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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2015 National Reform Programme of Slovenia and delivering a Council opinion on the 2015 Stability Programme of Slovenia

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2015) 273 final.

COUNCIL RECOMMENDATION

of …

on the 2015 National Reform Programme of Slovenia

and delivering a Council opinion on the 2015 Stability Programme of Slovenia

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission’s proposal to launch a new strategy for growth and jobs, Europe 2020, based on enhanced coordination of economic policies. The Strategy focuses on the key areas where action is needed to boost Europe’s potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council, on the basis of the Commission's proposals, adopted a Recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States[3], which together form the ‘integrated guidelines’. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 8 July 2014, the Council adopted a Recommendation[4] on Slovenia’s National Reform Programme for 2014 and delivered its opinion on Slovenia’s updated Stability Programme for 2014. On 28 November 2014, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council[5], the Commission presented its opinion on Slovenia's draft budgetary plan for 2015.

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3 Maintained by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).

4 Council Recommendation of 8 July 2014 on the National Reform Programme 2014 of Slovenia and delivering a Council opinion on the Stability Programme of Slovenia, 2014 (OJ C 247, 29.7.2014, p. 115).

5 Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (OJ L 140, 27.5.2013, p.11).

(4) On 28 November 2014, the Commission adopted the Annual Growth Survey, marking the start of the 2015 European Semester for economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report, in which Slovenia was identified as one of the Member States for which an in-depth review would be carried out.

(5) On 18 December 2014, the European Council endorsed the priorities for fostering investment, intensifying structural reforms and pursuing responsible growth-friendly fiscal consolidation.

(6) On 26 February 2015, the Commission published its 2015 country report for Slovenia. The country report assessed progress in addressing the country-specific recommendations adopted on 8 July 2014. For Slovenia, the country report also includes results of the in-depth review under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Slovenia is experiencing macroeconomic imbalances, which require decisive policy action and specific monitoring. In particular, the rebalancing is ongoing and decisive policy actions, improved export performance and growth conditions have reduced risks compared to last year, in particular those linked to external sustainability. However, weak corporate governance, a high level of state ownership, high corporate leverage, and an increasing public debt pose risks for financial stability and growth and warrant close attention. The imbalances are therefore no longer considered as excessive but continue to deserve close attention.

(7) On 30 April 2015, Slovenia submitted its 2015 National Reform Programme and its 2015 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Slovenia is currently in the corrective arm of the Stability and Growth Pact. In its 2015 Stability Programme, the Government plans to correct the excessive deficit by 2015, in line with the deadline set by the Council, and to reach the medium-term objective – a balanced budgetary position in structural terms – by 2020, i.e. one year after the programme period. The Government plans to gradually reduce the headline deficit to 2,9 % of GDP in 2015 and to 0,9 % of GDP in 2019. According to the Stability Programme, the government debt-to-GDP ratio is expected to peak in 2015 at 81,6 % before starting to decline. The macroeconomic scenario underpinning these budgetary projections is plausible. Based on the Commission's 2015 spring forecast, a timely and durable correction of the excessive deficit by 2015 is foreseen. At the same time, the fiscal effort is below what is recommended by the Council, based on the structural balance and the discretionary measures taken. Assuming a timely correction of the excessive deficit as planned, Slovenia will be subject to the preventive arm of the Pact as of 2016. Measures to support the planned deficit targets from 2016 onwards have not been sufficiently specified. Therefore, in the light of the Commission's 2015 spring forecast, there appears to be a risk of a significant deviation from the required adjustment towards the medium-term objective in 2016 and further measures will be needed. Based on its assessment of the Stability Programme and taking into account the Commission's 2015 spring forecast, the Council is of the opinion that there is a risk that Slovenia will not comply with the provisions of the Stability and Growth Pact. With respect to the fiscal rules, in 2013 the Parliament approved a constitutional basis for establishing a general government budget balance/surplus rule in structural terms. However, the necessary implementing legislation has yet to be adopted. Revisions to the Public Finance Act are expected to provide the necessary legislative basis for the procedural issues underpinning the Fiscal Rules Act.

(9) Slovenia has taken action to alleviate pressures on the medium-term sustainability of the pension system but key parameters still need to be adjusted to ensure its sustainability beyond 2020. The 2013 pension reform has had a positive impact and the legal act establishing a demographic fund is expected to be adopted until the end of 2015. However, ensuring the long-term sustainability of pensions will require further reform. No progress has been made as regards the long-term care reform. At the end of 2013, the Government adopted a blueprint for long-term care reform but the adoption of the legislation implementing the reform has been postponed to the end of 2015 in order to allow prior decisions on health insurance reform including the question of sources to finance overall healthcare and long-term care. Age related expenditure on long-term care can be contained by targeting benefits to those most in need and by refocusing care provision from institutional to home care.

