



REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Monthly Information

November 2024

Key highlights¹

- According to preliminary data, the state budget deficit for the first ten months of the year amounted to EUR 553 million, which was around half of the deficit in the same period last year. According to the latest available estimate by the Ministry of Finance, the end-of-year deficit is expected to amount to EUR 1,407 million, making the deficit in the last two months EUR 854.
- Excluding the direct effect of the intervention measures, the deficit amounted to EUR 109 million, compared to a surplus of 96 EUR million in the same period last year. Total expenditure on intervention measures amounted to EUR 444 million, around two-thirds lower than in the same period last year. According to the latest available estimate by the Ministry of Finance, this year, EUR 713 million is earmarked for intervention measures (excluding the Reconstruction Fund).
- The growth in "core" expenditure (excluding intervention measures) was 10.3% and strengthened compared to the same period last year (8.0%). The main reasons for this year's growth were the transfer to the Pension and Disability Insurance Institute of Slovenia (ZPIZ) due to the high regular pension indexation and the high growth in payments to budgetary funds, in particular due to the establishment of the Reconstruction Fund.
- The Fiscal Council, as part of its tasks under the Fiscal Rule Act, regularly warns of risks to medium-term fiscal sustainability. Such risks are also posed by the proposed Act Determining Intervention Measures for the Provision of Heat Supply in the Šalek Valley, which is not included in the regular budget documents. We assess that its fiscal implications will reduce the fiscal policy's room for manoeuvre, that the proposed Act does not adequately present all possible solutions, and that it could also raise expectations for government action in other areas (see more on page 8).

¹ All comments refer to data known as at 5 November 2024.

State budget from January to October 2024²

- According to preliminary data, the state budget deficit for the first ten months of 2024 amounted to EUR 553 million, which, excluding the direct effect of the intervention measures, amounted to EUR 109 million.
- The growth of "core" revenue (excluding intervention measures) in the first ten months of 2024 (8.3%) was considerably higher than in the same period last year (2.2%). The main contributor to the growth this year was higher corporate income tax revenue. This was due to the high settlement of outstanding liabilities from the previous year and the increased tax rate in connection with the post-flood recovery. The contribution from income tax revenue is also more

