REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Monthly Information

February 2025

Document No.: 30-1/2025/2

Key highlights[1]

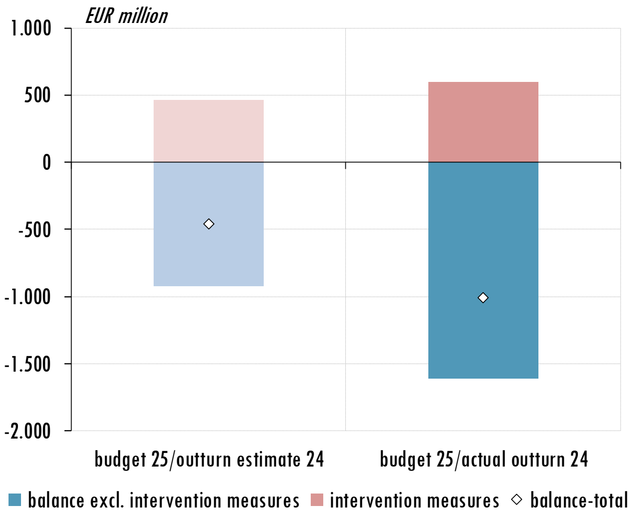
- The 2025 budget has been formulated on the basis of overestimates of expenditure for 2024. The increase in the deficit could therefore be higher this year than shown when the budget documents were adopted. The deficit excluding intervention measures is thus projected to increase by as much as EUR 1.6 billion this year compared to the latest available figures for 2024, while expenditure is projected to increase by EUR 2.4 billion (17% higher than last year). More than half of the additional expenditure will be on current spending (e.g. wages and social benefits), which is a long-term burden on public finances. This approach to budgetary planning can lead to irrational spending and jeopardise the sustainability of government finances.
- In January, the budget had a surplus of EUR 203 million, down from a surplus of EUR 336 million the previous year. Revenue increased by 1.9%, significantly less than last year (10.6%), mainly due to less EU funding. Expenditure increased by 18%, mainly due to higher subsidies and investments.
- The health insurance budget (ZZZS) had a surplus of EUR 79 million last year, mainly due to the transformation of supplementary insurance into a compulsory contribution and the further increase of the transfer from the state budget to 0.6% of GDP, almost three times more than before the epidemic.
- The record 8.8% pension adjustment forced the transfer from the state budget to the pension insurance budget (ZPIZ) to increase by almost a third last year to EUR 1.4 billion, or 2.2% of GDP. Pension expenditure has grown by 44% in five years and accounts for 10% of GDP.
- Municipalities ran a deficit of -0.4% of GDP last year (EUR -236 million), the highest since the financial crisis fifteen years ago. The main reason for the increase in the deficit compared to 2023 is less money from the state budget for natural disaster recovery.

[1] All comments refer to data known as of 4 February 2025.

State budget 2025 in relation to actual 2024 outturn

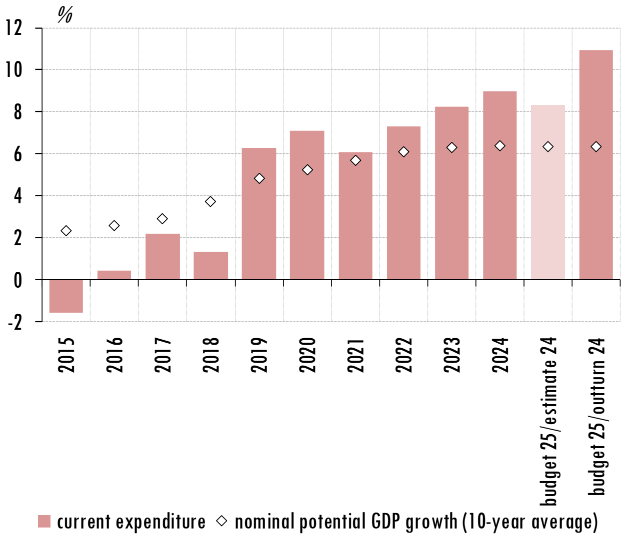
- The comparison of the budget in force in 2025 with the actual outturn in 2024 reaffirms the importance of realistic budget planning. At the time of the adoption of the 2025 budget, the deficit was shown to increase by around EUR 0.9 billion this year without the intervention measures. At the time, the Fiscal Council warned that the budget documents were again based on an inadequate and exaggerated estimate of the 2024 outturn and that the adoption of the proposed budget would allow the deficit to deteriorate even further.[2]
- Last year's outturn figures confirm the Fiscal Council's warnings. Indeed, the current budget for 2025 allows for an increase in the deficit excluding intervention measures of more than EUR 1.6 billion and an increase in expenditure excluding intervention measures of EUR 2.4 billion, which represents a 17% increase compared to last year. More than half of the spending growth allowed this year is accounted for by current expenditure,[3] which is key to ensuring the sustainability of public finances due to its long-term impact on public finances Current expenditure growth has gradually strengthened over the past three years, outpacing medium-term growth in economic potential. The current budget for 2025 allows for a further strengthening of current expenditure, with the outperformance of potential growth expected to be three times higher than in the period 2020-2024.

