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**COMMISSION STAFF WORKING PAPER**

**Assessment of the 2011 national reform programme and stability programme for  
SLOVENIA**

*Accompanying the document*

**Recommendation for a**

**COUNCIL RECOMMENDATION**

**on the National Reform Programme 2011 of Slovenia and delivering a Council Opinion  
on the updated stability programme of Slovenia, 2011-2014**

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## **1. INTRODUCTION**

In the years preceding the crisis, Slovenia enjoyed faster economic growth than the euro area average, driven by buoyant exports and investment. Sustained gains in capital deepening and total factor productivity were the main drivers of the economic catch-up process, whereby per capita GDP in PPS rose from 68% of the euro area average in 1998 to 83% in 2008. However, some of these gains were not sustainable and by 2007 there were mounting indications that underlying trends were leading to emerging overheating pressures and the emergence of macroeconomic imbalances. Rapid expansion ended in the third quarter of 2008 when the economy was hit hard by the global crisis, chiefly through the trade channel. The reform agenda of the government, which seeks to put Slovenia on a more sustainable growth path, is outlined in the Stability Programme ("SP") and the National Reform Programme ("NRP") submitted to the Commission on 18 and 19 April 2011.

## **2. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK**

### **2.1. RECENT ECONOMIC DEVELOPMENTS**

Slovenia has seen real GDP fall considerably more abruptly than in the euro area as a whole as a result of the global economic and financial crisis. By mid-2009, real GDP had fallen nearly 10% below the peak reached in the third quarter of 2008, reversing part of the previous catch-up process. In 2009, real GDP was driven down mainly by trends in gross capital formation. By contrast, the fact that imports fell even more steeply than exports helped to stem the decline in real GDP, while substantially narrowing the external deficit. The inflation gap vis-à-vis the euro area average also narrowed. Considering the severity of the shock to output, employment remained fairly resilient during the recession, with labour productivity absorbing a large part of the adjustment.

The recession triggered a rapid deterioration in Slovenia's public finances. The free play of automatic stabilisers, recovery measures taken in line with the European Economic Recovery Plan (EERP) and strong in-built expenditure dynamics combined to push the general government deficit from 1.8% of GDP in 2008 up to 6.0% of GDP in 2009 (with gross debt levels of 21.9% of GDP and 35.2% respectively). The global financial crisis also forced banks to restructure their liabilities, which they achieved with the help of liquidity support provided through government deposits, state-guaranteed bond issues and, to a small extent, by the Eurosystem.

A halting export-led recovery has been underway since the second quarter of 2009 and real GDP is estimated to have grown by 1.2% in 2010. Net exports and the turning of the inventory cycle have contributed to the recovery. Gross fixed capital formation, particularly construction, continues to subtract from growth. The resumption of growth and the first steps made in fiscal consolidation have helped to narrow the general government deficit in 2010.

The labour market is reacting to the economic cycle with a considerable time-lag and employment continued its downward trend in 2010. The employment rate fell from 73% in 2008 to 70.3% in 2010. The unemployment rate increased sharply, from 4.4% in 2008 to 7.3% in 2010, but remains below the EU average. Labour cost pressures that built up before the crisis have continued, with inflation-beating wage increases in the public sector in 2009 and a 22.9% increase in the minimum wage that was spread over 2010-11. Productivity has

grown rapidly due to layoffs, but unit labour costs have nevertheless adjusted less than in euro area trading partners, suggesting that competitiveness within the euro area has not improved.

The pace of the economic recovery is also held back by the difficulties of the banking sector. Having restructured their financing sources at the outset of the financial crisis, banks are now experiencing the delayed impact of the downturn on their loan portfolios: non-performing loans rose to 8.2% of banks' total gross loans<sup>1</sup> in the fourth quarter of 2010, raising banks' impairment and provisioning costs. At 11.3%<sup>2</sup>, the capital adequacy ratio of the banking sector is one of the lowest in the EU, meaning that the ability to absorb further shocks is limited. The two main banks have required recapitalisation in the first half of 2011 and will be included in the European Banking Authority's 2011 stress tests.

Banks are particularly exposed to over-indebted construction companies and leveraged buy-out holding companies. Following a marked boom-bust cycle in real estate, the construction sector has come to account for 11.4% of Slovenian banks' classified claims, 18% of which were in arrears of more than 90 days as of September 2010. Recovering arrears from construction firms may not be straightforward since housing market developments cast doubt on the collateral value of their reportedly large stocks of unsold finished housing units. Despite these trends, the construction sector still received over 45% of gross loan increases to non-financial corporations as late as 2010.

## **2.2. OUTLOOK**

According to the Commission services' spring 2011 forecast, the economic recovery is set to gather momentum only slowly, after the muted growth seen in 2010. Net exports are expected to account for half of real GDP growth in 2011. In 2012, the recovery is expected to strengthen somewhat, with a weakening contribution from net exports which more than compensated by strengthening contributions from domestic demand on the back of resumed construction investment and strengthening household consumption. Employment is forecast to fall significantly again in 2011 and not start improving again until 2012. Unemployment is expected to peak at 8.2% in 2011. Nominal wage growth is forecast to moderate somewhat in 2011 and pick up again in 2012 as the economic recovery gathers pace, causing a rebound in unit labour costs. The general government deficit is forecast to narrow to 5.2% of GDP (excluding one-offs) in 2011 and, in the absence of fully specified consolidation measures, to remain broadly stable in 2012, while the debt ratio is expected to continue increasing over the forecast horizon.

The crisis is estimated to have had a less long-lasting impact on potential growth in Slovenia relative to countries beset by greater imbalances that are heading into the crisis. This would imply a resumption of the convergence process over the medium term, albeit with total factor productivity growth below its pre-crisis rate. It has to be noted that this scenario assumes a return to high investment levels and favourable trends in participation and hours worked to shore up labour input in the face of demographic ageing.

## **3. PROCEDURAL ISSUES, GOVERNANCE AND MONITORING**

The Slovenian Government submitted its 2011 update of the Stability Programme ("SP") and 2011 National Reform Programme ("NRP") to the European Commission on 18 and 19 April 2011, outlining the fiscal consolidation strategy and the key structural reforms addressing

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<sup>1</sup> IMF Financial Soundness Indicators measure, rather than national definition.

<sup>2</sup> Prior to the recent recapitalisations.

both the short-term bottlenecks to growth and contributing to the more long-term development trajectory defined by the Slovenian 2020 targets. In the National Reform Programme, Slovenia sets its national 2020 targets in the field of employment, R&D, education, energy and climate change and poverty reduction. The NRP also contains an overview of the possible commitments and targets that Slovenia could confirm to the European Council under the Euro Plus Pact with a view to enhancing Slovenia's competitiveness. Finally, the NRP provides an overview of short-term monitoring and an evaluation of its implementation.

**Table 1: Slovenian Europe 2020 targets**

Europe 2020 targets	Current situation in Slovenia <sup>3</sup>	Slovenian Europe 2020 target in the NRP
R&D investment (% of GDP)	1.6%	3%
Employment rate (%)	70%	75%
Early school leaving (%)	5%	5%
Tertiary education attainment (%)	35%	40%
Reduction of people in or at risk of poverty or exclusion	339,000	-40,000
Energy efficiency – reduction of energy consumption in Mtoe <sup>4</sup>		n.a.
Reduction in greenhouse gas emissions (from sources not covered by the Emission Trading System)	+12% <sup>5</sup>	+4% <sup>6</sup>
Renewable energy (% of total energy use)	15%	25% of energy from renewable sources in gross final consumption

Consistency across the SP and the NRP, particularly in terms of the macroeconomic scenario and fiscal policy implications, is ensured by the use of a common macroeconomic scenario and through the sharing of certain responsibilities in the budgetary planning process between the Ministry of Finance and the Government Office for Development and European Affairs, which is responsible for the NRP.

