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Analysis of the Draft Budgetary Plan of Slovenia

Accompanying the document

COMMISSION OPINION

on the Draft Budgetary Plan of Slovenia

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EXECUTIVE SUMMARY

- After growth of 3.2% of GDP in 2019, in 2020 economic activity is set to contract by -6.7% according to the Draft Budgetary Plan and by -7.1% according to the Commission autumn forecast. For 2021, the Draft Budgetary Plan projects GDP to expand by 5.1%, in line with the projected 5.1% in the Commission forecast.
- The Draft Budgetary Plan forecasts a headline deficit of 8.6% of GDP in 2020 and 6.6% in 2021. The Commission 2020 autumn forecast projects a broadly similar deficit of 8.7% in 2020 and 6.4% in 2021. For the time being, since the approval of the Recovery and Resilience Plans are only expected to take place in 2021, the Commission budgetary projections for 2021 include: (i) 0.34% of GDP as pre-financing of the Recovery and Resilience Facility grants, treating them as a financial transaction; and (ii) 0.2% of GDP, as expenditure to be eventually financed by the Recovery and Resilience Facility.
- Extensive measures adopted in 2020 to fight the pandemic and to mitigate its adverse socio-economic effects amount to 5.3% of GDP. They comprise, among others, additional healthcare expenditure, employment-support schemes, basic income for self-employed and allowances for the healthcare workers. Overall, the measures taken by Slovenia in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.
- The planned new measures to support the recovering economic activity in 2021 amount to almost 1% of GDP and are focused on supporting the healthcare and healthcare workers.
- Public debt stood at 65.6% of GDP at end of 2019. According to the Draft Budgetary Plan, it is planned to rise to 82.4% of GDP in 2020, before declining to 80.9% in 2021. In its autumn forecast, the Commission projects the public debt-to-GDP ratio to reach 82.2% of GDP in 2020, before declining to 80.2% in 2021.
- On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as Slovenia’s general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value. Overall, the analysis suggested that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 was not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.
- Overall, most of the measures in the Draft Budgetary Plan of Slovenia are supporting economic activity against the background of considerable uncertainty. At the same time, it would be useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2021 Draft Budgetary Plan of Slovenia (hereafter called the Plan), which was submitted for 2021 on 15 October 2020 in compliance with Regulation (EU) No 473/2013. The Plan was adopted by the Government of Slovenia together with the amended budgets for 2021 and 2022 on 5 October 2020.[1]

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact and on 23 March 2020 the Ministers of Finance of the EU Member States agreed with the Commission assessment. The clause facilitates the coordination of budgetary policies in times of severe economic downturn. As indicated in the Annual Sustainable Growth Strategy 2021[2] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance,[3] the activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, which should continue to provide targeted and temporary fiscal support in 2021, provided that this does not endanger fiscal sustainability in the medium term. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Public finances in 2021 are also expected to be influenced by the proposed establishment of the Recovery and Resilience Facility (RRF), alongside the proposal for the reinforced long-term budget of the EU for 2021-2027. The RRF is envisaged to provide a total envelope of €672.5 billion in loans and non-repayable financial support (grants) to support the implementation of investments and reforms in the EU Member States. The 2021 Draft Budgetary Plan of Slovenia takes into account measures related to the reforms and investments, and their associated costs, envisaged under the RRF.

On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as Slovenia's general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

[1] On 20 October 2020, Slovenia resubmitted the Plan with a corrected Table 5.

[2] Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

[3] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The COVID-19 pandemic and measures implemented to mitigate its impacts in the spring of 2020 negatively affected the economic activity in Slovenia. Five packages of measures have been taken to cushion the decline in output and employment, and to support businesses, workers and vulnerable groups. The macroeconomic and fiscal outlook continue to be affected by high uncertainty due to the COVID-19 pandemic.

Based on the Draft Budgetary Plan[4], the economy is forecast to contract by 6.7% in 2020, driven by fall in domestic demand. Both investment and, to a lesser extent, private consumption are set to decrease significantly. The contribution of net exports to growth is expected to be negative due to a more severe fall in exports than imports. The impact of the crisis on the labour market remains subdued due to large fiscal response aimed at supporting employment. In 2020, employment is expected to decline by 1.5% and unemployment rate to grow slightly from 4.5% in 2019 to 5.6%. Compared to the 2020 Stability Programme, the growth outlook for 2020 has been revised slightly upwards due to less negative contribution of net exports to growth and positive change in inventories.[5] Private consumption is the only component that has been revised downwards.

