REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Public finance and macroeconomic developments

February 2022

Drawn up by the Fiscal Council's Analysis Service

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Data available up to and including 4 February 2022 were used.

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

The comments on the state budget implementation (Section 2) refer to the daily data available at: https://proracun.gov.si/#. The Fiscal Council will continue to regularly publish an overview of the implementation of the COVID measures (Section 3), subject to availability of such data in the future. Along with the Ministry of Finance (MoF), we would also like to thank the Financial Administration of the Republic of Slovenia (FURS), the Employment Service of Slovenia (ZRSZ), the SID Bank and the Slovenian Enterprise Fund (SPS) for their cooperation and submitted data.

Summary

Given the high economic growth and the fact that the pre-crisis GDP level has been reached in the middle of the year, the relatively favourable fiscal results of last year were in line with expectations. In 2021, the state budget deficit amounted to EUR –3,080 million or EUR –685 million not counting the direct effect of COVID measures. The deficit was therefore nearly EUR 900 million lower than the outturn estimated by the Ministry of Finance in September. The fact that the outturn was more favourable than the estimation that formed the basis for the preparation of the 2022 and 2023 budget documents is mostly due to overestimated assumptions on expenditure growth at the end of last year, which is consistent with the Fiscal Council's expectations.

In addition to economic recovery and favourable labour market conditions, high revenue growth also reflects high expenditure allocated as part of the measures formally associated with the fight against the epidemic or for the mitigation of its consequences. High public expenditure is therefore mostly due to the growth in salaries and salary allowances, social transfers and investments and is also reflected in the increased general government debt which again exceeded EUR 40 billion at the end of September 2021, amounting to 79.6% of GDP. Slovenia is in the upper half of EU countries with the highest increase in debt-to-GDP ratio since the end of 2019. The same goes for the change in net debt, the level of which was affected particularly by the high scope of pre-financing of future liabilities under the currently favourable financing conditions.

The current boom is concealing the deteriorating structural fiscal balance. The discretionary measures of a structural nature adopted during the crisis, not related to the epidemic, will continue to worsen the fiscal balance by approximately 2% of GDP per year, amounting to around EUR 1.2 billion in 2022 alone. Coupled with the absence of appropriate compensatory measures, this is undermining medium- and long-term fiscal sustainability. Furthermore, the adoption of partial agreements is increasing the risk for additional salary increases in the public sector; another risk is the potential adoption of tax legislation amendments without appropriate compensatory measures. The realisation of these risks could more than double the indicated negative structural impact in the medium term. In the absence of reforms, e.g. in the pension scheme recently proposed by the OECD, in addition to the current and anticipated demographic changes and the resulting increasing social security system needs, more substantial transfers from the state budget will be required. The same is true of the healthcare system, where immediately after the adoption of budget documents for the following two years, measures were adopted that, on the one hand, place a long-term burden on public finance and, on the other, gravely threaten the existence of a single salary system in the public sector. At the end of the political cycle, this creates and increases fiscal sustainability risks that the Fiscal Council called attention to upon the adoption of budget documents last autumn.

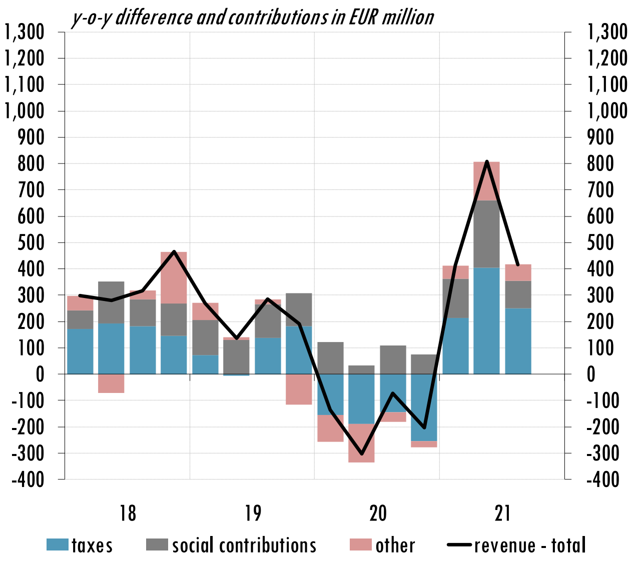
1. Fiscal trends – general government sector (ESA 2010 methodology)

The **general government deficit** in the first three quarters of 2021 (EUR –1,967 million or –5.2% of GDP) was lower than in the same period of 2020 (EUR –2,422 million or –7.0% of GDP) despite considerable measures to mitigate the consequences of the epidemic. Not counting the direct effect of these measures, the deficit amounted to –0.4% of GDP, which is approximately two percentage points of GDP less than the year before and is mostly due to high revenue growth as a result of the relatively swift recovery of economic activity.

According to the Fiscal Council's estimation, the annual deficit will be lower than the Government's projections made in the Draft Budgetary Plan (–7.5% of GDP) from October 2021. This is suggested both by the annual state budget deficit (see Chapter 2) and the fact that, in order for the projections to come true, the deficit in the last quarter would have to amount to approximately –15% of GDP and be generated mostly from the part not related to COVID measures. This confirms the Fiscal Council's estimation of the budget documents last autumn that the Government's estimates regarding the 2021 outturn did not provide the appropriate basis for the preparation of this year's projections. Given that the actual outturn is lower than the estimates made last year, this year's growth in expenditure can be much higher than suggested by budget documents.

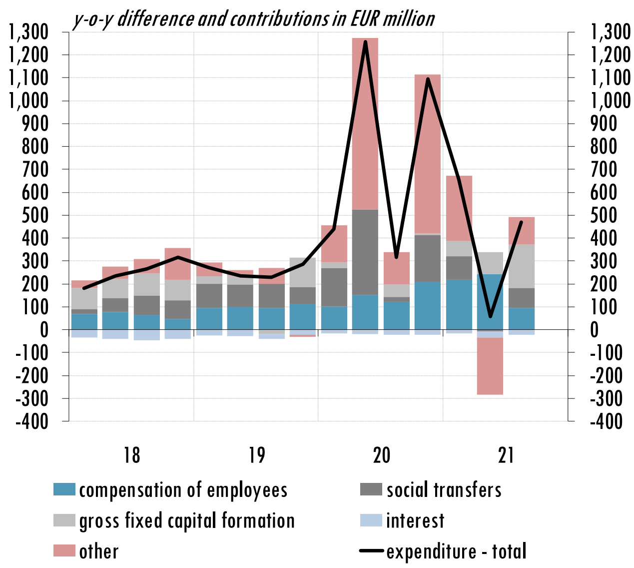
Revenue in the first three quarters of last year was 10.9% higher on a year-on-year basis, which is similar to nominal GDP growth (10.0%). The Draft Budgetary Plan anticipated an annual growth of 7.6% in 2021, while the available data according to the cash flow methodology up to the end of last year suggests that the annual revenue will exceed projections. Growth in the first three quarters of 2021 was largely due to higher VAT revenue on a year-on-year basis, particularly in relation to the substantial recovery of private consumption, and revenue from personal income tax and social contributions, along with the high growth in salaries, including substantial COVID allowances in the public sector. However, despite a low base resulting from the 2020 drop, growth in revenue from other taxes on production and taxes on income and profit was lower than before the epidemic. A visible contribution to total growth was also made by revenue from the sale of goods and services and capital revenue, the latter in relation to the increased use of EU funds for investments.

Figure 1.1: General government revenue (ESA)



Sources: SORS, FC calculations.

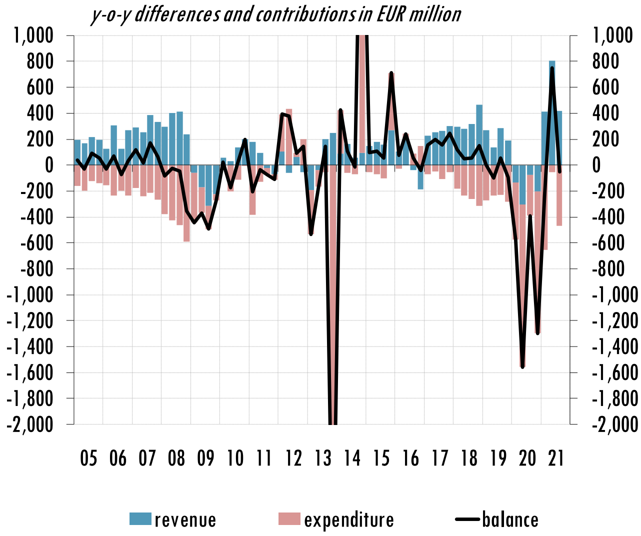
Figure 1.2: General government expenditure (ESA)



Source: SORS, FC calculations.

