GOVERNMENT OF THE REPUBLIC OF SLOVENIA

# Stability Programme 2022 (no-policy-change scenario)

*April 2022*

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# 1 Introduction

The Stability Programme 2022 was drafted during a period in which activities were ongoing in relation to National Assembly elections, the extraordinary macroeconomic uncertainty brought about by the humanitarian and economic consequences of the war in Ukraine, and the re-establishment of economic balance following the COVID-19 pandemic. Because of the elections, the Stability Programme is based on a no-policy-change or spontaneous scenario (i.e. without stating the required changes to legislation). The drafting of the Stability Programme on the assumption that policies will remain unchanged accords with past practice, when countries approaching elections or during a period of government performing caretaking duties prepare stability or convergence programmes without defining future measures.[1] Given the elections, the Slovenian government cannot commit to adopting new measures to meet fiscal targets; it therefore makes sense to leave the job of setting a detailed fiscal path, and the measures for achieving it, to the incoming government. Under the no-policy-change scenario, the nominal deficit is lower by individual year than the target values in terms of share of gross domestic product (GDP) set out in the current Ordinance on the framework for the preparation of the general government budgets for the 2022–2024 period. In light of the policies in place, this ordinance enables the achievement of the targets set for the state budget in 2022 and 2023 as well, in line with the adopted budget of the Republic of Slovenia.

The current circumstances are extremely uncertain due to the situation in Ukraine and the associated energy crisis and inflation and require measures that will have an impact on public finances; moreover, uncertainties remain in connection with the course of the COVID-19 pandemic. This makes the setting of fiscal targets extremely difficult, and it is entirely possible that they will have to be readjusted several times. As the Ordinance on the framework for the preparation of the general government budgets for the 2022–2024 period currently in force already sets out the aim of gradually eliminating the public finance deficit, the government will not be sending the ordinance for the 2023–2025 period (which would set out fiscal policy targets adjusted to take account of changes to macroeconomic circumstances) to the National Assembly at the same time as the Stability Programme. A more detailed determination of the fiscal path must be left to the new government, after clearer indications of future fiscal policy are provided also at EU level.[2]

The exceptional circumstances and the escape clause within the Stability and Growth Pact will still apply in 2022; this will enable fiscal policy to be adjusted to the changing circumstances regardless of the fact that uncertainties are no longer stemming from the pandemic alone. Based on the European Commission's winter forecast, which was drafted before the war in Ukraine, it was envisaged that the general escape clause will be deactivated from 2023. However, in the Fiscal Policy Guidance for 2023, which was unveiled on 2 March 2022, the Commission announced that, owing to the increase in uncertainty, this will be reassessed on the basis of the spring forecast presented in May. The guidance therefore contains only the principles for fiscal policy management in the coming year, where the coordination of economic policies, mainly within the euro area (EA), and the stimulation of investments will continue to be key to the continuation of the recovery. The preparation of a fiscal strategy for the gradual balancing of public finances, which should be adjusted to the situation in individual Member States, is also an important factor. The Commission will make adjustments to the guidance in response

[1] In cases such as this, the Stability and Growth Pact and its explanatory documents do not determine special procedures as is the case with Draft budgetary plans. The European Commission therefore assesses them in the same way as other countries' programmes.

[2] There is still no agreement at EU level on the revised Stability and Growth Pact, and the finance ministers will not continue the discussions until June 2022. While the European Commission is currently still examining the proposals, it has issued guidance for future fiscal policy, albeit only for 2023. At the same time, it has confirmed that the exceptional circumstances continue to exist in 2022.

to the macroeconomic conditions, if needed. The adequacy of fiscal policy will continue to be reviewed at EU level mainly in qualitative terms, and no assessment of compliance with fiscal rules will be made using quantitative indicators.

The fiscal non-policy-change scenario for the 2022–2025 period has been drawn up on the basis of revenue estimates derived from macroeconomic forecasts and the measures adopted. Similarly, trends in expenditure take into account the measures already adopted and the existing modes of operation of various systems, which set out the method by which receipts are adjusted. According to the policy set out for 2021, fiscal policy will continue to focus, in the 2022–2025 period, on maintaining high levels of investment and adopting measures for continued recovery and growth. Measures to mitigate the consequences of the COVID-19 pandemic for individuals and enterprises and to support the operations of social security systems made an important contribution to economic activity in 2020 and 2021, and consequently also the public finance situation in 2021. This will provide a basis for the years to come. While 2022 has seen the gradual relaxing of COVID-19 measures, the measures to counter the energy crisis and aid to Ukraine have since come to the fore and are recorded as one-off expenditures. It is estimated that the deficit in 2023 will be less than 3% of GDP (2.97%), i.e. below the Maastricht threshold. The no-policy-change scenario achieves lower deficit values than those set out in the applicable Ordinance on the framework for the preparation of the general government budgets for the 2022–2024 period. Public debt will fall as a percentage of GDP throughout this period, reaching 68% of GDP in 2025 (Table 1).

Table 1: General government balance and debt projections

| % of GDP | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| General government balance | -7.8 | -5.2 | -4.1 | -3.0 | -2.1 | -1.7 |
| General government debt | 79.8 | 74.7 | 73.3 | 71.5 | 69.5 | 68.0 |

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

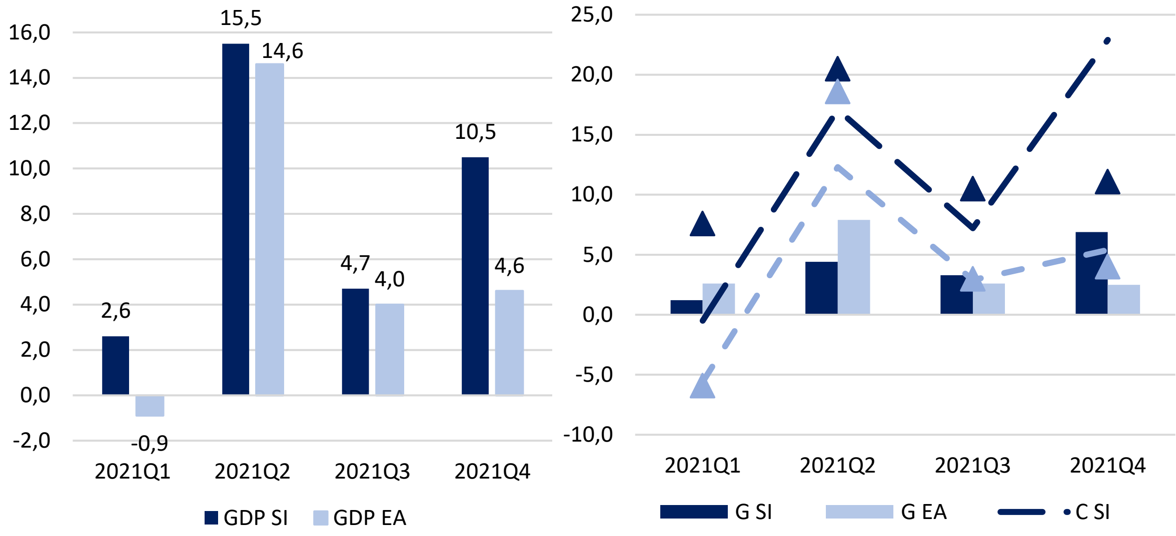
# 2 Macroeconomic overview and projections

## 2.1 Macroeconomic environment in 2021

Slovenia's GDP grew faster in 2021 than the projections issued last year by the Institute of Macroeconomic Analysis and Development (IMAD); this was because economic subjects managed to adapt extremely well to the change in conditions. In 2021 Slovenia's real GDP increased by 8.1%, which was 2.8 percentage points higher than the EA average. At current prices, it stood at EUR 52,020 million. In the third quarter of 2021, Slovenia's economic activity exceeded its pre-crisis level from the last quarter of 2019. In the last quarter of 2021, real GDP increased by as much as 10.5% compared to the same period in 2020, which was for 5.9 percentage points higher than in the EA average (Figure 1).

The high economic growth in Slovenia in 2021 was driven by domestic demand. Private consumption increased by 11.6% last year (8.1 percentage points higher than the EA average), exceeding its pre-crisis level in the second quarter of 2021, when year-on-year growth was 17.1% (Figure 1). In addition to the adjustments made by consumers to the changed conditions, favourable conditions on the labour market (and, with this, the rise in disposable income) and gradual reduction in the savings rate (which otherwise in 2021 remained on a higher level than before the pandemic), also contributed to growth in private consumption. Last year, gross fixed capital formation grew at a significantly faster pace in Slovenia than in the EA average (Figure 1). Its annual growth rate amounted in Slovenia to 12.3% (in EA to 4.3%), mainly because of the rapid growth in investments in machinery and equipment. That said, investments in buildings grew at a slower pace because of high increase in prices and problems with the supply of materials. Although growth in government consumption slowed to 3.9% in 2021, it was nevertheless 0.1 percentage points higher than the EA average. Expenditure for managing the pandemic contributed strongly to this figure.

Figure 1: Quarterly percentage growth in the GDP of Slovenia (SI) and the euro area (EA) (left) and its components (right)

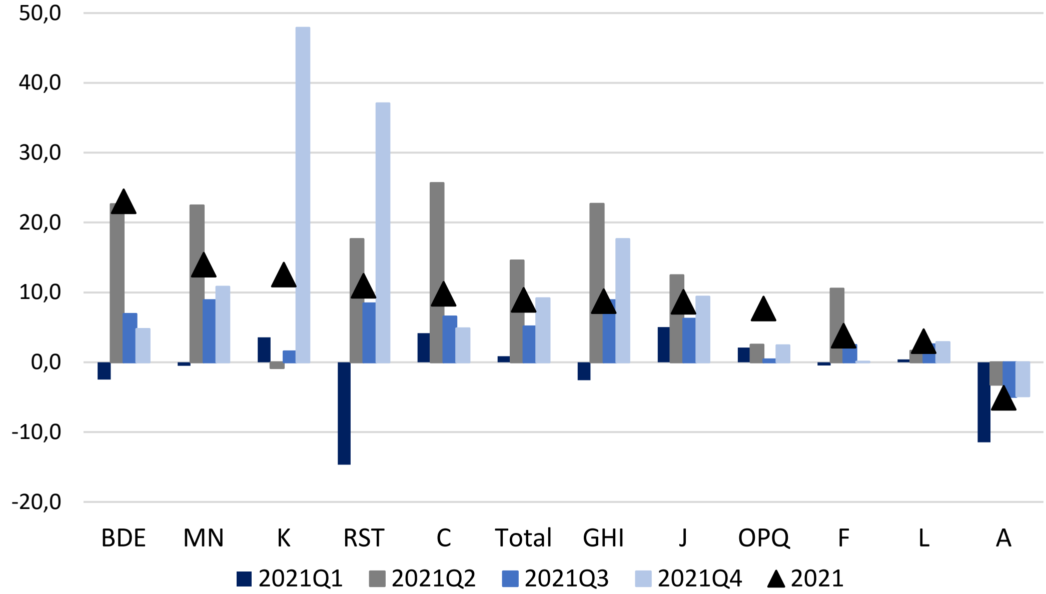



Source: Eurostat, 2022.
*Note: G = government consumption, C = private consumption, I = gross fixed capital formation.

Foreign trade also accelerated as a result of the recovery of foreign demand in 2021. Trade in goods already exceeded its pre-crisis level by the beginning of 2021, while trade in services, except for travel services trade, exceeded pre-pandemic levels by the end of the year. Due to the fact that the annual rate of growth was higher in imports (17.4%) than exports (13.2%), net foreign trade made a negative contribution to GDP growth in 2021.

Most activities exceeded their pre-crisis levels in the course of 2021, with the exception of hospitality and accommodation services, entertainment, sporting, recreational and personal services, and travel services trade. Overall value added increased by 8.9% in 2021. The increase was relatively higher in the activities BDE (Mining, electricity and water supply, environment, 23.0%), MN (Professional and scientific activities, 14.0%), K (Financial and insurance activities, 12.6%), RST (Other service activities, 11.0%) and C (Manufacturing activities, 9.8%) (Figure 2). Value added in activity A (Agriculture, hunting, forestry and fisheries) contracted by 5.1%. Total value added increased the most in the second quarter of 2021, with the year-on-year increase standing at 14.6% (Figure 2). Sectors C (Manufacturing activities), GHI (Retail trade, transport, and hospitality), BDE (Mining, electricity and water supply, environment) and MN (Professional and scientific activities) all recorded growth of more than 20% in this period.

Figure 2: Percentage change in value added in 2021 relative to the same period in 2020, by NACE activity

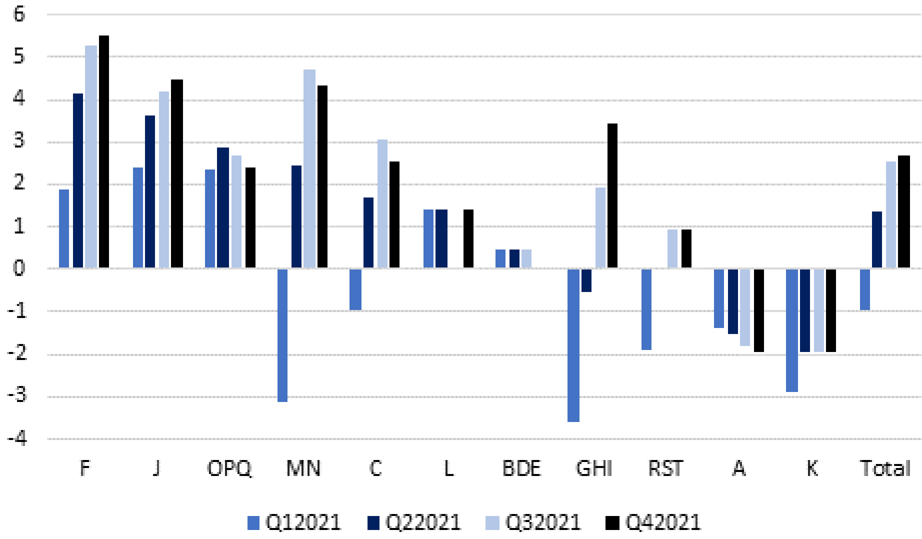



Source: SORS, 2022. Ministry of Finance (own calculations).

The trend in the recovery of employment from the second half of 2020 continued in 2021, with the number of employed persons increasing by 1.4% to reach the highest level recorded so far. This was the result of the removal of restrictive COVID-19 measures, the reopening of economic activities and increase in employment of foreign workers. Alongside a growing demand for workers, the labour market was subject to increasing pressures, as reflected in the record vacancy rate in the last quarter of 2021 (2.8%) and the significant fall in the number of registered unemployed (a fall of 12.6% or of 10,400 people across the year). In 2021 the registered unemployment rate and the survey unemployment rate stood at an average of 7.6% and 4.8%, respectively.

The recovery in employment was noticeable in most activities mainly in the second half of 2021 (Figure 3). The highest average quarterly change in employment numbers last year was recorded in activity F (Construction, 4.2%), followed by activities J (ICT, 3.7%), OPQ (Public administration and defence, compulsory social security, education and human health) and MN (Professional and scientific activities, 2.1%) (Figure 3). Following a relative fall in employment in the first quarter, there were recoveries in the remainder of the year in activities C (Manufacturing), GHI (Retail trade, transport and hospitality), MN (Professional and scientific activities) and RST (Other service activities). On the other hand, conditions on the labour market worsened in activities A (Agriculture, hunting, forestry and fisheries) and K (Financial and insurance services), both of which saw a relative fall in employment in all quarters in 2021.

Figure 3: Percentage change in number of employed persons compared to the same period in 2020, by NACE activity




Source: SORS, 2022. Ministry of Finance (own calculations).

In Slovenia, most of 2021 passed in conditions of moderate inflation expectations. After deflation in 2020, and working on an assumption of moderate economic recovery, IMAD in its Autumn forecast 2021 predicted gradual growth in inflation toward 2%. The inflation forecast for the current year stood at a modest 1.4% in September 2021. Inflation was forecasted to reach its target of 2% in 2022, following by a fall to 1.9% in 2023.

Changes to the inflation forecasts began to be made in October 2021 after the prices of some energy products began to exceed the long-term averages. The rise in energy prices began with increase in prices of natural gas in Europe, quickly followed by increase in prices of coal and raw materials. The prices of the most widely traded crude oil (WTI) were around USD 80 a barrel up until the end of 2021. By the end of the year, the energy problem was mainly the result of the rise in natural gas prices in Europe, which reached one of its highest ever levels in December. This led to rises in electricity prices and heating costs. Electricity prices rose mainly in countries that are highly dependent on natural gas for producing electricity.

Inflation (CPI) began to increase sharply in Slovenia towards the end of 2021. The annual rate stood at 3% in October, 4.6% in November and 4.9% in December. Expectations in October were already that the higher prices of non-energy raw materials would pass into final prices over the longer term. The rapid rise in energy prices, which followed the rise in raw material prices, has brought the forecasts forward.

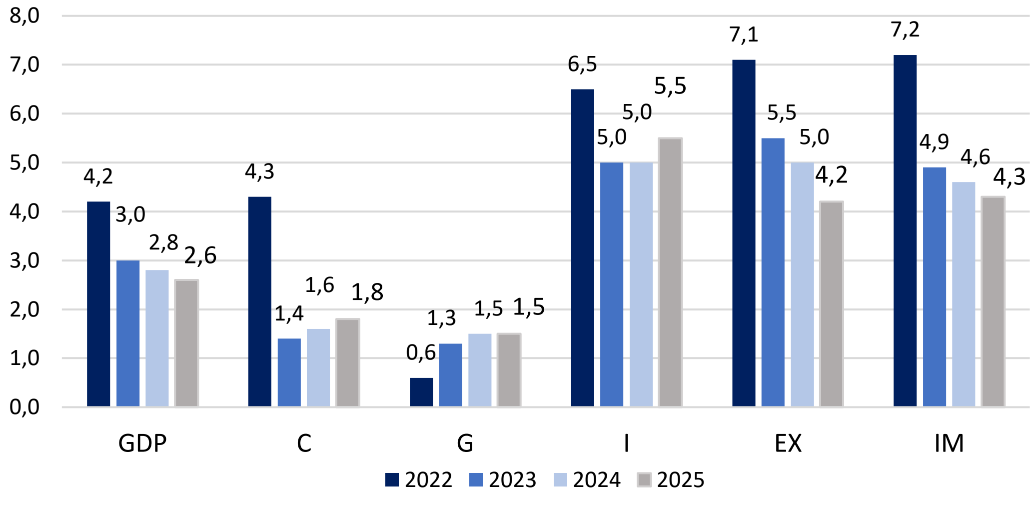
The reasons for the rise in the prices of energy and raw materials, and consequently of goods and services, was attributed in the last quarter of 2021 mainly to the revival of the economy following the COVID-19 crisis, bottlenecks in supply chains, workforce shortages in some economic sectors and logistical problems in several specific environments.

The annual inflation rate (CPI) grew to 5.8% in January 2022, to 6.9% in February, while it stood at 5.4% in March 2022.

## 2.2 Medium-term forecast 2022–2025

In its Spring forecast 2022, IMAD predicted a 4.2% growth in real GDP in 2022 (0.5 percentage points lower than the figure predicted in its Autumn forecast 2021), which is expected to moderate to 3.0% in 2023, 2.8% in 2024 and 2.6% in 2025 (Figure 4). The slowdown in economic growth in 2022 is the result of the higher basis in 2021, the reduced volume of government support measures and, in particular, the growing inflation pressures resulting from high energy and raw material prices and bottlenecks in supply chains, further exacerbated by the Russian invasion of Ukraine. The war between Russia and Ukraine will also have an adverse effect on international trade. Gross fixed capital formation (I) will continue to grow in 2022 (forecast of 6.5%). Alongside the continued growth in investments in equipment and machinery, housing and government investments will increase, with the contribution of funds from the Recovery and Resilience Facility also strengthening. Gross fixed capital formation is expected to see a growth rate of 5% in 2023 and 2024, with a further slight increase to 5.5% in 2025. At 4.3%, the growth in private consumption (C) will be significantly lower in 2022 than it was in 2021. Household purchasing power will fall as a result of inflation rises, and we can also expect a fall in the saving rate from the high levels recorded during the pandemic. IMAD's forecasts for the growth in private consumption for 2023, 2024 and 2025 are 1.4%, 1.6% and 1.8%, respectively. Due to a reduction in expenditure on measures to mitigate the consequences of the pandemic, growth of government consumption (G) is expected to fall to 0.6% in 2022, while it is expected to expand more significantly again in 2023 (by 1.3%), 2024 and 2025 (in both years by 1.5%). Growth in foreign trade will slow this year and in 2023 and 2024. Exports will be strongly affected by the war in Ukraine and, in particular, by EU sanctions, which will have an impact on direct and indirect trade with Russia. IMAD therefore projects a 7.1% increase in exports (EX) in 2022, with further increases of 5.5%, 5.0% and 4.2% in 2023, 2024 and 2025, respectively. Imports (IM) will increase slightly faster than exports in the 2022–2025 period, mainly because of growth in domestic investments. Growth in imports is expected to slow after last year's strong figures: to 7.2% in 2022, 4.9% in 2023, 4.6% in 2024 and 4.3% in 2025.

Figure 4: Percentage growth in GDP and its components in the 2022–2025 period



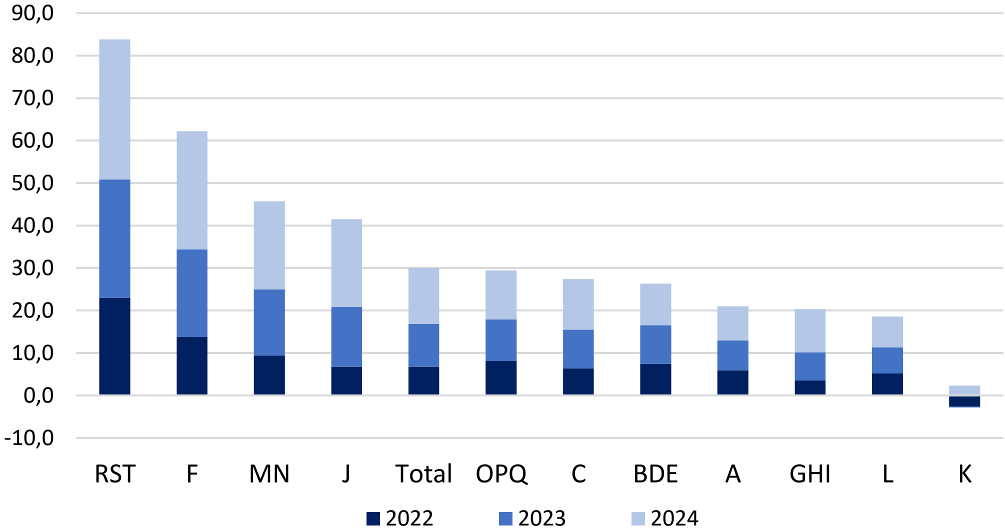

Source: IMAD Spring forecast 2022; Ministry of Finance (own calculations).

*Note: G = government consumption, C = private consumption, I = gross fixed capital formation, EX = exports, IM = imports.

The biggest negative risks to the realisation of the IMAD Spring forecast 2022 relate to the war in Ukraine and the resulting rise in energy prices and disruptions to the supply chain. The Slovenian economy's direct exposure to Russia and Ukraine is relatively small, although the country is highly dependent on energy imports from that region. Moreover, Slovenia's share of exports to Russia and Ukraine is higher than in most EU countries (2.4%) and is mostly oriented towards the pharmaceutical and chemical sectors. Risks related to the evolution of COVID-19 pandemic also remain relevant. Economic growth could also be higher than the IMAD forecasts if the situation in Ukraine improves, companies are able to adapt to the conditions (e.g. through increased investment in order to speed up the reduction in dependence on Russian energy), and also if the pandemic is brought under control globally and EU funds are utilised successfully.

According to IMAD, value added will increase by 6.8% in 2022 relative to 2021, with further increases of 10.1% in 2023 and 13.2% in 2024 (Figure 5). In the 2022–2024 period, value added should increase the most in comparison with 2021 in activities RST (Other service activities, by 22.9% in 2022, 27.9% in 2023 and 33.0% in 2024), F (Construction, by 13.8% in 2022, 20.6% in 2023 and 27.8% in 2024), MN (Professional and scientific activities) and J (Information and communication activities).

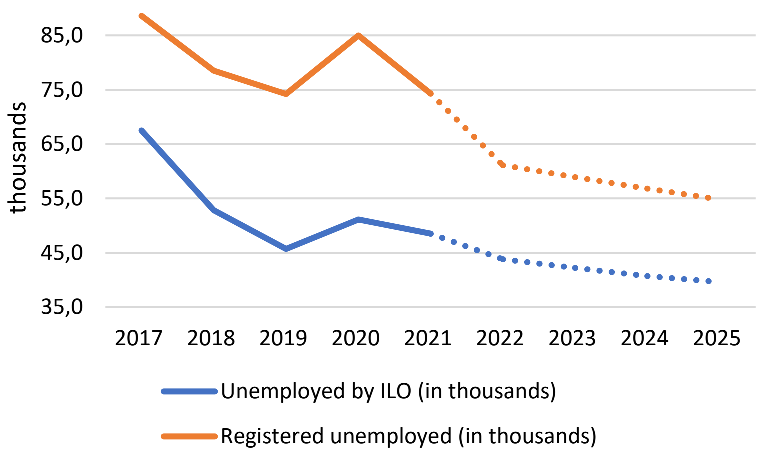
Figure 5: Forecasted percentage change in value added in the 2022–2024 period relative to 2021, by NACE activity




Source: IMAD Spring forecast 2022; Ministry of Finance (own calculations).

