



REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Monthly Information

September 2022

Key highlights¹

- According to provisional data, the state budget deficit amounted to EUR -342 million in the first eight months of 2022, while, without taking into account the direct effect of COVID-related measures, there would have been a surplus of EUR 189 million.
- Revenues increased by 16.7% year-on-year in the first eight months of 2022 and 20.2% without taking into account the direct influence of COVID-related measures.
- Expenditure in the first eight months of this year was -9.4% lower on a year-on-year basis, or 10.5% higher on a year-on-year basis excluding the direct effect of COVID-related measures totalling EUR 637 million.
- The total level of state budget expenditures for COVID-related measures from March 2020 to the end of August this year amounts to EUR 5,430 million.
- The financial impact of the measures taken so far to mitigate the consequences of price increases on the state budget this year is estimated at around EUR 325 million, and the impact of all measures is estimated at around EUR 650 million. Next year, the measures with an impact on the state budget taken so far could amount to around EUR 150 million, totalling around EUR 250 million. Measures to mitigate the effects of the price increases are similar to those in other countries, but they are not targeted to a large extent. In the face of expected increasingly constrained fiscal space, this may prove to be ineffective and contrary to the recommendations of international institutions.
- The state budget's outturn in the first eight months suggests that, despite the measures taken to mitigate the effects of inflation, the deficit should be smaller this year than foreseen in the amendments to the current budget adopted in autumn last year. This is mainly due to higher-than-expected tax revenue growth, mainly as a result of the recovery in domestic consumption, as well as high inflation and another failure to achieve over-optimistic investment plans.
- While revenue growth is expected to slow down in the last four months of the year, the current budget allows for a turnaround in the development of consumption, which could be 12.0% higher year-on-year to meet budget projections, and a deficit of EUR 2,130 million in the months through the end of the year. However, the government intends to increase the state budget's expenditure ceiling by a further EUR 600 million when drafting the revised state budget. We consider that this could have been avoided with an appropriate reallocation of commitment appropriations, in particular when identifying unrealistic investment plans. Using revenues from high inflation to increase spending instead of reducing debt is inappropriate given the high risks to Slovenia's medium- and long-term fiscal sustainability compared to other EU countries. If the announced increase in permissible spending materialises, the practice of the past two years of non-transparent and unreliable budget planning in times of exceptional circumstances will continue.

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

The state Budget, January–August 2022²

- With a EUR -88 million **state budget deficit** being recorded in August according to preliminary data, the deficit was EUR -342 million in the first eight months of 2022. Not counting the direct effect of COVID-related measures, the state budget surplus in the first eight months amounted to EUR 189 million.³
- **Revenues** in the first eight months of this year were 16.7% higher than in the same period last year.⁴ The high growth is partly due to a base effect, when revenue was quite low in the same months last year due to the restrictive measures, partly due to the still rapid recovery of domestic demand as well as higher inflation, and partly due to receipt of the remainder of the advances of the first tranche of the Recovery and Resilience Plan (RRP).⁵
- VAT revenue was the main contributor to the year-on-year growth in revenue (almost half). It was also approximately EUR 600 million higher than in the first eight months of 2019. Against this backdrop, year-on-year growth in August was around 30%, which does not indicate a slowdown in consumer spending in the summer months. Corporate income tax revenues increased by 46.0% year-on-year in the first eight months of this year due to an exceptionally high settlement as a result of the strong performance of businesses last year.

