REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Assessment of compliance of the general government budgets with the fiscal rules in 2023

June 2024

Document no: 30-2/2024/3

TABLE OF CONTENTS:

FIGURES:

TABLES:

EXECUTIVE SUMMARY

The fiscal position improved last year; contrary to the Government's plans, the fiscal policy was relatively restrictive. The reduction in the general government deficit below the Maastricht limit was made possible by the favourable macroeconomic situation, particularly in terms of public finance. Continued high inflation and favourable market conditions had a positive effect last year on the nominal dynamics of tax bases and consequently resulted in high growth in general government revenues. Growth in "core" spending, excluding intervention measures, decreased last year compared to the year before, but it was still nearly twice as high as the long-term average, while the scope of intervention measures increased to mitigate the consequences of the cost-of-living crisis and floods. Last year's gross general government debt dropped below 70% of GDP. Resilience to difficult conditions on financial markets has also been ensured by a large liquidity reserve.

Realised public spending was within the adopted three-year framework. Given that, when the framework was amended, the maximum permitted expenditure levels were set too high according to the Fiscal Council's assessment, this was expected. Every time that budget documents were being adopted, the Fiscal Council called attention to the exaggerated spending plans, particularly in terms of investments, which were again much lower than planned. Unreasonable plans are inappropriate as they can lead to ineffective spending. At the same time, they fail to portray the actual room for manoeuvre for fiscal policy in times of favourable macroeconomic conditions. A counter-cyclical fiscal policy is necessary in light of various risks to fiscal sustainability. These risks are particularly prominent in social protection systems, where relatively high transfers from the state budget for pension and health insurance were needed in 2023 despite the historically high employment rate and high wage increases. Leeway is also needed to address unexpected shocks, such as last year's floods, which required substantial transfers to the affected municipalities.

A significant improvement in fiscal planning is also necessary due to the upcoming changes to the EU governance system. The numerous and considerable changes to the highest permitted expenditure that have been the practice thus far will no longer be possible in the future. The expenditure ceiling will be binding and agreed upon at the EU level for a period of four years. To ensure sustainable public debt, the permitted growth in expenditure in the following years will be lower than realised in previous years. This will require a more realistic and medium-term-oriented budgeting.

Legislative basis

Pursuant to point 4 of paragraph two and point 3 of paragraph three of Article 7 of the Fiscal Rule Act (hereinafter: the ZFisP), the Fiscal Council (hereinafter: the FC) is obliged to provide an assessment of the compliance of the implemented general government budgets with the fiscal rules for the previous year by 30 June of the current year. On 29 March 2024, the Statistical Office of the Republic of Slovenia published data on the *main aggregates of the general government 2020–2023*[1] according to the ESA methodology and on 19 April 2024 *the April Report on Excessive Deficit and Debt 2020–2023*.[2] The FC also obtained data from the consolidated public finance balance sheet and the four public finance budgets from the Ministry of Finance compiled under the cash flow methodology.[3]

In September 2022,[4] the FC assessed that the conditions allowing the application of exceptional circumstances under Article 12 of the ZFisP and thus for a temporary deviation from the medium-term fiscal balance were also fulfilled in 2023. The enforcement of the decision on the existence of exceptional circumstances in 2023 was also recommended at the EU level by the European Commission in May 2022.[5] It concluded that given the high degree of uncertainty, high risks associated with the war in Ukraine, the energy price shocks and continued supply chain disturbances, national fiscal policies should be provided sufficient room to react in 2023 as well. The extent of the permissible deviation from the medium-term balance under Article 13 of the ZFisP is proposed by the Government through a proposal for the amendment of the framework set by the National Assembly. The National Assembly adopted a framework covering 2023 in April 2021[6] and subsequently three amendments to the framework (in November 2021,[7] November 2022[8] and September 2023[9]). The FC assesses the amendments to the framework under Article 13 of the ZFisP on the basis of point 8 of paragraph two and point 5 of paragraph three of Article 7 of the ZFisP.

The domestic legislation does not explicitly prescribe the method for making an ex-post assessment of the compliance of implemented budgets with the fiscal rules for the period during which exceptional circumstances apply. However, in relation to Articles 6 and 13 of the ZFisP, general government expenditure must be consistent with the adopted budgetary frameworks. In the assessment, the FC examines, in particular, whether the realised part of expenditures linked to the cyclical position of the economy complies with the most recently adopted framework and the ex-post assessment of the maximum permitted level of expenditures of the general government sector. This calculation excludes intervention expenditure directly related to the elimination of the impact of the epidemic and the cost-of-living crisis and the consequences of the floods. It follows the formula in Article 3 of the ZFisP, in which the scope of intervention expenditure is considered as one-off expenditure. Due to increasing uncertainty about the calculation of input parameters, the FC only makes an indicative quantitative assessment for the period of exceptional circumstances. This applies also to assessments based on Article 15 of the ZFisP, according to which the FC assesses compliance with the rules pursuant to the Stability and Growth Pact (SGP).

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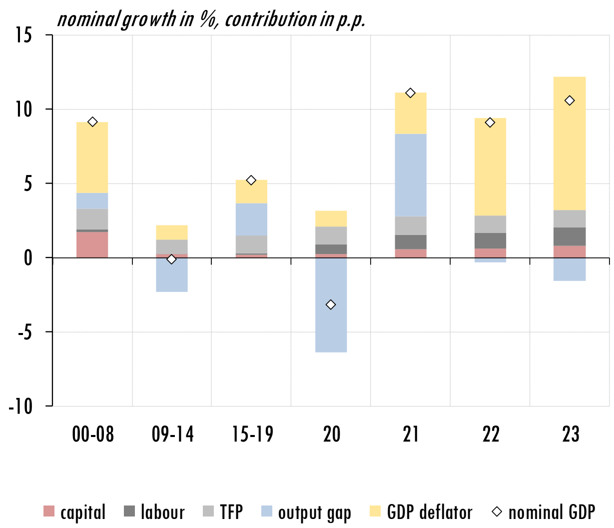
[1] SORS (2024a).
[2] SORS (2024b).
[3] Available at: https://www.gov.si/en/topics/fiscal-policy/.
[4] Fiscal Council (2022).
[5] Available at: https://ec.europa.eu/commission/presscorner/api/files/document/print/en/ip_22_3182/IP_22_3182_EN.pdf.
[6] OG RS (2021a).
[7] OG RS (2021b).
[8] OG RS (2022).
[9] OG RS (2023).

1. Macroeconomic and fiscal trends in 2023

1.1 The macroeconomic situation and assessment of the cyclical position of the economy

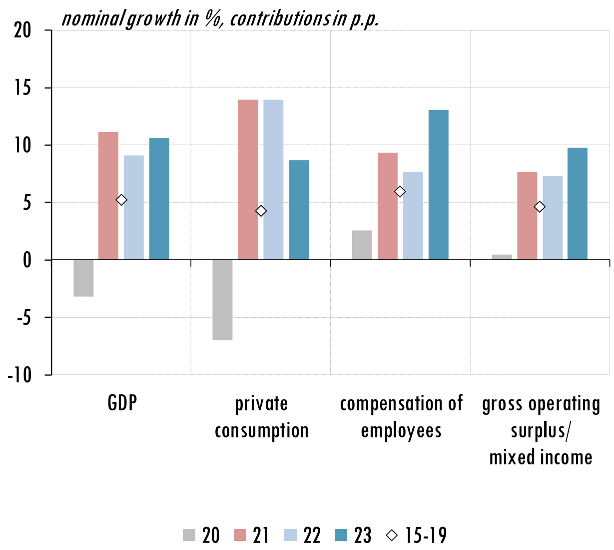
Real economic growth further stalled last year, but its impact on the tax base dynamics was limited due to persisting high inflation. GDP is currently estimated to have grown in 2023 by 1.6% in real terms. Real economic activity at the end of last year exceeded the level at the end of 2019, before the start of the epidemic, by 8.1%, which is significantly higher than the EU average (3.6%). Nominal trends are more important in terms of public finance or tax base dynamics. Last year's nominal increase in GDP was around 10% for the third consecutive year, even though the post-epidemic cyclical momentum finally waned. Growth was therefore twice as high as the average in the five years before the epidemic and was again largely due to high inflation. Also higher than before the epidemic were the contributions of capital, due to increased private and public investment activity, and of labour, in light of the high employment rate. Last year's nominal growth in key macroeconomic bases for general government revenues significantly exceeded the average growth in the years before the epidemic, increasing further with the exception of private consumption.

Figure 1.1: Supply factors



Source: SORS, IMAD, FC calculation.

Figure 1.2: Tax bases

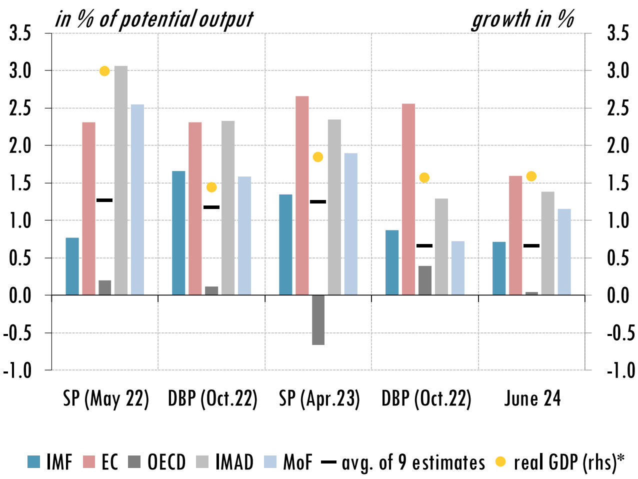


Source: SORS, FC calculations.

