COUNCIL RECOMMENDATION

of 11 July 2017

on the 2017 National Reform Programme of Slovenia and delivering a Council opinion on the 2017 Stability Programme of Slovenia

(2017/C 261/23)

THE COUNCIL OF THE EUROPEAN UNION,

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

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

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

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 16 November 2016, the Commission adopted the Annual Growth Survey, marking the start of the 2017 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 9-10 March 2017. On 16 November 2016, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report, in which it identified Slovenia as one of the Member States for which an in-depth review would be carried out. On the same date, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area, which was endorsed by the European Council on 9-10 March 2017. On 21 March 2017, the Council adopted the Recommendation on the economic policy of the euro area ('Recommendation for the euro area') ([3]).

(2) As a Member State whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Slovenia should ensure the full and timely implementation of the Recommendation for the euro area, as reflected in recommendations (1) to (3) below.

(3) The 2017 country report for Slovenia was published on 22 February 2017. It assessed Slovenia's progress in addressing the country-specific recommendations adopted by the Council on 12 July 2016, the follow-up given to the country-specific recommendations adopted in previous years and Slovenia's progress towards its national Europe 2020 targets. It also included an in-depth review under Article 5 of Regulation (EU) No 1176/2011, the results of which were also published on 22 February 2017. The Commission's analysis led it to conclude that Slovenia is experiencing macroeconomic imbalances. In particular, weaknesses in the banking sector, corporate debt, and fiscal risks constitute vulnerabilities. Stock imbalances are gradually unwinding in light of resumed growth. The corporate

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) OJ L 306, 23.11.2011, p. 25.
([3]) OJ C 92, 24.3.2017, p. 1.

sector has undergone a substantial debt reduction, and private investment, including in the form of foreign direct investment, has resumed, although stocks from inbound foreign direct investment remain low compared to regional peers. Public debt has peaked in 2015, and a downward adjustment is expected in the coming years. Progress on the front of banking sector restructuring has coincided with a rapidly falling share of non-performing loans, which is expected to continue to decline. Relevant measures have been taken by the Government to consolidate and restructure the banking sector, and to improve the governance of state-owned enterprises. However, further policy action is needed to address corporate debt and remaining weaknesses in the financial sector, to ensure the long-term sustainability of public finances, and improve the business environment.

(4) Slovenia submitted its 2017 Stability Programme on 28 April 2017 and its 2017 National Reform Programme on 3 May 2017. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(5) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds (ESI Funds) for the 2014-2020 period. As provided for in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council ([1]), where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of that provision in guidelines on the application of the measures linking effectiveness of the ESI Funds to sound economic governance.

(6) Slovenia is currently in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule. In its 2017 Stability Programme, the Government expects that the headline deficit will improve to 0,8 % of GDP in 2017 and then reach a surplus of 0,4 % of GDP in 2020. The medium-term budgetary objective — a balanced budget in structural terms, which does not respect the requirements of the Stability and Growth Pact — is planned to be reached by 2020. However, based on the recalculated ([2]) structural balance, the medium-term budgetary objective would not be met by the programme horizon. According to the 2017 Stability Programme, the general government debt-to-GDP ratio is expected to fall to 77,0 % of GDP in 2017 and continue to fall to 67,5 % of GDP in 2020. The macroeconomic scenario underpinning those budgetary projections is plausible. At the same time, the measures needed to support the planned targets from 2017 onwards have not been sufficiently specified.

(7) The 2017 Stability Programme indicates that the budgetary impact of the exceptional inflow of refugees is significant in 2016 and 2017 and provides adequate evidence of the scope and nature of these additional budgetary costs. According to the Commission, the eligible additional expenditure for the exceptional inflow of refugees in 2016 amounted to 0,07 % of GDP. This amount is unchanged compared to the 2017 Draft Budgetary Plan, which confirmed the projections of the 2016 Stability Programme. For 2017, the Stability Programme included a request for 0,07 % of GDP, of which the Commission will consider the incremental impact amounting to 0,01 % of GDP. The provisions set out in Articles 5(1) and 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the inflow of refugees and security-related measures are related to unusual events, their impact on Slovenia's public finances is significant and sustainability would not be compromised by allowing for a temporary deviation from the adjustment path towards the medium-term budgetary objective. Therefore, the required adjustment towards the medium-term budgetary objective for 2016 has been reduced to take into account those additional budgetary costs. Regarding 2017, a final assessment, including on the eligible amounts, will be made in spring 2018 on the basis of observed data as provided by the Slovenian authorities.

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

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

(8) On 12 July 2016, the Council recommended Slovenia to achieve an annual fiscal adjustment of at least 0,6 % of GDP towards the medium-term budgetary objective in 2017. Based on the Commission 2017 spring forecast, there is a risk of some deviation from that requirement in 2017.

