REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Monthly Information

December 2022

Document No. : 30-1/2022/8

Key highlights[1]

- According to provisional data, the state budget deficit amounted to EUR 562 million in the first eleven 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 298 million. The total deficit was almost EUR 2 billion less than in the same period last year, which is practically entirely the result of a smaller COVID-related expenditure. In accordance with the Fiscal Council's expectations, the deficit will be significantly lower in the whole year than forecast by the revised budget (EUR 2,040 million).
- Revenue excluding the direct impact of epidemic and inflation mitigation measures was 16.0% higher on a year-on-year basis in the first eleven months of 2022. 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 the rapid recovery of domestic demand, while higher inflation also contributed significantly to growth. At the same time, revenue from EU funds in particular has been lower than planned in the revised budget.
- Expenditure excluding the direct impact of epidemic and inflation mitigation measures was 10.0% higher on a year-on-year basis in the first eleven months of 2022. A comparison between the actual budget outturn and the adopted revised budget shows that "core" expenditure (excluding that related to COVID and inflation) would total around EUR 2.3 billion in December, which is approximately EUR 1.3 billion more than the average for the first eleven months of this year. This is a continuation of the practice of taking advantage of the extraordinary circumstances, when unduly large manoeuvring spending room is created when preparing budget documents.
- The total level of state budget expenditure for COVID-related measures from March 2020 to the end of September 2022 amounted to EUR 5,509 million, of which EUR 716 million in the first eleven months of 2022. The revised budget shows that a further EUR 371 million remains available for this purpose by the end of the year.
- The direct financial impact of the measures taken thus far to mitigate the impact of price increases on the state budget this year is estimated at around EUR 430 million. Based on the adopted measures, another EUR 100 million should be realised in December this year. The Government announced a new package of measures for 2023 with an estimated amount of EUR 1.2 billion. If this estimate is realistic, then the entire reserve created for this purpose in the budget for next year would be used, which would limit the scope for adopting any additional measures.
- A comparison of the outturn so far and the recently adopted revised state budget for 2022 indicates that a deficit of EUR 1,478 million is expected in the last month of this year, of which EUR 1,008 million is unrelated to measures to mitigate the effects of the epidemic and inflation. The budget outturn until November inclusive further confirms the Fiscal Council's opinion that the adopted revised budget is unrealistic.

[1] The Fiscal Council will continue to regularly publish an overview of the implementation of the state budget under the cash flow methodology and COVID-related measures in its monthly publication, subject to the availability of such data in the future. All comments pertain to data as at 2 December 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 the data submitted.

The state budget (January–November 2022)[2]

- With a EUR -298 million **central government budget deficit** being recorded in November according to preliminary data, the deficit was EUR -562 million in the first eleven months of 2022. Without the direct effect of measures to mitigate the effects of the epidemic and inflation, the surplus of the state budget in the first eleven months totalled EUR 298 million.
- Total **revenue** in the first eleven months of this year was 12.0% 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 16.0% 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 the 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 approximately a third of total growth in "core" revenue. On the basis of actual outturn and the adopted revised budget, VAT revenue in December should be slightly lower than in the same period last year. The increase in revenues from this source has slowed significantly in the last two months, which is in line with forecasts and data on the slowing down of domestic consumption.
- The second most important factor in revenue growth this year is higher corporate income tax revenue, which was 70% higher on a year-on-year basis in the first eleven months of this year.

