REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Assessment of budgetary documents for 2023 and 2024

(Proposal for the Ordinance amending the Ordinance on the framework for the preparation of the general government budgets for the 2022–2024 period, Proposal for the Amendment to the Budget of the Republic of Slovenia for 2023 and Draft Budget of the Republic of Slovenia for 2024)

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This assessment is based on the proposal for the amendment to the budget of the Republic of Slovenia for 2023, the draft budget of the Republic of Slovenia for 2024, the proposal for the ordinance amending the ordinance on the framework for the preparation of the general government budgets for the 2022–2024 period and the draft budgetary plan for 2023 (all received between 30 September and 13 October 2022). Some forecast values in EUR were calculated indirectly from rounded proportions of GDP shown in the 2023 draft budgetary plan, so certain items do not sum exactly. An expanded version of Section 4.1 of this document was published separately as the Fiscal Council's assessment "Fulfilment of conditions for the existence of exceptional circumstances in 2023", which the Fiscal Council submitted to the Government of the Republic of Slovenia on 23 September 2022. Data available up to and including 11 October 2022 were used.

TABLE OF CONTENTS:

List of abbreviations 5
Executive summary 7
Legislative framework 9

1. Macroeconomic conditions and forecasts 10
1.1 Overview of macroeconomic conditions and forecasts 10
1.2 Assessment of the cyclical position of the economy 13
1.3 Comparison of the macroeconomic scenarios of the Draft budgetary plans for 2022 and 2023 14

2. Fiscal conditions and forecasts 16
2.1 Assessment of the projected revenues and expenditures in the Draft Budgets 16
Box 2.1: Projections of the general government balance in the Draft budgetary plan for 2023 25
Box 2.2: Impact of discretionary measures and legislation on the general government balance 28
2.2 Gross general government debt 31

3. Risks to the macroeconomic and fiscal scenarios 34
Box 3.1: Slovenia's general government debt: An analysis of medium-term sustainability 38

4. Adequacy of fiscal policy orientations 40
4.1 Existence of exceptional circumstances in 2023 40
4.2 Assessment of the fiscal policy stance 42
Box 4.1: Indicative assessment of compliance of the Framework Proposal with fiscal rules 45
Box 4.2: Compliance of the Draft Budgets and Framework Proposal with fiscal rules 47

5. Annex 51

Literature 58

FIGURES:

Figure 1.1: Real GDP 10
Figure 1.2: Business tendency and consumer surveys - expectations 10
Figure 1.3: Real GDP growth in 2023 forecasts for Slovenia 11
Figure 1.4: Real GDP growth in 2023 forecasts and scenarios for euro area 11
Figure 1.5: Demand factors and GDP 12
Figure 1.6: Supply factors and GDP 12
Figure 1.7: Tax bases 12
Figure 1.8: Output gap estimate range 14
Figure 1.9: Indicators of economic cycle dynamics 2005-2022 14
Figure 2.1: State budget balance structure 2022 17
Figure 2.2: State budget balance 17
Figure 2.3: State budget balance structure 18
Figure 2.4: Factors of state budget balance change 18
Figure 2.5: State budget revenue change 19
Figure 2.6: State budget receipts from the EU budget 19
Figure 2.7: State budget expenditure 21
Figure 2.8: Factors of state budget expenditure change (excluding COVID and inflation mitigation) 21
Figure 2.9: State budget investment expenditure 21
Figure 2.10: Factors of current expenditure change (excl. COVID and inflation mitigation) 21
Figure 2.11: State budget balance (excl. COVID, inflation mitigation, investment and interest) 23
Figure 2.12: State budget expenditure excluding COVID and inflation mitigation 23
Figure 2.13: General government debt 31
Figure 2.14: Change in general government debt 31
Figure 2.15: Yields on 10-year government EUR reference bonds 31
Figure 2.16: Reference 10-year government bond spreads against benchmark German bond 31
Figure 2.17: State budget debt repayment schedule until 2050 32
Figure 2.18: Key characteristics of debt maturities and current required yields 32
Figure 2.19: Gross general government debt 33
Figure 3.1: Estimates of sensitivity of general government balance (ESA) to deviation in GDP growth 37
Figure 3.2: Estimates of sensitivity of general government debt (ESA) to deviation in GDP growth 37
Figure 4.1: Fiscal policy stance 43
Figure 4.2: Fiscal policy stance excluding general government investment 43

TABLES:

Table 1.1: Comparison of the macroeconomic scenarios of the Draft budgetary plans for 2022 and 2023 14
Table 2.1: State budget projections 2022-2024 18
Table 5.1: Output gap estimates 52
Table 5.2: Structural balance estimates 53
Table 5.3: Structural effort estimates 54
Table 5.4: Structural primary balance estimates 55
Table 5.5: Structural primary effort estimates 56
Table 5.6: Maximum general government expenditure and deviation from the framework 57

List of abbreviations

AJPES – Agency of the Republic of Slovenia for Public Legal Records and Related Services

BoS – Bank of Slovenia

COVID – Coronavirus disease

DBP – Draft Budgetary Plan

EBRD – European Bank for Reconstruction and Development

EC – European Commission

ECB – European Central Bank

EFB – European Fiscal Board

ESA – European System of Accounts

ESRB – European Systemic Risk Board

EU – European Union

EU IFI – The EU Independent Fiscal Institutions Network

EUR – euro

FC – Fiscal Council

FRA – Fiscal Rule Act

GDP – gross domestic product

HP – Hodrick–Prescott

IMAD – Institute of Macroeconomic Analysis and Development

IMF – International Monetary Fund

kWh – kilowatt hour

max E – Maximum general government expenditure

MFF – Multi-Annual Financial Framework

MoF – Ministry of Finance

MTO – medium-term budgetary objective under the European Commission rules

OECD – Organisation for Economic Cooperation and Development

PFA – Public Finance Act

PKP – anti-corona legislative packages

p.p. – percentage point

REACT-EU – Recovery Assistance for Cohesion and the Territories of Europe

RRF - Recovery and Resilience Facility

RS – Republic of Slovenia

SORS – Statistical Office of the Republic of Slovenia

USD – US dollar

VAT – Value Added Tax

WIIW – Wiener Institut für Internationale Wirtschaftsvergleiche

ZIPRS2324 –Implementation of the Republic of Slovenia Budget for 2023 and 2024 Act

ZPIZ – Pension and Disability Insurance Institute

ZZZS – Health Insurance Institute

EXECUTIVE SUMMARY

Under current circumstances, fiscal policy needs to maintain the flexibility to act fast and ensure effective measures to cushion the blow of the cost of living crisis but at the same time avoid creating additional inflationary pressures and putting at risk the sustainability of public debt in the medium term. The draft budgets have taken such orientations into account to some extent, but they come with a number of shortcomings and risks. We assess that the fiscal stimulus envisaged in the proposed budget documents, mainly in the form of a further increase in the already high level of investment, is neither necessary nor appropriate under the given circumstances and in view of expected economic trends. The assessment of projections in the submitted budget documents was made more difficult as their basis was set unrealistically in the 2022 revised budget. This increases the likelihood of higher-than-projected growth rates in 2023, particularly for government expenditure. In addition to the continued acceleration of investments, the rapid growth in expenditure is primarily due to discretionary measures taken after the entry into force of the applicable budget last autumn. These measures, coupled with a deteriorated starting position of public finances in 2022, the envisaged large-scale measures to tackle the cost of living crisis and the cooling of economic activity, contribute to the projected high deficit in 2023.

* * *

According to the proposed budgets, the general government deficit should reach 5.0% of GDP in 2023 and 2.4% of GDP excluding one-off factors. The latter deficit is expected to remain at a similar level in 2024. The general government debt is projected to fall to 70% of GDP by the end of 2024 and thus remain higher than in the pre-pandemic period. The Fiscal Council estimates that such an outturn would imply a relatively neutral fiscal policy stance on average over the next two years, taking into account large one-off factors, overestimated investment and high inflation. If demand were boosted further, fiscal policy would run counter to the ongoing monetary policy efforts to contain the upswing in inflation expectations and also counter to economic policy's own efforts to mitigate the cost of living crisis.

The outlook for 2023 is shrouded in extreme uncertainty and marked by high geopolitical risks of a further deterioration in the economic growth outlook, which calls for flexible action by the Government. This can be described as an unusual event beyond control, which may have significant implications for the financial situation of the general government sector. As a result, exceptional circumstances continue to be invoked in 2023, as also foreseen by the Government in its budget documents. Flexibility in tackling the cost of living crisis in the proposed budget documents entails the creation of a high reserve, which the Fiscal Council considers appropriate, while ensuring its exclusively dedicated and transparently presented spending. Measures to tackle the high cost of living must be effective and must not permanently worsen the public finance position, so it is essential that they are temporary and, as far as possible, targeted at helping the most vulnerable groups of the population and the most exposed sectors of the economy. In introducing them, consideration should also be given to the burden-sharing between the State and the private sector of the energy shock, which is unlikely to be temporary, since, in our assessment, the private sector also has some room for manoeuvre.

Budget developments will be largely driven, in addition to one-off factors, by sizeable discretionary measures taken over the past year and the expected high level of investment. Discretionary measures are expected to worsen the state of public finances by about 2% of GDP per year in the coming years, acting on both the revenue and expenditure sides. The discretionary expenditure measures are strongly predominant due to the proposed adjustments to the tax legislation, which partly neutralise the effect of the original changes. The bulk of them relate to public sector salaries and social benefits, which, in a context of high inflation and on the basis of existing legislation, in addition to measures to address the cost of living crisis, ensures that their real value is preserved. The projected growth in current government expenditure over the next two years is around 6% per year, which is about twice the long-term average. The risks of even higher growth are significant, especially as regards salaries.

In the budget documents, investments are planned at a record high level, though we estimate this will not be realised in full. A focus on investments is reasonable if they address the risks to which the economy will be exposed in the future and may have an impact on growth in economic potential and on the sustainability of public finances. However, their rapid increase is usually marked by inefficiency, which could be particularly pronounced in the face of constraints on the supply side and the absorption capacity of the administration. A relatively high share of the planned investments is expected to be financed with EU funds, which reflects the conclusion of the past and the beginning of the new multi-annual financial framework (hereinafter: MFF), and the RRF funds, where there are already delays in meeting the milestones as a condition for disbursements. However, the projected funding structure also increases the already high level of domestic resources compared to the existing budget documents, which also increases the risks of inefficient project implementation.

In a period of heightened uncertainty, fiscal policy needs to ensure credibility and transparency and preserve the medium-term sustainability of the public debt, as assessed by the Fiscal Council, the European Commission and other international institutions. Realistic planning can largely contribute to the credibility of fiscal policy, where shortcomings have been perceived, in particular in the context of the adopted revised budget for 2022 and in terms of the public investment projections. A heightened uncertainty does not justify the significant deviation in the estimate of budget outturns a few months before the end of the year from the likely developments, as witnessed for the third consecutive year. We assess that this is to some extent a repetition of the abuse of the flexibility allowed by the exceptional circumstances instrument, which introduces unnecessary opacity into the budget planning process and opens up room for inefficient spending of public money. Improving the investment planning system or including more realistic estimates of the investment volumes in budgets could also play an important role in increasing the transparency and reliability of budget plans. The highest level of transparency should also be ensured in the use of funds in order to ease the effects of rising prices, which is envisaged in the accompanying budget legislation.

According to our analysis based on the proposed budget documents, the potential risks of a deterioration in the medium-term sustainability of government debt are relatively limited. The Fiscal Council has assessed that the short-term deterioration of fiscal position, which increases the risk of adverse reactions from financial markets and a rise in the required rate of return on new borrowings, is likely to be smaller than predicted. At the same time, the State has ample liquid assets, which gives it some leeway to neutralise the impact of the deficit on government debt. In the medium term, one of the key economic policy tasks remains the preparation of comprehensive set of measures to limit the impact of long-term risks to which public finances are exposed.

Legislative framework

On 30 September 2022, the Government of the Republic of Slovenia (hereinafter: the Government) submitted to the Fiscal Council the proposal for the ordinance amending the ordinance on the framework for the preparation of the general government budgets for the 2022–2024 period (hereinafter: the Framework Proposal), the proposal for the amendment to the budget of the Republic of Slovenia for 2023 and the draft budget of the Republic of Slovenia for 2024, together with related documents (hereinafter: Draft Budgets). The Ministry of Finance and the Fiscal Council have concluded a Memorandums of understanding,[1] which sets out, within agreed deadlines, supporting documentation that should accompany budget documents, which should be sent by the Ministry of Finance to the Fiscal Council. This documentation was sent by the Ministry of Finance to the Fiscal Council between 30 September 2022 and 3 October 2022. The projections of the general government balance in the draft budgetary plan for 2023 (hereinafter: DBP23) according to the ESA 2010 methodology were sent by the Ministry of Finance to the Fiscal Council on 30 October 2022 and the document itself on 13 October 2022. Pursuant to Articles 2 and 3 of the Fiscal Rule Act (FRA), compliance with fiscal rules is assessed with respect to the entire general government sector, so that the projections under the ESA 2010 methodology provide the basis for an overall assessment of compliance with fiscal rules and of the fiscal policy stance in the Draft Budgets. In accordance with the cooperation agreement, on 28 September 2022, IMAD presented the Fiscal Council's Analysis Service with economic trends and risks based on the autumn forecast.

Pursuant to Article 28 of the Public Finance Act (PFA), the Government is required to submit a budget proposal to the National Assembly of the Republic of Slovenia by 1 October. If, upon submitting budget documents or their amendments, the Government finds there has been a change in the circumstances based on which the framework was adopted, it must also submit a framework amendment to the National Assembly and the Fiscal Council. Pursuant to Article 9f of the PFA, the Fiscal Council is required to submit the assessment of compliance with the fiscal rules in the aforementioned documents to the National Assembly and the Government no later than 15 days after receiving the Framework Proposal, i.e. by 15 October 2022, and the assessment in respect of the Draft Budgets no later than 20 October 2022.

On 26 September 2022, the Fiscal Council presented its findings on the existence of exceptional circumstances in 2023. Pursuant to Article 12 of the Fiscal Rule Act (FRA), the Government shall determine whether exceptional circumstances have arisen or have ceased to exist after obtaining the assessment of the Fiscal Council. 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 Budgets and in the Framework Proposal with the fiscal rules in accordance with points 2 or 8 of paragraph two and points 2 or 5 of paragraph three of Article 7 of the FRA. As a result of the existence of exceptional circumstances in March 2023, the implementation of the medium-term balance, as specified in Article 3 of the FRA, is assessed merely indicatively.

[1] Available at: https://www.fs-rs.si/fiscal-council/co-operation/. (Only in Slovene)

1. Macroeconomic conditions and forecasts

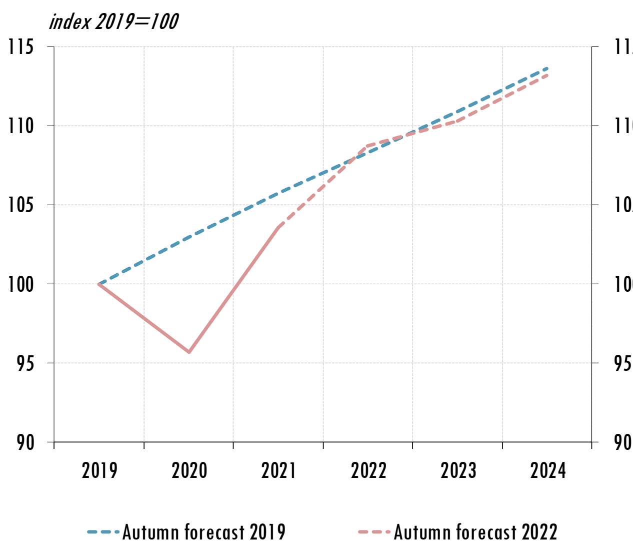
Key findings

- Following a rapid post-epidemic recovery, which was one of the most pronounced in the EU, economic activity is expected to slow over the next two years mainly due to negative impulses from the international environment and the weakening of the short-term stimulus effects during the epidemic.
- The slowdown in the growth of nominal tax bases will be less pronounced due to high inflation, so their growth should be mostly higher than in the years before the epidemic and their level is expected to be much more favourable than projected in the last autumn forecast by IMAD, which was the basis for next year's current budget.
- According to currently available estimates, the positive output gap is expected to gradually close over the next two years and, as a consequence, supply-side constraint pressures are expected to ease somewhat.

1.1 Overview of macroeconomic conditions and forecasts

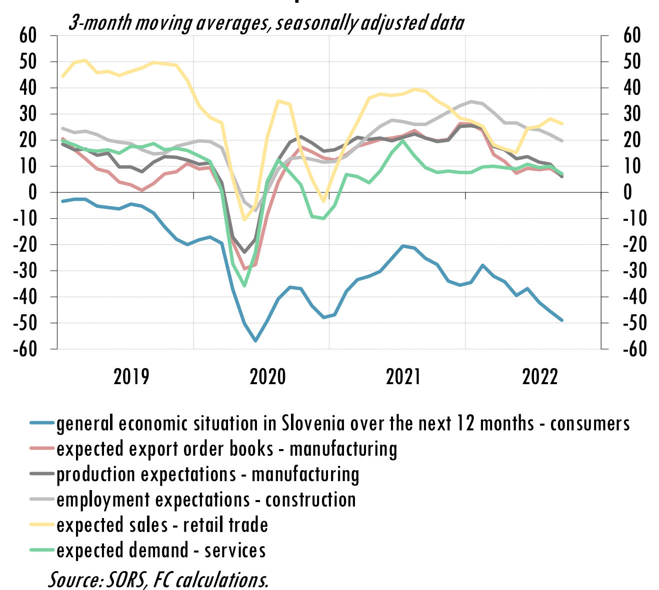
After a remarkably fast recovery in the last two years, growth in economic activity is expected to slow markedly next year, with the possibility of a downturn in the face of high uncertainty over the energy crisis. The level of real GDP in Q2 this year was almost 8% higher than at the end of 2019, i.e. before the outbreak of the epidemic, which is one of the fastest recoveries of economic activity across the EU. The recovery has been broad-based, with private consumption playing a key role, supported by favourable labour market conditions and the use of the most part of the extra savings accumulated during the epidemic.[2] While growth in economic activity began to lose momentum already in the first

Figure 1.1: Real GDP



Source: SORS, IMAD, FC calculations.

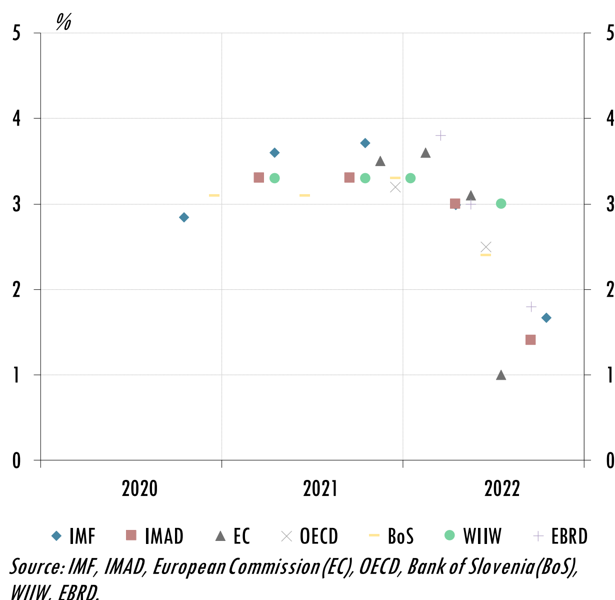
Figure 1.2: Business tendency and consumer surveys - expectations



Source: SORS, FC calculations.

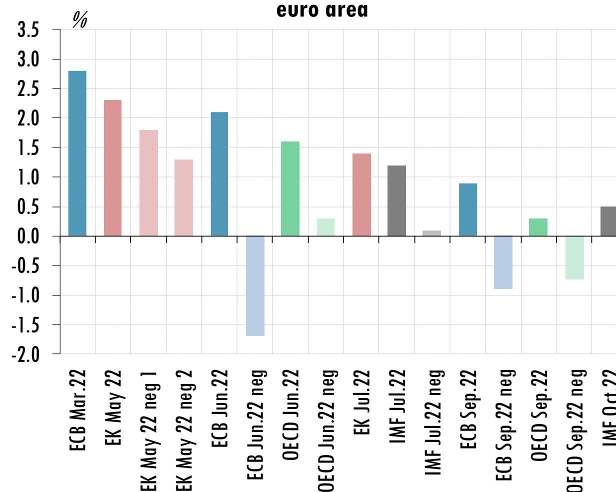
[2] According to SORS data, the household saving rate was slightly lower in the first half of this year than in the same period of 2019.

Figure 1.3: Real GDP growth in 2023 forecasts for Slovenia



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

Figure 1.4: Real GDP growth in 2023 forecasts and scenarios for euro area



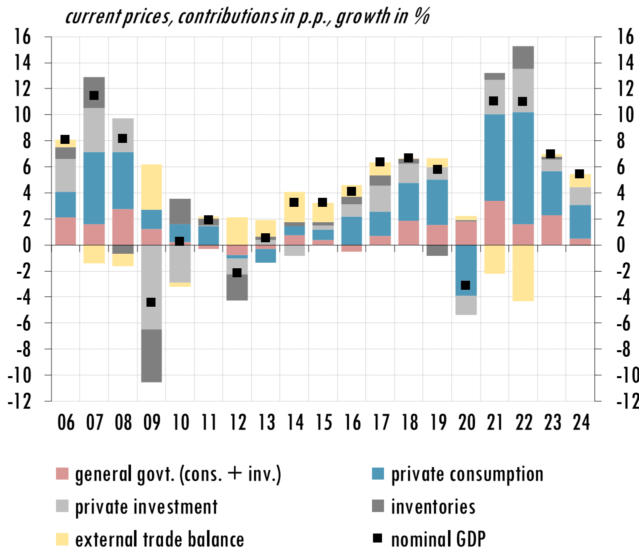
Source: ECB, EC, IMF. Note: "neg" denotes negative scenarios in respective forecasts. For OECD values of negative scenario based on all European OECD members are subtracted from baseline.

half of the year, it was still slightly above its long-term average.[3] Curtailed global supply chains and higher commodity prices, especially for energy products, have resulted in lower foreign demand and a deterioration in sentiment (Figure 1.2), thus increasing caution among domestic economic operators. As implicitly derived from IMAD's autumn forecast,[4] this will lead to an ongoing decline in economic activity already in the second half of this year, which is expected to continue into the beginning of next year. Real GDP growth is thus projected to fall to 1.4% next year under the baseline scenario. Despite a significant slowdown, the level of economic activity over the next two years under the baseline scenario of the IMAD autumn forecast would be very similar to the level in the 2019 autumn forecast (Figure 1.1). Otherwise, if economic activity in the main trading partners declines, which is increasingly likely according to the forecasts published by international institutions following the completion of IMAD's forecast (Figure 1.4), economic activity in Slovenia could also decline next year and could, according to IMAD's estimates, be 1.5–2.0 percentage points lower than predicted in the baseline scenario in the face of lower foreign demand.

