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May 17, 2021

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

We thank staff for the insightful report and Mr. Palotai and Mr. Pucnik for their helpful Buff statement. The pandemic crisis has interrupted Slovenia's robust and broad-based economic growth. We commend the authorities for their swift policy response to the pandemic. Thanks to their actions, the GDP contraction and unemployment increase are milder than expected and below the EU average. Looking forward, we encourage the authorities to continue coping with the short-term challenges from the pandemic while facilitating a stronger, greener, and smarter growth in the long run. We agree with the thrust of staff's appraisal and would like to limit ourselves to the following comments for emphasis.

**Fiscal Policy**

We take positive note that the budget for 2021 remains supportive and most of the COVID-19 measures are extended until end-June. The short-time work scheme, which was first introduced by the authorities in June 2020, is expected to become a permanent part of Slovenia's social safety net. *Could staff elaborate more on its effectiveness in supporting workers during the pandemic and whether the authorities need to make any adjustments on its eligibility or parameters to ensure it fit for long-term use purpose?* The public debt increased sharply but remains sustainable. Once the recovery is firmly underway, a credible medium-term fiscal framework should be in place to rebuild fiscal buffer. To better harvest the benefits from the authorities' ambitious investment plan, improving the public investment management is instrumental. *We take note that staff has presented the Public Investment Management Assessment (PIMA) to the authorities during the mission. Could staff shed light on any feedback to this from the authorities?*

**Financial Sector**

The financial sector remains resilient while risks to financial stabilities have increased. The authorities are encouraged to continue closely monitoring the banks' asset quality since the Non-Performing Loans (NPL) ratio has risen in some most-affected sectors. The stagnated growth in credit to private sector is a source of concern. The authorities introduced sizable public guarantee schemes, but only a very small amount has been used. In this regard, the relaxation of macroprudential measures in June 2020 to allow higher borrowing capacities for households whose income is temporarily impacted by the pandemic are a step in the right direction. Looking forward, we share staff's suggestion that macroprudential measures should be frequently reviewed to ensure the balance between financial stability and the need to support credit to the economy.

### **Structural Reforms**

We agree with staff that the labor market policy should remain nimble and flexible. Training programs, job search services, and other active labor market policies would assist the reallocation of the workforce as the long-term effects of the pandemic on labor market become clearer. The authorities' Recovery and Resilience Plan rightly identified digitalization and climate change as their investment priorities. More efforts are needed to close the digital infrastructure gap and reskill workers. We welcome the authorities' ambitious goal in emission reduction and take note that some carbon-intensive sectors, such as transportation, are not sufficiently taxed. Carefully designed measures should be in place to minimize risk of distortion and protect the most vulnerable before raising the carbon tax.

With these remarks, we wish the authorities every success in their policy endeavors.