



REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Monthly Information

June 2023

Key highlights¹

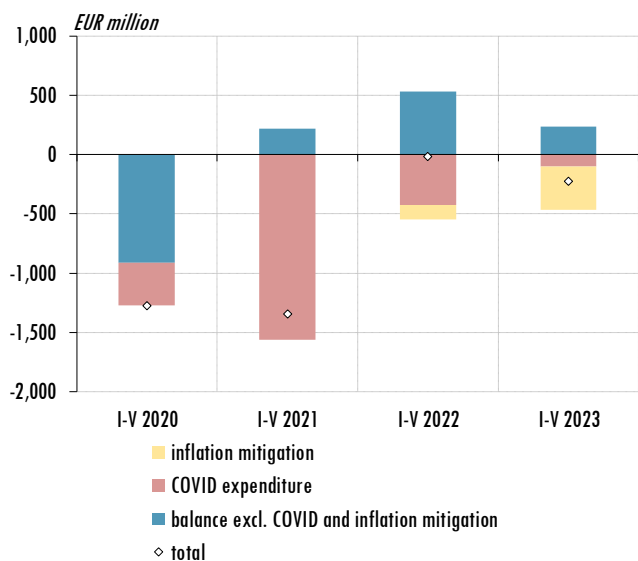
- In the first five months of the year, the state budget recorded a deficit (of EUR 226 million), and, excluding the impact of expenditure to contain the epidemic (EUR 101 million) and the measures to ease the cost-of-living crisis (EUR 362 million), a surplus in the amount of EUR 238 million.
- The evolution of the state budget in the first five months of the year was worse than in the same period last year. The overall deficit was higher (by EUR 209 million) and the so-called "core" surplus (excluding intervention measures) was lower by EUR 293 million.
- The lower year-on-year "core" surplus is mainly due to lower revenue growth than in the same period last year, mainly due to a fall in corporate tax revenue against a high base from last year, but also partly to higher growth in labour cost expenditure as a result of the agreement reached in the autumn.

¹ The Fiscal Council will continue to publish in its regular monthly publication an overview of the state budget outturn under the cash flow methodology and of measures related to COVID-19 and to mitigating the cost-of-living crisis, subject to the availability of such data in the future. All comments refer to data as at 2 June 2023.

State budget January-May 2023²

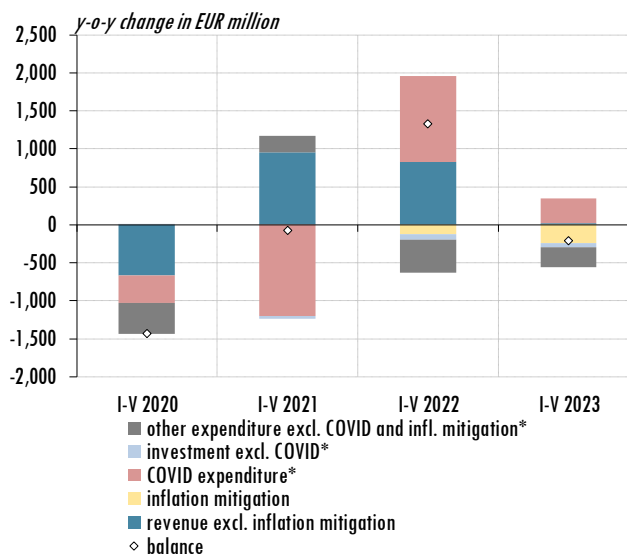
- In May, the **state budget** deficit was provisionally reported at EUR 133 million, while the total for the first five months of 2023 was EUR 226 million. Excluding the direct effect of COVID-19 expenditure and measures to mitigate the cost-of-living crisis, in the first five months the state budget had a surplus of EUR 238 million, while the surplus in the first five months of last year amounted to EUR 531 million.
- Total **revenue** in the first five months of this year was 2.0% lower on a year-on-year basis, mainly due to lower revenue from corporate income tax, EU funds³ and non-tax revenue, with a significant effect also of last year’s high base.
- VAT revenue growth, which started to moderate in the second half of last year, has stabilised at lower levels in recent months. The slowdown is partly due, in our assessment, to the high base effect and the reduced VAT rate on energy products, but also to increased uncertainty and high inflation. Excise duty revenue growth has picked up in recent months on the back of increases in excise duties on energy products and tobacco. State budget revenue from personal income tax in the first five months of this year was 2.2% lower year-on-year, which is believed to be mainly attributable to the increase in the lump-sum funding to municipalities and the further reduction in the tax burden. Corporate income tax revenue is significantly lower year-on-year this year (-15.9%), mainly due to the effect of last year’s high base, when the 2021 settlement payments were at a record high.
- Revenue from EU funds remains down year-on-year, but the projections in the revised budget, which are again too optimistic in the Fiscal Council’s view, imply that more funds are expected to be raised in the next seven months than in the whole of last year.
- Total **expenditure** in the first five months of this year was 2.0% higher year-on-year, while the so-called "core" expenditure (excluding COVID-19 expenditure and the effect of measures to mitigate the cost-of-living crisis) was 6.6% higher.

