REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Assessment of budgetary documents for the 2023–2026 period

(Assessment of the proposed Ordinance on the framework for the preparation of the general government budgets 2024–2026 and the draft Stability Programme 2023)

April 2023

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This assessment is based on the draft Stability Programme 2023 and the proposed Ordinance on the framework for the preparation of the general government budgets 2024–2026. Some of the forecast values in EUR are calculated indirectly from the rounded ratios of GDP indicated in the Stability Programme 2023, so certain items may not add up. Data available up to and including 11 April 2023 are taken into account.

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EXECUTIVE SUMMARY

The fiscal policy stance projected in the medium-term budgetary documents is on average neutral in the 2023–2026 period, but in the absence of reforms, the projections imply rather limited room for manoeuvre in the conduct of fiscal policy in the years ahead. Most of the indicators used by the Fiscal Council in preparing its assessment show compliance with the rules in 2025 and 2026. The deviations in 2024 are mainly due to the projected high investment activity and a further decline in the revenue-to-GDP ratio and are within the range of variability of the assessments of the cyclical position of the economy. Against this background, the projections in the draft Stability Programme 2023 are assessed as broadly realistic or, considering the IMAD macroeconomic forecast, consistent with the precautionary principle. This approach is appropriate given the continuing high uncertainty and number of risks. Apart from macroeconomic risks, the main risk is posed by the announced reforms. Their financial effects are not included in the submitted documents while, in view of the assessed risks to the long-term sustainability of public finances, reforms of the social protection systems are particularly urgent.

* * *

After almost four years, the period of exceptional circumstances will terminate in 2024, but unfortunately the European Commission's guidelines on the conduct of fiscal policy in 2024 continue to allow a considerable degree of discretion in the assessment of the budget documents. Formally, the existing fiscal rules are supposed to be reapplied, but the European Commission considers that some parameters of the existing fiscal rules are not appropriate under the current uncertain circumstances. At the same time, the proposed new rules are not yet fully spelled out at the EU level due to the absence of a final agreement. An additional risk to the current assessment is that current fiscal projections are subject to change, as the 2023 revised state budget is still under preparation. Such sequencing of preparing and adopting budget documents is inappropriate, especially given that a credible medium-term fiscal plan is expected to play a central role in the revised system of economic governance in the EU.

The draft Stability Programme 2023 projects a relatively high general government deficit in 2023 (4.1% of GDP), which, if actually realised, would trigger the excessive deficit procedure next year. This year's deficit is expected to be mainly driven by the projected record high investment activity and the impact of measures to mitigate the effects of the cost-of-living crisis. In the context of relatively high levels of nominal economic activity, the deficit should decline to 1.3% of GDP by 2026. This would be 2 pp of GDP lower than in the year before the epidemic and is solely due to the projected lower revenue-to-GDP ratio. The current expenditure-to-GDP ratio is expected to remain relatively constant over the projection period, despite the high growth rate, and is not expected to have a significant impact on the change in the fiscal balance. After several years of decline, the share of interest expenditure will increase slightly from 2023 onwards, reflecting the deterioration in financing conditions in addition to the higher nominal debt stock. The government gross debt ratio is expected to fall below its 2019 level to about 63.5% of GDP by 2026. Against this backdrop, the large fiscal liquidity buffer of over 10% of GDP provides some room for manoeuvre to accelerate debt reduction and, in particular, resilience to a possible further tightening of financing conditions.

Growth in economic activity is expected to moderate over the Stability Programme's projection horizon from the very high levels of the previous two years. However, the expected extended persistence of high inflation will, despite its moderation, lead to higher growth in nominal tax bases, a crucial determinant of revenue projections, than before the epidemic. The tax bases forecast is thus more favourable than suggested by the IMAD forecasts that informed the preparation of the budget documents last autumn. The unemployment rate and the number of unemployed are expected to remain at historically low levels throughout the forecast period, also due to the shortage of workers. This is reflected in wage growth requirements and high demand, which reinforces domestic price pressures. In an economy that is part of a monetary union, these must, to some extent, also be contained by fiscal policy.

In the current circumstances, fiscal policy needs to provide targeted support to contain the effects of the cost-of-living crisis, while at the same time preventing further inflationary pressures and thus maintaining consistency with monetary policy, which has already tightened to a considerable extent. In the current macroeconomic environment, the two tasks are contradictory. Given the large number of non-targeted measures introduced during both recent crises, the high public costs and other adverse side effects have made it necessary to redirect them towards targeted measures or to phase them out as energy prices moderate. Given the large fiscal policy actions in both recent crises and the risks to the long-term sustainability of public finances, the private sector will also have to shoulder part of the adjustment burden, with some room for manoeuvre at the historically high profit-to-GDP ratio.

The projected very gradual fiscal consolidation could be delayed by even small negative deviations of economic growth from the current forecast. This would complicate the necessary creation of room for manoeuvre for the government in the event of future crises. Fiscal policy should therefore address the challenges of the fiscal implications of demographic changes and the resulting maladjusted social security systems as soon as possible, restrain the growth of current spending and thus ensure debt sustainability, while addressing development challenges and strengthening the resilience of the economy. The projections in the draft Stability Programme indicate rather limited room for manoeuvre in the conduct of fiscal policy due to currently applied policies, including the announced changes in fiscal rules at the EU level, and in particular the need to implement appropriate systemic solutions in the face of the given long-term fiscal challenges. In this context, an appropriate sequencing of the introduction of reforms to ensure the long-term sustainability of public finances should be set out, which should be gradual and supported by credible assessments of their fiscal and macroeconomic impact.

Legal framework

On 7 April 2023, the Government of the Republic of Slovenia (hereinafter: the Slovenian Government) submitted to the Fiscal Council (hereinafter: the FC) within the statutory deadline the draft Stability Programme 2023 (hereinafter: the SP23) covering the period 2023–2026 and the proposed Ordinance on the framework for the preparation of the general government budgets for the 2024–2026 period (hereinafter: the Framework), for assessment of their compliance with the fiscal rules. Under the Memorandum of Understanding between the FC and the Ministry of Finance[1], on 7 April 2023 the Ministry of Finance also provided the FC with other information necessary for the preparation of a comprehensive assessment.

Under the provisions of paragraph two of Article 6 of the Fiscal Rule Act (hereinafter: the FRA), the Slovenian Government is required to submit the proposed framework for drawing up budgets together with the draft Stability Programme to the National Assembly of the Republic of Slovenia (hereinafter: the National Assembly) and to the FC no later than 20 days before the deadline for submitting the Stability Programme to the European Commission (hereinafter: the EC). In accordance with the "Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes", the deadline is the end of April of each year. In accordance with paragraph two of Article 6 of the FRA, the Ordinance on the framework for the preparation of general government budgets must be adopted by the National Assembly of the Republic of Slovenia on the proposal of the Slovenian Government no later than five days before the deadline for the submission of the Stability Programme to the EC.

Pursuant to paragraph one of Article 9 f of the Public Finance Act, the FC must submit its assessment of the framework proposal and the draft Stability Programme to the Slovenian Government and to the National Assembly within seven days of their receipt. The deadline to be respected by the FC is therefore 14 April 2023.

At its meeting on 23 March 2023, the Slovenian Government adopted the starting points for the preparation of the 2023 Revised State Budget Proposal. At the same time, it set the Timetable for the preparation of the 2023 Revised State Budget Proposal (hereinafter: the Revised Budget Proposal), according to which the Revised Budget Proposal would be discussed by the Government at its meeting on 20 April 2023. Thus, the items of the 2023 revised budget, which constitutes the basis for the projections of fiscal developments in the period 2024–2026, will be defined and available after the statutory deadline set for the FC for the preparation of the assessments of the SP23. When presenting the assessment of the SP23, the FC stresses that it refers to the draft and not to the final version of the SP23, which may be subject to further changes also as a result of the factors mentioned above.

Under paragraph two of Article 6, and point 1 of paragraph two and point 1 of paragraph three of Article 7 of the FRA, and on the basis of the framework proposal and the draft Stability Programme, the FC is required to assess the sustainability and compliance of government fiscal policy with the fiscal rules. The method for determining the ceiling for general government expenditure in relation to the cyclical position of the economy is laid down in Article 3 of the FRA. Whether the proposed amendments to the framework are appropriate is to be assessed by the FC in accordance with point 5 of paragraph two and point 4 of paragraph three of Article 7 of the FRA. According to Article 15 of the FRA, in the period when the Republic of Slovenia is approaching the medium-term fiscal objective, state budgets are considered to be in balance over the medium term if the general government

[1] The Agreement is available at https://www.fs-rs.si/fiscal-council/co-operation/.

structural balance is approaching the medium-term fiscal objective in line with the dynamics determined on the basis of the Stability and Growth Pact.

According to Article 12 of the FRA, the Slovenian Government shall determine the application and termination of exceptional circumstances after obtaining the FC's assessment. In September 2022[2], the FC assessed that the outlook for 2023 is characterised by extreme uncertainty and high risks of a further deterioration in the economic growth outlook, which could have important financial implications for the general government's financial position and requires the provision of flexible government action. Thus, exceptional circumstances allowing a temporary deviation from the medium-term fiscal balance under Article 12 of the FRA are also applied in 2023. Further extension of the general escape clause to 2023 at the EU level was announced by the EC within the European Semester Spring Package Communication on the basis of the May 2022 forecast.[3]

In March 2022 and additionally in November 2022, the EC confirmed that there were no grounds for invoking the general escape clause in the EU in 2024. In March 2023, the EC provided general guidance on the fiscal policy stance for 2024. As the new economic governance framework in the EU has not yet been defined, the guidance suggests that the EC's assessment of fiscal policy will take into account indicators stemming from the existing system and those from the new system of governance. For this reason, and in view of the uncertainties associated with assessing the appropriate fiscal policy stance, the FC also in this analysis of the budget documents uses a wide range of indicators.

[2] FC (2022a).

[3] European Commission (2022a).

1. Macroeconomic conditions and forecasts

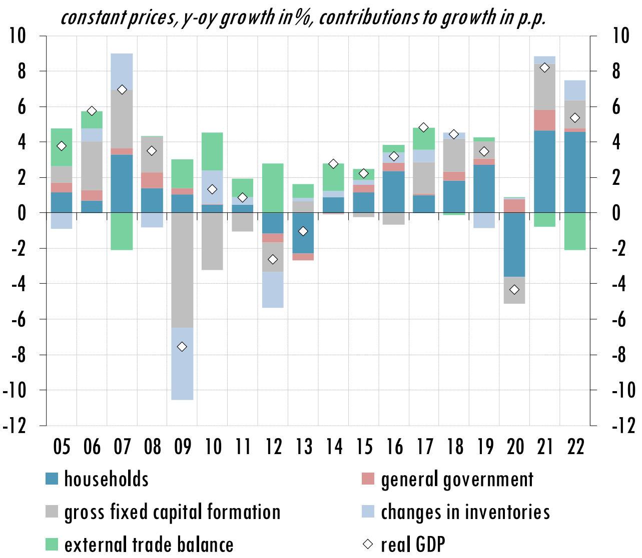
Key findings

- Economic activity is expected to slow down this year, mainly due to the ending of the positive cyclical momentum following the rapid post-epidemic recovery, which was one of the strongest in the EU. The strengthened fiscal impulse will only compensate for the slowdown in private demand growth to a limited extent. Over the next three years, growth is expected to be balanced and around the long-term average.
- Nominal tax bases, which have a key influence on government revenue projections, are expected to be much higher than implied by the IMAD forecast underlying the autumn budget documents, mainly due to the prolonged persistence of high inflation. While growth in the tax base will moderate from the very high levels of the previous two years, the average growth in the 2023–2026 projection period will still be higher than in the pre-epidemic period.
- The business cycle is expected to moderate over the 2023–2026 period, however, with demand recovering and supply-side constraints persisting, price and cost pressures in the product and labour markets are expected to remain relatively high.

1.1 An overview of the macroeconomic conditions and forecasts

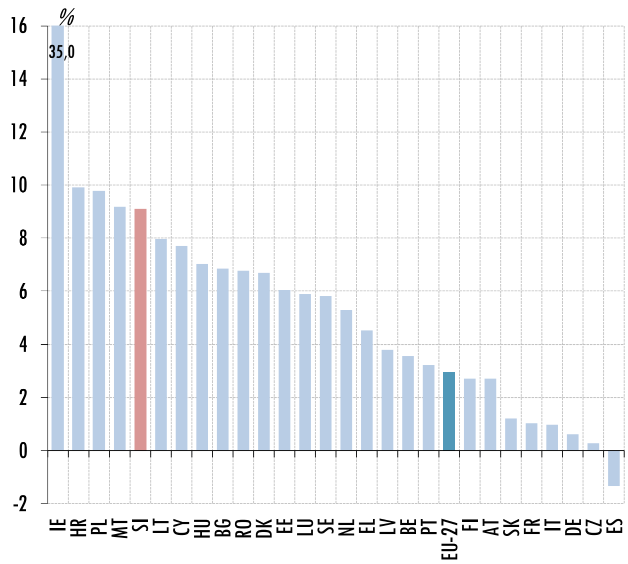
The post-epidemic recovery in economic activity continued at a slower pace last year, but economic growth still slightly exceeded the autumn forecasts underlying the budget documents. GDP is currently estimated to have grown in 2022 by 5.4% in real terms and as much as 13.0% in nominal terms. Slovenia's post-epidemic recovery has been among the fastest in the EU, and last year's

Figure 1.1: Gross domestic product



Source: SORS, FC calculations.

Figure 1.2: Real GDP change 2022/2019

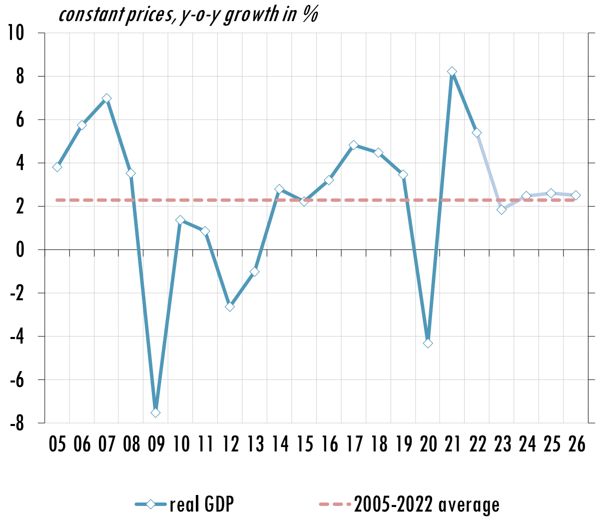


Source: Eurostat, FC calcualtions.

average level of economic activity exceeded the level of 2019 by 9.1%[4]. Private consumption was again a key contributor to economic growth last year, supported by continued favourable labour market conditions and the consumption of excess savings accumulated during the epidemic.[5] The other growth driver was construction investment, due to the property market situation as well as the increased government investment activity. However, the growth in government spending slowed from the historically high levels of the previous two years, mainly due to a reduction in expenditure to mitigate the epidemic. Uncertainties and higher commodity prices, in particular for energy products in connection with the war in Ukraine, and continued disruptions in global supply chains resulted in a slowdown in export activity and investment in equipment and machinery, especially towards the end of the year. According to the IMAD estimates, exports lagged behind foreign demand growth last year for the first time ever, and with imports growing at a higher rate, the contribution of net exports to GDP growth was the most negative since 2007.

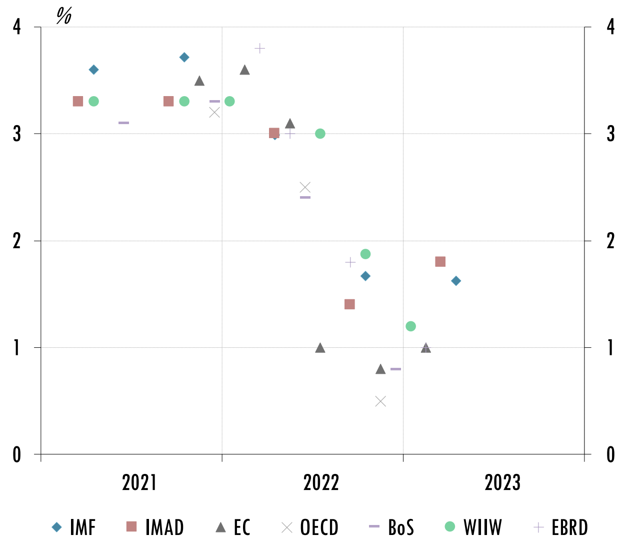
After a significant pick-up in the previous two years and continuing high uncertainty, economic growth is expected to slow markedly this year and to hover around its long-term average over the next three years. This year's expected slowdown in economic activity will be entirely due to the ending of the positive cyclical momentum of the previous two years, which is expected to turn negative (Figure 1.5). This year, IMAD[6] expects lower growth in all demand aggregates and, as a consequence, significantly lower real GDP growth (1.8%) than in the previous two years. Despite continued high uncertainty, expectations are still slightly better than in last autumn, as extremely negative risks associated with the war in Ukraine and the energy crisis have not fully materialised. Economic sentiment has also stabilised in recent months, albeit at low levels. The slowdown in household consumption growth is expected to be the most pronounced, which, with real disposable income expected to stagnate, will largely be the result of the consumption of the excess savings accumulated during the epidemic, or even their decline below their pre-epidemic level. Export growth and private investment are also expected to decline markedly, owing to the uncertain situation and the

Figure 1.3: Gross domestic product



Source: SORS, IMAD, FC calculations.

Figure 1.4: Real GDP growth for 2023



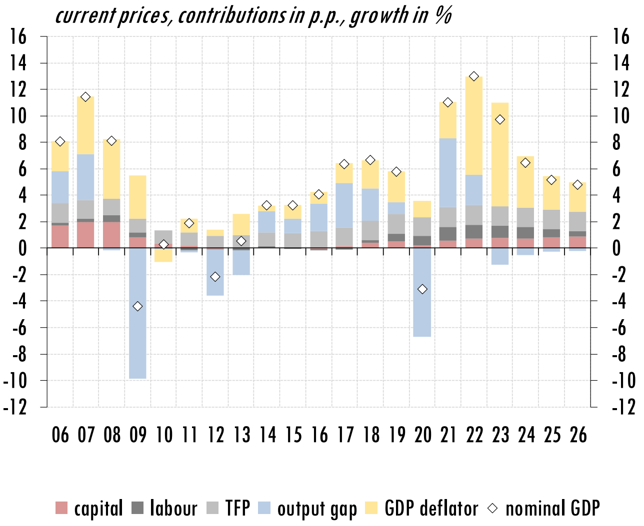
Source: IMF, IMAD, European commission (EC), OECD, Bank of Slovenia (BoS), WIIW, EBRD.

[4] Both the post-epidemic recovery in 2021 and 2022 and last year's overshooting of the pre-crisis level were the fifth highest in the EU.

[5] According to the first estimates of SURS, the household savings rate is deemed to have fallen to 9.3% last year, the second lowest level so far.

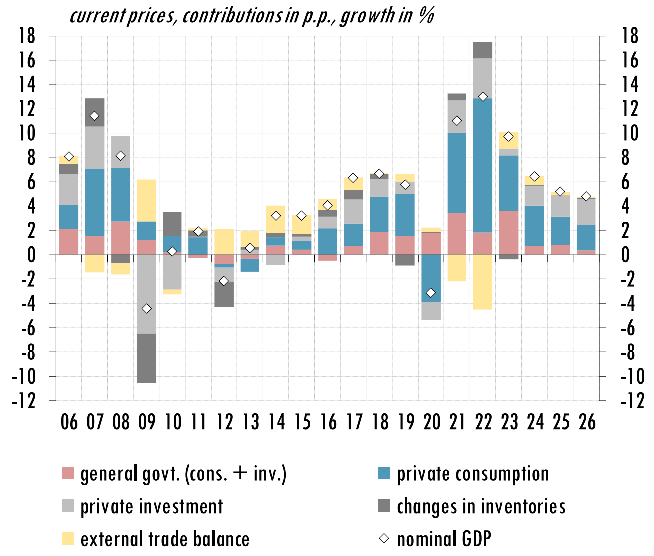
[6] IMAD (2023). The IMAD forecasts provide the basis for budgeting as laid down in the Decree on development planning documents and procedures for the preparation of the draft state budget and draft local government budgets (Official Gazette of the Republic of Slovenia, Nos 44/07 and 54/10).

Figure 1.5: Supply factors and GDP



Source: SORS, IMAD, FC calculations.

