



REPUBLIC OF SLOVENIA  
**FISCAL COUNCIL**

**Assessment of compliance of the Draft Revised Budget of the Republic of Slovenia for 2022 and of the Proposal for the Ordinance amending the Ordinance on the framework for preparing the general government budgets for the 2022–2024 period with the fiscal rules**

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The assessment has been made on the basis of the following documents: Draft Revised Budget of the Republic of Slovenia for 2022 and Proposal for Ordinance amending the Ordinance on the framework for preparing the budgets for 2022-2024 received by the Fiscal Council on 8 September 2022. Account has been taken of data available up to and including 14 September 2022.

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## EXECUTIVE SUMMARY

The draft revised budget foresees a reduction in the overall state budget deficit from EUR 3.1 billion in 2021 to EUR 2.0 billion in 2022. The decrease compared to last year is due to high nominal GDP growth and consequently higher revenues, and a much less negative impact of one-off factors on the balance than last year, despite the adoption of inflation-mitigation measures. The Draft Revised Budget shows that the expected deficit in the last four months will be as high as EUR 1.7 billion, only partly as a result of measures to mitigate the effects of the epidemic and inflation. The draft revised budget implicitly foresees a considerable increase in spending at the end of the year, including spending unrelated to investment plans, which has no basis in the measures currently in force. Spending volumes, which exclude the impact of investment as well as one-off factors, are expected to increase by EUR 1.2 billion or 11.4% this year, which would be a record high. Such growth would be well above the medium-term sustainable growth path as defined by the currently estimated long-term potential output growth of around 4.5%.

We consider the draft revised budget to be unrealistic, as the deficit is likely to be smaller than projected, but this will set the basis for the autumn budget documents for 2023 and 2024 too high. Should the projections presented actually materialise, we consider the Draft Revised Budget to be risky from the point of view of spending rationality and, due to its expansionary trend, inappropriate in view of the current macroeconomic situation, which, according to the currently available data, remains favourable despite the uncertainties. At the same time, the implementation of the fiscal policy outlined in the Draft Revised Budget would also increase the risks of a prolonged persistence of high inflation and of a move away from the medium-term sustainability of public finances. These risks are exacerbated by the above-mentioned exceedance of spending growth in successive years, and point to structural pressures on public finances. The decision to prepare the revised budget separately from the revision of the budget documents for the coming two years also represents another departure from medium-term budgetary planning, which is the basis for the creation of a comprehensive and coherent fiscal policy. At the same time, the revised budget also does not fully take into account the updated macroeconomic forecasts, which, in a highly uncertain environment, further contributes to the unreliability of the presented fiscal plans.

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On aggregate, trends of public finance aggregates show an improvement on last year's unfavourable situation. The general government deficit, as shown in the proposed revised budget, is projected to reach -3.8% of GDP in 2022, which is 1.4 percentage points of GDP less than last year. In our estimate, the general government debt is projected to fall below 70% of GDP in 2022, especially due to the high nominal economic activity. However, such developments mask the actual deterioration in public finances, as fiscal aggregates are largely determined by changes in the volume of one-off factors. These are indeed expected to halve compared to last year, when they amounted to 4.5% of GDP at the general government level, despite the continuation of measures to mitigate the effects of the epidemic and inflation. In view of the accelerated adoption of inflation-mitigation measures, the Fiscal Council reiterates the importance of targeted and temporary action, which is implied by the

adoption of the vulnerable group allowance, while the predominant financial impact, however, originates from general measures that limit price signals and may, *inter alia*, lead to an irrational response by consumers.

State budget expenditure, excluding one-off factors, is expected to increase significantly this year, which will be only partly a result of the anticipated high investment activity. Although investment projections are less unrealistic than in the existing budget, they still show very high growth, especially in the last months of the year. The reduction in investment plans compared to the current budget is almost entirely due to the expected lower planned volume of investments financed by EU funds. However, according to the Government, the need to use up the remaining cohesion funds from the previous financial perspective is one of the main reasons for the proposed increase in the expenditure ceiling. It would also represent a remarkable acceleration in the final months of the year, given this year's outturn to date. Such a projection only partly reflects measures taken after the entry into force of 2022 budget amendments, which were of a permanent nature and not directly linked to the epidemic, and instead indicates unrealistic planning to a significant extent. Due to the again partial budgetary process, where public finance parameters are changed only a few months before the end of the year for no more than one year at a time, this projection also implies the creation of inadequate baselines for the preparation of the budgets in the following years and thus a risk of further divergence from the medium-term sustainability of public finances.

In the Fiscal Council's opinion, the realisation of the draft revised budget is questionable. We estimate that the actual state budget deficit in 2022 will be lower than the one proposed in the revised budget, based on the outturn in the first eight months of the year. The revenue estimate in the Draft Revised Budget is cautiously projected, which is appropriate given the considerable uncertainty. However, the extremely high state budget expenditure reflects in particular an unrealistically high level of investment, as well as high levels of other expenditure unrelated to the epidemic or inflation, the acceleration of which over the rest of the year is largely inconsistent with the legislation currently in force. If the Draft Revised Budget is actually implemented, this would imply a highly expansionary fiscal policy. Such a position would not be appropriate in the current circumstances, given supply-side constraints and high inflation, and is also ineffective given current economic trends, constraints and risks. The implementation of the Draft Revised Budget could therefore further deepen macroeconomic imbalances and increase the risks of a prolonged persistence of high inflation.

The Draft Revised State Budget and the revised framework for drafting general government budgets also reflect inappropriate budgetary planning. The Fiscal Council has regularly drawn attention to the latter in its assessments of budget documents, especially in the autumn, over the past few years, including in the period before the epidemic crisis. The 2022 Draft Revised Budget is thus prepared separately from the autumn budget documents for 2023 and 2024, which are also covered by the current framework for drafting general government budgets. This is another departure from medium-term budgetary planning, which is the basis for the preparation of a comprehensive and coherent fiscal policy. Adopting the revised budget before the preparation of the updated autumn macroeconomic forecast introduces additional uncertainty into the projections, as the economic environment has changed considerably since the spring forecast, which formed the basis for the current Draft Revised Budget. In addition to higher levels of nominal revenue bases for budgets, risks to economic growth have also increased, which, if realised, could represent a moderation of the current cyclically high and given the available data probably unsustainable level of economic activity, based on the existing labour market constraints.

## Legislative basis

On 8 September 2022, the Ministry of Finance submitted to the Fiscal Council a draft revised budget of the Republic of Slovenia for 2022 (hereinafter: Draft Revised Budget), and a proposal for the amended Ordinance on the framework for preparing the general government budgets for the 2020-2022 period (hereinafter: Framework Proposal) for assessment of compliance with fiscal rules. The Fiscal Council subsequently obtained more detailed data from the Ministry of Finance on the Draft Revised Budget items and data on planned expenditure related to the COVID-19 epidemic and inflation mitigation measures.

The Fiscal Council is obliged to prepare an assessment of compliance with fiscal rules in the Draft Revised Budget on the basis of point 2, and an assessment of compliance with fiscal rules in the Framework Proposal in the period of exceptional circumstances on the basis of point 8, paragraph two of Article 7 of the Fiscal Rule Act (the FRA). Pursuant to paragraph six of Article 6 of the FRA, a proposal for amending the Framework for drafting general government budgets must be submitted to the National Assembly and the Fiscal Council upon revising the state budget, and should be adopted by the National Assembly simultaneously. Pursuant to paragraph two of Article 9g of the Public Finance Act (hereinafter: the PFA), changes to the framework and the budget must be brought in line. The Fiscal Council is obliged to prepare an assessment of the draft revised budget pursuant to paragraph two of Article 9f of the PFA and an assessment of the framework proposal pursuant to paragraph five of Article 9f of the PFA within fifteen days of receipt thereof. The deadline for the assessment of the Draft Revised Budget and the Framework Proposal, which the Fiscal Council is to submit to the National Assembly and the Government, is therefore 23 September 2022.

On 17 March 2020, the Fiscal Council assessed<sup>1</sup> the announcement of the epidemic in Slovenia as 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.<sup>2</sup> In September 2021, the Fiscal Council confirmed that the conditions for invoking exceptional circumstances would continue to be met in 2022.<sup>3</sup>

Under Articles 3 and 15 of the FRA, the Fiscal Council monitors compliance with the fiscal rules for the entire general government sector in accordance with the European System of Accounts methodology (ESA, 2010) pursuant to Article 2 of the FRA. The state budget constitutes the largest unit, but still only slightly more than one third of the entire general government sector and is like other public finance budgets (social protection systems, local communities) prepared according to the methodology of the International Monetary Fund for monitoring government financial statistics (GFS) based on the cash flow principle.<sup>4</sup> The government must ensure compliance with the fiscal rules applicable to the general government sector in accordance with a combination of the public finance budgets and institutional units that constitute the general government sector. In the present document, the Fiscal Council, in line with the existence of exceptional circumstances, provides assessments of the compliance of fiscal developments presented in the Draft Revised Budget and in the Framework Proposal with the fiscal rules in accordance with points 2 and 8 of paragraph two and points 2 and 5 of paragraph three of

<sup>1</sup> [https://www.fs-rs.si/wp-content/uploads/2020/03/Assessment\\_extraordinary-event-under-the-Fiscal-Rule-Act\\_March-2020.pdf](https://www.fs-rs.si/wp-content/uploads/2020/03/Assessment_extraordinary-event-under-the-Fiscal-Rule-Act_March-2020.pdf).

<sup>2</sup> On 23 March 2020, the EU Council, on a proposal from the EC, adopted a decision permitting "the possibility of a general deviation" (a general escape clause) from fiscal compliance during the pandemic.

<sup>3</sup> [https://www.fs-rs.si/wp-content/uploads/2021/10/Exceptional-circumstances\\_September-2021.pdf](https://www.fs-rs.si/wp-content/uploads/2021/10/Exceptional-circumstances_September-2021.pdf).

<sup>4</sup> The structure of the general government sector is available at:

[http://mf.arhiv-spletisc.gov.si/si/delovna\\_podrocja/javne\\_finance/tekoca\\_gibanja\\_v\\_javnih\\_financah/sektor\\_drzava/](http://mf.arhiv-spletisc.gov.si/si/delovna_podrocja/javne_finance/tekoca_gibanja_v_javnih_financah/sektor_drzava/) (Only in Slovene).

Article 7 of the FRA. As a result of declaring exceptional circumstances, the implementation of the medium-term balance, as specified in Article 3 of the FRA, is assessed merely indicatively. In this assessment we (i) provide an assessment whether the revenue and expenditure projections in the Draft Revised Budget are realistic, (ii) check the compliance of the Draft Revised Budget with the Framework Proposal and (iii) check whether the Draft Revised Budget or implicitly the Framework Proposal contains an appropriately determined part of the expenditure that is not associated with exceptional circumstances.

## 1. Macroeconomic trends in 2022

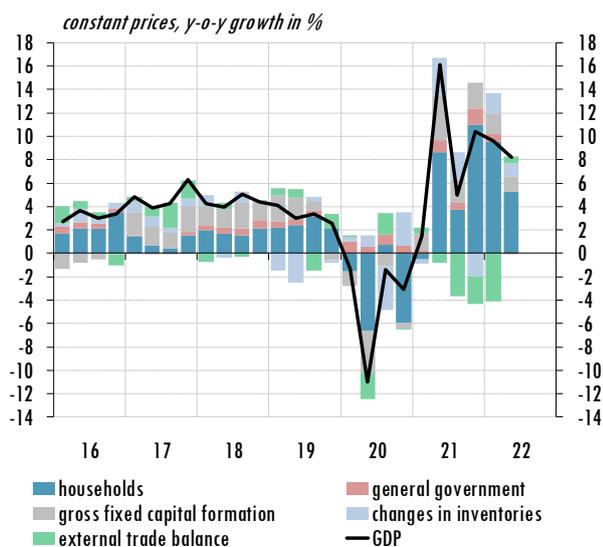
### Key findings

- Despite moderating towards the end of 2021, real GDP dynamics remained above the long-term average in the first half of this year.
- Household consumption moderated most compared to the end of last year, while economic growth has been mainly driven by favourable services exports.
- The labour market reflects high economic activity, but a growing number of indicators point to constraints that could also translate into further increases in cost pressures.
- High inflation is mainly the result of supply shocks in raw materials markets, but its strengthening also reflects the high level of domestic demand, which allows producers to transfer increased costs to consumer prices.
- Macroeconomic bases underlying budgetary projections are more favourable than at the time of preparation of the 2022 revised budget last autumn.
- The preparation of the Draft Revised Budget did not directly use the updated Institute of Macroeconomic Analysis and Development (IMAD) autumn forecasts, which suggest even better baselines for this year than the spring forecast underlying the Draft Revised Budget, but also a significant moderation in economic growth in the second half of the year, as indicated by some confidence indicators.

**The favourable economic growth continued in the first half of 2022.** The quarterly real GDP growth rate averaged around 0.8%, which is 3.2% on an annual basis; this is above the long-term average of just below 3%. Thanks in particular to the strong acceleration in growth at the end of last year, GDP in the first half of the year was almost 9% higher on average year-on-year, which is among the strongest growth rates in the EU and almost double the EU average. Economic activity was higher by around 14.5% in nominal terms over the same period.

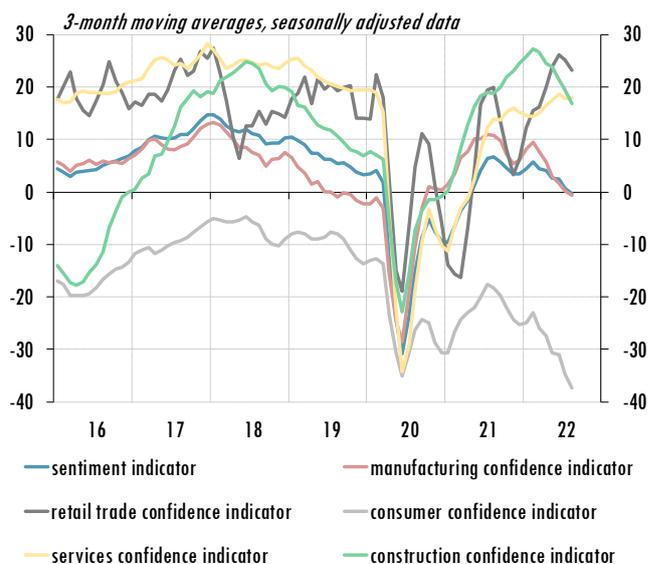
**The significant contribution of domestic consumption at the start of the year turned negative in the second quarter, when positive economic growth was facilitated by a positive contribution from foreign trade.** The first quarter, like the second half of last year, was still marked by solid growth in the individual components of domestic consumption, with the exception of government consumption, which had already declined at the beginning of the year. The moderation compared to the end of last year in the first quarter and the fall in household spending in the second quarter point to a reduction in the excess savings accumulated during the COVID-19 crisis, while the almost year-long decline in consumer confidence did not abate in the face of rising prices over the summer. Consumers are most pessimistic about the future general economic situation. Since the middle of last year, pessimism about their expected financial situation has increased the most. After two years of growth, investment also fell in the second quarter, coinciding with a moderation in construction industry, especially in the low-rise sector. At the same time, investment in machinery and equipment maintained positive growth, despite a decline in optimism in the economy and despite companies' assessments of relatively high

Figure 1.1: Gross domestic product



Source: SORS, FC calculations.

