GOVERNMENT OF THE REPUBLIC OF SLOVENIA

Draft budgetary plan
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Table of Contents

Economic challenges and the course of the economic and fiscal policy ... 3
Fiscal policy ... 4
MTO – medium-term objective ... 5
Expenditure benchmark ... 7
1. Debt and contingent liabilities ... 7
2. Outlook and expectations ... 10
Assessment of the cyclical position ... 13
Risks ... 13
3. 2019–2020 fiscal developments ... 15
Central government level ... 15
Social security funds (ZZZS and ZPIZ) ... 16
Local level ... 17
Main aggregates of the general government ... 18
Annex to the DBP 2020: Required tables ... 23
Country specific recommendations of the EU ... 30
EU 2020 targets ... 36

Economic challenges and the course of the economic and fiscal policy

In accordance with the Fiscal Rule Act, in April 2019 the National Assembly adopted the Ordinance on the framework for the preparation of the general government budget for the 2020–2022 period (hereinafter: the framework; Official Gazette of the Republic of Slovenia, No. 26/19). The framework, which was drawn up as an ordinance of the National Assembly, lays down, in accordance with the law, the target balance and the maximum level of general government expenditure for an individual fiscal year and target balances and the maximum level of expenditure from individual public finance budgets (on a cash basis). The maximum level of general government expenditure for 2020 was laid down at EUR 21,480 million, and for 2021 at EUR 22,160 million. The economic and fiscal policy guidelines of the Republic of Slovenia for the 2020–2022 period are set in the National Reform Programme and the Stability Programme, which were adopted in April 2019.

On 4 July 2019, the Government of the Republic of Slovenia adopted the Decision No. 41003-5/2019/9, with which it imposed to state budget users, among others, to plan the expenditure rights to the extent necessary for the fulfilment of all legal obligations, and to plan the usage rights for all the commitments becoming due in 2020 and 2021. State budget was set in the Ordinance on the framework for the preparation of the general government budget for the 2020–2022 period (OdPSD20–22), at level EUR 10,450 million (or the state budget balance amounting to 0.8% gross domestic product (hereinafter: GDP). Ceiling for state budget expenditure was later reduced with govermental decision (after autumn forecast on 13th of September) to level EUR 10,350 million. Budget useres and the financial plans proposers were obliged to prepare the draft laws, other regulations, and other measures necessary for the implementation of their financial plan, and to submit them to the government.

According to the latest forecasts of the European Commission (hereinafter: EC) (July 2019), economic growth in Slovenia is expected to slow down from 3.2% in 2019 to 2.8% in 2020. Also, the forecasts of the OECD (May 2019) show that the economic growth is expected to slow down to 3.4% in 2019 and 3.1% in 2020, and according to the forecasts of the IMF (April 2019) to 3.4% in 2019 and to 2.8% in 2020. Based on the latest autumn forecast of the Institute of Macroeconomic Analysis and Development (hereinafter: IMAD), of which the government was informed on 12 September 2019, a moderation in growth to 2.8% in 2019 and 3.0% in 2020 is expected. However, the growth remained above the Euro area average.

The Government of the Republic of Slovenia remains committed to the objective of complying with the requirements of fiscal policy while ensuring an adequate level of economic growth. In the medium term, it ensures an appropriate linkage of economic and fiscal policies, without further limiting the fiscal room at the expense of investment and infrastructure, which are a crucial factor in stimulating economic development (impact on the potential output, as well as on the medium-term decline in current GDP vs. potential output during the cooling-off period). The Government of the Republic of Slovenia also remains committed to creating the policy mix that enables productivity growth and wellbeing for both individuals and society. Competitiveness, inclusive growth and social stability, remain challenges, in the medium term, while reducing the public debt and maintaining the surplus of the general government balance.

Fiscal policy

In the conduct of fiscal policy, the Government of the Republic of Slovenia pursues the Fiscal Rule Act (Official Gazette of the Republic of Slovenia, No. 55/15; hereinafter: ZFisP) and two principles. The most important principle, arising from Article 148 of the Constitution of the Republic of Slovenia, is the principle of a medium-term balance. The second principle is the prudence concept in planning and the estimation of the level of budget expenditure. As is clear from the explanation in the amendment of the fourth paragraph of Article 3 of the ZfisP, "if the structural balance of the general government sector is negative, the structural deficit of the general government in an individual year shall be no more than 0.5% or 1% of GDP, and if the structural balance is positive, the structural surplus is not limited in value. In the medium term, it is necessary to ensure that the structural balance is at least equal to zero or positive, which is in accordance with the provision of the Constitution of the Republic of Slovenia, which speaks about a medium-term balance without borrowing. This means that within a medium-term period, a negative structural balance may occur in a given year, namely a structural deficit to a maximum 0.5% of GDP and 1% of GDP respectively, in the medium-term period, in accordance with the provisions of the Constitution, it is necessary to ensure that current general government's spending does not generate debt."

Both the Fiscal Council as well as the Ministry of Finance have already during the preparation of the estimations of the supplementary budget for 2019 and the 2018–2020 framework assessed that we are in the positive phase of the economic cycle. The Ministry of Finance has already taken into account the transition to a new medium-term objective (hereinafter: MTO) from a +0.25% to –0.25% GDP. In doing so, we believe that in order to ensure the medium term, it is appropriate to review different cycle lengths and not just derive from the average, while taking into account the volatility (changes) of forecasts. Slovenia is ex-ante compliant with both the domestic medium-term rule (given the IMAD forecasts and the known average of the output gap in the period from 2017 to the last available forecasts), as well as with achieving the MTO in accordance with the EC (MTO = –0.25 in 2022).

Table 1: Nominal and structural balance of the general government and public debt

	2018	*2019*	*2020*
	% BDP		
Nominal balance of general government	0,77	0,81	0,88
Structural balance of general government	0,16	0,10	0,13
General government debt	70,4	66,3	62,1

Source: Ministry of Finance

The Government of the Republic of Slovenia highlights the need to take into account that due to the variability of the output gap estimates and the projections of the revenues of the general government sector over a given year, the assessment of the structural balance, and thus the observance of fiscal rules may be subject to changes. The forecasted general balance sector for 2019 did not change. The macroeconomic forecast by UMAR deteriorated slightly, as a result of which the structural balance has changed, but is offset in the medium term. Whereby the debt throughout the period is decreasing. It is worth highlighting the corrective mechanisms written down in the Public Finance Act (hereinafter: ZJF), where the Minister of Finance must inform the government if public finances are exposed to the risk, so fiscal policy should be more restrictive (Article 9e of the ZJF):

"(1) In the cases referred to in the first paragraph of Article 11 of the ZFisP, the Minister of Finance shall, from the first day of the following month, take measures for a maximum of 60 days in order to ensure fiscal discipline, with which it shall seek to rebalance public finances in the medium term, namely:

1. Authorize the commitments only with the prior consent of the Minister of Finance;
2. Propose to the government the adoption of regulations in order to reduce the expenditures of the general government budget;
3. Prohibit the redistribution of expenditure rights.

(2) If, in order to ensure compliance with the medium-term balance of public finances referred to in Article 3 of the ZFisP, in accordance with the second paragraph of Article 11 of the ZFisP, it is necessary to prepare a proposal for an amendment to the framework, the measures referred to in the previous paragraph shall be continued until the adoption of the amendment to the framework."

MTO – medium-term objective

The EC sets a country-specific MTO every three years. For the 2020–2022 period, Slovenia has set a medium-term objective amounting to –0.25% of GDP, which is a significant improvement given the period 2017–2019, when it was set at +0.25% of GDP. The new MTO is based, inter alia, on the 2018 Ageing Report and the Fiscal

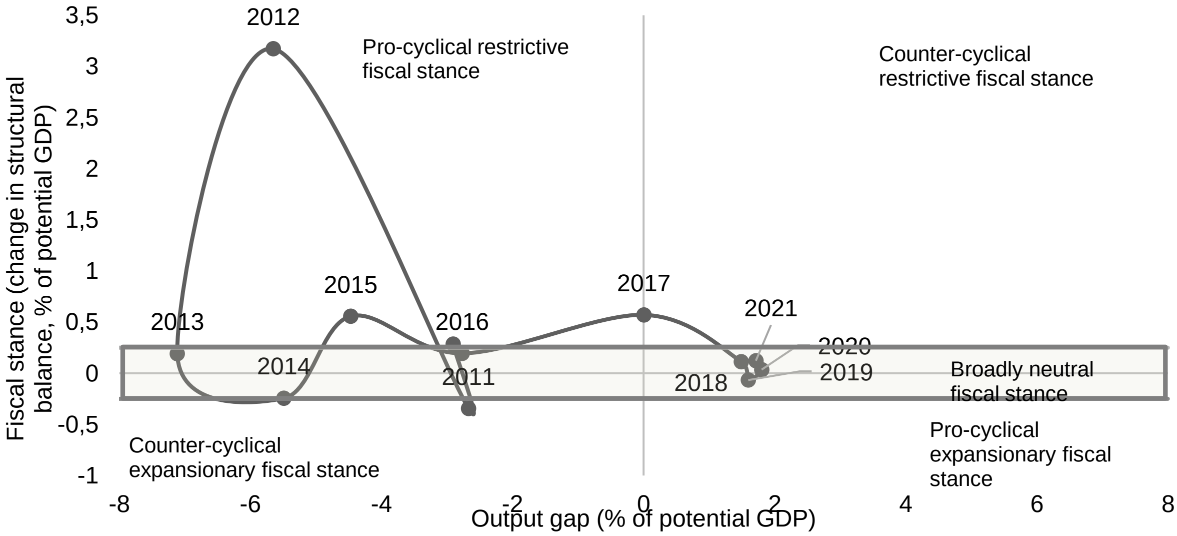
Sustainability Report 2018, where Slovenia was assessed with medium risk regarding the long-term fiscal sustainability (it was assessed with high risk in the previous report). The reason for a lower fiscal MTO is also a lower initial fiscal position, lower public debt in % of GDP than in the previous years, and better macroeconomic assumptions.

Among the specific recommendations of the 2019 European Semester, Slovenia must achieve a set MTO amounting to –0.25% of GDP in 2020. According to the calculations of the Ministry of Finance regarding the output gap and potential GDP, this objective will be met in 2020.

It should be emphasized that in the current situation, the domestic fiscal rule is more demanding than the European one, since it requires that, after reaching a structural balance (in 2017), it should be maintained on average in the medium term. According to the fiscal rule, the medium term is defined as the length of the economic cycle. Defining the length of the economic cycle is uncertain, as it can represent different periods. In our calculations, we have taken into account the average of the output gaps (see note on page 11), and for the economic cycle, we have considered the period from 2017 to the last available forecasts. This raises the question of when the cycle will end. According to the planned fiscal path, a balanced structural balance will be achieved in the given period, given the assumptions made.

Figure 1 shows the fiscal straightforwardness of a policy as a relation between the fiscal effort and estimated output gap, and it shows the responsiveness of fiscal policy given its position in the economic cycle. Since the structural balance achieved in 2017, Slovenia’s fiscal straightforwardness, as in most EU countries, is partly neutral.

Figure 1: Fiscal stance of Slovenia in 2010–2021



Source: Ministry of Finance

Expenditure benchmark

In order to estimate the highest possible growth in expenditure, interest expenditure, the cyclical unemployment benefit and expenditure resulting from EU funds revenues are deducted from all expenditures[1]. However, the four-year average of expenditure on investments not including EU funding received is taken into account. According to the estimate of the Ministry of Finance, expenditures will increase by 3.8% in nominal terms in 2020 according to the above method. Expenditure growth is expected to be lower than nominal GDP growth and potential GDP growth in 2020.