Figure 1.6: Demand factors and GDP



Source: SORS, IMAD, MoF, FC calculations

deteriorating outlook for foreign demand. Unlike households, the corporate sector has, in our assessment, more room for manoeuvre to spend or to adjust to additional shocks, as the gross-operating-surplus-to-GDP ratio reached an all-time high after last year's near-record high growth.[7] The fiscal impulse[8] is set to strengthen noticeably this year on the back of a continued strong increase in investment activity (Figure 1.6), but will only compensate for the slowdown in private demand growth to a limited extent. Thus, imports are expected to slow down even more than exports as a result of lower domestic demand growth, so that the contribution of net exports should no longer be negative.

The persistence of higher-than-pre-epidemic nominal GDP growth over the projection period is expected to be mostly due to only gradual moderation of high inflation. It is expected to moderate only gradually from a higher level than expected last autumn, to reach 2.0% only in 2025. Throughout the forecast period, the contribution of capital to GDP growth is expected to remain at a similar level as in previous years. This year, the strengthening of public investment is expected to largely offset the decline in private investment, while in the coming years investment growth is again expected to be driven to a larger extent by private investment. The contribution of total factor productivity is also expected to remain at a similar level as in the previous year, while the contribution of labour is expected to decline gradually over the forecast period, mainly as a result of demographic factors, but to remain above the long-term average. Namely, labour market conditions are expected to remain favourable, with the unemployment rate and the number of unemployed expected to remain at historically low levels throughout the forecast period. Although, owing to labour market constraints and high inflation, wage growth is expected to strengthen and exceed the pre-epidemic average, it is not expected to outpace labour productivity growth.

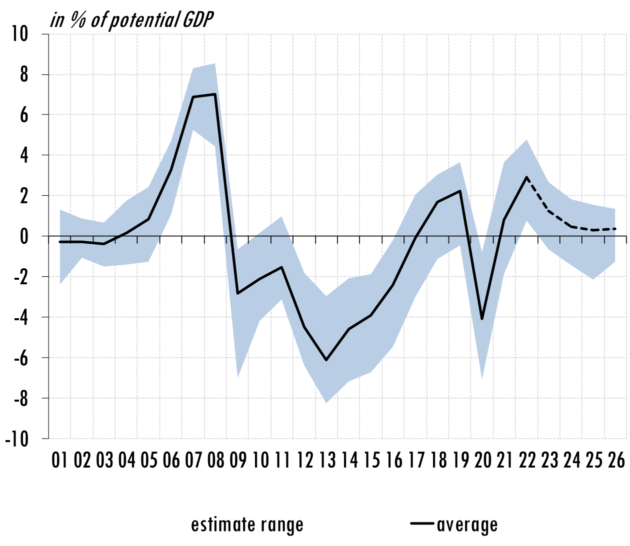
[7] According to the SURS publication of quarterly national accounts data, the nominal growth of gross disposable income was 19.2% last year (it was slightly higher only in 1997) and its share in GDP was 38.8% (the highest until last year was 38.2% of GDP in 2007).

[8] According to the IMAD forecast, the direct contribution of government consumption and investment to nominal GDP growth is expected to be about one third or 3.6 pp.

1.2 Assessment of the cyclical position of the economy

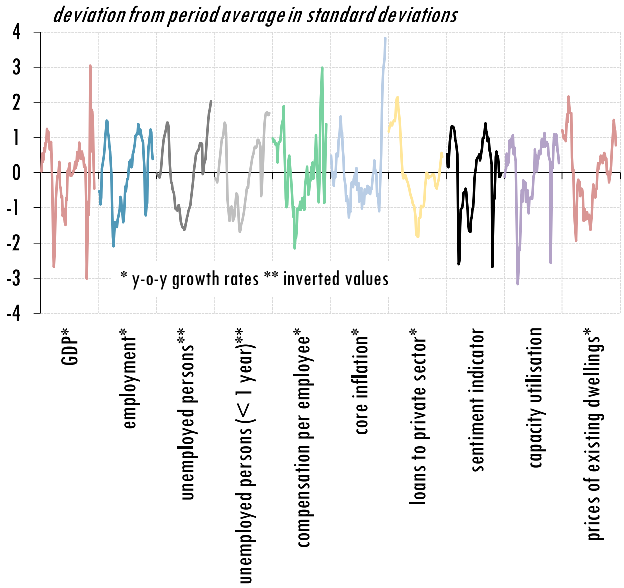
The business cycle is expected to moderate over the 2023–2026 period, however, with demand recovering and supply-side constraints persisting, pressures in the product and labour markets are expected to remain relatively strong. Current estimates suggest that, following the opening-up of the economy after the epidemic and the rapid recovery in 2021, the output gap reached the peak of the cycle in 2022. The rapid recovery was mainly driven by a significant contraction in households' excess savings and the persistence of high corporate profits. Both were also to some extent driven by government measures, which has been and still is reflected in price pressures that are thus increasingly underpinned by demand.[9] The output gap is expected to remain positive throughout the SP23 projection period, but to gradually close, despite the currently estimated solid growth in supply potential. The latter exceeds the long-term average by about 0.5 pp, hovering at an average of just below 3% over the next few years. Demand is expected to be sustained in particular by a high level of domestic spending, including public investment, which could have a large impact on the persistence of price and wage pressures, given the continuation of the actual supply-side constraints. These are particularly pronounced in the labour market and are reflected, *inter alia*, in the historically low unemployment rate.[10] Labour market constraints are increasingly driven by demographic changes, which are also in the future expected to be partly reduced by the employment of non-residents. In this respect, the main contributor to the faster growth in supply potential compared to the long-term average is expected to be labour, although its contribution to growth is expected to gradually decline over the projection period. Thus, future supply potential formation is expected to be even more labour-intensive than in the pre-epidemic period. Current estimates suggest that the size of the potentially employable population is set to decline, despite an increase in the activity rate of the population.[11]

Figure 1.7: Output gap estimates



Source: IMAD, EC, OECD, IMF, MoF, FC calculations. See note under Table 5.2.

Figure 1.8: Indicators of economic cycle dynamics 2005-2023



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

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[9] Bank of Slovenia (2022), Box 2.1.4.

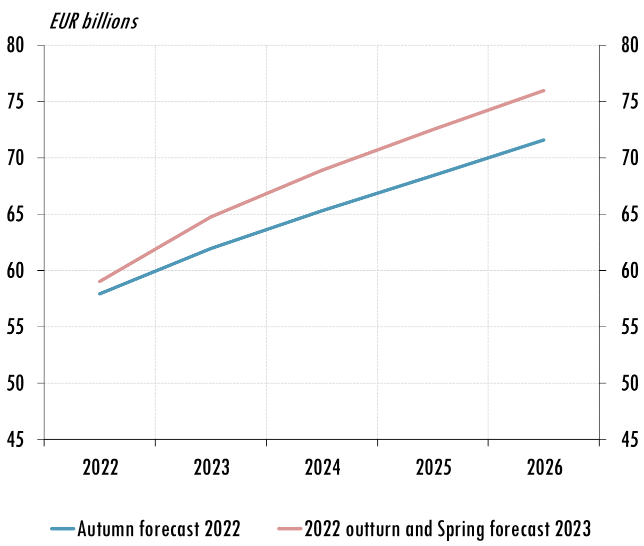
[10] Similarly, this holds true also for some of the other indicators used by the FC in determining the cyclical position of the economy. They include the level of core inflation, which, like the unemployment rate, is not entirely driven by cyclical factors in the current macroeconomic context. In fact, like the low unemployment rate, which is largely due to structural (demographic) factors, high core inflation partly reflects the pass-through of energy prices to other prices due to supply-side constraints.

[11] See Bank of Slovenia (2022: Box 2.1.3) and Perko and Rogan (2023).

1.3 Comparison of macroeconomic scenarios of the Draft Budgetary Plan 2023 and the draft Stability Programme 2023

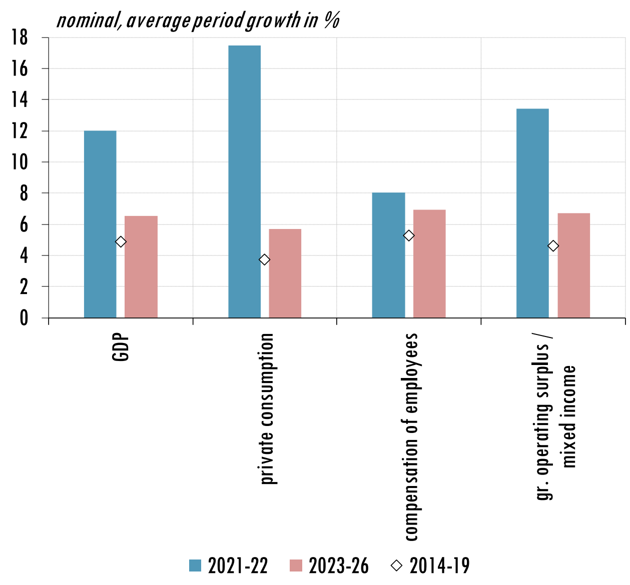
The macroeconomic scenario of the SP23[12] is more favourable than in the DBP23[13], which, in addition to the better outturn last year, is mainly due to the prolonged persistence of high inflation, which has a favourable impact on the forecasts regarding the tax bases. Last year, real economic growth was and, according to the latest forecast, will again this year be 0.4 pp higher than in the last autumn forecast, which was used in preparing the DBP23. Moreover, high inflation is expected to moderate more gradually from a higher level than expected last autumn. This has important implications for the nominal evolution of the tax bases on which the government revenue projections mostly depend (see Table 1.1). A better starting position, and in particular the expected longer persistence of high inflation, are thus key factors in the more favourable macroeconomic scenario of the SP23 than was the case last autumn when the budget documents were under preparation. This year, the level of nominal GDP is expected to be EUR 2.8 billion higher than in the forecast in autumn last year and on average EUR 3.7 billion per year in the SP23 projection period 2023–2026. Most of the difference stems from the increased level of nominal domestic consumption, which was already about EUR 1.2 billion higher in 2022 than previously forecast and the expectations for the years of the SP23 projections are significantly higher than they were last autumn. The same applies for the expected evolution of the operating surplus, which forms the basis for revenues from taxes on income or profits of corporations. To a lesser extent, the evolution of compensation of employees is also expected to be more favourable, driven by the forecast of a higher level of average compensation per employee stemming from both the labour shortages due to the impact of demographic change and the adjustment of wages to inflation. While the growth of all tax bases is from this year onwards expected to start moderating from the very high growth rates of the previous two years, their average growth in the 2023–2026 period will still be higher than was the case during the economic recovery in the period between the banking system bailout and the epidemic (see Figure 1.10).

Figure 1.9: Nominal GDP



Source: SORS, IMAD, FC calculations.

Figure 1.10: Tax bases



Source: SORS, IMAD, FC calculations.

[12] The SP23 (April 2023) fiscal projections are based on the IMAD (2023) of March 2023.

[13] The fiscal projections of the DBP23 (October 2022) were based on the IMAD (2022) of September 2022.

Table 1.1: Comparison of SP23 and DBP23 macroeconomic scenarios

	2022			2023			2024			2025			2026		
	Sep.22	outturn	diff.	Sep.22	Mar.23	diff.	Sep.22	Mar.23	diff.	Sep.22	Mar.23	diff.	Sep.22	Mar.23	diff.
Real GDP, change in %	5.0	5.4	*0.4*	1.4	1.8	*0.4*	2.6	2.5	*-0.2*	..	2.6	..	..	2.5	..
Nominal GDP, EUR million	57,921	58,989	*1,067*	61,951	64,723	*2,772*	65,311	68,896	*3,585*	..	72,462	..	..	75,929	..
Priv. consumption, EUR million	31,209	32,463	*1,254*	33,175	35,192	*2,018*	34,777	37,348	*2,571*	..	38,951	..	..	40,465	..
Comp. of empl., EUR million	29,498	29,456	*-42*	31,622	31,960	*337*	33,298	34,037	*739*	..	36,026	..	..	37,993	..
Gr .oper. surplus, EUR million*	21,484	22,916	*1,433*	23,196	26,220	*3,024*	24,124	27,193	*3,068*	..	28,376	..	..	29,598	..
Inflation-average, %	8.9	8.8	*-0.1*	6.0	7.1	*1.1*	2.9	4.2	*1.3*	..	2.4	..	..	2.0	..
GDP deflator, change in %	5.7	7.2	*1.5*	5.4	7.7	*2.3*	2.7	3.9	*1.2*	..	2.5	..	..	2.2	..

*Source: IMAD, FC calculations. Note: *Gross operating surplus and gross mixed income.*

2. Fiscal conditions and forecasts

Key findings

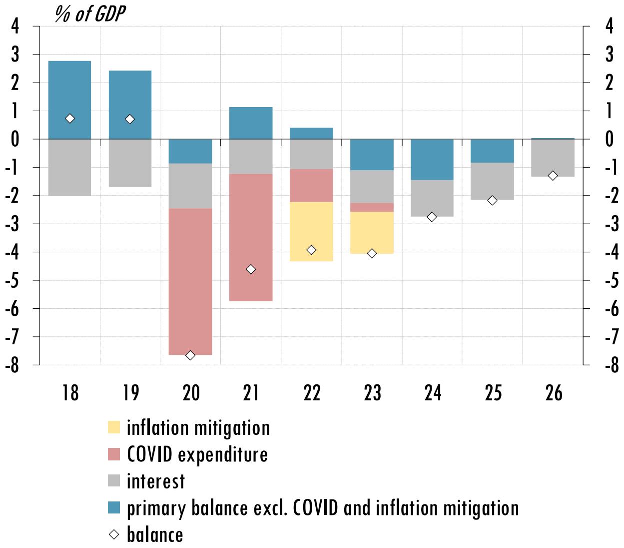
- The overall general government deficit (3.9% of GDP) declined last year mainly due to lower COVID-related expenditure and high nominal economic growth. The "core" deficit (excluding the impact of the epidemic and inflation mitigation measures) widened to 0.7% of GDP, mainly due to a slowdown in revenue growth.
- Both the headline deficit (4.1% of GDP) and the "core" deficit (2.3% of GDP) are expected to widen this year, mostly due to the projected record-high investment activity. We assess the projections of the SP23 scenario as largely plausible and consistent with the precautionary principle, which is an appropriate approach in the face of persistent uncertainty. By the end of the projection period in 2026, the deficit should decline to 1.3% of GDP, a balance of 2.0 pp of GDP lower than in the year before the epidemic, mainly due to the projected significantly lower revenue-to-GDP ratio.
- We consider the projections of record-high investment spending to be unrealistic due to over-optimistic assumptions on the use of EU funds and the limited absorption capacity of the administration and the economy.
- Current spending growth is expected to be more than twice as high over the whole projection period as in the pre-epidemic period, which is mainly a reflection of high inflation. Its share in GDP will remain relatively constant and will not have a significant impact on the change in the balance.
- The general government gross debt-to-GDP ratio should gradually decline to 63.5% of GDP by the end of 2026, which would be lower than before the outbreak of the epidemic. The financing conditions of the government are tightening, but remain manageable, with room for manoeuvre provided in particular by the favourable liquidity position of the state budget. The debt sustainability analysis points to a sustainable dynamic which is subject to some risks because of the assumptions in the simulations. These are particularly pronounced in the long term in the context of demographic and climate changes.

2.1 Assessment of the revenue and expenditure projections in the draft Stability Programme 2023

The overall general government deficit (3.9% of GDP) narrowed last year on the back of lower COVID-related expenditure and exceptionally high nominal economic growth. The deficit fell by 0.7 pp of GDP, i.e. by EUR 91 million in nominal terms. COVID-related expenditure was lower by EUR 1.7 billion (3.4 pp of GDP) and thus is the main reason for the reduction in the headline deficit, while inflation mitigation measures amounted to EUR 1.2 billion, mostly due to the cost of increasing the capital of two energy companies.[14] Since the application of exceptional circumstances in 2020, the FC has emphasised in its assessments of the budget documents the fiscal developments excluding the impact of the direct effect of the epidemic mitigation measures and, since last year, also the impact of

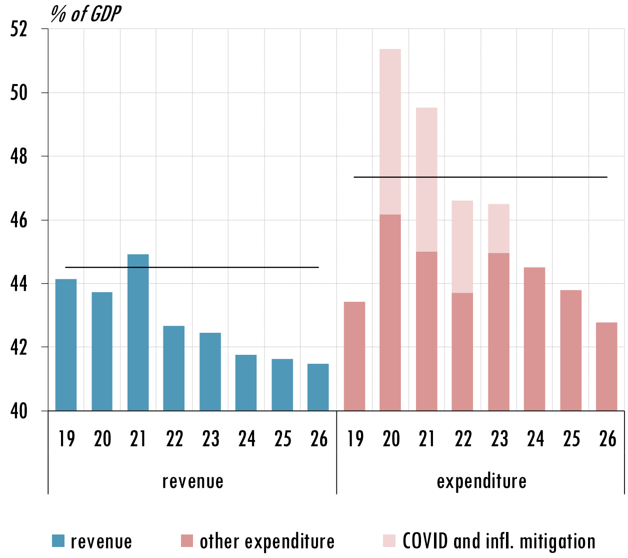
[14] The cost of capital increases amounted to EUR 662 million, of which EUR 492 million was provided to HSE and EUR 170 million to ELES.

Figure 2.1: General government balance



Source: outturn: SORS, projections: MoF, FC calculations.

Figure 2.2: General government revenue and expenditure



Source: SORS, MoF. Note: line denotes average share 2004-2019.

the cost-of-living crisis. In our estimation, such an analysis provides a more accurate picture of the state of public finances and allows for an assessment of the risks to their medium-term sustainability.

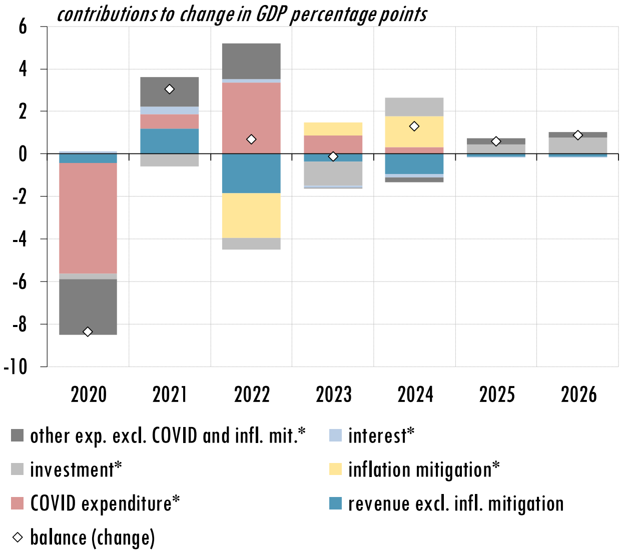
The deficit, excluding the effect of COVID-related expenditure and the inflation mitigation measures (0.7% of GDP), widened last year against a background of slowing revenue growth and the simultaneous strengthening of spending growth, which was only to a lesser extent driven by higher investment activity. The "core" deficit increased by 0.6 pp of GDP, in nominal terms by €343 million. After exceptionally high growth in 2021, growth in most key revenue categories slowed down last year. This was partly due to slower growth in the social contribution base, partly to the statutory relief of personal income tax, to stagnation in the use of European funds despite the expiry of the previous multiannual framework, and partly, in our assessment, to a possible underestimation of the impact of price measures to mitigate the cost-of-living crisis. With revenue growth significantly lagging behind nominal GDP growth, the revenue share fell by almost 2 pp to an all-time low. In the context of similarly high growth in investment activity than a year earlier, growth in "core" spending strengthened to 9.8% last year largely due to stronger current spending. This was mostly driven by higher growth in social benefits due to the strengthening of inflation already in 2021, as well as by increases as a result of discretionary measures.[15] Similarly as revenue, while nominal GDP growth was even higher, last year the current spending-to-GDP ratio fell by 1.7 pp.

Both the headline deficit (4.1% of GDP) and the "core" deficit (2.3% of GDP) are expected to widen this year, mostly due to the projected record-high investment activity. We assess the fiscal projections of the SP23 scenario as broadly plausible or to some extent conservative, which is in line with the precautionary principle.[16] This approach to fiscal planning is appropriate in the context of continued high uncertainty and the risk that high inflation, which has a significant impact on the evolution of key fiscal aggregates, could slow down faster than forecast. This year's deficit increase

[15] Last year pensions, as the largest component of social benefit expenditure, underwent a regular adjustment of 4.4% and an extraordinary adjustment with a financial impact of EUR 145 million.