Figure 1.2: Business tendency and consumer surveys

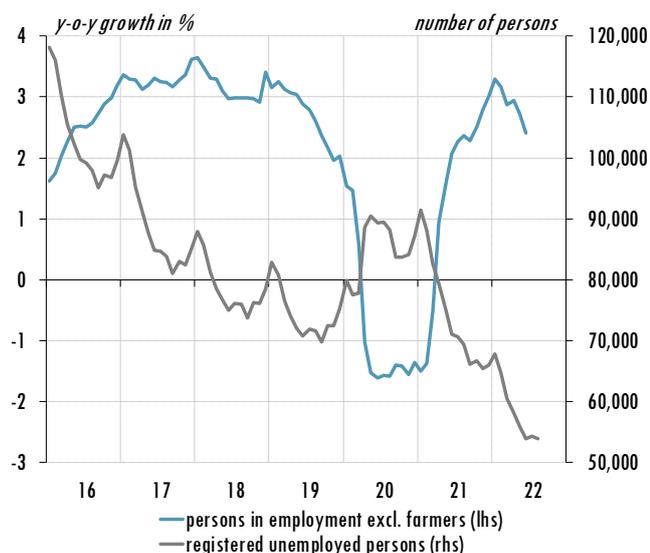


Source: SORS, FC calculations.

business uncertainties. Uncertainties in the international environment have contributed to slow growth in exports of goods, while exports of services have picked up strongly, with tourism exports contributing more than half of the growth, according to balance of payments data. Along with unfavourable terms of trade, the current account balance turned from a surplus in the first half of last year to a deficit in the first half of this year, with a year-on-year deterioration of around 4.7% of GDP.

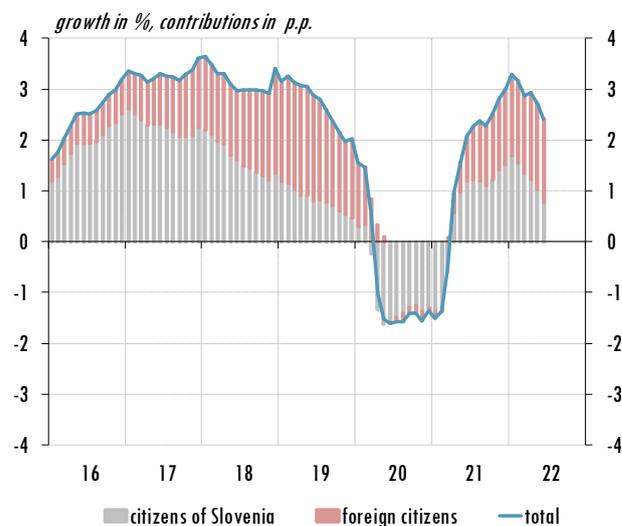
**Labour market developments increasingly point to the limited resources available to support the economic growth.** On average, employment in the first two quarters increased by almost 0.9% compared to the previous quarter. This is three times higher than the long-term average and, compared to GDP growth, points to the extensive nature of economic growth. In addition to a wide range of support service activities, employment is growing fastest in construction. By mid-year, foreign nationals had already contributed more than two-thirds of the increase in the working-age population, the highest since the period just before the start of the epidemic. Both the rate and the number of

Figure 1.3: Labour market



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

Figure 1.4: Contributions to y-o-y growth of persons in employment excluding farmers

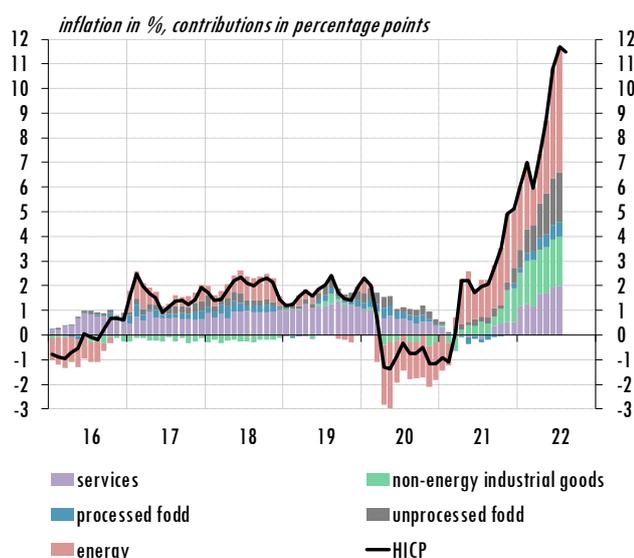


Source: SORS, FC calculations.

vacancies are at their highest levels ever. In particular, the volume of job vacancies in the hospitality and construction sectors stands out. Unemployment is also at historic lows, while businesses continue to face a shortage of adequately skilled labour. Both households and businesses are more cautious about the employment or unemployment outlook than they were at the end of last year. Wages have so far not fully adjusted to the very favourable labour market conditions, despite rapid price growth. Private sector wages are showing a real decline against a backdrop of relatively high nominal growth. While wage growth in the industries with the largest labour shortages has been strengthening in recent months, the year-on-year decline in public sector wages this year is mainly driven by a high base due to large bonuses during the epidemic period. Compared to the pre-crisis period, average gross wages, apart from the civil service, are highest in the construction and hospitality sectors.

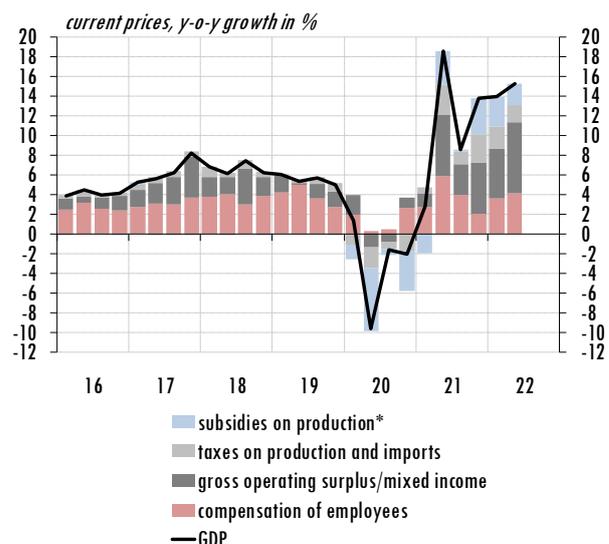
**Rapid price growth above the euro area average could affect future economic developments.** Although most of the inflation, which exceeded 10% annually at the start of the second half of the year, was driven by rapid growth in energy prices, the contribution of price increases in other products to headline inflation has also been rising. Core inflation, which excludes energy and food prices, is also at historically high levels. Both headline and core inflation in Slovenia have exceeded the same indicators for the Eurozone by around 2 percentage points in recent months. Although companies are not fully transferring the higher raw material prices to the prices of their products this year, they are doing so to a greater extent on domestic than on foreign markets, in line with the currently still favourable demand. We estimate that the price shock stemming from energy prices represents around EUR 3 billion or 6% of GDP in 2022 compared to pre-crisis 2019, and around 4% of GDP in 2021 compared to pre-crisis 2019. The associated costs will be shared between government, businesses and households. If this shock were to escalate and be accompanied by cost increases in the form of wage increases or additional non-energy price increases, this could affect the competitive position of firms and their ability to invest, or, given their currently still high ability to transfer exogenous price shocks to consumer prices, could further erode household disposable income. The current shock, taking into account the unchanged share of energy consumption, translates into around EUR 1 billion higher energy expenditure by households, which on average is roughly equivalent to almost a half of one

Figure 1.5: HICP inflation and contributions to growth



Source: Eurostat, FC calculations.

Figure 1.6: Gross domestic product - income structure



Source: SORS, FC calculations. Note: \* positive sign denotes a decrease in subsidies and vice versa.

month of their gross disposable income. Profit growth (based on gross operating surplus and mixed income data from national accounts statistics) in the year to the second quarter of 2022 was more than double the long-term average for the economy as a whole, giving companies some room to manoeuvre in the face of persistently high raw material prices.<sup>5</sup> In addition to the growth in profits in miscellaneous service activities, the growth in profits in trade, transport and accommodation and food services stood out in particular. Implicitly, a similar conclusion can be drawn for electricity, gas and water supply activities, based on the available data.

**The macroeconomic basis underlying the revised budget is much more favourable than when the budget amendments for 2022 were prepared in autumn last year, but new facts are not fully taken into account in the budget documents due to the time inconsistency of the documents.** The forecast levels of nominal GDP and nominal household consumption for 2022 in the IMAD<sup>6</sup> spring forecast are 5% and 10%, respectively, higher than the forecast levels from the IMAD forecast for autumn 2021,<sup>7</sup> which served as a basis for the amendment of the 2022 budget. Compensation of employees, another important basis for contributions or budget revenue, also increased by around 3%. The updated IMAD projections from autumn 2022<sup>8</sup> which have not been taken into account in the Draft Revised Budget due to the time inconsistency in the preparation of both documents, suggest an even more significant improvement in the revenue base. This has already been reflected in this year's budgetary trends so far. At the same time, this improvement may also result in a more favourable full-year budget outturn than foreseen in the Draft Revised Budget.

**Table 1.1: IMAD forecasts**

|  | 2022   |        |        |                   |                   |
|--|--------|--------|--------|-------------------|-------------------|
|  | Sep.21 | Apr.22 | Sep.22 | difference        |                   |
|  | AF21   | SF22   | AF22   | Apr.22-<br>Sep.21 | Sep.22-<br>Apr.22 |
| Real GDP, change in %                  | 4.7    | 4.2    | 5.0    | -0.5              | 0.8               |
| Nominal GDP, EUR million               | 53,352 | 56,167 | 57,921 | 2,815             | 1,755             |
| Private consumption, EUR million       | 27,274 | 30,307 | 31,209 | 3,033             | 902               |
| Compensation of employees, EUR million | 27,646 | 28,392 | 29,498 | 746               | 1,106             |
| Inflation-average, %                   | 2.0    | 6.4    | 8.9    | 4.4               | 2.5               |

Sources: IMAD Autumn Forecast of Economic Trends 2021 (AF21), IMAD Spring Forecast of Economic Trends 2022 (SF22), IMAD Autumn Forecast of Economic Trends 2022 (AF22), FC calculations.

**According to the updated IMAD projections, economic growth is expected to reach 5.0% this year, with nominal GDP growing by almost 11%.** Growth is expected to continue to be largely driven by domestic consumption this year, as demand from abroad will ease off resulting from the geopolitical situation and the energy crisis. In particular, the relative contribution of fixed capital formation is set to strengthen compared to 2021, largely stemming from high projected general government investment. In line with favourable labour market conditions, household consumption growth is expected to continue to exceed the average growth rate in the years preceding the epidemic crisis. Given the high growth in the first half of the year, such a projection takes into account the year-on-year drop in spending in

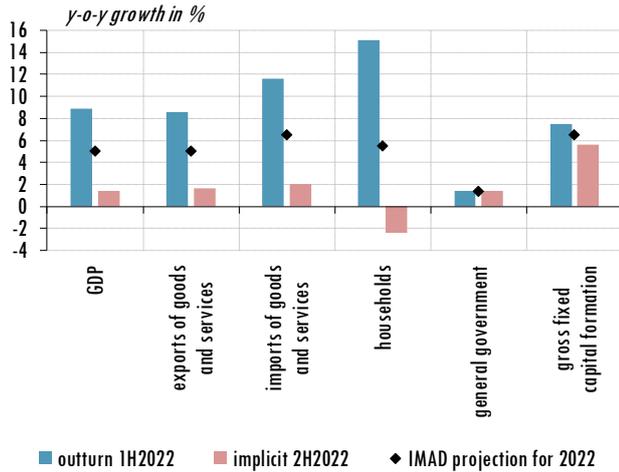
<sup>5</sup> Corporate energy costs amounted to around EUR 2.4 billion in 2021 (energy costs as a share of total corporate expenditure amounting to just over 2%) and would increase by around EUR 2.5 billion in 2022 with a doubling of average energy prices (taking into account balance of payments import price data) if consumption remained unchanged. This is about half of the 2021 net profit of companies of EUR 5.7 billion, according to AJPES. The profit amounted to EUR 2.9 billion in 2020 and EUR 4.5 billion in 2019.

<sup>6</sup> [https://www.umar.gov.si/fileadmin/user\\_upload/napovedi/pomlad/pomladanska\\_2022/angleska/aPNGG\\_2022.pdf](https://www.umar.gov.si/fileadmin/user_upload/napovedi/pomlad/pomladanska_2022/angleska/aPNGG_2022.pdf)

<sup>7</sup> [https://www.umar.gov.si/fileadmin/user\\_upload/napovedi/jesen/2021/angleski/JNGG\\_2021\\_ENG.pdf](https://www.umar.gov.si/fileadmin/user_upload/napovedi/jesen/2021/angleski/JNGG_2021_ENG.pdf)

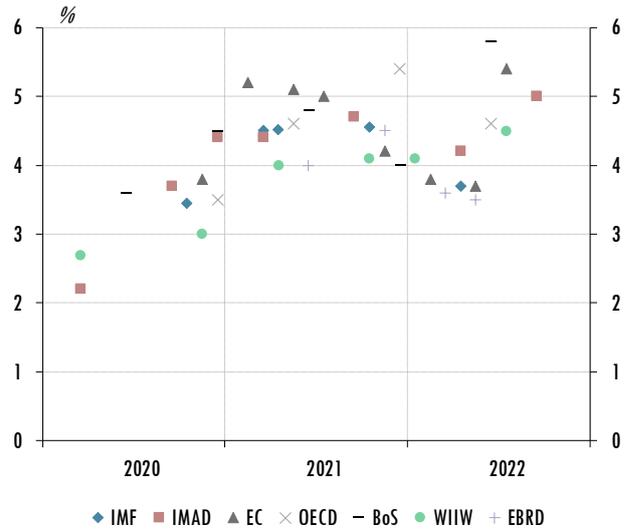
<sup>8</sup> [https://www.umar.gov.si/fileadmin/user\\_upload/napovedi/jesen/2022/angleski/aJNGG\\_2022.pdf](https://www.umar.gov.si/fileadmin/user_upload/napovedi/jesen/2022/angleski/aJNGG_2022.pdf)

**Figure 1.7: GDP growth rate in the first half and implicit growth rate\* in the second half of 2022**



Source: SORS, IMAD, FC calculations. Note: \* implicit growth rate of aggregates in the second half of 2022 is determined on the basis of their outturn in the first half of the year and their growth rates from IMAD Autumn forecast for entire 2022.

**Figure 1.8: Real GDP growth in 2022 forecasts for Slovenia**



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

the second half of the year, mainly due to increased uncertainty and high inflation. The same applies to GDP dynamics, which are implicitly projected to show a significant quarter-on-quarter decline on average in the second half of the year with high risks already indicated in the baseline scenario. The falling PMI indicators in the Eurozone and Slovenia also point to the possibility of a downturn in economic activity.

