REPUBLIKA SLOVENIJA
VLADA REPUBLIKE SLOVENIJE

Stability Programme 2023

April 2023

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1 INTRODUCTION

The Stability Programme 2023 was drafted in the context of still uncertain macroeconomic conditions stemming from the global situation, the situation in the energy markets and elevated inflation; thus, it is important that fiscal policy is flexible while focusing on growth and medium-term balance.

Since spring 2020, fiscal policy has been marked by exceptional circumstances, arising, first from the COVID-19 epidemic, and later from the energy crisis and high cost of living as a result of the war in Ukraine. Mitigation required decisive action with significant fiscal impacts. With the gradual normalisation of the situation and the phasing-out of emergency measures, the general escape clause at EU level, allowing for a temporary deviation from the rules of the Stability and Growth Pact, will be deactivated after almost four years, causing fiscal policy to be again subjected to the constraints of fiscal rules in 2024. As possible changes to fiscal rules have been discussed at EU level for three years now, since, as noted by the European Commission and many stakeholders, existing rules need to be adapted to new realities, 2024 will be a transition year. Therefore, during the transitional year, the existing rules of the Stability and Growth Pact will partly apply, but the requirements will be slightly adjusted in line with the reform orientations presented by the European Commission in November 2022 and the first conclusions on the related topic of the Council of Economic and Finance Ministers adopted in March 2023. On this basis, the European Commission will present fiscal guidance to Member States in the form of recommendations in the coming months, while work on the recast of the legislative package and guidelines will continue.

The fiscal targets for the 2023–2026 period are based on revenue estimates derived from the macroeconomic forecast and the measures taken.[1] The expenditure trends take into account the statutory adjustment of different benefits as a result of cost-of-living increases and the current way in which the different systems operate. Over the mentioned period, high levels of investment, measures for further growth and competitiveness, as well as the introduction of structural reforms are planned. Measures to address the consequences of the COVID-19 epidemic are coming to an end in 2023, while measures against the energy crisis, that are expected to fade after 2023, came to the forefront.

In the light of the above, the Government of the Republic of Slovenia (the Government) plans to gradually reduce the general government deficit in the coming years in order to ensure the sustainability of public finances. Already in 2024, the general government deficit is projected to fall below the Maastricht threshold of 3% of gross domestic product (GDP), with a further decline in the coming years. At the same time, the general government debt ratio, which is expected to be a key indicator of the sustainability of public finances in the revised economic

[1] For 2022, the Stability Programme 2023 takes into account the general government data published by the Statistical Office of the Republic of Slovenia (SORS) on 31 March 2023, according to which the general government deficit in that year was 3.9% of GDP. According to the latest SORS estimate published on 19 April 2023, the general government deficit decreased to 3.0% of GDP in 2022 as a result of Eurostat’s decision not to record subsequent capital injections in companies HSE and ELES in 2022 as a capital transfer, therefore having no impact on the government balance in that year. However, on the revenue side, data on corporate income tax revenues were revised since actual figures on the 2022 annual accounts were available.

governance framework, is also projected to gradually decline towards the 60% of GDP reference value over the period (Table 1).

Table 1: Projections of the headline balance and general government debt

% of GDP	2022	2023	2024	2025	2026
General government balance	-3.9	-4.1	-2.8	-2.2	-1.3
General government debt	69.9	68.9	66.5	65.0	63.5

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

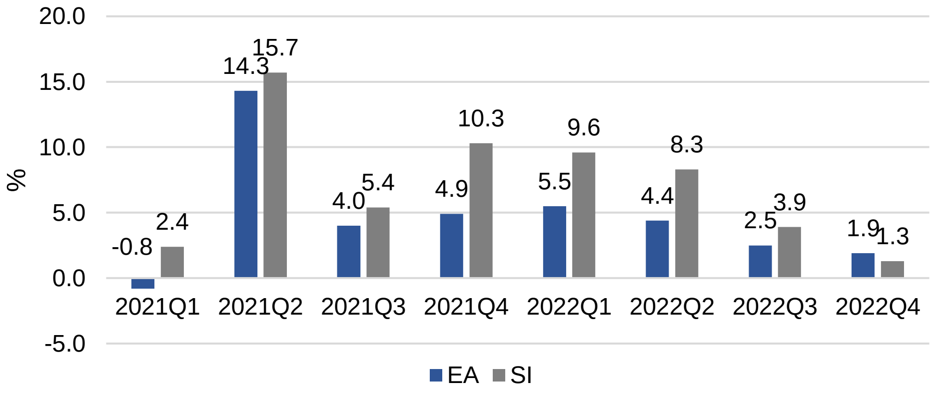
The Stability Programme 2023 is based on the Ordinance on the framework for the preparation of the general government budget for the 2024–2026 period.

2 MACROECONOMIC OVERVIEW AND PROJECTIONS

2.1 Macroeconomic environment in 2022

In 2022, economic activity in Slovenia increased by 5.4%. The growth stemmed mainly from the recovery from the epidemic. The growth was slightly higher than expected in the autumn forecast of the Institute of Macroeconomic Analysis and Development (IMAD), reflecting the resilience of the economies, and the effects of the reached agreements and adopted measures to mitigate the energy crisis on confidence indicators and the moderation of energy product prices. The highest growth was recorded in the first half of the year (9.4%), while it moderated in the second half of the year (1.7%). Nevertheless, economic developments were more favourable than expected in the fourth quarter of 2022. Compared to the euro area, economic activity in Slovenia was better in the first three quarters; moreover, economic growth was 1.9 pps higher compared to the euro area in 2022 as a whole. In the euro area, growth in 2022 also stemmed mainly from the first half of the year.

Figure 1: Quarterly economic activity in Slovenia and the euro area (EA) compared to the same period last year



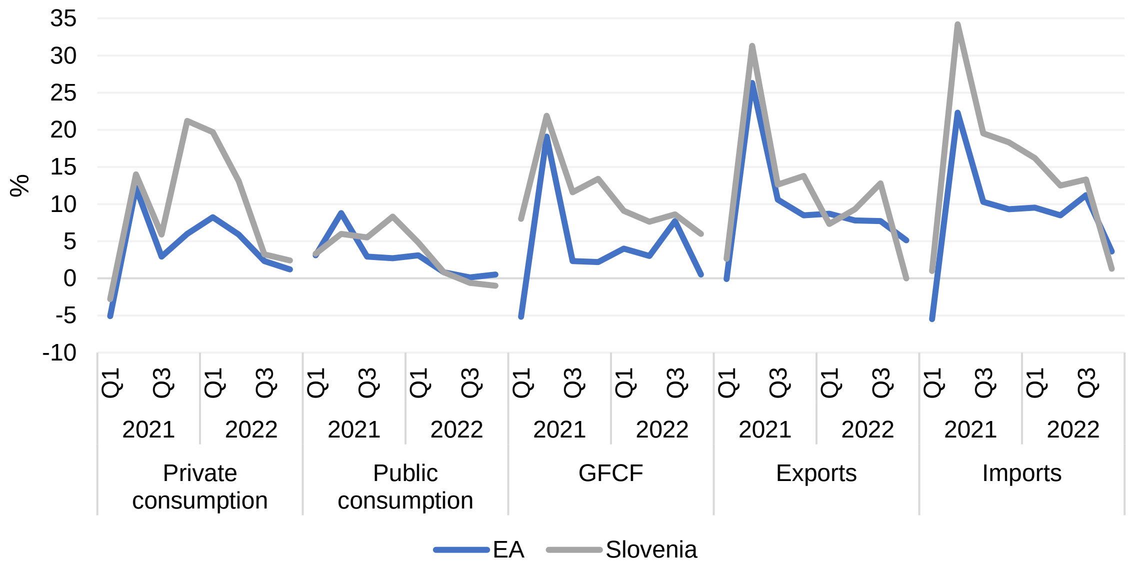
Source: Eurostat.

In manufacturing, value added has declined, especially in more energy-intensive industries, given the high uncertainty related to the prices of energy products for companies — especially in the run-up to the agreement on measures at national and EU level. However, the pharmaceutical industry, the manufacture of ICT equipment and the manufacture of electrical equipment were the main contributors to the growth of manufacturing throughout the year.

Private consumption growth continued in 2022 (8.9%), largely attributable to the easing of containment measures at the beginning of the year and further employment growth. Uncertainty about the energy and food crisis that started in the spring, and rising inflation led to a moderation of household consumption by the end of the year. Government measures to mitigate the consequences of the epidemic and high cost of living have prevented a larger real fall in average disposable income. In particular, consumption of services, including travel abroad, increased, while consumption of certain durable goods (cars and furniture), and food and beverages was lower. Growth in government consumption moderated in 2022, standing at 0.9% – mainly due to lower expenditure to contain the epidemic.

Gross fixed capital formation (7.8% growth) also contributed significantly to the growth of economic activity, mainly due to an increase in investment in buildings and structures. Under the influence of uncertainty and due to a decline in production capacity utilisation, the growth of investments in equipment and machinery moderated significantly until the end of the year, i.e. these investments were lower at the end of the year than a year ago.

Figure 2: Quarterly growth in the main components of consumption, imports and exports compared to the same period last year – Slovenia and the euro area (EA)



Source: Eurostat.

Exports declined in the fourth quarter of 2022 and have fluctuated considerably since the beginning of the war in Ukraine due to high uncertainty. In 2022, total export growth (6.5%) was significantly lower than in 2021 due to a moderation in growth of exports of goods. It was also lower than the growth of imports (9.8%), which contributed to the negative contribution of the external balance to GDP growth in 2022 (-2.1 pps).

In both Slovenia and the euro area, the saving rate declined slightly compared to the previous year. The gross saving rate of euro area households fell from 14.8% (2021-Q4) to 10.8% (2022-Q3). The gross saving rate in Slovenia also fell, namely from 11.9% (2021-Q4) to 4.4% (2022-Q3).

In 2022, unemployment was at its lowest level in the last 30 years. Employment growth moderated in the second half of the year, both as a result of moderation in economic activity and labour shortages perceived by almost all activities.

The current account surplus turned into a deficit in 2022 after 10 years. The main contributor to the significant decline in the current account balance was the balance of goods, since in the face of relatively high domestic consumption, real growth in imports of goods was higher than that in exports. However, the service surplus increased, which was higher in all segments of service trade, especially in the travel trade, as inflows from foreign tourists' travel to Slovenia increased significantly more than the domestic population's expenditure on travelling abroad.

MIP indicators

Figure 3: Internal imbalances

Internal imbalances: Total financial sector liabilities (1 year % change); General government gross debt (% of GDP); House price index (2015=100), deflated (1 year % change); Consolidated Private sector credit flow, consolidated (% of GDP); Private sector debt, consolidated (% of GDP); Unemployment rate, 3 year average.
* Indicators in the box exceed the limit values.

Source: Eurostat.

In the updated scoreboard of the Macroeconomic Imbalances Procedure (MIP) in 2021 and 2022, Slovenia shows internal imbalances in two indicators for 2020 and 2021: General government gross debt and house price index. The situation is improving, debt is falling, and the house price index also declined in 2022.

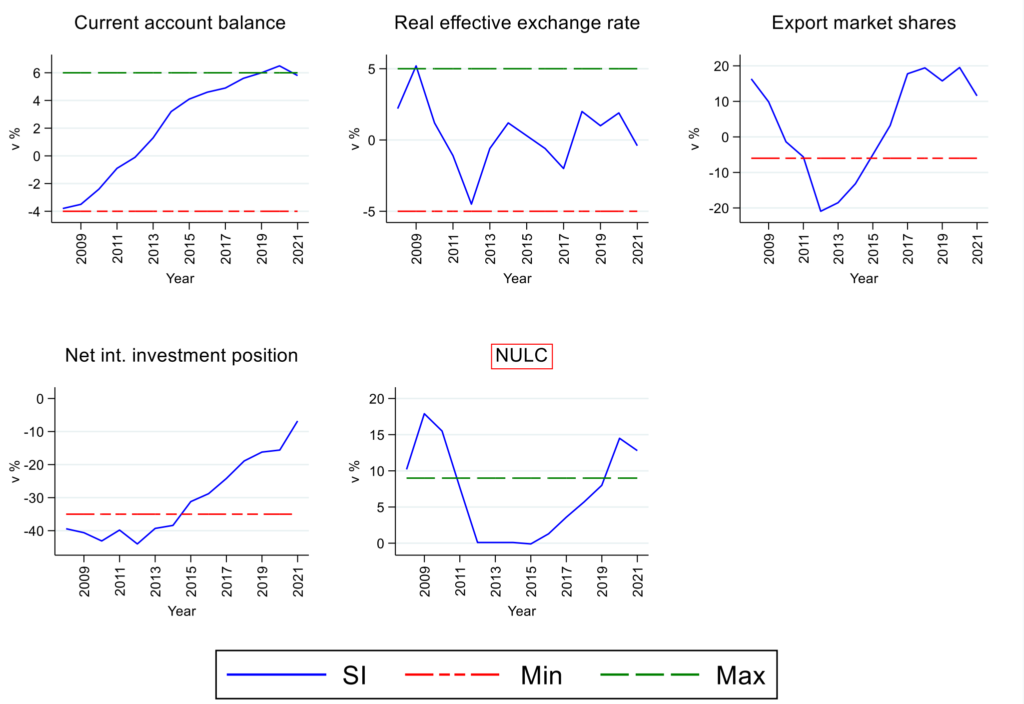
House prices in Slovenia increased in nominal terms by 4.5% in 2020 and 11.5% in 2021. In the first half of 2022, house prices showed record growth rates (over 10%), similar to markets in other European countries (as high as over 20%), which may indicate the peak of the cycle.

The house price growth in the second half of 2022 was between 10% and 15% in Slovenia (Alert Mechanism Report 2023).

The European Systemic Risk Board (ESRB), which has systematically assessed the medium-term vulnerabilities of residential real estate (RRE) in EU Member States since 2016, draw up a new assessment in February 2022. On the basis of this assessment, Slovenia is among the countries with M (medium) overall risk, leading an appropriate and sufficient policy in 2022.

Slovenia's debt-to-GDP ratio stood at 74.5% at the end of 2021. According to the forecasts of the Ministry of Finance and the Commission, gross debt is projected to fall in 2022, namely to 69.9% of GDP according to the first estimate published by SORS in 2022.

Figure 4: External imbalances and competitiveness



External imbalances and competitiveness: Current account balance (% of GDP, 3 year average); Real effective exchange rate – 42 trading partners, HICP deflator, 3 year % change; Export market share – % of world exports, 5 year % change; Net international investment position (% of GDP); NULC - Nominal unit labour cost index (2015=100), 3 year % change.
* Indicators in the box exceed the limit values.

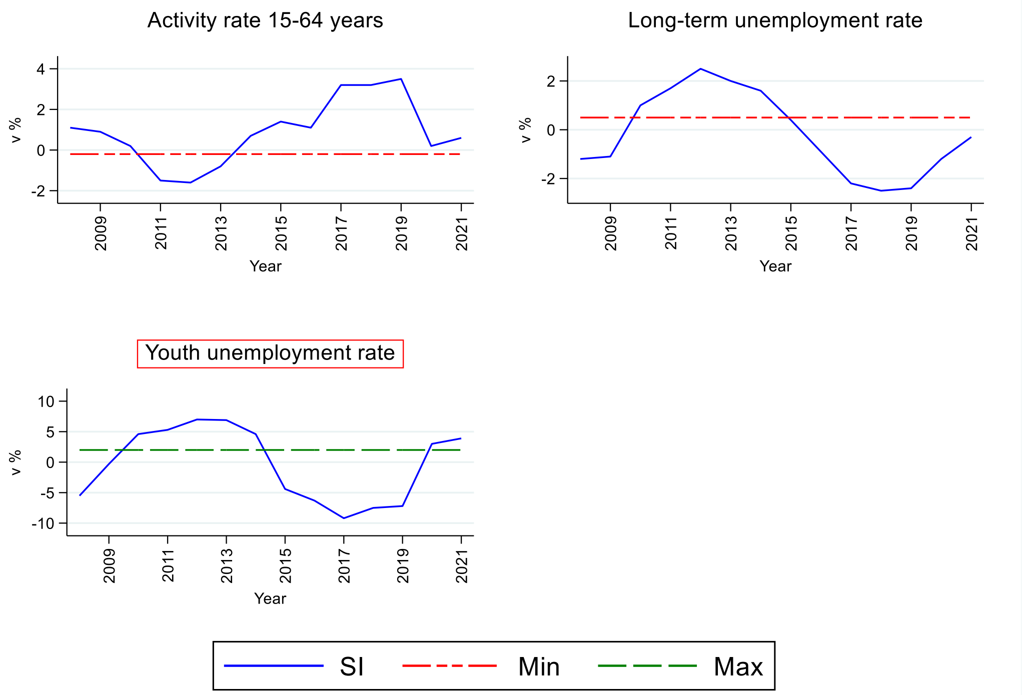
Source: Eurostat.

In 2020, Slovenia had a current account surplus, which was reached due to the declared surplus of the trade balance and favourable operating conditions. After a prolonged period of surpluses, the current account balance fell to 3.8% in 2021, and turned into a deficit in 2022.

Growth in nominal unit labour costs for Slovenia moderated significantly in 2021. The increase in unit labour costs was due to lower productivity during the COVID-19 crisis and increased labour demand. Nominal unit labour cost growth remained low in 2022.

Export market shares (5 years % change) show Slovenia's performance in trade in goods with the rest of the world, as Slovenia had a relatively high export market share among European countries in 2020 and 2021.

Figure 5: Employment indicators



Employment indicators: Activity rate – % of total population aged 15–64 (3 year change in pps); Long-term unemployment rate – % of active population aged 15–74 (3 year change in pps); Youth unemployment rate – % of active population aged 15–24 (3 year change in pps).
* Indicators in the box exceed the limit values.

Source: Eurostat.

As regards employment indicators, Slovenia shows imbalances in only one indicator, with the youth unemployment rate exceeding 2% in 2020 and 2021, while there is no data yet for 2022. Based on data on implemented youth employment indicators for 2021 (Alert Mechanism Report 2023), Slovenia has an unemployment rate of around 12.8% for the population aged 15–24, with 6.6 % of the young not included in employment, education or training.

2.2 Medium-term forecast 2023–2026

According to IMAD's forecast, economic growth in 2023 is expected to moderate at 1.8%, being slightly higher than expected in autumn, and mainly reflecting the effects of the reached agreements and adopted measures to mitigate the energy crisis, moderate energy product prices and strengthen economic resilience. IMAD predicts an increase of 2.5% in 2024, 2.6% in 2025, and 2.5% in 2026.

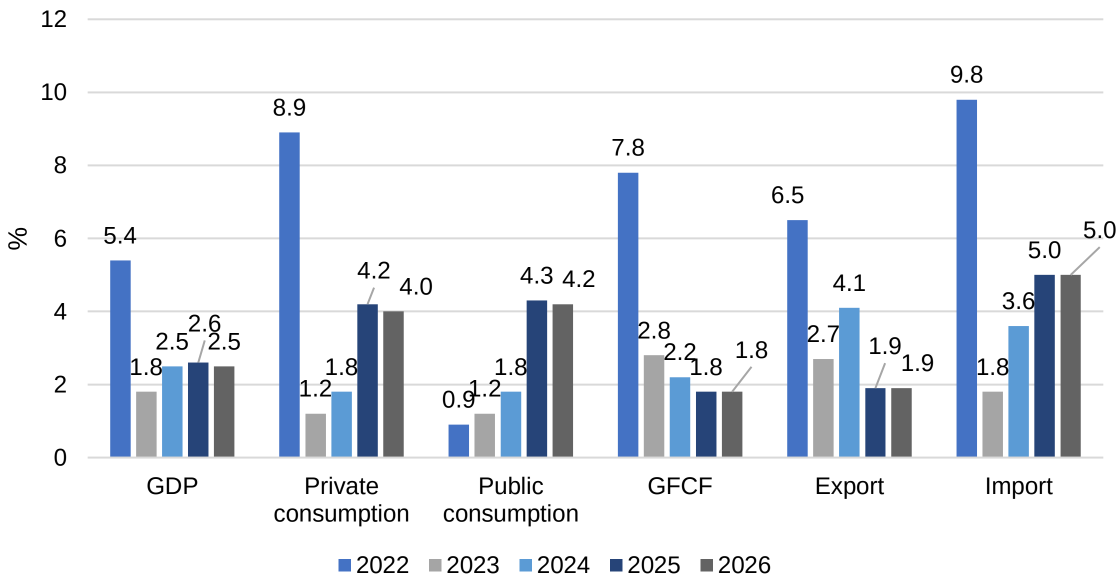
Private consumption growth in 2023 (1.2%) is expected to be lower than last year, when there was a strong recovery from the epidemic. Households' purchasing power will be constrained mainly by relatively high inflation and tight lending conditions. Modest growth in private consumption will be supported mainly by high levels of employment, moderate wage growth and government measures to mitigate energy product price increases. Private consumption growth will pick up to 1.8% in 2024 to 2026.

