REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Public finance and macroeconomic developments

July 2021

Drawn up by the Fiscal Council's Analysis Service

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Data available up to and including 7 July 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 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 IMF 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.

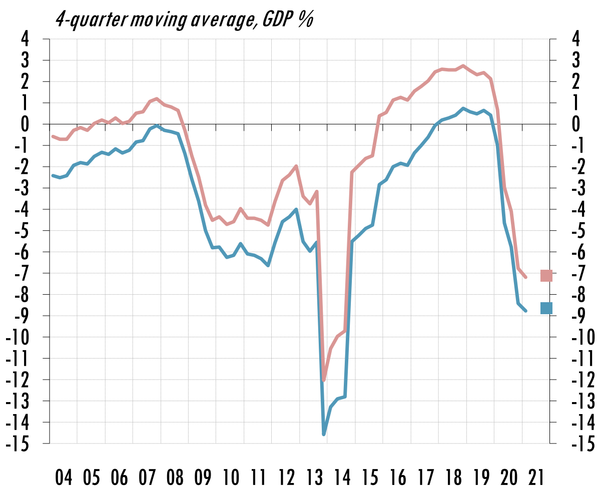
The comments on the state budget implementation (Section 2) refer to the daily data available at: https://proracun.gov.si/#. The Fiscal Council will continue to regularly publish an overview of the implementation of the COVID measures (Section 3), subject to availability of such data in the future. All comments on COVID measures pertain to data available by 5 July 2021. Along with the Ministry of Finance (MoF), 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 Slovenian Enterprise Fund (SPS) for their cooperation and submitted data.

Summary

The withdrawal of restrictive measures and the consequent gradual recovery of economic activity, which is distributed relatively evenly across activities this year, have not yet been fully reflected in the improvement of the situation of public finances. Expenditure related to COVID measures was rather high in the first six months, mainly due to certain measures in the field of labour costs and social transfers, the share of which deviates from the EU average in Slovenia. The future evolution of the epidemic remains the main risk related to achieving the targets set out in the adopted budgetary documents in the context of recent improved economic growth forecasts. During the crisis, the state of public finances in Slovenia worsened to a greater extent than the EU average. Increased government debt is thus more sensitive to possible changes in future financing conditions. All this indicates the need for the sound and targeted adoption and implementation of measures that may have an impact on fiscal position.

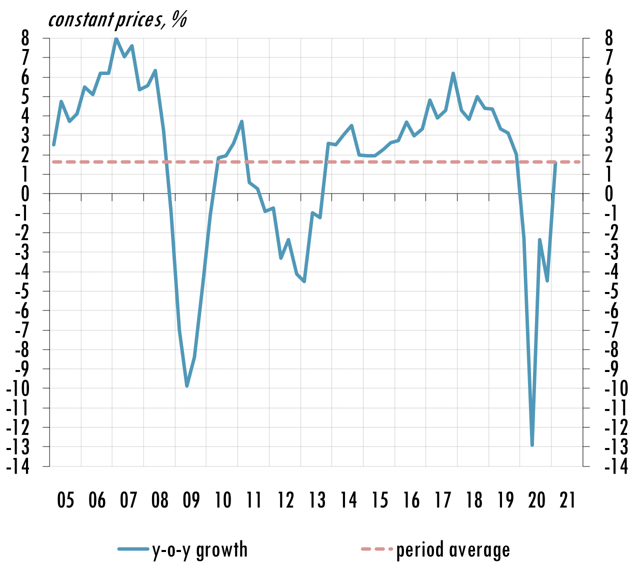
The government budget deficit amounted to EUR −1.95 billion in the first half of 2021, which is slightly higher than in the same period last year (EUR −1.92 billion), notwithstanding the strong revenue growth this year. Without taking into account the direct impact of COVID measures, it amounted to EUR −162 million, less than in the first six months of 2020 (EUR −562 million). In particular, due to the direct impact of COVID measures amounting to EUR 1.824 billion, year-on-year expenditure increased by 18.0%. The budget adopted for 2021 provided for just under EUR 800 million for this purpose. In the first half of the year, the largest share made up payments of allowances to employees of around EUR 0.5 billion, while the total volume of all measures to maintain jobs was only slightly higher. Despite growth in recent months, the relatively modest inflow of EU funds, as well as related investment by the state in the first half of 2021, will require a significant increase in the second half of the year to meet the set targets, whereas the failure to meet these may also have an impact on economic activity. The favourable balance sheets of the ZZZS and ZPIZ this year are largely due to the high increase in compensation of employees, in particular in the public sector, and the resulting social security contributions. This is one of the reasons why the transfer of the state budget to the pension fund in the first five months was one third lower than in the same period last year.

Main aggregates of the general government (ESA)



Source: SORS, MoF forecast, FC calculations.

GDP



Source: SORS, FC calculations.

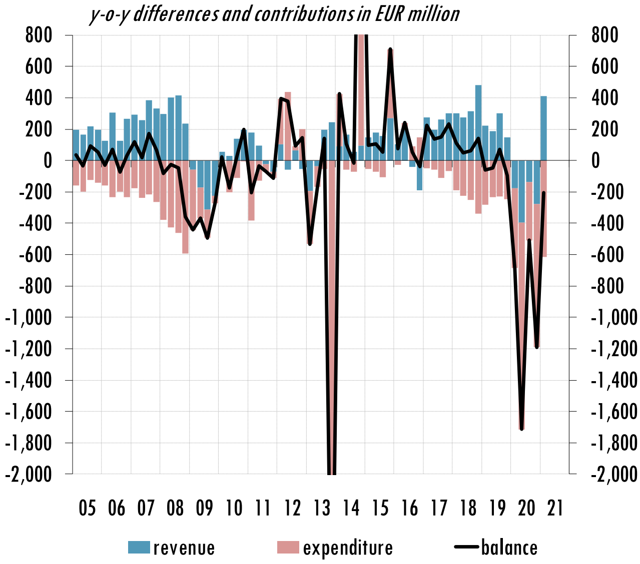
The general government balance deficit amounted to EUR −969 million (−8.3% of GDP) in the first quarter of 2021 while the Government announced a deficit of EUR −4.2 billion (−8.6% of GDP) in April 2021 for the whole of 2021. General government gross debt reached EUR 40.2 billion (86.0% of GDP) in the first quarter of 2021, thus bringing it close to the average level of debt in the EU. Around one third of the increase in the level of debt over the last year has been due to the pre-financing of future liabilities, which is reflected in the favourable liquidity position of the state budget. Irrespective of this, higher debt over the medium term poses a potential risk to fiscal stability and, in the case of changed financing conditions and higher interest costs, the risk of crowding out other expenditure in public finances.

Again this year, the Eurosystem's exceptionally accommodative monetary policy ensured favourable conditions for financing the greater needs of countries to mitigate the consequences of the epidemic. A coordinated fiscal policy with a general escape clause at the EU level and large sources of funding from existing and new instruments allow the direct mitigation of the consequences of the crisis and the preservation of long-term economic potential. The current orientation of monetary and fiscal policy thus offers an opportunity, but it also entails traps as it increases risks if the resources available under the given financing conditions are not properly used.

1. Fiscal trends – general government sector (ESA 2010 methodology)

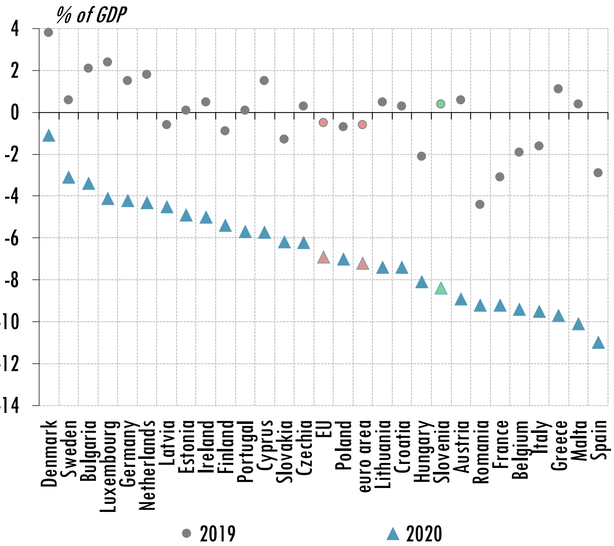
Despite the recovery in economic activity in the first quarter of 2021, the **general government balance** deficit amounted to EUR −969 million (−8.3% of GDP), while expenditure growth has exceeded revenue growth by the least since the start of the crisis. The economic downturn caused by the epidemic resulted in lower revenue, while expenditure grew significantly due to the measures to mitigate the consequences of the crisis and the operation of automatic stabilisers. In the April 2021 Stability Programme, the government estimated the deficit at EUR −4.182 billion (−8.6% of GDP) for the entire year. The cash-flow consolidated balance sheet data available until May suggest a reduction in the deficit in the second quarter according to the ESA methodology mainly due to improved economic conditions and related higher revenue, as expenditure growth remains relatively high (see also the Government Budget Chapter).

