REPUBLIC OF SLOVENIA
**FISCAL COUNCIL**

# Public finance and macroeconomic developments

February 2021

Prepared by the Fiscal Council's Analysis Service

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Data available up to and including 5 February 2021 were used.

The present document contains an 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 SURS. 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

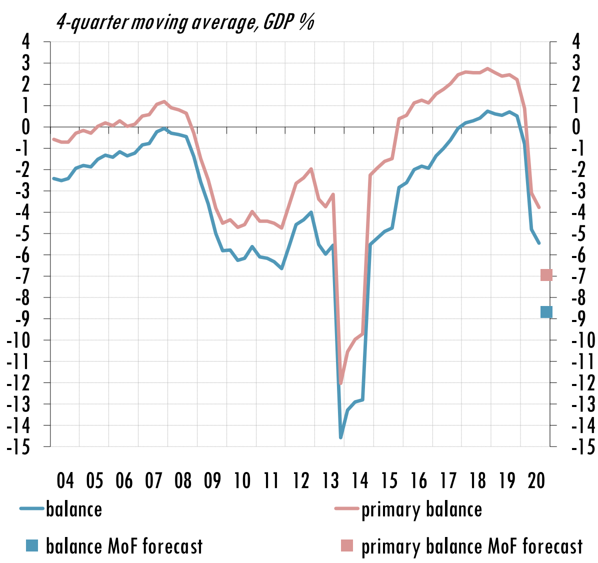
Being undertaken due to the epidemiological crisis, the extensive measures are reflected in the significant increase in general government expenditure, while general government revenue has also seen a substantial decline due to the restrictions imposed on a range of economic activities resulting in a severe economic downturn. The deterioration of public finances is predominantly a result of measures implemented for the mitigation and limitation of the consequences of the epidemic, however, some expenditure categories not directly related to the crisis, such as labour costs and spending on goods and services, have also increased rapidly. During the crisis, the position of public finances worsened to a greater extent than the EU average, which in the context of less favourable economic trends and accompanying risks highlights the importance of the comprehensive and targeted adoption and implementation of measures.

The state budget deficit in 2020 was EUR 3.5 billion (7.6% of projected GDP), and would amount to 2.5% of GDP if the direct effects of COVID measures were not taken into account. Without considering the COVID measures, expenditure increased by 6.5%, which implies an expansion, which is nevertheless smaller than expenditure growth forecast in the revised budget. In its assessment of the revised budget for 2020, the Fiscal Council already noted that the projected expenditure levels were not realistic and do not represent a suitable basis for planning in 2021. Additionally, under the anti-corona packages certain measures were introduced that do not address the consequences of the crisis or fail to do so properly, which also structurally worsens the position of public finances. Given the expected major importance of EU funds and related general government investment for the recovery of economic activity in the upcoming years, it is particularly worrying that the outturn of both categories lagged behind the plans in 2020. In 2020, the ZZZS recorded the highest deficit so far. The high expenditure of ZPIZ was balanced by the general government transfer, which was larger by a quarter compared to 2019, while the surplus in local government budgets was primarily the result of stronger growth in income tax revenue due to higher lump sum expenditure.

In the first three quarters of 2020, the general government deficit was EUR 2.6 billion (−7.7% of GDP). In its October 2020 Draft Budgetary Plan, the government estimated the deficit in 2020 at EUR 4 billion (–8.6% of BDP). The outturn for the entire year remains uncertain: according to the cash flow methodology, the situation at the end of the year deteriorated and will also be affected by the payments for COVID measures in 2021 earmarked in the preceding year. At the end of the third quarter of 2020, the gross general government debt stood at EUR 36.7 billion (78.5% of GDP), EUR 5 billion more than at the end of 2019. Net borrowing has continued from the end of the preceding year into the beginning of this year primarily with the issue of long-term bonds, for which the required yield-to-maturity is close to 0%. In the first three quarters of 2020, the year-on-year deterioration of the general government balance in GDP in Slovenia was the fifth largest and the deficit ratio was the eighth largest in the EU. With a similar drop in revenue, the expenditure growth (12.9%) was considerably higher compared to the EU average (7.7%). The debt-to-GDP ratio is smaller than the EU average ratio; however, compared to the period before the beginning of the current crisis, the increase in the debt-to-GDP ratio in Slovenia ranks in the upper third of EU Member States.

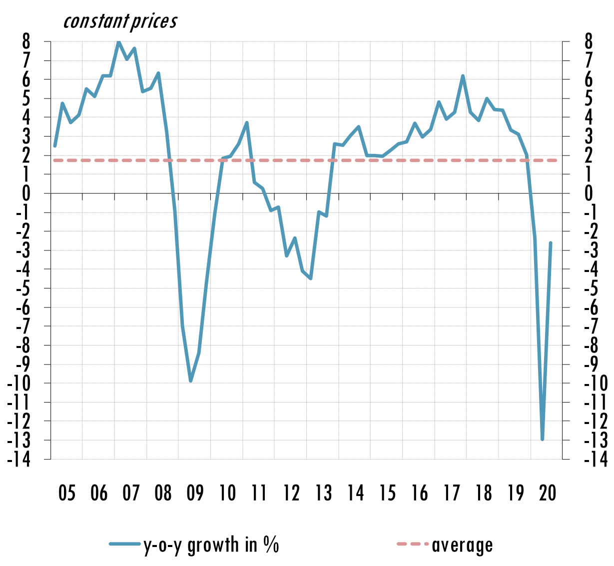
The Eurosystem's exceptionally accomodative monetary policy ensures favourable financing conditions of the greater needs of countries to mitigate the consequences of the epidemic. The harmonised economic policy with the general escape clause at the EU level provides for a fiscal expansion aimed at the direct mitigation of the crisis consequences and the restoration of long-term economic potential. Furthermore, the proper targeting and effectiveness of measures, which determine the pace of economic growth and the capacity to maintain fiscal sustainability after the end of the crisis, are crucial at the national level. Otherwise, the room for fiscal policy manoeuvre will be reduced during the exit and after the end of the crisis.

**Main aggregates of the general government (ESA)**




*Source: SORS, MoF forecast, FC calculations.*

**GDP**



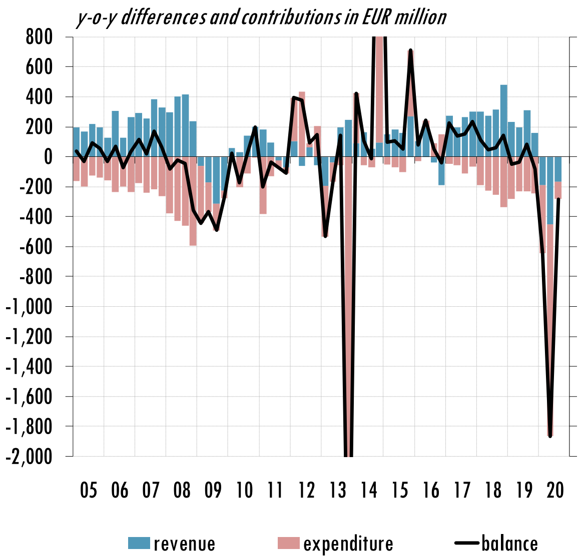

*Source: SORS, FC calculations.*

## Fiscal trends – general government sector (ESA 2010 methodology)

With the recovery of economic activity, the **general government deficit** was smaller in the first three quarters of 2020 (EUR 146 million or 1.2% of GDP) compared to the first half of the year. The general government sector recorded a total deficit of EUR 2.638 billion, that is 7.7% of GDP in the first three quarters of 2020 (EUR +155 million or +0.4% of GDP in the same period in 2019). The deterioration of public finances is, above all, the result of the epidemiological crisis, because the economic downturn resulted in a smaller revenue, while expenditure grew significantly due to the measures to mitigate the consequences of the crisis and the operation of automatic stabilisers. In the October Draft budgetary plan, the government estimated the deficit for the whole 2020 at EUR 3.954 billion (–8.6% of BDP). According to the consolidated balance sheet data compiled under the cash flow methodology, the situation at the end of the year once again deteriorated as expected, and the general government deficit under the ESA methodology will also be affected by the payments for COVID measures in 2021 earmarked in the preceding year.

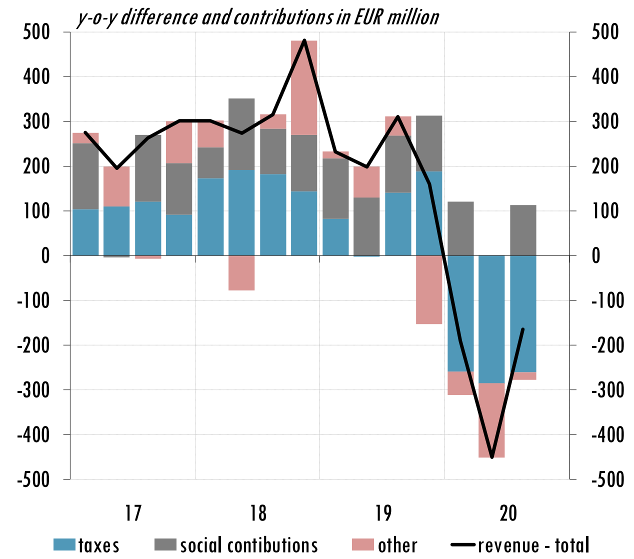
The **revenue** in the three quarters of the preceding year was lower by 5.2% year-on-year, which is more than the nominal GDP drop (−4.4% of GDP). Revenue decline is primarily a result of the economic downturn and consequently lower tax bases and, to a lesser extent, of the direct effect of COVID measures. The total tax revenue was lower by 10.5% year-on-year. Taxes on income and corporate profits saw the greatest decline (−52.5%). The significant year-on-year decline in capital revenue and various current transfers is related to the low absorption of EU funds, while the drop in property income is connected with the poor business performance of companies in which the state holds an ownership share. Revenue from social contributions is the only major revenue category showing a year-on-year increase. In the last quarter of the year, a larger decline of total revenue is expected