A moderate recovery is forecast in 2021. According to the Plan, the economy is set to grow by 5.1%, significantly above the projection of 3.5% in the 2020 Stability Programme. While investment and private consumption have been revised upwards, the contribution of net exports to growth is expected to be lower than in Spring. Situation in the labour market is expected to improve marginally with employment set to rise by 0.3% and unemployment rate falling by 0.2 percentage points.

The scenario presented in the Draft Budgetary Plan is broadly in line with the Commission 2020 autumn forecast, which projects a more severe drop in GDP in 2020, by 7.1% in real terms. Differences with respect to the composition of growth are overall small. The budgetary projections in the Plan are based on the macroeconomic scenario published in the Autumn 2020 Forecast of Economic Trends produced by the Institute of Macroeconomic Analysis and Development (IMAD)[6].

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4 Note that the Plan uses a macroeconomic forecast that is based on the national accounts dating before the benchmark revision published on 30 September 2020 by the national statistical institute and, subsequently, on 22 October 2020 by Eurostat. The nominal GDP used in the Plan amounts to EUR 48.007 billion in 2019 against EUR 48.393 billion in the latest official data used in the Commission forecast.

5 Due to high uncertainty affecting the macroeconomic and fiscal outlook in Spring 2020, Slovenia decided to submit only partial projections in the 2020 Stability Programme. In particular, labour market projection for 2020 and 2021 and general government budgetary prospects for 2021 were not published.

6 IMAD is Slovenia's independent institution in charge of the macroeconomic forecast that answers directly to the President of the Government of Slovenia). Complete forecast publication can be found at: https://www.umar.gov.si/en/forecasts/autumn-forecast/.

Table 1. Comparison of macroeconomic developments and forecasts

	2019	2020			2021		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	3.2	-8.1	-6.7	-7.1	3.5	5.1	5.1
Private consumption (% change)	4.8	-3.1	-6.6	-7.8	-0.4	4.7	5.4
Gross fixed capital formation (% change)	5.8	-18.5	-13.0	-11.5	7.0	11.0	7.1
Exports of goods and services (% change)	4.1	-19.4	-12.5	-13.1	10.0	9.3	7.6
Imports of goods and services (% change)	4.4	-19.4	-12.0	-12.4	7.8	9.6	7.9
Contributions to real GDP growth:							
- Final domestic demand	3.9	-4.6	-5.1	-5.4	1.2	4.6	4.7
- Change in inventories	-0.8	-1.7	0.2	-0.1	0.0	0.0	0.0
- Net exports	0.1	-1.8	-1.5	-1.6	2.2	0.5	0.4
Output gap[1]	5.2	-7.0	-3.2	-3.5	-6.0	0.0	-0.5
Employment (% change)	2.5	n.a.	-1.5	-0.9	n.a.	0.3	0.5
Unemployment rate (%)	4.5	n.a.	5.6	5.0	n.a.	5.4	4.8
Labour productivity (% change)	0.7	n.a.	-6.9	-6.3	n.a.	8.3	4.5
HICP inflation (%)	1.7	0.7	0.3	0.0	2.7	1.6	0.9
GDP deflator (% change)	2.3	3.3	2.1	2.1	1.4	1.5	1.6
Comp. of employees (per head, % change)	4.9	n.a.	2.7	1.4	n.a.	2.2	1.8
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	5.4	n.a.	n.a.	4.6	n.a.	n.a.	4.1

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

3. Recent and planned fiscal developments

On 20 July 2020 the Council addressed recommendations to Slovenia in the context of the European Semester. In the area of public finances and in line with the general escape clause, the Council recommended Slovenia to take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, Slovenia should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

3.1. Deficit developments

The Draft Budgetary Plan forecasts a headline deficit of 8.6% of GDP in 2020. This projected deficit is slightly higher compared to the 2020 Stability Programme, where the deficit was planned at 8.1% of GDP. Due to a lower elasticity of total revenue to nominal GDP, the ratio of revenue-to-GDP was revised upwards. The increase in projected revenues was, however, more than offset by a sharp increase in expenditure due to additional fiscal measures adopted by the government to contain the economic effects stemming from the lockdown and restriction measures.

