REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Public finance and macroeconomic developments

July 2020

Prepared by the Fiscal Council's Analysis Service

No: 30-1/2020/2

Account was taken of data available up to and including 3 July 2020.

The present document contains the analysis of fiscal trends in the general government sector in accordance with the European System of Accounts methodology (ESA, 2010) — also used for the monitoring of EU fiscal rules — which are published quarterly as national accounts statistics by SORS. It also follows trends in the state budget, local government budgets, the pension insurance fund (ZPIZ) budget and the health insurance fund (ZZZS) budget in accordance with the International Monetary Fund methodology for monitoring government finance statistics (GFS) based on the cash flow principle, which are published on a monthly basis by the Ministry of Finance.

Executive summary

The COVID-19 pandemic and the measures for its containment have had a significant impact on the deterioration of macroeconomic results while directly and indirectly also worsening fiscal results. In the first quarter of 2020, the general government deficit amounted to EUR 739 million, which is 6.6% of GDP (in the same period last year: −0.8% of GDP), while the general government debt has increased by EUR 1.7 billion since the end of last year. In the first quarter of the year, the share of the debt in GDP increased by 3.5 percentage points, i.e. to 69.6% of GDP by the end of March. In accordance with the monthly data on the central government budget debt, the general government debt also increased in the second quarter of the year, since the net budget borrowing amounted to EUR 5.3 billion in the first half of this year.

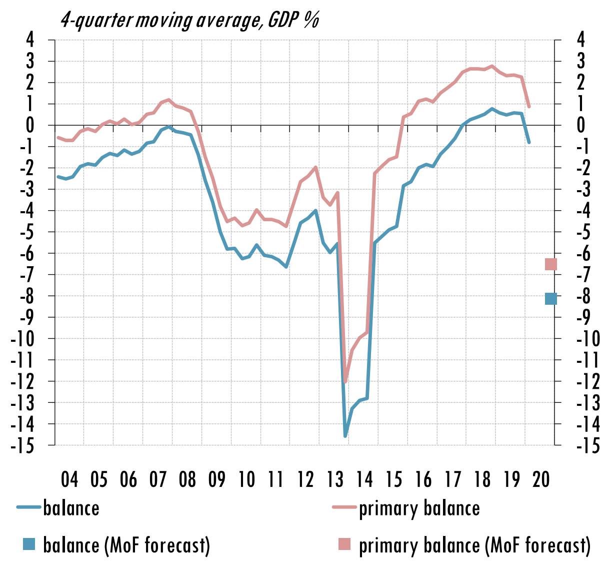
With the slow-down in the economic cycle, the deterioration of the position of public finance was already evident by the end of last year when the revenue dropped quarter-to-quarter, while the expenditure growth dynamics remained high. In the quarter of the crisis outbreak, the year-on-year dynamics of revenues (-3.4%) and expenditure (9.5%) became even more divergent due to the economic downturn and the commencement of the implementation of measures adopted to prevent the consequences of the pandemic. Compared to 2019, lower revenue predominantly contributed to the year-on-year deterioration of the general government balance at the beginning of the crisis. On the basis of monthly data compiled under the cash flow methodology, the government position in the second quarter of the year deteriorated further as expected. In accordance with the temporary daily data the central government budget deficit alone amounted to EUR 1.9 billion in the first half of the year, while according to the data available the health insurance fund also recorded a significant five-month deficit.

In the first quarter of 2020, GDP in Slovenia fell by 4.5% in comparison to the last quarter of 2019, while on a year-on-year basis it fell by 3.4%. The pandemic had a direct impact on the activity only for a short period of time in the first quarter. The decrease in demand in the first quarter mainly reflected a significant decline in household consumption and investments in machinery and equipment; in that period the volume of international trade also dropped significantly. According to the data available, the economic downturn expectedly deepened in April. The economic climate indicator improved in May and June; it, however, remained well below the level before the pandemic. The situation in the labour market deteriorated slightly less significantly than the economic activity, due to the usual delay in the labour market response and due to the measures adopted to preserve jobs. After a relatively strong increase in the number of registered unemployed persons at the beginning of the crisis, the number of unemployed dropped slightly in June.

The forecasts for the fall in GDP for Slovenia at the annual level for 2020 range from -5.5% to -9.5%. The forecasts are exposed to considerable uncertainties with regard to the future course of the pandemic, the measures related thereto and the recovery of economic activity. According to most of the forecasts available, by the end of 2021 the GDP level is predicted to lag behind the level before the pandemic despite the growth expected next year.

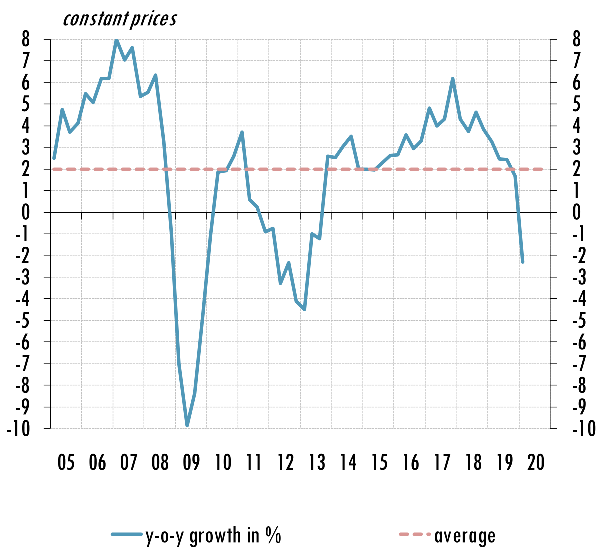
Countries responded to the crisis with extensive anti-crisis measures. In countries with more fiscal space, most of the measures include direct financial assistance, while countries with less space for taking action are adopting, to a relatively greater extent, measures in the form of guarantees and loans. From the aspect of the current stage of the pandemic, it is recommended that countries gradually abolish support measures and focus on the provision of demand-side incentives. For the implementation of measures, efficiency and transparency continue to be important; in particular, the latter is crucial for the provision of credibility of measures both among domestic economic entities and in the financial markets. The amount and the price of financial means available, as well as the assessment of the effectiveness of individual measures once the epidemic is over, will greatly depend on this credibility.

Main aggregates of general government (ESA)



Source: SORS, MoF forecast, FC calculations.