(10) A Social Agreement was concluded in January 2015 providing that public sector wage growth will lag behind private sector wage growth. The composition and indexation of minimum wages are not covered by this Agreement. While still relatively high compared to the average wage, recent growth of the minimum wage has been limited. An evaluation of the 2013 labour market reform shows that labour market restrictions have decreased, but structural problems persist as regards the long-term unemployment and low employment rates of low-skilled and older workers. Slovenia has undertaken some action to address the skills mismatch and numerous other measures are planned until 2020.

(11) The banking sector has been further stabilised through the recapitalisation of Abanka and Banka Celje in 2014. A comprehensive action plan for banks has been finalised and submitted to the Prime Minister's office in January 2015. The Bank of Slovenia has ensured follow-up of the shortcomings identified by the 2013 Asset Quality Review and will resume on-site inspections in the first quarter of 2015 to verify whether the recommendations have been implemented by banks. The major banks have reorganised and reinforced their work-out and restructuring units. However, boosting the long-term profitability and reducing non-performing loans in the corporate sector are necessary for a healthier banking sector. Both the corporate restructuring master plan and a centralised corporate restructuring task force have been established. Further deleveraging of the corporate sector, including through the Bank Asset Management Company and by full application of the new insolvency legislation, would help restore the conditions for a rebound of private investment. Bank lending activity continues to decline, mainly affecting SMEs. The recent banking sector recapitalisation is expected to show full results only in 2016. Restrained bank lending and high interest rates are weighing on the financing capacity of SMEs. While the proportion of rejected loan applications has decreased over the past six years, the number of SMEs reporting a deterioration in the willingness of banks to provide loans has increased substantially and is one of the highest in the Union.

(12) The privatisation programme is progressing, albeit with delays. The restructuring of the five major state-owned banks and the wind-down of two smaller domestic banks are on track. The Slovenian Sovereign Holding, responsible for the management and divestment of state assets, is now fully operational. A draft asset management strategy is still to be approved by the Parliament and this is expected to be followed by the release of the divestment schedule for a number of well- targeted state-owned assets. A new corporate governance code was adopted by the Slovenian Sovereign Holding in December 2014, and in January 2015 a compliance officer was appointed.

(13) The efficiency of the courts further improved in 2014, although at a slower pace. While some progress in reducing the length of judicial proceedings at first instance in litigious civil and commercial cases has been made, including in cases under the insolvency legislation, the length of proceedings and the number of unresolved cases backlogs remain significant.

(14) An unsupportive business environment in Slovenia is a key factor for low investment levels in Slovenian business and the high number of laws and numerous changes in the legislation make it difficult to run a business and comply with local regulation. The number of regulated professions has decreased from 323 to 242 but remains high. Around 25 % of measures included in the Single Document to cut administrative burden were implemented. Sufficient budgetary autonomy for the Competition Protection Agency and institutional independence are provided.

(15) The new government reiterated its commitment to fight corruption and adopted a new two-year programme of 11 perennial measures in January 2015. Some progress has been made regarding transparency and accountability. A comprehensive public-sector reform is in preparation. No progress has been made regarding reports on performance evaluation and quality control procedures.

(16) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Slovenia's economic policy and published it in the 2015 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Slovenia in previous years. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Slovenia but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (4) below.

(17) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Stability Programme. The recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) to (4) below.

(18) In the context of the European Semester, the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On the basis of this analysis, the Council has issued specific recommendations addressed to the Member States whose currency is the euro[6][*]. As a country whose currency is the euro, Slovenia should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Slovenia take action within the period 2015-2016 to:

1. Ensure a durable correction of the excessive deficit in 2015, and achieve a fiscal adjustment of 0.6% of GDP towards the medium-term budgetary objective in 2016. Adopt the Fiscal Rule Act and revise the Public Finance Act. Advance long-term reform of the pension system. By end of 2015, adopt a healthcare and long-term care reform.

2. Review, in consultation with the social partners and in accordance with national practices, the mechanism for setting the minimum wage, and in particular the role of allowances, in light of the impact on in-work poverty, job creation and competitiveness. Increase the employability of low skilled and older workers. Take measures to address long-term unemployment and provide adequate incentives to extend working lives.

3. Bring down the level of non-performing loans in banks by introducing specific targets. Improve credit risk monitoring capacity in banks. Continue corporate restructuring and maintain strong corporate governance in the Bank Asset Management Company. Take measures to improve access to finance for SMEs and micro companies. Adopt a strategy for the Slovenian Sovereign Holding with a clear classification of assets, implement an annual asset management plan and apply performance criteria.

4. Ensure that the reforms adopted to improve the efficiency of civil justice help reduce the length of proceedings.

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6 OJ C ….
* Insert details for the euro-zone recommendation st 9230/15 (ex st8888/15).

Done at Brussels,

For the Council

The President