General government balance (ESA)



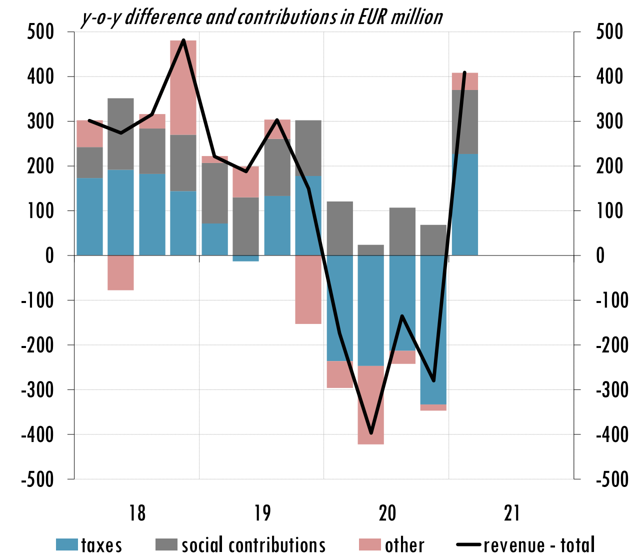
Source: SORS, FC calculations.

General government balance



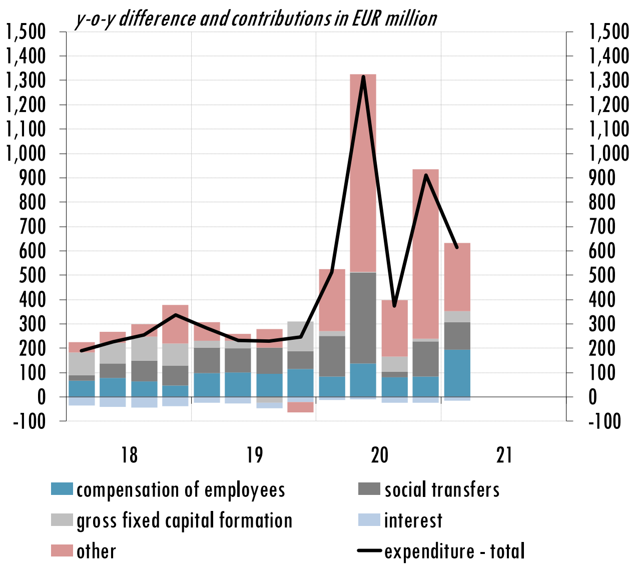
Source: Eurostat.

General government revenue (ESA)



Sources: SORS, FC calculations

General government expenditure (ESA)



Source: SORS, FC calculations.

Revenue in the first quarter of this year was 8.6% higher on a year-on-year basis, which is much more than nominal GDP growth (3.3%). About one third of this was due to increased revenue from social contributions and from taxes on incomes of individuals or households, which largely reflects measures that in the crisis limited the fall in employment as well as in the household income. Total tax revenue increased by 10.6% on a year-on-year basis, with revenue from all components of taxes increasing in the first quarter. Among the components of the revenue of the general government sector, only property revenue decreased on a year-on-year basis, which is assumed to be linked to the poor performance of enterprises with state ownership. In the second half of last year and in the beginning of this year, there was a slight increase in capital revenue, indicating a slightly higher use of European funds for investment.

Expenditure in the first quarter of this year was higher by 11.1% on a year-on-year basis, mainly due to the COVID measures. Higher subsidies, which were almost five times higher than in the pre-crisis period, were the main contributors to growth. Among the major components of expenditure, the sharp increase in compensation for employees continues to stand out, which accelerated at the beginning of the year (13.7%) and was almost twice as high as last year's average. This growth is partly due to wage-raising agreements prior to the start of the crisis, but it also resulted, to a significant extent, from allowances under the COVID measures paid for the months at the end of last year. The level of intermediate consumption expenditure remained stable on a year-on-year basis while investment consumption increased at the beginning of the year, with growth (10.2%) twice as high as the average

Table 1: The main aggregates of the general goverment sector

	Q1				Q2-Q4							
			change				change				change	
	2020	2021	EUR million	%	2020	2021*	EUR million	%	2020	2021**	EUR million	%
REVENUE	**4,755**	**5,164**	**409**	**8.6**	**15,418**	**15,924**	**506**	**3.3**	**20,174**	**21,088**	**914**	**4.5**
TAXES	2,145	2,372	228	10.6	7,235	7,402	167	2.3	9,380	9,775	395	4.2
Taxes on production and imports	1,335	1,424	89	6.7	4,618	4,797	178	3.9	5,954	6,221	267	4.5
Curr. taxes on income, wealth, etc.	807	945	138	17.1	2,607	2,600	-8	-0.3	3,414	3,545	131	3.8
Capital taxes	3	3	0	15.3	9	6	-3	-34.5	12	9	-3	-23.7
SOCIAL CONTRIBUTIONS	1,998	2,140	142	7.1	6,045	6,072	27	0.4	8,043	8,213	169	2.1
PROPERTY INCOME	44	40	-4	-9.5	251	169	-82	-32.7	296	209	-87	-29.2
OTHER	568	611	43	7.6	1,886	2,280	394	20.9	2,455	2,891	437	17.8
EXPENDITURE	**5,519**	**6,133**	**614**	**11.1**	**18,547**	**19,136**	**588**	**3.2**	**24,066**	**25,269**	**1,203**	**5.0**
COMPENSATION OF EMPLOYEES	1,416	1,610	194	13.7	4,444	4,479	35	0.8	5,860	6,089	229	3.9
INTERMEDIATE CONSUMPTION	730	731	1	0.1	2,332	2,439	107	4.6	3,063	3,170	107	3.5
SOCIAL TRANSFERS	2,223	2,335	112	5.1	6,906	7,431	525	7.6	9,129	9,766	637	7.0
INTEREST	189	173	-17	-8.8	567	567	0	0.1	756	740	-16	-2.2
SUBSIDIES	245	498	253	103.2	1,577	537	-1,040	-65.9	1,822	1,035	-787	-43.2
GROSS FIXED CAPITAL FORMATION	443	488	45	10.2	1,486	2,522	1,036	69.7	1,929	3,010	1,081	56.0
CAPITAL TRANSFERS	16	13	-3	-20.9	109	165	56	51.7	124	177	53	42.5
OTHER	258	287	29	11.4	1,126	995	-131	-11.6	1,384	1,283	-101	-7.3
Balance	**-764**	**-969**	**-205**		**-3,129**	**-3,212**	**-83**		**-3,893**	**-4,181**	**-288**	
Primary balance	**-575**	**-796**	**-222**		**-2,562**	**-2,645**	**-82**		**-3,137**	**-3,441**	**-304**	
Balance, GDP %	**-6.8**	**-8.3**		**-1.5**	**-8.9**	**-8.7**		**0.2**	**-8.4**	**-8.6**		**-0.2**
Primary balance, GDP %	**-5.1**	**-6.8**		**-1.7**	**-7.3**	**-7.2**		**0.1**	**-6.8**	**-7.1**		**-0.3**
Nominal GDP, EUR million	**11,283**	**11,655**		**3.3**	**35,014**	**36,797**	**1,783**	**5.1**	**46,297**	**48,452**	**2,155**	**4.7**

*Sources: SORS, MoF. Notes: *Implicitly calculated to match MoF forecast. **MoF forecast: Stability Programme 2021 (April 2021).*

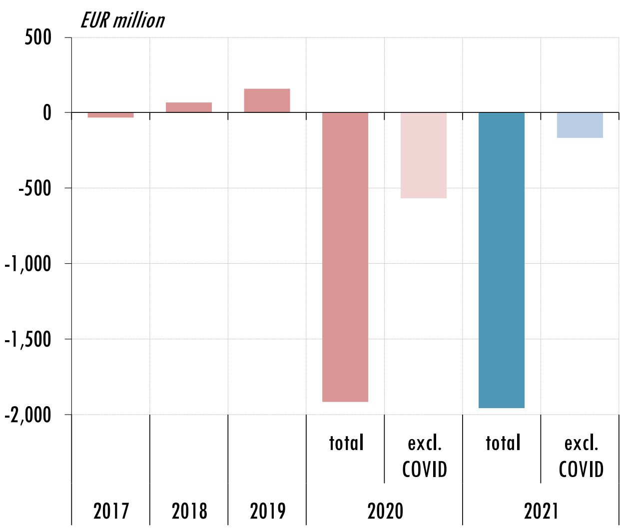
growth in 2020. The Stability Programme foresees a growth of more than 50% for the whole year, so investment spending should increase significantly over the remaining part of the year.