## 2. Assessment of projections in the Draft Revised State Budget for 2022

### Key findings

- The overall state budget deficit is expected to decrease by EUR 1.0 billion and amount to EUR 2.0 billion this year, according to the Draft Revised Budget. The outturn in the first eight months of the year show that a deficit of EUR 1.7 billion is expected to be realised in the last four months of the year. In the Fiscal Council's view, this is not realistic and not justified by the measures in force.
- One-off factors are important in influencing fiscal developments again this year, as inflation mitigation measures have been taken in addition to the COVID-related measures. The combined effect of these one-off measures is expected to be EUR 1.5 billion this year, around half of last year's level, and is one of the main reasons, alongside revenue growth, for the expected reduction in the overall state budget deficit compared to last year.
- The deficit excluding epidemic and inflation mitigation measures is expected to amount to EUR 572 million this year, an increase of EUR 280 million compared to last year. The deterioration will occur despite the continuation of relatively high revenue growth, as spending excluding one-off effects is expected to increase by EUR 1.9 billion. The planned increase in investment, which we estimate is still unrealistically high despite the reduction compared to the current budget, is expected to contribute around a third of this.
- Excluding one-off factors and investments, spending volumes are expected to increase by EUR 1.2 billion or 11.4% this year. If materialised, this would be an all-time high. The Draft Revised Budget shows that growth in this spending is expected to be as high as 27.7% in the last four months, after standing at 9.3% in the first eight months.

**The overall state budget deficit this year is projected at EUR 2,040 million (3.5% of GDP) according to the Draft Revised Budget, but given the outturn so far and the measures in place, we estimate that a smaller deficit will be materialised.** The overall deficit for this year is projected to be EUR 1,040 million lower than last year, mainly due to an increase in revenue and significantly lower expenditure to cushion the impact of the epidemic. Given the deficit materialised in the first eight months (EUR 342 million), the Draft Revised Budget allows for a deficit of EUR 1,698 million in the last four months of the year. Taking into account the measures in place, we estimate that such an increase in the deficit is overestimated, despite the uncertainties and the expected slowdown in economic activity growth at the end of the year.

**The deficit excluding epidemic and inflation mitigation measures is expected to amount to EUR 572 million this year (1.0%), an increase of EUR 280 million compared to last year.** Various one-off factors continue to have a significant impact on the trends of fiscal aggregates this year. In addition to the measures taken to mitigate the effects of the epidemic, a number of measures have been taken this year to mitigate the inflationary effects. The total impact of these one-off measures on the balance this year is expected to be EUR 1,468 million, around half of last year's level (see Box 2.2 and Table 2.1). Since the beginning of the epidemic in spring 2020, the Fiscal Council's

**Table 2.1: State budget: Draft Revised Budget for 2022 compared to 2021 outturn**

|                                      | 2021<br>(EUR million) |               |                | Draft Revised Budget 2022<br>(EUR million) |               |                         |  | revised 22/21<br>(growth in %) |                           | revised 22/21<br>(Δ in EUR million) |                           |
|--------------------------------------|-----------------------|---------------|----------------|--|---------------|-------------------------|--|--------------------------------|---------------------------|-------------------------------------|---------------------------|
|                                      | total                 | COVID         | excl.<br>COVID | total                                      | COVID         | inflation<br>mitigation | excl. COVID<br>and infl.<br>mitigation | total                          | COVID and<br>infl. mitig. | total                               | COVID and<br>infl. mitig. |
| <b>Revenue</b>                       | <b>11,174</b>         |               | <b>11,174</b>  | <b>12,540</b>                              |               | <b>-212</b>             | <b>12,752</b>                          | <b>12.2</b>                    | <b>14.1</b>               | <b>1,366</b>                        | <b>1,578</b>              |
| VAT                                  | 4,231                 |               | 4,231          | 4,744                                      |               | -58                     | 4,801                                  | 12.1                           | 13.5                      | 513                                 | 570                       |
| Excise duties                        | 1,470                 |               | 1,470          | 1,516                                      |               | -105                    | 1,621                                  | 3.1                            | 10.2                      | 46                                  | 150                       |
| Personal income tax                  | 1,514                 |               | 1,514          | 1,558                                      |               |                         | 1,558                                  | 2.9                            | 2.9                       | 44                                  | 44                        |
| Corporation tax                      | 1,115                 |               | 1,115          | 1,555                                      |               |                         | 1,555                                  | 39.5                           | 39.5                      | 440                                 | 440                       |
| Receipts from the EU budget          | 947                   |               | 947            | 1,195                                      |               |                         | 1,195                                  | 26.2                           | 26.2                      | 248                                 | 248                       |
| Non-tax revenues                     | 817                   |               | 817            | 689  |               |                         | 689                                    | -15.7                          | -15.7                     | -128                                | -128                      |
| Other                                | 1,080                 |               | 1,080          | 1,283                                      |               | -50                     | 1,333                                  | 18.8                           | 23.4                      | 203                                 | 253                       |
| <b>Expenditure</b>                   | <b>14,254</b>         | <b>2,788</b>  | <b>11,466</b>  | <b>14,580</b>                              | <b>1,087</b>  | <b>169</b>              | <b>13,324</b>                          | <b>2.3</b>                     | <b>16.2</b>               | <b>326</b>                          | <b>1,859</b>              |
| Total labour costs                   | 4,209                 | 777           | 3,432          | 3,860                                      | 57            |                         | 3,802                                  | -8.3                           | 10.8                      | -349                                | 371                       |
| Tr. to individuals and households    | 2,532                 | 1,007         | 1,525          | 1,827                                      | 133           | 28                      | 1,665                                  | -27.8                          | 9.2                       | -705                                | 140                       |
| Expenditure on goods and services    | 1,523                 | 266           | 1,258          | 1,518                                      | 160           |                         | 1,358                                  | -0.4                           | 8.0                       | -6                                  | 100                       |
| Investment                           | 1,238                 | 59            | 1,179          | 1,923                                      | 62            |                         | 1,862                                  | 55.3                           | 57.9                      | 685                                 | 682                       |
| Current transfers to soc. sec. funds | 1,350                 | 1             | 1,349          | 1,694                                      | 248           |                         | 1,446                                  | 25.5                           | 7.2                       | 345                                 | 98                        |
| Subsidies                            | 815                   | 414           | 401            | 656  | 73            | 141                     | 442                                    | -19.5                          | 10.2                      | -159                                | 41                        |
| Interest                             | 727                   | 0             | 727            | 674  |               |                         | 674                                    | -7.3                           | -7.3                      | -53                                 | -53                       |
| Payments to the EU budget            | 629                   | 0             | 629            | 714  |               |                         | 714                                    | 13.5                           | 13.5                      | 85                                  | 85                        |
| Other                                | 1,231                 | 265           | 966            | 1,714                                      | 354           |                         | 1,360                                  | 39.2                           | 40.8                      | 483                                 | 394                       |
| <i>Expenditure excl. investment</i>  | <i>13,016</i>         | <i>2,729</i>  | <i>10,286</i>  | <i>12,657</i>                              | <i>1,025</i>  | <i>169</i>              | <i>11,462</i>                          | <i>-2.8</i>                    | <i>11.4</i>               | <i>-359</i>                         | <i>1,176</i>              |
| <b>Balance (EUR million)</b>         | <b>-3,080</b>         | <b>-2,788</b> | <b>-292</b>    | <b>-2,040</b>                              | <b>-1,087</b> | <b>-381</b>             | <b>-572</b>                            |                                |                           | <b>1,040</b>                        | <b>-280</b>               |
| <b>Balance (% of GDP)</b>            | <b>-5.9</b>           | <b>-5.3</b>   | <b>-0.6</b>    | <b>-3.5</b>                                | <b>-1.9</b>   | <b>-0.6</b>             | <b>-1.1</b>                            |                                |                           | <b>2.4</b>                          | <b>-0.5</b>               |

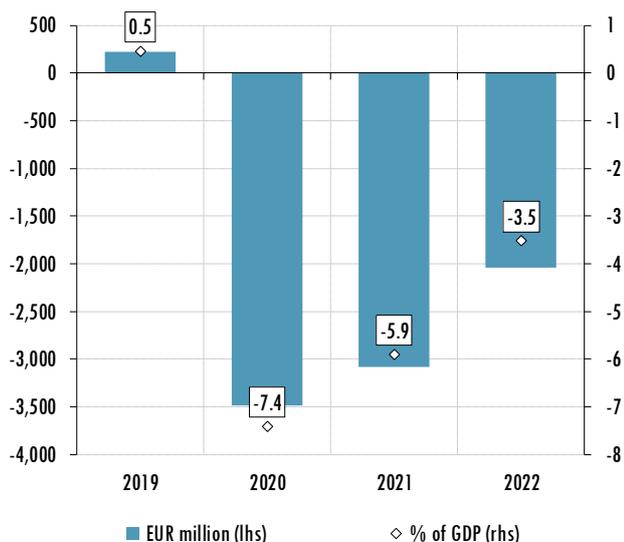
Source: MoF, FC calculations.

**Table 2.2: State budget: outturn for January-August 2022 and projection for September-December 2022 based on Draft Revised Budget**

|                                      | I-VIII 22 (EUR million) |             |                         |  | IX-XII 22 (EUR million) |             |                         |  | excl. COVID and infl. mit.                  |             |
|--------------------------------------|-------------------------|-------------|-------------------------|--|-------------------------|-------------|-------------------------|--|---|-------------|
|                                      | total                   | COVID       | inflation<br>mitigation | excl. COVID<br>and infl.<br>mitigation | total                   | COVID       | inflation<br>mitigation | excl. COVID<br>and infl.<br>mitigation | (growth in %)<br>I-VIII 22/21 IX-XII 22/ 21 |             |
| <b>Revenue</b>                       | <b>8,212</b>            |             | <b>-81</b>              | <b>8,293</b>                           | <b>4,328</b>            |             | <b>-131</b>             | <b>4,459</b>                           | <b>17.9</b>                                 | <b>7.7</b>  |
| VAT                                  | 3,155                   |             |                         | 3,155                                  | 1,628                   |             | -58                     | 1,686                                  | 20.3  | 4.9         |
| Excise duties                        | 957                     |             | -67                     | 1,023                                  | 559                     |             | -38                     | 597                                    | 9.1   | 12.2        |
| Personal income tax                  | 966                     |             |                         | 966                                    | 592                     |             |                         | 592                                    | 0.6   | 6.9         |
| Corporation tax                      | 1,148                   |             |                         | 1,148                                  | 407                     |             |                         | 407                                    | 46.0  | 23.9        |
| Receipts from the EU budget          | 608                     |             |                         | 608                                    | 587                     |             |                         | 587                                    | 34.0  | 19.1        |
| Non-tax revenues                     | 508                     |             |                         | 508                                    | 180                     |             |                         | 180                                    | -10.7                                       | -27.1       |
| Other                                | 869                     |             | -15                     | 883                                    | 414                     |             | -35                     | 449                                    | 25.7  | 19.0        |
| <b>Expenditure</b>                   | <b>8,553</b>            | <b>637</b>  | <b>86</b>               | <b>7,831</b>                           | <b>6,027</b>            | <b>450</b>  | <b>83</b>               | <b>5,493</b>                           | <b>9.3</b>                                  | <b>27.7</b> |
| Total labour costs                   | 2,424                   | 31          |                         | 2,394                                  | 1,436                   | 27          |                         | 1,409                                  | 3.3   | 26.4        |
| Transf. to individ. and households   | 1,293                   | 125         |                         | 1,167                                  | 534                     | 8           | 28                      | 498                                    | 15.9  | -3.8        |
| Expenditure on goods and services    | 928                     | 143         |                         | 785                                    | 589                     | 17          |                         | 573                                    | 12.8  | 2.0         |
| Investment                           | 638                     | 14          |                         | 623                                    | 1,286                   | 47          |                         | 1,238                                  | 21.1  | 86.3        |
| Current transfers to soc. sec. funds | 1,118                   | 157         |                         | 962                                    | 576                     | 91          |                         | 485                                    | -4.2  | 40.7        |
| Subsidies                            | 402                     | 29          | 86                      | 288                                    | 253                     | 44          | 55                      | 155                                    | 14.9  | 2.5         |
| Interest                             | 470                     |             |                         | 470                                    | 204                     |             |                         | 204                                    | -16.0                                       | 22.2        |
| Payments to the EU budget            | 480                     |             |                         | 480                                    | 234                     |             |                         | 234                                    | 22.7  | -1.4        |
| Other                                | 800                     | 138         |                         | 663                                    | 914                     | 216         |                         | 698                                    | 56.3  | 28.6        |
| <i>Expenditure excl. investment</i>  | <i>7,916</i>            | <i>623</i>  | <i>86</i>               | <i>7,207</i>                           | <i>4,741</i>            | <i>403</i>  | <i>83</i>               | <i>4,255</i>                           | <i>8.4</i>                                  | <i>17.0</i> |
| <b>Balance (EUR million)</b>         | <b>-342</b>             | <b>-637</b> | <b>-167</b>             | <b>462</b>                             | <b>-1,698</b>           | <b>-450</b> | <b>-214</b>             | <b>-1,034</b>                          | <b>592</b>                                  | <b>-873</b> |

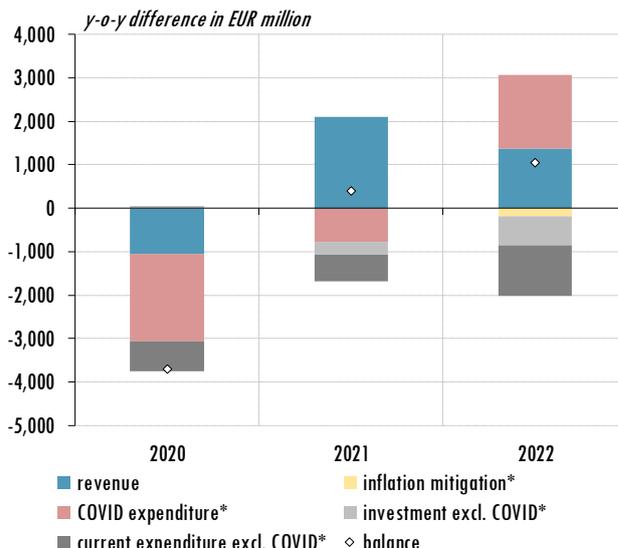
Source: MoF, FC calculations.

Figure 2.1: State budget balance



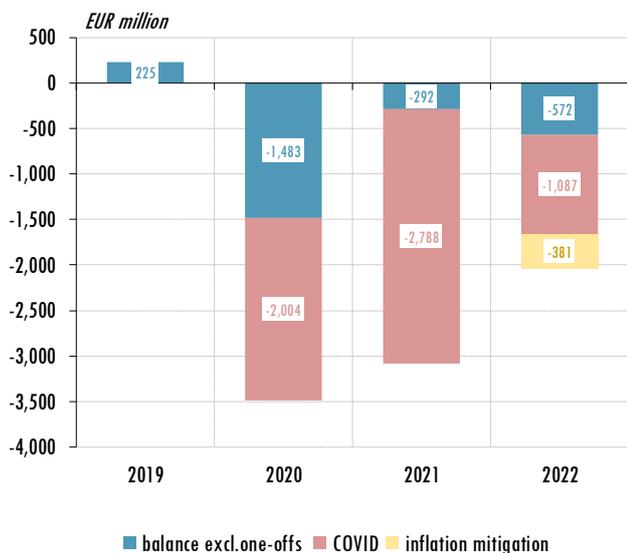
Source: Ministry of Finance.

