



GOVERNMENT OF THE REPUBLIC OF SLOVENIA

STABILITY PROGRAMME

AMENDMENTS 2015

Ljubljana, April 2015

TABLE OF CONTENTS

1. FRAMEWORK AND ECONOMIC POLICY OBJECTIVES	3
2. DEVELOPMENT OF THE SLOVENIAN ECONOMY	5
2.1. STRUCTURAL DEVELOPMENT AND THE CORRECTION OF MACRO-ECONOMIC IMBALANCES	5
2.2. SHORT AND MEDIUM TERM ECONOMIC FRAMEWORK AND OUTLOOK.....	8
3. ECONOMIC AND BUDGETARY POLICY	12
3.1. MEDIUM-TERM BUDGETARY FRAMEWORK.....	13
4. SENSITIVITY ANALYSIS	25
4.1. COMPARISON OF GDP FORECASTS WITH THE PRELIMINARY PROGRAMME	25
4.2. SENSITIVITY OF THE GENERAL GOVERNMENT BALANCE TO CHANGES IN GDP	25
4.3. DEBT SENSITIVITY ANALYSIS	26
4.4. THE QUALITY OF FORECASTS.....	27
5. LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES	27
5.1. EXPENDITURE ON AGEING IS INCREASING IN SLOVENIA	27
5.2. CONTINGENT LIABILITIES	30
6. THE QUALITY OF PUBLIC FINANCES	31
6.1. THE STRUCTURE OF GENERAL GOVERNMENT REVENUES	31
6.1. STRUCTURE OF GENERAL GOVERNMENT EXPENDITURE.....	32
6.2. STRUCTURAL REFORMS	34
7. INSTITUTIONAL FRAMEWORK OF PUBLIC FINANCES	38

1. FRAMEWORK AND ECONOMIC POLICY OBJECTIVES

In 2014, Slovenia achieved sound economic growth, which according to forecasts will continue in 2015 and 2016. Recovery is mostly linked to export potential and the success of the economy, with the responsible preservation of international competitiveness and rational expenditure of public funds. Despite a large drop in GDP during the global financial crisis, Slovenia maintained one of the highest levels of income equality in terms of international comparisons. Under favorable global conditions, economic policy makers will act counter-cyclically and help the economy operate on the markets by taking advantage of as many opportunities as possible.

Slovenia should exploit the more favourable macroeconomic conditions to continue and strengthen structural reforms. This is the only way to ensure a reduction in the public finance deficit and the conditions for the gradual reduction of high public debt. The extensive funds invested in the recovery of the banking system should ensure the restoration of business financing and investments that have multiplicative effects on the entire economy, thus gradually strengthening domestic consumption and prosperity. Strengthening the responsibility of individuals and institutions is of key importance here.

Slovenia, as an EU and EMU member, is bound to respect the common rules of restrictions in general government finance and in the broader macro-economic area. The Stability Programme constitutes the medium-term plan of the government of the Republic of Slovenia aimed at measures to achieve the public finance policy objectives. Together with the National Reform Programme, this document also constitutes the basis for the preparation and implementation of the economic policy measures facilitating the achievement of the country's economic and fiscal objectives.

The objectives of Slovenia's fiscal policy for 2015 and 2016 follow the requirements and recommendations of the European Council within the framework of commitments under the Stability and Growth Pact, and are in compliance with the excessive deficit procedure¹. Achieving this scenario in the medium term provides for a mix of support to investment and measures to increase competitiveness, structural reforms and fiscal responsibility.

Slovenia will pursue its fiscal target of achieving a general government deficit of 2.9% of GDP in 2015 and in 2016, the headline deficit which corresponds to the improvement in the structural balance by 0.6% of GDP. Under this assessment, the general government structural balance is to be achieved in 2020. The Stability Programme contains the policies and measures to achieve the aforementioned goals, which will be followed by further fiscal consolidation towards a permanent balanced structural position, in line with the preventive arm of the Stability and Growth Pact (Regulation 1466/97 and amendments) and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.

Two main economic policy objectives are encouragement to economic growth and fiscal consolidation. The conditions for economic growth will be provided through the improvement of competitiveness factors and a rise in economic productivity and the measures to increase rate of employment in due consideration of demographic and environmental constraints and opportunities. In order to achieve long-term economic growth and job creation, Slovenia has outlined measures in key areas with a view to increasing productivity and efficiency and ensuring appropriate levels of social inclusion and justice. At the beginning of 2015, the Government and the social partners concluded a social contract for 2015-2016, outlining the key labour-related areas and the measures to be implemented in cooperation with the social partners.

The main objectives and policies are ranked in line with priority areas as defined in the Annual Growth Survey by the EU Council. Both the policies and the measures take into account as much as possible the tasks and commitments under the applicable national documents.

¹ Slovenia has been formally under the excessive deficit procedure since 2 December 2009. In line with the EU Council recommendations from June 2013, Slovenia has to bring down the general government deficit below 3% of GDP by 2015.

1.1. Promoting investments

- Investments with multiplier effects. Investments in transport and environment infrastructure, information society projects and health care will be implemented in 2015 and 2016, also by utilising European funds.
- Long-term balanced share of total fixed capital formation in GDP over 20%. Investments in innovation, research and development in accordance with the Smart Specialisation Strategy.
- Utilisation of the Investment plan for Europe.
- Promotion of the export competitiveness of companies and development of SMEs. Internationalisation of operations and inclusion in global value chains.
- Development of financial instruments, improvement of loan conditions, measures to attract private investors.
- Exploiting the potential of creative industries, including the revitalisation of cultural heritage and social entrepreneurship, as well as the transition to a green economy and sustainable resource management.

1.2. Structural reforms

- Stable, competitive business environment and simplification of business activities:
 - Reduction of administrative burdens: (i) simplification of tax procedures, (ii) key changes in spatial planning, construction and integration in the environment, (iii) promoting the use of ICT operations.
 - Increasing competitiveness in the field of taxes by restructuring them in the framework of public finance revenues.
 - Functioning of product and services markets with thoughtful (de)regulation of activities and vocations.
 - Renovation of research and innovation systems, increasing the quality of public investments in research and innovation.
 - Effective state asset management and reduction of involvement of the state in the economy by means of careful privatisation.
- Preparation and implementation of comprehensive structural changes in health care. Simultaneous arrangement of long-term supply and personal assistance.
- Increase the efficiency, quality and internationalization in higher education.
- Study of potential disincentives and existing incentives to prolonging working life of the elderly.
- Modernisation of the public administration, fight against corruption, tax evasion, undeclared work and employment.
- Strengthening efficiency and transparency of the functioning of the justice system and its elements².
- Adapting labour market measures for youth, the elderly, persons lower level education and the long-term unemployed.

1.3. Fiscal responsibility

- Strengthening the fiscal framework and responsibility.
- The preparation of starting points for a long-term change in the structure of public expenditure.
- Structural balance achieved in 2020.
- Supplementation of effects of short-term saving measures with the effects of long-term structural measures.

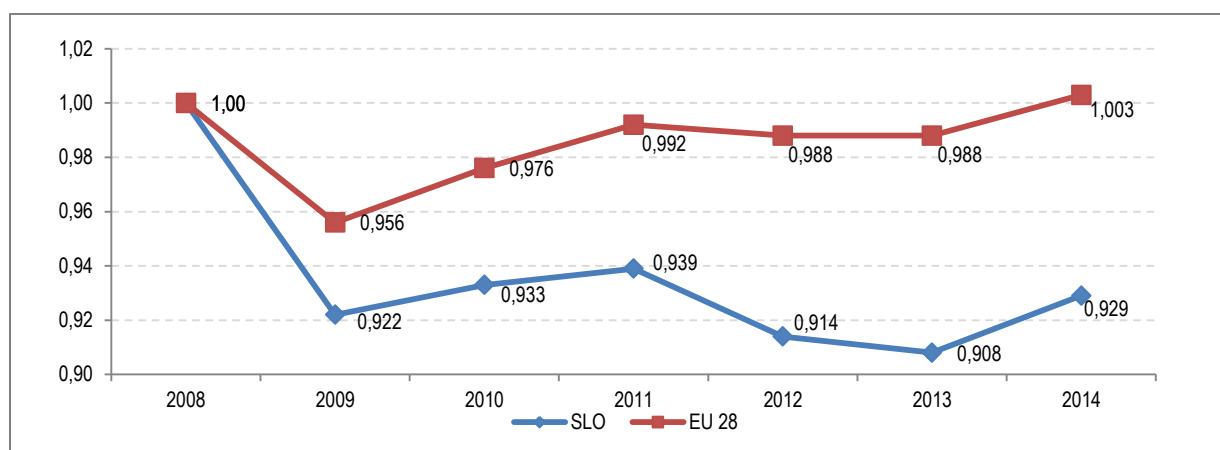
² This measure contributes to improving the business environment as stated under the first item of this paragraph.

2. DEVELOPMENT OF THE SLOVENIAN ECONOMY

2.1. Structural development and the correction of macro-economic imbalances

In 2014, the Slovenian economy, after a relatively long period of stalled growth, regained strength. According to estimates, real GDP in 2014 grew by 2.6%, however, in relative terms, Slovenia is still below the level of development which it had in 2008. The gap with regard to the EU development level was slightly reduced, while the European economy in 2014 already exceeded the level of development from the pre-crisis year 2008

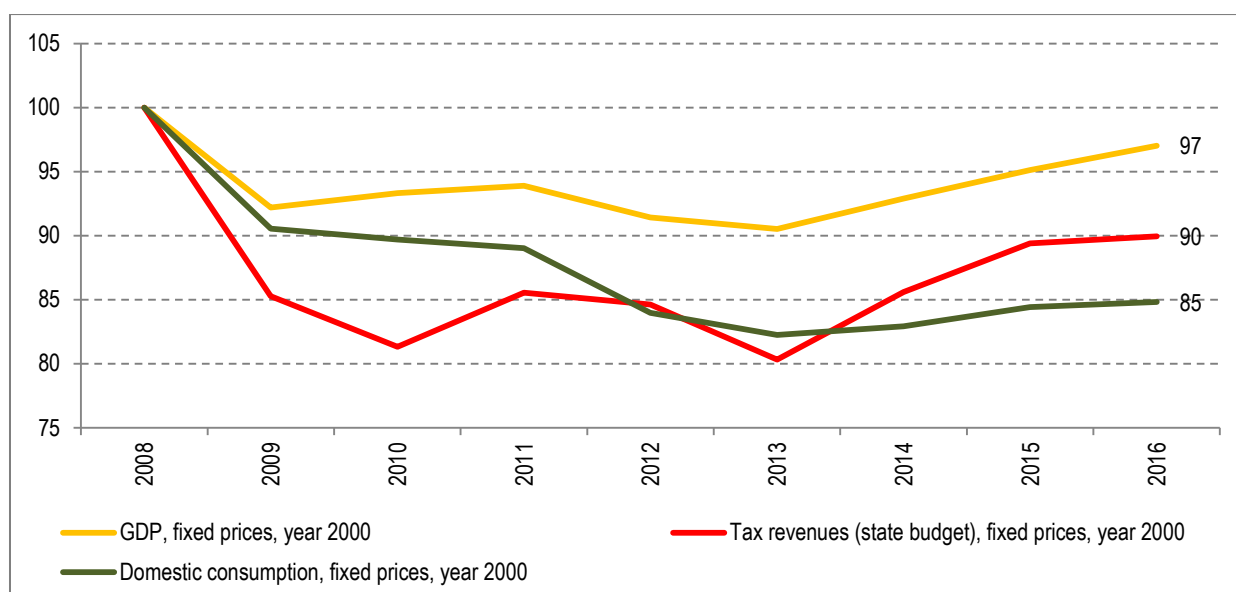
Figure 2.1.: Loss of GDP after 2008



Source: EIPF. Economic Trends, February 2015

In 2015 and 2016, further recovery of the Slovenian economy is expected and a corresponding reduction of the gap in relation to the EU average level of development. However, the structure of economic growth based on exports means that domestic consumption and government revenues will grow at a slower pace than economic growth itself. As a result, despite the relatively favourable growth trend, Slovenia will have to conduct a cautious fiscal policy if it wants to reduce its deficit and the debt.

Figure 2.2.: GDP, Domestic consumption and tax receipts, 2008=100

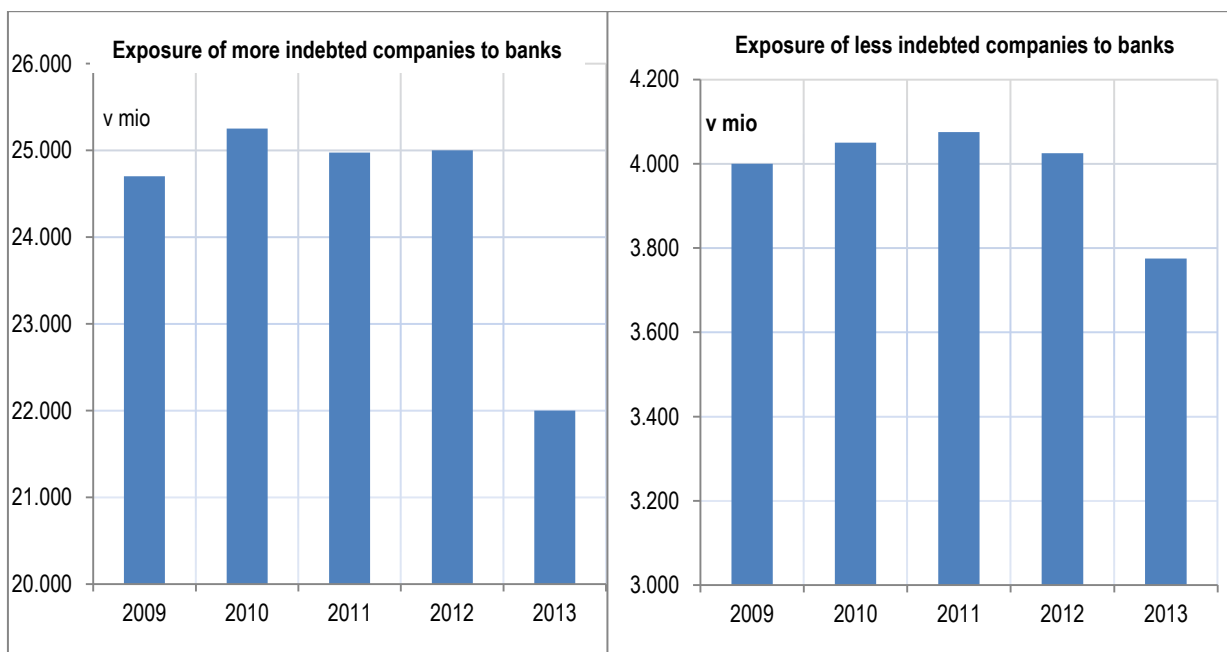


Source: Ministry of Finance

The structural weaknesses of the Slovenian economy, which can be seen through the established macro-economic imbalances, are being eliminated, which the European Commission systematically monitors via the Macroeconomic Imbalances Procedure mechanism. In its Report on Slovenia from March 2015,³ the Commission established that Slovenia still faces macro-economic imbalances, although these may no longer be excessive. Key warning signs regarding imbalances relate primarily to the issues of the corporate governance structure and the involvement of the state in the economy. The greatest progress was established with regard to improving the situation in the banking system and the restructuring of the economy. Both processes should continue in a fast and transparent manner.

In 2013, the indebtedness of Slovenian companies amounted to 74% of GDP. Although this is close to the euro area average, the ratio between the debt and equity capital of companies is still relatively high. In 2010, non-financial corporations began to actively deleverage and by 2013 their indebtedness in relation to GDP fell by 13 percentage points. Poor conditions on the credit markets and the remaining high indebtedness of the corporate sector with regard to income create pressure for further active deleveraging processes; accordingly, improvement trends have become noticeable. On the other hand, Slovenian households, at 29.6% of GDP in 2013, had the second lowest level of indebtedness in the euro area.