GDP



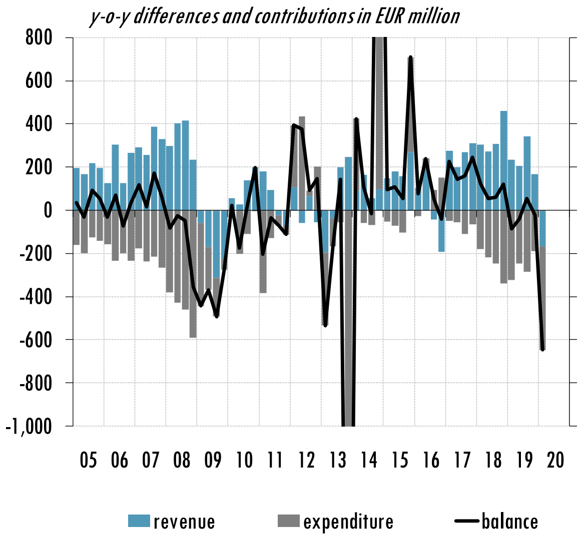
Source: SORS, FC calculations.

Fiscal trends – General government sector

In the first quarter of 2020, the general government deficit amounted to EUR 739 million or 6.6% of GDP (1st quarter 2019: EUR -92 million or -0.8% of GDP), while cumulatively in the past four quarters it amounted to EUR 387 million or 0.8% of GDP (1st quarter 2019: +0.6% GDP). With the slow-down in the economic cycle, the deterioration of the position of public finance was already evident at the end of last year when revenue dropped quarter-to-quarter, while the expenditure growth dynamics remained high (both seasonally adjusted). In the quarter of the crisis outbreak, the dynamics of revenues and expenditure became even more divergent due to the economic downturn and the introduction of measures adopted to prevent the consequences of the pandemic. Compared to 2019, lower revenue contributed predominantly to the year-on-year deterioration of the general government balance at the beginning of the crisis. In the coming quarters, increased expenditure is expected to largely contribute to the deepening of the deficit due to the implementation of measures.

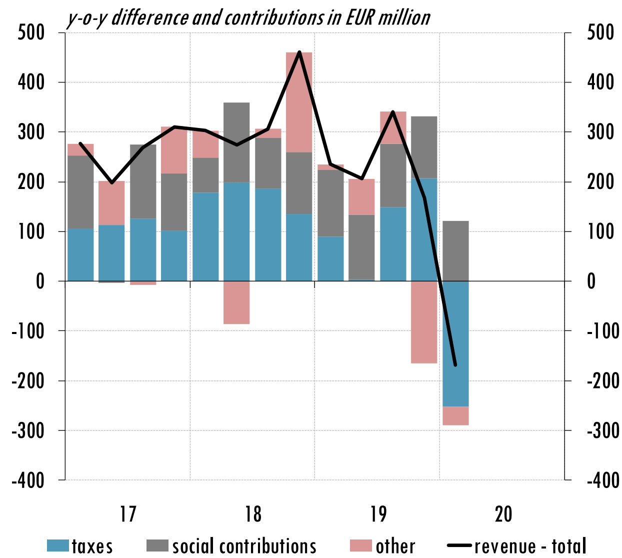
As expected, the general government deficit will further increase in the second quarter. This is evident from the data compiled under the cash flow methodology; currently the data are available for a five-month period. The consolidated government accounts indicated a deficit in the amount of EUR 1.386 billion in the stated period (in the same period in 2019 there was a surplus in the amount of EUR 208 million).

General government balance (ESA)



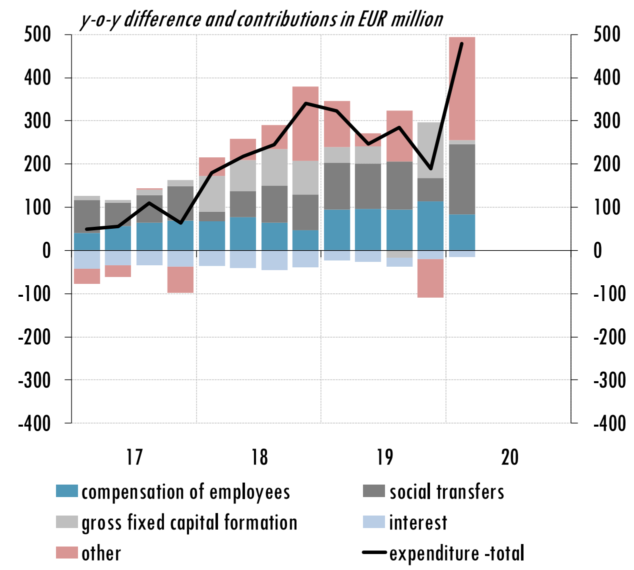
Source: SORS, FC calculations.

General government revenue (ESA)



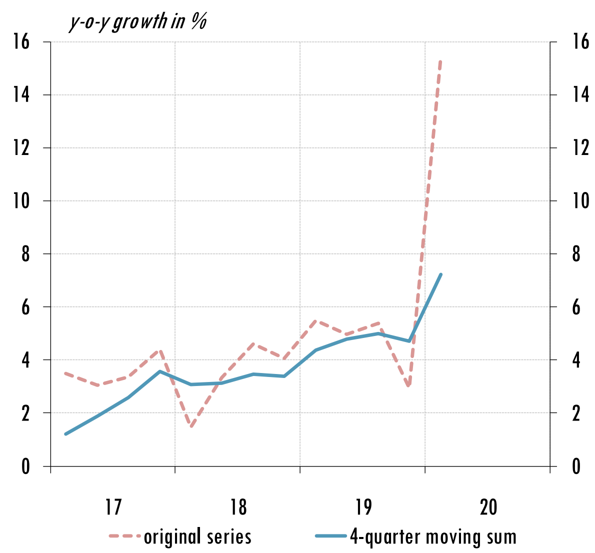
Sources: SORS, FC calculations.

General government expenditure (ESA)



Source: SORS, FC calculations.

Soical benefits and subsidies (ESA)

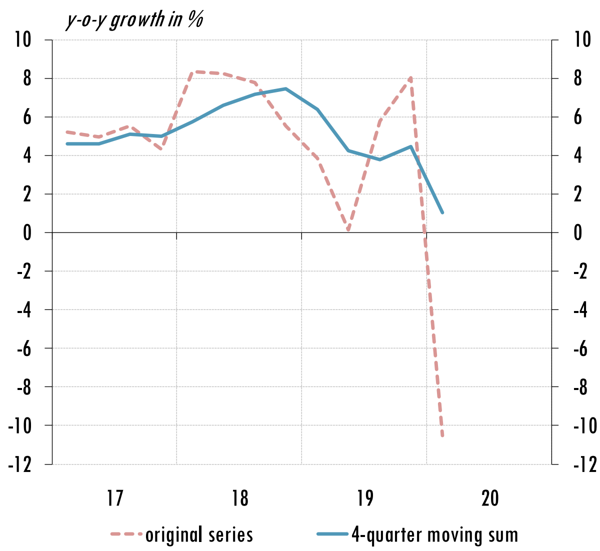


Source: SORS, FC calculations.