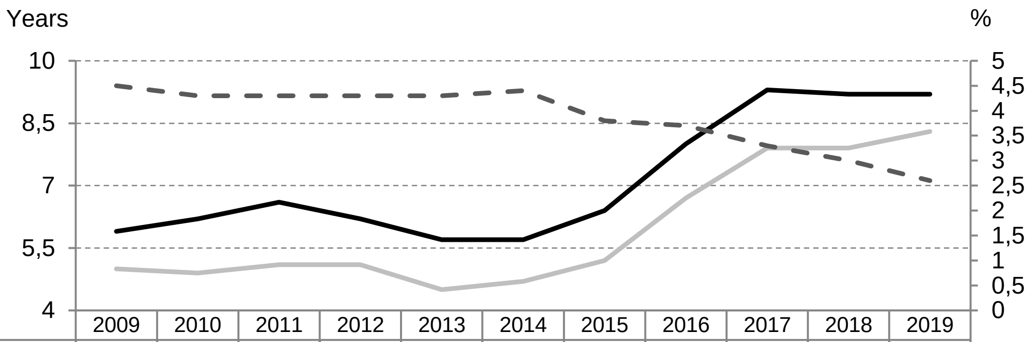
1. *Debt and contingent liabilities*

In a period of a prevailing environment of low (negative) interest rates in the Euro area and low yields in the Euro debt capital markets for the Republic of Slovenia, the Ministry of Finance executed seven cross-currency debt management transactions (EUR-USD) and early refinanced 55% of the more expensive dollar debt portfolio with cheaper long-maturity Eurobonds. Bonds were issued with maturities of 10, 16, 20, 24 and 30 years. The average weighted time to maturity of the state budget debt increased from 5.7 years in 2013 to 9.2 years in 2019. The modified duration of the state budget debt increased from 4.5 years in 2013 to 8.3 years in 2019. At the same time, the average (implicit) interest rate on total state budget decreased to 2.6% in 2019.

The long-term financing cost of the central government budget amounted EUR 785 million in 2019 (1.6% of GDP), i.e. close to EUR 300 million reduction from EUR 1.083 million in 2014 (2.9% of GDP). An important part of this reduction was driven by active debt management, i.e. interest bill reduction of EUR 115.8 million on a yearly basis. The other significant driver has to be attributed to the low-interest-rate environment in the Euro debt capital markets in respect to debt refinancing and financing of the central government budget. The share of state budget debt denominated in USD (all obligations are fully hedged back into Euro) decreased from 25% to today's 4%.

[1] In 2018, the European Commission, in relation to public finances under the European Semester, called on Slovenia to ensure that the nominal growth rate of net primary government expenditure in 2019 does not exceed 3.1%, which corresponds to an annual structural adjustment amounting to 0.65% of GDP. In 2019, it is estimated that net expenditures will grow more rapidly.

Figure 2: Descriptive characteristics of state budget debt: Modified duration (MD), average weighted time to maturity (AWTM) and implicit interest rate

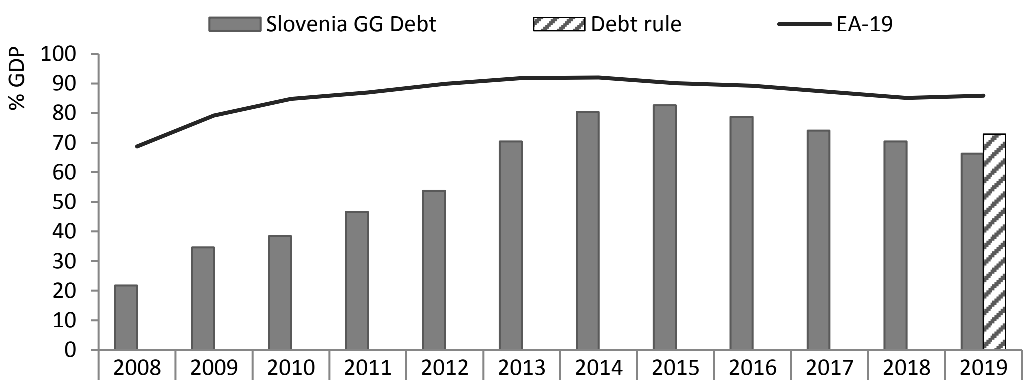


	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
AWTM (LHS)	5,9	6,2	6,6	6,2	5,7	5,7	6,4	8,0	9,3	9,2	9,2
MD (LHS)	5,0	4,9	5,1	5,1	4,5	4,7	5,2	6,7	7,9	7,9	8,3
Implicitna OM (RHS)	4,5	4,3	4,3	4,3	4,3	4,4	3,8	3,7	3,3	3,0	2,6

Source: Ministry of Finance, September 2019

The Republic of Slovenia fully complies with the debt rule, as the projected general government debt/GDP ratio amounted to 70.4% BDP in 2018 and to 66.3% BDP in 2019, which is significantly better than required.

Figure 3: General Government Debt, Euro area average, Debt rule (backward-looking benchmark)

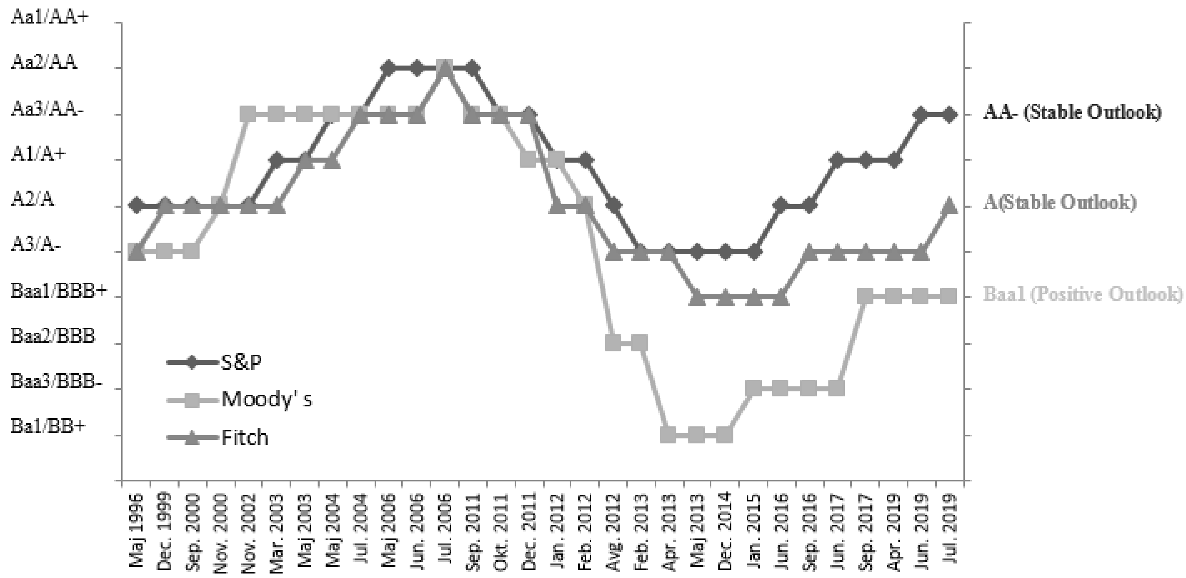


	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Slovenia GG Debt	21,8	34,6	38,4	46,6	53,8	70,4	80,3	82,6	78,7	74,1	70,4	66,3
Debt rule												72,9
EA-19	68,7	79,2	84,8	86,9	89,9	91,8	92	90,1	89,2	87,1	85,1	85,8

Source: Eurostat, Ameco database for EA-19, Ministry of finance, September 2019

Slovenia is ranked first among Euro area countries and exhibits fastest general government debt-to-GDP ratio reduction in the last four years from 82.6% of GDP in 2015 (when it was the highest) to estimated 66.3% of GDP in 2019. This year, S&P and Ritch Ratings upgraded Slovenia’s ratings to AA– and A, respectively. Moody’s credit rating for Slovenia was last set at Baa1 with a positive outlook. According to S&P and Fitch, the increase in the rating reflects the successful reduction of the public debt to GDP ratio and the positive general government balance. According to both agencies the rationale for the upgrade was evidenced by the economic growth, good economic relations with the rest of the world, strengthening of the banking sector and reducing unemployment.

Figure 5: Republic of Slovenia Credit Rating Over Time



Source: S&P, Moody‘s and Fitch, September 2019

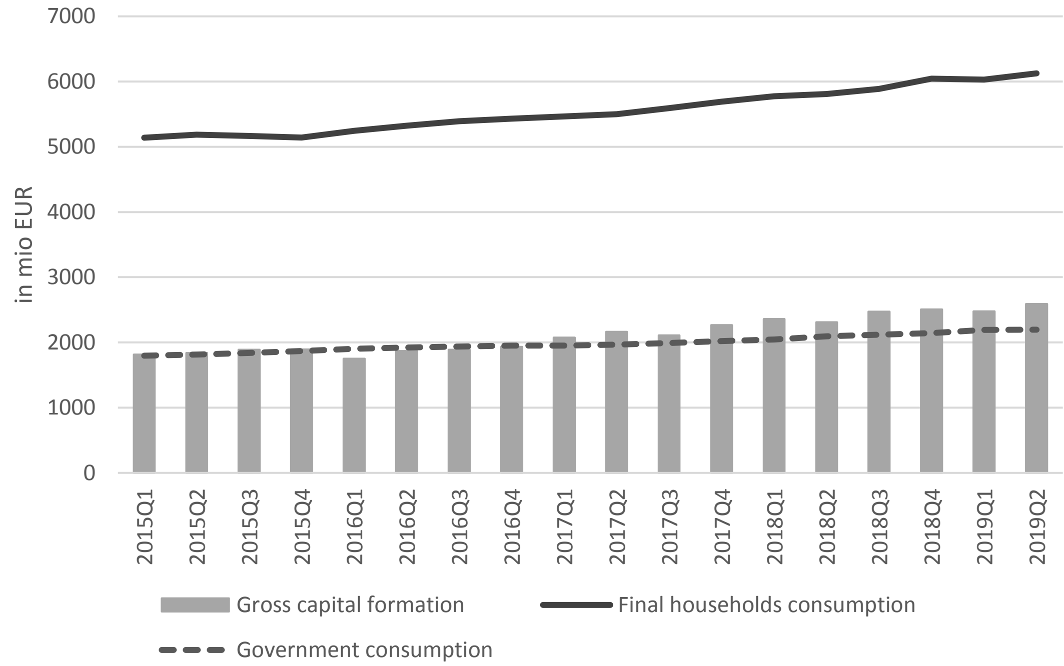
In the years 2007 and 2008 the 10-year bid yield of Slovenia and Germany were relatively correlated. During the crisis the yields started to diverge with peak spread above 600 bp. In the crisis period, especially in the year 2012, the yield in the secondary market crossed the 7% mark for the first time and the credit spread at that time, i.e. the spread over 10-year mid swap amounted 525 bp, i.e. 75% of the yield. In 2014 the spread over Bund declined sharply and the yields started to correlate again at much closer levels. On 17th September 2019 the credit spread over mid swaps amounted 18bp.