However, government consumption growth will remain at a low level in 2023 (1.2%). A further reduction in expenditure to mitigate the consequences of the epidemic and subdued employment growth, as well as an increase in healthcare expenditure (stabilisation of the healthcare situation), are projected. Both the growth of healthcare expenditure and the gradual establishment of the long-term care system will have an impact on the strengthening of growth in government consumption in 2024 (1.8%) and in the 2025-2026 period (1.9%).

In 2023, a 2.8% growth in fixed capital formation is projected, mainly growth in government investment in buildings and structures, supported by the absorption of EU funds. Private investment activity will be on average lower in 2023 than last year, mainly due to rising interest rates and persistent uncertainty. Total investment growth will be slightly lower in 2024 (2.2%) but, with the increase in public investment (and the launch of the financial perspective 2021–2027), it will rise again in 2025 and 2026 to 5.0%.

Growth in external trade and the export sector will slow in 2023 in line with the slowdown in economic growth in our main trading partners. Growth in imports of goods will be much lower than last year, and growth in service trade, especially of services related to tourism, is also expected to moderate. Growth in exports (2.7%) will be slightly higher than growth in imports of goods and services (1.8%), mainly due to a moderation in growth in domestic private consumption. External cost pressures will still be present, but price increases of raw materials, energy and products are moderated by producers, as well as supply chain disruptions. In the next three years, exports are expected to grow slightly higher (around 4%), following higher growth in foreign demand as well as imports (3.6%; 4.3% and 4.2% in the 2024–2026 period).

Figure 6: Percentage growth in GDP and its components in the 2022–2026 period

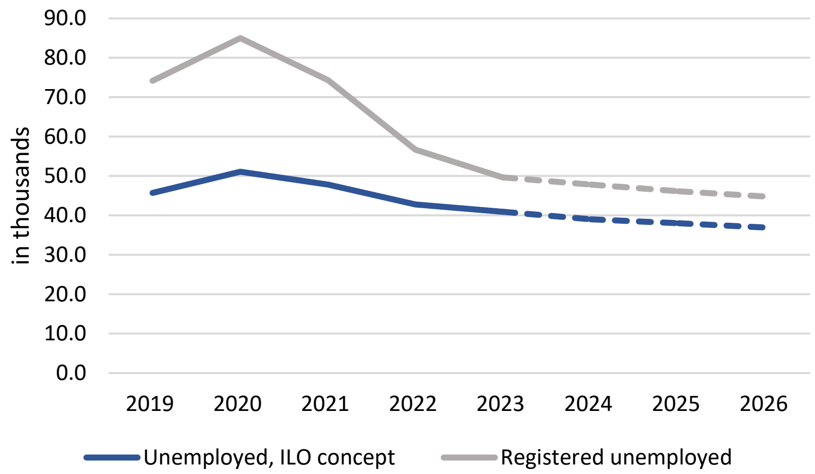


Source: IMAD, Spring forecast 2023.

In a context of moderation in economic activity and labour shortages, employment growth is expected to decline in 2023. Employment will not increase significantly over the next two years either, due to already high level of employment and labour supply constraints, thus moderating the fall in unemployment. Labour market participation is expected to increase, especially in the 55–64 age group, but also in the 20–24 age group, in which the participation is below average.

Demographic trends will become an even more limiting factor in value added growth, as the population in the 15–64 age group has been declining for a long time.

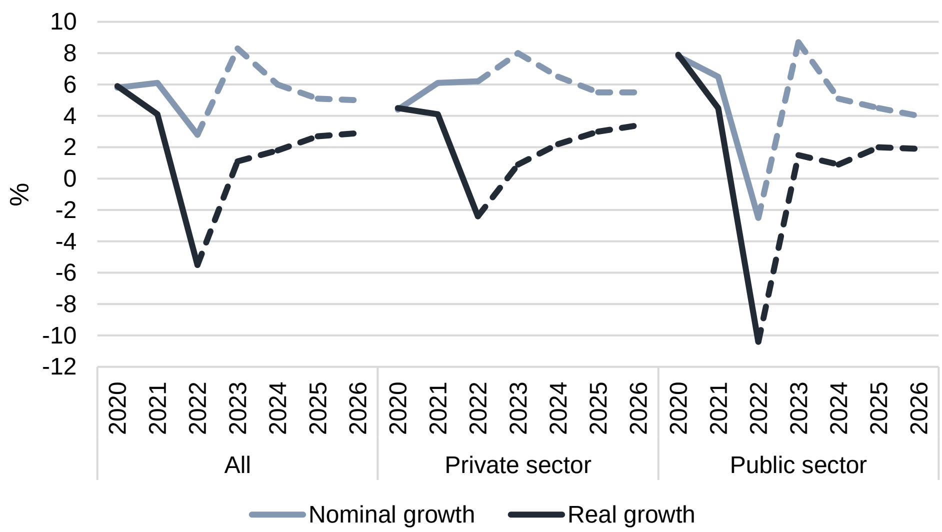
Figure 7: Dynamics of the number of unemployed persons (in thousands) according to Labour Force Survey and registry sources



Source: IMAD, Spring forecast 2023.

Real growth in average gross wage will be slightly positive (1.1%) in 2023, and will increase until the end of 2026 (2.9%). In both the private and public sectors, average wage growth in 2023 is expected to be higher than last year. In the private sector, growth will be mainly driven by further labour market pressures (staff shortages), increases in the minimum wage, and a tendency to maintain purchasing power in an environment of high inflation. In the public sector, wage growth will mainly result from the implementation of last year's agreement with the public sector trade unions. Over the next two years, nominal wage growth will moderate somewhat against a backdrop of price pressures, but remain above the long-term average due to labour shortages.

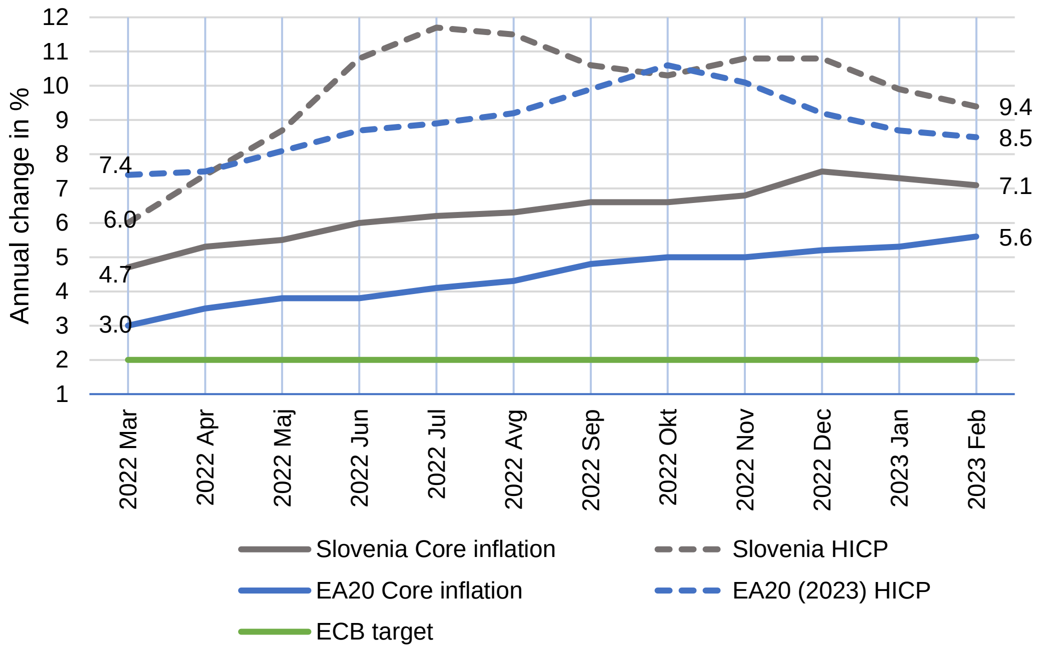
Figure 8: Average wage growth per employee



Source: IMAD, Spring forecast 2023.

Inflation (HICP) on average in the euro area as well as in Slovenia has declined slightly in recent months due to significant energy product price cuts, but core inflation (HICP excluding food and energy product prices) is still high. At the end of 2022, Slovenia's core inflation rate was 7.5%, well above 3.1% at the end of 2021. Core inflation is expected to remain elevated at the expense of more generalised price and wage increases, in particular service price increases. In February 2023, core inflation fell by 0.2 pps in Slovenia, while in the euro area it increased by 0.3 pps. According to IMAD's forecasts, inflation is expected to moderate gradually in Slovenia, but will remain high on average and only gradually decline towards 2% after 2024.

Figure 9: HICP and core inflation trends – Slovenia and the euro area (EA20)



Source: Eurostat.

As core inflation in the euro area remains high; the ECB has announced further increases in interest rates, which will further tighten borrowing conditions. The increase in lending activity in the euro area and Slovenia has already slowed down in recent months. An analysis by a member of the ECB's Executive Board shows that the monetary policy of the euro area lowered inflation by 0.2 pps last year, while for this and next year, this impact is set at 1.2 pps and 1.8 pps respectively[2] (Lane, P. (2023)).

The current account balance will return to a small surplus in the 2023–2026 period. This will be mainly driven by the service surplus growth, in particular in travel exchange, and also by reduction of the goods deficit in 2023 due to a slight improvement in trade conditions. As of 2024, the goods deficit will increase again due to slightly lower growth in exports than imports.

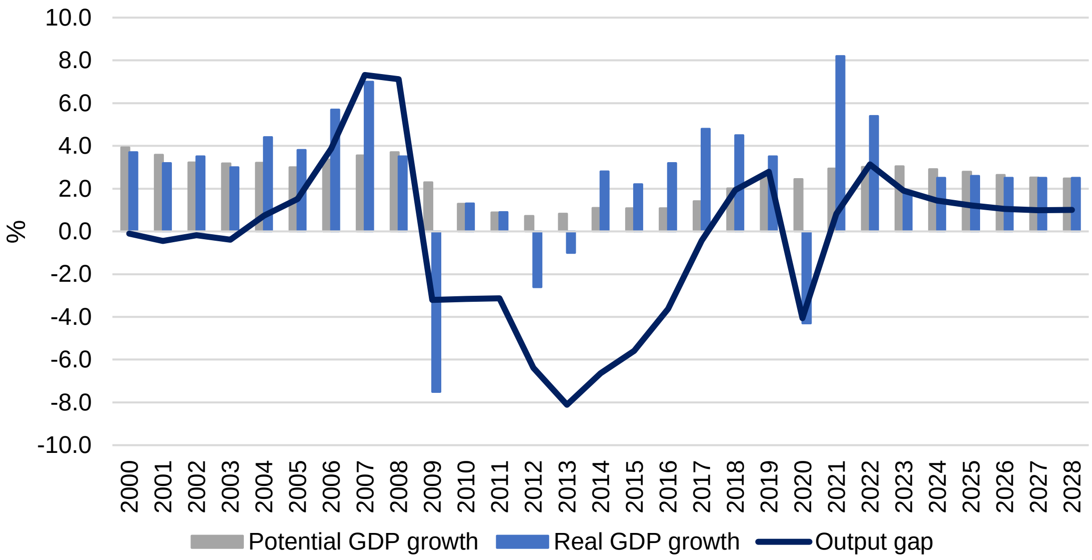
[2] The euro area hiking cycle: an interim assessment. Frankfurt: ECB. Available at https://www.ecb.europa.eu/press/key/date/2023/html/ecb.sp230216_1~f8cf2cd689.en.html.

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 positioned 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 macroeconomic data, length of the timeseries included and changes in macroeconomic forecasts. Frequent and significant revisions of macroeconomic data and changes to the forecasts of economic trends that accompany an exogenous shocks (such as the COVID-19 crisis and invasion of Ukraine by Russia) are thus one of the key drivers of deviations between the target and the achieved values of fiscal objectives and thus assessments of compliance with fiscal rules.

The bias of output gap estimates in real time is also reflected in the strong variability of estimates based on different economic outlooks. According to estimates by the Ministry of Finance (MF) in spring 2022, real GDP is projected to exceed potential GDP by 2.5% in 2022, with a positive output gap of 2.6% of potential GDP still opening up in this year. In autumn 2022, the MF estimated that the positive gap had already peaked in 2022 (3.2%) and would halve to 1.6% of potential GDP in 2023. The latest MF estimates, based on IMAD's Spring Forecast of Economic Trends 2023, project a positive output gap of 3.1% from 2022 to fall to 1.9% and 1.4% of potential GDP this year and in 2024, respectively. Thereafter, according to current estimates, the MF expects a gradual fall in the output gap to 1% of potential GDP by 2026 (Figure 10).

Figure 10: Output gap in % of potential GDP, % growth in real GDP and % growth in potential GDP



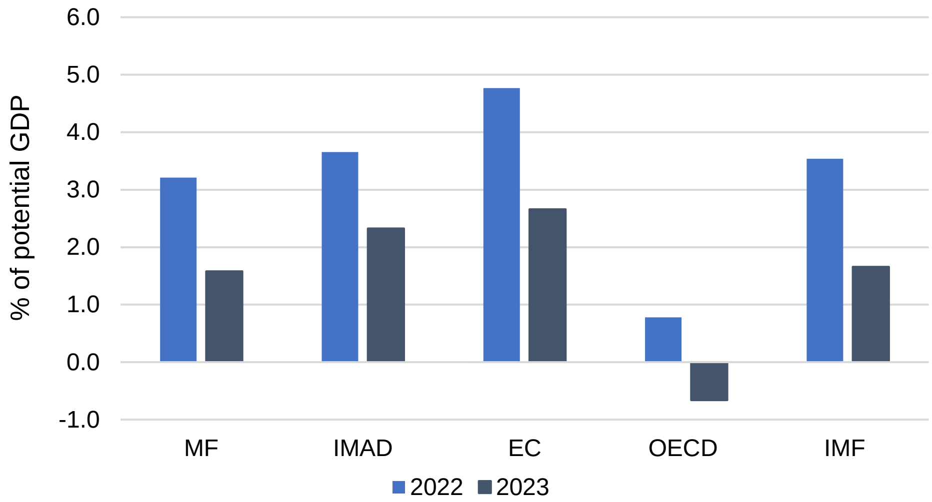
Source: IMAD, Spring Forecast 2023; AMECO; Ministry of Finance (own calculations).

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

There is also a significant variability in output gap estimates between different macroeconomic institutions as a result of different output gap calculation methodologies and different input data. IMAD which, like the MF, estimates the output gap on the basis of the EU commonly agreed methodology (EUCAM; Blondeau, Planas and Rossi, 2021)[4], foresees in its Spring Economic Forecast of Economic Trends 2023 similar economic cycle developments as the MF.

The autumn estimates of Slovenia's output gap by international institutions[5] in 2022 varied between 0.8% of potential GDP (OECD) and 4.8% of potential GDP (European Commission). For 2023, the output gap estimates range between -0.7% of potential GDP (OECD) and 2.7% of potential GDP (European Commission) – Figure 11.

Figure 11: Output gap estimates of different institutions, autumn 2022



Source: IMAD, Autumn Forecast 2022; IMF, World Economic Outlook October 2022; OECD, Economic Outlook November 2022; European Commission, 2022 Autumn Forecast; Ministry of Finance, Draft Budgetary Plan 2023.

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. Plausibility tool suggests that EUCAM underestimates the size of the output gap during periods of economic contraction (Hristov, Raciborski & Vandermeulen, 2017)[6]. 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 (or longer) than it actually is can lead to cyclically restrictive (expansionary) fiscal policy, which can jeopardise economic recovery or even lead to a permanent reduction in long-term economic growth.

[4] 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, https://ec.europa.eu/info/sites/default/files/economy-finance/dp148_en.pdf.

[5] The estimates of the Ministry of Finance, IMAD and the European Commission are based on the same methodology (EUCAM), however; the estimates of the IMF and the OECD are based on a different one.

[6] 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.

2.4 Financial stability

The balance sheet total of banks in the Republic of Slovenia as of 31 December 2022 reached EUR 50.6 billion, an increase of EUR 2.5 billion compared to the end of 2021. Loans to the non-banking sector totalled EUR 27.5 billion; they amounted to EUR 25 billion at the end of 2021. Of this, loans to households account for the largest share (EUR 12.1 billion), followed by loans to non-financial corporations (EUR 10.5 billion). Among household loans, the largest share is accounted for by housing loans, which amount to EUR 8.1 billion (0.7 billion more than at the end of 2021), followed by consumer loans of EUR 2.5 billion, similar to the level at the end of 2021.

Household and corporate indebtedness did not increase significantly in 2022 compared to the end of 2021. Commercial banks believe that they could place an even larger part of their assets in loans, but are hampered by certain macro-prudential measures.

Banks' liabilities to the non-banking sector amounted to almost EUR 40 billion at the end of 2022. By far the largest item among them is retail deposits of EUR 25.8 billion, which are EUR 1.8 billion higher than at the end of 2021. Banks' corporate liabilities amount to EUR 9.7 billion, i.e. to 0.7 billion more than at the end of 2021.

Retail deposits of the banking sector in the Republic of Slovenia represent a proportionally large proportion compared to other countries in the EU. One reason is that households do not trust other investments, such as investing in investment funds and capital markets or in government debt. It is also noted that the population's propensity to save is more than twice as high as its indebtedness.

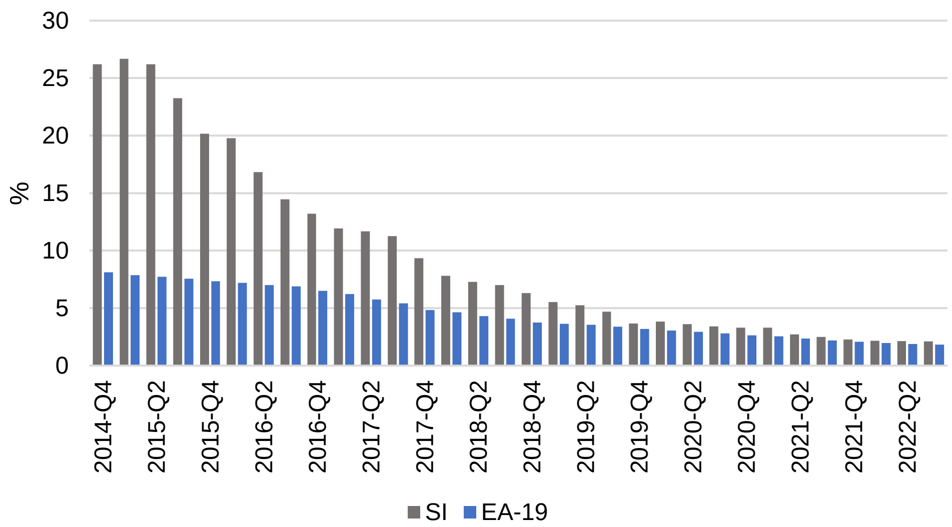
Table 2: Non-banking sector – loans and deposits

	in bn. EUR				increase in %	
	Dec. 18	Dec. 19	Dec. 21	Dec. 22	Dec. 22	year on year
Loans to non-banking sector	22.2	23.5	25.0	27.5	-1.1	10.0
non-financial corporations	8.5	8.9	9.3	10.5	-3.1	12.8
households	10.1	10.7	11.3	12.1	0.1	7.8
government	1.7	1.6	1.5	1.3	-4.5	-10.9
other financial institutions	1.1	1.2	1.4	1.7	2.2	21.1
non-residents	0.9	1.0	1.6	1.9	1.7	18.8
Liabilities to non-banking sector	29.0	31.1	37.2	39.8	1.7	6.9
non-financial corporations	6.8	6.8	9.0	9.7	2.9	7.9
households	18.7	20.4	24.0	25.8	2.4	76
government	1.0	1.0	1.0	0.9	-6.7	-6.5
other financial institutions	1.1	1.2	1.4	1.5	-3.5	3.5
non-residents	0.9	1.2	1.3	1.3	-8.1	1.1

Source: Bank of Slovenia, (February 2023) Monthly Report on Bank Performance, p. 7, https://www.bsi.si/en/publications/monthly-report-on-bank-performance.