Consultation with stakeholders and social partners was carried out in two stages, in the process of the preparation of the final NRP and on the draft text as such (Economic and Social Council, Sustainable Development Council). Both the National Assembly and the National Council of the Republic of Slovenia discussed the NRP (in the relevant committees).

<sup>3</sup> Source: Eurostat (latest available year)

<sup>4</sup> Mtoe = Million tonnes of oil equivalent

<sup>5</sup> This quantity corresponds to the 2005-2008 evolution of the emissions not covered by the EU Emissions Trading System. As the scope of the Emissions Trading System evolved between 2005 and 2008, these emissions are estimated on the basis of the main relevant UNFCCC source categories (as opposed to the difference between total emissions and EU ETS verified emissions).

<sup>6</sup> The national emissions limitation target defined in Decision 2009/406/EC (or "Effort Sharing Decision") concerns the emissions not covered by the EU Emissions Trading System. It is expressed as the minimum relative decrease (if negative) or the maximum relative increase (if positive) compared to 2005 levels.

## 4. POLICY CHALLENGES, AGENDA AND ASSESSMENT

### 4.1. POLICY CHALLENGES

A first challenge for Slovenia is related to ensuring the long-term sustainability of public finances and public pensions, while preserving the adequacy of pensions. It is projected that the demographic transition to an older population will drive a very significant increase in public pension expenditure relative to GDP (by 8.5 pps.) during the period 2010-2060<sup>7</sup>. Further public finance-related challenges include reducing the deficit below 3% of GDP by 2013, enhancing the medium-term budgetary framework and enhancing the efficiency of expenditure in certain areas, particularly in health care and education.

Repairing the financial sector is important in order to facilitate the flow of credit to the real economy and enable the resumption of high investment levels, without which further capital deepening will falter. In view of the vulnerability of Slovenia's banking system to potential shocks<sup>8</sup>, and the need to substitute the liquidity support it received from the government and the Eurosystem during the financial crisis with alternative sources of funding, the central bank has instructed major domestic banks in which the government owns strategic shares to increase their capital, which they have done.

Slovenia's external trade prospects are hampered in the short term by past cost competitiveness losses, driven by nominal wage growth outpacing productivity developments, as well as by inflation. This is particularly detrimental to Slovenia's competitive position due to its comparative advantage in manufactured labour-intensive goods and medium-technology products. Furthermore, export growth is held back by an unfavourable geographic orientation of exports.

A major challenge in the Slovenian labour market is tackling segmentation, which undermines job creation and particularly affects older and younger workers. Employment protection for workers with permanent contracts is fairly strict, compared to that accorded to workers with fixed-term contracts and relative to other countries<sup>9</sup>. The share of young workers aged 15-24 years who are on fixed-term contracts is the highest in the EU and transitions from fixed-term to permanent contracts appear to be relatively difficult. Furthermore, "student work" constitutes a largely unregulated, tax-advantageous, parallel labour market<sup>10</sup>, which has grown to 3.8% of employment in 2010. This type of work, along with the entitlement to in-study benefits, is only available to students and pupils. This is a disincentive to the timely completion of studies and creates a "notional student" problem in higher education. At the other end of the age spectrum, Slovenia has one of the lowest rates of participation and employment in the euro area for the population aged 55-64 years (36.5%), which is mainly due to a low statutory retirement age and insufficient incentives and policies for active ageing. This is a matter of concern in the medium to long term, given projected demographic developments. Finally, with overall employment projected to recover only slowly and

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<sup>7</sup> The corresponding EU27 projected increase is 2.3 pps. According to national data, the average pension decreased considerably in relation to wages in the past decade (2001: 66.3% and in 2010: 59.7%). The benefit ratio (social security pensions) is projected to decrease slightly.

<sup>8</sup> Bank of Slovenia, *Financial Stability Review*, May 2010.

<sup>9</sup> Among EU countries, Slovenia is second after Portugal in the OECD's index of strictness of EPL as regards legislation on dismissal of individual workers with permanent contracts.

<sup>10</sup> See OECD, *Economic Survey of Slovenia*, February 2011, p. 107.

employment in construction and manufacturing likely to settle at a lower level, there is a risk that recent rises in unemployment may become entrenched.

The main challenge in relation to Slovenia's business environment is to increase competition, particularly in the light of the considerable accumulated delays in transposing the Services Directive, the lack of resources for the Competition Protection Office and the high mark-ups and high concentration in certain segments of the services sector (notably food retail, construction, professional services and land transport). There appear to be untapped growth and employment possibilities in market services, which represent a relatively low share of the Slovenian economy compared to the EU average<sup>11</sup>. Worse, Slovenia had the lowest share of knowledge-based market services in the EU in 2009<sup>12</sup>. Slovenia has the third highest number of regulated professions in the EU<sup>13</sup>. Impediments to registering property and gaps in transport infrastructure (particularly railways) also increase the costs of doing business. Businesses also face rigidities in the labour market and difficulties getting access to credit. These factors, together with the degree and nature of state involvement in the economy<sup>14</sup>, keep potentially beneficial FDI relatively low.

Education, R&D and innovation could be better harnessed to support economic growth and the upgrading of Slovenia's production structure. R&D expenditure in Slovenia still lags somewhat behind the EU average, despite recent increases, and is relatively inefficient. Employment in high-tech sectors and the share of innovative SMEs remain low. There are indications of a mismatch between skills demand and supply. In particular, tertiary and vocational education appear to be insufficiently oriented towards emerging labour market needs. Medium-term improvements in these knowledge triangle areas need not come at a high cost given the scope for better co-ordination of innovation support activities and for better targeting and efficiency in education spending.

#### **Box 1: The Euro Plus Pact**

The Slovenian NRP indicates possible commitments and targets in the four areas of the Euro Plus Pact of fostering competitiveness and employment, contributing to the sustainability of public finances and reinforcing financial stability. The final commitments have not yet been formally notified.

## **4.2. ASSESSMENT OF THE POLICY AGENDA**

### **4.2.1. Macroeconomic policies**

#### **4.2.1.1. Public finances**

The macroeconomic scenario underpinning the budgetary projections of the stability programme ("SP"), which is the same as that of the national reform programme ("NRP"), sees real GDP growth strengthening gradually, from 1.2% in 2010 to 2.8% by the end of the

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<sup>11</sup> 45% against 50% on average in the EU in 2009.

<sup>12</sup> Slovenia is the country with the lowest share of business services in the EU, cf. 'Competitiveness of the Slovenian economy - Situation review and corrective measures' by the Government of the Republic of Slovenia 17th February 2011.

<sup>13</sup> According to the Regulated Professions Database managed by the Commission and fed-in with information from the Member States, Slovenia has 254 regulated professions (EU average 152) of which 22 are not regulated in any other Member State (situation on 28.04.11).

<sup>14</sup> The state's direct and indirect shareholdings amount to nearly 17% of GDP at book value, including majority ownership of the two largest banks, with a combined market share of around 50%.

programme period (2014) (see Table in the annex). In the early part of the period, the growth composition gradually shifts from net exports towards domestic demand, with a strong rebound in investment. The SP expects a jobless recovery, with employment not expanding until 2014, while inflation will peak at 3% in 2012 and remain above 2.25% thereafter<sup>15</sup>. Assessed against currently available information, including the Commission services' spring 2011 forecast, the SP's macroeconomic scenario seems plausible overall in the near term, and slightly cautious in terms of employment, which might react more quickly to the recovery, resulting in a higher wage bill and private consumption. Towards the end of the programme period the macroeconomic assumptions are above the Commission services' estimate of potential growth and therefore appear favourable.

Cyclical conditions, as measured by the output gap recalculated by the Commission services based on the information in the SP following the commonly agreed methodology, are very negative in the early part of the programme period, but improve gradually over the period.