Figure 1: State budget balance



Source: MoF, FC calculations.

Figure 2: Factors of state budget balance change



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

² The commentary on the state budget outturn refers to daily data available at <https://proracun.gov.si/#> (Only in Slovene).

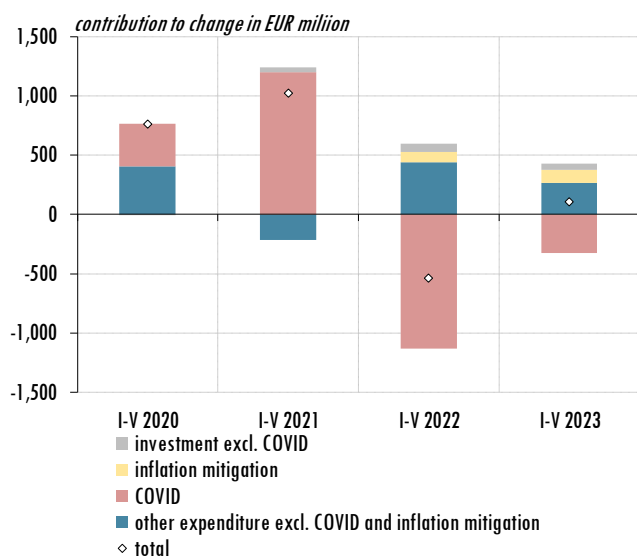
³ The decrease compared to the first five months of last year is largely due to a high base, as the second prepayment tranche from the Recovery and Resilience Fund (EUR 118 million) was received in January last year.

Table 1: State budget

EUR million, unless stated otherwise	Jan.-May				Jun.-Dec.				2022	2023**	2023 compared to 2022	
	2022	2023	2023 compared to 2022		2022	2023*	2023 compared to 2022					
			%				%				%	
Revenue	5,305	5,200	-104	-2.0	7,040	7,944	904	12.8	12,345	13,144	799	6.5
VAT	1,893	1,981	88	4.7	2,854	3,101	247	8.6	4,747	5,082	335	7.1
Excise duties	538	657	119	22.1	908	949	41	4.5	1,446	1,606	160	11.1
Personal income tax	745	728	-17	-2.2	841	896	55	6.6	1,586	1,625	39	2.5
Corporate income tax	749	630	-119	-15.9	805	786	-19	-2.4	1,553	1,415	-138	-8.9
EU funds	514	444	-69	-13.5	444	1,026	582	131.0	957	1,470	513	53.5
Non-tax	301	242	-59	-19.6	469	430	-39	-8.3	770	672	-98	-12.7
Other revenue	566	518	-48	-8.5	719	756	37	5.2	1,284	1,274	-11	-0.8
Expenditure	5,322	5,426	104	2.0	8,387	10,656	2,269	27.1	13,709	16,082	2,374	17.3
Total labour costs	1,478	1,626	148	10.0	2,273	2,702	428	18.8	3,751	4,328	577	15.4
Transfers to individ. and hou.	802	810	8	1.0	1,163	1,088	-75	-6.5	1,965	1,897	-67	-3.4
Exp. on goods and services	574	497	-77	-13.4	953	919	-34	-3.6	1,526	1,416	-111	-7.2
Investment	334	390	56	16.7	1,335	2,075	740	55.4	1,669	2,465	796	47.7
Curr. transf. to soc. sec. funds	558	562	4	0.7	968	1,004	36	3.7	1,526	1,565	40	2.6
Subsidies	347	414	67	19.4	285	441	156	54.7	632	856	223	35.3
Interest	346	370	24	6.9	309	311	2	0.6	655	681	26	3.9
Payments to the EU budget	303	274	-29	-9.5	427	456	30	6.9	730	730	1	0.1
Other expenditure	581	484	-97	-16.7	675	1,661	987	146.3	1,255	2,145	890	70.9
Balance	-17	-226	-209		-1,347	-2,712	-1,366		-1,364	-2,938	-1,574	

