GOVERNMENT OF THE REPUBLIC OF SLOVENIA

Draft Budgetary Plan 2023

October 2022

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1 Introduction

Fiscal policy in the coming year will continue to be influenced by exceptional circumstances, primarily stemming not from the COVID-19 epidemic as previously, but from the consequences of the war in Ukraine. The war in Ukraine and the related economic sanctions have accelerated the rise in energy and food prices and have severely deteriorated the confidence of economic agents. Future economic developments are therefore subject to a high degree of uncertainty, with downside risks prevailing. These factors relate to the course of the war in Ukraine, the situation in energy markets, the continuation of the COVID-19 epidemic, the slowdown in growth in China or in trading partners, as well as the possibility of a more rapid further tightening of monetary policy.

In the face of exceptional macroeconomic uncertainties and a deterioration in the economic outlook for 2023, the Government of the Republic of Slovenia (the Government) has prepared the budgetary documents in a way that will allow for flexible government response in the coming year in the light of exceptional circumstances, as defined by the Fiscal Rule Act. The current macroeconomic situation calls for decisive action by the Government to alleviate the rising prices with significant financial implications. Uncertainties complicate the setting as well as the achievement of fiscal targets, and fiscal policy will need to be further adjusted if risks materialise. The envisaged fiscal policy also takes into account the fact that the general escape clause will remain in force at the EU level in 2023, as confirmed by the European Commission in its Communication on the 2022 European Semester Spring Package of 23 May 2022.

Despite the absence of fiscal policy guidance at European Union (EU) level after 2023, the Government plans to gradually reduce the government deficit in 2024. Such a plan complies with the anticipation that the general escape clause will be deactivated in 2024 at the EU level, and that the conditions of exceptional circumstances referred to in the Fiscal Rule Act will no longer be met at the national level. However, an immediate correction of the structural imbalances is not foreseen in 2024, as this could jeopardise economic activity. Once the exceptional circumstances have ended, a medium-term fiscal strategy for achieving balanced public finances, including a programme of measures to achieve the Government's fiscal targets – an exit strategy – will also need to be formulated in line with Article 14 of the Fiscal Rule Act. It will be important to ensure that achieving the fiscal targets does not depress economic growth, as happened after the global financial crisis. Fiscal adjustment therefore needs to be designed in a prudent and gradual manner, while allowing for sufficient investment for the future (including to meet green and digital transition targets).

In line with the above, the Government projects a general government deficit of 5% of GDP in 2023, falling below 3% of GDP in 2024, based on the assumptions of the draft State Budget, the completion of the EU 2014-2020 Multiannual Financial Framework and due to the reduction of COVID-19 and welfare-related expenditure. The objectives are presented in the amendments to the framework for the preparation of general government budgets for the period between 2022 and 2024, which was submitted to the National Assembly for adoption together with budgetary documents for the next two years. The changes are necessary because the fiscal targets were set in 2021 on a different macroeconomic basis. Since then, the nature of the crisis has also changed, shifting from demand to the supply side, inflation has increased, and the underlying aggregates of the general government sector for previous years have been revised. Government debt as a share of GDP is estimated to decline by 0.5 percentage point in each of the following two years.

Table 1: Target balances and the maximum permitted expenditure of public finance budgets and public debt in % of GDP

		2022	2023	2024
General government	***Target balance (in % of GDP)***	***-3.9***	***-5***	***-2.2***
	Maximum permitted expenditure (in mio EUR)	***27,380***	***30,055***	***29,570***
State budget	*Target balance (in % of GDP)*	-3.6	-5.4	-2.6
	Maximum permitted expenditure (in mio EUR)	14,580	16,700	15,510
Municipal budgets	*Target balance (in % of GDP)*	0.0	0.0	0.0
	Maximum permitted expenditure (in mio EUR)	2,795	2,955	2,990
Pension fund	*Target balance (in % of GDP)*	0.0	0.0	0.0
	Maximum permitted expenditure (in mio EUR)	6,740	7,065	7,580
Health fund	*Target balance (in % of GDP)*	0.0	0.0	0.0
	Maximum permitted expenditure (in mio EUR)	4,100	4,340	4,590
Public debt	***in % of GDP***	***71.5***	***71.0***	***70.0***

Source: Ministry of Finance.

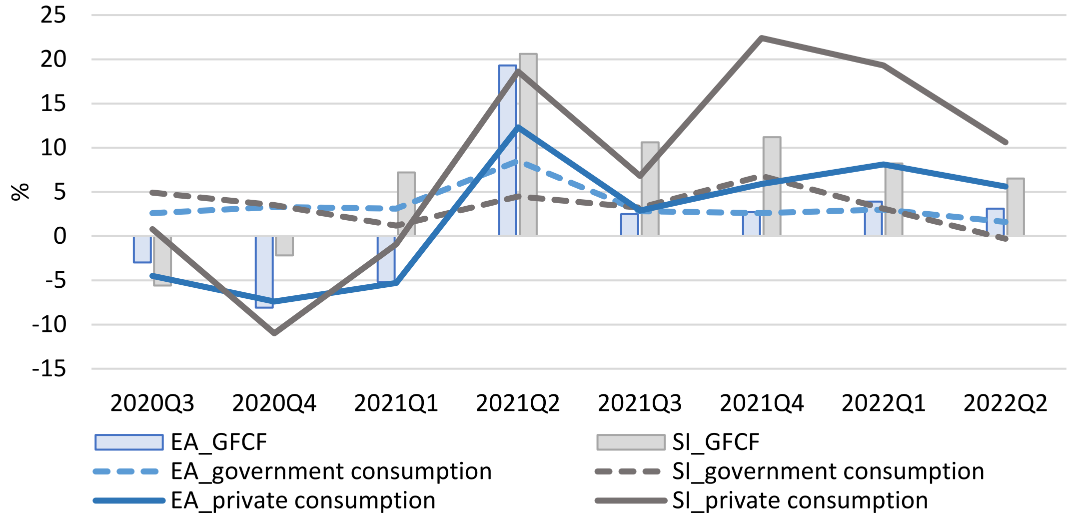
2 Economic outlook and expectations

In 2021, economic activity in Slovenia increased by 8.2%. Growth continued in the first half of 2022, reaching 8.9%. In the second half of 2022, economic activity is expected to moderate considerably. The Institute of Macroeconomic Analysis and Development (IMAD) projects 5.0% GDP growth in its Autumn Forecast for 2022, which is 0.8 percentage points higher than in the Spring Forecast, mainly due to higher private consumption growth and a high contribution from the change in inventories in the first half of the year.

Economic activity in the euro area grew by 4.8% in the first half of 2022, mainly due to a strong recovery in consumption and services. According to available data and sentiment indicators, economic activity in the euro area started to slow down in the third quarter of 2022. Against the backdrop of a rapidly deteriorating international environment, economic growth in Slovenia is also expected to moderate to 1.4% in 2023 and, in the absence of shocks, to increase to 2.6% in 2024.

The war in Ukraine and the resulting rapid increase in energy and food prices have led to a deterioration in confidence indicators and increased pressures in global supply chains, which has greatly reduced global economic activity. The high dependence on Russian fossil fuels makes European countries particularly exposed to changes in energy markets. Nevertheless, there are factors that will contribute to mitigate these negative impacts, in particular the resilience of the labour market, the projected moderation of inflation, the support from the Recovery and Resilience Mechanism and the still high household savings.

Figure 1: Growth of gross fixed capital formation, government and private consumption in euro area and Slovenia compared to the same period of the previous year, 2020Q3-2022Q2



Source: Eurostat.

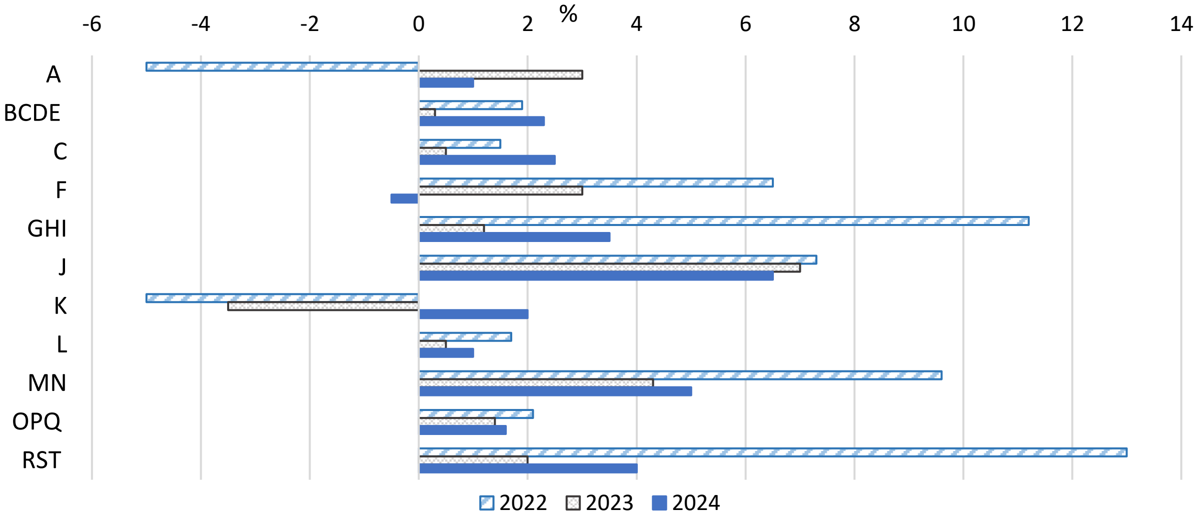
The high growth rates of private consumption in the first half of 2022 were driven by the relaxing of the austerity measures, the high level of employment, the redemption of vouchers and the low base from the first half of 2021. Private consumption in Q2 2022 has already decelerated under the impact of high prices and energy and food price uncertainty, and is expected to continue to do so in the second half of the year. Gross disposable income will decline in real terms in 2022, mainly due to the impact of price increases. Real private consumption growth is projected to almost halve to 5.4% this year, moderate to 0.3% in 2023 and pick up again in 2024. The propensity to save will remain lower throughout the forecast period than before the epidemic.

Investments are not expected to increase in the second half of 2022 due to unfavourable conditions in the international environment. However, gross fixed capital formation is expected to grow by 6.5% in 2022 and is projected to gradually moderate over the following two years. The level of investment activity this year and next year is also influenced by government investment (completion of the EU 2014-2020 Multiannual Financial Framework, EU funding for the recovery from the COVID-19 epidemic). However, the level of private sector investment has been negatively affected mainly by high prices of capital goods and construction materials and rising interest rates.

Mainly due to lower expenditure to mitigate the impact of the epidemic, government consumption growth is projected to be lower in 2022 than in the previous two years, at 1.4%. Government consumption growth is set to pick up slightly again in 2023 and 2024, to 1.7% and 1.9% respectively, mainly due to intervention measures in the health sector to stabilise the situation and reduce patient waiting times.

Lower private consumption will have a downward impact on growth or value added in some services, notably retail trade, motor vehicles, accommodation, food services, cultural, entertainment, personal and sporting activities. However, the increase in the number of foreign tourists in Slovenia in 2022 has had a positive impact on the growth of tourism-related services. The number of overnight stays by foreign tourists in July 2022 was similar to that in July 2019 for the first time since the epidemic. High prices will continue to limit purchasing power in 2023 and maintain caution in spending on non-essential goods and services. They will also have a downward impact on value added growth in trade, hospitality, cultural, entertainment, personal and sporting services.

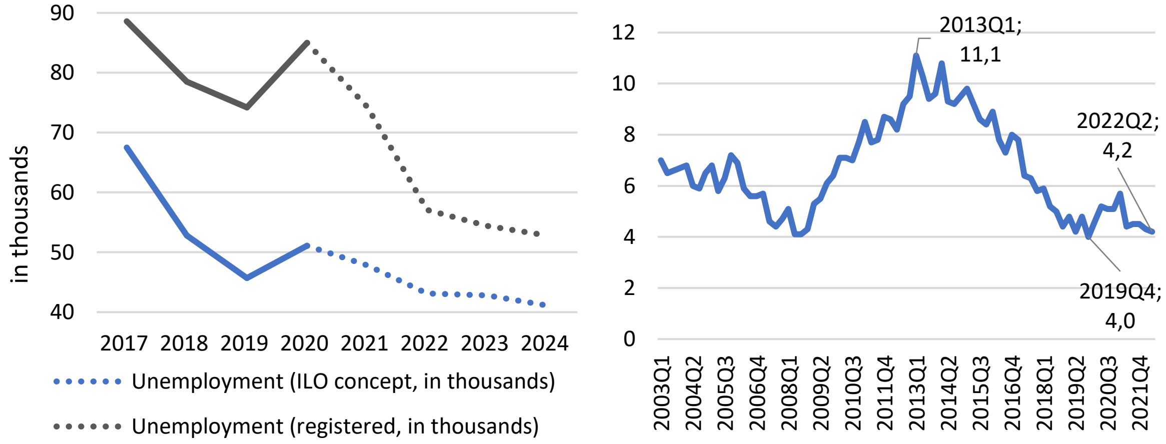
Figure 2: Forecast of gross value added growth by NACE activity (real growth rates in %)



Legend: A Agriculture, forestry and fishing; BCDE Mining and quarrying, manufacturing, electricity and water supply, waste management; C Manufacturing; F Construction; GHI Trade, transportation and storage, accommodation and food service activities; J Information and communication; K Financial and insurance activities; L Real estate activities; MN Professional, scientific, technical, administrative and support services; OPQ Public administration, education, human health and social work; RST Other service activities.
Source: IMAD Autumn Forecast 2022.

Employment has increased further in 2021 and registered unemployment has fallen to 7.6% (4.7% according to the ILO concept). A similar trend continued in the first half of 2022, when employment was highest in the hospitality, construction and manufacturing sectors. However, these industries are still facing labour shortages. The higher demand for labour has continued to reduce the number of registered unemployed people in 2022, which fell to 53,935 at the end of August. This is 22.2% less than in August 2021 and 24.6% less than before the epidemic (August 2019). With economic activity expected to moderate and with a shortage of adequate labour, employment is expected to fall significantly over the next two years. The ILO unemployment rate remained low in Q2 2022, at 4.2%, and was only 0.2 percentage points higher than the historical low in Q2 2019 (Figure 4).

Figure 3 and 4: Number of unemployed in thousands (left) and ILO unemployment rate in % (right)

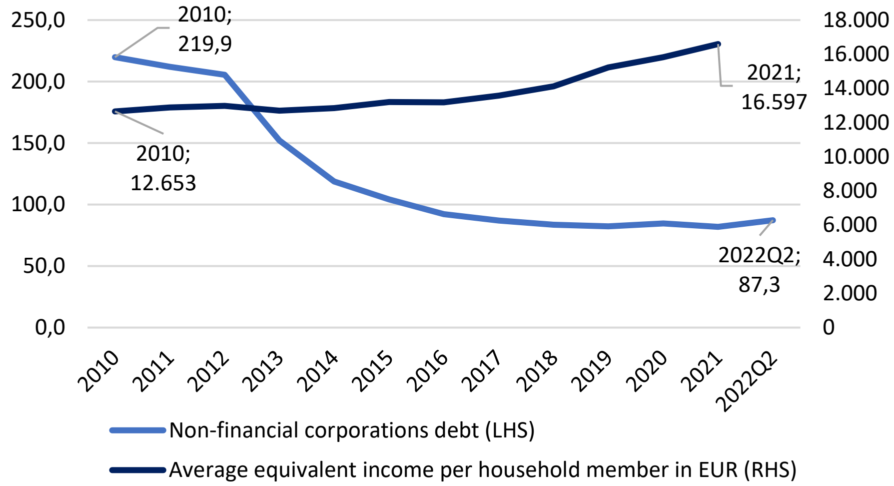


Source: IMAD Autumn Forecast 2022; Eurostat.

Average gross wage growth was negative in the first half of 2022 due to the cessation of wage growth in the public sector (end of epidemic bonuses). Average gross wages in the private sector increased in nominal terms (4.9%) in the first half of 2022, but with inflation this implies a fall of -1.5% in real terms. Due to labour shortages, the increase in the minimum wage and the tendency to maintain income growth in the face of high inflation, average gross wages in the private sector are set to increase in nominal terms (by 5.5%) and fall in real terms (by 3.1%) in 2022. In the public sector, it will fall in nominal and real terms (by 2.7% and 10.6% respectively). Thus, average gross wage growth in 2022 will be 2.2% in nominal terms, while real wages will fall by 6.2%. Wage growth will increase next year (by 6.0% in nominal terms, although unchanged in real terms).

The financial position of households and financial corporations remains sound. Household indebtedness remained low in the first half of 2022 (Bank of Slovenia)[1] and household disposable income increased further in 2021 (Figure 5). Non-financial corporations debt held steady at 87.3% of GDP in Q2 2022, despite an increase in debt financing amid a rebound in economic activity (Figure 5).