2. Central government budget (the GFS cash flow methodology)

According to provisional data, the state budget deficit amounted to EUR −1.954 billion (71% of anticipated), in the first half of 2021, and without taking into account the direct impact of COVID measures the deficit would have amounted to EUR −162 million.

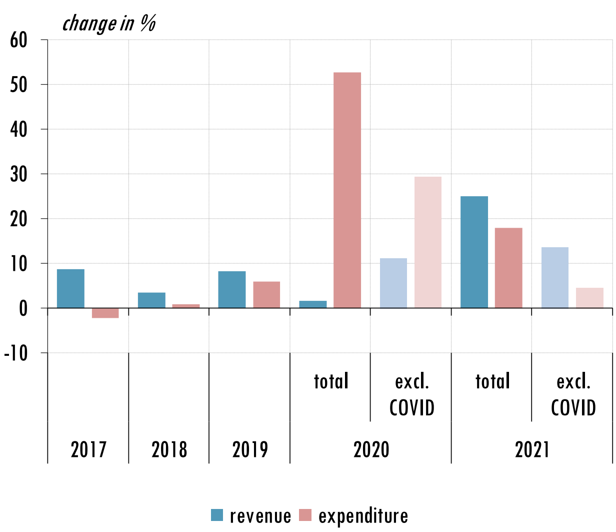
Revenue in the first six months of the year amounted to EUR 5.383 billion, representing a year-on-year increase by 25.1%. Growth was to a significant extent due to the base effect and partly due to the release of restrictive measures to curb the epidemic and the consequent recovery of economic activity and the impact of discretionary measures. Last year, at the onset of the epidemic, revenue fell significantly, i.e. by 25.5% on year-on-year basis in the March–June period. The direct effect of COVID measures was negligible (EUR 32 million) in the first six months of this year; however, in the same period last year, when the option of deferred or instalment payments of tax liabilities and exemptions from the advance payment of corporate income tax and personal income tax on activities were introduced as a measure, their effect was significant (EUR 407 million). As a result, revenue in the first half of 2021 was 13.6% higher on a year-on-year basis without taking into account the direct effect of COVID measures. Year-on-year VAT revenue increased by 23.5% in the first six months, in particular, due to high growth in April and May, while growth was more modest (14.2%) if the effect of discretionary measures (possibility of deferred and instalment payment of liabilities) is not taken into account. The same applies to corporate income tax revenue, which grew by 107.9% on a year-on -year basis in the aforementioned period, while growth was 30.5% without the effect of discretionary measures. Revenue from excise duties was 6.0% higher on a year-on-year basis in the first six months of the year, while without taking into account the effect of discretionary measures they were lower year on year (−6.3%). Growth of personal income tax revenue (36.6%) was high and is associated with high growth in wages also due to allowances in the public sector. Allowances are paid with a prepayment of personal income tax, from which the allowances are exempt by law, which means that

State budget balance (January-June)



Source: MoF, FC calculations.

State budget revenue and expenditure (January-June)



Source: MoF, FC calculations.

Table 2: State budget

	January-June				July-December							
	2020	2021	change 2021/2020		2020	2021*	change 2021/2020		2020	2021**	change 2021/2020	
			EUR million	%			EUR million	%			EUR million	%
Revenue	**4,302**	**5,383**	**1,081**	**25.1**	**4,775**	**5,339**	**564**	**11.8**	**9,078**	**10,722**	**1,644**	**18.1**
VAT	1,513	1,869	356	23.5	2,015	1,974	-41	-2.1	3,528	3,843	315	8.9
Excise duties	607	644	37	6.0	707	819	112	15.8	1,314	1,463	148	11.3
Personal income tax	624	852	228	36.6	540	436	-104	-19.3	1,164	1,288	124	10.7
Corporate income tax	302	627	326	107.9	471	329	-142	-30.1	773	957	184	23.8
EU funds	331	411	79	24.0	393	1,220	827	210.2	725	1,631	906	125.1
Non-tax	386	444	58	15.0	286	124	-162	-56.6	672	568	-104	-15.4
Other revenue	540	537	-3	-0.6	362	436	74	20.5	902	973	71	7.9
Expenditure	**6,219**	**7,337**	**1,119**	**18.0**	**6,347**	**6,132**	**-215**	**-3.4**	**12,565**	**13,469**	**904**	**7.2**
Total labour costs	1,722	2,305	583	33.9	1,726	1,290	-437	-25.3	3,448	3,595	146	4.2
Transfers to individ. and househ.	918	1,456	538	58.7	1,049	183	-866	-82.5	1,967	1,640	-327	-16.6
Expenditure on goods and services	507	610	103	20.2	802	658	-144	-17.9	1,309	1,268	-41	-3.2
Investment	250	324	74	29.4	661	1,650	989	149.6	911	1,974	1,063	116.6
Current transfers to soc. sec. funds	893	873	-20	-2.2	510	877	367	71.9	1,403	1,750	347	24.7
Subsidies	859	579	-280	-32.6	539	82	-457	-84.8	1,398	661	-737	-52.7
Interest	493	430	-63	-12.8	279	333	54	19.3	772	762	-9	-1.2
Payments to the EU budget	289	317	28	9.6	237	248	11	4.7	526	565	39	7.4
Other expenditure	287	443	156	54.2	543	811	268	49.3	830	1,254	424	51.0
Balance	**-1,917**	**-1,954**	**-38**		**-1,571**	**-793**	**779**		**-3,488**	**-2,747**	**741**	

*Source: MoF, FC calculations. Note: *Implicitly calculated to match MoF forecast. ** Ammendments to the budget for 2021 (Oct. 20).*

Table 3: Impact of COVID measures on state budget outturn

	January-June 2020 EUR million		January-June 2021 EUR million		excl. COVID y-o-y change	
	COVID	excl. COVID	COVID	excl. COVID	EUR million	%
Revenue	**-407**	**4,709**	**32**	**5,351**	**642**	**13.6**
VAT	-136	1,649	-15	1,884	235	14.2
Excise duties	-46	653	32	612	-41	-6.3
Personal income tax	-27	651	-7	859	208	31.9
Corporate income tax	-180	481	-1	628	147	30.5
EU funds[1]	1	331	49	362	31	9.3
Non-tax	0	386	1	443	57	14.8
Other revenue	-18	558	-27	564	6	1.1
Expenditure	**947**	**5,271**	**1824**	**5,513**	**242**	**4.6**
Total labour costs	83	1,639	513	1,792	153	9.3
Transfers to individuals and households	127	791	701	755	-35	-4.5
Expenditure on goods and services	2	506	131	479	-27	-5.3
Investment	0	250	5	319	69	27.5
Current transfers to social security funds	67	827	1	873	46	5.6
Subsidies	610	249	354	225	-24	-9.6
Interest	0	493	0	430	-63	-12.8
Payments to the EU budget	0	289	0	317	28	9.6
Other expenditure	59	228	119	324	96	41.9
Balance	**-1,354**	**-562**	**-1,792**	**-162**	**400**	

Sources: MoF, FURS, FC estimates and calculations. Note: [1] The effect on balance of revenue from EU funds used for financing of COVID measures is neutralized, so that they are interpreted as higher total revenue from EU funds.

the recipients of allowances will receive a refund of personal income tax paid at the time of final income tax assessment; this will result in lower growth of total personal income tax revenue. The revenue from EU funds amounted to EUR 411 million in the first six months, which is 24.0% more than in the same period last year. In the remaining six months of the year, EUR 1.220 billion is expected to be realised for the implementation of state budget projections, which is almost EUR 500 million more than in the whole of last year. During this period, non-tax revenue increased by 15.0% on a year-on-year basis, mainly due to the sharp growth in January, which according to the Ministry of Finance was based on higher extraordinary revenues or new borrowing.