The outstanding guarantees of the Republic of Slovenia as at 30 June 2019 amounts to EUR 5,573 million, of which EUR 669 million were guarantees to the financial sector (S. 12). The assessment of outstanding guarantees of the Republic of Slovenia at the end of 2019 and 2020 was made based on certain assumptions regarding the repayment of existing guarantees and the granting of new ones. The quota for new guarantees is planned by the act governing budget implementation. For 2019, the quota was EUR 500 million, and separately EUR 350 million for guarantees of SID bank. Experience from previous years shows that the actual use of the quota is low; indeed in the period 2017–2019 the quota was not used, as all guarantees issued in 2017 were used for refinancing existing obligations, and in 2018 and 2019 no guarantees were issued. In the above-mentioned years, the quota for SID bank was not used. In accordance with the act governing budget implementation, the quota for 2020 is EUR 600 million, and separately EUR 350 million for guarantees of SID bank.

2. *Outlook and expectations*

In 2018, Slovenia recorded a 4.1% real economic growth, which started slowing down in the first half of 2019 (2.9%). IMAD autumn macroeconomic projections, which are used in the draft budgetary plan, forecasts a decline of economic growth in 2019 to 2.8%. Private consumption expenditure is still increasing in 2019 (3.4%), mainly due to higher wage and social benefits growth, as well as rising employment. Growth in construction investment and investment in equipment and machinery continues, although a slowdown of economic growth is already evident. Growth in export continued to increase in the first quarter, mainly due to exports of pharmaceuticals and medical devices, however, those most did not come from domestic production but imports.

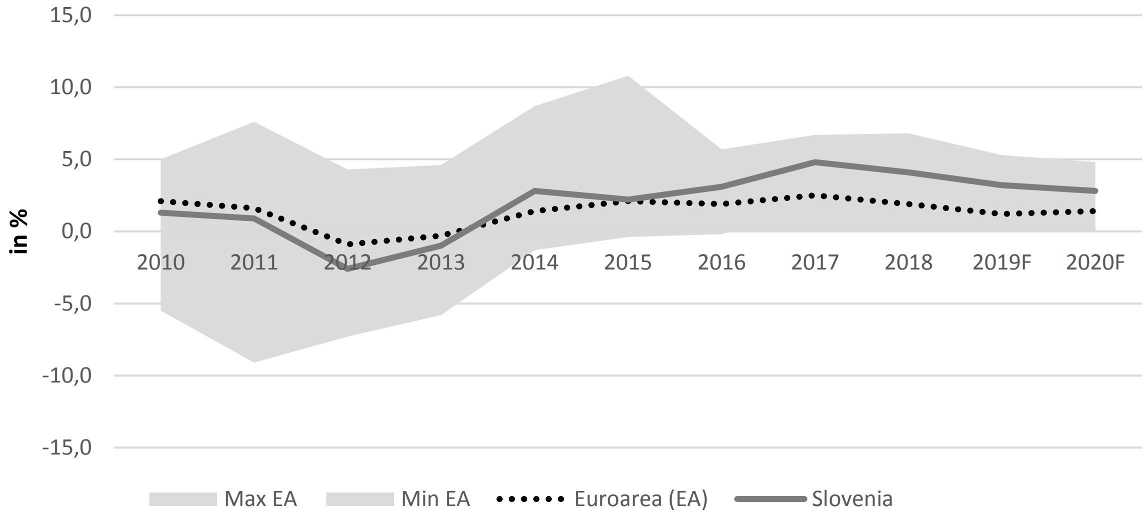
Figure 5: Final household and government consumption and gross capital formation (in EUR million)



Source: SORS

In the following years, economic growth will remain moderate, namely 3.0% in 2020, and 2.7% in 2021. The slowdown of economic growth is mainly due to uncertainty in the international environment. Nonetheless, the projected economic growth for Slovenia remains higher than the euroarea average (1.2% in 2019, and 1.4% in 2020; Figure 6).

Figure 6: Economic growth in Euroarea and in Slovenia (2010-2020)

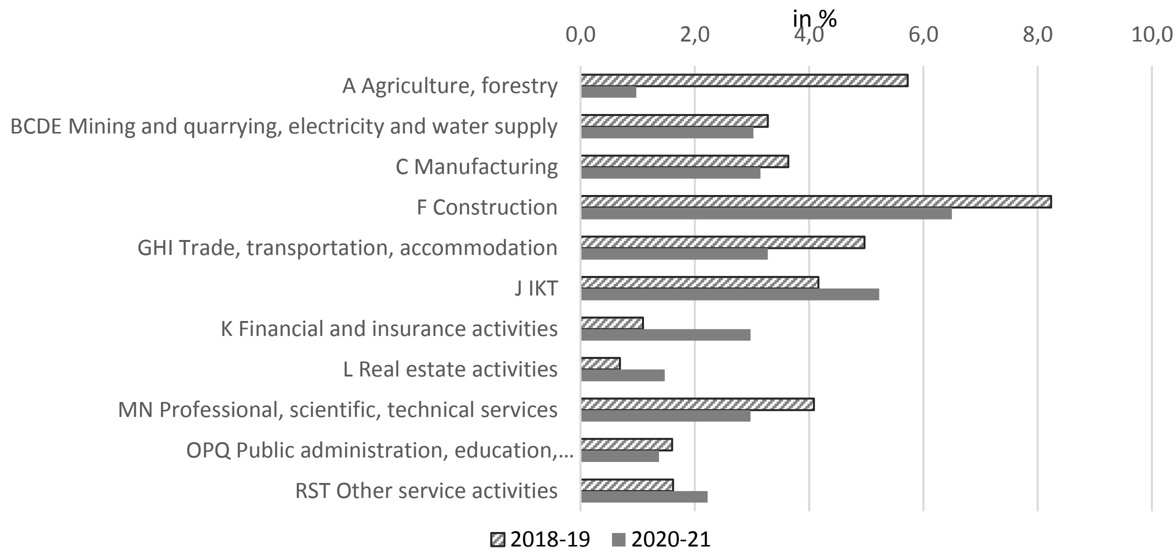


* Minimum and maximum values of Euroarea growth without Ireland

Source: Eurostat; European Commission, Economic forecast - summer 2019

Protectionism in international trade, structural problems of the European automotive industry and growing uncertainty in the international environment will, over the next two years, continue to reflect in lower growth in foreign demand compared to 2017 and 2018. Following this year's acceleration due to one-off domestic factors, export growth will be noticeably lower than this year, while growth in gross fixed capital formation will remain similar after this year's decline. Nevertheless, gross capital formation growth will remain relatively high in the next two years (5–6%), mainly due to high growth in the construction sector (Figure 7). The substantial growth of final domestic demand will also continue (3.4% in 2020; 3.1% in 2021). Meanwhile, the growth of private and government consumption expenditure will gradually slow down.

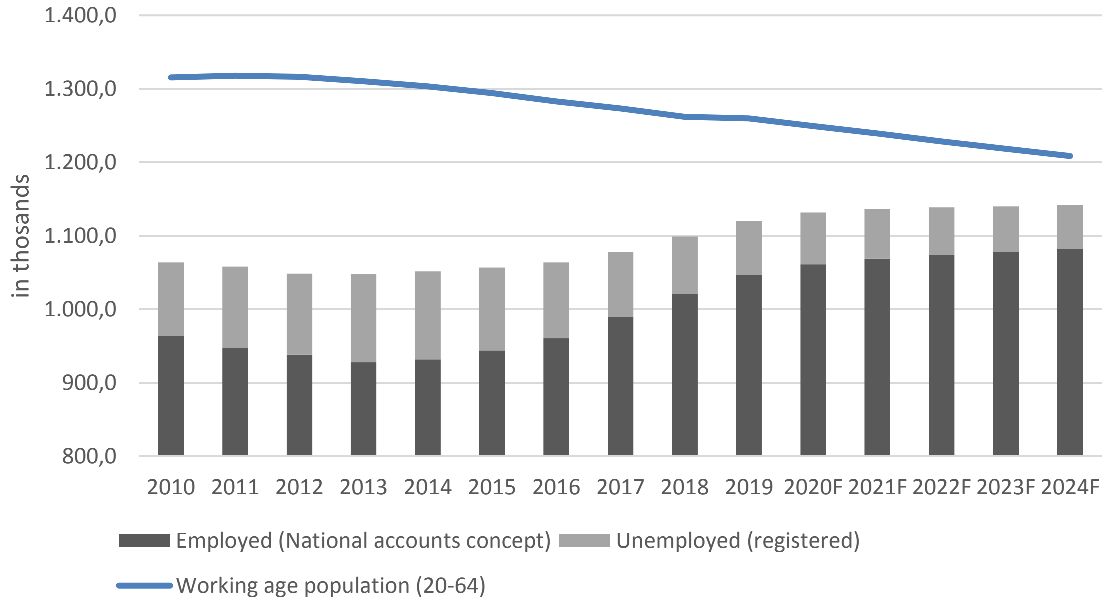
Figure 7: Value added by activity (real growth rates)



Source: IMAD, Automn forecast

In the first half of 2019, employment continued to increase, and unemployment dropped. In 2018, the level activity (persons aged 20–64) reached the highest long-term level at 75.4%. Employment has increased in all sectors (most in construction), and many businesses are still facing a lack of an adequate workforce. The trend of a high rate of employment is expected to continue (78.3% in 2021), albeit with slightly subdued growth. In addition to modest economic growth, demographic pressures also contribute significantly to this (Figure 8). The unemployment rate will remain low (4.3%) also in 2019, and below the long-term average.

Figure 8: Employed, unemployed and working age population



Source: IMAD, Automn forecast

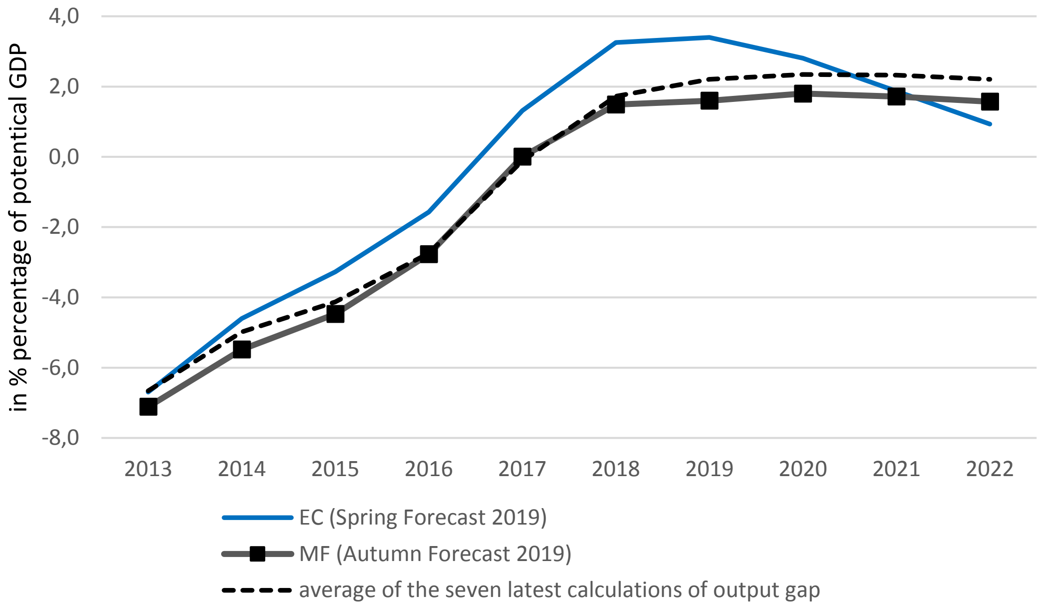
Wage growth continued to increase in the first half of 2019, mainly due to wage growth in the general government sector as a result of an agreement with trade unions and partly due to a rise in the minimum wage at the beginning of the year. As a result, wages in the private sector have also increased, especially in activities with a high proportion of minimum wage earners, as well as in activities that face a shortage of workers. Raise in the minimum wage, enforcement of agreements with trade unions and a shortage in the workforce will have an impact on continued wage growth also in 2020 and 2021. Wage growth will, therefore, not fall behind productivity growth.

