REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Monthly Information

January 2021

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Data available up to and including 8 January 2021 were used.

Implementation of the state budget and measures to mitigate the consequences of COVID-19 in 2020[1]

- In accordance with the Fiscal Council's expectations, the state budget deficit in 2020 was EUR 3.5 billion and therefore smaller than the revised budget projections (EUR 4.2 billion).
- Revenue decreased by 10.5% last year, in particular due to the economic downturn resulting in lower tax bases and, to a lesser extent, due to COVID measures.
- High expenditure growth (26.8%) was largely attributed to COVID measures, while expenditure growth without considering this effect (6.5%) was lower compared to revised budget projections and thus in accordance with the Fiscal Council's expectations.
- The scope of all implemented COVID measures in 2020 amounted to EUR 2.9 billion and to EUR 2.4 billion for the measures having direct effect on general government balance. The actual impact so far is much smaller than estimated by the government when the anti-corona legislation was adopted, however it still contributed significantly to the deterioration in public finances.
- In March 2020, the Fiscal Council noted that the conditions stipulated by the Fiscal Rule Act for a temporary deviation from achieving medium-term fiscal balance of public finances were met, and that it would pay special attention to fiscal developments without considering the direct effects of COVID measures due to the necessity to ensure medium-term fiscal sustainability after the crisis.[2] At the same time, the Fiscal Council called on all stakeholders to ensure that the measures to mitigate the consequences of the epidemic are transparent, temporary and focused on remedying the direct effects of the epidemic.[3] We note that while most measures adopted so far have followed such principles, some of them do not meet the above criteria.
- The lower than expected amount of measures implemented should not lead to the adoption of measures with effects on public finances which are not directly related to the epidemic or are structural in nature and thus impact the fiscal situation in the long run. This should also be avoided due to an increase of risks for the outturn of 2021 budget projections which the Fiscal Council already highlighted in its assessment of budget proposals for 2021 and 2022 in last October.[4] The deterioration of macroeconomic projections[5] increases the risk for slower revenue growth compared to the budget projections. Should the escalated epidemiological situation continue, the necessary expenditure for COVID measures will probably be higher than projected.
- The Fiscal Council again calls on economic policymakers to ensure that the measures to mitigate the consequences of the epidemic are transparent, temporary and truly focused on ameliorating the direct effects of the epidemic. Stimulatory policies should be aimed at strengthening the long -term economic potential and maximising effectiveness in the absorption of EU funds. This remains a key challenge in the future course of fiscal policy, since last year the actual revenue from EU funds on the one hand and investment expenditure on the other hand again significantly lagged behind the projections from budget documents.

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[1] The Fiscal Council will regularly publish an overview of the outturn of the state budget and COVID measures in its monthly publication, provided that such data will be available. The comments on the state budget outturn refer to the daily data available at: https://proracun.gov.si/#. Along with the Ministry of Finance (MF), we would also like to thank the Financial Administration of the Republic of Slovenia (FURS), the Employment Service of Slovenia (ZRSZ), the SID Bank and the SPS for their cooperation and submitted data.

[2] For more information, see 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/.

[3] http://www.fs-rs.si/opinion-of-the-fiscal-council-issued-at-the-adoption-of-measures-to-mitigate-the-consequences-of-the-covid-19-epidemic/.

[4] For more information, see Assessments of budget documents for 2021 and 2022. Available at: http://www.fs-rs.si/assessment-by-the-fiscal-council-assessment-of-budget-documents-for-2021-and-2022/

[5] See IMAD, Winter forecast of economic trends 2020. Available at: https://www.umar.gov.si/fileadmin/user_upload/napovedi/vmesna/zimska_2020/ANG-ZimskaNGG_2020.pdf

The publication includes: (i) an overview of state budget trends for 2020 with and without considering the direct effect of COVID measures; (ii) an overview of COVID measures implemented so far; and (iii) a simulation of the effects of implemented measures on macroeconomic and fiscal aggregates.

