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(Resolutions, recommendations and opinions)

RECOMMENDATIONS

COUNCIL

COUNCIL RECOMMENDATION

of 12 July 2011

on the National Reform Programme 2011 of Slovenia and delivering a Council opinion on the updated Stability Programme of Slovenia, 2011-2014

(2011/C 217/01)

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 [1], and in particular Article 5(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, the Council adopted a decision on guidelines for the employment policies of the Member States [2], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 12 January 2011, the Commission adopted the first Annual Growth Survey, marking the start of a new cycle of economic governance in the EU and the first European semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy.

(4) On 25 March 2011, the European Council endorsed the priorities for fiscal consolidation and structural reform (in line with the Council's conclusions of 15 February and 7 March 2011 and further to the Commission's Annual Growth Survey). It underscored the need to give priority to restoring sound budgets and fiscal sustainability, reducing unemployment through labour market reforms and making new efforts to enhance growth. It requested Member States to translate these priorities into concrete measures to be included in their Stability or Convergence Programmes and National Reform Programmes.

(5) On 25 March 2011, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time to be included in their Stability or Convergence Programmes and their National Reform Programmes.

[1] OJ L 209, 2.8.1997, p. 1.

[2] Maintained for 2011 by Council Decision 2011/308/EU of 19 May 2011 on guidelines for the employment policies of the Member States (OJ L 138, 26.5.2011, p. 56).

(6) On 18 and 19 April 2011, Slovenia submitted its 2011 Stability Programme update covering the period 2010-2014 and its 2011 National Reform Programme. In order to take the interlinkages into account, the two programmes have been assessed at the same time.

(7) In the years preceding the crisis, Slovenia enjoyed fast economic growth, driven by buoyant exports and investment. However, Slovenia was heavily impacted by the crisis, losing 8,1 % of its GDP in 2009 in real terms, which reversed a portion of the previous catch-up process. The interaction of automatic stabilisers, recovery measures 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 labour market reacted with a considerable lag and employment continues its downwards trend. While the unemployment rate remains below the EU average, it increased sharply from its pre-crisis levels of 4,4 % to 7,3 % in 2010. Economic recovery so far has been rather slow and is expected to rally only in 2012 with an estimated growth of 2,5 % of GDP.

(8) Based on an assessment of the updated Stability Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections of the programme is plausible in the near term, and favourable towards the end of the programme period. Starting from 5,6 % of GDP in 2010, the programme plans to bring the general government deficit below the 3 % of GDP reference value by 2013, through a broad-based containment of primary expenditure. After correcting the excessive deficit, the programme envisages some progress towards, but not achievement of, the medium-term objective (MTO) of a balanced budgetary position in structural terms within the programme period. Although the MTO is set at a more ambitious level than in the previous programme, it does not appear to ensure sufficiently rapid progress towards long-term sustainability of public finances. The average annual change in structural balance over the period 2010-2013, as calculated by the Commission services based on the information in the programme following the commonly agreed methodology, is planned to be around 0,5 percentage points of GDP, below the level recommended by the Council. Moreover, deficit and debt outcomes could fall short of the targets. Additional measures are expected to be adopted as part of a supplementary budget to achieve the 2011 deficit target. After 2011, the programme does not specify measures to contain expenditure and the possibility of additional financial rescue operations affecting deficit and debt cannot be excluded.

(9) While the general government deficit has narrowed since its peak in 2009, further consolidation to correct the excessive deficit by 2013 and achieve the MTO thereafter is a key challenge for Slovenia. In line with the consolidation strategy pursued in recent years, the further expenditure savings envisaged in the Stability Programme for the period 2011-2014 mainly affect the public sector wage bill, social transfers (including pensions) and public investment. However, the Stability Programme offers no detailed information on the planned measures beyond 2011. Further corrective action is being taken in the context of a supplementary budget to achieve the 2011 deficit. The credibility of the medium-term consolidation strategy would be enhanced by adopting more structural expenditure-containing measures — as opposed to the temporary interventions that have characterised recent consolidation efforts — and by a more binding medium-term budgetary framework. The Stability Programme confirms the introduction of an expenditure rule but key provisions, for instance on the definition of non-compliance, remain to be worked out. Finally, comparatively low spending efficiency, for example in healthcare and education, implies that Slovenia may have additional scope for expenditure-based consolidation without compromising the quality of public services. The Stability Programme announces initiatives to rationalise public services and transfers and introduce a unified public procurement system, but the detail of some of these is lacking.

(10) 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 recently adopted a pension reform, with the aim of increasing the retirement age, while preserving the adequacy of pensions. 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. It was submitted to a referendum on 5 June 2011 and rejected. The problem of sustainability of the pension system remains and other ways of resolving it will need to be found. According to the Commission's latest assessment, the risks with regards to long-term sustainability of public finances appear to be high.