(9) In 2018, in the light of its fiscal situation and in particular of its debt level, Slovenia is expected to further adjust towards an appropriate medium-term budgetary objective. According to the commonly agreed adjustment matrix under the Stability and Growth Pact, that adjustment translates into a requirement of a nominal growth rate of net primary government expenditure ([1]) which does not exceed 0,6 %. It would correspond to a structural adjustment of 1 % of GDP. Under unchanged policies, there is a risk of a significant deviation from that requirement in 2018. Slovenia is projected to comply with the debt rule in 2017 and 2018. Overall, the Council is of the opinion that Slovenia needs to stand ready to take further measures in 2017 and that further measures will be needed in 2018 to comply with the provisions of the Stability and Growth Pact. However, as foreseen in Regulation (EC) No 1466/97, the assessment of the budgetary plans and outcomes should take account of the Member State's budgetary balance in the light of the cyclical conditions. As recalled in the Commission Communication on the 2017 European Semester accompanying these country-specific recommendations, the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes will need to take due account of the goal to achieve a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of Slovenia's public finances. In that context, the Council notes that the Commission intends to carry out an overall assessment in line with Regulation (EC) No 1466/97, in particular in the light of the cyclical situation of Slovenia. Furthermore, there is significant uncertainty regarding the cyclical position in the specific case of Slovenia because of the particularly large economic contraction in 2008-2013 and the major structural and financial-sector reforms being implemented.

(10) The Fiscal Rules Act adopted in July 2015 introduced a medium-term budgetary framework for the general government. In order to make it operational, certain amendments to the Public Finance Act are necessary. Initially the Government committed to having the revised Public Finance Act adopted within six months of the adoption of the Fiscal Rules Act. However, this deadline was repeatedly postponed and the revised act has not yet been submitted to the Parliament for deliberation. The revised Public Finance Act constitutes one of the legal vehicles transposing into national legislation Council Directive 2011/85/EU ([2]), which Member States were obliged to complete by the end of 2013. The members of the Fiscal Council were appointed on 21 March 2017.

(11) The high public debt at 79,7 % of GDP in 2016 represents a source of vulnerability for the public finances in Slovenia. The country's population is ageing faster than that of most Member States. Slovenia faces high risks on the long-term sustainability of public finances and its long-term sustainability gap indicator is the highest of all Member States, stemming from the projected increase in pension-related public spending, healthcare and long-term care expenditure.

(12) The Government has presented proposals to reform the healthcare system. The draft Healthcare and Health Insurance Act, which is the central piece of the reform, was put to public consultation in February 2017 and is scheduled to be forwarded to the National Assembly by summer 2017. Respecting the envisaged timing is important and should allow the act to become law still in 2017. In December 2016, the proposals to amend the Health Services Act and the Patient Rights Act were presented and the new Pharmacies Act was adopted. Remaining challenges concern the governance and performance of hospitals, primary care as a gatekeeper for inpatient care, hospital payment systems, health technology assessments, and information systems. In addition, the benefits from centralised public procurement of medical products and services remain largely untapped while a new centralised public procurement for medicines is under preparation that could help procurement to become more transparent and cost-efficient. Advancing in long-term care reform is also a significant challenge. To date, there is no integrated long-term care system in Slovenia. A pilot project to determine the long-term care needs is being prepared.

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

([2]) Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41).

(13) The White Paper on pensions was adopted by the Government in April 2016 and has opened a public consultation on the future of the pension system. However, concrete legislative proposals are still lacking. Challenges on the way ahead are to ensure the long-term sustainability and adequacy of the pension system by adjusting the statutory pension age to life expectancy gains and promoting later retirement, to boost the coverage of the supplementary pension schemes, to adequately address varying career paths and to reduce old-age poverty risks.

(14) Labour market and social trends continued to improve. Job creation has picked up and unemployment is decreasing. The rate of people at risk of poverty and social exclusion decreased but remains above the Union average for the elderly. The improving labour market offers an opportunity to provide employment for older workers, but their participation rates remain low. Entering retirement via the unemployment insurance system has become increasingly common in recent years. Long-term unemployment remains above pre-crisis levels and represents more than half of all unemployed. More than 40 % of all long-term unemployed are aged over 50 and almost half of them are unemployed for two years or more. An analysis and an action plan that aims to increase the employment rate of older workers has been prepared and discussed with social partners. Timely implementation of the action plan can help to improve the activation of older workers. The employment rate of low-skilled workers remains low and well below the pre-crisis level and the Union average. The active labour market policy implementation plan adopted in January 2016 continues the current approach, while expenditure in this field remains low. Older and low-skilled workers continue to be underrepresented in active labour market policy measures. Labour market segmentation remains a challenge despite the reform in 2013.