According to the FC's current assessment, the positive output gap decreased slightly as economic growth slowed. The estimates of the output gap differ because of differences in methodologies and input data. Furthermore, they can significantly change over time or especially in the event of a major shock, as they are sensitive to major changes in economic forecasts (see Figure 1.3). Due to the extent and heterogeneous impact of various shocks on economic activity and, in particular, their possible long-term consequences, the assessments of the cyclical position of the economy are even more uncertain.[10] This is illustrated by the range of different output gap assessments for 2023, which, according to the latest available estimates, is between -1.1% and 2.3%. Most other indicators monitored by the FC to determine the cyclical position of the economy confirm the estimated decrease in positive output gap last year. Conversely, labour market indicators, in particular, indicate important limitations on the

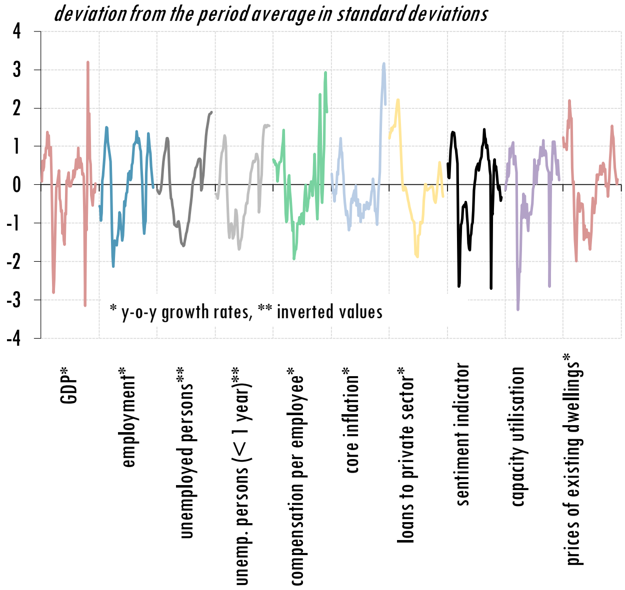
[10] For an analysis of the uncertainty of output gap estimates in the context of the epidemic crisis in Slovenia, see Box 1.1 in Fiscal Council (2020).

Figure 1.3: Output gap estimates for 2023 by documents



*Source: SORS, EC, IMF, MoF, OECD, IMAD, FC calcualtions. Note: * Forecast IMAD/outturn SORS. For more details on calculation of output gap estimates used by the Fiscal Council, see Fiscal Council (2018, pp. 23–26).*

Figure 1.4: Indicators of economic cycle dynamics 2005-2023



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

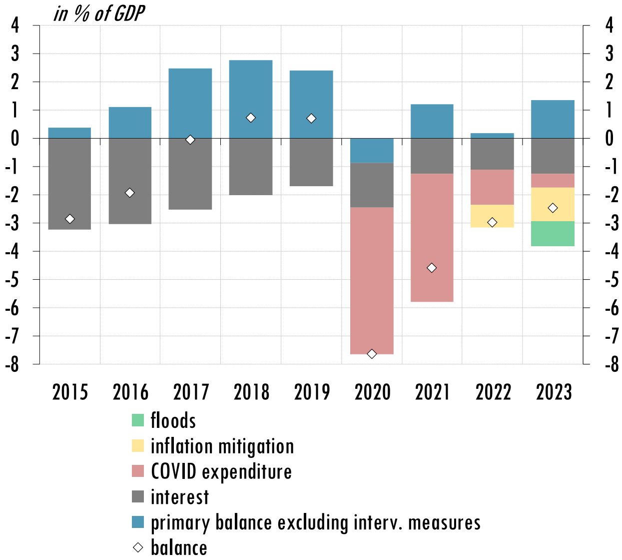
supply side, as their values were the highest since 2005. These limitations are reflected, among other things, in the high core inflation.

1.2 Fiscal trends – the general government sector (ESA)

The general government deficit declined last year (2.5% of GDP) and was expected, according to the FC, much lower than the Government's projections, due to an inadequate fiscal planning system. The total scope of intervention measures amounted to 2.6% of GDP last year, 0.5 pp of GDP higher than in 2022. The total deficit reduction of 0.5 pp of GDP was thus entirely due to lower core spending (excluding intervention measures). Core spending growth decreased last year and was lower than nominal GDP growth, mainly as a result of social benefits expenditure lagging behind nominal GDP growth.[11] Nevertheless, core spending growth was nearly four times higher than the average growth in the pre-epidemic period of 2015–2019. Revenue growth has slightly accelerated last year, mainly due to favourable labour market conditions and the resulting increase in private consumption. Its growth was stimulated largely by revenue from VAT, personal income tax and social contributions. Last year's core general government balance was thus evened out (0.1% of GDP) but still lower than before the epidemic (2019: 0.7% of GDP). Realised total deficit was 1.9 pp of GDP lower than the Government's projections in the Draft Budgetary Plan in October. Uncertainty about the actual scope of intervention measures contributed only to a limited extent to the discrepancy, as their realisation did not differ significantly from the projections. As in previous years, the discrepancy was most pronounced in investment spending, which again fell significantly short of plans that the FC had already considered excessive when adopted.

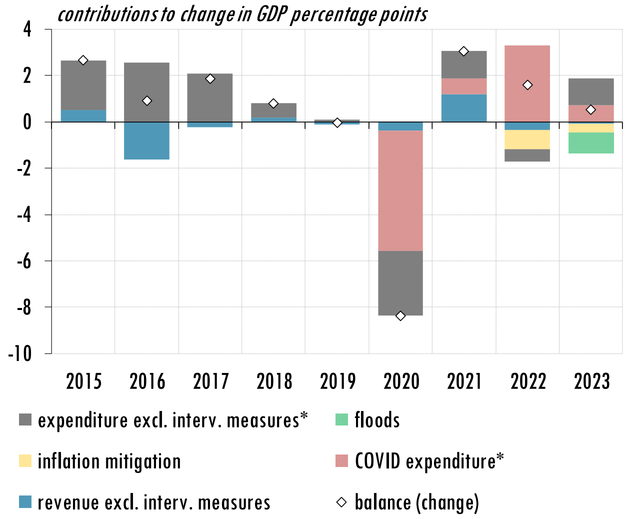
[11] A detailed overview of trends in core aggregates of general government revenue and expenditure was made difficult due to unavailable official data on the distribution of individual intervention measures.

Figure 1.5: General government budget balance



Source: SORS, MoF, FC calculations.

Figure 1.6: Factors of change to general government balance



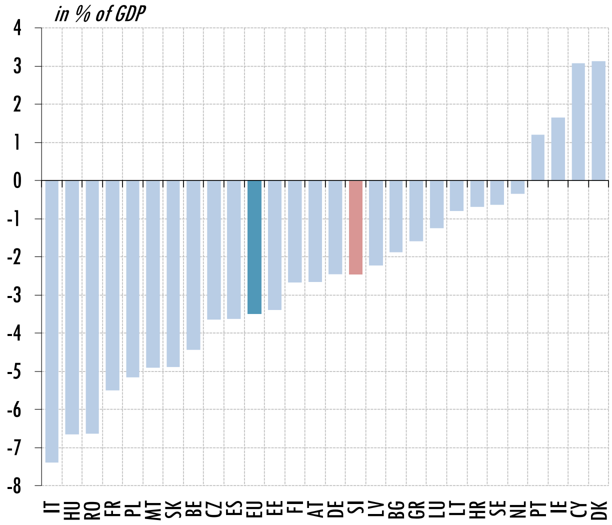
*Source: SORS, FC calculations. Note: *Positive sign denotes a decrease, negative sign denotes an increase.*

Table 1.1: General government budget balance (ESA methodology)

	EUR million			change in %			share in GDP (%)		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
Revenue	**23,483**	**25,209**	**27,913**	**14.2**	**7.4**	**10.7**	**44.9**	**44.2**	**44.2**
Total taxes	11,449	12,184	13,296	16.7	6.4	9.1	21.9	21.4	21.1
Taxes on prod.and imp.	7,040	7,590	8,243	15.0	7.8	8.6	13.5	13.3	13.1
Cur. taxes on inc., wealth	4,394	4,573	5,031	19.6	4.1	10.0	8.4	8.0	8.0
Capital taxes	15	20	21	22.9	37.7	3.9	0.0	0.0	0.0
Social contributions	8,741	9,307	10,176	8.3	6.5	9.3	16.7	16.3	16.1
Property income	317	405	639	3.5	27.9	57.7	0.6	0.7	1.0
Other	2,976	3,313	3,803	25.3	11.3	14.8	5.7	5.8	6.0
Expenditure	**25,879**	**26,911**	**29,465**	**7.1**	**4.0**	**9.5**	**49.5**	**47.2**	**46.7**
Comp. of employees	6,616	6,474	7,180	9.4	-2.1	10.9	12.7	11.4	11.4
Intermediate consumption	3,396	3,739	4,122	18.4	10.1	10.2	6.5	6.6	6.5
Social benefits	9,615	10,578	11,068	5.1	10.0	4.6	18.4	18.5	17.5
Interest	650	639	785	-13.2	-1.7	22.8	1.2	1.1	1.2
Subsidies	1,273	684	1,212	-32.0	-46.3	77.3	2.4	1.2	1.9
Gross fixed capital formation	2,442	3,082	3,367	26.3	26.2	9.3	4.7	5.4	5.3
Other	1,887	1,714	1,730	22.1	-9.2	1.0	3.6	3.0	2.7
Balance	**-2,396**	**-1,701**	**-1,552**				**-4.6**	**-3.0**	**-2.5**

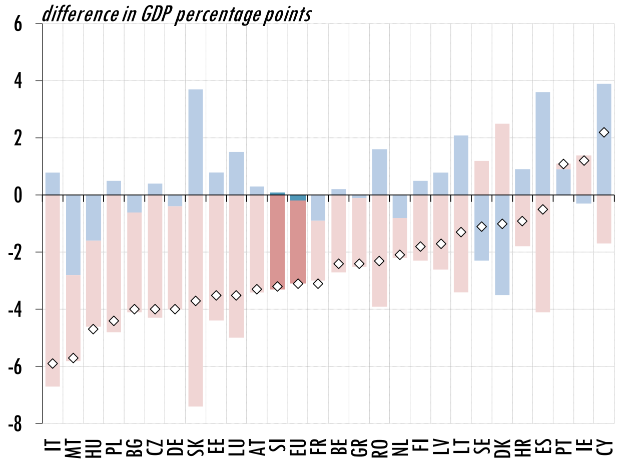
Source: SORS, MoF, FC calculations.

Figure 1.7: General government budget balance 2023



Source: Eurostat, FC calculations.