**General government balance (ESA)**



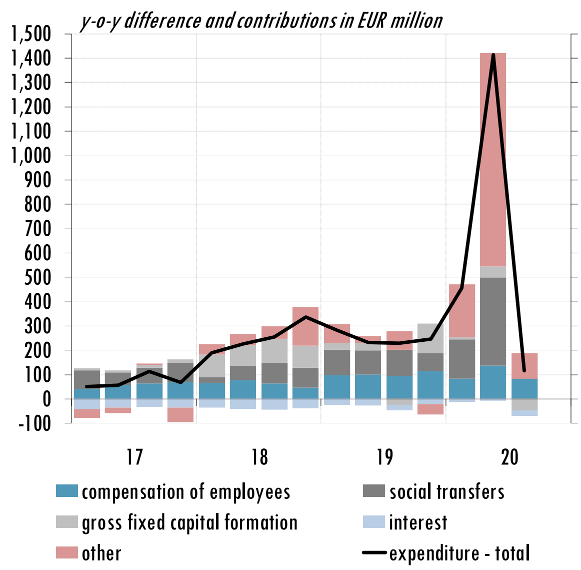

*Source: SORS, FC calculations.*

**General government revenue (ESA)**



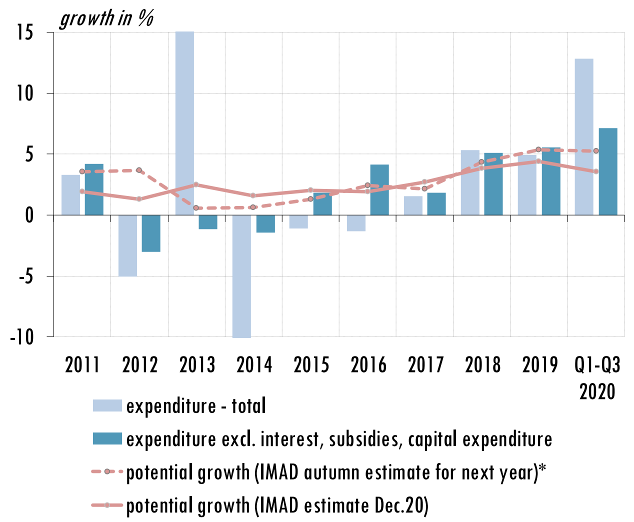

*Sources: SORS, FC calculations.*

**General government expenditure (ESA)**




*Source: SORS, FC calculations.*

**General government expenditure and estimates of potential growth**



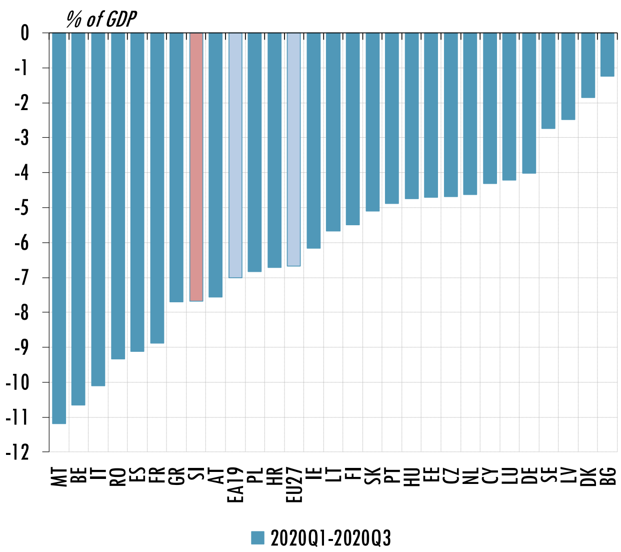

*Note: *Estimate from each IMAD autumn forecast in previous year.*
*Source: SORS, IMAD, FC calculations.*

that, according to the consolidated balance sheet data, is projected to be considerably lower compared to the second quarter, which is attributed to a smaller decline in economic activity.

The **expenditure** in this period was higher by as much as 12.9% year-on-year mainly due to the COVID measures. The growth was stimulated by higher subsidies, which were almost five times higher than in the same period of the preceding year. A rapid growth of expenditure on social transfers (8.3%) was observed in relation to the crisis. Compensation of employees (7.4%) was also relatively high, which is primarily the result of agreements on a wage increase reached before the crisis and, to a smaller extent, of benefits disbursed under the COVID measures. The growth of intermediate consumption expenditure was somewhat lower than in the same period of the preceding year, while investment spending remained virtually unchanged. After a slowdown in total expenditure growth in the third quarter, the consolidated balance sheet data indicate a renewed strong growth in the last quarter due to the additionally adopted measures to mitigate the crisis.

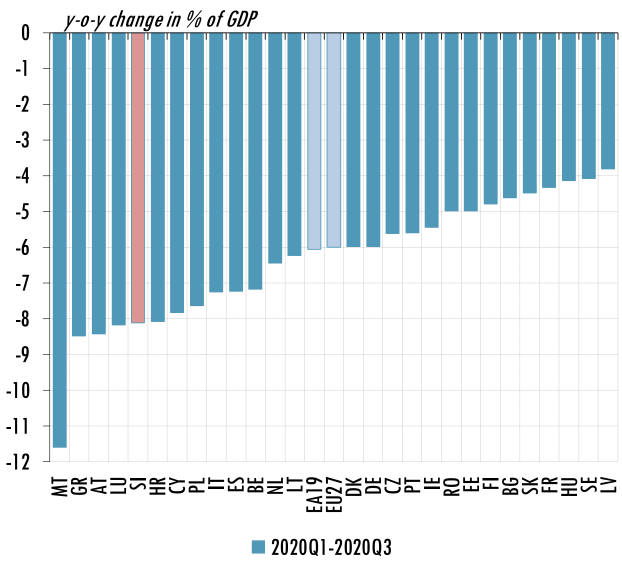
The deterioration of fiscal situation in Slovenia in the first three quarters of 2020 was among the most pronounced in the EU. The average EU deficit has risen by 6% of GDP year-on-year to −6.7% of GDP, while the general government deficit of Slovenia increased by 8.1% of GDP to −7.7% of GDP. The year-on-year balance deterioration was thus the fifth largest and the deficit level was the eighth highest in the EU. The drop in revenue was only slightly larger than the EU average, while the expenditure growth (12.9%) was considerably higher compared to the EU average (7.7%).

**General government balance**



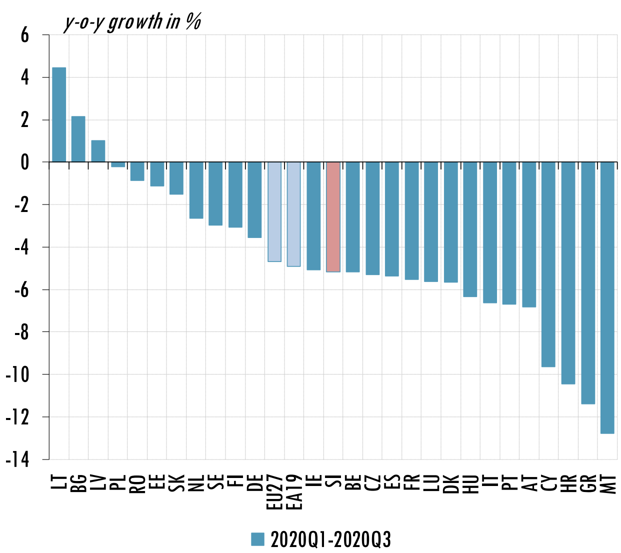

*Source: Eurostat, FC calculations.*

**General government balance**



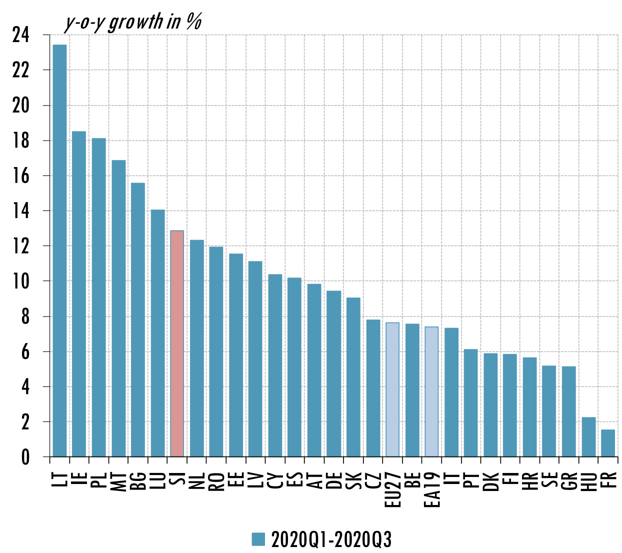

*Source: Eurostat, FC calculations.*

**General government revenue**




*Source: Eurostat, FC calculations.*

**General government expenditure**




*Source: Eurostat, FC calculations.*

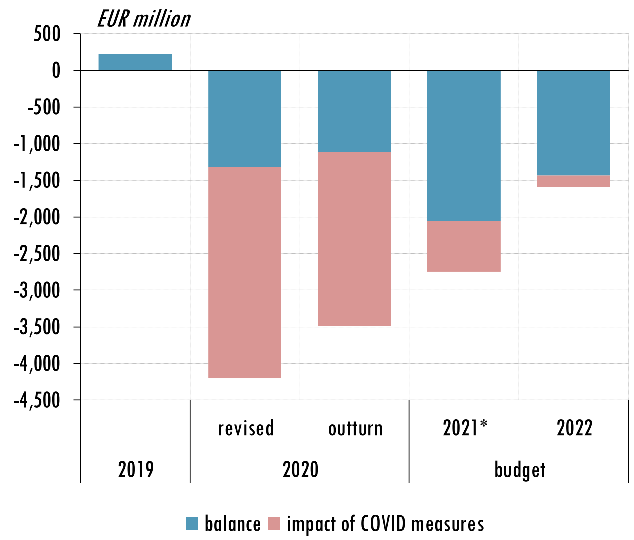
## State budget (the GFS cash flow methodology)

According to the data provided by the Ministry of Finance, the state budget **deficit** in 2020 was EUR 3.488 billion (7.6% of projected GDP), if the direct effects of COVID measures were not taken into account the deficit would amount to EUR 1.159 billion (2.5% of GDP forecast). As expected by the Fiscal Council, the outturn is better compared to the projections from the revised budget (see Table 2) adopted in September, although the revised budget was drafted in times of more favourable macroeconomic conditions than the latest assessments and, above all, it was drafted before the second wave of the epidemic and the related adoption of additional measures to mitigate its consequences. Already in its assessment of the draft revised budget, the Fiscal Council found that, in spite of the fact that the revised budget was planned under conditions of high uncertainty, the projected expenditure in particular was not feasible. According to temporary data, the unfavourable trends in the state budget continued in January. With a slightly smaller revenue year-on-year, particularly due to expenditure being almost one half higher than in the preceding year, the deficit amounted to EUR 434 million.