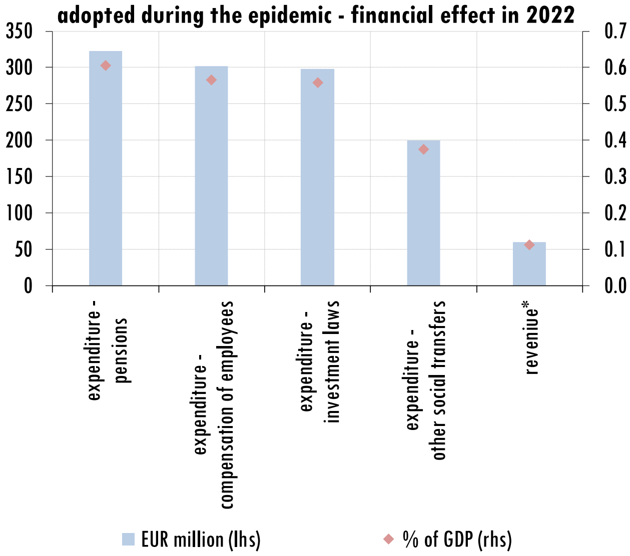
Slika 1.3: General government balance (ESA)

y-o-y differences and contributions in EUR million



Source: SORS, FC calculations.

Figure 1.4: Discretionary measures of structural nature adopted during the epidemic - financial effect in 2022



*Source: National Assembly, MoF, FC calculations. Note: *decrease in revenue.*

Expenditure in this period was 6.8% higher on a year-on-year basis, while growth without the effect of COVID measures amounted to 5.7%, which is approximately two times more than in the same period of 2020. According to our estimation, last year's growth was lower than projected in the Draft Budgetary Plan (7.1%), as it would require expenditure to increase by more than 20% on a year-on-year basis last year, not counting the effect of COVID measures in the last quarter. A little less than half of the growth in the first three quarters resulted from compensation of employees, largely due to public sector allowances. Investment expenditure on a year-on-year basis were about a quarter higher, representing 4.5% of GDP, the highest percentage after 2014 and 2015 at the end of the previous EU financial perspective. Nevertheless, it was substantially lower than the Government projections in the Draft Budgetary Plan (2021: 5.3% of GDP). About 1 p.p. was contributed to total growth by expenditure for intermediate consumption, other current transfers and social benefits, taking into account that only growth in intermediate expenditure was related to COVID measures to a relevant extent. Expenditure on interest and subsidies, however, was lower on a year-on-year-basis, decreasing total growth in expenditure.

Since the beginning of the epidemic in March 2020 which, according to Article 12 of the Fiscal Rule Act, constitutes exceptional circumstances that allow a temporary derogation from meeting the medium -term fiscal balance, numerous **discretionary measures of a structural nature**, not related to the epidemic, have been adopted. In total, based on the estimated financial effects, these measures have brought about a structural deterioration of public finance of approximately EUR 1.2 billion in 2022 or 2.2% of GDP for each following year. These measures had the largest effect on social transfers, particularly pensions (extraordinary pension adjustments of December 2020 and 2021, four amendments to the ZPIZ-2). Two acts have also been adopted, namely the Long-Term Care Act and the Act Amending the Health Care and Health Insurance Act, shortening the period during which the sickness benefit is paid by the Health Insurance Institute of Slovenia from 30 to 20 days. In terms of effect size, these are followed by measures related to labour costs, with the adoption of four agreements on salaries with public sector employees, namely the general agreement reached in June last year and three special agreements (with police officers, nurses, nursing staff and doctors[1]). Two

[1] The agreement with the doctors has already been confirmed by the Government but still needs to be signed..

Table 1.1: The main aggregates of the general goverment sector

	Q1-Q3				Q4							
			change				change				change	
	2020	2021	EUR million	%	2020	2021*	EUR million	%	2020	2021**	EUR million	%
REVENUE	**15.061**	**16.699**	**1637**	**10,9**	**5.400**	**5.327**	**-73**	**-1,4**	**20.461**	**22.025**	**1.564**	**7,6**
TAXES	7.175	8.041	866	12,1	2.499	2.292	-207	-8,3	9.673	10.332	659	6,8
Taxes on production and imports	4.397	4.938	541	12,3	1.556	1.414	-142	-9,1	5.953	6.352	399	6,7
Curr. taxes on income, wealth, etc.	2.769	3.093	325	11,7	939	878	-61	-6,5	3.708	3.971	263	7,1
Capital taxes	9	10	1	8,6	3	-1	-4	-119,8	12	9	-3	-23,5
SOCIAL CONTRIBUTIONS	5.947	6.458	512	8,6	2.114	2.143	29	1,4	8.061	8.601	540	6,7
PROPERTY INCOME	248	223	-25	-10,2	59	76	17	28,0	308	299	-9	-2,9
OTHER	1.692	1.977	285	16,8	728	816	88	12,1	2.419	2.793	373	15,4
EXPENDITURE	**17.484**	**18.666**	**1182**	**6,8**	**6.596**	**7.113**	**518**	**7,9**	**24.079**	**25.779**	**1.700**	**7,1**
COMPENSATION OF EMPLOYEES	4.455	5.011	556	12,5	1.603	1.598	-5	-0,3	6.058	6.609	551	9,1
INTERMEDIATE CONSUMPTION	2.099	2.265	167	7,9	783	716	-68	-8,6	2.882	2.981	99	3,4
SOCIAL TRANSFERS	6.881	7.065	185	2,7	2.306	2.851	545	23,7	9.186	9.916	730	7,9
INTEREST	566	499	-67	-11,8	188	205	18	9,4	754	704	-49	-6,5
SUBSIDIES	1.218	1.066	-153	-12,5	538	152	-386	-71,8	1.756	1.217	-539	-30,7
GROSS FIXED CAPITAL FORMATION	1.371	1.723	353	25,7	573	961	388	67,7	1.944	2.685	741	38,1
CAPITAL TRANSFERS	97	102	5	5,4	81	129	49	60,3	178	231	54	30,3
OTHER	797	934	136	17,1	525	502	-23	-4,4	1.322	1.435	113	8,6
Balance	**-2.422**	**-1.967**	**455**		**-1.196**	**-1.787**	**-591**		**-3.618**	**-3.754**	**-136**	
Primary balance	**-1.856**	**-1.468**	**388**		**-1.008**	**-1.582**	**-573**		**-2.864**	**-3.050**	**-185**	
Balance, GDP %	**-7,0**	**-5,2**		**1,8**	**-9,7**	**-14,6**		**-4,9**	**-7,7**	**-7,5**		**0,3**
Primary balance, GDP %	**-5,4**	**-3,9**		**1,5**	**-8,2**	**-12,9**		**-4,7**	**-6,1**	**-6,1**		**0,0**
Nominal GDP, EUR million	**34.643**	**38.123**		**10,0**	**12.275**	**12.240**	**-34**	**-0,3**	**46.918**	**50.364**	**3.446**	**7,3**

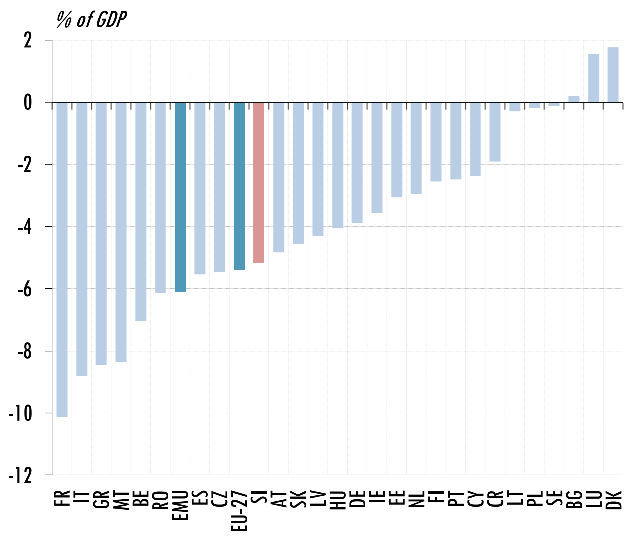
*Sources: SORS, MoF. Notes: *Implicitly calculated to match MoF forecast. **MoF forecast: Draft Budgetary Plan 2022 (October 2021).*

Table 1.2: The fiscal effect of discretionary measures of a structural nature adopted during the epidemic

measure	entry into force	annual effect on budget	
		EUR million	% of GDP*
Liberalisation of motor fuel prices	Oct.20	30	0,1
Motor vehicle tax	Jan.21	30	0,1
Act on the Provision of Funds for Investments in the Slovenian Armed Forces for the period from 2021 to 2026	Dec.20	100	0,2
Act on the Provision of Funds for Investments in Slovenian Healthcare for the Period from 2021 to 2031	Oct.21	198	0,4
Extraordinary pension indexation (December 2020)	Dec.20	115	0,2
Amendments to ZPIZ-2H, ZPIZ-2I, ZPIZ-2J and ZPIZ-2K	Jan.,May,Aug.,Nov.21	63	0,1
Extraordinary pension indexation (December 2021)	Dec.21	145	0,3
Long-Term Care Act	Jan.22	106	0,2
Act Amending the Health Care and Health Insurance Act	Mar.22	94	0,2
Agreement on lifting austerity measures regarding the reimbursement of costs and oth. receipts of publ. employees	Jun.21	50	0,1
Agreement on raising the salaries of nurses and nursing staff	Nov.21	123	0,2
Agreement on raising the salaries of police officers	Jan.22	16	0,0
Agreement on raising the salaries of doctors**		114	0,2
TOTAL (negative effect on balance in 2022)		**1.183**	**2,2**

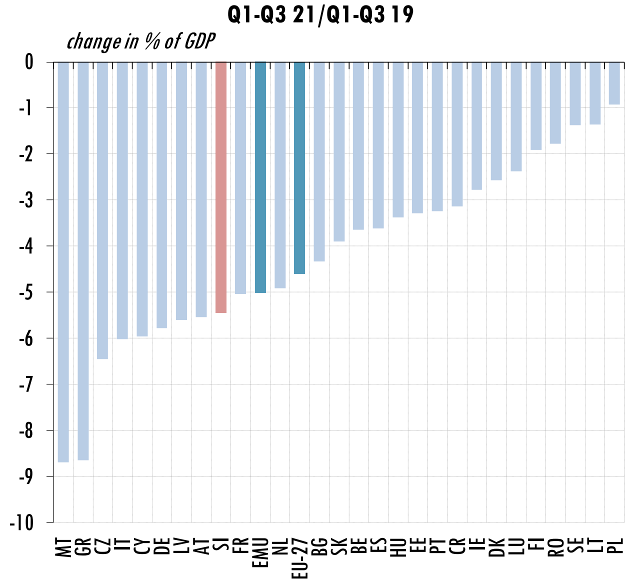
*Source: official estimates. Note: *the forecasted GDP for 2022 in the 2021 Autumn Forecast by IMAD;**The agreement was confirmed by the Government but is awaiting signature with the trade unions.*

Figure 1.5: General government balance Q1-Q3 2021



Source: Eurostat, FC calculations.