The expected economic slowdown over the next two years will largely reflect the end of the positive cyclical momentum, which the strengthened fiscal impulse is expected to ease only to a limited extent. The slowdown in nominal GDP growth over the next two years will be entirely due to a moderation in the positive cyclical momentum from last year and this year, which is expected to turn negative next year (Figure 1.6). According to IMAD's forecast, the growth of all demand factors is projected to decelerate noticeably on average over the next two years and also to lag behind the 2015–2019 average. The most pronounced slowdown is estimated to be in household consumption and private investment, mainly related to increased uncertainty and the resulting deterioration in sentiment and, in the case of household consumption, also in the spending of the extra savings accumulated during the epidemic. Lower growth in domestic demand is projected to slow imports more than exports, meaning that the contribution of net exports should no longer be negative. The fiscal impulse to growth[5] is

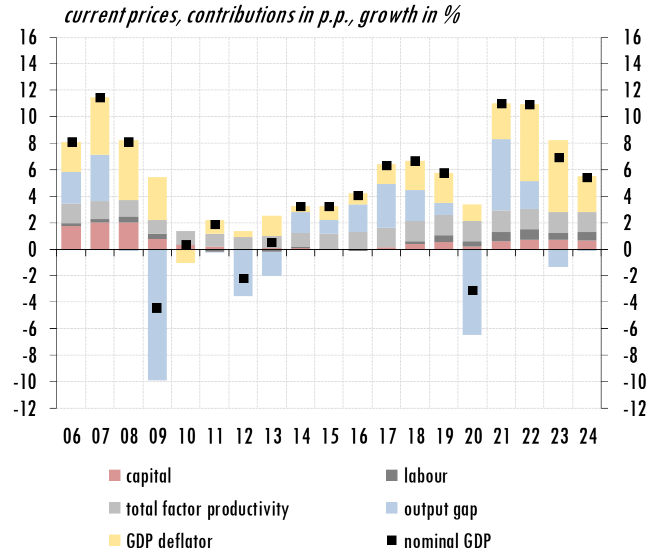
[3] The average quarterly seasonally adjusted GDP growth in the first two quarters of this year was 0.8%, compared to an average of 0.5% over the 2005–2021 period.
[4] IMAD (2022). The forecasts of IMAD constitute the basis for the budgetary planning in accordance with the Decree on development planning documents and procedures for the preparation of the central government budget and local government budgets (Official Gazette of the Republic of Slovenia [Uradni list RS], Nos 44/07 and 54/10).
[5] According to IMAD's projections, the direct contribution of government consumption and investments to nominal GDP growth is estimated to be around one-third or 2.3 percentage points.

Figure 1.5: Demand factors and GDP



Source: MoF, SORS, IMAD, FC calculations.

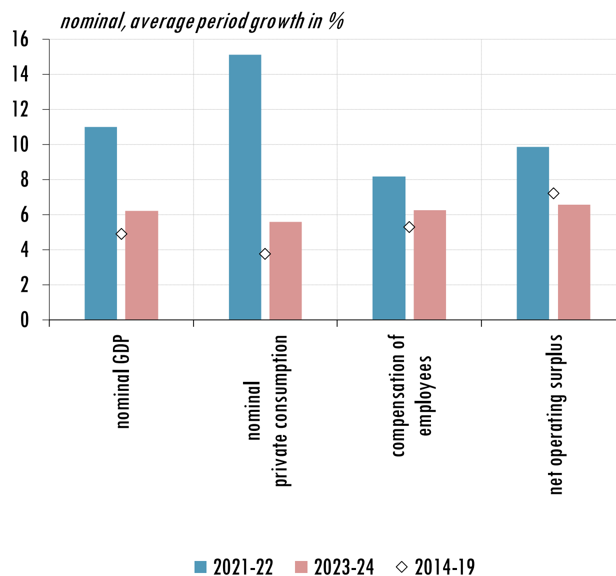
Figure 1.6: Supply factors and GDP



Source: SORS, IMAD, FC calculations.

expected to pick up somewhat next year (Figure 1.5), which in part[6] makes sense from the point of view of the counter-cyclical operation of fiscal policy, but will mitigate the fall in private demand only to a limited extent. However, nominal GDP growth over the next two years is expected to be largely driven by high inflation, as is the case this year. At the same time, the contribution of capital will remain at a similar level, as the increase in government investment is expected to significantly offset the decline in private investment. According to IMAD's forecast that labour market conditions are expected to remain favourable, the contributions of labour is also likely to remain at similar levels, as will the contribution of total factor productivity.

Figure 1.7: Tax bases



Source: SORS, FC calculations.

[6] The projected level of economic activity is expected to remain relatively favourable despite the slowdown in economic growth (see also Sections 1.2 and 1.3), but in conditions of exceeding demand excessive additional impulses in the face of the current expansionary stance of (the level of) fiscal policy could trigger additional inflationary pressures due to supply-side constraints.

The deterioration in the economic outlook is also projected in the forecast of trends in key tax bases,[7] but, mainly due to high inflation, growth will in most cases still be higher than in the years before the epidemic. Annual GDP growth in current prices is projected to average 6.2% in the 2023–2024 period, which is higher than in the recovery period following the banking bailout (2014–2019: 4.9%). In total, nominal GDP is expected to increase by EUR 7.4 billion over the two years up to and including 2024.[8] Growth in private consumption at current prices (5.6%) is also predicted to exceed the average growth in the years prior to the epidemic, as is nominal growth in compensation per employee (6.3%), which, given the expected slowdown in employment growth, will result from stronger nominal wage growth. Growth in the net operating surplus will moderate noticeably over the next two years, following the exceptionally high growth in 2021 and 2022, which was the highest since the financial crisis. Nevertheless, this growth will only be slightly lower than in the pre-epidemic period.

1.2 Assessment of the cyclical position of the economy

Available estimates have led the Fiscal Council to assess that the positive output gap will gradually close over the 2023–2024 period. According to currently available estimates, in 2021, i.e. after the outbreak of the epidemic, the negative output gap from 2020 closed relatively quickly, as aggregate demand growth in 2021 and 2022 significantly outpaced the currently estimated growth in economic potential. The rapid closing of the negative output gap also reflects the fact that the 2020 shock did not have lasting negative consequences for economic activity. According to currently available calculations, the positive output gap is projected to narrow gradually over the period covered by the Draft Budgets.[9] In both years, it is expected to remain below the 1.5% threshold which, according to the EC methodology, demarcates the area of the normal period of the business cycle from the so-called good times that mark the overheating of the economy.[10]

With the transition to the second half of 2022, the business sector faced supply-side constraints, but pressures are expected to ease over the next two years. To determine the state of the economic cycle, the Fiscal Council monitors a wide range of indicators. Following a rapid recovery in activity last year and in the first half of this year, all indicators are above their long-term average levels, some even reaching the highest levels to date. This is particularly the case for economic growth, employment/unemployment and core inflation indicators. In this context, supply-side constraints are increasingly evident, notably in the labour market, with companies pointing to a shortage of (suitably skilled) workers and foreigners contributing over 70% of the growth in the labour force. In those private sector industries facing labour shortages, this year's nominal wage growth is well above the long-term average, although it is lower in real terms in some cases due to high inflation. Favourable conditions are also reflected in the recovery of loans to the private sector and in real estate prices. Over the next two years, economic growth is expected to lose momentum and inflation should moderate gradually, according to IMAD's autumn forecast. However, the situation on the labour market will continue to be driven by demographic trends, which will be reflected in lower employment

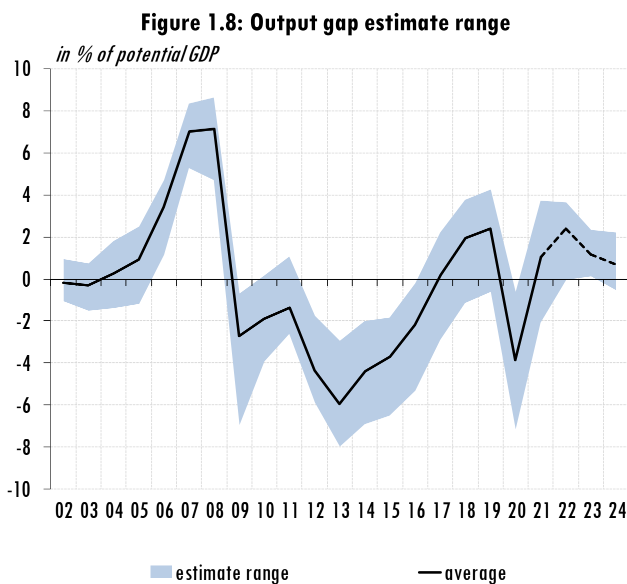
[7] Tax bases such as listed by the Ministry of Finance (2019).

[8] This would be less than in 2021 and 2022, when it increased by a total of EUR 10.9 billion. By comparison, in 2018 and 2019 it increased by a total of EUR 5.5 billion.

[9] Of the nine output gap estimates used by the Fiscal Council, data for 2024 are currently not available for the three institutions that produce those estimates.

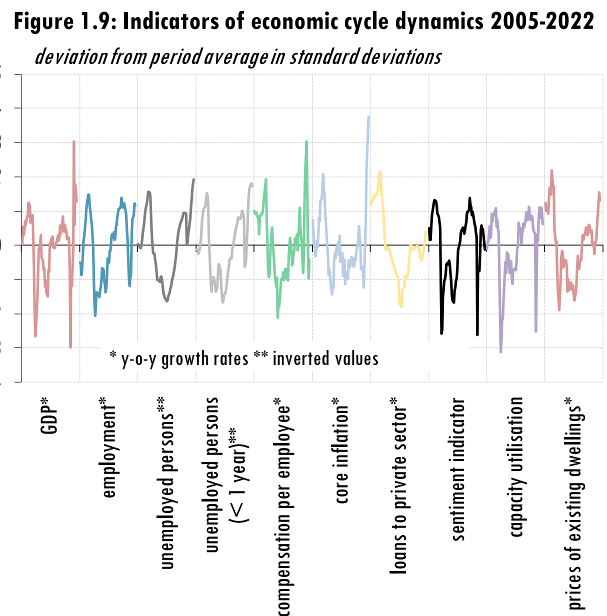
[10] The EC defines normal times as a period in which the output gap estimate is between −1.5% and 1.5% of potential GDP, while good times are defined as a period in which the output gap estimate exceeds 1.5% of potential GDP (EC, 2019). The requirements for structural efforts or regarding progress towards the medium-term fiscal objective as determined by the EC (MTO) also depend on the definition of the economic cycle period in the absence of exceptional circumstances.

Figure 1.8: Output gap estimate range



Source: IMAD, EC, OECD, IMF, MoF, FC calculations. See note under Table 5.1.

Figure 1.9: Indicators of economic cycle dynamics 2005-2022



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

growth and nominal wage growth that will continue to exceed long-term averages. Unemployment is also expected to continue to decline although at a slower pace. The tightening of financing conditions as monetary policy normalises is likely to be reflected in subdued loan and property price dynamics.

1.3 Comparison of the macroeconomic scenarios of the Draft budgetary plans for 2022 and 2023

The macroeconomic scenario of the DBP23[11] is more favourable than that of the DBP22,[12] mainly due to a stronger recovery in economic activity last year and this year. Economic growth was higher last year and, according to the latest forecast, will continue to be higher this year than projected in last year's autumn forecast, which served as a basis for the drafting of the DBP22. Thus the starting position for the government revenue projections in 2023 and 2024, which depends mainly on nominal tax bases trends, is much better than at the time when the budget documents were drafted last autumn (see Table 1.1). Nominal GDP is projected to be EUR 4.6 billion higher in 2022, along with significantly higher levels of the other key tax bases. However, in addition to the starting position, the

Table 1.1: Comparison of the macroeconomic scenarios of the Draft budgetary plans for 2022 and 2023

	2021			2022			2023			2024		
	Sep.21	outturn	*diff.*	Sep.21	Sep.22	*diff.*	Sep.21	Sep.22	*diff.*	Sep.21	Sep.22	*diff.*
Real GDP, change in %	6.1	8.2	*2.1*	4.7	5.0	*0.3*	3.3	1.4	*-1.8*	2.9	2.6	*-0.3*
Nominal GDP, EUR million	50,364	52,208	*1,844*	53,352	57,921	*4,570*	56,136	61,951	*5,815*	58,890	65,311	*6,421*
Nominal GDP, change in %	7.3	11.0	*3.7*	5.9	10.9	*5.0*	5.2	7.0	*1.7*	4.9	5.4	*0.5*
Private consumption, EUR million	25,236	26,690	*1,454*	27,274	31,209	*3,935*	28,648	33,175	*4,526*	29,890	34,777	*4,887*
Compensation of employees, EUR million	26,608	27,543	*935*	27,646	29,498	*1,852*	28,854	31,622	*2,769*	30,173	33,298	*3,125*
Net operating surplus, EUR million	9,125	9,708	*583*	9,113	10,491	*1,379*	9,632	11,447	*1,815*	10,022	11,905	*1,882*
Inflation-average, %	1.4	1.9	*0.5*	2.0	8.9	*6.9*	1.9	6.0	*4.1*	2.0	2.9	*0.9*

Source: IMAD, FC calculations.

[11] The fiscal projections of the DBP23 (October 2022) are based on "Autumn Forecast of Economic Trends 2022" (IMAD, September 2022).

[12] The fiscal projections of the DBP22 (October 2021) were based on "Autumn Forecast of Economic Trends 2021" (IMAD, September 2021).

expected longer period of high inflation will contribute to a higher nominal level of tax bases over the next two years compared to the DBP22 macroeconomic scenario. Thus the deterioration in the economic outlook for the next two years is not expected to have a significant negative impact on trends in general government revenue, although the growth of tax bases will gradually slow down. GDP in current prices will thus be on average around EUR 6 billion higher per year in the 2023–2024 period than projected in last year's autumn forecast, while private consumption will be nearly EUR 4.7 billion higher. The trends in other tax bases is also expected to be more favourable than in last year's autumn forecast according to this year's autumn forecast.

2. Fiscal conditions and forecasts

Key findings

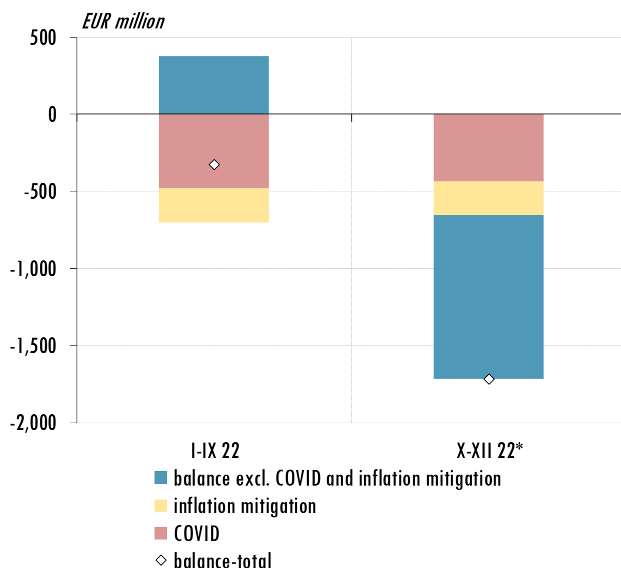
- The assessment of the dynamics of the projections of fiscal aggregates for the next two years is hampered by an inappropriate base resulting from the revised state budget for 2022. The Fiscal Council assesses that this year's expenditure level in particular is likely to be lower than projected. With this full year's outturn, the projections for 2023 could therefore show even higher expenditure growth than foreseen in the Draft Budgets.
- Without taking into account the measures in response to the epidemic and the cost of living crisis, the general government budget deficit is projected to increase further by around EUR 900 million next year, of which less than half is due to the projected further increase in investment expenditure, while growth in current spending is expected to continue at a high rate, driven also by high inflation.
- The projections of investment spending have further increased compared to current budget documents, continuing the practice of an inadequate planning system with over-optimistic projections.
- Current expenditure growth, excluding the effect of measures in response to the epidemic and the cost of living crisis, investments and interest, is projected to remain above its long-term average in 2023 and 2024 due to a number of discretionary measures which are only to a certain extent also a consequence of high inflation.
- The planned deficit reduction in 2024 will be mainly due to the expiry of the measures in response to the epidemic and the cost of living crisis and to the decline in investment linked to the closure of the EU 2014–2020 MFF. The state budget balance, net of these one-off factors and investments, is projected to deteriorate further, although the Fiscal Council estimates that the growth projections of a number of expenditure categories are underestimated.
- Following a significant increase during the crisis, the general government gross debt-to-GDP ratio is expected to very gradually decline to the end of 2024 (to stand at 70% of GDP), but it will nevertheless remain higher than before the crisis.

2.1 Assessment of the projected revenues and expenditures in the Draft Budgets

The revised state budget outturn for 2022 does not provide an adequate basis for assessing the dynamics of fiscal aggregates in the projections of the Draft Budgets for the next two years.[13] The revised budget and outturn for the first nine months of 2022 show that year-on-year expenditure growth, excluding the direct effect of the measures in response to the epidemic and the cost of living crisis, is expected to accelerate significantly over the last three months of this year. After a 9.9% year -on-year growth in the first nine months, the growth of such core expenditure is expected to pick up to

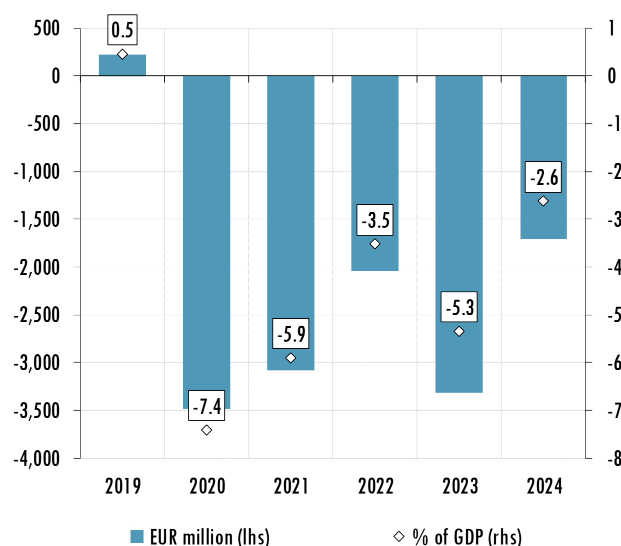
[13] For a more detailed analysis, see FC (2022a).

Figure 2.1: State budget balance structure 2022



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

Figure 2.2: State budget balance



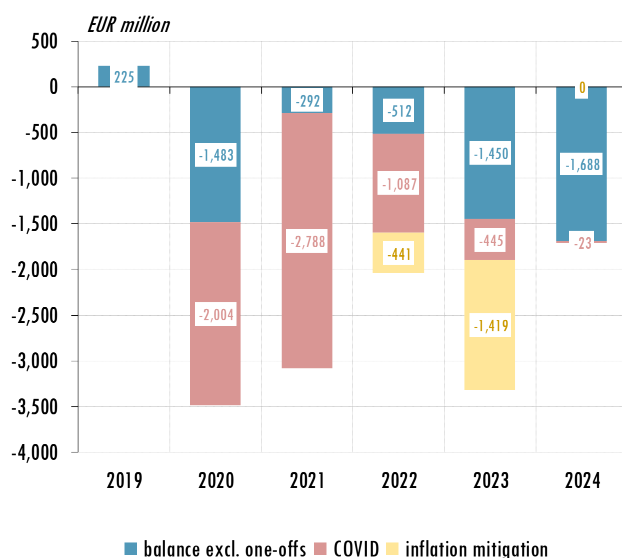
Source: MoF, IMAD, SORS, FC calculations.

as much as 29.3% in the last three months, or from 8.5% in the first nine months to 17.1% at the end of the year if investment expenditure is also excluded. Based on the long-term average share that spending in the last three months of the year represents in year-round consumption, which makes it possible to take into account seasonal expenditure dynamics, we assess that, excluding the direct effect of the measures in response to the epidemic and the cost of living crisis and taking into account the adopted discretionary measures, expenditure in the revised budget for this year is overestimated by around EUR 300–500 million. Given that, according to our assessment, revenues in the revised budget are underestimated, albeit to a lesser extent than expenditure is overestimated, the actual deficit realised this year will be around EUR 500 million lower than the estimate in the revised budget. The same observation was made by the Fiscal Council in autumn 2020 when assessing the 2020 revised budget[14] and last autumn when drafting the budget documents for this year and next year, which were based on the updated 2021 outturn estimate.[15] Both times, it turned out at the end of the year that the expenditure projections were overestimated, by around EUR 800 million in 2020 and around EUR 700 million in 2021. Since in the revised budget the Government did not adjust regular commitment appropriations (not related to measures in response to the epidemic and the cost of living crisis) to lower actual spending than that foreseen under the currently valid budget for 2022, the projected expenditure levels for 2023, given this year's actual lower outturn, will show a higher growth than projected in the Draft Budgets. This is a continuation of the inappropriate practice during the enforcement of exceptional circumstances whereby spending in the budget documents in particular is planned well above what would be justified on the basis of the measures in force and beyond the limits that would otherwise be justified by uncertain circumstances. We assess that this is to some extent a repetition of the abuse of the flexibility allowed by the exceptional circumstances instrument, which introduces unnecessary opacity into the budget planning process and opens up room for inefficient spending of public money.

The general government budget deficit is expected to increase significantly next year, largely due to still undetermined measures aimed at cushioning the blow of the cost of living crisis, but also

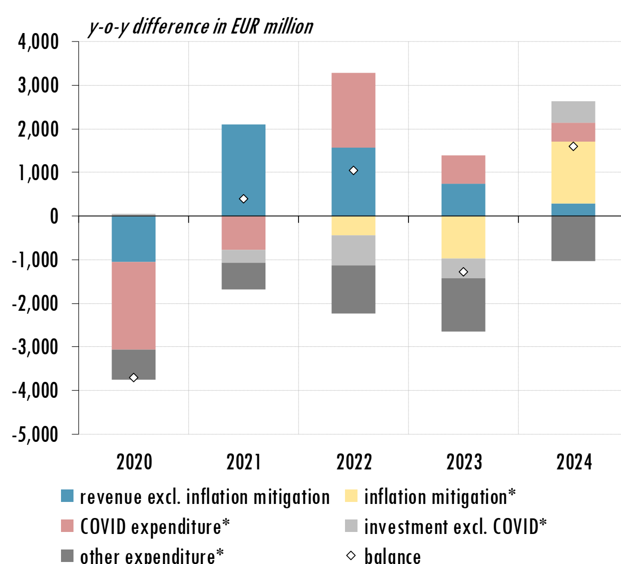
[14] FC (2020a).
[15] FC (2021a).