**Revenue** declined by 10.4% last year, in particular due to the economic downturn (see Table 3). The decline would be smaller (−7.2%) if the direct impact of COVID measures in the amount of EUR 324 million was not considered. In comparison to the preceding year, the largest decrease was recorded in revenue from corporate income tax, where the direct impact of COVID measures was the strongest due to unaccounted advance tax payments in April and May and the deferral of tax payments. A substantial reduction in revenue from personal income tax and excise duties was mainly related to the reduction of taxable income and, in the context of personal income tax, this was partially related to the decrease in tax burden and the increase in lump sum expenditure for municipalities, while the effect of COVID measures on revenue was relatively small. Among the main categories of tax revenue, the decline was the smallest in VAT revenue (−8.9%) and was primarily related to the decline in consumption, while the possibility to defer tax payments contributed 3 p.p. to the decline in total VAT revenue. Non-tax revenue grew slightly in the preceding year; however, the revenue from profit sharing fell significantly due to poor business results and privatisation from previous years. Extraordinary non-tax revenue increased substantially due to treasury operations. Slightly less funds was received from the EU budget than in 2019, while the decrease in these funds without considering the part of this revenue spent for COVID measures amounted to 10.4%. Thus, the outturn of EU funds received again failed to meet the targets projected from the revised budget (29.5%), although these were already lower than the adopted budget projections. The ineffective absorption of EU funds is a key risk for the implementation of 2021 and 2022 budget projections, which also envisage a pronounced increase in the absorption of these funds.

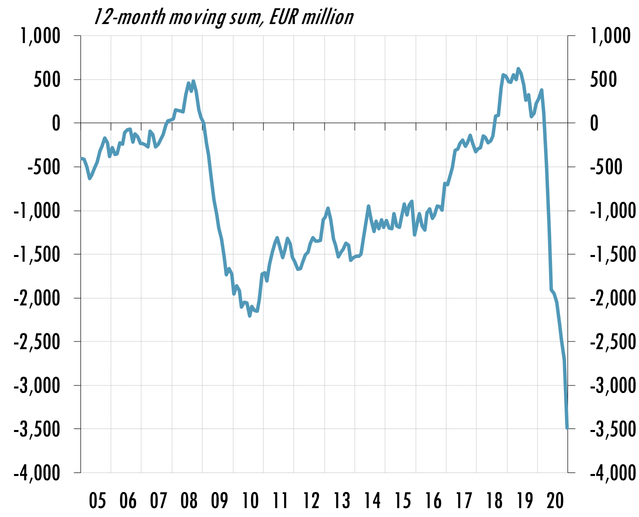
**Expenditure** increased by 26.8% last year, in particular due to the direct effect of COVID measures. Without observing this effect, which amounted to EUR 2,004 million, the increase stood at 6.6%. In accordance with the Fiscal Council's expectations, the growth in both comparisons was lower than projected in the revised budget, in which an exceptionally high growth in expenditure, which did not include the effect of COVID measures and significantly deviated from the trends in 2020 before the adoption of the revised budget, was forecast for the final months of the year. The increase in total expenditure was mainly due to subsidies, which constitute the bulk of direct COVID measures. Without observing this effect (EUR 985 million), their increase was similar to the one in 2019 and lower than projected in the revised budget. Transfers to individuals and households increased by more than a third compared to the preceding year. Without taking into account COVID measures (EUR 384 million), the increase was considerably lower, and lower than in 2019. In both comparisons, the increase was higher than projected in the revised budget. The Fiscal Council has pointed out the risk of underestimation both at the adoption of the budget in autumn 2019 and at the adoption of the revised budget in autumn 2020. Transfers to social security funds also significantly increased in the preceding year, while their growth was stimulated by the COVID measures in the amount of EUR 180 million from two one-off solidarity allowances for pensioners and a transfer to the ZZZS under the Implementation of the Republic of Slovenia Budget for 2020 and 2021 Act. Due to a smaller revenue from social contributions, the transfer to ZPIZ was larger by a quarter than in 2019. The rise in total labour costs, including transfers to public institutions, was 12.2%. Without considering the effect of employee benefits disbursed under the COVID measures (EUR 195 million), the rise was almost halved and is mainly attributed to the wage agreements from the preceding years. The increase in total expenditure on goods and services was related primarily to expenditure under the COVID measures (EUR 115 million). If the impact of the above measures is excluded, the increase of around 7% was still larger than in the preceding year. The year-on-year expenditure growth was particularly pronounced at the end of the year. After significant growth in 2019, investment expenditure and transfers declined (−2.8%) last year, while the revised budget projected a 3.8% growth. The lag behind the projected levels is also related to the lower than projected spending of EU funds, which is an important source of financing state investments.

**State budget balance**



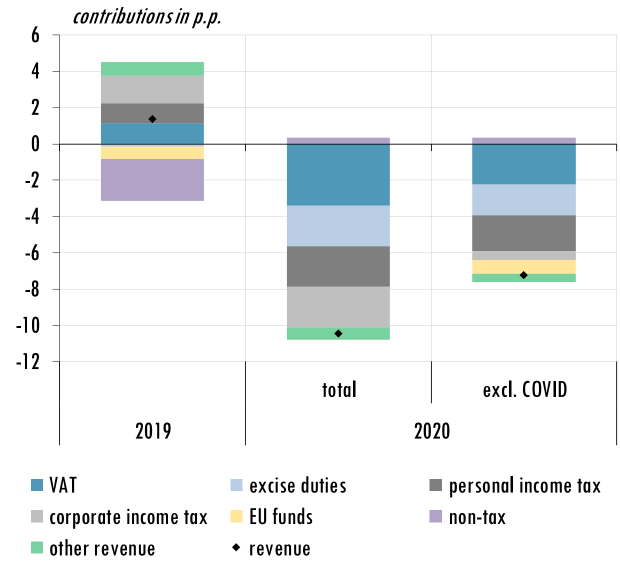

*Source: MoF, FC calculations. Note: *Amendments to the Budget of the Republic of Slovenia for 2021 (Oct. 20).*

**State budget balance**



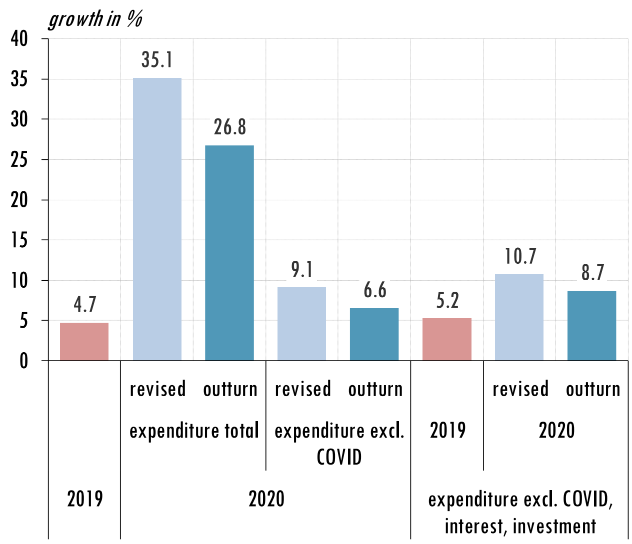

*Source: MoF, FC calculations.*

**State budget revenue**



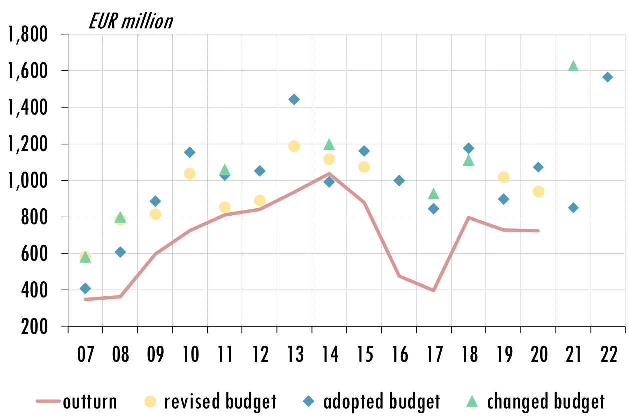

*Sources: MoF, FURS, FC calculations.*

**State budget expenditure**



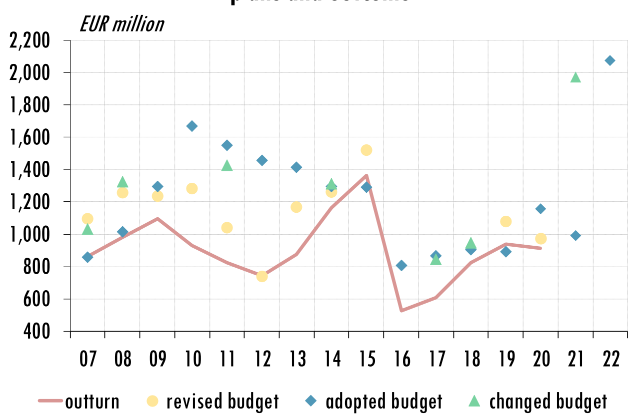

*Source: MoF, FC calculation.*

**Receipts from the EU budget - plan and outturn**




*Note: Markers for "revised budget", "changed budget" and "adopted budget" refer to specific budget documents for a specific year. For example, marker "revised budget" in 2015 refers to "78 Receipts from the EU budget" in the revised budget for 2015. There were no revised budgets for 2016, 2017 in 2018, therefore no marker "revised budget" is shown for those years.*
*Sources: MoF, FC calculations.*