The inflation rate will gradually increase in the coming years, presumably from 1.8 in 2019 to 2.0 in 2020, and 2.3 in 2021. The main reasons are higher price growth for services, which have been increasing since mid-2018. Even in the next two years, prices can be expected to rise, along with the increase in demand and increasing cost pressures. Nonetheless, the inflation will remain moderate in 2020–2021 due to assumed lower oil prices.

Assessment of the cyclical position

According to the latest estimates of the Ministry of Finance, after years of the negative output gap, i.e. periods when GDP was below the potential GDP, the output gap closed in 2017. With the slowdown of economic growth, the output gap will reach its peak in 2020, at 1.8% of potential GDP, and then start to close at an extremely slow pace, according to estimates (Figure 9). A similar trend in the output gap is also indicated by the spring 2019 Economic Forecast by the European Commission and the average of the last seven calculations of the output gap of various institutions[2].

Figure 9: Output gap estimations



Source: Ministry of finance

Risks

Uncertainties in the international environment are growing. They are mainly linked to US protectionist measures, lower economic growth in China and in the euro area, above all, to the uncertainty of the UK's exit from the EU. Other potential risks that could contribute to lower economic growth in trading partners include fluctuations in

[2] The average includes the following output gap calculations:

- International Monetary Fund (*World Economic Outlook Database*, April 2019),
- estimate using the production function method (from the Spring 2019 Economic Forecast by the European Commission);
- estimate using the HP filter (from the Spring 2019 Economic Forecast by the European Commission);
- OECD (*OECD Economic Outlook, Volume 2018 Issue 1*, May 2019);
- 2019 Autumn Forecast by IMAD;
- 2019 Autumn Forecast by the Ministry of Finance; and
- the average of the last seven calculations of the output gap of various institutions with the 2019 spring forecasts.

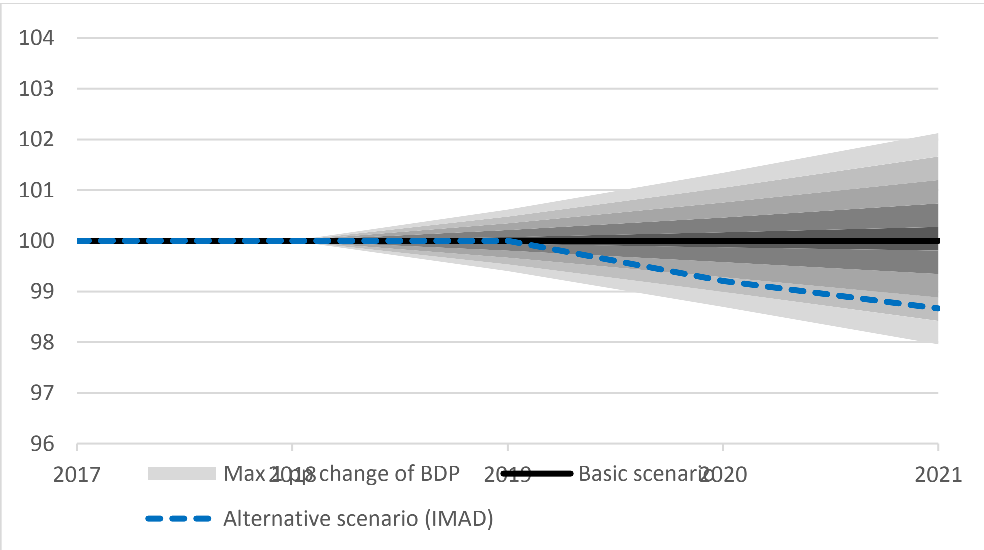
financial markets and geopolitical risks (especially concerning Iran) that could have an impact on higher oil prices.

According to Damijan, Kostevc and Redek (2019)[3], Brexit would lead to adverse effects, which would be relatively small for Slovenia. In the case of hard Brexit, Slovenia's GDP could decline by about 0.03% in ten years; meanwhile, in the case of soft Brexit, there would be no impact on GDP. This is primarily a reflection of the low level of trade flows between the United Kingdom and Slovenia, and the specific production structure of the Slovenian economy.

Due to weaker global demand growth and rising unit labour costs, a decline in export growth is expected in the coming years. IMAD has thus constructed an alternative economic growth scenario, in which the growth of foreign demand would decline significantly. According to IMAD's projections, in the case of 2 pps and 1pp lower growth in foreign demand in 2020 and 2021 respectively than in the baseline scenario, GDP will be smaller by 1.3 percentage point in 2020 and by 0.7 percentage point in 2021.

Figure 10 presents alternative scenarios of the impact of fluctuations in economic growth on general government revenues. The first scenario assumes up to 1 percentage point higher or lower nominal GDP growth than the baseline forecast (used in DBP 2020) yearly over the years in the 2019–2021 period (grey box). In the second case, an alternative scenario of lower GDP is constructed due to lower growth in foreign demand (dashed line).

Figure 10: Impact of fluctuations in economic growth on general government revenues



Source: Ministry of finance, own estimates

[3] Damijan, J., Kostevc, Č., Redek, T. (2019). Analysis of the implications of different Brexit scenarios on the internal market and trade relations with the United Kingdom. Ljubljana: CPOEF.

Assuming unchanged policies, in the event of higher nominal GDP growth by 1% from the expected, the government revenue would improve by 0.6% in 2019, by 1.3% in 2020, and by 2.1% in 2021. Otherwise, lower GDP growth of the general government revenue by a one percentage point would reach 99.4% of the baseline forecast revenue in 2019, 98.7% in 2020, and 98.0% in 2021. In the case of a lower GDP growth in 2020 that would be lower by 1.3 percentage point than projected, the general government revenue would be 0.8% lower than the baseline forecast in 2020, and 1.3% lower in 2021.

3. *2019–2020 fiscal developments*

Central government level

In 2019 and 2020, the state budget (hereinafter: SB) puts particular stress on expenditure on education and sports, home affairs and security, defence and protection, and social protection:

- The largest share of expenditures in the state budget in 2019 and 2020 will be allocated to the financing of education and sport, to provide accessible and quality education for all. The share of these expenditures in the total SB expenditures will account for 17.9% in 2020, which is 3.6% of GDP. Compared to 2019, SB expenditures for this purpose will increase by 3.1%, and compared to 2017, expenditures on financing education and sports will increase by 13.9%.
- A significant share of the state budget's expenditure of the Republic of Slovenia is allocated to social protection. As social transfers continue to be an essential factor in reducing relative poverty, significantly decreasing the at-risk-of-poverty rate, transfers to individuals and households make up the majority of social protection expenditure. With the removal of all austerity measures in the area of social and family policy and with the adoption of some new legal obligations in this regard (e.g. the Personal Assistance Act), the SB expenditure in 2019 will increase by 10.9% compared to the previous year. Expenditure on social protection has been increasing over the entire period after 2017. In 2020, social protection expenditure is expected to represent 11.7% of total SB expenditure or 2.4% of GDP, which is by 15.8% more than in 2017.
- Since 2014, we are witnessing significant changes and deterioration of the security situation of the international environment, including the wider European area. In order to ensure national resilience for the implementation of the accepted international commitments of the country, internal security and the control of the national territory in the light of the changed migrant flows, more funds are planned in the coming years, which will be directed towards upgrading the state border protection in accordance with European and national regulations. This is also one

of the priorities of the European Commission (migration). Total SB expenditures for defence, safety, home affairs and security purposes were increasing in the post-2017 period when they accounted for 8.4% of SB expenditures. In 2019, this proportion will increase to 9.2%, and in 2020, it will already amount to 9.5% of total SB expenditure, which is 5.4% more than in 2019, and 27.7% more than in 2017. The share of total SB spending on defence, safety, home affairs and security will account for 1.9% of GDP in 2020, which is 0.1 percentage point more than in 2017.

Other central government units are a projection of state budget policies. The major part of the funding is intended for public institutions and agencies, where the expenditure in 2019 is estimated at EUR 5.7 billion, rising by 5.3% in 2020. For educational institutions and agencies, we expect expenditure amounting to EUR 2.6 billion (a 5% increase in 2020). Health institutions are projected to spend EUR 2.2 billion, with a 5.7% increase in 2020. In the 2017–2019 period, public institutions in health increased their expenditure by six percents and public institutions in education by twelve percents. Other units of the general government sector, such as public corporations, budgetary and public funds, strengthen investment activity or procurement.

Social security funds (ZZZS and ZPIZ)

The Pension and Disability Insurance Institute of Slovenia represents more than 25% of general government revenue, which depends on the state of the pension and disability systems (the 2013 reform reduced this share). In the 2017–2019 period, the Institute's total expenditures increased annually; by 1.6% in 2017 compared to the year before, by 3.5% in 2018, and 4.1% in 2019 compared to 2018. Total expenditures increased as a result of the increased mass of pension funds, which represents the largest share of expenditures. Over the same period, the growth rate of pension beneficiaries stabilized at 0.3% annually and is significantly lower than in the period 2011–2013, which stood at around 5%. According to the Pension and Disability Insurance Act, the state budget provides for missing funds with a transfer to the pension fund due to the difference between revenues and expenses. Expressed in the proportion of GDP, transfers from the state budget amounted to 2.7% in 2017, 2.3% in 2018, and it is estimated to be 2% in 2019. By 2021, it is projected that transfers from the state budget to the pension fund will amount to 1.9% in 2020 and 1.8% in 2021. The estimates of pension fund revenues in 2020 and 2021 from contributions show a further increase of 6.5% in 2020 and 5.7% in 2021.

The pension legislation is planned to be amended in 2020, which pursues two basic objectives, namely to prolong labour activity and to provide adequate income for a security in order age, and, consequently, to improve the social status of beneficiaries of pension and disability insurance rights. Significant changes to the legislation in the field of compulsory pension and disability insurance include:

- Raising the replacement rate for both men and women to 63.5%, and hence the increasing social protection for the recipients of the lowest pensions, old-age, disability, widow's and survivor's pensions. Regarding the rise of the replacement rate, the assessment scale proposal was harmonized with a baseline percentage of 29.5% for both sexes, with an additional 1.36% for each subsequent year, and 63.5% for 40 pensionable years for both sexes;
- Incentives to remain in insurance scheme and the assurance that the significant part of the pension, as well as the payment for the pensioner's work, is received. By arranging the so-called "double status", a compromise was reached regarding the solution proposed by the Ministry of Labour, Family, Social Affairs and Equal Opportunities, which upgrades the existing system of payment of 20% of the pension. The proposal envisages that in the first three years after the fulfilment of the conditions for old-age pension, under the condition of inclusion in compulsory full-time working or insurance period, the person shall receive 40% of the old-age pension, and after three years, this part shall be reduced to 20%. To encourage the extension of part-time activity of individuals for at least 4 hours a day or 20 hours a week, the amount of the partial pension is also subject to changes.

The Health Insurance Institute of Slovenia accounts for about 16% of total general government revenues. Revenues from compulsory health care insurance and transfers increased nominally by more than EUR 400 million in the period from 2017 to 2019 (estimate). Among the transfers, contributions of the state for programmes for reducing waiting periods, and for the salaries and wages of trainees and residents is increasing. Among the transfers, the most important is the transfer from Pension and Disability Insurance Institute of Slovenia for health insurance of pensioners, which depends on the number of pensioners, indexation and other measures in the pension scheme. Revenues were also followed by expenditures, most of which were intended for medical services, among them for specialist outpatient and hospital treatment. This is followed by expenditures on medicines and medical supplies and sickness cash benefits. Due to favourable labour market conditions, the extension of working life, wage growth, and other labour, social and economic factors, these expenditures are increasing slightly throughout the entire structure. For the next year, planned expenditure is in line with limits on expenditure based on the fiscal rule.