The downward trend in number of unemployed persons, which was interrupted by the COVID-19 crisis, is expected to continue in the 2022–2024 period (Figure 6). The registered and survey unemployment rates are expected to fall to below the 2019 level in 2022. A further gradual decrease in the number of unemployed persons is expected up until the end of the period covered by the forecast. Labour market pressures will increase as a result of workforce shortages; this could lead to an increase in upward pressures on wage growth and a fall in the growth of value added. Demographic factors will have a restrictive impact on the labour market: on the one hand, the ageing of the population will gradually reduce labour supply; on the other hand, the structure of the workforce will be inadequate in terms of education and experience. Labour supply will not outstrip demand, despite the higher participation rate and an increase in labour supply from foreign workers.

Figure 6: Unemployment trends




Source: IMAD Spring forecast 2022.

In its 2022 spring forecast, IMAD anticipates that the relatively high inflation rate will remain in place for most of this year, followed by a return to a figure of around 2% in 2024 (assuming that price pressures are eased). IMAD expects a 5.4% annual increase in consumer prices (December/December) by the end of the year, which is expected to fall to 2.4% in 2023, 2.1% in 2024 and 1.9% in 2025.

Since the Russian invasion of Ukraine at the end of February 2022, the biggest risks to the realisation of the inflation forecasts have been the progress of the war and energy prices. As a result of higher energy prices and the current geopolitical situation, EU Member States have been forced to rationalise energy consumption and search for alternative sources. Given the EU's significant dependence on imports of Russian gas and oil, this will have additional negative impacts on economic activity. The requirement for rapid transformation in energy supply means that the EU is targeting, as alternative sources, both fossil fuels obtained from different geographical areas and a transition to renewable energy sources.

If higher oil and natural gas prices persist, inflation will remain at high levels for some time (according to projections, until at least the end of 2023). The government has already adopted several measures to mitigate the considerable negative effects on financial markets and to prevent a fall in confidence among consumers and firms (Table 2).

Table 2: Measures adopted in response to the energy crisis in February and March 2022

| Measures | Estimated value in EUR million |
|---|---|
| Payment of a one-off solidarity allowance of EUR 150 in order to eliminate the consequences of the increase in energy prices | 106.8 |
| Reduction of excise duties on energy products (fuels, heating oil, natural gas) | 24 |
| Suspension of payment of network charge, connection power and contributions of RES and CHP in the payment of electricity. | 70 |
| Compensation to farmers due to the consequences of rising prices of mineral fertilizers and energy in agriculture. | 25 |
| Aid to the economy (14,500 entities) | 70 |
| Maximizing fuel prices – retail, 30-day measure | consumption dependent |
| Maximizing fuel prices – wholesale and banning the cessation of fuel sales | consumption dependent |

Source: Ministry of Finance.

## 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. Determining economic cycle in real time is a complex task because of the uncertainty surrounding the output gap estimates, particularly those at the end of the sample (Orphanides and van Norden, 2002).[3]

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 length of the series included. Frequent and significant revisions of macroeconomic data and changes to the forecasts of future economic trends that accompany an exogenous shocks (such as the COVID-19 crisis) are thus one of the key drivers of deviations from fiscal targets and thus compliance with fiscal rules.

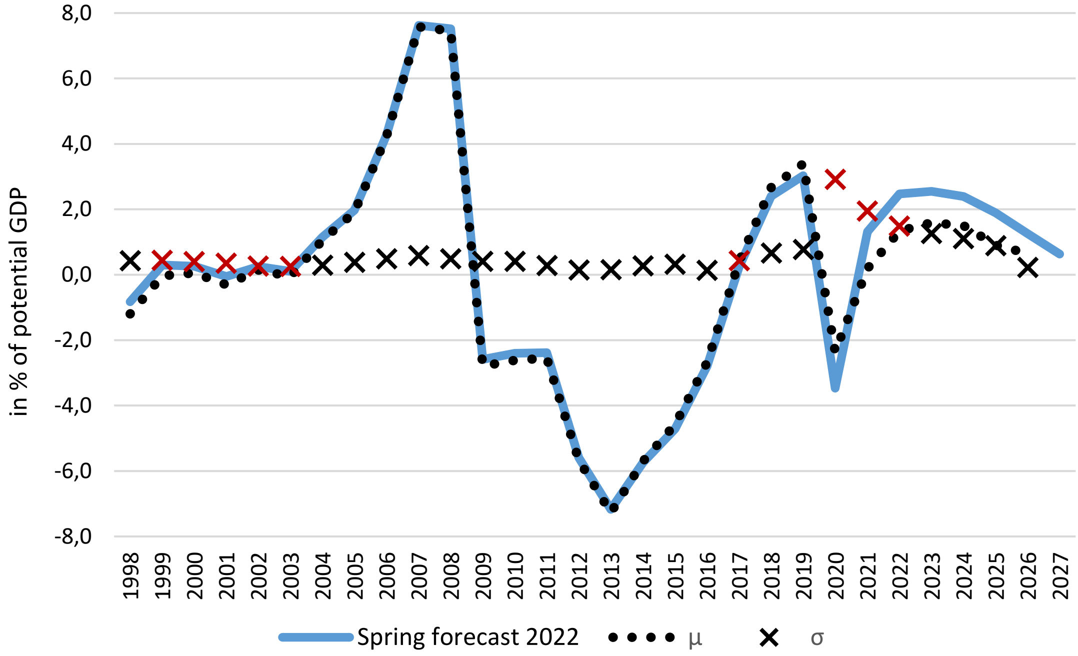
The Ministry of Finance's past output gap estimates, prepared on the basis of the last five IMAD forecasts,[4] have varied considerably for the period of the most recent crisis and recovery. The average output gap estimate (μ) was therefore exceeded by its standard deviation (σ) by 0.6 percentage points in 2020, by 1.8 percentage points in 2021 and by 0.2 percentage points in 2022, which again indicates the biases of estimates in real time during the early phases of recovery. According to the Autumn forecast 2020, the output gap amounted to -5.2% of potential GDP in 2020 and -2.4% of potential GDP in 2021. With a lower fall in economic activity than originally expected and a swifter recovery, the output gap estimate based on IMAD's latest forecast fell to -3.5% in 2020, whereas in 2021 real GDP supposedly exceeded potential GDP by 1.3%.

According to the most recent forecast, a higher positive output gap is also expected in 2022: 2.6% of potential GDP (the autumn 2021 estimate was 2.1%, the spring 2021 estimate 0.6% and the autumn 2020 estimate -0.9%). A positive gap of 2.7% should be opened up by 2023. Considerable uncertainties remain regarding the impact of COVID-19 on the potential of the Slovenian economy and its recovery path. This means that the latest output gap estimates are also highly likely to require considerable revision.

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

[4] IMAS spring 2022 forecast, IMAD autumn 2021 forecast, IMAD spring 2021 forecast, IMAD 2020 autumn forecast, IMAD spring 2019 forecast.

Figure 7: Output gap, Ministry of Finance calculations based on IMAD Spring forecast 2022, and the average value of past estimates of the Ministry of Finance (μ) and their standard deviation (σ)




Source: IMAD; AMECO; Ministry of Finance (own calculations).
*Note: Where the standard deviation of the output gap estimates for a certain year exceed their average value, this is marked in red.

The output gap estimates also vary considerably between macroeconomic institutions. The standard deviation exceeded the average value of the estimates of the Organisation for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF), the European Commission (EC), IMAD and the Ministry of Finance (MoF) by an average of 1.2 percentage points in the 2000–2023 period. The gap between the estimates for 2021 and 2022 is particularly wide, with the standard deviation exceeding the average value of the estimates of these institutions by 3 or 2.3 percentage points (Table 3).

On the basis of the EU's commonly agreed methodology (EUCAM) (Blondeau, Planas & Rossi, 2021),[5] which is also used to calculate the fiscal targets, the Ministry of Finance estimates that real GDP in 2021 exceeded potential GDP by 1.3%, with the positive gap expected to increase to 2.5% in 2022. Using the same methodology IMAD and the European Commission arrive at similar estimates of output gap: IMAD's are, however, slightly higher (1.5% in 2021 and 2.9% in 2022) and the European Commission's slightly lower (1.0% in 2021 and 2.1% in 2022). The IMF uses a slightly different methodology (De Masi, 1997[6]), estimating a significantly lower positive gap of 0.2% in 2021 and 0.9% in 2022, while the OECD's projections even indicate that Slovenia's real GDP has not exceeded its potential GDP since the start of the great financial crisis in 2008. According to OECD estimates, the negative gap will stand at 6.8% of potential GDP in 2021 and 4.6% of potential GDP in 2022.

5 Blondeau, F., Planas, C., & Rossi A. (2021). Output Gap Estimation Using the European Union's Commonly Agreed Methodology Vade Mecum & Manual for the EUCAM Software. European Economy – Discussion Papers 2015 – 148, Directorate General Economic and Financial Affairs (DG ECFIN), European Commission. Available at: https://ec.europa.eu/info/sites/default/files/economy-finance/dp148_en.pdf.
6 De Masi, P. R. (1997). IMF Estimates of Potential Output: Theory and Practice, in Staff Studies for the World Economic Outlook. IMF WP/97/177. pp. 40–46. Available at: https://www.imf.org/external/pubs/ft/wp/wp97177.pdf.

Table 3: Slovenia's output gap according to MoF, IMAD, OECD, IMF and EC estimates, its average value (μ) and its standard deviation (σ)

| | MoF | IMAD | OECD | IMF | EC | μ | σ |
|---|---|---|---|---|---|---|---|
| **2000** | 0.3 | 0.3 | -0.3 | -1.2 | 0.7 | 0.0 | 0.7 |
| **2001** | -0.1 | 0.0 | -0.7 | -2.4 | 0.6 | -0.5 | 1.1 |
| **2002** | 0.3 | 0.4 | -0.6 | -1.1 | 0.9 | 0.0 | 0.8 |
| **2003** | 0.1 | 0.3 | -0.9 | 0.1 | 0.8 | 0.1 | 0.6 |
| **2004** | 1.1 | 1.4 | 0.2 | -1.4 | 1.9 | 0.7 | 1.3 |
| **2005** | 2.0 | 2.3 | 1.1 | -0.5 | 2.6 | 1.5 | 1.2 |
| **2006** | 4.3 | 4.6 | 3.9 | 2.8 | 4.9 | 4.1 | 0.8 |
| **2007** | 7.6 | 8.2 | 7.9 | 5.3 | 8.2 | 7.4 | 1.2 |
| **2008** | 7.5 | 8.0 | 8.4 | 5.4 | 7.8 | 7.4 | 1.2 |
| **2009** | -2.6 | -2.4 | -2.0 | -3.0 | -2.6 | -2.5 | 0.4 |
| **2010** | -2.4 | -2.4 | -2.2 | -1.0 | -2.6 | -2.1 | 0.6 |
| **2011** | -2.4 | -2.5 | -2.6 | 0.6 | -2.6 | -1.9 | 1.4 |
| **2012** | -5.6 | -5.9 | -6.2 | -2.0 | -5.7 | -5.1 | 1.7 |
| **2013** | -7.2 | -7.6 | -8.2 | -3.0 | -7.4 | -6.7 | 2.1 |
| **2014** | -5.7 | -6.2 | -7.1 | -2.3 | -5.8 | -5.4 | 1.8 |
| **2015** | -4.7 | -5.2 | -6.6 | -1.8 | -4.6 | -4.6 | 1.7 |
| **2016** | -2.8 | -3.3 | -5.5 | -0.2 | -2.6 | -2.9 | 1.9 |
| **2017** | 0.2 | -0.1 | -3.1 | 0.0 | 0.7 | -0.5 | 1.5 |
| **2018** | 2.4 | 2.2 | -1.2 | 0.3 | 3.1 | 1.4 | 1.8 |
| **2019** | 3.0 | 2.9 | -0.5 | 0.7 | 3.8 | 2.0 | 1.8 |
| **2020** | -3.5 | -3.6 | -8.1 | -2.9 | -2.6 | -4.1 | 2.2 |
| **2021** | 1.3 | 1.5 | -6.8 | 0.1 | 1.0 | -0.6 | 3.5 |
| **2022** | 2.5 | 2.9 | -4.6 | 0.9 | 2.1 | 0.7 | 3.1 |
| **2023** | 2.6 | 3.1 | -2.8 | | 2.3 | | |
| **2024** | 2.4 | 3.0 | -1.6 | | | | |
| **2025** | 1.9 | 2.6 | -0.9 | | | | |
| **2026** | 1.3 | 2.1 | -0.5 | | | | |
| **2027** | 0.6 | 1.6 | -0.2 | | | | |

Source: IMAD Spring forecast 2022; IMF World Economic Outlook October 2021; OECD Economic Outlook No 109; Autumn 2021 Economic Forecast, European Commission; Ministry of Finance (own calculations).
*Note: Where the standard deviation of the output gap estimates for a certain year exceeds their average value, this is marked in red.

The fact that output gap estimates strongly depend on which methodology is used to calculate it is particularly relevant to Slovenia, as it is questionable whether EUCAM is suitable for modelling the Slovenian economic cycle. The 'plausibility tool' suggests that EUCAM underestimates the size of the output gap during periods of economic contraction (Hristov, Raciborski & Vandermeulen, 2017).[7] It is extremely important to have unbiased real-time output gap estimates, particularly at times of economic contraction, as any assumption that a cycle is shorter than it actually is can lead to cyclically

7 Hristov, A., Raciborski, R. & Vandermeulen, v. (2017). Assessment of the Plausibility of the Output Gap Estimates. European Economy. Economic Briefs 023, Directorate General Economic and Financial Affairs (DG ECFIN), European Commission. Available at: https://ec.europa.eu/info/sites/default/files/eb023_en.pdf.

restrictive fiscal policy, which can jeopardise economic recovery or even lead to a permanent reduction in long-term economic growth.

## 2.4 Financial stability

The Bank of Slovenia already decided, in the first half of 2021, that the system-wide measure of more favourable regulatory treatment of loan moratoria was no longer necessary. Furthermore, in September it lifted the prudential measure that placed restrictions on banks' and savings institutions' profit distributions.[8]

Year-on-year growth in loans by banks to the non-banking sector, which stood at 5.8% before the pandemic (i.e. at the end of 2019), was only 0.2% in 2020, although it gradually rose to reach 6.3% by the end of 2021. Last year, banks increased their household lending in particular, primarily by increasing the number of housing loans.[9] Year-on-year growth was 9.1% at the end of the year, which was 2.3 percentage points higher than in December 2019. In the household sector, increases in loans have already come very close to their pre-pandemic levels (year-on-year growth of 5.1% in December 2021, i.e. 1.1 percentage points below year-on-year growth in December 2019), although they are still significantly lower than before the global financial and economic crisis, which means that household indebtedness remains low (and well below the euro area average). There was considerable fluctuation in the growth in corporate loans in year-on-year terms, stabilising at 7.5% in December. A breakdown of the increase in their liabilities indicates that corporates are largely financing themselves via internal and intrasectoral resources.[10]

Within the EA, the year-on-year growth in corporate loans (3.7%, December 2021) remains lower than the growth recorded in the one-year period following the outbreak of the pandemic (6.4%, December 2020). Despite having narrowed, the gaps between countries remain large: corporate loans continued to contract in year-on-year terms in four countries, while six countries (including Slovenia) saw year-on-year growth of more than 5%. Household lending in the EA continued to expand at rates of more than 4% in 2021, as it has since the beginning of the second quarter of last year (3.1%, December 2020). The stock of household loans in December was up 4.2% in year-on-year terms. The differences between countries are considerable in this sector as well: two countries achieved year-on-year loan growth of over 10%, while five countries (including Slovenia) have still not reached pre-pandemic levels of household lending.

Growth in deposits by the non-banking sector in the EA reached 8.1% in December 2021 and continued to exceed the year-on-year pre-pandemic growth rate. The upward trend in corporate and household saving seen in 2020 came to an end in 2021, although savings remain high and continue to be largely directed into bank deposits. The reduction in general uncertainty and rising confidence in the economy, which has given impetus to consumption and investment, have both contributed to this.[11]

[8] Bank of Slovenia: Financial Stability Review, October 2021. Page II. Available at: https://www.bsi.si/publikacije/porocilo-o-financni-stabilnosti.

[9] Bank of Slovenia: Economic and Financial Developments, January 2022. Page 47. Available at: https://www.bsi.si/publikacije/gospodarska-gibanja-in-projekcije.

[10] Bank of Slovenia: Economic and Financial Developments, January 2022. Page 43. Available at: https://www.bsi.si/publikacije/gospodarska-gibanja-in-projekcije.

[11] Bank of Slovenia: Economic and Financial Developments, January 2022. Page 43. Available at: https://www.bsi.si/publikacije/gospodarska-gibanja-in-projekcije.

Table 4: Loans and deposits to the non-banking sector

| | EUR billion | | | | % growth | |
|---|---|---|---|---|---|---|
| | Dec. 19 | Dec. 20. | Dec. 21 | Jan. 22 | Jan. 22 | year-on-year |
| Loans to non-banking sector | 23.5 | 23.6 | 25.0 | 25.3 | 1.2 | 7.2 |
| non-financial corporations (companies) | 8.9 | 8.8 | 9.3 | 9.6 | 2.9 | 7.5 |
| households | 10.7 | 10.7 | 11.3 | 11.3 | 0.3 | 5.9 |
| government | 1.6 | 1.5 | 1.5 | 1.5 | 0.5 | -0.4 |
| other financial institutions | 1.2 | 1.2 | 1.4 | 1.4 | 1.1 | 15.4 |
| non-residents | 1.0 | 1.3 | 1.6 | 1.6 | -2.1 | 17.3 |
| Liabilities to non-banking sector (deposits by NBS) | 31.1 | 34.3 | 37.2 | 37.0 | -0.5 | 6.7 |
| non-financial corporations (companies) | 6.8 | 8.0 | 9.0 | 8.5 | -5.6 | 8.9 |
| households | 20.4 | 22.4 | 24.0 | 24.2 | 1.2 | 6.0 |
| government | 1.0 | 0.9 | 1.0 | 1.0 | -2.2 | 5.8 |
| other financial institutions | 1.2 | 1.2 | 1.4 | 1.5 | 3.0 | 11.9 |
| non-residents | 1.2 | 1.2 | 1.3 | 1.3 | 0.5 | -1.2 |

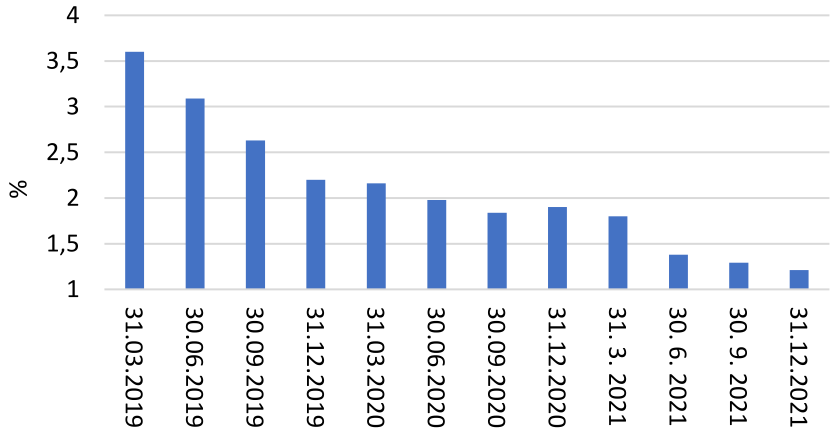
Source: Bank of Slovenia (March 2022), Monthly Report on Bank Performance, p. 2, https://www.bsi.si/en/publications.

The year-on-year growth rate of 8.1% (December) in corporate deposits in the EA exceeded the level achieved in December 2019 by 2.1 percentage points. The year-on-year growth in stocks of corporate deposits varied between 1.2% and 24.9% depending on the country. Slovenia's year-on-year growth rate of 12.0% places it in the group of ten countries that managed to achieve a rate of more than 10% by the end of the year.

Amid the rise in private consumption, year-on-year growth in household deposits slowed in the second half of 2021, reaching 4.9% in December (which was 0.4 percentage points lower than the year-on-year rate for December 2019).

The quality of bank portfolios measured by the ratio of non-performing exposures across the banking system's total exposure (NPE ratio) remains unchanged, maintaining a negative trend in practically all parts of the portfolio. At the end of the year, the NPE ratio was 1.21%.

Figure 8: NPE ratio on the last day of the quarter (31 March 2019–31 December 2021)




Source: Bank of Slovenia, Information on non-performing exposures, https://www.bsi.si/financna-stabilnost.

There was a negative growth trend in the total ratio of non-performing loans (NPL) of banks in the EA in 2021,[12] with the total stock and total share of NPLs both falling. NPLs of EUR 391.3 million in the first

[12] European Banking Authority: Risk Dashboard data as of Q4 2021. April 2022. Pages 41–42. Available at: https://www.eba.europa.eu.

quarter therefore accounted for 2.0% of the total NPL ratio (2.6%, December 2020; 2.7%, December 2019). In EA Member States, this share is between 0.3% and 10.5% (compared to between 0.5% and 25.5% in December 2020 and between 0.5% and 35.2% in December 2019). Slovenia is also seeing a negative trend in the growth of the total NPL ratio: 2.4% in December 2021, 3.2% in December 2020 and 3.7% in December 2019.

At the sectoral level, NPL ratios in the EA remain highest in non-financial corporations' portfolios: 3.8% in the last quarter of 2021 (4.8% in December 2020 and 5.0% in December 2019). In three sectors, they exceed 5.0%: construction (8.0%, or 3.2 percentage points higher than in December 2019); accommodation and food service activities (9.4%, or 6.6 percentage points higher than in December 2019), and the arts, entertainment and recreation (7.8% or one percentage point higher than in December 2019). There were considerable differences between countries when it comes to the NPL ratio at the end of 2021: from 0.7% to 20.9% in construction (Slovenia 7.2%); from 2.7% to 39.0% in accommodation and food service activities (Slovenia 19.2%); and from 0.5% to 45.4% in the arts, entertainment and recreation (Slovenia 10.6%).

Pre-tax profits at banking system level remained high until December. At EUR 564.7 million, this was one fifth higher than in 2020. The net release of impairments and provisions at the majority of banks was a major factor in the high profits. In 2021, the capitalisation of the banking system remained good and liquidity high. The balance sheet total increased by EUR 3.6 billion to EUR 48.3 billion by December, with year-on-year growth standing at 8.1% in December.[13]

## 3 COVID-19 response measures, and the Recovery and Resilience Plan

### 3.1 Policy response and measures related to COVID-19

The government has taken immediate intervention measures to minimise the harmful effects on the economy and the population due to the declared epidemic. The first package of measures was adopted by the National Assembly, at the proposal of the government, at the beginning of April 2020 following the passing of the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy. The package, estimated to be worth EUR 3 billion, was largely aimed at providing income support to individuals and companies, and to support social security systems. It included labour market measures and measures to maintain activity in companies via furlough payments and reduced working hours. The government also provided a range of tax exemptions, deferrals and reliefs. In the first wave of epidemic, the measure whereby the State paid pension and disability insurance contributions to employers in the event of continued activity was also of great importance. Measures were also aimed at self-employed persons and other target groups (managing partners, religious workers and farmers) in the form of the payment of a monthly basic income and exemption from the payment of social security contributions. More than half a million people received some form of income support during the first wave (single payment solidarity assistance to pensioners and students, 'crisis salary bonuses' to employees, allowances to large families, etc.). Many of the measures were extended to cover (or re-introduced during) the second wave, including solidarity assistance and basic income.

[13] Bank of Slovenia: Monthly Report on Bank Performance, February 2022. Page I. Available at: https://www.bsi.si/publikacije/mesecna-informacija-o-poslovanju-bank.

