INTERNATIONAL MONETARY FUND

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REPUBLIC OF SLOVENIA

May 2016

2016 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT FOR THE REPUBLIC OF SLOVENIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with the Republic of Slovenia, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis following discussions that ended on April 29, 2016 with the officials of Republic of Slovenia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 22, 2016.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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COMMUNICATIONS DEPARTMENT

Press Release No. 16/211
FOR IMMEDIATE RELEASE
May 16, 2016

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2016 Article IV Consultation with Slovenia

On May 9, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Slovenia and considered and endorsed the staff appraisal without a meeting.[2]

Slovenia saw reasonable economic growth in 2014–15, buoyed by rising exports and a spike in public investment. The external position strengthened, reflecting robust exports and strong tourism but also lackluster domestic demand and falling commodity prices. Financial stability returned, following the 2013–14 public sector bailout of state-owned banks. Headline inflation remains negative, but should turn positive as oil prices stabilize.

Going forward, growth is projected to taper this year as EU financing for public investment declines. Over the medium term, further substantial investment- and productivity-enhancing reforms will be needed to resume the steady convergence of Slovenia's per capita income toward levels enjoyed in the richer parts of the European Union.

Reforms continue as a lot has to be done. Non-performing loans have been reduced, but the process remains work in progress, especially for small and medium enterprises. The performance of state-owned enterprises needs to be decisively strengthened and state control over large swathes of the economy reduced. The budget deficit (ESA definition) fell below 3 percent of GDP in 2015 and a fiscal rule targeting a zero structural fiscal balance in the medium term was approved. However, significant consolidation measures are needed to reach this objective.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Executive Board Assessment

In concluding the 2016 Article IV consultation with the Slovenia, Executive Directors endorsed the staff's appraisal as follows:

While growth has returned, Slovenia could grow faster and more sustainably. To sustain the reasonable growth rates from 2014–15 given the expected drop in public investment, private investment needs to play a much stronger role than at present. This would buttress capital formation and productivity, strengthening actual and potential growth over the medium term. Moreover, important fiscal and financial vulnerabilities need to be addressed.

Swift policy actions are needed to stimulate private investment and reduce vulnerabilities. There are four key priorities: (i) move NPLs off state-owned banks books and encourage SME balance sheets repair; (ii) divest state-owned banks and nudge banks to rethink their business models; (iii) put in place a comprehensive fiscal adjustment package underpinned by structural measures; and (iv) reform and privatize more SOEs, and address key bottlenecks in the business environment.

It is time to decisively deal with bank NPLs and SME debt. Lingering non-performing loans and excess corporate debt, particularly on SME books, impair the credit channel for investment. The new guidelines for SME NPL resolution are an important step to address NPLs of viable SMEs. A privately-funded entity (SPV) to bundle and sell non-performing SME loans, established with the state's support, would help resolve NPLs even more quickly.

Continued state control of banks creates risks of interference in their lending decisions. Business decisions in the state-owned banks should continue to be based on commercial principles, maintaining an arms-length relationship with the state. To improve the chances for successful bank sales, the authorities should reconsider their plan to limit the stakes of potential investors. And the planned sale of Abanka only by July 2019 is an unnecessary delay that would miss an opportunity to restore a fully competitive market for bank services and may negatively affect the bank's performance.

BAMC's operational independence should be respected. This will allow BAMC's management to carry out its mandate to maximize the value of its claims, thereby lowering the final cost of the 2013 bank bailout.

Bank business models need considerable adjustment to profitably weather a prolonged period of low interest rates. Low bank profits pose risks to bank capital and thus financial stability in the event of an adverse shock. To thrive sustainably, banks need to proactively and substantially reconsider their cost structures and revenue sources. At the same time, banks should maintain adequate lending standards to avoid a resurgence of NPLs.

The narrowing of the budget deficit over the last two years is only the first step to putting the fiscal house in order. The planned adjustment in 2016 is also welcome. But the deficit and debt will start rising again in 2017 under current policies. Barring large adverse shocks, we recommend an annual structural adjustment effort of 0.6 percent of GDP in primary terms until the overall structural balance reaches zero. Afterwards, the structural balance should be held at zero until debt falls below 60 percent of GDP.

The needed fiscal adjustment should be achieved through a comprehensive package of structural reforms to strengthen policy credibility. A key element in such a strategy would be a multi-year agreement with labor unions that keeps the wage bill affordable. In addition, efficiency-improving reforms can save money in the health and education sectors without undermining the quality of service. Pension reforms, such as further extending the retirement age and indexing pensions to consumer price inflation, are also critical in view of the deteriorating demographics. Growth-friendly revenue measures, such as the introduction of a real estate tax, would help as well. A revenue-neutral reduction in labor taxes would support employment creation.

Aggressive SOE reform, coupled with further improvements in the business environment, could boost potential growth. The number of companies where the state plans to retain control should be significantly reduced. Performance criteria set for SOE managers should aim at performance comparable to that of private companies and should encourage disposal of the non-core assets owned by the SOEs. Moreover, changes to facilitate greater equity financing and reduce the job-skills mismatch would also invigorate employment and investment.

Slovenia: Selected Economic Indicators, 2011–17

(Annual percentage change, unless noted otherwise)

					Est.	Projections	
	2011	2012	2013	2014	2015	2016	2017
Nominal GDP (EUR millions)	36,896	35,988	35,908	37,303	38,543	39,436	40,768
GDP per Capita (EUR)	17,997	17,508	17,441	18,099	18,684	19,101	19,729
Real economy							
Real GDP	0.6	-2.7	-1.1	3.0	2.9	1.9	2.0
Domestic demand	-0.7	-5.8	-2.2	1.6	2.1	1.7	2.8
Private consumption	0.0	-2.5	-4.1	0.7	1.7	2.2	2.2
Public consumption	-0.7	-2.3	-1.5	-0.1	0.7	2.7	3.5
Gross capital formation	-2.2	-17.5	2.7	5.7	4.4	-0.7	3.8
Net exports (contribution to growth)	1.3	2.8	1.1	1.6	0.9	0.5	-0.5
Exports of goods and services	6.9	0.6	3.1	5.8	5.2	3.8	3.3
Imports of goods and services	5.0	-3.7	1.7	4.0	4.4	3.6	4.5
Output gap (in percent of potential GDP)	-1.3	-4.3	-5.6	-3.3	-1.6	-0.8	-0.1
Prices							
Consumer prices (national definition, period average)	1.8	2.6	1.8	0.2	-0.4	0.1	1.0
Core inflation (period average)	-0.4	0.7	0.9	0.6	0.3	…	…
Employment and wages							
Unemployment rate (in percent, ILO definition)	8.2	8.9	10.1	9.7	9.1	8.6	8.2
Employment (Full time basis, national accounts)	-1.7	-0.9	-1.4	0.6	1.4	0.4	0.3
Nominal wages (all sectors, annual average)	2.0	0.1	-0.2	1.5	0.7	1.4	2.7
Real wages (all sectors, annual average)	0.2	-2.5	-1.9	1.3	1.2	0.9	1.7
Public finance (percent of GDP)							
General government balance 1/	-5.5	-3.1	-13.9	-5.8	-3.3	-2.5	-2.7
General government balance excl. bank support 1/	-4.2	-3.1	-4.3	-3.5	-3.3	-2.5	-2.7
Structural balance 2/	-4.1	-1.9	-1.7	-2.9	-2.2	-1.6	-2.5
Structural primary balance 2/	-2.8	-0.2	0.5	0.1	0.6	1.0	0.1
General government debt 3/	46.4	53.9	71.0	81.0	83.2	80.4	81.6
Monetary and financial indicators							
Credit to the private sector 4/	-1.9	-5.4	-6.9	-6.8	-5.2	0.0	0.7
Lending rates 5/	5.0	4.7	4.5	4.1	2.9	…	…
Deposit rates 6/	2.2	2.3	1.9	1.0	0.4	…	…
Government bond yield (10-year)	5.0	6.0	5.1	2.2	1.6	…	…
Balance of payments (percent of GDP)							
Trade balance (goods and services)	-2.6	-0.2	2.0	3.2	4.2	4.7	4.4
Current account balance	0.2	2.6	5.6	7.0	7.3	7.6	7.1
Gross external debt (percent of GDP, end-period)	112.9	119.1	116.0	124.2	114.7	111.1	106.8
Nominal effective exchange rate (2010=100)	100.4	99.3	100.7	101.7	100.3	…	…
Real effective exchange rate (2010=100, CPI-based)	99.4	98.2	99.6	99.6	97.1	…	…

Sources: Data provided by the Slovenian authorities; and IMF staff calculations and projections.

1/ Includes 9.5 percent of GDP in 2013 and 2.3 percent of GDP in 2014 in capital injections into banks and support for deposit redemptions in banks being wound down.

2/ Excludes bank support and other one-offs. Adjusted for calendar year shifts between receipt and expenditure of earmarked EU funds.

3/ Includes EUR 1.1 bn in 2013 and EUR 0.7 bn in 2014 of debt issuance of the Bank Asset Management Company (BAMC).

4/ 2013 and 2014 data are adjusted to exclude the impact of transfers to the BAMC.

5/ Floating or up-to-one-year fixed rate for new loans to non-financial corporations over 1 million euros.

6/ For household time deposits with maturity up to one year.

INTERNATIONAL MONETARY FUND

REPUBLIC OF SLOVENIA

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

April 22, 2016

KEY ISSUES

Context: Slovenia's output contracted deeply in the wake of the 2008 financial crisis, which spilled into a bank and sovereign debt crisis in 2012–13. A costly bank recapitalization, alongside restored sovereign market access, stabilized the financial system and helped launch an export-led recovery in 2014–15.

Outlook and risks: Despite the recent recovery, significant constraints to growth and important vulnerabilities need to be decisively addressed. An SME debt overhang and high public debt are key bottlenecks. While the authorities have made progress in addressing these weaknesses, significant work remains to be done.

Financial and corporate sector: Financial stability has improved, though the non-performing loan ratios at large state-owned banks remain elevated**.** Despite recent deleveraging, many small and medium companies are over-indebted and unable to adequately service their liabilities**.** Further efforts to resolve non-performing loans, particularly to SMEs, and privatization of major banks will be essential to strengthen the financial system and revive credit to support investment and growth. The operational independence of the Bank Asset Management Company is critical for its ability to successfully unwind its portfolio.

Fiscal policy: Despite the declining general government budget deficit over the past two years, fiscal adjustment is far from complete. The deep recession, persistent budget deficits, and the cost of bank recapitalization quadrupled public debt to over 83 percent of GDP between 2008 and 2015. A comprehensive consolidation strategy is needed to reduce public debt, create room to absorb potential adverse shocks, and prepare for coming demographic challenges.

Structural reforms: State enterprises are more indebted and less profitable than their private counterparts. Low productivity growth, low profitability, and insider capture in these enterprises are drags on the economy and drains on the public purse. The state asset management strategy should be revised to allow for controlling stakes to be sold in more state-owned enterprises (SOEs) to strategic investors. Moreover, ambitious performance targets and accountability for their achievement could improve SOEs' results. Measures to improve the judicial system, address a job-skills mismatch, and foster equity financing would also raise potential growth.

Approved by
Philip Gerson and
Steven Barnett

The mission took place in Ljubljana from March 16 through 29, 2016. The team comprised Mr. Gueorguiev (head), Messrs. Halikias, Ralyea, Dwight, and Visconti. Ms. Chen provided research and Ms. Calixto administrative support from headquarters. The mission held discussions with Mr. Mramor (Minister of Finance), Mr. Jazbec (Governor of the Bank of Slovenia), other ministers, government and Bank of Slovenia officials, as well as representatives of parliament, financial sector, labor, business, and media. Mr. Repanšek (OED) attended most meetings.

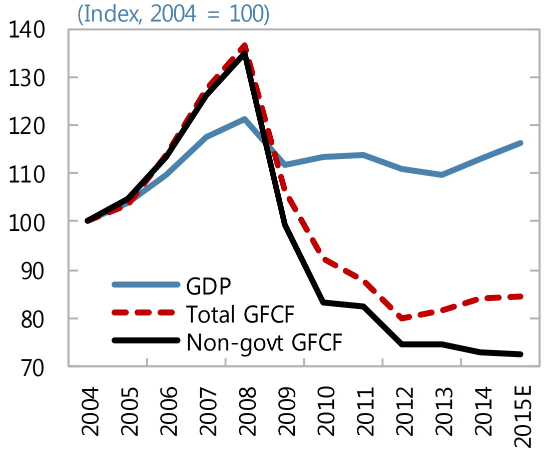
CONTENTS

ANNEXES

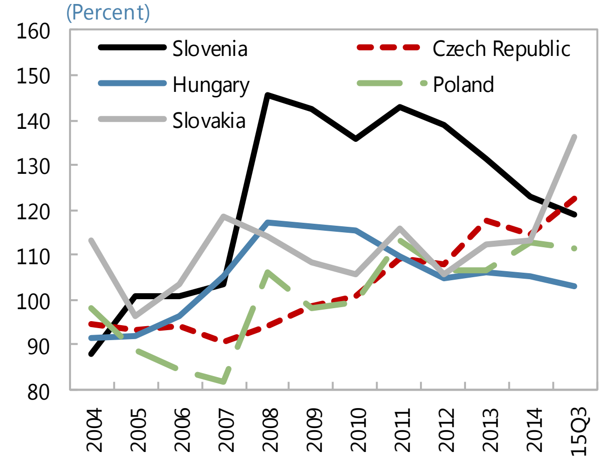
CONTEXT

1. Growth has returned, but crisis legacies continue to weigh on Slovenia's economy. In the boom years prior to the 2008 global crisis, state banks imprudently engaged in risky lending. When the crisis hit, banks access to external funding was abruptly cut. Moreover, Slovenia's highly leveraged corporations found it difficult to service their debts. Nonperforming loans (NPLs) accumulated on bank books, credit contracted, investment fell sharply, and bank losses mounted. These effects led to a second recession and a banking and sovereign debt crisis in 2012–13. The authorities subsequently recapitalized major state-owned banks and moved some of their NPLs to a bank asset management company (BAMC). The bank recapitalization, alongside restored sovereign market access, stabilized the financial system and enabled an economic recovery. However, still debt-laden company balance sheets, particularly in the SME sector, coupled with extensive state ownership of inefficient firms, limit growth opportunities. As a result, Slovenia's GDP and employment remain below pre-global crisis levels. This performance is in sharp contrast with the country's Central European peers, whose economic recoveries have generally been much stronger (chart).

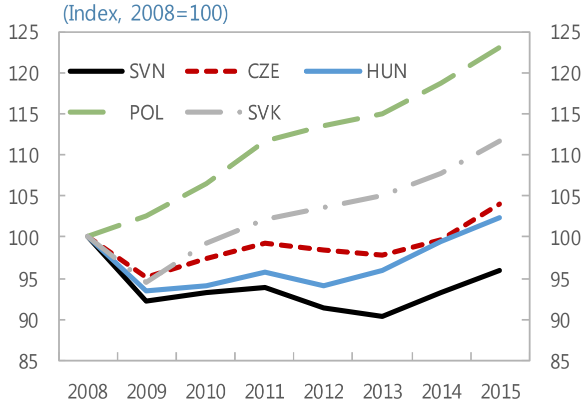
Real GDP and investment
(Index, 2004 = 100)



Non-Financial Corporate Debt to Equity
(Percent)

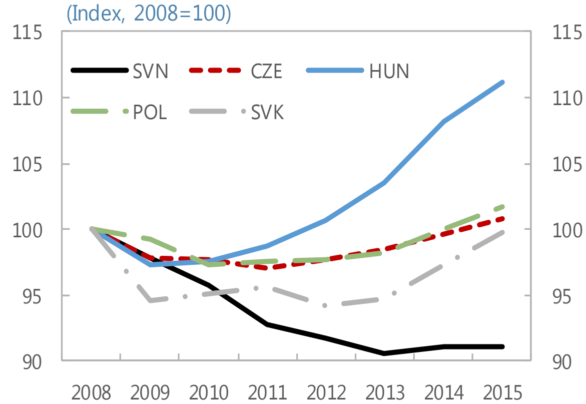


Real GDP
(Index, 2008=100)



Sources: Haver; IMF staff calculations

Employment
(Index, 2008=100)

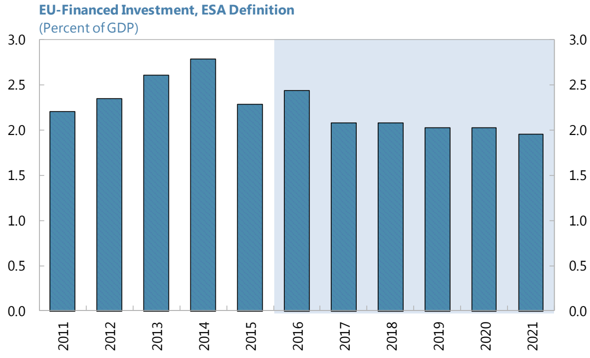


Sources: Haver; IMF staff calculations

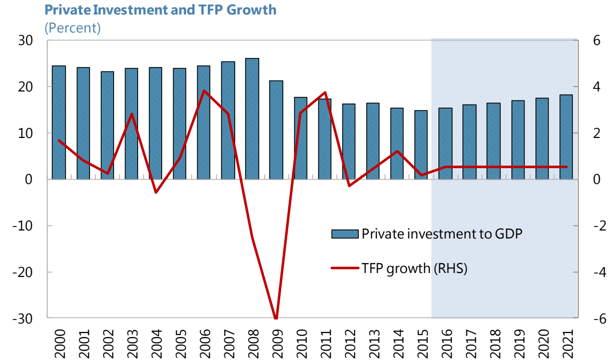
2. Significant structural reforms are needed to realize Slovenia's growth potential, but political tensions and coalition discussions may affect their pace and ambition. Polls record declining public support for the governing coalition as tensions over refugees and other non-economic matters have flared. In addition, coalition partners have yet to formulate a common approach to important reforms. These developments create uncertainties about the speed and scope of further action on fiscal and structural priorities (See Annex III for an assessment of implementation of prior staff reform recommendations).

RECENT ECONOMIC DEVELOPMENTS, OUTLOOK, AND RISKS

3. Strong demand in trading partners and large European Union structural fund transfers buoyed growth in 2014–15, but the outlook is less reassuring. Rising exports, a spike in public investment financed by EU funds (chart), and an employment-driven pick-up in private consumption propelled annual GDP growth to about 3 percent over the last two years (Figures 1 and 2). Headline inflation is negative so far this year, but should gradually converge to the currently positive, if low, core inflation rate once the effect of depressed oil prices dissipates. The high weight of energy prices in Slovenia's HICP relative to other euro area members has magnified the effects of the decline in global energy prices on inflation. However, to date, these effects have been mainly benign, buttressing consumption growth and competitiveness. While exports and private consumption should continue to be supportive of growth, public investment is likely to fall significantly this year and remain low going forward as EU structural funds are reduced. As a result, staff projects GDP growth to decelerate to about 2 percent this year and next. Over the medium term, private investment, employment, and productivity would likely grow only modestly under current policies (charts), limiting potential growth to about 1½ percent, a rate insufficient to narrow the gap in per capita incomes between Slovenia and the richer parts of the EU.

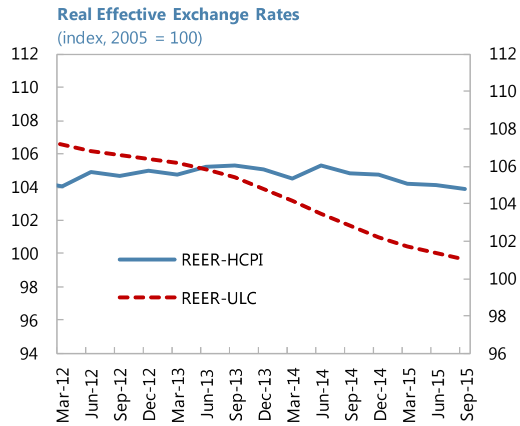


Sources: Ministry of Finance, and IMF staff estimates.



Sources: Haver Analytics; and IMF staff estimates.

4. Slovenia's external position is generally strong, but vulnerabilities remain (Annex I). At 7¼ percent of GDP in 2015, the current account surplus is stronger than can be explained by fundamentals and desirable policies. As the estimated policy gap is small (see Table A2), factors outside the Fund's EBA current account model (e.g. deeper integration in the German supply chain



Sources: Haver Analytics; and IMF staff calculations.

and still lackluster domestic demand) appear to have contributed to the large surplus. Falling commodity prices and unit labor costs have also supported a widening trade surplus in the last two years. The surplus is expected to drop to around 4 percent of GDP by 2021 as domestic demand gradually recovers. In contrast with the current account approach, the IMF's real effective exchange rate (REER) method suggests the REER is broadly in line with fundamentals. This assessment is consistent with a large estimated current account gap given that the external surplus has a large temporary component caused by lackluster demand, rather than a change in prices. On the negative side, Slovenia's net international investment position (IIP) was still relatively weak at -38 percent of GDP at end-2015, with gross IIP liabilities at 143 percent of GDP, including gross external debt at 116 percent of GDP (mainly because of external public debt and corporate liabilities).

5. The short-term outlook is broadly balanced, while medium-term prospects are subject to downside risks (See Risk Assessment Matrix, Annex II)**.** Externally, a global slowdown would adversely affect exports, a key engine for growth. On the upside, the favorable momentum created by robust import demand in trading partners (Germany, Austria) may persist for longer than anticipated. Internally, failure to complete the cleanup of company balance sheets is a risk to private investment and thus actual and potential growth in the medium term. Furthermore, it will keep firms and banks vulnerable to growth shocks, with the attendant risks to bank profitability and capital. Also, deflation expectations could become entrenched if core inflation turns negative, creating problems for indebted companies and the budget. Moreover, the high and rising public debt burden leaves Slovenia vulnerable to funding shocks in the medium term (Annexes V and VI).

6. Staff's projections are broadly consistent with those of the authorities' forecasting arm (IMAD). IMAD forecasts a slightly lower growth and inflation than staff in 2016 and a stronger rebound in 2017, largely based on differing assumptions regarding the path of investment. The authorities agreed that the current account surplus is larger than one would expect for a country like Slovenia, and that surpluses should begin to decline as consumption and investment strengthen. The lower inflation in Slovenia than in the euro area on average and the decline in ULCs in recent years led the authorities to believe that Slovenia would remain competitive and that the real exchange rate appears to be in line with fundamentals.

7. The authorities broadly agreed on the main risks identified by staff. In particular, they pointed to direct and indirect external risks to growth stemming from potential adverse developments in emerging markets such as Russia and China. The authorities were relatively sanguine about risks to Slovenia stemming from global financial volatility in both the short and medium term, noting the stabilizing role of the ECB policies in this respect.

POLICY DISCUSSIONS

8. Slovenia is growing again, but needs to avoid complacency—with more ambitious reforms, growth can be faster and more sustainable. Discussions focused on policies to address binding constraints on growth and reduce financial and fiscal vulnerabilities:

- Further repair bank and corporate (especially SME) balance sheets to sustain financial stability and restart credit flows to private companies;
- Implement a comprehensive strategy to rebuild fiscal buffers; and
- Accelerate privatization, strengthen the governance and efficiency of state-owned enterprises (SOEs) and banks, and improve the business environment.

