabilitation in long-term care, along with the use of modern technologies;
- systemic support for people with disabilities in the implementation of activities related to social integration, which they are unable to provide for themselves due to severe types and degrees of disability;
- a uniform definition of beneficiaries of rights (of services and benefits), a single procedure for exercising rights to long-term care and uniform implementation of the rights arising from long-term care.

The area of personal assistance as a specific form of community assistance to disabled persons who are entirely dependent on the aid of others will also be regulated, in particular:

- definition of personal assistance (beneficiaries, services, connection with long-term care);
- special features of personal assistance funding;
- the procedure for exercising the right to personal assistance in connection with procedures for asserting the right to long-term care;
- implementation of personal assistance in connection with long-term care.

Key tasks for 2014-2015:

- act governing long-term insurance, personal assistance and long-term care insurance
- preparing for the introduction of a new system of long-term care and personal assistance, including the introduction of a new system of funding in this area
- preparing for launching the processes of de-institutionalisation and/or transition from institutional to community forms of support and assistance for permanently dependent persons.
- setting up infrastructure to provide support and assistance to persons in need of long-term care and personal assistance in the local environment.

[12] Data provided by the Social Protection Institute of the Republic of Slovenia.

3.3 Recommendation no. 3: LABOUR MARKET AND WAGES

Recommendation no. 3:
Ensure that wage developments, including the minimum wage, support competitiveness and job creation. Monitor closely the effects of the recent labour market reform and if necessary identify the areas where further action is needed to foster job creation and tackle segmentation, including through the regulation of student work. Take further measures to increase employment of young tertiary graduates, older persons and the low-skilled by focusing resources on tailor-made active labour market policy measures while improving their effectiveness. Address the skills mismatch by improving the attractiveness of the relevant vocational education and training programmes and by further developing cooperation with the relevant stakeholders in assessing labour market needs.

OBJECTIVES:
- to increase the flexibility of the labour market and reduce segmentation by type of employment and other forms of work;
- to ensure the comparability of costs of individual forms of work as a contribution to competitiveness;
- to reduce undeclared work and employment and improve inspection.

3.3.1. Labour market

The labour market reflects many structural weaknesses in the Slovenian economy. In 2013, the number of unemployed persons increased by almost 9%, with the growing trend also continuing at the beginning of 2014. The situation is not expected to improve in 2014, as the labour market is yet to respond to expected improvements in the economy.

In 2013, a total of 40,711 or 38.7% more persons were included in active employment policy measures compared to 2012, mostly in employment promotion programmes (143% more than in 2012) and training and education programmes (52% more than in 2012).

Young people are one of the most vulnerable groups in the labour market, accounting for almost one fourth of all unemployed people in the country. In January 2014, Slovenia adopted the Implementation Plan for the Youth Guarantee, which targets young people aged up to 29 years of age, and is introducing active employment policy measures that have proved successful in the past and have also been embraced by employers. The key measures are aimed at improving the forecasting of future needs in the labour market and access to lifelong career guidance at all levels of education; the measures will be available to unemployed people immediately after the onset of unemployment. The measures will be strengthened and adjusted according to the needs of specific target groups of young people. A total of 36 measures (8 systemic measures and 28 programme measures) will be implemented within the Youth Guarantee; EUR 157.7 million have been earmarked for implementation in two years.

To improve the functioning of the labour market, Slovenia has implemented the following measures:

- providing a two-year exemption from the payment of employer's contributions for employers who conclude a permanent employment contract with a young person under the age of 30 who has been registered as unemployed for at least three months;
- providing temporary and occasional work for unemployed persons and pensioners;
- enabling workers to register as unemployed during the period of notice;
- reducing unemployment traps by introducing changes in the area of unemployment benefits;

- abolishing the compulsory registration of job vacancies with the Employment Service of Slovenia[13];
- limiting community work to long-term unemployed persons[14], thereby enabling the transition from passive to active forms of assistance;
- co-funding the implementation of programmes of training and education within community work programmes.

Pursuing the reform of the labour market in the area of student work[15]. Reduction of segmentation will be obtained by increasing the total tax burden on student work (to approximately 43%) and ensuring inclusion in the pension and disability insurance system. Costs, obligations, and rights arising from student work will be brought more into line with those arising from regular employment, while maintaining the flexibility of student work. Unfair competition will be limited by imposing restrictions on employers relating to the average number of employees in the previous year and by stricter control over the status of secondary-school students or higher education students. A central database of the temporary or occasional work of secondary-school students or higher education students will be established, thus forming the information basis for stricter control and regulation of this area.

To prevent undeclared work and employment[16], a "voucher system" for personal supplementary work is envisaged. Personal supplementary work is work that is carried out by an individual and is limited by income and type of work (e.g. baby-sitting, domestic help, gardening, instruction, etc.). Persons who carry out personal supplementary work will also have social security cover on the basis of the payment of pension and health insurance contributions. Their earnings will be included in the personal income tax base. To improve control over undeclared employment[17], the deadline for registering for compulsory pension and disability insurance schemes has been changed so that registration must be made **by the date of commencement of work at the latest**.

The regulatory framework regarding the powers and tasks of the Labour Inspectorate, the powers of inspectors, the inspection procedure, and inspection measures[18] **has been improved**. The objective is to increase the effectiveness of the Labour Inspectorate through appropriate punitive policies, staff capacity building and greater cooperation with social partners. The Inspectorate is gaining new powers to take action in the event of more serious or repeated violations of regulations.

3.3.2. Wages

Wage policy is regulated by collective agreements concluded separately for the public sector and the private sector by branches of industry. Collective agreements allow for a certain degree of flexibility and leeway in reaching agreement. Since the beginning of the economic crisis, this has been reflected in the reduction of the basic wage and stricter conditions for the payment of various bonuses. In recent years, wages have declined, first in the private sector, and in the last two years, in the public sector too. Accordingly, unit labour costs decreased by 0.8%[19] in 2013 in the first estimates, although they still outpace productivity growth and trends in other benchmark countries.

The statutory regulation regarding the minimum wage in Slovenia has remained the same, as no agreement has been reached with social partners. In January 2014, the minimum wage was

[13] The Act Amending the Labour Market Regulation Act (the ZUTD-A) increases the flexibility of the labour market.
[14] The Act Amending the Labour Market Regulation Act (the ZUTD-B)
[15] The act governing the temporary and occasional work of students is scheduled for adoption in June 2014.
[16] The act governing the prevention of undeclared work and employment is in the process of being adopted by the National Assembly of the Republic of Slovenia.
[17] The Act Governing the Register of Insured Persons and Beneficiaries of Rights Provided under Pension and Disability Insurance
[18] Amendment to the Labour Inspection Act (the ZID-1)

[19] Data provided by the Bank of Slovenia

adjusted to the rise in consumer prices by 0.7%. The most common view in discussions with social partners was that an increase in the minimum wage would not significantly affect competitiveness, since labour costs could be reduced by other measures, and that minimum wage issues should be considered within a comprehensive wage policy. The basis for this will be provided in the Social Agreement, which is to be agreed in April 2014.

The Government will examine the possibility of introducing other measures to contain labour costs, generate growth, and create new jobs, without aggravating the social situation of low-income employees. Labour costs are also addressed in the adopted labour market reform, which increases the role of collective bargaining with respect to mechanisms that affect the level of costs, **i.e. the provisions of the Employment Relationship Act on the basis of which social partners can regulate particular rights and obligations differently by social agreements[20] and which allow for greater flexibility and lower labour costs.** The following renewed collective agreements or amendments to the procedural parts of the agreements were concluded in the first year:

- Collective agreement for Slovenia's non-metallic minerals extraction and processing industry;
- Collective agreement for craft and small businesses;
- Collective agreement for the hospitality and tourism industries;
- Collective agreement for the paper and paper-converting industry;
- Collective agreement for Slovenia’s banking sector;
- Collective agreement for the textile, clothing and leather industry;
- Collective agreement for the trade sector.

The changes in some collective agreements bring a cost reduction because of the following:

- setting of different criteria for eligibility to retirement bonuses,
- shorter periods of notice for persons employed by the same employer for more than 25 years,
- changed arrangements of long-service bonus, and
- arrangement of the institute of traineeship, which allows the payment of at least 70% of the basic salary for the job for which a trainee is trained (but not less than the minimum wage).