Figure 2.2: Factors of state budget balance change



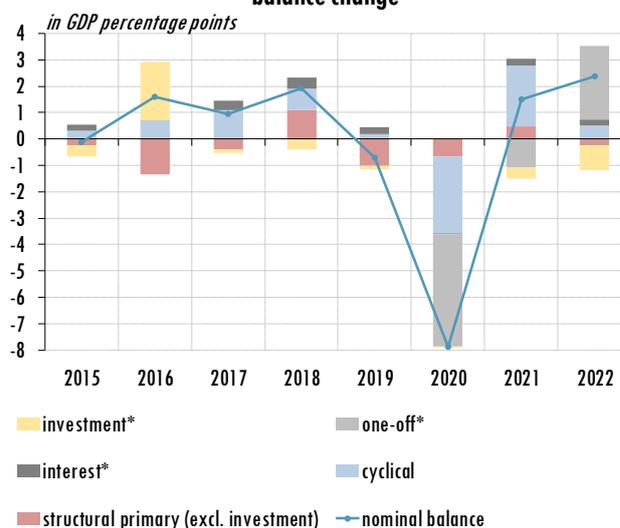
Source: MoF, FC calculations. Note: \*positive sign denotes a decrease, negative sign denotes an increase.

Figure 2.3: State budget balance structure



Source: MoF, FC calculations.

Figure 2.4: Contributions to nominal state budget balance change

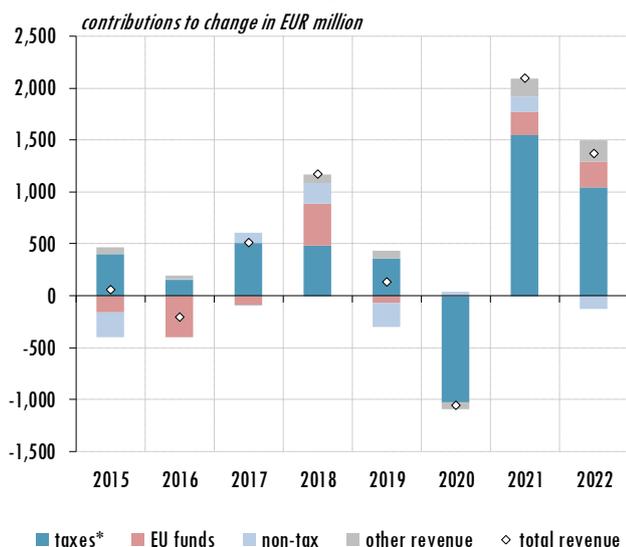


Source: MoF, FC calculations. Note: \*positive sign denotes a decrease, negative sign denotes an increase.

assessments have emphasised fiscal developments without taking into account the impact of one-off measures, as this approach, in our view, more accurately reflects actual fiscal developments and allows for a clearer detection of potential risks to the sustainability of public finances in the medium term.<sup>9</sup> The increase in the deficit without taking into account one-off factors is expected to occur despite relatively strong revenue growth, with spending increasing by 16.2% or EUR 1,859 million, only around a third of which is expected to be due to higher investment activity. In the first eight months of this year, excluding the impact of measures to mitigate the effects of the epidemic and inflation, the state budget had a surplus of EUR 462 million. The Draft Revised Budget thus allows for a deficit of EUR 1,034 million in the last four months of the year.

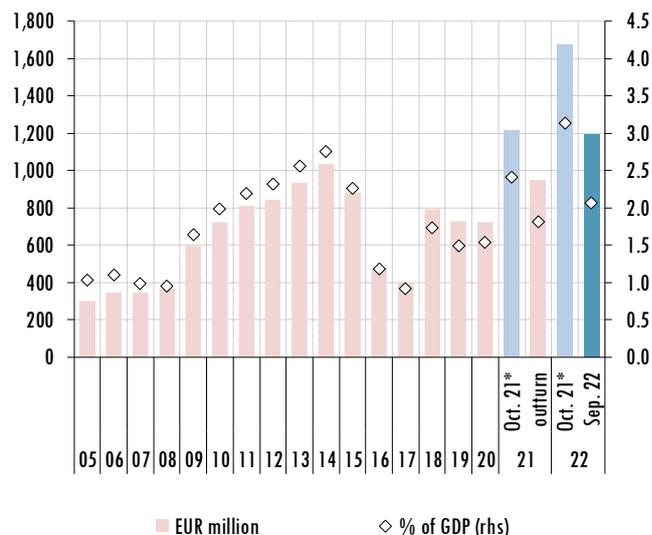
<sup>9</sup> For more details on one-off factors, see the Report on the Fiscal Council's operation in 2017 (May, 2018). Available at: <https://www.fs-rs.si/wp-content/uploads/2018/05/Report-on-the-FC-operations-in-2017.pdf>

Figure 2.5: State budget revenue changes



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

Figure 2.6: State budget receipts from the EU budget



Source: SORS, MoF, IMAD, FC calculations. Note: \*relates to amendments to the state budget from October 2021.

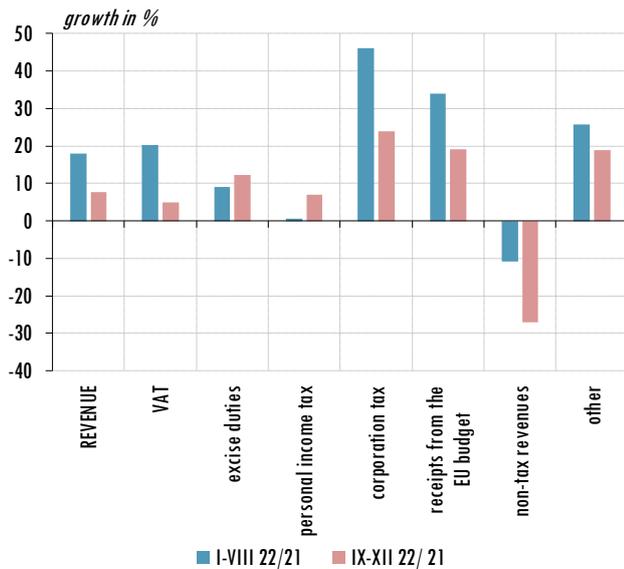
**Revenues are expected to be 12.2% higher this year, mainly due to strong growth in tax revenues as economic activity recovers.** The increase in revenue of around EUR 1.4 billion is expected to be mainly driven by higher VAT revenues, against a backdrop of strong growth in final consumption and inflation.<sup>10</sup> Another factor behind the high overall revenue growth is the inflows from corporate income tax due to a high settlement, as well as higher advance payments based on the good performance of companies last year. On the other hand, excise and income tax revenue growth is expected to be much lower this year than last year. The lower growth in excise duties is driven by a reduction given the context of high energy prices, so the growth is expected to be entirely due to higher volumes sold.<sup>11</sup> The much lower growth in income tax revenue will mainly be due to last year's high base effect, which was affected by the COVID-related allowances for public sector employees, which are significantly lower this year. An additional factor contributing to the lower growth in income tax revenue this year is the changes to income tax legislation that have been enacted, which, according to the Ministry of Finance, are expected to result in a shortfall of EUR 184 million. Non-tax revenue is expected to decrease this year, partly due to the high base effect impacted partly by the one-off revenue from the mobile network concession last year, and partly by the expected lower dividend income from non-financial companies.<sup>12</sup> Revenue from EU funds is expected to reach EUR 1,195 million this year, which is 26.2% higher compared to last year. The need to spend the remaining cohesion funds from the previous financial perspective is supposed to be one of the main reasons for raising the overall expenditure ceiling, according to the government's explanation, but the Draft Revised Budget foresees EUR 478 million less in revenue from EU funds than the budget adopted last October, of

<sup>10</sup> We estimate the impact of inflation on VAT revenue in 2022 at just over EUR 350 million. At average inflation over the 2016-2019 period, the effect would be just under EUR 100 million. The estimate uses data on the structure of consumption and consumer prices according to the ECOICOP classification, as well as the applicable VAT rates for the product groups.

<sup>11</sup> According to the Ministry of Finance, the quantitative increase is mainly due to a period when retail prices of petroleum products were lower than in neighbouring countries as a result of the freeze, which stimulated foreign and transit demand. This demand is expected to contribute to the expected increase revenue in excise duties on tobacco and tobacco products, in addition to the increase in excise duties themselves.

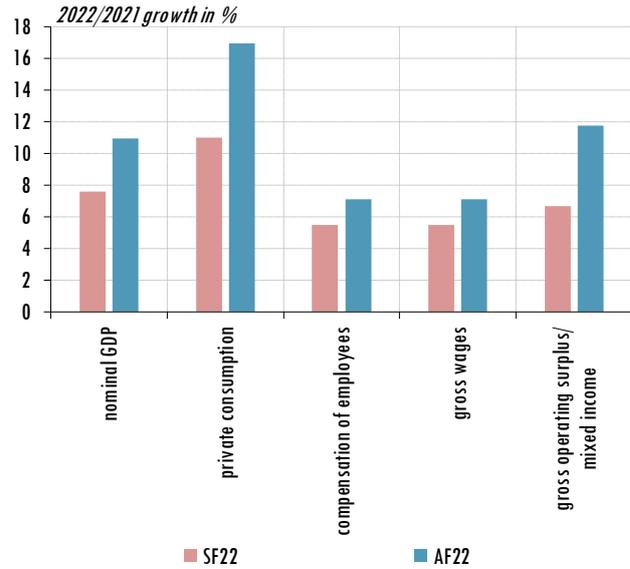
<sup>12</sup> In the explanatory memorandum to the Draft Revised Budget, the Ministry of Finance states that some companies whose core business is energy trading have decided not to pay dividends this year. Based on publicly available information on the resolutions of the shareholders' meetings of individual companies in which the State has an ownership stake and which, according to the data of Slovenian Sovereign Holding (SDH), account for the bulk of the dividends paid, we estimate that actual dividend revenues will be higher than the projections in the Draft Revised Budget.

Figure 2.7: State budget revenue



Source: MoF, FC calculations.

Figure 2.8: Revenue bases



Source: IMAD, SORS, FC calculations.

which EUR 204 million less RRP funds due to non-achievement of certain milestones and EUR 270 million less cohesion funds. The latter are expected to increase by 35.3% this year, despite a decrease compared to the budget amendments adopted last year.

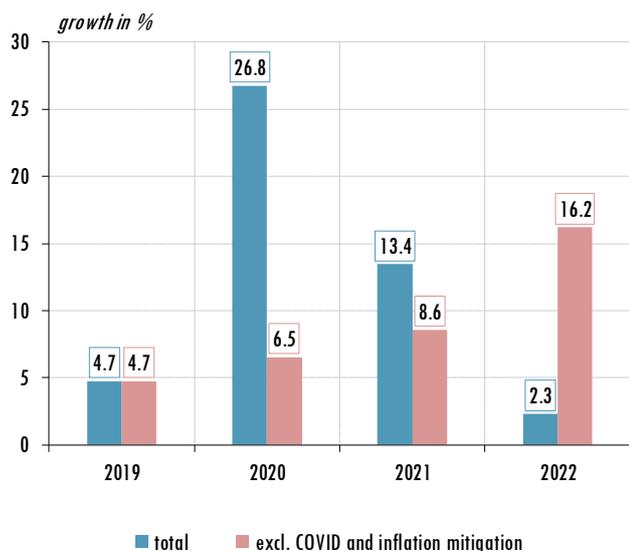
**Based on the projections of the Draft Revised Budget and the outturn in the first eight months, the average revenue growth is expected to slow down markedly over the last four months.** Revenue was up 17.9% year-on-year in the first eight months of this year, and the Draft Revised Budget projects growth of 7.7% on average over the last four months. Growth in most major categories is expected to slow down, with VAT revenue having the largest impact on the expected slowdown in total revenue growth. The IMAD autumn forecast implies a significant slowdown in economic activity towards the end of the year, and we therefore consider the relatively cautious tax revenue projection to be appropriate in view of the considerable uncertainty. The assessment of the conservatism of the tax revenue projections also stems from the macroeconomic bases used, as the Draft Revised Budget is based on the IMAD spring forecast, which is less favourable than the refreshed autumn forecast. On the contrary, we still consider the projection of revenue from EU funds to be too optimistic, despite the conclusion of the previous financial perspectives and the availability of RRP funds. The projections foresee a marked acceleration in the growth of cohesion and agricultural funds spending in the final months of the year. While the higher EU spending at the end of the year is seasonal, our assessment is that the implied acceleration in EU spending growth at the end of the year is overly optimistic.<sup>13</sup>

**Expenditure growth, excluding the impact of epidemic and inflation mitigation measures, is set to pick up significantly this year and would be by far the highest on record, with only part of the increase due to higher investment activity.** Excluding one-off factors, expenditure is expected to increase by around EUR 1.9 billion, or 16.2%, which is roughly twice as much as last year.<sup>14</sup> The main contributor to growth is expected to be the 57.9% increase in investment activity, which contributes 6.0 percentage points to growth. Excluding investment, spending is projected to increase by 11.4%, by far

<sup>13</sup> Growth in the use of European agricultural funds is expected to pick up from -1.0% in the first seven months of the year to 51.1% in the last five months, while growth in the use of cohesion funds is expected to increase from 10.0% to 57.2% in the last five months of the year.

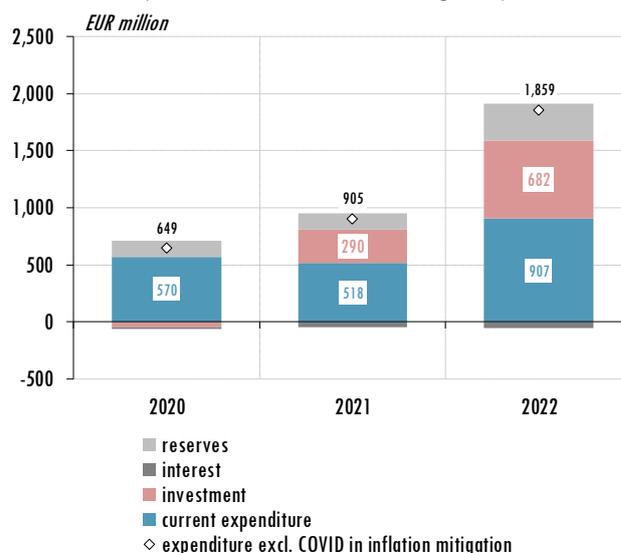
<sup>14</sup> Total expenditure, i.e. including COVID-related and inflation measures, is projected to increase by only EUR 326 million or 2.3% in 2022, mainly due to the lower volume of expenditure on COVID-related measures.

Figure 2.9: State budget expenditure



Source: MoF, FC calculations.

Figure 2.10: Factors of state budget expenditure change (excl. COVID and inflation mitigation)



Source: MoF, FC calculation.

the highest growth ever. Averaging 1.1% over the period 2015-2019, it stood at 6.4% last year. We consider that such a high level of spending, which does not include investments and measures to mitigate the effects of the epidemic and inflation, is not based on the measures currently in force and is also not justified in the light of the macroeconomic situation. The main contributor to growth is expected to be higher labour costs (including transfers to public institutions for this purpose).<sup>15</sup> Another important part of the expenditure growth comes from the high reserve, which, excluding the part spent on COVID-related measures, is expected to amount to EUR 805 million, EUR 322 million more than last year.<sup>16</sup> After a decrease last year, transfers to individuals and households are expected to be significantly higher this year, mainly due to adjustment for last year's high inflation. Relatively high growth in expenditure on goods and services, partly linked to high inflation, and transfers to social security funds are expected to continue. The increase in the transfer to the ZZZS is linked to the adoption of the Intervention Act<sup>17</sup>, while the transfer to the ZPIZ is expected to be 22.2% higher than last year.<sup>18</sup> Subsidies are also expected to be higher after last year's fall, despite the exclusion of the impact of measures to mitigate the effects of the epidemic and inflation.

