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COMMISSION OPINION

of 22.11.2022

on the Draft Budgetary Plan of Slovenia

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(Only the Slovenian text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan by 15 October, presenting the main aspects of the budgetary outlook of the general government and its subsectors for the forthcoming year.

3. The general escape clause of the Stability and Growth Pact has been active since March 2020.[1] On 23 May 2022, the Commission indicated, in its Communication on the European Semester[2], that heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023 and it considered that the conditions to deactivate it as of 2024 were met. The continued activation of the general escape clause in 2023 will provide the space for national fiscal policy to react promptly when needed, while ensuring a smooth transition from the broad-based support to the economy during the pandemic times towards an increasing focus on temporary and targeted measures and fiscal prudence required to ensure medium-term sustainability.[3]

4. The Recovery and Resilience Facility, as established by Regulation (EU) 2021/241, provides financial support for the implementation of reforms and investment, notably to promote the green and digital transitions, thereby strengthening the economies' resilience and potential growth. Part of this support is in the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the RRF is supporting a fair and inclusive recovery in the EU in line with the European Pillar of Social Rights. It also boosts growth and job creation in the medium and long term, and thereby strengthens sustainable public finances. According to the Commission proposal of 18 May 2022[4], the Facility should also aim at increasing the resilience of

[1] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, COM(2020) 123 final of 20 March 2020.

[2] COM(2022) 600 final.

[3] On 17 June 2022, the Council agreed its recommendations on the 2022 National Reform Programmes and the opinions on the 2022 Stability and Convergence Programmes, which takes into account the continuation of the Stability and Growth Pact's general escape clause into 2023. (See: https://www.consilium.europa.eu/en/meetings/ecofin/2022/06/17/)

[4] COM(2022) 231 final.

the Union energy system by reducing dependence on fossil fuels and diversifying energy supplies at Union level ('REPowerEU objectives').

5. On 12 July 2022, in the recommendations delivering Council opinions on the 2022 Stability Programmes[5], the Council recalled that the overall fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis), including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth.[6] Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is consistent with the green and digital transitions, energy security and ensuring social and economic resilience, attention is also paid to the evolution of nationally financed[7] primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) and investment.

6. The shocks unleashed by the Russian invasion of Ukraine are impacting the EU economy both directly and indirectly, setting it on a path of lower growth and higher inflation. Intensifying and broadening inflationary pressures have been prompting faster normalisation of monetary policy in the euro area. Public spending on measures containing the social and economic impact of high energy costs, on security and defence and on humanitarian assistance to the displaced persons from Ukraine is weighing on public finances. The specific nature of the macroeconomic shock imparted by Russia's invasion of Ukraine, as well as its long-term implications for the EU's energy security needs, call for a careful design of fiscal policy in 2023. A broad-based fiscal impulse to the economy in 2023 does not appear warranted. The focus should instead be on protecting the vulnerable, allowing automatic stabilisers to operate and providing temporary and targeted measures to mitigate the impact of the energy crisis and to provide humanitarian assistance to people fleeing from Russia's invasion of Ukraine, while maintaining the agility to adjust, if needed. Fiscal policy should combine higher investment with controlling the growth in nationally financed primary current expenditure. Full and timely implementation of the Recovery and Resilience Plans is key to achieving higher levels of investment. Fiscal policies should aim at preserving debt sustainability as well as raising the growth potential in a sustainable manner, thus also facilitating the task of monetary policy to ensure the timely return of inflation to the ECB's 2% medium-term target. Fiscal plans for 2023 should be anchored by prudent medium-term adjustment paths reflecting fiscal sustainability challenges associated with high debt-to GDP levels that have increased further due to the pandemic as well as reforms and investment challenges associated with the twin transition, energy security and social and economic resilience.

7. Russia's war of aggression against Ukraine has resulted in substantial additional increases in and volatility of the prices of energy. The price shock in imported energy implies a substantial terms-of-trade loss to Member States' economies. In parallel,

[5] Council Recommendation of 12 July 2022 on the National Reform Programme of Slovenia and delivering a Council opinion on the 2022 Stability Programme of Slovenia, OJ C 334, 1.9.2022, p. 197.