Even more often than measures influencing costs, the signatories of collective agreements opted for the regulation of institutions that increase flexibility (bonuses, working time…).

Key tasks for 2014-2015:

- Implementation of the Youth Guarantee and the Youth Initiative;
- Analysis of Active Employment Policy measures;
- Targeted measures in the context of the Active Employment Policy for the most vulnerable groups in the labour market: young, long-term unemployed, elderly, less educated (the emphasis will be put on the provision of services in the labour market),

[20] Article 33 - provides examples of carrying out other appropriate work;
Article 54 – additional examples of when work may be carried out on the basis of a fixed-term employment contract and the possibility of concluding a fixed-term employment contract in cases other than those provided by the law for small employers;
Article 59 – sets a quota for workers hired through employment agencies whose work can be used by the employer/user in addition to work carried out by workers regularly employed at the employer/user;
Article 94 – sets the periods of notice;
Article 120 – regulates the employment of young people who enter the labour market after the completion of education or traineeship;
Article 132 – sets the conditions for obtaining the right to severance pay upon retirement and the amount of the severance pay;
Article 144 – sets the reference period for taking into account average limitations on the duration of overtime work;
Article 158 – sets a longer reference period for taking into account average limitations on the duration of the work of a night worker, daily and weekly rest periods and/or the average duration of full working hours;
Article 172 – sets additional disciplinary sanctions; and
Article 222 – sets the amount of the seniority bonus.

- Adoption of the act governing the temporary and occasional work of students, which provides a new regulatory framework for student work (June 2014);
- Adoption of the Prevention of Undeclared Work and Employment Act (end of April 2014),
- Examination of amended labour market regulations on the basis of monitoring the effects of labour market reform (2014);
- Comparison of costs of individual forms of work and identification of measures that ensure their comparability;
- Possible increase of the role of collective bargaining over institutions influencing labour costs and flexibility, with the aim of creating jobs without aggravating the social status of low-income employees (2014).

3.4 Recommendation no. 4: Banks and the banking system

Recommendation no. 4

Take the necessary steps, with input from European partners, to contract an independent external adviser by June 2013 to conduct a system-wide bank asset quality review. Complete this exercise in 2013, with faster progress in the cases of the two banks already subject to the state aid procedure in order to accelerate their balance sheet repair. Stand ready to provide additional capital should the asset transfer or asset quality review reveal additional shortfalls. All measures, including objective assessments of capital needs, transfer of assets to the Bank Asset Management Company, the asset protection scheme and operational implementation of the restructuring measures, should be implemented in full compliance with state aid rules where state aid is involved. In parallel, develop by March 2014 and implement a comprehensive sector strategy to ensure arm's-length management of reformed banks and to substantially improve governance, risk management and profitability in the sector, including through consolidation where appropriate. Swiftly proceed with preparations for the announced privatisation of NKBM and establish, by September 2013, an ambitious timetable for the divestment of direct and indirect state shareholdings of banks.

OBJECTIVES:
- to re-establish the capital adequacy of banks;
- to restructure non-performing bank assets;
- to consolidate the banking system.

Based on the recommendation of the European Commission, **independent asset quality reviews and stress tests** were carried out for a representative part of the Slovenian banking system in 2013; their purpose was to assess the robustness of the Slovenian banking system in basic and adverse macroeconomic scenarios for the three-year period (2013 – 2015) and to determine any capital shortfall that could arise at an individual bank or consequently across the entire banking system in the event of such scenarios playing out.

Assuming the adverse scenario of a further deterioration in the macroeconomic situation up to 2015, the stress test results showed an aggregate capital deficit of EUR 4.778 billion across the eight banks included in the review. On this basis, the banks suitable for implementation of measures under the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability (ZUKSB) were issued by the Bank of Slovenia a decision imposing an extraordinary measure of capital increase and determining capital requirements for the establishment of their capital adequacy. To this end, the Slovenian Government adopted measures pursuant to the ZUKSB on 12 December 2013, earmarking the total sum of EUR 2.769 billion **to recapitalise NLB, NKBM and Abanka**. In December 2013, the state also recapitalised two banks in the process of orderly wind-down.

Activities related to the transfer of risk items to the Bank Asset Management Company (BAMC) were carried out parallel to the recapitalisation of the aforementioned banks; NLB and NKBM completed all activities necessary for the legal transfer of the risk items back in December 2013, while the transfer of the risk items of Abanka will be carried out after the final approval of state aid measures by the European Commission, foreseen for the end of April 2014. The recapitalisation and transfer of assets from Banka Celje is foreseen in the beginning of the second half of the year. For Gorenjska banka, the Government extended the commitment for potential recapitalisation until the end of 2014. Measures to enhance bank stability in Hypo and Raiffeisen banks are no longer necessary because the banks have implemented the required measures by themselves.

The sale of state-owned equity holdings in banks is carried out in open and transparent procedure. The Republic of Slovenia is obliged to sell the entire holding of NKBM by the end of 2016, and to reduce the holding in NLB to at least 25% and one share by the end of 2017. Methods of privatisation will be determined by other state-owned banks, too.

For the purpose of more efficient management of assets where a debtor is unable to repay the debt upon the agreed conditions, the Bank of Slovenia adopted the **Decision amending the Decision on estimating credit risk losses of banks and savings banks.** Thus a bank may restructure the financial assets against the debtor by carrying out one or several activities that it would not undertake in the normal economic and financial situation of the debtor (e.g. extension of time limit or deferral of claims, reduction in interest rates and/or other costs, reduction of the amount of claims as a result of a contractually agreed debt write-off and shareholding restructuring, conversion of claims into investment in the debtor's capital etc.).

Key tasks for 2014 - 2015:

- Strategy of gradual consolidation of the banking system in terms of a reduction of the total banking system assets and reduction of the number of active banks.
- The sale of state holdings in banks within the time periods set in the commitments of the Republic of Slovenia made in the process of the approval of state aid must be carried out in an open and transparent manner.
- Implementation of measures to strengthen the stability of banks that will not manage to cover the capital deficit in the set period.

3.5 Recommendation no. 5: Regulatory framework for banks and supervisory capacities

Recommendation no. 5:
Review the bank regulatory framework by the end of 2013 and, based on this review, strengthen supervisory capacity, transparency and statistical disclosure.

OBJECTIVES:

– to develop a legislative framework for the field of financial services in conformity with all international requirements and best international practice;
– to adapt legislation to the regulatory solutions from the European banking reform

The following regulations were adopted in 2012 and 2013 in order to ensure long-term stability of the financial system:

– the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability t (ZUKSB) determines the measures to strengthen the stability of banks implemented by the Bank Asset Management Company (BAMC) or directly by the Republic of Slovenia.

- The Act Amending the Banking Act, whose aim was to establish a special legal regime for the resolution of problems in the banking system owing to limited capacities of the existing owners to recapitalise banks. The Bank of Slovenia may already take action in circumstances where a probability of non-fulfilment of capital requirements is identified; at the same time, these measures supplement the ZUKSB measures if the stability of the financial system could be threatened.

  The Act Amending the Banking Act (Zban-1L), which introduced a new exceptional measure that the Bank of Slovenia may impose on a bank for which an increased risk exists and no circumstances exist to provide the possibility for the cause of the increased risk to be properly eliminated on a timely basis. It refers to the reduction of share capital and to the cessation or conversion of hybrid financial instruments and subordinated liabilities of banks into ordinary bank shares to an extent that ensures the covering of the bank's losses or the required capital adequacy of the bank. The principle should be observed that, due to the application of this measure, no creditor would be subjected to greater losses than in the case of the bank's bankruptcy.
- The Act Amending the Public Finance Act provides an adequate legal basis enabling Slovenia to ensure stability of the financial system and enable the implementation of measures to strengthen the stability of banks. In order to provide stability for the financial system, the state may, by paying in cash or in-kind contribution, acquire financial assets in banks and savings banks established in the Republic of Slovenia. The acquisition of capital assets should be implemented regardless of the foreseen volume of expenditure in the financial assets and liabilities account of the adopted state budget.
- The Macro-prudential Supervision of the Financial System Act improves the supervision of financial institutions that operate in different parts of the financial system because of mixed ownership or other ties and that contribute to the development of systemic risks, with the aim of protecting the stability of the financial system as a whole.

