REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Assessment of the 2022 Stability Programme

May 2022

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The assessment was made based on the 2022 Stability Programme. Some forecast values in EUR were calculated indirectly from the rounded shares of GDP shown in the Stability Programme 2022, which is why certain items are not summed up. Data available up to and including 28 April 2022 were used.

TABLE OF CONTENTS:

FIGURES:

TABLES:

EXECUTIVE SUMMARY

The no-policy-change scenario of the 2022 Stability Programme foresees a gradual improvement in the fiscal situation. However, this improvement will be somewhat limited by the discretionary measures already adopted, and the planned 2025 deficit is set to be higher than last year, without taking into account the COVID-related measures. Revenue growth is expected to continue, largely based on the prediction that relatively favourable macroeconomic conditions will continue despite a number of negative risks. The high tax bases are a result of the increased level of economic activity, due considerably to the expansionary fiscal policy, and the contribution of the higher inflation, which is also related to excess demand. In the medium term, the relatively favourable fiscal balance achieved before the epidemic will not be fully restored, mainly due to the adopted discretionary structural measures which, since the invocation of exceptional circumstances, have not been directly linked to mitigating the consequences of the epidemic. The adoption of these measures significantly limits the room to manoeuvre for the future conduct of fiscal policy. Given the fiscal situation and the current estimates of the cyclical position and despite the uncertainties continued favourable macroeconomic projection, additional fiscal policy incentives are not necessary, as they could trigger more serious imbalances. Alternative estimates of levels and growth of expenditure show that, even under the no-policy change policy scenario, these are mainly above the thresholds ensuring medium-term fiscal policy sustainability. The fiscal policy's main aims should be to ensure sustainable growth of current expenditure, to respond in an appropriate manner to development challenges and to strengthen the economy's resilience with efficient investments financed, to the greatest possible extent, with a higher amount of available European funding.

* * *

Despite the high level of expenditure, the nominal deficit is set to decrease to the permitted threshold of -3% of GDP next year. Throughout the projection period, its decrease should be largely due to the currently expected relatively high and cyclical growth in revenue. Despite its assumingly appropriate decrease, the general government debt should exceed the Maastricht criteria at the end of the period covered by the 2022 Stability Programme, amounting to 68.0% of GDP in 2025.

The high structural deficit is, among other things, the result of a series of measures taken during the epidemic that have brought about a permanent deterioration in the fiscal situation. The total impact of measures not directly related to the epidemic on the general government balance in 2022 is estimated at approximately 2.3% of GDP and is expected to increase to approximately 3.2% of GDP by 2025. The adoption of such measures has intensified further since the adoption of the budget documents in autumn of last year, which is reflected in the strengthened pro-cyclical expansionary fiscal stance in 2022. To a significant extent, this represents the materialisation of risks that the Fiscal Council has recently been calling attention to on a regular basis. The temporary deterioration in the fiscal situation enabled by the epidemic will thus become structural. This type of policy limits the room to manoeuvre that would allow extensive fiscal policy action to be taken in case of future shocks. This room would be even smaller if the many currently detected negative risks and the consequently slower economic growth were to be materialised, taking into consideration also the expected tightening of the monetary policy.

Based on the current forecasts, the economy is expected to operate under favourable cyclical conditions with signs of exceeding the supply potential in the coming years, despite increased uncertainties. Under such conditions, it is essential to create ample room to manoeuvre for public finance. Additional fiscal incentives that would lead to increased demand could cause macroeconomic imbalances. The latter are already starting to show in the form of increased limitations in ensuring the appropriate workforce, inflationary pressures, which do not originate only in the international environment, and the rapid shrinking of the surplus in foreign trade. The deterioration in the structural fiscal policy position is less noticeable due to the rapid recovery of economic growth, partly enabled, after the drop in GDP in 2020, by the stimulative fiscal policy as well as the extremely accommodative monetary policy, which has thus far ensured favourable financing conditions and deterred the responses of the financial markets to the deteriorated fiscal situation.

In the given situation, the fiscal policy should restrain the planned growth in current spending, excluding expenditure for interest, investments and one-time expenditure and spending associated with the COVID-related measures, which was set too high. It's 2021 growth was the highest after 2008 and is set to increase further this year. Growth in current public spending should remain within the limits permitted by long-term growth in revenue. It is important to ensure that room for future priorities is created by increasing the efficiency of government expenditure and strengthening bases on the revenue side. The public investments envisaged in budget documents should appropriately address the development challenges and strengthen the economy's resilience. It is necessary that their implementation takes into consideration the limitations of the absorption capacities of the administration and the economy, which, among other things, can lessen investment efficiency or further increase inflationary pressures.

In the current uncertain situation, the Fiscal Council does not state its opinion on extending the period of exceptional circumstances into 2023. In accordance with the law, it expects to receive a request to prepare such an assessment from the Government and present it before the preparation of the autumn budget documents. The Fiscal Council once again calls attention to the fact that, after the conclusion of the period of exceptional circumstances, the Fiscal Rule Act provides for the institution of a correction mechanism. At the same time, it expects the Government to respond to the challenges of ensuring the long-term sustainability of public finance in a timely manner, the latter having deteriorated again in recent years according to certain indicators.

On several occasions in the current procedure of submitting the documents required by law, the Government acted in contravention of the established norms or relevant legislation. It delayed taking note of the macroeconomic forecasts of the Institute of Macroeconomic Analysis and Development (IMAD), which proved to be consistent with the principles of accuracy and unbiasedness over the long term. Among other things, it made it more difficult for the Fiscal Council to conduct a comprehensive analysis of budgetary projections within the short statutory time limits. The Government provided the Fiscal Council with the draft Stability Programme with an 18-day delay relative to the legislation in force and failed to submit for assessment the framework for the preparation of the general government budget, the central medium-term budget planning document. The legislation in force does not contain any provisions releasing the Government from this obligation. Moreover, after the publication of favourable national accounts data for 2021 at the end of February and in light of the improved epidemiological situation, the Government once again failed to ask the Fiscal Council for its assessment as to whether the reasons for the invocation of exceptional circumstances have ceased or continue to exist.

Legislative basis

On 28 April 2022, i.e. 18 days after the statutory time limit, the Government of the Republic of Slovenia (hereinafter: the Government) submitted the draft 2022 Stability Programme (hereinafter: the SP 22) to the Fiscal Council (hereinafter: the FC) for an assessment of compliance with the fiscal rules. On 28 April 2022, the Ministry of Finance provided the FC with further information in accordance with the Memorandum of Understanding concluded between the FC and the Ministry of Finance. In line with this agreement, the FC requested additional clarifications from the Ministry of Finance regarding the draft SP 22 on 30 April 2022 and 1 May 2022. In contravention of the legislation, the Government failed to send to the FC the proposed Ordinance on the framework for the preparation of the general government budget for the 2023–2025 period or any proposed changes to the existing Ordinance on the framework for the preparation of the general government budget for the 2022–2024 period.

Pursuant to paragraph two of Article 6 of the Fiscal Rule Act (hereinafter: the FRA), the Government must submit the framework proposal for the preparation of the budget together with the draft Stability Programme to the National Assembly of the Republic of Slovenia (hereinafter: the National Assembly) and the FC no later than 20 days before the deadline for submitting the Stability Programme to the European Commission (hereinafter: the EC). In accordance with the "Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes", this period ends at the end of April each year. Pursuant to paragraph two of Article 6 of the FRA, the Ordinance on the framework for the preparation of the general government budget is adopted by the National Assembly upon the Government's proposal no later than five days before the deadline for submitting the Stability Programme to the EC.

By 10 April 2022, when the final deadline for compliance with legal provisions expired, the FC did not receive the proposed framework for the preparation of the budget or the draft 2022 Stability Programme from the Government for assessment. In its letter of 11 April 2022, which was also sent to the National Assembly, the FC therefore called upon the Government to submit the proposed framework for the preparation of the budget, together with the draft SP 22, as prescribed by the national legislation by 12 April 2022 at the latest. On 13 April 2022, with the Government having failed to respond to the letter, the FC informed the public of a breach of law. On 28 April 2022, the FC received the Government's clarifications about the delay, together with the draft SP 22.

Pursuant to paragraph one of Article 9f of the Public Finance Act (the PFA), the Fiscal Council must submit its assessment of the Framework Proposal and the draft Stability Programme to the Government and to the National Assembly within seven days of their receipt. Due to the Government's delay in sending the documentation, the FC was only able to prepare its assessment within the reasonable time of seven business days following their receipt.

Pursuant to paragraph two of Article 6 and point 1 of paragraph two and point 1 of paragraph three of Article 7 of the FRA, the FC assesses the sustainability and compliance of the fiscal policy with the fiscal rules on the basis of the draft Stability Programme and the Framework Proposal. Article 3 of the FRA stipulates the method for determining the ceiling for general government expenditure in relation to the economy's cyclical position. The FC assesses the appropriateness of the proposed amendments to the Framework in accordance with point 5 of paragraph two and point 4 of paragraph three of Article 7 of the FRA. Under Article 15 of the FRA, as long as the Republic of Slovenia is approaching the medium-term budgetary objective, it shall be deemed that the budgets of the state are balanced in the medium term if the structural balance of the general government sector is adjusting to the medium-term budgetary objective in accordance with the pace determined on the basis of the Stability and Growth Pact. The FC also considers alternative indicators of fiscal policy orientations.

Pursuant to Article 12 of the FRA, the Government shall determine whether exceptional circumstances have arisen or have ceased to exist after having obtained the assessment of the FC. On 17 March 2020, the FC assessed that the announcement of the epidemic in Slovenia is an unusual event, which, under Article 12 of the FRA, makes it possible to invoke exceptional circumstances for measures aimed at mitigating the consequences of such an event, and thus to temporarily deviate from the medium-term fiscal balance.[1] The FC confirmed this assessment for 2021 in October 2020[2] and for 2022 in both April 2021 and September 2021.[3] In September 2021, the FC did not make any assessment as to fulfilment of the conditions for the existence of exceptional circumstances in 2023. This year, the Government did not make any request to the FC for the assessment of the conditions demonstrating the existence of special circumstances.

[1] FC (2020a).

[2] FC (2020b).

[3] FC (2021a) and FC (2021b).

1. Macroeconomic conditions and forecasts

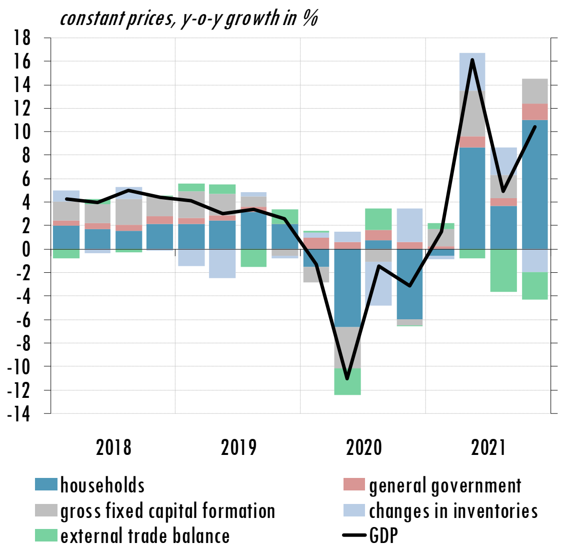
Key findings

- Last year's GDP growth (8.1%) greatly exceeded the autumn forecasts, which provided the basis for the preparation of budget documents, particularly due to the dramatic acceleration in final domestic spending in the second half of 2021.
- In the SP 22 projection period, the average GDP growth rate, standing at approximately 3%, is expected to exceed the long-term average growth, while the positive output gap is expected to remain relatively high.
- Key tax bases in the 2022–2024 period are expected to be much higher than previously anticipated, particularly due to their high increase in 2021 and partly due to higher inflation.
- In the FC's opinion, the deviations of the macroeconomic projections of the Institute of the Government of the Republic of Slovenia for Macroeconomic Analysis and Development (IMAD) from realisation in the long term suggest the forecasts' unbiasedness and accuracy, which therefore provide the appropriate basis for budget planning. Among other things, postponing the publication of IMAD forecasts outside the usual timeframes makes it more difficult for the FC to assess the submitted budget documents.

1.1 An overview of the macroeconomic conditions and forecasts

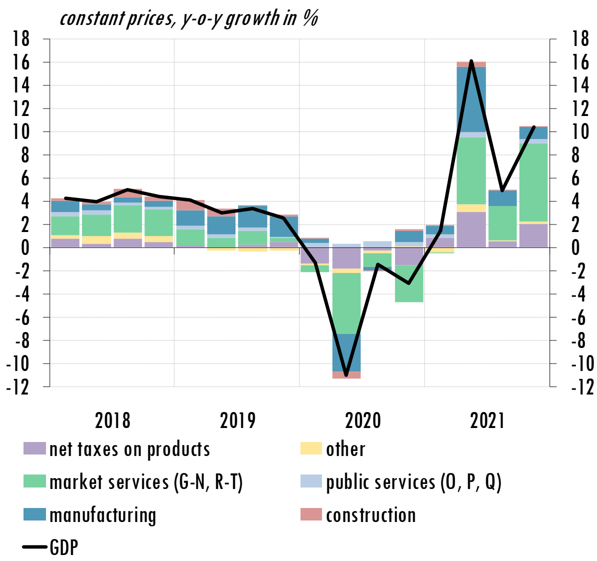
GDP growth in 2021 exceeded the autumn forecasts, which provided the basis for the preparation of budget documents and resulted particularly from increased domestic demand. In 2021, the GDP rose by 8.1% in real terms and by 10.9% in nominal terms. After the GDP quarterly level from the last quarter of 2019 was exceeded in mid-2021, it was also exceeded in the 2019 annual average

Figure 1.1: Gross domestic product - expenditure structure



Source: SORS, FC calculations.

Figure 1.2: Gross domestic product - production structure



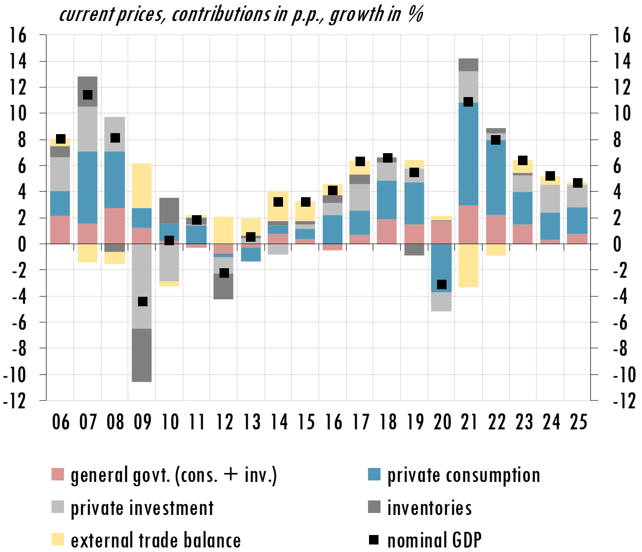
Sources: SORS, FC calculations.

(by 3.6%). Household consumption went up, together with increased activity in the service industry, which was most affected by the crisis due to the restrictive measures aimed at curbing the epidemic. At the end of the year, the investment dynamic practically ground to a halt, even though average annual investments showed a relatively high contribution to economic growth, due largely to the government's investment activity. Since the beginning of the epidemic, the government has also been maintaining a relatively high growth in final spending, which was almost twice as high as the multi-annual average.[4] Foreign trade had a negative effect on economic growth in 2021, as import growth, coupled with strong domestic demand, exceeded export growth and contributed to a decrease in the current account surplus. The negative impact of foreign trade on economic growth was greater than before the 2008 global financial and economic crisis. The same is true of the shrunken current account surplus, which was also highlighted by the unfavourable terms of trade.

After last year's considerable increase and given the extremely uncertain geopolitical situation, growth in economic activity is expected to be half that in 2021 but, like in the years before the epidemic, it will remain above the multi-annual average. IMAD[5] expects that all aggregates of demand will increase in the SP 22 projection period. Compared to 2021, when household consumption strongly prevailed, the contribution of domestic demand components to GDP growth is assumed to be slightly more balanced. The structure of value added by activity is also expected to become more balanced, with particularly high growth being recorded in 2021 in the manufacturing and commerce. In line with the anticipated increase in the absorption of EU funds from the Recovery and Resilience Fund and upon the end of the previous financial perspective together with the increase in the national budget contributions of the general government, particularly in 2022, the role of investment spending is expected to increase, particularly in the initial period of the SP 22. This year in particular, the investment is expected to be supported by last year's favourable economic results in the private sector as well as the high capacity utilisation and low corporate debt. With domestic demand settling down, foreign trade is also expected to have a positive impact on GDP growth. With the expected further strengthening of foreign demand and the favourable business and competitive position of companies

Figure 1.3: Demand factors and GDP

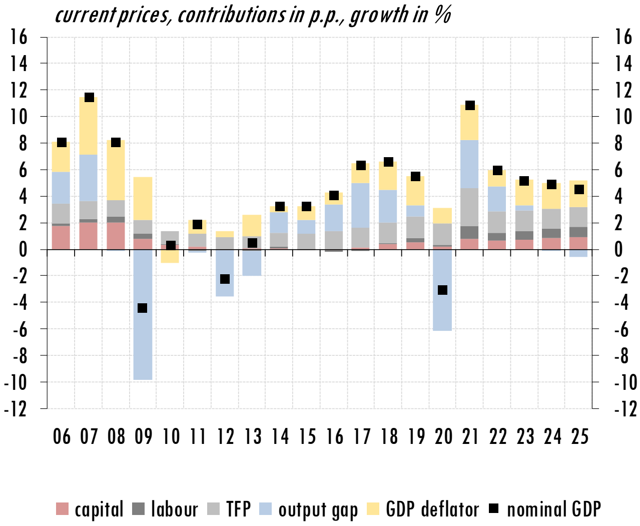
current prices, contributions in p.p., growth in %



Source: SORS, MoF, IMAD, FC calculations.

Figure 1.4: Supply factors and GDP

current prices, contributions in p.p., growth in %



Source: SORS, IMAD, FC calculations.

[4] Here and hereinafter: in the last two decades (2000–2021).

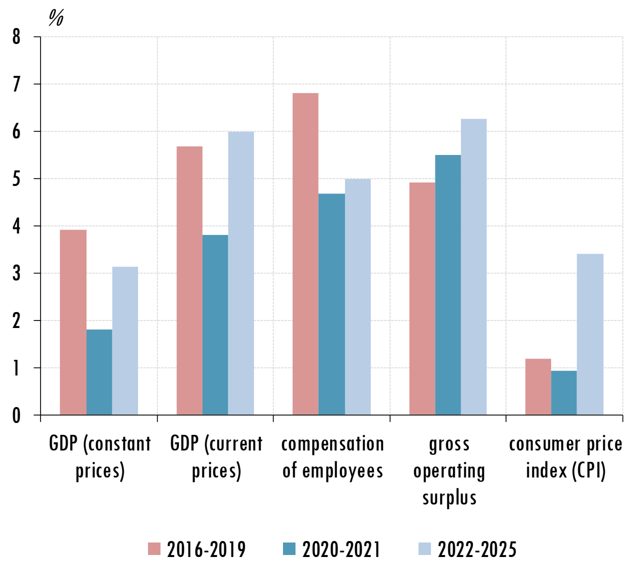
[5] IMAD (2022).

in manufacturing, the moderate economic growth is also expected to be largely based on foreign trade. IMAD is also anticipating relatively favourable labour market developments, with employment growth expecting to exceed the multi-annual average, particularly in the first SP 22 projection period, and the unemployment rate and the number of unemployed people reaching historical lows throughout the relevant period. Even though growth in salaries in the private sector is expected to increase slightly in the coming years as a result of these labour market constraints, the total real growth in salaries is expected to be lower than the multi-annual average, and should not exceed labour productivity growth. It should therefore not be a constraint on competitiveness nor a major inflation factor. Based on IMAD's projections, increased growth in prices will be merely temporary, as inflation is expected to settle down after an average increase of more than 6% in 2022, dropping to approximately 2% after two years.

In the SP 22 projection period, nominal economic growth is expected to be higher than the average recorded in the period before the epidemic, with a slightly different structure. With the projected positive output gap remaining relatively high, the cyclical momentum will make a key contribution to growth this year and next year, but given the expected slowdown in economic growth in the coming years it will ease off. Higher inflation will also significantly contribute to nominal GDP growth, and its average contribution in the SP 22 projection period will be almost twice as high as the average contribution recorded in the 2015–2019 period. The contribution of total factor productivity will remain significant. Compared to the period before the epidemic, the contribution of capital and labour is expected to increase significantly. The expected higher contribution of capital is related to the forecast of relatively high multi-annual investment growth, while the higher contribution of labour is related to the assumption of the net inflow of labour force and the higher number of hours worked.

After having increased considerably in 2021, key tax bases[6] in the 2022–2025 period are expected to increase more than they did in the years before the epidemiological crisis. Annual GDP growth in current prices is expected to reach 6.1% on average in the SP 22 projection period, which is almost one percentage point more than the average growth in the 2015–2019 pre-crisis period. By

Figure 1.5: Growth of macroeconomic aggregates



Source: SORS, IMAD, FC calculations.