Figure 2.3: State budget balance structure



Source: MoF, FC calculations.

Figure 2.4: Factors of state budget balance change



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

Table 2.1: State budget projections 2022-2024

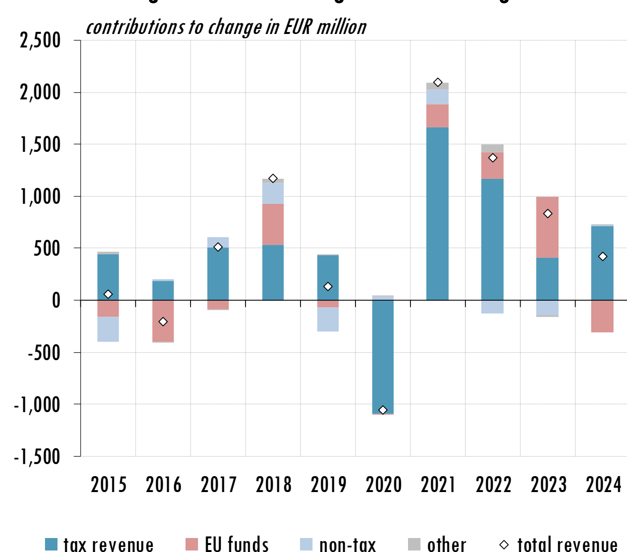
	total (EUR million)			COVID (EUR million)			inflation mitigation (EUR million)		excl. COVID and inflation mitigation (EUR million)			excl. COVID and inflation mitigation (change in %)*		
	2022	2023	2024	2022	2023	2024	2022	2023	2022	2023	2024	2022	2023	2024
Revenue	**12,540**	**13,377**	**13,795**				**-212**	**-120**	**12,752**	**13,497**	**13,795**	**14.1**	**5.8**	**2.2**
VAT	4,744	5,038	5,370				-58	-72	4,801	5,110	5,370	13.5	6.4	5.1
Excise duties	1,516	1,452	1,451				-105	-48	1,621	1,500	1,451	10.2	-7.5	-3.2
Personal income tax	1,558	1,719	1,984						1,558	1,719	1,984	2.9	10.3	15.4
Corporation tax	1,555	1,516	1,598						1,555	1,516	1,598	39.5	-2.5	5.4
Receipts from the EU budget	1,195	1,778	1,471						1,195	1,778	1,471	26.2	48.8	-17.3
Non-tax revenues	689	542	553						689	542	553	-15.7	-21.3	2.0
Other	1,283	1,332	1,368				-50	0	1,333	1,332	1,368	23.4	-0.1	2.6
Expenditure	**14,580**	**16,691**	**15,507**	**1,087**	**445**	**23**	**229**	**1,299**	**13,265**	**14,947**	**15,484**	**15.7**	**12.7**	**3.6**
Total labour costs**	3,860	4,180	4,268	57	10	0			3,802	4,170	4,268	10.8	9.7	2.3
Tr. to individuals and househ.	1,827	1,864	1,866	133	9	10	74	49	1,619	1,806	1,856	6.2	11.5	2.8
Exp. on goods and services**	1,518	1,411	1,309	160	70	0			1,358	1,342	1,309	8.0	-1.2	-2.4
Investment	1,923	2,452	1,817	62	143	0			1,862	2,309	1,817	57.9	24.0	-21.3
Current tr. to soc. sec. funds	1,694	1,844	2,124	248					1,446	1,844	2,124	7.2	27.5	15.2
Subsidies	656	502	442	73	62	0	154	40	429	399	442	6.8	-6.9	10.7
Interest	674	646	728						674	646	728	-7.3	-4.2	12.8
Payments to the EU budget	714	654	662						714	654	662	13.5	-8.4	1.1
Reserves	985	2,494	1,759	180	60			1,210	805	1,224	1,759	66.8	52.1	43.7
Other	729	645	531	174	91	13			555	554	519	14.8	-0.3	-6.3
Exp. excl. invest. and interest	*11,983*	*13,593*	*12,961*	*1,025*	*302*	*23*	*229*	*1,299*	*10,729*	*11,992*	*12,938*	*12.2*	*11.8*	*7.9*
Balance	**-2,040**	**-3,314**	**-1,712**	**-1,087**	**-445**	**-23**	**-441**	**-1,419**	**-512**	**-1,450**	**-1,688**	**-221**	**-937**	**-239**
Balance ex. inv. and inter.	**557**	**-216**	**834**						**2,023**	**1,505**	**857**	**409**	**-518**	**-648**

*Source: MoF, FC calculations. *change in balance and balance excluding investment and interest in EUR million; **including transfers to public institutions for this purpose.*

as a result of continued high growth in investment expenditure and current spending. The total deficit is expected to increase to EUR 3,314 million next year (5.3% of the projected GDP) under the Draft Budgets. This is as much as EUR 1,274 million higher than the estimate for 2022, when the projected deficit is in fact too high according to the Fiscal Council. One of the key reasons for the increase in the deficit next year is measures to ease the cost of living crisis, which are expected to increase the deficit by EUR 1,419 million or by almost EUR 1 billion more than this year. This is mainly due to EUR 1,210 million in the reserve for measures that are still to be determined. Next year, EUR 445 million is earmarked for COVID-19 response measures, which is EUR 642 million less than projected for this year.[16] Without taking into account the direct effect of measures in response to the epidemic and the cost of living crisis, the deficit, which gives a more appropriate picture of fiscal trends, is expected to amount to EUR 1,450 million next year (2.3% of the projected GDP), which is EUR 937 million higher than estimated for this year. The increase in the deficit is expected to occur despite the projected further revenue growth, albeit slowing from exceptionally high levels. In other words, high growth in expenditure that is not related to the epidemic or the cost of living crisis is likely to continue. Within this context, we assess that the investment spending projection is unrealistically high and, if actually realised, would probably contribute to sustaining high inflation and would probably be largely inefficient.[17] Current spending, excluding expenditure on investment and interest and the effect of the measures in response to the epidemic and the cost of living crisis, is projected to further increase sharply next year after this year's record high growth, which is the result of high inflation and substantial discretionary measures taken over the past year (see Box 2.2). Even without taking into account the large EU funds on reserve, which are unlikely to be fully realised, its growth would exceed the estimates of long-term growth in economic potential. It would also run counter to the European Commission's guidelines, which call on Member States to contain current spending growth.

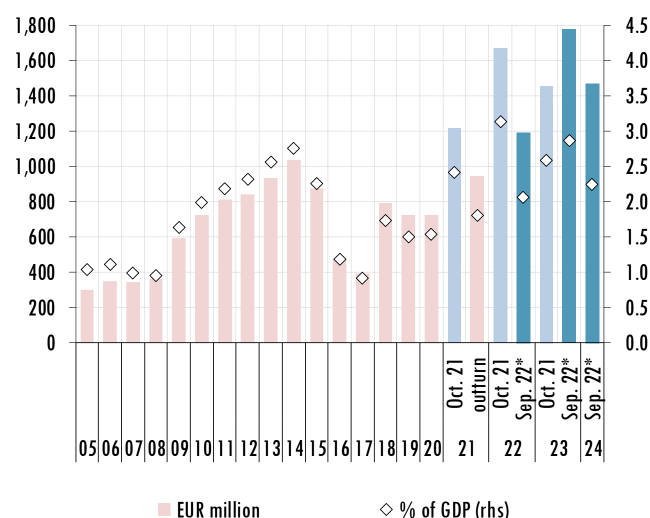
Revenue growth is expected to ease over the next two years following a significant pick-up last year and this year, mainly due to the cooling of economic activity and lower inflation. Lower growth in total revenues will be mainly due to lower growth in tax revenues, largely stemming from the

Figure 2.5: State budget revenue change



Source: MoF, FC calculations.

Figure 2.6: State budget receipts from the EU budget



Source: SORS, MoF, IMAD, FC calculations. Note: *"Sep. 22" relates to Revised budget for 2022 and proposed budgetary documents for 2023 and 2024.

[16] In the coming year, investment in healthcare and social infrastructure, mainly financed by REACT-EU, is expected to account for the bulk of expenditure on the COVID-19 response measures. The remaining expenditure is expected to cover the costs of testing and vaccination and tourism restructuring subsidies, with EUR 60 million in the contingency reserve.

[17] In the last two years, the Fiscal Council has repeatedly warned of the risks posed by a sharp surge in public investment. For more information, see FC (2020b, 2021a).

forecasted lower growth in tax bases and partly from measures to cushion the blow of the cost of living crisis.[18] According to the Draft Budgets, VAT revenue growth is projected to be around half of this year's level on the back of lower private consumption growth, while revenues from excise duties are expected to fall as a result of reducing excise duties on energy products to the lowest possible level.[19] With the expected deterioration in business performance (following favourable results last year), revenues from corporate and non-tax revenues are expected to fall. The decline in corporate income tax revenues will stem from this year's expected weaker corporate performance compared to last year,[20] while in the case of non-tax revenues, there are lower expectations for dividend income from companies in which the State has an ownership interest.[21] Among the key tax categories, with nominal wage growth projected to strengthen, partly driven by inflation, only income tax revenue growth is projected to be higher than this year, despite the additional negative effects of discretionary income tax changes.[22]

A key driver of the total revenue growth next year is the projections of EU funds received, which are not realistic according to the Fiscal Council. After a significant increase this year, which we still assess as overestimated despite the reduction under the revised budget of almost EUR 0.5 billion compared to the current budget, revenues from EU funds are projected to increase by almost half next year, averaging more than EUR 1.6 billion per year in the 2023–2024 period.[23] The high level of EU funds foreseen next year is mainly due to the closure of the 2014–2020 MFF. Taking into account the outturn up to the end of August, almost EUR 1.2 billion remains available under this heading, of which almost EUR 800 million is expected to be spent next year.[24] The Draft Budgets envisages obtaining funds under the RRF in the amount of EUR 391 million next year and EUR 467 million in 2024. Given that there are already delays in meeting the milestones that are a condition for the disbursement of funds, we assess that the revenue under this instrument will be lower than projected. We assess the projection of revenues from the Cohesion Policy funds under the EU 2021–2027 MFF even more unrealistic. The budget projections under this instrument include EUR 180 million next year and as much as EUR 552 million of revenue in 2024. Achieving these projections would mean that we would be able to spend more than a fifth of the total funds available in the first two years of the MFF, which would be a significant efficiency gain compared to the experience with the previous MFF. The absorption capacity of the administration to prepare and carry out projects that would justify such a large volume of funding under the new MFF, in addition to closing the previous MFF and meeting the RRF milestones, is also questionable.

High expenditure growth, excluding the direct effect of measures in response to the epidemic and the cost of living crisis, will continue next year. Under the Draft Budgets, *total expenditure* is

[18] According to Ministry of Finance's estimates, the effect of the reduced VAT rate on energy products will be EUR 72 million when in force in the first five months of next year. Assuming that the measure of reduced excise duties remains in place for the same period of time, this would mean a shortfall of EUR 48 million.

[19] This is a conservative assumption, in our view, as excise duty revenues are growing this year despite the excise duties being at their lowest level since February inclusive, given that the sold volumes of excise goods are higher. They were higher in particular in the period when motor fuel prices in Slovenia were lower than in neighbouring countries, which had a positive effect on consumption in transit traffic for both freight and tourists. We estimate that similar trends may also occur next year.

[20] In fact, the corporate income tax revenue in a given year largely depends on the business performance of undertakings in the previous year. In the spring months, after submitting the business reports, the liabilities for the previous year are settled and an advance payment is made based on the previous year's actual business. This year, the settlement amount was at a record high due to the excellent business performance of undertakings in 2021, but next year it is likely to be lower. The advance payment will also be lower than this year.

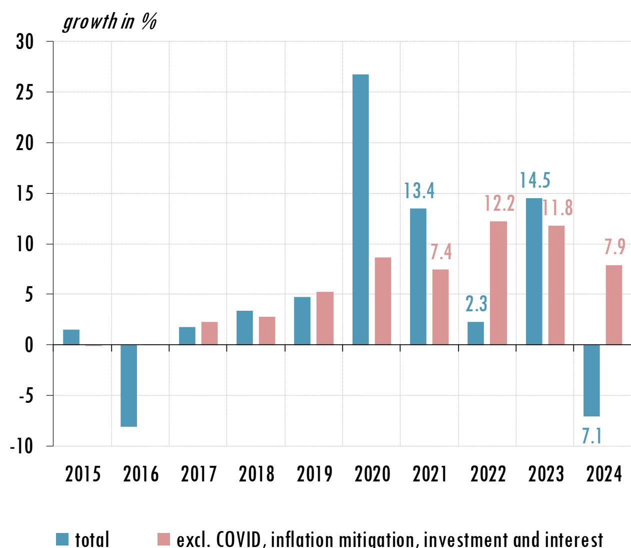
[21] See also footnote No 40. The expected drop in non-tax revenues is also influenced by the assumption of smaller inflows from borrowing and treasury operations, which, although difficult to estimate in advance, have been relatively high in recent years.

[22] For more information, see Box 2.2.

[23] This is 60% more than the record year 2014, when they amounted to well over EUR 1 billion.

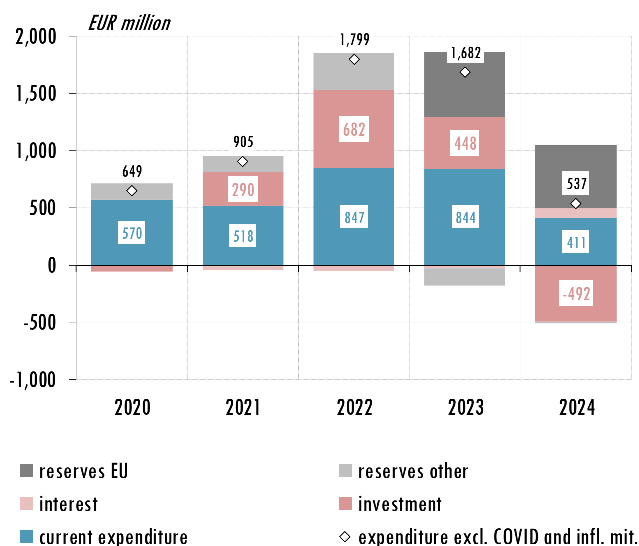
[24] The revised budget shows that in the last four months of this year, almost EUR 400 million of revenue under the previous MFF is expected to be collected, which is approximately EUR 100 million more than in the first eight months combined. We assess that this projection will not be fully realised, which means that under the assumption that all available funds will be used by the end of 2023, this revenue next year would be even higher than that foreseen in the Draft Budgets.

Figure 2.7: State budget expenditure



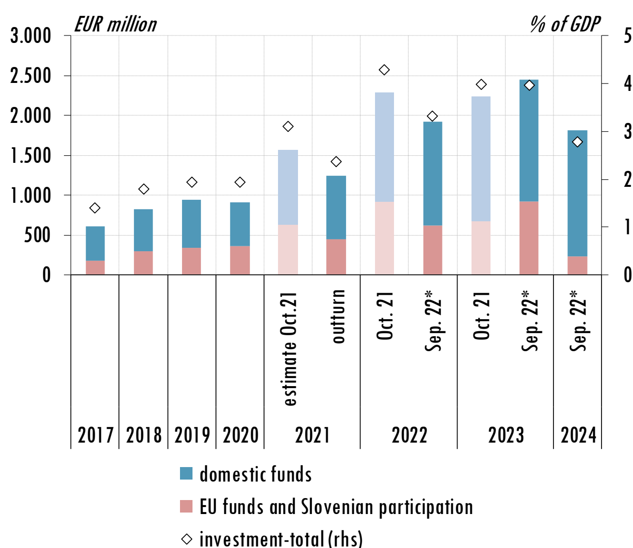
Source: MoF, FC calculations.

Figure 2.8: Factors of state budget expenditure change (excluding COVID and inflation mitigation)



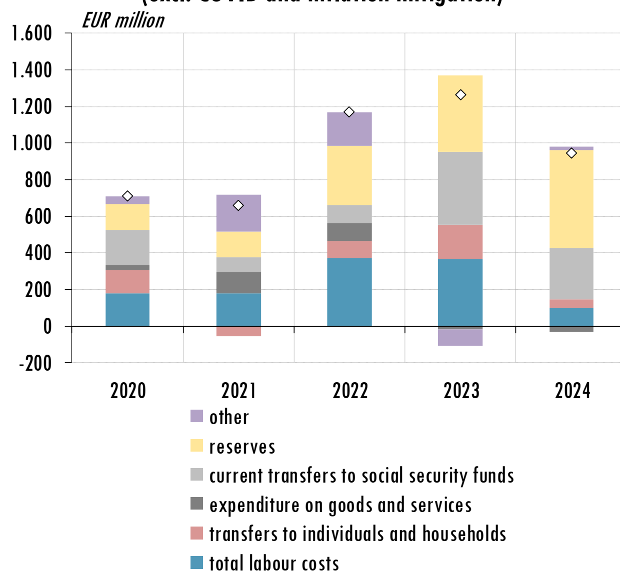
Source: MoF, FC calculations.

Figure 2.9: State budget investment expenditure



*Source: MoF, FC calculations. Note: *"Sep. 22" relates to Revised budget for 2022 and proposed budgetary documents for 2023 and 2024.*

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



Source: MoF, FC calculations.

projected to increase by 14.5% next year, largely on the back of a reserve amounting to EUR 2.5 billion (4.0% of projected GDP). Almost half of the reserve is made up of undetermined expenditure to cushion the blow of cost of living crisis, and almost EUR 600 million of European funds under the RRF and the new MFF, for which it is not yet clear how, if at all, they will be spent.[25] *Expenditure excluding the direct effect of the measures in response to the epidemic and the cost of living crisis* is projected to increase significantly again next year (by 12.7% or EUR 1,682 million) following this year's projected highest ever growth. Around a third of this growth is due to the aforementioned European funds under the RRF and the new MFF, which are allocated to the budget reserve and which we assess will not be realised to the extent foreseen.

[25] The remainder of the reserve (EUR 713 million) is made up of EUR 60 million for the COVID-19 response measures, EUR 260 million for the current budget reserve, which is the maximum amount allowed under the Public Finance Act, almost EUR 300 million for various budget funds, EUR 90 million for natural disasters and EUR 10 million for the contingency reserve managed by the SID Bank.

High growth in expenditure is again expected to be on the back of the projected continued high growth in *investments*. Investment expenditure is envisaged to increase by EUR 448 million compared to 2022, with next year's level in the Draft Budgets even around EUR 200 million higher than under the current budget from last October. The realisation of the investment expenditures foreseen in the state budget would imply that they would represent on average around 4.0% of GDP next year, which is around twice the long-term average. The continuation of over-optimistic planning of investment spending was also indirectly indicated by the Ministry of Finance, when it reduced the level of investment spending this year in the revised budget by some EUR 400 million compared to the budget in force. Nevertheless, after growth of around 25% in the first nine months of this year, annual investment growth is expected to pick up to around 90% in the last three months of this year. According to the Fiscal Council, having an improved investment planning system would make an important contribution to increasing the transparency and reliability of budget plans without jeopardising the realisation of investment projects.[26]

Growth in *current spending* is also projected to remain well above its long-term average next year, supported by both high inflation and discretionary measures. For a proper analysis of the current spending projection, it is appropriate this time to deduct from the total expenditure, in addition to the direct effect of the measures in response to the epidemic and the cost of living crisis and investment and interest expenditure, EUR 571 million of European funds under the RRF and the new MFF, which are held in reserve. We estimate that these funds will not be fully realised and that the bulk of what will actually be realised will be predominantly realised through investments. It would therefore not be appropriate to include this part of the reserve in the analysis of current spending. Taking into account all the above adjustments, growth in current spending is expected to slow by around half next year to stand at 6.4%. This would still be more than around three times the average from the 2015–2019 period. The main contributor to this is expected to be transfers to the social insurance funds, which are projected to increase significantly next year from this year's already high level, notably the transfer to the Health Insurance Institute of Slovenia (ZZZS). High growth in the transfer to the health insurance budget will be due to the effect of the Emergency Measures to Ensure the Stability of the Healthcare System Act, but even without its effect, growth in the transfer will be markedly high.[27] Labour costs,[28] which we assess to be significantly overestimated in the revised budget despite taking into account the effect of the agreement reached with the trade unions, are expected to rise next year by around a tenth. Should, in line with our expectations, the actual level realised this year be lower than planned in the revised budget, the Draft Budgets' projection of the level for 2023 implies a higher growth than would be justified by the agreement reached with the trade unions and taking into account the effect of regular promotions and employment growth. The opposite is true for the projections of expenditure on transfers to individuals and households and expenditure on goods and services, as we assess that here the revised budget's estimate of this year's outturn is too low. The Draft Budgets' too-low projection of the level of social transfers for the coming year reflects the continued practice of underestimating this category of expenditure in budget planning and does not reflect the expected

[26] In the last two years, investment plans have increased significantly, but their implementation has fallen noticeably behind. In 2021, the actual outturn was 37% below the plans set in autumn 2020 and one-fifth below the plans set last autumn, i.e. three months before the end of the year. The situation is similar this year, when the projection of the revised budget for 2022 is 16% lower than that of last autumn, but we assess that the actual outturn will be approximately 15% lower than predicted by the revised budget.

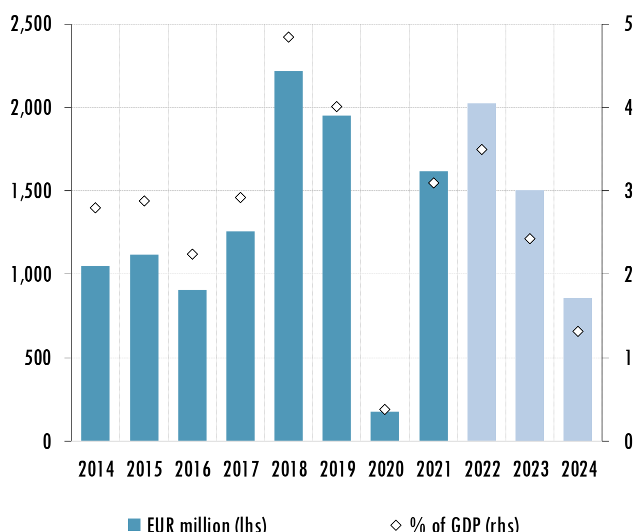
[27] According to the proposed financing plan, the Health Insurance Institute of Slovenia should receive EUR 305 million from the state budget this year, of which EUR 180 million on account of the PKP10 anti-corona legislative package. Next year, however, according to the Draft Budgets, the transfer should jump to EUR 469 million, of which the effect of the emergency law is EUR 96 million. Without taking into account the effect of the COVID-19 response measures and the emergency law, the transfer from the state budget to the Health Insurance Institute of Slovenia is expected to be slightly less than EUR 400 million next year, which is about four times higher than this year.