Figure 2.3.: Exposure of indebted companies to banks



Source: Bank of Slovenia, Macro-economic trends and projections September 2014

In 2014, after having registered considerable losses over the past three years, the banking sector returned to profit. Net interest margins and profitability have started to grow again. The higher net interest margins are mainly due to lower interest rates on non-banking sector deposits. The improved profitability can be attributed to a significantly lower level of impairments and provisions and growth in net interest income. Growth of loans is still negative, although this is largely due to the one-off transfer of bad loans to the Bank Assets Management Company. The negative trend in lending to non-financial corporations is closely connected with the fact that these have insufficient cash flows for regular repayment of debt, the high indebtedness of the Slovenian corporate sector, the remaining high level of bad corporate loans in the balance sheets of banks and the ongoing financial and operational restructuring in the corporate sector. The number of creditworthy companies that apply for loans on the domestic market is small and the competition regarding such customers is high.

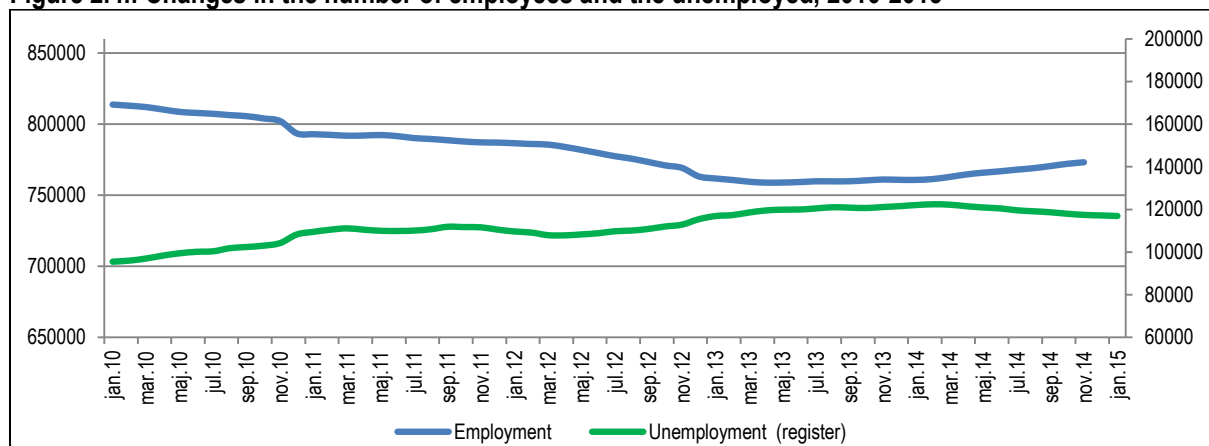
³ http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_slovenia_sl.pdf

The involvement of the state in the economy continues to be significant. The state is the largest employer, asset manager and corporate debtholder in Slovenia. State-owned or state-controlled companies employ a fifth of the employees in non-financial companies and account for about one-third of the assets of companies and of the total outstanding corporate debt. In the period 2007 to 2013, these companies performed significantly worse than similar private companies in terms of productivity and profitability at the national level and at the level of comparable countries.

The competitiveness of Slovenia has improved. Following a five-year downturn, in 2013 and 2014 Slovenia improved its export shares on the world market. In 2014, the surplus on the current account increased by 5.9% of GDP, which is mainly due to improvements in the trade balance. The new upturn in exports has not yet been offset by a corresponding increase in imports due to weak domestic demand, particularly in the area of investment. The net international investment position (NIIP), after several years of deterioration in Slovenia, started to improve and in 2013 reached 38.2% of GDP, which is an improvement of 7 percentage points.

The unemployment rate remains below the EU average; in 2014, it decreased by 9.7% and is expected to decline further. The situation on the labour market shows signs of improvement, but structural problems still persist with regard to long-term unemployment and the low employment rate of low-skilled and older workers. The long-term unemployment rate in Slovenia rose slightly again in 2014 and accounts for more than half of the total unemployment rate. The youth unemployment rate is slightly below the EU average.

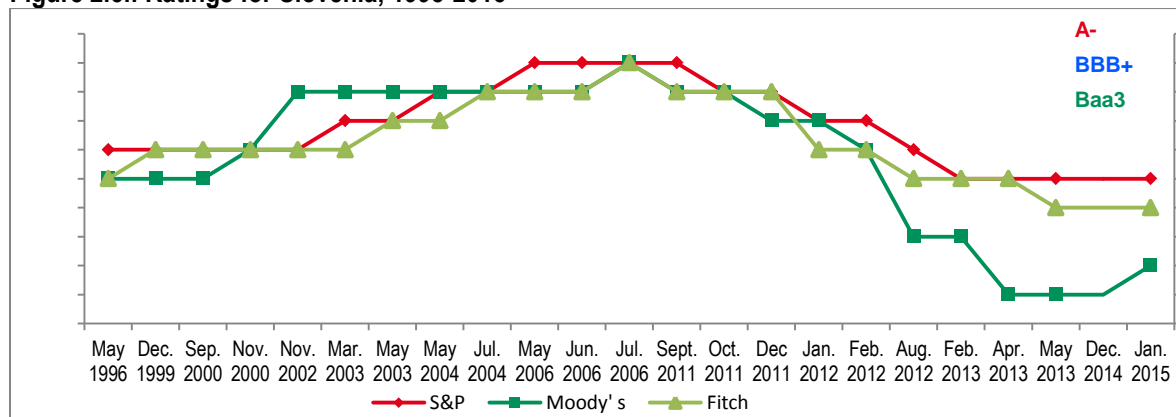
Figure 2.4.: Changes in the number of employees and the unemployed, 2010-2015



Source: SORS, IMAD

A significant deterioration in imbalances has been observed in the field of public debt, which increased from 22% of GDP in 2008 to 80.9% in 2014. Although this is largely due to extraordinary items such as, in particular, bank recapitalisation, the primary deficit has also contributed its share thereto. In order to reduce the public debt-to-GDP ratio, fiscal discipline is needed. Recent trends on the market of debt securities show confidence in Slovenia, as Slovenia's ratings have reverted to the pre-crisis level or are even better.

Figure 2.5.: Ratings for Slovenia, 1998-2015



Source: Ministry of Finance

2.2. Short and medium term economic framework and outlook

2.2.1. Assumptions for the international environment

The assessment of domestic economic trends is mainly affected by⁴ the strengthened economic recovery in **major trading partners** in the Euro area, which is mostly due to stabilisation in financial markets, particularly in the government bond market, the considerable **reduction in oil prices**⁵ and the improved **price competitiveness** of the weaker Euro. In addition to these factors, the European Central Bank also highlights the positive impact of non-standard monetary policy measures and the investment plan of the European Commission. In the next two years, stabilisation in financial markets and the measures are expected to have a positive impact on increasing the supply of loans and, in consequence, investments. Gradual growth of private consumption in the euro area is expected to continue as a result of an increasing real disposable income due to lower energy prices, wage growth and low inflation, and less adverse situation in the labour market. The economic growth forecast of 1.2% in the euro area for 2015⁶ is slightly lower than it was at the time of drafting last year's Stability Programme, but it is similar to that for 2016 (1.8%). Economic growth forecasts for Croatia and Serbia have worsened significantly and the sharpest drop in growth assumptions is recorded for Russia.

2.2.2. Cyclical developments and short-term prospects

Economic growth in 2015 will be 2.4%⁷ under the continued growth in exports and further strengthening of investment and private consumption. Thus the contribution of domestic consumption, which was positive for the first time in 2014 since the onset of the crisis, will be strengthened. Next year, GDP growth will slow down slightly (by 2%) under decreased investment activity, whereas until the end of the period it is expected to remain at around 2.2%.

The growth in public investments related to the utilisation of EU funds will continue this year. Favourable export trends will also increase private investment in machinery and equipment. Investment activity in the tradable sector, particularly in manufacturing, will benefit from the improved operating results, associated with growth in exports. Financing terms are expected to be less unfavourable than in the previous years. The growth in private investment is also indicated by high utilisation of production capacities, which already exceed the pre-crisis level. The improvement in the indicators of the current and expected demand suggests that after a long period with a downward trend, investment could start to increase in the service sector as well. In 2016, total investment activity will decline as public investment will decrease considerably after the possibility of the absorption of EU funds from the previous financial perspective expires. The fall in the associated construction activities will also trigger lower growth in some segments of market services, particularly in professional, scientific and technical activities, and partly also in domestic transport. In 2016 and 2017, the growth in private investment in machinery and equipment will be strengthened as a consequence of a projected enhanced cash flow under continued growth in foreign demand, and increased availability of financial resources, provided that the conditions in the financial markets are stable. Housing investment will have dampening effects on total investment growth as no growth is expected in this sector due to the large number of unsold flats (including in bankruptcy proceedings), which continue to exert downward pressure on prices and thus reduce the profitability of new housing construction⁸.

In 2015, the growth in **household disposable income** will be higher than in the past year, while the situation on the labour market continues to improve due to the nominal wage and employment growth. This will result in strengthened private consumption growth of up to 1.1%. In the next two years, private consumption will continue to grow in a gradual manner and will largely follow the expected growth in household disposable income. The reduction in **government consumption** in 2015 will be similar to that in the past year due to persisting fiscal

⁴ The assumptions released by international institutions until February 2015 have been taken into account as well.

⁵ Raw material prices reflect technical assumptions on oil prices and non-energy producing raw materials, which are significantly lower than a year ago.

⁶ The common assumptions of the European Commission for the preparation of Stability and Convergence Programmes were not yet available at the time when the forecast was prepared. Now that they have been released, it can be seen that there are no essential differences between them and the assumptions in the Stability Programme. Under the key assumption, i.e. the expected GDP movements for the euro area in 2015 and 2016, the IMAD Spring Forecast took into account the Consensus Forecast (February 2015) and the European Commission's winter forecasts (February 2015). The difference amounts to 0.1% for both years; minimal differences are observed also in the USD/EUR exchange rate assumption.

⁷ Spring Forecast of Economic Trends, IMAD, March 2015 <http://www.umar.gov.si/napovedi/>

⁸ The number of flats planned on the basis of the issued building permits fell by 14.3% last year.

constraints, and will, according to IMAD's Spring Forecast, result from labour cost restrictions, continued restrictiveness of expenditure on goods and services and the maintenance of social transfers in kind at similar levels. Reducing government spending at slightly less stringent rates is expected in the coming years as well, but less than in the previous four years.

Table 2.1: Macroeconomic prospects

Rate of change in %	ESA Code	Year 2014	2014	2015	2016	2017	2018	2019
		EUR millions						
1. Real GDP	B 1 g		2.6	2.4	2.0	2.1	2.2	2.2
2. Nominal GDP	B 1 g	37,246	3.1	3.5	2.4	3.1	3.6	3.7
Real GDP components								
3. Private consumption	P3	19,683	0.3	1.1	1.6	1.8	1.9	1.9
4. Government consumption	P3	7,188	-0.5	-0.4	-0.4	-0.2	-0.2	-0.2
5. Gross fixed capital formation	P51	7,503	4.8	4.8	-2.0	4.0	5.0	5.0
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+ P53	-161	-0.4	-0.2	-0.1	-0.1	-0.1	-0.1
7. Exports of goods and services	P6	28,607	6.3	5.6	6.2	5.0	5.0	5.0
8. Imports of goods and services	P7	25,574	4.1	5.2	4.7	5.2	5.4	5.4
Contribution to real GDP growth (in percentage points)								
9. Domestic consumption		34,213	0.8	1.7	0.5	1.7	2.0	2.0
of which: Changes in inventories and net acquisitions of valuables	P52+ P53	-161	-0.2	0.2	0.1	0.0	0.0	0.0
10. External balance of goods and services	B11	3,033	1.9	0.7	1.6	0.4	0.2	0.3

Source: Source: SORS, IMAD, Spring Forecast 2015

Improving international trade, particularly in recent years, is a result of the increasing competitiveness of the tradable sector, which has continued this year and will partly also continue in the coming years. Assuming that the tradable sector's cost competitiveness continues to improve, this will help to preserve the relatively high export growth (5.6%). The total growth in goods exports will be slightly slower than in the past year due to the expected lower growth in exports of road vehicles, which made a significant contribution with the onset of the production of two new cars last year.⁹ Higher overall growth in domestic consumption will strengthen the growth of imports and consequently the contribution of net exports (external balance) to GDP growth will decrease. In the coming years, relatively high growth rates in exports will be maintained and will continue to be based mainly on high-technology products. The contribution of net exports (external balance) will decline after 2016.

Table 2.2: Sectoral balances

% of GDP	ESA Code	2014	2015	2016	2017	2018	2019
Net lending / borrowing	B.9						
Of which:							
Import and export balance of goods and services		8.1	9.6	10.2	9.9	9.9	10.0
Balance of primary incomes and current transfers		-	-	-	-	-	-
Capital account		-	-	-	-	-	-
Net lending/borrowing of the private sector	B.9/EDP B.9	-	-	-	-	-	-
Net lending/borrowing of the general government (ESA 2010)	B.9	-4.9	-2.9	-2.3	-1.8	-1.4	-0.9
Statistical discrepancy		-	-	-	-	-	-

Source: Source: SORS, Ministry of Finance, IMAD, Spring Forecast 2015

⁹ The production of motor vehicles contributed 2.3% to last year's nominal growth of 7.0% -in the total export of goods.

Employment¹⁰ which began to rise at the end of 2013, will increase by 0.8% in 2015, similarly as in the past year. It will be again higher in the manufacturing sector, particularly in technology-intensive industries, and it will also increase in most market services along with the recovery of private consumption. Companies will remain cautious in offering new employment, consequently employment agencies will continue to be highly active. Due to fiscal constraints and the measures in force, a further reduction in government sector employment is planned. The inflow into **unemployment** will continue to decline, in particular the inflow of persons who will lose their job for business reasons or due to bankruptcy. The number of first job seekers will also decline slightly due to more favourable employment prospects, and it is estimated that the current generation finishing schooling will also be slightly smaller. The number of unemployed will continue to decline in the coming years. In addition to economic activity, these trends will be further influenced by demographic trends, either directly through the retirement of unemployed persons or indirectly through the replacement of the retired active working population with unemployed persons.

Table 2.3: Labour market developments

	2014 level (in 000)	2014	2015	2016	2017	2018	2019
Employment (number of employed) ¹ , growth in %	930.5	0.7	0.8	0.6	0.7	0.7	0.7
Survey unemployment rate, %	98.8	9.7	9.2	8.6	7.9	7.3	6.6
Labour productivity, (EUR 1000 per employee) ²	40.0	2.0	1.5	1.5	1.4	1.5	1.6
Compensation of employees ³ , in EUR millions	18,293	0.2	1.7	2.6	3.2	3.3	3.3
Compensation per employee ^{3,4} , in EUR 1000	19,659	-0.5	0.9	2.0	2.5	2.6	2.6

Source: SORS, IMAD, Spring Forecast 2015

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

After two years of stagnation, the average gross wage in 2014 increased by 1.1%; similar growth (0.9%) is expected this year, again primarily due to the growth in the private sector. The nominal growth in the average gross wage in the private sector is not expected to be higher than in the past year, despite the continued strengthening of economic activity and labour productivity (1.3%), due to deflationary pressures, the tendency to preserve a competitive position of companies and the persisting high unemployment. The nominal growth in average wages in the public sector (0.6%) will be slightly slower than last year, when it was significantly influenced by the increase in the government sector. This was mainly due to the onset of payments for withheld promotion raises to civil servants and the expiry of austerity measures from mid-2013.¹¹ This year, under the assumption that the majority of measures¹² are extended, the average salary in the government sector will remain at approximately last year's level. The movement of such will be influenced by the payment of last year's withheld promotion raises, additional restrictions on payments for work performance due to an increased workload and regular promotions, which will be paid at the end of the year. In the period 2016-2017, a gradual strengthening of the nominal growth in the average gross wage in the private and public sectors is expected. In the private sector, this will result from the expected recovery in economic activity and further strengthening of productivity. In the public sector, the average gross wage growth in the next two years will be strengthened as a result of the already agreed payments of regular promotion raises in the government sector and further gradual growth of wages in public companies.

This year, the prices of energy products will have a key impact on inflation, which has demonstrated a downward trend in the last two years owing to external and domestic factors, and now is moving close to 0%. Disinflation or deflationary trends in the last two years have been significantly influenced by external factors (oil

¹⁰ Employment according to the national accounts statistics.