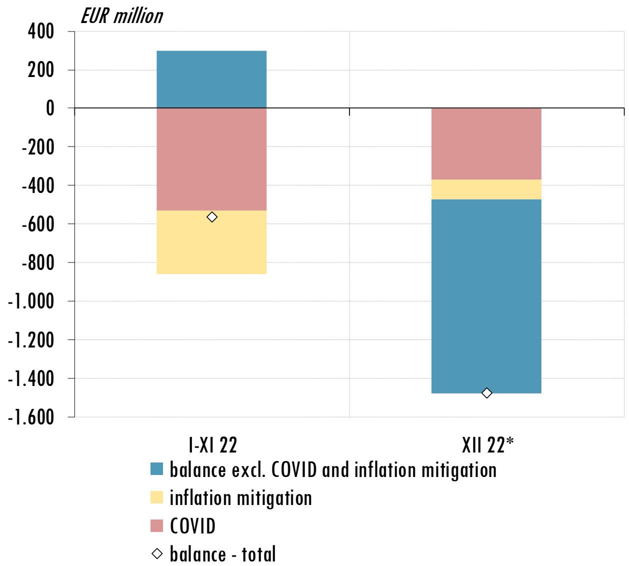
Table 1: State budget

	January-November				December							
	2021	2022	change 2022/2021		2021	2022*	change 2022/2021		2021	2022**	change 2022/2021	
			EUR million	%			EUR million	%			EUR million	%
Revenue	**10.056**	**11.262**	**1.206**	**12,0**	**1.118**	**1.278**	**160**	**14,3**	**11.174**	**12.540**	**1.366**	**12,2**
VAT	3.813	4.351	538	14,1	418	393	-25	-6,0	4.231	4.744	513	12,1
Excise duties	1.349	1.367	18	1,3	121	149	28	22,9	1.470	1.516	46	3,1
Personal income tax	1.354	1.387	33	2,4	160	171	12	7,2	1.514	1.558	44	2,9
Corporate income tax	1.027	1.446	419	40,8	88	109	21	24,3	1.115	1.555	440	39,5
EU funds	770	813	43	5,5	176	382	206	116,7	947	1.195	248	26,2
Non-tax	750	701	-49	-6,5	67	-12	-79	-118,5	817	689	-128	-15,7
Other revenue	993	1.198	205	20,7	88	86	-2	-2,4	1.080	1.283	203	18,8
Expenditure	**12.594**	**11.824**	**-770**	**-6,1**	**1.660**	**2.756**	**1.096**	**66,1**	**14.254**	**14.580**	**326**	**2,3**
Total labour costs	3.904	3.410	-495	-12,7	304	450	146	48,0	4.209	3.860	-349	-8,3
Transfers to indiv. and househ.	2.381	1.773	-608	-25,5	151	54	-97	-64,2	2.532	1.827	-705	-27,8
Expend. on goods and services	1.205	1.278	73	6,1	319	240	-79	-24,7	1.523	1.518	-6	-0,4
Investment	884	1.130	246	27,8	354	793	439	124,1	1.238	1.923	685	55,3
Curr. transfers to soc. sec. funds	1.306	1.346	40	3,0	44	348	305	698,7	1.350	1.694	345	25,5
Subsidies	743	523	-220	-29,6	72	133	61	84,8	815	656	-159	-19,5
Interest	714	643	-71	-10,0	13	31	18	144,5	727	674	-53	-7,3
Payments to the EU budget	558	654	96	17,3	71	60	-11	-15,8	629	714	85	13,5
Other expenditure	898	1.067	169	18,8	333	647	314	94,2	1.231	1.714	483	39,2
Balance	**-2.539**	**-562**	**1.976**		**-542**	**-1.478**	**-936**		**-3.080**	**-2.040**	**1.040**	

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

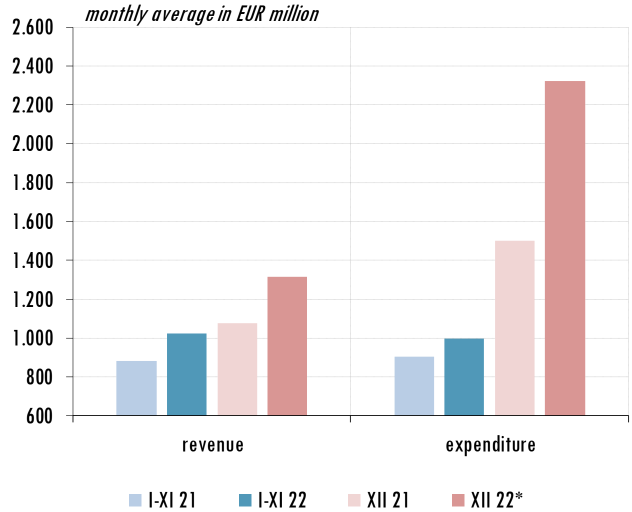
[2] The comments on the state budget implementation refer to the daily data available at: https://proracun.gov.si/# (Only in Slovene).

