REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Assessment of budgetary documents for 2022 and 2023

(Proposal for the Ordinance amending the Ordinance on the framework for the preparation of the general government budgets for the 2022–2024 period, Proposal for the Amendment to the Budget of the Republic of Slovenia for 2022 and Draft Budget of the Republic of Slovenia for 2023)

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This assessment is based on the Proposal for the Amendment to the Budget of the Republic of Slovenia for 2022, the Draft Budget of the Republic of Slovenia for 2023, the Proposal for the Ordinance amending the Ordinance on the framework for the preparation of the general government budgets for the 2022–2024 period and the Draft Budgetary Plan for 2022 (all received between 30 September and 12 October 2021). Some forecast values in EUR were calculated indirectly from rounded proportions of GDP presented in the 2022 Draft Budgetary Plan, therefore certain items may not sum up. An expanded version of Chapter 4.1 of this document was published separately as a Fiscal Council's assessment: Fulfilment of conditions for the existence of exceptional circumstances in 2022, which the Fiscal Council submitted to the Government of the Republic of Slovenia on 23 September 2021. Data available up to and including 12 October 2021 were used.

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List of abbreviations

AF – IMAD autumn forecast

COVID-19 – coronavirus disease 2019

DBP – Draft Budgetary Plan

EC – European Commission

ECB – European Central Bank

ESA – European System of Accounts

EU – European Union

EUR – euro

FC – Fiscal Council

FRA – Fiscal Rule Act

GDP – gross domestic product

HP – Hodrick-Prescott

IMAD – Institute of Macroeconomic Analysis and Development

IMF – International Monetary Fund

MoF – Ministry of Finance

OECD – Organization for Economic Cooperation and Development

OG – Official Gazette of the Republic of Slovenia

PEPP – Pandemic Emergency Purchase Programme

p.p. – percentage point

SORS – Statistical Office of the Republic of Slovenia

SP – Stability Programme

SURE – The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency

VAT – value added tax

ZIUOOPE – Act Determining the Intervention Measures to Mitigate and Remedy the Consequences of the COVID-19 Epidemic

ZIUOPDVE – Act Determining the Intervention Measures to Mitigate the Consequences of the Second Wave of COVID-19 Epidemic

ZIUPOPDVE – Act Determining Intervention Measures to Assist in Mitigating the Consequences of the Second Wave of COVID-19 Epidemic

ZIUZEOP – Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy

ZJF – Public Finance Act

ZNUPZ – Healthcare Intervention Measures Act

ZZUOOP – Act Determining Temporary Measures to Mitigate and Remedy the Consequences of COVID-19

ZZZS – Health Insurance Institute of Slovenia

EXECUTIVE SUMMARY

The proposed budget documents set out an additionally stimulative fiscal policy for the coming years, over and above that included in the documents currently in force, although there are already signs of overheating in the economy, with supply-side constraints emerging. This increases the risk that the temporary exceptional increase in public spending, which was largely justified because of the epidemic, could turn into a structural and thus permanent deterioration of public finances. Fiscal policy should, to a greater extent than indicated in the budget documents, strike a balance between the need to create room for manoeuvre to cope with future crises, effective strengthening of long-term economic potential and resilience, and short-term economy boosting.

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The epidemic and the measures put in place to mitigate its effects are a key reason for the significant deterioration in public finances both last and this year. The measures imposed were similar to those in other countries and largely in line with the guidelines that they should be temporary and aimed at addressing the immediate effects of the epidemic. The large-scale package, amounting to around 5% of GDP per year, has made an important contribution to cushioning the fall in economic activity last year and to supporting the recovery this year. Nevertheless, the measures have revealed certain shortcomings, which also point to systemic weaknesses in the allocation of the otherwise large public funds available in a situation that allows budget users too much spending discretion.

The general government deficit, excluding expenditure on COVID-19 measures, is expected to increase significantly both this year and next as a result of expenditure growth. The projected increase in public investment contributes to this to a lesser extent than the increase in current expenditure, which should be limited in the face of a sharp increase in public debt due to the crisis. The deficit in 2023 is projected to be more than 3% of GDP if the budget documents materialise.

The growth in current expenditure, excluding measures to mitigate the effect of the epidemic and investments, is expected to be well above the long-term average this year and next. The proposed expenditure levels in 2022, following the expected lower actual outturn this year, will show higher growth than would be justified by the legislation currently in force. Such fiscal planning opens the way for measures to be taken in the final phase of the policy cycle, which could lead to inefficient spending or a structural deterioration of the public finances. The planned deficit reduction in 2023 will be mainly due to the projected reduction in current expenditure growth, despite the insufficient presentation of the measures to ensure this. Growth in this expenditure in 2023 is projected to be well below the long-term average. While the high investment spending is to be retained, the projection of very low increase in compensation of employees and the unchanged level of expenditure on social benefits stand out in particular.. Indicative estimates suggest that, if all plans are implemented, general government expenditure will remain above the level allowed by the fiscal rules in 2022. In 2023, the projected levels are partly appropriate, but with insufficiently specified policies for that year.

If well targeted and implemented effectively, public investments can make an important contribution to kick-starting the economy in the short term and to building resilience and increasing economic potential in the long term. According to the submitted budget plans, the level of general government investment is set to rise to around 6.5% of GDP over the next two years, which is well above its highest level ever. The decrease in the outturn estimate for this year confirms the Fiscal Council's previous assessment that the plans in this area exceed the absorption capacity of the economy and the administration. If plans are to be implemented in full, the risk of inefficient project implementation and also of creating macroeconomic imbalances increases. The Fiscal Council assesses that it would make sense to give priority to projects financed by EU grants, where control over the efficiency of spending is also stricter. The domestically-funded investments should, however, be more closely aligned with cyclical conditions and the absorption capacities of the economy.

The excessive general government debt is only expected to decline in line with the rules in 2023 and 2024, remaining well above the 60% of GDP threshold. The favourable macroeconomic outlook and the high liquidity of the state budget, combined with more moderate expenditure growth than currently projected, would allow for a faster reduction of debt without jeopardising the economic recovery. The level of debt achieved and the increased possibility of a reversal of the highly accommodative monetary policy, which is a key contributor to the current low financing costs, suggest that in future there will be no additional room for fiscal policy created based on lowering interest expenditure.

Macroeconomic risks are predominantly concentrated on the downside, which, in addition to the epidemic, is mainly related to institutional and logistical constraints in international trade, which are currently also reflected in high prices of commodities. Risks to the realisation of the fiscal scenario are more balanced mainly due to the probably overestimated investment projections as well as current spending.

In September 2021, the Fiscal Council assessed that, based on currently available information and forecasts, the conditions for the existence of exceptional circumstances will continue to be met in 2022. The Fiscal Council expects that, once none of the conditions for invoking exceptional circumstances is met any longer, the Government will immediately adhere to the implementation of the correction mechanism in accordance with the legislation.

Legislative framework

On 30 September 2021, the Government of the Republic of Slovenia (hereinafter: Government) submitted to the Fiscal Council the Proposal for the Ordinance amending the Ordinance on the framework for the preparation of the general government budgets for the 2022–2024 period (hereinafter: Framework Proposal), the Proposal for the Amendment to the Budget of the Republic of Slovenia for 2022 and the Draft Budget of the Republic of Slovenia for 2023, together with related documents (hereinafter: Draft Budgets). The Ministry of Finance and the Fiscal Council have concluded a memorandum of understanding,[1] which provides for supporting documentation that should accompany budget documents, which are to be sent by the Ministry of Finance to the Fiscal Council. The supporting documentation was sent by the Ministry of Finance to the Fiscal Council between 1 and 4 October 2021. The projections of the general government balance in the Draft Budgetary Plan for 2022 (hereinafter: DBP22) according to the ESA2010 methodology were sent by the Ministry of Finance to the Fiscal Council on 1 October 2021 and the document itself on 12 October 2021. Pursuant to Articles 2 and 3 of the Fiscal Rule Act (hereinafter: FRA), compliance with fiscal rules is assessed with respect to the entire general government sector, so that the projections under the ESA 2010 methodology provide the basis for an overall assessment of compliance with fiscal rules and of the fiscal policy stance in the Draft Budgets.

Pursuant to Article 28 of the Public Finance Act (ZJF), the Government is required to submit a budget proposal to the National Assembly of the Republic of Slovenia by 1 October. If, upon submitting budget documents or their amendments, the Government finds there has been a change in the circumstances on the basis of which the framework was adopted, it must also submit a framework amendment to the National Assembly and the Fiscal Council. Pursuant to Article 9f of the Public Finance Act (ZJF), the Fiscal Council must submit the assessments of compliance with fiscal rules, stated in the aforementioned documents, to the National Assembly and the Government:

- no later than by 20 October for the Draft Budgets, and
- no later than within 15 days for the Framework Proposal after receiving it.

On 23 September 2021, the Fiscal Council presented its finding on the existence of exceptional circumstances in 2022. Pursuant to Article 12 of the FRA, the Government shall determine whether exceptional circumstances have arisen or have ceased to exist after obtaining the assessment of the Fiscal Council. In the present document, the Fiscal Council, in line with the existence of exceptional circumstances, provides assessments of the compliance of fiscal developments presented in the Draft Budgets and in the Framework Proposal with the fiscal rules in accordance with points 2 or 8 of paragraph two and points 2 or 5 of paragraph three of Article 7 of the FRA. As a result of declaring exceptional circumstances in March 2020, the implementation of the medium-term balance, as specified in Article 3 of the FRA, is assessed merely indicatively.

[1] Available at: https://www.fs-rs.si/fiscal-council/co-operation/.

1. Macroeconomic conditions and forecasts

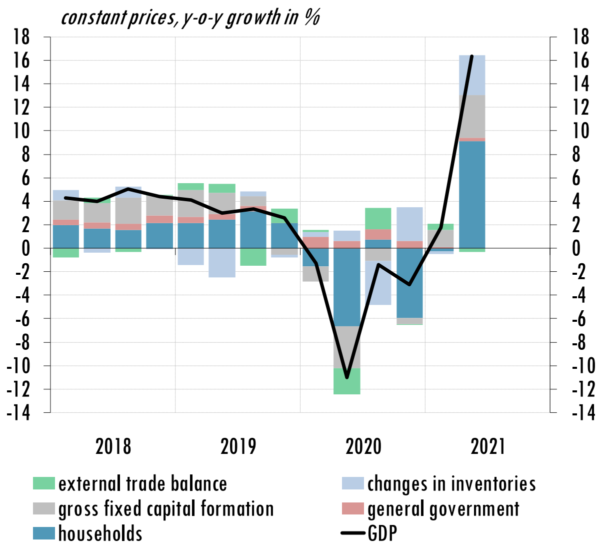
Key findings

- Economic activity is expected to exceed the pre-crisis level already this year, mainly due to a relatively rapid recovery in the first half of the year.
- Over the next two years, assuming the epidemic is contained, economic growth is expected to continue at a slightly slower pace.
- The tax bases trends are projected to be much more favourable in the 2021-2023 period compared to the previous forecast.
- According to currently available estimates, the output gap is projected to be positive over the period covered by the Draft Budgets, while some indicators already suggest some supply-side constraints.

1.1 An overview of macroeconomic conditions and forecasts

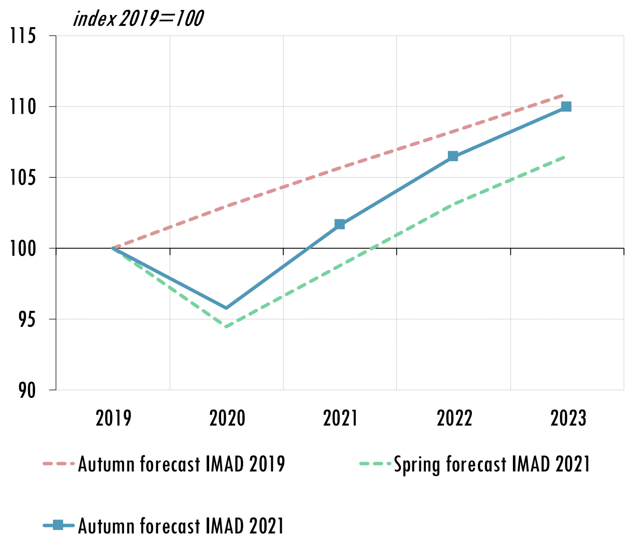
Economic activity is expected to exceed the pre-crisis level this year already, mainly due to a relatively rapid recovery in the first half of the year. According to IMAD's Autumn Forecast[2], real GDP is projected to increase this year by 6.1% and by 7.3% at current prices. Due to a smaller decline last year compared to the first release[3] and a higher growth forecast for this year, GDP is expected to exceed the 2019 pre-crisis level as early as this year, despite an expected slowdown in growth in the second half of the year. The recovery had already started at the end of last year, with

Figure 1.1: Gross domestic product - expenditure structure



Source: SORS, FC calculations.

Figure 1.2: Real GDP



Source: SORS, IMAD, FC calculations.

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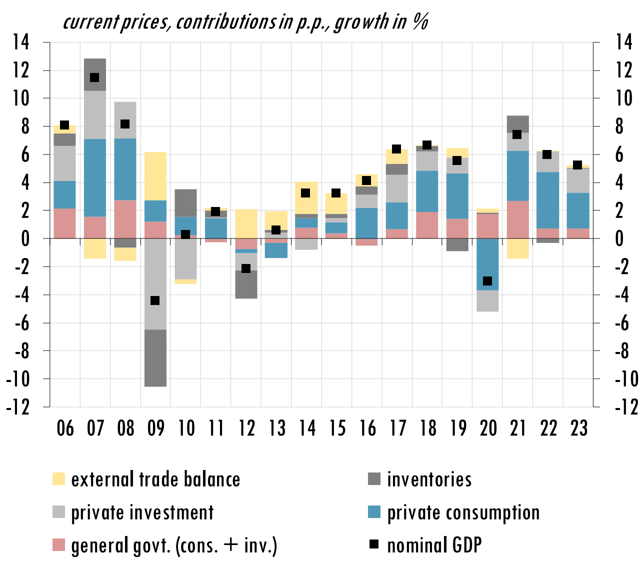
[2] IMAD (2021a). The forecasts of IMAD constitute the basis for the budgetary planning in accordance with the Decree on development planning documents and procedures for the preparation of the central government budget and local government budgets (Official Gazette of the Republic of Slovenia, Nos 44/07 and 54/10).

[3] In 2020, real GDP fell by 4.2% according to the last release from the Statistical Office, which is much less than the 5.5% drop that had been initially reported. After Ireland, this is the second largest revision of GDP in the EU. GDP in current prices stood at EUR 46,918 million last year, which is EUR 621 million more than previously reported, mainly due to a small drop in private consumption.

the recovery of foreign demand and the adjustment of the export-oriented sector of the economy to restrictive measures. The first half of this year saw a rebound in investment in equipment and machinery, and in particular in private consumption, while the restrictive measures to contain the epidemic were eased in the spring months. In the second quarter of this year, these consumption aggregates were already above or very close to their 2019 levels. Despite this year's rebound, household consumption remains an exception, which lags behind year-end 2019 levels by around 3%. The Government is expected to make a significant contribution to GDP growth this year as well, thanks to the continued growth in spending and, in particular, to the projected significant increase in investment activity.[4] According to IMAD's forecast, economic growth is projected to slow somewhat in the second half of this year. This is expected to stem from the moderation in the growth of the export-oriented sector of the economy due to barriers in global supply chains, more subdued growth in domestic consumption and due to uncertainties brought by the epidemic. The relatively rapid recovery in economic activity this year has also been reflected in an improvement in labour market conditions. The number of people in employment is projected by IMAD to exceed the 2019 level already this year, while the unemployment rate is expected to be very close to the pre-crisis level. Average inflation is expected to be at a similar level as in the three years preceding the crisis and driven mainly by rising energy and food prices.

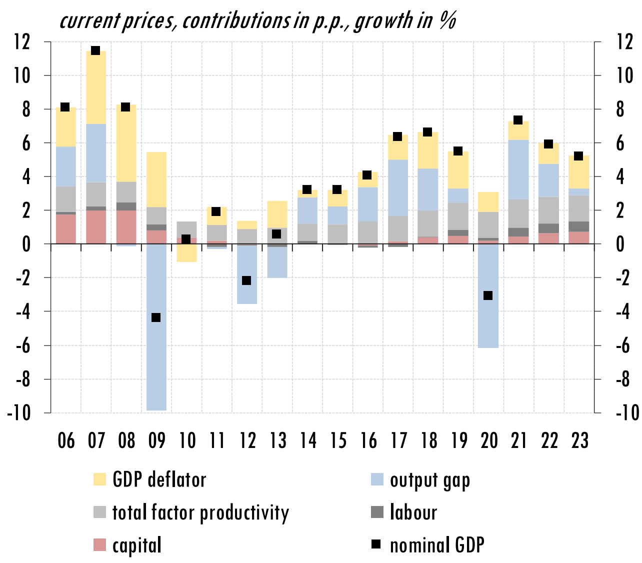
Over the next two years, assuming the epidemic is contained, economic activity growth is expected to continue at a slightly slower pace. Real GDP growth is projected to average 4.0% over the next two years, slightly higher than during the recovery period after the banking bailout. Private consumption is expected to make a key contribution to economic growth provided the epidemic is contained. Given the anticipated slowdown in disposable income growth, its growth is expected to stem mainly from a reduction in the savings rate, which increased significantly last year.[5] The growth in investment activity, which is projected to be largely driven by construction investment, is expected to continue. While export growth is forecast to moderate somewhat, it will nevertheless exceed the estimated growth in foreign demand and will be similar on average over the next two years to that of

Figure 1.3: Demand factors and GDP



Source: SORS, IMAD, FC calculations.

Figure 1.4: Supply factors and GDP



Source: SORS, IMAD, FC calculations.

[4] According to the IMAD projections, the direct contribution of government consumption and investments to nominal GDP growth is estimated to be around one third or 2.5 percentage points.

[5] See Box 2 in IMAD (2021a), pp. 22-24.

the years preceding the epidemic. Next year, as the recovery continues, service industries, which have been hardest hit by the epidemic, are also expected to reach their pre-crisis level of activity. The exception is tourism-related services, where recovery is expected to be slower. The direct contribution of government consumption and government investment to growth over the next two years is projected to decline slightly, while remaining at high levels. The latter would make sense in view of a broad-based economic recovery in terms of the counter-cyclical fiscal policy. The IMAD forecast thus shows that, with the opening of the positive output gap, cyclical momentum will be a key driver of economic growth next year, which is projected to run out of steam by 2024, given the projected slowdown in economic growth. With investment expected to pick up, the contribution of capital will be higher than in the years before the epidemic, but still lower than in the period before the economic and financial crisis a decade ago. In conjunction with the anticipated increase in the participation rate, especially among the older population, and the assumption of net inflow of labour force, the contribution of labour is also expected to be higher than before the current crisis. Nevertheless, unfavourable demographic trends are projected to continue and limit labour supply in the future. The contribution of total factor productivity will remain significant and similarly high as before the epidemic. The contribution of prices to nominal GDP growth is also expected to be higher towards the end of the projection period, as inflation is expected to pick up gradually in the coming years, increasingly driven by higher prices for services and non-energy goods.

After decreasing considerably last year, key tax bases[6] in the 2021–2023 period are expected to increase similarly to or slightly less than they did in the years before the crisis. Annual GDP growth in current prices is projected to average 6.2% in the projection period of the DBP 2022 (hereinafter: DBP22), higher than in the recovery period after the banking bailout (2014-2019). In total, nominal GDP is projected to increase by EUR 9.2 billion over the three years up to and including 2023. Growth in domestic and private consumption in current prices is projected to be even slightly higher (7.2% and 6.7% on average respectively) and also above the average growth in the years before the epidemic. The only tax base that did not decrease last year is employee compensation. Its average growth in the DBP22 projection period (4.0%) will be lower than before the crisis, mainly due to the projected slower employment growth in the projection period. Intervention measures and the related methodological peculiarities in the calculation of average gross salaries have an important impact on the tax base for the calculation of revenue from social contributions.[7] As a consequence, the calculation of the effective contribution base deviates slightly from the normal one, while its growth is expected to average 5.0% over the projection period.[8] Growth in the net operating surplus is projected to be around half of the pre-crisis level in the 2021–2023 period, largely as a result of the projected stagnation in the coming year.

1.2 Assessment of the cyclical position of the economy

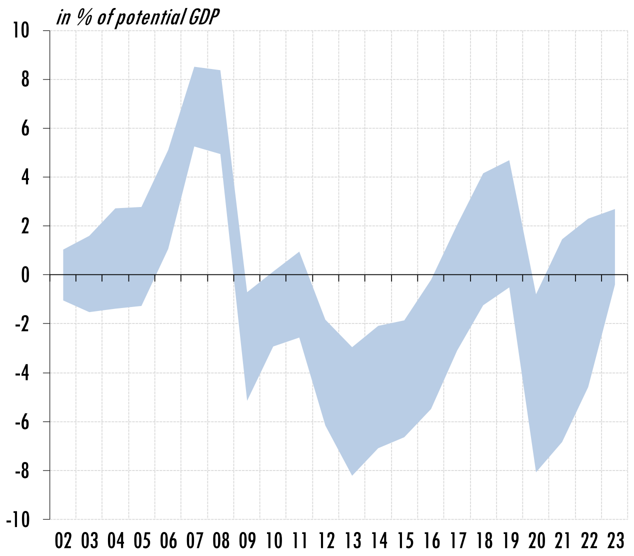
Based on available estimates the Fiscal Council assesses that the output gap of the Slovenian economy in the 2022–2023 period will be positive. According to currently available estimates, the negative output gap created during the crisis is projected to close relatively quickly, as aggregate demand growth is expected to significantly outpace the currently estimated growth in economic potential. The rapid closing of the negative output gap also reflects that the 2020 shock is not

[6] Tax bases such as listed by the Ministry of Finance (2019).

[7] For more information, see Box 1 in IMAD (2021b).

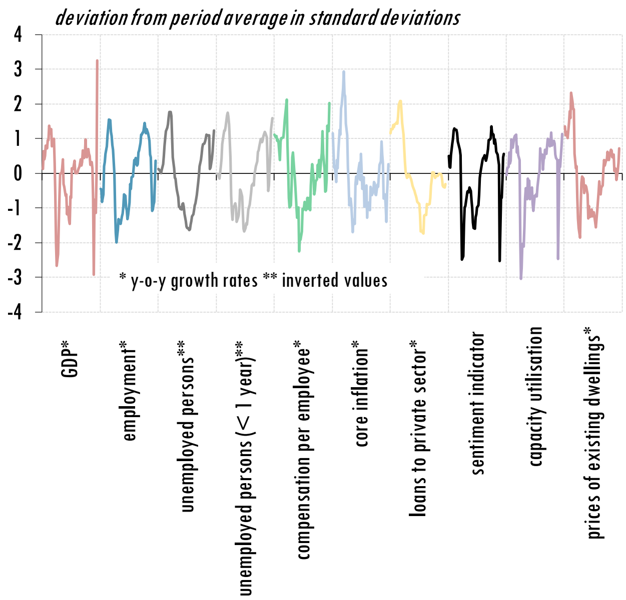
[8] See IMAD (2021a), p. 33.

Figure 1.5: Output gap estimate range



Source: IMAD, EC, OECD, IMF, DBP22, FC calculations. See note under Table 5.1.