**Capital expenditure and transfers - plans and outcome**




*Note: Markers for "revised budget", "changed budget" and "adopted budget" refer to budget documents for a specific year. For example, marker "revised budget" in 2015 refers to "42 Capital expenditure" and "43 Capital transfers" in the revised budget for 2015. There were no revised budgets for 2016, 2017 in 2018, therefore no marker "revised budget" is shown for those years.*
*Source: MoF, FC calculations.*

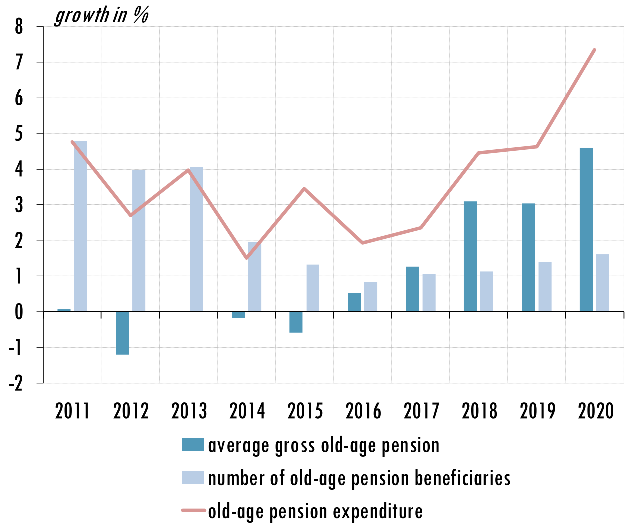
## Public finance budgets (the GFS cash-flow methodology)

In 2020, **ZPIZ** expenditure growth increased to 7.1% (2019: 4.1%) due to a substantially higher growth of pension expenditure (6.2%), which was the highest since 2008. The growth was primarily a result of the increase in average pension following the extraordinary and regular indexations of pensions in December (2.0%) and January (3.2%), respectively. Thus, the old-age pension rose by 4.2%, while the number of beneficiaries also grew slightly compared to the preceding year. With the strengthened growth of the average pension in the last three years, total pension expenditure increased by EUR 616 million or 14% and constituted a 10.7% of GDP forecast in the preceding year. A relatively high growth will continue in the future as a result of the possibility allowed for under the anti-corona package No. 7 to terminate employment contracts of employees who meet the conditions for an old-age pension, which will structurally worsen the state of public finances. More than a year ago, the total growth was fuelled by social security expenditure, which was a result of one-off transfers to pensioners within the COVID measures, while the increase in expenditure on yearly bonus for pensioners was smaller compared to 2019. Considering that the growth of tax revenue was almost halved compared to 2019 and that non-tax revenue fell significantly, a considerably larger transfer from the state budget, which grew by a quarter to EUR 1.207 billion last year, was required to balance the higher expenditure.

The **ZZZS** ended 2020 with the largest recorded deficit so far (EUR −87 million). The increase in revenue slowed down to 4.9% (2019: 7.4%), which was mainly due to a significant slowdown in growth of revenue from social contributions compared to the preceding year. Expenditure growth (9.5%) was the highest since 2008, which is primarily the result of higher expenditure due to the measures adopted to mitigate the epidemic. The growth was mostly contributed by transfers to public institutions for labour costs (3.0 p.p.), which rose more than in the preceding year. The same applies to the other three revenue categories, which made significant contributions to the total growth. Transfers to public institutions for expenditure on goods and services increased by nearly a tenth and sickness benefits for as much as 16.5%, while the payments to public service contractors that are not budget users rose by roughly a tenth.

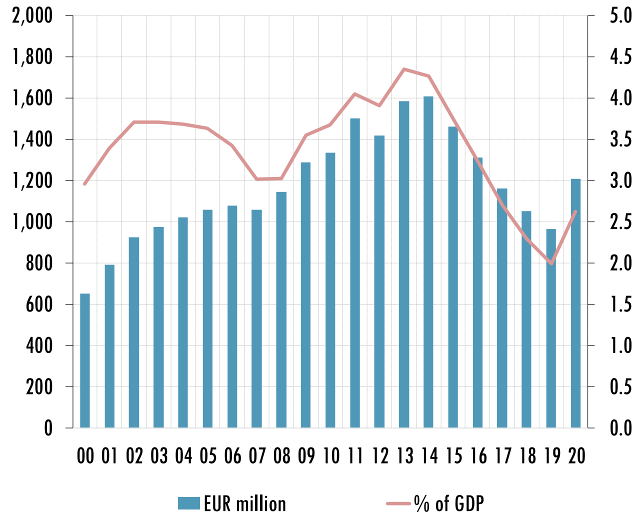
The surplus of **municipal budgets** (EUR 31.3 million) was the highest since 2016. This improvement of the balance was produced by a higher revenue growth compared to the preceding year (4.3%; 2019: 3.6%) The growth was predominantly a result of stronger growth of income tax revenue (10.2%) due to the higher lump sum expenditure, which increased by almost six per cent to EUR 624 per capita last year. The revenue growth was further promoted by higher capital revenue due to increase in revenue from the sales of building land and state funding, which was higher by half to cover current spending. The remaining revenue categories were lower than in the preceding year. Expenditure growth was higher than last year (2.4%; 2019: 2.1%). This was mainly the result of strong investment activity (7.3%), while the growth was primarily contributed to by higher expenditure for new construction, reconstruction and adaptation and for the purchases of buildings and premises. The decrease in expenditure on goods and services was smaller than last year. The total growth was curbed by a drop in expenditure on transfers to individuals and households, which mainly resulted from expenditure trends related to the payment of the difference between the kindergarten programme prices and parents' payments, and the smaller amount of the reimbursement of school transport costs. Transfers to public institutions for intermediate consumption and transfers to non-profit institutions also declined.

**Pensions**



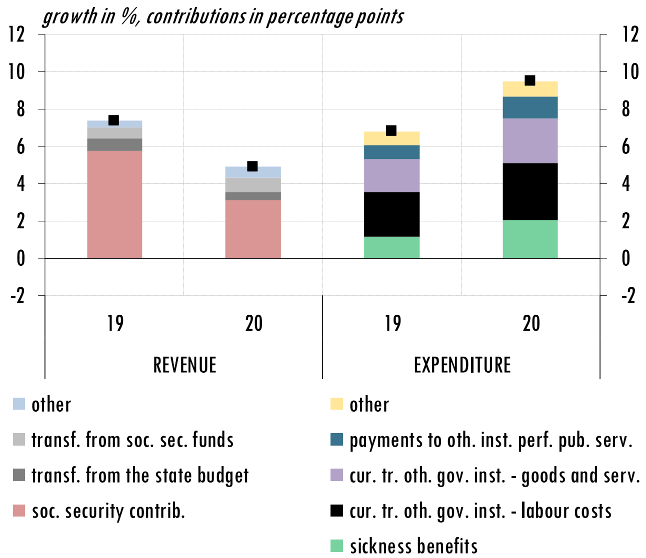

*Source: Pension and Disability Insurance Fund of Slovenia (ZPIZ), MoF, FC calculations.*

