Council of the European Union

Brussels, 30 June 2023
(OR. en)

11156/23

ECOFIN 680
UEM 214
SOC 505
EMPL 356
COMPET 700
ENV 779
EDUC 292
RECH 324
ENER 415
JAI 927
GENDER 156
ANTIDISCRIM 150
JEUN 194
SAN 431

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. prev. doc.:	9850/1/23 REV 1
No. Cion doc.:	COM(2023) 624 final
Subject:	COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Slovenia and delivering a Council opinion on the 2023 Stability Programme of Slovenia

Delegations will find attached the above-mentioned draft Council Recommendation, as discussed by the Council and European Council, based on the Commission Recommendation COM(2023) 624 final.

COUNCIL RECOMMENDATION

of …

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 Article 121(2) and Article 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 the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

[1] OJ L 209, 2.8.1997, p. 1.

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 Council[2], which established the Recovery and Resilience Facility ('the Facility'), entered into force on 19 February 2021. The Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the Union. In line with the priorities of the European Semester, the Facility contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular reforms and investments to promote the green and digital transitions and to 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 Union and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Facility was updated on 30 June 2022, in accordance with Article 11(2) of Regulation (EU) 2021/241.

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).

(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey, marking the start of the 2023 European Semester for economic policy coordination. On 23 March 2023, the European Council endorsed the priorities of the 2023 Annual Sustainable Growth Survey, which are centred around the four dimensions of competitive sustainability. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[3], 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. As such, an in-depth review would not 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 and a proposal for the 2023 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[4] ('2023 Recommendation on the euro area') on 16 May 2023 and the Joint Employment Report on 13 March 2023.

(3) While the Union's economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the Union stands firmly with Ukraine, the Union's economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and firms in the short term, and on keeping up efforts to deliver on the green and digital transitions, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the Union's competitiveness and productivity.

---

[3] 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 (OJ L 306, 23.11.2011, p. 25).

[4] Council Recommendation of 16 May 2023 on the economic policy of the euro area (OJ C 180, 23.5.2023, p. 1).

(4) On 1 February 2023, the Commission issued a communication entitled 'A Green Deal Industrial Plan for the Net-Zero Age' ('the Green Deal Industrial Plan'). The aim of the Green Deal Industrial Plan is to boost the competitiveness of the Union's net-zero industry and support the fast transition to climate neutrality. It complements ongoing efforts under the European Green Deal and REPowerEU. It also aims to provide a more supportive environment for scaling up the Union's manufacturing capacity for the net-zero technologies and products required to meet the Union's ambitious climate targets, and to ensure 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 Green Deal Industrial Plan is based on four pillars: a predictable and simplified regulatory environment, faster access to finance, the enhancement of skills, and open trade for resilient supply chains. On 16 March 2023, the Commission issued a further communication entitled 'Long-term competitiveness of the EU: looking beyond 2030', structured along nine mutually reinforcing drivers with the objective of working 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 Union and its Member States. The recommendations below help address those priorities.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Facility. The full implementation of 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 for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) Regulation (EU) 2023/435 of the European Parliament and of the Council[5] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to rapidly phase out the Union's dependence on Russian fossil-fuel imports. This will contribute to energy security and the diversification of the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The REPowerEU 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. Those reforms and investments will also help boost the competitiveness of the Union's net-zero industry as outlined in the Green Deal Industrial Plan 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 in order to finance new energy-related reforms and investments under their recovery and resilience plans.

[5] 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) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024 ('the communication of 8 March 2023'). It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination. 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 and raise potential growth in a sustainable manner and invited Member States to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the Treaty reference value of 3 % of gross domestic product (GDP) is adhered to and ensure plausible and continuous debt reduction, or for debt to be kept at prudent levels, in the medium term. The Commission also 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 better target such measures at vulnerable households and firms. The Commission stated that the fiscal recommendations would be quantified and differentiated. Moreover, as proposed in its communication of 9 November 2022 on orientations for a reform of the EU economic governance framework, the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States continue to protect nationally financed investment and ensure the effective use of the Facility and other Union 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 Union'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. In its proposals, the Commission aims to improve national ownership, simplify the framework and move towards a greater medium-term focus, in combination with effective and more coherent enforcement. According to the Council conclusions of 14 March 2023 on orientations for a reform of the EU economic governance framework, 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 set out in Annex V to that Regulation. On 28 July 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Slovenia[6]. The release of instalments is conditional on the adoption of a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, stating 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.

[6] ST 10612/2021 INIT; ST 10612/2021 ADD 1.