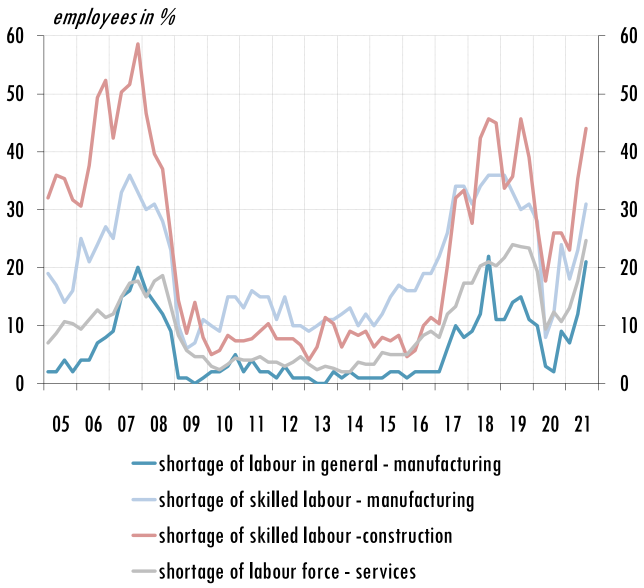
Figure 1.6: Indicators of economic cycle dynamics 2005-2021



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

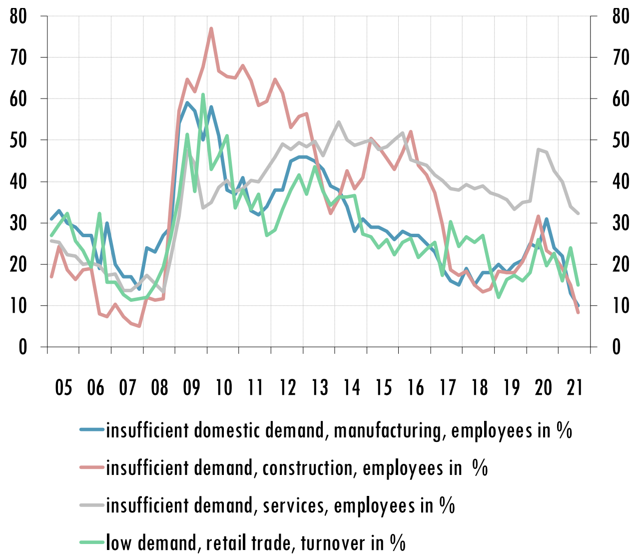
expected to have lasting negative consequences for economic activity. According to currently available calculations, the output gap is expected to be positive on average over the period covered by the Draft Budgets, but according to most estimates it is expected to remain below the 1.5% threshold which, according to the EC methodology, demarcates the area of the normal period of the business cycle from the "good times", which mark the overheating of the economy.[9] However, it is also worth noting that some current estimates already point to a transition to a high cycle in 2022. At the same time, the width of range of available output gap calculations for the average of 2022 and 2023 is similar to that of the long-term average, despite the current situation of heightened uncertainty.

Figure 1.7: Business tendency - limiting factors: labour



Source: SORS, FC calculations.

Figure 1.8: Business tendency - limiting factors: demand



Source: SORS, FC calculations.

[9] The EC defines normal times as a period in which the output gap estimate is between –1.5% and 1.5% of potential GDP, while good times are defined as a period in which the output gap estimate exceeds 1.5% of potential GDP (European Commission (2019). The requirements for structural efforts or regarding progress towards the medium-term fiscal objective as determined by the EC also depend on the definition of the economic cycle period in the absence of exceptional circumstances.

Having examined a wide range of indicators monitored by the Fiscal Council in order to determine the state of the economic cycle, the Fiscal Council assesses that this year the economy has recovered rapidly from a major shock at the beginning of last year and that there are some indications of emerging supply-side constraints. In addition to the recovery, most available indicators this year also point to a narrowing of the differences in the scope of the recovery between different activities. The epidemiological situation maintains uncertainty that could slow down the recovery at the end of the year, although measures to restrict individual activities are not expected at this point in time. The values of most indicators have already exceeded their long-term averages this year. This primarily applies to indicators of economic growth, employment, economic sentiment and production capacity utilisation. In this context, supply-side constraints are increasingly evident, notably in the labour market, as companies point to a shortage of (adequately skilled) workers. Nevertheless, according to IMAD's Autumn Forecast, no significant pressures on salary growth are expected in the period of relatively rapid economic recovery over the next two years. The same applies to inflation, which is expected to remain moderate, although the surplus in the current account of the balance of payments should decline slightly in the coming years as high private sector savings decrease gradually. According to the currently available indicators, the crisis had the least impact on real estate and financial markets. Real estate price growth has slowed down in light of the crisis, but is again exceeding its long-term average. By contrast, the growth in loans to the private sector, which was already slightly below the long-term average before the crisis, has remained almost unchanged both during the crisis and during the ongoing exit from the crisis.

1.3 Comparison of macroeconomic scenarios of the Stability Programme 2021 and the Draft Budgetary Plan 2022

The differences between the macroeconomic scenarios of the Stability Programme 2021 (SP21)[10] and the DBP22[11] are mainly due to a faster and more significant recovery in economic activity this year. IMAD's Spring Forecast was prepared in view of tight restrictive measures still in place and a renewed escalation of the epidemic. Access to vaccines and the easing of the epidemic resulted in a relatively rapid rebound in economic activity in the months following the forecast, which formed the basis for the drafting of the SP21. At the same time, in its first annual assessment at the end of August, the Statistical Office of the Republic of Slovenia (hereinafter: Statistical Office) revised up significantly the figure of the GDP drop in last year, and the assumptions about foreign demand also improved considerably. These factors have mainly resulted in a higher economic growth forecast for this year,

Table 1.1: IMAD forecasts

	2021			2022			2023		
	Mar.21	Sep.21	*diff.*	Mar.21	Sep.21	*diff.*	Mar.21	Sep.21	*diff.*
Real GDP, change in %	4.6	6.1	*1.5*	4.4	4.7	*0.3*	3.3	3.3	*0.0*
Nominal GDP, EUR million	48,453	50,364	*1,911*	51,345	53,352	*2,007*	54,026	56,136	*2,110*
Private consumption, EUR million	23,823	25,236	*1,413*	25,230	27,274	*2,044*	26,411	28,648	*2,237*
Compensation of employees, EUR million	25,793	26,608	*816*	26,673	27,646	*974*	27,782	28,854	*1,071*
Inflation-average, %	0.8	1.4	*0.6*	1.2	2.0	*0.8*	1.7	1.9	*0.2*

Source: IMAD, FC calculations.

[10] The fiscal projections of the SP21 (April 2021) are based on the Spring Forecast of Economic Trends 2021 by IMAD (March 2021).

[11] The fiscal projections of the DBP22 (October 2021) are based on the Autumn Forecast of Economic Trends 2021 (September 2021).

while expectations for the next two years have not changed significantly. The change in the expected dynamics of the economic recovery has also implications for the projections of tax base levels. GDP in current prices will thus be on average around EUR 2 billion higher annually in the 2021-2023 period than in the spring forecast, while domestic consumption will be nearly EUR 3 billion higher. All other tax bases trends, with the exception of the net operating surplus, are also expected to be more favourable than in the spring forecasts.

2. Fiscal conditions and forecasts

Key findings

- The Ministry of Finance's assessment of the state budget outturn for 2021 does not provide an adequate basis for assessing the dynamics of fiscal aggregates in the projections for the next two years. The Fiscal Council assesses that this year's expenditure growth in particular is likely to be lower than projected. As a result, projections for the 2022 levels could show much higher growth than is already the case now, once the actual outturn for this year is known.
- Without taking into account the measures to mitigate the effects of the epidemic, the deficit is projected to increase by around EUR 700 million next year and is also expected to be higher in 2023 than this year. This is only partly due to the projected further increase in investment expenditure, as growth in other expenditure is also expected to be relatively high.
- The projections for investment spending in the coming years have been further increased relative to the budget documents currently in force, although the already reduced estimate of the outturn for this year confirms the Fiscal Council's assessment that they were overly optimistic.
- The growth in current spending, excluding measures to mitigate the effect of the epidemic and investments, is expected to be well above the long-term average in 2021 and 2022.
- The projected deficit reduction in 2023 without the adoption of discretionary measures is not based on realistic projections of spending, which are expected to be significantly below the long -term average.
- Following a significant increase during the crisis, the general government debt-to-GDP ratio is expected to slightly decline by the end of 2024 (to stand at 74.8% of GDP), but it will nevertheless remain much higher than before the crisis.

2.1 Assessment of the projected revenues and expenditures in the Draft Budgets

This year's projected increase in the government budget deficit will mainly result from increased expenditure on the COVID-19 measures, while growth in current expenditure, excluding this effect and investment expenditure, is expected to be the highest ever. When presenting its proposal for the amendment to the 2021 Framework, the Government estimated the state budget deficit this year at EUR -3,958 million (7.9% of the projected GDP), which is EUR 1,212 million more than under the current budget for this year and EUR 472 million (0.5% of GDP) more than in 2020. The key reason for the deterioration is the increase in expenditure related to COVID-19, which the Ministry of Finance estimates at EUR 2,813 million this year, which is EUR 2,038 million more than under the current budget for this year and EUR 809 million more than last year. The deficit, excluding the direct effect of expenditure on the COVID-19 measures, is therefore expected to amount to EUR -1,146 million this year (2.3% of GDP), which is EUR 827 million less than under the current budget for this year and EUR 337 million less than last year. The key reason for the estimated improvement in the balance, which does not take into account the direct effect of expenditure on the COVID-19 measures, is the high

Table 2.1: State budget expenditure in 2021

	EUR million						change in %					
	I-IX 21			X-XII 21 (implicit)			total			excl. COVID		
	skupaj	COVID	brez COVID	skupaj	COVID	brez COVID	I-IX 21	X-XII 21	2021	I-IX 21	X-XII 21	2021
Total labour costs*	3,275	656	2,619	1,234	254	980	25.5	47.2	30.8	8.1	18.2	10.7
Transfers to individuals and households	2,029	878	1,150	536	43	493	38.1	7.9	30.4	-2.9	24.1	3.9
Expenditure on goods and services*	980	183	797	455	35	419	16.2	-2.4	9.6	6.9	5.5	6.4
Investment	629	17	612	932	31	901	50.1	89.4	71.3	46.5	91.1	70.2
Current transfers to social security funds	1,115	1	1,114	445	3	442	4.9	30.7	11.1	11.8	62.4	22.7
Subsidies	677	411	266	269	12	257	-41.3	10.1	-32.3	-8.7	81.0	20.8
Interest	633	0	633	124	0	124	-6.7	32.5	-2.0	-6.7	32.5	-2.0
Payments to the EU budget	440	0	440	172	0	172	17.8	12.9	16.4	17.8	12.9	16.4
Other	642	177	465	400	111	289	50.1	-0.7	25.5	37.6	-19.5	8.2
TOTAL EXPENDITURE	**10,419**	**2,324**	**8,095**	**4,566**	**489**	**4,078**	**15.3**	**29.5**	**19.3**	**8.7**	**31.0**	**15.3**

*Source: MoF, FC calculations. **ncluding transfers to public institutions for this purpose.*

revenue growth associated with the recovery in economic activity. Expenditure, excluding the effect of the COVID-19 measures, is expected to be EUR 521 million lower this year than under the current budget, but EUR 1,613 million higher than last year. This would represent a growth of 15.3%, which is significantly higher than the long-term average.[12] The same is true even if we further exclude investment expenditure, which the government stresses is a key priority in consolidating the economic recovery. Current expenditure, which excludes the COVID-19 measures and investment, is projected to increase by as much as 10.2% this year.

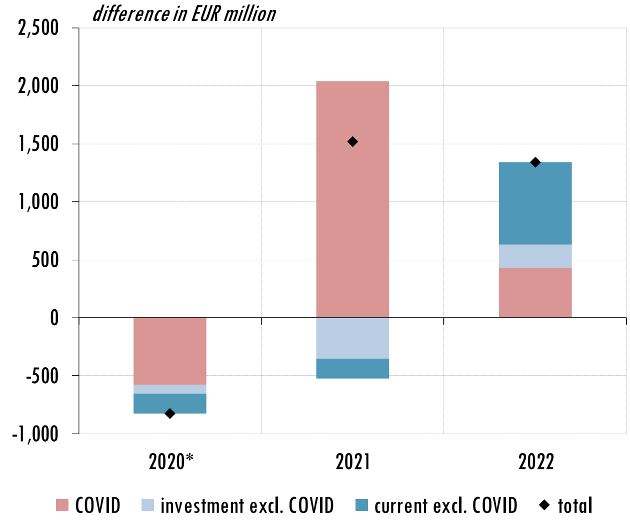
The estimate of the state budget outturn for 2021 does not provide an adequate basis for assessing the dynamics of fiscal aggregates in the projections of the Draft Budgets for the next two years.[13] The outturn estimate for 2021 shows that year-on-year expenditure growth, which excludes expenditure relating to COVID-19, is expected to accelerate significantly over the last three months of this year. After year-on-year growth in the first nine months stood at 8.7%, it is expected to pick up to as much as 31.0% in the last three months, and from 6.5% in the first nine months to 20.2% at the end of the year if investment expenditure is also excluded. Based on the long-term average share that spending in the last three months of the year represents in year-round consumption, which makes it possible to take into account seasonal expenditure dynamics, we estimate that, excluding the effect of the COVID-19 measures, expenditure is overestimated by around EUR 700–900 million in the estimate of this year's outturn. As a consequence, if the revenue estimates were to be realised, the deficit would be significantly lower than the government's current estimate. The Fiscal Council made a similar observation last year in assessing the 2020 revised budget,[14] when it turned out at the end of the year that the expenditure in the revised budget was overestimated by around EUR 800 million. Since the Government did not prepare a revised budget for this year, in which it could adjust the commitment appropriations not related to COVID-19 measures to lower actual spending than that foreseen under the current budget for 2021, the projections of the level of budgetary expenditure for

[12] Over the 2006-2019 period, expenditure growth averaged 2.4%, excluding investment expenditure of 2.3%. Growth peaked at 9.3% in 2009, i.e. 9.0% excluding investment expenditure.

[13] For a more detailed analysis, see the Fiscal Council's assessment of the framework for drafting general government budgets for 2021. Available at: https://www.fs-rs.si/wp-content/uploads/2021/10/Assessment_October2021.pdf

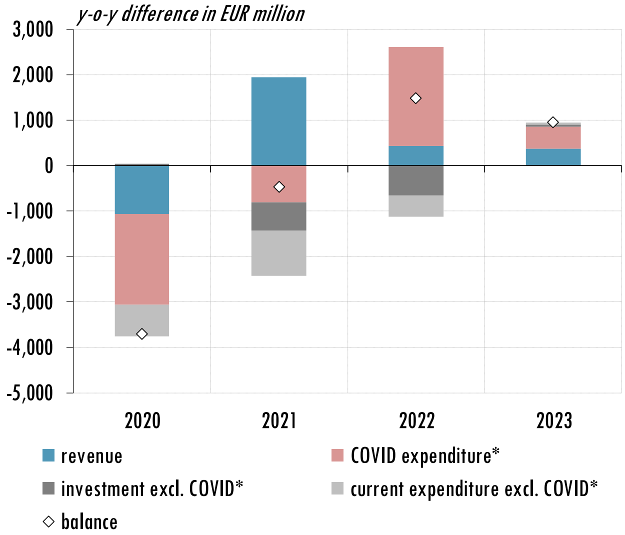
[14] The Assessment is available at: https://www.fs-rs.si/wp-content/uploads/2020/09/Assessment.pdf.

Figure 2.1: Comparison of proposed state budget expenditure in October 2020 and October 2021



*Source: MoF, FC calculations. Note: *difference between outturn and revised budget for 2020.*

Figure 2.2: Factors of state budget change

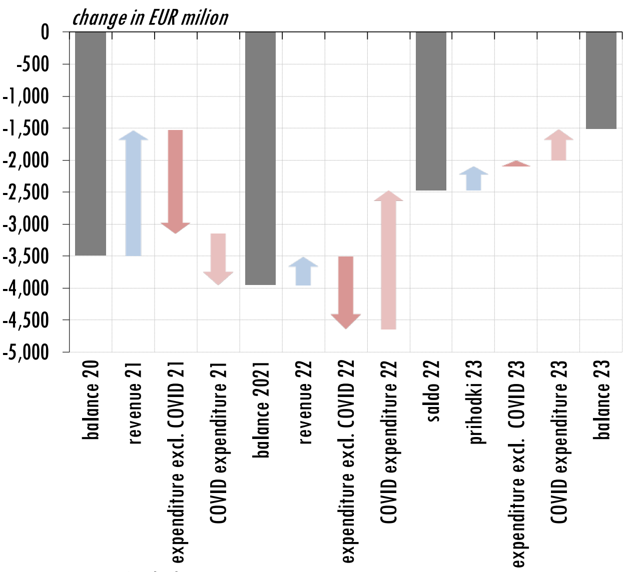


*Source: MoF, FC calculations. Note: *Positive sign denotes decrease, negative sign denotes increase.*

2022, given the known actual outturn for this year, will show a higher growth than is currently the case. Such fiscal planning opens the way for measures to be taken in the final phase of the political cycle, which may lead to inefficient spending or a structural deterioration of the public finances.

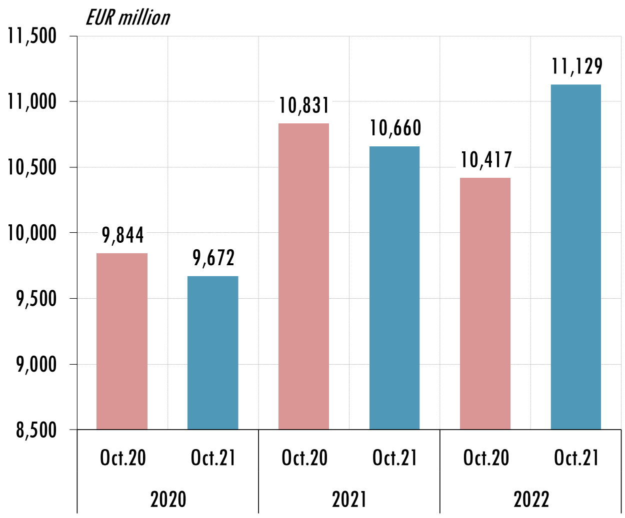
The state budget deficit is expected to decrease next year, however, if expenditure on the COVID-19 measures are excluded, the deficit is projected to increase by around EUR 700 million. The total deficit should decrease to EUR 2,472 million next year (4.6% of the projected GDP), which is EUR 879 million more than under the current budget, but EUR 1,486 million less than estimated for 2021. The key reason for its decrease is the projected expenditure on the COVID-19 measures, which is budgeted at EUR 2,173 million less than this year. The deficit, net of expenditure on the COVID-19 measures, which gives a more relevant picture of fiscal developments, is expected to amount to EUR 1,832 million next year. This is EUR 450 million more than under the current budget and EUR 686

Figure 2.3: Factors of state budget balance change 2020–2023



Source: MoF, FC calculations.

Figure 2.4: Current state budget expenditure excluding COVID-19 related measures*



*Source: MoF, FC calculations. Note: *Current expenditure does not include investment expenditure.*

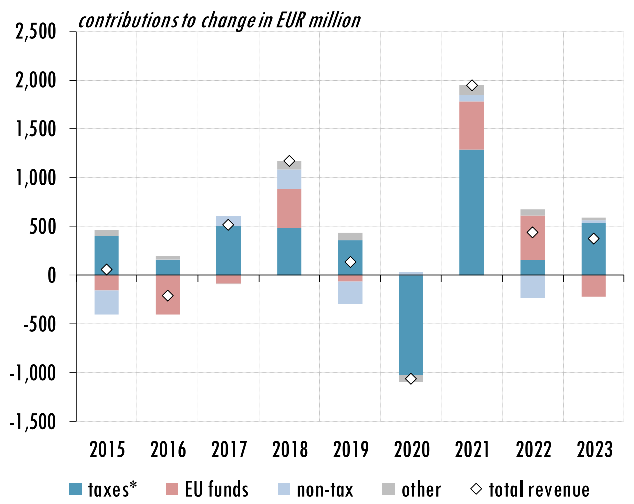
million more than estimated for this year. The deterioration is expected despite the projected continued growth in revenue in view of higher levels of tax bases, as non-epidemic expenditure is projected to increase significantly. The level of expenditure next year is projected to be as much as EUR 1,342 million higher than under the current budget and EUR 1,127 million or 9.3% higher than the estimated level for this year, which, according to the Fiscal Council assessment, is too high. At the same time, investment expenditure is expected to increase by a further EUR 658 million compared to this year, although the Ministry of Finance had already indicated its planning was over-optimistic when preparing the 2021 outturn estimate, reducing the estimate by EUR 460 million compared to the current budget. The level of current expenditure, which excludes the COVID-19 measures and investments, is thus projected to increase by a further EUR 470 million next year, following the extremely high growth projected for this year. In 2023, with a further revenue growth and a fall in expenditure, which the Fiscal Council assesses as not entirely realistic in the absence of measures, the deficit is expected to decrease. Excluding expenditure on the COVID-19 measures, the deficit is projected at EUR 1,359 million, which is around EUR 200 million higher than the deficit estimated for this year. Taking into account the projected reduction of investments in 2023, even a deficit determined in that manner would increase compared to 2022.

After a significant increase in 2021, revenue growth is expected to be slightly more modest over the next two years. Revenue is estimated to increase by 21.5% this year, reflecting the low base from last year, the relatively rapid rebound in economic activity, and the resulting high inflows of tax revenues. Taking into account the outturn in the first nine months of this year, we assess that the annual estimate is reasonably realistic, although with a different growth structure than estimated by the Ministry of Finance. In particular, similarly to last year, we expect revenue from the EU funds to be lower than the outturn estimate, although it is already EUR 414 million lower than under the current budget. The projected continuation of the economic recovery over the next two years will have an impact on an increase in tax revenues, in particular from VAT. The dynamics of income tax revenue will be affected by a larger settlement in the coming year as a result of repayments of overpaid advance income tax on benefits from the risk allowance.[15] Corporate income tax revenue is expected to decrease slightly next year, largely due to the high base from this year, which is partly the result of the high settlement for last year. We estimate that revenues could be higher than the current estimates, once data on the actual performance of companies this year are known. Non-tax revenues are expected to fall significantly next year. This will mainly be due to the base effect, after it had increased significantly this year due to the one-off revenue from the concession granted to 5G network operators. Revenue from treasury operations is also forecast to be lower than this year.

A key driver of the expected growth in total revenue in the Draft Budgets is the projections of EU funds received. After a significant increase this year, which we still assess as overestimated despite the reduction in the estimate of the outturn compared to the current budget, these are expected to increase further next year and average more than EUR 1.5 billion per year in the 2022–2023 period. The high level of EU funds foreseen is mainly due to the conclusion of the 2014-2020 financial framework. At the beginning of the second half of 2021, the gap between decisions on support and disbursements from the state budget stood at around EUR 1.6 billion, which is therefore still available until the end of 2023. At this point, it should be noted that cohesion policy funds are also being used to finance measures to tackle the effects of the epidemic. In addition, the next year's state budget

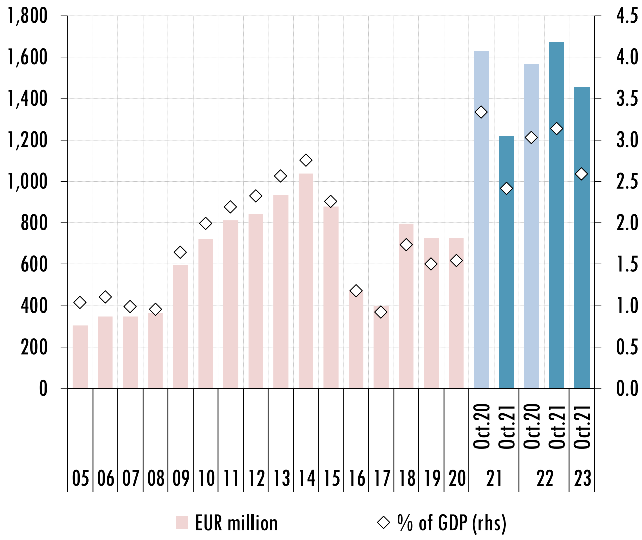
[15] The Ministry of Finance estimates that the repayment of the overpaid advance payment for benefits under the risk allowance pursuant to Article 123 of the Act Determining the Intervention Measures to Mitigate the Consequences of the Second Wave of COVID-19 Epidemic (ZIUPOPDVE) will amount to EUR 54 million in 2021 and EUR 93 million in 2022. As a result, the settlement in 2023 will be significantly lower, which will have an impact on the growth of total personal income tax revenue.