In the first quarter of 2020, the year-on-year decline in revenue (-3.4%) exceeded the fall in nominal GDP growth (-0.1%). The decline in tax revenue was mainly and to a similar extent the result of lower taxes on production and import and taxes on revenues or corporate profits. The fall in taxes on production and import mainly reflected a strong reduction in household consumption and investments, while the fall in taxes on income or corporate profits reflected the slowdown in profit growth. On the contrary, the growth in revenue from social contributions in the first quarter (6.5%) has almost not changed in comparison to the end of last year, which shows a delayed response of the labour market to the changed economic situation at the beginning of the year.

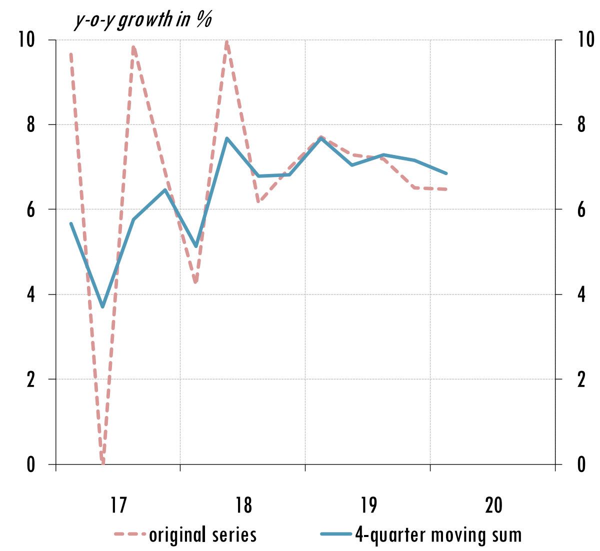
The high year-on-year growth in general government expenditure (9.5%) was mainly due to social benefits and subsidies, the two categories reflecting the most important packages of crisis mitigation measures, which contributed in equal proportions to this growth. In the first quarter of 2020 the share of subsidies – these also include measures related to the payment of benefits and contributions to temporary laid-off workers and the payment of pension and disability insurance to persons at work – more than doubled in the total expenditure in comparison to the average in the past decade. A higher amount of funds for employee compensation (an increase by 6.3% on a year-on-year basis) and the growth in intermediate consumption (12.9%) also contributed to the increase in the total expenditure, but by half less than the two stated categories. Intermediate consumption also includes the transfers from the Health Insurance Institute of Slovenia to public institutions for goods and services shifted from the end of last year to the beginning of this year.

Taxes (ESA)



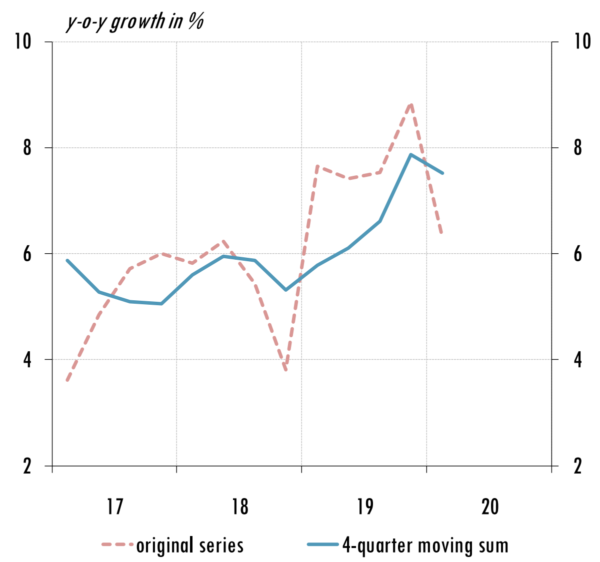
Sources: SORS, FC calculations.

Net social contributions (ESA)



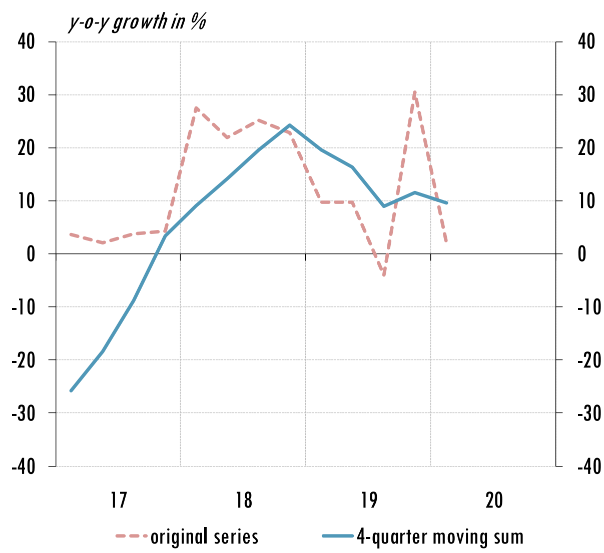
Source: SORS, FC calculations.

Compensation of employees (ESA)



Source: SORS, FC calculations.

Gross fixed capital formation (ESA)



Sources: SORS, FC calculations.

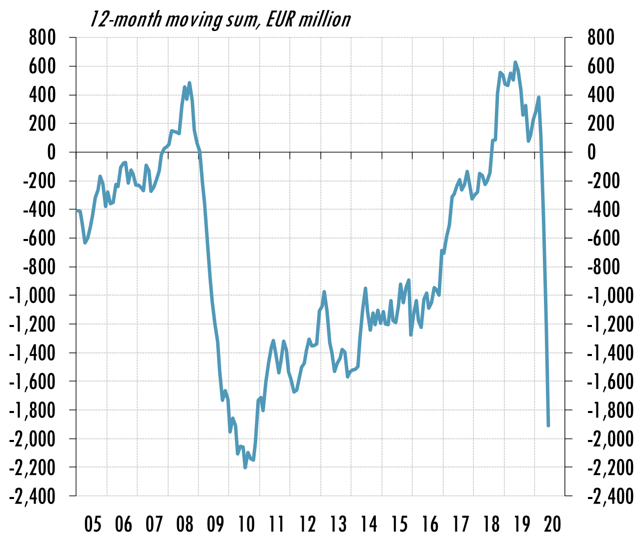
State budget (the GFS cash flow methodology)

According to provisional daily data the state budget deficit amounted to EUR 1.9 billion in the first six months of this year, whereby the deficit in the three-month period from April to June amounted to EUR 1.6 billion.

On a y-o-y basis, revenue dropped by 15.5% in the first half of 2020, mainly due to the fall in April and May. The drop in the revenues from VAT and excise duties resulted from the direct impact of lower economic activity caused by the pandemic and the possibility of instalment payment and the deferred payment of liabilities. The drop in revenues from personal income tax is partly connected with the tax relief on labour costs introduced at the beginning of 2020 and partly with the impact of the pandemic on the labour market. The biggest drop of tax revenue was recorded in corporate tax revenues (-45.7%) due to the adopted measures. Instalments for 2020 that fell due for payment between the adoption of the emergency legislation and 31 May were exempt from payment, and because of the postponement of the deadline for the new calculation of advance payment the usual settlements for 2019 did not take place in April and May. Revenues from EU funds also dropped in comparison to the same period last year. Among the key revenues, only non-tax revenues increased which is, according to the information received from the Ministry of Finance, connected with additional borrowing and the calculation of interest on additional issues of bonds.

