

# European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

**PURPOSE:** draft Recommendation for a COUNCIL RECOMMENDATION on Slovenia's 2012 national reform programme and delivering a Council opinion on Slovenia's stability programme for 2012-2015.

**BACKGROUND:** the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

**CONTENT:** on 26 April 2012, **Slovenia** submitted its stability programme covering the period 2012-2015 and, on 13 April 2012, its national reform programme for 2012. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

Based on the assessment of the 2012 stability programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is optimistic when compared with the Commission's 2012 spring forecast**.

**The objective of the budgetary strategy** outlined in the programme is to bring the general government deficit below 3% of GDP in 2013, the deadline set by the Council, and to pursue further deficit reduction thereafter so as to broadly achieve Slovenia's medium-term budgetary objective (MTO) by 2015. There are risks that the **deficit outcomes could be worse than targeted**. Based on the (recalculated) structural balance<sup>8</sup>, the average annual fiscal effort over the period 2010-2013, is planned to be almost 1% of GDP, slightly above the one recommended by the Council. However, the Commission's 2012 spring forecast implies that an additional effort will have to be made in 2013 to respect the recommendation over the entire correction period.

From around 48% of GDP in 2011, general government gross debt is projected in the programme to peak by 2013 at 53% (thus remaining below the 60% of GDP reference value) before falling slightly by the end of the programme period. The debt projections are subject to upward risks from the **possibility of higher deficits** mentioned above and higher stock-flow adjustments.

According to the Commission, the **main policy challenges** for the country are as follows:

- The Slovenian government was until now not in a position to make any systemic changes to the pension system. Short-term cost containment measures were prolonged and strengthened in December 2011 and May 2012 - these stop-gap measures are clearly insufficient to address the long-term challenge. The government envisages a new pension reform to be implemented by the end of 2013. So far, no specific measures have been implemented to increase the employment rate of older workers.
- The situation in the Slovenian banking sector now appears even more challenging than at the time of the 2011 assessment. The measures that have been introduced or announced so far lack ambition given the size of the challenge. The urgent second recapitalisation of the biggest bank (NLB) has not progressed. The new government has indicated its intention to reduce its shareholdings in major banks to a blocking minority. The Commission considers that there is a need to articulate the relationship between this longer-term aspiration and the immediate and pressing need for fresh capital.
- No concrete proposals were presented in the past year to reduce asymmetries between the protection accorded to workers on permanent and temporary contracts respectively. Negotiations with social partners on the Labour Relationship Act started in 2011 but no agreement has been reached or amendments adopted.
- The responsiveness of the education and training system to labour-market needs remains insufficient. No concrete steps have been taken to set up a system to forecast labour market demand. Some projects co-financed with the European Social Fund were launched to promote occupations in high demand in the labour market.
- The Competition Protection Office (CPO) is not yet independent. Concrete policy action on the issue of the deregulation of professions remains vague. Some aspects of the legal framework for the establishment of service providers may raise questions of compatibility with the Services Directive. The overall business environment is characterised by weaknesses that hold back domestic and foreign investors and hamper the swift cleaning of bank balance sheets. Finally, due to its growing importance as a transit country for electricity flows, the national transmission grid is starting to become a bottleneck.
- Following a strong discretionary increase in March 2010, the minimum wage as a percentage of the average wage was the highest in the EU in 2011, although the minimum wage is still below the poverty threshold. Indexation in the following two years has resulted in a further 4% nominal increase. These developments reduce the competitiveness of labour-intensive industries and exacerbate structural unemployment.

### **Recommendations proposed for Slovenia for the period 2012-2013:**

#### **Budgetary measures:**

- implement the 2012 budget, and reinforce the budgetary strategy for 2013 with sufficiently specified structural measures, standing ready to take additional measures so as to ensure a timely correction of the excessive deficit in a sustainable manner and the achievement of the structural adjustment effort specified in the Council recommendations under the Excessive Deficit Procedure;
- thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards an appropriate medium-term objective for the budgetary position, including meeting the expenditure benchmark;
- strengthen the medium-term budgetary framework, including the expenditure rule, by making it more binding and transparent.

#### **Pension systems:**

- take urgent steps to ensure the long-term sustainability of the pension system, while preserving the adequacy of pensions, by (i) equalising the statutory retirement age for men and women; (ii) raising the statutory retirement age in line with increasing life expectancy; (iii) reducing early retirement possibilities; and (iv) reviewing the indexation system for pensions;
- increase the employment rate of older workers also by further developing active labour market policies and lifelong learning measures.

**Banking sector:**

- take the required steps to build sufficient capital buffers in the banking sector and strongly promote the cleaning of balance sheets so that appropriate lending to productive activities can resume;
- obtain fully-fledged third party verification of systemically important banks' stress loan-loss estimates.

**Labour market:**

- adjust employment protection legislation as regards permanent contracts in order to reduce labour market segmentation, in consultation with social partners and in accordance with national practices;
- further tackle the parallel labour market caused by student work;
- improve the matching of skills with labour market demand, particularly of low-skilled workers and tertiary graduates;
- continue reforms of vocational education and training.

**Competition:**

- take further steps to strengthen market opening and speed up the reorganisation of professional services;
- improve the business environment through (i) implementing the reform of the Competition Protection Office, (ii) establishing a framework for state-owned enterprises guaranteeing arms-length management and high standards of corporate governance and (iii) improving bankruptcy procedures, in particular in terms of timeliness and efficiency.

**Wages:**

- following consultation with social partners and in accordance with national practice, ensure that wage growth, including minimum wage adaptation, supports competitiveness and job creation.

These recommendations should be endorsed by the European Council on 28-29 June 2012 and formally adopted by the Council in July 2012.