



REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Monthly Information

September 2023

Key points ¹

- In the first eight months of 2023, the state budget recorded a deficit (of EUR 735 million), which amounted to EUR 95 million excluding the impact of expenditure to contain the epidemic (EUR 161 million) and measures to mitigate the cost-of-living crisis (EUR 479 million).
- State budget trends in the first eight months were worse than in the same period last year. The total deficit was higher (by EUR 399 million), and the “core” balance (excluding intervention measures) decreased by EUR 563 million, following a surplus (EUR 468 million) in the same period last year.
- The decreased year-on-year “core” balance is mainly due to stagnating revenue, following considerable growth last year, largely resulting from a drop in revenue from corporate income tax and EU funding against last year’s high base. Growth in VAT inflows is substantially lower as a result of declining demand. This year’s growth in “core expenditure” (excluding intervention measures) is somewhat slower than in the same period last year with different drivers, but it remains relatively high, largely stemming from stronger growth in expenditure for labour costs due to the agreement reached last autumn and higher transfers to the social security funds.²
- The eight-month outturn confirms the Fiscal Council’s assessment on continued unrealistic budget planning, which can form an inappropriate basis for the high level of expenditure set for the following years. Given the outturn so far, the second revised state budget for 2023, adopted in August, allows for a deficit in the amount of EUR 2.4 billion in the last four months of this year. That would mean EUR 1 billion more than last year’s total and approximately two times as much as in the last four months of 2020, i.e. during the pandemic. To the extent allowed under the revised state budget, the actual deficit outturn by the end of the year would be unjustified in the Fiscal Council’s assessment, in light of numerous challenges. We expect the 2024 and 2025 budget presentations to include a realistic assessment of this year’s outturn, which should be the only appropriate basis for projections.
- In its annual assessment of national accounts for 2022, the Statistical Office of the Republic of Slovenia significantly altered its assessment compared to previous quarterly data. Due particularly to the lower estimated scope of final household consumption, the nominal GDP last year amounted to EUR 57 billion, nearly EUR 2 billion less compared to previous data. While revising statistical data is a common procedure, and a challenging one in uncertain conditions, such significant revisions considerably change the starting points both for drafting and for assessing macroeconomic and fiscal policies. The Fiscal Council takes the view that the latest revision, in addition to a more detailed explanation of the reasons for these significant deviations, also requires certain action to be taken to improve the quality of quarterly data for national accounts.

¹ The Fiscal Council will continue to regularly publish an overview of the implementation of the state budget under the cash flow methodology, COVID-19-related measures and measures to ease the cost of living crisis in its monthly publication, subject to the availability of such data in the future. All comments pertain to data as at 4 September 2023.

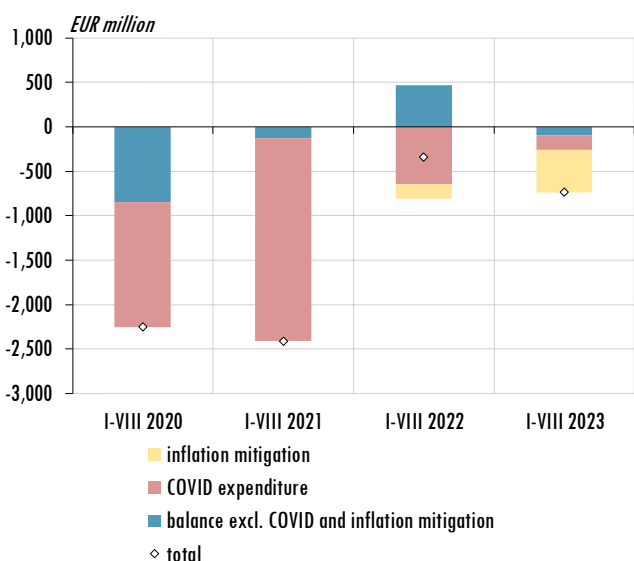
² This year, the Ministry of Finance stopped publishing daily data on health insurance transfers, which are therefore available with a one-month delay. In the seven months of this year for which data are currently available, the “core” transfer from the state budget to the health insurance fund was EUR 213 million, four times more than in the same period of last year.