**Pension and Disability Insurance Fund of Slovenia (ZPIZ) - state budget funding**



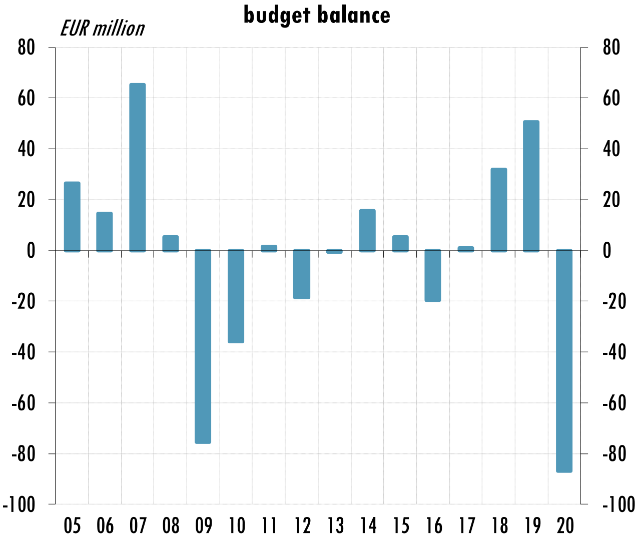

*Source: MoF, SORS, IMAD, FC calculations.*

**ZZZS revenue and expenditure**



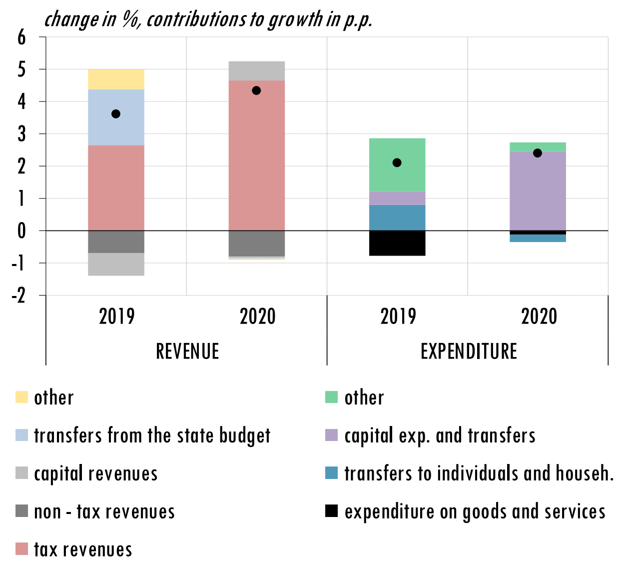

*Source: MoF, FC calculations.*

**Health Insurance Institute of the Republic of Slovenia (ZZZS) budget balance**



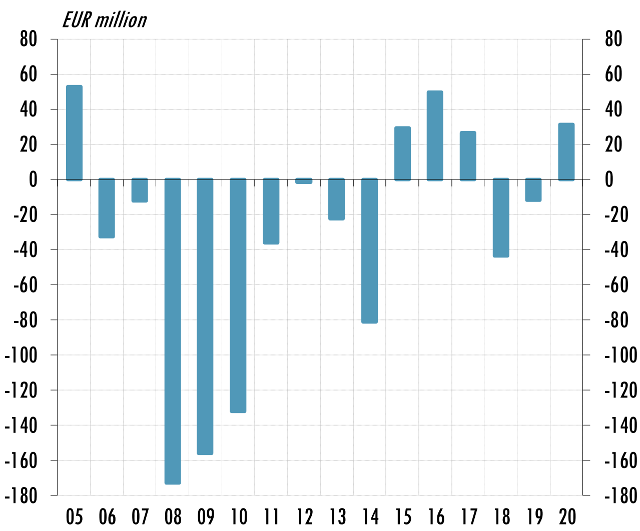

*Source: MoF.*

**Revenue and expenditure of local government**




*Source: MoF, FC calculations.*

**Local government budget balance**




*Source: MoF.*

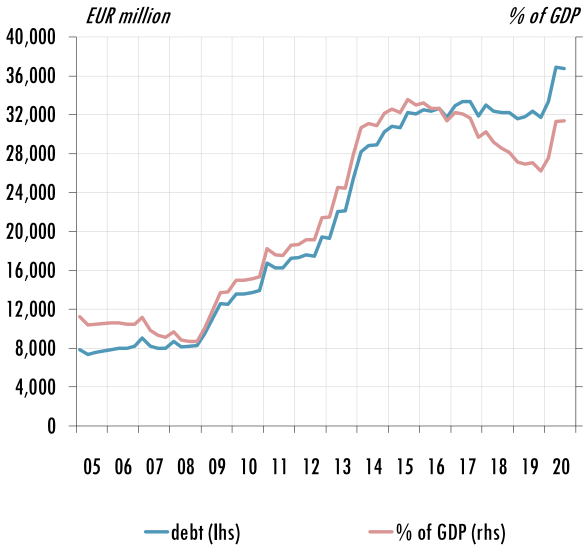
# General Government Debt

At the end of the third quarter of 2020, the gross general government debt stood at EUR 36.7 billion, which is EUR 5 billion more than at the end of 2019. In the same period, the share of the debt in GDP increased by almost 13 pps, i.e. to 78.5% of GDP, which is due to the general government deficit, a fall in GDP and the pre-financing of future liabilities. According to the monthly data, the debt further increased in last three months of 2020. Net state budget borrowing in this period exceeded EUR 800 million.

The issuance of new bonds (two 10-year, one 30-year and one 3-year) constituted the bulk of government borrowing in 2020, which totalled EUR 7.8 billion. EC approved EUR 1.1 billion in loans to Slovenia under the SURE instrument, of which the state budget received EUR 200 million in November 2020 and an additional EUR 913 million in February 2021. In January 2021, a 10 -year bond totalling EUR 1.75 billion with a negative yield-to-maturity was issued for the first time and the last year's issue of the 30-year bond was re-opened (additional EUR 0.25 billion), while a 60-year bond in the amount of EUR 500 million with an interest rate of 0.7% was also issued. In January 2021, the Republic of Slovenia covered EUR 1.5 billion in liabilities of the EUR 3.4 billion general government debt, which is due this year. The funds in the treasury single account significantly increased in 2020, i.e. from around EUR 4 billion at the end of December 2019 to EUR 6.2 billion at the end of December 2020. The funds increased further by over EUR 200 million in January 2021, which provides solid liquidity of the general government budget.

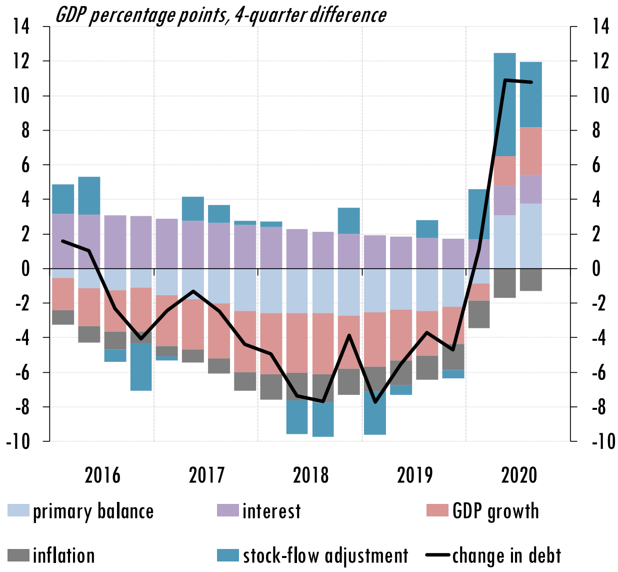
In accordance with exceptionally accommodative monetary policy, which includes an extraordinary Pandemic Emergency Purchase Programme, and financial support packages at the EU level, the required yield on long-term bonds of the euro area Member States, including Slovenia, remains low. The share of Slovenian government bonds purchased by the Eurosystem in the general government debt is among the largest in the euro area, while the required yield has been negative since the beginning of

**General government debt (ESA)**



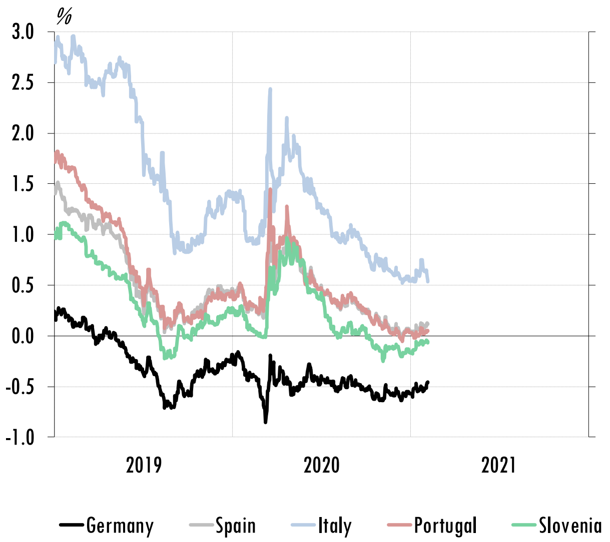

*Source: SORS, FC calculations.*

**Change in general government debt**



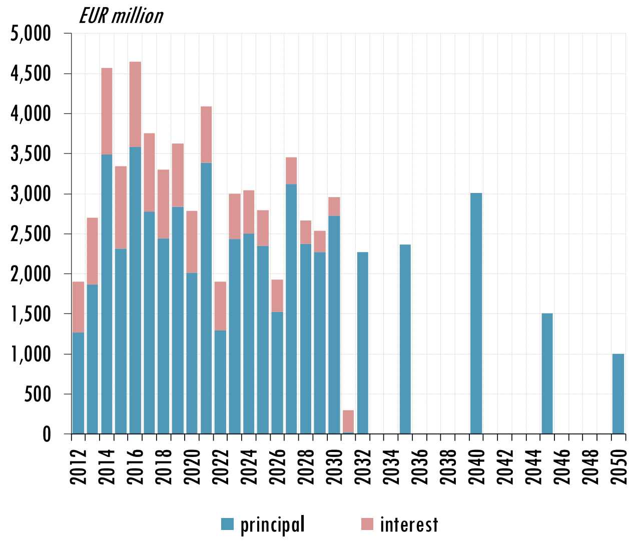

*Source: SORS, FC calculations.*

**Yields on 10-year government EUR reference bonds**




*Source: Bloomberg.*

**State budget debt repayment schedule until 2050***



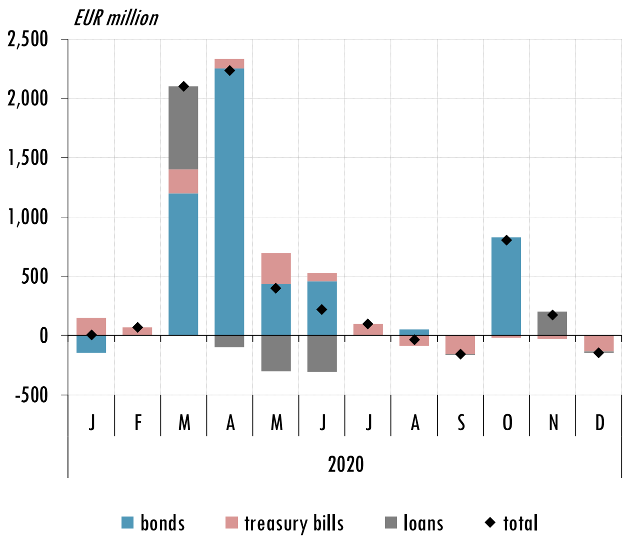

*Note: *As of 31 December 2020. No information on interest payments after 2031.*
*Source: MoF.*

October 2020, with the premium on German bonds being at the 2019 average level. With an exception of one issue, the interest rate on all issues of treasury bills in 2020 and in the beginning of 2021 was negative. Debt ratings have increased or have remained unchanged with a stable outlook.[1] The maturity distribution of liabilities is improving, although the average weighted time to debt maturity from the end of 2019 to the end of December 2020 remained unchanged at 9 years according to the Ministry of Finance's data. With the dominance of markedly long-term debt in the beginning of 2021, the Fiscal Council estimates that the AWTM exceeded 9.5 years at the end of January 2021. According to the latest data available, government guarantees in 2020 decreased by EUR 228 million to EUR 5.14 billion by the end of September. The decrease was mainly a result of the decline in the guarantees of public sector non-financial corporations and state funds.