Table 5: Estimated value of COVID-19 measures 2020–2023, by individual fields according to the ESA methodology (% of GDP)

| | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| **Tax measures / revenue:** | **0.80** | **-0.56** | **-0.13** | **-0.01** |
| Unsettled and unpaid prepayments for economic activity imposed on each individual income and deferred tax payments (personal income tax, corporation tax) | 0.43 | -0.35 | -0.03 | 0.00 |
| Deferred tax payments (excise, VAT) | 0.36 | -0.21 | -0.10 | 0.00 |
| Other taxes on production | 0.01 | 0.00 | 0.00 | 0.00 |
| **Measures in the field of labour market and social security contributions; incl.:** | **2.71** | **0.98** | **0.06** | **0.00** |
| Wage compensations for employees waiting at home | 0.84 | 0.36 | 0.00 | 0.00 |
| Monthly basic income | 0.43 | 0.42 | 0.00 | 0.00 |
| Exemption from payment of contributions for pension and disability insurance | 1.32 | 0.00 | 0.00 | 0.00 |
| Subsidised part of the minimum wage | 0.00 | 0.05 | 0.04 | 0.00 |
| **Measures in the field of economy, tourism and agriculture; incl.:** | **0.83** | **1.05** | **0.07** | **0.00** |
| Coverage of fixed costs | 0.34 | 0.28 | 0.00 | 0.00 |
| Reimbursement of crisis salary bonus / supplement | 0.12 | 0.00 | 0.00 | 0.00 |
| Aid in agriculture | 0.01 | 0.06 | 0.00 | 0.00 |
| Tourist vouchers | 0.27 | 0.47 | 0.07 | 0.00 |
| **Measures in the field of healthcare; incl.:** | **0.66** | **0.85** | **0.63** | **0.00** |
| Compensation to the providers of health care loss due to reduced activity | 0.22 | 0.02 | 0.11 | 0.00 |
| Additional funds for Health Insurance Institute of Slovenia – vaccination, isolation | 0.10 | 0.15 | 0.29 | 0.00 |
| Additional health programmes, shortening waiting lists, tenders in healthcare, etc. | 0.02 | 0.01 | 0.07 | 0.00 |
| COVID-19 testing and self-testing | 0.07 | 0.21 | 0.11 | 0.00 |
| **Measures in the field of social protection; incl.:** | **0.42** | **0.20** | **0.02** | **0.01** |
| Single payment solidarity assistance for pensioners | 0.29 | 0.13 | 0.00 | 0.00 |
| Solidarity assistance for vulnerable groups | 0.13 | 0.07 | 0.02 | 0.01 |
| **Measures in the area of wages; incl.:** | **0.66** | **1.37** | **0.01** | **0.00** |
| Allowances and supplements for special working conditions | 0.66 | 1.28 | 0.00 | 0.00 |
| Allowances for direct work with COVID patients | 0.00 | 0.09 | 0.01 | 0.00 |
| **Other measures / for public sector support: kindergartens, student dormitories, fire brigades, sport organizations, etc.)** | **0.14** | **0.14** | **0.00** | **0.00** |
| **Total COVID measures / expenditure:** | **5.42** | **4.60** | **0.79** | **0.01** |
| **Total COVID measures / revenue & expenditure:** | **6.22** | **4.04** | **0.66** | **0.00** |

Source: Ministry of Finance.

By the end of 2020, the National Assembly had, at the proposal of the government, adopted a further six packages of measures to mitigate the consequences of the epidemic. The aim of the second package was to enable companies to revive their investment activities and thereby preserve jobs. The third package, like the first and second, provided a range of options for ensuring the liquidity of the economy (incentives for new investments, favourable and fast corporate loans) and providing help to the population. The provision of tourist vouchers to all Slovenian citizens (EUR 200 for adults, EUR 50 for children) had a positive effect on tourism by boosting tourist consumption. Two key intervention measures in the fourth package were aimed at preserving jobs: the extension of wage compensations for employees waiting at home and the supplementing of the measure of subsiding reduced part-time work. In the field of education, the fifth package provided funding for personal protective equipment and resources for disinfecting premises, and introduced exemption from parental payment for kindergartens. Provision was also made for distance learning and schooling. The sixth package, costing an estimated EUR 1 billion, introduced the measure of partial coverage of fixed costs for companies affected by the pandemic, covered the costs of loss of income in social welfare institutions due to unoccupied capacities, and paid supplements to civil servants. The last (seventh) package of assistance of 2020 was adopted at the end of December. It included additional support to healthcare, transport operators, fire fighters, and social and healthcare workers. Companies hit hardest by the current crisis were also able to raise special loans from the Slovene Enterprise Fund with a government guarantee.

Expenditure on COVID-19 measures totalled around EUR 2.5 billion (ESA methodology) in 2020. On the revenue side, taxes totalling around EUR 380 million were deferred in 2020. The total impact of the measures in 2020 therefore came to EUR 2.9 billion.

At the proposal of the government, the National Assembly adopted the Act on Additional Measures to Mitigate the Consequences of COVID-19 (the eighth anti-coronavirus package) at the beginning of February 2021 to tackle the third wave of the epidemic. This extended the subsidising of furlough payments, expanded the circle of most vulnerable people entitled to single payment solidarity assistance to school pupils over the age of 18, students abroad and disabled persons, and subsidised part of the minimum wage (by EUR 50).

The ninth package of support, which was adopted by the National Assembly in July 2021, provided help to those economic sectors hit hardest by the health crisis. New vouchers (bon21) were introduced for tourism, hospitality, sports and culture (EUR 100 for adults, EUR 50 for children). Companies that met the conditions set by law received assistance in the form of the funding of annual leave allowances amounting to EUR 1,024 per employee. Around 3,200 companies and 32,000 employees benefited from this measure. The intervention law also provided help to the meetings and events and film and audio-visual industries. The government provided exemptions from water charges and assistance to ski lifts and sky-resort operators. In order to increase efficiency in healthcare and access to health services, the Healthcare Intervention Measures Act was also adopted at the proposal of the government.

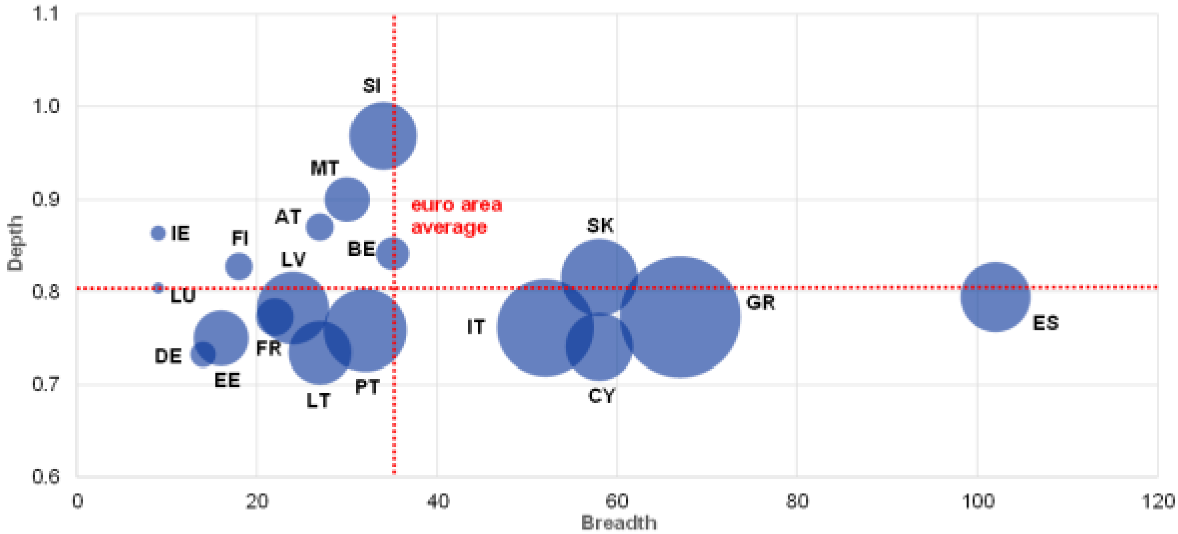
The last anti-coronavirus package was adopted by the National Assembly, at the proposal of the government, at the end of December 2021. The Act on Additional Measures to Stop Spreading and Mitigate, Control, Recover and Eliminate the Consequences of COVID-19 (ZDUPŠOP) extended certain measures from previous packages, and introduced a number of new ones to ensure smooth management of the fourth wave of the epidemic. The intervention law, worth an estimated EUR 280 million, included new support for the most vulnerable, introduced liability for damages in the event of complications arising from vaccination or the use of COVID-19 medication, and reimbursed the cost of rapid tests to businesses. The law also extended a number of measures that had otherwise expired in 2021; these included extending the validity of the tourist vouchers until the end of June 2022 and the period in which annual leave could be used. Just over 3.6 million vouchers had been used by March 2022. In the area of healthcare, the measures of temporary reassignment of healthcare staff, the funding of telemedicine treatment and the option of taking three days' sick leave without requiring a doctor's certificate were all extended. The law also introduced a change to the national tender for improving access to healthcare services by reducing waiting lists; it also introduced a supplement to protection, rescue and relief workers, and to pupils and students who provided assistance to COVID-19 patients.

At the proposal of the government, the National Assembly therefore eventually passed ten packages of support in response to the COVID-19 crisis. Expenditure on COVID-19 measures totalled EUR 2.4 billion in 2021 (ESA methodology). If the deferral of taxes paid in 2021 but relating to 2020 is counted, the measures amounted around EUR 2.1 billion. Expenditure on COVID-19 measures is expected to fall to EUR 443 million in 2022. With the gradual withdrawal of measures, expenditure is expected to be a mere EUR 4.8 million in 2023. This money will be spent on single payment solidarity assistance for babies born before 30 June 2023.

### 3.2 Measures and structural reforms for recovery and resilience

Figure 9 shows that, in relation to the measures set out in the Recovery and Resilience Plan (RRP), Slovenia has addressed practically all the country-specific recommendations 2019 and 2020.

Figure 9: Recommendations to government and reforms within the RRP




Source: ECB Economic Bulletin, Issue 1/2022.
*Note: x axis: number of reforms; y axis: estimate, 0 = no coverage, 1 = full coverage; the size of the bubbles reflects the size of the RRF grants and loans in % of GDP in 2019.

Within the RRP, the government envisaged structural changes to a number of areas. Changes to the pension system are among the most important structural changes. According to the RRP, these are planned for 2024 and will address the issues of the sustainability of public finances and the adequacy of pensions. In March 2022, with the aim of improving the labour market, the government supported the proposal of coalition parliamentarians to amend the Labour Market Regulation Act with the aim of getting the unemployed back to work. The amendments include extending the period of public works programmes to increase the integration of the most vulnerable into the labour market. The amendments propose that job seekers who are registered unemployed for more than six months may be referred to a vacancy post which is no more than two levels of educational attainment lower that the one the unemployed persons have attained. The proposed amendments are introducing the single-degree infringement finding on all grounds for infringements of obligations and determining that an appeal against a decision to terminate management shall not suspend enforcement. At the government's proposal, the National Assembly adopted a new systemic act on long-term care at the end of 2021. It guarantees comprehensive care provision for individuals, and envisages that a new act, to be adopted in 2025, will define a new method of long-term care funding (until then, funds shall be provided from the state budget).

The government also approved proposed amendments to social security legislation in March 2022. The amendments relating to social security receipts facilitate improvements to the exchange of recipients' personal data, and enable the compulsory payment of cash benefits in kind when a child is not attending school. The amendments to the Exercise of Rights from Public Funds Act are aimed at gradually separating family policy from social security policy in order to shift entitlements exercised in the framework of family policy towards the introduction of universal annual entitlements from public funds. The plan is for income alone (i.e. not assets) to be taken into account when determining the material situation in case of granting annual entitlements to public funds. There are plans to increase the threshold for entitlement to government grants, and to exclude the child benefit as income when granting entitlement to government grants and rent subsidies. In addition, company scholarships and payment for student work will be removed from consideration as income entirely when any entitlement to public funds is being granted. It is also proposed that the automatic right to income support be extended in order to increase the social security of the most vulnerable, and there are proposals to introduce the electronic delivery of decisions and informative calculations, which will reduce the workload of the main social security centre offices. In March 2022 the government also signalled its approval of the proposed Act Amending the Parental Protection and Family Benefits Act, which is currently under discussion by the National Assembly. Among other things, this proposal amends the existing provisions to bring them into line with specific provisions of Directive (EU) 2019/1158 of the European Parliament and of the Council of 20 June 2019 on work-life balance for parents and carers. According to the proposals, paternity leave will be reduced from 30 to 15 days, although the number of mandatory days of parental leave for fathers will be increased to 60. The Directive also enshrines the raising of the age threshold of children beyond which the right to work part-time in order to care for that child no longer applies (the age is raised to eight). The proposed new arrangements introduce changes to child benefit for families whose children do not attend school for good reason, and for families whose children do not go on to secondary school after completing primary education.

Amendments are expected to be adopted in healthcare and health insurance in 2024; these will guarantee greater universality in health insurance, greater solidarity in healthcare funding and better access to health services; they will also address the financing of healthcare activities. Investments to increase the capacities of infectious disease clinics, retirement homes and social security institutions are also planned.

Slovenia will implement different structural measures in order to reduce the productivity gap. In the business field, the government is engaged in reducing the administrative burden and removing administrative obstacles (e.g. in spatial planning investments). The amendments to the Public Procurement Act, which were adopted in 2021, ensure greater competitiveness of public contract tenders and the professionalisation of tender participants. Guidelines will also be drafted for the implementation of innovative public contracts. Favourable financing is one of preconditions for increasing investments, particularly for small and medium-sized enterprises. In addition to funds for the implementation of financial instruments, the government has therefore, within the RRP, planned changes to crowdfunding and alternative funds on capital markets.

The new research activities legislation, which was adopted in November 2021 at the proposal of the government, ensures increases in public funds for research financing, reorganises the development and innovation system, increases the independence of research institutes and provides for more stable financing. At the proposal of the government, the National Assembly also adopted amendments to the Investment Incentives Act, which sets out the criteria for selecting public investments and strategic investments financed by public funds and is oriented towards green transition. In order to increase productivity, the government is also planning digital transformation in the public as well as the private sector as part of the RRP. This will be possible only if adequate gigabyte connectivity is in place and properly trained individuals to enable the use of new technologies.

In the field of higher education, a project for the reform of higher education for a green and resilient transition to Society 5.0 is planned within the RRP. Reform will be directed towards the formulation of combinations of knowledge (skills) that enable graduates to enter the labour market sooner and encourage them to undertake lifelong learning (upgrading and deepening of higher education knowledge).

In line with EU objectives, Slovenia is striving to become a carbon-neutral society by 2050 and to halve its greenhouse gas emissions by 2030. It is realising these targets through the reforms and investments set out in the RRP. RRP funds are also being used to renew railway infrastructure. A modernised railway network will make travel more attractive, helping the country to achieve its sustainable mobility targets and reduce greenhouse gas emissions.

The Infrastructure for Alternative Fuels in Transport Act is due to be adopted in 2022. Slovenia is also keen to make use of technical assistance from the European Commission to increase the share of renewable energy sources and remove administrative obstacles (in spatial planning, shortening procedures for issuing authorisation and permits for the installation, connection and operation of generating plants that use renewable sources, etc.). At the proposal of the government, the National Assembly adopted the Public Passenger Transport Act in April 2022. High fuel prices and efficient public transport can be an incentive for the public to use their cars less and make more use of public transport. With a suitable campaign to raise awareness of public transport and the benefits of reducing car use to reduce greenhouse gas emissions, the state will be in a position to start changing consumer habits.

Tax measures

In the area of tax, the government is implementing reforms to strengthen competitiveness, simplify legislation, and direct incentives to green and digital development. This will have a positive effect on economic growth and raise productivity by introducing solutions in the area of tax that will stimulate digital and green innovations. The totality of the solutions will have wider positive effects by creating jobs and strengthening fiscal sustainability. It should be pointed out at this juncture that regardless of the negative effects on government revenues in the initial years, the overall impact will be a positive one, with a better and more competitive environment and increases in productivity and employment, which will neutralise the initial negative effects over the long term.

At the proposal of the government, the National Assembly adopted the new version of the **Corporate Income Tax Act** in 2021. This has created a more encouraging business environment, with clearer and friendlier administrative rules, and, since this year, enabled support to be provided to other policies, including those of employment, the environment and digital transformation with the introduction or expansion of tax reliefs. Eligible companies can reduce their tax base by 40% of an investment in digital transformation and green transition; this could further encourage enterprises to opt for advanced digital or green solutions in their business operations, thereby increasing their efficiency and competitiveness. Elite sport will also benefit through additional tax reliefs on donations. The government has addressed the issue of damaging tax measures and gone some way to introducing a fairer tax system by transposing provisions of the European Anti Tax Avoidance Directive into Slovenian law. Although the government estimates that the solutions will reduce revenues by around EUR 27 million, they will have an important long-term effect, as the incentives will boost the further development and competitiveness of companies and, on the other hand, increase public finance revenue inflows (e.g., the dividends of state-owned companies).

One important change is the entry into force the amendments of the Personal **Income Tax Act**, which will boost Slovenia’s competitiveness on the international stage and speed up the economic recovery. The aim of the Personal income tax law is to relieve the income tax burden from individuals, which will have a multiplicative effect on private consumption and employment. The government will therefore not only be helping to lower individuals’ tax burden, but also exercise a positive effect on the economy by encouraging companies to make further investments. The amendments to the act lowers:

- tax on income from work (via a gradual raising of the general income threshold from EUR 3,500 to EUR 7,500 EUR, lowering the tax rate for those in the last (fifth) tax bracket from 50% to 45%, reintroducing the automatic harmonisation of tax reliefs and the net annual tax bases with the coefficient of the growth in consumer prices, and introducing tax relief of EUR 1,500 for senior citizens over the age of 70);
- tax on capital income and property rental (lowering of the tax rate for capital income from 27.5% to 25% and the property rental tax rate from 27.5% to 15%, while reducing normalised costs to 10%, and the introduction of the option to decide whether to include property rental income and capital income in the annual tax base); and
- tax on income from activities (with the introduction of a tax relief of 40% of the amount invested in green and digital solutions).

Under the calculation, which took account of the fact that nominal GDP growth is responsible to a large degree for the growth in the tax base, it is estimated that income tax receipts will fall by around EUR 152 million in the first year, by around EUR 133 million in 2023, by a further EUR 127 million in 2024 and by a further EUR 131 million in 2025. On the other hand, this is a measure that will speed up the recovery of the economy and of the population as a whole. Not least, the measure will have a positive impact on economic growth, productivity and consumption. The government estimates that in the coming years, overall revenues will be higher than those lost through the lowering of taxes.

In the area of **value added tax** (VAT), the National Assembly adopted amendments of the relevant law, at the proposal of the government. Its measures address the objectives of environmental policy, as well as the issues of administrative simplification and an increase in the level of digital transformation in Slovenia. Companies are now entitled to a VAT reduction of up to EUR 80,000 on the procurement of electric vehicles, which they can then use to fund their business operations. Moreover, with the amendments has also abolished the requirement to present receipts in paper form. Receipts for final customers no longer need to be printed and presented to them on paper, unless they specifically ask for it, regardless of how the product was paid for. This measure aims to reduce paper use, and therefore pollution, while buyers retain all their former rights regardless of whether or not they accept a paper receipt. As part of efforts to relieve the administrative burden, the threshold above which farmers are obliged to enter the VAT system has been abolished.

This year the government has also sent the amendments to the **Tax Procedure Act** to the National Assembly for discussion. It aims to improve current regulation of the tax procedure, enabling taxpayers to exercise their rights and legal benefits more easily and quickly. The measures proposed in pursuit of these objectives include: a shortening of the deadline for deciding on binding information; the option of retrieving documents from the eDavki portal without a qualified digital certificate; the option of deferring enforcement until the delivery of a decision on an appeal at the taxpayer’s request; an increase in the number of tax payment instalments for individuals and businesses without the requirement to provide supporting documents and without preconditions (under the current arrangements, payment by instalments without the provision of particular supporting documents only applies to individuals); and the extension of the deadline by which a taxpayer may to file a tax return after the expiry of the prescribed deadline without facing any consequences.

In order to improve taxpayers' legal certainty in procedures conducted by the Financial Administration, as well as improve the organisation of Financial Administration operations, the National Assembly adopted the amendments to the **Financial Administration Act** at the proposal of the government. The solutions will improve the efficiency of the Financial Administration while preserving the requirements for the lawful and correct management of procedures and ensuring that customers' enjoy adequate and more effective legal certainty. It is also and above all an important part of the drive to ensure the equal protection of rights.

# 4 Fiscal projections under the no-policy-change scenario

The fiscal scenario for the 2022–2025 period has been drawn up on the basis of estimates of revenues derived from macroeconomic forecasts and the measures already adopted. Similarly, trends in expenditure take into account the measures adopted and the existing modes of operation of various systems, which set out the method by which receipts are adjusted. According to the policy set out for 2021, fiscal policy will continue to focus, in the 2022–2025 period, on maintaining high levels of investment and adopting measures for continued recovery and growth.

Measures to eliminate the consequences of the COVID-19 pandemic for individuals and enterprises and to support the operations of social security systems made an important contribution to economic activity in 2020 and 2021, and consequently also influenced the public finance situation in 2021. This will provide a basis for future years. The deficit fell to 5.2% of GDP in 2021 and would have approached 1% of GDP in the absence of COVID-19 measures. After a nominal fall in 2020 resulting from lower economic activity and the measures to tackle the consequences of the epidemic, general government revenues increased markedly in 2021, accounting for 43.9% of GDP. Revenues will fluctuate between 43.5% and 42% of GDP in the next few years. On the other hand, the general government expenditure increased to around 51% of GDP in 2020 due to need to implement COVID-19 related measures, falling to around 49% of GDP in 2021. Under the no-policy-change scenario, it will gradually fall to 43.5% of GDP in 2025. The deficit will fall to 4.1% of GDP in 2022, to below 3% in 2023 (2.97%) and to 1.7% in 2025. This year, COVID-19 measures were mainly implemented at the beginning of the year on the basis of the tenth package of measures. They will gradually be discontinued as a result of an improvement in the epidemiological conditions. The deficit in 2022 would have been around 3% of GDP if the measures had not been carried out, and around 2.5% of GDP if measures had not been necessary to mitigate the energy crisis and provide aid in response to the war in Ukraine.

The scenario has been formulated despite the numerous uncertainties and risks stemming from the geopolitical situation, the energy crisis, inflation, disruptions to the supply chains, etc. Slovenia recorded high economic growth in 2021, which was also a reflection of the major incentives provided by the government. In 2021 the International Monetary Fund pointed out[14] that the faster the recovery, the less acute the negative consequences for the labour market and the less protracted the fall in consumer and investor confidence. It also stated that additional incentives in the coming years would enable even stronger recovery, followed by stronger fiscal consolidation.

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

Fiscal rules must not hinder strong fiscal stimulus, mainly because fiscal consolidations can lead to a permanent reduction in GDP and therefore a higher public-debt-to-GDP ratio (DeLong & Summers, 2012)[15]; (Fatás & Summers, 2018)[16]. Fiscal consolidation must be supported by a recovery in aggregate demand and directed towards the long-term stabilisation of public debt (Blanchard & Cottarelli, 2010).[17] As a result of the depth of the COVID-19 crisis and the low interest rate environment, Paul Krugman (Baldwin & Weder di Mauro, 2020)[18] even proposes a permanent increase in public expenditure for investments in infrastructure and R&D.

The exceptional circumstances are still valid at national level in 2022 and the general escape clause is still in place at the EU level. In March 2022 the European Commission issued its fiscal policy guidance for 2023; because of the known uncertainties, the guidance is solely qualitative in nature. The EU will make a decision in May 2022 on whether to deactivate the general escape clause in 2023. Compliance with fiscal rules will, when the exceptional circumstances are no longer in place, require a transition to the corrective arm of the Stability and Growth Pact (which requires nominal targets to comply with the goal of bringing the general government deficit to below 3% of GDP), followed by the preventive arm, which requires the gradual transition to the medium-term balance of public finances. In light of this, it is important to note that, if policies remain unchanged and the current assumptions remain in place, Slovenia's deficit will be below 3% of GDP in 2023.

After the epidemiological and geopolitical situations have calmed, economic policy will, for some time, remain oriented towards encouraging investments. The Eurogroup statement of March 2022 makes clear that fiscal policy must, despite the transition to a neutral fiscal policy, remain responsive and flexible as a result of the extremely uncertain conditions related to the ongoing pandemic and the geopolitical situation[19]. The response to the war in Ukraine should involve attempts to reduce its negative impact through humanitarian and other assistance, as well as measures to combat the impact of rising prices. Higher energy prices affect the poorest households the most, as they spend a proportionately higher share of their income on energy and food. The OECD also recommends that measures are formulated[20].

Exceptional circumstances

The extraordinary situation brought about by the COVID-19 pandemic, and by the fall in economic activity resulting from the restrictive measures introduced to combat it, enables deviation from fiscal rules on the basis of exceptional circumstance instruments at national and EU level. At EU level, a general escape clause has been in place since 2020. It enables a temporary deviation from the normal operation of fiscal rules. On the basis of the European Commission's winter forecast of

[15] DeLong, J. B. & Summers, L.H. (2012). 'Fiscal policy in a depressed economy [with comments and discussion]'. Brook. Pap. Econ. Act, 233–297.

[16] Fatás, A. & Summers, L. H. (2018). 'The permanent effects of fiscal consolidations'. Journal of International Economics, 112 238–250.

[17] Blanchard, O. & 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/.

[18] Baldwin, R. & 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. Available at: https://voxeu.org/content/mitigating-covid-economic-crisis-act-fast-and-do-whatever-it-takes.

[19] Eurogroup (2022). Eurogroup statement on the fiscal guidance for 2023. Available at: https://www.consilium.europa.eu/en/press/press-releases/2022/03/14/eurogroup-statement-on-the-fiscal-guidance-for-2023/.

[20] OECD (2022) OECD Economic Outlook, Interim Report March 2022: Economic and Social Impacts and Policy Implications of the War in Ukraine. Available at: https://www.oecd-ilibrary.org/sites/4181d61b-en/index.html?itemId=/content/publication/4181d61b-en.

