THE GOVERNMENT OF THE REPUBLIC OF SLOVENIA

Draft budgetary plan

2024

October 2023

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1 INTRODUCTION

In the coming year, fiscal policy will be characterised by the requirement to re-adhere to the fiscal rules and deal with the consequences of the natural disasters that hit Slovenia in July and August 2023. After almost four years, the general escape clause will cease to apply at the EU level, and it is expected that the conditions of the Fiscal Rule Act, which allowed for the invocation of exceptional circumstances at the national level, will no longer be fulfilled. This means that a gradual reduction of the structural deficit needs to be ensured in the coming years, whereby it is important that consolidation does not jeopardise economic growth. However, as the fiscal rules at the EU level are in a reform phase, the detailed quantitative orientations for fiscal policy in the medium term are not yet definitively known.

On the other hand, measures to rehabilitate areas affected by natural disasters will play an important role in the coming years. Given the extent of the damage, these measures will have important financial implications for the fiscal situation. In early October, the Government took note of the direct damage assessment of the natural disaster that hit Slovenia on 4 August 2023, which amounts to around EUR 9.9 billion. The damage has been estimated using the internationally recognised Post-Disaster Needs Assessment (PDNA) methodology. The funding for the measures will be provided both from new sources (EU Solidarity Fund, compulsory solidarity contribution) and through the prioritisation of expenditures in the state budget and the lowering of expenditure ceilings in the financial plans of the line ministries. The new act on reconstruction, development and measures to provide funds for flood recovery[1] also foresees additional measures, indicating a refocusing of resources on the floods and their consequences, and will curb expenditure growth (including the delay of the wage reform). Investment will continue to be maintained at a high level. In addition, future fiscal policy will be strongly influenced by uncertainties about inflation and related monetary policy responses, the level of global growth, the geopolitical situation and the state of energy markets.

In light of the disaster recovery measures, the Government plans a slightly higher general government deficit in 2024 than projected at the time of preparation of the Stability Programme 2023, at 3.8% of GDP. Considering the fiscal rules, however, it is important to note that without the flood recovery measures the deficit in 2024 would be below the reference value of 3% of GDP. The general government targets beyond 2024 remain unchanged at the time of preparing the draft budget plan, and a gradual correction of the structural imbalances that will not jeopardise economic activity is still foreseen. The medium-term fiscal targets will be further adjusted once there is more clarity on the future EU fiscal rules. At that time, a medium-term fiscal strategy for achieving balanced public finances will also be prepared, including a programme of measures to achieve the general government targets, as required by Article 14 of the Fiscal Rule Act, once exceptional circumstances have ended.

The changes to the 2024 general government targets are reflected in the proposed amendment to the Ordinance on the framework for the preparation of the general government budget for the 2024–2026 period[2], which was drawn up together with the budget documents for the next two years in late September 2023.

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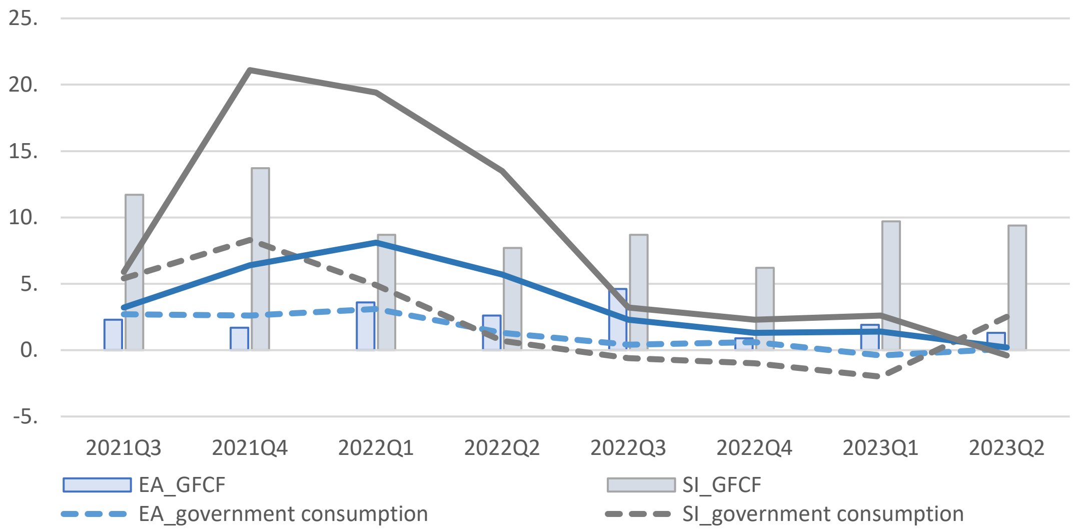
[1] Working name.
[2] Government resolution No. 00704-345/2023/2 of 28 September 2023.

2 ECONOMIC OUTLOOK AND EXPECTATIONS

Economic growth in the euro area in the first and second quarters of 2022 increased by 1.1% and 0.5% year-on-year, respectively. The moderation in the first half of the year was mainly linked to weak demand and tightening financing conditions. Available indicators point to a possible slowdown in euro area activity in the third quarter, mainly due to a further contraction in manufacturing, while activity in services also declined in August. For the euro area, based on forecasts by foreign institutions, the Institute of Macroeconomic Analysis and Development (IMAD) assumes economic growth of 0.7% in 2023, which is expected to pick up to 1.4% in 2024.

In Slovenia, economic activity increased by 2.5% in 2022, which is 2.9 percentage points lower than the first estimate of economic growth in the spring (or EUR 1,951 million lower in current prices), thus changing the starting point for the autumn forecast. In the first half of 2023, growth was 1.1%. Economic activity is expected to slow down in the second half of 2023. In its Autumn Forecast 2023, IMAD projects GDP growth at 1.6%, 0.2 percentage points lower than in the Spring Forecast, but the new 2023 forecast is EUR 1,753 million lower in nominal terms due to the revised base. With price and cost pressures easing and investment growth picking up, IMAD projects GDP growth to be slightly higher again next year, at 2.8%.

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, 2021Q3–2023Q2



Source: Eurostat

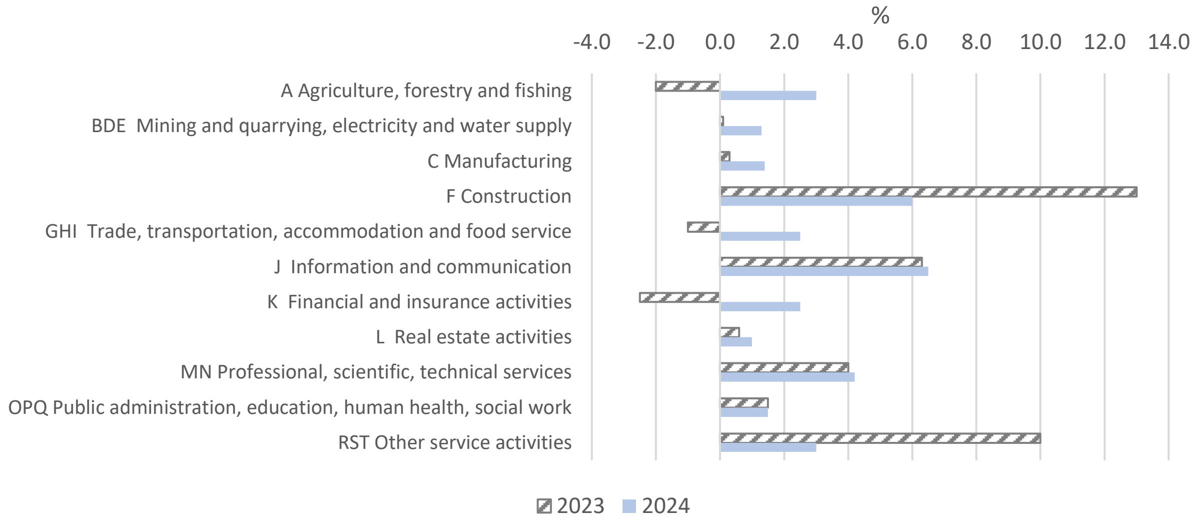
After rising in the first quarter of 2023, private consumption was lower year-on-year in the second quarter, also affected by last year's high base at the end of the period for the redemption of tourism vouchers. Households spent more on tourism services abroad and car purchases in the first half of the year compared to the same period last year, but less on food, non-food products and overnight stays in Slovenia. In its forecast, IMAD expects private consumption to grow moderately in the second half of the year, also influenced by the replacement of durable and non-durable goods damaged in the August floods, and to reach 0.9% growth in 2023. With real income growth strengthening, IMAD expects private consumption to be 2.3% higher in 2024. The propensity to save will remain at a slightly higher level than before the epidemic.

Government consumption declined in the first quarter of 2023, mainly due to a reduction in expenditure related to the COVID-19 epidemic, but picked up in the second quarter. Growth of 1.4% is thus expected in 2023, mainly driven by employment growth (1.0%), an increase in health expenditure and an increase in expenditure on goods and services related to flood recovery in the second half of the year. Next year, government consumption is expected to grow by 1.9%.

Investment in fixed assets was 10% higher in the first half of the year. In the second half of the year, investment in buildings and structures is expected to continue to grow, but at a moderating pace. With the slowdown of activity in the international environment and higher interest rates, investment in equipment and machinery is expected to decrease in the second half of the year. In contrast, recovery from the August floods will have a stimulating effect on construction activity. In 2023, IMAD forecasts a 4.5% growth in gross fixed capital formation. Greater activity in the international environment will have a stimulating effect on the private sector and its investments, which will be reflected in renewed growth in investment. For 2024, IMAD forecasts investment growth of 5.5%.

According to IMAD forecasts, value added will be higher in 2023 than in 2022 in most activities, except in Financial and insurance activities (K), Agriculture (A) and Trade, transportation, and accommodation and food service activities (GHI). However, the largest increases in value added in 2023 are expected in Other service activities (RST) and Construction (F). According to the data on business trends in construction, the indicator for new orders is declining, and the data on building permits also point to a weakening of activity. In contrast, recovery from the August floods will have a stimulating effect on construction activity. Value added in construction will remain high in 2024. Information and communication technology (ICT) activities will also show high growth in value added.

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



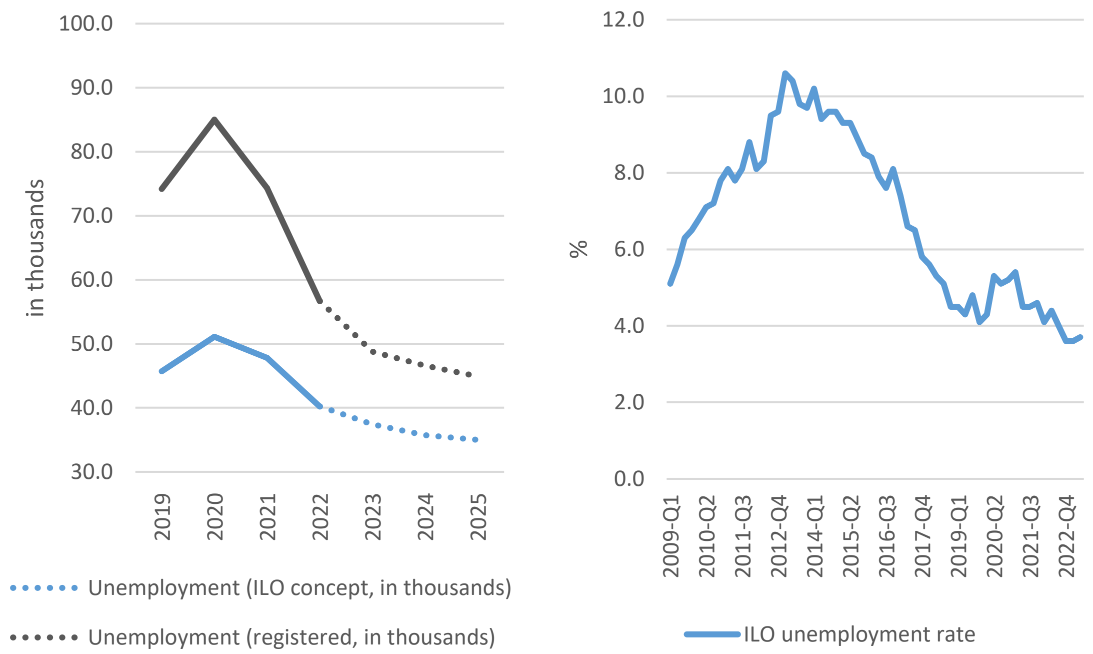
Source: IMAD Autumn Forecast, 2023.

Employment growth is gradually slowing down, mainly due to the weakening of economic growth amid persistently high labour shortages. Employment is expected to slow further in the second half of this year, as shown by the short-term indicator of employment expectations. In

2023, employment will increase by 1.2% on average. In 2024, despite the projected higher economic growth, employment will not increase significantly due to the already high levels and constraints on the labour supply side. Demographic trends will become an increasing constraint on value added growth, as the population aged 20−64 has been declining since 2012.

The number of registered unemployed has also continued to fall this year, albeit at a slower pace than last year. At the end of August, 47,383 people were unemployed, 12.1% fewer than a year ago and a good third fewer than before the epidemic (August 2019).

Figure 3: Dynamics of the number of unemployed people in thousands (left) and ILO unemployment rate as a % of active people, quarterly (right)



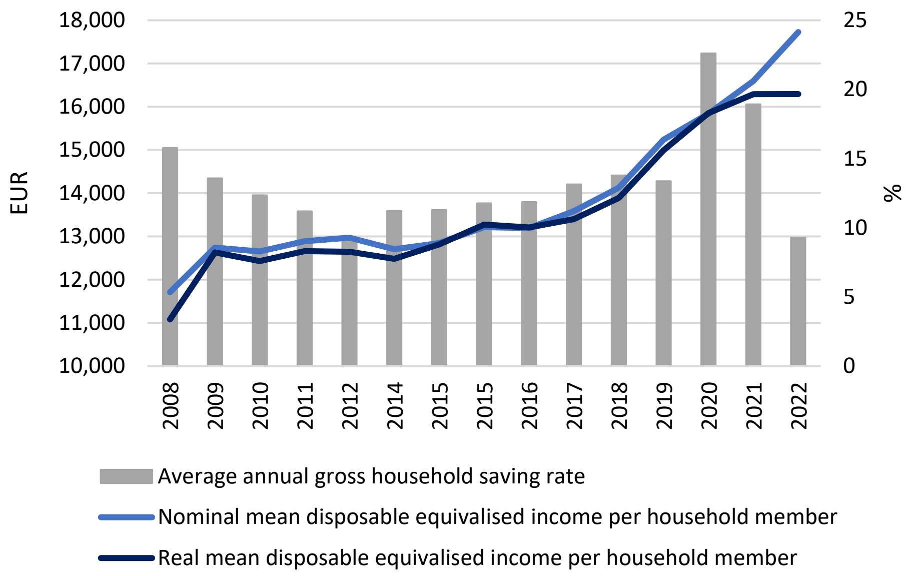
Source: IMAD Autumn Forecast, 2023.

Average wage growth started to pick up in the second half of last year and this trend is continuing in 2023. The increase in the private sector is driven by the growing labour market pressures due to labour shortages, the increase in the minimum wage and pressures to maintain income growth in an environment of high inflation. The growth of the average wage in the public sector also resulted from the agreement with the public sector trade unions reached in October last year. Average gross wage growth will be 8.6% in nominal terms this year, but will be subdued at 1.0% in real terms due to the still-high inflation. In 2024, wage growth in nominal terms will ease somewhat in the face of lower price pressures, but will remain relatively high due to labour market pressures.

As noted by Bank of Slovenia, the financial position of non-financial corporations remained sound in 2022, despite a 5.5% increase in their debt. In fact, the Slovenian non-financial corporations sector still ranks among the least indebted in the euro area in terms of debt-to-GDP ratio, and with a robust growth in the gross operating surplus in 2022 (by 21.2%), the debt-to-gross operating surplus ratio also declined from 235% in 2021 to 245% in 2022 (Bank of Slovenia, Financial Stability Review, May 2023). [3]

Despite the deterioration, the financial position of households remained stable in 2022 (Figure 4). Considering high inflation in 2022, the mean equivalised income per household member continued to grow robustly in nominal terms, but remained roughly at the same level as a year earlier in real terms. In addition, households allocated a large share of disposable income to final consumption in 2022, bringing the gross saving rate close to the 2012 level.

Figure 4: Nominal and real mean disposable equivalised income per household member[4] (left) and average annual gross household saving rate[5] (right)



Source: SORS, own calculations.

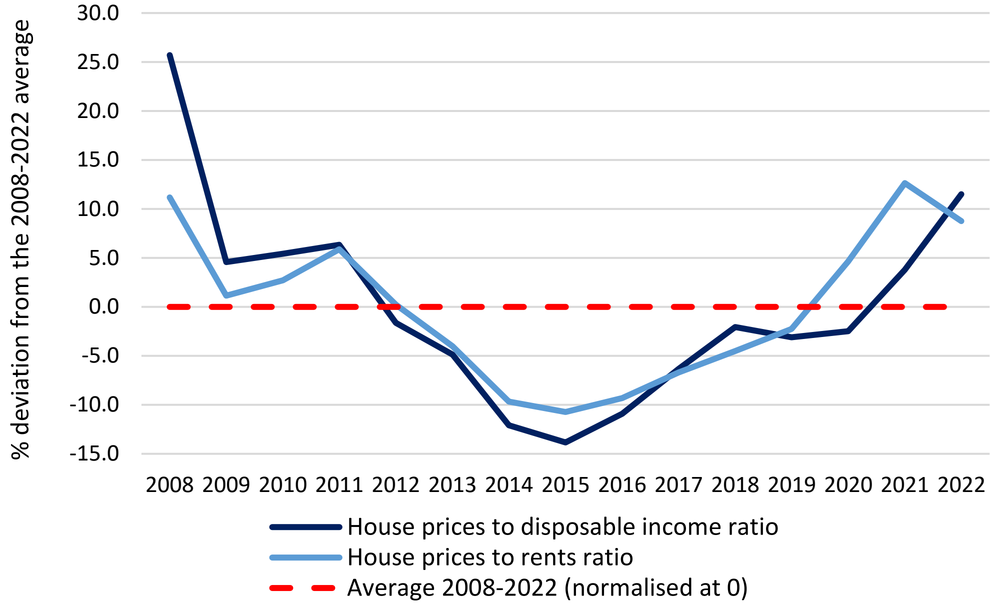
Indicators of the relative overvaluation of dwellings suggested as early as 2021 that house prices had become overvalued. In 2021, the ratio of house prices to disposable income exceeded its long-term average (2008–2022) by 3.8%, and the ratio of house prices to rents by 12.6%. In 2022, the deviation of the ratio of house prices to disposable income from its long-term average increased further (to 11.5%), while the ratio of house prices to rents declined, but remained 8.7% above its average value over the 2008–2022 period.

3 Banka Slovenije (2023). Financial Stability Review, May 2023. Available at: https://www.bsi.si/publikacije/porocilo-o-financni-stabilnosti.

[4] Real mean disposable equivalised income per household member is deflated by the average annual CPI rate.

[5] The average annual gross household saving rate is the average of the quarterly rate calculated as the ratio of gross household saving and NPISHs (non-profit institutions serving households) to gross disposable income adjusted for the change in pension entitlements and gross household saving and NPISHs.

