



REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Monthly Information

January 2024

Key highlights¹

- In 2023, the state budget deficit amounted to EUR –2,293 million, while excluding the direct impact of various intervention measures, the deficit would have been EUR -656 million.
- State budget trends were worse last year than in 2022. The overall deficit was higher (by EUR 929 million), mainly as a result of the 'core' deficit (excluding intervention measures), which was higher by EUR 648 million. The total amount of intervention measures was higher by EUR 281 million. The deterioration compared with 2022 was largely due to higher growth in 'core' spending, in particular labour costs and transfers to social security funds, mainly to the Health Insurance Institute of Slovenia, and partly to lower revenue growth, in particular some key tax revenues with a slowdown in economic activity and inflation.
- In accordance with the Fiscal Council's expectations, the 2023 state budget's outturn was nonetheless much less negative than the Ministry of Finance's autumn estimate. The overall deficit was lower by EUR 828 million, mainly due to a lower realisation of 'core' spending (excluding intervention measures). When the budget documents for 2024 and 2025 were prepared last autumn, the Ministry of Finance's estimate of the 2023 outturn was again significantly overestimated. This also led to an overestimated projection of the level of 'core' spending for 2024. To a certain extent, the latter is not based on the measures currently in place and allows for the adoption of additional discretionary measures with a lasting negative impact on the government's fiscal position even within the limits set by the adopted budget. The adopted amendment to the 2024 budget based on the actual outturn for 2023 allows for a 5.8% growth of 'core' spending in 2024, compared to only a 1.0% growth in the previous estimated outturn.
- The inadequacy of the budgetary planning is also indicated by the fact that the budget balances of the Ministry of Finance have not been adequately adjusted to the adopted 2024 budget or to the changes approved by the National Assembly during the budget adoption process with respect to the draft budget. The most significant changes relate to the solidarity levy for post-flood reconstruction included in the draft, which was cancelled during the budget adoption process, to the revised value of lump sum funding of municipalities +, and to the partial adjustment of transfers to individuals and households to inflation which was approved by the National Assembly and not included in the draft budget. These transfers are expected to fall by 10.2% this year according to the Ministry of Finance's available budget balance and last year's outturn, which is unrealistic. With inflation at 4.2% last year, they are likely to increase, which could lead to even higher growth in 'core' spending than currently indicated.
- The decline in the government debt-to-GDP ratio is entirely due to high inflation, while its faster and more sustained decline is prevented by the high government deficit.
- The risks to the medium-term sustainability of public finances have increased significantly since the outbreak of the epidemic. Over the 2020–2023 period, expenditure growth, excluding the impact of intervention measures to mitigate the effects of crises and expenditure on investment and interest, increased year by year and exceeded the estimated growth of medium-term economic potential throughout the whole period. In addition to the delay in introducing systemic changes, this is largely due to the adoption of numerous discretionary measures not related to crises which have a permanent negative impact on public finances.

¹ The Fiscal Council will continue to regularly publish an overview of the implementation of the state budget under the cash flow methodology and intervention measures in its monthly publication, subject to the availability of such data in the future. All comments pertain to data as at 4 January 2024.

The state budget in 2023²

- With a **deficit** of EUR -981 million recorded in December, according to preliminary data, the total **deficit of the state budget** in 2023 amounted to EUR -2,293 million. Excluding the direct impact of intervention measures related to the epidemic (EUR 308 million), the cost-of-living crisis (EUR 786 million) and the floods (EUR 543 million), the 2023 statebudget had a 'core' deficit of EUR -656 million. In 2022, the 'core' deficit was only EUR -8 million, mainly due to strong cyclical and inflation-driven revenue growth.
- Total **revenue** grew by 8.0% last year (10.5% in 2022). The year-on-year growth rate increased significantly in December (to 59.3%) due to the payment of EUR 536 million based on the second request for funds from the Recovery and Resilience Mechanism. This also contributed significantly to a less pronounced slowdown in the total revenue growth compared to 2022, as indicated by the outturn up to November³.

