GOVERNMENT OF THE REPUBLIC OF SLOVENIA

Stability Programme 2021

April 2021

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1 Introduction and fiscal strategy

The Stability Programme 2021 is adapted to the needs stemming mainly from the COVID-19 epidemic and the recovery. It is essential to point out that, for the second year, we are in an environment of high uncertainties stemming mainly from a further epidemiological picture, possible new variations of the virus and vaccination rates and, consequently, macroeconomic trends. The situation, which is now in its second year, requires decisive action and effective adaptation of measures to tackle the consequences of COVID-19. It is essential to ensure that measures are properly and gradually phased out when possible, in parallel with introducing new ones aimed at recovery and resilience. Exceptional circumstances and the general escape clause of the Stability and Growth Pact continue to apply in 2021. On 25 March 2021, the Government of the Republic of Slovenia (hereinafter: the Government) requested from the Fiscal Council of the Republic of Slovenia (hereinafter: the Fiscal Council) to assess the existence of exceptional circumstances in 2022. The Fiscal Council estimated that, based on the currently known data, the exceptional circumstances would not expire in 2022. At the European Union (EU) level, the European Commission (hereinafter: the Commission) issued guidance on the conduct of fiscal policy in March 2021, where it notes that, according to existing projections, the level of gross domestic product (GDP) will only be at 2019 level by the end of 2022. In May 2021, the Commission will also formally determine, based on this indicator, whether the general escape clause will continue to apply to the euro area (or the EU) as a whole in 2022, based on its new macroeconomic forecast. This year, temporary measures to combat COVID-19 will continue to work, and in 2022, priority will be given to recovery measures. The Recovery and Resilience mechanism will support the recovery. It is particularly important, that through this mechanism investment must be supported by structural reforms. The combination of both will positively impact growth and development while positively impacting public finances over the medium and longer-term, thus gradually reducing the deviation from the medium-term balance. It is essential that the means of achieving medium-term balance will be determined prudently when circumstances allow.

The Stability Programme 2021 is prepared based of Amendment to the Ordinance on the framework for the preparation of the general government budget for the 2020–2022 period for 2021, and the Ordinance on the framework for the preparation of the general government budget for the 2022–2024 period (hereinafter: Framework), which is consistent with the Fiscal Rule Act (ZFisP). The ordinances were adopted on 23 April 2021 by a majority by the National Assembly. The framework for the preparation of the budgets for the 2022–2024 period is the medium-term plan of the Government's fiscal projections, building on the Spring Forecast of Economic Trends 2021 by the Institute of Macroeconomic Analysis and Development (IMAD, March 2021), an assessment of the realization of the individual public finance budgets and units within the government sector in the current year, as well as the measures envisaged. It should be pointed out that the setting of permitted levels of expenditure, fiscal targets and structural position is challenging, both for the current year and even more so in the medium term, as the situation and macroeconomic forecasts are subject to frequent and significant changes.

Unlike the Stability Programme 2020, the Stability Programme 2021 is prepared and structured as under normal conditions for the next three years. According to the European Semester, the Republic of Slovenia shall submit the Stability Programme by the end of April 2021. Given the validity of the general escape clause, the Commission will assess the consistency of the objectives primarily through qualitative assessment.

The COVID-19 mitigation packages have had a significant impact, based on which the decline in economic growth in 2020 was not more significant. The Bank of Slovenia[1] estimates that the decline in economic activity in 2020 without any measures would be more than one third bigger, the Fiscal Council[2] estimates greater decline by a quarter, and IMAD[3] estimates that the decline would be at least three percentage points higher. The measures will also significantly impact the achievement of the 2019 level of GDP in 2022. In total, with all incentives and measures around EUR 3 billion (6.5% of GDP) were earmarked for this in 2020, with an estimated expenditure of EUR 1.5 billion (3% of GDP) in 2021. As a result of the decline in economic activity, epidemics and measures, revenues in 2020 amounted to 43.6% of GDP, which is slightly lower than in 2019, when lower economic growth was already felt. As a result, revenues remain at around 43% of GDP in 2021 and 2022. At the same time, expenditure has increased, amounting to 52% of GDP in 2020, and is projected to decline gradually; 2021: 52% of GDP, 2022: 49% of GDP, 2023: 46% of GDP. The deficit stood at 8.4% of GDP in 2020, is estimated at 8.6% of GDP in 2021, before declining after that; 2022: 5.7% of GDP, 2023: 3.8% of GDP, 2024: 2.8% of GDP. In the coming years, fiscal policy will continue to be affected by the epidemic and foster recovery. Given the exceptional circumstances and uncertainties, the general government deficit is planned over the coming three years, but it is estimated to gradually decline below 3% of GDP after 2021 by 2024. The plans are accompanied by several uncertainties and risks stemming from the domestic and international environment. The gradual reduction of the deficit is in line with the recommendations of international institutions, such as the Commission, the International Monetary Fund (IMF), and the European Central Bank (ECB), that measures to support economic activity should not be withdrawn too quickly despite a gradual recovery, as this could jeopardise the recovery. It follows that, even after the epidemiological situation has eased, a supportive fiscal policy will be still needed for some time. Compliance with fiscal rules following the conclusion of the epidemic and the start of recovery, is likely to first require in line with the Stability and Growth Pact a transition to the corrective arm (where compliance with nominal targets is required), and only at a later stage compliance with the preventive arm with respecting and requiring a gradual transition to the medium-term balance of public finances. However, due to several uncertainties, fiscal measures are currently planned more intensively only for 2021 and 2022, while targets for 2023 and 2024 are merely indicative.

Table 1: General government balance and debt projections

% of GDP	2020	2021	2022	2023	2024
General government balance	-8.4	-8.6	-5.7	-3.8	-2.8
General government debt	80.8	80.4	79.6	79.0	78.0

Source: Statistical Office of the Republic of Slovenia (SORS); Ministry of Finance.

[1] Bank of Slovenia, Macroeconomic Projections for Slovenia, December 2020.

[2] Assessment by the Fiscal Council: Compliance of the draft Revised budget of the Republic of Slovenia for 2020 and of the draft Ordinance amending the Ordinance on the framework for the preparation of the general government budget for the 2020–2022 period with the fiscal rules, September 2020.

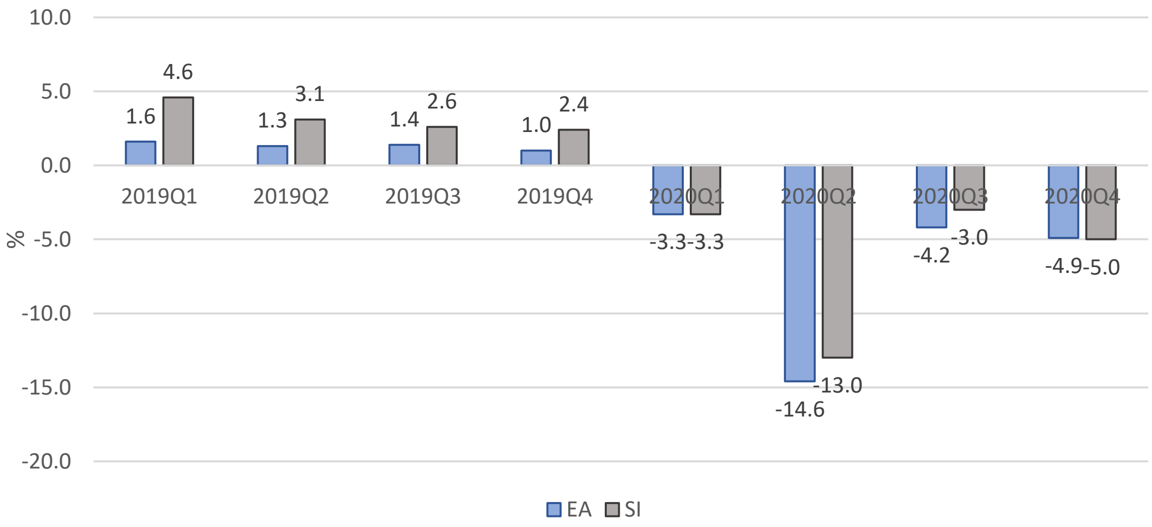
[3] IMAD, Autumn forecast of economic trends 2020, September 2020.

2 Macroeconomic outlook and projections

2.1 Macroeconomic environment in 2020

In 2020, economic activity in Slovenia declined by 5.5% due to the epidemiological conditions and extensive containment measures. The decline is lower than expected in Winter Forecast by IMAD and lower than expected in forecasts by other institutions, mainly due to a minor fall in GDP in the last quarter. The decline in economic growth peaked in the second quarter of 2020 (13% compared to the same quarter in 2019). The decline in the last quarter was much smaller, despite the deterioration of the epidemiological situation (5%). This was mainly due to the partial adjustment of businesses and consumers to the new situation, the orientation of containment measures, in particular to service activities, and the continued rapid recovery of international trade. Compared to the euro area, economic activity in Slovenia was slightly better, mainly in the second and third quarters of 2020, while euro area economic activity declined by 6.6% throughout 2020, which is 1.1pp more than in Slovenia.

Figure 1: Quarterly economic activity in Slovenia and the euro area (EA) compared to the same period last year, 2019 Q1-2020 Q4

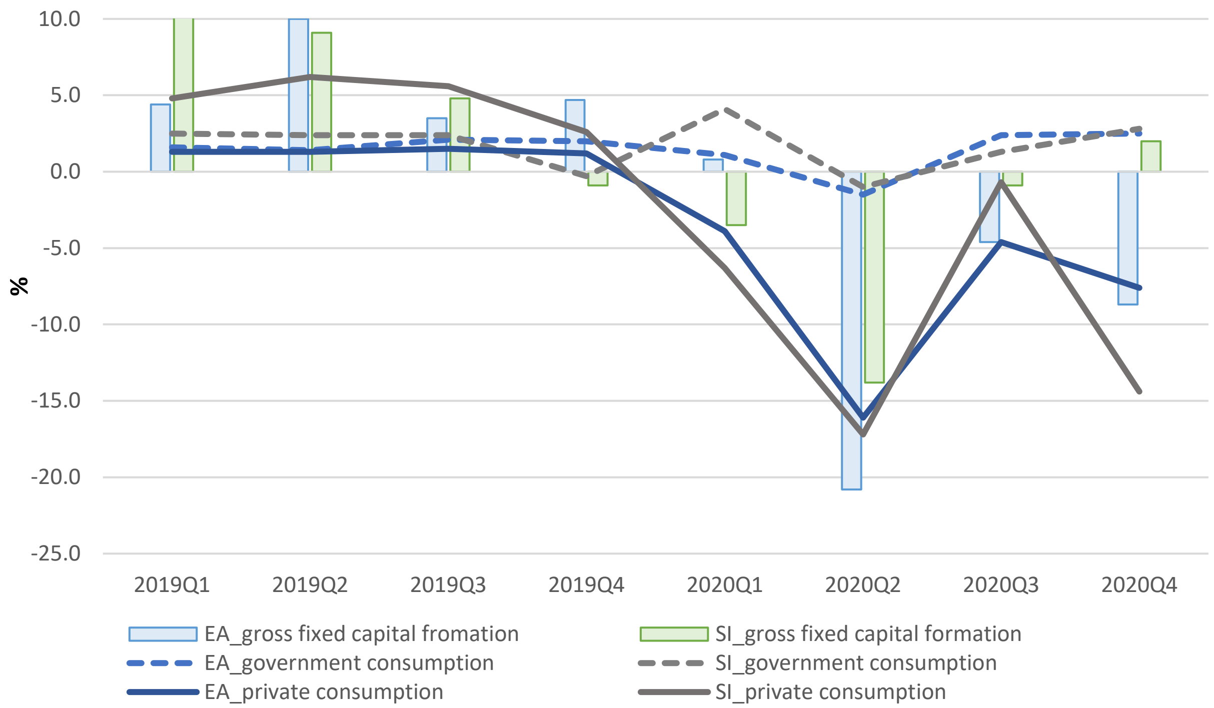


Source: Eurostat.

In 2020, all consumption aggregates excluding government consumption declined in both Slovenia and the euro area. Namely, the government consumption increased by 1.8% in Slovenia and 1.2% in the euro area in 2020. It picked up mainly due to rising expenditure linked to the containment of the epidemic. As a result of the closure of non-essential shops and services, household consumption fell sharply in Slovenia in the first and second waves of the epidemic (a 9.7% fall in 2020). The decline was most pronounced in the second and fourth quarters. The decline was also pronounced in the euro area, although it was much smaller than the decline in Slovenia in the last quarter (see Figure 2). Households' more prudent decisions on consumption and the postponement of non-essential purchases were also influenced by high uncertainty about the future. According to IMAD's estimate, the savings rate has significantly increased from 13.3% in 2019 to approx. 23% in 2020. Government measures to mitigate the loss of income caused by COVID-19 also contributed significantly to the fact that disposable income has not decreased. Gross fixed capital formation also contributed to the decline in economic activity. These declined significantly in both Slovenia and the euro area in the second quarter. They picked up in the third quarter and even exceeded their pre-year level in Slovenia in the fourth quarter.

Due to a decline in world trade, international restrictions, and restrictive measures both nationally and in EU countries, exports and imports plummeted sharply in 2020. The decline was most pronounced in the second quarter. However, exports of goods already in the fourth quarter rose above last year's level. As a result, exports from Slovenia decreased by 8.7% over the year. Imports declined even more markedly by 10.2%; however, imports of goods already reached their 2019 levels towards the end of the year. In most services trade, the decline was higher than for goods, and it was most pronounced for tourism-related services.

Figure 2: Growth rate of gross fixed capital formation, government and private consumption, euro area (EA) and Slovenia (SI), 2019 Q1-2020 Q4



Source: Eurostat.

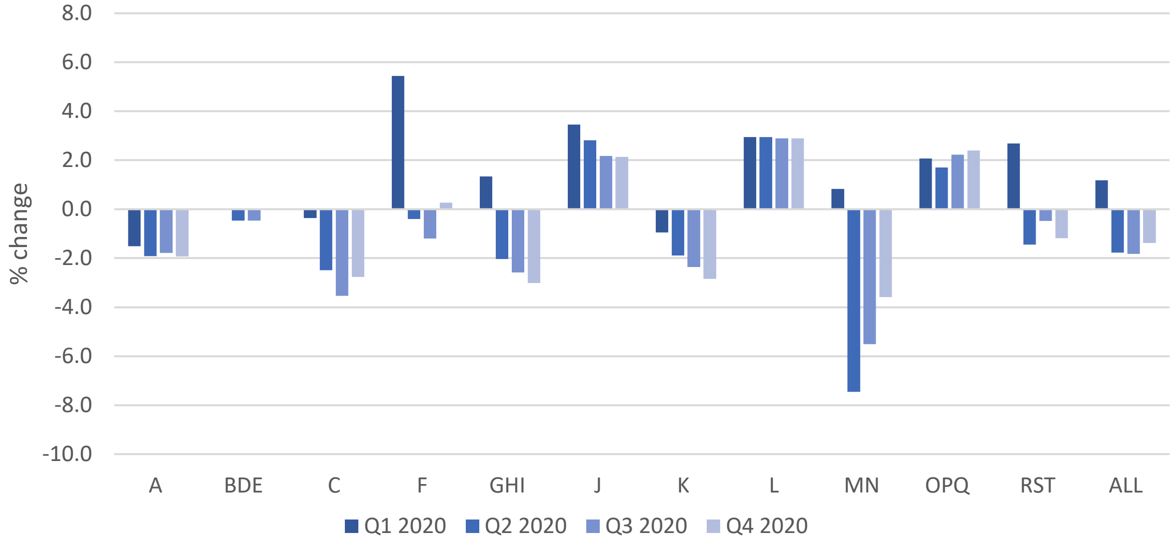
In Slovenia, the most significant decline in value-added in 2020 was recorded in entertainment, sports, recreation and personal services, mainly due to their closure or limited operation during the strictest limitations in spring and the last months of the year. Restriction measures have also had a substantial impact on the fall in value-added in the hospitality industry. While tourist vouchers helped recovery in the third quarter, they could not compensate for the shortfall. Added value in trade has also declined significantly. Following a significant decline in the spring months, owing to declining orders and interrupted or challenging purchasing-sales routes, the manufacturing sector gradually recovered in the second half of the year. Construction also recovered from the fall in the second quarter, mainly due to strengthening residential building construction and growth in civil engineering. Value-added was higher last year than in 2019 in financial, insurance and real estate activities.

Before the outbreak of the epidemic, employment was high at the end of 2019, and the unemployment rate was approaching its lowest level. The first wave of the epidemic in March

2020 interrupted several years of favourable labour market developments. A sharp year-on-year decline in the number of people in work and an increase in registered unemployed occurred in April in particular. Labour market intervention measures are taken, and the resumption of most activities prevented a sharp drop in employment. In the second half of the year, employment recovered moderately, and the number of unemployed people gradually declined.

In particular, employment in the export-oriented industries (manufacturing and transport) and the construction sector recovered more markedly. In the context of a renewed tightening of restriction measures in the last quarter, labour market conditions deteriorated further in the hospitality and retail industry (GHI) and some other activities (e.g. financial and insurance activities (K) (see Figure 3). In some specific activities, namely ICT, real estate, administration, education and health, employment was higher than in the same period in 2019. On average, employment was 1.0% lower in 2020, and the registered unemployment rate was 14.6% higher than in 2019.

Figure 3: Quarterly change in the number of persons employed in 2020 compared to the same period in 2019, by activities



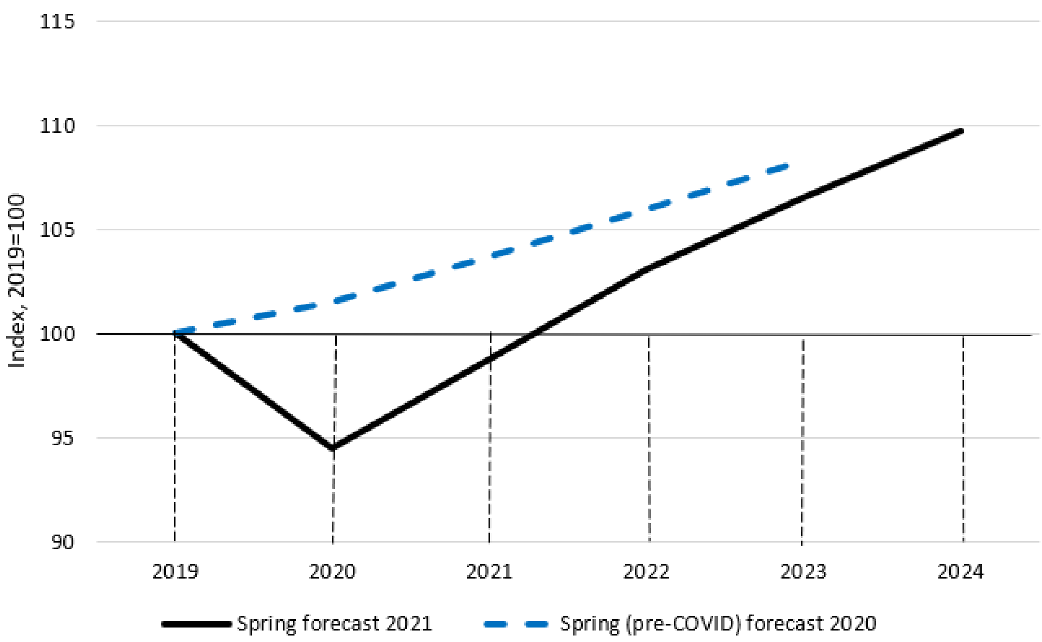
Source: SORS, 2021.

2.2 Medium-term forecast for the period 2021–2024

IMAD's forecasts project a gradual recovery in 2021 and a GDP growth of 4.6%. Businesses and consumers have already partly adapted to the new situation. However, the partial closure of some service activities in the first quarter of the year is still hampering their recovery. The epidemiological situation is expected to improve in the second quarter, especially in the second half of the year, because of the increased population vaccination coverage and the relaxation of specific restriction measures. This will allow for a faster recovery later on in 2021, supported by recovery measures, relatively favourable financing conditions and supportive monetary policy. In the medium term, the recovery will continue. Namely, IMAD's forecasts project similar GDP growth of 4.4% for 2022 and slightly lower GDP growth in 2023 and 2024 of 3.3% and 3.0% GDP, respectively.

Economic activity is expected to reach the pre-crisis level of 2019 somewhere in 2022 (see Figure 4). Meanwhile, the pre-crisis projected level of GDP is expected to reach only in 2024. Maintaining some measures to mitigate the impact of the epidemic in 2021 will contribute to reaching the 2019 levels. In its forecast, IMAD assumes (especially in 2022) that specific restriction measures will still exist, limiting the full recovery of certain service activities (e.g. travel industry).

Figure 4: Dynamics of real GDP (constant prices 2015) relative to pre-COVID expectations



Source: IMAD Spring Forecast 2020; IMAD Spring Forecast 2021; Ministry of Finance, own calculations.

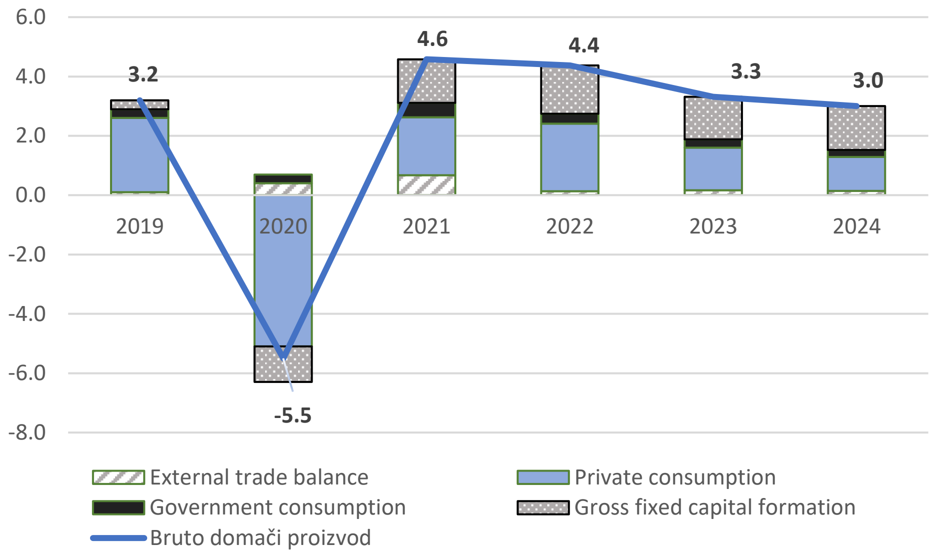
The gradual relaxation of the restriction measures is projected to impact private consumption growth, which, following last year's sharp decline, will reach an average growth rate of 4% this year. As labour market conditions and travel opportunities improve, faster growth is expected in 2022 (4.7%) before slightly slowing down later (2.9% and 2.3% in 2023 and 2024). Thus, the level will exceed the pre-crisis level in 2023. A reduction in the savings rate, which will remain higher than before the epidemic over the whole projection period, is projected.

Government consumption is expected to continue to grow in 2021 (2.4%), mainly due to increased expenditure to cope with the epidemic, in particular in the health sector (equipment, tests, vaccines, etc.), as well as the strengthening of other expenditure on goods and services in the context of gradual normalisation. The impact of increased expenditure related to the epidemic control and employment growth in the general government sector in 2020 and 2021 affected by employment due to the epidemic and EU Presidency is transient, leading to a slight decline in government consumption growth in 2022 (1.7%) and 2023 (1.4%).

After a contraction last year, investment is expected to grow by 7.1% in 2021, and the trend will continue in the coming years (7.7% in 2022 and 6.6% in 2023 and 2024). Companies' improved export expectations positively impact their investment activities (notably in investment in equipment and machinery). In line with current budgetary documents, the Slovenia is also expected to increase the number of investments in 2021. The projections for housing investments are also favourable. For the next two years, government investment activity is also expected to be supported by EU funds, as financing from the Multiannual financial framework 2014–2020 is being wound up. At the same time, government and private sector investments will be supported by the Recovery and Resilience Fund resources.

