



THE GOVERNMENT OF THE REPUBLIC OF SLOVENIA

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1 Introduction

In 2022, fiscal policy will be primarily focused on the recovery and the maintenance of sustainable economic growth. The macroeconomic situation has been improving in 2021 following a sharp drop in economic activity in 2020. In its Autumn Forecast of Economic Trends 2021, the Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (hereinafter: IMAD) estimates that recovery will continue in 2022 and 2023, when economic growth will stand at 4.7% and 3.3%, respectively. Despite a favourable macroeconomic environment and encouraging forecasts, considerable risks and uncertainties still exist as the epidemic continues with, again, raising number of infected people, which requires continuation of emergency measures and measures promoting the recovery. In the coming years, premature withdrawal of these measures must be prevented so as not to hamper recovery, as was the case following the global financial crisis. The fact that not all sectors of the economy are recovering equally must also be taken into account. The impact of the crisis may be lengthier, and recovery may be at risk, without further measures.

In this light, exceptional circumstances will still allow for deviations from fiscal rules in 2022 at EU and national levels. The general escape clause of the Stability and Growth Pact has been applicable in the EU since March 2020. By taking into account the spring macroeconomic forecast of the European Commission and the recovery path, it was agreed in June 2021 that the clause will also remain in force in 2022. At the national level, deviations from fiscal rules are facilitated pursuant to Article 12 of the Fiscal Rule Act. Accordingly, the Fiscal Council recognised the existence of exceptional circumstances at the beginning of the epidemic in March 2020, which still apply in 2021. Taking into account currently available data, the Fiscal Council estimated in September 2021 that the conditions of the exceptional circumstances will also be met in 2022. This enables fiscal policy to continue to respond to the epidemic-related needs.

Despite the fact that exceptional circumstances continue to exist, the Government of the Republic of Slovenia plans to gradually reduce the general government deficit in the coming years. Such a plan complies with the anticipation that the general escape clause will be deactivated in 2023 at the EU level, and that the conditions of exceptional circumstances referred to in the Fiscal Rule Act will no longer be met at the national level. Nevertheless, the structural imbalance is not anticipated to be eliminated immediately in 2023, as this could put the economic recovery at risk and would not be in line with the recommendations of international institutions that fiscal policy must remain accommodative. Also, fiscal effort in 2022 and 2023 will be sufficient and amount to 1,4% of potential GDP in 2022 and 2,0% of potential GDP in 2023.

The Government of the Republic of Slovenia estimates that the general government deficit will drop from 7.5% of GDP in 2021 to 5.4% of GDP in 2022 and to 3.3% of GDP in 2023. In 2024, the Government plans to reduce the deficit below 3% of GDP. The objectives are presented in the amendments to the framework for the preparation of general government budgets for the period between 2022 and 2024, which was submitted to the National Assembly for adoption together with budgetary documents for the next two years. In line with the proposed amendments to the framework, the maximum permitted general government expenditure will increase from €25,040 m to €26,105 m in 2022 and from €25,045 m to €25,980 m in 2023 despite a better macroeconomic situation. The maximum permitted expenditure must be changed due to recovery measures, including investments in healthcare, the implementation

of the European Cohesion Policy programmes (also at the level of municipalities), and statutory liabilities stemming from pension fund, and to provide sufficient expenditure to combat the consequences of the COVID-19 epidemic. At the same time, the debt-to-GDP ratio is expected to decrease in the coming years, i.e., to 77.5% of GDP in 2022, 76.0% of GDP in 2023 and 74.8% of GDP in 2024.

Table 1: General government balance and public debt in % of GDP

	2020	2021	2022	2023	2024
General government balance	-7.7	-7.5	-5.4	-3.3	>-3*
Public debt	79.8	78.5	77.5	76.0	<75*

Source: SORS; Ministry of Finance.

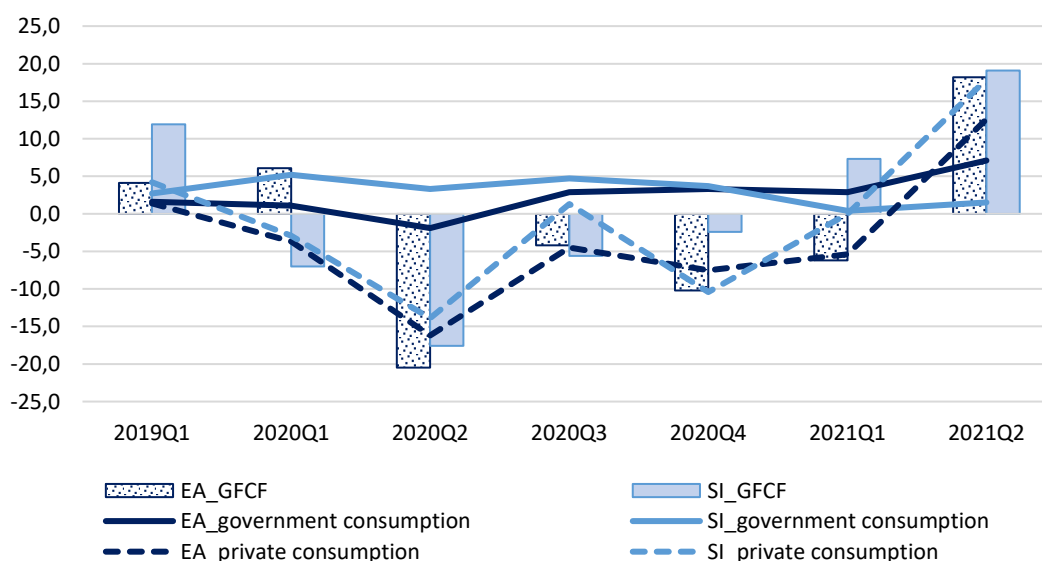
*Note: In 2024 balance is estimated at -2.8% of GDP and public debt at 74.8% of GDP.

2 Economic outlook and expectations

The outbreak of the COVID-19 pandemic at the beginning of 2020 came as a great shock to economies around the world. In 2020, the gross domestic product of Slovenia shrank by 4.2%, which is less than initially expected. Economic activity experienced the largest drop in the second quarter of 2020 (by 11.4% year-on-year), whereas in the third and fourth quarter of 2020, GDP recorded a year-on-year drop of 2.0% and 3.5%, due to improved epidemiological situation and adjustment of economic subjects, which was also lower than the euro area average (Figure 1). Fiscal support measures significantly contributed to mitigating the decline in economic activity – the IMAD estimates that Slovenian GDP would have recorded at least four percentage points larger drop in 2020 without such measures.

In its Autumn Forecast of Economic Trends 2021, the IMAD estimates that the recovery of the Slovenian economy is more rapid than previously expected. Following significant growth in the first half of 2021, when economic activity increased year-on-year by 8.2%, it will presumably reach its 2019 pre-crisis level by the end of this year.

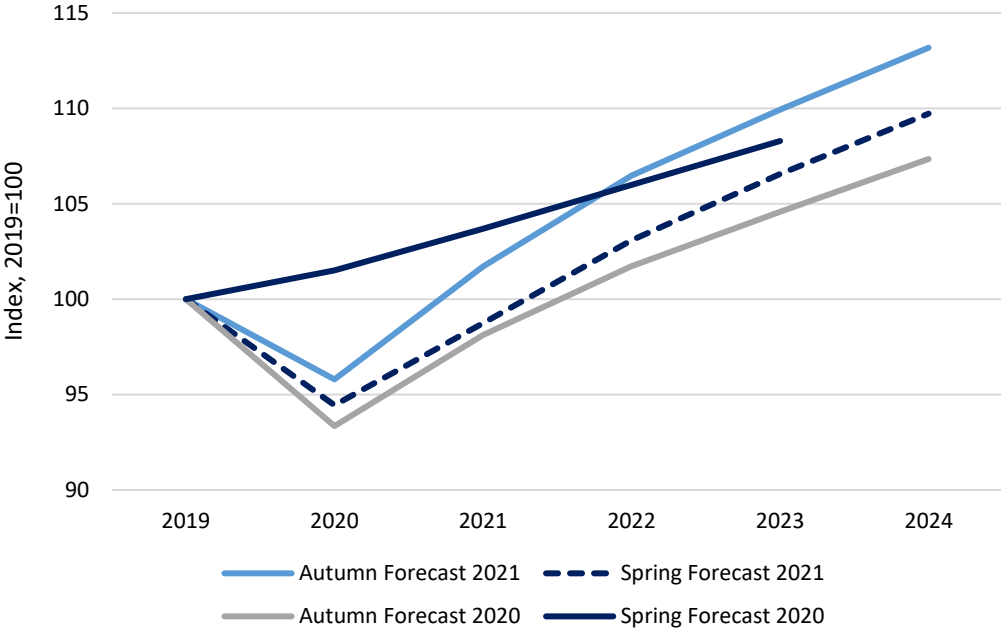
Figure 1: Growth rate of gross fixed capital formation, government, and private consumption in the euro area and Slovenia, over the period 2019Q1-2020Q2



Source: Eurostat.

In the next two years, the IMAD expects economic growth of 4.7% and 3.3%, respectively. Government measures will significantly contribute to further recovery. Recovery measures will take over, while measures to mitigate the consequences of the epidemic will be gradually phased out. Government consumption growth will stabilise at 1.5% in 2022 and 1% in 2023. The growth of gross fixed capital formation will amount to 10% in 2022 and 6% in 2023. International trade, particularly in goods, will also continue to grow; the IMAD expects exports to exceed imports and the external balance to grow in the next two years. The IMAD anticipates private consumption to continue to recover due to improved consumer confidence, further growth in disposable income, and the gradual reduction of household saving rate. In 2022, private consumption is expected to grow by 6% and exceed its 2019 level, and in 2023 by 3.1%.

Figure 2: Real GDP dynamics relative to pre-COVID-19 expectations

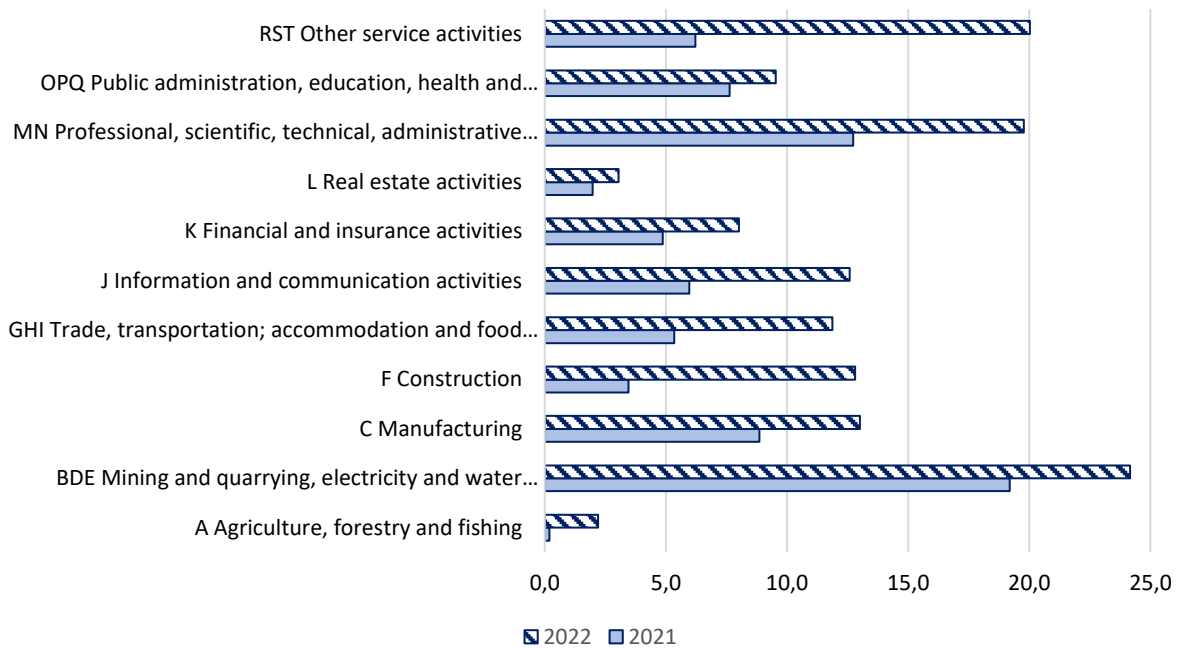


Source: IMAD Autumn Forecast 2021; IMAD Spring Forecast 2021; IMAD Autumn Forecast 2020; IMAD Spring Forecast 2020; Ministry of Finance, own calculations.

Recovery remains heterogeneous among activities. In the second quarter of 2020, most manufacturing sectors already exceeded pre-crisis levels with only the automotive industry still lagging behind among the most important industries. On the other hand, the services, which were most affected by the epidemic only started the recovery this year and are expected to reach pre-crisis level in 2023. The IMAD projects that added value in all activities will be 7.3% higher in 2021 than in 2020 and 12.1% higher in 2022 (Figure 3)¹. In 2021, value added will increase the most in Electricity and water supply and the environment (BDE– by 19.2%), Professional and scientific activities (MN – by 12.7%) and Manufacturing (C – by 8.9%). In 2022, Other service activities (RST) and construction (F) are also expected to recover significantly, and in these sectors, value added is expected to grow by 20.0% and 12.8 % compared to 2020. Value added in the Construction will also be stimulated by public investment.

¹ In comparison with 2019, value added shrank the most, i.e., by 13.4%, in Other service activities (RST) in 2020. It dropped by 1.1% on average in all activities, but above average in GHI (-6.5%), MN (-4.9%) and C (-3.6%).

Figure 3: Forecast of value-added growth (in %) by NACE activities relative to the level in 2020

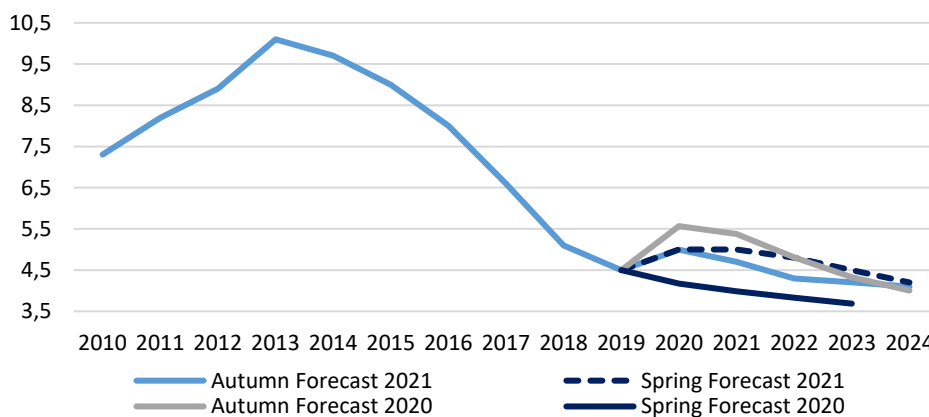


Source: IMAD Autumn Forecast 2021.

In the second quarter of 2021, employment grew year-on-year by 1.4% (the most in Manufacturing, Construction, Wholesale and retail trade). It also increased significantly in health activities (5.2%), while in Accommodation and food service activities it remains on a lower level (-1.8%). At the end of August 2021, 69,292 people were unemployed, which is 21.4% less than a year ago and 1.9% less than at the end of August 2019. Employment is expected to further grow by 1.5% in 2022 and 1.2% in 2023. In 2023 there will be around 30,000 more employed people than in 2019. Growing demand for workforce is bringing about a growing labour shortage.

In July 2021, the ILO unemployment rate dropped to 4% and is among the lowest in the EU. The annual ILO unemployment rate stands at 4.7% in 2021 and is expected to remain above its pre-crisis projections until at least 2023, when it is expected to stand at 4.1% (Figure 4). In 2023, the number of registered unemployed people is expected to be 65,000.

Figure 4: Unemployment rate by ILO, in %, according to past IMAD forecasts



Source: IMAD Autumn Forecast 2021; IMAD Spring Forecast 2021; IMAD Autumn Forecast 2020; IMAD Spring Forecast 2020.

Under the assumption of moderate economic recovery, the IMAD expects inflation to gradually increase towards 2% this year and in the next two years following last year's reduction. Higher prices of energy products contribute the most to inflation, and the contribution of non-energy industrial goods is also on the rise.

Risks to the realisation of current forecasts are positive and negative, and most are still related to the evolution of the epidemic in Slovenia and our main trading partners. With new waves of infections, also resulting from new and more infectious mutations of SARS-CoV-2 and/or the unwillingness of people to be vaccinated, potentially stricter containment measures and related major closures of economies in the future represent the highest risk to the stability of the recovery. According to the IMAD, great uncertainty and the difficulties in operation of certain service activities could result in longer lasting elevated level of savings or its slower reduction. More entrepreneurial difficulties could be reflected in higher number of firms in troubles and bankruptcies, which could lead to increased unemployment, and consequently impaired banking and financial sector. Therefore, the prudent adaptation of measures to mitigate the consequences of the epidemic to the epidemiological and economic situation remains crucial. Another downside risk is higher inflation, which could occur with faster recovery of demand and lengthier persistence of current supply shortages at the global level.