Figure 1: State budget balance structure



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

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



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

Table 2: (excl. COVID and inflation mitigation)

	I-XI 22				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-XI 22/21	XII 22/ 21
Revenue	**11.262**	**186**	**-182**	**11.257**	**1.278**		**-36**	**1.314**	**16,0**	**22,2**
VAT	4.351	50	-44	4.345	393		-15	408	14,4	-0,7
Excise duties	1.367	3	-90	1.454	149		-9	158	11,5	33,8
Personal income tax	1.387	81		1.306	171			171	1,6	7,6
Corporate income tax	1.446	4		1.441	109			109	65,0	25,8
EU funds	813	33		780	382			382	14,9	158,9
Non-tax	701	0		701	-12			-12	-6,5	-118,5
Other revenue	1.198	15	-48	1.231	86		-12	98	21,7	13,9
Expenditure	**11.824**	**716**	**149**	**10.960**	**2.756**	**371**	**63**	**2.321**	**10,0**	**54,8**
Total labour costs	3.410	125		3.285	450	23		427	4,7	45,4
Transfers to individ. and households	1.773	131	41	1.601	54	2	23	28	15,3	-79,1
Expenditure on goods and services	1.278	151		1.127	240	9		231	12,7	-10,5
Investment	1.130	28		1.102	793	34		760	29,4	131,7
Current transfers to soc. sec. funds	1.346	68		1.278	348	89		260	-2,1	495,2
Subsidies	523	53	108	362	133	20	40	72	8,2	8,9
Interest	643	0		643	31	0		31	-10,0	144,5
Payments to the EU budget	654	0		654	60	0		60	17,3	-15,8
Other expenditure	1.067	160		908	647	194		453	34,3	55,8
Expenditure excl. investment	10.694	687	149	9.858	1.963	338	63	1.561	8,2	33,3
Balance (EUR million)	**-562**	**-530**	**-330**	**298**	**-1.478**	**-371**	**-99**	**-1.008**	**562**	**-583**

*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 high growth is mainly due to the record high corporate income tax settlement as a result of the successful operation of companies last year. On this basis, the advance payment of taxes this year is also higher than last year.

- Growth in income tax revenue has slowed down considerably with the expiry of most allowance payments, which were markedly high last year. The moderation in growth was also due to changes in legislation and higher final tax settlement than last year. Nevertheless, this revenue was around a fifth or EUR 200 million, i.e. 16.0%, higher than in the same period of the pre-crisis year of 2019.
- The Government's actions led to relatively low growth in excise revenue (1.3%), as this decreased starting in early February due to high energy prices. Without the effect of the reduced excise duties, the growth in excise revenue would have been significantly higher than last year due to higher sales volumes.
- Total revenue from EU funds in the first eleven months of the year amounted to EUR 813 million, representing a year-on-year increase of 5.5%. Despite a reduction of around EUR 0.5 billion in the revised budget projection compared to the budget adopted in October last year, the Fiscal Council estimates that the annual outturn will again fall short of the budget plans. Namely, this would require another EUR 382 million in December this year, which would imply a significant acceleration of growth (to 117%) at the end of the year.
- Total **expenditure** in the first eleven months of this year was 6.1% lower than in the same period last year. This was mainly a consequence of the direct effect of COVID-related measures. This expenditure totalled EUR 2,628 million in the first eleven months of last year and EUR 716 million in the same period this year. Without this impact and the impact of the inflation mitigation measures, expenditure was 10.0% higher year-on-year in the first eleven months of this year.
- Among the key expenditure categories, investment expenditure accounted for the largest proportion of total growth, totalling EUR 1,130 million in the first eleven months of this year. However, in order to realise the projection set out in the revised budget, another EUR 793 million of investment should be realised in December. In this case, year-on-year growth should accelerate from 27.8% in the eleven-month average to around 125% in December. This confirms our assessment that in the revised budget investments were also planned at an unnecessarily high level, which will not be attained.
- Among the other key categories of expenditure, higher transfers to individuals and households contributed the most to the growth in expenditure, mainly due to the regulatory alignment with last year's inflation. In December, the social transfers necessary to realise the projection set out in the revised budget should be as much as 60% lower year-on-year. This is unrealistic and represents a continuation of the practice of underestimating this spending category in budgetary planning.
- Expenditure on goods and services also grew more than in the same period last year, similarly as social transfers, partly due to higher inflation. Expenditure on goods and services should be year-on-year lower in December, which does not seem to be a realistic assumption.
- Labour cost growth (excluding COVID-related allowances) stood at 4.7% in the first eleven months of this year, largely driven by the impact of employment growth and regular promotions. It increased further in November due to the impact of the agreement on wage increases. The

outturn so far and the adopted revised budget imply that labour cost growth is expected to strengthen to as much as 45.4% in the last month of the year, which, in our opinion, is not a realistic assumption.