The share of non-performing loans (NPLs) among all loans returned to the lowest level of 1.1% in December. With the exception of hospitality, the rise of non-performing exposure (NPE) has stopped in recent months. At the level of the whole sector of non-financial corporations, the share of NPE decreased to 1.8%, which is 0.5 percentage points less than a year ago. NPE's impairment and provisioning coverage increased slightly to 56.0% in December, down by 4.2 percentage points from its peak in June and by 1.1 percentage points since the situation one year ago. According to the latest available comparable data for the euro area, the Slovenian banking system was 11 percentage points above the euro area in terms of NPE coverage in June. The growth rate of NPLs in the third quarter of 2022 is negative. Slovenia's 2.1% share of NPLs in 2022 Q3 exceeds the EU average of 1.8%.

Figure 12: Share of non-performing loans, quarterly – Slovenia (SI) and euro area (EA-19)



Source: ECB, February 2022.

Banks generated 9% more gross income in 2022 than in the previous year, mainly due to a one-fifth increase in net interest income. According to unaudited data, banks' pre-tax profit was lower (-3.9%) in 2022 than in the previous year and amounted to EUR 540 million. The lower profit of EUR 20 million against the increase in net income mainly results from the fact that banks still released impairments and provisions of EUR 73.7 million in 2021, while they amounted to EUR 16.7 million in 2022.

The pre-tax return on equity (ROE) reached 10.8% at the end of 2022, slightly less than two years ago (11.3%), with banks' profitability comparable to the average of ROE over the past five years.

The liquidity of the banking system remained good last year, despite a slight deterioration in some indicators. Following a decrease in the first quarter of the year, the liquidity coverage ratio (LCR) remained relatively stable later in the year, standing at 290% in December 2022, i.e. 22 percentage points lower than a year ago. Despite the decrease, LCR remained well above the minimum regulatory requirement (100%), placing Slovenia among the third of euro area countries with the highest LCR values. The decrease in the ratio last year reflects a higher increase in net liquidity outflows compared to the increase in the liquidity buffer. On the basis of the latest available data from the third quarter of the previous year, the capital position of the banking system remained solid.

3. FUTURE MEASURES AND CHANGES

3.1 Energy crisis and high cost of living

In 2022, several energy packages were adopted in the Republic of Slovenia, which can be divided into price and revenue (or financial assistance) measures. Another systemic division of measures, as also defined by the European Commission, was the division between targeted and general (non-targeted) energy measures. Most of the price measures are general, meaning that limited energy product prices or exemptions from certain taxes applied to all groups of the population regardless of their social status. However, financial assistance measures targeted certain groups of the population (socially weak, disabled, pupils, students, pensioners, etc.). The most important measures were energy product price caps, energy product tax cuts, transfers to different social groups, and energy subsidies and liquidity support to companies.

The most important measures implemented in 2022 include the following:

- The payment of a one-off solidarity allowance of EUR 150 for the purpose of remedying the effects of an increase in energy product prices (Climate Fund);
- Payment of support to farmers, beekeepers and the economy (40% higher energy costs than in 2021); ZUOPDCE[7];
- A reduction in excise duties on energy products (fuels, fuel oil and natural gas), a reduction in VAT from 22% to 9.5%, a reduction in CO_2 tax, contributions to RES, EE and CHP[8];
- Energy allowance for vulnerable groups and families, dearness allowance for recipients of child benefit, and disability and pension allowance; ZNUPPU[9];
- Aid to the economy due to increases in electricity and natural gas prices;
- Subsidising student home prices, dormitory fees and school lunches;
- Capping electricity prices for the population, certain public services, and small and medium-sized enterprises (SMEs);
- Capping natural gas prices for the population, social services and certain public sector institutions;
- Fuel price cap – retail, model price calculation based on 14 daily averages of global prices;
- Fuel price cap – wholesale and ban on stopping fuel sales;
- Recapitalisation (HSE Company – Holding Slovenske elektrarne and the operator of Slovenia's electric power transmission network – ELES).

Measures totalled around 2.2% of GDP on the revenue and expenditure sides of public finances in 2022.

Most of the measures in force in 2023 were already adopted in 2022. To aid the economy, price measures were adopted for 2023, which – exceptionally and for a limited period of time

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[7] Act Determining Measures to Mitigate the Consequences of Energy Commodity Price Rise in Business and Agriculture (ZUOPDCE); Official Gazette of the Republic of Slovenia, No. 29/22.
[8] CHP ((Combined Heat and Power), RES (Renewable Energy Sources) and EE (Energy Efficiency).
[9] Act Determining the Intervention Measures to Increase the Income of Pensioners and Limit the Increase of Care Allowance in the Area of Social Care (ZNUPPU); Official Gazette of the Republic of Slovenia, No 145/22.

– target only SMEs. In accordance with the Act Determining the Aid to the Economy to Mitigate the Consequences of the Energy Crisis (ZPGOPEK[10]), larger companies are eligible for the same support as in pre-crisis times. Depending on energy dependence, large companies are divided into several groups. Different models are envisaged for energy cost entitlements for different groups.

Liquidity assistance and compensation for or subsidisation of revenue shortfalls are available for companies located in the energy sector, which will be deprived of their revenues mainly due to the above-mentioned price measures adopted in 2022. This applies in particular to intermediaries and distributors of energy products and to service providers in the energy sector. In the 2023 package, short-time work and temporary absence measures were also adopted to support the economy, targeting companies that would face problems in terms of costs and labour constraints because of a decline in production due to a lack of energy products.

The main measures in 2023 are as follows:

- Subsidies to companies to mitigate the effects of increased energy prices. Companies are divided into several categories of energy dependency, whereby eligibility for each group is calculated by the model;
- Measures to preserve jobs: payments to companies for shortening of working hours or temporary absences from work;
- Compensating natural gas suppliers for possible cost differences between lower regulated gas selling prices and higher gas purchase prices on global markets;
- Compensating electricity suppliers for possible cost differences between lower regulated electricity selling prices and higher electricity purchase prices on global markets.

On the basis of the measures adopted so far, which for 2023 provide for the continuation of certain reduced duties, the continued payment of certain cost-of-living allowances to the population, the payment of aid to companies and, in particular, aid for energy-intensive undertakings, and also include labour market support measures and compensation to electricity and gas distributors for price caps (public sector, households and SMEs), it is estimated that the value of the measures will amount to a maximum of 1.6% of GDP.

According to the statutory timeline, a small part of aid payments to companies is expected in 2024. In addition to these measures with direct fiscal impact, guarantee laws for electricity undertakings and other liquidity measures for the transmission system operator in the Republic of Slovenia were adopted, whereby liquidity facilities for companies were also provided through the SID Bank.

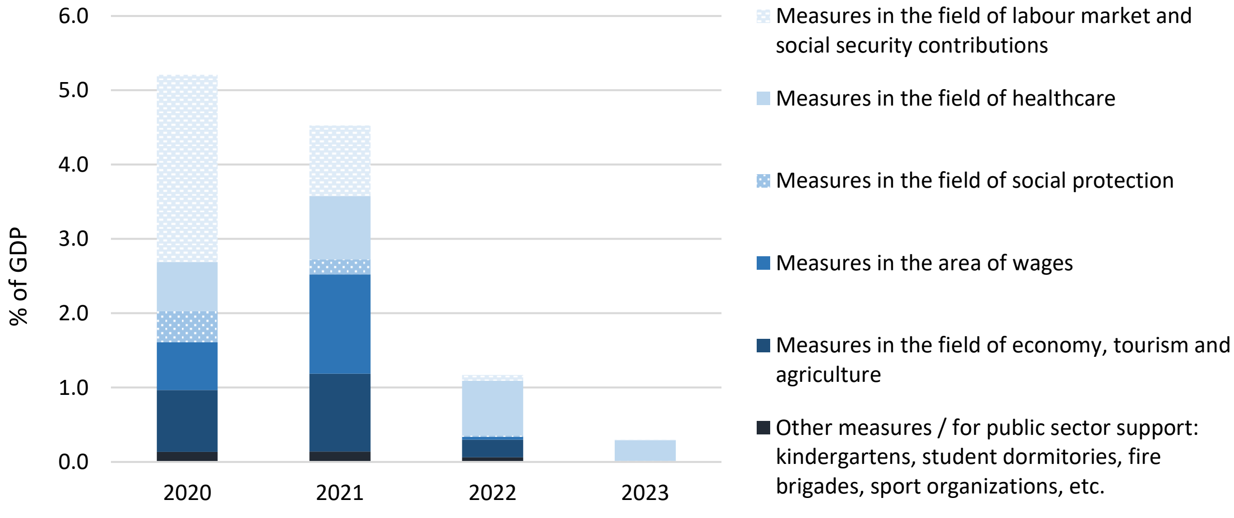
[10] Act Determining the Aid to the Economy to Mitigate the Consequences of the Energy Crisis (adopted in the National Assembly on 16 December 2022), ZPGOPEK.

3.2 Measures to mitigate the COVID-19 crisis

The crisis triggered by the COVID-19 epidemic in March 2020 has had a major impact on the Slovenian economy. The measures implemented in the 2020–2023 period under intervention laws were aimed at mitigating the consequences of the epidemic, helping the economy and individuals to prevent a deeper decline in economic activity and employment. The overall volume of COVID-19-related measures is estimated at around 11% of GDP over the 2020–2023 period. Namely, 3.6% of GDP were allocated to labour market, to both employees and employers (wage compensations for employees waiting at home, quarantine compensations, subsidization of part-time work, coverage of pension and disability insurance contributions, minimum wage subsidies, etc.), majority in the first two years of the epidemic. Under social protection, the most vulnerable groups benefited from various temporary allowances amounting to 0.6% of GDP. Moreover, 2.1% of GDP were allocated to the economy during this period, in the framework of which the most extensive measures were to help tourism (tourist vouchers) and to partially cover fixed costs to companies affected by the pandemic.

With the aim of increasing the efficiency of work in healthcare and increasing access to health services, a number of health care measures (2.5% of GDP) were also important, especially in 2021 and 2022, when more funds were allocated for the resilience of social security systems compared to 2020, including for testing costs, protective equipment and the provision of additional funds to the Health Insurance Institute of Slovenia (Health Fund) (vaccination, COVID-19 services, isolation, etc.). As part of the wage measures, a larger volume of funds during the first two years of the epidemic was also earmarked for allowances and supplements for work under exceptional circumstances and for direct work with COVID-19 patients, which expired on 31 March 2023. The treatment of the COVID-19 virus has also changed since 1 April 2023, and is now treated in the same way as other respiratory infections (e.g. influenza). As a result, the COVID-19 sickness benefit is equivalent to that for absences due to other forms of illness; also, testing for this purpose has been abolished.

Figure 13: Expenditure related to COVID-19 measures in 2020–2023 period according to ESA methodology (in % of GDP)



Source: Ministry of Finance (own calculations – see Annex for a more detailed table on the scope of the measures).

Figure 13 shows that (accrual) expenditure to mitigate the consequences of the epidemic is gradually decreasing and is running out as of 2023. Expenditure peaked at 5.2% of GDP in 2020, and amounted to 4.5% of GDP in 2021 and 1.2% of GDP last year. A further decrease of this expenditure is also expected in 2023 (to 0.3% of GDP). Thus, a major part of the estimated funding this year is foreseen for the financing of the Health Insurance Institute of Slovenia (COVID-19 services), vaccination, isolation expenditure (a burden for the Health Fund until 31 March 2023), and solidarity allowances to new-borns, which will expire at the end of June 2023. The government also prepared some structural measures under the Act Determining the Intervention Measures to Prevent the Spread and Mitigate Consequences of the Infectious Disease COVID-19 in the Field of Healthcare (ZNUNBZ), which was adopted in November 2022. These include incentives for additional specialisations in clinical psychology and family medicine, which are valid until the end of 2030.

3.3 Recovery and Resilience Plan, and structural changes

The implementation of the Recovery and Resilience Plan (hereinafter referred to as the RRP) continues over the projected period. Spending of EUR 419.5 million in 2023, EUR 596.1 million in 2024, EUR 650 million in 2025 and EUR 346.2 in 2026 million is foreseen for the implementation of the measures. The envisaged dynamics takes account of the full absorption of the claims, with the included instalments already taking into account the proportionally reduced financial allocation (in June 2022, on the basis of a more recent calculation of the maximum financial allocation, the amount of grants for the RRP was reduced by EUR 286 million), subject to the implementation of the reforms, targets and milestones set out in the RRP.

In 2023 and 2024, the bulk of the RRP fund will be dedicated to decarbonisation measures and wider support to the green transition and innovation. It will also be dedicated to reducing flood risk and the risk of other climate-related disasters, effective treatment of communicable diseases, the digital transformation of health care, the transformation of industries/companies, the strengthening of the electricity distribution network, the production of electricity from renewable energy sources and the sustainable renovation of buildings.

Due to the reduction of the maximum financial contribution, Slovenia will be able to benefit from EUR 1.49 billion of grants for the implementation of the planned measures instead of EUR 1.78 billion as foreseen at the time of the plan's approval; thus, an adjustment to the RRP will be prepared. The original 2021 calculation was based on the 2020 Autumn Economic Forecast; however, in the most recent calculations, the European Commission took into account real gross domestic product data for 2020 and 2021. The RRP will also be updated to include a new category of non-repayable financial support for the implementation of the REPowerEU plan in line with the amended Regulation (EU) 2021/241.

In addition to the reforms provided for in the RRP, the more important medium term structural changes relate to social protection systems, the public sector, education and taxation systems, and addressing an ageing society. Regarding pension and disability systems, challenges regarding adequacy of pensions and fiscal sustainability of the system will be addressed, taking into account the socio-economic situation of pensioners and expected demographic trends. Moreover, a modernisation of the disability insurance system will be proposed with the aim of maximising the integration of individuals with reduced working capacity into the labour market (by establishing a model for more effective occupational rehabilitation), and improving their social situation. At the same time, options for other measures to stay longer in the labour market (working conditions and lifelong learning) will be explored.

In the area of health care, changes will be linked to the digitisation of the health system, the main aim of which is for all operators to use the central health information system in a standard manner and to transmit the data to a single central database that is transparent and public to all users; thus, health services and data will not be duplicated. The second step is the structural renovation of the Health Insurance Institute of Slovenia, which will determine the role of the Institute as the central point of the health system, so that it can become an active buyer of health services and as such performs its mission to enable, in accordance with the principles of solidarity, social justice and non-profit making, insured persons to have equal opportunities to access quality health services and other rights under compulsory health insurance. In the next step, the issue of family and emergency medicine, as well as of absenteeism will be addressed. In parallel, a revision of the remuneration system for healthcare professionals will be addressed. The following step will be a comprehensive revision of health care financing, which will include the renewal and upgrading of health insurance, funding, the transformation of complementary health insurance, and the definition of compulsory health insurance rights. Revised billing models based on the quality of the service provided will also be included.

The reform of long-term care implies the creation of a new pillar that will enable quality of old age and ageing. The changes define the general conditions for entry into the long-term care system, strengthen the single entry points, and gradually introduce more home care services. The amendments to the legislation will, among other things, address long-term care insurance and pricing methodology.

In October 2022, the government reached an agreement with the representative public sector trade unions on the dynamics of public sector wage growth for 2022 and 2023, while agreeing to approach to the reform of the public sector wage system. The reform of the remuneration system is a complementary part of the revision of the public sector system as a whole, aimed at increasing its efficiency and ensuring high-quality and accessible public services. The reform of the remuneration system will be adopted as a whole and will be implemented on a split basis, taking into account fiscal capacity. The aim of the reform is to ensure that the transparency and fiscal management of the remuneration system is maintained, while at the same time to set up a system that takes into account the specifics of individual parts of the public sector and to establish greater variability linked to the results of the work.

Housing reform is under preparation to ensure stable and systemic financing of public housing construction of rented dwellings. A favourable public non-grant resource and activation of private capital with a long-term sustainable return by the state-owned assets manager will be the cornerstone of the financing of public housing construction of rented dwellings. Another cornerstone of the reform is the creation of a coordinated system of public construction, which will have a uniform way of functioning and will be based on an intertwined network of actors.

The third cornerstone is the regulation of the housing market with the aim of strengthening the safety and accessibility of housing.

Regarding the education system, a reform of education programmes is foreseen. The modernisation of vocational and professional education will enable strengthening competences for the digital and green transitions, increasing the adaptability, resilience and responsiveness of vocational and professional education to the needs of the economy and society, and facilitating the transition from education to the labour market. Additions in the field of primary education with regard to the promotion of multilingualism in primary schools, home-based education and national assessment of knowledge are foreseen, as well as changes in conditions of enrolment in secondary school. Provision is made for the upgrade of the comprehensive support environment to increase the digitalisation of education, namely with infrastructure, platforms, e-content and e-communities, as well as to manage schools and public institutions, and address cybersecurity challenges. The changes go in the direction of empowered educators, teachers and principals with the necessary skills required by the digital transition.

Slovenia envisages a series of measures to ensure greater productivity. To this end, a strategy was adopted, to be implemented by the line ministries, which defines the necessary development steps and introduces the use of the most advanced digital technologies in the Slovenian economy, the strengthening of competences in their planning, management and use, including across borders through the promotion of data connectivity and interoperability. The Companies Act will further regulate the legal bases for the use of digital tools and procedures throughout a company's lifecycle. It also provides for facilitating and promoting cross-border mobility and business operations of companies in the internal market, while ensuring adequate protection for company stakeholders and access to comprehensive and free information on companies in one place.

The reduction of administrative burden remains one of the key guidelines, i.e. the legislation on the business register foresees that all business entities in Slovenia would be enrolled in one register, which, together with e-Government solutions for the economy, will significantly contribute to simplifying the procedures of companies vis-à-vis the external environment.

In order to increase the visibility of the Slovenian capital market and to promote various sources of corporate financing, the Capital Market Development Strategy was adopted, which aims to provide SMEs with the best possible access to adequate equity and debt financing in terms of accessibility, scope, maturity and desired structure.

The situation regarding the operation of the electricity, gas and heat supply systems continues to be addressed. A sectoral law is being prepared, which will regulate the principles of energy policy, measures for the management of energy policy, responsibilities, organisation and operation of the Energy Agency, powers of the Environment and Energy Inspectorate, definition of energy infrastructure, local energy concepts, etc. An update of the National Energy and Climate Plan (NECP) is envisaged to take into account relevant national and EU energy and climate decisions, such as the exit from coal, the EU higher energy and climate targets by

2030, and renewed energy legislation at EU level (“Fit for 55” legislative package, REPowerEU, etc.).

An analysis and examination of the direction of tax restructuring is also under preparation. At the same time, the measures will be aimed at improving administrative operations by increasing the use of digital tools, and at other technical changes that will help to strengthen legal certainty. In preparing changes to the tax system, the government will pursue fiscal sustainability, and meaningful and sustainable policies that can strengthen Slovenia economically and socially.

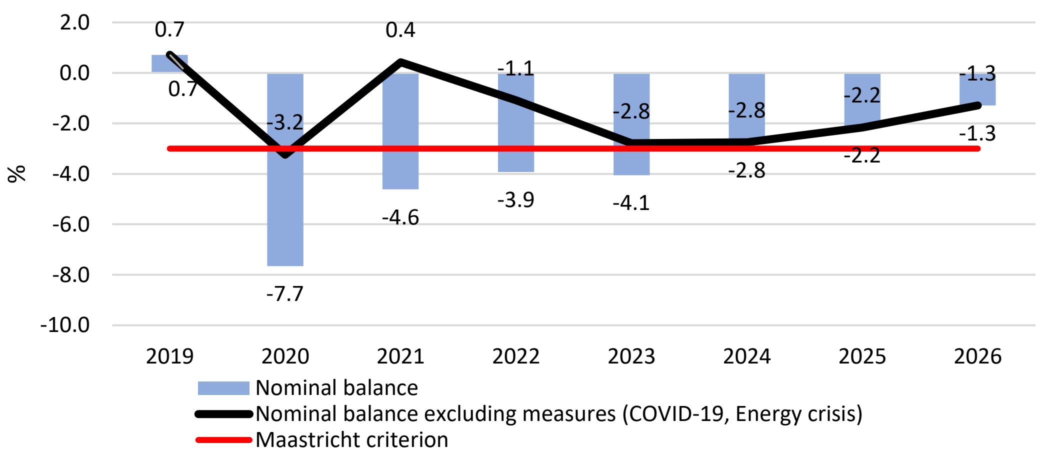
4 FISCAL PROJECTIONS

4.1 Fiscal policy 2023–2026

In the 2024–2026 period, fiscal policy will focus on supporting growth and gradual consolidation, which, importantly, should not have a negative impact on growth. In 2023, when the general escape clause is still in force at EU level, in addition to the high level of investment, the expenditure also includes measures to tackle the energy crisis and high cost of living, which are no longer planned for next year.[11] Moreover, measures to mitigate the consequences of the COVID-19 epidemic will expire in 2023. As a result, the planned deficit in 2023 is similar to that in 2022 and will fall below 3% of GDP in 2024. In 2025 and 2026, a sufficient fiscal effort will allow for a further reduction of the deficit.