Slovenia's debt-to-GDP ratio is smaller than the EU average ratio, while the increase in the debt-to-GDP ratio shifted Slovenia's ranking to the upper third of EU Member States when the period before the beginning of the current crisis is taken into consideration. According to forecasts, the increase in Slovenia's debt-to-GDP ratio is expected to fall below the average debt-to-GDP ratio in the EU by the end of 2022. Eurostat data for the general government debt available up to the third quarter of 2020 shows that the increase in the debt ratio was generally higher in the countries with a high pre-crisis level of debt ratio. In addition to the nominal debt increase, the increase is also conditioned by the proportionally higher decrease in GDP during the crisis in these countries.

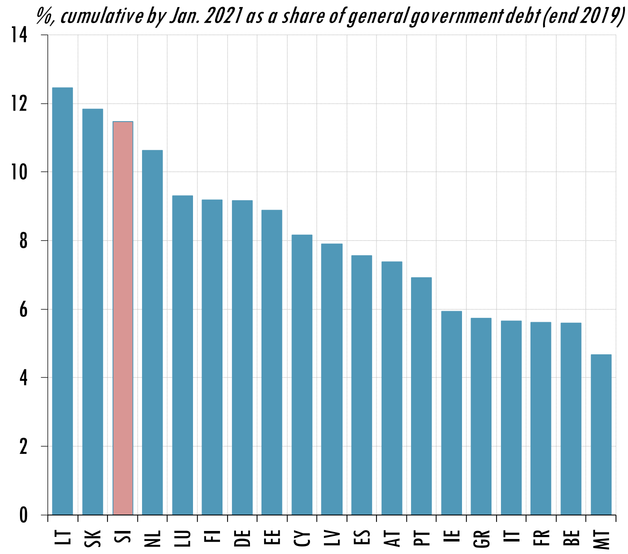
[1] See https://www.gov.si/en/news/2020-10-03-moodys-upgrades-slovenias-credit-rating-in-uncertain-times/ and https://www.gov.si/novice/2020-12-22-fitch-ze-tretjic-potrdil-bonitetno-oceno-sloveniji/ (only in Slovene).

**State budget net borrowing**



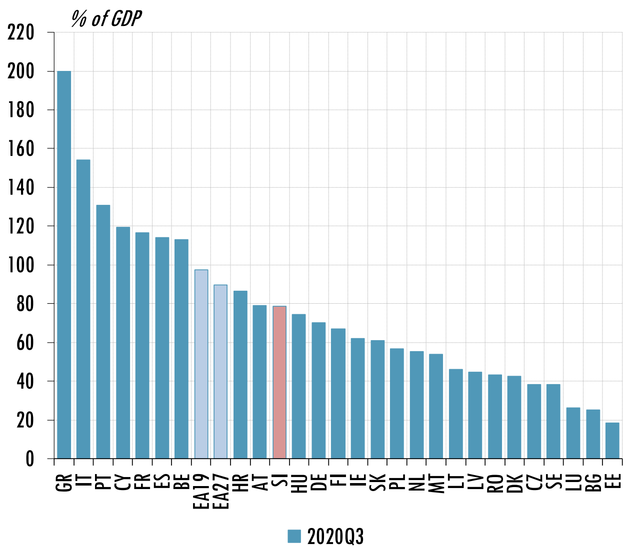

*Source: MoF, FC calculations.*

**PEPP public sector securities purchases**



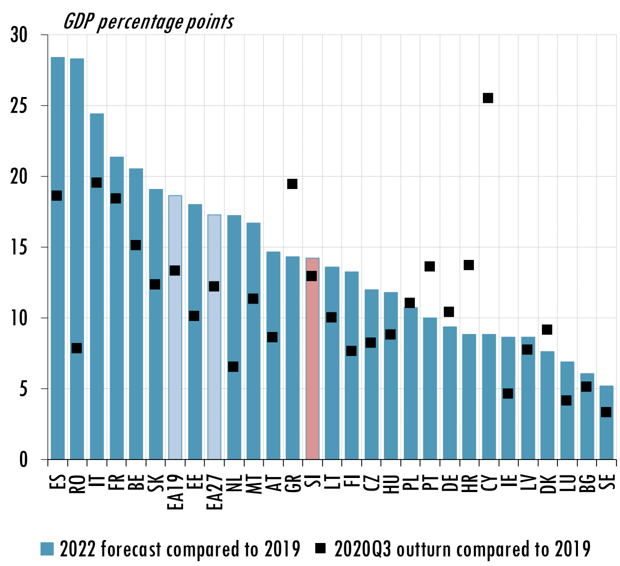

*Source: ECB, Eurostat, FC calculations.*

**General government gross cosolidated debt**




*Source: Eurostat, FC calculations.*

**Change in general government consolidated gross debt**

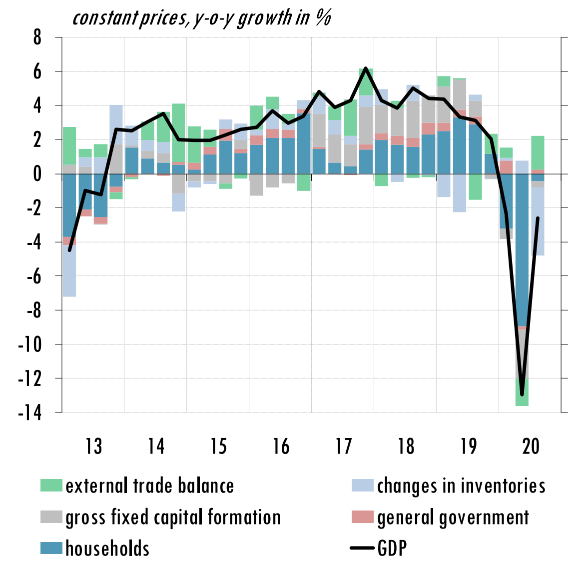



*Source: Eurostat, European Commission forecast, FC calculations.*

# Macroeconomic trends and risks

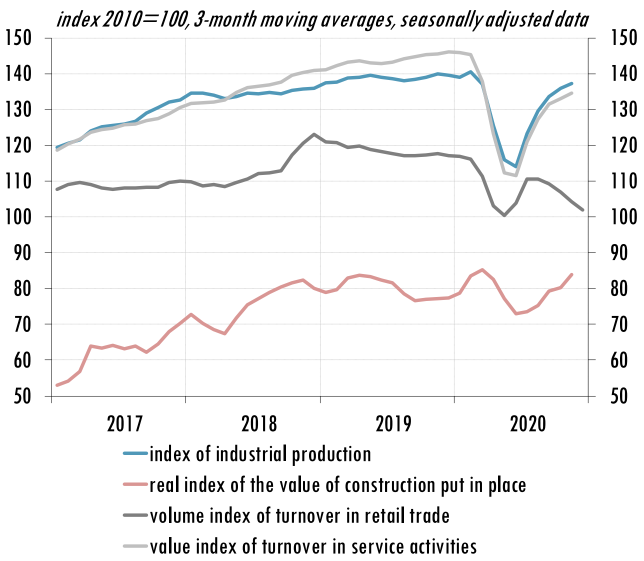
The outbreak of the pandemic together with the introductions and liftings of measures to contain the pandemic in 2020 caused a record decline and fluctuations in economic activity. The trend of the improvement of the economic climate, which started mid-year, came to a halt at the end of the year. After a total decrease of around 15% in the first and second quarters of 2020, Slovenia's GDP rose by over 12% (s. a.) in the third quarter. Most indicators show a decline in economic activity at the end of the year, but a lower one than in the second quarter. In first three quarters of 2020, the average year-on-year GDP fell by 6.5% (w.d.a.). This puts Slovenia on the list of EU countries with an above-average activity decline, although the year-on-year decline in the third quarter was below average. In the third quarter, household consumption almost doubled compared to investments, however, unlike the investments, it remained below the pre-crisis level. General government spending was the only domestic consumption component that grew last year. In accordance with the dominant restrictions in the services sector, the foreign trade in services recorded a higher decline than the foreign trade in goods. Last year, activity decline in manufacturing was smaller than in the services sector, whereas the summer months brought the highest increase in catering activity. The largest drop in retail sales was recorded in the motor vehicle trade, while the retail trade in food and beverages remained virtually unaffected last year. Primarily a result of the adopted measures, the deterioration of labour market conditions was less pronounced compared to the decline in economic activity, with the number of bankruptcies unchanged last year. The year-on-year number of employees was less than one per cent lower on the average in three quarters. In the annual average, the year-on-year number of registered unemployed people increased by almost twelve thousand, with a prominent increase at the beginning of the crisis, a slowdown in summer months and the stagnation of the trend of inflow into unemployment and of unemployment rate at the end of the year. The unemployment rate growth in Slovenia was among the lowest in the EU, while the increase of unemployment rate among young people was twice as high as the EU average. With the deterioration of the epidemiological situation at the end of the