A. The Banking-Corporate Sector Nexus

9. Repair of bank balance sheets continues, but credit extension remains dormant and bank profitability is low. Capital ratios of most banks appear adequate following the 2013–14 recapitalizations (table below and Box 1). NPLs are still above the EU average but have fallen significantly, dropping to 9.7 percent of total loans in January 2016.[1] However, the three largest domestic banks, which are fully state-owned, still face elevated NPL ratios (table).[2] Banks are highly liquid, and the loan to deposit ratio is low at 81 percent (Figure 4), but domestic bank lending to the corporate sector contracted 10 percent y-o-y in 2015.[3] Looking ahead, credit is expected to grow only gradually, and a large volume of high-yielding debt securities held by banks are set to roll over at much lower rates. Bank profitability turned positive in 2015, but remains low. With the net interest margin lower, interest income fell further in 2015. Low lending volumes, coupled with narrow interest margins, put pressure on bank profitability, posing a risk to bank capital and thus financial stability should adverse economic shocks materialize.

Major State-Owned Commercial Banks (as of December 2015) 1/

	Assets (% banking sector)	Deposits (% total system nonbank liabilities)	CAR	NPLs 2/ (% gross loans)	State Share (% equity)
NLB	23.3	25.1	22.6	16.5	100
Abanka 3/	10.2	11.3	22.9	15.2	100
NKBM	9.5	10.0	28.1	33.7	100

Sources: Annual Reports and Slovenian Sovereign Holding.

1/ All figures reported at bank level.

2/ As reported by the banks. NPLs include exposures more than 90 days overdue and those rated D and E, if not already included. As such, these ratios are not comparable to the system-wide NPL ratios published by the BOS.

3/ Merged by acquision with Banka Celje in October 2015.

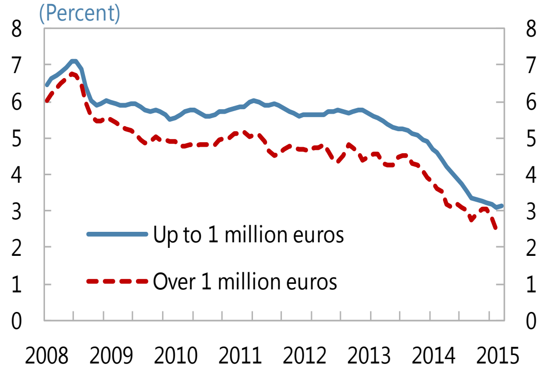
[1] This figure is based on the IMF's definition of NPLs (loan service overdue more than 90 days over total gross loans). The EBA definition, which expands the numerator to include loans likely to become non-performing, and the denominator by including most bank financial assets, would add about 1½ percentage points to the NPL ratio.

[2] The sale of NKBM was completed on April 21, 2016.

[3] Bank credit to the less-indebted household sector has turned slightly positive, driven by housing loans.

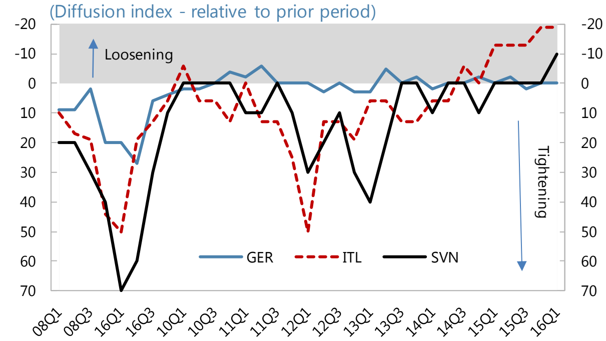
10. The continued contraction in bank credit to the corporate sector reflects a mix of demand and supply side factors. The contraction, despite a significant drop in lending rates, reflects a combination of still high company debt burdens and sluggish credit demand (Figure 5 and *Selected Issues*, Corporate Financial Health and Investment). NPLs to non-financial corporations (NFCs), especially to SMEs, remain high (€2.1 billion at end-2015, or 5.4 percent of GDP, of which €1.5 billion is to SMEs). EU state-aid requirements on minimum returns on equity for intervened banks may also be playing a role in limiting new lending by these banks.[4] Moreover, healthier NFCs in manufacturing and wholesale/retail trade are increasingly relying on retained earnings and external borrowing, the stock of which comprised 27 percent of total outstanding NFC borrowing at end-2015, an increase of 7.5 percentage points since end–2008. On the supply side, bank lending standards did not tighten in 2015 and are being loosened in early 2016 (chart below).

Bank Lending Rates for New NFC Loans 1/
(Percent)



Source: Haver Analytics.
1/ Floating and up to 1 year initial rate fixation.

Change in Commercial Bank Credit Standards 1/
(Diffusion index - relative to prior period)



1/ The difference between the percentage of banks that tightened and those that loosened credit standards in the previous quarter, with bank responses weighted for degree of response, e.g., increase considerably, increase somewhat, no change, decrease somewhat, and decrease considerably.
Source: ECB BLS.

11. Despite recent deleveraging, SMEs remain over-indebted and unable to adequately service their liabilities. While recent Master Restructuring Agreements (MRAs) have reduced excess debt and NPLs of large corporations, staff analysis indicates that in 2014 the bulk of the medium, small, and micro firms—a sector that accounted for 60 percent of investment in the economy—remained indebted above the point where debt adversely affects their investment (*Selected Issues*, Corporate Financial Health and Investment).

12. The guidelines for SME NPL resolution prepared by the Bank Association and the Bank of Slovenia (BoS) provide a welcome framework for restructuring the debt of viable companies. By extending helpful methodological advice to both banks and borrowers, the guidelines can significantly speed up the process and raise the frequency of successful restructurings of NPLs to SMEs. Staff pointed out that to incentivize the banks to resolve NPLs promptly, firm supervisory oversight on the implementation of the banks' NPL reduction plans should be maintained. Moreover, existing measures such as time-bound write-off requirements

[4] The required minimum return on equity for new loans is 7–10 percent depending on the bank and the length of time in state hands after the recapitalization.

(with the attendant provisioning) for uncollectible loans and nonaccrual of interest for loans past a set delinquency threshold should be strictly enforced.[5]

13. A centralized framework to sell NPLs to other investors would help as well. Staff pressed for renewed government and BoS support for the previously planned privately-funded entity (SPV) to bundle and sell non-performing SME loans. This could help resolve NPLs more quickly, either through their restructuring or through starting insolvency of unviable firms that would return resources such as pledged collateral to economic circulation. By selling adequately provisioned loans, the banks would also improve their risk-weighted capital adequacy ratio, creating scope for new lending.

14. Proper allocation of credit and adaptation of banks' business models to the new environment are critical to preserve the recently established financial stability. Staff emphasized that credit extension should reflect commercially-driven arms-length transactions between banks, including state-owned ones, and their clients. A return to pre-crisis lending practices governed in part by noneconomic factors could easily lead to a resurgence of NPLs in a few years. Moreover, to sustain adequate profitability in the current environment and prevent erosion of their capital in case of adverse shocks, banks need to proactively and substantially reconsider their cost structures and revenue sources. The ongoing bank consolidation and exit might support these efforts. In particular, two large banks have merged in 2015, two foreign-owned banks are looking to exit the market, and two small banks are being wound down.

15. Timely and well-designed bank privatization is important to ensure strong corporate governance and reduce public debt. The sale of the third-largest bank (NKBM) was completed in April 2016 and the start of the privatization process for NLB, the largest bank, is welcome. However, in staff's view, the chosen privatization model for NLB—an initial public offering on a stock market, with the state retaining the largest stake—is unlikely to attract strategic investors that would want to manage and develop the institution based on sound commercial principles. Staff urged the authorities to consider the benefits of a tender for the controlling stake, to actively market the bank to strategic investors, and to reconsider plans to prevent any investor from acquiring more than the state's designated share stake (25 percent plus 1 share). In addition, the process should ensure that potential shareholders above the relevant threshold are fit and proper. As for the second-largest bank, Abanka, staff saw a case for accelerating its privatization relative to the current deadline (July 2019) to move to a fully competitive banking market as soon as possible and recoup more quickly the government's investment in Abanka. Staff also advised putting in place a framework to ensure that state-owned banks are managed on commercial principles until they are sold.

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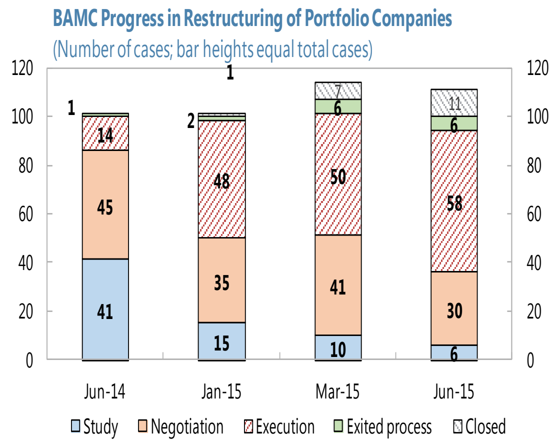
[5] As a member of the Eurosystem the Bank of Slovenia follows the ECB regulations and the main banks are supervised under the SSM. In addition, NPL reporting is being brought in line with EBA regulations.

16. The BAMC continued to evolve in its first full year of operation, though its independence is a concern. Of the roughly 570 claims in its portfolio, the BAMC is restructuring 107 debtors and plans to sell the other claims. The asset recovery is proceeding somewhat slowly, and the BAMC had to resort to a €200 million bank loan and funds from its recapitalization in 2015 in addition to proceeds from its asset sales to repay a €502 million note in December 2015. [6] The parliament recently extended the BAMC's term to 2022 from 2017. Following dismissal of three non-executive directors in June 2015, the government also dismissed the CEO and the chairman of the board in October over a controversial pay dispute. Staff expressed concern about these developments, as they create the perception of government interference with BAMC's operational work.



Source: BAMC unaduited half-year report 2015.

17. Staff underscored that the operational independence of the BAMC is key for its ability to successfully dispose of its assets. Recent legal arrangements that call for non-interference of the state in the BAMC's case work should be respected and the vacant seat in its supervisory board should be filled by a competent and independent professional. Progress with asset sales and corporate restructurings should not be slowed by the recent extension of the BAMC period of operation to 2022. To facilitate restructuring operations, staff recommended that the BAMC acquire at a fair price all large bank exposures to debtors on whom it already holds a claim. The BAMC's mandate to maximize value from asset sales should ensure that any related increase in public debt is offset over the medium term.

18. Bank regulation and supervision is being aligned with EU standards. Slovenia has established a Financial Stability Board for macroprudential supervision, chaired by the BoS. Moreover, the BoS introduced two new macro prudential measures—a countercyclical capital buffer and a capital buffer for systemically important institutions (SIIs). The countercyclical capital buffer requirement became effective on January 1, 2016, at a rate of zero. With capitalization appearing adequate and with the recognition that there were very limited risks of banks engaging in excessive lending, SIIs were granted a transition period until January 1, 2019, to meet their new capital buffer requirement, which ranges from 0.25–1.00 percent. The size of both capital buffers was determined according to European Systemic Risk Board (ESRB) guidelines.

19. The authorities assessed the banking system as stable and stated that they would privatize the three large state-owned banks in accordance with Slovenia's EU commitments. They noted the system is well capitalized, liquid, and showing improving, albeit low, profitability. Nevertheless, the authorities agreed with staff that there are potential risks with respect to the

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[6] The BAMC is meeting its statutory requirement of cashing at least 10 percent of its assets per year. Another €500 million note matures in December 2016, and two more notes for a cumulative €551 million in December 2017.

sustainability of banks' business models and further pressure on profits. They observed that the NPL legacy, particularly in the SME segment, is still a drag on the income capacity of banks and that SME over-indebtedness does depress private investment. The authorities expect implementation of the recently issued guidelines on SME restructuring (see ¶12) to improve banks' capacity to reduce NPLs and resume lending to the SME sector. The authorities noted that the Slovenian Sovereign Holding (SSH), the entity tasked with bank privatization, is reviewing the best method for privatization of NLB and will make a recommendation to the government in the coming months.

20. The authorities also appreciated the benefits of an SPV for reducing NPLs to SMEs and an independent BAMC. However, they saw political difficulties in supporting the creation of such an SPV at present, as the government would not want to be associated with the collection practices of the NPL buyers. Instead, they argued that the technical platform for bundling and packaging NPLs would be created by the BAMC and situated as a separate company, which sellers and buyers of NPLs could use on a case by case basis. Staff noted that a centralized SPV would provide better synergies and economies of scale. In addition, an arrangement involving an entity outside the SPV may raise transaction costs and thus fail to attract the interest of private investors.

B. Fiscal Policy

21. Slovenia is in a good position to exit the EC's Excessive Deficit Procedure (EDP) in 2016. The budget deficit reached 2.9 percent of GDP in ESA terms in 2015, below the EDP threshold of 3 percent of GDP. The budget outturn in cash terms (3.3 percent of GDP) was consistent with a structural primary adjustment of ½ percent of GDP. Higher-than-budgeted corporate income tax receipts, reflecting improved firm profitability, boosted tax revenue. On the spending side, below-budget expenditure on pensions and goods and services helped offset overruns in the public sector wage bill and subsidies (Figure 6). Expenditure on refugees had a negligible impact on the fiscal outturn. Nonetheless, public debt increased to over 83 percent of GDP at end-2015, in part because the Treasury prefinanced some of its 2016 needs.

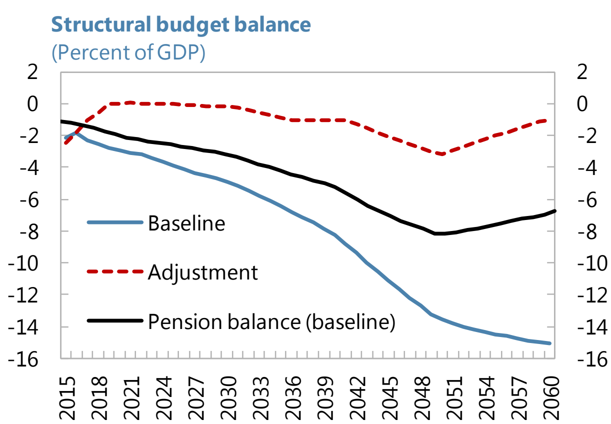
22. Policy discussions covered the near-term fiscal stance and fiscal policy requirements for the medium-to-long term. With risks to this year's fiscal outcome broadly contained, the discussions focused on the appropriate pace and composition of medium-term consolidation to reduce public debt relative to GDP and offset the impact of demographic trends on public finances.

23. The authorities' targeted fiscal stance for 2016 is broadly appropriate. The approved budget envisages a general government deficit of 2.2 percent of GDP (cash terms), which would be consistent with a reduction of 0.8 percent of GDP in the structural primary deficit, slightly above the staff-recommended 0.6 percent of GDP. This, combined with drawing down part of the Treasury's large cash balance, would reduce the debt ratio to below 81 percent by end-year. With the output gap expected to close next year, staff viewed such pace of consolidation as broadly appropriate from a cyclical perspective, and in line with medium-term requirements.

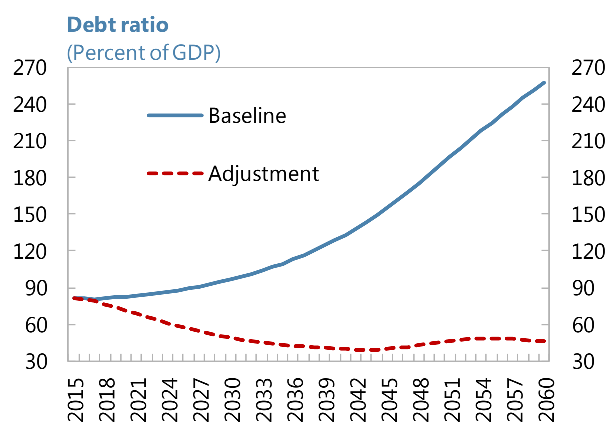
24. The budget is, however, subject to certain risks. The 2016 budget is anchored by a one-year public sector wage agreement and measures to improve VAT collection. The wage bill is under strong pressure as the temporary wage restraints introduced during the crisis are being unwound, and the authorities already estimate that the budgeted amount will be exceeded. Moreover, staff assessed that budget revenue could fall short of the target by some ¼ percent of GDP as the expected yield from measures to improve tax collections appears optimistic. The authorities were, however, confident that the budget has sufficient margins to offset small slippages, and noted that the budgetary framework compels line ministries to offset any wage bill overruns by cuts in their other spending.

25. In the medium-to-long term, Slovenia is facing significant fiscal challenges. Expiration of one-off measures put in place during the crisis and adverse demographic trends will strongly pressure public finances. The wage bill will start rising relative to GDP in the absence of policies to put wages and employment on a permanently sustainable basis. In addition, pension spending is projected to resume its steady upward path once the temporary effect of the 2013 reform on the retiree inflows lapses and pension indexation based on wage/price growth resumes. Health care and long-term care spending will also come under pressure. Finally, as EMU interest rates begin to return toward historic levels, the interest bill will start to rise if public debt does not come under control.

26. In the absence of further policy measures, staff projects that debt dynamics will become unsustainable. Under staff's baseline projections, after a brief lull as the government draws down its cash buffer, the debt-to-GDP ratio would resume its upward path, exceeding 87 percent by 2021. Over the longer term, demographic trends and the interest bill on the ever-rising debt would drive fiscal dynamics, as Slovenia faces the most serious aging problem in the EU. Absent reforms to pensions and other age-sensitive spending, the debt ratio would follow an unsustainable path, exceeding 240 percent by 2060 (in the unlikely event that financing were to remain available).



Sources: Authorities; IMF staff calculations



Sources: Authorities; IMF staff calculations.

27. To reduce medium-term fiscal risks and boost credibility, staff argued for a comprehensive medium-term consolidation strategy. The authorities took a step in this direction in 2015 with the passage of a fiscal rule that sets a medium-term budget target of a zero structural deficit. With a closed output gap from 2017 on, the next several years are indeed the right time to rebuild fiscal buffers. However, staff estimates that substantial additional policy measures, amounting to about 3 percent of GDP, will be needed to achieve the targeted balance. Staff recommended a continued gradual pace of adjustment, with annual improvements of 0.6 percent of GDP in the structural primary balance until the overall structural balance reaches zero (text table). Subsequently maintaining the structural balance at this level would bring public debt below 60 percent of GDP by 2026 under the staff's baseline forecast. This front-loaded approach would allow some relaxation of the fiscal stance later, when the ageing problem is sharpest, keeping the debt ratio below 60 percent (charts above).

Medium-term Budget Targets, Cash Basis

(Percent of GDP, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021
Headline balance							
Staff projections (baseline)	-3.3	-2.5	-2.7	-2.8	-3.0	-3.2	-3.3
Staff recommendations 1/	-3.3	-2.4	-1.1	-0.6	-0.3	-0.1	0.1
Structural balance							
Staff projections (baseline)	-2.2	-1.6	-2.5	-2.8	-3.0	-3.3	-3.4
Staff recommendations	-2.2	-1.4	-0.7	-0.3	0.0	0.0	0.0
Structural primary balance							
Staff projections (baseline)	0.6	1.0	0.1	0.0	-0.1	-0.2	-0.3
Staff recommendations	0.6	1.2	1.8	2.4	2.8	2.8	2.8
Public debt							
Staff projections (baseline)	83.2	80.4	81.6	83.1	84.4	85.8	87.1
Staff recommendations 1/	83.2	80.3	80.2	79.7	78.5	76.8	75.0

Sources: Authorities; and IMF staff calculations.

1/ Reflects the effect of staff recommendations on the output gap.

28. **Policy action in several areas is needed to support consolidation.** The authorities are aiming for a multi-year wage agreement with public sector unions that would allow wage bill growth to lag nominal GDP growth by 1.7 percentage points per year. Staff agreed that this would be an important consolidation step and recommended that the agreement also cover rationalization in public employment to lend credibility to the agreed targets. Staff pointed out, however, that additional measures would be needed to achieve the necessary medium-term consolidation. In particular, staff suggested focusing on structural fiscal reforms in expenditure areas where Slovenia had been spending more than its peers without achieving better outcomes:

- **Pensions**, by indexing pensions to inflation only, abolishing the pension bonus and pensioners' preferential tax treatment, and, once the retirement age reaches 65 as planned, continuing its increase to 67 and then linking it to life expectancy. Part of the savings should be directed to support low-income pensioners through the social assistance system;
- **Education spending**, by raising pupil-teacher ratios, shifting resources from areas with declining school population to those with expanding ones, and better means-testing financial support for tertiary students;
- **Health care spending**, by increasing reliance on primary care, introducing service-based copayments, and linking payments for treatments to their demonstrated clinical and cost effectiveness.[7]

Potential Fiscal Savings by 2021

(in percentage points of GDP)

	Cumulative
Revenue	
Real estate tax	0.8
Expenditure	
Wage bill 1/	0.2
Health care 2/ 3/	0.5
Education 2/	0.6
Pensions	0.8
Transfers and subsidies	0.2
Total Savings	**3.1**

Source: Staff calculations.

1/ Wage agreement in first half of 2016

2/ By closing ½ of the gap from the efficiency frontier of OECD countries.

3/ Reform implemented in 2018.

[7] In both health and education, the ultimate aim would be to close half of the gap to the OECD country efficiency frontier by 2021.

- **Transfers and subsidies**, by more rigorous means testing of household income support programs and rationalization of subsidies to enterprises which have tended to exceed budget allocations in recent years.

The composition of such an expenditure-reduction package would substantially mitigate the contractionary effect of lower spending on economic activity. In particular, health and education savings derive from efficiency gains, and as such should preserve the level of provided services while releasing resources for use elsewhere in the economy. As regards pensions, raising the retirement age could boost current consumption, while lowering retirement income relative to the returns from working should limit early retirement and boost the labor force. Finally, to the extent that these expenditure savings create room for front-loading high-multiplier public investment (see ¶29), the growth impact of the consolidation would be further mitigated.

On the ***revenue side***, staff urged the introduction of a modern, broad-based property tax, in line with Fund technical assistance recommendations, by January 1, 2017. Given its non-distortionary nature, and that property in Slovenia is taxed well below that in comparator countries, staff argued that the aim of the new tax should be to increase substantially property tax revenue in the medium term. In addition, staff supported the authorities' intention to shift the burden of taxes away from labor, as this would appropriately reduce labor costs and support employment growth. The resulting revenue loss should be offset by raising excise taxes on fuel given the current low energy prices, and tightening transfer pricing rules to raise corporate income tax receipts.

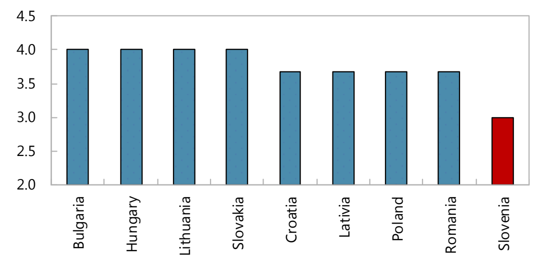
29. Fiscal adjustment via structural, rather than one-off, measures is critical to strengthen credibility. By providing confidence about the ultimate objectives of fiscal policy, a credible medium-term consolidation plan could give the authorities additional flexibility for discretionary measures in case economic developments turn out worse than projected. In particular, provided the overall fiscal consolidation effort is underpinned by credible reforms, the authorities could consider front-loading capital spending, including through acceleration of EU-funded projects. Front-loading capital spending would be justified given the currently low level of government borrowing costs (Figure 7), and the temporary interest savings brought by the ECB's QE (*Selected Issues*, ECB Quantitative Easing: Implications for Fiscal Policy).

