GOVERNMENT OF THE REPUBLIC OF SLOVENIA

Draft Budgetary Plan 2021

October 2020

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1 Introduction

Due to the rapid spread of COVID-19 and the severe containment measures subsequently implemented at the beginning of the epidemic in 2020, the health and economic conditions in numerous European countries, including Slovenia, have changed considerably. After a considerable decline of almost 9 percent in the first half of 2020 (the drop in the second quarter was almost 15 percent), the euro area economic activity is recovering, although it remains moderately below the level before the COVID-19 pandemic in the majority of activities. For 2020, the Institute of Macroeconomic Analysis and Development (IMAD) anticipates a 6.7 percent decline in GDP, which will be followed by a recovery in the next two years, whereby the economic activity will only attain the pre-pandemic level in 2022.

In the light of exceptional circumstances at the national and EU levels in 2020, a temporary deviation from the fiscal rules was permitted. Since the COVID-19 epidemic will have far-reaching consequences on the economy, a broad consensus has already been formed at the EU level, which will also enable an extensive response of the economic and fiscal policy on the situation occurred in 2021. To this end, the European Commission informed the Member States in a letter on 19 September 2020 that the general escape clause will further apply in 2021. In March 2020, the Fiscal Council assessed that the epidemic is an unusual event that as per the Fiscal Rule Act enables the enforcement of exceptional circumstances that still apply this year. The Government asked the Fiscal Council to also give its assessment on exceptional circumstances for 2021 and 2022. Since the recovery will take several years, the fiscal policy will also have to adapt to that after 2021. Reducing incentives too quickly could have a negative impact on the growth and resilience in the following years.

This will allow the fiscal policy to particularly encourage recovery in 2021 and further measures for limiting consequences of the epidemic if necessary. In order to attain the medium-term objective, the countries will have to set the fiscal policy from the viewpoint of the long-term sustainability of public finances only when the broader economic conditions permit this. Slovenia will achieve sufficient fiscal effort compliant with the fiscal adjustment matrix already in 2022.

Similarly as in other EU countries, extensive measures were put in place in Slovenia to prevent an even greater drop in economic activity. We are currently facing a new wave of the epidemic that requires action and brings uncertainties in the continuation of the year and in the next year. The Government of the Republic of Slovenia adopted five packages of measures to limit the consequences of the epidemic. It extended some of the measures until the end of the year with the possibility of extending them into 2021 or until the adoption of the systemic changes.

In 2021, the fiscal policy will focus particularly on recovery. A comprehensive package of incentives was adopted at the EU level within the "Next Generation EU" recovery instrument. The majority of additional funds earmarked for recovery will be available from the newly formed Recovery and Resilience Facility. The Facility enables countries to obtain funds for investing and the structural changes necessary for recovery and long-term growth.

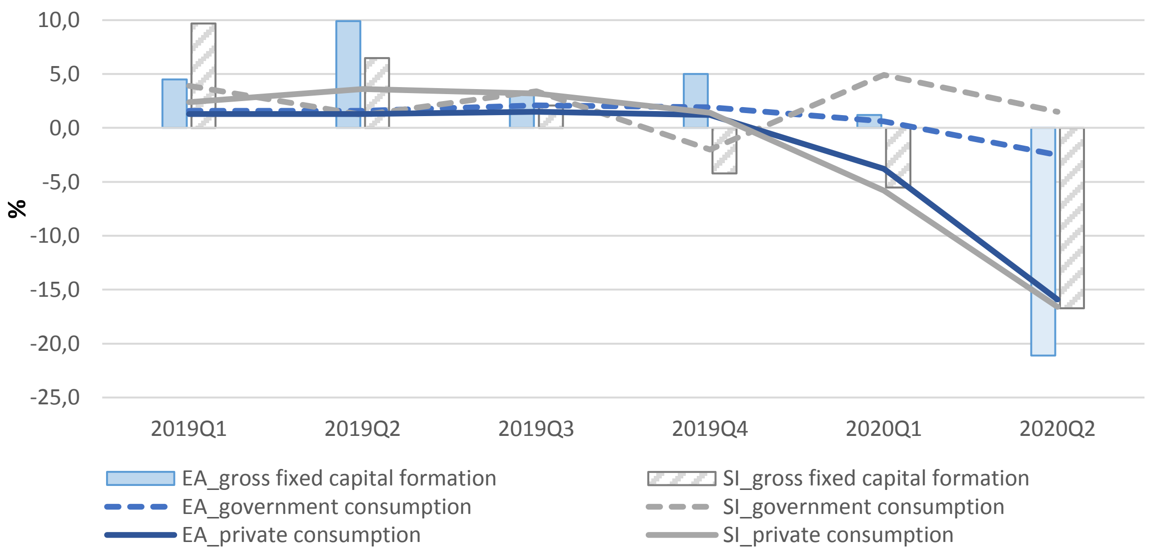
The forecasts and scenarios nevertheless remain highly uncertain and sensitive, which also affects the uncertainty when determining fiscal objectives. In future years, the fiscal policy of the Republic of Slovenia will be aimed at recovery with gradual reduction of the nominal deficit. A decrease in the deficit to -6.6 percent of GDP (-8.6 percent GDP in 2020) is planned in 2021 and to 4.6 percent of GDP in 2022. The objectives observe the amended Ordinance on the framework for the preparation of the general government budget for the 2020–2022 period (Official Gazette of the Republic of Slovenia [*Uradni list RS*], Nos. 26/19, 67/20 and 126/20) for 2021 and 2022. The maximum permissible volume of general government expenditure increased from EUR 22,160 to EUR 24,900 for 2021 and from EUR 23,000 to EUR 24,950 for 2022. Government debt will increase to 82.4 percent of GDP in