**Based on the actual expenditure outturn in the first eight months, we consider that the expenditure projection in the Draft Revised Budget is unrealistic in both investment and remaining spending and is not based on the measures currently in force.** Expenditure growth excluding the impact of the epidemic and inflation mitigation measures was 9.3% in the first eight months and is projected to pick up to 27.7% in the last four months of the year, based on the projections in the Draft Revised Budget. Almost half of this growth is expected to come from an increase in investment activity, although the projection has already been revised downwards compared to the current budget adopted last October. Year-on-year growth in investment spending is expected to average 86.3% in the last four

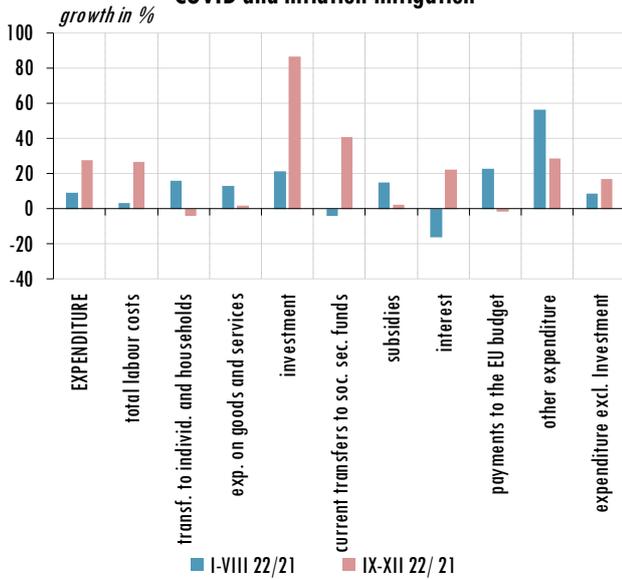
<sup>15</sup> Growth in the state administration in the narrow sense (headings 400 and 401) is expected to be 5.8%, accelerating from 1.7% in the first seven months to 12.1% in the last five months. However, growth in transfers to public institutions for labour costs is expected to reach 14.5% this year, accelerating from 4.2% in the first seven months to 29.0% in the last five months.

<sup>16</sup> The reserve includes EUR 118 million of the RRP advance received in January, which has been set aside in a separate budgetary fund.

<sup>17</sup> The financial impact of the Emergency Measures to Ensure the Stability of the Health System Act (ZNUZSZS) is expected to be EUR 38.9 million this year.

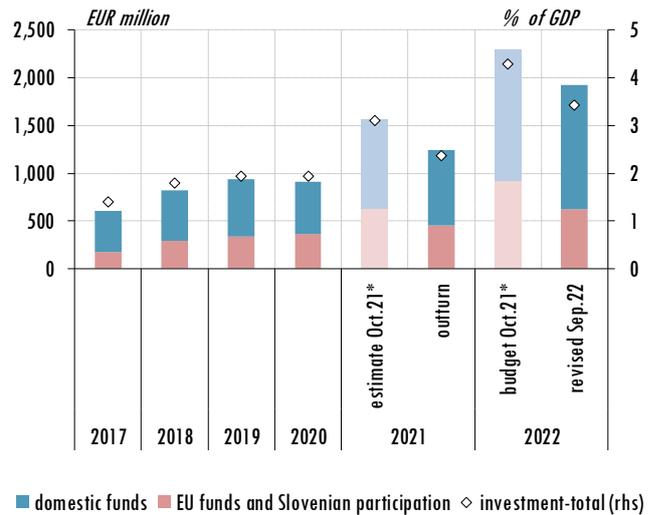
<sup>18</sup> Last year, the transfer from the state budget fell by 9.3%, in line with the 8.6% growth in social contributions to the ZPIZ. In the first seven months of this year, the growth in social contributions to the ZPIZ amounted to 5.8%, while the ZPIZ financial plan foresaw a growth of 2.4% for the whole year.

**Figure 2.11: State budget expenditure excluding COVID and inflation mitigation**



Source: MoF, FC calculations.

**Figure 2.12: State budget investment expenditure**



Source: MoF, FC calculations. Note: \*relates to estimates and projections prepared for state budget amendments in October 2021.

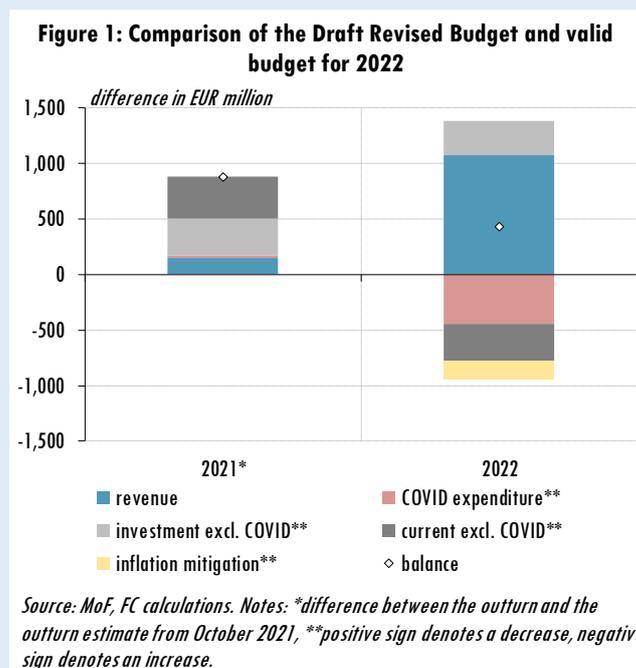
months of this year, around four times higher than the average of the first eight months. This continues the practice of unrealistic investment planning where, even in the autumn drafting of budget documents, the spending rights of individual ministries in this area are set at unrealistically high levels. With the additional exclusion of investment, spending is expected to pick up from 8.4% in the first eight months of the year to 17.0% in the last four months of the year. Growth in labour costs (including transfers to public institutions for this purpose) is expected to pick up from 3.3% in the first eight months to 26.4% in the last four months of the year. While the outturn to date is expected and reflects the impact of regular promotions and increased staffing, the acceleration in the last months of the year is not, according to the information available, based on measures in place. It is also not clear from the budget documents whether such a projection includes the impact of a possible agreement with the trade unions on pay rises. Transfers to social security funds are expected to increase by 40.7% in the last four months of the year, after a year-on-year decline of 4.2% in the first eight months of the year. This may be partly due to the foreseen funding for the Health Insurance Institute of Slovenia (ZZS) under the Intervention Act, while the year-on-year growth of the transfer to the Pension and Disability Insurance Institute of Slovenia (ZPIZ) is expected to be twice as high in the last four months as in the first eight months of the year. The increase in spending over the last four months is also expected to be due to higher other expenditure, including the budget reserve.

### Box 2.1: Comparison between the Draft Revised Budget and the current budget for 2022

According to the Draft Revised Budget, the state budget deficit this year is expected to be 432 million lower than under the budget amendment for this year adopted last October. The projected smaller deficit is expected, as the Fiscal Council assessed the draft budget documents made last October to be unrealistic.<sup>1</sup> One of the key findings was that the amended budget was based on an unrealistic estimate of last year's outturn, which provides too high a basis for drawing up the corresponding spending plans for this year in particular. Actual realisation in 2021 confirmed this estimate, as the deficit last year was EUR 878 million lower than projected, mainly due to lower spending which does not include expenditure on COVID-related measures. Investment was lower by EUR 334 million and remaining spending by another EUR 374 million. The remainder was due to higher-than-planned revenue contributing to the lower-than-planned deficit.

The Draft Revised Budget shows that revenue this year is expected to be EUR 1,071 million higher than in the current budget. This is due to higher tax revenues (mainly VAT and corporate income tax) amid this year's recovery in economic activity, which has been stronger than forecast last autumn, as well as the impact of higher-than-expected inflation. Total revenue is expected to be higher than in the current budget, despite a shortfall due to income tax changes (- EUR 184 million) and a EUR 478 million decrease in foreseen revenue from EU funds. However, according to the Government, the need to use up the remaining cohesion funds is one of the main reasons for the proposed increase in the state budget expenditure ceiling.

This year's expenditure is expected to be EUR 640 million higher than under the current budget. The measures to mitigate the effects of the epidemic are expected to increase by EUR 447 million and the impact on expenditure of the measures taken so far to mitigate inflation effects, which are not foreseen in the current budget, will amount to EUR 169 million. This would result in spending, excluding the effect of one-off factors, being EUR 24 million higher than the current budget, which in our view was already set unrealistically high at the time of adoption. In this respect, the Draft Revised Budget's estimate of investment spending is less unrealistic than in the current budget, as it is EUR 310 million lower than foreseen last October. While most of the decrease in this year's investment estimate is due to less EU funding foreseen, the estimate for domestically-financed investments has remained almost unchanged. Thus, excluding measures to mitigate the epidemic and inflation effects and investments, spending is expected to be EUR 334 million higher than in the current budget.



<sup>1</sup> See Fiscal Council: Assessment of budgetary documents for 2022 and 2023. Available at: <https://www.fs-rs.si/wp-content/uploads/2021/10/Assessment.pdf>

**Table 1: Comparison of the Draft Revised Budget and valid budget for 2022**

| Draft Revised Budget compared to valid budget, adopted in October 2021 (EUR million) |              |             |                      |                            |
|--|--------------|-------------|----------------------|----------------------------|
|  | total        | COVID       | inflation mitigation | excl. COVID and infl. mit. |
| <b>Revenue</b>   | <b>1,071</b> |             | <b>-212</b>          | <b>1,284</b>               |
| VAT  | 545          |             | -58                  | 602                        |
| Excise duties  | 53           |             | -105                 | 157                        |
| Personal income tax  | 51           |             | 0                    | 51                         |
| Corporation tax  | 501          |             | 0                    | 501                        |
| Receipts from the EU budget  | -478         |             | 0                    | -478                       |
| Non-tax revenues   | 186          |             | 0                    | 186                        |
| Other  | 214          |             | -50                  | 264                        |
| <b>Expenditure</b>   | <b>640</b>   | <b>447</b>  | <b>169</b>           | <b>24</b>                  |
| Total labour costs   | 57           | 23          | 0                    | 34                         |
| Transfers to individuals and households  | 150          | 90          | 28                   | 32                         |
| Expenditure on goods and services  | 173          | 68          | 0                    | 105                        |
| Investment   | -368         | -58         | 0                    | -310                       |
| Current transfers to social security funds   | 234          | 242         | 0                    | -9                         |
| Subsidies  | 97           | -9          | 141                  | -35                        |
| Interest   | -10          | 0           | 0                    | -10                        |
| Payments to the EU budget  | 134          | 0           | 0                    | 134                        |
| Other  | 173          | 91          | 0                    | 83                         |
| <i>Expenditure excl. investment</i>  | <i>1,007</i> | <i>505</i>  | <i>0</i>             | <i>334</i>                 |
| <b>Balance</b>   | <b>432</b>   | <b>-447</b> | <b>-381</b>          | <b>1,260</b>               |

Source: MoF, FC calculations.

## Box 2.2: Impact of measures to mitigate the effects of the epidemic and inflation on the state budget

The cost of mitigating the effects of the epidemic is expected to reach EUR 1,087 million this year, with a further EUR 450 million in the last four months of the year. Expenditure on COVID-related measures is therefore expected to be EUR 1.7 billion lower than last year. The largest part is to be allocated to transfers to social insurance funds, including EUR 68 million to the ZPIZ in January for the payment of the third pensioners' allowance since the beginning of the epidemic, and EUR 180 million to the ZZZS under Article 80 of the ZDUPŠOP (Anti-Corona Package 10 – PKP10).<sup>1</sup> In the context of the Draft Revised Budget, the government states that expenditure on COVID-related measures, and in particular the commitments under PKP10, which was adopted at the end of December last year, is one of the main reasons for the proposed increase in the allowed total spending. According to the Draft Revised Budget, expenditure on COVID-related measures is expected to be EUR 447 million higher this year than in the current budget adopted last October. In this respect, the commitments arising from PKP10 are expected to total EUR 307 million. In the first eight months, EUR 215 million has already been spent and a further EUR 92 million is foreseen by the end of the year, the main part of which is the remaining transfer to the ZZZS of EUR 90 million. In addition to this transfer to the ZZZS, the bulk of the remaining total expenditure foreseen for COVID-related measures until the end of the year is represented by a reserve of EUR 180 million.

**Table 1: State budget expenditure on COVID-related measures**

|  | valid budget<br>(Oct.21) | Draft Revised Budget |                      |                           |
|--|--------------------------|----------------------|----------------------|---------------------------|
|  | 2022                     | 2022                 | outturn I-VIII<br>22 | IX-XII 22<br>(implicitly) |
| <b>TOTAL</b>                               | <b>640</b>               | <b>1,087</b>         | <b>637</b>           | <b>450</b>                |
| Total labour costs                         | 35                       | 57                   | 31                   | 27                        |
| Transfers to individuals and households    | 44                       | 133                  | 125                  | 8                         |
| Expenditure on goods and services          | 92                       | 160                  | 143                  | 17                        |
| Investment                                 | 119                      | 62                   | 14                   | 47                        |
| Current transfers to social security funds | 5                        | 248                  | 157                  | 91                        |
| Subsidies                                  | 82                       | 73                   | 29                   | 44                        |
| Reserves                                   | 166                      | 180                  |                      | 180                       |
| Other expenditure                          | 97                       | 174                  | 138                  | 36                        |

Source: MoF, FC calculations.

The measures taken so far to mitigate inflationary effects are expected to worsen the state budget balance by EUR 381 million (0.7% of GDP) this year, of which by EUR 214 million in the last four months. Revenue-reducing measures amount to EUR 212 million, mostly due to reduced excise duties, while the latest estimates from the Ministry of Finance suggest a EUR 58 million shortfall in VAT due to the reduced rate of taxation of certain groups of energy products. The estimated total loss due to the CO2 levy freeze, which came back into force in mid-September, amounts to another EUR 50 million. In the last four months of the year, the total impact on revenue is expected to be EUR 131 million. Measures with an impact leading to increased state budget expenditure are expected to amount to EUR 169 million for the whole year. The main part is made up of subsidies to the economy and agriculture, while EUR 28 million is earmarked for the inflation allowance.<sup>2</sup> In the last four months of the year, the impact on expenditure is expected to be EUR 83 million. In addition to these measures with a direct impact on the state budget balance, guarantees of up to EUR 1.28 billion have been accepted for liabilities related to the provision of liquidity for energy purchases by certain companies

**Table 2: Impact of inflation mitigation measures**

|   |             |
|---|-------------|
| <b>revenue</b>                                | <b>-212</b> |
| decrease of VAT rate on energy to 9.5%        | -58         |
| decrease of excise duties                     | -105        |
| freeze on CO <sub>2</sub> tax payments        | -50         |
| <b>expenditure</b>                            | <b>169</b>  |
| inflation mitigation supplement to households | 28          |
| subsidies to the economy and agriculture      | 141         |
| <b>balance</b>                                | <b>-381</b> |

Source: MoF, FC estimates.

(HSE, GEN, Geoplin), which, if not called on, will not have an impact on the balance. We assess that only a minor part of the measures to mitigate inflation effects are targeted and the majority are general, which is not in line with the guidelines of international institutions. Most of the measures to mitigate the effects of inflation are general in other European countries as well. It would be advisable to phase out certain general measures, in particular pricing measures, which entail a loss of tax revenue, but also significantly higher expenditure in the event of potentially successful claims by companies for loss of revenue, by designing more targeted measures, which are implied. The public finance impact of price freeze measures due to price volatility in raw material markets cannot be estimated.