30. The authorities agreed on the need for substantial fiscal consolidation over the medium term and broadly shared staff's suggestions on areas ripe for reform. They were disposed to underpinning medium-term consolidation by structural fiscal reforms, as this would improve budget implementation and allow them to address unforeseen shocks without damaging credibility. In this context, they agreed that the expenditure areas suggested by staff needed to be addressed, particularly pension spending in view of Slovenia's demographics, but cautioned that building consensus for specific reform measures would take time. On wages, they noted that the negotiations would be difficult as civil servants' labor union expectations are high. On health, the government has completed a number of expenditure analyses and plans to prepare legislation in 2016 to reform the system.

C. Structural Reforms

31. Extensive state ownership may be impeding growth. Slovenia's SOEs' share of employment and assets in the economy is one of the highest in the EU and OECD. SOEs are also more indebted and less profitable than are their peers as weaknesses in corporate governance likely reduce corporate profitability and productivity.[8] Over the period 2004–13, the return on equity of SOEs was more than 15 percent lower across almost all sectors relative to privately-owned domestic firms; SOEs' total factor productivity was lower as well. The strategy for managing SOEs adopted in 2015 is a step forward in introducing economic and commercial principles based on OECD guidelines on SOE management. However, the strategy calls for the state to retain direct control over too many large companies, including in sectors where other OECD and EU countries have not, as a rule, sought to retain state control (e.g., consumer goods and tourism). The Slovenia Sovereign Holding (SSH) plans to fully privatize only a small fraction (by book value) of the companies it owns. Moreover, the authorities have now postponed indefinitely the sale of the large Telekom Slovenije after the unsuccessful attempt to dispose of it in 2015, despite its designation for speedy privatization by parliament in 2013.

EBRD Index of Large-Scale Privatization
(NMS-10)



Y-axis scale is a transition indicator. Country-specific scores reflect the judgment of the EBRD about progress toward standards and performance (a score of 4+) typical in advanced industrial economies with more than 75 percent of enterprise assets privately held.

Source: EBRD (2015)

32. Staff recommended that the current approach to state ownership be revised. The approach carries the risk of continuing low productivity growth, low profitability, and insider capture in SOEs and prevents a faster and much-needed reduction of public debt. For the planned revision of the state asset management strategy this summer, staff recommended:

- **Faster and more comprehensive privatization accompanied by a stronger regulatory framework:** The number of companies where the state wants to retain control by designating them as "strategic" or "important" should be significantly reduced. In addition, the restriction that no private investor may hold a stake larger than the state's in the "important" companies should be lifted, as it prevents the entry of strategic investors, which has negative implications for these firms' performance and governance. Moreover, staff strongly urged the restart of the privatization of Telekom Slovenije, for the reasons mentioned above, and the removal of any remaining legal and financial uncertainties prior to its sale. At the same time, a review of the regulatory frameworks in infrastructure and natural monopoly sectors should ensure that they can adequately prevent abuses of market power by the newly privatized companies.

- **Improved SOE governance**: Staff supported the strategy's provision for setting profitability and other performance targets for SOEs. These targets should aim at performance

[8] EC Slovenia Country Report, March 2015.

comparable to that of private companies in the corresponding sectors of the economy, with due adjustment for the public service role that some SOEs provide. The targets should encourage disposal of the non-core assets owned by the SOEs, including cross-ownership in other SOEs. Setting targets should also be accompanied by a robust and credible process of verification of their achievement and accountability for misses.

33. The business environment has improved, but still remains a constraint on growth. Slovenia improved in rankings that include macroeconomic indicators (see table), while still remaining below the leaders in the world. Red tape was reduced as the new insolvency framework simplified procedures.[9] Nonetheless the length of in-court debt restructuring proceedings remains substantial (129–292 days) and the recovery rate on in-court restructurings is relatively low, averaging 37 percent.[10] In addition, a survey of foreign investors by the Slovenian public agency for the promotion of investment (Spirit) found no tangible improvement in business sentiment in 2015. Respondents identified a lack of qualified personnel, high labor costs, late payments, and an inefficient judicial system as problem areas.

Slovenia Competitiveness Rankings

	2016	2015	Change 2/
WEF	59	70	+11
World Bank	29	35	+6
IMD 1/	49	55	+6

Sources: The World Bank Group Doing Business 2016; World Economic Forum Global Competitiveness Report 2015-16; IMD World Competitiveness.

1/ Rankings are for 2015 and 2014, respectively.

2/ A positive change signals a relative improvement.

34. Structural reforms that further improve the broader business environment would raise potential growth. Drawing on recent developments and previous work (Figure 8), staff recommended attention to policy shortfalls in areas where (i) the estimated gain from improvement is large, and (ii) the distance from EU and world best practices is significant.[11] Specifically:

- *Judicial system:* raise the recovery rate in insolvency proceedings and speed up the process; protect property rights in both in-court and out of court settlements;
- *Company financing:* reduce obstacles to foreign ownership and investment and facilitate equity financing, including the development of new instruments to support equity and debt financing for SMEs by the export and development bank (SID) and the Slovenian Enterprise Fund, utilizing EU funds as appropriate;
- *Education and R&D:* eliminate skills mismatches by tailoring educational fields financially supported by the state to the needs of the market place;
- *Governance and corruption:* reduce the perception of favoritism to specific companies in decisions of government officials, strengthen the independence of the Commission for

[9] See "Legal and Institutional Challenges in Corporate Insolvency" in IMF Country Report No. 15/42.

[10] See "Policy Strategy Paper for Slovenia, 2015," Bank of Slovenia, December 2015.

[11] See "Structural Reforms To Support Slovenia's Recovery" in IMF Country Report No. 15/42.

Prevention of Corruption, and amend, as planned, the AML/CFT framework to cover domestic politically exposed persons.

35. The authorities held similar views on most structural reforms. They emphasized their commitment to assessing SOE management performance based on objective criteria and agreed that the upcoming revision of the state asset management strategy presents an opportunity to review the list of companies where the state would retain control. The authorities favored fostering greater reliance on equity funding in the private sector and will continue to explore ways to do so. They also saw the mismatch between job requirements and worker skills as an impediment to employment growth and are discussing education reforms to address this issue.

STAFF APPRAISAL

36. While growth has returned, Slovenia could grow faster and more sustainably. To sustain the reasonable growth rates from 2014–15 given the expected drop in public investment, private investment needs to play a much stronger role than at present. This would buttress capital formation and productivity, strengthening actual and potential growth over the medium term. Moreover, important fiscal and financial vulnerabilities need to be addressed.

37. Swift policy actions are needed to stimulate private investment and reduce vulnerabilities. There are four key priorities: (i) move NPLs off state-owned banks books and encourage SME balance sheets repair; (ii) divest state-owned banks and nudge banks to rethink their business models; (iii) put in place a comprehensive fiscal adjustment package underpinned by structural measures; and (iv) reform and privatize more SOEs, and address key bottlenecks in the business environment.

38. It is time to decisively deal with bank NPLs and SME debt. Lingering non-performing loans and excess corporate debt, particularly on SME books, impair the credit channel for investment. The new guidelines for SME NPL resolution are an important step to address NPLs of viable SMEs. A privately-funded entity (SPV) to bundle and sell non-performing SME loans, established with the state's support, would help resolve NPLs even more quickly.

39. Continued state control of banks creates risks of interference in their lending decisions. Business decisions in the state-owned banks should continue to be based on commercial principles, maintaining an arms-length relationship with the state. To improve the chances for successful bank sales, the authorities should reconsider their plan to limit the stakes of potential investors. And the planned sale of Abanka only by July 2019 is an unnecessary delay that would miss an opportunity to restore a fully competitive market for bank services and may negatively affect the bank's performance.

40. BAMC's operational independence should be respected. This will allow BAMC's management to carry out its mandate to maximize the value of its claims, thereby lowering the final cost of the 2013 bank bailout.

41. **Bank business models need considerable adjustment to profitably weather a prolonged period of low interest rates.** Low bank profits pose risks to bank capital and thus financial stability in the event of an adverse shock. To thrive sustainably, banks need to proactively and substantially reconsider their cost structures and revenue sources. At the same time, banks should maintain adequate lending standards to avoid a resurgence of NPLs.

42. **The narrowing of the budget deficit over the last two years is only the first step to putting the fiscal house in order.** The planned adjustment in 2016 is also welcome. But the deficit and debt will start rising again in 2017 under current policies. Barring large adverse shocks, we recommend an annual structural adjustment effort of 0.6 percent of GDP in primary terms until the overall structural balance reaches zero. Afterwards, the structural balance should be held at zero until debt falls below 60 percent of GDP.

43. **The needed fiscal adjustment should be achieved through a comprehensive package of structural reforms to strengthen policy credibility**. A key element in such a strategy would be a multi-year agreement with labor unions that keeps the wage bill affordable. In addition, efficiency-improving reforms can save money in the health and education sectors without undermining the quality of service. Pension reforms, such as further extending the retirement age and indexing pensions to consumer price inflation, are also critical in view of the deteriorating demographics. Growth-friendly revenue measures, such as the introduction of a real estate tax, would help as well. A revenue-neutral reduction in labor taxes would support employment creation.

44. **Aggressive SOE reform, coupled with further improvements in the business environment, could boost potential growth.** The number of companies where the state plans to retain control should be significantly reduced. Performance criteria set for SOE managers should aim at performance comparable to that of private companies and should encourage disposal of the non-core assets owned by the SOEs. Moreover, changes to facilitate greater equity financing and reduce the job-skills mismatch would also invigorate employment and investment.

45. **It is proposed that the next Article IV consultation be held on the 12-month cycle.**

Box 1. Financial Sector Developments

Slovenia's financial system has assets of about 150 percent of GDP and is bank centered. Banks account for about 70 percent of assets with the remaining roughly equally split between insurers, pension and investment funds, and leasing companies. After the capital injections in 2013–14, bank ownership is concentrated in the central government, with 63 percent of the total sector's equity, while other domestic entities control about 7 percent of the sector, and non-residents about 30 percent. Market share is concentrated with the largest domestic banks controlling about 57 percent of the sector's assets on a consolidated basis, small domestic banks 8 percent, and banks under majority foreign ownership 35 percent.

Imbalances and vulnerabilities in the system have compounded the effects of the global financial crisis. The rapid foreign-borrowing financed credit expansion in 2005–07 led to a significant increase in corporate leverage and heightened bank credit risk besides the maturity mismatches between funding and lending. The global financial crisis brought a sudden stop of capital inflows, a sharp economic contraction, and a protracted deleveraging process that reinforced the recession. As a resulted, NPLs (mainly from corporates) increased sharply, peaking at over 17 percent of total loans in mid-2013 and impairing the balance sheets of banks and corporates in a protracted process. The difficulties faced by corporates led to a rapid deterioration in the quality of banks' portfolios that reduced banks' capital and increased solvency risks. In 2013 a comprehensive asset quality review of eight banks determined that foreign banks had a capital shortfall of 78 percent relative to the capital levels reported in September 2013 while banks under domestic ownership showed a shortfall of 244 percent. The crisis exposed inadequate bank governance and risk management practices that allowed endemic connected lending and lax risk controls, especially for state-owned banks. Likewise, significant weaknesses in corporate management and governance (including through state ownership) were also exposed.

A number of actions were adopted by the authorities. *Bank Recapitalization*—the banking crisis in Slovenia led to bailouts with the recapitalization of six state-owned banks in 2013–14 at a total cost of about 12 percent of GDP for the state. ***Transfer of NPLs***—the establishment of the Bank Asset Management Company (BAMC) in late 2012 allowed the transfer of 53 percent of the €9.4 billion in non-performing claims from five of the recapitalized government banks by end 2014, primarily involving large domestic corporates. Of the current NPLs with banks, SMEs represent 42 percent. ***Corporate Insolvency Framework***—the 2013 reform opened more options to help address corporate debt overhang, including compulsory settlements and voluntary multilateral restructuring agreements (MRAs). Besides banks, BAMC also implements MRAs. ***Supervisory Actions***—to monitor and support restructuring of NPLs the BOS established reporting requirements, including 3-year management plan and restructuring strategy, asset reclassification, release of impairment provisions. Despite all these actions, most MRAs involve debt re-profiling, but not debt reduction, new financing, nor recapitalization.

Balance sheets of both banks and corporates remain impaired with the repair process proceeding slowly. In December 2015, system wide NPLs were at 9.9 percent (€3.5 billion, of which NFCs represented 60 percent) and overall capital ratios were at 18.8 percent (CAR) and 18.1 percent (core tier 1). However, credit to the private sector was still contracting by 5.7 percent total and 10.2 percent to NFCs (y-o-y) in December 2015 and the income generation capacity of banks is limited. Bank profitability was still low, with ROE and ROA at 4.2 and 0.5 percent, respectively, after highly negative readings since 2010, and net interest margin of 2.1 percent.

Annex I. External Assessment

Overall Assessment

The external position in 2015 was generally strong, while some vulnerabilities remain. The IMF's current account (CA) approach suggests that the current account (CA) surplus was substantially stronger than expected given medium-term fundamentals and desirable policies even though policy gaps are close to zero. The REER approach suggests the exchange rate was broadly in line with fundamentals in 2015. However, external liabilities and debt remain high and vulnerabilities arise from: (i) high external debt of the government and corporations and (ii) Slovenia's trade openness, which could amplify the impact of external shocks (e.g. changes in partner country growth, the euro exchange rate, or capital flows). With debts of banks and corporations declining, a rebound in consumption and investment is likely to reduce the CA surplus over the medium term.

Foreign Asset and Liability Position and Trajectory

Background: Net external liabilities rose considerably prior to, and after, the global financial crisis (GFC). From 2007 to 2012, the net international investment position (IIP) fell from -25 to -50 percent of GDP. Current account (CA) surpluses after 2011 improved the net IIP to -38 percent of GDP (Figure A1).

From end-2007 to end-2012, Slovenia's gross external debt rose from 102 to 119 percent of GDP, before falling to 116 percent of GDP at end-2015. Banks significantly reduced external debt, which fell from 46 to 14 percent of GDP from end-2007 to end-2015. By contrast, government external debt rose from 9 to 59 percent of GDP, due to policies to offset the effects of the GFC and to recapitalize the banks. The external debt of other sectors—mainly corporations—remained at around 40 percent of GDP.

Over the next 5 years, with CA surpluses projected at 4–7 percent of GDP, the IIP should improve rapidly, nearing balance in 2021. Firms' external debt could fall by as much as 20 percent of GDP. But with government external debt projected to rise further and banks' external debt near historic lows, overall external debt is unlikely to fall much below 100 percent of GDP (see External DSA).

Assessment: Projected large external surpluses out to 2021 will result in a substantial reduction in net external liabilities and accumulation of external assets. The main vulnerabilities arise from high external government debt and significant trade openness (exports and imports comprise around 80 and 70 percent of GDP, respectively), which could amplify risks arising from changes in real exchange rates or partner country import demand. Policies to reduce government debt would mitigate these risks.

Current Account

Background: Before the GFC, Slovenia experienced rapid growth and strong increases in exports and imports. In 2007, the CA balance stood at -4 percent of GDP.

Following both the GFC (2007-09) and Slovenia's banking crisis (2011-2013), the CA balance improved by around 4 percent of GDP. The improvement following the GFC was due to a sharp drop in private investment, which offset a decline in private savings. The improvement following the banking crisis stemmed from a rise in private savings as consumption dropped and a moderate drop in investment.

From 2011 to 2015, Slovenia's CA balance rose from 0.2 to 7.3percent of GDP. The improvement was driven by exports of goods and services, which rose by 15.6 percent in euro terms, in line with import growth in major markets (e.g. Germany and Austria). The increase in Slovenia's imports of goods and services in value terms (3.2 percent) was less rapid than the increase in nominal GDP (4.5 percent), and less rapid than the rise in exports.

Over the next 5 years, staff projects surpluses will continue—albeit at a lower level (Figure A2). Robust import growth in trading partners should underpin further expansion in exports, while staff projects continued economic recovery in Slovenia will raise imports faster than exports, reducing the trade and CA surpluses.

Assessment: The current account approach suggests that Slovenia's 2015 external balance was 7½ to 9½ percent of GDP stronger than indicated by fundamentals and desirable policies. The model predicts a country similar to Slovenia would have a CA balance of -1¼ percent of GDP versus an actual surplus of 7¼ percent of GDP. The model estimates policy gaps at close to zero, with factors not captured by the model contributing to the remaining difference between the norm and actual CA. Such factors could include Slovenia's integration into the European supply chain and constrained demand due to the recent banking crisis and still high company debt. While the model takes account of output gaps, it likely underestimates the impact on Slovenia. The estimated coefficient is based primarily on normal recessions rather than financial crises, and trade is much more significant for Slovenia's economy (exports and imports comprise about 80 and 70 percent of GDP, respectively) than for most countries. Thus, the financing constraints imposed by Slovenia's banking crisis would lead to a stronger decline in imports in Slovenia than the typical response in the sample of countries on which the model is estimated.

Real Exchange Rate

Background: Measured by consumer prices, Slovenia's real effective exchange rate (REER) has remained relatively stable over the last 15 years, with deviations of less than 5 percent (Figure A2). Measured by unit labor costs (ULC) from 2001 to 2009, Slovenia's REER appreciated significantly and more rapidly than trading partners, rising more than 20 percent. From 2009 to 2015, the ULC REER depreciated 8 percent, with most of the decline occurring after the 2012–13 banking crisis.

Assessment: According to the IMF's real exchange rate approach, Slovenia's REER is broadly in line with fundamentals and desirable policies. The point estimate suggests overvaluation of 4 percent ±5 percent. The estimated REER from the model generally tracks Slovenia's actual REER, with relative productivity and increasing trade openness the primary drivers of changes.

Capital and financial accounts: flows and policy measures

Background: From 2001 to 2015, net FDI flows remained small (especially relative to Slovenia's neighbors), accounting for less than 5 percent of GDP per year. Prior to the GFC, other investment inflows (dominated by external borrowing, trade credits, and non-resident deposits) outpaced net portfolio outflows (dominated by purchases of debt securities).

After the GFC, this pattern reversed, with residents selling external portfolio assets to finance a reduction in external loan liabilities (particularly by banks). The 2012–13 banking crisis accentuated this pattern.

Assessment: An open financial account exposes Slovenia to external shocks and changes in investor sentiment, but the CA surplus and recapitalization of the banks reduces these vulnerabilities. Policies to strengthen the banking system and encourage corporations to reduce leverage would help mitigate risks.

Foreign Exchange Intervention & the Level of International Reserves

Background: The euro is a free-floating, global reserve currency.

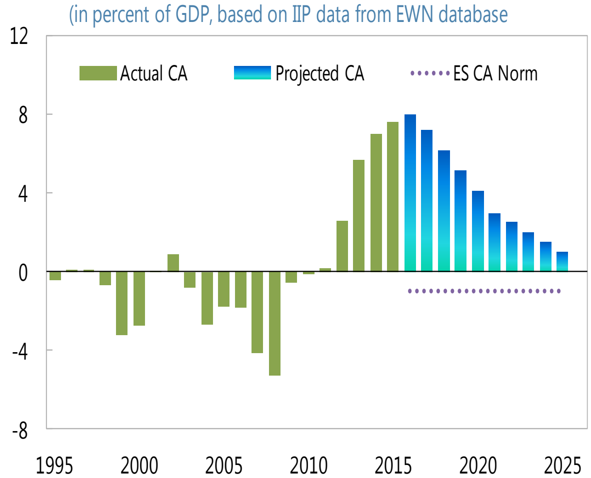
Assessment: Reserves held by the euro area are typically low relative to standard metrics, but the floating exchange rate reduces this vulnerability.

Potential Policy Responses

IMF assessment methods do not suggest the presence of large policy gaps. Nonetheless, further fiscal consolidation and stronger privatization efforts are necessary to reduce public and external debt (83 and 116 percent of GDP, respectively). Moreover, continued efforts to strengthen the banking system—by completing the process of resolving NPLs generated during the GFC and Slovenian banking crisis—and reducing corporate debt, which hinders private investment, would reduce external vulnerabilities and promote more rapid growth.

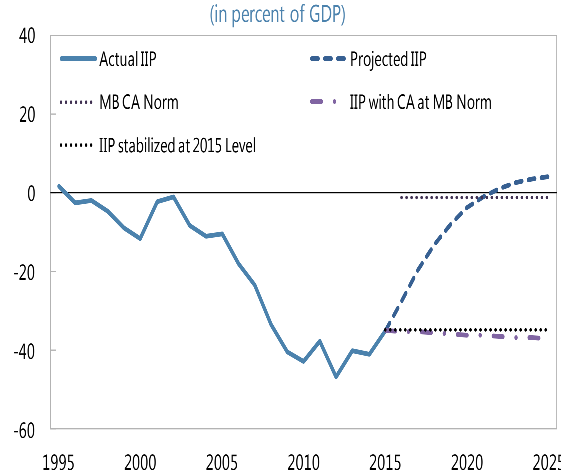
Figure A1. Developments in External Assets and Liabilities, Actual and Projected

Current Account and Net IIP: Actual & Projected
(in percent of GDP, based on IIP data from EWN database



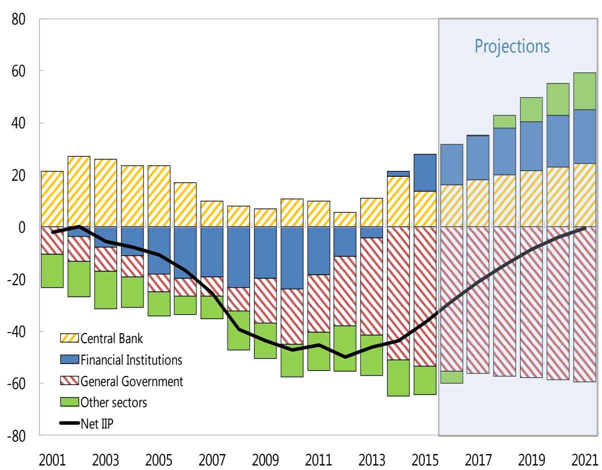
Source: Bank of Slovenia, IMF WEO, and IMF staff estimates.

Net IIP: Actual & Projected
(in percent of GDP)



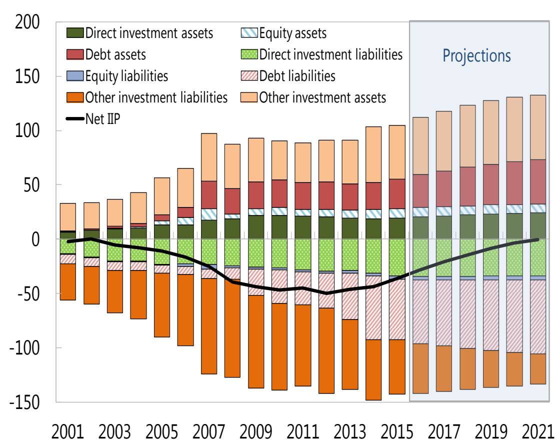
Source: Bank of Slovenia, IMF WEO, and IMF staff estimates.