Key tasks for 2014 - 2015:

- Implementation of the Capital Requirements Directive, CRDIV[21],and further definition of elements of prudential requirements[22].
- Implementation of the Regulation conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (Regulation (EU) No. 1024/2013) and of the Bank Recovery and Resolution Directive (BRRD) by drafting a new act governing banking.
- Reform of banking supervision and transition to the single supervisory mechanism (SSM)[23] in the framework of which the ECB, in cooperation with competent national authorities, will carry out a comprehensive assessment of the credit institutions to be directly supervised by the ECB, including three Slovenian banks: NLB, NKBM and SID banka.
- The establishment of the comprehensive credit bureau in the framework of the Bank of Slovenia will improve transparency and reduce the asymmetry of banking data.

[21] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRDIV)

[22] Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR).

[23] The Regulation on the Single Supervisory Mechanism (Regulation (EU) 1024/2013) entered into force in the beginning of November 2013, while the European Central Bank (ECB) will assume the full supervisory tasks in November 2014

3.6 Recommendation no. 6: REDUCTION OF BARRIERS TO ENTRY AND OPERATION OF REGULATED SERVICES

Recommendation no. 6
Accelerate the reform of regulated services, including a significant reduction of entry barriers. Improve the business environment, including through ensuring the independence of and providing sufficient and autonomous financing to the Competition Protection Agency.

OBJECTIVE: Reduction of the number of regulated activities and professions by half.

The Competition Protection Agency has been restructured and can implement its tasks (financial plan was not reduced) in the framework of the adopted programme (focusing on individual fields).

The purpose of the Point of Single Contact (PSC) is to improve the legislation (elimination of unnecessary barriers, simplification of procedures, improvement of the business and legislative environment and enhanced economic competitiveness) that relates to regulated activities and professions. The single document to improve the legislative and business environment and to raise competitiveness consists of 262 measures divided by fields and departments in charge of their implementation. A total of 45 measures (17%) have been implemented, 85 measures (32%) are being implemented,124 measures (48%) are to be implemented and 8 measures (3%) have been proposed for deletion. Particular reference should be made to those measures that simplify entry conditions for performing activities in the market, where Slovenia must accelerate implementation with the aim of establishing a more flexible labour market and free movement between EU Member States. So far, the number of regulated professions has been reduced from 323 to 262 (the systemically deregulated field of crafts; amendments to legislation governing individual fields deregulated four more professions in the field of culture and six professions in the field of medical science). In addition to reducing the number of regulated professions and activities (deregulation), the procedure to obtain existing permits was significantly simplified. The Government's commitment is to accelerate the work of the group and rationally amend the list of regulated professions so as to **deregulate another half, which is about 100 professions**, taking into account the needs of the economy.

The major objectives of the reform include the **appropriate implementation of Directives on services and professions** that will promote the mobility of experts (with the introduction of the European professional ID, easier and better access to information, possibility of partial access) while containing mechanisms for consumer and patient protection (alert mechanism through the IMI system whose application has been made obligatory; language proficiency testing for professions that may impact the health and safety of patients). The amendments to national regulations governing the recognition of professional qualifications will be drafted in 2014, and possibilities of less restrictive mechanisms of consumer and public interest protection will also be examined.

Key tasks for 2014-2015:
- To review, list and draw up proposals for reform of the field legislation for regulated activities and services, and to review professions with the aim of reducing deregulation by half.
- To draft regulations governing the recognition of professional qualifications.

3.7 Recommendation no. 7: Reduction of the length of judicial proceedings

Recommendation no. 7
Build on previous efforts to further reduce the length of judicial proceedings at first instance in litigious civil and commercial cases and the number of pending cases, in particular enforcement cases.

OBJECTIVE: To reduce the length of proceedings in the field of economic affairs and insolvency

According to the Justice Scoreboard data, Slovenia achieved good results in 2010-2012 in the field of civil cases; the result was worse in the field of commercial cases, where Slovenia is still in the top third of Member States despite having reduced the length from 435 to 405 days. The adjudication of cases in the field of insolvency remains problematic, as the length of time did not diminish in the three-year period (2010-2013), and remains at two years. The situation in the field of enforcement is improving, as the number of pending cases dropped from 194,000 in 2010 to 160,000 at the end of 2013, and the expected case length fell from 9.8 to 8.4 months in the same period. Their age structure, however, is a cause for concern, as 20% of the pending enforcement cases are more than five years old, and almost 40% are more than three years old. Particularly problematic is the area of enforcement regarding immovable property, as the courts did not manage the caseload in 2013 and the expected case length was 28 months. Another problematic field is that of labour dispute settlements, which is the result of the increased caseload caused by the economic crisis and mass actions. These disputes represent almost a half of all disputes. There were 963 judges active in January 2014, which is 46.7 per 100,000 inhabitants.

Activities towards **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 2014 and 2015. Measures aimed at improving the performance of courts based on the “step-by-step” approach will also pursue the objective of reducing the costs of the judicial system by reducing the share of judges while optimizing the ratio between court staff and judges in order to ensure, to the greatest possible extent, the conditions for a continuation of the still favourable trends of reducing the number of pending matters and ensuring the conditions to shorten the duration of trials. Continued 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 in seeking correct and fair solutions. Additional progress is expected with broader application of what is termed the triage reorganisation of court work that has already brought substantial results, especially in commercial cases.[24] Other organisational ways of balancing the workload of the courts will continue to be carried out, too, e.g. with the help of judges from courts with less pending cases at courts with a surplus of pending cases.

The training of judges will be enhanced through the Strategy of Human Resource Development in Justice and the Judicial System up to 2020, which is undergoing government procedure. **The field of enforcement is extensively digitalised**, as enforcement involving bank accounts or wages can be carried out relatively fast and at a low cost (EUR 50) if there are no appeals, while enforcement involving movable and immovable property takes longer – in many cases, it is used only as a means of pressure on the debtor. A legislative amendment is being drafted that will increase the competences of judicial assistants and reduce the possibility of deferred enforcement, because this burdens the system – such cases will be closed and in order to reactivate proceedings, legal expenses will have to be paid again on the basis of the existing documents, while a creditor will keep his or her position in comparison to other creditors.

Key tasks for 2014 - 2015:

- To restore trust in the judicial system, demonstrate the rule of law and stop the delay of proceedings.

[24] This is a concentration of the resolution of predominantly administrative stages of court proceedings in the framework of a special triage office, after which judges in individual cases only focus on the actual adjudication, i.e. the "real" trial.

3.8 Recommendation no. 8: MANAGEMENT OF STATE-OWNED COMPANIES AND PRIVATISATION

Recommendation no. 8
As part of the planned strategy of the Government to be completed by September 2013, classify core and non-core state assets according to economic criteria, with a view to divesting non-core assets. Make the Slovenia Sovereign Holding (SSH) fully operational in a timely manner, and transfer both ownership and management of all stakes to the SSH, potentially excluding those that are on the list for immediate full privatisation. Ensure professional management of the SSH from the outset, potentially including international expertise, and a clearly defined arm's-length relationship with the companies involved. For core stakes, develop sector-specific strategies to improve profitability and corporate governance. Introduce an obligatory and publicly available register of management and supervisory board appointments in state-owned enterprises with requirements for disclosure of interests. Ensure that the regulatory framework facilitates divestment of non-core state assets and that administrative hurdles are minimised.

OBJECTIVES:
- Professional management and structure of the Slovenian Sovereign Holding (SSH) and achievement of the SSH objectives.
- Adoption of the management strategy for state owned-assets.
- Implementation of orderly and transparent privatisation in accordance with the time frame.

To ensure a transparent management system for state-owned assets, Slovenia has established the Slovenian Sovereign Holding (SSH)[25] with the following key objectives:
- the separation of the function of the state as the owner of assets from other functions of the state;
- concentrated management of all state-owned assets with a view to achieving stable ownership, reducing management costs and increasing the yield and value of these assets;
- reducing the influence of various interest and political groups, risks of corruption, and conflicts of interest;
  the management of assets in compliance with international guidelines of good practice and corporate governance in general.