General government revenue ranges between 41% and 42% of GDP in the 2024–2026 period, while general government expenditure is declining from around 46% of GDP in 2023 to around 42% of GDP by 2026. In 2023, the level of expenditure is high due to measures addressing the energy crisis and high cost of living. Without these measures, the deficit would already fall below 3% of GDP in 2023.

Figure 14: Nominal balance including and excluding measures in % of GDP



Source: SORS; Ministry of Finance, 2023.

[11] The latter would only continue if this is dictated by the situation in the energy markets.

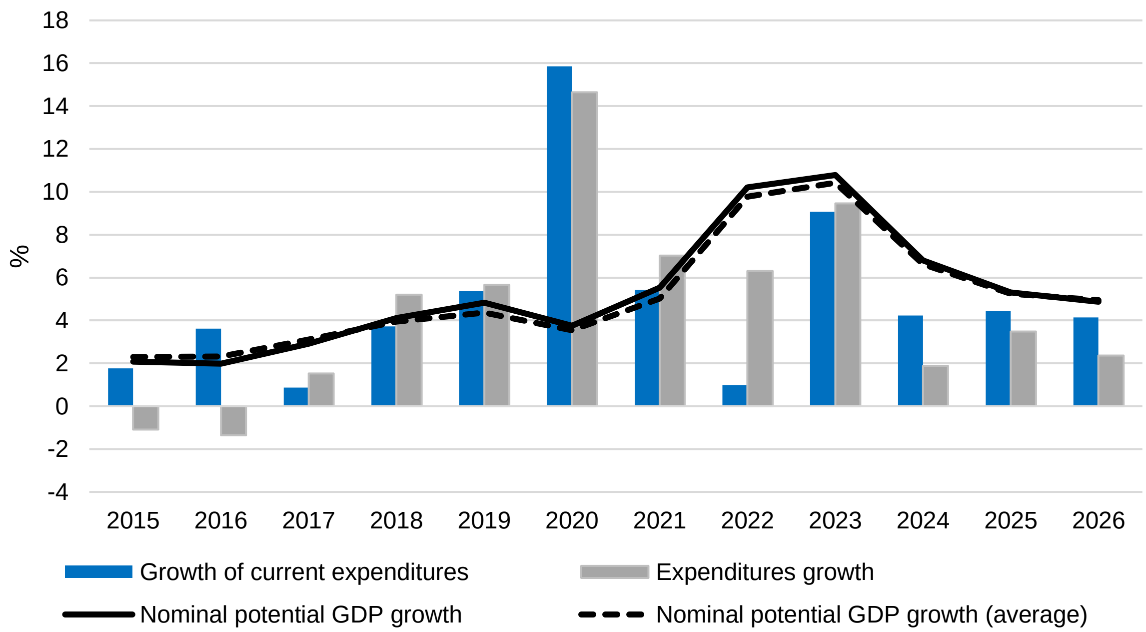
At time of formulation of fiscal targets uncertainties continue to exist, stemming from the geopolitical situation, the energy crisis and inflation. With inflation, it is even more difficult to assess the individual fiscal components for the following years.

The European Commission's Fiscal Policy Guidance for 2024 of 8 March 2023[12]:

- Deactivation of the general escape clause which has been in force since 2020;
- In their Stability Programmes, Member States should set fiscal targets in such a way that the reference value for government deficits of 3% of GDP is respected or that the deficit falls below that value within the period of the programme;
- Under unchanged policies after the end of the programme, the deficit should not exceed the stated reference value in the medium term;
- The general government debt ratio should decrease or remain at prudent levels in the medium term;
- Member States should keep the share of national investment in GDP high and ensure the efficient use of EU funds;
- The growth of national current expenditure should be limited compared to the medium-term growth of potential GDP;
- Measures addressing the energy crisis should be phased out, or, if this is not possible, targeted at more vulnerable groups.

Slovenia adheres to all guidance in the medium term. Moreover, it is ensured that, in the long run, expenditure does not grow faster than the production capacity of the economy or potential GDP. In the 2022–2025 period, growth in current expenditure (all expenditure other than investment and capital transfers) will be lower than both the annual growth of nominal potential GDP and the average ten-year nominal growth of potential GDP.

Figure 15: Expenditure growth and potential GDP developments

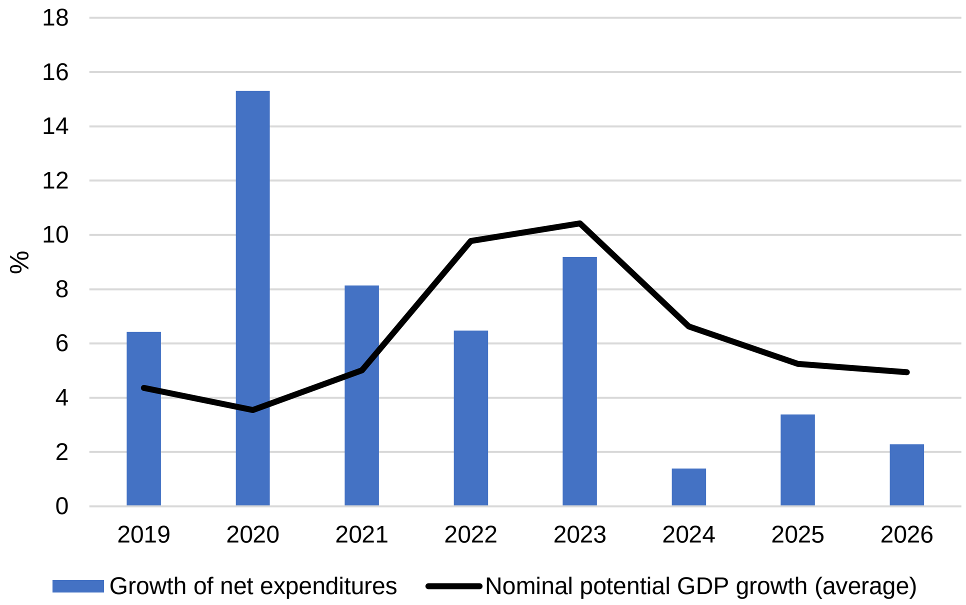


Source: SORS; Ministry of Finance, 2023.

[12] COM_2023_141_1_EN_ACT_part1_v4.pdf (europa.eu).

In view of possible changes of fiscal rules at EU level, it is also important to monitor the growth of so called net primary expenditure (expenditure net of discretionary revenue measures, interest expenditure and cyclical unemployment expenditure). As shown in the Figure 16, net primary expenditure is growing at a slower pace than potential GDP in the coming years.

Figure 16: Net primary expenditure growth and potential GDP developments



Source: SORS; Ministry of Finance.

In 2024, after almost four years, the general escape clause will no longer apply and therefore, in line with the applicable fiscal rules, the monitoring of the structural balance (cyclically-adjusted primary balance net of one-off expenditure, the estimates of which are discussed in the output gap chapter) will again be important. The assessment of the structural balance in uncertain times and for Slovenia as a small open economy is particularly uncertain. The assessment of the situation in the cycle is uncertain, the ex-ante and ex-post evaluations of the adequacy of fiscal efforts and forecasts of macroeconomic components are changing, while uncertainty is also affected by GDP revisions.

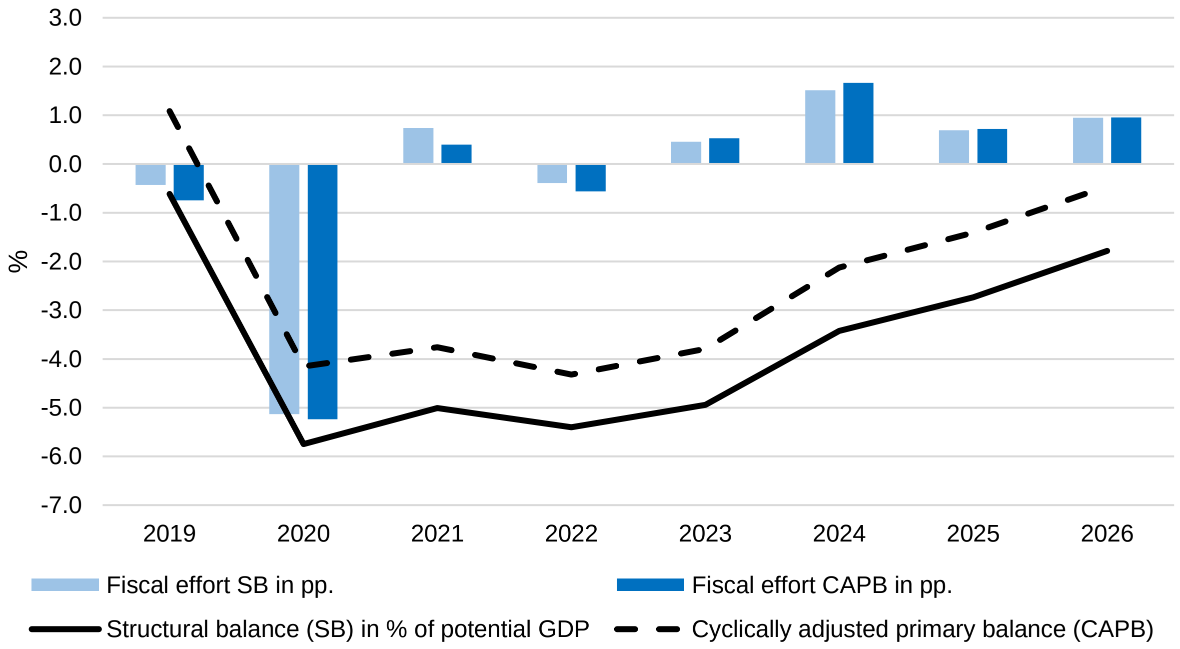
Table 3: Cyclical movements

	% of GDP	ESA code	2022	2023	2024	2025	2026
1.	Real GDP growth (%)		5.4	1.8	2.5	2.6	2.5
2.	Net lending/borrowing of general government	B.9	-3.9	-4.1	-2.8	-2.2	-1.3
3.	Interest expenditure	D.41	1.1	1.2	1.3	1.3	1.3
4.	One-off and other temporary measures						
4a.	Of which one-offs on the revenue side: general government						
4b.	Of which one-offs on the expenditure side: general government						
5.	Potential GDP growth (%)		3.0	3.0	2.9	2.8	2.6
	Contributions:						
	- Labour		0.8	0.9	0.7	0.5	0.3
	- Capital		0.8	0.8	0.8	0.9	1.0
	- Total factor productivity		1.4	1.3	1.3	1.3	1.3
6.	Output gap		3.1	1.8	1.4	1.2	1.0
7.	Cyclical budgetary component		1.5	0.9	0.7	0.6	0.5
8.	Cyclically-adjusted balance (2-7)		-5.4	-4.9	-3.4	-2.7	-1.8
9.	Cyclically-adjusted primary balance (8+3)		-4.3	-3.8	-2.1	-1.4	-0.5
10.	Structural balance (8-4)		-5.4	-4.9	-3.4	-2.7	-1.8
11.	Fiscal effort		-0.4	0.5	1.5	0.7	1.0

Source: IMAD; Ministry of Finance.

As shown in the above table, the Government plans a general government deficit below the 3% of GDP reference value in 2024 and a further gradual reduction of the deficit in the coming years. The envisaged gradual fiscal consolidation ensures a sufficient fiscal effort. A fiscal effort of 1.5 pps in 2024, 0.7 pp in 2025 and 1 pp in 2026 shall be achieved.

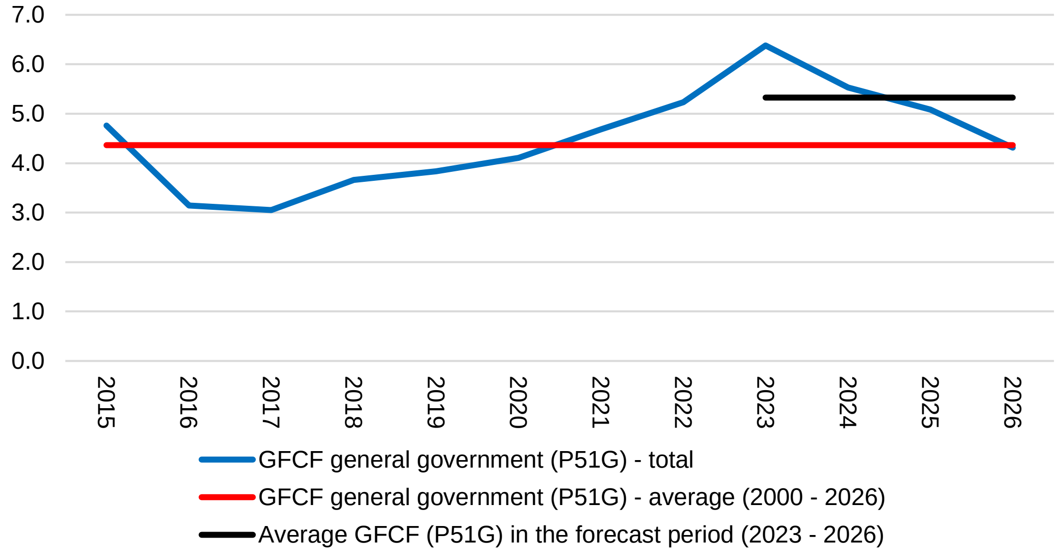
Figure 17: Structural balance and cyclically adjusted primary balance (SB and CAPB) in % of potential GDP, and fiscal effort in pps



Source: SORS; Ministry of Finance.

It is important that the average share of public investment as the share of GDP over the projected 2023–2026 period is at a high level. Towards the end of this period, the investment-to-GDP ratio will fall slightly, but will still remain above the long-term average.

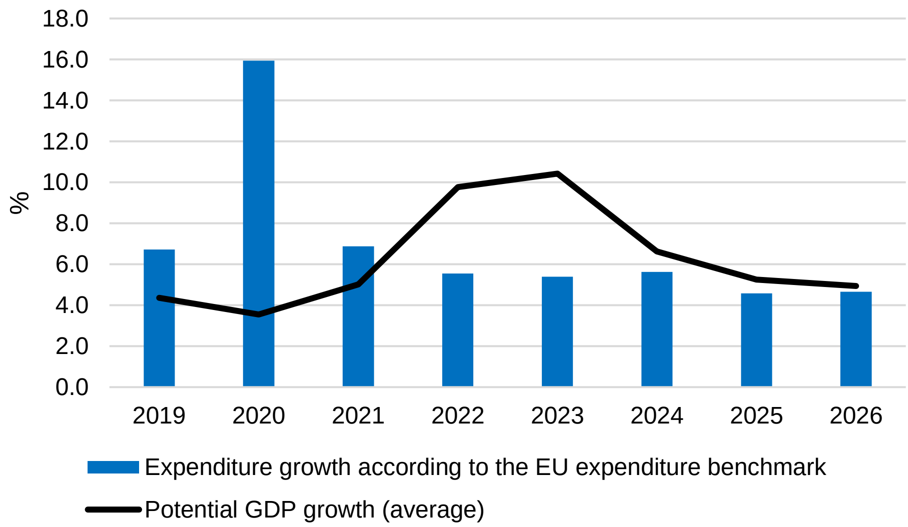
Figure 18: Investment (Gross fixed capital formations – GFCF) in % of GDP



Source: SORS; Ministry of Finance.

In order to assess the appropriate growth of expenditure under the rules of the Stability and Growth Pact, considered in normal times, interest expenditure, the cyclical component of unemployment benefits and expenditure resulting from revenue from EU funds are deducted from all expenditure (net expenditure). The four-year average of investment expenditure, which does not include EU investment funding, is taken into account. Over the 2023–2026 period, the growth of such net expenditure is estimated to be below the average growth of nominal potential GDP (Figure 19 – Expenditure growth according to the EU expenditure benchmark). Current estimates of potential GDP remain uncertain, while nominal growth is strongly influenced by inflation.

Figure 19: Assessment of expenditure growth according to the EU expenditure benchmark



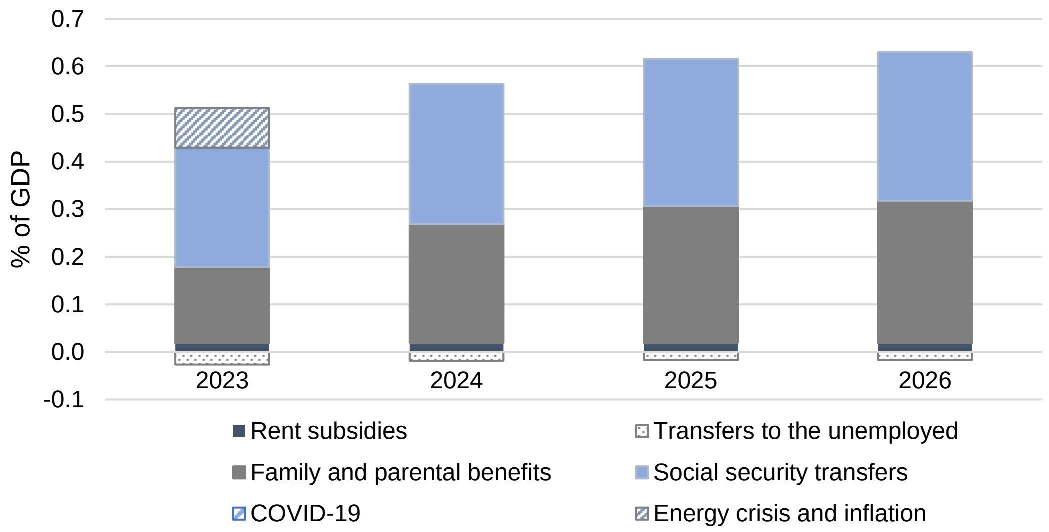
Source: SORS; Ministry of Finance.

Automatic stabilisers

Automatic stabilisers automatically adjust transfer payments in such a way as to balance expenditure and consumption within the business cycle. Under the ESA methodology, they include transfers to the unemployed, family and parental benefits, social security transfers and rent subsidies.

Before COVID-19 and the energy crisis, they amounted to around 2.3% of GDP in 2019. In 2022, they increased by around 0.2% compared to 2019. In 2023, they will increase by around 0.4% of GDP compared to 2019, while COVID-19 measures are coming to an end; however, the measures related to high cost of living remain in place.[13] By the end of the period, they will be 0.5% to 0.6% higher than in 2019, which is attributed to the significant impact of inflation on transfers and compensation coordination. However, the low unemployment rate and the high level of employment are reflected in lower transfers to the unemployed than in 2019.

Figure 20: Automatic stabilisers, change from 2019 in % of GDP



Source: SORS; Ministry of Finance.

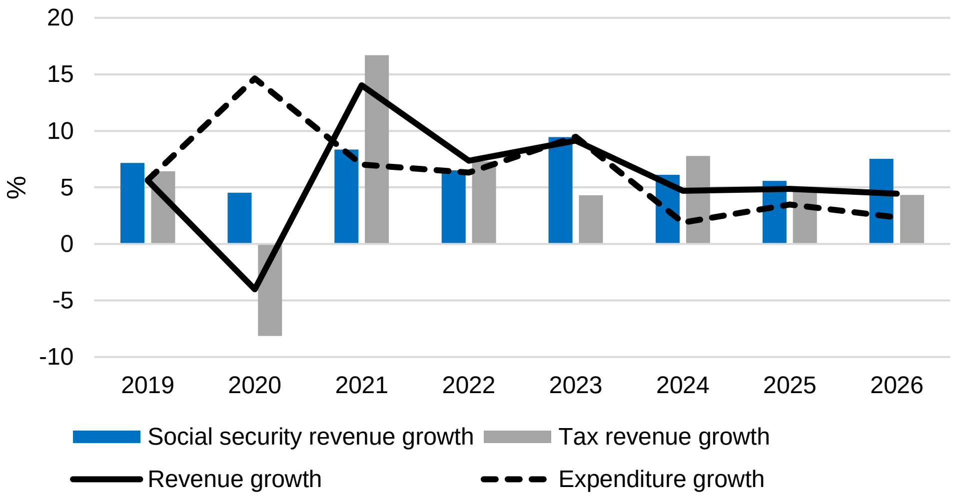
4.2 General government revenue and expenditure

General government revenue

Over the projected period, revenue growth will be higher than expenditure growth. Revenue as % of GDP is slightly decreasing (although the value in EUR is increasing) because, inter alia, private consumption, which is the basis for VAT, is growing at a slower pace than projected nominal GDP, according to macroeconomic forecasts. Employment growth, which is the basis for social contribution calculations, is also declining in the medium term. Nominal GDP and revenue growth is also affected by elevated inflation.