Figure 1: State budget for 2025 compared to previous estimate and actual outturn for 2024



Source: MoF, FC calculations.

Figure 2: State budget current expenditure growth*



*Source: MoF, IMAD, FC calculations. Note: * state budget expenditure excluding intervention measures, investment, interest and reserve.*

- The repeated creation of extensive room for manoeuvre for public spending growth increases the risk that it will be irrational and inefficient. Continuing to grow spending above economic potential increases the risks to the sustainability of public finances. This approach to budgetary planning is driven by systemic weaknesses, not by crisis conditions or uncertainties. In the future, more deliberate and balanced budgetary planning will be needed.

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[2] The Fiscal Council's assessment is available at https://www.fs-rs.si/wp-content/uploads/2024/11/Document_Oct24.pdf

[3] Total expenditure excluding intervention measures, investment, interest and reserves.

The state budget – January 2025[4]

- The state budget had a surplus of EUR 203 million in January, down from EUR 336 million in January last year. After five years, the balance was not affected by the intervention measures. The 2025 budget no longer foresees expenditure to mitigate the epidemic and rising prices, and flood recovery will be financed from this year onwards by the Reconstruction Fund.[5]
- Revenues were 1.9% higher year-on-year in January (10.6% in January last year). The main reason for the lower growth is the much lower EU funding received. The main contributors to the January growth were VAT and corporate income tax revenues. On the other hand, expenditure grew by 18.0%, while in January last year expenditure was 7.4% lower on a year-on-year basis. January's growth was mainly driven by a marked increase in subsidy expenditure. Investment expenditure and the category of "other expenditure", which includes the transfers to budgetary funds, also contributed significantly to the growth. The Reconstruction Fund disbursed EUR 6 million in January, mostly for replacement construction.

Public finance budgets in 2024 (GFS cash flow methodology)

The **Health Insurance Fund (ZZZS)** closed 2024 with a surplus of EUR 79 million. Revenue and expenditure growth were boosted by the transformation of supplementary insurance into a compulsory contribution. This resulted in a growth of 23.5% in total revenue, and 9.1% excluding the impact of the compulsory health contribution of EUR 623 million (2023: 9.6%). Against the background of a favourable labour market situation, the relatively high growth in other social contributions continued. The transfer from the state budget increased further last year. Its share in GDP was 0.6% of GDP, almost three times higher than before the epidemic. Expenditure growth picked up significantly (19.6%), driven mainly by intermediate spending[6] by public institutions. Payments to non-budgetary users (private public service providers) also contributed significantly to growth, increasing by 40%. This expenditure more than doubled compared to 2019. The financial plan for 2025 foresees a surplus of EUR 148 million due to the expected surplus in long-term care insurance.