¹¹ In June 2013, the basic salaries of civil servants were reduced (partly in a linear and partly in a progressive manner, by around 1.3%, on average), accompanied by the abolition of the increased seniority bonus paid to women for years of service over 25 years, the reduction of the allowance for specialised and master's and doctoral studies (by half) and reduced sick leave compensation. On average, the gross salary in the government sector was therefore lower by a further 2.5% in 2013.

¹² In the IMAD Spring Forecast, all the measures from 2014 relating to wage growth, except for the promotion raises for civil servants, which will first be paid out in December for the year 2015 (the same applies to the year 2016; Agreement on measures to reduce the funds paid for wages and other labour costs in the public sector for 2015, UL RS, No. 95/2014), are extended in 2015.

and raw material prices), and in part also the process of the internal adjustment of relative prices, which is reflected in the reduction of unit labour costs and the consequent depression of upward pressure on prices. The absence of inflationary pressures is also partly associated with weak domestic demand in recent years. The overall level of prices this year will remain roughly stable and the average inflation in the first half of the year will be approx.- 0.2%, mainly due to the projected intra-annual deflation. Given the anticipated further recovery of economic activity, particularly household consumption, and the assumptions considered regarding oil prices, inflation will slightly increase in the next two years.

Table 2.4: Price developments

<i>Rate of change in %</i>	2013	2014	2015	2016	2017	2018	2019
1. GDP deflator	1.4	0.4	1.1	0.3	1.0	1.4	1.5
2. Private consumption deflator	0.6	0.3	-0.1	0.9	1.1	1.1	1.2
3. Consumer price index (annual average)	1.8	0.2	-0.2	1.0	1.4	1.4	1.5
4. Government consumption deflator	1.0	-1.8	-0.2	1.4	1.5	1.4	1.5
5. Gross fixed capital formation deflator	1.0	0.5	1.0	1.7	2.0	2.0	2.0
6. Export price deflator (goods and services)	-0.3	-0.3	0.4	0.8	0.5	1.5	1.5
7. Import price deflator (goods and services)	-1.2	-1.0	-0.9	2.0	1.0	1.5	1.5

Source: SORS, IMAD, Spring Forecast 2015

2.2.3. Medium-term scenario

The key economic activity factor will be exports, along with the expected gradual acceleration of economic recovery in the main trading partners. Slightly higher private consumption growth of about 2% may also be expected. The scenario foresees that, given the successful and sustainable lowering of the public deficit and the stabilisation of the banking system, the conditions for financing the government and, indirectly, the private sector, will be relatively stable. In the medium term, this will have a positive impact on overall economic activity, which is expected to grow by an average of 2.2% a year towards the end of this decade. A faster increase in competitiveness and potentially greater private sector investment activity following considerable deleveraging could further accelerate this growth. According to economic activity growth forecasts, the labour market situation will also gradually improve, as there will be more job creation opportunities. Unemployment will decline, but, at the end of the programming period, it will remain higher than before the onset of the economic crisis. The influence of demographic factors (the decline in the number of the working-age population) on the labour market will be even more pronounced.

Table 2.5: Key macroeconomic indicators for the period until 2020

	Spring Forecast 2015	
	2015-2017	2018-2020
Gross domestic product, real growth in %	2.2	2.2
Exports of goods and services	5.6	5.0
Imports of goods and services	5.0	5.4
Private consumption	1.5	1.9
Government consumption	-0.3	-0.2
Gross fixed capital formation	2.3	5.0
Employment (SNR), growth in %	0.7	0.7
Registered unemployment rate (in %)	11.9	9.5
Survey-based unemployment rate (in %)	8.6	6.6
Average number of registered unemployed in thousands	109.2	86.7
Inflation, annual average	0.7	1.5

Source: IMAD, Spring Forecast 2015, March 2015

3. ECONOMIC AND BUDGETARY POLICY

In 2014 and 2015, Slovenia took measures to improve the **macroeconomic imbalances** with multi-annual effects which are being intensively implemented:

- Fiscal balance. Revised national budgets for 2014 and 2015 were adopted. Excluding the costs of the financial crisis and all one-off transactions, the general government balance was -3.3% of GDP in 2014, which is 0.9 percentage points less than in 2013. At the end of 2014, the consolidated gross debt of the state amounted to 80.9% of GDP. The forecast general government balance for 2015 is -2.9% of GDP.
- Conclusion of the stabilisation of the banking system. In 2014, the state recapitalised two more banks. In 2015, the Bank of Slovenia established the Bank Resolution Fund, which is financed by contributions from the banking sector, and will provide for the financing of potential measures to help banks in trouble (including recapitalisation).
- Efficient operation of the working group for the restructuring of companies and synchronised operation for swift responses from the Ministry of Finance, the Ministry of Economic Development and Technology, the Bank Assets Management Company and the bank of Slovenia.
- The State Asset Management Strategy, and the strategy for the banking and insurance sectors were drafted.
- Reviews of public expenditure on health care, education and social issues (external institutions also participate) are being prepared.
- Specific commitments and plans for measures to improve the business environment were adopted (speedier court proceedings, fewer administrative barriers in tax procedures, simpler procedures for the issue of building permits).
- Despite tightened fiscal adjustments, several investment projects will be realised. The objective is a long-term balanced share of total investments in fixed assets in GDP of above 20%. Utilisation of the Investment Plan for Europe is also expected.

During the programming period for strengthening **fiscal responsibility**, Slovenia will take the following measures:

- In 2015, measures will be taken to transform individual short-term austerity measures into systemic measures with long-term effects. Other short-term measures which cannot be transformed into systemic measures will be replaced by other systemic measures with comparable long-term financial effects.
- Fiscal Rule Act which makes the constitutional commitment to balance budgets operational. The Act is being discussed by the National Assembly and needs a two-thirds majority to be adopted. This Act stipulates the manner and time frame for implementing the principle of medium-term balance between the revenue and expenditure of state budgets without borrowing, the criteria for determining exceptional circumstances in which a deviation from the aforementioned principle is possible, and the manner of conduct upon the occurrence and termination of such circumstances, The Fiscal Council as an independent authority is being established with this Act, which also regulates its operation¹³.
- Amendment to the Public Finance Act¹⁴ which will define in more detail responsibilities in budget planning in accordance with the EU requirements¹⁵. Slovenia will integrate into its legislation the Medium-Term Budgetary Framework which will determine the path to attaining public finance objectives, and facilitate greater stability and predictability when planning measures.
- Gradual introduction of expenditure reviews in the public finance system. Benchmarking and a review of procedures in the field of social policy and education will be carried out together with the IMF, which will be the basis for improvements to the system. In the field of health care, an independent review will also be carried out and modernisation paths will be provided.

¹³ This partially transposes the Council Directive on requirements for budgetary frameworks of the Member States (2011/85) into legislation.

¹⁴ Amendments will be prepared within six months of the adoption of the Fiscal Rule Act.

¹⁵ Council Directive on requirements for budgetary frameworks of the Member States (2011/85)

Compared to previous years, the data and calculations in the Stability Programme 2015 were drafted on the basis of two methodological changes in accordance with the new ESA 2010 methodology. Based on the requirements of the new methodology, 24 new units, including the Agency of the Republic of Slovenia for Commodity Reserves, had to be integrated into the general government sector. The effect of the integration of new units on the general government deficit in 2014 was minimal (less than 0.1% of GDP), while its effect on the state of the consolidated general government debt amounted to 0.3% of GDP, mainly due to the Agency of the Republic of Slovenia for Commodity Reserves. The second methodological change, i.e. "the neutralisation of the EU flows", is reflected in revenue and expenditure related to EU funds and only affects the general government deficit. Such neutralisation would be required due to temporal discrepancies between inflows and the use of EU funds, which must not affect the general government deficit. Calculations for the neutralisation of EU flows were made from 2004 on. Between 2004 and 2010 (except 2007), the effects on the general government deficit were positive (0.1–0.4% of GDP), while between 2011 and 2013 they were negative, increasing the general government deficit by 0.3 to 0.5 percentage points. In 2014, the effect was positive and minimal.

In addition to the methodological changes, several one-off transactions took place in the last two years, which significantly affected the general government deficit and debt. In 2013 and 2014, Slovenia allocated EUR 3,984.3 million as a capital transfer to recapitalise banks, which increased the general government deficit by 10.1 percentage points in 2013 and by 0.9 percentage points in 2014. Based on court decisions and legal provisions, and on the adoption of the Action plan for the realisation of the judgement by the European Court of Human Rights in the Ališič case, Slovenia recognised the following obligations: payment of differences in wages due to the elimination of the third quarter of discrepancies in basic wages of public servants; payment of compensations to persons erased from the Register of Permanent Residents; payment of foreign currency deposits to savers in the Sarajevo and Zagreb branches of Ljubljanska banka prior to the disintegration of the SFRY who prove eligibility in the verification procedure, which does not include interest, since the final amount cannot be irrevocably evaluated.

3.1. Medium-Term Budgetary Framework

In the programming period, Slovenian fiscal policy has been relatively conservative in terms of general government revenue (with moderate growth in tax revenues, non-tax revenues and EU funds have been reducing), while, on the other hand, it must reduce general government expenditure so that structural balance is achieved in 2020. At the same time, the primary general government balance has been reducing, which is the result of better debt management. From the methodological aspect, Slovenia's problem is that potential GDP growth calculated in accordance with the agreed EC methodology lags behind the real GDP growth. The European Commission has calculated the average 10-year level (2008–2017) of potential growth to approximately 0.5% of GDP, while Slovenia exceeds 1% of GDP¹⁶, which in our opinion is still a conservative assessment.

Table 3.1: Nominal growth in general government expenditure, potential output and GDP

in %	2014	2015	2016	2017	2018	2019
General government expenditure	49.8	47.6	45.3	44.3	43.4	42.5
Primary general government expenditure	47.0	44.5	42.4	41.7	41	40.1
Potential product	0.7	1.4	1.6	1.9	2.1	1.7
GDP	2.6	2.4	2.0	2.1	2.2	2.2

Source: Ministry of Finance

¹⁶ Potential growth averages between 2008 and 2017 were used.

3.1.1. Target scenario

Along with the adoption of the revised national budget for 2015 and valid budgetary units of the general government sector, in this programming period, Slovenia will pursue the objective of structural general government balance by 2020 on the assumption that the output gap also closes only in 2020.

Table 3.2: Adjustment path to the target scenario, general government in ESA 2010
Structural deficit, structural effort

In EUR million	2014	2015	2016	2017	2018	2019
A. Revenue	16,745	17,240	17,015	17,313	17,7146	18,164
In % GDP	44.96	44.71	43.10	42.54	42.01	41.4
B. Expenses	18,565	18,364	17,901	18,026	18,305	18,565
In % GDP	49.84	47.63	45.35	44.29	43.41	42.45
C. Target nominal deficit	-1,819	-1,124	-887	-714	-591	-400
In % GDP	-4.88	-2.91	-2.25	-1.75	-1.40	-0.92
D. Target structural deficit	-782	-858	-633	-546	-440	-346
In % GDP	-2.10	-2.22	-1.60	-1.34	-1.04	-0.79
E. Fiscal effort in % GDP	-0.4	-0.1	0.6	0.3	0.3	0.3

Source: Ministry of Finance

Along with the adopted measures and budgets, Slovenia will achieve a nominal general government deficit in 2015 of 2.9% of GDP, which is estimated to correspond to the structural deficit of 2.2% of GDP. **Slovenia's target for 2016 is a nominal deficit corresponding to the structural deficit of 1.6% of GDP. The fiscal effort for 2016 is assessed at 0.62% of GDP.** In 2017 and 2019, the structural balance, according to the defined dynamics, improves by 0.3% of GDP annually, so that the balance is expected to be achieved in 2020.

Table 3.3: Cyclical developments

	In % GDP	ESA code	2014	2015	2016	2017	2018	2019
1. Real GDP growth (%)			2.6	2.4	2.0	2.1	2.2	2.2
2. Net lending of general government		B.9	-4.88	-2.91	-2.25	-1.75	-1.40	-0.92
3. Interest expenditure		D.41	3.25	3.09	2.94	2.62	2.45	2.35
4. One-off and other temporary measures			1.59	0	0.18	0.06	0.04	0.02
5. Potential GDP growth (%)			0.72	1.40	1.63	1.88	2.12	1.73
Contributions:								
- labour			1.05	1.03	0.73	0.92	0.89	0.83
- capital			0.17	0.32	0.25	0.35	0.47	0.58
- total factor productivity			-0.95	0.05	0.65	0.61	0.76	0.32
6. Output gap			-2.34	-1.41	-1.01	-0.77	-0.72	-0.25
7. Cyclical budgetary component			-1.20	-0.70	-0.50	-0.4	-0.3	-0.1
8. Cyclically adjusted balance (2-7)			-3.69	-2.22	-1.78	-1.40	-1.08	-0.81
9. Changes in cyclically adjusted general government balance			8.68	1.46	0.45	0.38	0.32	0.27
10. Structural deficit (8-4)			-2.10	-2.22	-1.60	-1.34	-1.04	-0.79
11. Changes in structural deficit (fiscal effort)			-0.4	-0.1	0.6	0.3	0.3	0.3

Source: Ministry of Finance

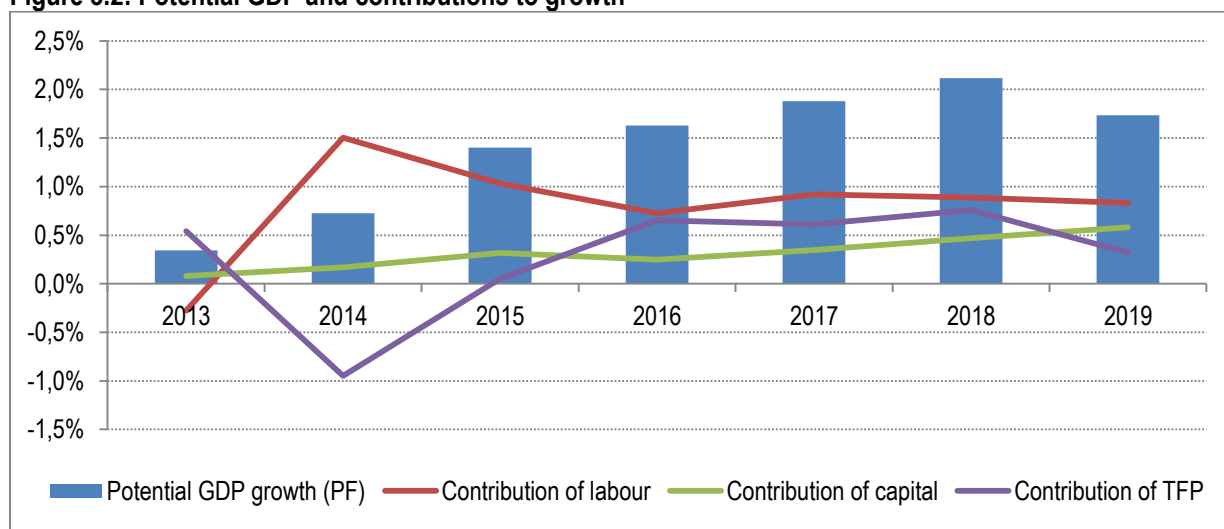
Figure 3.1: Path to the target scenario for the general government sector



Source: Ministry of Finance

The average potential growth rate between 2015 and 2019 is assessed at 1.75% annually, which means that 2% will be reached in 2018. The contribution of labour (which is no longer negative, as in previous projections, but is improving) most significantly contributes to the positive potential growth. This contribution is mostly affected by reduced unemployment and an increased activity rate. In 2015, the contribution of labour amounted to 1 percentage point; the contribution of capital will be constant between 2015 and 2019, but is increasing (new financial perspective). Total factor productivity is the remainder, and will begin declining in 2018. The output gap in 2013 was -4% and is slowly closing, and will be positive by the end of the programming period in 2020. The IMAD projections show that the output gap will be closed in 2018.

Figure 3.2: Potential GDP and contributions to growth



Source: Ministry of Finance

On the assumption that there is no change in policy (wages, social transfers), and the optimisation of public procurement and the wider public sector fails, and without the effects of certified cash registers and systemic measure regarding VAT rates, the general government balance will worsen in 2016 by 2 percentage points, which will be reflected until the end of the period.

