



REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Monthly Information

January 2023

Key highlights¹

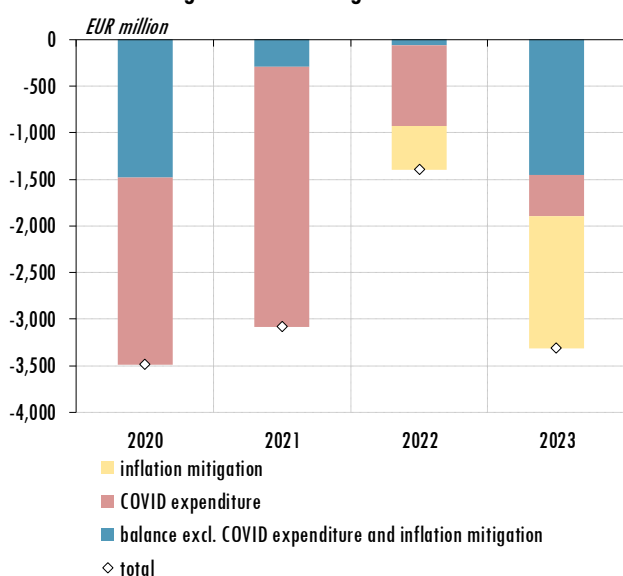
- According to provisional data, the state budget deficit amounted to EUR 1,394 million in 2022, which is significantly less than in 2021 (EUR 3,080 million), mainly due to lower COVID-related expenditure. In accordance with the Fiscal Council's expectations, the deficit in 2022 was significantly lower than predicted in the revised budget. Upon the adoption of the latter, we estimated that expenditure could be lower by around EUR 500 million; it was actually lower by EUR 646 million. This confirms our assessment that inadequate budgetary planning continues, which also creates considerable manoeuvring room for unjustified spending in the previous and the current year.
- Excluding the direct impact of COVID-related expenditure and measures to ease the cost of living crisis, the state budget was practically balanced in 2022 (a deficit of EUR 60 million). The budget adopted for 2023 foresees a considerable deterioration. The core balance is expected to amount to approximately EUR -1.5 billion, which is similar to 2020, although revenues are projected to be higher by around EUR 4.4 billion over the same period.
- The expenditure for COVID-related measures amounted to EUR 864 million in 2022 and to a total of EUR 5,656 million since the beginning of the epidemic. A significant part of last year's expenditure was on healthcare labour costs (EUR 144 million) which are largely not directly related to the epidemic and will continue to burden the state budget.
- The impact of measures to ease the cost of living crisis on the state budget amounted to EUR 470 million in 2022, while all measures amounted to a total of EUR 740 million. With the adoption of further legislation in December, the estimated impact of which exceeds the relatively large reserve earmarked for this purpose in the 2023 budget, the measures taken to date to ease the cost of living crisis on the state budget are expected to amount to approximately EUR 1.6 billion this year.
- The actual implementation in 2022 and the adopted budget for 2023 indicate that the growth of state budget expenditure excluding the direct impact of COVID-related expenditure and measures to ease the cost of living crisis is expected to be 18.5% this year. This would be about twice the average of the previous two years and the highest growth rate ever. The funds planned for social transfers and intermediate consumption, which according to the Fiscal Council's assessment were actually underestimated at the time of adoption of the 2022 revised budget, are in our opinion insufficient to cover this year's commitments. Given that the medium-term fiscal framework should play a central role in the proposed revised EU economic governance framework, significantly more efforts will be required to improve the credibility of budgetary planning.

¹ The Fiscal Council will continue to regularly publish an overview of the implementation of the state budget under the cash flow methodology, COVID-related measures and measures to ease the cost of living crisis in its monthly publication, subject to the availability of such data in the future. All comments pertain to data as at 4 January 2023. 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 in 2022²