Economic growth could be higher than expected if the epidemiological situation improves more rapidly and permanently, and vaccination rates are sufficiently high. This could lead to a greater relaxation of excess household savings and speedier growth in investments stemming from improved confidence. Global economic growth, which would positively affect growth in the EU, also constitutes a positive risk. Also, crucial will be the speed and efficiency of the absorption of funds from the new multiannual financial framework and the Recovery and Resilience Facility in Slovenia and our main trading partners, and the target orientation of these resources towards solving crucial development challenges. Fiscal policy will continue to hold a crucial role in stimulating aggregate demand.

Position in the cycle

Output gap estimates are used to determine the phase of the business cycle in which a certain economy is positioned and, under normal conditions, serves as the basis for conduction of fiscal policy. Defining the duration of business cycle in real time is challenging, as the uncertainty around the estimates of the output gap, particularly at the end of the sample, is substantial (Orphanides and Van Norden, 2002)². In addition to the method used to calculate the output gap, the uncertainty of estimates is further impacted by the method of calculating potential output, revisions of the assessments of past growth, the length of included series, and changes in the forecasts of macroeconomic aggregates. Frequent and substantial revisions of macroeconomic data and changes in the forecasts of future economic trends that are present when an exogenous shock (such as the COVID-19 crisis) occurs are thus one of the key factors of possible distinction between the target and attained values of fiscal objectives and thus assessments of compliance with fiscal rules.

The estimates of the output gap prepared on the basis of the IMAD forecasts tabled between the spring of 2019 and the autumn of 2021 have varied considerably (Figure 5). According to the Autumn Forecast 2020, the output gap in 2020 should stand at -5.2% of potential GDP. However, with a better outlook and a lower drop in economic activity than previously expected

² Orphanides, A. & Van Norden, S. (2002). The Unreliability of Output-Gap Estimates in Real Time. *The Review of Economics and Statistics*, 84(4), 569-583.

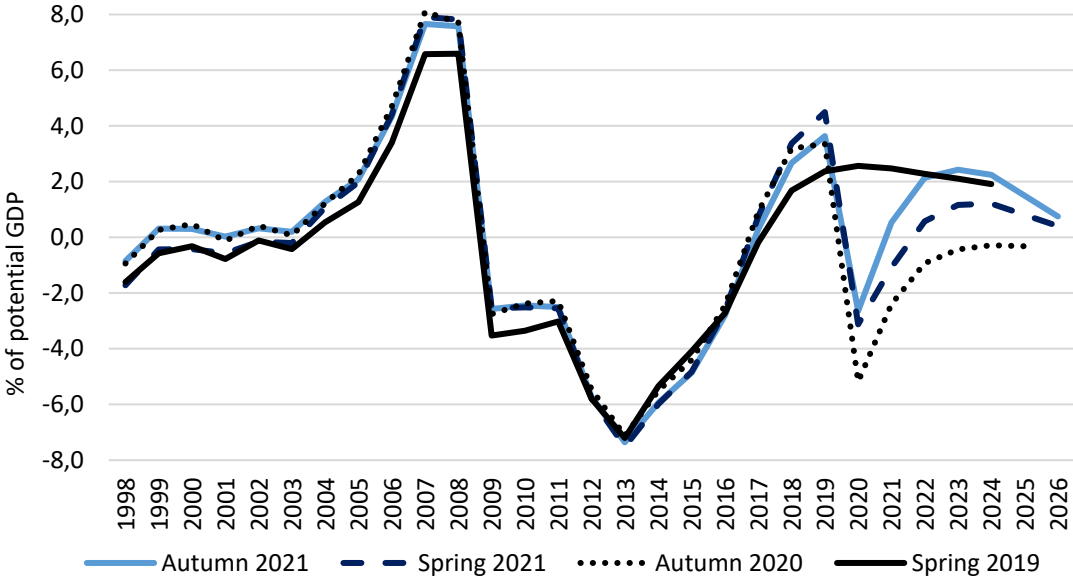
the estimate of the output gap for 2020 calculated on the basis of the Autumn Forecast 2021 was reduced to -2.6%. The average estimate of the output gap for 2020 calculated on the basis of the latest seven IMAD forecasts³ exceeded its standard deviation by 0.7 percentage points, while the average estimate of the output gap for 2021 was exceeded by its standard deviation by 1.4 percentage points.

In the spring of 2021, it looked like the Slovenian economy would remain in the negative part of the cycle at least until 2022, while the latest estimates show that the actual GDP will exceed the potential GDP in 2021 by 0.5%. A positive gap is expected to widen until 2023 to reach 2.4%. Uncertainty around the effect of the COVID-19 crisis on the potential of the Slovenian economy remains considerable, which is also the reason why the latest estimates of the output gap remain at a high risk of substantial revision.

It is evident that the length of the business cycle is difficult to determine due to methodological restrictions and may represent different periods, leading to different applications for the conduction of fiscal policy. Therefore, additional caution is required in the current situation in the interpretation of output gap estimates. A presumably shorter period of contraction in economic activity than actual could result in a cyclically restrictive fiscal policy.

For conduction of fiscal policy aiming at macroeconomic stabilisation, the depth of economic downturns and upturns, i.e., the vulnerability of an economy to cyclical movements, matters. Slovenia's cycle is more pronounced than that of the other EU member states on average. According to the estimates of the Ministry of Finance, its amplitude between 2001 and 2022 is 1.5 times higher⁴ than the EU27 average.

Figure 5: Output gap, calculations by the Ministry of Finance based on the IMAD forecasts



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

³ Autumn Forecast 2021, Spring Forecast 2021, Autumn Forecast 2020, Summer Forecast 202, COVID-19 Scenario, Spring Forecast 2020, Spring Forecast 2019.

⁴ Amplitudes are estimated from regression, in which the Slovenian output gap is a dependent variable, and the EU27 output gap is an independent variable, a constant is included. A regression coefficient higher (lower) than 1 indicates a higher (lower) amplitude of the Slovenian cycle in comparison with the EU27 average. Data source for the EU27 output gap is AMECO (2021) and the calculations of the Ministry of Finance for the Slovenian output gap.

Situation in the banking system

Last year's pandemic and recession did not significantly impact the Slovenian financial system. In the first seven months of 2021, banks show year-on-year 88% higher profit before tax⁵, which was also the result of this year's net release of impairments and provisions (which amounted to 5.4% of the generated income at the level of the banking system). The banks' total assets are growing year-on-year, and the total capital adequacy ratio of the banking system rose to 18.5% in the second quarter on a consolidated basis⁶.

The increasing number of vaccinated people is being followed by milder measures to contain the spread of COVID-19 and the Slovenian economy is recovering. Loans to the non-banking sector are growing (the year-on-year growth in loans to households stood at 3.2% and at 1.3% in loans to non-financial corporations), the year-on-year growth in deposits from the non-banking sector is slowing down (the year-on-year growth in deposits from households stood at 10.% and at 10.2% from non-financial corporations), and the share of non-performing exposure at the level of the whole portfolio (NPE) is low (1.3% of all exposures; the share of NPE to households was 2.1% and 2.6% to non-financial corporations). Like last year, banks face a decline in net interest income (by 4.3% year-on-year), but a higher level of lending activity is slowing this trend. Non-interest income increased by 2.4% year-on-year.⁷

Table 2 shows a comparison of year-on-year growth in loans and deposits as a percentage as of 31 July 2021 for banks in Slovenia and the euro area according to data provided by the European Central Bank and national central banks in the Eurosystem. Growth in loans and deposits of non-financial corporations in the eurozone by the end of July 2021 was lower than in Slovenia if compared to the same period the previous year, while the growth of household deposits in Slovenia was higher than in the euro area.

Table 2: Year-on-Year growth of loans and deposits of households and non-financial corporations in Slovenian and euro area banks as of 31 July 2021

Y-o-Y growth in %	Slovenia		euro area	
	Households	Non-financial corporations	Households	Non-financial corporations
Loans	3.5	2.5	4.5	1.2
Deposits	10.0	10.8	6.6	7.0

Source: Euro Area Statistics. Available at <https://www.euro-area-statistics.org>.

The measures adopted to defer payment of liabilities and new COVID-19-related liquidity loans alleviated the position of debtors who were facing liquidity and payment problems following the pandemic declaration. They also relieved the pressure on bank balance sheets. On 31 July 2021, the total exposure of the payment deferral of household liabilities amounted to €570 m (14.6% more than on 31 December 2020) and to €1,860 m (4.9% less than on 31 December 2020) of non-financial corporations. The total exposure of newly granted COVID-19-related liquidity loans stood at €236 m (48.9% less than on 31 December 2020)⁸. The total exposure

⁵ Bank of Slovenia: Monthly report on bank performance. September 2021, p. 3; available at: <https://www.bsi.si/publikacije>.

⁶ Bank of Slovenia: Monthly report on bank performance. September 2021, p. 1; available at: <https://www.bsi.si/publikacije>.

⁷ Bank of Slovenia: Monthly report on bank performance. September 2021, pp. 2 and 3; available at: <https://www.bsi.si/publikacije>.

⁸ Bank of Slovenia: Monthly report on bank performance. September 2021, p. 7; available at: <https://www.bsi.si/publikacije>. Bank of Slovenia: Banka Slovenije warns of need to find long-term viable solutions for borrowers in difficulty. Press release. 12 April 2021; available at: <https://www.bsi.si/mediji>. Own calculations.

of the payment deferral has also been reducing at the euro area level, and the increase in new COVID-19-related liquidity loans has been slowing down (Table 3).

Table 3: Quarter-on-Quarter growth of total exposure of loans under moratoria and newly granted COVID-19-related liquidity loans in Slovenia and euro area in Q1 2021 vs Q4 2020

Q-o-Q growth in %	Slovenia	euro area
Loans under moratoria	-3.4	-2.2
Newly granted COVID-19-related liquidity loans	-50.0	10.1

Source: European Banking Authority: Risk Dashboard, Data as of Q1 2021. 30 June 2021, pg. 39-40. Available at <https://www.eba.europa.eu/risk-analysis-and-data/risk-dashboard>. Own calculations.

The recovery of economic activity is reflected in better bank operations not only in Slovenia but also in the euro area. A comparison of growth in certain key performance indicators of Slovenian banks and euro area banks in the first quarter of 2021 compared to the last quarter of 2020 shows that non-performing exposures maintained a negative trend in both groups, and that the net relaxation of impairments and provisions largely contributed to greater profits (Table 4).

Table 4: Quarter-on-Quarter growth of some key performance indicators of banks in Slovenia and eurozone in Q1 2021 vs Q4 2020

Q-o-Q growth in %	Slovenia	eurozone
Net interest income	-2.2	5.4
NPEs over total exposures	-2.2	-4.5
Net impairment and provisions	-114.7	-47.4
Profit before tax	79.4	1,449.4

Source: Bank of Slovenia: Monthly report on bank performance. 2020 and 2021; Available at <https://www.bsi.si/publikacije>. Bank of Slovenia: Information on non-performing exposures. 2020 and 2021. Available at <https://www.bsi.si/en/financial-stability/banking-system-supervision/supervisory-disclosure/information-on-non-performing-exposures>, and European Central Bank: Supervisory Banking Statistics, First quarter 2021. July 2021, pg. 10. Available at <https://www.bankingsupervision.europa.eu>. Own calculations.

3 Fiscal scenario for 2022 and recovery measures

In 2022, fiscal policy will be focused on recovery and further sustainable growth, while the scope of measures to mitigate the consequences of COVID-19 will gradually reduce. According to the Ministry of Finance, in 2022 the deficit will drop to -5.4 of GDP by which important fiscal effort will be achieved. In the medium term, the Government of the Republic of Slovenia plans a fiscal policy that will foster recovery and a gradual reduction of deficit below 3% of GDP in 2024. The general government deficit would be lower in 2020 and 2021 if it was not for measures to mitigate the consequences of the COVID-19 epidemic and recovery. It must again be pointed out that such measures helped significantly in improving the macroeconomic environment. A strong response from the Government helped prevent a more significant drop in economic growth in 2020 and contributed to a high growth in 2021.

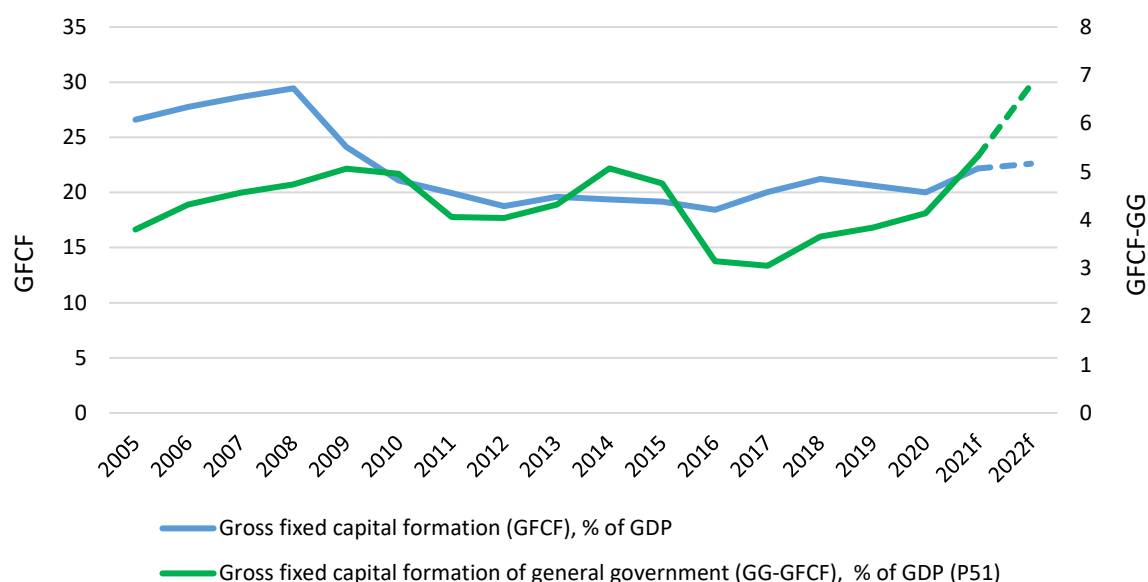
Table 5: Nominal balance in % of GDP and fiscal effort in % of potential GDP

	2020	2021	2022	2023
Nominal balance	-7.7	-7.5	-5.4	-3.3
Fiscal effort	-5.1	-1.3	1.4	2.0
Fiscal effort – in absence of COVID-19 and RRF (one-off)	5.6	-6.2	-1.1	0.7

Source: Ministry of Finance.

In 2022, recovery funds will significantly grow, while funds for the mitigation of the consequences of the COVID-19 epidemic will decline, as such extensive measures as in 2020 and 2021 will no longer be required due to the expected improvement in epidemiological situation and higher vaccination rates. It is important that the increase in investment funds continues. The share of general government investments will increase to around 7% of GDP in 2022. In the coming years, the Ministry of Finance expects this share to remain above the level of previous responses to crises (Figure 6). Otherwise, recovery would be poorer, bringing about a more permanent loss of jobs, investment, and economic activity.

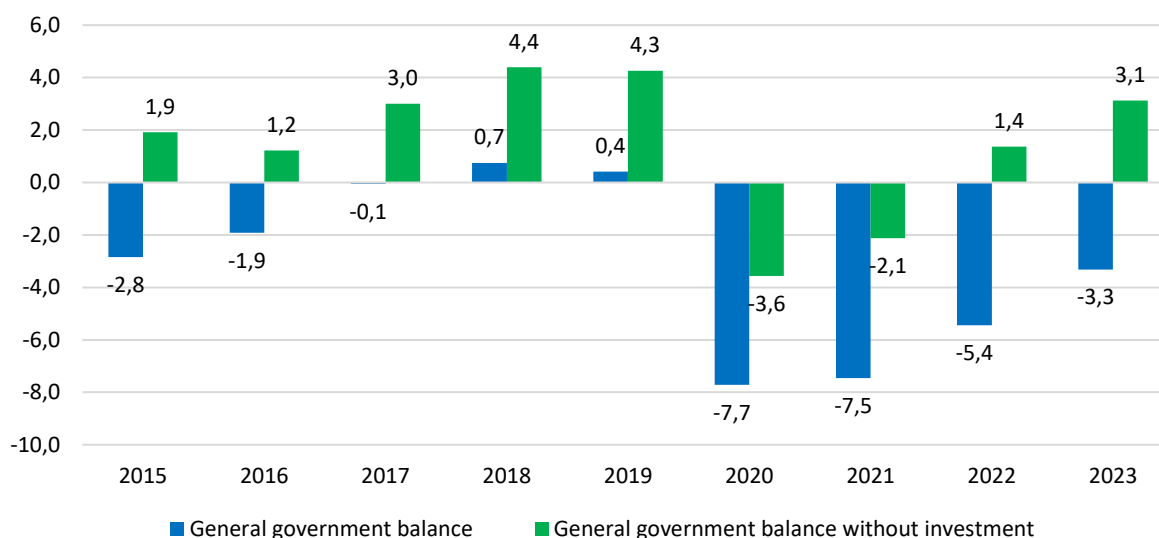
Figure 6: Investment funds in % of GDP



Source: SORS, Ministry of Finance.

Fiscal policy follows the advice of international institutions, such as the European Commission, the International Monetary Fund, and the European Central Bank, which emphasise that recovery will come to a halt without a suitable response. If all additional investment planned for 2022 within the Recovery and Resilience Plan, which amounts to around €300 m, and the remaining funds for measures to mitigate the consequences of COVID-19 were excluded, the deficit in 2022 would drop below 4.5% of GDP. If comparing the nominal general government balance to the balance excluding gross fixed capital formation Slovenia would be below the 3% of GDP deficit already in 2021.