February 2022 it was envisaged that the general escape clause will be deactivated from 2023. However, as conditions remain highly uncertain as a result of the geopolitical situation, the energy crisis and inflation, a decision will be taken in May 2022 by the EU on the possible continued use of the clause over the next year. At national level, deviation from the fiscal rules is enabled by Article 12 of the Fiscal Rule Act (in periods of serious economic downturn or in the case of an unusual event outside the control of the government that has a major impact on the fiscal balance of the general government). Assessment of whether such exceptional circumstances are place is made by the Fiscal Council, with the most recent being made in September 2021. In the assessment, the Council established that, given the information available at the time, the conditions for the application of exceptional circumstances under Article 12 of the Fiscal Rule Act will continue to be met in 2022. At the same time, it warned that the resulting flexibility should only be used to directly address the consequences of the epidemic, and expressed an expectation that the government would, when the exceptional circumstances were no longer in place, prepare measures to balance public finances in the medium term as quickly as possible.

Despite the fact that the general escape clause is still in place, under the rules of the Stability and Growth Pact the European Commission compiles a report under Article 126(3) of the Treaty on the Functioning of the EU as soon as it establishes that a country has exceeded the 3% deficit threshold. Alongside this, the Commission gives the Member State the chance to explain the deviation from the rules. Despite the high deficits recorded as a result of measures to mitigate the effects of the COVID-19 pandemic, the excessive deficit procedures have not yet been opened. The EU will adopt a decision on any opening of procedures later in the year.

Fiscal Policy Guidance, European Commission

The Commission announced guidance on the conduct of fiscal policy for 2023 in the Communication on fiscal policy guidance for 2023.[21] The Communication includes five key principles that will guide the Commission's assessment of this year's stability or convergence programmes. The assessments will remain primarily qualitative. Under the first principle, the Commission points out the need to continue with the relevant policy coordination and to transition from a supportive to a neutral aggregate fiscal stance, while the second addresses the need for gradual achievement of public debt sustainability, as consolidation that is too abrupt would undermine the ongoing recovery. The third principle relates to the need to foster and protect national investments in order to ensure sustainable growth, while the fourth calls for the preparation of medium-term strategies to reduce public debt based on investments and reforms. The fifth principle envisages the differentiation of fiscal adjustments in countries with high debt levels and those with medium or low debt levels: high-debt countries should begin to reduce debt gradually so that they implement fiscal adjustment in 2023 without contributions from the Recovery and Resilience Facility and other EU grants, while low- and medium-debt countries should strengthen the necessary investments in green and digital transition so as to achieve a broadly neutral policy stance. The Commission Guidance will be adjusted as necessary to take account of the considerable uncertainties, which primarily stem from the geopolitical situation.

Investment funds began to be increased in 2021 and will further increase in nominal terms in the next few years. The share of general government investment will therefore increase to above 6.5% of GDP in 2023. This will represent the peak (end of the use of funds from the 2014–2020 multiannual financial framework), after which it will fall to around 5.5% of GDP by 2025, which is above the level of past responses to crisis events and the long-term average level (Figure 10). Investments have a major

[21] European Commission (2022). Fiscal policy guidance for 2023. Available at: https://ec.europa.eu/info/sites/default/files/economy-finance/com_2022_85_1_en_act_en.pdf

impact on economic activity. Here, fiscal policy is also following the advice of international institutions and EU guidelines: that investments must be strengthened or maintained at a high level. Investments from the Recovery and Resilience Plan account for 0.3% of GDP in 2022 and will rise to around 0.9% in 2024 and 2025.

Table 6: Cyclical developments

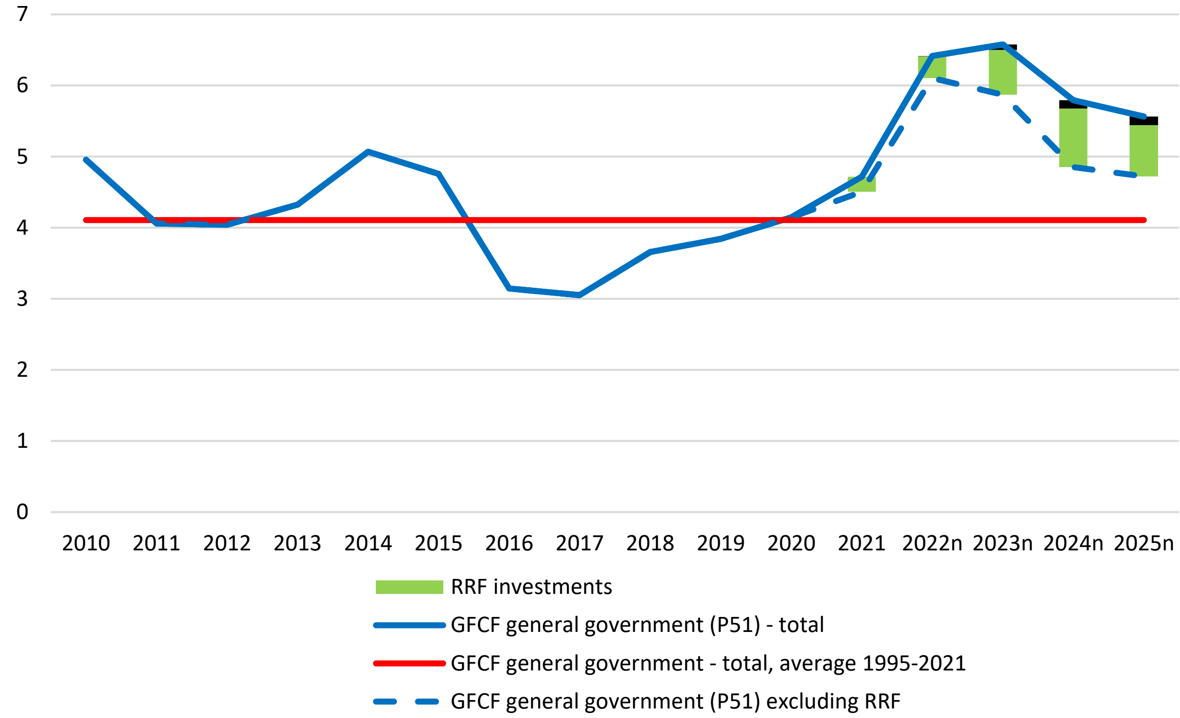
| | % of GDP | ESA code | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| 1. | Real GDP growth (%) | | 8.1 | 4.2 | 3.0 | 2.8 | 2.6 |
| 2. | Net lending/borrowing of general government | B.9 | -5.2 | -4.1 | -3 | -2.1 | -1.7 |
| 3. | Interest expenditure | D.41 | 1.3 | 1.2 | 1.1 | 1.1 | 1.0 |
| 4. | One-off and other temporary measures | | -0.04 | -0.62 | -0.18 | -0.14 | -0.13 |
| 4a. | Of which one-offs on the revenue side: general government | | | 0.04 | | | |
| 4b. | Of which one-offs on the expenditure side: general government | | 0.04 | 0.66 | 0.18 | 0.14 | 0.13 |
| 5. | Potential GDP growth (%) | | 3.0 | 3.0 | 2.8 | 2.8 | 2.8 |
| | Contributions: | | | | | | |
| | - Labour | | 0.8 | 0.8 | 0.5 | 0.5 | 0.5 |
| | - Capital | | 0.5 | 0.6 | 0.7 | 0.8 | 0.9 |
| | - Total factor productivity | | 1.6 | 1.6 | 1.5 | 1.5 | 1.5 |
| 6. | Output gap | | 1.3 | 2.5 | 2.6 | 2.4 | 1.9 |
| 7. | Cyclical budgetary component | | 0.6 | 1.2 | 1.2 | 1.1 | 0.9 |
| 8. | Cyclically-adjusted balance (2-7) | | -5.8 | -5.2 | -4.2 | -3.2 | -2.6 |
| 9. | Cyclically-adjusted primary balance (8+3) | | -4.5 | -4.0 | -3.1 | -2.2 | -1.6 |
| 10. | Structural balance (8-4) | | -5.8 | -4.6 | -4.0 | -3.1 | -2.5 |
| 11. | Fiscal effort | | 0.3 | 1.2 | 0.6 | 0.9 | 0.6 |

Source: Ministry of Finance. Note: 4a – measure reduces revenues.

It is therefore important for fiscal rules to promote public investments. This is particularly relevant to Slovenia, as the IMF (2021)[22] estimates that public investments in Slovenia have a more stimulative effect on the macroeconomic environment than the EU average. According to the IMF, an increase in ESI funds equal to 1% of GDP in Slovenia (and in CEE countries) is followed over the course of one year by an increase in GDP of between 1.3% and 1.6%. In Slovenia, an increase in public investments results, according to the IMF, in the more extensive crowding in of private investments than the EU average (an increase of 1.3% vs. an increase of 0.8%) and in relatively higher increase in employment (a one-year multiplier of between 0.1% and 0.2%).

[22] IMF (2021). 'The Fiscal Multiplier of European Structural Investment Funds: Aggregate and Sectoral Effects with an Application to Slovenia.' Working Paper April 2021.

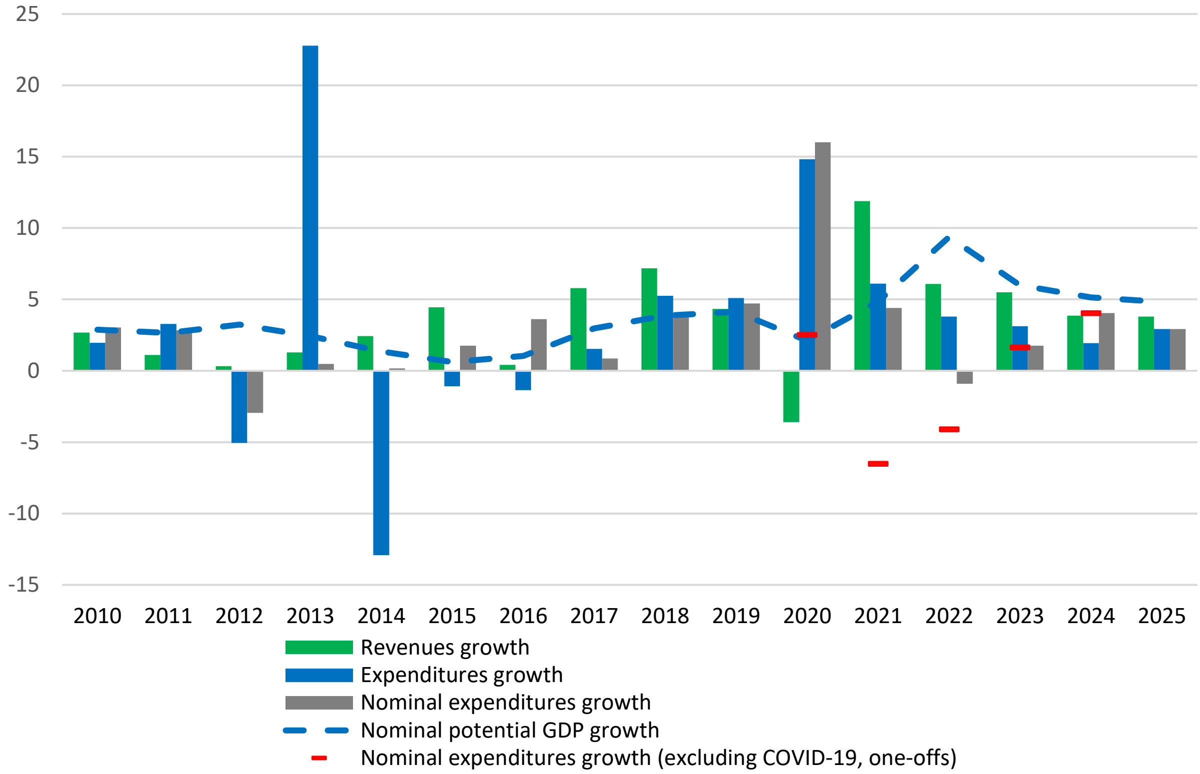
Figure 10: Investment funds (GFCF) as % of GDP




Source: SORS, Ministry of Finance.
*Note: The forecast applies to the 2022–2025 period.

It is very important for expenditure not to rise faster than the production capacity of the economy or potential GDP in the long term. The growth in current expenditure (all expenditure except for investments and capital transfers) will, in the 2022–2025 period, be lower than the annual growth in nominal potential GDP and the average ten-year nominal growth in potential GDP, which stands at 5.4% for 2023. The growth in current expenditure has been falling since the measures to mitigate the effects of the COVID-19 crisis gradually began to be withdrawn. However, some expenditure categories will nevertheless increase in 2023, given that they declined as a result of the non-provision of services during the epidemic in 2021 and will return to their pre-crisis level (e.g. the co-financing of transport for children and high school students). Expenditure on sick leave will fall in nominal terms in 2023 on the assumption that there is a fall in expenditure on quarantine for COVID-19 cases. That said, it will increase in the next few years as a result of the adoption of the measure to reduce the number of days of sick leave covered by employers. The slightly higher growth in expenditure in 2024 will mainly be the result of the gradual introduction of a comprehensive system of long-term care.

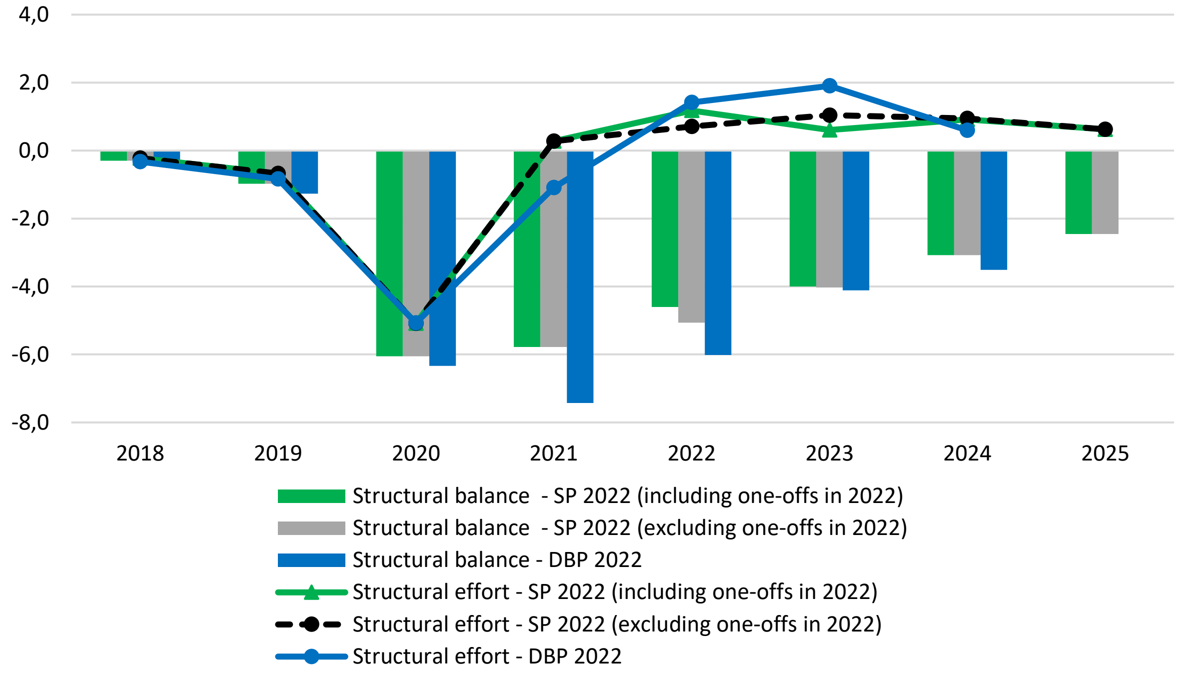
Figure 11: Growth rate of government revenue, government expenditure and nominal potential GDP




Source: Ministry of Finance.

Preparation of the calculations of the general government balance targets, the maximum general government expenditure and of the balance targets and maximum expenditure for the state budget in cash terms (for the purposes of drafting the Framework for the Preparation of the General Government Budget) has been severely hampered by the changing macroeconomic conditions and the uncertainties in the geopolitical situation. The most suitable indicator of fiscal stance is the subject of discussion even in normal times; accordingly, the European Commission is still not assessing countries in relation to their structural balance (cyclically adjusted balance without one-off expenditures), but only qualitatively. At the same time, the medium-term planning of fiscal policy under the ESA methodology and in cash terms for the four public finance budgets is subject to considerable uncertainty. Assessments of position within the cycle, evaluations of the adequacy and effectiveness of measures (ex-ante and ex-post), forecasts of macroeconomic aggregates (which change on a quarterly basis) and revisions of GDP are particularly problematic. Figure 12 contains a comparison of the structural balance and fiscal effort calculated in autumn 2021 and spring 2022. It shows the instability of the calculations, as the ex-ante calculation for 2021 (made in autumn 2021) and the calculation made a few months later based on the actual data differ considerably. Nevertheless, fiscal effort achieved under the no-policy-change scenario is considerable and sufficient. The structural balance would deteriorate in 2022 without taking into account the one-off expenditures related to the energy crisis and the war in Ukraine. This is clear from Figure 12, with a structural position and fiscal effort around 0.5 percentage points lower in 2022 (grey column and black line).

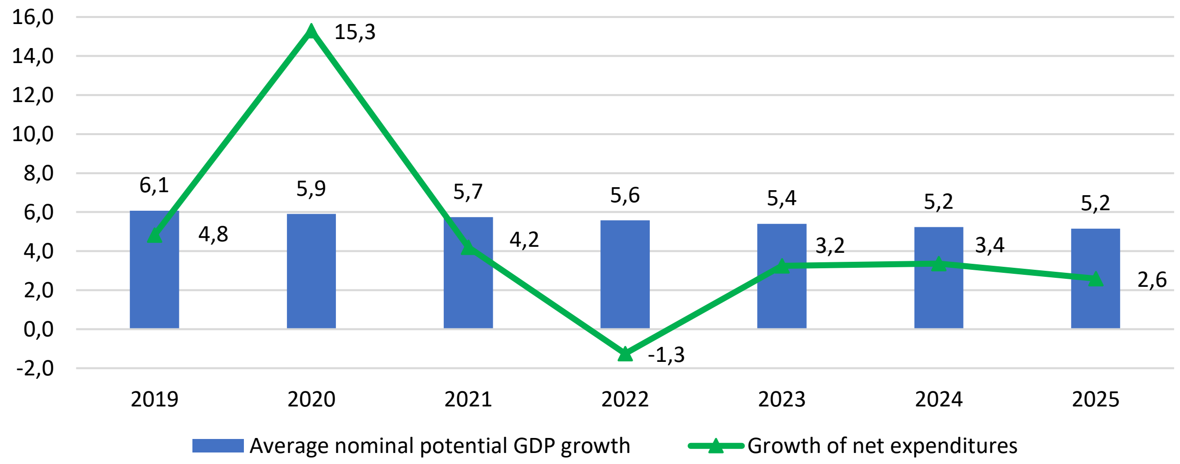
Figure 12: Comparison of structural balance (in % of potential GDP) and fiscal effort (in percentage points of potential GDP), according to Stability programme 2022 (SP 2022) and Draft Budgetary Plan 2022 (DBP 2022)




Source: Ministry of Finance.

In order to obtain an estimate of adequate expenditure growth as prescribed by the Stability and Growth Pact, expenditures on interest, the cyclical component of unemployment benefits and expenditures resulting from inflows from EU funds are subtracted from all expenditures (net expenditures), with due regard paid to the four-year averages of investment expenditure, which do not include funds received from the EU for investment. The planned expenditures will not exceed the growth in the average nominal potential GDP in the 2023–2025 period. These assessments are uncertain and reflect the uncertainty of the calculations and the deviations in data.

Figure 13: Comparison of growth in net expenditure and nominal potential GDP (%)

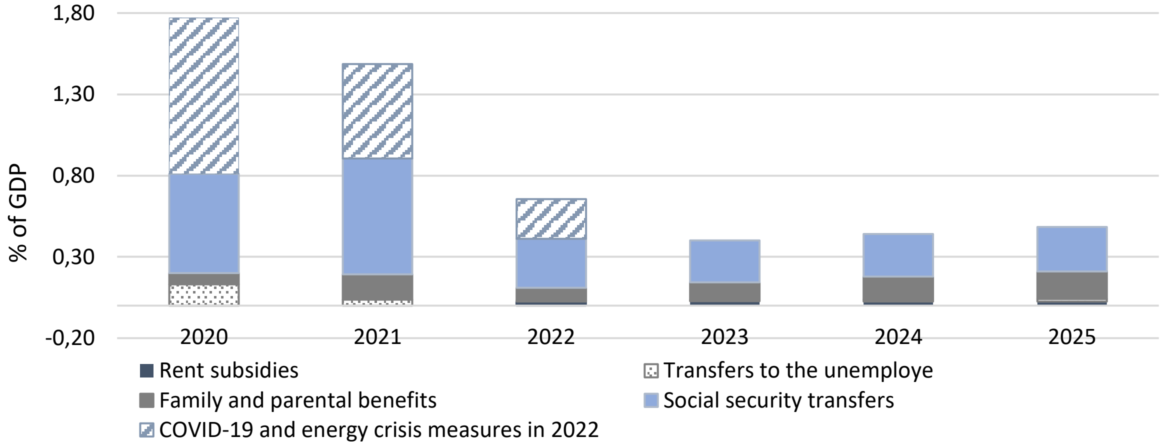



Source: SORS, Ministry of Finance.

Automatic stabilisers

Automatic stabilisers automatically adjust transfer payments in such a way as to balance expenditure and consumption within the business cycle. They include transfers to the unemployed, family and parental benefits, retirement benefits, transfers for social security and the subsidising of rents, and totalled around EUR 1.14 billion (or 2.4% of GDP) in 2019. As a result of the government's response to the crisis, they increased by 0.8% of GDP in 2020 in comparison with 2019 and by 0.9% of GDP in 2021 in comparison with 2020. In 2022 they are expected to be higher than the 2019 figure by 0.41% of GDP (Figure 14). As one of the automatic stabiliser categories, transfers for social security further increased by 1% of GDP in 2020 (as a result of COVID-19 measures). The increase is expected to be more moderate in 2022 (0.6%). They will rise further in 2022 due to the considerable contribution made by energy vouchers that is expected to amount to 0.25% of GDP. In the next three years, the biggest increases will come in transfers for social security and family benefits.

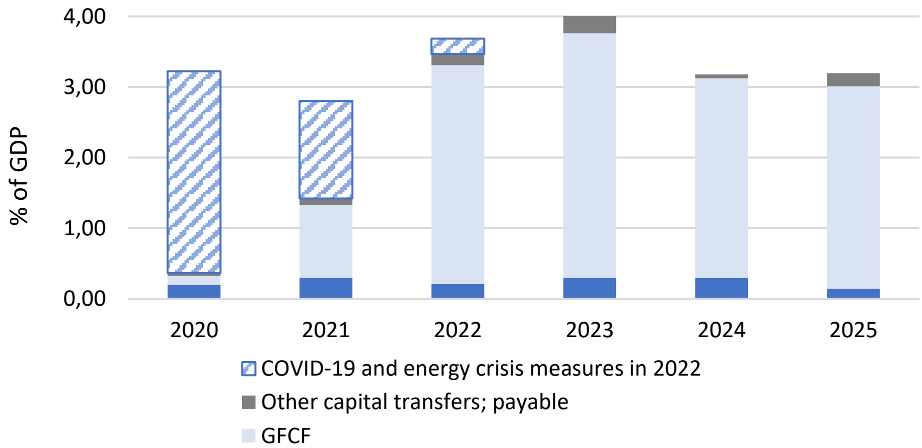
Figure 14: Automatic stabilisers (change from 2019 in % of GDP)




Source: Ministry of Finance (own calculations).

Fiscal incentives (Figure 15), which include subsidies, gross fixed capital formation (GFCF) and other capital transfers, have increased or will increase substantially in comparison with 2019. In 2019 they amounted to EUR 2.37 billion, or 4.9% of GDP. In 2020 and 2021, fiscal incentives in the form of subsidies increased strongly as a result of COVID-19 measures. In 2022 and the following three years, incentives will rise mainly on account of investments. The measures taken to mitigate the energy crisis for companies will have an important effect on the growth in fiscal incentives in 2022.

Figure 15: Fiscal incentives (change from 2019 in % of GDP)




Source: Ministry of Finance (own calculations).

## 5 Trends in general government revenues and expenditures 2021–2025

### 5.1 Revenues and expenditures of the four public finance budgets

State budget

The growth in state budget revenues was above average in 2021: 23.1% in comparison with 2020 and 10.2% in comparison with the pre-crisis year of 2019. Revenues grew in all main tax categories. Corporate tax revenues rose by 44.2% compared to 2020 and by 11.8% compared to 2019, thereby exceeding their pre-crisis levels. There was a growth in personal income tax revenues of 30% in comparison with 2020 and 8.8% in comparison with 2019, and there was also high growth in VAT revenues (19.9% and 9.3% in comparison with 2020 and 2019, respectively). There has been also a discernible rise in revenues from EU funds, with similar rises in comparison with 2020 and 2019 (30.6% and 30.3%, respectively). These were partly also the result of inflows of funds from the Recovery and Resilience Facility.