Table 3.4: No policy change projections

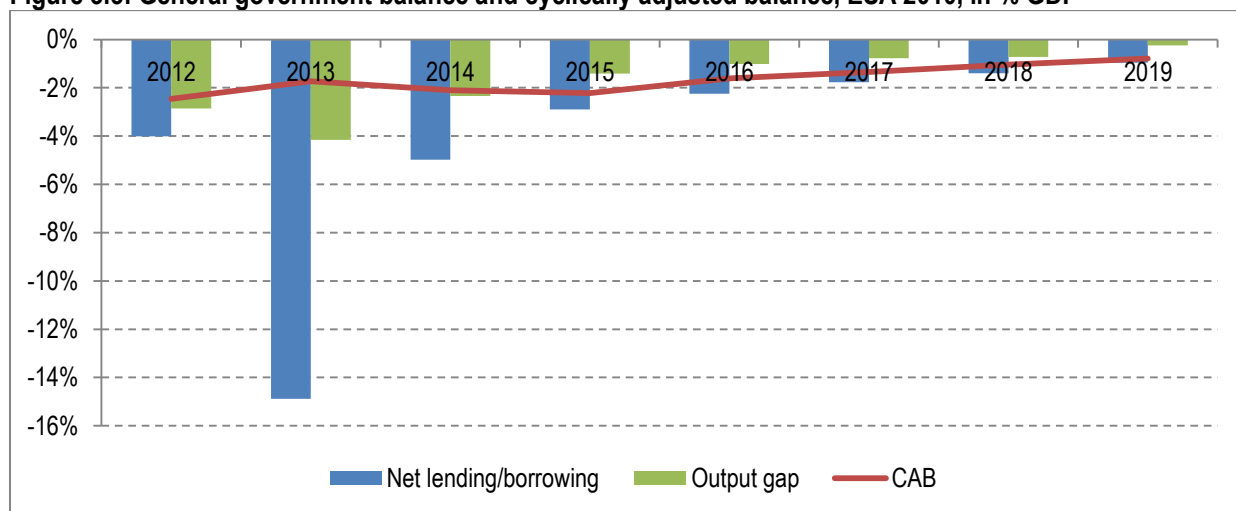
		ESA Code	2014	2015	2016	2017	2018	2019
			million EUR	In % GDP				
1.	Total revenue at unchanged policies	TR	16,745.4	44.7	42.1	41.6	41.0	40.6
A	Taxes on production and imports	D.2	5,578.2	14.7	13.8	13.7	13.5	13.3
2.	Total expenditure at unchanged policies	TE	18,564.6	47.6	46.4	45.3	44.4	43.5
A	Compensation of employees and intermediate consumption	D.1+P.2	6,801.6	17.6	18.3	17.5	17.2	16.9
B	Social benefits	D.62 +D.631	6,873.4	18.0	18.1	17.8	17.5	17.2
3.	Net lending/net borrowing	B.9	-1,819.3	-2.9	-4.2	-3.8	-3.4	-2.9

Source: Ministry of Finance

3.1.2. Fiscal strategy and medium-term objective

In the medium term, Slovenia plans a gradual reduction of structural general government balance. Therefore, it will have to focus on structural measures with long-term effects on the structure and efficiency of public finance when planning the latter. The key structural measures to attain the objectives regarding public finance include measures to reduce administrative barriers and enhance the efficiency of collecting public duties, and to restructure tax burdens to enhance the competitiveness of the Slovenian business environment. In the field of general government expenditure, measures will include the transfer of suitable short-term measures which were determined by the Act on balancing public finance (ZUJF), the Act on the execution of State Budget (ZIPRS) and the Agreement on measures in the field of salaries and other labour costs in the public sector aimed at balancing public finances for the year 2015 into systemic legislation, while others will be replaced by other systemic measures which will have comparable financial effects. The VAT rates introduced in 2013 will remain unchanged.

Figure 3.3: General government balance and cyclically adjusted balance, ESA 2010, in % GDP



Source: Ministry of Finance

Table 3.5: General government budgetary prospects

	ESA Code	Level 2014	2014	2015	2016	2017	2018	2019
		million EUR	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
General government surplus/deficit by subsectors (B.9)								
1.General government	S.13	-1,819.3	-4.9	-2.9	-2.3	-1.8	-1.4	-0.9
2. Central government	S.1311	-1,865.1	-5.0	-3.0	-2.3	-1.7	-1.4	-0.9
	S.1312	-	-	-	-	-	-	-
4. Local governments	S.1313	-74.8	-0.2	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S.1314	120.6	0.3	0.1	-0.1	-0.1	-0.1	-0.1
Total general government sector (S.13)								
6. Total revenue	TR	16,745.4	45.0	44.7	43.1	42.5	42.0	41.5
7. Total expenditure	TE	18,564.6	49.8	47.6	45.3	44.3	43.4	42.4
8. Net lending/borrowing	B.9	-1,819.3	-4.9	-2.9	-2.3	-1.8	-1.4	-0.9
9. Interest	D.41	1,212.3	3.3	3.1	2.9	2.6	2.5	2.4
10. Primary balance		-606.9	-1.6	0.2	0.7	0.9	1.1	1.4
11. One off and other temporary measures**		351.7	0.9	0.0	0.0	0.0	0.0	0.0
11.a Net lending/borrowing without One off and other temporary measures		-1,467.6	-4.9	-2.9	-2.3	-1.8	-1.4	-0.9
Selected components of revenue								
12. Total taxes (12a + 12b + 12c)		8,197.3	22.0	21.7	21.8	21.6	21.4	21.2
12a. Taxes on production and imports	D.2	5,578.2	15.0	14.7	14.7	14.6	14.5	14.3
12b. Current taxes on income and wealth	D.5	2,609.5	7.0	6.9	7.0	7.0	6.9	6.9
12c. Capital taxes	D.91	9.6	0.0	0.0	0.0	0.0	0.0	0.0
13. Social security contributions	D.61	5,489.0	14.7	14.6	14.8	14.8	14.7	14.6
14. Property income	D.4	452.2	1.2	1.0	0.6	0.6	0.5	0.5
15. Other revenue		2,606.8	7.0	7.4	5.9	5.5	5.3	5.2
16.=6. Total revenue	TR	16,745.4	45.0	44.7	43.1	42.5	42.0	41.5
p.m. Tax burden (D.2+D.5+D.61+D.91-D.995)		13,686.4	36.7	36.3	36.6	36.5	36.2	35.8
Selected components of expenditure								
17. Compensation of employees and intermediate consumption	D.1+P.2	6,801.6	18.3	17.6	17.4	16.7	16.5	16.1
17a. Compensation of employees	D.1	4,314.1	11.6	11.2	11.1	10.9	10.7	10.4
17b. Intermediate consumption	P.2	2,487.4	6.7	6.4	6.5	5.9	5.8	5.7
18. Social payments		6,873.4	18.5	18.0	17.9	17.6	17.3	17.0
18a. Social transfers in kind	D.6311, D.63121, D.63131	724.1	1.9	2.0	2.0	2.0	2.0	1.9
18b. Social benefits and cash aid	D.62	6,149.3	16.5	16.0	15.9	15.7	15.3	15.0
19.=9. Interest expenditure	D.41	1,212.3	3.3	3.1	2.9	2.6	2.5	2.4
20. Subsidies	D.3	317.4	0.9	0.9	0.6	0.7	0.7	0.7
21. Gross fixed capital formation	P.51	1,896.3	5.1	5.6	3.9	3.6	3.6	3.5
22. Other expenditure		1,463.6	3.9	2.5	2.6	3.0	2.9	2.8
23.=7. Total expenditure	TE	18,564.6	49.8	47.6	45.3	44.3	43.4	42.4

Source: Ministry of Finance of the Republic of Slovenia Notes: * Revenue/expenditure without EU budget funds whose users are legal entities outside the general government sector.

Considering the expenditure benchmark which enters into force together with the required fiscal effort (0.6% of GDP) in the preventive arm of the Stability and Growth Pact, the so-called reference rate which is calculated from 10-year potential GDP growth average will present a problem for Slovenia. Slovenian calculations show potential growth in general government expenditure in 2016 by 0.21% if the potential GDP growth between 2008 and 2017 in the amount of 1.2% (the IMAD's calculation amounts to 1% of GDP) is taken into account. Taking into account the European Commission growth rates of the potential GDP (with Slovenian assumptions for the general government revenue and expenditure (table 3.5)), the calculated expenditure benchmark would require a reduction of -0.51%, which takes into account the required fiscal effort.

Table 3.6: Convergence margin and fiscal effort for the required expenditure benchmark

% GDP	ESA code	2013	2015
General government expenditure in	TE	59.93	47.63
Interest expenditure	D.41	2.54	3.09
Primary expenditure	TE- D.41	57.39	44.54
Convergence margin	50/(TE-D.41)	0.87	1.1
Convergence margin corrected for the required fiscal effort (0.6% of GDP)		1.05	1.35
Medium-term potential GDP growth		1.26	1.08
Required expenditure benchmark		0.21	-0.27

Source: Ministry of Finance

Considering the expenditure benchmark, the growth in expenditure between 2015 and 2019 will be lower than the calculated expenditure benchmark with Slovenian assumptions, i.e. by 0.14% in 2016; it will then drop to 0.05% in 2017 and later to 0.01%. This takes into account the exclusion of certain general government expenditure which is fully related to EU budget revenue, and of changes in non-discretionary expenditure for unemployment benefits as shown in table 3.6.

Table 3.7: Amounts to be excluded from expenditure benchmark

		2014	2015	2016	2017	2018	2019	
		million EUR				In % GDP		
1.	Expenditure fully related to EU budget revenue *	1,045	3.39	1.65	1.33	1.27	1.22	
2.	Cyclical unemployment benefit expenditure	209	0.48	0.43	0.40	0.37	0.33	
3.	Effect of discretionary revenue measures	203	0.32	0.99	-	-	-	
4.	Revenue increases mandated by law	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	

Source: Ministry of Finance of the Republic of Slovenia. Notes: * Expenditure from the EU budget in the national budget which coincide with revenue in the examined year.

3.1.3. General government debt

At the end of 2014, general government debt amounted to EUR 30,133 million or 80.9% of GDP, while in 2013, it amounted to EUR 25,427 million or 70.3% of GDP. At the end of 2014, the debt of central government units amounted to EUR 29,525 million or 79.3% of GDP, while in 2013, it amounted to EUR 24,873 million or 68.8% of GDP. In the second half of 2014, the state recapitalised two more banks, i.e. Banka Celje d.d. in Abanka d.d.. At the end of 2014, the debt of local government units amounted to EUR 788 million or 2.1% of GDP, while in 2013, it amounted to EUR 734 million or 2.0% of GDP. At the end of 2014, the debt of social security funds amounted to only EUR 2 million. Due to ESA 2010 and new government units, the debt between 2010 and 2013 increased by approximately 0.3 percentage points.

Following the amended Public Finance Act of 2008, which allows state budget advance borrowing to the extent of outstanding principals in the next two budget years, the Republic of Slovenia may borrow funds in the amount exceeding the extent of borrowing for financing the deficit of the balance of revenues and expenditure and the

deficit in the financial assets and liabilities account, and repayments of principals of the debt in the current year. The pre-financing amount at the end of 2014 was EUR 3,082.6 million.

Following the increase in the general government debt in GDP share between 2013 and 2015, it is assessed that **the debt will reduce in the programming period by 2019 to 78.2% GDP**. The debt dynamics will be driven primarily by the central government debt. Local government debt is expected to remain at about 2% of GDP. The borrowing capacity of local communities is constrained by the act governing the financing of local communities, so that they may only borrow if the payment of liabilities arising from loans (principal and interest) in the year of borrowing does not exceed 8% of realised revenue in the previous year. In 2015, local communities may borrow more than the aforementioned amount, i.e. for their own share in the co-financing of investments which are co-financed by the EU budget. However, the payment of the principal and interest in the year of borrowing may amount to a maximum of additional 2% of the realised revenue in the previous year, and additional borrowing of an individual local community may amount to a maximum of EUR 750,000, whereby the total amount of borrowing of all local communities is limited to a maximum of EUR 10 million. At the end of 2014, the debt of social security funds amounted to EUR 1.5 million, and is due to borrowing for financial leasing by the Health Insurance Institute.

Table 3.8: General government debt

<i>In % GDP</i>	ESA Code	2014	2015	2016	2017	2018	2019
1. Level of gross debt		80.9	81.6	78.7	79.6	79.4	78.2
2. Changes in gross debt		10.6	0.7	-2.9	0.8	-0.2	-1.2
3. Primary balance		-1.6	0.2	0.7	0.9	1.1	1.4
4. Interest	EDP D.41	3.3	3.1	2.9	2.6	2.5	2.4
Implicit interest rate of the debt		4.8	3.9	3.7	3.4	3.2	3.1

Source: Ministry of Finance

Since 2013, the long-term costs of financing the implementation of the national budget have significantly reduced. The weighted average interest rate of the debt issued, expressed in EUR, declined from 4.58% in 2013 to 2.67% in 2015, while the average binding of the debt increased, which means a reduced risk of refinancing. In 2015 and in the next medium-term period, the weighted average interest rate of the debt is expected to be below 2% (it currently stands at 1.5%). In this manner, interest expenditure in the structure of national budget expenditure is also efficiently reduced, which will have a favourable effect on the general government balance.

In the next medium term, the structure of borrowing instruments, the ratio between short-term versus long-term borrowing, and the dynamics of how the Government borrows will be planned primarily by taking into account the strategic objectives and the principles of government debt management, as well as assessments of central government budget cash flow, which has been the case so far. The selected mix of budget financing instruments will derive from market conditions, the profile of the maturity of the existing debt, the objective to build a government bond yield curve and an improvement in Slovenian government securities' secondary market liquidity.

The primary financing instrument for the national budget is long-term borrowing through the issue of government bonds, and short-term borrowing through the issue of treasury bills. Among long-term borrowing instruments, the syndicated or auction public issue of benchmark government bonds, as a new or existing issue of existing government bonds, has been foreseen as the primary instrument in European and other markets.

3.1.4. General government revenue measures and policy

The objective of general government revenue policy in this programming period is to prepare measures which contribute to consolidating public finance, improve competitiveness factors and productivity in the business sector. In the previous programming period, most measures were revenue-related, aimed at the more effective

supervision of the fulfilment of tax obligations, combating tax fraud and tax evasion, ensuring greater efficiency of tax collection and, with only certain measures, at increasing nominal tax rates.

In 2014, amendments regarding the establishment of the tax base by considering **flat-rate expenses** were adopted in order to reduce the **administrative burden** of small taxable persons. This is the field of the so-called flat rate taxation, which refers to the taxation of legal entities and natural persons who perform an activity. On 1 January 2015, the revenue threshold to enter the flat rate expense system increased from EUR 50,000 to EUR 100,000, with an additional condition to employ at least one person full time who is compulsorily insured in accordance with the act regulating pension and pension and disability insurance, for the period of at least five consecutive months. The amount of flat rate expenses was raised from 70% to 80% of revenue recognised for tax purposes. At the beginning of 2015, the Personal Income Tax Act and the Corporate Income Tax Act were both amended to extend the scope of the currently applicable relief for investments in goods vehicles, depending on the emission requirements of the engine, to buses. The relief for investments will be enforced for **goods vehicles and buses** with engines corresponding to at least the emission requirements of EURO VI for 2014, which means that the measure will slightly reduce revenue from income tax and corporate income tax. In 2014, **the simplification of the procedure for the calculation and payment of VAT** from services of international passenger transport in Slovenia carried out by foreign carriers was introduced as an element of administrative simplification.

In 2015, the abolishment of the bank total assets tax meant **higher tax rates for financial services and insurance contract tax** from 6.5% to 8.5%. The total financial effect of the two taxes is assessed at approximately EUR 30 million annually, and the adoption of these measures does not have negative consequences for competitiveness.

Due to the rejection of the real property tax by the Constitutional Court of the Republic of Slovenia, the Government provided additional revenue in 2014 by **increasing excise duties** on tobacco products, alcohol and alcohol products, except wine, and excise duties on certain energy products. At the same time, the reimbursement of excise duties on biofuels which was enjoyed by oil derivative merchants was eliminated as a replacement for the lower costs of purchasing or producing biofuel.