The 2010 outcome for the general government deficit is estimated at 5.6% of GDP, which is marginally better than the target set in the previous SP (5.7%)<sup>16</sup>. This reflects the mid-year supplementary budget, which in view of a significant emerging tax revenue shortfall raised excise duty rates on some energy products and cut the original budget plans for intermediate consumption and public investment. As a result, both revenue and expenditure growth were lower than planned in the original budget (2.6% versus 3.3% for revenue and 1.8% versus 3.1% for expenditure).

The 2011 deficit target in the new SP is set at 5.5% of GDP, well above that in the previous SP (4.2%). The unanticipated recapitalisation of the biggest Slovenian banking group (NLB), which involves one-off expenditure of 0.7% of GDP, together with macroeconomic and tax revenue developments that are weaker than predicted, explain the upward revision of the deficit target. Against this background, measures to restrain primary current expenditure, focussed on the government wage bill and social transfers, were reinforced (see Box 2). The Commission services' spring 2011 forecast projects the 2011 deficit at 5.8% of GDP, which is slightly worse than the target, mainly because of lower indirect taxes (from sharply reduced excise duty rates on mineral oils that are intended to offset inflationary pressures) and somewhat higher compensation of employees and public investment. Subject to its classification as a deficit-increasing operation, the transfer to the railway company of 0.4% of GDP decided at the end of May 2011 would put further pressure on the 2011 deficit outcome. Additional measures are expected to be adopted in the context of a supplementary budget in order to confirm the 5.5% of GDP deficit target.

The medium-term consolidation strategy set out in the SP relies on a broad-based containment of primary expenditure to bring the deficit (just) below the 3% of GDP reference value in 2013 and reduce it further in 2014. The SP thus envisages gradual progress towards, but not the actual achievement of, the medium-term objective (MTO) for the budgetary position, which is revised to a balanced position in structural terms from a previous deficit of 1% of GDP. The new MTO is predicated on the expected beneficial impact of the recent pension reform on age-related spending in the long term and cannot be regarded as appropriate at this stage as it is not clear whether it ensures sufficiently rapid progress towards long-term sustainability. The SP attributes the large and growing margin between the new deficit targets and those set in the previous SP for the downward revision in growth prospects throughout the programme period.

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<sup>15</sup> The programme provides CPI instead of HICP projections.

<sup>16</sup> The 2010 outturn in the programme is estimated at 5.5% of GDP.

Expenditure as a share of GDP is planned to fall by some 5pp of GDP between 2010 and 2014 (see Table III in the annex). Government consumption, especially compensation of employees but also intermediate consumption, accounts for half of the planned retrenchment. Social transfers and public investment also contribute<sup>17</sup>. The SP does not spell out the measures underpinning the planned consolidation from 2012 onwards. It includes a commitment to freeze the nominal public sector wage bill at the 2011 level throughout the programme period (and the same for social transfers, but only in 2012), describes the ongoing rationalisation of procedures for granting transfers and subsidies, announces a common public procurement system to contain intermediate consumption and confirms plans for a new expenditure rule (see below). The SP also announces compensating measures to contain pension expenditure in case the pension reform is rejected in the referendum. The revenue ratio is planned to drop by 1.5pps of GDP between 2010 and 2014, especially in the areas of social contributions and indirect taxes, even if the ongoing modernisation of tax collection procedures is expected to support tax revenue. Ruling out an increase in the total tax burden, the SP mentions that several revenue measures are under consideration, including a new approach to taxing real estate, but no budgetary impact is incorporated in the SP's revenue projections.

The average annual fiscal effort over the period 2011-13, based on the recalculated structural balance, is planned to be around 0.5pp. of GDP, below the effort recommended by the Council under the EDP. In 2014 (after the correction of the excessive deficit), the fiscal effort is 0.3pp of GDP, which is below the Stability and Growth Pact benchmark of a 0.5% of GDP annual adjustment towards the MTO.

Moreover, budgetary outcomes could be worse than targeted in the SP. For 2011, as mentioned above, indirect taxes could be lower and expenditure higher than foreseen in the budget, but additional measures are expected in the context of the supplementary budget. For 2012, the planned reduction of the deficit by around 1pp of GDP (if one disregards the one-off recapitalisation) relies almost entirely on freezing the compensation of employees and social transfers at the 2011 level, but no measures have been specified as yet. While several of the ad-hoc measures adopted in 2010-2011 (see also Box 3) could be prolonged, this may not be enough to achieve the planned freeze, given the expected rise in the number of pensioners and the deviation from previous plans to cut public sector employment. The risks to the budgetary projections in the latter years of the SP period stem from the lack of specific measures to contain expenditure. Finally, the possibility of additional financial rescue operations, which may affect the deficit as well as the debt, cannot be ruled out.

#### **Box 2. Main measures**

In recent years, consolidation measures have focussed on the expenditure side, targeting the public sector wage bill and social transfers in particular and consisting largely of ad-hoc, temporary interventions rather than durable measures. For 2011, for instance, indexation formulae for social transfers including pensions were amended for one year only, while the public sector wage bill was contained by means of a similar intervention on the indexation formula, a freeze on promotions, the non-payment of most bonuses and the further postponement of wage increases from the 2007 collective agreement until after real GDP growth exceeds 2.5% of GDP. For 2012 and beyond, the SP targets are not underpinned by specific measures, except for the extension of the non-payment of public sector bonuses to 2012.

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<sup>17</sup> The decline in subsidies between 2011 and 2012 reflects the one-off recapitalisation of NLB in 2011, which is recorded as a subsidy in the programme and as a capital transfer in the Commission services' spring 2011 forecast (Eurostat will decide on the correct classification at a later stage).



Main budgetary measures (% of GDP)	
Revenue	Expenditure
<b>2011</b>	
<ul style="list-style-type: none"> <li>• n.a.</li> </ul>	<ul style="list-style-type: none"> <li>• Lower indexation of social benefit rates other than pensions (-0.1%)</li> <li>• Lower indexation of pensions (-0.6%)</li> <li>• Further postponement of wage increases in the public sector and related measures (-1.2%)</li> </ul>
<b>2012</b>	
<ul style="list-style-type: none"> <li>• n.a.</li> </ul>	<ul style="list-style-type: none"> <li>• n.a.</li> </ul>
<b>2013</b>	
<ul style="list-style-type: none"> <li>• n.a.</li> </ul>	<ul style="list-style-type: none"> <li>• n.a.</li> </ul>
<b>2014</b>	
<ul style="list-style-type: none"> <li>• n.a.</li> </ul>	<ul style="list-style-type: none"> <li>• n.a.</li> </ul>

*Note: The budgetary impact in the table is the impact reported in the SP, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.*

General government gross debt is projected to rise from 38% of GDP in 2010 to a peak of 46% by 2013 and to broadly stabilise in 2014 (see Table IV in the annex). The increase results chiefly from persistent primary deficits, while the snowball effect and stock-flow adjustment also contribute in 2011 (see Table III in the annex). Debt is almost entirely euro-denominated and with a fixed interest rate. Risks to the debt projections arise from those to the deficit targets mentioned above. Unless these risks are addressed, the budgetary stance of the SP may not suffice to bring the debt ratio back on to a downward path.

Slovenia is running a high risk with regard to the long-term sustainability of public finances. The long-term cost of ageing is clearly above the EU average. The current budgetary position compounds the cost of ageing. Based on the current fiscal position, debt would increase to 90% of GDP by 2020 (see Table IV in the annex). Even the full implementation of the SP would not be enough to put debt on a downward path by 2020 (see Graph 1 in the annex). The parliament has adopted a pension reform, which according to the SP would stabilise age-related spending until 2030; it will be the subject of a referendum on 5 June 2011. Ensuring sufficient primary surpluses over the medium term and further reforming the Slovenian social security system, in particular reforming the pension system so as to curb the projected substantial increase in age-related expenditure, would improve the sustainability of public finances.