Net International Investment Position, by Sector
(in percent of GDP)



Sources: IMF BOPS, IMF WEO

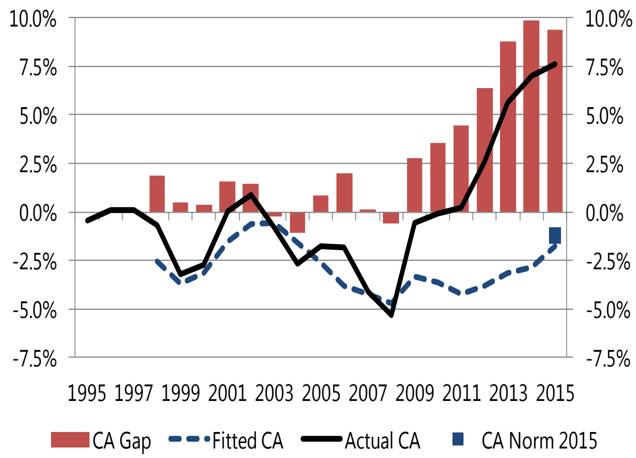
Net International Investment Position, by Instrument
(in percent of GDP)



Sources: Bank of Slovenia; Haver Analytics; and IMF staff estimates.

Figure A2. Estimated Current Account and Real Exchange Rate Gaps

CA: Actual, Fitted, and Gap

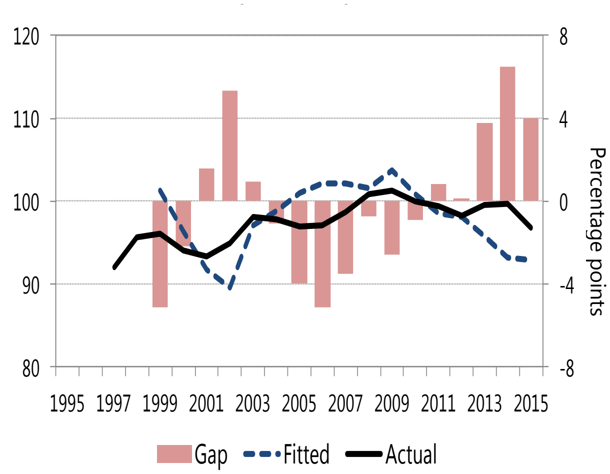


Estimated Policy Gaps[1]

Actual CA	7.3%
CA Norm	-1.2%
CA Gap	**8.5%**
Policy Gap	-0.5%
Fiscal	-0.6%
Reserves	-0.1%
Credit	0.1%
Capital Controls	0.0%
Residual	9.1%

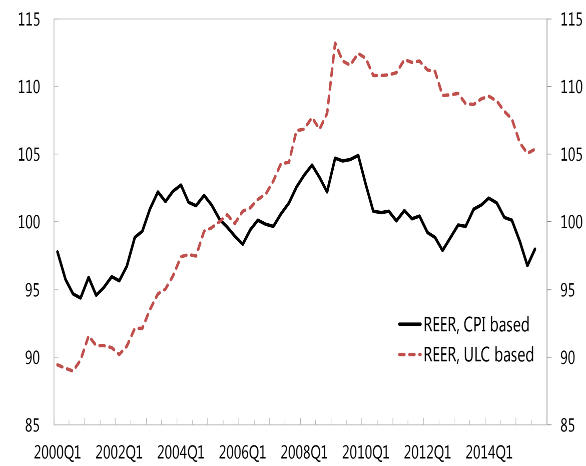
[1] Gaps calculated as the impact on the current account (as a percent of GDP) of the difference between actual and desired policies. See https://www.imf.org/external/np/res/eba/data.htm.

REER: Actual, Fitted, and Gap (Index, 2010= 100)



Real Effective Exchange Rate

(2010 = 100)



Sources: IMF GDS database

Annex II. Risk Assessment Matrix (RAM) 1/

Source of Risk	Likelihood of Risk	Time Horizon	Expected Impact	Policy Response
External risks				
Sharper-than-expected global growth slowdown: • in China • in other large emerging/frontier markets; • structurally weak growth in key advanced and emerging economies (weak demand and low inflation in euro area and Japan; tighter financing conditions and insufficient reforms in EMs);	**Low/ Medium** **Medium** **High/ Medium**	**Short/ Medium Term** **Short Term** **Medium Term**	**Medium** Lower exports and growth. Slower re-building of bank and company balance sheets through retained earnings. A higher budget deficit and public debt relative to GDP would exacerbate medium-term fiscal vulnerabilities.	Step up NPL resolution to stimulate investment. Put in place structural reforms that strengthen both domestic demand and potential growth, such as measures to encourage employment. Accelerate SOE privatization to raise productivity and reduce debt. Carefully design a fiscal consolidation plan with a focus on measures that exact minimal toll on output (e.g., reforms to the pension system).
Tighter or more volatile global financial conditions, due to sharp asset price decline and decompression of credit spreads.	**Medium**	**Short Term**	**Medium** More expensive bank funding and credit.	Accelerate development of equity and bond financing. Strengthen monitoring of banks, including by stress tests tailored to the more adverse environment.
Domestic risks				
Failure to complete the clean-up of bank and company balance sheets, including the SOEs.	**Medium/ High**	**Short/ Medium Term**	**Medium** Credit for private investment fails to recover and GDP growth and job creation remain suboptimal.	Step up NPL resolution. Push for faster corporate debt restructuring with an enhanced role of BAMC. Reduce the scope of companies slated to remain under state control.
Failure to put in place credible reform-based consolidation plan to rebuild fiscal buffers and address medium-term challenges.	**High**	**Medium Term**	**Medium** Debt sustainability concerns erode market confidence and push up borrowing costs. Fewer resources available for policy priorities.	Announce and implement a comprehensive consolidation strategy with measures that address spending inefficiencies (health, education), reform the pension system faster, and close revenue gaps (e.g., a new real estate tax).

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex III. Implementation of the 2014 Article IV Key Recommendations

Key recommendations	Actions
Strengthen resilience to shocks	
Aim for a structural primary fiscal adjustment of ¾ percent of GDP	Secured structural primary adjustment of 0.5 percent of GDP in 2015; 2016 projections imply a structural primary adjustment of 0.4 percent of GDP; adopted Fiscal Rule law.
Implement new property tax system	Plan to phase in a new system from 2017; received IMF technical assistance on its design.
Reform pension and health sector	Published a white paper on pension reform for consultations; completed expenditure review on health care.
Reform public administration, including procurement	Adopted revised law on public procurement.
Improve monetary policy transmission	
Address non-performing loans, including through further transfers to BAMC	Reduced NPLs to below 10 percent; provided guidelines to banks for SME NPL restructuring. The BAMC plans to obtain further claims on its debtors where this will help the asset recovery process.
Privatize state-owned banks	Sold the third-largest bank (NKBM); started the procedure to privatize the largest bank (NLB); merged two large banks with intent to privatize merged entity (Abanka) by 2019.
Improve credit risk monitoring	Provided guidelines to banks to develop early warning systems of credit distress.
Implement a centralized credit registry	Upgrade of the central credit register underway.
Pave the way for sustainable long-term growth	
Intensify privatization efforts	Moderate progress in selling the 15 firms identified in 2013 for privatization. The sale of the largest firm on this list (Telekom Slovenije) has been postponed indefinitely.
Manage state-owned assets independently	Approved State Asset Management Strategy and plan for 2016, which are steps to bringing SOE oversight and management in line with OECD guidelines. However, the strategy calls for continuing state control over wide segments of the economy.
Safeguard the independence of BAMC	Dismissed CEO and several board members over pay disputes, which undermined perceptions that the BAMC is independent. Amended the BAMC law to clarify that the state should not interfere in the BAMC's case work.
Utilize legal tools to restructure firm debts	Facilitated bank-led debt restructurings of large firms that include debt-to-equity swaps and write-offs.

Annex IV. Potential Output Calculation

1. **Potential output is estimated using a production function methodology.** The approach employs a standard Cobb-Douglas production function and removes cyclical factors affecting the labor and productivity inputs using the Hodrick-Prescott (HP) filter. The model for the calculation of real potential GDP is:

$$lnPOT_t = lnTFP_t + 0.36 * lnK_t + 0.64 * \ln(WAP_t * LFPR_t * (1 - UNR_t) * AvgHrsWk_t)$$

POT = Real potential GDP
TFP = Total factor productivity
K = Capital stock ($K_t = K_{t-1} + GFCF_t - Depreciation_t$)
WAP = Working-age population (15 – 64)
LFPR = Labor force participation rate (15-64)
UNR = Unemployment rate (LFS harmonized)
AvgHrsWk = Average hours worked

2. **The output gap is projected to close in 2017-18 (Figures 1 and 2).** This is in line with projections in the last Article IV report (IMF Country Report No. 15/42).

Figure 1. Potential growth rate
(Percent)

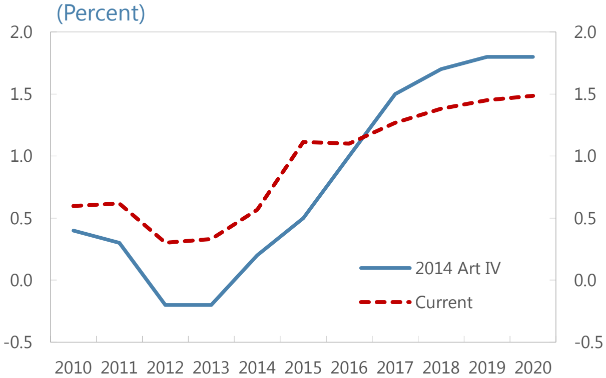
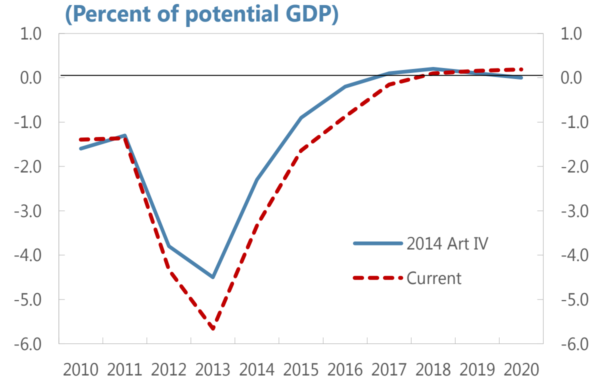


Figure 2. Output gap
(Percent of potential GDP)



3. **Potential output growth is less volatile relative to prior projections.** Three factors drive the revision: (i) two additional years (2014–15) of actual data, with capital, and labor dynamics stronger than previously projected, as well as revision of past data; (ii) updated estimates of key parameters: labor's share of output was reduced to 64 percent from 67 percent based on historical experience (Table 1), and the annual depreciation rate of the capital stock was reduced from 7 to 5 percent in line with convention; and (iii) the TFP trend was updated to reflect the data revision and the new parameter estimates.

Table 1. Share of labor in gross value added
(Percent)

Average compensation of employees (1995–2014)	50.7
Micro-enterprises (2013)	12.3
Share of small- and micro-farmers (2013, estimate)	1.0
Total	64.0

Annex V. External Debt Sustainability Analysis

The gross external debt ratio is projected to fall gradually from 116 percent of GDP in 2015 to 98 percent of GDP in 2021. Between end-2014 and end-2015, external debt fell by 8 percentage points of GDP. External debt of banks and corporations fell by 4 and 3 percentage points of GDP, respectively, while public external debt was little changed. Over the medium term, banks and corporations are expected to further reduce their external liabilities while public financing needs are projected to be mainly met by external borrowing, bringing public external debt to some 68 percent of GDP in 2021. Projected large current account surpluses over the medium term (averaging about 6 percent of GDP) would bring Slovenia's net international investment position to balance by 2021. Beyond 2021, further significant improvement in the external debt-to-GDP ratio will require reductions in the external debt of the government.

External debt dynamics are moderately vulnerable to shocks. With low interest rates over the last several years, a shock to nominal rates would not be expected to materially affect the outlook for external debt. A shock to growth or smaller external surpluses (modeled as a reduction by one-half of a standard deviation relative to the baseline) would push external debt up by about 10 percentage points to close to 110 percent of GDP in 2021. In a scenario with key variables at their historical averages, external debt-to-GDP would rise to almost 150 percent in 2021. However, historical data was driven by debt accumulation by (i) financial institutions ahead of the global financial crisis in 2007 and (ii) the government in the wake of the global crisis and Slovenia's 2012 banking crisis. Since then, banks have been recapitalized and banks and corporations are continuing to deleverage. Thus, a repeat of the historical scenario appears unlikely.

External Debt Sustainability Framework, 2011–2021
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2011	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	Debt-stabilizing non-interest current account 6/
Baseline: External debt	113.0	119.2	116.1	124.2	116.2			**108.9**	**105.5**	**103.0**	**100.9**	**99.2**	**98.5**	**-3.1**
Of which: external public debt	23.6	30.7	43.0	59.3	58.9			57.2	59.3	61.5	63.6	65.6	67.7	
Change in external debt	-3.3	6.2	-3.1	8.1	-8.0			-7.3	-3.4	-2.5	-2.2	-1.7	-0.7	
Identified external debt-creating flows (4+8+9)	-4.4	-1.3	-6.2	-13.2	-7.9			-13.2	-12.7	-11.7	-10.8	-10.0	-9.0	
Current account deficit, excluding interest payments	-3.1	-5.2	-8.2	-9.9	-10.2			-10.6	-10.2	-9.8	-9.1	-8.5	-7.8	
Deficit in balance of goods and services	-1.2	-4.0	-6.9	-7.9	-9.5			-9.8	-9.2	-8.5	-7.7	-7.0	-6.1	
Exports	70.3	73.3	75.2	76.5	77.8			79.1	79.9	81.2	82.6	84.1	85.6	
Imports	69.2	69.3	68.3	68.6	68.3			69.3	70.7	72.7	74.9	77.2	79.5	
Net non-debt creating capital inflows (negative)	-2.2	-1.6	-0.4	-1.9	-3.1			-3.5	-3.4	-3.7	-3.8	-3.8	-3.7	
Automatic debt dynamics 1/	0.9	5.5	2.4	-1.5	5.5			0.9	1.0	1.7	2.1	2.3	2.5	
Contribution from nominal interest rate	2.8	2.8	2.4	2.9	3.5			3.0	3.1	3.5	3.6	3.8	4.0	
Contribution from real GDP growth	-0.7	3.4	1.2	-3.4	-4.1			-2.1	-2.1	-1.7	-1.5	-1.5	-1.5	
Contribution from price and exchange rate changes 2/	-1.2	-0.8	-1.3	-0.9	6.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	1.1	7.5	3.1	21.4	-0.2			5.9	9.3	9.2	8.7	8.3	8.3	
External debt-to-exports ratio (in percent)	160.7	162.7	154.3	162.3	149.3			137.7	132.1	126.9	122.1	117.9	115.0	
Gross external financing need (in billions of US dollars) 4/	13.5	12.1	13.9	10.1	8.4			8.7	7.1	6.3	6.4	5.7	6.6	
in percent of GDP	36.5	33.7	38.6	27.0	21.7	10-Year	10-Year	22.1	17.5	15.0	14.6	12.7	14.2	
Scenario with key variables at their historical averages 5/								**108.9**	**116.8**	**124.2**	**132.3**	**140.4**	**147.6**	**0.4**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	0.6	-2.7	-1.1	3.0	2.9	1.2	4.3	1.9	2.0	1.7	1.5	1.5	1.5	
GDP deflator in US dollars (change in percent)	6.0	-7.4	4.2	0.9	-16.1	0.9	9.1	0.5	2.1	1.5	2.5	2.7	1.8	
Nominal external interest rate (in percent)	2.6	2.3	2.1	2.6	2.4	2.9	1.1	2.6	3.0	3.4	3.6	3.9	4.1	
Growth of exports (US dollar terms, in percent)	11.4	1.6	2.4	5.7	5.1	6.1	10.0	3.9	4.4	4.7	5.4	5.4	5.4	
Growth of imports (US dollar terms, in percent)	11.8	-2.3	-1.6	4.3	2.9	4.8	12.0	3.7	5.5	6.0	6.7	6.7	6.7	
Current account balance, excluding interest payments	3.1	5.2	8.2	9.9	10.2	4.0	4.2	10.6	10.2	9.8	9.1	8.5	7.8	
Net non-debt creating capital inflows	2.2	1.6	0.4	1.9	3.1	0.7	1.5	3.5	3.4	3.7	3.8	3.8	3.7	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

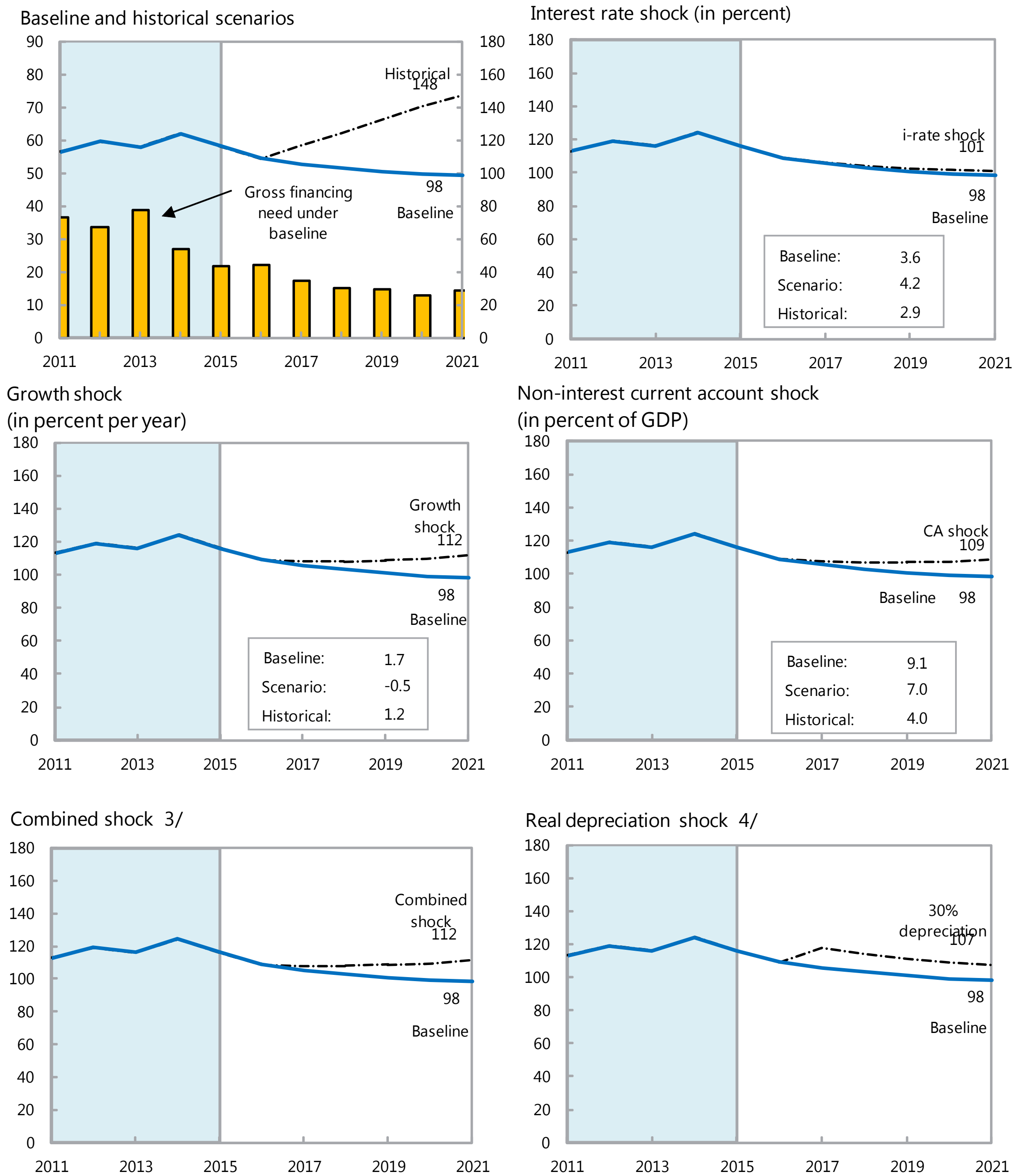
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

Annex VI. Public-Sector Debt Sustainability Analysis

Slovenia's public debt is projected to gradually increase over the medium term in the absence of additional fiscal consolidation. Under staff's baseline scenario, the structural primary balance is expected to improve to 1 percent of GDP in 2016, but start deteriorating from 2017 to reach -¼ percent of GDP by 2021. This will bring public debt to about 87 percent of GDP by 2021, after an expected drop in 2016 driven by the planned drawdown of Treasury's cash buffer to repay debt. Debt dynamics in 2013–14 were dominated by the impact of bank restructuring (which accounts for the large 2013 primary balance forecast error and a 3-year cyclically adjusted primary balance change at the right tail of the cross-country distribution on page 35). The medium-term increase in the debt ratio largely reflects the reversal of earlier adjustment over 2014–16 that is projected to occur without additional measures, with the remaining primary surplus too low to offset the impact on debt dynamics of the unfavorable growth-real interest rate differential.

Slovenia's high and rising public debt ratio is the main area of vulnerability, while debt service is projected to remain manageable, even under most stress scenarios. Under the baseline, the debt ratio remains below its high-risk threshold of 85 percent of GDP through 2019, but above this level in 2020–21. Moreover, it is projected to exceed this threshold under all stress scenarios, in some cases substantially. In terms of debt structure, the share of short-term debt is moderate, and while the share of non-resident holders exceeds the relevant threshold, these holdings are of long maturities, implying manageable limited annual rollover needs. Slovenia's spreads have fallen steadily to low levels. Under the baseline, debt service (e.g., gross financing needs) remains in the 10-13 percent of GDP range during most of the medium term, reflecting extensive pre-financing and the low interest rate environment in the context of ECB's QE. Debt service is projected to remain manageable (i.e., under the high-risk threshold of 20 percent of GDP) under the standard robustness stress tests and scenarios.

Slovenia's debt dynamics are highly vulnerable to specific shocks:

- **Standardized macro shocks**: Sensitivity to **GDP growth shocks** is especially noteworthy—a negative one-standard deviation growth shock over two years would bring the debt ratio to over 108 percent by 2021. This illustrates the importance of reforms to put Slovenia on a high, sustainable growth path.