Figure 5: Non-financial corporations debt (in % of GDP) and disposable income per household member (in EUR)

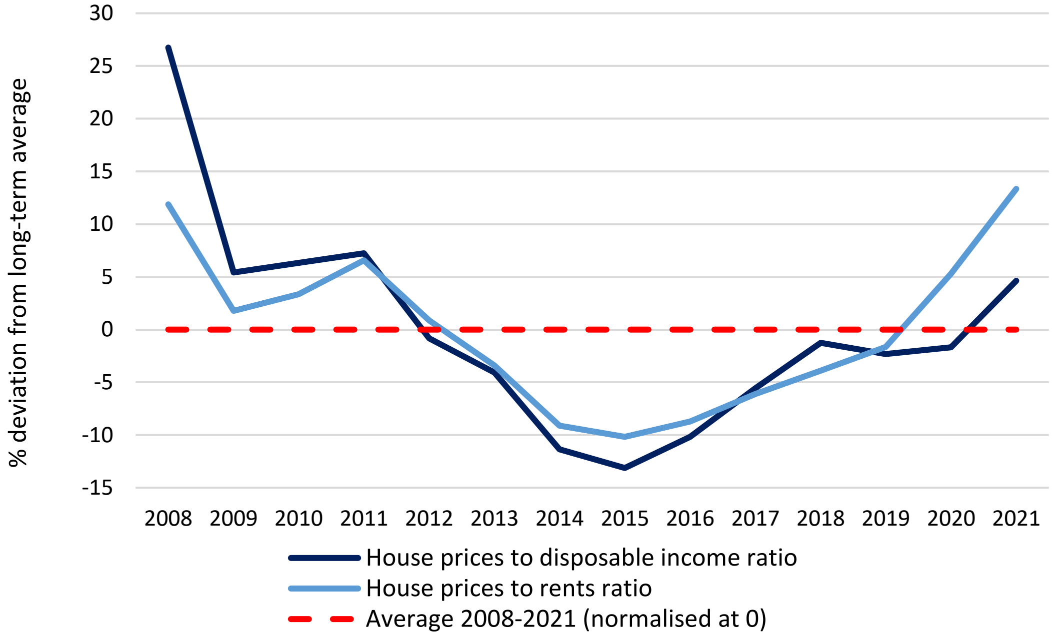


*Note: Annual data for average equivalent income per household member, quarterly data for non-financial corporations debt (Q4 except in Q2 2022).
Source: Euro Area Statistics; Statistical office of the Republic of Slovenia (SORS).

Indicators of relative overvaluation of dwellings already suggested that house prices had become overvalued in 2021 (Figure 6). Indeed, the ratio of disposable income to house prices exceeded its long-term average (2008-2021) by 4.6% last year and the ratio of house prices to rents by 13.3% (although the latter was already 5.3% higher than the long-term average in 2020). In its October Financial Stability Review, the Bank of Slovenia warned that the deviation from long-term average had widened further in the first quarter of 2022 and remained at high levels in the second quarter, and could widen further as house prices continue to rise.

[1] Bank of Slovenia (2022). Financial Stability Review, October 2022. Available at: https://www.bsi.si/publikacije/porocilo-o-financni-stabilnosti.

Figure 6: House prices to disposable income ratio and house prices to rents ratio (in % of deviation from their 2008-2021 average)



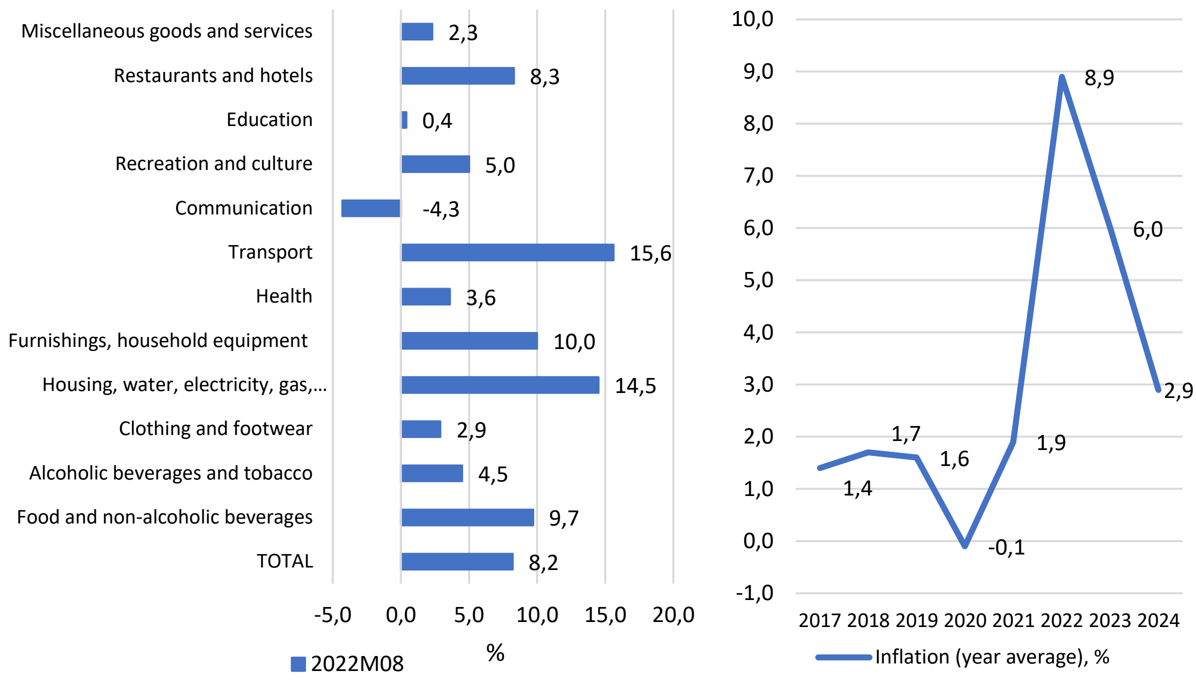
Source: SORS; Ministry of Finance, own calculations.
*Note: A positive deviation of the indicator from its long-term average (0) shows an overvaluation, while a negative one shows an undervaluation of house prices.

Consumer price inflation has been increasing in 2022 and is expected to remain high until the end of the year. Assuming that price pressures ease, it would not approach the level of 2% until the end of 2024. Price growth averaged 8.2% in the first eight months of 2022 compared to the same period of the previous year. The main contributor to price growth has been higher energy prices - mainly due to the tighter geopolitical situation, but also due to stronger demand in a favourable economic environment. All of this has also had an impact on food prices, which had already started to rise at the end of 2021.

The rise in prices of non-energy industrial goods and services was mainly driven by problems in supply chains, an increase in demand for services, labour shortages and the associated upward pressure on wages. Prices increased by 6.5% and 4.5% respectively in the first eight months of 2022 on average compared to the same period the previous year. Consumer price inflation will thus average 8.9% in 2022, falling to 6% in 2023 and 2.9% in 2024.

In 2023, food and services prices are expected to remain relatively high, while energy prices are projected to rise at a slower rate than in 2022. As projected by the IMAD, price growth will remain elevated until the end of the forecast horizon, also due to at least part of the spill-over from higher prices into wage growth and the potential for an inflationary spiral. The ECB's interest rate hikes are also expected to make a significant contribution to the decline in inflation.

Figure 7: Inflation by groups (average in year/average of the same months of the previous year) and inflation forecast (in %)



*Housing, water, electricity, gas and other fuels.
Source: SORS; IMAD Autumn forecast 2022.

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. Defining the duration of business cycle in real time is challenging, as the uncertainty around the estimates of the output gap, particularly at the end of the sample, is substantial (Orphanides and Van Norden, 2002)[2]. In addition to the method used to calculate the output gap, the uncertainty of estimates is further impacted by the method of calculating potential output, revisions of the macroeconomic data, the length of included series and changes in the macroeconomic forecasts. Frequent and substantial revisions of macroeconomic data and economic forecasts that are present when an exogenous shock (such as the COVID-19 crisis and Russia's invasion of Ukraine) occurs are thus one of the key sources of deviations between the target and attained values of fiscal objectives and thus assessments of compliance with fiscal rules.

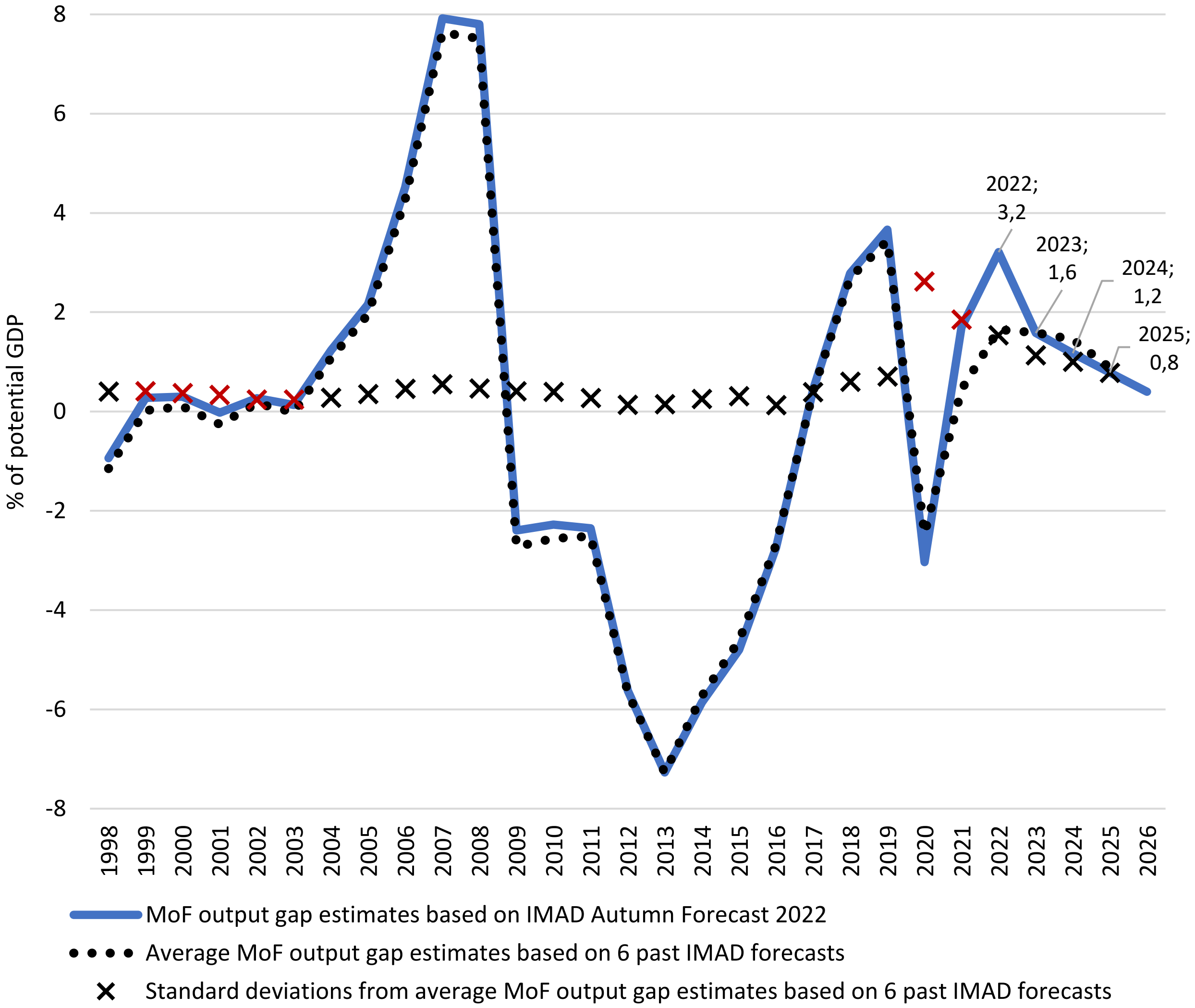
The bias in output gap estimates during the crisis years is also reflected in the high variability of estimates based on different macroeconomic forecasts. Indeed, the absolute value of the average estimate of the output gap by the Ministry of Finance, based on the last six IMAD forecasts (shown by the dotted line in Figure 8), exceeded its standard deviation for 2020 and 2021 (crosses in red in Figure 8).

Given the uncertainty surrounding the impact of the war in Ukraine on real and potential economic activity, estimates of the output gap remain extremely uncertain also for the coming years.

[2] 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.

According to the Ministry of Finance's spring 2022 estimates, real GDP was projected to exceed potential GDP by 2.6% in 2022, with the positive output gap continuing to widen until 2023 and gradually closing over the forecast period thereafter. The latest estimates of the Ministry of Finance, based on the IMAD Autumn Forecast 2022, foresee a higher positive output gap in 2022 (3.2%), which is expected to be halved in 2023 and to close by around 0.4 percentage points per year over the next three years (blue line in Figure 8). This revision is mainly due to a higher estimate of real economic growth for this year (the IMAD Autumn Forecast 2022 projects 0.8 percentage point higher growth than the Spring Forecast 2022) and lower real growth in 2023 (by 1.6 percentage points) and in 2024 (by 0.2 percentage point).

Figure 8: Ministry of Finance (MoF) output gap estimates based on IMAD Autumn Forecast 2022, average estimates of MoF output gap based on 6 past IMAD forecasts and its standard deviations



Source: IMAD; AMECO; Ministry of Finance, own calculations.
*Note: in red, the standard deviation of the average estimate of the Ministry of finance output gap based on 6 past IMAD forecasts for a given year exceeds the average value (in absolute terms).

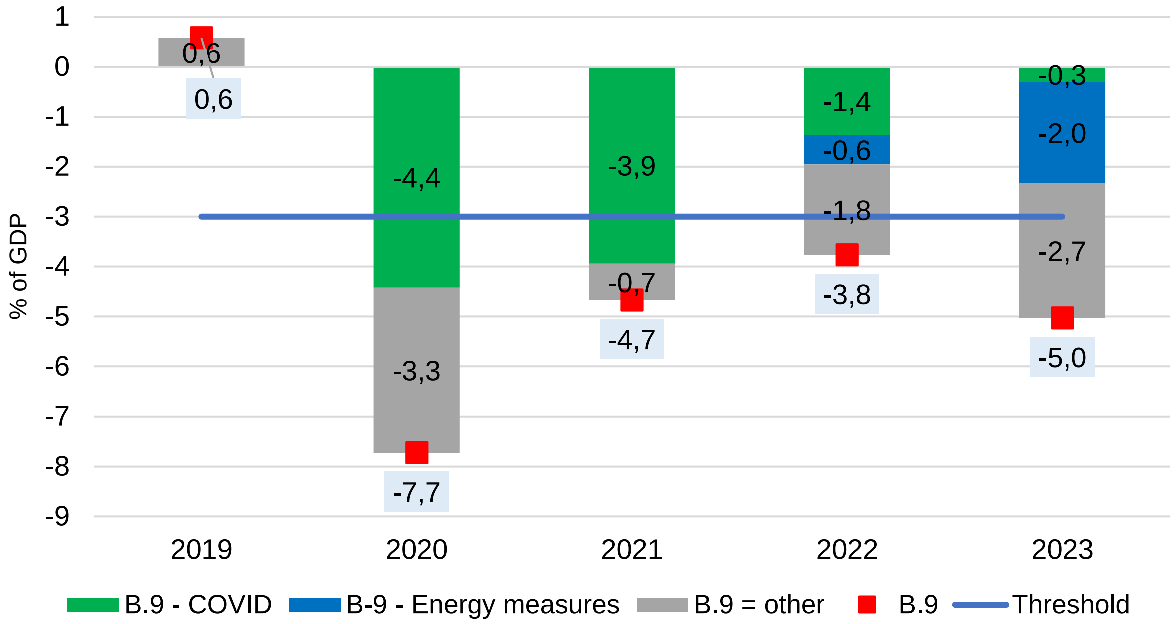
There is also considerable variability in output gap estimates between different macroeconomic institutions, due to different input data as well as different methodologies for calculating the output gap. The IMAD, which, like the Ministry of Finance, estimates the output gap on the basis of the EU common methodology (EUCAM) (Blondeau, Planas and Rossi, 2021)[3], projects a similar path of the business cycle in its Autumn 2022 Forecast as the Ministry of Finance, however, due to the lower estimate of potential output growth, projects a slightly higher value of the positive gap in 2022 and a slower closure of the positive gap by 2027.

The strong sensitivity of the output gap estimate to the calculation methodology used is particularly relevant for Slovenia, as the suitability of the EUCAM methodology for modelling the Slovenian business cycle is questionable. The 'Plausibility tool' suggests that EUCAM underestimates the size of the output gap in times of economic downturn (Hristov, Raciborski and Vandermeulen, 2017)[4]. The unbiasedness of real-time output gap estimates, especially during economic contractions, is of utmost importance, as assuming a shorter (longer) cycle than the actual one can lead to cyclically restrictive (expansionary) fiscal policy, which can undermine the economic recovery or even lead to a permanent reduction in long-run economic growth.

3 Fiscal scenario for 2023 and measures

In 2023, fiscal policy will focus on measures to alleviate the impact of the energy crisis and rising prices. At the same time, it will continue to maintain a high level of investment and ensure continued sustainable growth. In the meantime, the scope of the measures to address the consequences of COVID-19 will be gradually reduced. According to the estimations of the Ministry of Finance, as a result, the deficit in 2023 will amount to -5% of GDP. Excluding crisis measures the deficit would fall below 3% of GDP in 2023.

Figure 9: Nominal general government balance (B.9) including and excluding temporary measures



Source: Ministry of Finance.

[3] 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.

[4] 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.

In 2022, we estimate that the size of the measures to address energy crisis and inflation will be around 1% of GDP (total revenue and expenditure). In 2023, we are currently projected to spend around 2% of GDP on measures. Significant resources are also planned for guarantees to support state-owned companies operating on international energy markets and recapitalisations. Pursuant to the Implementation of the Republic of Slovenia Budget for 2022 and 2023 Act, the guarantees in the amount of EUR 1.6 billion for 2022 and EUR 630 million for 2023 are enabled. In the new draft Implementation of the Republic of Slovenia Budget for 2023 and 2024, the amount of the maximum guarantees for 2023 has been increased to EUR 2.8 billion. In 2022 and 2023 combined, just over EUR 1.4 billion is planned for recapitalisations. The increase in the latter is necessary due to the country's rapid response to the volatile energy markets and the associated risks to the supply of energy to citizens and businesses.