[13] Within the categories that fall under automatic stabilisers, transfers for social security and family benefits are further increased by just under 0.1% of GDP in 2023 as a result of measures taken in response to the energy crisis and inflation.

Figure 21: Growth in general government revenue and expenditure



Source: Ministry of Finance.

General government revenues will increase by 9.1% in 2023 compared to the previous year, also as a result of elevated inflation. Growth is 2 pps higher than estimated in autumn 2022. Revenue will continue to increase over the 2024–2026 period; however, growth will be more moderate. In 2024, it will amount to EUR 28,764 million, i.e. 4.7% more than in the previous year, mainly due to an increase in tax and social security revenue (by 7%) and a gradual increase in income from property (7.6%), both interest and distributed profits of state-owned companies. In 2024, revenue growth is also expected to be around 2% higher than estimated in autumn 2022. Revenue growth will continue in 2025, reaching EUR 30,163 million, an increase of 4.9% compared to the previous year. The growth in revenue from taxes and social contributions will moderate slightly (5.1%), mainly at the expense of VAT revenues, while the growth in income from personal income tax will be higher than in the previous year (around 10%), mainly due to the inclusion of already confirmed changes regarding the reform of public sector wages. Revenue from capital transfers will also be higher (by 30.6%), mainly due to the receipt of EU funding under the financial perspective 2021–2027. Property revenue growth will be 6%. Government revenue growth in 2026 will be slightly more moderate compared to 2025, reaching 4.4%. The growth of the main categories of income (personal income tax, corporate income tax and VAT), as well as income from social contributions will be slightly higher than in the previous year (at 5.7%), while growth in property income will be slightly lower (at 1.4%).

In order to strengthen and improve the fiscal picture, an amendment to the Personal Income Tax Act was adopted in 2022, which increased the general tax allowance from EUR 4,500 to EUR 5,000 (and not to the projected EUR 5,500), but stopped the increase in 2023, 2024 and 2025. In this respect, personal income tax revenues will be higher than estimated before the last legislative change (spring 2022). The change in tax legislation is included in the baseline scenario of the government revenue projections. The impact of the changes in 2023 will be around EUR 70 million less revenue, with no additional impact in the following years.

General government expenditure

General government expenditure will increase by 9.5% in 2023 compared to 2022, also as a result of government support to the economy and population due to inflation risks and higher cost of living. Expenditure on compensation of employees will increase by 9.5% in 2023. Expenditure on social benefits in cash and in kind, which includes the adjustment of social transfers to the population to inflation in 2022, and the regular adjustment of pensions of 5.2%, will increase by 4.3% in 2023. Investments in 2023 will amount to EUR 4,129 million, i.e. 33.8% more than in 2022. Growth is due to the completion of the absorption of EU funds from the financial perspective (MFF) 2014-2020, and the start of the absorption of funds from the new MFF and the Recovery and Resilience Fund (RRF). Growth will also be driven by higher investment by other general government units in the field of railways. According to the projections by the Ministry of Finance, the general government expenditure will reach EUR 30,662 million (1.9% growth) in 2024. Expenditure on compensation of employees will increase by 5.0%, and expenditure on social benefits by 8.2%, mainly due to the adjustment of social benefits and pensions to inflation in 2023. Investment expenditure will be reduced by 7.7% as a result of the end of the absorption of EU funds from the past and the start of absorption from the current MFF. General government expenditure will increase by 3.5% in 2025, due to the impact of both public sector wage reform measures already approved by the Government and higher expenditure on social benefits (by 5.4%). Investment expenditure will amount to over EUR 3,680 million, i.e. 3.4% less than in 2024. Growth in general government expenditure will moderate slightly further in 2026, standing at 2.7%.

Compensation of employees

Expenditure on compensation of employees of general government sector decreased by 2.5% in 2022 compared to the previous year, mainly due to lower COVID-19 allowances, while at the same time, the values of the civil servants' salary grades were adjusted by 4.5% as of 1 October 2022. In 2023, expenditure on compensation of employees is estimated to grow by 9.5%, also as a result of the April increase in salaries for public sector employees by 1 salary grade or by around 4%. Growth in compensation of employees will moderate somewhat in 2024 (5.3%) and recover slightly in 2025 (5.7%), mainly due to the this year's impact of already adopted government wage reform measures for the public sector. In terms of compensation of employees, expenditure growth is expected to moderate again in 2026 (4.6%).

Social benefits

Expenditure on social benefits increased by 10% in 2022 compared to the previous year, mainly as a result of regular and exceptional pension adjustments, assistance to the population as a result of higher cost of living and, to a lesser extent, COVID-19-related aid. In 2023, growth in social transfer expenditure will moderate to 4.3%, as a result of the further phasing-out of aid under COVID-19 and aid due to the energy crisis and higher cost of living. In the area of pensions, a regular adjustment of 5.2% is foreseen in 2023. Over the 2024–2026 period, growth in social benefits expenditure will initially pick up slightly and gradually moderate in 2025 and 2026. Thus, in 2024, expenditure on social benefits will increase by 8.2%, mainly due to the regular adjustment of pensions (7.8%), calculated in accordance with the statutory adjustment formula on the basis on the new macroeconomic projections of IMAD and the adjustment of other social benefits due to increased inflation in 2023. In 2025, expenditure growth will be 5.4%, with a regular pension adjustment of 5.3%, and in 2026, expenditure growth will be 4.5%, with a regular pension adjustment of 4.0%. The impact of adjustment of other social benefits will be lower as the inflation will moderate in 2025 and 2026.

Gross fixed capital formation

Growth in expenditure on the general government gross fixed capital formation in 2022 stood at 26.2% year-on-year. The main contributors to the growth were investment expenditure at the level of the state and municipal budgets, while investment expenditure of other general government units, mainly in the area of railway infrastructure, also grew markedly. Investment expenditure is projected to increase by more than 30% in 2023, due to ending of the previous EU financial perspective (2014–2020) and the Recovery and Resilience Fund. Investment expenditure will moderate somewhat in the 2024–2026 period, as the new EU financial perspective (2021–2027) funds start drawing down while the Recovery and Resilience Fund draws to close. It will decrease by just under 8% in 2024, with still significant investments in railway infrastructure. It will be 3.4% lower in 2025 and around 11% lower in 2026. Throughout the period, the Government will, in addition to already mentioned, focus on financing investments in Slovenian healthcare, scientific research and innovation, and the green and digital transitions.

Subsidies

Subsidy expenditure fell by just over 40% in 2022 compared to the previous year, mainly due to the expiry of the government's aid measures to support the economy due to the COVID-19 epidemic. It will increase again in 2023 as a result of the aid and support provided by the Government to the economy in a context of increased energy prices and inflationary effects. Over the 2024–2026 period, subsidies expenditure will gradually decrease due to the expiry of the energy and COVID-19 measures, reaching the 2022 level. It will be down by just over 36% in 2024, by 20% in 2025 and by more than 5% in 2026.

Interest expenditure

General government interest expenditure fell by a good 2% in 2022 compared to the previous year, amounting to EUR 640 million or 1.1% of GDP. The upward trend in interest rates in the euro area suggests that interest expenditure will increase in the coming years. In 2023, general government interest expenditure is estimated to increase to EUR 745 million (1.2% of GDP). It will amount to EUR 900 million (1.3% of GDP) in 2024, and EUR 960 million (1.3% of GDP) in 2025. In 2026, it is estimated at EUR 1 billion or 1.3% of GDP. The level of interest expenditure as a share of GDP over the 2024–2026 period remains similar to that in 2009.

Unchanged policies scenario

Under an unchanged policy scenario, all temporary measures related to the energy crisis and COVID-19, expenditure related to the Ukrainian crisis and the health intervention act are excluded.

One-off expenditure

One-off expenditure in 2022 is not taken into account in the calculations of the fiscal position. In 2022, the largest share of expenditure was for aid to Ukraine and Ukrainian people present in Slovenia, as well as for mitigating and remedying the consequences of the fire in the Karst, in case of which Slovenia was not eligible for assistance from the European Union Solidarity Fund, as it did not meet the thresholds for its mobilisation. In 2023, the calculations of one-off events are also not taken into account, despite an estimation of financial implications of covering damages and mitigating the effects of the drought in 2022, as well as an assessment of the state of pending judicial, extrajudicial, arbitration and other proceedings that may have implications for public finances.

In the medium term, Slovenia manages unpredictable events with natural disaster reserve in the form of a budgetary fund, and reports on its implementation regularly within the framework of the Draft Budgetary Plan.

4.3 Comparison of economic and budgetary forecasts with the Stability Programme 2022

Real GDP growth in 2022 was higher than expected in the previous Stability Programme (by 1.2 pps), mainly reflecting a stronger recovery in private consumption after the epidemic in the first half of the year. In the second half of the year, year-on-year growth moderated significantly (1.7%) in a context of heightened uncertainty in international environment due to the energy crisis and the effects of the war in Ukraine. The forecast for real GDP growth this year (1.8%) and next year (2.5%) is lower than in the previous Stability Programme (3.0% and 2.8% respectively). The lower forecast is mainly due to a significant decline in forecasts in the international environment and a substantial deterioration in confidence indicators, which were, however, slightly better at the beginning of this year than in autumn 2022, as signals from the international environment point to significantly lower uncertainty around supply of energy products and their price developments, as well as due to a gradual improvement in the outlook compared to the autumn forecasts. In addition to the economic situation in the international environment, fiscal stimulus in Slovenia will continue to have a positive impact on economic activity this year. In the next year, GDP growth will still be lower than forecasted in the spring of last year, but will pick up from this year.

The projections of the general government balance are lower for the whole projection period compared to the projections in last year’s Stability Programme. Over the 2023–2025 period, a relatively higher general government deficit in the range of -0.5–1.1 pps is expected, mainly due to the energy crisis and high cost of living. The government debt-to-GDP ratio stood at 69.9% of GDP in 2022 (down by 3.4 pps), and is expected to reach 68.9% of GDP in 2024 (down by 2.6 pps). Reduction in the ratio will reflect the higher nominal GDP level and higher prices (deflators) in projections of the programme period.

Table 4: Comparison with forecasts in the Stability Programme 2022

% of GDP	2022	2023	2024	2025	2026
1. Real GDP growth (%)					
Stability Programme 2022	4.2	3.0	2.8	2.6	
Stability Programme 2023	5.4	1.8	2.5	2.6	2.5
Difference	1.2	-1.2	-0.3	0.0	
2. General government net lending (% of GDP)					
Stability Programme 2022	-4.1	-3.0	-2.1	-1.7	
Stability Programme 2023	-3.9	-4.1	-2.8	-2.2	-1.3
Difference	0.2	-1.1	-0.7	-0.5	
3. General government gross debt (% of GDP)					
Stability Programme 2022	73.3	71.5	69.5	68.0	
Stability Programme 2023	69.9	68.9	66.5	65.0	63.5
Difference	-3.4	-2.6	-3.0	-3.0	

Source: IMAD; SORS; Ministry of Finance.

4.4 General government debt

The consolidated general government debt stood at EUR 41,244 million, i.e. 69.9% of GDP at the end of 2022. At the end of 2021, it amounted to EUR 38,879 million, i.e. 74.5% of GDP. The debt structure shows the largest increase in the debt of central government units, which stood at EUR 40,428 million, i.e. 68.5% of GDP at the end of 2022, compared to EUR 38,129 million, i.e. 73.0% of GDP a year before. The debt of local government units amounted to EUR 1,021 million, i.e. 1.7% of GDP at the end of 2022, compared with EUR 950 million, i.e. 1.8% of GDP in the previous year. Social security funds were not indebted at the end of 2021 and 2022.

The European Commission has submitted for discussion a proposal for orientations for the reform of fiscal rules under the Stability and Growth Pact. The proposal would abolish the rule on the required annual pace of debt reduction of 1/20 of the excess of debt over the 60% of GDP reference value and, taking into account a debt sustainability analysis, introduces a requirement for EU Member States with high or medium indebtedness to draw up their own debt-reducing fiscal adjustment plans, making them more committed to implement them.

The effectiveness of the achievement of the strategic debt management and reduction objectives over the defined period will be primarily influenced by the adopted budgets for the period and the outlook for economic growth in the medium term. Compliance with the fiscal rule and commitment to structural reforms are of primary importance, as they have a direct impact on the credit (sovereign) rating of a country and its cost of borrowing, and thus on debt sustainability.

This is also taken into account in the government fiscal projections and, consequently, in the evolution of the consolidated general government debt over the 2023–2026 programme period.

Table 5: Consolidated general government debt

	ESA Code	2022	E2023	F2024	F2025	F2026
			EUR mio.			
1. General Government Debt		41,244	44,609	45,810	47,105	48,225
2. Gross Domestic Product		58,989	64,723	68,896	72,462	75,929
			% of GDP			
3. General Government Debt		69.9	68.9	66.5	65.0	63.5
4. General Government Balance		-3.9	-4.1	-2.8	-2.2	-1.3
5. Primary balance		-2.8	-2.9	-1.5	-0.8	0.0
6. Interest expenditure	EDP D.41	1.1	1.2	1.3	1.3	1.3
7. Stock Flow Adjustments		0.2	1.1	-1.1	-0.4	0.2
Implicit interest rate		1.6	1.8	2.0	2.1	2.2

Source: Ministry of Finance, 3 April 2023.

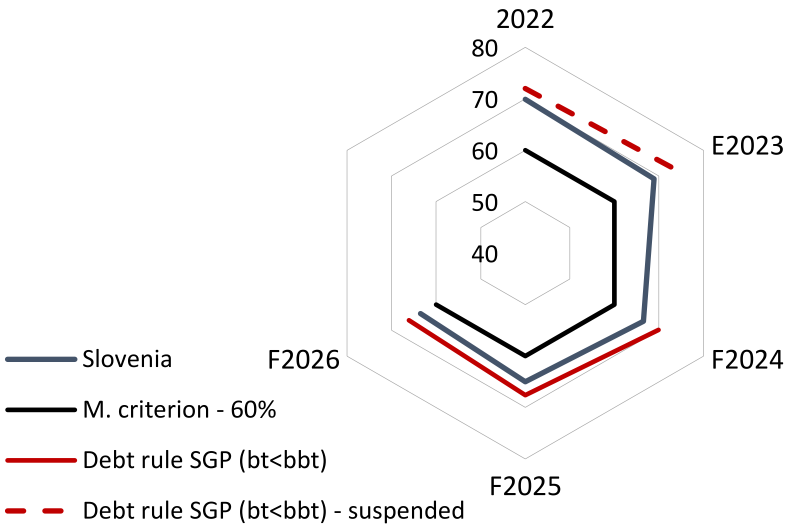
The state budget debt accounts for 95% of the structure of the consolidated general government debt. The Ministry of Finance's medium-term strategic objectives and efforts remain the same in the 2023–2026 period. Despite the demanding economic and fiscal circumstances resulting from the COVID-19 pandemic, and the severe geopolitical situation in the world, Slovenia's favourable credit ratings are retained: S&P AA-/Fitch: A/Moody's: A3 and DBRS: AH, thereby strengthening resilience to the credit spread widening. The establishment up to 60-year euro yield curve, the improved risk metric of the debt portfolio and the level of the state budget liquidity cushion provide Slovenia with a more optimal position in terms of flexibility in planning to enter debt capital markets, especially in an uncertain environment of geopolitical tensions, increased volatility and rising interest rates.

The exposure of the state budget debt in respect of a variable interest rate is minimal, accounting for 0.7% of the total debt portfolio. Thus, fixed rate debt accounts for 99.3% of it. The Republic of Slovenia also maintains wide access to sources of financing with smoothly allocated debt repayments per year. The largest share of state budget debt has a residual time to maturity of 5–10 years (39.4%). The 10-year maturity still represents an optimal choice in terms of price and refinancing risk metrics, especially given the steepness of the SLOREP yield curve up to 10-year. The weighted interest rate achieved for the newly issued long-term state budget debt (excluding treasury bills) amounted to 3.71% in 2023, with an average weighted residual time to maturity of 14.0 years.

In the future, the strategy for the implementation of financing in the medium term, and liquidity in the secondary market of Slovenian government bonds will be very important. It will be necessary to maintain a balance between supply and demand for Slovenian bonds, whereby secondary market support will continue to be of central importance. Above all, diversification and expansion of the investor base in geographical terms, by type of investor as well as by financing instruments, will be important. Secondary market support or liquidity in the Slovenian government bond market is of central importance in the current circumstances. In this respect, the Ministry of Finance has already demonstrated its pro-activeness in implementing the established secondary market support instruments (bond repo transactions).

The figure below shows that the process of reducing the general government debt-to-GDP ratio started in 2021. It is estimated that the process of reducing the debt-to-GDP ratio will continue mainly through nominal GDP growth and the gradual reduction in state budget liquidity reserves. The development of the consolidated general government debt does potentially comply with the debt rules of the Stability and Growth Pact from 2022 onwards.

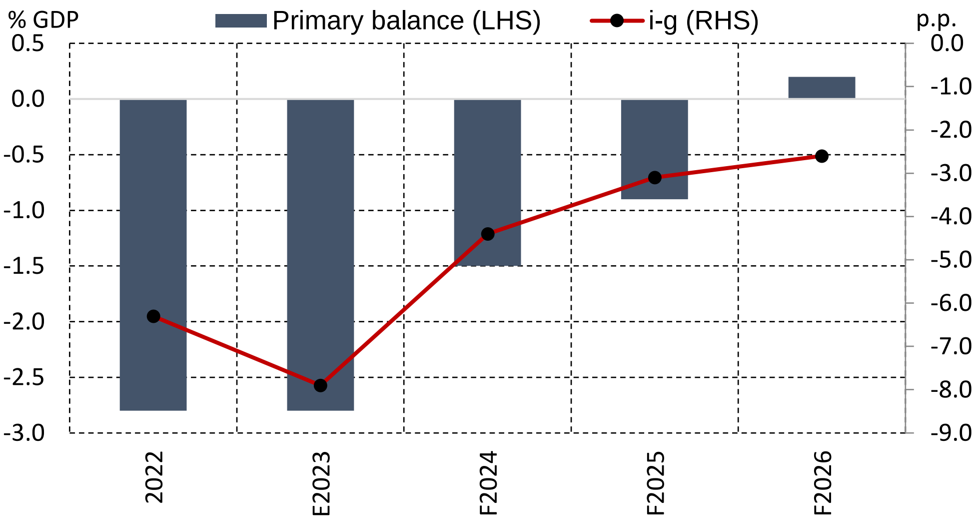
Figure 22: Consolidated general government debt in the 2022–2026 period (in % of GDP)



Source: Ministry of Finance, 3 April 2023.

The figure below 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). It is estimated that the growth in nominal GDP will exceed the implicit interest rate in the 2023–2026 period, which implies a negative 'i-g' value. The negative value of the primary balance is projected to reduce in the 2023–2026 period, reaching a positive value in 2026.

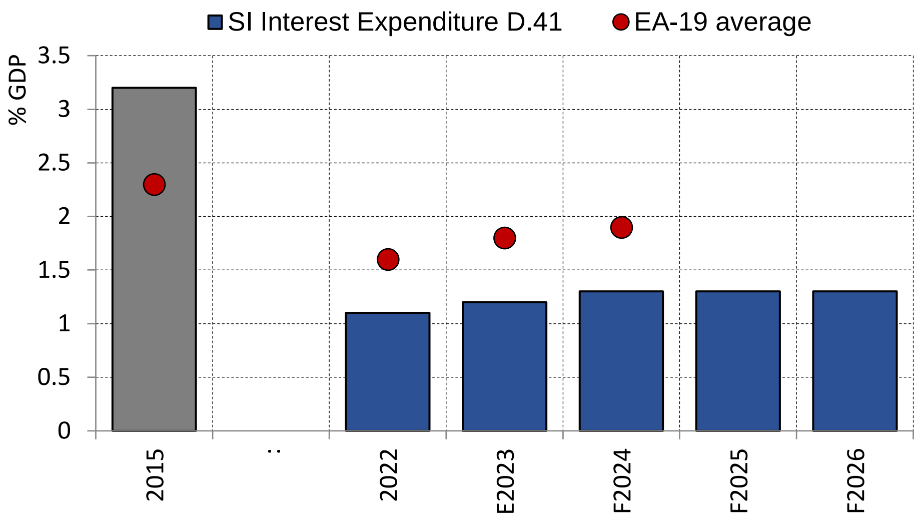
Figure 23: General government debt sustainability parameters



Source: Ministry of Finance, 3 April 2023.

