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**NOTE**

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From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2019 National Reform Programme of Slovenia and delivering a Council opinion on the 2019 Stability Programme of Slovenia

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Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission Proposal COM(2019) 524 final.

## **COUNCIL RECOMMENDATION**

### **on the 2019 National Reform Programme of Slovenia and delivering a Council opinion on the 2019 Stability Programme of Slovenia**

THE COUNCIL OF THE EUROPEAN UNION,

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

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

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

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<sup>1</sup> OJ L 209, 2.8.1997, p. 1.

Whereas:

- (1) On 21 November 2018, the Commission adopted the Annual Growth Survey, marking the start of the 2019 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The priorities of the Annual Growth Survey were endorsed by the European Council on 21 March 2019. On 21 November 2018, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council<sup>2</sup>, the Commission also adopted the Alert Mechanism Report, in which it did not identify Slovenia as one of the Member States for which an in-depth review would be carried out. On the same date, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area, which was endorsed by the European Council on 21 March 2019. On 9 April 2019, the Council adopted the recommendation on the economic policy of the euro area<sup>3</sup> ('2019 Recommendation for the euro area'), which sets out five euro-area recommendations ('the euro-area recommendations').
- (2) As a Member State whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Slovenia should ensure the full and timely implementation of the 2019 Recommendation for the euro area, as reflected in recommendations (1) to (3) below. In particular, reducing regulatory restrictions will help address the first euro-area recommendation as regards resilient product and services markets, and focusing economic policy related to investment in the specified areas will help address the second euro-area recommendation as regards supporting investment.
- (3) The 2019 country report for Slovenia was published on 27 February 2019. It assessed Slovenia's progress in addressing the country-specific recommendations adopted by the Council on 13 July 2018<sup>4</sup>, the follow-up given to the country-specific recommendations adopted in previous years and Slovenia's progress towards its national Europe 2020 targets.

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<sup>2</sup> Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

<sup>3</sup> OJ C 136, 12.4.2019, p. 1.

<sup>4</sup> OJ C 320, 10.9.2018, p. 103.

- (4) Slovenia submitted its 2019 National Reform Programme on 15 April 2019 and its 2019 Stability Programme on 26 April 2019. In order to take account of their interlinkages, the two programmes have been assessed at the same time.
- (5) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds ('ESI Funds') for the 2014-2020 period. As provided for in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council<sup>5</sup>, where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of that provision in guidelines on the application of the measures linking the effectiveness of the ESI Funds to sound economic governance.
- (6) Slovenia is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule. In its 2019 Stability Programme, the government expects that the headline surplus will increase to 0,9 % of gross domestic product (GDP) in 2019 and then reach 1,2 % of GDP in 2022. Based on the recalculated structural balance, the medium-term budgetary objective – which has been changed from a structural surplus of 0,25 % of GDP in 2019 to a structural deficit of 0,25 % of GDP from 2020 – is planned to be achieved by 2021<sup>6</sup>. According to the 2019 Stability Programme, the general government debt-to-GDP ratio is projected to continue to fall to 65,4 % of GDP in 2019 and to 54,7 % of GDP in 2022. The macroeconomic scenario underpinning those budgetary projections is favourable.

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<sup>5</sup> Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

<sup>6</sup> Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

- (7) On 13 July 2018, the Council recommended Slovenia to ensure that the nominal growth rate of net primary government expenditure<sup>7</sup> does not exceed 3,1 % in 2019, corresponding to an annual structural adjustment of 0,65 % of GDP. Based on the Commission 2019 spring forecast, there is a risk of a significant deviation from the recommended adjustment path towards the medium-term budgetary objective in 2019.
- (8) In 2020, Slovenia should achieve its medium-term budgetary objective. Based on the Commission 2019 spring forecast, this is consistent with a maximum nominal growth rate of net primary government expenditure of 4,0 %, corresponding to a structural adjustment of 0,5 % of GDP. Based on the Commission 2019 spring forecast under unchanged policies, Slovenia is forecast to be close to its medium-term budgetary objective in 2020. Thus, the current assessment indicates a risk of some deviation in 2020. While the projected nominal growth rate of net primary government expenditure would currently point to a risk of some deviation from the requirement in 2020, it would point to a risk of significant deviation from the requirement over 2019 and 2020 taken together. If the structural balance is no longer projected to be close to the medium-term budgetary objective, in future assessments an overall assessment would need to take into account a possible deviation from the requirement. Slovenia is forecast to comply with the debt rule in 2019 and 2020. Overall, the Council is of the opinion that the necessary measures should be taken in 2019 and that Slovenia needs to stand ready to take further measures as of 2020 to comply with the provisions of the Stability and Growth Pact.

