GOVERNMENT OF THE REPUBLIC OF SLOVENIA

Stability Programme 2021

ADDENDUM

May 2021

The addendum

The Government of the Republic of Slovenia adopted the Stability Programme 2021 on 28. 4. 2021, which included the estimated amount of grants and loans to be requested by Slovenia from the Recovery and Resilience Mechanism, according to the available data of 19. 4. 2021. The amount of grants and loans included in the Recovery and Resilience Plan formally submitted to the European Commission on 30. 4. 2021 is slightly modified to the one included in the Stability Programme 2021. The purpose of the addendum to the Stability Programme 2021 is thus to align it with the formally submitted Recovery and Resilience Plan (hereinafter referred to as the "Plan").

The Addendum to the Stability Programme 2021 reflects only the revised amount of the grants and loans set out in the Plan. Accordingly, only the Chapter 3.3 and the Tables 11 and 12 of the Annex to the Stability Programme 2021 are amended. The remaining parts of the 2021 Stability Programme 2021 remain unchanged. The fiscal projections according to the ESA methodology have not changed as a result of these corrections.

There are still high risks linked to the COVID-19 epidemic, affecting both macroeconomic and fiscal developments. It should be also borne in mind that the Plan has not yet been approved by the EU Council, and therefore the projections linked to the Plan in the tables of the Stability Programme 2021 are only current estimates. The dynamics and structure of expenditure will therefore depend on the milestones and targets included in the Plan, as well as on the time of approval of the plans in general. The new projections will be included in the Draft Budgetary Plan 2022, which will be available in the autumn.

At the time of preparation of the addendum to the Stability Programme 2021 also the favorable developments in government revenue during the first four months of current year should be highlighted as a result of the gradual release of containment measures.

The new annual process of preparation of the national budget - starting in May and expected to end in September - will also take into account recent fiscal developments and any new measures taken. This will also be reflected in Draft Budgetary Plan 2022. The autumn fiscal projections will thus include legislative changes that have not yet been adopted at the time of the preparation of the Stability Programme 2021, e.g. tax reforms. Past experience shows that individual proposals for tax policy measures may change significantly during the adoption phase, that significantly impacts the assessment of their impacts. It should also be borne in mind that some of the measures linked to the COVID-19 epidemic are still in force and their prolongation depends on the duration of the epidemic, so the overall projections remain rather uncertain.

THE ADDENDUM – Chapter 3.3

3.3 Recovery and structural reform measures

Slovenia has started the preparation of the Recovery and Resilience Plan (RRP). According to the adopted Regulation (EU) 2021/241, Slovenia is eligible to receive EUR 1,777,322.00 of non-reimbursable grant. Additionally, the European Commission may assume debt on behalf of the Republic of Slovenia for a further EUR 3.6 billion. A multi-level structure is in place for the preparation of the RRP:

- a group at ministerial level (NGS1);
- an inter-ministerial working group at the level of state secretaries and experts (weekly meetings; NGS2);
- technical secretariat for the implementation of inter-ministerial working groups (NGS1, NGS2);
- working group for the component preparation in case several ministries cover a specific component.

Based on the Government Decision as of 24 July 2020, the Government Office for Development and European Cohesion Policy shall be responsible for preparing and coordinating the RRP and its submission to the Commission.

The Slovenian RRP, formally submitted to the European Commission on 30. 4. 2021, amounting to EUR 2,48 billion (EUR 1,77 billion which are non-reimbursable grants) consists of four development areas divided into individual components:

1. GREEN TRANSITION amounting to EUR 552 million of non-reimbursable grant and EUR 513 million of reimbursable grant: K1 renewable energy sources and energy efficiency; K2 sustainable renovation of buildings; K3 clean and safe environment; K4 sustainable mobility; K5 circular economy – resource efficiency;
2. DIGITAL TRANSITION amounting to EUR 316 million of non-reimbursable grants: K1 digital transition of the economy; K2 digital transition of the public sector and the public administration;
3. SMART, SUSTAINABLE AND INCLUSIVE GROWTH amounting to EUR 664 million of non-reimbursable grant and EUR 73 million of reimbursable grant: K1 RDI – research; development and innovation; K2 increase in productivity, investor-friendly business environment; K3 labour market – measures to reduce the impact of negative structural trends; K4 – transformation of Slovenian tourism and investment in infrastructure in the field of tourism and cultural heritage; K5 – enhancing competences, primarily digital and those required by occupations of the future; K6 – effective public institutions;
4. HEALTH CARE AND SOCIAL SECURITY amounting to EUR 245 million of non-reimbursable grants and EUR 119 million reimbursable grants: K1 health-care system; K2 social security and long-term care; K3 housing policy.