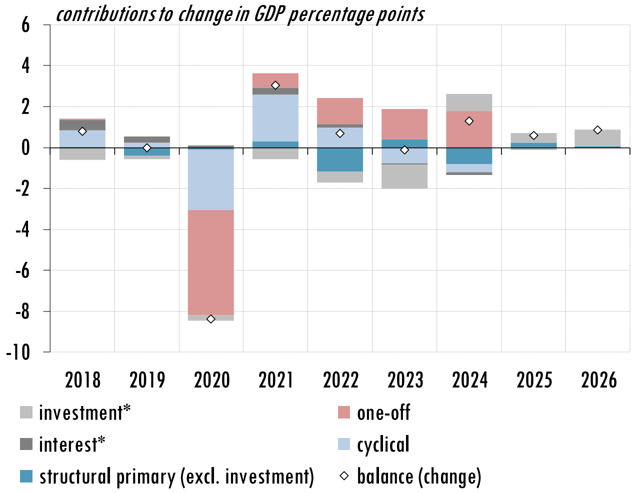
[16] The precautionary principle laid down in Article 4 of the FRA stipulates that when planning and assessing the volume of revenue and the expenditure of general government budgets, account should be taken of risks that could have a negative impact on macroeconomic stability and, therefore, on the revenues and expenditure of general government budgets.

Figure 2.3: Factors of general government balance change



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

Figure 2.4: Factors of general government nominal balance change

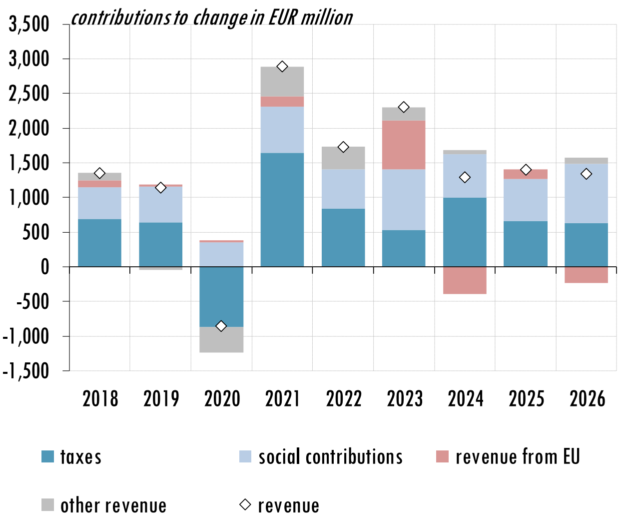


*Source: MoF, SORS, FC calculations. Note: *positive sign denotes a decrease, negative sign denotes an increase.*

will be mostly driven by the ending of the positive cyclical balance, together with projected significant strengthening of investments, while the gradual reduction of the negative impact of the epidemic and cost-of-living crisis mitigation measures will have a positive impact on the evolution of the balance. Next year, the deficit should fall below 3% of GDP, which is the threshold under European legislation for a country to enter into an excessive deficit procedure. By the end of the SP23 projection period, the deficit should decline to 1.3% of GDP, which is deemed to be 2.0 pp of GDP lower balance than in the last year before the epidemic, exclusively due to the projected significantly lower revenue share.

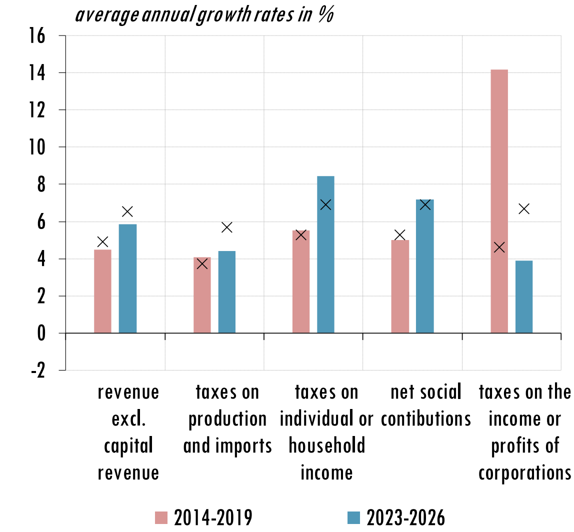
With strong growth in tax bases and in revenues from EU sources, revenue growth is expected to remain strong this year, while over the next three years it is expected to moderate to a level

Figure 2.5: General government revenue change



Source: SORS, MoF, FC calcualtions.

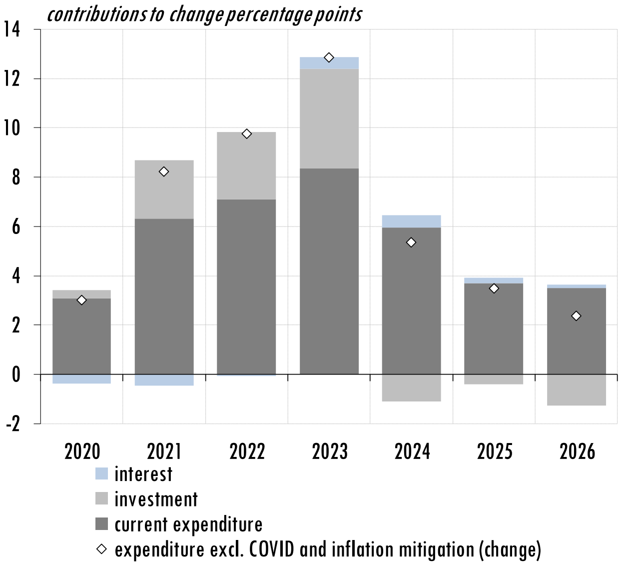
Figure 2.6: Revenue types and their bases



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

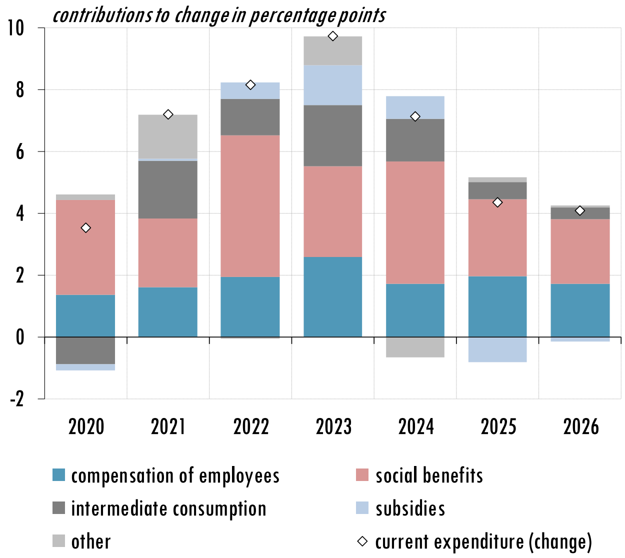
similar to the average of the pre-epidemic period.[17] The projected slowdown in growth is broadly in line with the projected dynamics of economic activity and nominal tax bases. Lower growth in tax revenues, due to the projected moderation in domestic demand, should be partly offset by slightly higher growth in social contributions mainly linked to the projected strengthening of nominal wage growth. This year, higher European funding should contribute significantly to overall revenue growth. While the assumption of a high level of cohesion funds is justified given that this is the last year of the possibility to use previous multiannual framework funds, the assumption regarding the use of RRF funds is considered to be too optimistic. Namely, only in the first half of this year has Slovenia been granted the authorisation of payments of the first instalment of a grant of EUR 50 million. However, there are significant delays in meeting the required milestones for the remaining two instalments of the grants

Figure 2.7: Factors of "core" expenditure change (excluding COVID and inflation mitigation)



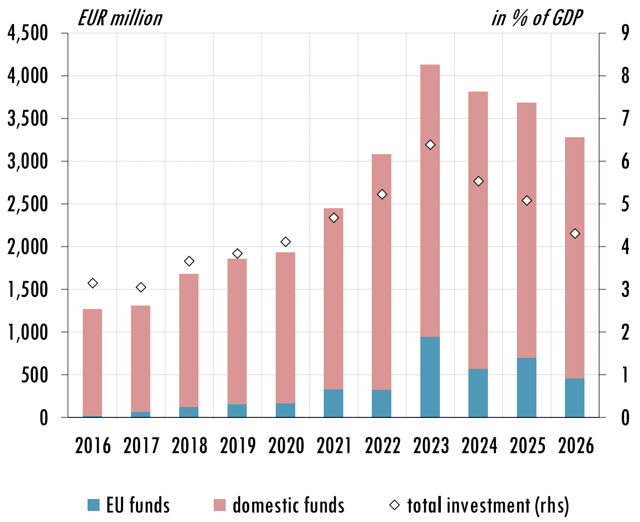
Source: MoF, SORS, FC calculations.

Figure 2.8: Factors of "core" current expenditure change (excluding COVID and inflation mitigation)



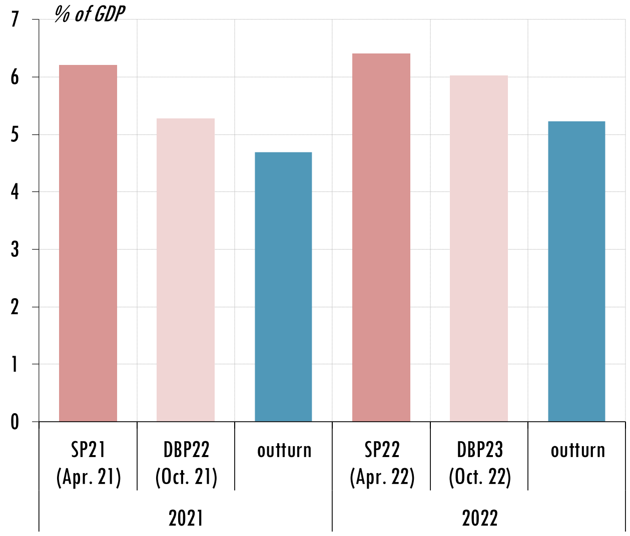
Source: MoF, SORS, FC calculations.

Figure 2.9: Structure of general government gross fixed capital formation



Source: SORS, MoF, FC calculations.

Figure 2.10: General government investment



Source: MoF, SORS.

[17]The average in the period 2014–2019 was 4.3% per year while in the period 2024–2026 it is expected to be 4.5%.

Table 2.1: General government balance projections - total

EUR million, unless stated otherwise	outturn SORS	SP23				change in %					share in GDP				
	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
Revenue	**25,172**	**27,472**	**28,764**	**30,163**	**31,500**	**7.4**	**9.1**	**4.7**	**4.9**	**4.4**	**42.7**	**42.4**	**41.8**	**41.6**	**41.5**
Total taxes	12,284	12,814	13,810	14,474	15,101	7.3	4.3	7.8	4.8	4.3	20.8	19.8	20.0	20.0	19.9
Taxes on prod.and imp.	7,601	7,947	8,562	8,775	9,020	8.0	4.6	7.7	2.5	2.8	12.9	12.3	12.4	12.1	11.9
Cur. taxes on inc., wealth	4,663	4,846	5,226	5,677	6,058	6.1	3.9	7.9	8.6	6.7	7.9	7.5	7.6	7.8	8.0
Capital taxes	20	21	22	22	23	36.5	3.4	4.2	2.4	2.0	0.0	0.0	0.0	0.0	0.0
Social contributions	9,315	10,195	10,820	11,423	12,284	6.5	9.4	6.1	5.6	7.5	15.8	15.8	15.7	15.8	16.2
Property income	403	450	484	513	520	27.3	11.8	7.6	5.9	1.4	0.7	0.7	0.7	0.7	0.7
Capital transfers	450	980	548	715	485	15.3	118.1	-44.1	30.6	-32.2	0.8	1.5	0.8	1.0	0.6
Other	2,720	3,033	3,103	3,037	3,110	6.8	11.5	2.3	-2.1	2.4	4.6	4.7	4.5	4.2	4.1
Expenditure	**27,490**	**30,093**	**30,662**	**31,732**	**32,482**	**6.3**	**9.5**	**1.9**	**3.5**	**2.4**	**46.6**	**46.5**	**44.5**	**43.8**	**42.8**
Comp. of employees	6,448	7,058	7,408	7,918	8,382	-2.5	9.5	5.0	6.9	5.9	10.9	10.9	10.8	10.9	11.0
Intermediate consumption	3,676	3,902	4,128	4,273	4,374	8.3	6.1	5.8	3.5	2.4	6.2	6.0	6.0	5.9	5.8
Social benefits	10,575	11,033	11,935	12,582	13,153	10.0	4.3	8.2	5.4	4.5	17.9	17.0	17.3	17.4	17.3
Interest	637	745	895	960	1,008	-2.1	17.0	20.1	7.3	5.0	1.1	1.2	1.3	1.3	1.3
Subsidies	757	1,596	1,017	806	763	-40.5	110.8	-36.3	-20.7	-5.4	1.3	2.5	1.5	1.1	1.0
Gross fixed capital form.	3,085	4,129	3,811	3,682	3,274	26.2	33.8	-7.7	-3.4	-11.1	5.2	6.4	5.5	5.1	4.3
Other	2,312	1,630	1,469	1,510	1,528	24.1	-29.5	-9.9	2.8	1.2	3.9	2.5	2.1	2.1	2.0
Balance	**-2,318**	**-2,622**	**-1,898**	**-1,569**	**-981**						**-3.9**	**-4.1**	**-2.8**	**-2.2**	**-1.3**

Source: MoF, SORS, IMAD, FC calculations.

Table 2.2: General government balance projections - excluding COVID and inflation mitigation

EUR million, unless stated otherwise	outturn SORS	SP23				change in %					share in GDP				
	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
Revenue	**25,396**	**27,637**	**28,764**	**30,163**	**31,500**	**8.3**	**8.8**	**4.1**	**4.9**	**4.4**	**43.1**	**42.7**	**41.8**	**41.6**	**41.5**
Total taxes	12,501	12,979	13,810	14,474	15,101	9.2	3.8	6.4	4.8	4.3	21.2	20.1	20.0	20.0	19.9
Taxes on prod.and imp.	7,818	8,113	8,562	8,775	9,020	11.1	3.8	5.5	2.5	2.8	13.3	12.5	12.4	12.1	11.9
Cur. taxes on inc., wealth	4,663	4,846	5,226	5,677	6,058	6.1	3.9	7.9	8.6	6.7	7.9	7.5	7.6	7.8	8.0
Capital taxes	20	21	22	22	23	37.4	3.4	4.2	2.4	2.0	0.0	0.0	0.0	0.0	0.0
Social contributions	9,315	10,195	10,820	11,423	12,284	6.5	9.4	6.1	5.6	7.5	15.8	15.8	15.7	15.8	16.2
Property income	403	450	484	513	520	27.3	11.8	7.6	5.9	1.4	0.7	0.7	0.7	0.7	0.7
Capital transfers	450	980	548	715	485	15.3	118.1	-44.1	30.6	-32.2	0.8	1.5	0.8	1.0	0.6
Other	2,727	3,033	3,103	3,037	3,110	7.1	11.2	2.3	-2.1	2.4	4.6	4.7	4.5	4.2	4.1
Expenditure	**25,786**	**29,102**	**30,662**	**31,732**	**32,482**	**9.8**	**12.9**	**5.4**	**3.5**	**2.4**	**43.7**	**45.0**	**44.5**	**43.8**	**42.8**
Comp. of employees	6,425	6,994	7,408	7,918	8,382	6.6	8.9	5.9	6.9	5.9	10.9	10.8	10.8	10.9	11.0
Intermediate consumption	3,363	3,798	4,128	4,273	4,374	7.6	12.9	8.7	3.5	2.4	5.7	5.9	6.0	5.9	5.8
Social benefits	10,319	10,971	11,935	12,582	13,153	10.0	6.3	8.8	5.4	4.5	17.5	17.0	17.3	17.4	17.3
Interest	624	745	895	960	1,008	-2.5	19.4	20.1	7.3	5.0	1.1	1.2	1.3	1.3	1.3
Subsidies	546	835	1,017	806	763	24.8	52.9	21.8	-20.7	-5.4	0.9	1.3	1.5	1.1	1.0
Gross fixed capital form.	3,085	4,129	3,811	3,682	3,274	26.2	33.8	-7.7	-3.4	-11.1	5.2	6.4	5.5	5.1	4.3
Other	1,424	1,630	1,469	1,510	1,528	-0.9	14.5	-9.9	2.8	1.2	2.4	2.5	2.1	2.1	2.0
Balance	**-390**	**-1,465**	**-1,898**	**-1,569**	**-981**						**-0.7**	**-2.3**	**-2.8**	**-2.2**	**-1.3**

Source: MoF, SORS, IMAD, FC calculations.

and for the first instalment of refundable funds, which were originally scheduled for last year.[18] Thus, it is estimated that despite the announced change in the RRF, due to the lower volume of grants than originally allocated, spending will be concentrated on the last years of availability of the funds, as is the case with cohesion funds.

The growth in "core" spending should strengthen further this year, due to both the projected further strengthening of the already high investment activity and the higher growth in current spending. Investment expenditure growth is set to strengthen further this year, thus greatly increasing its share of GDP (6.4% of GDP) to its highest level ever. The acceleration is expected to be largely driven by higher investment financed by EU funds. At the same time, a further increase is expected in domestic investment funds, which represent the majority of investment funds (see Figure 2.9). While the strengthening of investment is in line with the EC's guidance (see also Chapter 4), the absorption capacity of the administration and the economy[19] is limited, as confirmed by the significant deviation of actual outturns from projections over the past two years (see Figure 2.10). Current spending growth is set to further strengthen this year and, despite an expected gradual moderation over the next three years, it will be, over the whole SP23 projection period, more than twice as high as in the pre-epidemic period. Its high growth is a reflection of high inflation and the associated relatively high social benefit adjustments[20] and growth in intermediate consumption, last year's wage increase agreement with public sector unions, and much more extensive subsidies than in the years before the epidemic. The current spending-to-GDP ratio will remain relatively constant according to the SP23 scenario and will not significantly impact the change in the balance. After several years of decline, interest expenditure is starting to slowly grow in 2023, which, in the context the higher nominal debt stock, is also due to the deteriorating financing conditions. However, also in 2026 its share in GDP is expected to be lower than in the year before the epidemic.

2.2 General government gross debt

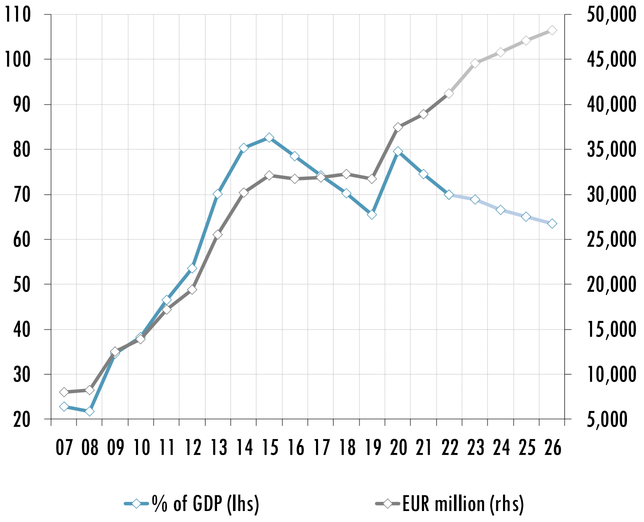
After a sharp increase in 2020, the general government gross debt-to-GDP ratio is expected to gradually decline until the end of 2026, falling below the level of the year before the COVID-related crisis, thus reaching 63.5% of GDP. The decline in the debt-to-GDP ratio from 79.6% in 2020, after a rapid fall in 2021 and 2022 by an average of almost 5 pp a year, is expected to continue with a more gradual decline over the SP23 projection period (on average by 1.5 pp of GDP per year). The projected relatively high nominal GDP growth is expected to be the main contributor to debt contraction, alongside the projected reduction in the primary balance deficit. Inflation is expected to continue to make a significant contribution, particularly in 2023. Nominal GDP growth is expected to exceed the level of the implicit interest rate over the whole SP23 period, thereby more than offsetting the gradual increase in the contribution of interest expenditure to the formation of debt. Debt is, however, expected to increase in nominal terms over the entire SP23 projection period to amount to about EUR 48.2 billion in 2026.

[18] In March of this year, 9 out of 27 milestones had not yet been met for the second instalment of the grant, 12 out of 24 for the third instalment, and 6 out of 9 for the first instalment of refundable funds. For more, see URSZOO (2022).

[19] More than half of construction firms cite a lack of skilled labour as the main constraint on their activity, which is the highest share among all sectors and the highest level since 2007.