Figure 1.6: Change in general government balance Q1-Q3 21/Q1-Q3 19



Source: Eurostat, FC calculations.

acts on the procurement of funds for investments were also adopted, namely in relation to the healthcare[2] and the military. On the revenue side, two measures resulting in a structural revenue decrease were adopted in 2020, namely the amendment to motor vehicle taxation and the liberalisation of motor fuel prices. Moreover, the adoption of partial agreements is increasing the risk of additional demands for salary increases in the public sector; the structural balance would also be negatively affected if the proposed tax legislation amendments were adopted.

On average, deficit in the first three quarters was similar to the EU-27 average (–5.4% of GDP) and was the ninth highest among EU Member States. Compared to the same period in 2019 before the crisis, the general government balance in Slovenia deteriorated by 5.4% of GDP, the ninth highest deterioration among EU Member States, exceeding the EU-27 average (–4.6% of GDP).

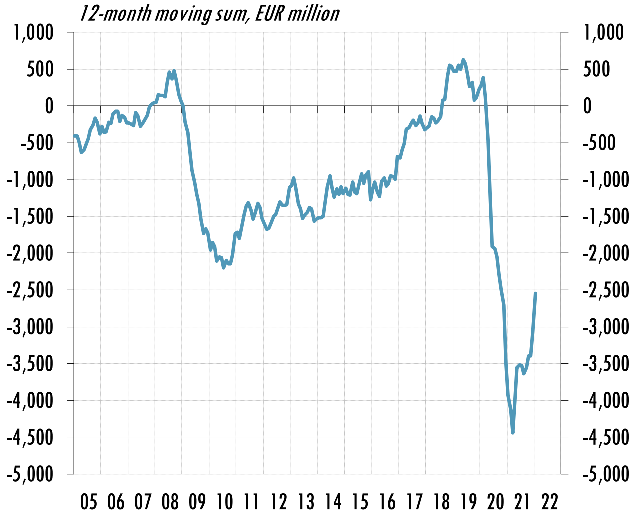
2. Central government budget (the GFS cash flow methodology)

According to the final data, the state budget **deficit** amounted to EUR –3,080 million in 2021, which is EUR 18 million less than according to the preliminary data published in the last Fiscal Council Monthly Information that, among other things, took account of the daily data on the December budget outturn. Not counting the direct effect of COVID measures, the deficit amounted to EUR –685 million. The deficit in both comparisons was smaller than in 2020, which is mainly the result of the revenue growth as economic activity has recovered. In line with the Fiscal Council's expectations, it was smaller (by EUR 878 million) than the estimated 2021 outturn from September, which served as a basis for the preparation of 2022 and 2023 budget documents.

Revenue last year increased by 23.1% compared to 2020 and was EUR 145 million higher than the estimated outturn prepared by the Ministry of Finance in September last year. Growth was due to the low base effect, as revenue fell sharply at the start of the epidemic in 2020, a relatively rapid recovery in economic activity in 2021 and certain one-off factors. The increase was largely due to

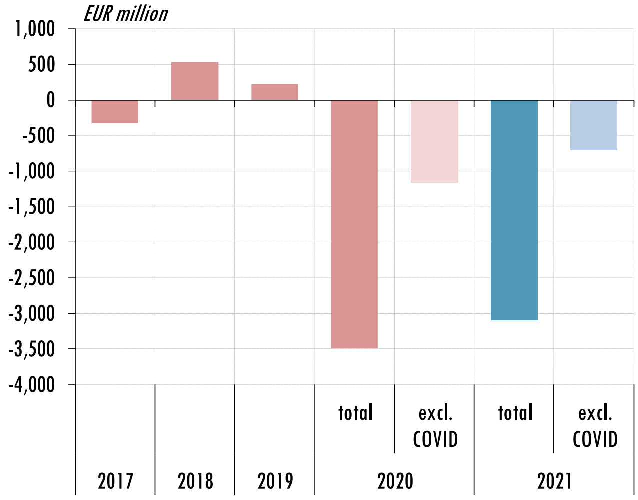
[2] Part of the funds under the Act on the Provision of Funds for Investments in Slovenian Healthcare for the Period from 2021 to 2031 will be procured from EU funding and therefore should not have a negative effect on structural balance.

Figure 2.1: State budget balance



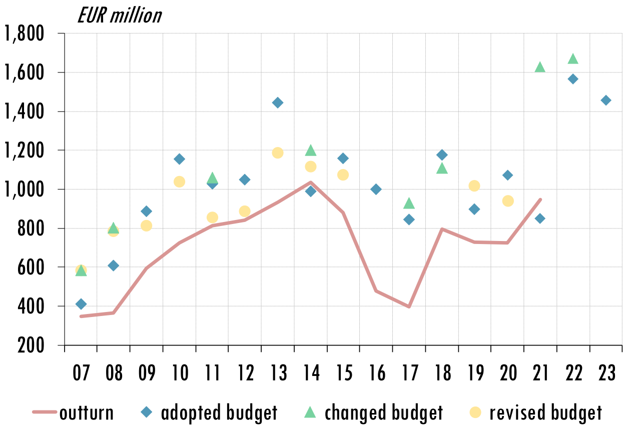
Source: MoF, FC calculations.

Figure 2.2: State budget balance



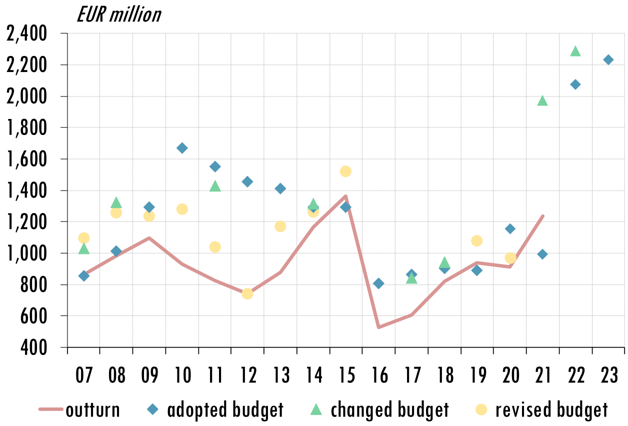
Source: MoF, FC calculations.

Figure 2.3: Receipts from the EU budget - plan and outturn



Note: Markers for "revised budget", "changed budget" and "adopted budget" refer to specific budget documents for a specific year. For example, marker "revised budget" in 2015 refers to "78 Receipts from the EU budget" in the revised budget for 2015. There were no revised budgets for 2016, 2017, 2018 and 2021, therefore no marker "revised budget" is shown for those years.
Sources: MoF, FC calculations.

Figure 2.4: Capital expenditure and transfers - plans and outcome



Note: Markers for "revised budget", "changed budget" and "adopted budget" refer to budget documents for a specific year. For example, marker "revised budget" in 2015 refers to "42 Capital expenditure" and "43 Capital transfers" in the revised budget for 2015. There were no revised budgets for 2016, 2017, 2018 and 2021, therefore no marker "revised budget" is shown for those years.
Source: MoF, FC calculations..

higher tax revenue, which was 6.5% higher than in 2019 before the crisis. Non-tax revenue was around a fifth higher than the year before, mostly as a result of the awarded mobile network concession and borrowing-related extraordinary revenue. Revenue from EU funds increased by approximately 30%, namely due to increased cohesion funding at the end of the multiannual perspective and prepayments under the Recovery and Resilience Facility. Despite an increase in EU funding spending, their realisation was lower than projected in September 2021 (by EUR 270 million) and even more so than budget projections from October 2020 (by EUR 684 million).

