REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Monthly Information

November 2022

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Key highlights[1]

- According to provisional data, the state budget deficit amounted to EUR -283 million in the first ten months of 2022; without the direct impact of measures to mitigate the effects of the epidemic and inflation, the state budget would have had a surplus of EUR 465 million.
- Revenue excluding the direct impact of epidemic and inflation mitigation measures was 18.2% higher on a year-on-year basis in the first ten months of 2022. The adopted revised state budget for 2022 therefore implies that the growth of this "core" revenue is expected to slow to 10.2% in the last two months of this year.
- Expenditure excluding the direct impact of epidemic and inflation mitigation measures was 10.2% higher on a year-on-year basis in the first ten months of 2022. The adopted revised budget therefore implies that the growth of the "core" expenditure is expected to strengthen to 34.4% in the last two months of this year. This would mean that the "core" expenditure in the last two months of the year would average around EUR 1.7 billion per month, which is around EUR 0.8 billion more than on average in the first ten months.
- The total level of state budget expenditure for COVID-19-related measures from March 2020 to the end of October 2022 amounted to EUR 5,465 million, EUR 672 million of that in the first ten months of 2022. According to the revised budget, COVID-19-related measures are expected to cost less than EUR 1.1 billion for the whole year, which means that another EUR 415 million would be spent by the end of the year.
- The direct financial impact of the measures taken so far to mitigate the impact of the price increases on the state budget this year is estimated at EUR 440 million. The expected outturn in the last two months of the year is just under EUR 200 million. The total direct impact of all the inflation measures so far this year is estimated at around EUR 760 million.
- The outturn so far and the adopted revised state budget for 2022 indicates that a deficit of EUR -1,757 million is expected in the last two months of the year, of which EUR -1,157 million is unrelated to measures to mitigate the effects of the epidemic and inflation. Against a backdrop of significant increases in investment, current transfers to social security funds and labour costs, transfers to individuals and households and expenditure on goods and services are even expected to drop year-on-year in the last two months of the year. The outturn up to and including October thus confirms the Fiscal Council's assessment that the revised budget did not provide an adequate basis for the preparation of the 2023 and 2024 budget documents. Moreover, the creation of wide room for manoeuvre for expenditure also seemingly reduces the impact of measures taken after the entry into force of the revised budget on the fiscal outturn.
- The draft Act on Healthcare Emergency Measures to Contain the Spread of the COVID-19 Communicable Disease and Mitigate its Consequences in the Health Sector continues the adoption of intervention legislation not necessarily directly linked to the situation it addresses. This suggests the risk that intervention legislation to mitigate the effects of inflation will also contain provisions that are not directly related to the energy crisis. The large budget reserve in

[1] The Fiscal Council will continue to regularly publish an overview of the implementation of the state budget under the cash flow methodology and COVID-19-related measures in its monthly publication, subject to availability of such data in the future. All comments pertain to data as at 3 November 2022. Along with the Ministry of Finance, the Fiscal Council would like to thank the Financial Administration of the Republic of Slovenia (FURS) for its cooperation and submitted data.

the draft budget for 2023 for inflation measures would thus be used appropriately only formally, but in reality, as during the epidemic, the funds would be used to tackle other problems, including those of a systemic nature, which could put a lasting strain on public finances.

The state budget from January to October 2022[2]

- In October, the **state budget** showed a surplus (of EUR 36 million) according to provisional data, while the total deficit in the first ten months amounted to EUR -283 million. Without the direct effect of measures to mitigate the effects of the epidemic and inflation, the surplus of the state budget in the first ten months amounted to EUR 465 million.
- Total **revenue** in the first ten months of this year was 14.2% higher than in the same period last year; when excluding the direct impact of measures to mitigate the effects of the epidemic and inflation, it was 18.2% higher. The high growth is partly due to a base effect, as revenue was rather low in the first months last year due to restrictive measures and partly due to rapid recovery of domestic demand, while higher inflation also contributed significantly to growth.
- VAT revenue is the largest contributor to the year-on-year so-called "core" revenue growth, accounting for about a third of total growth in the "core" revenue. On the basis of actual outturn and the adopted revised budget, VAT revenue in the last two months of this year is expected to be at a similar level as in the same period last year.