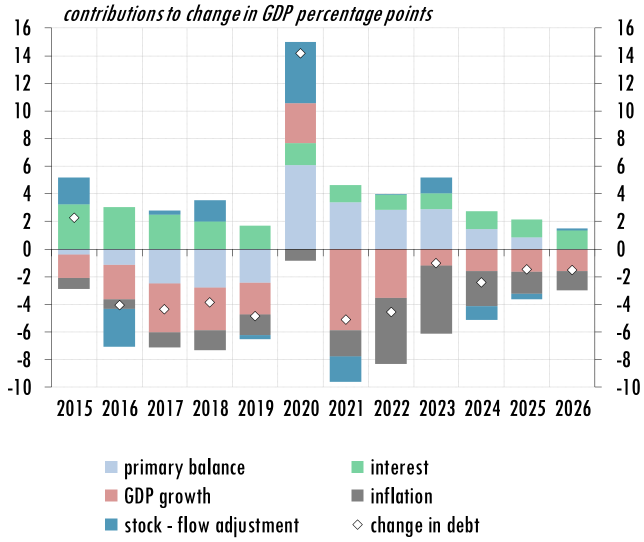
[20] This year, pensions, which account for the largest share of social benefit expenditure, underwent a regular adjustment of 5.2%, which is by far the highest adjustment in the last decade. Based on the IMAD Spring Forecast 2023, the regular adjustment will be even higher next year (7.8%), 5.3% in 2025 and 4.0% in 2026.

Figure 2.11: General government debt



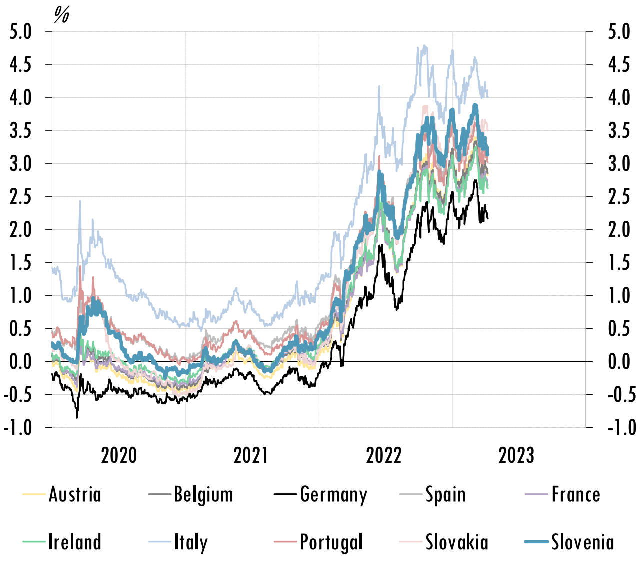
Source: outturn: SORS, forecast: SP23.

Figure 2.12: Change in general government debt



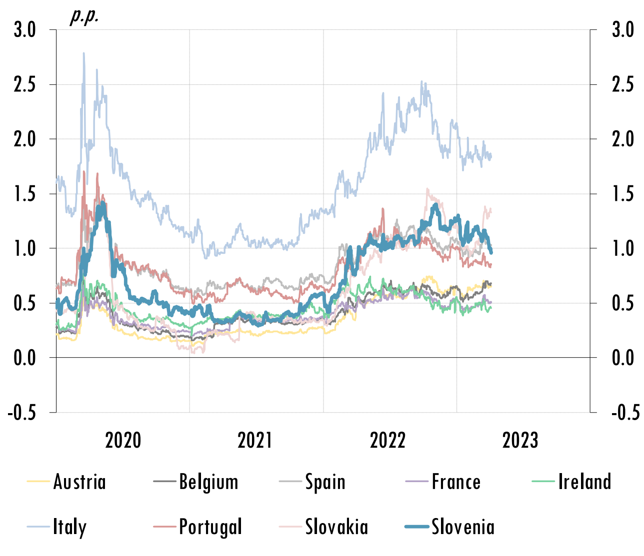
Source: outturn: SORS, forecast: SP23, FC calculations.

Figure 2.13: Yields on 10-year government EUR reference bonds



Source: Bloomberg.

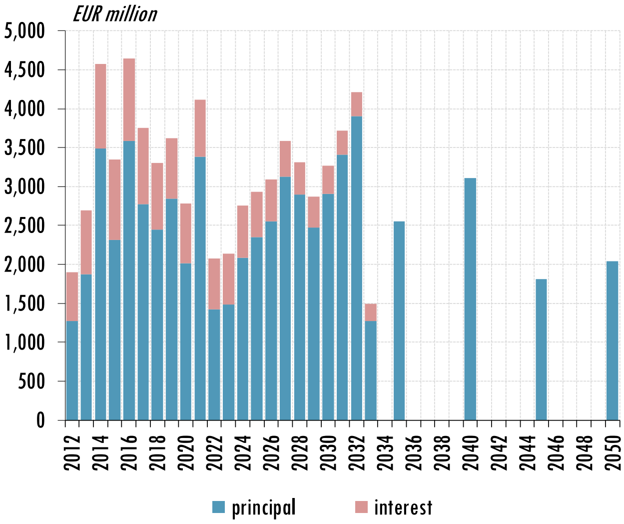
Figure 2.14: Reference 10-year government bond spreads against benchmark German bond



Source: Bloomberg, FC calculations.

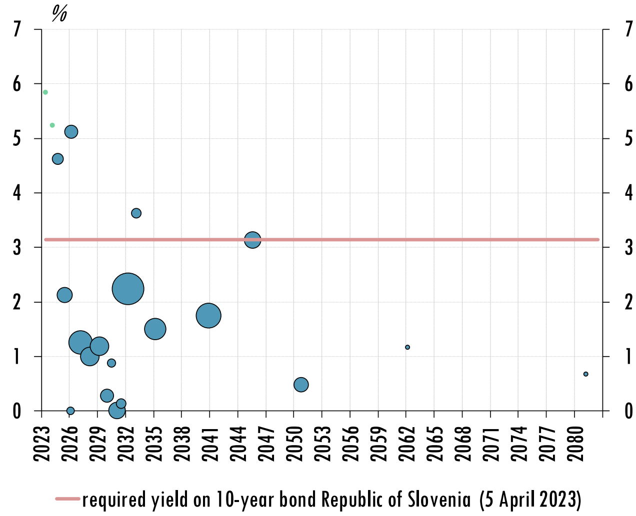
The government's financing conditions are tightening, but remain manageable in the context of high economic growth and efficient debt management. The required yields on long-term bonds of euro area countries, including Slovenia, were rising throughout 2022, mainly due to the ECB's policy shift towards tighter financing conditions, higher inflation expectations and the required inflation risk premium. From the lows reached in mid-2021, required yields on euro area sovereign bonds increased by 2.7–3.6 pp by the end March this year, and for Slovenia by about 3.5 pp. In 2022, the spreads to German benchmark bond increased for some countries, including Slovenia. In the first quarter of 2023, the Slovenian government bond spreads were thus about 0.2 pp higher than those of, e.g., Portuguese and Spanish government bonds, which exceeded Slovenian bond spreads for an extended period before mid-2022. In early 2023, the upward trend in required yields moderated somewhat in the light of the turmoil in the financial markets and the shift of portfolios towards safer assets. The

Figure 2.15: State budget debt repayment schedule until 2050



Source: MoF: State Budget Debt, 3/2023 (as of 28 February 2023). After 2033: Financing programme of the Republic of Slovenia central government budget for the fiscal year 2023 - no information on interest payments.

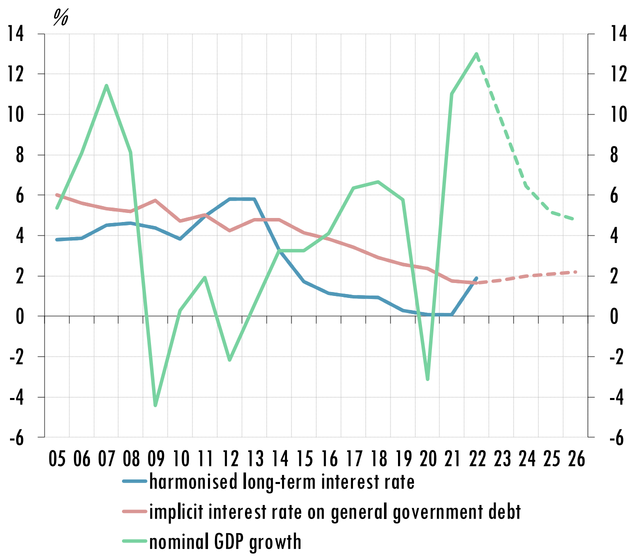
Figure 2.16: Key characteristics of debt maturities and current required yields



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

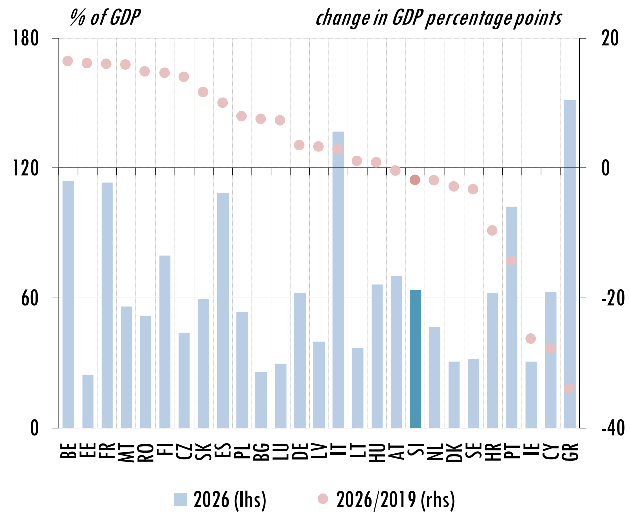
required yield on Slovenian government bonds has exceeded the implicit interest rate on total government debt since mid-2022. This implies higher budget expenditure for interest in case of refinancing the matured debt, if the above relations persist and debt levels remain unchanged. At the same time, about 85% of the total volume of bonds currently outstanding are those issued at a coupon rate lower than the currently required yield. The upward pressure on interest costs will be relatively gradual. Namely, the maturity distribution of debt liabilities remains favourable, as the weighted average time to maturity of the debt exceeded 10 years at the end of 2022 and it is expected to increase further this year. At the same time, the Treasury, by implementing its hedging instrument since 2018, limits the impact of interest rate increases on the interest cost of debt. While the interest rate of treasury bills issued in the first half of 2022 was negative, it turned positive in the second half of the year for all maturities issued, reaching 3.25% for the one-year treasury bill issued in January this year. This is still negative in real terms, given the current inflation expectations. The sovereign debt

Figure 2.17: Harmonised long-term interest rate, implicit interest rate and nominal GDP growth



Source: ECB, SORS, SP23, FC calculations.

Figure 2.18: General government gross debt



Source: IMF, except Slovenia: SP23, FC calculations.

ratings have remained unchanged since 2019 and 2020 while all three leading agencies – Moody's, Standard & Poors and Fitch – at the end of 2022 confirmed a stable outlook for the Republic of Slovenia's debt.

The favourable liquidity position of the state budget provides room for action even in less favourable financial market conditions. The balance in the Treasury Single Account increased by EUR 1.2 billion to the end of March, representing just under 14% of projected GDP for 2023. This volume corresponds to all liabilities from maturing securities and projected general government deficits in 2023 and 2024. By March this year, almost all liabilities arising from the long-term bonds issued for this year (just over EUR 1 billion) have matured. Another almost EUR 0.1 billion of USD-denominated bonds and EUR 0.35 billion of currently issued treasury bills will mature by the end of the year. Considering current issuances of securities, the volume of liabilities from long-term bond and treasury bill issues (about EUR 2 billion) maturing in the coming year is among the smallest of the decade. As in 2022, the Treasury is continuing its policy of active debt management through early redemptions for bonds with a short time to maturity. The SP23 also foresees support for the maintenance of secondary market liquidity in a period of tighter monetary policy and, as a consequence, potentially deteriorating funding conditions. Government guarantees, which stood at EUR 4.5 billion or about 7.7% of GDP at the end of 2022, are expected to decline to EUR 3.9 billion or 5.3% of GDP by 2026. Current estimates suggest that the volume of government guarantee short-term redemptions is expected to be small, i.e. amounting to just over EUR 20 million in both 2023 and 2024.

In the event of new shocks, the relatively high level of debt may constrain the conduct of fiscal policy, although Slovenia ranks among the EU countries with the lowest increase in debt since the beginning of the epidemic. Two successive shocks in the last three years, mainly due to the extensive measures taken to contain their impact, have led to a significant increase in general government debt at the global level, accompanied by the recent tightening of monetary policy. According to the latest forecast by the IMF[21], in terms of the change in the general government debt, Slovenia is expected to rank in the lower third of EU Member States in 2026 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.[22]

[21] IMF (2023). While not based on the ESA2010 methodology, the forecast is the most recent one (April) that allows for comparability across countries. The last forecast by the EC that included the projection for the general government debt under this methodology was made in autumn 2022. According to this forecast, the increase in debt in Slovenia of just over 3 pp of GDP in 2024 compared to 2019 is also expected to be in the bottom third of EU countries.

[22] See, for example, the simulations of shocks at different debt levels in FC (2021: Figure 1.2).

Box 2.1: General government debt in Slovenia: medium-term sustainability analysis

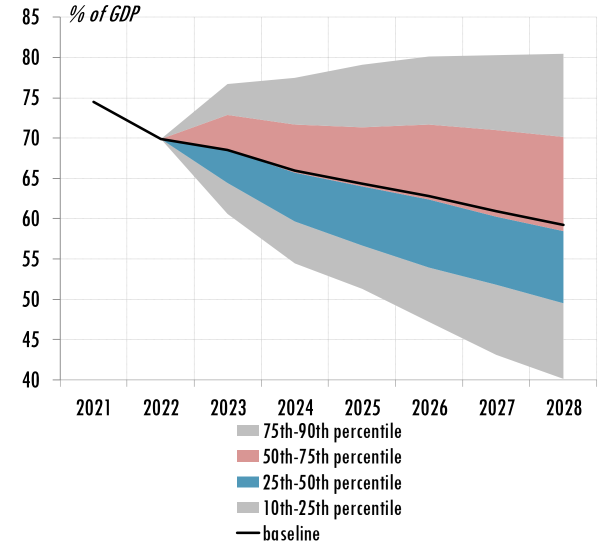
A debt sustainability analysis shows the ability of a country to finance the liabilities stemming from its past fiscal policy in the face of potential macroeconomic and fiscal shocks. Within the framework of the debt sustainability analysis carried out using a template developed by the IMF,[1] a baseline scenario is prepared based on macroeconomic and fiscal projections and alternative scenarios showing the debt responsiveness to different shocks. Responsiveness or rather changes in the dynamics and level of general government debt reflect the vulnerability of public finances to shocks that are not included in the baseline scenario, although actual shocks may deviate from those used in the analysis, both in direction and magnitude.

This time, the usual analysis period of the medium-term sustainability of public debt has been extended to the analysis period that is expected to apply under the reformed framework of economic governance in the EU. The framework of the analysis covers the period 2023–2038, which implies that the usual analysis period (6 years) has been significantly extended. This is because a short sustainability analysis horizon may not necessarily capture all the risks associated with debt developments, and a longer analysis period is also expected to be one of the features of the reformed EU economic governance system (see Box 4.3). In the initial period of the debt sustainability analysis, the SP23 projections and the IMAD 2023 Spring Forecast were taken into consideration. The macroeconomic aggregates have been extended beyond the end of the IMAD forecast based on the 2026 projection values. Accordingly, the projections of fiscal aggregates from the end of the SP23 projection horizon (2026) to the end of the period covered by this analysis have been supplemented by using uniform elasticities for revenues, while expenditure has been determined by using the same difference between revenue and expenditure growth as it was in the 2000–2019 period.[2] The underlying assumption includes a gradual tightening of financing conditions, whereby the implicit interest rate on the general government debt would amount to about 2% in 2026, which is approximately 3 pp below nominal GDP growth, and would increase to 4% by the end of the analysis period. In the baseline scenario, the assumption has also been taken into account that the high cash and deposit position (the government's EDF balance) will decline by EUR 0.8 billion in 2024 and by EUR 0.3 billion in 2025, as implicitly assumed in the SP23.[3]

The analysis of medium-term debt sustainability contains several alternative scenarios in which shocks are specified in standard magnitudes, mainly linked to historical fluctuations in the variables that are subject to shocks in the scenarios. In the alternative scenario *of lower real GDP growth*, shocks are set equal to one standard deviation of real GDP growth over the decade 2012–2021, taking into account an elasticity of the response of inflation and interest rates to a change in GDP growth and a deterioration in the primary balance of 0.25 and -0.25, respectively. In this scenario, real GDP would fall by about 1% on average in 2024 and 2025 (it is projected by the IMAD to grow at about 2.5%). The deterioration of the *primary balance scenario* is also based on a long-term deviation and interest rate responsiveness of the same magnitude as in the case of a shock to real GDP. In this scenario, the primary balance deficit over the 2024–2025 period would be about twice as large as in the baseline scenario. The *interest rate shock* is implemented with a spread of 100 bps on the interest rates indicated in the baseline scenario in the period 2024–2028.

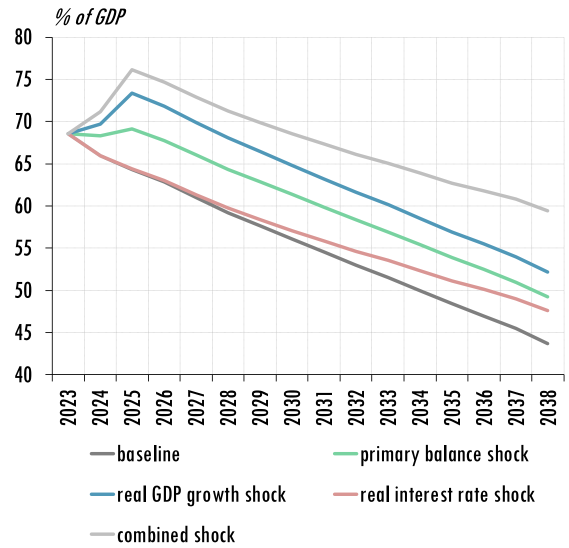
The analysis suggests that the general government debt dynamics are sustainable even in the longer term, but are subject to certain risks. In fact, the assumptions used in the baseline scenario of the debt sustainability analysis imply a gradual reduction of debt in the medium term despite possible shocks. The risks are asymmetric and somewhat more concentrated at the upper end of the distributions of the debt projection (see Figure 1). The assessment of risks to debt sustainability in the medium term stems mainly from possible lower economic growth, while a deterioration in the primary balance would also have an impact on the higher assessment of risk. In these cases, the debt-to-GDP ratio could rise relatively quickly, but only in the short term, to between 70% and 75% of GDP, and could reach close to 75% of GDP in the event of a combined macroeconomic-fiscal shock. However, its dynamics, given the relatively high nominal economic growth implied by the SP23, are expected to remain sustainable in the coming years despite the expected gradual tightening of financing conditions. With these shocks,

Figure 1: Probability distribution of general government debt projections



Source: SORS, MoF, FC calculations and simulations.

Figure 2: General government debt response to shocks



Source: FC.

the debt would not decline towards 40% of GDP, as implied by the baseline scenario of the debt sustainability analysis, but somewhat more gradually towards 60% of GDP. Similarly, the results of additional simulations of a doubling of the GDP shock in 2024–2028 show that, while debt would temporarily rise to a level just above 80% of GDP (under an unchanged assumption regarding financing conditions), it would thereafter stabilise at about 70% of GDP. Simulations of the potential discharge of implicit liabilities suggest that debt would only become unsustainable in the presence of significant shocks of this kind (e.g. by about 7.5% of GDP in two consecutive years).

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

[2] The difference was 0.25 pp. Because of the expected increase in the cost due to ageing, under such an assumption the underestimation of expenditure growth is very likely. If expenditure growth over the same period outpaced revenue growth by 0.25 pp, the public debt ratio would be about 60% of GDP in 2038 instead of just above 40% of GDP.

[3] See Table 4 on page 27 of the draft SP23.

3. Risks to the macroeconomic and fiscal scenarios

Key findings

- In the macroeconomic scenario underlying the projections of the SP23, the risks are more balanced than they were at the time the last medium-term budget plan was prepared a year ago, but downside risks have been increasing again in the recent period.
- The fiscal scenario is subject to predominantly downside risks, mainly due to the uncertain impact of the announced reforms. The uncoordinated timing of the preparation of the budget documents introduces additional uncertainty.
- The absence of action on long-term challenges exacerbates the risks to the long-term sustainability of public finances.
- Simulations of scenarios of economic growth slippage against the main forecast suggest limited room for manoeuvre in the conduct of fiscal policy also in the SP23 scenario.