Expenditure was 13.4% higher last year than in 2020, primarily due to the direct effect of COVID measures totalling EUR 2,788 million. Without this effect, expenditure would have been 8.6% higher, which is well above the multi-annual average or long-term economic potential growth. Growth in expenditure was higher only in 2008 (during the boom) and in 2009 (in the light of anti-crisis

Table 2.1: State budget

	January				February-December							
	2021	2022	change 2021/2020 EUR million	%	2021	2022*	change 2021/2020 EUR million	%	2021	2022**	change 2021/2020 EUR million	%
Revenue	**890**	**1.186**	**296**	**33,3**	**10.284**	**10.282**	**-2**	**0,0**	**11.174**	**11.469**	**295**	**2,6**
VAT	340	450	110	32,2	3.891	3.749	-141	-3,6	4.231	4.199	-32	-0,8
Excise duties	111	162	51	46,3	1.360	1.301	-58	-4,3	1.470	1.463	-7	-0,5
Personal income tax	144	124	-20	-13,9	1.370	1.383	13	1,0	1.514	1.507	-7	-0,4
Corporate income tax	59	72	12	21,0	1.055	982	-73	-6,9	1.115	1.054	-61	-5,4
EU funds	55	193	138	250,7	892	1.480	588	65,9	947	1.673	726	76,7
Non-tax	93	44	-50	-53,3	725	459	-266	-36,7	818	502	-316	-38,6
Other revenue	87	141	55	63,0	992	928	-64	-6,4	1.079	1.070	-9	-0,8
Expenditure	**1.321**	**1.087**	**-235**	**-17,8**	**12.932**	**12.853**	**-79**	**-0,6**	**14.254**	**13.940**	**-314**	**-2,2**
Total labour costs	379	291	-88	-23,1	3.830	3.512	-318	-8,3	4.209	3.803	-405	-9,6
Transfers to individ. and househ.	378	161	-217	-57,3	2.155	1.516	-638	-29,6	2.532	1.678	-855	-33,8
Expenditure on goods and services	72	82	10	13,6	1.451	1.263	-189	-13,0	1.523	1.344	-179	-11,7
Investment	28	22	-6	-22,4	1.210	2.269	1.059	87,5	1.238	2.291	1.053	85,0
Current transfers to soc. sec. funds	95	156	62	65,0	1.255	1.304	49	3,9	1.350	1.461	111	8,2
Subsidies	169	111	-58	-34,3	646	448	-198	-30,6	815	559	-256	-31,4
Interest	82	17	-65	-78,8	645	666	21	3,3	727	683	-43	-6,0
Payments to the EU budget	69	67	-2	-3,5	560	514	-46	-8,3	629	580	-49	-7,7
Other expenditure	50	179	130	260,9	1.181	1.362	180	15,2	1.231	1.541	310	25,2
Balance	**-432**	**100**	**531**		**-2.649**	**-2.571**	**77**		**-3.080**	**-2.472**	**608**	

*Source: MoF, FC calculations. Note: *Implicitly calculated to match MoF forecast. ** Ammendments to the budget for 2022 (Oct. 21).*

measures). Despite the high growth, expenditure was lower than estimated in the September outturn projection (by EUR 732 million). Almost half of total expenditure growth was due to higher labour costs, which also include transfers to public institutions for this purpose. Labour costs increased by 22.0% on a year-on-year basis, mainly due to the payment of allowances, even though the growth in total labour costs was a relatively high 5.6% even without counting COVID allowances. The higher volume of transfers to individuals and households contributed approximately one third of total expenditure growth, mainly as a result of the large extent of COVID measures under this heading. Following the 2020 stagnation, investment expenditure increased by 35.9% last year but still fell far short of projections despite a relatively high outturn. The actual outturn was in fact EUR 736 million lower than the projections in the 2021 budget adopted in October 2020, and around EUR 320 million lower than the outturn estimate for 2021 made by the Ministry of Finance last September. Growth in expenditure for goods and services and contributions to the EU budget was relatively high, while expenditure for interest, subsidies and transfers to social security funds was lower.

In January, the state budget had a surplus of EUR 100 million according to preliminary data, or EUR 206 million not counting the direct effect of COVID measures. Revenue on a year-on-year-basis increased by a third. The growth was largely due to revenue from EU funds which, according to our estimate, mainly results from the recording of RRF prepayments. VAT and excise duty revenue was also significantly higher, which was linked to high consumption. However, revenue from personal income tax decreased by 14% on a year-on-year basis, which can be attributed largely to the lower payment of COVID allowances than in the same month last year. Expenditure on a year-on-year basis was lower by 17.8%, while, without taking into account the direct effect of COVID measures totalling EUR 122 million, it was 12.9% higher than last January. The high growth in expenditure for labour

Table 2.2: Impact of COVID measures on state budget outturn

	January 2021 EUR million		January 2022 EUR million		excl. COVID Jan. 2022/ Jan. 2021	
	COVID	excl. COVID	COVID	excl. COVID	EUR million	%
Revenue	**-8**	**898**	**15**	**1,171**	**273**	**30.4**
VAT	-9	349	7	443	94	26.8
Excise duties	7	104	0	162	58	55.3
Personal income tax	-2	145	0	123	-22	-15.1
Corporate income tax	1	59	1	71	12	20.9
EU funds[1]	1	54	5	188	135	250.2
Non-tax		93		44	-50	-53.3
Other revenue	-6	93	2	140	47	49.9
Expenditure	**467**	**855**	**122**	**965**	**110**	**12.9**
Total labour costs	106	273	1	291	17	6.3
Transfers to individuals and households	248	129	15	146	17	13.2
Expenditure on goods and services	10	62	15	66	4	6.7
Investment	0	28	4	18	-10	-36.2
Current transfers to social security funds	0	95	68	88	-6	-6.9
Subsidies	91	78	0	111	33	42.1
Interest		82		17	-65	-78.8
Payments to the EU budget		69		67	-2	-3.5
Other expenditure	12	38	19	161	123	322.9
Balance	**-475**	**44**	**-107**	**206**	**163**	

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

costs and transfers to individuals and households continued and growth in expenditure for subsidies was also high. However, expenditure for investments was 36.2% lower than in the same month last year. The latter is expected to increase by a total of 85% in 2022.

3. Implementation of COVID measures

Last year, state budget expenditure for COVID measures amounted to EUR 2,788 million, and to EUR 4,793 million since the beginning of the epidemic in March 2020. In 2021, the state budget expenditure for COVID measures amounted to around EUR 800 million more than the previous year. The largest part of the expenditure was staff allowances amounting to around EUR 820 million, which is four times more than the previous year. Around EUR 630 million was paid for job preservation measures, which is almost half the amount paid in 2020. This was partly due to a shorter period of activity restrictions and partly due to the relatively rapid economic recovery. Expenditure on measures to contain the epidemic (vaccination, testing, protective equipment, etc.) was also higher than in 2020, as was expenditure for tourism vouchers with the introduction of new vouchers and the extension of the 2020 vouchers.

In January, expenditure on COVID measures amounted to EUR 122 million, which is around one fifth of the funds envisaged in the adopted budget for the entire year. The largest part was the solidarity allowance for pensioners (EUR 68 million), around EUR 30 million went for testing and vaccination costs and around EUR 15 million for the costs of tourism vouchers. According to the Financial Administration of the Republic of Slovenia, EUR 106 million worth of decisions were issued or reimbursements made

Table 3.1: Overview of the implementation of COVID measures (in EUR million)

	Mar.-Dec. 2020	Jan.-Dec. 2021	Jan. 2022	TOTAL
State budget expenditure for COVID measures	**2.004**	**2.788**	**122**	**4.914**
Measures to preserve jobs	**1.136**	**633**	**0**	**1.769**
Compensation to temporary laid-off employees	328	271	0	599
Payment of social contributions for temporary laid-off employees	124	0	0	124
Partial subsidisation of short-time working	36	39	0	75
Payment of contributions for the pension and disability insurance of employees who worked during the epidemic	435	1	0	436
Basic income and social contributions for the self-employed and other beneficiaries	196	238	0	434
Sick pay for employed persons is fully covered by the ZZZS	19	4	0	22
Crisis bonus	0	56	0	56
Subsidising minimum wage	0	24	0	24
Measures for the smooth operation of public services	**515**	**1.273**	**39**	**1.827**
Employee bonuses	204	822	0	1.026
Control of the epidemic (protective equipment, etc.)	132	385	38	555
Measures in education, sport and culture	29	30	0	60
Compensation for healthcare service providers due to loss of business, incl. concessionaires	105	9	0	115
Provision of funds to the ZZZS	45	26	0	72
Measures to maintain consumption and social position	**291**	**287**	**83**	**661**
Tourist voucher payments	128	228	15	371
Solidarity bonus for various groups	163	59	68	290
Measures to maintain liquidity	**0**	**307**	**0**	**307**
Reimbursement of fixed costs	0	307	0	307
Other expenditure	**61**	**288**	**0**	**349**

Source: MoF, FURS, FC calculations.

