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May 17, 2021

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

We thank staff for the report and Mr. Palotai and Mr. Pucnik for their informative Buff statement. We agree with the thrust of the staff's report. We commend the authorities for the decisive response to the pandemic, which effectively helped contain the decline in economic activity in 2020.

While sufficient fiscal support should be in place to sustain the recovery, the fiscal focus should gradually shift towards structural reforms and consolidation. As the recovery takes hold, fiscal support should become more targeted and resources should be redirected toward reforms to boost potential growth and improve fiscal sustainability as well as rebuilding fiscal buffers. A public investment push supported by the EU resources can help, but public investment execution must be efficient. We concur with staff that reforms to the pension, health and education systems as well as addressing the high public wage bill will be necessary to improve fiscal sustainability. With public debt projected to recede at a slow pace over the medium term and contingent liabilities assessed to pose a major risk to the DSA baseline scenario, a strengthened fiscal stance will be critical to rebuild fiscal buffers.

The unwinding of pandemic measures for the financial sector will have to be conducted in a prudent manner. Close monitoring of the financial sector is warranted to detect the build-up of financial stability risks, avoid credit misallocation, and guide the exit from the support measures. At the same time, the exit strategy should also be accompanied by measures to strengthen the judiciary system and the insolvency framework to ensure preparedness in case the risk of a wave of bankruptcies were to materialize.

Structural reforms are instrumental for increasing productivity and boosting potential growth post-Covid. Digital and aging trends as well as the transition to a low-carbon economy call for proactive and adaptive policies. In this regard, the crisis provides the

opportunity to seek a society-wide consensus on the general economic framework for the future while also tackling unresolved development challenges. A boost in public spending will need to be well designed and targeted as well as supported by an appropriate procurement framework. Infrastructure projects must be carefully scrutinized in terms of their life-cycle viability, including their maintenance costs. Therefore, we would like to encourage the authorities to consider taking Fund's public investment management assessment (PIMA) that could help evaluate the strengths and weaknesses of the existing public investment management assessment framework. *Staff's comments on the authorities' plans in this regard would be welcome.*