The Commission projects a broadly similar deficit of 8.7% in 2020. The revenue-to-GDP ratio is slightly higher than in the Commission forecast due to higher social contributions. The expenditure-to-GDP ratio is almost identical to the one in the Commission forecast, although resulting from a slightly different composition. The Draft Budgetary Plan projects a higher increase in public investment and lower growth of other expenditure categories. The differences in the growth of subsidies and other current expenditure to GDP between both projections result from a different statistical treatment of the discretionary measures. In particular, in the absence of Eurostat clarification on the cut-off date, tourism vouchers were classified in the Commission forecast as subsidies.

For 2021, according to the Draft Budgetary Plan, the deficit is expected to narrow to 6.6% of GDP. The improvement with respect to 2020 is explained by the expected economic rebound and the phasing out of the temporary measures implemented to contain the economic effects of the pandemic. Although the ratio of public spending to GDP falls by almost 3 percentage points compared to 2020, it remains at significantly higher level than before the pandemic, in part due to a sharp increase in public investment. The Commission forecasts a slightly lower deficit of 6.4% of GDP, mostly explained by the lower expected increase in public investment. According to the Fiscal Council's assessesment[7], the increase in investment expenditure and may not be attainable given the limited absorption capacity[8], bottlenecks related to the management, control and project execution, and the supply side shortages, including in the labour market.

For 2021, the Draft Budgetary Plan assumes grants and expenditure of around 0.6% of GDP for measures to be implemented under the Recovery and Resilience Facility. These are included in the revenue and expenditure projections.[9] A total of EUR 113 million (0.2% of GDP) is envisaged to be spent in the form of investments and subsidies in the general government sector, another EUR 187 million (0.4% of GDP) will support private sector investments through grants and subsidies.

For the time being, since the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission forecast assumes, in the budgetary projection for 2021, the 10% pre-financing of the Recovery and Resilience Facility grants[10] and treats it as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact. In the case of Slovenia the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 168 million in 2021. On the expenditure side, in line with its no-policy-change assumption, the Commission forecast includes expenditure related to the Recovery and Resilience Facility of 0.2% of GDP that is sufficiently detailed and

[7] The Fiscal Council. Assessment of budget documents for 2021 and 2022 published on 16 October 2020.

[8] Given the track record of budget execution in Slovenia, high commitment appropriations in the state budget reflect the financial needs for planned investment projects that may not be realised in a timely manner due to administrative bottlenecks.

[9] The statistical treatment of the financial support provided by the Recovery and Resilience Facility is subject to ongoing discussions between Eurostat and the Member States.

[10] The amount of pre-financing is based on the Council Presidency compromise proposal for the RRF Regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament.

credibly announced.[11] The non-inclusion of the grants on the revenue side in the Commission forecast, results in a lower ratio of other revenue to GDP.

The structural balance in the Commission forecast and the recalculated structural balance[12] in the Draft Budgetary Plan are largely similar, reaching almost -7% in 2020 and below -6% in 2021, indicating an expansionary fiscal stance. However, a mechanical reading of traditional indicators is not well suited at the current juncture to assessing the fiscal stance. The introduction and subsequent withdrawal of sizeable temporary emergency measures distort the picture, as the corresponding changes in the level of public spending from one year to the next affect the indicators used to assess the fiscal stance. Excluding the temporary emergency measures from the calculation of the fiscal stance indicators provides a more representative assessment of the underlying fiscal support to economic activity.

The Slovenian Fiscal Council concludes in its assessment[13] that conditions allowing for the activation of exceptional circumstances clause, as laid out in the national fiscal rules, are also met for 2021, and, given the currently available projections, countercyclical expansionary fiscal policy stance is deemed appropriate. The Fiscal Council noted, however, that the Slovenian government requested the Fiscal Council's assessment of the existence of exceptional circumstances only after finalising the preparations of the budget documents.