Table 1: State budget

| EUR million, unless stated otherwise | I | II | III | IV | III/I | III/II | III/I | IV/II | IV/III |
|---|---------------|---------------------------|---------------|---------------|---|-------------|----------------------|--------------|--------------|
| | 2022 | 2023 | 2023 | 2024 | 2023 | | 2023/2022 | 2024/2023 | 2024/2023 |
| | | MoF estimate (Oct. 23) | outturn | budget | difference in EUR million compared to 2022 2023 MoF estimate | | y-o-y growth in % | MoF estimate | outturn |
| Revenue | 12.345 | 13.151 | 13.332 | 14.006 | 987 | 180 | 8,0 | 6,5 | 5,1 |
| VAT | 4.747 | 4.977 | 5.134 | 5.375 | 387 | 157 | 8,2 | 8,0 | 4,7 |
| Excise duties | 1.446 | 1.647 | 1.655 | 1.561 | 209 | 9 | 14,5 | -5,2 | -5,7 |
| Personal income tax | 1.586 | 1.725 | 1.703 | 1.896 | 117 | -22 | 7,4 | 9,9 | 11,3 |
| Corporate income tax | 1.553 | 1.402 | 1.381 | 1.484 | -172 | -21 | -11,1 | 5,9 | 7,4 |
| EU funds | 957 | 1.470 | 1.398 | 1.464 | 441 | -72 | 46,1 | -0,4 | 4,7 |
| Non-tax | 770 | 705 | 726 | 869 | -44 | 21 | -5,7 | 23,2 | 19,7 |
| Other revenue | 1.284 | 1.225 | 1.333 | 1.358 | 49 | 108 | 3,8 | 10,9 | 1,8 |
| Expenditure-total | 13.709 | 16.272 | 15.624 | 16.227 | 1.916 | -648 | 14,0 | -0,3 | 3,9 |
| Intervention measures | 1.138 | 1.435 | 1.457 | 1.244 | 319 | 23 | 28,0 | -13,3 | -14,6 |
| COVID | 885 | 371 | 308 | 29 | -577 | -64 | -65,2 | -92,3 | -90,7 |
| inflation mitigation | 253 | 779 | 596 | 100 | 343 | -183 | 135,3 | -87,1 | -83,2 |
| floods | | 284 | 553 | 1.115 | 553 | 270 | | 293,1 | 101,6 |
| Expenditure excl. interv. meas. | 12.570 | 14.837 | 14.167 | 14.983 | 1.597 | -671 | 12,7 | 1,0 | 5,8 |
| Total labour costs | 3.714 | 4.320 | 4.094 | 4.440 | 380 | -226 | 10,2 | 2,8 | 8,4 |
| Transfers to individ. and households | 1.727 | 1.801 | 1.864 | 1.674 | 137 | 63 | 7,9 | -7,0 | -10,2 |
| Exp. on goods and services | 1.370 | 1.362 | 1.498 | 1.555 | 128 | 136 | 9,3 | 14,1 | 3,8 |
| Investment | 1.614 | 2.321 | 1.795 | 1.839 | 181 | -526 | 11,2 | -20,8 | 2,4 |
| Curr. transf. to soc. sec. funds | 1.246 | 1.560 | 1.521 | 1.925 | 275 | -39 | 22,1 | 23,4 | 26,6 |
| Subsidies | 432 | 366 | 393 | 419 | -39 | 27 | -9,0 | 14,6 | 6,7 |
| Interest | 655 | 681 | 684 | 818 | 29 | 4 | 4,5 | 20,2 | 19,5 |
| Payments to the EU budget | 730 | 730 | 672 | 719 | -57 | -58 | -7,8 | -1,5 | 7,0 |
| Other expenditure | 1.083 | 1.698 | 1.645 | 1.595 | 562 | -53 | 51,8 | -6,1 | -3,1 |
| Balance | -1.364 | -3.121 | -2.293 | -2.221 | -929 | 828 | | 900 | 72 |