**Gross domestic product**



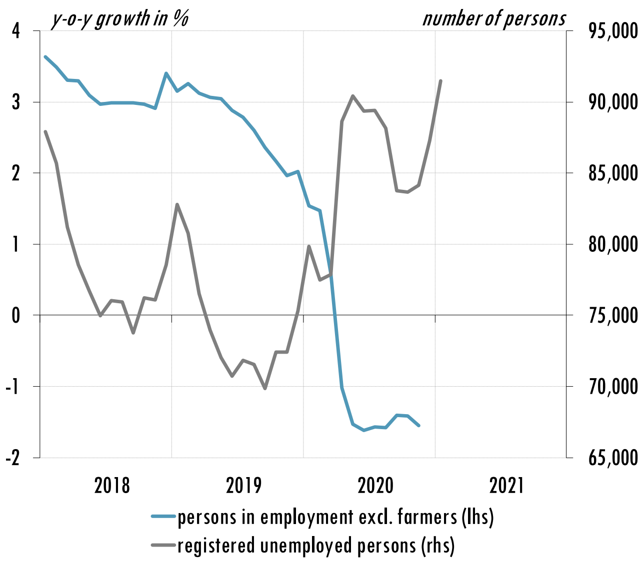

*Source: SORS, FC calculations.*

**Activity indicators**



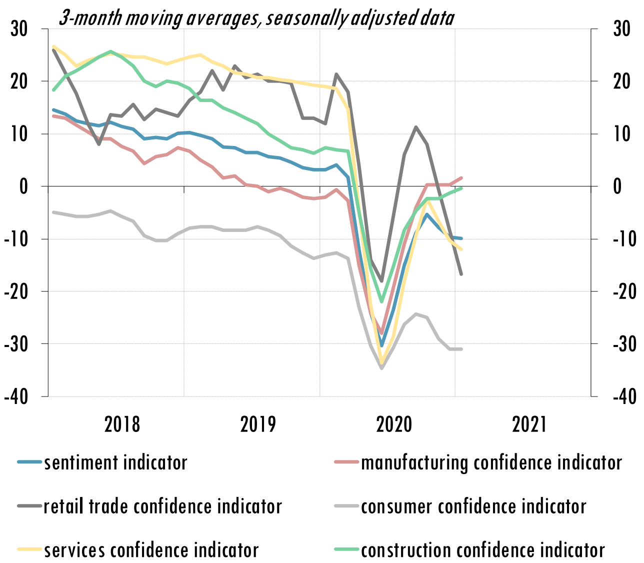

*Source: SORS, FC calculations.*

**Labour market**




*Source: SORS, Employment Service of Slovenia, FC calculations.*

**Business tendency and consumer surveys**




*Source: SORS, preračuni FS.*

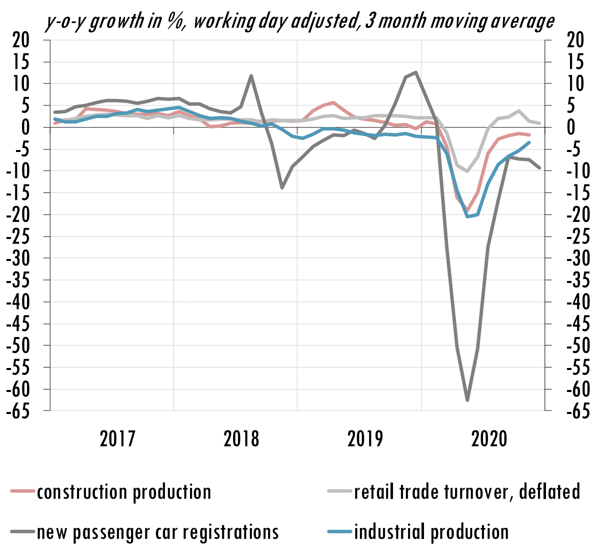
year, the economic climate indicator showed no improvement and, similarly to the EU, was marked by a significant decline in confidence in trade and consumer confidence and an improvement in the manufacturing and construction industry.

Updated macroeconomic forecasts are characterised by delays in recovery amid the high uncertainty. The estimates of Slovenia's annual drop in GDP for 2020 are around −7%. Substantial divergence exists as to the pace of recovery this year, while the latest forecasts have already observed a delay in the recovery of GDP growth due to the restrictions imposed on some activities at the end of 2020. The growth is expected to range from 3% to 5% in 2021. Inflation projections have also been revised downwards in the last six months. The forecasts remain exposed to high uncertainty with regard to the future course of the pandemic and the related measures, which could also affect the post-crisis recovery. The pace and quality of recovery will be importantly influenced by investments, particularly those financed from existing and new EU instruments. Their effectiveness and the absorption capacity economy pose an additional risk to projections. According to most of the currently available forecasts, GDP and unemployment rate are expected to reach their pre-pandemic levels in 2022 and 2023, respectively.

Globally the pandemic also caused a recession of historic dimensions. In their forecasts from December 2020 and January 2021, the OECD and IMF estimated the 2020 drop in global GDP to reach around 4%, while GDP in larger countries is expected to grow only in China, which is supported by the initial outturn data. The volume of world trade, which had already fallen on average in 2019, declined by a tenth at the beginning of this year due to the measures adopted to contain the pandemic.

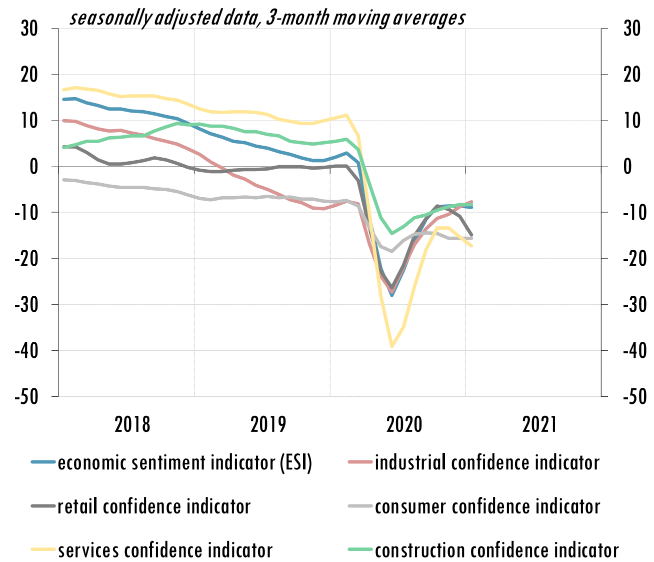
The 2021 forecasts for major trading partners differ with due to the scope of the pandemic and with regard to the nature of the adopted measures, while the recovery of growth is assumed to be delayed to the mid-year due to the deterioration of the epidemiological situation. According to the latest IMF forecast, GDP is expected to grow this year by 3.5% in Germany, 5.5% in France, and 3% in Italy.