The amended Fiscal Balance Act (ZUJF) **extended burden on active income of natural persons with a 50% rate** for income exceeding the amount of five average salaries for 2015. The applicability of the fourth tax class was initially determined for 2013 and 2014 by the ZUJF, but the measure was extended and will also affect income in 2015. According to assessments, this will ensure approximately EUR 16 million more revenue from income tax.

From the aspect of ensuring stable general government revenue, the Government intends to maintain VAT rates determined 2013 as a permanent measure, which ensured approximately EUR 300 million of revenue on an annual basis. In 2013, amendments to the Implementation of the Republic of Slovenia Budget for 2013 and 2014 Act increased VAT rates, i.e. the general VAT rate from 20% to 22% and the reduced VAT rate from 8.5% to 9.5%.

At the beginning of 2015, amendments to the **Tax Procedure Act** were introduced. The measures taken for better and more efficient collection of public duties, and reduced grey economy are expected to have some effects on revenue in 2015, and refer to the regulation of the issue of hand-written invoices by using pre-numbered receipt books when goods and service providers receive payment in cash. Electronic serving of tax documents (beginning in 2016) will also be regulated, increasing the possibility of electronic service provision by authorities and enhancing the efficiency of the tax authority's operation. An important measure was the provision of the efficient implementation of the FATCA (Foreign Account Tax Compliance Act) agreement, which amends the current regulation of cooperation with the United States of America in the field of avoiding double taxation and preventing tax evasion regarding income tax and wealth tax, which will be the basis for strengthening information exchange with other countries.

To enhance the efficiency of the collection of mandatory taxes and the rationality of the organising services responsible for collecting public duties, the Government adopted the Financial Administration Act (ZFU), which merged tax and customs administrations into the **Tax Administration of the Republic of Slovenia**, which

commenced operation on 1 August 2014. The objective of the merger includes a modern organised financial administration, which is feasible especially by simplifying and standardising procedures, reducing administrative barriers and administrative burdens, and the running costs of the authority, and improving labour quality, which will in turn raise the level of voluntary fulfilment of obligations and enhance the collection of public duties. The objective of the merger is also greater efficiency in the use of human resources, less tax evasion and the expansion of powers of the Customs Administration in responding to cases of undeclared work.

In the next programming period, the Government will strive to prepare changes in the payment of public duties, especially by eliminating administrative burdens and restructuring tax burdens. The Government will also improve the horizontal equity of the public duty system by eliminating anomalies in the existing system and opportunities to avoid the payment of public duties. Therefore, the Government will prepare measures which will be implemented in the programming period and will follow the following strategic projects:

- elimination of administrative barriers when fulfilling tax obligations and enhancing the efficiency of the collection of public duties – an amendment to the Tax Procedure Act is planned whose main objective is to simplify tax collection procedures and eliminate administrative barriers for taxable persons, enhance the fairness of the tax system by preventing avoidance of tax payment and delays in recoveries, and stimulate taxable persons to voluntarily fulfil their tax obligations. At the same time, options for measures for the more efficient payment of tax debt, in addition to a preliminary analysis of the tax debt, are being studied in terms of more efficient support for the financial restructuring of companies. To reduce the grey economy and other forms of evading the payment of public duties, certified cash registers with the on-line transfer of data to the Financial Administration of the Republic of Slovenia will be introduced by the end of 2015, which is expected to improve the competitiveness of the business environment and raise the productivity of the business sector;
- modernisation and restructuring of tax on real property – in this next programming period, the Government will prepare a proposal for the taxation of real property, while consistently taking into account the constitutional framework in view of the fact that the Constitutional Court of the Republic of Slovenia repealed the Real Property Tax Act in 2014. The introduction of the real property tax will not be an additional fiscal source for the national budget, since the tax is a source for municipal budgets. Therefore, the system of real property taxation will be based on increased revenue of municipalities in comparison with the current burden, only due to a more extensive capture of real property by taxation and greater unification of the amount of burden among municipalities. The Government could only provide an additional source by restructuring the municipality financing system by increasing municipalities' own responsibility for financing their tasks;
- restructuring of the burden of public duties – to enhance the competitiveness of the Slovenian business environment and reduce burdens on labour, the Government wishes to re-establish the distribution of the tax burden among consumption, revenue and property, while taking into account public finance limitations. Activities will be intended to study the scope and effects of existing tax relief and potential replacement of inefficient tax relief with other measures. In this regard, studying the efficiency of tax relief with negative environmental impacts is also important. In recent years, Slovenia has noted an increasing number of tax users in the form of various types of relief, donations, lower rates or any deviations from the defined tax base, who are part of the tax system. They may be among the important reasons for reduced budget revenue on the one hand, while they reduce the tax obligation of taxable persons on the other. Special attention will also be paid to the unification of bases for calculating social contributions. A situation analysis revealed great discrepancies between burdens on various types of labour which are not justified and which may produce anomalies in the labour market. With this strategic project, the Government wishes to have the option of determining target cases and a distribution of the tax burden among consumption, revenue and property which is comparable to other countries.

3.1.5. Measures and policy of general government expenditure

To ensure the consolidation of general government expenditure in 2016, measures will be adopted in 2015 (with the purpose of achieving financial effects in 2016), based on which the effects of short-term saving measures will

be replaced with the effects of appropriate long-term structural measures in systemic legislation. Short-term measures which will be impossible to systemically regulate appropriately will be replaced with other measures with comparable financial effects. The measures will be adopted in the following key areas:

- **Salaries in public sector policy**

In the field of salaries and other labour costs in the public sector, measures will be adopted in collaboration with public sector unions which ensure that the amount of funds to cover labour costs in the public sector in 2016 (integral expenditure) will be maintained at the level of expenditure to cover labour costs in the public sector (integral expenditure) in 2015, increased by the realisation costs under Item III of Paragraph 1 of the Agreement on measures in the field of salaries and other labour costs in the public sector for the purpose of balancing public finances for the year 2015, and reduced by the range of differences between salaries in order to eliminate the second quarter of disparities of basic salaries in 2015.

It will basically be ensured that any rise in salaries in the public sector do not exceed those in the private sector, since salaries follow productivity. The measures will comprise the comprehensive management of labour costs in the public sector; therefore, social dialogue will be required to achieve changes in the Salary System in the Public Sector Act and collective agreements. The variable part that depends on work results will gradually be increased within the scope of the amount of funds for salaries and other labour costs.

Considering the rationalisation of the public sector, the implementation of the basic functions of the state must be optimised and models of public-private partnership to ensure these functions must be studied.

- **Pension system**

Measures will be adopted concerning the financing of pension and disability insurance which will ensure that the amount of transfer from the state budget in ZPIZ in 2016 does not increase with consideration of realisation compared to 2015; in the future, a gradual reduction of this transfer in accordance with the adopted pension reform will be ensured.

- **Social transfers**

In the area of transfers to individuals and households, measures will be adopted which, with a consideration of medium-term structural balance goals (prolonging the validity of individual savings measures) will ensure appropriate socio-economic situations for individuals and enhance domestic spending.

The general government consolidation includes structural measures and the **rationalisation of expenditure** which must become permanent. These measures will be achieved by combining improved management, centralisation and lean public administration:

- **Renovation of the public procurement system**

The renovation of the system will be implemented in accordance with European directives regarding improving, simplifying and shortening procedures and making savings; social elements will be added to the verification of bidders in public procurement procedures and the implementation of public contracts. The publication of public contracts on the Public Procurement Portal is envisaged as an important way of preventing corruption, as well as enhancing the transparency of public procurement procedures. The government has obliged ministries, bodies within ministries and government services as of 1 February 2015 to use the e-auction system, which was also recommended to other public contracting authorities. A unified electronic system for public tenders will be introduced for electronic public tenders to ensure more transparent use of public funds in financing individual programmes financed from the budget; this will also enable transparency in the allocation of funds and in the use of these funds or easier control of the intended use of funds for the implementation of an individual programme. In the field of public procurement in health care, an information solution for the joint public procurement of drugs, medical devices and equipment is being prepared, since it will ensure a greater level of transparency. The obligatory exchange of e-invoices

has been in force since 1 January 2015, pursuant to the Act on the Provision of Payment Services to Budget Users. This system is implemented for budget users via the Public Payments of Administration of the Republic of Slovenia. In future, the Supervisor online programme of the Commission for the Prevention of Corruption will also be upgraded with data on e-invoices.

- **Centralisation of the state's real property management**

To ensure transparent and unified management of the state's real property, a project to centralise the state's real property management will be initiated in 2015. The goal of the project is to reduce operating costs, investment and current maintenance, and reduce the costs of rent. An action plan will be prepared for the project implementation, and will be confirmed by the Government of the Republic of Slovenia. Changes to sector legislation will be implemented, especially the Act on Physical Assets of the State, Regions and Municipalities. This will be followed by necessary content and organisational changes to comprehensively regulate the field of real property management and establish active, transparent and long-term cost-sustainable management of the state's real property, also with the purpose of stimulating investments, domestic and foreign, and to optimise the use of space.

- **Adoption of the Strategy for Slovenian Public Administration Development 2015–2020 to improve efficiency**

The preparation of the umbrella document of the public administration development strategy for the period from 2015 to 2020 is the basis for increasing the efficiency of public administration and for preparing harmonised sectoral strategies, policies and executive line ministries' documents. The tasks and activities for the implementation of measures included in the strategy will be concretely determined in two-year action plans, including holders who will be responsible for the realisation, with participating parties and an accurate time frame. The effectiveness of public administration affects the success rate of many other areas, and users must make it easy to comply with obligations, and improve communication and inclusion in the state's decisions. This contributes to the development of a simple and competitive business environment in Slovenia, as well as guaranteeing stable conditions for the functioning of other public administration bodies. The key task is to implement an organisational and functional analysis of the public administration which identifies anomalies and designs proposals for measures to optimise and rationalise the functioning of the public administration and to implement indicators for measuring the effectiveness of the general public sector, as well as to implement activities in relation to the elimination of anomalies in the assessment of jobs in the public sector, and the preparation of system improvements to the wage system in the public sector.

- **Further reduction of court backlogs and further IT development of the judicial system**

The modification of judicial legislation by establishing a single first instance court judge that optimises the operations of the judicial network and reduces court backlogs. Changes will be prepared for this purpose to limit the possibilities of misuses of institutes of health and other justifications and opinions connected with ensuring the presence of parties in court proceedings and other procedural acts. The adoption of a Long-Term Judicial System Strategy is also envisaged by the end of 2015. The strategy will encompass material, investment and organisational objectives for the purpose of maintaining an effective and sustainable judicial system, state prosecution and state attorney's office. This process will continue in projects such as triage, which represent best practices cases in reducing the duration of resolving matters in courts. An alternative conflict resolution system analysis via mediation is also in preparation. The aim is to conclude the analysis in 2015 or 2016 and for the measures for an upgrade to be adopted on its basis. The first elements of the so-called "judicial supervisor" will be established, thus increasing the transparency of the operations of the judiciary and enabling the publication of most court judgements and decisions of all instances on the internet.

- **Centralisation of the state information system**

The modernisation of the IT system in the state administration mainly focuses on improving the cost-effectiveness of IT in state administration, and simultaneously ensuring development and functional coverage with the possibility of further activities for consolidating the IT system in the public sector. The reorganisation will enable the use of new business and organisational models and unified management in such a way that the state uniformly implements the necessary measures and manages the development, regulation and

maintenance of common IT systems of the state administration in the long term. The Government of the Republic of Slovenia has confirmed the measures for modernisation in this area and the operational programme by determining the priorities and the possibility of introducing modern business models and solutions. The amount of funds that the state spends on these purposes will be lowered by combining different, mutually dependent measures and by simultaneously guaranteeing the development and functional coverage of state administration IT systems.

- **Increasing the efficiency of the general public sector**

Measures to increase the efficiency and organisational rationality of the public sector will be adopted for the entire organisation of the public sector.

4. SENSITIVITY ANALYSIS

4.1. Comparison of GDP forecasts with the preliminary programme

The forecast for GDP growth was revised upwards for the whole programme period compared with the previous Stability Programme. Economic growth in 2014 greatly exceeded the expectations of domestic and foreign institutions, and was higher by 2.1 percentage points in comparison with the projection in the last year's Stability Programme. This was mainly due to higher export growth and a substantial increase of investments, as opposed to the expected 0.5% decrease. The competitiveness of the trade sector, which has been improving for several years, also positively impacted exports, along with the stronger effects of some individual factors (accelerated exports of a new car model). In the past two years, economic activity was positively affected by the reduction of import prices, which greatly exceeded last year's assumptions, as well as by the weaker euro from the aspect of price competitiveness. The relatively high growth in investments in 2014 was connected with intensive drawing of EU funds, along with a high use of production capacities; private investments also started to increase, which was not anticipated in the projections of last year's Stability Programme due to greater uncertainty and intensified conditions in financial markets. The improvement of competitiveness is a factor that will impact higher export growth this year and in the future. Further recuperation of private investments and higher growth in state investments in connection with drawing EU funds is also affecting the growth in investments in 2015. The dynamics of investment growth in the future differ from last year's projections mostly due to slightly different assumptions about the dynamics of drawing on EU funds. Last year's realisation and forecasts of private consumption are also higher than last year's projections, which along with higher economic activity in most sectors is connected with the faster than predicted recovery of the labour market.

Table 4.1: Comparison with forecasts in the 2014 Stability Programme

% GDP	2014	2015	2016	2017	2018	2019
1. GDP growth						
2014 Stability programme	0.5	0.7	1.3	1.7	1.7	
2015 Stability programme	2.6	2.4	2.0	2.1	2.2	2.2
Difference	2.1	1.7	0.7	0.4	0.5	
2. General government balance						
2014 Stability programme	-3.2	-2.4	-1.5	-0.7	0.3	
2015 Stability programme	-4.9	-2.9	-2.25	-1.75	-1.4	-0.92
Difference	1.7	0.5	0.75	1.05	1.1	
3. General government debt						
2014 Stability programme	80.9	81.1	76.0	72.5	70.4	
2015 Stability programme	80.9	78.7	79.6	79.4	78.1	78.2
Difference		0.5	2.7	7.1	9.0	

Source: UMAR, SURS, MF RS.

4.2. Sensitivity of the general government balance to changes in GDP

Economic activity in the international environment is still fluctuating; furthermore, some unconventional measures are in preparation or the initial stage of implementation (quantitative release of ECV, EC investment plan), the effects of which are uncertain. The forecasts of international institutions with regard to economic growth have been improving in the past months; the successful implementation of the aforementioned measures would further accelerate the recovery of the economy among the main trade partners in the EU. Geopolitical tensions (Ukraine), slower recovery of domestic demand in the euro zone than predicted currently and potential worsening of the situation in financial markets may still slow down the recovery more than the considered assumptions suggest. Consequently, according to estimates the risks in the international environment are more balanced than

in past forecasts. The risks in the domestic environment originate from the possible different implementation of general government consolidation and the dynamics of drawing EU funds. An important risk is the assumed gradual recovery of credit activity. Its slower recovery, together with a slowdown in the improvement of business results could cause a slower recovery of economic activity.

The forecasts of economic trends and general government flows are connected to certain risks; the sensitivity analysis therefore presents possible fluctuations in the general government balance in relation to fluctuations in economic activity. The analysis shows the development of the general government balance in cases of deviations from macro-economic assumptions.

Two alternative scenarios are assumed¹⁷. The first scenario for the 2016–2019 period assumes higher GDP growth than the basic forecast in the Stability Programme, by 0.5 percentage points annually. The second scenario assumes growth to be 0.5 percentage points lower with regard to the basic scenario. The analysis assumes 0.99% sensitivity of revenues (the analysis considers tax revenues only) and -0.04% sensitivity of general government expenditure to changes in GDP movement. The GDP deflator that emerges from the spring forecast in both scenarios remains constant with regard to the basic scenario.

In the case of a positive shock, the general government balance would improve by 0.38 percentage points of GDP in 2017. In 2019, the impact of greater growth on the balance would be 0.73 percentage points of GDP. According to this scenario, a nominal surplus of the general government balance in 2019 would be achieved.