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[11] The treatment of the Recovery and Resilience Facility (RRF) in the Commission's 2020 autumn forecast is explained in detail in Box I.4.3 of the European Commission's Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). In line with the customary no policy-change assumption, the forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of Recovery and Resilience Plans. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

[12] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology. The estimates of the structural budget balance are affected by high uncertainty due to the economic consequences of the COVID-19 pandemic.

[13] The Fiscal Council. Assessment of budget documents for 2021 and 2022, published on 16 October 2020.

Table 2. Composition of the budgetary adjustment[14]

(% of GDP)	2019		2020			2021			Change: 2019-2021
	COM	DBP	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**43.8**	**43.8**	**43.7**	**45.2**	**45.1**	**n.a.**	**44.4**	**44.3**	**0.6**
of which:									
- Taxes on production and	13.7	13.7	13.0	13.2	13.2	n.a.	13.1	13.1	-0.6
- Current taxes on income,	7.9	7.9	7.4	7.9	8.0	n.a.	7.7	7.7	-0.2
- Capital taxes	0.0	0.0	0.0	0.0	0.0	n.a.	0.0	0.0	0.0
- Social contributions	16.0	16.0	16.7	17.4	17.3	n.a.	16.7	16.6	0.7
- Other (residual)	6.3	6.3	6.6	6.7	6.7	n.a.	6.9	6.8	0.6
Expenditure	**43.3**	**43.3**	**51.8**	**53.9**	**53.8**	**n.a.**	**51.0**	**50.7**	**7.7**
of which:									
- Primary expenditure	41.6	41.6	50.1	52.1	52.1	n.a.	49.4	49.1	7.8
of which:									
Compensation of employees	11.3	11.3	13.1	13.3	13.3	n.a.	13.0	13.0	1.7
Intermediate consumption	6.1	6.1	6.5	7.0	7.1	n.a.	6.9	7.0	0.8
Social payments	17.4	17.4	20.5	20.6	20.5	n.a.	19.4	19.5	2.0
Subsidies	0.7	0.7	3.2	3.0	3.6	n.a.	1.0	1.0	0.3
Gross fixed capital formation	3.8	3.8	4.3	4.7	4.5	n.a.	6.2	5.8	2.4
Other (residual)	2.3	2.3	2.5	3.5	3.0	n.a.	2.9	2.8	0.6
- Interest expenditure	1.7	1.7	1.7	1.7	1.7	n.a.	1.6	1.6	-0.1
General government balance (GGB)	**0.5**	**0.5**	**-8.1**	**-8.6**	**-8.7**	**n.a.**	**-6.6**	**-6.4**	**-7.1**
Primary balance	**2.2**	**2.2**	**-6.5**	**-6.9**	**-7.0**	**n.a.**	**-5.0**	**-4.8**	**-7.2**
One-off and other temporary measures	-0.1	-0.1	0.0	-0.1	-0.1	n.a.	-0.1	0.0	0.0
GGB excl. one-offs	**0.6**	**0.6**	**-8.1**	**-8.5**	**-8.6**	**n.a.**	**-6.5**	**-6.4**	**-7.1**
Output gap[1]	5.2	4.8	-7.0	-3.2	-3.5	n.a.	0.0	-0.5	-4.8
Cyclically-adjusted balance[1]	-1.9	-1.7	-4.8	-7.1	-7.1	n.a.	-6.6	-6.2	-4.8
Structural balance (SB)[2]	**-1.9**	**-1.7**	**-4.8**	**-7.0**	**-6.9**	**n.a.**	**-6.5**	**-6.2**	**-4.8**
Structural primary balance[2]	-0.2	0.0	-3.1	-5.3	-5.2	n.a.	-4.9	-4.6	-4.9

Notes:

[1] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/Programme as recalculated by Commission on the basis of the DBP/Programme scenario using the commonly agreed methodology.

[2] Structural (primary) balance corresponds to cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

3.2. Debt developments

After peaking at 82.6% of GDP in 2015, general government gross debt fell to 65.6% of GDP in 2019. The Draft Budgetary Plan (at face value, using nominal GDP series published before the most recent national account revision) projects an increase in public debt from 66.1% of GDP in 2019 to 82.4% at the end of 2020.