Macroeconomic risks are somewhat more balanced than at the time of the preparation of the medium-term budget plan a year ago, but downside risks are still prevalent and have increased since the latest projections. The previous high risks stemmed mainly from the international environment and were related to developments in the energy markets, which have been characterised by extremely high prices and price volatility, in particular in the context of the war in Ukraine. These risks have been reflected, *inter alia*, in high inflation and a downward revision of the global economic growth outlook. With energy and food prices moderating and the Chinese economy reopening, which, together with forecasts of oil production cuts, could however trigger a new rise in commodity prices, the risks to economic growth have diminished and, according to international institutions (ECB, EC, IMF, OECD), have become more balanced. At the same time, a number of indicators and most forecasts at the beginning of 2023 point to higher GDP growth than expected at the end of last year. Nevertheless, risks related to geopolitical tensions remain, as do risks relating to a possible tightening of constraints in international trade and supply chains, including the provision of adequate volumes of energy products. There are also uncertainties about the duration and extent of monetary tightening and the possible additional shocks in global financial and housing markets, the implications of which have not yet been factored into most recent forecasts by international institutions.[23] At the national level, in addition to spillovers from the international environment, the risks relate to the persistence of high inflation and to increased caution on the part of consumers or firms in their investment decisions in response to uncertainties in the environment and to the higher cost of financing. Economic activity could also be held back by an intensification of labour market constraints and a discrepancy in the actual and anticipated use of EU funds.

We assess the projections of the SP23 as relatively cautious, as there are elements on both the revenue and expenditure side that could influence a better-than-anticipated government fiscal

[23] The exception is the IMF (2023), which has already been able to take the consequences of these turbulences into account in its April forecast and has also prepared an alternative scenario of additional shocks. These could reduce GDP growth in the euro area by about 0.4 pp in 2023 and 2024.

position. Considering the projected macroeconomic fundamentals, a higher level of revenues, in particular, could have a positive impact on public finances. This is particularly the case for revenues from taxes on production and imports, whose share in GDP is shrinking over the SP23 projection period, despite the absence of underpinning structural measures. On the expenditure side, administrative capacity constraints and the non-achievement of milestones and targets could lead to a delay in the use of RRP resources, which could be reflected in lower public investment and subsidies in the early SP23 projection period and higher values for both these components in the second projection period. On the other hand, upside risks to the expenditure projections are mainly related to the relatively low assumption regarding social benefit growth.

Despite the conservative projections, fiscal risks in terms of fiscal deficit are mainly to the upside, in particular due to the possible impact of measures that are still to be finalised, while the order of adoption of the budget documents also introduces planning uncertainty. The government has announced a number of reforms in various areas,[24] but has not yet specified the changes, which is why also this time they are not included in the medium-term budget documents. The underlying fiscal risk is thus linked to the still undetermined costs of the announced changes, which, in the absence of measures to balance them, could worsen public finances, and at the same time affect the disposable income of economic agents and their behaviour, and hence the macroeconomic situation. Risks also relate to the possible need for additional support for households and the economy in the event of persistently high energy prices, as well as to demands from interest groups for the additional adjustment of various categories of government expenditure to high price increases. The negative fiscal risks are exacerbated by the failure to implement structural measures, especially in the areas of social security systems, whose current parameters do not reflect the changing demographic profile.[25] Therefore, according to publicly available estimates, Slovenia is among the countries with a high level of risk as regards long-term public debt sustainability.[26] The projected costs of the green transition or the investments needed to achieve its milestones also pose a risk to the long-term sustainability of public finances.[27] In the SP23 fiscal projections, attention is paid to the risk of their inconsistency with the envisaged 2023 Revised State Budget Proposal, which is not expected to be available until after the submission of the FC assessment of the SP23. This method of medium-term fiscal planning is not in line with the principles provided for in the proposal for a revised EU economic governance framework, in which credible medium-term planning is expected to play a key role.

Simulations of economic growth slippage scenarios suggest the possibility of exceeding threshold balance and general government debt limits. The set of scenarios of economic activity growth slippage against the baseline scenario provides an indication of the magnitude of related potential fiscal risks. The scenarios have been simulated with a simple model,[28] which allows simulating the impact of different economic growth assumptions on public finances and includes the feedback effects of fiscal policy on economic growth. Estimates show that, with yearly economic growth at 0.5 pp lower than in the baseline scenario over the 2023–2026 period (average real GDP would grow by 1.9% per year instead of 2.4%) and with an unchanged fiscal policy, the average general government

[24] An overview of the envisaged reforms is presented in the National Reform Programme 2023, available at: https://commission.europa.eu/system/files/2023-05/npr_slovenia_2023_en.pdf

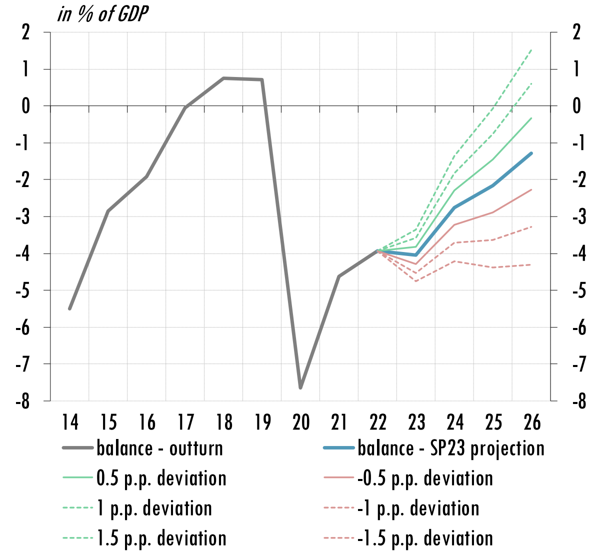
[25] See also footnote 46.

[26] EC (2022b).

[27] Brložnik (2022). Even in the absence of green transition efforts, the risks to public debt are significant, as the occurrence of adverse climate change could put high pressures on public finances and threaten debt sustainability. See simulations in Zenios (2022).

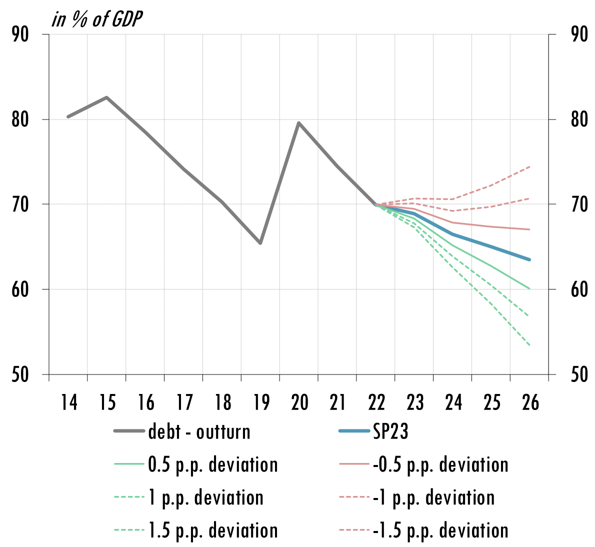
[28] In this model, economic activity affects public finances through automatic stabilisers, while fiscal policy affects economic activity inversely through multipliers. For a more detailed explanation of the model used, see http://www.fiscalcouncil.ie/wp-content/uploads/2012/09/FAR_Sept2012.pdf (Annex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

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



Source: SORS, MoF, FC calculations.

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



Source: SORS, MoF, FC calculations.

deficit could exceed 3% of GDP in this period instead of averaging 2.6% of GDP (as implied by the SP23 projections). If economic growth in all years over the period 2023–2026 were 1.5 pp lower than projected in the baseline scenario, the deficit would average about 4.5% of GDP.[29] In the latter case, contrary to the gradual decline assumed in the SP23 baseline scenario, the general government debt ratio would rise to close to 75% of GDP in 2026 and its dynamics would point to an unsustainable path in the medium term.

[29] Figures 3.1 and 3.2 show the possible general government balance and debt trend under the changed economic growth assumptions. The baseline scenario denotes the projection of the general government balance and debt in the SP23, with economic growth higher or lower by 0.5, 1.0 and 1.5 pp in 2023–2026 compared to the baseline scenario of the IMAD Spring Forecast (2023). The maximum GDP growth deviation shock of ±1.5 pp is determined on the basis of the average absolute errors in the IMAD forecasts in the current and subsequent year in the 2002–2019 period.

4. Assessment of the fiscal policy stance

Key findings

- The period of exceptional circumstances is going to end at the end of 2023 and the EU economic governance framework for the coming years is not yet finalised. Unfortunately, the European Commission's guidelines therefore continue to allow for considerable discretion in the conduct of fiscal policy in 2024. This introduces additional uncertainties in the assessment of the compliance of budget documents with the fiscal rules.
- In the current circumstances, fiscal policy has to weigh providing effective support against containing additional inflationary pressures. A gradual shift is necessary from non-targeted measures involving high fiscal costs towards targeted measures or rather the phasing out of measures as energy prices moderate.
- Fiscal policy should address the sustainability of social security systems as soon as possible, curb the growth in current spending to ensure debt sustainability and properly address development challenges through systemic measures.
- The fiscal policy stance in the SP23 baseline scenario, which is assessed as relatively realistic, is on average broadly appropriate, given the expected stage of the economic cycle, but is also subject to significant risks.
- The baseline scenario of the SP23 and in particular the risks associated with it, already indicate the need for the implementation of reforms to ensure the long-term sustainability of public finances. These should be subject to an appropriate and gradual introduction sequencing, supported by credible assessments of their fiscal and macroeconomic impact.

4.1 Circumstances for assessing compliance with the fiscal rules

The period of exceptional circumstances is to end at the end of 2023. In September 2022[30], the FC assessed that the outlook for 2023 is characterised by extreme uncertainty and high risks of a further deterioration in the economic growth outlook. This could have important financial implications for the general government sector’s position, which calls for the provision of flexible government action. Thus, exceptional circumstances allowing a temporary deviation from the medium-term fiscal balance under Article 12 of the FRA are also applied in 2023. For similar reasons, the extension of the general escape clause to 2023 also at the EU level was communicated by the EC within the European Semester Spring Package Communication on the basis of the May 2022 forecast.[31] In November 2022,[32] the EC confirmed that the general escape clause in the euro area would expire at the end of 2023. As the latest macroeconomic forecasts for Slovenia point to a continuation of high nominal growth in economic activity against a more balanced risk backdrop, the FC also assesses that there are no longer grounds for applying exceptional circumstances in Slovenia in 2024.

[30] FC (2022a).
[31] EC (2022a).
[32] EC (2022c).

The EC has provided guidance on the conduct of fiscal policy in 2024, but this is rather vague in operational terms and continues to leave room for discretion in the assessments of the budget documents. During the transitional period, when the changes to the EU's economic governance framework,[33] including the new fiscal rules, are still to be agreed, it has been necessary to set out the guidelines on which Member States should base their medium-term budget documents. The guidelines, published in early March 2023,[34] seek to combine the fiscal rules currently in force with the proposal for changes to the EU's economic governance framework prepared in November 2022.[35] As the debate on a renewed EU economic governance framework is not yet finalised, a formal transition to the new system is not possible considering the assessment of the budget documents relating to 2024. At the same time, in the EC's view, the existing legal framework is not appropriate in the current circumstances, as the use of the structural balance adjustment matrix is not appropriate due to the high uncertainty in the output gap calculation.[36] The EC and the Council of the EU therefore recommend that Member States use some elements of the proposed amendments already in the preparation of this year's Stability Programmes in order to facilitate the transition to the new system.[37] These include the achievement of the 3% of GDP deficit limit of the general government balance and its maintenance below this limit under a no-policy-change scenario, and a feasible plan for the sustainable reduction of the government debt ratio (see Box 4.3). In addition to these two criteria, the EC will base its fiscal policy recommendations on the evolution of net primary expenditure,[38] but has not yet publicly announced a limit to its growth based on a debt sustainability analysis, as foreseen in the proposal for changes to the EU's economic governance framework. In line with the guidelines, in the context of fiscal adjustment, rather than constraining investment, countries should in particular limit the growth of domestically-financed current expenditure in relation to estimated potential output growth over the medium term. The guidelines also foresee the launch of an excessive deficit procedure in spring 2024 for countries with a general government deficit exceeding 3% of GDP in 2023. This will be decided by the EC in spring 2024 on the basis of the outturn of this year's fiscal developments.

4.2 Assessment of the appropriate fiscal policy stance

In the current circumstances, fiscal policy has to weigh effective support to tackle the cost-of-living crisis against the containment of additional inflationary pressures. In an economic and monetary union where monetary policy is focused on average developments in the euro area, fiscal policy is the most important economic policy instrument for the national economy. In crisis situations, fiscal policy is

[33] EC (2022c).

[34] EC (2023a). The proposed guidelines were also agreed on by the EU Council (2023) in mid-March 2023.

[35] The main change would be to move away from assessing whether fiscal policy, largely based on estimates of unobservable indicators, is appropriate in individual years, towards setting frameworks for its conduct on more understandable and transparent indicators in the medium term. This gives a key role to the medium-term fiscal framework, which is based on the established sustainable medium-term debt level. On the challenges of the two key factors of the proposed revised EU economic governance framework, see Boxes 4.3 and 4.4, and in more detail Delakorda (2023) and Brložnik (2023).

[36] The matrix is defined in Box 1.6 in EC (2019). According to the FRA, its parameters also determine the dynamics of the adjustment of the structural balance in Slovenia over the period of it approaching the medium-term fiscal objective (Article 15 of the FRA), which is set in line with the international commitments and the rules and acts regulating economic governance in the EU Member States (Article 2 of the FRA).

[37] EC (2023a) and EU Council (2023).

[38] The EC defines this indicator as domestically financed general government expenditure excluding discretionary measures on the revenue side, interest expenditure and cyclical unemployment expenditure. The EC started to use a similar indicator during the epidemic period, mainly because of unreliable estimates of the output gap. The EC also included EU-funded expenditure in the calculation of this so-called fiscal policy stance indicator. In the assessments of the budget documents, this indicator was also calculated by the FC. For both indicators, the EC has not made it clear whether the effect of one-off measures is excluded from the calculation of total expenditure. This is one of the concerns of the Network of Independent Fiscal Institutions about the proposal for changes to the governance system (EUIFI, 2023). The FC considers that the exclusion of this effect allows for a more appropriate assessment of the sustainability of public finances.

necessarily discretionary, and the scope of action depends in particular on the room for manoeuvre available. In the current circumstances, the primary short-term tasks of fiscal policy are to help contain the effects of the cost-of-living crisis and to prevent additional inflationary pressures, thereby maintaining consistency with monetary policy. These two tasks can be contradictory, especially in the current macroeconomic environment. Indeed, support to contain the effects of the cost-of-living crisis has an impact on the disposable income of households and firms and hence on aggregate demand.[39] The latter recovered rapidly after the lifting of the restrictive measures to contain the epidemic, with supply-side constraints intensifying and monetary policy tightening at the same time. Supply-side constraints are reflected in particular in historic labour market conditions. As a result, many industries are facing labour shortages, which increases upward pressure on wages. At the same time, most indicators point to a high level of corporate profits.[40] Namely, the high and rapid growth in demand has, among other things, allowed companies to largely pass through high input costs to final selling prices. Despite this year's moderation in the pace of economic activity, additional incentives through discretionary measures to stimulate final demand are therefore neither necessary nor appropriate.[41]

A gradual shift is necessary from non-targeted measures involving high fiscal costs towards targeted measures, or rather the phasing out of measures as energy prices moderate, but will nevertheless require private sector adjustments. Most countries introduced non-targeted measures at the outbreak of the cost-of-living crisis, which were simpler and faster to implement also partly due to imperfect administrative solutions.[42] The non-targeting of price-related measures has had a number of negative effects, according to international organisations (IMF, OECD). In particular, they increase inequalities, maintain or even encourage the consumption of fossil fuels and thus provide no incentive for the green transition, and also impose unnecessary fiscal costs. The latter is confirmed, *inter alia*, by the EC's assessment[43] that the fiscal cost of measures to help households in EU countries is significantly higher than the actual increase in energy costs in lower income brackets. A similar conclusion was reached in an IMF analysis[44], according to which targeted assistance to the first one or two quintiles of households would represent only one or two thirds respectively of the cost compared to non-targeted assistance provided to all households. After the large-scale intervention during the epidemic, the government will not be able to bear most of the burden of higher energy prices, which are not likely to be only temporary but also structural. It will therefore have to be partly borne by the private sector together with the unavoidable short-term costs of a gradual reduction in energy intensity, including the possible restructuring of energy-intensive activities. The existence of room for manoeuvre for this is indicated by last year's historically high gross-operating-surplus-to-GDP ratio.

Fiscal policy should address the challenges of the fiscal implications of the ageing of the population and inadequate social security systems as soon as possible, restrain the growth of current spending to ensure debt sustainability, and ensure that the development challenges and stronger resilience of the economy are adequately addressed through systemic measures. The budget documents suggest that the planned high public investments, in particular, would contribute to achieving the latter two objectives. However, their implementation must take into account the limited

[39] The analyses of the Bank of Slovenia (2022) and the EC (2023b) suggest the strengthening of demand factors or domestic factors in shaping inflation in the last two years.

[40] According to the FC estimate, the growth of profits (gross operating surplus and miscellaneous income from national accounts statistics) is expected to contribute just under two thirds to the average growth of the GDP deflator in 2022 and 2023.

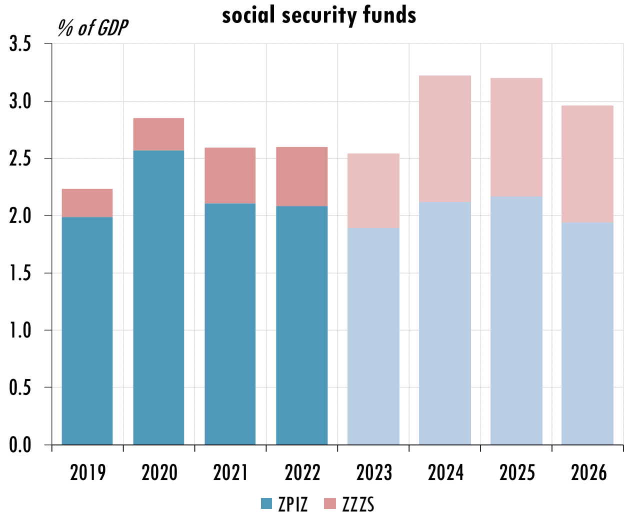
[41] This was the view of the EFB (2022) and the Eurogroup (2022) on the fiscal policy stance in the euro area in 2023. A similar view was presented by the EC within its fiscal policy guidance for 2024 (EC, 2023a).

[42] This also provides one of the challenges for the future functioning and digitalisation of public administrations.

[43] EC (2023a).

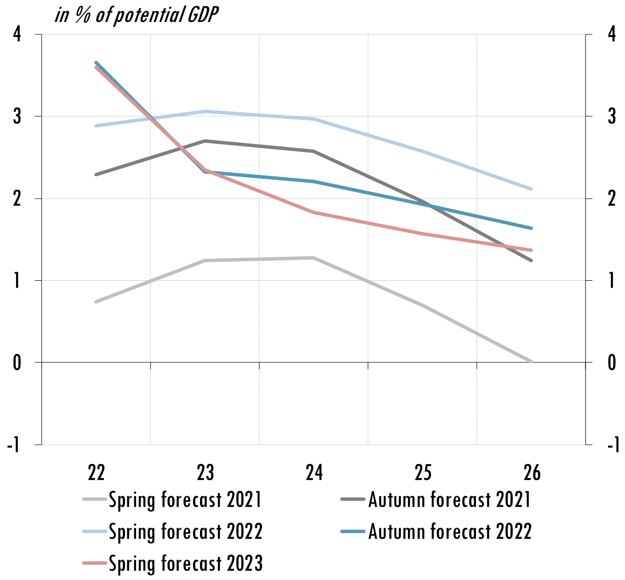
[44] Ari et al. (2022).

Figure 4.1: State budget transfers to social security funds



Source: MoF, Pension and Disability Insurance Institute of Slovenia (ZPIZ), Health Insurance Institute of Slovenia (ZZZS), SORS, IMAD, FC calculations. Note: Projections for 2023 from financial plans of the funds, 2024-2026 are FC estimates.

