Republic of Slovenia
Ministry of Finance
TREASURY DIRECTORATE

Newsletter, 1-5/2013

Central Government Budget Debt Management

The Government Delivering on Key Policy Challenges on the Back of Adopted:

1. National Reform Programme 2013-2014;
2. Stability Programme 2013 and
3. Privatization Programme

1 National Reform Programme 2013-2014

The National Reform Programme is the Government's mid-term plan defining priority measures and policies aimed at realising the objectives defined in the Europe 2020 growth strategy. It includes Slovenia's response to specific recommendations made by the European Council in June 2012 on the back of crucial measures which, among others, the Government plans to implement as a priority to foster economic recovery within macro-economic constraints including those imposed by the aim of pursuing fiscal consolidation.

In order to enhance economic growth Slovenia is undertaking measures primarily focused on strengthening bank stability, lowering debt and re-structuring companies.

The economic policy is based on three key pillars:

Institutional reforms of decision-making processes	Institutional changes that are crucial to strengthen the fiscal framework with clear rules to encourage fiscal discipline, the reform of referendum and electoral legislation and corporate management.
Measures to re-start short-term economic growth	Measures to overhaul the banks, reduce debt and restructure companies, improve corporate management and strengthen the privatisation process. The measures concerning to achieve fiscal balance are presented in greater detail in the Stability Programme - in short they focus on lowering the fiscal deficit and stabilizing government debt in the long-term to less than 55% of GDP.
Improving competitiveness for long-term sustainable growth	Measures to improve competitiveness and for long-term sustainable growth include a wide spectrum of measures aimed at strengthening the rule of law, accelerating foreign investment, introducing flexibility to the labour market, ensuring the efficiency of the public sector, promoting entrepreneurship and caring about health and the environment.

The key policy measures

To foster economic recovery and growth among the key policy measure the government will pursue the following:

1. Swift implementation of the strategy to clean banks' balance sheet by means of an external bad bank including privatization of banks.
2. Easing deleveraging on private corporate sector by means of enhancing bankruptcy legislation to facilitate private solution and selectively government intervention under state aid rules.
3. Privatization and enhancing corporate governance in state owned corporations through the Slovenian Sovereign Holding.

2 Stability Programme 2013

The key objectives of Slovenia's fiscal policy in Stability programme period are:

1. Structural balance by 2017, which will enable the deficit to be lowered below 3% of the GDP by 2015 and
2. Stabilizing government debt to below 55% of the GDP over the medium term after cleaning the bank's balance sheets by means of proceeds from privatization and selling collateral from NPL's and pursuing structural balance.

Building on strong frontloaded expenditure based fiscal consolidation in 2012 the lowering of nominal deficit to below 3% of GDP in 2014 will be achieved by means of policy-mix that relies on reducing public expenditure and partly by increasing revenue.

Due to transferring impaired assets from banks to BAMC the banks will receive additional capital. On the basis of reviewing their balance sheets and the results of stress tests performed by the Bank of Slovenia, the banks will need up to 900 million euros of additional capital by 31.7.2013, which will have a one-off effect on raising the deficit in 2013 to 7.8% of GDP and consequently the debt will increase over the Maastricht reference limit of 60% of GDP. However, this will be gradually reduced to less than 55% of GDP (the 2012 level) through privatization proceeds and the sale or liquidation of assets acquired by the Bank Asset Management Company.

After eliminating the excess deficit in 2014, fiscal consolidation will continue toward the mid-term fiscal goal of permanent fiscal balance in 2017.

Among expenditure policy measures are:

- Meeting the 2012 foreseen reduction in wage bill which requires additional measures that are under negotiation.
- Measures to constrain growth on expenditure on pensions.
- Restrictive policy on social transfers.
- Reduction of purchase of goods and services.
- Lower investment entitlements.

The measures on the revenue side are:

- Increasing the normal – upper VAT rate by 2 percentage points to 22% and lower VAT rate by 1 percentage point to 9.5% as of 1.7.2013.
- Introduction of a property tax as of 1.1.2014.
- The lowering of corporate tax (2 p.p. in 2012), will be suspended and remained at 17% tax rate in 2013.
- Introducing taxes on the sale of lottery tickets and on some beverages containing sugar.
- Court fees will be increased.

Should the targeted measures on the expenditure not deliver the expected results, the government has made a commitment to introduce a crisis tax on income as of 1.1.2014 to underpin the fiscal consolidation path.

Regarding the institutional framework of the public finances the Government has set the following goals:

1. Introducing the fiscal rule into national legislation in order to improve fiscal discipline and responsible planning and the use of public funds, thereby fulfilling the commitment made with the signing of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.
2. Ensuring greater fiscal transparency by including all compulsory levies in public budgets and limiting financing public or general items from outside the budget.
3. Increasing flexibility in the use of public funds by respecting more strictly the integrity of the budget and including earmarked funds in the integral budget.
4. Improving the efficiency, use and supervision of public funds.
5. Improving the efficiency of tax collection, particularly by merging the tax and customs administrations into a single Financial Administration.

3 Privatization Programme

The Government approved the draft text of the decision which authorises SOD as the manager of assets owned by the Republic of Slovenia, KAD, Modra zavarovalnica, DSU, d.o.o., and PDP, d.d. to dispose of their investment in 15 companies. This approval is required under Article 38 of the Sovereign Holding Act until strategic documents (classification) are adopted. When this decision is approved by the National Assembly, these companies will be able to continue or proceed with all procedures until final sale.

The proposed decision of the National Assembly means that the latter has agreed to the disposal of assets in the following companies, where the procedure has already begun:

1. Adria Airways, d.d.
2. Aero, d. d.
3. Elan, d.o.o.
4. Fotona, d.d.
5. Helios, d.d.

The proposed decision of the National Assembly means that the latter has agreed to the disposal of assets in the following companies, where the procedure has not yet commenced:

1. Aerodrom Ljubljana, d.d.
2. Adria Airways Tehnika, d.d.
3. Nova KBM, d.d.
4. Telekom Slovenije, d.d.
5. Cinkarna Celje, d.d.
6. Gospodarsko razstavišče, d.o.o.
7. Paloma, d.d.
8. Terme Olimia Bazeni, d.d.
9. Unior, d.d.
10. Žito, d.d.

If there are any questions regarding the information which is not available on our Ministry of Finance website: http://www.mf.gov.si/en/investor_relations/, feel free to contact us via e-mail: MF.Investors-relations@mf-rs.si.