State budget in 2020[6]

- The total **state budget deficit** was EUR 3.5 billion and EUR 1.1 billion without observing the direct effects of COVID measures. Therefore, the deficit is smaller compared to the revised budget projections (see Table 1), although the revised budget was drafted in times of more favourable macroeconomic conditions than the last 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. In its assessment of the draft revised budget, the Fiscal Council pointed out that, in spite of the fact that the revised budget was planned under conditions of high uncertainty, the projections were not feasible and do not represent a suitable basis for planning fiscal trends in 2021. Given the projected level of expenditure, the lower outturn of expenditure in 2020 implies its exceptionally high growth in 2021.

- **Revenue** declined by 10.5% last year, in particular due to the economic downturn. The drop in revenue would be smaller (−6.9 %) if the direct impact of COVID measures in the amount of EUR 357 million was not considered.

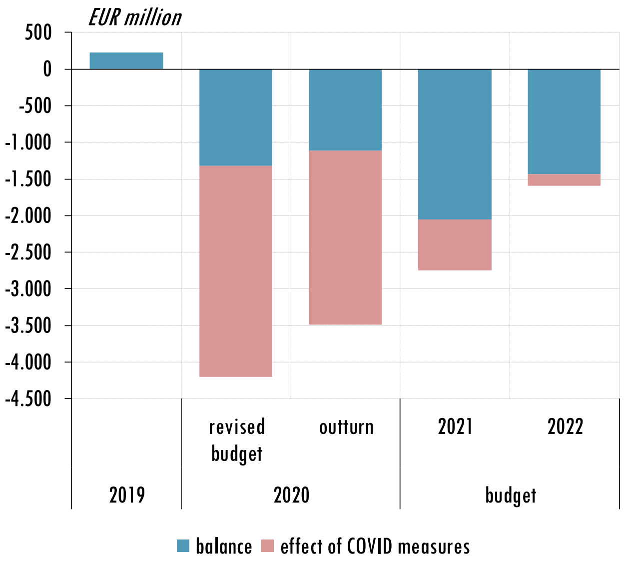
Table 1: State budget 2020 – a comparison of the revised budget and outturn (in EUR million)

	2019	Revised budget			Outturn			Outturn-Revised budget		
		total	COVID	COVID excluded	total	COVID	COVID excluded	total	COVID	COVID excluded
Revenue	**10.136**	**9.189**	**-305**	**9.494**	**9.077**	**-357**	**9.433**	**-113**	**-52**	**-61**
Taxes on income and profit	2.413	1.869	-197	2.067	1.919	-200	2.119	50	-3	52
Domestic taxes on goods and services	6.066	5.430	-108	5.538	5.435	-177	5.612	5	-69	74
Non-tax revenues	636	665		665	671	0	671	6	0	6
Funds received from the EU	727	941		941	725	37	687	-217	37	-254
Other	294	283		283	327	-17	344	44	-17	61
Expenditure	**9.912**	**13.391**	**2.580**	**10.811**	**12.566**	**2.014**	**10.552**	**-826**	**-566**	**-260**
Salaries and social insurance contributions	1.335	1.455	34	1.421	1.431	34	1.396	-25	0	-25
Expenditure on goods and services	812	921	19	902	833	15	817	-88	-4	-85
Subsidies	413	1.445	920	525	1.406	972	433	-39	53	-92
Transfers to individuals and households	1.453	1.792	260	1.532	1.967	389	1.578	175	128	47
Other current domestic transfers	3.318	4.087	364	3.722	4.242	573	3.669	155	209	-54
Investment expenditure and transfers	938	973	5	968	911	22	889	-62	17	-79
Payments to the EU budget	510	526		526	526		526			
Interest	785	776		776	762		762	-14		-14
Reserves	199	1.245	781	463	340		340	-904	-781	-123
Other	148	171	196	-25	148	8	140	-23	-188	165
Balance	**225**	**-4.202**	**-2.885**	**-1.317**	**-3.489**	**-2.370**	**-1.118**	**713**	**515**	**198**

Sources: MOF, FURS, FC calculations.