There is scope for improving spending efficiency in Slovenia, especially in the areas of health care and education. In this area, in addition to programme-based budgeting implemented through the November 2010 budget for 2011-12, the SP announces initiatives towards the rationalisation of public services, transfers and subsidies and the introduction of a unified public procurement system. Some of the measures to rationalise public services remain to be further specified and they do not seem to specifically target the problem areas mentioned above. In the area of fiscal governance, the SP announces that the revised Public Finance Act will strengthen the functioning of the fiscal council and the medium-term fiscal framework so as to foster consolidation and the achievement of the MTO. The former will include limits on general government debt and guarantees as well as on local government debt, and a ban on debt incurred by the pension and healthcare funds. Also, a fiscal rule limiting the nominal growth rate of general government expenditure by reference to potential GDP growth, while correcting for the distance from the “targeted” deficit and debt ratios, is being confirmed. The

rule provides fixed ceilings for the first two years and indicative ceilings for the following two years. Specific provisions, including the circumstances and consequences of non-compliance and conditions for amending the framework, remain to be specified.

#### **4.2.1.2. Financial sector**

The NRP describes three sets of measures taken recently or planned by the government to repair the banking sector. First, the country's two largest banks – Nova ljubljanska banka (NLB) and Nova kreditna banka Maribor (NKBM) – have been recapitalised because of raised impairment and provisioning costs and declining capital adequacy ratios (see Table VI in the annex). The state subscribed almost all the newly issued shares of NLB, thereby raising its ownership to more than 50%, while it maintained its share in NKBM. Recapitalisations are a step towards improved capital adequacy and credit ratings, which in turn will lower the cost of obtaining the replacement financing that will be required when the state withdraws its deposits and when obligations to foreign banks fall due. In addition, any capital provided by private investors could improve governance and help to expand the range and quality of banking services.

Second, the government requested in March 2011 that state-owned banks should establish internal departments and hire skilled professionals to restructure and sell collateral assets seized from over-leveraged companies, potentially to specialised private investors such as corporate turnaround and rehabilitation funds. Announced further steps have so far not materialised. Rapid progress in this area would remove an obstacle to the resumption of corporate credit growth.

Third, a new, temporary tax incentive for banks' investments in productive activities has been announced by the government. The tax allowance does not distinguish between rolling over loans and new investments, so it will not incentivise banks that rely on existing, heavily indebted borrowers to reprioritise lending to industries with growth potential and lower indebtedness.

Overall, the recapitalisation of the two main banks is crucial and has been achieved. Careful monitoring will be required given the potential for further loan losses and the prospect of rising funding and income risks. In view of the need to restore the flow of credit to the real economy, there are, however, risks related to the remaining measures. Accelerated recovery of claims is important, but internal bank reorganisations may not achieve this objective in isolation in view of, for instance, the thinness of markets for these assets or the factors discouraging FDI. Furthermore, the important issue of claims on the construction sector is not analysed in the NRP. Finally, the announced tax incentive is unlikely to improve the structure of bank assets to any great extent, as it is not particularly well-targeted.

#### **4.2.1.3 Other macroeconomic issues**

The NRP acknowledges the important role of social dialogue in wage-setting and suggests that the wage-bargaining framework could be reformed to ensure that wage growth does not exceed productivity growth. However, the nature of the changes envisaged is not yet known. A reform of the institutional setting for social dialogue, including to increase the coherence of union positions in the Economic and Social Council, is presented as a way to make the dialogue on competitiveness-enhancing structural reforms more constructive.

## **4.2.2. Labour market policies**

### **Pension reform and active ageing**

The long-term budgetary impact of ageing in Slovenia is significantly higher than the EU average. Moreover, the participation and employment rates for older workers are very low (36.5% and 35% compared to the EU averages of 49.7% and 46.3% respectively), mainly due to the low retirement age and insufficient incentives for active ageing. The parliament has recently adopted a pension reform, with the aim of increasing the retirement age, while preserving adequacy of pensions<sup>18</sup>. According to the Stability Programme this would stabilise age-related spending until 2030 and would therefore be an important first step in tackling the sustainability of the pension system. The reform was subject to a referendum on 5 June 2011. The NRP also describes the active labour market policies that are being put in place alongside the pension reform to support active ageing, including a renewed programme of public works and social entrepreneurship, although more extensive tailor-made active labour market policies and lifelong learning measures for the elderly, which could usefully be underpinned by other aspects of age-management<sup>19</sup>, are missing in the NRP.

### **Labour market segmentation**

The government plans to negotiate with the social partners a revision of the Employment Relationship Act, with a view to aligning rights and obligations under different types of employment contracts. The NRP recalls the extension of the previously very limited coverage of unemployment benefits enacted in 2010 to make them available to young workers coming off fixed term contracts.<sup>20</sup> This was a response to the disproportionate impact of the recession on younger workers (the unemployment rate of young people increased from 10.4% in 2008 to 14.7% in 2010). However, the important issue of the less regulated labour market for "student work", which gives rise to a parallel labour market and creates distortions in tertiary education, is absent from the reform agenda following the rejection of the Mini Jobs Act in a referendum held on 10 April 2011.

### **Education and skill mismatches**

Slovenia already has a very low rate of early school leaving (5% compared to the EU average of 14%) and a rather good rate of tertiary education attainment (34.8% compared to the EU average of 33.6%). The target for 2020 is to maintain these results and increase the higher education attainment rate further. The NRP also envisages intensive investment in training to improve key skills and employability, with the aim of reducing skill mismatches. It also describes plans to further improve pathways from education to the labour market, with a focus on providing career guidance services throughout the education system. Within higher education, policy efforts are being geared to shortening the average number of years of study, increasing the proportion of graduates and strengthening the vocational education element. The Scholarship Act has been amended (it is currently going through the parliamentary

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<sup>18</sup> The act gradually raises and equalises the statutory retirement age, from the current 63 years for men and 61 for women to 65 years, and lengthens the contribution period. Other modifications include changes in the calculation of pension entitlements, less generous indexation of pensions and enhanced financial incentives for prolonging working lives. The act also addresses partial retirement as well as occupational and voluntary supplementary pension provisions.

<sup>19</sup> Comprehensive policy to address all aspects of older workers, including attitudes of employers.

<sup>20</sup> Labour Market Regulation Act.

procedure) with the aim of improving linkages between educational institutions and employers, particularly with a view to targeting deficit professions, in the light of rising graduate unemployment. Finally, there are plans for a modernisation of the employment service with the objective of better matching the supply of skills to labour market needs. However, an improved system to identify current and projected labour market needs in a timely manner is not envisaged in the NRP. Currently, the public employment service only provides a partial picture of the skills and competencies that are required by employers, without a forward-looking element for improved career guidance and human capital investment.

## **Poverty and Social inclusion**

Although social inclusion trends are generally favourable, and the situation better than the EU average<sup>21</sup>, the NRP announces the commitment to further reduce the number of people at risk of poverty and exclusion by 2020. The NRP recalls the positive impact of the planned reforms on social inclusion in the fields of pensions and the labour market. In addition, the government has simplified the procedures for applying for benefits and introduced changes in the area of financial social assistance. Finally, the government envisages strengthened activation strategies, including new programmes for specific vulnerable groups.

### **4.2.4. Growth enhancing structural measures**

#### **Business Environment and Competition**

The NRP outlines numerous measures in relation to product markets, innovation and education. The main measures in relation to product markets include speeding up the implementation of the Services Directive, giving the Competition Protection Office full independence and a commitment to identify non-strategic state capital investments that are suitable for sale and improve corporate governance standards in state-owned enterprises. A range of smaller changes is also underway to improve the business environment, including measures to shorten payment periods and reduce due claims between businesses. A study has been commissioned<sup>22</sup> into the options regarding the large number of regulated professions. In relation to innovation, there are measures driven by the Slovenia Enterprise Fund to enhance access to seed and start-up finance and to improve the efficiency of R&D spending by fostering greater co-ordination and cooperation in the "knowledge triangle".