A growth in state budget revenues of 6.2% is also expected in 2022 in comparison with 2021. There will be a growth in corporate tax revenues of 19.7% and a considerable increase in VAT revenues (9.6%), although growth in personal income tax revenues will be negative (8.7%), which can largely be attributed to the personal income tax reform that has been adopted. Nevertheless, we expect income tax revenues to rise from 2023 (by 6.1%). Growth in revenues from the EU will continue in 2022 (by 24.2%), with the peak being reached in 2023 (an increase of 49.3% on this year), chiefly on account of an increase in the disbursement of funds upon conclusion of the European financial perspective and of revenues from the Recovery and Resilience Facility.

Assuming that policies remain unchanged, state budget revenues will continue to rise in the medium term (2023–2025), but will stabilise on average at around 3% a year. Tax revenues will increase at an average rate of 3.2% a year, mainly on account of the growth in corporate tax and VAT revenues. There will also be increases in revenues from EU funds, with disbursements reaching a peak in 2023 (an increase of just under 50%), mainly on account of funds from the Recovery and Resilience Facility. The disbursement of EU funds will be slightly lower in 2024 and 2025 because of the start of the new EU financial perspective and the slight decrease in revenues due from the Recovery and Resilience Facility.

State budget expenditure rose by 13.4% in 2021 in comparison with the year before. This was 10 percentage points lower than the growth in revenues. This rise is largely attributable to expenditure on mitigating and eliminating the consequences of the COVID-19 crisis (EUR 2.8 billion, or around 20% of total expenditure). There were also considerable rises in investment and investment transfer expenditure (up by 35.9% in comparison with 2020), mainly in connection with the disbursement of EU funds.

State budget expenditures will, assuming unchanged policies, continue to fall in 2022 (by 3.8% in comparison with 2021), primarily as a result of lower expenditure on COVID-19. The fall in expenditure will be slightly slower, mainly on account of expenditure for the measures and assistance planned for Ukraine, aid to business and farmers in response to the rise in energy prices and, most of all, higher investments and investments transfers as a result of the increased disbursement of EU funds and funds from the Recovery and Resilience Facility.

State budget expenditure will rise by an average of 1.1% a year in the 2023–2025 period. The growth in expenditure will be more pronounced in 2023 (4.4%) on account of higher investments and investment transfers, which will reach their peak in that year, and of transfers to the Health Insurance Institute (ZZZS) for long-term care. Total expenditure will fall by around 2.3% in 2024 compared to the year before, mainly on account of lower expenditure on investments and investment transfers. The fall will not be so pronounced, mainly because of transfers for long-term care provision. Budget expenditures will rise by 1.2% in 2025, again as a result of higher investment and investment transfer expenditure from the increased disbursement of EU funds from the new EU financial perspective and from the Recovery and Resilience Facility. When planning investments in the state budget, it is important to consider the fact that the current arrangements allow direct budget users to award public contracts only when spending entitlements have been set out in the budgets they have adopted. As delays can arise in the implementation of investments, actual expenditure may be lower than planned in a specific year; in some years, the actual absorption of investments can be between 10% and 15% of the planned level.

Municipal budgets

Municipal budgets ended 2021 with a surplus of EUR 45 million, or 0.1% of GDP.  Similarly, it has been estimated for the 2022–2025 period, when surplus will total on average around EUR 62 million (0.1% of GDP). There was a 7.2% growth in revenues in 2021 compared to the year before; this is largely attributable to higher transfer revenues from the state budget, which have been rising since 2019, mainly on account of higher transfers for investments. In order to ensure balanced local development of municipalities and relieve the financial burden on municipalities, an additional transfer was introduced in 2021 to replace the share of additional funds from the state for the financing of investment projects. Growth in revenues will be around 5.2% in 2022, remaining more at less at the same level in the 2023–2025 period.

Total expenditure was up 6.7% in 2021 and will increase by around 4.7% in 2022. The level of expenditure in the 2023–2025 period will be similar to that seen in 2022. Investment expenditure and transfers will account for a significant portion of total municipal budgets, increasing by 18.9% in 2022 and falling by an average of 4% a year in the 2023–2025 period.

Pension and Disability Insurance Institute

The Pension and Disability Insurance Institute (ZPIZ), which accounts for more than 20% of general government revenues, ended 2021 with balanced revenue and expenditure, as required by the Pension and Disability Insurance Institute Act (ZPIZ-2). ZPIZ revenues and expenditure rose by 5.2% in comparison with 2020 (12.6% in comparison with 2019), mainly due to higher revenues from social security contributions (by 8.6% and 12.7% compared to 2020 and 2019, respectively) resulting from the labour market recovery and high wages growth. Owing to higher realised total revenues, transfers from the state budget, which cover the difference between the revenues and expenditure of the ZPIZ, were 9% lower last year than in 2020. While expenditure on pensions grew by 5.4% between 2020 and 2021 as a result of the 2.5% regular annual pension indexation (in February), it was 0.3% lower than expected in the ZPIZ financial plan for 2021.

The growth rate in total revenues and expenditure of the Pension and Disability Insurance Institute in 2022 is estimated at 8.7%, with revenues from social security contributions set to grow by 4.6% as a result of the envisaged fluctuations in wages and employment, and transfer received from the state budget set to grow by 27% on the 2021 figure. Expenditure on pensions, which represent for the largest share of total expenditure of the pension fund, will nominally grow by 8.8% , mainly on account of the regular 4.4% pension indexation in line with inflation and wage growth in the previous year and the additional indexation made pursuant to the amendments of the Pension and Disability Insurance Institute Act (ZPIZ-2L), which will pay pension entitlements at three different rates according to time of retirement of the pensioners (3.5%, 1.7% and 1%), thus it will increase liabilities of the pension fund of approximately EUR 145 million in 2022.

ZPIZ estimations for the 2023–2025 period indicate that its total revenues will grow by an average of 5% year-on-year, with transfer revenues growing slightly higher than tax revenues and contributions (with the exception of 2025). Pension expenditure will rise by 5.1% in 2023, 4.9% in 2024 and 4.6% in 2025, resulting particularly from the planned annual pension indexation and the planned average number of pensioners. The transfer of payments for pension and disability insurance contributions to the Health Fund (ZZZS) account under the Long-Term Care Act (ZDOsk) will also contribute to ZPIZ expenditure in the 2023–2025 period. On the other hand, a fall of 89% in expenditure on the assistance and attendance allowance is expected in 2025, as the start of provision of long-term care under the ZDOsk will gradually bring that allowance to an end or transfer it to the health fund in other form of monetary assistance (cash benefits).

Health Insurance Institute

Health Insurance Institute (ZZZS) total revenues increased in 2021 by 12% in comparison with 2020 and by 17% in comparison with the pre-crisis year of 2019. This was on account of higher social security contributions (a 9% increase) as well as 89% higher transfers from the state budget in order to cover expenditure resulting from the COVID-19 epidemic. Alongside a 5% increase in expenditure, the ZZZS recorded a surplus of revenue over expenditure of EUR 120 million in 2021, which enabled it to add EUR 40 million to its own reserve fund.

A growth of 4% in in total revenue is expected in 2022 compared to 2021, with social security contributions expected to rise by 5% as a result of improved macroeconomic forecasts. At the same time, it is estimated that ZZZS total expenditure will also rise by 12%. The ZZZS estimates that it will require an additional budget funds of EUR 150 million this year in order to finance several measures, including salary increases in healthcare and the coverage of COVID-19 costs, pursuant to Article 80 of the Act on Additional Measures to Stop Spreading and Mitigate, Control, Recover and Eliminate the Consequences of COVID-19 (ZDUPŠOP). The main drivers of the growth in total expenditure in 2022 will be the significant increase in wage compensation for temporary absence from work, primarily as a result of an increase in expenditure on COVID-19 isolation (annual figure estimated to be EUR 172 million) and changes to the Employment Relationships Act and the Healthcare and Health Insurance Act (reduction in the number of days of sick pay covered by the employer from 30 to 20), which are expected to create an additional burden for ZZZS of EUR 53 million in 2022. Also, increased expenditure on healthcare services and activities are expected (specialist outpatient and hospital treatment, medicines, medical devices, etc.) in terms of transfers to public institutions (a rise of 9%) and current payments to other public service providers (a rise of 11%), mainly as a result of the expansion and improved evaluation of programmes, the agreed salary increases in health and social care, and the revaluation of material costs in line with the average growth in the consumer price index.

The adopted Long-Term Care Act (ZDOsk) will also have a major impact on the revenues and expenditure of the Health Fund account in the 2023–2025 period. According to this new law, the ZZZS is the main institution responsible for implementing the long-term care system. A fall in expenditure on sick pay is planned in 2023 as a result of the expected reduction in expenditure on COVID-19 isolation. However, expenditure on sick pay is expected to rise further in 2024 and 2025. Owing to the gradual introduction of long-term care services pursuant to the ZDOsk, a rise is planned in the transfers to social care institutions and in payments to other institutional care providers throughout the 2023–2025 period. In addition to the planned expenditure on long-term care, the rise in ZZZS transfer expenditure will be driven by expenditure on treatment abroad, on medical devices (the result of the expansion of entitlements to devices) and on medicines (changes to the prescription system and the introduction of new medicines) and vaccines.

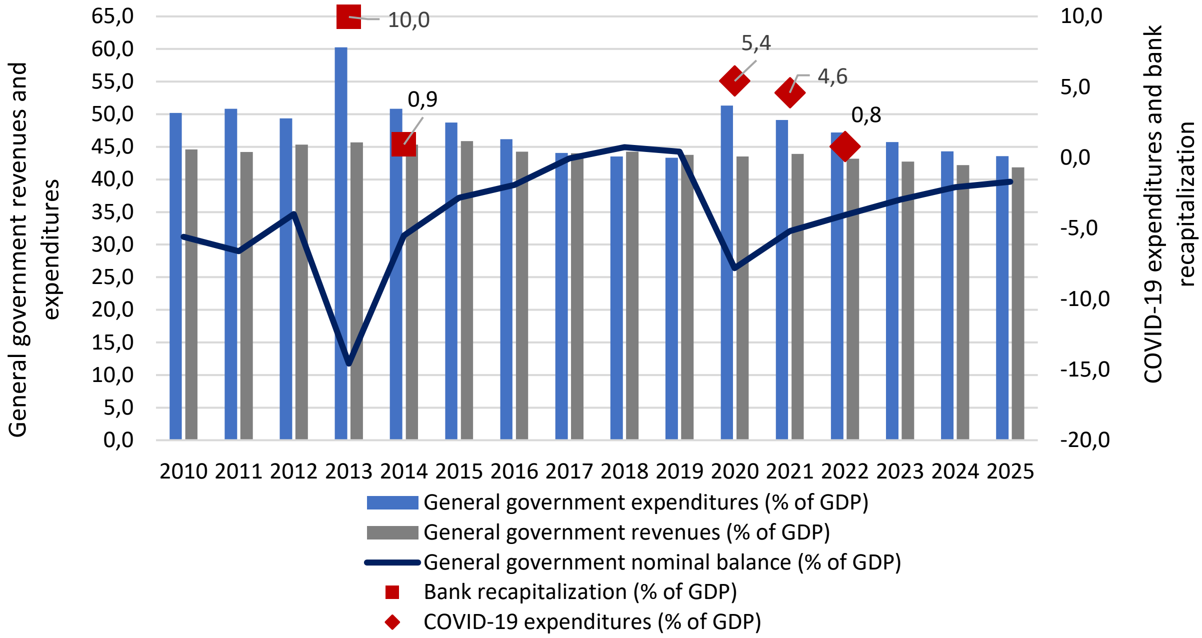
## 5.2 General government revenue and expenditure

General government revenue totalled EUR 22.843 billion in 2021, which was an increase of 11.9% on 2020 and 7.9% on 2019. All the main revenue categories grew, with the largest increases coming from taxes on production and imports (up by 15.0% compared to 2020 and 3.3% compared to 2019). This increase was the result of higher VAT revenues from the growth in private and government consumption in 2021. VAT revenues increased by 21.2% relative to 2020, and also exceeded the level recorded in 2019 (by 10.4%). Revenues from excise duties increased by 7.5%, although they were lower than the 2019 figure by the same percentage. Revenues from income and property taxes increased by 12.7% compared to 2020 and were also 9.4% higher than the figure for 2019. Corporate income tax revenues increased by 15.4%, and by 4.8% compared to 2019. Personal income tax revenues were also higher: by 12.9% compared to 2020 and by 11.6% compared to 2019. There was an 8.3% growth in revenues from social security contributions (and a rise of 13.1% compared to 2019). This was also the result of favourable conditions on the labour market.

Revenue growth will continue or strengthen further in 2022, reaching EUR 24.242 billion, which is EUR 1.4 billion more than the figure for 2021 (a rise of 6.1%). Revenue from taxes on production and imports will increase by 6.8% compared to 2021. This is due to the continuing growth in private and government consumption in 2022. VAT revenues will increase by 6.8%, while revenues from excise duties will increase by 1.4% compared to 2021. While revenues from income and property taxes will increase in 2022, the rise will slow slightly (by 4.8%), mainly because the tax reforms adopted in 2022 will reduce personal income tax revenues. Personal income tax revenues will therefore fall in 2022 by 4% (or around EUR 115 million) compared to 2021. There will be a further growth in corporate income tax revenues in 2022 of around 30% to approximately EUR 1.3 billion, which is the highest figure since 2007 (when it was EUR 1.1 billion). The growth in revenues from social security contributions will continue in 2022 (at a growth rate of 4.2%),

While the growth in general government revenues will also continue in the medium term (2023–2025), when it will average 4.4% a year, revenues generated from taxes on production and imports will increase throughout the whole period, with the highest increase (of 5.1%) coming in 2023 due to higher VAT receipts (by 5.6%) and revenues from excise duties (by 4%). Revenues from income and property taxes will grow by around 4.1% in 2023. Personal income tax revenues will grow by 3.7% to reach the 2021 level, while corporate income tax revenues will increase by 5.3%. Revenues from social security contributions will increase by 5%. There will be a growth in revenues of 3.9% in 2024 and of 3.8% in 2025. The highest increases will be in revenues from social security contributions (by 4.6% in 2024 and 6.5% in 2025) as a result of the introduction of an additional contribution for the funding of long-term care in 2025. The growth in revenues from taxes on production and imports will slow slightly to 4.8% in 2024 and to 2.6% in 2025. Similar trends can be observed with income and property tax revenues, which will increase by 3.4% in 2024 and by 2.5% in 2025. Personal income tax revenues will grow by 2.4% in 2024 and by 1.1% in 2025, while the growth in corporate income tax will be slightly higher (around 5.8% in 2024 and 5.6% in 2025).

Figure 16: Expenditure, revenue and general government balance trends in the period 2010–2021 (forecasts up to 2025) and the value of the emergency response measures




Source: SORS; Ministry of Finance.

General government expenditure on measures to support the economy and the population during the COVID-19 epidemic will account for 10.8% of GDP in the 2020–2022 period, which is slightly lower than the amount spent on bank recapitalisation in 2013 and 2014 (10.9% of GDP) (Figure 16). Due to the nature of the COVID-19 epidemic, government support measures will be reduced gradually, which will lead to a gradual fall in general government expenditure (from 51.3% to 43.5% of GDP between 2020 and 2025).

General government expenditure

General government expenditure totalled EUR 25.548 billion in 2021, which represented an increase of 6.1% (or just under EUR 1.5 billion) comparted to the 2020 figure. However, growth in expenditure was 5.8 percentage points lower than the growth in revenues. The growth in expenditure in 2021 was driven largely by measures to mitigate the COVID-19 crisis, which cost around EUR 2.4 billion in 2021 (or EUR 150 million less than in 2020). Higher expenditure on gross fixed capital formation, which increased by 26.2% (or around EUR 510 million) relative to 2020 and by 31.9% (or around EUR 600 million) relative to 2019, was an important contributing factor to this growth, also on account of the increased disbursement of EU funds from the previous financial perspective and the start of disbursement of funds from the Recovery and Resilience Facility. There was an 8.3% growth in expenditure on employee compensation, mainly as a result of the payment of supplements and benefits related to COVID-19 epidemic. There was an increase of 6% on expenditure on social benefits, also as a result of expenditure on COVID-19 intervention measures. Expenditure on subsidies fell by around 35% (or just under EUR 600 million) in 2021 compared to the year before, mainly as a result of lower expenditure on COVID-19 measures to support the economy. There was a continued fall in expenditure on interest in 2021: EUR 661 million (or 1.3% of GDP), which was around 12% lower than the year before and around 20% lower than the figure for 2019.

The growth in general government expenditure will continue to slow in 2022 (to 3.8%, meaning that it will be 2.3 percentage points lower than the growth in revenues). While reduced expenditure on COVID-19 measures in 2022 (estimated at around EUR 450 million) will have a significant impact on the fall in government expenditure, a number of new support measures are being introduced by the state to counter the rise in energy prices and provide aid in connection with the Ukrainian crisis. Higher investment expenditure of around 47% (or just over EUR 1.1 billion) in 2021 will also contribute to a rise in government expenditure. There will be growth in the state budget expenditure on investments, as well as investments by other general government units, mainly in the field of infrastructure; these will also be linked to increased disbursement of EU funds from the previous financial perspective and from the Recovery and Resilience Facility. Expenditure on social security benefits will increase by 7.2% in 2022, mainly as a result of the regular and extraordinary adjustments in pensions as well as measures to support vulnerable groups and farmers in response to high energy prices, and the provision of entitlements and social protection to citizens of Ukraine fleeing the war. Expenditure on employee compensation will fall by 1.8% relative to the year before, mainly on account of a reduction of expenditure on COVID-19 intervention measures. Although expenditure on subsidies will also fall in 2022 (by around 50%) because of the reduction in expenditure on COVID-19 support, the fall will be lower; due to the provision of state support to soften the effects of the rise in energy prices for businesses and the provision of subsidies through the Recovery and Resilience Facility. Expenditure on interest will remain at the same level as 2021, i.e., 1.2% of GDP.

In the medium-term (2023–2025), general government expenditure will grow at an average rate of 2.6% a year; mainly due to higher investment expenditure, which will reach a peak in 2023, and of the end of the disbursement of funds under the previous financial perspective and the start of the disbursement of funds from the new perspective and from the Recovery and Resilience Facility. It will amount to 6.6% of GDP and fall slightly to an average of 5.7% of GDP in 2024 and 2025. The growth in expenditure on social benefits will slow slightly in 2023 (to 2.5%) but pick up again in 2024 and 2025 (by around 5%), mainly on account of the entry into force of the Long-Term Care Act and the increase in pensions, which will rise by an average of around 5%. Employee compensation will increase by an average annual rate of 2.7% in the medium term, while expenditure on subsidies will fall throughout the 2023–2025 period, reaching roughly the pre-crisis level in 2025 (0.7% of GDP). Expenditure on interest will remain at an average of 1.06% of GDP over the three-year period.

Investments

Expenditure on investments increased by 26.2% between 2020 and 2021. The increase will be even higher in 2022 and will reach a peak in 2023, when investments will account for 6.6% of GDP. Investments cover the renovation of railway infrastructure, the energy renovation of buildings, efficient energy use and the tackling effects of climate change. They support green transition and are also partly supported by EU funds and included in the Recovery and Resilience Plan. Additional impetus is to be provided to the fields of digital transformation, healthcare, social security and education.

As regards investments in the armed forces, the government has made funds available, under the Provision of Funds for Investments in the Slovenian Armed Forces 2021–2026 Act, for investments required for national and collective defence within NATO and the resources required for their implementation. A total of around EUR 75 million was spent on these investments in 2021, with the figure projected to rise to EUR 100 million in 2022. The government has earmarked EUR 145 million per annum for the 2023–2026 period.

In 2020, at the proposal of the government, the National Assembly adopted the Emergency Act on the Elimination of Obstacles to the Implementation of Important Investments to Restart the Economy Following the COVID-19 Epidemic, which was aimed mainly at the coordinated and therefore swifter handling of investment-related procedures. On the basis of the law, the government also drew up a list of major investments regarded as key to restarting the economy after the epidemic. They are divided into several lots, and include projects in the fields of the environment, energy, transport and regional development. The list contains 353 projects. Some, such as the 'second track project', are already under way, while others have been included in the Recovery and Resilience Plan. Realisation of the projects on the list will provide Slovenia with a smoother exit from the crisis brought about by the pandemic, as the projects will also contribute to economic growth.

With the aim of eliminating bottlenecks in investments, the National Assembly adopted the new version of the Public Procurement Act, at the proposal of the government. It entered into force on 1 January 2022. The amended legislation simplifies the low-value public contract procedure, abolishes several administrative obligations for contracting authorities (e.g., simplified reporting in framework agreements) and allows for greater flexibility. Provisions on infringements, particularly those that practice has shown to be necessary to ensure that contracting authorities and tenderers act in a more appropriate way and take greater responsibility when carrying out procedures or performing contracts, have been rearranged and supplemented. The proposed legislative solutions will help to increase the cost-effectiveness of the procurement process without reducing transparency.

At the proposal of the government, the National Assembly adopted a new Construction Act at the end of 2021. It brings a number of new features to the process of granting construction permits and provides the option of constructing facilities that have no environmental impact after the construction permit has been obtained (i.e., not only after its legal effect). The National Assembly also adopted a new Spatial Planning Act. These two laws eliminate several administrative obstacles to the speedier acquisition of the necessary building documentation and introduce simpler and faster digitally-supported solutions.

Subsidies

The growth in general government expenditure on subsidies was particularly pronounced in 2020, with a growth of over 400% in comparison with 2019 (3.7% of GDP). This was the result of the adoption of measures of State support to businesses in response to the COVID-19 epidemic. Expenditure on subsidies fell to 2.2% of GDP in 2021, mainly on account of the reduction in the volume of COVID-19 support provided to businesses. The gradual fall in expenditure on subsidies will continue in the 2022–2025 period, although the pre-crisis level will not be reached until 2025 (0.7% of GDP). Although expenditure on COVID-related support will amount to only EUR 50 million in 2022, the government will provide businesses with up to EUR 70 million in support in response to high energy prices. Additional funds for subsidies for businesses and individuals will also be provided via the Recovery and Resilience Facility. These will amount to around an average of EUR 70 million annually.

Compensation of employees expenditure

Government expenditure on employee compensation began to be increased in 2020 in response to the COVID-19 pandemic in the form of allowances and supplements for special working conditions, particularly in the public sector. Growth was 10.7% in 2020, compared to an increase in expenditure on wages of 8.3% in 2021. Expenditure on wages will be lower in 2022 than 2021 (by around two percentage points), mainly as a result of the reduction in COVID-19 supplements. The estimates also take into account the rise in wages in health and social care, which the government agreed with the representative trade unions in November 2021. The growth in expenditure on wages will slow in the medium term (2023–2025) to an average of around 2.7% a year.

Social transfers

Expenditure on social transfers increased by 6% in 2021, including transfers in kind by 15% and in cash transfers by 4.8%. Funds for transfers in kind increased to the level recorded before the COVID-19 crisis, when activities were restricted (food, transport). In the next period, expenditure on medicines will be the most significant in nominal terms. Social transfers in the form of cash include expenditure on pensions and pension indexation and, in 2024 and 2025, expenditure on long-term care services.

No more COVID-19 measures are planned in relation to social transfers after 2022.

Other general government units

Several other general government units performed more positively in 2020 and 2021 (i.e., during the COVID-19 crisis) than in previous years. According to the annual statements for 2020, public healthcare institutions recorded a surplus of around EUR 74 million, and a surplus of around EUR 130 million in 2021 in cash terms. All public institutions in all fields of activities recorded a total surplus of over EUR 120 million in 2020 and over EUR 200 million in 2021. Central government public funds generated a total deficit of around EUR 50 million in 2020 and around EUR 60 million in 2021. However, these deficits were almost entirely the result of increased investments in buildings and structures in particular. Corporations in general government sector also generated a surplus in 2020 and 2021 (around EUR 90 million in 2020 and around EUR 180 million in 2021). All this had a positive effect on the final general government deficit in 2021.

## 5.3 One-off expenditure

The Ministry of Finance estimates that one-off expenditure will amount to slightly more than 0.62% of GDP in 2022.

It includes measures to minimise the negative effects of the war in Ukraine and provide humanitarian and other aid to Ukraine and Ukrainian refugees in Slovenia. One-off expenditure also includes measures to lessen the effects of rising prices, particularly of energy (see Table 2).

The government has earmarked an amount equivalent to 0.15% of GDP to aid to Ukrainian citizens and military aid to Ukraine so far this year, as well as around 0.36% of GDP to measures to lessen the effects of the energy crisis. At the revenue side, the measure to reduce excise duties has been incorporated (amount equivalent to 0.04% of GDP).

The Ministry of Agriculture, Forestry and Food currently has nine procedures under way to pay compensation for inability to use agricultural land and forests returned as part of denationalisation procedures. One-off expenditures also include any potential legal action from T2 and the Small Fund for Craftsmen and Entrepreneurs. These cases account for a total of slightly less than 0.16% of GDP.

In the next few years, one-off costs will, it is estimated, account for a little over 0.1% of GDP, mainly on account of possible new legal action relating, among other things, to denationalisation and investment disputes.