Figure 7: Nominal general government balance with and excluding gross fixed capital formation, in % of GDP



Source: SORS, Ministry of Finance.

In the COVID-19 crisis, fiscal policy stimulus played a key role in limiting economic damage (IMF, 2020a⁹). Maintaining public investment is particularly important, as it stimulates short-term and long-term economic growth, crowds-in private investment, and lowers unemployment (Abiad et al., 2015¹⁰). The effects of increased public investment are particularly strong in times of high uncertainty, economic contraction, when accompanied by supportive monetary policy, and financed by public debt issuance (Abiad et al., 2015; IMF, 2020b¹¹). Efficient public investment can even lead to such an increase in economic activity that public debt in % of GDP does not increase or even decreases (Abiad et al., 2015). It is therefore important that fiscal rules encourage public investment even during economic downturn. This is especially relevant for Slovenia, as the IMF (2020c¹²) estimates that public investment in Slovenia has a more stimulating impact on the macroeconomic environment than in the EU average. According to the IMF (2020c) findings, an increase in ESI Funds by 1% of GDP in Slovenia (and CEE countries) is followed by an increase in output of between 1.3% and 1.6% over the course of one year. According to the IMF (2020c), the increase in public investment in Slovenia also results in a larger crowding-in of private investment than at the EU average (private investment in Slovenia increases by 1.3%, while in the EU by 0.8%) and in a relatively higher increase in employment (one-year multiplier in Slovenia amounts to between 0.1 and 0.2%).

The envisaged fiscal policy is therefore in line with the recommendations of the international institutions, that measures to support economic activity, despite gradual recovery, should not be withdrawn prematurely. With the projected fiscal targets, we also achieve an appropriate fiscal effort (Table 5).

⁹ IMF (2020a). »Global Prospects and Policies.« World Economic Outlook, October 2020.

¹⁰ Abiad, A. d., Furceri, D., Topalova, P., & Helbling, T. (2015). The Macroeconomic Effects of Public Investment, IMF Working Papers, 2015(095), A001.

¹¹ IMF (2020b). »Online Annex 2.1. Financing Constraints and the Strategy for Investment«. IMF Fiscal Monitor, October 2020.

¹² IMF (2020c). »The Fiscal Multiplier of European Structural Investment Funds: Aggregate and Sectoral Effects with an Application to Slovenia.« Working Paper April 2021.

The Government of the Republic of Slovenia proposed several measures to increase the efficiency of investment. The Recovery and Resilience Plan is the basis for the absorption of funds from the Recovery and Resilience Facility. Slovenia received prepayment for the implementation of the reforms and investments presented in the Plan in September 2021. For a successful implementation of the planned reforms and investments, the Government established the Office for the Recovery and Resilience which operates as a body within the Ministry of Finance.

The investments planned in the Recovery and Resilience Plan are part of more widely planned priority investments determined by the Government of the Republic of Slovenia on the basis of the Intervention Act to Remove Obstacles to the Implementation of Significant Investments to Start the Economy After the COVID-19 Epidemic, which was adopted in 2020. The list of priority investments to start the economy after the COVID-19 epidemic was amended by the Government in 2021 to include a total of 336 significant investments. The purpose of determining such investment lies particularly in a coordinated and accelerated treatment of individual procedures related to such investment. The list includes all investment proposals that are expected to commence in 2021.

In the coming years, around EUR 200 million a year will be earmarked for health investments. Major projects include the new construction of the Celje General Hospital, the extension of the University Medical Center Maribor and Ljubljana. In the field of social infrastructure, the Government of the Republic of Slovenia will expand the network of homes for the elderly and accelerate investment in kindergartens and primary education. The volume of investments will otherwise be the largest in the field of railways and roads (Tir2 Divača - Koper, 3rd development axis, public passenger transport system, etc.). Investments in flood protection arrangements, flood safety, drinking water supply, drainage and water treatment also continue. In the field of scientific research infrastructure, the upgrade of the National Institute of Biology will be supported.

At the systemic level, the Government also proposed significant legislative amendments in the field of investment. To eliminate the detected problems and inefficiency in the field of public procurement, the Government prepared a new Public Procurement Act that will enter into force on 1 January 2022. The amended legislation simplifies the low-value public procurement procedures, eliminates certain administrative obligations of clients (e.g., simplified reporting within framework agreements) and facilitates greater flexibility. It regulates and amends provisions on minor offences, particularly minor offences which, as practice showed, are required for clients and providers to behave more appropriately and have greater responsibility in the implementation of procedures or contracts. The proposed solutions will contribute to greater rationality of public procurement without risking reduced transparency.

The recast construction legislation, which includes the recast Construction Act and Spatial Management Act, is being adopted. This legislative package eliminates certain administrative barriers, which will accelerate the acquisition of required building documents.

The Electricity Supply Act and the Act on the Promotion of the Use of Renewable Energy Sources will contribute to the attainment of the green transition objectives and provide a basis to promote investments from small-scale renewable energy producers.

The amended Housing Act will enable the Public Housing Fund to use new investments and innovative measures in the field of rental apartments to solve housing problems, particularly those of young people, more rapidly.

By adopting the Act Regulating the Guarantee of the Republic of Slovenia for the Pan-European Guarantee Fund, Slovenia joined the formation of this fund, whose goal is to support investment to restart the European economy following the pandemic, expecting Slovenian companies to be supported by the warranty potential of this fund.

Exceptional circumstances at the national level and the general escape clause at the EU level are set to continue in 2022. At the national level, deviations from fiscal rules are enabled pursuant to Article 12 of the Fiscal Rule Act. Accordingly, the Fiscal Council recognised the existence of exceptional circumstances at the beginning of the epidemic in March 2020, which still apply in 2021. In light of the currently available data, the Fiscal Council estimated in September 2021 that the conditions of the exceptional circumstances will also be applicable in 2022. This enables fiscal policy to respond to the epidemic-related needs. At the EU level, further application of the general escape clause was agreed in June with the adoption of the European Semester Spring Package. The European Commission provided guidelines for fiscal policy in 2022 already in March 2021. In them, the Commission emphasised that fiscal policy must remain accommodative and flexible and adapt to the changing situation if necessary. The Commission reiterated that premature withdrawal of support measures for the economy may produce more severe consequences than if measures were in place for too long. A gradual withdrawal of intervention measures will only be logical when the epidemiological and economic situations allow. The Commission pointed out that measures to support the economy should gradually become more target oriented and provide more support for resilient and sustainable recovery as the epidemiological situation improves.

Table 6: Cyclical developments

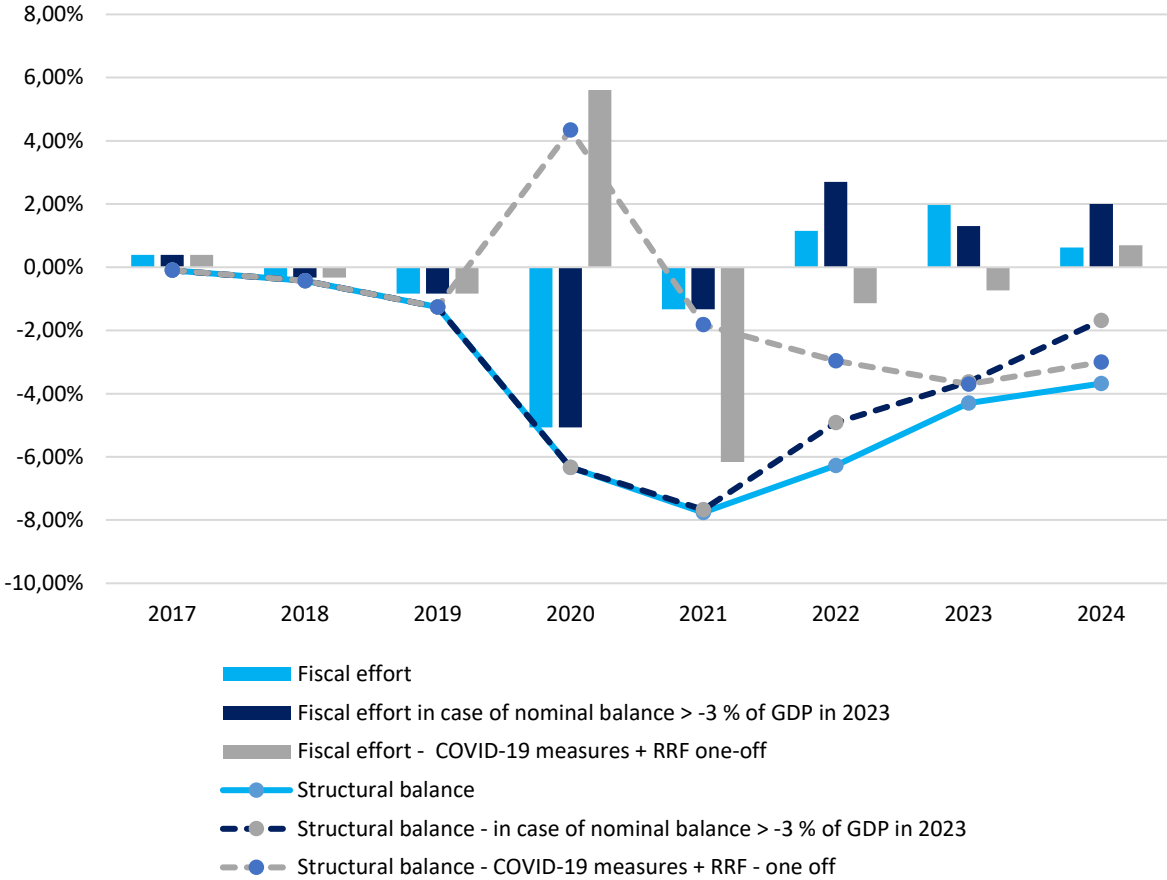
	% of GDP	ESA code	2020	2021	2022
1.	Real GDP growth (%)		-4.2	6.1	4.7
2.	Net lending/borrowing of general government	B.9	-7.7	-7.5	-5.4
3.	Interest expenditure	D.41	1.6	1.4	1.3
4.	One-off and other temporary measures		-0.14	-0.04	-0.16
4a.	Of which one-offs on the revenue side: general government		/	/	/
4b.	Of which one-offs on the expenditure side: general government		-0.14	-0.04	-0.16
5.	Potential GDP growth (%)		1.9	2.8	3.0
	Contributions:				
	- Labour		0.1	0.8	0.8
	- Capital		0.2	0.5	0.6
	- Total factor productivity		1.6	1.5	1.5
6.	Output gap		-2.6	0.5	2.1
7.	Cyclical budgetary component		-1.2	0.3	1.0
8.	Cyclically-adjusted balance (2-7)		-6.5	-7.7	-6.4
9.	Cyclically-adjusted primary balance (8+3)		-4.9	-6.3	-5.1
10.	Structural balance (8-4)		-6.3	-7.7	-6.3
11.	Fiscal effort		-5.1	-1.3	1.4

Source: Ministry of Finance.

Uncertainty makes the assessment of fiscal stance and the interpretation of fiscal indicators very challenging. As also pointed by European Central Bank, the appropriate indicator of fiscal stance is subject to discussion even in normal times, due to it being based on unobservables. This is especially relevant in the current situation, when exceptionally high uncertainty around

the estimates of potential output exists, and due to the change in behaviour of economic subjects.

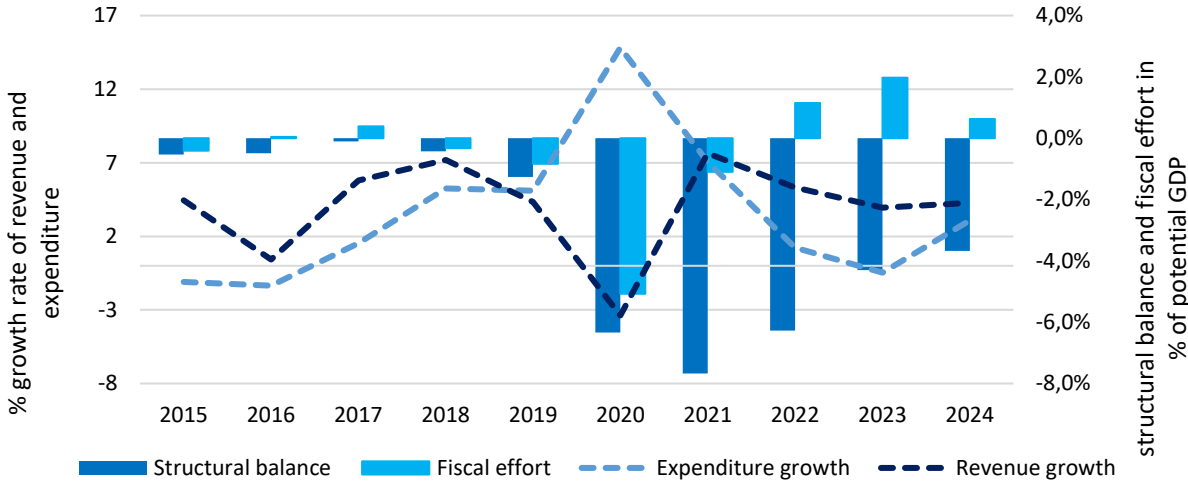
Figure 8: Comparison of structural balances and fiscal effort (in % of potential GDP)



Source: Ministry of Finance.

Figure 8 shows three scenarios, and their associated structural balances and fiscal efforts. The scenario that anticipates a deficit below -3% of GDP in 2023 shows that a greater fiscal effort than planned would be required (expenditure should drop by €500 m nominally). Taking into account the COVID-19 measures and measures from the Recovery and Resilience Plan as one-off expenses would result in reduced structural deficit. In 2020 and 2021, the structural balance significantly deteriorated due to the decline in economic activity and the implemented measures. According to calculations, the foreseen economic growth in 2021 and 2022 makes a negative output gap from 2020 positive already in 2021. A larger positive output gap in 2022 causes the structural balance to worsen, and fiscal space to become narrower despite considerable nominal effort and deficit reduction. To reduce the structural deficit to a greater extent, expenditure should be more significantly reduced, which would produce negative consequences. As highlighted during the last financial crisis, too rapid fiscal consolidation could lead to a deterioration in the macroeconomic situation or permanent reduction in long-term economic growth.

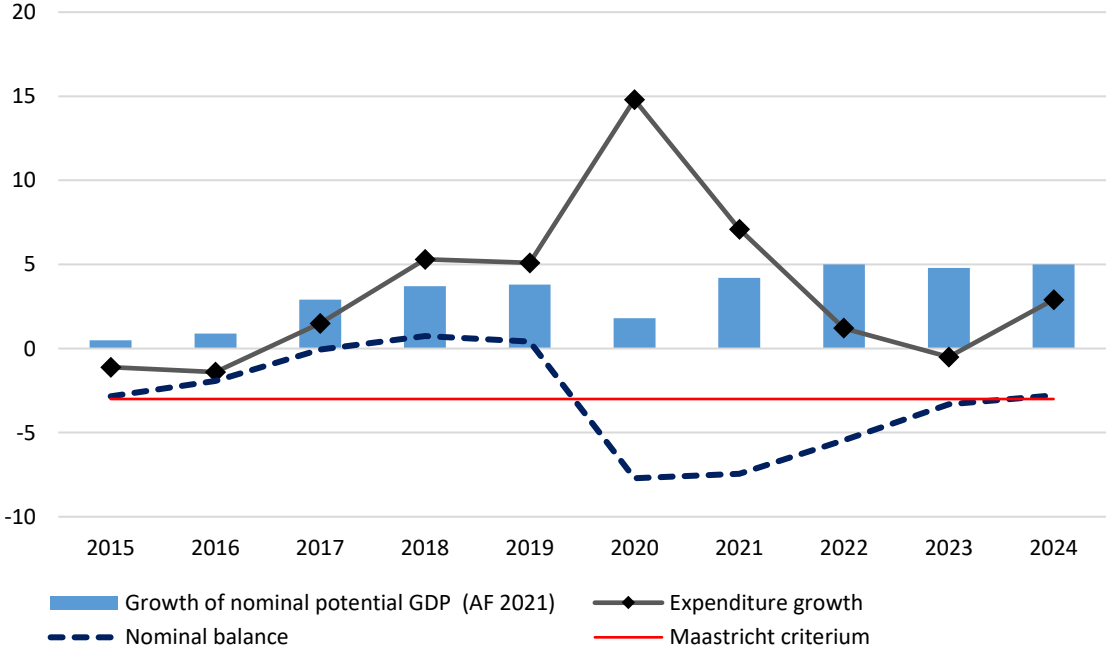
Figure 9: Growth rate of government revenue and expenditure (in %) and dynamics of structural balance and fiscal effort (in % of potential GDP)



Source: Ministry of Finance.

Figure 9 shows that the growth in nominal expenditure is below the growth in revenue in the period 2021-2024. To assess a suitable growth in expenditure in accordance with the rules of the Stability and Growth Pact applied in normal times, interest expense, the cyclical component of unemployment benefits, and expenditure stemming from revenue from EU funds are deducted from total expenditure (net expenditure). The four-year average of expenditure on investments, excluding the funds received for investment from the EU, is taken into account. The Ministry of Finance expects a negative growth in net expenditure in 2022. However, as the current estimates of potential GDP remain uncertain, the purpose of Figure 10 is to show annual growth in total expenditure in comparison with the nominal growth in potential GDP. In 2022, expenditure is projected to grow at a slower pace than potential GDP, which is a positive indication from fiscal sustainability perspective.