Table 1: State budget

	January-August				September-December							
	2021	2022	change		2021	2022*	change		2021	2022**	change	
			2022/2021				2022/2021				2022/2021	
			EUR million	%			EUR million	%			EUR million	%
Revenue	7,034	8,212	1,178	16.7	4,140	3,257	-883	-21.3	11,174	11,469	295	2.6
VAT	2,624	3,155	532	20.3	1,607	1,044	-564	-35.1	4,231	4,199	-32	-0.8
Excise duties	938	957	19	2.0	533	507	-26	-4.9	1,470	1,463	-7	-0.5
Personal income tax	960	966	6	0.6	554	541	-13	-2.3	1,514	1,507	-7	-0.4
Corporate income tax	787	1,148	362	46.0	328	-94	-422	-128.7	1,115	1,054	-61	-5.4
EU funds	454	608	154	34.0	493	1,065	572	115.9	947	1,673	726	76.7
Non-tax	570	508	-61	-10.7	249	-6	-255	-102.4	818	502	-316	-38.6
Other revenue	702	869	166	23.7	376	201	-175	-46.6	1,079	1,070	-9	-0.8
Expenditure	9,445	8,553	-892	-9.4	4,808	5,387	578	12.0	14,254	13,940	-314	-2.2
Total labour costs	3,001	2,424	-577	-19.2	1,207	1,379	172	14.2	4,209	3,803	-405	-9.6
Transfers to individ. and househ.	1,856	1,293	-564	-30.4	676	385	-291	-43.0	2,532	1,678	-855	-33.8
Expend. on goods and services	860	928	68	7.9	663	416	-247	-37.3	1,523	1,344	-179	-11.7
Investment	524	638	113	21.6	714	1,653	939	131.6	1,238	2,291	1,053	85.0
Curr. transfers to soc. sec. funds	1,005	1,118	113	11.3	344	342	-2	-0.6	1,350	1,461	111	8.2
Subsidies	659	402	-257	-39.0	156	157	1	0.6	815	559	-256	-31.4
Interest	560	470	-90	-16.0	167	213	47	27.9	727	683	-43	-6.0
Payments to the EU budget	391	480	89	22.7	238	101	-137	-57.7	629	580	-49	-7.7
Other expenditure	588	800	212	36.2	643	741	97	15.1	1,231	1,541	310	25.2
Balance	-2,412	-342	2,070		-668	-2,130	-1,462		-3,080	-2,472	608	

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

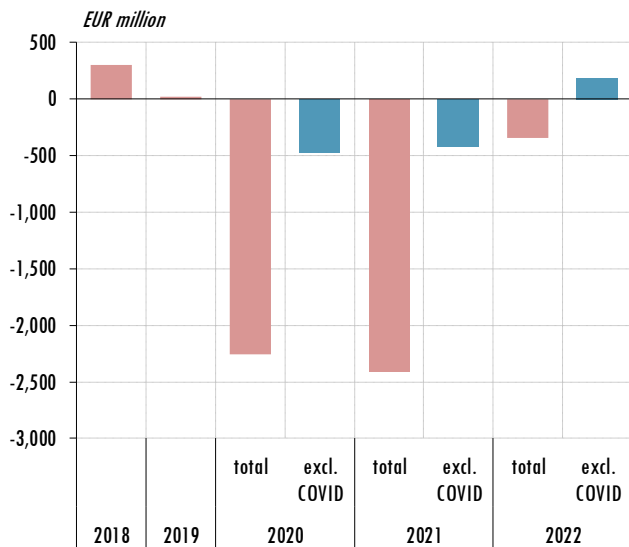
² The comments on the state budget implementation refer to the daily data available at: <https://proracun.gov.si/#>.

³ The difference between the cost of COVID-related measures and their effect on the state budget balance is due to EU-funded expenditure on COVID-related measures. In the estimate of the balance not accounting for the effect of COVID-related measures, the EU funds are subtracted from the published revenue from EU funds.

⁴ As a result, revenue was 20.2% higher, without taking into account the direct effect of COVID-related measures. In the same period last year, the approved extent of tax deferrals or instalment payments of tax liabilities was similar as the extent of refunds, while in the first eight months of this year, only refunds of tax liabilities impact the level of revenues.

