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COVER NOTE

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Recommendation for a

COUNCIL RECOMMENDATION

**on the 2023 National Reform Programme of Slovenia and delivering a Council opinion
on the 2023 Stability Programme of Slovenia**

{SWD(2023) 624 final}

Recommendation for a

COUNCIL RECOMMENDATION

on the 2023 National Reform Programme of Slovenia and delivering a Council opinion on the 2023 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 policies¹, and in particular Article 5(2) 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,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

- (1) Regulation (EU) 2021/241 of the European Parliament and of the Council², which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it contributes to economic and social recovery and to the implementation of sustainable reforms and investments, in particular to promote the green and digital transition and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Recovery and Resilience Facility was updated on 30 June 2022 in accordance with Article 11(2) of Regulation (EU) 2021/241.
- (2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey³, marking the start of the 2023 European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the

¹ OJ L 209, 2.8.1997, p. 1.

² Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

³ COM(2022) 780 final.

four dimensions of competitive sustainability on 23 March 2023. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2023 Alert Mechanism Report, in which it did not identify Slovenia as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. On the same date, the Commission also adopted an opinion on Slovenia's 2023 draft budgetary plan. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 16 May 2023, as well as the proposal for the 2023 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 13 March 2023.

- (3) While the EU economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the EU stands firmly with Ukraine, the EU economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and companies in the short term, and on keeping up efforts to deliver on the green and digital transition, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the EU's competitiveness and productivity.
- (4) On 1 February 2023, the Commission issued the Communication *A Green Deal Industrial Plan for the Net-Zero Age*⁴ to boost the competitiveness of the EU's net-zero industry and support the fast transition to climate neutrality. The plan complements ongoing efforts under the European Green Deal and REPowerEU. It aims to provide a more supportive environment for scaling up the EU's manufacturing capacity for the net-zero technologies and products required to meet the EU's ambitious climate targets, as well as ensuring access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains. On 16 March 2023, the Commission also issued the Communication *Long-term competitiveness of the EU: looking beyond 2030*⁵, structured along nine mutually reinforcing drivers with the objective to work towards a growth enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well focused investment and regulatory measures for the long-term competitiveness of the EU and its Member States. The recommendations below help to address those priorities.
- (5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. Fully implementing the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

⁴ COM(2023) 62 final.

⁵ COM(2023) 168 final.

- (6) The REPowerEU Regulation⁶ adopted on 27 February 2023 aims to rapidly phase out the EU's dependence on Russian fossil fuel imports. This will contribute towards energy security and the diversification of the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. They will also help boost the competitiveness of the EU's net-zero industry as outlined in the Green Deal Industrial Plan for the Net-Zero Age and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States to finance new energy-related reforms and investments under their recovery and resilience plans.
- (7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024. It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination⁷. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023-2024 that ensure medium-term debt sustainability as well as raise potential growth in a sustainable manner. Member States were invited to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the 3% of GDP deficit reference value is adhered to as well as plausible and continuous debt reduction, or for debt to be kept at prudent levels in the medium term. The Commission invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should target such measures much better than in the past towards vulnerable households and firms. The Commission proposed that the fiscal recommendations would be quantified and differentiated and be formulated on the basis of net primary expenditure, as proposed in its Communication on orientations for a reform of the EU economic governance framework⁸. It recommended that all Member States should continue to protect nationally financed investment and ensure the effective use of the Recovery and Resilience Facility and other EU funds, in particular in light of the green and digital transitions and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.
- (8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments. The proposals aim at providing Member States with more control over the design of their medium-term plans, while putting in place a more stringent enforcement regime to ensure that

⁶ Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

⁷ COM(2023) 141 final.

⁸ COM(2022) 583 final.

Member States deliver on the commitments undertaken in their medium-term fiscal-structural plans. The objective is to conclude the legislative work in 2023.

- (9) On 30 April 2021, Slovenia submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 28 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Slovenia⁹. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Slovenia has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.
- (10) On 14 April 2023, Slovenia submitted its 2023 National Reform Programme and, on 26 April 2023, its 2023 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects Slovenia's biannual reporting on the progress made in achieving its recovery and resilience plan.
- (11) The Commission published the 2023 country report for Slovenia¹⁰ on 24 May 2023. It assessed Slovenia's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022 and took stock of Slovenia's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Slovenia's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.
- (12) Based on data validated by Eurostat,¹¹ Slovenia's general government deficit decreased from 4.6% of GDP in 2021 to 3.0% in 2022, while general government debt fell from 74.5% of GDP at the end of 2021 to 69.9% at the end of 2022. On 24 May 2023, the Commission published a report under Article 126(3) TFEU;¹² the report discussed the budgetary situation of Slovenia, as its general government deficit is planned to exceed 3% of GDP in 2023. The report concluded that the deficit criterion was not fulfilled. In line with the Communication of 8 March 2023,¹³ the Commission did not propose to open new excessive deficit procedures in spring 2023; in turn, the Commission stated that it would propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023.