**One-off factors monitored by the Fiscal Council could also include expenditure related to the war in Ukraine, but these are not clearly and comprehensively reflected in the Draft Revised Budget.**

The war in Ukraine has also led to the adoption of certain measures with an impact on the state budget balance. These include the cost of renovating the accommodation centre, donations to Ukraine, social allowances for refugees and possible allowances for education staff. The effects of the measures taken so far in this area are not visible in the state budget projections and cannot be classified as one-off factors in the assessment of the Draft Revised Budget. We expect the Ministry of Finance to properly quantify and transparently show the costs related to the war in Ukraine when preparing the budget documents for 2023 and 2024.

<sup>1</sup> Paragraph two of Article 80 of the above-mentioned Act also allows for the financing of the ZZS to the extent that it is not directly related to the epidemic, as it also requires the state budget to cover salary increases for specific groups in the health sector that are not necessarily related to the epidemic. In our view, this funding arrangement is inadequate and lacks clarity.

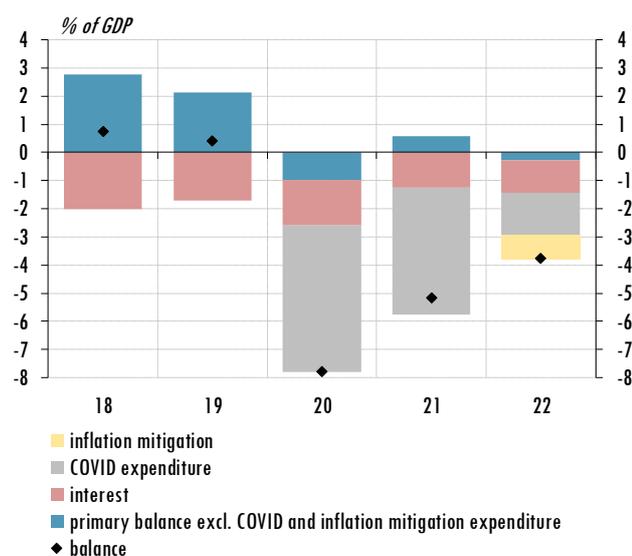
<sup>2</sup> On 15 September, the Draft Act on Temporary Measures to Alleviate the Inflation Effects for Beneficiaries of Child Benefit was published, with a financial impact of EUR 21 million expected this year. This proposal was not taken into account in our analysis, which is based on information and data available up until 14 September 2022.

### Box 2.3: General government balance projections based on the Draft Revised Budget for 2022

On the basis of the Draft Revised Budget, the Ministry of Finance estimates that the general government deficit will be reduced by 1.4 p.p. of GDP this year, to -3.8% of GDP. In accordance with the Cooperation Agreement<sup>1</sup>, the Ministry of Finance prepared and submitted to the Fiscal Council an assessment of the general government balance sheets at the time of the preparation of the Draft Revised Budget. The Fiscal Council assesses the adequacy of the fiscal plans under the FRA using an internationally comparable methodology. The Draft Revised Budget is thus expected to result in an overall general government deficit of EUR -2,182 million. Government balance sheets are also significantly affected by one-off factors to mitigate the effects of the epidemic and inflation, which may be different from the impact on the state budget. The impact of the COVID-related measures differs for methodological reasons and is slightly lower under the general government balance sheet in 2022 than under the Draft Revised Budget. Some of the measures taken to mitigate the effects of inflation have no impact on the state budget, but have an impact on the general government balance sheet. As a result, the negative impact on the general government balance sheet is higher than under the Draft Revised Budget. Together, these one-off measures with an impact on the general government balance are expected to amount to EUR 1,359 million, or 2.3% of GDP this year. This is EUR 1.0 billion less than last year and, in addition to revenue, the main reason for the projected reduction in the overall deficit this year.

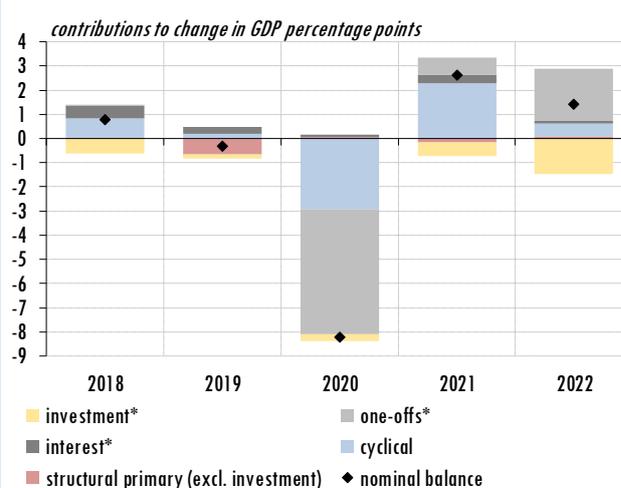
The general government deficit excluding one-off epidemic and inflation mitigation measures is expected to amount to -1.4% of GDP this year, and it will be higher than last year. In nominal terms, the so-called cleaned deficit will thus increase by EUR 391 million this year, despite an increase in revenue of more than a tenth, or around EUR 2.5 billion. The latter is mainly due to cyclical reasons linked to the recovery in economic activity and the consequent increase in tax and social contribution revenues. The increase in the deficit is therefore expected to be the result of a marked pick-up in expenditure growth, which does not take into account the impact of epidemic and inflation mitigation measures. After 7.6% growth last year, spending is expected to increase by 12.7% or EUR 3.0 billion this year. Around a third of this increase (EUR 1.1 billion) is expected to be due to higher investment expenditure. Only a slightly smaller part of the increase is expected to come from an increase in expenditure on social benefits (by EUR 0.9 billion). Of the latter, around half of the increase is accounted for by higher pension expenditure as a result of the relatively high regular and additional extraordinary adjustment at the beginning of this year.

Figure 1: General government balance and primary balance



Source: outturn: SORS, projections: MoF.

Figure 2: Factors of general government nominal balance change



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

<sup>1</sup> Available at: <https://www.fs-rs.si/fiscal-council/co-operation/>

### 3. Fiscal policy guidelines

#### Key findings

- In September 2021, the Fiscal Council assessed that, according to the national legislation, the conditions for the existence of exceptional circumstances would continue to be met in 2022. The European Commission also extended the validity of the general escape clause into this year.
- The proposed amendments to the Framework Proposal relate to the increase in the ceilings on general government expenditure and all public finance budgets.
- The general government deficit and debt are projected to exceed the Maastricht Criteria in 2022 despite a considerably higher level of revenue.
- The Fiscal Council notes that the projected levels and growth rates of general government expenditure are too high also in 2022, given the current fiscal frameworks and the long-term economic potential growth.
- The fiscal policy stance in the 2022 Draft Revised Budget is markedly expansionary, exacerbating the risks of further macroeconomic and fiscal imbalances. The same finding would be true even without the projected increase in expenditure ceilings.

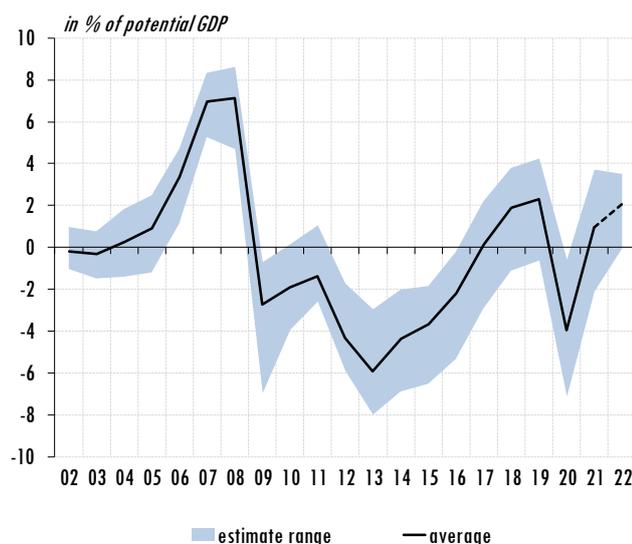
**In September 2021, the Fiscal Council assessed that the conditions for invoking exceptional circumstances are met in 2022.** The uncertainties relating to an unusual event, in this case the epidemic, were a key factor supporting this assessment. The relatively low vaccination coverage of the population and the possibility of new variants of the virus made the epidemiological situation uncertain, which consequently applied to the effects of the epidemic and the current and potential additional containment measures on economic activity. Given that the risks to future economic growth were predominantly negative, the sustainability of the recovery was also questionable at the time of preparing the exceptional circumstances assessment. Along with that, macroeconomic constraints, particularly on the supply side, were already emerging both domestically and internationally. For similar reasons, the European Commission has also extended the validity of the general escape clause in the context of the European fiscal rules.

**Uncertainties remain high regarding the data entering in the calculation of the indicators on the adequacy and orientation of fiscal policy.** The data that serve as the basis for budget planning are being extensively revised, which is probably also a result of substantial state support in an epidemiological crisis. Thus, in the last revision of annual national accounts data, the Statistical Office of the Republic of Slovenia at end-August<sup>19</sup> significantly revised its preliminary estimates of certain macroeconomic aggregates for 2021.<sup>20</sup> Together with the changes in the structure of the economy after the epidemiological crisis, when a significant part of service activities has been temporarily halted, resulting in labour market shifts and uncertain responses of businesses to hiring and investment

<sup>19</sup> <https://www.stat.si/StatWeb/en/News/Index/10525>

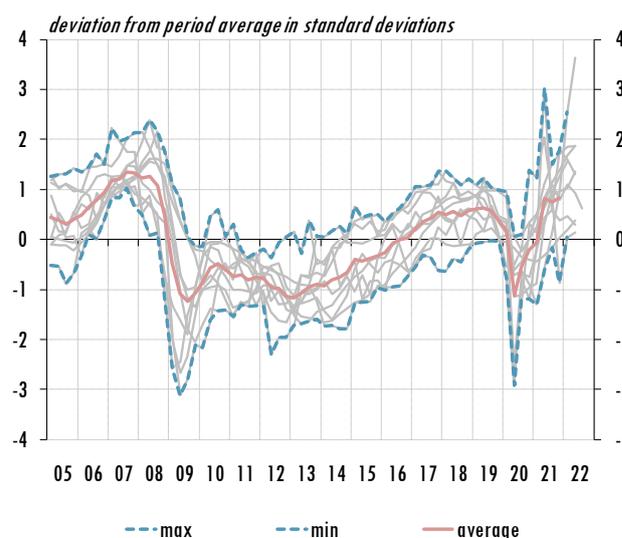
<sup>20</sup> In particular nominal consumer spending (EUR -630 million), compensation of employees (EUR 631 million), gross operating surplus (EUR -476 million) and also gross fixed capital formation (EUR 136 million). Changes at the GDP level were not so significant, with nominal GDP changing by around EUR 180 million or 0.3% at the time of the revision and the growth rate of real GDP by only 0.1 percentage points.

Figure 3.1: Output gap estimates



Source: EC, IMF, MoF, OECD, IMAD, FC calculations, see note under Table 4.1.

Figure 3.2: Indicators of economic cycle dynamics



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

in the context of the current high energy prices, the reliability of potential output estimates is reduced. The resulting ranges of output gap estimates imply a low reliability of the variable,<sup>21</sup> which, according to the FRA, is key for determining the compliance of budget documents with fiscal rules.

**Given the uncertainty in the general government projections, the assessment also uses fiscal policy position indicators derived from state budget data.** Based on Articles 2 and 3 of the Fiscal Policy Act, general government projections should be the basis for assessing the consistency of budgetary documents with fiscal rules, as well as the orientation of fiscal policy. A comparison of the government budget projections and the ESA methodology projections (see Box 2.3) shows significant discrepancies, which are high even taking into account methodological differences. Therefore, in addition to the indicators relating to the general government sector, we also present indicators that only take into account projections of national budget.

**Changing the framework for drafting budgets and assessing the fiscal policy stance solely on the basis of one year's revised state budget is less appropriate than changing the framework and assessing the stance over the medium term.** As with the fiscal policy stance, changes in the budgetary frameworks should be reasonably positioned in the medium term, which is also set out in Article 6 of the Fiscal Rule Act by prescribing a framework for drafting the general government budget for the next three years. While it is appropriate to change the framework for one year only in the case of a revised budget, it would make more sense to adopt it together with a revised framework for future years as well. This is because the consideration of individual years limits the overall view of public finances, while allowing to a greater extent for less clear budgetary planning and a possible gradual shift away from the pursuit of medium-term sustainability of public finances.

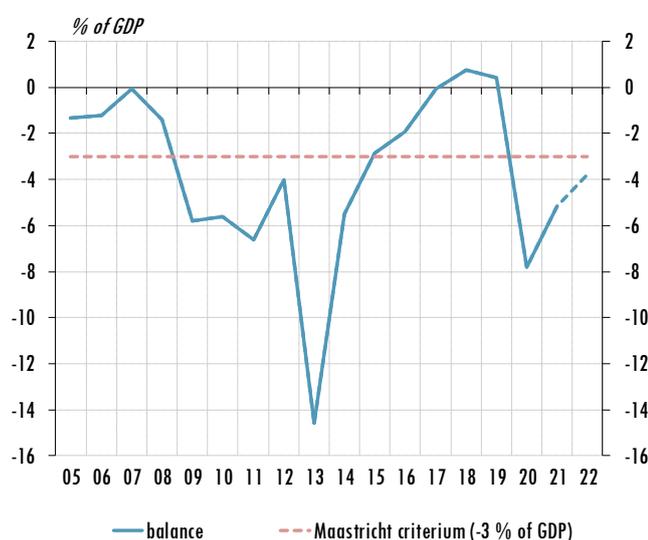
**The increases in the 2022 expenditure ceilings are significant, as is the discrepancy between the level and change in general government expenditure and the related totals of the expenditure of individual budgets.** The 2022 expenditure ceilings for the general government and for the individual public budgets were set for the first time with the adoption of the Ordinance on the framework for the

<sup>21</sup>Uncertainties about the size of the output gap are already high in a normal economic situation. See, for example, Chapter 2.3, "Variability of output gap estimates" (Report on the Fiscal Council's operations in 2017).

preparation of the general government budget for the 2020–2022 period.<sup>22</sup> Since then, the general government expenditure ceiling has changed three times, most recently in November 2021.<sup>23</sup> The current revision of the general government expenditure ceiling is the highest since the November 2020 revision, when the changes were justified by the need to stimulate the recovery of economic activity after the downturn in 2020, to tackle the consequences of the epidemic and to prevent and control the spread of COVID-19. Also in the context of this year's budget revision, there are relatively large differences between the level and change in government expenditure ceilings and the aggregate expenditure of the public budgets when setting expenditure ceilings. Such differences are probably due to the high transfers between the individual budgets, which, in the interests of clarity and transparency, would merit an explanation in the explanatory memorandum to the Framework Proposal.