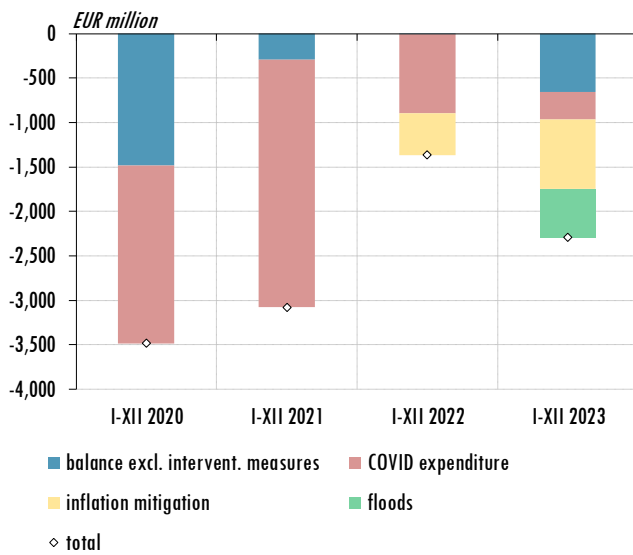
Source: MoF, FC calculations.

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

³ In eleven months last year, year-on-year growth in revenues was 3.1%.

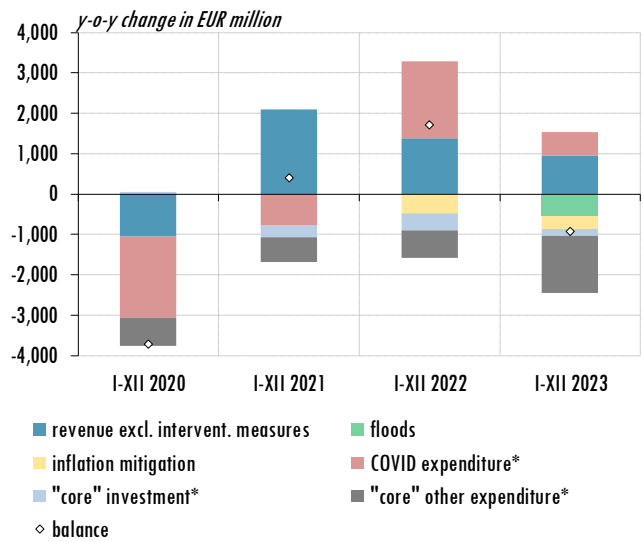
- EU funds received thus made the largest contribution to last year's overall revenue growth, but despite an almost EUR 200 million higher realisation of RRP resources compared to the previous estimate, the overall realisation of EU funds again fell short of the autumn projections of the Ministry of Finance (by EUR 72 million).
- Growth in VAT revenue, the main source of budget revenue, slowed down in 2023, despite the stronger growth in the last three months of last year. This was mainly due to a slowdown in consumption and partly also to the lower VAT rate on energy products, which expired at the end of May. Corporate income tax revenue fell last year, mainly due to the high base effect in 2022, when the 2021 balancing payments of tax were at a record high.
- Growth in the other two key tax revenues increased last year. This is particularly the case for revenues from excise duties, as the fall in energy prices on world markets has allowed excise duties to increase without causing a rise in retail prices. Excise duties on tobacco products also