The recovery in economic activity in our main trading partners and the envisaged improvement of the epidemiological situation are having a significant impact on the recovery of growth in goods exports. However, the recovery in exports of services, in particular travel, will only be more visible in 2022. As a result, total exports in 2022 will reach their pre-crisis level in 2019, exports of goods will reach the average as early as this year, and exports of services only in 2023. Imports of goods and services will increase somewhat faster than exports over the projection period, with services imports recovering more strongly only in 2022. On average, total imports and imports of goods will reach the pre-crisis levels in 2022 and imports of services in 2023.

Figure 5: Contributions of demand aggregates to change in GDP

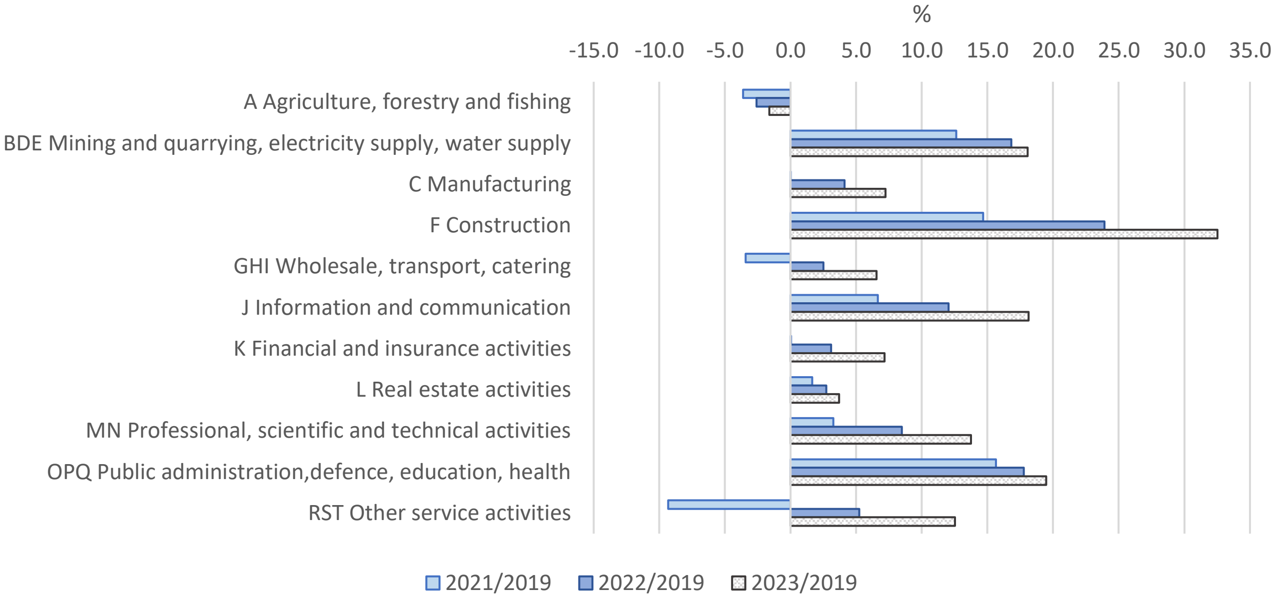


Source: IMAD Spring Forecast 2021.

A rapid recovery in construction is expected in 2021, which started to recover in the second half of last year. The recovery is also expected to continue this year in the manufacturing sector, where most industries are expected to reach their 2019 level already this year. Services that are more tied to construction and manufacturing (e.g., architecture and design, advisory and transport services) will also recover faster, some of them reaching the pre-crisis level this year or, due to foreseen further public transport restrictions, next year.

The recovery of other services, which have been relatively more affected by the COVID-19 crisis, will be slower. The gradual relaxation makes it difficult for businesses to fully normalise their business operations, particularly in travel, hospitality, recreational, sports and cultural services, and trade. In these segments, improvements are expected mainly in the second quarter and summer of 2021. All service activities mentioned above are expected to grow further with an increase in foreign tourist visits in 2022 and to remain relatively high in 2023, reaching pre-crisis levels towards the end of the projection period.

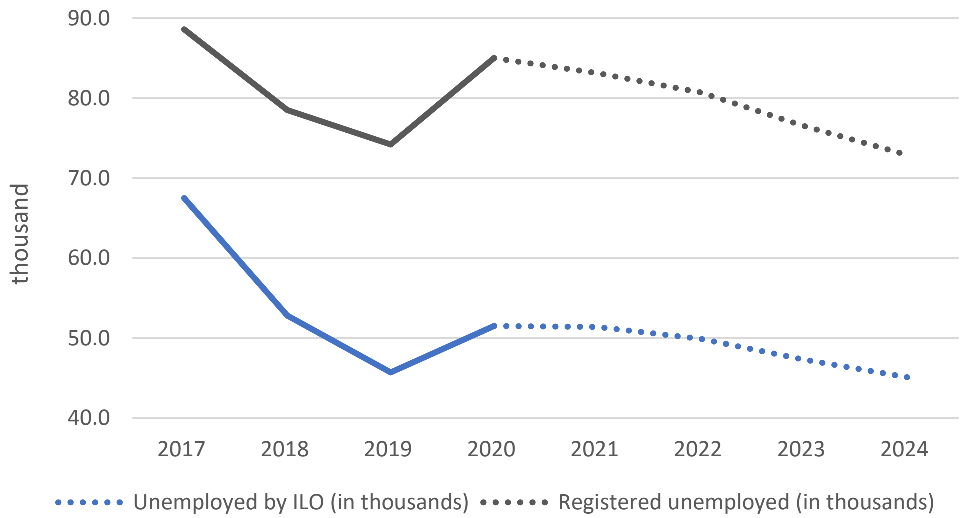
Figure 6: Forecast of value added growth by activities relative to the level in 2019



Source: IMAD Spring Forecast 2021; Ministry of Finance, own calculations.

In 2021, the gradual relaxation of containment measures and the opening-up of activities are expected to lead to a strengthening of activity growth and a gradual return of employees to jobs that have been included in the measures of furlough (measures for employees waiting at home) or part-time work. Improving the epidemiological situation is also expected to kick-start employment recovery in activities more affected by containment measures. In its forecasts, IMAD expects the recovery in the labour market to continue over the next two years. Still, on average, the number of unemployed will remain higher in 2023 than in 2019. In the medium term, unemployment is expected to return to low levels, with a renewed focus on constraints related to labour force availability.

Figure 7: Dynamics of the number of unemployed persons (in thousands)



Source: IMAD Spring Forecast 2021.

After last year's deflation, consumer prices are expected to grow by 0.8% in 2021. This will be mainly driven by higher energy prices (after last year's substantial decline) and higher food prices (increasing demand at the opening-up of the economy and more expensive raw material). In contrast, prices for non-energy industrial goods and services will increase less markedly. In 2022, as the economic recovery continues, inflation will pick up somewhat (to 1.2%). In addition to food prices, the prices of goods and services will contribute to growth. Over the next two years, assuming a moderate economic recovery, consumer prices are expected to rise gradually towards two per cent.

2.3 Position in the cycle

Output gap estimates are used to determine the phase of the business cycle in which a certain economy is situated and, under normal conditions, serves as the basis for conduction of fiscal policy. Indeed, both the EU and the domestic fiscal rule define the permissible level of net budgetary expenditure based on potential gross domestic product to conduct fiscal policy to stabilise the business cycle. However, defining duration of the latter in real-time is challenging, as uncertainty around output gap estimates, especially around those at the end of the sample, is high. The uncertainty of estimates is, in addition to the type of methodology used for estimation of output gap, also impacted by the method used for estimation of potential output, revisions of past growth estimates, changes in macroeconomic variables forecasts, and the length of included time series (Orphanides and Van Norden, 2002)[4]. Frequent and significant revisions of macroeconomic data and changes in macroeconomic forecasts that accompany an exogenous shock (such as the COVID-19 crisis) are thus one of the key drivers of deviations from fiscal targets and thus compliance with fiscal rules.

Given that the COVID-19 crisis is accompanied by significant revisions of macroeconomic forecasts and also uncertainties around its impact on the supply of production factors of Slovenia's aggregate production function, the uncertain nature of output gap estimates for the period 2020-2026 is particularly evident.

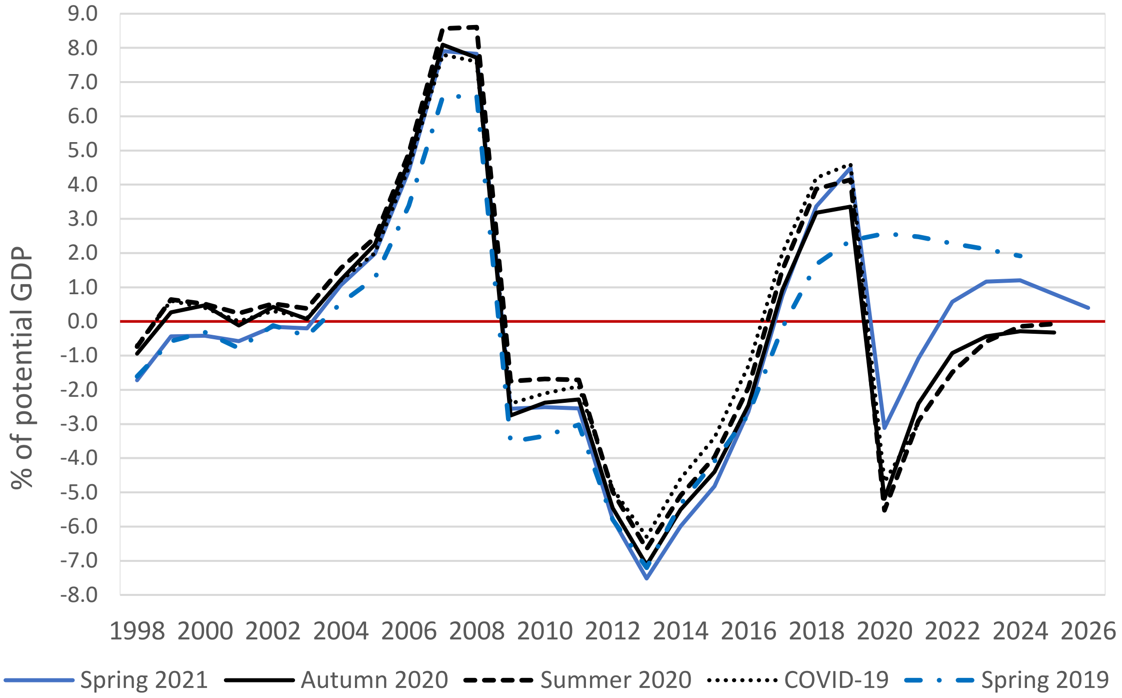
For example, estimates by the Ministry of Finance based on IMAD COVID-19 scenario from April 2020 suggested an output gap of –4.7% of potential GDP in 2020, based on 2020 Summer forecast it was supposed to amount to –5.5%, based on 2020 Autumn forecast to –5.2%, whereas based on 2021 Spring forecast to –3.1% of potential GDP (see Figure 8). As the outlook for the recovery throughout 2020 improved, the estimates of (in 2021 negative) output gap were also revised upwards. As a result, according to IMAD's latest forecast, the output gap in 2021 will supposedly amount to –1.1% of potential GDP, i.e., 1.9pp of potential GDP lower than that assumed under IMAD's COVID-19 forecasts, or 1.8pp and 1.3pp lower than those calculated based on IMAD's 2020 Summer and Autumn forecasts. Although in autumn 2020, the Slovenian economy was still projected to remain in the negative part of the cycle until at least 2025, the latest estimates now suggest that actual GDP will be slightly above potential (by 0.6%) already in 2022.

The length of the business cycle is difficult to determine due to the uncertainty of output gap estimates. It may represent different periods and consequently lead to different applications for the conduct of fiscal policy. Therefore, in the current situation, further caution is needed in interpreting output gap projections, as assuming a shorter period of business cycle could lead to cyclically restrictive fiscal policy. The Ministry of Finance considers that the recovery from the COVID-19 crisis will take longer than usual. The effects of the incentive measures will be

[4] Orphanides, A. and Van Norden, S. (2002). The Unreliability of Output-Gap Estimates in Real Time. *The Review of Economics and Statistics, 84(4)*, 569–583.

reflected in higher aggregate demand with a lag, which means that the Ministry of Finance considers that the cycle in Slovenia will not yet be balanced in 2026.

Figure 8: Output gap, calculations by the Ministry of Finance based on the IMAD forecasts



Source: SORS; IMAD; Ministry of Finance, own calculations.

2.4 Financial stability

The banking system operated in exceptional circumstances in 2020, and the consequences of the COVID-19 pandemic will continue to be reflected in banks' business operations. Slovenian banks entered the crisis well-prepared; capital adequacy and liquidity were high, and the rest of the banking business indicators were good. Following the outbreak of the pandemic, the ECB's measures, the macro-prudential measures of the Bank of Slovenia and national intervention laws also strengthened the banking system's stability. The sharply reduced economic activity, increased overall uncertainty, major prudence in borrowing and the stressed conditions in the domestic and international economic environment were also reflected in banks' business. The return on capital for the banking system as a whole was relatively high (just under 10%). The profit achieved is mainly due to the effects of the merger of two banks. Otherwise, it would be lower by more than half.[5] The operating conditions of the banks and thus conditions to generate revenues have been tightened. Banks' lending activity slowed considerably in 2020, particularly in the non-banking sector, where year-on-year growth was only 0.2%.[6] Year-on-year growth in housing loans was positive, while year-on-year growth in consumer credit was negative; the latter resulted from lower revenues of consumers, greater prudence in borrowing, and the postponement of larger purchases to a later date. The decline in economic activity and uncertainty about future developments were reflected in the year-on-year decline in corporate loan growth. In the structure of companies' demand for loans, there

[5] Bank of Slovenia, (2021), Financial Stability Review, p. 3, https://bankaslovenije.blob.core.windows.net/publication-files/porocilo-o-financni-stabilnosti.pdf.
[6] Bank of Slovenia, (2021), Financial Stability Review, p. 24, https://bankaslovenije.blob.core.windows.net/publication-files/porocilo-o-financni-stabilnosti.pdf.

was a significant contraction in demand for investment loans, in contrast to an increase in demand for operating and liquidity loans.[7]

Table 2: Loans and deposits to the non-banking sector

			in EUR billion		% growth	
	Dec.18	Dec.19	Dec.20	Jan.21	Jan.21	year-on-year
Loans to non-banking sector	**22.2**	**23.5**	**23.6**	**23.6**	**0.3**	**-0.6**
Of which to non-financial corporations (companies)	8.5	8.9	8.8	8.9	1.8	-1.9
Households	10.1	10.7	10.7	10.7	-0.5	-0.4
Government	1.7	1.6	1.5	1.5	-3.3	-9.1
Other financial institutions	1.1	1.2	1.2	1.2	-0.6	-4.5
Non-residents	0.9	1.0	1.3	1.3	1.7	28.3
Liabilities to non-banking sector (deposits by NBS)	**29.0**	**31.1**	**34.3**	**34.7**	**1.2**	**11.5**
Of which to non-financial corporations (companies)	6.8	6.8	8.0	7.8	-2.9	18.4
Households	18.7	20.4	22.4	22.9	1.9	11.9
Government	1.0	1.0	0.9	0.9	-1.9	-12.9
Other financial institutions	1.1	1.2	1.2	1.3	11.4	-4.9
Non-residents	0.9	1.2	1.2	1.3	8.2	7.9

Source: Bank of Slovenia, (March 2021), Monthly report on bank performance, p. 2, https://bankaslovenije.blob.core.windows.net/publication-files/mesecna-informacija-03_2021_en.pdf.

The decline in interest and non-interest income and, after three years, the cost of impairments and provisions for the first time had a downward impact on the banking system's profitability.[8] The share of impairment costs and provisions in the gross income generated was relatively small, mainly due to deferrals of credit liabilities. These costs are expected to increase in the future. In 2020, banks continued to reduce existing non-performing exposures (NPEs): they continued to reduce NPEs from recent years, and the increased incidence of defaults in banks due to the COVID-19 pandemic was prevented by immediate action by the state and supervisory institutions in the context of the outbreak of the COVID-19 pandemic.[9] In the last quarter, the decline in NPEs came to a halt; their extent increased in those segments of the portfolio of banks most affected by the COVID-19 pandemic[10] (accommodation and food service activities and public administration). A further increase in NPEs can be expected in the months when loan deferrals will expire, and some companies will not be able to continue their business operations, either because of insufficient aid or because they failed to adapt to the changes brought about by the COVID-19 pandemic in 2020 and later on.[11]

[7] Bank of Slovenia, Monthly Report on Bank Performance, https://www.bsi.si/en/publications/monthly-report-on-bank-performance.

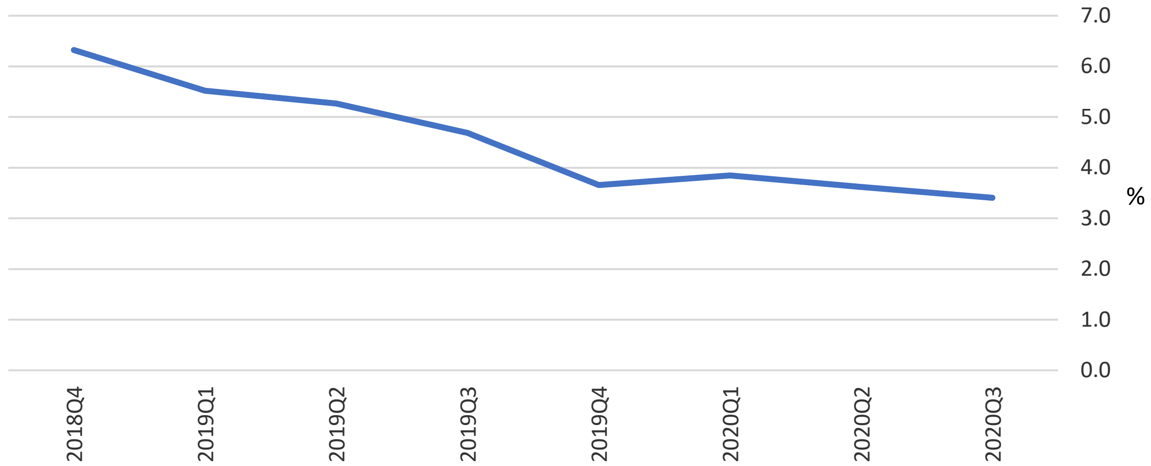
[8] In 2017, 2018 and 2019, banks released net impairments and provisions. Source: Bank of Slovenia, (2021), Financial Stability Review, p. 18, https://bankaslovenije.blob.core.windows.net/publication-files/porocilo-o-financni-stabilnosti.pdf.

[9] Bank of Slovenia, (2021), Financial Stability Review, p. 11, https://bankaslovenije.blob.core.windows.net/publication-files/porocilo-o-financni-stabilnosti.pdf.

[10] Bank of Slovenia, (2021), Financial Stability Review, p. 12, https://bankaslovenije.blob.core.windows.net/publication-files/porocilo-o-financni-stabilnosti.pdf.

[11] Bank of Slovenia, (2021), Financial Stability Review, p. 13, https://bankaslovenije.blob.core.windows.net/publication-files/porocilo-o-financni-stabilnosti.pdf.

Figure 9: Share of non-performing loans Q4 2018-Q3 2020 (in %)



Source: ECB, Statistical Data Warehouse, https://sdw.ecb.europa.eu.

In 2020, the banking system faced high increases in deposits bythe non-banking sector, particularly the households. On the active side of the banking system, this increase is reflected in an increase in the most liquid forms of bank investments. The same trend remains in 2021. Despite increased income and credit risk, the banking system's resilience remained high in 2020, driven by sound liquidity and capital position and maintained in early 2021. In addition to the monetary policy measures of the ECB and the Bank of Slovenia, government intervention laws helped to manage better the income and credit risk of Slovenian banks in 2020. However, the economic and financial uncertainty caused by the COVID-19 pandemic, which led to the adoption of measures last year, persist in 2021. In line with the European Systemic Risk Board (ESRB) recommendations, the macro-prudential measure temporarily limits the distribution of profits to banks and savings banks in the context of the COVID-19 epidemic on an individual basis is extended until September 2021. However, from 10 April 2021 onwards, it will be allowed, by way of exception, to pay out part of the profits, up to an amount consistent with a substantially similar recommendation adopted under the Single Supervisory Mechanism (SSM).

The act allowing the deferred payment of borrowers' liabilities is in force since March last year. In April 2020, another act entered into force, allowing state-guaranteed lending to companies. Banks received the highest number of applications when the epidemic was first declared in April and May 2020 and when it was declared for the second time, namely in November 2020. By the end of February 2021, the banks had received a total of 28,485 applications from borrowers based on the law allowing the deferred payment of borrowers' liabilities; most of them have already been approved. In the meantime, they also approved 1,393 corporate applications for new liquidity loans related to COVID-19, with a total exposure of EUR 550.6 million. Out of this, 90 loans totalling EUR 72.6 million were granted based on the law allowing state-guaranteed lending to companies.[12] Most applications for deferment of liabilities are due to expire in the coming months, and the bulk of the increase in credit risk is also expected in this period.

[12] Source: Bank of Slovenia.

3. COVID-19 response measures and Recovery and Resilience Plan

3.1 Policy response and measures related to COVID-19

The first rapid support package for people and businesses was adopted at the beginning of April 2020. By the end of 2020, a further six packages of measures had been adopted.

The measures focus on income support to individuals and businesses and support to social security systems. Among the significant measures targeted at the labour market and maintaining activity in companies are incentives to furlough and to work part-time. In the first wave of epidemics, the measure whereby the State paid pension and disability insurance contributions to employers in the event of continued activity was also of great importance. On average, this measure involved around 50,000 companies and 480,000 employees per month during the first three months.

On average, in the first wave of the epidemic, 150,000 employees and 28,000 companies per month were involved in the furlough measure. The number of employees included fell to approximately 26,000 employees per month over the summer and fell to 13,000 in October. In the second wave, the number increased again to approximately 40,000 employees per month. This measure also extended to 2021.

Substantial measures are also targeted at the self-employed and other target groups. During the first wave, on average, 43,000 self-employed persons received a universal basic income. However, 47,500 self-employed persons, farmers, religious employees and associates were exempted from social contributions payments per month. The universal basic income measure was reintroduced in a second wave and is still active in 2021. In the second wave, approximately 37,000 self-employed and other target groups received a monthly universal basic income per month. The measures have had a significant impact on the labour market, as unemployment would otherwise increase and a drop in GDP would be higher.

Over half a million people received various forms of income in the first wave. A similar number of individuals received income also in the second wave. The introduction of tourist vouchers as direct aid to tourism also has had a positive impact. By the start of the second wave, around 900,000 vouchers had been used. The measure is still valid as it will be possible to use the vouchers in 2021. The novelty in the measures in the second wave was the introduction of the coverage of certain fixed costs to companies that had experienced a certain drop in activity. Thus, by March 2021, just over 19,000 companies have had covered a specific part of the fixed costs. Guarantee measures have also been taken for companies and to deferral on payments of taxes and loans.

The tax measures reduced revenues from business and corporate income tax (exemption from business income tax and corporate income tax). From the point of view of the liquidity shortfall, however, the measures (deferrals and instalment payments) also affected revenue from excise duties, VAT and other taxes.

An important measure is a possibility of deferring all taxes and social security contributions for up to two years or paying in instalments. This results only in a liquidity shortfall. Thus, there was a deferral of around EUR 113 million in tax payments and social security contributions, while EUR 295 million in instalment payments were recorded. That measure was initially in force only until the end of March 2021. However, the Government adopted a decision and extended the measure's validity for three months, i.e. until 30 June 2021, to facilitate tax compliance. In this context, it should be pointed out that interests do not accrue at deferral payment or instalment payment.

The last, eighth package adopted in February 2021 is estimated at EUR 350 million and includes:

- subsidising the increased part of the minimum wage in the first half of 2021;
- extension of the salary compensation measure of furlough until the end of April 2021, with the possibility of extension;
- universal basic income for the self-employed;
- the possibility to take three days of sick leave was extended until the end of the year, and the Health Insurance Institute covers the cost;
- one-off solidarity allowance for various groups (extended to high-school students who are already of age, disabled people, unemployed persons and students studying abroad);
- measures in the field of support for health and social systems and allowances for civil servants in other fields of work.