[28] State budget expenditure on wages and social contributions, including transfers to public institutions for this purpose.

growth that would result from the statutory March adjustment of transfers to the previous year's inflation. Expenditure on goods and services is expected to be lower next year, and the drop will be even more pronounced should our predictions that the revised budget's estimate of this year's outturn is underestimated be realised. Such a projection does not appear realistic in view of the expected continuation of high inflation affecting a number of intermediate consumption items. Expenditure on subsidies, payments to the EU budget and other expenditure are also predicted to decrease next year, moving away from developments last year and this year, when expenditure in these categories have increased.

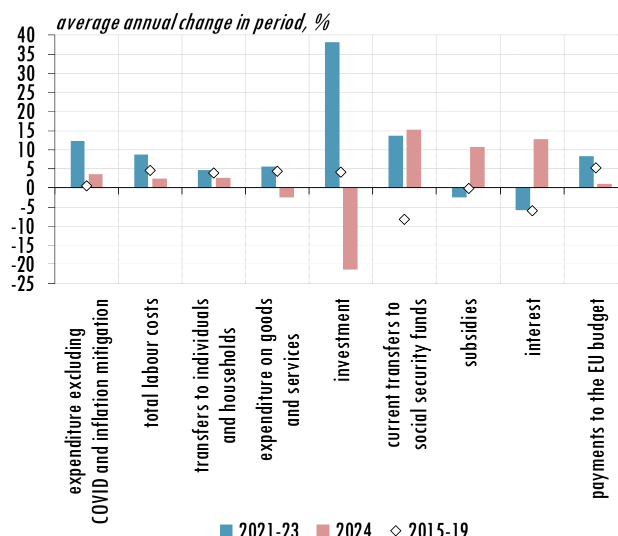
In 2024, the total state budget deficit is forecasted to decrease mainly due to the planned expiry of measures in response to the epidemic and high cost of living, while the balance excluding this effect will deteriorate further despite a decrease in investment spending. The total state budget deficit is estimated at EUR 1,712 million or 2.6% of the projected GDP, which would be less than half the 2022 level. The projected reduction in the deficit would be entirely due to the planned expiry of measures in response to the epidemic and the cost of living crisis in the amount of EUR 1,864 million.[29] Revenue growth is expected to slow further due to a drop in revenues from the EU funds as a result of the end of the MFF 2014–2020. Nevertheless, we assess that the level of this revenue category in 2024 is still too high, mainly due to the over-optimistic projections for the absorption of cohesion funds under the new MFF. We also consider the projected funds under the RRF to be too high.[30] Total revenue growth will therefore be driven by the growth in tax and non-tax revenues, which is expected to increase in line with the projected pick-up in economic growth. Expenditure growth, which excludes the direct effect of measures in response to the epidemic and high cost of living, is expected to slow, but it will be higher than revenue growth. The slowdown will be mainly due to the projected decline in investment spending, which is linked to the expected drop in revenues from EU funds. However, growth in current spending in 2024 is expected to remain above the average of the pre-pandemic period, although, assuming that next year's expenditure is realised in line with the projections of the Draft

Figure 2.11: State budget balance (excl. COVID, inflation mitigation, investment and interest)



Source: MoF, IMAD, SORS, FC calculations.

Figure 2.12: State budget expenditure excluding COVID and inflation mitigation



Source: MoF, FC calculations.

[29] The Draft Budget for 2024 envisages only EUR 23 million of expenditure on the COVID-19 response measures and no measures to cushion the blow of the cost of living crisis.

[30] In 2024, the Draft Budget envisages the revenue under the RRF in the amount of EUR 467 million and the cohesion envelope under the new MFF in the amount of EUR 552 million. If these projections are not achieved, this will have no impact on the balance, as the expenditure side of the reserve is budgeted at the same level.

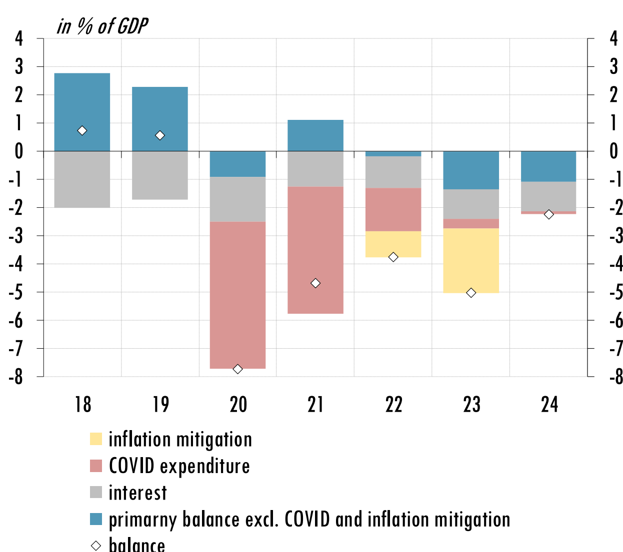
Budgets, the projected growth in a number of expenditure categories is, in our assessment, underestimated. This applies mainly to labour costs, transfers to individuals and households, and expenditure on goods and services. The projected growth in labour costs under the Draft Budgets lags behind the expected effects of the agreement with trade unions[31] and the effects of regular promotions and expected employment growth, while the projected growth in social transfers and intermediate consumption falls short of projected inflation. In our assessment, the Draft Budgets for 2024 reflects a continued practice of implausible medium-term budget planning, which is not fully justified despite the high degree of uncertainty arising from the current situation.

[31] The agreement concluded with the trade unions will continue to have an impact on higher labour costs in 2024, because in accordance with the agreement, an additional pay rise for a limited number of public employees will be put in place with the April salary in 2023. As a result, the agreement will also have an impact on higher year-on-year growth in salary expenditure in the first three months of 2024. See also Box 2.2.

Box 2.1: Projections of the general government balance in the Draft budgetary plan for 2023

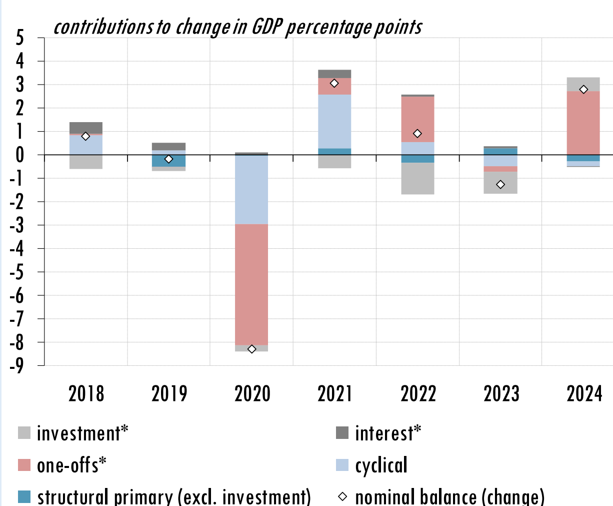
This assessment of the budget documents pays more attention to the state budget projections than to the projections of the general government balance because of a number of factors that give rise to the unreliability of the latter, which are to some extent beyond the control of the Ministry of Finance. The main reason for this is the large reserve in the state budget projections, a category that does not exist in the accounting methodology according to which the general government balances are managed. Given that next year EUR 1.2 billion of the state budget reserve is earmarked for potential new measures in response to high cost of living, which are not yet known, and that almost EUR 600 million will be spent on revenues from EU funds, which are also not yet known, the Ministry of Finance had to allocate these funds in the current general government projections across the categories of general government expenditure without a proper basis. In addition, the unreliability of the general government sector projections also stems from the issue of the appropriate distribution of the financial effect of COVID-19 response measures across expenditure categories.[1] Furthermore, the general government balances include, as a one-off factor, expenditure directly related to the war in Ukraine, which is not reflected in the state budget projections.

Figure 1: General government balance and primary balance



Source: outturn: SORS, projections: MoF.

Figure 2: Factors of general government balance change



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

Excluding the direct effect of emergency-related measures,[2] the general government deficit is expected to further grow next year and to remain higher in 2024 than this year despite the projected improvement. Taking into account all the above-mentioned factors that contribute to the unreliability of this projection, the total general government deficit is expected to increase to 5.0% of GDP next year. The total direct effect of the measures imposed in response to the epidemic, the cost of living crisis and the war in Ukraine is estimated at 2.6% of GDP, which is similar to the assumption for this year. Thus the deterioration of 1.2 percentage points of GDP from a total projected deficit of for this year will be almost entirely due to developments unrelated to the aforementioned events. In addition to the cyclically adjusted balance turning from positive to negative on the back of the projected deterioration in economic conditions, the deterioration in the core balance will mostly be due to further growth in capital expenditure. In 2024, the deficit is projected to decline to 2.2% of GDP, but excluding these one-offs, the deficit will be 0.9 percentage points of GDP higher than projected for this year and about twice as high in nominal terms.

General government revenue growth is expected to gradually ease over the 2023–2024 period from the very high levels of last year and this year. The projected slowdown is in line with the

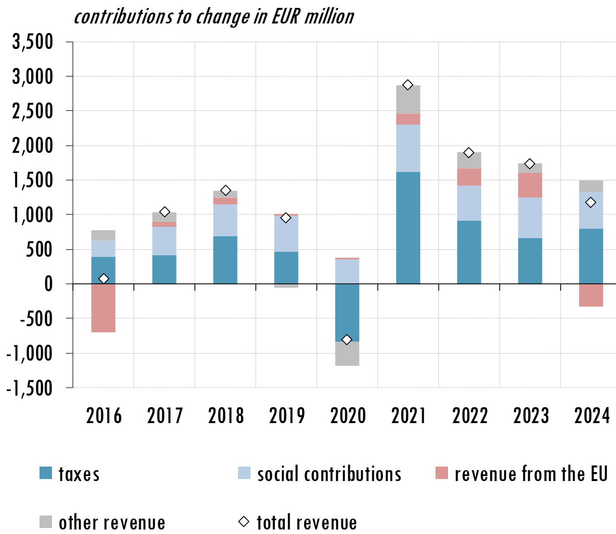


Figure 3: General government revenue change

Source: SORS, MoF, FC calculations.

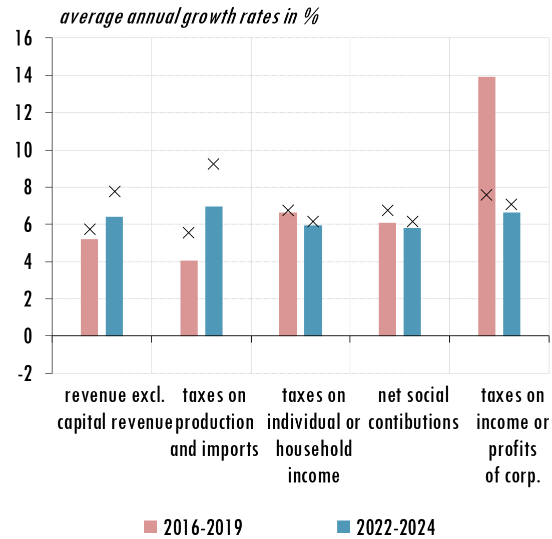


Figure 4: Revenue categories and their bases

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

projected dynamics of economic activity. However, the lower growth in tax revenues due to the projected moderation in domestic demand will be partly offset by slightly higher growth in social contributions, mainly related to the projected strengthening of nominal wage growth, and by higher inflows of EU funds as the previous MFF comes to an end and the spending of funds under the RRF becomes more noticeable. We estimate revenue forecasts to be broadly in line with the projected trends in tax bases, with the exception of revenues from personal and household income taxes. In fact, with extensive tax changes that increase net income of the population or decrease tax revenues, we would expect a more visible deviation of the revenue projection from the trend in the tax base.

Growth in spending, even if excluding the effect of emergency-related measures, is also expected to slow over the next two years, but we estimate that the low projected growth in 2024 is unrealistic. Growth in total expenditure is expected to pick up further next year after this year's continued high growth, mainly due to the projected large volume of subsidies to cushion the blow of the cost of living crisis. Spending, excluding the effect of the emergency-related measures, should increase only slightly less next year than this year, when growth is expected to be at a record high.

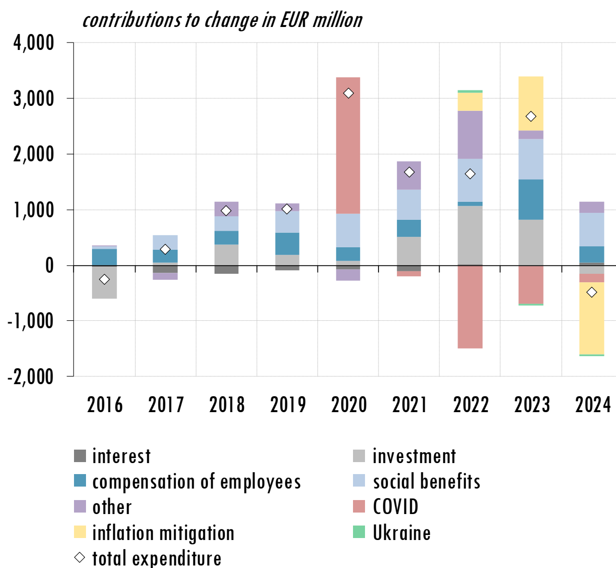


Figure 5: General government expenditure change

Source: SORS, MoF, FC calculations.

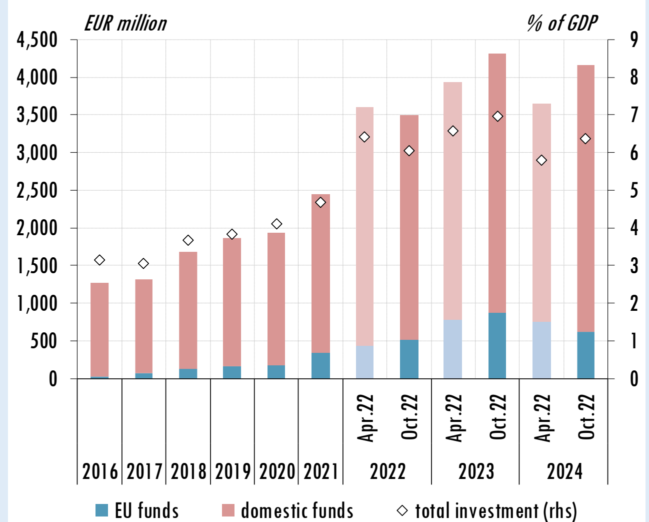


Figure 6: Structure of general government gross fixed capital formation

Source: SORS, MoF, FC calculations.

The increase is expected to be driven to a similar extent by higher spending on investments, compensation of employees and social benefits. Investments are therefore expected to reach 7.0 % of GDP next year, which is by far the highest level ever.[3] The focus on strengthening public investments is in principle appropriate and in line with the guidance of international institutions, but there is a risk that the realisation of projections would exceed the absorption capacity of the national economy and administration. This increases the risk of their inefficient implementation and of creating macroeconomic imbalances. However, we assess the projections for expenditure on compensation of employees and social benefits as realistic and broadly in line with our assessment of the effect of the agreement on wage increases concluded with public sector trade unions and the effects of the legislative adjustment of social benefits. In 2024, growth in spending, excluding the effect of emergency-related measures, is likely to be only around a third of that projected for the following year. This would be partly due to a decline in investments, which should remain at a very high level, and partly to lower growth in other categories of spending. In particular, we assess the assumption of a slowdown in the growth of social benefits as unrealistic. Expenditure on social benefits, excluding pension expenditure, is set to decrease, even though in accordance with the legislation it should be adjusted to the previous year's inflation, which IMAD forecasts will be 6.0%.

Table: General government balance projections (excl. expenditure on COVID, inflation mitigation and Ukraine)

EUR million, unless stated otherwise	outturn SORS	DBP23			change				change in %				contribution in p.p.			
	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
Revenue	**23.295**	**25.415**	**27.055**	**28.109**	**2.871**	**2.120**	**1.640**	**1.054**	**14,1**	**9,1**	**6,5**	**3,9**	**14,1**	**9,1**	**6,5**	**3,9**
Total taxes	11.282	12.409	12.983	13.670	1.623	1.127	575	686	16,8	10,0	4,6	5,3	7,9	4,8	2,3	2,5
Taxes on prod.and imp.	6.859	7.799	8.065	8.389	893	940	265	325	15,0	13,7	3,4	4,0	4,4	4,0	1,0	1,2
Cur. taxes on inc., wealth	4.408	4.588	4.891	5.247	727	180	303	355	19,7	4,1	6,6	7,3	3,6	0,8	1,2	1,3
Capital taxes	15	21	28	33	3	6	7	6	23,3	42,7	31,1	21,0	0,0	0,0	0,0	0,0
Social contributions	8.746	9.256	9.835	10.355	673	510	579	519	8,3	5,8	6,3	5,3	3,3	2,2	2,3	1,9
Property income	316	360	336	345	9	44	-24	9	2,8	13,9	-6,7	2,7	0,0	0,2	-0,1	0,0
Capital transfers	433	643	902	573	166	210	259	-329	62,0	48,4	40,4	-36,5	0,8	0,9	1,0	-1,2
Other	2.519	2.728	2.829	2.897	401	210	101	68	18,9	8,3	3,7	2,4	2,0	0,9	0,4	0,3
Expenditure	**23.372**	**26.148**	**28.542**	**29.533**	**1.770**	**2.776**	**2.395**	**990**	**8,2**	**11,9**	**9,2**	**3,5**	**8,2**	**11,9**	**9,2**	**3,5**
Compensation of employees	6.026	6.109	6.830	7.113	306	83	721	284	5,3	1,4	11,8	4,2	1,4	0,4	2,8	1,0
Intermediate consumption	3.124	3.467	3.738	3.901	357	343	272	162	12,9	11,0	7,8	4,3	1,7	1,5	1,0	0,6
Social benefits	9.563	10.328	11.053	11.659	535	765	725	606	5,9	8,0	7,0	5,5	2,5	3,3	2,8	2,1
Gross fixed capital form.	2.445	3.490	4.313	4.158	515	1.045	823	-156	26,7	42,7	23,6	-3,6	2,4	4,5	3,1	-0,5
Interest	642	661	638	689	-104	19	-23	51	-14,0	2,9	-3,5	8,0	-0,5	0,1	-0,1	0,2
Subsidies	309	606	383	563	12	297	-223	181	4,0	96,1	-36,8	47,2	0,1	1,3	-0,9	0,6
Other	1.263	1.487	1.588	1.450	149	224	100	-138	13,4	17,8	6,7	-8,7	0,7	1,0	0,4	-0,5
Balance	**-76**	**-733**	**-1.488**	**-1.424**	**1.102**	**-657**	**-755**	**64**								
Balance (in % of GDP)	**-0,1**	**-1,3**	**-2,4**	**-2,2**												

Source: SORS, MoF, FC calculations.

[1] For 2020 and 2021, there is a difference in the distribution of the financial effects of the individual COVID-19 response measures across the categories of general government expenditure between the balances of the Statistical Office and the Ministry of Finance. In addition, the cumulative volume of the COVID-19-related expenditure over the 2020–2024 period in the general government balances is around 450 million less than in the state budget balances. Even if part of this difference could be attributed to the fact that in the state budget projections for 2022 and 2023 a total of EUR 240 million is held in reserve, which may not have been included in the general government projections, we would expect no significant differences between the general government and the state budget balances throughout the whole period when the COVID-19-related measures have a financial effect.

[2] Since the beginning of the epidemic, the Fiscal Council has been paying more attention to fiscal developments which do not include the effect of measures to mitigate the consequences of the epidemic and, starting this year, also the cost of living crisis and the war in Ukraine, given that such an analysis more adequately shows the emergence of potential risks to the sustainability of public finances in the medium term.

[3] To date, the highest level ever was 5.1% of GDP in 2009 and 2014.

Box 2.2: Impact of discretionary measures and legislation on the general government balance

Following the approval of the 2023 budget in autumn 2021, a number of measures have been taken that will have a negative impact on the state of public finances in the future. However, fiscal policy at the end of last year and in 2022 was largely marked by the adoption of measures taken in response to the epidemic and the high rise in energy prices. In addition, a number of relatively extensive discretionary measures have been adopted that will have a lasting impact on the state of public finances. This will be influenced not only by discretionary measures, but also by some provisions that have already been enacted in the past. Among these, inflation-related measures are particularly relevant now. The automatic adjustment of certain types of government expenditure to inflation, in particular social benefits, which ensures that real value is preserved, implies their permanent and, in view of current price developments, relatively high increase.

The Fiscal Council regularly monitors discretionary economic policy measures and their impact on the general government balance. In addition to assisting in the analysis of regular budget developments, the monitoring of such measures also serves as an important input for assessing how realistic the projections contained in the budget documents are. At the same time, the level of discretionary measures suggests room, or a need, for additional economic policy measures in the coming years against the background of macroeconomic projections which in particular determine revenue developments.