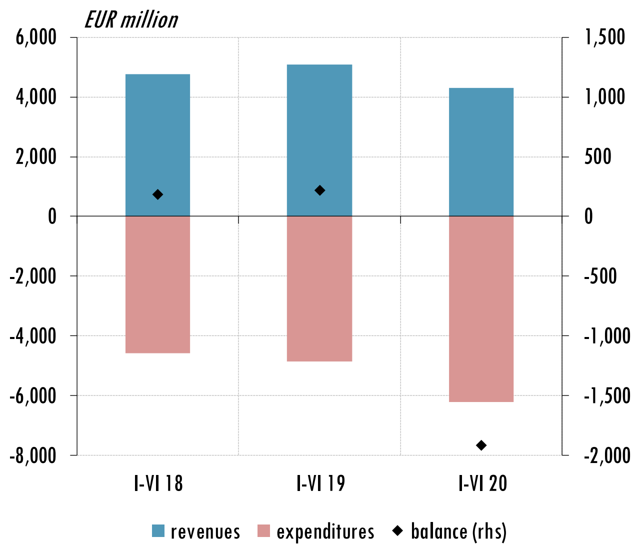
Expenditure increased by 27.7% in the same period, mainly due to measures to mitigate the impact of the pandemic. More than half of the increase resulted from subsidies and transfers to individuals and households. Transfers to the Pension and Disability Insurance Fund also significantly contributed to the growth; increasing by EUR 365 million (79%) which was associated with the covering of loss of revenue from social contributions that were exempt from payment due to the measures and with the one-off solidarity allowances for pensioners. Payments related to expenditure on goods, services and wages continued to grow at a similar rate as last year. The wage increase was associated with regular promotions under the wage agreement from 2018 and the crisis allowances. The total expenditure growth was held back by the decline in the expenditure on investment and interest.

State budget balance



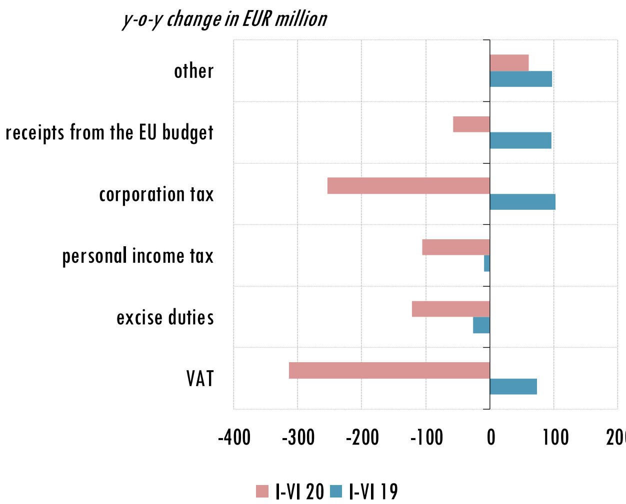
Source: MoF, https://proracun.gov.si/, FC calculations.

State budget



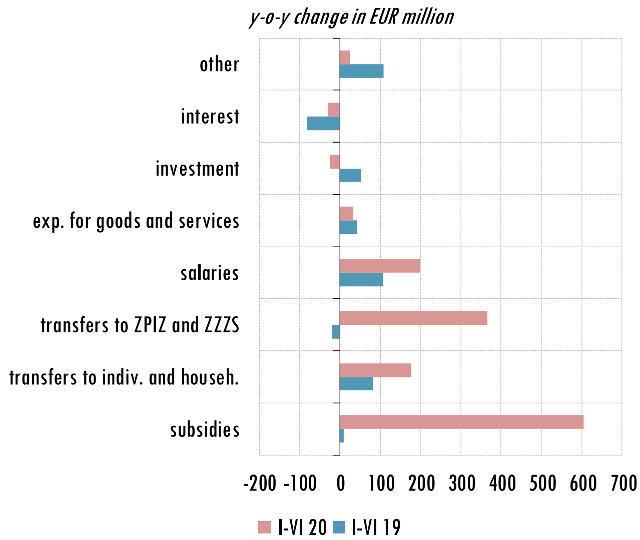
Source: MoF, https://proracun.gov.si/, FC calcutions.

State budget revenues



Source: MoF, https://proracun.gov.si/, FC calculations.

State budget expenditures



Source: MoF, https://proracun.gov.si/, FC calculations

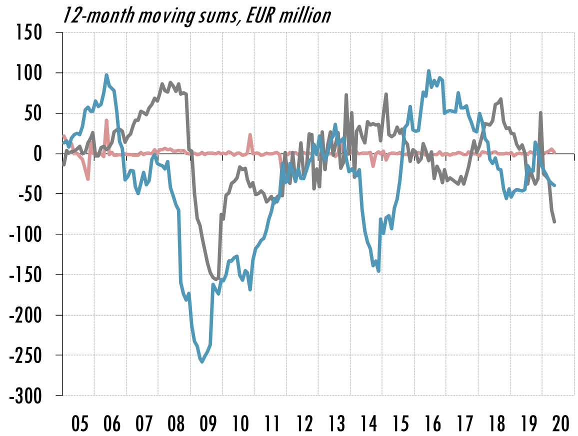
Public finance budgets (the GFS cash-flow methodology)

In the first five months of 2020, the ZZZS recorded a deficit of EUR 129 million, while in the same period of 2019 it recorded a surplus of EUR 6 million. In this period, the increase in revenue slowed down to 2.1% (last year 9.8%) which was mainly due to a drop in the revenue from social contributions. By the end of May, just over EUR 25 million exempt contributions were transferred from the state budget. In the same period expenditure increased by 12.7% (last year 11.9%). A big part of this increase is due to EUR 68 million in liabilities transferred from last year. This year the growth in expenditure for sick-leave benefits is also slightly higher, but by the end of May this amount had not yet included the sick-leave benefits for up to 30 days laid down by anti-crisis measures. The increase is also the result of reduced deadlines for payments to the private sector, while the growth in expenditure on wages is due to regular promotions and the payment of crisis allowances.

The growth in revenue and expenditure of the ZPIZ more than doubled in the first five months of 2020 in y-o-y terms. The loss of social security income as a result of the direct impact of the pandemic and the measures adopted with regard to the exemption from payment was replaced by a higher transfer from the state budget, which has been declining for the last five years. The main part of expenditure are pensions which have been increasing – along with a similar increase in the number of beneficiaries – more than in the same period of 2019 due to higher pension growth. A higher growth in comparison to 2019 is in largely due to the payment of the April solidarity allowance (EUR 66.5 million).