Figure 1: State budget balance

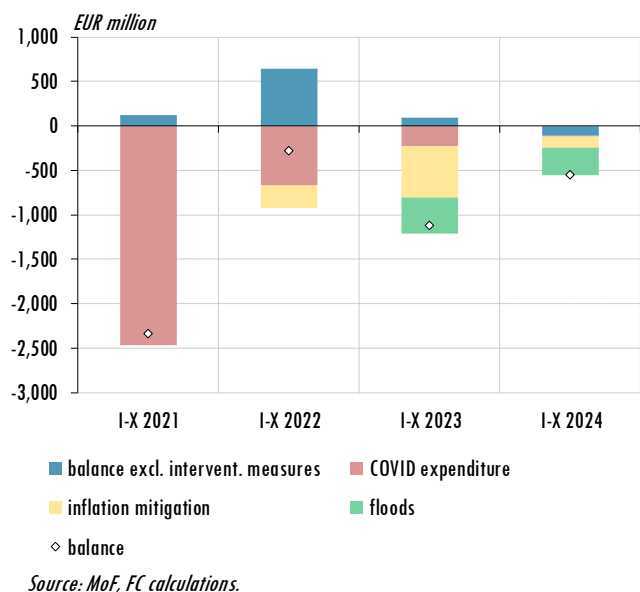


Figure 2: Factors of state budget balance change

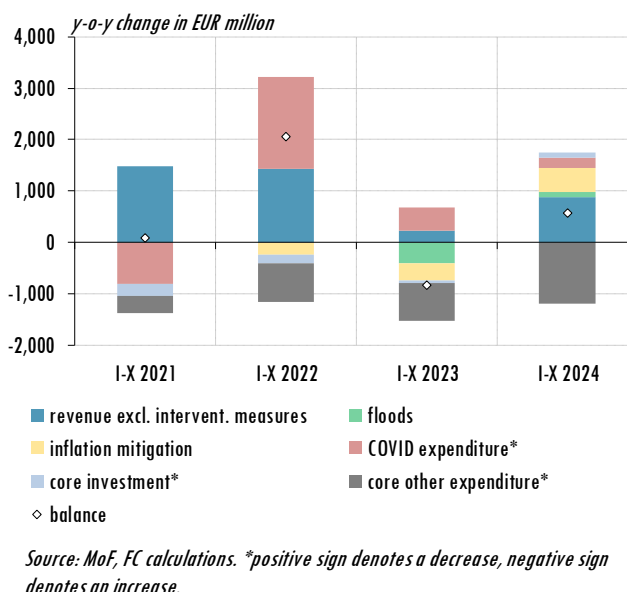


Figure 3: Structure of state budget expenditure growth

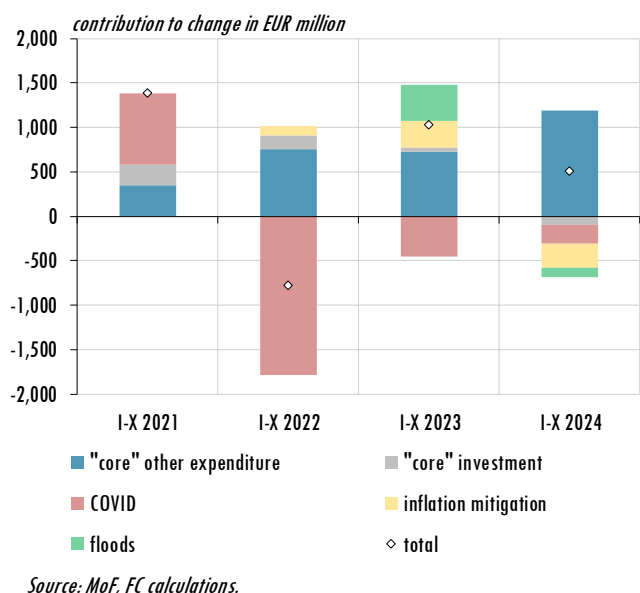
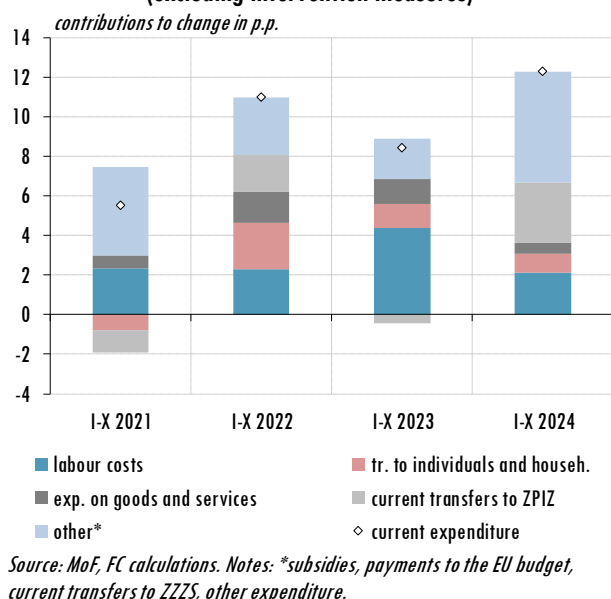


Figure 4: Current expenditure factors (excluding intervention measures)



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

pronounced, due to continued strong growth in the compensation of employees under favourable labour market conditions and partly to the non-adjustment of income tax brackets and the general allowance with inflation. Non-tax revenue is also higher year-on-year, but its growth would have been much lower without the profit of the Slovenian Sovereign Holding (SSH) paid into the Reconstruction Fund. In contrast, VAT revenue growth slowed, while revenue from excise duties and EU funds³ was lower on a year-on-year basis.