- **Country-specific shocks**:

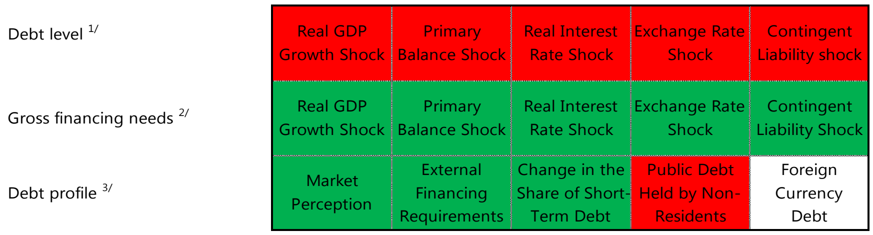
  - **Contingent fiscal liabilities** are a potential source of vulnerability. Excluding guarantees extended to the EFSF and the BAMC (which are part of the general government debt), state guarantees extended to the nonfinancial sector amount to about 12 percent of GDP, and the weak financial position of the borrowers concerned raises the probability that a sizeable portion of these guarantees may be called. To illustrate, calling of half of the guarantees outstanding, accompanied by a transitory negative confidence impact on Slovenia's spread, would bring the debt ratio to over 97 percent by 2021. This highlights the importance of corporate restructuring and reducing the state's direct and indirect involvement in the economy.

- **A combined macro-fiscal shock** (with GDP growth at the level of the adverse growth scenario, inflation and fiscal revenue at the respective minima of the standardized scenarios, and fiscal expenditure, exchange rate, and interest rate spread at the respective maxima of the standardized scenarios) would also result in explosive debt dynamics, with debt close to 115 percent of GDP by the end of the projection period, highlighting the importance of a credible medium-term fiscal policy.

An active scenario of fiscal adjustment along the lines of staff's recommendations can put debt dynamics on a firmly downward path. Adoption of additional structural fiscal measures amounting to about 3 percent of GDP over the next few years would bring the debt ratio down to 75 percent by 2021 and 60 percent by 2026, even as medium-term growth may be somewhat lower, as a result of the fiscal headwinds. Policies to strengthen private investment and productivity, as described in the staff report, could more than overcome these headwinds.

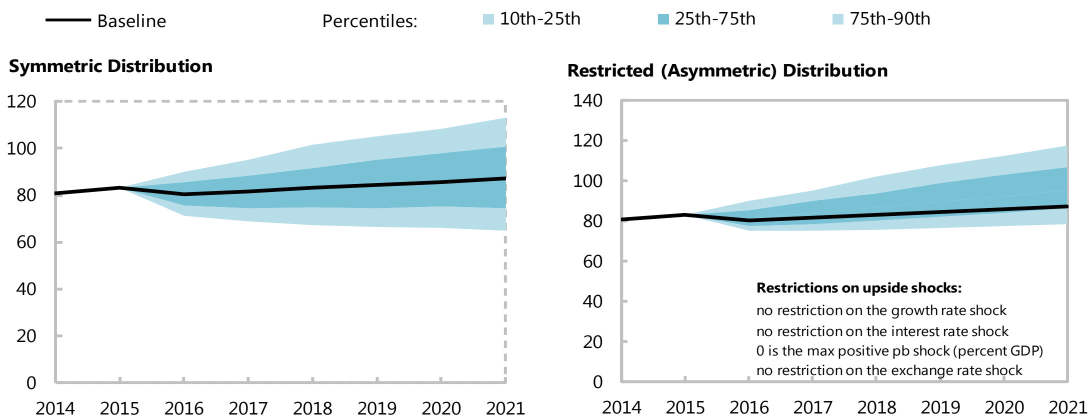
Public DSA–Risk Assessment

Heat Map



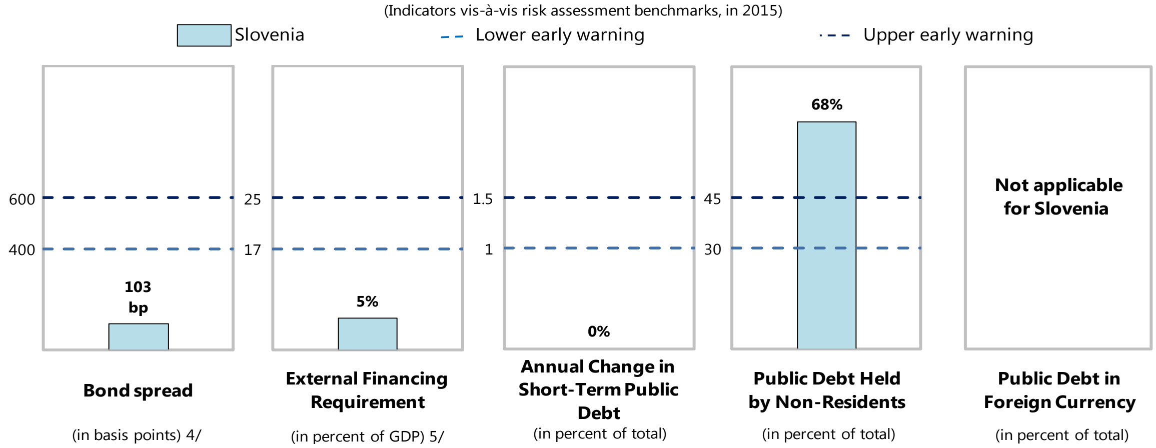
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: IMF staff calculations.

1/ The cell is highlighted in green if debt burden benchmark of 85% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 20% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

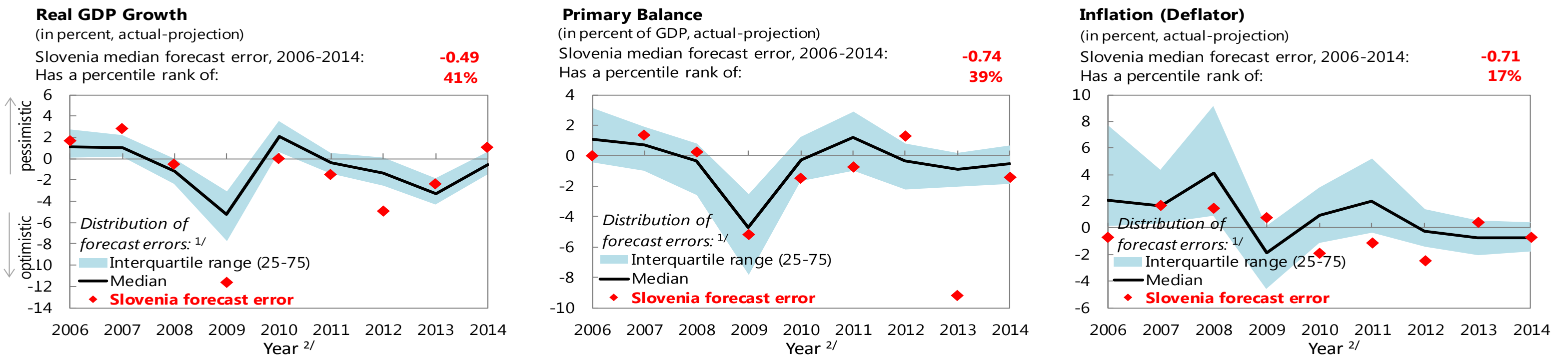
400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 01-Jan-16 through 31-Mar-16.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

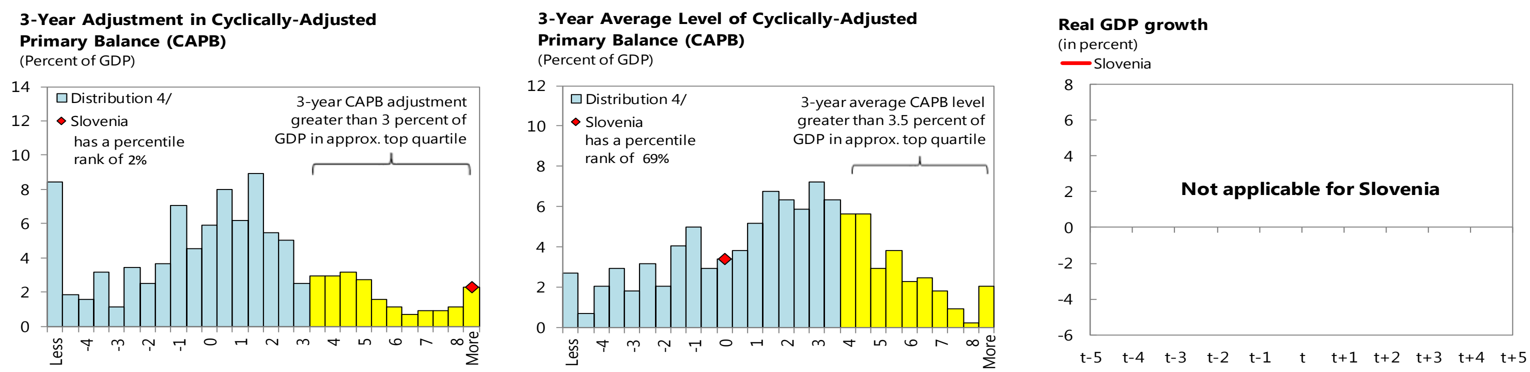
Public DSA–Realism of Baseline Assumptions

Forecast Track Record, versus surveillance countries



Assessing the Realism of Projected Fiscal Adjustment

Boom-Bust Analysis 3/



Source : IMF staff calculations.

1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries; 2013 primary balance forecast error largely reflects higher than projected bank recapitalization costs.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Slovenia, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Public Sector Debt Sustainability Analysis (DSA)–Baseline Scenario

(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

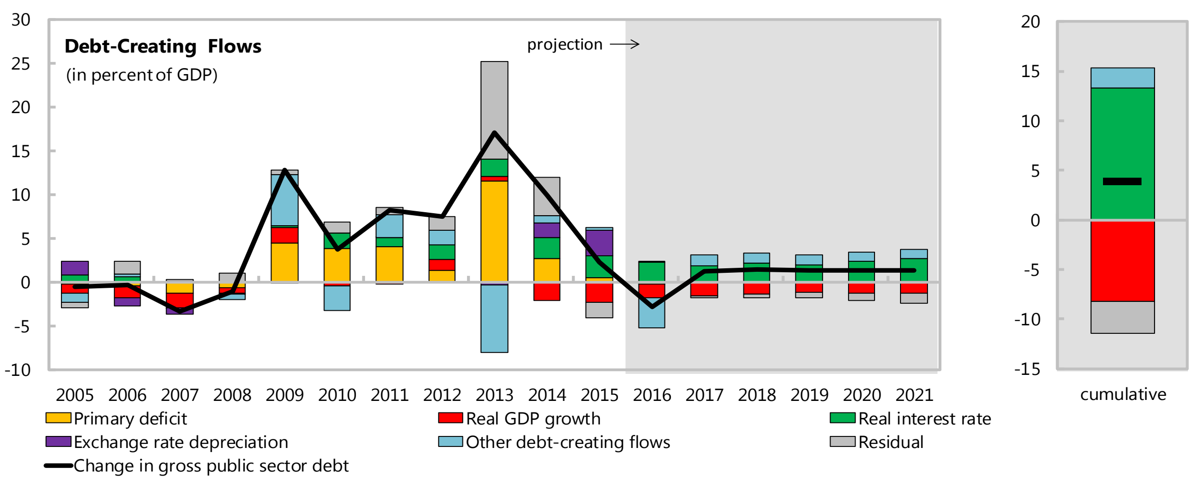
	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	37.8	81.0	83.2	80.4	81.6	83.1	84.4	85.8	87.1
Public gross financing needs	8.9	16.0	8.7	11.5	9.9	9.3	10.7	9.7	12.3
Real GDP growth (in percent)	1.1	3.0	2.9	1.9	2.0	1.7	1.5	1.5	1.5
Inflation (GDP deflator, in percent)	1.9	0.8	0.4	0.4	1.3	1.4	2.0	2.0	2.0
Nominal GDP growth (in percent)	3.1	3.9	3.3	2.3	3.4	3.1	3.5	3.5	3.6
Effective interest rate (in percent) [4/]	4.3	4.5	3.6	3.2	3.7	4.2	4.5	5.0	5.2

As of March 31, 2016

Sovereign Spreads		
EMBIG (bp) 3/	97	
5Y CDS (bp)	102	
Ratings	Foreign	Local
Moody's	Baa2	Baa2
S&Ps	BBB	BBB
Fitch	BBB+	BBB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [10/]
Change in gross public sector debt	4.9	9.9	2.3	-2.8	1.2	1.5	1.3	1.3	1.3	3.9	
Identified debt-creating flows	3.0	5.5	4.0	-2.9	1.5	2.0	1.9	2.2	2.5	7.2	
Primary deficit	2.5	2.8	0.5	-0.2	0.1	0.0	0.0	0.0	0.1	-0.1	2.4
Primary (noninterest) revenue and gra	40.7	41.5	40.8	40.6	40.2	40.3	40.4	40.5	40.5	242.5	
Primary (noninterest) expenditure	43.2	44.3	41.3	40.4	40.3	40.3	40.4	40.5	40.6	242.4	
Automatic debt dynamics [5/]	0.6	1.9	3.2	0.7	0.2	0.8	0.8	1.1	1.4	5.1	
Interest rate/growth differential [6/]	0.7	0.3	0.2	0.7	0.2	0.8	0.8	1.1	1.4	5.1	
Of which: real interest rate	0.9	2.4	2.5	2.3	1.8	2.2	2.0	2.4	2.6	13.3	
Of which: real GDP growth	-0.2	-2.1	-2.3	-1.5	-1.6	-1.3	-1.2	-1.2	-1.3	-8.2	
Exchange rate depreciation [7/]	0.0	1.7	3.0	…	…	…	…	…	…	…	
Other identified debt-creating flows 8/	-0.2	0.8	0.3	-3.5	1.2	1.1	1.1	1.1	1.0	2.1	
FIS: Other (specify, e.g. bank recapital	-1.4	-6.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FIS: Other financing sources	1.2	6.9	-0.1	-3.5	1.2	1.1	1.1	1.1	1.0	2.1	
Residual, including asset changes [9/]	1.9	4.4	-1.8	0.1	-0.2	-0.5	-0.6	-0.9	-1.1	-3.3	



Source: IMF staff calculations.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ For projections, includes equity injections in public enterprises

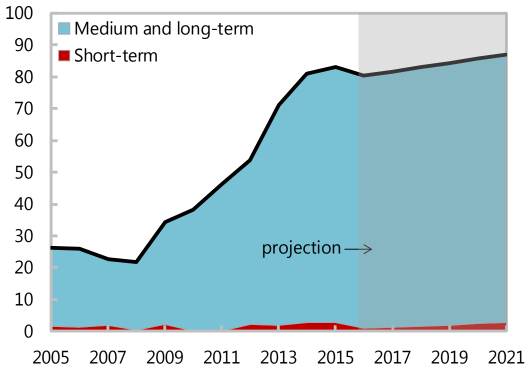
9/ Includes asset changes and interest revenues (if any). For projections, includes BAMC asset recoveries and exchange rate changes during the projection period.

10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

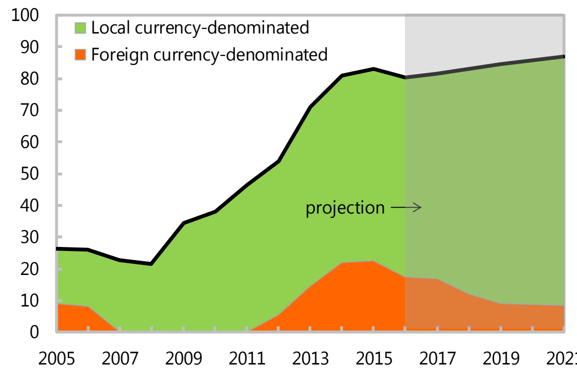
Public DSA–Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



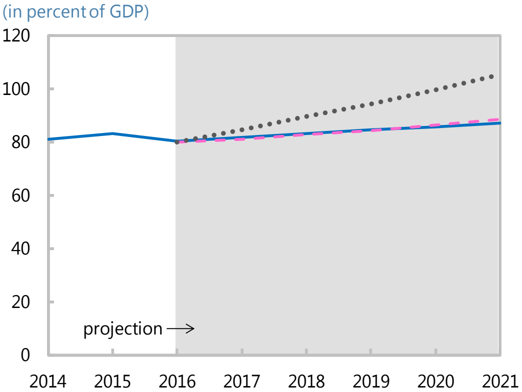
By Currency
(in percent of GDP)



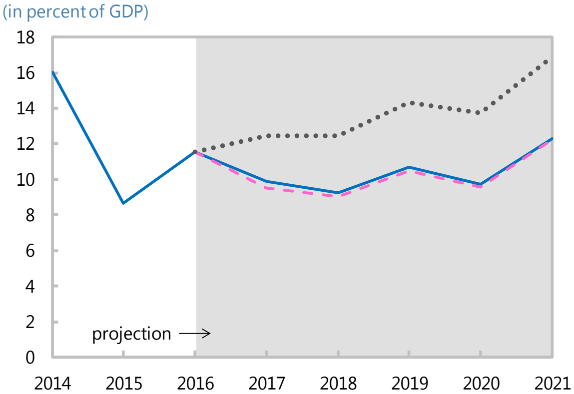
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

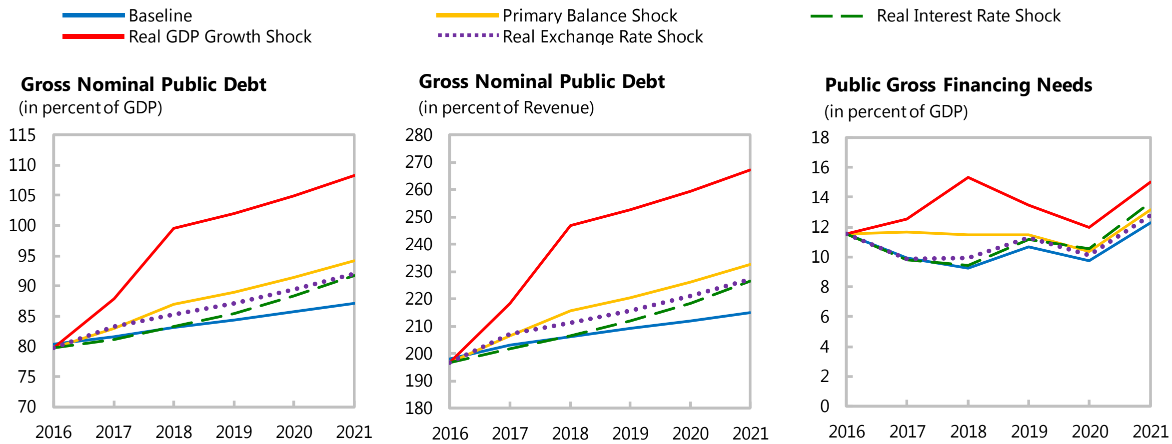
Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.9	2.0	1.7	1.5	1.5	1.5
Inflation	0.4	1.3	1.4	2.0	2.0	2.0
Primary Balance	0.2	-0.1	0.0	0.0	0.0	-0.1
Effective interest rate	3.2	3.7	4.2	4.5	5.0	5.2
Constant Primary Balance Scenario						
Real GDP growth	1.9	2.0	1.7	1.5	1.5	1.5
Inflation	0.4	1.3	1.4	2.0	2.0	2.0
Primary Balance	0.2	0.2	0.2	0.2	0.2	0.2
Effective interest rate	3.2	3.7	4.1	4.5	4.9	5.2

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.9	1.2	1.2	1.2	1.2	1.2
Inflation	0.4	1.3	1.4	2.0	2.0	2.0
Primary Balance	0.2	-2.6	-2.6	-2.6	-2.6	-2.6
Effective interest rate	3.2	3.7	4.2	4.6	5.0	5.3

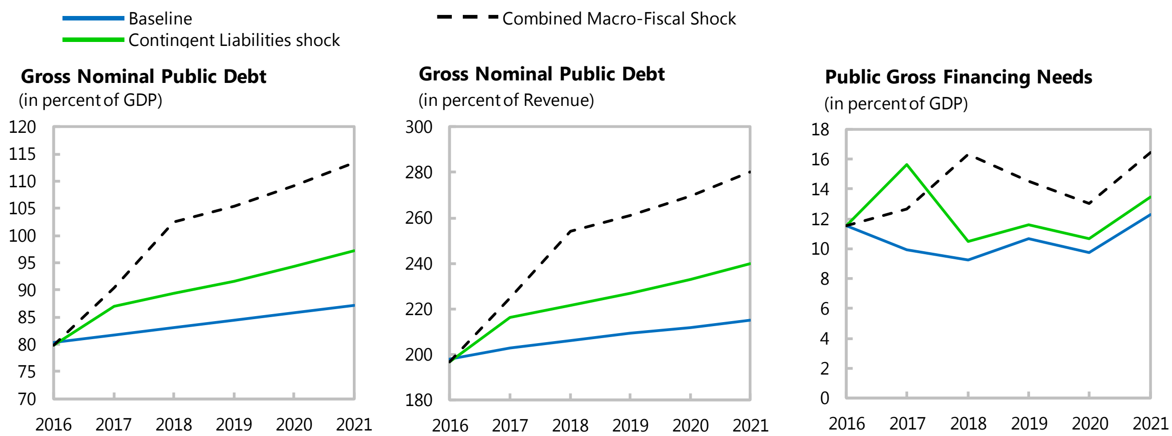
Source: IMF staff calculations.

Public DSA–Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2016	2017	2018	2019	2020	2021
Primary Balance Shock						
Real GDP growth	1.9	2.0	1.7	1.5	1.5	1.5
Inflation	0.4	1.3	1.4	2.0	2.0	2.0
Primary balance	0.2	-2.0	-1.9	0.0	0.0	-0.1
Effective interest rate	3.2	3.7	4.3	4.8	5.2	5.4
Real Interest Rate Shock						
Real GDP growth	1.9	2.0	1.7	1.5	1.5	1.5
Inflation	0.4	1.3	1.4	2.0	2.0	2.0
Primary balance	0.2	-0.1	0.0	0.0	0.0	-0.1
Effective interest rate	3.2	3.7	4.4	5.0	5.7	6.2
Combined Shock						
Real GDP growth	1.9	-2.2	-2.6	1.5	1.5	1.5
Inflation	0.4	0.2	0.3	2.0	2.0	2.0
Primary balance	0.2	-2.3	-4.5	0.0	0.0	-0.1
Effective interest rate	3.2	3.8	4.5	5.3	6.0	6.5

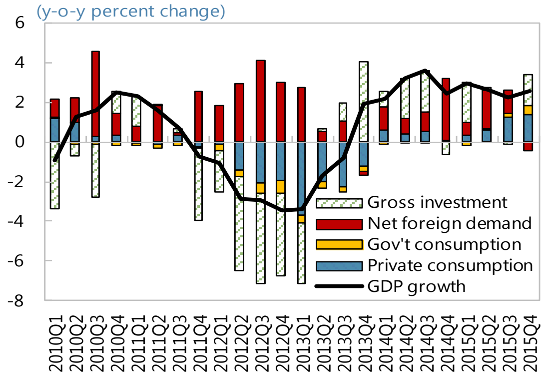
	2016	2017	2018	2019	2020	2021
Real GDP Growth Shock						
Real GDP growth	1.9	-2.2	-2.6	1.5	1.5	1.5
Inflation	0.4	0.2	0.3	2.0	2.0	2.0
Primary balance	0.2	-2.3	-4.5	0.0	0.0	-0.1
Effective interest rate	3.2	3.7	4.3	4.9	5.3	5.6
Real Exchange Rate Shock						
Real GDP growth	1.9	2.0	1.7	1.5	1.5	1.5
Inflation	0.4	1.7	1.4	2.0	2.0	2.0
Primary balance	0.2	-0.1	0.0	0.0	0.0	-0.1
Effective interest rate	3.2	3.8	4.2	4.6	5.0	5.3
Contingent Liabilities shock						
Real GDP growth	1.9	2.0	1.7	1.5	1.5	1.5
Inflation	0.4	1.3	1.4	2.0	2.0	2.0
Primary balance	0.2	-5.9	0.0	0.0	0.0	-0.1
Effective interest rate	3.2	3.7	4.5	5.0	5.4	5.6

Source: IMF staff calculations.