[14] For 2019, the headline deficit projection in the Draft Budgetary Plan at face value is in line with that of the Commission 2020 autumn forecast. However, the two projections differ as regards the revision of national accounts data used. The Commission's forecast uses the latest version of national accounts data incorporating the benchmark revision, unlike the Draft Budgetary Plan and the Stability Programme. As a result of the data revision, higher nominal GDP in 2019 is used in the Commission forecast. Revenue and expenditure categories were also revised upwards, however, their ratios to GDP remained constant.

The sharp increase in public debt in 2020 is driven by the high primary deficit of 6.9% of GDP and a considerable contraction in nominal GDP. The high stock-flow adjustments due to tax deferrals and pre-financing for bond redemptions in 2021 contributes to an additional increase in public debt ratio of 5 percentage points. Compared to the 2020 Stability Programme, gross debt level rises slightly, however given higher projected nominal GDP growth, the debt-to-GDP ratio remains unchanged.

The Draft Budgetary Plan indicates that the government debt-to-GDP ratio will decline from 82.4% at the end of 2020 to 80.9% in 2021, slightly above the Commission's projection of 80.2%. The high primary deficit of 5% will continue to have a debt-increasing impact in 2021. This, however, will be offset by the negative stock-flow adjustment and the projected economic rebound through the snowball effect, which also benefits from a slight reduction of the interest payment contribution.

The Commission 2020 autumn forecast, once corrected for the denominator effect[15], projects a broadly similar evolution for the debt ratio for both years. The lower public debt ratio in 2021 in the Commission forecast is driven primarily by the inclusion of the debt-decreasing pre-financing of the Recovery and Resilience Facility, which shows up as a higher negative stock-flow adjustment.

[15] The discrepancy between DBP and Commission data for 2019 public debt ratio (66.1% vs 65.6%) stems from different nominal GDP used as denominators. The nominal GDP used in the Plan amounts to EUR 48.007 billion in 2019 against EUR 48.393 billion in the latest official data used in the Commission forecast

Table 3. Debt developments

(% of GDP)	2019	2020			2021		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**65.6**	**82.4**	**82.4**	**82.2**	**n.a.**	**80.9**	**80.2**
Change in the ratio	-4.7	16.8	16.8	16.6	n.a.	-1.5	-2.1
Contributions[2]:							
1. Primary balance	**-2.2**	**6.5**	**6.9**	**7.0**	**n.a.**	**5.0**	**4.8**
2. "Snow-ball" effect	**-1.9**	**4.9**	**4.8**	**5.2**	**n.a.**	**-3.5**	**-3.6**
Of which:							
Interest expenditure	1.7	1.7	1.7	1.7	n.a.	1.6	1.6
Real growth effect	-2.1	5.6	4.6	4.9	n.a.	-3.9	-3.9
Inflation effect	-1.5	-2.3	-1.5	-1.4	n.a.	-1.2	-1.3
3. Stock-flow adjustment	**-0.5**	**5.2**	**5.0**	**4.4**	**n.a.**	**-2.9**	**-3.2**
Of which:							
Cash/accruals difference		n.a.	n.a.		n.a.	n.a.	
Net accumulation of financial		n.a.	n.a.		n.a.	n.a.	
of which privatisation		n.a.	-0.9		n.a.	n.a.	
Valuation effect & residual		n.a.	n.a.		n.a.	n.a.	

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

4. MEASURES UNDERPINNING THE DRAFT BUDGETARY PLAN

The Draft Budgetary Plan focuses on the policy response undertaken in the context of the COVID-19 outbreak in 2020 and the measures planned to sustain the recovery in 2021. Supportive fiscal measures should be tailored to the specific situation of each Member State, but as a rule, they should be well targeted and temporary. Their use and effectiveness should be regularly reviewed by the national authorities. Depending on the development of the pandemic, emergency fiscal measures should be adjusted and combined with other measures that improve economic fundamentals, support the green and digital transition and have a positive impact on demand.

