Central Government Budget Debt Management

Key News

PENSION REFORM ADOPTED IN SLOVENIA

On 4 December 2012 the National Assembly of the Republic of Slovenia adopted the new Pension and Disability Insurance Act effectively putting in place a pension reform 12 years after the previous one.

The new pension legislation is a response to demographic change and to increasing pressure posed by pension expenditures on public finance. In comparison to the valid Pension Act the reform sets down:

1. tightened conditions for acquiring a right to an old–age pension. To qualify for old-age pension, a person has to satisfy the following two requirements about age and employment period: minimum age 60 and at least 40 years of employment without exercising the buy up option. The retirement age for both genders will now be 65 with additional condition of minimum 15 years of employment period.
2. other measures aimed at achieving higher effective retirement age, such as stimulations for staying longer in activity,
3. introduction of more flexible forms of passage from active life to retirement (partial retirement) and
4. promotion of greater professional rehabilitation of disabled persons.

The new pension legislation also introduces a stronger link between the contributions paid and pensions received by extending the pension rating base for assessment of pension right and by limiting the indexation mechanisms compared to the existing system. Greater transparency in functioning of the system is ensured with the new system of personal information accounts which will allow insured person to follow all the details relevant for their pension benefits.

The implementation of the Pension and Disability Insurance Act starting from 1.1.2013 will bring short term financial effects already in the first years of enforcement. Compared to the previous law, public pension expenditures will be lower by 150 million euro in 2013. In case the latter expenditure saving is not going to be reached in the first year of implementation, there is still an option of cash transfers by state-owned pension fund (KAD), financed by selling state-owned shares. In addition, the new Act foresees modernisation of supplementary pension system in order to raise the participation rates in this system thereby strengthening the second pillar and increasing the funds accrued there under. In parallel, a better supervision over the operation of pension funds will be put in place.

The new Pension and Disability Insurance Act which will enter into force in January 2013 will have a significant immediate effect on public expenditures (of around 150 mil euro in 2013) and will ensure uninterrupted disbursement of appropriate pensions from the first pillar in combination with the pensions from the second pillar.

The reform was adopted by all parties (no opposing votes) in the Parliament as well as was not objected by the trade unions, therefore a referendum on the aforementioned act is very unlikely. The deadline for handing in a referendum initiative is 7 days from the adoption of the act in the parliament.

BUDGETS FOR 2013 AND 2014 ADOPTED

On December 6th the National Assembly passed budgets, prepared by the Government, for the coming two years aiming at reducing the deficit to 2.8% of GDP in 2013 and to 2.5% of GDP in 2014. The budget acts project the revenues for 2013 at 8.6 bn euro, and expenditures at 9.6 bn euro. In 2014 revenues as well as expenditures are projected to drop to 8.4 bn euro and 9.3 bn euro, respectively.

The Budget provides scope for incentives to businesses aimed at increasing economic growth. In addition to lowering the corporate tax rate (to 17% in 2013 and 16% in 2014), increased investment and R&D tax deductions, a flat tax rate for SMEs has been introduced and the threshold for SMEs subject to VAT has been extended. In order to boost investment, the budget projects a significant increase in investment expenditures provided from EU funds and other earmarked funds. The increase amounts to some 600 million euro in comparison to the 2012 budget (1,6% of GDP).

On the expenditures side, several measures have already been taken in the course of 2012, with the Fiscal Balance Act coming into force. With the aim to bring in line the deficit target, expenditure has been trimmed across-the-board also for 2013 and 2014, most notably with the requirement that budget users reduce the wage bills by 5%. Savings will also be made with the reduction of the per capita income tax allocated to municipalities. The figures already take into account the recently adopted pension reform.

On the revenue side, the government budgeted the financial transaction tax, a new temporary 50% income tax bracket and higher taxes on rental income, student work, capital gains, excise, and taxation of sugary drinks with the aim to raise revenue.

The efforts of the Slovenian government are aimed at comprehensive consolidation of public finances by reducing public spending and gradual balancing of the budget.

CONTACT: The Treasury of the Republic of Slovenia, Župančičeva 3, 1000 Ljubljana, http://www.mf.gov.si/en/investor_relations/