Figure 2.5: State budget revenue change



*Source: MoF, FC calculations. *Includes revenue from VAT, excise duties, personal income tax and corporation tax.*

Figure 2.6: State budget receipts from the EU budget



Source: SORS, MoF, IMAD, FC calculations.

Table 2.2: State budget projections 2021-2023

	EUR milllion				change in %				contributions in p.p.			
	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
Revenue	**9,078**	**11,027**	**11,469**	**11,842**	**-10.4**	**21.5**	**4.0**	**3.3**	**-10.4**	**21.5**	**4.0**	**3.3**
VAT	3,528	3,982	4,199	4,380	-8.9	12.9	5.4	4.3	-3.4	5.0	2.0	1.6
Excise duties	1,314	1,462	1,463	1,481	-14.8	11.3	0.1	1.2	-2.3	1.6	0.0	0.2
Personal income tax	1,164	1,532	1,507	1,785	-16.3	31.6	-1.6	18.4	-2.2	4.1	-0.2	2.4
Corporation tax	773	1,091	1,054	1,112	-22.5	41.1	-3.4	5.5	-2.2	3.5	-0.3	0.5
Receipts from the EU budget	725	1,216	1,673	1,456	-0.3	67.8	37.5	-13.0	0.0	5.4	4.1	-1.9
Non-tax revenues	672	736	502	532	5.7	9.6	-31.8	5.9	0.4	0.7	-2.1	0.3
Other	902	1,007	1,070	1,097	-7.1	11.7	6.2	2.6	-0.7	1.2	0.6	0.2
Total expenditure	**12,564**	**14,986**	**13,940**	**13,360**	**26.8**	**19.3**	**-7.0**	**-4.2**	**26.8**	**19.3**	**-7.0**	**-4.2**
Expenditure for COVID-19 measures	**2,004**	**2,813**	**640**	**159**	**...**	**40.4**	**-77.2**	**-75.1**	**20.2**	**6.4**	**-14.5**	**-3.4**
Expenditure excl. COVID-19 measures	**10,561**	**12,173**	**13,300**	**13,201**	**6.5**	**15.3**	**9.3**	**-0.7**	**6.5**	**12.8**	**7.5**	**-0.7**
of which:												
Total labour costs*	3,252	3,599	3,769	3,805	5.8	10.7	4.7	1.0	1.8	2.8	1.1	0.3
Transfers to individuals and households	1,582	1,643	1,634	1,625	8.9	3.9	-0.6	-0.6	1.3	0.5	-0.1	-0.1
Expenditure on goods and services*	1,143	1,216	1,253	1,226	2.5	6.4	3.0	-2.1	0.3	0.6	0.2	-0.2
Investment	889	1,513	2,172	2,115	-5.2	70.2	43.5	-2.6	-0.5	5.0	4.4	-0.4
Current transfers to social security funds	1,268	1,556	1,455	1,435	17.6	22.7	-6.5	-1.4	1.9	2.3	-0.7	-0.1
Subsidies	433	523	477	425	4.8	20.8	-8.8	-10.9	0.2	0.7	-0.3	-0.4
Interest	772	756	683	654	-1.7	-2.0	-9.6	-4.3	-0.1	-0.1	-0.5	-0.2
Payments to the EU budget	526	612	580	603	3.2	16.4	-5.2	3.9	0.2	0.7	-0.2	0.2
Reserves	340	265	778	833	70.8	-22.0	193.1	7.0	1.4	-0.6	3.4	0.4
Other	355	488	500	482	2.6	37.3	2.4	-3.6	0.1	1.1	0.1	-0.1
Total balance	**-3,486**	**-3,958**	**-2,472**	**-1,518**								
Balance excl. COVID-19 measures	**-1,483**	**-1,146**	**-1,832**	**-1,359**								

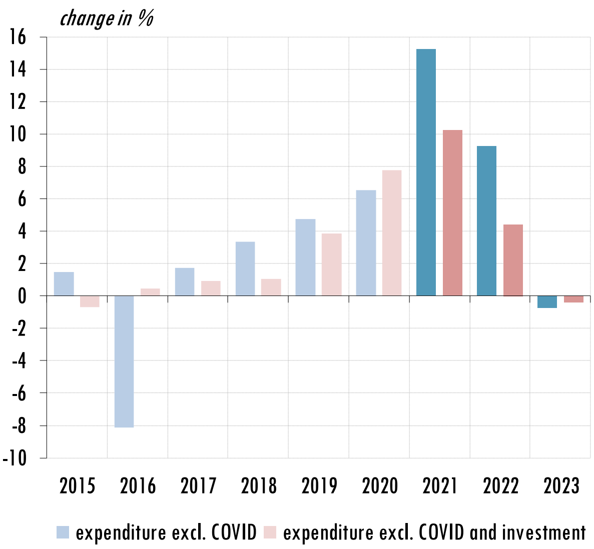
*Source: MoF, FC calculations. *Including transfers to public institutions for this purpose.*

includes a further EUR 335 million from the new Recovery and Resilience Facility. The Fiscal Council estimates that the projections of the volume of spending are subject to significant risks, taking into account the experience with the use of EU funds to date, especially given that the maximum annual volume of state budget revenue from EU funds to date was EUR 1.0 billion.

High expenditure growth, excluding the effect of COVID-19 measures, will continue next year. According to Ministry of Finance projections, total expenditure is expected to decrease by 7.0% next year, which will be solely due to a EUR 2,173 million decrease in the planned expenditure for COVID-19 measures. In fact, EUR 640 million has been allocated to these measures in the Draft Budgets, which is reasonable in view of the uncertainty about the future course of the epidemic. Expenditure, net of this effect, is projected to increase significantly again next year (9.3% or EUR 1,127 million) following this year's projected highest ever growth. Given that according to the Fiscal Council the Ministry's estimate of their outturn for this year is too high, we estimate that, once the actual outturn for this year is known, the projection of their level from the Draft Budgets in 2022 will show a growth rate higher than 15.0%. At the same time, the measures currently in place do not justify such growth, which, in the part not related to investment, opens the possibility to adopt further measures that could pose a risk to the sustainability of public finances in the medium term.

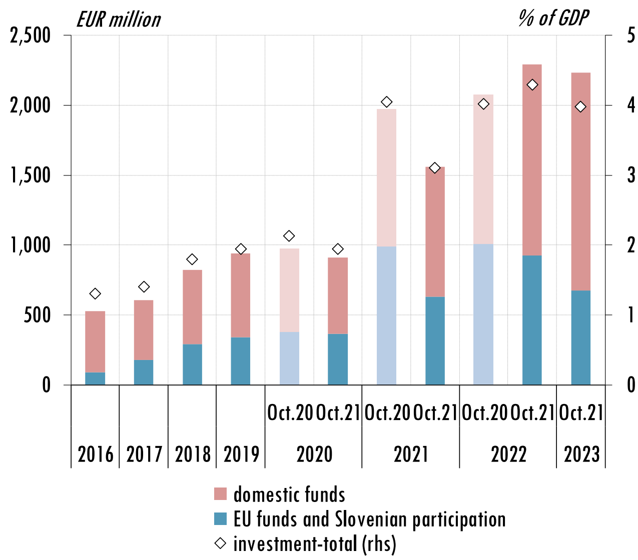
The high growth in expenditure is expected to stem mainly from the projected continued high growth in investment. A key driver of the projected continued high growth is investment expenditure, which is expected to increase by EUR 730 million compared to 2021, with next year's level in the Draft Budgets around EUR 200 million higher than under the current budget of last October. While the focus on investment is appropriate in the current circumstances, the projected levels are, however, according the Fiscal Council, too high in terms of the absorption capacities of the administration and the economy, and open the possibility for their inefficient implementation. The over-optimistic planning of investment spending was also indirectly indicated by the Ministry of Finance, when, in the estimate of its realisation, the level of investment spending this year was reduced by some EUR 400 million compared to the budget in force. The realisation of the investment expenditures foreseen in the state budget would imply that they would represent on average around 4.0% of GDP over the next two years, which is around twice the long-term average.

Figure 2.7: State budget expenditure



Source: MoF, FC calculations.

Figure 2.8: State budget investment expenditure

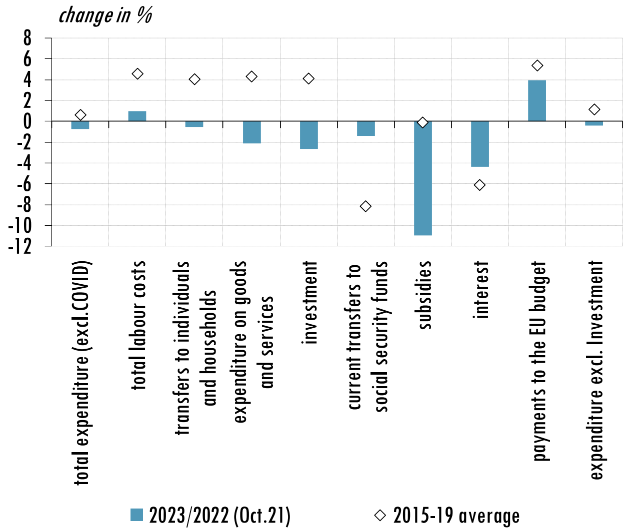


Source: MoF, FC calculations.

Growth in current expenditure is also expected to be well above the long-term average next year. Current expenditure, which does not include the COVID-19 measures and investments, is expected to increase by a further 4.4% next year. As for investments, the estimate of the outturn in 2021 is considered to be overestimated by the Fiscal Council, so that the projection of their level in the following year will show a much higher growth when the actual outturn this year will be known. Labour costs and expenditure on goods and services, including transfers to public institutions for these purposes, are expected to be the main contributors to growth next year. The reserve is also high which, excluding expenditure on the COVID-19 measures, amounts to around EUR 800 million. The bulk of this amount is accounted for by the budget funds. Other categories of expenditure are expected to decrease in 2022, but we reiterate that this applies in comparison to the outturn estimate for this year, which is too high according to the Fiscal Council.

In 2023, the total state budget deficit is projected to decline further, partly as a result of lower costs due to the epidemic, but, according to the Fiscal Council's assessment, mainly due to an unrealistic projection of other expenditures. The deficit is estimated at -2.7% of GDP (EUR 1,518 million), and at -2.4% of GDP (EUR 1,359 million) if the projected expenditure of EUR 159 million on the COVID-19 measures is excluded. Revenues are envisaged to increase by 3.3%, which at least partly reflects cautious planning in view of the projected trends in tax bases. Expenditure, net of the epidemic mitigation reserve, is projected to decrease by 0.7%. On the assumption that the projections for 2022 are realised as planned, such a projection would require the adoption of discretionary measures which are not presented in the Draft Budgets. According to the Fiscal Council, growth will be higher compared to the projections in the Draft Budgets, taking into account the legislation currently in force. We consider this to be a continuation of the inadequate practice in budget planning, where projections for two years ahead show an improvement in public finances, which is not based on realistic assumptions, in particular as regards expenditure. In the absence of concrete measures to ensure such low growth, the Fiscal Council has assessed that the expenditure projections should at least reflect their long-term dynamics.

Figure 2.9: Projection of state budget expenditure in 2023



Source: MoF, FC calculations.

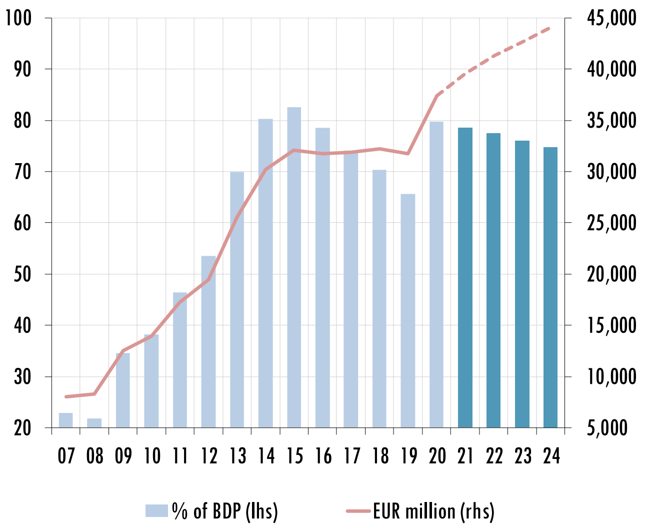
2.2 Gross general government debt

After a significant increase in 2020, the general government debt-to-GDP ratio is expected to slightly decline by the end of 2022, but it will nevertheless remain much higher than before the crisis. The decline in the debt-to-GDP-ratio from 79.8% in 2020 is to be very gradual. If the primary balance deficit continues and the forecasted nominal GDP growth, which is expected to be higher than the implicit interest rate, is achieved, the ratio is expected to be reduced to 74.8% of GDP by the end of 2024. In nominal terms, in the DBP22 projection period, debt is expected to increase in total by around EUR 4.5 billion between 2021 and 2024 to stand at EUR 44.0 billion.

The government's financing conditions remain extremely favourable, mostly due to a highly accommodative monetary policy. After significantly decreasing last year for all EU Member States, the required yield on Slovenian government bonds is hovering around 0% this year, while the average in September was 0.1%, rising in the second half of the month. The demand for long-term bonds far exceeded the supply in 2021, when long-term bonds worth EUR 3.9 billion were issued (including a 60 -year bond). The implementation of ECB measures, particularly the Pandemic Emergency Purchase Programme (PEPP), made an important contribution in this regard. Under the PEPP, up to and including September 2021, the ECB repurchased EUR 6 billion of Slovenian public debt on the secondary market. This debt accounts for nearly three fifths of the debt issued since this programme began to be implemented in March 2020 and, as a share of total debt, is the largest in the euro area (see Box 3 in Box 3.1). The increase in borrowing in 2021 is also due to the long-term loan under the SURE programme (around EUR 900 million with a maturity of 7 and 30 years respectively). Thus, the credit rating of Slovenia remains stable. Despite the debt increase, interest expenditure, as a share of GDP, is expected to further decline, but more slowly than before the crisis. Until now, such decline was made possible through effective debt management and matured debt refinancing with favourable interest rates, which was largely the result of the ECB's supportive policy.

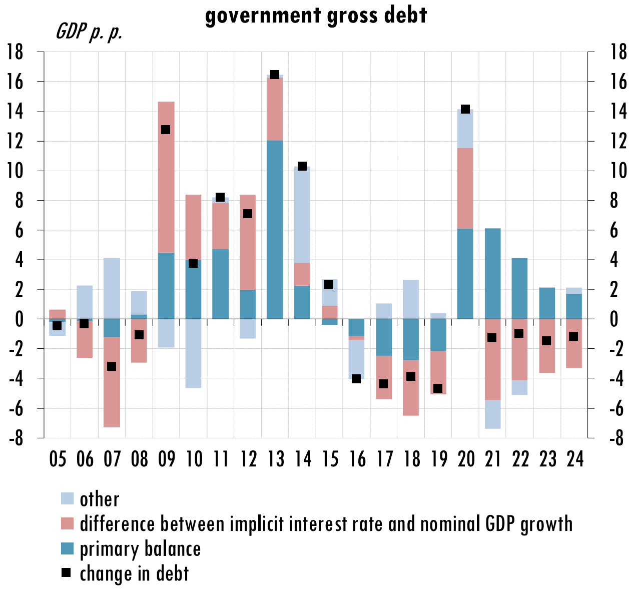
The favourable liquidity position of the state budget provides room for a gradual reduction of debt, while the balance of guarantees remains stable. After having increased by EUR 2.2 billion in 2020, the balance in the treasury single account further increased by EUR 1.0 billion to total EUR 7.2

Figure 2.10: General government debt



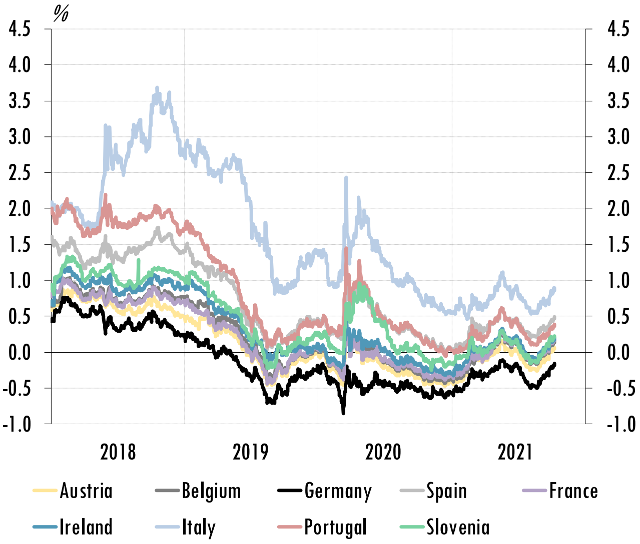
Source: SORS, MoF.

Figure 2.11: Contributions to change in general government gross debt



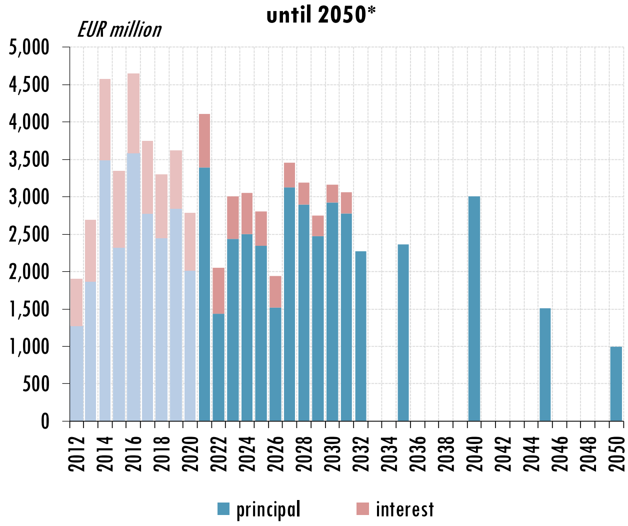
Source: SORS, MoF, IMAD, FC calculations.

Figure 2.12: Yields on 10-year government EUR reference bonds



Source: Bloomberg.

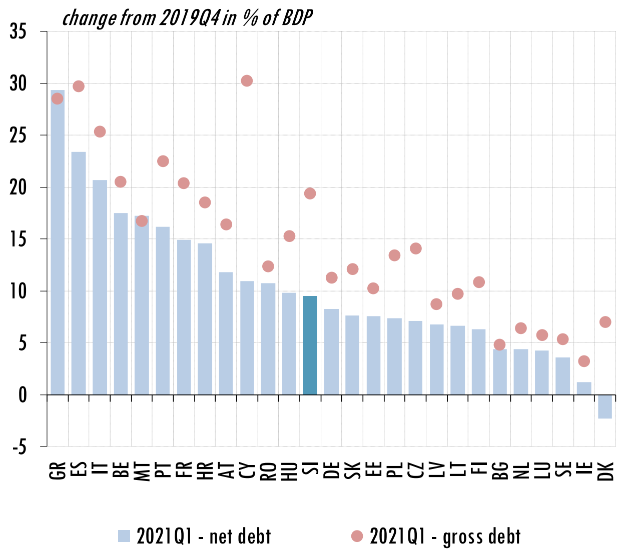
Figure 2.13: State budget debt repayment schedule until 2050*



*Note: *As of 31 August 2021. After 2031: Program financiranja proračuna Republike Slovenije za leto 2021 - no information on interest payments.*
Source: MoF.

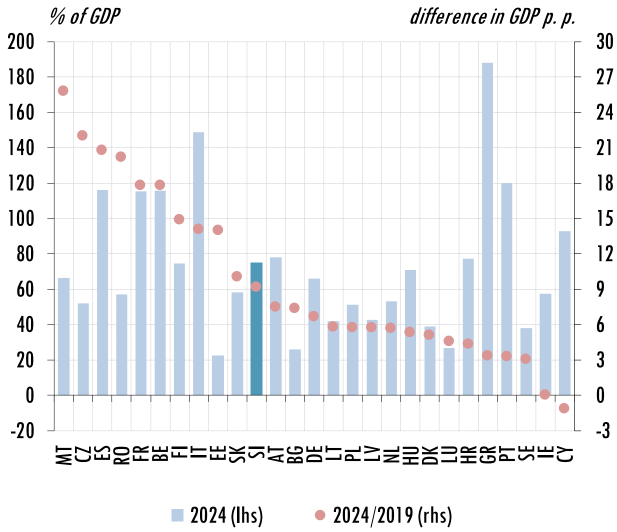
billion (14% of GDP projected for 2021) in the period from the end of last year to the end of September. In the DBP22, the Government projects to reduce debt by using part of high liquidity reserves created through pre-financing. By September, all liabilities for this year (around EUR 2.5 billion) arising from issued long-term bonds had already matured, and around EUR 1.3 billion of treasury bills are still due by the end of the year. On the other hand, the stock of matured liabilities arising from issued long-term bonds and treasury bills (EUR 1.7 billion) in the coming year is among the lowest in the decade, according to current data. The stock of guarantees, provided by the State, stood at EUR 5.1 billion or 11.0% of GDP at the end of 2020 and is expected to fall to 8.1% of GDP by 2023. Calling on guarantees is projected to be modest, amounting to EUR 20 million per year in 2022 and 2023. In accordance with the Implementation of the Republic of Slovenia Budget for 2022 and 2023 Act, the additional amount of borrowings of the legal entities referred to in Article 87 of the Public Finance Act (ZJF) is expected to amount to approximately EUR 350 million in 2022.

Figure 2.14: General government net and gross debt



Source: Eurostat, ECB, FC calculations.

Figure 2.15: General government gross debt



Source. IMF, for Slovenia DBP22, FC calculations.

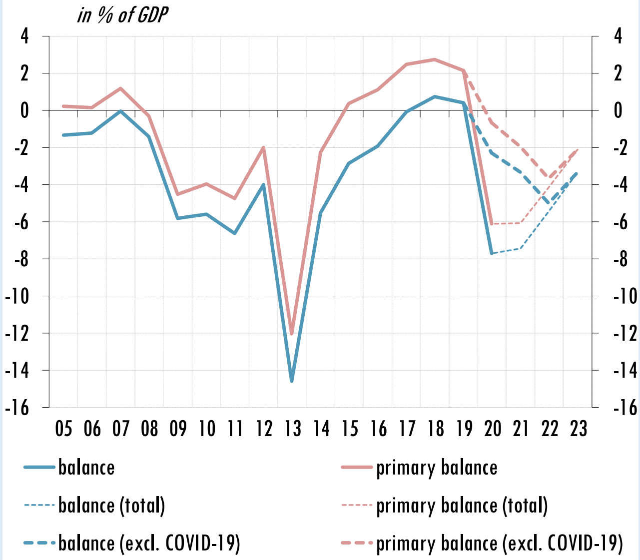
The relatively high level of debt may impair fiscal stability in the event of new shocks, therefore, when it comes to additional borrowing, it is necessary to exercise caution. In the current crisis, in view of the comprehensive measures to mitigate the effects of the epidemic, there has been a significant increase in the general government debt at the global level. According to the latest forecast by the IMF[16], in terms of the increase in the general government debt, Slovenia will rank in the top half of EU Member States in 2024 compared to 2019. As the debt increases to relatively high levels, it becomes more sensitive to possible additional shocks and changes in macroeconomic trends, which may cause instabilities in the implementation of the fiscal policy.