The figure below shows the interest expenditure for general government debt (D.41) as a ratio of GDP, and thus shows that the general government debt service burden has improved compared to 2015, and that there is the upward trend in the expenditure on interest for D.41 over the 2023–2026 programme period due to rising interest rates in the euro area.

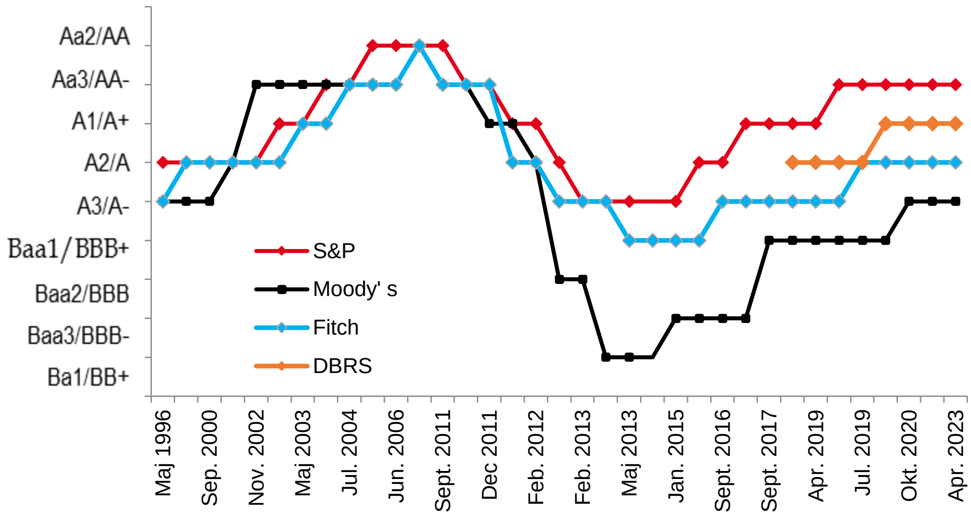
Figure 24: Trend in interest expenditure on general government debt (D41) – Slovenia (SI) and the euro area (EA-19)



Source: Ministry of Finance for Slovenia; AMECO database (European Commission) for the EA-19, 3 April 2023.

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 25: Slovenia's credit ratings over time



Source: S&P; Moody's; Fitch and DBRS, 3 April 2023.

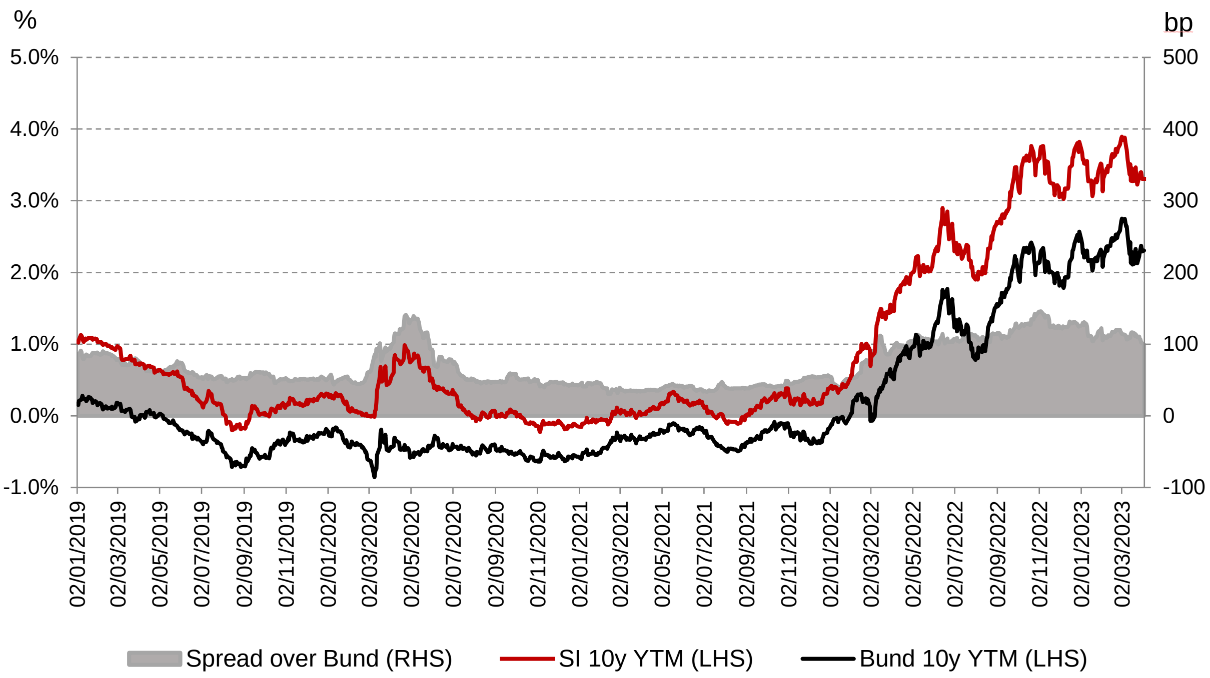
Table 6: Slovenia's credit ratings

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

Source: S&P; Moody's; Fitch and DBRS, 3 April 2023.

The spread of a Euro 10-year Slovenian bond (SLOREP) over the reference 10-year German bund reached 100 basis points on 3 April 2023, down from 126 basis points at the beginning of 2023.

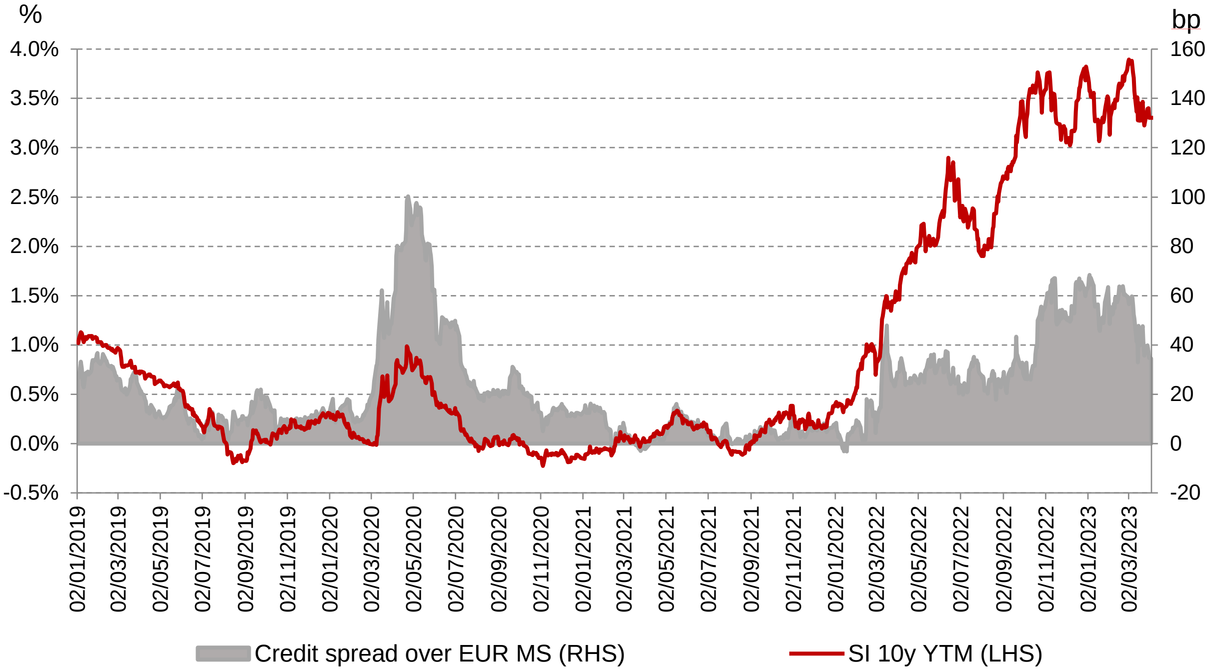
Figure 26: Slovenia EUR SLOREP 10-year bond YTM and spread over 10-year German Bund



Source: Bloomberg; Ministry of Finance (own calculations, 3 April 2022).

The interpolated yield of a Euro 10-year Slovenian bond reached 3.30% on the secondary market on 3 April 2023. Reference Euro mid swap rate stood at 2.96%, which implies a credit spread of 34 basis points.

Figure 27: Slovenia EUR SLOREP 10-year YTM and credit spread over EUR Mid-swap



Source: Bloomberg; Ministry of Finance (own calculations, 3 April 2023).

4.5 Guarantees

According to the Constitution, the granting of guarantees of the Republic of Slovenia is possible only by virtue of a law. In the system of guarantees of the Republic of Slovenia, two types of acts have been developed; general and special. A general act regulates the granting of government guarantees to a wider range of recipients. An example of such an act is the Act Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic. A special guarantee act is designed for a specifically defined recipient. Examples of such acts are the acts on guarantees to Družba za avtoceste v Republiki Sloveniji, d.d., the act on guarantees to 2TDK, d.o.o., etc.

A quota of new guarantees is planned with the annual budget implementation act. A quota of EUR 2,800 million was determined for 2023 and EUR 1,500 million for 2024. A separate quota is defined annually for guarantees of SID bank, d. d., in the amount of EUR 350 million. Utilisation of the quota is low, with a quota utilisation of 5.6% in 2020, 1.4% in 2021 and 18.3% in 2022. The quota allocated to SID bank, d.d. in the 2020–2022 period was not utilised.

The Republic of Slovenia may issue government guarantees to public or private sector entities. In the previous years, guarantees in the private sector were mostly given to legal or natural persons in the context of guarantee schemes to mitigate the effects of the COVID-19 crisis, and in 2022, they were given to companies under the energy pillar to mitigate the energy crisis. The issuing of government guarantees of the Republic of Slovenia is regulated by the provisions of a systemic act. The annual quota is set by the act governing the execution of the State Budget, while the State may also issue guarantees outside the quota if this is permitted by an individual act.

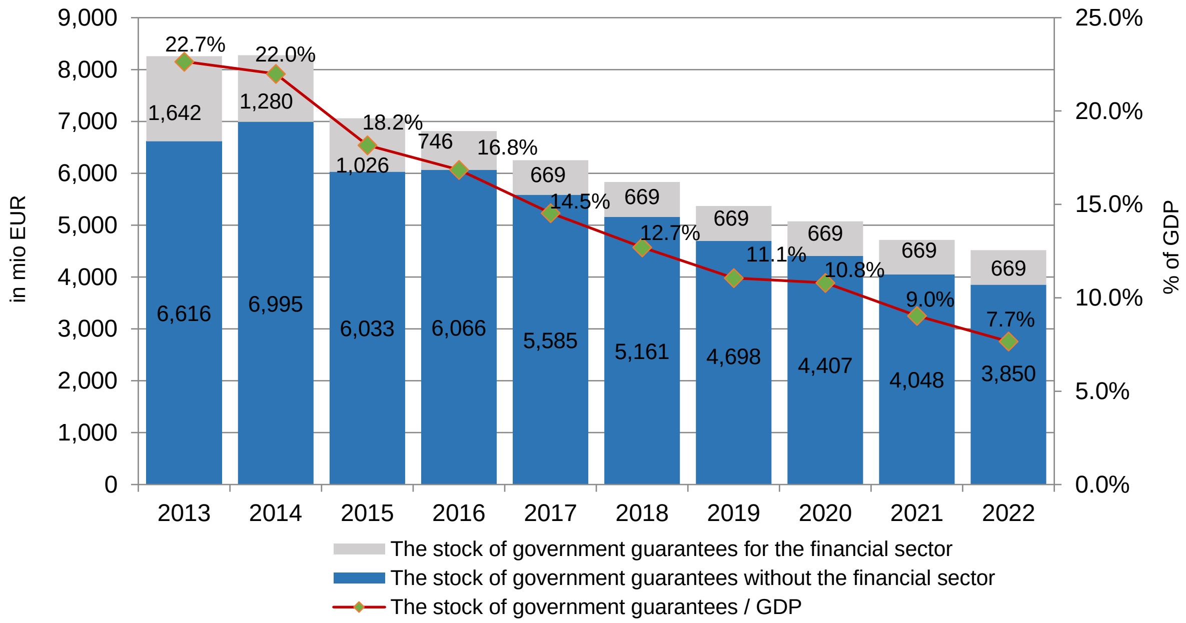
Three acts introducing anti-crisis measures regarding COVID-19 were adopted in the 2020–2021 period. In 2020, the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (ZIUZEOP), which allows deferral of the payment of borrowers' liability with a government guarantee, and the Act Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic (ZDLGPE), which allows the taking-out of liquidity loans with a government guarantee, were adopted. Under the ZIUZEOP, guarantees of EUR 58.7 million have been issued in total, and under the ZDLGPE, guarantees of EUR 60.9 million have been issued in total. The stock of government guarantees under the ZDLGPE was EUR 31.5 million as at 31 December 2022, while the guarantee obligation of the Republic of Slovenia under the ZIUZEOP ended in 2022. Act Regulating the Guarantee of the Republic of Slovenia for Pan-European Guarantee Fund (ZJPGS) was adopted in 2021, which regulates Slovenia's participation in the Pan-European Guarantee Fund (EGF), established to mitigate the impact of COVID-19 by ensuring that entities that are established or perform an activity in EU Member State have sufficient liquidity. The maximum total guarantee of the Republic of Slovenia under the ZJPGS is EUR 70.1 million.

In 2022, three guarantee acts were adopted, namely the Act on the Guarantee of the Republic of Slovenia for the Obligations from Credits Taken Out to Ensure Liquidity on the Organized Electricity Markets and Emission Coupons and Obligations from the Purchase Additional Quantities of Natural Gas Outside the European Union Market (ZPKEEKP), with a guarantee quota of EUR 1,280 million, the Housing Guarantee Scheme Act for Young People (ZSJSM) with a total amount of guarantee quotas of EUR 300 million per year, and the Act Regulating the Guarantees of the Republic of Slovenia for Obligations of DARS, d.d., for Loans Raised and Debt Securities Issued for the Financing of Highway Projects in the Amount of up to EUR 392.4 Million (ZPKFAP).

On the basis of the ZPKEEKP, government guarantees for loans and bank guarantees totalling EUR 292 million were issued in 2022, with final maturity for loans on 31 August 2023 and for bank guarantees no later than 31 December 2025. No guarantees were issued under the ZSJSM and ZPKFAP in 2022.

Republic of Slovenia guarantees amounted to EUR 4,519.7 million as at 31 December 2022, of which government guarantees for liabilities of the financial sector (S.12) accounted for EUR 669.5 million.

Figure 28: Stock of Slovenian government guarantees in the 2013–2022 period



Source: Ministry of Finance, 2022.

Table 7: Projection of the stock of Slovenian government guarantees for the 2023–2026 period

	31.12.2023*		31.12.2024*		31.12.2025*		31.12.2026*	
	mio. EUR	% GDP	mio. EUR	% GDP	mio. EUR	% GDP	mio. EUR	% GDP
Stock of Slovenian government guarantees	4,137.60	6.40%	4,118.40	6.00%	3,960.40	5.50%	3,868.20	5.30%
of which for liabilities of the financial sector (S.12) *	669.5	1.00%	669,5	1.00%	669.5	0.90%	669.5	0.90%

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, 2023.

The data 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.

In 2020, EUR 142,000 were used to call on Slovenian government guarantees for guarantee schemes from 2009 and 2010 to contain the financial crisis. A total of EUR 15,000 were used to call on government guarantees in 2021 and EUR 55,000 in 2022, all for guarantee liabilities under guarantee schemes to contain the COVID-19 crisis. For 2023 it is projected that EUR 25.4 million could be used to call on government guarantees and EUR 22.2 million in 2024. The majority of funds is assessed in the context of calling on the guarantees issued on the basis of anti-crisis measures regarding COVID-19.

5 FISCAL RISKS

5.1 Uncertainties and risks to the fiscal forecast

Risks to the forecast are less pronounced and more balanced than a few months ago, but uncertainty in the international environment remains high, mainly related to the course of the war in Ukraine and the situation on the energy markets. Downside risks to economic growth are also associated with the possibility of inflation persistence, which could lead to a stronger tightening of monetary policy. There are also other downside risks to economic activity at global level related to economic activity in China, the impacts of climate change, social unrest in the face of high energy product and food prices, and geopolitical conditions.

Risks to financial stability stemming from reduced liquidity in financial markets reflect investors' expectations of future monetary policy and future corporate operations. As a result of the shrinking of central bank's balance sheet (quantitative tightening), liquidity in the markets is expected to remain low. The demand for riskier financial assets by investors could fall significantly in the event of a further decline in corporate profits or a revision of the monetary policy outlook (IMF, 2023)[14].

There is also some potential for economic growth at global level, in the EU and in Slovenia, to be higher than the central forecast. A faster-than-forecasted decline in inflation would lead to less monetary tightening, which would have a positive impact on economic activity. International institutions also point to higher private consumption, boosted by the spending of savings from the pandemic, as a possible reason for higher growth. A more effective absorption of entire package of EU funds and the fiscal effects of reform measures in Slovenia and in our main trading partners would also have a positive impact on economic growth, providing an opportunity to strengthen development content.

5.2 Sensitivity analysis of the general government balance

The figure below presents alternative scenarios of the impact of economic growth fluctuations on general government revenue. The scenarios show the revenue path in the event of nominal economic growth of 0.5, 1 and 2 pps higher or lower than that envisaged in IMAD's Spring Forecast at the annual level linearly in every year. They are therefore based on projections of the movement of fiscal revenues bases.

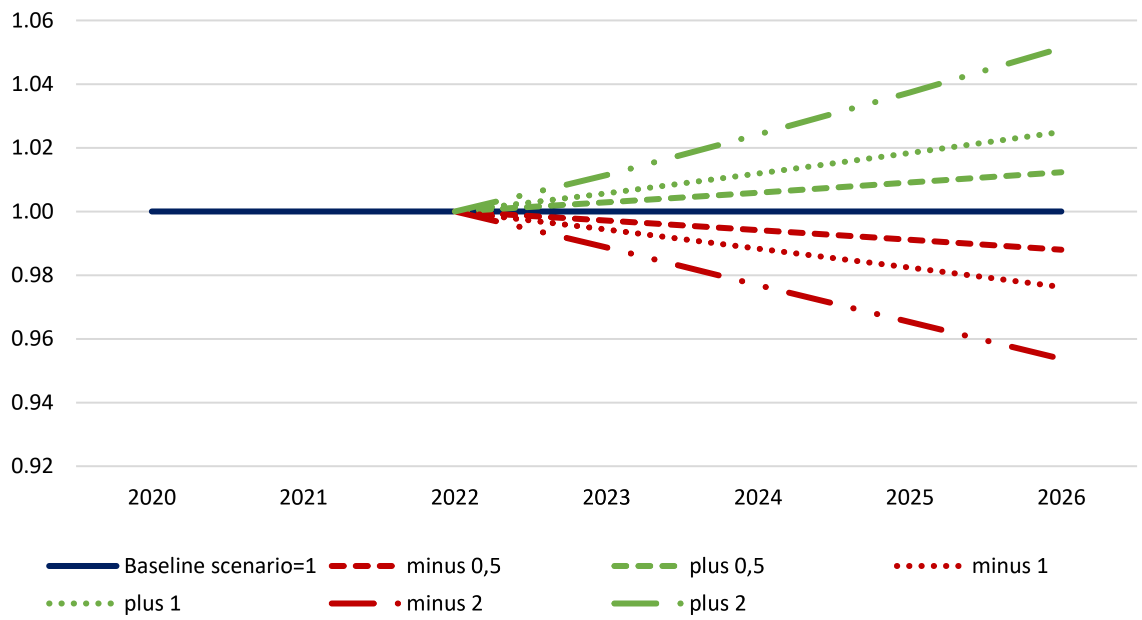
Under the assumption of no policy change, general government revenue in 2023 would, in the event of nominal GDP growth of 2 pps higher than predicted, improve by 1.1% in comparison with the baseline forecast, and by 2.4% in comparison with the baseline forecast for 2024. In 2025 and 2026, it would be higher than predicted by 3.7% and 5.1% respectively (scenario illustrated with the plus 2 line). In the opposite case, i.e. of GDP growth that is 2 pps lower, general government revenue in 2023 would reach 98.9% of the revenue from the baseline

[14] IMF; World Economic Outlook April 2023: World Economic Outlook, April 2023: A Rocky Recovery (imf.org).

forecast for this year, in 2024 97.7%, and in the next two years 96.5 % and 95.4 % respectively (minus 2 scenario).