- The growth in "core" expenditure (excluding intervention measures) was 10.3% and strengthened compared to the same period last year (8.0%). The main contributors to this year's growth and its strengthening relative to the same period last year were the transfers to the Pension and Disability Insurance Institute of Slovenia (ZPIZ) due to the high regular pension indexation and the high growth in payments to budgetary funds.⁴ Other notable contributors to growth were year-on-year increases in labour costs (the effect of the partial adjustment to last year's inflation), transfers to individuals and households (adjustment to last year's inflation), and interest expenditure.

Table 1: State budget

<i>EUR million, unless stated otherwise</i>	Jan.-Oct.				Nov.-Dec.				2023	2024**	2024 compared to 2023	
	2023	2024	2024 compared to 2023		2023	2024*	2024 compared to 2023					
				%				%			%	
Revenue	10,471	11,540	1,070	10.2	2,555	3,007	452	17.7	13,026	14,547	1,521	11.7
VAT	4,207	4,401	194	4.6	940	978	39	4.1	5,147	5,379	232	4.5
Excise duties	1,379	1,381	1	0.1	280	278	-2	-0.7	1,659	1,659	0	0.0
Personal income tax	1,354	1,650	296	21.8	361	418	56	15.6	1,716	2,067	352	20.5
Corporate income tax	1,179	1,589	410	34.8	214	276	62	28.9	1,393	1,865	472	33.9
EU funds	691	612	-79	-11.5	397	500	103	26.0	1,088	1,112	24	2.2
Non-tax	587	808	221	37.6	142	326	184	129.8	729	1,134	405	55.5
Other revenue	1,073	1,101	27	2.6	221	230	9	4.1	1,294	1,331	37	2.8
Expenditure	11,586	12,093	507	4.4	3,766	3,861	95	2.5	15,352	15,954	602	3.9
Total labour costs	3,408	3,578	170	5.0	707	891	184	26.0	4,115	4,469	354	8.6
Transfers to individ. and hhs	1,613	1,645	33	2.0	450	318	-132	-29.3	2,062	1,963	-99	-4.8
Goods and services	1,154	1,300	146	12.7	465	513	48	10.4	1,619	1,813	194	12.0
Investment	1,258	876	-382	-30.3	945	1,007	62	6.5	2,203	1,883	-320	-14.5
Current transfers to ZPIZ	1,018	1,292	273	26.8	98	128	30	30.8	1,116	1,420	303	27.2
Subsidies	724	537	-187	-25.8	218	88	-130	-59.5	942	626	-316	-33.6
Interest	602	680	78	13.0	82	138	56	67.6	684	818	134	19.5
Payments to the EU budget	548	505	-43	-7.8	124	162	38	30.7	672	667	-5	-0.7
Other expenditure	1,262	1,680	418	33.1	677	616	-61	-9.1	1,939	2,295	356	18.4
Balance	-1,116	-553	563		-1,211	-854	357		-2,327	-1,407	920	

Source: MoF, FC calculations. Note: *implicitly calculated to match MoF forecast. **MoF estimate (Sep.2024).

³ At the end of October, Slovenia received EUR 258 million from the Recovery and Resilience Facility. On the basis of the monthly outturn of revenue from the European funds, we conclude that the funds had not yet been recorded as state budget revenue by the end of October.

⁴ Payments to budgetary funds are recorded as expenditure in the state budget under account 409300 Budget funds. According to the data available up to the end of September, the year-on-year growth of payments to budgetary funds in the first nine months of this year was 87%.

Implementation of intervention measures from January to October 2024

- A total of EUR 314 million was paid out in the first ten months of 2024 for post-flood recovery, out of a total of EUR 540 million planned for the whole of 2024. The largest part of this year's outturn is accounted for by the maintenance of watercourses (EUR 110 million) and subsidies to businesses (EUR 90 million). In addition, according to the available data, EUR 224 million (donations, SSH profits and part of the revenue resulting from the increased corporate tax rate) was paid into the Reconstruction Fund by the end of September out of the foreseen EUR 413 million. Disbursements from the Fund will start next year. As far as post-flood recovery is concerned, in August 2024 the EC granted Slovenia EUR 328 million under the Solidarity Fund (on top of the EUR 100 million advance payment received in December).⁵ According to the Ministry of Finance, by the end of October, EUR 264 million had been provided from the Solidarity Fund to finance measures to deal with the consequences of last year's floods.