Expenditure on investments in defence will rise by 0.04% of GDP in 2022 and, according to plans, by 0.1% of GDP per annum in the 2023–2026 period. The uncertain situation caused by the war in Ukraine is also driving the increase in expenditure in this area but has not yet been included as part of one-off expenditure.

## 6 Comparison of economic and budgetary forecasts with the Stability Programme 2021

Owing to the robust recovery, the growth in real GDP in 2021 significantly exceeded the values forecasted in the Stability Programme 2021. Domestic consumption and investments in particular have grown faster than expected, with a major contribution to this coming from the fact that economic subjects have adapted very well to the changed economic conditions, more favourable conditions on the labour market, the growth in disposable income, and the fall in otherwise high levels of savings. After the high upward deviation in the economic growth achieved in 2021, lower economic growth in relative terms is predicted for the remainder of the 2022–2025 period, but only of between 0.2 and 0.3 percentage points.

Robust economic recovery has an important impact on the forecast of the general government balance and public debt-to-GDP ratio. Projections of the general government balance are more favourable than the projections from last year's Stability Programme for the entire period. A relatively lower general government deficit of between 0.7 and 1.6 percentage points is expected; this also has a positive effect on the public debt-to-GDP ratio, which was 74.7% of GDP in 2021 (a fall of 5.7 percentage points) and will, according to expectations, reach 69.5% of GDP in 2024 (a fall of 8.5 percentage points). According to the forecasts of macroeconomic and fiscal aggregates, a gradual improvement of the public finance balance in Slovenia can be expected. The calculations of the balance and debt for 2025 have been drawn up under the no-policy-change scenario.

Table 7: Divergence from Stability Programme 2021

| % of GDP | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| 1. Real GDP growth (%) | | | | | |
| Stability Programme 2021 | 4.6 | 4.4 | 3.3 | 3.0 | |
| Stability Programme 2022 | 8.1 | 4.2 | 3.0 | 2.8 | 2.6 |
| Difference | 3.5 | -0.2 | -0.3 | -0.2 | |
| 2. General government balance | | | | | |
| Stability Programme 2021 | -8.6 | -5.7 | -3.8 | -2.8 | |
| Stability Programme 2022 | -5.2 | -4.1 | -3 | -2.1 | -1.7 |
| Difference | 3.4 | 1.6 | 0.8 | 0.7 | |
| 3. General government debt | | | | | |
| Stability Programme 2021 | 80.4 | 79.6 | 79.0 | 78.0 | |
| Stability Programme 2022 | 74.7 | 73.3 | 71.5 | 69.5 | 68.0 |
| Difference | -5.7 | -6.3 | -7.5 | -8.5 | |

Source: IMAD; SORS; Ministry of Finance.

## 7 General government debt

The consolidated general government debt stood at EUR 38,858 million at the end of 2021, or 74.7% of GDP (EUR 37,423 million at the end of 2020, or 79.8% of GDP). Within the debt structure, the greatest increase was seen in debts in central government units, which stood at EUR 38,116 million, or 73.3% of GDP, at the end of 2021 (compared to EUR 36,758 million, or 78.3% of GDP, at the end of 2020). At the end of 2021, the debts of local central government units totalled EUR 943 million, or 1.8% of GDP (compared to EUR 892 million, or 1.9% of GDP, at the end of 2020). Social security funds were not indebted at the end of 2021; this is an improvement on the end of 2020, when their debt stood at EUR 0.1 million.

Because of the fiscal stimulus measures taken to mitigate the effects of the COVID-19 epidemic for citizens and economy, the general government debt-to-GDP ratio reached 79.8% in 2020, before falling to 74.7% in 2021 (primarily as a result of high GDP growth). It is important to realise that the volume of initiatives to mitigate the consequences of COVID-19 are carried out and reduced in a reasonable timely manner way (gradually) subject to the macroeconomic circumstances. The fiscal projections and, consequently, the development of the consolidated general government debt also take this into account in the 2022–2025 programming period.

Table 8: Consolidated general government debt

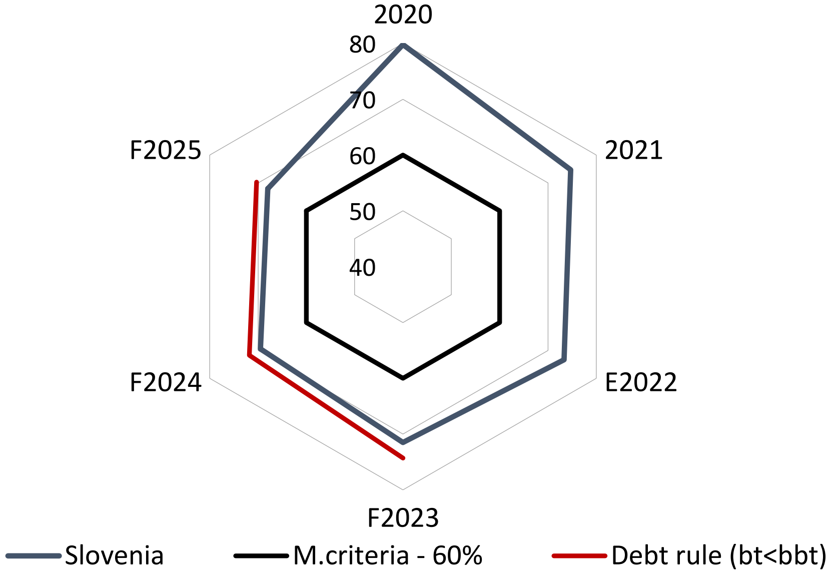
| | ESA code | 2021 | E2022 | F2023 | F2024 | F2025 |
|---|---|---|---|---|---|---|
| | EUR million | | | | | |
| 1. General government debt | | 38,858 | 41,156 | 42,731 | 43,698 | 44,767 |
| 2. GDP | | 52,020 | 56,166 | 59,768 | 62,882 | 65,835 |
| | % of GDP | | | | | |
| 3. General government debt | | 74.7 | 73.3 | 71.5 | 69.5 | 68.0 |
| 4. General government balance | | -5.2 | -4.1 | -3.0 | -2.1 | -1.7 |
| 5. Primary balance | | -3.9 | -2.9 | -1.9 | -1.0 | -0.7 |
| 6. Interest expenditure | EDP D.41 | 1.3 | 1.2 | 1.1 | 1.1 | 1.0 |
| 7. Stock-flow adjustments (SFA) | | -2.4 | 0.0 | -0.3 | -0.6 | -0.1 |
| Implicit interest rate on debt | | 1.8 | 1.7 | 1.6 | 1.6 | 1.5 |

Source: Ministry of Finance, 4 April 2022.

The state budget debt accounts for 94% of the structure of the consolidated general government debt. The Ministry of Finance's medium-term strategic policies and efforts remain geared towards retaining Slovenia's favourable credit ratings despite the demanding economic and fiscal circumstances resulting from the COVID-19 pandemic (S&P AA-/ Fitch: A/Moody's: A3 and DBRS: AH retained). In tandem with this, Slovenia has wide access to funding sources, in terms of both geography and investor type. Following the issuing of EUR 2.9 million of debt on the euro debt capital market, demand for Slovenian euro bonds on average exceeded supply several times over in 2022. The average weighted interest rate achieved for the newly issued long-term state budget debt amounted to 0.54% in 2022, with an average weighted residual time to maturity of 15.9 years.

Figure 17 shows that the post-pandemic process of reduction in the general government debt-to-GDP ratio began in 2021. It is expected to continue in the 2022–2025 programming period mainly through nominal GDP growth and the gradual reduction in state budget liquidity reserves. On the European Union level compliance with the debt rule outlined the Stability and Growth Pact was not required in the 2020–2022 period. The figure shows that the development of the consolidated general government debt does comply with the debt rules of the Stability and Growth Pact from 2023 onwards.

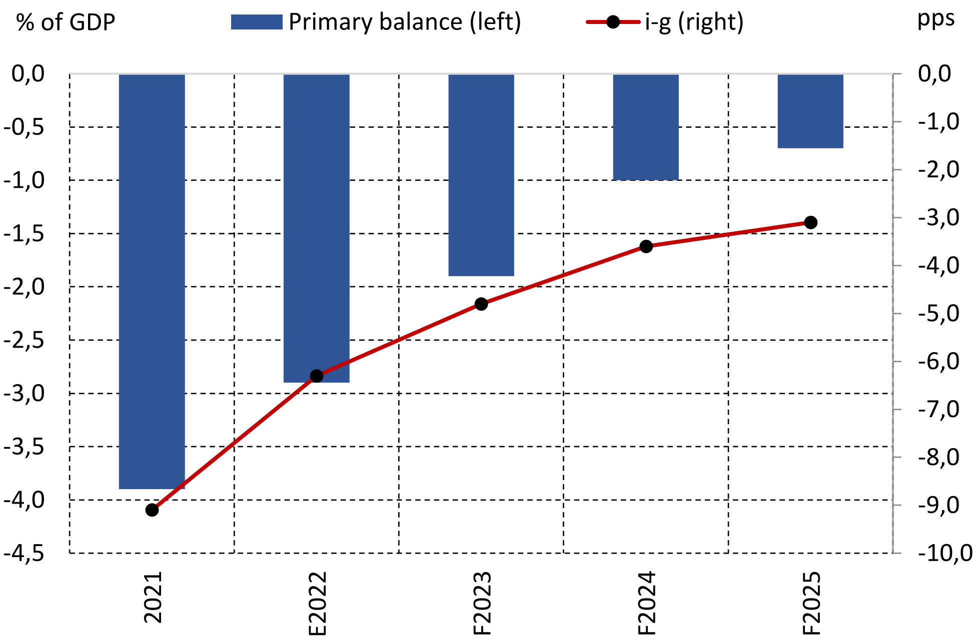
Figure 17: Consolidated general government debt 2022–2025 (in % of GDP)




Source: Ministry of Finance, 4 April 2022.

Figure 18 shows the relationship between two key parameters for assessing the sustainability of general government debt. The difference between the ''i-g' parameters represents the difference between the average interest rate for general government debt (i – implicit interest rate) and nominal GDP growth (g). This becomes a positive value in 2020 as a result of the adverse economic conditions and the resulting fall in GDP. It is estimated that the growth in nominal GDP will exceed the implicit interest rate in the 2022–2025 period, which implies a negative 'i-g' value. The negative value of the primary balance is projected to reduce in the 2022–2025 period. The conditions for the sustainability of the general government debt are met on account of the country's favourable credit ratings, high positive economic growth, still relatively favourable financing costs and improvements in the primary balance.

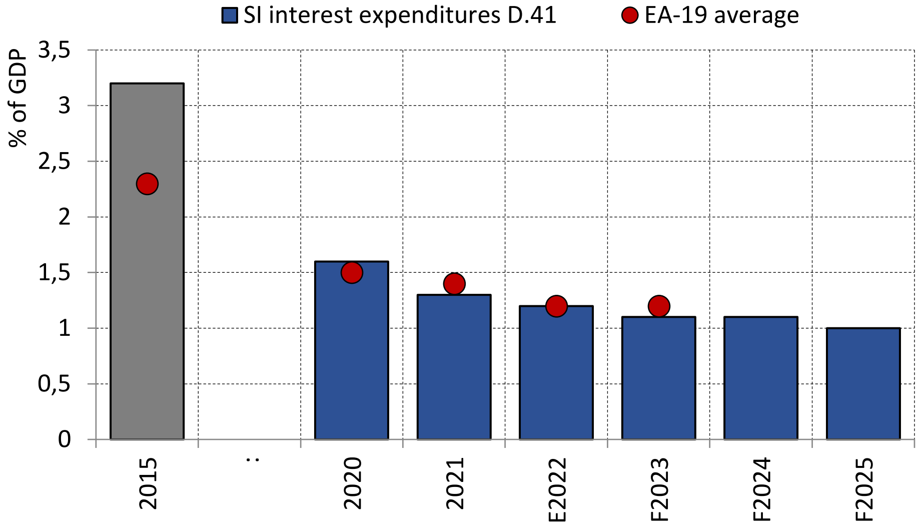
Figure 18: Sustainability of general government debt




Source: Ministry of Finance, 4 April 2022.

Figure 19 shows the expenditure on interest for general government debt (D.41) as a ratio of GDP. It indicates that the general government debt servicing burden has improved markedly up to now and halved in comparison with the fiscal year 2015.

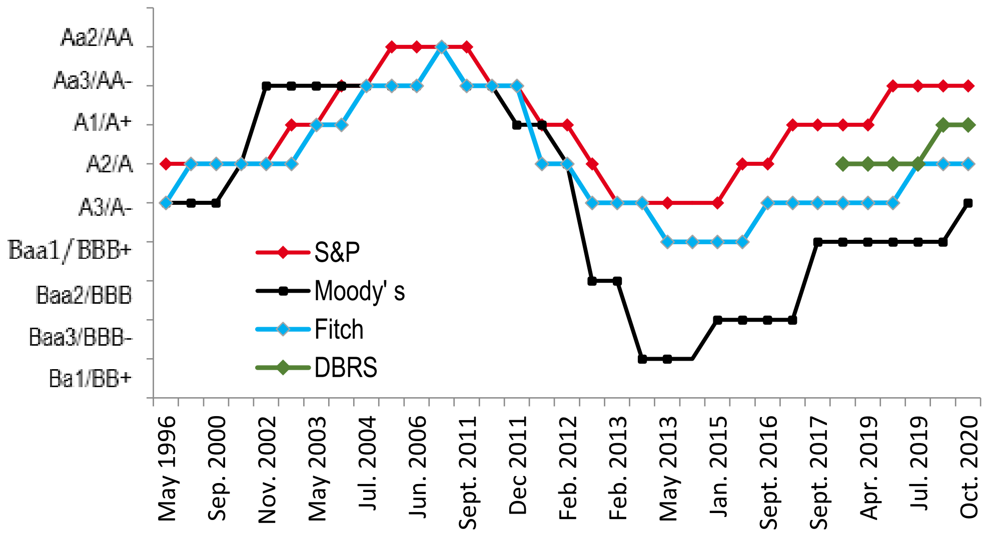
Figure 19: Trend in interest expenditure on general government debt (D.41) in the period 2022–2025




Source: Ministry of Finance for Slovenia; Ameco database (European Commission) for the EA-19, 4 April 2022.

Slovenia's credit ratings remain at an historically high level: S&P (AA-), Fitch (A), Moody's (A3) and DBRS (AH), with stable outlooks. A stable outlook for the development of a credit rating with a particular credit rating agency means that the agency assesses it as most likely that assessments of the country's credit risk will remain unchanged in the medium term.

Figure 20: Slovenia's credit ratings over time




Source: S&P; Moody's, Fitch; DBRS, 4 April 2022.

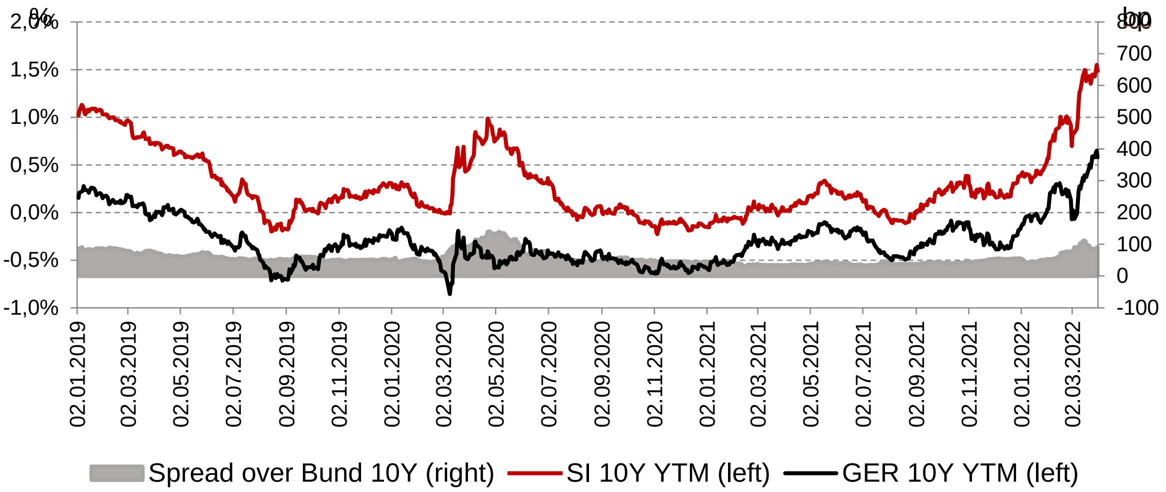
Table 9: Slovenia's credit ratings

| 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 April 2022.

In April 2020, at the beginning of the epidemic in Slovenia, the spread over the reference ten-year German bond reached 140.8 basis points. Following the efficient and successful containment of the economic consequences of the epidemic and the maintenance of credit ratings and outlooks with the most prominent credit ratings agencies, it amounted to 91.0 basis points at the end of March 2022.

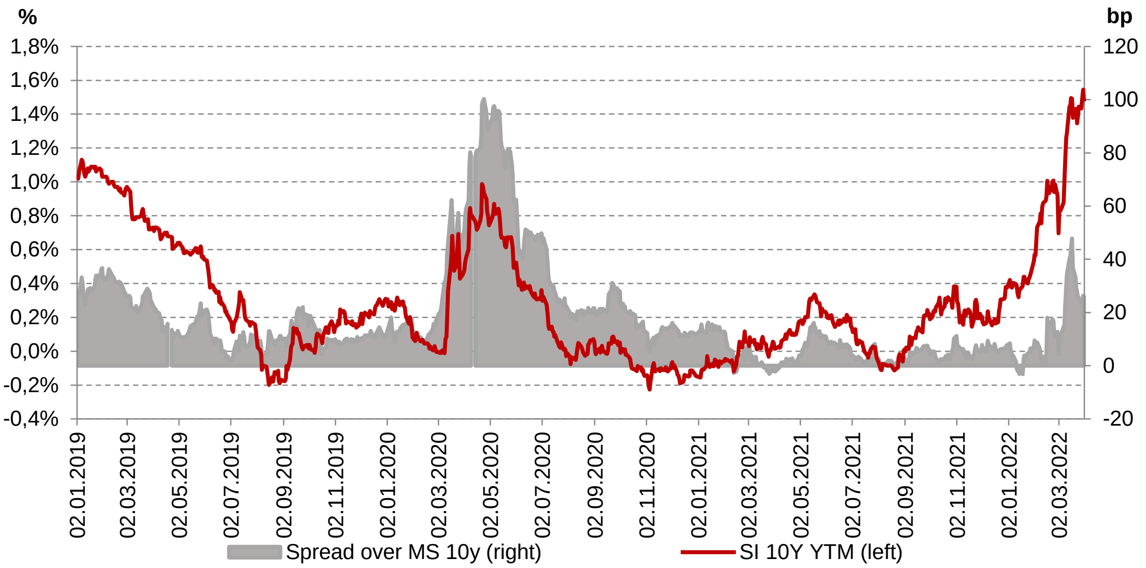
Figure 21: Comparison of movement of the Euro 10-year YTM of Slovenian and German bonds




Source: Bloomberg; Ministry of Finance (own calculations, 4 April 2022).

The interpolated 10-year yield to maturity on Slovenian euro bonds reached 1.49% on the secondary market at the end of March 2022. The Euro mid-swap rate stood at 1.23%, which implies a credit spread of 26 basis points. The latter remains low in comparison with the values achieved in past years.

Figure 22: Movement of the Euro 10-year YTM of Slovenian government bonds and its credit spread over the 10-year Euro mid-swap rate




Source: Bloomberg; Ministry of Finance (own calculations, 4 April 2022).

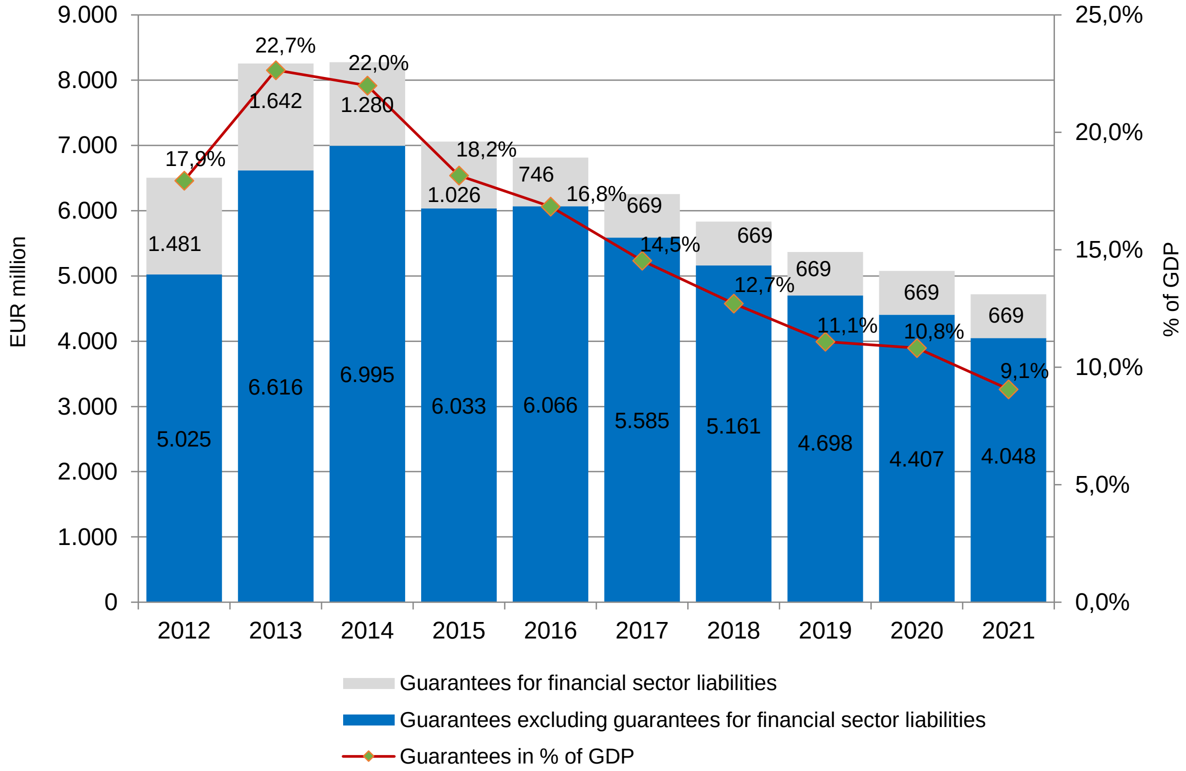
## 8 Guarantees

According to the Constitution, government guarantees may only be issued on the basis of a law. Two types of guarantee law have been developed within the system for the issuing of government guarantees: general guarantee laws and special guarantee laws. A general guarantee law regulates the issuing of guarantees to a wider range of recipients; an example would be the Act on Additional Liquidity to the Economy to Mitigate the Effects of the COVID-19 Epidemic (ZDLGPE). A special guarantee law is designed for a specifically defined recipient; examples include the guarantee laws governing the liabilities of Družba za avtoceste v Republiki Sloveniji d.d. and the guarantee law governing the liabilities of 2TDK, d.o.o.

The Slovenian government may issue government guarantees to entities from the public and private sectors. In the private sector, guarantees in previous years were mostly provided to legal entities and natural persons as part of guarantee schemes for limiting the effects of the financial crisis. In the last year, they have been provided to legal entities and natural persons as guarantees to limit the effects of the COVID-19 crisis. The issuing of government guarantees is governed by the provisions of the systemic law, while the annual quota for the issuing of government guarantees is determined in the applicable law governing implementation of the budget, whereby the government can also issue guarantees outside the quota if an individual law so allows.

The stock of government guarantees was EUR 4,718 million as at 31 December 2021, with government guarantees for liabilities of the financial sector (S.12) accounting for EUR 669 million.

Figure 23: Stock of Slovenian government guarantees in the period 2012–2021




Source: Ministry of Finance, 2022.

Table 10: Projection of the stock of Slovenian government guarantees 2022–2025

| | On 31.12.2022* | | On 31.12.2023* | | On 31.12.2024* | | On 31.12.2025* | |
|---|---|---|---|---|---|---|---|---|
| | EUR million | % of GDP | EUR million | % of GDP | EUR million | % of GDP | EUR million | % of GDP |
| Guarantees of the Republic of Slovenia | 4,512.0 | 8,5% | 4,682.0 | 8,3% | 4,438.7 | 7.5% | 4,158.9 | 7.1% |
| Including: financial sector* | 669.5 | 1.3% | 669.5 | 1.2% | 669.5 | 1.1% | 669,5 | 1.1% |

Source: Ministry of Finance, 2022.
*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 in Table 10 shows the estimated end-of-year stock of Slovenian government guarantees. It is derived using certain assumptions regarding the payment of existing and approval of new guarantees.

A quota of new guarantees is planned with the annual budget implementation act. A quota of EUR 630 million was determined for 2022, with a similar quota determined for 2023. A quota for SID banka, d.d. guarantees of EUR 350 million was determined for each year separately. Utilisation of the quota is low (5.6% in 2020, 1.4% in 2021). The quota intended for SID banka d.d. was not utilised.