⁹ Council Implementing Decision of 28 July 2021 on the approval of the assessment of the recovery and resilience plan for Slovenia (ST 10612/2021; ST 10612/2021 ADD 1).

¹⁰ SWD(2023) 624 final.

¹¹ Eurostat-Euro Indicators, 47/2023, 21.4.2023

¹² COM(2023) 631 final, 24.5.2023.

¹³ COM(2023) 141 final, 8.3.2023.

Slovenia should take account of this in the execution of its 2023 budget and in preparing the Draft Budgetary Plan for 2024.

- (13) The general government balance has been impacted by the fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. In 2022, such revenue-decreasing measures included temporary lowering of VAT on electricity, gas, distance heating and firewood, and of excise duties on fuels, gas and electricity and temporarily lower CO₂ tax on fuels; while such expenditure-increasing measures included increased child allowance for two months, energy allowance for socially vulnerable people and subsidies for businesses based on prices paid compared to 2021. The Commission estimates the net budgetary cost of these measures at 1.0% of GDP in 2022. The general government balance has also been impacted by the budgetary cost of temporary protection to displaced persons from Ukraine, which is estimated at 0.1% of GDP in 2022. At the same time, the estimated cost of COVID-19 temporary emergency measures dropped to 1.0% of GDP in 2022, from 4.1% in 2021.
- (14) On 18 June 2021, the Council recommended that in 2022 Slovenia¹⁴ maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.
- (15) According to the Commission estimates, the fiscal stance¹⁵ in 2022 was supportive, at -1.2% of GDP, as recommended by the Council. As recommended by the Council, Slovenia continued to support the recovery with investments to be financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.7% of GDP in 2022 (0.8% of GDP in 2021). Nationally financed investment provided an expansionary contribution of 0.7 percentage points to the fiscal stance.¹⁶ Slovenia therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 0.4 percentage points to the fiscal stance. This significant expansionary contribution included the additional impact of fiscal policy measures to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 1.0% of GDP), as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP). Slovenia therefore sufficiently kept under control the growth in nationally financed current expenditure.
- (16) The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is optimistic in 2023 and realistic thereafter. The government projects real GDP to grow by 1.8% in 2023 and 2.5% in 2024. By comparison, the Commission 2023 spring forecast projects a lower real GDP growth of 1.2% in 2023 and 2.2% in 2024, mainly due to lower growth contribution from net exports.

¹⁴ Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Slovenia, OJ C 304, 29.7.2021, p. 116.

¹⁵ The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding Covid-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

¹⁶ Other nationally financed capital expenditure provided an expansionary contribution of 0.2 percentage point of GDP.

- (17) In its 2023 Stability Programme, the government expects that the general government deficit ratio will increase to 4.1% of GDP in 2023. The increase in 2023 mainly reflects higher public investment due to an end of the absorption period of the previous multi-annual financial framework 2014-2020 and high subsidies. According to the Programme, the general government debt-to-GDP ratio is expected to decrease from 69.9% at the end of 2022 to 68.9% at the end of 2023. The Commission 2023 spring forecast projects a government deficit of 3.7% of GDP for 2023. This is lower than the deficit projected in the Stability Programme, mainly due to lower public investment because of constraints in absorption capacity and lower absorption of energy related subsidies/measures adopted to mitigate the economic and social impact of the increase in energy prices. The Commission 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 69.1% at the end of 2023.
- (18) The government balance in 2023 is expected to continue to be impacted by the fiscal measures adopted to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022 (in particular: temporary lowering of VAT on electricity, gas, distance heating and firewood, and of excise duties on fuels, gas and electricity and temporarily lower CO₂ tax on fuels) and new measures such as a new and larger scheme for subsidies for businesses based on prices paid compared to 2021 and compensation for distributors of electricity and natural gas who supply customers (for instance households or SMEs) whose electricity and natural gas prices are subject to price ceilings set by the government. The net budgetary cost of the support measures is projected in the Commission 2023 spring forecast at 0.9% of GDP in 2023¹⁷. Most measures in 2023 do not appear targeted to the most vulnerable households or firms, and many of them do not fully preserve the price signal to reduce energy demand and increase energy efficiency. As a result, the amount of targeted support measures, to be taken into account in the assessment of compliance with the fiscal recommendation for 2023, is estimated in the Commission 2023 spring forecast at 0.1% of GDP in 2023 (compared to 0.6% of GDP in 2022). Finally, the 2023 government balance is expected to benefit from the phasing out of COVID-19 temporary emergency measures of 1.0% of GDP.
- (19) On 12 July 2022, the Council recommended¹⁸ that Slovenia takes action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance¹⁹, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Slovenia should stand ready to adjust current spending to the evolving situation. Slovenia was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.
- (20) In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary (-1.2% of GDP), in a context of high inflation. This follows an expansionary fiscal stance in 2022 (-1.2% of GDP). The growth in nationally financed

