REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Assessment of compliance of fiscal policy with the fiscal rules on the basis of the draft Stability Programme 2020 and the proposed Ordinance amending the Ordinance on the framework for the preparation of the general government budgets for the 2020-2022 period

April 2020

Document No: 30-2/2020/3

The assessment was made on the basis of the proposed Ordinance amending the Ordinance on the framework for the preparation of the general government budgets for the 2020–2022 period and the draft Stability Programme 2020, which were received by the Fiscal Council on 24 April 2020. Data available up to and including 24 April 2020 was used.

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EXECUTIVE SUMMARY

On 24 April 2020, the Fiscal Council received the proposal for the Ordinance amending the Ordinance on the framework for the preparation of the general government budgets for the 2020–2022 period and the draft Stability Programme 2020 for the assessment of their compliance with the fiscal rules. According to the assessment of the Fiscal Council of 17 March 2020, the COVID-19 epidemic constitutes exceptional circumstances, which, under Article 12 of the Fiscal Rule Act, provide for a temporary deviation from the medium-term fiscal balance. In such circumstances, extensive and multi-stage measures are appropriate and necessary. The measures are more effective when they are appropriately oriented, timely and simple. Due to their extensive nature, they must be fully transparent and, with regard to fiscal sustainability, temporary and appropriately positioned in a credible medium-term framework. While recognising the high uncertainty of the intensity and duration of the economic downturn and the actual fiscal effect of the accepted and the announced measures, we find that the measures adopted so far do not fully comply with the stated principles.

Slovenia has entered this crisis after years of relatively high economic growth, with general government surplus, but with a higher general government debt than prior to the financial crisis. Moreover, economic growth had already declined beyond expectations before the outbreak of the epidemic, while the fiscal policy has been inappropriately expansionary throughout the past two years. Whether the current crisis is only temporary or if it becomes a structural one with long-term negative consequences for prosperity and fiscal sustainability depends on the effectiveness of the measures.

The Fiscal Council's findings about the macroeconomic and fiscal projections are as follows:

- The economic situation is extremely uncertain, with all currently available projections indicating a considerable economic downturn in 2020. In the given circumstances, the uncertainties are, even more than usual, linked to long-term economic growth estimates and thus to the estimates of the level of the output gap. It is not known whether the current shock will be only temporary or whether the effects of the epidemic on the contribution of individual production factors to the economic potential will become more significant in the long-term and to what extent.
- The draft Stability Programme 2020 predicts a general government deficit of approximately 8% of GDP in 2020. This is due to lower revenue, mainly because of the economic downturn, and even more so to an increased expenditure resulting from the operation of automatic stabilisers and the measures to prevent the consequences of the epidemic. The general government debt is projected to exceed 80% of GDP by the end of 2020. In addition to the institutional framework and the measures at the euro area level that are currently contributing to maintaining favourable financing conditions, effective measures for maintaining the economic potential could particularly contribute to the sustainability of the increased debt in the long-term.

The main findings regarding compliance with the applicable fiscal rules on the basis of the Framework proposal and the projections of the draft Stability Programme 2020:

- In 2020, declaring exceptional circumstances provides for a temporary deviation from pursuing the medium-term fiscal balance; however, the part of the expenditure that is not temporary or related to the measures adopted to limit the consequences of the epidemic must remain in accordance with the applicable fiscal rules. Only in this case, remaining in accordance with the legislation, will the temporary deviation not compromise the medium-term fiscal sustainability.
- The projections in the submitted documents and thus the inputs determining the maximum permitted level of general government expenditure are exposed to significant risks. The Fiscal Council assesses that, according to the mathematical formula determined in the Fiscal Rule Act, the general government expenditure for 2020 that is projected in the Framework proposal and is not one-off or temporary or aimed at eliminating the consequences of the epidemic is too high; however, considering the high level of uncertainty, the regular expenditure projected in the Framework proposal could fall within the area that is still in accordance with the permitted maximum expenditure level defined on the basis of all the currently available data.

The received budgetary documents do not include all the measures to eliminate the consequences of the epidemic, since some of them are still in the process of adoption or preparation. The Fiscal Council does not assess the adequacy of measures but gives an assessment of their fiscal impact. Room for manoeuvre for expenditure that is not related to the epidemic also depends on this assessment. The main findings are as follows:

- The content and the estimated scope of the measures are similar to those in other countries and address the direct social and economic consequences of the crisis in order to maintain the economic potential.
- The complexity of the measures may contribute to the delay and the efficiency of their implementation, thus increasing the risk of job losses that could be prevented with a simpler and faster implementation.
- A significant part of the measures includes lump-sum transfers to certain population groups, which will have a smaller impact on maintaining the consumption level while the restrictive measures to contain the epidemic still apply than they would have at the exit from the crisis. Moreover, the conditions of entitlement to benefits for individual groups are unclear.
- While introducing extensive measures to eliminate the consequences of the epidemic, decision-makers must be aware that this will place a significant burden on public finances. The government will have to finance the measures by borrowing on financial markets or predominantly using debt instruments available at the EU institution level.

The received documents contain some shortcomings regarding the legislative provisions that could have negative consequences for the transparency of fiscal planning. According to the Fiscal Council, transparency should be one of the basic guidelines of economic policy-makers despite the current uncertainty, in particular considering the significant fiscal consequences of the current situation:

- The Government of the Republic of Slovenia submitted the proposal for the Ordinance amending the Ordinance on the framework for the preparation of the general government budgets for the 2020–2022 period and the draft Stability Programme 2020 to the National Assembly and the

Fiscal Council after the expiry of the deadlines determined by the Fiscal Rule Act. According to the Act, the draft documents should be submitted 20 days before the due date for submitting the Stability Programme to the European Commission at the end of April, and the National Assembly should adopt the framework five days before the end of April. The delay is somewhat understandable, since the new government was formed in mid-March and, in the following weeks, proceeded to adopt measures to mitigate the consequences of the epidemic, which are mostly included in both documents.

- The Public Finance Act stipulates that the Institute of Macroeconomic Analysis and Development (IMAD) prepares and publishes the macroeconomic scenario for the preparation of fiscal projections in the Stability Programme. The draft Stability Programme 2020 did not comply with this stipulation, since the IMAD forecasts have not been published and the document contains only a limited part of the macroeconomic scenario. Since comprehensive forecasts, on the basis of which the general government revenue projections were prepared, are unavailable, the Fiscal Council cannot fully assess the latter, which, considering the current risks, raises additional doubts about their credibility.
- While, in accordance with the legislation, both submitted documents should provide the basis for medium-term budget planning and budget preparation for 2021, they only include assessments for 2020. Thus, formally they do not comply with the legal requirements for medium-term budget planning. The Fiscal Council anticipates that the expected changes to the budgetary documents will set out an appropriate path towards the gradual rebalancing of public finances in the medium-term as early as this year. According to the Fiscal Council, the proposed solution of the Act on Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic, which has not been adopted yet, providing that the government would not adopt a National Development Policy Programme and a medium-term fiscal strategy in 2020 and 2021, which are determined by the Public Finance Act, also means a deviation from a transparent medium-term budget planning.

Legislative framework

On 24 April 2020, the Ministry of Finance submitted a proposal for the amended Ordinance on a framework for the preparation of the general government budget for the 2020–2022 period (hereinafter: the proposed Framework) and the draft Stability Programme 2020 (hereinafter: the SP 2020) to the Fiscal Council for the assessment of compliance with fiscal rules.

Pursuant to paragraph 2 of Article 6 of the Fiscal Rule Act (the ZFisP), the Government of the Republic of Slovenia must forward the Framework proposal for the preparation of budgets together with the draft of the Stability Programme to the National Assembly of the Republic of Slovenia and the Fiscal Council at least 20 days before the due date for submitting the Stability Programme to the European Commission (hereinafter: EC) at the end of April. Pursuant to paragraph 1 of Article 9f of the Public Finance Act (ZJF), the Fiscal Council submits its assessment of the Framework proposal and the draft Stability Programme to the Government of the Republic of Slovenia and to the National Assembly within seven days of their receipt. Pursuant to Article 6 of the ZFisP, the Framework is adopted by the National Assembly of the Republic of Slovenia upon the proposal of the Government of the Republic of Slovenia no later than five days before the deadline for submitting the Stability Programme to the EC. We note that the deadline for submitting the SP 2020 and the Framework proposal to the National Assembly of the Republic of Slovenia and to the Fiscal Council has not been respected, as will not be the deadline for adopting the Framework proposal by the National Assembly of the Republic of Slovenia.

Pursuant to paragraph two of Article 6 and point 1 of paragraph two and point 1 of paragraph three of Article 7 of the ZFisP, the Fiscal Council is obliged to assess the sustainability and compliance of fiscal policy with the fiscal rules based on the draft Stability Programme. Article 3 of the ZFisP stipulates the method for determining the ceiling for general government expenditure in relation to the economy's position in the cycle. The Fiscal Council assesses the appropriateness of the proposed amendments to the Framework in accordance with point 5 of paragraph two and point 4 of paragraph three of Article 7 of the ZFisP.

On 17 March 2020, the Fiscal Council assessed the announcement of the epidemic in Slovenia as an unusual event, which, under Article 12 of the ZFisP, makes it possible to invoke exceptional circumstances for measures aimed at mitigating the consequences of such an event, and thus to temporarily deviate from the medium-term fiscal balance.[1] The permitted temporary deviation from the medium-term balance also means that, in the present document, the Fiscal Council assesses the compliance of fiscal developments presented in the Framework proposal or in the SP 2020 with fiscal rules in accordance with point 8 of paragraph two and point 5 of paragraph three of Article 7 of the ZFisP. In this context, it examines in particular whether the part of expenditure determined in the Framework proposal related to the position of economic cycle is adequate, while it does not assess the eligibility of expenditures related to the remedy of the effects of the epidemic. Nevertheless, it assesses the scope of the anti-crisis expenditure, since the room for manoeuvre for expenditure that is not related to the epidemic also depends on this assessment. Due to the high level of uncertainty associated with the input variables, the current estimates of the allowed maximum expenditure level are of a purely illustrative nature.

[1] http://www.fs-rs.si/introduction-of-conditions-enabling-the-application-of-exceptional-circumstances-under-the-fiscal-rule-act-and-the-publication-of-the-assessment-of-the-coalition-agreement/.

1. Macroeconomic and fiscal conditions and forecasts

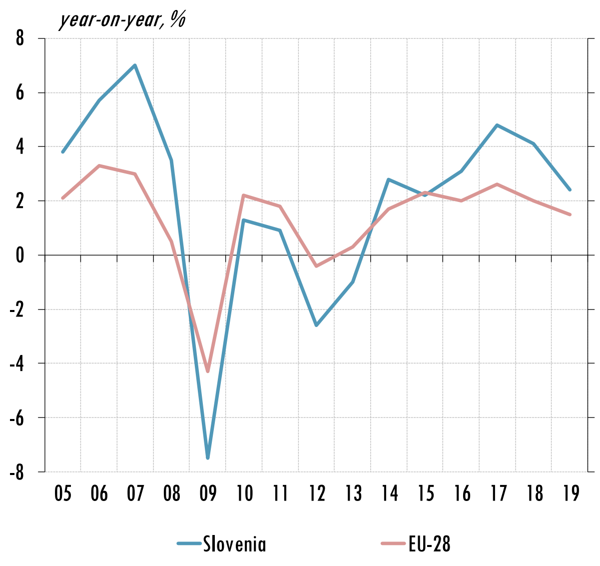
Key findings

- After several years of relatively high and broadly based economic growth, the GDP is expected to decline by approximately 8% this year, which is surrounded by the high level of uncertainty of the baseline scenario.
- After an improvement in the previous years, mainly as a result of favourable economic conditions accompanying expansionary fiscal policy in the past two years, the general government balance is expected to show a deficit of 8.1% of GDP this year due to an economic downturn and extensive measures to mitigate the consequences of the epidemic.
- The content and the estimated scope of the adopted and the announced measures to mitigate the consequences of the epidemic are generally adequate and similar to those in other countries; however, they show certain shortcomings primarily related to the complexity and lengthiness of their implementation, posing a risk to their efficiency in maintaining the economic potential.

