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May 17, 2021

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

We thank staff for the comprehensive report and Mr. Palotai and Mr. Pucnik for the helpful Buff statement.

We commend the authorities for the swift and well-coordinated policy response to the pandemic which has helped support the most vulnerable and averted a larger output loss. We also take a positive note of the ongoing vaccination program which should support the economic recovery, especially if downside risks, including new variants of the virus, do not materialize. The recovery would also benefit from the Next Generation EU (NGEU) funds and continued fiscal support. We broadly agree with the thrust of staff's assessment and would limit ourselves to two points.

Fiscal support should continue until the recovery is entrenched, but fiscal consolidation would be crucial in the medium term to safeguard fiscal sustainability. To this end, fiscal spending should be well-targeted and more efficient to preserve fiscal space. The Buff statement indicated that the Slovenian government adopted amendments to three tax laws in a bid to reduce labor taxation and help businesses and individuals in the post-COVID recovery, effective January 1, 2022. *Was staff able to assess the implications of the three tax amendments on the budget and the economic outlook?*

We welcome the National Recovery and Resilience Plan (NRRP) which provides an ambitious development strategy to enhance investment on digital transformation and green transition. The NRRP would utilize a large part of the EU funds to further expand public sector investment in these key areas, whereas Funds available under REACT-EU would be used for projects in health, labor market, infrastructure, and development of entrepreneurship. To enhance the absorptive capacity of the EU funds and increase their effectiveness, the public investment management should be further improved, and adequate safeguards should be put in place to ensure the efficiency and transparency of funds' spending. Moreover, the NRRP plans can be leveraged to support the reallocation of labor to smarter and greener sectors, which would boost productivity in the long-term while limiting

carbon footprint. We, therefore, share staff's views that labor market policy should remain nimble and flexible while working to upskill and reskill the labor to meet the needs for the skills of the future (i.e. digital skills). *We would appreciate staff comments on how the young, low-skilled, and females, who endured most of the job losses during the pandemic, could benefit from the new public investment projects?*

Structural reforms aimed at improving the business environment and strengthening the social safety net should continue. Efforts should be geared toward improving the digital infrastructure and access to internet, building human capital through investing in education, and improving the regulatory framework to create an enabling environment for business.