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Recommendation for a

COUNCIL RECOMMENDATION

on the 2018 National Reform Programme of Slovenia

and delivering a Council opinion on the 2018 Stability Programme of Slovenia

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Recommendation for a

COUNCIL RECOMMENDATION

on the 2018 National Reform Programme of Slovenia

and delivering a Council opinion on the 2018 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[3],

Having regard to the resolutions of the European Parliament[4],

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,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 22 November 2017, the Commission adopted the Annual Growth Survey, marking the start of the 2018 European Semester of economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The priorities of the Annual Growth Survey were endorsed by the European Council on 22 March 2018. On 22 November 2017, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it identified Slovenia as one of the Member States for which an in-depth review would be carried out. On the same day, the Commission also adopted a recommendation for a Council

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 COM(2018) 423 final.
4 P8_TA(2018)0077 and P8_TA(2018)0078.

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recommendation on the economic policy of the euro area, which was endorsed by the European Council on 22 March 2018. On 14 May 2018, the Council adopted the recommendation on the economic policy of the euro area ('recommendation for the euro area').

(2) As a Member State whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Slovenia should ensure the full and timely implementation of the recommendation on the economic policy for the euro area, as reflected in the recommendations below, in particular (1).

(3) The 2018 country report for Slovenia[5] was published on 7 March 2018. It assessed Slovenia's progress in addressing the country-specific recommendations adopted by the Council on 11 July 2017, the follow-up given to the recommendations adopted in previous years and Slovenia's progress towards its national Europe 2020 targets. It also included an in-depth review under Article 5 of Regulation (EU) No 1176/2011, the results of which were also published on 7 March 2018[6]. The Commission's analysis leads it to conclude that Slovenia is not experiencing macroeconomic imbalances.

(4) On 13 April 2018, Slovenia submitted its 2018 National Reform Programme and its 2018 Stability Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.

(5) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds for the 2014-2020 period. As foreseen in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council[7], where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of that provision in guidelines on the application of the measures linking the effectiveness of the European Structural and Investment Funds to sound economic governance[8].

(6) Slovenia is currently in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule. The 2018 Stability Programme was submitted by a caretaker government and is based on a no-policy-change assumption. Accordingly, the government expects that the headline surplus will improve to 0.4 % of GDP in 2018 and then reach 0.9 % of GDP in 2021. The medium-term budgetary objective – a surplus of 0.25 % of GDP – is not planned to be achieved by 2021. According to the 2018 Stability Programme, the general government debt-to-GDP ratio is expected to fall to 69.3 % of GDP in 2018 and continue to fall to 58.3 % of GDP in 2021. The macroeconomic scenario underpinning those budgetary projections is plausible.

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5 SWD(2018) 222 final.

6 COM(2018) 120 final.

7 Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

8 Guidelines on the application of the measures linking the effectiveness of the European Structural and Investment Funds to sound economic governance, COM(2014) 494 final.

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(7) On 11 July 2017, the Council recommended Slovenia to ensure that the nominal growth rate of net primary government expenditure[9] does not exceed 0.6 % in 2018, corresponding to an annual structural adjustment of 1.0 % of GDP. At the same time, it was stated that the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes will need to take due account of the goal of achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of public finances. Following the Commission's assessment of the strength of the recovery in Slovenia while giving due consideration to its sustainability challenges, carried out in the context of its opinion on Slovenia's Draft Budgetary Plan, a fiscal structural effort of at least 0.6 % of GDP is required for 2018, without any additional margin of deviation over one year. This corresponds to a nominal rate of growth of net primary government expenditure not exceeding 1.5 %. Taking that into account in the overall assessment, based on the Commission 2018 spring forecast, there is a risk of a significant deviation from the recommended adjustment path towards the medium-term budgetary objective in 2018.