Figure 5: House prices to disposable income ratio and house prices to rents ratio (in % deviation from the 2008-2022 average)



Note: A positive deviation of the indicator from the long-term average (0) indicates overvaluation and a negative deviation indicates undervaluation of residential real estate prices.

Source: SORS; Ministry of Finance, own recalculations.

Growth in the consumer price index decelerated in 2023 and is expected to continue declining gradually until the end of the year. Assuming moderating price pressures (and no shocks to energy prices), inflation is expected to continue to ease, falling towards 2% by the end of 2025. On average, growth in consumer prices will thus be 7.6% in 2023, 3.9% in 2024 and 2.7% in 2025. In 2023 and 2024, inflation in Slovenia (measured as HICP) is expected to remain higher than the EU and EA averages, according to the latest forecasts.

Table 1: Inflation trends and forecasts for Slovenia, the EU and EA (annual % change, annual average)

		2022	**2023**	**2024**
HICP	SI	9.3	7.0	3.8
	EA20	8.4	5.6	2.9
	EU27	9.2	6.5	3.2
CPI	SI	8.8	7.6	3.9

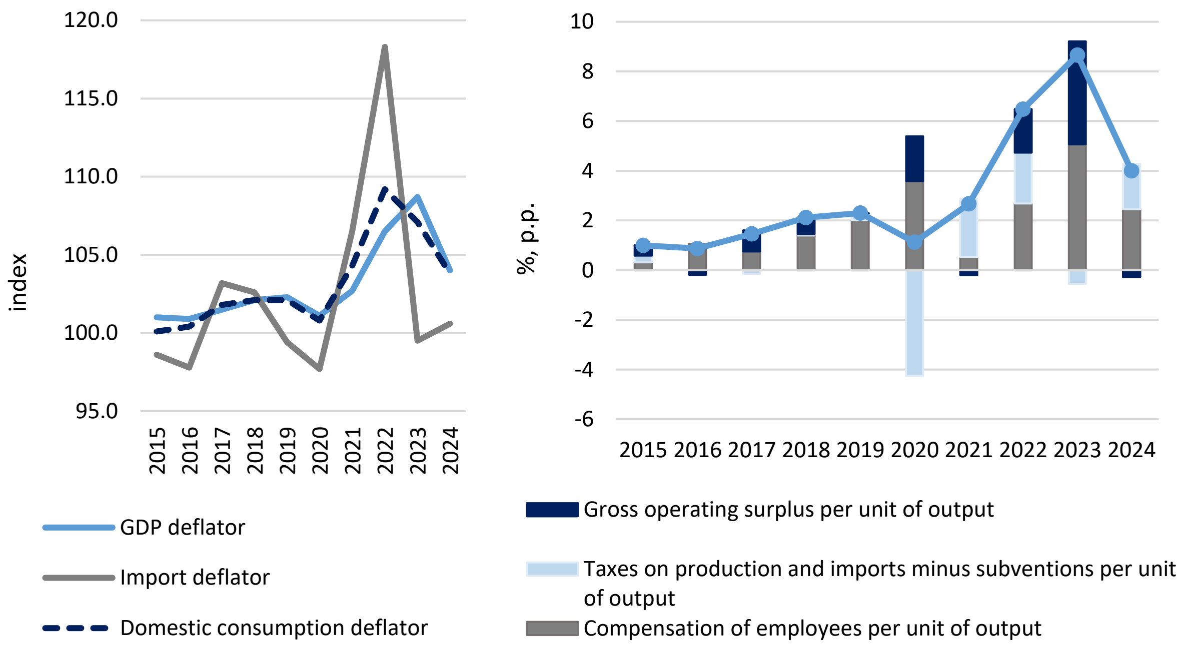
Source: Eurostat and SORS, *EC Spring Forecast 2023 for SI HICP, EC Summer Forecast 2023 for EA20 and EU27 HICP, IMAD Autumn Forecast 2023 for SI CPI.

Figure 6 shows that in 2022 price pressures arose to a greater extent from the external environment than from the domestic environment. Indeed, the annual change in the import deflator was 18%, while the annual change in the GDP deflator, reflecting domestic price pressures, was 6.5%.

Domestic price pressures in Slovenia in 2022, similar to the euro area as a whole (ECB, 2023)[6], stemmed from accelerated growth in unit labour costs, as well as growth in unit profits and unit taxes[7]. In 2022, gross operating surplus and mixed income per unit of output increased by 4.8%, and its contribution to domestic price pressures also strengthened significantly (to around one-third) – Figure 6. Compensation of employees per unit of output increased by 5.5% in 2022 and, together with unit taxes, contributed the remaining two thirds of the increase in the GDP deflator.

According to the IMAD Autumn Forecast 2023, domestic price pressures will increase further this year, while external pressures will decline significantly (Figure 6). The contribution of the gross operating surplus is thus expected to strengthen further this year, contributing almost half of the domestic price pressures, while growth in unit labour costs will explain the remaining half of the GDP deflator growth. For 2024, domestic price pressures are expected to ease, the contribution of the gross operating surplus is expected to turn negative and the contribution of labour cost growth to return to a slightly lower level than in 2022.

Figure 6: Growth of GDP deflator, import deflator and domestic consumption deflator[8] (index) – chart left and growth of GDP deflator (%) and its contributions (in real GDP, in p.p.) – right



Source: IMAD, Autumn Forecast 2023; own recalculations.

[6] ECB (2023). How tit-for-tat inflation can make everyone poorer. Available at: https://www.ecb.europa.eu/press/blog/date/2023/html/ecb.blog.230330~00e522ecb5.en.html?utm_source=newsletter&utm_medium=email&utm_campaign=newsletter&utm_content=image.

[7] The contribution of labour costs and profits to domestic price pressures can be assessed based on the GDP deflator, which can be broken down into unit profits (gross operating surplus and mixed income per unit of real GDP), unit labour costs (compensation of employees per unit of real GDP) and unit taxes (which reflect taxes on production net of subsidies per unit of real GDP).

[8] Domestic consumption is the sum of private and government consumption and gross fixed capital formation.

Position in the cycle

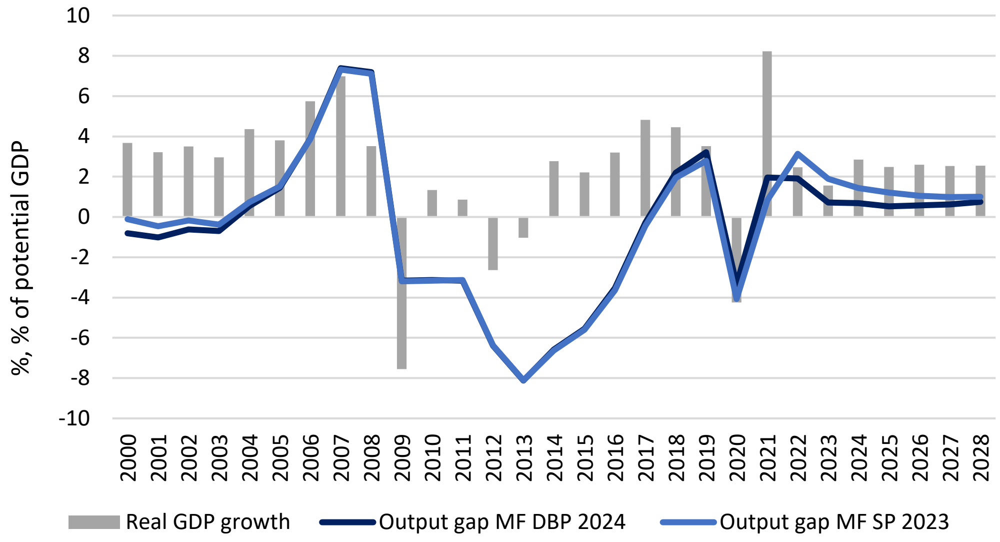
Output gap estimates are used to determine the phase of the business cycle in which a particular economy is situated, and under normal conditions serves as basis for conduction of fiscal policy. Determining real-time business cycle developments is a complex task because of the uncertainty surrounding the output gap estimates, particularly those at the end of the sample (Orphanides and van Norden, 2002).[9] 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 of the real-time output gap estimates is also evident from the high variability of the output gap estimates, which are based on different macroeconomic forecasts. The Ministry of Finance's spring estimates suggested that Slovenia's output gap reached a cyclical peak of 3.1% of potential GDP in 2022. However, with a significant revision of real economic growth for 2022 (from 5.4% to 2.5%), the Ministry of Finance's current estimates suggest that the cyclical peak was already reached in 2021, when real GDP was projected to exceed potential GDP by 2.0%. According to the latest estimates of the Ministry of Finance, the output gap is thus projected at 1.9% of potential GDP in 2022, falling to 0.7% of potential GDP in 2023 (Figure 7). The Slovenian economy is thus in the normal business cycle range this year. The European Commission defines normal times as a period in which the output gap estimate is between -1.5% and 1.5% of potential GDP, and good times as a period in which the output gap estimate is above 1.5% of potential GDP (European Commission, 2019)[10]. Current estimates from the Ministry of Finance assume that the output gap will remain positive over the next four years, but remain around 0.7% of potential GDP, as growth in economic potential is projected to outpace real GDP growth by 0.2 percentage points per year on average over the 2023–2028 period.

[9] 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

[10] European Commission (2019). Vade Mecum on Stability and Growth Pact: 2019 Edition. Institutional Paper 101. April. European Commission. Available at: https://ec.europa.eu/info/sites/default/files/economy-finance/ip101_en.pdf

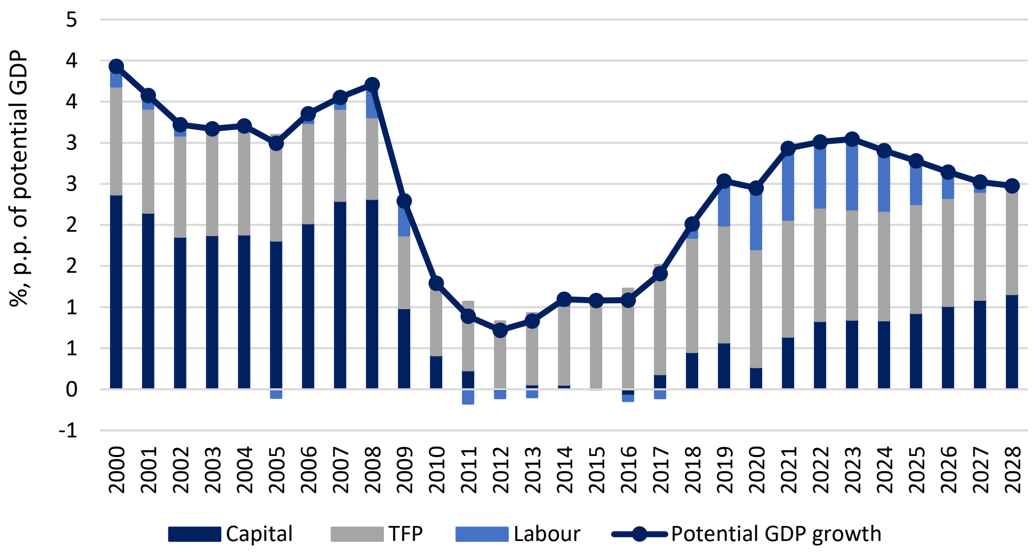
Figure 7: Output gap (% of potential GDP), Ministry of Finance estimates based on the IMAD Autumn Forecast of Economic Trends 2023 (MF DBP 2024) and IMAD Spring Forecast of Economic Trends 2023 (MF SP 2023) and real GDP growth (%)



Source: AMECO; Ministry of Finance, own calculations; IMAD Autumn Forecast 2023.

Annual growth potential GDP is projected to average 2.6% over the 2023–2028 period. With investments projected to strengthen, the contribution of capital is projected to strengthen to the largest extent, while technical progress will continue to be the main contributor to Slovenia's potential GDP growth (TFP in Figure 8). The contribution of labour is projected to strengthen mainly this year and in the next two years, and to decline thereafter, but to remain above its long-term average.

Figure 8: Growth of Slovenia's potential GDP (%) and contributions to its growth (in percentage points of potential GDP)



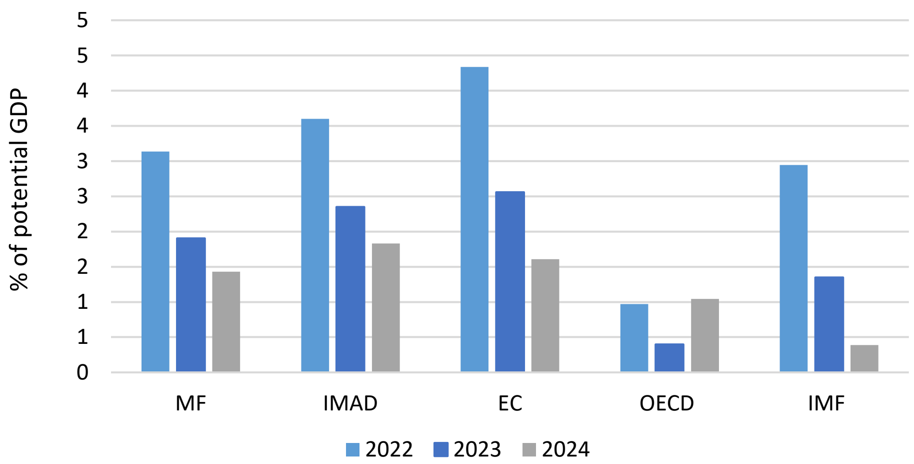
Source: AMECO; Ministry of Finance, own calculations; IMAD Autumn Forecast 2023.

In addition to the revision of input data, output gap estimates are highly sensitive to the methodology used to calculate the output gap and the assumptions made about structural parameters. As a result, estimates by international institutions[11] vary widely.

IMAD, which, like the Ministry of Finance, estimates the output gap based on the European Union's Common Agreed Methodology (EUCAM) (Blondeau, Planas and Rossi, 2021)[12], has also revised the estimate of the 2022 output gap downwards in the Autumn Forecast of Economic Trends 2023 (from 3.6% to 2.7% of potential GDP), and projects a 1.3% output gap for 2023, which should fall to 1.1% in 2024 and be maintained at 0.8% of potential GDP by 2028.

Otherwise, the spring 2023 estimates (before the revision of the national accounts in September 2023) of international institutions for Slovenia's output gap in 2022 varied between 1.0% of potential GDP (OECD) and 4.3% of potential GDP (European Commission). For 2023, the range of output gap estimates was between 0.4% of potential GDP (OECD) and 2.6% of potential GDP (European Commission), and for 2024 between 0.4% of potential GDP (IMF) and 1.8% of potential GDP (IMAD) – Figure 9.

Figure 9: Estimates of the output gap by different institutions, spring 2023



Source: IMAD Spring Forecast 2023; IMF World Economic Outlook, April 2023; OECD Economic Outlook, June 2023; European Commission's Spring 2023 Economic Forecast; The Ministry of Finance: Stability Programme 2023.

The fact that output gap estimates strongly depend on which methodology is used to calculate them is particularly relevant to Slovenia, as it is questionable whether EUCAM is suitable for modelling the Slovenian economic cycle. The "plausibility tool" suggests that EUCAM underestimates the size of the output gap during periods of economic contraction (Hristov, Raciborski & Vandermeulen, 2017).[13] It is extremely important to have unbiased real-time output gap estimates, particularly at times of economic contraction, as any assumption that a

[11] The estimates of the Ministry of Finance, IMAD and the European Commission are based on the same methodology (EUCAM), while the IMF and OECD estimates are based on different methodologies.
[12] 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.
[13] 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.

cycle is shorter (or longer) than it actually is can lead to cyclically restrictive (expansionary) fiscal policy, which can jeopardise economic recovery or even lead to a permanent reduction in long-term economic growth.

3 FISCAL SCENARIO AND MEASURES

In 2024, fiscal policy will focus on the reconstruction of flood-affected areas, while promoting growth and gradual consolidation. In 2024, at the time of preparation ofthe draft budgetary plan, measures related to the energy crisis and high cost of living are no longer foreseen at a high level, and measures to alleviate the effects of the COVID-19 epidemic will expire in 2023. In 2023 the general escape clause at the EU level is still in place and the conditions for invoking exceptional circumstances are met at the national level, allowing for a temporary deviation from the fiscal rules. Due to measures for the rehabilitation of flood-affected areas, measures against the energy crisis, emergency measures and measures against COVID-19, the general government deficit in 2023 is estimated at 4.5% of GDP. In 2024, the general government deficit is targeted at 3.8% of GDP. Without the flood recovery measures, the general government deficit would be below the reference value of 3% of GDP in 2024.

At the time of formulation of the fiscal targets uncertainties are still present, stemming from further developments in inflation and related monetary policy measures, global economic growth, the geopolitical situation, developments in energy markets and the ultimate cost of the natural disaster in 2023 and 2024.

European Commission's Fiscal policy guidance for 2024 of 8 March 2023[14] and the EU country-specific recommendations of the Council of the EU for Slovenia for 2024[15]:

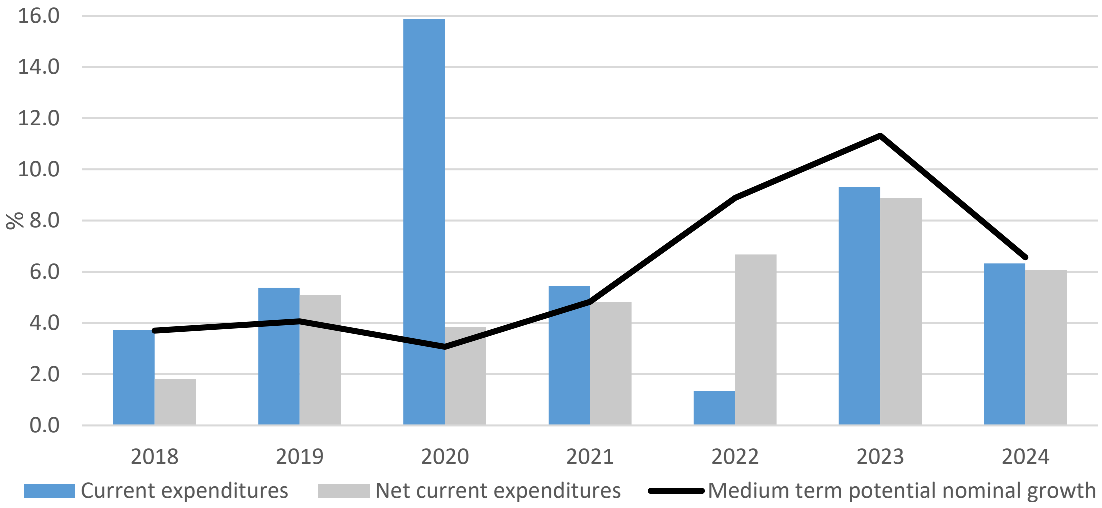
- deactivation of the general escape clause which has been in force since 2020,
- Member States should set fiscal targets in such a way that the reference value for government deficits of 3% of GDP is respected or that the deficit falls below that value within the multiannual fiscal plan period,
- under unchanged policies after the end of the multiannual fiscal plan period, the deficit should not exceed the stated reference value in the medium term,
- the general government debt ratio should decrease or remain at prudent levels in the medium term,
- Member States should keep the share of national investment in GDP high and ensure the efficient use of EU funds,
- the growth of net national current expenditure should be limited compared to the medium-term growth of potential GDP (the increase in nationally financed net primary expenditure in 2024 should not exceed 5.5%),
- measures addressing the energy crisis should be phased out, or, if this is not possible, targeted at more vulnerable groups.