1.1 Macroeconomic conditions and forecasts

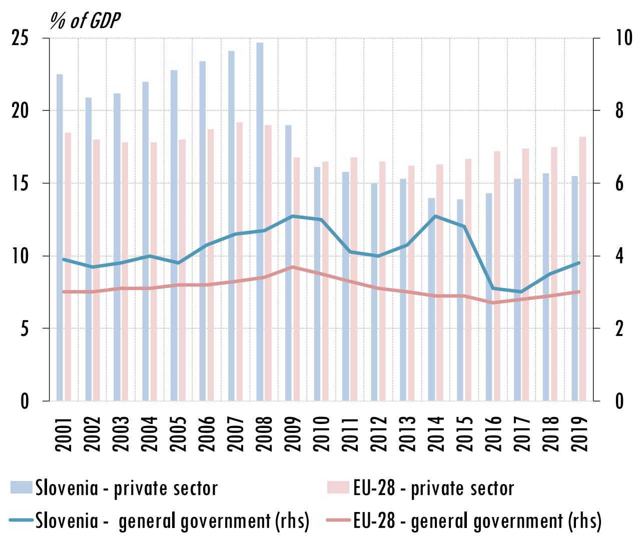
Slovenia has entered this crisis after years of relatively high and balanced economic growth, which, unlike the period before the financial crisis ten years ago, has not caused macroeconomic imbalances. During the period of the last recovery since 2014, real GDP growth has been 3.2% on average and thus considerably above the EU average (2.0%). At the beginning of this period, recovery was mainly due to an increase in foreign trade, stimulated by the improvement of conditions in the main trading partners. The improvement of conditions in the export-oriented part of the economy was reflected in the gradual improvement of the aggregates of domestic consumption. A significant increase in employment contributed to larger employee compensation growth and

Figure 1.1: Real GDP growth



Source: Eurostat.

Figure 1.2: Gross fixed capital formation

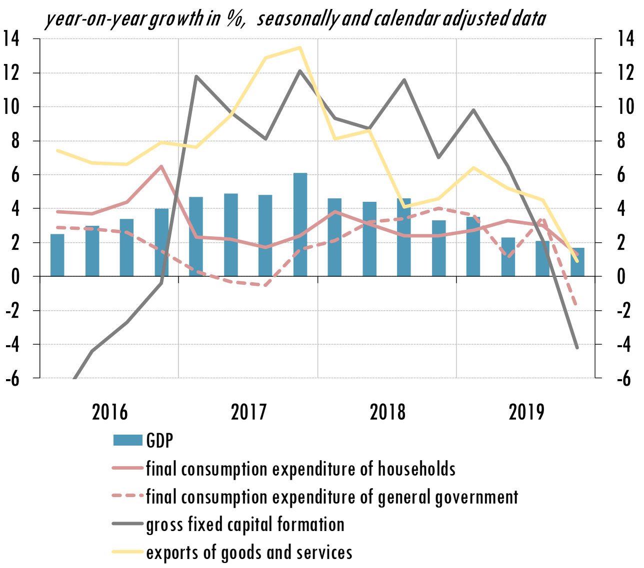


Source: Eurostat, FC calculations.

consequently also to larger private consumption growth, while an improvement in companies' business results contributed to the growth of gross operating surplus and, due to favourable prospects of future economic growth, to an increase in investment activities. Furthermore, price and cost-related pressures have been relatively limited, at least until the last two years. It is particularly important to note that no macroeconomic imbalances occurred in the last few years. Household and, in particular, corporate sector debts are considerably lower than before the beginning of the financial crisis ten years ago, while at the same time both sectors have significant liquidity reserves in the form of deposits. The banking sector is better capitalised, supervised and is also privatised, which means a considerably lower risk at least for public finances compared to the financial crisis a decade ago. With regard to long-term growth prospects, the slowdown in productivity growth in recent years represents a concern, and is characteristic of the majority of developed countries. This is partly related to the level of investments, both private and public, although their share in GDP has increased slightly in recent years. Furthermore, the share of public investments in Slovenia is above the EU average and lags less behind the average of the period before the financial crisis, while the share of private investments in the GDP is below the EU average and lags significantly more behind the average of the pre-crisis period.

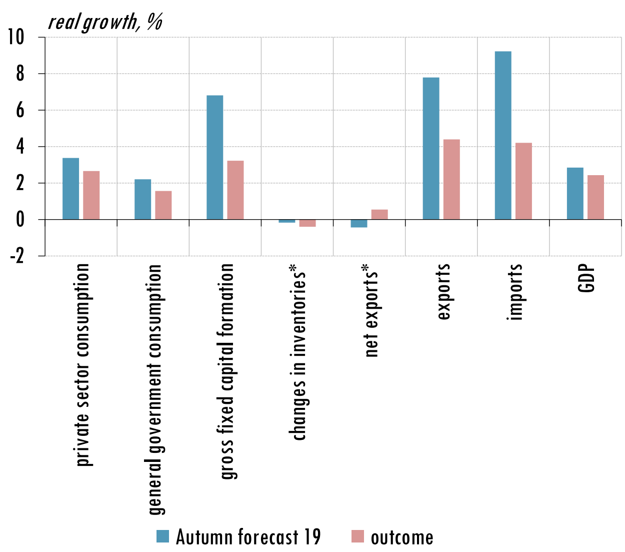
In 2019, economic growth slowed down further particularly due to increased uncertainty in the international environment. Last year, real GDP growth was 2.4%, which is the lowest since 2015 and less than the autumn IMAD forecast that provided the basis for the latest applicable budget documents. Considering the increased uncertainty, global trade volume decreased last year for the first time since 2009, which influenced the slowdown in export[2] and investment growth. Gross fixed capital formation was the main reason for the slowdown in economic growth in 2019, particularly due to a year-on-year decrease in the last quarter of 2019.[3] The key factor of economic growth was therefore an increase in private consumption stemming from a further increase in disposable income.[4] Despite the slowdown, economic growth has had a positive impact on the growth of general government revenue due to its structure with a dominant contribution of final consumption.

Figure 1.3: Real GDP growth - expenditures



Source: SORS.

Figure 1.4: Forecast and outcome comparison for 2019



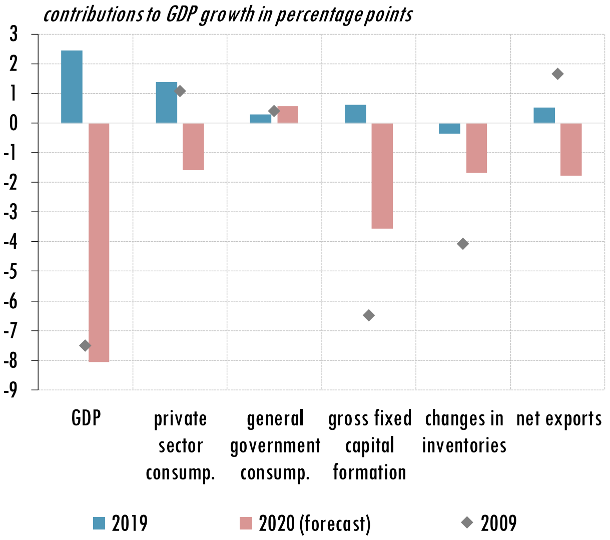
*Note: *contribution to real GDP growth*
Source: SORS, IMAD.

[2] With the simultaneous slow-down of import growth, the contribution of the foreign trade balance was more positive than in the previous year.

[3] Growth of investments in machinery and equipment slowed down in 2019, and government sector investment growth more than halved compared to the year before.

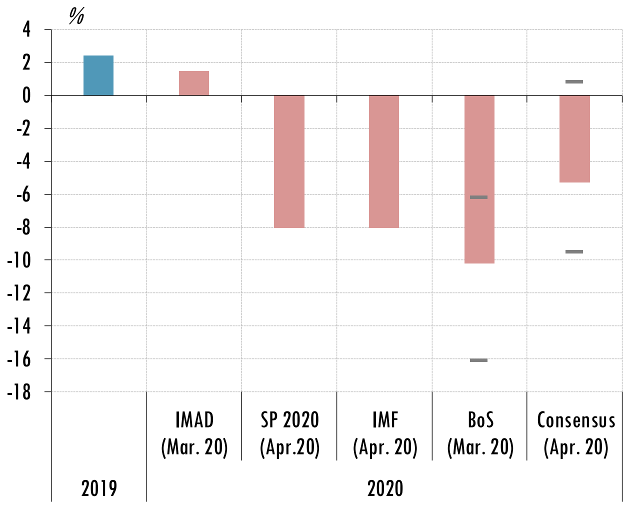
[4] The nominal growth in household disposable income (5.6%) was mainly the result of an increase in compensation of employees combined with favourable labour market conditions, as well as accelerated growth in social benefits.

Figure 1.5: GDP - expenditures



Source: SORS, SP 2020 (Apr. 20).

Figure 1.6: Real GDP growth in 2019 and forecasts for 2020



Sources: SORS, IMAD, SP 2020 (Apr. 20), IMF, BoS, Consensus Economics.

Along with the considerable uncertainty in the baseline scenario, the IMAD macroeconomic scenario included in the SP 2020 predicts a steep and extensive decline in GDP. IMAD expects a decrease in GDP of more than 8% this year, which would mean an even more significant decrease than in 2009. A decrease in all GDP components is expected except for government spending. A similar decrease in export and investment activity is expected as in 2009 and 2010 while a similar reduction in private consumption is expected as in 2012 and 2013, being the second wave of the previous crisis, even though an increase in private consumption was still recorded at the beginning of the financial crisis. Moreover, the nominal GDP is expected to decrease slightly more than in 2009, which will also reflect in a decline in general government revenue. Along with the high level of uncertainty regarding both, the duration and the depth of the decline, the IMAD scenario is similar to the currently available forecasts from other institutions.

Fiscal projections under Slovenian and European law are based on independent and publicly available macroeconomic projections, which has not been taken into account in the case of the SP 2020. Paragraph 4 of Article 9b of the Public Finance Act stipulates that IMAD shall publish the forecast that provides the basis for fiscal projections on its website; however, it has not been published by the time of the preparation and publication of the current Fiscal Council assessment. Realistic and impartial macroeconomic projections as the basis for credible fiscal planning is also determined by the Council Directive 2011/85/EU. The SP 2020 states that IMAD has prepared a so-called COVID-19 scenario of the spring forecast in the form of internal documentation for the purpose of preparing budget documents. On the basis of the received proposed Framework and the SP 2020, the Fiscal Council notes that these documents do not include all the elements that would enable the Fiscal Council to assess their compliance with the fiscal rules and ensure the transparent publication of the Fiscal Council's assessments. In particular, general government sector revenue projections cannot be assessed properly due to the unavailability of the tax bases projections referred to in the Manual for the preparation of general government sector projections.[5] Since IMAD has not published its comprehensive independent macroeconomic projections and output gap assessment which consequently prevents the Fiscal Council from providing its comprehensive output gap assessment, it is not possible to

[5] https://www.gov.si/assets/ministrstva/MF/ekonomska-in-fiskalna-poltika/Blagajne-JF/Prirocnik-za-napovedovanje-prihodkov-2019.pdf - only in Slovene.