[16] IMF (2021a). The forecast is not made under the ESA 2010 methodology, but is the latest forecast (October) that enables a comparison between countries. In this respect, the debt-to-GDP ratio in 2024 is about 4 percentage points lower than that projected by the Ministry of Finance according to the ESA (2010) methodology. The last forecast by the EC that included the projection for the general government debt under the ESA 2010 was made in spring 2021. According to that forecast, in terms of the increase in debt in 2022 compared to 2019 levels, Slovenia is expected to rank in the middle among EU Member States.

Box 2.1: Projection of the general government balance in the Draft Budgetary Plan 2022

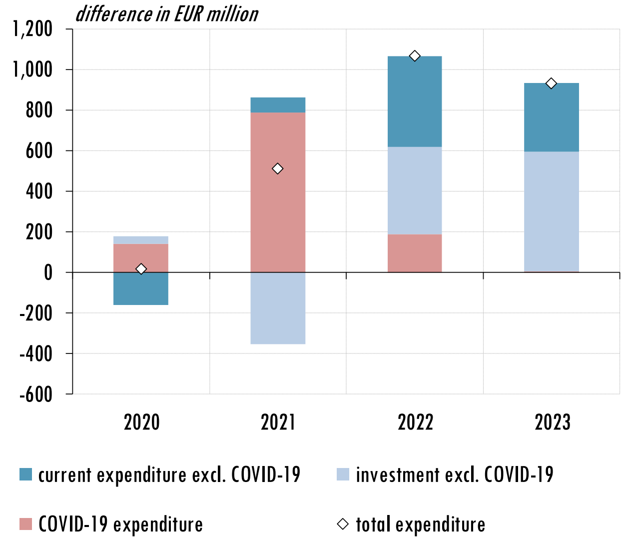
Without taking into account the effect of COVID-19 measures, the general government sector deficit is expected to further grow and will remain larger in 2023 compared to this year in spite of the projected improvement. This assessment of the budget documents pays more attention to the state budget projections than to the projections of the general government balance. With the adoption of the Draft Budgets, actual commitment appropriations are determined, which opens up room for manoeuvre on spending that has no basis in the legislation currently in force. In addition, the projections of expenditure on the COVID-19 measures according to the cash-flow methodology and the ESA 2010 methodology differ significantly (see Box 2.2). According to the explanations provided by the Ministry of Finance, this is due to the fact that when drafting the state budget, there is a need to ensure that funds are also available for unexpected expenditure related to the epidemic, whereas the projections of the general government balance include an estimate of their actual realisation. Such an approach inevitably lowers the transparency of projections, in particular because both the Fiscal

Figure 1: General government balance and primary balance



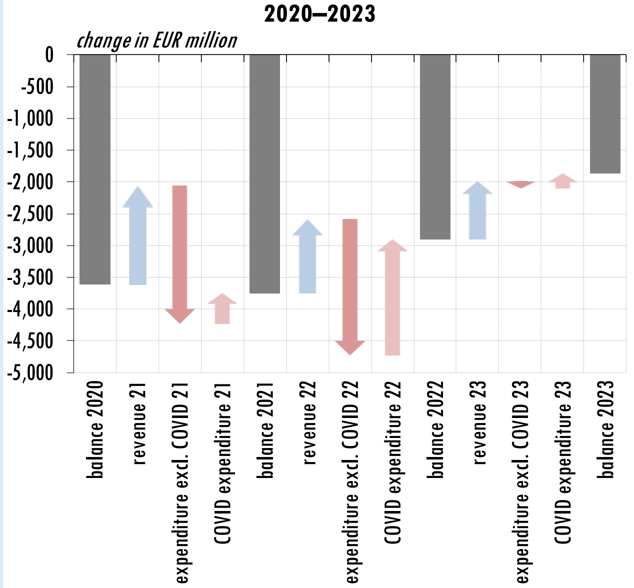
Source: MoF, SORS, FC calculations.

Figure 2: Comparison of general government expenditure projections from October 2021 and April 2021



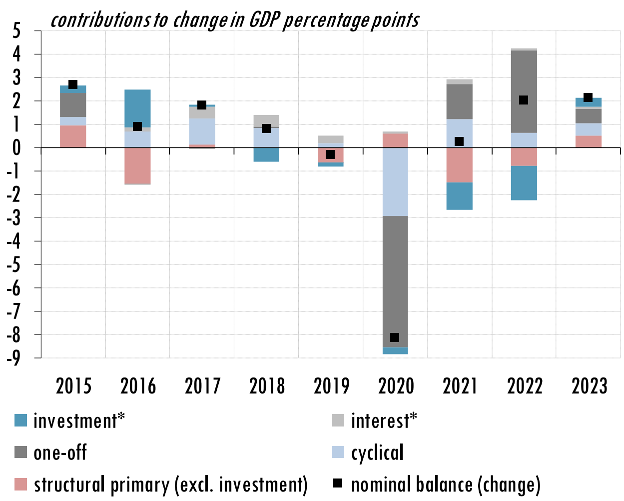
Source: SORS, MoF, FC calculations.

Figure 3: Factors of general government balance change 2020–2023



Source: MoF, FC calculations.

Figure 4: Factors of general government nominal balance change



*Source: MoF, SORS, FC calculations. *Positive sign denotes a decrease, negative sign denotes an increase.*

Council and the European Commission[1] are convinced that in unusual circumstances, special attention should be paid to fiscal developments without taking into account the effects of the COVID-19 measures. According to available projections, the general government deficit, net of expenditure on the COVID-19 measures, will worsen further next year compared to this year, despite the expected relatively high revenue growth. The cumulative deterioration in 2021–2022 will be the same as last year and will similarly result from an increase in investment expenditure and a reduction in the structural primary balance, which excludes investment. The cyclical balance will improve on the back of the recovery in economic activity. An improvement is expected in 2023, but the deficit will still exceed the -3% of GDP threshold and will be nominally about EUR 200 million higher than estimated for this year. We also estimate that the projected improvement in 2023 is not based on fully realistic expenditure projections.

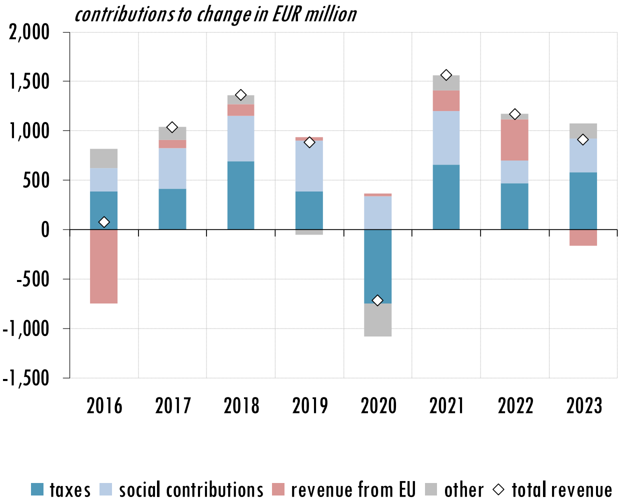
General government revenue growth is projected to be relatively high on average (5.6%) over the 2021–2023 period, similar to pre-epidemic years. The recovery in economic activity and the low base effect from last year contributed to the high revenue growth in the first half of 2021 (11.9%). While growth is expected to slow down slightly in the second half of the year based on the DBP22 projections, the level of revenue throughout 2021 is projected to be around 4.0% or EUR 850 million higher than in 2019. The projection of tax and social contribution revenues is estimated as cautious in view of the projected levels of tax bases, which is an appropriate approach given the uncertain conditions. On the other hand, the assumption about the European funds is even slightly higher than in the SP21 and implies a marked acceleration of year-on-year growth in the second half of 2021. Over the next two years, overall revenue growth is projected to slow down slightly in line with the projected dynamics of economic activity, but it will remain relatively high. In the absence of additional expenditure increases as foreseen in the Framework Proposal or in the DBP22, this would allow for a faster deficit reduction without jeopardising the economic recovery. The increase in revenue is expected to come largely from taxes and social contributions, with a further increase this year and

Table: General government (GG) balance projections (excluding expenditure on COVID-19 measures)

EUR million unless stated otherwise	outturn SORS	DBP22			change				change in %				contribution in p.p.			
	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
GG Revenue	**20,461**	**22,025**	**23,196**	**24,110**	**-715**	**1,564**	**1,171**	**914**	**-3.4**	**7.6**	**5.3**	**3.9**	**-3.4**	**7.6**	**5.3**	**3.9**
Total taxes	*9,673*	*10,332*	*10,799*	*11,382*	*-746*	*659*	*467*	*584*	*-7.2*	*6.8*	*4.5*	*5.4*	*-3.5*	*3.2*	*2.1*	*2.5*
Taxes on prod.and imp.	5,953	6,352	6,609	6,837	-678	399	257	228	-10.2	6.7	4.0	3.4	-3.2	1.9	1.2	1.0
C.. taxes on inc., wealth,	3,708	3,971	4,178	4,533	-62	263	206	356	-1.6	7.1	5.2	8.5	-0.3	1.3	0.9	1.5
Capital taxes	12	9	12	12	-6	-3	3	0	-34.1	-23.4	33.2	1.9	0.0	0.0	0.0	0.0
Social contributions	8,061	8,601	8,831	9,171	338	540	230	340	4.4	6.7	2.7	3.8	1.6	2.6	1.0	1.5
Property income	308	299	314	324	-103	-9	15	11	-25.0	-2.9	4.9	3.4	-0.5	0.0	0.1	0.0
Capital transfers	263	533	959	848	-42	270	426	-111	-13.8	102.8	80.0	-11.6	-0.2	1.3	1.9	-0.5
Other	2,157	2,260	2,293	2,385	-161	103	34	91	-7.0	4.8	1.5	4.0	-0.8	0.5	0.2	0.4
GG Expenditure	**21,532**	**23,710**	**25,856**	**25,970**	**561**	**2,177**	**2,147**	**114**	**2.7**	**10.1**	**9.1**	**0.4**	**2.7**	**10.1**	**9.1**	**0.4**
Comp. of employees	5,758	5,981	6,360	6,450	288	223	379	90	5.3	3.9	6.3	1.4	1.4	1.0	1.6	0.3
Intermediate cons.	2,749	2,848	3,126	3,192	-192	100	278	66	-6.5	3.6	9.8	2.1	-0.9	0.5	1.2	0.3
Social transfers	8,689	9,564	10,160	10,168	266	875	597	8	3.2	10.1	6.2	0.1	1.3	4.1	2.5	0.0
Interest	754	704	697	677	-76	-49	-7	-20	-9.1	-6.5	-1.0	-2.8	-0.4	-0.2	0.0	-0.1
Subsidies	435	597	509	512	88	163	-88	3	25.3	37.5	-14.7	0.6	0.4	0.8	-0.4	0.0
Gross fixed cap. form.	1,944	2,655	3,632	3,619	84	711	977	-13	4.5	36.6	36.8	-0.4	0.4	3.3	4.1	-0.1
Other	1,205	1,360	1,370	1,351	103	155	10	-19	9.4	12.9	0.8	-1.4	0.5	0.7	0.0	-0.1
Balance	**-1,071**	**-1,684**	**-2,660**	**-1,860**	**-1,275**	**-613**	**-976**	**800**								
Balance (% of GDP)	**-2.3**	**-3.3**	**-5.0**	**-3.3**	**-2.7**	**-1.1**	**-1.6**	**1.7**								

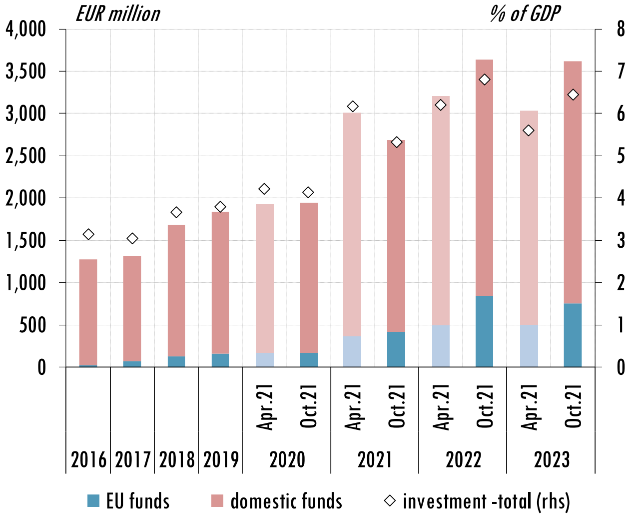
Source: SORS, MoF, FC calculations.

Figure 5: General government revenue change



Source: SORS, MoF, FC calculations.

Figure 6: Structure of general government gross fixed capital formation



Source: SORS, MoF, FC calculations.

especially next year from EU funding. As in 2021, we estimate the projection of cyclical revenues for the next two years as cautious given the forecast level of the tax base, while their share of GDP is still expected to lag behind 2019 levels by around 1 percentage point in 2023. The assumption of revenue from the EU funds is assessed as optimistic also over the next two years.

Expenditure, net of the effects of the COVID-19 measures, is expected to increase significantly this year and next, which will only partly be due to the projected increase in investment, while we do not assess the projections for 2023 as fully realistic in the absence of the presentation of discretionary measures that would allow for such low expenditure growth. Following this year's continued strong growth, total expenditure growth is projected to moderate significantly over the next two years. Excluding the effects of the COVID-19 measures, growth is projected to be around 10% this year and next, well above the long-term average.[2] However, similarly to the state budget projections, the outturn estimate for 2021 is not entirely realistic as, taking into account actual developments in the first half of the year, it suggests a significant acceleration of growth in the second half of the year. Only about a third of the projected growth in 2021 and 2022 will be due to the projection of increased investments which are expected to account for almost 7% of GDP next year.[3] Moreover, the estimates of investment realisation this year have declined relative to the SP21, while the projections for growth in 2022 in the DBP22 against the SP21 suggest a further increase, in addition to the carry-over of investment not realised this year. The focus on strengthening public investment is in principle appropriate and in line with the guidance of international institutions, but there is a risk that the realisation of the projections would exceed the absorption capacity of the national economy and administration. This increases the risk of their inefficient implementation and also of creating macroeconomic imbalances. Current expenditure growth, excluding the effects of the COVID-19 measures and investment, is projected to average 6.5% in the 2021–2022 period. It is expected to be driven mainly by an increase in social benefits this year and by growth in employee compensation and intermediate consumption next year. In 2023, expenditure growth, net of expenditure to mitigate the effects of the epidemic, is projected to be only 0.4%, which in the absence of discretionary measures would be significantly below the long-term average. In particular, the projection of a very low increase in employee compensation and the unchanged level of expenditure on social benefits stand out, given the assumption that the high level of investment spending will be retained.

[1] European Commission (2021).

[2] Over the 2005–2019 period, expenditure growth, excluding investment and capital transfer expenditure for the rehabilitation of banks in 2013 and 2014, averaged 3.3%.

[3] They reached their highest level ever in 2009 and 2015, when they accounted for 5.1% of GDP.

Box 2.2: Overview of the fiscal impact of measures to limit the effects of the epidemic

According to the data provided by the Ministry of Finance, in the first nine months of this year, the state budget spent EUR 2.3 billion on financing measures to mitigate the effects of the epidemic, while the direct impact of the measures since the beginning of the epidemic in March last year amounts to EUR 4.7 billion (see Table). Job retention measures amounting to EUR 1.9 billion account for the largest part of expenditure, followed by measures to maintain the provision of services (EUR 1.5 billion), measures to maintain liquidity (EUR 0.7 billion), and measures to preserve consumption and the social situation (EUR 0.5 billion). According to the Ministry of Finance's estimate of the outturn for the whole of 2021, a further EUR 0.5 billion could be allocated to the COVID-19 measures in the last three months of this year. In view of the uncertainties regarding the future course of the epidemic, the Ministry of Finance, when drafting the state budget for 2022 and 2023, set commitment appropriations totalling EUR 0.8 billion for the COVID-19 measures. In this context, it should be noted that under current legislation all measures expire by the end of this year.

The measures were broadly similar to those in other countries and contributed significantly to cushioning the fall in economic activity last year and to strengthening the recovery this year, but also to some extent deviated from the guidelines given at the beginning of the epidemic. IMAD[1] estimates that the measures reduced the fall in real GDP by at least 4 percentage points last year. Taking into account the similar size of the multipliers, we estimate that, in the absence of the measures, growth this year could be about half of the latest IMAD's forecast. In parallel, the Fiscal Council's estimates suggest that the level of GDP without measures would be a good 3% below actual GDP in

Table 1: Overview of the implementation of COVID measures

EUR million	Mar.-Dec. 2020	Jan.-Sep. 2021	TOTAL
COVID measures with a direct efect on state budget balance - TOTAL	**2,393**	**2,311**	**4,704**
Measures to preserve jobs	**1,136**	**731**	**1,867**
Compensation to temporary laid-off employees	328	333	660
Payment of social contributions for temporary laid-off employees	124	0	124
Partial subsidisation of short-time working	36	38	74
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	274	470
Sick pay for employed persons is fully covered by the ZZZS	19	2	21
Crisis bonus	0	58	58
Subsidising minimum wage	0	25	25
Measures for the smooth operation of public services	**515**	**1,007**	**1,522**
Employee bonuses	204	702	906
Control of the epidemic (protective equipment, etc.)	132	243	375
Measures in education, sport and culture	29	32	61
Compensation for healthcare service providers due to loss of business, incl. concessionaires	105	5	110
Provision of funds to the ZZZS	45	25	70
Measures to maintain consumption and social position	**291**	**159**	**450**
Tourist voucher payments	128	103	231
Solidarity bonus for various groups	163	56	219
Measures to maintain liquidity	**389**	**305**	**695**
Deferred and instalment payments of tax	219	-13	205
Uncalculated and unpaid advance payments of corporate income tax liabilities	171	0	171
Reimbursement of fixed costs	0	319	319
Other expenditure	**61**	**109**	**170**

Source: MoF, FURS, FC calculations.

Table 2: COVID expenditure

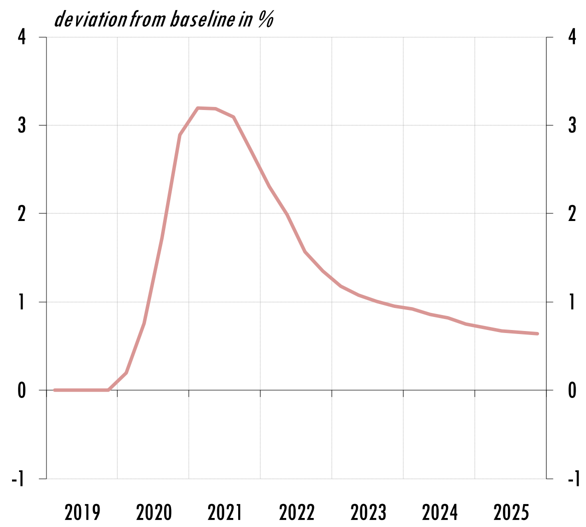
EUR million	2020	2021	2022	2023	**20-23**
State budget	2,004	2,813	640	159	**5,615**
General government	2,547	2,070	243	4	**4,864**
difference	*-543*	*743*	*397*	*155*	***752***

Source: MoF, FC calculations.

2020 and around 2.5% below IMAD's Autumn Forecast in 2021. The deviation from the measures in other countries and from the guidelines provided at the start of the epidemic that measures should be targeted and temporary can be seen in particular in employee allowances and social transfers.[2] In fact, employee allowances represent the largest single financial measure, for which almost EUR 1 billion had been earmarked by the end of September (see Box 2.3), while a number of one-off social transfers amounting to EUR 0.2 billion were paid out under the anti-crisis legislation. In terms of the restrictive measures in place, we estimate that such measures have so far not contributed significantly to increasing consumption. This is suggested by the fact that household deposits increased by EUR 3.5 billion between the end of 2019 and the end of July this year and that the increase in the household savings rate in Slovenia last year was the second highest in the EU.

The submitted budget documents show significant discrepancies in the projections of further expenditure on the COVID-19 measures, which leads to a lack of transparency in fiscal planning. Based on the state budget outturn and projections, expenditure on the COVID-19 measures in the 2020–2023 period will amount to a total of EUR 5.6 billion, while based on general government outturn and projections, it is estimated to amount to EUR 4.9 billion. The difference between the two projections thus amounts to around EUR 750 million. According to the Ministry of Finance, this is because when the state budget is drawn up, it is necessary to provide available funds for unexpected expenditure related to the COVID-19 crisis, while the general government balance projections include an estimate of their actual outturn. In the view of the Fiscal Council, such an approach introduces non-transparency into the fiscal planning process, makes it difficult to estimate expenditure projections without taking into account the effects of anti-crisis measures, and thus poses the risks of a possible

Figure: Effect of measures on real GDP level



Source: MoF, SORS; FC calculations.

[1] IMAD (2021a), pp. 14-16.

[2] See also the Fiscal Council (2021a), pp. 24-28.

Table 3: General government expenditure on COVID measures

EUR millions	2020		2021		2022		2023	*2020-2023*
	SP21 (Apr.21)	DBP22 (Oct.21)	SP21 (Apr.21)	DBP22 (Oct.21)	SP21 (Apr.21)	DBP22 (Oct.21)	DBP22 (Oct.21)	*difference*
EXPENDITURE	2,406	2,547	1,284	2,070	55	243	4	*1,119*
Compensation of employees	298	300	289	628	20	45	0	*368*
Intermediate consumption	123	133	34	132	35	61	4	*138*
Social transfers	465	497	286	353		5	0	*104*
Subsidies	1,231	1,321	536	620		41	0	*216*
Gross fixed capital formation	22	0	2	30		0	0	*6*
Other	268	295	137	307		90	0	*287*

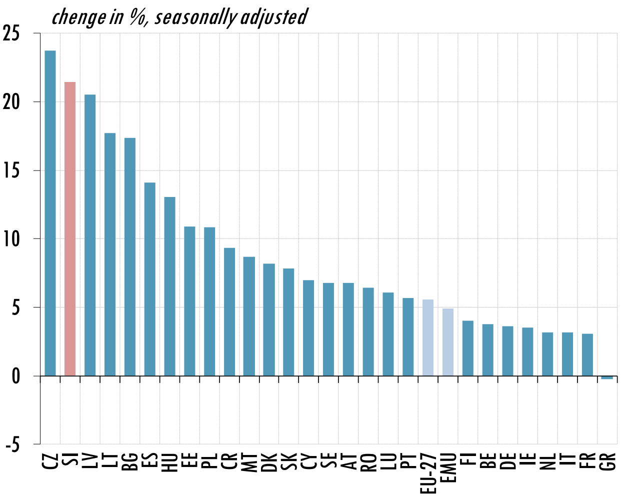
Source: MoF, FC calculations.

structural deterioration of public finances. Moreover, due to the uncertainty about the future course of the epidemic, the higher outturn than the preliminary estimates of the measures adopted before the April SP21 and the measures subsequently adopted, the estimate of total COVID-19 government expenditure in the 2020–2023 period amounts to around EUR 1 billion higher than in the April SP21 this year. The increase in the estimate compared to April this year is mainly due to higher expenditure on employee compensation.

