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Recommendation for a

COUNCIL RECOMMENDATION

**on the 2020 National Reform Programme of Slovenia and delivering a Council opinion
on the 2020 Stability Programme of Slovenia**

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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 policies¹, and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

- (1) On 17 December 2019, the Commission adopted the Annual Sustainable Growth Strategy, marking the start of the 2020 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. On 17 December 2019, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it did not identify Slovenia as one of the Member States for which an in-depth review would be carried out. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area.
- (2) The 2020 country report for Slovenia² was published on 26 February 2020. It assessed Slovenia's progress in addressing the country-specific recommendations adopted by the Council on 9 July 2019³, the follow-up given to the recommendations adopted in previous years and Slovenia's progress towards its national Europe 2020 targets.
- (3) On 11 March 2020, the World Health Organization officially declared the COVID-19 outbreak a global pandemic. It is a severe public health emergency for citizens,

¹ OJ L 209, 2.8.1997, p. 1.

² SWD(2020) 523 final.

³ OJ C 301, 5.9.2019, p. 117.

societies and economies. It is putting national health systems under severe strain, disrupting global supply chains, causing volatility in financial markets, triggering consumer demand shocks and having negative effects across various sectors. It is threatening people's jobs, their incomes and companies' business. It has delivered a major economic shock that is already having serious repercussions in the European Union. On 13 March 2020, the Commission adopted a Communication⁴ calling for a coordinated economic response to the crisis, involving all actors at national and Union level.

- (4) Several Member States have declared a state of emergency or introduced emergency measures. Any emergency measures should be strictly proportionate, necessary, limited in time, and in line with European and international standards. They should be subject to democratic oversight and independent judicial review.
- (5) On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact⁵. The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. In its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit activation of the clause. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.
- (6) Continued action is required to limit and control the spread of the pandemic, strengthen the resilience of the national health systems, mitigate the socio-economic consequences through supportive measures for business and households and to ensure adequate health and safety conditions at the workplace with a view to resuming economic activity. The Union should fully use the various tools at its disposal to support Member States' efforts in those areas. In parallel, Member States and the Union should work together to prepare the measures necessary to get back to a normal functioning of our societies and economies and to sustainable growth, integrating inter alia the green transition and the digital transformation, and drawing all lessons from the crisis.
- (7) The COVID-19 crisis has highlighted the flexibility that the single market offers to adapt to extraordinary situations. However, in order to ensure a swift and smooth transition to the recovery phase and the free movement of goods, services and workers, exceptional measures that prevent the single market from functioning normally must be removed as soon as they are no longer indispensable. The current crisis has shown the need for crisis preparedness plans in the health sector, which include in particular improved purchasing strategies, diversified supply chains and strategic reserves of

⁴ COM(2020) 112 final.

⁵ COM(2020) 123 final.

essential supplies. They are key elements for developing broader crisis preparedness plans.

- (8) The Union legislator has already amended the relevant legislative frameworks⁶ to allow Member States to mobilise all unused resources from the European Structural and Investment Funds so they can address the exceptional effects of the COVID-19 pandemic. Those amendments will provide additional flexibility, as well as simplified and streamlined procedures. To alleviate cash flow pressures, Member States can also benefit from a 100% co-financing rate from the Union budget in the 2020-2021 accounting year. Slovenia is encouraged to make full use of those possibilities to help the individuals and sectors most affected by the challenges.
- (9) The socio-economic consequences of the pandemic are likely to be unevenly distributed across Slovene regions due to different specialisation and concentration patterns of economic activities. This entails a substantial risk of aggravating the already observed trend of widening disparities between the capital city and the rest of the country. Combined with the risk of a temporary unravelling of the convergence process between Member States, the current situation calls for targeted policy responses.
- (10) On 30 April 2020, Slovenia submitted its 2020 National Reform Programme and its 2020 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.
- (11) Slovenia is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule.
- (12) On 13 July 2018, the Council recommended Slovenia to ensure that the nominal growth rate of net primary government expenditure⁷ does not exceed 3,1% in 2019, corresponding to an annual structural adjustment of 0,65% of GDP. The Commission's overall assessment confirms a significant deviation from the recommended adjustment path towards the medium-term budgetary objective in 2019 and over 2018 and 2019 taken together. However, in light of the activation of the general escape clause, further steps under the Significant Deviation Procedure for Slovenia are not warranted.
- (13) In its 2020 Stability Programme, the government plans the headline balance to deteriorate from a surplus of 0,5% of GDP in 2019 to a deficit of 8,1% of GDP in 2020. After decreasing to 66,1% of GDP in 2019, the general government debt-to-GDP ratio is expected to increase to 82,4% of GDP in 2020 according to the 2020