4.1. Measures in 2020

In response to the COVID-19 pandemic, Slovenia has adopted in 2020 five packages of measures to mitigate health impacts of the COVID-19 pandemic and provide relief to vulnerable groups and most affected businesses. According to the 2020 Draft

Budgetary Plan, the budgetary measures on the expenditure side amount to 5.3% of GDP.

In order to address the health crisis, healthcare spending was significantly increased (0.6% of GDP) including on the medical and protective equipment, improved access to health services and COVID-19 testing. Other measures financed additional employment in the public sector, and allowances and wage bonuses for special working conditions (0.6% of GDP). Several employment-support schemes were put in place to prevent decline in economic activity and maintain workers' income (2.9% of GDP). Those included measures entailing wage and social security contribution compensation for temporarily laid-off workers and workers with reduced hours, pension contribution compensation for workers remaining in the workplace, and social security contributions compensation and basic income for self-employed workers. To alleviate negative social impacts of the pandemic, one-off allowances were introduced in spring for pensioners, students, large families, recipients of social assistance and income support. A tourism voucher was introduced to support businesses most affected by containment measures.

In addition, Slovenia adopted measures that, while not having any direct impact on the deficit, contributed to providing liquidity support to businesses. Those include deferred payments of income taxes and taxes on products, which contributed to the loss of revenue of 0.7% of GDP in cash flow terms,[16] and public guarantee schemes amounting to EUR 2.2 billion (4.8% of GDP) in 2020. At the time of the submission of the Plan, the take-up of public guarantees was estimated at 0.15% GDP.

Overall, the measures taken by Slovenia in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

[16] The Draft Budgetary Plan recorded the tax deferrals as discretionary measures in Table 5, but explained that these affect the cash flow of the state budget without decreasing revenue in accrual terms. Consistently, the Commission forecast does not include any deficit-increasing impact of these measures.

4.2. Measures in 2021

For 2021, the Plan presents a set of new expenditure measures aimed at supporting the COVID-19 pandemic response and extends some of the existing measures beyond 2020. Those measures amount to almost 1% of GDP and all of them are on the expenditure side.

In particular, additional spending is planned in the area of health. This includes new healthcare programmes, improved access to healthcare services, purchase of protective equipment, expenditure on microbiological research and COVID-19 testing. Some of the measures announced in the 2020 Stability Programme are extended beyond 2020, including allowances for special working conditions for healthcare workers and payments of wage compensation and social contributions for employees waiting at home. All the above measures are presented in sufficient detail in the Draft Budgetary Plan and thus included in the Commission forecast, with no difference in their assessment. However, the Commission forecast also includes the extraordinary indexation of pensions adopted in 2020. According to the Commission forecast, while measures amounting to 1% of GDP are temporary, another 0.2% of GDP appear not to be temporary or matched by offsetting measures.

The fifth corona-package, adopted by the Slovenian Parliament on 15 October 2020, introduced extensions of several employment-support schemes until the end of 2020 and permitted further extensions by Government decree. In particular, the following measures may be extended until 30 June 2021: (i) short time work scheme, (ii) wage compensation scheme for temporary lay-offs and ordered quarantine, (iii) basic income for self-employed workers. Given the uncertain future take-up of these measures, their budgetary impact is not directly included in the Draft Budgetary Plan, nor in the Commission forecast. It constitutes, however, a downside risk for the public finances in 2021.

The Draft Budgetary Plan projects a strong increase in public investment, from 4.7% in 2020 to 6.2% of GDP in 2021. This is due to an expected increase in absorption of the European structural and investment funds, the Recovery and Resilience Facility and increase in expenditure from own resources. A sizeable increase of investment in defence is planned as part of the 2021-26 modernization plan of the Slovenian Armed Forces. A large share of investments will also be earmarked for rail and road transportation.