Expenditure in the first six months of the year was 18.0% higher than in the same period last year, mainly due to the direct effect of COVID measures totalling EUR 1.824 billion. Without this effect, expenditure would be 4.6% higher on a year-on-year basis. Total labour costs, which also include transfers to public institutions for this purpose, were the main contributors to growth and were 33.9% higher on a year-on-year basis. This was mainly due to the allowances related to the epidemic. Even without taking into account this effect, their growth over this period was relatively high totalling 9.3% and contributing around two-thirds to the growth of total expenditure without taking into account the effect of COVID measures. Transfers to individuals and households in this period were up by 58.7% on a year-on-year basis, and without COVID measures of EUR 700 million, they would be −4.5% lower. Expenditure on goods and services increased by around one fifth on a year-on-year basis, while without the effect of discretionary measures it decreased by 5.3%. Investment expenditure and transfers amounted to EUR 324 million in the first six months of this year, which is by around 30% more than in the same period last year. In the remaining second half of the year, EUR 1.650 billion is expected to be realised for the implementation of state budget projections, which is EUR 740 million more than in the whole of last year. Total expenditure growth was mitigated by expenditure for subsidies, which during this period was reduced by around one third on a year-on-year basis, mainly due to reduced payments related to COVID measures. Interest expenditure was also lower than in the same period last year (−12.8%).

3. Implementation of COVID measures (January–June 2021)

The cost of COVID-related measures with a direct effect on the state budget balance was EUR 1.792 billion in the first six months of 2021. The majority of the effect is on the expenditure side, totalling EUR 1.824 billion. Since the start of the epidemic in March last year, the volume of measures with a direct effect on the national budget balance amounts to EUR 4.235 billion, the majority of the effect on the expenditure side (EUR 3.828 billion). The total cost of such measures, taking into account the potential effect of guarantees, liquidity loans and deferred credit payments on the state budget results, amounts to EUR 5 billion.

Revenue increased by EUR 32 million in the first half of this year as a result of COVID measures. This is partly due to the fact that the repayments of previously approved deferred or instalment payments of tax liabilities were higher than newly approved deferrals or instalment payments, and partly due to the impact of EU funds on the balance, as revenue from EU funds to finance COVID expenditure is considered as higher total revenue from EU funds.

The majority of COVID expenditure in the first half of this year was allowances to employees of around EUR 550 million, most of these in the public sector (EUR 513 million). In May and June alone,

Table 4: Overview of the implementation of COVID measures (in EUR million)

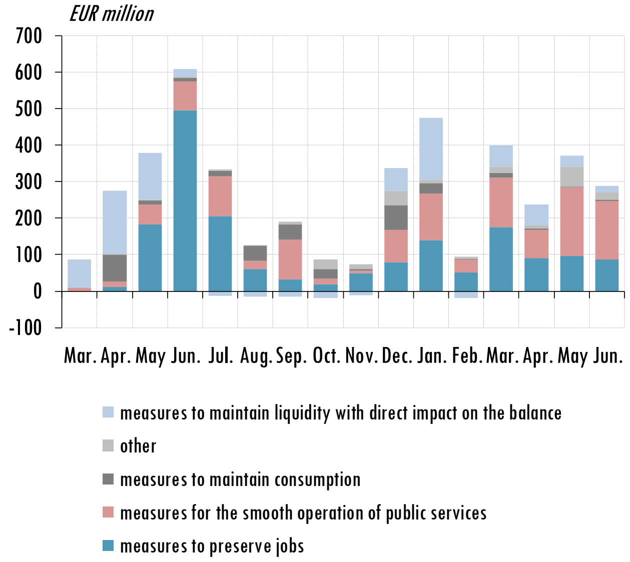
	Mar.-Dec. 2020	Jan.-Jun. 2021	TOTAL
TOTAL COVID MEASURES	**2,910**	**2,049**	**4,959**
TOTAL COVID MEASURES WITH A DIRECT EFFECT ON THE GENERAL GOVERNMENT BALANCE	**2,393**	**1,842**	**4,235**
Measures to preserve jobs	**1,137**	**639**	**1,776**
Compensation to temporary laid-off employees	328	303	630
Payment of social contributions for temporary laid-off employees	124	0	124
Partial subsidisation of short-time working	36	27	62
Payment of contributions for the pension and disability insurance of employees who worked during the epidemic	435	1	436
Basic income and social contributions for the self-employed and other beneficiaries	196	234	430
Sick pay for employed persons is fully covered by the ZZZS	19	1	20
Crisis bonus	0	60	60
Subsidising minimum wage	0	13	13
Measures for the smooth operation of public services	**508**	**728**	**1,236**
Employee bonuses	207	546	753
Control of the epidemic by the Ministry of Economic Development and Technology (protective equipment, etc.)	122	131	254
Measures in education, sport and culture	29	29	58
Compensation for healthcare service providers due to loss of business, incl. concessionaires	105	5	110
Provision of funds to the ZZZS	45	17	62
Measures to maintain consumption and social position	**291**	**50**	**341**
Tourist voucher payments	128	4	132
Solidarity bonus for various groups	163	46	209
Other expenditure	**67**	**111**	**178**
Measures to maintain liquidity	**906**	**466**	**1,371**
Deferred and instalment payments of tax	219	18	237
Uncalculated and unpaid advance payments of corporate income tax liabilities	171	0	171
Reimbursement of fixed costs	0	296	296
Guarantees[1]	192	140	333
SPS	79	23	102
Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (SID Bank)	69	48	117
Act Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic (SID Bank)	45	69	114
Liquidity loans	305	66	372
SPS[1]	55	42	97
SID bank[2]	251	24	275
Deferred payment of loan liabilities - SID bank[2]	19	0	19

Source: MoF, FURS, SID Bank, SPS, FC calculations. Notes: [1] as of end of May 2021. [2] as of 14 May 2021.

slightly less than EUR 300 million of allowances were paid from the state budget. Payments for temporary lay-off benefits amounted to EUR 303 million, while basic income to the self-employed and other eligible groups amounted to EUR 234 million. This year's major expenditure included fixed costs of EUR 296 million and various expenditure to control the epidemic amounting to EUR 131 million.

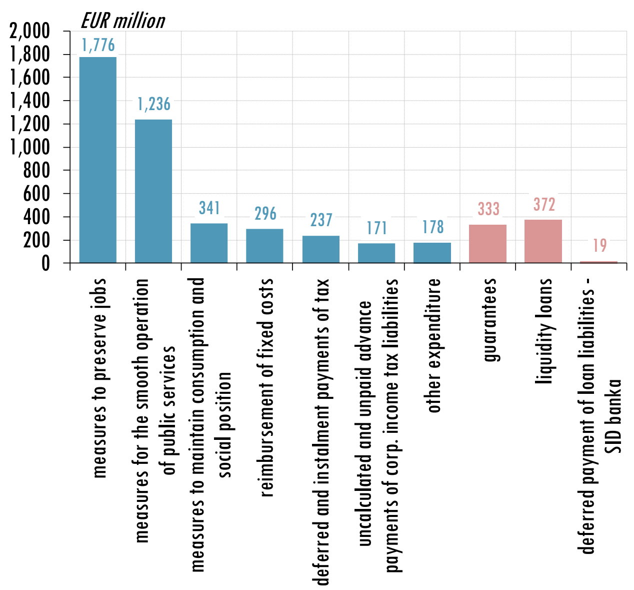
Most of the measures expired at the end of June. Measures remaining in force will be those providing wage subsidies for short-time working scheme, for which EUR 27 million were earmarked by the end of June, minimum wage subsidies (EUR 13 million) and tourism vouchers issued in 2020, for which EUR 4 million were paid in the first half of the year. At the beginning of July, the Act on intervention measures

COVID measures with direct impact on the balance



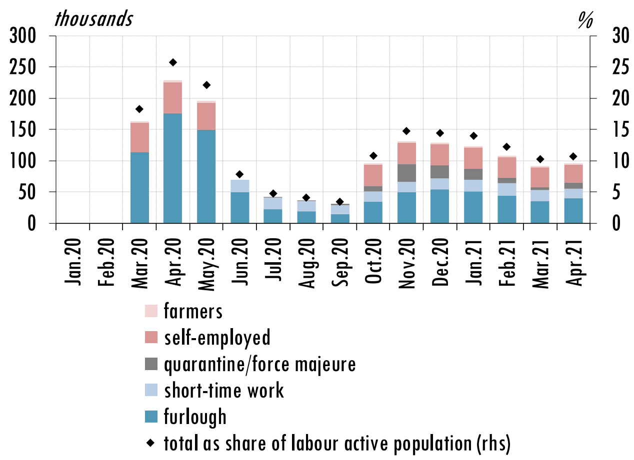
Source: MoF, FURS, FC calculations.