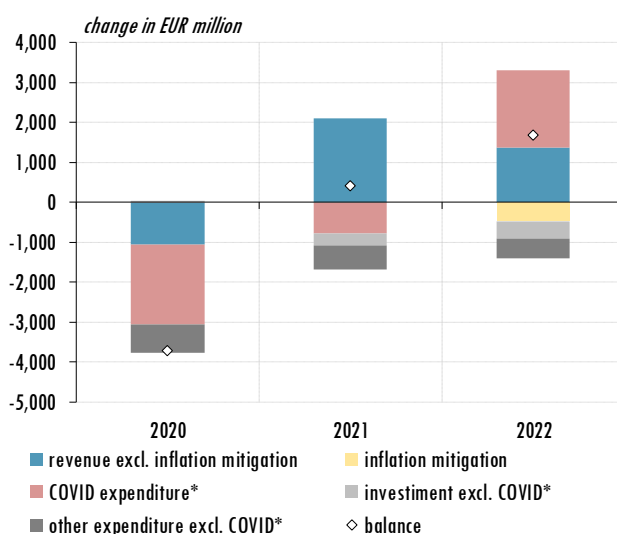
- With a EUR 833 million **deficit** being recorded in December, according to preliminary data, the total **state budget deficit** in 2022 amounted to EUR 1,394 million. Excluding the direct impact of COVID-related expenditure and measures to ease the cost of living crisis, the state budget was practically balanced (a deficit of EUR 60 million).
- **Revenue** in 2022 amounted to EUR 12,334 million, which was an increase of 10.4% on the previous year. The increase more than halved compared to the year before, which is largely due to the trends in the last three months of the year, when year-on-year revenues were lower mainly due to the slowing of economic activity.
- VAT revenues were the main contributor to annual growth, but their growth was almost half lower than the previous year due to a year-on-year decline in the last three months of the year. The decline was largely attributable to a slowdown in domestic demand in the context of high inflation and uncertainty and partly also to the lower VAT rate on energy products.
- The second most important factor in revenue growth was higher corporate income tax revenue, which was almost 40% higher last year. The high growth was mainly due to the record high tax settlement as a result of the successful operation of companies in 2021. On this basis, the advance payment was also higher than the year before. Due to poorer business results in the last few months of the year, this could result in a significant return of advance payments in 2023 (with the settlement of 2022 commitments).
- Growth in income tax revenue has slowed considerably with the expiry of most allowance payments, which were markedly high in 2021. The moderation in growth was also due to changes in legislation and a higher income tax assessment than in 2021.
- As a consequence of the Government’s action, excise duty revenues were lower than the previous year, as these have been reduced since early February 2022 due to high energy prices.

Figure 1: State budget balance*



Source: MoF, FC calculations. Note: *2020-2022 outturn, 2023 Revised budget (Sep. 22).