In 2024, we will set the medium-term framework with a consolidation path that also enhances growth and development. Towards the end of this year, more will be known about the possible change in fiscal rules at the EU level, which will also guide the formation of fiscal policy in the

[14] COM_2023_141_1_EN_ACT_part1_v4.pdf (europa.eu)
[15] https://data.consilium.europa.eu/doc/document/ST-11156-2023-INIT/en/pdf

medium term. In the long run, it is important that current expenditure does not grow faster than the economy's production capacity or potential GDP. The 2024 plans will bring current expenditure growth (all expenditure excluding investment and capital transfers) and net current expenditure growth (current expenditure excluding interest expenditure, cyclical unemployment expenditure, EU current expenditure financing and COVID-19 measures) below the medium-term growth of nominal potential GDP (Figure 10). In this context, it is not insignificant that current estimates of potential GDP remain uncertain and nominal growth is also strongly influenced by inflation.

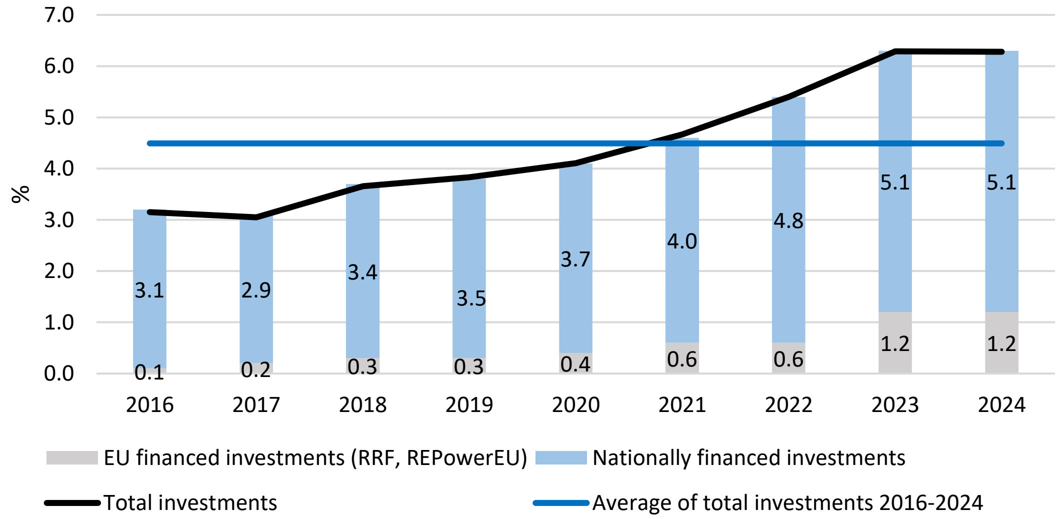
Figure 10: Current expenditure growth and medium-term potential nominal GDP growth developments



Source: SORS, Ministry of Finance, 2023.

In 2024, the share of general government gross fixed capital formation as a percentage of GDP remains high and above the multiannual average. Nationally financed investment are also maintained at a high level, in line with the recommendations (Figure 11).

Figure 11: General government gross fixed capital formation by source of funds, as a percentage of GDP



Source: SORS, Ministry of Finance, 2023.

In 2024, after almost four years, the general escape clause will no longer apply at the EU level and the conditions for invoking exceptional circumstances are expected to no longer be met at the national level, so the structural balance target (cyclically adjusted balance net of one-off measures) will once again be an important indicator, in line with the current fiscal rules. Assessing the structural balance in uncertain times as well as in normal times is quite uncertain for Slovenia as a small open economy. The assessment of the situation in the cycle is uncertain, ex-ante and ex-post assessments of the adequacy of fiscal effort and forecasts of macroeconomic aggregates are subject to change, and GDP revisions also affect uncertainty.

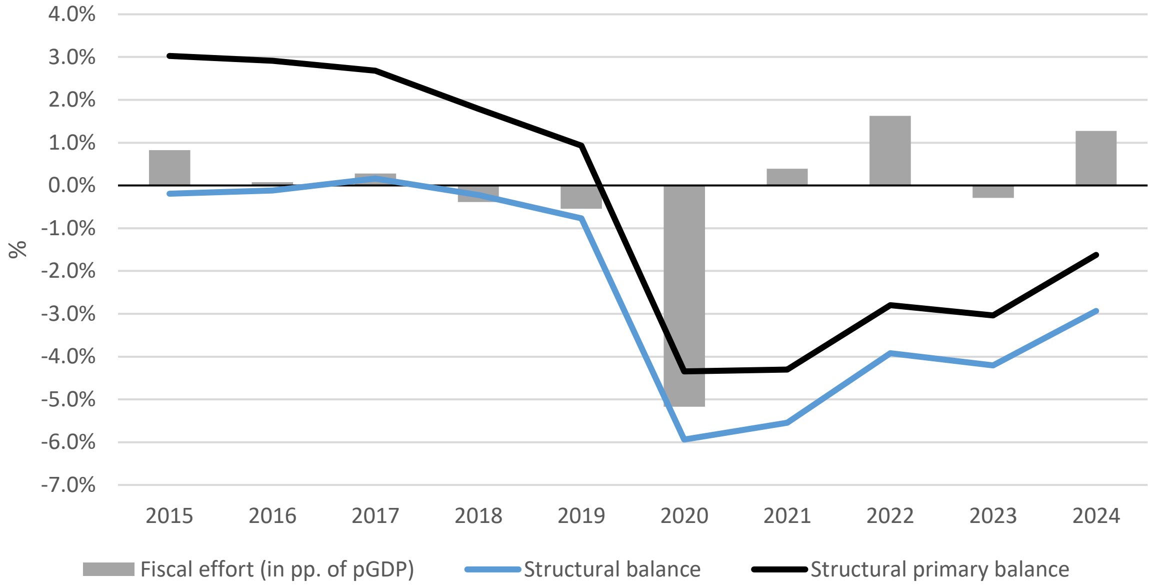
Table 2: Cyclical developments

	in % GDP	**ESA code**	**2023**	**2024**
1.	Real GDP growth (%)		1.6	2.8
2.	Net lending/net borrowing (S13)	B.9	-4.5	-3.8
3.	Interest expenditure	D.41	1.2	1.3
4.	One-off and other temporary measures		-0.6	-1.2
4a.	Of which one-offs on the revenue side: general government		0.3	0.4
4b.	Of which one-offs on the expenditure side: general government		-0.8	-1.6
5.	Potential GDP growth (%)		2.8	2.8
	Contributions:			
	- labour		0.9	0.8
	- capital		0.8	0.9
	- total factor productivity		1.1	1.1
6.	Output gap (% of potential GDP)		0.7	0.7
7.	Cyclical budgetary component (% of potential GDP)		0.3	0.3
8.	Cyclically adjusted balance (2-7) (% of potential GDP)		-4.8	-4.1
9.	Cyclically adjusted primary balance (8+3) (% of potential GDP)		-3.6	-2.8
10.	Structural balance (8-4) (% of potential GDP)		-4.2	-2.9
11.	Fiscal effort (in pp. of potential GDP)		-0.3	1.3

Source: IMAD, Ministry of Finance.

Figure 12 shows the evolution of the structural balance and structural primary balance (structural balance excluding interest expenditure). The projected gradual fiscal consolidation ensures a fiscal effort (year-on-year difference in the structural balance) that is in line with the requirements of the applicable fiscal rules. In 2024, a fiscal effort of 1.3 percentage points of potential GDP will be achieved. From a fiscal sustainability perspective, it is also important to monitor the structural primary balance, which is estimated at 1.6% of potential GDP in 2024.

Figure 12: Movements in the structural balance and the structural primary balance as a percentage of potential GDP and the fiscal effort as percentage points of potential GDP (pGDP)

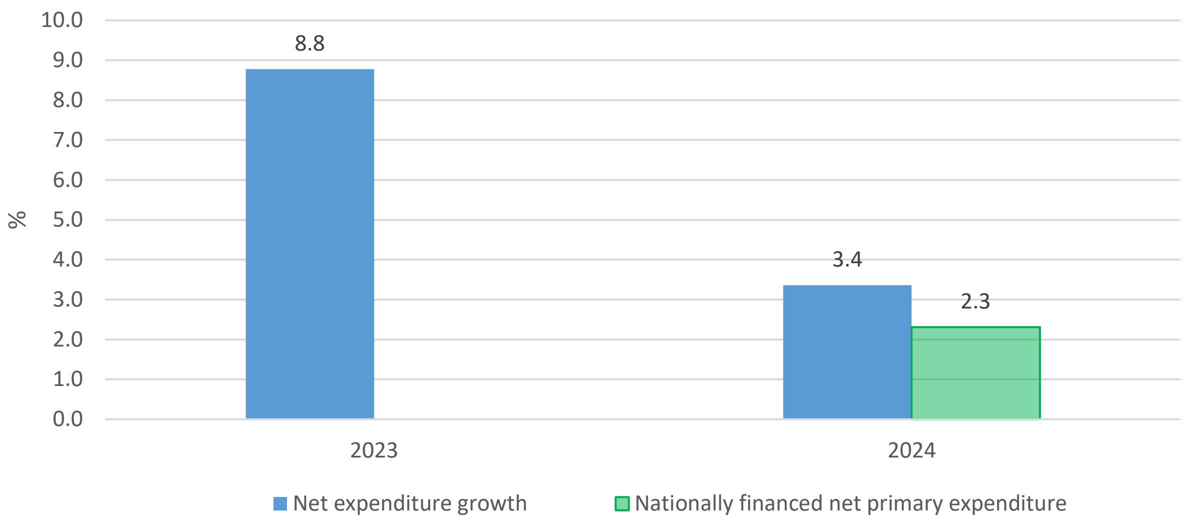


Source: Ministry of Finance, 2023.

In order to obtain an estimate of appropriate net expenditure growth according to the EU expenditure benchmark under the Stability and Growth Pact, expenditures on interest, the cyclical component of unemployment benefits and expenditures on EU programmes that are fully matched by EU funds revenue are subtracted from all government expenditures (net expenditures), while four-year average of nationally financed gross fixed capital formation excluding funds received from the EU for investment is considered. The fiscal position is also defined in terms of the nominal growth of nationally financed net primary expenditure (expenditure excluding interest expenditure, cyclical unemployment expenditure, EU funds, one-off expenditure and revenue, and taking into account the impact of discretionary measures[16] on the revenue side). In 2024, both growth rates are below the medium-term nominal growth rate of potential GDP. In 2024, growth in nationally financed net primary expenditure is below the recommended growth rate of 5.5%[17], at 2.3% (Figure 13).

[16] The calculation includes the impact of the abolished energy measures from 2024 on the revenue side and the positive impact of the solidarity contribution, which is expected to increase revenues.
[17] This corresponded to an annual improvement in the structural balance of at least 0.5% of potential GDP, according to the EC's spring assessment.

Figure 13: Assessment of net expenditure growth according to the EU expenditure benchmark and growth in nationally financed net primary expenditure



Source: Ministry of Finance, 2023.

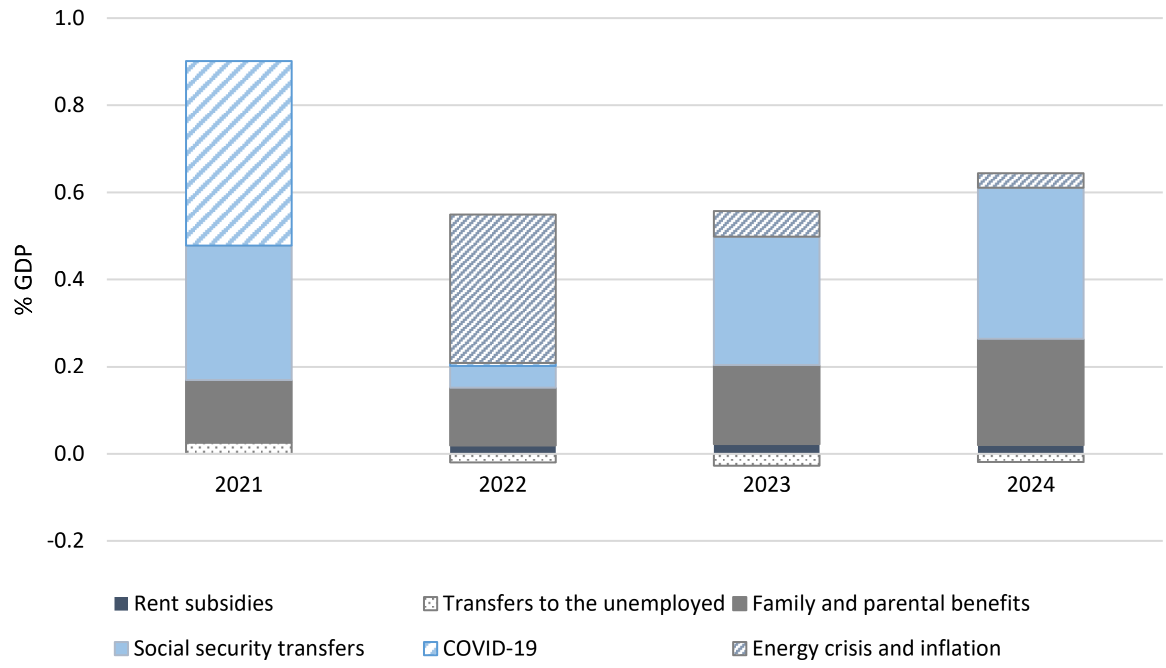
Automatic stabilisers

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

Before COVID-19 and the energy crisis, automatic stabilisers amounted to around 2.3% of GDP in 2019. In 2023, automatic stabilisers are projected to increase by around 0.5% compared to 2019, while COVID-19 measures are coming to an end; however, the measures related to the high cost of living remain in place[18]. By the end of 2024, automatic stabilisers will be 0.6% higher than in 2019, which is attributed to the significant impact of inflation on transfers and compensation coordination. However, the low unemployment rate and the high level of employment are reflected in lower transfers to the unemployed compared to 2019.

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

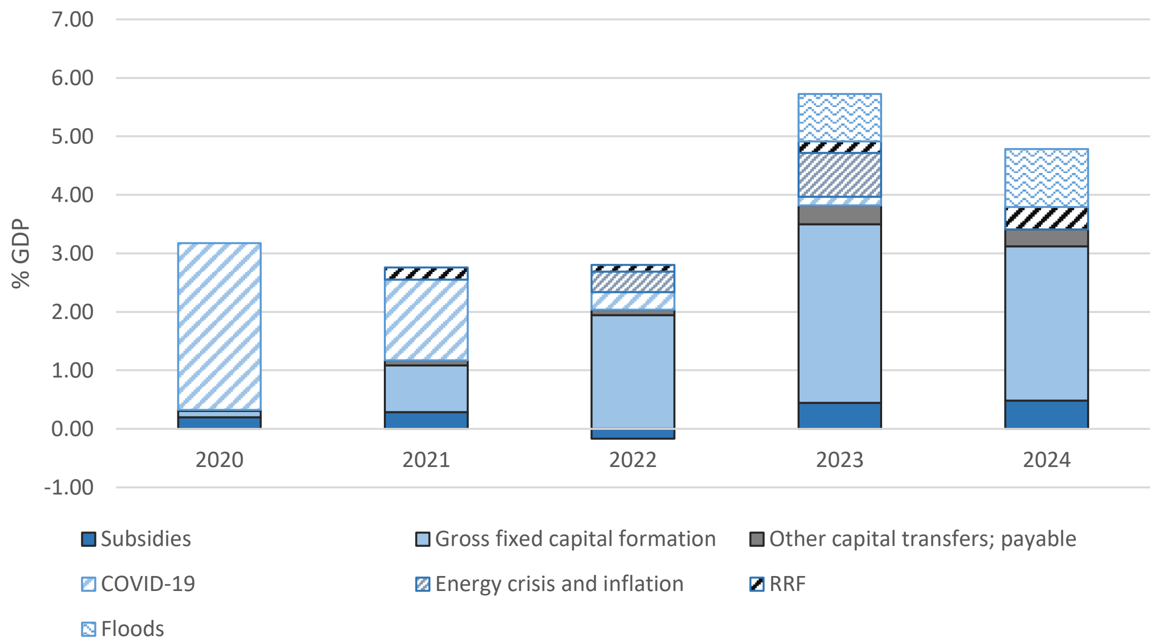
Figure 14: Automatic stabilisers, change from 2019 as a percentage of GDP



Source: Ministry of Finance, own calculations.

Fiscal stimulus (Figure 15), which include subsidies, gross investments and other capital transfers, have increased or will increase substantially in comparison with 2019. In 2019, they amounted to EUR 2.35 billion, or 4.9% of GDP. In 2020 and 2021, fiscal stimuli in the form of subsidies increased strongly as a result of COVID-19 measures; in this and the following year, the stimulus will rise mainly on account of investments.

Figure 15: Fiscal stimulus, change from 2019 as a percentage of GDP



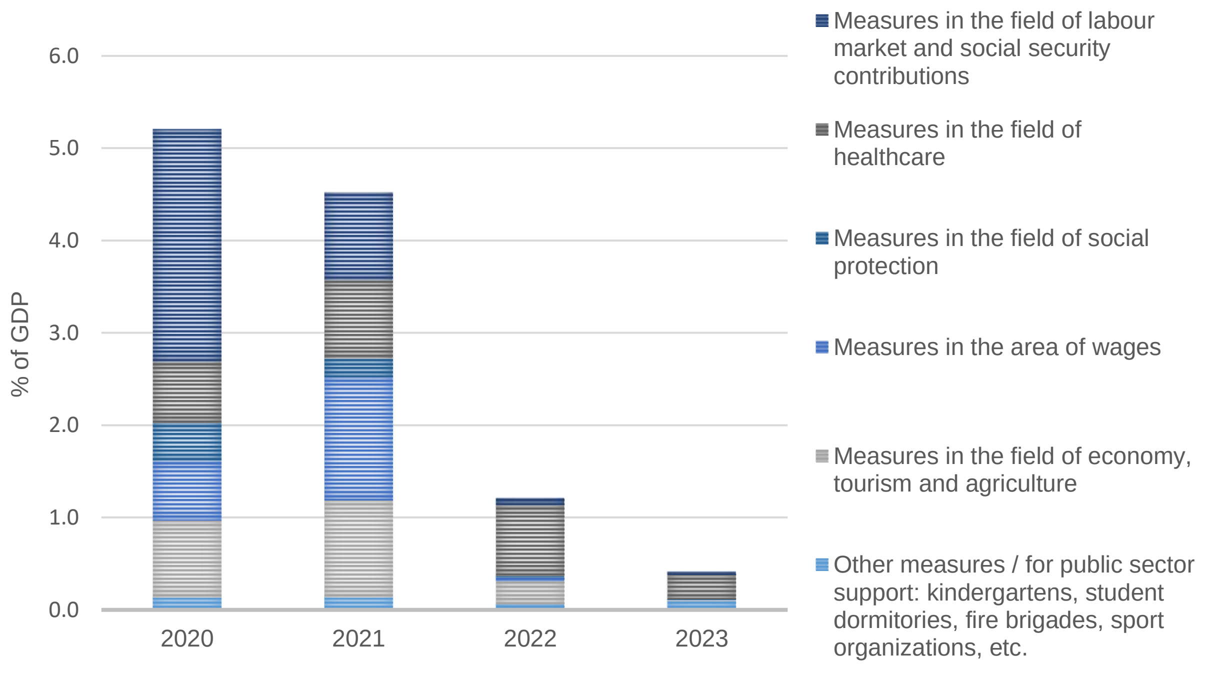
Source: Ministry of Finance, own calculations.