Figure 1.8: General government budget balance change (2023/2019)



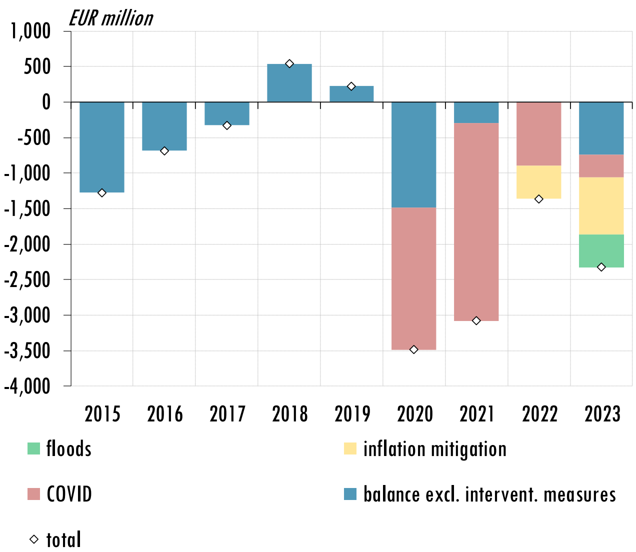
*Source: Eurostat, FC calculations. Note: * Positive sign denotes a decease in expenditure share and vice versa.*

Slovenia's general government deficit last year was smaller than the EU-27 average, while the deterioration of the balance in Slovenia compared to the pre-crisis year 2019 was similar. At the level of the EU-27 average, the deficit (3.5% of GDP) was similar as in the previous year, while its deterioration compared to 2019 amounted to 3.1 pp of GDP. Slovenia's general government balance deteriorated by 3.2 pp of GDP from 2019, which is the twelfth largest deterioration among Member States.

1.3 Fiscal trends – public finance budgets (the cash-flow methodology)

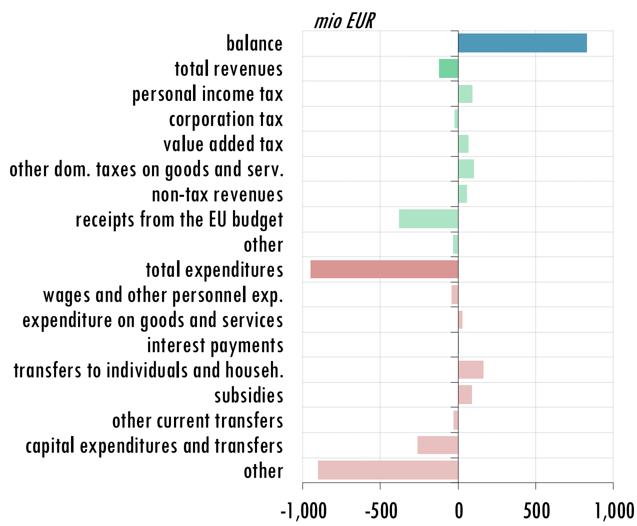
According to the final data, the government budget deficit amounted to EUR 2,327 million in 2023, or EUR 745 million excluding the direct impact of intervention measures. In both

Figure 1.9: State budget balance



Source: MoF, FC calculations.

Figure 1.10: Difference between state budget outturn and the Revised state budget for 2023



Source: MoF, state budget outturn and the Revised state budget II (Aug. 23).

comparisons, the deficit was significantly higher than in 2022. The overall deficit was higher (by EUR 963 million), mainly as a result of the core deficit (excluding intervention measures), which was higher by EUR 737 million. The total amount of intervention measures was higher by EUR 226 million. Unlike in the case of general government deficit, where growth in expenditure increased further, last year's higher core deficit was largely due to a slowdown in revenue growth. In line with the FC's expectations, the deficit was significantly lower than the estimated realisation of September 2023 (by EUR 794 million), which served as the basis for the preparation of the 2024 and 2025 budget documents.[12]

The state budget revenue growth stalled further last year (5.5%). The key reason for the slowdown in growth in total revenues compared to 2022 (10.5%) were lower revenues from corporate income tax. The latter decreased mainly due to the high base effect in 2022, when the 2021 balancing payments of tax were at a record high. VAT revenues were the main contributor to annual growth, but their growth was again slightly lower than the previous year. The decline was largely attributable to a slowdown in domestic demand in the context of high inflation and uncertainty and also to the lower VAT rate on energy products, which ended at the end of May. Growth in the other two key tax revenues increased last year. This was 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 increased. Despite further tax relief and the non-indexation of the income tax bracket scale to inflation, income tax revenue growth increased slightly last year, mainly due to a further strengthening of nominal wage growth. Revenues from EU funds were about one-tenth higher, largely due to the EU Solidarity Fund advance payment to eliminate the consequences of the floods.

Total state budget expenditure was 12.0% higher in 2023, while growth in core expenditure (excluding intervention measures) increased further (10.3%). Core expenditure growth and core current primary consumption growth[13] increased last year for the fourth consecutive year and were well above the estimated growth of medium-term economic potential. This was due to the adoption of a number of discretionary measures after the outbreak of the epidemic which were not related to dealing with the consequences of crises. The most significant contributor to last year's growth in core expenditure were higher labour costs (10.2%) as a result of the wage increase agreement concluded in autumn 2022. Higher transfers to the Health Insurance Institute of Slovenia[14] and use of budgetary funds also contributed to growth in core expenditure.[15] 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 to core expenditure growth, which is slightly less than in 2022. As expected by the FC at the time of the adoption of the budget documents in the autumn, the actual realisation of social transfers and intermediate spending was higher than the preliminary estimate of the Ministry of Finance. The realisation of investment spending was lower by more than EUR 500 million, as the projections for this component were again too optimistic. For the first time since 2016, state budget expenditure on interest also increased last year.

[12] Fiscal Council (2023).

[13] In addition to intervention measures, expenditure on interest and investment is also excluded.

[14] The state budget transfer to the Health Insurance Institute of Slovenia amounted to EUR 360 million last year and EUR 306 million in 2022. A significant part of the transfer in 2022 (EUR 211 million) was recorded as COVID-19-related expenditure, even though it was the result of salary increases in individual healthcare professions unrelated to the epidemic. This questionable accounting method has been highlighted by the FC on several occasions.

[15] The use of budgetary funds amounted to EUR 742 million last year, which was an increase of 57.6% on the year before. Most of the funds were used in December last year (EUR 418 million). The balance for all 11 budgetary funds amounted to EUR 1 billion at the end of last year.

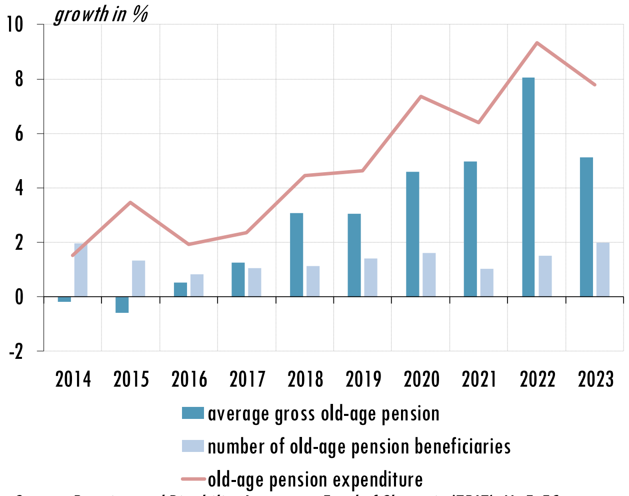
Table 1.2: State budget outturn (cash-flow methodology)

EUR million, unless stated otherwise	2022					2023					2023/2022, in %	
	total	COVID	infl. mitig.	floods	excl. interv. meas.	total	COVID	infl. mitig.	floods	excl. interv. meas.	total	excl. interv. meas.
Revenue	**12,345**	**...**	**-217**	**...**	**12,562**	**13,026**	**...**	**-190**	**101**	**13,114**	**5.5**	**4.4**
VAT	4,747	...	-58	...	4,805	5,147	...	-73	...	5,219	8.4	8.6
Excise duties	1,446	...	-99	...	1,545	1,659	...	-69	...	1,728	14.7	11.8
Personal income tax	1,586	...	...	...	1,586	1,716	...	...	...	1,716	8.2	8.2
Corporate income tax	1,553	...	...	...	1,553	1,393	...	...	...	1,393	-10.4	-10.4
EU funds	957	...	...	...	957	1,088	...	...	101	987	13.7	3.1
Non-tax	770	...	...	...	770	729	...	...	...	729	-5.4	-5.4
Other revenue	1,284	...	-60	...	1,344	1,294	...	-48	...	1,342	0.8	-0.2
Expenditure	**13,709**	**885**	**253**	**...**	**12,570**	**15,352**	**316**	**609**	**568**	**13,859**	**12.0**	**10.3**
Total labour costs	3,751	37	...	...	3,714	4,115	15	8	0	4,093	9.7	10.2
Transfers to individ. and hhs.	1,965	134	104	...	1,727	2,062	11	115	80	1,856	5.0	7.5
Exp. on goods and services	1,526	156	...	...	1,370	1,619	10	3	115	1,491	6.1	8.8
Investment	1,669	55	...	...	1,614	2,203	190	...	224	1,789	32.0	10.9
Curr. transf. to soc. sec. funds	1,526	279	...	...	1,246	1,476	0	...	...	1,476	-3.2	18.5
Subsidies	632	51	150	...	432	942	39	481	45	377	49.0	-12.8
Interest	655	...	...	...	655	684	...	...	...	684	4.5	4.5
Payments to the EU budget	730	...	...	...	730	672	...	...	...	672	-7.8	-7.8
Other expenditure	1,255	172	0	...	1,083	1,579	50	4	104	1,421	25.7	31.1
Balance	**-1,364**	**-885**	**-470**	**...**	**-8**	**-2,327**	**-316**	**-799**	**-467**	**-745**		
Balance (in % of GDP)	**-2.4**	**-1.6**	**-0.8**	**...**	**0.0**	**-3.7**	**-0.5**	**-1.3**	**-0.7**	**-1.2**		

Source: MoF, FC calculations.

