REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Monthly Information

March 2023

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Key highlights[1]

In the first two months of this year, the state budget had a surplus of EUR 108 million. Excluding the direct impact of expenditure on anti-COVID measures (EUR 41 million) and anti-inflationary measures (EUR 94 million), the surplus was EUR 243 million.

This year's budget deficit is projected at EUR bn 3,314 or EUR bn 1,450 excluding the direct impact of COVID-related expenditure and measures to ease the cost of living crisis. Trends in budget aggregates are forecast to deteriorate in the coming months due to a greater impact of the adopted anti-inflationary and other measures. According to the latest IMAD forecast, this year's macroeconomic conditions are expected to be more favourable than those forecast at the time of the budget amendment last autumn, as the nominal GDP is expected to exceed the autumn forecast by EUR 2.8 billion. Better macroeconomic starting points should not lead to an additional increase in projected expenditure in the expected budget amendment; at the same, we expect that the budget amendment will be more realistic than the one adopted last autumn.

Considering further requests for discretionary adaptation of various transfers from fiscal budgets, we again urge that any additional measures should be temporary and targeted. The adoption of measures with lasting effect increases the risk of prolonging the period of high inflation and the risk to medium-term sustainability of public finances. An additional reason for avoiding measures with a negative structural effect is the fact that, in view of the announced change in the economic governance system of the EU, the starting fiscal position will play the key role in determining the fiscal policy's room for manoeuvre in the coming years. In the light of the latest requests for further extraordinary pension adjustments, we note that all types of pensions have increased on average in real terms since the beginning of the epidemic, and one-off additional transfers were also granted with a view to mitigating the consequences of the epidemic and the cost of living increase. This year, the relatively high regular adjustment will contribute to maintaining the real purchasing power of pensions; however, the adjustment could exceed the level of inflation next year due to the formula used to determine the level of the adjustment.

[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 2 March 2023.

State budget January–February 2023[2]

According to provisional data, **the state budget** showed a EUR 43 million deficit in February and a surplus totalling EUR 108 million in the first two months of this year. Excluding the direct impact of COVID-related expenditure and measures to ease the cost of living crisis, the budgetary surplus in the first two months of this year totalled EUR 243 million, which is EUR 45 million less than in the same period of last year.

Total **revenue** in the first two months of this year was 7.4% lower on a year-on-year basis, particularly due to lower revenue from the EU funds[3] and lower non-tax revenue.

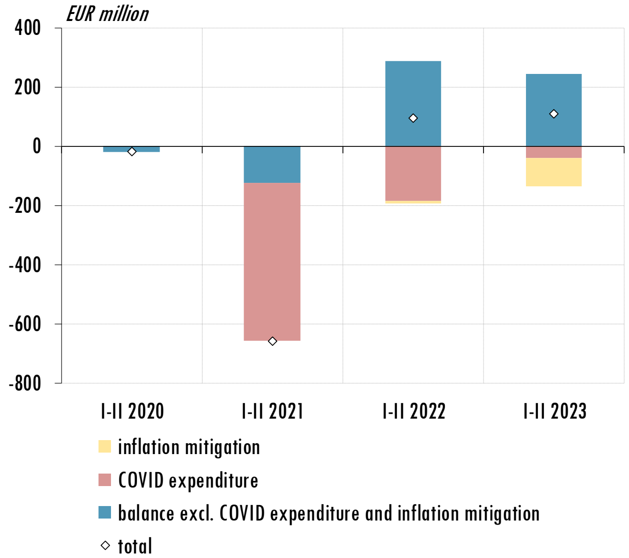
The growth of revenue from the four main tax liabilities (VAT, excise duties, personal income tax and corporate income tax) has slowed in recent months due both to reduced demand and to the adopted discretionary measures (reduced excise duties and further personal income tax relief).

Expenditure in the first two months of 2022 was 8.4% lower on a year-on-year basis, primarily as a result of COVID-related expenditure. Excluding COVID-related expenditure and the impact of inflation mitigation measures, “core” expenditure increased by 2.8% year-on-year.

The year-on-year decrease in “core” expenditure was largely due to a decrease in other expenditure resulting from the effect of last year’s high base;[4] there was also a decrease in subsidies and payments into the EU budget.

