

SU/21/63

May 19, 2021

**The Acting Chair's Summing Up
Republic of Slovenia—2021 Article IV Consultation
Executive Board Meeting 21/49
May 19, 2021**

Executive Directors agreed with the thrust of the staff appraisal. Slovenia has been hard-hit by the COVID-19 pandemic. Directors commended the authorities for their swift, substantial, and coordinated policy response. The anti-crisis measures have mitigated the economic and social consequences of the pandemic, including by preserving jobs and providing liquidity and income support to firms and households. The recovery is expected to be driven by a rebound in consumption and investment, including public investment supported by EU funds. Uncertainty around the outlook is high and there are downside risks, mainly related to epidemiological developments.

Directors recommended maintaining the strong fiscal support in the near term, with well-targeted policies that are continuously assessed and adjusted to the evolving conditions. Once the recovery is entrenched, the emergency measures should be withdrawn, and the focus should shift toward consolidation. The large fiscal deficit should be reduced gradually over the medium term to maintain buffers, and fiscal rules should continue to play a strong role. The ambitious public investment plans call for improved public finance management to mitigate execution risks.

Although bankruptcies have not increased so far, risks to financial stability have risen. Directors stressed the need for continuing the close monitoring of banks' asset quality. Given that the exit from loan moratoria has started, the phasing out of measures should be gradual and well-coordinated to avoid cliff-edge effects. Macroprudential policies should continue to be reviewed on a regular basis to ensure an appropriate balance between financial stability and the need for credit to the economy.

The pandemic has had an uneven impact on employment. Directors encouraged the authorities to continue to adapt policies to facilitate labor reallocation and provide support to those affected the most—low-skilled workers, women and youth. Active labor market programs could effectively be used to help transition between jobs. These programs could be supplemented with measures to improve the business environment and to strengthen the social safety net.

Directors welcomed the authorities' focus on digitalization and climate change mitigation. Improving the digital infrastructure, building human capital, and promoting digital inclusion would boost productivity and resilience. The goal of reaching carbon neutrality by 2050 would be best achieved by combining investment in green technologies

with taxation of polluting industries. The Next Generation EU instrument could play a key role in Slovenia's digital and green transformation.

It is expected that the next Article IV consultation with the Republic of Slovenia will be held on the standard 12-month cycle.