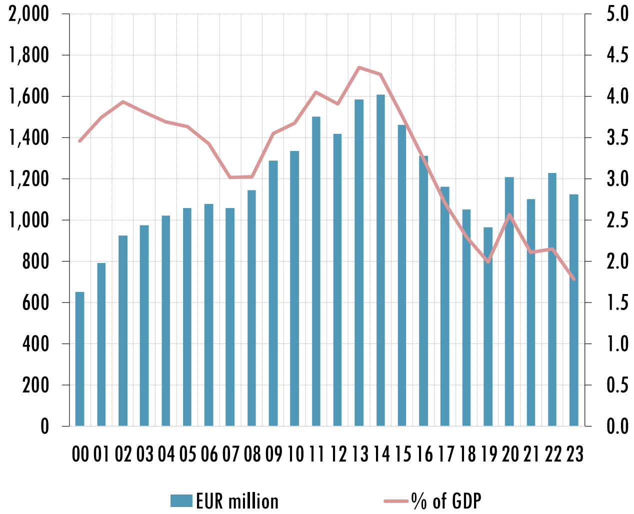
The total impact of intervention measures on last year's state budget balance amounted to EUR 1,582 million, which was about EUR 226 million more than in 2022. The impact of measures to eliminate the consequences of the floods on the state budget in 2023 amounted to EUR 467 million. Of these, revenues were EUR 100 million higher, with the advance payment from the EU Solidarity Fund, while total expenditure amounted to EUR 568 million. Most of the amount was to be used for investment transfers to municipalities (EUR 219 million) and for intervention costs (EUR 92 million). EUR 49 million was earmarked for extraordinary cash social assistance, EUR 30 million for housing reconstruction and EUR 35 million for aid to businesses. The total impact of measures to ease the cost-of-living crisis on the state budget last year amounted to EUR 800 million. Of this, the Ministry of Finance estimates that revenues were lower by EUR 190 million due to the reduced VAT rate on energy products, reduced excise duties and the freeze on the payment of the CO_2 levy. Of EUR 609 million in expenditure, EUR 272 million was allocated to subsidies to the economy, EUR 197 for compensation to the suppliers of electricity, gas and remote heating, and EUR 115 million to various transfers to individuals and households (of which EUR 85 million to pensioners). Last year, state budget expenditure on COVID-19-related measures fell further and amounted to EUR 316 million. The bulk of the expenditure outturn was accounted for by investments (EUR 190 million), mostly financed under the REACT-EU programme, of which EUR 72 million was earmarked for investments in the health sector, EUR 62 million for social care and EUR 53 million for tourism.

Figure 1.11: Old-age pensions*



*Source: Pension and Disability Insurance Fund of Slovenia (ZPIZ), MoF, FC calculations. Note: * Old-age pension beneficiaries represented 76 % of all beneficiaries last year, while volume of old-age pension expenditure represented 81% of all ZPIZ pension expenditure.*

Figure 1.14: Pension and Disability Insurance Fund of Slovenia (ZPIZ) - state budget funding



Source: MoF, SORS, FC calculations

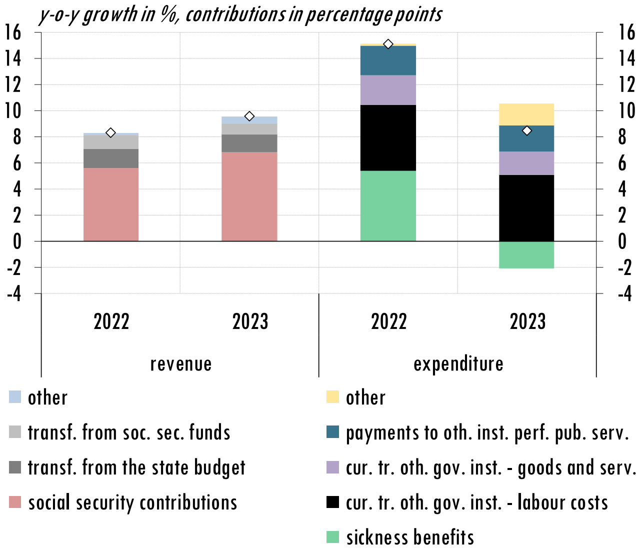
The growth in expenditure of the Pension and Disability Insurance Institute of Slovenia (ZPIZ) slowed to 5.8% (2022: 8.2%), growth was mainly due to higher pensions, while the number of beneficiaries increased by 1.1%.[16] Total pension expenditure has increased by EUR 1.4 billion or 30% over the last four years (excluding the intervention allowance). With pension expenditure growth being lower than the increase in nominal GDP over this period, last year's share of pension expenditure (9.3% of GDP) was slightly lower than in 2019. The real purchasing power of pensions (excluding allowances) has increased over the past four years, as growth in all types of pensions[17] has outpaced cumulative inflation. Favourable labour market conditions contributed to growth in revenue from social contributions, which allowed for a reduction in the total transfer from the state budget. This fell by EUR 104 million to EUR 1.1 billion last year. This represents 1.8% of GDP, which is the lowest share since 1995.

The Health Insurance Institute of Slovenia (ZZZS) ended 2023 with a deficit of EUR 76 million. The growth in total expenditure, which represented 7.0% of GDP last year (0.7 pp of GDP more than in 2019), was mainly driven by higher transfers to public institutions for labour costs, while the growth in all other key spending components continued to strengthen. Transfers to public institutions for intermediate consumption and transfers to entities other than budget users also increased by about a tenth. The slowdown in the growth of total expenditure (from 15.1% in 2022 to 8.5% in 2023) was exclusively due to a decrease in expenditure on sickness benefits. Nevertheless, sickness benefit expenditure accounted for 13.7% of total expenditure of the Health Insurance Institute of Slovenia last year, which is 4.2 pp more than in 2014, before the start of the rapid growth. Revenue growth picked up slightly last year (from 8.3% in 2022 to 9.6% in 2023). Favourable labour market conditions, together with relatively high wage growth, allowed for growth in social contributions revenue at a rate that has been noticeably higher over the last three years than the long-term average. However, the even faster growth in expenditure in recent years has led to a substantial increase in the transfer from the state budget, which has become an increasingly important source of financing for the health

[16] The average old-age pension increased by 5.1% last year.

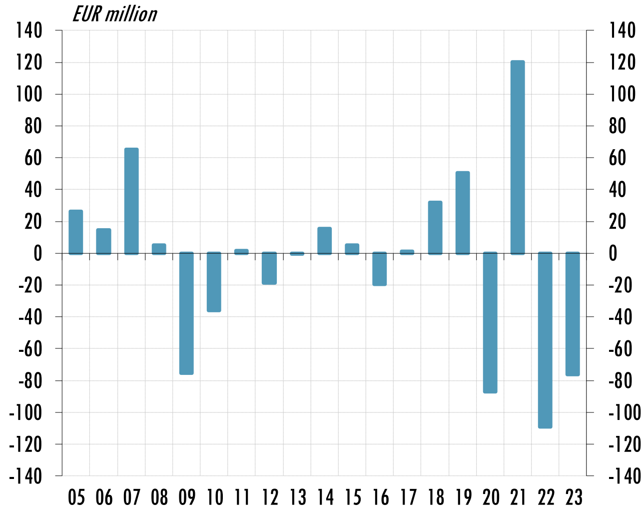
[17] The average old-age pension, which represents the largest share of expenditure, was on average 24.7% higher last year than in 2019. The average disability pension increased by 24.6% over this period, while survivor's and widow's pensions increased by 21.8%. Inflation was 19% in this period.

Figure 1.13: ZZZS revenue and expenditure



Source: MoF, FC calculations.

Figure 1.14: Health Insurance Institute of the Republic of Slovenia (ZZZS) budget balance

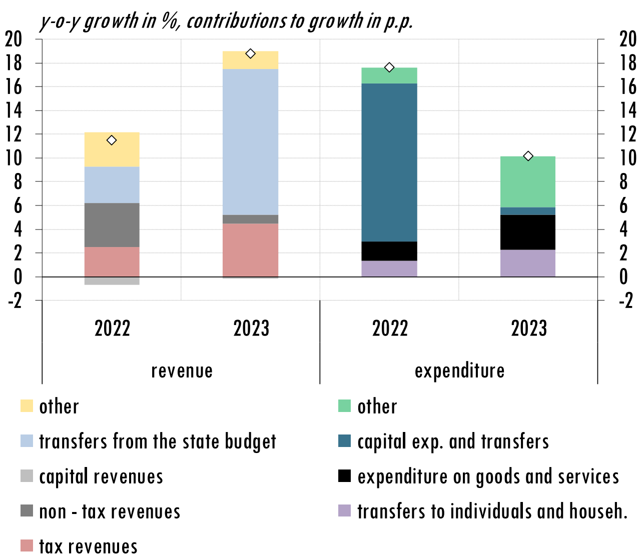


Source: MoF.

insurance budget. From 2017, when it began to increase, to last year, it increased by almost 40% annually on average, rising from EUR 43 million in 2016 to EUR 358 million last year. Its share in GDP was almost 0.6% last year.

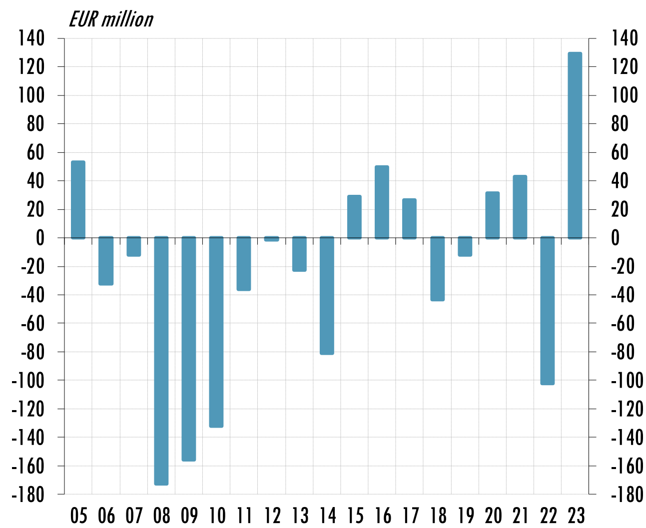
Last year, municipal budget balance recorded the highest ever surplus (EUR 129 million). Revenue growth strengthened further (from 11.5% in 2022 to 18.8%) and expenditure growth slowed (from 17.6% to 10.1%). Growth in personal income tax revenue, a key source for municipal budgets, strengthened further last year on the back of a rise in lump sum funding. A key factor behind the stronger revenue growth was the growth in the transfer from the state budget, which more than doubled due to the floods. Indeed, of the EUR 632 million received from the state budget, EUR 234 million was related to flood recovery costs. The slowdown in expenditure growth was mainly due to the stagnation of investment activity, which is linked to the electoral cycle at the local level. Investment

Figure 1.15: Revenue and expenditure of municipal budgets



Source: MoF, FC calculations.