COVID measures by content



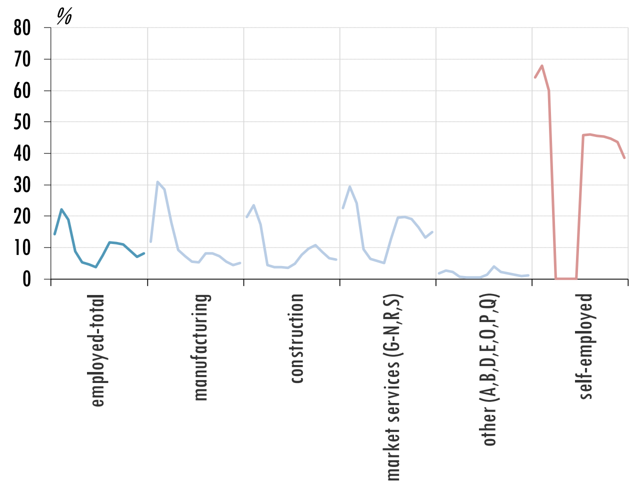
Source: MoF, FURS, SID, SPS, FC calculations.

Recipients of measures to preserve jobs - by measure



Source: ZRSZ, FURS, SORS, FC calculations. Note: Share calculated on the basis of monthly data on labour active population according to registry. Data on employed, related to the period up to end of April 2021, on the basis of payments up to 30 June 2021, data on self-employed and farmers according to eligibility up to end of April.

Recipients of measures to preserve jobs - Mar.20-Apr.21, by type of employment and activity



Source: ZRSZ, FURS, SORS, FC calculations. Note: Share calculated on the basis of monthly data on labour active population according to registry. Data on employed, related to the period up to end of April 2021, on the basis of payments up to 30 June 2021, data on self-employed according to eligibility up to end of April.

to assist the economy and tourism sector in mitigating the consequences of the COVID-19 epidemic was adopted. Key measures include the extension of the wage subsidies for short-time working scheme until the end of September, with the possibility of extension until the end of the year, and the introduction of new tourism vouchers with a wider possibility of use than vouchers issued last year. The Act also allows the payment of a holiday allowance to employees in certain activities and one-off financial support to the meetings industry, film and audio-visual industries, mountain lift operators, swimming pool operators and thermal bath operators. The government assesses the financial effect of the Act of EUR 244 million.

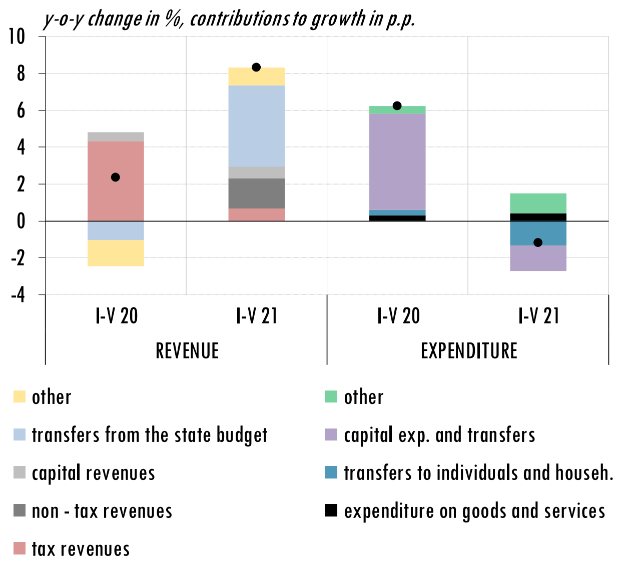
Provisional data show that in April, based on disbursements up to and including 30 June 2021, 65 thousand employees were involved in job retention measures (temporary lay-offs, short-time working scheme, quarantine and force majeure). Around half of all involved are employed in trade, catering and cultural, entertainment and recreational activities. It should be noted that data for the past few months are not final due to delays in payments. The basic income for April and May 2021 was paid to around 28 thousand self-employed persons, totalling 32 thousand counting all eligible groups. This is about 5 thousand less than the average from the start of the second wave of the epidemic last November to March this year.

4. Public finance budgets (the GFS cash-flow methodology)

In the first five months of this year, the surplus of **municipal budgets** (EUR 91 million) was higher compared to the same period last year (EUR 15 million). The improvement was mainly due to higher revenue growth compared to the preceding year (8.3%; I-V 2020: 2.4%). Income from income tax, which is the main source of municipal budget revenue, was lower on a year-on-year basis (−2.1%), but unlike the first five months last year, transferred revenue from the state budget was higher, partly due to the funds for balancing the development of municipalities and partly due to higher funds from the EU budget. Higher income from property taxes, in particular real estate, and higher non-tax revenue, in particular higher community infrastructure levy, also contributed significantly to overall growth. Expenditure was lower on a year-on-year basis (−1.2%; I-V 2020: 6.2%). The reduction resulted mainly from lower investment expenditure and lower transfers to individuals and households, mainly as a result of lower expenditure on home-to-school transport subsidies.

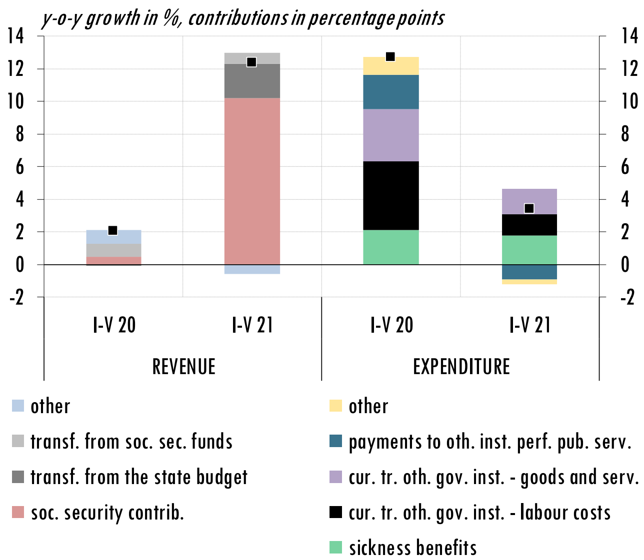
Deficit of the **Health Insurance Institute of Slovenia** (ZZZS) in the first five months of this year (EUR −17 million) was significantly lower than in the same period last year (EUR −129 million). This was due both to higher revenue growth (12.4%) as well as to lower expenditure growth (3.4%) compared to the same period last year (I-V 2020 revenue: 2.1%, expenditure: 12.7%). The higher revenue growth was mainly due to the strong increase in revenue from social security contributions (13.0%) and higher revenue from the state budget, mainly from current spending, contributed significantly to it. The lower expenditure growth than in the first five months of last year was mainly due to lower growth in transfers to public institutions, both for wages and expenditure on goods and services, and to lower payments to non-budgetary operators on a year-on-year basis.

Revenue and expenditure of local government



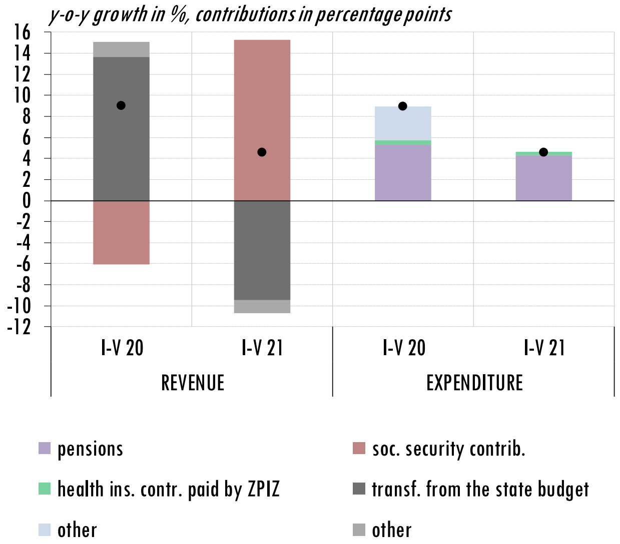
Source: MoF, FC calculations.

ZZZS revenue and expenditure



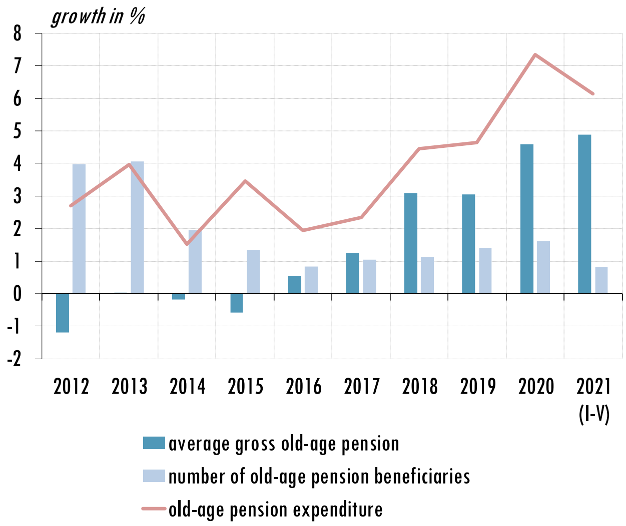
Source: MoF, FC calculations.