Measures can be classified as those that have an impact on the income and living standards of the target groups and those that have an impact on prices.

Income is affected by incentives targeted at the most vulnerable groups of the population, such as recipients of cash social assistance and welfare benefits as well as people with disabilities. Beneficiaries will receive an energy allowance in the period from November 2022 to March 2023. Child allowances will also be increased from November 2022 to January 2023 to mitigate the effects of the high prices.

Businesses can obtain incentives to cover the impact of high electricity and natural gas prices from September 2022 until the end of the year. Measures for businesses are also planned for 2023. Farmers also benefit from support to reduce production costs.

In the field of education, the state budget will cover the difference in the price of meals and maintenance fees for students' dormitories. The intervention act also sets a maximum price for students staying in public student residences with a subsidy. In connection with the increase in prices, the tax-free amount of reimbursement of transport and food expenses has also been redefined.

Among the measures affecting prices, measures in the tax area are in force, including a reduction in value added tax (VAT) from 22% to 9.5% for electricity, gas, heating and firewood, and a 50% reduction in excise duties on energy, in line with the excise law or reduced to the EU minimum. Temporary measures were also initially implemented whereby the Government reduced levies on fuels with CO2, energy efficiency and renewable resources to reduce prices, although these are now back in force.

In the area of price regulation, the Government capped fuel prices for a period of one year by modelling them on a 14-day average of international market prices and set maximum trading margins for certain fuels. Electricity prices for private consumers and small businesses are capped and natural gas prices for households are capped.

The Act on Energy Crisis Management Measures contains a number of measures to make energy consumption more efficient and less energy intensive. These include limiting heating in public buildings and limiting the use of "public lighting".

It should be pointed out that other measures also have an indirect impact on tackling the effects of the rising prices, such as bringing transfers to individuals and households in line with inflation. Investments that will allow alternative energy sources and reduce dependence on the Russian market are also important.

In the context of the crisis, funds are also being allocated to help Ukraine and Ukrainian people in Slovenia. This includes material assistance in the form of protective and military equipment, humanitarian aid and the establishment of a centre for the accommodation and care of people from Ukraine. Social protection and the integration of children in education are also provided for people from Ukraine. We consider the funds that are also provided in subsequent years as a one-off expenditure.

The one-off expenditure also includes measures to stabilise and resilience the health system after COVID-19. The intervention law will allow for additional programmes and reduction of patient waiting times. The one-off expenditure in 2022 also includes a significant amount of funds related to the Karst fire. In addition, other forms of compensation paid from the state budget and denationalisations are also included in non-recurrent expenditure.

The Government will address medium-term fiscal policy in the exit strategy with a roadmap of measures to achieve sustainable growth, an appropriate level of investment and ensuring a gradual reduction of the deficit. The strategy will be prepared after the end of the exceptional circumstances, in line with Article 14 of the Fiscal Rule Act and the EU-level orientations for future fiscal policy. The macroeconomic environment has changed and with each new forecast the outlook for the next year deteriorates. We therefore need to be responsive and act swiftly where necessary.

International institutions such as the OECD and the IMF are highlighting the need to address the energy crisis and rising prices with temporary and targeted measures. In particular, care must be taken to ensure that stimulus does not permanently raise expenditure in times of inflation. Investment in clean technologies and energy efficiency should also be pursued alongside short-term measures to ensure energy security and diversification of supply, as well as reduce energy consumption. Measures to facilitate resilience of social protection systems are also important to address the impact of rising prices and must be one-off and targeted. Credible fiscal frameworks will contribute positively to setting medium-term fiscal policies. The structure of public finances will also need to be reviewed to ensure a sufficient level of investment.

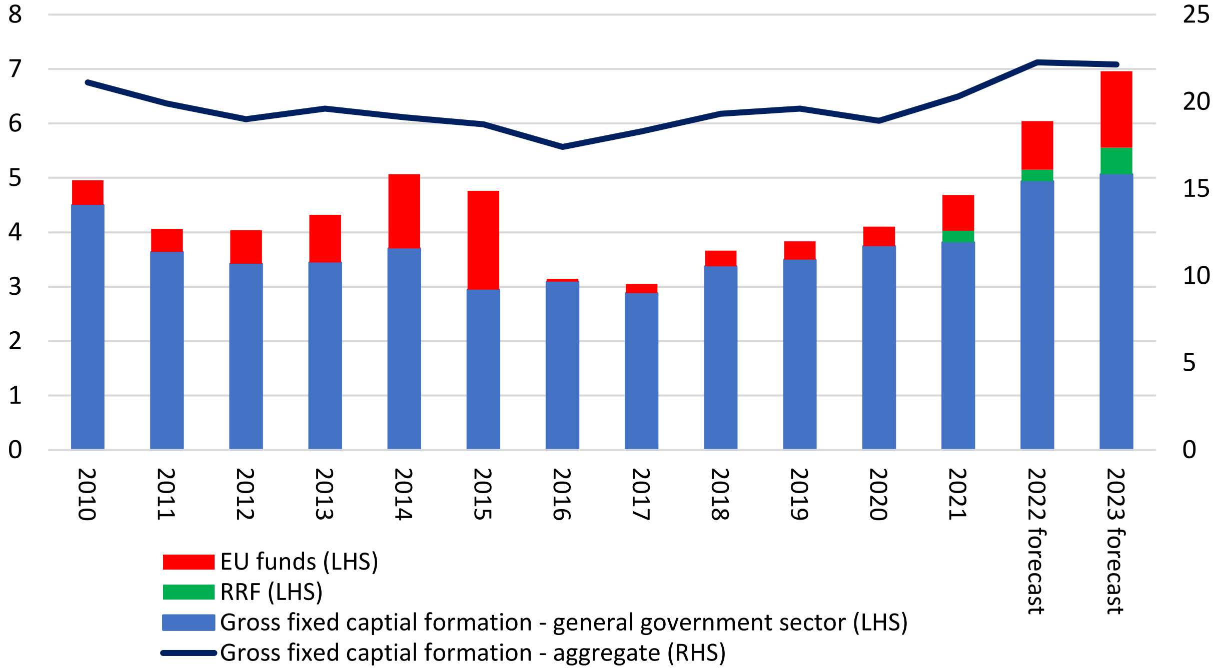
The general escape clause will remain in force at the EU level in 2023, as confirmed by the European Commission in its Communication on the 2022 European Semester - Spring Package of 23 May 2022. At the national level, the Government asked the Fiscal Council on 15 September 2022 to prepare the assessment of existence of exceptional circumstances in 2023. The council provided the assessment on 26 September 2022. On this basis, the Government has established the existence of exceptional circumstances in 2023 and has accordingly drafted an Ordinance amending the Ordinance on the framework for the preparation of general government budgets for the period 2022 to 2024 in so far as it relates to 2023 and 2024. In light of the uncertainties stemming primarily from the war in Ukraine, inflationary pressures and disruptions in global supply chains, the general escape clause and the applicability of exceptional circumstances allow for adequate flexibility in the conduct of fiscal policy to address the consequences of the war in Ukraine, the energy crisis and inflation. More detailed guidance for the post-2023 conduct of fiscal policy is not yet available, as the debate on changes to the fiscal rules at EU level is still ongoing. The Eurogroup has also regularly discussed the orientations for fiscal policy in the light of uncertainty and the coordination of action against the increase in prices. In its statement of early October 2022, it underlines the responsibility of countries to mitigate the effects of the energy crisis and rising prices, which is why a number of general and targeted measures have been adopted in recent months to protect households and businesses with a significant impact on public finances, while Ministers have also committed to future action targeting the most vulnerable. The

Eurogroup statement also underlines the importance of investments aimed at the energy transition.

Fiscal policy is on track with the recommendations, as the share of government investment will be high in 2023 (around 7% of GDP – Figure 10). Significant investments will be made in railway infrastructure and in the resilience of social protection and security systems. Other general government units will also make an important contribution to investment growth. Investment by public institutions will be up by 4.9%, investment by public funds will be up by 57.2% (mainly at the expense of investment in housing), and investment by SOEs will also make a significant contribution, especially in the area of railway infrastructure. These will increase by 13.5% in 2023, on top of the already high levels in 2022.

The Government is implementing green and digital investments with its own resources and support from various EU mechanisms. Investments under the Recovery and Resilience Plan (RRP) are also an important part of this. There will also be a large volume of investment from ReactEU in 2023. In the coming years, investment will need to be kept at a high level to ensure growth, productivity and the green and digital transition.

Figure 10: Investment funds in % of GDP



Source: SORS; Ministry of Finance.

<u>Green investments</u>

In 2023, the majority of investments will be in rail infrastructure, both for connecting and providing adequate interchanges. The completion of the Divača-Coper rail route (EUR 271.4 million) remains a key project.

Investments in the drinking water supply (EUR 9.5 million) and wastewater management (EUR 9.5 million) continue. EUR 46.9 million will be spent on upgrading and raising the embankments of the left and right banks of the river Mura and on the improvement of the Savinja and Rečica rivers in the Laško area. Small and medium-sized enterprises (SMEs) will receive EUR 20 million for a strategic sustainable circular business transformation in the period 2022-2025. An infrastructure centre for seed, nursery and forest protection will also be established. In the areas of R&D and investment, EUR 163 million in public tenders will ensure that newly developed products, services and processes have a positive impact in the circular economy and climate change prevention.

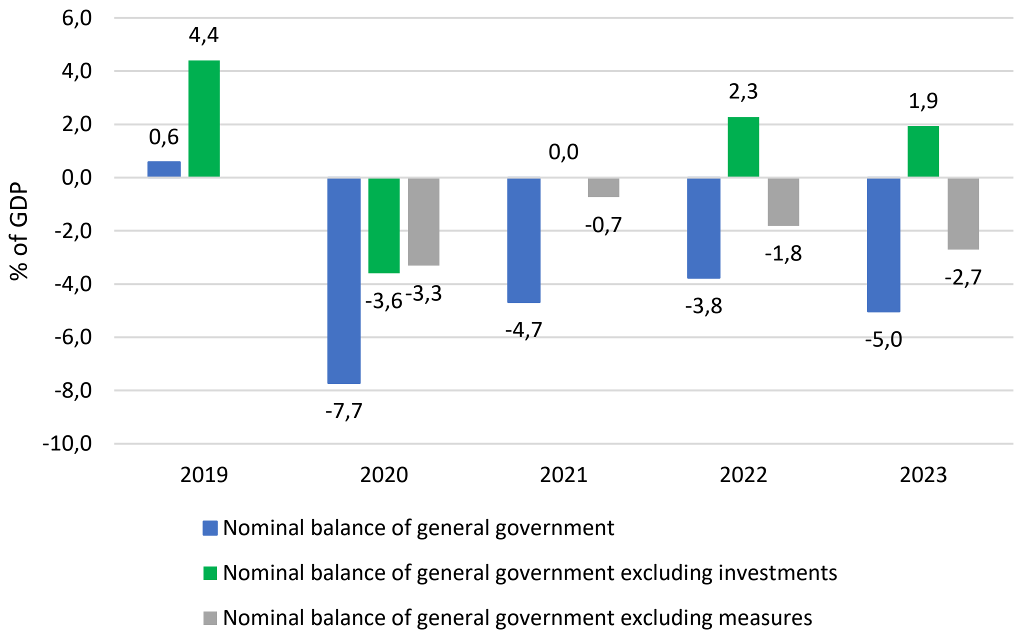
Digital transformation

By the end of 2023, projects to build gigabit infrastructure (EUR 27.8 million of cohesion funding) will be completed, providing 15,000 households with adequate broadband internet access. Adequate access to computer networks will be provided to educational establishments (HEIs) at a cost of EUR 15.2 million. EUR 28.7 million will be earmarked for eForestry and digitisation of livestock databases. The Green Slovenian Location Framework project will connect the environmental and spatial data infrastructure with all subsystems, at a cost of EUR 8.2 million.

The SME Digital Transformation projects (P4D React EU) are underway and will support 311 digital transformation projects in the SME in 2022, with EUR 30 million of EU funding and EUR 43.8 million from the RRF.

With a high level of investment funding, adequate monitoring and efficiency must be ensured. If investments are excluded from expenditure, a general government surplus would be reached in 2023 (Figure 11).

Figure 11: Nominal general government balance including and excluding gross fixed capital formation and measures (in % of GDP)



Source: SORS; Ministry of Finance.

For Slovenia, the IMF (2020[5]) estimates that public investment has a more stimulating impact on the macroeconomic environment than the EU average. According to the IMF (2020), an increase in European Structural and Investment Funds of 1% of GDP in Slovenia (and Central and Eastern European countries) over the course of a year is followed by an increase in output of between 1.3% and 1.6%. According to the IMF (2020), the increase in public investment in

[5] IMF (2020). “The Fiscal Multiplier of European Structural Investment Funds: Aggregate and Sectoral Effects with an Application to Slovenia.” *Working Paper April 2021*.

Slovenia also results in a larger crowding-in of private investment than at the EU average (private investment in Slovenia increases by 1.3%, while in the EU by 0.8%) and in a relatively higher increase in employment (one-year multiplier in Slovenia amounts to between 0.1 and 0.2%).

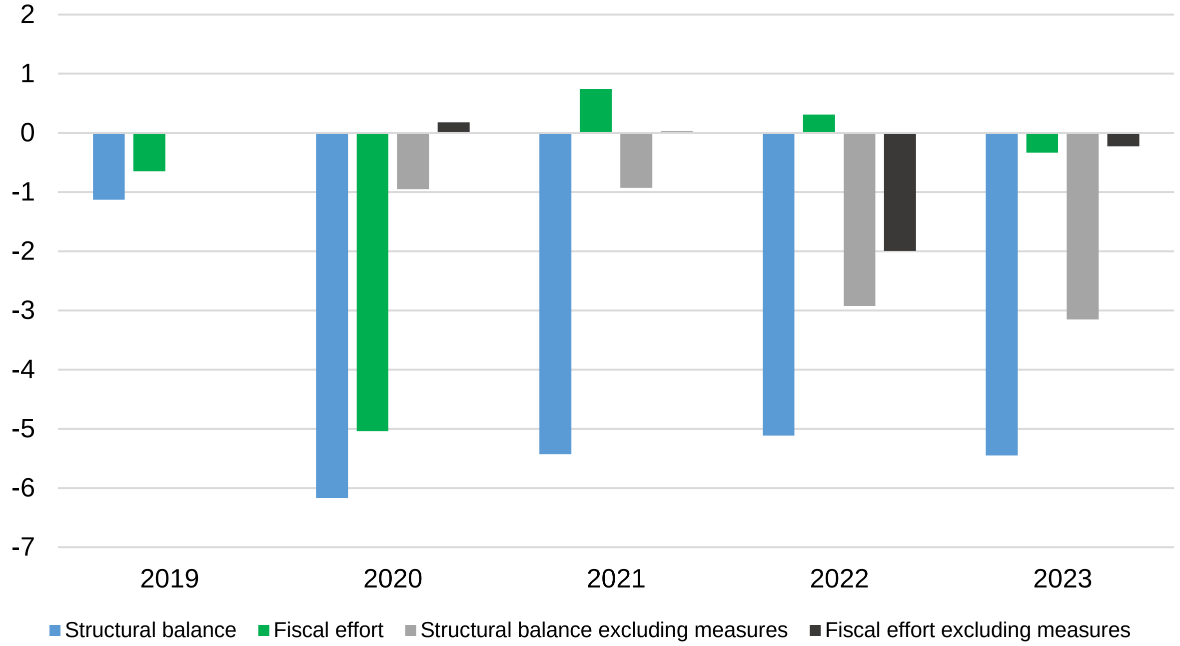
Table 2: Cyclical developments

	% of GDP	**ESA code**	**2021**	**2022**	**2023**
1.	Real GDP growth (%)		8.2	5.0	1.4
2.	Net lending/borrowing of general government	B.9	-4.7	-3.8	-5
3.	Interest expenditure	D.41	1.3	1.1	1
4.	One-off and other temporary measures		0.0	-0.16	-0.32
4a.	Of which one-offs on the revenue side: general government		0.0	0.0	0.0
4b.	Of which one-offs on the expenditure side: general government		0.0	-0.16	-0.32
5.	Potential GDP growth (%)		3.2	3.4	3.0
	Contributions:				
	- Labour		1.3	1.4	1.1
	- Capital		0.6	0.7	0.7
	- Total factor productivity		1.3	1.3	1.2
6.	Output gap in % of potential GDP		1.7	3.2	1.6
7.	Cyclical budgetary component		0.8	1.5	0.7
8.	Cyclically-adjusted balance (2-7)		-5.5	-5.3	-5.8
9.	Cyclically-adjusted primary balance (8+3)		-4.2	-4.1	-4.7
10.	Structural balance (8-4) in % of potential GDP		-5.4	-5.1	-5.4
11.	Fiscal effort in percentage points of potential GDP		0.7	0.3	-0.3

Source: SORS; Ministry of Finance; IMAD.

Since the activation of the general escape clause at EU level, the European Commission does not assess the fiscal stance using the structural balance and, consequently, potential GDP and output gap calculations. The fiscal stance as measured by the structural balance and effort is already unreliable in normal times, and in the current situation the bias of calculations based on unobserved variables has been further increased.