In a separate chapter, the Slovenian Sovereign Holding Act (ZSDH-1) places considerable emphasis on measures to enhance integrity and responsibility and limit risks of corruption, conflicts of interest and the misuse of internal information when managing state assets. With the aim of transparency, it is essential to ensure an independent procedure for the appointment of members of the supervisory board, the appointment of the management board by means of an international call for applications, the appointment of the economic and social expert committee in the SSH, and to increase the jurisdiction of the Court of Audit of the Republic of Slovenia to companies indirectly owned by Slovenia.

To make the SSH fully operational, the management of state-owned assets strategy will be adopted. The strategy is currently in the process of coordination, and defines investments in terms of their importance: strategic, important and portfolio investments. The document should be adopted by the end of July 2014.

The sale procedure for 15 companies approved by the Slovenian National Assembly is running according to the set time frame. The sale of the Helios and Fotona companies has already been completed, while regarding the larger investments on the list, i.e. Telekom Slovenije and NKBM,

[25] The Slovenian Sovereign Holding Act (ZSDH- 1) was adopted by the National Assembly on 28 March 2014 and approved by the National Council on 3 April 2014.

contracts with financial advisers have been signed and the sale procedure is being actively pursued. With regard to Aerodrom Ljubljana, a call for expression of interest in purchasing the majority package of shares has been published, and with regard to Adria Airways Tehnika, several non-binding offers have been obtained on the basis of the published call. The sale procedure for Elan is about to be concluded: the purchase contract is being aligned. With respect to other companies (Adria Airways, Cinkarna Celje, Unior, Žito, Aero, Paloma, Gospodarsko razstavišče and Terme Olimia), the procedure is running according to the envisaged time frame. The envisaged proceeds from the sale of assets are intended entirely for the reduction of overall government debt. Proceeds from the sale of companies with a capital investment by the Republic of Slovenia – these being Adria Airways, Aerodrom Ljubljana, Telekom Slovenija and Nova KBM – are also intended for this purpose.

The restructuring plans for NLB and NKBM are already laid down, whereas with regard to other state-owned banks, the decision will be made in the process of the approval of state aid. Slovenia is committed to fully implementing the restructuring programmes set for NLB and NKBM. The restructuring is expected to be completed by the end of 2017. In accordance with the commitments and restructuring programmes, the banks are obliged to: (i) reduce their total assets and costs, (ii) sell or close down subsidiaries as provided for in the restructuring programme for each of them, (iii) reduce credit operations and thus RWA (Risk Weighted Assets), (iv) establish corporate governance in line with best practice, (v) regulate risk management and the allocation of loans, and (vi) treat state-owned and private companies on an equal footing.

Key tasks for 2014 - 2015:

- Implementation of the approved privatisation procedures in accordance with the time frame for the 2014-2015 period;
- The acceleration of BAMC cooperation - restructuring of businesses.
- Adoption of the management of state owned-assets strategy by July 2014.
- Adoption of the Corporate Governance Code for state-owned companies by the end of September 2014.

3.9 Recommendation no. 9: RESTRUCTURING OF COMPANIES AND IMPROVING THE BUSINESS ENVIRONMENT

Recommendation no. 9

Identify and start to work on removing all existing legal and administrative impediments to sustainable restructuring of over-indebted/undercapitalised but viable companies through market-based solutions. In this context, take measures to ensure sufficient private burden sharing, to increase private investment, including foreign direct investment, and to achieve efficiency gains in troubled companies as part of the restructuring process. Adopt the necessary legal framework for out-of-court restructuring by September 2013, ensuring that it is coherent with the existing provisions on insolvency and provides incentives for both creditors and shareholders to reach out-of-court restructuring agreements. Improve the enforcement of corporate insolvency procedures and in-court settlements, including swiftly resolving pending court cases related to bankruptcy procedures, in order to maximise recovery value and to facilitate the timely and efficient resolution of non-performing loans.

OBJECTIVES:

- Orderly restructuring of enterprises following uniform principles.
- Improving the business environment and institutional and administrative capacity.
- Increasing domestic and foreign investments with a clear link to specialisation.
- Improving access to financial resources for businesses, switching from non-refundable to refundable funding.

As a priority measure to boost economic growth, Slovenia is carrying out a transparent restructuring of companies, which is based on the institutional framework provided by BAMC's full operation and an improved legal framework.

However, with the implementation of measures to strengthen the stability of banks, the project for the rehabilitation of banks has not yet been concluded. Cleaned-up and recapitalised banks are still not able to guarantee successful performance, since in order to start lending, they need restructured companies. To this end, the **Act Amending the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act** was adopted; one of the areas it regulates is the new preventive restructuring proceedings. Through these amendments, banks and the BAMC gained additional powers in restructuring non-performing assets, for instance amending the restructuring plan, proposing compulsory settlement and proposing new management of the company. Moreover, the principle of absolute advantage is further elaborated, and this allows banks to become sole owners of restructured companies.

Slovenian banks adopted the principles of financial restructuring. These are non-binding and define the approach which the banks should voluntarily observe during the financial restructuring of companies with a large number of creditors. The basic premise is to maintain economic activity where there is a reasonable chance of survival in the market. The purpose of the principles is to coordinate the actions of banks in the voluntary restructuring of companies. The BAMC will also comply with the principles.

At the end of 2013, the BAMC received a capital injection in the amount of EUR 200 million, which enables a proactive, cooperative and comprehensive approach to the restructuring of companies; the BAMC has an obligation to manage assets in accordance with the principle of the diligence of a good business operator and the international principles of corporate governance. The BAMC enters the restructuring process if it considers that following the procedure of financial and business restructuring, the company is capable of performing independently. Within the framework of restructuring, the BAMC may: (i) reduce the principal of claims, (ii) defer the maturity of claims, (iii) reduce the interest rates of claims, (iv) convert debts into company shares, (v) through cash or non-cash contributions assume the claims and shares of banks in a company or increase the share capital of the company, (vi) carry out or require business restructuring, and (vii) improve the credit position or security for a claim. In view of the fact that the BAMC is fully owned by the state, the restructuring of companies must be carried out in accordance with the EU rules on state aid. The BAMC may acquire shares and claims of a company only at market prices and conditions.

For the management of assets, the Management Board of the BAMC must adopt a business strategy. The BAMC must not have a tendency to act as a long-term owner of non-performing assets; consequently, a part of the management strategy is the strategy of selling assets. In business strategy, the assets are divided into default claims, capital investments and real estate. As appropriate, these segments can be further divided given the nature of the assets (e.g. claims against companies in bankruptcy, claims secured by residential property, claims against financial holdings, claims against or investments in companies undergoing restructuring). The BAMC management board will adopt a **five-year business plan** defining the target return on equity, overall return on assets and the profitability of individual segments. The business plan must also include a **plan for the disposal of BAMC assets**. The management board must also adopt a **financial plan** with a timetable for all BAMC revenues and expenditure in a financial year and a plan for mobilising available financial resources. The business strategy and financial plan must be prepared in such a way as to maintain sufficient capital and ability to cover the BAMC payment liabilities (liquidity).

The Government is planning to establish a working group which will include representatives of competent ministries, the Bank of Slovenia and other stakeholders, together with independent experts.

The working group will be set up with the aim of monitoring, promoting and coordinating restructuring processes. Its scope of tasks will involve drawing up proposals for legislation, coordination of restructuring processes, attracting foreign equity and debt financing, participation in NPL transfers, supervision of restructurings and so on. One of its first tasks will be to draw up an action plan on **corporate governance in restructured companies**.

In addition to corporate deleveraging and the corresponding restructuring programmes (with links to the efficiency of the judiciary), equity financing is also associated with further privatisation to be carried out in accordance with the Management of State-Owned Assets Strategy. **With the reform of insolvency legislation, the legal conditions are fulfilled for efficient financial restructuring** of systemically important companies and for streamlining the operations of courts in insolvency proceedings. The legal framework for out-of-court restructuring is coherent with the existing provisions on insolvency and provides incentives for both creditors and shareholders to reach out-of-court restructuring agreements. Of particular importance is introduction of a new instrument for preventive restructuring, which will allow the conclusion of agreements on financial restructuring by large and medium-sized enterprises threatened with insolvency. The appropriate approach, seriousness and courage of the decision-making of all stakeholders, and above all the owners, will ensure systemic deleveraging of the Slovenian economy.