(15) The level of non-performing loans, while still high, is on a solid downward path. The Bank of Slovenia has implemented a number of measures that are giving banks incentives to reduce their non-performing loans sustainably. Debt reduction pressures have started to ease but credit flows to firms continue to contract. The progress in debt reduction has been uneven across individual firms. The consolidation and restructuring of the banking sector are progressing with the merger of three banks in 2016. Slovenia committed to sell at least 50 % of its shareholding in the largest state-owned bank by 31 December 2017 and another 25 % minus one share by 31 December 2018. Revisions to the legislative framework further reinforced the corporate restructuring capacity of the Bank Asset Management Company. Non-performing loans remain high among SMEs. To address the issue, a systematic approach to SME work out of non-performing loans has been prepared with the help of the World Bank. In addition, the Government adopted a bill to set up a central credit register to enable more efficient risk management and reduce the risk of indebtedness.

(16) Access to alternative financing sources for a creditworthy business is very limited. The Slovenian Enterprise Fund and the *Slovenska izvozna in razvojna banka* (SID bank) have mainly introduced new debt instruments for SMEs including measures such as microcredits. One seed capital scheme was implemented in 2016 by the Slovenian Enterprise Fund with under 50 SME beneficiaries. Other alternative financing instruments, including venture capital and equity with use of the ESI Funds, could be a major source of additional financing but remain largely untapped.

(17) The implementation of the 2015-2020 strategy for the development of public administration is underway, and some progress has been made. However, some specific measures, like the adoption of the Civil Service Act, have been further delayed. The Government programme for reducing the administrative burden is estimated to have created total savings of EUR 365 million between 2009 and 2015 and almost 60 % of 318 measures to reduce the administrative burden have been achieved. However, private investment continues to be hindered by complex and lengthy administrative procedures, especially in construction and spatial planning. While the efficiency and quality of the justice system have further improved, in commercial cases it still takes a long time to schedule first hearings and claims cannot be submitted by electronic means. Despite the adoption of some key anti-corruption reforms like the zero-tolerance-to-corruption programme, the perception of corruption remains negative and appears to influence business decisions. After the initial progress in modernising the regulation of professions, the reforms have slowed down. Lifting restrictive barriers with regard to the regulation of professions could support competition in those professions' markets.

(18) State involvement in the economy remains high despite the privatisation programme initiated in 2013. The state is the largest employer, asset manager and corporate debt holder in Slovenia. Combined with weak corporate governance, high state ownership has had considerable fiscal and economic implications. They are estimated at EUR 13 billion or about one third of GDP in 2007-2014, primarily due to financial-sector stabilisation measures and foregone profits of state-owned enterprises compared to their private peers. The performance of state-owned enterprises has started to improve, underpinned by a new corporate governance system, but risks remain. By the end

of 2015 results showed an improved profitability of the enterprises under the management of the Slovenian Sovereign Holding, albeit falling short of the intermediate target set in the management strategy. An asset management plan for 2017, quantifying the performance indicators for each separate state-owned enterprise and updating a list of assets for divestment, was approved by the Government in January 2017. At the same time, a revision of the asset management strategy, first approved by the Parliament in 2015, is still pending, with the Government having deferred its decision to the second half of 2017. Although a new president of the management board was appointed at the end of February 2017, the full supervisory board is not yet in place.

(19) In the context of the 2017 European Semester, the Commission has carried out a comprehensive analysis of Slovenia's economic policy and published it in the 2017 country report. It has also assessed the 2017 Stability Programme, the 2017 National Reform Programme and the follow-up given to the recommendations addressed to Slovenia in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Slovenia, but also their compliance with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union -level input into future national decisions.

(20) In the light of this assessment, the Council has examined the 2017 Stability Programme and its opinion [1] is reflected in particular in recommendation (1) below.

(21) In the light of the Commission's in-depth review and this assessment, the Council has examined the 2017 National Reform Programme and the 2017 Stability Programme. Its recommendations made under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) and (3) below,

HEREBY RECOMMENDS that Slovenia take action in 2017 and 2018 to:

1. Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Slovenia's public finances. Adopt and implement the proposed reform of the healthcare system and adopt the planned reform of long-term care, increasing cost-effectiveness, accessibility and quality care. Fully tap the potential of centralised procurement in the health sector. Adopt the necessary measures to ensure the long-term sustainability and adequacy of the pension system.
2. Intensify efforts to increase the employability of low-skilled and older workers, particularly through targeted lifelong learning and activation measures.
3. Improve the financing conditions, including by facilitating a durable resolution of non-performing loans and access to alternative sources of financing. Ensure the full implementation of the bank asset management company strategy. Reduce the administrative burden on business deriving from rules on spatial planning and construction permits and ensure good governance of state-owned enterprises.

Done at Brussels, 11 July 2017.

For the Council

The President

T. TÕNISTE

[1] Under Article 5(2) of Regulation (EC) No 1466/97.