Figure 1. Slovenia: Macroeconomic Developments

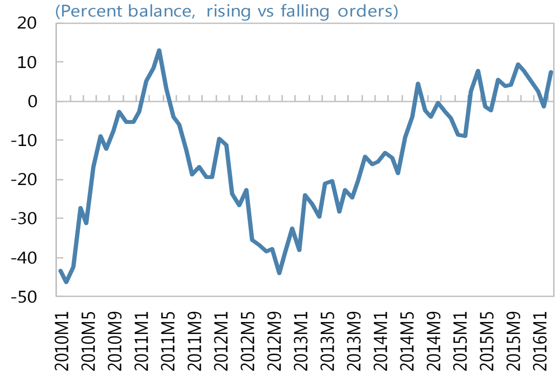
Exports and capital spending on EU-funded projects have driven growth.

Contributions to GDP Growth
(y-o-y percent change)



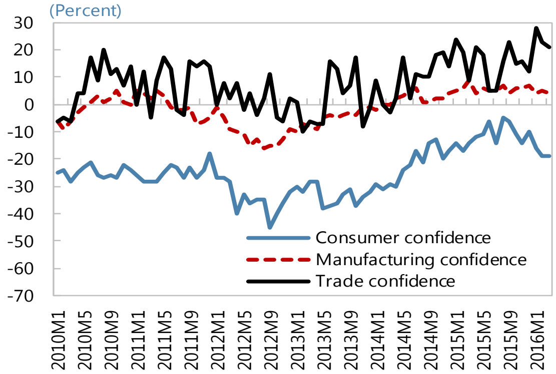
Exports look set to continue to be an engine for growth in 2016.

Export Order Books
(Percent balance, rising vs falling orders)



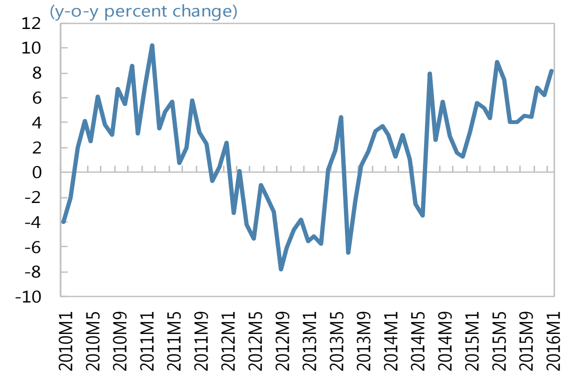
A broad improvement in economic sentiment...

Sentiment Indicators
(Percent)



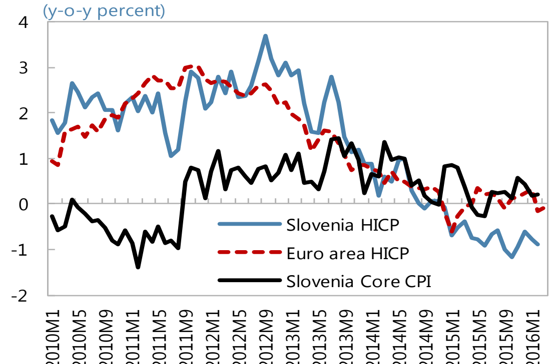
...has boosted retail sales, reflecting rising consumption.

Retail Sales, Volume
(y-o-y percent change)



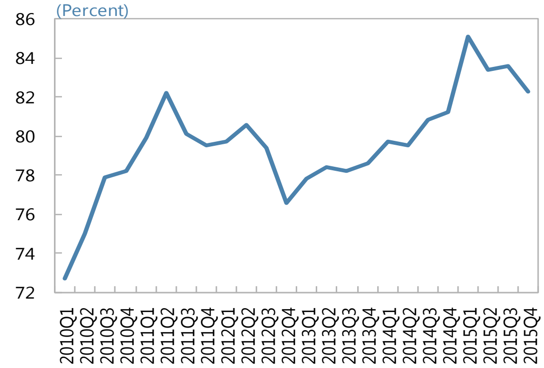
But upward price pressures remain non-existent....

Consumer Price Index
(y-o-y percent)



...and capacity utilization may have peaked.

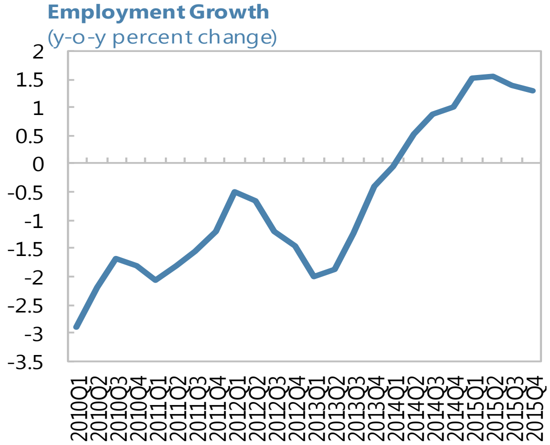
Capacity Utilization in Manufacturing (EC Survey)
(Percent)



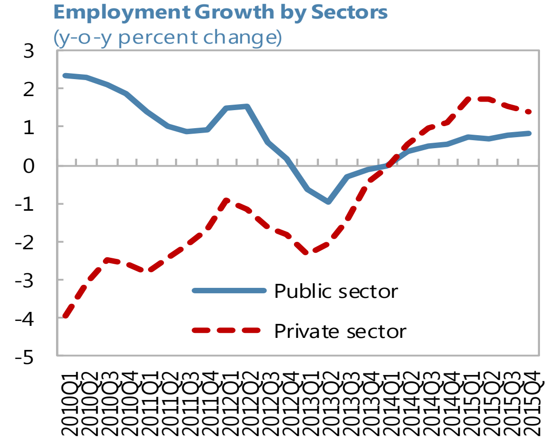
Sources: Bank of Slovenia; Eurostat; Ministry of Finance; Statistical Office of Slovenia; and IMF staff projections.

Figure 2. Slovenia: Labor Market

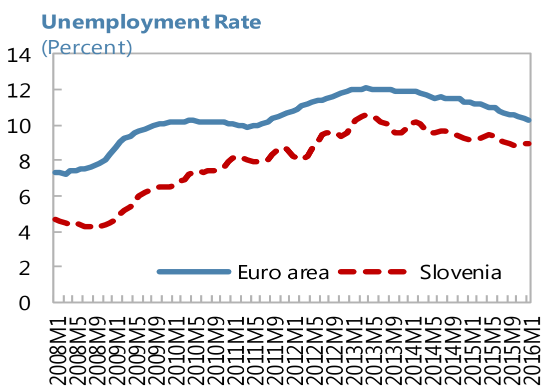
Modest employment growth continues…



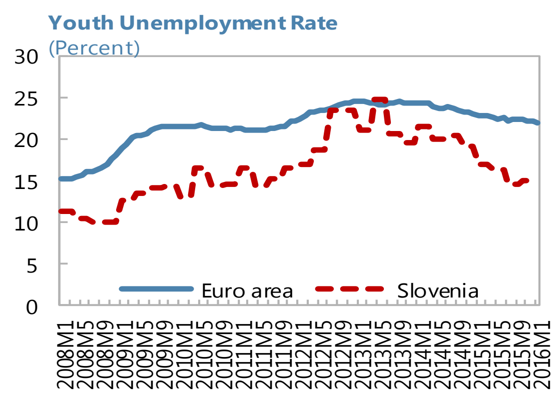
…in both the private and public sectors.



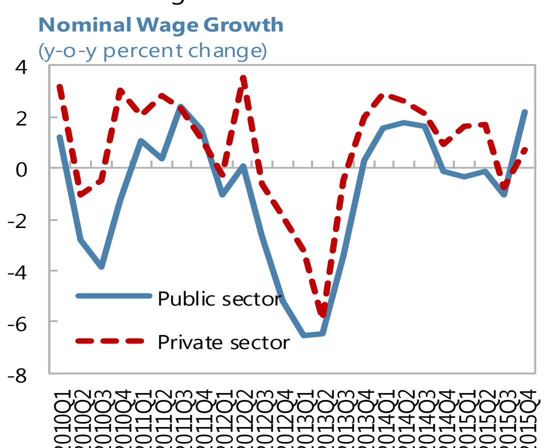
Overall unemployment continues to fall slowly…



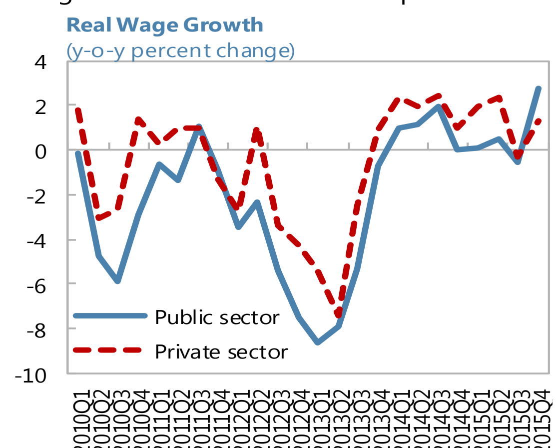
…including youth unemployment, which however remains elevated.



Unemployment has helped keep nominal wage demands in check…



…yet negative inflation has raised real wages for six out of the last 7 quarters.

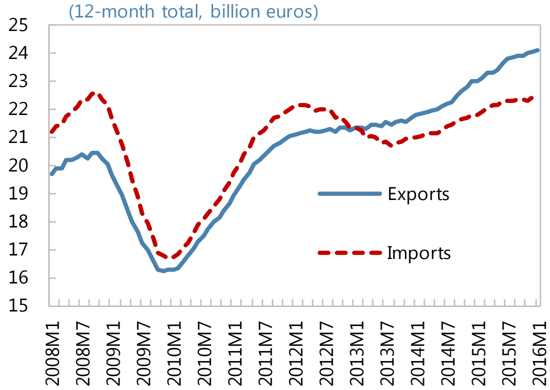


Sources: Bank of Slovenia; Eurostat; Haver Analytics.

Figure 3. Slovenia: External Sector Developments

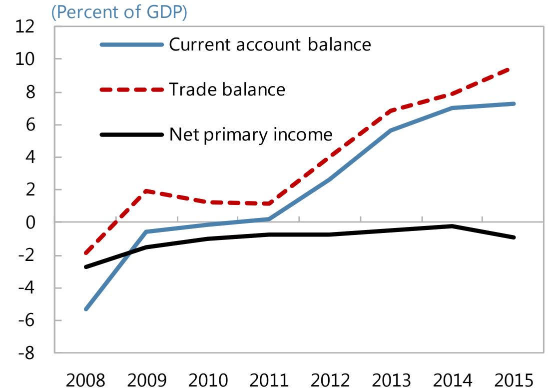
External demand, improved competitiveness, and lukewarm domestic demand...

Merchandise Exports and Imports
(12-month total, billion euros)



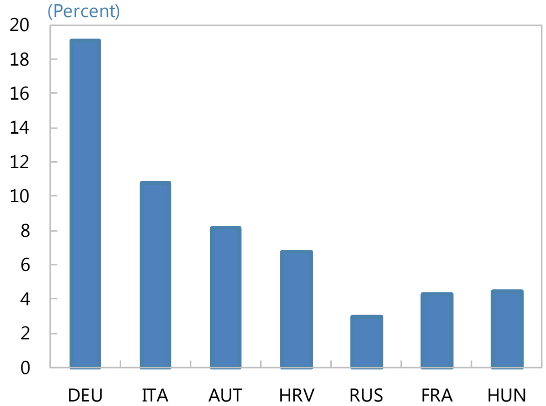
...have led to a further widening of the current account surplus.

Current Account Balance
(Percent of GDP)



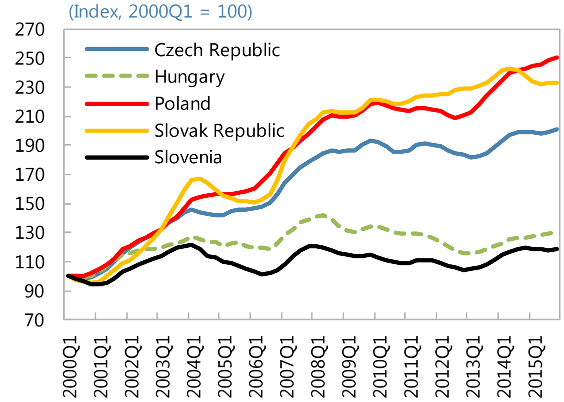
Germany, Italy and Austria buy 40 percent of Slovenia's exports...

Share of Slovenian Exports, 2015
(Percent)



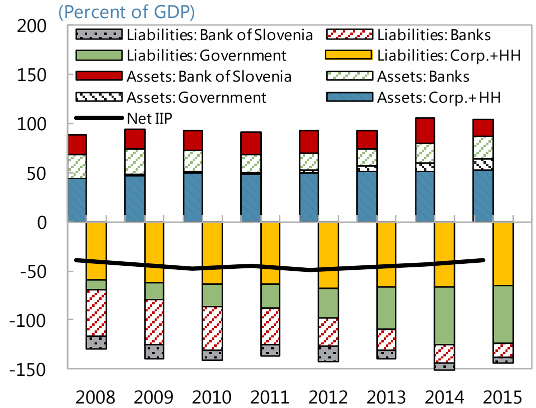
...though Slovenia's market share has grown only modestly.

Market Share in World Trade
(Index, 2000Q1 = 100)



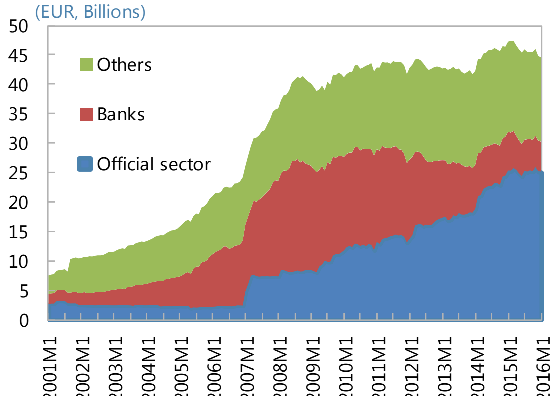
Current account surpluses are gradually closing the negative IIP...

IIP Components
(Percent of GDP)



...but public-sector borrowing, including prefinancing, has pushed up external debt.

External debt
(EUR, Billions)

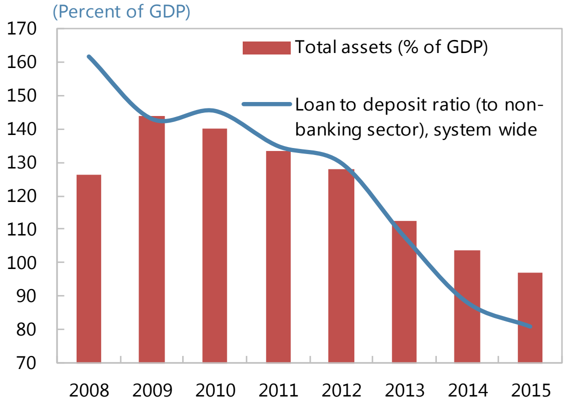


Sources: Bank of Slovenia; Direction of Trade Statistics; European Central Bank; Haver Analytics; Statistical Office of Slovenia; and IMF staff estimates.

Figure 4. Slovenia: Financial Sector Developments

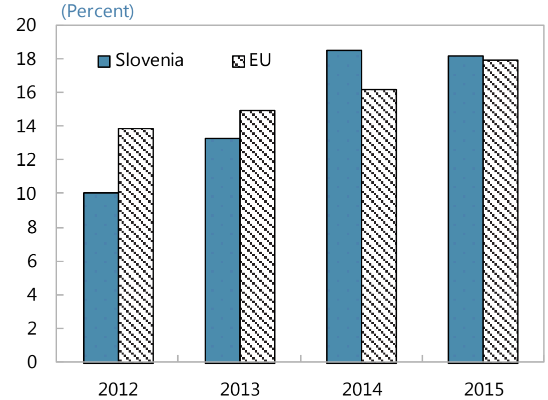
Lending is subdued with deposits increasingly funding financial assets...

Total Assets and Loan to Deposit Ratio
(Percent of GDP)



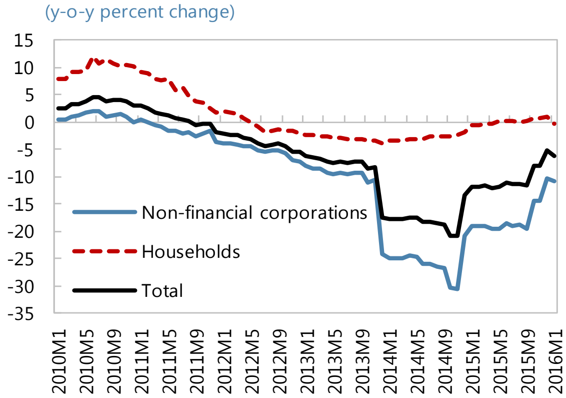
...while the capital position has improved.

Tier 1 Capital Ratio
(Percent)



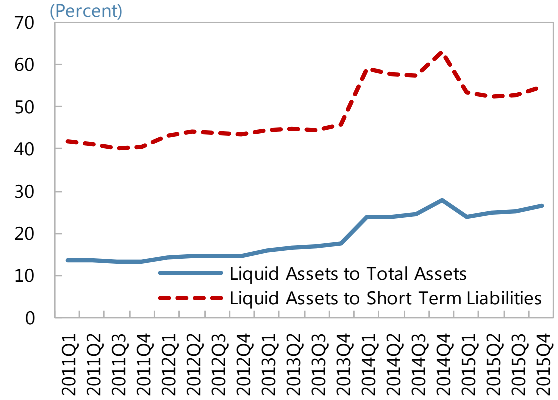
Credit is still declining, albeit more moderately...

Credit Growth to Private Sector
(y-o-y percent change)



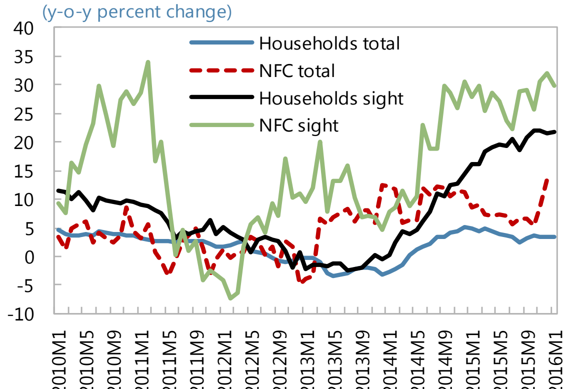
...despite higher system wide liquidity...

Liquid Assets
(Percent)



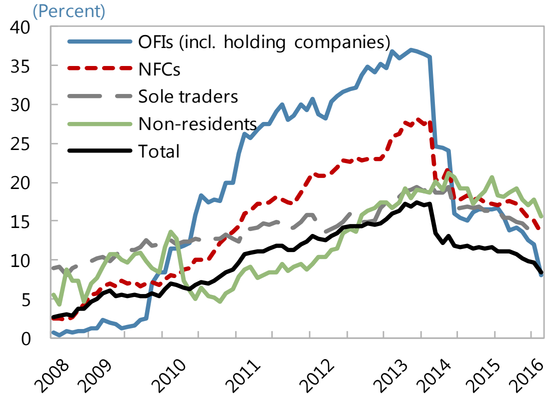
... amid a rapid increase in demand deposits.

Households and Nonfinacial Corporations Deposit Growth
(y-o-y percent change)



NPLs have declined from recent peaks, but remain elevated, impairing balance sheets.

NPL Ratios by Type of Borrowers
(Percent)

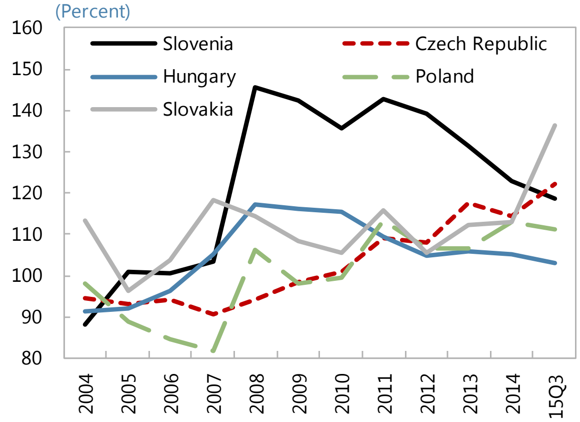


Source: Financial Stability Report, Bank of Slovenia; Haver Analytics, IMF FSI and IMF staff calculations.

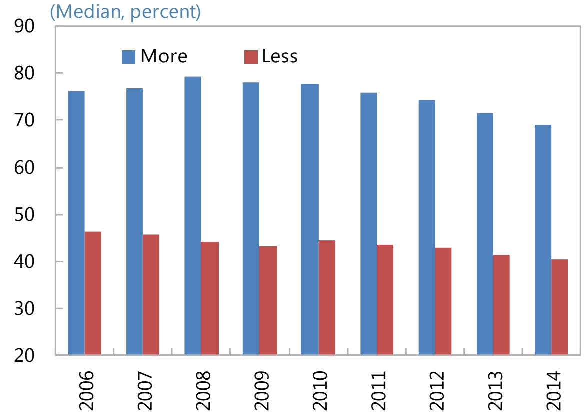
Figure 5. Slovenia: Non-financial Corporate (NFC) Sector

Deleveraging has reduced the aggregate NFC debt burden, even though...

Debt to equity
(Percent)

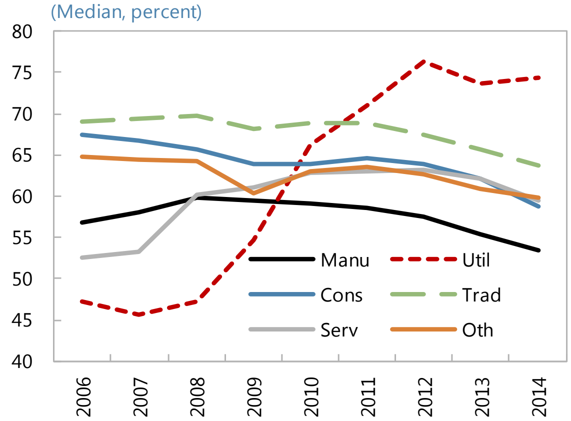


Debt to Assets by Level of Initial Indebtedness 1/
(Median, percent)

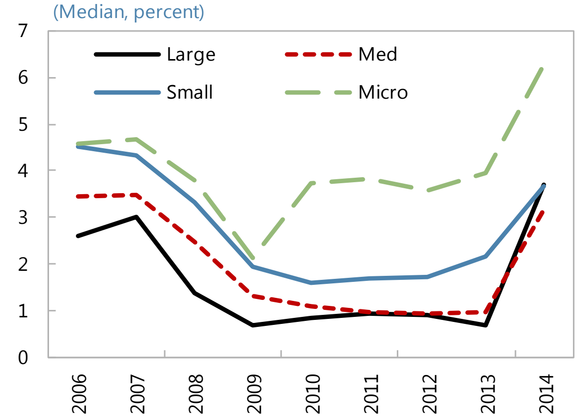


...the utility sector debt remains elevated. Firms have also improved their profitability, but...