In the event of realised GDP growth that is lower or higher by 1 pp in this and next year, general government revenue would be lower or higher by 0.6% and 1.2% respectively, while a deviation from the baseline scenario in 2025 and 2026 would increase to a deviation of 1.8% and 2.5% respectively (minus and plus 1 scenario). In the event of growth that is lower or higher by 0.5 pp in this and the following two years, revenue would be lower or higher by 0.3%, 0.6% and 0.9% respectively, while the deviation would increase to approximately 1.2% in 2026 (minus and plus 0.5 scenario).

Figure 29: General government revenue, alternative nominal GDP growth scenarios



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

The Table 8 shows that, of the macroeconomic and cyclical determinants, the biggest impact on the increase in budgetary revenue has the increase in the growth of compensation per employee. Indeed, social contributions would increase by 0.35% of GDP in 2025 in case of 1 pp of higher annual growth of compensation per employee over the 2023–2025 period. If the standard VAT rate was increased by 1 pp, the revenue from value added tax would increase by 0.25% of GDP in a given year. A similar fiscal effect would also have a 1 pp increase in the reduced VAT rate.

On the other hand, 1 pp faster nominal wage growth would increase public sector wage expenditure, i.e. by 0.07% of GDP in the first year and by 0.21% of GDP in the third year. Pension expenditure would, however, increase by 0.16% of GDP in the third year. Pension expenditure would rise by 0.03% of GDP in the first year, 0.07% of GDP in the second year and 0.11% of GDP in the third year due to a 1 pp increase in inflation. Higher inflation would also increase expenditure on social transfers by 0.05% of GDP in 2023 and by 0.06% of GDP in 2024 and 2025. Restrictive monetary policy increases interest expenditure. In response to a 100 basis point increase in interest rates, interest expenditure would increase by 0.69% of GDP in the first year, 0.66% of GDP in the second year and 0.65% of GDP in the third year.

Table 8: Budgetary impact of changes in economic factors on individual budget items

		Budget impact in % of GDP		
Economic determinant	**Revenue and expenditure item**	**2023**	**2024**	**2025**
GDP(I) component				
Compensation of employees (1pp pa higher growth)	Social security contributions	0.12	0.23	0.35
Nominal wages growth (1pp pa higher growth)	Personal income tax	0.06	0.13	0.20
Employment growth (1pp pa higher growth)	Personal income tax	0.05	0.09	0.12
Gross operating surplus (1 pp pa higher growth)	Corporate income tax	0.06	0.13	0.21
GDP(E) component				
Household consumption expenditure (1pp pa higher growth)	Value added tax	0.07	0.15	0.22
Household consumption expenditure (1pp pa higher growth)	Excise duties	0.02	0.04	0.06
Tax rates				
VAT standard rate increase by 1pp	Value added tax	0.25	0.25	0.25
VAT reduced rate increase by 1pp	Value added tax	0.25	0.25	0.24
Labour market				
Nominal wages growth (1pp pa higher growth)	Public sector wages expenditure	0.07	0.14	0.21
Nominal wages growth (1pp pa higher growth)	Public pension expenditure	0.05	0.11	0.16
Inflation				
CPI (1pp pa higher growth)	Public pension expenditure	0.03	0.07	0.11
CPI (1pp pa higher growth)	Other social transfers expenditure	0.05	0.06	0.06
Interest rates				
Interest rates increase by 100bps	Interest payments	0.69	0.66	0.65

Source: IMAD, Spring Forecast 2023; Ministry of Finance (own calculations).

As with all forecasts or sensitivity assessments, careful interpretation of the results is required. The estimated budgetary impact represents the static impact of a change in a particular economic factor and does not include the impact of the interaction of that change with other factors. Similarly, by capturing average, linear relationships, the results reflect only minor changes in economic factors, since major changes in economic factors can have non-linear effects on taxes and consumption.

5.3 Debt sensitivity analysis

As part of the deterministic scenario approach, a set of variable values in three scenarios, namely baseline, adverse and favourable, is defined. Thus, for each scenario, the debt path is calculated over the 2023–2026 period. The state budget has a liquidity cushion of EUR 4.28 billion as of 12 April 2023, representing 6.6% of GDP. In the baseline scenario over the 2023–2026 period a total cash consumption of EUR 1.5 billion is assumed.

The debt sensitivity analysis under the adverse scenario identifies the responsiveness of the change in the debt-to-GDP ratio by year under the following key assumptions:

- additional borrowing is financed and existing debt refinanced by taking into account an additional shock, namely an increase in the implicit interest rate of 0.4 pp each year;
- a 50% lower use of the state budget's liquidity for financing each year than projected in the baseline scenario;
- the primary balance is worse than planned by 1.5 pp of GDP every year; and
- nominal GDP growth is lower than in IMAD's Spring Forecast 2023 by 3 pps every year.

The debt sensitivity analysis under the favourable scenario identifies the responsiveness of the change in the debt-to-GDP ratio by year under the following key assumptions:

- the implicit interest rate is unchanged and remains the same as in the baseline scenario;
- a 25% higher use of the state budget's liquidity for financing each year than projected in the baseline scenario;
- the primary balance is better than planned in the baseline scenario by 0.20 pp of GDP every year; and
- nominal GDP growth is higher than in IMAD's Spring Forecast 2023 by 1 pp every year.

Under the baseline scenario, the general government debt is projected at 63,5% of GDP at the end of 2026. In the case of an adverse scenario, taking into account the cumulative impact, the debt would increase to 79.2% of GDP at the end of 2026 (+ 15.7 pps of GDP). And, in the case of favourable scenario, taking into account the cumulative impact, debt would fall to 60.0% of GDP by the end of 2026, i.e. the Maastricht threshold.

Table 9: Evolution of the general government debt under defined scenarios

Year	**2022**	**E2023**	**F2024**	**F2025**	**F2026**
Scenario:	% GDP				
General Government Debt (**baseline**)	69.9	68.9	66.5	65.0	63.5
General Government Debt (**adverse**)	69.9	72.5	74.4	77.0	79.2
General Government Debt (**favourable**)	69.9	68.1	64.6	62.2	60.0

Source: Ministry of Finance, 12 April 2023.

The segmented debt sensitivity analysis shows that a deterioration in the implicit interest rate alone, as assumed in the adverse scenario (all else equal as in the baseline scenario), would lead to an increase in debt by 1 pp of GDP to 64.5% of GDP by the end of 2026 compared to the baseline scenario.

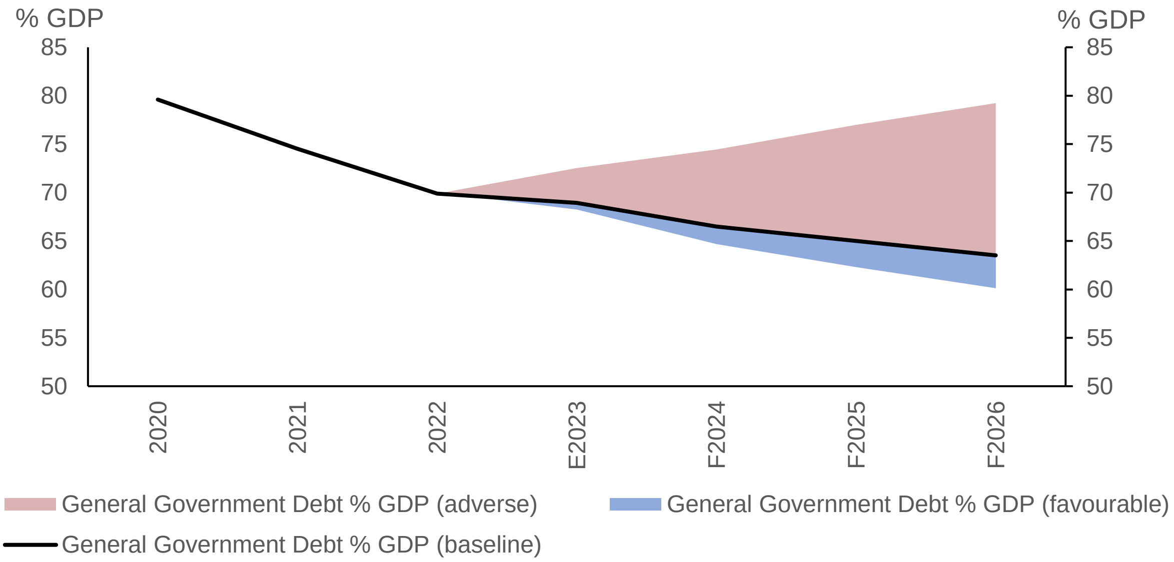
A deterioration in the primary balance alone, as assumed in the adverse scenario (all else equal as in the baseline scenario), would lead to an increase in debt by 5.8 pps of GDP to 69.3% of GDP by the end of 2026 compared to the baseline scenario.

A deterioration in nominal GDP growth alone, as assumed in the adverse scenario (all else equal as in the baseline scenario), would lead to an increase in debt of 7.5 pps of GDP to 71.0% of GDP by the end of 2026 compared to the baseline scenario.

Lower usage of the state budget's liquidity reserves for financing alone, as assumed in the adverse scenario (all else equal as in the baseline scenario), would lead to an increase in debt by 1.1 pp of GDP to 64.6% of GDP by the end of 2026 compared to the baseline scenario.

The overall combined result reflected in the debt path of the all three scenarios is shown in the figure below.

Figure 30: General government debt sensitivity (in % of GDP for the 2023–2026 period)



Source: Ministry of Finance, 12 April 2023.

5.4 Long-term sustainability of public finances

The long-term projections of government expenditure and revenue are based on Eurostat's[15] latest demographic projections and the assumptions made in preparing the long-term projections of the costs of ageing in the 2021 Ageing Report[16]. Demographic projections suggest that the older population will increase significantly, and the working-age population will decline sharply. This will reduce supply on the labour market. The number of births is projected to fall and life expectancy to rise. The share of children and young people (0–19 years) is projected to fall from 19.6% to 17.8 % between 2019 and 2070, while the share of

[15] EUROPOP2019.

[16] The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019-2070) | European Commission (europa.eu).

people of working age (20–64 years) is projected to 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 20% to 30.4% between 2019 and 2070. The share of the elderly will also increase due to the low birth rates, higher birth rates in the years between the end of the Second World War and 1980 (when the birth rate was still high), and because of the rapid increase in life expectancy. The old-age dependency ratio, which indicates the share of economically dependent ageing population in relation to the working-age population is projected to increase from 33.2% in 2019 to 58.8% in 2070. Based on demographic and macroeconomic projections, the European Commission[17] prepares labour market projections (activity, employment and unemployment rates). Despite an increase, employment rates of older people in Slovenia are still low compared to other countries. The low average age at exit from the labour market and the increase in life expectancy are increasing the duration of retirement.

Table 10: Long-term sustainability of public finances

% of GDP	**2022**	**2030**	**2040**	**2050**	**2060**	**2070**	**Difference 2070-2022**
Total expenditure	**39.7**	**41.3**	**45.7**	**51.9**	**57.5**	**62.9**	**23.28**
Total age-related expenditures	21.1	22.5	25.8	28.8	29.7	29.6	8.50
Pension expenditure	9.8	10.6	13.3	15.4	15.8	15.7	5.90
Old-age and early pensions	7.6	8.3	10.5	12.2	12.5	12.5	4.95
Disability pensions	1.1	1.2	1.5	1.7	1.7	1.6	0.47
Other pensions	1.1	1.1	1.4	1.6	1.7	1.6	0.48
Health care	6.0	6.4	6.9	7.2	7.3	7.3	1.34
Long-term care	1.1	1.3	1.6	1.9	2.1	2.3	1.16
Education expenditure	3.9	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	-0.17
Subsidies	1.0	1.0	1.0	1.0	1.0	1.0	0.00
Government investments	3.1	3.1	3.1	3.1	3.1	3.1	0.00
Total primary expenditure	37.8	38.8	42.3	45.3	46.2	46.1	8.33
Interest expenditure	1.9	2.4	3.4	6.6	11.3	16.8	14.96
Total revenue	**40.3**	**39.4**	**39.1**	**38.9**	**38.8**	**38.8**	**-1.48**
Assumptions (%)							
Labour productivity growth	1.9	2.1	1.9	1.8	1.7	1.5	-0.36
Real GDP growth	3.5	2.2	1.2	1.1	1.5	1.3	-2.13
Real GDP per capita growth	3.5	2.2	1.2	1.1	1.5	1.3	-2.12
Participation rate males (aged 20-64)	84.0	84.8	84.2	84.8	85.2	84.8	0.80
Participation rates females (aged 20-64)	78.9	80.0	79.8	81.0	81.6	81.0	2.11
Total participation rates (aged 20-64)	81.6	82.5	82.2	83.1	83.5	83.0	1.44
Unemployment rate	5.1	5.6	5.7	5.7	5.6	5.7	0.59
Population aged 65+ over total population	21.3	24.7	28.0	30.8	31.3	30.4	9.09

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

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

Table 10 shows the long-term projections of fiscal revenue and expenditure in the period up to 2070. In addition to the above assumptions, actual GDP data up to 2022 are also taken into account. Baseline year, for which the SORS retrospectively revised nominal GDP, is 2019. According to the most recent revised data, nominal GDP is higher, while data on pension expenditure have remained the same. The impact is permanent; therefore, the projections have decreased slightly compared to the Ageing Report.

Demographic changes are among the key challenges, thus the government prepares and coordinates structural changes related to the pension insurance, healthcare and long-term care systems, as well as to the to the education and training system.

Annex

Table 1.a: Economic growth and related indicators

		ESA code	Level 2022	2022	2023	2024	2025	2026
			In mio EUR.		*% change*			
1.	Real GDP	B 1 g	47,336	5.4	1.8	2.5	2.6	2.5
2.	Nominal GDP	B 1 g	58,989	13.0	9.7	6.4	5.2	4.8
	Components of real GDP							
3.	Private consumption expenditure	P3	32,463	8.9	1.2	1.8	1.8	1.8
4.	Government consumption expenditure	P3	11,091	0.9	1.2	1.8	1.9	1.9
5.	Gross fixed capital formation	P51	12,961	7.8	2.8	2.2	5.0	5.0
6.	Changes in inventories and net acquisition of valuables (% of GDP)	P52+ P53	1514	2.6	2.0	1.9	1.9	1.8
7.	Exports of goods and services	P6	53,314	6.5	2.7	4.1	4.2	4.0
8.	Imports of goods and services	P7	52,353	9.8	1.8	3.6	4.3	4.2
	Contributions to real GDP growth (in percentage points)							
9.	Final domestic demand		56,514	6.3	1.5	1.9	2.5	2.5
10.	Changes in inventories and net acquisition of valuables	P52+ P53	1514	1.1	-0.5	0.0	0.0	0.0
11.	External balance of goods and services	B11	960	-2.1	0.8	0.6	0.1	0.0

Source: SORS; IMAD, Spring forecast 2023.

Table 1.b: Price developments

	% change	2022	2023	2024	2025	2026	2027
1.	GDP deflator	7.2	7.7	3.9	2.5	2.2	2.1
2.	Private consumption deflator	11.7	7.1	4.2	2.4	2.0	2.0
3.	HICP (average of the year)	8.8	7.1	4.2	2.4	2.0	2.0
4.	Public consumption deflator	2.0	8.2	4.4	3.3	2.9	2.9
5.	Investment deflator	13.3	7.5	2.9	2.0	2.0	2.0
6.	Export price deflator (goods and services)	14.6	4.2	-0.3	0.9	0.3	0.5
7.	Import price deflator (goods and services)	18.2	3.7	-0.5	0.8	0.2	0.5

Source: SORS; IMAD, Spring forecast 2023.

Table 1.c: Labour market developments

		Level 2022	2022	2023	2024	2025	2026
		thousands					
1.	Employment (persons)[1] growth in %	1,079	2.4	1.0	0.7	0.4	0.3
2.	Employment (hours worked), growth in %	1,746,243	4.1	1.2	0.8	0.5	1.1
3.	Unemployment rate according to labour force survey, in %	4.16	-11.4	-5.1	-5.0	-2.7	-3.0
4.	Labour productivity[2] (value in 1000 EUR per employee), growth in %	54,691	10.3	8.6	5.8	4.8	4.5
5.	Labour productivity[2] (value in 1000 EUR per hour worked), growth in %	34	8.6	8.4	5.6	4.7	3.6
6.	Compensation of employees[3], in EUR mio, growth in % (D.1)	29,456	6.9	8.5	6.5	5.8	5.5
7.	Compensation per employee[3.4]. in 1000 EUR, growth in %	33,718	4.3	7.3	5.8	5.4	5.2

Notes: [1] Employed population, national accounts definition (domestic concept), [2]Nominal growth, [3] Real GDP is taken into account. [4] Full-time employees are taken into account.
Source: SORS; IMAD, Spring forecast 2023.

Table 1.d: Sectoral balances

% of GDP	**ESA code**	**2022**	**2023**	**2024**	**2025**	**2026**
Net lending/borrowing vis-a-vis the rest of the world	B.9 (S.1)	1.0				
of which:						
Balance on goods and services	B.11	1.7	2.8	3.3	3.4	3.3
Balance of primary incomes and transfers	B.12	-2.4	-2.5	-2.6	-2.5	-2.5
Capital account	D.9 (rec-pay)	0.0				
Net lending/borrowing of the private sector	B.9 (S.1-S.13)	2.9				
Net lending/borrowing of general government	B.9 (S.13)	-3.9				
Statistical discrepancy						

Source: SORS; Ministry of Finance; IMAD, Spring forecast 2023.

Tabela 2.a: General government budgetary prospects

		ESA code	Level 2022	2022	2023	2024	2025	2026
			EUR million	*% of GDP*				
	Net lending (EDP B.9) by sub-sector							
1.	General government	S.13	-2,319	-3.9	-4.1	-2.8	-2.2	-1.3
2.	Central government	S.1311	-2,106	-3.6	-3.9	-2.6	-2.2	-1.3
3.	State government	S.1312						
4.	Local government	S.1313	-109	-0.2	0.1	0.0	0.1	0.1
5.	Social security funds	S.1314	-104	-0.2	-0.2	-0.2	-0.1	0.0
	General government (S13)							
6.	Total revenue	TR	25,172	42.7	42.4	41.8	41.6	41.5
7.	Total expenditure	TE	27,490	46.6	46.5	44.5	43.8	42.8
8.	Net lending/borrowing	EDP B.9	-2,319	-3.9	-4.1	-2.8	-2.2	-1.3
9.	Interest expenditure	EDP D.41	637	1.1	1.2	1.3	1.3	1.3
10.	Primary balance		-1,682	-2.9	-2.9	-1.5	-0.8	0.0
11.	One-off and other temporary measures							
	Selected components of revenue							
12.	Total taxes (12=12a+12b+12c)		12,284	20.8	19.8	20.0	20.0	19.9
a.	Taxes on production and imports	D.2	7,601	12.9	12.3	12.4	12.1	11.9
b.	Current taxes on income, wealth, etc	D.5	4,663	7.9	7.5	7.6	7.8	8.0
c.	Capital taxes	D.91	20	0.0	0.0	0.0	0.0	0.0
13.	Social contributions	D.61	9,315	15.8	15.8	15.7	15.8	16.2
14.	Property income	D.4	403	0.7	0.7	0.7	0.7	0.7
15.	Other		3,170	5.4	6.2	5.3	5.2	4.7
16.	16=6. Total revenue	TR	25,172	42.7	42.4	41.8	41.6	41.5
	p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		21,599	36.6	35.5	35.7	35.7	36.1
	Selected components of expenditure							
17.	Compensation of employees + intermediate consumption	D.1+P.2	10,124	17.2	16.9	16.7	16.8	16.8
a.	Compensation of employees	D.1	6,448	10.9	10.9	10.8	10.9	11.0
b.	Intermediate consumption	P.2	3,676	6.2	6.0	6.0	5.9	5.8
18.	Social payments (18=18a+18b)		10,575	17.9	17.0	17.3	17.4	17.3
	of which Unemployment benefits		149	0.3	0.2	0.2	0.2	0.2
a.	Social transfers in kind supplied via market producers	D.6311. D.63121. D.63131	1,501	2.5	2.5	2.7	2.8	2.9
b.	Social transfers other than in kind	D.62	9,073	15.4	14.5	14.6	14.5	14.4
19.	19=9. Interest expenditure	D.41	637	1.1	1.2	1.3	1.3	1.3
20.	Subsidies	D.3	757	1.3	2.5	1.5	1.1	1.0
21.	Gross fixed capital formation	P.51	3,085	5.2	6.4	5.5	5.1	4.3
22.	Capital transfers	D.9	867	1.5	0.6	0.3	0.3	0.3
23.	Other		1,446	2.5	1.9	1.8	1.7	1.7
24.	24=7. Total expenditure	TE	27,490	46.6	46.5	44.5	43.8	42.8

Source: SORS (published 31. 3. 2023); Ministry of Finance.