A total of EUR 113 million is envisaged to be spent in the form of investment and subsidies in the general government sector in 2021 as part of the Recovery and Resilience Plan. Another EUR 187 million will support private sector investments through grants and subsidies. The Draft Budgetary Plan refers to the measures to be included in the National Recovery and Resilience Plan and sets out their objectives. This includes, in particular, fostering investments that improving the functioning of health care, long-term care, the environment and transport infrastructure, and supporting those investments that ensure sustainable, green and digital transition, provide supportive environment for companies, support tourism, culture, research, development and innovation

In its opinion of 16 October 2020, the Fiscal Council considered that the general government expenditure projections in the 2021 and 2022 are high compared to the absorption capacity and therefore subject to significant risks. The Fiscal Council recommended that the accelerated investment activity to stimulate the economy should aim at enhancing long-term economic potential, which can in turn ensure that the budgetary burden of a crisis will not reduce the room for manoeuvre in the future and help ensuring the long-term sustainability of public finances.

Overall, based on the information presented in the Draft Budgetary Plan and taking into account the Commission 2020 autumn forecast, most of the measures planned by Slovenia in 2021 are supporting economic activity against the background of considerable uncertainty.

At the same time, it would be useful to review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

It is anticipated that Slovenia will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

Table 4.1.a. Main discretionary measures adopted/announced with budgetary impact reported in the Draft Budgetary Plan

List of measures	Description	ESA Code (Expenditure / Revenue component)	Adoption Status	Budgetary impact (% of GDP - change from previous year - positive sign for deficit-increasing measures)		
					2020	2021
Tax measures	Unsettled and unpaid prepayments of corporate income tax	D.5	Already adopted		0.33	-0.31
Measures in the field of agriculture, forestry and food	Reduced tax base for income tax prepayment from the cadastral income and lump sum estimation of income per hive	D.5	Already adopted		0.00	0.00
Tax measures	Unsettled and unpaid prepayments for economic activity imposed on each individual income	D.5	Already adopted		0.04	-0.04
Measures in the field of agriculture, forestry and food	Exemption from payment of chargers for the use of water	D.2	Already adopted		0.01	-0.01
Tax measures	Deferred tax payments	D.2	Already adopted		0.28	-0.26
Measures in the field of agriculture, forestry and food	Reduced tax base for income from water rights, granted with water permits	D.2	Already adopted		0.00	0.00
Measures in the field of agriculture, forestry and food	Exemption from payment of water right concessions	D.2	Already adopted		0.00	0.00
Measures in the area of wages in public sector	Allowances for special working conditions / indirect local budgetary units	D.1	Already adopted		0.05	-0.05
Measures in the field of labour market and social security contributions	Special assistance in the form of a monthly basic income for self-employed workers, farmers etc.	D.62+D.63+D.621+D.624+D.631	Already adopted		0.44	-0.42

Measures in the field of social protection	One-time solidarity assistance for vulnerable groups	D.62+D.63+D.621+D.624+D.631	Already adopted		0.03	-0.03
Measures in the field of labour market and social security contributions	Wage compensations for employees waiting at home	D.3	Already adopted		0.73	-0.65
Measures in the field of social protection	One-time solidarity assistance for pensioners	D.62+D.63+D.621+D.624+D.631	Already adopted		0.15	-0.14
Measures in the field of social protection	One-time solidarity assistance for students	D.62+D.63+D.621+D.624+D.631	Already adopted		0.02	-0.02
Measures in the field of education and science	Financing of private kindergartens	D.62+D.63+D.621+D.624+D.631	Already adopted		0.01	-0.01
Measures in the field of social protection	Allowance to large families	D.62+D.63+D.621+D.624+D.631	Already adopted		0.01	-0.01
Measures in the area of wages in public sector	Allowances for special working conditions / direct budgetary units	D.1	Already adopted		0.11	-0.10
Other (expenditure) measures	Purchase of medical, protective equipment and accessories	D.62+D.63+D.621+D.624+D.631	Already adopted		0.38	-0.22
Other (expenditure) measures	Payment of the remuneration of employees who perform public services (which can't be provided during the epidemic)	D.62+D.63+D.621+D.624+D.631	Already adopted		0.11	-0.10
Measures in the field of agriculture, forestry and food	Financial aid to holders or members of agricultural households infected with COVID-19 in the amount of 80 % of the minimum wage (granted only those who are insured by Pension and Disability Institute as farmers)	D.62+D.63+D.621+D.624+D.631	Already adopted		0.00	0.00
Measures in the field of education and science	Covering wages for market activities of indirect budgetary units	D.1	Already adopted		0.01	-0.01