Figure 4.2: IMAD output gap estimates



Source: IMAD.

absorption capacities of the administration and the economy. In order to ensure the long-term sustainability of public finances, it is most important to systemically address the challenges related to the demographic changes that will further intensify.[45] The FC estimates that if the projections of the SP23 prove to be materialised, the need for transfers from the state budget[46] to maintain the sustainability of social security systems would increase again in the coming years (see Figure 4.1). This suggests that they are already unsustainable in the medium term, although this in the context of high nominal economic growth is not yet affecting the sustainability of overall public finances (see Box 2.1). The challenges to the sustainability of social security systems need to be addressed by systemic solutions, the design of which is manageable and whose implementation is coherent and fiscally sustainable. For this reason, and also due to the probable fiscal costs associated with the green transition,[47] it is crucial that the growth of current public spending, after years of high growth, remains within the limits of long-term revenue growth. We note that in the first two years of the projections of the SP23, growth in domestically financed current spending will be higher than both its long-term average and the estimated growth of the medium-term economic potential. This suggests relatively limited room for manoeuvre in the conduct of fiscal policy, also in the light of the announced changes in fiscal rules at the EU level, and, given the long-term fiscal challenges, also the need to implement appropriate reforms. In this context, appropriate sequencing of the introduction of reforms should be established, which should be gradual and accompanied by clear and credible assessments of their fiscal and macroeconomic effects that would ensure the long-term sustainability of public finances.

[45] The EC report (2022b) notes a deterioration in the sustainability of general government debt compared to previous reports and the reclassification of Slovenia as a high-risk country in terms of medium- and long-term debt sustainability indicators. In addition to the assumption of a high future structural primary deficit, this was mainly due to the increased debt level, a weaker budget position compared to the historical average and, in particular, increased ageing costs, especially those related to pensions.

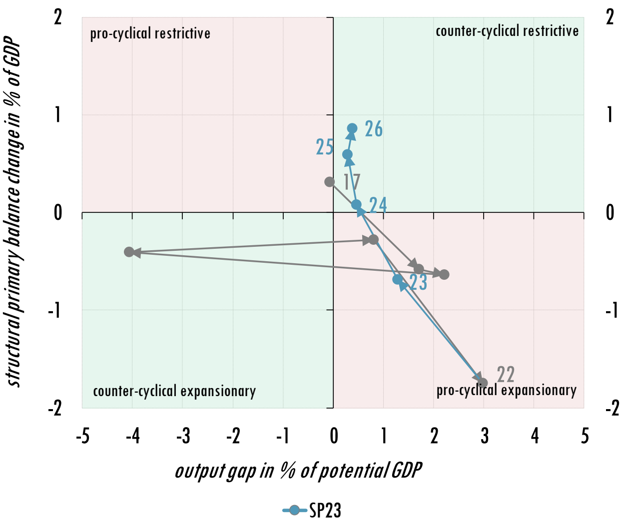
[46] In the period 2024–2026 (the new Framework period), average transfers from the state budget to finance the deficits of the Pension and Disability Insurance Institute of Slovenia (ZPIZ) and the Health Insurance Institute of Slovenia (ZZZS) could amount to about 3% of GDP (with an upward trend). This is almost a third more than in 2019 and signals a break from the trend of a moderation in the share of state budget transfers to social insurance funds in GDP in the pre-epidemic period. The bulk of the increase is expected to come from transfers to the ZZZS. This is also reflected in the explanatory note to the Framework, which foresees temporary financing from the state budget of EUR 234 million to balance the health insurance budget, due to the high growth in ZZZS expenditure.

[47] According to the analysis in Brložnik (2022), the gap between the investment potential and the investment volume needed to achieve the energy and climate targets is estimated at about 2% of GDP per year. The environmental targets will be even more ambitious when the new NECP is prepared, which is likely to require additional financial resources.

Quantitative assessment of compliance with the fiscal rules is currently subject to many uncertainties, because of both the economic situation and the incomplete institutional set-up. Following the termination of exceptional circumstances, the existing rules are expected to formally come into force in 2024. During the period in which public finances deviate from structural balance, compliance with the domestic rule under Article 3 of the FRA is linked to the matrix of required adjustment[48] and to the minimum structural balance indicator under the EC rules (MTO). In its fiscal policy guidance for 2024, the EC advised against the use of the structural adjustment matrix due to the high uncertainties involved.[49] The methodological challenges related to the calculation of the parameters affecting the assessment of the structural balance and hence the structural adjustment are particularly acute in times of high fluctuations in economic activity.[50] This is also the case in the aftermath of the two crises in the last three years, in which there are changes in the structure of the economy and hence in the drivers of potential growth. Changes in output gap estimates therefore remain significant. Thus, the output gap estimate used by the FC in the structural indicator calculations for the 2023–2024 average has changed by about 0.5 pp since last year's Stability Programme, while the IMAD estimate has changed by about 0.9 pp. The quantitative assessment is also complicated by the fact that the MTO was last estimated by the EC in 2019 for the 2020–2022 period, when it was set at 0.25% of GDP for Slovenia,[51] and has not been updated for the post-2022 period. The proposed new rules at the EU level cannot be fully taken into account in the assessment of the current budget documents either, due to the absence of a final agreement on the reform of the EU economic governance framework and the lack of clarity on the definition of the net primary government expenditure indicator[52]. In view of all these uncertainties, the FC uses a wide range of indicators also in this assessment of the compliance of the submitted budget documents with the fiscal rules.

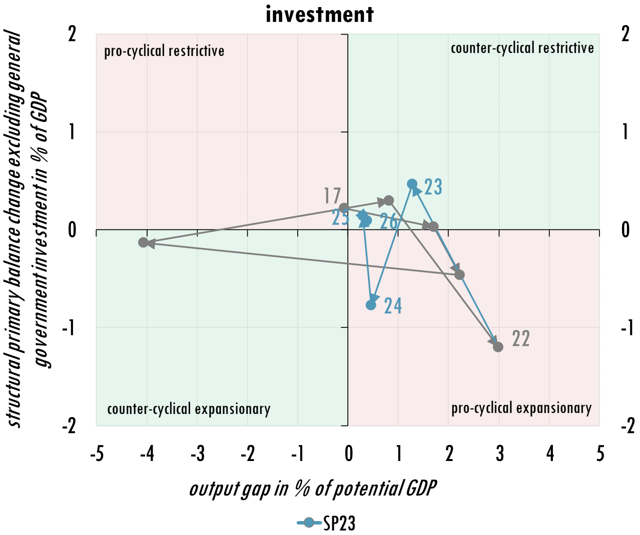
Considering the SP23 baseline scenario, the fiscal policy stance is neutral on average in the next few years and thus broadly in line with the expected stage of the economic cycle (see Box 4.1),

Figure 4.3: Fiscal policy stance



Source: SORS, MoF, FC estimates. Note: COVID expenditure and inflation mitigation measures are treated as one-off factors and excluded from the calculation of structural balance change.

Figure 4.4: Fiscal policy stance excluding general government investment



Source: SORS, MoF, FC estimates. Note: COVID expenditure and inflation mitigation measures are treated as one-off factors and excluded from the calculation of structural balance change.

[48] Box 1.6 in EC (2019).
[49] See footnote No. 36.
[50] See, for example, Box 4.1 in FC (2020a).
[51] EC (2019: Annex 2, Table A.2.2).
[52] See also footnote No. 38.

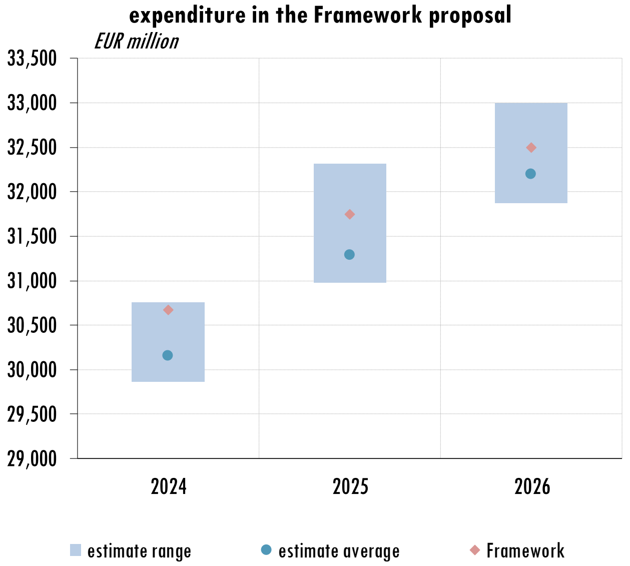
but subject to a number of risks. We assess the SP23 baseline scenario as relatively realistic. The key indicator of the proposed EU economic governance system, i.e. net primary government expenditure, is expected to grow on average more slowly in the 2024–2026 period than the medium-term potential output. It should be noted that the reference growth rate for expenditure defined in this way is currently not available publicly. The deviation to the threshold will occur only in 2024, mainly as a result of the high statutorily required alignment of social benefits. A significant boost to investment is foreseen particularly in 2023 and to subsidies in 2024. For both components, EU funds represent an important part of the financing, so the actual use of these funds will have an important impact on the fiscal policy stance, while the efficiency of their use will have an important impact on the design of the development potential in the coming years. All indicators also point to a gradual decline in the debt-to-GDP ratio over the medium term. Nevertheless, the results of the shock analysis (Figures 3.1 and 3.2), the debt sustainability analysis (Box 2.1) and the projected increase in government transfers to social protection funds (Figure 4.1) point to a number of risks to the SP23 baseline scenario. Even with minor negative deviations of economic growth from currently projected growth, these could delay the envisaged consolidation in the SP23 scenario and limit the room for manoeuvre in the event of future crises, while unimplemented or inadequately implemented changes to social security systems could jeopardise the long-term sustainability of public finances.

Box 4.1: An indicative assessment of compliance with the fiscal rules in the Framework

The government's Framework sets out the medium-term fiscal policy outline for the period 2024–2026. It is the first time that the Framework, which sets expenditure ceilings for the general government sector and the public finance budgets, is prepared for this period. Compared to the previous budgeting framework, which covered the period 2022–2024, the assessment can only be made for 2024. Compared to the previous framework, general government expenditure in 2024 will increase by EUR 1.1 billion against a higher GDP level of about EUR 3.6 billion. In this context, state budget expenditure will decrease compared to the previous framework, with the largest increase being in the expenditure of the ZZZS.

The maximum permissible expenditure of the Framework, taking into account the assessment-related uncertainties, is within the range of estimates of the currently applicable domestic rules. The Framework is assessed in the light of currently applicable domestic fiscal rules, as

Figure: General government maximum expenditure and expenditure in the Framework proposal



Source: MoF, FC calculations.

Table: Framework for 2024-2026

	General government		State budget		Local govt.	ZPIZ	ZZZS	GDP
	targ. balance	max E	targ. balance	max E	max E	max E	max E	mio EUR
	% of GDP	EUR million	% of GDP	EUR million	EUR million	EUR million	EUR million	
Framework, Oct. 2022 (OG RS 146/2022)								
2024	-2.2	29,570	-2.6	15,510	2,990	7,580	4,590	65,311
Framework proposal, Apr. 2023								
2024	-2.8	30,670	-2.3	15,275	2,990	7,800	5,000	68,896
2025	-2.2	31,750	-1.6	15,865	3,030	8,280	5,225	72,462
2026	-1.3	32,500	-1.2	15,850	3,035	8,680	5,580	75,929
Difference								
April 2023-October 2022								
2024	-0.6	1,100	0.3	-235	0	220	410	3,585

Source: Official Gazette of the Republic of Slovenia (OG RS), MoF, IMAD, FC calculations.

exceptional circumstances are currently estimated to not apply after 2023. The allowed range of government expenditure ceilings was determined on the basis of a set of output gap estimates that are regularly used in preparing the assessments of the compliance of budget documents with the fiscal rules.[1] The estimates of the Framework's expenditure ceilings, which are set in accordance with Articles 3 and 15 of the FRA,[2] are on average lower in the 2024–2026 period than the expenditure laid down in the Framework. Nevertheless, deviations are still considered acceptable due to the uncertainties associated with the calculation of output gap estimates and in particular their volatility in the recent period.[3] Nevertheless, the calculation further suggests that fiscal policy will have rather limited room for manoeuvre in the coming years.

[1] See Box 2.1 in FC (2018a).

[2] See Box in FC (2018b) for the derivation of the formula.

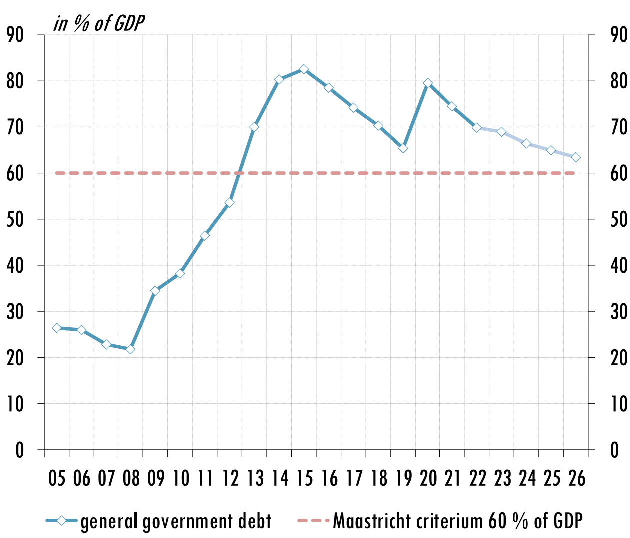
[3] The average deviation of the estimated expenditure ceilings from those specified in the Framework is about 1.3%, and the average change in the IMAD output gap estimate for 2024–2026 over the last five calculations is 1.9%.

Box 4.2: Compliance with the fiscal rules in the SP23

The headline general government deficit is expected to drop below the 3% of GDP threshold at the end of the SP23 projection period. Relatively high economic growth and inflation, in particular, which boosts budget revenues in the short term, and a slowdown in investment activity will make it possible to reach this limit, despite high expenditure levels. However, the risk analysis (see Chapter 3, particularly Figure 3.1) suggests that the Maastricht limit for the general government balance could be missed if economic growth deviates from that projected in the IMAD baseline scenario.

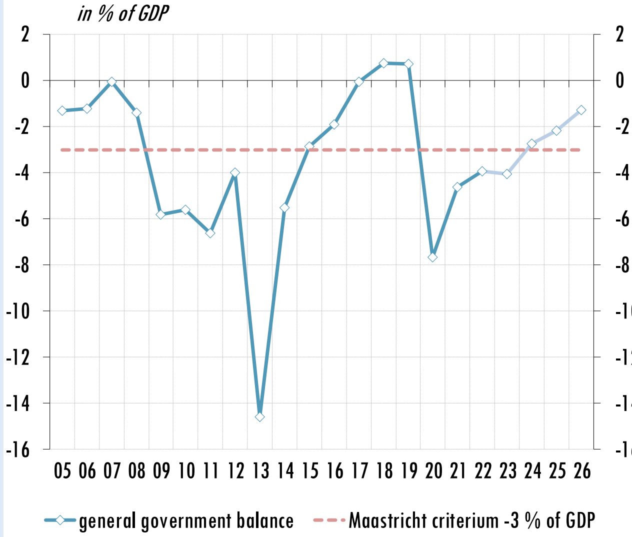
The structural deficit is expected to deviate from the last determined minimum permissible structural balance calculated on the basis of EU rules (MTO), while the average structural effort in 2024–2026 would be adequate under the current rules. According to the current FC calculations, the average structural deficit in the next three years should amount to 2.2% of GDP (with the primary structural deficit about 0.9% of GDP).[1] This would be above the MTO of 0.25% of GDP for 2020–2022.[2] Given the deviation of the structural balance from actually non-updated MTO and in

Figure 1: General government debt



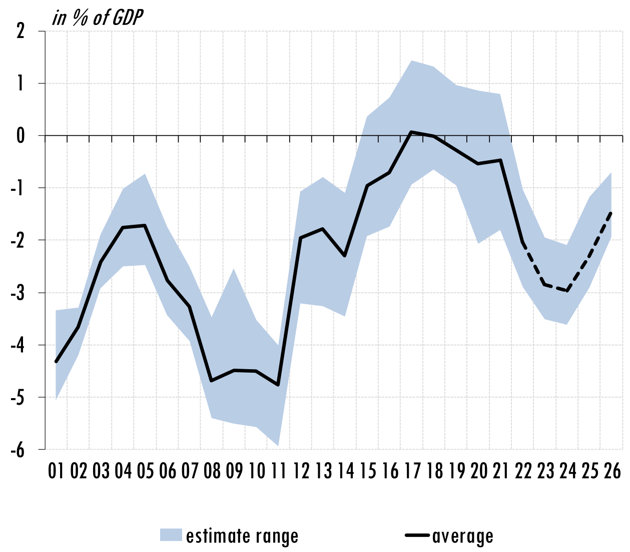
Source: outturn: SORS, forecast: SP23.

Figure 2: General government balance



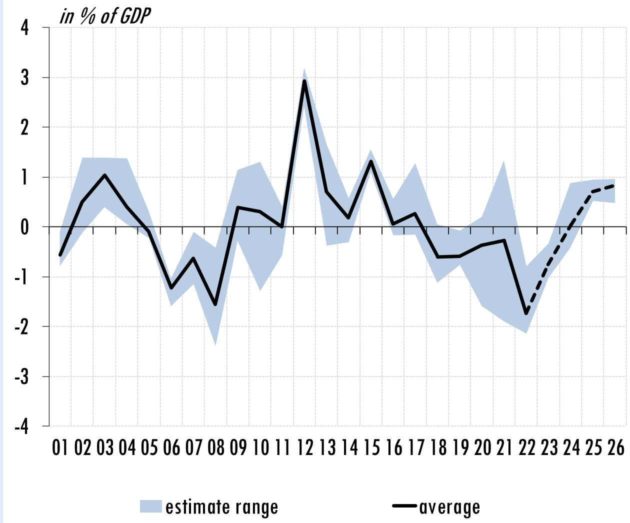
Source: outturn: SORS, forecast: SP23.

Figure 3: Structural balance estimates



Source: IMAD, EC, OECD, IMF, MoF, FC calculations. See note under Table 5.2.

Figure 4: Strucural primary effort estimates



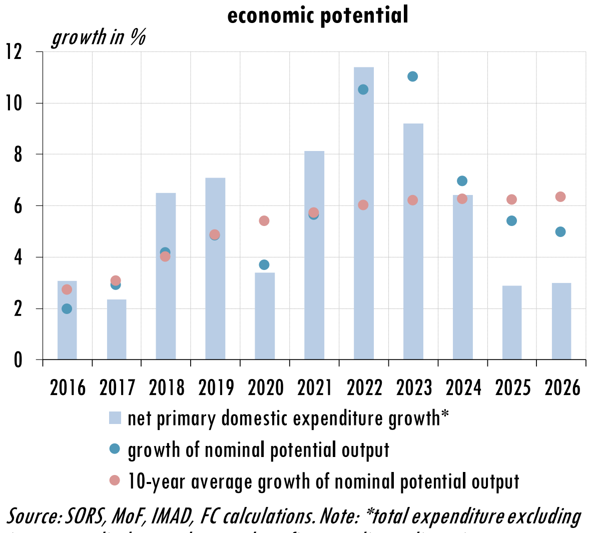
Source: IMAD, EC, OECD, IMF, MoF, FC calculations. See note under Table 5.2.

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. According to the SP23 projections and the FC estimates, the average structural effort would amount to 0.5% of GDP in the 2024–2026 period.

The estimates of expenditure levels and its growth suggest that they are broadly in line with the limits set on the basis of long-term potential output. Growth in net primary government expenditure,[3] which is expected to become a key indicator for monitoring compliance with the fiscal rules in the revised EU economic governance system, is, on average in the period 2024–2026, expected to lag behind the estimated growth of medium-term economic potential. However, based on the indicator introduced by the EC during the epidemic and the uncertainties surrounding the calculation of structural indicators of the fiscal position, the fiscal policy stance is considered to be neutral on average in that period. The expansionary impulses of fiscal policy in 2023 stem mainly from a projected pick-up in government investment activity, mainly financed by EU funds, which is expected to moderate in the following years. Discretionary measures to ensure that the real value of civil service wages and social benefits is maintained (see Box 2.2 in FC, 2022b) are also the only reason why the level of general government "core" expenditure is too high compared to that which would be made possible by the growth in expected economic potential alone.[4]

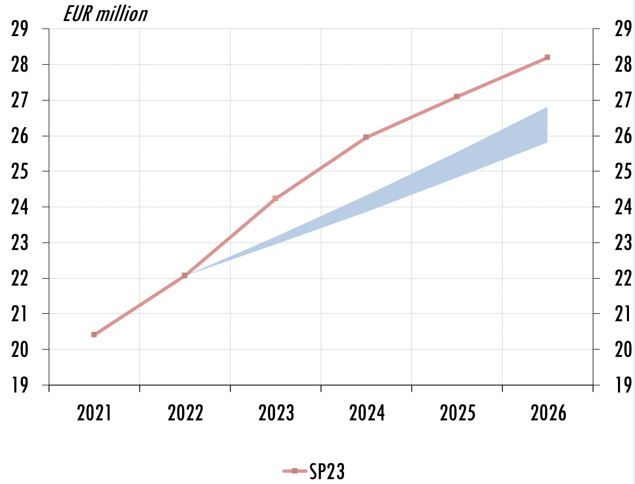
General government debt above the 60% of GDP threshold will be gradually reduced accordingly under the rules of the Fiscal Compact in the preventive arm of the Stability and Growth Pact. Slovenia is expected to comply with these rules throughout the SP23 period, although debt is expected to remain above the 60% of GDP threshold in 2026 as well. General government debt shall be reduced at an annual pace corresponding to the rule of 1/20th of the deviation of the debt level from 60% of GDP in the base year, and the debt level shall be lower in all years of the SP23 in at least one of the debt benchmarks: backward-looking, forward-looking or cyclically-adjusted, as defined by the Fiscal Compact.