Figure 1.16: Municipal budget balance



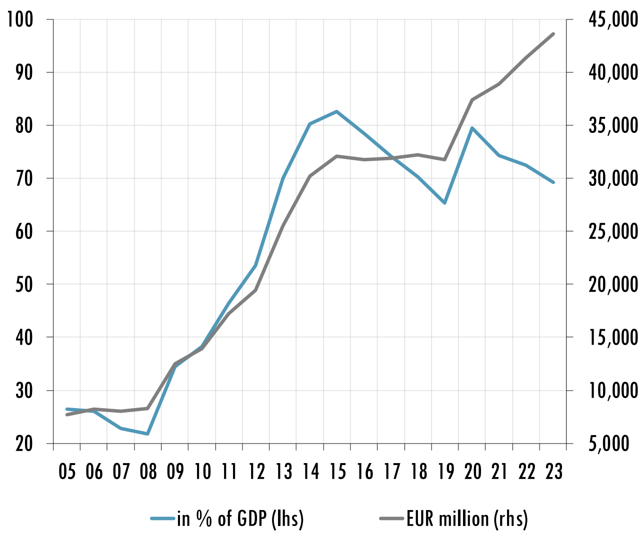
Source: MoF.

activity typically picks up sharply in the year of local elections and then decelerates markedly. Expenditure growth was mainly driven by increased intermediate spending (also related to flood recovery) and by a further increase in transfers to individuals and households, in particular higher payments of the difference between the price of kindergarten programmes and parents' payments.

1.4 General government debt

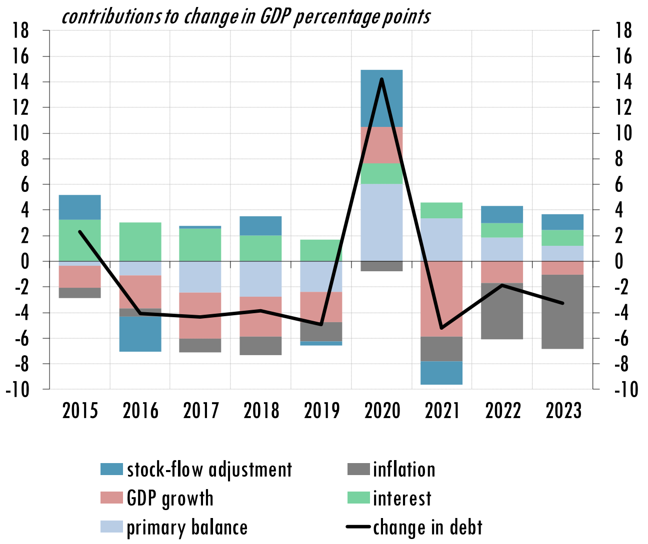
General government gross debt declined to 69.2% of GDP last year (EUR 43.7 billion), thus exceeding the pre-crisis level by 3.9 pp of GDP. Last year's reduction in the gross debt ratio by 3.3 pp of GDP was mainly driven by stronger inflation or nominal GDP growth, which compensated for the further deterioration in the primary balance. Last year's decline was slightly higher than the EU-27 average, while the increase from the 2019 pre-crisis level was similar. The general government's

Figure 1.17: General government debt



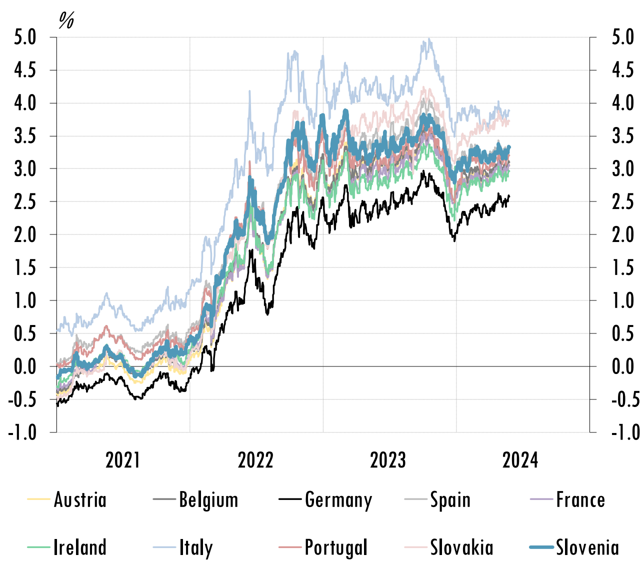
Source: SORS.

Figure 1.18: Change in general government debt



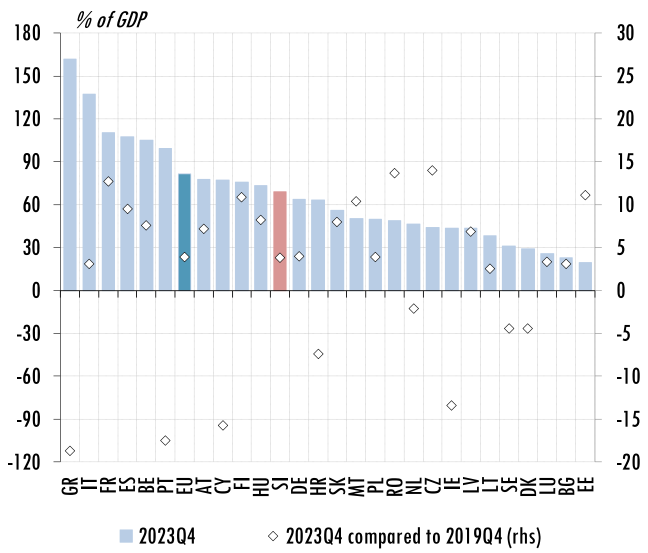
Source: SORS, FC calculations

Figure 1.19: Yields on 10-year government EUR reference bonds



Source: Bloomberg.

Slika 1.20: Consolidated general government gross debt



Source: Eurostat, FC calculations.

financing conditions deteriorated further due to the stricter policy of the ECB. The required yields for the issued securities of the Republic of Slovenia increased by an average of 121 bp last year (behind Germany: 127 bp). The maturity distribution of debt liabilities remains favourable, though the weighted average time to maturity of the debt fell to 9.7 years at the end of 2023. All three leading rating agencies confirmed a stable outlook for the Republic of Slovenia's debt last year. The liquidity position of the state budget improved further last year. The balance in the Treasury Single Account at the end of last year stood at EUR 8.1 billion or 12.8% of GDP, which was EUR 0.4 billion higher than at the end of 2022. High liquidity reserves greatly contributed to the lower share of general government net debt, which amounted to 46.6% of GDP at the end of last year.

2. Compliance with the fiscal rules in 2023

In a period of exceptional circumstances, the Fiscal Council provides quantitative assessments of compliance with the fiscal rules only indicatively and puts greater emphasis on qualitative assessment.[18] One of the key factors is uncertainty related to the determination of the cyclical position of the economy, which is based on the assessment of the output gap. At a time of heightened uncertainty, its variability is even greater than usual.[19] The manner in which intervention measures are considered also has an important role in assessing compliance with the fiscal rules. Since the start of the epidemic, the FC has consistently treated all intervention measures as "one-off", excluding them from the structural fiscal balance calculation. Despite taking a different view at the beginning of the epidemic, the European Commission, like the Government, does not consider measures to mitigate the consequences of the epidemic and the cost-of-living crisis as one-off, while excluding flood recovery measures from the calculation of structural indicators. The FC maintains the view that intervention measures to mitigate different crises should be treated in the same way in all cases. Such an orientation allows for a clearer assessment of the actual orientation of fiscal policy and its implications for medium-term balance. Although in the current circumstances more emphasis is being placed on qualitative assessment, this too is inevitably based on quantitative indicators. These require the determination, on the basis of domestic legislation, even in times of exceptional circumstances, of whether the actual volume of general government expenditure corresponded to the last applicable ceiling.

The outturn for general government expenditure last year was below the level set by the last revision of the framework in December last year. The Framework Ordinance covering 2023 was adopted in April 2021 and subsequently amended three times.[20] Between April 2021 and the last amendment in December, the general government expenditure ceiling was increased by EUR 5,455 million. The FC regularly points out that, as a result of numerous and extensive changes, the framework has not functioned as the underlying instrument ensuring a counter-cyclical fiscal policy, as prescribed by the ZFisP. Taking this into account, the FC assesses that having an unamended four-year fiscal structure plan under the reformed EU economic governance framework will pose a significant challenge.[21] In 2023, the expenditure outturn was around EUR 1,035 million lower than in the last applicable framework. This was also the main reason why the deficit was lower than the target deficit at the time of the last revision of the framework (by 2.0 pp of GDP). In line with the FC's expectations,

Table 2.1: Frameworks for drawing up budgets for 2023 and outturn

EUR million, unless stated otherwise	general government		state budget		local govt.	pension fund	health fund
	expenditure	balance (GDP %)	expenditure	balance (GDP %)	expenditure	expenditure	expenditure
OG RS, no. 65/21 (Apr. 21)	25,045	-3.8	13,060	-3.6	2,410	6,480	3,745
OG RS, no. 183/21 (Nov. 21)	25,980	-3.3	13,365	-2.6	2,505	6,640	
OG RS, no. 146/22 (Nov. 22)	30,055	-5.0	16,700	-5.4	2,955	7,065	4,340
OG RS, no. 121/23 (Dec. 23)	30,500	-4.5			3,150	7,115	4,430
outturn	**29,465**	**-2.5**	**15,352**	**-3.7**	**3,180**	**7,103**	**4,395**
outturn-valid framework	*-1,035*	*2.0*	*-1,348*	*1.7*	*30*	*-12*	*-35*

Source: MoF, OG RS, SORS, FC calculations.

[18] This approach has been adopted since exceptional circumstances were first applied in March 2020. All fiscal compliance assessments are available at: https://www.fs-rs.si/publications/assessments-of-compliance-with-fiscal-rules/

[19] For an analysis of the uncertainty of output gap estimates in the context of the current crisis in Slovenia, see Box 1.1 in Fiscal Council (2020) and Section 1.1. In fact, ever since its inception, the FC has sought to reduce this uncertainty by using a set of nine output gap estimates (Fiscal Council, 2018). See also Figure 1.3.

