



REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Monthly Information

July 2024

Key highlights¹

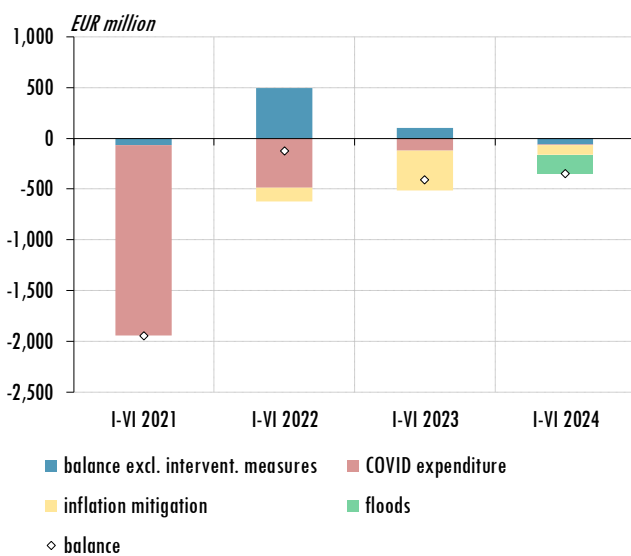
- Both the general government and the public finance budgets are running deficits at the start of the year. This is the result of high growth in "core" expenditure, against a background of favourable revenue dynamics, mainly reflecting labour market conditions and also high nominal wage growth due to inflation. The end-of-year deficits, as estimated by the Fiscal Council and other domestic and international institutions, will be lower than in the current year's budget documents in force, which were again marked in particular by excessive expenditure planning.
- The transparency of public finances is worse than before the epidemic, making fiscal policy planning and monitoring more difficult. This is the result of a number of intervention measures and the lack of a systematic approach to long-standing challenges. The lack of transparency is particularly evident in transfers between public finance budgets, the building up of large reserves and the non-transparent operation of budget funds. Greater transparency is one of the key conditions for ensuring efficient public spending.
- This year's outturn so far confirms once again that budget planning is plagued by a number of shortcomings. These and the changed fiscal rules, which require more credible and medium-term-oriented planning, will require a more responsible approach to the preparation of the autumn budget documents.

¹ The Fiscal Council will continue to publish an overview of the state budget outturn under the cash-flow methodology and of the measures taken to mitigate the impact of the epidemic and the high cost of living in its regular monthly publication, subject to the continued availability of data in the future. All comments refer to data known as of 2 July 2024.

State Budget, January–June 2024²

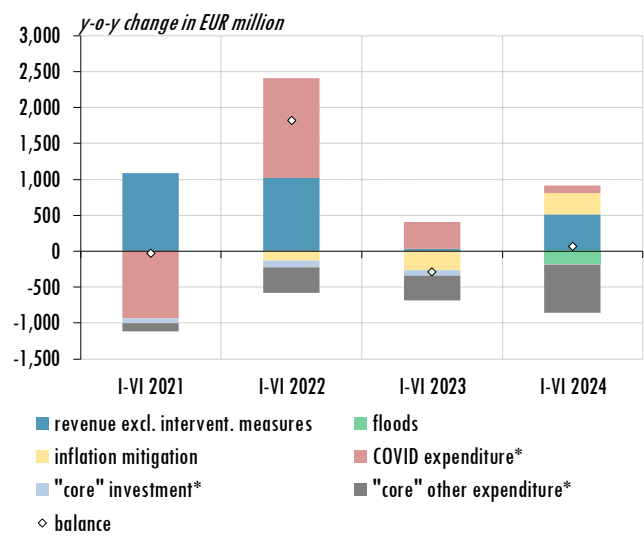
- The state budget was in deficit in the first half of the year (EUR 346 million) according to preliminary data. Excluding the direct effect of the intervention measures, the balance showed a deficit of EUR 60 million this year, compared to a surplus of EUR 104 million last year.
- The growth of "core" revenues (excluding the intervention measures) in the first half of this year (7.9%) was much higher than in the same period last year (0.5%). The higher growth this year is almost exclusively due to higher corporate income tax revenue resulting from the high settlement of last year's liabilities. The contribution of personal income tax revenue and higher non-tax revenue is also more pronounced. In contrast, VAT revenue growth slowed, while excise duties and EU funds revenue were lower on a year-on-year basis.