In addition to the above measures, the State budget will provide additional funds in 2021 for protective equipment and the implementation of microbiological research and other costs related to the epidemic. Besides, it will provide additional funds to the Health Insurance Institute of Slovenia to finance compensation during temporary retention from work due to COVID-19 and those costs incurred for the control of the COVID-19 communicable disease to healthcare providers who, under the Health Services Act, provide healthcare services as part of the public health service network.

Slovenia has therefore adopted eight packages of measures in response to COVID-19. The total value of measures in 2020 totalled approximately EUR 2.8 billion and is estimated to amount to EUR 1.3 billion in 2021. The phasing out of the COVID-19 response measures is envisaged. However, it is subject to the continuation of the epidemic. In 2022, just over EUR 55 million is foreseen in this respect.

Table 3: Estimation of the value of measures by individual fields according to the ESA methodology (in EUR million)

Field	**2020**	**2021**	**2022**
Measures in the field of work and contributions	1,272	414	
Health measures	127	17	
Measures in the field of social protection	208	34	
Measures in the field of salaries and remuneration	308	300	20
Measures in the field of education	35	13	
Measures in the field of the economy, tourism	309	431	
Other measures (protective equipment, testing, vaccination)	150	74	35
Total – expenditure	2,409	1,284	55
Tax measures (revenue)	374	21	

Source: Ministry of Finance.

In addition, the funds to combat the COVID-19 epidemic are being increased for all available guarantees (EUR 2.2 billion). By Act Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic (ZDLGPE) and based on Article 65 of the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (Official Gazette of the Republic of Slovenia No

49/20 and 61/20; ZIUZEOP), the Republic of Slovenia authorised SID Bank to carry out, in the name and on behalf of the Republic of Slovenia, all operations relating to the realisation of guarantees, monitoring and implementation of all required actions to enforce recourse claims and, after payment of the guarantee, to verify compliance with the conditions for obtaining the guarantee. Slovenian guarantees for liquidity loans amount to EUR 2 billion, and Slovenian guarantees for deferred payments amount to EUR 200 million. By 28 February 2021, EUR 58.21 million of State guarantees for loan deferrals and EUR 71.90 million of State-guaranteed liquidity loans were issued. The measures also include measures from the balance sheet B of the State budget (recapitalizations of the Slovene Enterprise Fund and the Slovenian Regional Development Fund).

3.2 Analysis of the use of measures at the firm level

Firms

The latest available data on aid from the anti-corona packages to mitigate the impact of the epidemic (PKP)[13] show that almost 64% of firms operating in 2019[14] received at least one aid. The most significant number of firms came from the trade and repair of motor vehicles (G), professional and scientific activities (M), and manufacturing industry (C). Of all the measures, the measure „exemption of pension and disability insurance contributions for working employees“ was used to the greatest extent (approximately 58% of firms), followed by aid in the form of the „compensation paid to workers in the furlough scheme together with exemption from contributions“(29% of all firms) and the „reimbursement of wage compensation to workers in the furlough scheme“, which was used by 16% of the firms. These three measures were also the most extensive in value and together accounted for almost 80% of total disbursements (see Table 4).

Other forms of aid were used to a lesser extent. Aid for partial subsidisation of short-time working arrangement was used by 8% of firms. Meanwhile, 5% of firms used the aid as partial reimbursement of uncovered fixed costs. Less than 2% of firms used other measures. As much as 70% of the firms benefiting from the Financial Incentives Programme originated from the hospitality industry (I). The value of all the measures taken together for firms operating in 2019 currently amounts to EUR 1.095 million.

[13] Data obtained on 25 March 2021 from the State aid database.
[14] 67,178 companies were operating in 2019. The aid was also granted to companies which started operations in 2020, however, they are not covered by the analysis.

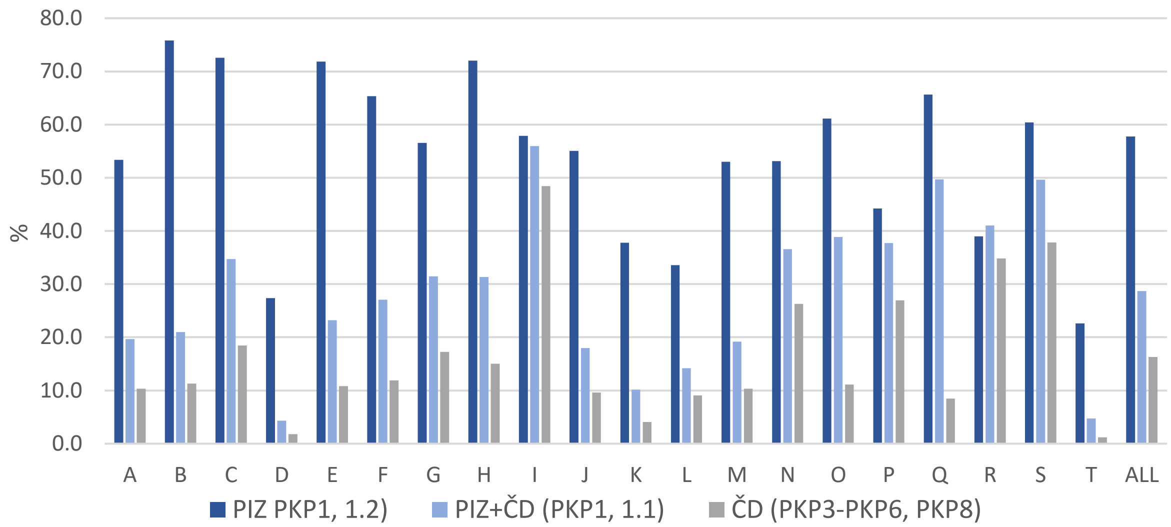
Table 4: Use of aid from the packages of measures to mitigate the effects of epidemic – firms

Aid	**Number of companies (%)**	**Value of aid (%)**
Exemption of pension and disability insurance contributions for working employees (PKP1, 1.2)	57.7	36.0
Compensation paid to workers in the furlough (waiting at home) scheme together with exemption from contributions (PKP1, 1.1)	28.7	29.9
Reimbursement of wage compensation to workers in the furlough (waiting at home) scheme, 80% or 100% (PKP3-PKP6, PKP8)	16.3	12.5
Aid for partial subsidisation of short-time working arrangement (PKP3-PKP8)	8.4	2.5
Aid as partial reimbursement of uncovered fixed costs (PKP6)	5.0	5.3
Other aids (PKP1)	1.8	4.0
Financial Incentives Programme (PKP3)	1.4	2.5
Protocol of SID bank on State aid in the form of public loans	1.0	2.8
Exemption from contributions for self-employed, religious workers, managing partners and farmers (PKP1, 1.4)	0.3	0.0
Reduction of rents (PKP2-PKP6)	0.2	0.0
Liquidity guarantee scheme (PKP2)	0.1	4.6
Total	100	100

Source: Ministry of Finance, state aid database, own calculations.

In terms of industry, the largest share of firms (more than 70%) submitted a request for the payment of contributions in the Mining industry (B), manufacturing industry (C), water supply (E) and transport and storage (H). The compensations paid to workers in the furlough scheme with exemption from contributions received the largest share of firms within the hospitality industry (I; 56%), in other service activities (S; 50%), and health and social care activities (Q; 50%). Reimbursement of wage compensation to workers in the furlough scheme was used predominantly by firms operating in the hospitality industry, other service activities and cultural activities, see Figure 10.

Figure 10: Most frequently used type of aid* by number of companies within each activity[15] (in %) that received aid

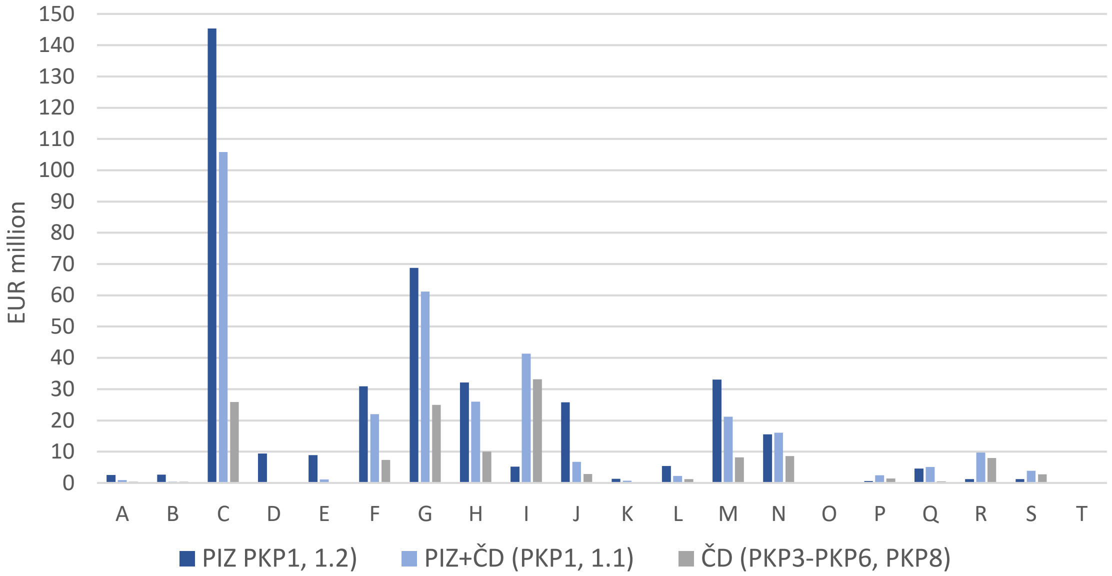


** Exemption of pension and disability insurance contributions for working employees (PIZ), Compensation paid to workers in the furlough scheme together with exemption from contributions (ČD+PIZ) and reimbursement of wage compensation to workers in the furlough scheme (ČD).*
Source: Ministry of Finance, state aid database, own calculations.

More than one third (37%) of the total compensation contributions for working employees, i.e., EUR 145.3 million, was paid to firms in manufacturing sector and almost one fifth (17%) to firms operating in the trade and repair of motor vehicles, see Figure 11. The firms involved in the activities mentioned above also received the highest amount of funding in the reimbursement of wage compensation to workers in the furlough scheme with exemption from contributions. Almost two-thirds of the total funds intended for workers in the furlough scheme were paid to firms from the hospitality industry (24%), manufacturing (19%), and trade and repair of motor vehicles (18%).

[15] A (agriculture and hunting, forestry, fishing), B (mining), C (manufacturing), D (electricity, gas supply), E (water supply, sewage treatment), F (construction), G (trade, maintenance and repair of motor vehicles), H (transport and storage), I (catering), J (information and communication activities), K (financial and insurance activities), L (real estate activities), M (professional, scientific activities)), N (other miscellaneous business activities), O (public administration, defense), P (education), Q (health and social work), R (cultural, entertainment), S (other activities), T (household activity).

Figure 11: Value of most frequently used type of aid * among companies by activities ([15]) (in EUR million)



** Exemption of pension and disability insurance contributions for working employees (PIZ), Compensation paid to workers in the furlough scheme together with exemption from contributions (ČD+PIZ) and reimbursement of wage compensation to workers in the furlough scheme (ČD).*
Source: Ministry of Finance, state aid database, own calculations.

Sole proprietors

Similarly, in the case of sole proprietors operating in 2019[16], 68% received at least one of the aids, with the highest number of beneficiaries (in terms of several recipients) coming from the construction (F) and trade and repair of motor vehicles (G). Of all the measures, more than half of the self-employed (54%) benefited from aid in the form of monthly basic income, one-quarter of sole proprietors (25.4%) benefited from the exemption of pension and disability insurance contributions for working employees and one fifth (21.2%) in the form of exemption from contributions for self-employed, religious workers, managing partners and farmers. However, more than half of the total funding (52.4%) paid to sole proprietors consists of aid in the form of monthly basic income and the reimbursement of wage compensation to workers in the furlough scheme with exemption from contributions (see Table 5).

The total value of all the measures paid to sole proprietors operating in 2019 currently amounts to EUR 166.2 million. Similarly, as in the case of companies, aid under the Financial Incentive Programme was mainly used by sole proprietors working in the hospitality industry (more than 80% of the companies benefited from this aid).

[16] A total of 52,713 sole proprietors operating in 2019 were included in the AJPES base.

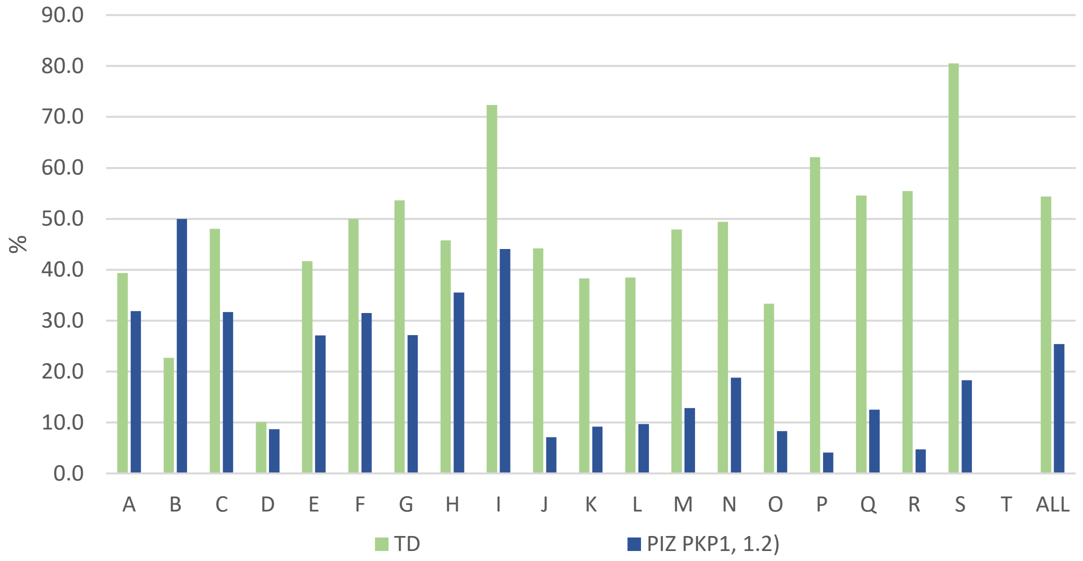
Table 5: Use of aid from the packages of measures to mitigate the impact of the epidemic – sole proprietors

Aid	Number of companies (%)	Value of aid (%)
Aid in the form of monthly universal basic income (PKP1, PKP5)	54.4	27.7
Exemption of pension and disability insurance contributions for working employees (PKP1, 1.2)	25.4	11.4
Exemption from contributions for self-employed, religious workers, managing partners and farmers (PKP1, 1.4)	21.2	5.9
Reimbursement of wage compensation to workers in the furlough scheme with exemption from contributions (PKP1, 1.1)	15.8	24.7
Reimbursement of wage compensation to workers in the furlough scheme, 80 or 100 % (PKP3-PKP6, PKP8)	9.1	13.5
Aid as partial reimbursement of uncovered fixed costs (PKP6)	5.5	5.2
Aid for partial subsidisation of short-time working arrangement (PKP3-PKP8)	2.8	1.9
Financial Incentive Programme (PKP3)	0.7	5.1
Other aids (PKP1)	0.7	1.2
Protocol of SID bank on State aid in the form of public loans	0.3	3.2
Reduction of rents (PKP2-PKP6)	0.2	0.04
Liquidity guarantee scheme (PKP2)	0.01	0.1

Source: Ministry of Finance, state aid database, own calculations.

From the point of view of the most frequent aid, the largest share of basic income aid was paid to sole proprietors within other service activities (S; more than 80%) and the hospitality industry (I; 72%). The exemption of pension and disability insurance contributions for working employees was mainly used by sole proprietors operating in the mining industry (B; 50%) and hospitality industry (I; 44%), see Figure 12.

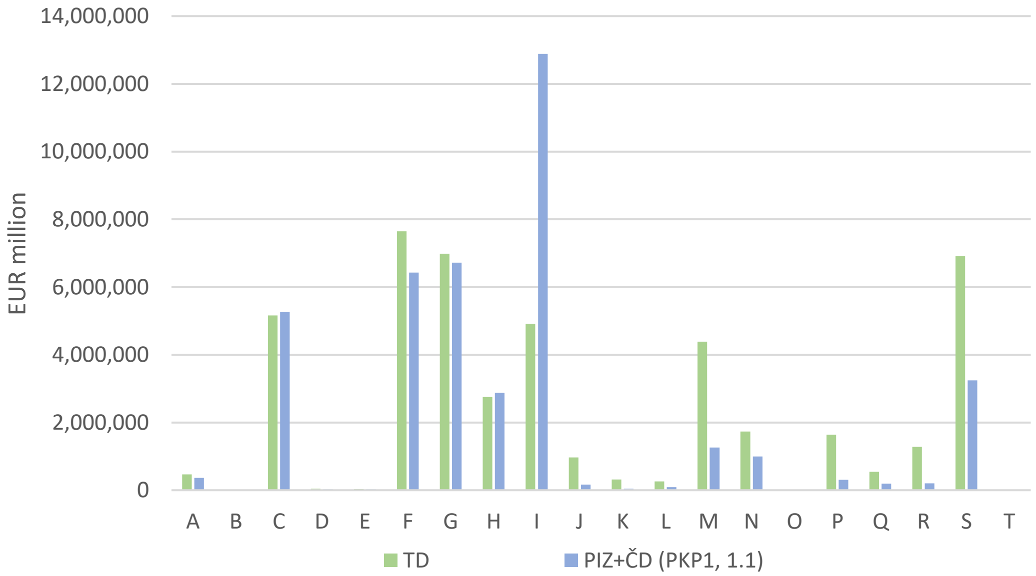
Figure 12: Most frequently used type of aid* according to the number of entrepreneurs within each activity ([15]) that received aid (in %)



** Aid in the form of monthly universal basic income (TD), exemption of pension and disability insurance contributions for working employees (PIZ).*
Source: Ministry of Finance, state aid database; own calculations.

From the point of view of the first two aids based on the total value of the funds disbursed, almost one half of the total assets (47%), namely EUR 22 million, in the form of monthly universal basic income, were paid to sole proprietors in the construction (F), trade and the repair of motor vehicles (G) and other service activities (S) (see Figure 13). Almost one third (31%) of the total funding for the reimbursement of wage compensation to workers in the furlough scheme with exemption from contributions was paid to sole proprietors operating in the hospitality industry (I).

Figure 13: Applied aid* with the highest total value for entrepreneurs, by activity ([15]) (in EUR million)



** Aid in the form of monthly universal basic income (TD), reimbursement of wage compensation to workers in the furlough scheme with exemption from contributions (PIZ + ČD).*
Source: Ministry of Finance, state aid database; own calculations.

3.3 Recovery and structural reform measures

Slovenia has started the preparation of the Recovery and Resilience Plan (RRP). According to the adopted Regulation (EU) 2021/241, Slovenia is eligible to receive EUR 1,777,322.00 of non-reimbursable grant. Additionally, the European Commission may assume debt on behalf of the Republic of Slovenia for a further EUR 3.6 billion. A multi-level structure is in place for the preparation of the RRP:

- a group at ministerial level (NGS1);
- an inter-ministerial working group at the level of state secretaries and experts (weekly meetings; NGS2);
- technical secretariat for the implementation of inter-ministerial working groups (NGS1, NGS2);
- working group for the component preparation in case several ministries cover a specific component.

Based on the Government Decision as of 24 July 2020, the Government Office for Development and European Cohesion Policy shall be responsible for preparing and coordinating the RRP and its submission to the Commission.

The Slovenian RRP amounting to EUR 2.99 billion (EUR 1.8 billion which are non-reimbursable grants) consists of four development areas divided into individual components:

1. GREEN TRANSITION amounting to EUR 588 million of non-reimbursable grant and EUR 598 million of reimbursable grant: K1 renewable energy sources and energy efficiency; K2 sustainable renovation of buildings; K3 clean and safe environment; K4 sustainable mobility; K5 circular economy – resource efficiency;
2. DIGITAL TRANSITION amounting to EUR 330 million of non-reimbursable grants and EUR 120 million of reimbursable grants: K1 digital transition of the economy; K2 digital transition of the public sector and the public administration;
3. SMART, SUSTAINABLE AND INCLUSIVE GROWTH amounting to EUR 675 million of non-reimbursable grant and EUR 324 million of reimbursable grant: K1 RDI – research; development and innovation; K2 increase in productivity, investor-friendly business environment; K3 labour market – measures to reduce the impact of negative structural trends; K4 – transformation of Slovenian tourism and investment in infrastructure in the field of tourism and cultural heritage; K5 – enhancing competences, primarily digital and those required by occupations of the future; K6 – effective public institutions;
4. HEALTH CARE AND SOCIAL SECURITY amounting to EUR 245 million of non-reimbursable grants and EUR 119 million reimbursable grants: K1 health-care system; K2 social security and long-term care; K3 housing policy.

Each component contains structural measures following the Country specific recommendations to Slovenia for 2019 and 2020, in the areas of health and long-term care, the pension system, employability of low-skilled and older workers, including improving digital literacy and the business environment (reduction of administrative burdens, development of capital markets and improvements in public procurement).

The resilience of the health and social care systems will be achieved by adopting health and long-term care reforms. We will also prepare concrete steps to change the pension reform to ensure fiscal sustainability and adequate pensions. Plans will be adopted to amend research and innovation legislation to make public investment in R&D more effective and result-oriented.

A revised investment legislation is also planned. Government incentives for business investment will be targeted towards achieving higher added value per employee. In the area of the labour market, we are introducing changes to address the challenges related to demographic issues, the impact of the pandemic, and the employment of certain groups, particularly people with disabilities and young people. Regulatory changes are planned to improve the supportive environment for businesses and citizens in the areas as reduction the administrative burdens, efficient public administration, and public procurement. The transition to a green economy will be achieved through measures to create the conditions for increased production and faster use of renewable resources, promoting sustainable mobility and moving towards climate change. The digital transition of economic entities' business processes and models, thus raising their productivity and competitiveness, will be achieved by adapting the legal framework on consumer protection and access to the financing market. Among other things, we are planning measures to align with broadband, 5G and 6G. The plan includes a new cybersecurity strategy to support online business and e-government and a plan for the digital renewal of companies.

The major investments envisaged under the RRP are envisaged in the digital transformation of the public administration, in the construction of the Faculty of Medicine in Ljubljana and its campus, hospitals for infectious diseases in Ljubljana and Maribor, and in railway infrastructure. A great part of the measures focuses on measures for the digital and green transition of the economy. All components shall be prepared in such a way that they do not cause significant harm to environmental goals. According to current figures under the Recovery and Resilience Plan, 48% of all measures contribute to climate goals (min. 37%) and 26% to digital goals (min. 20%).

The proposed reforms and investments will also contribute to the digital transition of public sector organisations and the public administration and strengthen user-friendly digital services, including developing and integrating advanced digital technologies.

Measures in the field of taxation*

We are entering a period when various measures, including fiscal measures, will have to be used to create economic activity, tackle critical areas of investment to take care of the population to prevent the rise in the unemployment while pursuing the green and digital transition at the same time. Simultaneously, the initial reduction in inflows will be neutralised due to a better and more competitive environment.

One important measure is the already adopted Motor Vehicle Tax Act (ZDMV), which is in force since 1 January 2021. In addition to supporting green policy, the objective of this act is to reduce existing motor vehicle taxation and automatize and speed up procedures for assessing motor vehicle tax. With the latter, we also addressed the area of reduction the administrative burden or debureaucratisation.

In the future, we will prepare new measures and changes to tax legislation. Amendments to the Tax Procedure Act and the Value Added Tax Act will be prepared towards a higher degree of digitalisation. Solutions will enable taxpayers to use their time more efficiently and quickly and economically meet their tax obligations while ensuring legal certainty and pursuing environmental policy objectives. The amendment to the Value Added Tax Act will allow full deduction of value-added tax in the purchase of a personal motor vehicle that is free of carbon dioxide emissions to carry out an activity. Taxpayers will no longer be required to provide taxable persons with a list of invoices received and issued at the time of the first VAT return. We will abolish the threshold for compulsory entry of farmers into the system and issuing the invoice in paper form only at the customer's request.