The box shows discretionary revenue and expenditure measures that have a direct impact on the general government balance and are not related to the measures adopted in response to the

Table: Discretionary measures not related to COVID and inflation mitigation

EUR million	entry into force	2022	2023	2024	22-21	23-22	24-23
Revenue							
Act Amending the Value Added Tax Act	Oct.21	-12	-14	-14	-12	-2	0
Act Amending the Corporate Income Tax Act	Jan.22	-27	-27	-27	-27	0	0
Act Amending the Personal Income Tax Act	Mar.22	-257	-502	-650	-257	-245	-148
Act Amending the Personal Income Tax Act	Jan.23		400	398	0	400	-2
Expenditure							
Agreement on raising the salaries of nurses and nursing staff	Nov.21	110	110	110	110	0	0
Scientific Research and Innovation Activity Act	Nov.21	34	50	52	34	15	3
Extraordinary indexation of pensions	Jan.22	145	146	148	145	1	1
Salary increases for police officers	Jan.22	16	16	16	16	0	0
Act Amending the Health Care and Health Insurance Act	Mar.22	32	55	55	32	23	0
Act Amending the Pension and Disability Insurance Act	Mar.22	15	15	15	15	0	0
Act Governing the Provision of Funds for Investments in Sports Infrastructure in the Republic of Slovenia in the 2023–2027 Period	Apr.22	30	30	30	30	0	0
Emergency Measures to Ensure the Stability of the Healthcare System Act	Jul.22	39	116	53	39	77	-62
Act Amending the Long-Term Care Act	Jul.22	3	26	36	3	23	10
Act Amending the Parental Protection and Family Benefits Act	Sep.22		13	20	0	13	7
Agreement on salaries in the public sector	Sep.22	130	548	674	130	418	126
Share in % of GDP							
Revenue		-0.5	-0.2	-0.4	-0.5	0.3	-0.2
Expenditure		1.0	1.8	1.9	1.0	0.9	0.0
Balance		-1.5	-2.0	-2.3	-1.5	-0.6	-0.3

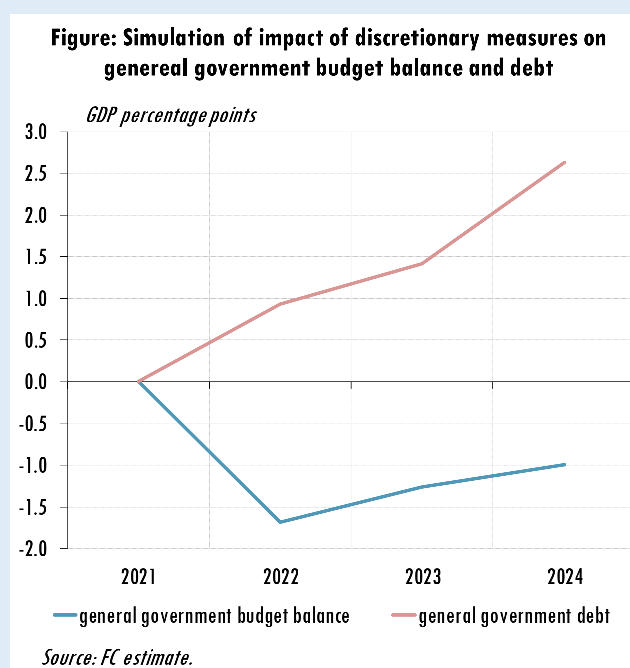
Source: Government of the Republic of Slovenia, National Assembly, FC calculations and estimates.

epidemic and the cost of living crisis.[1] We have reviewed measures related to employee compensation, pensions and other social benefits along with a few smaller categories of expenditure (see Table) which were introduced after the adoption of the 2023 state budget in autumn 2021. The size of the static effects is largely taken from the official explanations at the time of the adoption of the legislation, but in some cases the size of the estimated effects varies according to different sources. For this reason too, we have assessed some of the effects ourselves. In addition to the static analysis, we have also sought to identify the rebound effects of the measures by performing dynamic simulation, since government incentive measures that affect demand also have an impact on government revenue developments.

The estimates show a significant negative impact of discretionary measures on future fiscal trends. The negative impact of last year's discretionary measures on the general government deficit alone could average around 2% of GDP per year over the next two years. If, in addition, only the statutory indexation of pensions and other social benefits were taken into account, the effect of an increase in the deficit would be even greater.[2] As a result, growth in the included spending categories will significantly deviate from the medium-term sustainable increase in expenditure based on long-term expected nominal economic growth (compare with the indicators in Box 4.2). The average growth in expenditure based solely on the measures already adopted and taking into account the effect of the statutory adjustments would exceed the mentioned growth in economic potential by around two percentage points. This would cumulatively result in an expenditure overrun of around EUR 1 billion over two years (2023 and 2024).

The dynamic simulation shows that the strong initial negative fiscal effect of the discretionary measures might only be temporary. This is due to the fact that most of the measures increase household disposable income, which has an indirect impact on increased spending and thus on government revenues. In particular, the temporary increase in inflation stimulated by the measures in the simulation contributes to this effect, bearing in mind that the increased inflation has an impact on the nominal level of economic activity and thus on the size of the denominator in relative comparisons. As a result, the real effect of the discretionary measures will be smaller than suggested by the static analysis, but the fiscal balance will still be negatively affected in the medium term (see Figure). Despite the relatively strong positive impact of the new measures on general government revenue implied by the dynamic simulation, the discretionary measures adopted in autumn 2021 limit the scope for further expenditure increases with unchanged other factors or, in the absence of counteracting such trends by a structural increase in revenue, lead to a requirement to limit the level of other expenditure. Consequently, in order to achieve sustainable growth in public spending over the medium term, the

Figure: Simulation of impact of discretionary measures on genereal government budget balance and debt



Source: FC estimate.

level of other categories (in particular intermediate spending and investment) should remain unchanged or even decrease slightly.

[1] The impact of measures adopted in response to the epidemic and the cost of living crisis on the state budget is presented in Chapter 2.

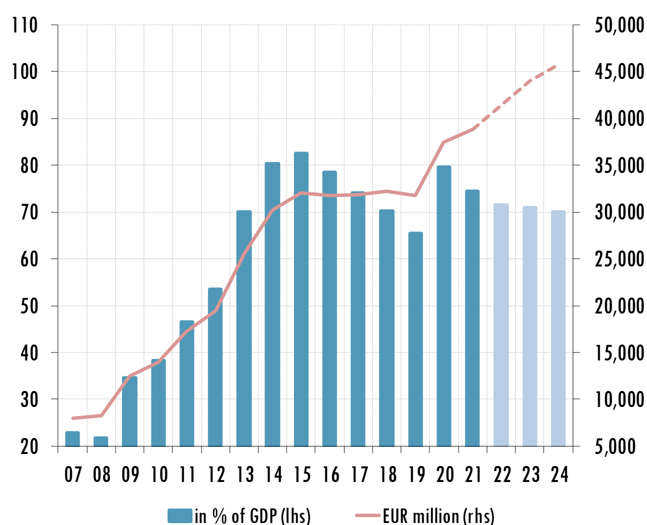
[2] Taking into account also the regular promotions in the public sector, the increase in employment and the increase in the number of pension recipients, the additional deficit would average slightly below 3% of GDP per year.

2.2 Gross general government debt

After a significant increase in 2020, the general government debt-to-GDP ratio is expected to slightly decline by the end of 2024, but it will nevertheless remain higher than before the current crisis. The decline in the debt-to-GDP-ratio from 79.8% in 2020 should be very gradual, with a drop of 1.5 percentage points of GDP over the period of the Framework Proposal (2023 and 2024). With the continuation of primary balance deficit and the realisation of the predicted nominal GDP growth, which is expected to be higher than the implicit interest rate on the back of the high contribution of inflation, the debt ratio is projected to reach 70% of GDP by the end of 2024.

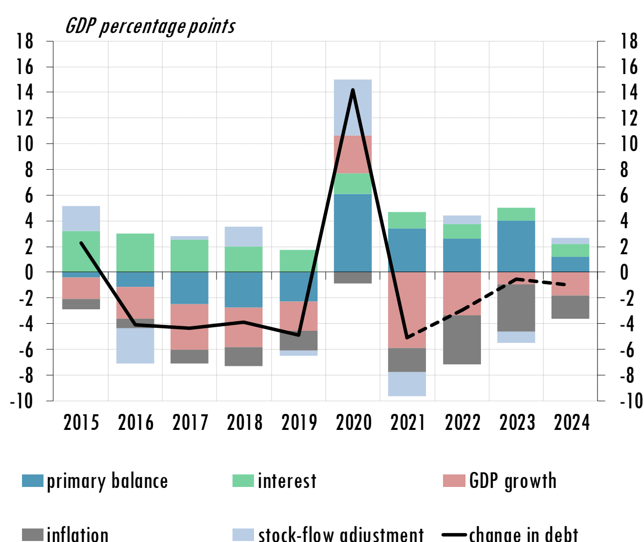
The State's financing conditions are tightening relatively rapidly. After a one-year period of hovering around 0% between mid-2020 and mid-2021, the required yield on Slovenian government bonds has been rising since autumn 2021, as in most other euro area Member States. At the start of a

Figure 2.13: General government debt



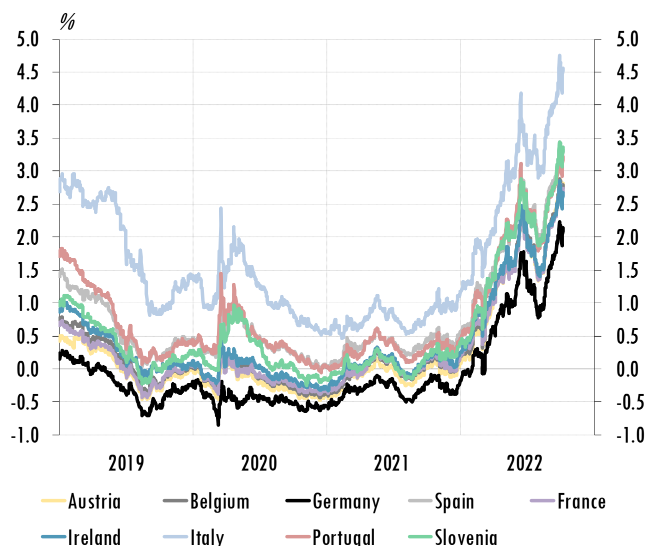
Source: SORS, MoF.

Figure 2.14: Change in general government debt



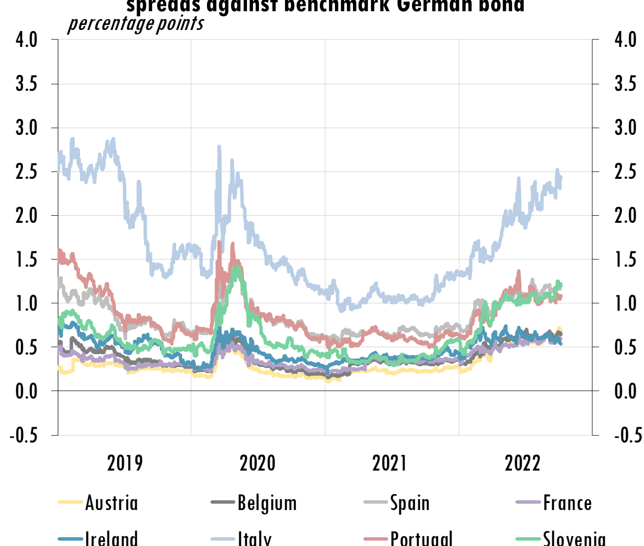
Source: SORS, MoF, IMAD, FC calculations.

Figure 2.15: Yields on 10-year government EUR reference bonds



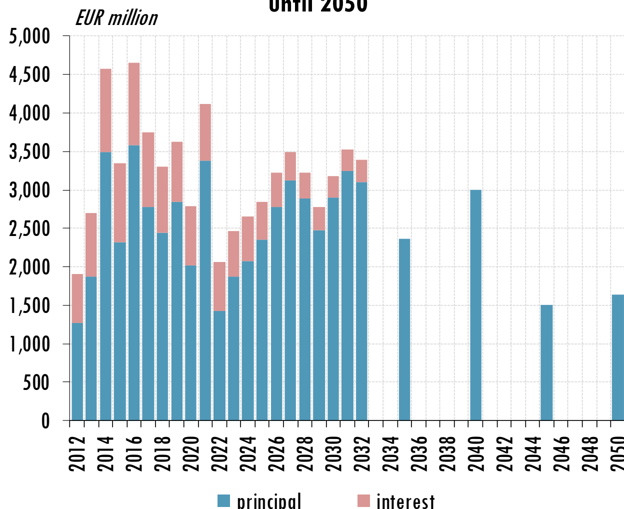
Source: Bloomberg.

Figure 2.16: Reference 10-year government bond spreads against benchmark German bond



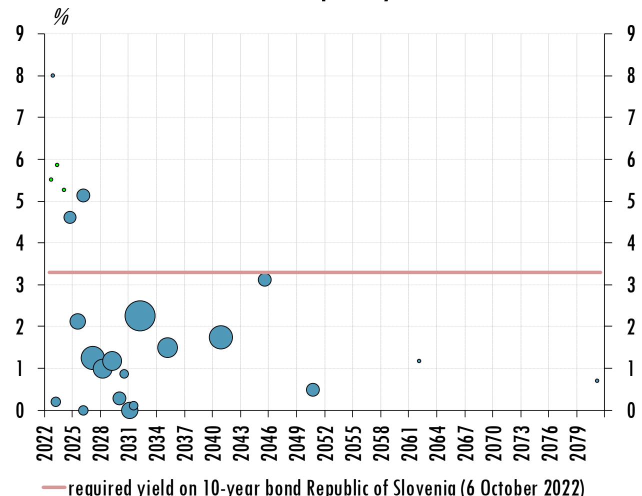
Source: Bloomberg, FC calculations.

Figure 2.17: State budget debt repayment schedule until 2050



Source: MoF: State Budget Debt, 9/2022 (as of 31 August 2022). After 2032: Financing programme of the Republic of Slovenia central government budget for the fiscal year 2022- no information on interest payments.

Figure 2.18: Key characteristics of debt maturities and current required yields



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

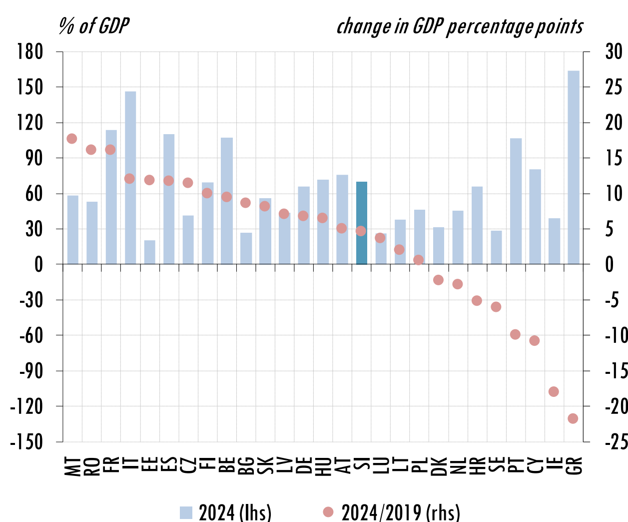
tightening monetary policy cycle, the dynamics of the increase accelerated and the required yield approached 3.5% at the end of September. After a decade, the harmonised interest rate has once again exceeded the current implicit interest rate, which is calculated over total debt. This year, we have seen an increase in the mark-up above the required yield for German government bonds, which, with the exception of the increase during the outbreak of the COVID-19 epidemic, hovered around 0.5 percentage points over the last three years, to a level above 1 percentage point. The increase in the mark-up this year was thus between the increases in the mark-ups on Portuguese and Spanish (0.4 percentage points) and Italian (0.7 percentage points) long-term bonds. Demand for the two first issues of long-term bonds far outstripped the supply even in 2022, when in this respect EUR 1.75 billion of debt has been issued so far. In addition, 16 additional issues of six existing long-term bonds for a total amount of more than EUR 2.3 billion were made in 2022 until September. In addition, this year the Treasury also purchased USD-denominated bonds with a high coupon interest rate, plus some EUR 650 million of RS 83 bonds maturing in the following year (the coupon interest rate being 0.2%). Due to the increase in debt, the expected further tightening of financing conditions and the fact that it is at a very low level, the decline in the interest expenditure-to-GDP ratio is expected to stop and gradually increase over the medium term. Slovenia's credit rating remains stable.

Even in less favourable conditions on the financial markets, the current favourable liquidity position of the state budget leaves a relatively large margin of manoeuvre for action in the crisis. The balance in the treasury single account further rose by EUR 3.2 billion to total EUR 9.0 billion (just under 16% of GDP projected for 2022) by the end of September this year. In the Draft Budgets, the Government announces its intention to reduce debt by using part of high liquidity reserves created through pre-financing cumulatively over the 2022–2024 period by around EUR 2.5 billion (around 4% of projected GDP for 2022). This is reasonable in view of the current increase in financing costs and the fact that the projections of the Draft Budgets foresee a significant part of expenditure in the reserve, which is unlikely to be realised or will not be realised in full. By September, all liabilities for this year (around EUR 2.5 billion) arising from issued long-term bonds had already matured. A further EUR 0.2 billion of USD-denominated bonds and EUR 0.2 billion of treasury bills issued are still due by

the end of the year. The stock of other matured liabilities arising from issued long-term bonds and treasury bills (EUR 1.4 billion) in the coming year is among the lowest in this decade relative to current issues of securities. In 2024, approximately EUR 2.5 billion of principal liabilities from issued long-term bonds will fall due. The government guarantees, which stood at EUR 4.6 billion or 8.2% of GDP at the end of Q2 2022, are expected to rise to 9% of GDP by 2023 as a result of the guarantees granted to energy companies.[32] Repayment of these guarantees is subject to a number of uncertainties.

Given that the relatively high level of debt may impair fiscal stability in the event of new shocks, it is necessary to exercise caution when it comes to additional borrowing. Two consecutive shocks have led to a significant increase in general government debt at the global level, mainly due to extensive measures to contain their effects, which is accompanied by a recent tightening of monetary policy. According to the latest forecast by the IMF,[33] in terms of the increase in the general government debt, Slovenia will rank in the lower half of EU Member States in 2024 compared to 2019. However, as the debt increases to relatively high levels, it becomes more sensitive to possible additional shocks or changes in macroeconomic trends, which may cause instabilities in the implementation of the fiscal policy.

Figure 2.19: Gross general government debt



Source. IMF, for Slovenia DBP23, FC calculations.

[32] The Implementation of the Republic of Slovenia Budget for 2023 and 2024 Act (ZIPRS2324) allows new state guarantees to be issued for EUR 2.8 million (4.5% of GDP) and EUR 1.5 billion (2.5% of GDP) respectively.

[33] IMF (2022a). The forecast is not made under the ESA 2010 methodology but is the latest forecast (October) that enables a comparison between countries. The last forecast by the EC that included the projection for the general government debt under the ESA 2010 was made in spring 2022. According to that forecast, in terms of the increase in debt in 2023 compared to 2019 levels, Slovenia is expected to rank in the middle among EU Member States.

3. Risks to the macroeconomic and fiscal scenarios

Key findings

- The macroeconomic scenario underlying the projections of the Draft Budgets is dominated by downside risks.
- The risks to the fiscal scenario are also predominantly downside, despite some factors that could lower the deficit.
- In the budget documents, the scale of the measures to cushion the blow of the cost of living crisis and the sharing of the burden of the energy price shock between the general government sector and the private sector are particularly exposed to high uncertainties.
- The simulations of the economic growth slippage scenarios suggest the possibility of delaying fiscal consolidation.
- The absence of action on long-term challenges exacerbates the risks to the long-term sustainability of public finances.

The macroeconomic scenario underlying the projections of the Draft Budgets is dominated by downside risks. These stem mainly from the international environment and relate to developments in the energy markets, which, particularly in the context of the war in Ukraine, are characterised by extremely high prices and price volatility. In line with the expected persistence of high energy prices and possible quantitative restrictions on energy supplies, the risks are reflected, among other things, in high inflation and declining projections for global economic growth, including in Slovenia's most important trading partners. The euro area is expected to be hit hardest by the energy crisis because of its dependence on energy supplies from Russia. The national economic shock from high prices of imported energy is quite high,[34] while the final distribution of its costs between the general government sector, the households and the business sector is unknown. Based on the currently available information, the action taken to date and the actual possibilities for burden-taking could be more even than in the case of the COVID-19 shock, when most of the burden was borne by the State due to the nature of the shock.[35] Recently, recession in 2023 in some countries is no longer only indicated by negative scenarios, but also by baseline forecast scenarios.[36] The risks to economic activity associated with the epidemic are lower than those stemming from the energy crisis and lower than in the past two years. Nevertheless, in the event of new strains emerging, they could have a significant impact, in

[34] According to the Fiscal Council's estimate, it could account for nearly two-thirds of the country's expenditure on mitigating the consequences of the COVID-19 shock in 2022 and 2023.

[35] One of the fundamental unknowns in the distribution of energy costs for the State, likewise for the scale of the national economic shock, is the future price of energy products and also the way in which it is supported by setting the energy price cap for consumers. An analysis of the fiscal effects of the price cap for households in Germany (Bauermann et al., 2022) shows that the range of estimates of fiscal costs can be very large taking into account different eligibility methods. Taking into account the results of the above analysis and the adjustment for the share of households using gas (12% in Slovenia compared to 48% in Germany), the share of consumption covered by the price cap (100% in Slovenia compared to the scenario of 80% in Germany) and the capped price (EUR 0.07/kWh in Slovenia and EUR 0.1/kWh in Germany), the cost of capping natural gas prices for households in Slovenia could be around 0.5% of GDP. With the same support provided for the business sector and taking into account the share of household consumption in total natural gas consumption, the cost would exceed 2% of GDP.

[36] E.g. the latest OECD forecast for Germany and the negative scenario for the euro area (Figure 1.4).

particular, on the resurgence of additional disruptions in supply chains and also on the functioning of the service sector. Weak global demand could be further constrained in the face of high price growth, due to the resulting highly coordinated action of central banks and the rapid tightening of financing conditions.

Despite the prevailing downside macroeconomic risks, there are also some factors that could improve the economic picture in the coming years compared to the baseline scenario. The private sector in particular could contribute to this, considering that over recent years it has built up some reserves to cope with shocks despite the COVID crisis. The current price 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 month of their gross disposable income. After a sharp increase during the epidemic period, the household savings rate declined to its pre-crisis level which equals the long-term average in the middle of this year.[37] However, the increase in household deposits with banks by EUR 1.3 billion in a year to August 2022 and by almost EUR 5 billion since the end of 2019 suggests some potential – probably heterogeneous across income brackets – to cope with high energy prices. At the same time, growth in gross operating surplus (according to national accounts statistics) in the year to Q2 2022 was more than double the long-term average for the economy as a whole, giving companies some room for manoeuvre in the face of persistently high raw material prices.[38] In addition to a growth in profits in diversified miscellaneous service activities, 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 downside risks to the fiscal scenario, which stem from macroeconomic risks and the final scale of measures to tackle the cost of living crisis, are significant. General government revenue could be lower than projected if the negative macroeconomic scenario materialises, although the scenario could increase the revenue bases at least in the short term, given the more likely supply shock and the consequently higher price growth that would follow. Higher inflation could also imply – albeit with a lag, which is likely to be shorter as high inflation persists – higher statutorily guaranteed regular adjustments to individual categories of expenditure. Furthermore, increased inflation could also reinforce demands for extraordinary or additional adjustments, in particular of employee compensation and social transfers. In addition to such indirect effects of inflation, possible additional measures to help mitigate the cost of living crisis on households and the business sector could also have a greater impact on general government expenditure. Here the major challenge to be addressed concerns in particular the potential demands to reimburse (a part of) the losses due to the setting of energy price caps or the provision of additional capital for the operations of the undertakings affected.[39] The losses of these undertakings could also be reflected in lower dividend payments to the state budget.[40] According to the ESRB (2022), the escalation of macroeconomic risks and risks arising

[37] While the decline in the savings rate after the epidemic crisis up to the middle of this year was faster and larger than the decline in the savings rate during the global economic crisis more than a decade ago, this time the savings rate has not yet fallen to historically low levels. Rough calculations suggest that if the savings rate were to fall from current levels to the historic low level reached in 2012, savings could be reduced by just over EUR 1.5 billion.