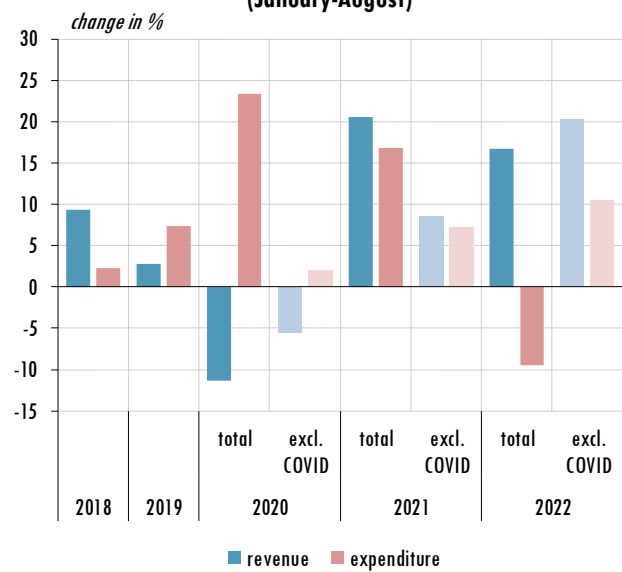
⁵ In January, a further EUR 118 million of the remainder of the EUR 231 million first tranche from the RRP advance payments was received.

Figure 1: State budget balance (January-August)



Source: MoF, FC calculations.

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



Source: MoF, FC calculations.

Table 2: Impact of COVID measures on state budget outturn

	January-August 2021		January-August 2022		excl. COVID	
	EUR million		EUR million		y-o-y change	
	COVID	excl. COVID	COVID	excl. COVID	EUR million	%
Revenue	292	6,741	106	8,106	1,365	20.2
VAT	-6	2,630	49	3,106	476	18.1
Excise duties	36	902	5	952	50	5.5
Personal income tax	68	892	8	958	66	7.4
Corporate income tax	151	636	5	1,144	507	79.8
EU funds ¹	69	385	24	584	199	51.7
Non-tax	0	570	0	508	-61	-10.7
Other revenue	-24	727	14	855	128	17.6
Expenditure	2,281	7,164	637	7,917	753	10.5
Total labour costs	684	2,317	31	2,394	77	3.3
Transfers to individuals and households	849	1,007	125	1,167	160	15.9
Expenditure on goods and services	164	696	143	785	89	12.8
Investment	10	515	14	623	109	21.1
Current transfers to social security funds	1	1,004	157	962	-43	-4.2
Subsidies	409	250	29	373	123	49.2
Interest	0	560	0	470	-90	-16.0
Payments to the EU budget	0	391	0	480	89	22.7
Other expenditure	164	424	138	663	239	56.3
Balance	-1,989	-423	-531	189	612	