(8) In 2019, in view of Slovenia's general government debt ratio above 60 % of GDP and projected positive output gap of 4.1 % of GDP, the nominal growth rate of net primary government expenditure should not exceed 2.2 %, in line with the structural adjustment of 1.0 % of GDP stemming from the matrix of requirements under the Stability and Growth Pact. At the same time, there are strong signs that the idle capacity in the economy is underestimated, with inflation expected to reach 2 % in 2019, underemployment above the pre-crisis level and investment picking up following a strong contraction over the crisis years. In addition, the plausibility tool also indicates that there is a high degree of uncertainty surrounding the output gap estimates based on the common methodology. On that basis, an annual structural adjustment of 0.65 % of GDP, corresponding to a maximum growth rate of net primary government expenditure of 3.1 %, appears appropriate. Under unchanged policies, there is a risk of a significant deviation from that requirement in 2019 and for 2018 and 2019 taken together. Slovenia is forecast to comply with the transitional debt rule in 2018 and the debt rule in 2019. Overall, the Council is of the opinion that the necessary measures should be taken as of 2018 to comply with the provisions of the Stability and Growth Pact.

(9) The Slovenian Government has presented proposals to reform the healthcare system. The draft Healthcare and Health Insurance Act, which is the central piece of the reform and will ensure the financing of the health system in the long term, was put to the Economic-Social Council for consultation in December 2017 but was not adopted before the elections, making its prospects for adoption uncertain. A draft Long-Term Care Act is currently being drawn up to make long-term care a new pillar of social security complementary to other social security systems (health care, social care, pension security). It remains uncertain how Slovenia will increase cost-effectiveness, accessibility and quality of care in the future. In 2017, proposals to amend the Medical Practitioners Act, the Health Services Act, the Patient Rights Act and the Act Determining Intervention Measures to Ensure the Financial Stability of Public

[9] Net primary government expenditure comprises total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a 4-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

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Healthcare Institutions were adopted and now have to be implemented to ensure accessibility and quality care. Initial steps have been taken to implement the 2016-2025 of the National Health Care Plan. Family medicine outpatient clinics are gradually being introduced, a health technology assessment system is planned to be established by 2020 and eHealth solutions will improve monitoring nationwide. In addition, the benefits from better coordinated public procurement in healthcare are expected to help procurement to become more cost-efficient.

(10) In July 2017, the Economic and Social Council unanimously adopted a document called ‘Starting points for the modernisation of the Pension and Disability Insurance System in the Republic of Slovenia. It outlines various measures how adequate pensions and a sustainable and transparent pension system could be achieved. However, a concrete action plan to adopt it is still missing and despite an agreement between social partners and the government to adopt the reform by 2020, the phase-in period for the reform has not yet been outlined. Challenges remain in: ensuring the long-term sustainability and adequacy of the pension system by adjusting the statutory pension age and promoting later retirement; boosting the coverage of the supplementary pension schemes; appropriately addressing changing career paths and reducing old-age poverty risks.

(11) Economic growth continued and labour market and social trends improved further. The rate of people at risk of poverty or social exclusion decreased but remains above the EU average for the elderly. Employment continued to rise and unemployment further decreased. However, there are signs of labour shortages in a number of vocational occupations. Long-term unemployment remains above pre-crisis levels and still represents almost half of all unemployment. Challenges persist in particular for older workers as their activity and employment rates remain among the lowest in the EU. Slovenia's society is ageing rapidly which means the working-age population and labour supply are shrinking. In response to this trend, the government has prepared an ‘Active Ageing Strategy’, but concrete action plans are still lacking.

(12) The ageing population emphasises the need to increase participation in adult learning which has been falling since 2010 and is especially low among low-skilled and older workers. Improving skills through lifelong learning would increase the chances of employment, especially for low-skilled and older workers. The employment rate of low-skilled workers improved, but remains below pre-crisis levels and the EU average. Evaluation of active labour market policies shows that most programmes are performing well, however expenditure in this field and the participation rate of unemployed people in the programmes both remain limited. While the 2013 labour market reform clearly helped certain vulnerable groups enter employment, temporary employment remains an issue.