Local level

Budgets of municipalities account for about 10% of total general government revenues. In the period 2017–2019, total revenue increased by EUR 280 million, and expenditure increased by around EUR 250 million. According to projections, budgets of municipalities are estimated to close in 2019 with a positive balance, which will continue into 2020 and 2021. A large proportion of total expenditure is represented by investment expenditures, which accounted for 30% in 2018. It is noticeable, however, that municipalities were having elections in 2018 when investments increased by almost 30% compared to 2017. Nevertheless, the investment cycle continues. The reason for the increase can be attributed mainly to the increased revenue of EU funds, which are used by the municipalities to co-finance gross investments. The projections foresee that the municipal budgets will remain within the projected upper limit of prermissible expenditure framework in 2020.

Main aggregates of the general government

In 2019, revenues of the general government are expected to amount to EUR 21,467 million or 44.5% GDP, which is by 5.9% or a 0.2 percentage point of GDP increase than in 2018. The most significant impact on the growth will be made by taxes and social contributions. Meanwhile, revenues from property income will be lower than in 2018.

Total tax revenue will increase by 5.0% in 2019 compared to the year before, mainly at the expense of higher taxes on the income or profits of corporations (by 15.6%) and personal income tax (by 4.7%), despite the tax relief from holiday allowance in 2019 and, consequently, lower revenue referred to this. VAT revenues will also increase (by 5.4%). In 2019, there will be an increase in revenues from social contributions, which will rise by 7.2%, still due to favourable conditions on the labour market. The most significant decline in revenues in 2019 will be primarily evident in property income from distributed corporate profits, which will be down by 24.0% in comparison to 2018.

Following the unloading the tax burden on holiday allowance this year, a new step towards tax optimization is being made, which will further strengthen the competitiveness of the business environment, maintain a stable economic situation, and contribute to sustainable economic growth. The aim of the proposed tax changes is to relieve labour income, which, given international comparisons on tax and contribution burdens, is above average in Slovenia. The changes relate to both the tax scale (boundary and rate changes) as well as reliefs (increase in general relief, linear relief for all incomes below EUR 13,316.83) and ensure that no taxpayer will be worse off if his/her income remains unchanged. Such measures trigger spillovers, notably through increased consumption and increased incentives to take up a job. At the same time, they are also encouraging for companies, as they are given the possibility of better hiring of professional staff, which have a positive impact on the growth of the company, and can directly pay higher wages to employees having the same labour costs.

The proposed measures represent a loss of tax revenue, which in turn will be replaced by countermeasures that will lead to comprehensive, neutral reform. These countermeasures represent a restriction on the use of corporate tax relief to a certain percentage of the tax base, a slightly higher burden on capital gains and rental income, and an increase in the efficiency of collecting fiscal duties (in particular measures aimed at improving the efficiency of control procedures and measures to increase voluntary tax payments).

That is why we plan to increase our general government revenues in 2020, albeit at a slightly more moderate level. Total revenues are expected to amount to EUR 22,331 million or 43.9% of GDP, which is 4.0% more than in 2019. Even in 2020, the most significant impact on the growth of the general government sector revenues will be made by taxes and social contributions. Meanwhile, revenues from property income will further decrease. Total tax revenues in 2020 will increase by 4.4% compared to the previous year. Personal income tax (by 6.3%) and corporate income tax (by 6.0%) will increase the most. VAT revenues will increase by 5.2%. Revenue from social contributions will continue to increase in 2020, however, growth will be slightly more moderate than in 2019. It will amount to 5.8%. Similar to 2019, we expect lower revenue from property income in 2020, mainly at the expense of lower revenue from distributed corporate profits. They are expected to be down by 12.9% from 2019.

Despite slightly more moderate growth in revenues in 2019 and 2020, it should be emphasized that in 2019 as well as in 2020, revenues will grow faster than expenditures. Thus, in 2019, revenue growth will be 0.1 percentage point higher than expenditure growth and 0.2 percentage point in 2020.

General government expenditure is expected to reach EUR 21,076 million or 43.7% of GDP in 2019, which is up by 5.8% or 0.14 percentage points of GDP from 2018. Higher growth in 2019 will be most influenced by compensation of employees, compared to the previous year; they will increase by 7.9% to 11.3% of GDP. This increase is primarily due to the 2018 agreement between the Government of the Republic of Slovenia and public sector trade unions on the wage increase. Social payments will also increase by 5.6% (to 17.6% of GDP) as a result of the elimination of all austerity measures in the area of social and family policy. Expenditure on gross fixed capital formation will also be higher in 2019. It is expected to increase by 13.5% compared to 2018 or to 3.8% of GDP. Interest expenses will also fall in 2019, by 13.5% to 1.6% of GDP.

General government expenditure is expected to continue to grow in 2020, but growth will be more moderate. They are expected to amount to EUR 21,885 million or 43.0% of GDP, which is 3.8% more than in 2019. Expenditure on the compensation of employees will increase by 5.2% in comparison to 2019 and amount to 11.3% of GDP. The partial slowdown of the growth of expenditures will primarily be the result of the adopted measure concerning the payment of work performance and the gradual implementation of the increases that have already been agreed. This limitation represents a saving in 2020 as it relates to public sector employees subject to the single pay system.

Growth in social payments will be more moderate in 2020 than in the previous year, which will be influenced by measures relating to eliminating the anomalies in this area and regulating the labour market. They will increase by 4.2% and represent 17.4% of GDP. Important measures in this area are as follows:

- A more appropriate assessment of material situation (income and wealth)in determining entitlements to rights from public funds: The current regime permits families with more significant assets to be entitled to the same amount of funds from the state budget as vulnerable families with little or no assets.
- A more appropriate definition of the structure of the hourly rate for personal assistance services: Based on the contractors' reports, it has been concluded that it is reasonable to reduce the price of the hour of personal assistance services. The amendment to the Rules on the implementation of the Personal Assistance Act will limit expenditure growth.
- More appropriate arrangements for entitlement to unemployment benefits: The Government adopted amendments to the Labour Market Regulation Act, which envisages, inter alia, an increase in the minimum insurance period for the recognition of the right to financial compensation, changes in the conditions for determining the duration of financial compensation of the elderly, tightening up the rules in case of refusal to participate in active employment policy measures, and raising the minimum unemployment allowance. The proposed measures mean a faster activation of the working population and prolongation of the employment of the elderly while ensuring bigger social protection for the unemployed.
- Changes in the area of social security benefits: The elimination of the work activity bonus as part of financial social benefits will reduce transfers and promote social activation, as well as reduce the trap of inactivity of unemployed beneficiaries of financial social benefit.
- The adoption of the Act Regulating Measures Relating to Salaries and Other Labour Costs and other Measures in the Public Sector for 2020 and 2021 and the two amended provisions on extraordinary pension adjustments and other benefits also had a significant impact on the slowdown of the growth of social transfers. The law thus stipulates that pensions should only be extraordinarily adjusted if economic growth reached or exceeded 3.0% of GDP in the previous year, namely with pensions are to be adjusted by 1% if growth exceeds 3%, by 1.5% if growth exceeds 4%, and by 2% if growth exceeds 5%.

According to estimations, the impact of these measures is going to limit expenditure by more than 0.12% of GDP per year. Among the main factors affecting the amount of expenditure due to transfers to individuals and households are the material situation (income and wealth) of the population and its ability to provide a means of support in the labour market that allows for economic freedom, the unemployment rate in Slovenia this year is at one of the record low levels, the growth of wages due to economic growth. It is also worth noting the growth of the minimum wage and wage growth based on an agreement concluded with public sector trade unions and the rate of inflation. This suggests that, due to wage growth, high employment rates and further economic growth, albeit slower, there will be less countercyclical transfers to individuals and households than there would have been during the financial crisis and prolonged unemployment associated with it.

Gross fixed capital formation is also expected to increase in 2020, albeit slightly more moderately. These are projected to increase by 6.4% to 3.9% of GDP, in comparison to the previous year. We particularly highlight the SID bank's instruments for "Financial Instruments 2014–2020" (FOF) for the ECP funds for EUR 253 million, which together with the expected leverage of financial intermediaries enables financing of final recipients of EUR 373 million. EU funds are used in four tranches, each amounting to EUR 63.25 million. Financial instruments are targeted at R&D in companies. Meanwhile, they provide access to financial assets to small and medium-sized enterprises (SMEs) primarily through guarantee schemes and favourable loans. The second tranche of funds is expected to be drawn in 2019 since an adequate proportion of the first tranche has already been successfully disbursed to end-users. The funds available for the first tranche for microloans have already been fully drawn, and for the most part loans for research and development have also been drawn, meanwhile the funds for urban development intended for the western cohesion region have already been used, and several projects to be co-financed with the funds for the energy renovation of public buildings are in the final stage of preparation. The Call for Equity and Quasi-Equity Financing will be published as early as in 2019. Financing agreements with financial intermediaries, concluded up to and including 31 August 2019, amounted to EUR 150.85 million, and concluded transactions (contracts) with final recipients from the first tranche, up to and including 31 August 2019, amounted to EUR 69.4 million including leverage, of which EUR 43.38 million are the European Cohesion Policy funds. With the said use of the first tranche, a financial multiplier of public funds of 1.6 was achieved, which means that financial intermediaries added another 60% of the amount of their own funds to the ECP funds. Three new instruments will be introduced in 2020, namely R&D portfolio guarantees for SMEs, R&D portfolio guarantees for large enterprises, and portfolio guarantees for SMEs and related selections of participating financial intermediaries.

In other SID Bank lending funds (totalling EUR 650 million), financing schemes are set up base on market gaps, with the funds of Ministry of Economic Development and Technology having priority in risk-taking, which allows for high leverage of public funds and favourable financing conditions for end-users. By August 2019, 1,347 loans totalling EUR 619.5 million had been granted, so that the assets in the funds were already used in most cases, and new programmes for second spending were created. Loan funds finance R&D projects, investments in tangible and intangible fixed assets, day-to-day operations of SMEs, investments in tourism, investments in the wood processing industry. According to estimates of macroeconomic multiplier effects, the placed funds represent about EUR 600 million of stimulated GDP or about EUR 250 million of additional budgetary revenue from further stimulated economic activity. The effectiveness of the measure is also reflected in a comparative analysis between the enterprises that have obtained the financing, and the other similar enterprises in terms of their equity growth, turnover, employment and investments. The results show that, on an available horizon, enterprises financed with loan funds on average increased faster all the factors studied. For enterprises from all lending funds, there is noticeable a strong investment impact, especially in the first year. The successful operation of financial engineering funds shows a very positive experience, both in counter-crisis operations as well as in promoting the sustainable development of the Republic of Slovenia. Underlying instruments based on reimbursement, by their nature, have a significantly lower intensity of use of public funds and higher multiplier effects than grants or subsidies. They also ensure the stability and predictability of an adequately targeted supply of funding for the public incentive system.

Claiming one-off measures

In 2019, one-off expenditure is estimated at EUR 23.5 million from the open court, out-of-court, arbitration and other proceedings, from which significant budgetary and other risks are resulting. In 2020, one-off expenditure is estimated at EUR 51 million, where in addition to the above purposes, compensation has been added due to the inability to use agricultural land and forests, returned through denationalization and an investment dispute proceedings.