These plans address the challenges faced by Slovenia in relation to product markets, innovation and education. In addition, there would be scope for focusing more on foreign direct investments as a potential catalyst for a dynamic business environment and innovation. Given that some of the reforms listed in the NRP have already been proposed in past policy documents, but are still in the preparatory phase, the level of ambition and likely effectiveness of reforms will depend on how and when the announced intentions are translated into concrete changes, specifically as regards state-owned assets, competition, the Services Directive and land registration. The effectiveness of the new agency for the management of state-owned assets and the soon-to-be-independent Competition Protection Office will depend on

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<sup>21</sup> According to Eurostat, there are 23.1% of persons at risk of poverty or social exclusion EU-wide, while their share is 17.1% in Slovenia.

<sup>22</sup> A study entitled 'Deregulation of profession in the Republic of Slovenia – between the public interest and competitiveness' should be finished in 2012.

appropriate objectives and adequate resourcing<sup>23</sup> and capabilities. Implementation of the Services Directive is progressing, but some of the necessary amendments to sector specific legislation are still outstanding. In particular, the establishment of efficient and complete single points of contact for all services sectors is progressing rather slowly<sup>24</sup>. Furthermore, certain requirements beyond the scope of the Services Directive, such as reserves of activity or obligatory membership in a professional association, are still creating a significant obstacle to growth in the sector. Lastly, the full benefits of the land register act<sup>25</sup> will only be felt when the computerisation of registration has been completed.

Although this is not stressed in the NRP, better absorption of Cohesion Funds could also play a role in modernising the railway infrastructure.

## **Research and Innovation**

Slovenia's R&D intensity target of 3% for 2020 is realistic, provided that the capacity and resourcing of the research system are increased effectively and efficiently, as set out in the new National Research and Innovation Strategy, and provided there is smart use of ERDF<sup>26</sup> funding. Public R&D spending is targeted to reach 1.2% of GDP by 2020 and a relatively high proportion of structural funds have been earmarked for R&D, innovation and competitiveness. In parallel, the new National Programme for Higher Education, which is under preparation, will aim to increase efficiency and target the skills needed by industry, particularly in science and engineering.

## **Climate change and Energy**

The Slovenian energy market is somewhat isolated from foreign investment and competition, in part due to its small size. In view of the energy and climate change goals, the NRP confirms Slovenia's commitments to greenhouse gas reduction and the use of renewable energy, but presents no national target for energy efficiency.

The recent trend in greenhouse gas emissions does not appear to be in line with the 2020 national target defined at the European level, despite below-trend economic output. The trend in emissions from road transportation is especially important in this respect, given this sector's share of total emissions. These trends mean that the greenhouse gas reduction target is unlikely to be met without additional emissions reduction measures and/or the use of flexibility mechanisms.

Investments in renewables and energy efficiency have so far been minimal. By contrast, an estimated €1.2bn will be directed into a new coal-fired power plant, amounting to the entire investment potential of Slovenia's largest power company (67% of installed generation capacity). Meanwhile, the second power company (22 % of installed generation capacity) is considering building a new nuclear power plant. Such sizeable investments in non-renewable energy are likely to reduce the likelihood of large renewables projects finding finance for the foreseeable future.

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<sup>23</sup> Indeed, the CPO's staffing has shrunk to 14 people (including 8 case handlers), while the staffing requirement was estimated at 35/36 people prior to EU accession.

<sup>24</sup> These are planned to be ready in 2012 for tourism, construction and crafts with a progressive extension to all services sectors by 2015.

<sup>25</sup> The World Bank's Doing Business publication 2011 ranks Slovenia 113<sup>th</sup> in terms of the time needed to register property.

<sup>26</sup> European Regional and Development Fund

## 5. SUMMARY

The stability programme presents a medium-term consolidation strategy to bring the general government deficit (just) below the 3% of GDP reference value in 2013. In 2014, it makes modest progress towards the medium-term objective (MTO) of a balanced budgetary position in structural terms which, although now at a more ambitious level than in the previous programme, cannot be regarded as appropriate at this stage. General government gross debt is projected to peak at 46% in 2013 and broadly stabilise in 2014 assuming persistent primary deficits. For 2011, meeting the deficit target is subject to the adoption of additional measures expected in the context of a supplementary budget. Beyond 2011, there are significant risks to the deficit and debt targets as the programme lacks specific and lasting measures to contain expenditure (recent consolidation measures have consisted largely of ad-hoc, temporary interventions). Any additional interventions to strengthen the financial sector would also entail risks to the programme targets. The programme announces plans for a strengthened medium-term budgetary framework and for improved spending efficiency, although most of these still have to be further specified. Finally, Slovenia is at high risk with regard to the long-term sustainability of public finances due to high implicit ageing costs.

The economic challenges identified by the Slovenian authorities in the national reform programme are in line with those acknowledged by the Commission and the Council. However, not all measures are sufficiently described in terms of estimated costs, timescales and impacts. Financial sector measures are proposed, but these may not be fully sufficient to restore the flow of credit to the real economy. The agenda to address labour market segmentation and ensure higher rates of participation for both younger and older workers seems broadly adequate. However, the key challenge is now to fully implement these reforms. There is a continuing structural reform effort in Slovenia aimed at enhancing the functioning of product markets, fostering innovation and improving human capital. There have been some notable improvements in these broad areas, although the progress expected on the most urgent structural issues, namely: the implementation of the Services Directive; the liberalisation of regulated professions; the administrative capacity of the Competition Protection Office and the governance of state-owned enterprises, will depend on how and when the announced intentions are translated into concrete changes.