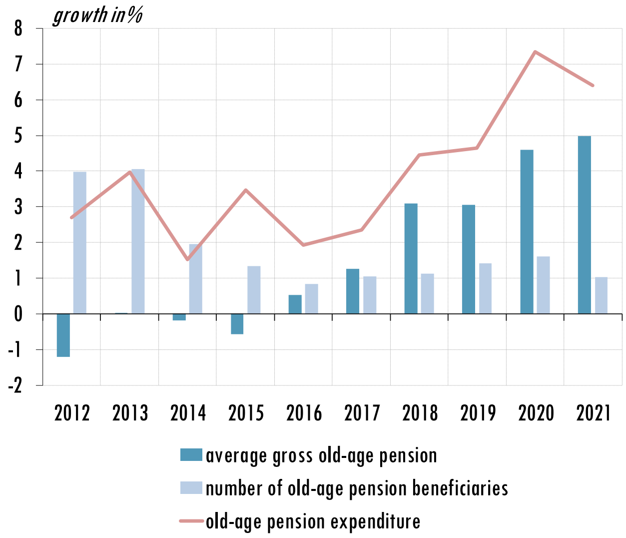
by the end of January as part of the COVID measures; out of a total of EUR 472 million in approved deferred payments or payments in instalments, EUR 155 million is yet to be reimbursed.

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

Growth in **ZPIZ** (Pension and Disability Insurance Institute of Slovenia) expenditure slowed to 5.2% (2020: 7.1%) last year, mostly due to the unchanged number of beneficiaries, while the average pension growth was higher than the year before due to the extraordinary indexation at the end of 2020 (2.0%) and the ordinary indexation last January (2.5%). Total pension expenditure increased by nearly EUR 900 million or 20% in the last four years and constituted 10.3% of GDP forecast in the preceding year. Most of the increase is due to the rise in the average old-age pension, which increased by 16.6%, while prices in this period increased by 4.7%. The relatively high growth will continue this year as a result of the extraordinary indexation last December and the anticipated relatively high ordinary indexation (an estimated around 4.5%), which will be based on last year's inflation and the high growth in average salaries that was largely due to significant allowances for public sector employees. Given the high salary growth and labour market recovery, growth in revenue from social contributions increased last year (8.6%), resulting in a decrease of total transfers from the state budget to the ZPIZ in the amount of EUR 1.1 billion.

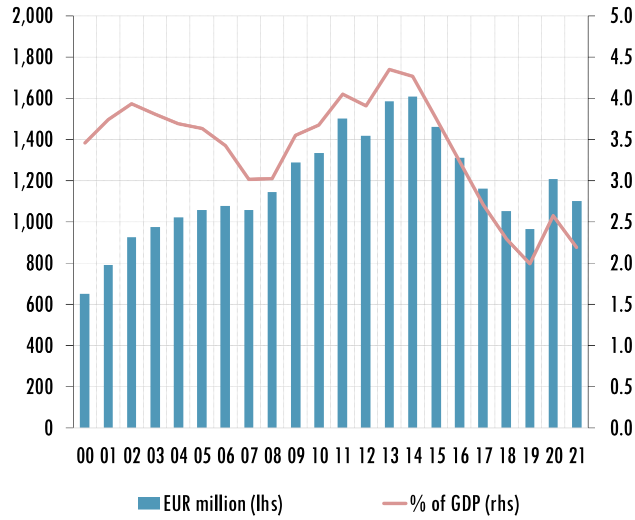
The **ZZZS** (Health Insurance Institute of Slovenia) ended 2021 with the highest surplus ever (EUR 120 million) due to increased revenue growth (from 4.9% in 2020 to 11.8% in 2021) and the concurrent

Figure 4.1: Pensions



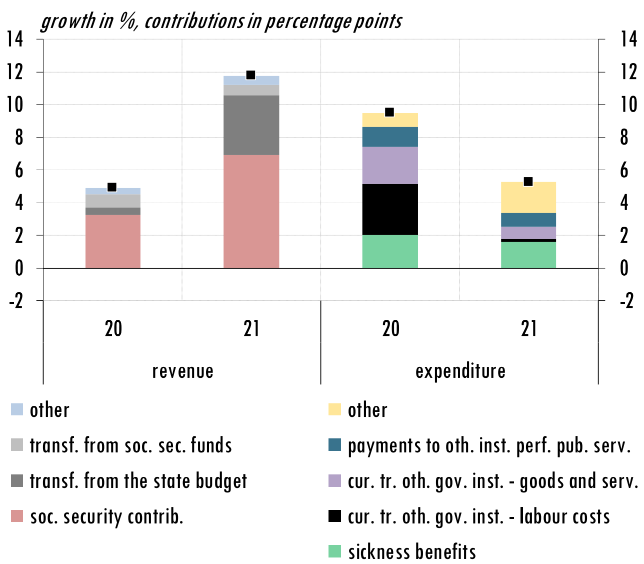
Source: Pension and Disability Insurance Fund of Slovenia (ZPIZ), MoF, FC calculations.

Figure 4.2: Pension and Disability Insurance Fund of Slovenia (ZPIZ) - state budget funding



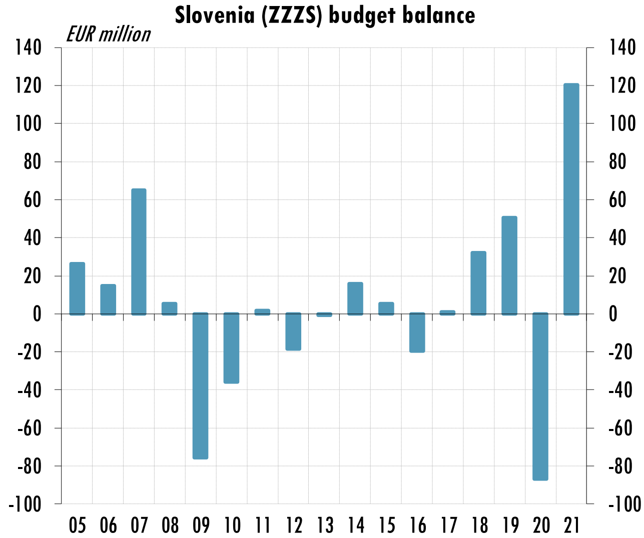
Source: MoF, SORS, IMAD, FC calculations.

Figure 4.3: ZZZS revenue and expenditure



Source: MoF, FC calculations.

Figure 4.4: Health Insurance Institute of the Republic of Slovenia (ZZZS) budget balance

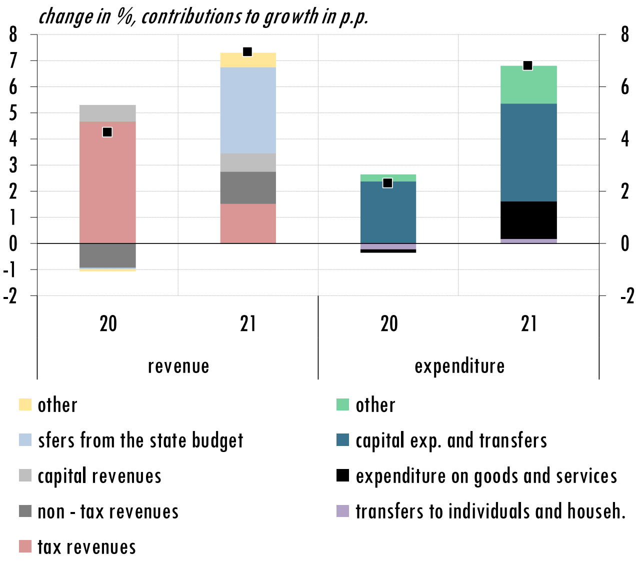


Source: MoF.

slowdown in expenditure growth (from 9.5% to 5.3%). Higher revenue was largely due to higher payments of social contributions as a result of the labour market recovery and high growth in salaries. Another factor that contributed significantly to growth were the 90%-higher transfers from the state budget, particularly due to the received EUR 179 million for current expenditure in the light of increased costs of controlling the epidemic. The decrease in expenditure growth was largely due to the nearly unchanged transfers to public institutions, which increased considerably the year before. Less than a year before, expenditure for sickness benefits and payments to providers that are not budget users also increased. According to the budget provided to the general meeting at the end of last year, the ZZZS is expected to have a deficit in the amount of EUR 150 million in 2022. This calculation does not include the envisaged transfer from the state budget to finance epidemic-related expenditure. The main reason for this deficit is the agreed salary increase in health care and social care (around EUR 90 million per year). Another risk is the potential agreement regarding the increase in doctors' salaries. The adoption of the budget was followed by the Act Amending the Health Care and Health Insurance Act, shortening the period during which the sickness benefit is paid by the ZZZS from 30 to 20 days. The ZZZS cost estimate for this measure is between EUR 80 and 94 million per year.