Table 2: State budget (excluding intervention measures)

EUR million, unless stated otherwise	I-X 2023					I-X 2024					I-X 24/I-X 23, %		I-X 24/I-X 23	
	total	COVID mitig.	infl.	floods	excl. interv. measures	total	COVID mitig.	infl.	floods*	excl. interv. measures	total interv. measures	excl. interv. measures	total interv. measures	excl. interv. measures
Revenue	10,471	...	-184	...	10,654	11,540	...	...	...	11,540	10.2	8.3	1,070	886
VAT	4,207	...	-73	...	4,280	4,401	...	...	...	4,401	4.6	2.8	194	121
Excise duties	1,379	...	-63	...	1,442	1,381	...	...	...	1,381	0.1	-4.3	1	-62
Personal income tax	1,354	...	...	...	1,354	1,650	...	...	...	1,650	21.8	21.8	296	296
Corporate income tax	1,179	...	...	...	1,179	1,589	...	...	...	1,589	34.8	34.8	410	410
EU funds	691	...	...	...	691	612	...	...	...	612	-11.5	-11.5	-79	-79
Non-tax	587	...	...	...	587	808	...	...	...	808	37.6	37.6	221	221
Other revenue	1,073	...	-48	...	1,121	1,101	...	...	...	1,101	2.6	-1.8	27	-21
Expenditure	11,586	225	401	402	10,558	12,093	14	125	305	11,649	4.4	10.3	507	1,092
Total labour costs	3,408	15	8	0	3,386	3,578	0	...	0	3,578	5.0	5.7	170	192
Transfers to individ. and hhs	1,613	9	29	33	1,541	1,645	3	0	16	1,627	2.0	5.5	33	85
Goods and services	1,154	7	3	41	1,103	1,300	3	4	138	1,154	12.7	4.6	146	51
Investment	1,258	110	...	213	934	876	1	...	37	838	-30.3	-10.3	-382	-96
Current transfers to ZPIZ	1,018	...	...	...	1,018	1,292	...	...	...	1,292	26.8	26.8	273	273
Subsidies	724	36	358	34	296	537	1	120	105	311	-25.8	5.3	-187	16
Interest	602	...	...	...	602	680	...	...	...	680	13.0	13.0	78	78
Payments to the EU budget	548	...	...	...	548	505	...	...	...	505	-7.8	-7.8	-43	-43
Other expenditure	1,262	48	4	81	1,129	1,680	6	0	8	1,665	33.1	47.4	418	536
Balance	-1,116	-225	-584	-402	96	-553	-14	-125	-305	-109			563	-205

Source: MoF, FC calculations. Note: * excluding the effect of measures to finance post-flood recovery on revenues (higher corporate income tax rate, SDH profits and donations) and expenditures (redirecting these revenues into Reconstruction Fund). The effect on the balance is neutral, while the stated measures have effects on growth rates of several categories of revenues and expenditure included in the category »excluding intervention measures«.

⁵ According to the detailed balance sheet of the state budget, these funds had not yet been recorded as revenue by the end of September.

- A total of EUR 125 million was paid out this year to ease the cost-of-living crisis, out of a total of EUR 151 million planned for the whole of 2024. The majority of this amount (EUR 108 million) is compensation paid out to electricity and gas suppliers. For COVID-19-related measures, EUR 14 million was paid from the state budget this year out of a total of EUR 22 million planned for the whole of 2024. The bulk of this was spent on vaccines and vaccination (EUR 8 million).