Figure 1: State budget balance



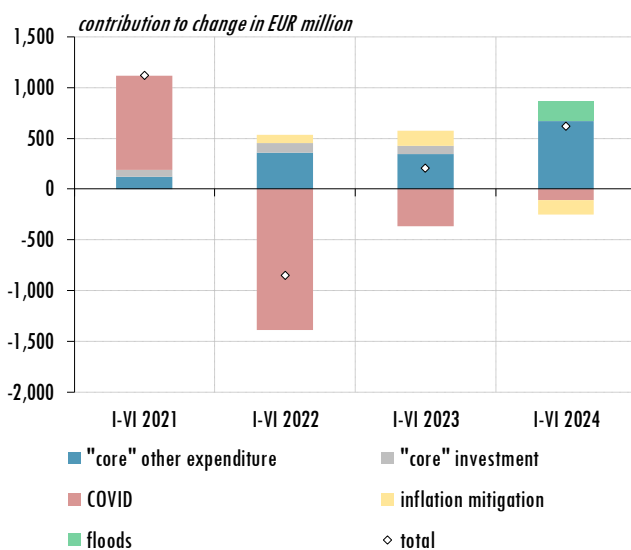
Source: MoF, FC calculations

Figure 2: Factors of state budget balance change



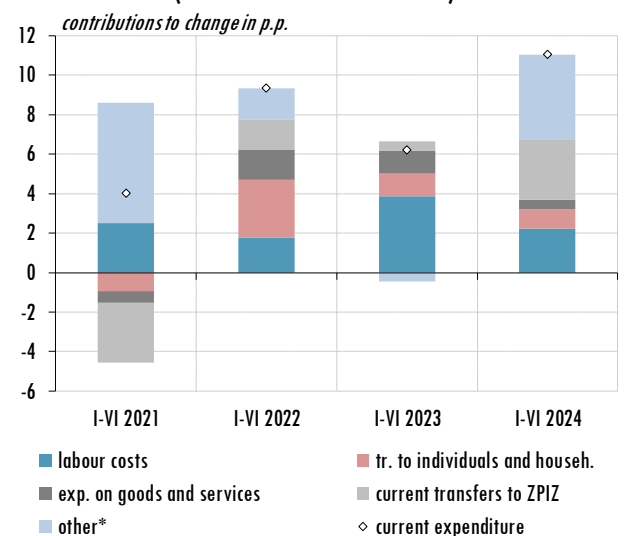
Source: MoF, FC calculations. *positive sign denotes a decrease, negative sign denotes an increase.

Figure 3: Factors of state budget expenditure change



Source: MoF, FC calculations.

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



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

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

- Growth in "core" expenditure (excluding intervention measures) stood at 10.6% and strengthened compared to the same period last year (7.2%). According to provisional data, the main contributor to this year's growth and its strengthening compared to the same period last year is the category of other expenditure. This amounted to around EUR 350 million in June alone, compared to a total of slightly less than EUR 500 million in the previous five months. The detailed structure of this component, which is dominated by budget funds expenditure and the transfer to the Health Insurance Institute of Slovenia (ZZZS),³ will be known at the end of the month. Among the other spending components, the higher transfer to the Pension and Disability Insurance Institute (ZPIZ) contributed significantly to the overall growth in the context of the high indexation of pensions. Almost EUR 900 million was transferred in the six months, almost two-thirds of the full-year transfer to the Pension and Disability Insurance Institute foreseen in the state budget. The contribution of higher interest payments is also more pronounced this year.