Figure 2: Factors of state budget balance change



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

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

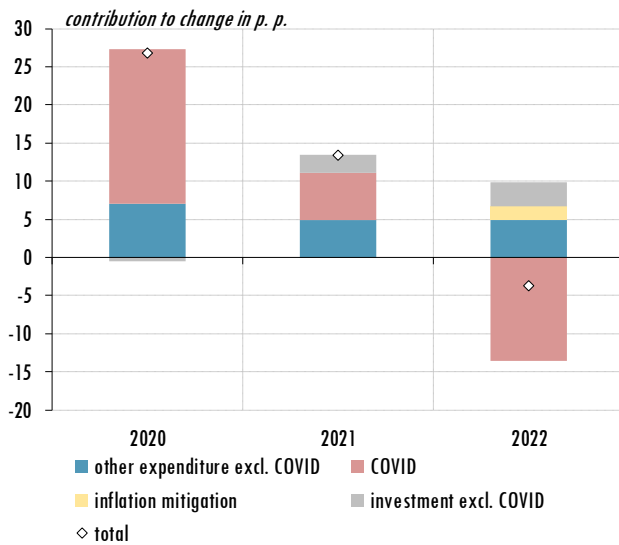
Table 1: State budget

	2021			2022				22/21 %		22/21 EUR milliom	
	total	COVID	excl. COVID	total	COVID	inflation mitig.	excl. COVID and infl. m.	total	excl. COVID and infl. m.	total	excl. COVID and infl. m.
Revenue	11,174		11,174	12,334	-217		12,551	10.4	12.3	1,160	1,377
VAT	4,231		4,231	4,725	-58		4,783	11.7	13.1	494	552
Excise duties	1,470		1,470	1,446	-99		1,545	-1.6	5.1	-24	75
Personal income tax	1,514		1,514	1,579	0		1,579	4.3	4.3	66	66
Corporate income tax	1,115		1,115	1,544	0		1,544	38.5	38.5	430	430
EU funds	947		947	950	0		950	0.3	0.3	3	3
Non-tax	817		817	771	0		771	-5.6	-5.6	-45	-45
Other revenue	1,080		1,080	1,317	-60		1,377	21.9	27.5	237	297
Expenditure	14,254	2,788	11,466	13,728	864	253	12,611	-3.7	10.0	-526	1,145
Total labour costs	4,209	777	3,432	3,814	181	0	3,633	-9.4	5.9	-394	202
Transfers to individ. and househ.	2,532	1,007	1,525	1,965	134	60	1,771	-22.4	16.1	-567	246
Exp. on goods and services	1,523	266	1,258	1,595	201	0	1,394	4.7	10.8	72	136
Investment	1,238	59	1,179	1,669	45	0	1,625	34.8	37.8	431	445
Curr. transfers to soc. sec. funds	1,350	1	1,349	1,398	68	43	1,286	3.6	-4.6	48	-63
Subsidies	815	414	401	642	61	150	432	-21.2	7.5	-173	30
Interest	727	0	727	655	0	0	655	-9.9	-9.9	-72	-72
Payments to the EU budget	629	0	629	730	0	0	730	16.0	16.0	101	101
Other expenditure	1,231	265	966	1,260	174	0	1,086	2.4	12.4	29	119
<i>Expenditure excl. investment</i>	<i>13,016</i>	<i>2,729</i>	<i>10,286</i>	<i>12,059</i>	<i>819</i>	<i>253</i>	<i>10,986</i>	<i>-7.4</i>	<i>6.8</i>	<i>-957</i>	<i>700</i>
Balance (EUR million)	-3,080	-2,788	-292	-1,394	-864	-470	-60			1,686	232
Balance (% of GDP)*	-5.9	-5.3	-0.6	-2.4	-1.5	-0.8	-0.1			3.5	0.5

Source: MoF, IMAD, SORS, FC calculations. Note: *2022 GDP: IMAD Autumn forecast 2022.

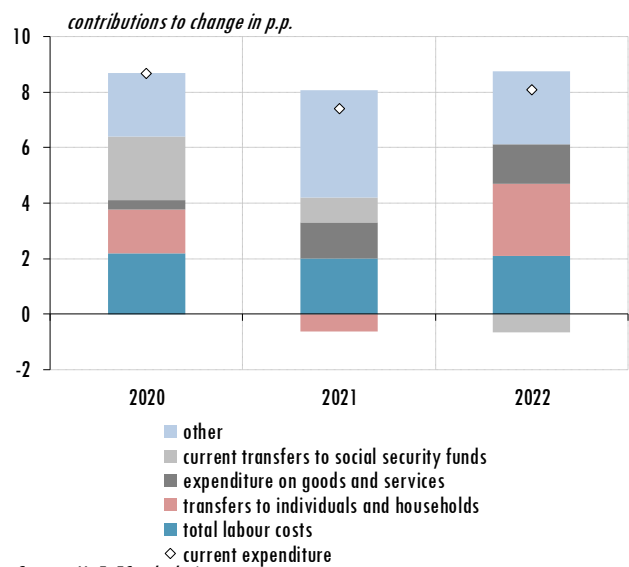
- Non-tax revenues were lower than in the previous year, mainly due to the base effect, since their sharp increase in 2021 was largely the result of one-off revenues from mobile network concessions.
- The revenue from EU funds amounted to EUR 950 million last year and was practically the same as the year before, despite the concluding of the Financial Perspective. The projections in the revised budget were again too optimistic, despite the sharp reduction compared to the budget adopted in autumn 2021. This confirms the assessment on deficiencies in project planning and implementation and raises doubts about the again very optimistic assumptions in the budgets adopted for this year and next, when on average over EUR 1.6 billion of EU funds are expected to be obtained annually.
- Total **expenditure** was 3.7% higher than in 2021, primarily due to significantly lower COVID-related expenditure. Excluding this expenditure and the impact of measures to ease the cost of living crisis, the so-called “core” expenditure increased by 10%, which partly also reflects high inflation.
- The greatest contributing factor to growth was higher investment activity, which increased even slightly more than the year before. Nevertheless, it was slightly lower than foreseen in the revised budget, confirming the Fiscal Council’s assessment of continued unrealistic planning of this part of spending.

Figure 3: Structure of state budget expenditure growth



Source: MoF, FC calculations.