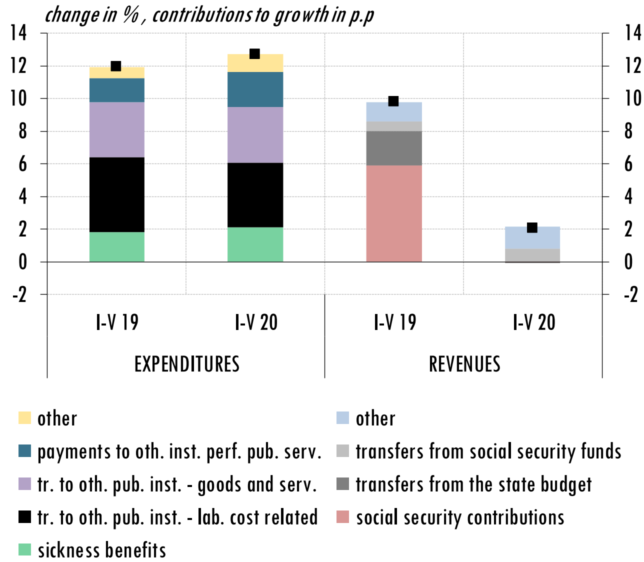
In the first five months of 2020, the surplus of municipal budgets (EUR 15 million) was almost three times lower than in the same period of 2019. Revenue growth (2.4%) almost halved along with a higher growth in revenues from personal income tax as transfer revenues from other public institutions significantly dropped. Expenditure growth (6.2%) was higher compared to the same period last year mainly due to higher expenditure on wages and the growth in expenditure on goods and services, which dropped significantly last year. Investment spending growth slowed down but has remained relatively high (21.1%).

Local governments, Pension and invalidity fund and Health insurance fund budgets



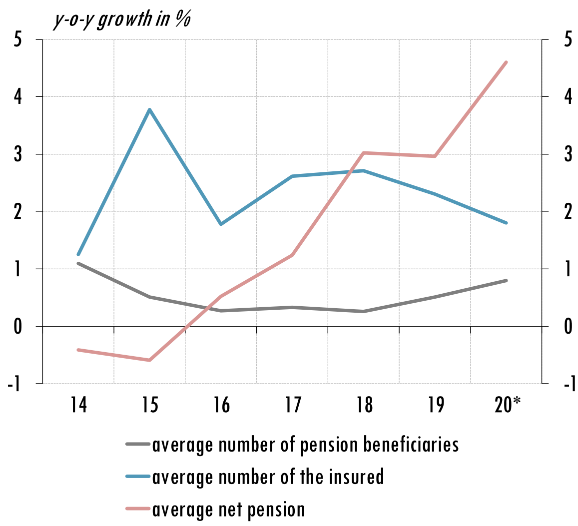
Source: MoF, FC calculations.

The Health Insurance Fund of Slovenia



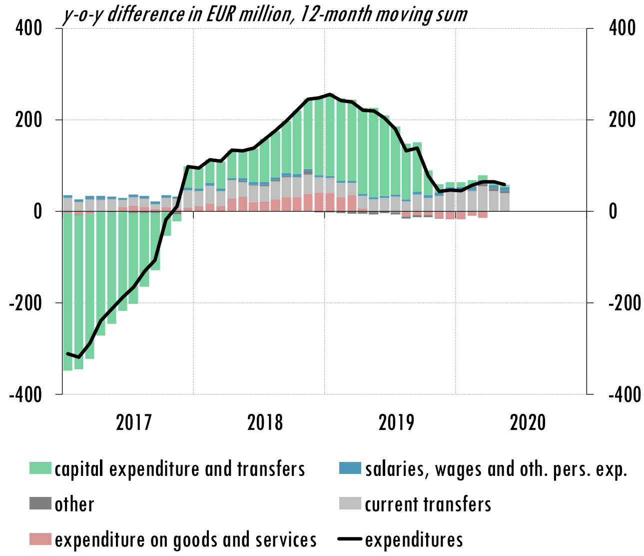
Source: MoF.

Pensions



**y-o-y growth of Jan. - May average (except number of the insured: Jan. - Apr.)*
Source: Pension and Disability Insurance Fund of Slovenia.

Local government budgets - expenditures

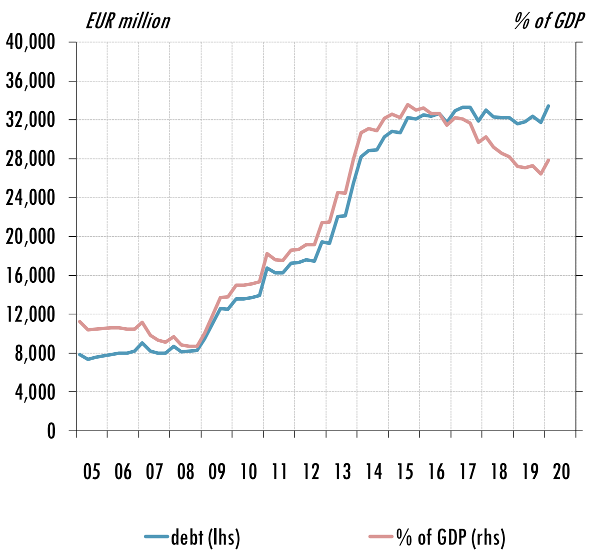


Source: MoF, FC calculations.