⁶ Regulation (EU) 2020/460 of the European Parliament and of the Council of 30 March 2020 amending Regulations (EU) No 1301/2013, (EU) No 1303/2013 and (EU) No 508/2014 as regards specific measures to mobilise investments in the healthcare systems of Member States and in other sectors of their economies in response to the COVID-19 outbreak (Coronavirus Response Investment Initiative) (OJ L 99, 31.3.2020, p. 5) and Regulation (EU) 2020/558 of the European Parliament and of the Council of 23 April 2020 amending Regulations (EU) No 1301/2013 and (EU) No 1303/2013 as regards specific measures to provide exceptional flexibility for the use of the European Structural and Investments Funds in response to the COVID-19 outbreak (OJ L 130, 24.4.2020, p. 1).

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

Stability Programme. The macroeconomic and fiscal outlook is affected by high uncertainty due to the COVID-19 pandemic.

- (14) In response to the COVID-19 pandemic, and as part of a coordinated Union approach, Slovenia has adopted budgetary measures to increase the capacity of its health system, contain the pandemic, and provide relief to those individuals and sectors that have been particularly affected. According to the 2020 Stability Programme, those budgetary measures amounted to 4,4% of GDP. The measures include short-term work schemes for temporarily laid-off employees and the self-employed (2,3% of GDP), higher healthcare spending (0,5% of GDP), compensations for workers remaining in the workplace (0,4% of GDP), crisis bonus for public sector employees (0,4% of GDP), tax deferrals (0,4% of GDP) and financial aid for vulnerable groups (0,2% of GDP). In addition, Slovenia has announced measures that, while not having a direct budgetary impact, will contribute to support liquidity to businesses, which the 2020 Stability Programme estimates at 5,1% of GDP. Those measures include loan guarantees (4,8% of GDP), tax deferrals (0,2% of GDP) and exemption of social security contributions for the self-employed (0,1% of GDP). However, the Commission 2020 spring forecast considers all tax deferrals as liquidity measures without a negative budgetary impact in 2020. Overall, the measures taken by Slovenia are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak. The full implementation of those measures, followed by a refocusing of fiscal policies towards achieving prudent medium-term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term.
- (15) Based on the Commission 2020 spring forecast under unchanged policies, Slovenia's general government balance is forecast at -7,2% of GDP in 2020 and -2,1% of GDP in 2021. The general government debt ratio is projected to reach 83,7% of GDP in 2020 and 79,9% of GDP in 2021.
- (16) On 20 May 2020, the Commission issued a report prepared in accordance with Article 126(3) of the Treaty due to Slovenia's planned breach of the 3% of GDP deficit threshold in 2020. Overall, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.
- (17) Slovenia declared the COVID-19 epidemic on 12 March 2020 under its Communicable Disease Act and took public health measures to contain the spread of the virus. This included coordinating the respective roles of public health, primary and secondary care and other services, as well as introducing appropriate testing protocol. In parallel, Slovenia introduced strict confinement measures, while leaving food stores, pharmacies, banks, petrol stations and post offices open. The public health and confinement measures helped Slovenia in the first wave (March-May) to prevent the number of severely ill exceeding the capacity of the country's health system. Because of the confinement measures, many companies shut down temporarily or reduced their activities. In an open and export-oriented economy like Slovenia, disruptions in the supply chain and a reduced global demand for products have had a particularly strong impact on growth. Given the uncertainty regarding the economic development, many investment decisions in the private sector are being postponed. As transport and tourism, two of Slovenia's most important sectors are expected to be the most affected with 70% drop in turnover in 2020, a very sharp fall in GDP is projected for 2020.