ZPIZ revenue and expenditure



Source: MoF, FC calculations.

Pensions



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

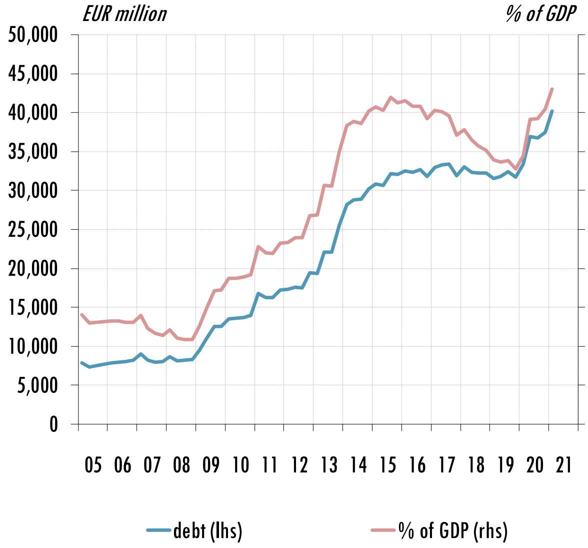
In the first five months of this year, the **Pension and Disability Insurance Fund of Slovenia** expenditure was 4.6% higher on a year-on-year basis, which is half the growth in the same period last year. Pension expenditure was higher by 5.1%, which was mainly due to the December extraordinary and January regular adjustment of pensions, along with the fall in the number of beneficiaries (−0.2%). Total growth was affected last year by the payment of the pension allowance to pensioners in the context of limiting the consequences of the epidemic, which was again paid to in the same amount this year. Unlike last year's reduction, social security revenue in the first five months of this year was up by 22.0% on a year-on-year basis, so that the transfer from the state budget was about a third lower than in the same period last year, amounting to EUR 475 million.

5. General government debt

At the end of the first quarter of 2021, the gross general government debt stood at EUR 40.2 billion, EUR 2.7 billion more than at the end of 2020 and EUR 6.8 billion more than at the end of the first quarter of 2020. Compared to the end of the first quarter of last year, the share of the debt in GDP increased by 17 pps, i.e. to 86.0% of GDP, which is due to the general government deficit, a fall in economic activity and, to a significant extent, the pre-financing of future liabilities. Such a rapid increase in debt was also greater than that in the global financial and economic crisis a decade ago if the effect of pre-financing is eliminated, and is only comparable to the increase in debt during the period of recovery of the banking system. According to monthly data, after the first quarter of 2021, the national budget in the period up to May was net deleveraging by over EUR 750 million while in June the net issue was by just under EUR 150 million in treasury bills and a bond of EUR 1 billion.

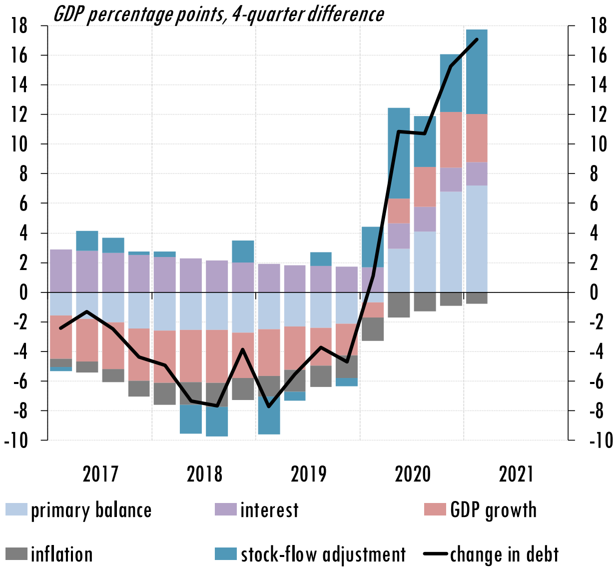
The issue of new bonds (two 10-year and one 60-year) constituted the bulk of government borrowing in the first five months of 2021, which totalled EUR 4.7 billion. Already in 2020, the EC approved EUR 1.1 billion in loans to Slovenia under the SURE instrument, of which the state budget received the remaining 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

General government debt (ESA)



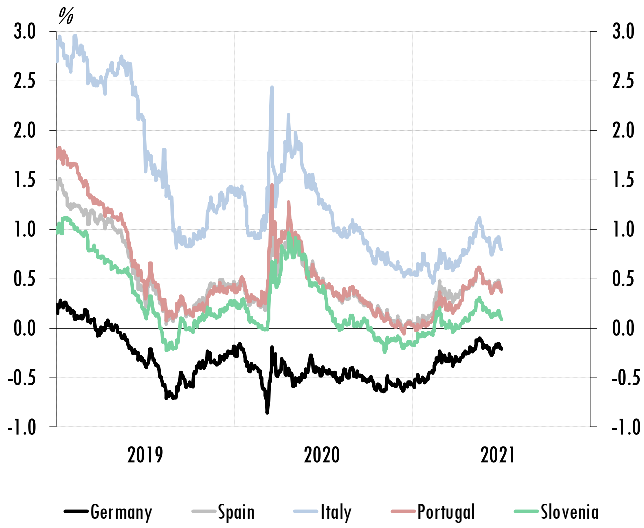
Source: SORS, FC calculations.

Change in general government debt



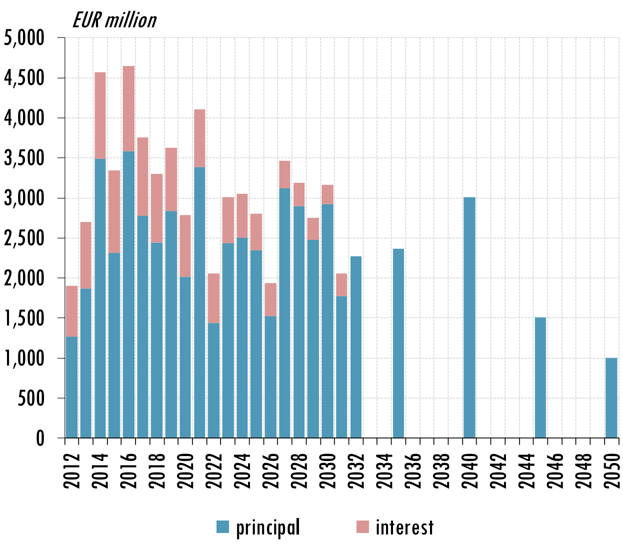
Source: SORS, FC calculations.

Yields on 10-year government EUR reference bonds



Source: Bloomberg.

State budget debt repayment schedule until 2050*

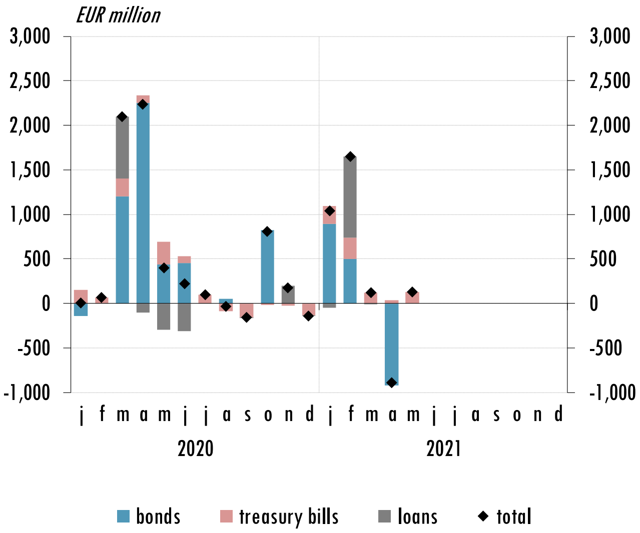


Note: *As of 31 May 2021. No information on interest payments after 2031.
Source: MoF.

of the 30-year bond was re-opened by an 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 June, the Republic of Slovenia issued its first sustainable bond of EUR 1 billion with a maturity of 10 years and a yield to maturity of 0.2%. According to the Ministry of Finance, the funds raised through the issuance of this bond will be earmarked for investments that support environmental and social objectives. In January and April, the Republic of Slovenia repaid liabilities of EUR 1.5 billion and of EUR 1bn respectively, arising from maturing bonds. This year, further liabilities of EUR 1.6 billion are due from the treasury bills currently issued. Solid liquidity of the state budget is ensured by a high level of funds in a single treasury account. These increased from around EUR 6.2 billion at the end of December 2020 to just below EUR 7.5 billion at the end of June 2021.

