COUNCIL RECOMMENDATION

of 10 July 2012

on the National Reform Programme 2012 of Slovenia and delivering a Council opinion on the Stability Programme of Slovenia, 2012-15

(2012/C 219/23)

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(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances ([2]), and in particular Article 6(1) 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 focuses 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, adopted a decision on guidelines for the employment policies of the Member States ([3]), 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 July 2011, the Council adopted a recommendation ([4]) on Slovenia's National Reform Programme for 2011 and delivered its opinion on Slovenia's updated Stability Programme for 2011-14.

(4) On 23 November 2011, the Commission adopted the second Annual Growth Survey, marking the start of the second European Semester of *ex ante* and integrated policy coordination, which is anchored in the Europe 2020 strategy. On 14 February 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified Slovenia as one of the Member States for which an in-depth review would be carried out.

(5) On 1 December 2011, the Council adopted conclusions calling on the Social Protection Committee, in cooperation with the Employment and other Committees, to present its views on actions recommended within the Europe 2020 policy cycle. These views form part of the opinion of the Employment Committee.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 15 February 2012, adopted a resolution on employment and social aspects in the Annual Growth Survey 2012 and a resolution on the contribution to the Annual Growth Survey 2012.

(7) On 2 March 2012, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 2 March 2012, 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]) OJ L 306, 23.11.2011, p. 25.
([3]) Maintained for 2012 by Council Decision 2012/238/EU of 26 April 2012 on guidelines for the employment policies of the Member States (OJ L 119, 4.5.2012, p. 47).
([4]) OJ C 217, 23.7.2011, p. 1.

(9) On 26 April 2012, Slovenia submitted its Stability Programme covering the period 2012-15 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. The Commission has also assessed, in an in-depth review under Article 5 of Regulation (EU) No 1176/2011, whether Slovenia is affected by macroeconomic imbalances. The Commission concluded in its in-depth review that Slovenia is experiencing internal imbalances which impact notably on corporate sector balance sheets and banking stability. These internal imbalances and any potential external imbalances should be closely monitored and feature in economic policy considerations so as to reduce the risk of adverse effects on the functioning of the economy. The recapitalisation and sale of the biggest bank and the firm commitment to correcting the excessive deficit by the 2013 deadline are two important and relevant elements of the currently envisaged response. The risk of excessive imbalances can be minimised by prompt and thorough implementation in these areas.

(10) Based on the assessment of the Stability Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the Stability Programme is optimistic when compared with the Commission services' 2012 spring forecast. The objective of the budgetary strategy outlined in the Stability Programme is to bring the general government deficit below 3 % of GDP in 2013, which is 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. The MTO is defined as a balanced position in structural terms, unchanged from the previous Stability Programme, but cannot be regarded as appropriate under the provisions of the Stability and Growth Pact because, based on current policies and projections, it does not ensure sufficiently rapid progress towards long-term sustainability.

There are risks that the deficit outcomes could be worse than targeted, due to (i) a lack of specification of the measures foreseen, in particular for the period 2014-15; (ii) a track record of primary current expenditure overruns; (iii) lower revenue given the relatively optimistic macroeconomic scenario and uncertainty about the impact of the recently decided tax measures; and (iv) possible additional capital support operations and calling of guarantees. Based on the (recalculated) structural balance [1], the average annual fiscal effort over the period 2010-13 is planned to be almost 1 % of GDP, slightly above the one recommended by the Council. However, the Commission services' 2012 spring forecast implies that an additional effort will have to be made in 2013 to respect the recommendation over the entire correction period. After the planned correction of the excessive deficit, the annual pace of progress towards the MTO according to the Stability Programme is in line with the 0,5 % benchmark set in the Stability and Growth Pact in 2015 but below it in 2014, while the rate of growth of government expenditure, taking into account discretionary revenue measures, is in line with the expenditure benchmark of the Stability and Growth Pact in both years, so overall the Stability Programme plans a broadly appropriate adjustment path towards the MTO. Taking account of the risks mentioned above, the progress towards the MTO could be slower than appropriate in both years.

From around 48 % of GDP in 2011, general government gross debt is projected in the Stability Programme to peak by 2013 at 53 % (thus remaining below the 60 % of GDP Treaty 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. Slovenia's medium-term budgetary framework and expenditure rule remain insufficiently binding and insufficiently focussed on achieving the MTO and securing long-term sustainability.