## 6. ANNEX

### Table I. Macro economic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012
<b>Core indicators</b>							
GDP growth rate	4.3	3.7	5.2	-8.1	1.2	1.9	2.5
Output gap <sup>1</sup>	0.1	0.7	4.1	-5.1	-5.6	-4.9	-3.7
HICP (annual % change)	8.1	6.9	3.6	0.9	2.1	2.6	2.1
Domestic demand (annual % change) <sup>2</sup>	6.2	3.1	5.2	-9.8	0.4	1.0	2.0
Unemployment rate (% of labour force) <sup>3</sup>	7.1	6.4	5.5	5.9	7.3	8.2	8.0
Gross fixed capital formation (% of GDP)	23.9	24.6	27.1	23.9	22.3	22.2	22.5
Gross national saving (% of GDP)	23.8	24.4	26.1	21.7	22.2	22.0	22.0
<b>General Government (% of GDP)</b>							
<b>Net lending (+) or net borrowing (-)</b>	<b>-3.5</b>	<b>-3.0</b>	<b>-1.2</b>	<b>-6.0</b>	<b>-5.6</b>	<b>-5.8</b>	<b>-5.0</b>
<b>Gross debt</b>	<b>22.2</b>	<b>27.1</b>	<b>24.5</b>	<b>35.2</b>	<b>38.0</b>	<b>42.8</b>	<b>46.0</b>
<b>Net financial assets</b>	<b>n.a</b>	<b>12.3</b>	<b>10.4</b>	<b>0.0</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
Total revenue	43.4	43.6	42.9	43.1	43.4	43.3	43.1
Total expenditure	46.8	46.6	44.1	49.0	49.0	49.1	48.1
<i>of which: Interest</i>	2.2	2.1	1.3	1.3	1.6	1.8	2.0
<b>Corporations (% of GDP)</b>							
<b>Net lending (+) or net borrowing (-)</b>	<b>-1.5</b>	<b>-3.0</b>	<b>-8.3</b>	<b>-1.4</b>	<b>-1.4</b>	<b>-1.6</b>	<b>-1.7</b>
<b>Net financial assets; non-financial corporations</b>	<b>n.a</b>	<b>-93.3</b>	<b>-110.3</b>	<b>-117.9</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
<b>Net financial assets; financial corporations</b>	<b>n.a</b>	<b>7.3</b>	<b>3.8</b>	<b>3.4</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
Gross capital formation	15.4	16.7	19.8	13.1	13.9	14.4	14.7
Gross operating surplus	14.6	17.1	18.9	17.6	18.2	18.7	19.1
<b>Households and NPISH (% of GDP)</b>							
<b>Net lending (+) or net borrowing (-)</b>	<b>3.8</b>	<b>4.5</b>	<b>5.4</b>	<b>5.9</b>	<b>5.9</b>	<b>5.4</b>	<b>5.4</b>
<b>Net financial assets</b>	<b>n.a</b>	<b>68.1</b>	<b>74.8</b>	<b>79.2</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
Gross wages and salaries	45.9	45.9	44.5	46.8	46.4	45.5	45.3
Net property income	1.3	1.6	1.3	1.3	1.3	1.4	1.3
Current transfers received	20.1	21.1	19.4	21.0	21.8	21.9	21.8
Gross saving	8.8	9.9	10.6	10.5	10.2	9.6	9.6
<b>Rest of the world (% of GDP)</b>							
<b>Net lending (+) or net borrowing (-)</b>	<b>-1.2</b>	<b>-1.5</b>	<b>-4.1</b>	<b>-1.4</b>	<b>-0.8</b>	<b>-2.0</b>	<b>-1.3</b>
<b>Net financial assets</b>	<b>n.a</b>	<b>5.9</b>	<b>21.4</b>	<b>36.0</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
Net exports of goods and services	-1.9	-0.9	-1.4	1.3	0.5	0.3	0.7
Net primary income from the rest of the world	0.5	-0.4	-1.7	-1.9	-1.5	-2.1	-2.5
Net capital transactions	0.0	-0.3	-0.2	0.0	0.0	-0.6	0.5
Tradable sector	46.7	46.0	44.9	41.6	42.6	n.a	n.a
Non tradable sector	39.4	41.3	42.8	45.6	44.7	n.a	n.a
<i>of which: Building and construction sector</i>	5.7	5.5	6.6	6.9	5.9	n.a	n.a
Real effective exchange rate (index, 2000=100)	105.7	102.6	105.0	114.0	113.0	111.0	111.1
Terms of trade goods and services (index, 2000=100)	102.2	102.6	101.0	104.5	101.9	100.1	100.0
Market performance of exports (index, 2000=100)	103.2	107.5	125.6	125.0	121.4	121.8	122.2
Notes:							
<sup>1</sup> The output gap constitutes the gap between the actual and potential gross domestic product at 2000 market prices.							
<sup>2</sup> The indicator on domestic demand includes stocks.							
<sup>3</sup> Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.							
Source:							
Commission services' spring 2011 forecast							

**Table II. Macro economic scenario for the budgetary projections**

	2010		2011		2012		2013	2014
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	1.2	1.2	1.9	1.8	2.5	2.2	2.3	2.8
Private consumption (% change)	0.5	0.5	0.7	0.6	1.3	0.6	0.9	1.4
Gross fixed capital formation (% change)	-6.7	-6.7	0.8	1.9	3.9	4.5	5.0	4.5
Exports of goods and services (% change)	7.8	7.8	6.7	6.9	6.9	6.7	7.0	7.1
Imports of goods and services (% change)	6.6	6.6	5.2	4.7	6.1	6.0	5.9	6.1
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	-1.2	0.4	0.6	0.3	1.7	1.5	1.3	1.8
- Change in inventories	1.6	1.6	0.4	-0.3	0.2	0.4	0.0	0.0
- Net exports	0.8	0.8	1.0	1.5	0.5	0.7	1.0	1.0
Output gap <sup>1</sup>	-5.6	-5.5	-4.9	-5.0	-3.7	-4.0	-3.1	-1.8
Employment (% change)	-2.2	-2.2	-1.3	-1.6	0.3	-0.9	-0.4	0.2
Unemployment rate (%)	7.3	7.2	8.2	8.0	8.0	8.6	8.8	8.6
Labour productivity (% change)	3.4	3.4	3.3	3.4	2.1	3.1	2.7	2.5
HICP inflation (%)	2.1	1.8	2.6	2.2	2.1	3.0	2.4	2.3
GDP deflator (% change)	0.7	0.7	1.0	0.1	1.8	2.6	2.3	2.2
Comp. of employees (per head, % change)	4.1	3.5	2.4	2.5	3.6	3.7	3.3	3.2
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-0.8	n.a.	-2.0	n.a.	-1.3	n.a.	n.a.	n.a.
<p><u>Note:</u>  <sup>1</sup>In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.</p> <p><u>Source:</u>  Commission services' spring 2011 forecasts (COM); Stability programme (SP).</p>								



**Table III. Composition of the budgetary adjustment\***

(% of GDP)	2010		2011		2012		2013	2014	Change: 2010-2014
	COM	SP	COM	SP	COM	SP	SP	SP	SP
<b>Revenue</b>	<b>43.4</b>	<b>42.5</b>	<b>43.3</b>	<b>42.7</b>	<b>43.1</b>	<b>42.1</b>	<b>41.8</b>	<b>41.0</b>	<b>-1.5</b>
<i>of which:</i>									
- Taxes on production and imports	14.0	14.0	13.9	14.2	13.9	14.0	13.9	13.6	-0.4
- Current taxes on income, wealth, etc.	8.1	8.1	8.1	8.1	8.1	8.0	8.0	7.9	-0.2
- Social contributions	15.2	15.2	15.0	15.1	14.9	14.9	14.7	14.6	-0.6
- Other (residual)	6.0	5.0	6.4	5.3	6.2	5.2	5.2	4.9	-0.1
<b>Expenditure</b>	<b>49.0</b>	<b>48.0</b>	<b>49.1</b>	<b>48.2</b>	<b>48.1</b>	<b>46.0</b>	<b>44.7</b>	<b>43.1</b>	<b>-4.9</b>
<i>of which:</i>									
- Primary expenditure	47.4	46.4	47.4	46.4	46.1	44.0	42.8	41.3	-5.1
<i>of which:</i>									
Compensation of employees	12.4	12.4	12.0	12.0	11.8	11.5	11.0	10.5	-1.9
Intermediate consumption	6.5	6.5	6.5	6.5	6.3	6.3	6.0	5.8	-0.7
Social payments	19.1	19.1	19.2	19.4	19.2	18.5	18.4	18.3	-0.8
Subsidies	2.1	1.8	1.6	2.0	1.5	1.4	1.2	1.1	-0.7
Gross fixed capital formation	4.3	4.0	4.3	3.7	4.5	3.6	3.7	3.2	-0.8
Other (residual)	3.1	2.7	3.8	2.8	2.9	2.8	2.5	2.3	-0.4
- Interest expenditure	1.6	1.6	1.8	1.8	2.0	2.0	1.9	1.8	0.2
<b>General government balance (GGB)</b>	<b>-5.6</b>	<b>-5.5</b>	<b>-5.8</b>	<b>-5.5</b>	<b>-5.0</b>	<b>-3.9</b>	<b>-2.9</b>	<b>-2.0</b>	<b>3.5</b>
<b>Primary balance</b>	<b>-4.0</b>	<b>-3.9</b>	<b>-4.1</b>	<b>-3.7</b>	<b>-3.1</b>	<b>-1.9</b>	<b>-1.1</b>	<b>-0.3</b>	<b>3.6</b>
One-off and other temporary measures	0.0	n.a.	-0.7	-0.7	0.0	n.a.	n.a.	n.a.	n.a.
<b>GGB excl. one-offs</b>	<b>-5.6</b>	<b>n.a.</b>	<b>-5.2</b>	<b>-4.8</b>	<b>-5.0</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Output gap <sup>2</sup>	-5.6	-5.5	-4.9	-5.0	-3.7	-4.0	-3.1	-1.8	3.7
Cyclically-adjusted balance <sup>2</sup>	-3.0	-3.0	-3.5	-3.3	-3.3	-2.1	-1.5	-1.2	1.8
<b>Structural balance<sup>3</sup></b>	<b>-3.0</b>	<b>-3.0</b>	<b>-2.9</b>	<b>-2.6</b>	<b>-3.3</b>	<b>-2.1</b>	<b>-1.5</b>	<b>-1.2</b>	<b>1.8</b>
<i>Change in structural balance</i>			<i>0.1</i>	<i>0.4</i>	<i>-0.5</i>	<i>0.5</i>	<i>0.6</i>	<i>0.3</i>	
Structural primary balance <sup>3</sup>	-1.4	-1.4	-1.1	-0.8	-1.3	-0.1	0.4	0.6	2.0
<i>Change in structural primary balance</i>			<i>0.3</i>	<i>0.6</i>	<i>-0.2</i>	<i>0.7</i>	<i>0.5</i>	<i>0.2</i>	
<b>Notes:</b>									
* The two sets of projections cannot be compared as they follow different methods for recording EU funds. The Commission services' spring 2011 forecast adopts the method used for the historical data submitted by the Slovenian statistical office and validated by Eurostat, which includes all EU funds into the general government accounts, whereas the programme includes only EU funds where the final recipient is a general government unit. The differences should affect the expenditure and revenue sides in equal measure, with no impact on the deficit.									
<sup>1</sup> On a no-policy-change basis.									
<sup>2</sup> Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the information in the programme.									
<sup>3</sup> Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.									
<b>Source:</b>									
Stability programme (SP); Commission services' spring 2011 forecasts (COM); Commission services' calculations									