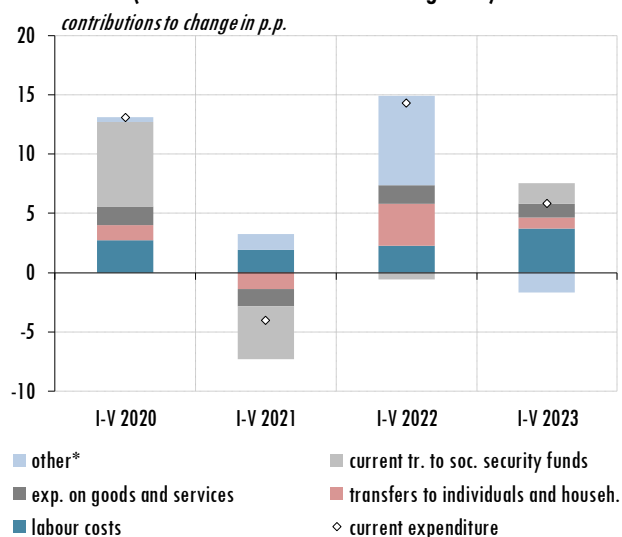
Source: MoF, FC calculations. Note: *implicity calculated to match MoF forecast. ** Revised state budget (May 23).

Figure 3: Structure of state budget expenditure growth



Source: MoF, FC calculations.

Figure 4: Current expenditure factors (excl. COVID and inflation mitigation)



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

Table 2: State budget (excluding COVID and inflation mitigation)

<i>EUR million, unless stated otherwise</i>	I-V 2022				I-V 2023				I-V 23/ I-V 22, %		I-V 23/ I-V 22	
	total	COVID	infl. mitig.	excl. COVID and infl. mit	total	COVID	infl. mitig.	excl. COVID and infl. mit	total	excl. COVID and infl. mit	total	excl. COVID and infl. mit
Revenue	5,305		-36	5,341	5,200		-166	5,366	-2.0	0.5	-104	25
VAT	1,893		0	1,893	1,981		-73	2,054	4.7	8.5	88	161
Excise duties	538		-36	574	657		-33	690	22.1	20.2	119	116
Personal income tax	745			745	728			728	-2.2	-2.2	-17	-17
Corporate income tax	749			749	630			630	-15.9	-15.9	-119	-119
EU funds	514			514	444			444	-13.5	-13.5	-69	-69
Non-tax	301			301	242			242	-19.6	-19.6	-59	-59
Other revenue	566		0	566	518		-60	578	-8.5	2.1	-48	12
Expenditure	5,322	426	86	4,810	5,426	101	196	5,128	2.0	6.6	104	318
Total labour costs	1,478	22		1,456	1,626	13	4	1,609	10.0	10.5	148	153
Transfers to individ. and hou.	802	62	0	740	810	5	26	779	1.0	5.3	8	39
Exp. on goods and services	574	131		442	497	5	2	490	-13.4	10.8	-77	48
Investment	334	8		326	390	11		379	16.7	16.2	56	53
Curr. transf. to soc. sec. funds	558	68		490	562	0		561	0.7	14.7	4	72
Subsidies	347	22	86	239	414	33	162	219	19.4	-8.2	67	-20
Interest	346			346	370			370	6.9	6.9	24	24
Payments to the EU budget	303			303	274			274	-9.5	-9.5	-29	-29
Other expenditure	581	112		469	484	35	1	447	-16.7	-4.6	-97	-22
Balance	-17	-426	-122	531	-226	-101	-362	238			-209	-293

Source: MoF, FC calculations.

- The year-on-year increase in "core" expenditure was mainly driven by higher expenditure on labour costs (10.5%) as a result of the wage increase agreement reached last autumn. Its growth was further reinforced in May due to the second tranche of higher wage payments. The growth in "core" expenditure was further boosted by higher transfers to social security funds, higher investment expenditure in the context of continued relatively high investment activity, and higher expenditure on transfers to individuals and households following a growth pick-up in March due to the statutory adjustment to last year's inflation, while year-on-year growth in expenditure on goods and services has also strengthened markedly in the last three months.

Implementation of measures to mitigate the impact of the epidemic and the cost-of-living crisis in January–May 2023

- The state budget expenditure on COVID-19-related measures totalled EUR 101 million in the first two months of this year, while a total of EUR 371 million has been budgeted for this purpose in this year's revised budget. The bulk of this year's expenditure incurred so far is accounted for by wage compensation due to isolation (EUR 46 million) and expenditure related to the cost of vaccination and testing (EUR 34 million).
- The effect of measures to mitigate the cost-of-living crisis in the first five months of this year amounts to EUR 362 million, while, according to the adopted revised budget, the impact on a yearly basis is expected to amount to EUR 1,089 million. The Ministry of Finance estimates that revenues were EUR 166 million lower in the first five months, as reduced excise duties, the lower VAT rate on energy products and the exemption from the CO₂ tax continue to be applied. Expenditure for mitigating the impact of the cost-of-living crisis for the period amounted to EUR 196 million, mostly due to the subsidies to businesses under Article 14 of the Act Regulating the Aid to Businesses to Mitigate the Impact of the Energy Crisis (EUR 125 million).