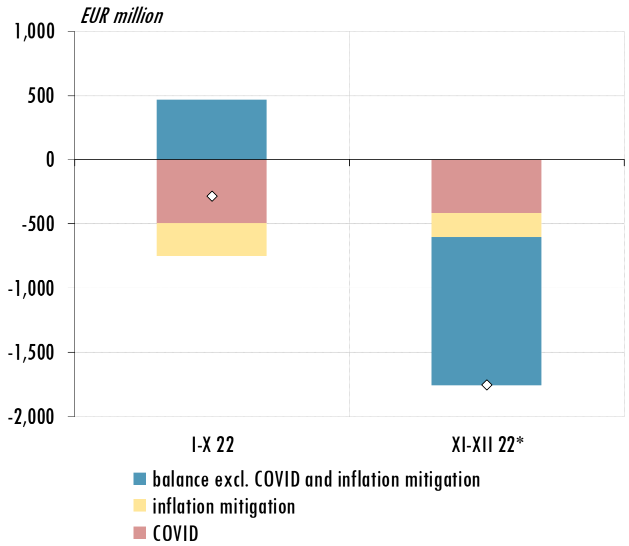
Table 1: State budget

	January-October				November-December							
	2021	2022	change 2022/2021 EUR million	change 2022/2021 %	2021	2022*	change 2022/2021 EUR million	change 2022/2021 %	2021	2022**	change 2022/2021 EUR million	change 2022/2021 %
Revenue	**8,994**	**10,271**	**1,278**	**14.2**	**2,180**	**2,269**	**89**	**4.1**	**11,174**	**12,540**	**1,366**	**12.2**
VAT	3,428	3,977	549	16.0	803	767	-36	-4.5	4,231	4,744	513	12.1
Excise duties	1,214	1,223	9	0.8	257	293	37	14.2	1,470	1,516	46	3.1
Personal income tax	1,207	1,234	27	2.2	306	324	18	5.8	1,514	1,558	44	2.9
Corporate income tax	947	1,346	399	42.2	168	209	41	24.4	1,115	1,555	440	39.5
EU funds	606	752	146	24.1	341	443	102	30.0	947	1,195	248	26.2
Non-tax	704	634	-71	-10.0	113	55	-57	-51.0	817	689	-128	-15.7
Other revenue	887	1,105	218	24.5	193	178	-15	-7.7	1,080	1,283	203	18.8
Expenditure	**11,333**	**10,554**	**-779**	**-6.9**	**2,921**	**4,026**	**1,105**	**37.8**	**14,254**	**14,580**	**326**	**2.3**
Total labour costs	3,555	2,988	-567	-16.0	654	872	218	33.4	4,209	3,860	-349	-8.3
Transfers to indiv. and househ.	2,220	1,569	-650	-29.3	313	258	-55	-17.6	2,532	1,827	-705	-27.8
Expend. on goods and services	1,071	1,147	76	7.1	452	370	-82	-18.1	1,523	1,518	-6	-0.4
Investment	752	897	145	19.2	486	1,026	540	111.2	1,238	1,923	685	55.3
Curr. transfers to soc. sec. funds	1,209	1,340	132	10.9	141	354	213	151.1	1,350	1,694	345	25.5
Subsidies	684	466	-218	-31.9	131	190	59	45.2	815	656	-159	-19.5
Interest	648	578	-70	-10.9	79	96	18	22.3	727	674	-53	-7.3
Payments to the EU budget	494	589	96	19.4	135	125	-11	-7.8	629	714	85	13.5
Other expenditure	700	979	279	39.9	531	735	204	38.4	1,231	1,714	483	39.2
Balance	**-2,339**	**-283**	**2,057**		**-741**	**-1,757**	**-1,016**		**-3,080**	**-2,040**	**1,040**	