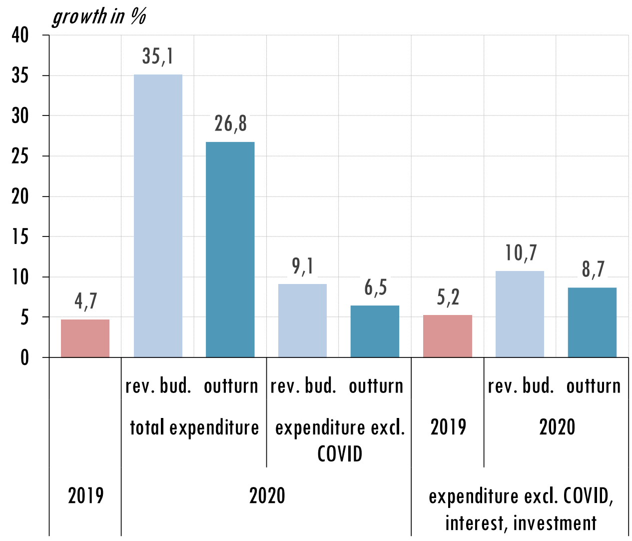
[6] The overview is based on temporary data on the state budget outturn for 2020.

Figure 1: State budget balance



Source: MoF, FC calculations.

Figure 2: State budget expenditure



Source: MoF, FC calculations.

- Taxes on income and profit (in particular personal income tax and corporate income tax) were reduced by 20.5%, while the reduction is almost halved when the direct effect of COVID measures is not considered. In both comparisons, the drop was slightly lower than in the revised budget projections. The direct effect of COVID measures is reflected in the possibility to defer or arrange for instalment payments of tax and in the unaccounted advance tax payments from the first wave of the epidemic.
- Domestic taxes on goods and services (in particular VAT and excise duties) were reduced by 10.4% and by 7.5% when the direct effect of COVID measures is not observed. The drop in this revenue category was also slightly lower than in the revised budget projections. The direct effect of COVID measures is reflected especially in the possibility to defer or arrange for instalment payments of tax.
- Slightly less funds were 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 5.5%. Thus, the outturn 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 envisage a pronounced increase in the absorption of these funds.
- Non-tax revenue (5.5%) increased in spite of the smaller revenue from corporate profits, which was an effect of privatisation and the freeze of dividend payments, because extraordinary non-tax revenue increased substantially due to treasury operations.
- **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 2.014 million, the increase was 6.5%. In both comparisons, in accordance with the Fiscal Council's expectations at the time of drafting the budget revision the drop was lower than projected in the revised budget.

- Expenditure on salaries and social security contributions, which constitute a smaller portion of personnel costs from the state budget (the remaining expenditure includes transfers to public institutions for this purpose), saw a lower increase than projected in the revised budget and in 2019. The increase was largely a result of wage agreements from the previous years, while the impact of COVID measures (EUR 36 million) is related to the allowances for higher workload in managing the epidemic.
- Expenditure on goods and services remained at a similar level as the year before, while the revised budget projected an increase by a good one-tenth. A significant increase of such expenditure was observed at the end of the year compared to the end of 2019.
- The increase in total expenditure was mainly due to subsidies, which constitute the bulk of direct COVID measures. Without observing this effect (EUR 972 million), their increase was similar to the one in 2019 and considerably lower than projected in the revised budget.
- Transfers to individuals and households rose to 35.4%, while the increase was lower without taking into account COVID measures (EUR 389 million) and lower than in 2019. In both comparisons, the increase was higher than projected in the revised budget.
- The growth of other current transfers (27.8%), which constitute the bulk of state budget expenditure, was substantially higher than in 2019. Growth (10.6%) was considerably lower when COVID measures (EUR 573 million) are not observed.
- After significant growth in 2019, investment expenditure and transfers declined (−2.9%) last year, while the revised budget projected a 3.8% growth.