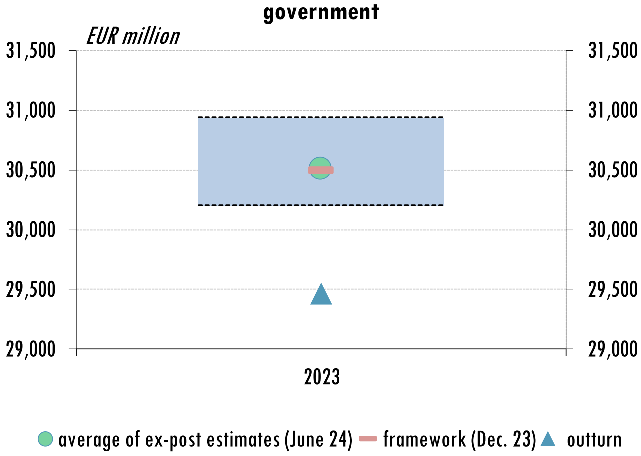
[20] In November 2021, November 2022 and December 2023. See also the section "Legislative basis".

[21] For more on the changes to the economic governance framework, see Box 2.1 in Fiscal Council (2024).

the lower level of expenditure outturn compared to the autumn projections was mainly due to capital spending. This confirms the FC's assessment that budgeting remains flawed. The FC regularly called attention to the unrealistically high planned level of expenditure each time that last year's budget documents were adopted. The state budget expenditure outturn was also lower last year than foreseen in the last revision of the framework (by EUR 1,348 million). The expenditure of ZPIZ and ZZZS was also lower than in the last revision of the framework, while the expenditure of the municipal budgets was again higher.

The total general government expenditure outturn last year was also lower than the currently estimated maximum permissible level. The ex-post assessment of the expenditure ceiling has taken into account currently available information on the variables involved in the calculation. As the level of GDP in 2023 was above the level of potential output according to almost all currently available estimates, the formula set out in paragraph four of Article 3 of the ZFisP has been applied. The current estimates show that last year, government expenditure outturn was lower than allowed by approximately EUR 1 billion on average. The current output gap assessment is not much different than the assessments made last autumn; realised revenues were similar to autumn projections, with only a slight discrepancy between the projected and actual economic growth, and the deviation in the scope of intervention measures was relatively small. In line with the FC's expectations, the lower level of expenditure outturn compared to the autumn projections was mainly due to capital spending.

Figure 2.1: Maximum level of expenditures of the general government



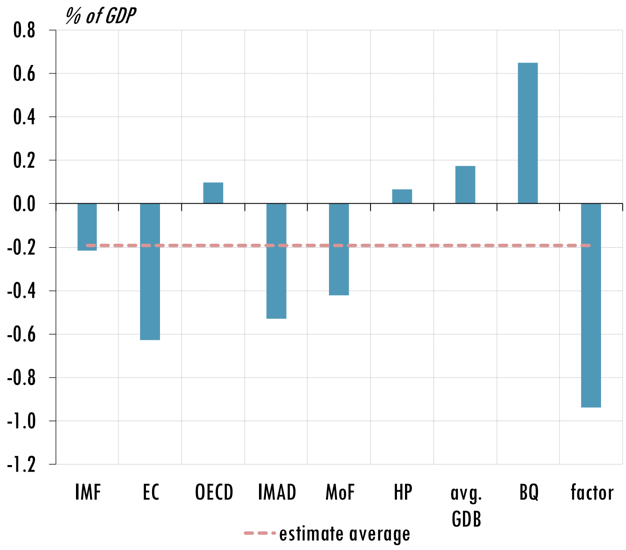
Note: The blue field denotes the zone between the lowest and highest calculated maximum permitted expenditure estimated ex-post and based on currently available data.
Source: SORS, MoF, FC calculations.

Table 2.2: Deviation of expenditure outturn from maximum expenditure based of various output gap estimates

outturn	**FC (average of all)**	MoF	IMAD	EC	IMF	OECD	HP	avg. GDP	factor	BQ
29,465	**30,509**	30,537	30,580	30,546	30,484	30,455	30,396	30,445	30,204	30,939
difference	***-1,045***	*-1,072*	*-1,116*	*-1,081*	*-1,019*	*-991*	*-931*	*-980*	*-739*	*-1,475*
output gap	***0.7***	*1.2*	*1.4*	*1.6*	*0.7*	*0.0*	*0.1*	*-0.1*	*2.3*	*-1.1*

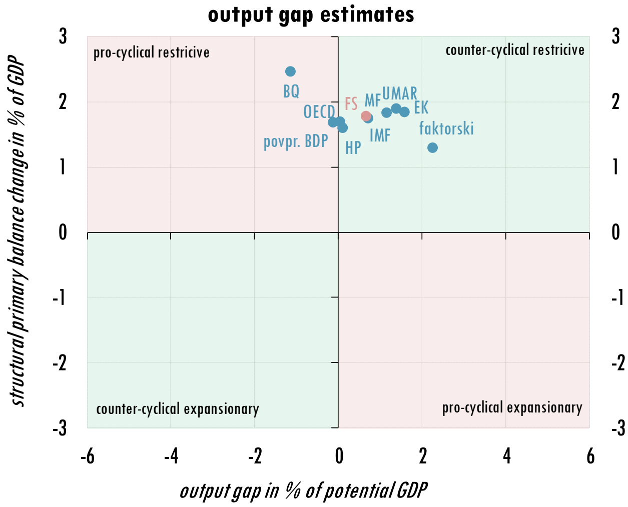
Source: EC, IMF, MoF, OECD, SORS, IMAD, FC estimates and calculations. Note: For more details on calculation of output gap estimates used by the Fiscal Council, see Fiscal Council (2018, pp. 23–26). In EUR million, except output gap in % of potential GDP.

Figure 2.2: Structural balance for 2023, calculated based on various output gap estimates



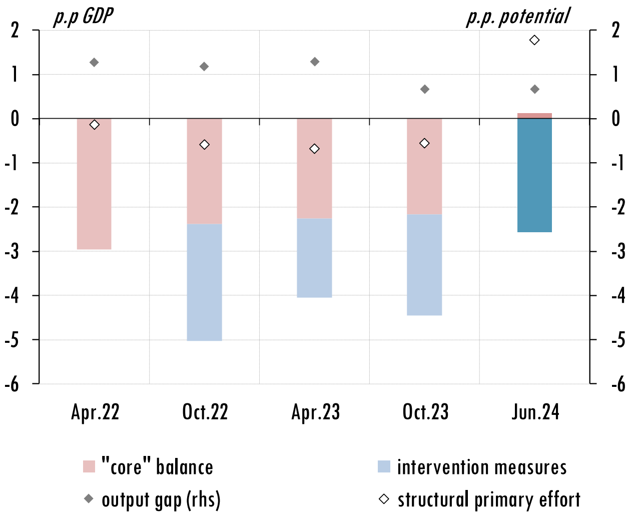
Source: EC, IMF, MoF, OECD, SORS, IMAD, FC estimates and calculations.

Figure 2.3: Fiscal policy stance in 2023 according to various output gap estimates



Source: SORS, MoF, FC estimates. Note: Estimates of fiscal policy stance based on various estimates of output gap used by the Fiscal Council are presented.

Figure 2.4: Structural primary effort: projections and outturn



Source: SORS, MoF, FC calculations. For more details on calculation of output gap estimates used by the Fiscal Council, see Fiscal Council (2018, pp. 23–26).

In 2023, the fiscal policy, measured as a change in the structural primary balance, was restrictive, which was appropriate in the given cyclical conditions. Fiscal conditions continued to be marked by uncertainty last year. Intervention measures to mitigate the effects of the epidemic and the cost-of-living crisis were supplemented at the end of the year by measures to mitigate the consequences of the floods. Total deficit decreased last year, despite the increased scope of intervention measures compared to the year before. The continued high growth in revenues was due to the high nominal GDP growth, mainly stimulated by high inflation, and favourable labour market conditions. As expected, the plans for extremely high spending were not fully realised. Growth in core spending (excluding intervention measures) decreased slightly compared to the year before, but it was still nearly twice as high as the long-term average.[22] In light of numerous risks to medium-term fiscal sustainability, last year's favourable macroeconomic situation, at least in terms of public finances, could have been exploited further to create room for manoeuvre for the functioning of the fiscal policy in the future.

[22] It averaged 4.0% over the 2005–2022 period (excluding intervention measures) and stood at 7.8% last year.

Table 2.3: Compliance with fiscal rules in 2023

Macroeconomic variables		**2023**
Real GDP growth (%)	IMAD	1.6
GDP nominal (EUR million)	IMAD	63,090
GDP deflator growth (%)	IMAD	8.9
Nominal potential GDP growth (%)	IMAD	12.2
Medium-term nominal potential GDP growth BDP (%)[1]	IMAD	6.2
Output gap (in % of potential GDP)[2]	FC	0.7
National fiscal rule		
General government expenditure (EUR million)	MoF	29,465
National rule - maximum general government expenditure (EUR million)[3]	FC	30,509
Framework for the preparation of the general goverment budgets (EUR million, Dec.23)	MoF	30,500
EU fiscal rules		
General government balance (% of GDP)	MoF	**-2.5**
Maastricht criterium (% of GDP)	EC	-3.0
Gross general government debt (% of GDP)	MoF	**69.2**
Maastricht criterium (% of GDP)	EC	60.0
Permitted debt level according to EU rules (% of GDP):		
- 1/20th rule	FC	69.4
- backward-looking benchmark	FC	73.9
- forward-looking benchmark	FC	69.1
- cyclically-adjusted debt reduction benchmark	FC	74.0
Structural balance (% of GDP)	FC	-0.2
Medium term objective according to EU rules - MTO (% of GDP)[4]	EC	...
Change in structural balance (% of GDP)	FC	1.7
Required annual fiscal adjustment (% of GDP)[5]	FC	...

Source: SORS, MoF, IMAD, EC, OG RS, 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.

[3] Taking into account 2023 revenue outturn and own estimate based on 9 output gap estimates used by the FC.

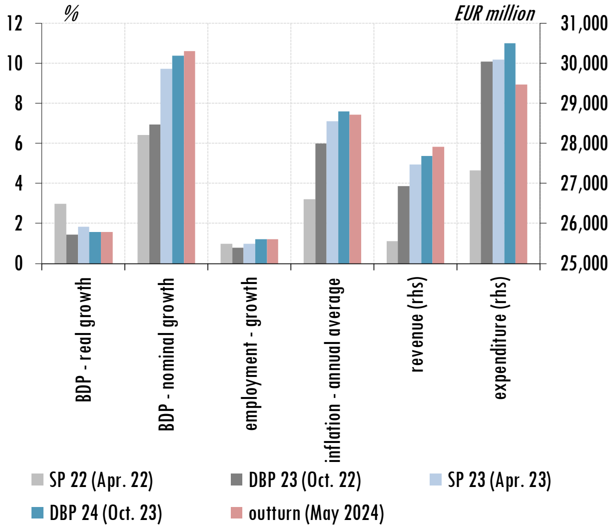
[4] EC did not explicitly set the MTO for 2023.