Figure 4: Factors of current expenditure change (excl. COVID and inflation mitigation)

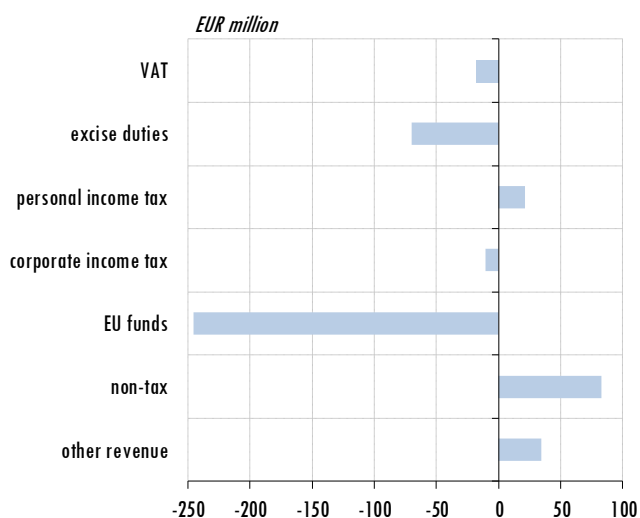


Source: MoF, FC calculations.

- Around a fifth of the growth in “core” expenditure was contributed by transfers to individuals and households, which rose by 16.1% last year, following a reduction in 2021. The growth was largely due to the regulatory alignment with inflation. Expenditure for this purpose was, in accordance with the warnings of the Fiscal Council, about a tenth higher than projected in the revised budget, continuing the practice of underestimating this category of spending in budgetary planning.
- Labour cost growth (excluding COVID-related allowances) stood at 5.9% and was largely driven by the impact of employment growth and regular promotions. It increased further in the last two months of the year due to the impact of the agreement on wage increases.
- Last year, transfers to social security funds were 4.6% lower than the year before and, in line with the Fiscal Council’s assessment at the time of the adoption of the revised budget, significantly fell behind the projections, this by almost one-fifth or EUR 300 million.
- Growth in expenditure for goods and services and contributions to the EU budget increased by a similar amount as the year before, while expenditure for subsidies was 7.5% higher, following a decline in 2021. Overall expenditure growth was again offset by lower interest expenditure.
- The overall deficit was EUR 646 million lower than projected in the revised budget, which is an even larger deviation from the Fiscal Council’s estimate at the time of adoption of the revised balance. On the revenue side, the largest deviation occurred in the revenue from EU funds as expected. On the expenditure side, investment expenditure, transfers to social security funds and the category of other expenditure³ were lower than expected, while expenditure for social transfers and intermediate consumption expenditure were higher than projected. The largest deviations were thus again in the categories regarding which the Fiscal Council regularly points to inadequate planning. Given that the medium-term fiscal framework would have the key role in the proposed revised EU economic governance framework, a lot more effort will be required in the future to improve the credibility of such budgetary planning.

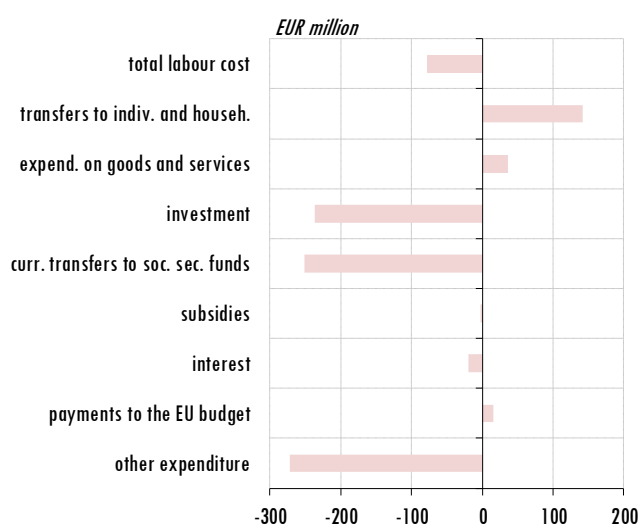
³ The reasons for the deviation of this category can be identified when more detailed data are published at the end of January.

Figure 5: State budget revenue-comparison of outturn and the Revised budget (excl. COVID and inflation mitigation)



Sources: MoF, FC calculations.

Figure 6: State budget expenditure-comparison of outturn and the Revised budget (excl. COVID and inflation mitigation)



Sources: MoF, FC calculations.