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

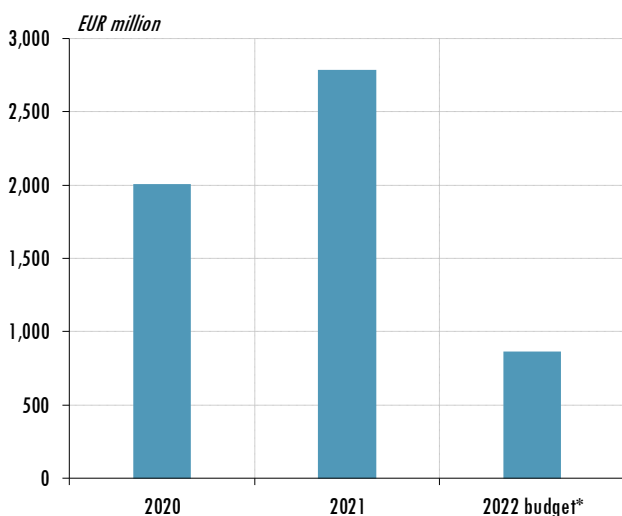
- Growth in income tax revenue has slowed down considerably with the expiry of most allowance payments, which were significantly high last year. In addition to the change in legislation, the slowing down of growth was also due to a higher income tax settlement than last year. Nevertheless, this revenue was around EUR 150 million higher than in the same period of the pre-crisis year of 2019. As a consequence of the government's action, growth in excise duty revenues is relatively low, as such duties have been reduced since early February due to high energy prices.
- EU revenue grew by 34.0% year-on-year in the first eight months, partly due to the January disbursement of the remaining part of the first tranche of RRP funds, while the year-on-year growth in July and August was also significantly strengthened. Our assessment is, however, that the annual outturn will fall short of budget plans, as we would need to raise another EUR 1,065 million in the last four months of this year, which is EUR 118 million more than in the whole of last year.
- In the coming months, we expect more subdued growth rates in tax revenue, due to the reverse base effect and probable realisation of increased risks to economic growth. On a full-year basis, however, these will be higher than expected at the time of the adoption of the amendments to the state budget in the autumn of 2021, unless there is a significant deterioration in the economic situation.
- **Expenditure** in the first eight months was -9.4% lower than in the corresponding period last year. This was mainly a consequence of the direct effect of COVID-related measures. These amounted to EUR 2,281 million in the first eight months of last year and to EUR 637 million in the same period this year. Without this effect, expenditure would have been 10.5% higher on a year-on-year basis during the first eight months of 2022.
- A significant part of the overall growth, excluding the effect of COVID-related measures, is due to the transfer of EUR 118 million of the RRP funds to the budgetary fund. Without this effect, total expenditure growth would have been 8.9% over the eight months.
- Among the other key expenditure categories, higher transfers to individuals and households were the main contributors to overall growth. Growth in expenditure on goods and services (partly due to higher inflation), subsidies and payments to the EU budget was also higher than in the same period last year.
- Growth in labour costs (excluding the effect of COVID-19 related allowances) stood at 3.3% in the first eight months of this year. The risks to higher growth in this area are pronounced, but the financial impact will be more pronounced next year due to the likely delay in reaching an agreement with trade unions on a possible wage increase. The (potential) financial impact of this measure should also be transparently evaluated in the proposed budget amendments for 2023 and 2024.
- Expenditure on investments amounted to EUR 638 million in the first eight months, and according to budgetary projections for the whole year, another EUR 1,653 million in investments is expected by the end of the year, which is approximately EUR 400 million more than the whole of last year.
- To achieve the budgetary projections, total state expenditure growth could average 12.0% in the last four months of this year (-9.4% in the first eight months) and accelerate from 10.5% in

the first eight months to 20.0% in the last four months, excluding the impact of COVID-related measures. At the same time, when drafting the revised budget, the government intends to propose raising the ceiling on state budget expenditure by a further EUR 600 million, which would mean that in the last four months of this year, total spending would be allowed to grow twice as much as in the current budget. Such an approach to budgetary planning would not reflect the reality of public finances and could create opportunities for additional, possibly unjustified, spending. This could be avoided if the government identified real opportunities to realise spending rights, particularly as concerns investments. This would also provide an adequate basis for next year's budget, while the implementation of the plans presented so far would continue the practice of the past two years, when budget plans were not sufficiently transparent and credible in times of exceptional circumstances.

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

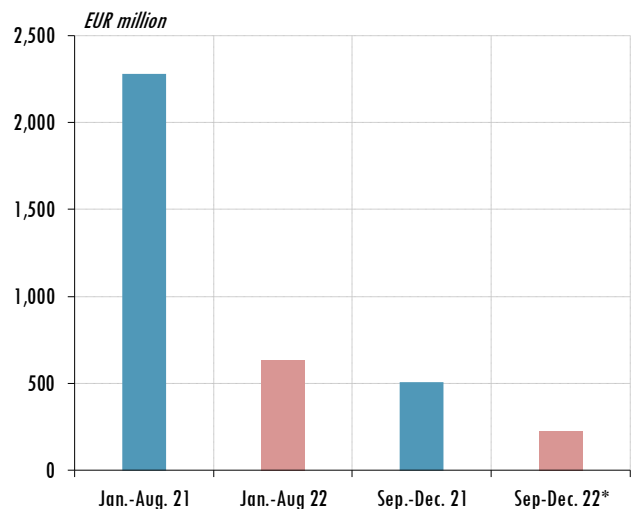
- The state budget expenditure for COVID-related measures in the first eight months of this year amounted to EUR 637 million; according to the current budget, the total amount of funds earmarked for these measures is EUR 853 million. Since the beginning of the epidemic in March 2020, EUR 5,430 million of budgetary funds have been earmarked for COVID-related measures.
- This year, the bulk of the funds comprises expenditure for the containment of the epidemic, especially testing and vaccination costs. A total of EUR 68 million was earmarked for the third solidarity allowance for pensioners during the epidemic, EUR 47 million was reimbursed to healthcare providers to cover the loss of income due to the care and treatment provided to COVID patients, EUR 93 million were transferred to ZZSZ (most of it in August), and EUR 113 million was provided for tourist voucher payments.
- According to available Financial Administration data, the total sum of funds actually repaid by the end of August or based on issued decisions for the reimbursement of aid amounted to EUR 135 million. Furthermore, EUR 389 million of the EUR 472 million in approved deferrals or instalment payments of tax liabilities were repaid.