Figure 12: Structural balance (in % of potential GDP) and fiscal effort (in percentage points of potential GDP) including and excluding measures

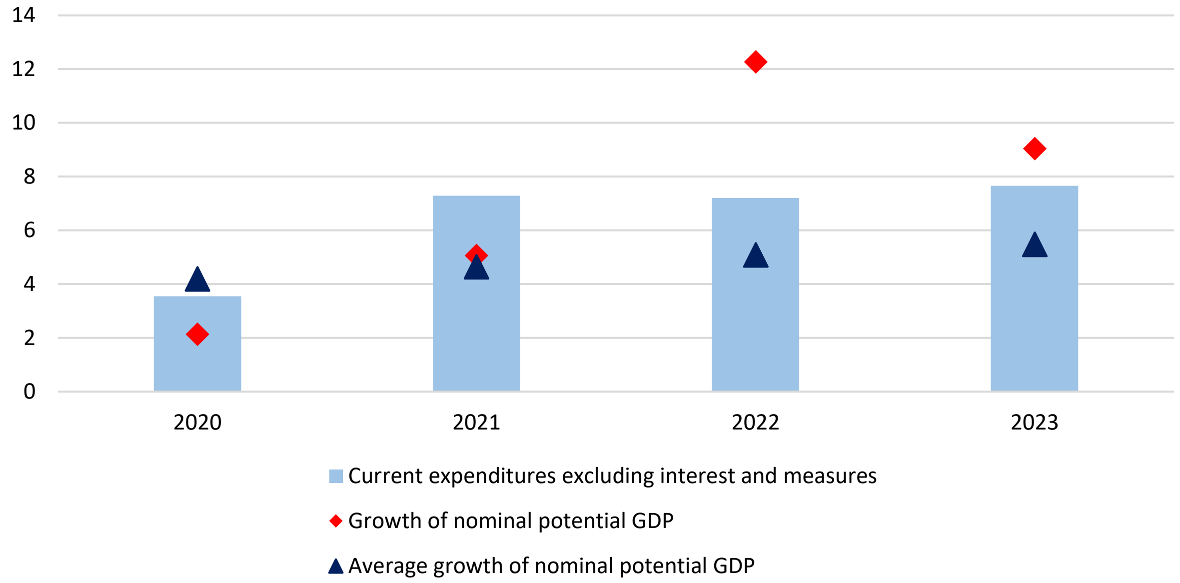


Source: Ministry of Finance.

In times of the activation of general escape clause, anti-crisis measures are not considered to be one-off measures. As a result, the cyclically-adjusted balance was not cleared of one-off expenditures over the period, leaving the structural balance high. As a result of the planned measures, the estimate of the structural balance in 2023 remains almost the same as this year. If the anti-crisis measures were taken into account as one-off expenditures, the structural balance would be halved. If a fiscal effort of 0.5 percentage points of potential GDP was required in line with the Stability and Growth Pact, expenditures would have to be reduced by at least EUR 500 million in nominal terms, which would reduce the Government's ability to act.

The revised method of assessing the fiscal position has led to a closer monitoring of current expenditure growth. The basic orientation proposed by the Commission in the context of the European Semester and endorsed by the EU Council in its recommendations to Slovenia in the context of the European Semester 2022 was that fiscal policy should be, taking into consideration investment growth, neutral in 2022. However, since the adoption of this year's recommendations, the situation has deteriorated and uncertainty has elevated, and countries are again taking significant action through targeted and temporary measures.

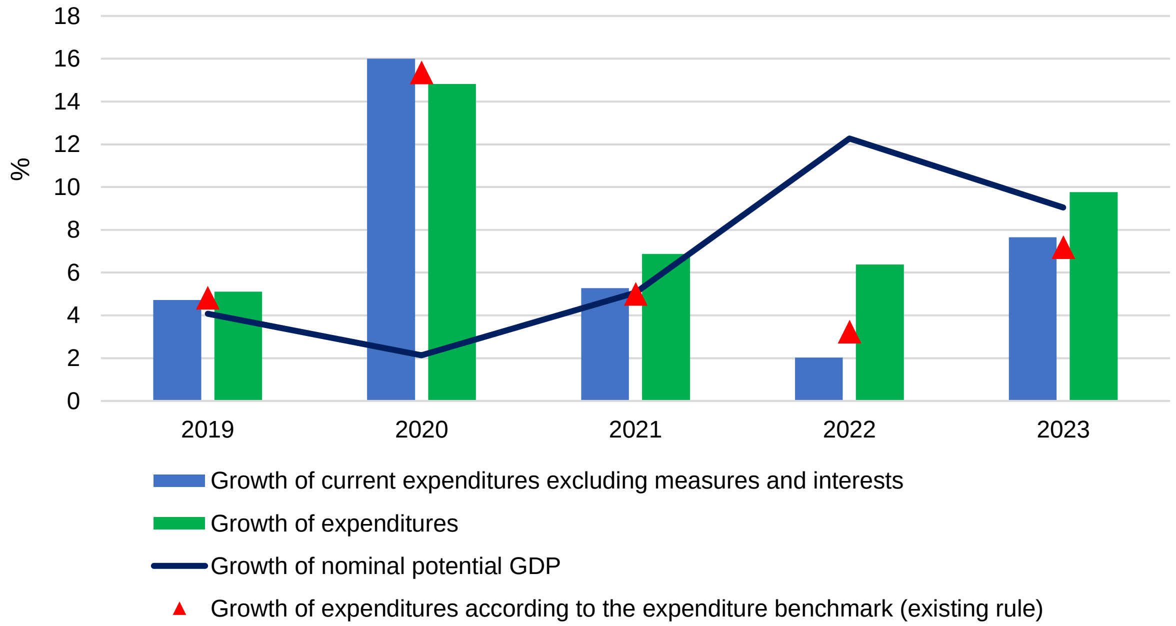
Figure 13: Growth rate of current expenditure excluding interest and one-off measures and growth rate of nominal potential GDP (in %)



Source: Ministry of Finance.

To assess a suitable growth in expenditure in accordance with the rules of the Stability and Growth Pact applied in normal times, interest expense, the cyclical component of unemployment benefits, and expenditure stemming from revenue from EU funds are deducted from total expenditure (net expenditure). The four-year average of expenditure on investments, excluding the funds received for investment from the EU, is taken into account. The Ministry of Finance estimates that growth in net expenditure would be below the annual estimate of nominal potential GDP growth in 2023 (Figure 14). Current estimates of potential GDP remain uncertain and nominal growth is also strongly influenced by inflation.

Figure 14: Growth of expenditure and nominal potential GDP (in %)

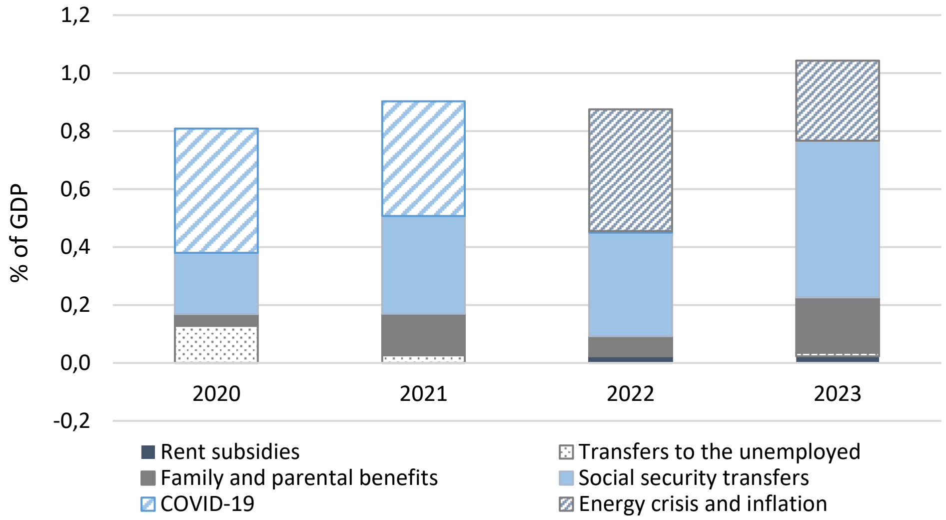


Source: Ministry of Finance.

Automatic stabilisers automatically adjust transfer payments in such a way as to balance income and consumption in a business cycle. Automatic stabilisers, which under the ESA methodology include the categories of transfers to the unemployed, family and parental benefits, social security transfers and housing subsidies, totalled around EUR 1.14 billion in 2019, or 2.3% of GDP.

Automatic stabilisers are projected to increase by 0.4-0.5% GDP in 2020-2022 compared to 2019, and are projected to be 0.8% GDP higher in 2023 than in 2019 (Figure 15). Within the categories which are otherwise considered as automatic stabilisers, social security transfers are further increased by 0.4% GDP in 2020 and 2021 due to COVID-19 measures, and these measures are phased out in 2022. Transfers and allowances will further increase by 0.4% and 0.3% GDP in 2022 and 2023, respectively, due to the current energy crisis and inflation measures (energy subsidy, energy vouchers). Social transfers and family benefits will increase in the coming years.

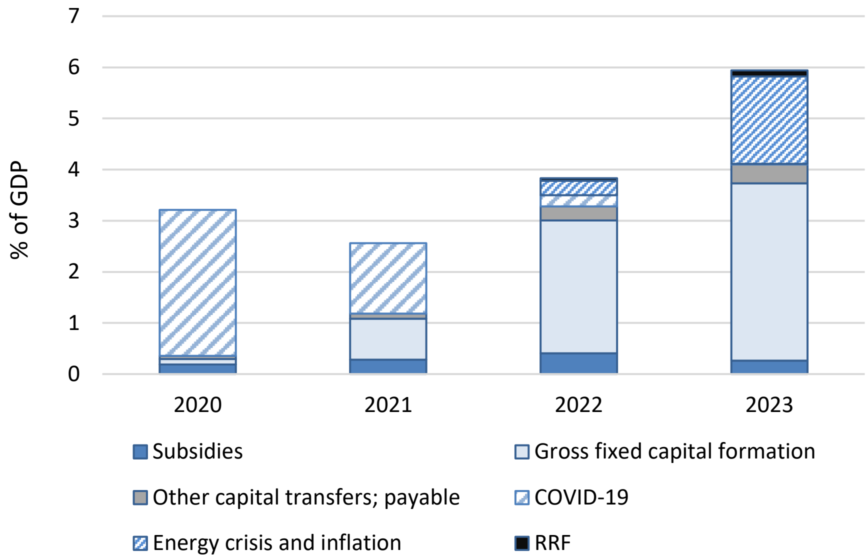
Figure 15: Automatic stabilisers, change compared to 2019, in % of GDP



Source: Ministry of Finance, own calculations.

Fiscal stimulus measures (Figure 16), which include subsidies, gross investment and other capital transfers, has or will increase significantly compared to 2019. In 2019, they amounted to EUR 2.35 billion or 4.9% GDP. In 2020 and 2021, fiscal stimulus measures in the form of subsidies have increased significantly due to the COVID-19 measures, while in this year and next, stimulus measures will increase mainly due to investment. In 2023, measures to mitigate the energy crisis and inflation will also have a significant impact on the growth of fiscal stimulus measures.

Figure 16: Fiscal stimulus measures, change compared to 2019, in % of GDP



Source: Ministry of Finance, own calculations.

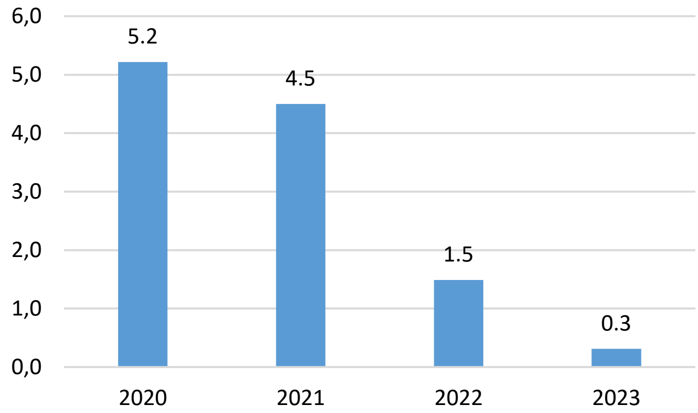
<u>COVID-19 crisis mitigation measures</u>

The COVID-19 epidemic caused a significant fall in GDP in 2020. EU countries have implemented measures to help the economy and population and the resilience of social security systems with extensive measures for wage compensations for employees waiting at home, the measures of subsiding reduced part-time work and the coverage of pension and disability insurance contributions. Different target groups received different forms of income benefits. Incentives were also aimed at companies in the form of partial coverage of fixed costs and for specific sectors (tourism vouchers). In 2021 and 2022, compared to 2020, additional funds have been allocated to the resilience of social security systems, including allowances and supplements for special working conditions and for direct work with COVID-19 patients, for the cost of tests, expenditures on quarantine and vaccinations. In 2022, tourist vouchers were the largest measure in the area of economic aid in the first half of the year. IMAD estimated that the measures reduced the decline in GDP by at least 4 percentage points in 2020 and contributed at least 3.4 percentage points to growth in 2021[6].

In 2022, it is estimated that expenditure on COVID-19 measures will be 3 percentage points of GDP lower than in 2021, falling to 0.3% of GDP in 2023, according to the current estimate (see Annex for more details on the scope of the measures). The largest volume of funds is intended directly for the health system to provide funds to the Health Fund (ZZZS), for additional health programmes, for increased workload and for isolation expenditure. There are also high costs for testing and vaccines.

[6] https://www.umar.gov.si/fileadmin/user_upload/napovedi/pomlad/pomladanska_2022/PNGG_2022.pdf.

Figure 17: Expenditure on COVID-19 measures in % of GDP



Source: Ministry of Finance, own calculations.

In 2023, measures will also be targeted primarily at the health system. The Government is preparing the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences. The funds will be used for vaccination against COVID-19 and self-testing. The following measures will also be covered: allowances for redeployments, additional specialisations in clinical psychology and family medicine, allowances for direct work with COVID-19 patients, microbiological sequencing and monitoring of the virus in wastewater, and accurate characterisation of variant viruses. A change is also planned regarding the coverage of isolation costs, which will have a favourable effect on the expenditure of the Health Fund (ZZZS).

Recovery and Resilience Plan

The Recovery and Resilience Plan foresees structural changes in various areas.

For the Green Transition, the NOO includes a series of reform and investment measures that will contribute to achieving the goals of the National Energy and Climate Plan 2030 and the EU's climate neutrality by 2050. Investments are targeted at: promoting the use of RES in existing district heating systems; exploiting the potential of geothermal, hydro and solar energy; energy-efficient renovation of public buildings; increasing the capacity of rail infrastructure; building infrastructure for alternative fuels in transport; reducing flood risk and the risk of other climate-related disasters; and investing to decarbonise the economy.

In the context of digital transformation, investments will focus on increasing the capacity and digitisation of railway infrastructure; the digital transformation of businesses; increasing gigabit connectivity, both in fixed and digital networks; digitising public administration and providing digital public services in various areas (health, labour market, education, administrative procedures, judicial procedures, etc.). Infrastructure investments are complemented by actions in the area of digital skills and capacities.

A total of EUR 152 million is expected to be used for the implementation of measures from the Recovery and Resilience Plan in 2022. Most of the funding is earmarked for clean and safe environment measures (urban water drainage and treatment, drinking water supply and saving, flood risk reduction), sustainable mobility (projects to increase rail infrastructure capacity), circular economy, digital transformation (digitisation projects), raising productivity and improving the business environment for investors (support for decarbonisation, productivity and competitiveness of enterprises), strengthening competences (in particular digital and those required by new professions and the green transition), more efficient healthcare (effective management of infectious diseases) and provision of public rental housing.

For the implementation of the measures set out in the RRP, a total of EUR 390 million is foreseen to be allocated to the budget fund in 2023. In addition to the actions continued from 2022, projects on renewable energy and energy efficiency in the economy, sustainable renovation of buildings and sustainable tourism development will be implemented on a larger scale.

In June 2022, based on the final calculation of the maximum financial allocation to Slovenia from the Recovery and Resilience Facility, the volume of grants for RRP was reduced by EUR 286 million. Slovenia now has EUR 1.491 billion of grants available, while the volume of available loans (repayable funds) remains unchanged. The change is based on the EU Regulation establishing a Recovery and Resilience Mechanism (EU Regulation 2021/241). In view of the reduction of the grant, the possibility of adjusting the financial structure of the RRP is being examined. Certain changes will follow the REPowerEU framework, the plans to end the EU's dependence on Russian hydrocarbons and to accelerate the green transition.

The Recovery and Resilience mechanism is managed through a budget fund, which allows for carry-forward of unspent funds and commitments up to the reasonably expected receipts of the budget fund).