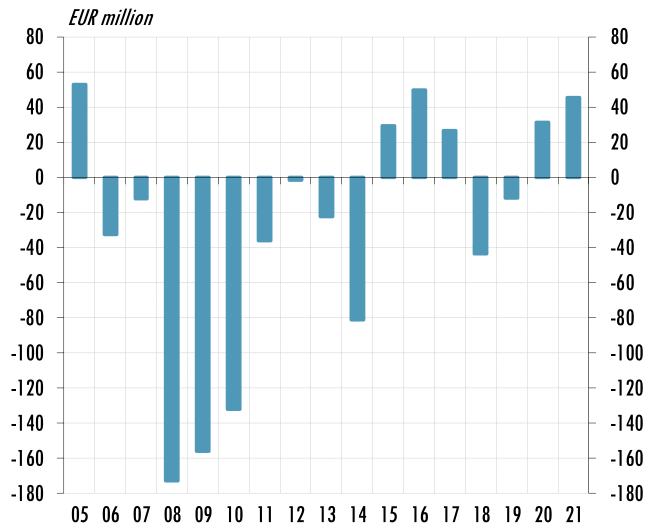
The surplus of **municipal budgets** (EUR 45.4 million) increased further last year. Both revenue growth (from 4.2% in 2020 to 7.3% in 2021) and expenditure growth (from 2.3% to 6.8%) increased. On the **revenue** side, growth from personal income tax slowed down after a sharp rise as a result of higher lump-sum payments in 2020 (from 10.2% to 0.6%). However, revenue from the state budget increased by more than half, namely due to the Municipal Costs Reduction Act adopted in December 2020, allocating additional funding to balance the municipalities' levels of development at 6% of the their total appropriate expenditure. Higher growth in total revenue than the year before was also due to developments in the property market. Following a decrease in 2020, revenue from property tax, real estate transfer tax and public utilities charges increased by more than a tenth last year, contributing to around a quarter of total revenue growth. The increased growth in **expenditure** was mainly due to stronger investment activity, which increased by more than a tenth. Total labour costs were also higher than the year before (8.5%); in addition to municipal administration employees, these costs also include public institutions established by municipalities. Following a decrease in 2020, transfers to individuals and households increased slightly last year, mainly the payments of the difference between the kindergarten programme prices and the parents' payments.

Figure 4.5: Revenue and expenditure of local government



Source: MoF, FC calculations.

Figure 4.6: Local government budget balance



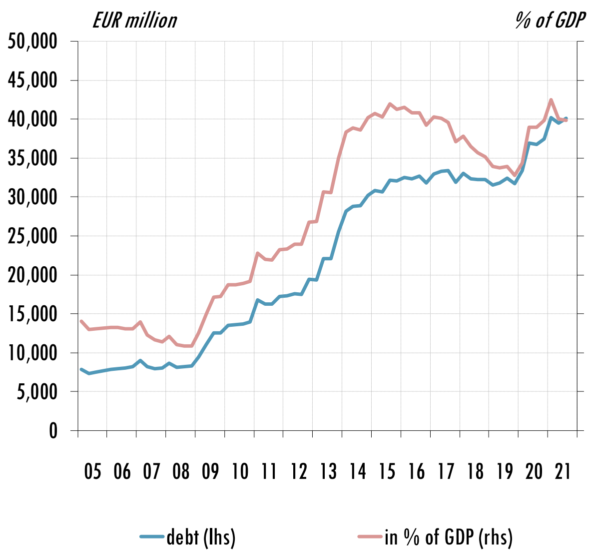
Source: MoF.

5. General government debt

At the end of the third quarter of 2021, the gross general government debt stood at EUR 40.1 billion, which is EUR 2.7 billion more than at the end of 2020 and EUR 8.4 billion more than before the crisis at the end of 2019. The debt represented 79.6% of GDP, increasing by 14 p.p. of GDP from 2019. While approximately two thirds of the debt increase during the crisis period can be explained with high primary deficits, largely due to measures to contain the epidemic and the economic downturn, the remainder was mostly the result of the pre-financing of future liabilities. The high pre-financing in a period of favourable financing conditions on government security markets is also reflected in data on net debt, which increased by about one half of the gross debt increase during the crisis period.

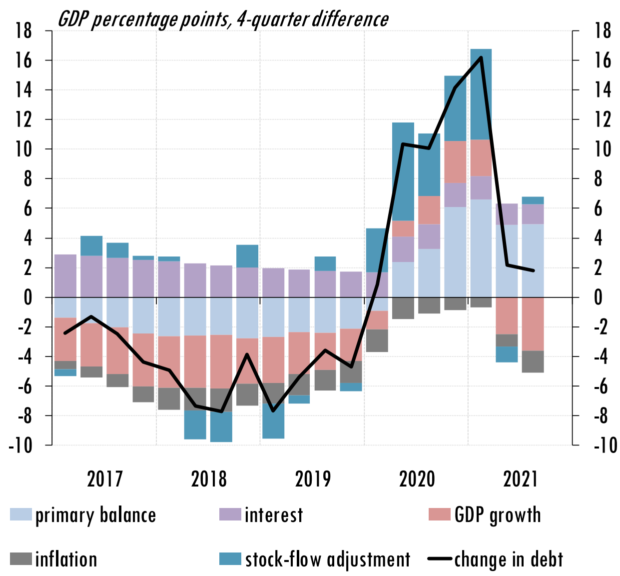
Most borrowing last year and at the beginning of this year was due to the issuing of long-term securities. The issue of new bonds (two 10-year bonds in January and July, respectively, and one 60-year bond in February) constituted the bulk of government borrowing in 2021, which totalled EUR 5.0 billion. Moreover, additional issues of existing bonds were carried out in January, September and December (series RS73, RS76, RS81, RS82, RS85 and RS86), totalling a little over EUR 1 billion. Last February, the state budget received a little over EUR 900 million in loans from the EC as part of the SURE instrument. The Republic of Slovenia issued another two bonds in January 2022 along the high demand among investors. One 4-year bond maturing in 2026 was issued in the amount of EUR 1.25 billion at a coupon rate of 0.0%, and a 40-year bond issuance of EUR 500 million was carried out at a coupon rate of 1.175%.

Figure 5.1: General government debt (ESA)



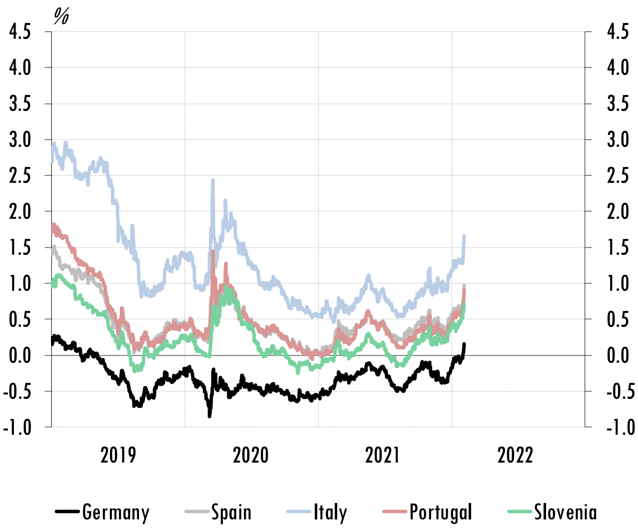
Source: SORS, FC calculations.

Figure 5.2: Change in general government debt



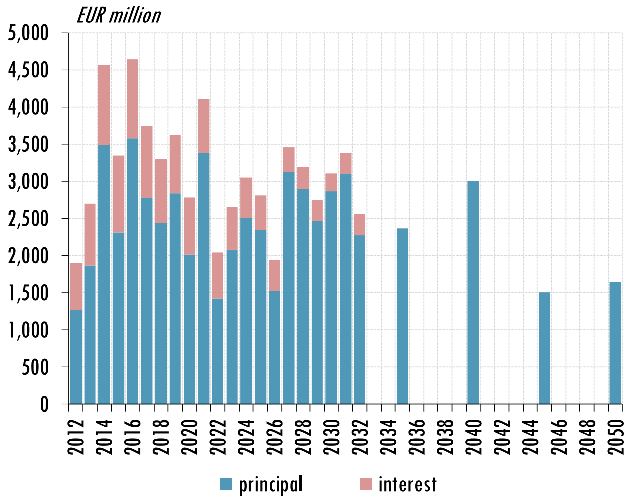
Source: SORS, FC calculations.

Figure 5.3: Yields on 10-year government EUR reference bonds



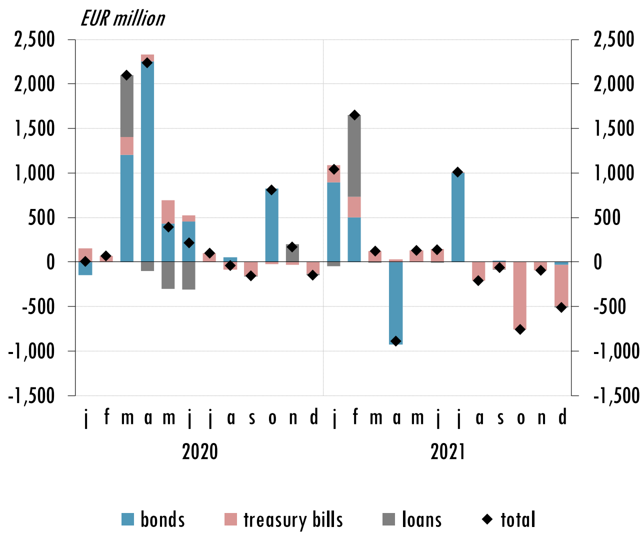
Source: Bloomberg.