Figure 5: Net primary domestic expenditure and economic potential



*Source: SORS, MoF, IMAD, FC calculations. Note: *total expenditure excluding interest, cyclical unemployment benefit expenditure, discretionary measures on revenue and expenditure side and expenditure matched by EU funds revenue. One-off measures, including COVID and inflation mitigation expenditures, are also excluded.*

Figure 6: Simulation of general government expenditure excl. COVID, inflation mitigation, interest and investment



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

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

[2] The minimum permissible structural balance under the EU rules (MTO) for Slovenia in the 2020–2022 period was most recently set in spring 2019 (EC, 2019) at -0.25% of GDP. The MTO assessment should have been officially revised at the beginning of 2022 and be valid for the 2023–2025 period, but it was not available at the time the SP23 was drafted.

[3] See, for instance, Box 2 (pp. 14–15) in EC (2021).

[4] Government expenditure growth is sustainable in the long term if it increases in line with the economic potential growth. The long-term expected potential growth is conservatively estimated at between 4% and 5%, which reflects the forecasted GDP growth values in the years 2024–2026 (about 2.5%) and the ECB's inflation target (2%). In addition to cyclical reasons, revenue growth may deviate from economic potential growth particularly in the case of discretionary tax changes; therefore, expenditure would normally also need to be adjusted for such structural changes.

Table: Overview of fulfilment of fiscal rules in force in SP23

Macroeconomic variables		**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Real GDP growth (%)	IMAD	8.2	5.4	1.8	2.5	2.6	2.5
GDP nominal (EUR million)	IMAD	52,208	58,989	64,723	68,896	72,462	75,929
GDP deflator growth (%)	IMAD	2.6	7.2	7.7	3.9	2.5	2.2
Nominal potential GDP growth (%)	IMAD	5.6	10.5	11.0	6.9	5.4	5.0
Medium-term nominal potential GDP growth BDP (%)[1]	IMAD	5.7	6.0	6.2	6.2	6.2	6.3
Output gap (in % of potential GDP)[2]	FC	0.8	2.9	1.3	0.5	0.3	0.4
National fiscal rule							
General government expenditure (EUR million)	MoF	25,858	27,490	30,093	30,662	31,732	32,482
National rule - maximum general government expenditure (EUR million)[3]	FC				30,155	31,287	32,192
Frameworks for the preparation of the gen. govt. budgets (EUR million) Oct. 22 and Apr. 23	MoF			30,055	30,670	31,750	32,500
EU fiscal rules							
General government balance (% of GDP)	MoF	**-4.6**	**-3.9**	**-4.1**	**-2.8**	**-2.2**	**-1.3**
Maastricht criterium (% of GDP)	EC	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Gross general government debt (% of GDP)	MoF	**74.5**	**69.9**	**68.9**	**66.5**	**65.0**	**63.5**
Maastricht criterium (% of GDP)	EC	60.0	60.0	60.0	60.0	60.0	60.0
Permitted debt level according to EU rules (% of GDP):							
- 1/20th rule[4]	FC	...	...	69.4	68.9	68.4	67.9
- backward-looking benchmark4	FC	...	...	73.1	69.9	67.6	66.1
- forward-looking benchmark[4]	FC	...	...	67.6	66.1	64.5	63.6
- cyclically-adjusted debt reduction benchmark[4]	FC	...	...	75.0	68.2	64.2	63.5
Structural balance (% of GDP)	FC	-0.5	-2.0	-2.8	-3.0	-2.3	-1.5
Medium term objective according to EU rules - MTO (% of GDP)[5]	EC	-0.25	-0.25	...	...	...	...
Change in structural balance (% of GDP)	FC	0.1	-1.6	-0.8	-0.1	0.7	0.8
Required annual fiscal adjustment (% of GDP)[6]	FC	...	...	...	0.6	0.6	0.6
EU expenditure benchmark - net expenditure nominal growth (%)	FC	**6.8**	**8.8**	**7.1**	**4.3**	**4.7**	**3.7**
Permitted nominal annual net expenditure growth (%)	FC	5.1	10.0	10.6	5.4	3.9	3.6
EU expenditure benchmark - net expenditure nominal growth excl. one-offs (%)	FC	**8.0**	**11.8**	**10.9**	**8.9**	**4.7**	**3.7**
Permitted nominal annual net expenditure growth excluding one-offs (%)	FC	5.1	10.0	10.6	5.4	3.9	3.6
Alternative indicators							
Net primary domestic expenditure[7]	FC	8.1	11.4	9.2	6.4	2.9	3.0
Fiscal stance - with EU funds, excl. COVID measures (% of GDP)[8]	FC	-4.2	-0.6	-0.9	-0.9	0.2	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 5.2 in the statistical annex.

[3] Taking into account SP23 revenue projections and own estimate based on 9 output gap estimates used by the FC.

[4] No data for 2021, as this is the base year for calculations.

[5] EC has not published the new calculations for the period after 2022.

[6] In the 2021-2023 period structural effort is not required due to general escape clause. In 2024-2026 FC estimate based on the matrix in Box 1.6 in EC (2019).

[7] According to EC proposal this would be a key indicator for monitoring the sustainability of public finances in the changed system of economic governance in the EU. Total expenditure excluding interest, cyclical unemployment expenditure and discretionary measures on the expenditure and revenue side, financed by European funds. One-offs including COVID related expenditure an inflation mitigation measures are also excluded.

[8] Negative sign denotes expansive fiscal policy and vice versa. The indicator is constructed from the contribution of EU funds,primary current expenditure and domestic capital expenditure, including investment.

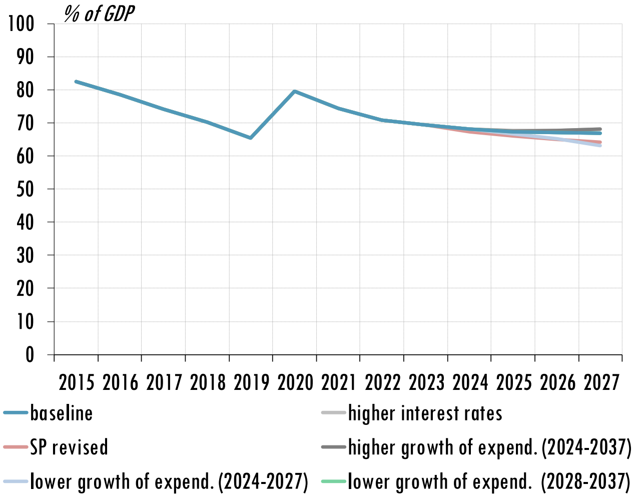
Box 4.3: Simulations of general government debt under the proposed EU economic governance framework

The proposed EU economic governance framework introduces a longer-term view of public finances, the design of which entails certain risks. In addition to sustainable public debt, the *ex-ante* setting of the fiscal policy stance based on medium-term budget projections over a period longer than that usually presented in budget documents should also play an important role in the proposed EU economic governance framework[1]. Projections over a longer period also entail higher risks stemming from the various assumptions used in these projections. Simulations show that even minor changes in assumptions can fundamentally alter medium- and long-term projections of dynamics and the public debt level or the assessment of its sustainability.

Under the EC proposal, debt sustainability analysis should play a central role in setting the fiscal adjustment path. Until now, the EC has prepared and published the debt sustainability analysis as part of its assessment of the medium-term fiscal risks in the EU and in individual Member States. Under the EC proposal, this analysis should play a central role in the determination of debt sustainability, which would serve as a starting point for the calculation of the threshold growth rate of net primary government expenditure. Assuming that policies remain unchanged, this growth rate should be set for a transitional period of four years (or seven years if certain conditions are considered), so as to ensure the gradual achievement of (approaching) medium-term sustainable public debt over a longer time period (at least an additional 10 years)[2]. This should be determined on the basis of the methodology currently used by the EC.[3] The latter includes, in addition to a number of other assumptions, including the costs of ageing, an estimate of the initial primary structural balance. The output gap estimate would thus indirectly retain an important position in the economic governance framework, although it would not be directly taken into account in the determination of the net primary expenditure path.

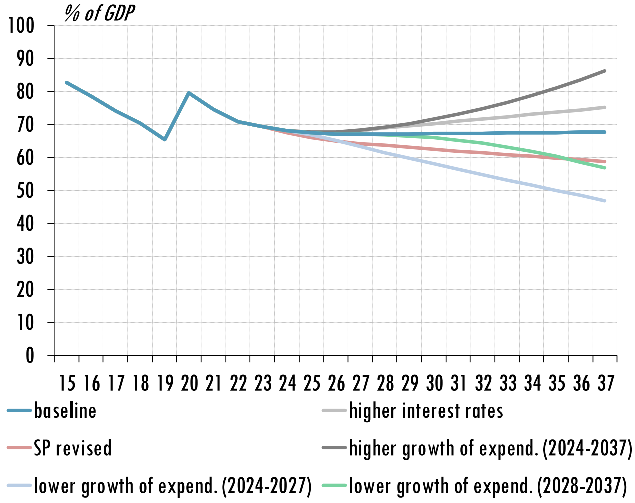
The current assessment of compliance with the fiscal rules on an annual basis would be replaced by a focus on a predetermined level or growth rate of net primary expenditure in the medium term. This growth rate would be determined in such a way so as to enable a gradual reduction in public debt while keeping the government deficit below the 3% of GDP reference value. In this way, medium-term fiscal projections are thus gaining an essential role. The importance of the assumptions considered in the debt sustainability calculations, and of the medium-term macroeconomic and fiscal projections, would therefore also increase.

Figure 1: The medium-term effect of assumption changes on general government debt (normal period of budget documents)



Source: SORS, own calculations. Note: For definitions of baseline and alternative scenarios, see Delakorda (2023).

Figure 2: The long-term effect of assumption changes on general government debt



Source: SORS, own calculations. Note: Note: For definitions of baseline and alternative scenarios, see Delakorda (2023).

The uncertainties associated with the assumptions used in the projections tend to intensify as the forecast period lengthens, as is also the case for the forecast deviation.[4] The simulations shown in Figures 1 and 2 suggest[5] that, due to the accumulation over several years, even small changes in the assumptions used can have a large impact on public debt projections. Under the proposed EU economic governance framework, they may therefore also have an impact on the requirements for adjustments in the conduct of fiscal policy in the initial or transitional period. As a rule, budget documents do not include the sensitivity of fiscal aggregates to changes in assumptions over a longer period, so the risks to projections associated with the assumptions used cannot be fully captured. Therefore, the risks of the projections stemming from the assumptions used should also be evaluated with the results of simulations for periods of different horizons.

[1] European Commission guidance communication for a reformed EU economic governance framework of November 2022 (EC, 2022d).

[2] The period could be extended if the country in its medium-term plan envisages certain investments and reforms that it could demonstrate would contribute to facilitating the achievement of sustainable medium-term public debt. The length of the extension would depend on the level of debt or an assessment of the debt sustainability risk in the base year.

[3] See EC (2022b). In the debt sustainability analysis used by the EC, the cost of ageing is the only category that changes the baseline structural fiscal position in the long term, and the structural balance so determined, together with the snowball effect (the ratio of interest rate to GDP growth), also changes the level of public debt.

[4] See, for example, FC (2020b).

[5] All simulations are prepared within the framework of the template for the analysis of medium-term debt sustainability (see also Box 2.1). The results of this analysis are regularly presented by the Fiscal Council from 2021 onwards in the context of the assessment of the risks stemming from the orientations of the multi-year budget documents. Simulations are therefore only used to illustrate risks and are not meant as representing forecasts. All simulations shown are static and therefore do not take into account dynamic effects (e.g. changed fiscal revenues due to different expenditure) and possible changes in the behaviour of economic agents, economic policy measures or financial market reactions due to a changed fiscal policy position. Simulations of shocks to some macroeconomic variables, especially their simultaneous action, point to additional risks to which public finances are exposed in the medium and especially long term. For definitions of the simulations and an interpretation of the results, see Delakorda (2023).

Box 4.4: The medium-term fiscal framework in light of the proposed changes to the EU economic governance[1]

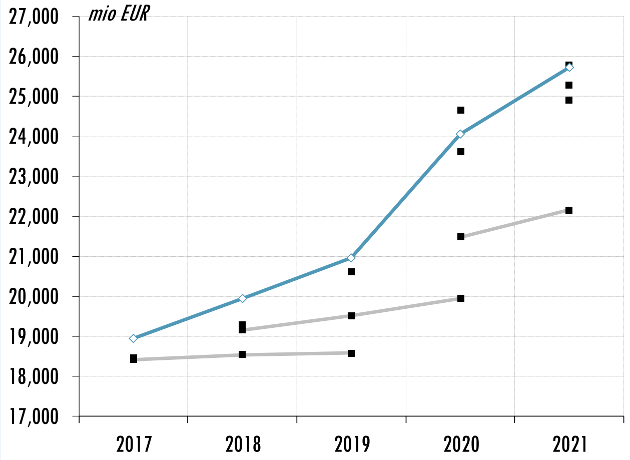
The medium-term plan has a pivotal position in the European Commission's proposal regarding changes to the EU governance framework. Medium-term fiscal planning has many advantages compared to the annual budget cycle and, if certain criteria are met and properly implemented, can lead to a more predictable, stable and sustainable fiscal policy. According to the EC proposal, the maximum permissible level of net primary domestic expenditure should be determined for each Member State based on a debt sustainability analysis and should remain binding for a minimum of four years. The proposal meets many of the criteria for an effective medium-term fiscal framework, as the target would be binding over a multiannual period and would be based on a simple, clearly identifiable variable covering the part of fiscal policy which is under the direct control of economic policymakers.

In Slovenia, there is a significant gap between the relatively good formal arrangement and the deficient actual practice. From a formal point of view, medium-term fiscal planning is regarded as having improved in recent years and is also relatively well arranged compared to other EU Member States, but there is a significant gap between formal arrangement and actual practice. The two key documents currently representing medium-term planning in Slovenia are the Framework for the Preparation of General Government Budgets, provided for in Article 6 of the ZFisP, and the Stability Programme. The Framework is similar in many respects to the EC proposal and could already be an important element in the current arrangements for ensuring the counter-cyclical conduct of fiscal policy. In practice, however, it has been reduced to a purely administrative procedure, due to a number of amendments which have resulted in significant deviations of actual outturns from those foreseen at the time of its adoption. Thus, a key element of medium-term planning has been subjected to the annual budget cycle, and not the other way around, as would have been sensible. As regards the Stability Programme, the expenditure projections, in particular, are considered to have been highly variable and consequently unreliable, and to have largely reflected an optimistic postponement of consolidation to later years without a proper basis in actual measures. The unreliability of the projections is illustrated by the estimate that the mean absolute errors (MAEs) of expenditure projections, even with the exclusion of the effect of extensive discretionary measures due to a number of crises after 2008, averaged as much as about 3% of GDP for t+1 and t+3. Moreover, the underestimation of expenditure is considered to have gradually increased with the prolonged period of projections and to have been predominantly driven by an underestimation of the nominal level of expenditure and only to a lesser extent by deviations in the nominal GDP projections. Deviations from the total expenditure projection derived from all key expenditure categories and, as a rule, increased in all categories as the period of the projections lengthened. In terms of the average share of the category in GDP, the errors were the highest for the projections of capital expenditure and social benefits. The Fiscal Council regularly draws attention to the shortcomings in the planning of these two categories of expenditure in particular when assessing budget documents.

Based on the experience to date, establishing an appropriate medium-term fiscal framework will be a considerable challenge for Slovenia. As shown by the experiences of some other states, it will be of key importance to make economic policymakers aware that a properly functioning system of medium-term planning has many advantages over the established annual budget cycle. Indeed, without adequate political support and awareness of the need for medium-term fiscal policy planning, even from a legislative perspective, a perfectly established medium-term framework cannot have a real impact in operational and technical terms. In the current planning system, there are also many operational drawbacks that primarily, but not entirely, fall within the responsibility of the Ministry of Finance. An additional challenge is to fundamentally improve the manner and increase the transparency of the assessment of the financial impact of discretionary measures, which is largely the responsibility of the Ministry of Finance but also requires the involvement of line ministries. When

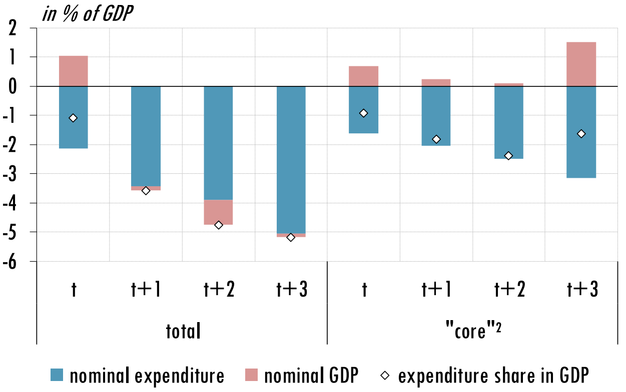
[1] For more information, see Brložnik (2023).

Figure 1: General government expenditure - outturn and Frameworks including changes*



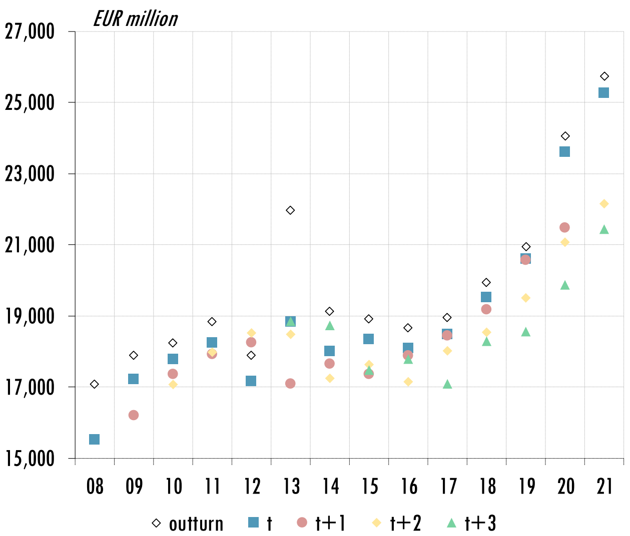
*Source: SORS, Official Gazette of the Republic of Slovenia. Note: * comprehensive Frameworks are represented by a line, partial corrections are shown as unrelated points.*

Figure 2: Contributions of nominal expenditure projections and nominal GDP forecasts to mean error (ME) of projections of expenditure share in GDP[1]



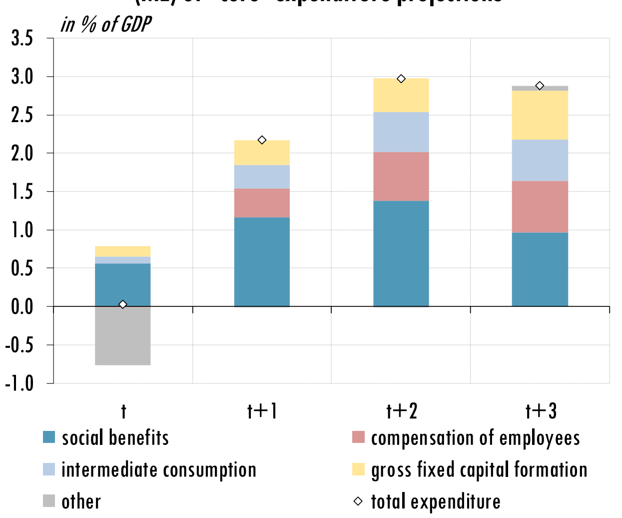
Source: SORS, MoF, FC calculations. Notes: [1] negative contribution of nominal expenditure reflects projection being lower than outturn while negative contribution of nominal GDP reflects GDP forecasts being higher than outturn and vice versa. [2] excludes 2013, 2020 and 2021, when the effect of discretionary measures was substantial.

Figure 3: Outturn and projections of nominal level of expenditure



Source: SORS, MoF, IMAD, FC calculations.