- The Fiscal Council defined the August natural disaster as an extraordinary macroeconomic and fiscal shock. A complete rectification of its consequences, including appropriate modifications that would prevent such repercussions of any similar events in the future, will require years of effort, in terms of both financial resources and improving the efficiency of public institutions in public spending for these purposes.
- As the process of assessing the actual damage is still ongoing and it is therefore impossible to determine the exact amount of financial resources required, certain measures adopted thus far seem to be premature. This mostly concerns the decision to take out extensive additional loans under the Recovery and Resilience Plan, where deadlines for the implementation of projects are extremely short and Slovenia already faces significant problems in meeting milestones, and the decision to introduce additional, albeit temporary, tax charges on the population and businesses, not least in light of the economic cool-down. The Fiscal Council believes that, before making such decisions, it would be sensible to wait for the preparation of budgets for the next two years to find reserves that could account for the changed priorities in the planned expenditure.

The state budget January–August 2023³

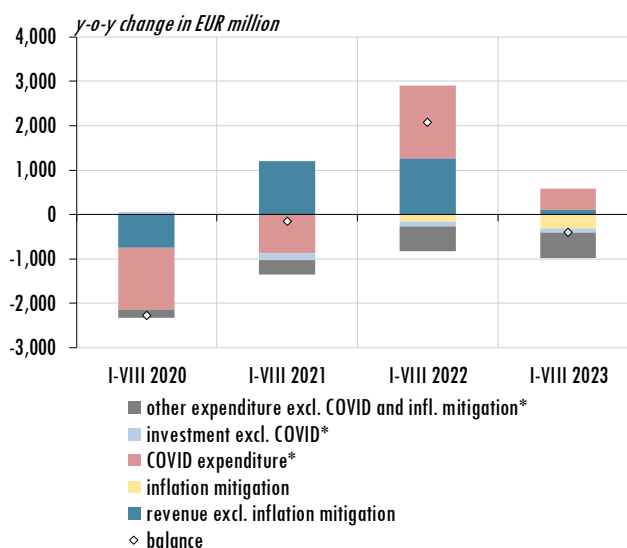
- With a EUR 155 million **state budget deficit** being recorded in August, according to preliminary data, the deficit was EUR 735 million in the first eight months of 2023. Excluding the direct effect of COVID-19 expenditure and measures to mitigate the cost-of-living crisis, in the first eight months, the state budget had a deficit of EUR 95 million, whereas it recorded a surplus of EUR 468 million in the first eight months of last year.
- Total **revenue** in the first eight months of this year remained unchanged on a year-on-year basis (there was growth of 16.9% in the same period last year). In particular, revenue from corporate income tax is lower, mainly due to the effect of last year’s high base, when the 2021 balancing payments of tax were at a record high, EU funding⁴ and non-tax revenue. Growth also slowed

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.

³ The comment on the state budget implementation refers to the daily data available at <https://proracun.gov.si/#> (Only in Slovene).