¹⁷ The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

¹⁸ Council Recommendation of 12 July 2022 on the National Reform Programme of Slovenia and delivering a Council opinion on the 2022 Stability Programme of Slovenia, OJ C 334, 1.9.2022, p. 197.

¹⁹ Based on the Commission spring 2023 forecast, the medium-term (10-year average) potential output growth of Slovenia, which is used to measure the fiscal stance, is estimated at 10.1% in nominal terms.

primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 0.3% of GDP to the fiscal stance. This is despite the reduced cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.5% of GDP. The expansionary contribution of nationally financed net primary current expenditure is therefore not due to the targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) is driven by higher subsidies and an increase in the public sector wage bill. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.6% of GDP in 2023, while nationally financed investment provided an expansionary contribution to the fiscal stance of 0.1 percentage points²⁰. Therefore, Slovenia plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is projected to preserve nationally financed investment. It plans to finance public investment for the green and digital transitions, and for energy security, such as railway infrastructure, prevention against floods, health, and research and innovation, which are funded by the Recovery and Resilience Facility and other EU funds.

- (21) According to the Stability Programme the general government deficit is expected to decline to 2.8% of GDP in 2024. The decrease in 2024 mainly reflects lower subsidies after a withdrawal of measures adopted to mitigate the economic impact of the increase in energy prices and lower public investment after the absorption of EU funds from the previous multiannual financial framework ends in 2023. The programme expects the general government debt-to-GDP ratio to decrease to 66.5% at the end of 2024. Based on policy measures known at the cut-off date of the forecast, the Commission 2023 spring forecast projects a government deficit of 2.9% of GDP in 2024. This is higher than the deficit projected in the programme, mainly due to higher compensation of employees and social benefits. The Commission 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 66.6% at the end of 2024.
- (22) The Stability Programme envisages the phasing out of all of the energy support measures in 2024. The Commission also assumes full phasing out of energy support measures in 2024. This hinges upon the assumption of no renewed energy price increases.
- (23) Council Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term objective by 0.5% of GDP as a benchmark.²¹ Taking into account fiscal sustainability considerations²² and the need to reduce the deficit to below the 3% of GDP reference value, an improvement in the structural

²⁰ Other nationally financed capital expenditure is projected to provide a neutral contribution of 0.0 percentage points of GDP.

²¹ Cf. Article 5 of Council Regulation (EC) No 1466/97, which also requires an adjustment of more than 0.5% of GDP for Member States with a government debt exceeding 60% of GDP, or with more pronounced debt sustainability risks.

²² The Commission estimated that Slovenia would need an average annual increase in the structural primary balance as a share of GDP of 0.45 percentage points to achieve a plausible debt reduction or ensure that government debt is kept at prudent levels in the medium term. This estimate was based on the Commission autumn 2022 forecast. The starting point for this estimate was the projected government deficit and debt for 2024 which assumed the withdrawal of energy support measures in 2024.

balance of at least 0.5% of GDP for 2024 would be appropriate. To ensure such an improvement, the growth in net nationally financed primary expenditure²³ in 2024 should not exceed 5.5%, as reflected in this recommendation. At the same time, the remaining energy support measures (currently estimated by the Commission at 0.9% of GDP in 2023) should be phased out, contingent on energy market developments and starting from the least targeted ones, and the related savings should be used to reduce the government deficit. Based on Commission estimates, this would lead to a growth in net primary expenditure below the recommended maximum growth rate for 2024. In addition, according to the Commission 2023 spring forecast, the growth in net nationally financed primary current expenditure in 2023 is not in line with the recommendation of the Council. If this is confirmed, lower growth in net primary expenditure in 2024 would be appropriate.