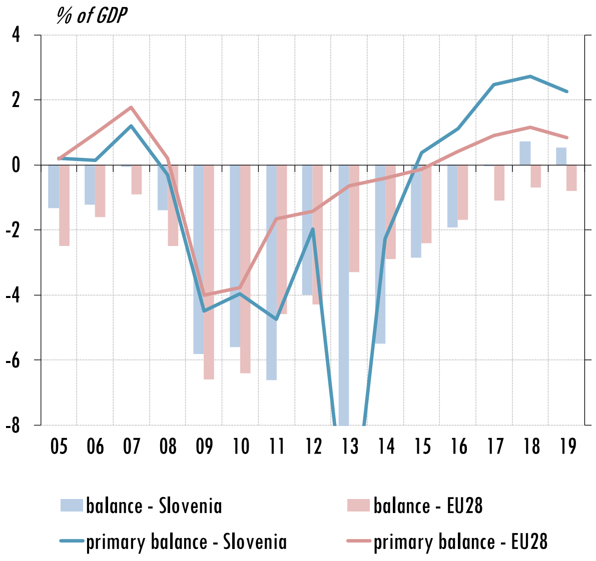
reliably assess the adequacy of the maximum permitted level of general government expenditure in the proposed Framework. According to the Fiscal Council, a deviation from the established practice of publishing comprehensive and independent macroeconomic projections laid down by the law raises doubt about the credibility of fiscal projections, which not even the otherwise justified uncertainty of the current situation can substantiate.

1.2 Fiscal conditions and forecasts

The fiscal position was relatively balanced before the outbreak of the current crisis, although easing of counter-cyclical policy was recorded in the last two years and the share of the debt in GDP was three times higher at the end of 2019 than before the crisis ten years ago, despite a decrease in recent years. Just before the 2009 crisis, the primary balance in Slovenia deteriorated, while in the last few years, it showed a surplus that was among the highest in the EU. Structural efforts in 2012 and 2015 contributed the most to achieving fiscal balance in the last decade, with the nominal deficit decreasing below 3% of GDP, allowing Slovenia to exit the excessive deficit procedure in 2016. Reducing interest costs has also significantly contributed to the improvement of the structural fiscal position in the past few years. In addition to the improved credit ratings of the state and efficient debt management, this particularly reflected the loosened monetary policy of the ECB and consequently favourable financing conditions on international financial markets. According to the available output gap estimates of last autumn, fiscal policy has been expansionary throughout the past two years, which was not appropriate in the Fiscal Council's opinion. Since the financial crisis a decade ago, general government debt has significantly increased as a share of GDP, both due to a high deficits and banking system recapitalisation, while in the past few years it gradually declined and amounted to just above 65% of GDP by the end of 2019. Due to current favourable conditions on international financial markets, such extent of debt does not constitute an obstacle to the required significantly expansionary fiscal policy in the given circumstances of economic crisis in the short-term.

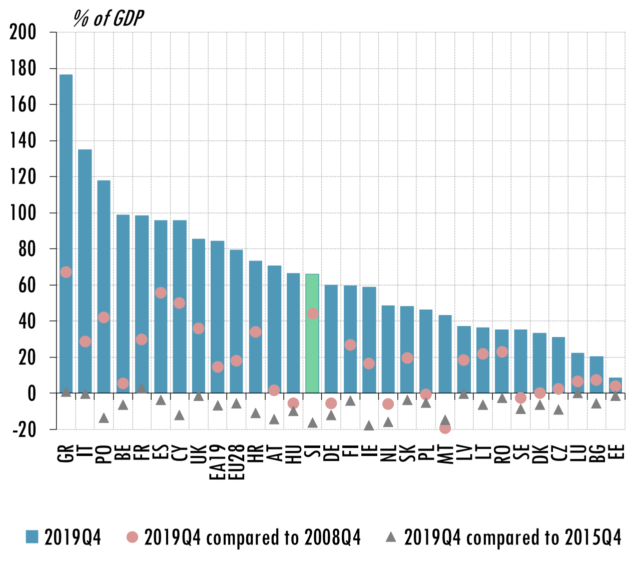
Executing an expansionary fiscal policy, the general government recorded a lower nominal surplus than expected last year. The general government nominal surplus amounted to 0.5% of GDP

Figure 1.7: General government balance



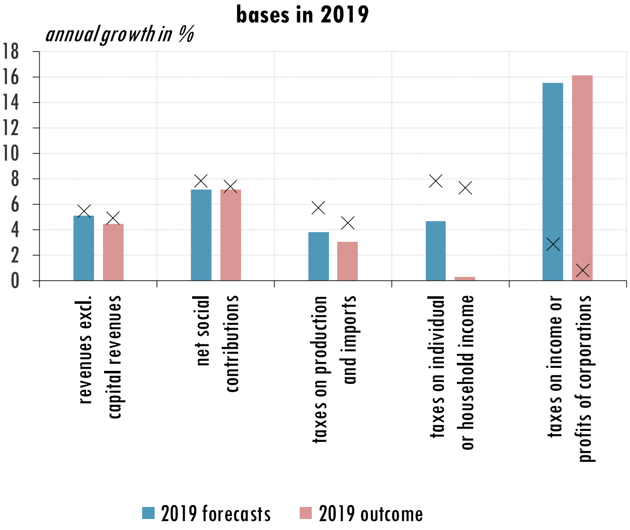
Source: SORS, Eurostat.

Figure 1.8: Gross consolidated general government debt



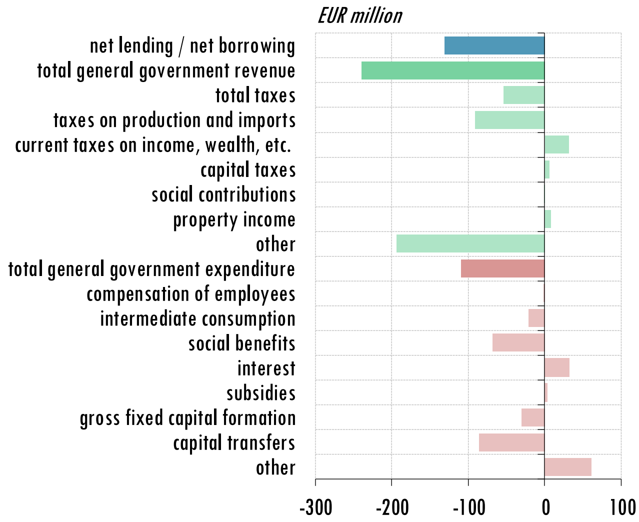
Source: Eurostat, FC calculations.

Figure 1.9: Revenue types and their macroeconomic bases in 2019



Note: Crosses denote growth of the respective revenue bases.
Source: SORS, forecasts: Autumn forecast 2019 (IMAD), DBP 2020 (Oct. 19), FC calculations.

Figure 1.10: Difference between the 2019 outcome and Draft Budgetary Plan 2020

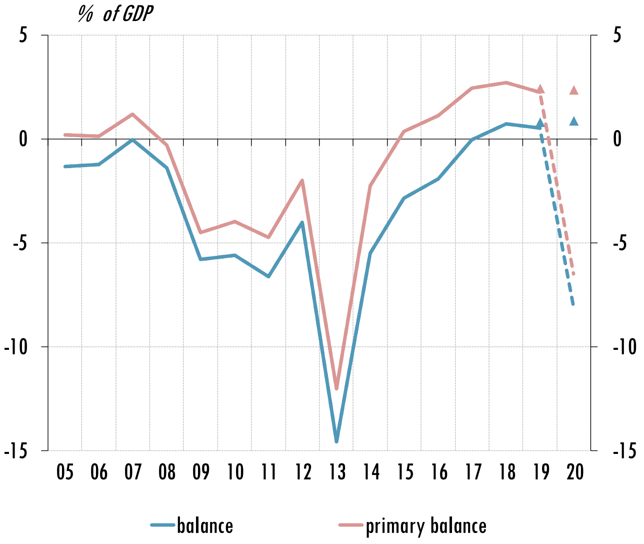


Source: SORS, DBP 2020 (Oct. 19).

last year, which is less than the previous year and less than it was estimated in the Draft Budgetary Plan of last October (0.7% of GDP). This was due to a more significant slowdown in economic growth than expected and to the fiscal policy measures adopted. Revenue growth (4.8%) was slower than in the previous year and lower than expenditure growth (5.2%) for the first time since 2013. Increase in revenue was a result of increased revenue from social contributions originating in further favourable conditions on the labour market and growth in tax revenue, although the latter was significantly smaller than in the previous year. This was partly related to tax relief on holiday pay and partly to lower growth in VAT revenue, which has contributed significantly to the reduced overall revenue growth. Lower revenue growth compared to 2018 has been largely due to a decline in property income accompanied by a lower payment of dividends. Expenditure growth remained as high as the previous year, with a stronger growth of employee compensation expenditure due to an agreement on wage increase with the trade unions and of social transfers expenditure on the basis of easing and adopting new measures, while growth of investment and intermediate consumption expenditure has slowed down.

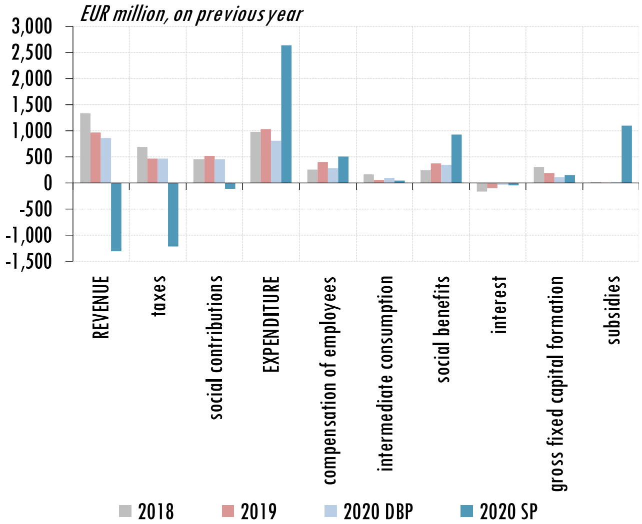
SP 2020 projections indicate a significant increase in the deficit in 2020, accompanied by a sharp decline in revenue and high growth of general government expenditure. In 2020, the general government deficit is expected to amount to 8.1% of GDP and the primary balance (excluding interest expenditure) to a deficit of 6.4% of GDP. Based on the 2019 turnover, the total deficit is expected to deteriorate by almost EUR 4 billion, of which one third due to a decline in revenue and two thirds due to an increase in expenditure. Revenue is expected to decrease by more than 6%, which is slightly more than the expected reduction in the nominal GDP (5%). In 2020, property income is expected to decline the most, almost by 30%, amounting only to just over a half of the 2018 property income. All tax types are expected to decline by 10–15%, most of all personal income tax. Social contributions are expected to decline the least, only by around 1.5%, which is probably mostly related to measures to preserve jobs. A stronger decline in total revenue should be limited by the relatively high absorption of EU funds, reflected in the growth of other current transfers and capital revenue. Measures to prevent the consequences of the epidemic are expected to cause a significant

Figure 1.11: Balance and primary balance



Source: outcome: SORS, forecasts: DBP 2020 (Oct.19, triangle), SP 2020 (Apr. 20, dashed line).

Figure 1.12: Change in general government revenue and expenditure



Source: SORS (2018 and 2019), forecasts: DBP 2020 (Oct. 19), SP 2020 (Apr. 20), FC calculations.

increase in expenditure, which is predicted to increase by around 13%, slightly more than in 2009. The share of expenditure in GDP is expected to exceed 50%, thus reaching its highest level so far.[6] According to Table 6 of the SP 2020, a significant increase in government sector expenditure is expected to be mostly due to an increase in subsidies related to various measures to aid companies in preserving jobs, while an increase in social benefits is expected to contribute more than one third. Although a higher general government debt is expected, interest expenditure is predicted to also decrease in 2020; however, the decrease is expected to be the lowest since 2016. Absorption of EU funds is expected to enable investment expenditure to increase by around 8%.