The effects of recent changes to insolvency legislation are still not measurable by statistics. The indicators will be set to assess the performance of new pre-insolvency proceedings for out-of-court deleveraging of 'systemic companies' as well as the performance targets – which should increase the number of successful compulsory settlements. With regard to the amended legislation in mid-2013, the courts have already heard some cases of (abridged) compulsory settlement. Uniform principles for the restructuring of the Slovenian economy are being drawn up. They will be enforced as a single set of tools through the measures adopted by the Bank of Slovenia as well as through the recommendations of the Bank Association of Slovenia and commercial organisations.

In past years, Slovenia **failed to make use of the potential for foreign direct investments**. The relatively closed Slovenian economy and rigid business environment are the main obstacle, specifically because of numerous administrative and regulatory barriers. A new round of the privatisation process gave the first clear signal of Slovenia's opening-up. Slovenia expects foreign investments to enable faster and more efficient access to new technologies, business relationships and new markets, which will, consequently, help create new jobs and enhance productivity. On the other hand, the improved business environment should be more attractive for foreign investments and long-term development cooperation, and increase the competitiveness of Slovenian companies in foreign markets, their presence in the supply and sales chains and access to new technologies and business models, which will increase value added. **For economic growth, it is essential to focus on those areas in which there are comparative advantages in terms of achieved competences and capacities, and on areas in which there are market opportunities, trends and potentials for future development (specialisation).**

Slovenia is one **of the three EU countries** that in the past five years have recorded **the most significant improvement** in implementing measures to simplify the business environment (in terms of eliminating administrative barriers). However, further examination of measures is still necessary in terms of both the economy and final customers (also as part of the **"Stop the Bureaucracy" project**). **A single document (the project is led by the Ministry of the Interior and the Ministry of Economic Development and Technology), comprising 262 specific measures in 16 different areas, will be upgraded with the assistance of those with a specific interest. As much as 17% of the measures have already been carried out, 34% of measures are in progress and 46% are not yet implemented. Special attention will be devoted to the most pressing measures, of which 50-100 will be selected and implemented (such as the reduction of days for the issue of a**

construction permit or the simplification of entry conditions for performing activities in the market).

The national budget for 2014 will provide all ministries with subsidies in the amount of EUR 406.8 million and EUR 270 million for 2015; more than half of these subsidies are related to EU programmes (between 80% and 90% of all subsidies are intended for private companies and sole traders); the rest are subsidies earmarked for public enterprises (e.g. mines, Slovenske železnice – provision of public transport services – and public research organisations). The goal is that as many subsidies from the budget **(subsidies)** as possible are **replaced by refundable source mechanisms**, i.e. reimbursable funds from the state budget (in 2014, an estimated EUR 20-50 million), while also considering existing active tax policy relief available to companies. The financing of companies through subsidies is expected to be limited only to narrow target groups and intended for specific purposes (initial growth stage, risk sharing in the early stage of research and development).

With a view to achieving an efficient, transparent and above all coordinated absorption and allocation of ESI funds (European Structural and Investment Funds), in part relating to financial instruments, it is rational for Slovenia to **establish a single channel for financial instruments** in the form of a fund of funds, in accordance with Regulation (EU) No 1303/2013. Where feasible, the measures in operational programmes will be implemented through financial instruments (as refundable aid in the form of loans, guarantees, injections of capital and so forth). Financial instruments can be combined with subsidies under the same conditions (such as an interest rate subsidy and other subsidies). Financial instruments will be implemented by financial intermediaries (banks, funds, investment funds, etc.). Some of the measures, where the context requires (subsidies, scholarships, new activities, etc.), will still be implemented in the form of subsidies. Implementation will be carried out through ministries, agencies or other partner institutions. The work programme of the fund of funds:

- is based on the operational programmes for the disbursment of European funds and on documents related to their implementation (GAP analyses, smart specialisation, etc.) as well as other national strategic programs;
- the programme appoints financial intermediaries as providers;
- in the context of a fund of funds, appropriations may be transferred between providers and/or instruments (according to the established funding gap, realisation, etc).

Key tasks for 2014 - 2015:

- Publishing the management strategy and business plan of the BAMC by September 2014.
- Setting up a working group for restructuring the largest companies requiring urgent attention.
- Establishing efficient corporate governance in restructured companies.
- Switching to refundable financing, reduction of subsidies.
- Improving the business environment.
- Efficient judiciary.
- Visible reduction of administrative burdens and improving the business environment.

4. PROGRESS TOWARDS HEADLINE TARGETS OF EUROPE 2020

Europe 2020 is a strategy of growth of the European Union spanning a period of ten years. The strategy addresses the deficiencies of the current model of economic growth and creates conditions for development based on smart technologies, sustainable growth and social cohesion. The European Union defined five headline targets which include specific tasks that have to be completed by the end of the decade, concerning employment, education, research and innovations, social cohesion and reduction of poverty, climate change and energy. Slovenia embraced these targets; presented below are some of the key measures adopted to meet them.

4.1 Employment targets

Table: Contribution of Slovenia to meet the *Europe 2020* targets

EU2020 targets	**National target 2020**	**Current situation in Slovenia**
75% employment rate for men and women in the 20-64 age group	75 %	68.3% (2012)

Active employment policy measures

In compliance with the amended national budget for 2014, the active employment policy plan will also be amended; for 2013 and 2014 EUR 198.7 million have been earmarked for the implementation of Active Employment Policy (AEP) measures. The funds will be used for the implementation of programmes and activities under the five flagship EAP measures(training and education, replacement of a worker at a job position and job sharing, employment incentives, creation of new jobs, promotion of self-employment).

Youth Guarantee

Through the "Youth Guarantee" Slovenia promises that "every young person aged from 15 to 29 years will receive an offer of employment (including traineeship), on-the-job training, integration in formal education or in a short form of institutional or practical training, within four months of registering in the records of unemployed persons at the Employment Service of the Republic of Slovenia". The measures will be available to unemployed people immediately after their registration with the Employment Service; during their unemployment, these measures will be enhanced and adapted to the specific needs of particular target groups of young people. Along with measures provided for unemployed young persons, the plan also envisages a series of preventive measures focusing on the school-age population at all levels of education. The key measures are aimed at improving the forecasting of future needs in the labour market and access to lifelong career guidance at all levels of education, so as to encourage more young people to consider careers in areas where jobs are easier to be found, and at strengthening the links between the labour market and education, which is the basic issue concerning youth employment.The funds earmarked for this purpose in the current national budget are EUR 60 million for 2014 and EUR 70 million for 2015.

Act Amending the Labour Market Regulation Act

To reduce structural unemployment, the Act Amending the Labour Market Regulation Act limits inclusion in public works to the long-term unemployed (i.e. persons registered as unemployed for more than one year, without interruption), with a view to ensuring their social integration and inclusion in the labour market. The yearly funds planned are EUR 30 million, for 4,300 persons to be included in public works.

Incentives for employment of young people

An employer who, during the period of validity of the Act, permanently employs an unemployed person under the age of 30 who has been registered as unemployed for at least one month, is fully exempt from paying the employer's contributions (pension and disability insurance contributions, health insurance contributions, parental protection insurance, and unemployment insurance) for the initial two years of the employment. These incentives will help create 25,000 new jobs per year; consequently, the costs of unemployment benefit and cash social assistance will be reduced by EUR 4 million and revenues from income tax prepayment and contributions will increase by EUR 10.6 million.

4.2 Research and development targets

Table: Contribution of Slovenia to meet the *Europe 2020* targets

EU 2020 targets	National target 2020	Current situation in Slovenia
Joint public and private investments in research and development accounting for 3% of GDP	3%	2.8% (2012)

Further stimulus measures for research and development (R&D)

Together with the drafting of programme documents for drawing resources from European Structural and Investment (ESI) Funds, Slovenia is preparing to adopt a Smart Specialisation Strategy that will define priority areas in which Slovenia intends to invest resources from structural funds, will establish a single institutional framework for channelling subsidies (i.e. policy mix) and will provide for the harmonised implementation of support instruments for industrial and innovation policies. Budget funds for R&D will remain at the same level (in 2014 an additional EUR 16 million are earmarked) and increased synergies between various sources are envisaged (Horizon 2020, structural funds, national funds). Slovenia is participating in a large number of existing and new ERA-NET Projects (yearly amount of approx. EUR 2 million). It will also actively participate in two Joint Programming Initiatives (JPI) and in the European Metrology Research Programme (EMRP). Slovenia is implementing the national programme in the field of research infrastructures and is actively participating in the establishment of the European Research Infrastructure Consortium – ERIC.

