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Delegations will find attached document C(2019) 9117 final.

EUROPEAN
COMMISSION

Brussels, 20.11.2019
C(2019) 9117 final

COMMISSION OPINION

of 20.11.2019

on the Draft Budgetary Plan of Slovenia

{SWD(2019) 927 final}

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING SLOVENIA

3. On 10 October 2019, Slovenia submitted the Draft Budgetary Plan for 2020. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Slovenia is subject to the preventive arm of the Stability and Growth Pact. On 9 July 2019, the Council recommended Slovenia to achieve the medium-term budgetary objective of -0.25% of GDP in 2020.[1] As its public debt, at 70.4% of GDP in 2018, exceeds the 60% of GDP reference value of the Treaty, Slovenia also needs to comply with the debt reduction benchmark.

5. According to the Commission 2019 autumn forecast, the Slovenian economy is expected to grow by 2.6% in 2019 and 2.7% in 2020. Based on the Draft Budgetary Plan, the economy is expected to grow by 2.8% in 2019 and 3.0% in 2020. The Draft Budgetary Plan forecast for 2020 includes a stronger contribution from domestic demand thanks to a higher investment projection and a less negative contribution from net exports than in the Commission forecast. Overall, the macroeconomic assumptions underpinning the Draft Budgetary Plan are plausible in 2019 and favourable in 2020. Slovenia complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently produced macroeconomic forecasts.

6. For 2019, the Draft Budgetary Plan projects a general government surplus of 0.8% of GDP and a (recalculated) structural deficit[2] of 0.7% of GDP. The Commission 2019 autumn forecast expects a lower general government surplus of 0.5% of GDP and a higher structural deficit of 1.0% of GDP, due to a worse macroeconomic outlook and a significant negative expected impact from the tax relief on annual holiday allowance. For 2020, the Draft Budgetary Plan projects a somewhat higher surplus of

[1] Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of Slovenia and delivering a Council opinion on the 2019 Stability Programme of Slovenia, OJ C 301, 5.9.2019, p. 143.

[2] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

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0.9% of GDP and a lower (recalculated) structural deficit of 0.6% of GDP. The Commission projects the general government balance to remain at 0.5% of GDP, while the structural balance is expected to improve slightly to 0.9% of GDP, due to a closing positive output gap. The difference in the 2020 estimates arises from a less favourable macroeconomic forecast, a different growth composition and a significant negative expected overall impact from tax revenue measures in the Commission projections.

7. In 2020, the fiscal stance is expected to be slightly contractionary, based on the structural budget balance estimates, according to both the Draft Budgetary Plan and the Commission 2019 autumn forecast. For 2020, the Draft Budgetary Plan includes measures to reduce expenditure with an overall surplus improving impact of 0.3% of GDP. Social transfers are expected to decrease by 0.1% of GDP, mainly due to the abolition of work activity supplement from cash social assistance, stricter conditions for receiving unemployment benefit and changes to the extraordinary indexation of pensions. A 0.1% of GDP reduction in compensation of employees results from restricting promotion-related payments until July 2020 and reducing the highest possible amount of the bonus for increased workload. Another 0.1% of GDP decrease in government spending is due to lower public investment thanks to Slovenia's promotional development and export bank's instruments for "Financial Instruments 2014-2020".

   To lower the tax wedge on labour, the annual holiday allowance was exempt from personal income tax and social security contributions up to 100% of the average wage in 2019. This tax relief is considered as part of the baseline in the Draft Budgetary Plan, while the estimated impact is not specified. The parliament has also adopted changes to the tax legislation to further reduce taxes on personal income in 2020 by cutting tax rates and increasing tax brackets and general allowance. To compensate for part of the revenue loss in 2020, taxes on capital gains, rental and corporate income will be increased. The Draft Budgetary Plan expects the remaining difference to be fully compensated by higher revenues due to a more efficient tax collection. However, according to the Commission 2019 autumn forecast, the revenue measures are expected to have a significant negative overall impact in both 2019 and 2020.