Figure 1: State budget balance



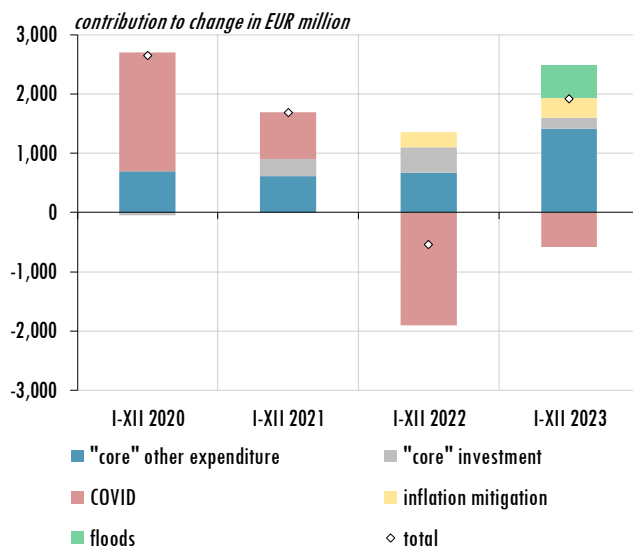
Source: MoF, FC calculations.

Figure 2: Factors of state budget balance change



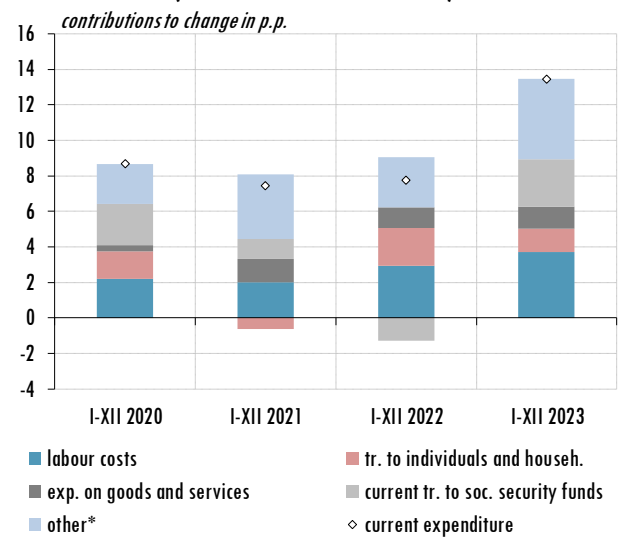
Source: MoF, FC calculations. *positive sign denotes a decrease, negative sign denotes an increase.

Figure 3: Structure of state budget expenditure growth



Source: MoF, FC calculations.

Figure 4: Current expenditure factors (excl. intervention measures)

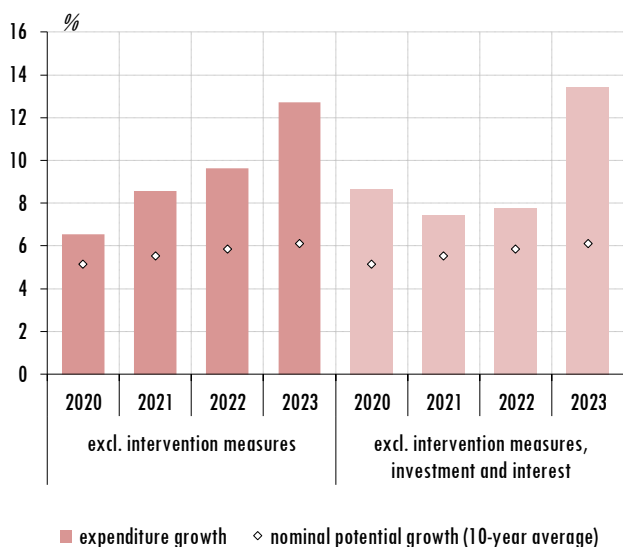


Source: MoF, FC calculations. Notes: *subsidies, payments to the EU budget, other expenditure.

increased. In the context of further tax relief and the non-indexation of the income tax bracket scale with respect to inflation, income tax revenue growth increased slightly last year, mainly due to a further strengthening of nominal wage growth.