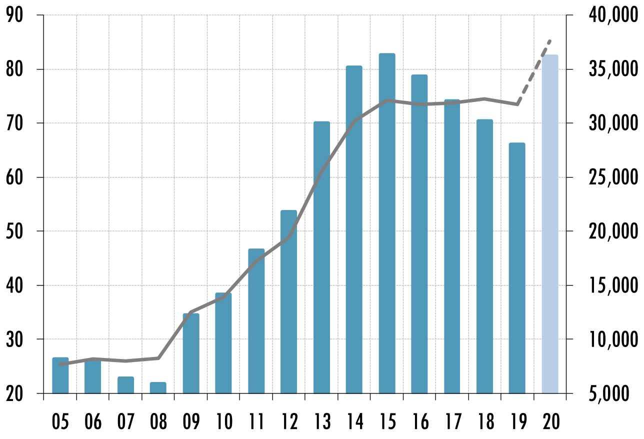
According to the SP 2020 baseline scenario, gross general government debt is expected to increase to 82.4% of GDP this year, corresponding to EUR 37.6 billion. An increase in the share of debt in GDP will be based equally on a deterioration of the fiscal balance and a decrease in GDP. The debt is thus expected to reach a similar level as in 2015, when it was the highest so far. Since then, the decrease in the share of debt in GDP has been among the most significant in the EU, its maturity has been extended and dollar bonds from the 2012–2014 period that constituted a high cost for the state budget have been largely refinanced. The government may incur debt of up to EUR 5.6 billion according to the 2020 Budget Financing Programme[7] and up to EUR 4.4 billion according to the Act governing the implementation of the central government budget for 2020 and 2021.[8] Article 29 of the Act Governing the Intervention Measure of Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic, which was not yet adopted by the National Assembly, allows for additional borrowing in 2020 in order to finance the mitigation of the consequences of the COVID-19 epidemic. The borrowing may not exceed the difference between expenditure provided for in the adopted state budget and maximum state budget expenditure fixed by the proposed Framework for 2020, namely EUR 2,075 million (Table 2.1). Since the beginning of the epidemic, the state borrowed EUR 3.4 billion by issuing two new bonds and further issuing existing

[6] Excluding capital transfers. Due to the recapitalisation and recovery of banks in 2009–2013, these caused a high growth in total expenditure and a high share in GDP. The share of total expenditure, for example, amounted to 60.2% of GDP in 2013.

[7] https://www.gov.si/en/topics/borrowing-and-state-budget-debt-management/.

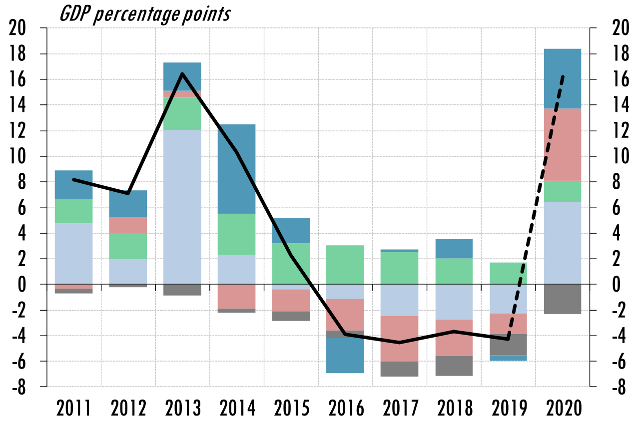
[8] Article 48 (document available at: http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO7970 - only in Slovene).

Figure 1.13: General government debt



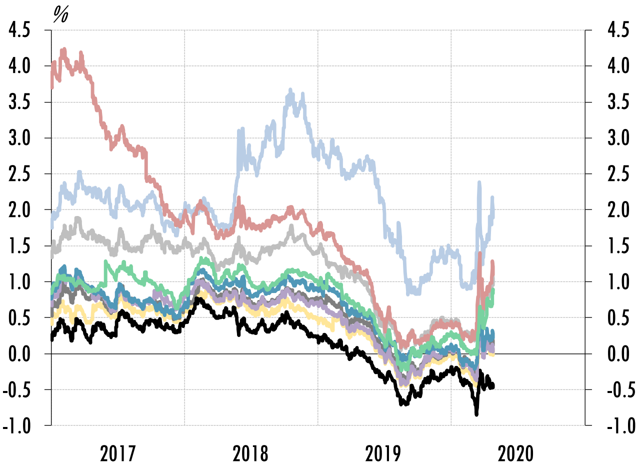
Source: SORS, forecast: SP 2020 (Apr. 20).

Figure 1.14: Change in general government debt



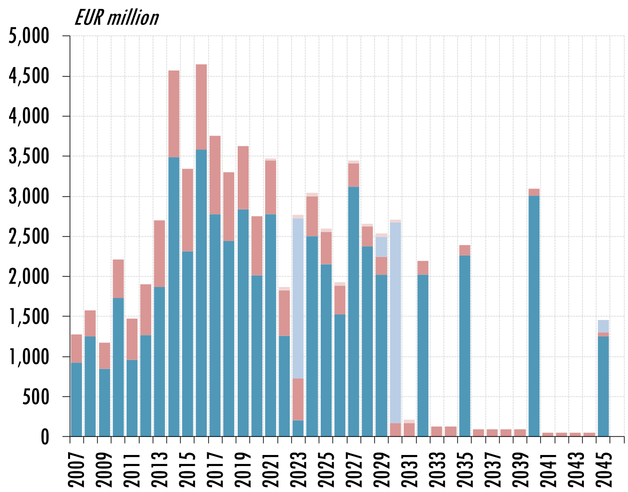
Source: SORS, forecast: SP 2020 (Apr. 20), FC calculations.

Figure 1.15: 10-Year Bond Yield



Source: Investing.com.

Figure 1.16: State budget debt repayments*



**Note: As of 29.2.2020, additional principal and interest FC calculations.*
Source: MoF, FC calculations.

bonds, which, in our view, significantly contributed to the assurance of an adequate liquidity position of the state budget. The required yield on the new debt has increased slightly, similarly as in other EU Member States, but has remained moderate and considerably lower than during the previous crisis.

1.3 Measures to limit the consequences of the epidemic

1.3.1 Measures to limit the consequences of the epidemic in Slovenia and an assessment of fiscal impact

The first comprehensive set of measures with which the Government of the Republic of Slovenia responded to the outbreak of the epidemic is presented in the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (ZIUZEOP)[9], which was adopted on 2 April 2020 by the National Assembly of the Republic of Slovenia. In the context of mitigating the consequences of the epidemic, measures in the fiscal field,[10] the possibility of deferred payment of borrowers' liabilities[11] and measures to resolve liquidity problems through SID Bank loans and the Slovene Enterprise Fund[12] had been adopted before that. During the preparation of this assessment, the government adopted the Act Amending the ZIUZEOP and the second package of measures, namely the Act Governing the Intervention Measure of Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic, which was not yet adopted by the National Assembly at the time of completion of this assessment paper.[13] Presented below are the key measures and the Fiscal Council's assessment of their fiscal impact. According to our estimates based on the assumptions stated below, the measures with a direct fiscal impact amount to 3.8% of GDP. According to the estimates of the Ministry of Finance included in the SP 2020, the measures, without taking into account the amendments to the ZIUZEOP, amount to 4.4% of GDP, which is significantly less than what was stated upon the adoption of the ZIUZEOP (6.6% of GDP).[14]

Reimbursement of salary compensation and exemption from contributions for workers who have been temporarily laid off and workers who are unable to work due to force majeure

Entitled to this measure are all employers in the Republic of Slovenia, with the exception of direct or indirect users of the budget of the Republic of Slovenia or a municipal budget whose share of revenue from public funds in 2019 exceeded 70% and employers that engage in financial or insurance activities and have more than ten employees (paragraph 1 of Article 22). Based on the amended ZIUZEOP, an additional condition of entitlement is a 10% decrease in the employer's income in 2020 compared to the previous year.[15] In accordance with the amended ZIUZEOP, employees in disability and humanitarian organisations are also entitled to this measure.

The amount of salary compensation equals the amount specified by the act governing employment relationships in the case of the temporary inability to provide work for business reasons (paragraph one of Article 26 of the ZIUZEOP). Articles 137 and 138 of the Employment Relationship Act stipulate that the salary compensation amounts to 80% of the average monthly salary for full-time work during

[9] Available at: https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2020-01-0766/zakon-o-interventnih-ukrepih-za-zajezitev-epidemije-covid-19-in-omilitev-njenih-posledic-za-drzavljane-in-gospodarstvo-ziuzeop - only in Slovene.

[10] Fiscal Intervention Measures Act (ZIUJP) available at: https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2020-01-0682/zakon-o-interventnih-ukrepih-na-javnofinancnem-podrocju-ziujp - only in Slovene.

[11] Act Determining the Intervention Measure of Deferred Payment of Borrowers' Liabilities (ZIUOPOK), available at https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2020-01-0683/zakon-o-interventnem-ukrepu-odloga-placila-obveznosti-kreditojemalcev-ziuopok - only in Slovene.

[12] Total loans are estimated at around EUR 1 billion. More at: https://www.sid.si/novice/ublazitev-financnih-posledic-sirjenja-virusa-sars-cov2-v-gospodarstvu - only in Slovene.

[13] Documents are available at: https://www.gov.si/novice/2020-04-21-13-redna-seja-vlade-republike-slovenije/ - only in Slovene.

[14] https://www.gov.si/assets/vlada/Seja-vlade-SZJ/2020/03-2020/tc_1.pdf - only in Slovene.

[15] ZIUZEOPE laid down a criterion of over 20% downturn in revenue in the first half of 2020 compared to the same period in 2019 and of no more than 50% growth in the second half of 2020 compared to the same period in 2019 (paragraph 2 of Article 22 of the ZIUZEOP).

the past three months.[16] In addition, paragraph 2 of Article 26 of the ZIUZEOP stipulates that the salary compensation must not be lower than the minimum salary.

The amount of reimbursement of the salary compensation paid does not exceed the amount of the average salary for 2019, reduced by the contributions of the insured person (paragraph 1 of Article 28 of the ZIUZEOP). In addition to salary compensation, employers are exempt from the payment of social security contributions on salary compensation for workers within the scope of this measure, but only up to the amount of salary compensation up to the amount of the average salary for 2019 (paragraph 2 of Article 28 of the ZIUZEOP).

Both measures, the partial payment of salary compensation and the payment of social contributions under certain conditions, apply from 13 March to 31 May 2020 (paragraph 2 of Article 28 and paragraph 6 of article 29 of the ZIUZEOP).

Assessment of the measure:

This is a key measure for maintaining both, the social situation of workers and the economic potential during the epidemic. Similar measures have been adopted in other countries, but the criteria of entitlement and the amount of compensation vary. However, according to the Fiscal Council, the measure also has some deficiencies. With this measure, the state will effectively assume approximately 90% of labour costs, but only for those employees for whom the payment of both salary compensation and social contributions will not exceed the amount of the average salary. According to the Fiscal Council, with this limitation a significant part of the costs remains a financial burden of the employers, since approximately 40% of private sector employees' salaries exceed this state payment threshold. We estimate that this constitutes an unnecessary financial burden for employers in a situation where economic activity is largely suspended due to the measures to contain the epidemic. In addition, such burden may reduce the capacity of companies to overcome the crisis as quickly as possible. An additional deficiency of the measure with a potentially negative effect on liquidity of companies lies in the time gap between the payment of compensation to workers and the reimbursement paid to

Table 1.1: Estimate of monthly public finance effect of the measure under different assumptions of the share of employees included in the measure

Share of employees included in the measure (% of all potential beneficiaries)	I. Salary compensation (EUR million)	II. Social contributions (EUR million)	I.+II. Total (EUR million)	III. Personal income tax (EUR million)	I.+II.-III. Total fiscal effect (EUR million)
5	32	16	47	4	43
10	64	31	95	8	87
15	96	47	142	13	130
20	127	62	190	17	173
25	159	78	237	21	216
30	191	94	285	25	260
35	**223**	**109**	**332**	**34**	**299**
40	255	125	380	34	346
50	319	156	475	42	433
60	382	187	570	50	520

Source: SORS, FC calculations. Note: numbers to not add up due to rounding effect.