[6] The estimates on the fiscal stance and its components in this Opinion are Commission estimates based on the assumptions underlying the Commission 2022 autumn forecast. The Commission's estimates of medium-term potential growth do not include the full positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

[7] Not financed by grants under the Recovery and Resilience Facility or other Union funds.

the exceptionally high temperatures in summer 2022 pushed up demand for electricity, while, at the same time, energy production from certain technologies has been significantly below historical levels due to technical and weather-dependant circumstances. All Member States have been negatively affected by the current energy crisis, albeit to a different extent, calling for a rapid and coordinated response.

8. Given that budgetary resources are limited and need to be used in the most efficient way, in order to manage a durable and equitable adjustment across society, the quality and design of the policy response is highly important. Therefore, also in line with the Council Regulation on an emergency intervention to address high energy prices adopted on 6 October 2022, measures should focus on providing temporary support, targeted to households and firms most vulnerable to energy price increases, while maintaining the right incentives to reduce energy demand and increase energy efficiency, in line with the European Green Deal.[8] Policies should also help reducing the energy consumption and develop the energy autonomy of the Union.

CONSIDERATIONS CONCERNING SLOVENIA

9. On 14 October 2022, Slovenia submitted the Draft Budgetary Plan for 2023. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

10. On 12 July 2022, the Council recommended that Slovenia[9] take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[10], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Slovenia should stand ready to adjust current spending to the evolving situation. Slovenia was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. For the period beyond 2023, Slovenia should pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions.

11. On 23 May 2022, the Commission issued a report under Article 126(3) of the Treaty.[11] That report assessed the budgetary situation in Slovenia, as its general government deficit in 2021 exceeded the 3% of GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled.

12. According to the Commission 2022 autumn forecast, Slovenia's economy is expected to grow by 6.2% in 2022 and by 0.8% in 2023, while inflation is forecast at 9.2% in 2022 and 6.5% in 2023.

According to the Draft Budgetary Plan, the Slovenian economy is expected to grow by 5.0% in 2022 and 1.4% in 2023, while inflation is projected at 8.9% in 2022 and 6.0% in 2023. The Commission forecast foresees higher nominal GDP growth for

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8 Communication from the Commission, the European Green Deal, COM(2019) 640 final.

9 Council Recommendation of 12 July 2022 on the National Reform Programme of Slovenia and delivering a Council opinion on the 2022 Stability Programme of Slovenia , OJ C 334, 1.9.2022, p. 197.

10 Based on the Commission autumn 2022 forecast, the medium-term (10-year average) potential output growth of Slovenia, that is used to measure the fiscal stance, is estimated at 9.0% in nominal terms. The Commission's estimates of medium-term potential growth do not include the full positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

11 Report from the Commission prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, COM(2022) 630 final of 23 May 2022.

2022 and lower growth for 2023. The lower projection by the Commission for 2023 is mainly due to a weaker forecast for domestic demand. Inflation (HICP) is projected to be higher both in 2022 and 2023 in the Commission forecast. Risks to the realisation of the Draft Budgetary Plan scenario arise mainly from the possible over-estimation of the private consumption following consecutive years of robust performance. Overall, the macroeconomic assumptions underpinning the Draft Budgetary Plan are cautious in 2022 and favourable in 2023.

Slovenia complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently produced macroeconomic forecasts.

13. The Draft Budgetary Plan assumes that expenditure amounting to 0.2% of GDP in 2022, 0.6% in 2023, 0.6% in 2024, 0.7% in 2025 and 0.4% in 2026 will be financed by non-repayable financial support (grants) from the Recovery and Resilience Facility. Expenditures financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government deficit and debt of Slovenia. The plan also assumes expenditure funded through loans from the Recovery and Resilience Facility, with a direct impact on the general government deficit and debt amounting to 0.01% of GDP in 2022, 0.02% in 2023, 0.1% in 2024, 0.6% in 2025 and 0.3% in 2026. The Commission 2022 autumn forecast includes a similar amount of expenditures financed by Recovery and Resilience Facility grants. The difference as a percentage of GDP is explained by the differences in the denominator (nominal GDP).