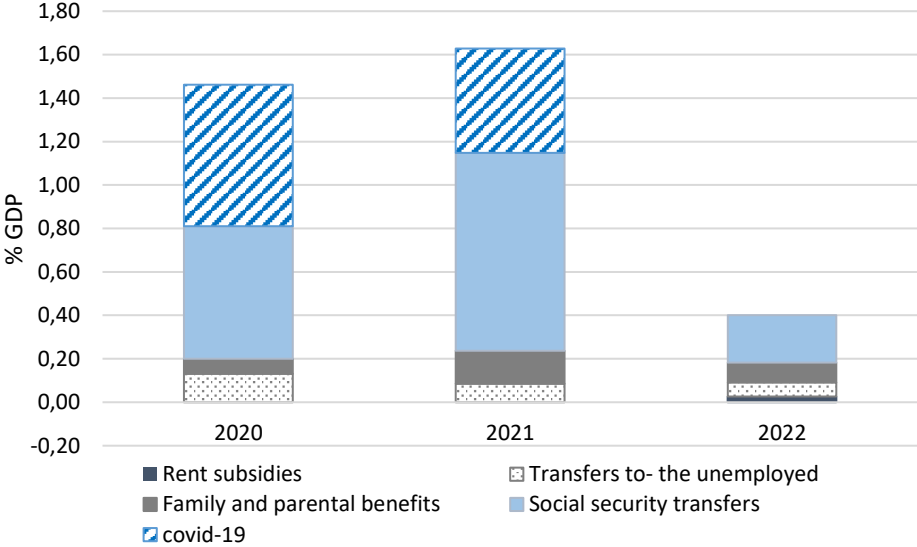
Figure 10: Growth rate of expenditure and nominal potential GDP (in %)



Source: Ministry of Finance.

Automatic stabilisers automatically adjust transfer payments in such a way as to balance revenue and consumption in a business cycle. They include transfers to unemployed persons, family and parental benefits, transfers for providing social security and subsidising rent. As a response to the crisis, automatic stabilisers increased by 1.4% of GDP in 2020 and will increase by 1.6% of GDP in 2021 in comparison with 2019. Their increase is expected to be lower in 2022 as a result of the expiry of COVID-19-related measures – Figure 11. In 2020 and 2021, the COVID-19 measures contributed to increase in automatic stabilisers between 0.65% and 0.48%. Transfers for providing social security will continue to constitute the largest share of the increase in automatic stabilisers in 2021, they will amount to 0.91% of GDP.

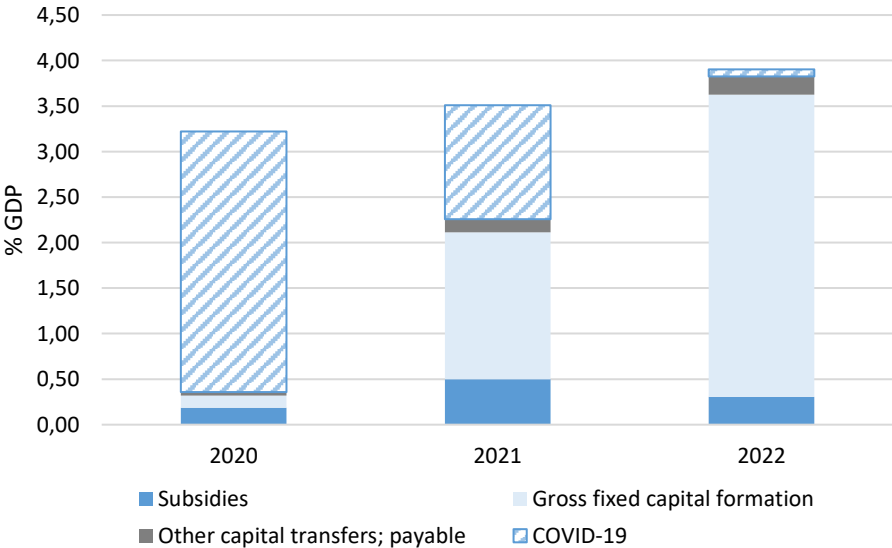
Figure 11: Automatic stabilizers, change compared to 2019, in % of GDP



Source: Ministry of Finance, own calculations.

Fiscal stimulus includes subsidies, gross investments and other capital transfers. Its increase in 2022 relative to 2019 will be larger in comparison with the previous two years, particularly on account of investments (Figure 12).

Figure 12: Fiscal stimulus, change compared to 2019, in % of GDP



Source: Ministry of Finance, own calculations.

Under a no-policy-change assumption, i.e., without adopted legislation intended to mitigate the COVID-19 crisis, and the National Recovery and Resilience Plan, Slovenia would have a significantly lower deficit in 2021, i.e., 3.2% of GDP. Without unconsolidated COVID-19 expenditure and expenditure financed by the Recovery and Resilience Facility, the expenditure of the general government sector would amount to €23,614 m in 2021 and to €25,517 m in 2022. However, their level remains high, particularly on account of higher expenditure on government investment as part of the enhanced absorption of European funds from the expiring cohesion policy. In this way, Slovenia would record a 4.9% GDP deficit in 2022.

COVID-19 crisis mitigation measures

Table 7: Estimation of the value of COVID measures by individual fields according to the ESA methodology (in EUR million)

	2020	2021	2022	2023*
Tax measures / revenue:	376.1	-291.1	-73.8	-4.3
<i>Unsettled and unpaid prepayments for economic activity imposed on each individual income and deferred tax payments (personal income tax, corporation tax)</i>	201.3	-183.7	-16.2	-1.4
<i>Deferred tax payments (excise, VAT)</i>	167.8	-107.3	-57.6	-2.9
<i>Other taxes on production</i>	7.0	0.0	0.0	0.0
Measures in the field of labour market and social security contributions; incl.:	1,273.0	544.4	4.6	0.0
<i>Wage compensations for employees waiting at home</i>	393.0	200.5	0.0	0.0
<i>Monthly basic income</i>	200.2	225.5	0.0	0.0
<i>Exemption from payment of contributions for pension and disability insurance</i>	618.7	1.4	0.0	0.0
Measures in the field of economy, tourism and agriculture; incl.:	394.2	453.9	0.0	0.0
<i>Coverage of fixed costs</i>	160.0	157.0	0.0	0.0
<i>Reimbursement of crisis salary bonus / supplement</i>	58.4	0.0	0.0	0.0
<i>Aid in agriculture</i>	4.9	26.1	0.0	0.0
<i>Tourist vouchers</i>	128.2	205.1	0.0	0.0
Measures in the field of healthcare; incl.:	311.2	351.8	232.7	4.4*
<i>Compensation to the providers of health care loss due to reduced activity</i>	105.0	4.7	0.0	0.0
<i>Additional funds for Health Insurance Institute of Slovenia – vaccination</i>	46.7	107.6	0.0	0.0
<i>Additional health programmes, shortening waiting times, tenders in healthcare, etc.</i>	11.6	7.3	163.3	0.0
<i>COVID-19 testing</i>	32.4	78.3	18.0	0.0
Measures in the field of social protection; incl.:	195.3	30.5	5.4	0.0
<i>Single payment solidarity assistance for pensioners</i>	135.0	0.0	0.0	0.0
<i>Solidarity assistance for vulnerable groups</i>	59.9	29.3	5.4	0.0
Measures in the area of wages; incl.:	309.7	662.8	0.0	0.0
<i>Allowances and supplements for special working conditions</i>	309.7	631.8	0.0	0.0
<i>Allowances for direct work with COVID patients</i>	0.0	30.9	0.0	0.0
Other measures / for public sector support: kindergartens, student dormitories, fire brigades, sport organizations, etc.)	63.5	26.4	0.0	0.0
Total COVID measures / expenditure:	2,546.9	2,069.9	242.7	4.4
Total COVID measures / revenue & expenditure:	2,923.0	1,778.8	168.9	0.1

Note: *4.4 million EUR of estimated expenditure in 2023 relates to the purchase of protective equipment in the field of healthcare.

Source: Ministry of Finance.

The first package of measures to rapidly support people and companies was adopted at the beginning of April 2020, soon after an epidemic was declared in Slovenia. An additional six packages of measures were adopted by the end of 2020. These measures are aimed to

provide income support for people and companies, and support for social security systems. The most important measures aimed at the labour market and preserving activities in companies include furlough and short-time work support. The total value of expenditure stemming from COVID-19-related measures amounted in 2020 to around €2.6 bn according to the ESA methodology. On the revenue side around €280 m if taxes were deferred. The total impact of COVID-19 measures in 2020 amounted to €2,923 m.

The eighth COVID-19 support package was adopted in February 2021 and is estimated to be worth around €350 m. The package included basic income for self-employed people, the extension of wage compensation for furlough, subsidies for the increased part of the minimum wage, a one-off solidarity allowance for various vulnerable groups, support for the healthcare and social systems, and bonuses for public officials. The measures adopted to support the economy within the eight packages of intervention support positively affected companies, but the positive effects were not the same for all sectors due to the restrictive measures.

Therefore, the Act on Intervention Measures to Assist the Economy and Tourism Sector (ZIUPGT) or the ninth support package, with which the Government supported the most affected activities during the second wave of the epidemic, was adopted at the beginning of July 2021. These activities include the hospitality, tourism, and meetings and events, sports and culture industries. The ZIUPGT was adopted to determine measures (including the short-time work scheme) providing support for all activities as equally as possible. New vouchers for tourism, hospitality, sports and culture were also introduced in 2021 to support the most affected activities. Companies that met the conditions set by law received assistance in the form of funds for holiday pay. An intervention act also stipulated support for the meetings, and film and audio-visual industries. Also adopted was a measure stipulating exemption from payment for the recovery of water costs and a measure of assistance for cableway operators. The measures are estimated to be worth approximately €250 m.

In mid-July 2021, the Healthcare Intervention Measures Act (ZNUPZ) also entered into force, the purpose of which is to increase work efficiency in healthcare, better accessibility of healthcare services and safety when using medical devices. The ZNUPZ extends wage compensation for workers in quarantine at home or who cannot perform their work for reasons of force majeure, i.e. the obligation to protect, the cessation of passenger transport or the closure of borders. Also extended is the measure of a national tender to improve healthcare service accessibility. The measure of co-financing the mandatory strategic supply of protective and medical equipment of social service providers is extended, too. The ZNUPZ also introduces certain innovations. It establishes an emergency operation centre for epidemiological research, as well as bonuses for employees who work directly with COVID-19 patients through an outsourcer, and bonuses for work in hazardous conditions for managers in education, higher education and research activities, and regulates self-testing with SARS-CoV-2 tests. The joint impact of COVID-19-related measures is assessed at €49 m in 2021.

The total expenditure stemming from COVID-19-related measures amounted in 2021 to around €2.1 bn according to the ESA methodology. Including taxes, which will be paid in 2021, but refer to 2020, the COVID-19 measures will amount to €1,780 m in 2021.

COVID-19-related expenditure will decrease considerably in 2022, amounting to around €240 m according to the ESA methodology. Most expenditure will be allocated to the implementation of additional healthcare programmes, the shortening of waiting times, and tenders in

healthcare. A certain share of budgetary resources will also be allocated to post-COVID-19 recovery. Total impact of COVID-19 measures in 2022 will amount to €170 m.

Recovery and Resilience Plan

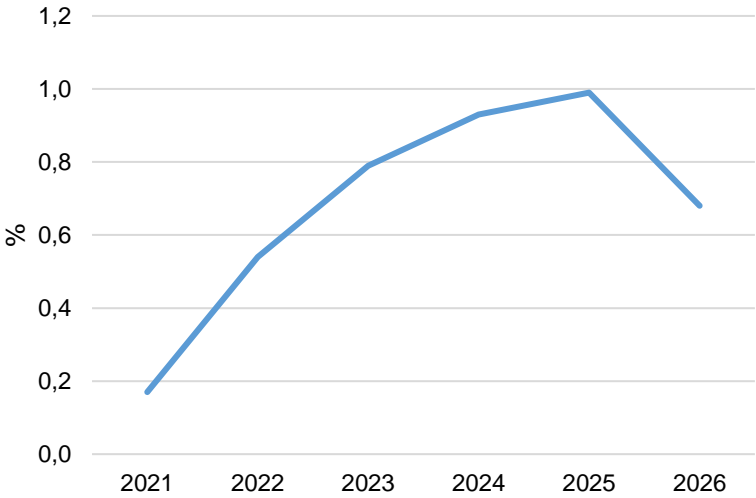
The Recovery and Resilience Plan comprises components consisting of individual measures. These measures are based on reforms which bring structural changes and are supplemented by investments. Essential structural measures, including two new systemic acts in the field of long-term care and the healthcare system, which regulate structure and financing sources, should be highlighted. Pension reform will produce solutions for the sustainability and adequacy of the pension system (retirement conditions, indexation, contributions, connections between contributions and pensions, and raising awareness). It is supplemented by measures related to the training and greater employability of older workers, greater supply of labour force, measures to promote the inclusion of disabled and young people in the labour market, and the short-time work scheme. Greater competitiveness of the economy is supported by structural measures which remove administrative barriers, improve access to finance, and improve cooperation between public research organisations and the business sector. A transition to a circular economy will also be supported. In the field of investment financing, the state is shifting from the financing of private investment which generates more jobs, to the financing of highly productive, digital and sustainable investments.

A total amount of €128.6 m is expected to be used for the implementation of measures from the Recovery and Resilience Plan in 2021. Most of these funds are aimed at increasing railway infrastructure capacity. According to the foreseen dynamics of project implementation, certain activities within railway infrastructure projects will be carried out early, i.e., in 2021.

In 2022, €285.5 m will be spent. Most of these funds will be used to increase railway infrastructure capacity, and for the digital transformation of the economy and the public sector as well as public administration. A large share of funds is earmarked for reducing flood and natural disaster risks. As part of smart, sustainable and inclusive growth, funds are planned to implement projects in the field of educational infrastructure for a green and resilient transition. Incentives are also intended for investment in greater productivity, competitiveness and decarbonisation of the economy, and new jobs, the sustainable development of tourist infrastructure, and projects that will support a speedier entry of young people into the labour market and a more flexible organisation of work. In the field of healthcare and social security, most funds are dedicated to providing a safe living environment to people who depend on the help of others. Funds are also allocated to strengthen the competences of healthcare staff to provide high-quality care and treat infectious diseases efficiently. Estimates show that the Recovery and Resilience Plan could boost long run economic growth and increase GDP by a further 0.8% in 2026 (estimates from Recovery and Resilience Plan). IMAD estimates the

positive effect on GDP also on the basis of the estimated multiplier and the dynamics of funds provided for in the Recovery and Resilience Plan, (Figure 13).

Figure 13: Effect of Recovery and Resilience Plan on GDP dynamics



Source: IMAD.

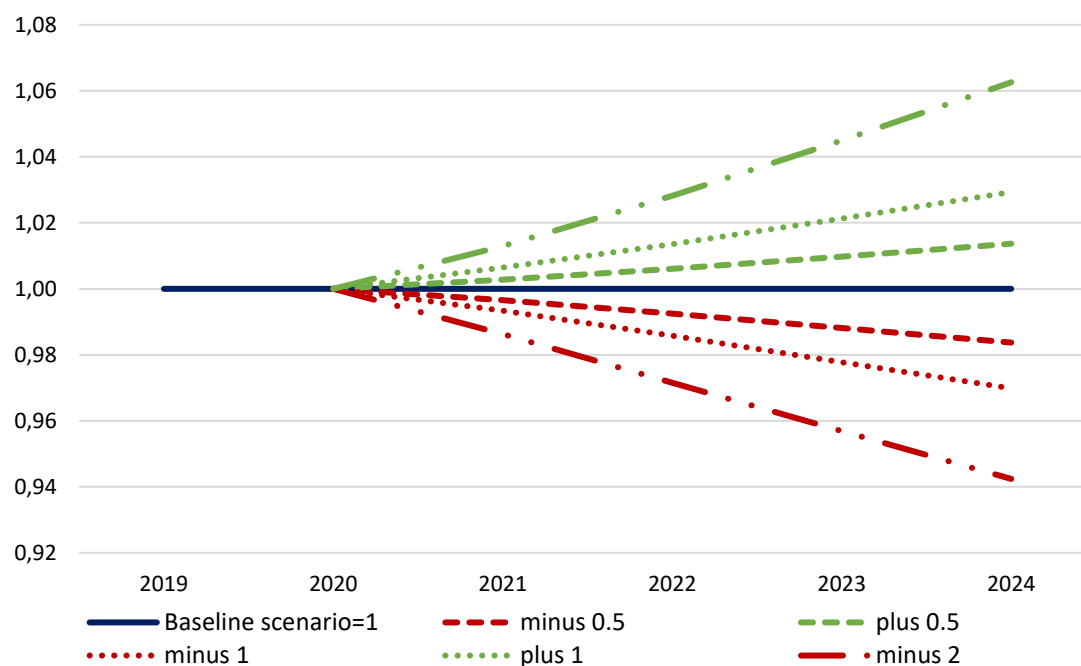
The funds from the Recovery and Resilience Facility will be managed through a budgetary fund. A budgetary fund is a budgetary instrument in the form of a budget record account and is established, pursuant to the Public Finance Act, to separately manage revenue and expenditure (unused funds may be transferred to next year, and liabilities may be assumed in the amount of justifiable revenue of the budgetary fund).