Table 2: Comparison of the Revised budget and state budget outturn

	Revised budget				outturn				outturn compared to Rev. budget			
	total	COVID mitig.	inflation and infl. m.	excl. COVID	total	COVID mitig.	inflation and infl. m.	excl. COVID	total	COVID mitig.	inflation and infl. m.	excl. COVID
Revenue	12,540	-217	12,757	12,334	-217	12,551	-206	0	-206			
VAT	4,744	-58	4,802	4,725	-58	4,783	-18	0	-18			
Excise duties	1,516	-99	1,615	1,446	-99	1,545	-70	0	-70			
Personal income tax	1,558		1,558	1,579	0	1,579	22	0	22			
Corporate income tax	1,555		1,555	1,544	0	1,544	-11	0	-11			
EU funds	1,195		1,195	950	0	950	-246	0	-246			
Non-tax	689		689	771	0	771	83	0	83			
Other revenue	1,283	-60	1,343	1,317	-60	1,377	34	0	34			
Expenditure	14,580	1,087	212	13,281	13,728	864	253	12,611	-852	-223	41	-670
Total labour costs	3,860	149		3,711	3,814	181	0	3,633	-45	33	0	-78
Transfers to individ. and hou.	1,827	133	64	1,630	1,965	134	60	1,771	138	0	-4	142
Exp. on goods and services	1,518	160		1,358	1,595	201	0	1,394	77	41	0	36
Investment	1,923	62		1,862	1,669	45	0	1,625	-254	-17	0	-237
Curr. transf. to soc. sec. funds	1,694	157		1,537	1,398	68	43	1,286	-296	-89	43	-251
Subsidies	656	73	148	435	642	61	150	432	-13	-12	2	-3
Interest	674			674	655	0	0	655	-19	0	0	-19
Payments to the EU budget	714			714	730	0	0	730	15	0	0	15
Other expenditure	1,714	354		1,360	1,260	174	0	1,086	-454	-180	0	-275
<i>Expenditure excl. investment</i>	<i>12,657</i>	<i>1,025</i>	<i>212</i>	<i>11,419</i>	<i>12,059</i>	<i>819</i>	<i>253</i>	<i>10,986</i>	<i>-598</i>	<i>-206</i>	<i>41</i>	<i>-433</i>
Balance (EUR million)	-2,040	-1,087	-429	-524	-1,394	-864	-470	-60	646	223	-41	464
Balance (% of GDP)*	-3.5	-1.9	-0.7	-0.9	-2.4	-1.5	-0.8	-0.1	1.1	0.4	-0.1	0.8

Source: MoF, IMAD, SORS, FC calculations. Note: *2022 GDP: IMAD Autumn forecast 2022.

Table 3: State budget excluding the effect of COVID expenditure and inflation mitigation measures

change in %	21/20	22/21	budget 23/rev. budget 22	budget 23/outturn22
Revenue	23.1	12.3	5.8	7.5
VAT	19.9	13.1	6.4	6.8
Excise duties	11.9	5.1	-7.1	-2.9
Personal income tax	30.0	4.3	10.3	8.8
Corporate income tax	44.2	38.5	-2.5	-1.8
EU funds	30.6	0.3	48.8	87.2
Non-tax	21.5	-5.6	-21.3	-29.7
Other revenue	19.8	27.5	-0.8	-3.3
Expenditure	8.6	10.0	12.5	18.5
Total labour costs	5.5	5.9	12.4	14.8
Transfers to individuals and households	-3.6	16.1	10.8	1.9
Exp. on goods and services	10.0	10.8	-1.2	-3.7
Investment	32.6	37.8	24.0	42.1
Current transfers to social security funds	6.4	-4.6	19.9	43.4
Subsidies	-7.3	7.5	-8.2	-7.5
Interest	-5.8	-9.9	-4.2	-1.4
Payments to the EU budget	19.5	16.0	-8.4	-10.3
Other expenditure	39.0	12.4	30.7	63.7
<i>Expenditure excl. investment</i>	<i>6.4</i>	<i>6.8</i>	<i>17.8</i>	<i>15.0</i>
Balance (EUR million)	1,191	232	-926	-1,390

Source: MoF, FURS, FC calculations.

- With a lower-than-expected deficit in 2022, the risk highlighted by the Fiscal Council at the time of the adoption of budget documents for the next two years in autumn has come true. The approved scope of the “core” expenditure (excluding the effect of COVID-related expenditure and measures to ease the cost of living crisis) after the actually known outturn in 2022, which was lower than expected, allows for a significant increase in public expenditure this year (by 18.5% or EUR 2.4 billion). The overall balance is thus expected to drop by as much as EUR 2 billion, while the balance excluding COVID-related expenditure and the measures to ease the cost of living crisis is expected to fall from last year’s balanced position to a deficit of EUR 1.4 billion. According to our assessment, the funds for social transfers and intermediate consumption are insufficient to cover the actual commitments.

