



REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Monthly Information

March 2022

Key highlights¹

- The state budget had a surplus of EUR 94 million according to preliminary data during the first two months of 2022, or EUR 240 million not counting the direct effect of COVID measures. The state budget balance in both comparisons was better than in the same period last year, which is mainly the result of the revenue growth as economic activity has recovered. The considerable expansion in the beginning of the year is, to a great extent, concealing the deteriorating structural fiscal balance.
- Revenue in the first two months of 2022 on a year-on-year basis was 34.7% higher, or 32.0% higher without taking into account the direct effect of COVID-related measures.
- Expenditure in the first two months of this year was –8.9% lower on a year-on-year basis, or 9.5% higher without taking into account the direct effect of COVID measures.
- The total level of state budget expenditure for COVID-related measures from March 2020 to the end of February 2022 amounts to EUR 4.965 billion, EUR 171 million of that in the first two months of 2022.
- The geopolitical situation poses a high downside risk to public finances, notably through the impact of slowing economic activity and consumer spending on government revenues. Related to this, various subsidies to cushion the impact of rapid price increases also pose a risk of a significant increase in government expenditure, while other risks include in particular the already adopted, but not yet implemented, public sector wage increases and the already expressed demands for additional wage increases. The aggravated geopolitical situation also introduces uncertainty for the conduct of fiscal policy in the year ahead. A decision on the foreseen abolition of the general escape clause in 2023 will be taken on the basis of the EC's spring forecast by the end of May. Given the risks associated with the geopolitical situation, it is also the EC's assessment² that it is necessary to maintain support of economic growth while limiting any structural deterioration in public finances in order to ensure a sustainable level of indebtedness in the medium term.

¹ The Fiscal Council will continue to regularly publish an overview of the implementation of the state budget under the cash flow methodology and COVID-related measures in its monthly publication, subject to availability of such data in the future. All comments pertain to data as at 2 March 2022. Along with the Ministry of Finance, we would like to thank the Financial Administration of the Republic of Slovenia (FURS).

² Available at: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/fiscal-policy-guidance-2023_en.

State budget January–February 2022³

- With a EUR –10 million **deficit** being recorded in February according to preliminary data, the total state budget surplus amounted to EUR 94 million in the first two months of 2022. Not counting the direct effect of COVID-related measures, the state budget surplus amounted to EUR 240 million.⁴
- **Revenue** in the first two months was 34.7% higher than in the corresponding period last year. The high growth is partly due to a base effect, when revenue was quite low in the first two months of last year due to restrictive measures, partly due to strong domestic demand or a rapid recovery, and partly due to the receipt of the remainder of the advances of the first tranche of the RRP.⁵
- VAT revenue is the main contributor to the year-on-year growth in revenue (around one third). It is also 8.5% higher than in the first two months of 2020, just before the start of the epidemic. However, the year-on-year trends in other key tax revenues are mainly influenced by the base effect. Growth in income tax revenue has moderated considerably with the expiry of the payment of allowances, which were quite high at the beginning of last year. Excise duties and corporate income tax revenues, which were low in the same period last year due to the

Table 1: State budget

	January-February				March-December							
	2021	2022	change		2021	2022*	change		2021	2022**	change	
			EUR million	%			EUR million	%			EUR million	%
Revenue	1,595	2,148	553	34.7	9,579	9,321	-258	-2.7	11,174	11,469	295	2.6
VAT	550	765	215	39.1	3,681	3,434	-247	-6.7	4,231	4,199	-32	-0.8
Excise duties	204	231	27	13.3	1,266	1,232	-34	-2.7	1,470	1,463	-7	-0.5
Personal income tax	293	323	30	10.1	1,220	1,184	-36	-3.0	1,514	1,507	-7	-0.4
Corporate income tax	126	156	30	23.4	988	898	-90	-9.1	1,115	1,054	-61	-5.4
EU funds	96	255	159	166.5	851	1,418	567	66.6	947	1,673	726	76.7
Non-tax	157	181	23	14.8	661	322	-339	-51.3	818	502	-316	-38.6
Other revenue	168	237	68	40.7	910	833	-78	-8.5	1,079	1,070	-9	-0.8
Expenditure	2,253	2,053	-200	-8.9	12,000	11,887	-113	-0.9	14,254	13,940	-314	-2.2
Total labour costs	674	583	-91	-13.5	3,535	3,220	-315	-8.9	4,209	3,803	-405	-9.6
Transfers to individ. and househ.	531	316	-216	-40.6	2,001	1,362	-639	-31.9	2,532	1,678	-855	-33.8
Expend. on goods and services	161	191	31	19.0	1,362	1,153	-209	-15.4	1,523	1,344	-179	-11.7
Investment	64	82	17	27.0	1,174	2,209	1,035	88.2	1,238	2,291	1,053	85.0
Curr. transfers to soc. sec. funds	196	298	102	51.9	1,153	1,163	9	0.8	1,350	1,461	111	8.2
Subsidies	233	138	-96	-40.9	582	421	-160	-27.6	815	559	-256	-31.4
Interest	106	40	-66	-62.3	620	643	23	3.7	727	683	-43	-6.0
Payments to the EU budget	162	141	-20	-12.5	467	439	-28	-6.1	629	580	-49	-7.7
Other expenditure	126	265	139	110.3	1,105	1,276	171	15.5	1,231	1,541	310	25.2
Balance	-659	94	753		-2,422	-2,566	-144		-3,080	-2,472	608	