[5] In 2023 structural effort is not required due to general escape clause.

The qualitative assessment of the fiscal policy in 2023 is also confirmed by the indicative quantitative assessments, according to which most fiscal rules were complied with last year (Table 2.3). Last year's headline deficit was below the three-percent Maastricht limit. While gross debt was higher than the criterion of 60% of GDP, it decreased within the permitted values of the EU rules applicable thus far. Given the extensive intervention measures, the quantitative estimate of structural indicators depends on how they are considered. Based on the FC's consistent approach of treating all intervention measures as one-off, the structural deficit decreased significantly last year. The estimated achievement of the medium-term fiscal objective under EU rules (MTO) is uncertain, as it was not explicitly specified by the EC for 2023. Growth in net primary government expenditure was similar to the estimated growth of medium-term economic potential.

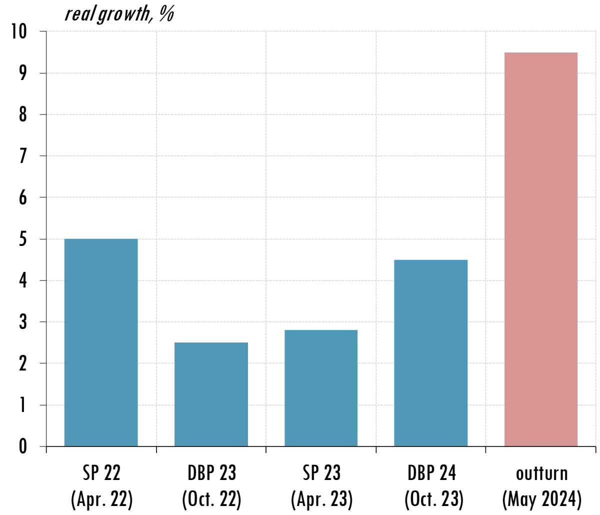
3. Annex: Changes in the macroeconomic and fiscal projections for 2023

Figure 3.1: Forecasts for 2023 available at the time of preparation of the budget documents



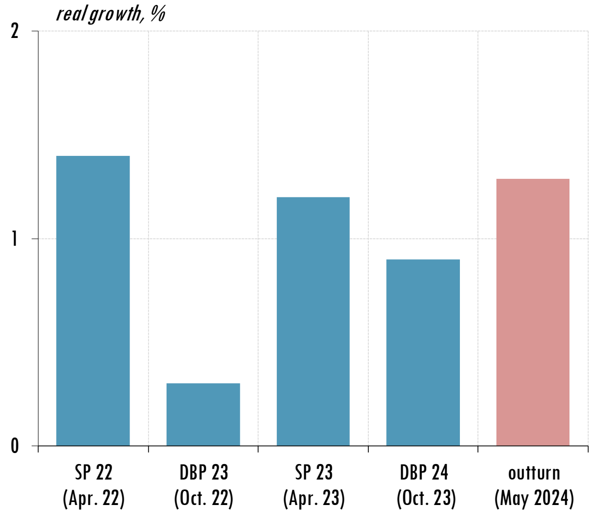
Source: forecasts IMAD, MoF; outturn SORS.

Figure 3.2: Changes in the 2023 forecast – gross fixed capital formation



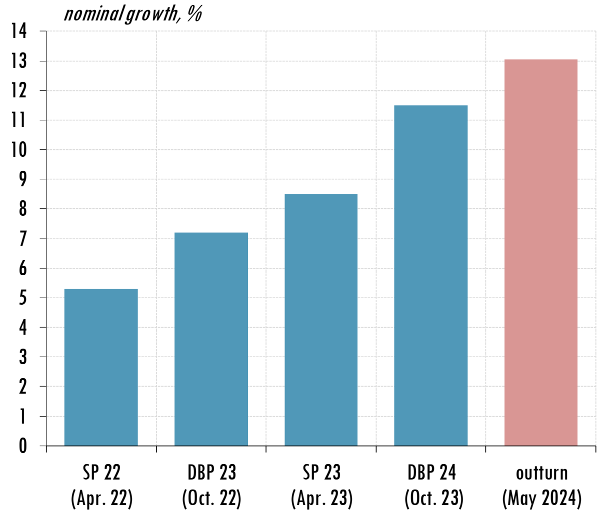
Source: SORS, forecasts IMAD.

Figure 3.3: Changes in the 2023 forecast – private consumption



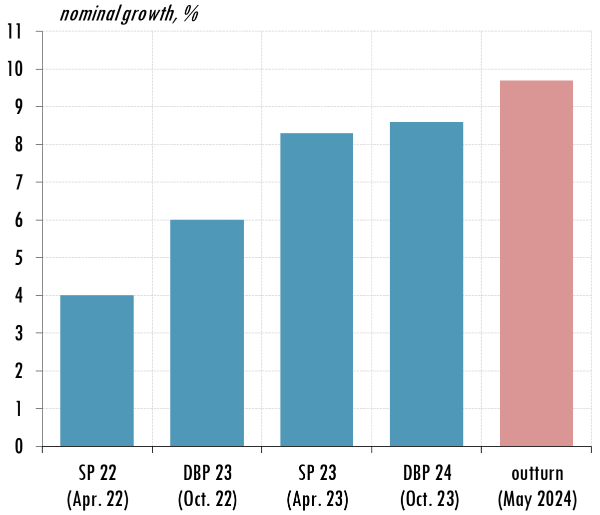
Source: SORS, forecasts IMAD.

Figure 3.4: Changes in the 2023 forecast – compensation of employees



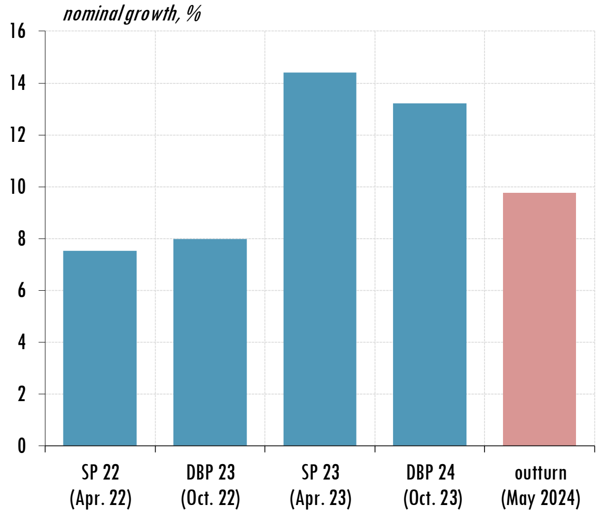
Source: SORS, forecasts IMAD.

Figure 3.5: Changes in the 2023 forecast – gross wages per employee



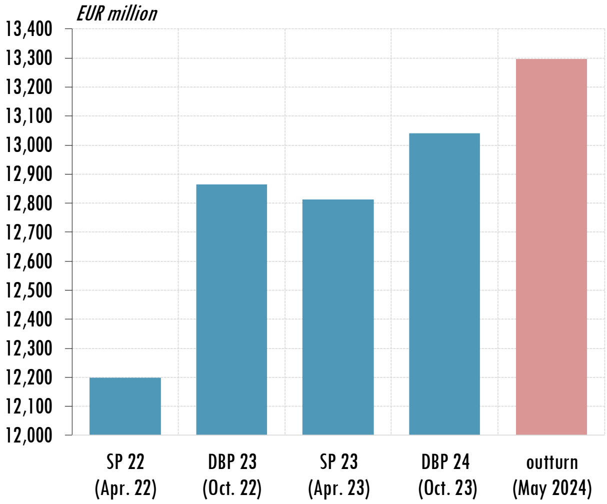
Source: SORS, forecasts IMAD.

Figure 3.6: Changes in the 2023 forecast – gross operating surplus/mixed income



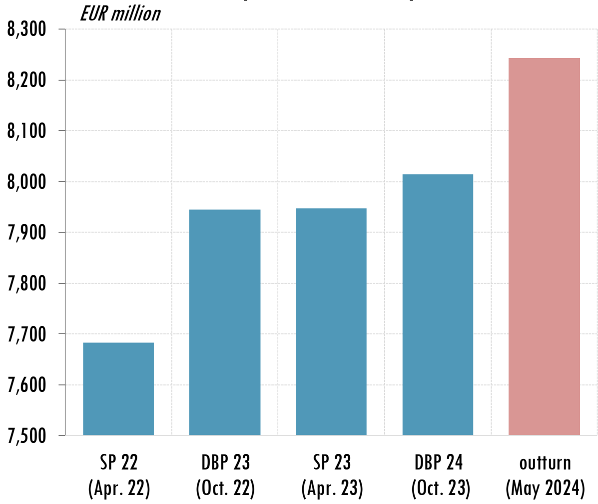
Source: SORS, forecasts IMAD.

Figure 3.7: Changes in the 2023 forecast – total taxes



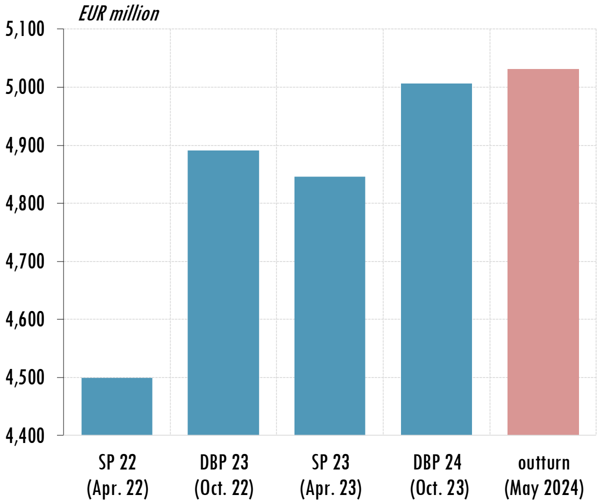
Source: SORS, forecasts MoF.