In the area of corporate taxation, we will propose improved or new forms of tax relief to enable companies to increase their investments, contributing to reducing environmental pollution and increasing the degree of digitalisation. In this way, we will focus tax incentives on investment and the development of the digitalisation of businesses and the green transition and investment in skills (through the benefits for companies employing in so-called shortage occupations). Slovenian legislation will also transpose the provisions of the European Directive against tax avoidance practices, addressing harmful tax measures and partly contributing to fair taxation. We estimate that the solutions will reduce revenues by around EUR 27 million. The incentives will strengthen companies' further development and competitiveness while increasing revenue inflows to public finances (e.g. dividends from state-owned enterprises).

To further relieve taxes away from labour, measures will be prepared in amendments to the Personal Income Tax Act. This will gradually relieve us of:

- income from work (through a gradual increase in the general allowance, a reduction in the personal income tax rate in the last, fifth tax bracket, the introduction of the so-called seniority relief for taxpayers over 70 years of age); and
- revenues from the capital and renting a property (reduction of the capital income tax rate to 25%, in the case of income from renting a property a reduction to 15%, at the same time reducing the flat rate costs to 10%).

We estimate that these solutions would reduce annual revenues by around EUR 248 million in 2022. A further loss of revenue is expected in the next three years, mainly due to the gradual annual increase in the general allowance. On the other hand, changes will impact the rise in consumption and revenue inflows from this source.

At the same time, solutions linked to high-level social-security burden will also be developed to relieve labour incomes. In this way, the Debureaucratisation Act will limit the contribution base to EUR 6,000 gross monthly income. With the introduction of a social security tax cap, companies will therefore be able to hire a higher proportion of higher-educated, better-paid individuals who add value to companies, thus preventing them from going abroad. At the same time, it will also increase the possibility of recruiting or creating new jobs. The shortfall in the Government revenues when the measure entering into force is estimated to be between EUR 40 million and EUR 50 million per year. The whole set of changes will improve the business environment and relieve wage costs, impact quality jobs and key and most productive staff in the economy. This will also neutralise the temporary decrease in inflows.

* Measures under coordination and preparation are not included in the projections. If the National Assembly adopts individual amendments, they will be duly incorporated into the autumn budgetary documents and fiscal projections and the 2022 Draft Budgetary Plan.

4 Fiscal projections

4.1 Fiscal scenario and medium-term objective

Between 2021 and 2024, the fiscal policy focuses on further addressing the impact of the COVID-19 epidemic in the first year and then supporting the recovery. The high deficit in 2020 was due to support measures and swift and robust government response to the crisis. The COVID-19 crisis mitigation packages have made an essential contribution that the decline in economic growth in 2020 was not more significant. The measures planned will also significantly impact the achievement of the 2019 level of GDP in 2022. Around EUR 3 billion (6.5% of GDP, and of which 5% of GDP for general government expenditure) were earmarked for combating COVID-19, inclusive all incentives and measures. As a result of the decline in economic activity, epidemics and measures, revenues amounted to 43.6% of GDP in 2020 and were slightly lower than in 2019, when economic growth was already felt. As a result, revenues remain at around 43% of GDP in 2021 and 2022. At the same time, expenditure has increased, amounting to 52% of GDP in 2020, and is projected to decline gradually; 2021: 52% of GDP, 2022: 49% of GDP, 2023: 46% of GDP. In 2020, the deficit stood at 8.4% of GDP. Without the measures, the deficit would be just over 3% of GDP.

In the coming years, fiscal policy will continue to be affected by the epidemic and foster recovery. This is in line with the recommendations of international institutions such as the Commission, the IMF, and the ECB that measures to support economic activity should not be withdrawn too quickly despite a gradual recovery in economic activity, as this could jeopardise the recovery.

The plans are accompanied by several uncertainties and risks stemming from the domestic and international environment. The speed and strength of the recovery from the COVID-19 crisis will depend on the extent and nature of the economic policy stimulus. Fiscal policy will have to play a vital role in the context of the declining effectiveness of the monetary policy. The faster the pace of the recovery, the less significant will be the adverse effects on the labour market, the shorter lasting decline in consumer and investor confidence (and thus lower increase in the marginal propensity to save) and less substantial loss of human capital (IMF, 2021). The IMF (2021) even concludes that higher than currently foreseen extent of state aid over the coming two years would allow a stronger recovery, followed by a more substantial fiscal consolidation.

The IMF (2021) estimates that an additional package of fiscal measures amounting to 3% of GDP in 2021 and 2022, consisting of transfers to the most vulnerable household groups, subsidies to accelerate the reintegration of unemployed, temporary tax relief for investment and the introduction of equity financing schemes for otherwise healthy companies, would increase output by around 2% by the end of 2022, and would also more than halve the adverse medium-term effects of COVID-19 crisis[17].

Fiscal rules should not hamper a powerful fiscal stimulus, especially because fiscal consolidation may lead to a permanent decline in output and a higher government debt-to-

[17] IMF (2021). „From Vaccination to V-Shaped Recovery“, Regional Economic Outlook for Europe, April 2021.

GDP ratio (DeLong and Summers, 2012[18]; Fatás and Summers, 2018)[19]. Fiscal consolidation should be underpinned by a recovery in aggregate demand and oriented towards the long-term stabilisation of public debt (Blanchard and Cottarelli, 2010)[20]. In light of the depth of COVID-19 crisis and the current low-interest-rate environment, Paul Krugman (Baldwin and Weder di Mauro, 2020)[21], for example, even proposes a permanent increase in public expenditure on infrastructure investment and R&D.

Exceptional circumstances at the national level continue in 2021 and, according to current data, they will continue in 2022. A decision on the applicability of the general escape clause at the EU level for 2022 will be taken in May of this year. At the same time, the Commission has issued fiscal policy guidance. Compliance with fiscal rules following the conclusion of the epidemic and the start of recovery, is likely to first require in line with the Stability and Growth Pact a transition to the corrective arm (where compliance with nominal targets is required), and only at a later stage compliance with the preventive arm with respecting and requiring a gradual transition to the medium-term balance of public finances.

It follows that, even after the epidemiological situation will have eased, a supportive fiscal policy will be still needed for some time.

Exceptional circumstances

The exceptional situation caused by the COVID-19 epidemic and the economic downturn caused by containment measures allow for deviation from the fiscal rules under the instrument of exceptional circumstances at both national and EU levels. Thus, a general escape clause is in place at the EU level for 2020 and 2021, allowing for a temporary deviation from the normal functioning of fiscal rules in the context of the severe economic downturn in the EU. However, its application in the coming year will be decided at the EU level in May 2021. Based on the information currently known, the Commission already concludes that it would be appropriate to extend the application of the general escape clause to 2022. At a national level, derogation from fiscal rules is made possible based on Article 12 of the Fiscal Rule Act (ZFisP) (in periods of severe economic downturn or in the case of an unusual event beyond control and having a significant impact on the financial situation of the general government sector). The Fiscal Council shall assess the existence of such exceptional circumstances. Thus, in its assessments, the Fiscal Council concluded that there were exceptional circumstances: in March 2020, it considered that the declaration of the epidemic was an unusual event which, under Article 12 of ZFisP, allowed exceptional circumstances to be enforced. In October 2020, it concluded that in 2021 at least one of the two conditions laid down in Article 12 of ZFisP, which allows exceptional circumstances to be invoked, will be fulfilled, what could not be established for 2022 at the time of the preparation of the assessment. Therefore, in light of the current situation, when the continuation of the epidemic remains uncertain, on 24 March 2021, the Government again addressed the Fiscal Council to assess the existence of exceptional circumstances in 2022. In its assessment, the Fiscal Council concluded, based on the information currently

[18] DeLong, J. B. and Summers, L. H. (2012). „Fiscal policy in a depressed economy [with comments and discussion]", Brook. Pap. Econ. Act, 233–297.
[19] Fatás, A. and Summers, L. H. (2018). „The permanent effects of fiscal consolidations", Journal of International Economics, 112, 238–250.
20 Blanchard, O. and Cottarelli, C. (2010). „Ten Commandments for Fiscal Adjustment in Advanced Economies", *IMF Blog.* Available at: https://blogs.imf.org/2010/06/24/ten-commandments-for-fiscal-adjustment-in-advanced-economies/.
[21] Baldwin, R. and Weder di Mauro, B. (2020). Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes, Ch. 24: The case for permanent stimulus, Paul Krugman, https://voxeu.org/content/mitigating-covid-economic-crisis-act-fast-and-do-whatever-it-takes.

available, that at least one of the two conditions under Article 12 of ZFisP, which allow exceptional circumstances to be invoked under Article 12 of ZFisP, are likely to continue to be met in 2022. However, this assessment is subject to several risks and may be amended at a later stage.

Despite the entry into force of the general escape clause under the rules of the Stability and Growth Pact, when the Commission finds that a country is in breach of the 3% of deficit limit, it prepares a report under Article 126(3) of the Treaty on the Functioning of the EU. At the same time, the Commission offers the possibility for the Member State to state the reasons for the deviations from the rules. The main reason is the crisis caused by the epidemic and, in the absence of measures, the deficit would be around 3% of GDP, as stated in the introduction.

Orientations for fiscal policy, European Commission

The European Commission provides a more detailed orientation for fiscal policy in its Communication to the Council entitled One year since the outbreak of COVID-19: fiscal policy response. In this communication, the European Commission stresses that fiscal policy must remain supportive, flexible and, where necessary, adapted to changing circumstances in the background of considerable uncertainty. Recalls that lifting measures too quickly can have more severe consequences for the economy than if the duration of support is too long. A gradual withdrawal of intervention measures will only make sense once the epidemiological and economic conditions allow. Stresses, however, that once the epidemiological situation has improved, measures to support the economy should gradually become more targeted and better support a resilient and sustainable recovery. However, the use of the escape clause in the coming year will be decided at the level of the European Union in May, based on the European Commission's spring forecast. In the Communication, the European Commission proposes that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy based on quantitative criteria. In doing so, we should rely, as far as possible, on the size of the gross domestic product of the European Union or the euro area, compared to that of the pre-crisis. According to the European Commission's latest winter forecasts, EU and euro area GDP will reach pre-crisis levels somewhere in mid-2022. Accordingly, in the light of the information currently available, the European Commission concludes that it would be appropriate to extend the application of the general escape clause to 2022.

The fiscal path planned ensures a gradual reduction of the deficit below 3% of GDP by 2024. The transition from 2020 to 2021 maintains a high deficit due to the need to ensure the continued implementation of measures to combat COVID-19. The extent of the measures will be smaller in 2021 than in 2020, as the situation related to the epidemic and (re)vaccination is estimated to improve in the second half of the year. Otherwise, without considering these measures, the deficit would reduce to around 6% of GDP in 2021.

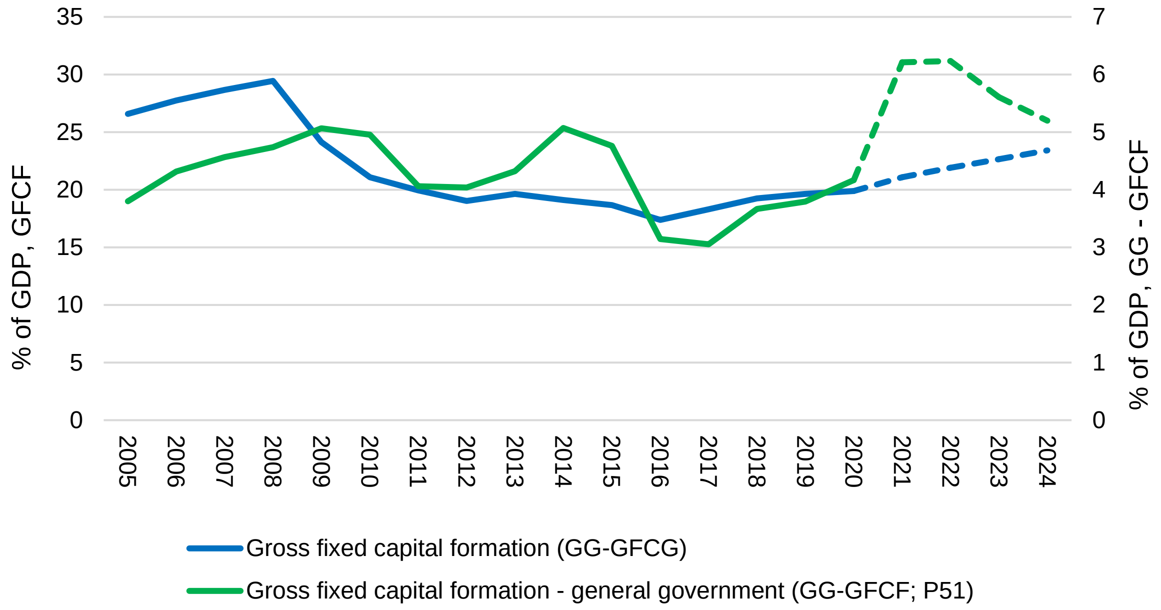
Table 2: Cyclical developments

	% of GDP	ESA code	2020	2021	2022	2023	2024
1.	Real GDP growth (%)		-5.5	4.6	4.4	3.3	3.0
2.	Net lending/borrowing of general government	B.9	-8.4	-8.6	-5.7	-3.8	-2.8
3.	Interest expenditure	D.41	1.6	1.5	1.3	1.2	1.2
4.	One-off and other temporary measures		-0.07	-0.07	-0.11	-0.09	-0.09
4a.	Of which one-offs on the revenue side: general government		0.00	0.00	0.00	0.00	0.00
4b.	Of which one-offs on the expenditure side: general government		-0.07	-0.07	-0.11	-0.09	-0.09
5.	Potential GDP growth (%)		1.9	2.4	2.7	2.8	2.9
	Contributions:						
	- Labour		0.3	0.6	0.7	0.7	0.7
	- Capital		0.3	0.5	0.7	0.8	0.9
	- Total factor productivity		1.2	1.2	1.2	1.2	1.1
6.	Output gap		-3.1	-1.1	0.6	1.2	1.2
7.	Cyclical budgetary component		-1.5	-0.5	0.3	0.5	0.6
8.	Cyclically-adjusted balance (2-7)		-6.9	-8.1	-5.9	-4.4	-3.4
9.	Cyclically-adjusted primary balance (8+3)		-5.3	-6.6	-4.6	-3.1	-2.2
10.	Structural balance (8-4)		-6.8	-8.0	-5.8	-4.2	-3.3
11.	Fiscal effort		-5.2	-1.2	2.2	1.6	1.0

Source: Ministry of Finance.

In 2021, it is also important to note that a significant increase in investment funds is planned, which will be kept at approximately the same level until the end of the period in nominal terms. The general government investment ratio will rise above 6% of GDP and then approach 5% of GDP by 2024, what is above the level of past responses to crisis events (see Figure 14). Without this, the recovery would worsen and lead to a more sustained loss of jobs, investment and economic activity. Fiscal policy also follows the advice of international institutions, which warn that there will be a stagnation in recovery without an adequate response. Investment from the Recovery and Resilience Plan is also an essential part of the investment. If all additional investment, amounting to around EUR 1 billion, were to be eliminated, we would have reached a deficit of around 4% of GDP in 2021. The ratios should also consider the level of GDP in 2021, which is below the pre-crisis level.

Figure 14: Investment funds in % of GDP



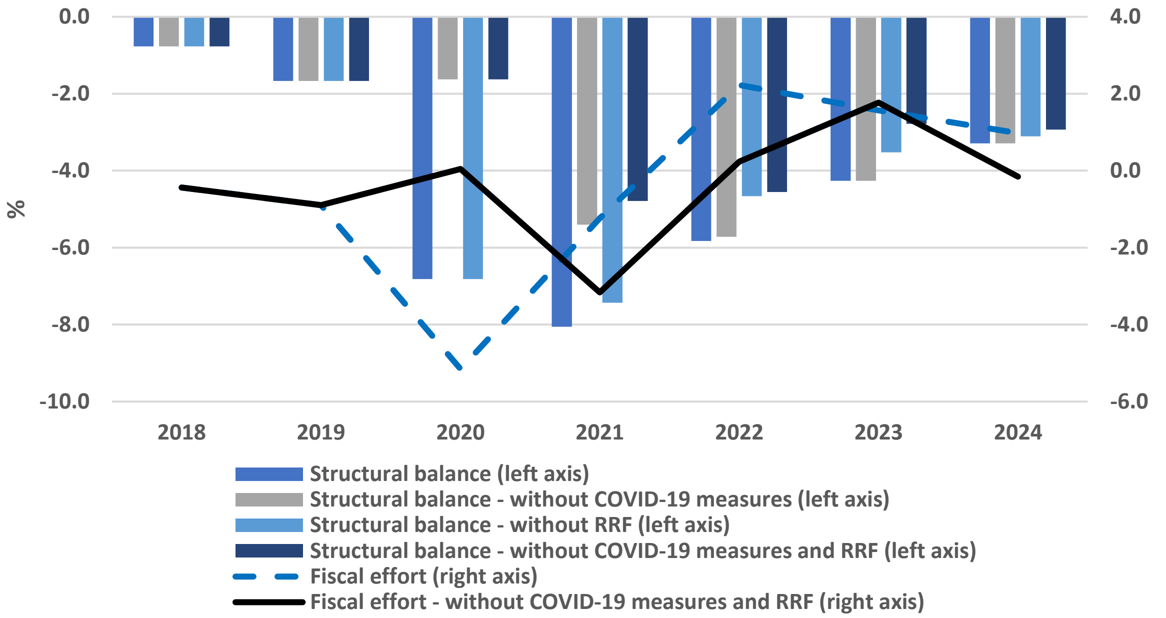
Source: SORS.

In this context, it is also necessary to consider the increase in expenditure from the State budget for the Health fund and units and the funds to compensate municipalities, which are also indirectly linked to the COVID-19 crisis. Some expenditure will increase since, in the absence of services due to the crisis, they decreased in 2020 and returned to pre-crisis levels in 2021 (e.g., co-financing of transport of pupils and high-school students). However, expenditure is also increasing due to the measures adopted and taken into account in the planning, including the adoption of amendments to the pension legislation in March 2021.

The setting of ceilings for the target general government balance and, the maximum scope of government expenditure is challenging due to rapidly changing macroeconomic conditions as well as due to the fact that targeting is in done in cash terms with the ceiling being set for four funds (Budget, Health and Pension fund, consolidated with 212 municipalities). At the same time, the medium-term fiscal policy planning according to ESA methodology and in cash terms for four funds are subject to exceptionally high uncertainties, as the situation changes monthly/weekly (calculation of the fiscal impact of measures, estimation of the delay between the application and disbursements, the duration of the epidemic). The assessment of the cyclical position, the evaluation of the adequacy and effectiveness of the measures (ex-ante and ex-post), the macroeconomic forecasts, which are changing every three months, and GDP revisions are particularly problematic.

As also pointed out by the European Central Bank, the assessment of the fiscal stance is challenging, especially at times of economic downturn. Namely, already in regular times, the appropriate indicator of the fiscal stance is subject to debate (either the observation of the difference between discretionary measures related to public expenditure and structural revenue measures or the change in the cyclically-adjusted primary balance). In times of crises, the interpretation of the indicators of these approaches is even more demanding. The same applies to the assessment of the cyclical component due to the heightened uncertainty surrounding the estimates of potential growth and changes in the behaviour of economic subjects. However, the introduction of new sources of financing for government expenditure (e.g. NextGenerationEU grants) and high uncertainty around macroeconomic and fiscal projections further affected the exceptionally high bias in the assessments of the fiscal stance.

Figure 15: Comparison of structural balances and fiscal effort (in % of potential GDP)

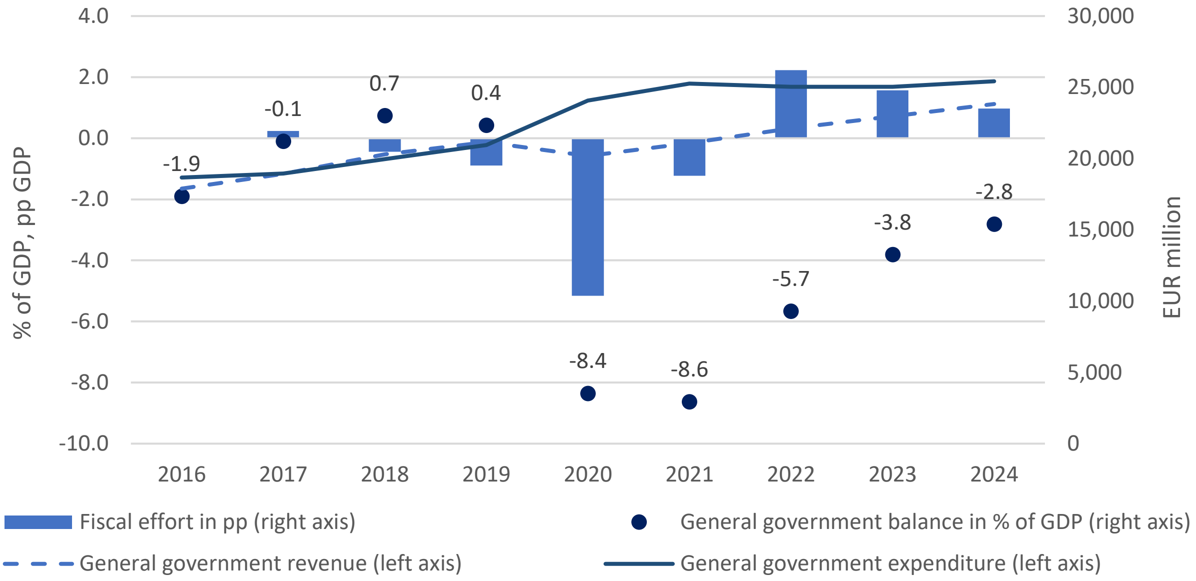


Source: Ministry of Finance.

Figure 15 shows the different structural balances and the effort achieved. They differ depending on whether we consider the COVID-19 measures and those set out in the Recovery and Resilience Plan among expenditures or if they would be taken into account as one-off expenditures. In 2020, the downturn in economic growth and the high deficit led to a significant increase in the structural balance. If these measures were considered as one-offs, the structural balance would remain at around the same level as in 2019. The output gap for 2020 is estimated at –3%, compared to almost 5% in 2019. As a result of the circumstances, the calculations have changed for years back, particularly for the most recent years. Economic growth is projected in 2021, and, according to a mathematical calculation, the negative output gap becomes much less negative, and the fiscal space narrows. As a result, the structural balance is to deteriorate in 2021, according to the fiscal plans. A significant reduction in the structural balance would require substantial expenditure cuts, with negative consequences, as previously mentioned.

Figure 16 shows the gradual reduction of the headline deficit and the achievement of a sizeable fiscal effort after 2021, which is still insufficient to reduce the structural deficit significantly. It is also essential to monitor the average fiscal effort of two years, which shows a reasonable effort over 2022 to 2024.

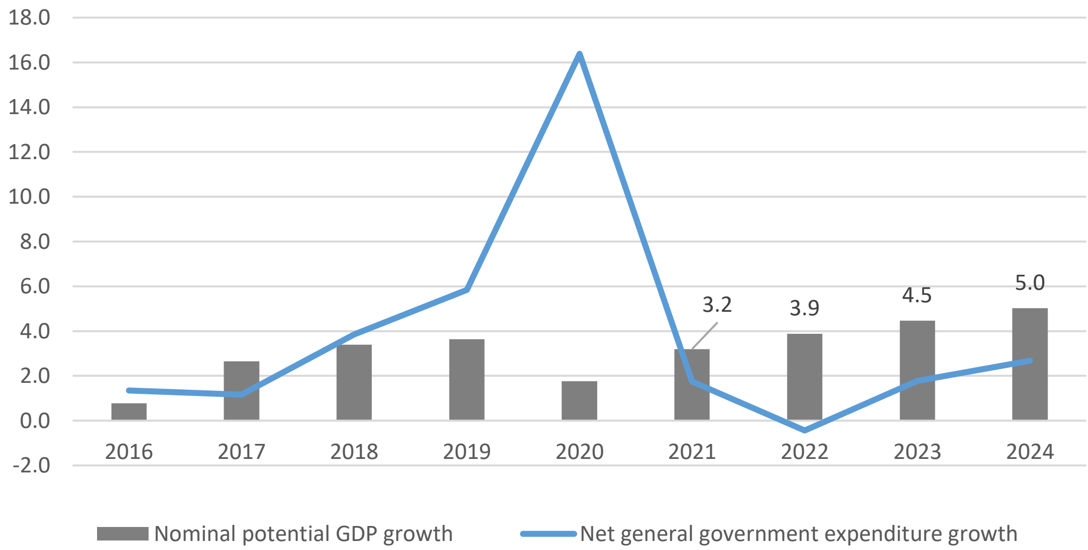
Figure 2: Comparison of government revenue, expenditure, and fiscal effort



Source: Ministry of Finance.