**Table IV. Debt dynamics**

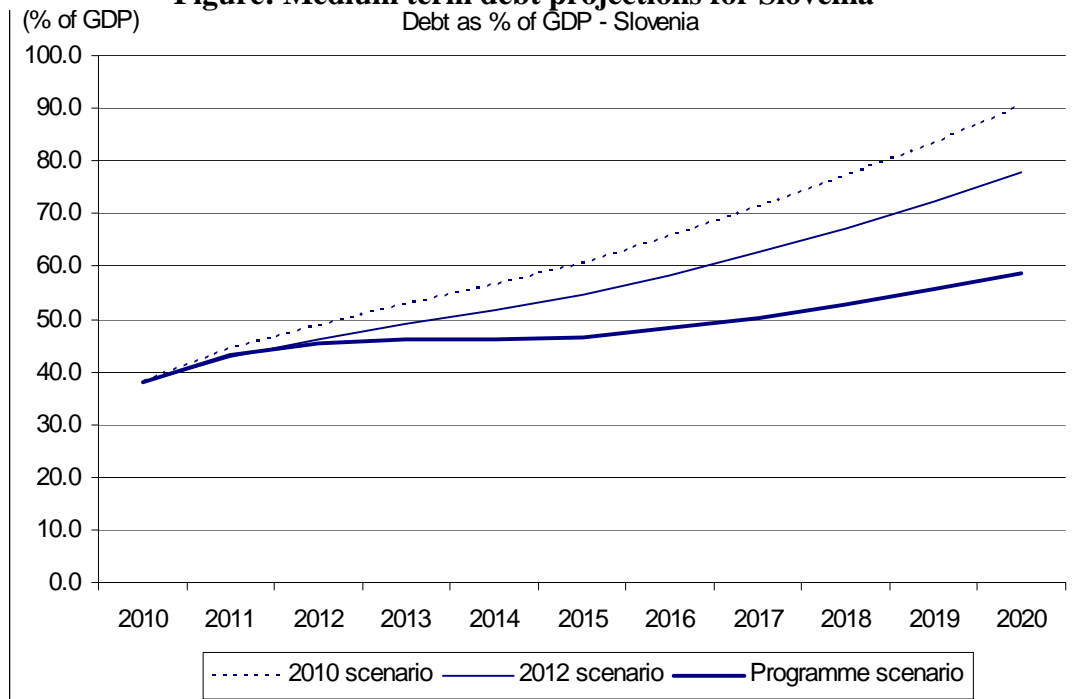
(% of GDP)	average 2005-09	2010	2011		2012		2013	2014
			COM	SP	COM	SP	SP	SP
<b>Gross debt ratio</b> <sup>1</sup>	<b>26.7</b>	<b>38.0</b>	<b>42.8</b>	<b>43.3</b>	<b>46.0</b>	<b>45.3</b>	<b>46.2</b>	<b>46.0</b>
Change in the ratio	1.5	2.8	4.8	5.3	3.3	2.0	0.9	-0.2
<i>Contributions</i> <sup>2</sup> :								
<b>1. Primary balance</b>	<b>0.8</b>	<b>4.0</b>	<b>4.1</b>	<b>3.7</b>	<b>3.1</b>	<b>1.9</b>	<b>1.1</b>	<b>0.3</b>
<b>2. "Snow-ball" effect</b>	<b>0.0</b>	<b>0.9</b>	<b>0.7</b>	<b>1.1</b>	<b>0.2</b>	<b>0.0</b>	<b>-0.2</b>	<b>-0.5</b>
<i>Of which:</i>								
Interest expenditure	1.3	1.6	1.8	1.8	2.0	2.0	1.8	1.7
Growth effect	-0.6	-0.4	-0.7	-0.7	-1.0	-0.9	-1.0	-1.2
Inflation effect	-0.7	-0.2	-0.4	0.0	-0.7	-1.1	-1.0	-0.9
<b>3. Stock-flow adjustment</b>	<b>0.8</b>	<b>-2.1</b>	<b>0.0</b>	<b>0.5</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>
<i>Of which:</i>								
Cash/accruals diff.	-0.2	0.2						
Acc. financial assets	1.2	-2.4						
<i>Privatisation</i>	-1.3	-0.1						
Val. effect & residual	0.0	0.0						
<b>Notes:</b>								
<sup>1</sup> End of period.								
<sup>2</sup> The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other								
<i>Source:</i>								
Stability programme (SP); Commission services' spring 2011 forecasts (COM); Commission services' calculations								

**Table V. Long-term sustainability indicators**

Slovenia	Baseline scenario (2010)			Programme scenario		
	S1	S2		S1	S2	
Value	8.2	11.0		6.5	9.5	
<i>of which:</i>						
Initial budgetary position (IBP)	2.7	3.0		1.1	1.4	
Debt requirement in 2060 (DR)	0.0	-		-0.2	-	
Long-term change in the primary balance (LTC)	5.6	8.1		5.6	8.1	
	2010	2015	2020	2010	2015	2020
Debt as % of GDP	38.0	60.4	90.3	38.0	46.6	58.7

*Note:* The 'baseline' scenario (2010) depicts the sustainability gap under the assumption that the 2010 budgetary position remains unchanged over the medium-term (until the end of the period covered by the programme). The 'programme' scenario depicts the sustainability gap under the assumption that the budgetary plans of the programme are fully implemented.