Lower economic growth at the annual level would impact the increase in the general government balance, since the deviations from the calculated scenario would present a worsening by 0.44 percentage points of GDP in 2017. According to this scenario, the deviations from the calculated scenario increase with the years, so the balance in 2019 would decline by 0.76 percentage points of GDP.

Table 4.2: Analysis of the sensitivity of the general government balance to GDP movement

<i>in % of GDP</i>	2016	2017	2018	2019
Positive deviation (0.5 percentage points)				
General government balance*	+0.19	+0.38	+0.57	-0.73
Negative deviation (0.5 percentage points)				
General government balance**	-0.25	-0.44	-0.60	-0.76

Source: The Ministry of Finance; * is lowered from negative values and enters positive situation in 2019. ** opposite direction; deficits increase

4.3. Debt sensitivity analysis

The basic starting point for the costs of borrowing and repayment of existing debt is the level of the ECB reference interest rate and deficits of the central government budget. In the sensitivity analysis, we assume that, for the time being, the ECB will keep the interest rate at the current level of 0.05%, while the rise that follows will be gradual. The impact of the time structure on interest rates is taken into account already in the baseline scenario, increased by 0.5 percentage points in the sensitivity analysis.

If the ECB reference interest rate rises by 0.5 percentage points in 2015, this will lead to an increase in the cost of new borrowing, expressed in GDP share by 0.0538 percentage points in 2016 and 0.0952 percentage points in 2017. Central government debt expressed in GDP share would increase by 0.0285 percentage points in 2016 and by 0.0403 percentage points in 2017. If the government deficit increases by 1 percentage point in 2015, the cost of state debt as a percentage of GDP would increase by 0.0127 percentage points in 2016 and by 0.0123 percentage points in 2017.

Central government debt is relatively insensitive to changes in exchange rates, as the share of debt denominated in foreign currencies (USD, GBP, CHF) is insignificant. In October 2012, May 2013 and February 2014, when a

¹⁷ The scenario is calculated on the basis of the top to bottom approach, based on the aggregate elasticity of revenues and expenditure, and therefore differs from the target scenario.

dollar bond was issued, a currency rate conversion from USD into EUR was concluded to protect against currency risk.

Table 4.3: The sensitivity of interest payments and central government debt amount to changes in certain macro-economic variables (in % of GDP)

	Change in ECB interest rate		Change in deficit		Change in ECB interest rate and deficit	
	Interest	Debt	Interest	Debt	Interest	Debt
	In percentage points					
2015	0.0259	0.0259	0.0000	1.0000	0.0002	1.0259
2016	0.0538	0.0285	0.0127	0.9768	0.0665	1.0053
2017	0.0952	0.0430	0.0123	0.9473	0.1075	0.9903
2018	0.1275	0.0356	0.0119	0.9145	0.1394	0.9501
2019	0.1572	0.0343	0.0115	0.8816	0.1687	0.9159

Source: Ministry of Finance.

In the 2015 programming year, the share of debt with a fixed interest rate is estimated at 98.6%. The impact of changes in interest rates on existing central government debt as a share of GDP is relatively limited, as the central government debt is mainly comprised of fixed interest rates. Thus a change in interest rates primarily affects the cost of new borrowing.

4.4. The quality of forecasts

The table below displays the differences in the forecasts of the IMF, the European Commission, the OECD, the Bank of Slovenia and UMAR, because the change in forecast significantly changes the BDP and the calculations of potential BDP, and consequently also the general government balance as well as the production gap. Annual differences in BDP growth forecasts with regard to 2014 have significantly decreased among the respective institutions. In the autumn prediction for 2014, the average deviation in comparison with 2013 decreased by more than three times (deviation of 0.4% of GDP). According to known spring forecasts for 2015, the EC is more conservative in comparison with UMAR.

Table 4.3. Comparison of forecasts for Slovenia for spring 2014 and 2015 (growth of GDP in %)

	Spring 2014			Autumn 2014			Spring 2015*		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
IMF	0.3	0.9	1.5	1.4	1.4	1.5	2.6	1.9	1.7
EC	0.8	1.4	-	2.4	1.7	2.5	2.6	1.8	2.3
OECD	0.3	1.2		2.1	1.4	2.2	-	-	-
IMAD	0.5	0.7	1.3	2.0	1.6	1.6	2.6	2.4	2.0
Bank of Slovenia	0.6	1.4	1.7	1.6	1.3	1.8	2.6	2.3	1.8

* UMAR, March 2015, European Commission – winter forecast, February 2015, IMF, February 2015, BS April 2015

5. LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES

5.1. Expenditure on ageing is increasing in Slovenia

Ensuring the long-term sustainability of public finances is one of the key objectives of EU economic policy. This is mostly affected by expenditure on ageing, so every three years, the EC prepares long-term projections by countries for expenditure on pensions, health care, long-term care, education and unemployment benefits by considering given assumptions and equal methodologies. The new projections for the period until 2060 show that,

according to the basic scenario, expenditure on ageing in Slovenia would increase from the current 24.7% to 31.5% of GDP. According to projections, expenditure until 2060 in Slovenia would increase mostly among all countries; according to expenditure by GDP share, Slovenia is at the top among these countries. (Norway, Finland and Belgium are categorised higher). Along with projections of individual types of expenditure, sensitivity analyses were performed which show that if systems remain the same, expenditure will increase if risk scenarios are considered (e.g. lower GDP growth) (European Commission, 2015)¹⁸.

Table 5.1: Long-term sustainability of public finances

<i>in % GDP</i>	2013	2020	2030	2040	2050	2060	Difference 2060–2013 in percentage points
Total general government expenditure (1+2+3)	45.0	46.7	49.4	54.5	60.8	65.8	20.8
1. Total age-related expenditure	25.5	25.8	27.5	29.8	31.8	31.6	6.2
1.1 Pensions	11.8	11.5	12.5	14.4	15.6	15.3	3.5
- Age and early pensions	7.9	8.7	9.9	11.7	12.8	12.5	4.7
- Disability pensions	1.3	1.3	1.0	1.0	1.0	0.9	-0.4
- Other pensions	2.6	1.5	1.5	1.7	1.9	1.9	-0.7
1.2 Health care	5.8	6.1	6.6	6.9	6.9	6.8	1.0
1.3 Long-term care	1.0	1.2	1.4	1.7	1.9	2.0	1.0
1.4 Education	5.3	5.4	5.7	5.5	5.9	6.1	0.8
1.5 Other age-related expenditure	1.6	1.6	1.4	1.4	1.5	1.5	-0.1
2 Expenditure on goods and services, other transfers							
2.1 Wage compensations	0.4	0.4	0.3	0.3	0.3	0.3	-0.2
2.2 Grants	1.4	1.4	1.4	1.4	1.4	1.4	0.0
2.3 State investments	3.7	3.7	3.7	3.7	3.7	3.7	0.0
Total primary expenditure (1+2)	48.7	48.8	50.2	52.5	54.5	54.3	5.6
3. Expenses for interest	2.3	3.8	5.0	7.7	12.1	17.3	15.0
Total general government revenues	40.7	41.3	41.0	40.5	40.1	40.2	-0.5
Assumptions							
Labour productivity growth	0.5	1.4	1.6	1.7	1.6	1.5	1.0
Real GDP growth	-1.0	1.9	1.4	1.2	1.3	1.6	2.6
Real GDP growth per inhabitant	-0.7	1.8	1.4	1.3	1.4	1.8	2.5
Male activity rate (20–64 yrs)	79.0	82.7	81.9	81.0	82.1	82.5	3.5
Female activity rate (20–64 yrs)	71.0	75.5	77.7	76.7	77.6	78.1	7.1
Total activity rate (20–64 yrs)	75.1	79.2	79.8	78.9	79.9	80.4	5.3
Unemployment rate	10.1	8.9	6.5	6.1	6.1	6.1	-4.0
Share of population aged 65 yrs and older	17.3	20.6	25.0	27.9	29.9	29.4	12.1

Source: Ministry of Finance, Institute for Economic Research

* Public expenditure on health care according to the SHA methodology, excluding expenditure on the health part of long-term care (HC.3), including investments;

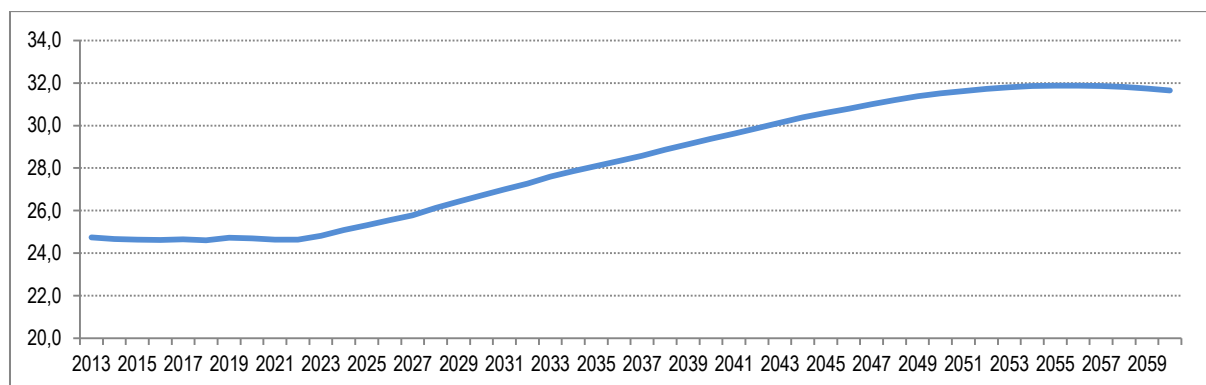
** Health care invoices system methodology is considered – this includes expenditure on the health care part and social part of long-term care.

¹⁸ Every three years, the European Commission in collaboration with the Ageing Working Group at the Economic Policy Committee prepares an Ageing Report. The projections of pension expenditure are prepared by countries based on their own models; for other expenditure categories, the projections are prepared by the European Commission with the collaboration of Member States. The new report will be officially published in May 2015.

Table 5.1 shows our own model calculations of the structure of joint general government expenditure for Slovenia, which is mainly based on the assumptions of the European Commission used for the preparation of the Ageing Report 2015, and refer to activity rates, GDP growth, productivity and other macro-economic categories. The projection of pension expenditures does not differ from the basic scenario prepared for the Ageing Report 2015; other expenditure projections partially deviate from the EC's calculations due to slightly different assumptions.

Figure 5.1 shows the growth in total general government expenditure due to population ageing until 2060 as a share of GDP (Ageing Report 2015). Our own calculations (Table 5.1) show a similar increase in total expenditure, i.e. to 31.6%.

Figure 5.1: Total ageing expenditure in % GDP, total

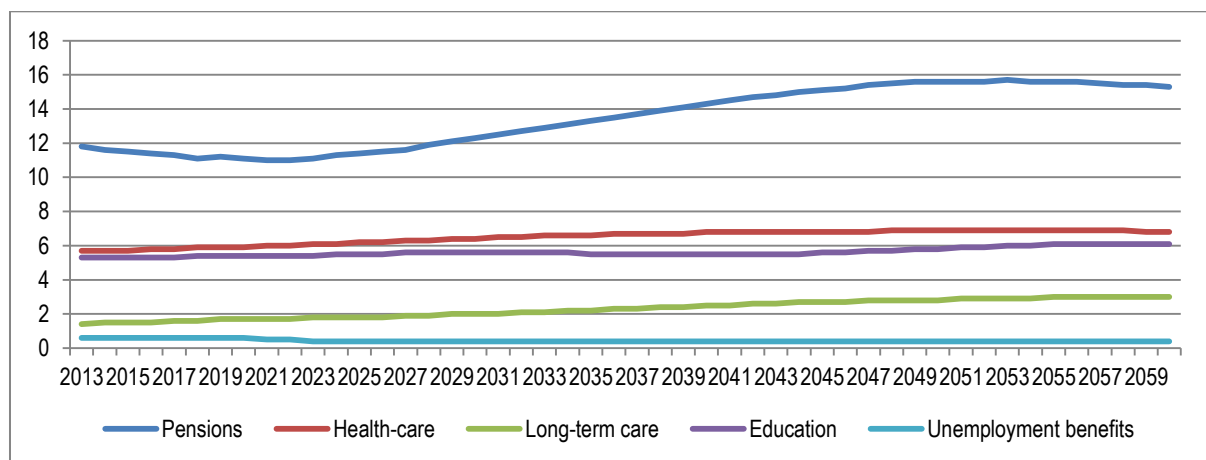


Source: EC projections and MF calculations

Expenditure on pensions in GDP share increased most among the EU countries

Expenditure related to the pensions system represents the largest share in the structure of ageing-related expenditure. In 2047, Slovenia will rank first according to the amount of pension expenditure; the share of expenditure on pensions will also increase mainly among the EU countries in the 2013–2060 period. The reason for this lies in the increasing number of the elderly, who due to the prolongation of life expectancy will live longer in retirement; at the same time the number of working people is decreasing, which means that the relation between insured persons and pensioners will deteriorate.

Figure 5.2: All ageing expenditure in % GDP, by components



Source: EC projections and MF calculations

Expenditure will also increase in other areas. Public expenditure on health care will increase from 5.7% of GDP to 6.8% in the reference scenario, where demographic trends are considered; the incidence of diseases will be delayed by half of the prolonged period of life expectancy; the elasticity of demand by health services will

gradually reduce during the period from 1.1% of GDP to 1.0%. A high increase (however, the scope of expenditure is lower) is also projected for long-term care, which increases to 3% of GDP by 2060.

Demographic trends will put most pressure on expenditure

The number of inhabitants in Slovenia, according to the EUROPOP2013 projection by 2022 will continuously increase; until 2060 it will decrease by 50 thousand, when Slovenia will have 2,041,350 people. In 2013, 21,111 children were born in Slovenia; the average for the projected period is approx. 19 thousand per year. Healthy life expectancy will increase, i.e. for women by 6 years to 88.9 years, for men by 7 years to 84.3 years. The number of the elderly (65+) in comparison with the working-age population (20–64 yrs) will more than double until 2060. At the beginning of 2013, there were 26.9 elderly older than 65 years depending on 100 working age people; in 2060, this number will increase to 58.3. The number of the oldest population (older than 85 yrs) will continue to increase; their share will increase from 2% to 7% of the population. An increase in the employment rate of the elderly has great potential for positive labour market trends.

Demographic trends or the fast growth of the share of elderly and the decline in the active population put the most pressure on public finance (assuming unchanged policies and regulations). The increased expenditure connected with ageing is caused by demographic trends and non-demographic trends such as the fast development of technology in health care, greater expectations regarding health and the greater need for formal long-term care.

Long-term pressure on expenses connected with demographic trends to public finance clearly shows the need for further structural reforms to upgrade the existing pension insurance systems, health care and long-term care, as well as adapt the training and education system.

5.2. CONTINGENT LIABILITIES

According to the Constitution, the granting of guarantees in the Republic of Slovenia is only possible by virtue of the law. In the system of guarantees of the Republic of Slovenia, two types of acts have been developed, the general and the special. The general act regulates the granting of government guarantees to a broader range of recipients. The Act Governing the Rescue and Restructuring Aid for Companies in Difficulty is an example of a general act. The special act is intended for a specific recipient, e.g. the act on guarantees to DARS d.d. (Motorway Company of the Republic of Slovenia), to SID bank d.d. (Slovenian Export and Development Bank), SOD d.d. (Slovenian Compensation Company) and the Act Regulating the Guarantees of the Republic of Slovenia for Ensuring Financial Stability in the Euro Area.

The Republic of Slovenia may issue state guarantees to public or private sector entities. Most of the guarantees in the private sector were granted to companies in difficulties. Relatively high levels of this type of guarantee are being called on, while a relatively low number of guarantees for the public sector is being called on. The issuing of government guarantees is controlled by setting upper limits on granting state guarantees. The annual quota is set for each year by the act governing the execution of the state budget, while the guarantees are regulated by the provisions of the systemic act. The quota set by the act governing the execution of the state budget does not include guarantees that have been placed under the guarantee scheme for public entities and natural persons, guarantees given to domestic banks for the purpose of mitigating the impact of the financial crisis, guarantees to banks and the BAMC, for the purpose of strengthening the stability of the financial system, or guarantees to foreign entities such as the EFSF and borrowers that received loans on the basis of the Cotonou II Agreement. The quota for these types of guarantee is defined in the corresponding acts.