*Sources: MoF, FC calculations. Note: *implicitly calculated to match MoF forecast.** Revised budget (Sep. 22).*

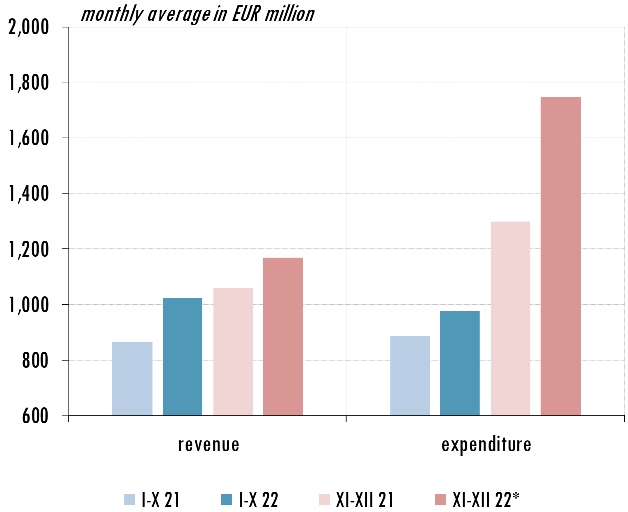
[2] The comments on the state budget implementation refer to the daily data available at: https://proracun.gov.si/#.

Figure 1: State budget balance structure



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

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



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

Table 2: State budget (excl. COVID and inflation mitigation)

	I-X 22				XI-XII 22*				excl. COVID and infl. mitigation***	
	total	COVID	inflation mitigation**	excl. COVID and infl. mitigation	total	COVID	inflation mitigation**	excl. COVID and infl. mitigation	I-X 22/21	XI-XII 22/ 21
Revenue	**10,271**	**179**	**-146**	**10,239**	**2,269**		**-65**	**2,334**	**18.2**	**10.2**
VAT	3,977	48	-29	3,958	767		-29	796	15.7	1.0
Excise duties	1,223	3	-86	1,306	293		-19	312	11.5	24.7
Personal income tax	1,234	81		1,153	324			324	1.3	6.2
Corporate income tax	1,346	4		1,342	209			209	68.9	25.8
EU funds	752	30		723	443			443	39.2	44.3
Non-tax	634	0		634	55			55	-10.0	-51.0
Other revenue	1,105	14	-32	1,124	178		-18	196	23.7	3.7
Expenditure	**10,554**	**672**	**108**	**9,774**	**4,026**	**415**	**120**	**3,491**	**10.2**	**34.4**
Total labour costs	2,988	34		2,954	872	24		848	3.6	46.2
Transfers to individ. and households	1,569	127		1,442	258	6	74	177	14.4	-33.0
Expenditure on goods and services	1,147	149		998	370	11		360	13.1	-4.1
Investment	897	17		880	1,026	44		982	21.2	116.5
Current transfers to soc. sec. funds	1,340	157		1,183	354	91		263	-2.0	86.4
Subsidies	466	34	108	324	190	39	46	105	13.9	-10.5
Interest	578	0		578	96	0		96	-10.9	22.3
Payments to the EU budget	589	0		589	125	0		125	19.4	-7.8
Other expenditure	979	155		824	735	199		536	60.3	18.5
Expenditure excl. investment	9,657	655	108	8,894	3,000	371	120	2,509	9.2	17.1
Balance (EUR million)	**-283**	**-493**	**-255**	**465**	**-1,757**	**-415**	**-186**	**-1,157**	**675**	**-678**