A warning concerning the public finance risks in the event of the adoption of the proposed Act Determining Intervention Measures for the Provision of Heat Supply in the Šalek Valley

- The fiscal policy's room for manoeuvre in the 2025–2028 period is defined or constrained by the Medium-Term Fiscal and Structural Plan 2025–2028, which was sent by the Government to the European Commission on 15 October 2024. This sets a ceiling on the growth of core expenditure that is expected to ensure the sustainability of public debt in the medium term. According to the plan, the general government deficit should gradually decline, reaching 1.2% of GDP in 2028. In its opinion on the plan⁶, the Fiscal Council highlighted the serious risk that the measures which, according to the information currently available, will be in force during the plan period do not ensure compliance with the commitments. Additional commitments, such as the proposed Act Determining Intervention Measures for the Provision of Heat Supply in the Šalek Valley, would further distance Slovenia's compliance with the commitments and require additional compensatory measures. These commitments are not included in the current draft state budgets for 2025 and 2026.
- The assessment of the financial implications provided in the proposed Act Determining Intervention Measures for the Provision of Heat Supply in the Šalek Valley shows that the net effect on the state budget balance is expected to be around EUR 170 million if the foreseen earmarked revenue is actually realised (Table 3).

Table 3: Estimate of financial consequences of the proposed Act Determining Intervention Measures for the Provision of Heat Supply in the Šalek Valley

<i>EUR million</i>	2025	2026	2027	2028	2029	TOTAL
Planned state compensation	164	152	170	182	166	833
Planned earmarked revenues from dividends of SDH "energy" pillar	195	160	140	100	70	665
Planned net effect on state budget balance	31	8	-30	-82	-96	-168

Source: Proposed Act Determining Intervention Measures for the Provision of Heat Supply in the Šalek Valley.

- Based on the past realisation of SSH dividends of the "energy" pillar (Table 4), which according to the proposed Act would constitute an earmarked source of financing the envisaged compensation, it is estimated that there is a significant risk that the estimated earmarked revenue will not be fully realised. Taking into account the average realisation of the "energy" pillar dividends over the past five years (around EUR 70 million per year), the negative net effect of the proposed Act could be close to EUR 0.5 billion. If the exceptional year 2024 (for the financial year 2023) is excluded from the past realisation of dividends paid, the negative net effect could be more than EUR 0.7 billion. It should also be noted that the total volume of "energy" pillar dividends amounted to EUR 365 million in the past five years and that, under the proposed Act, it is expected to amount to EUR 665 million in the next five years. In addition, it should be noted that the planned earmarked source does not represent a new source of financing. Most of these dividends have already constituted regular revenue for the state budget and would no longer be available to finance other budget commitments if they were earmarked. In order to ensure consistency with the draft state budgets for 2025 and 2026, which are in the process of being adopted, it would therefore be necessary to adequately demonstrate the additional sources of financing already at the time of the adoption of the budgets for these two years.

⁶ Available at https://www.fs-rs.si/wp-content/uploads/2024/11/Document_Oct24.pdf.

Table 4: SSH dividends*

<i>EUR million</i>	total	energy
2020	86	28
2021	151	29
2022	191	18
2023	176	15
2024	487	275
outturn average 20-24	218	73
outturn total 20-24	1,091	365
planned total 25-29	...	665

*Source: Source: SSH's reports to the National Assembly of RS, Proposed Act Determining Intervention Measures for the Provision of Heat Supply in the Šalek Valley. Note: *Dividends for previous financial year.*

- We assess that the adoption of the proposed Act could further distance Slovenia's compliance with the commitments set out in the Medium-Term Fiscal and Structural Plan 2025–2028. The Fiscal Council reminds decision-makers once again that the fiscal policy's room for manoeuvre is constrained not only by the revised fiscal rules, but above all by the need to ensure the sustainability of public debt. In Slovenia, long-term fiscal risks are among the highest in the EU. Therefore, when adopting various discretionary measures, their impact on the overall public finances needs to be carefully considered and their financial implications need to be based on realistic calculations. At the same time, alternative solutions should also be shown or clear explanations given as to why alternative solutions are not feasible, which is not evident from the proposed Act. Moreover, we must point out once again that this type of discretionary action increases expectations of additional state support in other areas as well. A typical example of this type of behaviour is the large bonuses paid with public sector wages during the epidemic and the subsequent demands by individual occupational groups to maintain higher wage levels. These have also largely determined the content and the fiscal impact of the change in the public sector pay system.