**Figure: Medium term debt projections for Slovenia**



**Table VI. Financial sector indicators**

	2006	2007	2008	2009	2010
Total assets of the banking sector (% of GDP)	105.4	113.6	125.7	145.2	148.7
Share of assets of the five largest banks (% of total assets)	62.0	59.5	59.1	59.7	...
Foreign ownership of banking system (% of total assets)	28.9	28.5	30.8	29.1	...
Financial soundness indicators:					
- non-performing claims (% of total classified claims) <sup>1)</sup>	2.5	1.8	1.8	2.3	3.6
- capital adequacy ratio (%) <sup>2)</sup>	11.0	11.2	11.7	11.6	11.3
- profitability - return on equity (%) <sup>3)</sup>	15.1	16.3	8.1	3.9	-2.2
Private credit growth (annual % change)	25.4	30.7	26.9	7.7	2.5
Residential property prices (y-o-y % change)	17.6	22.6	3.1	-8.2	2.8
Exposure to countries receiving/repaying official financial assistance (% of GDP) <sup>4)</sup>	...	...	...	...	...
Private debt (% of GDP)	64.4	77.3	84.4	92.1	92.5
Gross external debt (% of GDP)					
- Public	7.8	8.9	10.6	18.1	22.3
- Private	34.9	35.1	39.6	37.7	39.1
Long term interest rates spread versus Bund (basis points)*	9.1	31.4	62.2	115.3	108.9
Credit default swap spreads for sovereign securities (5-year)*	...	...	...	...	...
<sup>1)</sup> Latest available in 2010 November according to the national definition (the equivalent IMF financial soundness indicator figure is 8.2%)					
<sup>2)</sup> The capital adequacy ratio is defined as total capital divided by risk weighed assets.					
<sup>3)</sup> Net income to equity ratio.					
<sup>4)</sup> Covered countries are IE, EL, PT, RO, LV and HU.					
* Measured in basis points.					
<i>Source:</i>					
<i>Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission services (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).</i>					

**Table VII. Labour market and social indicators**

<b>Labour market indicators</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Employment rate (% of population aged 20 - 64)	66.5	66.5	67.7	68.0	67.1	67.6
Employment growth (% change from previous year)	1.4	1.2	1.6	1.7	-0.4	0.6
Employment rate of women (% of female population aged 20 - 64)	58.6	58.8	60.3	61.3	61.0	61.6
Employment rate of men (% of male population aged 20 - 64)	74.3	74.0	75.0	74.7	73.2	73.5
Employment rate of older workers (% of population aged 55 - 64)	31.8	32.0	34.4	34.5	35.3	37.3
Part-time employment (% of total employment)	22.0	22.2	22.1	22.6	23.4	24.0
Fixed term employment (% of employees with a fixed term contract)	8.9	8.7	8.6	8.3	8.2	8.1
Unemployment rate <sup>1</sup> (% of labour force)	8.5	8.3	7.5	7.0	7.9	8.3
Long-term unemployment <sup>2</sup> (% of labour force)	4.4	4.2	3.8	3.3	3.5	4.1
Youth unemployment rate (% of youth labour force aged 15-24)	21.5	20.5	18.8	18.0	21.9	22.4
Youth NEET <sup>3</sup> rate (% of population aged 15-24)	13.0	11.2	11.2	10.1	11.1	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	12.9	12.6	12.1	12.0	11.1	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	39.1	41.4	41.5	42.9	42.0	:
Labour productivity per person employed (annual % change)	0.3	1.5	1.3	-0.7	-2.4	1.5
Hours worked per person employed (annual % change)	1.0	0.1	-0.4	0.5	-1.2	0.3
Labour productivity per hour worked (annual % change; constant prices)	-0.7	1.4	1.7	-1.2	-1.2	1.2
Compensation per employee (annual % change; constant prices)	-0.6	1.0	1.1	1.7	0.7	-0.8
Nominal unit labour cost growth (annual % change)	1.5	1.8	2.1	4.4	4.3	-0.3
Real unit labour cost growth (annual % change)	-0.9	-0.5	-0.2	2.4	3.2	-2.0
<b>Notes:</b>						
<sup>1</sup> According to ILO definition, age group 15-74)						
<sup>2</sup> Share of persons in the labour force who have been unemployed for at least 12 months.						
<sup>3</sup> NEET are persons that are neither in employment nor in any education or training.						
<b>Sources:</b>						
Commission services (EU Labour Force Survey and European National Accounts)						

**Table VII. Labour market and social indicators (continued)**

<b>Expenditure on social protection benefits (% of GDP)</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Sickness/Health care	7.63	7.64	7.36	7.31	7.56
Invalidity	1.97	1.97	1.90	1.79	1.89
Old age and survivors	12.24	12.63	13.48	10.21	10.83
Family/Children	2.05	2.04	2.03	2.07	2.07
Unemployment	3.46	3.45	3.42	3.27	3.32
Housing and Social exclusion n.e.c.	0.50	0.51	0.60	0.81	0.95
<b>Total</b>	<b>27.8</b>	<b>28.2</b>	<b>28.8</b>	<b>25.5</b>	<b>26.6</b>
of which: Means tested benefits	1.02	1.03	1.10	1.15	1.36
<b>Social inclusion indicators</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Risk-of-poverty or exclusion <sup>1</sup> (% of total population)	22.6	21.5	21.6	20.8	20.2
Risk-of-poverty or exclusion of children (% of people aged 0-17)	23.7	21.4	21.6	21.3	20.5
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	23.3	25.2	25.0	22.9	23.1
At-Risk-of-Poverty rate <sup>2</sup> (% of total population)	14.8	14.7	15.2	14.7	14.6
Value of relative poverty threshold (single HH per year) - in PPS	9324	9708	9792	10044	10500
Severe Material Deprivation <sup>3</sup> (% of total population)	6.5	6.4	5.7	5.6	5.2
Share of people living in low work intensity households <sup>4</sup> (% of people aged 0-59 not student)	15.1	14.3	13.8	11.7	12.3
In-work at-risk-of poverty rate (% of persons employed)	3.9	4.0	4.3	4.7	4.5
<b>Notes:</b>					
<sup>1</sup> People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).					
<sup>2</sup> At-risk-of poverty rate: share of people with an equivalised disposable income below 60% of the national equivalised median income.					
<sup>3</sup> Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone					
<sup>4</sup> People living in households with very low work intensity: Share of people aged 0-59 living in households where the adults work less than 20% of their total work-time potential during the previous 12 months.					
<b>Sources:</b>					
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.					

**Table VIII. Product market performance and policy indicators**

<b>Performance indicators</b>	<b>2001-2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Labour productivity <sup>1</sup> total economy (annual growth in %)	3.6	4.5	3.9	0.6	-6.4	3.8
Labour productivity <sup>1</sup> in manufacturing (annual growth in %)	6.1	9.1	7.0	0.6	-8.1	15.3
Labour productivity <sup>1</sup> in electricity, gas, water (annual growth in %)	5.3	4.8	0.8	2.8	-10.8	n.a.
Labour productivity <sup>1</sup> in the construction sector (annual growth in %)	2.1	7.6	5.2	-5.4	-13.9	-5.4
Patent intensity in manufacturing <sup>2</sup> (patents of the EPO divided by gross value added of the sector)	1.6	1.4	0.7	n.a.	n.a.	n.a.
<b>Policy indicators</b>	<b>2001-2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Enforcing contracts <sup>3</sup> (days)	n.a.	1350	1350	1350	1290	1290
Time to start a business <sup>3</sup> (days)	n.a.	60	60	19	6	6
R&D expenditure (% of GDP)	1.4	1.6	1.5	1.7	1.9	n.a.
Tertiary educational attainment (% of 30-34 years old population)	22.4	28.1	31.0	30.9	31.6	n.a.
Total public expenditure on education (% of GDP)	5.8	5.7	5.2	5.2	n.a.	n.a.
	<b>2003</b>	<b>2005</b>	<b>2006</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Product market regulation <sup>4</sup> , Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	1.5	n.a.	n.a.
Product market regulation <sup>4</sup> , Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	0.9	n.a.	n.a.
Product market regulation <sup>4</sup> , Network Industries <sup>6</sup> (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	2.7*	n.a.	n.a.
<b>Notes:</b>						
<sup>1</sup> Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.						
<sup>2</sup> Patent data refer to applications designated to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.						
<sup>3</sup> The methodologies, including the assumptions, of this indicator is presented in detail at the website <a href="http://www.doingbusiness.org/methodology">http://www.doingbusiness.org/methodology</a> .						
<sup>4</sup> The methodologies of the Product market regulation indicators are presented in detail at the website <a href="http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html">http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html</a> . The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.						
<sup>6</sup> Aggregate ETCR.						
*figure for 2007.						
<b>Source:</b>						
Commission services, World Bank Doing Business (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).						