General Government Debt

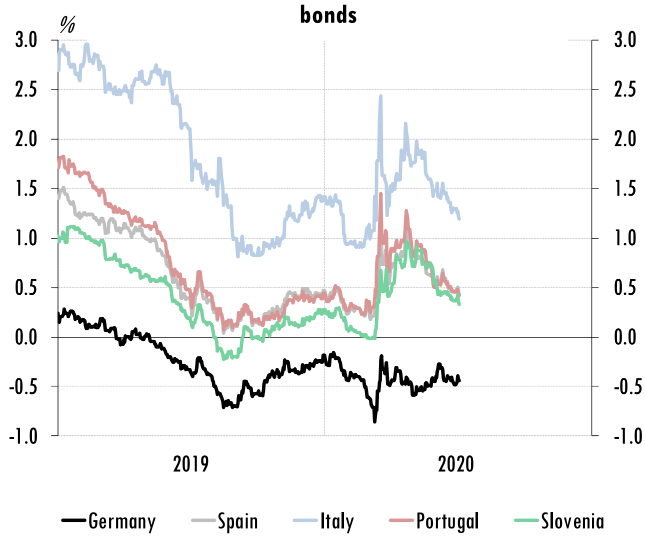
At the end of the first quarter of this year, the gross general government debt stood at EUR 33.4 billion, which is EUR 1.7 billion more than at the end of 2019. In the same period, the share of the debt in GDP increased by 3.5 percentage points, i.e. to 69.6% of GDP, which is, along with the nominal debt increase, also due to a fall in GDP. On the basis of the monthly data on the state budget debt, the general government debt continued to increase in the following months. In the first half of this year, the net borrowing amounted to EUR 5.3 billion. The main part of the new borrowing is represented by the issuance of new (two 10-year and one 3-year) bonds and the re-opening of the existing issues of bonds in the total amount of EUR 5.8 billion. Additional borrowing with regard to the Implementation of the Republic of Slovenia's Budget for 2020 and 2021 Act adopted last year was provided for by the amendments included in the Act Governing the Intervention Measure of Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic (PKP2), which was adopted at the end of April 2020. After last year's reduction the funds in the treasury single account have significantly increased, i.e. by EUR 3 billion from the end of December 2019 amounting to EUR 7.1 billion at the end of June 2020, which provides solid liquidity of the central government budget. The required yield on Slovenian long-term government bonds increased at the beginning of the epidemic, but after the decrease in June, however, it stood at the same level as on average in 2019. On average, resulting from a similar development, the mark-up on German bonds was in June slightly higher than on average last year. The time distribution of liabilities remains favourable, although the average weighted time to debt maturity was shortened by 0.3 years (to 8.7 years) from the end of 2019 to the end of May this year. According to the latest data available, the government guarantees decreased by EUR 108 million to EUR 5.26 billion in the first three months of this year.

General government consolidated gross debt (ESA)



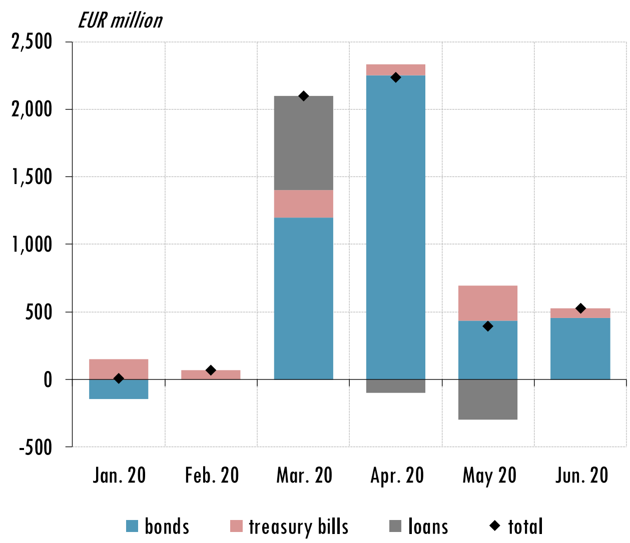
Source: SORS, FC calculations.

Yields on 10 year government EUR reference bonds



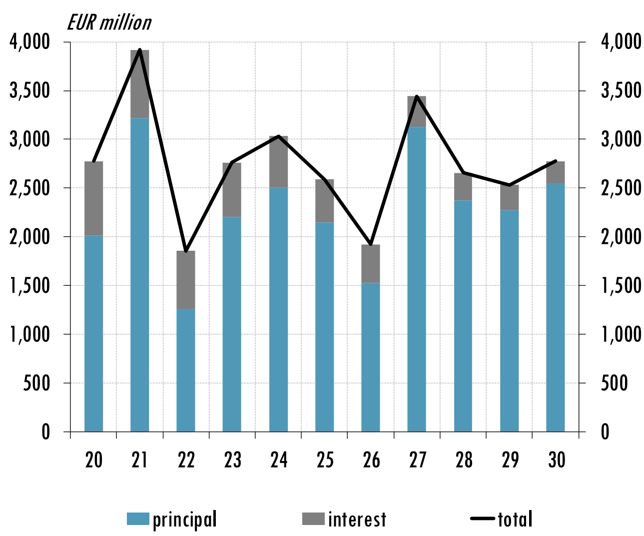
Source: Bloomberg.

State budget net borrowing, January - June 2020



Source: MoF, FC calculations.

State budget debt repayment schedule



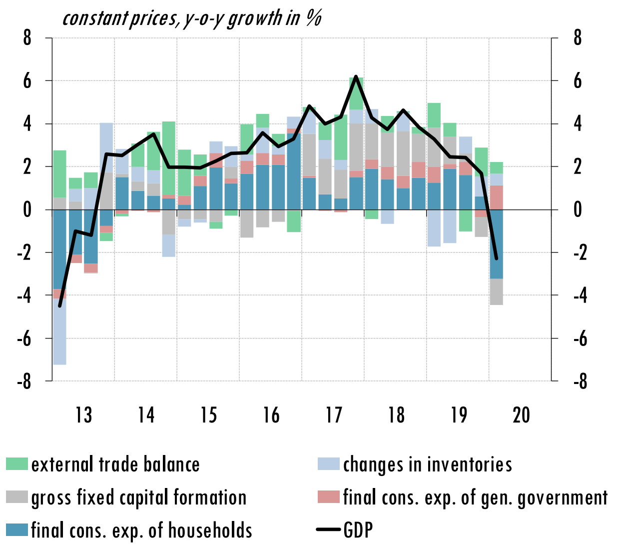
Source: MoF.

Macroeconomic trends and risks

The outbreak of COVID-19 and the measures for its containment have had a significant impact on the economic downturn. Already in the first quarter of 2020, GDP in Slovenia fell by 4.5% in comparison to the last quarter of 2019 (seasonally adjusted), while on a year-on-year basis it fell by 3.4% (working day adjusted). The pandemic had a direct impact on the activity only for a short period of time in the first quarter. The decrease in demand in the first quarter was mainly the result of a significant decline in household consumption and investments in machinery and equipment; the volume of international trade also dropped significantly in this period. According to the data available, the economic downturn expectedly deepened in April. On average, the fall in production of manufacturing industries and in the construction works value in the first four months was slightly less significant than the EU average, while the loss of revenue in trade and other service activities was more significant. The economic climate indicator improved in May and June, it, however, remained well below the level before the pandemic. The situation in the labour market deteriorated slightly less significantly than the economic activity, due to the usual delay in the labour market response and due to the measures adopted to preserve jobs. In April, the number of persons in employment (excluding farmers) was lower by 1.0% on a year-on-year basis, while in the first four months, the average number of persons in employment was higher by 0.6% in comparison to the same period in 2019. The number of registered unemployed persons increased by 11,700 between the end of February and the end of June, while in June alone it decreased slightly. Nevertheless, at the end of June the number of unemployed persons increased by just over 25% in comparison the same month last year.