(11) The labour market is relatively segmented between forms of contract: employment protection for workers on permanent contracts is strict compared to that accorded to workers with fixed-term contracts. The share of young workers aged 15-24 years on temporary contracts including 'student work' is the highest in the EU (67 % in 2009) and transition from temporary to permanent contracts appears to be relatively difficult. Previous attempts to address this issue proved insufficient. 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. Furthermore, 'student work' constitutes a sizeable, largely unregulated, tax-advantageous, parallel labour market. This important issue is absent from the National Reform Programme due to time coincidence of a referendum and the submission of the Programme.

(12) Apart from segmentation, the structural problems on the Slovenian labour market are also caused by the mismatch between labour market needs and skills, which is recognised in the National Reform Programme. The National Reform Programme envisages intensive investment in training to improve skills and employability. It outlines plans to further improve the transition from education to the labour market, with a focus on providing career guidance services throughout the education system. It plans to modernise the employment service with the objective of better matching the supply of skills to labour market needs. Successful implementation of these reforms would, however, require improving the system to identify in a timely way current and projected labour market needs.

(13) The downturn is impacting on loan portfolios with a lag and the growing share of non-performing loans has been raising banks' impairment and provisioning costs. The two main State-owned banks have been recapitalised, which was crucial. The government has also proposed measures to accelerate recovery of claims and incentivise lending for productive activities, to restore the flow of credit to the real economy, although further action may be needed.

(14) Certain segments of the services sector are sheltered from competitive pressures and are characterised by high mark-ups and high concentration, raising costs throughout the economy. This, together with the high degree of State involvement in the economy, and other impediments to doing business keep potentially beneficial foreign direct investment (FDI) relatively low. Slovenia plans are speeding up the implementation of the Services Directive, where considerable delays were accumulated. It also plans to give the Competition Protection Office full independence and identify State capital investments suitable for sale. These plans are not specified in detail and there are risks related to implementation.

(15) Slovenia has signed up to the Euro Plus Pact. While the Slovenian National Reform Programme indicates potential commitments and targets in the four areas of the Euro Plus Pact of fostering competitiveness and employment, contributing to the sustainability of the public finances and reinforcing financial stability, no firm commitments had been notified to the Commission by 7 June 2011.

(16) The Commission has assessed the Stability Programme and National Reform Programme. It has taken into account their relevance for sustainable fiscal and socio-economic policy in Slovenia and compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the EU by providing EU-level input into future national decisions. In this light, the Commission considers that achieving the 2011 deficit target set in the Stability Programme requires the adoption of additional measures in the context of a supplementary budget. Beyond 2011, there are risks to the deficit and debt targets as the Stability Programme does not specify sustainable measures to contain expenditure. The National Reform Programme contains measures to repair the financial sector, but they may not be sufficiently ambitious. The assessment also indicates that domestic sources of growth need to be boosted, in particular by increasing labour market participation of young and older workers through reducing labour market segmentation and removing skill mismatches. Finally, there is a need to strengthen competition and open up opportunities for investment and growth in the service sector and network industries.

(17) In light of this assessment, also taking into account the Council Recommendation of 2 December 2009 under Article 126(7) of the Treaty on the Functioning of the European Union, the Council has examined the 2011 update of the Stability Programme of Slovenia and its opinion [1] is reflected in particular in its recommendations 1 and 2 below. Taking into account the European Council conclusions of 25 March 2011, the Council has examined the National Reform Programme of Slovenia,

HEREBY RECOMMENDS that Slovenia take action within the period 2011-2012 to:

1. Achieve the 2011 deficit target, underpin the 2012 deficit target with concrete measures and implement the necessary consolidation rigorously, standing ready to adopt additional measures to prevent possible slippages. Underpin this required adjustment process over the programme period with additional measures to ensure the average annual fiscal effort in line with the Council recommendations under the EDP and adequate progress towards an appropriate medium-term objective. To this purpose, use structural

[1] Foreseen in Article 5(3) of Regulation (EC) No 1466/97.

measures to contain expenditure and address identified inefficiencies and implement a more binding medium-term budgetary framework. Accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected.

2. Take the required steps to ensure the long-term sustainability of the pension system, while preserving the adequacy of pensions. Increase the employment rate of older workers through later retirement, and by further developing active labour market policies and lifelong learning measures.

3. Take further measures in the banking sector, where appropriate, to strengthen the balance sheets and the loan portfolio, with a view of enhancing the flow of credit to the real economy.

4. Take steps, in consultation with the social partners and in accordance with national practices, to reduce asymmetries in rights and obligations guaranteed under permanent and temporary contracts. Renew efforts to tackle the parallel labour market resulting from 'student work'.

5. Set up a system to forecast skills and competencies needed to achieve a responsive labour market. Evaluate the effectiveness of the public employment service, notably on career guidance and counselling services, to improve the matching of skills with labour market needs.

6. Streamline regulated professions and improve the administrative capacity of the Competition Protection Office, in order to enhance the business environment and attract investment.

Done at Brussels, 12 July 2011.

For the Council

The President

J. VINCENT-ROSTOWSKI