- (24) Assuming unchanged policies, the Commission 2023 spring forecast projects net nationally financed primary expenditure to grow in 2024 at 3.0%, which is below the recommended growth rate.
- (25) According to the programme, government investment is expected to decrease from 6.4% of GDP in 2023 to 5.5% of GDP in 2024. The lower investment reflects lower nationally financed investment and lower overall investment financed by the EU, but higher investment through the Recovery and Resilience Facility. The programme refers to reforms and investments, that are expected to contribute to fiscal sustainability and sustainable and inclusive growth. These include investments into railway infrastructure, health, research and innovations and elements of green and digital transition which are also part of the Recovery and Resilience Plan.
- (26) The Stability Programme outlines a medium-term fiscal path until 2026. According to the programme, the general government deficit is expected to decline to 2.2% of GDP in 2025 and to 1.3% by 2026. The general government deficit is therefore planned to remain below 3% of GDP from 2024 until the end of the programme horizon. According to the programme, the general government debt-to-GDP ratio is expected to decrease from 66.5% at the end of 2024 to 63.5% by the end of 2026.
- (27) Healthcare spending is expected to increase by 1.5 percentage points of GDP between 2019 and 2070 and long-term care costs will double by 2055. Slovenia is facing high fiscal sustainability risks in the medium and long term, driven by spending related to the ageing population. The country has started comprehensive reforms in healthcare and long-term care in recent years. However, implementation of the long-term care reform has been delayed and its financing in the medium and long term is still not ensured. The planning of the healthcare reform also suggests that it will be implemented in several steps, with a focus on access to high-quality services and improving social rights and inclusion. As this will put additional strain on public finances, it will be crucial for Slovenia to put forward a set of measures that establishes a stable revenue base that does not undermine the fiscal balance in the medium and long term.
- (28) The December 2022 amendments to the Personal Income Tax Act reversed most of the previous changes approved in March 2022 that had intended to reduce labour taxation and would have led to a negative budget impact of up to 1.3% of GDP by 2025. Compared to the EU aggregate, Slovenia's tax revenues as share of GDP are slightly

²³ Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

lower, and some relatively growth-friendly taxes are underused. Slovenia relies strongly on labour taxation: the share of labour taxes in total tax revenues is above the EU aggregate. Recurrent taxes on immovable property are relatively low in Slovenia (0.5% of GDP vs an EU average of 1.1% of GDP). A growth-friendly and green tax reform can support fiscal consolidation and sustainable growth in the longer term. Such a tax reform could facilitate a shift away from labour taxation, through a higher share of recurrent property taxes, and support the creation of jobs in the net-zero age and in other higher value-added industries. Lower labour taxes would also stimulate labour supply, including from skilled and foreign workers.

- (29) In accordance with Article 19(3), point (b) and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. The implementation of Slovenia's recovery and resilience plan is underway, however with increasing risk of delays. Slovenia submitted one payment request, corresponding to 12 milestones and targets in the plan and resulting in an overall disbursement of around EUR 49.6 million. To advance faster with the implementation of its RRP in the current challenging environment, it is necessary to strengthen Slovenia's governance structure and administrative capacity, as well as to ensure that the necessary decisions are taken without delays. This concerns in particular the structural reforms of healthcare, long-term care, pensions and taxation. The addendum of the RRP and the additional chapter on REPowerEU should establish a realistic timeline for the remaining payment requests and should be submitted swiftly to avoid any further delay or disruption in the implementation of the plan. The swift inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investment to be financed in support of Slovenia's strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.
- (30) The Commission approved all of Slovenia's cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience as well as achieving balanced territorial development in Slovenia.
- (31) Slovenia was effectively reliant on Russia as the single natural gas supplier to the country before Russia invaded Ukraine. Starting from 2023, however, Slovenia was able to secure approximately a third of its natural gas supply through imports from Algeria. Gas still plays an important role in Slovenia's energy mix (12%) and is an essential energy source for industry, while also providing flexibility in the power sector. Industry and power sector decarbonisation should therefore be advanced through the accelerated deployment of renewables and energy efficiency measures. In its national energy and climate plan, Slovenia set a 27% target as its contribution to the EU's 2030 renewable energy target. This is significantly below the 37% renewable share in 2030 based on Annex II to Regulation (EU) 2018/1999²⁴. Slovenia reached its

²⁴ Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action, amending Regulations (EC) No 663/2009 and

2021 target for the share of energy from renewable sources in gross final consumption of energy (25%) by using the EU mechanism for cross-border cooperation in line with Directive 2018/2001/EU²⁵ (through statistical transfers). Permitting procedures for grid-scale renewable energy installations remain a bottleneck, largely due to the complex and lengthy environmental procedures, especially for wind installations, where procedures can last up to several years. Slovenia will need to substantially strengthen its renewable energy target in its updated national energy and climate plan to reflect the more ambitious EU climate and energy targets in the 'Fit for 55' package and in the REPowerEU Plan. Slovenia's consumption of natural gas has dropped by 14% in the period between August 2022 and March 2023, compared with the average gas consumption over the same period in the preceding 5 years, slightly below the 15% reduction target. Slovenia could enhance efforts to temporarily reduce gas demand until 31 March 2024²⁶.

