REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Monthly Information

October 2022

Document No 30-1/2022/6

Key highlights[1]

- According to provisional data, the state budget deficit amounted to EUR -324 million in the first nine months of 2022, and without the direct impact of measures to mitigate the effects of the epidemic and inflation, the state budget would have a surplus of EUR 377 million. Comparison of the outturn so far and the recently adopted revised state budget for 2022 indicates that a deficit of EUR 1,716 million is expected in the last three months of this year, of which EUR 1,063 million is unrelated to measures to mitigate the effects of the epidemic and inflation.
- Revenue excluding the direct impact of epidemic and inflation mitigation measures was 20.2% higher on a year-on-year basis in the first nine months of 2022. According to the adopted revised budget, the growth of this revenue excluding the above-mentioned epidemic and inflation mitigation measures (hereinafter: "cleaned revenue") is expected to slow down to 8.1% in the last three months of this year.
- Expenditure excluding the direct impact of epidemic and inflation mitigation measures was 9.9% higher on a year-on-year basis in the first nine months of 2022. According to the adopted revised budget, the growth of the "cleaned expenditure" is expected to strengthen to 29.3% in the last three months of this year. This would mean that the "cleaned expenditure" in the last three months of the year would average around EUR 1.5 billion per month, which is around EUR 0.5 billion more than in the first nine months of this year.
- The total level of state budget expenditure for COVID-related measures from March 2020 to the end of September 2022 amounted to EUR 5,445 million; EUR 652 million of that in the first nine months of 2022. The revised budget shows that a further EUR 435 million will be spent by the end of the year.
- The direct financial impact of the measures taken so far to mitigate the impact of the price increases on the state budget this year is estimated at EUR 440 million. Half of this impact is expected to be realised in the last three months of the year.
- The outturn of the state budget in the first nine months confirms the Fiscal Council's assessment that the unrealistically high regular spending entitlements set in the revised budget adopted in October last year were not properly recognised in the revised budget and, consequently, were not adjusted. Thus, the revised budget, in particular with over-imposed expenditure levels, does not constitute an adequate basis for the preparation of budget documents for the next two years, as the actual outturn at the end of the year will clearly be lower. As in the previous two years, such an approach to budgetary planning opens room for even higher spending growth next year.
- On 30 September, the Fiscal Council received the draft budget documents for the next two years. In accordance with the Public Finance Act, the deadline for the assessment of the proposal for the amended Framework for drafting state budgets is 15 days, and the deadline for the assessment of the state budget proposals for 2023 and 2024 is 20 October at the latest.

[1] The Fiscal Council will continue to regularly publish an overview of the implementation of the state budget under the cash flow methodology and COVID-related measures in its monthly publication, subject to availability of such data in the future. All comments pertain to data as at 4 October 2022. Along with the Ministry of Finance, the Fiscal Council would like to thank the Financial Administration of the Republic of Slovenia (FURS) for its cooperation and submitted data.

State budget, January-September 2022[2]

- In September, according to provisional data, the **state budget** had a modest surplus (EUR 8 million) and a total deficit of EUR -324 million in the first nine months of this year. Without the direct effect of measures to mitigate the effects of the epidemic and price rises, the surplus of the state budget in the first nine months amounted to EUR 377 million.
- Total **revenue** in the first nine months of this year was 16.2% higher than in the same period last year; when excluding the direct impact of measures to mitigate the effects of the epidemic and inflation it was 20.2% higher. The high growth is partly due to a base effect, when revenue was rather low in the same months last year due to restrictive measures, partly due to further rapid recovery of domestic demand, and higher inflation also contributed significantly to growth.
- VAT revenue is the largest contributor to the year-on-year so-called "cleaned revenue" growth, which was almost one-fifth higher on a year-on-year basis and accounted for about a third of total growth in the "cleaned revenue". At the same time, the September data does not indicate a significant moderation in household consumption growth. On the basis of actual outturn and the adopted revised budget, VAT revenue in the last three months of this year is expected to be slightly lower than in the same period last year.