⁴ The decrease compared to the first eight months of last year is largely due to the 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.-Aug.				Sep.-Dec.				2022	2023**	2023 compared to 2022	
	2022	2023	2023 compared to 2022		2022	2023*	2023 compared to 2022					
			%				%				%	
Revenue	8,222	8,224	1	0.0	4,122	4,920	798	19.4	12,345	13,144	799	6.5
VAT	3,155	3,279	124	3.9	1,592	1,803	211	13.3	4,747	5,082	335	7.1
Excise duties	957	1,104	148	15.4	490	502	12	2.5	1,446	1,606	160	11.1
Personal income tax	966	1,037	71	7.4	620	588	-32	-5.2	1,586	1,625	39	2.5
Corporate income tax	1,148	968	-180	-15.7	405	447	42	10.4	1,553	1,415	-138	-8.9
EU funds	608	539	-69	-11.4	349	931	582	166.6	957	1,470	513	53.5
Non-tax	509	470	-39	-7.7	261	202	-59	-22.6	770	672	-98	-12.7
Other revenue	879	826	-52	-5.9	406	447	41	10.2	1,284	1,274	-11	-0.8
Expenditure	8,559	8,959	400	4.7	5,150	7,343	2,193	42.6	13,709	16,302	2,594	18.9
Total labour costs	2,480	2,754	275	11.1	1,272	1,573	302	23.7	3,751	4,328	577	15.4
Transfers to individ. and hou.	1,293	1,284	-9	-0.7	672	614	-58	-8.7	1,965	1,897	-67	-3.4
Exp. on goods and services	929	881	-48	-5.1	598	535	-63	-10.6	1,526	1,416	-111	-7.2
Investment	642	771	129	20.1	1,027	1,693	667	65.0	1,669	2,465	796	47.7
Curr. transf. to soc. sec. funds	1,060	1,110	50	4.7	466	455	-10	-2.2	1,526	1,565	40	2.6
Subsidies	404	566	163	40.3	229	289	61	26.5	632	856	223	35.3
Interest	470	513	42	9.0	184	168	-17	-9.0	655	681	26	3.9
Payments to the EU budget	480	434	-45	-9.4	250	296	46	18.4	730	730	1	0.1
Other expenditure	802	646	-157	-19.5	453	1,720	1,267	279.5	1,255	2,365	1,110	88.4
Balance	-337	-735	-399		-1,027	-2,423	-1,396		-1,364	-3,158	-1,794	

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

Figure 3: Structure of state budget expenditure growth

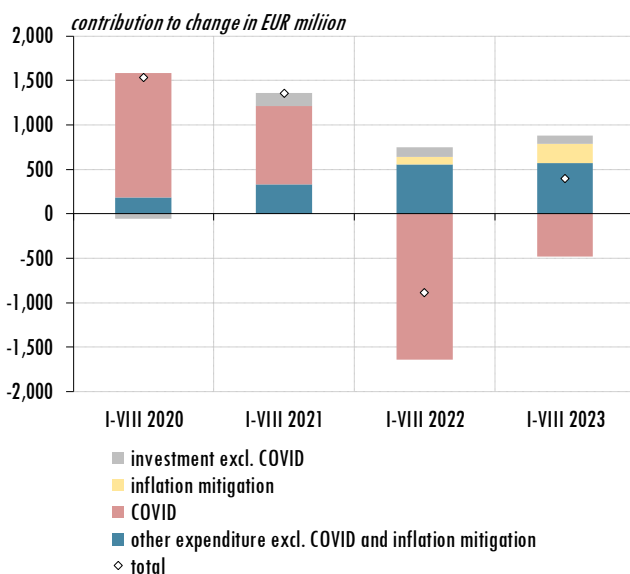
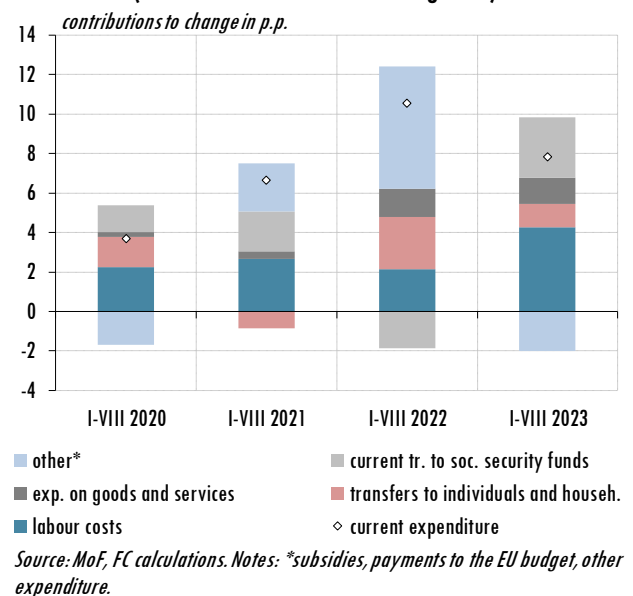


Figure 4: Current expenditure factor (excl. COVID and inflation mitigation)



considerably in VAT inflows, which is the main source of state budget revenue, mainly due to lower consumption and partly also to the lower VAT rate on energy products, which ended at the end of May.