It is imperative to note that expenditure does not grow faster than potential GDP. To assess the appropriate expenditure growth under the Stability and Growth Pact rules, interest expenditure, the cyclical component of unemployment benefits and expenditure resulting from revenues from EU funds (cleaned expenditure) are deducted from all expenditures. As a result of this, the four-year average of investment expenditure, which does not include the investment funds received from the EU, is taken into account. Over the period from 2021 to 2024, the planned expenditure will not exceed nominal potential GDP growth. In the period of uncertain calculations and data deviations in 2020, these estimates are uncertain. The aim of the figure is therefore to show annual growth.

Figure 3: Growth rate of net general government expenditure and nominal potential GDP (in %)



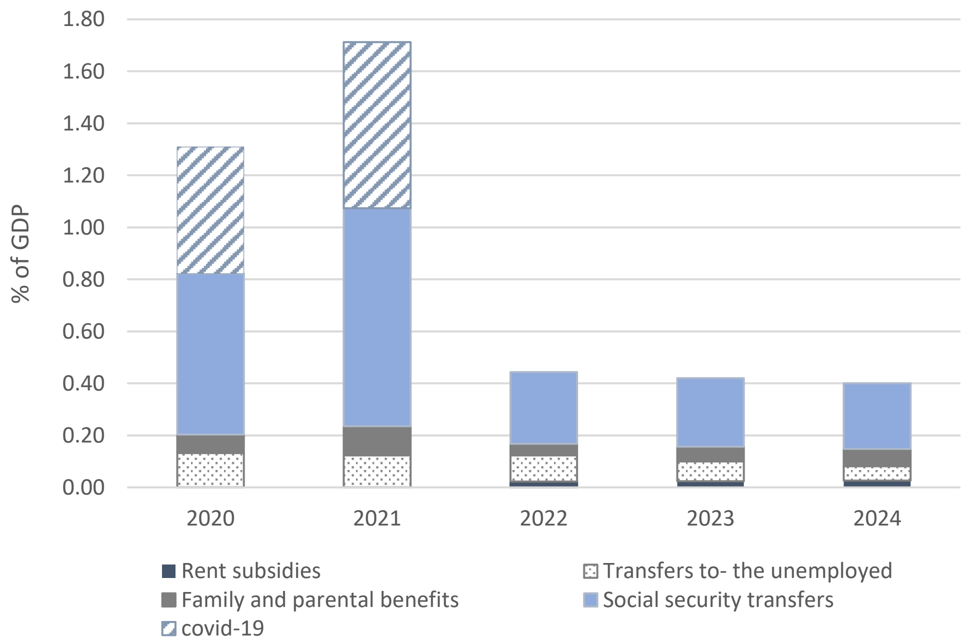
Source: Ministry of Finance.

A more robust medium-term fiscal strategy will be re-launched in the aftermath of exceptional circumstances. Given the high public deficits, it is most likely that, under Article 14 of ZFisP, it will be necessary to draw up a programme for the gradual elimination of deviations from the medium-term balance of public finances as it will not be possible or meaningful to eliminate deviations immediately. Also, at the EU level, following the expiry of the general escape clause from the Stability and Growth Pact rules, it is expected that the rules of the corrective arm of the Stability and Growth Pact will first apply due to high public deficits. Excessive deficit procedures will be opened, with the country-specific Council Recommendation setting out a timeline for a gradual reduction of the general government deficit below 3% of GDP, similar to the situation following the 2008 financial crisis.

Automatic stabilisers

Automatic stabilisers automatically adjust transfer payments in a way that aims to balance income and consumption over the business cycle. In response to the crisis, automatic stabilisers, including transfers to the unemployed, family and parental benefits, social security transfers and rent subsidies, increased by 0.8% of GDP in 2020 compared to 2019 and will increase by 1.1% of GDP in 2021 compared to 2019. Like 2020, the most significant increase will be in social security transfers (amounting to 0.8% of GDP) in 2021, see Figure 18. Within categories considered as automatic stabilisers, social security transfers increased further in 2020 due to COVID-19 measures, amounting to 0.5% of GDP. Similarly, the COVID-19 measures are expected to increase in 2021 by 0.6 % of GDP.

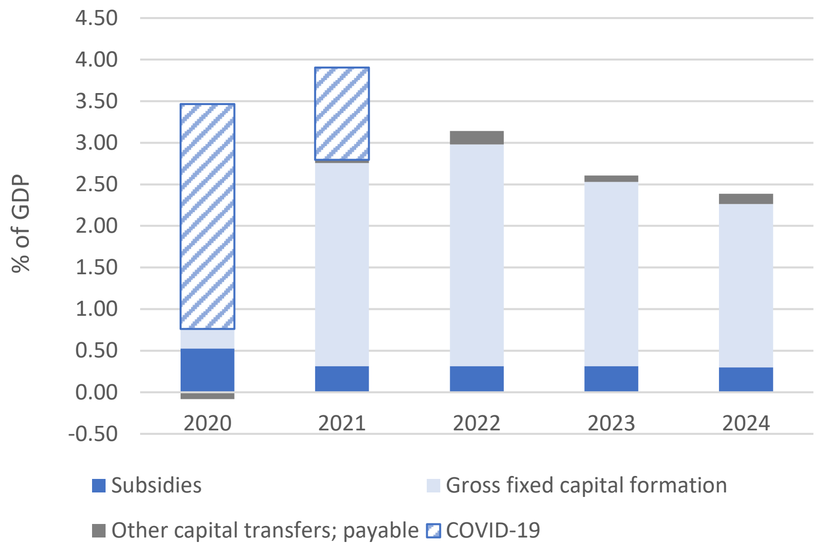
Figure 18: Automatic stabilizers, change compared to 2019, in % of GDP



Source: Ministry of Finance, own calculations.

In 2020, fiscal stimulus (see Figure 19), which includes subsidies, gross capital formation and other capital transfers, increased by 0.7% of GDP compared to 2019. In 2021, the fiscal stimulus is expected to increase sharply by 2.8% of GDP compared to 2019, mainly due to an increase in gross capital formation. Within the fiscal stimulus categories, subsidies due to COVID-19 measures increased further in 2020, amounting to 2.7% of GDP.

Figure 19: Fiscal stimulus, change compared to 2019, in % of GDP



Source: Ministry of Finance, own calculations.

During the COVID-19 crisis, supportive fiscal policy (IMF, 2020a) played a crucial role in limiting economic damage (IMF, 2020a)[22]. This is also empirically demonstrated, especially in times of uncertainty, by high aggregate fiscal multipliers (IMF, 2020b)[23]. For example, a recent IMF study (2020c)[24] estimates, concerning a sample of Slovenia and Eastern European countries, that the increase in the European Structural and Investment Funds (ESIF) by 1% of GDP within one year will be followed by an increase in output of between 1.3% immediately and 1.6% next year. It also estimates a relatively higher immediate increase in private investment than in the EU by 1.3% (compared to an increase of 0.8% in the EU). In response to the increase in public investment, the IMF notes that employment in Slovenia is also growing more than the EU average. Within one year, it increases by between 0.1 and 0.2%.

Measures to contain the spread of the virus have affected some economic sectors (more dependent on human contact) than others, with a sharper decline in consumption and private investment in these sectors. Consequently, the sectoral structure of public incentives is also essential. The IMF (2020c) notes that the increase in public investment in activities D, L, O and P[25] (under Standard Classification of Activities – SKD) attracts the most significant private investment in these sectors. In contrast, public investment in construction and manufacturing in Slovenia significantly increases added value in these sectors. Public investment in construction and K–N activities (finance, real estate, professional and administrative services) is also linked to an increase in employment in these sectors, which is also higher than the EU average.

At the aggregate level, public investment in public order, public administration and housing (COFOG classification) most significantly increase the economic activity, and its impact is higher than the EU average. In these areas and education, the IMF (2020c) also shows an

[22] IMF (2020a). „Global Prospects and Policies", World Economic Outlook, October 2020.
[23] IMF (2020b). „Online Annex 2.1. Financing Constraints and the Strategy for Investment", IMF Fiscal Monitor, October 2020.
[24] IMF (2020c). „The Fiscal Multiplier of European Structural Investment Funds: Aggregate and Sectoral Effects with an Application to Slovenia", Working Paper (forthcoming).

[25] D = Electricity, gas, steam and air conditioning supply; L = Real estate activities; O = Public administration and defence, compulsory social security; P = Education.

increase in aggregate private investment in response to an increase in private investment after a year. However, aggregate employment increases in response to an increase in public investment in public order, public administration, healthcare and recreation. GDP and aggregate private investment in Slovenia (and Eastern European countries) also respond positively to increased public investment in basic research, transport and fuel and energy production and distribution.

In this context, fiscal projections based on a no-policy-change assumption exclude measures related to the combat against COVID-19 and certain investments in the Recovery and Resilience Plan.

4.2 Review of fiscal developments in 2020 and 2021

In 2020, general government revenue equalled EUR 20,195 million, i.e. 4.6% or EUR 966 million less than in 2019. The drop in revenue is largely linked to reduced economic activity and lower household consumption. This drop was thus mainly affected by lower tax revenue, mostly related to taxes production and imports. These taxes decreased year-on-year by EUR 650 million or 9.8%, of which VAT revenue dropped by EUR 339 million or 8.7%. The fall in revenue from current taxes on income and wealth equalled EUR 356 million or 9.4% and was largely driven by lower revenue from corporate income tax. This revenue was down by EUR 283 million or 31.0% year-on-year, while personal income tax revenue decreased by EUR 70 million or 2.7% compared to 2019. Revenue from social contributions rose year-on-year by EUR 323 million or 4.2% in 2020. A moderate drop in personal income tax revenue and the growth in social contributions revenue show that, as a result of COVID-19 measures in the field of labour, conditions on the labour market are still favourable. Property income decreased year-on-year by EUR 114 million, largely due to lower revenue from distributed corporate profits of State-owned companies (by EUR 79 million or 29.6%). Interest income also dropped (by EUR 27 million or 25.6%).

In 2021, it can be expected that the growth in general government revenue will resume. They are projected to increase by EUR 893 million or 4.4%. Tax revenue will therefore rise by EUR 376 million or 4.0%. The highest growth rate will be in taxes on production and imports (by EUR 249 million or 4.2%), of which VAT revenue will go up by EUR 180 million or 5.1%. Current taxes on income and wealth will increase by EUR 131 million or 3.8%, primarily on the account of higher revenue from corporate income tax (by EUR 82 million or 13.0%), while personal income tax revenue will rise by EUR 46 million or 1.8%. Revenue from social contributions will continue to increase in 2021, amounting to EUR 167 million or 2.1%. Year-on-year growth of property income in 2021 will be negative (by EUR 87 million or 29.2%), owing to lower interest income (by EUR 16 million or 19.9%) and lower distributed profits of public State-owned-companies (by EUR 75 million or 39.8%). In 2021, high growth of revenue from other capital transfers and investment grants (by EUR 192 million or 65.4%) is expected. It will be mostly a result of higher revenue from the EU budget, primarily from Structural Funds and Recovery and Resilience Facility (RRF).

In 2020, the growth of general government expenditure amounted to 14.8% or EUR 3,110 million, which is predominantly a result of government measures to contain the consequences of COVID-19 epidemic. The largest increase was seen in government expenditure on subsidies (by EUR 1,475 million or 425.4%), of which a direct effect of COVID-19 measures amounts to EUR 1,231 million. Expenditure on social benefits and cash aid also increased substantially (by EUR 759 million or 10.3%), within which a direct effect of COVID-19 measures equalled EUR 486 million. Expenditure on employee compensation rose by EUR 386 million or 7.0%, within which a direct effect of COVID-19 measures corresponded to

EUR 298 million. Expenditure on other current transfers rose year-on-year by EUR 420 million or 51.0% in 2020, within which a direct effect of COVID-19 measures totals EUR 268 million.

Growth of expenditure on intermediate consumption amounted to EUR 107 million or 3.6% and gross fixed capital formation rose by EUR 93 million or 5.0%. Growth of interest expenditure continued to be negative. Interest expenditure equalled EUR 756 million in 2020, therefore it was EUR 69 million or 8.4% lower than in the previous year.

It is projected that the growth rate of government expenditure in 2021 will be at the level of that in 2019. Expenditures will increase by EUR 1,207 million or 5.0%. Investment expenditure will increase the most, i.e. by EUR 1,081 million or 56.0% compared to the previous year, and this will be influenced, among other factors, by higher revenue from EU funds due to concluding European financial perspective and the absorption of RRF funds. Expenditure on subsidies will decrease by EUR 787 million or 43.2% compared to the previous year, but will still include funds for the purposes of COVID-19 in the amount of EUR 536 million. Social benefits and cash aid will increase by EUR 538 million or 6.6%, of which direct aid for COVID-19 measures will amount to EUR 205 million. Expenditure on employee compensation will increase by EUR 229 million or 3.9% in 2021, virtually entirely on the account of COVID-19 allowances which will amount to EUR 289 million. Expenditure on intermediate consumption will rise by EUR 107 million or 3.5%, whereas expenditure on other current transfers will decrease by EUR 78 million or 6.3%. Interest expenditure will also decrease in 2021 and will amount to EUR 740 million, which is EUR 16 million or 2.2 % less compared to the previous year.

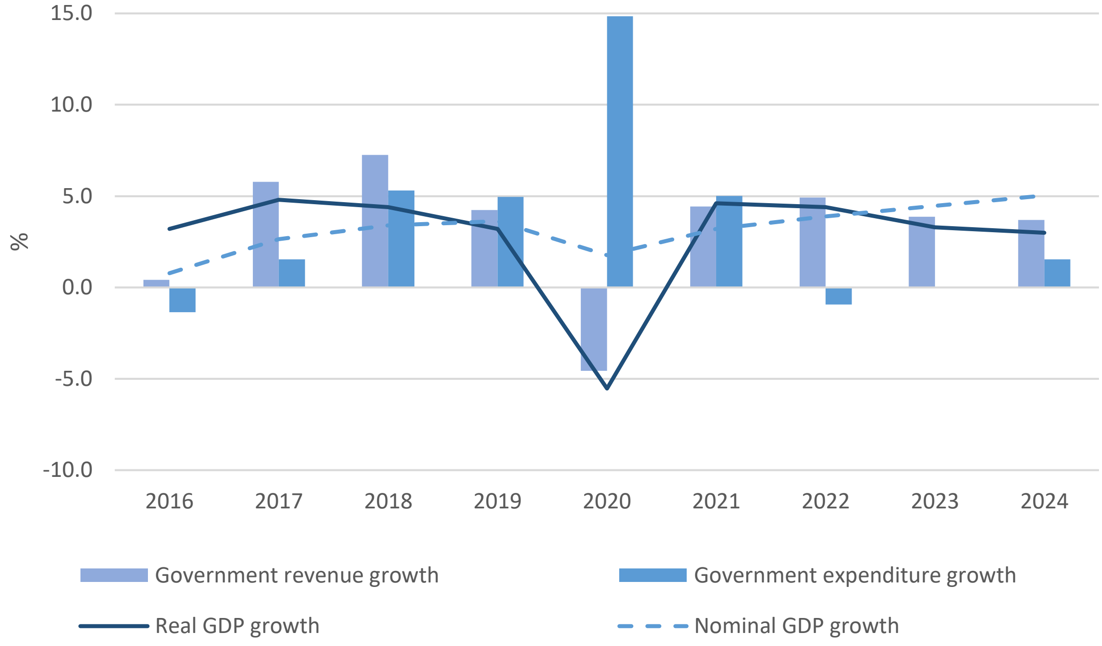
4.3 General government revenue

After a fall in general government revenue in 2020 and its resumed growth in 2021, it is projected to grow also in the medium term. In the 2022–2024 period, this growth will average 4.2% and slightly rise in 2022. Compared to the previous year, it will amount to 4.9%, while in 2023 and 2024 it will moderate and equal 3.9% and 3.7% respectively.

Tax revenue in 2022 will increase by 4.8% compared to the previous year. Virtually all tax categories will contribute to growth, while the highest increase compared to the previous year will be seen in revenue from income and property taxes (by 6.3%). Higher corporate income tax revenue (by 18.9%) and personal income tax revenue (by 3.3%) will contribute the most to this growth. Growth of taxes on production and imports will amount to 3.9%. VAT revenue will increase by 3.5%, while excise duty revenue will be up by 2.9%. Revenue from social contributions will be up by 3.8%. In 2023, the growth of tax revenue will strengthen further and equal 5.5%, mostly due to higher revenue from income and property taxes (by 8.5%), whereas the growth of revenue from taxes on production and imports will moderately decrease (3.7%). In 2024, the growth of tax revenue will again moderate and amount to 4.1%. Revenue from income and property taxes will be up by 6.0%, while revenue from taxes on production and imports are forecast to increase by 2.9%.

Higher revenue from EU funds will also impact the growth of general government revenue. Budget revenue from these funds will increase by 92.3% in 2021 compared to the previous year and amount to EUR 1,394 million, while in 2022 they will increase by 33.0% and equal EUR 1,854 million. In 2023, state budget revenue from EU funds will drop slightly. It will be EUR 1,700 million or 8.3% lower than in the previous year and will further decrease in 2023, amounting to EUR 1,409 million or 17.1% less compared to the previous year. Higher revenue from EU funds will primarily be a result of a higher absorption of funds upon concluding the EU financial perspective 2014 to 2020 and funds from the Recovery and Resilience Facility.

Figure 4: Growth rate of government revenue, expenditure, real GDP, and nominal GDP (in %)



Source: Ministry of Finance, own calculations.

In addition to various aids, by adopting the Implementation of the Republic of Slovenia Budget for 2020 and 2021 Act, the government extended the deadline for corporate income tax returns, prepayment of income tax and prepayment of tax on income from activity from 31 March 2021 to 30 April 2021.

What should also not be overlooked are the indirect impacts on revenue which are linked to a reduced consumption due to measures that the government adopted because it wished and wishes to contain the consequences of increasing infection rates (closing some businesses and prohibiting the retail sale of non-food or non-essential goods and the provision of non-essential services etc.). The closing of airports, public transport, hotels and casinos also means a drop in revenue from excise duties, concession fees from gaming and taxes on gaming.

4.4 General government expenditure

After a steep growth rate of expenditure in 2020 and its moderation in 2021, general government expenditure will increase by an average of 0.2% annually in the 2022–2024 period, while in 2022 it will drop by 0.9% compared to the previous year. Expenditure increases at a slower rate than revenue in the projected period (see Figure 20). Expenditure on subsidies will decrease the most, amounting to 49.0% of these expenditures in 2021. Expenditure on social benefits and cash aid will also decrease (by 1.2% compared to 2021), as well as other current transfers (by 12.3%). Interest expenditure will continue to drop, i.e. by 7.0% in 2022 compared to the previous year. The increase will, however, be seen in expenditure on gross fixed capital formation (by 6.3%), intermediate consumption (by 1.5%) and employee compensation (by 2.5%). In 2023, total expenditure well remain at the level of 2022, but their structure will change slightly. Expenditure on subsidies will increase by 1.8% compared to the previous year, expenditure on social benefits and cash aid will rise by 2.3% and expenditure on other current transfers will go up by 2.2%. Expenditure on employee compensation will also increase (by 0.7%). Compared to 2022, however, decrease will be seen in expenditure on gross fixed capital formation (by 5.4%), intermediate consumption (by 1.8%) and interest expenditure (by 4.2%). In 2024, year-on-year growth of total expenditure will equal 1.5%. There will be an increase in expenditure on employee compensation (by 1.1%), intermediate consumption (by 1.3%), social benefits and cash aid (by 2.9%) and other current transfers (by 1.3%). Interest expenditure will also increase slightly (by 0.8%). Compared to 2023, however, a decrease will be recorded in gross fixed capital formation (by 2.5%) and expenditure on subsidies (by 0.1%).

Gross fixed capital formation

The growth of government expenditure on gross fixed capital formation is projected for the 2021–2024 period and it will be most significant in 2021, when the government expenditure on gross fixed capital formation will increase by 56.0% compared to the previous year, thus amounting to 6.2% GDP. Higher expenditure from the State Budget and budgets of municipalities for investments will contribute the most to this growth, as well as higher investments by other general government units, mostly as regards railways. The growth of gross investments will amount to 6.3% or 6.2% GDP in 2022, whereas in 2023 and 2024 it will be negative. In 2023, investments will decrease by 5.4%, amounting to 5.6% GDP, while in 2024 they will decrease by 2.5% and equal 5.2% GDP.

The largest share of state budget expenditure on investments and investment transfers will be from national funds (integral and earmarked funds), while EU sources will also contribute a significant share. Higher revenue is expected from the EU Financial Framework 2014-2020, with the possibility of absorbing funds until including 2022, as well as from the Recovery and Resilience Facility funds, which Slovenia will start absorbing in 2021.

Subsidies

The growth of government expenditure on subsidies was particularly significant in 2020 and 2021, when it increased predominantly due to measures adopted to aid companies during the COVID-19 epidemic. In 2020, subsidies therefore increased by 425.4% compared to the previous year, in 2021 they will amount to 56.8% compared to the previous year, but they will remain high compared to 2019, mostly due to extending the epidemic and, consequently, COVID-19 measures. In the 2022–2024 period, the level of expenditure on subsidies will be lower than in the 2020–2021 period, but still higher than before the crisis. EU funds represent the largest share of State Budget expenditures on subsidies. These EU funds will represent 58.5% of all expenditure on subsidies in 2021 and an average of 74% in the 2022–2024 period, while their share will be the largest in 2022 (75.9%).

Employee compensation

Over the past years, based on agreements with trade union partners, employee compensation recorded significant growth (around 5%). This was due to gradual phasing out of measures that had been established during the economic downturn (2012) and certain wage raises that were implemented to eliminate wage disparities in terms of individual jobs evaluation. For the purpose of pursuing fiscal goals, a gradual implementation of these raises was agreed, i.e. in tranches over a period of three years. Payments of allowances to employees in accordance with the acts determining the intervention measures to contain the COVID-19 epidemic also contributed to growth in 2020 and 2021. This growth will moderate in the following years because the agreement on the gradual raise of wages has been fulfilled, therefore only raises arising from career development will apply.

The government is planning a partial overhaul of the remuneration system in terms of establishing increased flexibility with reduced administration, taking into account certain specifics of individual activities and providing greater variability and a closer connection of remuneration for work with work results, but these changes must be coordinated with social partners. Considering the usually lengthy negotiation process and uncertain results, it is not possible to predict financial effects in this regard.

Social transfers

In 2021, social benefits nominally increased by 7% in total, while in the following years their growth will stop or decrease and equal 2 to 3% in 2023 and 2024. Social benefits and aid in kind will increase by 10% or 13% in 2021 and 2022 respectively, while in the following years the nominal growth will decrease. The higher growth rate in the first two years is, among other factors, a result of expenditure growth in the field of education, i.e. allowances for transport to school and meals for pupils and students, which has decreased substantially in 2020 due to epidemiological restriction measures, whereas now it is projected to return to its previous level. Within this context, projected additional funds for expensive medicines and increased expenditure on medical devices also significantly influence the growth of expenditure, mostly as a result of providing additional rights.

Social benefits and cash aid generally grow at a slower rate. Nevertheless, certain transfers are growing by more than 10% in 2021, mainly due to planned measures to mitigate the consequences of the COVID-19 crisis. These transfers include transfers for ensuring social security and other transfers to individuals, which also include the universal basic income measure for various target groups. Current transfers to social security funds and sickness benefits or compensation for salaries for the time of absence from work due to isolation during the epidemic are also increasing. Family benefits, i.e. child benefits and childbirth allowances, are also increasing. In the following years, expenditure growth will moderate.