Implementation of intervention measures, January–June 2024

- In the first six months of this year, a total of EUR 193 million was disbursed under intervention measures for flood recovery, of which around half for the rehabilitation of watercourses. A further EUR 94 million has been paid this year to address the effects of the high cost of living, of

Table 1: State budget

EUR million, unless stated otherwise	I-VI 2023					I-VI 2024					I-VI 24/ I-VI 23, in %		I-VI 24/ I-VI 23	
	total	COVID	infl.	floods	excl.	total	COVID	infl.	floods	excl.	total	excl.	total	excl.
		mitig.			interv. measures		mitig.			interv. measures	interv. measures		interv. measures	
Revenue	6,281	...	-160	...	6,440	6,962	...	0	11	6,951	10.8	7.9	681	510
VAT	2,376	...	-73	...	2,449	2,545	...	0	0	2,545	7.1	3.9	169	96
Excise duties	800	...	-39	...	839	780	...	0	0	780	-2.5	-7.0	-20	-59
Personal income tax	922	...	...	...	922	1,148	...	...	0	1,148	24.4	24.4	225	225
Corporate income tax	742	...	...	...	742	1,013	...	...	0	1,013	36.5	36.5	271	271
EU funds	473	...	...	...	473	435	...	...	0	435	-8.1	-8.1	-38	-38
Non-tax	331	...	...	...	331	361	...	...	0	361	9.1	9.1	30	30
Other revenue	636	...	-48	...	684	679	...	0	11	668	6.8	-2.2	43	-15
Expenditure	6,689	120	233	...	6,337	7,308	10	94	193	7,011	9.3	10.6	619	674
Total labour costs	2,056	13	6	...	2,037	2,159	0	...	0	2,159	5.0	6.0	103	122
Transfers to individ. and hhs	979	7	27	...	944	1,014	2	0	14	998	3.6	5.7	35	54
Goods and services	617	5	3	...	609	751	2	4	110	635	21.8	4.3	134	26
Investment	514	26	...	...	489	504	0	...	12	491	-2.0	0.6	-10	3
Current transfers to ZPIZ	720	0	...	...	720	887	...	...	...	887	23.2	23.2	167	167
Subsidies	466	33	194	...	238	390	1	89	43	257	-16.2	7.7	-75	18
Interest	378	...	...	...	378	445	...	...	...	445	17.8	17.8	67	67
Payments to the EU budget	325	...	...	...	325	297	...	...	...	297	-8.7	-8.7	-28	-28
Other expenditure	635	35	3	...	597	860	4	...	14	842	35.5	41.1	225	245
Balance	-408	-120	-392	...	104	-346	-10	-94	-183	-60			62	-164

Source: MoF, FC calculations.

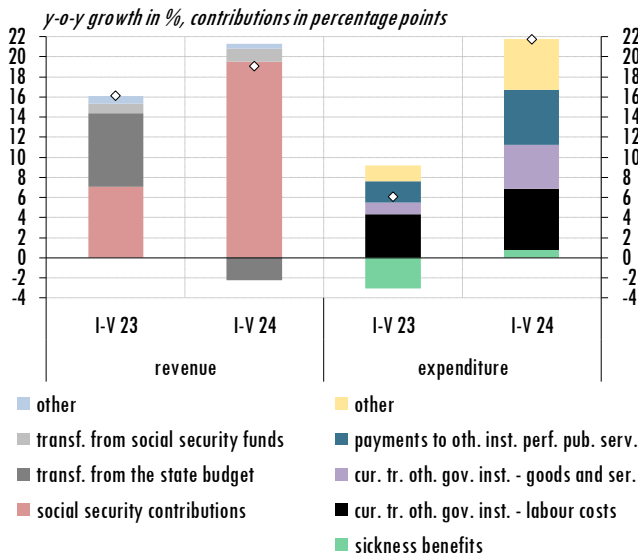
³ Provisional data on the transfer to the Health Insurance Institute of Slovenia (ZZZS) have no longer been available since the beginning of last year, although, according to regular data, last year's transfer was a record high and this year it is expected to further increase by about one-third.

which EUR 86 million to compensate electricity and gas suppliers. A further EUR 10 million was paid from the state budget for COVID-19-related purposes this year.