Figure 3: State budget expenditure for COVID measures



Source: MoF. Note: * currently valid budget 2022.

Figure 3: State budget expenditure for COVID measures



Source: MoF. Note: *calculated implicitly based on the difference between outturn from January to August and currently valid state budget for 2022.

Inflation mitigation measures

- Several inflation mitigation measures have been adopted already this year and include predominantly non-targeted general measures that impact various energy prices and only to a lesser extent targeted measures that help the most vulnerable groups, which are recommended by all international institutions.
- Only about half of this year's financial impact will affect the state budget, while a significant part will also not have any effect on broader general government balance. A large part of the measures has a consequence of reducing funds dedicated for financing the green transition. This, along with lack of measures that would lead to (incentives for) reduction of fossil energy usage, will raise the burden of mid- and long- term fiscal financing.
- Impact estimate does not include possible compensation claims by energy providers and impact of price reduction measures on tax revenue.

Table 3: Estimate of the financial impact of inflation mitigation measures (in million EUR)

	2022	2023
Act Determining Measures to Mitigate the Consequences of Energy Commodity Price Rise in Business and Agriculture (ZUOPDCE) ¹	87	
Decree determining the amount of excise duty on energy products and electricity ²	99	45
Decree amending the Decree on the environmental tax on pollution from carbon dioxide emissions ³	15	
Measures to aid agriculture ⁴	22	
Buying-in of the annual wheat crop ⁶	12	
Act on Urgent Measures in the Field of Value Added Tax to Mitigate the Rise in Energy Prices ⁴	40	90
Act Governing Temporary Measures to Remedy the Consequences of Price Increases for the Most Vulnerable Groups of the Population ⁴	27	8
Act Governing Aid to Businesses Hit by High Increases in Electricity and Natural Gas Prices ⁴	23	17
impact on the state budget	326	160
Decree amending the Decree on energy savings ⁶	7	
Act Determining the Measures to Mitigate the Consequences of Energy Commodity Price Rise (ZUOPVCE)-energy vouchers ⁴	107	
impact on general government sector	440	160
Act Determining the Measures to Mitigate the Consequences of Energy Commodity Price Rise (ZUOPVCE)-network charge, RES contribution ⁴	81	
Decree amending the Decree on the method of determining and calculating the contribution for ensuring support for the production of electricity from high-efficiency cogeneration and renewable energy sources ⁷	135	90
impact outside general government sector	216	90
TOTAL	656	250

Source: National Assembly of the Republic of Slovenia, Ministry of Finance, Official Gazette of the Republic of Slovenia, Government of the Republic of Slovenia, Estimates by Fiscal Council.

Notes:

¹ Outturn up to and including 1 July 2022 according to the Ministry of Finance data.

² Estimate by the Fiscal Council based on the Ministry of Finance sales data for February-April 2022 on presumption of validity up to and including May 2023.

³ Fiscal Council's estimate based on validity between 21 June and 1 August.

⁴ Estimate of the government at the time of adoption.

⁵ Value of the call for proposals.

⁶ Estimate based on validity between 21 June and 16 August.

⁷ Fiscal Council's estimate based on anticipated maximum one-year validity.