(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) On 24 May 2023, the Commission published the 2023 country report for Slovenia. 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. On the basis of that analysis, the country report identified gaps with regard 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 in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(12) According to data validated by Eurostat, 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 issued a report under Article 126(3) of the Treaty. That report discussed the budgetary situation of Slovenia, as its general government deficit is planned to exceed 3 %-of-GDP Treaty reference value in 2023. The report concluded that the deficit criterion was not fulfilled. In line with the communication of 8 March 2023, the Commission did not propose to open new excessive deficit procedures in spring 2023. The Commission subsequently 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. Slovenia should take account of this in the execution of its 2023 budget and in preparing its draft budgetary plan for 2024.

(13) The general government balance has been impacted by the fiscal policy measures taken to mitigate the economic and social impact of the increase in energy prices. In 2022, such fiscal policy revenue-decreasing measures included the temporary lowering of value added tax (VAT) on electricity, gas, distance heating and firewood, of excise duties on fuels, gas and electricity and of CO_2 tax on fuels; while such fiscal policy 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 offering 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 temporary emergency measures related to the COVID-19 crisis dropped to 1,0 % of GDP in 2022, from 4,1 % in 2021.

(14) On 18 June 2021, the Council recommended that in 2022 Slovenia[7] maintain a supportive fiscal stance, including from the impulse provided by the Facility, and preserve nationally financed investment.

(15) According to the Commission estimates, the fiscal stance[8] 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 Facility. Expenditure financed by grants under the Facility and by other Union 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[9]. 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. That significant expansionary contribution included the additional impact of fiscal policy measures taken 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 cost of offering temporary protection to displaced persons from Ukraine (0,1 % of GDP). Slovenia therefore kept the growth in nationally financed current expenditure sufficiently under control.

---

7 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).

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

9 Other nationally financed capital expenditure provided an expansionary contribution of 0,2 percentage points of GDP.

(16) The macroeconomic scenario underpinning the budgetary projections in the 2023 Stability Programme is more favourable than the Commission's 2023 spring forecast for 2023 and in line with it thereafter. The government projects real GDP to grow by 1,8 % in 2023 and 2,5 % in 2024. By comparison, the Commission's 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.

(17) In its 2023 Stability Programme, the government expects that the general government deficit will increase to 4,1 % of GDP in 2023. The increase in 2023 mainly reflects higher public investment due to the end of the absorption period of the previous multiannual financial framework for the years 2014 to 2020 and high subsidies. According to the 2023 Stability 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's 2023 spring forecast projects a government deficit of 3,7 % of GDP for 2023. This is lower than the deficit projected in the 2023 Stability Programme, mainly due to lower public investment because of constraints in absorption capacity and lower absorption of energy-related subsidies and measures adopted to mitigate the economic and social impact of the increase in energy prices. The Commission's 2023 spring forecast projects a similar general government debt-to-GDP ratio of 69,1 % at the end of 2023.

(18) The general government balance in 2023 is expected to continue to be impacted by the fiscal policy measures taken 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, of excise duties on fuels, gas and electricity and of CO_2 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 that supply customers (for instance households or small and medium-sized enterprises) 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's 2023 spring forecast at 0,9 % of GDP in 2023[10]. Most measures in 2023 do not appear to be targeted at 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 Council Recommendation of 12 July 2022[11], is estimated in the Commission's 2023 spring forecast at 0,1 % of GDP in 2023 (compared to 0,6 % of GDP in 2022). Finally, the general government balance in 2023 is expected to benefit from the phasing-out of temporary emergency measures related to the COVID-19 crisis, which have been estimated at 1,0 % of GDP.

10 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.

11 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) In its Recommendation of 12 July 2022, the Council recommended that Slovenia take action to ensure that in 2023 the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[12], 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 Facility and other Union funds.

12 Based on the Commission's spring 2023 forecast, potential output growth of Slovenia, which is used to measure the fiscal stance, in the medium-term (10-year average), is estimated at 10,1 % in nominal terms.

(20) In 2023, the fiscal stance is projected in the Commission's 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 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 (which include energy measures) 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 of 12 July 2022. Expenditure financed by grants under the Facility and other Union funds is amounted to 1,6 % of GDP in 2023, while nationally financed investment provided an expansionary contribution to the fiscal stance of 0,1 percentage points[13]. Therefore, Slovenia plans to finance additional investment through the Facility and other Union 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 Facility and other Union funds.

[13] Other nationally financed capital expenditure is projected to provide a neutral contribution of 0,0 percentage point of GDP.

(21) According to the 2023 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 Union funds from the previous multiannual financial framework ends in 2023. According to the 2023 Stability Programme, the general government debt-to-GDP ratio is expected to decrease to 66,5 % at the end of 2024. On the basis of the policy measures known at the cut-off date of the forecast, the Commission's 2023 spring forecast projects a government deficit of 2,9 % of GDP in 2024. This is higher than the deficit projected in the 2023 Stability Programme, mainly due to higher compensation of employees and social benefits. The Commission's 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 66,6 % at the end of 2024.

(22) The 2023 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 is based on the assumption of no renewed energy price increases.