- (18) By the end of April 2020, the authorities had adopted two packages of measures to counterbalance the COVID-19 shock⁸. The first mitigation package, worth around EUR 3,1 billion equivalent to around 6,4% of GDP focuses primarily on protecting jobs and socially vulnerable groups. The state covers pay compensation, sick pay and social security contributions for temporary lay-offs as well as the pension insurance contributions for employees who remain in the workplace. To alleviate businesses and households' liquidity constraints, the servicing of loans can be postponed for up to 12 months. The second package, worth some EUR 2 billion, equivalent to around 4,2% of GDP, mainly provides liquidity aid to companies. The package includes a state guarantee scheme via banks, that enable loans to be granted to large companies guaranteed by the state for up to 70% of the principal and loans to be granted to small and medium-sized enterprises (SMEs) guaranteed for up to 80%. Deferring tax payments and exemption of social contributions, and speeding up contractual payments by public authorities, is to help businesses mitigating their problems with the liquidity and access to finance.
- (19) With an increasing demand for health services at the beginning of the COVID-19 outbreak, Slovenia faced challenges to ensure a sufficient healthcare capacity. The outbreak of the virus has revealed structural problems in health system. For instance, the relatively low density of doctors is an additional challenge in fighting the epidemic. It is therefore important to recruit more trained health workers, protect their working conditions and employ them where needs are greatest. Deployment of diagnostics, tests and e-health tools that enable follow-up and telemedicine is crucial. Targeted research and innovative solutions are also important to help the public health services collect and use anonymised data for making informed decisions. The crisis underlines the need to protect the financing capacity of the health and long-term care systems, which are both pending structural reforms. The timely adoption and implementation of a new Health Care and Health Insurance Act, broadening the financial sources of the health system, and developing financial buffers, will mitigate the fluctuation of financial resources during the economic cycle. The lack of a long-term care act has limited Slovenia's ability to fight the COVID-19 outbreak in the most affected care settings. As the elderly, people with disabilities and people with chronic diseases have an increased risk of severe illness due to the virus, further significant efforts are necessary to ensure quality long-term care services, well integrated with health services.
- (20) The health and economic crisis caused by COVID-19 has put unprecedented pressure on Slovenia's labour market and social protection system. According to the Commission forecast, unemployment is expected to rise to 7% in 2020 and recover to 5.1% in 2021. To curb the rapid increase in unemployment in the most affected sectors, Slovenia has adopted a comprehensive policy response that combine preventive measures with measures intended to facilitate the fast re-entry of workers in the labour market. Key policy responses, made in consultation with the social partners, should focus on achieving a sustained and equitable recovery by strengthening existing active labour market policies and employment retention schemes, including short-time work schemes, and introducing other time-bound support for businesses, such as wage subsidies and exemptions from social security contributions. These measures would help lessen income losses for all workers, including those in non-standard employment, as well as the self-employed. Flexible working arrangements,

⁸ The Commission has adopted a temporary State aid framework for such aid measures, which inter alia comprises safeguards as to the viability of firms; OJ C 911 , 20.3.2020, p. 1.

including flexibility in working place (e.g. teleworking provisions), flexibility in working time (e.g. flexitime provisions) and flexibility in work organisations (e.g. company in-house services) may significantly sustain employment during lockdowns and when economic activity resumes. Nurturing the entrepreneurial spirit will be crucial for restarting the economy and making the necessary adjustments after the crisis. It is therefore particularly important to support the self-employed by reducing the administrative burden and financial disadvantages compared to employees.