Figure 3.8: Changes in the 2023 forecast – taxes on production and imports



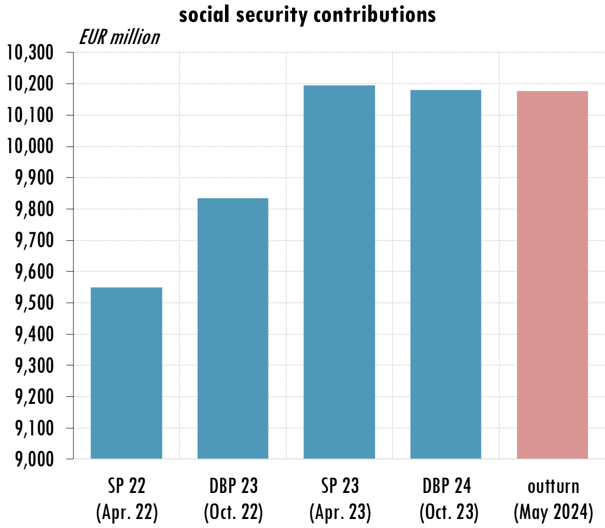
Source: SORS, forecasts MoF.

Figure 3.9: Changes in the 2023 forecast – current taxes on income and wealth



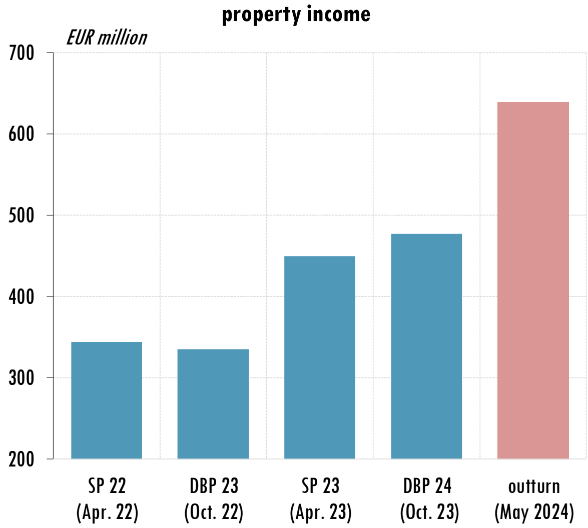
Source: SORS, forecasts MoF.

Figure 3.10: Changes in the 2023 forecast – social security contributions



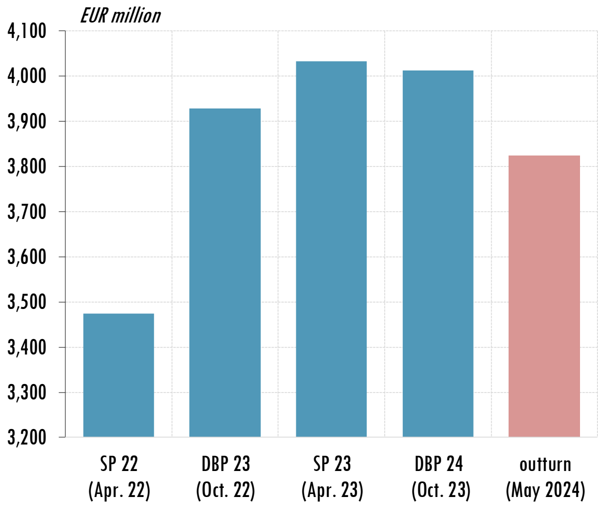
Source: SORS, forecasts MoF.

Figure 3.11: Changes in the 2023 forecast – property income



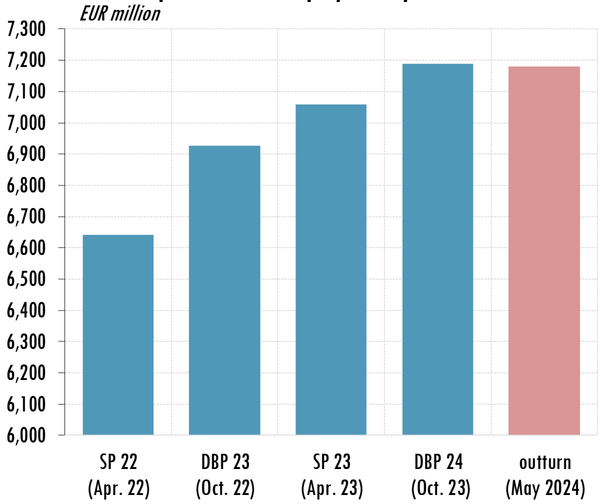
Source: SORS, forecasts MoF.

Figure 3.12: Changes in the 2023 forecast – other revenue



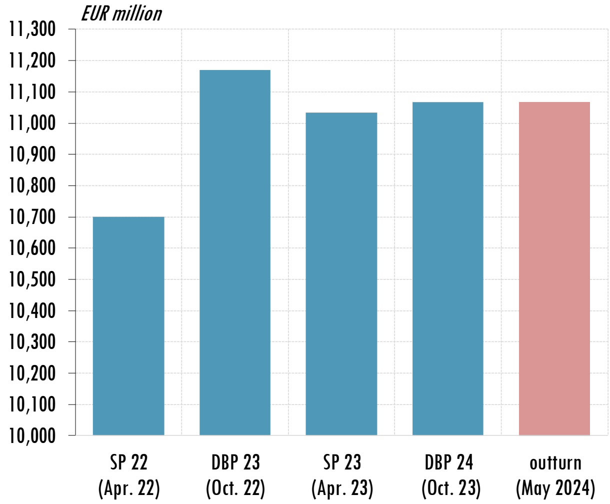
Source: SORS, forecasts MoF.

Figure 3.13: Changes in the 2023 forecast – compensation of employees expenditure



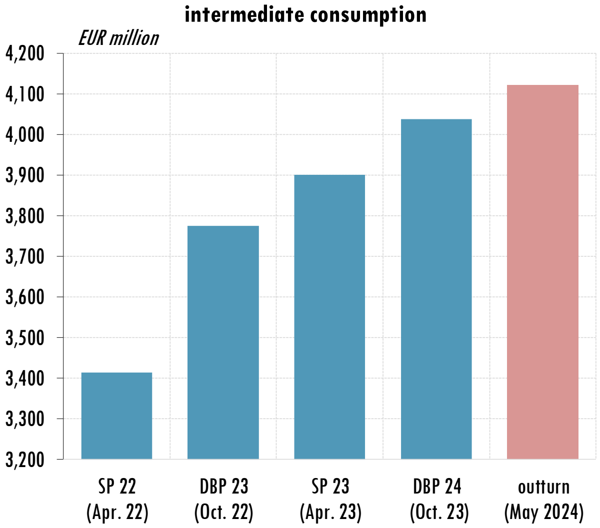
Source: SORS, forecasts MoF.

Figure 3.14: Changes in the 2023 forecast – social benefits



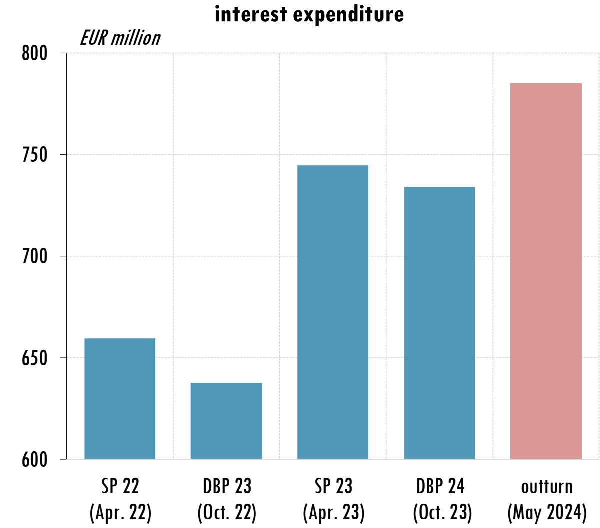
Source: SORS, forecasts MoF.

Figure 3.15: Changes in the 2023 forecast – intermediate consumption



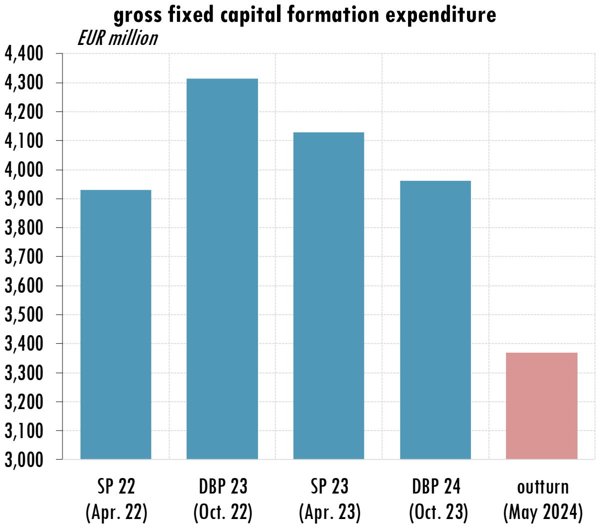
Source: SORS, forecasts MoF.

Figure 3.16: Changes in the 2023 forecast – interest expenditure



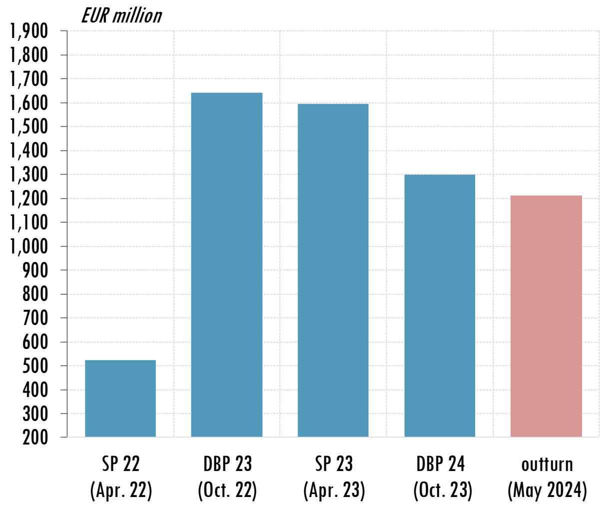
Source: SORS, forecasts MoF.

Figure 3.17: Changes in the 2023 forecast – gross fixed capital formation expenditure



Source: SORS, forecasts MoF.

Figure 3.18: Changes in the 2023 forecast – subsidies



Source: SORS, forecasts MoF.

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