Box 2.3: Employee allowances under the COVID-19 measures

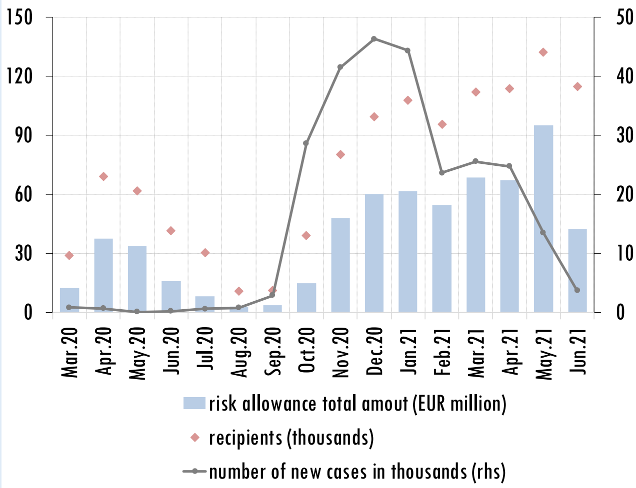
Employee allowances represent the largest single financial measure to mitigate the effects of the epidemic. Under the COVID-19 measures, EUR 906 million was paid out from the state budget for employee allowances from March 2020 to the end of September 2021, which is one fifth of the total expenditure on the COVID-19 measures since the beginning of the epidemic. After EUR 204 million was paid out from the state budget for allowances last year, EUR 702 million was paid out in the first nine months of this year, which is a third of the total state budget expenditure on the COVID measures this year. The high level of allowances in Slovenia deviates significantly from the spending on the COVID-19 measures in most other EU countries. Based on data from this year stability programmes of individual Member States, the level of expenditure on allowances in Slovenia already in 2020 exceeded this type of expenditure in other Member States. However, according to the latest available data, the increase in compensation for public service employees (OPQ) between the second quarter of

Figure 1: Compensation of employees in public service activities (OPQ) Q2 21/Q1 20



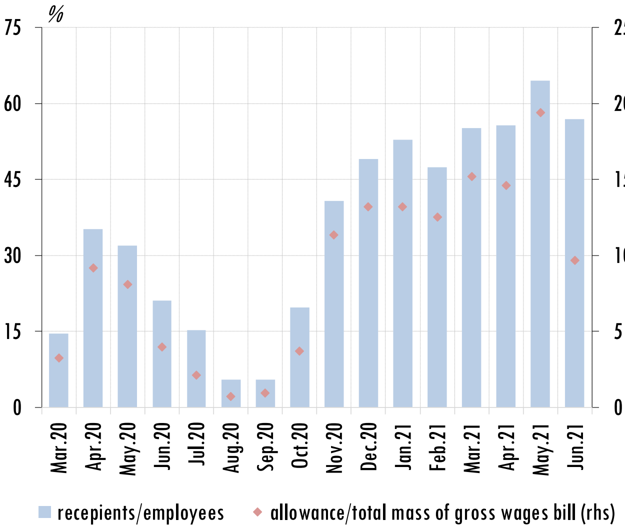
Source: Eurostat.

Figure 2: Risk allowance* and the number of new COVID-19 cases



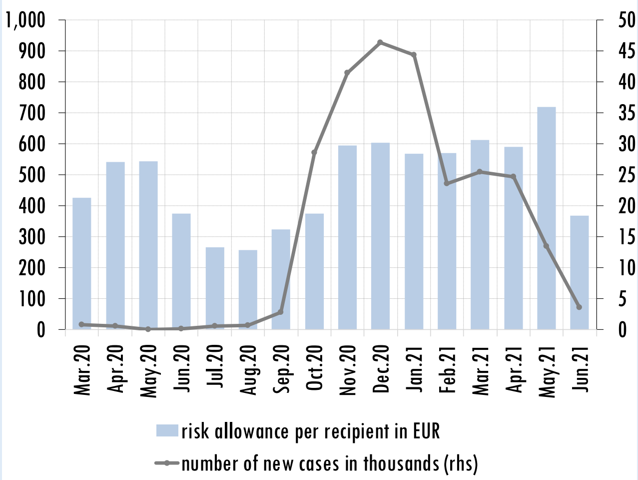
Source: Ministry of Public Administration, Our World in Data, FC calculations.
* According to Article 39 under the Collective Agreement for Public Sector.

Figure 3: Risk allowance - share of recipients and total mass of gross wages bill



Source: Ministry of Public Administration, FC calculations.
* According to Article 39 under the Collective Agreement for Public Sector.

Figure 4: Risk allowance* and the number of new COVID-19 cases



Source: Ministry of Public Administration, Our World in Data, FC calculations.
* According to Article 39 under the Collective Agreement for Public Sector.

this year and the first quarter of last year in Slovenia was as high as 21.4% or the second highest among EU Member States, compared to the EU average increase of 5.6%.[1]

During the epidemic, thirteen different types of allowance were introduced in individual anti-crisis laws (anti-corona legislative packages) (see Table 1), while the risk allowance accounted for almost three-quarters of all allowances, or EUR 659 million, paid out from the state budget. During the second wave of the epidemic, risk allowance was regulated in Article 123 of the Act Determining Intervention Measures to Mitigate the Consequences of the Second Wave of COVID-19 Epidemic (ZIUOPDVE) in conjunction with point 11 of paragraph one of Article 39 under the Collective

Table 1: Overview of employee allowances under the anti-corona legislative packages

Act	Description	EUR million*
Article 123 of the ZIUOPDVE	Allowance under point 11 of paragraph one of Article 39 of the Collective Agreement for Public Sector – allowance for work in high-risk environments (areas under threat of war, danger of terrorist attacks involving biological agents, demonstrations, natural disasters, epidemics and epizootics), amounting to 65% of the hourly rate of the basic salary of the public employee;	659.112
Article 71 of the ZIUZEOP	Allowance for hazards and special burdens during the epidemic in the amount of up to 100% of the hourly rate of the basic salary of the employee;	201.419
Article 56 of the ZZUOOP	Allowance for direct work with patients, or users, diagnosed with COVID-19, in the amount of 30% of the hourly rate of the basic salary of the employee;	29.270
Article 87 of the ZIUPOPDVE	Allowance for hazards and special burdens during the epidemic for public employees in posts classified into salary group J in the healthcare and social care activities in the amount of up to 30% of the hourly rate of the basic salary of the employee;	6.384
Article 125 of the ZIUOPDVE	Allowance for work in high-risk environments for directors in the public sector in the healthcare and social care sectors in the amount of 65% of the hourly rate of the basic salary for half of the regular working time;	3.249
Article 18 of ZNUPZ	An allowance of EUR 400 per month for directors in the public sector for work in education, higher education and research activities, for work in risk environments, and the same amount per month for principals of kindergartens and schools providing emergency care for children and pupils during the second wave of the COVID-19 epidemic, and for principals of institutions for the education of children and adolescents established to work with children with emotional and behavioural disorders;	2.738
Article 86 of the ZIUPOPDVE	An allowance for work in risk environments in the amount of 65% of the hourly rate of the basic salary of the employee employed under the public works programme and persons referred to in paragraph five of Article 33 (external contractors);	1.305
Article 42 of the ZNUPZ	An allowance of EUR 200 per month for functionaries classified into salary subgroup A5 as set out in Annex 3 of the Public Sector Salary System Act, and for mayors and deputy mayors performing non-professional functions during the declared COVID-19 epidemic for hazards and special burdens; an allowance of the same amount and under the same conditions shall also be granted to the directors of municipal administrations and to the heads of administrative units;	0.994
Article 88 of the ZIUPOPDVE	An allowance for students working with COVID-19 patients in the amount of 30% of the hourly rate of their basic payment;	0.696
Article 66 of ZIUOOPE	An allowance of EUR 30 per day for hazards and special burdens during the epidemic for Civil Protection Service members;	0.612
Article 54 of the ZIUOOPE	An allowance for hazards and special burdens during the epidemic in the amount of up to a maximum of 65% of the hourly rate of the basic salary of the employee for private contractors;	0.176
Article 55 of the ZZUOOP	Temporary secondment for urgent work needs of providers of the institutional care social service or healthcare providers; the employee is entitled to a temporary secondment allowance equal to 20% of the hourly rate of the basic salary of the employee;	0.007
Article 33 of the ZIUPOPDVE	An allowance of 30% of the hourly rate of the employee's basic salary for direct work with patients or users diagnosed with COVID-19; for employees working directly at social care programme providers in grey and red zones;	0.003

*Source: Ministry of Finance, Official Gazette, FC calculations. Note: *Total payments from the state budget in the period from March 2020 to end September 2021.*

Agreement for Public Sector, which sets the amount of the allowance at 65% of the hourly rate of the public employee. A more detailed view of the payment of this allowance is provided by the data published by the Ministry of Public Administration on the public sector wage portal.[2] The regulation under the ZIUOPDVE, which provided for its payment for the duration of the officially declared epidemic, i.e. from 19 October 2020 to 15 June 2021, resulted in a significant increase in the mass of payments due to both the higher number of beneficiaries and the higher average allowance paid. According to the data provided by the Ministry of Public Administration, the volume of payments for the risk allowance from March last year to June this year accounted for 9.3% of the total mass of gross wages bill in the public sector. Between November last year and May this year, when the ZIUOPDVE enabled payment during the whole month, this share was 14.2%. From the beginning of the epidemic until June this year, an average of 35.7% of public employees received this allowance, compared to 52.2% during the second wave (between November 2020 and May 2021). However, the average monthly risk allowance per recipient from the beginning of the epidemic to June this year amounted to EUR 483, and EUR 608 per recipient per month between November last year and May this year. When calculating the average allowance, we estimate that for individual budget users, the average monthly amount of the allowance varied considerably between recipients, as the allowance is paid as a percentage of the basic salary. Thus, higher salaried recipients received a significantly higher nominal allowance than lower salaried recipients.

As expected, payments of the risk allowance were highest in the healthcare sector, followed by the police, social assistance and army sectors. According to the Ministry of Public Administration, total payments of the risk allowance in the healthcare sector from the beginning of the epidemic in March last year to June this year amounted to EUR 324 million. It should also be noted that the healthcare sector received the majority of funds from the allowance for hazards and special burdens under the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (ZIUZEOP) and the allowance for direct work with patients diagnosed with COVID-19 under the Act Determining Temporary Measures to Mitigate and Remedy the Consequences of COVID-19 (ZZUOOP). In the period between November last year and May this year, when Article 123 of the ZIUOPDVE was in force for a full month, the risk allowance accounted for a quarter of the total gross wage bill in the healthcare sector and was received by almost 80% of the total number of employees, while the average allowance paid to each recipient per month amounted to EUR 982 per employee. In this context, we note that in 14 public institutions with the status of a designated COVID-19 hospital,[3] the share of employees receiving a risk allowance was, as anticipated, much higher than in other public healthcare institutions, while the difference in the average monthly allowance was relatively small.[4] There are also significant differences in the average

Table 2: Risk allowance under Article 39 of the Collective Agreement for Public Sector by type of budget user

	Amount of payments (EUR million)	Share of total gross wage bill (%)		Share of allowance recipients (%)		Average monthly allowance per recipient (EUR)	
	Mar.20-Jun.21	Mar.20-Jun.21	Nov.20-May21*	Mar.20-Jun.21	Nov.20-May21*	Mar.20-Jun.21	Nov.20-May21*
Healthcare	324	18	26	55	79	788	982
of which institutions with COVID-19 wards	185	19	27	60	88	730	1013
of which institutions without COVID-19 wards	138	16	24	49	70	750	943
Social assistance	65	16	22	56	78	468	532
Education	105	5	7	18	27	347	440
General Staff of the Slovenian Armed Forces	23	9	15	60	87	293	480
Police	54	14	21	63	91	552	726
Other	53	3	5	34	52	235	225
TOTAL	**624**	**9**	**14**	**36**	**52**	**483**	**608**

*Source: Ministry of Public Administration, FC calculations. Note: *During this period of the second wave of the epidemic, allowances were paid for a full month.*

monthly allowance per recipient between individual public healthcare institutions, which generally perform the same tasks, where the range is from EUR 200 to almost EUR 1,500 per month. In the police and the army together, the total risk allowance paid since the beginning of the epidemic amounted to EUR 77 million. During the second wave of the epidemic, 92% of police and 87% of the army employees received the risk allowance on average per month, with the average monthly allowance per recipient amounting to EUR 726 in the police and EUR 480 in the army, while the total payments accounted for about one fifth of the total gross wage bill in the police and about 15% in the army. Given that an even larger share of employees in the armed forces and the police received the allowance compared to the healthcare sector, we assess that allowances were an attempt to address systemic problems at the time of the epidemic. During the epidemic, EUR 65 million was paid out for the risk allowance in public social assistance institutions. During the second wave of the epidemic, on average 78% of employees received an allowance, and allowances accounted for around one fifth of the total gross wage bill. In the education sector, on average, a good quarter of employees received the allowance between November last year and May this year. A lower share was expected given that educational establishments were closed for a large part of this period. In the spring months, the share of allowance recipients in the education sector started to rise, reaching more than half of all employees in May. At the same time, the average monthly allowance per recipient also increased during the spring months. For all other budget users, EUR 53 million has been paid in risk allowances since the beginning of the epidemic. On average, around a third of employees received it, with the share rising to just over half during the second wave of the epidemic. The average allowance per recipient per month, although much lower than for the above-mentioned budget users, was quite wide ranging, averaging between around EUR 80 and EUR 460 per recipient per month during the second wave of the epidemic.

The way in which allowances were paid during the epidemic points to systemic weaknesses with important lessons also for possible future changes to the public sector wage system. The fact that monthly payments remained high or even slightly increased during the spring months suggests that the payment of allowances was inadequately targeted. This was markedly inconsistent with the course of the epidemic, when the number of confirmed cases had already significantly decreased during this period. According to the analysis presented above, the way in which eligibility for the risk allowance was regulated during the second wave of the epidemic considerably widened the potential pool of beneficiaries. In the absence of clearer criteria linking the amount of the allowance to the actual exposure of the various public employees to a risk situation, the actual payment was entirely at the discretion of the head of each budget user. This has led to significant differences between the allowances to employees in similar types of budget users. In our assessment, the dynamics and volume of payments were also influenced by the gradual return of public employees to their posts in the spring months, which could probably have been avoided by extending home working where possible; that is to say that the almost automatic payment of allowances when physically present at the workplace motivated employees to return as quickly as possible. Furthermore, we estimate that the allowances were an attempt to address systemic problems in certain parts of the public sector (the army, police, nurses). In our view, temporary solutions within the framework of the measures to mitigate the effects of the epidemic are not an appropriate tool to address systemic issues, as the Fiscal Council has repeatedly pointed out since the beginning of the epidemic. The experience with the way in which allowances were paid during the epidemic is particularly important in the light of the multi-annual discussions on improving the efficiency of the public sector. An important part of these is the idea that a larger share of public employees' wages should be variable, depending on the performance of individual public employees. The payment of allowances during the epidemic shows that if this part depended entirely on the discretionary judgement of the head of the unit, without clear and predetermined eligibility criteria, accountability and control, this could lead to large disparities between budget users and potentially to an uncontrolled increase in the total wage bill.[5]

[1] In addition to allowances, the increase in total employee compensation may also result from higher employment and other measures. Thus, total labour costs in the state budget (including public institutions), excluding the payment of allowances in the first eight months of 2021, were 15.0%, or EUR 307 million, higher than in the same period of 2019. This is due to promotions, the agreement reached with the trade unions at the end of 2018, and the release of bonus payments in 2020.

[2] The portal is available at http://www.pportal.gov.si/. It also provides information on the number of recipients and the amount of each allowance as part of the monthly reports.

[3] Among these public institutes, data on the payment of allowances during the epidemic are not available for the Trbovlje General Hospital, and for University Medical Centre Ljubljana for June this year.

[4] In public institutions with the status of a designated COVID-19 hospital, 88% of all employees received the allowance between November 2020 and May this year, compared to 70% in other public institutions. The average monthly allowance per recipient was EUR 1,013 in the former and EUR 943 in the latter.

[5] Potential anomalies in determining wages or promotion in the public sector, despite certain criteria, are, for example, evident in promotions which depend on the assessment of the department heads and where assessments are highly asymmetrically distributed in favour of very good assessments of employee performance. According to the Ministry of Public Administration, the share of employees in state administration bodies with an excellent and very good annual evaluation stood at 78.9% in 2008, rising to 95.8% by 2017.

3. Risks to the macroeconomic and fiscal scenarios

Key findings

- According to the Fiscal Council's assessment, the macroeconomic scenario underlying the projections of the Draft Budgets is dominated by downside risks.
- The risks to the fiscal scenario are more balanced compared to the macroeconomic scenario, mainly due to the likely overestimation of the projections for investment and current spending without taking into account measures to mitigate the effect of the epidemic in 2021.
- The simulations of the deviation in economic growth scenarios suggest the possibility of delaying fiscal consolidation.
- The envisaged scope of epidemic countermeasures in the budget documents is subject to high levels of uncertainty.
- In addition to the risks directly or indirectly related to the COVID-19 epidemic, it is also important to draw attention to the fiscal risks stemming from other economic policy decisions and from the lack of an appropriate medium-term framework.

According to the Fiscal Council's assessment, the macroeconomic scenario underlying the projections of the Draft Budgets is dominated by downside risks. The immediate risks associated with the COVID-19 epidemic are related in particular to the operation of the services sector or to the requirements for meeting the conditions for the use of the activities the sector offers. Although a restriction on the operation of activities is currently not expected, a possible escalation of such measures could again limit economic activity. The indirect risks associated with the epidemic relate to uncertainties that alter the behaviour of economic agents and are estimated to have the greatest impact on private sector investment.[17] Uncertainties also relate to the absorption capacity of EU instruments and to the scale and effectiveness of government sector investments that are expected to provide an important boost to the economic recovery. Uncertainties could also be reflected in the continued high level of private sector savings, which could also be encouraged by possible restrictions on the supply of services to the household sector. Downside risks also prevail in the international environment. In addition to the risks associated with the epidemic, they relate in particular to institutional and logistical constraints in international trade, which are currently also reflected in high raw material prices. Economic growth forecasts for this year and next are improving in the major trading partners, although the possible renewed deterioration in the epidemiological situation, supply-side constraints and high raw material prices pose significant risks that could slow the momentum of growth in the international environment.

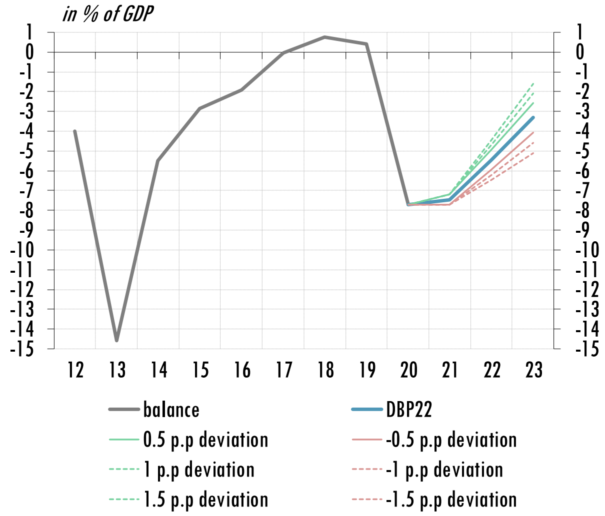
The risks to the fiscal scenario are more balanced compared to the macroeconomic scenario, mainly due to the likely overestimation of the projections for investment and current spending. As with macroeconomic risks, the risks are mainly related to possible additional measures to counter the

[17] See ECB (2020).

epidemic and are also contingent on macroeconomic conditions. Risks to a slower consolidation of public finances than in the baseline scenario in the medium term also lie in extremely low assumptions about the growth of general government spending in 2023. Against this background, we assess that the projections for interest expenditure are not underestimated in the medium term, despite the relatively high government debt and the possible reversal of monetary policy (see Box 3.1). However, there are also upside risks to the baseline fiscal scenario. These relate in particular to a lower outturn of expenditure than foreseen in the budget documents (see Chapter 2) and concern both the projected large-scale government investment and current spending projections. In this respect, doubts about the actual absorption of the high EU funds available and the envisaged rapid implementation of projects arise in particular on the basis of previous experience with budget planning and the absorption capacity of the administration, as well as due to supply-side constraints.[18]

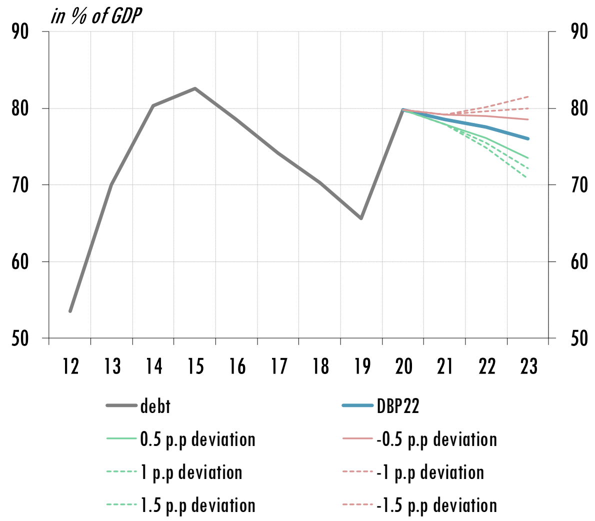
The simulations of the economic growth slippage scenarios suggest the possibility of delaying fiscal consolidation. As part of its Autumn Forecast in terms of risk analysis, IMAD has prepared two scenarios that assume both improved and worsened epidemiological situation and the adjustment of the economy to this situation. The two scenarios assume an asymmetric distribution of deviations from the baseline scenario towards the upside risks in the sum of 2021 and 2022 (the cumulative growth of 1.7 percentage points in the positive scenario, and -1.1 percentage points in the negative scenario). Therefore, rather than the results of these risk scenarios, we have decided to simulate the effects of standardised symmetric deviations of the projected growth of economic activity from the baseline scenario of IMAD's Autumn Forecast on the basis of a simple model.[19] In this respect, because of the short period until the end of the year, we have assumed that the deviation of economic growth from the baseline scenario due to lower uncertainty is only 0.5 percentage points in 2021 and between 0.5 and 1.5 percentage points in the remaining years. Estimates suggest that, with economic growth 0.5 percentage points lower than that in the baseline scenario in each year over the 2021-2023 period

Figure 3.1: Estimates of sensitivity of general government balance (ESA) to deviation in GDP growth



*Source: SORS, forecast: DBP22, FC calculations. *For 2021 all scenarios consider only an absolute deviation of 0.5 p. p.*

Figure 3.2: Estimates of sensitivity of general government debt (ESA) to deviation in GDP growth



*Source: SORS, forecast: DBP22, FC calculations. *For 2021 all scenarios consider only an absolute deviation of 0.5 p. p.*

[18] See Boxes 2.2 and 2.3 in the Assessment of Budget Documents for the 2021–2024 period. Available at: https://www.fs-rs.si/wp-content/uploads/2021/04/Assessment2021.pdf

[19] It is a simple model that enables simulation of the effects of various economic growth assumptions on public finance and of fiscal policy effects on economic growth. In this model, economic activity impacts public finance through automatic stabilisers, and the fiscal policy impacts economic activity reversely through multipliers. For a more detailed explanation of the model, see: http://www.fiscalcouncil.ie/wp-content/uploads/2012/09/FAR_Sept2012.pdf (Annex B).

(real GDP would grow by 4.2% per year on average instead of 4.7% per year), and with unchanged fiscal policy, the general government deficit could be slightly above -4% of GDP in 2023 rather than at around -3.3% of GDP. However, if economic growth in each year over the 2021–2023 period were 1.5 percentage points lower than that projected in the baseline scenario, the deficit in 2023 could exceed -5% of GDP.[20] In the latter case, the general government debt ratio would rise to a level close to 85% of GDP in 2023.

The envisaged scope of epidemic countermeasures in the budget documents is subject to high levels of uncertainty. The presented Draft Budgets foresee expenditure on epidemic prevention in 2022 and 2023 totalling EUR 800 million (see Table 2 in Box 2.2), which is on average around 0.75% of GDP per year (in the case of the general government sector only around 0.2% of GDP per year). Although one fifth of these funds is allocated to the state budget reserves, expenditure on epidemic prevention is, unlike in the previous Draft Budgets, to a large extent already allocated by item. Therefore, in view of the uncertainties associated with the epidemic, the outturn of both the total amount and the spending plans by individual items is subject to relatively high risks and may have a significant impact on the final outturn of the state budget and the general government balance sheet.