(11) The Government was until now not in a position to make any systemic changes to the pension system, given the 12-month moratorium on legislation after the June 2011 negative referendum on a previous pension reform. However, short-term cost containment measures were prolonged and strengthened in December 2011 and May 2012. While relevant and beneficial in the short run, 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, which would be based on a multi-pillar system and a rise in the effective retirement age. While no further details are provided, the degree of ambition of these plans seems modest. Given the size of the challenge, a comprehensive reform addressing the following issues is warranted: a low statutory retirement age, differences in the statutory retirement age for men and women, wide early retirement possibilities and generous indexation arrangements for pensions. So far, no specific measures have been implemented to increase the employment rate of older workers, although the guidelines for the implementation of the active labour market policy measures 2012-15 and the 2012 plan for the implementation of active employment policy measures address the older unemployed as a specific target group.

[1] Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the Programme, using the commonly agreed methodology.

(12) The situation in the Slovenian banking sector now appears even more challenging than at the time of the 2011 assessment. The full-year losses of the sector in 2011 were substantial and, looking ahead, the slowing economy will bring further loan losses as more companies struggle with debt service. The measures that have been introduced or announced so far are not sufficient given the size of the challenge. The urgent second recapitalisation of the biggest bank (NLB) is still subject to negotiations with private and international investors. The new Government has indicated its intention to reduce its shareholdings in major banks to a blocking minority. There is a need to articulate the relationship between this longer-term aspiration and the immediate and pressing need for fresh capital, where the state as majority owner unambiguously carries the burden of responsibility in the final analysis. A clear privatisation strategy underpinned by timely injections of capital to cover losses, a guarantee of good governance and professional, de-politicised management would make this policy and the eventual sale of these banks more credible.

(13) 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 NRP indicates some measures to increase flexicurity and address segmentation, but provides no timetable for their adoption. The recently adopted Act on Balancing Public Finances introduces significantly higher charges (concession fees) for 'student work' to reduce the attractiveness of this labour market status but no additional measures are currently envisaged.

(14) The responsiveness of the education and training system to labour-market needs remains insufficient, although career-guidance services are currently being introduced in the whole cycle of education and efforts are being made to provide information on future careers. 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. These measures are relevant but altogether represent an inadequate response to the challenge. The external expert evaluation of the overall effectiveness of the public employment service in Slovenia is not available for assessment.

(15) Despite legislative changes in April 2011 to transform the Competition Protection Office (CPO) into an independent agency as of 1 January 2012, the CPO is not yet independent, given that several procedural conditions have to be fulfilled first. Moreover, in 2011 the CPO's resources were reduced. These developments affect its ability to expand its enforcement actions and to lend institutional weight to competition-boosting reform efforts. A study has just been completed on the deregulation of professions, but concrete policy action in this area remains vague. More generally, some aspects of the legal framework for the establishment of service providers may raise questions of compatibility with Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market [1]. The overall business environment is characterised by weaknesses that hold back domestic and foreign investors and hamper the swift cleaning of bank balance sheets, such as direct and indirect involvement of the state in the economy and debtor-friendly and sometimes problematic insolvency proceedings. Finally, due to its growing importance as a transit country for electricity flows, the national transmission grid is starting to become a bottleneck.

(16) 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 just 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.

(17) Slovenia has made a number of commitments under the Euro Plus Pact. These commitments, and the implementation of the commitments presented in 2011, relate to fostering employment, improving competitiveness, enhancing sustainability of public finances and reinforcing financial stability. The Commission has assessed the implementation of the Euro Plus Pact commitments. The results of this assessment have been taken into account in the recommendations.

(18) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Slovenia's economic policy. It has assessed the Stability Programme and National Reform Programme, and it presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Slovenia but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (7) below.

(19) In the light of this assessment, the Council has examined the Stability Programme, and its opinion [2] is reflected in particular in recommendation (1) below.

[1] OJ L 376, 27.12.2006, p. 36.
[2] Under Article 5(2) of Regulation (EC) No 1466/97.

(20) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in particular in recommendations (3), (6) and (7) below.

HEREBY RECOMMENDS that Slovenia take action within the period 2012-13 to:

1. 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 correction of the excessive deficit in a sustainable manner by 2013 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 MTO 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.

2. 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) ensuring an increase in the effective retirement age, including through linking the statutory retirement age to 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.

3. 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.

4. 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.

5. Improve the matching of skills with labour market demand, particularly of low-skilled workers and tertiary graduates, and continue reforms of vocational education and training.

6. 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.

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

Done at Brussels, 10 July 2012.

For the Council

The President

V. SHIARLY