Debt to Assets by Sector
(Median, percent)

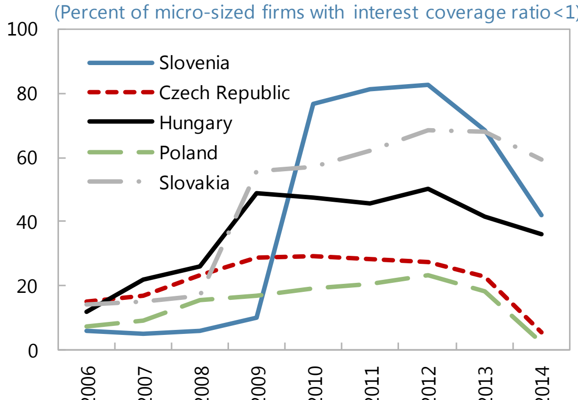


Return on Assets (Earnings Before Tax) by Size
(Median, percent)

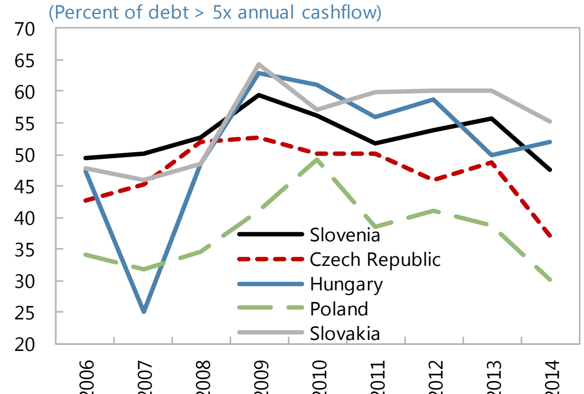


...about half of micro-enterprise still can't service their debts, and 50 percent of the debt stock is excessive.

Interest Coverage Ratio (ICR)
(Percent of micro-sized firms with interest coverage ratio<1)



Excessive Debt
(Percent of debt > 5x annual cashflow)

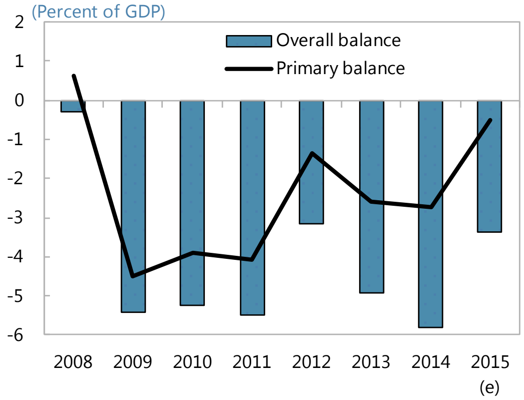


Sources: Eurostat, Haver Analytics, Orbis, IFS, and IMF staff calculations.
1/ More indebted firms had debt-asset ratios > the median ratio in 2008.

Figure 6. Slovenia: Fiscal Developments

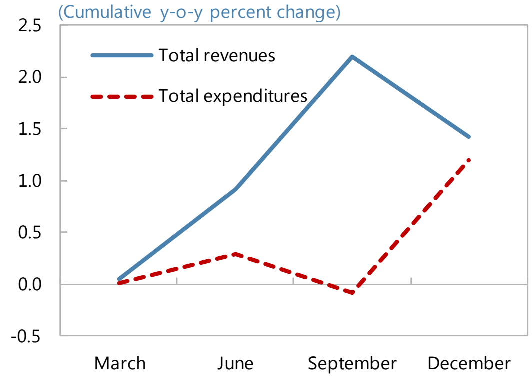
The fiscal deficit shrunk in 2015...

Fiscal Balances and Spending 1/
(Percent of GDP)



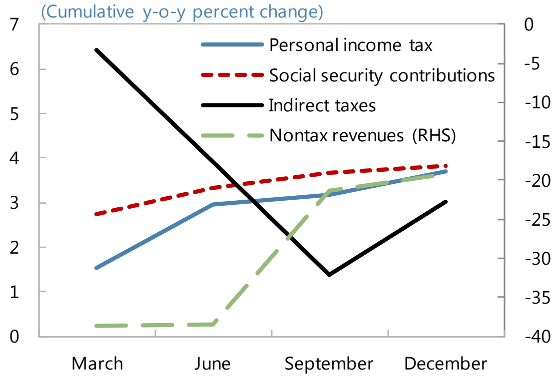
...due primarily to solid revenue growth.

Revenues and Expenditures, 2015
(Cumulative y-o-y percent change)



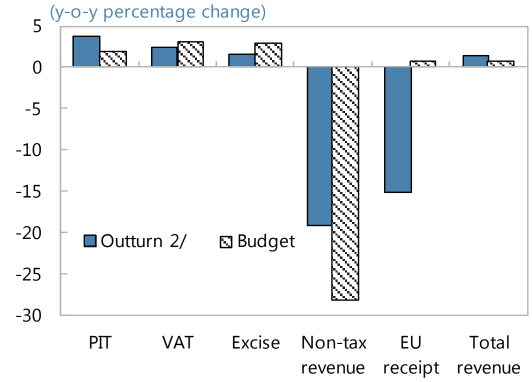
Tax revenue growth more than offset a sharp fall in non-tax revenue...

Revenue Components, 2015
(Cumulative y-o-y percent change)



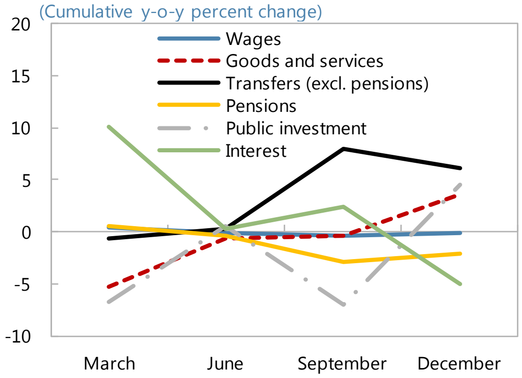
...as EU receipts were well below budget.

Revenue Developments in 2015
(y-o-y percentage change)



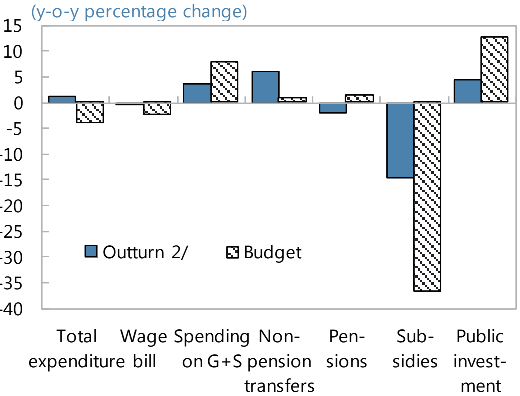
Total expenditures were slightly more than budgeted, even though the interest bill fell...

Expenditure Components, 2015
(Cumulative y-o-y percent change)



...and pension spending was below budget.

Expenditure Developments in 2015
(y-o-y percentage change)



Sources: Haver Analytics; Ministry of Finance; and IMF staff calculations.
1/ Cash basis, and excludes bank recapitalization.
2/ January-December, y-o-y percentage change.

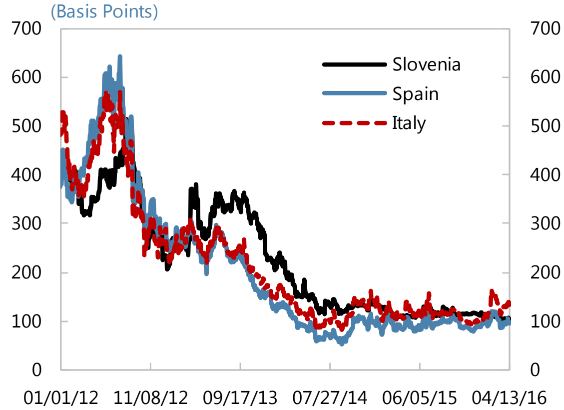
Figure 7. Slovenia: Asset Prices

Slovenian spreads treaded water in 2015…

Slovenia 10-year Government Bond Spread vs. Germany 1/
(Basis Points)

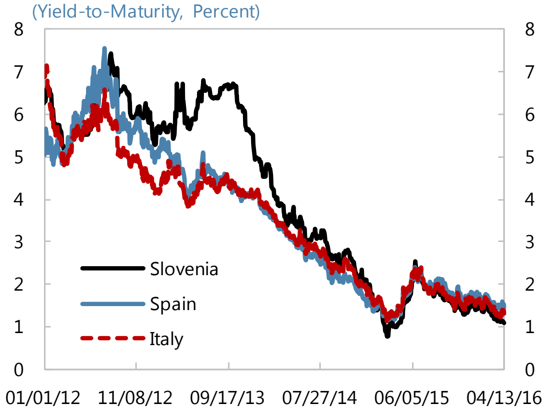
…remaining relatively narrow.

5-year Sovereign CDS Spreads
(Basis Points)



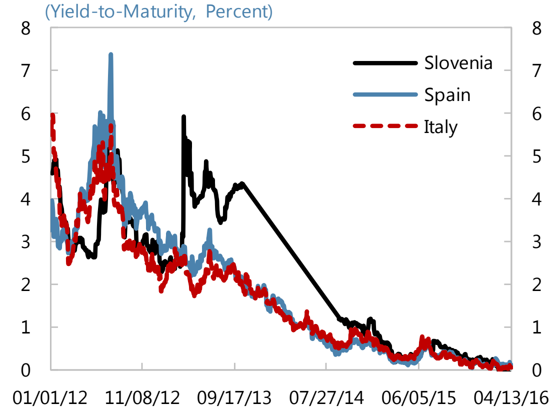
Overall yields remained low, both on the long…

10-year Government Bond Yields 1/
(Yield-to-Maturity, Percent)



…and shorter end of the yield curve.

3-year Government Bond Yields 2/
(Yield-to-Maturity, Percent)

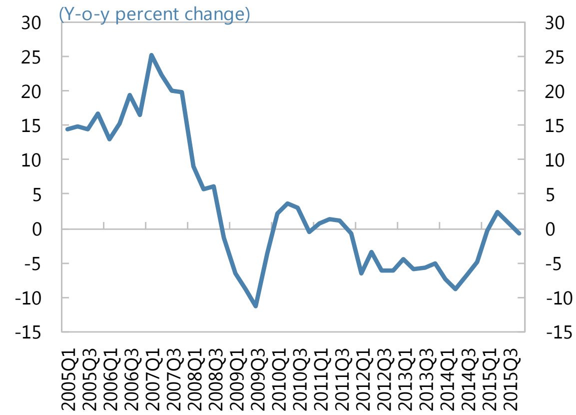


Equity prices fell in 2015…

Ljubljana Stock Exchange Slovenian Blue Chip SBITOP Index
(Index, 3/31/2006 = 1000)

…while house prices increased for the first time in about 3 years.

Prices of Existing Dwellings
(Y-o-y percent change)

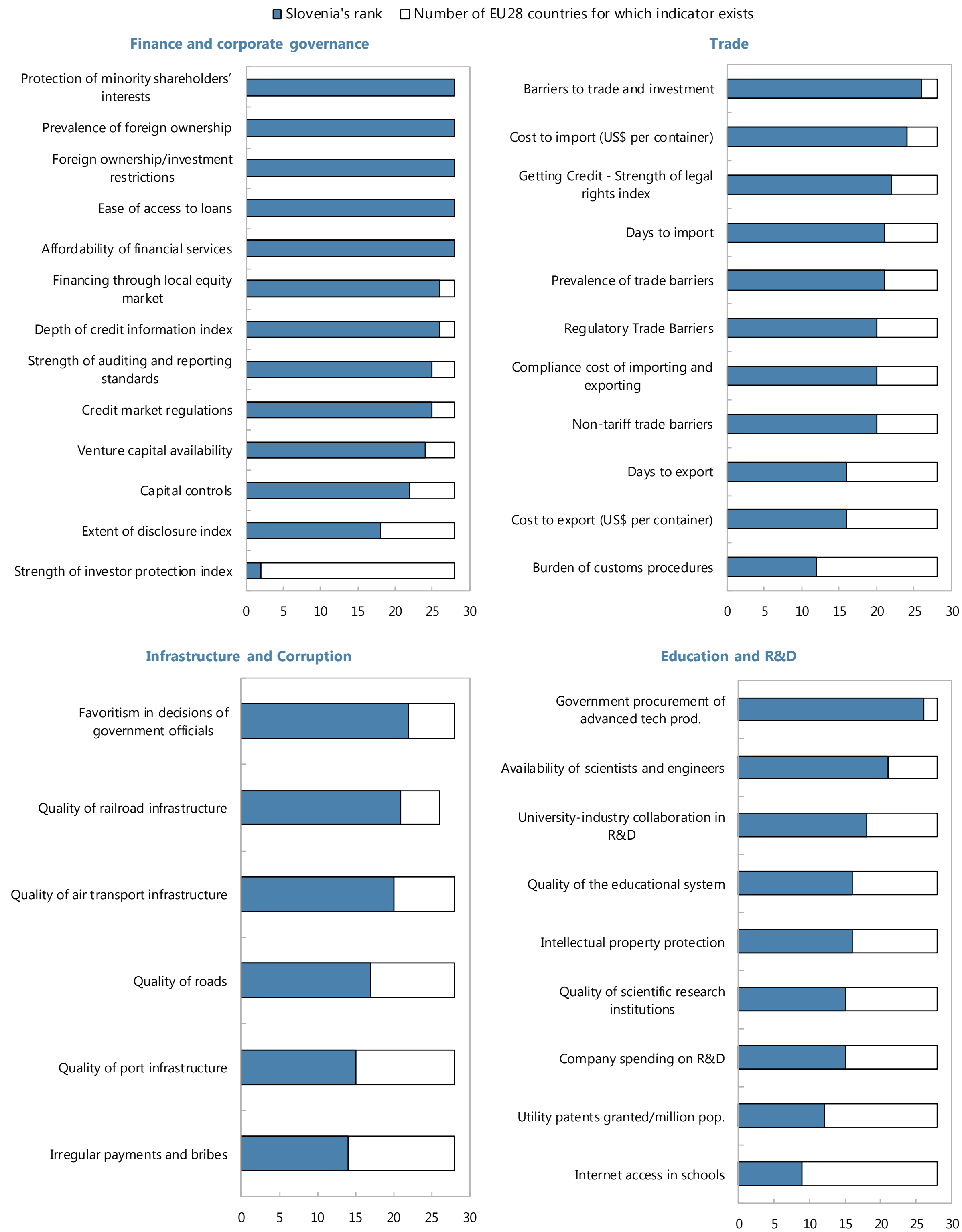


Sources: Bloomberg; Statistical Office of Slovenia; and IMF staff calculations.
1/ SLOREP 4.625 09/09/24 is used for Slovenia.
2/ Bloomberg 3-year generic bond yields.

Figure 8. Slovenia's Rank in EU28

Sources: Free the World, OECD, World Bank Doing Business, World Economic Forum.

Figure 8. Slovenia's Rank in EU28 (concluded)



Sources: Free the World, OECD, World Bank Doing Business, World Economic Forum.

Table 1. Slovenia: Selected Economic Indicators, 2011–17

(Annual percentage change, unless noted otherwise)

Key Export Markets: Germany, Italy, Countries of Former Yugoslavia, France, Austria
Quota (as of March 31, 2016): SDR 586.5 million
Main products/exports: Automotive, Machinery-Appliances, Tourism, Transportation

	2011	2012	2013	2014	2015		2016		2017
					Est.	2014 A-IV	Proj.	2014 A-IV	Proj.
Nominal GDP (EUR millions)	36,896	35,988	35,908	37,303	38,543	37,768	39,436	38,681	40,768
GDP per Capita (EUR)	17,997	17,508	17,441	18,099	18,684	18,285	19,101	18,697	19,729
Real economy									
Real GDP	0.6	-2.7	-1.1	3.0	2.9	1.9	1.9	1.7	2.0
Domestic demand	-0.7	-5.8	-2.2	1.6	2.1	1.0	1.7	1.8	2.8
Private consumption	0.0	-2.5	-4.1	0.7	1.7	0.8	2.2	1.6	2.2
Public consumption	-0.7	-2.3	-1.5	-0.1	0.7	-0.6	2.7	0.7	3.5
Gross capital formation	-2.2	-17.5	2.7	5.7	4.4	3.1	-0.7	3.2	3.8
Net exports (contribution to growth)	1.3	2.8	1.1	1.6	0.9	0.8	0.5	0.1	-0.5
Exports of goods and services	6.9	0.6	3.1	5.8	5.2	4.1	3.8	3.8	3.3
Imports of goods and services	5.0	-3.7	1.7	4.0	4.4	3.7	3.6	4.2	4.5
Output gap (in percent of potential GDP)	-1.3	-4.3	-5.6	-3.3	-1.6	-0.9	-0.8	-0.2	-0.1
Prices									
Consumer prices (national definition, period average)	1.8	2.6	1.8	0.2	-0.4	-0.2	0.1	0.8	1.0
Core inflation (period average)	-0.4	0.7	0.9	0.6	0.3	…	…	…	…
Employment and wages									
Unemployment rate (in percent, ILO definition)	8.2	8.9	10.1	9.7	9.1	9.0	8.6	8.4	8.2
Employment (Full time basis, national accounts)	-1.7	-0.9	-1.4	0.6	1.4	0.7	0.4	0.7	0.3
Nominal wages (all sectors, annual average)	2.0	0.1	-0.2	1.5	0.7	0.4	1.4	1.1	2.7
Real wages (all sectors, annual average)	0.2	-2.5	-1.9	1.3	1.2	0.6	0.9	0.3	1.7
Public finance (percent of GDP)									
General government balance 1/	-5.5	-3.1	-13.9	-5.8	-3.3	-4.0	-2.5	-3.5	-2.7
General government balance excl. bank support 1/	-4.2	-3.1	-4.3	-3.5	-3.3	-4.0	-2.5	-3.5	-2.7
Structural balance 2/	-4.1	-1.9	-1.7	-2.9	-2.2	-2.9	-1.6	-3.4	-2.5
Structural primary balance 2/	-2.8	-0.2	0.5	0.1	0.6	0.1	1.0	-0.2	0.1
General government debt 3/	46.4	53.9	71.0	81.0	83.2	80.5	80.4	82.9	81.6
Monetary and financial indicators									
Credit to the private sector 4/	-1.9	-5.4	-6.9	-6.8	-5.2	-4.6	0.0	-2.8	0.7
Lending rates 5/	5.0	4.7	4.5	4.1	2.9	…	…	…	…
Deposit rates 6/	2.2	2.3	1.9	1.0	0.4	…	…	…	…
Government bond yield (10-year)	5.0	6.0	5.1	2.2	1.6	…	…	…	…
Balance of payments (percent of GDP)									
Trade balance (goods and services)	-2.6	-0.2	2.0	3.2	4.2	4.1	4.7	4.1	4.4
Current account balance	0.2	2.6	5.6	7.0	7.3	6.2	7.6	5.7	7.1
Gross external debt (percent of GDP, end-period)	112.9	119.1	116.0	124.2	114.7	115.3	111.1	110.7	106.8
Nominal effective exchange rate (2010=100)	100.4	99.3	100.7	101.7	100.3	n.a.	…	…	…
Real effective exchange rate (2010=100, CPI-based)	99.4	98.2	99.6	99.6	97.1	n.a.	…	…	…

Sources: Data provided by the Slovenian authorities; and IMF staff calculations and projections.
1/ Includes 9.5 percent of GDP in 2013 and 2.3 percent of GDP in 2014 in capital injections into banks and support for deposit redemptions in banks being wound down.
2/ Excludes bank support and other one-offs. Adjusted for calendar year shifts between receipt and expenditure of earmarked EU funds.
3/ Includes EUR 1.1 bn in 2013 and EUR 0.7 bn in 2014 of debt issuance of the Bank Asset Management Company (BAMC).
4/ 2013 and 2014 data are adjusted to exclude the impact of transfers to the BAMC.
5/ Floating or up-to-one-year fixed rate for new loans to non-financial corporations over 1 million euros.
6/ For household time deposits with maturity up to one year.

Table 2. Slovenia: Balance of Payments, 2011–2021
(Percent of GDP)

	2011	2012	2013	2014	2015	Projections 2016	2017	2018	2019	2020	2021
Current account	0.2	2.6	5.6	7.0	7.3	7.6	7.1	6.4	5.6	4.8	3.9
Trade balance, goods and services	1.2	4.0	6.9	7.9	9.5	9.8	9.2	8.5	7.7	7.0	6.1
Goods	-2.6	-0.2	2.0	3.2	4.2	4.7	4.4	3.9	3.5	3.1	2.6
Exports f.o.b.	57.0	59.1	60.4	61.6	62.4	63.6	64.5	65.7	67.0	68.4	69.9
Imports f.o.b.	59.7	59.3	58.4	58.4	58.2	58.9	60.1	61.7	63.5	65.3	67.2
Services	3.8	4.2	4.9	4.7	5.3	5.1	4.8	4.5	4.2	3.9	3.5
Exports	13.3	14.2	14.8	14.9	15.5	15.4	15.4	15.5	15.6	15.7	15.8
Imports	9.5	10.0	9.9	10.2	10.2	10.3	10.6	10.9	11.4	11.8	12.3
Primary income, net	-0.8	-0.8	-0.5	-0.2	-0.9	-1.5	-1.4	-1.4	-1.4	-1.5	-1.5
Secondary income, net	-0.2	-0.6	-0.8	-0.7	-1.3	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Capital account	-0.2	0.1	0.2	-0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Financial account, excl. reserves	-1.8	-0.3	3.7	6.0	5.4	7.7	7.2	6.4	5.6	4.9	4.0
Direct investment, net	-1.7	-1.3	-0.1	-1.6	-2.3	-2.2	-1.9	-1.7	-1.5	-1.2	-0.8
In Slovenia	1.7	0.1	0.2	2.0	2.4	3.1	2.7	2.4	2.1	1.7	1.2
Abroad	0.0	-1.2	0.1	0.4	0.1	0.9	0.8	0.7	0.6	0.5	0.4
Portfolio investment, net	-5.0	0.6	-11.0	-10.6	7.4	5.9	5.6	5.0	4.5	3.9	3.3
Equity securities	-0.8	-0.2	-0.1	0.1	0.2	0.6	0.5	0.5	0.4	0.3	0.2
Debt securities	-4.2	0.8	-10.9	-10.7	7.3	5.3	5.1	4.6	4.1	3.5	3.0
Financial derivatives	0.4	0.2	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	4.5	0.1	14.8	18.3	0.2	4.0	3.5	3.1	2.6	2.2	1.5
Government	0.2	1.7	1.2	1.1	2.6	-0.9	-0.8	-0.7	-0.6	-0.5	-0.3
Bank of Slovenia	-1.3	-5.0	7.3	9.5	-8.1	0.8	0.7	0.6	0.5	0.5	0.3
Commercial banks	-2.1	3.9	-23.7	-5.5	-2.5	-3.4	-3.0	-2.7	-2.0	-1.5	-0.6
Nonbank private sector	4.5	0.1	14.8	18.3	0.2	4.0	3.5	3.1	2.6	2.2	1.5
Loans	3.6	3.6	0.8	2.5	0.2	2.6	2.3	2.0	1.7	1.4	1.0
Currency and deposits	1.1	-2.7	13.2	15.7	-0.4	0.6	0.5	0.5	0.4	0.3	0.2
Trade credits	-0.2	-0.9	0.6	0.3	0.3	0.6	0.6	0.5	0.4	0.4	0.2
Other	0.0	0.1	0.3	-0.3	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Net errors and omissions	-2.4	-3.1	-2.1	-0.2	-2.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.6	-0.1	0.0	0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Change in official reserves (+: increase)	-0.2	-0.1	0.0	0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Export of goods (percent change in value)	12.9	1.0	2.1	6.0	4.5	4.4	4.8	5.0	5.6	5.7	5.7
Import of goods (percent change in value)	12.6	-2.4	0.5	2.1	3.1	3.7	5.4	5.9	6.5	6.5	6.6
Terms of trade (percent change)	-1.6	-1.3	0.8	1.1	1.2	0.2	0.3	0.1	0.2	0.2	0.2
Gross external debt (billions of euros)	41.7	42.9	41.7	46.3	44.2	43.8	43.5	43.4	43.7	44.1	45.0
(percent of GDP)	112.9	119.1	116.0	124.2	114.7	111.1	106.8	103.3	100.3	97.9	96.4
International investment position (net, percent GDP)	-45.2	-49.9	-46.1	-43.6	-38.5	-29.7	-21.6	-14.5	-8.4	-3.2	0.8

Sources: Data provided by the Slovenian authorities; and IMF staff calculations and projections.