Table 1: State budget

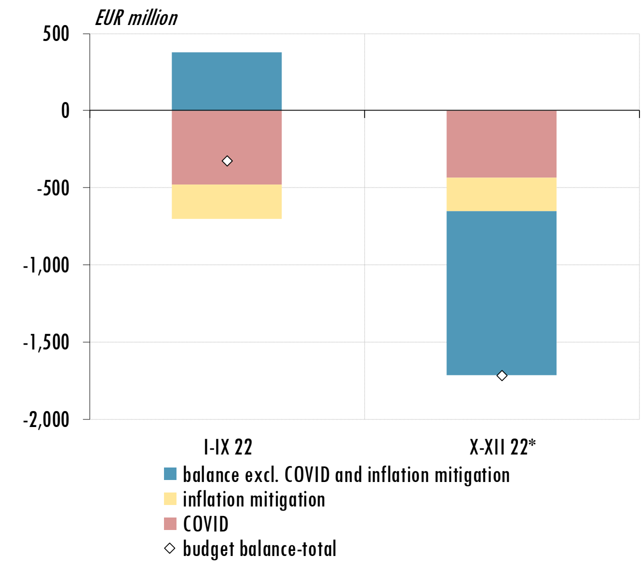
	I-IX 22				X-XII 22*				excl. COVID and infl. mitigation***	
	total	COVID	inflation mitigation**	excl. COVID and infl. mitigation	total	COVID	inflation mitigation**	excl. COVID and infl. mitigation	I-IX 22/21	X-XII 22/ 21
Revenue	**9,258**	**173**	**-114**	**9,199**	**3,282**		**-98**	**3,380**	**20.2**	**8.1**
VAT	3,544	46	-14	3,513	1,199		-43	1,242	18.6	-0.5
Excise duties	1,097	2	-76	1,171	419		-29	447	13.0	15.9
Personal income tax	1,087	81		1,006	471			471	1.4	4.3
Corporate income tax	1,248	4		1,244	307			307	74.6	23.7
EU funds1	678	27		651	518			518	32.6	54.2
Non-tax	590	0		590	99			99	-8.3	-43.1
Other revenue	1,013	13	-23	1,024	270		-26	296	25.7	4.6
Expenditure	**9,582**	**652**	**108**	**8,822**	**4,998**	**435**	**120**	**4,443**	**9.9**	**29.3**
Total labour costs	2,704	33		2,671	1,155	24		1,131	3.2	34.0
Transfers to individuals and households	1,425	126		1,298	402	7	74	321	15.1	-19.2
Expenditure on goods and services	1,041	146		895	476	14		462	12.5	0.1
Investment	785	15		770	1,138	46		1,092	26.9	90.7
Current transfers to social security funds	1,226	157		1,070	468	91		377	-3.0	52.9
Subsidies	441	32	108	301	215	40	46	128	13.3	-5.9
Interest	561	0		561	113	0		113	-11.3	19.8
Payments to the EU budget	535	0		535	179	0		179	21.5	-4.9
Other expenditure	863	142		721	851	212		640	52.6	29.5
Expenditure excl. Investment	8,797	637	108	8,052	3,860	389	120	3,351	8.5	17.1
Balance (EUR million)	**-324**	**-479**	**-222**	**377**	**-1,716**	**-435**	**-218**	**-1,063**	**758**	**-754**

*Sources: MoF, FC calculations. Note: *implicitly calculated to match MoF forecast (Revised budget (Sep. 22),**FC estimates, ***y-o-y change in%, except Balance (EUR million).*

[2] The comments on the state budget implementation refer to the daily data available at: https://proracun.gov.si/#. (Only in Slovene)