Fiscal measures to deal with the crisis and natural disasters

- **Phasing out of COVID-19 measures**

From the start of the COVID-19 epidemic, the Slovenian Government has adopted several anti-coronavirus packages to help the economy, healthcare, labour market and other areas. All the measures implemented in the 2020–2023 period under the intervention laws were aimed at mitigating the consequences of the epidemic and helping the economy and individuals to prevent a deeper decline in economic activity and employment. Thus, the most important measures were those for employees and employers (wage compensation for employees waiting at home, coverage of pension and disability insurance contributions, reduced working hours), temporary assistance for the most vulnerable groups, allowances and supplements for work under exceptional circumstances, tourism vouchers, and measures in the health sector (covering the costs of testing, protective equipment and vaccines, provision of additional funds to the Health Insurance Institute of Slovenia -ZZZS, etc.). The total volume of measures related to COVID-19 in the 2020–2023 period is estimated at just under EUR 5.8 billion, or around 11% of GDP.

Figure 16: Estimated value of COVID-19 measures 2020–2023, by individual fields according to the ESA methodology (% of GDP)



Source: Ministry of Finance.

As shown in Figure 16, expenditure to mitigate the consequences of the epidemic is gradually decreasing year by year and expiring as of 2023. Expenditure peaked in 2020 at 5.2% of GDP, falling to 4.5% of GDP in 2021 and 1.2% of GDP last year. With the withdrawal of measures, we expect a further reduction in 2023, when expenditure is estimated at 0.4% of GDP. Within this, the larger part of the estimated funds this year is foreseen to finance the costs of the Health Insurance Institute of Slovenia (COVID-19 health services and compensations), vaccinations and vaccines, and isolation-related wage compensations.

- **Energy measures and high cost of living**

In 2022, the Republic of Slovenia adopted several energy packages that were also valid in 2023. Most of the energy measures in 2023 have already been fully implemented. Subsidies were available for larger companies to mitigate the effects of increased energy prices if they showed significantly higher energy consumption costs for a given crisis period than they had in pre-crisis times (annual proof in AJPES balance sheets). Large companies were divided into several groups according to their energy dependency. To help the economy, price measures (regulated energy prices) targeting small and medium-sized enterprises (SMEs) were also adopted for 2023. Price caps for electricity and natural gas also apply to the population and some public services. The price caps are in place until the end of the year. The reduction of VAT from 22% to 9.5% on energy products/services also expired at the end of May 2023.

The table of measures includes loans to the energy company (which has already been repaid, as recognised by Eurostat on the basis of an assembly decision) and to the electricity distributor. The compensation or subsidisation of the loss of revenue applies to companies in the energy sector, which will be deprived of their revenues mainly as a result of the price measures adopted.

Table 3: Energy crisis measures for 2022 and estimate for 2023 using ESA methodology (EUR million)

	Description	**ESA code**	**2022**	**2023**
Revenue side	Total loss of revenue due to reduction of excise duties for energy products, partial exemption from the payment of OVE (renewable energy sources)+SPTE (cogeneration with high efficiency), reduction of VAT rates for certain energy products to 9.5%, reduction of CO2 taxes.	D.21	-211	-164
	Revenue		-211	-164
Expenditure side	Subsidies to companies to mitigate the consequences of increased energy prices; support to agriculture and fisheries, preservation of jobs; compensation to suppliers of electricity and natural gas.	D3	202	475
	Operator of the distribution network of the electric power system ELES – recapitalization.	D3		170
	Social transfers to households in 2023; dearness allowances for children, allowances for the most vulnerable, restrictions on the increase of maintenance allowances, accommodation in ŠD, school lunches.	D62/D63	197	42
	Expenditure		398	687

Source: Ministry of Finance.

The 2023 package includes measures to support the economy, such as part-time work and temporary absence from work, which are aimed at companies that would face labour cost and labour constraint problems if production were to decline due to energy shortages.

A small part of the aid payments to companies is also expected to continue in 2024, according to the statutory timetable (cash flow, according to ESA, is counted in 2023). In addition to these measures with a direct fiscal impact, guarantee laws for electricity undertakings (EUR 292 million) and other liquidity measures for the transmission system operator in the Republic of Slovenia were adopted, whereby liquidity facilities for companies were also provided through the SID Bank.

- **Flooding (one-off expenditure)**

In 2023, Slovenia was hit by a number of natural disasters, and particularly severe storms. Damage was mainly caused by excessive rainfall, hail and hurricane-force winds. Loss events occurred mainly during the two periods of storms in May and two in July, followed by catastrophic flooding in August 2023. The first rapid assistance from the state was a transfer of EUR 10 million to the Red Cross and Caritas to help people. Subsequently, the Act Amending the Natural Disaster Recovery Act (ZOPNN-F) and the Act Determining Intervention Measures for Recovery from the Floods and Landslides of August 2023 (ZIUOPZP, Official Gazette of the Republic of Slovenia [*Uradni list RS*], No. 95/23, 31 August 2023) were adopted. A new act on reconstruction, development and measures to provide funds for flood recovery is also under preparation, which will comprehensively address disaster recovery and further development of the affected areas, as well as broader measures to deal with natural disasters.

Article 11a (allocation of advances) of the Act Amending the Natural Disaster Recovery Act (ZOPNN-F) introduced the possibility of 40% advances to local communities for the repair of damage. This amendment also provides for the reimbursement of aid for storms between May and July 2023, when the damage was estimated at around EUR 85 million. The amendments adopted also define measures in the field of labour, namely the reimbursement of wage compensation to workers who are unable to work due to *force majeure* as a result of the natural disaster, a measure in the field of workers' paid absence, and a temporary measure of partial wage reimbursement to workers temporarily furloughed. According to the data of the Employment Service of Slovenia (ZRSZ), 2,314 applications had been submitted by mid-September for 20,116 people for the purpose of partial reimbursement of wage compensation to workers.

The Act Determining Intervention Measures for Recovery from the Floods and Landslides of August 2023 (ZIUOPZP) adopted measures to address the following issues, among others:
- reconstruction of local community infrastructure and financing,
- restoration of national infrastructure (roads, railways, water protection, environment, cultural heritage, etc.),
- agriculture and fisheries,
- administrative measures (space planning, energy facilities, landslides, etc.),
- solidarity measures related to specific groups of affected individuals (emergency cash assistance, rent, accommodation, kindergarten fees, intervention measures for higher education institutions, family support, etc.),
- the economy (faster recruitment of foreigners, aid for the self-employed, etc.),
- compulsory voluntary contributions, etc.

On 15 September 2023, the Government of the Republic of Slovenia adopted a resolution to reimburse intervention costs during the activation of the National Flood Protection and Rescue Plan 2023 (EUR 95 million for municipalities and EUR 11.4 million for the protection, rescue and relief forces). The Government of the Republic of Slovenia has also provided funds to reimburse intervention costs to firefighters. Based on the acts adopted, preliminary programmes for the recovery from natural disasters have been adopted, which are based on an assessment of the damage caused by the natural disaster and define the percentage of state aid. The preliminary programmes adopted on the basis of the preliminary damage assessments have led to the adoption of intervention measures in relation to water (EUR 47 million) and road and rail infrastructure (EUR 50.4 million). The advance payment to local communities is estimated at around EUR 222 million. The damage to the economy is estimated at around EUR 320 million, of which the state has provided around EUR 32 million in advance payments in 2023. The table below shows the current projection without a definitive inventory of the damage, broken down by ESA category and combined groups of measures.

Table 4: Planned resources on the expenditure and revenue side for disaster recovery using ESA methodology (EUR million)

	Description	**ESA code**	**2023**	**2024**
Revenue side	Solidarity contribution	D51	160	160
	A one-time measure of non-harmonization of income tax bases and scales	D51		100
	Total		160	260
Expenditure side				
	Reconstruction of buildings, municipal infrastructural and public facilities, implementation of geotechnical measures, technical support. Implementation of intervention measures on road, railway and water infrastructure.	P51	50	465
	Reimbursement for loss of income, destroyed machinery and stock and waiting for work; solidarity measures and emergency aid, redistribution to the Red Cross and Caritas.	D75	125	327
	Measures related to the environment and restoration of economic and public infrastructure.	D9	360	270
	Total		535	1062
	Measure of financial instruments of SID Banka		150	150

Source: Ministry of Finance.

All flood-related measures are considered as one-off measures.

In addition to the floods in August, Slovenia faced other natural disasters in 2023 (flooding between 6 and 7 May 2023; heavy rainfall with flooding and landslides from 14 to 23 May 2023; severe storms with rain and wind between 12 and 13 July 2023), with total damage estimated at around EUR 85 million.

Unchanged policies scenario

Under an unchanged policy scenario, all temporary measures related to the natural disaster of August 2023 are excluded for 2024.

Uncertainties and risks to the fiscal forecast

The risks to the realisation of the forecast stem mainly from economic activity in the international environment, where activity is moderating, and uncertainty also remains about the course of the war in Ukraine. In addition to weaker demand, the export sector of the Slovenian economy is also facing higher electricity and gas prices and labour costs. In the event of persistent inflation, the deterioration in cost competitiveness would hit the Slovenian export sector even harder. Risks with regard to higher inflation stem from various factors such as higher energy prices, possible higher services inflation and higher assumed food price increases. Food prices are strongly influenced by the extreme weather events, which this year have affected many European countries that are important food producers. At the same time, there are uncertainties about the short- and medium-term economic consequences of the recent natural disaster. There are additional inflation risks arising from the increased demand for construction work due to the post-flood reconstruction.

Any persistent inflation would feed into uncertainties and risks related to economic growth in the euro area, further constrain households' purchasing power and lead to further monetary policy tightening, which would have a negative impact on lending and investment activity.

There is also some scope for higher economic growth in the EU and Slovenia. This includes a faster decline in inflation, which would lead to less monetary policy tightening and greater household purchasing power. A more efficient absorption of the EU package funds and the fiscal impacts of the reform measures would have a positive impact on economic growth in Slovenia and in our main trading partners. Successfully attracting foreign workers could also alleviate labour shortages, which would have a positive impact on economic activity.

Table 5 shows the various changes in a given category of budget expenditure and revenue resulting from a hypothetical change in a given economic factor. The budget impact as a percentage of GDP is thus the result of a 1 percentage point change in the annual growth rate of the macroeconomic determinant, or a change in interest rates over the two-year period of analysis. For example, if in 2023 and 2024 employment growth were 1 percentage point higher each year than that projected in the IMAD Autumn Forecast 2023, personal income tax revenues would be around 0.09% of GDP higher in 2024.

Table 5 shows that among listed macroeconomic or cyclical determinants, the largest impact on the increase in budget revenue has the increase in the growth rate of compensation of employees. Specifically, social contributions would be 0.24% of GDP higher in 2024 in the event of a 1 percentage point higher annual growth in compensation of employees this year and next year. One percentage point higher annual nominal wage growth would result in 0.14% of GDP higher income tax revenue at the end of 2024, while higher growth in the gross operating surplus would result in 0.13% of GDP higher corporate tax revenue.

On the other hand, 1 percentage point higher annual nominal wage growth would increase public sector wage expenditure by 0.08% of GDP this year and 0.15% of GDP in 2024. Pension expenditure would be 0.11% of GDP higher after two years. Pension expenditure would increase by 0.04% of GDP in the first year and by 0.07% of GDP in the second year, due to 1 percentage point higher inflation. Higher inflation would also increase social transfer expenditure by 0.06% of GDP per year. Restrictive monetary policy increases interest expenditure. In response to a 100-basis point rise in interest rates, interest expenditure would increase by 0.70% of GDP in the first year and by 0.69% of GDP in the second year.

Table 5: Impact of changes in economic determinants on individual general government sector items – different hypothetical scenarios

		Budget impact in % of GDP	
Economic determinant	**Budget item**	**2023**	**2024**
GDP (income) component			
Compensation of employees (1 p.p. higher annual growth)	Social security contributions	0.12	0.24
Nominal wages growth (1 p.p. higher annual growth)	Personal income tax	0.06	0.14
Employment (1 p.p. higher annual growth)	Personal income tax	0.05	0.09
Gross operating surplus (1 p.p. higher annual growth)	Corporate income tax	0.06	0.13
GDP (expenditure) component			
Household consumption (1 p.p. higher annual growth)	Value added tax	0.07	0.15
Household consumption (1 p.p. higher annual growth)	Excise duties	0.02	0.04
Labour market			
Nominal wages (1 p.p. higher annual growth)	Public sector wages expenditure	0.08	0.15
Nominal wages (1 p.p. higher annual growth)	Public pension expenditure	0.05	0.11
Inflation			
CPI (1 p.p. higher annual growth)	Public pension expenditure	0.04	0.07
CPI (1 p.p. higher annual growth)	Other social transfers expenditure	0.06	0.06
Interest rates			
Interest rates (100 b.p. higher annually)	Interest expenditure	0.70	0.69

Source: IMAD, Spring Forecast of Economic Trends 2023; Ministry of Finance, own recalculations.

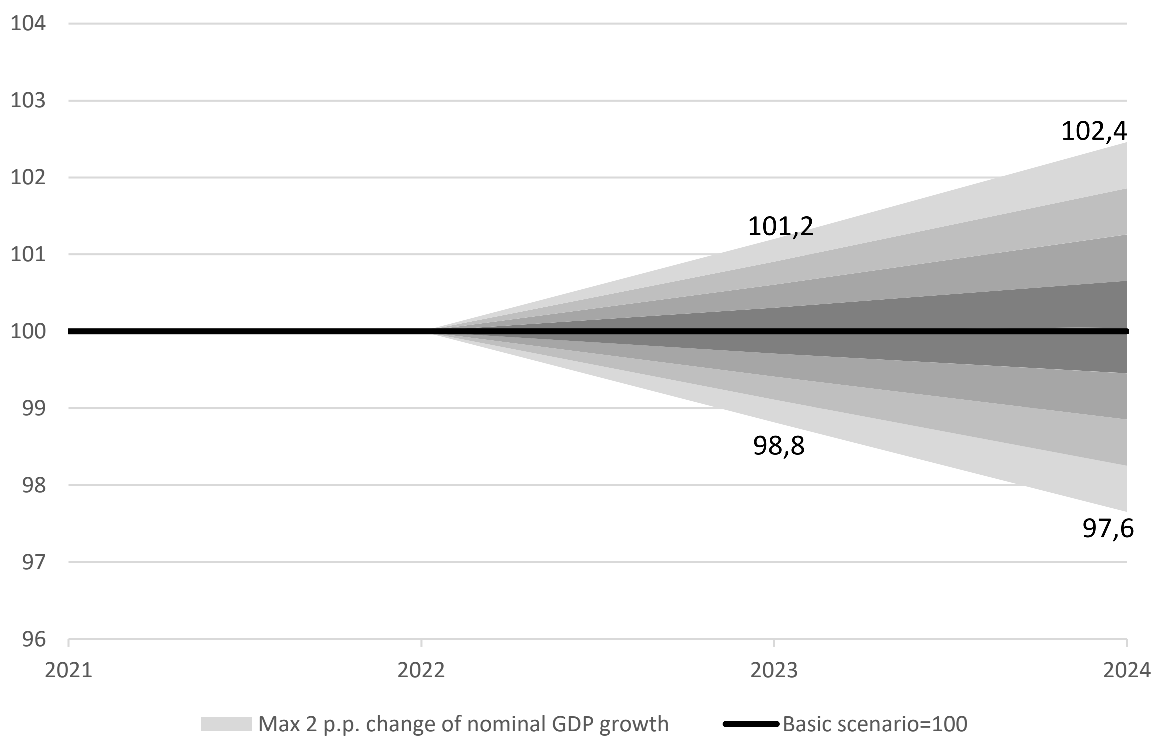
As with all sensitivity assessments, caution is needed in interpreting the results. The estimated budget impact represents the static impact of a hypothetical change in a given economic determinant. The estimated effects are partial in nature, as they do not capture the effects of the interaction of the assumed change in economic determinant with other factors. Effects are therefore the results of a "what-if" analysis and do not serve as a forecast.

The figure below presents alternative scenarios of the impact of economic growth fluctuations on general government revenue. The scenarios show the revenue path in the event of 0.5, 1 and 2 percentage points (p.p.) higher or lower economic growth in nominal terms than that projected in the IMAD Autumn Forecast at an annual linear level in each year, and are thus based on projections of the movement of fiscal revenues bases.

Assuming unchanged policies, general government revenue in 2023 would, in the event of nominal GDP growth of 2 percentage points higher than predicted, improve by 1.2% in comparison with the baseline forecast, and by 2.5% in comparison with the baseline forecast for 2024. In the opposite case, i.e. of GDP growth that is 2 percentage points lower, general government revenue in 2023 would reach 98.8% of the revenue from the baseline forecast for this year, and 97.7% in 2024.

In the event of realised GDP growth that is 1 percentage point lower or higher in this and the next year, general government revenue would be lower or higher by 0.6% and 1.2%, respectively. In the event of growth that is 0.5 percentage points lower or higher in this and the following two years, revenue would be lower or higher by 0.3% and 0.6%, respectively.

Figure 17: Impact of economic growth fluctuations on general government revenue



Source: Ministry of Finance, own calculations.

4 GENERAL GOVERNMENT REVENUES AND EXPENDITURE 2023–2024

General government revenues

Favourable labour market conditions and private consumption growth will be reflected in the growth in general government revenues in 2023 and 2024. With the adoption of the amendments to the ZDoh-2AA, which entered into force on 1 January 2023, we have contributed to strengthening and improving the public finances, thus increasing general government revenues for 2023 by around EUR 70 million, given the anticipated financial consequences for 2023. If this change had not been made, the general allowance would have risen from EUR 4,500 to EUR 5,500 this year, which is, of course, also the most impactful of the solutions adopted. This amendment to the personal income tax also introduces solutions that will not result in a further reduction of the determined amount of personal income tax due to the gradual increase of the general allowance in 2024 and 2025.

General government revenues will total EUR 27.691 billion in 2023, an increase of 10% or just over EUR 2.5 billion relative to 2022. The largest share of this growth will be contributed by higher revenue from taxes and social contributions. On the tax revenue side, the most significant contribution to growth will be higher revenues from income and property taxes, increasing by 10% or around EUR 460 million. Personal income tax revenue will increase by EUR 150 million or 5.1%, while revenues from corporate income tax will be up by EUR 130 million or 10%. The revenues from the solidarity contribution for flood relief (EUR 160 million), which will be paid in 2024 for 2023, will also contribute to a rise. Therefore, the contribution will be accounted for in the current year. Revenue from production and import taxes will increase by 5.6% or EUR 425 million, also as a result of high consumption growth and a still high level of inflation in 2023. Value added tax revenue will be up by EUR 355 million or 7.6% in 2023, while revenue from excise duties will rise by just over EUR 55 million or 3.6%. The growth in social security contributions will also continue, by just over EUR 870 million or 9.4% relative to last year. Growth will primarily be driven by favourable labour market conditions and high employment rates. Among other revenue categories, revenues from capital transfers will show a significant increase (by just over EUR 340 million or 71%), mainly on account of higher revenues from EU funds, both as a result of the conclusion of the EU financial perspective 2014–2020, and the revenues from the Recovery and Resilience Fund (RRF). Interest income will rise significantly, by EUR 106 million or just under 90%, primarily on account of increased interest rates in the euro area and the active management of state funds.