Fiscal risks

Planning still includes great uncertainties and high risks, which are also related to the international environment (global epidemiological situations, supply chains, higher energy product prices, etc.).

Figure 14 shows alternative scenarios of the impact of economic growth fluctuation on general government revenue. The scenarios show the revenue path in the case of 0.5, 1 and 2 percentage points higher or lower nominal economic growth than projected in the IMAD Autumn Forecast 2021 (baseline scenario) and are thus based on Ministry of Finance projections of the movement of general government revenue bases. Under a no-policy-change assumption, the general government revenue would improve by 1.3% compared to the baseline projection for 2021 and by 2.8% compared to the baseline projection for 2022, if nominal GDP growth would be 2 percentage points higher than anticipated (scenario illustrated by line plus 2 in Figure 14). The general government revenue would reach 98.6% of the revenue from the baseline projection for 2021 and 97.2% in 2022 if GDP growth would be 2 percentage points lower than anticipated (scenario minus 2). The general government revenue would be lower by 0.7% in 2021 and by 1.4% in 2022 than in the baseline scenario if the realised GDP growth in 2021 would be 1 percentage point lower than anticipated (scenario minus 1). In the case of 1 percentage point higher realized GDP growth in 2021 government revenue would increase by 0.6% in 2021 and by 1.3% in 2022 (scenario plus 1).

Figure 14: Impact of fluctuations in economic growth on general government revenue, baseline scenario=1



Source: Ministry of Finance, own calculations.

4 Public debt and potential liabilities

Table 8: General government debt

	ESA Code	2020	E2021	F2022	F2023	F2024
			in EUR m			
1. General government debt		37,423	39,538	41,336	42,639	44,044
2. GDP		46,918	50,364	53,352	56,136	58,890
			in % GDP			
3. General government debt		79.8	78.5	77.5	76.0	74.8
4. Change in debt ratio		14.2	-1.3	-1.0	-1.5	-1.2
5. General Government Balance		-7.7	-7.5	-5.4	-3.3	-2.8
6. General Primary balance		-6.1	-6.1	-4.1	-2.1	-1.7
7. Interest expenditure	EDP D.41	1.6	1.4	1.3	1.2	1.1
8. Stock-flow adjustments		3.8	-3.3	-2.0	-1.0	-0.4
Implicit interest rate on debt		2.4	1.9	1.8	1.6	1.6

Source: Ministry of Finance, 27. 9. 2021.

The borrowing size for the fiscal year 2021 is set by Financing program adopted by the Government. In addition, The Public Finance Act allows to prefinance to the level of debt principal repayments due in the next two years (2022 and 2023). On the back of the adopted intervention laws to contain the Covid-19 epidemic and to mitigate its economic consequences

additional borrowing is allowed in 2021. In the beginning of 2021, the Government adopted the Medium-term debt management strategy by the Ministry of Finance for the period of 2021-2023 and the Stability program for 2021-2024. Both documents include medium-term projections of general government debt evolution/reduction relative to GDP.

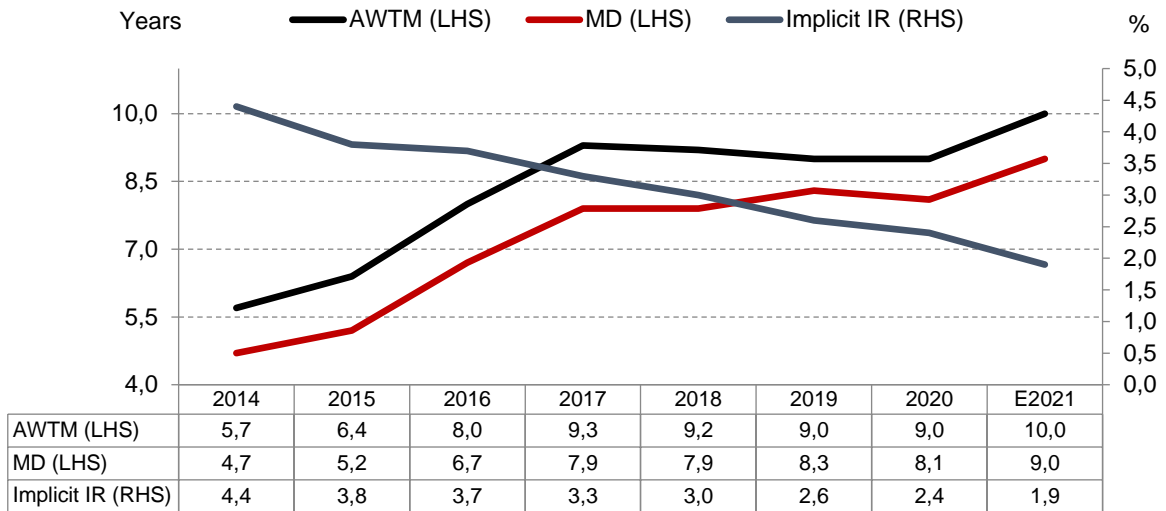
Based on the latest regular annual GDP revision made by SORS, the general government debt at the end of 2020 stood at 79.8% of GDP. The Ministry of Finance estimates the general government debt for 2021 at 78.5% of GDP. This is inside the projections outlined in Medium-term debt management strategy (80,9% of GDP) and the Stability program (80,4% of GDP). The state budget debt ratio within the general government debt structure stands at 92%. Ministry of finance envisage in its projections the reduction of the general government debt to GDP ratio to 74,8 % GDP until the end of 2024 via gradual decrease of state budget liquidity reserves and expected nominal GDP growth in mid-term period.

In 2021, for the first time on the euro debt capital markets, the Ministry of Finance issued and tapped 10-year euro bonds with an average yield to maturity of -0.11% in the total sum of EUR 2.15bn. The same year the Ministry of Finance issued a 10-year euro bond by ESG criterion for the first time, providing EUR 1bn of sustainable financing to further support long-term potential GDP growth.

In the year 2021 the Ministry of Finance provided market long-term financing of the central government budget with an average weighted issued yield of 0.04% with an average weighted time to maturity of 17.1 years. The state budget interest expenditure is estimated at EUR 0.68bn (1.3% of GDP) in 2022, which is EUR 0.4 bn lower in comparison to 2014 figure of EUR 1.08bn (2.9% of GDP). In this respect, debt management activities played an important part as well as favourable refinancing of matured debt and central government budget execution. The share of central government debt denominated in USD (all liabilities are paid in EUR) decreased from 25% to 3.5%.

The average weighted time to maturity of the state budget debt portfolio has increased from 5.7 years in 2013 to 10 years in 2021, while the average (implicit) interest rate has been reduced from 4.3% in 2013 to 2% in 2021. The key strategic objective of the debt management has been achieved, namely the reduction of refinancing risk, i.e., extending the average time to maturity while reducing the implicit interest rate at the same time. The redemption profile of the state budget debt is well managed. Almost 1/3 of the debt exhibits residual maturity of more than 10 years, with a diverse investor base both in terms of investor type (fund managers, pension funds, insurance companies, banks, etc.) as well as geographical location (UK & Ireland, Germany, Austria, USA...).

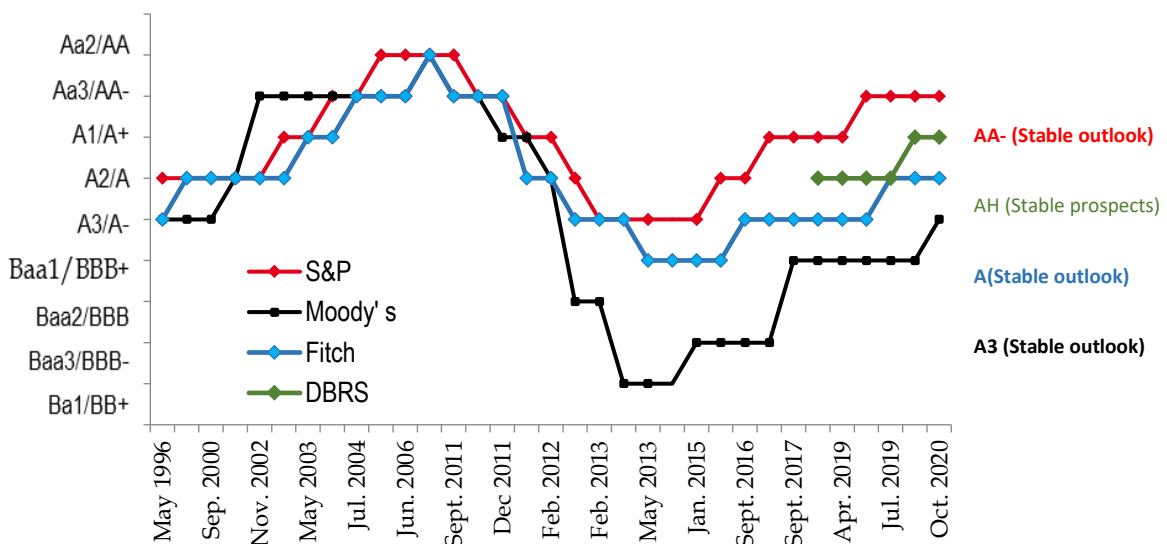
Figure 15: Key characteristics of the state budget debt*



* Modified duration (MD), average weighted time to maturity (AWTM) and implicit interest rate
 Source: Ministry of Finance, 27.9.2021.

The positive trend of changes in the credit ratings of the Republic of Slovenia began in 2015 and reached today's values in 2020, namely AA- (S&P) with stable development prospects, A (Fitch) - stable prospects, A3 (Moody's) - with stable prospects and AH (DBRS) - with stable prospects. On 2 October 2020, Moody's raised the long-term credit rating of the Republic of Slovenia from Baa1 to A3 with a stable outlook. The report on long-term credit risk noted two main drivers for the upgrade: (1) notable lowering of interest expenditures in nominal terms as well as relative to GDP compared to peers and (2) a marked improvement in operation and resilience of the banking system and the completion of privatisation of the largest commercial banks. Despite the significant global effects of the Covid-19 pandemic, all four credit rating agencies S&P, Fitch, Moody's and DBRS have maintained or improved Slovenia's credit rating.

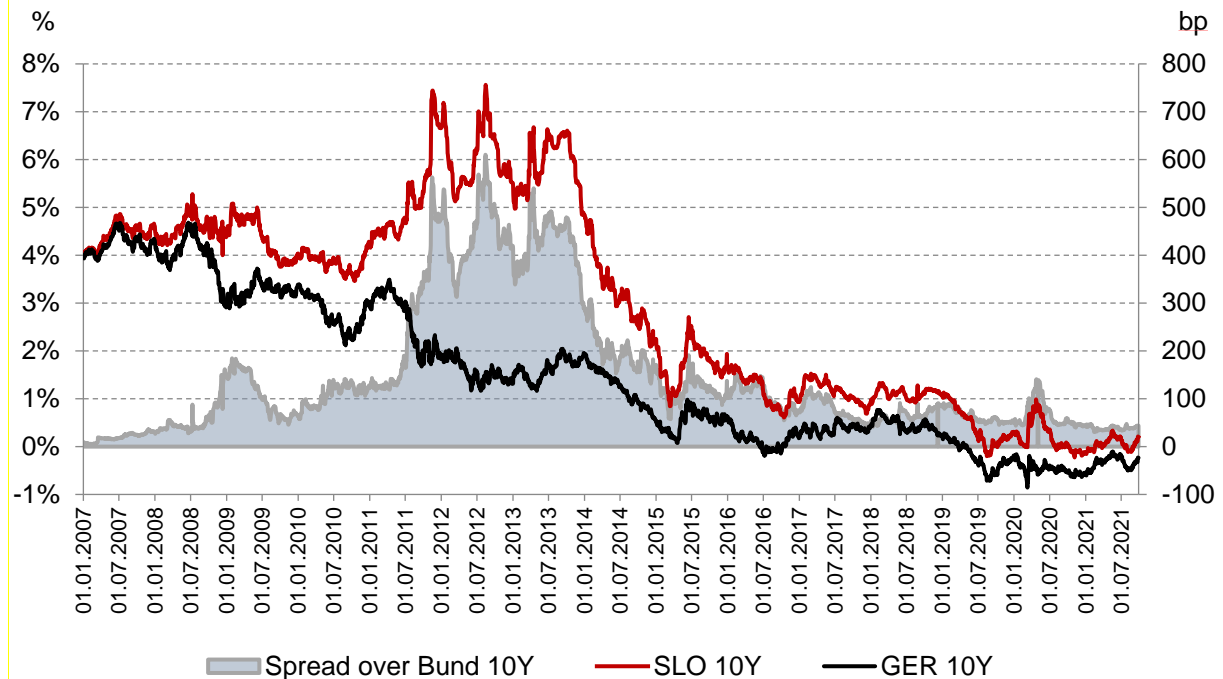
Figure 16: Republic of Slovenia Credit Rating over time



Source: S&P, Moody's, Fitch and DBRS, 27.9.2021.

In the period 2012-2013 the spread over 10-year German bund reached over 600bp. Since 2014 Slovenia observes downward path and significantly lower levels. On 27 September the spread over benchmark bund is at historically low levels at 44 bp.

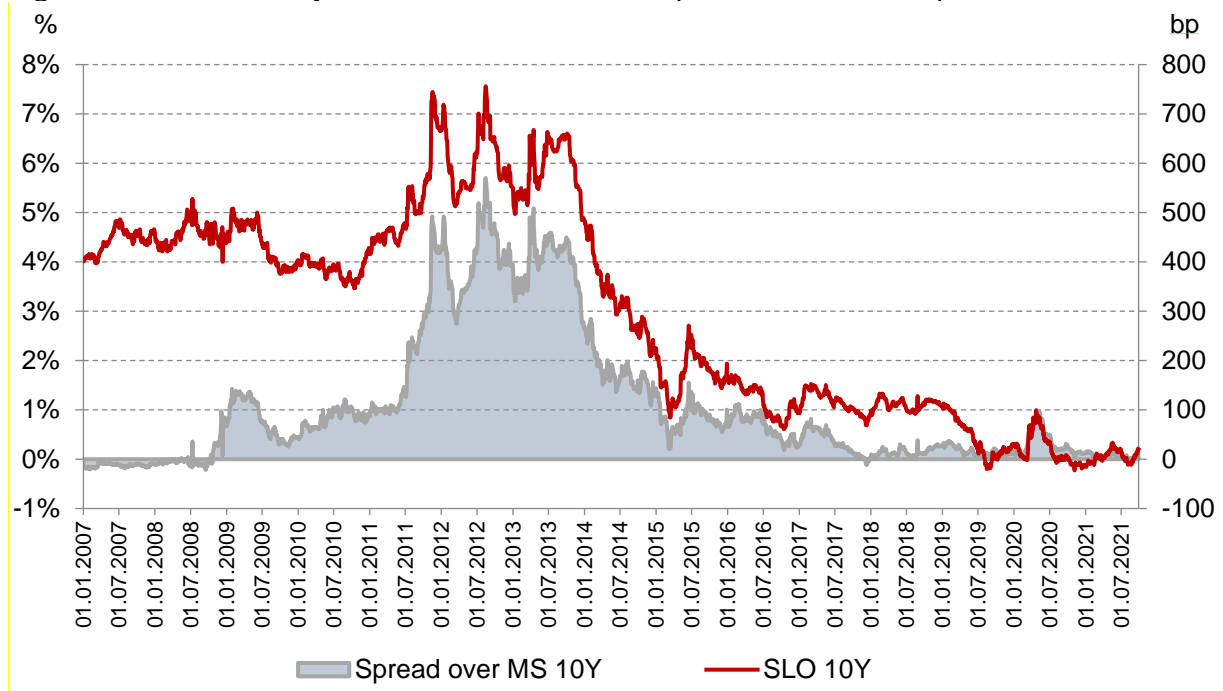
Figure 17: 10-year YTM Dynamics of Republic of Slovenia in Comparison to Germany



Source: Ministry of Finance, 27.9.2021.

On the back of the strong credit ratings, the Republic observes significantly lower yield levels in comparison to a decade ago. In today's environment the credit spread over EUR 10-year mid swap on 27 September stands at 7 bp.