- (21) To mitigate the social impact of this crisis, it is essential that Slovenia continues to provide an adequate package of social benefits. For this, it will be necessary to monitor the effects of the crisis on poverty regularly. Special attention should be paid to the elderly, and in particular women, for whom the at-risk-of-poverty or social exclusion rates were higher than the EU average already before the crisis. The amendment to the pension legislation, adopted by the National Assembly in November 2019, is expected to improve the adequacy of pensions for new pensioners, while current pensioners, including those at or below the poverty line, will not benefit from it. Additional financial assistance offered to the organisations working on the front lines would ensure that the COVID-19 pandemic does not disproportionately affect people at risk of social exclusion and that they have their basic needs met, such as daily meals and health-care.
- (22) Liquidity measures were introduced for businesses in April 2020, but there are still viable businesses such as smaller innovative and high-growth firms whose bank credit ratings are not yet sufficiently well established to entitle them to the aforementioned loan guarantees via banks. Improved access to alternative finance, including equity financial instruments (e.g. venture capital) might be necessary, particularly in countries like Slovenia where equity markets are underdeveloped. Slovenia's existing equity capital tools could be a means to channel relief funds to those businesses that are successfully exiting from the crisis, such as innovative SMEs, start-ups and scale-ups, as planned by other Member States. Applying the safeguards provided for in EU rules will ensure that these injections will not adversely affect companies' efficiency or economic competition.
- (23) The COVID-19 crisis has severely affected the capacity of otherwise viable businesses and households to pay their bills. If no action was taken, a large part of the private sector would face insolvency. Among its liquidity measures for businesses, the Slovenian government introduced a 12-month moratorium on the repayment of performing bank loans for the non-financial corporations and households. The efficiency and effectiveness of this and similar measures need to be carefully assessed and monitored. Any adverse effect of the measures should also be remedied quickly, so that financial stability is ensured at all times.
- (24) Struggling firms, and notably smaller ones, require not only liquidity and financing, but also a supportive business environment. This includes the speedy and non-bureaucratic implementation of the COVID-19 relief measures but goes beyond this. The country's high regulatory and administrative burden create costs that hard-pressed firms can simply not afford in these challenging times. Cutting red tape related for example to permits, reporting obligations and tax procedures is an effective way to provide immediate, noticeable relief to firms, without burdening the national budget and indirectly the taxpayer. Modernising the rules will allow professions to offer more cost-effective and innovative services that firms now need. Slovenia has created tools to reduce administrative burden, including the 'Single Document' and 'SME test'. The use of those tool can now be maximised to provide immediate relief. The crisis will

put additional stress on commercial disputes settlement and economic crime prosecution. The insolvency framework will also need a greater focus on avoiding crisis-related insolvencies, on a speedy winding down of non-viable businesses and a second chance for those involved.

- (25) To foster the economic recovery, it will be important to front-load mature public investment projects and promote private investment, including through relevant reforms. Advancing the green transition with sustainable projects, such as the transition away from coalmines and coal-powered electricity production, could be one such investment. Investing in the green transition as described in Slovenia's National Energy and Climate Plan can help bring short-term stimulus to the recovery and the medium-term aftermath of the COVID-19 outbreak. This can involve increasing the current low share of renewables, strengthening the energy infrastructure, reducing air pollution, which is above the EU average in Slovenia's towns and cities, strengthening the circular economy, supporting social entrepreneurship, and accelerating the efforts to limit the potential impacts on the regions and sectors most affected by the transition. The current drop in emissions would be short-lived if insufficient attention is given to clean energy and climate investments in recovery packages, making Slovenia fall behind on its climate targets. The programming of the Just Transition Fund for the period 2021-2027 could help Slovenia to address some of the challenges posed by the transition to a climate neutral economy, in particular in the territories covered by Annex D to the country report. This would allow Slovenia to make the best use of that fund.
- (26) For an economic recovery that incorporates the principle of sustainability, investment will be needed to further develop sustainable transport, and to support public passenger transport and sustainable connections, particularly for rail. The COVID-19 crisis has led to additional challenges for freight and transit transport and although Slovenia took the necessary action and enabled the flow of goods - in particular critical goods, this will have a negative impact on the country's economic growth.
- (27) As part of an exit and recovery strategy, it will be important to support investment in research and innovation, which is a critical driver of productivity and economic growth. Even before the crisis, Slovenia was rated only a 'moderate innovator', slowing its efforts to catch up with best performers. The business sector is responsible for 75% of spending on R&D. The economic downturn is once again putting business R&D and innovation at risk. Relatively low rates of innovation, especially by SMEs, slow down the development and diffusion of innovative business processes and solutions, which are called for by the COVID-19 crisis. Investment is needed to help innovative SMEs - including startups - whose activities involve emerging technologies and breakthrough innovations, to scale up their production. Cooperation between academia and business is mostly limited to the medium-and high-tech sectors. The effectiveness of knowledge transfer offices set up by research organisations and higher education institutions varies considerably. Links between academia and business are essential for successfully translating knowledge into innovation, improving the country's research and innovation performance, and driving economic growth. Public spending on R&D was modest, and partly reliant on EU Structural Funds. Recovering from this crisis will require the prioritisation of public investment into research and innovation, including technological and applied research.
- (28) Digital transformation will be key to the post-crisis economic recovery. The country's potential in this area was illustrated by the fast rollout of teleworking schemes and online commerce solutions by some Slovenian companies at the start of the crisis.