Revenue growth will slow slightly in 2024, but will still remain high at EUR 1.9 billion, representing a 6.9% increase relative to the previous year, primarily on account of taxes and social contributions. Tax revenues will be higher primarily due to production and import taxes (by around EUR 540 million or 6.7%), as a result of growth in value added tax revenues (by just over EUR 300 million or 6%) and revenues from the tax for atmospheric carbon emissions, which will be fully reinstated in 2024, having been exempted for part of the year in 2023 as a measure to mitigate consequences of the energy crisis. Revenues from excise duties will remain unchanged from the previous year. Revenues from income and property taxes will increase in 2024 by almost EUR 400 million or 7.8%. There will be a growth in income tax revenues of just over EUR 310 million, or 10%, and growth in corporate tax revenues will amount to just over EUR 65 million or 4.6%. Revenues from income and property taxes in 2024 will also be higher due to the solidarity bonus of EUR 160 million, which will be paid in 2025 for 2024. In 2024, the growth in social security contributions will be particularly pronounced. These will rise by EUR 1,234 million or 12.1%, both on the grounds of the still favourable labour market conditions and the inclusion of the supplementary health insurance contribution in the compulsory health insurance system in 2024. The impact of the higher revenues will be approximately EUR 600 million. Among other revenue categories, other current transfers will exhibit a significant increase (by around EUR 260 million or 37%), driven primarily by the disbursement of assistance from the European Union Solidarity Fund for floods in August 2023. As the previous EU financial perspective comes to an end and the new one begins, revenues from capital transfers will be slightly lower, decreasing by EUR 112 million or around 14%. This will be accompanied by a reduction in interest income (by approximately EUR 40 million or just under 17%). In 2024, revenue growth will exceed expenditure growth by 1.5 percentage points.

General government expenditure

General government expenditure will amount to EUR 30.5 billion in 2023, which is an increase of EUR 3.6 billion or 13.4% on 2022. Growth in general government expenditure will largely be the result of extraordinary events in 2023, notably measures to mitigate the consequences of the energy crisis and higher prices, to deal with the consequences of the floods in August 2023 and, to a lesser extent, measures to alleviate the effects of the COVID-19 epidemic that expire in 2023. In 2023 the investment expenditure of the general government will increase most (by EUR 880 million or 28.5%), on account of investments by direct budget users (of the state budget and local government budgets) and by other general government units. Investment growth will also reflect the conclusion of the EU financial perspective 2014–2020 and the end of funding from the Recovery and Resilience Fund, and it will also be influenced by investment expenditure resulting from the repair of the damage caused by the floods in August 2023.

Growth in expenditure on employee compensation will be 11% or just under EUR 715 million, also as a result of adjusting public-sector employees' salaries in April 2023 by 1 pay grade or 4%. Expenditure on subsidies will be up by EUR 615 million in 2023, marking a rise of around 90% compared to the previous year, which will primarily be attributable to state support for businesses in response to the energy crisis and high prices. Capital transfers will increase by just under EUR 610 million or 288% in 2023, mainly on account of the Government's flood relief measures and spending by other general government units. Growth in expenditure on social security benefits will be 4.6% in 2023, or just under EUR 500 million. Social transfers in the form of cash will rise by EUR 336 million or 3.7%, mainly due to pension increases, while expenditure on social transfers in kind will increase by just over EUR 150 million or 11%. General government interest expenditure will be up 15% to EUR 734 million in 2023, mainly as a result of the rising costs of new borrowing.

Growth in general government expenditure will slow slightly in 2024 and will be outpaced by revenue growth. It will amount to 5.4% or just under EUR 1.7 billion. Expenditure on social security benefits will increase most, by EUR 1.2 billion or 11%. Expenditure on social security benefits in kind will grow (by around EUR 480 million or 30%) as a result of the transfer of supplementary health insurance to compulsory health insurance, which will increase expenditure by around EUR 600 million. With the revenue remaining at the same level, the impact on the general government balance will be neutral. Expenditure on social security benefits in cash will increase by just over EUR 740 million or 7.8%, mainly due to higher expenditure on pensions.

Investment expenditure will grow by around EUR 270 million or 6.8% in 2024, which is primarily attributed to additional investment necessitated by the August floods, with a slight slowdown due to the conclusion of the previous EU financial perspective and the commencement of fund absorption from the new financial perspective. Expenditure on employee compensation will rise by around EUR 380 million or 5.3% in 2024. In contrast, expenditure on subsidies will fall by around EUR 450 million or 35%, primarily due to the discontinuation of measures aimed at assisting the private sector in response to the energy crisis. Expenditure on capital transfers will also be cut by around a quarter, and this reduction would be even more substantial if it did not encompass government spending on flood relief. Interest expenditure growth will pick up in 2024, reaching just under 20%.

Description of main general government expenditure in 2024

Employee compensation

Employee compensation will increase by around EUR 380 million or 5.3% in 2024. The growth will be the result of existing commitments such as regular promotions and the carry-over effect of classifying posts in higher pay grades, which became effective as of 1 April 2023. In the field of salaries and other labour costs, negotiations between the Government of the Republic of Slovenia and the public-sector trade unions on the elimination of wage disparities and the introduction of a new wage system are underway at the time of preparing the amendments to the 2024 and 2025 budgets (and consequently the Draft Budget Plan – Compensation of Employees). The implementation of the above will necessitate an investment of funds, and the implementation should therefore be gradual over three years, in part as a result of the impact of higher general government expenditure on compliance with the fiscal rules. The initial phase of implementing the agreed solutions for eliminating disparities, as well as the reform, was originally foreseen for 2024, but Slovenia experienced a natural disaster in August, which necessitated a change of priorities and a reallocation of available resources to fund relief and recovery efforts in the aftermath of the devastating floods. In light of the extensive damage and large-scale remedial measures foreseen, the Government included a provision in the PIPRS2425 in September to postpone the implementation of the wage reform from 2024 to 2025, and therefore wage grades on the wage scale will not be coordinated from 1 January 2024 to 31 December 2024.

Subsidies

After increasing in 2023, mainly as a result of the Government financial support to the private sector in the wake of the energy crisis and high prices, expenditure on subsidies will fall by just over EUR 450 million or 35% in 2024, primarily on account of the foreseen abolition of such measures. The expenditure will amount to EUR 845 million and include subsidies to private enterprises and sole traders from the Recovery and Resilience Fund. Expenditure on subsidies does not include aid to enterprises for the repair of damage caused by the floods of August 2023, as this is included in expenditure on capital transfers.

In line with the ESA 2010 methodology, aid intended for enterprises affected by the floods, as well as other costs associated with flood relief that do not qualify as investments, have been recorded as expenditure on capital transfers (D.99)[19]. Transfers to households to be paid as

[19] According to ESA 4.164: "Other capital transfers (D.99) are transfers other than investment grants and capital taxes which do not themselves redistribute income but redistribute saving or wealth among

flood damage relief have been recorded under miscellaneous current transfers (D.75)[20]. As announced, a new act on reconstruction, development and measures to provide funds for flood recovery is also in preparation, which, in addition to the above, also introduces new resources and additional funds (stemming from measures and the reprioritisation of funds in financial plans), which means that certain funds are already included in the limits.

Social security benefits

Expenditure on social security benefits will increase by EUR 1.2 billion or just over 11% in 2024 relative to the previous year. This will be the result of both the transfer of expenditure on supplementary health insurance to compulsory health insurance and applicable legal bases, and projected trends dictated by demographic factors, labour market conditions and the harmonisation of transfers to individuals and households. However, this does not include state aid aimed at assisting households in dealing with the consequences of the August 2023 floods, as these measures are accounted for under miscellaneous current transfers.

Expenditure on social security benefits in kind is expected to rise by approximately EUR 480 million or 30%, mainly due to additional obligations of the Health Insurance Institute of Slovenia (ZZZS) stemming from the transfer of supplementary health insurance to compulsory insurance. In the area of health care, the Act Regulating the Implementation of the Budgets of the Republic of Slovenia for 2024 and 2025 (ZIPRS2425) adopted by the Government in September stipulates that the state budget of the (ZZZS) shall allocate funds up to a maximum of EUR 420 million to sustain the healthcare system. These funds can be utilised by the ZZZS for well-defined purposes.

However, expenditure on social security benefits in cash will increase by just over EUR 740 million or 7.8%, mainly due to higher expenditure on pensions as a result of a regular pension increase and a rise in the number of pensioners. Expenditure on gross pensions will rise by just over EUR 650 million or 10% in 2024. When the Government adopted the draft national budgets in September 2023 for the following two years, it was decided that the advance payment of the regular adjustment in 2024, which is typically scheduled for February, would be made as early as January, at a rate of 1.8%, and in February the calculation is then performed to determine the difference between the actual regular adjustment and the advance payment made in January.

Investment expenditure

Expenditure on general government investment has been increasing since 2017 and will peak at EUR 4,230 million in 2024, an increase of 6.8% or just under EUR 270 million compared to 2023, when the absorption of EU funds from the 2014–2020 financial perspective will come to

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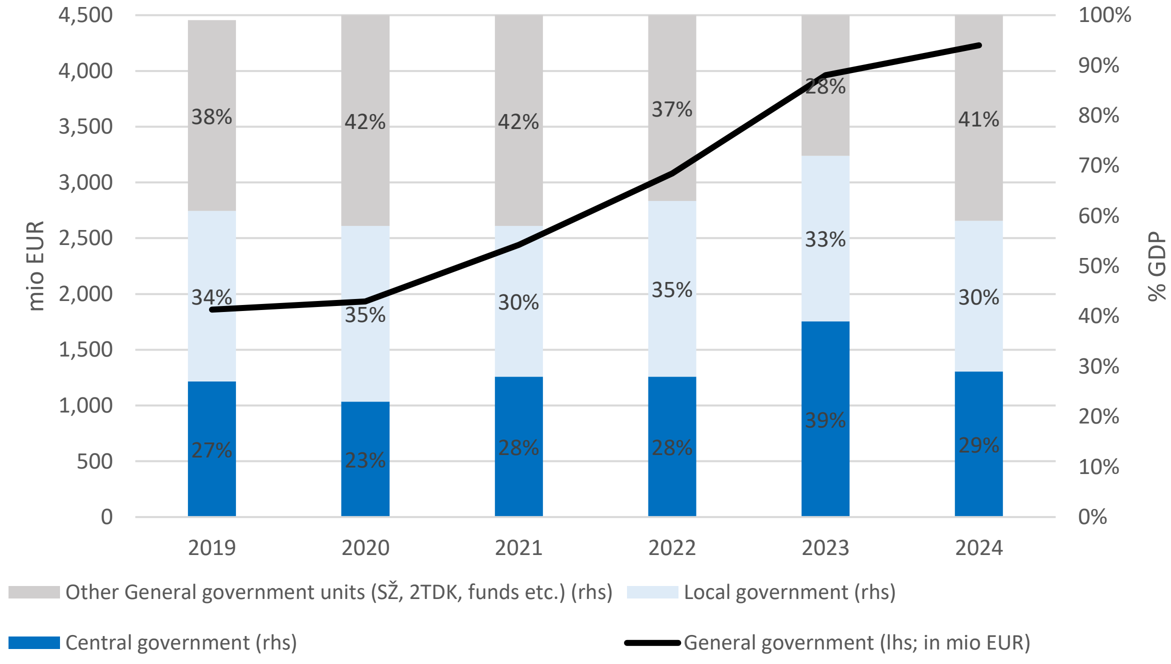
the different sectors or subsectors of the economy or the rest of the world. They can be made in cash or in kind (cases of debt assumption or debt cancellation) and correspond to voluntary transfers of wealth."

[20] According to Article 4.136 Payments of Compensation: "Payments of compensation consist of current transfers paid by institutional units to other institutional units in compensation for injury to persons or damage to property, excluding payments of non-life insurance claims. Payments of compensation are compulsory payments awarded by a court of law, or voluntary payments agreed out of court. This heading covers voluntary payments made by government units or NPISHs in compensation for injuries or damage caused by natural disasters other than those classified as capital transfers."

a close. The increase in investment expenditure in 2024 will be driven by higher spending from the Recovery and Resilience Fund, the start of funding from the EU financial framework 2021–2027, as well as by the state budget's integral funds earmarked for transport and transport infrastructure, and for defence and protection. A significant portion of this investment will be targeted at rectifying the effects of the August floods on national and municipal infrastructure, while high levels of investment are also planned for other general government units, notably public institutions, public and budget funds and companies, especially in the area of railway infrastructure management.

Local government investment will amount to around EUR 1.3 billion in 2024, representing 30% of total general government investment, while state budget investment expenditure will account for just under 30%. Other general government investment in 2024 (41%) is made up of investment by other general government units (public institutions, companies and other general government units) and other adjustments consistent with the ESA 2010 methodology. As regards the source of financing of general government investment, in 2024 the share of EU funds (EU financial perspective, Recovery and Resilience Plan) will be 1.2% of GDP and the share of other sources (integral, earmarked, etc.) will be 5.1% of GDP. Total general government investment as a share of GDP was 3.2% at the start of the EU's 2014–2020 financial perspective in 2016 and will reach 6.3% of GDP at the end of the same financial perspective in 2023. It will remain at a similar level in 2024. Investment in the green and digital transitions will increase in 2024, mainly on account of rail infrastructure.

Figure 18: Government sector investment



Source: Ministry of Finance

5 STRUCTURAL CHANGES AND INVESTMENTS

Recovery and Resilience Plan

Slovenia's key medium-term structural changes are outlined and approved in the Recovery and Resilience Plan (RRP), which forms the basis for the utilisation of funding under the European Recovery and Resilience Facility. The RRP, endorsed by the Council of the European Union in July 2021, foresees 34 reforms and 52 investments in various areas in the period until 2026. The Plan also includes three key reforms for Slovenia – health and pension reforms and long-term care reform.

A total of EUR 364.3 million is foreseen for the implementation of the measures in the RRP in 2023, EUR 582.6 million in 2024, EUR 700.0 million in 2025 and EUR 854.1 million in 2026.

In 2023, the funds are earmarked primarily for:

- sustainable mobility measures (projects to increase rail infrastructure capacity);
- digital transformation (projects of digitalisation in the businesses selected through calls for tenders or in the context of public administration and digital infrastructure/connectivity);
- raising productivity and improving the business environment for investors (support for the decarbonisation, productivity and competitiveness of enterprises, establishment of business zones);
- strengthening competences (in particular digital competences and those required by new professions and the green transition);
- clean and safe environment measures (urban water discharge and treatment, drinking water supply and saving, flood risk reduction);
- circular economy project;
- more efficient healthcare (effective management of communicable diseases) and
- provision of public rental housing units.

A key reform of 2023 is the adoption of the Long-Term Care Act, which will enter into force in 2024. The Act provides a comprehensive and systemic solution in social security, regulating both the implementation and financing of this field.

In 2024, similar measures to those in 2023 will continue, with enhanced projects focusing on renewable energy sources and energy efficiency in the private sector, a clean and safe environment, sustainable building renovation, circular economy and digital transformation of the private sector, sustainable tourism development, health and housing.

As a result of the reduction of grants available under the Recovery and Resilience Facility, the achievement of the objectives of the REPowerEU plan to reduce dependence on Russian energy, and other objective circumstances such as inflation and supply chain disruptions due to the war in Ukraine, Slovenia submitted a proposal to the European Commission for an amendment to the RRP on 14 July 2023. The proposed amendment to the plan does not interfere with its basic purpose. The plan has maintained the investments and key reforms that will follow the planned tight timeline as closely as possible. In preparing additional content for the new REPowerEU chapter, the Government adhered to the principle of complementarity with existing RRP measures in the areas of energy efficiency, renewable energy sources and sustainable mobility.

In the light of the exceptional circumstances caused by the floods, on 31 August 2023 the Government of the Republic of Slovenia submitted to the European Commission an indicative list of areas for additional borrowing and for the re-engagement of part of the loans already granted, namely for the purpose of financing the sustainable renovation of buildings, enhancing the capacity of rail infrastructure and mitigating flood risk, reducing the risk of other climate-related disasters and funding the projects of flood protection regulation. The final amount of additional loans approved under the amendment to the RRP later this year might be lower than applied for. On 29 September 2023, the European Commission gave a favourable assessment of the proposed amendment to the Slovenian Recovery and Resilience Plan. The renewed Plan, which now also includes a REPowerEU chapter, will be worth EUR 1.61 billion in European grants and EUR 1.07 billion in loans. It will include 34 reforms and 49 investments.

Structural changes

- ***Reform of social protection systems***

Healthcare remains a central priority task of the Government. In addition to preparations for the health reform, the health policy orientations for 2024 and 2025 were presented in September 2023. Health priorities are addressed to ensure greater stability in the healthcare system over the next two years. The aim is to widen access to health services, enhance health outcomes through the exchange of good practices between healthcare providers, while at the same time, the development and optimisation of work organisation and processes will reduce inequalities among population at national and regional levels.

Measures for the health budget are also foreseen in the new act under preparation. The act introduces specific measures related to the health budget that will be of a permanent nature, thereby constituting a structural reform. Several articles deal with the regulation of absenteeism, with one of the main measures being the reintroduction of the coverage of sick leave by employers from 20 to 30 working days, effective from 1 December 2023, resulting in an estimated annual saving of EUR 73 million. The act also reduces the allowance for time off work due to quarantine by 10 percentage points, aligning it with the allowance for absence from work on the grounds of illness, while at the same time it eliminates the differentiation of the assessment rate of the allowance according to the payment period, and prescribes a standard rate. The estimated financial impact of this measure is EUR 25 million per year. The act introduces a systemic reimbursement for medicines in case the actual expenditure of the Health Insurance Institute of Slovenia (ZZZS) exceeds the planned expenditure, in such a way that pharmaceutical companies cover a 40% share of the excess expenditure of the compulsory insurance for medicines. The act shortens the payment period for selected health services in order to reduce waiting lists, shifting the deadline from the current 31 December 2024 to 31 December 2023. The estimated savings amount to just under EUR 29 million. To widen access to health services, it introduces payments for selected health services after completion. The measure referred to in this Article is of a temporary nature and remains in force until 31 December 2024.

In July 2023, the ministry responsible for labour market policies presented to the social partners the starting points for **pension reform**, aligned with the solutions contained in the White Paper on pensions, and coordinated starting points based on it for the overhaul of the pension and disability insurance system as agreed with the social partners in 2017. The above-mentioned starting points thus constitute the basis for further public debate and subsequent adoption of changes in pension and disability insurance. Key measures include a gradual increase in the retirement age, changes in the accrual rates, modifications to the number of years of insurance for calculating the pension rating base, and a revision of indexation of pensions that would be more closely linked to inflation. Supplementary pension insurance would be regulated by a separate act.

A key reform of 2023 is the adoption of the **Long-Term Care Act**, which will enter into force in 2024. The Act provides a comprehensive and systemic solution with regard to social security, regulating both the implementation and funding of this field. One of the key systemic innovations introduced by the Long-Term Care Act is a guaranteed system of public funding. In addition to the portion of the annual appropriations, contributions will also be made by workers, employers, and pensioners. New long-term care services will be phased in gradually. The first amendment will take effect at the beginning of 2024 and pertains to the status of dependants of family members. Long-term home care, e-care service and the long-term care contribution will be introduced in (July) 2025. At the end of 2025 (December), the enhancement of long-term care in institutional settings and the introduction of a cash benefit are scheduled.