The growth of the **Pension Insurance Fund (ZPIZ)** expenditure strengthened markedly last year to 10.5% (2023: 5.8%), mainly due to the 8.8% regular adjustment of pensions, the highest in two decades. Total pension expenditure increased by EUR 2 billion or 44% over the last five years, slightly outpacing the increase in nominal GDP. As a result, the share of pension expenditure increased to 10.0% of GDP. The real purchasing power of average pensions increased over the last five years as the growth of all types of pensions[7] outpaced cumulative inflation. The high pension adjustment has required a much higher transfer from the state budget, despite the continued favourable dynamics of social contribution revenues. The total transfer increased to EUR 1.4 billion, representing 2.2% of GDP.

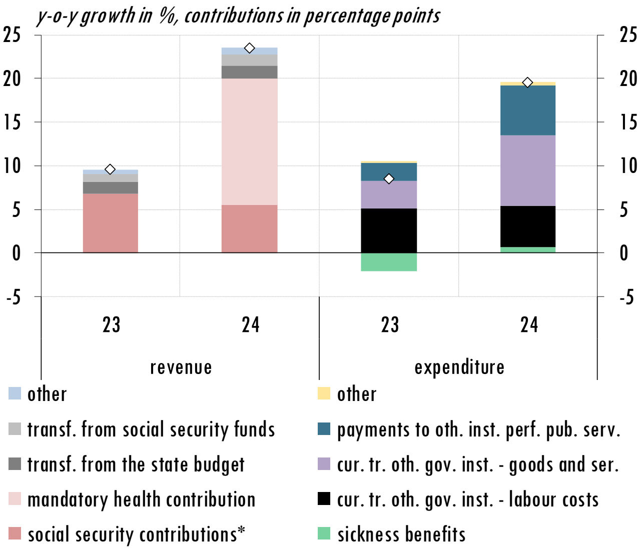
[4] The comments on the implementation of the state budget refer to the daily data available at https://proracun.gov.si/Public/BudgetCurrent.

[5] The dynamics of revenue and expenditure will be affected by the financing of the Reconstruction Fund. This is because earmarked revenue, which is provided for by law, is booked both on the revenue side and as an expenditure of the state budget when it is transferred to the Fund as its revenue.

[6] Transfers for expenditure on goods and services, medicines, orthopaedic appliances and vaccines, blood transfusions and medical supplies.

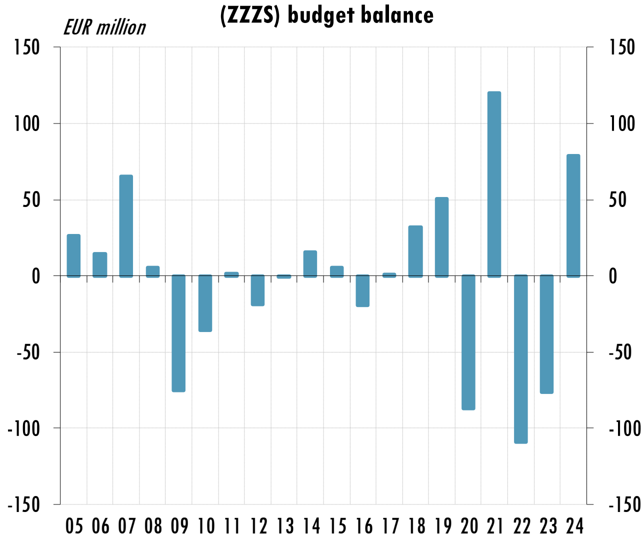
[7] Average old-age pensions, which account for the largest share of expenditure, were 36% higher on average last year than in 2019. The average disability pension increased by 35% over this period, while survivor's and widow's pensions increased by 32%. Inflation was 21% in this period.