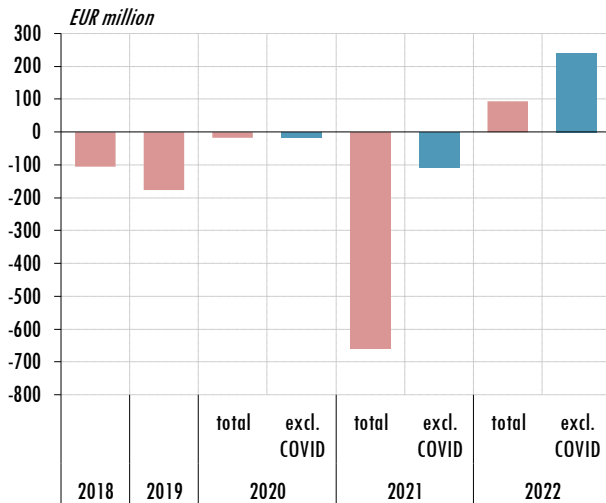
Sources: MoF, FC calculations. Note: *Implicitly calculated to match MoF forecast. **Amendments to the budget for 2022 (Oct. 21).

³ The comments on the state budget implementation refer to the daily data available at: <https://proracun.gov.si/#>.

⁴ The difference between the cost of COVID-related measures and their effect on the state budget balance is due to EU-funded expenditure on COVID-related measures. In the estimate of the balance not accounting for the effect of COVID-related measures, the EU funds are subtracted from the published revenue from EU funds.

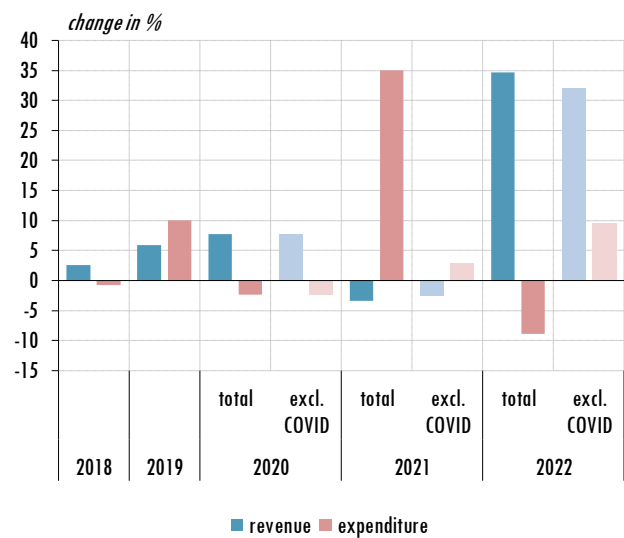
⁵ In January, EUR 118 million of the EUR 231 million-tranche from the RRP advance payments was received.

Figure 1: State budget balance (January-February)



Source: MoF, FC calculations.

Figure 2: State budget revenue and expenditure (January-February)



Source: MoF, FC calculations.