- ***Reform of the public sector salary system***

In October 2022, the Slovenian Government and the representative public-sector trade unions signed the Agreement regulating measures relating to salaries and other labour costs in the public sector for 2022 and 2023, which also gives rise to a commitment to initiate the coordination of amendments to the Public Sector Salary System Act. In March 2023 the Government sent to public-sector trade unions the baseline for negotiations regarding the reform of the public sector salary system and the elimination of disparities in basic salaries. The objectives of the proposed reform of the public sector salary system are to maintain the transparency and manageability of the salary system from the perspective of public finances, to establish uniform regulation for the elements that constitute the common foundations of the salary system, to consider the specificities of different segments within the public sector and to provide flexibility to regulate certain elements separately within each pillar of the salary system, to eliminate the levelling effects at the lower end of the salary scale resulting from the impact of the minimum wage and to create more appropriate pay ratios between officials, directors and civil servants, as well as within each pillar, to introduce greater variability tied to performance (the link between pay and performance), and to enhance the attractiveness of the system for young people and reduce the impact of seniority on pay levels. The overall reform is planned to be implemented over three years, with the dynamics to be agreed with the trade unions. In view of the August floods and the resources required for disaster response, the Government proposed a one-year delay in the implementation of the reform.

- ***Competitiveness, productivity, knowledge and skills and the labour market***

On the topic of competitiveness, a proposal for an Action plan to boost the competitiveness of the Slovenian economy was presented in September 2023. The plan sets out a new vision for Slovenia as a leading European development hub for advanced technologies. The primary objective is to enable and motivate Slovenian companies to become leading innovators in advanced technologies, thereby making Slovenia an appealing location for R&D activities of both domestic and foreign international innovative companies. Slovenia's labour market is experiencing a record-low unemployment rate, but Slovenia is also facing labour shortage challenges. Given the labour shortage trend, Slovenia has embarked on regulating the employment of foreigners through the Act amending the Employment, Self-Employment and

Work of Aliens Act that eliminates unnecessary administrative obstacles and expedites the resolution of administrative matters. Scholarships are awarded in specific areas (such as healthcare) to tackle labour shortages. The amendment to the Scientific Research and Innovation Activities Act has made it possible to finance research and innovation in one place (Slovenian Research and Innovation Agency).

- ***Digital transformation***

The digitisation of public services is one of the key elements of digital transformation. Investing in digital technologies is the key area for action, requiring the empowerment of individuals, businesses, and administrative systems with next-generation technologies to ensure that digital transformation benefits everyone. In March 2023 the Promotion of Digital Inclusion Act was passed, outlining measures for subsidising the enhancement of digital competences, joint drafting of policies among line ministries, support for or execution of educational and promotional campaigns, digital vouchers, and a mechanism to ensure access to computer equipment. EUR 22.5 million is earmarked for e-inclusion projects in 2023, and EUR 16.3 million in 2024.

A two-year Action Plan for the 2030 Digital Public Services Strategy was also adopted. The vision underpinning the Digital Public Services 2030 Strategy is citizen- and business-centred digital public services that enable citizens and businesses to interact with public administrations in an integrated, coordinated, secure and efficient way. The strategy sets out a clear direction for the development of digital public services, which will allow the development of simple to use services and promote their widespread use. The Action Plan includes 106 actions with a total value of EUR 183 million. In 2023 the EU-funded broadband development project also continued, while the largest investments financed through integral funds were allocated to further advance the regulation of the information society and electronic communications, worth EUR 14.7 million, and investments in information and cyber security totalled EUR 1.6 million.

- ***Green transition***

Green transition measures include:
- The Climate Change Act has been undergoing public consultation and will set out policies and measures to mitigate greenhouse gas emissions, address climate change adaptations and protect the ozone layer, provide monitoring and information on the implementation of climate policies, and regulate the financial aspects of climate change.
- The Decree on compensation for indirect costs related to the costs of greenhouse gas emissions in favor of certain sectors or parts of sectors exposed to the risk of CO2 emission displacement was adopted in 2023. The aim is to help sectors or subsectors that are exposed to a real risk ofCO2 emission displacement . Around EUR 80 million will be allocated for this purpose from the Climate Change Fund over the period 2023–2025.
- The Government adopted the Flood Risk Reduction Plan 2023–2027 which aims to reduce the adverse effects of floods on human health, the environment, cultural heritage and economic activities in the areas with significant flood risk and associated erosion. In view of the catastrophic floods that hit Slovenia in early August 2023, additional resources are foreseen for this purpose, notably within the implementation of the Recovery and Resilience Plan.
- In the area of energy policy, Slovenia is preparing a revision of its National Energy and Climate Plan to align with EU regulations.

- The Energy Policy Act is under public consultation. The main objectives are security of the energy supply, fostering effective competition on the energy market, the transition to a low-carbon society and more detailed rules on the priority use of resources and energy products.
- Projects of pumped hydroelectric power plants are being prepared. The government continues with promotion and incentive mechanisms regarding the installation of wind farms and the installation of solar panels.
- In the area of energy efficiency, a new method for calculating network charges will be applied in 2024, rewarding those who are energy efficient.
- The Introduction of Installations for the Generation of Electricity from Renewable Energy Sources Act, which regulates the specificities of spatial planning and authorisation of installations that generate electricity from RES, was also adopted.
- The Act on Infrastructure for Alternative Fuels and Promotion of the Transition to Alternative Fuels in Transport aims to establish a dense, publicly accessible and interoperable network of refuelling and supply infrastructure for the use of alternative fuels in transport.
- An adequate level of rail infrastructure must be in place to ensure the flow of passenger and goods traffic. All the activities conducted to upgrade and modernise the Slovenian rail network.
- Furthermore, building energy renovation projects will continue. An additional EUR 42 million will also be available from the REPowerEU plan in the coming years to support the industry's green transition. Slovenian project applicants also receive active support in Innovation Fund calls.

6 PUBLIC DEBT AND CONTINGENT LIABILITIES

Public debt

Table 6: Consolidated general government debt	2022	E2023	F2024
		EUR (m)	
1. General Government Debt	41,242	44,042	46,394
2. GDP	57,038	62,970	67,318
		GDP (%)	
3. General Government Debt	72.3	69.9	68.9
4. General Government Balance	-3.0	-4.5	-3.8
5. Primary Balance	-1.9	-3.3	-2.5
6. Interest (D.41)	1.1	1.2	1.3
7. Stock-Flow-Adjustments	0.2	-0.1	-0.3
Implicit Interest Rate	1.6	1.8	2.0

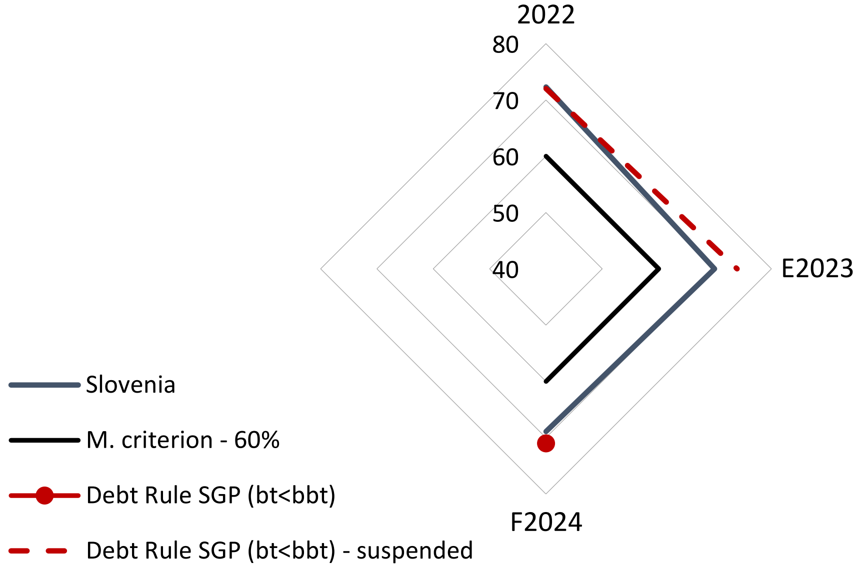
Source: Ministry of Finance, SORS, Treasury Directorate, 25 September 2023

The limits on the borrowing allowed in a fiscal year are determined by the adopted Financing Programme for 2023 and the Public Finance Act which allows the pre-financing of the state budget up to the level of principals of the state budget debt due in the next two years. In December 2022, the Slovenian Government adopted the Ministry of Finance's Medium-Term Strategy on Public Debt Management for the period 2023–2025. The Stability Programme 2023–2026 has also been adopted. Both documents include a projection of the evolution, i.e. the reduction of the general government debt-to-GDP ratio over the medium term.

Based on the latest revision of the annual GDP and consolidated general government debt estimates by the Statistical Office of the Republic of Slovenia (SORS), the latter amounted to 72.3% of GDP at the end of 2022. The Ministry of Finance estimates general government debt at 69.9% of GDP in 2023, and 68.9% of GDP at the end of 2024. The estimated evolution of debt as a percentage of GDP falls within the framework projected in the Ministry of Finance's Medium-Term Strategy on Public Debt Management 2023–2025.

The figure below shows that the process of reducing the general government debt-to-GDP ratio began in 2021. The process of debt-to-GDP reduction is estimated to continue mainly through nominal GDP growth and the gradual reduction in state budget liquidity reserves. The projected development of Slovenia's consolidated general government debt complies with the suspended debt rules of the Stability and Growth Pact from 2023 onwards.

Figure 19: Consolidated general government debt 2022–2024, as % of GDP



Source: Ministry of Finance, 28 September 2023

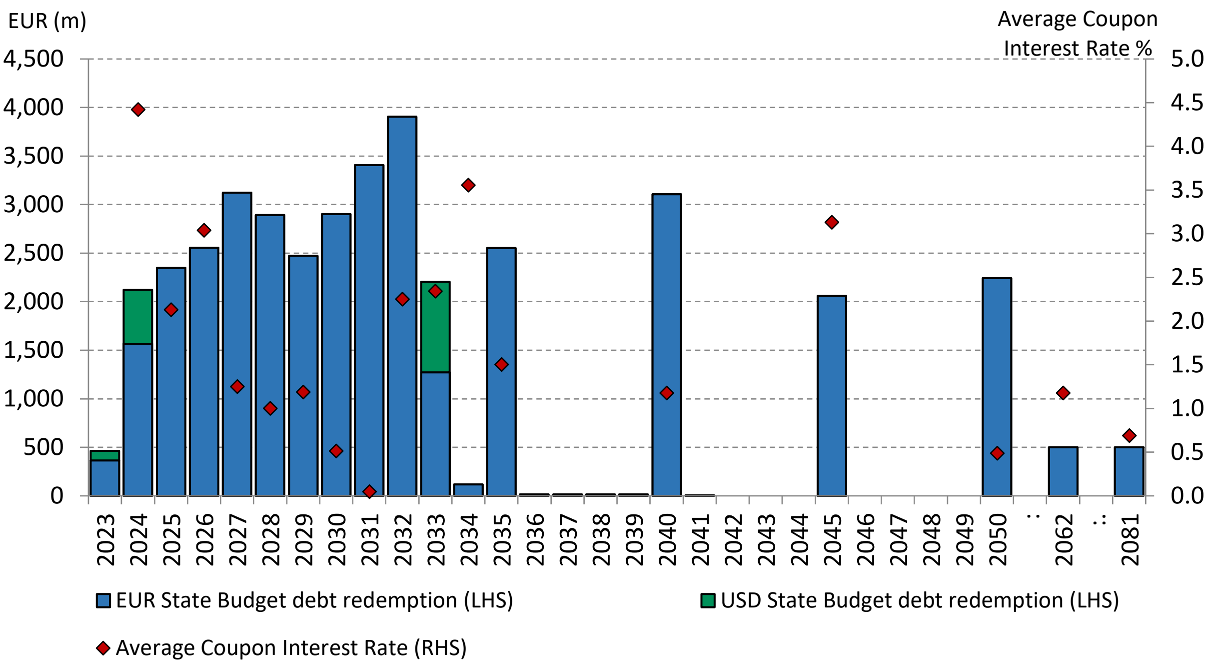
The proportion of the state budget debt in the general government debt structure is 94%. The Ministry of Finance already issued EUR 2.79 billion long-term debt in 2023 with a weighted average interest rate of 3.7% and a weighted average maturity of 12.3 years. During the same year, the Republic of Slovenia issued an 11-year euro-denominated inflation bond in the nominal amount of EUR 100 million and, for the first time since 2014, a new 10-year US dollar bond in the nominal amount of USD 1 billion was issued on the global market. This ensures the diversification of the state budget's financing instruments and attracts investors interested in such debt instruments. The Republic of Slovenia pays a synthetic fixed interest rate of 3.555% per annum on the 11-year euro inflation-linked bond issued. At the time of issue, the Republic of Slovenia entered into an 11-year euro-denominated inflation swap, thereby hedging its complete exposure, including both interest and principal, against potential future fluctuations in inflation. Similarly, a USD-EUR currency swap was entered into at the time the USD bond was issued to ensure that the Republic of Slovenia is not exposed to the risk of exchange rate changes. As a result, the Republic of Slovenia fulfils all its interest and principal servicing obligations in euro.

The weighted average time to maturity of the state budget debt portfolio is 10.0 years in 2023. The exposure of the state budget debt to variable interest rates is minimal, accounting for0.6% of the total debt portfolio. Fixed-rate debt accounts for 99.4% of the structure. 12% of the state budget debt is due for repayment between 2024 and 2025, and 48% of the state budget debt falls due for repayment until 2030. The most substantial portion of state budget debt has a residual maturity of 5 to 10 years (37.4%). A 10-year maturity is considered the optimal choice in terms of price and risk metrics.

As shown in the figure below, principal repayments are distributed relatively evenly over the years. More significant increases in debt repayments commence in 2027, while at the same time the average interest rate on the maturing debt remains low. This aspect becomes more relevant as the years progress, which is why the figure below also shows the weighted average coupon rate of the maturing debt by year. The highest average coupon rate is observed in 2024, at 4.4%, while lower levels, particularly from 2027 to 2031, can be attributed to the low or negative interest rates in the euro area when Slovenian euro bonds were issued. The

Republic of Slovenia maintains broad access to sources of finance with a diversified investor base both by type (fund managers, pension funds, insurance companies, banks, etc.) and geography (UK & Ireland, Germany, Austria, France, USA, etc.).

Figure 20: Principal repayments of state budget debt and average coupon rate by year



Source: Ministry of Finance, 28 September 2023.

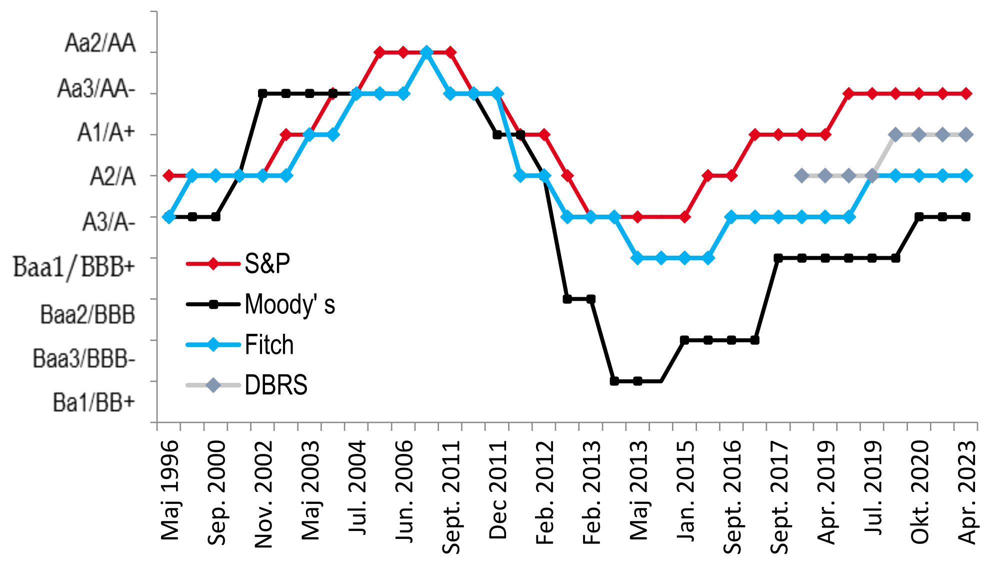
Slovenia's credit ratings remain at a high level with S&P (AA-), Fitch (A), Moody's (A3) and DBRS (AH), with stable outlooks. A stable outlook for the development of a credit rating with a particular credit rating agency means that the agency assesses it as most likely that assessments of the country's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

Table 7: Slovenia's credit ratings

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

Source: S&P, Moody's, Fitch and DBRS, 26 September 2023

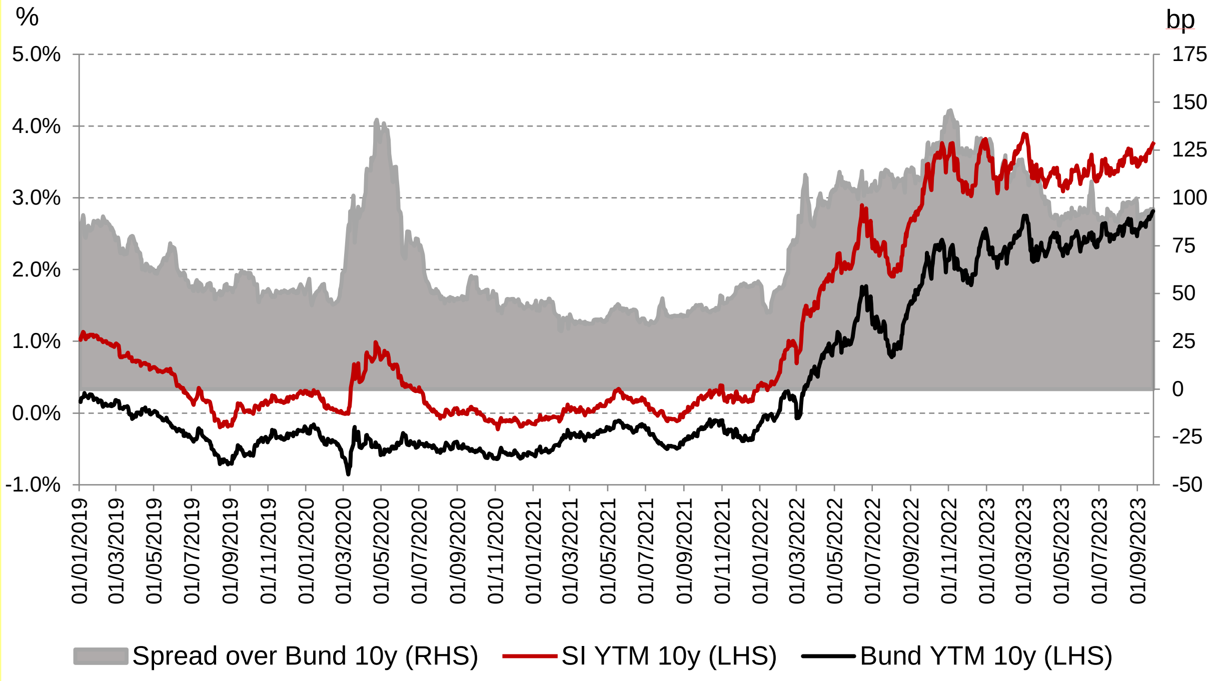
Figure 21: Overview of the credit ratings of the Republic of Slovenia over time



Source: S&P, Moody's, Fitch and DBRS, 28 September 2023

The ECB's decision to raise the three key reference interest rates in 2022 led to a general increase in euro area interest rates. The ECB raised the interest rate on the marginal deposit facility from -0.50% in mid-2022 to 4.00% today, the interest rate on main refinancing operations was raised from 0.00% to 4.50% and the rate on the marginal lending facility was increased from 0.25% to 4.75% in just over a year. Theyield to maturity on Slovenian government bonds increased mainly as a result of the rise of euro mid-swap interest rate, as also shown in Figure 23. The credit spread on Slovenian government bonds has remained relatively robust and does not exhibit such a pronounced growth as the euro mid-swap interest rate. The credit spread on the 10-year maturity of the Slovenian government euro-denominated bond was 64 basis points at the beginning of 2023 and 40 basis points on 26 September 2023. The spread over benchmark 10-year German government euro-denominated bond was 126 bp at the beginning of 2023 and 94 bp on 26 September 2023, as illustrated in the figure below.