[16] https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/112301 - only in Slovene.

employers by the state. Paragraph 9 of Article 29 of the ZIUZEOP provides that the reimbursement of salary compensation shall be paid to the employer on the tenth day of the month that follows the month of payment of salary compensation.

The general government expenditure for this measure is rather uncertain and depends on the share of employees covered by the measure. Based on a technical assumption regarding the share of employees in sectors covered by the measure that were obliged to suspend their activity under the Ordinance on the temporary prohibition of offering and selling goods and services to consumers[17] and on the information about manufacturing companies that (partially) suspended their production, we assumed that the measure will cover approximately one third of all potential beneficiaries or approximately 200 thousand persons. In this case, the general government expenditure for this measure would amount to approximately EUR 750 million in two and a half months (between 13 March and 31 May). In the final overall assessment of the general government expenditure, the personal income tax that employers will have to calculate from the gross salary compensation to be paid to them by the state was disregarded.

Exemption from pension and disability insurance contributions for employees who work

Paragraph 1 of Article 33 of the ZIUZEOP stipulates that, during the validity of the Act, employers are exempt from the payment of contributions for pension and disability insurance for all private sector employees who work. During this period, the contributions will be paid by the Republic of Slovenia. Moreover, in accordance with paragraph 2 of Article 33 of the ZIUZEOP, employers must pay to those employees whose last-paid monthly salary was less than three times the minimum wage a monthly crisis allowance in the amount of EUR 200, which is exempt from all taxes and contributions. Amendments to the ZIUZEOP stipulate that the state shall also pay the Occupational Retirement Provision contributions for all persons liable and settle the crisis allowance for persons with disabilities employed in sheltered workshops.

Table 1.2: Estimate of monthly public finance effect of the measure under different assumptions of the share of employees included in the measure

Share of employees included in the measure (% of all potential beneficiaries)	Pension and disability insurance contributions (EUR million)
95	235
90	223
85	210
80	198
75	185
70	173
65	**161**
60	148
50	124
40	99

Source: SORS, FC calculations.

[17] https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2020-01-0570/odlok-o-zacasni-prepovedi-ponujanja-in-prodajanja-blaga-in-storitev-potrosnikom-v-republiki-sloveniji - only in Slovene.

Assessment of the measure:

The measure is reasonable in terms of financial relief for the companies that continue their work despite the measures to contain the epidemic, but probably not to the same extent as before the epidemic. In addition, it is fair for the workers to be financially rewarded due to their higher exposure to infection. We only wish to point out that the financial relief for the companies is significantly smaller in the case of a crisis allowance payment. For an employee earning an average salary, exemption from pension and disability insurance contributions would mean a 24% relief of labour costs, while receiving the additional crisis allowance means only a 14% relief. For an employee earning minimum wage, exemption from contributions would mean a 28% relief of labour costs, while it would mean only a 5% relief in the case of additional crisis allowance.

Similarly to the payment of salary compensation and social contributions, the overall fiscal effect of the measure for workers who have been temporarily laid off and workers who are unable to work due to force majeure depends on the share of employees covered by the measure. Under the same assumptions as for the above-mentioned measure, less than two thirds of potential beneficiaries (around 350 thousand persons) would continue to work, which would amount to approximately EUR 400 million in two and a half months.

Emergency assistance in the form of a monthly basic income and exemption from contributions

Persons entitled to this measure are self-employed persons, religious employees and farmers who are covered by the pension and disability insurance scheme (Article 34 of the ZIUZEOP). According to the amendment to the ZIUZEOP, these persons are entitled if their income decreases by 10% in 2020 compared to the previous year. The amount of the monthly basic income is set at EUR 350 for March and EUR 700 for April and May 2020 (paragraph 3 of Article 34 and paragraph 4 of Article 35 of the ZIUZEOP). In addition, the above-mentioned entitled persons are exempt from the payment of all compulsory social insurance contributions during the validity of the Act (Article 38 of the ZIUZEOP).

Assessment of the measure:

The measure provides social security to a significant part of the active working population that is unable to perform its activities due to the measures to contain the epidemic. The basic income is set at the amount of net minimum wage and, at the same time, the Republic of Slovenia will settle the social contributions of the persons entitled.

Assuming the measure included three quarters of all persons entitled (just under 60 thousand persons), who would simultaneously be paying minimum social security contributions, the measure amounts to approximately EUR 160 million.

Other measures

From among other ZIUZEOP measures, we highlight those with larger fiscal effects:

- The employees who are exposed to above-average health risks or are overburdened fighting the epidemic shall be entitled to an allowance for hazards and special burdens during the epidemic in the amount of up to maximum 100% of the hourly rate of the basic salary of the employee (Article 71 of the ZIUZEOP). It is assumed that these are mainly employees in

Table 1.3: Estimate of total public finance effect of measures from ZIUZEOP

	FC		MoF
	EUR million	GDP %	GDP %
Measures with direct effect on the balance of the general government sector			
Reimbursement of salary compensation for workers temporarily laid-off (Article 28)	475	1.0	1.3
Social contributions for workers temporarily laid-off (Article 28)	279	0.6	0.7
Pension and disability insurance contributions for employees who work (Article 33)	405	0.9	0.4
Basic income of self-employed persons and other beneficiaries (Article 34)	103	0.2	0.2
Social contributions of self-employed persons and other beneficiaries (Article 34)	60	0.1	0.1
Allowance for hazards and special burdens (Article 71)	98	0.2	0.4
Sick pays (Article 56)	70	0.2	0.1
Solidarity bonus for pensioners (Article 57)	67	0.1	0.2
Solidarity bonus for other vulnerable population groups (Article 58)	39	0.1	0.1
Increased large family allowance (Article 61)	5	0.0	0.0
Temporary unemployment compensation for laid-off workers due to business reasons	28	0.1	/
Purchases of medical equipment[1]	125	0.3	0.4
Reduction of salaries and compensations for holders of public office (Article 69)	-1	0.0	0.0
Measures related to education and science	n.p.	n.p.	0.0
Measures related to agriculture, forestry and food	n.p.	n.p.	0.0
Loss of public service – covering expenditure	n.p.	n.p.	0.1
Tax measures	/	/	0.4
Total measures with direct effect	**1,752**	**3.8**	**4.4**
Measures with indirect effect on the balance of the general government sector			
guarantees as defined by ZIUZEOP	200	0.4	/
guarantees as defined by "the second package of measures"	2,000	4.4	4.8
SID bank loans	200	0.4	/
Total measures with indirect effect	**2,400**	**5.3**	**4.8**
Total all measures	**4,152**	**9.1**	**9.2**

Sources: FARS, MPA, SORS, ESS, PDIIS, MLFSA, ARSCR, SID bank, SEF, SP 2020 (apr.20), FC estimate. For more detail on assumptions for calculating the public finance effect of measures look at 3. Appendix: Assumptions for calculating public finance effects of measures from ZIUZEOP. Numbers to not add up due to rounding effect. Note: [1] state of contracts fulfilled and contracts still running 27th April 2020.

hospitals, homes for the elderly, police and disaster relief services, who total approximately 45,000 people. At a correspondence session on 22 April 2020, the government set a monthly amount of EUR 38.2 million for this allowance.[18]

- Sick pays chargeable to one's own or to the employer's account are reimbursable from compulsory health insurance funds (Article 56 of the ZIUZEOP). The measure actually implies that the Health Insurance Institute of Slovenia covers sick pays from the first day of entitlement.
- One-off solidarity bonus for pensioners in three nominal amounts. Pensions of up to EUR 500 are eligible for a one-off bonus of EUR 300, pensions of EUR 500–600 to EUR 230, and pensions of EUR 600–700 to EUR 130 (Article 57 of the ZIUZEOP). The measure in the situation of limited consumption opportunities clearly serves to reduce uncertainty more than anything else, while at the same time it changes the relations in pensioners' rights by placing those receiving a pension above EUR 700 in a less favourable financial position.

[18] https://www.gov.si/novice/2020-04-22-26-dopisna-seja-vlade-republike-slovenije/ - only in Slovene.

- One-off solidarity bonus of EUR 150 for vulnerable population groups defined in the ZIUZEOP as beneficiaries of social assistance benefits in cash and supplementary benefits, and full-time students (Article 58 of the ZIUZEOP). The Act Amending the ZIUZEOP fairly enlarged the category of persons entitled to this bonus (Articles 15 and 16). Just like the pensioners' bonus, this measure also serves to reduce uncertainty in the situation of limited consumption opportunities. At the same time, the question arises as to what criteria are used to identify the population groups that might be eligible for this bonus.
- Increased large family allowance, namely by EUR 100 for families with three children and EUR 200 for families with four or more children (third paragraph of Article 61 of the ZIUZEOP).
- The Act Amending the ZUIZEOP introduces a temporary unemployment benefit for all those who lost their jobs during the validity of this Act for business reasons, namely in the amount of EUR 513.64. The measure is important from a social security point of view, however, we assess that, with a view to preserving jobs and the related economic potential, it would be faster and simpler to introduce a lay-off pay or short-time working possibility.
- Reduction of salaries and compensations for holders of public office in the amount of 30% of their basic salary (Article 69 of the ZIUZEOP). This measure is not about a significant fiscal impact, but rather has a demonstrative effect.
- Exemption from prepayment of personal income tax on income from self-employment and corporate income tax for 2020 that fall due in the period between the entry into force of this Act and 31 May 2020 (Article 62 of the ZIUZEOP). Considering that taxpayers will have to settle these liabilities after submitting their annual report in the spring of 2021, this is only a tax deferral that will have implications for public finances only according to the cash flow methodology. Under the ESA method of calculation, these liabilities will be subsequently levied for 2020, so this measure has no direct effect on the general government balance. In the SP 2020, the Ministry of Finance included this measure among epidemic-related measures.

In addition to the above measures having a direct fiscal impact, the government also adopted other measures to mitigate the impact of the epidemic that have no direct effect on the balance of the general government sector. Therefore, under the Act Determining the Intervention Measure of Deferred Payment of Borrowers' Liabilities (ZIUOPOK)[19], the government will provide guarantees to banks, which do not affect the balance or the debt of the general government sector, but represent the so-called contingent liabilities. The first paragraph of Article 65 of the ZIUZEOP provides that the government as guarantor is liable in relation to banks for borrowers' payment obligations in the amount of one quarter of the amount of twelve deferred loan instalments that would fall due in the agreed grace period, or of half of the same amount in the case of borrowers pursuing a business activity such as the provision of services or sale of goods which were temporarily prohibited by a government or municipal ordinance due to the virus epidemic, and in the case of borrowers who are natural persons. The third paragraph of Article 65 provides the total amount of these guarantees at EUR 200 million. The government authorised the SID Bank for all transactions related to these guarantees.

[19] https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2020-01-0683/zakon-o-interventnem-ukrepu-odloga-placila-obveznosti-kreditojemalcev-ziuopok - only in Slovene.