The data in Table 5.2 show the outstanding guarantees of the Republic of Slovenia at the end of 2014 and estimates for 2015. Assumptions about the repayment of existing, and granting of new, guarantees were used for the projections.

Table 5.2. : Balance of guarantees of the Republic of Slovenia

	Balance as of 31 Dec 2014		Balance as of 31 Dec 2015*	
	In EUR million	in % GDP	In EUR million	in % GDP
Guarantees of the RS	8,276	22.2	7,768	20.1
within: financial sector **	1,280	3.4	1,161	3.0

Source: MFRS. Notes: * Projections of the MF. ** In accordance with the SKIS classification, this includes SID banka, Deželna banka and Factor banka.

The data in Table 5.2 show the outstanding guarantees of the Republic of Slovenia at the end of 2014 and estimates for 2015. Assumptions about the repayment of existing, and granting of new, guarantees were used for the projections.

The planned quota for new guarantees for 2015 in the act governing the execution of the state budget is EUR 1.6 billion, and separately EUR 350 million for guarantees of SID bank. The issue of guarantees in previous years shows that the actual use of the quota is low, since it was 0.92% in 2011, 0.15% in 2012 and 0.38% in 2014. Greater use, i.e. 39.99% in 2013 was the result of the lower planned guarantee quota (EUR 1.5 billion) and the use of three major guarantees (for TEŠ's obligations, EUR 440 million, and the obligations of DARS EUR 110 million). The guarantee quota for SID banka was not used.

6. THE QUALITY OF PUBLIC FINANCES

6.1. The structure of general government revenues

Tax revenues in Slovenia represent the majority or 85% of all general government revenues. In the years before the economic crisis, changes to the tax system were implemented in order to have a positive impact on the supply of jobs and accumulation of capital, and consequently, a potential growth, with a relatively higher share of direct taxes in the overall structure of public finance revenues. This would be mostly contributed by the reform, which in 2007 to 2010 gradually reduced the corporate income tax rate from 25 to 20%, while further gradually lowering the general corporate income tax rate in 2012, from 20% to 17% in 2013, which will remain the valid rate in future, while general investment relief and relief on investments in research and development have increased. This would ensure a sufficiently competitive tax environment for doing business, which would contribute to establishing the conditions for economic growth. It is true that in the second half of 2013 and in most of the year 2014, the key economic indicators and labour market indicators started to show a more encouraging situation, but the economic and social situation of Slovenia and its citizens is still quite uncertain, so the government will continue a similar public revenue policy in the programme period. Together with social partners, it was agreed that within the Social Agreement for 2015 and 2016 the nominal rates of general government revenue that burden the economy would not increase in 2015 and 2016. Therefore, general government revenue policy will focus mostly on measures to improve competitiveness factors and increase the productivity of the economy by maintaining current jobs and creating new ones. The government's basic starting point is that the consolidation of public finances will be primarily achieved with measures for expenditure and less on the revenue side. In general, measures will address revenues, i.e. they will focus on improving tax obligations by fighting tax fraud and tax evasion, ensuring the greater effectiveness of taxation and simplifying procedures for fulfilling tax obligations.

The structure of public finance revenues by cash flow in 2014 does not differ much from the structure in previous years. The total funds for public financing in 2014 comprised EUR 13.2 billion in tax revenues, with the following being the most important categories of revenue:

- social security contributions (EUR 5.27 billion),
- domestic taxes on goods and services (EUR 5.19 billion) and
- tax on income and profit (EUR 2.39 billion).

The realisation of public finance revenues (taxes and contributions) in 2014 was somewhat lower than in 2013 (a total of EUR 543 million more than in 2013). Similar revenues were achieved in 2012 and 2011. Higher revenues

in 2014 with regard to 2013 were realised for all individual revenue categories, showing the applicability of the adopted measures, which had positive financial effects and were adopted to consolidate public finances. An increase has been noted in the field of corporate income tax (around EUR 200 million); however, this is merely the consequence of changes introduced in the middle of 2012 which significantly impacted lower revenue measured in cash flow in 2013 and additional measures (abolition of tax rate reduction and limitation of loss transfer) adopted in 2013. Higher revenues in 2014 were also noted in value added tax (EUR 124 million) as the consequence of the increase in general and lower value added tax rate in the middle of 2013; revenues from income tax increased (by around EUR 47 million) and revenues from tax on special services also increased (by around EUR 33 million) due to the tax on lottery tickets at the end of 2013. Considering the year 2013, revenues from the sale of real property and financial assets increased (by approx. EUR 10 million) mostly due to the adopted measures in the field of bank total assets tax in 2013, and they impacted revenues in cash flow in 2014. Social security contributions increased significantly (EUR 145 million) in 2014 in comparison to 2013.

In the past, measures were formed via the system of tax exemption, reliefs and special regimes for specific groups of taxable persons, and these measures followed different goals of economic and social policy. This led to a complex and non-transparent tax system, where tax obligations are difficult to predict. At the same time, an equal and just distribution of tax burden fell apart considering the source of individual taxes (income tax, tax on consumption, capital and assets) as well as considering who actually carries the tax burden. Due to the complexity of the tax system, the fulfilment of obligations is connected to high administrative costs for taxable persons and supervisory authorities. In the next programme period, the government will prepare measures that focus on the expansion of taxable bases, by reducing the number of exceptions (tax reliefs), making the tax system more neutral, improving transparency, increasing simplicity and comprehensibility for the implementation and reducing the administrative burden. It will be based on studying the scope and effectiveness of tax reliefs, which will be one of the main priorities of the government.

The adopted measures to limit the grey economy in the past programme period positively impacted the general government revenues, so additional measures to increase the effectiveness of tax collection and narrow the possibilities for the unjustifiable exploitation of differences in tax systems to avoid taxes are planned in this programme period. The government is planning the preparation of measures to eliminate administrative obstacles in the process of collecting taxes, primarily to simplify the collection of taxes for taxable persons, to enhance the competitiveness of the Slovenian economy and to encourage taxable persons to voluntarily fulfil their tax obligations.

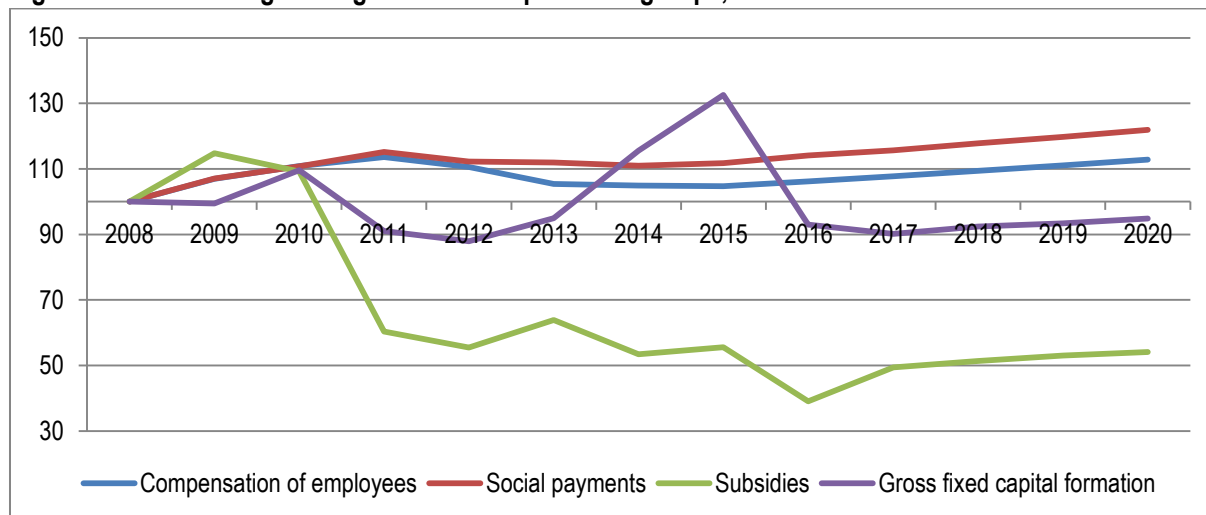
6.1. Structure of general government expenditure

By budgetary classification, the funds earmarked for social transfers, for employees and for subsidies increased most at the height of the economic crisis between 2008 and 2011. In this period, the funds intended for gross fixed capital formation decreased slightly at first, only to increase in 2010. The increase was also a consequence of anti-crisis measures in the form of subsidies and guarantees. The economic situation improved somewhat in 2012, but the situation in the labour market did not, which resulted in a further increase in expenditure on welfare policies. Meanwhile, expenditure on investments and subsidies decreased (expiry of anti-crisis measures). Measures on the basis of the Fiscal Balance Act, which somewhat restricted social transfers and funds for employees, entered into force in mid-2012. At the same time, the amount of funds for investments and subsidies increased. Investments increased in 2013, primarily as a consequence of the expiring financial perspective of the EU cohesion policy until 2013. Estimates of future trends in social transfers and funds for employees to a certain extent allow the relaxation of certain temporary restrictions, which must be replaced with other, long-term measures with comparable financial effects.

Funds earmarked for social transfers, for employees and for subsidies were increased from the beginning of the economic crisis in 2008 to 2011. Funds for gross fixed capital formation decreased slightly at first, only to increase in 2010, which was a result of anti-crisis measures among other things. The economic situation improved somewhat in 2012, but the situation in the labour market did not improve immediately, which resulted in a further increase in expenditure on welfare policies. Meanwhile, expenditure on investments and subsidies decreased due to fiscal consolidation. Measures based on the Fiscal Balance Act, which gradually reduced social

transfers and funds for employees, entered into force in mid-2012. At the same time, funds for investments and subsidies increased. Investments increased in 2013 primarily as a consequence of the expiring financial perspective of the EU cohesion policy until 2013. Estimates of future trends in social transfers and funds for employees allow for their increase to a certain extent, while at the same time a stable level of investment is expected during the entire period.

Figure: 6.1. Trends in general government expenditure groups, 2008 =100



Source: Ministry of Finance

Slovenia's expenditure on social protection accounted for 18.7 % of GDP, which is the largest share of general government expenditure, and which is increasing further. More than half of the expenditure in this field was related to support for the elderly (this support increased by 2.3% compared to the previous year). Some 6.9% of GDP was earmarked for health care in 2013, which is approximately the same share as in the previous year. 6.7% of GDP was earmarked for public administration in 2013, with expenditure for interest representing a major part of the expenditure; expenditure for this purpose increased to EUR 994 million in 2013 from EUR 770 million in the previous year. This also includes the expenditure for all basic research in the field of R&D in public administration; this expenditure represented 0.9 % of GDP in 2013. The increases in expenditure as a share of GDP for the purposes¹⁹ social protection, health care and public administration in the 2008–2012 period were also the highest in comparison to the average for the EU member states, which is also related to a significant drop in GDP.

14.5% of GDP was intended for economic affairs in 2013. The bulk of this expenditure was intended for recapitalisation of banks: EUR 3,633 million or 10.1% of GDP. Expenditure for this purpose was higher compared to the previous year, even if the expenditure for recapitalisation of banks is excluded, by 0.4 percentage points of BDP. Some 6.5% of GDP was earmarked for education in 2013, which is 0.1 percentage point of GDP more than in the previous year. In comparison with the previous year, expenditure on pre-school education, formal and informal education, supplementary services in education and other activities related to education increased by 2.0% (from EUR 2,299 million to EUR 2,345 million). 2.2% of GDP was earmarked for public order and safety (police, fire fighters, courts, prisons). In comparison to the previous year, expenditure on this field increased by 0.4 percentage points of GDP, because they included compensations for the erased (EUR 129 million). 1.8% of GDP was earmarked for recreation, culture and religion, 1.0% of GDP for defence (military defence, civil protection), and 0.7% of GDP for housing and community development and environmental protection each, respectively.

¹⁹ Nominal amounts of expenditure increased with the latest revision of the European System of Accounts (entry into force in 2013). In the statistics of the Classification of Functions of Government (COFOG), gross investments in the fields of public administration and economic affairs primarily increased, because under the new classification, expenditure on research and development is calculated as investment. The structure of expenditure on defence also changed, because expenditure on armaments under ESR 2010 is displayed as investment in fixed assets and no longer as intermediate consumption (SURS, December 2014).

Table 6.1: General government expenditure by function

		COFOG code	2013	2009	2010	2011	2012	2013
			million EUR	in % of GDP				
1.	Public administration	1	2,435.2	6.0	6.1	6.3	6.2	6.7
	including: servicing of general government debt		993.5	1.5	1.7	2.0	2.1	2.7
2.	Defence	2	351.0	1.5	1.4	1.2	1.1	1.0
3.	Public order and safety	3	781.2	1.8	1.9	1.8	1.8	2.2
4.	Economic affairs	4	5,222.9	4.7	4.6	5.1	4.0	14.5
	including: bank rehabilitation		3,632.6					10.1
5.	Environmental protection	5	268.4	0.9	0.7	0.8	0.7	0.7
6.	Housing and community development	6	261.2	0.8	0.7	0.6	0.8	0.7
7.	Health care	7	2,494.6	6.8	6.8	6.9	6.9	6.9
8.	Recreation, culture and religion	8	644.3	1.8	2.2	1.8	1.8	1.8
9.	Education	9	2,345.3	6.6	6.6	6.6	6.4	6.5
10.	Social protection	10	6,774.2	17.5	18.1	18.6	18.5	18.7
	TOTAL GOVERNMENT EXPENDITURE	TE	21,578.3	48.5	49.2	49.8	48.1	59.7

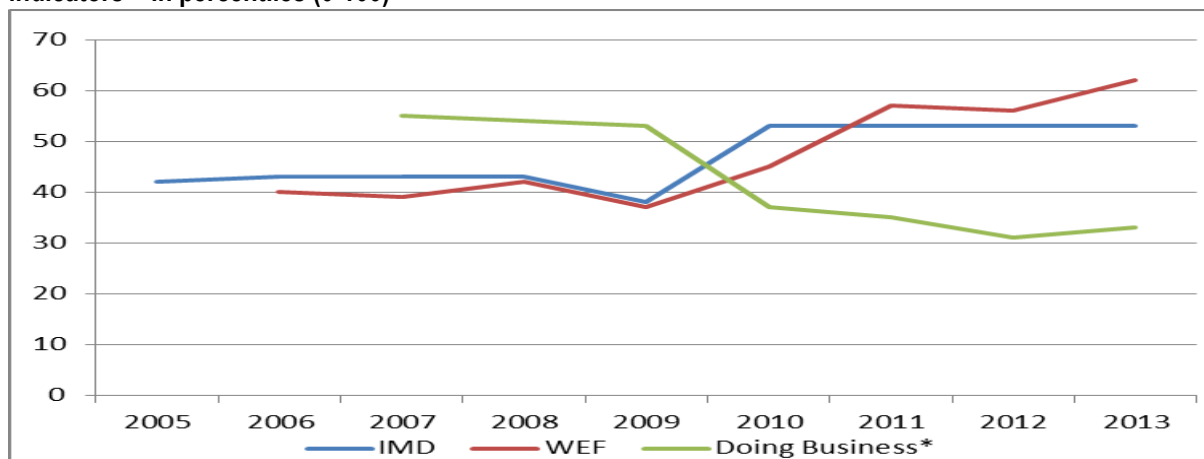
Source: Statistics Office (SURS)

6.2. Structural reforms

Improving the business environment

A functioning state governed by the rule of law, well-developed infrastructure, predictable business and political environment, access to markets, a competent workforce and complexity of administrative procedures are factors that enable the attainment of business objectives and profitability in the initial phase. Tax policy is one of the most important indicators of the attractiveness of a business environment and can be one of the tools to stimulate the economy. The changes in recent years mean that the nominal corporate income tax rate was reduced between 2006 and 2013 by 8 percentage points or more than 30%. According to the calculation of corporate income tax, the effective tax rate (measured as tax in the tax base) in 2013 stood at around 12% and was reduced by almost 6 percentage points compared to 2006. The country also adopted constitutional changes that ensure the long-term sustainability of public finances, while progress was also made in the reduction of grey economy and in insolvency legislation. Despite this, Slovenia saw no progress in the competitiveness indices IMD 2013, WEF 2013/14 and Doing Business 2013, as it remained in the group of countries that severely regressed during the crisis. The results of surveys carried out among business executives show that there is still much dissatisfaction with the work of institutions and decision makers (government, National Assembly, central bank), the poor adjustability of government policies to changes in the economy, bureaucracy and an increased perception of corruption in the society. The table and the figure show Slovenia's score (the number of countries included in the survey in the parentheses) with respect to institutional competitiveness by IMD, WEF and Doing Business indicators.