In addition to the risks directly or indirectly related to the COVID-19 epidemic, it is also important to draw attention to the fiscal risks stemming from other economic policy decisions and from inadequate medium-term framework. The remaining risks in the current situation are mainly related to discretionary measures reflecting the end of the political cycle. These include the public sector wage negotiations and possible initiatives to change the single wage system or to exempt certain occupational groups from it, which could put pressure on higher government expenditure. In the face of these and similar demands, also as regards increasing social transfers, solutions should be sought that will solve problems not only in the short term, but also systemically, and that will be fiscally sustainable in the long run. Among the legislative solutions which, if approved, will put at least a short-term burden on the state budget is the Long-Term Care Act, where the introduction of a new contribution as a source of funding is not expected until 2024.[21] The fiscal implications of some court decisions (e.g. in relation to holders of subordinated bank bonds) are currently unknown. In the wake of the crisis, the absence of a credible medium-term framework that is realistic and underpinned by proposed measures to gradually consolidate public finances could also undermine investor confidence, according to the IMF analysis.[22] This could contribute to lower economic growth or a slower normalisation of public finances, and is particularly relevant in a period when uncertainties about future macroeconomic developments remain high.

[20] Figures 3.1 and 3.2 show the possible general government balance and debt trends with regard to different economic growth assumptions. The baseline scenario shows the projected general government balance and debt from the proposed Draft Budgetary Plan for 2022. The economic growth assumptions are 0.5 percentage points higher or lower in 2021, and 0.5, 1 and 1.5 percentage points higher or lower in the 2022-2023 period relative to the baseline scenario of the IMAD forecasts (Autumn Forecast, 2021). The maximum shock with regard to the deviation of GDP growth by ±1.5 percentage points is determined based on average absolute errors in the IMAD forecasts in the current and the next year in the 2002-2019 period

[21] According to the Government's expectations, the state budget's contribution to the financing of the implementation of the Long-Term Care Act between 2022 and 2025 is expected to be between EUR 100 million and almost EUR 300 million per year. The proposed law, which includes an assessment of the financial implications (Table 7), is available at: https://e-uprava.gov.si/drzava-in-druzba/e-demokracija/predlogi-predpisov/predlog-predpisa.html?id=7885 (Only in Slovene).

[22] IMF (2021b).

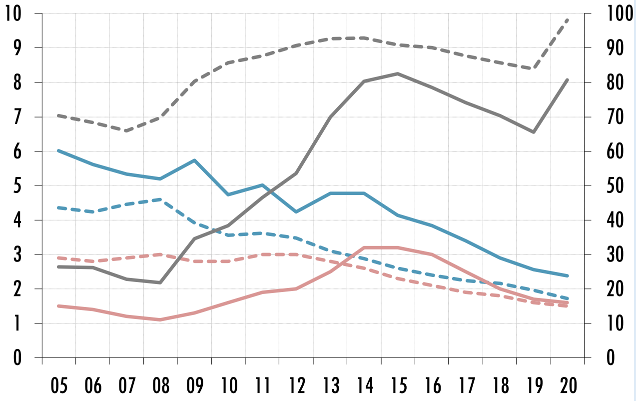
Box 3.1: Risks related to general government interest expenditure

Risks related to high government debt are regularly raised by the Fiscal Council. In addition to the fact that in the past high levels of general government debt, and in particular its rapid increase, generally indicated a high probability of financial and fiscal crises, high levels of debt increase instabilities in the planning and implementation of fiscal policy. High debt levels tend to increase interest expenditure and, in particular, the sensitivity of debt to changes in interest rates.[1] We assess that the risks of increased costs to general government budgets to finance increased general government debt are not significant under current financing conditions in financial markets. However, the risks are likely to increase if general government deficits persist and in the event of a reversal of monetary policy or changed perceptions of financial market regarding debt sustainability, in particular if the economic recovery in Slovenia lags behind the recovery in the euro area at the time of a reversal of monetary policy, or if the assessment of medium- and long-term debt sustainability were to diverge from such estimates for peer countries. The simulations also suggest that the risks to interest expenditure would become particularly high if the current long-term projections for age-related government expenditure were to materialise.

Interest expenditure has declined sharply over the past few years, largely supported by highly accommodative monetary policy and, to some extent, by active debt management. After a relatively stable level at the beginning of the millennium, interest expenditure in Slovenia increased sharply during the global and financial crisis, reaching over EUR 1.2 billion per year in the 2014-2016 period. Since then, similar to the euro area, interest expenditure fell and reached below EUR 800 million in 2020. In terms of GDP, interest expenditure in Slovenia halved and declined by 1.6 percentage points of GDP over that period, which was the third largest decrease in the share of general government interest expenditure in GDP in the euro area after Ireland and Portugal.[2] This was mainly due to monetary policy measures, in particular the secondary market purchases of government securities carried out by the Eurosystem under various programmes since 2015. Thus, by the end of July 2021, the Eurosystem had purchased around EUR 5.6 billion of Slovenian government debt on the secondary market under the Pandemic Emergency Purchase Programme (PEPP)[3] alone, making Slovenia one of the countries with the highest share of debt purchased relative to pre-crisis debt level. In Slovenia, the reduction in implicit interest rate[4] was also influenced by the active debt management policy, especially in the 2016–2018 period, when the majority of some large USD bond with high required yields (between 5.25% and 5.85%) were repurchased prematurely under favourable financial market conditions.

Maintaining the higher required yields of the past[5], the interest costs of the general government would have been significantly higher. If implicit interest rates had been maintained at the 2013 levels when they reached their post-global and post-financial crisis peaks (just below 5%), we find that the cost of debt financing over the last seven years would have been cumulatively higher than the actual outturn of interest expenditure by around EUR 3 billion, or around EUR 450 million per year on average. This is more than half of the 2020 general government interest expenditure. If the implicit interest rate had remained remain at a level similar to the estimate of the projected growth of long-term economic potential,[6] e.g. close to the 2016 level of 4%, general government interest expenditure would have been cumulatively higher by around EUR 1.2 billion from 2017 to 2020, or around EUR 300 million per year on average. Compared to other EU countries, Slovenia ranks 6th for 2013 and 1st for 2016 in terms of estimated savings on interest expenditure estimated under such assumptions. The weakness of such an analysis is that it assumes the same interest rate for the total outstanding debt and not only for the newly issued debt. Due to the rapid decrease in the required yield rate on newly issued debt after 2014, similar results on the savings in interest expenditure are notwithstanding also achieved by an analysis that attributes the alternative assumed interest rate to only debt issued in a given year.[7] Rather than using the implicit interest rate on the total debt, we have thus assumed the values of the weighted required yields for securities issued in 2013 (5.0%) and 2016 (1.5%) for the newly issued debt only and extended them to 2020 in each of the two cases. These values were used in the 2014-2020 and 2017-2020 periods, respectively, in the calculation of interest costs instead of the values of

Figure 1: General government debt and interest in Slovenia and the euro area



Source: Eurostat, FC calculations.

Figure 2: Implicit interest rate on general government debt in Slovenia and selected other euro area countries

Source: Eurostat, FC calculations.

Figure 3: Share of net purchases of public sector securities under the PEPP in general government gross debt*

% of 2019 gross debt

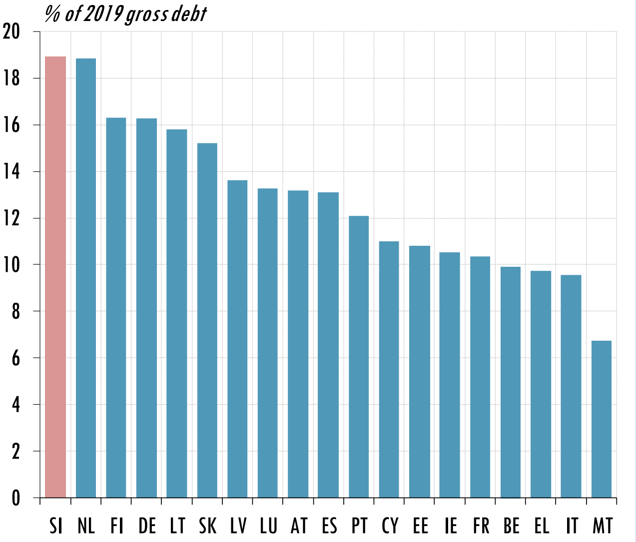
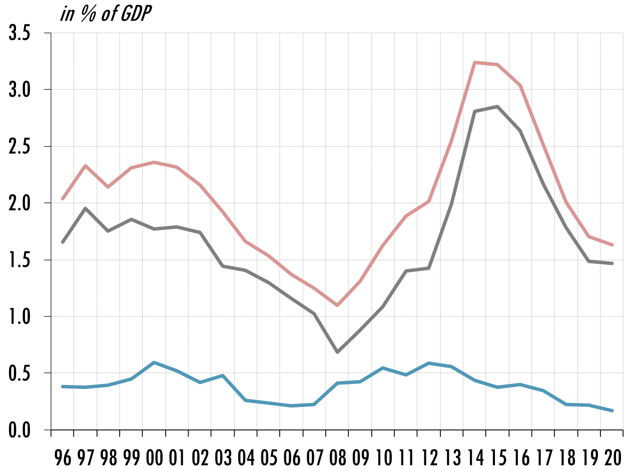


Figure 4: General government net interest expenditure and interest expenditure and revenue

in % of GDP



Source: SORS, FC calculations.

the actual required yields, which were determined at the time each security was issued in the mentioned periods. Cumulatively, general government interest expenditure would have been higher by around EUR 2.5 billion in the 2014–2020 period, but only by around EUR 30 million in the 2017–2020 period.

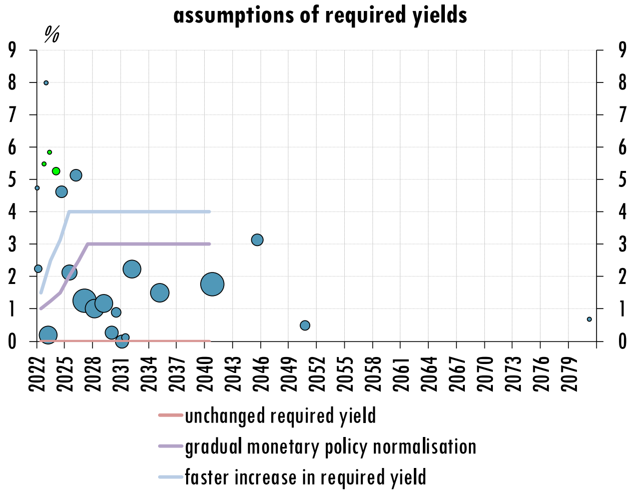
Some central banks in advanced economies have already tightened or announced a gradual normalisation of monetary policy this year.[8] There are no visible signs of this in the euro area yet, although in September 2021 the Eurosystem also announced a gradual slowdown in the pace of the redemption of securities, suggesting that the current expansionary monetary policy will recede over time. For this reason, we have prepared several simulations of the future trend in general government interest expenditure in view of possible changes in the required yields on government securities. In doing so, we provide an indication of the risks to which the cost of financing increased debt could be exposed in the future.

No particular problems with the total cost of financing general government debt are expected in Slovenia over the next few years, given the average duration to maturity of the securities currently issued and the current low yield requirements. In July 2018, the Ministry of Finance launched the Interest Rate Hedging Programme, which is aimed at partially limiting the impact of a possible rise in interest rates on the interest expenditure of the state budget.[9] At the end of 2020, EUR 4.6 billion of long-term interest rate swaps (around 16% of the then state budget debt, or just under 13% of the debt from the mid-2021) were concluded. Under the current debt maturity scheme of the state budget, such a volume is sufficient for about two years of protection against rapidly rising costs incurred in refinancing matured liabilities over the next ten years.[10]

In the simulations of potential interest costs over the medium term, we have used three assumptions about the possible trends in required yields for newly issued general government debt. These are presented in Figure 5. The first scenario assumes an unchanged required rate of yield corresponding to the weighted average of new debt issued in the first half of 2021 (0.0%). The second and third scenarios assume a gradual and a more rapid increases in the required yield, which could result from the normalisation of monetary policy, and, in the third scenario, from a further change in the perception of government debt on financial markets. An important assumption in the simulations is that all existing debt is refinanced in the coming years (i.e. debt is not reduced in nominal terms, but remains at its current level of around EUR40 billion) and that no additional debt is created. Each refinancing of the total outstanding debt is carried out in full and on the basis of the assumed required yield at the time of maturity. The simulations are made on the assumption of nominal GDP growth of 4% in each year, which at the same time corresponds to the highest assumption applied on the level of the required yield rate.[11]

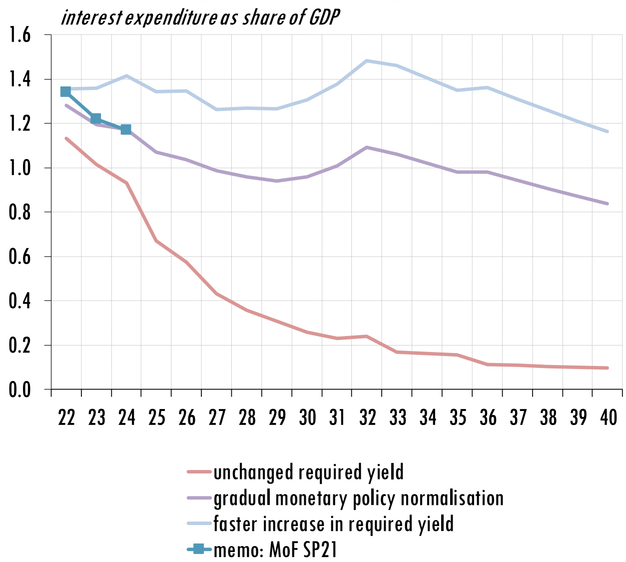
Against the background of a given nominal debt level, the results thus point to a very probable decline in the share of interest expenditure in GDP by 2030.[12] Interest costs remain at around 1% of GDP in the second scenario and at around 1.2% of GDP in the third scenario, even in the longer term, under the given assumptions. At the same time, the results of the simulations also suggest that an increase in the required yields could lead to a difference in the interest expenditure-to-GDP ratio of around 1 percentage point each year over the entire simulation period until 2040. The simulations also suggest that interest costs in the third scenario, with GDP growth halved over the whole period (an increase of 2% compared to 4% in the baseline scenario), would be close to 2% of GDP in 2040 instead of around 1.2% of GDP. This suggests, inter alia, that interest expenditure cannot be expected to contribute as positively to the reduction of government expenditure in the future as in recent years. Let us reiterate that none of the above results takes into account possible additional general

Figure 5: Key characteristics of debt maturities and assumptions of required yields



Note: The size of circles represents a volume of matured liabilities based on long-term debt in certain year. The size of circles represents the volume of matured liabilities based on long-term bonds in that year. The green colour marks the bonds issued in USD.
Source: MoF, FC calculations and simulations.

Figure 6: Simulation results based on alternative assumptions regarding required yields



Source: MoF, FC calculations and simulations.

government deficits and the resulting increase in debt. In this case, interest expenditure would become more sensitive to possible changes in the required yields and, therefore, could also increase significantly in the event of shocks.

If current long-term projections of age-related general government expenditure were to materialise, interest expenditure could increase more significantly. The age-related general government costs are projected to start rising more significantly after 2025 and will importantly increase general government debt, especially as this could coincide with the normalisation of monetary policy or with the emergence of a major economic or fiscal crisis in the future, or a simultaneous and consequent slowdown in the growth of long-term economic potential. If, instead of the long-term scenario that assumes unchanged nominal debt, we adopt the long-term scenario shown in Figure 5.2 in the Fiscal Council (2021b)[13], in which general government debt reaches around 120% of GDP in 2040, interest expenditure would be at around 3.6% of GDP instead of 0.8% of GDP in that year. Such a level of interest expenditure would exceed the highest share achieved so far in 2014 and 2015 by around 0.5 percentage points of GDP.[14]

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[1] The analysis of the Fiscal Council, which presents in more detail some of the consequences of high debt, is available at https://www.fs-rs.si/wp-content/uploads/2021/03/2021_1_Debt.pdf.

[2] The decrease in net interest expenditure was also similar. Although general government interest income has declined over the past few years, its level represents on average one-quarter of general government interest expenditure over the long term and around one-eighth over the past few years.

[3] Pandemic Emergency Purchase Programme. More at: https://www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html

[4] This is calculated as the ratio of interest expenditure over one year to the amount of general government debt at the end of the previous year.

[5] The yields required by investors in government securities when issuing debt securities can be roughly divided into a part that is independent of the risks to which the country is exposed (this part follows the central bank interest rate or corresponds to the required yield for debt securities of countries with low assessed risk, e.g. Germany) and a part reflecting the macroeconomic and fiscal risks to which a country is exposed, which indicates the likelihood that a country will not be able to repay its debt (e.g. Manganelli and Wolswijk, 2007).

[6] V In this case, the change in debt would only depend on the primary balance (and possible stock-flow adjustments).

[7] Due to data limitations, no comparative analysis is possible. The transparency of the data made public by the Ministry of Finance on the debt structure is extremely high compared to other countries. The exception is data on the maturity and cost of the state budget's borrowings, which at the end of July 2021 stood at EUR 1.9 billion or 5% of the total government debt. According to the Ministry of Finance, almost three-fifths of this amount is a SURE loan (EUR 1.1 billion) received in November 2020 and February 2021.

[8] See e.g. overview at https://think.ing.com/articles/ing-outlook-central-banks-september-2021/

[9] See Chapter 4.3 of the State Budget Debt Management Report (Ministry of Finance, 2020).

[10] The high amount of liquid investments on the Single Treasury Account (EZR), which stood at just under EUR 7 billion at end-August 2021, also acts as an additional direct and indirect safeguard against potential increases in refinancing costs.

[11] Using the above assumption, general government debt is reduced to around 35% of GDP by 2040 in the baseline scenario.

[12] Regardless of the assumptions used for a gradual or faster increase in the required yield. This conclusion is also consistent with the fact that the current average duration of debt to maturity is around 10 years. The interest rate hedging instrument used by the Ministry of Finance was additionally taken into account in the simulations in the 2027-2029 period, when some large issues of bonds with a required yield at issuance of 1.0-1.25% mature.

[13] This is scenario 4, which we identified as the most probable in the long-term debt simulations and which, in addition to taking into account the projected increase in expenditure and a gradual decline in age-related general government revenues, also included an assumption of a similar increase in the required yields as the one taken into account in this analysis in the scenario of a gradual normalisation of monetary policy (cf. Figure 5.1. in the Fiscal Council, 2021).

[14] If general government debt remained at its current level of around 80% of GDP, interest expenditure in 2040 would reach around 2.2% of GDP in the baseline scenario.

4. Adequacy of fiscal policy orientations

Key findings

- In September 2021, the Fiscal Council assessed that, based on currently available information and forecasts, the conditions for the existence of exceptional circumstances will continue to be met in 2022. The Fiscal Council expects that, once none of the conditions for invoking exceptional circumstances is met any longer, the Government will adhere to the implementation of the correction mechanism in accordance with the legislation.
- The general government deficit and debt are projected to exceed the Maastricht criteria at the end of the period covered by the Draft Budgets, despite significantly higher revenue levels.
- The proposed amendments to the Framework Proposal relate to the increase in the ceilings on general government expenditure and all fiscal budgets, with the exception of the Health Insurance Institute of Slovenia (ZZZS). The proposed changes to the ceilings are again significant.
- As in the review of the Framework Proposal for 2021, the Fiscal Council notes that the projected levels of general government expenditure are too high in 2022, and are partly appropriate in 2023, but only because of unrealistic planning.
- Fiscal policy is markedly expansionary in the Framework Proposal but, according to current estimates, would be supportive even without the projected increase in expenditure ceilings.

4.1 Existence of exceptional circumstances in 2022[23]

The Fiscal Rule Act sets out two conditions for the existence of exceptional circumstances that allow for a temporary deviation from the medium-term balance, provided that it does not jeopardise fiscal sustainability in the medium term. Pursuant to paragraph one of Article 12 of the Fiscal Rule Act, such a deviation is only permitted (i) in periods of severe economic downturn or (ii) in the case of an unusual event outside the control of the party concerned which has a major impact on the financial situation of the general government sector, as defined by the Stability and Growth Pact. The Fiscal Rule Act does not set out the criteria for determining the severity of an economic downturn nor the extent of the unusual event having a major impact on the financial situation of the general government sector. Therefore, the Fiscal Council applies in its assessment the criteria for determining the adequacy of conditions which, in its opinion, correspond best to the requirements referred to in the Fiscal Rule Act.

Assessments of fulfilment of the conditions for invoking exceptional circumstances have been carried out by the Fiscal Council since March 2020 along with each assessment of the budget documents and each time the macroeconomic forecasts underlying the preparation of the budget documents are updated. At the outbreak of the epidemic in March 2020, the Fiscal Council established that the epidemic was an unusual event, which, under Article 12 of the Fiscal Rule Act, allowed exceptional circumstances to be enforced. In accordance with the same Article, the

[23] The text is a summary of the assessment published on 23 September 2021. The assessment of the Fiscal Council is available at: https://www.fs-rs.si/wp-content/uploads/2021/10/Exceptional-circumstances_September-2021.pdf

Government can request the Fiscal Council to assess whether exceptional circumstances have arisen or ceased to exist, which was the case in autumn 2020 and spring 2021. The Fiscal Council has so far made three assessments on the existence of exceptional circumstances.[24] In each assessment on the fulfilment of the conditions for invoking exceptional circumstances, it called for caution in the introduction of measures during the period of exceptional circumstances. It also noted that measures adopted to deal with exceptional circumstances should be temporary and should directly address the exceptional circumstances.

The Fiscal Council assesses that, based on currently available information and forecasts, the conditions for the existence of exceptional circumstances will continue to be met in 2022. The uncertainties relating to an unusual event or an epidemic are a key factor supporting this assessment. Given the current relatively low vaccination rate among the population and the possibility of new variants of the virus, the epidemiological situation remains uncertain. As a result, the effects of the epidemic and the current and potential additional containment measures on economic activity are also uncertain. According to the latest forecasts, GDP is projected to reach pre-crisis levels as early as 2021, which suggests that one of the two legal conditions for invoking exceptional circumstances would not be met. On the other hand, fiscal policy measures have contributed significantly to the relatively rapid recovery of economic activity. At the same time, the risks to further growth are largely negative, which calls into question the sustainability of the recovery. In this context, it should be noted that constraints are already emerging, both domestically and internationally, in particular on the supply side, which could lead to new macroeconomic imbalances if fiscal policy is excessively accommodative.

The existence of exceptional circumstances in 2022 only allows for flexibility in the conduct of fiscal policy in order to directly address the challenges brought by the epidemic and for a gradual withdrawal of incentive policies. In 2021 (March and June), the European Commission published two recommendations concerning the activation of the general escape clause, which allows EU Member States to temporarily depart from the guidelines applicable under normal circumstances.[25] In addition to noting that the EU-wide general escape clause would continue to apply in 2022, the Commission also provided guidance that fiscal policy should remain supportive throughout 2021 and 2022.[26] For 2022, it called for the differentiation of EU Member States' fiscal policies, taking into account differences in the recovery state of economic activity and the different risks to the medium- and long-term fiscal sustainability of each country. Thus, given the recovery in economic activity and the fact that Slovenia is among those countries with higher risks to the sustainability of public finances, which is also due to the above-average increase in debt during the epidemic, the Fiscal Council's interpretation of the existence of exceptional circumstances in 2022 is also in line with the European Commission's guidance.