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<sup>7</sup> Net primary government expenditure comprises total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a 4-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

- (9) Population ageing will increasingly strain Slovenia's healthcare and long-term care systems. The financing for the healthcare system is not adapted to face the expected cost increases from population ageing. To date Slovenia has not adopted comprehensive measures to ensure quality, accessibility and long-term fiscal sustainability of healthcare in Slovenia. A draft long-term care act is being drawn up as part of Slovenia's active ageing strategy. However, it remains still unclear how the envisaged measures will improve cost-effectiveness, accessibility and quality of care except that public procurement in healthcare is expected to become more cost-efficient through improved coordination. Investments in health and long-term care structures and equipment could help easing future pressure on the care systems.
- (10) Challenges regarding the long-term sustainability and adequacy of the pension system are becoming increasingly pressing as the Slovenian population is ageing faster than the population of most other Member States. In the document "Starting points for the modernisation of the Pension and Disability Insurance System in the Republic of Slovenia", adopted in 2017 by the Economic and Social Council, it was foreseen by the social partners and the previous government to adopt a reform by 2020 and the National Reform Programme 2019-2020 mentions the possibility of an overhaul of the pension system to support the medium to long-term sustainability of the system and appropriate levels of pensions. It also sets the objective of extending working lives and providing better opportunities for exploiting the human resources of older workers, but it does not specify how and when to achieve this objective. Adjusting the statutory pension age in line with increased life expectancy and promoting later retirement would make the system more sustainable. Ensuring adequate pensions remains a challenge, as some pension recipients are still at or below the poverty line. Almost 70 % of all self-employed people in Slovenia choose to pay social security contributions at the minimum level entitling them to the minimum old-age pension only. The adequacy of pensions could be further improved by boosting the coverage of the supplementary pension schemes, appropriately addressing changing career paths and by reducing old-age poverty risks.

- (11) Employment continued to rise and unemployment fell further in 2019. At the same time, long-term unemployment remains above pre-crisis levels and still represents almost half of all unemployment. Challenges persist in particular for low-skilled and older workers as their activity and employment rates remain among the lowest in the Union. Their participation in adult learning is very low. Evaluation of policies to encourage people into work or training shows that most existing programmes are performing well. However, spending in this field, and the participation rate of low-skilled and older unemployed people in the programmes remain limited. Therefore, investments in efficient measures to increase the employability of low-skilled and older workers, including in digital skills, is of particular importance. Increasing the employment rate of older workers will also help ease pressures on the pension system. While the 2013 labour market reform clearly helped certain vulnerable groups enter employment, temporary employment remains an issue. The rate of people at risk of poverty or social exclusion decreased but remains above the Union average for the elderly.
- (12) Signs of labour shortages are emerging in more and more sectors of the economy. A mismatch between the skills young people acquire during their education and the skills sought by employers appears to contribute to such shortages. Together with deficiencies in the functioning of the ecosystems for innovation, these shortages hinder industrial transformation in the priority areas of the smart specialisation strategy as defined in consultation with stakeholders. Developing digital skills in the future workforce is crucial to meet the needs of the economy.
- (13) Some measures have been or will be adopted to improve funding options for firms in Slovenia and to provide them with alternatives to bank loans. However, Slovenia's businesses still heavily rely on bank loans and cash flow to meet their funding needs. Access to equity from private markets remains low. Venture capital provision is growing, but from a very low level. The market capitalisation of the stock exchange in Ljubljana is low and continues to shrink. The limited and underdeveloped capital market, combined with unfavourable framework conditions including the low financial literacy of smaller firms, hampers the inflow of equity and venture capital into the country. The difficult access to equity presents a growth barrier for innovative companies but also for established businesses which could benefit from a change in funding.

- (14) Slovenian businesses are held back by the country's still high regulatory and administrative burden. This burden is considered a key problem for doing business in Slovenia. It relates to issues such as permits, reporting requirements, tax procedures and often lengthy commercial court proceedings. Difficulties in prosecuting economic and financial crime also impact the business environment. Slovenia has created tools to reduce administrative burden, including the SPOT portal ('Slovenska poslovna točka') and the 'Single Document', which address several of the identified burdens. However, many of the burden-reduction measures are still pending and the impact of some that have been implemented has been below expectations. Slovenia has also carried out some reforms to liberalise restrictive professional requirements. Nevertheless, some parts of the Commission's recommendations from 2017 remain unaddressed, in particular as regards lawyers and real estate agents.
- (15) Despite some progress made, there are weaknesses regarding competition and transparency in public procurement in Slovenia, as indicated notably by the high ratio of contracts arranged through negotiated procedures (without a call). The safeguards against corruption and collusion among bidders, notably in procurement by local administrations and by State-owned enterprises, remain weak. Independent oversight of public procurement lacks sufficient legal safeguards against external pressure or interference, particularly regarding the disciplinary procedures and the proposal for appointing members of the National Review Commission. An action plan to increase the professionalisation of those involved in procurement has been put in place, but professionalisation is still low. While economic crime and corruption are estimated by the authorities to have caused significant damage in the past years, some anti-corruption reforms are still pending.
- (16) Despite the partial privatisation of 75 % minus one share of Slovenia's largest bank, Nova Ljubljanska Banka, State involvement in the economy is still high, including in the financial sector. The previously published plans for privatisation have been implemented slowly. Proceeding with privatisations would increase the viability of companies in the long run and lower the risks for public finances as well as the risk of distorting competition and resource allocation. Further sales of shares in listed companies would also help develop Slovenia's capital market.