Implementation of COVID-related measures in 2022

- Last year, state budget expenditure for COVID-related measures amounted to EUR 864 million, making a total of such expenditure of EUR 5,656 million since the beginning of the epidemic in March 2020. In December, expenditure on such measures was the highest since March and amounted to EUR 146 million. In accordance with the Fiscal Council’s expectations, the actual implementation in 2022 was significantly lower than the year before and lower than envisaged in the revised budget (EUR 1,087 million).
- Among the individual measures, the largest part of last year’s COVID-related expenditure was the financing of the Health Insurance Institute of Slovenia (ZZZS) in accordance with Article 80 of

the Additional Measures to Prevent the Spread of, Mitigate, Control, Ensure Recovery and Remedy the Consequences of COVID-19 Act (ZDUPŠOP) (the 10th anti-corona package (ACP10)). Of the total EUR 211 million, the largest amount was intended to cover labour costs in public institutions (EUR 144 million), which are largely not directly related to the epidemic. Paragraph two of Article 80 of the ZDUPŠOP stipulates that the state budget shall cover the liabilities of the ZZS arising from the increase in the salaries of specific professional groups in the healthcare sector. These liabilities are thus formally related to the epidemic, although not in terms of substance, and will continue to burden the state budget, thus constituting one of the examples of structural deterioration of public finances as a result of the measures taken during the epidemic.

- As regards other measures, the largest part of expenditure in 2022 was earmarked for individual measures related to vaccination and testing (EUR 235 million), the payment of tourist vouchers (EUR 113 million) and various solidarity allowances (EUR 77 million).
- The budget adopted for 2023 sets out EUR 445 million for COVID-related measures. The main part consists of resources for investments in health infrastructure (EUR 143 million).
- According to available Financial Administration data, the total sum of funds actually repaid by the end of 2022 or based on issued decisions for the reimbursement of aid amounted to EUR 149 million. Furthermore, EUR 390 million of the EUR 472 million in approved deferrals or instalment payments of tax liabilities were repaid.

Measures to ease the cost of living crisis

- Based on the data on actual implementation and updated estimations 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 to ease the cost of living crisis was approximately EUR 740 million in 2022, of which the impact on the state budget amounted to EUR 470 million.
- The impact of the measures taken to date is estimated at around EUR 1.7 billion in 2023; most of this will have an impact on the state budget. In December two additional acts were adopted (the Act Determining the Aid to the Economy to Mitigate the Effects of the Energy Crisis (ZPGOPEK) and the Emergency Intervention to Address High Energy Prices Act (ZNPOVCE)), which the Government estimates to have a total financial impact of EUR 1,335 million. If the measures are actually implemented to the extent foreseen, this impact would exceed the already substantial reserve in the adopted budget for measures that are still to be determined to ease the cost of living crisis (EUR 1,210 million). While the preliminary estimation of the impacts is uncertain, in accordance with the Fiscal Rules Act, the Fiscal Council addressed two letters requesting the Ministry of Economic Development and Technology and the Government to explain the calculation of the estimated impact, but we have received no reply to either of the letters.
- The total value of all adopted measures to ease the cost of living crisis in 2022 and 2023 is expected to amount to EUR 2.4 billion, of which in the Fiscal Council's opinion less than one-fifth is due to targeted measures.

Table 4: 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	86	
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 ²	60	60
Ukrepi za pomoč kmetijstvu ⁴	24	
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	38	21
Act on Intervention Measures in Education for the 2022/2023 School Year ⁵	3	14
Temporary increase in pensions ¹	43	
Act Determining the Aid to the Economy to Mitigate the Consequences of the Energy Crisis (ZPGOPEK) ⁹		975
Act on Emergency Intervention to Address High Energy Prices (ZNPOVCE) ⁹		360
state budget	470	1,602
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	570	1,602
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	742	1,678

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.

Notes:

¹ Final outturn according to the Ministry of Finance data.

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

³ Ministry of Finance estimate regarding monthly effect, for 2023 the legislature assumes the measure being in effect for five months.

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 2022, for 2023 estimate at the time of adoption.

⁶ No actual outturn yet, Ministry of Finance estimate for 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 Government estimate 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 the temporary reduction in the VAT rate on energy products).