Implementation of COVID measures in 2020

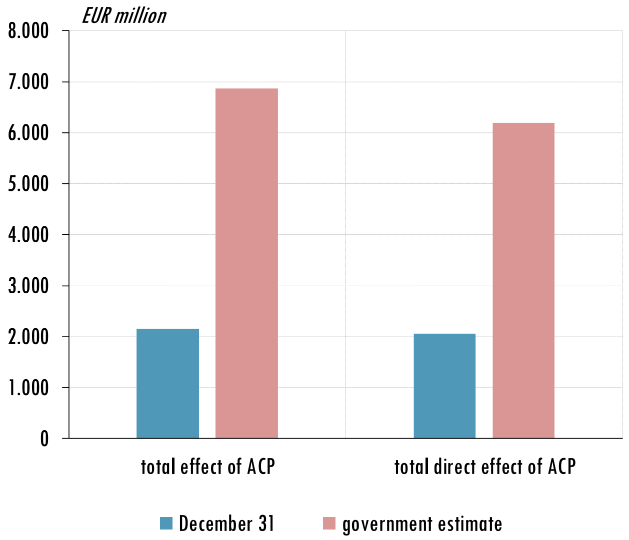
- According to the currently available data, the direct effect of **COVID measures on the general government balance**[7] in 2020 was EUR 2.4 billion, which is less than expected when individual anti-corona packages (ACPs) were adopted and less than projected in the revised budget (EUR 2.9 billion).[8]
- The total amount, including measures with indirect effect or merely a potential impact on the general government balance (guarantees, loans, deferred payments of loan liabilities), was EUR 2.9 billion in 2020.[9] It should be highlighted that the actual fiscal impact of measures adopted at the end of 2020 will be visible in 2021.
- Seven ACPs to mitigate the consequences of the epidemic have already been adopted so far. According to government estimates from the assessments of individual anti-corona packages at the time of their adoption, their joint effect is expected to amount to EUR 6.9 billion and EUR 6.2 billion when guarantees are excluded. The actual implementation has so far considerably deviated from these assessments (see Figures 3 and 4). Approximately half of the fiscal impact projected under ACP1 was actually realised and only about a quarter under ACP3.

[7] The state budget forms the prevailing part of the direct effect on the general government balance, while an additional effect of EUR 30 million is brought about by the subsidies provided by the SPS as part of the general government sector.

[8] Contrary to the overestimations of measures in the preliminary ACPs, the first Fiscal Council's calculations indicate that the fiscal effects of the last anti-corona package (ACP7) could be underestimated.

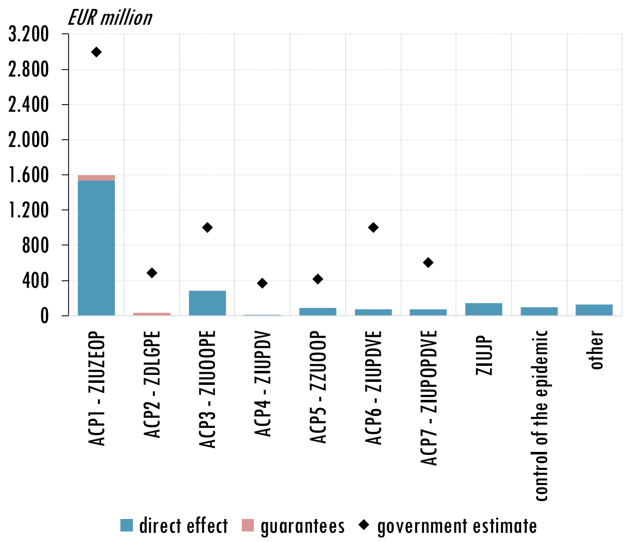
[9] The data on the funding spent for indirect measures for the entire year of 2020 is still not available.

Figure 3: Overview of anti-corona packages



Source: MoF, FURS, SID, SPS, FC calculations.