In 2021, expenditure on pensions is increasing by 5.9%, then in the following years its growth will decrease and equal 2% to 3%. The expenditure is increasing in 2021 due to the latest measures adopted as regards pensions (Pension and Disability Insurance Act; ZPIZ-2I). The amendment of the Act defines that the insured person who is granted the right to early retirement, retirement or disability benefit is provided with a minimum pension, the amount of which is calculated in 2021 as 29.5% of the minimum pension base amount (EUR 279.56). ZPIZ-2I also defines an increase of the guaranteed pension from EUR 581.05 to EUR 620. In accordance with the provisions of ZPIZ-2I, the insured persons who were granted the right to disability benefit are provided with a disability benefit, the amount of which is calculated in 2021 as 41% of the minimum pension base amount (EUR 388.54). Individuals who are going to retire as well as all individuals who fulfil the conditions of individual paragraphs and who retired according to previously applicable legislation will be entitled to the above amounts. Expenditure will therefore increase as regards new pensioners and existent beneficiaries. The eight paragraph of Article 39 of ZPIZ-2 was deleted, therefore the newly defined minimum amounts are also considered when calculating the basic amount for the assessment of widower's benefit or survivor's pension and for the assessment of disability insurance benefits, in this case, however, only for new beneficiaries. This new arrangement of a minimum pension amount will have additional financial consequences also in cases, where pensions were assessed for a narrower scope of rights. In these cases, a new, higher amount is also defined and calculated in 2021 as 29.5% of the minimum pension base amount (EUR 279.56), increasing in the following years in accordance with the adjustments of pensions.

After changing the amount of assessment percentages and defining a preceding period in 2019, the latest amendment of the Act defines reduced transitional periods for increasing the retirement, disability and widower's benefits, this measure, however, will not have financial consequences this year because the assessment percentages will be increased the following year.

Claiming one-off expenditure

In 2020, one-off expenditure amounted to EUR 33.5 million (various compensations paid from the State Budget and denationalizations – returning forests to the church). It is assessed that, in the following years, one-off expenditure will fluctuate at around 0.1% GDP, mostly on the account of possible new appeals (denationalization, investments disputes etc.).

4.5 Comparison of economic and budgetary forecasts with the 2020 Stability Programme

In comparison with the previous Stability Programme, the realisation and forecast of real GDP growth is more favourable.

The decline of real GDP in 2020 was lower than what was projected in the Stability Programme 2020, predominantly due to the recovery of activities relating to international trade (transport and manufacturing industry), construction and investment in the entire second half of the year, despite the re-introduction of restriction measures, which targeted service activities in particular, during the second wave of the epidemic. Businesses and consumers, however, gradually adapted to new circumstances. The contraction of activities was substantially mitigated by comprehensive packages of measures which significantly reduced the loss of revenue of the economy and population due to the epidemic and offered liquidity and support to companies to counter negative consequences. The growth of all components was not as negative as was projected the previous year, with the exception of private consumption which declined mostly due to the second closing of the majority of non-essential service activities during the second wave of the epidemic. In addition to better prospects regarding a fast development of vaccinations, the beginning of mass vaccinations and better forecasts for important world economies, particularly the USA, the above factors will also contribute to higher growth in 2021.

Table 3: Divergence from previous update

% of GDP	2020	2021	2022	2023	2024
1. Real GDP growth (%)					
Stability programme 2020	-8.1	3.5			
Stability programme 2021	-5.5	4.6	4.4	3.3	3.0
Difference	2.6	1.1			
2. General government net lending (% of GDP)					
Stability programme 2020	-8.1				
Stability programme 2021	-8.4	-8.6	-5.7	-3.8	-2.8
Difference	-0.3				
3. General government gross debt (% of GDP)					
Stability programme 2020	82.4				
Stability programme 2021	80.8	80.4	79.6	79.0	78.0
Difference	-1.6				

Source: IMAD; SORS; Ministry of Finance.

It is not possible to compare the projections of the general government sector, because the Stability Programme 2020 was focused solely on 2020 and was adjusted to the response to COVID-19 crisis in particular.

4.6 General government debt

The general government consolidated debt at the end of 2020 stood at EUR 37,429 million or 80.8% of GDP, which is EUR 5,684 million higher than the previous year, when it stood at EUR 31,744 million or 65.6% of GDP. The debt of central government units increased the most, amounting to EUR 36,766 million or 79.4% of GDP at the end of 2020, while it equalled EUR 31,123 million or 64.3% of GDP the previous year. The debt of local government units stood at EUR 889 million or 1.9% of GDP at the end of 2020, while it totalled EUR 857 million or 1.8% of GDP in the previous year. Social security funds held debt amounting to EUR 0.1 million at the end of 2020.

Table 8: General government debt

	ESA Code	2020	2021	2022	2023	2024
			EUR (million)			
1. General Government Debt		37,429	38,972	40,859	42,667	44,314
2. GDP		46,297	48,453	51,345	54,026	56,801
			% of BDP			
3. General Government Debt		80.8	80.4	79.6	79.0	78.0
4. General Government Balance		-8.4	-8.6	-5.7	-3.8	-2.8
5. Primary balance		-6.7	-7.1	-4.3	-2.6	-1.6
6. Interest Expenditure	EDP D.41	1.6	1.5	1.3	1.2	1.2
7. Stock Flow Adjustments		3.8	-5.4	-2.0	-0.5	0.0
Implicit interest rate		2.5	2.0	1.8	1.6	1.6

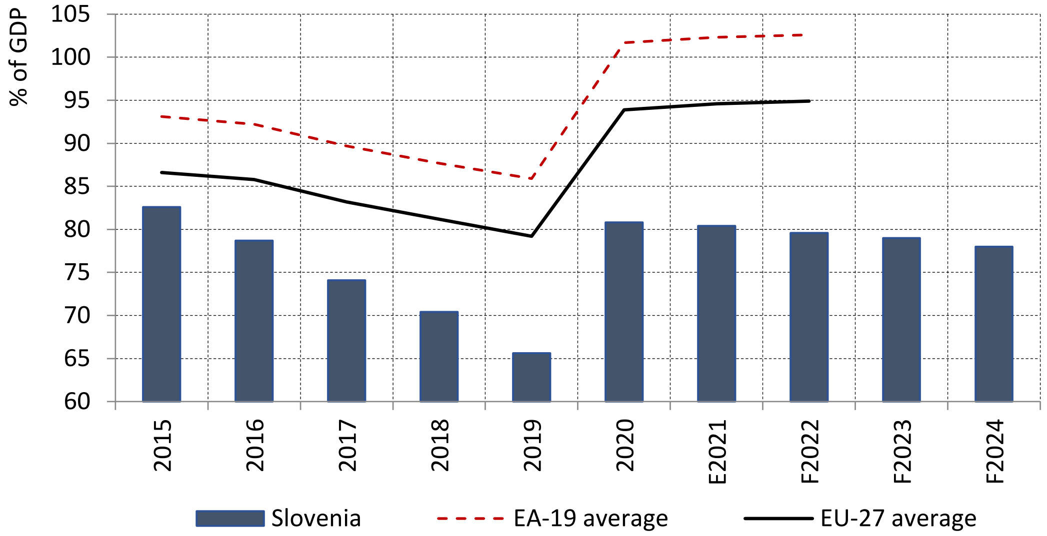
Source: Ministry of Finance, 4.4.2021.

Upon the proposal of the government, the National Assembly has until now adopted eight packages (acts) of intervention measures for COVID-19 epidemic containment and to mitigate its consequences for the citizens and economy, including comprehensive provisional measures in several fields. After declining for the past four years, the general government debt-to-GDP ratio reached 65.6% of GDP in 2019. Due to supportive fiscal measures that were adopted to mitigate the consequences of the COVID-19 epidemic, it again rose above 80% of GDP at the end of 2020. It is important that the scope of supportive measures to mitigate the consequences of the COVID-19 epidemic is moderately reduced. This is also taken into account in the projections of general government balance and, accordingly, also in debt developments in the programming period.

Due to the challenging economic and fiscal circumstances arising from the COVID-19 epidemic, there remain the medium-term strategic guidance and efforts to maintain the acquired credit rating of the Republic of Slovenia AA- (S&P) / A (Fitch) / A3 (Moody's). At the same time, Slovenia has wide access to debt capital markets with diversified investor base by geographic distribution and investor type. In 2021, when EUR 2.9 billion of long-term debt in total was issued on the euro debt capital market, the demand for SLOREP Eurobonds exceeded the supply 6- to 9-fold. The average weighted interest rate of newly issued long-term debt in 2021 reached 0.0%, with the average weighted time to maturity of 19.4 years. This is substantially lower compared to the 2.0% implicit interest rate of the State Budget debt portfolio.

The figure below shows that the process of reducing the general government debt-to-GDP ratio is projected again in the budgetary period from 2021 onward, on the basis of gradually reducing created liquidity reserves of the State Budget and restored nominal growth of GDP.

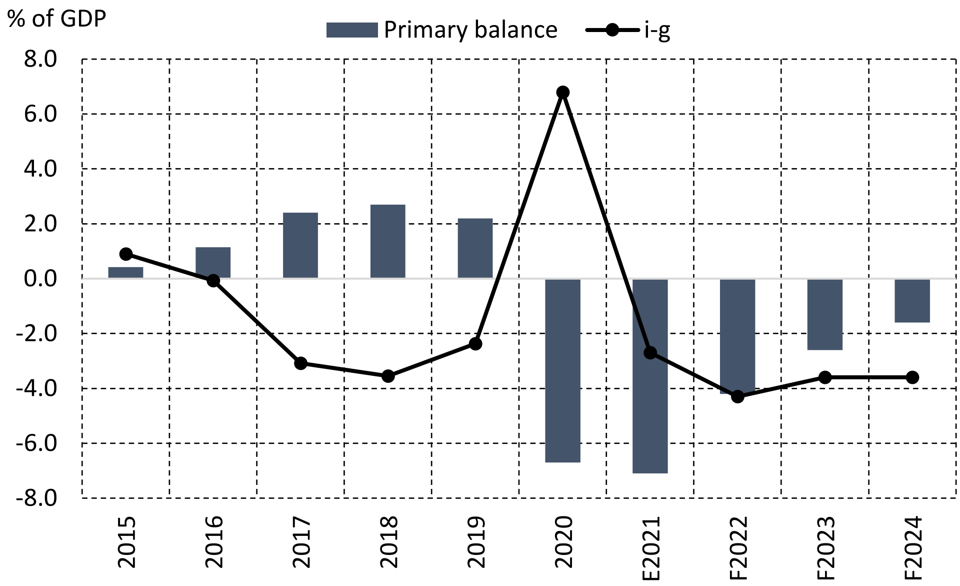
Figure 21: General Government Debt Development in the Programming Period



Source: Ministry of Finance; EC Ameco database for EA-19 and EU-27, 4.4.2020.

The figure below shows the relationship between two key parameters in the assessment of general government debt sustainability. The difference between "i-g" parameters represents the difference between the average interest rate of general government debt (i – implicit interest rate) and the nominal growth of GDP (g). Due to demanding economic situation and, consequently, a decline in GDP, this difference becomes a positive value in 2020. In the 2017–2019 period, this difference was a negative value predominantly due to a relatively high growth of GDP compared to the implicit interest rate. For the 2021–2024 period, it is projected that the growth of nominal GDP again exceeds the implicit interest rate, which implies a negative "i-g" value. The estimate of primary balance for the 2021–2024 period is negative. Taking into account an improved credit rating of the sovereign, a rebound of economic growth in 2021 due to using vaccination against COVID-19, the maintenance of a relatively low cost of financing with the help of ECB's quantitative easing in the framework of the public sector purchase programmes (PSPP) and the pandemic emergency purchase programme (PEPP), and, consequently, an improved primary general government balance, the conditions for the sustainability of the general government debt are fulfilled.

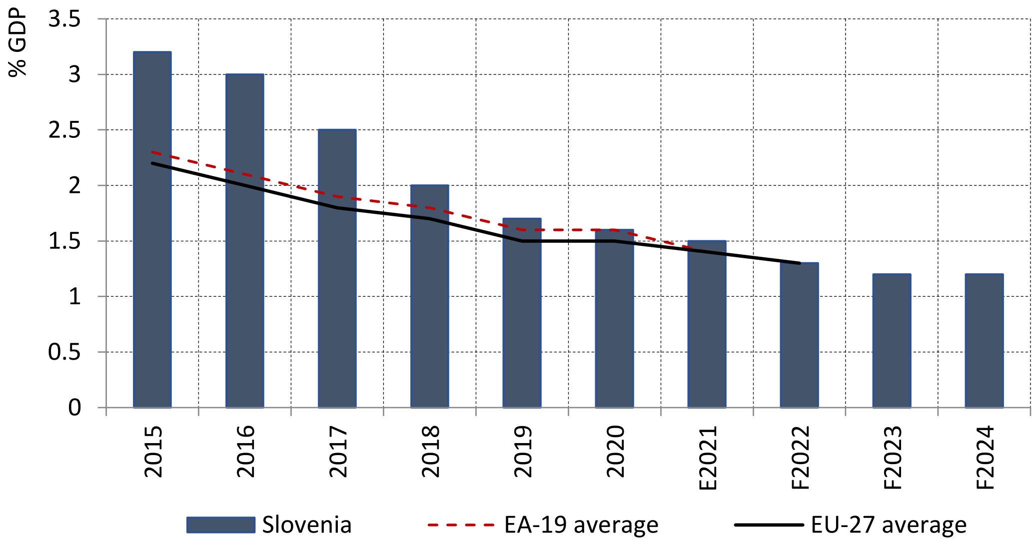
Figure 22: General Government Debt Sustainability parameters



Source: Ministry of Finance, 4.4.2021.

The figure below shows that the burden of servicing the general government debt (EDP D.41) has until now significantly improved, i.e. virtually reduced in half compared to 2015, measured in interest expenditure of the general government debt-to-GDP ratio.

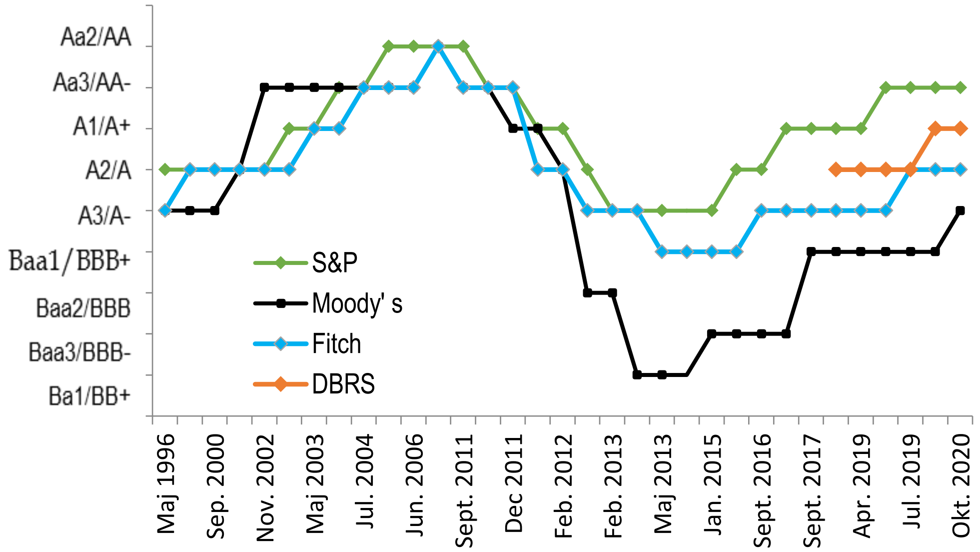
Figure 23: General Government Debt Interest Expenditure (ESA D.41) in the Programming Period



Source: Ministry of finance; EC Ameco database for EA-19 and EU-27, 4.4.2021.

In 2020, credit rating agencies S&P and Fitch maintained the credit rating of the Republic of Slovenia at AA– (stable outlook) and A (stable outlook). On 2 October 2020 credit agency Moody's upgraded the long-term credit rating of Slovenia from Baa1 to A3 with a stable outlook. In its assessment it highlighted two key reasons: (1) by substantially decreasing the interest expenditure of the State Budget, nominally as well as in debt-to-GDP ratio, the burden of debt in relation to comparable countries improved considerably; (2) a significant improvement of banking system's resilience and the completion of the privatisation of the country's largest banks.

Figure 24: Republic of Slovenia credit rating development over time



Source: S&P; Moody's; FItch; DBRS, 4.4.2021.

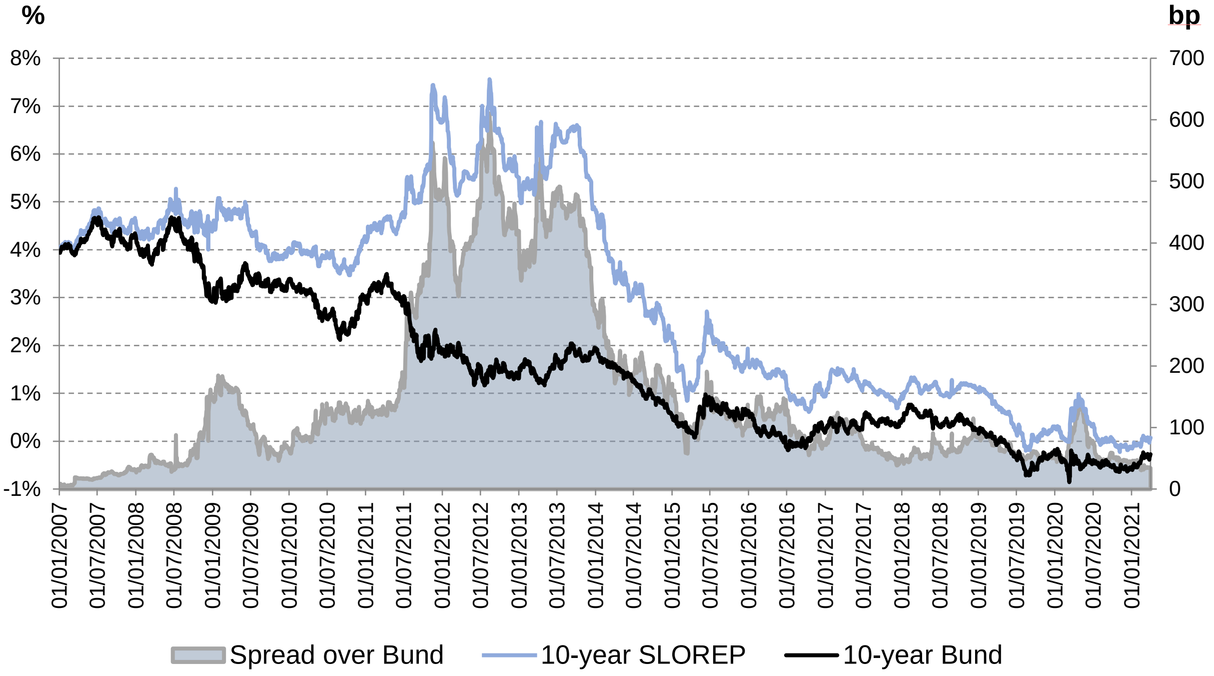
Table 9: Credit Rating of the Republic of Slovenia

Agency	Credit rating	Outlook
S&P	AA-	Stable
Fitch	A	Stable
Moody's	A3	Stable
DBRS	AH	Stable

Source: S&P; Moody's; FItch; DBRS, 4.4.2021.

In April 2020, when the epidemic started in the Republic of Slovenia, the credit spread over the EUR 10-year bund (German benchmark bond) reached 140.8 basis points (bp), but because the country successfully tackled the economic consequences of the epidemic, maintained credit ratings and outlooks by the agencies S&P and Fitch and raised its credit rating by Moody's from Baa1 to A3, the spread then decreased to 33.9bp by the end of March 2021.

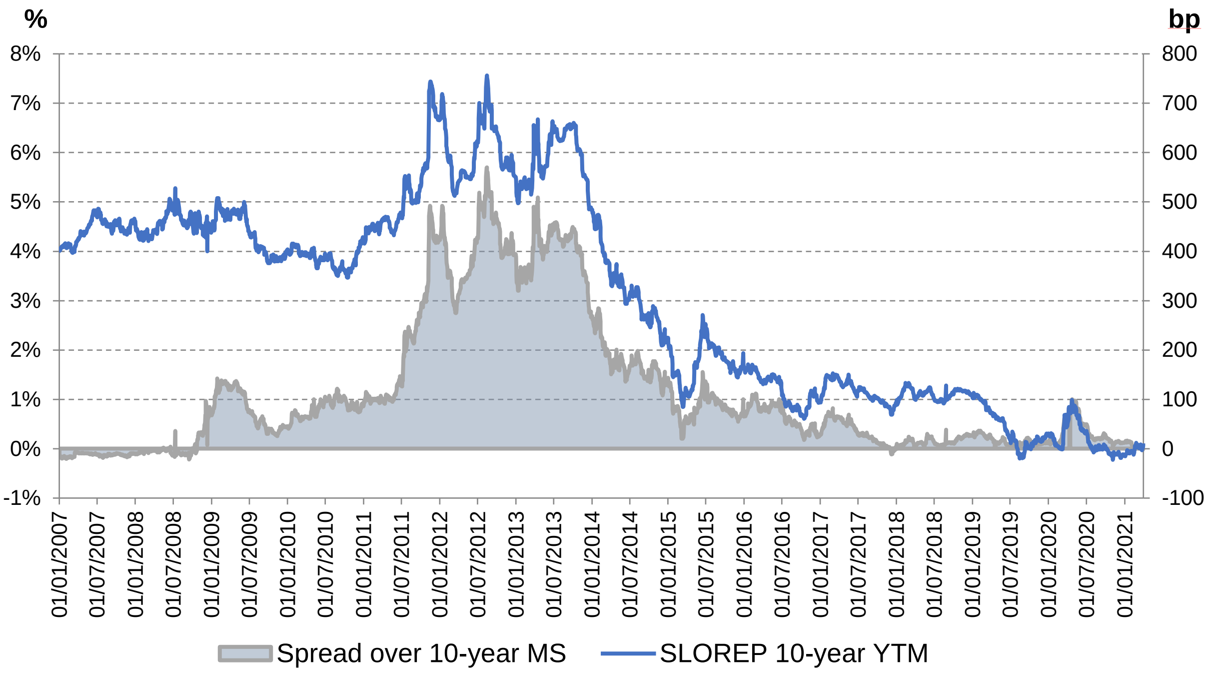
Figure 25: 10-year SLOREP euro bond yield dynamics in comparison to euro benchmark 10-year Bund



Source: Bloomberg; Ministry of Finance, own calculations, 31.3.2021.

The interpolated yield of a EUR 10-year SLOREP bond reached 0.07% on the secondary market at the end of March 2021. Reference EUR mid swap rate stood at 0.08%, which implies a credit spread over mid swap of –1bp, which, retrospectively, is a record-low level.

Figure 26: 10-year SLOREP euro bond yield and credit spread over euro mid swap dynamics



Source: Bloomberg; Ministry of Finance, own calculations, 31.3.2021.