[38] 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 2.4 billion in 2022 with the already realised doubling of average energy prices (taking into account balance of payments data on import energy prices) if consumption remained unchanged. This, according to AJPES, is less than the net profit of corporations in 2019 (EUR 4.5 billion), 2020 (EUR 2.9 billion) and 2021 (EUR 5.7 billion).

[39] Although it has been already set at just below EUR 1 billion in the revised state budget adopted for 2022 and at a total of around EUR 750 million in the Draft Budgets for 2023 and 2024. These funds are shown in the "B balance" (financial receivables and investment account). The use of these funds does not affect the state budget balance, but it does increase the debt of the state budget.

[40] Ob The three energy companies for which the Government issued guarantees in 2022 to ensure the security of electricity and gas supply (HSE, Gen Energija and Geoplin) paid around EUR 25 million dividends to shareholders (the State) in 2021, according to their annual business reports.

from deteriorating financing conditions, along with the reduced debt repayment capacity of undertakings and the population, a fall in asset prices and in the quality of assets, and a decline in the profitability of credit institutions, could also affect the stability of the financial system, with a possible impact on the implicit liabilities of the general government sector. Risks also stem from the likely underestimated projection of transfers to individuals and households (ESA: social compensation excluding pensions), which foresees stagnation in 2024.[41] In addition, certain pending legislative changes could have an impact on fiscal aggregates, in particular on the expenditure side. These concern in particular long-term care, the pension system, school meals, parental protection and family benefits and also displaced persons from Ukraine.[42] Any agreements on additional salary increases for certain groups of public employees also pose a significant risk.

There are also upside risks to the achievement of the baseline fiscal scenario. These are mainly related to lower-than-projected expenditure outturns in the budget documents (see also Chapter 2), notably in terms of projected large-scale general government investments, which are increasingly financed by domestic resources,[43] and to the expenditure projections associated with the cost of living crisis. In this respect, doubts about the actual absorption of the high level of EU funds available and the envisaged rapid implementation of projects arise in particular on the basis of previous experience with budget planning and the failure so far to meet the targets in the context of the conditionality of the absorption of the RRF funds,[44] the absorption capacity of the administration, and supply-side constraints.[45] Uncertainties about the progression of the energy crisis are also reflected in an extremely high budget reserve (see Chapter 2). The Implementation of the Republic of Slovenia Budget for 2023 and 2024 Act (ZIPRS2324) stipulates that the scope of funds of the general budget reserve intended to finance COVID-19 and the consequences of the cost of living crisis is not limited.[46]

The simulations of the economic growth slippage scenarios suggest the possibility of delaying fiscal consolidation. In its autumn forecast, IMAD produced a downside scenario of slowing economic growth and rising inflation based on a risk analysis. However, the presentation of its results is not sufficient to determine a multi-annual fiscal scenario. We therefore present a set of scenarios of deviations of economic growth from the baseline scenario, in which the most pessimistic scenario is the closest to IMAD's downside scenario. We simulated the scenarios using a simple model[47] which enables the simulation of the effects of various economic growth assumptions on public finance and the feed-back effects of fiscal policy on economic growth. Estimates suggest that with economic growth 0.5 percentage points lower than that in the baseline scenario each year over the 2022–2024 period (real GDP would grow by 2.5% per year on average rather than by 3%) and with unchanged fiscal policy, the general government deficit could be slightly above 3% of GDP in 2024 rather than around

[41] With similar growth to that predicted for pensions, expenditure for this purpose would increase by around 0.5% of GDP in 2024, according to the projections in the Draft Budgets.

[42] The potential impact of these measures on the general government balance in 2023 and 2024 is estimated at around EUR 500 million per year. We assess that the likelihood of this legislation being adopted is relatively low.

[43] This runs counter to the recommendations made by international organisations and also by the Fiscal Council to make the most of the investment funds available under the various EU mechanisms.

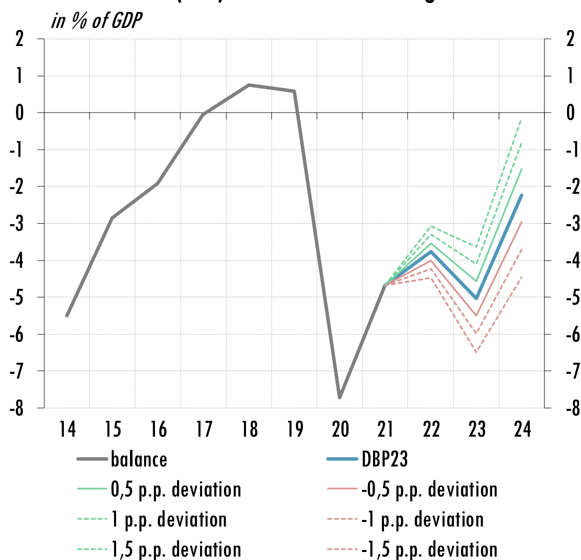
[44] Despite having set milestones for meeting the targets of the National Recovery and Resilience Plan for Q2 2022, which are a condition for the disbursement of funds under the RRF, Slovenia has not yet submitted a request for the disbursement of these funds. The milestones and targets are set out in the Operational Arrangements between the European Commission and Slovenia, available at: https://ec.europa.eu/info/sites/default/files/slovenia_rrf_oa_-_countersigned.pdf

[45] See Boxes 2.2 and 2.3 in FC (2021b).

[46] In response to the Fiscal Council's request of 5 October 2022 to the Ministry of Finance regarding the specific provisions of Articles 28 and 72 of the Implementation of the Republic of Slovenia Budget for 2023 and 2024 Act (ZIPRS2324), which set out the rules for the use of these funds, the Ministry of Finance, by letter of 6 October 2022, further clarified that the Government can only reallocate funds within sub-programmes aimed at mitigating the consequences of the COVID-19 epidemic and at easing the cost of living crisis. In view of this explanation, there are therefore no risks of non-targeted use of said funds for those purposes.

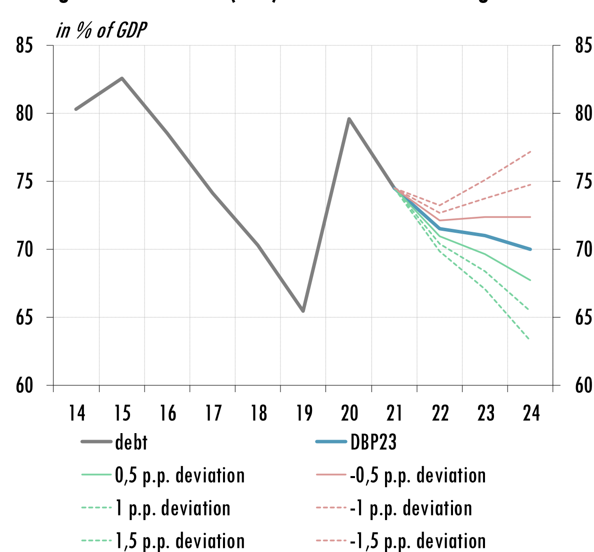
[47] In this model, the economic activity impacts public finances through automatic stabilisers and the fiscal policy influences the economic activity reversely through multipliers. For a more detailed explanation of the model, see: http://www.fiscalcouncil.ie/wp-content/uploads/2012/09/FAR_Sept2012.pdf (Annex B).

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



Source: SORS, forecast: DBP23, FC calculations.

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



Source: SORS, forecast: DBP23, FC calculations.

2.2% of GDP. However, if economic growth each year over the 2022–2024 period were 1.5 percentage points lower than that projected in the baseline scenario, the baseline scenario deficit in 2024 could be around 4.5% of GDP instead of around 2% of GDP.[48] In the latter case, the general government debt ratio would increase to levels close to 77% of GDP in 2024, contrary to the projected gradual decline in the baseline scenario, and its dynamics would indicate unsustainable developments over the medium term.

A growing risk to public finances is also posed by the failure to address the long-term challenges facing public finances. These relate in particular to the green transition and to ensuring the sustainability of social protection systems. The Fiscal Council[49] assesses that the annual investment gap required to achieve the milestones of the green transition set out in the National Energy and Climate Plan will be around 2% of GDP by 2030. Given the lack of interest from the private sector, most of the burden should be borne by the State.[50] According to IMF simulations, delaying the immediate start of a gradual green transition would weaken economic growth in advanced economies by 0.1–0.2 percentage points per year,[51] which would probably also worsen the fiscal position. At the same time, according to the latest estimates in the Ageing Report,[52] the annual fiscal cost of ageing under existing social protection systems in Slovenia is projected to increase by around two percentage points of GDP by 2030 compared to 2019. As the analysis of the sustainability of general government debt (see Box 3.1) suggests, it could become unsustainable even if half of the sum of the two mentioned risks were to materialise. General government debt is thus exposed to significant risks already in the medium term.

[48] Figures 3.1 and 3.2 show the possible general government balance and debt trends according to different economic growth assumptions. The baseline scenario indicates the projection of the general government balance and debt set out in the DBP23. The economic growth assumptions are 0.5 percentage points higher or lower in 2021 and 0.5, 1 and 1.5 percentage points higher or lower in the 2022–2023 period relative to the baseline scenario of the IMAD forecasts (Autumn Forecast, 2022). The maximum shock with regard to the deviation of GDP growth by ±1.5 percentage points is determined based on average absolute errors in the IMAD forecasts in the current and subsequent year in the 2002–2019 period.

[49] FC (2022b)

[50] Even in the absence of green transition efforts, the risks to public debt are significant, as they may make the debt unsustainable. See simulations in Zenios (2022).

[51] IMF (2022a).

[52] EC (2021a).

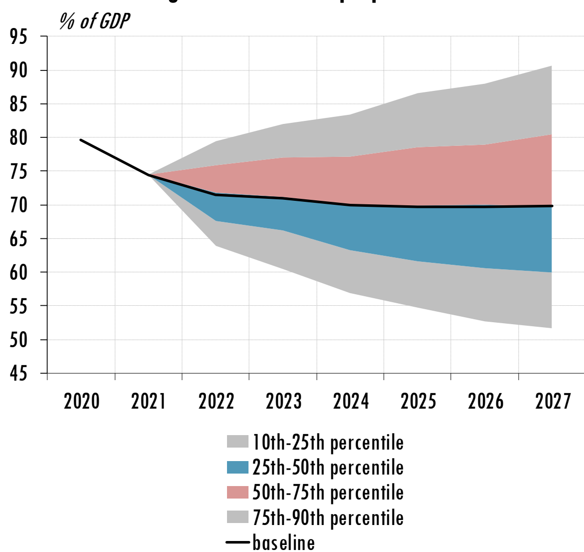
Box 3.1: Slovenia's general government debt: An analysis of medium-term sustainability

Debt sustainability analysis shows a country's capacity to finance its outstanding liabilities arising from its past fiscal policy stance in the event of macroeconomic and fiscal shocks. In analysing the debt sustainability based on the framework developed by the IMF,[1] first a baseline scenario based on macroeconomic and fiscal projections is estimated, followed by alternative scenarios which show the response of debt to various shocks. The responsiveness and changes in the dynamics and the level of the general government debt indicate the vulnerability of public finances to shocks other than those included in the baseline scenario; however, the actual shocks may deviate from those used in the analysis in terms of both their direction and magnitude.

The analysis of medium-term debt sustainability takes into account the projections of the Framework Proposal and IMAD's autumn forecast for 2022. The framework of the analysis covers the 2022–2027 period, using the latest available IMAD projections for 2024 to extend macroeconomic projections into 2025–2027. The projections of fiscal aggregates from the end of the projection period of the Framework Proposal (2024) to the end of the analysed period were supplemented with standard income elasticities, while expenditure was set by assuming that the difference between revenue and expenditure growth would be the same as in the long-term 2000–2019 period.[2] The underlying assumption was a gradual tightening of financing conditions, based on which the implicit interest rate on the general government debt would amount to approximately 2.6% in 2027, which would correspond to the level of mid-2019 and would still be approximately two percentage points less than the nominal GDP growth. The baseline scenario also included the assumption that the high level of cash balance and deposits (the treasury single account balance) would be reduced by EUR 0.5 billion in 2022 and by EUR 1 billion in 2023, which is also the implicit assumption in the Draft Budgets.

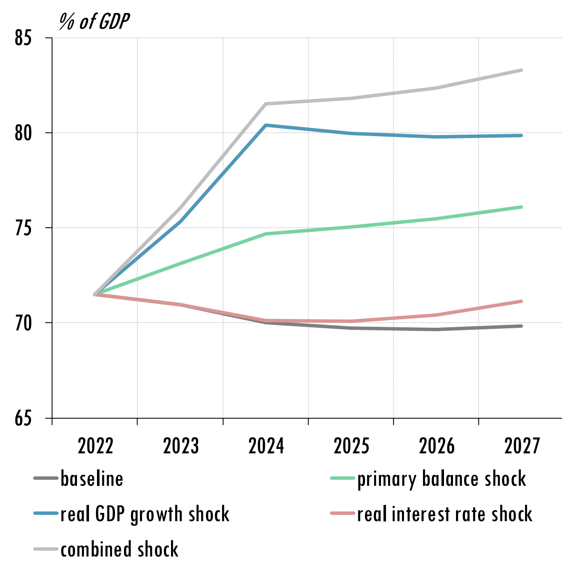
The analysis of medium-term debt sustainability provides several alternative scenarios, in which shocks are determined in standard magnitudes, primarily related to the historical fluctuations of the variables that are subject to shocks in these scenarios. Shocks in the alternative scenario of lower real GDP growth, for instance, are set to one standard deviation of real GDP growth in the 2012–2021 period, where the elasticity of the response of inflation and the interest rate to the change in the GDP growth and to the worsening of the primary balance, by 0.25% and -0.25%, is assumed respectively. According to this scenario, real GDP would fall by an average of just under 2% in 2023 and 2024 (in the baseline scenario, it would grow at around 2% according to IMAD's projections). The scenario of a worsened primary balance is also based on a long-term deviation and the response of the interest rate to the same extent as in the event of a real GDP shock. In this scenario, the primary bal-

Figure 1: Probability distribution of general government debt projections



Source: SORS, MoF, FC calculations and simulations.

Figure 2: General govenment debt response to shocks



Source: FC.

ance deficit over the 2023–2024 period would be about twice that of the baseline scenario. The interest rate shock is implemented as a 200 basis point increase in the interest rate from the baseline scenario over the 2022–2027 period.

The analysis suggests a broadly sustainable dynamics of the general government debt in the medium term with regard to certain risks in case of shocks. Risks are asymmetric and skewed upwards in the projected debt distribution (see Figure 1). The assessment of the risks to debt sustainability in the medium term is primarily based on potential slower economic growth, while a deteriorated primary balance would also have an impact, implying a higher risk assessment. In the aforementioned cases, the debt-to-GDP ratio could rise relatively rapidly, to between 75% and 80% of GDP, whereas in the case of a combined macroeconomic-fiscal shock, the debt could rise close to 85% of GDP. Nevertheless, its dynamic should not become unsustainable in view of the assumed economic growth despite the gradual tightening of financing conditions over the next five years. A similar picture is shown by the results of additional simulations of a double GDP shock, which (if the financing conditions remained unchanged) would raise the debt-to-GDP ratio permanently to a level just above 90% of GDP and would stabilise at that level. In contrast, if the duration of the primary balance shock was prolonged, the debt dynamics would become unsustainable by the end of the observation period, as no stabilisation of debt would occur at a higher level. Simulations of the potential outturn of implicit liabilities suggest that debt would become unsustainable only in the event of significant shocks of this kind (e.g. by around 5% of GDP in two consecutive years). The risks become more pronounced in the event of more permanent shocks (cf. Figure 3.2), e.g. a reduction in the average annual GDP growth in the 2023–2027 period by slightly less than one percentage point. In such a case, the debt dynamics of the combined shock becomes unsustainable already in the second half of the period.

[1] The currently available template can be found at: https://www.imf.org/external/pubs/ft/dsa/mac.htm.

[2] Due to the expected increase in costs resulting from an ageing population, such an assumption may underestimate expenditure levels.

4. Adequacy of fiscal policy orientations

Key findings

- In September 2022, the Fiscal Council assessed that the outlook for 2023 was shrouded in extreme uncertainty and marked by high geopolitical risks, which could be considered as an unusual event, although the economic conditions alone do not currently justify the existence of exceptional circumstances.
- Fiscal policy needs to provide flexibility to act in the current uncertain environment, and additional fiscal stimulus is neither necessary nor appropriate at this time due to supply-side constraints.
- Most indicators point to a relatively neutral fiscal policy impulse over the next two years on average, which is appropriate, although developments in some budget categories and certain orientations in budget documents are subject to significant risks.
- The general government deficit is supposed to fall below the Maastricht criterion at the end of the period covered by the Draft Budgets, while general government debt is projected to remain above the 60% threshold, although its reduction is expected to be appropriate.

4.1 Existence of exceptional circumstances in 2023[53]

The outlook for 2023 is currently shrouded in extreme uncertainty and marked by high geopolitical risks of a further deterioration in the economic growth outlook, which calls for enabling a flexible action by the Government. This can be described as an unusual event beyond control, which may have significant implications for the financial situation of the general government sector.[54] While taking action to ease the effects of the energy price increases, the Government needs to preserve as much room for manoeuvre as possible for future action, in particular by limiting the growth of current spending. Measures to address the energy crisis must be timely, targeted and temporary and must not worsen the structural position of public finances. In the event of the persistent price shocks, this particularly applies to the adjustment of different categories of public expenditure to the current high level of energy prices.

The current economic situation is not a sufficient reason to invoke exceptional circumstances in 2023. Economic activity and employment levels in Slovenia already exceeded their pre-crisis levels on average in 2021, indeed exceeding them by among the highest margins in the EU. In the coming year, GDP and employment levels are expected to remain at the levels projected in autumn 2019, according to the updated IMAD projections. The same applies to all components of domestic

[53] The text is a summary of the assessment published on 26 September 2022. See FC (2022c).

[54] The Fiscal Rule Act (FRA) sets out two conditions for the existence of exceptional circumstances that allow for a deviation from the medium-term balance, provided that it does not jeopardise fiscal sustainability in the medium term. Pursuant to paragraph one of Article 12 of the Fiscal Rule Act, such a deviation is only permitted (i) in periods of severe economic downturn or (ii) in the case of an unusual event outside the control of the party concerned which has a major impact on the financial situation of the general government sector, as defined by the Stability and Growth Pact.

consumption, which has increased since the lifting of restrictive measures, with its growth being reflected in an increased willingness to spend. This was made possible by households' savings made during the crisis and the still favourable financing conditions, combined with significant crisis support from the State to households and businesses. The favourable economic situation has also been reflected in the labour market, with unemployment at an all-time low, companies reporting difficulties in recruiting suitably skilled labour and foreigners accounting for the majority of new hiring.

Since the Fiscal Council's last assessment on the fulfilment of the conditions for invoking exceptional circumstances, uncertainties have increased significantly and the outlook for future economic growth has deteriorated. This is also reflected in a gradual lowering of forecasts for GDP growth and alternative scenarios that also point to the possibility of a recession in the EU, the euro area and Slovenia. The main reason for the increased uncertainties is the escalating geopolitical situation, which is affecting both foreign demand and commodity prices, in particular energy prices. We estimate the macroeconomic shock from higher prices of energy products to be around 6% of GDP in 2022 compared to 2021, with an additional almost 1% of GDP to follow in 2023. The magnitude of the shock justifies intervention by the State, but part of the shock should also be absorbed by businesses and households. Significant uncertainties and shocks also reduce the reliability of statistics and input data for assessing compliance with fiscal rules.

The European Commission has justified the extension of the escape clause to 2023 mainly on the grounds of high uncertainties. The European Commission stated its opinion on the use of the general escape clause in 2023 in its press release on the European Semester Spring Package on the basis of the May 2022 forecast.[55] It concluded that given the high degree of uncertainty, high risks associated with the war in Ukraine, the energy price shocks and continued supply chain disturbances, national fiscal policies should be provided sufficient room to react in 2023 as well. In June 2021,[56] the European Commission concluded on the basis of its spring forecasts that the grounds for the validity of the general escape clause would cease to exist in 2023. Also according to the March 2022 press release,[57] which was prepared on the basis of the February forecast, the general escape clause was to be deactivated as of 2023.

The Fiscal Council expects that once none of the conditions for invoking exceptional circumstances is met, the Government will activate the correction mechanism in accordance with the national legislation. With a multifaceted response to ease the cost of living crisis, the Fiscal Council expects the Government to transparently and credibly define the measures and evaluate their impact on public finances in order to be able to assess the state of fiscal policy in the absence of these measures. Article 14 of the Fiscal Rule Act provides that the minister responsible for finance should implement measures as defined in the act governing public finance for the purpose of balancing public finance in the medium term if the Government, on the basis of an assessment of the Fiscal Council, determines that circumstances referred to in paragraph one of Article 12 of the Fiscal Rule Act have ceased to exist and that the structural balance of the general government sector is lower than the minimum value as defined in paragraph three of Article 3 of that act. The Fiscal Council will continue to assess budget documents in accordance with the applicable national legislation. In line with the latter, it expects measures to be put in place to ensure that public finances are prepared to respond to future shocks and that challenges to long-term fiscal sustainability are adequately addressed. The intentions set out

[55] EC (2022a).
[56] EC (2021b).
[57] EC (2022b).

by the Government in this regard when requesting an assessment of the existence of exceptional circumstances in 2023 are therefore appropriate.[58]

4.2 Assessment of the fiscal policy stance

Given the current uncertain environment, fiscal policy needs to ensure effective measures to address the cost of living crisis but at the same time limit additional fiscal impulses, as a general stimulus to the economy is not needed under the baseline macroeconomic scenario. The main short -term objectives of fiscal policy in the current circumstances are to help ease the pressures arising from price increases and to prevent additional inflationary pressures. As aid is focused on expenditure in the contexts of both price increases and containing the consequences of the epidemic, expenditure (indirectly also the revenue policy measures) has an impact on the available resources of households and businesses and thus on aggregate demand. Action needs to be set in a macroeconomic environment that, after the lifting of the restrictive measures to contain the epidemic, is conducive to a rapid recovery in economic activity and marked with historically excellent conditions on the labour market. The situation on the labour market, however, is also reflected in a shortage of adequately skilled labour force and, in the most exposed activities, therefore also by upward wage pressures. Additional stimulus to economic growth is therefore neither necessary nor appropriate in such circumstances.[59] Moreover, in the event of a significant price shock, the State alone will not be able to bear the entire burden, which is likely to be not only temporary but structural in nature and will therefore have to be partly borne by the private sector, together with the unavoidable costs of gradually decreasing energy intensity. These facts thus see fiscal policy facing a difficult choice regarding the scope and manner of implementing measures to address the cost of living crisis under the uncertain circumstances without creating additional inflationary pressures in the context of a relatively rapid normalisation of monetary policy.