[6] Tax bases as listed in the manual for the preparation of general government sector revenue projections. Available at https://www.gov.si/assets/ministrstva/MF/ekonomska-in-fiskalnapoltika/

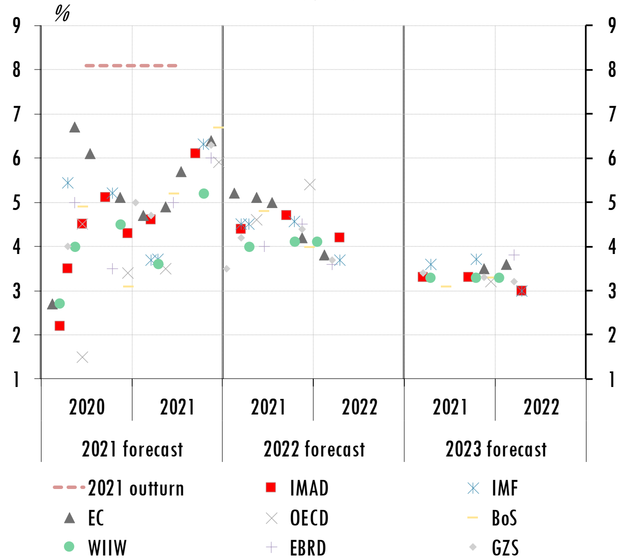
Box 1.1: Macroeconomic forecasts by IMAD and fiscal projections

Fiscal projections under Slovenian and European law are based on independent and publicly available macroeconomic projections. Paragraph 4 of Article 9b of the PFA stipulates that IMAD shall publish the forecast that provide the basis for fiscal projections on its website. Realistic and unbiased macroeconomic projections as the basis for credible fiscal planning are also determined by Council Directive 2011/85/EU.

The FC does not detect any bias in IMAD's macroeconomic projections. In the Analysis of the forecast deviations of macroeconomic and fiscal aggregates in 2016–2019[1], as part of which a longer timeframe was also considered, the FC did not detect any systemic deviations of macroeconomic projections from the actual realisation. The FC therefore estimated that IMAD forecast deviations of macroeconomic aggregates were not statistically inconsistent with the principle of accuracy or with the principle of unbiasedness.

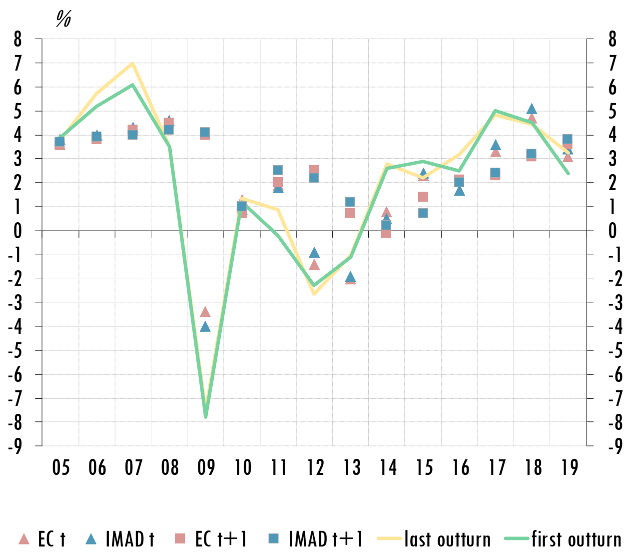
The delay in the publication of macroeconomic projections, among other things, makes the process of the assessment of budget documents more difficult. Before receiving the budget documents that the FC is obliged to assess in accordance with the legislation, the latter prepares, among other things, a risk assessment, projections of fiscal aggregates and an assessment of the medium-term sustainability of the general government debt based on IMAD's macroeconomic projections. Delaying the publication of macroeconomic projections outside established practices, given the extremely short statutory time limits for the preparation of the assessments of budgetary documents (see the chapter Legislative basis), therefore significantly limits the FC's capacities to conduct a complete and thorough analysis of budget documents.

Figure 1: Changes to 2021-2023 real GDP growth forecasts



Sources: BoS, EBRD, EC, IMF, OECD, SORS, IMAD, WIIW, GZS.

Figure 2: Forecasts and outturn of y-o-y real GDP growth



Sources: SORS, EC, IMAD, FC calculations.

Table: Statistical measures of forecast differences of key macroeconomic aggregates for the next year*

	ME					MAE					RMSE				
	IMAD	EC	OECD	IMF	BoS	IMAD	EC	OECD	IMF	BoS	IMAD	EC	OECD	IMF	BoS
GDP, real growth in %	-0.40	-0.65	-0.55	-1.23	-0.60	1.05	1.10	1.15	1.73	1.10	1.27	1.34	1.47	1.98	1.39
GDP, nominal level	-468	-389	-480	-940	...	804	688	953	1,257	...	1,028	923	1,201	1,513	...
Private consumption, nominal level	-331	-263	-551	...	...	560	596	844	...	...	826	811	1,041	...	...
Gross oper. surplus/mixed income, nom. level	-104	...	...	...	...	513	...	...	...	...	656	...	...	...	...
Compensation of employees, nominal level	-298	-710	-549	...	...	298	710	549	...	...	342	749	643	...	...
Inflation, annual average in %	0.33	0.28	0.03	0.23	0.25	0.38	0.53	0.58	0.43	0.60	0.52	0.62	0.61	0.49	0.70

*Source: SORS, IMAD, EC, OECD, IMF, BoS, FC calculations. Note: *Autumn forecasts. Calculations from August 2020 (FS, 2020c).*

[1] FC (2020c). The analyses of IMAD and the Bank of Slovenia show similar results.

2025, nominal GDP is expected to increase by EUR 13.8 billion compared to 2021. Growth in domestic consumption in current prices is also expected to increase from the pre-crisis period. Compensation of employees is the only tax base with an average growth in the SP 22 projection period (5.0%) that is lower than in the previous crisis, mainly due to the slowdown in salary growth after a significant increase during the crisis period and as a result of the projected slower employment growth in the projection period. This, coupled with increased labour productivity, is expected to enable growth in operating surplus in the 2022–2025 period which, despite high growth in raw material prices, should exceed growth in the pre-crisis period.

1.2 Assessment of the cyclical position of the economy

Based on available estimates, the FC expects a positive[7] output gap[8] established already in 2021 to remain relatively high throughout the SP 22 projection period. After exceeding it in 2022, GDP growth in the coming years is expected to be approximately equal to the current estimated growth in economic potential. Considering the average of the currently available calculations, the output gap is expected to be slightly lower than 1.5% throughout the projection period, which, according to the methodology of the European Commission, delimits the 'normal functioning of the economy' from 'good times'.[9] The continued positive output gap shows that, based on available forecasts, the 2020 shock and the shock related to the war in Ukraine are not expected to have lasting negative consequences for economic activity. In this regard, it should be noted that, despite the current increased uncertainty, the range of available output gap calculations for the 2022–2025 period is approximately one third smaller than the multi-annual average (see Figure 1.6).

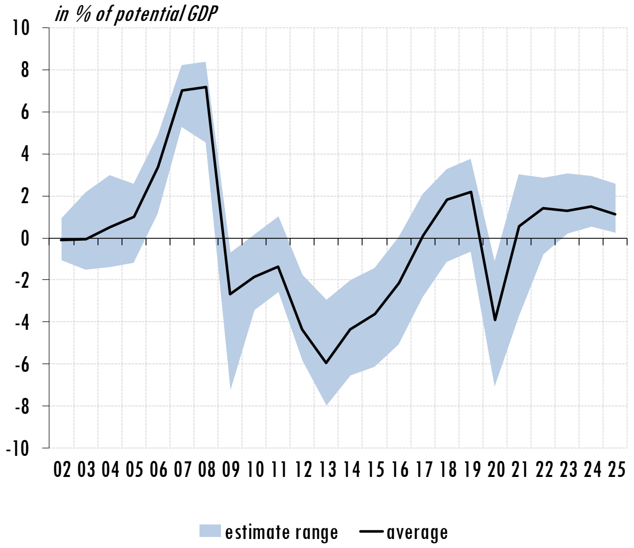
Having examined a wide range of indicators monitored by the FC in order to determine the cyclical position of the economy, it is estimated that, following a significant shock in the first half of 2020, the economy has recovered quickly, particularly due to total domestic demand. After the recovery of economic activity in the middle of last year, most of the indicators available at the beginning of 2022 suggest that the recovery is slowing down. The persistent high level of uncertainty could slow down the expected recovery this year, particularly in the event of unfavourable geopolitical developments and another deterioration in the epidemiological situation. After a substantial drop in the first half of 2020, most indicators significantly exceeded long-term average levels by early 2022. This primarily applies to indicators of economic growth, employment, economic sentiment and capacity utilisation, along with price indicators, both those reflecting consumer prices and property market indicators. In addition to shocks in raw materials markets, such price pressures in recent years are increasingly indicative of domestic supply side restrictions, primarily reflected in the labour market, and the domestic demand, reflected, among other things, in the distinctly positive contribution of domestic consumption to GDP growth as well as the sharp decrease in the current account surplus. According to available indicators, growth in private sector loans remains low, which is

[7] Determining the stage of the economic cycle has an impact on the choice of the formula referred to in paragraph four of Article 3 of the FRA, which is used to determine the ceiling for general government expenditure.

[8] The output gap represents the difference between actual economic activity (in terms of GDP) and the estimated economic activity made possible by the economy's available capacities, without causing inflationary pressures (potential output). In its output gap estimates, the FC uses the calculations of five institutions and four statistical methods. For more details on the output gap calculations used by the Fiscal Council, see FC (2018, pp. 23–26).

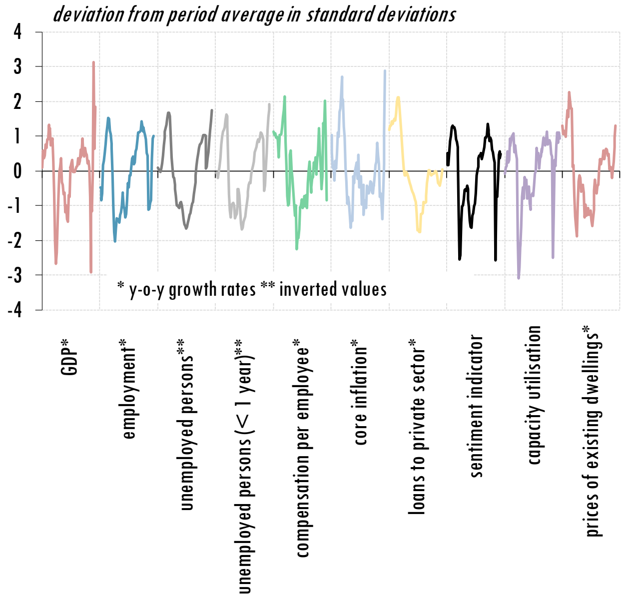
[9] The EC defines normal times as a period in which the output gap estimate is between -1.5% and 1.5% of potential GDP, bad times as a period in which the output gap estimate is between -1.5% and -3% of potential GDP, and good times as a period in which the output gap estimate exceeds 1.5% of potential GDP (European Commission, 2019: pp. 16–17). The amount of general government debt, the assessment of its sustainability and the requirements for structural efforts or the achievement of the medium-term fiscal objective as set by the EC depend on the definition of the economic cycle.

Figure 1.6: Output gap estimates



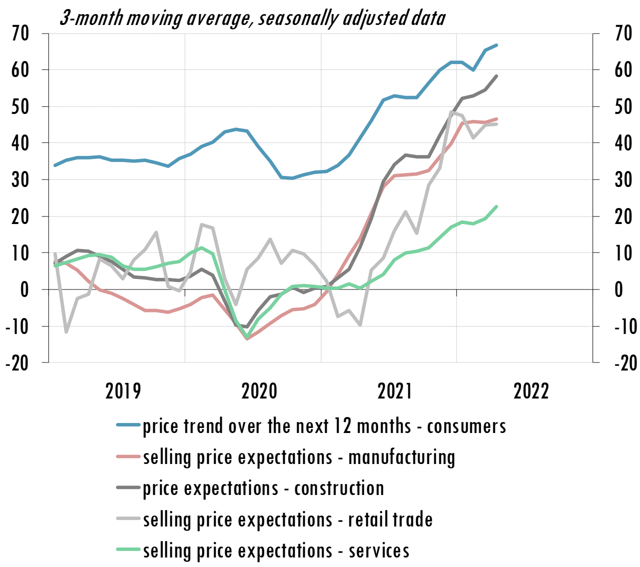
Source: IMAD, EC, OECD, IMF, MoF, FC calculations. See note under Table 5.2.

Figure 1.7: Indicators of economic cycle dynamics 2005-2022



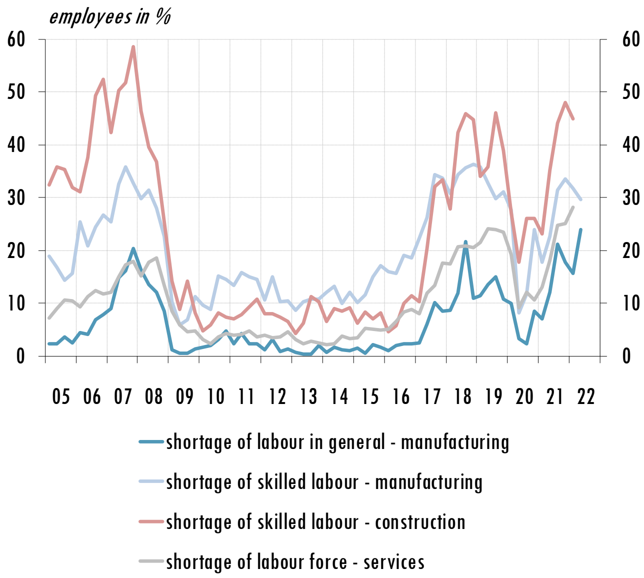
Sources: SORS, ECB, Eurostat, Employment Service of Slovenia, FC calculations.

Figure 1.8: Business tendency - price developments



Source: SORS, FC calculations

Figure 1.9: Business tendency - limiting factors: labour



Source: SORS, FC calculations.

indicative of the cautiousness of private investors, on the one hand, and the important role of the government in encouraging the current domestic economic growth on the other, as well as of the macro -prudential measures taken by the Bank of Slovenia that have been limiting retail loans since 2019.

1.3 A comparison of the macroeconomic scenarios of the 2022 Draft Budgetary Plan and the 2022 Stability Programme

The differences between the macroeconomic scenarios of the SP 22[10] and the 2022 Draft Budgetary Plan,[11] respectively, are mostly due to the deviation from the forecast of the actual dynamic of economic activity at the end of last year. Last year's IMAD autumn forecast was based

[10] The fiscal projections of the SP 22 (April 2022) are based on IMAD (2022) from April 2022.

[11] The fiscal projections of the 2022 Draft Budgetary Plan (October 2021) were based on IMAD (2021) from September 2021.

Table 1.1: IMAD forecasts

	2021			2022			2023			2024			2025		
	Sep.21	Apr.22	diff.	Sep.21	Apr.22	diff.	Sep.21	Apr.22	diff.	Sep.21	Apr.22	diff.	Sep.21	Apr.22	diff.
Real GDP, change in %	6.1	8.1	*2.0*	4.7	4.2	*-0.5*	3.3	3.0	*-0.3*	…	2.8	…	…	2.6	…
Nominal GDP, EUR million	50,364	52,020	*1,656*	53,352	56,167	*2,815*	56,136	59,768	*3,632*	…	62,882	…	…	65,835	…
Private consumption, EUR million	25,236	27,303	*2,067*	27,274	30,307	*3,033*	28,648	31,728	*3,080*	…	32,978	…	…	34,258	…
Comp. of employees, EUR million	26,608	26,912	*304*	27,646	28,392	*746*	28,854	29,897	*1,044*	…	31,278	…	…	32,722	…
Gr. operating surplus*, EUR million	18,831	19,701	*870*	19,412	21,016	*1,603*	20,679	22,597	*1,919*	…	23,881	…	…	25,154	…
Inflation-average, %	1.4	1.9	*0.5*	2.0	6.4	*4.4*	1.9	3.2	*1.3*	…	2.3	…	…	2.0	…

*Source: IMAD, FC calculations. Note: *Gross operating surplus and gross mixed income .*

on the assumption that economic growth at the end of the year would slow down due to another deterioration in the epidemiological situation. Contrary to the expectations of all institutions preparing forecasts for Slovenia, that did not happen. The deterioration in the epidemiological situation was significant, but restrictions on the operation of businesses were relatively modest. As a result of the increased basis and particularly the negative impact of the escalated geopolitical situation and other supply factors, this year's and next year's economic growth is expected to be lower than that in the autumn forecasts. Changes to the starting point from 2021 and higher anticipated inflation also have an effect on tax base forecasts. GDP in current prices is expected to be higher than projected in the autumn forecast by EUR 2.8 billion in 2022 and EUR 3.6 billion in 2023. Almost the entire difference arises from the increased level of nominal domestic consumption, which was approximately EUR 2.1 billion higher than in previous forecasts in 2021 and is, partly as a result of that, expected to be much higher throughout the SP 22 projection period than projected last autumn. The same, although to half that extent, applies to the expected trends in the net operating surplus as the tax base for corporate income and profits. According to the autumn forecasts, the operating surplus is expected to be approximately EUR 1.8 billion higher annually on average in the 2022–2023 period. The trend in compensation of employees is also expected to be more favourable than projected last autumn. The latter reflects a minor deviation from the 2021 forecast and is, according to our estimate, mainly due to the projected higher level of average expenditure per employee, which is due to the partial adjustment of salaries to inflation as well as agreements on salary increases in the public sector.

2. Fiscal conditions and forecasts

Key findings

- The general government deficit dropped in 2021, mainly due to the high cyclically induced growth in revenue. On the other hand, expenditure growth, without taking into account the effect of COVID measures, was high, which was only partly due to higher investment spending, as growth in other spending also increased significantly. As anticipated by the FC, the deficit was otherwise lower than the Government's autumn projections.
- In 2022, the total deficit is expected to record another slight decrease, but the fiscal situation will deteriorate dramatically without taking into account the impact of spending related to COVID measures. Most of the positive effect on the balance due to the anticipated significantly lower expenditure on COVID measures will be compensated for by the negative effect of the adopted structural discretionary measures unrelated to the epidemic. Moreover, investments are expected to increase further, reaching a historically high level.
- Without taking into account expenditure on COVID measures, the deficit at the end of the SP 22 projections in 2025 (-1.7% of GDP) will be higher than last year (-0.7%) due to this year's deterioration.
- Projections of general government revenue and expenditure under the no-policy change scenario in the SP 22 were mostly carried out correctly but, due to numerous risks, most likely do not reflect a realistic dynamic in the period up to 2025.
- After a significant increase in 2020, the general government debt-to-GDP ratio is expected to decline by the end of 2025, but should not achieve the level before the COVID crisis.

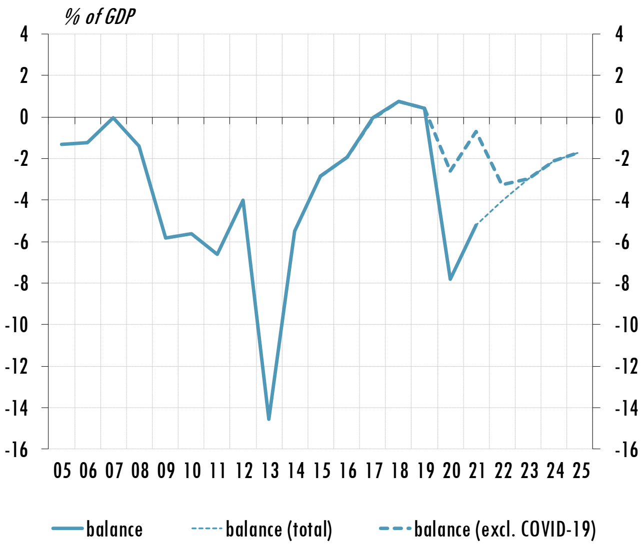
2.1 Assessment of the projected revenue and expenditure in the 2022 Stability Programme

The nominal general government deficit decreased last year, mostly due to revenue growth as a result of recovery in economic activity, whereas growth in investment as well as current spending accelerated. The deficit was EUR -2,705 million or -5.2% of GDP, which was around EUR 1 billion less than projected in the 2022 Draft Budgetary Plan. According to the ESA methodology[12], expenditure to limit the consequences of the epidemic based on SORS (the Statistical Office of the Republic of Slovenia) data amounted to EUR 2,349 million or 4.5% of GDP, which is approximately EUR 280 million more than envisaged by the 2022 Draft Budgetary Plan. Since the onset of the epidemic, the FC has been warning, in accordance with the legislation[13], that fiscal trends not directly related to measures to mitigate the consequences of the epidemic must not endanger the medium-term fiscal balance or sustainability. In line with this orientation, in assessing the budget documents during a period of exceptional circumstances, emphasis is placed on trends where the direct impact of epidemic

[12] This is an internationally comparable methodology which, in accordance with the FRA, is also used in assessments of compliance with the fiscal rules and is based on the accrual principle. This means that the transaction is recorded when the obligation or claim occurs. The assessment of the direct impact differs from the assessment of the Fiscal Council in its Monthly Information (see http://www.fs-rs.si/publikacije/mesecna-informacija/), which is based on the balance of the state budget and the cash flow methodology. This means that the transaction is recorded when it is executed.