Annex to the DBP 2020: Required tables

Table 0.a. Basic assumptions

	2018	2019	2020
Short-term interest rate (annual average)[1]	-0.3	-0.4	-0.6
Long-term interest rate (annual average)[2]	1.1	0.4	0.1
USD/€ exchange rate (annual average)[3]	1.181	1.123	1.115
Nominal effective exchange rate	0.7	-0.2	0.3
World excluding EU, GDP growth	-	-	-
EU GDP growth	1.9	1.2	1.2
Growth of relevant foreign markets[4]	3.6	3.0	3.2
World import volumes, excluding EU	-	-	-
Oil prices (Brent, USD/barrel)	71.0	62.9	57.4

Notes: [1] ECB assumptions; [2] yield to maturity of 10-year government bond, data for 2019 is the average of Jan-Aug 2019 (source: Bloomberg.com); [3] technical assumption on the basis of average values between 1 and 20 August 2019 [4] real imports of goods and services from trade partners weighted by means of Slovenian export rates to these countries. Source: EIA, ECB, IMF, CME, IMAD 2019 Autumn Forecast.

Table 0.b. Main assumptions

	2018 (Levels)	2019 (Levels)	2020 (Levels)
1. External environment			
a. Prices of commodities[1]	3.9	-2.0	2.1
b. Spreads of german Bond	0.62	0.67	
2. Fiscal policy			
a. General Government net lending/ net borrowing *(in million EUR)*	353.5	390.8	446.0
b. General gross debt *(in million EUR)*	32,223	31,962	31,624
3. Monetary policy / Financial sector / Interest rates assumptions			
a. interest rates			
i. Euribor[2]	-0.3	-0.3 (Jan-Aug)	
ii. Deposit rates[3]	0.16	0.17 (Jan-July)	
iii. Interest rates for loans[4]	2.06	1.58 (Jan-July)	
iv. Yields to maturity of 10 year government bonds	1.09	0.56 (Jan-Aug)	
b. Evolution of deposits[5]	5.7	6.9 (July yoy)	
c. Evolution of loans[5]	0.7	2.9 (July yoy)	
d. NPL Trends	2.3	1.5 (July)	
Demographic trends			
a. Evolution of working age population[6]	1,261.9	1,259.9	1,254.9
b. Dependency ratios[7]	31.8	32.8	33.8
Structural dependencies			

Notes: [1] Prices of commodities: non-energy commodities in USD, change in %; [2] 3-month EURIBOR, data for 2019 is the average of Jan-Aug 2019; [3] deposits with maturity of up to 1 year, [4] corporate loans over an amount of 1 million EUR, [5] domestic non-banking sectors, year-on-year growth rate, [6] 20-64 years, 1. January of year; [7] 65+/20-64*100, annual average. Source: SURS, IMAD and Ministry of Finance.

Table 1.a. Macroeconomic Prospects

	ESA Code	2018 (Levels million EUR)	2018 (rate of change)	2019 (rate of change)	2020 (rate of change)
1. Real GDP	B1*g		4.1	2.8	3.0
of which:					
~ attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP			2.6	2.7	2.7
Contributions:					
Potential GDP contributions: labour			*0.7*	*0.8*	*0.7*
Potential GDP contributions: capital			*0.4*	*0.5*	*0.7*
Potential GDP contributions: total factor productivity			*1.5*	*1.4*	*1.4*
3. Nominal GDP	B1*g	45,755	6.4	5.4	5.5
Components of real GDP:					
4. Private consumption expenditure	P.3	23,922	3.4	3.4	2.7
5. Government consumption expenditure	P.3	8,394	3.2	2.2	1.7
6. Gross fixed capital formation	P.51	8,799	9.4	6.8	6.8
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	851	1.9	1.6	1.6
8. Exports of goods and services	P.6	39,065	6.6	7.8	5.0
9. Imports of goods and services	P.7	35,276	7.7	9.2	5.8
Contribution to real GDP growth (in pp):					
10. Final domestic demand		41,966	4.3	3.3	3.2
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	851	0.2	-0.2	0.0
12. External balance of goods and services	B.11	3,789	-0.2	-0.5	-0.2

Source: SURS, IMAD 2019 Autumn Forecast and Ministry of Finance.

Table 1.b. Price developments

Change, %	ESA Code	2018 (Levels)	2018 (rate of change)	2019 (rate of change)	2020 (rate of change)
1. GDP deflator			2.2	2.5	2.5
2. Private consumption deflator			2.2	2.3	2.2
3. HICP[1]			1.7	1.8	2.0
4. Public consumption deflator			2.7	4.1	3.9
5. Investment deflator			2.1	2.4	2.5
6. Export price deflator (goods and services)			2.5	0.9	1.0
7. Import price deflator (goods and services)			2.6	0.9	1.0

Note: [1] National index.
Source: SURS, IMAD 2019 Autumn Forecast.

Table 1.c. Labour market developments

	ESA Code	2018 (Levels)	2018 (rate of change)	2019 (rate of change)	2020 (rate of change)
1. Employment, persons[1], in 000		1,020.7	3.2	2.5	1.4
2. Employment, hours worked, in 000		1,631,829	1.7	2.9	3.6
3. Unemployment rate (%) – *ILO unemployment rate*		52.8	5.1	4.3	4.0
4. Labour productivity, nominal[2] (persons) , in 000		44.8	3.2	2.9	4.1
5. Labour productivity, nominal, hours worked		28.0	4.6	2.5	1.9
6. Compensation of employees[3] (in million EUR)	D.1	22,813.4	7.4	7.8	6.8
7. Compensation per employee[3,4]		27,617.1	3.9	4.9	5.1

Notes: [1] Employed population, national accounts definition (domestic concept), [2] GDP per employee (in current prices), [3] Nominal growth, [4] Full-time employed are taken into account.
Source: SURS, IMAD 2019 Autumn Forecast.

Table 1.d. Sectoral balances

	ESA Code	2018 (% of GDP)	2019 (% of GDP)	2020 (% of GDP)
1. Net lending/borrowing vis-a-vis the rest of the world	B.9	5.3		
of which:				
- Balance on goods and services		8.3	7.5	7.0
- Balance of primary incomes and transfers		-2.7	-2.7	-2.3
- Capital account		-0.4		
2. Net lending/borrowing of the private sector	B.9			
3. Net lending/borrowing of general government	EDP B.9	0.8	0.8	0.9
4. Statistical discrepancy				

Source: SURS, IMAD and Ministry of Finance.

Table 2.a. General government budgetary targets broken down by subsector

	ESA Code	2019 (% of GDP)	2020 (% of GDP)
Net lending (EDP B.9) by sub-sector			
1. Net lending/net borrowing: General government	S.13	0.8	0.9
2. Net lending/net borrowing: Central government	S.1311	0.6	0.8
3. Net lending/net borrowing: State government	S.1312	-	-
4. Net lending/net borrowing: Local government	S.1313	0.1	0.1
5.Social security funds	S.1314	0.1	0.0
6. Interest expenditure	EDP D.41	1.6	1.5
7. Primary balance		2.4	2.4
8. One-off and other temporary measures		-0.05	-0.1
8.a Of which one-offs on the revenue side: general		0	0

government		
8.b Of which one-offs on the expenditure side: general government	-0.05	-0.1
9. Real GDP Growth (%) (=1 in Table 1a)	2.8	3.0
10. Potential GDP Growth (%) (=2 in Table 1a)	2.7	2.7
Contributions		
-Labour	*0.8*	*0.7*
-Capital	*0.5*	*0.7*
-Total factor productivity	*1.4*	*1.4*
11. Output gap (% of potential GDP)	1.6	1.8
12. Cyclical budgetary Component (% of potential GDP)	0.76	0.84
13. Cyclically adjusted balance (1-12) (% of potential GDP)	0.05	0.03
14. Cyclically adjusted primary balance (13+6) (% of potential GDP)		
15. Structural balance (13-8) (% of potential GDP)	0.10	0.13

Source: Ministry of Finance.

Table 2.b. General government debt developments

	ESA Code	2019 (% of GDP)	2020 (% of GDP)
1. Gross debt		66.3	62.1
2. Change in gross debt ratio		-4.1	-4.2
Contributions to changes in gross debt:			
3. Primary balance		2.4	2.4
4. Interest expenditure	EDP D.41	1.6	1.5
5. Stock-flow adjustment		0.3	0.2
of which:			
- Differences between cash and accruals			
- Net accumulation of financial assets			
of which:			
- privatization proceeds		-1.5	-
- Valuation effects and other			
p.m.: Implicit interest rate on debt		2.4	2.4
Other relevant variables:			
6. Liquid financial assets		6.1	7.0
7. Net financial debt (7=1-6)		60.2	55.1
8. Debt amortization (existing bonds) since the end of the previous year		4.8	3.2
9. Percentage of debt denominated in foreign currency		0.1	0.1
10. Average maturity		9.2	9.0

Source: Ministry of Finance.

Table 2.c. Contingent liabilities

	2019 (% of GDP)	2020 (% of GDP)
Public guarantees	10.8	9.4
Public guarantees: [1] linked to the financial sector	1.4	1.3

Note: [1] In accordance with the Classification of Institutional Sectors (SKIS) data "linked to the financial sector" contains the data of outstanding guarantees for S.12, Financial corporations.
Source: Ministry of Finance.

Table 3: General government expenditure and revenue projections at unchanged policies broken down by main components

	ESA Code	2019 (% of GDP)	2020 (% of GDP)
General government (S13)			
1. Total revenue at unchanged policies	TR	44.50	43.86
Of which:			
1.1 Taxes on production and imports	D.2	13.92	13.65
1.2 Current taxes on income, wealth, etc	D.5	7.97	8.00
1.3 Capital taxes	D.91	0.02	0.02
1.4 social contributions	D.61	16.01	16.05
1.5 Property income	D.4	0.83	0.70
1.6 Other		5.75	5.44
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		37.91	37.72
Total expenditure at unchanged policies	TE	43.69	43.35
Of which:			
2.1 Compensation of employees	D.1	11.34	11.43
2.2 Intermediate consumption	P.2	6.08	5.97
2.3 Social payments	D.62,D.63	17.59	17.48
Of which unemployment benefits		0.33	0.27
2.4 Interest expenditure	EDP D.41	1.63	1.49
2.5 Subsidies	D.3	0.74	0.75
2.6 Gross fixed capital formation	P.51	3.82	3.98
2.7 Capital transfers	D.9	0.51	0.47
2.8 Other		1.98	1.80

Source: Ministry of Finance.

Table 4.a. General government expenditure and revenue targets broken down by main components

	ESA Code	2019 (% of GDP)	2020 (% of GDP)
General government (S13)			
1. Total revenue target	TR	44.50	43.86
Of which:			
1.1 Taxes on production and imports	D.2	13.92	13.65
1.2 Current taxes on income, wealth, etc	D.5	7.97	8.00
1.3 Capital taxes	D.91	0.02	0.02
1.4 social contributions	D.61	16.01	16.05
1.5 Property income	D.4	0.83	0.70
1.6 Other		5.75	5.44
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		37.91	37.72
2. Total expenditure target	TE	43.69	42.99
Of which:			
2.1 Compensation of employees	D.1	11.34	11.30
2.2 Intermediate consumption	P.2	6.08	5.97
2.3 Social payments	D.62,D.63	17.59	17.36
Of which unemployment benefits		0.33	0.27
2.4 Interest expenditure(=9 in table 2.a)	EDP D.41	1.63	1.49
2.5 Subsidies	D.3	0.74	0.75
2.6 Gross fixed capital formation	P.51	3.82	3.85
2.7 Capital transfers	D.9	0.51	0.47
2.8 Other		1.98	1.80

Source: Ministry of Finance.