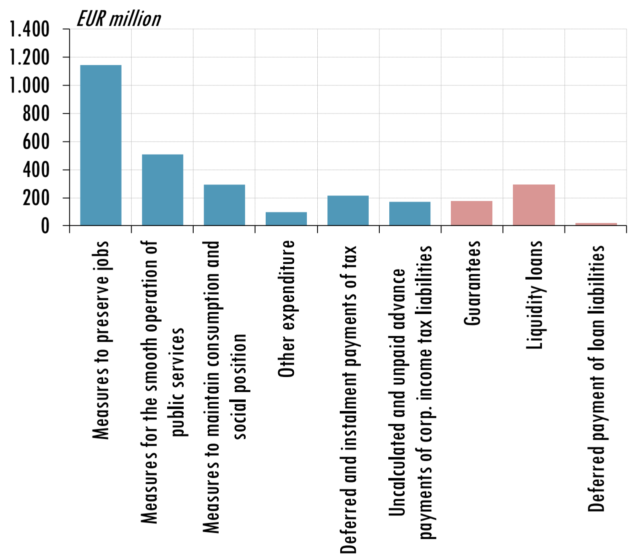
Figure 4: Overview of COVID measures outturn – by act



Sources: MoF, FURS, SID, SPS, FC calculations.

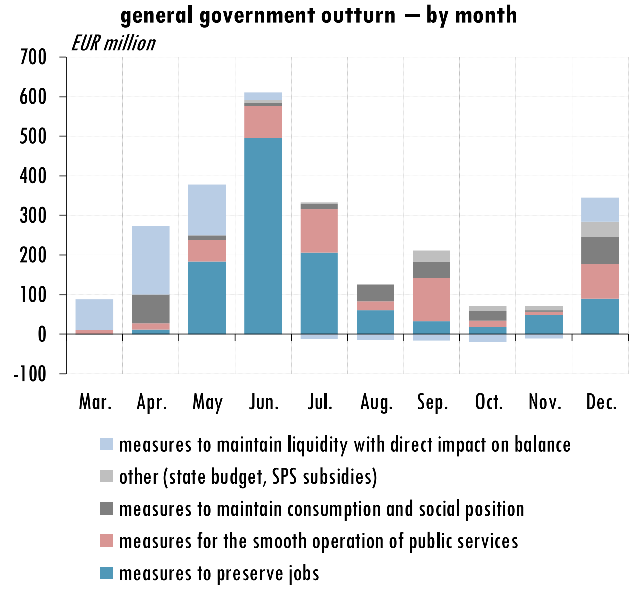
- When drafting the revised budget last September with four ACPs already adopted, the government estimated the total expenditure for COVID measures in 2020 at EUR 2.6 billion. In addition to the measures from the ACPs, COVID measures also include other general government expenditure for the control of the epidemic (protective equipment, tests, etc.), deferred and instalment payments of tax liabilities under the Fiscal Intervention Measures Act (ZIUJP), temporary lay-off allowances under the Act Determining the Intervention Measures on Salaries and Contributions (ZIUPPP), EU funds for managing the epidemic and the measures taken by the Slovenian Export and Development (SID) Bank and the Slovenian Enterprise Fund (SPS).
- A major part or about a half of the direct fiscal effect of anti-corona measures includes the measures to preserve jobs, which amounted to EUR 1,147 million in 2020. The payment of pension and disability insurance for the workers who worked during the first wave of the

Figure 5: Overview of COVID measures outturn – by content



Source: MoF, FURS, SID, SPS, FC calculations.

Figure 6: Overview of COVID measures with direct effect on general government outturn – by month



Source: MoF, FURS, FC calculations.

epidemic and the temporary lay-off allowance, which was extended until the end of January 2021, have produced the greatest effect so far. The basic income for the self-employed and other beneficiaries, which was extended until the end of March this year under ACP7, also had a significant impact. The impact of partial compensation for short-time working is smaller, which may be attributed to the extension of the temporary lay-off allowance, while the measure concerning short-time working has been extended until the end of June 2021 under ACP7.