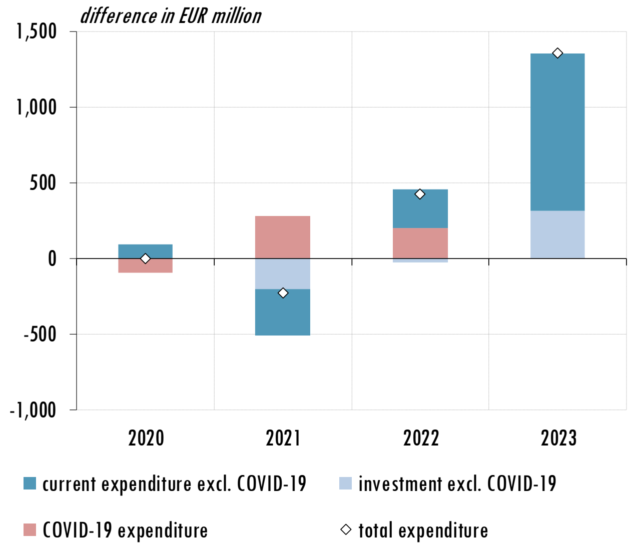
[13] Under paragraph one of Article 12 of the FRA, a deviation from the medium-term balance is only permitted provided that it does not endanger fiscal sustainability in the medium term.

Figure 2.1: General government balance



Source: MoF, SORS, FC calculations.

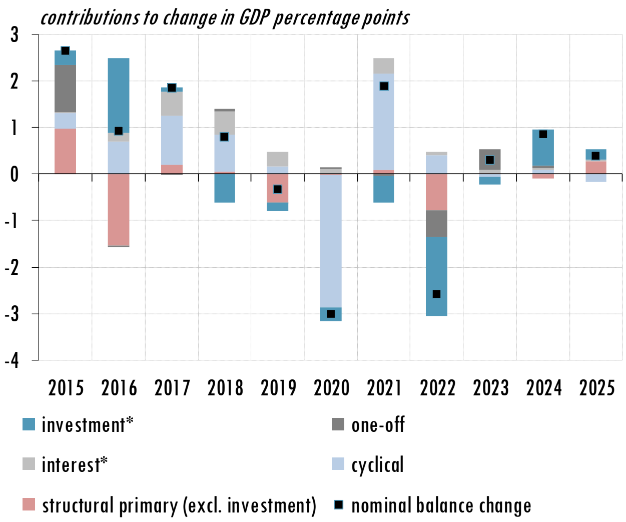
Figure 2.2: Comparison of general government expenditure projections from April 2022 and October 2021



Source: SORS, MoF, FC calculations.

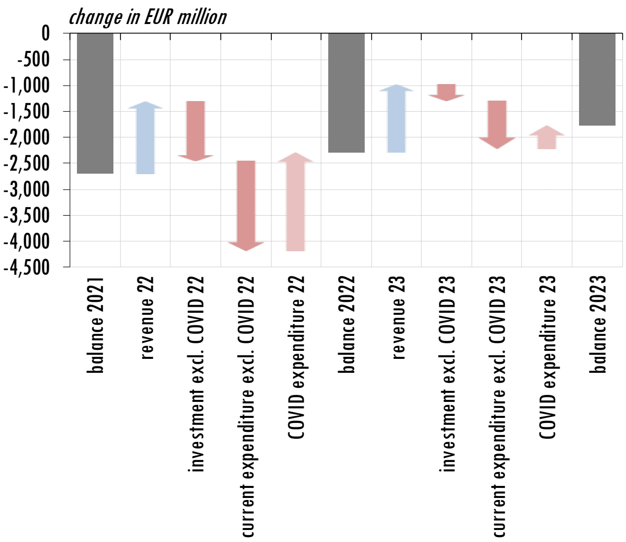
-related measures is not taken into account. Without the effect of expenditure on COVID measures, last year's deficit was EUR -356 million or -0.7% of GDP. This is significantly less than the year before (EUR -1,212 million) and the 2022 Draft Budgetary Plan projections (EUR -1,684 million). In assessing the budget documents last autumn, the FC explicitly called attention to the fact that the Government's outturn estimate, particularly for expenditure excluding the direct effect of COVID measures for 2021, was much too high and did not provide an appropriate basis for the preparation of 2022 projections.[14] Last year's balance improvement, which does not take into account the direct effect of expenditure on COVID measures, was largely due to a recovery in economic activity. Its structure, with the dominant role of domestic demand, had a favourable effect on growth in revenue (11.9%), particularly tax revenue.[15] However, expenditure growth excluding expenditure on COVID measures

Figure 2.3: Factors of general government nominal balance change (excl. COVID expenditure)



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

Figure 2.4: Factors of general government balance change 2021–2023*



*Source: MoF, FC calculations. Note: *With regards to expenditure a downward arrow denotes an increase, an upward arrow denotes a decrease.*

[14] For more on this, see FC (2021c).

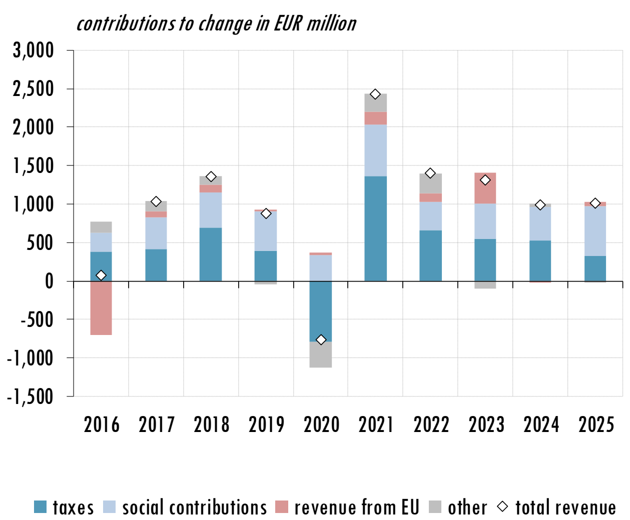
[15] While general government revenue from EU funds at the end of the previous financial perspective did increase by more than 50% from 2020, it contributed only 0.8 p.p. to the total growth in revenue.

also increased considerably (7.3%). This was not only a result of increased investment activity, but also increased spending in other areas, mainly concerning social benefits. Growth in "core" revenue which, in addition to COVID measures, excludes expenditure on interest, investments, capital transfers and one-time expenditure, was therefore the highest since 2008. Last year's balance improvement was therefore largely due to the cyclical improvement accompanied by a further decrease in interest expenditure.

In 2022, the total general government deficit under the no-policy change scenario is expected to record another slight decrease, but the actual fiscal situation will deteriorate sharply without taking into account the effect of expenditure on COVID measures. This year the total deficit is expected to be EUR -2,283 million (-4.1% of GDP), and without considering expenditure on COVID measures, which is assessed by the Ministry of Finance to be EUR 444 million, the deficit is expected to be EUR -1,839 million (-3.3% of GDP). The deficit, not taking into account the effect of expenditure on COVID measures, is therefore expected to increase this year by EUR 1,483 million, which, despite the relatively high revenue growth that is expected to continue, is a much more significant deterioration than in 2020. The balance deterioration without taking into account expenditure on COVID measures is largely attributable to the anticipated increase in investment spending. To a large extent, this is also a result of the higher structural primary deficit due to accelerated growth in expenditure for current spending, largely on account of the adopted discretionary measures (see Box 2.1). According to the SP 22 projections, this year's negative impact of one-time expenditure, associated with measures to mitigate the consequences of the energy crisis and to aid refugees from Ukraine, is also expected to be rather high. In light of the anticipated slower economic growth, the improvement in the cyclical balance is expected to be far less pronounced than last year, while the contribution of lower interest expenditure is also expected to decrease. In the 2023–2025 period, the deficit is expected to decrease gradually, but will still be higher than last year in 2025, not taking into account the effect of COVID expenditure.

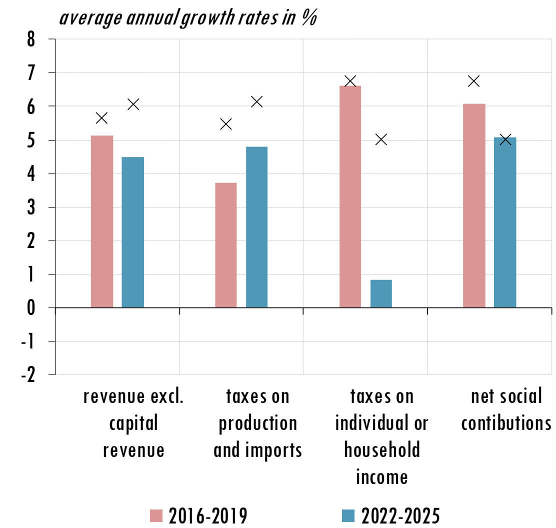
Revenue growth in the SP 22 projection period is expected to slow down gradually, in line with the projected growth in economic activity and partially as a result of tax changes. The average total growth in the 2022–2025 period (4.8%) is expected to be lower than in the years before the

Figure 2.5: General government revenue change



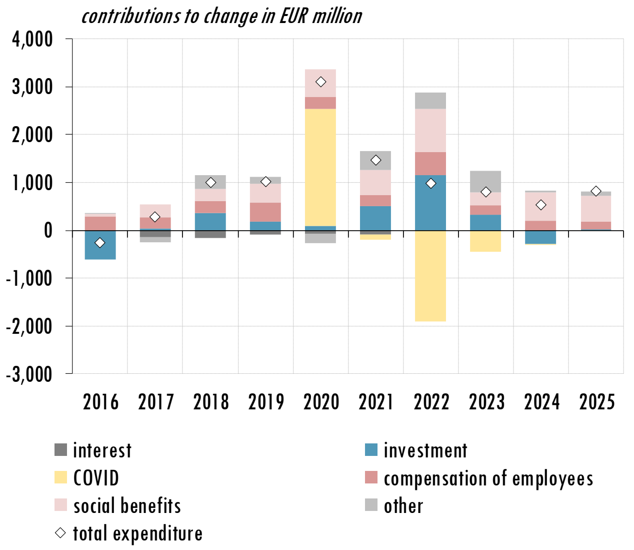
Source: SORS, MoF, FC calculations.

Figure 2.6: Revenue types and their bases



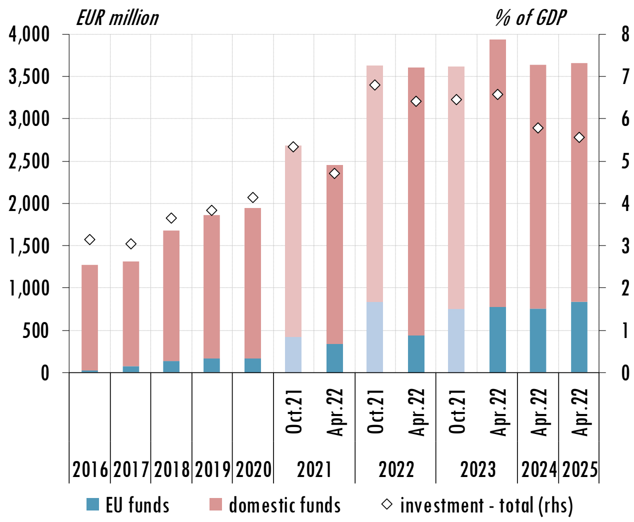
Note: Crosses denote average annual growth rates of macroeconomic bases.
Source: SORS, MoF, IMAD, FC calculations.

Figure 2.7: General government expenditure change



Source: SORS, MoF, FC calculations.

Figure 2.8: Structure of general government gross fixed capital formation



Source: SORS, MoF, FC calculations.

epidemiological crisis (17–19: 5.8%). According to projections, tax revenue growth is expected to slow down, recording the lowest growth rate ever in 2025, not counting crisis periods. This is largely due to the anticipated dynamic in revenue from personal income tax, which, as a result of the adopted tax changes, is much lower than the projected tax base growth (see Figure 2.6). To a lesser extent, the slowdown in tax revenue growth will be due to the dynamic of revenue from taxes on production and imports, which is mainly expected to be in line with the projected tax base changes. The latter is also true of projections of revenue from social contributions. As favourable labour market trends are expected to continue, its average growth in the projection period is expected to be only slightly lower than the multi-annual average. To a considerable extent, the anticipated growth in total revenue in the first period of projections will result from revenue from the EU, particularly in 2023, when substantial drawing of funds from the Recovery and Resilience Fund is expected to begin.

Growth in public spending, without the effect of COVID measures, is expected to increase considerably this year, partly due to the anticipated substantial growth in investments and partly due to the highest growth in current spending after 2008. After last year's 7.3% increase in general government expenditure without the effect of COVID measures, the latter is expected to increase by 12.4% this year. The main reason for this is the anticipated further growth in investment activity, more than by half higher than last year. While EU-funded projects will play an important part in this respect, the anticipated increased funding of projects from national resources will be approximately twice higher. If the projections are realised, this year's total investment spending will be 6.4% of GDP; the highest rate so far, i.e. 5.1% of GDP, was reached in 2015 at the end of the previous EU financial perspective. Based on the limited absorption capacity of the economy and administration, and experience with overly optimistic projections in the past, it is estimated, much like in last year's assessments of budget documents (FC, 2021c and 2021f), that the projections of investment spending in the SP 22 are exaggerated. A similar trend to that in investments is also shown by the projection of growth in other public spending. The latter's increase last year was the highest since 2008, with additional acceleration in growth expected in 2022. The key reasons for this are higher growth in expenditure on social benefits and of compensation of employees. The stronger growth in expenditure

Table 2.1: General government balance projections (excluding expenditure on COVID-19 measures)

EUR million unless stated otherwise	outturn SURS	SP 22				change					change in %				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
GG Revenue	**22,843**	**24,242**	**25,551**	**26,539**	**27,548**	**2,429**	**1,399**	**1,309**	**988**	**1,009**	**11.9**	**6.1**	**5.4**	**3.9**	**3.8**
Total taxes	10,989	11,650	12,198	12,720	13,044	1,363	661	548	522	325	14.2	6.0	4.7	4.3	2.6
Taxes on prod.and imp.	6,849	7,312	7,683	8,051	8,259	895	463	371	368	207	15.0	6.8	5.1	4.8	2.6
Cur. taxes on inc., wealth	4,292	4,585	4,843	5,047	5,258	751	293	258	205	211	21.2	6.8	5.6	4.2	4.2
Capital taxes	1,503	1,524	1,585	1,584	1,582	105	21	61	-1	-2	7.5	1.4	4.0	-0.1	-0.1
Social contributions	577	674	712	863	851	24	97	38	151	-12	4.3	16.8	5.6	21.2	-1.4
Property income	476	529	543	557	568	16	52	15	14	11	3.5	11.0	2.8	2.6	1.9
Capital transfers	4,126	4,323	4,499	4,653	4,769	465	197	177	153	117	12.7	4.8	4.1	3.4	2.5
Other	2,838	2,728	2,829	2,897	2,928	369	-110	101	68	31	14.9	-3.9	3.7	2.4	1.1
GG Expenditure	**23,199**	**26,081**	**27,323**	**27,857**	**28,670**	**1,574**	**2,882**	**1,242**	**535**	**813**	**7.3**	**12.4**	**4.8**	**2.0**	**2.9**
Comp. of employees	5,959	6,439	6,642	6,823	6,981	226	481	202	181	158	3.9	8.1	3.1	2.7	2.3
Intermediate cons.	2,958	2,917	3,414	3,559	3,645	177	-41	497	144	86	6.4	-1.4	17.0	4.2	2.4
Social transfers	9,529	10,427	10,694	11,288	11,826	530	898	267	594	538	5.9	9.4	2.6	5.6	4.8
Interest	651	667	660	671	674	-96	16	-7	11	3	-12.9	2.5	-1.1	1.7	0.4
Subsidies	330	513	524	531	438	20	183	11	7	-93	6.6	55.4	2.2	1.3	-17.5
Gross fixed cap. form.	2,454	3,604	3,931	3,642	3,662	510	1,150	327	-289	20	26.2	46.9	9.1	-7.4	0.5
Other	1,320	1,514	1,458	1,344	1,445	207	195	-56	-113	101	18.6	14.8	-3.7	-7.8	7.5
Balance	**-356**	**-1,839**	**-1,772**	**-1,318**	**-1,122**	**856**	**-1,483**	**68**	**454**	**196**					
Balance (% of GDP)	**-0.7**	**-3.3**	**-3.0**	**-2.1**	**-1.7**										

Source: MoF, SORS, IMAD, FC calculations.

in these two components is partly due to the adopted discretionary measures (see Box 2.1) and, in the case of social benefits, also partly due to the higher regular adjustment of pensions and social transfers on account of last year's high growth in macroeconomic aggregates, to which they are adjusted under legislation. In the coming years, growth in public spending is expected to slow down gradually in the SP 22 under the no-policy change scenario. Investment spending is expected to remain at a historically high nominal level, similar to this year's level, until the end of projections. Growth in "core" expenditure which, in addition to COVID measures, excludes expenditure on interest, investments, capital transfers and one-time expenditure, is expected to amount to 4.2% on average in the 2023–2025 period. It is similar to the average in the recovery period between the banking and epidemiological crisis. Projections of growth in two key components, i.e. compensation of employees and social benefits, are much lower than in the period before the epidemiological crisis. While such projections are correct in the context of the no-policy change scenario in the SP 22, they are unrealistically low considering past experience.

Box 2.1: Discretionary measures of a structural nature adopted after autumn 2021

Since the beginning of the epidemic in March 2020, a number of discretionary structural measures, which were not directly related to the epidemic and resulted in a deteriorated structural position of public finances, have been adopted. Pursuant to Article 12 of the FRA, exceptional circumstances, permitting a temporary derogation from meeting the medium-term fiscal balance, were in effect during this period. The adoption of discretionary structural measures, which are not directly related to the exceptional event, is also legitimate under these circumstances. In order to bring to light any medium-term risks to fiscal stability, such measures must be evaluated transparently, even more than in normal conditions, and properly represented in budget documents. The discretionary measures of a structural nature, adopted since March 2020, are slowing down the return of the general government balance to a relatively favourable level before the extensive action taken to mitigate the consequences of the epidemic, thereby limiting manoeuvring room after the epidemic.

Additional discretionary measures of a structural nature, unrelated to the epidemic, which were not explicitly indicated in budget documents, continued to be adopted after October last year. After the approval of budget documents in October last year, five further discretionary measures of a structural nature were adopted. Their overall impact on the general government balance in 2022 is expected to be approximately EUR 650 million or 1.1% of the projected GDP this year. In the following three years, their impact will increase further, amounting to approximately EUR 1.3 billion or 2.0% of GDP in 2025. If a contribution would not be introduced in 2025 as envisaged by the Long-Term Care Act, the negative effect on the balance would be greater by an additional 0.4% of GDP. The impact of all discretionary measures of a structural nature, adopted since the beginning of the epidemic in March 2020 that were not directly related to the latter is estimated to be approximately EUR 1.3 billion, or 2.3% of the projected GDP in 2022. In 2025, the impact thereof is expected to increase further, amounting to 3.2% of GDP.

Table: Effect on balance of discretionary structural measures after the adoption of budgetary documents in autumn 2021

	EUR million				share in GDP[1]			
	2022	**2023**	**2024**	**2025**	**2022**	**2023**	**2024**	**2025**
Act Amending the Personal Income Tax Act[2]	-228	-365	-514	-667	-0.4	-0.6	-0.8	-1.0
Long Term Care Act[3]	-50	-167	-320	-232	-0.1	-0.3	-0.5	-0.4
Agreement on raising the salaries of nurses and nursing staff[4]	-123	-130	-138	-146	-0.2	-0.2	-0.2	-0.2
Extraordinary adjustment of pensions December 2021[5]	-145	-152	-158	-165	-0.3	-0.3	-0.3	-0.2
Act Amending the Health Care and Health Insurance Act[6]	-94	-105	-118	-132	-0.2	-0.2	-0.2	-0.2
TOTAL	**-640**	**-920**	**-1,248**	**-1,341**	**-1.1**	**-1.5**	**-2.0**	**-2.0**

Source: National Assembly RS, Ministry of Finance, Ministry of Health, Government RS, Pension and Disability Insurance Institute, Health Insurance Institute, FC calculations.

Notes:

[1] Share of forecast GDP in IMAD (2022).

[2] Average effect on the balance in the FC dynamic analysis on the basis of nine calculations (FC, 2021d).

[3] Estimate in the adopted law.