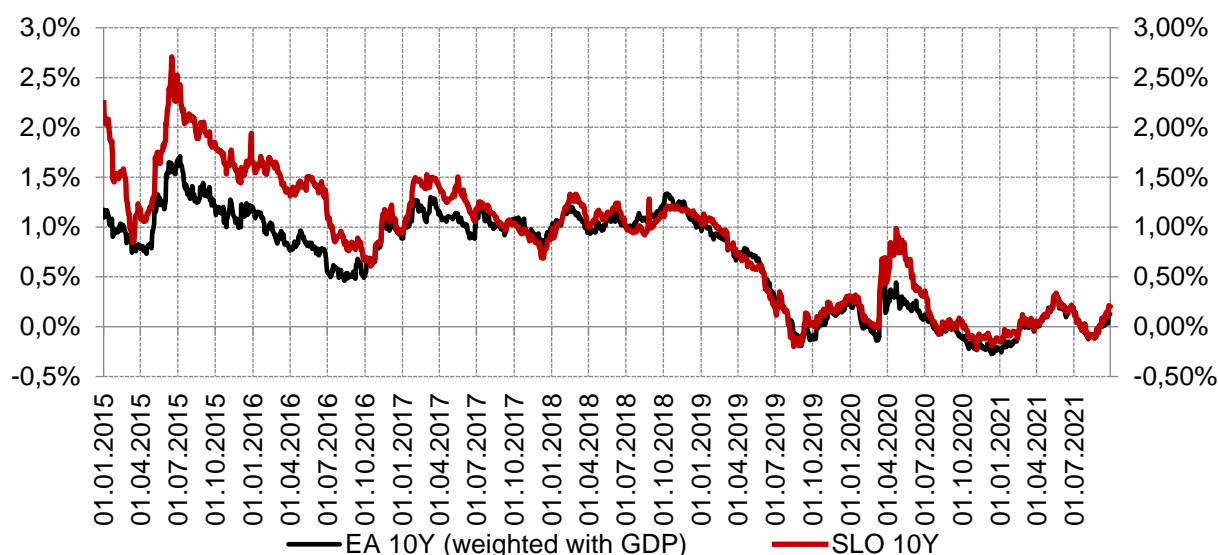
Figure 18: Slovenia 10-year EUR YTM and Credit spread over Mid Swap



Source: Ministry of Finance, 27.9.2021.

Republic of Slovenia moved and anchor close to EA average weighted 10-year yield to maturity. As it is shown in the figure below Republic of Slovenia 10-year YTM is in line with EA average weighted 10-year yield (weight represents country GDP in total EA GDP).

Figure 19: 10-year EUR YTM Dynamics for Slovenia in Comparison to EA average



Source: Eurostat, Ministry of Finance, own calculations, 27.9.2021.

The balance of guarantees of the Republic of Slovenia as of 30 June 2021 is €4,914 m, of which the balance of government guarantees for the liabilities of the financial sector (S. 12) is €669 m. The balance of guarantees of the Republic of Slovenia from the end of 2021 to 2023 was prepared on the basis of certain assumptions relating to the repayment of existing guarantees and approvals of new ones.

Table 9: Projections of contingent liabilities of the Republic of Slovenia for the 2021-2023 period

	2021 (% GDP)	2022 (% GDP)	2023 (% GDP)
Guarantees of the Republic of Slovenia	9.6	8.3	8.1
Including: financial sector*	1.3	1.3	1.2

Source: Ministry of Finance.

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

The quota of new guarantees is planned in the Implementation of the Republic of Slovenia Budget Act. For 2021, the quota was determined at €1,170 m, of which € 1,000 m was earmarked for COVID-19-related crisis measures. The quota foreseen in the Implementation of the Republic of Slovenia Budget Act for 2022 stands at €630 m and €630 m for 2023. A quota for guarantees of the SID Bank in the amount of €350 m is determined for each year separately.

An act regarding COVID-19-related measures was adopted in 2021, i.e., the Act Regulating the Guarantee of the Republic of Slovenia for Pan-European Guarantee Fund (Official Gazette of the Republic of Slovenia [Uradni list RS], No. 36/21; ZJPGS). However, the guarantee quota pursuant to the ZJPGS in the amount of €70 m is not included in the guarantee quota stipulated by the Implementation of the Republic of Slovenia Budget Act.

In 2021, a total of €94 m of government guarantees were issued for COVID-19-related measures, i.e., €7 m for deferred payments of loan liabilities, €16 m for liquidity loans, and €70 m for the Pan-European Guarantee Fund.

€20 m can be used to call on government guarantees in 2022 and €20 m in 2023. Most of the funds are planned to call on government guarantees issued on the basis of COVID-19-related measures.

5 General government developments 2021–2022

Revenue and expenditures in four public finance budgets (cash flow)

State budget

According to estimates, the revenue of the state budget will increase by 21.5% in 2021 in comparison with 2020 and by 8.8% in comparison with 2019. Revenues in 2022 will be 4.0% higher than in the year before. A relatively high growth in revenue in 2021 in comparison with 2020 is largely a consequence of the base effect, when revenue significantly dropped in 2020 at the beginning of the epidemic, and the easing of COVID-19 restrictive measures. Tax revenues will increase by 17.6% in 2021 in comparison with 2020 and by 2.8% in comparison with 2019, particularly on account of higher revenues from value added tax, income tax and corporate income tax, which may be attributed to a more open economy in comparison with 2020 and a more favourable economic situation. The growth in tax revenues will level off in 2022, standing at 2.4%. In both years, revenue from EU funds will increase, i.e., funds from the previous financial framework and funds from the Recovery and Resilience Facility.

The expenditure of the state budget will increase by 19.3% in 2021 compared to the year before and will grow more slowly than revenue. The growth in expenditure will be largely a result of further COVID-19-related measures. Expenditure on salaries will increase by 12.4%, which will be, to a certain extent, a consequence of the payment of COVID-19-related bonuses for work. As a part of these bonuses pertain to work performed in 2020, they will be transferred in accrual accounting to the year before. Expenditure on goods and services will also grow (by 22%), particularly due to the payment of guarantees for bank loans to the Public Fund for Entrepreneurship to improve the liquidity of the business sector – a COVID-19-related measure, and current transfers (by 18.3%), particularly transfers to individuals and households, whose growth will be largely affected by COVID-19 support, i.e., the payment of tourist vouchers and crisis allowance. Transfers to public institutions will also be higher, particularly owing to salary allowances as part of COVID-19-related measures. Investment expenditure will grow by around 100% and investment transfers will be higher by around 40%, also due to higher revenue from EU funds. In 2022, the expenditure of the state budget will be around 7% lower than in the year before, particularly on account of the cessation of the validity of COVID-19-related measures. Expenditure on salaries will be 4.5% lower and expenditure on goods and services will remain at a similar level as the year before. Expenditure on current transfers will be around 25% lower. However, expenditure on investment (by around 40%) and investment transfers (by around 60%) will be higher, which will be a result of a higher absorption of funds from the EU and the Recovery and Resilience Facility. In 2021 and 2022, the state budget balance will still be negative, standing at -7.9% of GDP in 2021 and -4.6% of GDP in 2022.

Municipal budgets

According to estimates, municipal budgets will have, like in 2020, a positive balance in 2021 (€26.8 m), which will continue in 2022 (€73.8 m). The total revenue will increase by 8.7% in 2021 in comparison with 2020 and by 1.4% in 2022 in comparison with 2021. Higher lump-sums will contribute to higher revenue in 2022. Total expenditure will increase by around 9% in 2021 and drop by around 0.4% in 2022 in comparison with the year before. Expenditure on investments will constitute a significant share of expenditure of municipal budgets and will be 8.5% higher in 2021 than in 2020. According to estimates, expenditure on investments will be 15% higher in 2022 than the year before. An increase in the latter could largely be attributed to the conclusion of the financial framework, and the use of EU funds from the Recovery and Resilience Facility.

Social security funds

The growth in revenue from social contributions of the Pension and Disability Insurance Institute (ZPIZ) in 2021 and 2022 is estimated at 8.2% and 2.5%, respectively, taking into account foreseen fluctuation in wages and employment. In comparison with pre-crisis 2019, contributions will grow by 12.2% in 2021. The transfer from the state budget to the pension fund in 2021 will amount to 2% of GDP and 2.3% of GDP in 2022. By 2022, the ZPIZ estimates that its total expenditure will grow year-on-year slightly less than the year before, i.e. by 5.4% in 2021 and 4.2% in 2022. Expenditure on pensions in 2021 and 2022 show a further 5.4% growth, resulting particularly from the planned annual pension indexation (2021: 2.5%, 2022: 4.0%) and the planned growth in the average number of pensioners (2021: 0.3%, 2022: 0.8%).

From the aspect of the financing of final general government expenditure, the Health Insurance Institute of the Republic of Slovenia (ZZZS) is estimated to end year 2021 with a surplus in the amount of €77 m and 2022 with a deficit in the amount of €94 m. This will be a consequence of a high growth in total revenue in 2021 (110%), resulting from a high growth in social security contributions (106.7% in comparison with 2020 and 111% in comparison with 2019), which is a result of a high growth in wages in the public sector due to allowances and supplements for special working conditions during the epidemic. In relation to healthcare financing, higher transfer revenue from the state budget, particularly from funds for current expenditure intended to cover the ZZZS expenditure on epidemic management, significantly contributed to the growth in total revenue of the Health fund. The growth in total expenditure will stand at 4.8% in 2021. In the structure of ZZZS total expenditure and according to the purpose of use, expenditure on healthcare activities constitute the largest share. They include expenditure on healthcare services (specialist outpatient and hospital treatment), medicines, medical devices, vaccines, expenditure on treatments abroad, etc., as part of transfers to public institutions and payments to other public service providers. Transfers to public institutions gradually increased between 2017 and 2020. In 2020, the year-on-year growth amounted to 9.4%. The growth in the said transfers is set to level off slightly in 2021 and 2022 (2021: 102.9% and 2022: 101.7%). However, the dynamic does not reflect the real situation due to new accounting guidelines. ZZZS has a function as an agent regarding the funds received from the state budget for the purpose of covering the compensation of employees and allowances for trainees, practitioners and specialists, and other COVID-19-related activities, which are excluded from the balance of revenue and expenditure (balance A). Therefore, these flows are excluded from revenue-related transfers from the state budget and expenditure-related transfer to public institutions to the same extent. If the said harmonisation had not taken place, current transfers to public

institutions would have grown by approximately 6.3% in 2021. In recent years, the Health fund has been noticing growth in expenditure on sickness benefits. 2021 saw an 8% growth, which is also partly a reflection of the impact of the epidemic on the greater absence of employees from work. With the expected 2% drop in revenue due to the loss of transfers from the state budget and a 2.9% expected growth in expenditure in 2022, a deficit in the amount of €94 m is estimated for 2022, which would be covered by the ZZZS mainly by funds from the reserve fund and the surplus of revenue over expenses in the year before.

Revenue and expenditure of the general government sector in 2021 and 2022

General government revenues in 2021 are estimated at €22,025 m, which is 7.6% or €1,564 m more than in 2020, and 4% more in comparison with pre-crisis 2019. Higher revenue from taxes will most significantly affect such growth. Revenue from taxes will increase by 6.8% or €669 m (but will be around 1% or €90 m lower than in 2019). Taxes on consumption will grow by 5.8% (but will be around 5.5% lower than in 2019), particularly due to the growth in revenue from VAT and excise duties. Most of the growth may be attributed to higher consumption following the easing of COVID-19-related measures and to a better macroeconomic environment in 2021. Revenue from income taxes will also grow. Revenue from personal income tax will increase in 2021 by €265 m or 8.5% (7% higher than in 2019), while revenue from corporate income tax will grow by €50 m or 5.5% (1% higher than in 2019), exceeding the pre-crisis level in 2019. Revenue from social contributions will be around €540 m or 6.7% higher than in 2020 or 11% higher in 2021 than in 2019. Among other revenue groups, revenue from capital transfers is set to significantly grow (by €270 m or 102.7%) as a result of higher revenue from EU and the Recovery and Resilience Facility funds.

Revenue will continue to grow in 2022, amounting to 5.3% or around € 1,170 m. Revenue from taxes will increase by around €470 m or 4.5%. Taxes on consumption will grow by 3.9%, of which revenue from VAT will amount to 3.5% and revenue from excise duties will stand at 3.7%. Revenue from income taxes will also grow. Revenue from personal income tax will increase by 4.5% and revenue from corporate income tax will grow by 8.4%, exceeding a billion euro. Revenue from social contributions will grow by 2.7%. Among other revenue groups, revenue from capital transfers will also increase significantly in 2022. They will be 80% or around €430 m higher, which may be attributed to the further absorption of EU funds and revenue from the Recovery and Resilience Facility funds.

In 2021, expenditure will grow by €1,700 m or 7.1% on the year before, which means that it will grow more slowly than revenue. Investment expenditure will grow the most, i.e., by €741 m or 38.1% compared to the year before. Such growth may be attributed largely to the increased absorption of EU and Recovery and Resilience Facility funds. Compensation of employees will increase by €551 m or 9.1%, particularly because of allowances and supplements for special working conditions due to the COVID-19 epidemic. Expenditure on social benefits will increase by €730 m or 7.9%, resulting from expenditure within the COVID-19 support and statutory pension indexation. In comparison with 2020, expenditure on subsidies will be significantly lower in 2021, i.e., by €539 m or 30.7%, resulting from high payments of subsidies as part of COVID-19 support in 2020. 2021 will also see lower interest expenditure (by €49 or 6.5%), which is the seventh consecutive reduction since 2015.

General government expenditure will also grow in 2022 but more slowly. It will increase by approximately €320 m or 1.2%, which is largely the consequence of reduced COVID-19 related expenditure. General government expenditure on subsidies (by €667 m or 54.8%) and

compensation of employees expenditure (by € 203 m or 3.1%) will continue to fall as a result of the cessation of COVID-19-related measures. Interest expenditure will be lower (by €7 m or 1%) in 2022 as well. Higher expenditure in 2022 will be particularly a consequence of higher expenditure on investment, which will grow by around €950 m or 35.3%, particularly on account of the conclusion of the previous financial framework, the absorption of funds from the new framework and the Recovery and Resilience Facility funds. Expenditure on social benefits will also grow (by €250 m or 2.5%), mainly due to statutory pension indexation. Expenditure on intermediate consumption will increase by around €200 m or 6.9%.

Description of the main general government expenditure components in 2022:

Expenditure on investment

Expenditure on investment is an expenditure aggregate, which will increase the most in 2022 on 2021, i.e., by 35.3%. The increased growth in expenditure on investment may be attributed to several factors, including the end of the 2014–2020 financial framework and subsequently expected increased absorption of funds from this framework, the Recovery and Resilience Facility funds and the beginning of the absorption of funds from the 2021–2027 financial framework. Expenditure on investments in the purchase and construction of fixed assets from the state budget and investments in healthcare, schools and kindergartens from municipal budgets. Deferred investments from other general government units, i.e., public undertakings (Slovenian railways – investments in railway rolling stock, 2TDK – investments in railway infrastructure, Housing Fund of the Republic of Slovenia – investments in residential buildings), will also significantly contribute to growth. Also expected is higher expenditure on investment drawn from budgetary funds, such as water and climate funds.

Social benefits (together with pensions)

Expenditure on social benefits will grow in 2022 by €250 m or 2.5%. Growth is largely a consequence of the growth in gross pensions (a 5.4% growth) due to statutory pension indexation and the number of beneficiaries, while other social benefits will be lower by 1.4%. In July 2021, as defined in the amendment to the Parental Protection and Family Benefits Act, partial compensation for lost income equal to the minimum wage is increased. Some intervention measures in the field of social policy will also be implemented in 2022, such as the one-off solidarity allowance for new-borns (in force until June 2022).

For a more efficient policy in the field of social transfers, the Government of the Republic of Slovenia is discussing a package of amendments to social legislation. The proposals include a gradual separation of family policy from social protection policy (not considering the assets, changes to considering the rights to public funds as taking into account the income, raising the threshold for eligibility to a state scholarship) and changes regarding taking into account and regarding the methodology of taking into account the income when determining the rights to public funds (taking into account a more realistic material situation, primarily on the basis of previous year's income, exceptionally on the basis of current income, and allowing beneficiaries to apply for a new calculation of the entitlement in case there is a significant deterioration in the material situation) and the rights from public funds (corporate scholarships and income from student work are not taken into account as an income). A more universal child benefit is also proposed. The amendments also aim at providing social security to particularly vulnerable groups, such as the elderly (if they are entitled to financial social assistance and are, at the same time, receiving the income support, the right to covering the

difference to the full value of health services is ensured; and the right to income support is extended ex officio).

In the field of state scholarships, the scholarship recipients base is increasing, and some anomalies are being addressed (fairer treatment of adult students in relation to access to a state scholarship).

Targeted incentives for work are being applied by setting incentives in the form of not taking into account part of the income received instead of providing the activity allowance, which is included in the threshold for obtaining social assistance. An activity allowance is introduced for unemployed persons who receive financial social assistance and who undertake voluntary work. Additional incentives for work and activation of the unemployed (measures to support fast integration of the unemployed persons in the labour market) are also foreseen by the amendments to the Labour Market Regulation Act, which is also in the Government's reading.

Compensation of employees expenditure

Compensation of employees expenditure of the state will drop by around €200 m or 3.1% in 2022 on 2021. Abolished allowances and supplements for special working conditions due to the COVID-19 epidemic, which were in force in 2020 and 2021, will largely contribute to the said reduction. In addition, the highest salary increases as agreed by the Government and public sector trade unions have already been carried out. Estimates also include the impacts of regular promotions of public officials and certain higher payments to employees, such as travel expenses and compensation for lunch.

Intermediate consumption

Expenditure on intermediate consumption will increase by around €200 m or 6.9% in 2022 on 2021, particularly due to the low level of expenditure achieved in 2020, when it dropped by 8.2% due to the provision of public services and market programmes of public institutions. In 2022, the latter are expected to reach or exceed the expenditure for goods and services recorded for 2019 as a result of the normalisation of regular public and market programmes following the COVID-19 epidemic. Additional programmes will be carried out in healthcare to provide easier access to healthcare and shorten waiting times.

Interest expenditure

Interest expenditure will also decrease in 2022, despite the increased borrowing of the state to mitigate the consequences of the COVID-19 epidemic in 2020 and 2021. It will amount to €697 m, which is €7 m or 1% less than in 2021.