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

- The second most important factor in revenue growth this year is corporate income tax revenue, which was 68.9% higher on a year-on-year basis in the first ten months of this year. The high growth is mainly due to the record high tax settlement as a result of the successful operation of companies last year. On this basis, the advance payment this year is also higher than last year.
- Growth in income tax revenue has slowed considerably with the expiry of most allowance payments, which were markedly high last year. The moderation in growth was also due to changes in legislation and a higher final tax settlement than last year. Nevertheless, this revenue was around a fifth or EUR 200 million higher than in the same period of the pre-crisis year of 2019.
- The Government's action led to a relatively low growth in excise revenue (0.8%), as these were lowered in February due to mitigating high energy prices. The reduced excise duty amounts are also likely to have had an impact on the year-on-year higher volumes sold of some energy products.
- Total revenue from EU funds increased by 24.1% year-on-year over the first ten months, partly due to the January disbursement of the remaining part of the first tranche of the Recovery and Resilience Plan (RRP) funds of EUR 118 million. Despite a reduction of around EUR 0.5 billion in the revised budget projection compared to the budget in force in October last year, the Fiscal Council estimates that the annual outturn will again fall short of the budget plan. This would require another EUR 443 million in the last two months of this year, which would imply a significant acceleration of growth at the end of the year.
- Total **expenditure** in the first ten months of this year was 6.9% lower than in the same period last year. This was mainly a consequence of the direct effect of COVID-19-related measures. These amounted to EUR 2,464 million in the first ten months of last year and to EUR 672 million in the same period this year. Without this impact and the impact of the inflation mitigation measures, expenditure was 10.2% higher year-on-year in the first ten months of this year.
- A significant part of total growth of expenditure, excluding the effect of COVID-19-related measures, is due to the transfer of EUR 118 million to the RRP funds received in January to the budgetary fund. Without this effect, total "core" expenditure growth would have been 8.9% over the ten months.
- Among the other key categories of expenditure, higher transfers to individuals and households contributed most to aggregate growth, mainly due to the regulatory alignment with last year's inflation. In the last two months of the year, social transfers are expected to be lower by as much as a third year-on-year, taking into account the outturn to date and the adopted revised budget, which the Fiscal Council estimates is not realistic and represents a continuation of the practice of underestimating this spending category in budgetary planning.
- Expenditure on goods and services grew more than in the same period last year, similarly to social transfers, partly due to higher inflation. Their growth will also supposedly stall completely in the last two months, which does not seem to be a realistic assumption.
- Labour cost growth (excluding COVID-19-related allowances) stood at 3.6% in the first ten months of this year, largely driven by the impact of employment growth and regular promotions. The outturn so far and the adopted revised budget imply that their growth is expected to strengthen to as much as 46.2% in the last two months. This is not a realistic assumption in the

Fiscal Council's view, despite the agreement reached with the trade unions on an increase of 4.5% with the October salary, the increase in the meal allowance as of September and the backpay of holiday allowance. Moreover, according to the Government, in the revised budget, the resources intended to cover the effect of the trade union agreement were shown in the reserves and not under labour cost items.

- Investment expenditure amounted to EUR 897 million in the first ten months, and according to projections in the revised budget, a further EUR 1,026 million of investment is expected to be realised in the last two months of this year. As a result, year-on-year investment growth is expected to accelerate to around 115% in the last two months of the year. This confirms our assessment that the investments in the revised budget were also planned at an unnecessarily high level, which will not be realised.