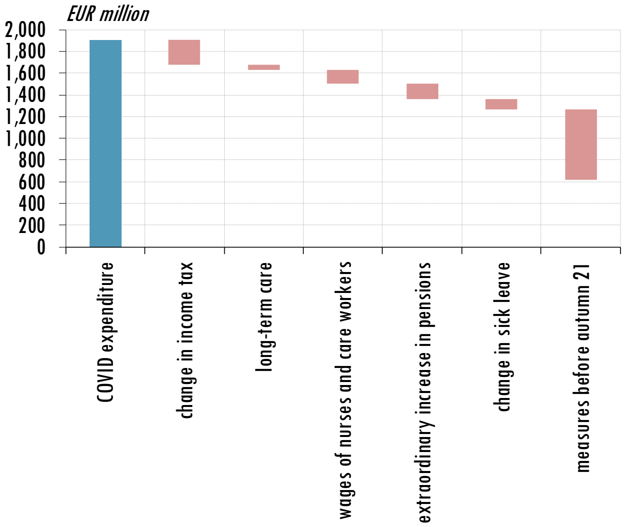
[4] Official estimate of the measure for 2022, for 2023 and onwards calculation on the basis of average growth of employment in activity Q in the period 2017-2021 and nominal growth of average nominal wage in the public sector on the basis of IMAD (2022).

[5] For 2022 estimate by Pension and Diasbility Institute, for 2023 and onwards calculation on the basis of average growth of recipients in the period 2017-21 and formula for harmonization of pensions on the basis of IMAD (2022).

[6] For 2022 estimate at the time of adoption of the law, for 2023 and onwards calculation on the basis of average growth of expenditure

Figure: Impact of lower COVID expenditure and the effect of discretionary structural measures on 2022 balance

EUR million



Source: National Assembly RS, MoF, Ministry of Health, Government RS, Pension and Disability Insurance Institute, Health Insurance Institute, FC calculations.

2.2 Gross general government debt

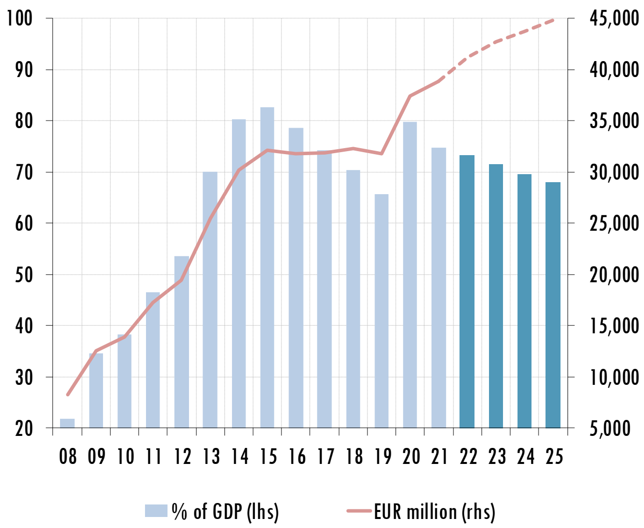
After a significant increase in 2020, the general government debt-to-GDP ratio is expected to decline by the end of 2025, but is not expected to achieve the level before the current crisis. Given the extremely high GDP growth and the utilisation of pre-financing funds, the debt decreased in 2021 by 5.1 p.p. of GDP, despite the nominal debt increase of almost EUR 1.5 billion. A further decrease in the debt-to-GDP ratio from last year's 74.7% of GDP is expected to be more gradual, with the ratio shrinking in the 2022–2025 annual average by a third of the 2021 decrease. With the persistent primary balance deficit and particularly the projected nominal GDP growth expected to be higher than the implicit interest rate, the debt is expected to be reduced to approximately 68% of GDP by the end of 2025. This is more than before the crisis when it amounted to 65.6 of GDP in the last quarter of 2019. In nominal terms, in the SP 22 projection period, the debt is expected to increase in total by EUR 5.9 billion to stand at EUR 44.8 billion.

The government's financing conditions remain favourable, mostly due to a highly accommodative monetary policy, but are gradually becoming tighter in the last couple of months. After it was close to 0% in the first half of 2021, the required yield on Slovenian government bonds started to rise at the end of last year, amounting to close to 2% at the end of April, thus exceeding the implicit interest rate on government debt, which was at 1.8% in the last quarter of 2021. The increase in required yields was recorded in all EU Member States, but deviated particularly in the case of Italian and Slovenian government bonds. The demand for long-term bonds far exceeded the supply in the beginning of 2022, when long-term bonds worth approximately EUR 2.8 billion were issued (including a 40-year bond). The continued implementation of the ECB's Pandemic Emergency Purchase Programme (PEPP) made an important contribution in this regard. Under the PEPP, up to and including March 2022, the ECB purchased EUR 6.5 billion of Slovenian public debt on the secondary market. This debt accounts for two thirds of the debt issued since this programme began to be implemented in March 2020 and, as a share of debt just before the epidemiological crisis, is the second largest in the euro area. Slovenia's credit rating remains stable[16], as is the case for other European countries. Despite the high level of debt, the interest expenditure, as a share of GDP, is expected to further decline in the SP 22 period, but more gradually than before the crisis.

The gradual reduction of debt is also enabled by the current favourable liquidity position of the state budget and the stable situation regarding guarantees. After having decreased by approximately EUR 400 million in 2021, from the end of last year to the end of March, the balance in the treasury single account increased by EUR 2.5 billion to EUR 8.2 billion (approximately 15% of GDP projected for 2022). In the SP 22, the Government projects to reduce debt by using part of the high liquidity reserves created through the pre-financing of future liabilities from previous years. With the total of deficits in the 2022–2025 period amounting to EUR 6.5 billion, the general government debt is expected to increase by almost EUR 6 billion. Out of EUR 2.5 billion of the principal of the debt falling due this year, only a small part of this amount is yet to be paid, and the outstanding principal balance (EUR 2.2 billion) next year will be among the lowest in this decade, according to the current data. Based on currently available data, a total of approximately EUR 8.5 billion of the principal will fall due in the SP 22 projection period (2022–2025). This is approximately EUR 700 million less than in the period of fast debt reduction in the 2016–2019 period. The SP 22 projects a gradual reduction of guarantees provided by the state, which stood at EUR 4.7 billion (9.1% of GDP)

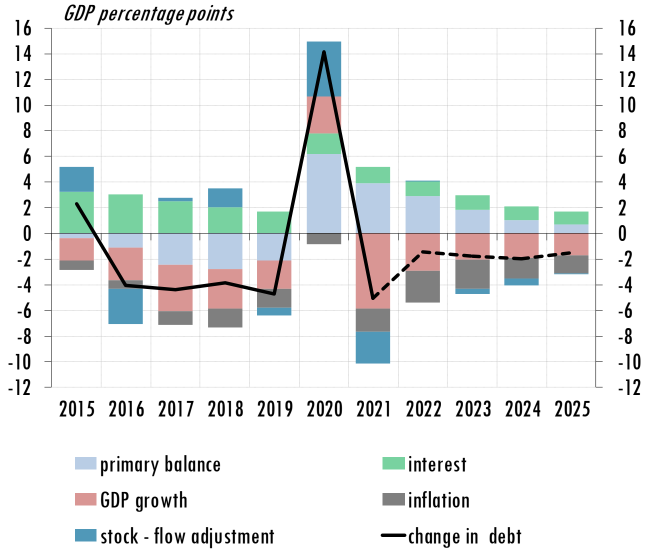
[16] All three major credit rating agencies (Moody's, Standard and Poor's, and Fitch) confirmed the stable prospects of Slovenian government debt in the last quarter of 2021 and by the end of April 2022.

Figure 2.9: General government debt



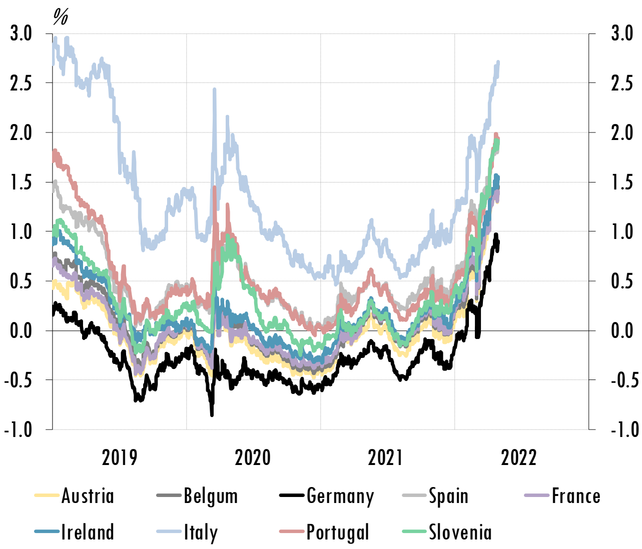
Source: SORS, MoF.

Figure 2.10: Change in general government debt



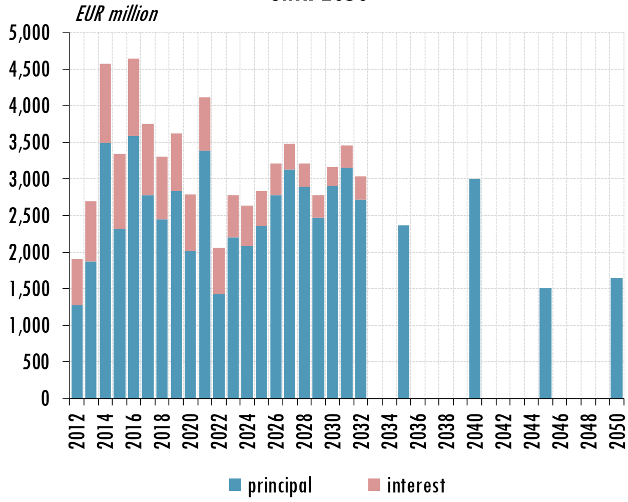
Source: SORS, MoF, FC calculations.

Figure 2.11: Yields on 10-year government EUR reference bonds



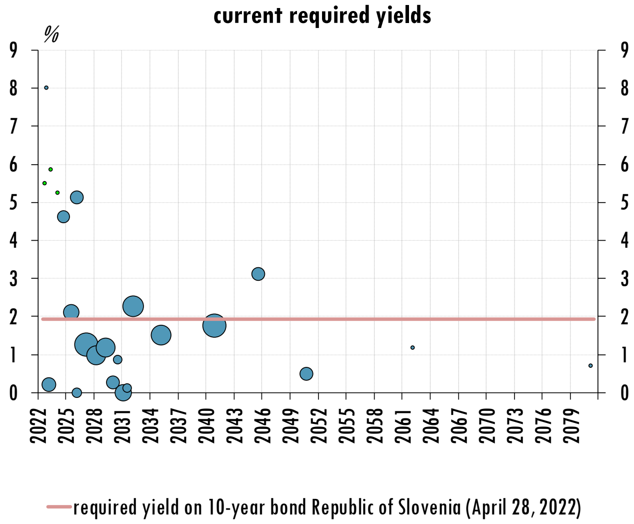
Source: Bloomberg.

Figure 2.12: State budget debt repayment schedule until 2050



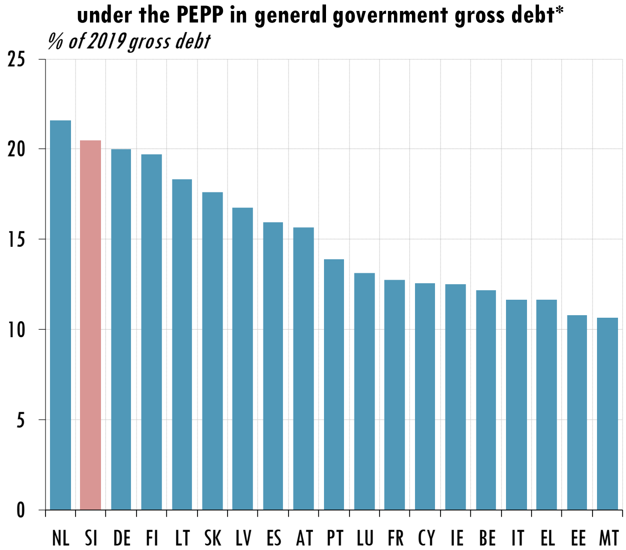
Source: MoF: State Budget Debt, 4/2022 (as of 31 March 2022). After 2032: Financing Programme of the Republic of Slovenia State Budget for 2022 - no information on interest payments..

Figure 2.13: Key characteristics of debt maturities and current required yields



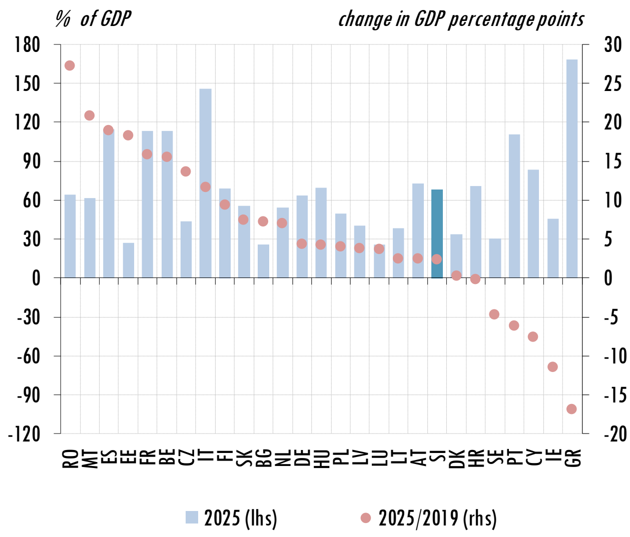
Note: The size of circles represents the volume of matured liabilities based on long-term bonds in that year. The green colour marks the bonds issued in USD.
Source: MoF, FC calculations and simulations.

Figure 2.14: Share of net purchases of public sector securities under the PEPP in general government gross debt*



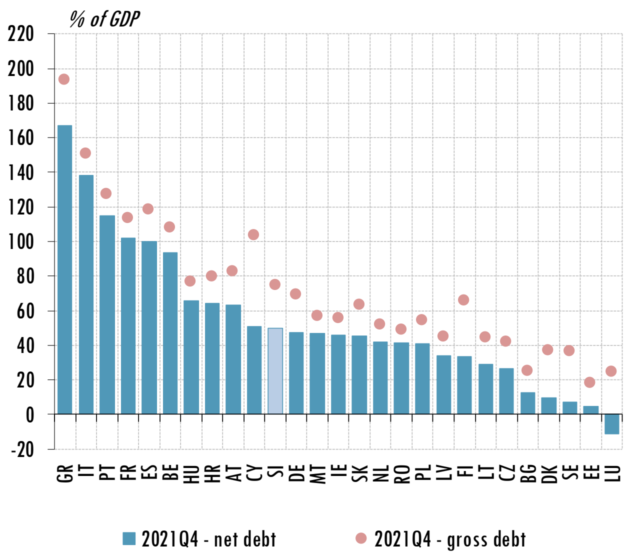
*Source: Eurostat, ECB, preračuni FS. Opomba:*PEPP: Pandemic Emergency Purchasing Programme, cumulative net purchases as at end-March 22.*

Figure 2.15: Gross general government debt



Source. IMF, for Slovenia SP 22, FC calculations.

Figure 2.16: Net and gross general government debt



Source: Eurostat, ECB, FC calculations.

at the end of 2021. Calling on guarantees is projected to be modest and relates primarily to guarantees provided on the basis of anti-crisis measures related to the epidemic.[17]

In the event of further shocks, the relatively high debt level could compromise the implementation of the fiscal policy; as a result, any deterioration in the structural fiscal balance should be avoided as it would necessitate additional borrowing. In the epidemiological 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, including at the global level. Due to the anticipated tightening of the monetary policy, the financing conditions are expected to deteriorate in the future, and the weaker structural position of fiscal policy in good economic times would prevent any significant debt reduction and thus reduce the room to take action in bad times. Despite the relatively high level of debt and the anticipated tightening of the monetary policy, based on the current projections of economic growth, it is estimated that Slovenian public debt will remain sustainable in the medium term (see Box 3.3). As the debt increases to relatively high levels, it becomes more sensitive to possible additional shocks or changes in macroeconomic indicators – for a small and open economy, these shocks can be greater than in bigger countries, which may cause instabilities in the implementation of the fiscal policy (see Box 2.4 in Fiscal Council, 2021f).

[17] For more information about the links between debt and potential state obligations, see Fiscal Council (2021e: Chapter 6).

3. Risks to the macroeconomic and fiscal scenarios

Key findings

- Risks to the projections of macroeconomic and fiscal trends are associated with the geopolitical and, once again, epidemiological situation. These are coupled with uncertainty regarding the extent and duration of the inflation shock and the responses of economic entities.
- The FC agrees with IMAD's assessment that negative risks prevail in the context of macroeconomic projections.
- Fiscal projections are also largely exposed to negative risks associated with macroeconomic risks and possible additional measures that would mostly worsen the structural position of public finances. 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.
- The results of simulations of the economic growth slippage scenarios suggest the possibility of delaying the fiscal consolidation envisaged under the primary SP 22 scenario.
- In times of high debt, fiscal trends can become unstable faster, particularly in the event of bigger shocks, which is why the fiscal policy is subject to greater uncertainty.

According to the Fiscal Council, the macroeconomic scenario on which the projections of the SP 22 are based is dominated by negative risks. Direct risks to projections of economic activity refer primarily to the geopolitical situation, namely Russia's aggression against Ukraine and the related severity and duration of sanctions against Russia. In addition to reduced demand from Russia, the sanctions have a particular effect on the prices of raw materials. The combination of both shocks, in terms of demand and particularly raw materials price shock, could significantly affect the further growth of the global and especially the Eurozone economy.[18] The latter is already reflected in the substantially lower projection of this year's economic growth.[19] Despite Slovenia's relatively small direct exposure to trade with Russia and Ukraine, which is concentrated in specific sectors, the risks concerning the baseline macroeconomic scenario are more dependent on Slovenia's indirect exposure through supply chains with some of its major trade partners.[20] This makes macroeconomic risks largely dependent on developments abroad and, much like in the epidemic, on the responses of the Government as well as of businesses and households to external shocks. In the current situation, the response of the private sector, both in terms of investment and final consumption, is extremely uncertain. Furthermore, businesses' investment behaviour will largely depend on price pressures on profits and thus the capacity to pass through additional costs on consumers. In addition to increased uncertainty, consumers are already confronted with the expansion of the range of products hit by rapidly rising prices.[21] Inflation expectations are growing accordingly. The prevalence of negative risks is also suggested by the drop in most confidence indicators following the outbreak of the war in Ukraine.

[18] See, for instance, OECD (2022) and DIW (2022).

[19] Between January and April of this year, the IMF lowered the forecasted real GDP growth in 2022 in the Eurozone from 3.9% to 2.8%.

[20] According to the estimates of the Bank of Slovenia (2022a), the impact on GDP in the first year after the start of the crisis caused by the lack of foreign demand is expected to be almost 50% less than the Eurozone average (OECD, 2022).

[21] See, for instance, Box 7.1 in Bank of Slovenia (2022b) and Figure 7.4 in Bank of Slovenia (2022c).

With negative risks prevailing in the macroeconomic scenario, the risks associated with the implementation of the fiscal scenario are also predominantly negative but somewhat more balanced, particularly due to potential overestimated projections, especially concerning investments. The risks involved in the macroeconomic scenario are mostly related to the transfer of the economic consequences of the war in Ukraine into the domestic economic environment and their effect on the confidence or behaviour of economic entities and any potential additional measures taken to prevent such consequences, as well as potential additional measures associated with the epidemic. The rather low assumed growth in expenditure in the second part of the SP 22 projections, which lags behind the average multi-annual expenditure growth rates in the 2023–2025 period, should also not be overlooked. 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. We estimate that the direct effect of inflation on budget trends will not be substantial if inflation remains temporary and in line with IMAD's projections. The impact of inflation on the economy and consequently on public finance would increase with the persistence of the inflation shock, along with the increasing probability of a direct response from the Government by way of limiting price pressures and with the increasing indirect effects of rising prices on the economy (for more about the relation between inflation and budget categories, see Box 3.1). There are also upside risks to the baseline fiscal scenario. These relate in particular to a lower outturn of investment spending than foreseen in the budget documents (see Chapter 2). The anticipated high investment activity also coincides with the end of the previous EU financial perspective, when the absorption of EU funds generally expands. Nevertheless, doubts about the actual utilisation of the high amount of EU funds available and the envisaged rapid implementation of projects arise in particular due to the previously mentioned absorption capacity of the administration, and supply-side constraints.[22]

The simulations of the economic growth slippage scenarios suggest the possibility of a slower pace of fiscal consolidation. The simple model[23] enables us to illustrate the risks of standardised symmetric deviations of the projected growth of economic activity from the baseline scenario of IMAD's spring forecast. Estimates suggest that, with economic growth 0.5 percentage points lower than that in the baseline scenario in each year over the 2022–2025 period (real GDP would grow by 2.7% per year on average rather than by 3.2%), and with an unchanged fiscal policy, the general government deficit could be close to -3% of GDP in 2025 rather than around -1.7% of GDP. However, if economic growth in each year over the 2022–2025 period were 1.5 p.p. lower than that projected in the baseline scenario, the deficit in 2025 could reach nearly -5% of GDP.[24] In the latter case, the general government debt ratio would rise to a level close to 80% of GDP in 2025 and its dynamic would suggest the risk of long-term unsustainability.