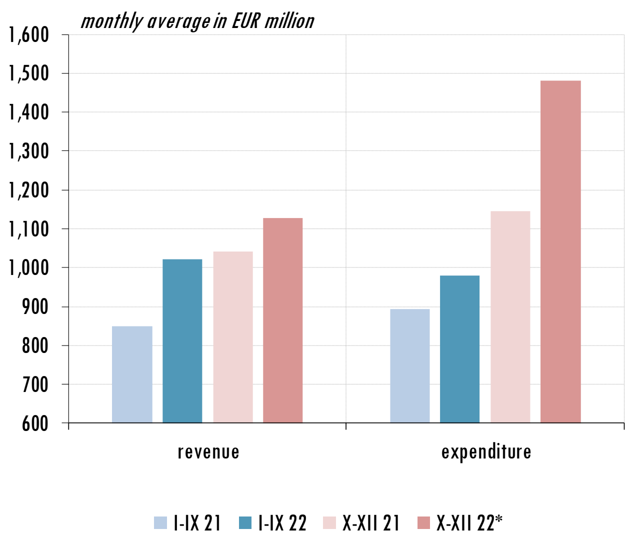
- The second most important factor in revenue growth this year is higher corporate income tax revenue, which was 74.6% higher on a year-on-year basis in the first nine months of this year. The high growth is mainly due to the record high tax settlement as a result of the successful operation of companies last year. On this basis, the advance payment this year is also higher than last year.
- Growth in income tax revenue has slowed down considerably with the expiry of most allowance payments, which were markedly high last year. In addition to the change in legislation, the moderation in growth was also due to a higher tax settlement than last year. Nevertheless, this revenue was around a third or EUR 230 million higher than in the same period of the pre-crisis year of 2019.

Figure 1: State budget balance structure



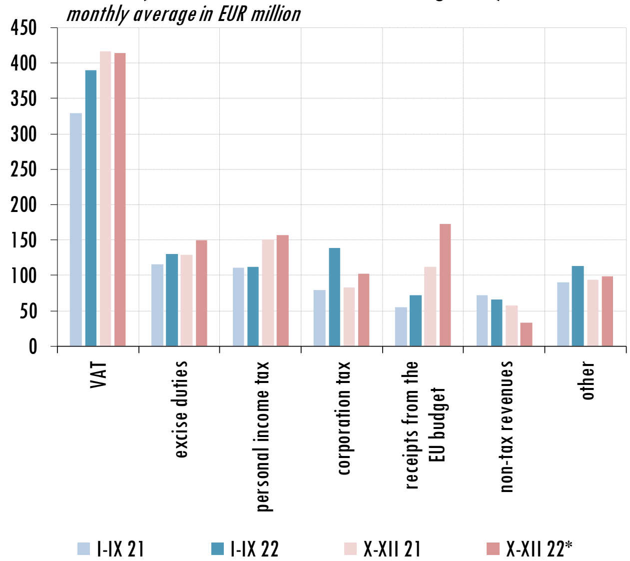
*Source: MoF, FC calcuations. Note: * based implicitly on Revised budget (Sep. 22).*

Figure 2: State budget revenue and expenditure (excl. COVID and inflation mitigation)



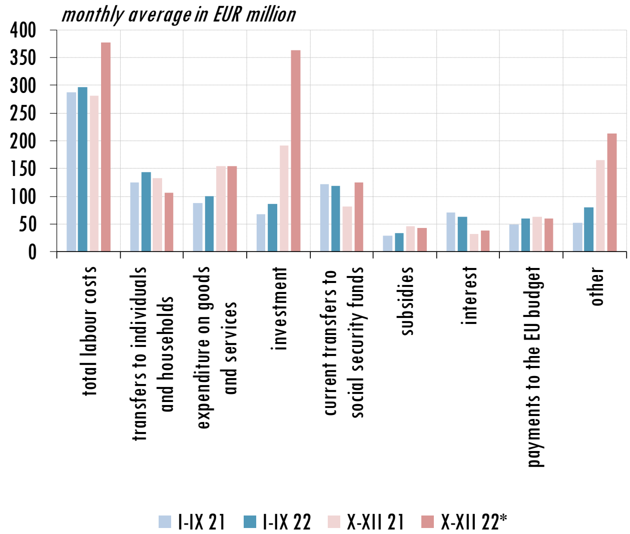
*Source: MoF, FC calcuations. Note: * based implicitly on Revised budget (Sep. 22).*

Figure 3: State budget revenue (excl. COVID and inflation mitigation)