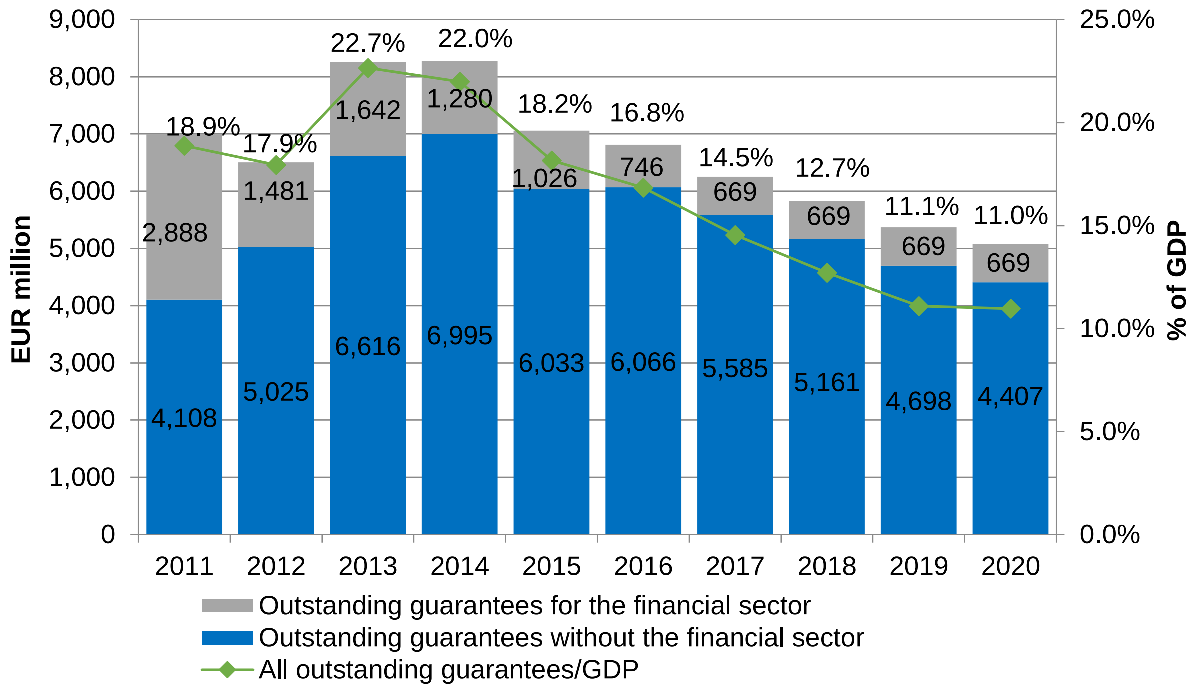
4.7 Guarantees

According to the Constitution, the granting of guarantees of the Republic of Slovenia is possible only by virtue of a law. In the system of guarantees of the Republic of Slovenia, two types of acts have been developed; general and special. A general act regulates the granting of government guarantees to a wider range of recipients. An example of such an act is the Act Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic (ZDLGPE) (Official Gazette of the Republic of Slovenia, No. 61/20). Specific guarantee laws are intended for precisely defined recipients. Examples of such acts are the acts on guarantees to Družba za avtoceste v Republiki Sloveniji, d.d. (Motorway Company of the Republic of Slovenia), the act on guarantee to 2TDK d.o.o. (Project Development Company), etc.

The Republic of Slovenia may issue government guarantees to public or private sector entities. In the previous years, guarantees in the private sector were mostly given to legal or natural persons in the context of guarantee schemes to minimise financial crisis, whereas in the last year, they were given to legal or natural persons in the context of guarantees to minimise the effects of the COVID-19 crisis. The issuing of government guarantees of the Republic of Slovenia is regulated by the provisions of a systemic act. The annual quota is set by the act governing the execution of the State Budget, while the State may also issue guarantees outside the quota if this is permitted by an individual act.

Republic of Slovenia guarantees amounted to EUR 5,076 million as at 31/12/2020, of which government guarantees for liabilities of the financial sector (S.12) accounted for EUR 669 million.

Figure 27: Outstanding guarantees by the Republic of Slovenia 2011-2020



Source: Ministry of Finance, 2021.

Table 4: Projections of contingent liabilities of the Republic of Slovenia for the 2021-2024 period

	Balance as of 31.12.2021*		**Balance as of 31.12.2022***		**Balance as of 31.12.2023***		**Balance as of 31.12.2024***	
	EUR million	% of GDP	EUR million	% of GDP	EUR million	% of GDP	EUR million	% of GDP
Guarantees of the Republic of Slovenia	4,958.5	10.2%	4,544.5	8.9%	4,633.8	8.6%	4,326.7	7.6%
Including: financial sector*	669.5	1.4%	669.5	1.3%	669.5	1.2%	669.5	1.2%

Source: Ministry of Finance, 2021.
*Note: In accordance with the Statistical Classification for Institutional Sectors (SCIS), all legal persons with an SCIS designation of S.12 are included.

The data below display the assessment of the balance of guarantees of the Republic of Slovenia at the end of the year, which was prepared on the basis of certain assumptions relating to the repayment of existing guarantees and approvals of new ones.

The quota for new guarantees is planned by the act governing budget implementation. For 2021, the quota was EUR 1,170 million, while the quote in 2022 stands at EUR 450 million. A separate quota is defined annually for guarantees of SID bank, d. d., in the amount of EUR 350 million. The actual use of the quota is low, amounting to 5.7% in 2015 and 14.8% in 2016. In 2017, all guarantees were allocated to refinance existing obligations, while no government guarantees were issued in 2018 and 2019. In 2020, the actual use of the quota amounted to 5.6%. The quota allocated to SID bank, d. d., was not used in the previous years.

In 2020, three acts introducing anti-crisis measures regarding COVID-19 were introduced: Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (Official Gazette of the Republic of Slovenia, No. 49/2020. No. 61/2020; ZIUZEOP) allowing the deferred payment of borrowers' liabilities with a government guarantee; Act Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic (Official Gazette of the Republic of Slovenia, No. 61/20, ZDLGPE) allowing liquidity loans with a government guarantee; and Act Regulating the Guarantee of the Republic of Slovenia in European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak (Official Gazette of the Republic of Slovenia, No. 80/20; ZPEIPUTB). The quota for guarantees according to ZIUZEOP in the amount of EUR 200 million and the quota for guarantees according to ZPEIPUTB in the amount of EUR 88 million are not included in the quota for guarantees determined in the act governing the execution of the State Budget. The quota for guarantees according to ZDLGPE in the amount of EUR 2,000 million is included in the quota for guarantees determined in the act governing the execution of the State Budget.

In 2019, EUR 0.64 million were used to call on government guarantees of the Republic of Slovenia, while in 2020, EUR 0.14 million were used. For 2021 it is projected that EUR 30 million could be used to call on government guarantees, while in 2022 EUR 50 million could be used. The majority of funds is assessed in the context of calling on the guarantees issued on the basis of anti-crisis measures regarding COVID-19.

5 Fiscal risk and sensitivity analysis

5.1 Uncertainties and risks to the fiscal forecast

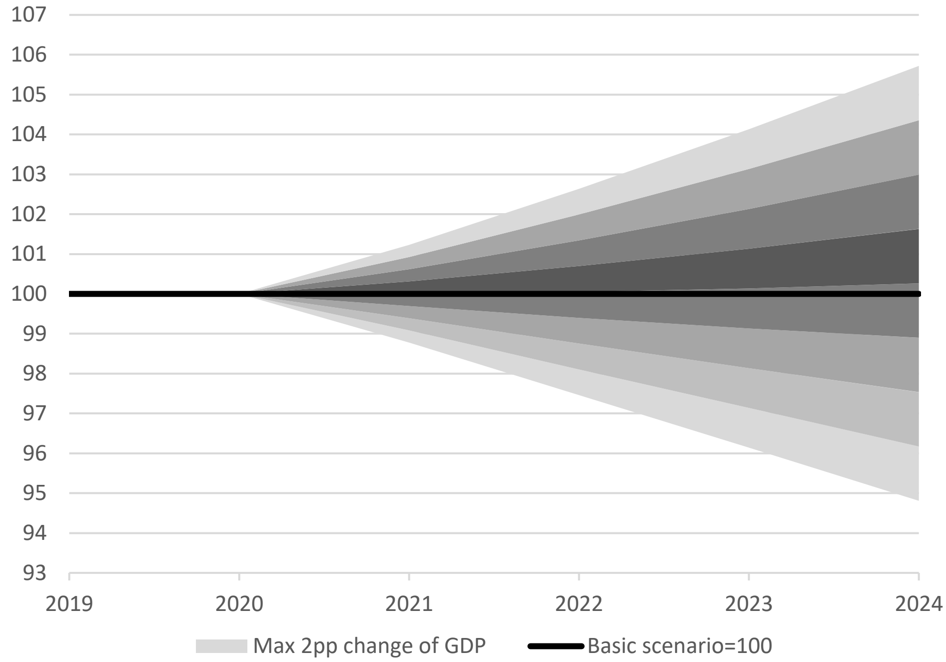
The recovery that will begin in 2021 is expected to continue also in the following years, while its pace will gradually slow down. Until there are clear signs of recovery, the economic growth is still to be supported by comprehensive financial packages of individual countries and also packages agreed at the EU level, strengthened public investment and stimulating monetary policies. In addition to Slovenia being a very open economy and in relation to the projected epidemic development, this significantly impacts the dynamics of economic growth in the forecast which is relatively high in the first two years of forecast and then gradually moderates.

The economic growth projections are still uncertain and the highest risk that might affect the outlook is still related to epidemiological situation in Slovenia and the most important trading partners. A long-term persistence of unfavourable epidemiological situation, possible tighter restriction measures during new waves of infections, also as a result of new and more contagious COVID-19 mutations and/or a slower rate of vaccination, and another and more comprehensive closing of economies will continue to pose the highest risk to a stable recovery. This would mainly affect service activities, while the consequences of a more comprehensive closing of activities will also be felt by the industry. If the measures to mitigate the consequences of the epidemic would be phased out too quickly, in addition to an unfavourable economic situation, this could also lead to an increase in unemployment, bankruptcies and difficulties experienced by a larger number of economic entities in performance of their activity. All this combined would also mean a slower recovery. If there would be a fast and lasting improvement of the epidemiological situation or a faster availability and wide accessibility of a vaccination or medicine, this could also mean a faster recovery of activities compared to the projections. The speed and efficiency of the absorption of funds from the new Multi-annual Financial Framework and the financial package within the Recovery and Resilience Facility in Slovenia and its main trading partners, as well as channelling these resources into solving main developmental challenges, will also be of key importance.

5.2 Analysis of sensitivity of general government revenues

Figure 28 presents alternative scenarios of the impact of fluctuations in economic growth on general government revenues. For the 2021–2024 period, scenarios assume that the nominal GDP growth will be up to 2 percentage points (pp) higher or lower than in the baseline forecast (used in this Stability Programme) at the annual level linearly in every year (grey field).

Figure 28: Impact of fluctuations in economic growth on general government revenue



Source: Ministry of Finance, own estimations.

Assuming unchanged policies, in the event of a 2pp higher nominal GDP growth than expected, general government revenue would improve by 1.2% in 2021 compared to the baseline forecast and by 2.6% in 2022 compared to the baseline forecast. Assuming that the GDP growth would be higher by 2pp in every year compared to the baseline forecast, general government revenue would be higher by 5.7% in 2024. Otherwise, lower GDP growth of general government revenue by 2pp would reach 98.8% of the baseline forecast revenue in 2021, 97.5% in 2022, and 94.8% in 2024. In the case of a 1pp lower realised GDP growth in 2021 than expected, general government revenue would be 0.6% lower than the baseline forecast in 2021, and 1.3% lower in 2022.

5.3 Debt sensitivity analysis

In the debt sensitivity analysis, the responsiveness of the change of the debt-to-GDP ratio is assessed if a lower nominal GDP growth occurs, the funding interest rates additionally increases in comparison to what was projected, primary deficit increases or if all of the above occurs. Sensitivity analysis is carried out according to the following assumptions:

- financing of new borrowing and re-financing of existing debt is carried out with a reference ten-year Euro bond that, in the prevailing monetary conditions, represents an efficient funding in the respect of the maturity and yield to maturity;
- the reference interest rate gradually increases by 150bp in total by the end of the programming period;
- every programming year, a 1pp of GDP lower primary balance (higher deficit) in comparison to the one expected and
- every programming year, a 1pp lower nominal GDP growth compared to IMAD’s forecast in March 2021.

The table below shows the changes in debt-to-GDP ratio assuming a lower nominal GDP growth, shown separately in terms of an increased interest rate, increased primary deficit, and a combined effect if both are realised.

Borrowing in individual fiscal years affects interest expenditure in the following years. When drafting the Stability Programme, the State Budget Financing Programme for 2021 has been in major part implemented, therefore the sensitivity analysis of interest rate change for the remaining part of 2021 does not have a significant effect. The share of State Budget debt by the type of the instruments with a fixed interest rate stands at 99.3%. If the assumed gradual increase of the reference interest rate would occur in the programming period and the projected primary balance would stay the same, the debt-to-GDP ratio would increase by 0.01pp in 2022, by 0.06pp in 2023 and by 0.11pp in 2024. If the primary balance would deteriorate by 1 pp of GDP every year and the projected interest rates would be taken into account, debt-to-GDP ratio would increase by 1.02pp in 2022, by 1.03pp in 2023 and by 1.04pp in 2024. The analysis of a gradual increase of the reference interest rate and the increase of primary deficit shows that the debt-to-GDP ratio increases by 1.02pp in 2022, by 1.09pp in 2023 and by 1.16pp in 2024.

In the baseline scenario, the projected debt stands at 78% of GDP at the end of programming period in 2024. If the assumed lower nominal growth of GDP and a gradual increase of the reference interest rate occur and the primary balance remains unchanged, the debt would amount to 78.9% of GDP at the end of 2024. Assuming lower nominal GDP growth, an annual deterioration of primary balance and the projected interest rates, the debt would stand at 81.7% of GDP at the end of 2024. In case of a projected lower nominal growth of GDP, a gradual increase of the reference interest rate occur and an annual deterioration of primary balance, the debt would amount to 81.9% of GDP at the end of the programming period in 2024.

Table 11: General Government Debt-to-GDP ratio Sensitivity Analysis

Year	**Interest rate Change**	**Primary balance Change**	**Interest rate & Primary balance Change**
	Δ Debt (p.p. GDP)	**Δ Debt (p.p. GDP)**	**Δ Debt (p.p. GDP)**
2022	0.01	1.02	1.02
2023	0.06	1.03	1.09
2024	0.11	1.04	1.16
	% of GDP		
General Government Debt end 2024	78.9	81.7	81.9

Source: Ministry of Finance, 12.4.2021.

5.4 Long-term sustainability of public finances

Demographic changes are one of key challenges that require the society to adapt as a whole. Life expectancy is increasing, while the number of births is decreasing. Net migration largely depends on the economic cycle. In the next decades, the number of working-age population will drop sharply, while the number of the ageing population will increase. Demographic changes are shrinking the supply on the labour market and these effects will only become more intense in the following years. According to the demographic projections (EUROPOP2019), the structure of the population will change considerably until 2070. The number of children (aged 0-14) and the number of working-age population (aged 20-64) will both decrease by around 20% according to the projections. The number of ageing population (aged 65 or more), however, will increase by 43% from 2019 to 2070 (and by 52% as early as in 2050). The proportion of the elderly will increase due to the higher birth rates starting in the years after the Second World War (the baby boomers) up to 1980 (when the birth rate was still high), and due to the rapid increase in life expectancy. The old-age dependency ratio, which indicates the share of dependent ageing population in relation to the working-age population ($P_{65+}/P_{20–64}*100$), will therefore almost double, from 33.2% in 2019 to 61.7 in 2060. After 2060, the demographic pressure will slightly subside, as this ratio will fall to 58.8% by 2070. From 2019 to 2070, the number of Slovenia's inhabitants is expected to decrease by 8%.

In addition to demographic pressures, the increase in age-related expenditure is attributable to projections on the labour market. The projections of activity and employment rates of the elderly improved compared to the previous projections at the end of the period (2070). This, among other factors, is a result of previous changes of the pension system. In the initial projection period, however, employment rates are still low. Slovenia is also characterised by a low average age of exiting the labour market. The extension of life expectancy therefore also extends the duration of the pension period.

The table below shows the long-term projections of general government revenue and expenditure in the period up to 2070, with 2019 as the base year. Eurostat's population projections and the European Commission's long-term macroeconomic assumptions and projections on the labour market[26], which were used in the drafting of the new 2021 Ageing Report[27], were taken into account.

Age-related expenditure projections are also shown in the table 12 and they are the same as, or very similar to, new EC projections which will be published in the Ageing Report 2021. In the structure of age-related expenditure, the largest share is expenditure related with the pension system, which is projected to increase by 6pp from 2019 to 2070 in Slovenia, i.e. more than in previous projections where the projected increase amounted to 4pp. The difference arises mainly from the latest changes of the pension legislation in 2019, which increased the accrual rates and, consequently, pensions, and from a better baseline than in the previous projections. In 2019, expenditure on pensions amounted to 9.95% GDP[28], while in the previous projection in baseline year 2016 it equalled 10.9% GDP. Public expenditure on healthcare and long-term care is also expected to increase. Expenditure on healthcare is supposed to increase from 5.9% of GDP in 2019 to 1.5pp by 2070, while expenditure on long-term care is supposed to increase from 1% of GDP to 1.3pp. Growth in expenditure on healthcare and long-term care is affected by demographic and non-demographic factors. In addition to GDP growth per capita and the increase of relative prices, it is affected in particular by technological progress and the increasing demand for high-quality healthcare and long-term care.

[26] EC (2020), The 2021 Ageing Report: Underlying Assumptions & Projections Methodologies, Institutional Paper 142, November 2020, https://ec.europa.eu/info/sites/info/files/economy-finance/ip065_en.pdf.
[27] EC-EPC (2021), The 2021 Ageing Report, published in November 2020.

[28] GDP from Spring 2020 Economic Forecast by the European Commission is taken into account.

Table 5: Long-term sustainability of public finance

% of GDP	2019	2020	2030	2040	2050	2060	2070	Difference 2070-2019
Total expenditure	39.5	42.0	41.9	46.4	52.7	58.4	64.0	24.5
Of which: age-related expenditures	21.0	22.3	22.9	26.2	29.1	30.0	29.9	8.9
Pension expenditure	10.0	10.9	10.8	13.6	15.7	16.1	16.0	6.0
Old-age and early pensions	7.7	8.4	8.4	10.7	12.4	12.7	12.7	5.1
Disability pensions	1.1	1.2	1.2	1.5	1.7	1.7	1.6	0.5
Other pensions	1.2	1.3	1.2	1.4	1.6	1.7	1.6	0.5
Health care	5.9	5.9	6.5	7.0	7.2	7.4	7.4	1.5
Long-term care	1.0	1.1	1.3	1.6	2.0	2.2	2.3	1.3
Education	3.8	3.8	3.9	3.6	3.9	4.1	3.9	0.1
Unemployment	0.3	0.5	0.4	0.4	0.4	0.4	0.4	0.1
Wage compensations	0.3	0.3	0.2	0.2	0.2	0.1	0.1	-0.2
Subsidies	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.0
Government investments	3.2	3.2	3.2	3.2	3.2	3.2	3.2	0.0
Total primary expenditure	37.9	39.7	39.4	42.9	45.9	46.7	46.7	8.8
Interest expenditure	1.6	2.3	2.5	3.5	6.8	11.7	17.3	15.6
Total general government revenue	40.1	41.6	39.9	39.6	39.3	39.3	39.2	-0.8
Assumptions (in %)								
Labour productivity growth	1.4	1.6	2.1	1.9	1.8	1.7	1.5	0.2
Real GDP growth	3.01	-6.94	2.17	1.17	1.09	1.45	1.34	-1.67
Real GDP growth per capita	3.00	-6.94	2.17	1.17	1.10	1.46	1.34	-1.66
Participation rate males (aged 20-64)	83.0	83.4	84.8	84.2	84.8	85.2	84.8	1.8
Participation rates females (aged 20-64)	76.6	77.5	80.0	79.8	81.0	81.6	81.0	4.4
Total participation rates (aged 20-64)	79.9	80.6	82.5	82.2	83.1	83.5	83.0	3.1
Unemployment rate	4.4	6.8	5.6	5.7	5.7	5.6	5.7	1.3
Population aged 65+ over total population	20.0	20.5	24.7	28.0	30.8	31.3	30.4	10.4

Source: EPC – EC (Forthcoming) Ageing Report 2021; Ministry of Finance; Institute for Economic Research.

The results of the projections, which are similar to the ones in previous projections, indicate a need for additional structural reforms, which will improve the existing pension insurance, healthcare and long-term care systems, and for adjustments to the education and training system, otherwise the age related expenditures will increasingly quickly crowded out expenditures for other purposes in the future.

In the Recovery and Resilience Plan for the period up to 2027, the approach to these structural reforms is defined with milestones and goals.

ANNEX

Table 1.a: Economic growth and related indicators

	% change	ESA code	Level 2020	2020	2021	2022	2023	2024
			EUR million					
1.	Real GDP	B 1 g		-5.5	4.6	4.4	3.3	3.0
2.	Nominal GDP	B 1 g	46,297	-4.3	4.7	6.0	5.2	5.1
			Components of GDP					
3.	Private consumption expenditure	P3	22,755	-9.7	4.0	4.7	2.9	2.3
4.	Government consumption expenditure	P3	9,435	1.8	2.4	1.7	1.4	1.2
5.	Gross fixed capital formation	P51	9,207	-4.1	9.0	8.0	6.5	6.5
6.	Changes in inventories and net acquisition of valuables (% of GDP)	P52+ P53	327	0.7	0.4	0.3	0.3	0.4
7.	Exports of goods and services	P6	36,440	-8.7	8.6	7.3	5.5	4.9
8.	Imports of goods and services	P7	31,866	-10.2	8.8	8.1	6.1	5.4
	Contributions to real GDP growth (in percentage points)							
9.	Final domestic demand		41,724	-6.0	3.9	4.2	3.2	2.9
10.	Changes in inventories and net acquisition of valuables	P52+ P53	327	-0.4	-0.3	0.0	0.0	0.0
11.	External balance of goods and services	B11	4,574	0.4	0.7	0.1	0.2	0.1

Source: SORS; IMAD Spring forecast 2021.

Table 1.b: Price developments

	% change	2020	2021	2022	2023	2024	2025
1.	GDP deflator	1.3	0.1	1.5	1.8	2.1	2.0
2.	Private consumption deflator	-0.6	0.7	1.2	1.7	2.1	2.0
3.	HICP (average of the year)	-0.1	0.8	1.2	1.7	2.1	2.0
4.	Public consumption deflator	4.1	-0.2	1.6	2.1	2.6	2.6
5.	Investment deflator	1.0	1.8	2.0	2.1	2.0	2.0
6.	Export price deflator (goods and services)	-1.5	1.8	1.1	0.9	0.9	0.9
7.	Import price deflator (goods and services)	-2.6	2.9	0.9	0.9	0.9	0.9

Source: SORS; IMAD Spring forecast 2021.

Table 1.c: Labour market developments

		Level 2020	2020	2021	2022	2023	2024
		thousands					
1.	Employment (number of employed)[1] growth in %	1,037	-1.0	0.8	1.5	1.5	1.2
2.	Employment (hours worked), growth in %	1,570,093	-6.3	6.4	0.4	0.4	1.5
3.	Unemployment rate according to labour force survey, in %	51.5	5.0	5.0	4.8	4.5	4.2
4.	Labour productivity[2] (value in 1000 EUR per employee), growth in %	44.7	-4.6	3.8	2.8	1.7	1.8
5.	Labour productivity (value in 1000 EUR per hour worked), growth in %	29.5	0.9	-1.6	3.9	2.8	1.4
6.	Compensation of employees[3], in EUR mio, growth in % (D.1)	24,858	1.1	3.8	3.4	4.2	4.6
7.	Compensation per employee[3.4]. in 1000 EUR, growth in %	29.6	2.3	2.9	1.8	2.5	3.2

Notes: [1] Employed population, national accounts definition (domestic concept). [2] Real GDP is taken into account [3] Nominal growth. [4] Full-time employees are taken into account.
Source: SORS; IMAD Spring forecast 2021.

Table 1.d: Sectoral balances

% of BDP	ESA code	2020	2021	2022	2023	2024
Net lending/borrowing vis-a-vis the rest of the world	B.9 (S.1)	7.0	n.p.	n.p.	n.p.	n.p.
of which:						
Balance on goods and services	B.11	9.9	9.1	8.8	8.5	n.p.
Balance of primary incomes and transfers	B.12	7.4	n.p.	n.p.	n.p.	n.p.
Capital account	D.9 (rec-pay)	0.4	n.p.	n.p.	n.p.	n.p.
Net lending/borrowing of the private sector	B.9 (S.1-S.13)	-1.4	n.p.	n.p.	n.p.	n.p.
Net lending/borrowing of general government	B.9 (S.13)	-8.4	0.9	1.0	1.1	1.2
Statistical discrepancy		n.p.	n.p.	n.p.	n.p.	n.p.

Source: SORS; Ministry of Finance; IMAD Spring forecast 2021.

