

The contents of this document are preliminary and subject to change.

GRAY/21/1271

May 17, 2021

**Statement by Mr. Merk and Mr. Krahnke on Republic of Slovenia
(Preliminary)
Executive Board Meeting
May 19, 2021**

We thank staff for the informative report and Mr. Palotai and Mr. Pucnik for their helpful Buff statement. **We associate ourselves with the Gray issued by Mr. Poso and also concur with the thrust of the appraisal.** While the initial pandemic wave was relatively mild, case numbers in Slovenia increased rapidly last fall and are now gradually trending downward as the vaccination campaign gathers pace. The economic slump was significant, although targeted support measures and an advantageous manufacturing-based economic structure helped to keep the loss of GDP and employment below the EU average. We agree with staff that continued supportive policies remain warranted until the pandemic is durably brought under control. Looking ahead, we encourage the authorities to place greater emphasis on setting the course for policies that promote inclusive and sustainable growth.

Amid a progressing vaccination campaign and a firming economic outlook, we agree with staff that the focus of fiscal policies should gradually shift towards promoting growth-enhancing investments, enhancing resilience and safeguarding sustainability. While noting absorptive capacity constraints, we encourage the authorities to strengthen public investment management with a strong focus on selecting projects based on technical and economic viability, cost efficiency, and good governance practices. We appreciate the authorities' commitment to initiate consolidation measures to bring the public debt-to-GDP ratio on a credible downward path once public health conditions allow. *In this context, we would welcome additional staff information on the structural measures hinted to by the authorities in para 20 on ageing costs.* We take positive note of the authorities' plan to retain the short time work program to strengthen the social safety net. *How do staff assess the suitability of this program to complement existing automatic stabilizers in future shocks while also allowing for structural reallocation in the labor market?*

We agree with staff's recommendations on financial sector policies, which should aim at containing risks to financial stability and facilitating a smooth and rapid recovery when exiting from extraordinary support measures. Efficient insolvency procedures and sufficient capacities in the judicial system are needed to avoid a backlog in court proceedings that could result in widespread “zombification” and credit misallocation should the number of firm failures rise substantially. Looking ahead, stepping up efforts to develop capital markets might be beneficial to support efficient capital allocation conducive to firm growth and entrepreneurial innovation.

Given the stated expectation of close government involvement in the selection of viable firms when public support is considered (fn. 14), we would like to recall the need for a transparent process and to seek to benefit from private sector experience in the assessment of the viability of firms and their business models.

We note staff's assessment of Slovenia's external position to be substantially stronger than implied by fundamentals and desirable economic policies. We agree with the authorities that the increased current account surplus in 2020 can be largely explained by temporary pandemic-related effects, such as forced savings, lower energy import prices and the resilience of external demand for manufacturing goods. A post-pandemic impetus on structural reforms and the continued reduction of the state's footprint in the economy would be conducive to promoting private investments and attracting FDI.