<u>Tax measures</u>

The amendments to the Income Tax Law will halt the increase in the general allowance, in order to ensure that public finances are available for the measures related to the increase of prices, which have already been and will continue to be implemented, while at the same time not jeopardising the foundations of fiscal stability in the years to come. In 2023, this will be the case:

- a general allowance of EUR 5,000, which is EUR 500 less than foreseen, although EUR 500 more than the allowance in 2022. No further increases in the general allowance are foreseen;
- the total income threshold for eligibility for the additional general allowance for lower income taxpayers will be increased to EUR 16,000. We estimate that these are the taxpayers who are and will be in the greatest need of assistance in the coming period, due to the economic downturn and the cooling of economic activity. Taxpayers on the minimum salary, as well as those with incomes just above it, will receive higher net incomes in 2023, even when compared to the system that would be in place in 2023 if no changes were made. So by increasing the additional general allowance, we have more than compensated for the reduction in the general allowance for 2023 for these taxpayers;
- introduction of a EUR 1,000 youth tax for income from employment for taxpayers up to the age of 29;
- the highest income tax rate will be increased from 45% to 50%;
- the compulsory automatic indexation mechanism of the net amounts of reliefs and the net tax bases will be abolished and a modified indexation mechanism will be introduced;
- the tax rate on rental property will be set at the 2019 level (increase from 15% to 25%, while maintaining the normalised cost of 10%);
- introduction of a limitation on the favourable tax treatment of salary payments to employees on the basis of business performance, where the limit will remain at the last published average monthly salary in the Republic of Slovenia;

- inclusion of modification of the “flat rate taxpayers” system. We are not abolishing the "flat rate taxpayers" system, although we are reducing the lump-sum cost, i.e. for those who are fully insured, there is no change in income up to EUR 35,000, while above EUR 35,000 and up to EUR 100,000, the lump-sum cost is reduced to 40%. The same amount (40%) of flat rate expenditure also applies for the sole proprietors who are regularly employed.

The change in tax legislation is included in the baseline scenario of the government revenue projections. The impact of the changes is lower than the current legislation (previous amendments), at EUR 61 million in 2023.

No-policy-change scenario

The no-policy-change scenario does not take into account the impact of tax changes, resulting in slightly higher revenues in 2023. On the expenditure side, all temporary measures related to the energy crisis, COVID-19 and health interventions are excluded.

Table 3: Forecasts under no-policy-change scenario

	ESA koda	2021 (% of GDP)	2022 (% of GDP)	2023 (% of GDP)
General governement (S13)				
1. Total revenue at unchanged policies	TR	44.6	43.7	43.7
Of which				
1.1 Taxes on production and imports	D.2	13.1	13.3	13.0
1.2 Current taxes on income, wealth, etc	D.5	8.4	7.9	8.0
1.3 Capital taxes	D.91	0.0	0.0	0.0
1.4 Social contributions	D.61	16.8	16.0	15.9
1.5 Property income	D.4	0.6	0.6	0.5
1.6 Other		5.7	5.9	6.3
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		38.4	37.3	36.9
Total expenditure at unchanged policies	TE	44.9	44.9	46.0
Of which				
2.1 Compensation of employees	D.1	11.4	10.5	10.9
2.2 Intermediate consumption	P.2	6.2	6.0	6.0
2.3 Social payments	D.62,D.63	18.1	17.7	17.6
Of which unemployment benefits		0.3	0.3	0.3
2.4 Interest expenditure	EDP D.41	1.2	1.1	1.0
2.5 Subsidies	D.3	0.9	1.0	0.9
2.6 Gross fixed capital formation	P.51	4.6	6.0	7.0
2.7 Captial transfers	D.9	0.4	0.5	0.6
2.8 Other		2.1	2.0	1.9

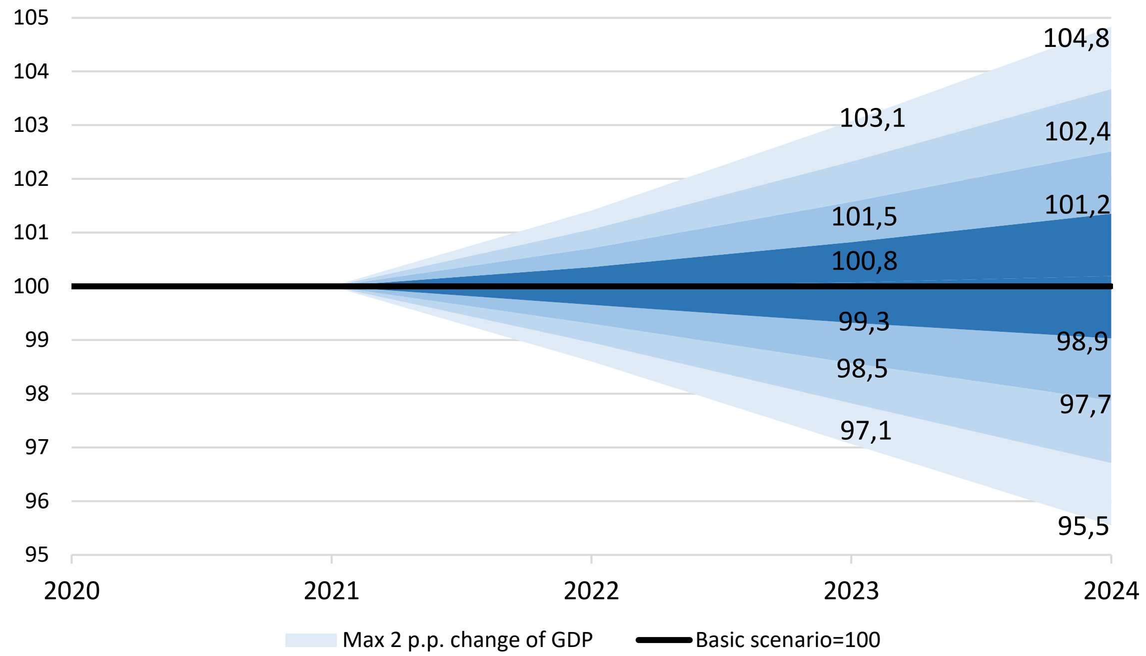
Source: Ministry of Finance.

*Note: The scenario excludes the planned anti-crisis measures and the effect of the tax reform.

Fiscal risks

Figure 18 shows alternative scenarios of the impact of economic growth fluctuation on general government revenue. The scenarios assume nominal GDP growth up to 2 percentage points higher or lower than the baseline scenario (used in this Draft Budgetary Plan) at an annual rate linearly in each year (grey box) over the period 2022-2024.

Figure 18: Impact of fluctuations in economic growth on general government revenue



Source: Ministry of Finance, own calculations.

Under a no-policy-change assumption, the general government revenue would improve by 1.4% compared to the baseline projection for 2022 and by 3.1% compared to the baseline projection for 2023, if nominal GDP growth would be 2 percentage points higher than anticipated. In 2024, assuming GDP growth 2 percentage points higher than the baseline forecast in each year, general government revenue would be 4.8% higher. Otherwise, if GDP growth were 2 percentage points lower, general government revenue would reach 98.6% of the baseline forecast for that year in 2022, 97.1% in 2023 and 95.5% in 2024. If realised GDP growth in 2022 is 1 percentage point lower than forecast, government revenue would be 0.7% lower than the baseline forecast in 2022 and 1.5% lower in 2023.

Table 4 shows the annual variation in a specific budget item resulting from a change in a given economic determinant. The budgetary impact in EUR million is thus the result of a 1 percentage point change in the growth rate of a macroeconomic determinant each year, or a change in the tax rate or interest rates over the three-year period of analysis. For example, if in 2022, 2023 and 2024 employment growth was 1 percentage point higher each year than that projected in the IMAD Autumn Forecast 2022, income tax revenues would be around 0.13% of GDP higher in 2024.

Table 4 shows that, among listed economic determinants, the largest impact on the increase in budget revenue has the increase in the growth rate of compensation of employees. Social contributions would be 0.36% of GDP higher in 2024 in the case of a 1 percentage point increase in the growth rate of compensation of employees in this and the following two years. Out of the the scenarios presented in Table 4, an increase in the value added tax rate would raise government revenue to the largest extent. If the general rate was increased to 24%, value added tax revenue would be 0.50% of GDP higher in the first year and 0.49% of GDP higher in the third year. If the lower VAT rate was increased to 12%, VAT revenues would be 0.41% of GDP higher this year and 0.40% of GDP higher in 2024.

On the other hand, a 1 percentage point higher nominal wage growth would increase public sector wage expenditure by 0.09% of GDP in the first year and by 0.25% of GDP in the third year, whereas pension expenditure would be 0.16% of GDP higher in the third year. Pension expenditure would increase by 0.04% 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 percentage point increase in inflation. 1 percentage point higher annual inflation would also increase social transfers by around 0.07% of GDP in each year. Restrictive monetary policy raises interest expenditure. In response to a 100-basis point rise in interest rates, interest expenditure would increase by as much as 0.72% of GDP in the first year, 0.71% of GDP in the second year and 0.70% of GDP in the third year. However, a deterioration in the ratio of potential to real GDP, or a widening of the negative output gap by 1 percentage point, would have a negative impact on the budget balance, as it would increase unemployment expenditure by 0.01% of GDP.

Table 4: Impact of a change in a given economic determinant on specific budget item (in % of GDP)

		Budget impact in % of GDP		
Determinant	**Revenue and expenditure item**	**2022**	**2023**	**2024**
GDP(I) component				
Compensation of employees (1ppt pa higher growth)	Social Security Contributions	0.12	0.24	0.36
Nominal wages growth (1ppt pa higher growth)	Personal income tax	0.07	0.14	0.21
Employment growth (1ppt pa higher growth)	Personal income tax	0.05	0.09	0.13
Gross operating surplus (1 ppt pa higher growth)	Corporate income tax	0.04	0.10	0.17
GDP(E) component				
Household consumption expenditure (1ppt pa higher growth)	Value Added Tax	0.07	0.15	0.23
Household consumption expenditure (1ppt pa higher growth)	Excise duties	0.02	0.04	0.07
Tax rates				
VAT standard rate increase to 24 per cent	Value Added Tax	0.50	0.49	0.49
VAT reduced rate increase to 12 per cent	Value Added Tax	0.41	0.40	0.40
Labour market				
Nominal wages growth (1ppt pa higher growth)	Public sector wages expenditure	0.09	0.17	0.25
Nominal wages growth (1ppt pa higher growth)	Public pension expenditure	0.05	0.11	0.16
Output gap (negative gap of 1ppt)	Unemployment expenditure	0.01	0.01	0.01
Inflation				
CPI (1ppt pa higher growth)	Public pension expenditure	0.04	0.07	0.11
CPI (1ppt pa higher growth)	Other social transfers expenditure	0.07	0.07	0.07
Interest rates				
Interest rates (100bps higher)	Interest payments	0.72	0.71	0.70

Source: IMAD Autumn Forecast 2022; Ministry of Finance, own calculations.

As with any forecast or sensitivity analysis, caution is needed in interpreting the results. The estimated budgetary impact represents the static impact of a change in a given economic determinant and does not include the effect of the interaction of that change with other factors. Also, by capturing average, linear relationships, the results reflect only small changes in economic determinants, as larger changes in economic determinants may have non-linear effects on taxes and government spending.

4 Trends in general government revenue and expenditure 2022-2023

General government revenue in 2022 will amount to EUR 25,196 million, an increase of 8.2% or EUR 1.9 billion compared to 2021. Revenue growth will be 1.8 percentage points higher than expenditure growth. The main contribution will come from higher tax revenues and social contributions. Tax revenues will be EUR 915 million or 8.1% higher, mainly due to higher VAT revenues (EUR 455 million or 10.6%) and excise duties (around EUR 100 million or 6.6%). These increases can be attributed to both the restricted consumption of the past two years and to high inflation this year. Personal income tax revenue will be higher by over EUR 65 million or 2.3%, while corporate income tax revenue will be higher by just under EUR 110 million or 8.3%, driven by improved business performance. Social contributions will grow by EUR 510 million or 5.8% in 2022 as a result of favourable labour market conditions and high level of employment. Among other revenue categories, capital transfers will also increase significantly (by EUR 210 million or 48.4%), mainly due to higher revenues from the EU funds of the 2014-2020 multiannual financial framework, which is being completed.

Revenue growth will moderate slightly in 2023, but will still reach EUR 1.7 billion or 6.9%. Tax revenues will be higher by EUR 667 million or 5.5%. Value added tax revenues will be higher by just under EUR 300 million or 6.2%, while excise duties will fall by 4.3% or EUR 69 million, mainly due to the reduction of excise duties on energy products to the minimum permitted values in order to mitigate the energy crisis. Personal income tax revenue will grow by over EUR 200 million or 6.9%, while corporate income tax revenue will grow by EUR 84 million or 6.0%. Growth in social contributions will further increase slightly to around EUR 580 million or 6.3% in 2023, both due to favourable labour market conditions and taking into account the impact of the agreement with public sector unions regarding wage increases. Among other revenue categories, capital transfers will grow (by around EUR 260 million or 40.4%), mainly due to higher revenues from EU funds at the end of the drawdown of the previous multiannual financial framework in 2023 and received funds from the Recovery and Resilience Fund.

General government expenditure will amount to EUR 27,378 million in 2022, an increase of around EUR 1.6 billion or 6.4% compared to 2021. The largest increase in investment expenditure in 2022 will be by at least EUR 1 billion or 43.0%, due to higher investments by direct budget users as well as by other general government units. Expenditure on social benefits in kind and in cash will also increase (by EUR 800 million or 8.2%), as a result of increased expenditure on gross pensions, on account of the regular (annual) and also extraordinary pension indexation already implemented, expenditure on sickness, including COVID-19 quarantines and social transfers in kind, as part of the final expenditure of the Health Fund. Compared to 2021, expenditure on subsidies will decrease the most (by EUR 264 million or 23.1%), mainly due to lower COVID-19 aid. Compensation of employees expenditure will decrease by EUR 145 million or 2.2%, also due to lower COVID-19 expenditure on wages in 2022. Interest expenditure will increase by EUR 8 million or 1.3% in 2022.

Expenditure growth will be reinforced in 2023, mainly on account of the foreseen funds intended to mitigate the impact of the epidemic in healthcare (COVID-19 and the intervention law), the impact of the energy crisis and rising prices. Expenditure will amount to over EUR 30 billion, which is an increase of 9.8% compared to 2022. Expenditure growth will be 2.9 percentage points higher than revenue growth. Expenditure on subsidies will increase by more than EUR 760 million or 86.5%, on account of the measures foreseen by the State to help companies due to energy crisis. In 2023 investment expenditure will be higher by EUR 815 million or 23.3%, on account of higher investment by direct budget users and other general government units, due to higher absorption of EU Funds from multiannual financial framework 2014-20 in 2023 and funds from the Recovery and Resilience Fund. Expenditure on employee compensation will increase by EUR 456 million or 7.0% as a result of the agreement between the government and the trade unions on the increase of civil servants' salaries. Expenditure on social benefits will increase by just under EUR 580 million or 5.4% in 2023, mainly due to higher expenditure on gross pensions and other social transfers in cash as a result of adjustment to wage growth and inflation. Interest expenditure will decrease by EUR 23 million or 3.5% compared to 2022.

Description of the main general government expenditure in 2023

Compensation of employees expenditure

Expenditure on compensation of employees will amount to EUR 6.926 million in 2023, an increase of EUR 456 million compared to the previous year. The main contributor to this increase will be wage rises as a result of the agreement between the Government and public sector unions in September 2022. Under this agreement, the salary scale will be raised by 4.5% in October 2022 and the meal allowance will also be increased (to EUR 6.15, or 24%). In the first half of 2023, a one-grade salary increase is foreseen for all civil servants whose salary was not increased at the end of 2021 (health and social care activities).

Subsidies

Subsidies expenditure will increase by EUR 761 million to EUR 1,641 million in 2023. This will bring subsidy expenditure to a slightly lower level than in 2020, when the Government provided support to the economy under the COVID-19 legislation. This increase is due to the already implemented and planned government support to the economy in the wake of the energy crisis (the foreseen expenditure is presented in more detail in the Annex - Table 5b). The funds for these purposes are provided for in the current budget reserve of the state budget.

Social benefits

Expenditure on social benefits will increase in 2023 by 5.4% compared to 2022. Social benefits and cash will grow by 5.1% or EUR 465 million, mainly due to the alignment of pensions and social transfers with wage growth and rising inflation in 2022, as well as due to the State's support to the population to cushion the energy crisis and inflation. Gross pensions will increase by EUR 374 million or 6.1% in 2023, including both the foreseen regular adjustment of pensions and other effects (growth in the number of beneficiaries, legislative changes, etc.). Expenditure on social transfers in kind will increase by 7.9%, due to higher expenditure on medicines and medical devices, health services, reimbursement of meals to pupils and students, etc., as well as to the foreseen COVID-19 measures, mainly at the expense of the cost of vaccinations. The projected high increase in consumer prices, which is an integral part of the costing of health services, will also have an impact on expenditure growth.

Investment expenditure

Investment expenditure has been increasing throughout the period since 2017 and will peak at EUR 4,313 million in 2023. High investment growth will be driven by strong EU revenues, both from Cohesion Policy (completion of the 2014-2020 MFF drawdown) and the Recovery and Resilience Fund. Investment spending will increase at all levels of general government sector, central, local and social security funds. The bulk of the funds will be used for investment in transport and transport infrastructure, notably rail and road transport, with a significant share also going to defence and protection and health care. Other general government units will also make an important contribution to investment growth. Investment by other public units will increase by 4.9%, investment by public funds will be up by 57.2% (mainly due to investment in housing), and investment by the corporations included in the general government sector will also make a significant contribution, especially in the area of railway infrastructure. These will increase by 13.5% in 2023, on top of the already high levels in 2022.