Table 2.b: No-policy change projections

		ESA code	Level 2022	2022	2023	2024	2025	2026
			EUR million	*% of GDP*				
1.	Total revenue at unchanged policies	TR	25,172	42.7	42.8	41.8	41.6	41.5
2.	Total expenditure at unchanged policies	TE	27,490	46.6	44.8	44.4	43.8	42.8

Source: SORS; Ministry of Finance.

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

		Level 2022	2022	2023	2024	2025	2026
		EUR million	*% of GDP*				
1.	Expenditure on EU programmes fully matched by EU funds revenue	429.2	0.7	1.8	1.1	1.2	0.9
a.	Of which investment expenditure fully matched by EU funds revenue	331.6	0.6	1.5	0.8	1.0	0.6
2.	Cyclical unemployment benefit expenditure	-30.8	-0.1	0.0	0.0	0.0	0.0
3.	Effect of discretionary revenue measures			-0.1			
4.	Expenditure on EU programmes fully matched by EU funds revenue						
5.	One-off and other temporary measures	-27.0	0.0				

Source: Ministry of Finance.

Table 3: General government expenditure by function

	**** before EDP notification***	COFOG code	2021	2021	2026
			EUR million	*% of GDP*	
1.	General public services	1	2,708.5	5.2	5.2
2.	Defence	2	618.5	1.2	1.3
3.	Public order and safety	3	913.9	1.8	1.5
4.	Economic affairs	4	3,574.3	6.8	5.2
5.	Environmental protection	5	344.6	0.7	0.8
6.	Housing and community amenities	6	282.8	0.5	0.5
7.	Health	7	4,249.9	8.1	6.8
8.	Recreation, culture and religion	8	748.2	1.4	1.1
9.	Education	9	2,960.0	5.7	5.0
10.	Social protection	10	9,334.5	17.9	15.4
	Total expenditure (=item 7=23 in Table 2)	TE	25,857.8	49.5	42.8

Source: SORS; Ministry of Finance.

Table 4: General government debt developments

	% of GDP	ESA code	2022	2023	2024	2025	2026
1.	Gross debt		69.9	68.9	66.5	65.0	63.5
2.	Change in gross debt ratio		-4.6	-1.0	-2.4	-1.5	-1.5
3.	Primary balance		-2.8	-2.9	-1.5	-0.8	0.0
4.	Interest expenditure	EDP D.41	1.1	1.2	1.3	1.3	1.3
5.	Stock-flow adjustment		0.2	1.1	-1.1	-0.4	0.2
	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		1.6	1.8	2.0	2.1	2.2
7.	Liquid financial assets		12.0	10.1	8.0	6.9	6.6
8.	Net financial debt (7=1-6)		57.9	58.8	58.5	58.1	56.9
9.	Debt amortization (existing bonds) since the end of the previous year		2.1	2.0	2.8	2.8	3.3
10.	Percentage of debt denominated in foreign currency		0.0	0.0	0.0	0.0	0.0
11.	Average maturity		10.1	9.7	9.2	8.7	8.3

Source: Ministry of Finance.

Table 5: Cyclical developments

	% of GDP	ESA code	2022	2023	2024	2025	2026
1.	Real GDP growth (%)		5.4	1.8	2.5	2.6	2.5
2.	Net lending/borrowing of general government	B.9	-3.9	-4.1	-2.8	-2.2	-1.3
3.	Interest expenditure	D.41	1.1	1.2	1.3	1.3	1.3
4.	One-off and other temporary measures						
4a.	Of which one-offs on the revenue side: general government						
4b.	Of which one-offs on the expenditure side: general government						
5.	Potential GDP growth (%)		3.0	3.0	2.9	2.8	2.6
	Contributions:						
	- Labour		0.8	0.9	0.7	0.5	0.3
	- Capital		0.8	0.8	0.8	0.9	1.0
	- Total factor productivity		1.4	1.3	1.3	1.3	1.3
6.	Output gap		3.1	1.8	1.4	1.2	1.0
7.	Cyclical budgetary component		1.5	0.9	0.7	0.6	0.5
8.	Cyclically-adjusted balance (2-7)		-5.4	-4.9	-3.4	-2.7	-1.8
9.	Cyclically-adjusted primary balance (8+3)		-4.3	-3.8	-2.1	-1.4	-0.5
10.	Structural balance (8-4)		-5.4	-4.9	-3.4	-2.7	-1.8
11.	Fiscal effort		-0.4	0.5	1.5	0.7	1.0

Source: SORS; IMAD; Ministry of Finance.

Table 6: Divergence from previous update

% of GDP	2022	2023	2024	2025	2026
1. Real GDP growth (%)					
Stability Programme 2022	4.2	3.0	2.8	2.6	
Stability Programme 2023	5.4	1.8	2.5	2.6	2.5
Difference	1.2	-1.2	-0.3	0.0	
2. General government net lending (% of GDP)					
Stability Programme 2022	-4.1	-3.0	-2.1	-1.7	
Stability Programme 2023	-3.9	-4.1	-2.8	-2.2	-1.3
Difference	0.2	-1.1	-0.7	-0.5	
3. General government gross debt (% of GDP)					
Stability Programme 2022	73.3	71.5	69.5	68.0	
Stability Programme 2023	69.9	68.9	66.5	65.0	63.5
Difference	-3.4	-2.6	-3.0	-3.0	

Source: SORS; IMAD; Ministry of Finance.

Table 7: Long-term sustainability of public finances

% of GDP	2022	2030	2040	2050	2060	2070	Difference 2070-2022
Total expenditure	39.7	41.3	45.7	51.9	57.5	62.9	23.28
Of which: age-related expenditures	21.1	22.5	25.8	28.8	29.7	29.6	8.50
Pension expenditure	9.8	10.6	13.3	15.4	15.8	15.7	5.90
Old-age and early pensions	7.6	8.3	10.5	12.2	12.5	12.5	4.95
Disability pensions	1.1	1.2	1.5	1.7	1.7	1.6	0.47
Other pensions	1.1	1.1	1.4	1.6	1.7	1.6	0.48
Health care	6.0	6.4	6.9	7.2	7.3	7.3	1.34
Long-term care	1.1	1.3	1.6	1.9	2.1	2.3	1.16
Education	3.9	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	-0.17
Subsidies	1.0	1.0	1.0	1.0	1.0	1.0	0.00
Government investments	3.1	3.1	3.1	3.1	3.1	3.1	0.00
Total primary expenditure	37.8	38.8	42.3	45.3	46.2	46.1	8.33
Interest expenditure	1.9	2.4	3.4	6.6	11.3	16.8	14.96
Total general government revenue	40.3	39.4	39.1	38.9	38.8	38.8	-1.48
Assumptions (in %)							
Labour productivity growth	1.9	2.1	1.9	1.8	1.7	1.5	-0.36
Real GDP growth	3.5	2.2	1.2	1.1	1.5	1.3	-2.13
Real GDP growth per capita	3.5	2.2	1.2	1.1	1.5	1.3	-2.12
Participation rate males (aged 20-64)	84.0	84.8	84.2	84.8	85.2	84.8	0.80
Participation rates females (aged 20-64)	78.9	80.0	79.8	81.0	81.6	81.0	2.11
Total participation rates (aged 20-64)	81.6	82.5	82.2	83.1	83.5	83.0	1.44
Unemployment rate	5.1	5.6	5.7	5.7	5.6	5.7	0.59
Population aged 65+ over total population	21.3	24.7	28.0	30.8	31.3	30.4	9.09

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 2023-2026 period

	Balance as of 31.12.2023*		Balance as of 31.12.2024*		Balance as of 31.12.2025*		Balance as of 31.12.2026*	
	EUR million	% of GDP	EUR million	% of GDP	EUR million	% of GDP	EUR million	% of GDP
Guarantees of the Republic of	4,137.6	6.4	4,118.4	6.0	3,960.4	5.5	3,868.2	5.3
Including: financial sector*	669.5	1.0	669.5	1.0	669.5	0.9	669.5	0.9

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

	2022	2023	2024	2025	2026
Short-term interest rate (annual average)	0.3	2.9	2.7	2.5	
Long-term interest rate (annual average)	1.8	2.6	2.7	2.7	
USD/EUR exchange rate (annual average)	1.054	1.087	1.087	1.087	1.087
Nominal effective exchange rate	-1.1	0.4	0.0	0.0	0.0
World excluding EU, GDP growth					
EU GDP growth	3.5	0.8	1.6	1.8	1.9
Growth of relevant foreign markets	8.6	2.9	3.4	3.5	3.0
World import volumes, excluding EU					
Oil prices (Brent, USD/barrel)	100.8	85.2	80.3	75.9	72.1

Source: IMAD, Spring forecast 2023.

Additional tables

Table 9: Stock of guarantees adopted/announced until the end of 2022 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	0.1	0.1
	Act on providing additional liquidity to the economy to mitigate the consequences of the COVID-19 epidemic (ZDLGPE)	28/04/2020	3.4	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	0.3	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		**4.0**	**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	1.3	0.0
	The Act on the guarantee of the Republic of Slovenia for obligations arising from credits taken out to ensure liquidity on organized electricity markets and emission coupons and obligations from the purchase of additional quantities of natural gas outside the European Union market (ZPKEEKP)	13/09/2022	2.2	0.5
	Act on Housing Guarantee Scheme for Young People (ZSJSM)	06/04/2022	0.5	0.0
	Act on the guarantee of the Republic of Slovenia for the obligations of the company DARS, d. d., from credits and debt securities leased or issued to finance highway projects in the amount of up to EUR 392.44 million (ZPKFAP)	06/04/2022	0.7	0.0
	Subtotal		**4.7**	**0.5**
	Total		**8.7**	**1.0**

Source: Ministry of Finance.

Table 10: Discretionary measures – ESA 2010 Methodology; COVID-19

Title	Description	ESA Code	Adoption Status	Budgetary impact (% of GDP - change from previous year)						
				2020	2021	2022	2023	2024	2025	2026
Revenue measures										
TAX MEAS	Amendments to the Personal Income Tax Act	D.51	Adopted	0.00	0.00	0.00	-0.11	0.00	0.00	0.00
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	-0.76	0.30	0.03	0.01	0.00	0.00
	Deferred tax payments (excise, VAT)	D.21	Adopted	0.36	-0.54	0.08	0.08	0.02	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	0.00
Expenditure measures										
MEASURES IN THE FIELD OF LABOUR MARKET AND SOCIAL SECURITY CONTRIBUTIONS (COVID)	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 (funded by EU); 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	2.18	-1.63	-0.49	-0.05	-0.01	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	0.33	0.07	-0.40	0.00	0.00	0.00	0.00
	Wage compensations for employees in quarantine; reimbursement of short-term sick leave; part-time work; compensations for isolations	D.1	Adopted	0.01	0.00	0.01	-0.02	0.00	0.00	0.00
MEASURES IN THE FIELD OF ECONOMY, TOURISM, AND	Coverage of fixed costs for affected economic operators (companies)	D.3	Adopted	0.34	-0.06	-0.28	0.00	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 rapid	D.3	Adopted	0.13	0.03	-0.15	0.00	0.00	0.00	0.00

	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									
	Tourist vouchers (2020&2021)	D.75	Adopted	0.27	0.20	-0.31	-0.16	0.00	0.00	0.00
	Stimulation of business and development of tourism / restructuring of tourism; investments in research, development and innovation (partly funded by EU) etc.	D.3+ P.51	Adopted	0.09	- 0.01	0.00	-0.08	0.00	0.00	0.00
	Funds for guarantees for bank loans - to support companies affected by the COVID-19 crisis: State aid	D.73	Adopted	0.00	0.06	-0.06	0.00	0.00	0.00	0.00
MEASURES IN THE FIELD OF HEALTHCARE (COVID)	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	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), vaccination COVID-19 etc.	D.75	Adopted	0.22	- 0.16	0.03	-0.09	0.00	0.00	0.00
	Managing epidemics, purchase of medical, protective equipment and accessories (only small part of that measures is funded by EU); 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; urgent operational center for epidemiological investigations, prolonged hospital treatment and oxygen treatment, rapid antigen tests; financing of Health Insurance Institute of Slovenia (COVID services) etc.	P.2	Adopted	0.27	0.04	-0.17	0.02	- 0.16	0.00	0.00
	Additional funds for Health Insurance Institute of Slovenia – Article 67. ZIPRS2021; vaccination COVID-19, etc.	D.63	Adopted	0.10	0.00	-0.03	-0.06	- 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	-0.01	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; financing of Health Insurance Institute (COVID services); allowance for redeployments and increased workload and allowances for direct work with COVID patients	D.1	Adopted	0.01	0.02	0.18	-0.11	- 0.10	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	D.3	Adopted	0.00	0.07	0.03	-0.10	0.00	0.00	0.00

	testing and self-testing; rapid antigen tests for legal persons									
	Medical protective equipment, funds intended to increase health capacity; public health infrastructure, COVID-19 testing	P.51	Adopted	0.03	0.02	-0.05	0.00	0.00	0.00	0.00
	Vaccines COVID-19	P52 + P53	Adopted	0.00	0.13	-0.02	-0.11	0.00	0.00	0.00
MEASURES IN THE FIELD OF SOCIAL PROTECTION (COVID)	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 (funded by EU); assistance to providers of social care services; family care provided at home; social inclusion and poverty reduction (funded by EU) etc.	D.62 + D.63	Adopted	0.42	-0.22	-0.18	-0.01	-0.01	0.00	0.00
MEASURES IN THE AREA IN WAGES (COVID)	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	0.61	0.63	-1.20	-0.04	0.00	0.00	0.00
	Allowances and supplements for special working conditions (concessionaires, private institutions)	D.3	Adopted	0.03	0.07	-0.10	0.00	0.00	0.00	0.00
OTHER EXPENDITURE MEASURES: FOR PUBLIC SECTOR SUPPORT, ETC.	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	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	0.00
	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 rapid tests (COVID-19); aid to fire brigades; financial compensation for damage caused by COVID-19 vaccination etc.	D.73 +D.74+ D.75	Adopted	0.08	-0.01	-0.05	-0.02	0.00	0.00	0.00
	Managing epidemics, protective equipment, financing of the Information and communication technology – ICT / ICT-infrastructure (funded by EU); investments etc.	P.51	Adopted	0.02	0.02	0.00	-0.04	0.00	0.00	0.00
ON E- OFF ME	Funds to cover the damage and consequences of the fire in the region of Kras	D.75	Adopted	0.00	0.00	0.05	-0.05	0.00	0.00	0.00

Source: Ministry of Finance (own calculations).

Table 10b: Discretionary measures – ESA 2010 Methodology; Energy crisis & welfare erosion

Title	Description	ESA code	Adoption status	Budgetary impact (% of GDP - change from previous year)				
				2022	**2023**	**2024**	**2025**	**2026**
Revenue measures								
TAX MEASURES	CO2 duty reduced to 0 for petroleum products	D.21	Adopted	0.09	0.07	-0.16	0.00	0.00
	URE duty (energy efficiency contribution) reduced to 0 for petroleum products	P.131	Adopted	0.01	-0.01	0.00	0.00	0.00
	Reduction of excise duties for energy products, partial exemption from the payment of OVE (renewable energy sources) and SPTE (cogeneration with high efficiency), reduction of VAT rates for certain energy products to 9.5%	D.21	Adopted	0.26	-0.05	-0.21	0.00	0.00
Expenditure measures								
MEASURES IN THE FIELD OF ECONOMY	Financial compensation to farmers, beekeepers and businesses, assistance to economic entities due to high energy prices/ taming of inflation or to cover the losses of energy companies	D.3	Adopted	0.14	0.38	-0.52	0.00	0.00
	Financial aid to the economy due to the energy crisis	D.3	Adopted	0.20	0.42	-0.61	0.00	0.00
	Recapitalization of HSE / loss coverage	D.99	Adopted	0.83	-0.83	0.00	0.00	0.00
	Recapitalization of ELES / covering future losses	D.99	Adopted	0.29	-0.29	0.00	0.00	0.00
MEASURES FOR HOUSEHOLDS	Allowance for children, due to general increased costs	D.62	Adopted	0.06	-0.03	-0.03	0.00	0.00
	Allowance and other financial compensation for the most vulnerable groups, due to general increased costs	D.62	Adopted	0.11	-0.05	-0.06	0.00	0.00
	Solidarity allowance for pensioners and other beneficiaries of rights from public funds	D.62	Adopted	0.16	-0.16	0.00	0.00	0.00
Measures total - revenues				0.36	0.02	-0.38	0.00	0.00
Measures total - expenditures (without recapitalization)				0.68	0.55	-1.22	0.00	0.00
MEASURES TOTAL (without recapitalization)				**1.03**	**0.57**	**-1.60**	**0.00**	**0.00**
MEASURES TOTAL - expenditures (with recapitalization)				1.80	-0.57	-1.22	0.00	0.00
MEASURES TOTAL				**2.16**	**-0.55**	**-1.60**	**0.00**	**0.00**

Source: Ministry of Finance (own calculations).

Table 11: RRF impact on Programme – GRANTS

	Revenue from RRF grants (% of GDP)						
	2020	2021	2022	2023	2024	2025	2026
RRF GRANTS as included in the revenue projections		0.22	0.2	0.58	0.52	0.55	0.17
Cash disbursements of RRF GRANTS from EU		0.44	0.0	0.1	0.35	0.34	0.29
	Expenditure financed by RRF grants (% of GDP)						
	2020	2021	2022	2023	2024	2025	2026
Compensation of employees		0.00	0.00	0.01	0.01	0.01	0.01
Intermediate consumption		0.00	0.00	0.01	0.01	0.01	0.01
Social Payments							
Interest expenditure							
Subsidies, payable		0.00	0.00	0.11	0.08	0.06	0.08
Current transfers							
TOTAL CURRENT EXPENDITURE		0.00	0.00	0.13	0.10	0.08	0.10
Gross fixed capital formation		0.21	0.12	0.37	0.41	0.47	0.21
Capital transfers							
TOTAL CAPITAL EXPENDITURE		0.21	0.12	0.37	0.41	0.47	0.21
	Other costs financed by RRF grants (% of GDP)[18]						
	2020	2021	2022	2023	2024	2025	2026
Reduction in tax revenue							
Other costs with impact on revenue							
Financial transactions							

Source: Ministry of Finance.

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

Table 12: RRF impact on Programme – LOANS

	Cash flow from RRF loans projected in the Programme (% of GDP)						
	2020	2021	2022	2023	2024	2025	2026
Disbursements of RRF LOANS from EU		0.00	0.00	0.00	0.35	0.34	0.29
Repayments of RRF LOANS to EU		0.00	0.00	0.00	n.a.	n.a.	n.a.
	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	0.04	0.03	0.00
Social Payments							
Interest expenditure							
Subsidies, payable		0.00	0.00	0.00	0.00	0.00	0.00
Current transfers							
TOTAL CURRENT EXPENDITURE		0.00	0.00	0.00	0.04	0.03	0.00
Gross fixed capital formation		0.00	0.00	0.14	0.31	0.31	0.16
Capital transfers							
TOTAL CAPITAL EXPENDITURE		0.00	0.00	0.14	0.31	0.31	0.16
	Other costs financed by RRF loans (% of GDP)[19]						
	2020	2021	2022	2023	2024	2025	2026
Reduction in tax revenue							
Other costs with impact on revenue							
Financial transactions							

Source: Ministry of Finance.

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