The high degree of flexibility for action allowed by exceptional circumstances and foreseen in the budget documents should not be abused, as happened to a certain extent in the case of the legislation relating to the COVID-19 pandemic. The uncertain situation – in particular related to the possibility of a global recession, the cost of living crisis and, to a lesser extent, the epidemic – dictates a high degree of flexibility in conducting fiscal policy. The Draft Budgets provide this with the unprecedented high level of the budget reserve. A basic condition for the transparent use of the high budget reserve funds, which allow for a swift operation of fiscal policy in the event of unexpected circumstances, are the provisions prescribing that these funds should be used exclusively for their intended purpose. Given that specific sub-programmes are dedicated to action in the aforementioned areas, the Fiscal Council expects from the Ministry of Finance that it ensure a high level of transparency in implementing this part of the budget and monitor closely the use of these funds. In particular, measures to tackle the cost of living crisis should not be used to address systemic problems in public finances, an issue to which the Fiscal Council regularly drew attention when various COVID-19 -related measures were adopted.[60]

Measures to address the cost of living crisis need to be timely and, in particular, targeted and temporary. These basic guidelines on the implementation of measures to ease the effects of rising

[58] See the press release following the 15th session of the Government of the Republic of Slovenia, available at: https://www.gov.si/assets/vlada/Seja-vlade-SZJ/2022/09-2022/sevl15.docx. (Only in Slovene)

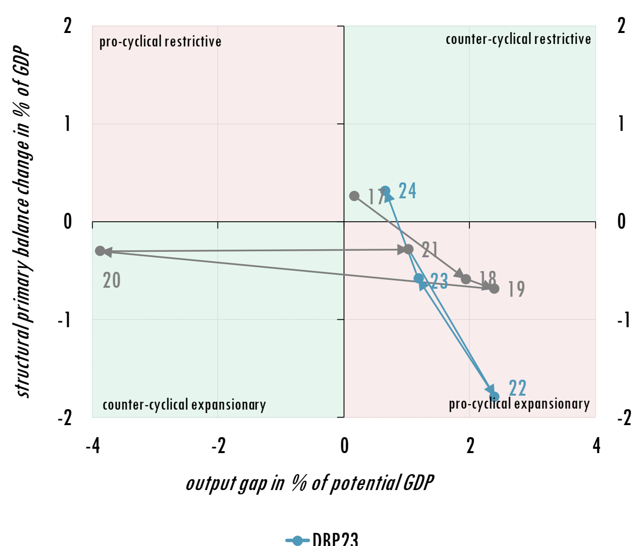
[59] This is also the view of the EFB (2022) and the Eurogroup (2022) on fiscal policy orientations in 2023.

[60] See e.g. the Fiscal Council's recommendation (2020c) when adopting anti-corona legislation.

prices are similar to those provided with respect to the measures aimed at mitigating the consequences of the epidemic, which the Fiscal Council and international institutions have highlighted since the beginning of the period of exceptional circumstances.[61] Such guidelines are of particular importance in the environment where the financing costs on international financial markets rise relatively rapidly, which will lead to a gradual increase in the general government interest expenditure as the need arises to refinance the relatively high level of public debt and undertake additional borrowing. On the one hand, this reduces the scope for short-term action, while on the other it limits the scope for future action. At the onset of the energy crisis, countries largely opted for general measures to prevent a fall in the disposable income of a large share of households.[62] These were dominated by price measures that are not optimal in terms of targeting and typically entail higher fiscal costs, which reflect in higher public debt and increase inequality compared to measures that have a direct impact on the incomes of the targeted share of households.[63] Non-targeted price measures may also contribute to sustaining high demand for energy products and therefore delay the phase-out of fossil fuels, which, in addition to the green transition, is also necessary due to structural changes in energy markets, which in the future are likely to generate higher prices than in the last two decades. Therefore the Eurogroup (2022) also recommends in its October Recommendation refocusing on measures that will be temporary and will have a direct impact on the incomes of the most vulnerable groups.

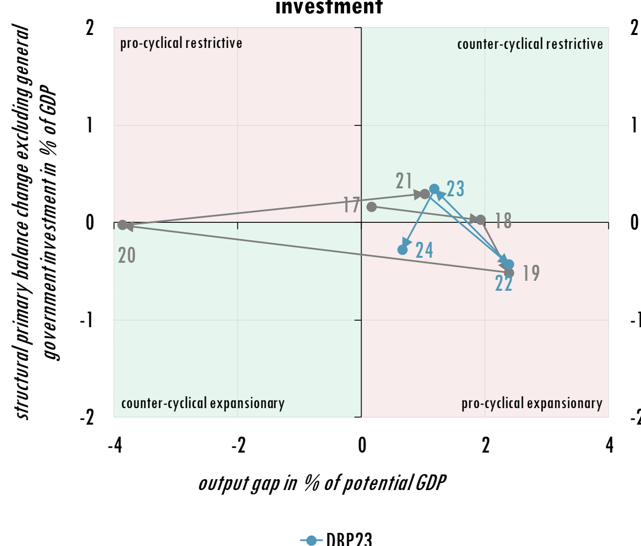
According to the Draft Budgets, the fiscal policy stance will be relatively neutral in the coming years but subject to a number of risks (see Box 4.2). The average growth rates of current expenditure exceed the long-term average growth of potential output, but in the next two years, they will be relatively aligned with high nominal growth, which reflects strong inflation. As indicated in the budget documents, fiscal policy is to be geared mainly towards mitigating the cost of living crisis and boosting investments, in addition to increasing employee compensation and social benefits. The increase in employee compensation and social benefits will exceed inflation on average in 2023 and 2024, implying a relatively high real growth compared to the pre-crisis year 2019. This is largely due

Figure 4.1: Fiscal policy stance



Source: SORS, MoF, FC estimates.

Figure 4.2: Fiscal policy stance excluding general government investment



Source: SORS, MoF, FC estimates.

[61] See the Fiscal Council's opinion (2020d) issued at the adoption of measures to counter the consequences of the COVID-19 epidemic.
[62] See e.g. Bruegel analysis available at: https://www.bruegel.org/dataset/national-policies-shield-consumers-rising-energy-prices and EU IFI (2022).
[63] IMF (2022b).

to discretionary measures (see Box 2.2), but in the case of social benefits, it is also largely due to the inflation indexation that is based on the existing legislation. The projected growth of the two categories suggests a rather high real increase relative to the pre-crisis year 2019. Just like the emergency measures aimed at tackling the cost of living crisis, investments need to be efficient, which is unlikely under the current economic conditions and high input costs. Therefore, in the current conditions, it would be reasonable to develop investment projects as far as possible and to implement them once the conditions become more favourable. Investments should address as far as possible the risks to which the economy will be exposed in the future and which may affect the sustainability of public finances and the growth in economic potential. Such risks include long-term fiscal challenges arising from social security systems and the green transition, which are not clearly assessed in the budget documents or indicated in alternative scenarios and which economic policy has delayed addressing comprehensively. Guidance on addressing these challenges should therefore be an integral part of the spring medium-term budget documents.

With a neutral stance, fiscal policy can play a role in reducing domestic inflationary pressures. In addition to high energy prices resulting from the situation on international commodity markets, a rising share of inflation is driven by domestic factors. Slovenia does not have its own monetary policy, and the ECB action is focused on the euro area average, where inflation is lower than in Slovenia. As a result, the normalisation of monetary policy at the euro area level has a relatively less restrictive effect on the Slovenian economy, meaning that an expansionary fiscal policy stance would run counter to monetary policy efforts. At the same time, given that the inflation shock is primarily supply-side driven and that it is therefore outside the direct influence of domestic economic policy, a neutral fiscal policy stance should in particular ensure that domestic demand is not conducive to inflation. Indeed in the case of additional demand stimulation through both current and investment spending, the fiscal policy in the current conditions of a relatively favourable economic cycle can run counter to its own efforts to cushion the effects of rising prices.

Achieving and securing medium-term sustainability of public debt is important. This is one of the fundamental tasks of fiscal policy and also allows maintaining and promoting long-term economic potential. The achievement of medium-term debt sustainability depends not only on the primary balance, which can be at least partly influenced by fiscal policy, but also on the favourable relationships between interest rates and nominal economic growth and on the maturity structure of the debt and the volume of liquid assets at the state's disposal. This is particularly important in a situation where monetary policy is withdrawing a current large-scale intervention in the secondary markets of government securities. It is therefore important to bear in mind that the risks to which individual countries' public finances are exposed are likely to be assessed differently in the future by market participants than in recent years of active monetary policy using intervention instruments. Therefore the stability of the country's position in the financial markets is particularly important and may be supported, inter alia, by credible medium-term budget plans.[64] Against this background, we assess that, under the given circumstances, the approach of gradually reducing the high level of available assets in tight and uncertain financial market conditions is appropriate. This limits the increase in gross debt, which is a key indicator of fiscal sustainability, even if it is accompanied by an increase in the general government net debt.

[64] See Chapter 2 in IMF (2021).

Box 4.1: Indicative assessment of compliance of the Framework Proposal with fiscal rules

The proposed amendments to the Framework Proposal relate to the increase in the ceilings on general government expenditure and all fiscal budgets. The framework for the preparation of general government budgets for the 2022–2024 period was set for the first time in April 2021.[1] Compared to the previous framework, the proposed increases in the expenditure ceilings, which in this amendment relate to 2023 and 2024, are the highest ever. The 2022 expenditure ceiling has already been amended in the revised budget for 2022.[2] The revision of the ceilings for only one year, as assessed by the Fiscal Council in September 2022,[3] is inadequate for the medium-term budgeting, which should serve as the basis for a comprehensive fiscal policy. The largest contributor to the proposed increase in general government expenditure is the increase in the ceiling on general government budget expenditure (around 80% in 2023 and just below 70% in 2024). The total increase in the general government expenditure ceiling is EUR 730 million lower in 2023 and by EUR 860 million lower than the sum of the increased expenditure ceilings on the individual general government budgets.[4]

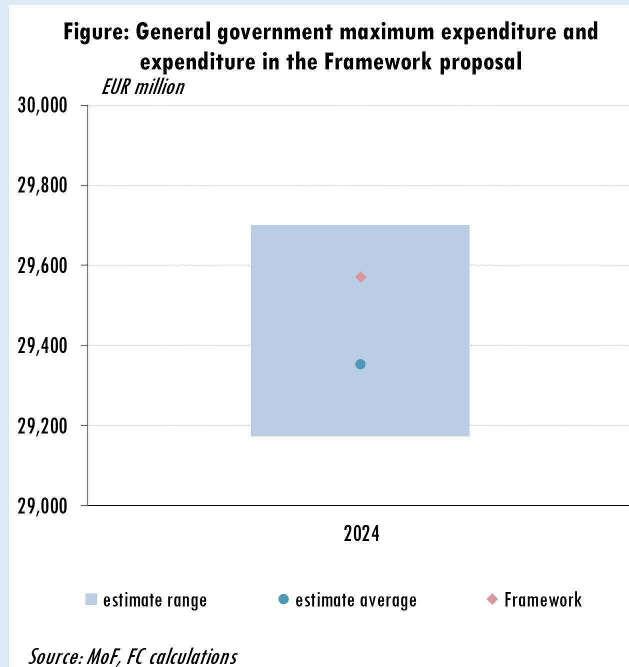
The Fiscal Council has assessed the framework for the preparation of the general government budget for the 2022–2024 period for the fourth time, again on an indicative basis. All assessments to date have been made during the period of exceptional circumstances. Therefore these assessments are purely indicative since, in addition to the methodological challenges associated with determining the cyclical position of the economy, which pursuant to the Fiscal Rule Act are an important input for setting expenditure ceilings, we also face a high and unpredictable volume of expenditure, which is shown in the state budget under the item "reserve", and which the Ministry of Finance must, for methodological reasons, expertly allocate to the selected spending items within the framework of the general government balances. This also explains why the budget projections for 2024 are highly unpredictable. Moreover, it is not known whether the exceptional circumstances will still apply in 2024 with the unknown variable also being the reform of economic governance in the EU, and possible changes to fiscal rules in this context, which is expected to become clear at the end of October this year.

The proposed level of general government expenditure in 2024, when the information currently available suggests that exceptional circumstances will no longer apply, is within the range of

Table: Framework amendments for 2023 and 2024

	General government		State budget		Local govt.	Pension Fund	Health Fund	GDP
	targ. balance % GDP	max E EUR million	targ. balance % GDP	max E EUR million	max E EUR million	max E EUR million	max E EUR million	EUR million
Framework, Sep. 22 (OG 125/2022)								
2022	-3.9	27,380	-3.6	14,580	2,795	6,740	4,100	56,167
2023	-3.3	25,980	-2.6	13,365	2,505	6,640	3,745	59,768
2024	-2.8	25,430	-2.5	12,730	2,415	6,675	3,850	62,882
Proposed Framework amendments, Oct. 22								
2022	-3.9	27,380	-3.6	14,580	2,795	6,740	4,100	57,921
2023	-5.0	30,055	-5.4	16,700	2,955	7,065	4,340	61,951
2024	-2.2	29,570	-2.6	15,510	2,990	7,580	4,590	65,311
Difference								
Oct. 2022-Sep. 2022								
2022	0.0	0	0.0	0	0	0	0	1,755
2023	-1.7	4,075	-2.8	3,335	450	425	595	2,183
2024	0.6	4,140	-0.1	2,780	575	905	740	2,429

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



estimates of the ceiling. According to information currently available, the exceptional circumstances clause under the Fiscal Rule Act will no longer be in force in 2024. The allowed range of government expenditure ceilings is determined on the basis of a set of output gap estimates that we regularly use in preparing the assessments of compliance of budget documents with fiscal rules.[5] The permissible general government expenditure ceiling set in the Framework Proposal is higher than the average estimate of what is allowed, but it is still within the range of all estimates. Insofar as the conditions for exceptional circumstances are not met in 2022 and 2023, the proposed expenditure ceilings would be assessed in accordance with Articles 3 and 15 of the Fiscal Rule Act.[6] In this case, these would be above the range of estimates of permissible expenditure ceilings. In our assessment, this confirms that the existing national legislative framework allows for considerable flexibility in the conduct of fiscal policy in times of stress and uncertainty.

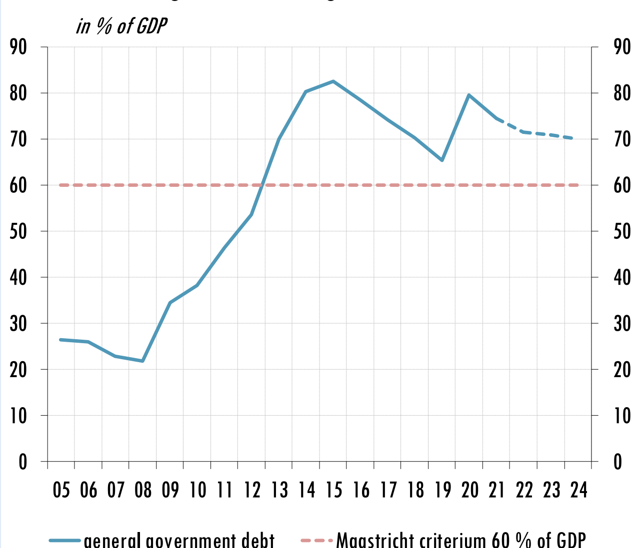
[1] The publication from the Official Gazette of the Republic of Slovenia (No 65/21) is available (only in Slovene) at: https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2021-01-1352/odlok-o-okviru-za-pripravo-proracunov-sektorja-drzava-za-obdobje-od-2022-do-2024-odpsd22-24
[2] Available at: https://www.uradni-list.si/_pdf/2022/Ur/u2022125.pdf. (Only in Slovene)
[3] FC (2022a).
[4] The difference may to some extent be due to envisaged large transfers between individual general government budgets, which are consolidated in the general government balance, but the deviation is particularly high.
[5] See Box 2.1 in FC (2018a).
[6] For derivation of the formula, see Box in FC (2018b).

Box 4.2: Compliance of the Draft Budgets and Framework Proposal with fiscal rules

The quantitative assessment of compliance with fiscal rules is subject to many uncertainties in the current economic environment. In the face of heightened uncertainties in two consecutive crises with significant fiscal implications, a number of rules derived from national and EU legislation were coupled with additional derivative indictors that are monitored by the European Commission and complemented by the Fiscal Council with alternative indicators. The methodological challenges in the calculation of the parameters that influence the assessment of compliance with many fiscal rules are particularly significant in a period of large fluctuations in economic activity.[1]

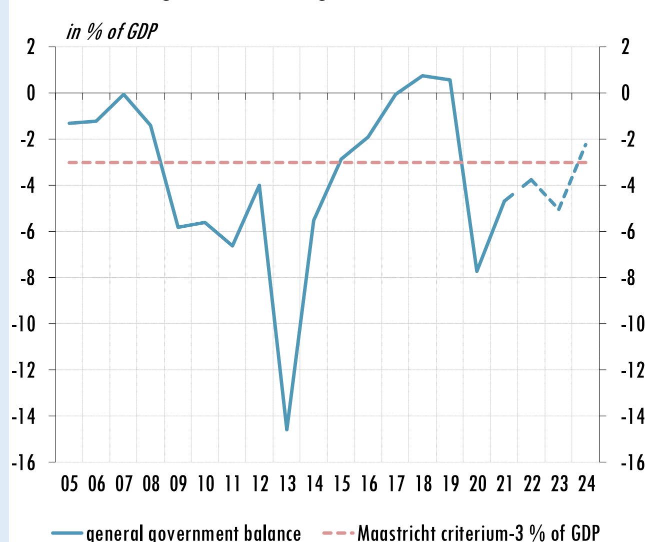
Despite the high level of expenditure, the headline general government deficit is expected to fall below the 3% of GDP threshold by the end of the projection period on the back of high revenue growth and the projected slowdown in investment activity in 2024. This threshold will be reached particularly as a result of the relatively high economic growth and inflation, which further increases budget revenue in the short term. However, the risk analysis (see Chapter 3, particularly Figure 3.1)

Figure 1: General government debt



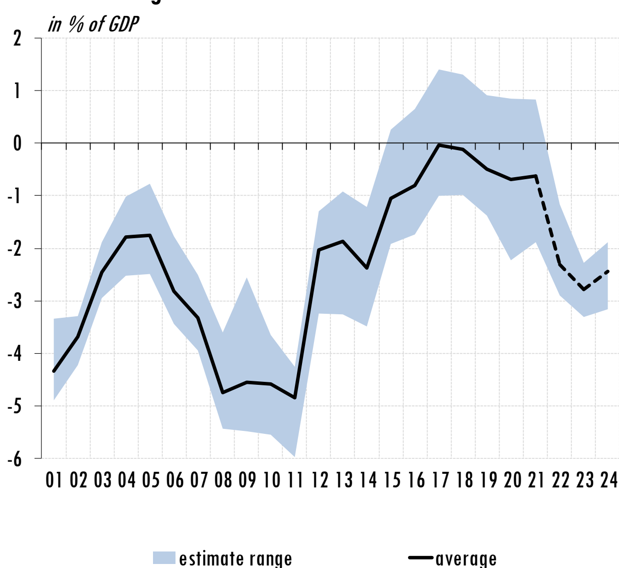
Source: SORS, MoF.

Figure 2: General government balance



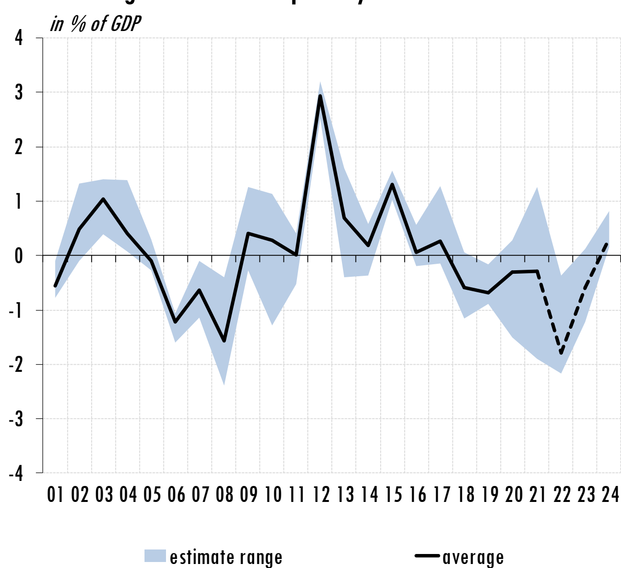
Source: SORS, MoF.

Figure 3: Structural balance estimates



Source: IMAD, EC, OECD, IMF, MoF, FC calculations. See note under Table 5.1.