Greater digitalisation in business models and production processes would extend these transformations to more sectors of economy. Slovenia can build on existing knowledge and excellent capacities in robotics, artificial intelligence and block chain technology to support the expansion of digitalisation to less advanced, traditional industries. Reusing the broad range of public sector data currently available could support innovation and the big data economy. Improving workers' digital skills could increase their employability relatively quickly and support the economic recovery. Introducing user-friendly e-government services and digital public services would help further reduce the administrative burden for businesses. While a range of online public services are already available, their up-take by individuals and businesses will require efforts to increase people's trust in and security of online transactions (e.g. rollout of a national electronic identifier, cyber security and privacy features). Fast and reliable broadband connections (fixed and mobile), including in rural areas, are indispensable for developing key online social and economic services. Roll out of 5G depends on timely 5G spectrum assignment.

- (29) Regular classes for all education levels have been replaced by distance learning during the COVID-19 confinement. Online learning requires adequate digital infrastructure, education materials, and teachers with the necessary skills and support to teach effectively. All learners, in particular vulnerable groups, including those with disabilities and those from rural areas, need to have adequate access to distance learning and decent digital skills to fully benefit from distance learning. Digital skills should feature more prominently in school curricula and programmes, to improve workers' skills. This would allow a broader use of teleworking and digital services, a better match of digital skills with the requirements of the labour market, as well as the inclusion of vulnerable groups like the elderly or people living in rural areas.
- (30) While the present recommendations focus on tackling the socio-economic impacts of the pandemic and facilitating the economic recovery, the 2019 country-specific recommendations adopted by the Council on 9 July 2019 also covered reforms that are essential to address medium- to long-term structural challenges. Those recommendations remain pertinent and will continue to be monitored throughout next year's European Semester annual cycle. That also applies to recommendations regarding investment-related economic policies. The latter recommendations should be taken into account for the strategic programming of cohesion policy funding post-2020, including for mitigating measures and exit strategies with regard to the current crisis.
- (31) The European Semester provides the framework for continuous economic and employment policy coordination in the Union, which can contribute to a sustainable economy. Member States have taken stock of progress regarding United Nations' Sustainable Development Goals (SDGs) implementation in their 2020 National Reform Programmes. By ensuring the full implementation of the recommendations below, Slovenia will contribute to the progress towards the SDGs and to the common effort of ensuring competitive sustainability in the Union.
- (32) Close coordination between economies in the economic and monetary union is key to achieve a swift recovery from the economic impact of the COVID-19. Slovenia should, as a Member State whose currency is the euro – and taking into account political guidance by the Eurogroup – ensure its policies remain consistent with the euro area recommendations and coordinated with those of the other euro area Member States.

- (33) In the context of the 2020 European Semester, the Commission has carried out a comprehensive analysis of Slovenia's economic policy and published it in the 2020 country report. It has also assessed the 2020 Stability Programme and the 2020 National Reform Programme and the follow-up given to the recommendations addressed to Slovenia in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Slovenia, but also their compliance with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.
- (34) In the light of that assessment, the Council has examined the 2020 Stability Programme and its opinion⁹ is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that Slovenia take action in 2020 and 2021 to:

1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Ensure the resilience of the health and long-term care system, including by providing the adequate supply of critical medical products and addressing the shortage of health workers.
2. Provide adequate income replacement and social protection. Mitigate the employment impact of the crisis, including through enhancing short-time work schemes and through flexible working arrangements. Ensure that these measures provide adequate protection for non-standard workers.
3. Continue to swiftly implement measures to provide liquidity and financing to businesses and households and reduce administrative burden. Front-load mature public investment projects and promote private investment to support the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, environmental infrastructure, sustainable transport, research and innovation and on the rollout of the 5G network. Promote digital capacities of businesses, and strengthen digital skills, e-Commerce and e-Health.

Done at Brussels,

*For the Council
The President*

⁹ Under Article 5(2) of Council Regulation (EC) No 1466/97.