Active cooperation in the construction of the International Facility for Antiproton and Ion Research in Europe – FAIR.

Slovenia will continue to provide support to a Slovenian consortium of 15 high-tech companies engaged in developing equipment for FAIR. Progress is monitored by the FAIR central management; after the certificate of adequacy is delivered the planned resources will be transferred to the consortium. In 2012 EUR 0.8 million were used, but as the work intensifies the investment planned for the near future is EUR 2.1 million.

Slovenian Industrial policy - SIP

The Slovenian Industrial Policy (SIP) defines development priorities for industry and business for the financial perspective 2014-2020. It lists measures aimed at improving the competitiveness of the business environment, enhancing entrepreneurship and encouraging innovative skills to enable the economy to efficiently respond to social challenges, and promoting activities for the sustainable development of industry.

By improving the business environment, supporting entrepreneurship and innovations, developing propulsive technological and industrial sectors able to react to social challenges, SIP intends to create conditions for the continuous restructuring of existing industry into an energy, resource, environmentally and socially sustainable industry of knowledge and innovations capable of creating new, long-term and quality jobs and being strongly integrated into international business flows. The principal goal of SIP is to increase value added per employee (productivity) and the number of jobs for highly educated and skilled workers of all generations.

4.3 Targets for reducing greenhouse gas emissions

Table: Contribution of Slovenia to meet the *Europe 2020* targets

Europe 2020 sustainable growth targets	National target 2020	Current situation in Slovenia
Reduce greenhouse gas emissions by 20%	greenhouse gas emissions in fields not included in emission coupons trading (transport, agriculture, waste disposal, household and services) may be increased by 4% by 2020 as compared to 2005	emissions in non-ETS sectors – 11.5 (2012)

Implementation of current action plans and measures

The Renewable Energy Sources Action Plan for the Period 2010−2020 and Energy Efficiency Action Plan were financed through the national budget from income deriving from the emissions trading system (ETS) and trading in renewable sources (RES). In 2014 and 2015 the planned income from these sources is approx. EUR 10 million, which will be used for reducing air pollution.

Drafting of Action Plan 2013+

Measures under the National Action Plan for Reducing Greenhouse Gas Emissions by 2020 are being drafted, and are aimed at reducing greenhouse gas emissions in the ETS sector.

4.4 Renewable energy sources targets

Table: Contribution of Slovenia to meet the *Europe 2020* targets

Europe 2020 sustainable growth targets	National target 2020	Current situation in Slovenia
20% share of renewable energy sources in final energy consumption	25% share of renewable energy sources in final energy consumption	20,2 % (2012)

EUR 23.3 million have been spent on promoting the use of biomass, and another EUR 8.7 million is available. New schemes will be available after state aid is approved. Additional projects will also be launched for new investments in biomass heating systems or for expansion of existing biomass heating systems.

Energy Act (EZ-1)

The aim of the Act adopted in March 2014 is to define, in compliance with EU regulations, common rules in the internal electricity and natural gas markets, and establish rules for certification and unbundling of electricity transport system operators, along with the legal and functional unbundling of gas transport systems operators (in compliance with relevant EU directives). It further defines rules for the operation of system operators and of the electricity and natural gas markets in compliance with the provisions of the third energy package; this will enhance competition and increase consumers' rights, and provide conditions for increased security of supply. A well-functioning energy market, which is a pre-condition for economic growth and emergence from the crisis, will provide for competitive energy prices, which in turn will have a positive effect on households and on the economy in general. By providing an institutional framework for encouraging energy efficiency and the use of energy from renewable sources, the act will help attain the national targets of reducing greenhouse gas emissions and promoting green development. To promote the new sustainable support scheme for electricity generated from renewable energy sources, the act gives the government extensive powers to decide on what technologies will be supported in the future, and to what extent. The act also introduces new features in the area of energy efficiency in the building sector, which has great potential for reducing energy use and relative costs. The role of the public sector is crucial, as energy costs are covered from the state and local budgets. The new law also provides new regulation for the area of heat distribution, with the aim of ensuring a secure and reliable supply of heat from closed networks. It takes into consideration the natural monopoly of distributors; however, heat distribution remains the responsibility of the local community. It also regulates consumer protection in relation to supply, prices and contractual obligation issues. Control of the operation of the electricity and natural gas market is carried out by an independent regulator, the Energy Agency of the Republic of Slovenia, whose tasks and operation are also defined by this act. The area of energy infrastructure is also subject to Energy Act; the procedure of siting of energy facilities will be simplified and accelerated to allow for further development of the energy sector.

4.5 Increase in energy efficiency

Table: Contribution of Slovenia to meet the *Europe 2020* targets

Europe 2020 sustainable growth targets	**National target 2020**	**Current situation in Slovenia**
20% increase in energy efficiency		Interim target for 2010: 2.5% energy end-use savings in accordance with Directive 2006/32/EC on energy end-use efficiency The achieved savings in 2010 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.

National Energy Efficiency Action Plan for 2013+
In 2014 a new National Action Plan will be drawn up, and this will define measures to achieve a 20% increase in energy efficiency by 2020.

Energy performance certificates
A system of energy performance certificates has been put in place; an electronic registry of certificates issues is being established.

Energy-saving renovation
Cohesion funds within the Operational Programme for Development of the Environmental and Transport Infrastructure for the period 2007-2013 were mostly directed towards energy renewal of public buildings; this involved EUR 173 million out of the total EUR 216 million. Calls for proposals for co-financing of energy renewal of hospitals, schools, homes for elderly, students and kindergartens as well as other public buildings owned by local communities are generating investments of approx. EUR 36 million per year.

4.6 Reduce the school drop-out rate

Table: Contribution of Slovenia to meet the *Europe 2020* targets

Europe 2020 sustainable growth targets	**National target 2020**	**Current situation in Slovenia**
less than 10% of early school leavers	5%	4.4% (2012) 4.3% (2013)

Amendments to the Elementary School Act
Modifications to the curriculum through the introduction of new subjects were focused at developing special interests and skills of pupils with the aim of improving their capacity to adapt to labour market demands. The amendment to the Elementary School Act will introduce the option of learning a second foreign language, and provide for a higher degree of knowledge.

Linking the business environment and the education system
Further incentives for inter-company training centres (currently there are 17 such centres, the aim is to collect 20% of income in the market) to meet the demand for training in the labour market.

Project Learning for Young Adults (PUM)
Young school leavers (drop-outs) are encouraged to join the Project Learning for Young Adults (PUM) programme, which has been carried out in Slovenia for many years now and has yielded excellent results. PUM is a state-approved programme of non-formal education, implemented with the aim of helping young people with no education, occupation or employment to overcome social exclusion and encourage them to continue their schooling, and where this is not possible, to encourage them to acquire skills that will make their path to employment easier. With the help of mentors, young people also resolve problems that have contributed to their dropping out of school (family relationships, poor self-esteem, addictions, social hardship, etc.). The funds earmarked for this purpose for 2014 and 2015 are EUR 1.44 million per year.

4.7 Tertiary education targets

Table: Contribution of Slovenia to meet the *Europe 2020* targets

Europe 2020 sustainable growth targets	**National target 2020**	**Current situation in Slovenia**
at least 40% of the population aged 30-34 should have completed tertiary education (high education degree or equivalent)	40%	39.2 (2012) 39.6 (2013)

E-VŠ (computer-based graduate education system) was established
In July 2013 an on-line enrolment application for tertiary education institutions was put in place in order avoid fictitious enrolment. For 2013 and 2014 the application for on-line enrolment will be upgraded and fully operational.

Bologna Process
In 2013 the first generation of students graduated from the five-year Bologna study programme; in 2014 universities will be awarded an additional EUR 6.1 million (for the fifth year of tertiary education).