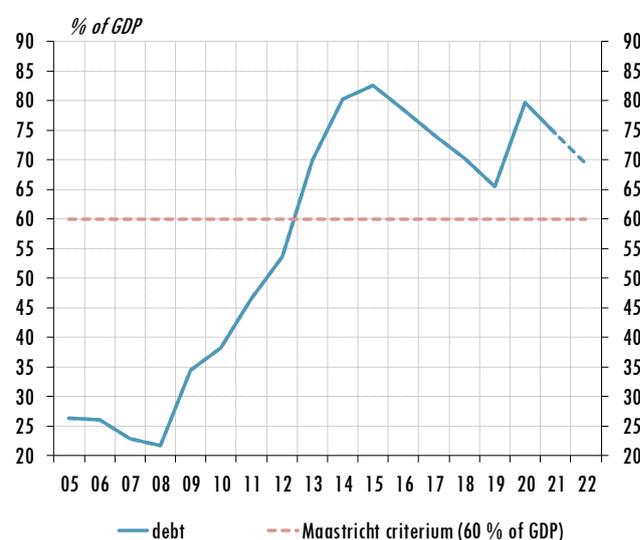
**The general government deficit and debt are projected to exceed the Maastricht criteria in 2022.** Both indicators are gradually declining as a share of GDP, but remain high in nominal terms. In 2022, the total general government deficit is projected to stand at 3.8% of GDP and the general government debt at slightly under 70% of GDP.<sup>24</sup> The general government deficit in 2022 is projected to be EUR 2,2 billion, although the level of GDP is projected to be 20% (or EUR 9.4 billion) higher than in the pre-crisis period, when a surplus was generated in 2019. Excluding COVID-related measures, inflation measures, investment and interest, the general government surplus in 2022 is projected to be only around EUR 460 million higher than the same defined balance in 2019, given the EUR 4 billion increase in revenues. At the same time, the general government balance excluding domestic investment (total investment minus investment financed by EU funds), interest and one-off factors shows a surplus, which is in line with the so-called “golden investment rule”.

Figure 3.3: General government balance



Source: outturn: SORS, projections: MoF.

Figure 3.4: General government debt

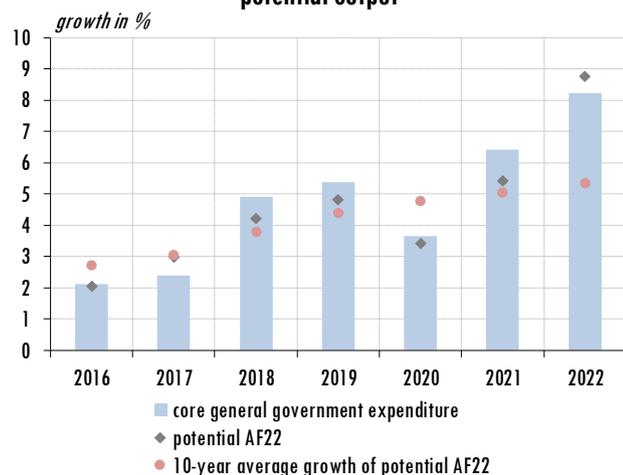


Source: outturn: SORS, projections: MoF.

<sup>22</sup> Official Gazette of the Republic of Slovenia No 26/2019.

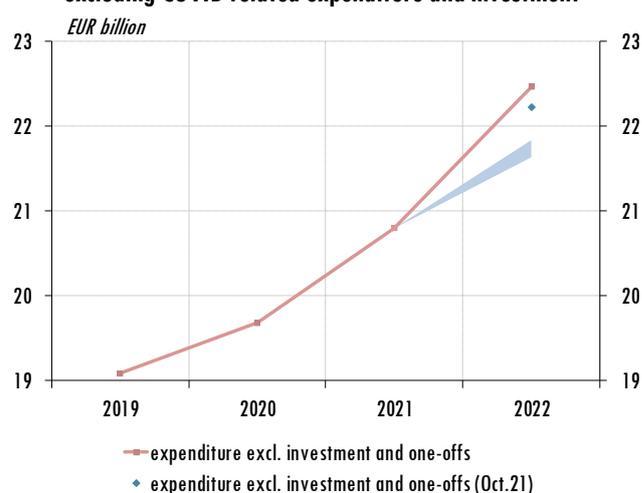
<sup>23</sup> Official Gazette of the Republic of Slovenia No 184/2021.

<sup>24</sup> The Ministry of Finance did not prepare an updated general government debt projection at the time of submission of the Draft Revised Budget. The Stability Programme 2022 nominal general government debt projection has been lowered by EUR 1 billion, taking into account the draft Act Amending the Implementation of the Republic of Slovenia Budget for 2022 and 2023 Act (available at: <https://imss.dz-rs.si/IMIS/ImisAdmin.nsf/ImisnetAgent?OpenAgent&2&DZ-MSS-01/73b70721ccd02a6555bfb3d77b6609da9b840b9e989d7dfd0b273a67d626f47>, Only in Slovene), which foresees a lower volume of financing for the implementation of the state budget in 2022 (EUR 4.1 billion instead of EUR 5.1 billion), and assuming unchanged borrowing of the other general government units.

**Figure 3.5: "Core" general government expenditure and the potential output**

Note: "Core" expenditure is general government expenditure excluding expenditure related to the epidemic, inflation mitigation and other one-off factors as well as investment and interest expenditure.

Sources: SORS, MoF, IMAD, FC calculations.

**Figure 3.6: Simulations of general government expenditure excluding COVID related expenditure and investment**

Note: Shaded area represents levels of expenditure, consistent with potential growth between 4 % and 5 %.

Source: SORS, MoF, FC calculations.

**The projected growth of general government expenditure is high. In 2022, growth in the 'core' expenditure, which excludes investment, interest and one-off expenditure, while not exceeding the growth of currently estimated potential output, is well above its long-term average growth.<sup>25</sup>** Due to the high inflation, comparisons with annual estimates of growth in nominal potential GDP are currently less appropriate for assessing the appropriateness of the fiscal policy stance. Taking into account the high inflation, the nominal economic potential can be overestimated, which can have a pro-cyclic effect on the fiscal policy orientation based on such indicators. The 'core' level of general government expenditure also exceeds the indicative range of expenditure allowed by long-term potential output growth, and the overshoot has been further reinforced compared to the findings of the April 2022 Stability Programme Assessment.<sup>26</sup> Even larger than in the case of general government expenditure growth is the discrepancy between the growth of 'core' state budget expenditure and the estimated growth of potential output. These overshoots, which occur in consecutive years and intensify over the years, point to structural pressures on public finances and to increasing risks to the achievement of medium-term fiscal balance in the future.

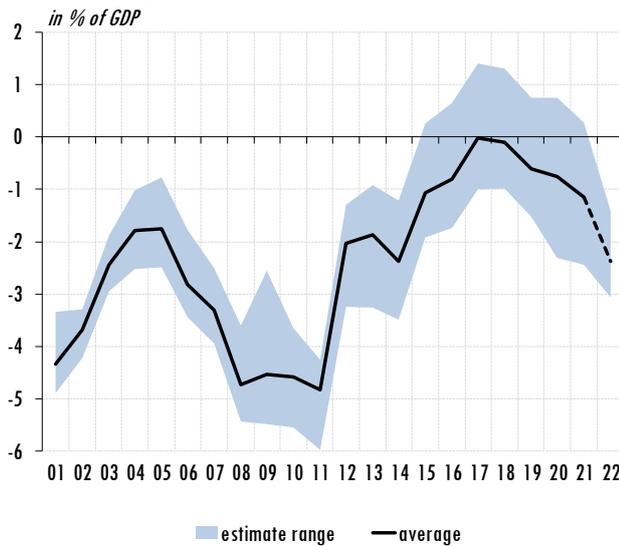
**According to the budget documents submitted, the fiscal policy stance remains expansionary in 2022, which could further encourage the build-up of macroeconomic imbalances and hold back the expected slowdown in inflation.** The structural balance indicators, which exclude expenditure related to the epidemic and inflation mitigation measures in the period of high cycle, again point to a continuation of widening of the structural deficit that started already before the epidemiological crisis. According to current estimates, the fiscal policy is expected to be supportive in 2022 even without the proposed increase in the general government expenditure.<sup>27</sup> In 2022, the increase in the structural deficit, as well as in the structural primary deficit, is currently estimated to be the largest since 2008. The deterioration in the structural government financial position is the result of the large-scale measures taken at the end of the political cycle and in the context of the epidemic crisis, which were

<sup>25</sup> 10-year average, taking into account the five previous years, the current year and the next four years.

<sup>26</sup> See Figure 6, Box 4.1. Available at: <https://www.fs-rs.si/wp-content/uploads/2022/05/Assessment2022.pdf>

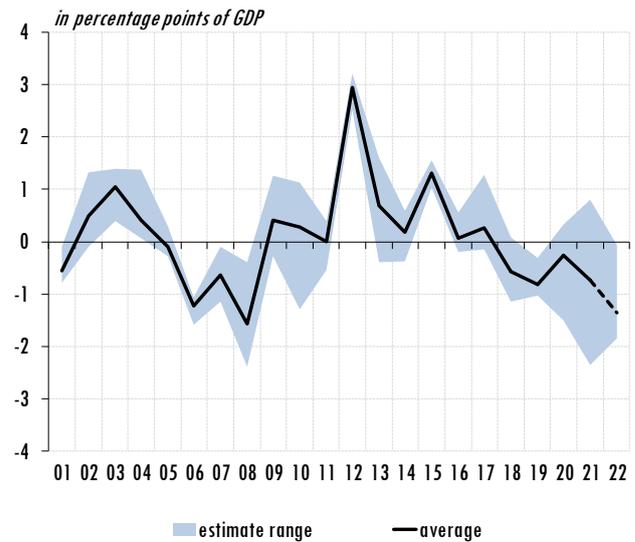
<sup>27</sup> In the adjusted fiscal policy course calculation, we have kept the level of expenditure at that in the existing framework for drafting the 2022-2024 budgets (November, 2021), counting as one-off factors only the change in expenditure on the COVID-19 measures taken into account in this year's revised budget relative to the explanatory memorandum of the Autumn 2021 budget documents.

Figure 3.7: Structural balance estimates



Source: EC, IMF, MoF, OECD, IMAD, FC calculations, see note under Table 4.1.

Figure 3.8: Structural primary effort estimates



Source: EC, IMF, MoF, OECD, IMAD, FC calculations, see note under Table 4.1.

not only temporary in nature and not directly related to containing the impact of the epidemic, but which, in addition to the foreseen increases in some expenditure resulting from the rebalancing of the budget, are expected to have a lasting impact on public finances. Together with the measures still being taken to mitigate the energy price increases and the acceleration of investment activity, the additional demand thus generated may exacerbate macroeconomic imbalances in the context of tight labour market conditions and existing inflationary pressures. With economic activity expected to stagnate, mainly as a result of supply-side constraints, such an economic policy response may prolong the period of high price growth. This could, among other things, increase pressures to adjust wages to inflation and trigger wage-price spirals in both the private<sup>28</sup> and public sectors. Together with the likely weakening of the competitiveness of the economy, despite the current favourable impact of inflation on public finances, the government financial position would therefore deteriorate already in the medium term.

<sup>28</sup> The IMAD (2022) analysis concludes that the likelihood of inflation spilling over into higher wages is relatively low due to the way basic wages are set in industry collective agreements. The analysis however reflects a period of relatively low inflation (2008-2019, or 2009-2019 in the statistical analysis).

#### 4. Annex

**Table 4.1: Output gap estimates**

|      | IMF<br>(Apr.22) | European<br>Commission<br>(May 22) | OECD<br>(Jun.22) | IMAD<br>(Sep.22) | MoF<br>(Apr.22) | HP filter | based on<br>GDP<br>averages | factor<br>models | Blanchard-<br>Quah | average<br>of all<br>estimates | average<br>of<br>institutions | average of<br>estimates<br>based on<br>prod. funct. |
|------|-----------------|------------------------------------|------------------|------------------|-----------------|-----------|-----------------------------|------------------|--------------------|--------------------------------|-------------------------------|---|
| 2002 | -1.1            | 1.0                                | -0.2             | 0.4              | 0.3             | -0.8      | -0.3                        | ...              | -0.8               | -0.2                           | 0.1                           | 0.5   |
| 2003 | 0.1             | 0.8                                | -0.4             | 0.3              | 0.1             | -1.5      | -1.3                        | 0.4              | -1.4               | -0.3                           | 0.2                           | 0.4   |
| 2004 | -1.4            | 1.8                                | 0.9              | 1.4              | 1.1             | -0.8      | -1.0                        | 1.2              | -1.2               | 0.2                            | 0.8                           | 1.5   |
| 2005 | -0.5            | 2.5                                | 1.8              | 2.3              | 2.0             | -0.5      | -1.2                        | 2.3              | -0.4               | 0.9                            | 1.6                           | 2.2   |
| 2006 | 2.8             | 4.7                                | 4.5              | 4.6              | 4.3             | 2.0       | 1.1                         | 4.4              | 1.9                | 3.4                            | 4.2                           | 4.5   |
| 2007 | 5.3             | 8.0                                | 8.3              | 8.2              | 7.6             | 6.5       | 5.9                         | 7.1              | 6.0                | 7.0                            | 7.5                           | 7.9   |
| 2008 | 5.4             | 7.7                                | 8.6              | 8.0              | 7.5             | 8.4       | 7.7                         | 4.7              | 6.1                | 7.1                            | 7.4                           | 7.7   |
| 2009 | -3.0            | -2.7                               | -1.9             | -2.4             | -2.6            | -0.7      | -1.5                        | -7.0             | -2.9               | -2.7                           | -2.5                          | -2.6  |
| 2010 | -1.0            | -2.6                               | -2.1             | -2.4             | -2.4            | 0.1       | -0.3                        | -2.8             | -3.9               | -1.9                           | -2.1                          | -2.5  |
| 2011 | 0.6             | -2.6                               | -2.4             | -2.5             | -2.4            | 0.6       | 1.1                         | -2.5             | -2.2               | -1.4                           | -1.8                          | -2.5  |
| 2012 | -2.0            | -5.7                               | -5.9             | -5.9             | -5.6            | -2.4      | -1.7                        | -5.5             | -4.3               | -4.3                           | -5.0                          | -5.7  |
| 2013 | -3.0            | -7.4                               | -8.0             | -7.6             | -7.2            | -4.2      | -3.4                        | -4.8             | -7.9               | -5.9                           | -6.6                          | -7.4  |
| 2014 | -2.3            | -5.7                               | -6.9             | -6.2             | -5.7            | -3.0      | -2.0                        | -2.5             | -5.2               | -4.4                           | -5.4                          | -5.9  |
| 2015 | -1.8            | -4.6                               | -6.5             | -5.2             | -4.7            | -2.7      | -1.9                        | -1.9             | -3.9               | -3.7                           | -4.6                          | -4.8  |
| 2016 | -0.2            | -2.6                               | -5.3             | -3.3             | -2.8            | -2.0      | -1.4                        | -0.3             | -1.8               | -2.2                           | -2.8                          | -2.9  |
| 2017 | 0.0             | 0.6                                | -2.9             | -0.1             | 0.2             | -0.1      | 0.5                         | 2.2              | 0.8                | 0.1                            | -0.4                          | 0.2   |
| 2018 | 0.3             | 2.9                                | -1.1             | 2.2              | 2.4             | 1.5       | 2.2                         | 2.8              | 3.8                | 1.9                            | 1.3                           | 2.5   |
| 2019 | 0.7             | 3.5                                | -0.6             | 3.1              | 3.0             | 2.2       | 2.3                         | 2.1              | 4.3                | 2.3                            | 1.9                           | 3.2   |
| 2020 | -2.8            | -3.2                               | -7.1             | -3.5             | -3.5            | -4.9      | -5.1                        | -4.6             | -0.6               | -3.9                           | -4.0                          | -3.4  |
| 2021 | 1.6             | 1.9                                | -2.1             | 1.5              | 1.3             | 0.0       | -0.3                        | 3.7              | 1.0                | 1.0                            | 0.8                           | 1.6   |
| 2022 | 1.3             | 2.5                                | 0.0              | 3.5              | 2.5             | 2.0       | 1.9                         | 2.1              | 2.8                | 2.1                            | 2.0                           | 2.8   |

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

Note: The table shows estimates of the output gap by domestic and international institutions that provide these estimates for Slovenia (IMAD, MF, EC, IMF, OECD). In addition, the table also shows estimates of the output gap generated by statistical models in which the potential product is determined by (i) HP filters at different values of the parameter  $\lambda$  (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 4.2: Structural balance estimates**

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

Source: IMAD, EC, IMF, OECD, MoF, FC calculations based on Table 4.1.