The Guarantee of the Republic of Slovenia for the Pan-European Guarantee Fund Act (ZJPGS) was adopted in 2021 as one of the COVID-19 crisis measures. It regulates Slovenia's participation in the Pan-European Guarantee Fund (EGF), which was established to mitigate the impact of COVID-19 by ensuring that entities that are established or perform an activity in EU Member States that have made a contribution to secure their participation in the EGF have sufficient liquidity. The maximum total guarantee of the Republic of Slovenia under the ZJPGS is EUR 70.1 million. Two laws tackling the COVID-19 crisis, adopted in 2020, extended the deadline for the issuing of government guarantees to 2021. The Act Determining Emergency Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (ZIUZEOP), which allows deferral of the payment of borrowers' liability with a government guarantee, extended the deadline for the issuing of guarantees from 31 December 2020 to 31 March 2021; and the ZDLGPE, which allows the taking-out of liquidity loans with a government guarantee, extended the deadline for the issuing of guarantees from 31 December 2020 to 30 June 2021. Under the ZIUZEOP, guarantees worth EUR 4.6 million were issued in 2021 (guarantees of EUR 58.7 million have been issued in total). Under the ZDLGPE, guarantees worth EUR 16.3 million were issued in 2021 (guarantees of EUR 60.9 million have been issued in total). Guarantees issued under the ZIUZEOP and ZJPGS are not included in the quota for the issuing of guarantees determined by the budget implementation act, although guarantees issued under the ZDLGPE are included in this quota.

A total of EUR 142,000 was spent on redeeming government guarantees in 2020 (EUR 15,000 in 2021). The guarantee redemption option is estimated at EUR 21 million in 2022 and EUR 25.4 million in 2023. Most of the funds are expected for the redemption of guarantees issued in response to COVID-19 crisis measures.

# 9 Fiscal risks and sensitivity analysis

## 9.1 Uncertainties and sensitivity analysis of the general government balance

The uncertainties steam from the geopolitical situation and the consequences of the war in Ukraine. Estimates of the effects are changing all the time and depend on the course of the war. At the same time, there have been significant rises in the prices of fossil fuels and of some of the raw materials of which Russia and Ukraine are major suppliers globally. This presents a risk to European economies because they are the most heavily dependent on Russian energy products. The widening of military conflict, price and inflationary pressures and demands for the rapid restructuring of the European energy market are currently the greatest risk factors for the Slovenian economy. The future course of the COVID-19 pandemic continues to bring uncertainty to healthcare and cause disruptions to supply chains. These factors are also increasing the fiscal policy uncertainty.

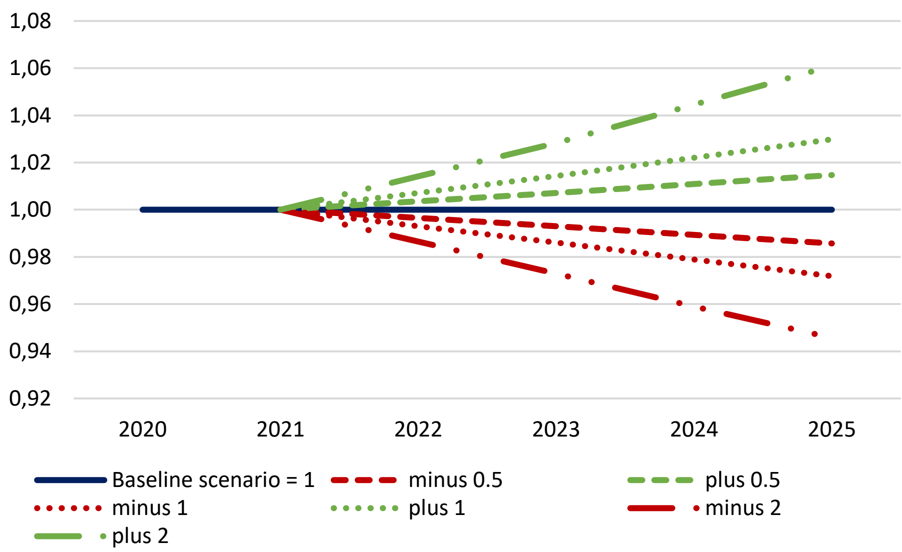
Figure 24 presents alternative scenarios of the impact of economic growth fluctuations on general government revenues. The scenarios show the revenue path in the event of nominal economic growth of 0.5, 1 and 2 percentage points higher or lower than that envisaged in IMAD's Spring forecast 2022. They are therefore based on projections of the movement of fiscal revenues bases.

Under the assumption of no policy change, general government revenues in 2022 would, in the event of nominal GDP growth of 2 percentage points higher than predicted, improve by 1.4% in comparison with the baseline forecast, and by 2.8% in comparison with the baseline forecast in 2023. In 2024 and 2025, they would be higher than the baseline scenario by 4.4% and 6.1%, respectively (scenario illustrated with the plus 2 line). In the opposite case, i.e., of GDP growth that is 2 percentage points lower, general government revenues would reach 98.6% of the revenues from the baseline forecast in 2022 (97.3% in 2023, 95.9% in 2024 and 94.6% in 2025) (minus 2 scenario).

In the event of realised GDP growth that is lower or higher by 1 percentage point in this and next year, general government revenues would be lower or higher by 0.7% and 1.4%, respectively, while a deviation from the baseline scenario in 2024 and 2025 would increase to a deviation of 2% or 4% (minus and plus 1 scenario).

In the event of growth that is lower or higher by 0.5 percentage points in this and the following two years, revenues would be lower or higher by 0.4%, 0.7% or 1.1%, while the deviation would increase to approximately 1.4% in 2025 (minus and plus 0.5 scenario).

Figure 24: Impact of economic growth fluctuations on general government revenues, baseline scenario = 1




Source: Ministry of Finance (own calculations).

## 9.2 Debt sensitivity analysis

A debt sensitivity analysis establishes the responsiveness of a change in the level of the debt-to-GDP ratio if there is lower nominal GDP growth, additional increase in the projected borrowing interest rates, an increase in the primary deficit or all together. The debt sensitivity analysis has been drawn up under the following assumptions:

- additional borrowing is financed and existing debt refinanced at the reference ten-year SLOREP euro bond rate, which in the prevailing monetary conditions represents an efficient cost-risk ratio between maturity and yield-to-maturity;

- the reference interest rate gradually increases by a total of 240 basis points by the end of the programming period;
- the primary balance is worse than planned by one percentage point of GDP every programme year;
- nominal GDP growth is lower than the IMAD spring 2022 forecast by one percentage point every programme year.

Table 11 shows the changes in the debt-to-GDP ratio if lower nominal GDP growth is assumed, separately by increase in the interest rate, increase in the primary deficit, and the overall effect if both events are realised.

In an individual fiscal year, borrowing affects the interest expenditure in the years that follow. As the state budget financing programme for 2022 had largely been completed by the time the Stability Programme was being drafted, the sensitivity analysis of a change to the interest rate in the remainder of 2022 no longer has a significant effect. The proportion of the state budget debt ratio with a fixed interest rate is 99.3%. If there is a defined gradual increase in the reference interest rate during the programming period along with the planned primary balance, this would increase the debt-to-GDP ratio by 0.02 percentage points in 2023, 0.06 percentage points in 2024 and 0.08 percentage points in 2025. An annual worsening in the primary balance by one percentage point of GDP would, with the projected interest rate, increase the debt-to-GDP ratio by 1.02 percentage points in 2023, 1.03 percentage points in 2024 and 1.05 percentage points in 2025. An analysis of the effect of a gradual increase in the reference interest rate and an increase in the primary deficit shows the effects on the increase in the debt-to-GDP ratio: by 1.03 percentage points in 2023, 1.09 percentage points in 2024 and 1.14 percentage points in 2025.

Under the baseline scenario, the consolidated general government debt is projected at 68% of GDP at the end of the programming period in 2025. Should the assumed fall in nominal GDP growth and the gradual increase in the reference interest rate come to pass, along with an unchanged primary balance, the stock of debt would amount to 68.8% of GDP at the end of 2025. With the assumed lower nominal GDP growth and annual worsening of the primary balance with the projected interest rates, the stock of debt would amount to 71.6% of GDP at the end of 2025. With the assumed lower nominal GDP growth, gradual increase in the reference interest rate over the period and annual worsening of the primary balance, the stock of debt would amount to 71.7% of GDP at the end of 2025.

Table 11: Debt sensitivity in % of GDP relative to the defined input variables

| Year | Change in interest rate | Change in primary balance | Change in interest rate and primary balance |
|---|---|---|---|
| | Δ debt (pps GDP) | Δ debt (pps GDP) | Δ debt (pps GDP) |
| 2023 | 0.02 | 1.02 | 1.03 |
| 2024 | 0.06 | 1.03 | 1.09 |
| 2025 | 0.08 | 1.05 | 1.14 |
| | in % of GDP | | |
| Debt at the end of 2025 | 68.8 | 71.6 | 71.7 |

Source: Ministry of Finance, 4 April 2022.

## 9.3 Long-term sustainability of public finances

Eurostat's demographic projections (EUROPOP 2019) remain the same as those used to calculate the long-term projections of the costs of ageing in the 2021 Ageing Report.[23] The number of people of working age will fall significantly as the number of older people increases. This will reduce supply on the labour market and increase pressures. The number of births is projected to fall and life expectancy to rise. The share of children and young people (0–19 years) will fall from 19.6% to 17.8% between 2019 and 2070, while the share of people of working age (20–64 years) will fall from 60.4% to 51.8% between 2019 and 2070. On the other hand, the share of people aged over 65 will increase from 10.4% to 30.4% between 2019 and 2070. The share of the elderly will also increase due to the higher birth rates in the years between the end of the Second World War (baby boomers) and 1980 (when the birth rate was still high), and because of the rapid increase in life expectancy. The old-age dependency ratio, which is the ratio between economically dependent older people and the working age population (P65+/P20–64*100), is projected to increase from 33.2% in 2019 to 34.5% in 2030. In subsequent years, pressure will increase all the way up to 2060, when the old-age dependency ratio will reach 61.7%. It will then fall to 58.8% in 2070.

Projections of the labour force participation rate and employment rate of older persons have improved over the previous projections for the end of the period (2070), as a consequence of changes to the pension system. However, the employment rate is still low in the initial period of the projections. With a low average age upon departure from the labour market and the increase in life expectancy, the period for which pensions are drawn is lengthening. Table 12 below shows the long-term projections of fiscal revenue and expenditure to 2070. The current data for 2021 is taken from the consolidated general government figures. Owing to the epidemic and the measures associated with it (recovery measures), 2020 and 2021 were exceptional years, therefore the model calculations begin from a baseline year of 2019. Eurostat's population projections, the European Commission's long-term macroeconomic assumptions and projections on the labour market[24], which were used in the drafting of the new 2021 Ageing Report, and the actual GDP figures up to 2021 were all included in the model calculation.

Table 12 also shows the projections of ageing-related expenditure. They are equal or very similar to the European Commission's projections in the 2021 Ageing Report. In the structure of ageing-related expenditure, the largest share is expenditure associated with the pension system, which is forecast to increase by 5.5 percentage points in Slovenia between 2021 and 2070. The higher increase than was the case in previous projections is mainly the result of the recent (2019) changes to pension legislation, the pension replacement rates increased and consequently pension levels were raised and the improved baseline state in comparison to previous projections. Public expenditure on healthcare and long-term care is also projected to increase. By 2070, healthcare expenditure is expected to increase by 1.4 percentage points and long-term care expenditure by 1.2 percentage points relative to 2021. In addition to demographic factors, expenditure growth is also affected by non-demographic factors, such as per-capita GDP growth, the increase in relative prices, technological progress, and the increasing demand for high-quality healthcare and long-term care.

[23] EC (2021), 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019–2070), May 2021. Available at: https://ec.europa.eu/info/sites/default/files/economy-finance/ip148_en.pdf.
[24] EC (2020). 2021 Ageing Report: Underlying Assumptions & Projections Methodologies, Institutional Paper 142, November 2020. Available at: https://ec.europa.eu/info/sites/info/files/economy-finance/ip065_en.pdf.

Table 12: Long-term sustainability of public finances

| % of GDP | 2021 | 2030 | 2040 | 2050 | 2060 | 2070 | Difference 2070-2019 |
|---|---|---|---|---|---|---|---|
| **Total expenditure** | **46.7** | **41.6** | **46.1** | **52.4** | **58.1** | **63.7** | 23.64 |
| Total age-related expenditures | 21.5 | 22.8 | 26.0 | 29.0 | 29.9 | 29.8 | 8.23 |
| Pension expenditure | 10.3 | 10.7 | 13.5 | 15.5 | 15.9 | 15.8 | 5.54 |
| Old-age and early pensions | 7.9 | 8.4 | 10.6 | 12.3 | 12.6 | 12.6 | 4.68 |
| Disability pensions | 1.2 | 1.2 | 1.5 | 1.7 | 1.7 | 1.6 | 0.38 |
| Other pensions | 1.2 | 1.2 | 1.4 | 1.6 | 1.7 | 1.6 | 0.44 |
| Health care | 6.0 | 6.5 | 7.0 | 7.2 | 7.4 | 7.4 | 1.41 |
| Long-term care | 1.0 | 1.3 | 1.6 | 1.9 | 2.2 | 2.3 | 1.18 |
| Education expenditure | 3.8 | 3.9 | 3.6 | 3.9 | 4.1 | 3.9 | 0.08 |
| Unemployment | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.02 |
| Compensation of employees | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | -0.18 |
| Subsidies | 1.7 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 0.00 |
| Government investments | 3.8 | 3.2 | 3.2 | 3.2 | 3.2 | 3.1 | 0.00 |
| Total primary expenditure | 45.3 | 39.1 | 42.6 | 45.6 | 46.4 | 46.4 | 7.95 |
| Interest expenditure | 1.4 | 2.5 | 3.5 | 6.8 | 11.7 | 17.3 | 15.69 |
| **Total revenue** | **39.5** | **39.6** | **39.2** | **39.0** | **39.0** | **38.9** | -1.81 |
| **Assumptions (%)** | | | | | | | |
| Labour productivity growth | 1.7 | 2.1 | 1.9 | 1.8 | 1.7 | 1.5 | -0.19 |
| Real GDP growth | 6.7 | 2.17 | 1.17 | 1.09 | 1.45 | 1.34 | -5.34 |
| Real GDP per capita growth | 6.7 | 2.17 | 1.17 | 1.10 | 1.46 | 1.34 | -5.33 |
| Participation rate males (aged 20-64) | 83.7 | 84.8 | 84.2 | 84.8 | 85.2 | 84.8 | 1.09 |
| Participation rates females (aged 20-64) | 78.2 | 80.0 | 79.8 | 81.0 | 81.6 | 81.0 | 2.74 |
| Total participation rates (aged 20-64) | 81.1 | 82.5 | 82.2 | 83.1 | 83.5 | 83.0 | 1.91 |
| Unemployment rate | 5.0 | 5.6 | 5.7 | 5.7 | 5.6 | 5.7 | 0.69 |
| Population aged 65+ over total population | 20.9 | 24.7 | 28.0 | 30.8 | 31.3 | 30.4 | 9.52 |

Source: EC Ageing Report 2021; Ministry of Finance; Institute for Economic Research.

Demographic changes are among the key challenges and indicate a need for additional structural reforms to upgrade the existing pension insurance, healthcare and long-term care systems and make adjustments to the education and training system. To this end, the National Assembly adopted the Long-Term Care Act, at the proposal of the government, at the end of 2021. The government has classed changes to the pension and healthcare systems as among the most important structural changes to be addressed in the Recovery and Resilience Plan.

## Annex

Table 1.a: Economic growth and related indicators

| | % change | ESA code | Level 2021 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|
| | | | EUR million | | | | | |
| **1.** | Real GDP | B 1 g | | 8.1 | 4.2 | 3.0 | 2.8 | 2.6 |
| **2.** | Nominal GDP | B 1 g | 52,020 | 10.9 | 8.0 | 6.4 | 5.2 | 4.7 |
| | *Components of real GDP* | | | | | | | |
| **3.** | Private consumption expenditure | P3 | 27,303 | 11.6 | 4.3 | 1.4 | 1.6 | 1.8 |
| **4.** | Government consumption expenditure | P3 | 10,500 | 3.9 | 0.6 | 1.3 | 1.5 | 1.5 |
| **5.** | Gross fixed capital formation | P51 | 10,483 | 12.3 | 6.5 | 5.0 | 5.0 | 5.5 |
| **6.** | Changes in inventories and net acquisition of valuables (% of GDP) | P52+ P53 | 970 | 1.9 | 2.1 | 2.1 | 2.0 | 1.9 |
| **7.** | Exports of goods and services | P6 | 43,452 | 13.2 | 7.1 | 5.5 | 5.0 | 4.2 |
| **8.** | Imports of goods and services | P7 | 40,687 | 17.4 | 7.2 | 4.9 | 4.6 | 4.3 |
| | *Contributions to real GDP growth (in percentage points)* | | | | | | | |
| **9.** | Final domestic demand | | 49,256 | 9.8 | 3.9 | 2.2 | 2.2 | 2.4 |
| **10.** | Changes in inventories and net acquisition of valuables | P52+ P53 | 970 | 0.8 | 0.2 | 0.1 | 0.0 | 0.0 |
| **11.** | External balance of goods and services | B11 | 2,764 | -1.6 | 0.3 | 0.8 | 0.6 | 0.1 |

Source: SORS; IMAD Spring forecast 2022.

Table 1.b: Price developments

| | % change | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|
| **1.** | GDP deflator | 2.6 | 3.6 | 3.3 | 2.3 | 2.1 | 2.0 |
| **2.** | Private consumption deflator | 3.8 | 6.4 | 3.2 | 2.3 | 2.0 | 1.8 |
| **3.** | HICP (average of the year) | 1.9 | 6.4 | 3.2 | 2.3 | 2.0 | 1.8 |
| **4.** | Public consumption deflator | 4.7 | -0.7 | 3.4 | 2.8 | 2.6 | 2.5 |
| **5.** | Investment deflator | 5.3 | 6.8 | 3.5 | 2.2 | 2.0 | 2.0 |
| **6.** | Export price deflator (goods and services) | 5.0 | 5.1 | 0.1 | 0.2 | 0.3 | 0.3 |
| **7.** | Import price deflator (goods and services) | 7.6 | 6.9 | -0.2 | 0.1 | 0.2 | 0.2 |

Source: SORS; IMAD Spring forecast 2022.

## Table 1.c: Labour market developments

| | | Level 2021 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| | | thousands | | | | | |
| **1.** | Employment (persons)[1] growth in % | 1,054 | 1.4 | 1.7 | 1.0 | 0.7 | 0.4 |
| **2.** | Employment (hours worked), growth in % | 1,683,284 | 5.5 | 1.3 | -0.1 | 0.9 | 0.6 |
| **3.** | Unemployment rate according to labour force survey, in % | 49 | 4.8 | 4.3 | 4.1 | 3.9 | 3.8 |
| **4.** | Labour productivity[2] (value in 1000 EUR per employee), growth in % | 49 | 6.6 | 2.4 | 1.9 | 2.1 | 2.1 |
| **5.** | Labour productivity (value in 1000 EUR per hour worked), growth in % | 31 | 2.4 | 2.5 | 2.8 | 1.9 | 2.0 |
| **6.** | Compensation of employees[3], in EUR mio. growth in % (D.1) | 26,912 | 6.7 | 5.5 | 5.3 | 4.6 | 4.6 |
| **7.** | Compensation per employee[3.4]. in 1000 EUR, growth in % | 32 | 5.4 | 3.6 | 4.2 | 3.8 | 4.1 |

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 2022.

## Table 1.d: Sectoral balances

| *% of GDP* | ESA code | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| **Net lending/borrowing vis-a-vis the rest of the world** | B.9 (S.1) | 3.7 | | | | |
| **of which:** | | | | | | |
| **Balance on goods and services** | B.11 | 5.4 | 4.2 | 4.9 | 5.3 | 5.3 |
| **Balance of primary incomes and transfers** | B.12 | -2.6 | -2.1 | -2.4 | -2.7 | -2.5 |
| **Capital account** | D.9 (rec-pay) | 0.25 | | | | |
| **Net lending/borrowing of the private sector** | B.9 (S.1-S.13) | 8.9 | | | | |
| **Net lending/borrowing of general government** | B.9 (S.13) | -5.2 | | | | |
| **Statistical discrepancy** | | | | | | |

Source: SORS; Ministry of Finance; IMAD Spring forecast 2022.

## Table 2.a: General government budgetary prospects

| | | ESA code | Level 2021 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|
| | | | EUR million | | | *% of GDP* | | |
| | | | ***Net lending (EDP B.9) by sub-sector*** | | | | | |
| **1.** | General government | S.13 | -2,705 | -5.2 | -4.1 | -3.0 | -2.1 | -1.7 |
| **2.** | Central government | S.1311 | -2,944 | -5.7 | -4.0 | -2.9 | -2.1 | -1.7 |
| **3.** | State government | S.1312 | | | | | | |
| **4.** | Local government | S.1313 | 60 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| **5.** | Social security funds | S.1314 | 178 | 0.3 | -0.2 | -0.2 | -0.1 | -0.1 |
| | | | ***General government (S13)*** | | | | | |
| **6.** | Total revenue | TR | 22,843 | 43.9 | 43.2 | 42.8 | 42.2 | 41.8 |
| **7.** | Total expenditure | TE | 25,548 | 49.1 | 47.2 | 45.7 | 44.3 | 43.5 |
| **8.** | Net lending/borrowing | EDP B.9 | -2,705 | -5.2 | -4.1 | -3.0 | -2.1 | -1.7 |
| **9.** | Interest expenditure | EDP D.41 | 661 | 1.3 | 1.2 | 1.1 | 1.1 | 1.0 |
| **10.** | Primary balance | | -2,044 | -3.9 | -2.9 | -1.9 | -1.0 | -0.7 |
| **11.** | One-off and other temporary measures | | | -0.0 | -0.6 | -0.2 | -0.1 | -0.1 |
| | | | ***Selected components of revenue*** | | | | | |
| **12.** | Total taxes (12=12a+12b+12c) | | 10,989 | 21.1 | 20.7 | 20.4 | 20.2 | 19.8 |
| **a.** | Taxes on production and imports | D.2 | 6,849 | 13.2 | 13.0 | 12.9 | 12.8 | 12.5 |
| **b.** | Current taxes on income, wealth, etc | D.5 | 4,125 | 7.9 | 7.7 | 7.5 | 7.4 | 7.2 |
| **c.** | Capital taxes | D.91 | 15 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **13.** | Social contributions | D.61 | 8,731 | 16.8 | 16.2 | 16.0 | 15.9 | 16.2 |
| **14.** | Property income | D.4 | 322 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| **15.** | Other | | 2,800 | 5.4 | 5.6 | 5.8 | 5.5 | 5.3 |
| **16.** | 16=6. Total revenue | TR | 22,843 | 43.9 | 43.2 | 42.8 | 42.2 | 41.8 |
| | p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995) | | 19,712 | 37.9 | 36.9 | 36.4 | 36.1 | 36.0 |
| | | | ***Selected components of expenditure*** | | | | | |
| **17.** | Compensation of employees + intermediate consumption | D.1+P.2 | 9,743 | 18.7 | 17.3 | 16.8 | 16.5 | 16.1 |
| **a.** | Compensation of employees | D.1 | 6,561 | 12.6 | 11.5 | 11.1 | 10.9 | 10.6 |
| **b.** | Intermediate consumption | P.2 | 3,182 | 6.1 | 5.8 | 5.7 | 5.7 | 5.5 |
| **18.** | Social payments (18=18a+18b) | | 9,734 | 18.7 | 18.6 | 17.9 | 18.0 | 18.0 |
| | of which Unemployment benefits | | 179 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| **a.** | Social transfers in kind supplied via market producers | D.6311. D.63121. D.63131 | 1,232 | 2.4 | 2.3 | 2.4 | 2.5 | 2.5 |
| **b.** | Social transfers other than in kind | D.62 | 8,501 | 16.3 | 16.3 | 15.5 | 15.5 | 15.5 |
| **19.** | 19=9. Interest expenditure | D.41 | 661 | 1.3 | 1.2 | 1.1 | 1.1 | 1.0 |
| **20.** | Subsidies | D.3 | 1,165 | 2.2 | 1.0 | 0.9 | 0.8 | 0.7 |
| **21.** | Gross fixed capital formation | P.51 | 2,454 | 4.7 | 6.4 | 6.6 | 5.8 | 5.6 |
| **22.** | Capital transfers | D.9 | 205 | 0.4 | 0.4 | 0.5 | 0.3 | 0.4 |
| **23.** | Other | | 1,587 | 3.1 | 2.3 | 1.9 | 1.8 | 1.8 |
| **24.** | 24=7. Total expenditure | TE | 25,548 | 49.1 | 47.2 | 45.7 | 44.3 | 43.5 |

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

Table 2.b: No-policy change projections

| | | ESA code | Level 2021 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|
| | | | *EUR million* | | | *% of GDP* | | |
| **1.** | Total revenue at unchanged policies | TR | 22,843 | 43.9 | 43.2 | 42.8 | 42.2 | 41.8 |
| **2.** | Total expenditure at unchanged policies | TE | 25,548 | 49.1 | 47.2 | 45.7 | 44.3 | 43.5 |

Source: SORS; Ministry of Finance.