Figure 5.4: State budget debt repayment schedule until 2050



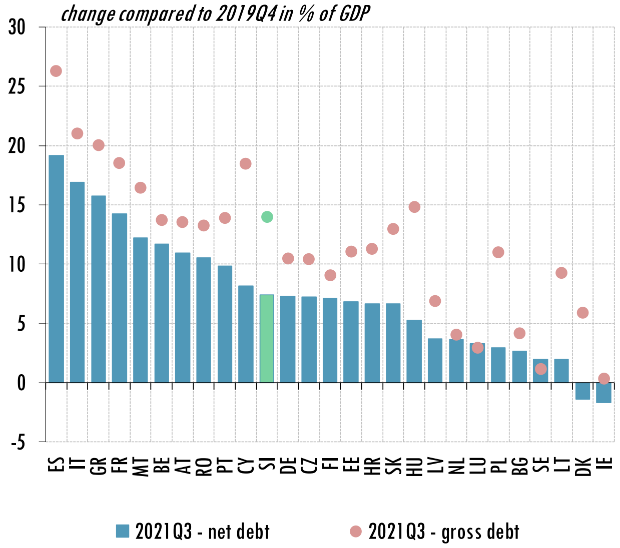
Source: MoF: State Budget Debt, 1/2022 (as of 31.12.2021). After 2032: Financing Programme of the Republic of Slovenia State Budget for 2022 - no information on interest payments.

Figure 5.5: State budget net borrowing



Source: MoF, FC calculations.

Figure 5.6: General government net and gross debt



Source: Eurostat, ECB, FC calculations.

In 2021, the Republic of Slovenia repaid EUR 3.4 billion of debt, 98.5% of which was related to the maturing principles of short-term and particularly long-term securities, EUR 250 million of which were early payments. According to the latest data, which also includes the treasury bills issued in January, around EUR 1.6 billion in principles of state budget liabilities fall due this year (most in the first quarter), which is half less than last year and the lowest annual maturity amount in this decade.

The funds on the treasury single account decreased significantly in the course of last year. They stood at EUR 6.2 billion at the end of 2020, reaching a record high of EUR 8.7 billion at the end of March, dropping to EUR 5.8 billion by the end of December 2021. Despite the decrease, the current balance on the treasury account ensuring state budget liquidity is around EUR 1 billion higher than the long-term average.

Yield required on long-term bonds of Eurozone countries, including Slovenia, have been on the rise in the last few months. The lowest values achieved in the middle of last summer increased by 0.6–1.0 p.p. until the beginning of February this year (Slovenia: 0.8 p.p.). Nevertheless, both yield requirements and yield mark-ups on German bonds remain low compared to the historical average, mainly as a result of the adoption of aid packages at the EU level and particularly as a result of an exceptionally accommodative monetary policy via an exceptional asset purchase programme during the epidemic. In the last few months, the latter is showing a slower growth in balances than in the first half of last year. The share of Slovenian government bonds in general government debt purchased by the Eurosystem remains among the largest in the euro area. The interest rate of all treasury bills issued in 2021 was negative and amounted to −0.5% for all maturities (3 to 12 months). Slovenia's debt ratings remained the same in 2021, with all three leading agencies – Moody's in October, and Fitch and Standard & Poor's in December – confirming stable prospects for the debt of the Republic of Slovenia. The distribution of liabilities is improving as the average weighted time to maturity at the end of 2020 reached 9 years and with the dominance of a markedly long-term debt at the beginning of 2021 amounted to 10 years. According to the latest data available, since the end of 2020, government guarantees have decreased by approximately EUR 280 million to EUR 4.80 billion by the end of September 2021.

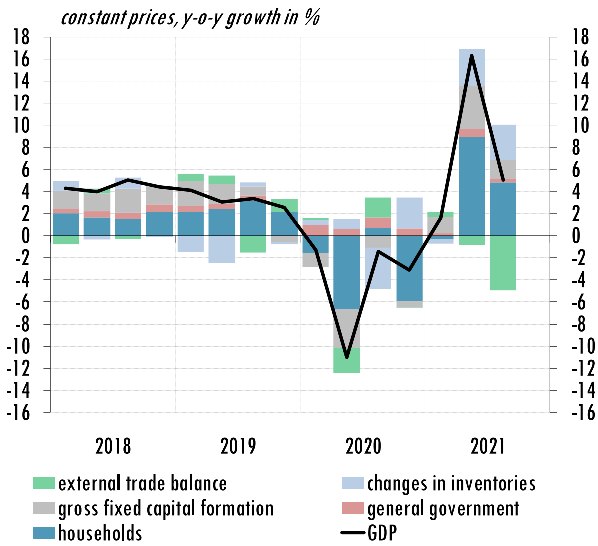
Slovenia's gross debt-to-GDP ratio is smaller than the EU average ratio; the increase in the third quarter of 2021 compared to the period before the beginning of this crisis was higher by 1.1 p.p. of GDP than the average EU increase, which ranks Slovenia 8th among the 27 EU Member States. Not counting the general government financial assets, resulting mainly from pre-financing, Slovenia is 11th among EU Member States in terms of the general government net debt increase during the crisis.

6. Macroeconomic trends and risks

After a significant growth bounce-back in the middle of 2020, the recovery in economic activity in 2021 was solid, but factors that could limit growth began to multiply at the end of last year and in the beginning of this year. The average quarterly GDP growth in the first three quarters reached approximately 1.6% per quarter, while the average year-on-year growth in the same period amounted to EUR 7.4%. This allowed Slovenia to rank eighth among countries with the highest GDP growth in the EU. GDP in the third quarter of last year exceeded the pre-crisis level, while many indicators suggest that the growth dynamic is slowing down in the light of another deterioration of the epidemiological situation and obstacles on the demand side. According to the current forecasts, economic activity could reach pre-crisis trend levels in 2023.

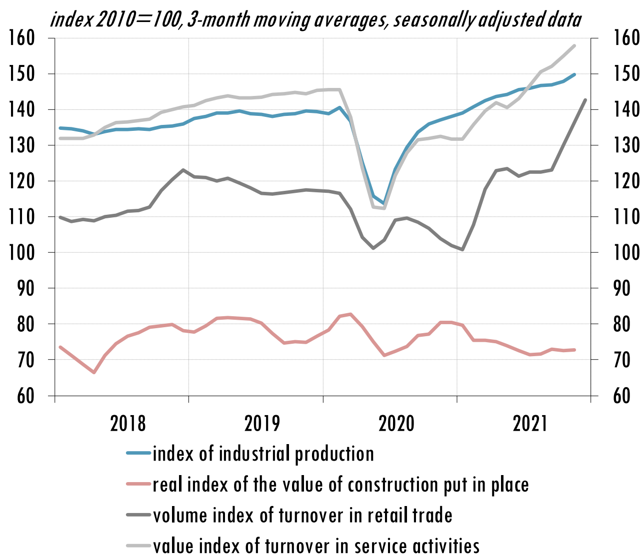
The recovery rates of individual activities continue to differ. The solid economic growth in the first three quarters of 2021 was particularly due to added value in manufacturing and retail, but not all service industries achieved the levels from the end of 2019. After the drop brought on by the crisis, gross operating surplus in GDP in total economy again exceeded the long-term value. Among the demand components, the highest growth in 2021 was recorded in household consumption – an average of 8.3% in the first three quarters; the consumption of goods increased by more than 15%. Despite maintaining a relatively high growth in disposable income, the record-high household saving rate decreased slightly. In the third quarter of 2021 alone, it was one of the lowest ever recorded; however, at around 20% at an annual level, it is nearly one half higher than the levels recorded in a few years preceeding the crisis. Investments also grew quickly last year, with government investments growing nearly twice as fast as private sector investments. As regards demand components, exports of

Figure 6.1: Gross domestic product



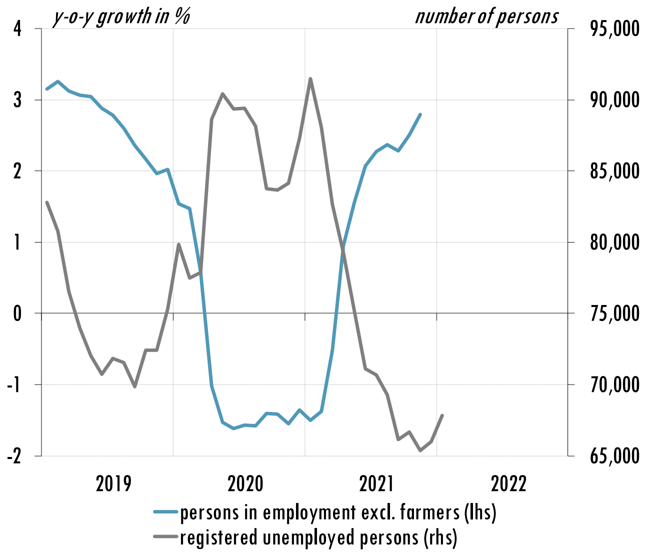
Source: SORS, FC calculations.

Figure 6.2: Activity indicators



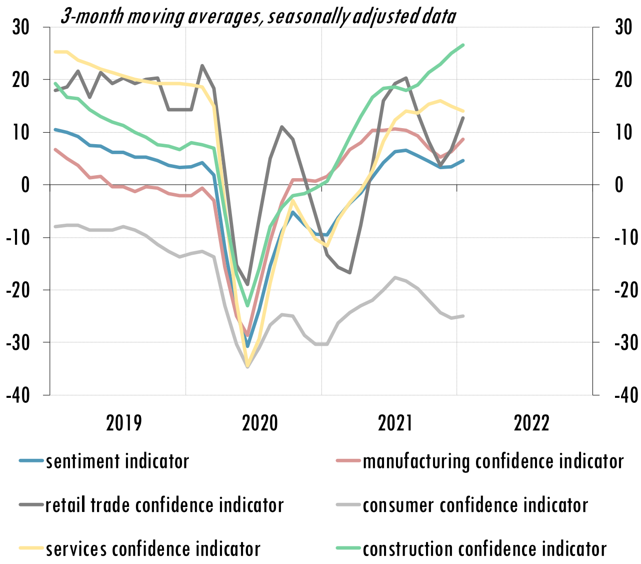
Source: SORS, FC calculations.