Table 2: Impact of COVID measures on state budget outturn

	January-February 2021		January-February 2022		excl. COVID	
	EUR million		EUR million		y-o-y change	
	COVID	excl. COVID	COVID	excl. COVID	EUR million	%
Revenue	-13	1,608	26	2,122	514	32.0
VAT	-17	566	11	753	187	33.0
Excise duties	14	191	1	231	40	21.1
Personal income tax	-3	296	1	322	26	8.7
Corporate income tax	0	126	1	155	29	23.1
EU funds ¹	4	92	7	248	157	171.0
Non-tax	0	157	0	181	23	14.8
Other revenue	-12	180	5	232	52	29.1
Expenditure	535	1,718	171	1,882	164	9.5
Total labour costs	112	561	5	578	16	2.9
Transfers to individuals and households	274	257	26	289	32	12.4
Expenditure on goods and services	22	139	36	156	17	12.1
Investment	1	63	5	77	14	21.9
Current transfers to social security funds	0	196	68	230	34	17.3
Subsidies	103	131	1	137	6	4.8
Interest	0	106	0	40	-66	-62.3
Payments to the EU budget	0	162	0	141	-20	-12.5
Other expenditure	23	103	30	235	132	128.0
Balance	-548	-110	-145	240	350	

Sources: MoF, FURS, FC estimates and calculations. Note: ¹The 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.

restrictive measures, continue to show relatively high growth. In the coming months, we expect much more subdued growth rates in tax revenue, due to the reverse base effect and increased risks to economic growth.

- **Expenditure** in the first two months was –8.9% lower than in the corresponding period last year. This was mainly the consequence of the impact of COVID-related measures. These amounted to EUR 535 million in the first two months of last year, and to EUR 171 million this year. Without this effect, expenditure would be 9.5% higher on a year-on-year basis during the first two months of 2022.
- The majority of the overall growth excluding the impact of COVID measures is due to the transfer of the RRP funds received to the budgetary fund. Among the other key expenditure categories, higher transfers to individuals and households and to social security funds were the main contributors to the overall expenditure growth. Growth in these two categories may strengthen further in the coming months: transfers to individuals and households due to the adjustment of a significant part of transfers to last year's high inflation, and transfers to social insurance funds due to a possible increased need for state budget resources as a result of the extraordinary and relatively high regular adjustment of pensions and the shortfall in the funds of the Health Insurance Institute of Slovenia (ZZZS), which is projecting a large deficit this year even without taking into account all additional commitments.
- Growth in labour costs (excluding the effect of COVID bonuses) was relatively contained in the first two months of this year (2.9%), but the risks to higher growth are most pronounced in the context of the strike announcements and the wage hikes among expenditures that have been adopted but not yet implemented.
- Investment expenditure amounted to EUR 82 million in the first two months, and budget projections suggest that €2.2 billion in investment will be made by the end of the year, almost EUR 1 billion more than in the whole of last year.

Implementation of COVID-related measures (January – February 2022)

- The state budget expenditure for COVID-related measures in the first two months of this year amounted to EUR 171 million, and to EUR 4.965 billion since the beginning of the epidemic in March 2020.
- This year, the bulk of the funds comprise of the expenditure for the containment of the epidemic, especially testing and vaccination costs. EUR 68 million was earmarked for the third solidarity allowance for pensioners during the epidemic, and EUR 22 million for tourist voucher payments.
- According to available Financial Administration data, the total sum of funds actually repaid by the end of February or based on issued decisions for the reimbursement of aid amounted to EUR 109 million. EUR 326 million of the EUR 472 million in approved deferrals or instalment payments of tax liabilities were repaid by the end of December 2021.

Table 3: State budget expenditure for COVID measures (EUR million)

	Mar.-Dec. 2020	Jan.-Dec. 2021	Jan.-Feb. 2022	TOTAL
State budget expenditure for COVID measures	2.004	2.790	171	4.965
Measures to preserve jobs	1.136	633	1	1.770
Compensation to temporary laid-off employees	328	271	1	600
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 contrib. 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	79	1.867
Employee bonuses	204	822	4	1.030
Control of the epidemic (protective equipment, etc.)	132	385	74	591
Measures in education, sport and culture	29	30	1	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	91	669
Tourist voucher payments	128	228	22	378
Solidarity bonus for various groups	163	59	69	291
Measures to maintain liquidity	0	309	0	309
Reimbursement of fixed costs	0	309	0	309
Other expenditure	61	288	0	349

Source: MoF, FURS, FC calculations.