Table 4.b. Amounts to be excluded from the expenditure benchmark

	2018 (Levels million EUR)	2018 (% of GDP)	2019 (% of GDP)	2020 (% of GDP)
1. Expenditure on EU programmes fully matched by EU funds revenue	610.5	1.33	1.70	2.10
1a. Investment expenditure fully matched by EU funds revenue	129	0.28	0.46	0.63
2. Cyclical unemployment benefit expenditure	8	0.02	0.00	0.04
3. Effect of discretionary revenue measures				
4. Revenues increased mandated by law				

Source: Ministry of Finance.

Table 4.c. General government expenditure by function

Table 4.c.i. General government expenditure on education, healthcare and employment

	2019 (% of GDP)	2019 (% of total expenditure)	2020 (% of GDP)	2020 (% of total expenditure)
Education	5.4	12.5	5.3	12.4
Health	6.4	14.7	6.5	15.1
Employment	0.4	1.0	0.4	0.9

Source: Ministry of Finance.

Table 4.c.ii. General government expenditure by function

	COFOG Code	2019 (% of GDP)	2020 (% of GDP)
1. General public services	1	5.7	5.5
2. Defence	2	1.1	1.1
3. Public order and safety	3	1.7	1.7
4. Economic affairs	4	4.9	4.8
5. Environmental protection	5	0.5	0.5
6. Housing and community amenities	6	0.6	0.5
7. Health	7	6.4	6.5
8. Recreation, culture and religion	8	1.4	1.4
9. Education	9	5.4	5.3
10. Social protection	10	16.0	15.7
11. Total expenditure (=2 in Table 4.a)	TE	43.69	42.99

Source: Ministry of Finance.

Table 5. Discretionary measures

	ESA Code	2018 (% of GDP)	2019 (% of GDP)	2020 (% of GDP)	2021 (% of GDP)	2022 (% of GDP)	2023 (% of GDP)	2024 (% of GDP)
Revenue								
Taxes on production and imports	D.2							
Current taxes on income, wealth, etc	D.5							
Capital taxes	D.91							
Social contributions	D.61							
Property income	D.4							
Other	P.11+P.12+ P.131+D.39 +D.7+D.9 (other than D.91)							
Expenditure								
Compensation of employees	D.1			-0.1	-0.1			
Intermediate consumption	P.2							
Social payments, of which, where applicable, unemployment benefits including cash benefits and in...	D.62+D.63+ D.621+D.62 4+D.631			-0.1	-0.1			
Interest expenditure	EDP D.41							
Subsidies	D.3							
Gross fixed capital formation	P.51			-0.1	-0.1			
Capital transfers	D.9							
Other (other than D.41)	D.29+D.4+D. 5+D.7+P.52 +P.53+K.2+ D.8							

Source: Ministry of Finance.

Table 7. Divergence from latest SP

	ESA Code	2018 (% of GDP)	2019 (% of GDP)	2020 (% of GDP)
Target general government net lending/borrowing				
Stability plan	EDP B.9	0.73	0.95	0.95
Draft budgetary plan	EDP B.9	0.77	0.81	0.88
Difference		-0.04	0.14	0.07
General government net Lending projection at unchanged policies				
Stability plan	EDP B.9	0.73	0.95	0.70
Draft budgetary Plan	EDP B.9	0.77	0.81	0.51
Difference		-0.04	0.14	0.19

Source: SURS, Ministry of Finance.

Country specific recommendations of the EU

CSR	2019 recommendations of the EU	State of play in the RS – October 2019
1	Achieve medium-term budget objective in 2020.	Slovenia pursues the objectives of the national fiscal rule and the goals of nominal surplus and debt reduction.
	Adopt and implement reforms in healthcare and long-term care that ensure quality, accessibility and long-term fiscal sustainability.	The **new Health Care and Health Insurance Act**, which is in accordance with the adopted Work Programme of the Ministry of Health, and is expected to be discussed by the Government of the Republic of Slovenia in mid-2020 (its adoption by the National Assembly is expected in the autumn of 2020). The new act follows objectives: to achieve a greater universality of health insurance, greater solidarity in financing health care, better access to health care services and higher quality and efficiency, while maintaining long-term substantive and financial sustainability. According to the timeline in the Work Programme of the Ministry of Health, the existing proposal of the ZZVZZ-1 is currently in the process of being supplemented by the Ministry of Health. Expected results: ensuring the financial sustainability of the healthcare system, equal access to healthcare services, introducing counter-cyclical elements into the healthcare financing segment. In line with the timeline of the Work Programme of the Ministry of Health, the proposal of the **Act of long term care** will be submitted for public discussion at the end of 2019 and could be adopted in 2020. The objectives pursued in the planning of the new long-term care system are: universal accessibility to quality long-term care services; comparability of rights for comparable needs; sustainable financing of a long-term care through an appropriate mix of public and private resources; comprehensive treatment of people involved in long-term care; home or community-based care, suitable working conditions for formal care providers, and support for informal care providers.

	Ensure the long-term sustainability and adequacy of the pension system, including by adjusting the statutory retirement age and restricting early retirement.	At its session on 3 October 2019, the Government adopted amendments to the Pension and Disability Insurance Act, which pursues two basic objectives, namely to prolong labour activity and to provide adequate income for security in order age, and, consequently, to improve the social status of beneficiaries of pension and disability insurance rights. Particular attention is paid to raising the social security of the most vulnerable groups within the pension system. Significant changes to the legislation in the field of compulsory pension and disability insurance include: - Raising the replacement rate for the completed 40 pensionable years for new pensioners to 63.5% for both men and women, with improvement in the social security of the recipients of the minimum old-age, disability and survivors' pensions and disability insurance benefits (including the additional 1.36% for childcare periods); - Incentives to stay longer in the labour market; individuals who will remain in the labour market after eligibility for retirement will receive 40% of their pension in addition to their full salary in the first three years instead of the previous 20%. The proposed amendment represents the first phase of pension change, which focuses on one of the key challenges for the long-term sustainability of the pension system, namely work activity in the 55+ age group, which is currently extremely low in Slovenia. The gradual increase of the replacement rate (six-year transitional period), the upgrading of the dual status and the extension of the period for obtaining additional percentages from 3 to 6 months will significantly stimulate the prolongation of employment in the 55–64 age group, which will result in a certain ease in pressure to general government expenditure linked to pensions. During the negotiations with the social partners, it was agreed to start addressing issues and measures for a comprehensive reform of the pension system immediately after the adoption of the amendment, which would also provide a mitigation of the long-term pressure on the pension and disability insurance fund (e.g. changes in retirement conditions, indexation of pensions, extension of period for calculating of the basic pension).
	Increases the employability of low-skilled and older workers by improving the relevance of education and training based on the needs of the labour market, and through lifelong learning and activation measures, including improving digital literacy.	In the eight months of 2019, almost 31% of the unemployed over 50 were included in various active labour market policy measures and nearly 28% of unemployed with lower education. 43.1% of all the involved in active employment policy participated in the training and education measures during the eight months in 2019, which is the highest proportion of those involved compared to other measures. In addition to active labour market policy measures, the State also implements other labour market measures that provide life-long learning and additional education and training relevant to the labour market needs. This year, another project was initiated. Its purpose was to **promote the integration of persons who are on the verge of**

		losing their jobs or those whose posts are at risk into the labour market measures (SPIN). Primarily, two support activities are provided to persons, namely career development and competence development, in line with the labour market needs. The goal is to allow at least 800 people out of the 3200 involved (in both regions) to keep their jobs or a smoother transition to a new job. **Competence Centres for Human Resources Development** are intended to train employees, promote development changes in companies and strengthen business integration, to improve the competitiveness of the Slovenian economy by developing key competencies for a particular industry, and enhancing employees in the labour market. The target is the inclusion of 17,000 employees in education and training. **Comprehensive Support to Enterprises for Active Ageing of Labour Force (ASI)** is a project that responds to the challenges of ageing workforce, raising awareness of employers and employees about negative demographic trends, eliminating stereotypes about older employees, and above all, supporting employers to effectively manage older people workforce and enhancing the competences and motivation of older employees to continue their work activity. One of the goals of the programme is the extension of work activity. By June 30 2019, 410 companies and 7,746 employees were involved in the project, and 332 senior management strategies were developed. **Scholarships for shortage occupations** encourage the enrolment of young people in educational programmes, which are recognized as shortage occupations, to ensure an adequate number of young people with the skills necessary for the existence and development of particular industries. By 30 June 2019, three public tendering procedures were conducted within the operation, and 2,573 scholarship recipients were involved. Co-financing of staff scholarships to match the supply and demand of staff in each statistical region in terms of matching the knowledge of young people with the needs of the labour market, raising the level of educational structure, linking education with the economy and the broader social environment, gaining practical experience (knowledge, competences and skills) already during education etc. By 30 June 2019, three public tendering procedures were conducted in the framework of operation, and 1,379 scholarship recipients were included, of which 419 were scholarship recipients in 2019 alone. **Digital Literacy:** Proposals for educational and support activities to increase the use of Internet services, as measured by the Digital Economy and Society Index (DESI), in the 65+ age group, and proposals for supportive/user-support activities that will increase the e-inclusion of the 65+ age group with indirect effects on the DESI indicators. The OECD will produce a Digital Government Review for Slovenia, focusing on governance, digital skills, user participation and data management.

2	Supports the development of the equity’s market.	In Slovenia, we promote both the debt and equity markets. In 2018 and 2019, a EUR 253 million fund was created from European Cohesion Policy funds. The implementation is carried out through financial intermediaries selected by SID bank (as a fund provider) under the Public Procurement Act. In 2019, the implementation of debt instruments (micro-loans through the Slovenian Enterprise Fund and the Primorska hranilnica bank, RDI loans through Gorenjska banka and SID bank) took place. In 2019, the development of equity instruments for companies in the initial stages of development (seed capital, co-investments with business angels) was also carried out by the Slovenian Enterprise Fund. In addition to the listed measures of the implementing bodies, further provisions of funds are to be made for promoting RDI through the Ministry of Economic Development and Technology and the SPIRIT public agency. In 2019, the Ministry guidelines are also aimed at promoting digitalisation through a comprehensive pact (promotion of e-commerce, digital transformation of SMEs, simple low-value incentives (vouchers) for digital marketing, digital strategy, digital competences and cyber security, establishment and operation of the Digital Innovation Hub of Slovenia (One Stop Shop)). Ministry also places significant emphasis on the transition from start-up to scale-up companies, where it develops a training measure for companies abroad, which will enable a faster penetration into global markets and increase value-added per employee. The key objective of the Ministry is to increase productivity (related measures) and transition to a circular economy (and associated measures).
	Improves the business environment by reducing regulatory restrictions and administrative burdens.	IMD defined Slovenia’s progress in the field of business this year, namely in the area of legislation on employment of foreigners (16 places gained), reduction of the number of procedures for establishing a company (6 places gained), and that in recent years Slovenia has made significant changes in specific areas of government activity, such as the removal of administrative barriers. From 2016 onwards, we are achieving the goal of further reducing our legislative burdens by at least EUR 18 million on an annual basis. The completed evaluations show that we have reached or exceeded the target for individual years. The classification of measures in a single set of measures (Enotna zbirka ukrepov), which addresses the improvement of the business and legislative environment, is also implemented permanently. SPOT Portal (Slovenia Business Point): Statistics show that in the 2005–2015 period, 1 million e-procedures were carried out annually through the SPOT system. With the introduction of new e-services for enterprises, 1 million e-services were completed in 2016 alone, which is a significant leap. In 2019, we are already at the level of 2 million e-services on an annual basis, which means that business operations are greatly simplified, it is faster, and take significantly less time to do State-related transactions. This July, an Action Plan for the Improvement of Preparation Processes was adopted based on the OECD recommendations,