5 Public debt and potential liabilities

Public debt

The borrowing size for the fiscal year 2022 is set by Financing Programme adopted by the Government. In addition, the Public Finance Act allows pre-financing to the level of debt principal repayments due in the next two years (2023 and 2024). At the beginning of 2021, the Government adopted the Ministry of Finance's Medium-Term Debt Management Strategy 2021-2023. The Stability Programme 2022-2025 was also adopted. Both documents include medium-term projections of general government debt evolution/reduction relative to GDP.

Table 5: General government gross debt

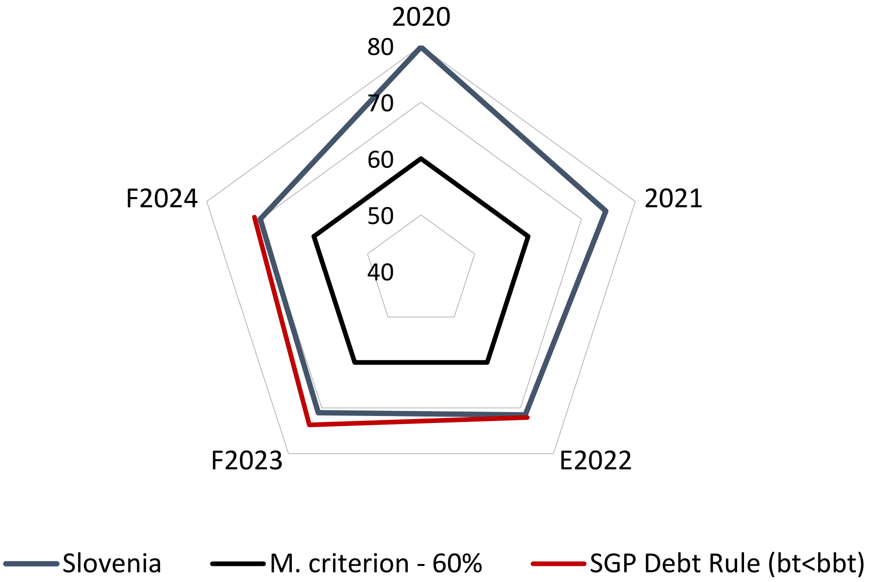
	ESA Code	2021	E2022	F2023	F2024
	Mio EUR				
1. General Government Debt		38,877	41,425	43,980	45,730
2. GDP		52,208	57,921	61,951	65,311
	% of GDP				
3. General Government Debt		74.5	71.5	71.0	70.0
4. General Government Balance		-4.7	-3.8	-5.0	-2.2
5. Primary Balance		-3.4	-2.6	-4.0	-1.2
6. Interest Expenditure	EDP D.41	1.2	1.1	1.0	1.1
7. Stock Flow Adjustment		-1.9	0.6	-0.9	0.4
Implicit Interest Rate		1.7	1.7	1.5	1.6

Source: Ministry of Finance; IMAD, 27.9.2022.

Based on the latest revision of the SORS annual estimate of GDP and consolidated general government debt, this is 74.5% of GDP at the end of 2021. The Ministry of Finance estimates the general government debt for 2022 at 71.5% of GDP. This is inside the projections outlined in Medium-Term Debt Management Strategy (79.3% of GDP) and the Stability Programme (73.3% of GDP). The state budget debt ratio within the general government debt structure stands at 94%. The Ministry of Finance projects general government debt-to-GDP to fall to 70.0% of GDP by the end of 2024.

The figure below shows that the post-pandemic process of reducing government debt-to-GDP commenced in 2021. It is estimated to continue mainly through nominal GDP growth and a gradual reduction of the government's liquidity buffers. The debt rule does not need to be respected for the period 2020-2023 due to the validity of the general escape clause at the level of the European Union. The figure shows that the evolution of the general government consolidated debt is already in line with the Stability and Growth Pact debt rule from 2022.

Figure 19: General government gross debt in the period 2020-F2024 (in % of GDP)

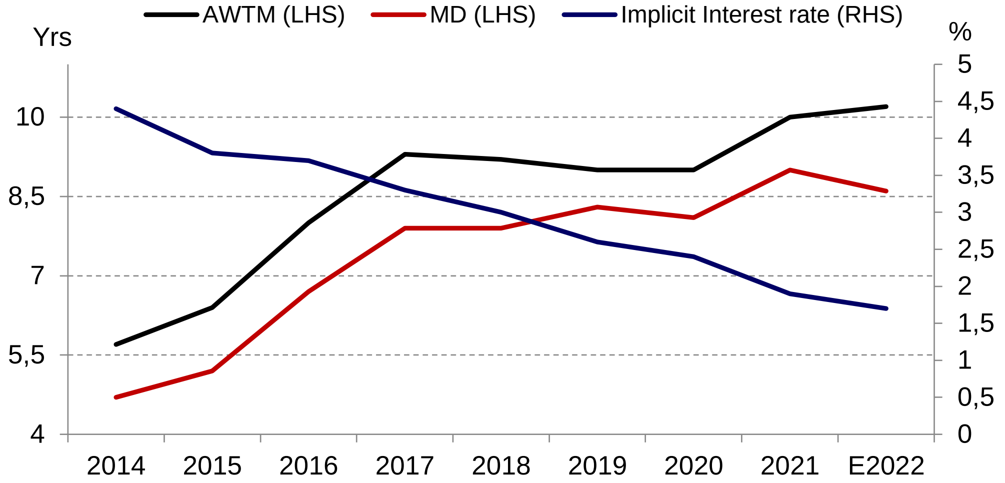


Source: Ministry of Finance, 27.9.2022.

In 2022, the Ministry of Finance has secured long-term financing of the state budget on euro debt capital markets with a weighted average interest rate of 1.18% and a weighted average maturity of debt issued of 13.9 years. The state budget interest expenditure is estimated at EUR 0.673 billion (1.2% of GDP) in 2022, which is EUR 0.4 billion lower in comparison to 2014 figure of EUR 1.08 billion (2.9% of GDP). In this respect, debt management activities played an important role as well as favourable refinancing of matured debt and central government budget execution. The share of the USD denominated debt in the state budget debt portfolio (principal and interest are fully hedged backed to EUR) has been reduced from 25% in 2014 to 2.3% in 2022.

The average weighted time to maturity of the state budget debt portfolio has increased from 5.7 years in 2013 to 10.2 years in 2022, while the average (implicit) interest rate has been reduced from 4.3% in 2013 to 1.7% in 2022. The key strategic objective of the debt management has been achieved, namely the reduction of refinancing risk, i.e., extending the average time to maturity while reducing the implicit interest rate at the same time. The redemption profile of the state budget debt is rather smooth. The 28% of the debt exhibits residual maturity of more than 10 years, with a diverse investor base both in terms of investor type (fund managers, pension funds, insurance companies, banks, etc.) as well as geographical distribution (the UK & Ireland, Germany, Austria, the USA...).

Figure 20: State budget debt characteristics*



*Modified Duration (MD), Average Weighted Time to Maturity (AWTM).
Source: Ministry of Finance, 27.9.2022.

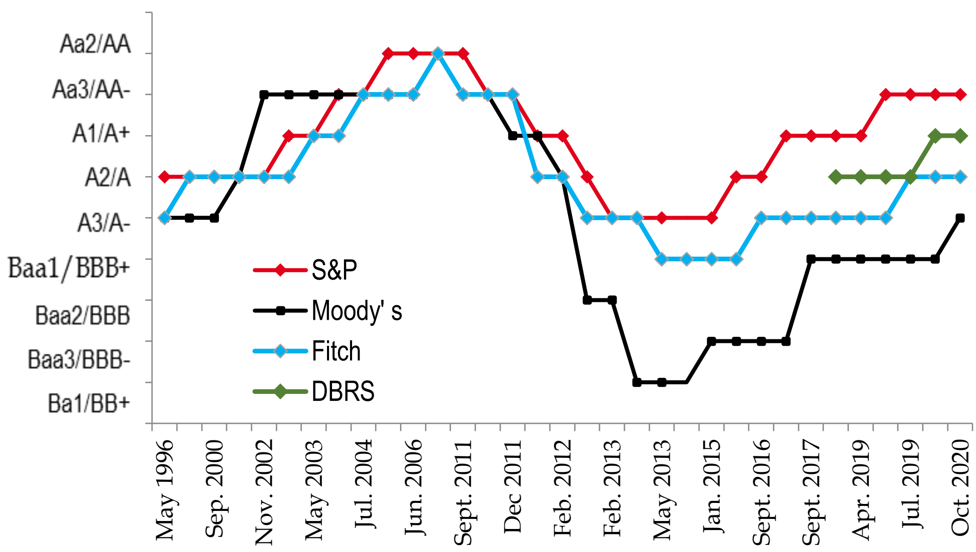
The Republic of Slovenia's credit ratings remain historically high, with S&P (AA-), Fitch (A), Moody's (A3) and DBRS (AH) with stable outlooks. The stable outlook for the rating outlook for the individual credit ratings of the rating agencies indicates that the agencies assess it as most likely that the country's credit risk ratings will remain unchanged over the medium term.

Table 6: Credit rating of the Republic of Slovenia

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

Source: S&P; Moody's; Fitch; DBRS, 27. 9. 2022.

Figure 21: Republic of Slovenia credit ratings over time

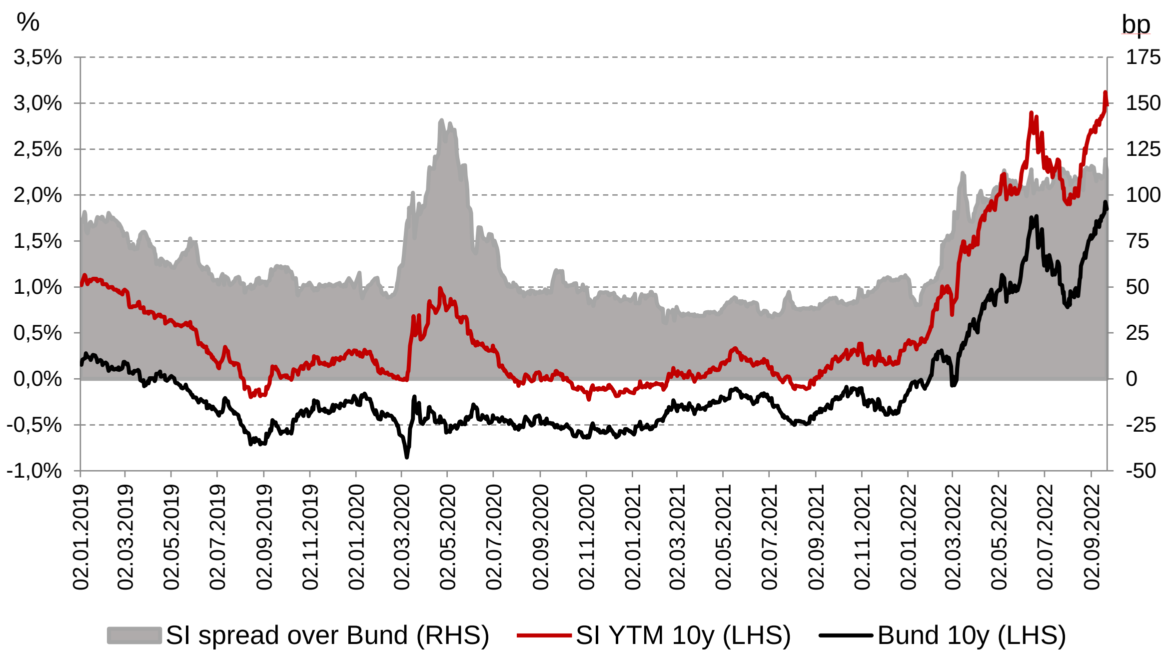


Source: S&P; Moody's; Fitch; DBRS, 27. 9. 2022.

The ECB's action to raise the three key benchmark interest rates in 2022 results in a general increase in interest rates in the euro area. The ECB raised the deposit facility rate from -0.50% at the beginning of 2022 to 0.75% today, the main refinancing operations rate was raised from 0.00% to 1.25% and the marginal lending facility rate was increased from 0.25% to 1.50%. The Republic of Slovenia euro bonds yield to maturity increased mainly as a result of the increase in the euro mid interest rate swap. The credit spread on the bonds of the Republic of Slovenia has remained relatively stable and does not show as pronounced an increase as is the case for the euro mid interest rate swap. The credit spread on the 10-year maturity of the Slovenian euro bond at the beginning of 2022 was 8 basis points (bp), on 21 September 2022, it stood at 35bp. The spread over the benchmark German 10-year euro bond was 54 bp at the start of 2022, while today it is 111 bp.

In April 2020, when the epidemic started in the Republic of Slovenia, the credit spread over the EUR 10-year bund (German benchmark bond) reached 140.8 bp, but because the country successfully tackled the economic consequences of the epidemic, maintained credit ratings and outlooks by rating agencies, the spread stood at 113.6bp on 22. September 2022.

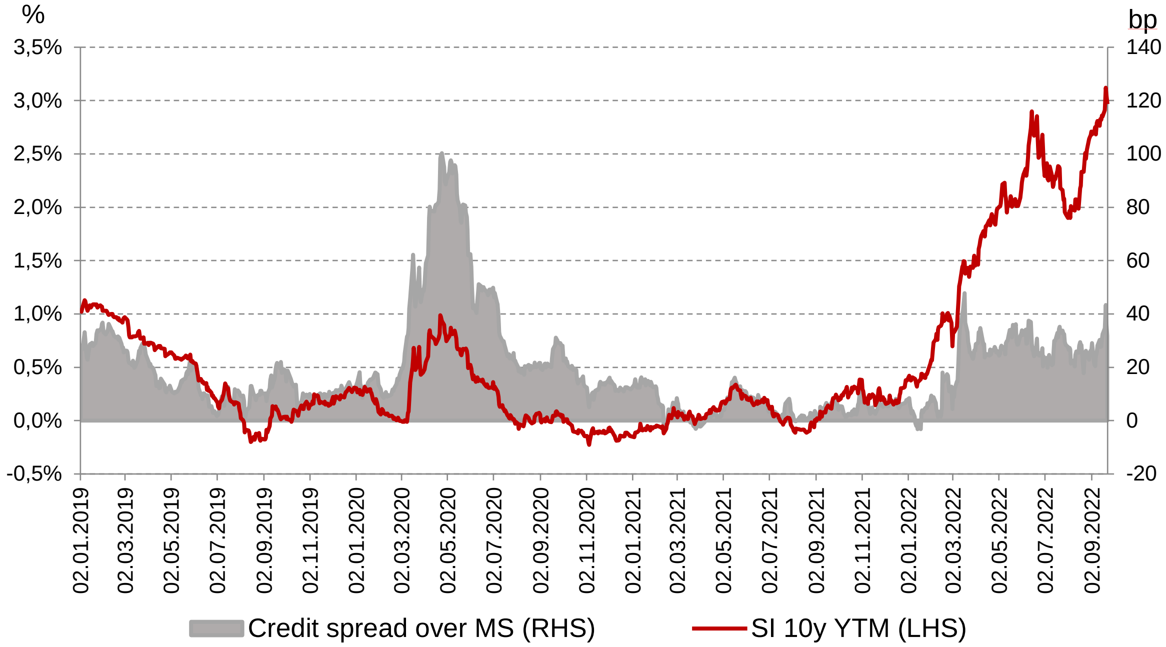
Figure 22: 10-year SLOREP euro bond yield dynamics in comparison to euro benchmark 10-year Bund



Source: Bloomberg, Ministry of finance own calculations, 22.9.2022.

The interpolated yield of the 10-year Slovenian euro bond reached 2.99% on the secondary debt capital market on 22 September 2022. The euro mid interest rate swap stood at 2.67%, implying a credit spread of 32 bp. This remains relatively contained compared to the values reached in the past.

Figure 23: 10-year SLOREP euro bond yield and credit spread over euro mid swap dynamics



Source: Bloomberg, Ministry of Finance, own calculations, 22.9.2022.

Contingent liabilities

The balance of guarantees of the Republic of Slovenia as of 30 June 2022 is €4,560 m, of which the balance of government guarantees for the liabilities of the financial sector (S. 12) is €669 m. The balance of guarantees of the Republic of Slovenia from the end of 2022 to 2024 was prepared on the basis of certain assumptions relating to the repayment of existing guarantees and approvals of new ones.

Table 7: Projections of contingent liabilities of the Republic of Slovenia for the 2022-2024 period

	2022 (% GDP)	2023 (% GDP)	2024 (% GDP)
Guarantees of the Republic of Slovenia	9.8	9.0	9.2
Including: financial sector*	1.2	1.1	1.0

*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.

No government guarantees were issued in 2022, three guarantee acts were adopted, namely 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 (Official Gazette of the Republic of Slovenia, No. 121/22; ZPKEEKP), with a guarantee quota of €1,280 m, the Act on Housing Guarantee Scheme for Young People (Official Gazette of the Republic of Slovenia, No. 54/22; ZSJSM), with a total amount of guarantee quotas of €300 m per year and the Act on the guarantee of the Republic of Slovenia for the obligations of the company DARS, d.d., from loans and debt securities leased or issued for the financing of highway projects in the amount of up to 392.44 million euros (Official Gazette of the Republic of Slovenia, No. 54/22; ZPKFAP).

The quota of new guarantees is planned in the Implementation of the Republic of Slovenia Budget Act. For rebalance 2022, the quota is planned at €1,600 m, manly for the case of a rapid response by the state to a situation of high volatility of energy markets and the associated wider risks in the energy supply of the population and economy of the Republic of Slovenia. The quota for 2023 is planned at €2,800 m and €1,500 m for 2024. A quota for guarantees of the SID Bank in the amount of €350 m is determined for each year separately.