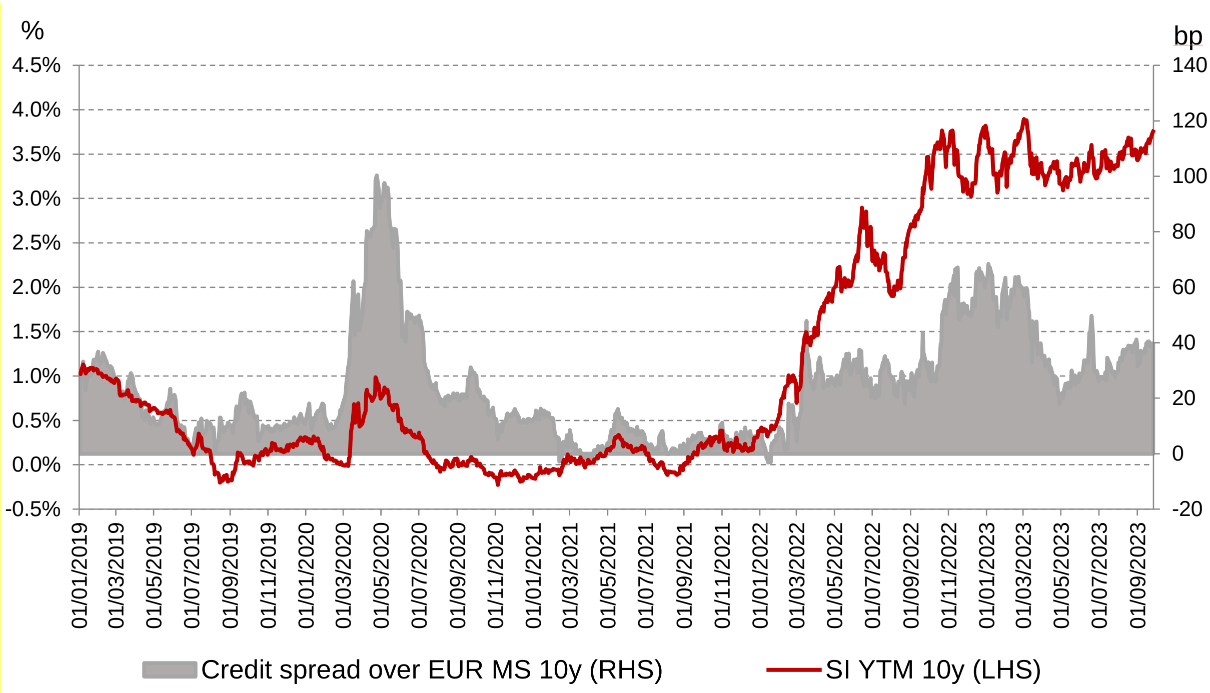
Figure 22: Comparison of the trend in the yield-to-maturity of 10-year Slovenian and German bonds



Source: Bloomberg, Ministry of Finance (own calculations), 26 September 2023

The interpolated yield-to-maturity of the Slovenian EUR 10-year bonds reached 3.76% on the secondary market as at 26 September 2023. The EUR mid-swap interest rate was 3.36%, which implies a credit spread of 40 basis points. It remains relatively low compared to its historical levels.

Figure 23: Trend in the 10-year yield-to-maturity on Slovenian government bonds and its credit spread over the 10-year EUR mid-swap interest rate



Source: Bloomberg, Ministry of Finance (own calculations), 26 September 2023

Guarantees

The stock of government guarantees was EUR 4,211.6 million as at 30 June 2023, with government guarantees for liabilities of the financial sector (S.12) accounting for EUR 669 million. The estimated end-of-year values of Republic of Slovenia guarantees for 2023 to 2025 are determined based on certain assumptions regarding the payment of existing and approval of new guarantees.

Table 8: Stock of government guarantees

	2023 (% GDP)	2024 (% GDP)	2025 (% GDP)
Guarantees of the Republic of Slovenia	6.7	6.1	6.1
Including: financial sector*	1.1	1.0	0.9

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

Source: Ministry of Finance.

A quota of new guarantees is planned in the annual budget implementation act. The 2023 quota is EUR 1,200 million. The draft Implementation of the Budget of the Republic of Slovenia for 2024 Act foresees a quota of EUR 1,400 million for both 2024 and 2025. A quota for SID Banka, d.d. guarantees of EUR 350 million was determined for each year separately.

In 2023 guarantees were issued under two acts, namely the Act on Strengthening the Common Provision Fund with a Guarantee of the Republic of Slovenia for the Provision of Emergency Macro-Financial Assistance to Ukraine (Uradni list RS, No 16/23) for an amount of EUR 12.5 million and the Housing Guarantee Scheme Act for Young People (Uradni list RS, No 54/22; ZSJSM) for an amount of EUR 0.6 million.

The possibility of redeeming government guarantees of EUR 20 million is estimated for 2022, EUR 10 million for 2023 and EUR 10 million for 2024. Most of the funds are expected for the redemption of guarantees issued in response to COVID-19 crisis measures. Separately, EUR 5.4 million is planned for the Pan-European Guarantee Fund's liabilities in 2023, EUR 1.5 million in 2024 and EUR 0.6 million in 2025.

ANNEX

Table 0a. Basic assumptions	2022	2023	2024
Short-term interest rate (annual average)	0.3	3.4	3.7
Long-term interest rate (annual average)	1.8	3.1	3.3
USD/€ exchange rate (annual average)	1.054	1.090	1.096
Nominal effective exchange rate	-1.7	0.4	0.0
World excluding EU, GDP growth			
EU GDP growth	3.4	0.7	1.4
Growth of relevant foreign markets	9.4	1.4	2.7
World import volumes, excluding EU			
Oil prices (Brent, USD/barrel)	100.8	82.2	81.8

Source: Autumn forecast of economic trends 2023 IMAD.

Table 0b Main assumptions	2022 (level)	2023 (level)	2024 (level)
1. External environment			
a. Prices of commodities (CPI)	5.3	-11.0	-3.0
b. Spreads of German Bond			
2. Fiscal policy			
a. General Government net lending/net borrowing S.13 (mio EUR)	-1,717	-2,807	-2,555
b. General gross debt (mio EUR)	41,242	44,042	46,394
3. Monetary policy / Financial sector / Interest rates assumptions			
a. interest rates			
i. Euribor	0.34	3.18 (jan-avg)	
ii. Deposit rates	0.08	0.53 (jan-jul)	
iii. Interest rates for loans	2.02	4.64 (jan-jul)	
iv. Yields to maturity of 10 year government bonds	2.19	3.39 (jan-avg)	
b. Evolution of deposits	7.2	5.0 (jul yoy)	
c. Evolution of loans	9.1	-0.2(jul yoy)	
d. NPL Trends	1.2	1.0 (jul)	
Demographic trends			
a. Evolution of working age population	1,249	1,245	1,244
b. Dependency ratios	35	36	37
Structural dependencies			

Source: SORS; Autumn forecast of economic trends 2023 IMAD; Ministry of Finance.

Table 1a. Macroeconomic Prospects	ESA code	2022 (level in mio EUR)	2022 (rate of change)	2023 (rate of change)	2024 (rate of change)
1. Real GDP	B1*g	53,565	2.5	1.6	2.8
of which:					
Attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP		47,445	2.5	2.8	2.8
Contributions:					
- *Labour*			0.7	0.9	0.8
- *Capital*			0.7	0.8	0.9
- *Total factor productivity*			1.1	1.1	1.1
3. Nominal GDP	B1*g	57,038	9.1	10.4	6.9
Components of real GDP:					
4. Private consumption expenditure	P.3	30,787	3.6	0.9	2.3
5. Government consumption expenditure	P.3	11,109	-0.5	1.4	1.9
6. Gross fixed capital formation	P.51	12,330	3.5	4.5	5.5
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	1,520	2.7	-1.1	0.4
8. Exports of goods and services	P.6	53,699	7.2	0.1	3.3
9. Imports of goods and services	P.7	52,407	9.0	-3.9	5.3
Contribution to real GDP growth (in pp.):					
10. Final domestic demand		54,226	2.5	1.7	2.9
11. Changes in inventories and net acquisition of valuables	P.52+ P.53	1,520	1.0	-3.8	1.5
12. External balance of goods and services	B.11	1,292	-1.0	3.7	-1.5

Source: SORS; Autumn forecast of economic trends 2023 IMAD; Ministry of Finance.

Table 1b. Price developments (change in %)	2022 (rate of change)	2023 (rate of change)	2024 (rate of change)
1. GDP deflator	6.5	8.7	4.0
2. Private consumption deflator	10.0	7.6	3.9
3. CPI (annual average) – consumer price index[1]	8.8	7.6	3.9
4. Public consumption deflator	3.0	7.8	3.9
5. Investment deflator	12.6	5.0	3.8
6. Export price deflator (goods and services)	14.7	1.7	0.8
7. Import price deflator (goods and services)	18.3	-0.5	0.6

Note: [1] national index.

Source: SORS; Autumn forecast of economic trends 2023 IMAD.

Table 1c. Labour market development	ESA code	2022 (level)	2022 (rate of change)	2023 (rate of change)	2024 (rate of change)
1. Employment (persons, 1000)		1,082	0.7	0.5	0.4
2. Employment (hours worked, 1000)		1,742,749	4.0	1.6	1.1
3. Unemployment rate, ADS (%)		4.0	-16.5	-7.1	-5.2
4. Labour productivity, nominal (persons, 1000)		52.7	6.0	9.1	5.9
5. Labour productivity, nominal (hours worked)		32.7	4.9	8.7	5.7
6. Compensation of employees (mio EUR)	D.1	29,672	7.7	11.5	7.6
7. Compensation of employees (1000 EUR)		34,001	5.0	10.2	6.5

Source: Autumn forecast of economic trends 2023 IMAD.

Table 1d. Sectoral balances	ESA code	2022 (% GDP)	2023 (% GDP	2024 (% GDP)
1. Net lending/borrowing vis-a-vis the rest of the world	B.9 (S.1)	-1.1		
of which:				
- Balance on goods and services		2.3	7.3	5.8
- Balance of primary incomes and transfers		-3.3	-2.9	-3.0
- Capital account		-0.4		
2. Net lending/borrowing of the private sector	B.9	1.9		
3. Net lending/borrowing of general government	EDP B.9	-3.0	-4.5	-3.8
4. Statistical discrepancy				

Source: SORS; Autumn forecast of economic trends 2023 IMAD.

Table 2b. General government budgetary prospects	ESA code	2022 (% GDP)	2023 (% GDP)	2024 (% GDP)
Net lending (EDP B.9) by sub-sector:				
1. Net lending/net borrowing: General government	S.13	-3.0	-4.5	-3.8
2. Net lending/net borrowing: Central government	S.1311	-2.6	-4.5	-3.8
3. Net lending/net borrowing: State government	S.1312			
4. Net lending/net borrowing: Local government	S.1313	-0.2	0.2	0.0
5.Social security funds	S.1314	-0.2	-0.2	0.0
6. Interest expenditure	EDP D.41	1.1	1.2	1.3
7. Primary balance		-1.9	-3.3	-2.5
8. One-off and other temporary measures			-0.6	-1.2
8.a Of which one-offs on the revenue side: general government			0.3	0.4
8.b Of which one-offs on the expenditure side: general government			-0.9	-1.6
9.Real GDP Growth (%) (=1 in Table 1a)		2.5	1.6	2.8
10.Potential GDP Growth (%) (=2 in Table 1a)		2.5	2.8	2.8
Contributions:				
- *Labour*		0.7	0.9	0.8
- *Capital*		0.7	0.8	0.9
- *Total factor productivity*		1.1	1.1	1.1
11. Output gap (% of potential GDP)		1.9	0.7	0.7
12. Cyclical budgetary Component (% of potential GDP)		0.9	0.3	0.3
13. Cyclically adjusted balance (1-12) (% of potential GDP)		-3.9	-4.8	-4.1
14. Cyclically adjusted primary balance (13+6) (% of potential GDP)		-2.8	-3.6	-2.8
15. Structural balance (13-8) (% of potential GDP)		-3.9	-4.2	-2.9

Source: Ministry of Finance.

Table 2b. General government debt developments	ESA code	2023 (% GDP)	2024 (% GDP)
1. Gross debt		69.9	68.9
2. Change in gross debt ratio		-2.4	-1.0
Contributions to changes in gross debt			
3. Primary balance		-3.3	-2.5
4. Interest expenditure	EDP D.41	1.2	1.3
5. Stock-flow adjustment		-0.1	-0.3
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		1.8	2.0
Other relevant variables:			
6. Liquid financial assets		10.3	9.9
7. Net financial debt (7=1-6)		59.6	59.0
8. Debt amortization (existing bonds) since the end of the previous year		2.0	2.9
9. Percentage of debt denominated in foreign currency		0.1	0.1
10. Average maturity		9.6	9.3

Source: Ministry of Finance.

Table 2c. Contingent liabilities	2023 (% GDP)	2024 (% GDP)
Public guarantees	6.7	6.1
Public guarantees: linked to the financial[1]	1.1	1.0

Note: [1] 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 expenditure and revenue projections at unchanged policies broken down by main components	ESA code	2023 (% GDP)	2024 (% GDP)
General government (S13)			
1. Total revenue at unchanged policies	TR	43.7	43.6
Of which:			
1.1 Taxes on production and imports	D.2	12.7	12.7
1.2 Current taxes on income, wealth, etc	D.5	7.7	7.6
1.3 Capital taxes	D.91	0.0	0.0
1.4 Social contributions	D.61	16.2	17.0
1.5 Property income	D.4	0.8	0.7
1.6 Other		6.3	5.5
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		36.9	37.7
Total expenditure at unchanged policies	TE	47.6	46.2
Of which:			
2.1 Compensation of employees	D.1	11.4	11.2
2.2 Intermediate consumption	P.2	6.4	6.3
2.3 Social payments	D.62, D.63	17.6	18.3
Of which unemployment benefits		0.2	0.2
2.4 Interest expenditure	EDP D.41	1.2	1.3
2.5 Subsidies	D.3	2.1	1.3
2.6 Gross fixed capital formation	P.51	6.1	5.7
2.7 Capital transfers	D.9	0.9	0.3
2.8 Other		2.0	1.7

Source: Ministry of Finance.

Table 4a. General government expenditure and revenue targets broken down by main components	ESA code	2023 (% GDP)	2024 (% GDP)
General government (S13)			
1. Total revenue at unchanged policies	TR	44.0	44.0
Of which:			
1.1 Taxes on production and imports	D.2	12.7	12.7
1.2 Current taxes on income, wealth, etc	D.5	7.9	8.0
1.3 Capital taxes	D.91	0.0	0.0
1.4 Social contributions	D.61	16.2	17.0
1.5 Property income	D.4	0.8	0.7
1.6 Other		6.3	5.5
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		36.9	37.7
Total expenditure at unchanged policies	TE	48.4	47.8
Of which:			
2.1 Compensation of employees	D.1	11.4	11.2
2.2 Intermediate consumption	P.2	6.4	6.3
2.3 Social payments	D.62,D.63	17.6	18.3
Of which unemployment benefits		0.2	0.2
2.4 Interest expenditure	EDP D.41	1.2	1.3
2.5 Subsidies	D.3	2.1	1.3
2.6 Gross fixed capital formation	P.51	6.3	6.3
2.7 Capital transfers	D.9	1.3	0.9
2.8 Other		2.2	2.2

Source: Ministry of Finance.

Table 4b. Amounts to be excluded from the expenditure benchmark	2022 (level in mio EUR)	2022 (% GDP)	2023 (% GDP)	2024 (% GDP)
1. Expenditure on EU programmes fully matched by EU funds revenue	429.18	0.75	1.58	1.59
1a. Investment expenditure fully matched by EU funds revenue	331.49	0.58	1.20	1.15
2. Cyclical unemployment benefit expenditure[1]	-93.22	-0.2	-0.2	-0.2
3. Effect of discretionary revenue measures	-363.10	-0.6	0.2	0.2
4. Revenues increased mandated by law				

Note: [1]COFOG 10.5.

Source: Ministry of Finance.

Table 4ci. General government expenditure on education, healthcare and employment	2023 (% GDP)	2023 (mio EUR)	2024 (% GDP)	2024 (mio EUR)
Education	5.6	3,527.6	5.5	3,719.9
Healthcare	7.8	4,881.0	7.6	5,146.4
Employment[1]				

Note: [1] n.a.

Source: Ministry of Finance.

Table 4cii. General government expenditure by function	COFOG code	2023 (% GDP)	2024 (% GDP)
1. General public services	1	5.8	5.7
2. Defence	2	1.4	1.4
3. Public order and safety	3	1.8	1.7
4. Economic affairs	4	6.0	5.9
5. Environmental protection	5	0.9	0.8
6. Housing and community amenities	6	0.6	0.6
7. Health	7	7.8	7.6
8. Recreation, culture and religion	8	1.2	1.2
9. Education	9	5.6	5.5
10. Social protection	10	17.5	17.2
11. Total expenditure (=2 in Table 2c)	TE	48.4	47.8

Source: Ministry of Finance.