   With respect to the Recommendation of 9 July 2019 addressed by the Council to Slovenia to adopt and implement reforms on health care, long-term care and pensions, the Slovenian authorities are preparing draft bills on health care and long-term care and have adopted amendments to the Pension and Disability Insurance Act. While the specified measures on pensions aim to improve their adequacy, they do not address the long-term sustainability of the pension system.

8. In 2019, for Slovenia to comply with the requirements of the preventive arm, the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs, should not exceed 3.1%, corresponding to an annual structural adjustment of 0.65% of GDP. According to the Draft Budgetary Plan, the expenditure benchmark shows a gap of 0.2% of GDP, pointing to some deviation, whereas the (recalculated) structural balance indicates a risk of significant deviation (gap of 0.7% of GDP). As the structural balance is negatively affected by large revenue shortfalls, the expenditure benchmark is considered to give a more accurate picture of the planned fiscal effort. The overall assessment based on the Draft Budgetary Plan thus points to a risk of some deviation from the recommended adjustment in 2019. However, for 2018 and 2019 taken together, the expenditure

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benchmark indicates a risk of significant deviation from the recommended adjustment (average gap of 0.6% of GDP). Based on the Commission 2019 autumn forecast, both pillars indicate a risk of significant deviation in 2019 (gaps of 1.3% and 0.9% of GDP based on the expenditure benchmark and the structural balance, respectively). The overall assessment confirms this conclusion.

In 2020, for Slovenia to comply with the requirements of the preventive arm, the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs, should not exceed 4.0%, corresponding to an annual structural adjustment of 0.5% of GDP. As in 2019, the expenditure benchmark is considered to give a more accurate picture of the fiscal effort. Based on the Draft Budgetary Plan, the expenditure benchmark points to compliance both in 2020 and over 2019 and 2020 taken together. According to the Commission 2019 autumn forecast, both the expenditure benchmark and the structural balance point to a risk of some deviation in 2020 (gaps of 0.2% and 0.5% of GDP, respectively) and a risk of significant deviation over 2019 and 2020 taken together (average gaps of 0.8% and 0.7% of GDP, respectively).

9. The output gap estimate based on the common methodology is subject to a high degree of uncertainty, as confirmed by the fact that Slovenia has been flagged by the plausibility tool. In fact, the output gap as suggested by the plausibility tool would imply a lower structural deficit in 2020, bringing Slovenia closer to its medium-term budgetary objective. This would point to broad compliance. However, given the high volatility of the relevant estimates, this will only be taken into account, if confirmed, in the ex post assessment of compliance with the requirements of the preventive arm in spring 2021.

10. The Draft Budgetary Plan indicates that government debt-to-GDP ratio will decline from 70.4% in 2018 to 66.3% in 2019 and 62.1% in 2020, slightly below the Commission's projections. The Draft Budgetary Plan does not include sufficient information to assess compliance with the debt reduction benchmark. Based on the Commission 2019 autumn forecast, the debt reduction benchmark is projected to be met in both 2019 and 2020.

11. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Slovenia is at risk of non-compliance with the provisions of the Stability and Growth Pact. A headline budget surplus of 0.5% of GDP is projected for 2020 and the public debt ratio is projected to decline in line with the requirements of the debt reduction benchmark. While the Commission projects a risk of some deviation from the adjustment path towards the medium-term budgetary objective recommended by the Council in 2020, there is a risk of significant deviation taking 2019 and 2020 together. However, the high degree of uncertainty surrounding the output gap estimates could imply that Slovenia may be closer to its medium-term budgetary objective in 2020, pointing to broad compliance. This will be taken into account if confirmed ex post. The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2020 budget will be compliant with the Stability and Growth Pact.

The Commission is also of the opinion that Slovenia has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 9 July 2019 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations

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will be made in the 2020 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2020.

Done at Brussels, 20.11.2019

For the Commission
Pierre MOSCOVICI
Member of the Commission

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