Figure 3: ZZZS revenue and expenditure



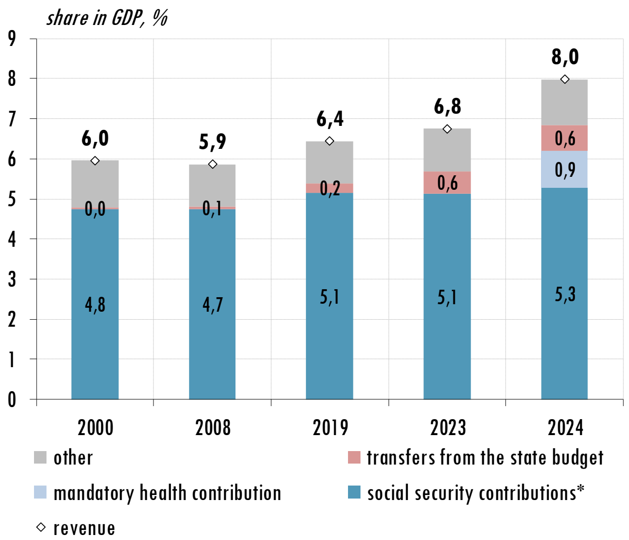
*Source: MoF, FC calculations. *Note: excluding mandatory health contribution.*

Figure 4: Health Insurance Institute of the Republic of Slovenia (ZZZS) budget balance



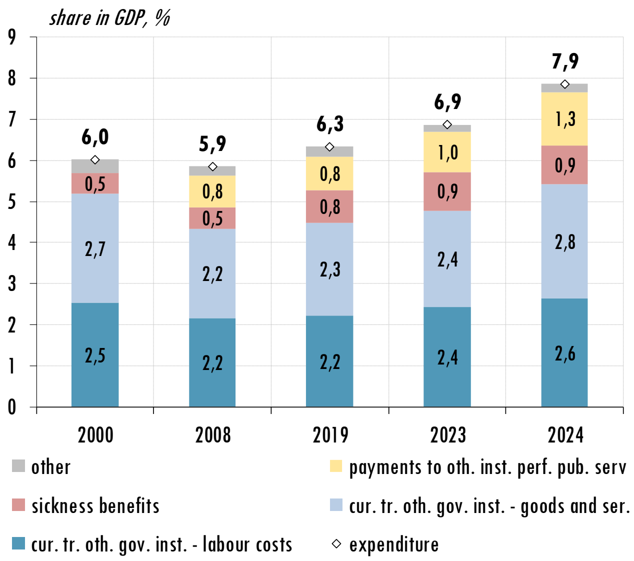
Source: MoF.

Figure 5: ZZZS revenue



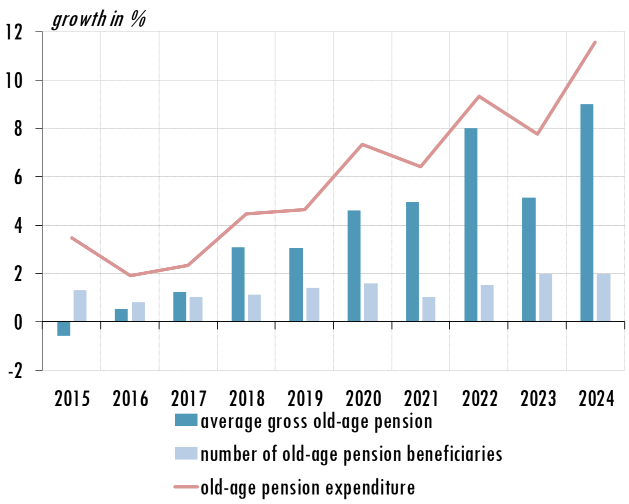
*Source: MoF, SORS, IMAD, FC calculations. Note: *excluding mandatory health contribution.*

Figure 6: ZZZS expenditure



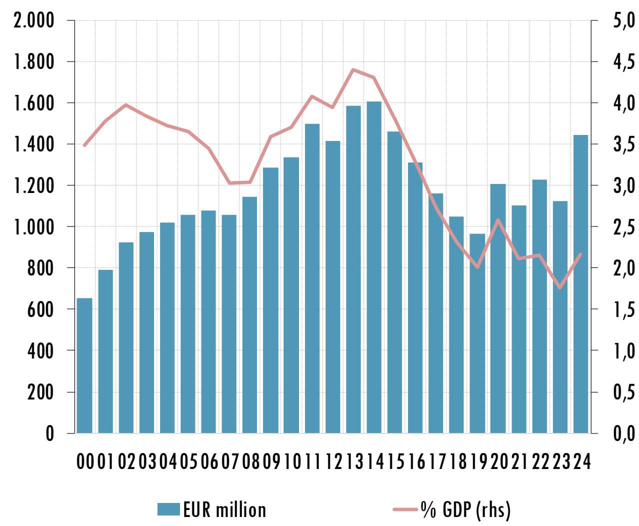
Source: MoF, SORS, IMAD, FC calculations.