€20 m can be used to call on government guarantees in 2022, the same estimation is for 2023 and 2024. Most of the funds are planned to call on government guarantees issued on the basis of COVID-19-related measures. Separately, the Pan-European Guarantee Fund's liabilities are projected to be €1 m in 2022, €5.4 m in 2023 and €2.2 m in 2024.

Annex: Tables from Draft Budgetary Plan 2023

Table 0a. Basic macroeconomic assumptions	2021	2022	2023
Short-term interest rate (annual average)	-0.5	0.2	2.0
Long-term interest rate (annual average)	0.1	1.6	2.1
USD/€ exchange rate (annual average)	1.184	1.058	1.022
Nominal effective exchange rate	-0.02	-1.32	-0.29
World excluding EU, GDP growth			
EU GDP growth	5.4	3.2	0.5
Growth of relevant foreign markets	11.7	4.3	2.0
World import volumes, excluding EU			
Oil prices (Brent, USD/barrel)	70.7	103.1	89.5

Source: IMAD Autumn Forecast 2022.

Table 0b. Main assumptions 1. External environment	2021 (Level)	2022 (Level)	2023 (Level)
a. Prices of commodities	34.4	7.0	-4.0
b. Spreads of German Bond	+40bt (dec-jan)	+211bt (sept-jan)	
2. Fiscal policy			
a. General government net lending/ net borrowing S.13 (EUR m)	-2,440	-2,182	-3,117
b. General gross debt (EUR m)	38,877	41,425	43,980
3. Monetary policy / Financial sector / Interest rates assumptions			
a. Interest rates			
i. Euribor	-0.5	-0.3 (jan-avg)	
ii. Deposit rates	0.12	0.04 (jan-jul)	
iii. Interest rates for loans	1.51	1.55 (jan-jul)	
iv. Yields to maturity of 10-year government bonds	0.09	1.65 (jan-avg)	
b. Evolution of deposits	8.6	6.1 (jul yoy)	
c. Evolution of loans	4.9	10.9 (jul yoy)	
d. NPL Trends	1.2	1.2 (jun)	
Demographic trends			
a. Evolution of working age population	1,255	1,246	1,237
b. Dependency ratios	35.0	36.1	37.3
Structural dependencies			

Source: IMAD Autumn Forecast 2022; Ministry of Finance.

Table 1a. Economic growth and related indicators	ESA code	2021 (Level in EUR m)	2021 (% change)	2022 (% change)	2023 (% change)
1. Real GDP	B1*g		8.2	5.0	1.4
of which:					
~ Attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP			3.2	3.4	3.0
contributions:					
– *labour*			1.3	1.4	1.1
– *capital*			0.6	0.7	0.7
– *total factor productivity*			1.3	1.3	1.2
3. Nominal GDP	B1*g	52,208	11.0	10.9	7.0
Components of real GDP:					
4. Private consumption expenditure	P.3	26,690	9.5	5.4	0.3
5. Government consumption expenditure	P.3	10,778	5.8	1.4	1.7
6. Gross fixed capital formation	P.51	10,619	13.7	6.5	2.5
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	812	1.6	3.0	3.0
8. Exports of goods and services	P.6	43,662	14.5	5.0	2.5
9. Imports of goods and services	P.7	40,352	17.6	6.5	2.2
Contributions to real GDP growth (in percentage points)					
10. Final domestic demand		48,898	9.0	5.8	1.1
11. In which changes in inventories and net acquisition of valuables	P.52 + P.53	812	0.4	1.4	0.1
12. External balance of goods and services	B.11	3,310	-0.8	-0.8	0.3

Source: SORS; IMAD Autumn Forecast 2022; Ministry of Finance.

Table 1b. Price developments (% change)	ESA code	20201 (Level)	2021 (% change)	2022 (% change)	2023 (% change)
1. GDP deflator			2.6	5.7	5.4
2. Private consumption deflator			3.5	10.9	6.0
3. HICP			1.9	8.9	6.0
4. Public consumption deflator			5.1	1.1	7.4
5. Investment deflator			5.3	14.0	3.7
6. Export price deflator (goods and services)			4.3	14.0	1.9
7. Import price deflator (goods and services)			6.6	19.2	2.0

Source: SORS; IMAD Autumn Forecast 2022.

Table 1c. Labour market developments	ESA code	2021 (Level)	2021 (% change)	2022 (% change)	2023 (% change)
1. Employment, persons (1000)		1,053	1.3	3.0	0.8
2. Employment, hours worked (1000)		1,677,697	5.4	4.8	1.2
3. Unemployment rate according to labour force survey (%)		4.7	-5.6	-11.0	-1.4
4. Labour productivity, persons		49.6	9.6	7.7	6.2
5.Labour productivity, hours worked		31.1	5.3	5.8	5.7
6. Compensation of employees (EUR m)	D.1	27,543	9.2	7.1	7.2
7. Compensation per employee (EUR 1000)		32,334	7.9	3.9	6.4

Source: IMAD Autumn Forecast 2022.

Table 1d. Sectoral balances	ESA code	2021 (% GDP)	2022 (% GDP)	2023 (% GDP)
1. Net lending/borrowing vis-a-vis the rest of the world	B.9 (S.1)	3.6		
of which				
- Balance on goods and services		6.4	1.9	1.9
- Balance of primary incomes and transfers		-2.6	-2.4	-2.4
- Capital account		0.2		
2. Net lending/borrowing of the private sector	B.9			
3. Net lending/borrowing of general government	EDP B.9	-4.7	-3.8	-5.0
4. Statistical discrepancy				

Source: SORS; IMAD Autumn Forecast 2022.

Table 2a. General government budgetary prospects	ESA code	2021 (% GDP)	2022 (% GDP)	2023 (% GDP)
Net lending (EDP B.9) by sub-sector				
1. Net lending/net borrowing: General government	S.13	-4.67	-3.77	-5.03
2. Net lending/net borrowing: Central government	S.1311	-5.13	-3.45	-5.05
3. Net lending/net borrowing: State government	S.1312			
4. Net lending/net borrowing: Local government	S.1313	0.12	0.03	0.01
5.Social security funds	S.1314	0.34	-0.34	0.01
6. Interest expenditure	EDP D.41	1.25	1.14	1.03
7. Primary balance		-3.42	-2.63	-4.00
8. One-off and other temporary measures		0.0	-0.16	-0.32
8.a Of which one-offs on the revenue side: general government		0.0	0.0	0.0
8.b Of which one-offs on the expenditure side: general government		0.0	-0.16	-0.32
9.Real GDP Growth (%) (=1 in Table 1a)		8.21	4.99	1.44
10.Potential GDP Growth (%) (=2 in Table 1a)		3.16	3.37	3.04
Contributions				
- Labour		1.29	1.43	1.13
- Capital		0.55	0.68	0.69
- Total factor productivity		1.31	1.26	1.22
11. Output gap (% of potential GDP)		1.69	3.21	1.58

Table 2a. General government budgetary prospects	ESA code	2021 (% GDP)	2022 (% GDP)	2023 (% GDP)
12. Cyclical budgetary Component (% of potential GDP)		0.8	1.5	0.7
13. Cyclically adjusted balance (1-12) (% of potential GDP)		-5.5	-5.3	-5.8
14. Cyclically adjusted primary balance (13+6) (% of potential GDP)		-4.2	-4.1	-4.7
15. Structural balance (13-8) (% of potential GDP)		-5.4	-5.1	-5.4

Source: Ministry of Finance.

Table 2b. General government debt developments	ESA code	2022 (% GDP)	2023 (% GDP)
1. Gross debt		71.5	71.0
2. Change in gross debt ratio		-3.0	-0.5
Contributions to changes in gross debt			
3. Primary balance		-2.6	-4.0
4. Interest expenditure	EDP D.41	1.1	1.0
5. Stock-flow adjustment		0.6	-0.9
of which:			
- Differences between cash and accruals			
- Net accumulation of financial assets			
of which:			
- Privatisation proceeds			
- Valuation effects and other			
p.m.: Implicit interest rate on debt		1.7	1.5
Other relevant variables			
6. Liquid financial assets		12.0	11.1
7. Net financial debt (7=1-6)		59.5	59.9
8. Debt amortization (existing bonds) since the end of the previous year		2.1	2.3
9. Percentage of debt denominated in foreign currency		0.1	0.1
10. Average maturity		10.0	9.5

Source: Ministry of Finance.

Table 2c. Contingent liabilities	2021 (% GDP)	2022 (% GDP)	2023 (% GDP)
Public guarantees	9.0	9.8	9.0
Public guarantees: linked to the financial sector[1]	1.3	1.2	1.1

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

Table 3. General government developments at unchanged policies	ESA code	2021 (% GDP)	2022 (% GDP)	2023 (% GDP)
General government (S13)				
1. Total revenue at unchanged policies	TR	44.6	43.7	43.7
Of which				
1.1 Taxes on production and imports	D.2	13.1	13.3	13.0
1.2 Current taxes on income, wealth, etc.	D.5	8.4	7.9	8.0
1.3 Capital taxes	D.91	0.0	0.0	0.0

Table 3. General government developments at unchanged policies	ESA code	2021 (% GDP)	2022 (% GDP)	2023 (% GDP)
1.4 social contributions	D.61	16.8	16.0	15.9
1.5 Property income	D.4	0.6	0.6	0.5
1.6 Other		5.7	5.9	6.3
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		38.4	37.3	36.9
Total expenditure at unchanged policies	TE	44.9	44.9	46.0
Of which				
2.1 Compensation of employees	D.1	11.4	10.5	10.9
2.2 Intermediate consumption	P.2	6.2	6.0	6.0
2.3 Social payments	D.62,D.63	18.1	17.7	17.6
Of which unemployment benefits		0.3	0.3	0.3
2.4 Interest expenditure	EDP D.41	1.2	1.1	1.0
2.5 Subsidies	D.3	0.9	1.0	0.9
2.6 Gross fixed capital formation	P.51	4.6	6.0	7.0
2.7 Capital transfers	D.9	0.4	0.5	0.6
2.8 Other		2.1	2.0	1.9

*Note: The scenario excludes the planned anti-crisis measures and the effect of the tax reform.
Source: Ministry of Finance.

Table 4a. General government target developments	ESA code	2021 (% GDP)	2022 (% GDP)	2023 (% GDP)
General government (S13)				
1. Total revenue target	TR	44.6	43.5	43.5
Of which				
1.1 Taxes on production and imports	D.2	13.4	13.1	12.8
1.2 Current taxes on income, wealth, etc.	D.5	8.4	7.9	7.9
1.3 Capital taxes	D.91	0.0	0.0	0.0
1.4 Social contributions	D.61	16.8	16.0	15.9
1.5 Property income	D.4	0.6	0.6	0.5
1.6 Other		5.7	5.8	6.3
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		38.4	37.0	36.6
Total expenditure target	TE	49.3	47.3	48.5
Of which				
2.1 Compensation of employees	D.1	12.7	11.2	11.2
2.2 Intermediate consumption	P.2	6.5	6.2	6.1
2.3 Social payments	D.62, D.63	18.8	18.3	18.0
Of which unemployment benefits		0.3	0.3	0.3
2.4 Interest expenditure (=9 in table 2.a)	EDP D.41	1.2	1.1	1.0
2.5 Subsidies	D.3	2.2	1.5	2.6
2.6 Gross fixed capital formation	P.51	4.7	6.0	7.0
2.7 Capital transfers	D.9	0.4	0.5	0.6
2.8 Other		2.8	2.4	1.9

Source: Ministry of Finance.

Table 4b. Amounts to be excluded from the expenditure benchmark	2021 (level in EUR m)	2021 (% GDP)	2022 (% GDP)	2023 (% GDP)
1. Expenditure on EU programmes fully matched by EU funds revenue	457	0.88	1.22	1.71
1a. Investment expenditure fully matched by EU funds revenue	343	0.66	0.89	1.41
2. Cyclical unemployment benefit expenditure	42	0.08	0.03	-0.01
3. Effect of discretionary revenue measures		0.00	-0.29	-0.10
4. Revenues increased mandated by law				

Source: Ministry of Finance.

Table 4c.i. General government expenditure by function (education, health, and employment)	2022 (% GDP)	2022 (mio EUR)	2023 (% GDP)	2023 (mio EUR)
Education	5.8	3,337.5	5.9	3,665.1
Health	7.4	4,275.4	7.6	4,693.1
Employment[1]				

Note:[1] No assessment at the detailed level.
Source: Ministry of Finance.

Table 4c. ii. General government expenditure by function	COFOG code	2021 (% GDP)	2022 (% GDP)	2023 (% GDP)
1. General public services	1	5.4	5.6	5.8
2. Defence	2	1.0	1.2	1.3
3. Public order and safety	3	1.7	1.8	1.8
4. Economic affairs	4	8.1	7.1	7.3
5. Environmental protection	5	0.6	0.7	0.7
6. Housing and community amenities	6	0.6	0.4	0.5
7. Health	7	7.9	7.4	7.6
8. Recreation, culture, and religion	8	1.5	1.2	1.2
9. Education	9	5.7	5.8	5.9
10. Social protection	10	18.7	16.1	16.5
11. Total expenditure (=2 in Table 2c)	TE	51.2	47.3	48.5

Source: Ministry of Finance.

Table 5a: Discretionary measures – ESA 2010 Methodology

Title	Description	ESA Code	Adoption Status	Budgetary impact (% of GDP - change from previous year) 2020	2021	2022	2023	2024
Revenue measures								
Tax measure	Amendments to the Personal Income Tax Act	D.51	Adopted	0.0	0.00	-0.29	0.19	0.10
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	-0.78	0.32	0.03	0.00
	Deferred tax payments (excise, VAT)	D.21	Adopted	0.36	-0.56	0.11	0.09	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
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; 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	-0.44	-0.09	-0.01
	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	0.34	0.03	-0.37	0.00	0.00
	Wage compensations for employees in quarantine; reimbursement of short-term sick leave; part-time work	D.1	Adopted	0.01	0.00	0.01	-0.01	0.00
Measures in the field of economy, tourism, and agriculture (COVID)	Coverage of fixed costs for affected economic operators (companies)	D.3	Adopted	0.34	-0.06	-0.28	0.00	0.00
	Reimbursement of crisis salary bonus/supplement; financial compensation for the loss of income (producers/growers, aid in agriculture); support in wine sector; aid for transport providers (coverage of income loss); covering the operating costs of the airport; aid for carrying out quick COVID tests in the economy; payment of packaging waste management costs, reimbursement of meeting and event organization costs; compensate ski lifts and sky-resort operators; financial subsidies to employers who provide workers with paid annual leave	D.3	Adopted	0.13	0.03	-0.16	0.00	0.00
	Tourist vouchers (2020&2021)	D.75	Adopted	0.27	0.20	-0.31	-0.16	0.00
	Stimulation of business and development of tourism; investments in research, development and innovation etc.	D.3+ P.51	Adopted	0.09	-0.01	-0.06	-0.01	0.00

Title	Description	ESA Code	Adoption Status	Budgetary impact (% of GDP - change from previous year) 2020	2021	2022	2023	2024
	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
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
	Compensation to the providers of health care loss due to reduced activity; covering the costs of loss of revenue due to unoccupied capacities; and others (measures to reduce patient waiting times, improve access to health services etc).	D.75	Adopted	0.22	-0.16	0.04	-0.10	0.00
	Managing epidemics, purchase of medical, protective equipment and accessories (Agency for Commodity Reserves); covering the costs of transport and accommodation facilities; coverage of the costs for COVID-19 testing; implementation of microbiological tests; support to performing public service to National Institute for Health; Decree on the implementation of screening programs for the early detection of SARS-CoV-2 virus infection; urgent operational center for epidemiological investigations, prolonged hospital treatment and oxygen treatment, etc.	P.2	Adopted / Planned	0.27	0.04	-0.13	-0.11	-0.05
	Additional funds for Health Insurance Institute of Slovenia – Article 67. ZIPRS2021; vaccination COVID-19, etc.	D.63	Adopted	0.10	0.00	0.00	0.00	-0.08
	Vaccination and additional funds for Health Insurance Institute of Slovenia	D.73	Adopted	0.00	0.05	-0.04	-0.01	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; withdrawal from Public Sector Salary System Act; allowance for redeployments and increased workload and allowances for direct work with COVID patients, National Institute for Health - coordination expert group, outpatient clinics for unspecified patients	D.1	Adopted / Planned	0.01	0.02	0.55	-0.43	-0.11
	Managing epidemics; covering the costs of loss of revenue due to unoccupied capacities to providers of social protection services in the public network; financing of additional staff in social welfare institutions; costs of testing and self-testing	D.3	Adopted	0.00	0.07	0.00	-0.08	0.00
	Medical protective equipment, funds intended to increase health capacity; public health infrastructure, COVID-19 testing / microbiological tests	P.51	Adopted	0.03	0.02	-0.05	-0.01	0.00
	Vaccines - COVID-19 and other	D.74+ D.75	Adopted	0.00	0.13	-0.04	-0.10	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; assistance to providers of social care services; family care provided at home; social inclusion and poverty reduction etc.	D.62+ D.63	Adopted	0.42	-0.22	-0.19	-0.01	0.00
Meas:	Allowances and supplements for special working conditions for public sector	D.1	Adopted	0.61	0.63	-1.21	-0.03	0.00