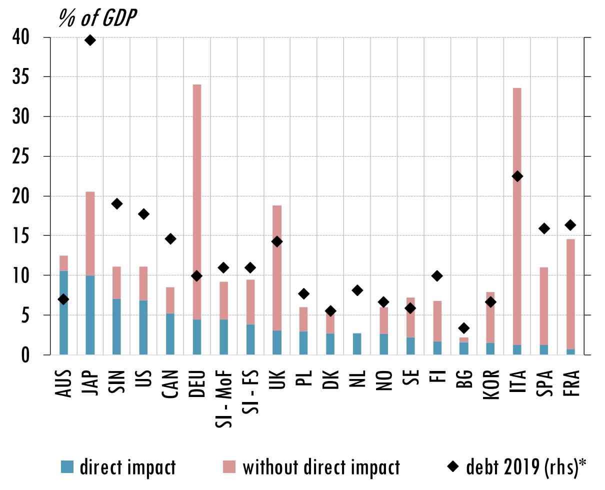
To address liquidity problems, companies are provided with measures by the SID Bank and the Slovene Enterprise Fund (SPS), where loans, guarantees and credit insurance are involved. With regard to the SID Bank, the measures amount to EUR 800 million, of which EUR 200 million are new and EUR 600 million are existing or modified instruments.[20] With regard to the SPS, it is mostly about an upgrade of existing measures and grace periods related to the obligations of its existing clients.[21]

There is also a second package of measures in the adoption procedure, which addresses liquidity problems in the economy. On 21 April 2020, the government adopted the Act Governing the Intervention Measure of Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic, which was not yet adopted by the National Assembly at the time of completion of this assessment paper. The key measure of this Act is a guarantee scheme for banks and savings banks on loans granted between 13 March 2020 and the end of this year. The anticipated total amount of the guarantees is EUR 2.0 billion (Article 7). Guarantees will cover loans with a maturity of up to five years granted in amounts not exceeding 10% of the sales revenue in 2019 and total labour costs for 2019 (Article 5). The amount of the guarantee of any loan is 70% of the principal for large enterprises and 80% for micro, small and medium-sized enterprises (Article 6).

1.3.2 Measures in other countries and at EU level

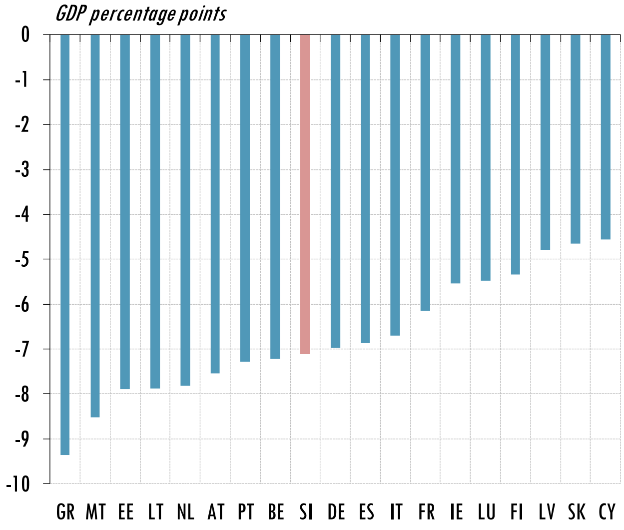
Most countries have responded to the outbreak of the epidemic and its economic and social consequences with extensive action.[22] International organisations call for measures in three phases, i.e. first to provide all necessary resources to the health system, then to mitigate the social and economic consequences of restrictive containment measures, and after that to provide broad-based incentives to restart the economy after the end of the epidemic. As a basic guide to make the measures effective, the IMF recommends that they should be timely, temporary and targeted and,

Figure 1.17: Estimates of fiscal impact of the measures



** EU-28 countries: Eurostat data, other countries: IMF forecasts (Oct. 19).*
Source: IMF, SP 2020 (Apr. 20), FC estimates.

Figure 1.18: Change in general government balance, 2020 forecast compared to 2019 outcome



Source: IMF, FC calculations.

[20] More information on the SID Bank's measures is available at: https://www.sid.si/novice/ublazitev-financnih-posledic-sirjenja-virusa-sars-cov2-v-gospodarstvu - only in Slovene.
[21] https://podjetniskisklad.si/sl/novice-in-objave/novice/sporocila-za-javnost/687-ukrepi-slovenskega-podjetniskega-sklada-za-omilitev-posledic-koronavirusa - only in Slovene.
[22] For more on country-specific fiscal measures, see: https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19 and https://www.oecd.org/coronavirus/en/#policy-responses.

Table 1.4: Overview of measures at the EU level and of ECB measures

	Total estimated value (EUR billion)	Estimate of available funds for Slovenia (EUR million)*
ECB - Asset Purchase Programme (APP)	750	3,024
ECB - Pandemic Emergency Purchase Programme (PEPP)	120	484
ESM - Pandemic Crisis Support (2% of member countries' GDP)	410	960
EIB - Pan-European Guarantee Fund	25 (200)	690
SURE - Support to mitigate Unemployment Risks in an Emergency	100	345
Transfers between cohesion policy funds	37	200**
EU Emergency Support Instrument	3	9
European Fund for Strategic Investments (guarantees from the European Investment Fund)	1 (8)	28
EU Solidarity Fund	1	3
Total	**1,629**	**5,743**
Total excluding ECB	**759**	**2,235**

*Sources: EC, ECB, FC calculations. Notes: *estimate on the basis of the share of Slovenian GDP in the GDP of the EU/Euro area. **estimate by the EC representation in Slovenia.*

given the scale of the action, transparent and embedded in a credible medium-term fiscal framework.[23] Countries responded with extensive measures that have a direct (transfers, subsidies) and indirect (guarantees) effect on the fiscal balance. Developed G20 member states have announced measures of over 17% of GDP on average, of which only about a quarter are measures with a direct impact on the general government balance.[24] With the expected significant deterioration of public finances, the magnitude and nature of the measures decided by the countries also largely depend on the fiscal position before the outbreak of the crisis. Therefore, countries that entered the crisis with high levels of debt and doubts about their long-term fiscal sustainability are mainly opting for measures with an indirect effect on the balance, while countries with more fiscal space are more likely to take direct measures.

The European Union has responded to the current crisis more quickly and decisively than in the context of the debt crisis, however, it is offering mainly debt instruments, while most of the action must be taken by individual countries. The European Union has responded to the epidemic by simplifying or expanding existing mechanisms and creating new ones. Key measures include the possibility of using European Stabilisation Mechanism (ESM) loans for healthcare purposes of 2% of each country's GDP, European Investment Bank guarantees of EUR 25 billion to release up to EUR 200 billion of loans, and the establishment of temporary support to mitigate unemployment risks (SURE) of EUR 100 billion. In addition, it is possible to make transfers between cohesion policy funds, use the EU Emergency Support Instrument and the Solidarity Fund for the support of health care systems, as well as EUR 1 billion of European Fund for Strategic Investments, which in the form of guarantees from the European Investment Fund should support EUR 8 billion in loans to SMEs. Most of the mechanisms are loans, so it is difficult to assess at this point whether it is more favourable for countries to borrow on the financial markets for these purposes. The EU also relaxed state aid rules and activated the general escape clause built in the Stability and Growth Pact (see page 29 for more). However, as during the debt crisis, the key role currently lies with the ECB, which, in addition to a EUR 120 billion increase in the Asset Purchase Programme (APP), has created a temporary Pandemic Emergency Purchase Programme (PEPP) of EUR 750 billion. In our estimation, the total value of all EU-level measures,

[23] IMF Fiscal Monitor, April 2020 (p. 15).
[24] IMF Fiscal Monitor, April 2020 (p. 30–40).

including those of the ECB, is around EUR 1600 billion, which is more than a tenth of last year's GDP of the EU. In our estimation, Slovenia could access around EUR 5.7 billion considering all measures, of which ECB measures represent the majority (EUR 3.5 billion).[25]

1.4 Risks

Uncertainties about the duration and magnitude of the epidemic and related restrictive measures this time completely outweigh the macroeconomic and fiscal risks that are commonly considered in budgetary document assessments. The adoption of different assumptions about the depth and duration of the economic downturn contributes to largely differing estimates of its trend. The provided budgetary documents assume an 8.1% economic downturn in 2020, while some institutions have outlined possible ranges of economic downturn. While the range of IMAD projections[26] as of the second half of March ranged from 6% to 8% for the GDP decline in 2020, the projections by the Bank of Slovenia[27] as of the beginning of April indicate a possible GDP downturn in 2020 from 6% to 16%. If any of the stated scenarios unfolded, it would also have significant implications for the possible paths to the realisation of the general government balance and debt (see Figures 1.19 and 1.20).[28] Thereby the IMAD forecasts as of April, representing the central macroeconomic scenario of the SP 2020, include measures to mitigate the consequences of the pandemic adopted by the time of elaboration of the forecasts, while the Bank of Slovenia in its estimates disregarded the impact of the measures. After the IMAD forecasts, the government adopted additional legislation especially covering corporate liquidity. Nevertheless, the uncertainty of estimates of macroeconomic and fiscal developments is compounded by the incomplete process of adopting the full package of measures and uncertainty about the response of economic operators to the measures already taken and to be announced.

While preparing this Stability Program Assessment, the credibility of risk assessment is lower also due to the incomplete macroeconomic and fiscal forecasts and to a great probability of significant future revisions to the existing forecasts. The Fiscal Council has to assess the compliance of budgetary documents with the medium-term fiscal balance, which is currently not possible, since in line with the agreement at the EU level the SP 2020 does not provide more detailed forecasts of macroeconomic and fiscal developments for the medium term consisting of the current year and the next three years. In addition, given the uncertainty surrounding the assessment of this year's economic downturn and the absence of a medium-term macroeconomic forecast, there is also extreme uncertainty about the estimate of the output gap level that serves as an input element in the majority of fiscal compliance assessments. Based on currently designed measures to mitigate the effects of the epidemic, substantial subsequent adjustments of statistical data can also be expected.[29]

[25] Funds under the ECB measures are not necessarily directly accessible to the euro area Member States. As part of ECB measures, Eurosystem members purchase securities on the secondary market, which are provided by different stakeholders, including institutions outside the euro area. The extent to which these funds flow into a Member State depends, therefore, on the residency of owners of the securities, while the Eurosystem action is primarily intended to ensure favourable financing conditions of the euro area countries.

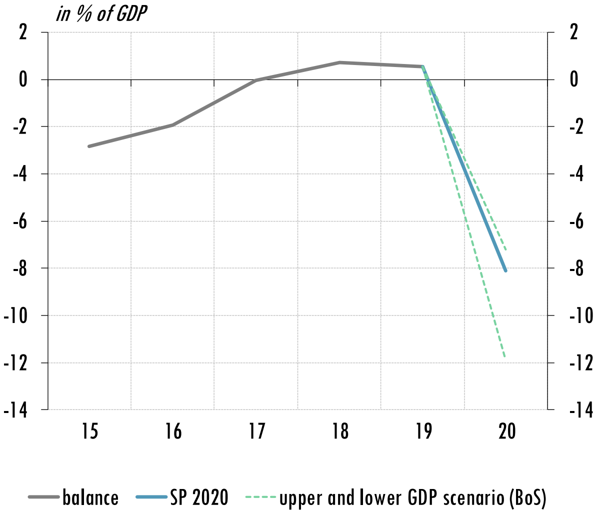
[26] https://www.umar.gov.si/fileadmin/user_upload/sporocila_za_javnost/2020/sporocila_za_javnost_razno_2020/Ocena_gospodarskih_razmer_23._marca_2020/Ocena_gosp.razmer_23.3_1_ANG.pdf.

[27] The analysis is available at: http://bankaslovenije.blob.core.windows.net/publication-files/prikazi-in-analize-marec-2020.pdf.

[28] The simulations use a simple model to simulate the impact of different assumptions about economic growth on public finances and of fiscal policy effects on economic growth. In this model, economic activity affects public finance through automatic stabilisers, and the fiscal policy affects economic activity reversely through multipliers. For a more detailed explanation of the model see: http://www.fiscalcouncil.ie/wp-content/uploads/2012/09/FAR_Sept2012.pdf (Annex B).