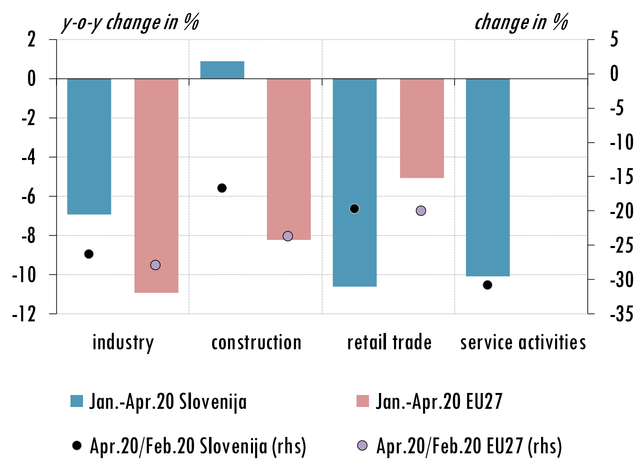
The 2020 forecasts for the GDP decline at the annual level range from -5.5% to -9.5%; while IMAD predicts a 7.6% decline in its forecast published in June. The forecasts are exposed to considerable uncertainties with regard to the future course of the pandemic, the measures related thereto and the recovery of economic activity. According to most of the forecasts available, the GDP level is not expected to reach the level before the pandemic by the end of 2021 despite the growth expected next year.

Gross domestic product



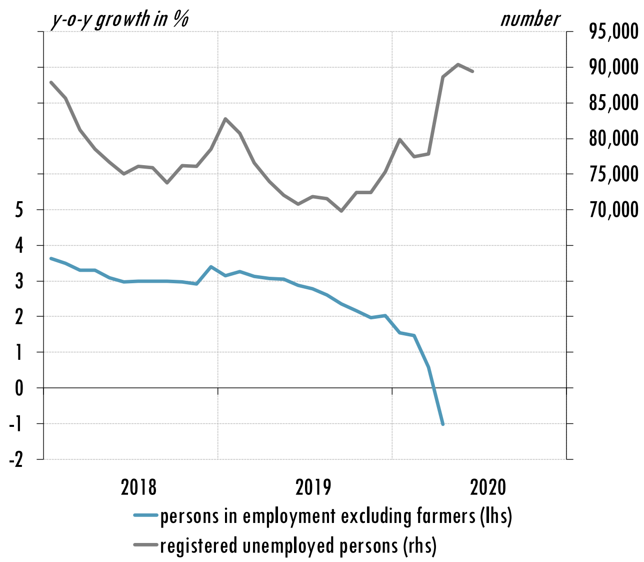
Source: SORS, FC calcuations.

Short-term indicators of economic activity



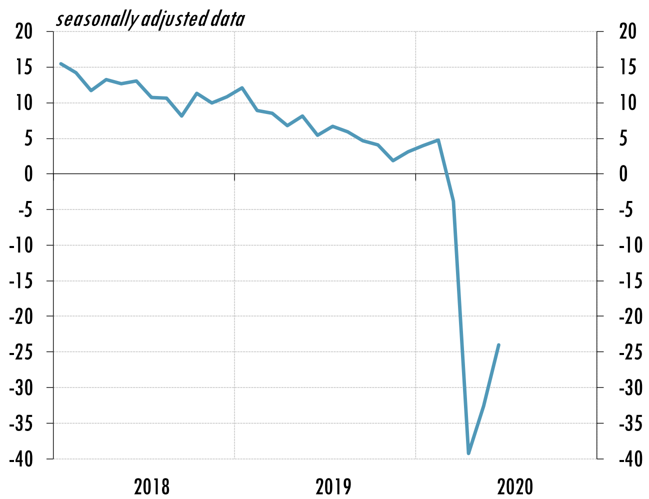
Source: Eurostat, SORS, FC calculations. Note: Service activites: indicator of turnover, Others: indicators of volume. April data for service activities for EU27 is not yet available.

Labour market



Sources: SORS, Employment Service of Slovenia, FC calculations.

Economic sentiment indicator

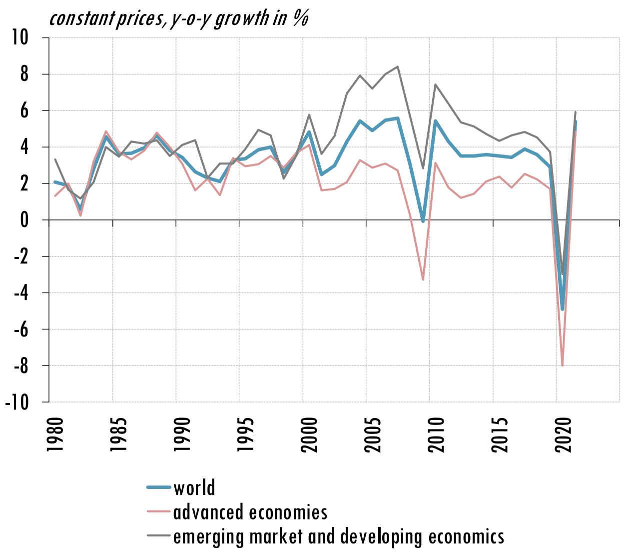


Source: SORS.

The COVID-19 pandemic has caused a global recession of historic proportions. In its June forecast the IMF expects the global GDP to fall by almost 5% this year and for the first time it predicts a decline in all Member States. At the onset of the financial crisis in 2009, the global GDP remained unchanged, because economic activity continued to grow in the emerging and developing countries. The volume of world trade, which had already fallen on average in 2019, collapsed at the beginning of this year due to the measures adopted to contain the pandemic, the decline being most pronounced in the euro area. Countries responded to the crisis by adopting extensive anti-crisis packages. In countries with more fiscal space, most of the measures include direct financial assistance, while countries with less fiscal space are adopting, to a relatively greater extent, measures in the form of guarantees and loans.

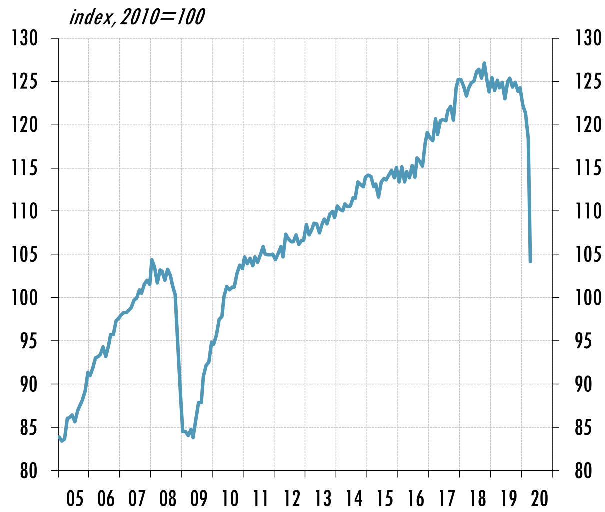
Forecasts for major trading partners differ with regard to the scope of the pandemic in individual countries and with regard to the nature of the adopted measures. According to the latest IMF forecasts, GDP in Germany is expected to fall by almost 8% this year and by almost 13% in Italy and France. On the assumption that economic activity will not come to a halt again in the coming months due to the pandemic, it is expected to gradually recover in the third quarter of this year; however, the recovery will be more gradual than was expected a few months ago. The IMF is urging countries where the businesses are opening up to gradually phase out support measures along with the recovery and to focus on the provision of demand-side incentives and incentivise the shifting of resources away from activities expected to be permanently affected at the end of the pandemic.