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

- State budget expenditure on COVID-related measures totalled EUR 716 million in the first eleven months of this year, and, following the adoption of the revised budget, EUR 1,087 million is expected to be allocated to these measures this year. Since the onset of the epidemic in March 2020, EUR 5,509 million of state budget funds has been earmarked for COVID-related measures.
- This year, the largest part of the expenditure on COVID-related measures is related to testing and vaccination. This is followed by payments of redeemed tourist vouchers, the financing of the Health Insurance Institute of Slovenia under Article 80 of the Additional Measures to Prevent the Spread of, Mitigate, Control, Ensure Recovery from, and Remedy the Consequences of COVID-19 Act (ZDUPŠOP),[3] which is not directly linked to the epidemic, and the third solidarity bonus for pensioners since the beginning of the epidemic.
- According to the data available from the Financial Administration of the Republic of Slovenia, EUR 387 million of the EUR 472 million in approved deferrals or instalment payments of tax liabilities were repaid by the end of November. Decisions on the recovery of granted aid totalling EUR 143 million have also been issued.

Inflation mitigation measures

- Based on the data on actual realisation and updated estimates of the impact of individual measures by the Ministry of Finance, the total impact of the measures taken to mitigate the effects of the energy crisis and inflation is approximately EUR 700 million this year. Of this, the impact on the state budget this year is approximately EUR 430 million, while EUR 330 million has been realised in the first eleven months of this year.
- It is estimated that the impact of the measures taken thus far will total approximately EUR 280 million next year. The Government announced a new package of measures for 2023 worth an estimated EUR 1.2 billion, which equals the total amount of the budgetary reserve for these measures for next year. If this estimate is realistic, there is no room for adopting additional measures in the current budget.

[3] According to Article 80 of the Act on Additional Measures to Prevent the Spread of, Mitigate, Control, Ensure Recovery from, and Remedy the Consequences of COVID-19 Act (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 the misuse of intervention legislation to solve other problems in individual parts of the public sector.

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]	99	45
Decree amending the Decree on the environmental tax on pollution from carbon dioxide emissions[3]	60	
Measures to aid agriculture[4]	22	
Act on Urgent Measures in the Field of Value Added Tax to Mitigate the Rise in Energy Prices[3]	58	73
Act Governing Temporary Measures to Remedy the Consequences of Price Increases for the Most Vulnerable Groups of the Population[5]	20	14
Act Amending the Act Governing Aid to Businesses Hit by High Increases in Electricity and Natural Gas Prices[6]	40	40
Act on Temporary Measures to Alleviate the Inflation Effects for Beneficiaries of Child Benefit[5]	40	21
Act on Intervention Measures in Education for the 2022/2023 School Year[5]	5	14
state budget	**428**	**207**
Decree amending the Decree on energy savings[7]	7	
Act Determining the Measures to Mitigate the Consequences of Energy Commodity Price Rise (ZUOPVCE) – energy vouchers[8]	93	
general government sector	**528**	**207**
Act Determining the Measures to Mitigate the Consequences of Energy Commodity Price Rise (ZUOPVCE) – network charge, RES contribution[9]	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[10]	90	75
Energy Supply Crisis Management Act[9]	1	1
outside general government sector	**172**	**76**
TOTAL	**700**	**283**

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

Note:

[1] Final outturn according to the Ministry of Finance data.

[2] Estimate of the Ministry of Finance regarding monthly effect, for 2023 Fiscal Council's assumption regarding the measure being in effect for five months like temporary reduction in the VAT rate on energy products.

[3] Estimate of the Ministry of Finance regarding monthly effect.

[4] Final outturn according to the Ministry of Finance data for the four measures.

[5] Actual outturn according to the Ministry of Finance data for November and Ministry of Finance estimate for December 2022, for 2023 estimate at the time of adoption.

[6] No actual outturn yet, Ministry of Finance estimate for December 2022, for 2023 estimate at the time of adoption.

[7] Fiscal Council's estimate based on validity between 21 June and 16 August.

[8] Actual outturn according to the Ministry of the Environment and Spatial Planning data.

[9] Estimate of the Government at the time of adoption.

[10] Fiscal Council's estimate based on the monthly average of RES contributions paid in 2021. Measure validity estimated as six months in 2022 and five months in 2023 (like temporary reduction in the VAT rate on energy products).