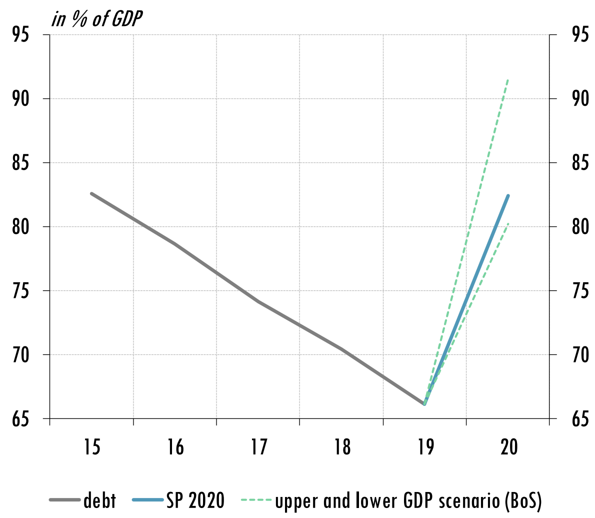
[29] For example, if subject to defined conditions repayments of certain types of aid possibly occur in 2021, they will, in view of the ESA 2010 methodology, subsequently be considered in the revision of the data on government expenditure for 2020. The same applies to tax deferrals.

Figure 1.19: General government balance in various economic activity scenarios



Source: SORS, SP 2020 (Apr. 20), Bank of Slovenia for shock definitions. Estimates: FC.

Figure 1.20: General government debt in various economic activity scenarios



Source: SORS, SP 2020 (Apr. 20), Bank of Slovenia for shock definitions. Estimates: FC.

Note: The figures depict alternative general government balance and debt paths under changed assumptions regarding GDP growth. Baseline scenario represents the projections of general government balance and debt in the proposed Framework and in the SP 2020. The change in assumptions on GDP with regard to SP 2020 baseline is determined based on lower and upper scenarios of GDP decline as follows from scenarios 1 and 3 in the above mentioned BoS assessment (see Box 2.1).

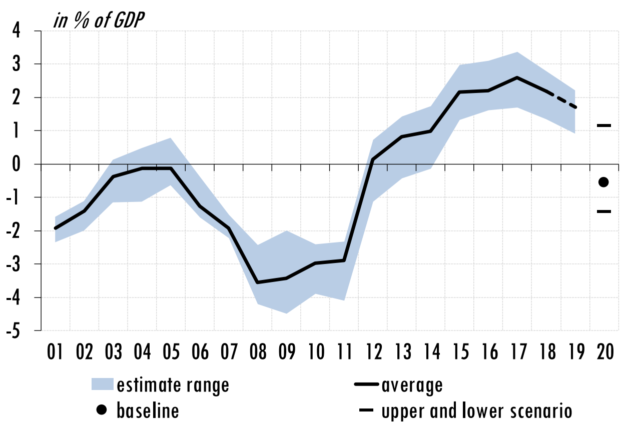
2. Assessment of compliance with fiscal rules

Key findings

- In exceptional circumstances, a temporary deviation from fiscal rules is allowed for, however, without endangering the medium-term fiscal sustainability.
- The government did not change the permitted maximum expenditure level over medium-term budget planning, since the Framework was drafted for 2020 only.
- The assessments of fiscal compliance are also highly uncertain for the part of the expenditure not related to measures to remedy the effects of the epidemic.
- The Fiscal Council estimates that the Framework proposal, considering the data available from the SP 2020 and using the mathematical formula of the Fiscal Rule Act, shows that the general government expenditure for 2020 is too high, however, considering substantial uncertainties, it could be within the limits estimated on the basis of all currently available information.

Current exceptional circumstances allow for the temporary suspension of fiscal rules. On 17 March 2020, the Fiscal Council assessed the announcement of an epidemic in Slovenia as an unusual event, which, under Article 12 of the Fiscal Rule Act, makes it possible to invoke exceptional circumstances for measures aimed at mitigating the consequences of such an event, and thus to temporarily deviate from the medium-term fiscal balance.[30] Notwithstanding the allowed temporary deviation from the medium-term balance, the Fiscal Council is required to prepare an assessment of the compliance of fiscal developments presented in the Framework proposal or in the SP 2020 with fiscal rules. However, due to the high level of risk associated with the input variables (see Box 2.1), these estimates can be of a purely illustrative nature at the moment.

Figure 2.1: Structural primary balance



Note: Including 2019, cyclical component is removed from the calculation of structural balance based on methodology and available data in the Assessment of the Compliance of the Proposal of budgets of the Republic of Slovenia for 2020 and 2021 with the fiscal rules (Fiscal Council, October 2019). For 2020, the cyclical component is excluded based on the output gap estimate from SP 2020, prepared on the basis of IMAD projections, and on two simulations, described in Box 2.1. In order to calculate marginal values of the band, different estimates on one-off measures by FC and SP 2020 are taken into account.
Source: MoF, IMAD, FC calcualtions.

[30] http://www.fs-rs.si/wp-content/uploads/2020/03/Assessment_extraordinary-event-under-the-Fiscal-Rule-Act-_March-2020.pdf.

Table 2.1: A comparison of the proposed Framework with the previous Framework for the preparation of the general government budget

	General government		State budget		Local government		Pension Fund		Health Fund	
	targ.balance	max E	targ.balance	max E	targ.balance	max E	targ.balance	max E	targ.balance	max E
	GDP %	EUR million	GDP %	EUR million	GDP %	EUR million	GDP %	EUR million	GDP %	EUR million
2020 Framework, April 2019 (OG 26/2019)	1,0	21.480	0,8	10.450	0,1	2.320	0,0	5.845	0,0	3.320
2020 proposed Framework, April 2020	-8,1	23.630	-8,1	12.525	…	2.340	…	5.930	…	…
2020 Difference	-9,1	2.150	-8,9	2.075	…	20	…	85	…	…

Source: Uradni list RS (Official Gazette of the RS), proposed Framework, April 2020 and FC calculations.

Based on the SP 2020 projections, this year's structural primary balance is likely to show a deficit. The structural primary balance deficit indicates that, after the exit from this crisis, measures will have to be taken to ensure fiscal sustainability, especially in consideration of pressures arising from an aging population.

Despite the possibility of a temporary deviation from the medium-term fiscal balance due to exceptional circumstances, the government must determine its allowed extent. In accordance with Article 13 of the ZFisP, this can be done by revising the framework for the preparation of general government budgets. The government submitted the revised framework to the Fiscal Council together with the SP 2020; however, the Framework proposal only contains a revised estimate of the allowed maximum expenditure for 2020 without an adjustment for the following years, and is not oriented over medium-term as such. Article 13 of the Fiscal Rule Act indeed provides that the extent of allowed deviations from the medium-term balance is to be determined only for the period of exceptional circumstances, but according to current information that should only refer to 2020. In the context of Article 6 of the ZFisP or medium-term budget planning, the revised framework should also reflect the gradual achievement of the medium-term fiscal balance expected after the period of exceptional circumstances. Due to the only one-year revision of the Framework and the current uncertainties about input data determining the allowed maximum expenditure,[31] compliance of the Framework proposal with fiscal rules cannot be fully assessed. In the given circumstances, it can only be estimated what the permitted maximum level of the general government expenditure would be in 2020 if fiscal rules were applicable. In this context, the examination focuses on whether the part of expenditure determined in the Framework proposal is adequate in relation to the stage of economic cycle, since, in accordance with its competences, the Fiscal Council does not assess the eligibility of expenditures related to the remedy of the effects of the epidemic. As the submitted Framework proposal is not designed on a medium-term basis, it is expected from the government to supplement it, in accordance with Article 6 of the ZFisP, at the time of the expected revision of the state budget. The resulting framework will also have to indicate the gradual achievement of the medium-term fiscal balance expected after the period of exceptional circumstances.

Although, according to the Fiscal Council's basic calculation, the level of government expenditure in 2020, stated in the Framework proposal, exceeds the expenditure ceilings laid down by the ZFisP, it could be within the limits taking into account the risks identifiable on the basis of current information. Considering the currently applicable Framework for the preparation of the 2020–2022 budgets, the revisions made to the Framework proposal relate primarily to the state budget and, to a

[31] Input variables that according to the provisions of Article 3 of the Fiscal Rule Act determine the maximum level of general government expenditure in an individual year are an estimate of the level of revenue of the general government sector, an estimate of the output gap and an estimate of the scope of one-off measures.

Box 2.1: Assessment of permitted maximum level of expenditure, if fiscal rules were applicable

The highest possible level of the general government expenditure that allows for the medium-term balance is determined in the Framework in view of the expected level of revenue and the established cyclical position of the economy. The expenditure ceiling is calculated in accordance with the mathematical formula set out in paragraphs three and four of Article 3 of the ZFisP in relation to the stage of economic cycle and revenue projections. The planned level of expenditure does not include temporary or one-off expenditures.

In setting the possible expenditure ceiling, several ambiguities arise due to the current situation:

- the Fiscal Council cannot adequately assess the credibility of revenue forecasts due to the incomplete presentation of macroeconomic forecasts that underpin fiscal aggregate forecasts (see Section 1.1);

- there is considerable uncertainty regarding the output gap estimate. The Fiscal Council usually prepares its own output gap estimate on the basis of the average estimates of other institutions and statistical methods. The updated estimates of a range of other institutions are not available this time, except for the estimates of the Ministry of Finance set out in the SP 2020, prepared on the basis of IMAD forecasts. Contrary to normal practice, the International Monetary Fund in its latest outlook[1] did not present any output gap projections at all. Also, the statistical methods used by the Fiscal Council to calculate the output gap use the estimates from macroeconomic projections as input data but which are currently not available in the normal extent. The uncertainties associated with determining the expenditure ceiling based on a point estimate of the output gap are presented by two simulations, which, given the known and available estimates, represent the current range of output gap estimates (see the figure in this box). The range of output gap estimates is similar to the largest historical ranges identified so far by the Fiscal Council methodology. The following was thereby taken into consideration: (i) the statistical relationship between the change in the output gap estimate and the change in the real GDP growth in the past, and (ii) the change in the real GDP growth forecast based on the 2020 forecast as of December 2019, determined by the minimum and maximum economic downturn scenario which was prepared by the Bank of Slovenia (see note 27).

- the Fiscal Council's assessment of the value of one-off or temporary measures slightly deviates from the official estimate presented in the SP 2020 (see Section 1.3). The value of temporary or one-off

Table: The calculation of the maximum expenditure level

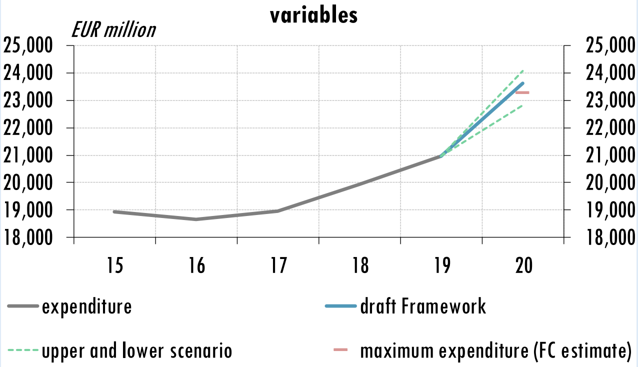
			2020 (SP 2020)
Revenues (SP 2020)	*% of GDP*		43,7
Revenues (PS 2020, FC calculations)	*EUR million*	R	19.925
Expenditures (proposed Framework)	***EUR million***	**E**	**23.630**
GDP (SP 2020)	*EUR million*	Y	45.606
Output gap (SP 2020)	*% of potential output*	OG	-4,7
Potential output (SP 2020, FC calculations)	*EUR million*	YP	47.855
Elasticity of the balance to the output gap		á	0,468
Minimum structural balance	*% of potential output*	mSS	-1,1
One-offs (FC)	*% of GDP*	o	3,85
Maximum expenditure (FC estimate)	***EUR million***	**E_max=R-(mSS+á*OG/100)*YP-o*Y/100**	**23.260**
Difference Framework-FC estimate	*EUR million*	E-E_max	370

Note: Symbols in third coloumn denote signs of the mathematic formula to determine the maximum expenditure level of general goverment in a single year from Article 3 of Fiscal Rule Act. The output gap estimate is from SP 2020, while one-off measures are determined by FC.