The invocation of exceptional circumstances should not be used to adopt excessive measures that reflect the final stage of the political cycle. The experience gained since the beginning of the epidemic shows that, in Slovenia, part of the funds earmarked for the prevention and containment of the effects of the epidemic were spent in a way that was untargeted and therefore sub-optimal in view of the actual epidemiological or macro-economic circumstances, and were also used to a

[24] The Fiscal Council's assessment to date on the fulfilment of conditions for invoking exceptional circumstances can be found at na https://www.fs-rs.si/wp-content/uploads/2020/03/Assessment_extraordinary-event-under-the-Fiscal-Rule-Act-_March-2020.pdf (March 2020),), https://www.fs-rs.si/wp-content/uploads/2020/10/Exceptional-circumstances_October-2020.pdf (October, 2020) and in https://www.fs-rs.si/wp-content/uploads/2021/04/Exceptional_circumstances-_april2021_en.pdf (April, 2021).

[25] The recommendations are available at: https://ec.europa.eu/info/sites/default/files/economy-finance/1_en_act_part1_v9.pdf (March 2021) and https://ec.europa.eu/commission/presscorner/api/files/document/print/en/ip_21_2722/IP_21_2722_EN.pdf (June 2021). In the latter, the European Commission concluded on the basis of its spring forecast that the general escape clause would continue to apply in 2022 and that the reasons for its validity would cease to exist in 2023.

[26] Similar conclusions have also been made by the IMF, the OECD and the European Fiscal Board.

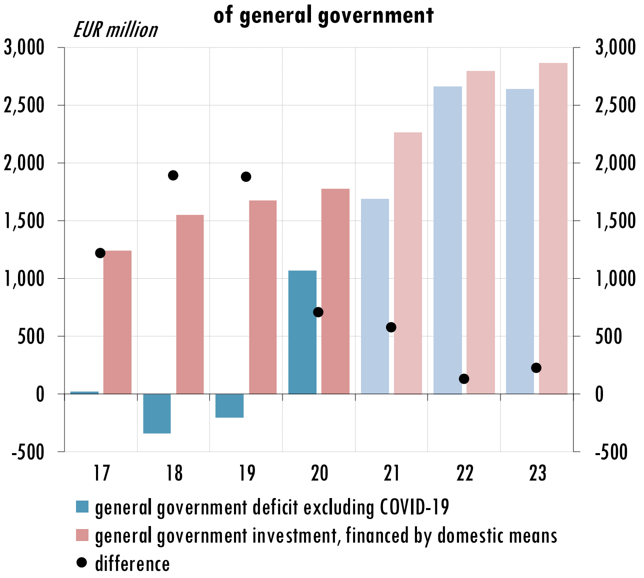
significant extent to address systemic problems. In the stage of still fragile economic recovery, which is currently still being supported by both fiscal and monetary policies, measures that would weaken the structural position of public finances and that do not include instruments to ensure their medium-term fiscal balance should be avoided. Accordingly, the European Commission calls for a better quality of public finances to help address long-term challenges.

The Fiscal Council expects that, once none of the conditions for invoking exceptional circumstances is met, the Government will adhere to the implementation of the correction mechanism in accordance with the legislation. Article 14 of the Fiscal Rule Act provides that the minister responsible for finance will implement measures as defined in the Act governing public finance for the purpose of balancing public finance in the medium term if the Government, on the basis of an assessment of the Fiscal Council, determines that circumstances referred to in paragraph one of Article 12 of the aforementioned Act have ceased to exist and that the structural balance of the general government sector is lower than the minimum value as defined in paragraph three of Article 3 of the aforementioned Act. The Fiscal Council also expects that, once the correction mechanism is in place, fiscal policy will be conducted in a manner consistent with the applicable legislation governing fiscal rules, ensuring that structural measures are in place to prepare for future shocks and adequately address the challenges to the long-term sustainability of public finances.

4.2 Assessment of the appropriate fiscal policy stance

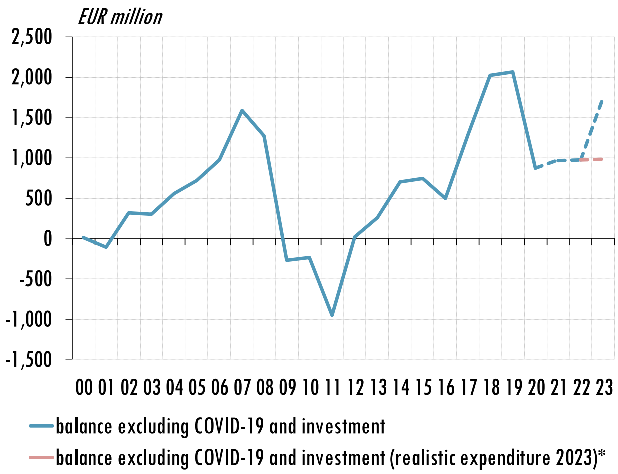
The general government deficit and debt are projected to exceed the Maastricht criteria at the end of the period covered by Draft Budgets, despite a significantly higher level of revenue. Both indicators are gradually declining as a share of GDP, but remain high in nominal terms. In 2023, the general government balance deficit is projected to stand at 3.3% of GDP and general government debt at 76.0% of GDP. The general government balance deficit in 2023 is projected to be EUR 1,864 million, although the level of GDP is projected to be 16% higher than in the pre-crisis period, when a surplus was generated in 2019. Excluding the COVID-19 measures and investments, and assuming a more realistic assumption about the growth of expenditure thus defined in 2023 (3.3% compared to

Figure 4.1: Deficit and domestic-financed investment of general government



Source: SORS, MoF, FC calculations.

Figure 4.2: General government balance



*Note: *Year 2023 assuming the growth of expenditure excluding COVID-19 and investmente equals long term 2005-2019 average growth rate (3.3 %).*
Source: SORS, MoF, FC calculations.

2022),[27] the static estimate implies a general government surplus, which on average in 2022-2023 is nevertheless one half (or EUR 1 billion) lower than the equally defined balance in 2019. Similar conclusions are also reached when examining the difference between the general government balance and investment (i.e. "the golden investment rule"). In fact, in the documents submitted, the general government deficit, net of the effect of the COVID-19 measures, is smaller in absolute terms than the projected domestic investments or non-EU-funded investments. However, in 2022, the difference is very small and in 2023 the favourable difference is mainly due to the extremely low assumption of expenditure growth in that year.

The Government needs to determine the maximum level of expenditure despite allowing for a temporary deviation from the medium-term fiscal balance due to exceptional circumstances. In accordance with Article 13 of the FRA, the Government did so by amending the framework for drafting general government budgets, which was submitted to the Fiscal Council for assessment together with the Draft Budgets. The Framework Proposal contains revised expenditure ceilings for 2022 and 2023. The expenditure ceilings for 2024 remain unchanged.

Despite the existence of exceptional circumstances, the Fiscal Council regularly reviews, on an indicative basis, whether the highest general government expenditure, which does not include the direct fiscal effects of the epidemic-related measures, complies with the current legislation. According to the interpretation of both the Fiscal Council[28] and the European Commission[29], a temporary deviation from the medium-term balance is permitted in exceptional circumstances only for the part of the budget headings that are directly and purposefully related to limiting the impact of exceptional circumstances. The severely deteriorated cyclical position in the emergency situation, even taking into account the provisions of the FRA, allowed for relatively high counter-cyclical increases in general government expenditure, including those not directly related to the epidemic. Given the crucial role that general government investments are expected to play in the economic recovery and in strengthening the resilience of the economy and economic potential, in addition to assessing the compliance of fiscal policy with the legislation, this is taken into account in alternative indicators of fiscal policy position by excluding investments from total government expenditure.

The proposed amendments to the Framework Proposal relate to the increase in the ceilings on general government expenditure and all fiscal budgets, with the exception of the Health Insurance Institute of Slovenia (ZZZS). The framework for the preparation of general government budgets for the 2022–2024 period was set for the first time in April 2021.[30] The proposed increase in the expenditure ceiling compared to the April 2021 framework for the general government sector as a whole amounts to EUR 1,065 million for 2022 and EUR 935 million for 2023. The expenditure ceiling for 2024 remains unchanged. The increase in the expenditure ceiling of the state budget contributes the largest share to the proposed increase in 2022 and 2023. The proposed increases in the expenditure ceilings are substantial. However, the increase in the government expenditure ceiling corresponds to about one half of the projected increase in GDP.[31] The new deficit targets, measured as a share of GDP, are therefore also lower, simply because of the expected high increase in GDP.

[27] The growth assumption of 3.3 % reflects the average annual growth in general government expenditure over the 2005-2019 period, net of investment and net of capital transfer expenditure for the banking bailout in 2013 and 2014.

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

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

[30] Publication from the Official Gazette (65/21) is available at: https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2021-01-1352/odlok-o-okviru-za-pripravo-proracunov-sektorja-drzava-za-obdobje-od-2022-do-2024-odpsd22-24 (Only in Slovene).

[31] With the revision of the 2022 framework, the share of projected general government expenditure in GDP is even slightly increased (from 48.8 % to 48.9 %) compared to the projected expenditure ratio in April. In 2023, the share will be reduced to the same extent.

Table 4.1: Changes to the Framework for 2022 and 2023

	Genral government		State budget		Local govt.	Pension Fund	Health Fund	GDP
	targ. balance	max E	targ. balance	max E	max E	max E	max E	EUR million
	% of GDP	EUR million	% of GDP	EUR million	EUR million	EUR million	EUR million	
Framework, April 2021 (OG 65/2021)								
2022	-5.7	25,040	-4.9	13,300	2,405	6,300	3,720	51,345
2023	-3.8	25,045	-3.6	13,060	2,410	6,480	3,745	54,026
2024	-2.8	25,430	-2.5	12,730	2,415	6,675	3,850	…
Framework Proposal, October 2021								
2022	-5.5	26,105	-4.6	13,950	2,494	6,480	3,720	53,352
2023	-3.3	25,980	-2.6	13,365	2,505	6,640	3,745	56,136
2024	-2.8	25,430	-2.5	12,730	2,415	6,675	3,850	…
Difference								
October 2021-April 2021								
2022	0.2	1,065	0.3	650	89	180	0	2,007
2023	0.5	935	1.0	305	95	160	0	2,110
2024	0	0	0	0	0	0	0	…

Source: OG (Official Gazette of the Republic of Slovenia), MoF, FC calculations.

The explanatory notes accompanying the Framework Proposal identifies measures to address the effects of the epidemic as the main reason for raising the ceilings on state budget expenditure. This includes planned measures to ensure adequate protection of the population against the virus through vaccination and testing or the implementation of screening programmes, the purchase of protective equipment and funds for the payment of COVID-19 measures that are already in force but their funding will expire in 2022. The increase in expenditure foreseen for this purpose represents two thirds of the total change in the state budget's expenditure ceiling, or less than half of the change in the general government's expenditure ceiling. The remainder of the changes in the ceilings is due to the investments in healthcare,[32] the implementation of European cohesion policy programmes (including at the level of municipalities, where higher lump sums also contribute to the increase in the ceiling) and higher pension liabilities, which are increased as a result of legal commitments and revised macroeconomic forecasts. The general budgetary reserve is also expected to increase, including a provision of EUR 166 million in 2022 to cope with the effects of COVID-19.

The Fiscal Council assesses the 2022-2024 framework for the second time. In the first assessment of the framework for the preparation of general government budgets for the 2022–2024 period in April 2021, the Fiscal Council[33] noted that the planned general government expenditure for 2022 slightly exceeded the statutory expenditure ceilings. The Council considered the planned expenditure in 2023 and 2024 to be adequate, but questioned the feasibility of projected expenditure, as its realisation would not be possible without taking measures to ensure the low target level.

The Fiscal Council again notes that the projected levels of general government expenditure in 2022 are too high in relation to the statutory defined ceilings. In 2023, the level of expenditure is partly adequate, but only as a result of the deteriorated starting position in 2022 and, given the measures in place, under-estimated expenditure growth. The projected ceilings for government

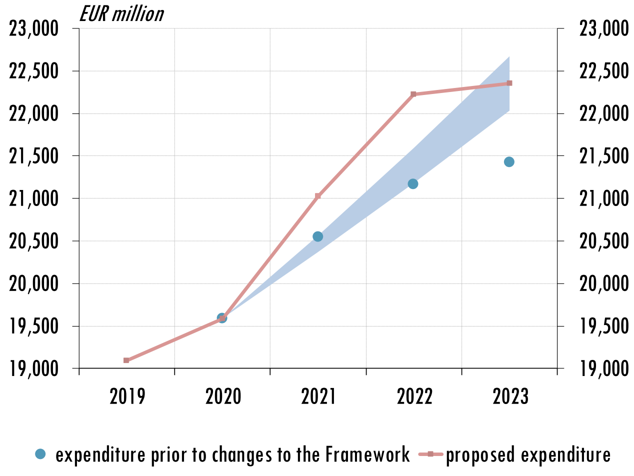
[32] These amount to EUR 1,700 million guaranteed under the Act Regulating the Provision of Funds for Investments in Slovenian Healthcare in the 2021–2031 Period. In addition, investments in schools and kindergartens are expected to increase (EUR 72.5 million in the 2021–2024 period), while some budget funds have planned higher investments for 2022 and 2023, notably the funds for climate change and water, and the Housing Fund of the Republic of Slovenia. In particular, in the plans for investments in cultural infrastructure, primary education, healthcare and social infrastructure and water infrastructure, the focus of expenditure is planned for 2022.

[33] The Assessment is available at: https://www.fs-rs.si/wp-content/uploads/2021/04/Assessment2021.pdf.

expenditure in the Framework Proposal, net of expenditure on COVID-19 measures in 2022,[34] are higher than required by the FRA by between around EUR 600 and 1,300 million (see Table 5.6 in Annex). Furthermore, the proposed levels of expenditure in 2023 exceed the statutory ceiling for general government expenditure by between EUR 600 and EUR 1,100 million (see Table 5.6 in the Annex). This conclusion is supported by the fact that the overshoot is indicated by calculations based on all the output gap estimates used by the Fiscal Council to assess the cyclical position.[35] Those calculations are made on the assumption that the period of exceptional circumstances is lifted in 2023 and the structural adjustment requirement begins only in that year, while no deterioration of the structural balance is allowed in 2022. If, on the contrary, we assume the expenditure ceilings of the Framework Proposal for 2022 as a starting point and require structural adjustment in 2023 in accordance with the applicable fiscal rules, the expenditure ceilings are appropriate, as the projected expenditure is below the ceilings required under the FRA by a maximum of around EUR 500 million. This is only due to a significant deterioration of the structural balance in 2022, which sets high expenditure levels as a starting point for determining the structural position of the public finances in 2023. As the Fiscal Council assesses that the expenditure projections in the budget documents in 2023 are underestimated, we also carried out a simulation of the compliance of the proposed expenditure ceilings in that year if expenditures were to grow at a similar rate to the long-run average of expenditure growth (3.3%). In this case, the overshoot of the expenditure ceiling in 2023 required under the FRA would be between around EUR 500 million and EUR 1,000 million. Taking into account the planned volume of investments to be financed by EU funds (see Figure 2.8), this would be close to the requirements of the FRA in that year. According to the analysis in Chapter 2, the projections for investment financed by EU funds are, according to the Fiscal Council, likely to be overestimated.

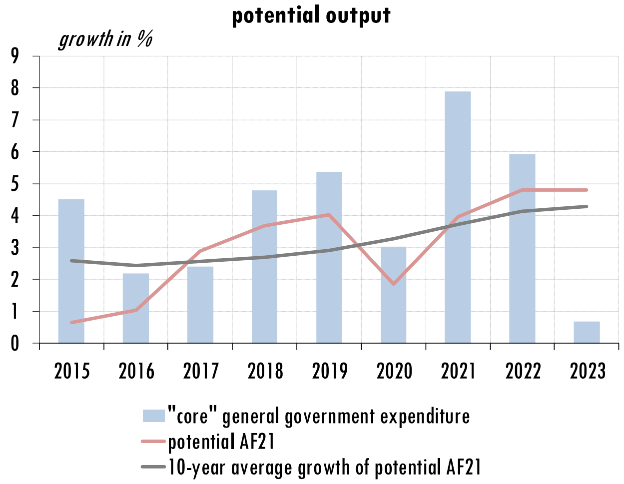
Alternative indicators on the level and growth of expenditure show the same picture. A comparison of the levels or growth of expenditure with those which would be allowed by the growth

Figure 4.3: Simulations of general government expenditure excluding COVID-19 expenditure and investment



Note: Shadded area represents levels of expenditure, consistent with potential growth between 4 % and 5 %.
Source: SORS, MoF, FC calcaultions.

Figure 4.4: "Core" general government expenditure and the potential output



Note: "Core" expenditure is general government expenditure excluding COVID-19 related expenditure, investment and interest expenditure. Capital transfers, related to recapitalisation of the banking system from 2014 are also not included.
Sources: SORS, MoF, IMAD, FC calculations.

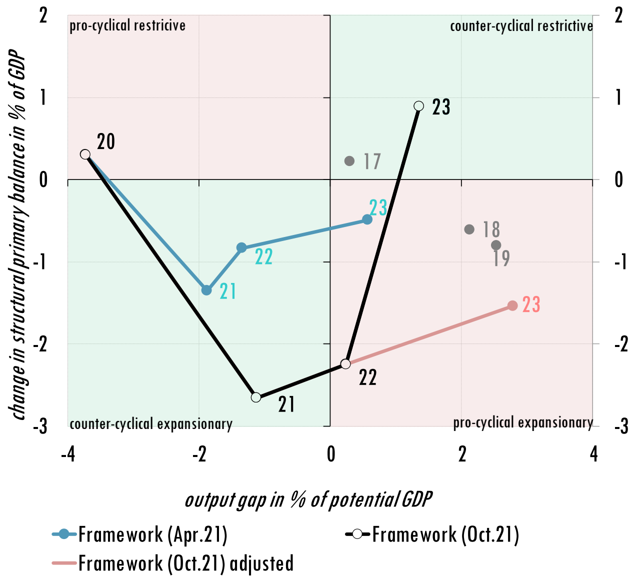
[34] The one-off factors that we exclude from the calculations related to the structural indicators of public finances include some other effects in addition to all fiscal effects of COVID-19 measures. The calculations take into account one-off factors of 5.64 % of GDP in 2020, 4.15 % of GDP in 2021, 0.62 % of GDP in 2022 and 0.01 % of GDP in 2023.

[35] Although the output gap estimates produced by international institutions (EC, OECD) do not include a lower drop of economic activity last year and the adjusted GDP growth forecasts for this year's rapid recovery in the first half of the year. Consequently, and in line with the latest estimates made by IMAD and the Ministry of Finance, we assess that the current average estimate of the output gap, based on the set considered by the Fiscal Council, is probably somewhat underestimated.

of economic potential[36] shows that the proposed level of general government expenditure, after a significant overshoot in 2021,[37] is also too high in 2022, while it is much lower in 2023. At the same time, the high growth of "net" expenditure[38] in 2022 is almost double the average growth of thus defined expenditure over the last decade and a half.

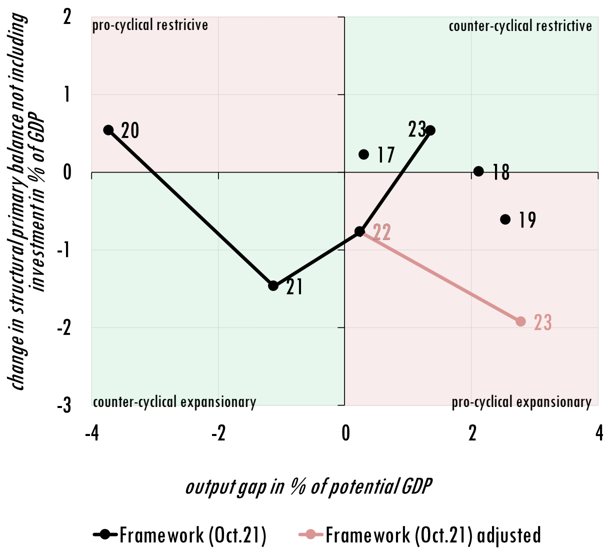
Fiscal policy is markedly expansionary in the Framework Proposal but, according to current estimates, would be supportive even without the envisaged changes to expenditure ceilings. The cumulative increase in the structural deficit[39] is projected to be between around -1.5 and -4.0 percentage points of GDP in 2021 and 2023 if the Proposed Framework is implemented and based on current estimates of the cyclical position of the economy (see Table 5.3 in the Annex), while in the case of unchanged frameworks in the 2021-2023 period, the structural deficit would increase by between -0.6 and -3.1 percentage points of GDP over those three years. The current estimates of the Framework Proposal thus point to a markedly expansionary fiscal policy in 2022, which is very similar to that of 2021 (if the proposed amendment to the framework for this year is implemented), and a restrictive policy in 2023. A more realistic assumption of growth in government expenditure at the level of long-term average (see explanatory notes in footnote 27) suggests a continuation of the expansionary policy in 2023 as well, although such a stance would be inadequate in that year in view

Figure 4.5: Fiscal stance of various Frameworks[40]



Source: SORS, MoF, FC estimates.

Figure 4.6: Fiscal policy stance not including investment[41]



Source: SORS, MoF, FC calculations.

[36] Growth in general government expenditure is sustainable in the long term if it is in line with revenue growth, which is illustrated by the growth of economic potential. Revenue growth can deviate from economic potential growth, especially in the case of discretionary tax changes, so expenditure usually needs to be adjusted for such structural changes.

[37] See the Fiscal Council's assessment of the proposal to amend the framework for the preparation of general government budgets for the 2020–2022 period. Available at: https://www.fs-rs.si/wp-content/uploads/2021/10/Assessment_October2021.pdf.

[38] General government expenditure, net of COVID-related expenditure and expenditure on interest and investments. For the determination of long-term growth, see footnote 27.

[39] Depending on the output gap assumption used (see Table 5.1 in the Annex). In the calculations, COVID-related expenditure is assumed to be a one-off effect. On the rationale for including COVID-related expenditure as a one-off effect, see e.g. Chapter 4.2 and in particular Box 4.2 in the Fiscal Council: Assessment of budget documents for the 2021–2024 period. Available at: : https://www.fs-rs.si/wp-content/uploads/2021/04/Assessment2021.pdf).

[40] The "Framework (Oct.21)" scenario is determined on the basis of budget documents and the Fiscal Council's output gap estimate. The difference between "Framework (Oct.21)" and the "Framework (Oct.21) Adjusted" scenarios is in a revised long-term growth in 2023. The "Framework (Apr.21)" scenario takes into account expenditure from the currently applicable frameworks. With each change in expenditure, we revised the output gap estimate by taking into account a multiplier of 0.8 and the short-term rigidity of supply in the face of a change in demand. In all scenarios, COVID-19 measures are taken as a one-off factor.

[41] In determining the structural balance, the "Framework (Oct.21)" scenario excludes total general government investment in addition to one-off factors. The difference between "Framework (Oct.21)" and the "Framework (Oct.21) Adjusted" scenarios is in a revised long-term growth in 2023. With each change in expenditure, we revised the output gap estimate by taking into account a multiplier of 0.8 and the short-term rigidity of supply in the face of a change in demand. In both scenarios, COVID-19 measures are taken into account as a one-off factor.

of the current output gap estimates. While the output gap estimates imply a relatively neutral cyclical position of the economy[42] on average over the 2021-2023 period, such a conclusion is likely to slightly underestimate the actual level of the recovery (see also Chapter 1.2). The changes in the structural balance of the projected volume in 2021 and 2022, if the Framework Proposal was to materialise, would be similar to the largest ever increases in the structural balance deficit in Slovenia and also the highest fiscal stimulus in developed countries, with the exception of the measures taken so far in the current crisis.[43] The static calculation shows that maintaining the existing frameworks for the 2020-2022 and 2022-2024 periods would ensure a more moderate expansionary fiscal policy in 2021 and 2022, and a roughly neutral fiscal policy in 2023, which would be more appropriate given the estimated cyclical position in that year.[44] This would reduce the possibility of an excessive growth of aggregate demand, which may lead to macroeconomic imbalances. Although investment is an important part of the supportive fiscal policy, static estimates[45] suggest that even excluding the total projected government investment, the structural position of public finances would deteriorate or remain unchanged without amending the framework.