14. In its 2023 Draft Budgetary Plan, Slovenia's general government deficit is planned to increase from 3.8% of GDP in 2022 to 5.0% of GDP in 2023, mainly due to higher gross fixed capital formation and to the additional budgetary appropriations of 1.5% of GDP for government support to mitigate the impact of high energy prices for companies. . It is to be noted that while the above-mentioned budgetary appropriations have been reflected in the Commission forecast, the lack of sufficient specification of their ultimate use prevents the Commission from treating them as 'fiscal policy measures'. The general government debt ratio is planned to decrease from 71.5% of GDP in 2022 to 71.0% of GDP in 2023. These targets are in line with the Commission 2022 autumn forecast.

The outlook for public finances continues to be subject to the high uncertainty that surrounds the macroeconomic projections, including macroeconomic risks related to the Russian invasion of Ukraine, energy price hikes and continued supply chain disturbances.. Fiscal projections for 2023 are subject to upside country-specific risks including from the announced revision of the public sector pay system in 2023, possible extraordinary increases of certain social benefits and possible compensation to energy companies subject to price ceiling for energy products. On the other hand, there are risks of under execution of investment.

15. The Draft Budgetary Plan incorporates the March 2022 Personal Income Tax reform projected to reduce labour taxation by around 0.3% of GDP in 2022. Further changes from September 2022, that reverse many amendments from March, are projected to increase personal income tax revenue by around 0.2% of GDP in 2023. Other measures include price subsidies for school meals and accommodations for 2022 and 2023. According to the Draft Budgetary Plan, the budgetary cost of such measures targeting individuals are estimated at around 0.05% of GDP in 2022 and 0.25% of GDP in 2023. The Draft Budgetary Plan also includes the recent wage agreement for

the public sector, whose cumulative budgetary cost amounts to around 1% of GDP in 2022 and 2023.

The government deficit is also impacted by the measures adopted to counter the economic and social impact of the exceptional increases in energy prices, which aggravated over the course of the summer.[12] The budgetary cost of these measures is projected in the Commission 2022 autumn forecast to amount to 0.9% of GDP in 2022 and 0.2% of GDP in 2023. They consist of measures reducing government revenue, namely a temporary reduction of VAT and excise duties on energy products, and increasing expenditure, such as assistance (vouchers) to socially vulnerable individuals for energy and other bills, increased child allowance based on household income and financial assistance to companies and farmers for increased energy bills as the main measures. These measures have been announced as temporary, expiring by the end of 2023. Most measures appear targeted to vulnerable households or firms[13], although they do not fully preserve the price signal to reduce energy demand and increase energy efficiency.[14] As a result, the amount of temporary and targeted support to households and firms most vulnerable to energy price hikes, that can be taken into account in the assessment of compliance with the fiscal country-specific recommendation for 2023, is estimated in the Commission 2022 autumn forecast at 0.5% of GDP in 2022 and 0.0% of GDP in 2023.

The government deficit is also impacted by the costs to offer temporary protection to displaced persons from Ukraine, which in the Commission 2022 autumn forecast are projected at 0.1% of GDP in both 2022 and 2023.

16. Based on the Commission 2022 autumn forecast and including the information incorporated in Slovenia's 2023 Draft Budgetary Plan, gross fixed capital formation is expected to amount to 5.8% of GDP in 2022 and 6.4% of GDP in 2023, compared to 4.7% of GDP recorded in 2021. This includes investment for the green and digital transitions and for energy security (such as investments in the rail infrastructure, renewables, energy efficiency, water supply facilities, flood protection, gigabit infrastructure and digital transformation projects in small- and medium-sized enterprises) partly funded by the Recovery and Resilience Facility and other EU funds.

17. In 2023, the fiscal stance is projected in the Commission 2022 autumn forecast to be expansionary (-1.4% of GDP[15]). This follows an expansionary fiscal stance in 2022 (-3.0% of GDP).

The growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide an expansionary contribution of 0.7 percentage points.[16] This includes the reduced impact from the support measures adopted to counter the economic and social impact of the exceptional increases in

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12 Deficit developments in 2023 are also affected by the additional phasing out of COVID-19 emergency temporary measures, which are estimated in the Commission autumn 2022 forecast at 0.8% of GDP in 2022.