Figure 7: Old-age pensions*



*Source: Pension and Disability Insurance Fund of Slovenia (ZPIZ), MoF,FC calculations. *Old-age pension beneficiaries represented 76% of all beneficiaries last year, while volume of old-age pension expenditure represented 82% of all ZPIZ pension expenditure.*

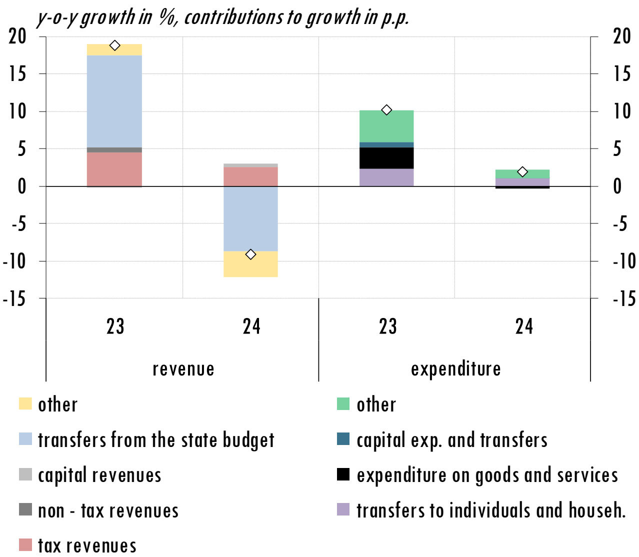
Figure 8: Pension and Disability Insurance Fund of Slovenia (ZPIZ) - state budget funding



Source: MoF, SORS, IMAD, FC calculations.

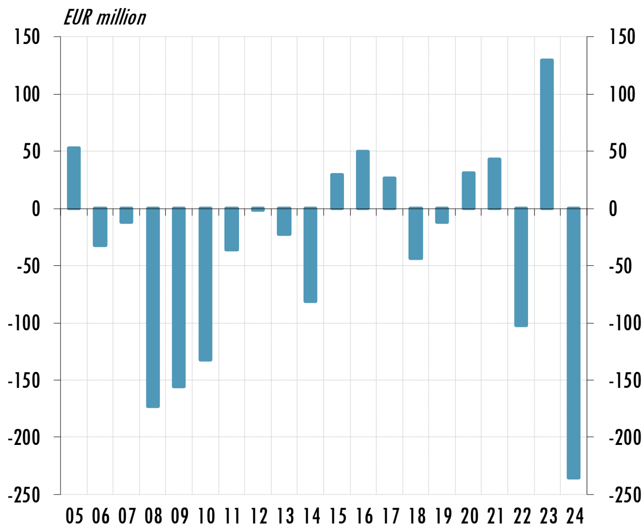
Last year, **municipal budgets** ran a deficit of EUR -236 million, or -0.4% of GDP, the highest since the global financial crisis 15 years ago. Revenues fell by 9.2%, mainly due to a smaller transfer from the state budget for disaster relief.[8] Expenditure growth was 1.9%, much lower than in 2023 (10.1%). The slowdown is mainly due to the stagnation of intermediate spending, which increased by almost 20% in 2023. Investment activity stagnated for the second year in a row. Consumption growth was thus mainly driven by continued growth in transfers to individuals and households.

Figure 9: Revenue and expenditure of local government



Source: MoF, FC calculations.

Figure 10: Local government budget balance



Source: MoF.

[8] In 2023 and 2024, municipalities received EUR 234 million and EUR 54 million respectively from the state budget to deal with the consequences of natural disasters.