- The measures for the smooth operation of public services amounted to EUR 508 million. The largest part of these measures constitute the allowances for public employees for working in high -risk circumstances. The impact of this measure will further increase given the measures adopted under ACP7. About EUR 150 million were allocated for the smooth operation of the healthcare system through compensation for the loss of income due to inability to perform their activity and to cover the material costs of the Health Insurance Institute of Slovenia (ZZZS). By the end of the year, EUR 122 million were spent to control the epidemic, which includes expenditure for

Table 2: Overview of the implementation of COVID measures in 2020 (in EUR million)

TOTAL COVID MEASURES	**2.920**
TOTAL COVID MEASURES WITH A DIRECT EFFECT ON THE GENERAL GOVERNMENT BALANCE	**2.431**
Measures to preserve jobs	**1.147**
Allowance for temporary laid-off employees	333
Payment of social contributions for temporary laid-off employees	124
Partial subsidisation of short-time working	36
Payment of contributions for the pension and disability insurance of employees who worked during the epidemic	435
Basic income and social contributions for the self-employed and other beneficiaries	201
Sick pay for employed persons is fully covered by the ZZZS	19
Measures for the smooth operation of public services	**508**
Employee allowances	207
Control of the epidemic by the Ministry of Economic Development and Technology (protective equipment, etc.)	122
Measures in education, sport and culture	29
Compensation for healthcare service providers due to loss of business, incl. concessionaires	105
Provision of funds to the ZZZS	45
Measures to maintain consumption and social position	**291**
Tourist voucher payments	128
Solidarity allowances for various groups	163
Other expenditure	**98**
Measures to maintain liquidity	**875**
Deferred and instalment payments of tax	215
Uncalculated and unpaid advance payments of corporate income tax liabilities	171
Guarantees[1]	176
SPS	79
Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (SID Bank)	61
Act Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic (SID Bank)	36
Liquidity loans	293
SPS	44
SID Bank	249
Deferred payment of loan liabilities – SID Bank[2]	20

Source: MoF, FURS, FC calculations. Notes: [1] Data up to and including November 2020. [2] Data up to and including 18 December 2020.

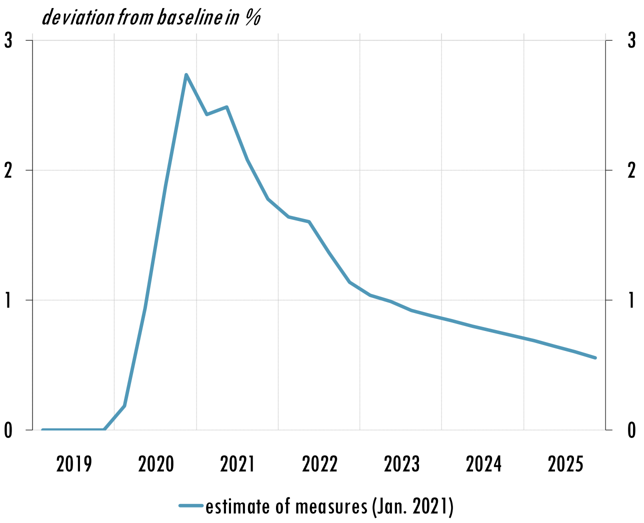
protective equipment, tests, research studies, etc.

- The measures to maintain consumption and social position, which amounted to EUR 291 million by the end of 2020, include tourist vouchers and one-off solidarity allowances for various population groups. The impact of these measures will also be enhanced with the extension of the tourist vouchers' validity and the introduction of new solidarity allowances under ACP7. One-off solidarity allowances have so far amounted to EUR 163 million, of which EUR 135 million were paid to pensioners.
- The large part of measures to maintain liquidity have no direct effect on the general government balance. However, the balance is directly affected by unaccounted advance tax payments from the first wave of the epidemic and the simplified option of deferred and instalment payments of tax liabilities. The latter was reintroduced under ACP6, which is why the final effect of this measure will be greater than its current implementation. By the end of November, guarantees in the amount of EUR 176 million were issued within guarantee schemes under ACP1 and ACP2 and in the form of SPS guarantees. Additionally, the SID Bank and the SPS approved about EUR 300 million worth of liquidity loans.