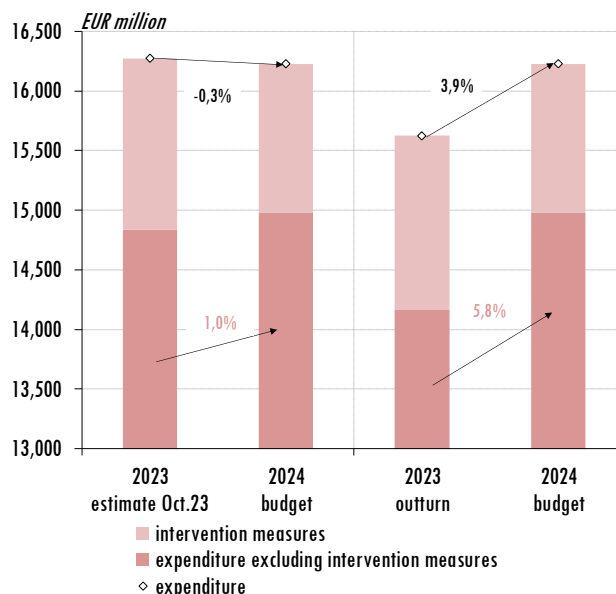
- Total **expenditure** was 14.0% higher in 2023, while 'core' expenditure (excluding intervention measures) was 12.7% higher. "Core" expenditure growth and 'core' current expenditure growth⁴ increased last year for the fourth consecutive year and were well above the estimated growth of medium-term economic potential. This is due to the adoption of a number of discretionary measures after the outbreak of the epidemic which are not related to dealing with the consequences of crises. These measures pose a significant risk to the achievement of the medium-term sustainability of public finances, as they have a lasting negative impact on public finances.
- The main contributor to the increase in 'core' expenditure last year was in particular the RRP funds received in December, which are credited to a special budget fund until they are actually spent. The funds received have no impact on the state budget balance, as the credited expenditure is equal to the revenue.
- Other significant contributors to the growth in 'core' expenditure were higher *labour costs* (10.2%) as a result of the wage increase agreement concluded in autumn 2022, and higher *transfers to the social security funds*, in particular the Health Insurance Institute of Slovenia. Data on the December transfer to the Health Insurance Institute of Slovenia are not yet available as the Ministry of Finance discontinued the regular publication of these data as of 2023, with the largest transfer ever planned for that year. The transfer amounted to EUR 381 million in eleven months of 2023, which is EUR 220 million or 137% more than in the same period of 2022.
- "Core" expenditure for *transfers to individuals and households*, *expenditure on goods and services* and *investments* increased by around one tenth last year, contributing around 1.0 pp each to 'core' expenditure growth, which is slightly less than in 2022. As expected by the Fiscal Council at the time of the adoption of the budget documents in the autumn, the actual realisation of

Figure 5: State budget expenditure growth



Source: MoF, IMAD, FC calculations.

Figure 6: State budget expenditure



Source: MoF, FC calculations.

⁴ In addition to intervention measures, expenditure on investment and interest is excluded.

social transfers and intermediate spending was higher than the preliminary estimate of the Ministry of Finance, while the realisation of investment spending was lower by more than EUR 500 million, as the projections for this component were again too optimistic.

Implementation of intervention measures in 2023

- By the end of December, EUR 553 million was earmarked in the state budget for **post-flood** recovery. Most of the amount was to be used for investment transfers to municipalities (EUR 219 million) and for intervention costs (EUR 85 million). EUR 49 million was earmarked for extraordinary cash social assistance, EUR 23 million for housing reconstruction and EUR 35 million for aid to businesses. To date, the cost of the rehabilitation of watercourses has amounted to EUR 44 million, while the cost of the reconstruction of state roads and railway infrastructure has amounted to EUR 46 million.
- Cost-of-living crisis** expenditure amounted to EUR 596 million last year, which is EUR 183 million less than the previously available outturn estimate, but EUR 343 million more than in 2022. The bulk of this was spent on aid to the economy⁵ (EUR 275 million) and on compensation to suppliers of electricity, natural gas and heating from district heating systems (EUR 181 million). In both years, EUR 549 million was earmarked for direct aid to the economy, which is around two thirds of the total of EUR 850 million of expenditure to mitigate the cost-of-living crisis. Aid to pensioners amounted to EUR 85 million in 2023 and a total of EUR 129 million in both years or 15% of total expenditure to mitigate the cost-of-living crisis. The more significant expenditure also included increased child benefits, amounting to EUR 20 million in 2023 and EUR 57 million in