Measures in the area of wages in public sector	Reduction of salaries of all high functionaries (by 30 %)	D.1	Already adopted		0.00	0.00
Measures in the field of agriculture, forestry and food	Compensations for the mooring fee in fishing ports (40 % of total compensation)	D.62+D.63+D.621+D.624+D.631	Already adopted		0.00	0.00
Measures in the field of labour market and social security contributions	Sick leave pay for all workers during the epidemic from the first day onwards will be covered by Health Insurance Institute (not the employer)	D.3	Already adopted		0.03	-0.03
Measures in the field of labour market and social security contributions	Payment of social contributions for employees waiting at home	D.3	Already adopted		0.32	-0.28
Measures in the area of wages in public sector	Allowances for special working conditions / indirect budgetary units	D.1	Already adopted		0.40	-0.17
Tourist vouchers	The aim is to support tourist sector	D.29+D.4+D.5+D.7+P.52+P.53+K.2+D.8	Already adopted		0.66	-0.61
Measures in the field of labour market and social security contributions	Exemption from payment of social contributions for self-employed workers, farmers etc.	D.62+D.63+D.621+D.624+D.631	Already adopted		0.22	-0.20
Measures in the field of labour market and social security contributions	Exemption from payment of contributions for pension and disability insurance for working employees	D.3	Already adopted		0.97	-0.91
Support to long term care system	The aim is to support long term care providers (institutional and home care assistance) and cost lost covering	D.62+D.63+D.621+D.624+D.631	Already adopted		0.02	0.02
Short time work scheme	The scheme is aimed at preserving jobs, avoiding lay-offs by temporarily reducing the working hours for the employees and thus preventing their unemployment.	D.3	Already adopted		0.23	-0.22

Support to public employment office and social welfare institutions	The aim is to provide additional human resources	D.1	Already adopted		0.02	0.00
Support to health care service	The aim is to provide additional health care programmes - cost lost covering	D.1	Already adopted		0.28	-0.14
Better access to the health care services	The aim is to provide additional health care programmes - access to services and microbiological research	P.2	Already adopted		0.07	0.19
Purchase of protective equipment and accessories, maintenance, waste treatment	The aim is to purchase protective equipment, to cover cost of maintenance, waste treatment, COVID-19 tests	P.2	Already adopted		0.04	0.06
Expenditure measures					5.29	-4.03
Revenue measures[17]					0.66	-0.62
				Total	5.95	-4.65

Table 4.1.b. Guarantees adopted/announced in response to COVID-19 outbreak

List of measures	Description	Adoption status	Maximum guarantee framework available* (% of GDP)	Current take-up (actual contingent liability, % of GDP)
1	Act to provide additional liquidity to the economy to mitigate the effects of the COVID-19 epidemic	1.5.2020	4.37	0.03
2	Act on Intervention Measures to Contain the COVID-19 Epidemic and Mitigate Its Consequences for Citizens and the Economy (Article 65)	11.4.2020	0.44	0.12
Total			4.81	0.15

***** Any budgetary impact related to expected losses or actual calls should be provided in the standard table **5.1 Description of discretionary measures included in the draft budget** *(see Code of Conduct,* https://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/2014-11-07_two_pack_coc_amended_en.pdf)

[17] In the case of the tax deferral measures, loss of revenue affects the cash flow of the state budget without decreasing revenue in accrual terms. At the time of the submission of the Plan, Slovenia did not provide reliable estimates of the share of the deferred and unsettled tax obligation unlikely to be collected.

5. ANNEX

Mandatory variables not included in the Draft Budgetary Plan

The following mandatory data were not explicitly provided:

- Table 1a. Macroeconomic Prospects: 2019 levels of real GDP and potential GDP.
- Table 1b. Price developments: 2019 levels of GDP, private consumption, export and import deflators and HICP index.
- Table 1.d. Sectoral balances: Net lending/borrowing vis-a-vis the rest of the world and statistical discrepancy for 2020 and 2021.
- Table 4.b Amounts to be excluded from the expenditure benchmark: Effect of discretionary revenue measures.

Not included mandatory variables do not impede the Commission's ability to assess the Draft Budgetary Plan based on the plan's assumptions.