Table 2.a: General government budgetary prospects

		ESA code	Level 2020	2020	2021	2022	2023	2024
			EUR million			*% of GDP*		
	Net lending (EDP B.9) by sub-sector							
1.	General government	S.13	-3,868	-8.35	-8.63	-5.66	-3.81	-2.81
2.	Central government	S.1311	-3,959	-8.55	-8.63	-5.73	-3.98	-2.97
3.	State government	S.1312						
4.	Local government	S.1313	83	0.18	0.10	0.10	0.10	0.10
5.	Social security funds	S.1314	8	0.02	-0.10	-0.03	0.06	0.06
	General government (S13)							
6.	Total revenue	TR	20,195	43.62	43.52	43.09	42.54	41.95
7.	Total expenditure	TE	24,062	51.97	52.15	48.76	46.35	44.76
8.	Net lending/borrowing	EDP B.9	-3,868	-8.35	-8.63	-5.66	-3.81	-2.81
9.	Interest expenditure	EDP D.41	756	1.63	1.53	1.34	1.22	1.17
10.	Primary balance		-3,112	-6.72	-7.10	-4.32	-2.59	-1.64
11.	One-off and other temporary measures			0.07	0.07	0.11	0.09	0.09
	Selected components of revenue							
12.	Total taxes (12=12a+12b+12c)		9,398	20.30	20.17	19.95	19.99	19.80
a.	Taxes on production and imports	D.2	5,972	12.90	12.84	12.59	12.40	12.15
b.	Current taxes on income, wealth, etc	D.5	3,414	7.37	7.32	7.34	7.57	7.63
c.	Capital taxes	D.91	12	0.03	0.02	0.02	0.02	0.02
13.	Social contributions	D.61	8,046	17.38	16.95	16.60	16.39	16.26
14.	Property income	D.4	296	0.64	0.43	0.42	0.35	0.34
15.	Other		2,455	5.30	5.97	6.12	5.80	5.56
16.	16=6. Total revenue	TR	20,195	43.62	43.52	43.09	42.54	41.95
	p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)							
	Selected components of expenditure							
17.	Compensation of employees + intermediate consumption	D.1+P.2	8,922	19.27	19.11	18.42	17.48	16.83
a.	Compensation of employees	D.1	5,860	12.66	12.57	12.16	11.63	11.19
b.	Intermediate consumption	P.2	3,063	6.62	6.54	6.27	5.85	5.63
18.	Social payments (18=18a+18b)		9,129	19.72	20.16	19.10	18.61	18.24

	of which Unemployment benefits		221	0.48	0.45	0.41	0.37	0.34
a.	Social transfers in kind supplied via market producers	D.6311. D.63121. D.63131	995	2.15	2.26	2.41	2.37	2.36
b.	Social transfers other than in kind	D.62	8,134	17.57	17.90	16.69	16.23	15.88
19.	19=9. Interest expenditure	D.41	756	1.63	1.53	1.34	1.22	1.17
20.	Subsidies	D.3	1,822	3.93	2.14	0.99	0.96	0.91
21.	Gross fixed capital formation	P.51	1,929	4.17	6.21	6.23	5.61	14 0
22.	Capital transfers	D.9	120	0.26	0.37	0.47	0.37	0.40
23.	Other		1,384	2.99	2.65	2.20	2.11	2.02
24.	24=7. Total expenditure	TE	24,062	51.97	52.15	48.76	46.35	44.76

Source: SORS (published 31. 3. 2021); Ministry of Finance.

Table 2.b: No-policy change projections

		ESA code	Level 2020	2020	2021	2022	2023	2024
			EUR million			*% of GDP*		
1.	Total revenue at unchanged policies	TR	20,195	43.6	43.3	42.9	42.4	41.9
2.	Total expenditure at unchanged policies	TE	24,062	52.0	49.3	48.4	46.2	44.7

Source: SORS; Ministry of Finance.

Table 2.c: Amounts to be excluded from the expenditure benchmark

		Level 2020	2020	2021	2022	2023	2024
		EUR million			*% of GDP*		
1.	Expenditure on EU programmes fully matched by EU funds revenue	784.92	1.70	2.85	3.59	3.14	2.47
a.	Of which investment expenditure fully matched by EU funds revenue	168.94	0.36	0.74	0.96	0.93	0.83
2.	Cyclical unemployment benefit expenditure	-61.29	-0.13	0.00	0.02	0.02	0.02
3.	Effect of discretionary revenue measures						
4.	Expenditure on EU programmes fully matched by EU funds revenue						
5.	One-off and other temporary measures	-33.50	-0.07	-0.07	-0.11	-0.09	-0.09

Source: Ministry of Finance.

Table 3: General government expenditure by function

	*** before EDP notification**	**COFOG code**	**2019**	**2019**	**2024**
			EUR million	*% of GDP*	
1.	General public services	1	2,521.6	6.1	5.3
2.	Defence	2	483.5	1.1	1.0
3.	Public order and safety	3	778.7	1.9	1.6
4.	Economic affairs	4	2,201.3	8.1	7.1
5.	Environmental protection	5	274.1	0.6	0.5
6.	Housing and community amenities	6	201.1	0.3	0.3
7.	Health	7	3,221.1	7.8	6.9
8.	Recreation, culture and religion	8	658.2	1.1	1.0
9.	Education	9	2,639.5	5.6	4.9
10.	Social protection	10	7,973.7	18.2	16.0
11.	Total expenditure (=item 7=23 in Table 2)	**TE**	**20,952.7**	**50.9**	**44.8**

Source: SORS; Ministry of Finance – first estimations (surrounded by higher degree of uncertainty due to the crisis).

Table 4: General government debt developments

	% of GDP	**ESA code**	**2020**	**2021**	**2022**	**2023**	**2024**
1.	Gross debt		80.8	80.4	79.6	79.0	78.0
2.	Change in gross debt ratio		15.2	-0.4	-0.5	-0.6	-1.0
3.	Primary balance		-6.7	-7.1	-4.3	-2.6	-1.6
4.	Interest expenditure	EDP D.41	1.6	1.5	1.3	1.2	1.2
5.	Stock-flow adjustment		3.8	-5.4	-2.0	-0.5	0.0
	Of which: differences between cash and accruals						
	Of which: net accumulation of financial assets						
	Of which: privatisation proceeds						
	Of which: Valuation effects and other						
6.	p.m.: Implicit interest rate on debt		2.5	2.0	1.8	1.6	1.6
7.	Liquid financial assets						
8.	Net financial debt (7=1-6)						
9.	Debt amortization (existing bonds) since the end of the previous year						
10.	Percentage of debt denominated in foreign currency						
11.	Average maturity						

Source: Ministry of Finance.

Table 5: Cyclical developments

	% of GDP	ESA code	2020	2021	2022	2023	2024
1.	**Real GDP growth (%)**		-5.5	4.6	4.4	3.3	3.0
2.	Net lending/borrowing of general government	B.9	-8.4	-8.6	-5.7	-3.8	-2.8
3.	Interest expenditure	D.41	1.6	1.5	1.3	1.2	1.2
4.	One-off and other temporary measures		-0.07	-0.07	-0.11	-0.09	-0.09
4a.	Of which one-offs on the revenue side: general government		0.00	0.00	0.00	0.00	0.00
4b.	Of which one-offs on the expenditure side: general government		0.07	0.07	0.11	0.09	0.09
5.	**Potential GDP growth (%)**		1.9	2.4	2.7	2.8	2.9
	Contributions:						
	- Labour		0.3	0.6	0.7	0.7	0.7
	- Capital		0.3	0.5	0.7	0.8	0.9
	- Total factor productivity		1.2	1.2	1.2	1.2	1.1
6.	**Output gap**		**-3.1**	**-1.1**	**0.6**	**1.2**	**1.2**
7.	Cyclical budgetary component		-1.5	-0.5	0.3	0.5	0.6
8.	Cyclically-adjusted balance (2-7)		-6.9	-8.1	-5.9	-4.4	-3.4
9.	Cyclically-adjusted primary balance (8+3)		-5.3	-6.6	-4.6	-3.1	-2.2
10.	Structural balance (8-4)		-6.8	-8.1	-5.8	-4.3	-3.3
11.	Fiscal effort		**-5.2**	**-1.2**	**2.2**	**1.6**	**1.0**

Source: SORS; Ministry of Finance.

Table 6: Divergence from previous update

% of GDP	2020	2021	2022	2023	2024
1. Real GDP growth (%)					
Stability programme 2020	-8.1	3.5			
Stability programme 2021	-5.5	4.6	4.4	3.3	3.0
Difference	2.6	1.1			
2. General government net lending (% of GDP)					
Stability programme 2020	-8.1				
Stability programme 2021	-8.4	-8.6	-5.7	-3.8	-2.8
Difference	-0.3				
3. General government gross debt (% of GDP)					
Stability programme 2020	82.4				
Stability programme 2021	80.8	80.4	79.6	79.0	78.0
Difference	-1.6				

Source: IMAD; SORS; Ministry of Finance.

Table 7: Long-term sustainability of public finances

% of BDP	2019	2020	2030	2040	2050	2060	2070	Difference 2070-2019
Total expenditure	39.5	42.0	41.9	46.4	52.7	58.4	64.0	24.5
Of which: age-related expenditures	21.0	22.3	22.9	26.2	29.1	30.0	29.9	8.9
Pension expenditure	10.0	10.9	10.8	13.6	15.7	16.1	16.0	6.0
Old-age and early pensions	7.7	8.4	8.4	10.7	12.4	12.7	12.7	5.1
Disability pensions		1.2	1.2	1.5	1.7	1.7	1.6	0.5
Other pensions	1.2	1.3	1.2	1.4	1.6	1.7	1.6	0.5
Health care	5.9	5.9	6.5	7.0	7.2	7.4	7.4	1.5
Long-term care	1.0	1.1	1.3	1.6	2.0	2.2	2.3	1.3
Education	3.8	3.8	3.9	3.6	3.9	4.1	3.9	0.1
Unemployment	0.3	0.5	0.4	0.4	0.4	0.4	0.4	0.1
Wage compensations	0.3	0.3	0.2	0.2	0.2	0.1	0.1	-0.2
Subsidies	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.0
Government investments	3.2	3.2	3.2	3.2	3.2	3.2	3.2	0.0
Total primary expenditure	37.9	39.7	39.4	42.9	45.9	46.7	46.7	8.8
Interest expenditure	1.6	2.3	2.5	3.5	6.8	11.7	17.3	15.6
Total general government revenue	40.1	41.6	39.9	39.6	39.3	39.3	39.2	-0.8
			Assumptions (in %)					
Labour productivity growth	1.4	1.6	2.1	1.9	1.8	1.7	1.5	0.2
Real GDP growth	3.01	-6.94	2.17	1.17	1.09	1.45	1.34	-1.67
Real GDP growth per capita	3.00	-6.94	2.17	1.17	1.10	1.46	1.34	-1.66
Participation rate males (aged 20-64)	83.0	83.4	84.8	84.2	84.8	85.2	84.8	1.8
Participation rates females (aged 20-64)	76.6	77.5	80.0	79.8	81.0	81.6	81.0	4.4
Total participation rates (aged 20-64)	79.9	80.6	82.5	82.2	83.1	83.5	83.0	3.1
Unemployment rate	4.4	6.8	5.6	5.7	5.7	5.6	5.7	1.3
Population aged 65+ over total population	20.0	20.5	24.7	28.0	30.8	31.3	30.4	10.4

Source: EPC – EC (Forthcoming) Ageing Report 2021; Ministry of Finance; Institute for Economic Research.

Table 7.a: Projections of contingent liabilities of the Republic of Slovenia for the 2021-2024 period

	Balance as of 31.12.2021*		Balance as of 31.12.2022*		Balance as of 31.12.2023*		Balance as of 31.12.2024*	
	EUR million	% of GDP	EUR million	% of GDP	EUR million	% of GDP	EUR million	% of GDP
Guarantees of the Republic of Slovenia	**4,958.5**	10.2	4.544.5	8.9	4.633.8	8.6	4.326.7	7.6
Including: financial sector*	669.5	1.4	669.5	1.3	669.5	1.2	669.5	1.2

Source: Ministry of Finance, 2021.
*Note: In accordance with the Statistical Classification for Institutional Sectors (SCIS), all legal persons with an SCIS designation of S.12 are included.

Table 8: Basic assumptions

	2020	2021	2022	2023	2024
Short-term interest rate (annual average)	-0.4	-0.5	-0.5	-0.4	-0.4
Long-term interest rate (annual average)	0.0	0.0	0.1	0.3	0.3
USD/EUR exchange rate (annual average)[1]	1.1	1.2	1.2	1.2	1.2
Nominal effective exchange rate	0.8	0.2	0.0	0.0	0.0
World excluding EU, GDP growth					
EU GDP growth	-6.2	3.7	3.9	2.4	2.0
Growth of relevant foreign markets[2]	-9.5	7.0	5.5	4.1	3.5
World import volumes, excluding EU					
Oil prices (Brent, USD/barrel)	41.8	58.6	55.3	53.3	52.5

Note: [1] For 2020-2024 technical assumptions from 2020 forecasts; [2] real import of good and services of trading partners weighted by Slovenian share of export into those countries.
Source: EIA; ECB; MDS; CME; IMAD.

Additional tables

Table 9: Stock of guarantees adopted/announced until the end of 2020 according to the Programme

	Measures	Date of adoption	Maximum amount of contingent liabilities (% of GDP)	Estimated take-up (% of GDP)
In response to COVID-19	Guarantee Act of the Republic of Slovenia in the European Instrument for Temporary Support for Mitigation of Unemployment Risks in Emergencies (SURE) after the outbreak of COVID-19 (ZPEIPUTB)		0.2	0.1
	Act on providing additional liquidity to the economy to mitigate the consequences of the COVID-19 epidemic (ZDLGPE)	28/04/2020	4.3	0.1
	Act on Intervention Measures to Contain the COVID-19 Epidemic and Mitigate Its Consequences for Citizens and the Economy (ZIUZEOP)	02/04/2020	0.4	0.1
	Subtotal		**4.9**	**0.4**
Others	Print preview Guarantee Act of the Republic of Slovenia for liabilities of the company 2TDK doo from loans and debt securities leased or issued to finance the construction of the second track of the Divača – Koper railway line and for liabilities of DARS dd from loans and debt securities leased or issued for financing construction of part of the 3rd development axis (ZPOD2TDK)	18/12/2019	1.7	0.2
	Subtotal		**1.7**	**0.2**
	Total		**6.6**	**0.6**

Source: Ministry of Finance.

Table 10: Discretionary measures adopted/announced according to the Programme[29]

	Measures	ESA Code (Expenditure / Revenue component)	Date of adoption	Budgetary impact (% of GDP - change from previous year)			
				2020	2021	2022	2023
Temporary measures[30]	Unsettled and unpaid prepayments of corporate income tax	D.5	20/03/2020	0.327	-0.312	0.000	0.000
	Unsettled and unpaid prepayments for economic activity imposed on each individual income	D.5	20/03/2020	0.047	-0.045	0.000	0.000
	Deferred tax payments, VAT	D.5	20/03/2020	0.243	-0.199	-0.031	0.000
	Deferred tax payments, excise	D.5	20/03/2020	0.120	-0.115	0.000	0.000
	Deferred tax payments, PIT, CIT	D.5	20/03/2020	0.055	-0.043	-0.009	0.000
	Reduced tax base for income tax prepayment from the cadastral income and lump sum estimation of income per hive	D.5	02/04/2020	0.000	0.000	0.000	0.000
	Exemption from payment of chargers for the use of water, water right concessions and	D.5	02/04/2020	0.015	-0.014	0.000	0.000

[29] Excluding those measures that are planned to be financed by grants under the RRF.

[30] For the purpose of this table, temporary measures refer to those discretionary measures that have no budgetary impact beyond 2022, which corresponds to the end of the Commission spring 2021 forecast horizon. By contrast, those measures adopted or announced for 2020, 2021 or 2022 that continue to have a fiscal effect of 0.1% of GDP or greater until at least 2023 are considered as 'non-temporary' for the purpose of this table.

reduced tax base for income from water rights						
Stimulation of business and development of tourism	D.3	25/11/2020	0.099	-0.088	-0.006	0.000
Reimbursement of crisis salary bonus/supplement	D.3	02/04/2020	0.000	0.136	-0.129	0.000
Coverage of fix costs	D.3	25/11/2020	0.289	0.264	-0.510	0.000
Vouchers for citizens to be spent in tourism facilities in Slovenia	D.29+D.4+D.5+ D.7+P.52+P.53 +K.2+D.8	29/05/2020	0.277	-0.058	-0.195	0.000
Allowances and supplements for special working conditions for public sector employees, concessionaires, private institutions	D.1	02/04/2020	0.664	-0.016	-0.545	-0.035
Exemption from parental payment for kindergartens	D.62+D.63+D.6 21+D.624+D.63 1	02/04/2020	0.023	0.001	-0.022	0.000
Financing private kindergartens, coverage restricted range of student dormitory services, compensation of employees	D.29+D.4+D.5+ D.7+P.52+P.53 +K.2+D.8	02/04/2020	0.053	-0.046	-0.004	0.000
Additional health programs, implementation of microbiological tests and support to performing public service to National Institute for Health	P.2	15/10/2020	0.016	0.014	-0.027	0.000
Compensation to the providers of health care loss due to reduced activity - concessionaires	D.3	29/05/2020	0.028	-0.027	0.000	0.000
Medical protective equipment, funds intended to increase health capacity	P.51	29/05/2020	0.031	-0.026	-0.003	0.000
Compensation to the providers of health care loss due to reduced activity	D.29+D.4+D.5+ D.7+P.52+P.53 +K.2+D.8	29/05/2020	0.199	-0.187	-0.003	0.000
Protective equipment, tests, co-financing of protection and rescue for local communities and co-financing of stocks (Agency for Commodity Reserves)	P.2		0.249	-0.196	0.028	-0.062
Influenza vaccination and additional funds for Health Insurance Institute of Slovenia	D.62+D.63+D.6 21+D.624+D.63 1	15/10/2020	0.007	0.021	-0.026	0.000
Finance support for corporations by performing COVID tests	D.3	29/12/2020	0.000	0.013	-0.012	0.000
Investments, protective equipment, financing of the Information and communication technology, epidemic management, cooperation in global response to COVID-19	P.51		0.017	-0.015	-0.001	0.000
Humanitarian aid / donations / vaccines	D.29+D.4+D.5+ D.7+P.52+P.53 +K.2+D.8		0.008	0.003	-0.010	0.000
Other measures	D.29+D.4+D.5+ D.7+P.52+P.53 +K.2+D.8		0.042	0.017	-0.054	0.000
Coverage of income loss, reimbursement of maintenance costs, direct co-financing of measures in the field of social protection	D.62+D.63+D.6 21+D.624+D.63 1	15/10/2020	0.094	-0.090	0.000	0.000
Single payment solidarity assistance for vulnerable groups, students, allowance to large families, support to long-term care providers (costs and human resources), temporary (financial) compensation	D.62+D.63+D.6 21+D.624+D.63 1	02/04/2020	0.064	0.010	-0.067	0.000
Single payment solidarity assistance for pensioners	D.62+D.63+D.6 21+D.624+D.63 1	02/04/2020	0.292	-0.279	0.000	0.000

	Wage compensations for employees in quarantine (art.13. ZIUPDV - COVID-19)	D.1	09/07/2020	0.000	0.010	-0.009	0.000
	Temporary (financial) compensation	D.1	09/07/2020	0.000	0.001	-0.001	0.000
	Exemption from payment of social contributions for self-employed workers, farmers etc.	D.62+D.63+D.621+D.624+D.631	02/04/2020	0.094	-0.085	-0.004	0.000
	Special assistance in the form of a monthly basic income for self-employed workers, farmers etc.	D.62+D.63+D.621+D.624+D.631	02/04/2020	0.178	-0.170	0.000	0.000
	Special assistance in the form of a monthly basic income for self-employed workers, farmers etc. (5th package)	D.62+D.63+D.621+D.624+D.631	15/10/2020	0.253	0.220	-0.436	0.000
	Special assistance in the form of a monthly basic income for religious officials	D.62+D.63+D.621+D.624+D.631	29/12/2020	0.000	0.003	-0.003	0.000
	Wage compensations for employees waiting at home	D.3	02/04/2020	0.865	-0.592	-0.222	0.000
	Payment of social contributions for employees waiting at home	D.3	02/04/2020	0.267	-0.255	0.000	0.000
	Exemption from payment of contributions for pension and disability insurance for working employees	D.3	02/04/2020	0.933	-0.892	0.000	0.000
	Coverage of costs of sick leave pay for all workers during the epidemic from the first day onwards	D.3	02/04/2020	0.040	-0.018	-0.019	0.000
	Short time work scheme (subsidised working time)	D.3	29/05/2020	0.074	-0.043	-0.026	0.000
	Wage compensations for employees in quarantine (Art.2. ZIUPPP)	D.3	20/03/2020	0.041	0.053	-0.087	0.000
Subtotal				**6.005**	**-3.046**	**-2.433**	**-0.097**
Non-temporary measures							
Total				**6.005**	**-3.046**	**-2.433**	**-0.097**

Source: Ministry of Finance.

Table 11: RRF impact on Programme – GRANTS

	Revenue from RRF grants (% of GDP)						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
RRF GRANTS as included in the revenue projections		0.62	1.17	0.74	0.18	0.34	0.42
Cash disbursements of RRF GRANTS from EU		0.31	0.58	0.65	0.88	0.84	0.10
	Expenditure financed by RRF grants (% of GDP)						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Compensation of employees		0.00	0.02	0.02	0.02	0.02	0.02
Intermediate consumption		0.01	0.06	0.09	0.10	0.06	0.01
Social Payments		0.00	0.00	0.00	0.00	0.00	0.00
Interest expenditure		0.00	0.00	0.00	0.00	0.00	0.00
Subsidies, payable		0.03	0.23	0.25	0.24	0.25	0.12
Current transfers		0.00	0.00	0.00	0.00	0.00	0.00
TOTAL CURRENT EXPENDITURE		**0.04**	**0.31**	**0.37**	**0.35**	**0.32**	**0.15**
Gross fixed capital formation		0.22	0.34	0.29	0.33	0.37	0.22
Capital transfers		0.00	0.00	0.00	0.00	0.00	0.00
TOTAL CAPITAL EXPENDITURE		**0.22**	**0.34**	**0.29**	**0.33**	**0.37**	**0.22**

	Other costs financed by RRF grants (% of GDP)[31]						
	2020	2021	2022	2023	2024	2025	2026
Reduction in tax revenue		0.0	0.0	0.0	0.0	0.0	0.0
Other costs with impact on revenue		0.0	0.0	0.0	0.0	0.0	0.0
Financial transactions		0.0	0.0	0.0	0.0	0.0	0.0

*Note: data from 19. 4. 2021 (data can change since the document has not been finalised).
Source: Ministry of Finance.

Table 12: RRF impact on Programme – LOANS

	Cash flow from RRF loans projected in the Programme (% of GDP)						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Disbursements of RRF LOANS from EU		0.33	0.58	0.37	0.35	0.34	0.16
Repayments of RRF LOANS to EU		n.a	n.a	n.a	n.a	n.a	n.a
	Expenditure financed by RRF loans (% of GDP)						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Compensation of employees		0.0	0.0	0.0	0.0	0.0	0.0
Intermediate consumption		0.0	0.0	0.0	0.0	0.0	0.0
Social Payments		0.0	0.0	0.0	0.0	0.0	0.0
Interest expenditure		0.0	0.0	0.0	0.0	0.0	0.0
Subsidies, payable		0.12	0.30	0.15	0.18	0.08	0.08
Current transfers		0.0	0.0	0.0	0.0	0.0	0.0
TOTAL CURRENT EXPENDITURE		**0.12**	**0.30**	**0.15**	**0.18**	**0.08**	**0.08**
Gross fixed capital formation		0.00	0.15	0.19	0.21	0.40	0.21
Capital transfers		0.0	0.0	0.0	0.0	0.0	0.0
TOTAL CAPITAL EXPENDITURE		**0.00**	**0.15**	**0.19**	**0.21**	**0.40**	**0.21**
	Other costs financed by RRF loans (% of GDP)[32]						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Reduction in tax revenue		0.0	0.0	0.0	0.0	0.0	0.0
Other costs with impact on revenue		0.0	0.0	0.0	0.0	0.0	0.0
Financial transactions		0.0	0.0	0.0	0.0	0.0	0.0

*Note: data from 19. 4. 2021 (data can change since the document has not been finalised).
Source: Ministry of Finance.

[31] Costs in national accounts not listed as expenditure.

[32] Costs in national accounts not listed as expenditure.