**Table 4.3: Structural effort estimates**

|      | IMF<br>(Apr.22) | European<br>Commission<br>(May 22) | OECD<br>(Jun.22) | IMAD<br>(Sep.22) | MoF<br>(Apr.22) | HP filter | based on<br>GDP<br>averages | factor<br>models | Blanchard-<br>Quah | average<br>of all<br>estimates | average<br>of<br>institutions | average of<br>estimates<br>based on<br>prod. funct. |
|------|-----------------|------------------------------------|------------------|------------------|-----------------|-----------|-----------------------------|------------------|--------------------|--------------------------------|-------------------------------|---|
| 2002 | 0.1             | 0.5                                | 0.6              | 0.5              | 0.5             | 0.8       | 0.8                         | ...              | 1.5                | 0.7                            | 0.4                           | 0.5   |
| 2003 | 0.6             | 1.3                                | 1.3              | 1.2              | 1.3             | 1.5       | 1.6                         | ...              | 1.5                | 1.3                            | 1.1                           | 1.3   |
| 2004 | 1.6             | 0.4                                | 0.3              | 0.4              | 0.4             | 0.6       | 0.8                         | 0.6              | 0.8                | 0.7                            | 0.7                           | 0.4   |
| 2005 | -0.1            | 0.0                                | -0.1             | -0.1             | 0.0             | 0.2       | 0.4                         | -0.2             | 0.0                | 0.0                            | 0.0                           | 0.0   |
| 2006 | -1.4            | -0.9                               | -1.2             | -1.0             | -1.0            | -1.1      | -1.0                        | -0.9             | -1.0               | -1.1                           | -1.1                          | -1.0  |
| 2007 | 0.0             | -0.4                               | -0.6             | -0.5             | -0.4            | -0.9      | -1.0                        | -0.1             | -0.8               | -0.5                           | -0.4                          | -0.4  |
| 2008 | -1.4            | -1.2                               | -1.5             | -1.3             | -1.3            | -2.2      | -2.2                        | -0.2             | -1.4               | -1.4                           | -1.3                          | -1.3  |
| 2009 | -0.5            | 0.4                                | 0.5              | 0.4              | 0.3             | -0.2      | -0.1                        | 1.0              | -0.2               | 0.2                            | 0.2                           | 0.4   |
| 2010 | -0.6            | 0.3                                | 0.4              | 0.3              | 0.2             | -0.1      | -0.2                        | -1.6             | 0.8                | 0.0                            | 0.1                           | 0.3   |
| 2011 | -0.8            | 0.0                                | 0.1              | 0.1              | 0.0             | -0.2      | -0.6                        | -0.1             | -0.8               | -0.3                           | -0.1                          | 0.0   |
| 2012 | 2.6             | 2.9                                | 3.1              | 3.0              | 2.9             | 2.9       | 2.7                         | 2.8              | 2.4                | 2.8                            | 2.9                           | 2.9   |
| 2013 | -0.1            | 0.2                                | 0.4              | 0.2              | 0.2             | 0.3       | 0.2                         | -0.9             | 1.1                | 0.2                            | 0.2                           | 0.2   |
| 2014 | -0.1            | -0.6                               | -0.3             | -0.5             | -0.5            | -0.4      | -0.5                        | -0.9             | -1.1               | -0.5                           | -0.4                          | -0.5  |
| 2015 | 1.5             | 1.1                                | 1.5              | 1.2              | 1.2             | 1.5       | 1.6                         | 1.3              | 1.0                | 1.3                            | 1.3                           | 1.2   |
| 2016 | 0.2             | 0.0                                | 0.4              | 0.1              | 0.1             | 0.6       | 0.7                         | 0.2              | 0.0                | 0.3                            | 0.1                           | 0.0   |
| 2017 | 1.8             | 0.4                                | 0.7              | 0.4              | 0.5             | 0.9       | 1.0                         | 0.7              | 0.6                | 0.8                            | 0.8                           | 0.4   |
| 2018 | 0.6             | -0.3                               | -0.1             | -0.3             | -0.3            | 0.0       | 0.0                         | 0.5              | -0.6               | -0.1                           | -0.1                          | -0.3  |
| 2019 | -0.5            | -0.6                               | -0.6             | -0.7             | -0.6            | -0.6      | -0.4                        | 0.0              | -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               | -0.1                           | -0.3                          | 0.0   |
| 2021 | -0.2            | -0.5                               | -0.5             | -0.5             | -0.3            | -0.4      | -0.4                        | -2.0             | 1.1                | -0.4                           | -0.4                          | -0.4  |
| 2022 | -0.6            | -1.0                               | -1.7             | -1.6             | -1.3            | -1.6      | -1.7                        | 0.1              | -1.6               | -1.2                           | -1.2                          | -1.3  |

Source: IMAD ,EC, IMF, OECD, MoF, FC calculations based on Table 4.1.

**Table 4.4: Structural primary balance estimates**

|      | IMF<br>(Apr.22) | European<br>Commission<br>(May 22) | OECD<br>(Jun.22) | IMAD<br>(Sep.22) | MoF<br>(Apr.22) | HP filter | based on<br>GDP<br>averages | factor<br>models | Blanchard-<br>Quah | average<br>of all<br>estimates | average<br>of<br>institutions | average of<br>estimates<br>based on<br>prod. funct. |
|------|-----------------|------------------------------------|------------------|------------------|-----------------|-----------|-----------------------------|------------------|--------------------|--------------------------------|-------------------------------|---|
| 2002 | -1.1            | -2.1                               | -1.5             | -1.8             | -1.7            | -1.2      | -1.5                        | ...              | -1.3               | -1.5                           | -1.7                          | -1.9  |
| 2003 | -0.7            | -1.0                               | -0.5             | -0.8             | -0.7            | 0.0       | -0.1                        | -0.9             | 0.0                | -0.5                           | -0.8                          | -0.9  |
| 2004 | 0.6             | -0.9                               | -0.4             | -0.7             | -0.5            | 0.4       | 0.5                         | -0.6             | 0.5                | -0.1                           | -0.4                          | -0.7  |
| 2005 | 0.4             | -1.0                               | -0.6             | -0.9             | -0.7            | 0.4       | 0.8                         | -0.9             | 0.4                | -0.2                           | -0.5                          | -0.8  |
| 2006 | -1.2            | -2.1                               | -2.0             | -2.0             | -1.9            | -0.8      | -0.4                        | -1.9             | -0.7               | -1.4                           | -1.8                          | -2.0  |
| 2007 | -1.3            | -2.6                               | -2.7             | -2.6             | -2.4            | -1.8      | -1.5                        | -2.1             | -1.6               | -2.1                           | -2.3                          | -2.5  |
| 2008 | -2.8            | -3.9                               | -4.3             | -4.1             | -3.8            | -4.2      | -3.9                        | -2.5             | -3.2               | -3.6                           | -3.8                          | -3.9  |
| 2009 | -3.1            | -3.2                               | -3.6             | -3.4             | -3.3            | -4.2      | -3.8                        | -1.2             | -3.2               | -3.2                           | -3.3                          | -3.3  |
| 2010 | -3.4            | -2.6                               | -2.9             | -2.7             | -2.7            | -3.9      | -3.7                        | -2.5             | -2.0               | -3.0                           | -2.9                          | -2.7  |
| 2011 | -3.9            | -2.4                               | -2.5             | -2.4             | -2.5            | -3.9      | -4.1                        | -2.4             | -2.6               | -3.0                           | -2.7                          | -2.4  |
| 2012 | -1.1            | 0.6                                | 0.7              | 0.7              | 0.6             | -0.9      | -1.2                        | 0.5              | 0.0                | 0.0                            | 0.3                           | 0.6   |
| 2013 | -0.7            | 1.3                                | 1.6              | 1.5              | 1.3             | -0.1      | -0.5                        | 0.2              | 1.6                | 0.7                            | 1.0                           | 1.4   |
| 2014 | -0.1            | 1.5                                | 2.0              | 1.7              | 1.5             | 0.2       | -0.3                        | 0.0              | 1.2                | 0.9                            | 1.3                           | 1.6   |
| 2015 | 1.3             | 2.6                                | 3.5              | 2.9              | 2.6             | 1.7       | 1.3                         | 1.3              | 2.2                | 2.2                            | 2.6                           | 2.7   |
| 2016 | 1.3             | 2.4                                | 3.7              | 2.7              | 2.5             | 2.2       | 1.9                         | 1.3              | 2.1                | 2.2                            | 2.5                           | 2.6   |
| 2017 | 2.6             | 2.3                                | 3.9              | 2.6              | 2.4             | 2.6       | 2.3                         | 1.5              | 2.2                | 2.5                            | 2.8                           | 2.4   |
| 2018 | 2.7             | 1.4                                | 3.3              | 1.8              | 1.7             | 2.1       | 1.8                         | 1.5              | 1.0                | 1.9                            | 2.2                           | 1.6   |
| 2019 | 1.8             | 0.6                                | 2.5              | 0.8              | 0.8             | 1.2       | 1.1                         | 1.2              | 0.2                | 1.1                            | 1.3                           | 0.7   |
| 2020 | 0.3             | 0.5                                | 2.4              | 0.7              | 0.6             | 1.3       | 1.4                         | 1.2              | -0.7               | 0.9                            | 0.9                           | 0.6   |
| 2021 | -0.2            | -0.3                               | 1.5              | -0.2             | 0.0             | 0.6       | 0.7                         | -1.2             | 0.1                | 0.1                            | 0.2                           | -0.2  |
| 2022 | -0.9            | -1.4                               | -0.3             | -1.9             | -1.4            | -1.2      | -1.1                        | -1.2             | -1.6               | -1.2                           | -1.2                          | -1.6  |

Source: IMAD, EC, IMF, OECD, MoF, FC calculations based on Table 4.1.

**Table 4.5: Structural primary effort estimates**

|      | IMF<br>(Apr.22) | European<br>Commission<br>(May 22) | OECD<br>(Jun.22) | IMAD<br>(Sep.22) | MoF<br>(Apr.22) | HP filter | based on<br>GDP<br>averages | factor<br>models | Blanchard-<br>Quah | average<br>of all<br>estimates | average<br>of<br>institutions | average of<br>estimates<br>based on<br>prod. funct. |
|------|-----------------|------------------------------------|------------------|------------------|-----------------|-----------|-----------------------------|------------------|--------------------|--------------------------------|-------------------------------|---|
| 2002 | -0.1            | 0.3                                | 0.4              | 0.3              | 0.4             | 0.6       | 0.7                         | ...              | 1.3                | 0.5                            | 0.3                           | 0.3   |
| 2003 | 0.4             | 1.0                                | 1.0              | 1.0              | 1.0             | 1.3       | 1.4                         | ...              | 1.2                | 1.0                            | 0.9                           | 1.0   |
| 2004 | 1.4             | 0.2                                | 0.1              | 0.2              | 0.2             | 0.3       | 0.5                         | 0.3              | 0.6                | 0.4                            | 0.4                           | 0.2   |
| 2005 | -0.2            | -0.1                               | -0.2             | -0.2             | -0.2            | 0.1       | 0.3                         | -0.3             | -0.1               | -0.1                           | -0.2                          | -0.2  |
| 2006 | -1.6            | -1.1                               | -1.4             | -1.2             | -1.1            | -1.3      | -1.2                        | -1.1             | -1.1               | -1.2                           | -1.3                          | -1.1  |
| 2007 | -0.1            | -0.5                               | -0.7             | -0.6             | -0.5            | -1.0      | -1.1                        | -0.2             | -0.9               | -0.6                           | -0.5                          | -0.5  |
| 2008 | -1.6            | -1.3                               | -1.6             | -1.4             | -1.4            | -2.4      | -2.4                        | -0.4             | -1.5               | -1.6                           | -1.5                          | -1.4  |
| 2009 | -0.3            | 0.7                                | 0.7              | 0.6              | 0.5             | 0.0       | 0.1                         | 1.3              | 0.0                | 0.4                            | 0.5                           | 0.6   |
| 2010 | -0.3            | 0.6                                | 0.7              | 0.7              | 0.6             | 0.3       | 0.1                         | -1.3             | 1.1                | 0.3                            | 0.5                           | 0.6   |
| 2011 | -0.5            | 0.3                                | 0.4              | 0.3              | 0.3             | 0.0       | -0.4                        | 0.1              | -0.5               | 0.0                            | 0.1                           | 0.3   |
| 2012 | 2.7             | 3.0                                | 3.2              | 3.1              | 3.0             | 3.0       | 2.9                         | 3.0              | 2.5                | 2.9                            | 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                                | 0.4              | 0.2              | 0.2             | 0.3       | 0.2                         | -0.2             | -0.4               | 0.2                            | 0.3                           | 0.2   |
| 2015 | 1.4             | 1.1                                | 1.4              | 1.2              | 1.2             | 1.5       | 1.6                         | 1.3              | 1.0                | 1.3                            | 1.3                           | 1.1   |
| 2016 | 0.0             | -0.2                               | 0.2              | -0.1             | -0.1            | 0.4       | 0.6                         | 0.0              | -0.2               | 0.1                            | 0.0                           | -0.1  |
| 2017 | 1.3             | -0.1                               | 0.2              | -0.1             | -0.1            | 0.4       | 0.5                         | 0.2              | 0.1                | 0.3                            | 0.2                           | -0.1  |
| 2018 | 0.1             | -0.8                               | -0.6             | -0.8             | -0.8            | -0.5      | -0.5                        | 0.0              | -1.2               | -0.6                           | -0.6                          | -0.8  |
| 2019 | -0.8            | -0.9                               | -0.9             | -1.0             | -0.9            | -0.9      | -0.7                        | -0.3             | -0.8               | -0.8                           | -0.9                          | -0.9  |
| 2020 | -1.5            | 0.0                                | -0.1             | -0.1             | -0.1            | 0.1       | 0.3                         | 0.0              | -0.9               | -0.3                           | -0.4                          | -0.1  |
| 2021 | -0.5            | -0.8                               | -0.8             | -0.8             | -0.7            | -0.7      | -0.7                        | -2.4             | 0.8                | -0.7                           | -0.7                          | -0.8  |
| 2022 | -0.7            | -1.1                               | -1.8             | -1.8             | -1.4            | -1.8      | -1.9                        | -0.1             | -1.7               | -1.4                           | -1.4                          | -1.4  |

Source: IMAD, EC, IMF, OECD, MoF, FC calculations based on Table 4.1.