Considering the listed risks, which are directly or indirectly associated with the war and the COVID-19 epidemic, attention should also be devoted to the fiscal risks arising from other discretionary decisions of economic policy of a structural nature that are unrelated to the crisis.[25]

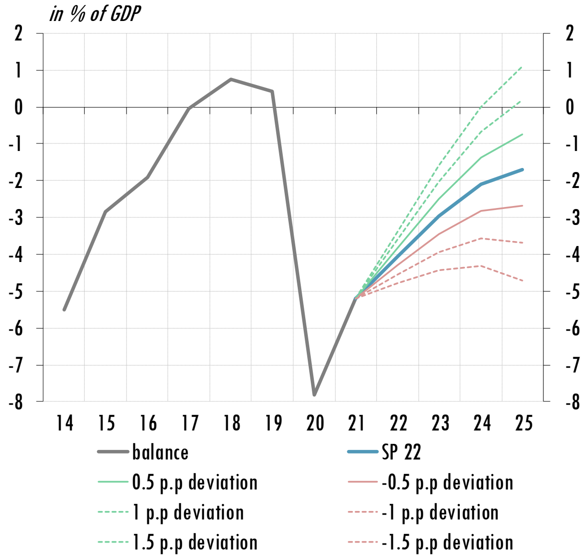
[22] See, for instance, Boxes 2.2 and 2.3 in Fiscal Council (2021f).

[23] This is a model that enables a simulation of the effects of various economic growth assumptions regarding public finance and 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).

[24] 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 indicates the projection of the general government balance and debt set out in the SP 22. According to the baseline scenario in the IMAD spring forecast (2022), the economic growth assumptions are 0.5, 1 and 1.5 percentage points higher or lower each year in the 2022–2025 period. 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.

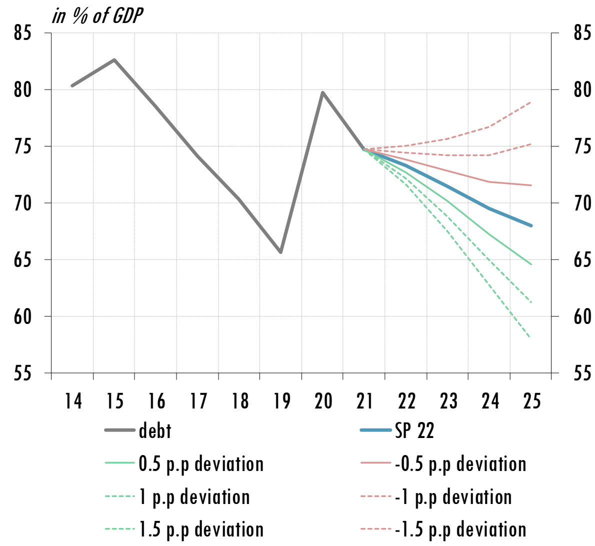
[25] For a quantified overview of such measures, see Box 2.1.

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



Sources: SORS, MoF, FC calculations.

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



Sources: SORS, MoF, FC calculations.

The most extensive financial decisions affecting long-term fiscal results are particularly the amendments resulting in higher pension expenditure and the amendments to personal income tax legislation that will result in lower revenue, according to the Ministry of Finance's estimates. The additional risk on the expenditure side of budgets is represented by initiatives to change the single salary system or to exclude certain occupational groups from this system, which could put pressure on higher general government expenditure. In the face of these and similar demands, 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.

In the long term, the risks are related to financing conditions in light of high debt. Due to the improved macroeconomic situation and the resulting reduced risk attributed to Slovenia by debt securities investors, and effective debt management by the Ministry of Finance's treasury department, the implicit interest rate already decreased significantly before the epidemiological crisis. Last year, it reached historically low values, particularly as a result of the ECB's extremely accommodative monetary policy. The implicit interest rate projections depend on many factors, including the time distribution of the maturity of individual debt instruments. These are currently concentrated up to 2030, when approximately two thirds of the value of all currently issued bonds fall due. In the case of a quicker tightening of the monetary policy in the following decade, there is a possibility that the implicit interest rate, i i.e. the cost of financing the public debt at maturity, will increase especially amid the need to refinance the increased debt level.[26]

Under the medium-term and particularly the long-term scenario of the SP 22, some of the more long-term risks to public finance remain unaddressed due to unimplemented reforms. In particular, these include solutions to the anticipated additional burden placed on public finance as a result of demographic changes related to the lack of the appropriate adaptation of social protection systems, with clearly defined and reliably and transparently presented financing methods. Another major challenge for public finance in the coming decades will be the green transition, for which the currently identified investment needs are several times higher than the realised investments in recent years,

[26] See, for instance, Box 3.1 in FC (2021c). A similar analysis was also prepared by the Bank of Slovenia (2022c: Chapter 9).

which did not ensure the appropriate dynamic of achieving the climate goals in the first place. Based on past experience involving the private sector and the problems of, for example, the electricity industry, an essential element of incentives to investment and a sustainable climate transition should be provided by the state by ensuring the appropriate funds (see also Box 3.2).

Box 3.1: Inflation-related budget risks

In its assessments of budget documents, the Fiscal Council regularly presents the risks posed by changes in the assumption of the real GDP value for balance and debt trends. It is a typical shock in the medium-term analysis of debt sustainability, which however does not distinguish between the "real" and the "price" aspects of economic activity. Even though the "price" aspect increases the nominal macroeconomic bases on which forecasting is based, just like the "real" aspect of economic activity, the differences in the response of fiscal categories to both aspects (the "price" or the "real" aspect) of nominal categories arise particularly in expenditure as a result of adjustment for inflation or other nominal variables (e.g. salaries).

The effect of inflation on budget categories is manifested through several channels and in most revenue and expenditure,[1] which, in turn, affects the general government debt. The longer maturity and higher debt with fixed interest rates reduce the short-term and medium-term effects of inflation on expenditure, particularly on interest. While, as a rule, inflation reduces the debt-to-GDP ratio, this impact is mainly temporary as, in the long run, it is usually fully compensated for by the rise in interest expenditure in the refinancing of the existing debt.[2] Inflation also has an indirect effect on revenue and expenditure. General government revenue is therefore indirectly higher, e.g. particularly in a progressive system of taxation for household income in the absence of adjusting income tax brackets to the growth in gross salaries ("fiscal drag").[3] On the expenditure side, the indirect effect is produced particularly through indexation mechanisms pertaining especially to social transfers. The most

Table 1: Results of a static simulation of the effect of inflation on budget categories

EUR million	**SP 22** 2022	**SP 22** 2023	**Simul.** 2022	**Simul.** 2023	share in % 2023	effect estimate*	**Note**
Revenue	24,242	25,551	24,573	25,898	100.0		
Taxes on production and imports	7,312	7,683	7,458	7,837	30.3	+	
Personal income tax	2,728	2,829	2,783	2,885	11.1	+	depending on wage adj. / income tax brackets adj.
Corporate income tax	1,297	1,366	1,297	1,366	5.3	o	
Social contributions	9,096	9,550	9,187	9,645	37.2	+/o	depending on wage adjustment
Revenue from production	1,962	2,047	2,001	2,088	8.1	+	
Interest	62	47	63	48	0.2	+/o	depending on monet. pol. / market expectations
Other	1,785	2,029	1,785	2,029	7.8	o	
Simulation total compared to SP			**332**	**347**			
Expenditure	26,525	27,329	26,891	27,704	100.0		
Intermediate consumption	3,271	3,414	3,336	3,483	12.6	+	
Compensation of employees	6,445	6,642	6,509	6,708	24.2	+/o	depending on public sector agreements
Social benefits	10,438	10,700	10,647	10,914	39.4	+	
Gross investment	3,604	3,931	3,604	3,931	14.2	o	risking lower efficiency
Interest	667	660	674	666	2.4	+/o	depending on monet. pol. / market expectations
Other	2,100	1,982	2,121	2,002	7.2	+/o	
Simulation total compared to SP			**366**	**375**			
Balance	-2,283	-1,778	-2,318	-1,806			
Simulation compared to SP			**-35**	**-28**			

Source: SP 22. FC estimates and calculations Notes: "Effect estimate" relates to subjective estimate of impact of inflation on the change of a budget category. The nominal categories increase by 2 % if the sign in this column is "+", increase by 1 % if the sign is »+/o« and remain unchanged if the sign is »o«.

important component of social transfers in Slovenia are pensions, which are currently adjusted for inflation and growth in salaries ba a 60:40 ratio.[4]

Due to a significant increase in the projected growth in prices, we carried out simulations that reflect the associated risks for budget categories in Slovenia. We used qualitative and quantitative analyses, simulating the impact using static and dynamic approaches; in the latter case, the analysis incorporates reverse effects. It was assumed that the extent of the price growth impact on budget items was determined particularly by salary trends in the private and public sectors and the response of the monetary policy; simulations were carried out accordingly.

A simple qualitative static analysis suggests a relatively small impact of higher price growth on the general government balance and debt. It was assumed that inflation would be 2 p.p. higher than the baseline scenario in each of the two simulation years.[5] This growth rate was used to increase individual categories of revenue and expenditure based on our own assessment of the adjustment of nominal categories.[6] The ratio between the estimated increase in budget items on the revenue side is very similar to that on the expenditure side, as are the increased shares of items relative to the total revenue and expenditure. Similar results are shown by the quantitative analysis prepared on this basis and according to the assumptions drawn from the qualitative analysis. According to these assumptions, the change in the general government balance in 2022 shown in Table 1 due to higher inflation would be relatively small.[7]

The definition of shocks in the dynamic model simulations takes into account the various parameters that are assumed to have an effect on the response of budget categories to inflation. In the first step, the inflation shock was determined exogenously by exogenously increasing[8] inflation in the first quarter of 2022, making it 2 p.p. higher than the baseline scenario in the 2022 average; all other variables in the simulation respond in accordance with the parameters and the model dynamic. In the next step of simulations, various assumptions about salary trends were used. These involved four scenarios: the first only took into account the relevant inflation shock. The second included the assumption that salaries in the private and public sectors remain unchanged compared to the baseline scenario. The third scenario included the assumption that salaries in the private sector are not adjusted for inflation and salaries in the public sector are model-based, and the fourth included the assumption

Table 2: Results of a dynamic simulation of the effect of inflation on budget categories

	inflation shock	additional assumptions		2022	2023	2024	2025
				in GDP p.p.			
Simulation 1	temporary		balance	-0.1	-0.1	-0.2	-0.2
			debt	-0.1	0.1	0.4	0.8
Simulation 2	temporary	wage growth does not adjust to inflation	balance	-0.1	-0.2	-0.2	-0.2
			debt	0.0	0.4	0.8	1.1
Simulation 3	temporary	private sector wage growth does not adjust to inflation	balance	-0.1	-0.2	-0.2	-0.2
			debt	0.0	0.3	0.6	1.0
Simulation 4	temporary	growth of all wages adjusts by 50%	balance	-0.1	-0.2	-0.2	-0.2
			debt	0.0	0.3	0.6	1.0
Simulation 5	permanent		balance	-0.1	-0.2	-0.3	-0.4
			debt	-0.1	0.0	0.3	0.6
Simulation 6	permanent	monetary policy response	balance	-0.1	-0.3	-0.4	-0.5
			debt	0.2	0.5	1.0	1.6

Source: FC estimates and calculations.

that all salaries change only by half of the change caused by the relevant inflation shock compared to the baseline scenario. Furthermore, two simulations of a permanent inflation shock were carried out. In the first, the growth in prices throughout the forecast period exceeded the inflation from the baseline scenario by 2 p.p.; in relation thereto, we also applied a scenario under which the monetary policy responds to permanently high inflation.[9]

The results of the dynamic analysis in the event of high inflation also suggest a relatively modest dependence of the responsiveness of budget categories, which, however, increases with the continuation of the inflation shock. The model-based responses shown in Table 2 are not notable in any of the prepared scenarios.[10] The inflation shocks affect both revenue and expenditure, but to varying degrees based on the assumptions used. The response of budget categories to a temporary shock containing various assumptions regarding salary adjustments is similar. Even in the absence of the adjustment of salaries to inflation in the private sector, the general government balance and debt do not deteriorate, according to Simulation 1, as the model assumed a relatively strong relation between salaries in both sectors and an additional integrated reaction function of the fiscal policy in the model structure. The deficit and debt increase most significantly in the event of a more permanent inflation shock and a simultaneous response from the monetary policy, which further slows down economic activity.

[1] The IMF (2020: Figure 1.11) estimates that, in developed economies, the short-term response of revenue to a temporarily higher inflation is expected to be greater than the impact on expenditure, with inflation thus having a positive effect on the fiscal balance, with increased pressure on higher expenditure appearing with a certain delay.

[2] Akitoby et al. (2014).

[3] The Personal Income Tax Act, e.g. Article 122 thereof, states that the government may adjust income tax brackets for the following year and must adjust them if the year-on-year rise in consumer prices in August exceeds 3%.

[4] Long-term model simulations suggest that the pension indexation method has a very important role, as a result of which expenditure may change by up to 2 p.p. of GDP per year after the illustrated shocks. See the analysis of the pension system by the Ministry of Labour, Family, Social Affairs and Equal Opportunities (2016).

[5] Such an increase is consistent with the OECD's estimate regarding the 2022 average inflation rise in the Eurozone due to the combined shocks of the war in Ukraine and the increase in raw material prices (OECD, 2022).

[6] In Table 1, the nominal categories increase by 2% if the sign in the column Note is "+", by 1% if the sign is "+/-", and remain unchanged if the sign is "o".

[7] This type of analysis does not include potential discretionary responses of the economic policy to higher inflation, e.g. energy vouchers.

[8] We changed the assumptions regarding the rise in the prices of both energy and non-energy products. Simulations show that deviations of these results from the baseline scenario are not considerably different than the results obtained by only applying the shock to energy prices. If only the shock in terms of energy prices was applied, the deviations of budget categories (e.g. the balance) would be somewhat more favourable in the short term and slightly more unfavourable in the medium term.

[9] In such case, the implicit assumption is an inflation shock that is significant enough to affect the average rise in prices in the entire area of the monetary union. The response of the monetary policy to inflation is set in an amount that ensures ex ante an unchanged stance of monetary policy relative to the permanent inflation shock scenario.

[10] The relative order of responses in terms of extent, presented in Table 2, is quite similar to that assessed by the CBO when the last inflation shock occurred in the USA (2022).

Box 3.2: The fiscal risks of financing the climate transition[1]

Achieving the climate and energy targets will be one of the greatest challenges for fiscal policy in the coming years. We estimate that the volume of investments contributing to the achievement of climate and energy targets in 2016–2020 at the level of the national economy amounted to EUR 5 billion, or on average 2% of GDP per year. Approximately three-quarters thereof were private funds, which were, to a significant extent, mobilised through targeted incentives from public funds. In the National Energy and Climate Plan (NECP), the investment requirements for meeting the targets in the 2021–2030 period are estimated at EUR 28.4 billion, which amounts to, on average, 6% of GDP per year. Achieving the NECP targets will thus require an approximately three-times greater average annual volume of investment than in 2016–2020, or approximately 4% of GDP more per year.

The volume of dedicated resources available for investments in achieving the climate and energy targets in the period until 2030 will be considerably greater than in past years, but there will still be a significant gap to the necessary investment volume identified in the NECP. According to our estimate, the funds available from the identified dedicated resources for investments in the 2021–2030 period amount to EUR 11.6–12.3 billion. This means a two-times greater annual average than in 2016–2020. Based on this estimate, we have devised different scenarios of investment potential. According to the scenario that best reflects the current state and requires the least changes in orientations, the investment potential amounts to EUR 19.7–20.4 billion. According to this scenario, the Eco Fund would earmark a similar amount of funds for grants in the future as in the last few years, when the time needed to process applications increased considerably due to the Eco Fund's limited staff and administrative capacities. The estimate also includes quite optimistic assumptions regarding the scope of the mobilisation of private financial resources related to investments in buildings that were taken into account in the national strategy on the energy renovation of buildings adopted last year. The gap between the investment potential envisaged in this scenario and the required volume of investments in 2021–2030 identified in the NECP amounts to EUR 8.0–8.7 billion. This represents nearly half of the average annual volume of investments of the general government in the 2016–2020 period, or approximately 2.0% of GDP per year. According to the scenario in which the available funds would be spent optimally, the total gap to the investments identified in the NECP could be reduced considerably. In this scenario, the expectedly greater funds from the sale of emission coupons would be redirected entirely to the grants provided by the Eco Fund, which would thus be about five times greater than they are currently. This scenario would require significant HR and administrative reinforcements at the Eco Fund, the optimal utilisation of the available EU funds, and the immediate and comprehensive implementation of financial and other measures identified in the NECP.

Table 1: Investments aimed at meeting the climate and energy targets

EUR million	2016–2020 realisation (Fiscal Council's estimate)	2021-2030 requirements (NECP)
Buildings	2,173	14,171
Road transport and sustainable mobility	211	2,673
Rail transport	446	3,884
RES	901	1,363
Electricity distribution	635	4,203
Electricity transmission	297	407
Central supply (large hydro and thermal power plants)	154	358
Industry	98	1,148
Other	72	180
Total	**4,987**	**28,387**

Sources: Borzen, Slovenian Infrastructure Agency, Eco Fund, Elektro Celje, Elektro Gorenjska, Elektro Ljubljana, Elektro Maribor, Elektro Primorska, ELES, European Investment Bank, European Commission, INFRA, SID Bank, Climate Change Fund, Government Office for Development and European Cohesion Policy, Fiscal Council's estimate.

Table 2: Different investment potential scenarios in the 2021–2030 period based on the estimate of available financial resources

EUR million	a (coupon EUR 50)[1]	b (coupon EUR 80)[1]
Scenario 1 (Eco Fund – EE)[2]	19,693	20,400
Scenario 2 (scenario 1 and CO_2 tax)[3]	21,522	22,229
Scenario 3 (scenario 1 and Eco Fund – coupons)[4]	23,420	26,249

Source: Fiscal Council's estimate.

Notes:

[1] The difference between a and b results from different assumptions about the price of emission coupons, where a reflects the average price of EUR 50 and b EUR 80 per tonne of CO_2.

[2] The Eco Fund promotes investments with a quadruple leverage using the revenue from the EE contribution.

[3] In addition to [2], CO_2 tax becomes a dedicated resource.

[4] In addition to [2], the Eco Fund uses all past and future revenues of the Climate Change Fund to promote investments with a quadruple leverage.

The available dedicated resources will need to be used more efficiently than in the past to properly address the climate and energy challenges. This would include a considerable increase in the efficiency and ability of their use, the adoption and effective implementation of numerous new measures, and the significant strengthening of the institutional framework and capacities. Based on the nature of the necessary measures and past experience, we conclude that, regardless of the chosen investment potential scenario, the gap should probably be closed with public funds, as the private sector has not yet shown any interest in investing in what are mainly infrastructure projects and is, at least in the electricity industry, also dealing with limited financial resources considering the identified investment needs.

[1] For more information, see FC (2022).

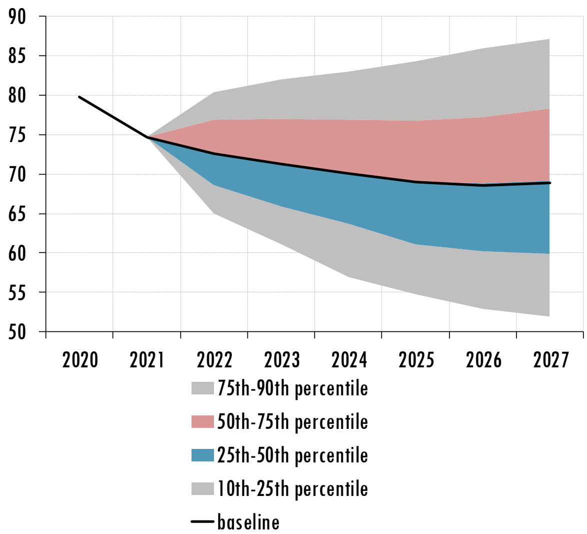
Box 3.3: Slovenia's general government debt: an analysis of medium-term sustainability

A debt sustainability analysis indicates the general government's ability to finance the liabilities originating from the previous and future fiscal policy in the context of certain macroeconomic and fiscal shocks. In analysing the debt sustainability based on the procedure developed by the International Monetary Fund,[1] a baseline scenario based on macroeconomic and fiscal projections is first developed, followed by several alternative scenarios, which show the reaction of the debt to various shocks. The responsiveness and the changes in the dynamics and levels of the general government debt indicate the general government's vulnerability in the event of shocks, not included in the baseline scenario; however, the actual shocks may deviate from those used in the analysis in terms of both their direction and size.