13 Targeted measures amount to 0.5% of GDP in 2022 and 0.0% of GDP in 2023, while untargeted measures amount to 0.4% of GDP in 2022 and 0.1% of GDP in 2023.

14 Income measures amount to 0.5% of GDP in 2022 and 0.0% of GDP in 2023, while price measures amount to 0.4% of GDP in 2022 and 0.1% of GDP in 2023.

15 A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy. The fiscal stance includes the fiscal impulse funded by the Union.

16 This follows an expansionary contribution from this component of 1.6 percentage points in 2022.

energy prices by 0.7% of GDP[17], with temporary and targeted support measures to households and firms most vulnerable to energy price hikes accounting for 0.5% of GDP of this reduction. The expansionary growth in nationally financed primary current expenditure (net of new revenue measures) is also driven by budgetary appropriations of 1.5% of GDP for government support to mitigate the impact of high energy prices, the details of which have not yet been sufficiently specified.

The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.5 percentage points of GDP in 2023 compared to 2022. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.1 percentage points in 2023.[18]

18. The Draft Budgetary Plan does not include budgetary projections beyond 2023, although it refers to the government's medium-term budgetary strategy to reduce the headline deficit to below 3% of GDP by 2024. The budgetary deficit target for 2024 is subject to upside country-specific risks including from the announced revision of the public sector pay system and possible extraordinary increases of certain social benefits. On the other hand, there are risks of under execution of investment. The authorities have also announced a broad tax reform in 2023, whose parameters are, except for an announced shift of the tax burden from labour to capital, unknown.

19. On 12 July 2022 the Council also recommended Slovenia to ensure the long-term fiscal sustainability of the healthcare and long-term care systems, as well as to introduce compensating measures to finalise the shift from labour taxes, including by rebalancing towards more green and growth-friendly taxes.

According to the Draft Budgetary Plan, structural changes will improve long-term fiscal sustainability of the healthcare and long-term care systems, with measures targeting in particular efficiency of service delivery, as well as the modernisation of pricing models. While healthcare system reforms are included in the Recovery and Resilience Plan, no concrete measures that impact the long-term fiscal sustainability of the healthcare system have been proposed yet. Legislation on the long-term care has been adopted, but its implementation has been postponed and details of the reform are still being discussed. A decision on its financing has not yet been taken although the Recovery and Resilience Plan refers to a financing mechanism to be adopted by the end of 2025. Finally, in relation to additional reforms to shift tax burden away from labour taxes no specific measures have been officially put forward.

20. In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan, the overall fiscal policy stance is estimated to be expansionary in a situation of high inflation. This includes an expansionary contribution to the overall fiscal stance from nationally financed current expenditure. This expansionary contribution reflects the above-mentioned sizeable budgetary appropriations for government support to mitigate the impact of high energy prices for companies. As a result of the lack of sufficient specification of these measures in the Draft Budgetary Plan, the expansionary stance cannot at this stage be considered

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[17] The budgetary impact of targeted price and income measures is projected to remain stable and decrease by 0.5% of GDP respectively, while the budgetary impact of untargeted price and income measures is projected to decrease by 0.2% and remain stable respectively.

[18] Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0.1 percentage points of GDP.

the result of temporary and targeted support to households and firms most vulnerable to energy price hikes and the cost to assist people fleeing Ukraine. Overall, the growth of nationally financed primary current expenditure is not in line with the recommendation of the Council. Slovenia plans to finance additional investment through the RRF and other EU funds, and it also preserves nationally financed investment. Slovenia is planning to finance public investment for the green and digital transitions (including by making use of the Recovery and Resilience Facility and other EU funds).

Overall, the Commission is of the opinion that the Draft Budgetary Plan for Slovenia is partly in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. The Commission invites Slovenia to take the necessary measures within the national budgetary process to ensure that the 2023 budget is consistent with the recommendation adopted by the Council on 12 July 2022.

While Slovenia rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish.

The Commission is also of the opinion that Slovenia has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

Done at Brussels, 22.11.2022

For the Commission
Paolo GENTILONI
Member of the Commission