Drafting of the new Higher Education Act
An increase of funds for higher education of 2% is planned on a yearly basis during periods of economic growth, along with elimination of concessions in higher education in cases where similar programmes are provided by public institutions, and promotion of research activity.

4.8 Targets for combating poverty and social exclusion

Table: Contribution of Slovenia to meet the *Europe 2020* targets

Europe 2020 sustainable growth targets	**National target 2020**	**Current situation in Slovenia**
At least 20 million less poor and socially excluded persons	Reduce the number by 40,000	392,000 (2012)

After analyzing the effects of the new social legislation , Slovenia in October 2013 adopted amendments to the Law on the enforcement of public funds and the Law on Social Assistance . The amendments made to improve the social situation of the most vulnerable groups - single-parent and large families - in terms of increased weighting to calculate the amount of social assistance.

Greater access to social benefits is provided even with the changes that affect the amount of assets that are to exercise their right to social assistance and welfare allowance is not taken into account, in cases where the beneficiary is otherwise dispose of certain assets - real estate , but cannot dispose of them in terms of improving their social status.

Changes in social legislation are bringing new solutions in the area of activation recipients of transfers, while introducing a special bonus for those who are involved in voluntary traineeship and regulated voluntary work.

Furthermore, a part of the child allowance in the amount of 20% of it is not counted in financial aid, neither add nor -parent family allowance for a child who is not enrolled in kindergarten.

Changes and amendments have entered into force on 1.1.2014.

The next step in legislation changes on the enforcement of public funding goes in the direction of simplification of procedures and the implementation of the purposes of adapting information system came into force in September 2014. This is mainly for deciding on the eligibility for school meals .

At the same the Scholarship Act was also amended in relation to amendments of the Law on the enforcement of public funds according to the new regulation of certain additives to scholarships and restores partial scholarship for juvenile students , which will significantly improve the social situation of students under the age of 18 years who were included in the scholarship scheme. Furthermore, that law provides new scholarships for scarce occupations.

Slovenia in April 2013 adopted the Resolution on the National Social Assistance Programme for the period 2013-2020 , which represents a fundamental document for the development of the social protection system in that period.

5. OTHER REFOM MEASURES AND RESOURCES FROM EU STRUCTURAL FUNDS

In the **2014-2020** period the funds available to Slovenia from European Cohesion Policy funds will amount to **about EUR 3.255 billion**, of which EUR 1.2 billion are from the Cohesion Fund; EUR 159.8 million from the Connecting Europe Facility Instrument (transport); EUR 9.2 million from the Youth Employment Initiative, EUR 64 million from European Territorial Cooperation and EUR 21 million from the Fund for European Aid to the Most Deprived. Resources from the European Regional Development Fund and the European Social Fund are distributed between the two cohesion regions in compliance with the single EU methodology. Eastern Slovenia will receive from both funds approx. EUR 1.2 billion, and Western Slovenia approx. EUR 850 million.

For disbursment of all Cohesion Policy structural funds (ERDF, ESF) and the Cohesion Fund (CF) Slovenia is preparing **one Operational Programme as a contribution to fulfilment of the Union Strategy for smart, sustainable and inclusive growth**. The operational programme will cover both cohesion regions, The Vzhodna (Eastern) and Zahodna (Western) regions; it will also include a specific priority axis dedicated to the Youth Employment Initiative. For disbursment of the European Agricultural Fund for Rural Development (EAFRD) Slovenia is drafting up a **Rural Development Programme of the Republic of Slovenia 2014–2020**. **In the entire programming period 2014–2020 Slovenia will have EUR 837.8 million available**. Slovenia is also drawing up the Operational Programme for the implementation of the European Maritime and Fisheries Fund in the Republic of Slovenia in the period 2014–2020 and the Operational programme for the implementation of the Fund for European Aid to the Most Deprived.

Implementation of the 2014–2020 financial perspective will be based on:

- **the central coordination of the European Cohesion funds and development policies:** the **Government Office for Development and European Cohesion Policy** (established on 1 March 2014) will, within its competencies, participate in drafting Slovenia's development planning documents, its development policies and competition policy and monitor the consistency of their

implementation and methodological coherence with the target-oriented budget. The Government will have to ensure a system for coordinating all governance bodies at governmental level to support synergy and complementary use of the CSF funds indirectly implemented in Slovenia (ERDF, ESF, CF, EAFRD, EMFF, Youth Employment Initiative, External Borders Fund, European Fund for the Integration of Third-Country Nationals, European Return Fund and European Refugee Fund, etc.) and delivered directly by the European Commission through the national contact points (Horizon 2020, Creative Europe, Erasmus, LIFE, etc.);
- centralised management of Cohesion Policy funds aimed at achieving **greater transparency, faster reaction in cases of delays or irregularities and more successful adaptation** as regards the achievement of objectives set out in the programming documents for implementation;
- **uniform system of management, implementation, monitoring and assessment**;
- the **complementarity and synergies with other national and EU instruments** to be identified in formulating the substance of the development and investment priorities of the programmes;
- the transition to an **electronic platform for calls for proposals (e-razpisi) and public procurement (e-naročanje)**;
- **a more comprehensive supervision system;**
- a beneficiary support mechanism which will be designed so that beneficiaries and applicants will access information about calls for proposals for funds through one **contact point, which is to be supported by the e-Governance system**. The central info point will be set up in the form of an appropriately designed website for interactive communication and information exchange and an information centre providing help and support to beneficiaries and potential applicants.

Thematic objective 1: Strengthening research, technological development and innovation

Investments in research and technological development are vital for enhancing competitiveness and establishing an innovative environment in the country. Boosting innovation capacity is also crucial for improving the efficiency, quality and greater accessibility of public services.

Investment areas defined in the Partnership Agreement (*28 March 2014 version*)

- Upgrading of infrastructure for research and innovation and capacities for development of excellence in research and innovation, and promotion of competence centres, especially those of European interest.
- Encouraging corporate investments in innovation and research and establishing links and synergies among enterprises, research and development centres and higher education.

Thematic objective 2: Enhancing access to information and communication technologies, facilitating their greater use and increasing their quality

Compared with other EU member states, Slovenia has been recording more than a decade-long downward trend in its information society development level, which has reflected negatively in other development areas. Owing to the past lack of awareness of the importance of information and communication technologies (ICT), Slovenia underinvested in the development of the information society while other European countries invested systematically and considerably in this area.

Investment areas defined in the Partnership Agreement (*28 March 2014 version*)

- Development of broadband infrastructure in white areas

Thematic objective 3: Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF)

Promotion and development of business activities and the resulting increased competitiveness of enterprises are vital for Slovenia's growth and development. To this end, appropriate conditions will be needed for the funding of entrepreneurial activities, creating a favourable business environment and supporting existing and newly established enterprises. Slovenia's growth and competitiveness also depend on the export ability of enterprises generating high value-added.

Investment areas defined in the Partnership Agreement (*28 March 2014 version*)

- Promotion of entrepreneurship, especially by facilitating the economic application of new ideas and encouraging the establishment of new enterprises.
- Development and implementation of new business models for SMEs, in particular for internationalisation.

Thematic objective 4: Supporting the shift towards a low-carbon economy in all sectors

Slovenia's shift to a low-carbon economy and simultaneous pursuit of the objectives of reliability and competitiveness necessitate substantial changes in energy management. A comprehensive transition to a **low-carbon economy must combine measures for** efficient energy use, use of renewable energy sources, development of active electricity distribution networks and measures for sustainable mobility. Within this thematic objective, investments in the higher energy efficiency of agricultural holdings and agro-industry plants will be important; a key role in promoting the use of RES is also played by agricultural and forest biomass.

Investment areas defined in the Partnership Agreement (*28 March 2014 version*)

- Support for energy efficiency and use of renewable energy sources in public infrastructure, including public buildings and the housing sector.
- Promotion of energy generation and distribution from renewable energy sources.
- Development and application of smart low- and medium-voltage distribution systems.
- Promotion of low-carbon strategies for all types of areas, particularly urban, including sustainable urban mobility and appropriate climate change mitigation and adaptation measures.