In the medium-term debt sustainability analysis, the baseline scenario of the SP 22 and IMAD's spring forecast for 2022 were used. The analysis covers the 2022–2027 period, using the latest available 2025 IMAD projections to make macroeconomic projections for 2026 and 2027. The projections of fiscal aggregates from the end of the SP 22 projection period (2025) until the end of the analysed period were populated by the standard elasticities for revenue, while expenditure was calculated by taking into account that the difference between revenue and expenditure growth was similar to the 2010–2019 period.[2] The underlying assumption was a gradual tightening of financing conditions, resulting in an implicit interest rate on the general government debt of approximately 2.5% in 2027, which would still be approximately 2 p.p. less than the nominal GDP growth. The baseline scenario also took into account the assumption that the high balance of cash flow and deposits (the treasury single account balance) in 2022 is reduced by EUR 0.5 billion, which is also the implicit assumption in the SP 22 (see Chapter 2.2). The medium-term debt sustainability analysis contains several alternative scenarios, in which shocks are standardised and are primarily related to the historical fluctuations of the variables that are subject to shocks in these scenarios. Shocks in the alternative scenario of lower real GDP growth, for instance, are set at one standard deviation of real GDP growth in the 2012–2021 period, where the elasticity of the response of inflation and the interest rate to the change in the GDP growth and the worsening of the primary budget balance by 0.25/−0.25% is taken into account. According to this scenario, real GDP would stagnate on average (in the baseline scenario, according to the IMAD's projections, the growth of real GDP is expected to be approximately 4%) in 2023 and 2024. The scenario of a worsened primary budget balance is also based on a long-term deviation and the response of the interest rate to the same extent as in the event of a real GDP shock. Following such a scenario, the primary budget balance deficit in the 2023

Figure: Probability distribution of general government debt projections

in % of GDP



Source: SORS, MoF, FC calculations and simulations.

–2024 period would be approximately twice as large as the baseline scenario deficit. Interest rate shock is implemented by increasing the interest rates from the baseline scenario by 200 basis points in the 2022–2027 period.

The analysis indicates the sustainable dynamic of the general government's debt in the medium-term with regard to certain risks in the event of some shocks. Risks are asymmetric and somewhat more concentrated in the upper part of the projected debt distribution (see Figure 1). The assessment of the risks to debt sustainability in the medium term is primarily based on potential slower economic growth, while a deteriorated primary budget balance would also lead to a higher risk assessment. In the above cases, the debt-to-GDP ratio could reach a level between 75 and 80% of GDP in a few years, whereas in the event of a combined macroeconomic and fiscal shock, the debt could exceed 80% of GDP. But due to the assumed economic growth despite the gradual tightening of financing conditions in the next five years, its dynamic would not become unsustainable. A similar picture is shown by the results of additional simulations of a double GDP shock, which (if the assumption of the financing conditions remained unchanged) would raise the debt-to-GDP ratio permanently, and simulations of the potential realisation of implicit liabilities. The risks become more pronounced in the event of more permanent shocks (compare also with Figure 3.2 in this Chapter), e.g. a reduction in the average annual GDP growth in the 2023–2027 period of slightly less than one p.p. In such case, the debt dynamic already becomes untenable in the second half of the relevant period in the event of a combined shock.

[1] The currently available basis is available at: https://www.imf.org/external/pubs/ft/dsa/mac.htm

[2] Due to the anticipated increase in the cost of the ageing population, this assumption is likely to result in underestimated expenses.

4. The assessment of the fiscal policy stance and compliance with the fiscal rules

Key findings

- The current economic and epidemiological situation does not support the conditions for invoking exceptional circumstances throughout the SP 22 period (2022–2025). The FC will reach a decision on the potential extension of exceptional circumstances for 2023 before the assessment of the autumn budget documents.
- Upon submitting the SP 22, the Government failed to prepare the Framework for the preparation of the general government budget, thereby failing to follow the medium-term budget planning procedures prescribed by law. Uncertainty and the end of a political cycle do not constitute legal grounds for relieving the Government of this obligation.
- The fiscal situation in 2022 is marked by a relatively high structural deficit. Given the current estimates of the cyclical position and despite the uncertainty continued favourable macroeconomic forecast, additional fiscal policy incentives in the SP 22 period are not necessary.
- A notable escalation of the pro-cyclical expansionary fiscal policy stance in 2022 is limiting the re-establishment of manoeuvring room to take action in future crises.

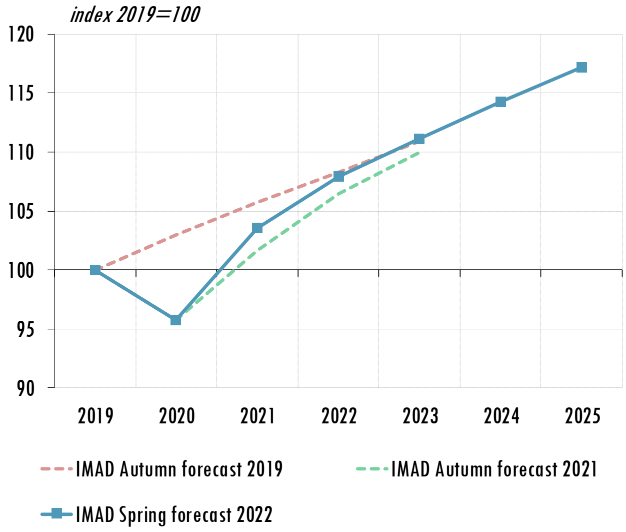
4.1 The existence of exceptional circumstances in the 2022 Stability Programme period

The FRA sets out two conditions for the existence of exceptional circumstances that allow for a deviation from the medium-term balanced position, 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 event of an unusual event outside the control of the government that has a major impact on the financial situation of the general government sector, as defined by the Stability and Growth Pact. The FRA 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 FC applies in its assessment the criteria for determining the adequacy of the conditions which, in its opinion, correspond best to the requirements referred to in the FRA.

Even though the economic conditions, coupled with the epidemiological situation, currently provide insufficient grounds for invoking exceptional circumstances throughout the SP 22 period (2022–2025), the FC will reach its decision on exceptional circumstances only before the assessment of the autumn budget documents, due to uncertainty. The levels of economic activity and employment exceeded those from before the epidemiological crisis already in 2021. The projected macroeconomic trends suggest that solid economic conditions will continue in the future. Uncertainties relating to an unusual event or an epidemic were a key factor supporting the current assessment of the reasons for the existence of exceptional circumstances in 2022[27]. The fact that the measures to contain the epidemic were less restrictive than at the outset, and the adaptation of

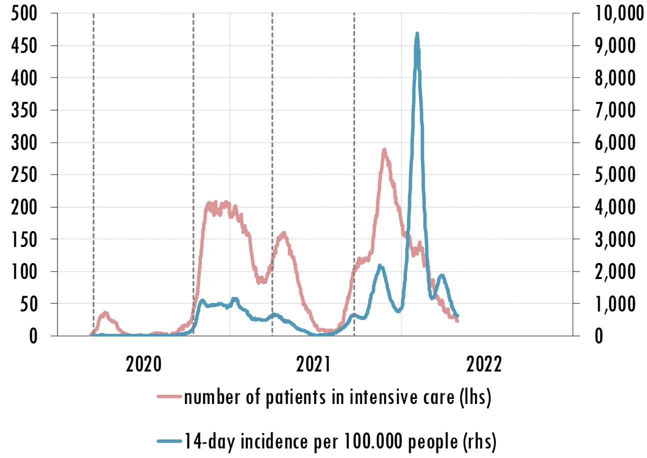
[27] See FC (2021b).

Figure 4.1: Real GDP



Source: SORS, IMAD, FC calculations.

Figure 4.2: Number of patients in intensive care and 14-day incidence per 100.000 people



Source: covid-19.sledilnik.org, SORS, FC calculations. Note: Vertical dashed lines denote the dates when FC published assessments on introduction (March 17, 2020) and fulfilment of conditions for the enforcement of exceptional circumstances (October 16, 2020, April 2, 2021 and September 23, 2021).

businesses and consumers are the main reasons why economic activity was higher than projected last year. Given the currently available information, there is no reason why the epidemiological situation would constitute grounds for the continuation of exceptional circumstances in Slovenia from and including 2023 onwards. Nevertheless, given the current uncertainty, the FC will reach a decision on the existence of exceptional circumstances in 2023 before the assessment of the autumn budget documents.

Invoking exceptional circumstances during the epidemic has enabled an extremely flexible operation of fiscal policy, which, in the FC's opinion, was also partly misused. At the outbreak of the epidemic in March 2020, the FC established that the epidemic was an unusual event, which, under Article 12 of the FRA, allowed exceptional circumstances to be enforced. In each assessment of fulfilment of the conditions for invoking exceptional circumstances, it also called for caution in the introduction of measures during the period of exceptional circumstances. It also noted that the measures adopted to deal with the exceptional circumstances should be temporary and should directly address the exceptional circumstances. According to the Ministry of Finance, the state budget expenditures for COVID-related measures from the beginning of the epidemic in March 2020 to the end of April 2022 amounted to EUR 5,169 million. According to the FC's estimate, the actions taken during the crisis were mainly appropriate, but a certain portion of the funds was used in contravention of the above principles and some of the measures were used to try to resolve certain systemic problems. At the same time, numerous measures that were not directly related to the epidemic but did deteriorate the current and future structural position of public finances were introduced during the period of the exceptional circumstances (see Box 2.1). The FC also called attention to such deviations and the deteriorating structural position in its reports and assessments on a regular basis.

Under the EU legislation, the current position is that the general escape clause will be deactivated in 2023. The basis for this opinion is the EC winter forecast from February 2022.[28] Until now, the EC used the GDP level in the EU or the Eurozone relative to the pre-crisis level at the end of 2019 as the main indicator for assessing the existence of the conditions for enforcing the general escape clause.

[28] EC (2022a).

According to the winter forecast, the GDP level in the EU average and the Eurozone exceeded the level from 2019 at the end of 2021[29]; all EU countries are expected to exceed this level by the end of 2022. Partly due to considerable uncertainty, the EC is expected to reassess its final opinion on the enforcement of the general escape clause in 2023 based on the updated spring forecast by the end of May 2022. The general escape clause is expected to remain in force in 2022.

The EC is yet to determine the criteria for this year's assessment of the Member States' budget documents, but it did release a statement on the fiscal policy orientation for 2023[30], announcing a qualitative assessment approach, with an emphasis on fiscal policy quality and structure. The detailed criteria are expected to be known by the end of May, when the EC will assess the national Stability Programmes. As in the case of last year's decision on the validity of the general escape clause, this may result in non-harmonised opinions of national independent fiscal institutions and the EC in 2022. Once again, special attention is expected to be devoted to limiting growth in current expenditure in 2023. The EC calls attention to the necessity of searching for balance between fiscal sustainability and the need for the stabilisation of the economy and the important role of investments, particularly those funded from the Recovery and Resilience Fund. The EC also called attention to the importance of fiscal consolidation to create the fiscal space. In developing a fiscal policy, countries should consider the heterogenous positions of public finances and the differing macroeconomic conditions in individual countries, which require various degrees of fiscal policy support. In spring 2022, due to the continuation of the pandemic and the tense geopolitical situation, the EC will not initiate new excessive deficit procedures, but will re-evaluate the need for such a procedure in autumn 2022 based on national draft budgetary plans.

In its activities, the FC follows the FRA currently in force. Accordingly, its analysis, which places an emphasis on a qualitative assessment of the adequacy of the fiscal policy trend, despite uncertain conditions and the resulting uncertain calculations, also uses the quantitative indicators of structural balance and fiscal effort. In its assessment, the FC largely takes into account alternative quantitative indicators pertaining particularly to varying indicators of current expenditure.

In the past, the FC often voiced its expectation 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 national legislation. Article 14 of the FRA provides that the minister responsible for finance shall 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 FC, determines that the circumstances referred to in paragraph one of Article 12 of the FRA 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 FRA. After publishing the data on national accounts at the end of February, which showed favourable economic trends at the end of the year and thus throughout 2021, and given the stabilising epidemiological situation, the Government once again failed to ask the FC for its assessment as to whether grounds for exceptional circumstances still existed. The Government is therefore expected to do so before the preparation of the autumn budget documents. After the end of the period of exceptional circumstances, the FC will continue to assess budget documents in accordance with the

[29] The forecast is also confirmed by the currently available Eurostat data, according to which 7 out of 27 EU Member States at the end of 2021 failed to achieve the GDP level from the end of 2019 (with Spain at the forefront with -3.8%; the other countries that failed to achieve this GDP level included Czechia, Portugal, Slovakia, Germany, Austria and finally Italy with -0.3%). At the end of 2021, Slovenia's GDP exceeded the level from the last quarter of 2019 by 6.6%.
[30] EC (2022b).

national legislation currently in force. In line therewith, it will expect the implementation of structural measures that ensure ability of fiscal policy for acting in the case of future shocks and an appropriate consideration of the challenges to long-term fiscal sustainability.

4.2 Assessment of the appropriate fiscal policy stance

The SP 22 fiscal scenario is based on no-policy change scenario, thereby enabling an analysis of the fiscal policy's current position, which is an appropriate approach given the phase of the political cycle. The no-policy-change scenario only takes into account the measures adopted prior to the preparation of fiscal projections and their consequences.[31] Given the existing stage of the political cycle, this approach is appropriate, as the current Government did not define its priorities or the future implementation of the fiscal policy in the medium-term document. At the same time, this scenario enables a neutral "stock-taking"[32] or insight into the position of the fiscal policy, which is a result of the Government's past measures, with an emphasis on recent measures that are still reflected in the projections of fiscal aggregates. This scenario shows a development in the government balance, which depends solely on the forecasted economic activity and the currently integrated fiscal policy parameters that determine the fiscal aggregates.

The national legislation provides that, at the same time as the Stability programme the Government must prepare the Framework Proposal in which it determines the permissible level of expenditure in the medium term as well as the targets for the general government balance and the public finance budget. Pursuant to paragraph two of Article 6 of the FRA, in addition to preparing the revised Stability Programme, the Government must draw up a framework for the general government budget and the public finance budget for at least the following three years, taking into account the updated macroeconomic projections prepared by IMAD.[33] The Framework Proposal must be submitted even when fiscal projections are based on the scenario of unchanged policies and despite the currently permissible derogation from meeting the medium-term fiscal balance. The national legislation in force does not contain any provisions relieving the Government of its obligations regarding the preparation of the Framework Proposal, e.g. due to considerable uncertainty or a no-policy-change scenario.

Upon submitting the SP 22, the Government failed to draw up the Framework for the preparation of the general government budget, thereby failing to observe the medium-term budget planning prescribed by law. The Government last amended the proposed Framework for the preparation of the general government budget in the 2022–2024 period in September last year. Its compliance with legislation was assessed by the FC (2021c) in October last year, and it was adopted by the National Assembly of the Republic of Slovenia in November 2021.[34] As the circumstances have changed, it was

[31] In conformity with the EC guidelines, the no-policy-change scenario includes an extrapolation of revenue and expenditure trends and only covers those measures that were sufficiently defined when the projections were prepared. The assumptions, methodologies and relevant parameters used in the scenario must be public. For more information, see: Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes (2016), p. 20.

[32] This is subject to an appropriate quantitative assessment of the effects of the included discretionary measures that have already been adopted. In the absence of any additional discretionary measures planned for the future, there is no need to assess the effects of the latter. This reduces the relevance of any subjective factors in such assessments, which are present because the anticipated effects of past measures have already been accounted for.

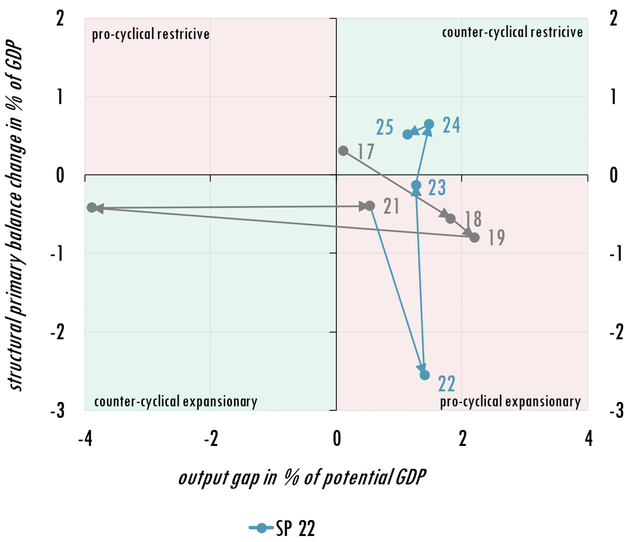
[33] In accordance with the Decree on development planning documents and procedures for the preparation of the central government budget and local government budgets (Official Gazette of the Republic of Slovenia *[Uradni list RS]*, Nos 44/07 and 54/10), IMAD prepares macroeconomic forecasts and projections that the Government takes note of and that form the basis for the preparation of budget planning documents. As a result, IMAD's macroeconomic forecasts are also in compliance with the requirement in Article 4 of Regulation (EU) No. 473/2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of Member States in the euro area. See also Box 1.1.

[34] Official Gazette of the Republic of Slovenia [*Uradni list RS]* No. 183/2021 of 23 November 2021.

expected that the 2022 framework would be amended in preparing the Stability Programme.[35] According to the provisions of the FRA, the new Framework Proposal should refer to at least the following three years or the 2023–2025 period. This framework would give the next Government an idea of the endogenously determined ceilings for expenditure and the target balance to prepare the budget in the next medium-term period. Within these parameters, the new Government would therefore be able to determine its fiscal policy before the regular autumn publication of updated macroeconomic projections.

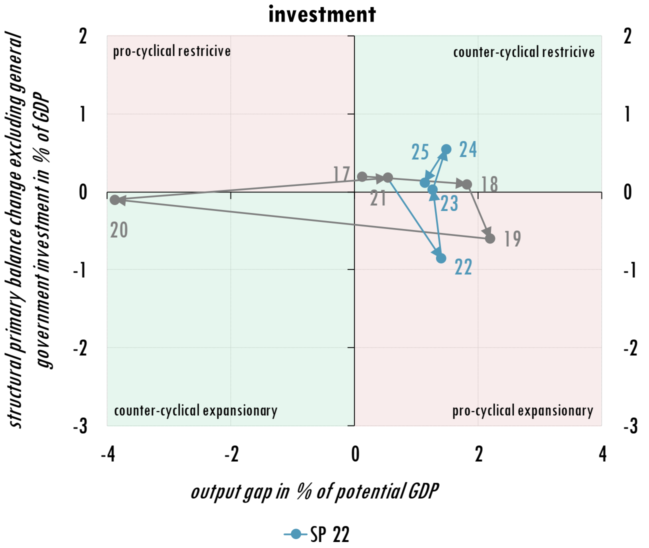
Given the state of public finance and the current estimates of the cyclical position and the macroeconomic projections, additional fiscal policy incentives in the SP 22 period are not necessary. The current fiscal policy is marked by a structural deficit[36] and a pronounced expansive stance in 2022 (see Figure 4.3). Based on the current forecasts, the economy is expected to operate under favourable cyclical conditions with signs of exceeding the supply potential in the SP 22 period.[37] This is the case according to the EC's definition as well as many additional indicators that the FC uses to assess the state of the economic cycle. Under these conditions, additional fiscal incentives that would increase demand are not appropriate, as they would further accelerate the detected pro-cyclicality and could cause macroeconomic imbalances. In light of the incentive measures, many of which were adopted immediately after the approval of the autumn budget documents, this is already happening to a certain extent. The creation of imbalances is suggested by increased limitations in

Figure 4.3: Fiscal policy stance



Source: SORS, MoF, FC estimates.

Figure 4.4: Fiscal policy stance excluding general government investment



Source: SORS, MoF, FC estimates.

[35] The projected general government expenditure according to the SP 22 no-policy-change scenario is approximately EUR 400 million higher than that envisaged in the current framework for budget preparation. The expenditure envisaged in the SP 22 deviates from the current framework by EUR 1.4 billion in 2023 and by EUR 2.4 billion in 2024. As the framework will only be adjusted in the autumn because the proposed amendments were not submitted with the SP 22, the framework once again does not assume the function of a medium-term budget planning document as prescribed by law.

[36] The assessment accounts for the indirect effects of COVID-19-related measures on the general government balance as a one-time factor. According to the EC's definition, one-off measures, see EC (2019; Box 1.3) or EC (2015; Chapter 3.3.8.), include short-term increased expenditure by the general government to cover the costs of exceptional events, such as natural disasters or other events beyond the Government's control. In its assessment of budget documents in spring 2020, the Fiscal Council (2020d) already took the position that the crisis-related fiscal effects should be considered one-off factors. These are therefore subtracted from expenditure when determining the ceiling of general government expenditure, which means that they are subtracted from the assessment of the structural position of public finances due to their one-off nature. Contrary to the guidance given to Member States at the beginning of the epidemic, the EC did not consider these effects as one-off factors; however, it did note that the exclusion of temporary measures to mitigate the consequences of the epidemic more accurately illustrates the fiscal policy stance (see EC 2020, p. 9). The Fiscal Council calculations take into account one-off factors of 5.2% of GDP in 2020, 4.6% of GDP in 2021, 1.4% of GDP in 2022, 0.2% of GDP in 2023 and 0.1% of GDP in 2024 and 2025.