Implementation of COVID-19-related measures (January–October 2022)

- Expenditure of the state budget for COVID-19-related measures amounted to EUR 672 million in the first ten months of this year, and after the adoption of the revised budget, EUR 1,087 million is expected to be allocated to these measures this year. Since the beginning of the epidemic in March 2020, EUR 5,465 million of budgetary funds have been earmarked for COVID-19-related measures.
- This year, the largest part of the expenditure on COVID-19-related measures is related to testing (EUR 122 million) and vaccination (EUR 100 million). Payments of redeemed tourist vouchers amounted to EUR 113 million, the financing of the Health Insurance Institute of Slovenia under Article 80 of the ZDUPŠOP,[3] which is not directly linked to the epidemic, amounted to EUR 88.6 million, and the third solidarity bonus to pensioners since the beginning of the epidemic amounted to EUR 68 million.
- According to the data available from the Financial Administration of the Republic of Slovenia, EUR 384 million of the EUR 472 million in approved deferrals or instalment payments of tax liabilities were repaid by the end of October. Decisions on recovery of granted aid totalling EUR 140 million have also been issued.

Inflation mitigation measures

- The total impact of the measures taken to mitigate the effects of the energy crisis and inflation is expected to be around EUR 760 million this year. Of this, the impact on the state budget this year is around EUR 440 million, while EUR 255 million has been realised in 10 months.
- The impact of the measures in the coming year is currently estimated at around EUR 300 million, and a reserve of EUR 1,210 million has been set aside for this purpose in the draft amendment to the state budget. This is more than the estimated total of all measures taken so far. As during the epidemic, the Fiscal Council calls for the measures taken to be targeted, temporary and transparent.

[3] According to Article 80 of the Act on Additional Measures to Stop Spreading and Mitigate, Control, Recover and Eliminate the Consequences of COVID-19 (the ZDUPŠOP), higher wage-raising obligations for individual occupational groups in the healthcare sector must be covered by the state budget. In the Fiscal Council's opinion, this financial liability constitutes an example of misuse of intervention legislation to solve other problems in individual parts of the public sector. Under this Article, the revised budget foresees around EUR 90 million more to be paid out by the end of the year.

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

	2022	2023
Act Determining Measures to Mitigate the Consequences of Energy Commodity Price Rise in Business and Agriculture (ZUOPDCE)[1]	85	
Decree determining the amount of excise duty on energy products and electricity[2]	105	48
Decree amending the Decree on the environmental tax on pollution from carbon dioxide emissions[3]	50	
Measures to aid agriculture[1]	23	
Act on Urgent Measures in the Field of Value Added Tax to Mitigate the Rise in Energy Prices[2]	58	72
Act Governing Temporary Measures to Remedy the Consequences of Price Increases for the Most Vulnerable Groups of the Population[2]	28	14
Act Amending the Act Governing Aid to Businesses Hit by High Increases in Electricity and Natural Gas Prices[2]	46	40
Act on Temporary Measures to Alleviate the Inflation Effects for Beneficiaries of Child Benefit[2]	42	21
Act on Intervention Measures in Education for the 2022/2023 School Year[2]	4	14
impact on the state budget	**441**	**209**
Decree amending the Decree on energy savings[4]	7	
Act Determining the Measures to Mitigate the Consequences of Energy Commodity Price Rise (ZUOPVCE) – energy vouchers[1]	93	
impact on general government sector	**540**	**209**
Act Determining the Measures to Mitigate the Consequences of Energy Commodity Price Rise (ZUOPVCE) – network charge, RES contribution[1]	81	
Decree amending the Decree on the method of determining and calculating the contribution for ensuring support for the production of electricity from high-efficiency cogeneration and renewable energy sources[6]	135	90
Energy Supply Crisis Management Act[4]	1	1
impact outside general government sector	**217**	**91**
TOTAL	**758**	**300**

Source: National Assembly of the Republic of Slovenia, Ministry of Finance, Ministry of the Environment and Spatial Planning, Government of the Republic of Slovenia, Fiscal Council.

Notes:

[1] Outturn up to and including 31 August 2022 according to the Ministry of Finance data;

[2] Estimate of the Ministry of Finance;

[3] Fiscal Council's estimate;

[4] Estimate of the Government at the time of adoption;

[5] Estimate based on validity between 21 June and 16 August;

[6] Fiscal Council's estimate based on the monthly average of RES contributions paid in 2021.