Table 2: State budget (excluding intervention measures)

| EUR million, unless stated otherwise | 2022 | | | | 2023 | | | | 2023/2022, % | | 2023/2022 | | |
|---|---------------|-----------------|-----------------|------------------------------|---------------|-----------------|-----------------|------------------------------|-----------------|------------------------------|--------------|------------------------------|-----|
| | total | COVID mitig. | infl. floods | excl. interv. measures | total | COVID mitig. | infl. floods | excl. interv. measures | total | excl. interv. measures | total | excl. interv. measures | |
| Revenue | 12.345 | -217 | | 12.562 | 13.332 | -190 | 10 | 13.511 | 8,0 | 7,6 | 987 | 949 | |
| VAT | 4.747 | -58 | | 4.805 | 5.134 | -73 | | 5.207 | 8,2 | 8,4 | 387 | 402 | |
| Excise duties | 1.446 | -99 | | 1.545 | 1.655 | -69 | | 1.724 | 14,5 | 11,6 | 209 | 179 | |
| Personal income tax | 1.586 | | | 1.586 | 1.703 | | | 1.703 | 7,4 | 7,4 | 117 | 117 | |
| Corporate income tax | 1.553 | | | 1.553 | 1.381 | | | 1.381 | -11,1 | -11,1 | -172 | -172 | |
| EU funds | 957 | | | 957 | 1.398 | | | 1.398 | 46,1 | 46,1 | 441 | 441 | |
| Non-tax | 770 | | | 770 | 726 | | | 726 | -5,7 | -5,7 | -44 | -44 | |
| Other revenue | 1.284 | -60 | | 1.344 | 1.333 | -48 | 10 | 1.371 | 3,8 | 1,9 | 49 | 26 | |
| Expenditure | 13.709 | 885 | 253 | 12.570 | 15.624 | 308 | 596 | 553 | 14,0 | 12,7 | 1.916 | 1.597 | |
| Total labour costs | 3.751 | 37 | | 3.714 | 4.117 | 15 | 8 | 0 | 4.094 | 9,8 | 10,2 | 366 | 380 |
| Transfers to individ. and hou. | 1.965 | 134 | 104 | 1.727 | 2.062 | 11 | 115 | 73 | 1.864 | 5,0 | 7,9 | 98 | 137 |
| Exp. on goods and services | 1.526 | 156 | | 1.370 | 1.618 | 10 | 3 | 107 | 1.498 | 6,0 | 9,3 | 92 | 128 |
| Investment | 1.669 | 55 | | 1.614 | 2.202 | 183 | | 224 | 1.795 | 32,0 | 11,2 | 533 | 181 |
| Curr. transf. to soc. sec. funds | 1.526 | 279 | | 1.246 | 1.521 | 0 | | | 1.521 | -0,3 | 22,1 | -4 | 275 |
| Subsidies | 632 | 51 | 150 | 432 | 945 | 39 | 468 | 45 | 393 | 49,4 | -9,0 | 313 | -39 |
| Interest | 655 | | | 655 | 684 | | | | 684 | 4,5 | 4,5 | 29 | 29 |
| Payments to the EU budget | 730 | | | 730 | 672 | | | | 672 | -7,8 | -7,8 | -57 | -57 |
| Other expenditure | 1.255 | 172 | 0 | 1.083 | 1.802 | 49 | 4 | 104 | 1.645 | 43,5 | 51,8 | 546 | 562 |
| Balance | -1.364 | -885 | -470 | -8 | -2.293 | -308 | -786 | -543 | -656 | | -929 | -648 | |

Source: MoF, FC calculations.