Public finance budgets, January–May 2024 (GFS cash flow methodology)

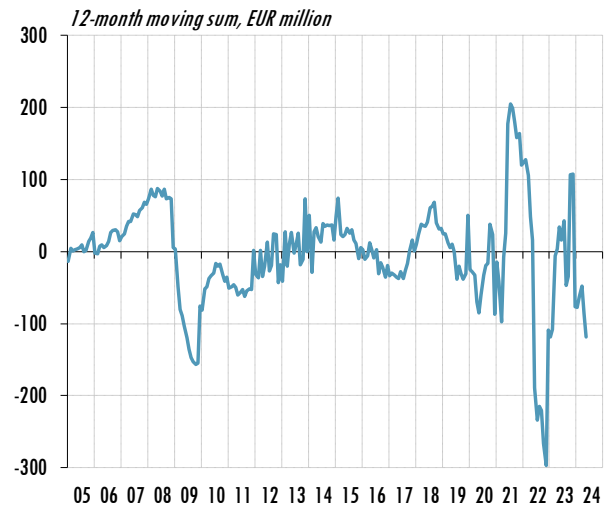
- In the first five months of this year, the **Health Insurance Institute of Slovenia (ZZZS)** recorded a deficit (EUR 20 million), while in the same period last year it recorded a surplus (EUR 22 million). The transformation of complementary healthcare insurance into a compulsory contribution has boosted both revenue and expenditure growth this year. Revenue growth was 19.1% (I–V 2023: 16.1%). The introduction of the compulsory contribution, which contributed around two-thirds to the growth, allowed for a lower transfer from the state budget. In the context of continued favourable labour market conditions and nominal wage growth, growth in

Figure 5: ZZZS revenue and expenditure



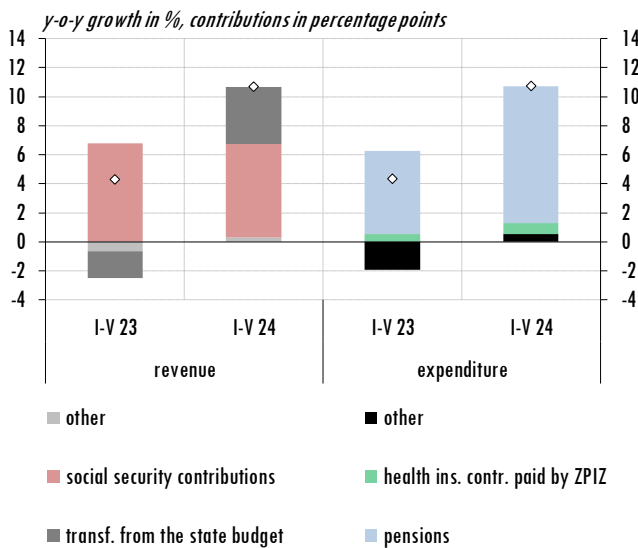
Source: MoF, FC calculations.

Figure 6: ZZZS budget balance



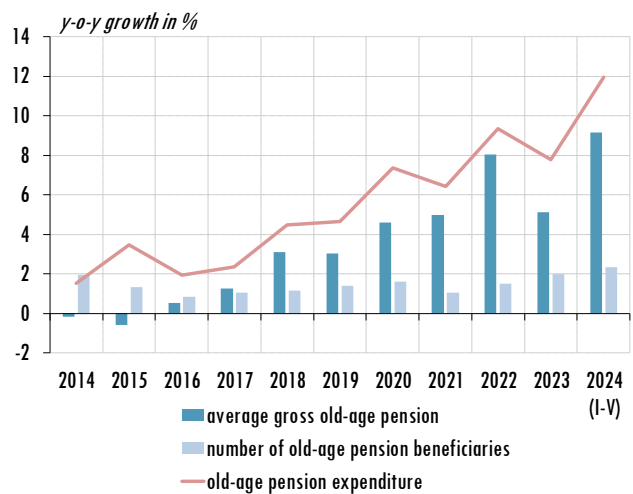
Source: MoF, FC calculations.