Pursuant to the rules of the Fiscal Pact laid down in the preventive arm of the Stability and Growth Pact, the general government debt exceeding 60% of GDP must be gradually reduced. Slovenia is expected to comply with these rules in 2023 and 2024, although debt is expected to remain well above the 60 % of GDP threshold in 2024. As the debt-to-GDP ratio over the period covered by the Draft Budgets exceeds the reference value set in the 1992 Maastricht Treaty establishing the EU, Slovenia is required to reduce its general government debt in line with the yearly dynamics, which on average over the past three years corresponds to a 1/20 deviation in the debt level from the 60% of GDP in the base year. Whether the base year is 2020 or 2021, this is expected to result in a debt reduction requirement of just below one percentage point of GDP per year. Due to the high increase in debt in 2020, which affects the calculation of the average in the following years, this rule is only expected to be met in 2023 and 2024 (the latter taking into account only the indicative forecasts available in the DBP22). In this respect, in 2023 and 2024 alone is the debt level below the backward-looking debt limit and the cyclically-defined limits and above the forward-looking limit in all years, as set by the Fiscal Compact.

[42] According to the European Commission's definition, Slovenia is already in the normal economic cycle in 2021 and also in the 2022-2023 period. See the estimates of the output gap in Table 6 and definitions of the stages of the economic cycle in the matrix in Box 1.6 of the European Commission's Vade Mecum on the Stability & Growth Pact 2019. Available at: https://ec.europa.eu/info/sites/info/files/economy-finance/ip101_en.pdf.

[43] Measured by double the standard deviation of the change in the structural primary balance. Due to just a small change in the share of interest expenditure in GDP between 2020 and 2021, the difference between the change in the structural and structural primary balance is negligible and amounts to around 0.1 percentage point of GDP. For an analysis of fiscal policy stimulus in advanced economies in the 1960-2006 period, see, for example, Cohen-Setton et al. (2019), available at: https://www.piie.com/sites/default/files/documents/wp19-12.pdf.

[44] See footnotes 40 and 41.

[45] The exclusion of investment has an impact on the change in the structural balance for the difference in investment volume between individual years (the difference between 2021 and 2022 is 1.2 percentage points of GDP, and between 2022 and 2023 a further 1.5 percentage points of GDP, and the impact on the change in the structural balance is around 0.6 and 0.7 percentage point of GDP, respectively).

5. Annex

Table 5.1: Output gap estimates

	IMF (Oct. 21)	European Commission (May 21)	OECD (May 21)	IMAD (Sep. 21)	MoF (Oct. 21)	HP filter (Oct. 21)	based on GDP averages (Oct. 21)	factor models (Oct. 21)	Blanchard-Quah (Oct. 21)	average of all estimates	average of institutions	average of estimates based on prod. funct.
2001	-2.4	0.7	-0.7	0.1	0.0	-0.7	-0.1	...	0.7	-0.3	-0.5	0.3
2002	-1.1	1.0	-0.6	0.6	0.3	-0.8	-0.4	...	-1.0	-0.3	0.0	0.6
2003	0.1	0.9	-0.9	0.5	0.2	-1.5	-1.4	1.6	-1.5	-0.2	0.2	0.5
2004	-1.4	2.0	0.2	1.5	1.3	-0.8	-1.1	2.7	-0.5	0.4	0.7	1.6
2005	-0.5	2.8	1.1	2.4	2.1	-0.5	-1.3	2.6	0.5	1.0	1.6	2.4
2006	2.8	5.1	3.9	4.8	4.3	2.0	1.1	4.3	3.0	3.5	4.2	4.7
2007	5.3	8.5	7.9	8.3	7.7	6.4	5.8	7.2	7.4	7.2	7.5	8.1
2008	5.4	8.1	8.4	8.1	7.6	8.4	7.6	4.9	7.3	7.3	7.5	8.0
2009	-3.0	-2.3	-2.0	-2.2	-2.6	-0.7	-1.6	-5.2	-1.1	-2.3	-2.4	-2.4
2010	-1.0	-2.3	-2.2	-2.2	-2.4	0.1	-0.4	-1.4	-2.9	-1.6	-2.0	-2.3
2011	0.6	-2.2	-2.6	-2.4	-2.5	0.6	1.0	-1.8	-1.9	-1.2	-1.8	-2.4
2012	-2.0	-5.3	-6.2	-5.7	-5.7	-2.5	-1.8	-4.9	-3.7	-4.2	-5.0	-5.6
2013	-3.0	-6.9	-8.2	-7.5	-7.4	-4.2	-3.5	-4.8	-7.2	-5.8	-6.6	-7.2
2014	-2.3	-5.2	-7.1	-6.0	-5.9	-2.9	-2.1	-2.5	-4.7	-4.3	-5.3	-5.7
2015	-1.8	-3.9	-6.6	-5.1	-4.9	-2.7	-1.9	-1.9	-3.1	-3.5	-4.5	-4.6
2016	-0.2	-1.6	-5.5	-3.1	-2.8	-1.9	-1.4	-1.0	-1.1	-2.1	-2.7	-2.5
2017	0.0	1.8	-3.1	0.1	0.3	0.2	0.6	2.1	0.9	0.3	-0.2	0.7
2018	0.3	4.2	-1.2	2.5	2.7	1.9	2.4	2.8	3.7	2.1	1.7	3.1
2019	0.7	4.7	-0.5	3.3	3.6	2.5	2.7	2.2	3.7	2.6	2.4	3.9
2020	-2.9	-3.4	-8.1	-3.0	-2.6	-4.2	-4.5	-3.9	-0.8	-3.7	-4.0	-3.0
2021	0.1	-1.6	-6.8	0.4	0.5	-1.1	-1.5	1.5	-1.6	-1.1	-1.5	-0.2
2022	0.9	0.0	-4.6	2.3	2.1	0.7	0.5	0.7	-0.4	0.2	0.1	1.5
2023	...	...	...	2.7	2.4	1.1	0.7	1.6	-0.4	1.4	2.6	2.6

Source: IMAD, EC, IMF, OECD, MoF, FC calculations.

Note: The table shows estimates of the output gap by domestic and international institutions that provide these estimates for Slovenia (IMAD, MoF, EC, IMF, OECD). In addition, the table also shows estimates of the output gap generated by statistical models in which the potential product is determined by: (i) HP filters at different values of the parameter λ (10,100,400), (ii) the 3-, 5- and 7-year average of GDP, (iii) factor models estimated on the basis of survey about limitations in the economy and forecasts of a simple VAR model that includes these factors, as well as factor models that take into account a large number of IMAD and EC macroeconomic variables in its estimates and forecasts, (iv) SVAR model based on the Blanchard and Quah methodology (1989), which uses restrictions with regard to the assumption that GDP is affected in the long term only by shocks to the aggregate supply, while demand shocks affect activity levels only in the short term.

Table 5.2: Structural balance estimates

	IMF (Oct. 21)	European Commission (May 21)	OECD (May 21)	IMAD (Sep. 21)	MoF (Oct. 21)	HP filter (Oct. 21)	based on GDP averages (Oct. 21)	factor models (Oct. 21)	Blanchard-Quah (Oct. 21)	average of all estimates	average of institutions	average of estimates based on prod. funct.
2001	-3.3	-4.8	-4.1	-4.5	-4.5	-4.1	-4.4	...	-4.8	-4.3	-4.2	-4.6
2002	-3.3	-4.3	-3.5	-4.1	-3.9	-3.4	-3.6	...	-3.3	-3.7	-3.8	-4.1
2003	-2.7	-3.0	-2.2	-2.8	-2.7	-1.9	-1.9	-3.3	-1.9	-2.5	-2.7	-2.8
2004	-1.0	-2.6	-1.8	-2.4	-2.3	-1.3	-1.2	-2.9	-1.4	-1.9	-2.0	-2.4
2005	-1.1	-2.6	-1.9	-2.5	-2.3	-1.1	-0.7	-2.5	-1.6	-1.8	-2.1	-2.5
2006	-2.5	-3.6	-3.1	-3.5	-3.3	-2.2	-1.7	-3.2	-2.6	-2.9	-3.2	-3.4
2007	-2.5	-4.0	-3.7	-3.9	-3.6	-3.1	-2.7	-3.4	-3.5	-3.4	-3.6	-3.9
2008	-3.9	-5.2	-5.3	-5.2	-4.9	-5.3	-4.9	-3.7	-4.8	-4.8	-4.9	-5.1
2009	-4.4	-4.7	-4.9	-4.8	-4.6	-5.5	-5.1	-3.4	-5.3	-4.7	-4.7	-4.7
2010	-5.0	-4.4	-4.4	-4.4	-4.3	-5.5	-5.3	-4.8	-4.1	-4.7	-4.5	-4.4
2011	-5.8	-4.4	-4.3	-4.4	-4.3	-5.8	-5.9	-4.7	-4.6	-4.9	-4.6	-4.4
2012	-3.1	-1.6	-1.2	-1.4	-1.4	-2.9	-3.2	-1.8	-2.3	-2.1	-1.7	-1.4
2013	-3.3	-1.4	-0.8	-1.2	-1.2	-2.7	-3.0	-2.4	-1.3	-1.9	-1.6	-1.3
2014	-3.4	-2.0	-1.1	-1.6	-1.7	-3.1	-3.5	-3.3	-2.2	-2.4	-2.0	-1.8
2015	-1.9	-1.0	0.3	-0.4	-0.5	-1.5	-1.9	-1.9	-1.3	-1.1	-0.7	-0.6
2016	-1.7	-1.1	0.7	-0.4	-0.5	-0.9	-1.2	-1.4	-1.3	-0.9	-0.6	-0.7
2017	0.1	-0.8	1.5	0.0	-0.1	0.0	-0.2	-0.9	-0.4	-0.1	0.1	-0.3
2018	0.6	-1.2	1.4	-0.4	-0.5	-0.1	-0.3	-0.5	-0.9	-0.2	0.0	-0.7
2019	0.1	-1.7	0.7	-1.1	-1.2	-0.7	-0.8	-0.6	-1.3	-0.7	-0.6	-1.3
2020	-0.7	-0.5	1.7	-0.7	-0.8	-0.1	0.1	-0.2	-1.7	-0.3	-0.2	-0.7
2021	-3.4	-2.5	-0.1	-3.5	-3.6	-2.8	-2.6	-4.0	-2.6	-2.8	-2.6	-3.2
2022	-5.2	-4.8	-2.7	-5.9	-5.8	-5.1	-5.0	-5.1	-4.7	-4.9	-4.9	-5.5
2023	...	...	...	-4.6	-4.4	-3.8	-3.6	-4.1	-3.1	-3.9	-4.5	-4.5

Source: IMAD, EC, IMF, OECD, MoF, FC calculations.

Table 5.3: Structural effort estimates

	IMF (Oct. 21)	European Commission (May 21)	OECD (May 21)	IMAD (Sep. 21)	MoF (Oct. 21)	HP filter (Oct. 21)	based on GDP averages (Oct. 21)	factor models (Oct. 21)	Blanchard-Quah (Oct. 21)	average of all estimates	average of institutions	average of estimates based on prod. funct.
2001	-0.2	-0.7	-0.6	-0.7	-0.7	-0.6	-0.5	...	-0.1	-0.5	-0.6	-0.7
2002	0.1	0.5	0.6	0.5	0.5	0.8	0.8	...	1.5	0.7	0.4	0.5
2003	0.6	1.3	1.3	1.2	1.2	1.5	1.6	...	1.4	1.3	1.1	1.2
2004	1.6	0.4	0.4	0.4	0.4	0.6	0.8	0.4	0.5	0.6	0.7	0.4
2005	-0.1	0.0	-0.1	-0.1	0.0	0.2	0.4	0.4	-0.1	0.1	-0.1	0.0
2006	-1.4	-1.0	-1.2	-1.0	-1.0	-1.1	-1.0	-0.7	-1.1	-1.1	-1.1	-1.0
2007	0.0	-0.4	-0.7	-0.5	-0.4	-0.9	-1.0	-0.2	-0.9	-0.5	-0.4	-0.4
2008	-1.4	-1.2	-1.6	-1.3	-1.3	-2.2	-2.2	-0.3	-1.3	-1.4	-1.3	-1.3
2009	-0.5	0.5	0.4	0.4	0.3	-0.2	-0.1	0.3	-0.4	0.1	0.2	0.4
2010	-0.6	0.3	0.4	0.3	0.3	-0.1	-0.2	-1.4	1.2	0.0	0.1	0.3
2011	-0.8	0.0	0.2	0.1	0.0	-0.2	-0.6	0.2	-0.5	-0.2	-0.1	0.0
2012	2.6	2.9	3.1	3.0	2.9	2.9	2.7	2.9	2.2	2.8	2.9	2.9
2013	-0.1	0.1	0.4	0.2	0.2	0.2	0.2	-0.6	1.1	0.2	0.2	0.2
2014	-0.1	-0.6	-0.3	-0.5	-0.5	-0.4	-0.5	-0.9	-1.0	-0.5	-0.4	-0.5
2015	1.5	1.1	1.4	1.2	1.1	1.5	1.6	1.4	0.9	1.3	1.3	1.1
2016	0.2	-0.1	0.4	0.1	0.0	0.6	0.7	0.6	0.0	0.3	0.1	0.0
2017	1.8	0.3	0.8	0.4	0.4	0.9	0.9	0.4	0.9	0.8	0.7	0.4
2018	0.6	-0.4	-0.1	-0.4	-0.4	0.0	-0.1	0.4	-0.5	-0.1	-0.1	-0.4
2019	-0.5	-0.6	-0.7	-0.7	-0.8	-0.6	-0.4	0.0	-0.4	-0.5	-0.6	-0.7
2020	-0.8	1.3	1.0	0.4	0.4	0.6	0.8	0.3	-0.4	0.4	0.4	0.7
2021	-2.7	-2.1	-1.8	-2.8	-2.7	-2.7	-2.7	-3.7	-0.9	-2.5	-2.4	-2.5
2022	-1.9	-2.3	-2.6	-2.4	-2.3	-2.3	-2.4	-1.1	-2.1	-2.2	-2.3	-2.3
2023	...	...	...	1.3	1.4	1.3	1.4	1.1	1.5	1.3	1.3	1.3

Source: IMAD, EC, IMF, OECD, MoF, FC calculations.

Table 5.4: Structural primary balance estimates

	IMF (Oct. 21)	European Commission (May 21)	OECD (May 21)	IMAD (Sep. 21)	MoF (Oct. 21)	HP filter (Oct. 21)	based on GDP averages (Oct. 21)	factor models (Oct. 21)	Blanchard-Quah (Oct. 21)	average of all estimates	average of institutions	average of estimates based on prod. funct.
2001	-1.0	-2.4	-1.8	-2.2	-2.1	-1.8	-2.1	...	-2.5	-2.0	-1.9	-2.3
2002	-1.1	-2.1	-1.3	-1.9	-1.8	-1.2	-1.4	...	-1.1	-1.5	-1.6	-1.9
2003	-0.7	-1.1	-0.2	-0.9	-0.8	0.0	0.0	-1.4	0.0	-0.6	-0.7	-0.9
2004	0.6	-0.9	-0.1	-0.7	-0.6	0.4	0.5	-1.3	0.2	-0.2	-0.3	-0.8
2005	0.4	-1.1	-0.3	-0.9	-0.8	0.4	0.8	-1.0	0.0	-0.3	-0.5	-0.9
2006	-1.2	-2.2	-1.7	-2.1	-1.9	-0.8	-0.4	-1.9	-1.3	-1.5	-1.8	-2.1
2007	-1.3	-2.8	-2.5	-2.7	-2.4	-1.8	-1.5	-2.2	-2.3	-2.2	-2.3	-2.6
2008	-2.8	-4.1	-4.2	-4.1	-3.8	-4.2	-3.9	-2.6	-3.7	-3.7	-3.8	-4.0
2009	-3.1	-3.4	-3.6	-3.5	-3.3	-4.2	-3.8	-2.1	-4.0	-3.4	-3.4	-3.4
2010	-3.4	-2.8	-2.8	-2.8	-2.7	-3.9	-3.7	-3.2	-2.5	-3.1	-2.9	-2.8
2011	-3.9	-2.6	-2.4	-2.5	-2.4	-3.9	-4.0	-2.8	-2.7	-3.0	-2.7	-2.5
2012	-1.1	0.5	0.8	0.6	0.6	-0.9	-1.2	0.3	-0.3	-0.1	0.3	0.6
2013	-0.7	1.1	1.7	1.4	1.3	-0.1	-0.4	0.1	1.3	0.6	1.0	1.3
2014	-0.1	1.2	2.1	1.6	1.6	0.2	-0.2	0.0	1.0	0.8	1.3	1.5
2015	1.3	2.3	3.5	2.8	2.7	1.7	1.3	1.3	1.9	2.1	2.5	2.6
2016	1.3	2.0	3.8	2.7	2.5	2.1	1.9	1.7	1.7	2.2	2.4	2.4
2017	2.6	1.7	4.0	2.5	2.4	2.5	2.3	1.6	2.1	2.4	2.7	2.2
2018	2.7	0.9	3.4	1.7	1.6	1.9	1.7	1.5	1.1	1.8	2.0	1.4
2019	1.8	0.0	2.4	0.6	0.5	1.0	0.9	1.2	0.4	1.0	1.1	0.4
2020	0.9	1.1	3.3	0.9	0.8	1.5	1.7	1.4	-0.1	1.3	1.4	0.9
2021	-2.0	-1.1	1.3	-2.1	-2.2	-1.4	-1.2	-2.6	-1.2	-1.4	-1.2	-1.8
2022	-3.9	-3.5	-1.4	-4.6	-4.5	-3.8	-3.7	-3.8	-3.3	-3.6	-3.6	-4.2
2023	...	...	...	-3.4	-3.2	-2.6	-2.4	-2.9	-1.9	-2.7	-3.3	-3.3

Source: IMAD, EC, IMF, OECD, MoF, FC calculations.

Table 5.5: Structural primary effort estimates

	IMF (Oct. 21)	European Commission (May 21)	OECD (May 21)	IMAD (Sep. 21)	MoF (Oct. 21)	HP filter (Oct. 21)	based on GDP averages (Oct. 21)	factor models (Oct. 21)	Blanchard-Quah (Oct. 21)	average of all estimates	average of institutions	average of estimates based on prod. funct.
2001	-0.3	-0.8	-0.6	-0.7	-0.7	-0.6	-0.6	...	-0.1	-0.6	-0.6	-0.7
2002	-0.1	0.3	0.5	0.3	0.4	0.6	0.7	...	1.3	0.5	0.3	0.3
2003	0.4	1.0	1.1	1.0	1.0	1.3	1.4	...	1.2	1.0	0.9	1.0
2004	1.4	0.1	0.1	0.2	0.2	0.3	0.5	0.1	0.2	0.4	0.4	0.2
2005	-0.2	-0.1	-0.2	-0.2	-0.2	0.1	0.3	0.3	-0.3	-0.1	-0.2	-0.2
2006	-1.6	-1.2	-1.4	-1.2	-1.1	-1.2	-1.2	-0.8	-1.2	-1.2	-1.3	-1.2
2007	-0.1	-0.5	-0.8	-0.6	-0.5	-1.0	-1.1	-0.3	-1.0	-0.7	-0.5	-0.5
2008	-1.6	-1.3	-1.7	-1.4	-1.5	-2.4	-2.4	-0.4	-1.5	-1.6	-1.5	-1.4
2009	-0.3	0.7	0.7	0.6	0.5	0.0	0.1	0.5	-0.2	0.3	0.5	0.6
2010	-0.3	0.6	0.7	0.7	0.6	0.3	0.1	-1.1	1.5	0.3	0.5	0.6
2011	-0.5	0.2	0.4	0.3	0.3	0.0	-0.4	0.4	-0.2	0.1	0.2	0.3
2012	2.7	3.0	3.2	3.1	3.1	3.0	2.9	3.0	2.4	2.9	3.0	3.1
2013	0.4	0.7	0.9	0.8	0.7	0.8	0.7	-0.1	1.6	0.7	0.7	0.7
2014	0.6	0.1	0.4	0.2	0.2	0.3	0.2	-0.2	-0.3	0.2	0.3	0.2
2015	1.4	1.0	1.4	1.2	1.1	1.5	1.6	1.3	0.9	1.3	1.2	1.1
2016	0.0	-0.3	0.2	-0.1	-0.2	0.4	0.5	0.4	-0.2	0.1	-0.1	-0.2
2017	1.3	-0.2	0.2	-0.1	-0.1	0.4	0.4	-0.1	0.4	0.2	0.2	-0.2
2018	0.1	-0.9	-0.6	-0.9	-0.9	-0.6	-0.6	-0.1	-1.0	-0.6	-0.6	-0.9
2019	-0.8	-0.9	-1.0	-1.0	-1.1	-0.9	-0.7	-0.3	-0.7	-0.8	-0.9	-1.0
2020	-0.9	1.2	0.9	0.3	0.3	0.5	0.7	0.2	-0.5	0.3	0.3	0.6
2021	-2.9	-2.3	-2.0	-3.0	-2.9	-2.9	-2.9	-3.9	-1.1	-2.7	-2.6	-2.7
2022	-2.0	-2.4	-2.7	-2.5	-2.4	-2.4	-2.5	-1.2	-2.2	-2.2	-2.4	-2.4
2023	...	...	...	1.2	1.3	1.2	1.3	1.0	1.4	1.2	1.2	1.2

Source: IMAD, EC, IMF, OECD, MoF, FC calculations.

Table 5.6: Maximum general government expenditure and deviation from the framework

	IMF (Oct. 21)		European Commission (May 21)		OECD (May 21)		IMAD (Sep. 21)		MoF (Oct. 21)		HP filter (Oct. 21)		based on GDP averages (Oct. 21)		factor models (Oct. 21)		Blanchard-Quah (Oct. 21)		*average of all estimates*		*average of institutions*		*average of estimates based on prod. funct.*		**Framework**
	max E	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	
initial year 2021*																									
2022	25,105	*-1,000*	24,875	*-1,230*	24,802	*-1,303*	24,818	*-1,287*	24,889	*-1,216*	24,847	*-1,258*	24,805	*-1,300*	25,486	*-619*	24,981	*-1,124*	24,957	*-1,148*	24,898	*-1,207*	24,861	*-1,244*	**26,105**
2023	…	…	…	…	…	…	24,806	*-1,174*	24,911	*-1,069*	25,067	*-913*	25,059	*-921*	25,360	*-620*	25,318	*-662*	25,087	*-893*	24,859	*-1,121*	24,859	*-1,121*	**25,980**
initial year 2022*																									
2023	…	…	…	…	…	…	26,154	*174*	26,184	*204*	26,383	*403*	26,420	*440*	26,005	*25*	26,494	*514*	26,273	*293*	26,169	*189*	26,169	*189*	**25,980**

*Source: IMAD, EC, IMF, OECD, MoF, FC calculations. Note: *If the base year is 2021, the calculation of expenditure thresholds is determined using a proposed framework for 2021 and considering that due to existence of exceptional circumstances the maximal requirement in 2022 is keeping an unchanged structural balance with regard to 2021, while the structural adjustment in line with current fiscal rules is only required in 2023. In case the base year is 2022, the MoF projections and the proposed framework for 2022 are used, with structural adjustment required in line with currently valid fiscal rules.*

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