Claiming one-off costs

In 2021, one-off costs will amount to around €20 m (various compensations paid from the state budget and denationalisation – returning forests to the church). It is estimated that one-off costs will be approximately 0.16% of GDP over the next few years, particularly due to potential new lawsuits (denationalisation, investment disputes and others).

Annex: Tables from Draft Budgetary Plan 2022

Table 0a. Basic macroeconomic assumptions	2020	2021	2022
Short-term interest rate (annual average)	-0.4	-0.5	-0.5
Long-term interest rate (annual average)	0.0	0.0	0.0
USD/€ exchange rate (annual average)	1.141	1.193	1.180
Nominal effective exchange rate	0.82	0.08	-0.05
World excluding EU, GDP growth			
EU GDP growth	-5.90	5.00	4.40
Growth of relevant foreign markets	-8.90	9.20	6.80
World import volumes, excluding EU			
Oil prices (Brent, USD/barrel)	41.80	68.10	67.30

Source: IMAD Autumn Forecast 2021.

Table 0b. Main assumptions	2020 (Level)	2021 (Level)	2022 (Level)
1. External environment			
a. Prices of commodities	3.6	35.0	-1.0
b. Spreads of German Bond	0.61	0.78 (Jan-Aug)	
2. Fiscal policy			
a. General Government net lending/ net borrowing S.13 (EUR m)	-3,618	-3,754	-2,903
b. General gross debt (EUR m)	37,423	39,538	41,336
3. Monetary policy / Financial sector / Interest rates assumptions			
a. Interest rates			
i. Euribor	-0.4	-0.5	
ii. Deposit rates	0.15	0.12 (Jan-Jul)	
iii. Interest rates for loans	1.74	1.57 (Jan-Jul)	
iv. Yields to maturity of 10-year government bonds	0.20	0.03 (Jan-Aug)	
b. Evolution of deposits	10.7	9.2 (Jul y-o-y)	
c. Evolution of loans	-1.3	0.9 (Jul y-o-y)	
d. NPL Trends	1.9	1.3	
Demographic trends			
a. Evolution of working age population	1,260.4	1,255.4	1,246.2
b. Dependency ratios	34.0	35.0	36.2
Structural dependencies			

Source: IMAD Autumn Forecast 2021; Ministry of Finance.

Table 1a. Economic growth and related indicators	ESA code	2020 (Level in EUR m)	2020 (% change)	2021 (% change)	2022 (% change)
1. Real GDP	B1*g		-4.2	6.1	4.7
of which:					
<i>~ Attributable to the estimated impact of aggregated budgetary measures on economic growth</i>					
2. Potential GDP			1.9	2.8	3.0
contributions:					
– labour			0.1	0.8	0.8
– capital			0.2	0.5	0.6
– total factor productivity			1.6	1.5	1.5
3. Nominal GDP	B1*g	46,918	-3.1	7.3	5.9
Components of real GDP:					
4. Private consumption expenditure	P.3	23,562	-6.6	5.6	6.0
5. Government consumption expenditure	P.3	9,645	4.2	1.8	1.5
6. Gross fixed capital formation	P.51	8,861	-8.2	10.0	8.0
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	522	1.1	2.2	1.8
8. Exports of goods and services	P.6	36,541	-8.7	10.9	8.2
9. Imports of goods and services	P.7	32,213	-9.6	12.6	8.8
Contributions to real GDP growth (in percentage points)					
10. Final domestic demand		42,590	-4.2	6.3	4.5
11. In which changes in inventories and net acquisition of valuables	P.52 + P.53	522	0.1	1.2	-0.3
12. External balance of goods and services	B.11	4,328	-0.1	-0.2	0.2

Source: SORS; IMAD Autumn Forecast 2021; Ministry of Finance.

Table 1b. Price developments (% change)	ESA coda	2020 (Level)	2020 (% change)	2021 (% change)	2022 (% change)
1. GDP deflator			1.2	1.1	1.2
2. Private consumption deflator			-0.5	1.4	2.0
3. HICP			-0.1	1.4	2.0
4. Public consumption deflator			4.2	4.9	-0.9
5. Investment deflator			1.7	3.3	2.2
6. Export price deflator (goods and services)			-1.5	2.2	1.1
7. Import price deflator (goods and services)			-2.3	4.1	1.2

Source: SORS; IMAD Autumn Forecast 2021.

Table 1c. Labour market developments	ESA code	2020 (Level)	2020 (% change)	2021 (% change)	2022 (% change)
1. Employment, persons (1000)		1,040	-0.6	0.8	1.5
2. Employment, hours worked (1000)		1,594,436	-4.8	3.0	2.7
3. Unemployment rate according to labour force survey (%)			5.0	4.7	4.3
4. Labour productivity, persons			-3.7	5.3	3.1
5. Labour productivity, hours worked			0.7	3.0	2.0
6. Compensation of employees (EUR m)	D.1	25,221	2.6	5.5	3.9
7. Compensation per employee (EUR 1000)		30	3.5	4.6	2.3

Source: IMAD Autumn Forecast 2021.

Table 1d. Sectoral balances	ESA code	2020 (% GDP)	2021 (% GDP)	2022 (% GDP)
1. Net lending/borrowing vis-a-vis the rest of the world	B.9 (S.1)	7.1		
of which				
- Balance on goods and services		9.3	7.3	6.9
- Balance of primary incomes and transfers		-1.9	-2.7	-2.9
- Capital account		0.3		
2. Net lending/borrowing of the private sector	B.9			
3. Net lending/borrowing of general government	EDP B.9	-7.7	-7.5	-5.4
4. Statistical discrepancy				

Source: SORS; IMAD Autumn Forecast 2021.

Table 2a. General government budgetary prospects	ESA code	2020 (% GDP)	2021 (% GDP)	2022 (% GDP)
Net lending (EDP B.9) by sub-sector				
1. Net lending/net borrowing: General government	S.13	-7.71	-7.45	-5.44
2. Net lending/net borrowing: Central government	S.1311	-7.89	-7.63	-5.42
3. Net lending/net borrowing: State government	S.1312			
4. Net lending/net borrowing: Local government	S.1313	0.16	0.05	0.14
5. Social security funds	S.1314	0.02	0.13	-0.16
6. Interest expenditure	EDP D.41	1.61	1.40	1.31
7. Primary balance		-6.11	-6.06	-4.13
8. One-off and other temporary measures		-0.14	-0.04	-0.16
8.a Of which one-offs on the revenue side: general government		0.00	0.00	0.00
8.b Of which one-offs on the expenditure side: general government		-0.14	-0.04	-0.16
9. Real GDP Growth (%) (=1 in Table 1a)		-4.23	6.15	4.72
10. Potential GDP Growth (%) (=2 in Table 1a)		1.90	2.76	2.95
Contributions				
- Labour		0.10	0.78	0.81
- Capital		0.23	0.47	0.64
- Total factor productivity		1.55	1.52	1.50
11. Output gap (% of potential GDP)		-2.65	0.53	2.14

Table 2a. General government budgetary prospects	ESA code	2020 (% GDP)	2021 (% GDP)	2022 (% GDP)
12. Cyclical budgetary Component (% of potential GDP)		-1.24	0.25	1.00
13. Cyclically adjusted balance (1-12) (% of potential GDP)		-6.47	-7.70	-6.44
14. Cyclically adjusted primary balance (13+6) (% of potential GDP)		-4.9	-6.3	-5.1
15. Structural balance (13-8) (% of potential GDP)		-6.34	-7.67	-6.28

Source: Ministry of Finance.

Table 2b. General government debt developments	ESA code	2021 (% GDP)	2022 (% GDP)
1. Gross debt		78.5	77.5
2. Change in gross debt ratio		-1.3	-1.0
Contributions to changes in gross debt			
3. Primary balance		-6.1	-4.1
4. Interest expenditure	EDP D.41	1.4	1.3
5. Stock-flow adjustment		-3.3	-2.0
of which:			
- Differences between cash and accruals		-0.3	-0.3
- Net accumulation of financial assets		/	/
of which:			
- Privatisation proceeds		0	0
- Valuation effects and other		0	0
p.m.: Implicit interest rate on debt		1.9	1.8
Other relevant variables			
6. Liquid financial assets		8.4	9.7
7. Net financial debt (7=1-6)		70.1	67.8
8. Debt amortization (existing bonds) since the end of the previous year		5.0	2.4
9. Percentage of debt denominated in foreign currency		0.1	0.1
10. Average maturity			

Source: Ministry of Finance.

Table 2c. Contingent liabilities	2021 (% GDP)	2022 (% GDP)
Public guarantees	9.6	8.3
Public guarantees: linked to the financial sector ¹	1.3	1.3

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

Source: Ministry of Finance.

Table 3. General government developments at unchanged policies	ESA code	2021 (% GDP)	2022 (% GDP)
General government (S13)			
1. Total revenue at unchanged policies	TR	43.71	42.99
Of which			
1.1 Taxes on production and imports	D.2	12.83	12.50
1.2 Current taxes on income, wealth, etc.	D.5	7.91	7.86
1.3 Capital taxes	D.91	0.02	0.02
1.4 social contributions	D.61	17.08	16.55

Table 3. General government developments at unchanged policies	ESA code	2021 (% GDP)	2022 (% GDP)
1.5 Property income	D.4	0.59	0.59
1.6 Other		5.29	5.47
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		37.83	36.93
Total expenditure at unchanged policies	TE	46.89	47.93
Of which			
2.1 Compensation of employees	D.1	11.87	11.90
2.2 Intermediate consumption	P.2	5.66	5.86
2.3 Social payments	D.62,D.63	18.99	19.04
Of which unemployment benefits		0.40	0.36
2.4 Interest expenditure	EDP D.41	1.40	1.31
2.5 Subsidies	D.3	1.19	0.86
2.6 Gross fixed capital formation	P.51	5.06	6.39
2.7 Capital transfers	D.9	0.40	0.50
2.8 Other		1.93	1.71

Note: The scenario excludes planned measures for mitigating the consequences of COVID-19 and an assessment of measures from the 2022 Recovery and Resilience Plan.

Source: Ministry of Finance.

Table 4a. General government target developments	ESA code	2021 (% GDP)	2022 (% GDP)
General government (S13)			
1. Total revenue target	TR	43.7	43.5
Of which			
1.1 Taxes on production and imports	D.2	12.6	12.4
1.2 Current taxes on income, wealth, etc.	D.5	7.9	7.8
1.3 Capital taxes	D.91	0.0	0.0
1.4 Social contributions	D.61	17.1	16.6
1.5 Property income	D.4	0.6	0.6
1.6 Other		5.5	6.1
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		37.6	36.8
Total expenditure target	TE	51.2	48.9
Of which			
2.1 Compensation of employees	D.1	13.1	12.0
2.2 Intermediate consumption	P.2	5.9	6.0
2.3 Social payments	D.62, D.63	19.7	19.1
Of which unemployment benefits		0.4	0.4
2.4 Interest expenditure (=9 in table 2.a)	EDP D.41	1.4	1.3
2.5 Subsidies	D.3	2.4	1.0
2.6 Gross fixed capital formation	P.51	5.3	6.8
2.7 Capital transfers	D.9	0.5	0.5
2.8 Other		4.8	4.1

Source: Ministry of Finance.

Table 4b. Amounts to be excluded from the expenditure benchmark	2020 (level in EUR m)	2020 (% GDP)	2021 (% GDP)	2022 (% GDP)
1. Expenditure on EU programmes fully matched by EU funds revenue	784.92	1.67	2.37	3.11
1a. Investment expenditure fully matched by EU funds revenue	169.00	0.36	0.84	1.58
2. Cyclical unemployment benefit expenditure	-61.00	-0.13	0.04	0.02
3. Effect of discretionary revenue measures	0.00	0.00	0.00	0.00
4. Revenues increased mandated by law	0,00	0,00	0,00	0,00

Source: Ministry of Finance.

Table 4c.i. General government expenditure by function (education, health, and employment)	2021 (% GDP)	2021 (% of government expenditure)	2022 (% GDP)	2022 (% of government expenditure)
Education	6.5	12.8	6.2	12.8
Health	8.7	16.9	8.3	16.9
Employment ¹				

Note:¹ No assessment at the detailed level.

Source: Ministry of Finance.

Table 4c. ii. General government expenditure by function	COFOG code	2021 (% GDP)	2022 (% GDP)
1. General public services	1	5.8	5.5
2. Defence	2	1.1	1.0
3. Public order and safety	3	1.8	1.7
4. Economic affairs	4	7.8	7.5
5. Environmental protection	5	0.6	0.6
6. Housing and community amenities	6	0.5	0.5
7. Health	7	8.7	8.3
8. Recreation, culture, and religion	8	1.3	1.2
9. Education	9	6.5	6.2
10. Social protection	10	17.2	16.4
11. Total expenditure (=2 in Table 2c)	TE	51.2	48.9

Source: Ministry of Finance.

Table 5: Discretionary measures – ESA 2010 Methodology

Title	Description	ESA Code	Adoption Status	Budgetary impact (% of GDP)			
				2020	2021	2022	2023
Revenue measures							
Tax measures	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	-0.36	-0.03	0.00
	Deferred tax payments (excise, VAT)	D.21	Adopted	0.36	-0.21	-0.11	-0.01
	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	0.00	0.00	0.00
Expenditure measures							
Measures in the field of labour market and social security contributions	Exemption from payment of contributions for pension and disability insurance for working employees; exemption from payment of social contributions for employees waiting at home (contributions are fully covered by the state); coverage of costs of sick leave pay for all workers during the epidemic from the first day onwards by Health Insurance Institute (not the employer); wage compensations for employees waiting at home, determination and payment of compensation for the ordered quarantine (private institutions); subsidised part of the minimum wage; subsidization of part-time work	D.3	Adopted	2.19	0.63	0.01	0.00
	Special assistance in the form of a monthly basic income for self-employed workers, farmers, and religious workers; financial compensation to farmers and self-employed for loss of income (quarantine); exemption from payment of social contributions for partners (who are managers) and farmers	D.62	Adopted	0.52	0.45	0.00	0.00
	Wage compensations for employees in quarantine	D.1	Adopted	0.01	0.00	0.00	0.00
Measures in the field of economy, tourism, and agriculture	Coverage of fixed costs for affected economic operators (companies)	D.3	Adopted	0.34	0.31	0.00	0.00
	Reimbursement of crisis salary bonus/supplement; financial compensation for the loss of income (producers/growers, aid in agriculture); support in wine sector; aid for transport providers (coverage of income loss); covering the operating costs of the airport; aid for carrying out quick COVID tests in the economy	D.3	Adopted	0.13	0.08	0.00	0.00
	Tourist vouchers (vouchers for citizens to be spent in tourism facilities in Slovenia)	D.75	Adopted	0.27	0.41	0.00	0.00

Title	Description	ESA Code	Adoption Status	Budgetary impact (% of GDP)			
				2020	2021	2022	2023
	Stimulation of business and development of tourism; etc.	D.3	Adopted	0.09	0.04	0.00	0.00
	Funds for guarantees for bank loans - to support companies affected by the coronavirus outbreak: State aid	D.9	Adopted	0.00	0.06	0.00	0.00
Measures in the field of healthcare	Compensation to the providers of health care loss due to reduced activity - concessionaires; Decree on the implementation of screening programs for the early detection of SARS-CoV-2 virus infection - concessionaires	D.3	Adopted	0.03	0.04	0.00	0.00
	Compensation to the providers of health care loss due to reduced activity; covering the costs of loss of revenue due to unoccupied capacities; and others (measures to reduce patient waiting times, improve access to health services etc).	D.75	Adopted	0.22	0.03	0.17	0.00
	Managing epidemics, purchase of medical, protective equipment and accessories (Agency for Commodity Reserves); covering the costs of transport and accommodation facilities; coverage of the costs for COVID-19 testing; implementation of microbiological tests; support to performing public service to National Institute for Health; Decree on the implementation of screening programs for the early detection of SARS-CoV-2 virus infection	P.2	- / Adopted	0.27	0.26	0.11	0.01
	Additional funds for Health Insurance Institute of Slovenia – Article 67. ZIPRS2021; vaccination COVID-19, etc.	D.63	Adopted	0.10	0.16	0.00	0.00
	Vaccination and additional funds for Health Insurance Institute of Slovenia	D.73 + D.74	Adopted	0.00	0.05	0.00	0.00
	Additional health programmes; measures to reduce patient waiting times; tenders in healthcare; financing of additional staff in social welfare institutions	D.1	Adopted	0.01	0.02	0.09	0.00
	Managing epidemics; covering the costs of loss of revenue due to unoccupied capacities to providers of social protection services in the public network; financing of additional staff in social welfare institutions	D.3	Adopted	0.00	0.03	0.00	0.00
	Additional health programmes; measures to reduce patient waiting times (private institutions, concessionaires)	D.3	Adopted	0.00	0.01	0.07	0.00
	Medical protective equipment, funds intended to increase health capacity	P.51	-	0.03	0.02	0.00	0.00
	Vaccines - COVID-19 and other	D.74 + D.75	-	0.00	0.08	0.00	0.00
Measures in the field of social protection	Single payment solidarity assistance for pensioners and for vulnerable groups (single pay solidarity assistance for unemployed; allowance to large families; solidarity assistance for children, new-borns, students at home and abroad, and other vulnerable groups); temporary (financial) compensation for loss of employment; assistance to institutional care providers; assistance to providers of social care services; family care provided at home etc.	D.62 + D.63	Adopted	0.42	0.06	0.01	0.00

Title	Description	ESA Code	Adoption Status	Budgetary impact (% of GDP)			
				2020	2021	2022	2023
Measures in the area of wages	Allowances and supplements for special working conditions for public sector employees; allowances for direct work with COVID patients; special post allowances for staff in pay group J in health and social work activities, etc.	D.1	Adopted	0.63	1.22	0.00	0.00
	Allowances and supplements for special working conditions (concessionaires, private institutions)	D.3	Adopted	0.03	0.09	0.00	0.00
Other (expenditure) measures: for public sector support, etc.	Co-financing of protection and rescue for local communities (municipalities are provided with funds to reimburse part of the costs incurred in the field of protection and assistance during the epidemic)	P.2	Adopted	0.01	0.00	0.00	0.00
	Exemption from parental payment for kindergartens (also private kindergartens)	D.62	Adopted	0.02	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; financing private kindergartens; coverage restricted range of student dormitory services; and other measures: humanitarian aid, donations, assisting sports federations to perform quick tests (COVID-19); aid to fire brigades etc.	D.74 + D.75	Adopted	0.08	0.02	0.00	0.00
	Managing epidemics, protective equipment, financing of the Information and communication technology – ICT; investments etc.	P.51	-	0.02	0.01	0.00	0.00
One-off measure	Penalties and compensations / lawsuits		-	0.14	0.04	0.16	
Total (revenue & expenditure measures)				6.37	3.57	0.48	0.00

Source: Ministry of Finance, own calculations.