[37] See Chapter 1.2 and footnote no. 9.

ensuring the appropriate workforce, inflationary pressures, which do not originate only in the international environment, and the rapid shrinking of the surplus in foreign trade. The deterioration of the structural fiscal policy situation is less noticeable due to the rapid recovery of economic growth, partly enabled, after the drop in GDP in 2020, by the stimulative fiscal policy, based on increased general government borrowing. With a notable escalation of the pro-cyclical expansionary stance in 2022, the fiscal policy has limited the capacity to recreate manoeuvring room for taking action in future crises. If the fiscal policy was implemented within the framework set by the SP 22 scenario of unchanged policies and based on the currently expected relatively high economic growth, which, however, is exposed to considerable risks (see Chapter 3), this room could, to a certain extent, be created in the following years. Nevertheless, due to the recently adopted discretionary measures on the side of revenue and expenditure (see Framework 2.1), its extent will not be as big as it could be, given the forecasted favourable economic conditions.

In the current situation, the fiscal policy should strive to curb growth in current spending and take systemic measures in order to properly address development challenges and strengthen the economy's resilience. The public investments envisaged in budget documents should contribute substantially to achieving these two aims. Even though investment targets are justifiably set higher than before the epidemiological crisis, their implementation must take into consideration the limited absorption capacities of the administration and the economy. The resulting factors that could reduce the effectiveness of investment projects must also be limited due to fixed amounts – particularly those arising from the envisaged EU funds – given the increased inflationary pressures. At the same time, general government investment as a demand factor should be prevented from further increasing the existing inflationary pressures in the domestic environment. In addition to adopting a systemic approach in addressing the growing challenges associated in particular with the ageing of the population[38] and the green transition, the key to ensuring the long-term sustainability of public finance is maintaining the growth in current public spending within the limits allowed by long-term revenue growth. Room for future spending should be created by increasing efficiency and searching for reserves on the expenditure side as well as strengthening or expanding bases on the revenue side.

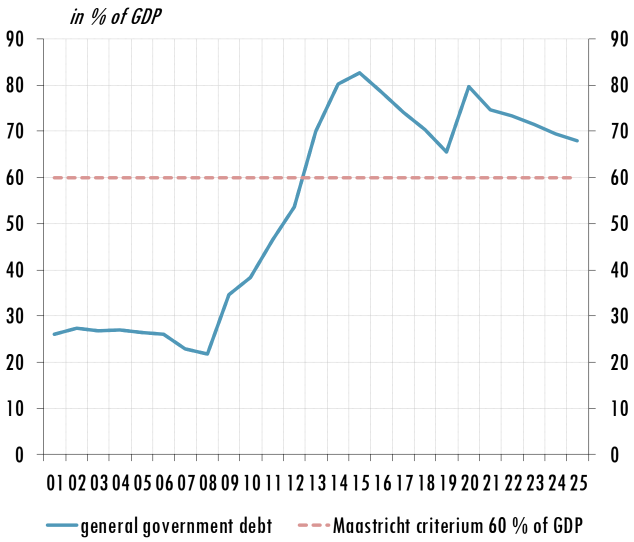
[38] Even though the analysis of the long-term sustainability of public finance in the SP 22 indicates a slight increase in age-related expenditure compared to SP 21 (Government of the Republic of Slovenia, 2021), this analysis does not include the latest changes concerning extraordinary pension increases and the change in long-term care. The EC report (2022c) establishes a deteriorated sustainability of the general government debt compared to past reports and Slovenia once again being listed among high-risk countries in terms of indicators of medium-term and long-term debt sustainability. In addition to the assumption regarding the future structural primary deficit, this is mostly due to the increased level of debt, the worsened budget situation compared to the historical average and particularly increased costs due to population ageing, especially those related to pensions.

Box 4.1: Fulfilment of the fiscal rules in the 2022 Stability Programme

The quantitative assessment of the fulfilment of the fiscal rules is exposed to many uncertainties. In light of growing uncertainty since the beginning of the epidemic, many rules arising from national and EU legislation were coupled with additional derivative indicators monitored by the EC, which the FC supplements with alternative indicators. The methodological challenges pertaining to the calculation of the parameters that affect assessment of the fulfilment of many fiscal rules are particularly great in this time of major oscillations in economic activity.[1] Furthermore, in assessing compliance with the fiscal rules in the SP 22, the specifics of the no-policy-change scenario must be highlighted. The interpretation of the assessment of compliance with the rules must take into account that the structural position of the fiscal policy may change without any further action and merely as a result of previously adopted measures.[2]

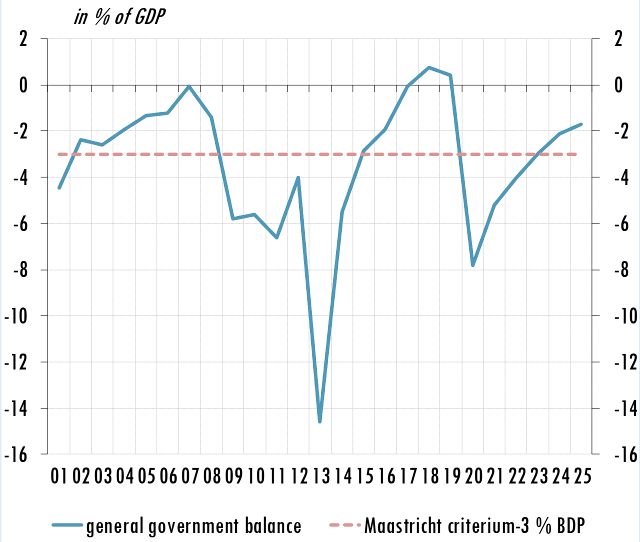
Despite the high level of expenditure, the nominal general government deficit is expected to fall below the permitted limit in the projected period, particularly due to the cyclical high revenue

Figure 1: General government debt



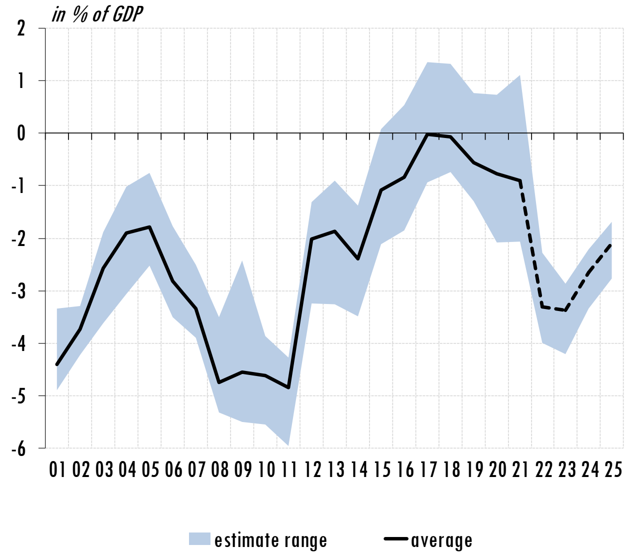
Source: SORS, MoF.

Figure 2: General government balance



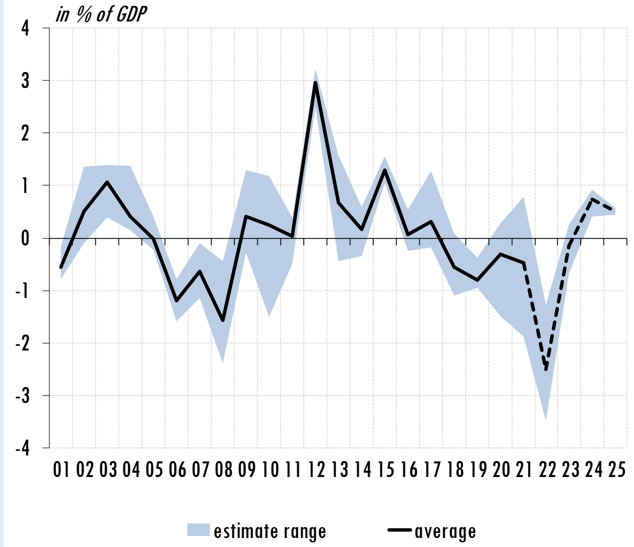
Source: SORS, MoF.

Figure 3: Structural balance estimates



Source: IMAD, EC, OECD, IMF, MoF, FC calculations. See note under Table 5.2.

Figure 4: Strucural primary effort estimates



Source: IMAD, EC, OECD, IMF, MoF, FC calculations. See note under Table 5.2.

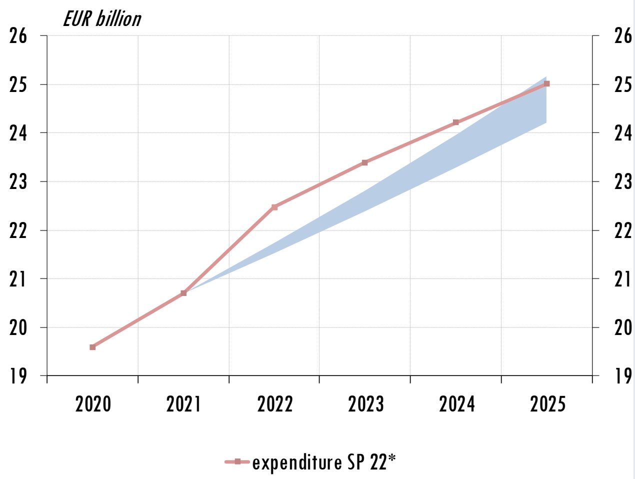
growth. The general government deficit is expected to drop to the threshold of -3% of GDP next year. This threshold is reached particularly as a result of the relatively high economic growth and inflation, which further increases budget revenue in the short-term. The risk analysis (see Chapter 3, particularly Figure 3.1) shows a relatively high degree of likelihood of the Maastricht reference value for the general government balance not being achieved in the case of even a small deviation in economic growth from that envisaged in IMAD's baseline scenario. Not counting investments, the static assessment shows a general government balance surplus which, despite substantially higher GDP (by EUR 14.4 billion on average) and thus higher revenue (by EUR 5.8 billion on average), is only EUR 250 million higher in the 2023–2025 average than the equally defined balance in 2019.

The structural deficit is expected to deviate from the minimum permitted structural balance calculated on the basis of EU rules (the MTO) and the structural effort is expected to be reached in the last two years of the SP 22 projections. According to the current FC calculations, the structural deficit in the initial period of the SP 22 is expected to amount to approximately -3% of GDP,[3] thus significantly exceeding the currently estimated MTO, which stands at 0.25% of GDP.[4] The structural deficit is not expected to achieve the MTO level in the SP 22 period (up to 2025). Based on the deviation of the structural deficit from the MTO and in accordance with the provisions of the FRA (Article 15) and the EU rules (EC, 2019), the structural effort in the following years should be at least 0.6% of GDP per year. According to the SP 22 no-policy-change scenario, this effort is backloaded to the end of the projections in 2024 and 2025.

A sufficient structural effort in the last years of the SP 22 projections is enabled particularly by the current high level of expenditure, causing a high structural deficit in 2022; the level of expenditure is also too high in the entire SP 22 period due to the high level in 2022, despite anticipated favourable cyclic conditions. Total expenditure remains nominally high in the SP 22 period, despite the absence of expenditure related to COVID-19 measures, but its share in GDP is decreasing with growth half that of GDP. The FC's calculations show that, on average, under the no-policy-change scenario, despite the anticipated high nominal growth in revenue, which stands at the current estimated growth in potential GDP, and the more or less unchanged estimated output gap, expenditure remains above the threshold determined by the required structural effort.

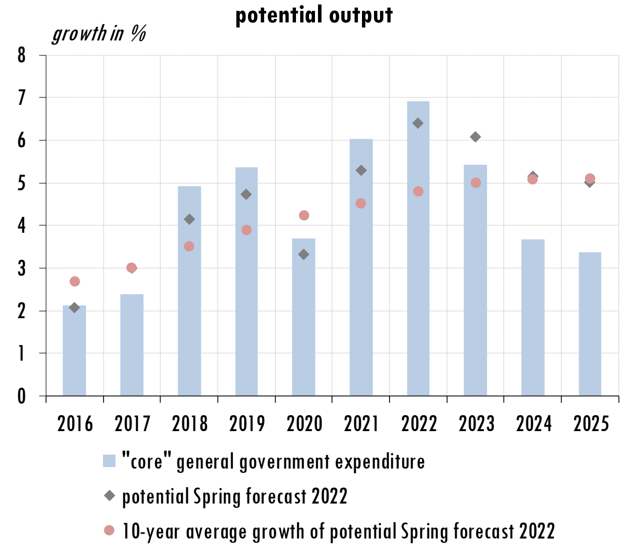
Alternative estimates of expenditure levels and its growth show that, even under the no-policy-change scenario, these are generally above the thresholds of medium-term fiscal policy sustainability. A comparison of the levels of expenditure with those that would be allowed only by the growth in economic potential[5] shows that, according to the scenario of unchanged policies, as a result of significantly exceeded levels in 2020 and 2021[6] and the measures increasing expenditure

Figure 5: Simulations of general government expenditure



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

Figure 6: "Core" general government expenditure and the potential output



Note: "Core "expenditure is general government expenditure excluding COVID-19 related expenditure, investment, interest expenditure and one-offs.
Sources: SORS, MoF, IMAD, FC calculations.

Table: Overview of fulfilment of fiscal rules in force in SP 22

		2021	2022	2023	2024	2025
Macroeconomic variables						
Real GDP growth (%)	IMAD	8.1	4.2	3.0	2.8	2.6
GDP nominal (EUR million)	IMAD	52,020	56,167	59,768	62,882	65,835
GDP deflator (%)	IMAD	2.6	3.6	3.3	2.3	2.1
GDP potential growth (%)	IMAD	2.7	2.8	2.8	2.9	2.9
Medium-term potential GDP growth BDP (%)[1]	IMAD	2.3	2.5	2.7	2.8	2.8
Output gap (in % of potential BDP)[2]	FC	0.5	1.4	1.3	1.5	1.1
National fiscal rule						
General government expenditure (EUR million)	MF	25,548	26,525	27,329	27,857	28,670
National rule - maximum general government expenditure (EUR million)[3]	FC			26,852	27,482	28,208
Frameworks for the preparation of the gen. government budgets Sept. and Nov.21 (EUR million)	MF	25,800	26,105	25,980	25,430	
EU fiscal rules						
General government balance (% of GDP)	**MF**	**-5.2**	**-4.1**	**-3.0**	**-2.1**	**-1.7**
Maastricht criterium (% of GDP)	EC	-3.0	-3.0	-3.0	-3.0	-3.0
Gross general government debt (% of GDP)	**MF**	**74.7**	**73.3**	**71.5**	**69.5**	**68.0**
Maastricht criterium (% of GDP)	EC	60.0	60.0	60.0	60.0	60.0
Permitted debt level according to EU rules (% of GDP):						
- 1/20th rule[4]	FC	...	74.0	73.4	72.7	72.0
- backward-looking benchmark[4]	FC	...	72.2	74.3	71.8	70.3
- forward-looking benchmark[4]	FC	...	71.8	70.3	68.7	65.1
- cyclically-adjusted debt reduction benchmark[4]	FC	...	72.1	76.8	72.0	69.5
Structural balance (% of GDP)	**FC**	**-0.9**	**-3.3**	**-3.4**	**-2.7**	**-2.1**
Medium term objective according to EU rules - MTO (% of GDP)[5]	EC/FC	-0.25	-0.25	0.25	0.25	0.25
Change in structural balance (% of GDP)	**FC**	**-0.1**	**-2.4**	**-0.1**	**0.8**	**0.6**
Required annual fiscal adjustment (% of GDP)[6]	FC	...	...	0.6	0.6	0.6
EU expenditure benchmark - net expenditure nominal growth (%)	**FC**	**5.5**	**1.9**	**4.8**	**6.4**	**6.4**
Permitted nominal annual net expenditure growth (%)	FC	2.6	3.6	4.6	3.7	3.5
EU expenditure benchmark - net expenditure nominal growth excl. one-offs (%)	**FC**	**6.6**	**9.4**	**7.8**	**6.5**	**6.4**
Permitted nominal annual net expenditure growth excluding one-offs (%)	FC	2.6	3.6	4.6	3.7	3.5
Alternative indicators						
"Core" general government expenditure (%)[7]	FC	6.0	6.9	5.4	3.7	3.4
Fiscal stance - with EU funds, excl. COVID measures (% of GDP)[8]	FC	-1.1	-2.5	-0.6	0.5	-0.2

Source: SORS, MoF, IMAD, EC, Official Gazette of the Republic of Slovenia, FC calculations.

[1] 10-year average, which takes into account previous five years, current year and next 4 years.

[2] Average of 9 estimates used by the FC. See Table 5.2 in the statistical annex.

[3] Taking into account SP 22 revenue projections and FC estimates.

[4] No data for 2021, as this is the base year for calculations.

[5] For 2023-2025 FC estimates, as EC has not (yet) published the new calculations.

[6] In 2020 and 2021 structural effort is not required due to general escape clause. In 2023-2025 FC estimate based on the matrix in Box 1.6 in EC (2019).

[7] Excluding expenditure on interest, investment, COVID measures and one-offs.

[8] Negative sign denotes primary expenditure growth exceeding medium-term GDP growth and therefore expansive fiscal policy and vice versa.

further, particularly in 2022, the general government expenditure will be too high in 2023 and 2024 and will only fall below the threshold in 2025. Growth in "core" expenditure[7] under the SP 22 scenario in 2022 and 2023 also exceeds the anticipated growth in potential GDP[8] and is higher than the average growth of such expenditure in the last decade and a half. The excessive growth in expenditure and the overly expansive trend in fiscal policy is also shown by calculations based on the EU expenditure rule and the alternative indicator introduced by the EC in the period of crisis and uncertainty regarding the calculation of the structural fiscal indicators.[9] In both cases, the inadequacy of the fiscal policy is, to a large extent, due to the excessive growth in current spending.

Pursuant to the rules of the Fiscal Pact laid down in the preventive arm of the Stability and Growth Pact, general government debt exceeding 60% of GDP must be gradually reduced. Slovenia is expected to comply with this rule in 2023 and 2025, although debt is expected to remain above the 60% of GDP threshold in 2025. As the debt-to-GDP ratio over the period covered by the SP 22 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 dynamic, 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. This means that the debt has to be decreased by approximately 0.7 p.p. of GDP per year on a three-year average. Due to the high increase in debt in 2020, which affects the calculation of the average in the following years, and the high economic cycle in 2021 and 2022, this rule is only expected to be met in the 2023–2025 period. Between 2023 and 2025 alone, the debt level is expected to be below at least one of the limits, i.e. the backward-looking debt limit, the forward-looking limit and the business cycle-observing limit, as defined by the Fiscal Compact.

[1] See, for instance, Box 1.1 in FC (2020e).

[2] This can occur, for instance, if the indexation rate lags behind the anticipated nominal growth in revenue (or growth in potential GDP) or if the extent of measures is defined nominally (e.g. a predetermined annual increase in the tax relief amount which results in differing annual decreases in revenue relative to GDP).

[3] The assessment accounts for the indirect effects of COVID-19-related measures on the general government balance as a one-time factor.

[4] The minimum permitted structural balance according to the EU rules (MTO) for Slovenia in the 2020–2022 period was most recently set in spring 2019 (EC, 2019) at -0.25% of GDP. . The MTO assessment should have been officially revised at the beginning of 2022 and will be valid for the 2023–2025 period, but this assessment was not (yet) available at the time this document was prepared. For the purpose of this assessment, the FC made its own calculation, which contains most of the same parameters used in the EC's official calculation. The calculation shows that the MTO value could increase to +0.25% of GDP. This would be partly due to the higher level of debt and in particular the changing pension legislation and the consequent increase in the anticipated long-term costs of the aging of the population. In light of the currently applicable fiscal rules, a rise in MTO reflects the need for stricter fiscal policy to ensure the medium-term sustainability of public finances in the future.

[5] Growth in general government expenditure is sustainable in the long term if it is in line with growth in economic potential. Revenue growth can deviate from growth in economic potential, in addition to cyclical reasons, especially in the event of discretionary tax changes, so expenditure usually needs to be adjusted to such structural changes.

[6] See the FC's assessment (2021g) of the proposal to amend the Framework for the preparation of general government budgets for the 2020–2022 period.

[7] General government expenditure, net of COVID-related expenditure and expenditure on interest, investments, investment grants, capital transfers and one-off expenditure.

[8] Comparisons with annual estimates of growth in nominal potential GDP are less appropriate at the moment due to the high inflation, which is expected to be temporary. Taking into account the temporarily high inflation, the nominal economic potential can be overestimated, which can have a pro-cyclical effect on the fiscal policy direction based on such indicators.

[9] See, for instance, Box 2 (pp. 14–15) in EC (2021).