Title	Description	ESA Code	Adoption Status	Budgetary impact (% of GDP - change from previous year) 2020	2021	2022	2023	2024
	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.							
	Allowances and supplements for special working conditions (concessionaires, private institutions)	D.3	Adopted	0.03	0.07	-0.10	0.00	0.00
Other expenditure measures (COVID): 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
	Rapid antigen tests for legal or natural persons under public or private law	D.3	Planned	0.00	0.00	0.02	-0.02	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
	The compensations of employees in holders of public authority, public service providers and bodies of self-governing local communities not providing public services during the epidemic were covered by the state budget; compensation to the passenger transport operator – rail transport; financing private kindergartens; coverage restricted range of student dormitory services; and other measures: humanitarian aid, donations, assisting sports federations to perform quick tests (COVID-19); aid to fire brigades; financial compensation for damage caused by COVID-19 vaccination etc.	D.73+ D.74+ D.75	Adopted / Planned	0.08	-0.01	-0.07	0.00	0.00
	Managing epidemics, protective equipment, financing of the Information and communication technology – ICT / ICT-infrastructure; investments etc.	P.51	Adopted	0.02	0.02	-0.03	0.00	0.00
Other temporary measures / one-off measures	Ukraine crisis / ensuring the rights and social protection of persons from Ukraine	D.63	Adopted	0.00	0.00	0.05	-0.05	0.00
	Ukraine crisis / ensuring the rights and social protection of persons from Ukraine	D.63	Adopted	0.00	0.00	0.00	0.01	-0.01
	Ukraine crisis / inclusion of Ukrainian children in educational and social institutions	D.1	Adopted	0.00	0.00	0.02	-0.02	0.00
	Ukraine crisis / inclusion of Ukrainian children in educational and social institutions	D.1	Adopted	0.00	0.00	0.00	0.02	-0.02
	Ukraine crisis / humanitarian aid	D.74	Adopted	0.00	0.00	0.01	-0.01	0.00
	Stabilization in healthcare / extra employment (Ministry of Health, National Institute of Public Health), reducing patient waiting times, additional health programmes / primary healthcare sector	D.1	Adopted	0.00	0.00	0.03	-0.03	0.00
	Stabilization in healthcare / extra employment (Ministry of Health, National Institute of Public Health), reducing patient waiting times, additional health programmes / primary healthcare sector	D.1	Adopted	0.00	0.00	0.00	0.15	-0.15
	Stabilization in healthcare / extra employment (Ministry of Health, National Institute of Public Health), reducing patient waiting times, additional health programmes / primary healthcare sector	D.1	Adopted	0.00	0.00	0.00	0.00	0.05
	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
	T2 lawsuits	D.9	Planned	0.00	0.00	0.00	0.09	-0.09
	Denationalization	D.9	Planned	0.00	0.00	0.00	0.03	-0.03
	Fund for Craftsmen and Entrepreneurs	D.9	Planned	0.00	0.00	0.00	0.02	-0.02

Source: Ministry of Finance, own calculations.

Table 5b: Discretionary measures (ESA 2010) - Energy crisis and measures to mitigate price increases

Title	Description	ESA Code	Adoption Status	Budgetary impact (% of GDP - change from previous year)		
				2022	**2023**	**2024**
Revenue measures						
Tax measures	Temporary decreased CO_2 levy to 0 for oil derivates	D.21	Adopted	-0.02	0.02	0.00
	Temporary decreased CHP contribution to 0 for oil derivatives	P.131	Adopted	0.00	0.00	0.00
	Excise on energy products are decreased by 50 %	D.21	Adopted	-0.17	0.17	0.00
	Decrease of VAT rate to 9,5 % for electricity, gas, heating, fire, wood	D.21	Adopted	-0.07	-0.08	0.15
Expenditure measures						
Measures in the field of economy	Financial compensation to farmers and bee-keepers, assistance to the economy due to high energy prices / taming inflation / to cover the losses of energy-intensive enterprises	D.3	Adopted/ Planned	0.26	1.45	-1.71
	Financial assistance to the economy and agriculture / grain purchase	D.3	Adopted	0.02	-0.02	0.00
Support for households and individuals	Dearness allowance for beneficiaries of child benefit	D.62	Adopted	0.07	-0.04	-0,03
	Dearness allowance and other financial compensations for socially most vulnerable groups of citizens	D.62	Adopted/ Planned	0.05	0.20	-0,24
	Financial compensation for food, aid to farmers, compensation for agricultural machinery due to high energy prices	D.62	Adopted	0.09	-0.09	0,00
	Energy vouchers for vulnerable groups / households	D.62	Adopted	0.05	-0.05	0,00
	Energy vouchers for individual beneficiaries	D.62	Adopted	0.16	-0.16	0,00
Total measures - revenue				**-0.27**	**0.12**	**0.15**
Total measures - expenditure				**0.70**	**1.28**	**-1.99**

Source: Ministry of Finance, own calculations.

Table 6. Divergence from Stability Programme 2021	ESA code	2021 (% GDP)	2022 (% GDP)	2023 (% GDP)
General government net lending (S 13)				
Stability Programme 2022	EDP B.9	-	-	-
Draft Budgetary Plan 2023	EDP B.9	-4.7	-3.8	-5.0
Difference		-	-	-
Projections of general government balance (S 13) at unchanged policies				
Stability Programme 2022	EDP B.9	-5.2	-4.1	-3.0
Draft Budgetary Plan 2023	EDP B.9	-0.3	-1.2	-2.3
Difference		4.9	2.9	0.7

Source: Ministry of Finance.

Table 7: Measures from Draft Budgetary Plan 2023 addressing the Recommendations from Council as of 12 July 2022 in connection to the national Slovenian reform programme for 2022 and the Council opinion on the 2022 Stability Programme of Slovenia.

CSR 1:		
In 2023, ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine;	The amendments to the **Personal Income Tax Act** will halt the increase in the general tax allowance, in order to ensure that public finances are available for the measures related to the increase of prices, that have already been and will continue to be implemented, while at the same time not jeopardising the foundations of fiscal stability in the years to come. In order to ensure greater social security for socially deprived families with children, as the most vulnerable population groups in Slovenia whose material situation is worsening due to the general rise in prices, families with children who are entitled to child benefit will receive a three-month expenditures allowance. The Act Determining Temporary Measures to Remedy the Consequences of Higher Living Costs of the Most Vulnerable Population Groups (ZZOUPD) provides low-income households with a one-off energy allowance (the allowance) of EUR 200, with the amount of the allowance increasing according to the number of children in the household. The benefit will be paid to individuals and households on low incomes, namely recipients of financial social assistance and the supplementary allowance , as well as people with disabilities. **Act Determining the Intervention Measures in Education in 2022/2023 School Year** was adopted (6 October 2022) with the aim to freeze the prices of meals, care and living costs in student residences, with the difference covered by the budget. The law aims to prevent social hardship for pupils and their families. The measures shall apply from 1 September 2022 to 31 August 2023.	Measures addressing the recommendations
Stand ready to adjust current spending to the evolving situation.	Since the adoption of the recommendations, the situation changed as uncertainty increased. The State has already taken action and is planning new measures to this end. The measures are mirrored in the 2022 amending rebalance and the 2023 draft budget.	
Expand public investment for the green and digital transitions, and for energy	In August 2022, the Slovenian Public Employment Agency launched a **public call for employers to implement the Green Jobs Programme.** The purpose of	

security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.	the public call is to encourage employers to recruit unemployed people in green jobs on a permanent basis. Employers can obtain a subsidy for employing unemployed people who are registered in the unemployment register. Act on Energy Crisis Management Measures (ZUOKPOE) (Official Gazette of the Republic of Slovenia, No. 121/22), adopted in September, which provides, inter alia, that when a company in which the State or a local community has an equity investment invests in new solar electricity generation projects equal to or greater than 250 kW installed capacity, the company must form a renewable energy community or a self-supply community in accordance with the law governing the promotion of the use of renewable energy sources (hereinafter referred to as the “community self-supply”), and shall allocate at least 25% of the annual share of the electricity produced from the community self-supply to the supply, free of charge, of household consumers in the Republic of Slovenia, if it is a company in which the State has an equity investment, or to household consumers in the territory of the local community, if it is a company in which the local community has an equity investment. In September 2022, the Government adopted a **Long-Term Roadmap for achieving the five-year targets for promoting the production and use of renewable energy.** The document foresees that EUR 110 million will be spent in 2022 on the payment of support for the implementation of the use of RES. New expenditure is planned for 2023, for investment aid under the newly conceived self-supply scheme and for direct support for RES generation installations up to 500 kW. The Recovery and Resilience Plan is also already **preparing calls for tenders for investments in energy efficiency and renewable energy sources**, such as energy renovation of public buildings, upgrading of the distribution network and electricity from renewable sources.	
For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions.	According to the draft Ordinance amending the Ordinance on the framework for the preparation of the general government budget for the 2022–2024 period", the Government plans to	

	reduce the general government deficit below 3% of GDP in 2024.	
Ensure the long-term fiscal sustainability of the healthcare and long-term care systems.	Structural changes in this area will also address long-term fiscal sustainability, with measures addressing in particular the efficiency of service delivery, as well as the modernisation of pricing models.	
Introduce compensating measures to finalise the shift from labour taxes, including by rebalancing towards greener and growth-friendly taxes.	Changes to the Personal Income Tax Act in 2023. – General allowance of EUR 5,000; – The total income threshold for eligibility for the additional general allowance for lower income taxpayers will be increased to EUR 16,000. – Introduction of a EUR 1,000 youth tax allowance for income from employment for taxpayers up to the age of 29. – The highest income tax rate will be increased from 45% to 50%. – The compulsory automatic indexation mechanism of the net amounts of reliefs and the net tax bases will be abolished and a modified indexation mechanism will be introduced. – The tax rate on rental property will be set at the 2019 level (an increase from 15% to 25%, while maintaining the normalised cost of 10%). – Introduction of a limitation on the favourable tax treatment of salary payments to employees on the basis of business performance, where the limit will remain at the last published average monthly salary in the Republic of Slovenia. – Inclusion of modification of the "flat rate taxpayers" system.	
CSR 2:		
Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 28 July 2021. Submit the 2021–2027 cohesion policy programming documents with a view to finalising the negotiations with the Commission and subsequently starting their implementation.	The Government's Office for Recovery and Resilience has adopted implementing documents (guidelines, manuals, anti-fraud strategy) on the basis of the national regulation and has established IT support for the implementation of the RRP, which will be further developed ifs necessary. For the financial implementation and monitoring of the RRP and for the monitoring of milestones/targets, the Coordinating Authority has established the relevant applications and IT support. The Coordinating Authority regularly monitors the implementation of the milestones/targets and guides the work of the implementing bodies in the framework of its tasks. In order to ensure effective implementation of the Plan, the Coordinating Authority has held six joint virtual meetings with the Implementing Bodies. A number of individual meetings	Measures addressing the recommendations

	were also held with individual stakeholders. In September 2021, Slovenia received an advance payment of EUR 231 million, or 13% of the total initially foreseen maximum allocation of just under EUR 1.8 billion. The first payment request is being prepared. Under the first instalment of the grant, 12 milestones have been met and positively evaluated in an expert dialogue with the Commission. For the first claim, Slovenia has met the following commitments: the Digital Transformation Strategy has been adopted, a call for tenders for a new Next Generation Cloud project has been launched, the Act on the Promotion of Investments to Encourage the Green Transition, the Public Procurement Law, the Act on forms of Alternative Investment Funds, the De-bureaucratisation Act and the Regulation on Development Incentives for Tourism have entered into force, the Council of IT Development in State Administration has been established and the National Model for Quality Monitoring in Long-Term Care has been established. The Partnership Agreement between the Republic of Slovenia and the European Commission was signed at the end of September 2022. With the approval and signature of the agreement, Slovenia has EUR 3.26 billion of EU funding available for the next programming period 2021-2027.	
CSR 3:		
Diversify imports of fossil fuels and reduce overall reliance on fossil fuels by accelerating the deployment of renewables, by further streamlining permitting procedures, and strengthening of the electricity distribution network.	As of 1 June, a new **Construction Act** and a new **Spatial Planning Act** came into force, with provisions to speed up certain planning and permitting procedures. Some implementing acts have also been adopted to implement the laws (Rules on temporary structures, Decree on the classification of structures) and many are in various stages of preparation and are due to be adopted in the next six months. On 7 August 2022, the **Act on the Promotion of the Use of Renewable Energy Sources** (Official Gazette of the Republic of Slovenia, No. 121/21, 189/21 and 121/22 - ZUOKPOE) entered into force, which regulates the implementation of the policy of the State and municipalities in the field of the use of renewable energy	Measures addressing the recommendations

	sources, sets a binding target for the share of energy from renewable sources in the gross final consumption in the Republic of Slovenia and measures to achieve this target and the methods of their financing, regulates certificates of origin, self-supply of electricity from renewable sources, the use of energy from renewable sources and excess heat in the heating and cooling sector and the transport sector, and the provision of information to and the training of installers. Part of this law is the establishment of a contact point, for which an implementing act was adopted on 26 April 2022. The contact point is intended to make it quicker and easier to obtain consent for the installation of installations for the production of electricity from renewable energy sources. The law introduces restrictions on the design and installation of boilers fired by fuel oil, fuel oil and coal from 2023. On 13 November 2021, the **Electricity Supply Act** (Official Gazette of the Republic of Slovenia, No 172/21) entered into force, which regulates, among other things, investments in the distribution network for the purpose of greater integration of dispersed electricity generation installations from renewable sources. In September 2022, the Ministry of Infrastructure submitted for public consultation a draft **Act on the Siting of Installations for the Production of Electricity from Renewable Energy Sources (RES)**, which will adequately address the siting of RES in these crucial periods. The law regulates the specificities of the spatial planning and authorisation of installations generating electricity from RES, including the technical equipment necessary for their operation, energy storage facilities and grid connections.	
Increase the implementation of energy-efficiency measures, in particular in the building sector, electrification of the transport sector, and ensure that energy infrastructure and interconnections have sufficient capacity.	On 4 June 2022, the new **Rules on efficient use of energy in buildings with a technical guideline**, ensuring the construction of low-energy-consumption buildings, entered into force. On 13 November 2021, the **Electricity Supply Act** (Official Gazette of the Republic of Slovenia, No 172/21) entered into force, which regulates, among other things, investments in the distribution network for the purpose of greater	

	integration of e-charging stations and heating pumps. On 7 November 2020, the Act on **Energy Efficiency** (Official Gazette of the Republic of Slovenia, No. 158/20) came into force, which, among other things, makes the installation of heat dividers with remote readings and the monthly notification of heat consumption to customers mandatory from 2022. The law also requires all new buildings to be nearly zero-energy and to provide charging points for electric vehicles and builds on the energy efficiency requirements for energy supply systems, in particular district heating systems.	

Table 8: Stock of guarantees adopted/announced according to the Programme - 2020/2022

	Measures	Date of adoption	Maximum amount of contingent liabilities (% GDP)	Estimated take-up (% GDP)
In response to COVID-19	Act Regulating the Guarantee of the Republic of Slovenia in European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak (ZPEIPUTB)	29/05/2020	0.2	0.2
	Act Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic (ZDLGPE)	28/04/2020	3.5	0.1
	Act Determining the 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	0.0
	Subtotal		**4.1**	**0.5**
Others	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	13/9/2022	2.2	2.2
	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, dd, from loans and debt securities leased or issued for the financing of highway projects in the amount of up to 392.44 million euros (ZPKFAP)	06/04/2022	0.7	0.0
	Subtotal		**3.4**	**2.3**
	TOTAL		**7.5**	**2.8**

*Note: *According to Act ZPKEEKP, a guarantee agreement for HSE obligations in the amount of EUR 400 million is being prepared. It is predicted that the remaining guarantee agreements, up to the amount specified in the Act.
Source: Ministry of Finance.

Table 9: RRF impact – GRANTS

	Revenue from RRF grants (% of GDP)						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
RRF GRANTS as included in the revenue projections		0.21	0.26	0.63	0.51	0.70	0.44
Cash disbursements of RRF GRANTS from EU		0.22	0.22	0.63	0.51	0.46	0.70
	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	0.00
Social Payments							
Interest expenditure							
Subsidies, payable		0.00	0.05	0.12	0.07	0.12	0.12
Current transfers							
TOTAL CURRENT EXPENDITURE		0.00	0.05	0.14	0.10	0.13	0.13
Gross fixed capital formation		0.21	0.20	0.46	0.51	0.56	0.26
Capital transfers							
TOTAL CAPITAL EXPENDITURE		0.21	0.20	0.46	0.51	0.56	0.26
	Other costs financed by RRF grants (% of GDP)[7]						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Reduction in tax revenue							
Other costs with impact on revenue							
Financial transactions							

Source: Ministry of Finance.

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

Table 10: RRF impact – LOANS

	Revenue from RRF loans (% of GDP)						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Disbursements of RRF LOANS from EU*		0.00	0.00	0.00	0.21	0.54	0.28
Repayments of RRF LOANS to EU		-	-	-	-	-	-
	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	0.02	0.05	0.01
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	0.02	0.05	0.01
Gross fixed capital formation		0.00	0.01	0.02	0.09	0.50	0.31
Capital transfers							
TOTAL CAPITAL EXPENDITURE		0.00	0.01	0.02	0.09	0.50	0.31
	Other costs financed by RRF loans (% of GDP)[8]						
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Reduction in tax revenue							
Other costs with impact on revenue							
Financial transactions							

*Note: The details of the loan have not yet been determined.
Source: Ministry of Finance.

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