Each component contains structural measures following the Country specific recommendations to Slovenia for 2019 and 2020, in the areas of health and long-term care, the pension system, employability of low-skilled and older workers, including improving digital literacy and the business environment (reduction of administrative burdens, development of capital markets and improvements in public procurement).

The resilience of the health and social care systems will be achieved by adopting health and long-term care reforms. We will also prepare concrete steps to change the pension reform to ensure fiscal sustainability and adequate pensions. Plans will be adopted to amend research and innovation legislation to make public investment in R&D more effective and result-oriented. A revised investment legislation s also planned. Government incentives for business investment will be targeted towards achieving higher added value per employee. In the area of the labour market, we are introducing changes to address the challenges related to demographic issues, the impact of the pandemic, and the employment of certain groups , particularly people with disabilities and young people. Regulatory changes are planned to improve the supportive environment for businesses and citizens in the areas as reduction the administrative burdens, efficient public administration, and public procurement. The transition to a green economy will be achieved through measures to create the conditions for increased production and faster use of renewable resources, promoting sustainable mobility and moving towards climate change. The digital transition of economic entities' business processes and models, thus raising their productivity and competitiveness, will be achieved by adapting the legal framework on consumer protection and access to the financing market. Among other things, we are planning measures to align with broadband, 5G and 6G. The plan includes a new cybersecurity strategy to support online business and e-government and a plan for the digital renewal of companies.

The major investments envisaged under the RRP are envisaged in the digital transformation of the public administration, in the construction of the Faculty of Medicine in Ljubljana and its campus, hospitals for infections diseases in Ljubljana and Maribor, and in railway infrastructure. A great part of the measures focuses on measures for the digital and green transition of the economy. All components shall be prepared in such a way that they do not cause significant harm to environmental goals. According to current figures under the Recovery and Resilience Plan, 42,65% of all measures contribute to climate goals (min. 37%) and 21,86% to digital goals (min. 20%).

The proposed reforms and investments will also contribute to the digital transition of public sector organisations and the public administration and strengthen user-friendly digital services, including developing and integrating advanced digital technologies.

Measures in the field of taxation*

We are entering a period when various measures, including fiscal measures, will have to be used to create economic activity, tackle critical areas of investment to take care of the population to prevent the rise in the unemployment while pursuing the green and digital transition at the same time. Simultaneously, the initial reduction in inflows will be neutralised due to a better and more competitive environment.

One important measure is the already adopted Motor Vehicle Tax Act (ZDMV), which is in force since 1 January 2021. In addition to supporting green policy, the objective of this act is to reduce existing motor vehicle taxation and automatize and speed up procedures for assessing motor vehicle tax. With the latter, we also addressed the area of reduction the administrative burden or debureaucratisation.

In the future, we will prepare new measures and changes to tax legislation. Amendments to the Tax Procedure Act and the Value Added Tax Act will be prepared towards a higher degree of digitalisation. Solutions will enable taxpayers to use their time more efficiently and quickly and economically meet their tax obligations while ensuring legal certainty and pursuing environmental policy objectives. The amendment to the Value Added Tax Act will allow full deduction of value-added tax in the purchase of a personal motor vehicle that is free of carbon dioxide emissions to carry out an activity. Taxpayers will no longer be required to provide taxable persons with a list of invoices received and issued at the time of the first VAT return. We will abolish the threshold for compulsory entry of farmers into the system and issuing the invoice in paper form only at the customer's request.

In the area of corporate taxation, we will propose improved or new forms of tax relief to enable companies to increase their investments, contributing to reducing environmental pollution and increasing the degree of digitalisation. In this way, we will focus tax incentives on investment and the development of the digitalisation of businesses and the green transition and investment in skills (through the benefits for companies employing in so-called shortage occupations). Slovenian legislation will also transpose the provisions of the European Directive against tax avoidance practices, addressing harmful tax measures and partly contributing to fair taxation. We estimate that the solutions will reduce revenues by around EUR 27 million. The incentives will strengthen companies' further development and competitiveness while increasing revenue inflows to public finances (e.g. dividends from state-owned enterprises).

To further relieve taxes away from labour, measures will be prepared in amendments to the Personal Income Tax Act. This will gradually relieve us of:

- income from work (through a gradual increase in the general allowance, a reduction in the personal income tax rate in the last, fifth tax bracket, the introduction of the so-called seniority relief for taxpayers over 70 years of age); and
- revenues from the capital and renting a property (reduction of the capital income tax rate to 25%, in the case of income from renting a property a reduction to 15%, at the same time reducing the flat rate cost to 10%).