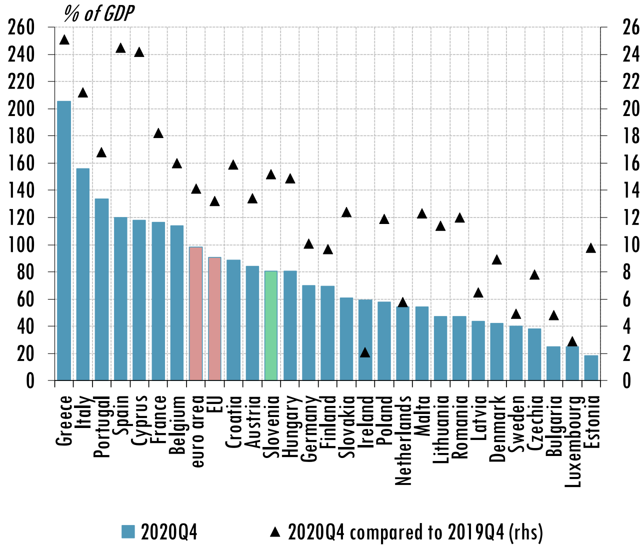
The required yield on long-term bonds of the euro area Member States, including Slovenia, remains

State budget net borrowing



Source: MoF, FC calculations.

Consolidated general government debt



Source: Eurostat, FC calculations.

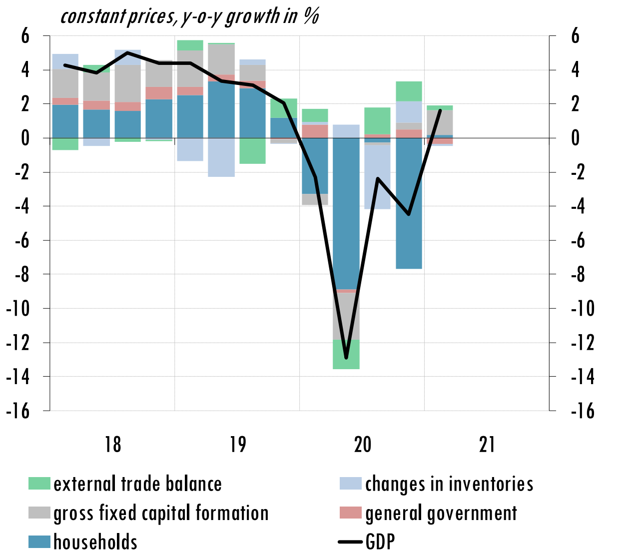
low, in particular as a result of an exceptionally accommodative monetary policy and an extraordinary pandemic emergency purchase programme and financial aid packages at the EU level. The share of Slovenian government bonds purchased by the Eurosystem in the general government debt remains among the largest in the euro area, while the required yield, which was negative over a period of a few months at the end of 2020, became positive at the beginning of 2021, with the yield spread on German bonds currently being at the levels most recently achieved at the end of 2017. The interest rate of all treasury bills issued in 2021 was negative and amounted to −0.5% for all maturities (3 to 12 months). General government debt ratings remained unchanged this year. In April 2021, Moody's confirmed the stable prospects for the government debt of the Republic of Slovenia, while Fitch and Standard&Poors also did so in June 2021. The future distribution of maturing liabilities has been improving as the average weighted time to maturity of 9 years at the end of 2020 reached 10 years with the dominance of a new markedly long-term debt issued at the beginning of 2021. According to the latest data available, government guarantees decreased by EUR 89 million since the end of 2020 to EUR 4.99 billion by the end of March 2021.

Slovenia's debt-to-GDP ratio is smaller than the EU average ratio, while a one-year increase in debt up to the end of 2020 of 15.2 pps (of which 3.9 pps due to stock-and-flow adjustments, mostly pre-financing future liabilities) was higher than the EU average (13.2 pps of GDP) compared to the period before the start of the current crisis, which ranks Slovenia 9th among 27 EU countries. If stock-and-flow adjustments were excluded, Slovenia would rank 11th among EU countries in terms of debt increase. Eurostat data for the general government debt available up to the end of 2020 shows that the increase in the debt ratio was generally higher in countries with a high pre-crisis level of debt ratios. In addition to the nominal debt increase, the increase is also conditioned by the proportionally higher GDP drops during the crisis in these countries.

6. Macroeconomic trends and risks

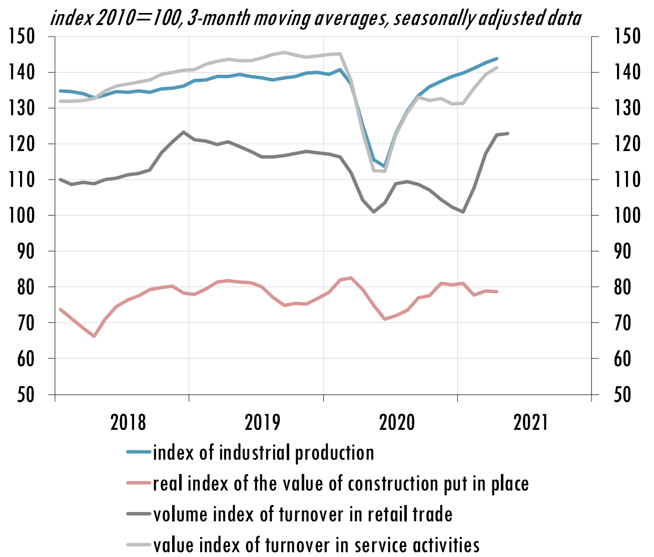
The outbreak of the pandemic together with the introduction and lifting of measures to contain the pandemic in 2020 caused a strong decline and fluctuations in economic activity. In the first half of 2021, uncertainties subsided, followed by rapid and more balanced growth. In the first quarter of this year, economic growth was relatively strong, with annual and quarterly dynamics of 2.3% and 1.4%, respectively, ranking Slovenia 4th and 11th respectively among the countries with the highest GDP growth in the EU. The average fall in economic activity by 6.1% (seasonally adjusted data) was close to the EU average last year. Slovenia ranked 10th among the EU-27 countries with the largest drop in GDP. According to the EC summer forecast, GDP in Slovenia is projected to grow by 5.7% in 2021 and by 5.0% in 2022, which is among the highest increases in EU countries. Despite favourable developments at the beginning of the year, the level of economic activity has not yet returned to pre-crisis levels of the end of 2019, with the exception of the exports of goods, government consumption

Gross domestic product



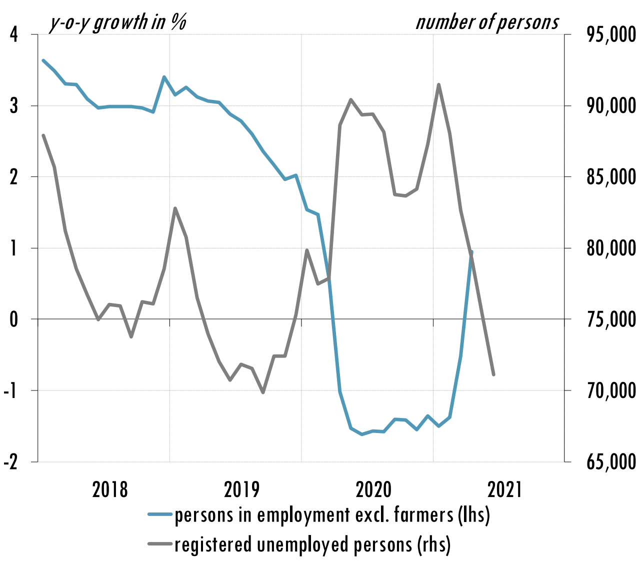
Source: SORS, FC calculations.