Figure 4: Strucural primary effort estimates



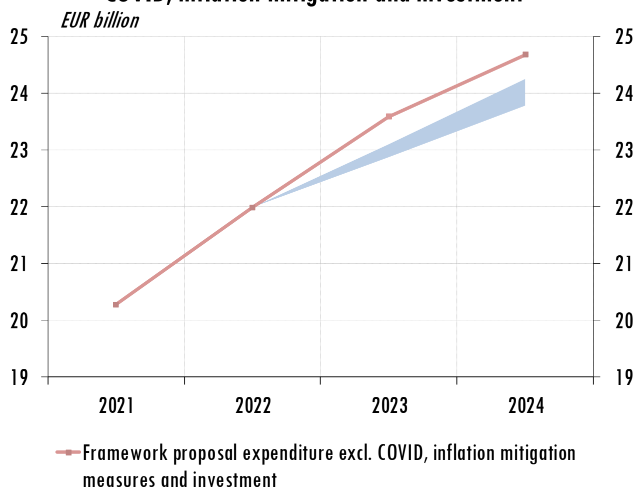
Source: IMAD, EC, OECD, IMF, MoF, FC calculations. See note under Table 5.1.

suggests a rather high probability of not achieving the Maastricht reference value for the general government balance in the event of a deviation in economic growth from that projected in IMAD's baseline scenario. Excluding investments, the static assessment suggests a surplus of the general government balance on average over the 2023–2024 period which is only about EUR 650 million higher than the equally defined balance in 2019 despite substantially higher GDP (on average by EUR 15.1 billion) and thus higher revenue (on average by EUR 6.3 billion)

The structural deficit is projected to deviate from the lowest value of the structural balance, calculated on the basis of EU rules (the MTO), while the structural effort should be relatively neutral. According to the current calculation of the Fiscal Council, the structural deficit should amount to approximately 2.5% of GDP over the next two years (primary structural deficit around 1.5% of GDP) following the deterioration in 2022.[2] This would significantly exceed the currently estimated MTO of 0.25% of GDP.[3] Given the deviation of the structural balance from the MTO and in accordance with the provisions of the Fiscal Rule Act (Article 15) and EU rules (EC, 2019), the structural effort in the years in which exceptional circumstances do not apply should be at least 0.6% of GDP per year. The average effort is expected to be close to zero in 2023 and 2024 according to the proposed budget documents.

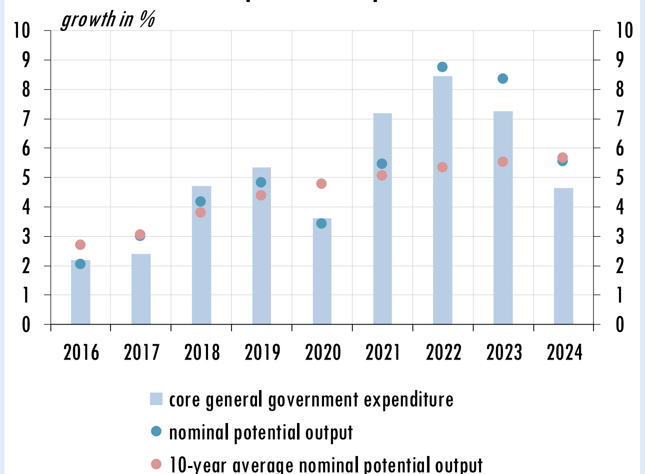
Some alternative estimates of the level and growth of expenditure suggest that the expenditure is above the limits set on the basis of long-term potential output, but this is largely a direct and indirect consequence of high inflation and investments. A comparison of expenditure levels with those that would be made possible only by growth in the expected economic potential[4] shows that the level of "core" general government expenditure is too high, reflecting in particular discretionary measures that will mostly ensure the maintenance of the real value of the incomes of employees in the public administration and of social transfers (see Box 2.2) in 2023 and 2024. The growth of "core" expenditure in the Framework Proposal in 2023 and 2024 is relatively consistent with the currently estimated growth in both long-term and annual potential output.[5] While it is slightly higher than the average growth of expenditure over the last two decades, at the same time it lags behind this growth when taking inflation into account. The modest additional fiscal policy impulse on average in 2023 and 2024 is also indicated by the calculation based on the EU expenditure rule and by the alternative indicator introduced by the EC during the period of crisis and uncertainty regarding the calculations of the structural indicators of the state of public finances.[6] While the expansion of fiscal policy in 2023 mainly stems from the projected further strengthening of the Government's investment activity, it is expected to be driven exclusively by growth in primary current spending in 2024.

Figure 5: Simulation of general government expenditure excl. COVID, inflation mitigation and investment



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

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



Sources: SORS, MoF, IMAD, FC calculations. Note: "Core" expenditure is general government expenditure excluding COVID and inflation mitigation measures, investment and interest expenditure.

Table: Overview of fulfilment of fiscal rules

		2021	2022	2023	2024
Macroeconomic variables					
Real GDP growth (%)	IMAD	8.2	5.0	1.4	2.6
GDP nominal (EUR million)	IMAD	52,208	57,921	61,951	65,311
GDP deflator (%)	IMAD	2.6	5.7	5.4	2.7
GDP potential growth (%)	IMAD	5.5	8.7	8.3	5.6
Medium-term potential nominal GDP growth (%)[1]	IMAD	5.0	5.3	5.5	5.7
Output gap (in % of potential nominal GDP)[2]	FC	1.0	2.4	1.2	0.7
National fiscal rule					
General government expenditure (EUR million)	MF	25,735	27,378	30,052	29,569
National rule - maximum general government expenditure (EUR million)[3]	FC				29,351
Frameworks for the preparation of the gen. government budgets Sep. and Oct.22 (EUR million)	MF		27,380	30,055	29,570
EU fiscal rules					
General government balance (% of GDP)	MF	**-4.7**	**-3.8**	**-5.0**	**-2.2**
Maastricht criterium (% of GDP)	EC	-3.0	-3.0	-3.0	-3.0
Gross general government debt (% of GDP)	MF	**74.5**	**71.5**	**71.0**	**70.0**
Maastricht criterium (% of GDP)	EC	60.0	60.0	60.0	60.0
Permitted debt level according to EU rules (% of GDP):					
- 1/20th rule[4]	FC	...	73.7	73.0	72.3
- backward-looking benchmark[4]	FC	...	72.0	73.6	71.1
- forward-looking benchmark[4]	FC	...	71.1	69.8	69.3
- cyclically-adjusted debt reduction benchmark[4]	FC	...	71.6	76.8	71.6
Structural balance (% of GDP)	FC	-0.6	-2.3	-2.8	-2.4
Medium term objective according to EU rules - MTO (% of GDP)[5]	EC/FC	-0.25	-0.25	0.25	0.25
Change in structural balance (% of GDP)	FC	0.1	-1.7	-0.5	0.3
Required annual fiscal adjustment (% of GDP)[6]	FC	...	...	...	0.6
EU expenditure benchmark - net expenditure nominal growth (%)	FC	**6.8**	**4.8**	**8.6**	**1.1**
Permitted nominal annual net expenditure growth (%)	FC	5.0	8.3	8.2	4.2
EU expenditure benchmark - net expenditure nominal growth excl. one-offs (%)	FC	**8.0**	**9.3**	**8.1**	**7.6**
Permitted nominal annual net expenditure growth excluding one-offs (%)	FC	5.0	8.3	8.2	4.2
Alternative indicators					
"Core" general government expenditure (%)[7]	FC	7.2	8.4	7.3	4.6
Fiscal stance - with EU funds, excl. COVID measures (% of GDP)[8]	FC	-1.7	-1.6	-0.4	0.3

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

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

[2] average of 9 estimates used by the FC. See Table 5.1 in the Annex.

[3] Taking into account Framework Proposal revenue projections and FC estimates.

[4] The base year for calculations is 2021.

[5] FC estimates, as EC has not yet published the new calculations.

[6] In 2021-2023 structural effort is not required due to general escape clause. In 2024 FC estimate based on the matrix in Box 1.6 in EC (2019).

[7] Excluding expenditure on interest, investment, COVID measures, inflation mitigation and other one-off expenditure. Growth is adequate if it does not exceed medium-term growth of potential nominal GDP and vice versa

[8] Negative sign denotes expansionary fiscal policy and vice versa.

Pursuant to the rules of the Fiscal Pact laid down in the preventive arm of the Stability and Growth Pact, the general government debt exceeding 60% of GDP will be gradually reduced. Slovenia is projected to comply with these rules in 2023 and 2024, although debt is projected to remain above the 60% of GDP threshold in 2024. As the debt-to-GDP ratio over the period covered by the Framework Proposal exceeds the reference value set in the 1992 Maastricht Treaty establishing the EU, Slovenia is required to reduce its general government debt in line with the yearly dynamics, which on average over the past three years corresponds to a 1/20 deviation in the debt level from the 60% of GDP in the base year. This means that the debt has to decrease by approximately 0.6 percentage points of GDP per year on a three-year average. Despite the high increase in debt in 2020, which affects the calculation of the average in the following years, this rule is expected to be met in 2023 and 2024 as a result of the high economic and inflationary cycle in 2022 and 2023. In 2023 and 2024, the debt level is thus expected to be below at least one of the limits, i.e. the backward-looking debt limit, the forward-looking limit or the cyclically defined limit, as set by the Fiscal Compact.

[1] See e.g. Box 4.1 in FS (2020b).

[2] The assessment takes into account the direct effects of the measures in response to the epidemic and the cost of living crisis on the general government balance as a one-off factor, so they are not included in the calculation of the structural balance.

[3] The lowest value of the structural balance under EU rules (MTO) for Slovenia in the 2020–2022 period was most recently set at –0.25% of GDP in spring 2019 (EC, 2019). The MTO assessment was expected to had been officially revised at the beginning of 2022 and be valid for the 2023–2025 period, but this assessment was not available at the time this document was drafted. The Fiscal Council has made its own calculation, suggesting that the MTO could be increased to +0.25% of GDP. This would be partly due to the higher level of debt and in particular to changing pension legislation and the resulting increase in the anticipated long-term costs associated with an ageing population. In light of the currently applicable fiscal rules, a rise in the MTO reflects the need for stricter fiscal policy to ensure the medium-term sustainability of public finances in the future.

[4] Growth in general government expenditure is sustainable in the long term if it is in line with growth in economic potential. In the long term, we conservatively estimate expected potential growth at between 4% and 5%, which reflects the forecasted GDP growth values in 2023 and 2024 (around 2.5%) and the ECB's inflation target (2%). Revenue growth can deviate from economic potential growth, in addition to cyclical reasons, especially in the case of discretionary tax changes, so expenditure usually needs to be adjusted to such structural changes.

[5] Comparisons with annual estimates of growth in nominal potential GDP are less appropriate due to high inflation. Taking into account high inflation, the nominal economic potential can be overestimated, which, based on such indicators, can have a pro-cyclical effect. However, this is not necessarily reflected in the position (i.e. level) of fiscal policy stance, given the concomitant increase in the level of revenues due to inflation.

[6] See e.g. Box 2 (pp. 14–15) in EC (2021c).

5. Annex

Table 5.1: Output gap estimates

	IMF (Oct.22)	European Commission (May 22)	OECD (Jun.22)	IMAD (Sep.22)	MoF (Sep.22)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions	average of estimates based on prod. funct.
2002	-1.1	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	1.2	-0.8	-1.0	1.2	-1.2	0.2	0.8	1.5
2005	-0.5	2.5	1.8	2.3	2.2	-0.5	-1.2	2.3	-0.4	0.9	1.6	2.3
2006	2.8	4.7	4.5	4.6	4.5	2.0	1.1	4.4	1.9	3.4	4.2	4.6
2007	5.3	8.0	8.3	8.2	7.9	6.5	5.9	7.1	6.0	7.0	7.5	8.0
2008	5.4	7.7	8.6	8.0	7.8	8.4	7.7	4.7	6.1	7.2	7.5	7.8
2009	-3.0	-2.7	-1.9	-2.4	-2.4	-0.7	-1.5	-7.0	-2.9	-2.7	-2.5	-2.5
2010	-1.0	-2.6	-2.1	-2.4	-2.3	0.1	-0.3	-2.8	-3.9	-1.9	-2.1	-2.4
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	-5.8	-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	-7.3	-4.2	-3.4	-4.8	-7.9	-5.9	-6.6	-7.4
2014	-2.3	-5.7	-6.9	-6.1	-5.9	-3.0	-2.0	-2.5	-5.2	-4.4	-5.4	-5.9
2015	-1.8	-4.6	-6.5	-5.1	-4.8	-2.7	-1.9	-1.9	-3.9	-3.7	-4.6	-4.8
2016	-0.2	-2.6	-5.3	-3.2	-2.7	-2.0	-1.4	-0.3	-1.8	-2.2	-2.8	-2.9
2017	0.0	0.6	-2.9	-0.1	0.4	-0.1	0.5	2.2	0.8	0.2	-0.4	0.3
2018	0.3	2.9	-1.1	2.3	2.8	1.5	2.2	2.8	3.8	1.9	1.4	2.6
2019	0.9	3.5	-0.6	3.1	3.7	2.2	2.3	2.1	4.3	2.4	2.1	3.4
2020	-2.7	-3.2	-7.1	-3.4	-3.0	-4.9	-5.1	-4.6	-0.6	-3.9	-3.9	-3.2
2021	1.7	1.9	-2.1	1.6	1.7	0.0	-0.3	3.7	1.0	1.0	1.0	1.7
2022	3.5	2.5	0.0	3.7	3.2	2.0	1.9	2.1	2.8	2.4	2.6	3.1
2023	1.7	2.3	0.1	2.3	1.6	0.9	0.7	1.0	0.1	1.2	1.6	2.1
2024	...	...	...	2.2	1.2	0.8	0.3	-0.5	0.0	0.7	1.7	1.7

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, MoF, 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 λ (10, 100, 400), ii) the 3-, 5- and 7-year average of GDP, (iii) factor models estimated on the basis of survey about limitations in the economy and forecasts of a simple VAR model that includes these factors, as well as factor models that take into account a large number of IMAD and EC macroeconomic variables in its estimates and forecasts, (iv) SVAR model based on the Blanchard and Quah methodology (1989), which uses restrictions with regard to the assumption that GDP is affected in the long term only by shocks to the aggregate supply, while demand shocks affect activity levels only in the short term.

Table 5.2: Structural balance estimates

	IMF (Oct.22)	European Commission (May 22)	OECD (Jun.22)	IMAD (Sep.22)	MoF (Sep.22)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions	average of estimates based on prod. funct.
2002	-3.3	-4.2	-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	-2.7	-2.7	-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	-2.4
2005	-1.1	-2.5	-2.2	-2.4	-2.3	-1.1	-0.8	-2.4	-1.1	-1.8	-2.1	-2.4
2006	-2.5	-3.4	-3.3	-3.4	-3.3	-2.2	-1.8	-3.3	-2.1	-2.8	-3.2	-3.4
2007	-2.5	-3.8	-3.9	-3.9	-3.8	-3.1	-2.8	-3.4	-2.9	-3.3	-3.6	-3.8
2008	-3.9	-5.0	-5.4	-5.1	-5.0	-5.3	-5.0	-3.6	-4.3	-4.7	-4.9	-5.1
2009	-4.4	-4.5	-4.9	-4.7	-4.7	-5.5	-5.1	-2.6	-4.5	-4.5	-4.7	-4.7
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	-1.2	-2.7	-3.0	-2.4	-1.0	-1.9	-1.5	-1.2
2014	-3.4	-1.8	-1.2	-1.6	-1.7	-3.0	-3.5	-3.2	-2.0	-2.4	-1.9	-1.7
2015	-1.9	-0.6	0.3	-0.4	-0.5	-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	-0.2	0.1	-0.2	-1.0	-0.3	0.0	0.2	-0.1
2018	0.6	-0.6	1.3	-0.3	-0.5	0.1	-0.2	-0.5	-1.0	-0.1	0.1	-0.5
2019	0.2	-1.0	0.9	-0.8	-1.1	-0.4	-0.5	-0.4	-1.4	-0.5	-0.4	-1.0
2020	-1.2	-1.0	0.8	-0.9	-1.1	-0.2	-0.1	-0.3	-2.2	-0.7	-0.7	-1.0
2021	-1.0	-1.0	0.8	-0.9	-0.9	-0.1	0.0	-1.9	-0.6	-0.6	-0.6	-1.0
2022	-2.8	-2.3	-1.2	-2.9	-2.7	-2.1	-2.1	-2.1	-2.5	-2.3	-2.4	-2.6
2023	-3.0	-3.3	-2.3	-3.3	-3.0	-2.7	-2.5	-2.7	-2.3	-2.8	-3.0	-3.2
2024	...	...	...	-3.2	-2.7	-2.5	-2.3	-1.9	-2.1	-2.4	-2.9	-2.9

Source: IMAD, EC, IMF, OECD, MoF, FC calculations based om Table 5.1.

Table 5.3: Structural effort estimates

	IMF (Oct.22)	European Commission (May 22)	OECD (Jun.22)	IMAD (Sep.22)	MoF (Sep.22)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions	average of estimates based on prod. funct.
2002	0.1	0.5	0.6	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	1.2	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	0.6	0.4
2005	-0.1	0.0	-0.1	-0.1	-0.1	0.2	0.4	-0.2	0.0	0.0	-0.1	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	0.4	-0.2	-0.1	1.0	-0.2	0.2	0.2	0.4
2010	-0.6	0.3	0.4	0.3	0.3	-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	-0.4	-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	0.0	0.6	0.7	0.2	0.0	0.2	0.1	0.0
2017	1.8	0.4	0.7	0.4	0.4	0.9	1.0	0.7	0.6	0.8	0.7	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	-0.4	-0.4	-0.6	-0.6	-0.5	-0.2	0.1	-0.4	-0.4	-0.5	-0.5
2020	-1.4	0.0	-0.1	-0.1	0.0	0.2	0.4	0.0	-0.8	-0.2	-0.3	0.0
2021	0.3	0.0	0.0	0.0	0.1	0.1	0.1	-1.6	1.6	0.1	0.1	0.0
2022	-1.9	-1.3	-2.0	-2.0	-1.8	-2.0	-2.1	-0.3	-1.9	-1.7	-1.8	-1.7
2023	-0.2	-1.0	-1.1	-0.4	-0.3	-0.6	-0.5	-0.5	0.2	-0.5	-0.6	-0.5
2024	...	...	...	0.1	0.3	0.1	0.2	0.8	0.1	0.3	0.2	0.2

Source: IMAD, EC, IMF, OECD, MoF, FC calculations based om Table 5.1.

Table 5.4: Structural primary balance estimates

	IMF (Oct.22)	European Commission (May 22)	OECD (Jun.22)	IMAD (Sep.22)	MoF (Sep.22)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions	average of estimates based on prod. funct.
2002	-1.1	-2.1	-1.5	-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	-0.6	0.4	0.5	-0.6	0.5	-0.1	-0.4	-0.7
2005	0.4	-1.0	-0.6	-0.9	-0.8	0.4	0.8	-0.9	0.4	-0.2	-0.6	-0.9
2006	-1.2	-2.1	-2.0	-2.0	-2.0	-0.8	-0.4	-1.9	-0.7	-1.5	-1.8	-2.0
2007	-1.3	-2.6	-2.7	-2.6	-2.5	-1.8	-1.5	-2.1	-1.6	-2.1	-2.3	-2.6
2008	-2.8	-3.9	-4.3	-4.0	-3.9	-4.2	-3.9	-2.5	-3.2	-3.6	-3.8	-4.0
2009	-3.1	-3.2	-3.6	-3.4	-3.4	-4.2	-3.8	-1.2	-3.2	-3.2	-3.3	-3.3
2010	-3.4	-2.6	-2.9	-2.7	-2.8	-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	1.4	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	2.8	2.7	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	2.5
2017	2.6	2.3	3.9	2.6	2.4	2.6	2.3	1.5	2.2	2.5	2.7	2.4
2018	2.6	1.4	3.3	1.7	1.5	2.1	1.8	1.5	1.0	1.9	2.1	1.6
2019	1.9	0.7	2.6	0.9	0.6	1.3	1.2	1.3	0.3	1.2	1.3	0.7
2020	0.4	0.6	2.4	0.7	0.5	1.4	1.5	1.3	-0.6	0.9	0.9	0.6
2021	0.3	0.2	2.1	0.3	0.3	1.1	1.2	-0.6	0.6	0.6	0.7	0.3
2022	-1.7	-1.2	0.0	-1.8	-1.5	-1.0	-0.9	-1.0	-1.4	-1.2	-1.2	-1.5
2023	-2.0	-2.3	-1.2	-2.3	-1.9	-1.6	-1.5	-1.6	-1.2	-1.7	-1.9	-2.2
2024	...	...	...	-2.1	-1.6	-1.5	-1.2	-0.8	-1.1	-1.4	-1.9	-1.9

Source: IMAD, EC, IMF, OECD, MoF, FC calculations based om Table 5.1.

Table 5.5: Structural primary effort estimates

	IMF (Oct.22)	European Commission (May 22)	OECD (Jun.22)	IMAD (Sep.22)	MoF (Sep.22)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions	average of estimates based on prod. funct.
2002	-0.1	0.3	0.4	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	-1.2	-1.3	-1.2	-1.1	-1.1	-1.2	-1.3	-1.2
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	0.6	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	0.2	0.3
2012	2.7	3.0	3.2	3.1	3.1	3.0	2.9	3.0	2.5	2.9	3.0	3.1
2013	0.4	0.7	0.9	0.7	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	1.1	1.5	1.6	1.3	1.0	1.3	1.3	1.1
2016	0.0	-0.2	0.2	-0.1	-0.2	0.4	0.6	0.0	-0.2	0.1	-0.1	-0.2
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	-0.9	-0.9	-0.5	-0.5	0.0	-1.2	-0.6	-0.6	-0.8
2019	-0.8	-0.7	-0.7	-0.9	-0.9	-0.8	-0.6	-0.2	-0.7	-0.7	-0.8	-0.8
2020	-1.5	-0.1	-0.2	-0.2	-0.1	0.1	0.3	-0.1	-1.0	-0.3	-0.4	-0.1
2021	-0.1	-0.4	-0.4	-0.4	-0.2	-0.3	-0.3	-1.9	1.3	-0.3	-0.3	-0.3
2022	-2.0	-1.4	-2.1	-2.1	-1.9	-2.1	-2.2	-0.4	-2.0	-1.8	-1.9	-1.8
2023	-0.3	-1.1	-1.2	-0.5	-0.4	-0.7	-0.6	-0.6	0.1	-0.6	-0.7	-0.7
2024	...	...	...	0.2	0.3	0.2	0.3	0.8	0.2	0.3	0.2	0.2

Source: IMAD, EC, IMF, OECD, MoF, FC calculations based om Table 5.1.

Table 5.6: Maximum general government expenditure and deviation from the framework

	IMF (Oct.22)		European Commission (May 22)		OECD (Jun. 22)		IMAD (Sep.22)		MoF (Sep. 22)		HP		based on GDP averages		factor models		Blanchard-Quah		*average of all estimates*		*average of institutions*		*average of estimates based on prod. funct.*		**Framework**
	max E	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	*max E*	*diff.*	
2024	…	…	…	…	…	…	29,174	*-396*	29,360	*-210*	29,273	*-297*	29,337	*-233*	29,700	*130*	29,265	*-305*	29,351	*-219*	29,267	*-303*	29,267	*-303*	**29,570**

*Source: IMAD, EC, IMF, OECD, MoF, FC calculations. Note: *The calculations of expenditure thresholds are based on Framework Proposal for 2023, while structural adjustment in 2024 is required in line with current fiscal rules.*

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