*Source: MoF, FC calcuations. Note: * based implicitly on Revised budget (Sep. 22).*

Figure 4: State budget expenditure (excl. COVID and inflation mitigation)



*Source: MoF, FC calcuations. Note: * based implicitly on Revised budget (Sep. 22).*

- The Government's action led to a relatively low growth in excise revenue (2.0%), as this fell as of early February due to high energy prices. Without the effect of the reduced excise duties, the growth in excise revenue would have been similar to last year due to higher sales volumes.
- Revenue from EU funds increased by 18.8% year-on-year over the first nine months, partly due to the January disbursement of the remaining part of the first tranche of the Recovery and Resilience Plan (RRP) funds of EUR 118 million. Despite a reduction of around EUR 0.5 billion in the revised budget projection compared to the budget in force in October last year, the Fiscal Council estimates that the annual outturn will again fall short of the budget plans. This would require another EUR 518 million in the last three months of this year, which would imply a significant acceleration of growth at the end of the year.
- Total **expenditure** in the first nine months of this year was 8.0% lower than in the same period last year. This was mainly a consequence of the direct effect of COVID-related measures. These amounted to EUR 2,388 million in the first nine months of last year and to EUR 652 million in the same period this year. Without this impact and the impact of the inflation mitigation measures, expenditure was 9.9% year-on-year in the first nine months of this year.
- A significant part of total growth, excluding the effect of COVID-related measures, is due to the transfer of EUR 118 million to the RRP funds received in January to the budgetary fund. Without this effect, total "cleaned expenditure" growth would have been 8.4% over the nine months.
- Among the other key categories of expenditure, higher transfers to individuals and households contributed most to aggregate growth, mainly due to the regulatory alignment with last year's inflation. In the last three months of the year, social transfers are expected to be lower year-on-year, which the Fiscal Council estimates is not realistic and represents a continuation of the practice of underestimating this spending category in budgetary planning.
- Expenditure on goods and services grew more than in the same period last year, similarly to social transfers, partly due to higher inflation. Their growth will also supposedly stall completely in the last three months, which does not seem to be a realistic assumption.
- Labour cost growth (excluding COVID-related allowances) stood at 3.2% in the first nine months of this year, largely driven by the impact of employment growth and regular promotions. From the outturn so far and the adopted revised budget, their growth is expected to grow to as much as 34.0% in the last three months. This is not a realistic assumption in the Fiscal Council's view, despite the agreement reached with the trade unions on an increase of 4.5% with the October salary and the increase in the meal allowance as of September and the backpay of holiday allowance. Moreover, according to the Government, in the revised budget, the resources intended to cover the effect of the trade union agreement were shown in the reserves and not under labour cost items.
- Investment expenditure amounted to EUR 785 million in the first nine months, and according to projections in the revised budget, a further EUR 1,138 million of investment is expected to be realised in the last three months of this year, which is only EUR 100 million less than in the whole of last year. Annual investment growth is expected to accelerate from 24.8% in the first nine months to around 90% in the last three months of the year.

Implementation of COVID-related measures January–September 2022

- Expenditure of the state budget for COVID-related measures amounted to EUR 652 million in the first nine months of this year, and after the adoption of the revised budget, EUR 1,087 million is expected to be allocated to these measures this year. Since the beginning of the epidemic in March 2020, EUR 5,445 million of budgetary funds have been earmarked for COVID-related measures.
- The majority of the planned funds for COVID-related measures in the last three months of the year represent a reserve of EUR 180 million and a second transfer to the Health Insurance Institute of Slovenia (ZZZS) amounting to around EUR 90 million, in particular on the basis of the second paragraph of Article 80 of the Act on Additional Measures to Stop Spreading and Mitigate, Control, Recover and Eliminate the Consequences of COVID-19 (ZDUPŠOP) (the tenth anti-corona package (ACP10)). According to this act, higher wage-raising obligations for individual occupational groups in health care sector must be covered by the state budget. In the Fiscal Council's opinion, this financial liability is not directly related to the epidemic and constitutes an example of misuse of intervention legislation to solve other public sector problems.