		which reviewed regulatory policies in Slovenia in 2017 and 2018, as well as independent findings by the authorities in Slovenia after closing the regulatory gap. The measures taken relate to improving the quality of regulations, thus addressing the too frequent adoption or amendment of regulations.
	Improve competition, professionalisation and independent oversight in public procurement.	**Improvement in the competitiveness:** Together with the European Commission and the OECD, a project of systemic thinking has begun with the aim of increasing the competitiveness and development of the system, within which the public procurement system in the Republic of Slovenia will be reviewed from various aspects – behavioural, cultural, legal and macroeconomic. We will try to identify the gaps in the system through use and econometric data analysis. **Professionalisation:** The Professionalisation Improvement Action Plan in the Republic of Slovenia contains 27 systematic measures, the majority of them is already being implemented, and all of them will be implemented by the end of 2020 at the latest. In this respect, raising the level of competence of civil servants, as well as the assistance to contracting authorities and supplier for a better legal certainty, quality and economy are the two key priorities of the Ministry of Public Administration in the field of public procurement during these two years. Implementing measures include, inter alia, the design of quality training courses and the promotion of institutionalized training, the development of the Public Procurement Academy, the provision of free training courses and workshops, written and telephone counselling, the preparation of thematic guidelines, brochures and schemes, the computerisation of the entire procurement process, and other similar measures. **Independent control:** Following extensive harmonization, as of 5 September 2019, the Government adopted an amendment to the Legal Protection in Public Procurement Procedures Act (ZPVPJN-B) and referred it to the Parliament for consideration. The amendment aims to ensure adequate legal protection against infringements in public procurement procedures, in particular to increase the independence and professionalism of the National Review Commission as a public procurement authority and to increase the efficiency of the legal protection in large projects. The proposed law also aims at regulating judicial protection against decisions of the National Review Commission. With all the solutions proposed, procurement procedures will be more efficient, especially with major infrastructure projects, the work will be more optimized from a legal point of view.
	Carry out the privatisations according to the existing plans	The implementation of the individual objectives of the government's capital management strategy is defined in the annual management plan submitted by SDH to the Government for approval by the end of November. The Slovenian Sovereign Holding (SDH) saw a successful closure to the privatisation process of Nova Ljubljanska banka (NLB). In November 2018, the first stage of sale was completed with the listing of NLB on the Ljubljana Stock Exchange and the London Stock Exchange in the IPO process, in which 59.1% of the shares were sold. An additional 5.9% of NLB shares were sold for the over-allotment option, which is used to stabilize the price within 30 days. The

		sale of the entire remaining 10% of the Republic of Slovenia's shareholding in the NLB minus one share was completed in June 2019, using the Accelerated Book Build or ABB method. The proceeds of the Republic of Slovenia amounted to EUR 779 million for the sale of NLB. Upon completion of the sale procedure, the Republic of Slovenia holds a 25% share of the NLB's equity plus one share in NLB. In June 2019, SDH signed, on behalf of and for the account of the Republic of Slovenia, an agreement on the sale and purchase of Abanka shares, under which NKBM will acquire 100% of the shares held by the Republic of Slovenia in Abanka. NKBM was fully privatized in 2016 and is owned by investment funds managed by Apollo Global Management (80%) and the European Bank for Reconstruction and Development (20%). The completion of the transaction will be completed after obtaining all the required approvals from the competent authorities. The proceeds of the Republic of Slovenia from the sale of Abanka will be EUR 444 million. In doing so, the Republic of Slovenia fulfilled the commitments it made to the European Commission regarding the privatization of NLB and Abanka due to the state aid received by the banks in 2013. 90% of proceeds are intended for debt reduction of the general government debt, and 10% for Demographic Reserve Fund.
3	It focuses its economic investment policy on research and innovation, low carbon and energy transition, sustainable transport (especially rail) and environmental infrastructure while taking into account regional differences.	An investment priority plan is being prepared.

EU 2020 targets

	Europe 2020 – National objectives and latest developments (October 2019)	
	Employment rate: 75% *2018: 75.4%*	Goal achieved.
	Investment in R&D: 3% of GDP *2017: 1.86%*	The share of public and private investments in research and development in Slovenia is at the EU average. Since 2013, when it reached 2.6% of GDP in 2016, it dropped to 2.0% of GDP, which is the lowest amount in the period from 2011 to 2016. In 2017, the share of domestic expenditure for R&D in % of GDP further decreased because GDP was growing faster than investments in research and development. Slovenia already increased public funds by 16.99% in 2018 in comparison to 2017, and by 24.24% in 2019. This growth includes all resources, both integral as well as the European Cohesion Policy funds. In 2016, gross domestic expenditure on R&D in % of GDP was also below the European Union average for the first time in this period, and in 2017 the gap with the EU average widened. The key challenge, however, remains the long-term sustainable and stable growth of funds, which is the basis for an institution's strategic planning. Indispensable assets increased by 10.9% in 2018 in comparison to 2017, and by 11.4% in 2019 in comparison to 2018. A consultative body is meeting to improve the interaction between education, science and the economy in order to establish a regular and continuous dialogue between key stakeholders with the objective to identifying measures that will improve cooperation. Strategic research and innovation partnerships (SRIP) have been established in the priority areas of Slovenia identified in S4 – Slovenian Smart Specialisation Strategy, bringing together relevant stakeholders from the economy, public research institutes, universities or faculties, individual schools and, in certain cases, non-governmental organizations. In 2017, SRIP prepared action plans for joint development, internationalization and human resource development programmes, and are also used by the State as an interlocutor for necessary systemic measures. In this way, S4 is becoming a central lever for establishing and enhancing dialogue between key stakeholders in science, the economy and education, thus significantly influencing the complex developmental transformation of the Slovenian economy. In 2018 and 2019, some new measures in the field of research are already being implemented or are underway, which will enable the increase of funds for the operation of institutes and universities, purchase of research equipment, to support for researchers at the start of their research career, as well as the possibility of additional complementary instruments. Research areas are being strengthened, as further participation in projects

	strengthening the European Research Area will be facilitated, such as PRIMA, ERA-net and ESFRI project engagement.
Greenhouse gas emission reduction: +4% (comparison to 2005)	Third annual report on the implementation of the OP GHG 2020 shows that Slovenia is well on track to meet its national target in the field of emissions reduction within non-ETS industries. GHG emissions in 2016 were lower from the annual target by as much as 9%. Projections indicate that the Republic of Slovenia will also achieve its targets by 2020 based on Decision No. 406/2009/EC, i.e. a maximum of 4% increase in GHG emissions compared to 2005. However, there is some uncertainty as to the absolute levels of emissions and the achievement of the sectoral indicative targets set in the OP GHG 2020.
Renewable energy target: 25%	The target to achieve a 25% share of renewable energy resources (RES) in the final total energy consumption by 2020 (Directive 2009/28/EC) is slowly drifting away. In 2017, Slovenia achieved a 21.5% share of RES in the final total energy consumption. In order to meet the target by 2020, it would be necessary to increase the use of RES by more than 2TWh, or 3.5 percentage points, which is almost three times the increase in RES between 2010 and 2017. The reason for this is the lag in the implementation of the program in the field of transport and electricity. There is a possibility that the Republic of Slovenia will not reach the target 25% share of RES in total gross final energy in 2020. The prescribed proportion of RES in 2020 can be achieved by purchasing a statistical deficit in RES within the framework of the cooperation mechanism (statistical energy transfers) from surplus countries.
Efficient use of energy: 82.86TWh	For 2017, Slovenia remains within the indicative target for 2020 at the level of primary energy consumption. In 2017, primary energy consumption amounted to 78.9TWh and increased by 1.6% compared to the previous year. An increase with the same trend as the year before would mean that we are remaining within the target value of 82.9TWh for 2020. Compared to the previous year, there has been an increase in final energy consumption in the industrial sector, which represents 27% of total final energy consumption. Therefore, it will be necessary to further disperse production growth and energy consumption in the future. In the transport sector, which represented as much as 38% of total final energy consumption in 2017, a decrease of 1% was recorded. In the household and public sectors, however, it will be necessary to ensure the continuation of EEU and RES measures with an appropriate volume and intensity in order to achieve the final objective.
Early school leaving: 5% *2018: 4.2%*	Goal achieved.
Tertiary education: 40% *2017: 42.7%*	Goal achieved.
Reducing the population at risk of poverty and social exclusion: –40,000 persons	In 2016, there were 16,000 people less below the poverty line, and in 2017, this number

	2017: –34,000	was already 34,000. Several measures have been taken, the effects of which will be reflected in future statistics. In 2017, virtually all austerity measures were eliminated, and new measures were adopted that have a direct impact on reducing poverty and social exclusion, which are expected to be reflected in the statistics for 2018. The amendments to the Exercise of Rights from Public Funds Act in 2017 reintroduced the seventh and eighth income classes for child benefit (from 64% to 99% of average net wage per family member). It is anticipated that about 50,000 children will be additionally entitled to child benefit. In 2018, the austerity measure of linking the right to childbirth allowance to the threshold was abolished and reinstituted this right as universal, which means that it will no longer be means-tested. In view of preventing the increase of poverty among working-age individuals and taking into account the relatively favourable economic situation and measures to promote competitiveness over the past years, on 25 December 2018 the amendment to the Minimum Wage Act came into force, with a minimum wage of EUR 842.79 (gross) in 2018 increasing to EUR 886.63 (gross) in 2019, namely by 5.2%. In 2020, a further increase by 6.1% will follow to EUR 940.58 (gross). In line with the new minimum wage, the monthly net disposable income for single childless persons working full-time on the basis of a contract of employment (EUR 667.10) has risen above the poverty risk threshold in 2019, which in 2018 amounted to EUR 662. At the end of 2018, the amendment to the Social Assistance Benefits Act was adopted, which in 2019 retained the basic minimum amount of income of EUR 392.75. The basic minimum income because of adjustment due to consumer-price inflation currently amounts to EUR 402.18. This measure provided basic social security and prevented the basic minimum income, from which financial social benefit was calculated, to fall to EUR 331.26. In order to regulate the situation of unemployed persons entitled to financial social benefit, the amendment to the Social Assistance Benefits Act, which proposes the elimination of the work activity bonus, is currently in the legislative procedure. By interfering with the work activity bonus, together with amendments to the pension legislation (the purpose is to prolong the work activity of the elderly and to provide a better opportunity to use the human resources of older workers who already qualify for retirement, to ensure adequate income in old age and, consequently, improve the social status of beneficiaries from the pension and disability insurance), and labour market legislation (aiming at greater participation in the labour market and increasing the work activity of persons) two objectives are being pursued: 1. to differentiate between financial social benefit and the minimum wage, while "the basic financial social benefit" remains unchanged (the abolition of the work activity bonus will restore the standard ratio of financial social benefit to the minimum wage, i.e. 60% of

		the minimum wage); 2. to ensure faster activation of beneficiaries of financial social benefit in the labour market. The amendment also introduces new incentives that will result in faster activation of beneficiaries of financial social benefit in the labour market. These measures will be more favourable to the beneficiaries of financial social benefit since the payment received up to the amount of EUR 205.11 originating from an active employment policy and vocational rehabilitation policy will no longer affect the amount of financial social benefit. This means that the disposable income of the unemployed person included in active employment policy and employment rehabilitation programmes remains the same. This change is crucial for faster activation of beneficiaries of financial social benefit in the labour market, especially when we are facing such a shortage in the workforce in the labour market.