Table 3. Slovenia: General Government Operations, 2011–21

(In percent of GDP, unless indicated otherwise)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
					Est.			Projections			
Revenue	40.3	41.3	40.6	41.3	40.4	40.2	39.9	40.0	40.0	40.1	40.1
Taxes	21.5	21.9	20.9	21.2	21.5	21.4	21.5	21.6	21.7	21.8	21.9
Taxes on income, profit, payroll	7.5	7.4	6.0	6.4	6.7	6.6	6.6	6.7	6.7	6.8	6.8
Taxes on goods and services	13.4	13.8	14.2	14.1	14.1	14.2	14.2	14.3	14.4	14.4	14.5
Other taxes	0.6	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Social contributions	14.3	14.6	14.3	14.1	14.2	14.1	14.1	14.1	14.1	14.1	14.1
Other revenue	4.5	4.9	5.4	6.0	4.8	4.7	4.3	4.3	4.2	4.2	4.1
Expenditure	45.8	44.5	54.5	47.1	43.8	42.8	42.6	42.8	43.0	43.3	43.4
Expense	43.3	42.3	52.0	43.5	40.2	40.7	40.5	40.7	41.0	41.2	41.4
Compensation of employees	10.5	10.4	10.1	9.7	9.4	9.6	9.8	9.8	9.8	9.8	9.8
Purchases of goods and services	6.6	6.6	6.2	6.0	6.0	5.9	5.9	5.9	5.9	5.9	5.9
Interest	1.4	1.8	2.3	3.1	2.8	2.7	2.6	2.8	3.0	3.1	3.2
Transfers to individuals and households	17.7	17.7	17.7	17.0	16.5	16.4	16.4	16.6	16.8	16.9	17.1
of which: pensions	11.2	11.5	11.8	11.5	10.9	10.8	10.9	11.1	11.3	11.5	11.7
Subsidies	1.3	1.4	1.4	1.3	1.0	1.4	1.3	1.3	1.3	1.3	1.3
Other transfers	5.7	4.4	14.3	6.5	4.4	4.7	4.5	4.3	4.3	4.2	4.2
of which: capital transfers	2.3	0.9	10.4	1.9	0.8	0.8	0.9	0.9	0.9	0.9	0.9
transfers to the EU budget	1.1	1.1	1.2	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Net acquisition of non-financial assets	2.4	2.2	2.4	3.7	3.6	2.0	2.1	2.1	2.0	2.0	1.9
Gross operating balance 1/	-3.1	-0.9	-11.4	-2.1	0.3	-0.5	-0.6	-0.7	-1.0	-1.1	-1.3
Net lending / Net borrowing 1/	-5.5	-3.1	-13.9	-5.8	-3.3	-2.5	-2.7	-2.8	-3.0	-3.2	-3.3
excluding bank related costs	-4.2	-3.1	-4.3	-3.5	-3.3	-2.5	-2.7	-2.8	-3.0	-3.2	-3.3
Net acquisition of financial assets	2.6	...	...	...	...	...	...	...	...	...	...
Net incurrence of liabilities	8.1	...	...	...	...	...	...	...	...	...	...
Memorandum item:											
Primary balance 1/	-4.2	-1.4	-11.7	-2.9	-0.6	0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Structural budget balance 2/	-4.1	-1.9	-1.7	-2.9	-2.2	-1.6	-2.5	-2.8	-3.0	-3.3	-3.4
Structural primary balance 2/	-2.8	-0.2	0.5	0.1	0.6	1.0	0.1	0.0	-0.1	-0.2	-0.3
General government debt 3/	46.4	53.9	71.0	81.0	83.2	80.4	81.6	83.1	84.4	85.8	87.1

Sources: Ministry of Finance; and IMF staff calculations.

1/ Includes 9.5 percent of GDP in 2013 and 2.3 percent of GDP in 2014 in capital injections into banks and support for deposit redemptions in banks being wound down.

2/ Excludes bank support and other one-offs. Adjusted for calendar year shifts between receipt and expenditure of earmarked EU funds.

3/ Includes EUR 1.1 bn in 2013 and EUR 0.7 bn in 2014 of debt issuance of the Bank Asset Management Company (BAMC).

Table 4. Slovenia: Macroeconomic Framework, 2011–21

	2011	2012	2013	2014	2015	Projections 2016	2017	2018	2019	2020	2021
Real GDP (percent change)	0.6	-2.7	-1.1	3.0	2.9	1.9	2.0	1.7	1.5	1.5	1.5
Contributions to growth											
Domestic demand	-0.6	-5.6	-2.1	1.5	1.9	1.5	2.6	2.3	2.1	2.2	2.3
Private consumption	0.0	-1.4	-2.3	0.4	0.9	1.2	1.2	1.2	1.0	1.0	1.0
Government consumption	-0.1	-0.5	-0.3	0.0	0.1	0.5	0.7	0.3	0.3	0.3	0.3
Gross capital formation	-0.5	-3.8	0.5	1.1	0.9	-0.1	0.7	0.8	0.9	0.9	1.0
Net exports	1.3	2.8	1.1	1.6	0.9	0.5	-0.5	-0.6	-0.7	-0.7	-0.8
Exports of goods and services	4.4	0.4	2.2	4.3	3.9	2.9	2.6	2.6	2.7	2.8	2.8
Imports of goods and services	3.1	-2.4	1.1	2.7	3.0	2.4	3.1	3.3	3.3	3.5	3.6
Growth rates											
Domestic demand	-0.7	-5.8	-2.2	1.6	2.1	1.7	2.8	2.5	2.3	2.3	2.5
Consumption	-0.2	-2.5	-3.4	0.5	1.5	2.4	2.5	2.1	1.8	1.8	1.8
Private	0.0	-2.5	-4.1	0.7	1.7	2.2	2.2	2.2	1.9	1.9	1.9
Public	-0.7	-2.3	-1.5	-0.1	0.7	2.7	3.5	1.7	1.5	1.5	1.5
Gross capital formation	-2.2	-17.5	2.7	5.7	4.4	-0.7	3.8	4.2	4.2	4.3	4.7
Fixed investment	-4.9	-8.8	1.7	3.2	0.5	-2.0	3.5	4.5	4.5	4.5	5.0
Change in stocks (contribution to GDP growth)	0.6	-2.0	0.2	0.5	0.8	0.2	0.1	0.0	0.0	0.0	0.0
Exports of goods and services	6.9	0.6	3.1	5.8	5.2	3.8	3.3	3.3	3.3	3.4	3.4
Imports of goods and services	5.0	-3.7	1.7	4.0	4.4	3.6	4.5	4.6	4.6	4.6	4.7
Potential growth	0.6	0.3	0.3	0.6	1.1	1.1	1.2	1.4	1.4	1.5	1.5
Savings and investment (percent of GDP)											
National saving	21.9	21.3	25.0	26.8	27.5	27.2	27.0	26.7	26.5	26.3	26.0
Government	-0.5	0.3	-0.6	-0.1	1.4	0.7	0.7	0.5	0.3	0.1	0.0
Non-government	22.4	21.0	25.6	26.8	26.1	26.5	26.3	26.2	26.2	26.1	26.1
Gross capital formation	21.7	18.8	19.4	19.8	20.2	19.6	19.9	20.4	20.9	21.4	22.1
Foreign saving	-0.2	-2.6	-5.6	-7.0	-7.3	-7.6	-7.1	-6.4	-5.6	-4.8	-3.9
Private sector credit growth (year-over-year)	-1.9	-5.4	-6.9	-6.8	-5.2	0.0	0.7	1.5	2.0	2.5	2.5
Prices											
Consumer price inflation (national, period average)	1.8	2.6	1.8	0.2	-0.4	0.1	1.0	1.4	2.0	2.0	2.0
Core inflation (HICP)	-0.4	0.7	0.9	0.6	0.3	...	...	...	...	...	...
GDP deflator	1.1	0.3	0.8	0.8	0.4	0.4	1.3	1.4	2.0	2.0	2.0
Employment (percent change)	-1.7	-0.9	-1.4	0.6	1.4	0.4	0.3	0.3	0.3	0.3	0.3
Unemployment rate (ILO, percent)	8.2	8.9	10.1	9.7	9.1	8.6	8.2	7.9	7.5	7.1	6.8
Real wages (percent change)	0.2	-2.5	-1.9	1.3	1.2	0.9	1.7	1.4	1.2	1.2	1.2
Government budget (percent of GDP) 1/											
General government balance, cash basis 2/	-5.5	-3.1	-13.9	-5.8	-3.3	-2.5	-2.7	-2.8	-3.0	-3.2	-3.3
excl. bank support 2/	-4.2	-3.1	-4.3	-3.5	-3.3	-2.5	-2.7	-2.8	-3.0	-3.2	-3.3
General Government balance, ESA 2010	-6.6	-4.1	-14.4	-4.9	-2.9	...	...	...	...	...	...
Structural balance 3/	-4.1	-1.9	-1.7	-2.9	-2.2	-1.6	-2.5	-2.8	-3.0	-3.3	-3.4
Structural primary balance 3/	-2.8	-0.2	0.5	0.1	0.6	1.0	0.1	0.0	-0.1	-0.2	-0.3
General government debt 4/	46.4	53.9	71.0	81.0	83.2	80.4	81.6	83.1	84.4	85.8	87.1
Merchandise trade (percent change)											
Export volume	8.0	0.4	3.3	6.4	5.1	4.2	3.6	3.6	3.6	3.6	3.6
Import volume	6.0	-4.3	2.5	3.7	4.9	3.7	4.5	4.6	4.6	4.6	4.7
Export value	12.9	1.0	2.1	6.0	4.5	4.4	4.8	5.0	5.6	5.7	5.7
Import value	12.6	-2.4	0.5	2.1	3.1	3.7	5.4	5.9	6.5	6.5	6.6
External balances (in billions of euros)											
Trade balance (merchandise)	-1.0	-0.1	0.7	1.2	1.6	1.8	1.8	1.7	1.5	1.4	1.2
in percent of GDP	-2.6	-0.2	2.0	3.2	4.2	4.7	4.4	3.9	3.5	3.1	2.6
Exports of goods	21.0	21.3	21.7	23.0	24.0	25.1	26.3	27.6	29.2	30.8	32.6
Imports of goods	-22.0	-21.3	-21.0	-21.8	-22.4	-23.2	-24.5	-26.0	-27.6	-29.4	-31.4
Current account	0.1	0.9	2.0	2.6	2.8	3.0	2.9	2.7	2.4	2.2	1.8
in percent of GDP	0.2	2.6	5.6	7.0	7.3	7.6	7.1	6.4	5.6	4.8	3.9
Memorandum: Nominal GDP (Billions of euros)	36.9	36.0	35.9	37.3	38.5	39.4	40.8	42.0	43.5	45.1	46.7

Sources: Data provided by the authorities; and IMF staff projections.

1/ Projections based on approved budget for 2016 and unchanged policies thereafter.

2/ Includes 9.5 percent of GDP in 2013 and 2.3 percent of GDP in 2014 in capital injections into banks and support for deposit redemptions in banks being wound down.

3/ Excludes bank support and other one-offs. Adjusted for calendar year shifts between receipt and expenditure of earmarked EU funds.

4/ Includes EUR 1.1 bn in 2013 and EUR 0.7 bn in 2014 of debt issuance of the Bank Asset Management Company (BAMC).

Table 5. Slovenia: Financial Soundness Indicators, 2008–15

	2008	2009	2010	2011	2012	2013	2014	2015
Capital								
Regulatory capital to risk-weighted assets	11.7	11.7	11.3	11.9	11.4	13.7	18.0	18.8
Regulatory Tier 1 capital to risk-weighted assets	9.0	9.3	8.6	9.3	9.8	12.9	17.3	18.1
Profitability								
Return on assets	0.5	0.2	-0.2	-0.9	-1.5	-7.3	-0.2	0.5
Return on equity	7.1	2.0	-3.2	-11.8	-19.6	-97.6	-1.9	4.2
Interest margin to gross income	65.7	61.3	63.6	65.3	58.0	53.7	55.4	57.4
Noninterest expenses to gross income	62.5	60.2	57.9	63.0	63.9	77.3	60.9	66.7
Liquidity								
Liquid assets to total assets	13.9	13.8	14.2	13.4	14.7	17.5	27.8	26.7
Liquid assets to short-term liabilities	34.8	36.2	42.9	40.3	43.5	45.6	62.9	54.8
Sensitivity to market risk								
Net open position in foreign exchange to capital	-2.2	-0.9	-1.2	-1.8	-2.7	-4.1	-1.1	0.9
Asset quality								
Nonperforming loans to total gross loans	4.2	5.8	8.2	11.8	15.2	13.3	11.7	10.0
Non-performing loans net of provisions to capital	30.2	41.7	50.5	71.0	85.8	55.3	36.7	25.0
Sectoral distribution of loans								
Central Bank	0.0	0.0	0.7	0.9	2.2	4.5	4.3	5.1
General Government	3.0	3.7	4.7	6.7	8.6	9.2	10.3	10.5
Financial corporations	11.1	12.5	13.5	13.0	12.1	9.7	8.2	6.8
Nonfinancial Corporations	51.5	49.0	48.5	47.0	44.8	40.2	35.3	34.4
Other Domestic Sectors	19.2	19.3	20.7	21.1	21.0	23.3	25.4	27.8
Nonresidents	15.2	15.4	11.9	11.3	11.2	13.0	16.5	15.4

Sources: Bank of Slovenia and IMF FSI.

INTERNATIONAL MONETARY FUND

REPUBLIC OF SLOVENIA

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

April 22, 2016

Prepared By	European Department

CONTENTS

FUND RELATIONS

(As of February 29, 2016)

Membership Status: Joined 12/14/1992; Article VIII

General Resources Account:

	SDR Million	Percent of Quota
Quota	586.5	100
Fund holdings of currency	430.37	73.38
Reserve position	156.16	26.63
Lending to the Fund		
Borrowing Agreement	3.10	

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	215.88	100
Holdings	162.5	75.27

Outstanding Purchases and Loans: None

Financial Arrangements: None

Projected Payments to Fund:
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2016	2017	2018	2019	2020
Principal					
Charges/Interest	0.03	0.04	0.04	0.04	0.04
Total	0.03	0.04	0.04	0.04	0.04

Exchange Rate Arrangement:

Slovenia adopted the euro on January 1, 2007. Slovenia has accepted the obligations of Article VIII. Slovenia maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, with the exception of exchange restrictions maintained for security reasons, which have been notified to the Fund pursuant to Decision
No. 144-(52/51).

Article IV Consultation:

Slovenia is on the 12-month Article IV consultation cycle. The 2016 mission visited Ljubljana March 16–29, 2016, and held discussions with the Minister of Finance, the Governor of the Bank of Slovenia, and other key economic ministers, government officials and representatives of the Parliament, financial sector, labor, business and the media. Mr. Repansek (Adviser to the Executive Director) attended the meetings.

The mission comprised Mr. Gueorguiev (Head), Mr. Halikias, Mr. Ralyea (all EUR), Mr. Dwight (SPR), and Mr. Visconti (MCM). The mission held a press conference on March 29, 2016.

FSAP Participation and Reports on Standards and Codes (ROSCs):

An FSAP mission took place November 6–20, 2000, and an FSSA report (SM/01/129) was issued on April 24, 2001, and published on September 18, 2001 (Country Report No. 01/161).

The fiscal transparency module of the fiscal ROSC was published in June 2002.

An FSAP Update mission visited Ljubljana November 10–21, 2003. An FSSA report (SM/04/152) was issued on April 26, 2004, accompanied by ROSCs on Banking Supervision and Insurance Supervision (May, 2004).

An FSAP mission took place April 4-16, 2012. An FSSA report (Country Report No. 12/325) was published on December 6, 2012, accompanied by the Detailed Assessment of Observance of Basel Core Principles for Effective Banking Supervision (Country report No. 12/324).

Technical Assistance: See attached table.

Resident Representative Post: None.

Table 1. Republic of Slovenia: Technical Assistance, 2001–15

Department	Timing	Purpose
MCM	December 2009	Financial Supervisory Architecture
	October 2012	Bank Resolution
	December 2012	Bank Asset Management Company
	November 2013	Stress testing Workshop
	December 2013	Peripatetic expert, Financial Stability
	May 2014	Bank supervision
	December 2014	Bank resolution framework
LEG	October 2013	Insolvency Law
FAD	August 2001	VAT
	November 2001	Direct Tax Reform
	November 2003	Expenditure Rationalization
	May 2004	Options for Short-Term Public Expenditure Rationalization
	October 2004	Performance Information to Support Better Budgeting
	April 2014	Strengthening the Public Financial Management Framework
	May 2015	Establishing a Spending Review Process
	October 2015	The 2013 Property Tax Act: Evaluation of its Design and the Employed Mass Valuation System
STA	November 2004	Recording Transactions in International Trade in Services
	April 2006	Government Finance Statistics

STATISTICAL ISSUES

Data provision is adequate for surveillance purposes.

Special Data Dissemination Standard: Slovenia has subscribed to the Special Data Dissemination Standard (SDDS), meets SDDS specifications, and posts its metadata on the Fund's Dissemination Standards Bulletin Board on the Internet.
http://dsbb.imf.org/Applications/web/sddscountrycategorylist/?strcode=SVN

Real Sector Statistics: The Statistical Office of the Republic of Slovenia (SORS) follows the European System of Accounts 2010 (ESA10). Quarterly GDP estimates by industry and expenditure categories are compiled in both current and constant prices, and are published within 80 days after the reference quarter. In September 2005, the SORS changed the base year for compiling constant prices GDP from 2000 to the previous year's prices and started using the chain–link index methodology.

The SORS compiles the Harmonized Index of Consumer Prices (HICP) for monitoring compliance with the Maastricht inflation criterion. However, price collection is restricted to four cities and their surrounding rural areas. The weights are based on the three-year average of expenditure data for consumer goods from continuous Household Budget Surveys for 2002, 2003, and 2004. It also compiles a retail price index (RPI), which differs from the consumer price index in weights only.

Government Finance Statistics: Slovenian fiscal statistics are timely and of a high quality. The ministry of finance publishes a comprehensive monthly *Bulletin of Government Finance*, which presents monthly data on the operations of the "state budget" (Budgetary Central Government), local governments, social security (Pension and Health funds), and the consolidated general government. The coverage of general government excludes the operations of extra-budgetary funds and own revenues of general government agencies *(zavods)*. However, these operations are small in size. Monthly fiscal indicators are reported for publication in *IFS* on a timely basis and annual statistics covering general government operations, including the operations of the extra-budgetary funds are reported for publication in the *Government Finance Statistic Yearbook* (*GFS Yearbook*).

The data published in the *Bulletin of Government Finance* are on a cash basis and broadly use the analytical framework and classification system of the IMF's 1986 government finance statistics methodology. The data reported for publication in the *GFS Yearbook* are also on a cash basis but are recast in the analytical framework and classifications of the *Manual on Government Finance Statistics 2001*(*GFSM 2001*).

The Slovenian authorities adopted the *GFSM 2001* methodology, which is used as a building block for the compilation of the ESA 2010–based data jointly by the Ministry of Finance and the SORS for reporting to the European Commission. To assist the Ministry of Finance resolve several classification issues and develop a migration path, a STA technical assistance mission visited Ljubljana in April 2006. The introduction in 2008 of a new chart of accounts for all public entities based on accrual principles greatly facilitated the adoption of the new methodology.

Money and Banking Statistics: Monetary statistics are timely and of good quality.

Balance of Payments Statistics: Balance of payments data are comprehensive and of high quality. The data have been published in the *Balance of Payments Statistics Yearbook* since 1993 (with estimates of the international investment position published since 1994). In 2002, the Bank of Slovenia revised balance of payments statistics back to 1994; the most significant revisions were related to the income component of the current account and to the other investment component of the financial account. In June 2014, the Bank of Slovenia began reporting balance of payments and international investment position data according to the methodology of the sixth edition of the Balance of Payments Manual (BPM6). In September 2014, the Bank of Slovenia started reporting financial accounts according to the European System of National and Regional Accounts 2010 (ESA2010).

External Debt Statistics: External debt statistics were revised and brought in line with the SDDS in August 2003.

Republic of Slovenia: Table of Common Indicators Required for Surveillance
(As of April 14, 2016)

	Date of Latest Observation	Date Received or Posted	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	4/[14]/16	4/[14]/16	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	3/16	[4/16]	M	M	M
Reserve/Base Money	3/16	[4/16]	M	M	M
Broad Money	3/16	[4/16]	M	M	M
Central Bank Balance Sheet	3/16	[4/16]	M	M	M
Consolidated Balance Sheet of the Banking System	3/16	[4/16]	M	M	M
Interest Rates[2]	3/16	[4/16]	M	M	M
Consumer Price Index	3/16	3/16	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	1/16	3/16	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	2/16	3/16	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/15	3/16	M	M	M
External Current Account Balance	2/16	[4/16]	M	M	M
Merchandise Trade	2/16	[4/16]	M	M	M
GDP/GNP	Q4/15	2/16	Q	Q	Q
Gross External Debt	2/16	[4/16]	M	M	M
International Investment Position	Q4/15	3/16	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition. The first date corresponds to the stock of central government debt while the second to the stock of central government guaranteed debt.

[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).