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

| | | Level 2021 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| | | *EUR million* | | | *% of GDP* | | |
| **1.** | Expenditure on EU programmes fully matched by EU funds revenue | 456.89 | 0.88 | 1.02 | 1.64 | 1.53 | 1.55 |
| **a.** | Of which investment expenditure fully matched by EU funds revenue | 343 | 0.66 | 0.78 | 1.29 | 1.2 | 1.27 |
| **2.** | Cyclical unemployment benefit expenditure | 42 | 0.08 | 0.03 | 0 | 0 | 0 |
| **3.** | Effect of discretionary revenue measures | | | | | | |
| **4.** | Expenditure on EU programmes fully matched by EU funds revenue | | | | | | |
| **5.** | One-off and other temporary measures | -20.00 | -0.04 | -0.62 | -0.18 | -0.14 | -0.13 |

Source: Ministry of Finance.

Table 3: General government expenditure by function

| | **** before EDP notification*** | COFOG code | 2020 | 2020 | 2025 |
|---|---|---|---|---|---|
| | | | *EUR million* | *% of GDP* | |
| **1.** | General public services | 1 | 2,526.7 | 5.4 | 5.2 |
| **2.** | Defence | 2 | 486.8 | 1.0 | 1.2 |
| **3.** | Public order and safety | 3 | 822.6 | 1.8 | 1.6 |
| **4.** | Economic affairs | 4 | 3,799.4 | 8.1 | 6.6 |
| **5.** | Environmental protection | 5 | 298.7 | 0.6 | 0.6 |
| **6.** | Housing and community amenities | 6 | 273.1 | 0.6 | 0.4 |
| **7.** | Health | 7 | 3,716.2 | 7.9 | 6.8 |
| **8.** | Recreation, culture and religion | 8 | 679.6 | 1.4 | 1.0 |
| **9.** | Education | 9 | 2,701.7 | 5.8 | 5.3 |
| **10.** | Social protection | 10 | 8,774.2 | 5.4 | 14.8 |
| | Total expenditure (=item 7=23 in Table 2) | TE | 24,079.2 | 5.31 | 43.8 |

Source: SORS, Ministry of Finance.

## Table 4: General government debt developments

| | % of GDP | ESA code | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| **1.** | Gross debt | | 74.7 | 73.3 | 71.5 | 69.5 | 68.0 |
| **2.** | Change in gross debt ratio | | -5.1 | -1.4 | -1.8 | -2 | -1.5 |
| **3.** | Primary balance | | -3.9 | -2.9 | -1.9 | -1.0 | -0.7 |
| **4.** | Interest expenditure | EDP D.41 | 1.3 | 1.2 | 1.1 | 1.1 | 1.0 |
| **5.** | Stock-flow adjustment | | -2.4 | 0.0 | -0.3 | -0.6 | -0.1 |
| | 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 | | 1.8 | 1.7 | 1.6 | 1.6 | 1.5 |
| **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 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| **1.** | Real GDP growth (%) | | 8.1 | 4.2 | 3.0 | 2.8 | 2.6 |
| **2.** | Net lending/borrowing of general government | B.9 | -5.2 | -4.1 | -3 | -2.1 | -1.7 |
| **3.** | Interest expenditure | D.41 | 1.3 | 1.2 | 1.1 | 1.1 | 1.0 |
| **4.** | One-off and other temporary measures | | -0.04 | -0.62 | -0.18 | -0.14 | -0.13 |
| **4a.** | Of which one-offs on the revenue side: general government | | | 0.04 | | | |
| **4b.** | Of which one-offs on the expenditure side: general government | | 0.04 | 0.66 | 0.18 | 0.14 | 0.13 |
| **5.** | Potential GDP growth (%) | | 3.0 | 3.0 | 2.8 | 2.8 | 2.8 |
| | Contributions: | | | | | | |
| | - Labour | | 0.8 | 0.8 | 0.5 | 0.5 | 0.5 |
| | - Capital | | 0.5 | 0.6 | 0.7 | 0.8 | 0.9 |
| | - Total factor productivity | | 1.6 | 1.6 | 1.5 | 1.5 | 1.5 |
| **6.** | Output gap | | 1.3 | 2.5 | 2.6 | 2.4 | 1.9 |
| **7.** | Cyclical budgetary component | | 0.6 | 1.2 | 1.2 | 1.1 | 0.9 |
| **8.** | Cyclically-adjusted balance (2-7) | | -5.8 | -5.2 | -4.2 | -3.2 | -2.6 |
| **9.** | Cyclically-adjusted primary balance (8+3) | | -4.5 | -4.0 | -3.1 | -2.2 | -1.6 |
| **10.** | Structural balance (8-4) | | -5.8 | -4.6 | -4.0 | -3.1 | -2.5 |
| **11.** | Fiscal effort | | 0.3 | 1.2 | 0.6 | 0.9 | 0.6 |

Source: SORS, IMAD, Ministry of Finance.

Table 6: Divergence from previous update

| *% of GDP* | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| **1. Real GDP growth (%)** | | | | | |
| **Stability Programme 2021** | 4.6 | 4.4 | 3.3 | 3.0 | |
| **Stability Programme 2022** | 8.1 | 4.2 | 3 | 2.8 | 2.6 |
| **Difference** | 3.5 | -0.2 | -0.3 | -0.2 | |
| **2. General government net lending (% of GDP)** | | | | | |
| **Stability Programme 2021** | 4.6 | 4.4 | 3.3 | 3.0 | |
| **Stability Programme 2022** | 8.1 | 4.2 | 3 | 2.8 | 2.6 |
| **Difference** | 3.5 | -0.2 | -0.3 | -0.2 | |
| **3. General government gross debt (% of GDP)** | | | | | |
| **Stability Programme 2021** | 4.6 | 4.4 | 3.3 | 3.0 | |
| **Stability Programme 2022** | 8.1 | 4.2 | 3 | 2.8 | 2.6 |
| **Difference** | 3.5 | -0.2 | -0.3 | -0.2 | |

Source: SORS, IMAD, Ministry of Finance.

Table 7: Long-term sustainability of public finances

| *% of GDP* | 2021 | 2030 | 2040 | 2050 | 2060 | 2070 | Difference 2070-2021 |
|---|---|---|---|---|---|---|---|
| **Total expenditure** | 46.7 | 41.6 | 46.1 | 52.4 | 58.1 | 63.7 | 23.64 |
| **Of which: age-related expenditures** | 21.5 | 22.8 | 26.0 | 29.0 | 29.9 | 29.8 | 8.23 |
| **Pension expenditure** | 10.3 | 10.7 | 13.5 | 15.5 | 15.9 | 15.8 | 5.54 |
| **Old-age and early pensions** | 7.9 | 8.4 | 10.6 | 12.3 | 12.6 | 12.6 | 4.68 |
| **Disability pensions** | 1.2 | 1.2 | 1.5 | 1.7 | 1.7 | 1.6 | 0.38 |
| **Other pensions** | 1.2 | 1.2 | 1.4 | 1.6 | 1.7 | 1.6 | 0.44 |
| **Health care** | 6.0 | 6.5 | 7.0 | 7.2 | 7.4 | 7.4 | 1.41 |
| **Long-term care** | 1.0 | 1.3 | 1.6 | 1.9 | 2.2 | 2.3 | 1.18 |
| **Education** | 3.8 | 3.9 | 3.6 | 3.9 | 4.1 | 3.9 | 0.08 |
| **Unemployment** | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.02 |
| **Wage compensations** | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | -0.18 |
| **Subsidies** | 1.7 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 0.00 |
| **Government investments** | 3.8 | 3.2 | 3.2 | 3.2 | 3.2 | 3.1 | 0.00 |
| **Total primary expenditure** | 45.3 | 39.1 | 42.6 | 45.6 | 46.4 | 46.4 | 7.95 |
| **Interest expenditure** | 1.4 | 2.5 | 3.5 | 6.8 | 11.7 | 17.3 | 15.69 |
| **Total general government revenue** | 39.5 | 39.6 | 39.2 | 39.0 | 39.0 | 38.9 | -1.81 |
| **Assumptions (in %)** | | | | | | | |
| **Labour productivity growth** | 1.7 | 2.1 | 1.9 | 1.8 | 1.7 | 1.5 | -0.19 |
| **Real GDP growth** | 6.7 | 2.17 | 1.17 | 1.09 | 1.45 | 1.34 | -5.34 |
| **Real GDP growth per capita** | 6.7 | 2.17 | 1.17 | 1.10 | 1.46 | 1.34 | -5.33 |
| **Participation rate males (aged 20-64)** | 83.7 | 84.8 | 84.2 | 84.8 | 85.2 | 84.8 | 1.09 |
| **Participation rates females (aged 20-64)** | 78.2 | 80.0 | 79.8 | 81.0 | 81.6 | 81.0 | 2.74 |
| **Total participation rates (aged 20-64)** | 81.1 | 82.5 | 82.2 | 83.1 | 83.5 | 83.0 | 1.91 |
| **Unemployment rate** | 5.0 | 5.6 | 5.7 | 5.7 | 5.6 | 5.7 | 0.69 |
| **Population aged 65+ over total population** | 20.9 | 24.7 | 28.0 | 30.8 | 31.3 | 30.4 | 9.52 |

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

Table 7.a: Projections of contingent liabilities of the Republic of Slovenia for the 2022-2025 period

| | Balance as of 31.12.2022* | | Balance as of 31.12.2023* | | Balance as of 31.12.2024* | | Balance as of 31.12.2025* | |
|---|---|---|---|---|---|---|---|---|
| | EUR million | % of GDP | EUR million | % of GDP | EUR million | % of GDP | EUR million | % of GDP |
| **Guarantees of the Republic of Slovenia** | 4,512.0 | 8.5 | 4,682.0 | 8.3 | 4,438.7 | 7.5 | 4,158.9 | 7.1 |
| **Including: financial sector*** | 669.5 | 1.3 | 669.5 | 1.2 | 669.5 | 1.1 | 669.5 | 1.1 |

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

Source: Ministry of Finance.

Table 8: Basic assumptions

| | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| **Short-term interest rate (annual average)** | -0.5 | -0.4 | 0.3 | 0.7 | |
| **Long-term interest rate (annual average)** | 0.1 | 0.8 | 1 | 1.1 | |
| **USD/EUR exchange rate (annual average)** | 1.184 | 1.100 | 1.093 | 1.093 | 1.093 |
| **Nominal effective exchange rate** | 0.0 | -1.0 | 0.0 | 0.0 | 0.0 |
| **World excluding EU, GDP growth** | | | | | |
| **EU GDP growth** | 5.3 | 3.4 | 2.7 | 1.9 | 1.9 |
| **Growth of relevant foreign markets** | 10.7 | 5.0 | 4.0 | 3.4 | 3.3 |
| **World import volumes, excluding EU** | | | | | |
| **Oil prices (Brent, USD/barrel)** | 70.7 | 111.8 | 95.7 | 90.7 | 88.1 |

Source: IMAD Spring forecast 2022.

## Additional tables

Table 9: Stock of guarantees adopted/announced until the end of 2021 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) | 29/05/2020 | 0.2 | 0.2 |
| | Act on providing additional liquidity to the economy to mitigate the consequences of the COVID-19 epidemic (ZDLGPE) | 28/04/2020 | 3.8 | 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 |
| | Act Regulating the Guarantee of the Republic of Slovenia for Pan-European Guarantee Fund (ZJPGS) | 03/03/2021 | 0.1 | 0.1 |
| | **Subtotal** | | **4.5** | **0.5** |
| **Others** | 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 | 1.5 | 0.2 |
| | Subtotal | | 1.5 | 0.2 |
| | **Total** | | **6.0** | **0.8** |

Source: Ministry of Finance.

Table 10: 5.1

-5.Discretionary measures – ESA 2010 Methodology

| Title | Description | ESA Code | Adoption Status | Budgetary impact (% of GDP - change from previous year) 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|
| Revenue measures | | | | | | | | | |
| Tax measure | Amendments to the Personal Income Tax Act | D.51 | Adopted | 0.00 | 0.00 | -0.27 | 0.03 | 0.01 | -0.01 |
| Tax measures (COVID) | Unsettled and unpaid prepayments for economic activity imposed on each individual income, unsettled and unpaid prepayments of corporate income tax; deferred tax payments (personal income tax, corporation tax) | D.51 | Adopted | 0.43 | -0.74 | 0.30 | 0.02 | 0.00 | 0.00 |
| | Deferred tax payments (excise, VAT) | D.21 | Adopted | 0.36 | -0.53 | 0.09 | 0.09 | 0.00 | 0.00 |
| | Exemption from payment of chargers for the use of water; water right concessions and reduced tax base for income from water rights; compensations for the mooring fee in fishing ports (40 % of total compensation); reduced tax base for income tax prepayment from the cadastral income and lump sum estimation of income per hive | D.29 | Adopted | 0.01 | -0.01 | 0.00 | 0.00 | 0.00 | 0.00 |
| Expenditure measures | | | | | | | | | |
| Measures in the field of labour market and social security contributions | Exemption from payment of contributions for pension and disability insurance for working employees; exemption from payment of social contributions for employees waiting at home (contributions are fully covered by the state); coverage of costs of sick leave pay for all workers during the epidemic from the first day onwards by Health Insurance Institute (not the employer); wage compensations for employees waiting at home, determination and payment of compensation for the ordered quarantine (private institutions); subsidised part of the minimum wage; subsidization of part-time work; reimbursement of short-term sick leave; compensation for salary during temporary absence from work due to cohabitation (care of a close family member) | D.3 | Adopted | 2.19 | -1.42 | -0.46 | -0.04 | 0.00 | 0.00 |
| | Special assistance in the form of a monthly basic income for self-employed workers, farmers, and religious workers; financial compensation to farmers and self-employed for loss of income (quarantine); exemption from payment of social contributions for partners (who are managers) and farmers | D.62 | Adopted | 0.52 | -0.04 | -0.39 | -0.01 | 0.00 | 0.00 |
| | Wage compensations for employees in quarantine; reimbursement of short-term sick leave; part-time work | D.1 | Adopted | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Measures in the field of economy, tourism, and agriculture | Coverage of fixed costs for affected economic operators (companies) | D.3 | Adopted | 0.34 | -0.02 | -0.26 | 0.00 | 0.00 | 0.00 |
| | Reimbursement of crisis salary bonus/supplement; financial compensation for the loss of income (producers/growers, aid in agriculture); support in wine sector; aid for transport providers (coverage of income loss); covering the operating costs of the airport; aid for carrying out quick COVID tests in the economy; payment of packaging waste management costs, reimbursement of meeting and event organization costs; compensate ski lifts and sky-resort operators; financial subsidies to employers who provide workers with paid annual leave | D.3 | Adopted | 0.13 | 0.04 | -0.15 | 0.00 | 0.00 | 0.00 |
| | Tourist vouchers (2020&2021) | D.75 | Adopted | 0.27 | 0.23 | -0.37 | -0.07 | 0.00 | 0.00 |
| | Stimulation of business and development of tourism; investments in research, development and innovation etc. | D.3+ P.51 | Adopted | 0.09 | 0.00 | -0.07 | 0.00 | 0.00 | 0.00 |

| Title | Description | ESA Code | Adoption Status | Budgetary impact (% of GDP - change from previous year) 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|
| | Funds for guarantees for bank loans - to support companies affected by the COVID-19 crisis: State aid | D.9 | Adopted | 0.00 | 0.06 | -0.05 | 0.00 | 0.00 | 0.00 |
| Measures in the field of healthcare | Compensation to the providers of health care loss due to reduced activity - concessionaires; Decree on the implementation of screening programs for the early detection of SARS-CoV-2 virus infection - concessionaires | D.3 | Adopted | 0.03 | 0.02 | -0.04 | 0.00 | 0.00 | 0.00 |
| | Compensation to the providers of health care loss due to reduced activity; covering the costs of loss of revenue due to unoccupied capacities; and others (measures to reduce patient waiting times, improve access to health services etc.). | D.75 | Adopted | 0.22 | -0.14 | 0.06 | -0.11 | 0.00 | 0.00 |
| | Managing epidemics, purchase of medical, protective equipment and accessories (Agency for Commodity Reserves); covering the costs of transport and accommodation facilities; coverage of the costs for COVID-19 testing; implementation of microbiological tests; support to performing public service to National Institute for Health; Decree on the implementation of screening programs for the early detection of SARS-CoV-2 virus infection etc. | P.2 | Adopted | 0.27 | 0.06 | -0.21 | -0.07 | 0.00 | 0.00 |
| | Additional funds for Health Insurance Institute of Slovenia – Article 67. ZIPRS2021; vaccination COVID-19, etc. | D.63 | Adopted | 0.10 | 0.01 | -0.08 | -0.02 | 0.00 | 0.00 |
| | Vaccination and additional funds for Health Insurance Institute of Slovenia | D.73 | Adopted | 0.00 | 0.05 | -0.04 | 0.00 | 0.00 | 0.00 |
| | Additional health programmes; measures to reduce patient waiting times; tenders in healthcare; financing of additional staff in social welfare institutions; additional funds for Health Insurance Institute of Slovenia – isolation; public health infrastructure | D.1 | Adopted | 0.01 | 0.02 | 0.32 | -0.32 | 0.00 | 0.00 |
| | Managing epidemics; covering the costs of loss of revenue due to unoccupied capacities to providers of social protection services in the public network; financing of additional staff in social welfare institutions; costs of testing and self-testing | D.3 | Adopted | 0.00 | 0.07 | -0.02 | -0.04 | 0.00 | 0.00 |
| | Medical protective equipment, funds intended to increase health capacity | P.51 | Adopted | 0.03 | 0.03 | -0.05 | 0.00 | 0.00 | 0.00 |
| | Vaccines - COVID-19 and other | D.74 + D.75 | Adopted | 0.00 | 0.13 | -0.10 | -0.03 | 0.00 | 0.00 |
| Measures in the field of social protection | Single payment solidarity assistance for pensioners and for vulnerable groups (single pay solidarity assistance for unemployed; allowance to large families; solidarity assistance for children, new-borns, students at home and abroad, and other vulnerable groups); temporary (financial) compensation for loss of employment; assistance to institutional care providers; assistance to providers of social care services; family care provided at home; social inclusion and poverty reduction etc. | D.62 + D.63 | Adopted | 0.42 | -0.17 | -0.17 | -0.01 | -0.01 | 0.00 |
| Measures in the area of wages | Allowances and supplements for special working conditions for public sector employees; allowances for direct work with COVID patients; allowances for students; special post allowances for staff in pay group J in health and social work activities, etc. | D.1 | Adopted | 0.63 | 0.70 | -1.17 | -0.01 | 0.00 | 0.00 |
| | Allowances and supplements for special working conditions (concessionaires, private institutions) | D.3 | Adopted | 0.03 | 0.07 | -0.09 | 0.00 | 0.00 | 0.00 |
| Other (expenditure) measures: for public sector | Co-financing of protection and rescue for local communities (municipalities are provided with funds to reimburse part of the costs incurred in the field of protection and assistance during the epidemic) | P.2 | Adopted | 0.01 | -0.01 | 0.00 | 0.00 | 0.00 | 0.00 |
| | Exemption from parental payment for kindergartens (also private kindergartens); warm school meals | D.62 + D.63 | Adopted | 0.02 | 0.01 | -0.03 | 0.00 | 0.00 | 0.00 |

| Title | Description | ESA Code | Adoption Status | Budgetary impact (% of GDP - change from previous year) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| | The compensations of employees in holders of public authority, public service providers and bodies of self-governing local communities not providing public services during the epidemic were covered by the state budget; compensation to the passenger transport operator – rail transport; financing private kindergartens; coverage restricted range of student dormitory services; and other measures: humanitarian aid, donations, assisting sports federations to perform quick tests (COVID-19); aid to fire brigades etc. | D.73 + D.74 + D.75 | Adopted | 0.08 | -0.01 | -0.06 | 0.00 | 0.00 | 0.00 |
| | Managing epidemics, protective equipment, financing of the Information and communication technology – ICT / ICT-infrastructure; investments etc. | P.51 | Adopted | 0.02 | 0.03 | -0.04 | 0.00 | 0.00 | 0.00 |
| One-off measures | Ukraine crisis / ensuring the rights and social protection of persons from Ukraine | D.63 | Adopted | 0.00 | 0.00 | 0.06 | -0.06 | 0.00 | 0.00 |
| | Ukraine crisis / ensuring the rights and social protection of persons from Ukraine | D.63 | Adopted | 0.00 | 0.00 | 0.00 | 0.01 | -0.01 | 0.00 |
| | Ukraine crisis / inclusion of Ukrainian children in educational and social institutions | D.1 | Adopted | 0.00 | 0.00 | 0.09 | -0.09 | 0.00 | 0.00 |
| | Ukraine crisis / inclusion of Ukrainian children in educational and social institutions | D.1 | Adopted | 0.00 | 0.00 | 0.00 | 0.02 | -0.02 | 0.00 |
| | Energy crisis / energy vouchers for the economy | D.3 | Adopted | 0.00 | 0.00 | 0.12 | -0.12 | 0.00 | 0.00 |
| | Energy crisis / energy vouchers for households / farmers | D.62 | Adopted | 0.00 | 0.00 | 0.23 | -0.23 | 0.00 | 0.00 |
| | T2 lawsuits | D.9 | Planned | 0.00 | 0.00 | 0.10 | -0.10 | 0.00 | 0.00 |
| | T2 lawsuits | D.9 | Planned | 0.00 | 0.00 | 0.00 | 0.09 | -0.09 | 0.00 |
| | T2 lawsuits | D.9 | Planned | 0.00 | 0.00 | 0.00 | 0.00 | 0.09 | -0.09 |
| | Denationalization | D.9 | Planned | 0.00 | 0.04 | -0.04 | 0.00 | 0.00 | 0.00 |
| | Denationalization | D.9 | Planned | 0.00 | 0.00 | 0.04 | -0.04 | 0.00 | 0.00 |
| | Denationalization | D.9 | Planned | 0.00 | 0.00 | 0.00 | 0.03 | -0.03 | 0.00 |
| | Denationalization | D.9 | Planned | 0.00 | 0.00 | 0.00 | 0.00 | 0.03 | -0.03 |
| | Fund for Craftsmen and Entrepreneurs | D.9 | Planned | 0.00 | 0.00 | 0.02 | -0.02 | 0.00 | 0.00 |
| | Fund for Craftsmen and Entrepreneurs | D.9 | Planned | 0.00 | 0.00 | 0.00 | 0.02 | -0.02 | 0.00 |
| | Fund for Craftsmen and Entrepreneurs | D.9 | Planned | 0.00 | 0.00 | 0.00 | 0.00 | 0.02 | -0.02 |

Source: Ministry of Finance, own calculations.

Table 11: RRF impact on Programme – GRANTS

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|
| **Revenue from RRF grants (% of GDP)** | | | | | | | |
| **RRF GRANTS as included in the revenue projections** | | 0.22 | 0.45 | 0.77 | 0.59 | 0.37 | 0.49 |
| **Cash disbursements of RRF GRANTS from EU** | | 0.44 | 0.45 | 0.67 | 0.51 | 0.32 | 0.52 |
| Expenditure financed by RRF grants (% of GDP) | | | | | | | |
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| **Compensation of employees** | | 0.00 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| **Intermediate consumption** | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **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** | | 0.00 | 0.07 | 0.16 | 0.14 | 0.07 | 0.06 |
| **Current transfers** | | 0.00 | 0.00 | 0.01 | 0.01 | 0.01 | 0.00 |
| **TOTAL CURRENT EXPENDITURE** | | 0.00 | 0.08 | 0.18 | 0.16 | 0.09 | 0.07 |
| **Gross fixed capital formation** | | 0.21 | 0.28 | 0.48 | 0.55 | 0.42 | 0.14 |
| **Capital transfers** | | 0.00 | 0.01 | 0.06 | 0.07 | 0.06 | 0.02 |
| **TOTAL CAPITAL EXPENDITURE** | | 0.21 | 0.29 | 0.53 | 0.62 | 0.48 | 0.17 |
| Other costs financed by RRF grants (% of GDP)[25] | | | | | | | |
| | 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 |

Source: Ministry of Finance.

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

Table 12: RRF impact on Programme – LOANS

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|
| **Cash flow from RRF loans projected in the Programme (% of GDP)** | | | | | | | |
| **Disbursements of RRF LOANS from EU** | | 0.00 | 0.00 | 0.60 | 0.08 | 0.15 | 0.29 |
| **Repayments of RRF LOANS to EU** | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Expenditure financed by RRF loans (% of GDP) | | | | | | | |
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| **Compensation of employees** | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Intermediate consumption** | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **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** | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Current transfers** | | 0.00 | 0.00 | 0.02 | 0.04 | 0.04 | 0.00 |
| **TOTAL CURRENT EXPENDITURE** | | 0.00 | 0.00 | 0.02 | 0.04 | 0.04 | 0.00 |
| **Gross fixed capital formation** | | 0.00 | 0.02 | 0.16 | 0.27 | 0.30 | 0.10 |
| **Capital transfers** | | 0.00 | 0.00 | 0.02 | 0.04 | 0.06 | 0.03 |
| **TOTAL CAPITAL EXPENDITURE** | | 0.00 | 0.02 | 0.18 | 0.32 | 0.36 | 0.13 |
| Other costs financed by RRF loans (% of GDP)[26] | | | | | | | |
| | 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 |

Source: Ministry of Finance.

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