We estimate that these solutions would reduce annual revenues by around EUR 248 million in 2022. A further loss of revenue is expected in the next three years, mainly due to the gradual annual increase in the general allowance. On the other hand, changes will impact the rise in consumption and revenue inflows from this source.

At the same time, solutions linked to high-level social-security burden will also be developed to relieve labour incomes. In this way, the Debureaucratisation Act will limit the contribution base to EUR 6,000 gross monthly income. With the introduction of a social security tax cap, companies will therefore be able to hire a higher proportion of higher-educated, better-paid individuals who add value to companies, thus preventing them from going abroad. At the same time, it will also increase the possibility of recruiting or creating new jobs. The shortfall in the Government revenues when the measure entering into force is estimated to be between EUR 40 million and EUR 50 million per year. The whole set of changes will improve the business environment and relieve wage costs, impact quality jobs and key and most productive staff in the economy. This will also neutralise the temporary decrease in inflows.

* Measures under coordination and preparation are not included in the projections. If the National Assembly adopts individual amendments, they will be duly incorporated into the autumn budgetary documents and fiscal projections and the 2022 Draft Budgetary Plan.

Addendum - Annex to the SP 2021: Required tables

Table 11: Revenue from RRF grants

	Revenue from RRF grants (% of GDP)						
	2020	2021	2022	2023	2024	2025	2026
RRF GRANTS as included in the revenue projections	0	0,62	1,17	0,74	0,18	0,34	0,29
Cash disbursements of RRF GRANTS from EU	0	0,80	1,10	0,70	0,18	0,32	0,25
	Expenditure financed by RRF grants (% of GDP)						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Compensation of employees D.1	0,0	0,02	0,03	0,02	0,01	0,01	0,01
Intermediate consumption P.2	0,0	0,10	0,19	0,12	0,03	0,05	0,05
Social Payments D.62+D.632	0,0	0,00	0,00	0,00	0,00	0,00	0,00
Interest expenditure D.41	0,0	0,00	0,00	0,00	0,00	0,00	0,00
Subsidies, payable D.3	0,0	0,18	0,33	0,21	0,05	0,10	0,08
Current transfers D.7	0,0	0,00	0,00	0,00	0,00	0,00	0,00
TOTAL CURRENT EXPENDITURE	0,00	0,29	0,55	0,35	0,08	0,16	0,14
Gross fixed capital formation P.51g	0,0	0,33	0,61	0,39	0,09	0,18	0,15
Capital transfers D.9	0,0	0,0	0,0	0,0	0,0	0,0	0,0
TOTAL CAPITAL EXPENDITURE	0,0	0,33	0,61	0,39	0,09	0,18	0,15
	Other costs financed by RRF grants (% of GDP)						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Reduction in tax revenue	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other costs with impact on revenue	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Financial transactions	0,0	0,0	0,0	0,0	0,0	0,0	0,0

Source: Ministry of Finance.

Table 12: Cash flow from RRF loans projected in the programme

	Cash flow from RRF loans projected in the programme (% of GDP)						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Disbursements of RRF LOANS from EU	0,00	0,00	0,07	0,21	0,32	0,43	0,20
Repayments of RRF LOANS to EU	0,00	0,00	0,07	0,21	0,32	0,43	0,20
	Expenditure financed by RRF loans (% of GDP)						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Compensation of employees D.1	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Intermediate consumption P.2	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Social Payments D.62+D.632	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Interest expenditure D.41	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Subsidies, payable D.3	0,0	0,0	0,0	0,02	0,04	0,07	0,05
Current transfers D.7							
TOTAL CURRENT EXPENDITURE	0,0	0,0	0,0	0,02	0,04	0,07	0,05
Gross fixed capital formation P.51g	0,0	0,0	0,07	0,19	0,28	0,36	0,15
Capital transfers D.9	0,0	0,0	0,0	0,0	0,0	0,0	0,0
TOTAL CAPITAL EXPENDITURE	0,0	0,0	0,07	0,19	0,28	0,36	0,15
	Other costs financed by RRF loans (% of GDP)						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Reduction in tax revenue		0,0	0,0	0,0	0,0	0,0	0,0
Other costs with impact on revenue		0,0	0,0	0,0	0,0	0,0	0,0
Financial transactions		0,0	0,0	0,0	0,0	0,0	0,0

Source: Ministry of Finance.