Figure 4: Contributions of categories to mean error (ME) of "core" expenditure projections[1]



Source: SORS, MoF, FC calculations. Note: [1] excluding the effect of bank recapitalisation in 2011-2014 and the effect of measures for mitigation of consequences of the epidemic in 2020 and 2021. Positive sign denotes that the outturn was higher than the projection.

making the medium-term projections, it will be necessary to eliminate certain technical deficiencies, such as the systematic underestimation of social benefit expenditure, in particular, which form the largest expenditure category.

5. Statistical annex

Table 5.1: Comparison of macroeconomic projections for 2023 and 2024

	2023						2024					
	EC (Nov. 22)	OECD (Nov. 22)	BoS (Dec. 22)	EC (Feb. 23)	IMAD (Mar. 23)	IMF (Apr.23)	EC (Nov. 22)	OECD (Nov. 22)	BoS (Dec. 22)	EC (Feb. 23)	IMAD (Mar. 23)	IMF (Apr.23)
GDP	0.8	0.5	0.8	1.0	1.8	1.6	1.7	2.0	2.4	2.0	2.5	2.1
Exports of goods and services	3.3	2.2	3.2		2.7	2.3	3.6	3.0	5.0		4.1	3.4
Imports of goods and services	2.4	2.5	3.4		1.8	1.7	3.5	3.0	4.1		3.6	3.4
External trade balance, contribution to growth	0.9	-0.2	0.0		0.8		0.1	0.0	1.0		0.6	
Private consumption	-0.3	0.2	0.5		1.2		1.6	2.1	1.7		1.8	
Government consumption	1.3	1.0	1.2		1.2		0.6	0.8	2.6		1.8	
Gross fixed capital formation	-0.6	0.9	1.3		2.8		2.5	3.1	0.0		2.2	
Changes in inventories, contribution to growth	0.0	0.3	0.0		-0.5		0.0	0.0	0.0		0.0	

Source: IMF, EC, OECD, BoS, IMAD.

Table 5.2: Output gap estimates

	IMF	European Commision	OECD	IMAD	MoF	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	0.9	-0.2	0.3	-0.2	-0.8	-0.4	...	-0.6	-0.3	-0.1	0.3
2003	0.1	0.7	-0.4	0.2	-0.4	-1.5	-1.4	0.3	-1.1	-0.4	0.0	0.2
2004	-1.4	1.8	0.9	1.3	0.7	-0.8	-1.1	1.1	-1.0	0.2	0.7	1.3
2005	-0.5	2.5	1.8	2.2	1.5	-0.5	-1.3	2.0	-0.4	0.8	1.5	2.1
2006	2.8	4.7	4.5	4.6	3.9	2.1	1.1	4.1	1.8	3.3	4.1	4.4
2007	5.3	8.1	8.3	8.1	7.3	6.5	5.8	6.7	5.9	6.9	7.4	7.8
2008	5.4	7.7	8.6	8.0	7.1	8.4	7.6	4.4	5.9	7.0	7.3	7.6
2009	-3.0	-2.8	-2.0	-2.4	-3.2	-0.7	-1.6	-7.0	-2.8	-2.8	-2.7	-2.8
2010	-1.0	-2.8	-2.3	-2.4	-3.2	0.2	-0.3	-2.9	-4.2	-2.1	-2.3	-2.8
2011	0.6	-2.8	-2.6	-2.6	-3.1	0.7	1.0	-2.6	-2.4	-1.5	-2.1	-2.8
2012	-2.0	-6.0	-6.2	-5.9	-6.4	-2.4	-1.8	-5.5	-4.3	-4.5	-5.3	-6.1
2013	-3.0	-7.6	-8.2	-7.7	-8.1	-4.2	-3.5	-4.8	-8.0	-6.1	-6.9	-7.8
2014	-2.3	-6.0	-7.1	-6.2	-6.6	-2.9	-2.1	-2.6	-5.4	-4.6	-5.7	-6.3
2015	-1.8	-4.9	-6.7	-5.2	-5.6	-2.7	-1.9	-1.9	-4.2	-3.9	-4.9	-5.2
2016	-0.2	-2.9	-5.5	-3.2	-3.6	-2.0	-1.5	-0.3	-2.3	-2.4	-3.1	-3.3
2017	0.0	0.3	-3.0	0.0	-0.4	-0.1	0.4	2.1	0.2	-0.1	-0.6	0.0
2018	0.3	2.6	-1.1	2.4	1.9	1.5	2.1	2.6	3.1	1.7	1.2	2.3
2019	0.9	3.4	-0.4	3.3	2.8	2.1	2.2	2.0	3.7	2.2	2.0	3.2
2020	-2.7	-3.4	-7.1	-3.5	-4.1	-5.0	-5.3	-4.7	-0.8	-4.1	-4.1	-3.7
2021	1.7	1.8	-1.9	1.4	0.8	-0.3	-0.5	3.7	0.6	0.8	0.8	1.3
2022	2.9	4.8	0.8	3.6	3.1	2.0	2.0	3.8	3.3	2.9	3.0	3.8
2023	1.3	2.7	-0.7	2.3	1.9	0.9	0.7	1.2	0.9	1.3	1.5	2.3
2024	0.4	1.3	-0.5	1.8	1.4	0.6	0.2	-1.4	0.3	0.5	0.9	1.5
2025	...	...	...	1.6	1.2	0.5	0.1	-2.1	0.5	0.3	1.4	1.4
2026	...	...	...	1.4	1.0	0.4	0.0	-1.3	0.8	0.4	1.2	1.2

Source: IMAD, EC, IMF, OECD, Stability Programme 2023, 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). It should be noted that due to incomplete time series the table does not include estimates of all institutions that provide the estimates of the output gap for Slovenia for the duration of the current SP period (missing are the EC, IMF and OECD forecasts for 2025 and 2026). 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; and (iv) the 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 5.3: Structural balance estimates

	IMF	European Commision	OECD	IMAD	MoF	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	-3.9	-3.7	-3.4	-3.6	...	-3.5	-3.7	-3.8	-3.9
2003	-2.7	-2.9	-2.4	-2.7	-2.4	-1.9	-2.0	-2.8	-2.1	-2.4	-2.6	-2.7
2004	-1.0	-2.5	-2.1	-2.3	-2.0	-1.3	-1.2	-2.2	-1.2	-1.8	-2.0	-2.3
2005	-1.1	-2.5	-2.2	-2.4	-2.0	-1.1	-0.7	-2.3	-1.2	-1.7	-2.0	-2.3
2006	-2.5	-3.4	-3.3	-3.4	-3.0	-2.2	-1.7	-3.2	-2.1	-2.8	-3.1	-3.3
2007	-2.5	-3.8	-3.9	-3.8	-3.5	-3.1	-2.8	-3.2	-2.8	-3.3	-3.5	-3.7
2008	-3.9	-5.0	-5.4	-5.1	-4.7	-5.3	-5.0	-3.5	-4.2	-4.7	-4.8	-4.9
2009	-4.4	-4.5	-4.9	-4.7	-4.3	-5.5	-5.1	-2.5	-4.5	-4.5	-4.6	-4.5
2010	-5.0	-4.2	-4.4	-4.3	-4.0	-5.6	-5.3	-4.1	-3.5	-4.5	-4.4	-4.2
2011	-5.8	-4.2	-4.2	-4.3	-4.0	-5.8	-5.9	-4.3	-4.3	-4.8	-4.5	-4.2
2012	-3.1	-1.3	-1.2	-1.3	-1.1	-2.9	-3.2	-1.5	-2.1	-2.0	-1.6	-1.2
2013	-3.3	-1.1	-0.8	-1.1	-0.9	-2.7	-3.0	-2.4	-0.9	-1.8	-1.4	-1.0
2014	-3.4	-1.6	-1.1	-1.5	-1.3	-3.1	-3.5	-3.2	-1.9	-2.3	-1.8	-1.5
2015	-1.9	-0.5	0.4	-0.4	-0.2	-1.5	-1.9	-1.9	-0.8	-1.0	-0.5	-0.3
2016	-1.7	-0.5	0.7	-0.3	-0.1	-0.9	-1.1	-1.7	-0.8	-0.7	-0.4	-0.3
2017	0.1	-0.1	1.4	0.0	0.2	0.1	-0.2	-0.9	0.0	0.1	0.3	0.1
2018	0.6	-0.4	1.3	-0.3	-0.1	0.1	-0.2	-0.4	-0.6	0.0	0.2	-0.3
2019	0.3	-0.8	1.0	-0.8	-0.5	-0.2	-0.3	-0.2	-1.0	-0.3	-0.2	-0.7
2020	-1.2	-0.9	0.9	-0.8	-0.5	-0.1	0.0	-0.3	-2.1	-0.5	-0.5	-0.7
2021	-0.9	-0.9	0.8	-0.7	-0.5	0.0	0.1	-1.8	-0.4	-0.5	-0.4	-0.7
2022	-2.0	-2.9	-1.0	-2.3	-2.1	-1.6	-1.6	-2.4	-2.2	-2.0	-2.1	-2.5
2023	-2.9	-3.5	-2.0	-3.4	-3.2	-2.7	-2.6	-2.8	-2.7	-2.8	-3.0	-3.3
2024	-2.9	-3.4	-2.5	-3.6	-3.4	-3.0	-2.8	-2.1	-2.9	-3.0	-3.2	-3.5
2025	...	...	...	-2.9	-2.7	-2.4	-2.2	-1.2	-2.4	-2.3	-2.8	-2.8
2026	...	...	...	-1.9	-1.8	-1.5	-1.3	-0.7	-1.7	-1.5	-1.9	-1.9

Source: IMAD, EC, IMF, OECD, Stability Programme 2023, FC calculations based on Table 5.2.

Table 5.4: Structural effort estimates

	IMF	European Commision	OECD	IMAD	MoF	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	0.4	0.5	0.8	0.8	...	1.6	0.7	0.4	0.5
2003	0.6	1.3	1.3	1.2	1.3	1.5	1.6	...	1.4	1.3	1.1	1.3
2004	1.6	0.4	0.3	0.4	0.4	0.6	0.8	0.6	0.9	0.7	0.6	0.4
2005	-0.1	0.0	-0.1	-0.1	0.0	0.2	0.4	-0.1	0.0	0.0	0.0	0.0
2006	-1.4	-1.0	-1.2	-1.0	-1.0	-1.1	-1.0	-0.9	-0.9	-1.1	-1.1	-1.0
2007	0.0	-0.4	-0.6	-0.5	-0.4	-0.9	-1.0	0.0	-0.7	-0.5	-0.4	-0.4
2008	-1.4	-1.2	-1.5	-1.3	-1.3	-2.2	-2.2	-0.3	-1.4	-1.4	-1.3	-1.2
2009	-0.5	0.5	0.5	0.4	0.4	-0.2	-0.1	0.9	-0.3	0.2	0.3	0.4
2010	-0.6	0.3	0.5	0.3	0.3	-0.1	-0.2	-1.6	1.0	0.0	0.2	0.3
2011	-0.8	0.0	0.2	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	2.3	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	-0.5	-0.3	-0.5	-0.5	-0.4	-0.5	-0.8	-1.0	-0.5	-0.4	-0.5
2015	1.5	1.1	1.4	1.2	1.2	1.6	1.6	1.3	1.1	1.3	1.3	1.2
2016	0.2	0.0	0.4	0.0	0.0	0.6	0.7	0.2	0.0	0.3	0.1	0.0
2017	1.8	0.4	0.7	0.4	0.4	1.0	1.0	0.7	0.7	0.8	0.7	0.4
2018	0.6	-0.3	-0.1	-0.4	-0.4	0.0	0.0	0.5	-0.6	-0.1	-0.1	-0.4
2019	-0.3	-0.4	-0.4	-0.4	-0.4	-0.3	-0.1	0.3	-0.3	-0.3	-0.4	-0.4
2020	-1.5	0.0	-0.1	0.0	0.0	0.1	0.3	-0.1	-1.1	-0.3	-0.3	0.0
2021	0.3	-0.1	-0.1	0.1	0.1	0.1	0.1	-1.5	1.7	0.1	0.1	0.0
2022	-1.2	-2.0	-1.8	-1.6	-1.7	-1.6	-1.7	-0.6	-1.8	-1.6	-1.6	-1.7
2023	-0.9	-0.6	-0.9	-1.0	-1.0	-1.1	-1.0	-0.4	-0.4	-0.8	-0.9	-0.9
2024	0.0	0.1	-0.6	-0.2	-0.3	-0.3	-0.2	0.7	-0.2	-0.1	-0.2	-0.1
2025	...	...	...	0.7	0.7	0.6	0.6	0.9	0.5	0.7	0.7	0.7
2026	...	...	...	1.0	1.0	0.9	0.9	0.5	0.8	0.8	1.0	1.0

Source: IMAD, EC, IMF, OECD, Stability Programme 2023, FC calculations based on Table 5.2.

Table 5.5: Structural primary balance estimates

	IMF	European Commision	OECD	IMAD	MoF	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	-2.0	-1.5	-1.7	-1.5	-1.2	-1.4	...	-1.4	-1.5	-1.6	-1.8
2003	-0.7	-1.0	-0.5	-0.8	-0.5	0.0	0.0	-0.8	-0.1	-0.5	-0.7	-0.7
2004	0.6	-0.8	-0.4	-0.6	-0.3	0.4	0.5	-0.5	0.5	-0.1	-0.3	-0.6
2005	0.4	-0.9	-0.6	-0.8	-0.5	0.4	0.8	-0.7	0.4	-0.2	-0.5	-0.8
2006	-1.2	-2.1	-2.0	-2.0	-1.7	-0.8	-0.4	-1.8	-0.7	-1.4	-1.8	-1.9
2007	-1.3	-2.6	-2.7	-2.6	-2.2	-1.8	-1.5	-2.0	-1.6	-2.0	-2.3	-2.5
2008	-2.8	-3.9	-4.3	-4.0	-3.6	-4.2	-3.9	-2.4	-3.1	-3.6	-3.7	-3.9
2009	-3.1	-3.2	-3.5	-3.4	-3.0	-4.2	-3.8	-1.2	-3.2	-3.2	-3.2	-3.2
2010	-3.4	-2.6	-2.8	-2.7	-2.4	-3.9	-3.7	-2.5	-1.9	-2.9	-2.8	-2.6
2011	-3.9	-2.3	-2.4	-2.4	-2.1	-3.9	-4.0	-2.4	-2.5	-2.9	-2.6	-2.3
2012	-1.1	0.7	0.8	0.7	0.9	-0.9	-1.2	0.5	0.0	0.1	0.4	0.8
2013	-0.7	1.5	1.8	1.5	1.7	-0.1	-0.5	0.2	1.6	0.8	1.1	1.5
2014	-0.1	1.6	2.1	1.7	1.9	0.2	-0.2	0.0	1.3	0.9	1.5	1.7
2015	1.3	2.7	3.6	2.9	3.1	1.7	1.3	1.3	2.4	2.3	2.7	2.9
2016	1.3	2.6	3.8	2.7	2.9	2.2	1.9	1.4	2.3	2.3	2.6	2.7
2017	2.6	2.4	4.0	2.6	2.8	2.6	2.4	1.6	2.5	2.6	2.9	2.6
2018	2.6	1.6	3.3	1.7	1.9	2.1	1.8	1.6	1.4	2.0	2.2	1.7
2019	2.0	0.9	2.7	0.9	1.2	1.5	1.4	1.5	0.7	1.4	1.5	1.0
2020	0.4	0.7	2.5	0.8	1.1	1.5	1.6	1.3	-0.5	1.1	1.1	0.9
2021	0.4	0.3	2.0	0.5	0.8	1.3	1.4	-0.6	0.9	0.8	0.8	0.5
2022	-1.0	-1.8	0.1	-1.3	-1.1	-0.5	-0.5	-1.3	-1.1	-0.9	-1.0	-1.4
2023	-1.7	-2.4	-0.8	-2.2	-2.0	-1.5	-1.5	-1.7	-1.5	-1.7	-1.8	-2.2
2024	-1.6	-2.1	-1.2	-2.3	-2.1	-1.7	-1.5	-0.8	-1.6	-1.7	-1.9	-2.2
2025	...	...	...	-1.6	-1.4	-1.1	-0.9	0.2	-1.1	-1.0	-1.5	-1.5
2026	...	...	...	-0.6	-0.5	-0.1	0.0	0.6	-0.3	-0.1	-0.5	-0.5

Source: IMAD, EC, IMF, OECD, Stability Programme 2023, FC calculations based on Table 5.2.

Table 5.6: Structural primary effort estimates

	IMF	European Commision	OECD	IMAD	MoF	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	0.5	0.3	0.4	0.6	0.7	...	1.4	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	0.1	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	-0.2	-0.1	-0.1	-0.2	-0.2
2006	-1.6	-1.1	-1.3	-1.2	-1.2	-1.3	-1.2	-1.0	-1.1	-1.2	-1.3	-1.2
2007	-0.1	-0.5	-0.7	-0.6	-0.6	-1.0	-1.1	-0.2	-0.9	-0.6	-0.5	-0.6
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	0.8	0.7	0.6	0.0	0.1	1.1	-0.1	0.4	0.5	0.7
2010	-0.3	0.6	0.8	0.7	0.6	0.3	0.1	-1.3	1.3	0.3	0.5	0.6
2011	-0.5	0.3	0.4	0.3	0.3	0.0	-0.4	0.1	-0.6	0.0	0.2	0.3
2012	2.7	3.0	3.2	3.1	3.1	3.0	2.9	2.9	2.4	2.9	3.0	3.1
2013	0.4	0.7	0.9	0.7	0.8	0.8	0.7	-0.4	1.7	0.7	0.7	0.7
2014	0.6	0.2	0.4	0.2	0.2	0.3	0.2	-0.2	-0.3	0.2	0.3	0.2
2015	1.4	1.1	1.4	1.2	1.1	1.5	1.6	1.3	1.1	1.3	1.3	1.1
2016	0.0	-0.2	0.2	-0.2	-0.2	0.4	0.6	0.0	-0.1	0.1	-0.1	-0.2
2017	1.3	-0.2	0.2	-0.2	-0.1	0.4	0.5	0.2	0.2	0.3	0.2	-0.1
2018	0.1	-0.8	-0.6	-0.9	-0.9	-0.5	-0.5	0.0	-1.1	-0.6	-0.6	-0.9
2019	-0.6	-0.7	-0.7	-0.8	-0.7	-0.6	-0.4	-0.1	-0.6	-0.6	-0.7	-0.7
2020	-1.6	-0.1	-0.2	-0.1	-0.1	0.0	0.2	-0.2	-1.2	-0.4	-0.4	-0.1
2021	0.0	-0.4	-0.4	-0.3	-0.3	-0.2	-0.2	-1.9	1.3	-0.3	-0.3	-0.3
2022	-1.3	-2.1	-2.0	-1.8	-1.8	-1.8	-1.9	-0.8	-2.0	-1.7	-1.8	-1.9
2023	-0.8	-0.5	-0.9	-0.9	-1.0	-1.0	-0.9	-0.3	-0.4	-0.7	-0.8	-0.8
2024	0.1	0.3	-0.4	-0.1	-0.1	-0.2	-0.1	0.9	-0.1	0.0	0.0	0.0
2025	...	...	...	0.7	0.7	0.7	0.7	0.9	0.5	0.7	0.7	0.7
2026	...	...	...	1.0	1.0	0.9	0.9	0.5	0.8	0.8	1.0	1.0

Source: IMAD, EC, IMF, OECD, Stability Programme 2023, FC calculations based on Table 5.2.

Table 5.7: Deviation of maximum expenditure from the proposed Framework

	IMF (Apr. 23)		EC (Nov. 22)		OECD (Nov. 22)		IMAD (Mar. 23)		MoF (Apr. 23)		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	30,220	*-450*	30,347	*-323*	29,862	*-808*	29,974	*-696*	30,061	*-609*	30,017	*-653*	30,084	*-586*	30,754	*84*	30,077	*-593*	30,155	*-515*	30,093	*-577*	30,127	*-543*	**30,670**
2025	…	…	…	…	…	…	30,978	*-772*	31,166	*-584*	31,080	*-670*	31,148	*-602*	32,314	*564*	31,038	*-712*	31,287	*-463*	31,072	*-678*	31,072	*-678*	**31,750**
2026	…	…	…	…	…	…	31,971	*-529*	32,155	*-345*	32,040	*-460*	32,119	*-381*	32,996	*496*	31,872	*-628*	32,192	*-308*	32,063	*-437*	32,063	*-437*	**32,500**

Source: IMAD, EC, IMF, OECD, Stability Programme 2023, FC calculations based on Table 5.2.

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