- (17) The research, development and innovation ecosystem requires improvements to become fully functioning and support measures often lack coherence. Limited support for business education and technology transfer, and, more generally, weak cooperation between science and business, hinder the creation and scaling up of innovative companies. Most small and medium-sized enterprises in Slovenia have a low innovation capacity and the share of innovative companies in Slovenia is indeed decreasing and below the Union average. Slovenia's slow digital transformation limits productivity growth. There are discrepancies in the innovation performance between Slovenia's eastern and western regions, which hinder cooperation and networking. Slovenia is reversing its progress towards the 2020 research and development spending target at the same time as an increase in investment into research, development and innovation would strengthen the country's growth potential. Slovenia attracts a low share of international students at all levels of post-secondary education, especially at the doctoral level while international mobility of researchers and mobility between academia and industry remain limited.
- (18) For the period until 2030, Slovenia has set out objectives in terms of energy infrastructure, energy efficiency and renewables in its draft national energy and climate plan, which all require appropriate investments. In particular, Slovenia's economy is more carbon intensive than the Union average, and the share of renewables in total energy production is stagnating. The development of renewable energy sources other than wood and hydropower is particularly slow. Slovenia's industry, services and residential sector all account for higher shares of total final energy consumption than the Union average. Moreover, existing energy storage capacity is underdeveloped and so fails to address the needs deriving from non-integrated local production of renewable energy sources.

- (19) Transport has become the biggest source of CO<sub>2</sub> emissions: its share of total emissions is above the average share of this sector in the Union. Slovenia's heavy reliance on road transport creates problems of high energy and carbon intensity, as well as air pollution and road accidents. There is significant scope for improvement in rail infrastructure as well as in low carbon energy and sustainable transport in general, which could help reducing these negative effects. Important investment gaps also remain in the area of natural resources to ensure a more sustainable development model. Slovenia's economy depends on its natural environment, which is deteriorating. High dependence on imported raw materials, coupled with low recycling rates, hinder the transition to a circular economy. The state of the urban wastewater sector system, including collection and treatment infrastructure, does not fully meet Union requirements. Substantial parts of Slovenia's economy are vulnerable to natural disasters, in particular floods.
- (20) The programming of Union funds for the period 2021-2027 could help address some of the gaps identified in the recommendations, in particular in the areas covered by Annex D to the 2019 country report. This would allow Slovenia to make the best use of those funds in respect of the identified sectors, taking into account regional disparities. Strengthening the country's administrative capacity for the management of these funds is an important factor for the success of this investment.
- (21) In the context of the 2019 European Semester, the Commission has carried out a comprehensive analysis of Slovenia's economic policy and published it in the 2019 country report. It has also assessed the 2019 Stability Programme, the 2019 National Reform Programme and the follow-up given to the recommendations addressed to Slovenia in previous years. The Commission has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Slovenia, but also their compliance with Union rules and guidance. This reflects the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.

(22) In the light of this assessment, the Council has examined the 2019 Stability Programme and its opinion<sup>8</sup> is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that Slovenia take action in 2019 and 2020 to:

1. Achieve the medium-term budgetary objective in 2020. Adopt and implement reforms in healthcare and long-term care that ensure quality, accessibility and long-term fiscal sustainability. Ensure the long-term sustainability and adequacy of the pension system, including by adjusting the statutory retirement age restricting early retirement and other forms of early exit from the labour market. Increase the employability of low-skilled and older workers by improving labour market relevance of education and training, lifelong learning and activation measures, including through better digital literacy.
2. Support the development of equity markets. Improve the business environment by reducing regulatory restrictions and administrative burden. Improve competition, professionalisation and independent oversight in public procurement. Carry out privatisations in line with the existing plans.
3. Focus investment-related economic policy on research and innovation, low carbon and energy transition, sustainable transport, in particular rail, and environmental infrastructure, taking into account regional disparities.

Done at Brussels,

*For the Council*

*The President*

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<sup>8</sup> Under Article 5(2) of Regulation (EC) No 1466/97.