Figure 7: ZPIZ revenue and expenditure



Source: MoF, FC calculations.

Figure 8: Old-age pensions*

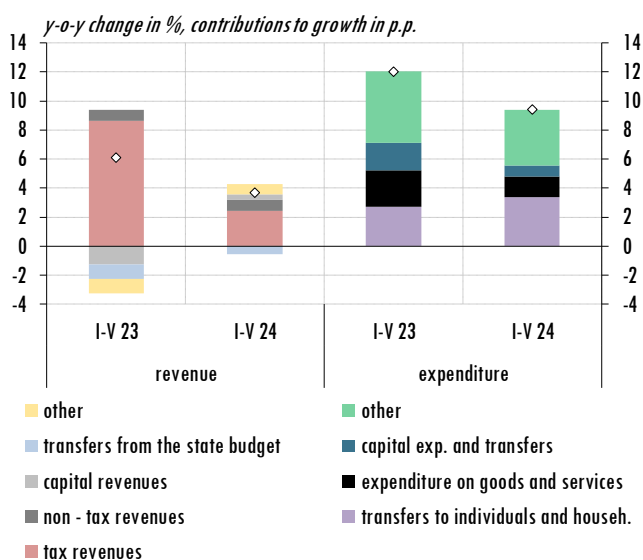


Source: Pension and Disability Insurance Fund of Slovenia (ZPIZ), MoF, FC calculations. Note: *Old-age pension beneficiaries represented 76 % of all beneficiaries last year, while volume of old-age pension expenditure represented 81 % of all ZPIZ pension expenditure.

other social contributions remained similarly strong as last year. Expenditure growth accelerated significantly (21.8%; I-V 2023: 6.1%) and was mainly driven by higher labour costs in public institutes. The transformation of complementary healthcare insurance into a compulsory contribution also led to a significant increase in transfers to institutions for expenditure on goods, services and medicines, while payments to entities other than budget users were also significantly higher.

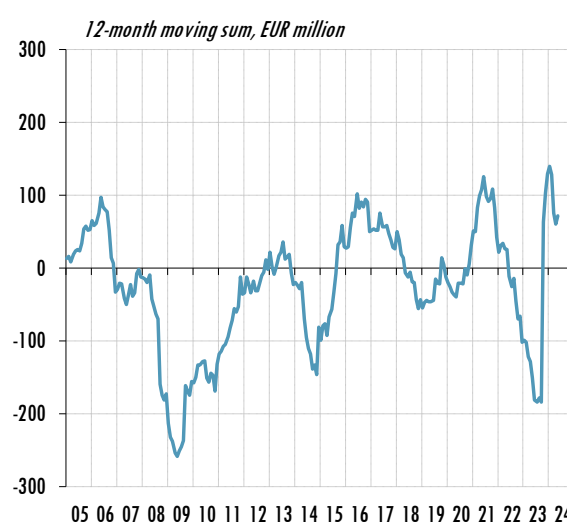
- The year-on-year growth rate of the **Pension and Disability Insurance Institute (ZPIZ)** expenditure more than doubled in the first five months of this year (10.7%) compared to the same period last year (4.3%). The key reason for this was the high regular pension indexation (8.8%), while the growth in the number of beneficiaries (1.4%) was also slightly higher than in the same period last year. The high indexation of pensions, despite the continuing favourable dynamics of the social contributions revenue, necessitated a much higher year-on-year transfer from the state budget.
- The **municipal budget accounts** recorded a deficit in the first five months of this year (EUR 33 million), compared to a surplus in the same period last year (EUR 24 million). Both revenue and expenditure growth slowed year-on-year, but the latter grew at almost three times the rate of the former. Revenue growth (3.7%; I-V 2023: 6.1%) was again mainly driven by higher personal income tax revenue, with a further increase in the lump sum funding. The main contributor to the slowdown in total revenue growth compared to the same period last year was revenue related to developments on the property market, which was down year-on-year after a prolonged period of growth in the first five months of this year. Expenditure growth remained strong (9.4%; I-V 2023: 12.0%). It mainly stemmed from higher growth in transfers to individuals and households, in particular the payment of the difference between the price of kindergarten programmes and parents' fees. Higher labour costs, mainly due to the early payment of the holiday allowance this year, and higher expenditure on goods and services also contributed significantly to the growth. Growth in investment spending stalled but remained at a high level.