⁵ According to Article 14 of the Act Governing Aid to Businesses to Mitigate the Impact of the Energy Crisis (ZPGOPEK) and Article 9 of the Act Governing Aid to Businesses Hit by High Increases in Electricity and Natural Gas Prices (ZPGVCEP).

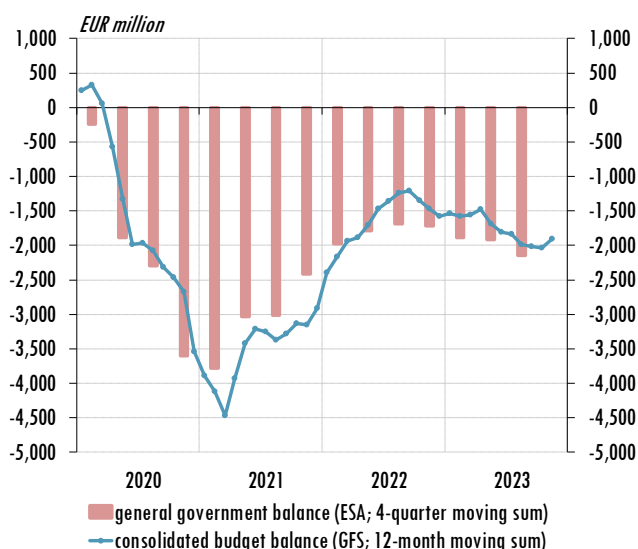
both years. In addition to direct expenditure, EUR 55 million was allocated from the B-balance of the state budget for the operations of SID Bank and the increase in the assets of the Slovenian Enterprise Fund – SPS and the Slovenian Regional Development Fund – SRRS as part of the measures to mitigate the cost-of-living crisis.

- State budget expenditure for **COVID-related measures** totalled EUR 308 million in 2023, which is EUR 64 million less than the latest available estimate of the outturn by the Ministry of Finance in September last year and EUR 577 million less than in 2022. The bulk of the expenditure outturn was accounted for by investments (EUR 183 million), mostly financed under the REACT-EU programme, of which EUR 70 million was earmarked for investments in the health sector, EUR 58 million for social care and EUR 54 million for tourism. Since the onset of the epidemic in March 2020, EUR 5,986 million of state budget funds has been paid out for COVID-related measures.

General government sector (until the third quarter of 2023)

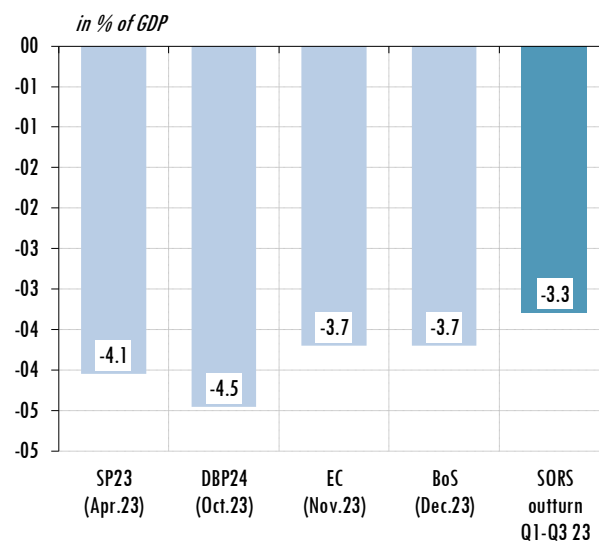
- According to the available data of the Statistical Office of the Republic of Slovenia (SORS)⁶, the **deficit** of the whole general government sector averaged -3.3% of GDP in the first three quarters of last year, which is 0.7 pp of GDP more than in the same period of 2022. Despite the expected higher deficit in the last quarter of the year, as indicated by the data on the implementation of the state budget or the consolidated balance, we estimate that the deficit for the year as a whole will be significantly lower than projected in the October Draft Budgetary Plan. As in the case of the state budget, this will largely be due to lower spending trends than expected in the projection, which was again overestimated.