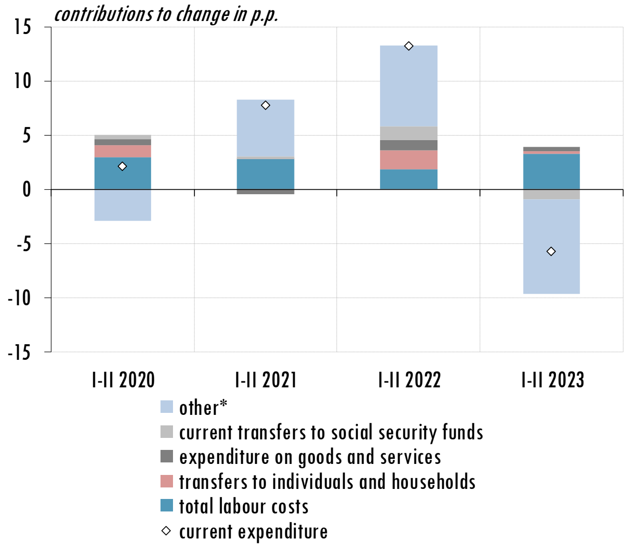
The total expenditure was also largely the result of higher labour costs arising from the wage increase agreement reached last autumn and a further increase in investment activity, while the growth in expenditure on transfers to individuals and households and in expenditures on goods and services was modest.

Figure 1: State budget balance



Source: MoF, FC calculations.

Figure 2: Factors of current expenditure change (excl. COVID and inflation mitigation)



*Source: MoF, FC calculations. Note: *subsidies, payments to the EU budget, other expenditure.*

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

[3] The decrease compared to the first two months of last year is largely the result of an excessively high base amount, as the second portion of the advance payment by the Recovery and Resilience Fund (EUR 118 million) was received in January last year.

[4] The RRP funds received in January last year were transferred to the budget fund and were simultaneously recorded on the expenditure side as reserve expenditure.

Table 1: State budget

	I-II 2022				I-II 2023				I-II 23/I-II 22, %		I-II 23/I-II 22, EUR million	
	total	COVID	inflation mitig.	excl. COVID and infl. mitig.	total	COVID	inflation mitig.	excl. COVID and infl. mitig.	total	excl. COVID and infl. mitig.	total	excl. COVID and infl. mitig.
Revenue	**2,149**		**-9**	**2,158**	**1,991**		**-71**	**2,062**	**-7.4**	**-4.5**	**-159**	**-97**
VAT	765			765	786		-29	815	2.8	6.6	21	50
Excise duties	231		-9	240	249		-18	267	7.5	11.0	17	26
Personal income tax	323			323	298			298	-7.7	-7.7	-25	-25
Corporate income tax	156			156	192			192	22.9	22.9	36	36
EU funds	255			255	146			146	-42.8	-42.8	-109	-109
Non-tax	182			182	98			98	-46.0	-46.0	-84	-84
Other revenue	238			238	222		-24	246	-6.5	3.6	-15	9
Expenditure	**2,055**	**184**		**1,871**	**1,883**	**41**	**23**	**1,819**	**-8.4**	**-2.8**	**-172**	**-52**
Total labour costs	596	7		590	650	3		647	9.1	9.8	54	58
Transfers to individ. and hou.	316	31		285	312	1	23	289	-1.0	1.3	-3	4
Exp. on goods and services	193	40		153	163	2		161	-15.8	4.8	-31	7
Investment	82	5		77	100	2		98	22.5	28.1	18	22
Curr. transf. to soc. sec. funds	284	68		216	211	12		199	-25.5	-7.8	-72	-17
Subsidies	138	2		136	123	9		114	-11.0	-16.0	-15	-22
Interest	41			41	68			68	66.5	66.5	27	27
Payments to the EU budget	141			141	116			116	-17.8	-17.8	-25	-25
Other expenditure	265	31		234	140	12		128	-47.2	-45.3	-125	-106
Balance	**94**	**-184**	**-9**	**287**	**108**	**-41**	**-94**	**243**			**14**	**-45**

Souce: MoF, FC calculations.

Implementation of the measures to mitigate the consequences of the epidemic and inflation mitigation measures in the period January–February 2023

The state budget expenditure on COVID-related measures totalled EUR 41 million in the first two months of this year. A total of EUR 445 billion has been budgeted for this purpose till the end of the year. The bulk of this year's expenditure incurred so far includes expenditure related to vaccination costs and salary compensation due to isolation.

The effect of anti-inflationary measures in the first two months of this year was EUR 94 million. The bulk of this amount represents lower revenue due to continued lower excise duties, reduced VAT rates on energy products and carbon tax relief. Expenditure on anti-inflationary measures in the same period totalled EUR 23 million, which was mainly due to higher child benefit under the Temporary Measures to Mitigate the Consequences of Inflation for Beneficiaries of Child Benefit Act (the ZZUODOD).