Impact of implemented COVID measures on macroeconomic and fiscal aggregates

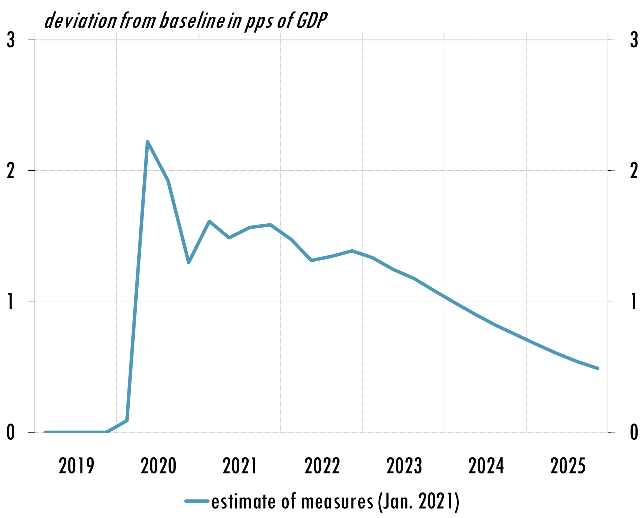
Due to many uncertainties, the estimates of macroeconomic and fiscal effects of measures are difficult to prepare; yet they provide a useful insight in how these measures operate, help reduce uncertainty, increase support for measures of domestic economic agents and preserve and reinforce the confidence of financial markets. The measures were classified into individual fiscal aggregate categories according to the ESA 2010 methodology and taking into account the currently available facts. The classification of measures and thus their effects may change because the measures remain in force. The effects of measures may be analysed on the basis of the estimate of static multipliers; however, due to feedback links between fiscal and macroeconomic aggregates, the dynamic estimate presented is also of interest. Coefficients based on estimates of links between past macroeconomic aggregates are

Figure 7: Impact of the measures on real GDP level



Source: FC. Note: Simulation of measures is based on estimates of measures included in this analysis (Table 2).

Figure 8: Impact of the measures on general government



Source: FC. Note: Simulation of measures is based on estimates of measures included in this analysis (Table 2).

used, which, however, do not necessarily reflect the functioning of economic agents in the current conditions. The simulations show only the dynamic impact of the measures; they do not contain an estimate of the decrease of general government revenue due to the downturn of economic activity as this downturn is already included in the baseline scenario. Consequently, the results of these simulations must be handled with considerable caution and only as an indication of possible reactions of the economy to economic policy measures.

The results of simulations of implemented measures show that, due to the measures taken, economic activity in 2020 was slightly less than 3% higher than projected in the scenario that does not involve measures. This mitigates the decline in economic activity by approximately a third of the decline assumed in the baseline scenario. This is similar to the assessment of the impact of measures in the EU that was drafted by the European Commission.[10] IMAD and the Bank of Slovenia projected only a slightly higher impact of measures on economic activity.[11] Thus, simulations show that the aggregate impact of adopted measures on economic activity is important, yet it is relatively small in the context of multiplier effects. This was to be expected as measures were primarily intended to prevent a significant economic decline and excessive increase of unemployment.

In spite of the adopted measures having beneficial macroeconomic effects, their implementation is reflected in the deterioration of fiscal aggregates. This is without considering the fact that due to the economic crisis the general government balance is already greatly worsened in the baseline scenario and also without observing the consequences of probable additional deterioration of fiscal aggregates, which would occur if there were no economic policy action. Simulations show that solely as the result of these measures, the general government deficit increased in the first year by about 4 pps of GDP, while in the following years it is expected to align with the deficit level suggested in the baseline scenario. At the same time, in the year of introduction of measures the general government debt increased by about 2 pps of GDP, and five years later it should be about 0.5 pps of GDP higher than in the base scenario.

[10] EC Spring Forecast 2020, p. 65–72.

[11] When drafting the winter forecast, IMAD estimated that the measures adopted by September cushioned the decline in GDP in 2020 by 3 pps (see p. 6 of https://www.umar.gov.si/fileadmin/user_upload/napovedi/vmesna/zimska_2020/ANG-ZimskaNGG_2020.pdf). When drafting its December forecast, which, in addition to considering the government's initial assessment of the funding for the implementation of measures, also considered the impact of the funds from the EU instrument for recovery after the COVID-19 epidemic, the Bank of Slovenia estimated the mitigation of the decline in economic activity at around one third of the decline in GDP under the baseline scenario (see Box 4 of https://bankaslovenije.blob.core.windows.net/publication-files/macroeconomic-projections-for-slovenia-december-2020.pdf).