Activity indicators



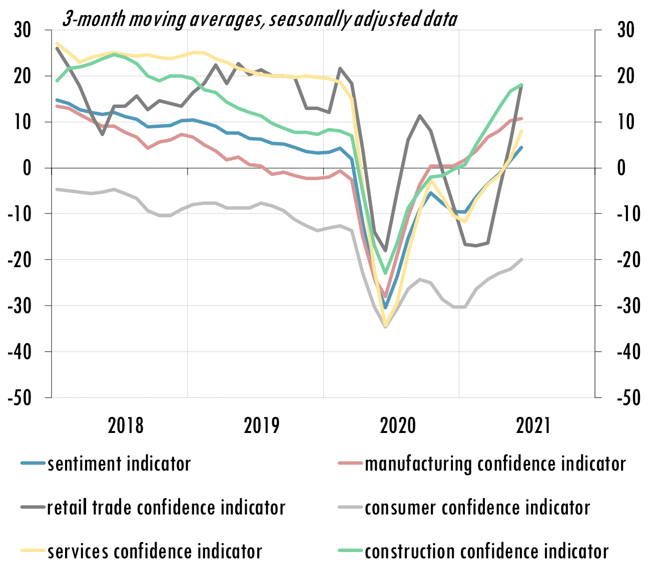
Source: SORS, FC calculations

Labour market



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

Business tendency and consumer surveys

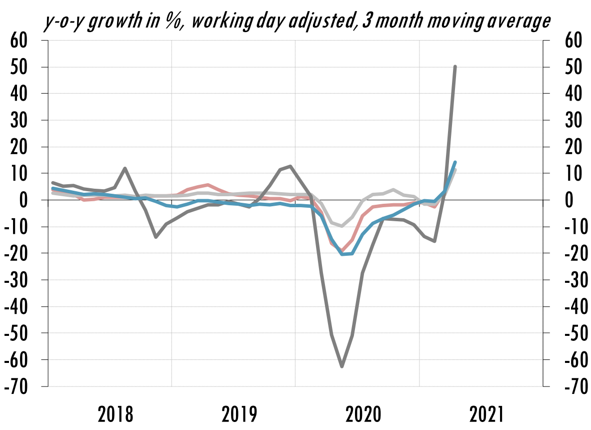


Source: SORS, preračuni FS.

and investment. Although the fall in exports of services in 2020 was about three times deeper than the fall in exports of goods and although the level of exports of services still lags behind that of the end of 2019, the quarterly dynamics of service exports has overtaken the dynamics of exports of goods at the end of last year and at the beginning of this year. At the beginning of 2021, investment in machinery and transport equipment and household consumption of durable products contributed the most to favourable GDP growth, while service-related consumption remained modest due to the persistence of some restrictive measures. Nevertheless, at the beginning of the year, and especially with the phasing out of restrictive measures, all confidence indicators, including in services, improved significantly in the spring. In particular, increased optimism in the retail trade sector stands out and construction sentiment has improved. All of this indicates a strong likelihood of further acceleration of economic growth in the second quarter of the year.

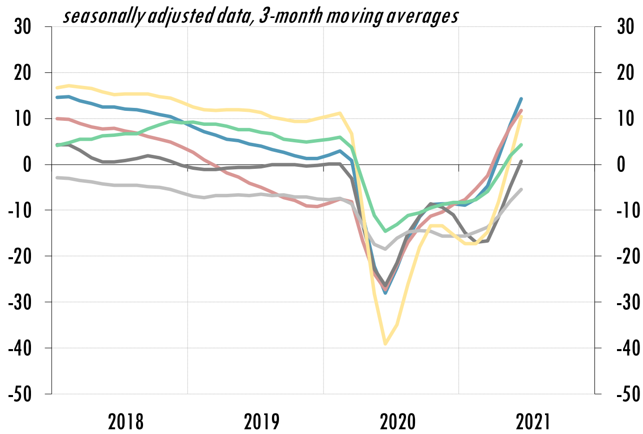
With such economic outlook, labour market conditions are also improving. At the beginning of the year,

Activity indicators - euro area



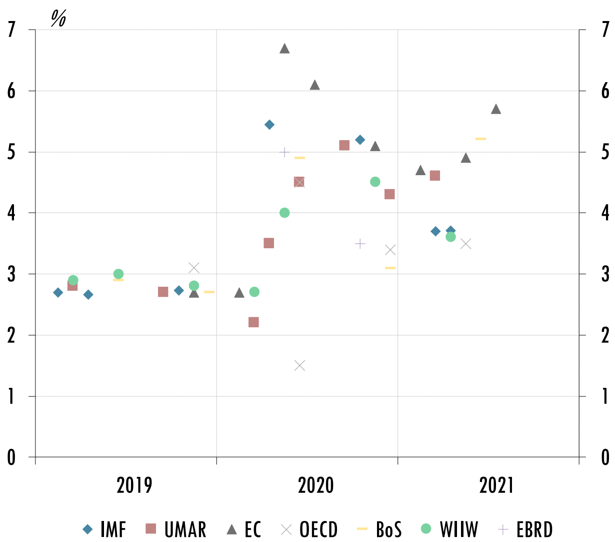
Source: Eurostat, FC calculations.

Business tendency and consumer surveys - euro area



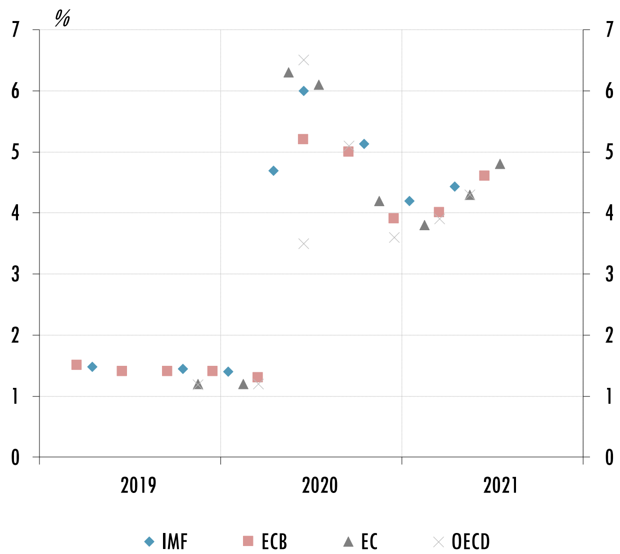
Source: Eurostat, FC calculations.

Real GDP growth forecasts for 2021 - Slovenia



Sources: IMF, IMAD, European Commission (EC), OECD, Bank of Slovenia (BoS), WIIW, EBRD.

Real GDP growth forecasts for 2021 - euro area



Sources: IMF, european Commission (EC), OECD, ECB.

the current growth in employment exceeded the long-term average, the number of unemployed was gradually decreasing after last year's rapid growth also due to the measures taken to limit the consequences of the epidemic, while the share of enterprises reporting shortages of (adequately skilled) labour force is on the rise in most activities. As indicated by a trend of increasing the proportion of the long-term unemployed among the unemployed, this may also reflect the structural change of the post-crisis economy. Although expectations of future employment developments in all activities are quite optimistic and, with the exception of retail trade, above or at least close to pre-crisis levels, it is the end of the period of validity of most of the measures that have limited the rise in unemployment during the epidemic which raises uncertainties about the future evolution of the labour market. According to Eurostat, the registered unemployment rate growth in Slovenia in the crisis was similar to those in the EU, while the unemployment rate among young people was twice as high as the EU average.

The updated macroeconomic forecasts for Slovenia for this year and next year are slightly more favourable than those at the end of last year and at the beginning of this year. With a relatively rapid recovery this year, GDP growth is expected to accelerate further next year. Probably due to the considerable uncertainty about the continuation of the epidemic and possible additional restrictive measures, the intervals between the latest forecasts of economic growth for this year are almost twice as large as the 2022 GDP growth projections. At the same time, there is a reversal in inflation forecasts, where expectations are turning upwards this year, although the outlook for price growth remains relatively low. 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 of economies pose an additional risk to projections. According to most of the currently available forecasts, the GDP and unemployment rate in Slovenia are expected to reach their pre-pandemic levels by the end of 2021 and in the first half of 2022, respectively.

As in Slovenia, in 2021 the situation is stabilising in major trading partners, although in the first quarter of the year the GDP in the euro area declined both quarterly and on a year-on-year basis. While most of the available euro area indicators indicate a relatively steady recovery by activity in the second quarter of the year, business tendencies indicators are already reaching pre-crisis levels in most activities.

Forecasts of the recovery in 2021 for major trading partners differ with regard to the scope of the pandemic and with regard to the nature of the adopted measures and also in view of the expected volume of funding for the recovery from EU instruments. According to the latest July EC forecast, GDP is expected to grow this year by 3.6% in Germany, 6.0% in France, and 5.0% in Italy. Relatively high growth is expected to continue in 2022, when GDP in all EU Member States is expected to exceed the pre-crisis level at the end of the year.