Figure 9: Revenue and expenditure of local government



Source: MoF, FC calculations.

Figure 10: Local government budget balance

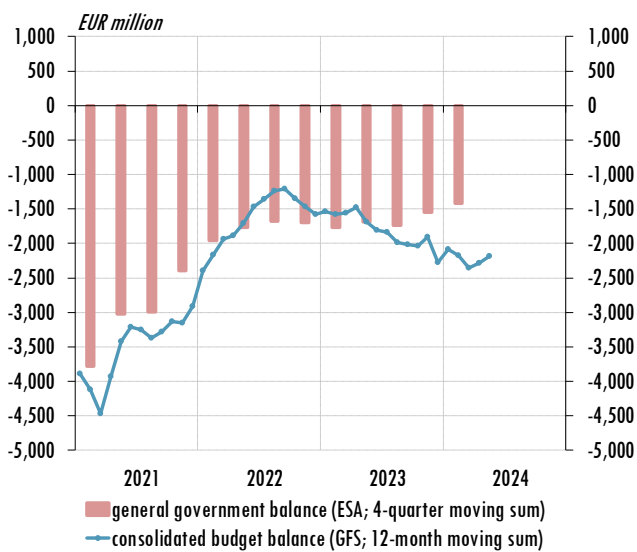


Source: MoF, FC calculations.

General government (first quarter of 2024)

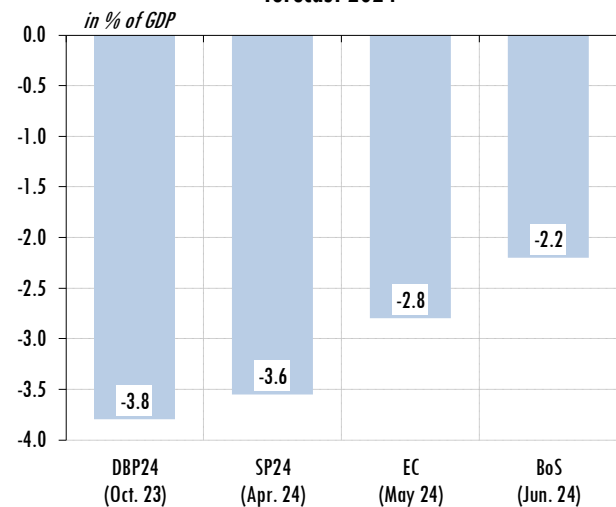
- The general government deficit** in the first quarter of this year amounted to just over EUR 300 million (2% of GDP).⁴ This is around EUR 140 million or 1 pp of GDP less than in the same period last year. The smaller deficit was mainly due to lower outgoings on intervention measures, which, according to the state budget, were around EUR 200 million less this year than last year. According to the April Stability Programme, the general government deficit is projected to reach 3.6% of GDP in 2024, thus exceeding the Maastricht limit of 3% of GDP. This projected increase in the deficit from last year's 2.6% of GDP was considered excessive by the Fiscal Council when assessing the Stability Programme. The European Commission also did not foresee the opening of an excessive deficit procedure for Slovenia, as it intends to do for seven EU