- (32) The Slovenian recovery and resilience plan already includes significant reforms and investment aiming to: (i) raise the share of renewable energy sources in gross final energy consumption; (ii) facilitate access to and integration into the electricity grid for renewable energy source production facilities; (iii) improve the energy efficiency and renovations of public buildings; and (iv) enable the deployment of an alternative fuels infrastructure. While the measures under the recovery and resilience plan are an important step in the diversification away from fossil fuels, more effort could be made to speed up the deployment of renewables across all sectors. This could involve the designation of priority areas for renewable energy installations, the further simplifying and shortening of permitting procedures and the strengthening of the grid and improvement of overall grid management (to enable the connection of more renewable energy installations, especially on the low- and medium voltage levels). Further focus on zero-emission transport and infrastructure would further help reduce greenhouse gas emissions and reliance on fossil fuels.
- (33) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, these measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. Strengthening teaching in science, technology, engineering and mathematics could reinforce the education system's capacity to successfully equip learners with competences for the green and digital transition. In 2022, labour shortages were reported in Slovenia for 66 occupations that required specific skills or knowledge for the green transition. The job vacancy rate increased across key sectors such as construction (from 3.5% in 2015 to 7.0% in 2022) and manufacturing (from 1.2% in 2015 to 2.6% in 2022), with both sectors above the EU average of 4.0% and 2.3%, respectively, in 2022.

(EC) No 715/2009 of the European Parliament and of the Council, Directives 94/22/EC, 98/70/EC, 2009/31/EC, 2009/73/EC, 2010/31/EU, 2012/27/EU and 2013/30/EU of the European Parliament and of the Council, Council Directives 2009/119/EC and (EU) 2015/652 and repealing Regulation (EU) No 525/2013 of the European Parliament and of the Council (OJ L 328, 21.12.2018, p. 1).

²⁵ Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources (OJ L 328, 21.12.2018, p. 82).

²⁶ Council Regulation (EU) 2022/1369 and Council Regulation (EU) 2023/706

- (34) In light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion²⁷ is reflected in recommendation (1) below.
- (35) In view of the close interlinkages between the economies of euro area Member States and their collective contribution to the functioning of the Economic and Monetary Union, the Council recommended that euro area Member States take action, including through their recovery and resilience plans, to (i) preserve debt sustainability and refrain from broad-based support to aggregate demand in 2023, better target fiscal measures taken to mitigate the impact of high energy prices and reflect on appropriate ways to wind down support as energy price pressures diminish; (ii) sustain high public investment and promote private investment to support the green and digital transition; (iii) support wage developments that mitigate the loss in purchasing power while limiting second-round effects on inflation, further improve active labour market policies and address skills shortages; (iv) improve the business environment and ensure that energy support to companies is cost-effective, temporary, targeted to viable firms and that it maintains incentives for the green transition; and (v) preserve macro-financial stability and monitor risks while continuing to work on completing the Banking Union. For Slovenia, recommendations (1), (2) and (3) contribute to the implementation of the first, second- and third-euro area recommendations.

HEREBY RECOMMENDS that Slovenia takes action in 2023 and 2024 to:

1. Wind down the energy support measures in force by the end of 2023 using the related savings to reduce the government deficit. Should renewed energy price increases necessitate support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.

Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 5.5%.

Preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions.

For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.

Ensure the long-term fiscal sustainability of the healthcare and long-term care systems. Rebalance tax revenues towards more growth-friendly and sustainable sources.
2. Ensure an effective governance structure and strengthen the administrative capacity to allow for a swift and steady implementation of its recovery and resilience plan. Swiftly finalise the REPowerEU chapter with a view to rapidly starting its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.
3. Continue efforts to diversify gas imports and reduce overall reliance on fossil fuels by accelerating the deployment of renewables, in particular by further simplifying

²⁷ Under Articles 5(2) and 9(2) of Council Regulation (EC) No 1466/97.

and shortening the permitting procedures, and strengthening the electricity grid, as well as improving its management, including through digitalisation. Increase the implementation of energy efficiency measures, in particular in the building sector, promote the electrification of the transport sector, and step up policy efforts aimed at the provision and acquisition of the skills needed for the green transition.

Done at Brussels,

For the Council
The President