**Activity indicators - euro area**



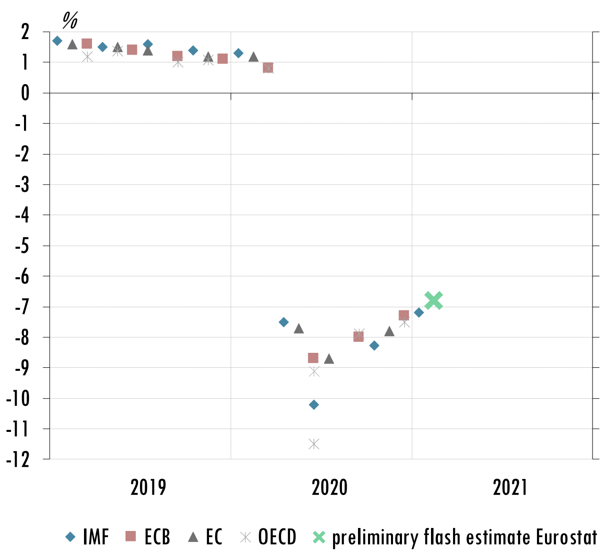

*Source: Eurostat, FC calculations.*

**Business tendency and consumer surveys - euro area**



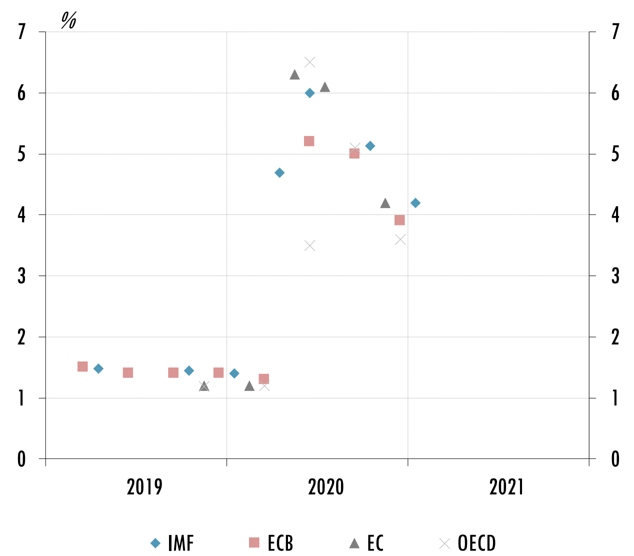

*Source: Eurostat, FC calculations.*

**Euro area real GDP growth forecasts for 2020**




*Source: IMF, European Commission (EC), OECD, ECB, Eurostat.*

**Euro area real GDP growth forecasts for 2021**




*Source: IMF, European Commission (EC), OECD, ECB.*

Table 1: The main aggregates of the general goverment sector

| | Q1-Q3 | | | | Q4 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | change 2020 on 2019 | | | | change 2020 on 2019 | | | | change 2020 on 2019 | |
| | 2019 | 2020 | EUR million | % | 2019 | 2020* | EUR million | % | 2019 | 2020** | EUR million | % |
| **REVENUE** | **15,613** | **14,808** | **-805** | **-5.2** | **5,589** | **5,884** | **296** | **5.3** | **21,202** | **20,692** | **-510** | **-2.4** |
| TAXES | 7,689 | 6,884 | -805 | -10.5 | 2,763 | 2,769 | 6 | 0.2 | 10,452 | 9,653 | -799 | -7.6 |
| Taxes on production and imports | 4,856 | 4,414 | -443 | -9.1 | 1,766 | 1,614 | -151 | -8.6 | 6,622 | 6,028 | -594 | -9.0 |
| Current taxes on income, wealth, etc. | 2,818 | 2,461 | -357 | -12.7 | 994 | 1,150 | 156 | 15.7 | 3,812 | 3,611 | -201 | -5.3 |
| Capital taxes | 15 | 9 | -6 | -38.4 | 4 | 5 | 1 | 32.2 | 18 | 14 | -4 | -24.6 |
| SOCIAL CONTRIBUTIONS | 5,684 | 5,919 | 235 | 4.1 | 2,039 | 2,036 | -3 | -0.1 | 7,723 | 7,955 | 232 | 3.0 |
| PROPERTY INCOME | 341 | 255 | -86 | -25.2 | 69 | 65 | -4 | -5.8 | 410 | 320 | -90 | -21.9 |
| OTHER | 1,899 | 1,750 | -149 | -7.9 | 718 | 1,014 | 296 | 41.3 | 2,617 | 2,764 | 147 | 5.6 |
| **EXPENDITURE** | **15,458** | **17,446** | **1,988** | **12.9** | **5,495** | **7,201** | **1,706** | **31.1** | **20,953** | **24,647** | **3,694** | **17.6** |
| COMPENSATION OF EMPLOYEES | 4,080 | 4,382 | 302 | 7.4 | 1,394 | 1,719 | 325 | 23.3 | 5,474 | 6,101 | 627 | 11.5 |
| INTERMEDIATE CONSUMPTION | 2,158 | 2,209 | 51 | 2.4 | 798 | 976 | 178 | 22.3 | 2,956 | 3,186 | 229 | 7.8 |
| SOCIAL TRANSFERS | 6,320 | 6,844 | 524 | 8.3 | 2,103 | 2,602 | 500 | 23.8 | 8,423 | 9,447 | 1,024 | 12.2 |
| INTEREST | 616 | 571 | -45 | -7.4 | 209 | 216 | 7 | 3.6 | 825 | 787 | -38 | -4.6 |
| SUBSIDIES | 248 | 1,363 | 1,114 | 448.3 | 98 | 29 | -69 | -70.7 | 347 | 1,391 | 1,045 | 301.3 |
| GROSS FIXED CAPITAL FORMATION | 1,277 | 1,285 | 8 | 0.6 | 559 | 861 | 302 | 54.1 | 1,836 | 2,147 | 310 | 16.9 |
| CAPITAL TRANSFERS | 85 | 63 | -22 | -25.5 | 74 | 170 | 96 | 130.1 | 159 | 233 | 75 | 47.1 |
| OTHER | 673 | 728 | 55 | 8.2 | 260 | 622 | 362 | 139.2 | 933 | 1,350 | 417 | 44.7 |
| **Balance** | **155** | **-2,638** | **-2,793** | | **94** | **-1,317** | **-1,411** | | **249** | **-3,954** | **-4,204** | |
| **Primary balance** | **771** | **-2,067** | **-2,838** | | **303** | **-1,100** | **-1,403** | | **1,074** | **-3,167** | **-4,242** | |
| **Balance, GDP %** | **0.4** | **-7.7** | | **-8.1** | **0.8** | **-11.5** | | **-12.3** | **0.5** | **-8.6** | | **-9.2** |
| **Primary balance, GDP %** | **2.1** | **-6.0** | | **-8.2** | **2.4** | **-9.6** | | **-12.1** | **2.2** | **-6.9** | | **-9.1** |
| **Nominal GDP, EUR million** | **35,931** | **34,333** | | **-4.4** | **12,462** | **11,436** | **-1,026** | **-8.2** | **48,393** | **45,769** | **-2,623** | **-5.4** |

*Sources: SORS, MoF. Notes: *Implicitly calculated to match MoF forecast. ** MoF forecast DBP 2021 (Oct. 2020).*

Table 2: State budget - revised and outturn

| | EUR million | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | revised budget | | | outturn | | | outturn-revised budget | | |
| | total | COVID | excl. COVID | total | COVID | excl. COVID | total | COVID | excl. COVID |
| **REVENUE** | **9,189** | **-305** | **9,494** | **9,078** | **-324** | **9,402** | **-112** | **-19** | **-93** |
| VAT | 3,466 | -82 | 3,548 | 3,528 | -118 | 3,646 | 62 | -36 | 99 |
| Excise duties | 1,353 | -19 | 1,372 | 1,314 | -56 | 1,370 | -38 | -37 | -1 |
| Personal income tax | 1,127 | -26 | 1,153 | 1,164 | -27 | 1,191 | 37 | -1 | 38 |
| Corporate income tax | 741 | -171 | 912 | 773 | -173 | 946 | 32 | -2 | 34 |
| EU funds | 941 | | 941 | 725 | 73 | 651 | -217 | 73 | -290 |
| Non-tax | 665 | | 665 | 672 | 0 | 672 | 7 | 0 | 7 |
| Other revenue | 896 | -7 | 903 | 902 | -24 | 925 | 5 | -17 | 22 |
| **EXPENDITURE** | **13,391** | **2,580** | **10,811** | **12,565** | **2,004** | **10,561** | **-826** | **-576** | **-250** |
| Total labour costs | 3,576 | 203 | 3,374 | 3,448 | 195 | 3,253 | -128 | -8 | -120 |
| Transfers to individuals and households | 1,792 | 309 | 1,484 | 1,967 | 384 | 1,583 | 175 | 75 | 99 |
| Expenditure on goods and services | 1,146 | 19 | 1,127 | 1,309 | 115 | 1,194 | 163 | 96 | 67 |
| Investment | 973 | 6 | 968 | 911 | 22 | 889 | -62 | 16 | -78 |
| Current transfers to social security funds | 1,374 | 67 | 1,307 | 1,403 | 180 | 1,223 | 30 | 113 | -84 |
| Subsidies | 1,445 | 935 | 510 | 1,398 | 965 | 433 | -47 | 30 | -76 |
| Interest | 776 | | 776 | 772 | | 772 | -4 | 0 | -4 |
| Reserves | 1,245 | 781 | 463 | 340 | 0 | 340 | -904 | -781 | -123 |
| Payments to the EU budget | 526 | | 526 | 526 | | 526 | 0 | 0 | 0 |
| Other expenditure | 538 | 261 | 278 | 490 | 143 | 347 | -48 | -118 | 70 |
| **Balance** | **-4,202** | **-2,885** | **-1,317** | **-3,488** | **-2,328** | **-1,159** | **714** | **557** | **157** |

*Source: MoF, FURS, FC calculations.*

Table 3: State budget including and excluding direct impact of COVID measures

| | 2019 | 2020 outturn EUR million | | | 2020/2019 change EUR million | | % | |
|---|---|---|---|---|---|---|---|---|
| | | total | COVID | excl. COVID | total | excl. COVID | total | excl. COVID |
| **REVENUE** | **10,136** | **9,078** | **-324** | **9,402** | **-1,059** | **-735** | **-10.4** | **-7.2** |
| VAT | 3,872 | 3,528 | -118 | 3,646 | -344 | -225 | -8.9 | -5.8 |
| Excise duties | 1,543 | 1,314 | -56 | 1,370 | -229 | -173 | -14.8 | -11.2 |
| Personal income tax | 1,391 | 1,164 | -27 | 1,191 | -227 | -200 | -16.3 | -14.4 |
| Corporate income tax | 997 | 773 | -173 | 946 | -224 | -51 | -22.5 | -5.2 |
| EU funds | 727 | 725 | 73 | 651 | -2 | -76 | -0.3 | -10.4 |
| Non-tax | 636 | 672 | 0 | 672 | 36 | 36 | 5.6 | 5.6 |
| Other revenue | 971 | 902 | -24 | 925 | -69 | -45 | -7.1 | -4.7 |
| **EXPENDITURE** | **9,912** | **12,565** | **2,004** | **10,561** | **2,654** | **650** | **26.8** | **6.6** |
| Total labour costs | 3,073 | 3,448 | 195 | 3,253 | 375 | 180 | 12.2 | 5.9 |
| Transfers to individuals and households | 1,453 | 1,967 | 384 | 1,583 | 514 | 130 | 35.4 | 8.9 |
| Expenditure on goods and services | 1,115 | 1,309 | 115 | 1,194 | 194 | 79 | 17.4 | 7.0 |
| Investment | 938 | 911 | 22 | 889 | -27 | -49 | -2.8 | -5.2 |
| Current transfers to social security funds | 1,079 | 1,403 | 180 | 1,223 | 325 | 144 | 30.1 | 13.4 |
| Subsidies | 413 | 1,398 | 965 | 433 | 985 | 20 | 238.3 | 4.8 |
| Interest | 785 | 772 | 0 | 772 | -13 | -13 | -1.7 | -1.7 |
| Reserves | 199 | 340 | 0 | 340 | 141 | 141 | 70.8 | 70.8 |
| Payments to the EU budget | 510 | 526 | 0 | 526 | 16 | 16 | 3.2 | 3.2 |
| Other expenditure | 346 | 490 | 143 | 347 | 144 | 1 | 41.5 | 0.3 |
| **Balance** | **225** | **-3,488** | **-2,328** | **-1,159** | **-3,713** | **-1,384** | | |

*Source: MoF, FURS, FC calculations.*