Figure 6.3: Labour market



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

Figure 6.4: Business tendency and consumer surveys



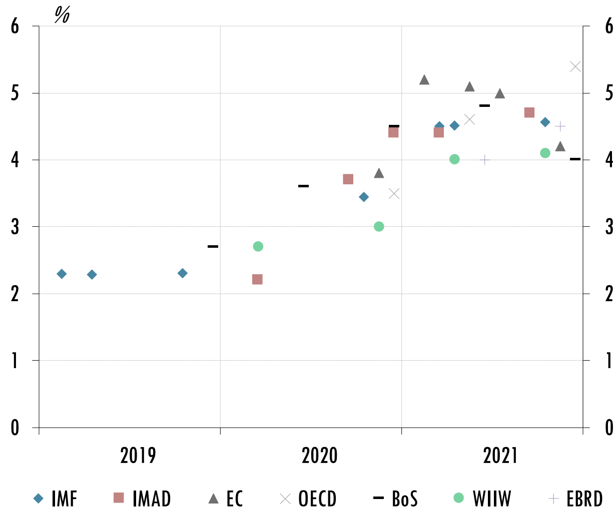
Source: SORS, FC calculations.

services in particular were below the pre-crisis level in the light of travel-related uncertainties and restrictions. With the growth in exports of goods lagging the production, inventories increased substantially in 2021, contributing nearly a third to GDP growth in the first three quarters. The relatively high domestic demand in 2021 also led to a distinctly negative contribution of net trade to economic growth. After five years of stable and high levels, the annual current account balance surplus up to November decreased by approximately EUR 1 billion on a year-on-year basis, partly due to unfavourable terms of trade.

A strong aggregate demand is also reflected in the labour market developments. The number of employees is at an all-time high while employment growth is exceeding the long-term average and, together with a high growth in salaries and low unemployment figures and unemployment rate, is more favourable than the level achieved before this crisis, almost reaching the level reached before the global financial and economic crisis over a decade ago. Foreign nationals contributed more than one half of the year-on-year growth in aggregate employment at the end of 2021. In most activities, the percentage of companies reporting shortages of (qualified) workers is growing, which is also reflected in the swift increase in the number of vacancies. As, in the light of the decreasing number of total unemployed, this indicates a trend of increasing the proportion of the long-term unemployment, this may also reflect the changed structure of the post-crisis economy. Expectations for future employment in all activities are quite optimistic and, with the exception of retail trade, above or at least close to pre-crisis levels. Slovenia is in the upper third of EU countries with the lowest unemployment rates, while its youth unemployment rate increase (15–24 years) was among the highest in the EU between the last quarter of 2019 and the end of 2021.

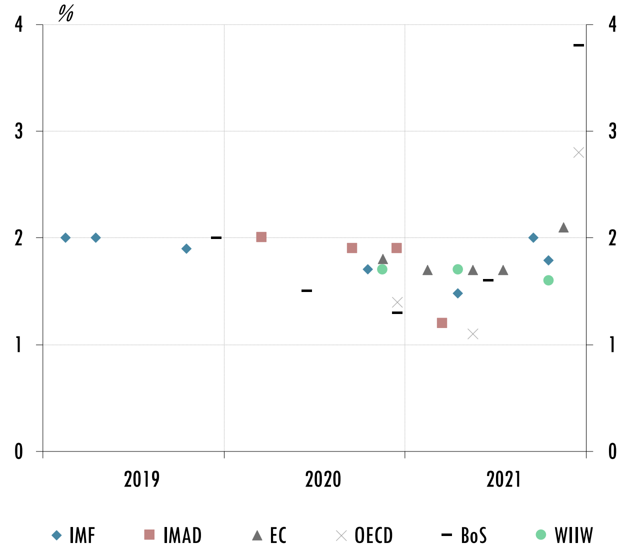
Recent macroeconomic projections for Slovenia for this year are less favourable than in the first half of last year. The decrease in the projected GDP growth in 2022 is likely due partly to last year's faster growth than envisaged and partly due to the stalled growth at the end of the year. Based on the forecasts prepared in the last quarter of 2021, GDP is expected to increase by approximately 4.5%. Based on the average of the latest estimates, this is around 2 p.p. less than the projected growth in 2021. There has also been an important shift in inflation forecasts, as the most recent projections show

Figure 6.5: Real GDP growth forecasts for 2022



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

Figure 6.6: Inflation forecasts for 2022

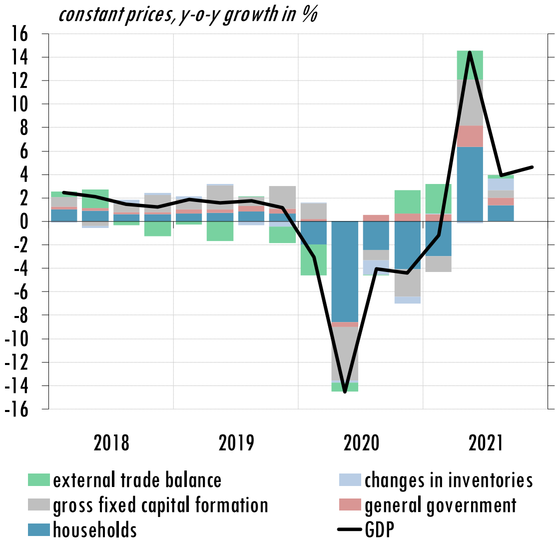


Source: IMF, IMAD, European Commission (EC), OECD, Bank of Slovenia (BoS), WIIW.

a 3–4% growth in prices for 2022, while projections at the beginning of 2021 pointed to 2022 inflation at between 1% and 2%. The response of consumers and enterprises to the higher growth in prices, in the light of the continuously high accumulated savings, the yield on which does not ensure the preservation of real value, is even more unpredictable. The forecasts remain exposed to high uncertainty with regard to the future course of the pandemic and the related measures, domestic and global geopolitical developments and implementation of economic policies. The pace and quality of recovery will be importantly influenced by investments, both those financed from existing and new EU instruments and those financed with domestic funds. Their effectiveness and the absorption capacity of countries' economies pose an additional risk to projections.

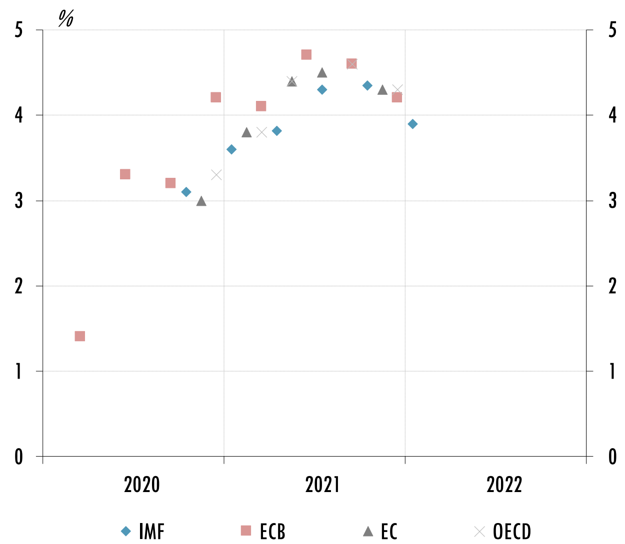
In major trade partners, the economic growth dynamic last year was favourable and, much like in Slovenia, quite a few indicators suggest a slowing of growth at the end of 2021. The slowing of

Figure 6.7: Gross domestic product - euro area



Source: Eurostat, ECB, FC calculations.

Figure 6.8: Euro area real GDP growth forecasts for 2022



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

anticipated activity, with the current GDP dynamics slowing down from over 2% in previous two quarters to 0.3% in the last quarter of 2021, was also suggested by indicators of sentiment and expectations, particularly among consumers and in service industries, mainly due to uncertainties regarding supply chain disruptions, as well as in manufacturing. GDP in the euro area achieved the pre-crisis level, as is also the case by most business sentiment indicators. Disruptions on the supply side and high growth in energy prices in particular are currently the main factors behind inflation growth, which amounted to around 5% in the euro area at the end of 2021 and the beginning of 2022.

Recovery in major trade partners is expected to continue in 2022, and GDP growth is expected to be slightly lower than last year, amounting to approximately 4% in the euro area. Growth is expected to be stimulated by domestic demand, supported by favourable labour market conditions. In the light of the implemented and announced increases in minimum wages (e.g. Germany: 30%, Portugal: 6%, the Netherlands: a total of 7.5% over the term of the new government, expected adjustments for inflation in France and Belgium), additional demands of trade unions and high company profits, the continuation of the current inflation factors could lead to at least a partial pass through of the current high price increases into salaries. All of the above increases the likelihood of a longer period of relatively high price increases than envisaged in current expectations, which suggest that inflation will slow down in the second half of 2022.