Thematic objective 5: Promoting climate change adaptation, risk prevention and management

Due to its location at the intersection of different climate zones and relief types, Slovenia is exposed to various natural disasters and extreme events. Slovenia has been facing increasingly frequent and devastating natural disasters caused by climate change, and these have resulted in great damage. The first report by the Republic of Slovenia to the European Commission[26] on progress in the area of disaster risk assessment for 2012 included 13 disaster risks. The report shows that earthquakes and floods are the biggest environmental threats facing Slovenia. Damage event statistics for the 2005–2008 period show that the greatest damage was caused by weather phenomena (SORS, 2013[27]). Storms are common throughout the country, with the most destructive storms occurring in the North-Eastern part, while the sub-Mediterranean South-Western part of the country is most at risk from wildfires. In Slovenia, the impacts of climate change are also visible in the agriculture and forestry sectors, which must adapt accordingly.

Investment areas defined in the Partnership Agreement (*28 March 2014 version*)

- Support for investments in climate change adaptation.

Thematic objective 6: Protecting the environment and promoting resource efficiency

[26] Revised Progress Report on Disaster Risk Assessment of the Republic of Slovenia, Administration of the Republic of Slovenia for Civil Protection and Disaster Relief, 2012.

[27]http://pxweb.stat.si/pxweb/Dialog/varval.asp?ma=2708901S&ti=&path=./Database/Okolje/27_okolje/05_Nesrece/27089_ocenjena_skoda/&lang=2

Responsible and sustainable use of resources and the conservation of biodiversity are preconditions to ensure the quality of life and living and further economic development.

Investment areas defined in the Partnership Agreement (*28 March 2014 version*)

- Consideration of significant investments needed in the waste sector to meet the requirements of environmental legislation.
- Consideration of significant investments needed in the water sector to meet the requirements of environmental legislation.
- Protection and recovery of soil biodiversity and promotion of ecosystem services, including the NATURA 2000 network and green infrastructures.

Thematic objective 7: Promoting sustainable transport and removing bottlenecks in key network infrastructures

Given its geostrategic position, transport is an important factor of Slovenia's economic development. Quality and performance of the transport system are essential to the effective functioning of the internal market and Slovenia's penetration of the global market. Slovenia meets the requirements of the European transport policy, in particular with regard to the establishment of the trans-European network.

Investment areas defined in the Partnership Agreement (*28 March 2014 version*)

- Development of a comprehensive, high quality and interoperable railway system.
- Improvement of regional mobility by linking secondary and tertiary traffic hubs with TEN-T infrastructure.
- Support for a multimodal Single European Transport Area by investing in the Trans-European Transport Network (TEN-T) network (CF).

Thematic objective 8: Promoting sustainable and quality employment and supporting labour mobility

The potential to achieve higher employment and lower unemployment rates lies in young people, the elderly, the less qualified and the long-term unemployed. The target groups identified are consistent with the European Commission's analyses (Commission Position Paper). The main results expected from the measures under this thematic objective are more effective participation of target groups in labour market measures[28] and more efficient labour market services, which will have a positive impact on employment and/or the employment rate. Given the successful measures, activation of the aforementioned target groups can facilitate progress towards the EU employment rate target of 75% by 2020. Diversification of activities in the agriculture and fisheries sector and promotion of aquaculture can also contribute to higher employment rates.

Investment areas defined in the Partnership Agreement (*28 March 2014 version*)

- Access to jobs for job seekers and economically inactive persons, including long-term unemployed and people who are distant from the labour market, including through local employment initiatives, and promotion of worker mobility.
- Sustainable integration of young people, particularly those who are not in employment, education or training, into the labour market, including young people facing the risk of social exclusion and those from marginalised communities, including through implementation of the youth guarantee.
- Adaptation of workers, enterprises and enterprise owners to changes.

[28] Measured by the rate of entry into employment of the unemployed after the termination of measures and after six months.

Thematic objective 9: Promoting social inclusion, combating poverty and any discrimination

According to the National Social Assistance Programme[29], which is a basic strategic development document in the area of social assistance, social issues have only intensified in recent years, in particular due to the persistent economic crisis, high unemployment rates and meagre employment opportunities, as well as because of the generally lower income of the citizens. Promotion of social inclusion and combating poverty will therefore be among the key thematic objectives contributing to mitigating the effects of the crisis and achieving the targets of the EU 2020 strategy for inclusive growth.

Investment areas defined in the Partnership Agreement (*28 March 2014 version*)

- Active integration, including by promoting equal opportunities and active participation and improving employability.
- Availability of affordable, sustainable and high-quality services, including health and social services of general interest.
- Health care and social infrastructure investments which contribute to development on the national, regional and local levels, reduction of inequalities in health status, promotion of social inclusion through access to social, cultural and recreational services and transition from institutional to community care services.
- Promotion of social entrepreneurship and professional integration in social enterprises, and promotion of a social and solidarity economy in order to facilitate access to employment for all.

Thematic objective 10: Investing in education, training and vocational training for skills and lifelong learning

In modern society knowledge is a key factor in personal and social development; it requires investments in education and skills and an appropriate support environment. The education system should respond rapidly to social trends and labour market needs. Slovenia actively participates in global flows; in developed societies, development and progress are based on knowledge and the creation of new knowledge. Slovenia is also pursuing the objectives identified by the Europe 2020 Strategy, in which strong emphasis is put on education and training; in this context, two leading initiatives play an important role, namely Youth on the Move and the Agenda for New Skills and Jobs.

Investment areas defined in the Partnership Agreement (*28 March 2014 version*)

- Enhancing equal access to lifelong learning for all age groups in formal, non-formal and informal environments, upgrading the skills and competences of the workforce and promoting flexible learning opportunities, including through vocational guidance and validation of competences acquired.
- Increasing the labour market relevance of education and training systems, providing for a more effective transition from education to employment and strengthening and improving vocational education and training systems, including through forecasting employers' requirements for knowledge and skills, adapting curricula and designing and developing on-the-job training systems, including dual training systems and apprenticeship programmes.
- Improving the quality, efficiency and openness of tertiary and equivalent education, with a view to increasing participation and attainment levels, particularly for disadvantaged groups.

[29] Resolution on the National Social Assistance Programme 2013–2020, Official Gazette of the Republic of Slovenia (*Uradni list RS),* No 39/2013.

Thematic objective 11: Enhancing the institutional capacity of public authorities and stakeholders and efficient public administration

A state governed by and founded on the rule of law is a prerequisite for the functioning of all state systems as well as its social sub-systems, especially the economy. Trust in the state is rooted in the responsible and transparent work of state bodies and the public administration in general. The judicial system is of vital national and strategic importance in protecting the rights of citizens, economic development and prosperity.

It is the government's duty to ensure that authority is exercised, public services are provided and public goods are available to its citizens and residents; as a rule, these must be equally accessible to all under equal conditions. Excellence in the performance of the function of the state and/or public governance is a commitment which influences the development of democratic processes in society and its economic growth and social cohesion.

Investment areas defined in the Partnership Agreement (*28 March 2014 version*)

- Investing in institutional capacities and effectiveness of public administration and public services with a view to providing reforms, better legislation and good governance.
- Development of a favourable system environment to strengthen non-governmental organisations' capacities and increase the quality of their functioning.
- Enhancing the capacity of social partners at national and regional levels.

6. PROCESS OF DRAWING UP THE NATIONAL REFORM PROGRAMME

The National Reform Programme was harmonised at the inter-ministerial level and at the working meeting of the Slovenian Government, which took note of the draft document at its regular session held on 27 March 2014. The draft document was then considered by the following committees of the Slovenian National Assembly: the Committee on the Economy, the Committee on Labour, Family, Social Policy and Disability, the Committee on EU Affairs and the Committee on Finance and Monetary Policy.

On 8 April 2014, the draft document was presented and broadly discussed at the Economic and Social Council, where the social partners had the opportunity to submit their observations. The majority of comments were related to the priority order of measures (fiscal consolidation before or after the social state, requirements to eliminate structural imbalances, long-term reform measures; some comments were also made about the reduction in government revenue). All partners wished for a resumption of economic growth and agreed with the government's non-intervention and minimum deregulation.

The final version of the National Reform Programme took into account – *mutatis mutandis* and in terms of Slovenia's objectives – the discussions at the Economic and Social Council and the committees of the National Assembly; the Slovenian Government gave its final approval on 10 April 2014.