Source: SP 2020 (Apr. 20) and proposed Framework (Apr. 20), FC calculations.

measures is one of the main variables that influence the determination of the ceiling of expenditures depending solely on cyclical factors.

Figure: Simulation of maximum general government expenditure based on various assumptions regarding input variables



Note: Output gap in the baseline senario is taken from SP 2020. Marginal values of maximum expenditure are determined according to the estimate of the relation between a change in ouput gap estimate and change in GDP forecast, taking into account GDP projections, determined by the BoS estimates of highest and lowest GDP decline in economic activity. Lower and higher scenario additionally take into account FC and SP 2020 estimates of one-off measures, respectively.
Source: SP 2020 (Apr. 20) and proposed Framework (Apr. 20), FC calculations.

[1] https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020

lesser extent, to the ZPIZ (Pension and Disability Fund) and to municipalities. The calculations of the baseline scenario shown in the table in Box 2.1, in addition to the level of general government revenue laid down in the SP 2020, take into consideration the estimate of the scope of one-off or temporary measures prepared by the Fiscal Council (see Section 1.3 – by applying the mathematical formula and the provisions of Article 3 of the ZFisP, this value was subtracted from the total level of expenditure; for the estimate of the Ministry of Finance see the SP 2020), and the output gap estimate of the Ministry of Finance presented in the SP 2020 and prepared on the basis of the IMAD forecast. Considering the range of output gap estimates that can be prepared on current information, and different estimates of the level of one-off expenditures, the level of the general government expenditure in 2020 could fall within thereby determined limits. At that point, attention should be paid to the risks jeopardising the current assessments of the compliance of fiscal documents with the fiscal rule (see Box 2.1).

On 23 March 2020, the EU Council, on a proposal from the EC[32], decided to activate the so-called general escape clause allowing for deviation from fiscal compliance during the pandemic.[33] According to Article 6 of Regulation (EU) No 1175/2011, general deviation from fiscal rules may be left out of consideration when it results from an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government or in the case of a severe economic downturn in the euro area or the Union as a whole, provided that this does not endanger fiscal sustainability in the medium term.

Due to the possibility of a general deviation according to the current information, this year the EC will not make any assessments of compliance of the submitted Stability Programmes with the fiscal rules. However, next year, on the basis of the general government balance for 2020 and the general government balance forecast for 2021, it will assess whether the deviations are merely

[32] https://ec.europa.eu/info/sites/info/files/economy-finance/2_en_act_part1_v3-adopted_text.pdf

[33] https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

temporary or whether, in the case of deficits exceeding 3% of the GDP, it is necessary to propose opening the excessive deficit procedure.

The EC also laid down specific conditions under which measures can be treated as part of a general deviation. The manual for implementing the provisions of the Stability and Growth Pact[34] places emphasis on the eligibility of such expenditure subject to the following principles: (i) additional spending should be directly linked to exceptional circumstances, (ii) deviations can be allowed on a temporary basis only; (iii) the allowed deviations should only reflect the additional costs related to tackling exceptional circumstances compared with the previous year; (iv) countries should present the deviations in a transparent manner. These principles also apply to justifying such expenditure in documents submitted to the EC by Member States within the framework of economic governance or the European Semester. Such documents also include the Stability Program 2020.

[34] https://ec.europa.eu/info/sites/info/files/economy-finance/ip101_en.pdf (p. 26)

3. Annex: Assumptions for calculating the fiscal effects of the measures set out in the ZIUZEOP

The reimbursement of salary compensation for temporary lay-off and for absence due to force majeure, and exemption from contributions and from pension and disability insurance contributions for employees who work

The basis for the calculation encompassing potential beneficiaries is the data on the number of the employees of legal entities other than budget users, calculated from the number of hours paid[35] and on the persons in paid employment with natural persons from the register of persons in employment.[36] According to these data, the total number of potential beneficiaries is approximately 565 thousand. The calculation of salary compensation and social security contributions is based on the data on the average monthly gross salary paid to employees between November 2019 and January 2020 by legal entities other than budget users, calculated from the number of hours paid, and on the average monthly gross wage paid by registered natural persons[37] between October and December 2019. In calculating the basis, a three-month average was applied, because the Employment Relationships Act requires that the basis of temporary lay-off pay be calculated from the average of the last three months before the commencement of the lay-off. The period used for calculating the basis for employees of legal persons and natural persons differs, because at the time of preparation of this assessment these were the latest statistical data available.

Table 3.1: Potential beneficiaries and assumption regarding the share of employees included in the measure

Potential beneficiaries	Total	Assumption regarding included employees	
	Number	Number	Share
SKD activity - TOTAL	**563.823**	**207.500**	**36,8**
A Agriculture, forestry and fishing	3.972	0	0,0
B Mining and quarrying	2.200	0	0,0
C Manufacturing	189.662	37.764	19,8
D Electricity, gas, steam and air conditioning supply	7.631	0	0,0
E Water supply, sewerage, waste management and remediation activities	9.900	0	0,0
F Construction	52.720	15.816	30,0
G Wholesale and retail trade, repair of motor vehicles	97.704	33.165	33,9
H Transportation and storage	49.265	21.542	43,7
I Accommodation and food service activities	30.140	30.140	100,0
J Information and communication	21.225	5.546	26,1
L Real estate activities	3.673	3.306	90,0
M Professional, scientific and technical activities	37.653	18.357	48,8
N Administrative and support service activities	30.515	22.176	72,7
O Public administration and defence, compulsory social security	224	112	50,0
P Education	4.225	3.169	75,0
Q Human health and social work activities	9.840	4.920	50,0
R Arts, entertainment and recreation	4.387	4.387	100,0
S Other service activities	8.885	7.100	79,9

Sources: SORS. Note: Activity K is not included as employees in this activity are not eligible.

[35] https://pxweb.stat.si/SiStatDb/pxweb/en/10_Dem_soc/10_Dem_soc__07_trg_dela__10_place__01_07010_place/0701060S.px/.

[36] https://pxweb.stat.si/SiStatDb/pxweb/en/10_Dem_soc/10_Dem_soc__07_trg_dela__05_akt_preb_po_regis_virih__01_07009_aktivno_preb_mesecno/0700921S.px/.

[37] https://pxweb.stat.si/SiStatDb/pxweb/en/10_Dem_soc/10_Dem_soc__07_trg_dela__10_place__01_07010_place/0701070S.px/.

The overall fiscal impact of the measure was calculated by using two approaches, namely based on the average of all the above-stated employees and on the second level data of the Standard Classification of Activities. Based on the available information on the economic downturn in individual sectors, the shares of temporary laid-off employees or absences due to force majeure were thereby estimated. Based on this approach, it was determined that approximately one third of all potential beneficiaries, which is more than 200 thousand people, would be included in the measure. In the final overall assessment of the general government expenditure, the personal income tax that employers will have to calculate from the gross salary compensation to be paid to them by the state was disregarded.

Emergency assistance in the form of a monthly basic income and exemption from contributions

The basis for the calculation encompassing potential beneficiaries is the number of self-employed excluding farmers from the register of persons in employment[38] and the number of farmers indicated by the ZPIZ under insured persons.[39] At the time of preparation of this assessment, the data on the number of self-employed excluding farmers were available for January 2020, when there were approximately 73 thousand, and on the number of farmers under pension insurance were available for February 2020, when there were approximately 5 thousand. The assessment of the exemptions from contributions is based on the aforementioned data on the number of potential beneficiaries and on the state budget data regarding the total volume of social contributions paid by the self-employed.[40] It shows that the average contributions are only slightly above the minimum contributions determined by FURS (Financial Administration of the Republic of Slovenia).[41]

Allowance for hazards and special burdens during the epidemic

In our estimation, the fiscal impact assessment is mainly about employees in the hospital healthcare sector (Q86.1), in the sector of residential care for the elderly and disabled (Q87.3), of public order and security (O84.24) and of protection and rescue in case of fire and accidents (Q84.25), which averaged about 45 thousand in the first two months of this year. In the fiscal impact assessment, the widest possible range set by the government on 22 April 2020 is considered.

Sick pays chargeable to one's own or to the employer's account are covered from the compulsory health insurance.

The calculation is based on the data on the share of sick pays in the total salary from among the statistical data on average monthly labour costs, of which the latest available are for 2016.[42] This share was applied to the average gross salary and the number of employees last year, at second level Standard Classification of Activities activities.

[38] https://pxweb.stat.si/SiStatDb/pxweb/en/10_Dem_soc/10_Dem_soc__07_trg_dela__05_akt_preb_po_regis_virih__01_07009_aktivno_preb_mesecno/0700921S.px/.

[39] https://www.zpiz.si/cms/content2019/-mesecnistatisticnipregled-koledar-objav - only in Slovene.

[40] https://www.gov.si/en/topics/fiscal-policy/.

[41] https://www.fu.gov.si/davki_in_druge_dajatve/podrocja/prispevki_za_socialno_varnost/osnove_za_placilo_ter_zneski_prispevkov_za_socialno_varnost/ - only in Slovene.

[42] https://pxweb.stat.si/SiStatDb/pxweb/en/10_Dem_soc/10_Dem_soc__07_trg_dela__10_place__21_07287_stroski_dela_RSD/0728701S.px/.

One-off solidarity bonus for pensioners in three nominal amounts

The calculation is based on the ZPIZ data on the number of pension beneficiaries by different pension amounts.[43]

One-off solidarity bonus of EUR 150 for vulnerable groups and higher large family allowance

The calculation is based on the data from the Ministry of Labour, Family, Social Affairs and Equal Opportunities on the recipients of social assistance benefits in cash and supplementary benefit, the recipients of child care allowance, foster carers, the recipients of child benefit, parental compensation and benefit, the beneficiaries of disability benefit and war veterans allowance.[44] An additional source is SORS statistical data on the number of students in the 2018/2019[45] academic year and data on the number of families by number of children.[46]

Unemployment benefit due to the loss of employment for business reasons

The number of beneficiaries was estimated on the basis of daily data from the ESS on the inflows into unemployment.[47]

Reduction of salaries and compensations for holders of public office in the amount of 30% of the basic salary

The calculation is based on the data from the Ministry of Public Administration on paid salaries by occupational group.[48]

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[43] https://www.zpiz.si/cms/content2019/-mesecnistatisticnipregled-koledar-objav – only in Slovene.

[44] https://www.gov.si/en/state-authorities/ministries/ministry-of-labour-family-social-affairs-and-equal-opportunities/topics-and-projects/.

[45] https://pxweb.stat.si/SiStatDb/pxweb/en/10_Dem_soc/10_Dem_soc__09_izobrazevanje__08_terciarno_izobraz__01_09550_vpisani_splosno/0955030S.px/.

[46] https://pxweb.stat.si/SiStatDb/pxweb/en/10_Dem_soc/10_Dem_soc__05_prebivalstvo__18_Druzine__15_05F70_druzine_OBC/05F7015S.px/.

[47] https://www.ess.gov.si/trg_dela/aktualno_o_trgu_dela/brezposelnost-po-dnevih - only in Slovene.

[48] https://www.gov.si/en/topics/salary-system/.