GDP



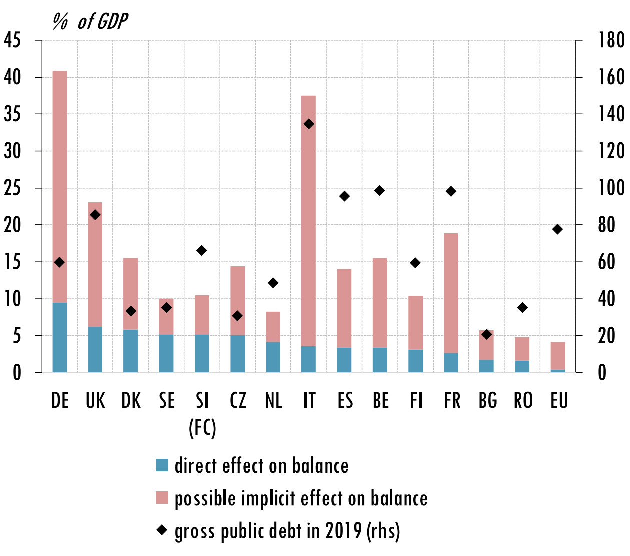
Source: IMF World Economic Outlook. Note: Forecasts for 2020 in 2021.

World trade



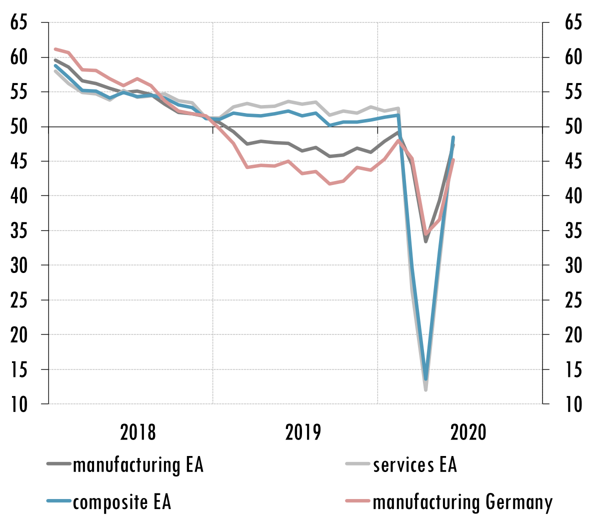
Source: CPB.

Estimates of fiscal effect of measures



Source: Eurostat, IMF, Slovenia: FC estimate. Note: Data available June 12, 2020.

PMI



Source: Markit Economics.

The main aggregates of the general goverment sector

	Q1				Q2-Q4				MoF forecast			
			change				change				change	
	2019	2020	EUR million	%	2019	2020*	EUR million	%	2019	2020**	EUR million	%
REVENUE	**4,943**	**4,774**	**-168**	**-3.4**	**16,285**	**15,144**	**-1,141**	**-7.0**	**21,228**	**19,919**	**-1,309**	**-6.2**
TAXES	2,406	2,153	-253	-10.5	8,109	7,151	-958	-11.8	10,515	9,304	-1,211	-11.5
Taxes on production and imports	1,475	1,371	-104	-7.0	5,147	4,554	-593	-11.5	6,622	5,925	-697	-10.5
Current taxes on income, wealth, etc.	928	780	-148	-16.0	2,947	2,581	-366	-12.4	3,875	3,361	-514	-13.3
Capital taxes	3	3	-1	-25.5	15	15	1	4.7	18	18	0	-1.1
SOCIAL CONTRIBUTIONS	1,876	1,998	121	6.5	5,846	5,602	-244	-4.2	7,723	7,600	-123	-1.6
PROPERTY INCOME	52	46	-5	-10.4	358	250	-108	-30.2	410	296	-114	-27.7
OTHER	608	577	-31	-5.1	1,973	2,141	169	8.6	2,580	2,718	138	5.3
EXPENDITURE	**5,034**	**5,513**	**479**	**9.5**	**15,933**	**18,111**	**2,178**	**13.7**	**20,967**	**23,624**	**2,657**	**12.7**
COMPENSATION OF EMPLOYEES	1,331	1,415	84	6.3	4,138	4,532	394	9.5	5,469	5,947	478	8.7
INTERMEDIATE CONSUMPTION	678	766	87	12.9	2,234	2,188	-46	-2.0	2,912	2,954	42	1.4
SOCIAL TRANSFERS	2,059	2,222	163	7.9	6,357	7,140	783	12.3	8,417	9,362	945	11.2
INTEREST	202	187	-15	-7.6	619	578	-41	-6.6	821	765	-56	-6.9
SUBSIDIES	78	246	168	214.2	282	1,221	938	332.2	361	1,467	1,106	306.6
GROSS FIXED CAPITAL FORMATION	418	427	9	2.1	1,395	1,535	140	10.0	1,813	1,962	149	8.2
CAPITAL TRANSFERS	29	16	-13	-43.3	130	169	39	29.9	159	185	26	16.6
OTHER	238	234	-4	-1.5	778	748	-30	-3.8	1,016	982	-33	-3.3
Balance	**-92**	**-739**	**-647**		**352**	**-2,967**	**-3,319**		**260**	**-3,706**	**-3,966**	
Primary balance	**111**	**-552**	**-663**		**971**	**-2,389**	**-3,360**		**1,082**	**-2,941**	**-4,022**	
Balance, GDP %	**-0.8**	**-6.6**		**-5.8**	**1.0**	**-8.6**		**-9.6**	**0.5**	**-8.1**		**-8.7**
Primary balance, GDP %	**1.0**	**-5.0**		**-5.9**	**2.6**	**-6.9**		**-9.6**	**2.3**	**-6.5**		**-8.7**
Nominal GDP, EUR million	**11,162**	**11,147**	**-16**	**-0.1**	**36,844**	**34,440**	**-2,405**	**-6.5**	**48,007**	**45,586**	**-2,420**	**-5.0**

Sources: SORS, MoF. Notes: *Implicitly calculated to match MoF forecast. ** MoF forecast SP20 (April 2020).