Table 6. Divergence from Stability Programme 2021	ESA code	2020 (% GDP)	2021 (% GDP)	2022 (% GDP)
<i>General government net lending (S 13)</i>				
Stability Programme 2021	EDP B.9	-8.4	-8.6	-5.7
Draft Budgetary Plan 2022	EDP B.9	-7.7	-7.5	-5.4
Difference		0.7	1.1	0.3
<i>Projections of general government balance (S 13) at unchanged policies</i>				
Stability Programme 2021	EDP B.9	-	-	-
Draft Budgetary Plan 2022	EDP B.9	-	-	-
Difference		-	-	-

Source: Ministry of Finance.

Table 7: Measures from Draft Budgetary Plan 2022 addressing the Recommendations from Council opinion on the 2021 Stability Programme of Slovenia

Recommendations:	Measures:	
<p>2. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential</p>	<p>Although the general escape clause applies in 2022, the Government of the Republic of Slovenia plans to reduce the deficit to 5.4% of GDP in 2022 and 3.3% in 2023. Public debt in % of GDP will decrease from 78.5% of GDP in 2021 to 2022 to 77.5% of GDP and to 76% in 2023.</p>	<p>Measures address the recommendation</p>
	<p>The following measures are in place or are planned to boost the growth potential:</p>	
	<p>The amendment to the Investment Promotion Act is planned for 2021 and the adoption of the Decree on Conditions and Criteria in 2022. The aim is to transform investment to raise productivity and support the green economy and to strengthen value chains.</p>	
	<p>In the field of research, development and innovation, the adoption of the Act on Research, Development and Innovation Activities is planned for 2022, which will enable an increase in public spending on research, development and innovation and stable financing of scientific research and innovation activity, higher autonomy of public research organizations, implementing elements of results-based funding through contractually defined key performance indicators that affect the European Innovation Index, higher incentives in rewarding researchers, both in terms of financial incentives to participate in EU research projects and incentives to participate in research and development projects with the economy.</p>	
	<p>The Recovery and Resilience Plan also envisages the establishment of a program committee in 2022, which will be part of a new management model. It will create greater efficiency and coherence of the entire RDI system and management and will also coordinate the implementation of new solutions introduced by the new Act on Research, development, and innovation Activities Act.</p>	
	<p>In the field of investments, Slovenia has already started the construction of the new National Institute of Biology in 2021. This is an important investment in research infrastructure in the field of biotechnology and life sciences, which will improve research capacity to exploit development opportunities. The value of the project is</p>	

	<p>EUR 27.738 million, and it is financed by European cohesion funds (80%) and the Slovenian budget (20%).</p> <p>The list of priority investments for restarting the economy after the Covid-19 epidemic was updated in 2021. A total of 336 important investments are on the list. The main purpose of defining key investments is to coordinate and accelerate the individual procedures related to these investments with the goal to mitigate the economic damage caused by the epidemic. The list includes investment proposals that have an estimated value of over EUR 5 million and are expected to start in 2021, and all proposed investments above EUR 25 million that are expected to start in 2021.</p>	
<p>3. Pay particular attention to the composition of public finances, both on the revenue and expenditure sides of the budget, and to the quality of budgetary measures, to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, notably supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including by strengthening the coverage, adequacy, and sustainability of health and social protection systems for all.</p>	<p>The amendments of the Construction Act and the Spatial Planning Act are planned for 2022. The main goal of the Construction Act is the reduction of administrative burden and acceleration of sustainable economic development with efficient and high-quality implementation of procedures through the introduction of elements of digitalization. The aim of the Spatial Planning Act is to improve spatial planning instruments, establish more efficient management of state and municipal spatial planning, which has to be supported by the digitization of all key spatial data.</p> <p>In the field of education, the adoption of the Strategy for the Greening of Educational and Research Infrastructure is planned for 2022. The strategy will define sustainable priority areas for investment, especially in terms of the formulating a concept (criteria) for greening of the infrastructure until 2030, including an investment action plan that will define financial and human resources, legal bases, and investment timeline in the period 2021-2030.</p> <p>Green transition / low carbon and energy transition: Adoption and implementation of the Act on the Promotion of the use of Energy from Renewable Energy Sources in 2022, which will prepare the basis for a renewed scheme of financial incentives for energy efficiency, district heating and the use of RES, and new conditions and criteria for their allocation.</p> <p>The adoption of the Electricity Supply Act is planned for 2021. The goal is to establish</p>	<p>Measures address the recommendation</p>

a development-oriented regulatory framework for determining the amount of network charges for the transition to a climate-neutral society and to support the development of an efficient and competitive market to take full advantage of the flexibility of the electricity system and new technologies.

At the beginning of 2021, the Government approved the **Long-Term Strategy for Energy Renovation of Buildings 2050**, which includes a review of the national building stock, definition of cost-effective renovation approaches, policies, and measures to promote cost-effective thorough renovation of buildings, measures influencing investing decisions of individuals, industry and financial institutions and an assessment of expected energy savings and wider benefits.

The adoption of the **Long-Term Climate Strategy of Slovenia by 2050** is envisaged in 2021. A clear goal to achieve net zero emissions or climate neutrality by 2050 is set in that document.

The **Slovenian Industrial Strategy 2021-2030** was adopted in 2021 including guidelines for green, creative, and smart development to achieve the objectives set out in the Recovery and Resilience Plan.

By the end of 2022, the establishment of a **legal framework for the transition to a circular economy** is envisaged: adoption of legal bases and the establishment of a single-entry point for the circular economy by 2022.

Sustainable transport:

In 2022, the adoption of the **Act on Alternative Fuels in Transport** is planned, which will establish a regulatory framework that will regulate the field of establishment, registration and management of filling or supply infrastructure for alternative fuels in transport. The granting of incentives in this area will also be regulated and an appropriate state aid scheme will be established. The goal is to increase the number of vehicles on alternative fuels registered for the first time and an increased number of filling or refuelling points in the Republic of Slovenia.

In 2022, the adoption of the new law on the **Public Passenger Transport** is planned.

The Act will set out the legal framework for ensuring efficient public passenger transport and increasing the number of passengers using public transport. The Act provides the legal basis for the establishment of an operator, a special Public Passenger Transport Management Company.

Environmental infrastructure:
An amendment to the **Environmental Protection Act** is planned in 2021, which provides extended responsibility for waste management throughout the cycle, a circular economy for the use of waste for energy in high-efficiency cogeneration for district heating and cooling with the low emission in the life cycle and for processing into new products.

Digital transformation:
In 2021, the **Government Office for Digital Transformation** was established, with the aim to monitor and analyze the process of digital transformation at the national level and in individual regions, prepare strategic state documents and policies in the field of digital transformation and coordinate and monitor their implementation.

At the beginning of 2022, the adoption of the Strategy for Digital Transformation until 2030 - **Digital Slovenia 2030** is planned, which will be harmonized with the goals of the EU digital policy until 2030.

The Government has approved many measures on the field of social and education policies. These measures will improve the digital knowledge, skills, and competences of citizens of all ages and will contribute to access to distance learning and work, and consequently to the harmonization of digital skills with labour market requirements (increasing employability) and the inclusion of vulnerable groups. The measures will be implemented through the introduction of **digital vouchers for lifelong learning**. A **compulsory subject of informatics** will be introduced in primary and secondary schools, learning processes will be digitized, and **greater enrolment in technology- and technical-oriented faculties**, namely the STEM education, will be ensured. Special emphasis will be

placed on the increased enrolment of women in STEM education.

In the field of the introduction of the **5G** network, the adoption of the national **Broadband Plan 2021-2025** is planned for 2022.

In 2022, the Government will adopt the **Strategy for the Digital Transformation of Enterprises**, which will define the basic steps of this transformation. The strategy will also consider changes in the registration legislation, within which the transfer of registers to one business register is envisaged, which will be the basis for the e-identity of companies.

Priority measures in the field of **digitization are mainly aimed at reducing administrative burdens** (optimizing corporate reporting, tax procedures and burdens), improving the supportive business environment, simplifying, and increasing trust in online transactions and security of such transactions, and increasing the transfer of knowledge to innovation, research performance and, consequently, ensuring increased economic growth

The promotion of innovative public procurement will be operationalized in 2022 through the **Guidelines for Innovative Public Procurement** by defining criteria and procedures that will address both the elements of public procurement and the integration of innovative concepts into public procurement of public entities. In 2021, an amendment to the **Public Procurement Act** was adopted, which enters into force on 1 January 2022. The purpose is to supplement and clarify tenders in the selection of tenderers and to eliminate unusually low tenders that have restricted competition (in the long-term).

The adoption of the **Strategy for the Digital Transformation of Slovenian Tourism** is planned for 2021. The adoption of the **Regulation on Development Incentives for Tourism** is also envisaged for 2021, which will include key conditions and criteria for the allocation of funds to beneficiaries in the field of tourism and will also provide a legal basis for the allocation of funds under the Recovery and Resilience Plan.

Structural measures in the field of social policy and labour market: For a more

efficient policy in the field of social transfers, the Government of the Republic of Slovenia is discussing a **package of amendments to social legislation**. The proposals include a gradual separation of family policy from social protection policy and changes regarding taking into account and regarding the methodology of taking into account the income when determining the rights to public funds and to all rights from public funds (corporate scholarships and income from student work are not taken into account as an income). A more universal child benefit is also proposed. The amendments also aim at providing social security to particularly vulnerable groups, such as the elderly.

Targeted incentives for work are being applied.

An activity allowance is introduced for unemployed persons who receive financial social assistance and who undertake voluntary work. Additional incentives for work and activation of the unemployed (measures to support fast integration of the unemployed persons in the labour market) are also foreseen by the amendments to the **Labour Market Regulation Act**, which is also in the Government's reading.

The Recovery and Resilience Plan also envisages the preparation and adoption of **legislation establishing a "crisis" short time work scheme** (by the end of 2022), which aims to enable the labour market to be effectively addressed in times of crisis.

In 2022, it is planned to establish direct support to workers and employers for the use of more flexible ways of organizing work.

The adoption of an amendment to the **Housing Act**, which will improve the conditions for faster construction of public rental housing, is planned for 2021. The amendment to the Act will contribute to reducing the number of people at risk of poverty and social exclusion

Fiscal sustainability will be **affected by the adoption of reforms in the field of long-term care and health and social care, to which Slovenia has committed itself with the Recovery and Resilience Plan**.

With the Long-Term Care Act, this area will be comprehensively regulated for the first time.

The government adopted the law in July 2021, and it is in parliamentary process. The Long-Term Care Act will be the basis for ensuring comprehensive treatment of persons entitled to long-term care in all settings, including services for strengthening and maintaining independence, strengthening the active role of the user, and supporting providers of informal care. The law will provide funding for the long-term care system from various public sources, including the state budget and new compulsory long-term care insurance, which means that long-term care represents a new pillar of social security.

The aim of **healthcare system reform** is a high-quality, accessible, efficient, and financially stable healthcare system

The reform includes a revision of the legislative framework in the health sector and the start of entering into force of the amended Act on Health Care and Health Insurance Act. The amended Health Care and Health Insurance Act which ensures the financial sustainability of the health sector, preserves a broad basket of rights under the compulsory health insurance scheme and improves the management and performance of the health care system. As envisaged in the Recovery and Resilience Plan, the adoption of the reform is scheduled by the end of 2024

At the beginning of 2022, the preparation of professional, analytical and communication bases for the start of the process of **renovating the pension and disability insurance system** will be completed. It is an upgrade of analytical models based on OECD analysis. Further on, an inclusive process of informing and raising public awareness of the importance of pension and disability insurance will be carried out and an expert working group to draft amendments to pension legislation aimed at ensuring the fiscal sustainability of the system and adequate pensions will be set up by mid-2023. In line with the commitment in the Recovery and Resilience Plan, the adoption of amendments to the Pension and Disability Insurance Act in parliament is scheduled by the end of 2024.

In 2020, SID Bank and the Slovenian Enterprise Fund responded quickly to the COVID situation and adjusted both existing financial instruments and started implementing new ones in order to provide companies with liquidity. In 2021, they

continue to implement financial instruments aimed at economic recovery, i.e., the financing of tangible and intangible assets, investments in research, development, and innovation, and decarbonization.

Table 8: Stock of guarantees adopted/announced at 2020/2021

	Measures	Date of adoption	Maximum amount of contingent liabilities (% GDP)	Estimated take-up (% GDP)
In response to COVID-19	Act Regulating the Guarantee of the Republic of Slovenia in European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak (ZPEIPUTB)	29/05/2020	0.2%	0.2%
	Act 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)	28/04/2020	4.0%	0.2%
	Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (ZIUZEOP)	02/04/2020	0.4%	0.1%
	Act Regulating the Guarantee of the Republic of Slovenia for Pan-European Guarantee Fund (ZJPGS)	03/03/2021	0.1%	0.0%
	Subtotal			4.7%
Others	Act on State Guarantee for loans procured for financing of the Second railway track Divača – Koper project and for loans procured for financing the the part of the Third Development Axis project (ZPOD2TDK)	18/12/2019	1.5%	0.2%
	Subtotal		1.5%	0.2%
	TOTAL		6.2%	0.7%

Source: Ministry of Finance.

Table 9: RRF impact – GRANTS

Revenue from RRF grants (% of GDP)							
	2020	2021	2022	2023	2024	2025	2026
RRF GRANTS as included in the revenue projections		0.26	0.53	0.72	0.67	0.65	0.25
Cash disbursements of RRF GRANTS from EU		0.46	0.47	0.71	0.55	0.34	0.56
Expenditure financed by RRF grants (% of GDP)							
	2020	2021	2022	2023	2024	2025	2026
Compensation of employees		0.00	0.02	0.03	0.03	0.03	0.02
Intermediate consumption							
Social Payments							
Interest expenditure							
Subsidies, payable		0.00	0.10	0.14	0.12	0.08	0.09
Current transfers		0.00	0.00	0.01	0.01	0.01	0.00
TOTAL CURRENT EXPENDITURE		0.00	0.12	0.17	0.16	0.12	0.11
Gross fixed capital formation		0.25	0.40	0.39	0.45	0.46	0.20
Capital transfers		0.00	0.01	0.05	0.06	0.07	0.04
TOTAL CAPITAL EXPENDITURE		0.25	0.41	0.44	0.52	0.53	0.24
Other costs financed by RRF grants (% of GDP) ¹³							
	2020	2021	2022	2023	2024	2025	2026
Reduction in tax revenue							
Other costs with impact on revenue							
Financial transactions							

Source: Ministry of Finance.

¹³ Costs in national accounts not listed as expenditure.

Table 10: RRF impact – LOANS

Revenue from RRF loans (% of GDP)							
	2020	2021	2022	2023	2024	2025	2026
Disbursements of RRF LOANS from EU*		0.00	0.00	0.64	0.08	0.16	0.31
Repayments of RRF LOANS to EU		-	-	-	-	-	-
Expenditure financed by RRF loans (% of GDP)							
	2020	2021	2022	2023	2024	2025	2026
Compensation of employees							
Intermediate consumption							
Social Payments							
Interest expenditure							
Subsidies, payable							
Current transfers		0.00	0.01	0.02	0.03	0.04	0.00
TOTAL CURRENT EXPENDITURE		0.00	0.01	0.02	0.03	0.04	0.00
Gross fixed capital formation		0.00	0.05	0.18	0.28	0.39	0.18
Capital transfers							
TOTAL CAPITAL EXPENDITURE		0.00	0.05	0.18	0.28	0.39	0.18
Other costs financed by RRF loans (% of GDP) ¹⁴							
	2020	2021	2022	2023	2024	2025	2026
Reduction in tax revenue							
Other costs with impact on revenue							
Financial transactions							

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

¹⁴ Costs in national accounts not listed as expenditure.