(13) Measures have been adopted measures to improve funding options for firms in Slovenia and to provide them with alternatives to bank credits. However, reliance on bank credit presents a continued funding challenge, notably for small and medium-sized enterprises, for which access to finance remains a growth barrier. Current measures have not yet resulted in improved finance, particularly for innovative firms. There are only a small number of high-growth enterprises in Slovenia and these lack sufficient support to scale up. Venture capital, as one form of equity financing, is growing but from a very low level. Innovative companies would also benefit from more efficient public research which is currently hindered by difficulties in attracting domestic and foreign talent and a lack of performance-based funding. The level of private investment in Slovenia remains relatively low compared to peer countries

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meriting focussed efforts to further improve the framework conditions for investment, particularly in areas yielding strong potential to increase productivity.

(14) Businesses are held back by the still high regulatory and administrative burden. Red tape is considered to be one of the most problematic factors in terms of doing business in Slovenia. This mainly relates to uncertainty and complexity of tax procedures but is not limited to this area as it still takes about a year for commercial cases to be heard before a court. Slovenia has created a tool to help reduce administrative burden and is progressing with implementing this. A significant part of this implementation has not yet been carried out.

(15) Equally, Slovenia has only started to tackle its high level of restrictive regulation in certain service sectors. Reforms have been carried out to liberalise the professional requirements for architects and civil engineers, but other issues identified by Commission's services remain unaddressed[10]. Reforms would also benefit Slovenian manufacturing firms which depend on competitive services inputs.

(16) Efficient public procurement is key to cost control and quality improvements in Slovenia’s health sector. Expanding centralised procurement as well a other forms of procurement aggregation such as joint procurement between hospitals, is crucial to ensuring good quality supplies of innovative products at competitive prices.

(17) Slovenia struggles with inefficiency and lack of transparency in public procurement. Competition between bidders is comparatively low, as indicated by the low number of bids received per tender and by the high ratio of negotiated procedures without prior call. Professionalisation of those involved in procurement is low and there are few safeguards against corruption and collusion among bidders. In particular the independence of the National Review Commission is limited, as a result of the procedure for appointing its members. While economic crime and corruption are estimated by the authorities to have caused significant damage in the past years, some anti-corruption reforms are still pending.

(18) Slovenia still has high state involvement in the economy, notably in the financial sector. The previously published plans for privatisation have been implemented slowly. Proceeding with privatisations would increase the viability of the companies in the long run and would lower the risks for public finances.

(19) In the context of the 2018 European Semester, the Commission has carried out a comprehensive analysis of Slovenia’s economic policy and published it in the 2018 country report. It has also assessed the 2018 Stability Programme and the 2018 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 socioeconomic policy in Slovenia but also their compliance with Union rules and guidance, given the need to strengthen the Union’s overall economic governance by providing Union-level input into future national decisions.

(20) In the light of the Commission’s in-depth review and this assessment, the Council has examined the 2018 Stability Programme and its opinion[11] is reflected in particular in recommendation 1 below.

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10 SWD(2016)820 final.

11 Under Article 5(2) of Council Regulation (EC) No 1466/97.

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HEREBY RECOMMENDS that Slovenia take action in 2018 and 2019 to:

1. Ensure that the nominal growth rate of net primary government expenditure does not exceed 3.1 % in 2019, corresponding to an annual structural adjustment of 0.65 % of GDP. Adopt and implement the healthcare and health insurance act and the planned reform of long-term care. Ensure the long-term sustainability and adequacy of the pension system, including by increasing the statutory retirement age and by restricting early retirement. Increase the employability of low-skilled and older workers through lifelong learning and activation measures.
2. Develop alternative sources of financing for fast-growing companies. Lower the barriers for market entry through the revision of product market regulation and limiting administrative burden. Enhance competition, professionalisation and independent oversight in public procurement. Carry out the privatisations according to the existing plans.

Done at Brussels,

For the Council
The President

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