Figure 6.1: Slovenia's score with respect to institutional competitiveness by IMD, WEF and Doing Business indicators – in percentiles (0-100)



Source: IMD 2013; WEF 2013/14, Doing Business 2013²⁰

In addition to activities to improve the business environment that have already commenced, such as the Single Document and Single Contact Point projects, the MSP test and deregulation of professions, the government will continue with concrete activities in the following three areas of the business environment.

Reducing administrative burden in the payment of public taxes and increasing the horizontal fairness of the public tax system, which would reduce the scope of activities for which mandatory taxes are not paid, or which would make such activities easier to detect, which would result in quicker taxation. To reduce administrative burdens and simplify tax procedures, changes to the Tax Procedure Act are being planned, whose purpose is to make the tax system fairer by preventing tax evasion and delaying tax enforcement, and encouraging taxpayers to fulfil their tax obligations voluntarily. The facilitation of a procedure for settling complaints is envisaged at the second level, which would consequently increase the legal protection of taxpayers. Measures to reduce the volume of active tax debt are also in this set. These measures are related both to organisational changes and legislative changes, primarily concerning the payment of tax debt in insolvency proceedings. Since the state is a major creditor to companies in insolvency proceedings in terms of tax debt, activities in these procedures need to be facilitated in order to increase the possibilities for the financial restructuring of indebted companies and, consequently, for the payment of tax debt.

What will also contribute to improve the competitiveness of the Slovenian business environment are measures to restructure taxation, whose main objective is to reduce taxation on labour by eliminating ineffective tax breaks and unnecessary exemptions in the public tax system. Special attention will also be paid to equalising the bases for paying social security contributions for different forms of work, and changes to the system of taxation on immovable property.

An Act Amending the Construction Act (enactment of construction committees or qualified experts, criteria on maximum tolerances, changes to inspection supervision, regulation of abridged procedure for issuing a building permit), an Act Amending the Spatial Planning Act (digital graphics, new arrangement of dispersed settlements and construction, integration of comprehensive environmental impact assessment, possibilities of building land

²⁰ Notes: * Incomparable with the previous years since 2012 due to the change in methodology. A major change in methodology was made in 2010, when the field of labour market and employment was removed from the calculation - countries in the survey are not placed by score, but by percentiles (0-100).

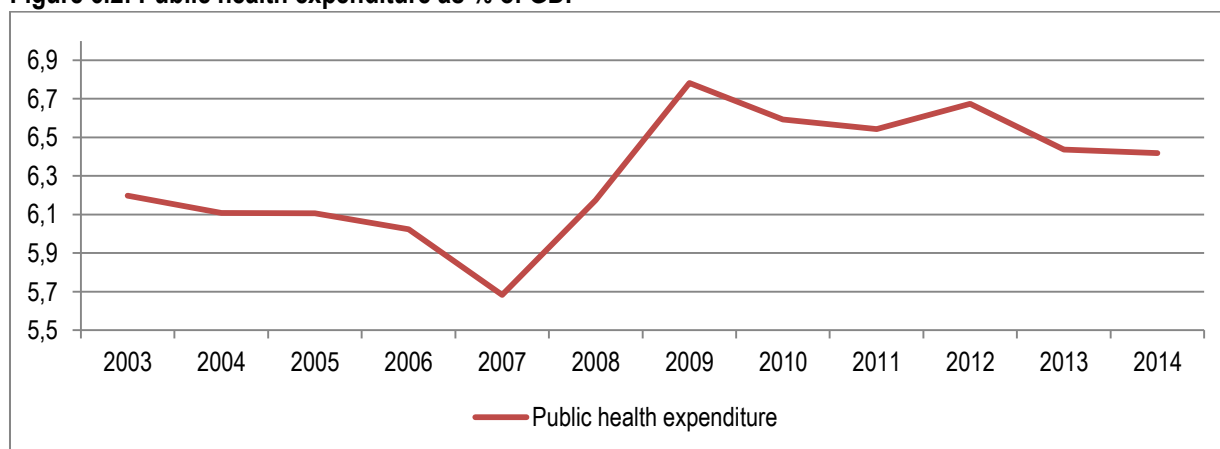
modification) and an Act Amending the Act on the siting of spatial arrangements of national significance in physical space are planned to be drafted. The Location for Investments project is being prepared, which will offer potential investors quicker access to information on potential locations and also support their search for the most suitable ones.

Through the specialised inter-institutional implementation group, Slovenia will continue in 2015 to monitor on monthly basis the *implementation of procedures for restructuring and receivership*, and on the basis of its findings analyse whether it is necessary to take an additional set of measures to improve the implementation framework in order to continue to provide the Slovenian economy with the widest possible set of measures to continue the current encouraging trend of comprehensive and more efficient deleveraging as an important element in restructuring the economy. What also contributed significantly to deleveraging of the Slovenian economy is the positive trend of simplified procedures for compulsory debt settlement in small and micro companies, which until the normative regulation of the procedure of simplified debt settlement actually could not carry out restructuring in a court procedure because of the disproportionate costs of initiating a regular compulsory debt settlement procedure. The regulation of compulsory debt settlement, especially with the new rules on systemically important companies (medium-sized and large companies), enables the use of a wide set of restructuring measures and all combinations of these measures. It also provides creditors with a sufficient set of possibilities to actively influence the course and result of these procedures.

Health care and long-term care

In addition to demographic factors, non-demographic factors also influence the fast growth of the expenditure on health care – in addition to the rise in GDP per capita and relative rise in prices, in particular technological advances and the increasing demand for high-quality health care and long-term care. Long-term scenarios produced by international institutions point to the need to increase the efficiency of the health-care and long-term care system. At the same time, these scenarios also warn that the systems will demand an increasing share of GDP notwithstanding greater efficiency in the future. The latest long-term projections by the European Commission for Slovenia show a higher increase in public expenditure on health care and long-term care than the EU average. Public expenditure on health care is expected to increase by 0.2 – 0.4 percentage points of GDP by 2020 and by 1.2 – 2 percentage points of GDP by 2060. The increase in public expenditure in long-term care is expected to be even higher. If the current relevant policies remained unchanged and if population ageing alone is taken into account, it is expected to increase by 0.3 percentage points of GDP by 2020, and to at least double by 2060 (different scenarios put the expected increase between 1.4 and 2.9 percentage points of GDP).²¹

Figure 6.2: Public health expenditure as % of GDP



Source: Statistics Office (SURs), Expenditure and sources of financing of health care in 2003-2012; Business report of the Health Insurance Institute (ZZS) for 2014; 2013 – 2014 (first estimate of expenditure by international methodology for the System of Health Care Accounts)

²¹ European Commission, 2015 Ageing Report.

After four years of decline, public expenditure on health care increased in real terms by 2.5%; while first estimates²² show that it was kept at 6.4% of GDP (the share was 6.3% of GDP in 2012)²³. Total expenditure on health care per capita in 2012 stood at EUR 2,003 of purchasing power parity, which was 91% of the EU average. The latest data on expenditure on long-term care for 2012 show that the rise in total expenditure in long-term care continued (the share was 1.08% in 2005, while it stood at 1.33% in 2012), but public expenditure actually slightly decreased in real terms, while private expenditure on long-term care continued to increase rapidly (from 22% in 2005 to 27%). In terms of the amount of total and public expenditure on long-term care expressed in GDP, Slovenia still lags behind the OECD average²⁴.

Most of the indicators show that the Slovenian health-care system is comparable to the EU and OECD member states²⁵. Life expectancy has increased and reached the EU average, and the expected number of healthy life years also increased, although Slovenia is still significantly below the EU average.

Waiting periods increased in the last year as, according to data from the National Institute of Public Health (NIJZ)²⁶ the number of all waiting patients increased by 17%, whereas the number of patients who were waiting over the permitted limit increased by more than a third (from 14,770 to 24,815), which is also a consequence of the reduction in prices of health-care services and the reduction of funds that the Health Insurance Institute (ZZZS) systematically spent in previous years on shortening waiting times for certain specialist services and procedures. Changes to the Rules on the longest permissible waiting periods which are expected to increase the transparency and clarity of rules for this field are being prepared. The number of doctors increased in the recent years, especially at the primary level, where the lag with other countries has been the greatest.

Health-care reform will have to deal with the issue of the bases for contributions and contribution rates and identify other possible sources of revenue, examine the adequacy of rights deriving from compulsory health insurance and, with regard to the findings, determine the basket of rights, upgrade the models of payment of health-care service providers, optimise the processes of implementation of health-care activity and determine investment needs. It is essential to consider the advancement in medicine and the role of prevention. A resolution on the national plan of health care for the 2016- 2026 period and (in cooperation with international institutions) a comprehensive analysis of the health-care system²⁷ with a special emphasis on a review of expenditure and sources of financing of health care and long-term care and proposals for changes will be prepared in 2015.

The existing system of long-term care in Slovenia is relatively complicated and non-transparent. The rights to services and financial benefits are defined in different legal acts; potential recipients must seek assistance in different places; equal criteria are not considered for individual rights, while the level of assistance received is not always in accordance with people's actual needs²⁸. In the existing system, funds are secured from the public health insurance fund, the public pension and disability insurance fund, the budget of the Republic of Slovenia and budgets of local communities, and 48% of total expenditure on long-term care is financed from funds raised with compulsory health insurance, which is why it is sensible for changes to the financing of long-term care to be carried out in connection with changes to financing the health-care system²⁹.

Regarding private expenditure, what needs to be particularly emphasised is that the financial burden on individuals or families with a member who needs long-term care for everyday tasks is relatively high and can

22 Business report of the Health Insurance Institute (ZZZS) for 2014

23 By international methodology for the System of Health Accounts (SHA).

24 IMAD, Development Report 2015

25 OECD Economic Review, 2015 (preliminary)

26 National Institute of Public Health

27 Ministry of Health, TOR for Analysis of the Health System in Slovenia, 2015

28 OECD Economic Review, 2015 (preliminary)

29 IMAD, Development Report 2015

significantly affect the quality of their lives. The inability to pay for long-term care can also be a reason for an inadequate level and quality of service, which is particularly true for people with low incomes.

There were 59,125 recipients of long-term care services and bonuses in 2012³⁰. More than a third were in an institutional environment. It needs to be emphasised that the quality of treatment in the institutional environment in Slovenia is considerably better and more expensive than home care due to the integrated and comprehensive health care and social service. The share of population aged over 65 included in long-term care in Slovenia is 11.9%, while the average for the 21 member states of the OECD is 12.9%. In comparison with the OECD, the share of people included in institutional care in Slovenia is higher (Slovenia: 5%; OECD: 4%) and in home care is lower (Slovenia: 6.9%; OECD: 8.9%). Slovenia's lag in the development of long-term care at home increased in recent years, primarily due to the existing systemic solutions related to the content, scope and manner of financing services at home.

The main goal of reforming long-term care is to ensure a financially sustainable, accessible and good-quality system in the long term, with an emphasis on care in the home environment. The proposed new legislation envisages the creation of a single, integrated system of long-term care, the merging of all existing financing sources, their more efficient use and the securing of new, additional sources, in which the inactive population should also be involved. The long-term reduction of expenditure also requires more effective prevention, early rehabilitation and effective use of information and communication technologies are provided.

7. INSTITUTIONAL FRAMEWORK OF PUBLIC FINANCES

The draft **Fiscal Rule Act**, which is being debated in the National Assembly, regulates in more detail the principle of balancing the budget in the medium term without borrowing, as referred to in Article 148 of the Constitution of the Republic of Slovenia. In accordance with the draft act, respect for the principle of a balanced budget in the medium term is assessed for the general government sector as a whole on the basis of the amount of the structural fiscal balance. The draft act also determines the manner of spending the surpluses of individual institutional units of the general government sector, and the remedial mechanism in cases of non-compliance with the principle of balanced budget in the medium term, and defines criteria for determining extraordinary circumstances when departures from the principle are allowed. In this transitional period, when Slovenia is still approaching the medium-term fiscal goal, the gradual elimination of the structural deficit is envisaged. The draft act also regulates the functioning of the Fiscal Council as an independent and autonomous body which prepares assessments of the compliance of public finance policy with fiscal rules.

The content from the Fiscal Rule Act will be regulated in more detail in the **Public Finance Act**. All procedures for the drafting of budgets of all institutional units of the general government sector, including deadlines, will be determined in detail. The Public Finance Act is planned to be prepared at the latest within six months following the adoption of the Fiscal Rule Act.

A **programming budget** will be introduced as a mechanism to connect the government's strategic plans and priority with the drafting of the state budget. This requires comprehensive policies at the national level, and the coordinated establishment of financial and substantive frameworks with regional and municipal levels. By efficiently realising the objectives and commitments in the economic, environmental and social fields in accordance with a uniform policy created in such a way (which should reflect objective-oriented budget), 'operations towards the common objective' could be achieved and the financing of funds required to realise the objectives could be ensured. The implementation, monitoring and awareness of structural reforms in the entire general government sector would thus be enhanced. The allocation of public finance to programmes must be planned for a period of several years in accordance with the objectives of the policies for whose realisation the programmes were created. The main task in strengthening public finance is to establish an appropriate top-down

30 Statistics Office (2014): <http://www.stat.si/StatWeb/prikazi-novico?id=4934>.

budget planning process. The legislative framework must be strengthened for the adoption of a medium-term budgetary framework (MTBF), which will ensure that binding guidelines for determining the medium-term fiscal objectives/framework for each main component of the general government sector are determined for the medium term (state budget, municipalities, the Health Insurance Institute of Slovenia (ZZZS)³¹ and the Pension and Disability Insurance Institute of the Republic of Slovenia (ZPIZ)³²). In addition to this, Slovenia must also attain the medium-term public finance objective. In order to improve the system of planning, monitoring and evaluation at the level of the general government sector, the following needs to be done in the coming period:

- gradually include all other budget users in the information system for the preparation and implementation of budgets, as it is currently regulated for direct users of the state budget,
- introduce a programming approach also for all indirect budget users and ZIPZ and ZZZS,
- define programme indicators (cause and effect connections),
- determine a system for reporting and a detailed evaluation of individual programmes,
- gradually automate processes of consolidating budgets for reporting purposes,
- establish a “budget Supervisor”, an on-line application modelled after the Supervisor application that traces the flow of public funds, which will enable various and additional insights into expenditure, including the programming view,
- upgrade the information system for preparing budgets, including support for monitoring and evaluating objectives of individual programmes with adequate indicators,
- consistently implement the programming budget in the view of defining cost centres.

Each of the tasks listed above can be realised only in the medium- and long-term. What is most important here is the process, which will be influenced by a large number of exogenous and endogenous factors regardless of the economic policy that is implemented. Too many factors are deemed exogenous and beyond our ability to influence (for example, political, social and demographic factors), but the rigidity of expenditure adjustment can be influenced. A consensus on the objectives must be reached, and the criteria for determining programme priorities in the first phase at the national level must be defined, and then transferred to sectoral objectives, and the required structural and institutional changes need to be connected. We are convinced that this can happen only through a suitable monitoring and evaluation system³³ and a transparent procedure for preparing programming documents and the budget. Special attention must be paid to the qualification of personnel for determining performance indicators which would be included in the budget preparation procedure and whose attainment would be the responsibility of relevant ministries. In addition to the listed reforms, which will enable a comprehensive approach to a programme budget, adequate mechanisms for reporting and evaluating the results of implementing the budget need to be adjusted or introduced.

³¹ Health Insurance Institute of the Republic of Slovenia.

³² Pension and Disability Insurance Institute of the Republic of Slovenia

³³ The (former) Government Office for Development and European Affairs (SVREZ) developed software for monitoring and evaluation of objectives with adequate indicators.