Figure 11: Public finance balances



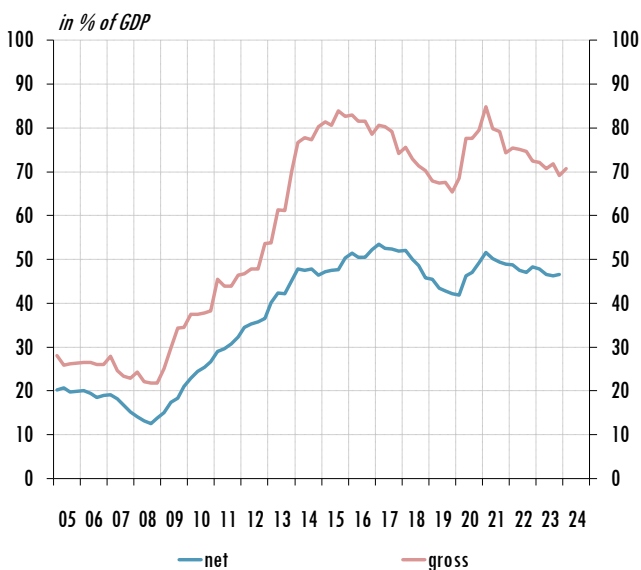
Source: SORS, MoF, FC calculations.

Figure 12: General government balance forecast 2024



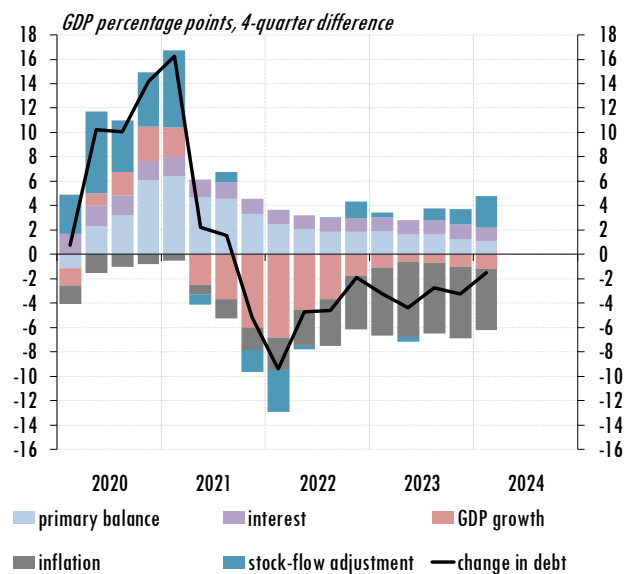
Source: MoF, EC, BoS.

Figure 13: Gross and net general government debt



Source: Eurostat, ECB, SORS, FC calculations.

Figure 14: Public debt change



Source: SORS, FC calculations.

⁴ The Statistical Office of the Republic of Slovenia (SORS) published data on main general government aggregates for the first quarter of 2024 on 28 June 2024. Available at: <https://www.stat.si/StatWeb/en/News/Index/12953>

countries, due to uncertainties related to the full-year balance projection and on the basis of its own forecast (deficit of 2.8% of GDP).⁵

- **Government debt** increased in the first quarter compared to the end of last year, amounting to EUR 45.4 billion (70.7% of GDP). The debt-to-GDP ratio was 1.5 pp lower than in the same period last year. For a year and a half, inflation has been the main contributor to the year-on-year decline. In particular in the last quarter, factors unrelated to the deficit and the economic situation have prevented a decline in the debt-to-GDP ratio. In particular, the Treasury's liquidity buffers have further increased, reaching EUR 9 billion (14% of GDP) at the end of March, which is almost EUR 1 billion higher than at the end of last year. By the end of June, the balance has risen to EUR 9.5 billion, further reducing the net general government debt. According to the latest available data, it stood at 46.6% of GDP at the end of last year.

⁵ The European Commission report is available at:

https://economy-finance.ec.europa.eu/document/download/1d91e302-b9cc-4b54-988a-9e6787230152_en?filename=COM_2024_598_1_EN_ACT_part1_v3.pdf