5. Statistical annex

Table 5.1: Comparison of macroeconomic projections for 2022 in 2023

	2022						2023					
	EC (Nov.21)	OECD (Dec.21)	BoS (Dec.21)	EC (Feb.22)	IMF (Apr.22)	IMAD (Apr.22)	EC (Nov.21)	OECD (Dec.21)	BoS (Dec.21)	EC (Feb.22)	IMF (Apr.22)	IMAD (Apr.22)
GDP	4.2	5.4	4.0	3.8	3.7	4.2	3.5	3.2	3.3	3.6	3.0	3.0
Exports of goods and services	7.6	6.0	5.9		4.9	7.1	6.1	4.2	7.0		6.3	5.5
Imports of goods and services	8.9	7.2	7.0		4.8	7.2	6.7	4.5	6.7		7.2	4.9
External trade balance, contrib. to growt	-0.4	-0.5	-0.5			0.3	0.0	0.0	0.5			0.8
Private consumption	5.1	7.9	4.8			4.3	3.5	3.4	3.0			1.4
Government consumption	1.9	1.7	1.7			0.6	1.5	1.1	1.4			1.3
Gross fixed capital formation	8.0	7.6	7.6			6.5	7.0	5.7	4.6			5.0
Changes in inventories, contrib. to growt	0.0	0.0	0.0			0.2	0.0	0.0	0.0			0.1

Source: IMF, EC, OECD, BoS, IMAD.

Table 5.2: Output gap estimates

	IMF (Apr. 22)	European Commission (Nov. 21)	OECD (Dec. 21)	IMAD (Apr. 22)	MoF (Apr. 22)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions	average of estimates based on prod. funct.
2002	-1.1	0.9	0.6	0.4	0.3	-0.8	-0.3	...	-0.8	-0.1	0.2	0.5
2003	0.1	0.8	0.1	0.3	0.1	-1.5	-1.3	2.2	-1.4	-0.1	0.3	0.4
2004	-1.4	1.9	1.1	1.4	1.1	-0.8	-1.0	3.0	-0.8	0.5	0.8	1.5
2005	-0.5	2.6	1.6	2.3	2.0	-0.5	-1.2	2.6	0.1	1.0	1.6	2.3
2006	2.8	4.9	4.2	4.6	4.3	2.0	1.1	4.1	2.4	3.4	4.1	4.6
2007	5.3	8.2	8.0	8.2	7.6	6.5	5.8	6.8	6.8	7.0	7.4	8.0
2008	5.4	7.8	8.4	8.0	7.5	8.4	7.7	4.5	6.8	7.2	7.4	7.8
2009	-3.0	-2.6	-1.9	-2.4	-2.6	-0.7	-1.5	-7.2	-2.3	-2.7	-2.5	-2.5
2010	-1.0	-2.6	-2.1	-2.4	-2.4	0.2	-0.3	-2.6	-3.4	-1.8	-2.1	-2.4
2011	0.6	-2.6	-2.3	-2.5	-2.4	0.7	1.0	-2.2	-2.5	-1.3	-1.8	-2.5
2012	-2.0	-5.7	-5.8	-5.9	-5.6	-2.4	-1.7	-5.7	-4.5	-4.4	-5.0	-5.7
2013	-3.0	-7.4	-7.8	-7.6	-7.2	-4.2	-3.5	-4.9	-8.0	-5.9	-6.6	-7.4
2014	-2.3	-5.8	-6.5	-6.2	-5.7	-2.9	-2.0	-2.5	-5.3	-4.4	-5.3	-5.9
2015	-1.8	-4.6	-6.1	-5.2	-4.7	-2.7	-1.9	-1.4	-4.1	-3.6	-4.5	-4.8
2016	-0.2	-2.6	-5.1	-3.3	-2.8	-2.0	-1.4	0.0	-2.0	-2.1	-2.8	-2.9
2017	0.0	0.7	-2.8	-0.1	0.2	0.0	0.6	2.1	0.4	0.1	-0.4	0.3
2018	0.3	3.1	-1.2	2.2	2.4	1.6	2.2	2.5	3.3	1.8	1.4	2.6
2019	0.7	3.8	-0.6	2.9	3.0	2.1	2.3	2.0	3.7	2.2	1.9	3.2
2020	-2.8	-2.6	-7.1	-3.6	-3.5	-4.8	-5.1	-4.4	-1.1	-3.9	-3.9	-3.2
2021	1.6	1.0	-3.7	1.5	1.3	-0.1	-0.4	3.0	0.6	0.5	0.3	1.3
2022	1.3	2.1	-0.8	2.9	2.5	1.1	1.0	1.3	1.3	1.4	1.6	2.5
2023	0.8	2.3	0.2	3.1	2.6	1.1	0.8	0.3	0.3	1.3	1.8	2.6
2024	...	...	...	3.0	2.4	1.1	0.5	1.1	0.8	1.5	2.7	2.7
2025	...	...	...	2.6	1.9	0.8	0.3	0.7	0.6	1.1	2.2	2.2

Source: IMAD, EC, IMF, OECD, Stability Programme 2022, FC calculations.

Note: The table shows estimates of the output gap by domestic and international institutions that provide these estimates for Slovenia (IMAD, MF, EC, IMF, OECD). It should be noted that due to incomplete time series the table does not include estimates of all institutions that provide the estimates of the output gap for Slovenia for the duration of the current SP period (missing are the EC, IMF and OECD forecasts for 2024 and 2025). 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; and (iv) the 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 5.3: Structural balance estimates

	IMF (Apr. 22)	European Commission (Nov. 21)	OECD (Dec. 21)	IMAD (Apr. 22)	MoF (Apr. 22)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions	average of estimates based on prod. funct.
2002	-3.3	-4.2	-4.1	-4.0	-3.9	-3.4	-3.6	...	-3.4	-3.7	-3.9	-4.0
2003	-2.7	-3.0	-2.7	-2.8	-2.6	-1.9	-2.0	-3.6	-1.9	-2.6	-2.7	-2.8
2004	-1.0	-2.5	-2.2	-2.3	-2.2	-1.3	-1.2	-3.1	-1.3	-1.9	-2.1	-2.4
2005	-1.1	-2.5	-2.1	-2.4	-2.2	-1.1	-0.8	-2.5	-1.4	-1.8	-2.1	-2.4
2006	-2.5	-3.5	-3.2	-3.4	-3.2	-2.2	-1.8	-3.2	-2.4	-2.8	-3.2	-3.4
2007	-2.5	-3.9	-3.8	-3.9	-3.6	-3.1	-2.8	-3.2	-3.3	-3.3	-3.5	-3.8
2008	-3.9	-5.1	-5.3	-5.1	-4.9	-5.3	-5.0	-3.5	-4.6	-4.7	-4.9	-5.0
2009	-4.4	-4.6	-4.9	-4.7	-4.6	-5.5	-5.1	-2.4	-4.7	-4.6	-4.6	-4.6
2010	-5.0	-4.3	-4.5	-4.4	-4.4	-5.6	-5.4	-4.3	-3.9	-4.6	-4.5	-4.3
2011	-5.8	-4.3	-4.4	-4.3	-4.4	-5.8	-6.0	-4.5	-4.3	-4.8	-4.6	-4.3
2012	-3.1	-1.4	-1.3	-1.3	-1.4	-2.9	-3.2	-1.4	-2.0	-2.0	-1.7	-1.4
2013	-3.3	-1.2	-1.0	-1.1	-1.3	-2.7	-3.0	-2.3	-0.9	-1.9	-1.6	-1.2
2014	-3.4	-1.7	-1.4	-1.6	-1.8	-3.1	-3.5	-3.3	-1.9	-2.4	-2.0	-1.7
2015	-1.9	-0.6	0.1	-0.4	-0.6	-1.5	-1.9	-2.1	-0.9	-1.1	-0.7	-0.5
2016	-1.7	-0.6	0.5	-0.3	-0.5	-0.9	-1.2	-1.8	-0.9	-0.8	-0.5	-0.5
2017	0.1	-0.3	1.4	0.1	-0.1	0.0	-0.2	-0.9	-0.2	0.0	0.2	-0.1
2018	0.6	-0.7	1.3	-0.2	-0.3	0.0	-0.3	-0.4	-0.7	-0.1	0.1	-0.4
2019	0.1	-1.3	0.8	-0.9	-1.0	-0.5	-0.6	-0.4	-1.3	-0.6	-0.4	-1.0
2020	-1.3	-1.4	0.7	-0.9	-1.0	-0.3	-0.2	-0.5	-2.1	-0.8	-0.8	-1.1
2021	-1.4	-1.1	1.1	-1.4	-1.3	-0.6	-0.5	-2.1	-0.9	-0.9	-0.8	-1.2
2022	-3.3	-3.6	-2.3	-4.0	-3.8	-3.2	-3.1	-3.2	-3.3	-3.3	-3.4	-3.8
2023	-3.1	-3.9	-2.9	-4.2	-4.0	-3.3	-3.2	-2.9	-2.9	-3.4	-3.6	-4.0
2024	...	...	...	-3.3	-3.1	-2.5	-2.2	-2.5	-2.3	-2.7	-3.2	-3.2
2025	...	...	...	-2.8	-2.5	-2.0	-1.7	-1.9	-1.8	-2.1	-2.6	-2.6

Source: IMAD, EC, IMF, OECD, Stability Programme 2022, FC calculations based on Table 5.2.

Table 5.4: Structural effort estimates

	IMF (Apr. 22)	European Commission (Nov. 21)	OECD (Dec. 21)	IMAD (Apr. 22)	MoF (Apr. 22)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions	average of estimates based on prod. funct.
2002	0.1	0.5	0.7	0.5	0.5	0.8	0.8	...	1.5	0.7	0.4	0.5
2003	0.6	1.3	1.4	1.2	1.3	1.5	1.6	...	1.4	1.3	1.2	1.3
2004	1.6	0.4	0.5	0.4	0.4	0.6	0.8	0.5	0.6	0.7	0.7	0.4
2005	-0.1	0.0	0.1	-0.1	0.0	0.2	0.4	0.5	-0.1	0.1	0.0	0.0
2006	-1.4	-1.0	-1.1	-1.0	-1.0	-1.1	-1.0	-0.6	-1.0	-1.0	-1.1	-1.0
2007	0.0	-0.4	-0.6	-0.5	-0.4	-0.9	-1.0	-0.1	-0.9	-0.5	-0.4	-0.4
2008	-1.4	-1.2	-1.5	-1.3	-1.3	-2.2	-2.2	-0.3	-1.3	-1.4	-1.3	-1.2
2009	-0.5	0.5	0.4	0.4	0.3	-0.2	-0.1	1.1	-0.2	0.2	0.2	0.4
2010	-0.6	0.3	0.4	0.3	0.2	-0.1	-0.2	-1.8	0.9	-0.1	0.1	0.3
2011	-0.8	0.0	0.1	0.1	0.0	-0.2	-0.6	-0.2	-0.4	-0.2	-0.1	0.0
2012	2.6	2.9	3.1	3.0	2.9	2.9	2.7	3.1	2.4	2.8	2.9	2.9
2013	-0.1	0.2	0.3	0.2	0.2	0.3	0.2	-1.0	1.0	0.1	0.2	0.2
2014	-0.1	-0.5	-0.4	-0.5	-0.5	-0.4	-0.5	-0.9	-1.0	-0.5	-0.4	-0.5
2015	1.5	1.1	1.5	1.2	1.2	1.5	1.6	1.2	1.1	1.3	1.3	1.2
2016	0.2	0.0	0.5	0.1	0.1	0.6	0.7	0.3	-0.1	0.3	0.1	0.0
2017	1.8	0.3	0.8	0.4	0.5	0.9	1.0	0.9	0.8	0.8	0.8	0.4
2018	0.6	-0.4	0.0	-0.3	-0.3	0.0	0.0	0.6	-0.6	-0.1	-0.1	-0.3
2019	-0.5	-0.6	-0.6	-0.6	-0.6	-0.5	-0.3	-0.1	-0.5	-0.5	-0.6	-0.6
2020	-1.4	-0.1	0.0	0.0	0.0	0.2	0.4	-0.1	-0.8	-0.2	-0.3	0.0
2021	-0.1	0.2	0.4	-0.4	-0.3	-0.3	-0.3	-1.5	1.1	-0.1	0.0	-0.2
2022	-1.9	-2.5	-3.4	-2.6	-2.5	-2.6	-2.6	-1.2	-2.3	-2.4	-2.6	-2.6
2023	0.1	-0.2	-0.6	-0.2	-0.2	-0.1	0.0	0.3	0.3	-0.1	-0.2	-0.2
2024	...	...	...	0.9	0.9	0.9	0.9	0.4	0.6	0.8	0.9	0.9
2025	...	...	...	0.6	0.6	0.5	0.5	0.6	0.5	0.6	0.6	0.6

Source: IMAD, EC, IMF, OECD, Stability Programme 2022, FC calculations based on Table 5.2.

Table 5.5: Structural primary balance estimates

	IMF (Apr. 22)	European Commission (Nov. 21)	OECD (Dec. 21)	IMAD (Apr. 22)	MoF (Apr. 22)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions	average of estimates based on prod. funct.
2002	-1.1	-2.1	-1.9	-1.8	-1.7	-1.2	-1.5	...	-1.2	-1.6	-1.7	-1.9
2003	-0.7	-1.0	-0.7	-0.8	-0.7	0.0	-0.1	-1.7	0.0	-0.6	-0.8	-0.9
2004	0.6	-0.9	-0.5	-0.7	-0.5	0.4	0.5	-1.4	0.4	-0.2	-0.4	-0.7
2005	0.4	-1.0	-0.6	-0.9	-0.7	0.4	0.8	-1.0	0.2	-0.3	-0.5	-0.9
2006	-1.2	-2.1	-1.8	-2.0	-1.9	-0.8	-0.4	-1.8	-1.0	-1.4	-1.8	-2.0
2007	-1.3	-2.6	-2.5	-2.6	-2.4	-1.8	-1.5	-2.0	-2.0	-2.1	-2.3	-2.5
2008	-2.8	-4.0	-4.2	-4.0	-3.8	-4.2	-3.9	-2.4	-3.5	-3.7	-3.8	-3.9
2009	-3.1	-3.3	-3.6	-3.4	-3.3	-4.2	-3.8	-1.1	-3.4	-3.2	-3.3	-3.3
2010	-3.4	-2.7	-2.9	-2.7	-2.7	-3.9	-3.7	-2.6	-2.2	-3.0	-2.9	-2.7
2011	-3.9	-2.4	-2.5	-2.4	-2.5	-3.9	-4.1	-2.6	-2.4	-3.0	-2.7	-2.4
2012	-1.1	0.6	0.7	0.7	0.6	-0.9	-1.2	0.6	0.1	0.0	0.3	0.6
2013	-0.7	1.4	1.5	1.4	1.3	-0.1	-0.5	0.2	1.6	0.7	1.0	1.4
2014	-0.1	1.5	1.9	1.7	1.5	0.2	-0.3	0.0	1.3	0.8	1.3	1.6
2015	1.3	2.6	3.3	2.9	2.6	1.7	1.3	1.1	2.4	2.1	2.5	2.7
2016	1.3	2.4	3.6	2.7	2.5	2.1	1.9	1.2	2.1	2.2	2.5	2.5
2017	2.6	2.2	3.9	2.6	2.4	2.5	2.3	1.6	2.4	2.5	2.8	2.4
2018	2.7	1.4	3.3	1.8	1.7	2.0	1.8	1.6	1.3	1.9	2.2	1.6
2019	1.8	0.4	2.5	0.8	0.8	1.2	1.1	1.3	0.4	1.2	1.3	0.7
2020	0.4	0.2	2.3	0.7	0.6	1.3	1.4	1.1	-0.5	0.8	0.9	0.5
2021	-0.1	0.2	2.4	-0.1	0.0	0.7	0.8	-0.8	0.3	0.4	0.5	0.0
2022	-2.1	-2.5	-1.1	-2.8	-2.6	-2.0	-1.9	-2.1	-2.1	-2.1	-2.2	-2.6
2023	-2.0	-2.8	-1.8	-3.1	-2.9	-2.2	-2.1	-1.8	-1.8	-2.3	-2.5	-2.9
2024	...	...	...	-2.3	-2.0	-1.4	-1.1	-1.4	-1.3	-1.6	-2.1	-2.1
2025	...	...	...	-1.8	-1.4	-0.9	-0.7	-0.9	-0.8	-1.1	-1.6	-1.6

Source: IMAD, EC, IMF, OECD, Stability Programme 2022, FC calculations based on Table 5.2.

Table 5.6: Structural primary effort estimates

	IMF (Apr. 22)	European Commission (Nov. 21)	OECD (Dec. 21)	IMAD (Apr. 22)	MoF (Apr. 22)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions	average of estimates based on prod. funct.
2002	-0.1	0.3	0.5	0.3	0.4	0.6	0.7	...	1.4	0.5	0.3	0.3
2003	0.4	1.0	1.2	1.0	1.0	1.3	1.4	...	1.2	1.1	0.9	1.0
2004	1.4	0.2	0.2	0.2	0.2	0.3	0.5	0.3	0.4	0.4	0.4	0.2
2005	-0.2	-0.1	0.0	-0.2	-0.2	0.1	0.3	0.4	-0.2	0.0	-0.2	-0.2
2006	-1.6	-1.1	-1.3	-1.2	-1.1	-1.3	-1.2	-0.8	-1.2	-1.2	-1.3	-1.2
2007	-0.1	-0.5	-0.7	-0.6	-0.5	-1.0	-1.1	-0.2	-1.0	-0.6	-0.5	-0.5
2008	-1.6	-1.3	-1.7	-1.4	-1.4	-2.4	-2.4	-0.4	-1.5	-1.6	-1.5	-1.4
2009	-0.3	0.7	0.6	0.6	0.5	0.0	0.1	1.3	0.1	0.4	0.4	0.6
2010	-0.3	0.6	0.7	0.7	0.6	0.3	0.1	-1.5	1.2	0.3	0.5	0.6
2011	-0.5	0.3	0.4	0.3	0.3	0.0	-0.4	0.0	-0.2	0.0	0.1	0.3
2012	2.7	3.0	3.2	3.1	3.0	3.0	2.9	3.2	2.5	3.0	3.0	3.1
2013	0.4	0.7	0.9	0.8	0.7	0.8	0.7	-0.4	1.6	0.7	0.7	0.7
2014	0.6	0.1	0.3	0.2	0.2	0.3	0.2	-0.2	-0.3	0.2	0.3	0.2
2015	1.4	1.1	1.4	1.2	1.2	1.5	1.6	1.2	1.1	1.3	1.3	1.1
2016	0.0	-0.2	0.3	-0.1	-0.1	0.4	0.5	0.1	-0.2	0.1	0.0	-0.2
2017	1.3	-0.2	0.3	-0.1	-0.1	0.4	0.4	0.4	0.3	0.3	0.2	-0.1
2018	0.1	-0.9	-0.5	-0.8	-0.8	-0.5	-0.5	0.1	-1.1	-0.6	-0.6	-0.8
2019	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9	-0.6	-0.4	-0.8	-0.8	-0.9	-0.9
2020	-1.5	-0.2	-0.1	-0.2	-0.1	0.1	0.3	-0.2	-0.9	-0.3	-0.4	-0.1
2021	-0.5	-0.1	0.0	-0.8	-0.6	-0.6	-0.6	-1.9	0.8	-0.5	-0.4	-0.5
2022	-2.0	-2.6	-3.5	-2.7	-2.6	-2.6	-2.7	-1.3	-2.4	-2.5	-2.7	-2.7
2023	0.0	-0.3	-0.7	-0.3	-0.2	-0.2	-0.1	0.2	0.3	-0.1	-0.3	-0.3
2024	...	...	...	0.8	0.9	0.8	0.9	0.4	0.5	0.7	0.8	0.8
2025	...	...	...	0.5	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5

Source: IMAD, EC, IMF, OECD, Stability Programme 2022, FC calculations based on Table 5.2.

Table 5.7: Deviation of maximum expenditure from expenditure in SP 22

	IMF (Apr. 22)		EC (Nov. 21)		OECD (Dec. 21)		IMAD (Apr. 22)		MoF (Apr. 22)		HP		based on GDP averages		factor models		Blanchard-Quah		average of all estimates		average of institutions		average of estimates based on prod. funct.		**SP 22**
	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 2022																									
2023	27,048	*-281*	26,601	*-728*	26,618	*-711*	26,604	*-725*	26,631	*-698*	26,890	*-439*	26,943	*-386*	27,153	*-176*	27,178	*-151*	26,852	*-477*	26,700	*-629*	26,612	*-717*	**27,329**
2024	...	...	...	...	...	...	27,172	*-685*	27,218	*-639*	27,563	*-294*	27,677	*-181*	27,576	*-281*	27,687	*-170*	27,482	*-375*	27,195	*-662*	27,195	*-662*	**27,857**
2025	...	...	...	...	...	...	27,831	*-839*	27,914	*-756*	28,287	*-383*	28,419	*-251*	28,369	*-301*	28,426	*-244*	28,208	*-462*	27,872	*-798*	27,872	*-798*	**28,670**

Source: IMAD, EC, IMF, OECD, Stability Programme 2022, FC calculations based on Table 5.2.

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