Figure 7: Public finance balances



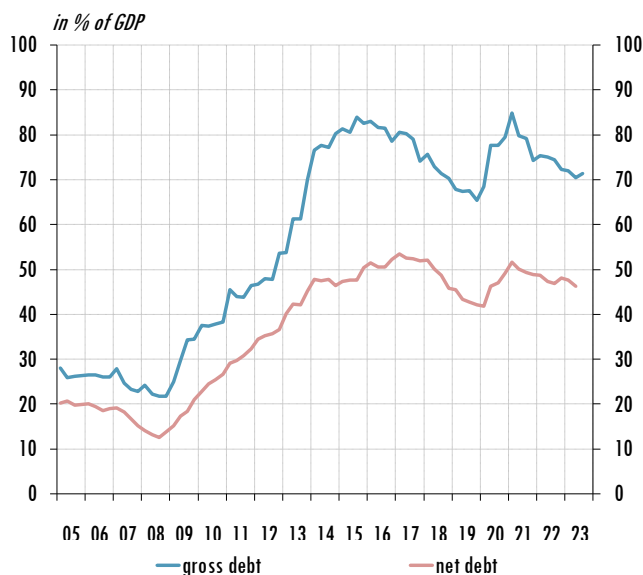
Source: SORS, MoF, FC calculations.

Figure 8: General government balance 2023



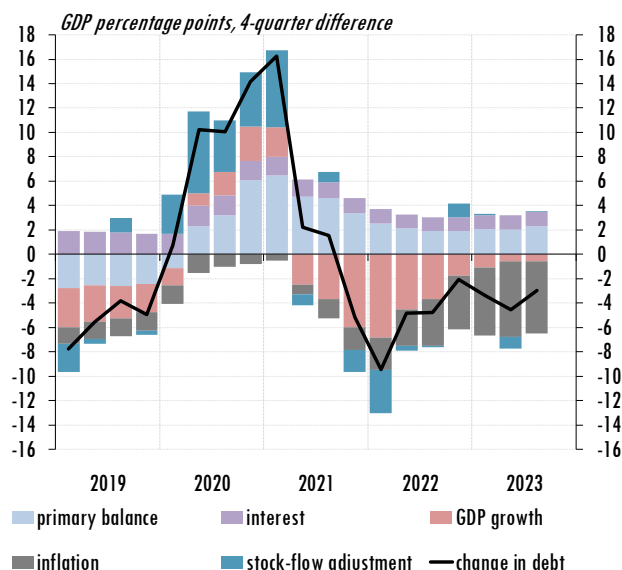
Vir: MoF, EC, BoS, SORS.

Figure 9: Gross and net general government debt



Source: Eurostat, ECB, SORS, FC calculations.

Figure 10: Public debt change



Source: SORS, FC calculations.

⁶ The Statistical Office of the Republic of Slovenia (SORS) published the Main Aggregates of the General Government Sector for the third quarter of 2023.

Available at <https://www.stat.si/StatWeb/en/News/Index/11571>.

- The general government gross **debt** at the end of the third quarter of last year totalled EUR 71.4% of GDP, which was 0.9 pp of GDP less than at the end of 2022. The decrease is entirely due to high inflation, while the high general government deficit prevents a faster decline in the gross debt-to-GDP ratio. According to the projections in the latest Draft Budgetary Plan, the gross debt ratio was expected to decline further in the last quarter, reaching 69.9% of GDP at the end of 2023. Due to the maintenance of high liquidity reserves, the net government debt is much lower and, according to the latest data available, stood at 46.3% of GDP at the end of the second quarter of last year.