(23) Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term budgetary objective, with 0,5 % of GDP as a benchmark[14]. Taking into account fiscal sustainability considerations and the need to reduce the deficit to below the 3 %-of-GDP Treaty reference value, an improvement in the structural balance of at least 0,5 % of GDP for 2024 would be appropriate, according to the Commission. To ensure such an improvement, and in accordance with the Commission's methodology, the growth in net nationally financed primary expenditure[15] 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, if energy-market developments so permit and starting with the least targeted measures, and the related savings should be used to reduce the government deficit. According to 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's 2023 spring forecast, the growth in net nationally financed primary current expenditure in 2023 is not in line with the Council Recommendation of 12 July 2022. If this is confirmed, lower growth in net primary expenditure in 2024 would be appropriate.

(24) Assuming unchanged policies, the Commission's 2023 spring forecast projects net nationally financed primary expenditure to grow in 2024 at 3,0 %, which is below the recommended growth rate.

[14] Article 5 of Regulation (EC) No 1466/97 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.

[15] Net primary expenditure is defined as nationally financed expenditure net of discretionary revenue measures and excluding interest expenditure and cyclical unemployment expenditure.

(25) According to the 2023 Stability 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 Union, but higher investment through the Facility. The 2023 Stability Programme refers to reforms and investments that are expected to contribute to fiscal sustainability and sustainable and inclusive growth. Those reforms and investments 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 2023 Stability Programme outlines a medium-term fiscal path until 2026. According to the 2023 Stability Programme, the general government deficit is expected to decline to 2,2 % of GDP in 2025 and to 1,3 % by 2026. Therefore, the general government deficit is planned to remain below 3 % of GDP from 2024 until the end of the 2023 Stability 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 medium fiscal sustainability risks in the medium term and high risks in the 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 on the improvement of 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 amendments to the Personal Income Tax Act adopted in December 2022 reversed most of the previous amendments adopted in March 2022 that had been 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 Union aggregate, Slovenia's tax revenues as share of GDP are slightly 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 Union aggregate. Recurrent taxes on immovable property are relatively low in Slovenia (0,5 % of GDP versus an Union 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 the supply of skilled and foreign workers.

(29) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, 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, albeit with increasing risk of delays. Slovenia submitted one payment request, corresponding to 12 milestones and targets in the recovery and resilience plan and resulting in an overall disbursement of around EUR 49,6 million. To advance faster with the implementation of its recovery and resilience plan 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 and pensions. The addendum of the recovery and resilience plan and the additional new REPowerEU chapter 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 recovery and resilience 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 that plan, in order to ensure broad ownership of the overall policy agenda.

(30) The Commission approved all 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 and 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 Union's 2030 renewable energy target. This is significantly below the 37 % renewable share in 2030 calculated in accordance with Annex II to Regulation (EU) 2018/1999 of the European Parliament and of the Council[16]. Slovenia reached its 2021 target for the share of energy from renewable sources in gross final consumption of energy (25 %) by using the Union mechanism for cross-border cooperation in line with Directive 2018/2001/EU of the European Parliament and of the Council[17] (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 Union climate and energy targets in the 'Fit for 55' package and in the REPowerEU Plan. Slovenia's consumption of natural gas dropped by 14 % in the period between August 2022 and March 2023, compared to the average gas consumption over the same period in the preceding five years, slightly below the 15 % reduction target. Slovenia could enhance efforts to temporarily reduce gas demand until 31 March 2024 in accordance with Council Regulation (EU) 2022/1369[18].

---

16 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 (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).

17 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).

18 Council Regulation (EU) 2022/1369 of 5 August 2022 on coordinated demand-reduction measures for gas (OJ L 206, 8.8.2022, p. 1).

(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 infrastructure for alternative fuels. 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, 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, those 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 capacity of the education system to successfully equip learners with competences for the green and digital transition. In 2022, labour shortages were reported in Slovenia for 66 occupations that require specific skills and competences 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 of those sectors above the respective Union averages of 4,0 % and 2,3 % in 2022.

(34) In the light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion[19] is reflected in recommendation (1).

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

(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 the 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 a high level of public investment and promote private investments 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 and 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 recommendations set out in the 2023 Recommendation on the euro area,

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

1. Wind down the emergency energy support measures in force using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that such support measures are targeted at protecting vulnerable households and firms, are 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 %[20].

   Preserve nationally financed public investment and ensure the effective absorption of grants under the Facility and of other Union 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, in order 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.

[20] Which is estimated to correspond to an annual improvement in the structural budget balance of at least 0,5 % of GDP for 2024, as described in recital 23.

2. Ensure an effective governance structure and strengthen the administrative capacity in order 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 the implementation thereof. 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 and shortening permitting procedures and strengthening the electricity grid, as well as improving the management thereof, 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 skills and competences needed for the green transition.

Done at Brussels,

For the Council
The President