Table 5a: Discretionary measures – ESA 2010 Methodology; COVID-19 (and income tax act)

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 Income Tax Act (ZDoh-2Z) and adopted amendment ZDoh-2AA.	D.51	Adopted	0.00	0.00	-0.27	0.14	0.00
TAX MEASURES (COVID)	Unsettled and unpaid prepayments for economic activity imposed on each individual income, unsettled and unpaid prepayments of corporate income tax; deferred tax payments (personal income tax, corporation tax)	D.51	Adopted	-0.43	0.76	-0.29	-0.03	-0.01
	Deferred tax payments (excise, VAT)	D.21	Adopted	0.36	-0.54	0.08	0.09	0.02
	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 (funded by EU); reimbursement of short-term sick leave; compensation for salary during temporary absence from work due to cohabitation (care of a close family member); compensations for isolations	D.3	Adopted	2.18	-1.63	-0.49	-0.03	-0.02
	Special assistance in the form of a monthly basic income for self-employed workers, farmers, and religious workers; financial compensation to farmers and self-employed for loss of income (quarantine); exemption from payment of social contributions for partners (who are managers) and farmers	D.62	Adopted	0.33	0.07	-0.40	0.00	0.00
	Wage compensations for employees in quarantine; reimbursement of short-term sick leave; part-time work; compensations for isolations	D.1	Adopted	0.01	0.00	0.01	0.00	-0.02
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 rapid 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	-0.15	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 / restructuring of tourism; investments in research, development and innovation (partly funded by EU) etc.	D.3+ P.51	Adopted	0.09	-0.01	0.00	-0.07	-0.01
	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

Title	Description	ESA Code	Adoption Status	Budgetary impact (% of GDP - change from previous year) 2020	2021	2022	2023	2024
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), vaccination COVID-19 etc.	D.75	Adopted	0.22	-0.16	0.04	-0.10	0.00
	Managing epidemics, purchase of medical, protective equipment and accessories (only small part of that measures is funded by EU); covering the costs of transport and accommodation facilities; coverage of the costs for COVID-19 testing; implementation of microbiological tests; support to performing public service to National Institute for Health; Decree on the implementation of screening programs for the early detection of SARS-CoV-2 virus infection; urgent operational centre for epidemiological investigations, prolonged hospital treatment and oxygen treatment, rapid antigen tests; financing of Health Insurance Institute of Slovenia (COVID services) etc.	P.2	Adopted	0.27	0.04	-0.17	-0.02	-0.11
	Additional funds for Health Insurance Institute of Slovenia – Article 67. ZIPRS2021; vaccination COVID-19, etc.	D.63	Adopted	0.10	0.00	-0.02	-0.06	-0.02
	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; financing of Health Insurance Institute (COVID services); allowance for redeployments and increased workload and allowances for direct work with COVID patients	D.1	Adopted	0.01	0.02	0.19	-0.12	-0.09
	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; rapid antigen tests for legal persons	D.3	Adopted	0.00	0.07	0.03	-0.11	0.00
	Medical protective equipment, funds intended to increase health capacity; public health infrastructure, COVID-19 testing	P.51	Adopted	0.03	0.02	-0.05	0.00	0.00
	Vaccines COVID-19	P52+ P53	Adopted	0.00	0.13	-0.01	-0.09	-0.03
MEASURES IN THE FIELD OF SOCIAL PROTECTION (COVID)	Single payment solidarity assistance for pensioners and for vulnerable groups (single pay solidarity assistance for unemployed; allowance to large families; solidarity assistance for children, new-borns, students at home and abroad, and other vulnerable groups); temporary (financial) compensation for loss of employment; assistance to institutional care providers (funded by EU); assistance to providers of social care services; family care provided at home; social inclusion and poverty reduction (funded by EU) etc.	D.62 + D.63	Adopted	0.42	-0.22	-0.18	-0.01	-0.01
MEASURES IN THE AREA IN WAGES (COVID)	Allowances and supplements for special working conditions for public sector employees; allowances for direct work with COVID patients; allowances for students; special post allowances for staff in pay group J in health and social work activities, etc.	D.1	Adopted	0.61	0.63	-1.20	-0.04	0.00
	Allowances and supplements for special working conditions (concessionaires, private institutions)	D.3	Adopted	0.03	0.07	-0.10	0.00	0.00

Title	Description	ESA Code	Adoption Status	Budgetary impact (% of GDP - change from previous year)				
				2020	2021	2022	2023	2024
OTHER EXPENDITURE MEASURES: FOR PUBLIC SECTOR SUPPORT, ETC. (COVID)	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
	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 rapid tests (COVID-19); aid to fire brigades; financial compensation for damage caused by COVID-19 vaccination etc.	D.73 +D.74+ D.75	Adopted	0.08	-0.01	-0.05	-0.01	0.00
	Managing epidemics, protective equipment, financing of the Information and communication technology – ICT / ICT-infrastructure (funded by EU); investments etc.	P.51	Adopted	0.02	0.02	0.00	0.05	-0.10

Source: Ministry of Finance.

Table 5b: Discretionary measures – ESA 2010 Methodology; energy crisis measures

Description	ESA code	Adoption Status	Budgetary impact (% of GDP - change from previous year)		
			2022	**2023**	**2024**
Revenue measures:					
Total loss of revenue due to reduction of excise duties for energy products, partial exemption from the payment of OVE (renewable energy sources)+SPTE (cogeneration with high efficiency), reduction of VAT rates for certain energy products to 9.5%, reduction of CO2 taxes.	D.21	Adopted	-0.37	0.11	0.26
Total revenue impact:			-0.37	0.11	0.26
Expenditure measures:					
Subsidies to companies to mitigate the consequences of increased energy prices; support to agriculture and fisheries, preservation of jobs; compensation to suppliers of electricity and natural gas.	D3	Adopted	0.35	0.40	-0.75
Operator of the distribution network of the electric power system ELES – recapitalization.	D3	Adopted		0.27	-0.27
Social transfers to households in 2023; dearness allowances for children, allowances for the most vulnerable, restrictions on the increase of maintenance allowances, accommodation in ŠD, school lunches.	D62/D63	Adopted	0.35	-0.28	-0.07
Total expenditure impact:			0.70	0.39	-1.09

Source: Ministry of Finance.

Table 5c: Discretionary measures – ESA 2010 Methodology; planned resources for flood recovery measures

Description	ESA code	Adoption Status	Budgetary impact (% of GDP - change from previous year)		
			2023	**2024**	**2025**
Revenue measures:					
Solidarity contribution	D51	Adopted	0.25	-0.02	-0.24
A one-time measure of non-harmonization of income tax bases and scales	D51	Adopted		0.15	-0.15
Total revenue impact:			0.25	0.13	-0.39
Expenditure measures:					
Reconstruction of buildings, municipal infrastructural and public facilities, implementation of geotechnical measures, technical support. Implementation of intervention measures on road, railway and water infrastructure.	P51	Adopted	0.08	0.61	-0.69
Reimbursement for loss of income, destroyed machinery and stock and waiting for work; solidarity measures and emergency aid, redistribution to the Red Cross and Caritas.	D75	Adopted	0.20	0.29	-0.49
Measures related to the environment and restoration of economic and public infrastructure.	D9	Adopted	0.57	-0.17	-0.40
Total expenditure impact:			0.85	0.73	-1.58
Measure of financial instruments of SID Banka			0.24	-0.02	-0.22

Source: Ministry of Finance.

Table 6: Measures from Draft Budgetary Plan 2024 addressing the Council Recommendations of 14 July 2023 on the 2023 National Reform Programme of Slovenia and delivering a Council opinion on the 2023 Stability Programme of Slovenia

Recommendation:	**Measures:**	
CSR 1		
Wind down the emergency energy support measures in force using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable and preserve incentives for energy savings.	The energy support measures adopted because of the energy crisis, are gradually being phased out. (Details Table 3 in DBP) As of 2024, the regulation of natural gas prices will cease, and electricity prices may be expected to rise and the possible extension of price caps solely for the most vulnerable groups. A small part of financial support to companies is also expected in 2024, according to the timeline defined in the legislation. In addition to these measures with a direct fiscal impact, guarantee acts for electricity firms (EUR 292 million) and other liquidity measures for the transmission system operator in Slovenia were adopted; liquidity loans were also made available through SID Banka. *https://www.energetika-portal.si/podrocja/energetika/ukrepi-za-omilitev-draginje-na-podrocju-energetike/* - Act Regulating Emergency Intervention to Address High Energy Prices (ZNPOVCE) (Official Gazette, 158/22) - Decree on the determination of electricity prices" (Official Gazette, 45/23) - Decree on determining the price of electricity for certain legal entities under public law" (Official Gazette, št. 162/2022) - Decree on the determination of electricity price for micro, small and medium-sized enterprises (Official Gazette, 45/23) - Decree on setting gas prices from the system (Official Gazette, 45/23) - Decree on determining the price on the natural gas from the gas system for certain legal entities under public law (Official Gazette, 162/22)	Measures partly addressing the recommendations

	- Decree on the pricing of district heating (Official Gazette, 9/23) - Decree on determination of compensation for electricity suppliers (Official Gazette, 4/23) - Decree on determination of compensation for suppliers of natural gas (Official Gazette, 4/23) - Decree on determination of compensation for heat distribution (Official Gazette, 74/23)	
Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 5,5 %.	The estimated growth of nationally financed net primary expenditure in 2024 is lower than recommended.	Measures addressing the recommendations
Preserve nationally financed public investment and ensure the effective absorption of grants under the Facility and of other Union funds, in particular to foster the green and digital transitions.	The updated recovery and resilience plan includes certain shares of green and digital financing. The vast majority of public investments that are feasible in the years of implementation of the RRP, are maintained. Public investment from loans – is increasing mainly for public railway infrastructure. In addition, within the REPowerEU chapter additional financing for investments for reducing dependence on Russian fossil fuels in provided. Due to the exceptional circumstances caused by floods in August 2023, Slovenia at the end of August 2023 submitted to the European Commission an indicative list of areas for taking up additional loans from the Recovery and Resilience Facility for financing rail infrastructure capacity, sustainable building renovation and flood risk reduction and risk reduction for other climate-related disasters.	Measures addressing the recommendations
For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, in order to achieve a prudent medium-term fiscal position.	A medium-term fiscal strategy beyond 2024 will be prepared next year, ensuring gradual consolidation, and supporting growth. It will maintain a high level of investment. The gradual pace of consolidation, the period of strategy and the level of investment will also depend on possible revised fiscal rules at EU level. The most important structural reforms are already defined in the RRP and will also be taken into account in the fiscal strategy.	Measures addressing the recommendations

Ensure the long-term fiscal sustainability of the healthcare and long-term care systems.	A key reform adopted in 2023 is the adoption of the Long-Term Care Act, which will be implemented as of 2024. The Act presents a comprehensive and systemic solution in the field of social protection, as it regulates both the implementing part and financing. One of the key systemic innovations introduced by the Long-Term Care Act is thus a system of public funding. In addition to the annual budget share, contributions will also be made by workers, employers and pensioners. New long-term care services will be phased in gradually. The first amendment will take effect at the beginning of 2024 and will concern the status of dependants of family members. Long-term home care, e-care and contribution to long-term care will be introduced in 2025 (July). At the end of 2025 (December), the enhancement of long-term care in institutional settings and the introduction of the cash benefit is scheduled. In addition to preparing the health reform, health policy orientations for 2024 and 2025 were presented in September 2023. Health priorities are addressed to ensure greater stability of the health system over the next two years. The aim is to widen access to health services, enhance health outcomes through the exchange of good practices between health providers, while at the same time, the development and optimisation of work organisation and processes will reduce inequality among population at national and regional levels. In September, the Government adopted Act Regulating the Implementation of the Budgets of the Republic of Slovenia for 2024 and 2025, which is in the parliamentary procedure. In the field of health, it defines that the national budget provides funds for the Health Insurance Institute of Slovenia in 2024 of up to EUR 420 million for the sustainability of the health care system, which can be used by the Health Insurance Institute of Slovenia for specific purposes.	Measures partly addressing the recommendations

Rebalance tax revenues towards more growth-friendly and sustainable sources.	Tax measures aimed at easing the prices of certain energy products were abolished. Thus, the reduced VAT rate for supplies of electricity, natural gas, district heating and wood for heating was not extended. In the same way, as part of the regulation of the price of motor fuels, we gradually increased the amounts of excise duty on petrol and diesel, thus already exceeding the level of excise duties in force before the reduction in February 2022. This partly addressed the balance of public finances, as otherwise we would have to find other sources or reduce expenditure to compensate for the downturn.	
CSR 2		
Ensure an effective governance structure and strengthen the administrative capacity in order to allow for a swift and steady implementation of its recovery and resilience plan. Swiftly finalise the REPowerEU chapter with a view to rapidly starting the implementation thereof. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan	An effective governance structure for the implementation of the recovery and resilience plan is already provided by the Recovery and Resilience Office (minor increase regarding human resources, consistent implementation of audit authorities' recommendations, upgrades of IT systems). Regular reporting on the implementation of the recovery and resilience plan to the government is also ensured, ensuring the comprehensive preparation and implementation of the measures.	Measures addressing the recommendations
CSR 3		
Continue efforts to diversify gas imports and reduce overall reliance on fossil fuels by accelerating the deployment of renewables, in particular by further simplifying and shortening permitting procedures and strengthening the electricity grid, as well as improving the management thereof, including through digitalisation. **Increase the implementation of energy efficiency measures, in particular in the building sector, promote the**	In July 2023, a new Act on the siting of installations for generation of electricity from renewable energy sources (ZUNPEOVE) was adopted, which represents one of the first and key steps towards accelerating the share of energy from renewable energy sources (RES). The Act in the field of the siting of production installation from RES provides for a more proactive role of the state in this area and addresses the regulation of the requirement to establish areas of priority of RES and the determination of certain specific features of the siting of RES installation in these areas, the specifics of spatial planning, integrated environmental	Measures addressing the recommendations

electrification of the transport sector,	assessment and assessment, regulatory sandboxes and dual use of space in certain areas with untapped potential. In June, in accordance with the EU Temporary Framework, the Government of the Republic of Slovenia issued a new Decree on aid to accelerate the deployment of energy from renewable sources, storage and heat from renewable sources. Investments in new renewable generation installations for the production of electricity and heat and for electricity and heat storage combined with production will be eligible for aid. Efficient use of energy: The new method for calculating network charges, which the Energy Agency is expected to implement on 1 March 2024 (Legal Act on the methodology for determining the network charges for the electricity system operators), will reward those who will be economical, while allowing and financially rewarding flexibility in demand, including when charging a car or operating a heat pump in relation to the operation of the solar power plant and the load on the grid. The key objective of the adopted Act on Infrastructure for Alternative Fuels and Promotion of the Transition to Alternative Fuels in Transport is to establish a dense, publicly accessible and interoperable network of recharging and refuelling infrastructure for alternative fuels in transport, to ensure a coherent national, regional and local development of the network of recharging and refuelling points and to increase the share of alternative fuel vehicles. The law introduces three basic levels of development of alternative fuels infrastructure. In order to achieve environmental and energy objectives in the transport sector, a dedicated resource is being introduced to co-finance measures for the transition to alternative fuels. The act introduces the establishment of a centre to promote the transition to alternative fuels as an implementing body for allocating dedicated funds for measures	

	that will accelerate the transition to alternative fuels in transport. In February 2023, the Government of the Republic of Slovenia also adopted a Decree on compensation for indirect costs related to the costs of greenhouse gas emissions for the benefit of certain sectors and subsectors which are deemed to be exposed to a risk of carbon leakage. The purpose of the funds is to cover indirect costs to help sectors or subsectors exposed to a real risk of carbon leakage, to compensate increases in electricity prices resulting from the inclusion of greenhouse gas emission costs from the Union's emissions trading scheme, which also includes the energy sector. The wider objective of the Decree is therefore to limit carbon leakage to third countries and to maintain the competitiveness of Slovenian companies in sectors exposed to this risk (electro-intensive companies). Projects of energy renovation of buildings are underway. The aim is to increase the energy efficiency of buildings, where we plan to reduce primary energy consumption on these buildings by at least 30 % compared to the consumption before energy renovation.	
and step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.	In the field of education, the Government of the Republic of Slovenia has adopted a Strategy and Action Plan for the Greening of Public Education and Research Infrastructure in Slovenia by 2030. The strategy is a strategic document and the basis for a systematic and development-oriented system of investment in public education and research infrastructure in Slovenia by 2030. Investment planned can effectively contribute to the green and digital transitions and to a more sustainable educational and research building stock.	

Table 7: Stock of guarantees adopted/announced according to the DBP24.

	Measures	Date of adoption	Maximum amount of contingent liabilities (% of GDP)	Estimated take-up (% of 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	0.14	0.14
	Act Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic (ZDLGPE)	28/04/2020	3.18	0.13
	Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (ZIUZEOP)	02/04/2020	0.32	0.09
	Act Regulating the Guarantee of the Republic of Slovenia for Pan-European Guarantee Fund (ZJPGS)	03/03/2021	0.11	0.11
	Subtotal		**3.74**	**0.48**
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 quantities of natural gas outside the European Union market (ZPKEEKP)	13/09/2022	2.03	2.03
	Act on Housing Guarantee Scheme for Young People (ZSJSM)	06/04/2022	0.48	0.16
	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	0.62	0.0
	Act on Reinforcing the Common Provisioning Fund the Guarantee of the Republic of Slovenia for Providing Extraordinary Macrofinancial Assistance to Ukraine (ZOSRIMP)	27/01/2023	0.02	0.02
	Subtotal		**3.15**	**2.21**
	Total		**6.90**	**2.69**

Source: Ministry of Finance.

Table 8a: RRF impact on programme's projections - GRANTS

	2020	2021	2022	2023	2024	2025	2026
Revenue from RRF grants (% GDP)							
1. RRF GRANTS as included in the revenue projections		0.2	0.2	0.6	0.5	0.6	0.3
2. Cash disbursements of RRF GRANTS from EU		0.4	0.0	0.5	0.5	0.4	0.6
Expenditure financed by RRF grants (% GDP)							
3.TOTAL CURRENT EXPENDITURE		0.0	0.0	0.2	0.3	0.2	0.1
of which:							
- Compensation of employees		0.0	0.0	0.0	0.0	0.0	0.0
- Intermediate consumption		0.0	0.0	0.0	0.1	0.1	0.0
- Social Payments							
- Interest expenditure							
- Subsidies, payable		0.0	0.0	0.1	0.1	0.1	0.0
- Current transfers		0.0	0.0	0.1	0.1	0.1	0.1
4. TOTAL CAPITAL EXPENDITURE		0.2	0.1	0.3	0.4	0.4	0.2
of which:							
- Gross fixed capital formation		0.2	0.1	0.2	0.3	0.3	0.1
- Capital transfers		0.0	0.0	0.1	0.1	0.1	0.1
Other costs financed by RRF grants (% GDP)							
5. Reduction in tax revenue							
6. Other costs with impact on revenue							
7. Financial transactions							

Source: Ministry of Finance.

Table 8b. RRF impact on programme's projections - LOANS

	2020	2021	2022	2023	2024	2025	2026
Revenue from RRF loans (% GDP)							
1. RRF GRANTS as included in the revenue projections		0.0	0.0	0.5	0.2	0.3	0.5
2. Cash disbursements of RRF GRANTS from EU		0.0	0.0	0.0	0.0	0.0	0.0
Expenditure financed by RRF loans (% GDP)							
3.TOTAL CURRENT EXPENDITURE		0.0	0.0	0.0	0.0	0.0	0.7
of which:							
- Compensation of employees		0.0	0.0	0.0	0.0	0.0	0.0
- Intermediate consumption		0.0	0.0	0.0	0.0	0.0	0.7
- Social Payments							
- Interest expenditure							
- Subsidies, payable							
- Current transfers		0.0	0.0	0.0	0.0	0.0	0.0
4. TOTAL CAPITAL EXPENDITURE		0.0	0.0	0.1	0.2	0.4	0.1
of which:							
- Gross fixed capital formation		0.0	0.0	0.1	0.2	0.3	0.1
- Capital transfers		0.0	0.0	0.0	0.0	0.1	0.0
Other costs financed by RRF loans (% GDP)							
5. Reduction in tax revenue							
6. Other costs with impact on revenue							
7. Financial transactions							

Source: Ministry of Finance.