- Total **expenditure** in the first eight months of this year was 4.7% higher year-on-year, while the "core" expenditure (excluding COVID-19 expenditure and the effect of measures to mitigate the cost-of-living crisis) was 8.4% higher. The year-on-year growth in core expenditure was mainly driven by higher expenditure on labour costs (11.7%) as a result of the wage increase agreement reached last autumn. Its growth strengthened further 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, investment expenditure in the context of continued relatively high investment activity, which, however, is still lagging behind the projections that, according to the Fiscal Council's assessment, were over-optimistic, 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.

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

- The state budget expenditure on COVID-19-related measures totalled EUR 161 million in the first eight 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 outturn so far is accounted for by investments financed under the REACT-EU programme (EUR 51 million), wage compensation due to isolation (EUR 46 million), which ended at the end of March, and expenditure related to the cost of vaccination and testing (EUR 46 million).
- The effect of measures to mitigate the cost-of-living crisis in the first eight months of this year amounts to EUR 479 million, while, according to the adopted revised budget, the impact on a yearly basis is expected to amount to EUR 1,089 million. According to Ministry of Finance estimates, revenue associated with the response to the cost-of-living crisis in the first eight months is expected to be lower by EUR 172 million. Expenditure for mitigating the impact of the cost-of-living crisis in the same period amounted to EUR 308 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 182 million).
- Taking into account the current outturn (EUR 469 million in total expenditure), it is projected that the envisaged expenditure outturn in the revised state budget (totalling EUR 1,258 million) on both COVID-19-related measures and measures to mitigate the cost-of-living crisis will not be achieved in full.

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

<i>EUR million, unless stated otherwise</i>	I-VIII 2022				I-VIII 2023				I-VIII 23/ I-VIII 22, %		I-VIII 23/ I-VIII 22	
	total	COVID mitig.	infl. mitig.	excl. COVID and infl. mit	total	COVID mitig.	infl. mitig.	excl. COVID and infl. mit	total	excl. COVID and infl. mit	total	excl. COVID and infl. mit
Revenue	8,222		-75	8,297	8,224		-172	8,395	0.0	1.2	1	98
VAT	3,155		0	3,155	3,279		-73	3,352	3.9	6.2	124	196
Excise duties	957		-63	1,020	1,104		-51	1,155	15.4	13.3	148	136
Personal income tax	966			966	1,037			1,037	7.4	7.4	71	71
Corporate income tax	1,148			1,148	968			968	-15.7	-15.7	-180	-180
EU funds	608			608	539			539	-11.4	-11.4	-69	-69
Non-tax	509			509	470			470	-7.7	-7.7	-39	-39
Other revenue	879		-12	891	826		-48	874	-5.9	-1.8	-52	-16
Expenditure	8,559	643	86	7,830	8,959	161	308	8,490	4.7	8.4	400	661
Total labour costs	2,480	31		2,448	2,754	14	6	2,734	11.1	11.7	275	286
Transfers to individ. and hou.	1,293	126	0	1,167	1,284	8	28	1,248	-0.7	6.9	-9	81
Exp. on goods and services	929	145		783	881	6	3	872	-5.1	11.4	-48	89
Investment	642	15		627	771	52		719	20.1	14.6	129	92
Curr. transf. to soc. sec. funds	1,060	157		903	1,110	0		1,110	4.7	22.9	50	207
Subsidies	404	31	86	287	566	34	268	265	40.3	-7.8	163	-23
Interest	470			470	513			513	9.0	9.0	42	42
Payments to the EU budget	480			480	434			434	-9.4	-9.4	-45	-45
Other expenditure	802	138		664	646	47	3	596	-19.5	-10.3	-157	-68
Balance	-337	-643	-161	468	-735	-161	-479	-95			-399	-563

Source: MoF, FC calculations.