2020. It will decrease in the forthcoming years, i.e. to 80.9 percent of GDP in 2021 and 79.3 percent of GDP in 2022.

2 Economic outlook and expectation

In 2019, Slovenia recorded an economic growth of 2.4 percent[1]. At the beginning of 2020, the economy throughout the world experienced a great economic shock due to the spread of the COVID-19 pandemic. As a result, the economic growth in Slovenia was lower by 2.5 percent in the first quarter of 2020 as per a year-on-year comparison and as much as by 13 percent in the second quarter, which was, among other things, the result of strict measures imposed to contain the spread of the virus that halted non-essential service activities and non-food stores mainly in the second quarter. A significant decrease also occurred in the industry due to a decline in orders and interrupted or aggravated purchase and sales channels. Since Slovenia is heavily involved in international flows, the import and export also significantly declined due to the drop in international trade and strict restrictive measures in the EU countries. The decline was most prominent in the exchange of services, particularly in the field of travel and transportation. Slovenia's main trading partners also encountered a significant decline in GDP in the second quarter of 2020. Household consumption in Slovenia and in the euro area (Figure 1) declined sharply mainly due to the restriction of movement. Only government spending increased among consumption aggregates. Investments in machinery and equipment and construction investments declined sharply due to great uncertainty affecting the investment decisions of companies.

Figure 1: Growth of gross investments, government and private consumption, the euro area and Slovenia, 2019Q1–2020Q2



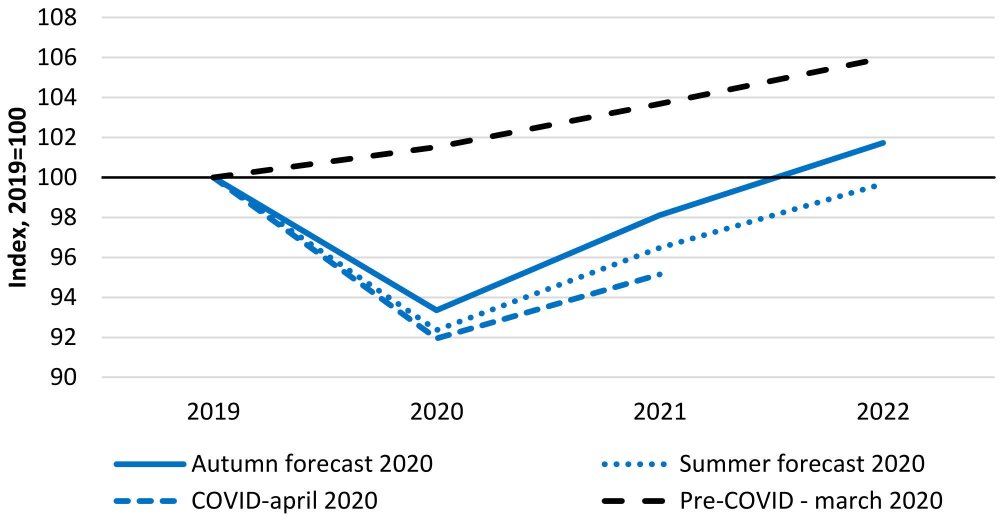
Source: Eurostat

Based on the assumption of gradual and uneven recovery, the IMAD anticipates a 6.7 percent decline in GDP for 2020 in its autumn projection. The drop will thus be somewhat smaller than anticipated in the summer projection (-7.6 percent) since the activities are slowly recovering after the relaxation of stringent protective measures, and the projections for the

[1] The draft of the budget plan was prepared on the basis of the IMAD's Autumn macroeconomic forecast confirmed by the Government on September 23, 2020. While the Statistical Office of the Republic of Slovenia (SORS) corrected the data on gross domestic product for the 2016–2019 period only on September 30, 2020, i.e. from 2.4 percent growth in 2019 to 3.2 percent (https://www.stat.si/statweb/News/Index/9102).

most important trading partners have also improved. A drop in GDP in 2020 would thus be lower by a 0.7 percentage point than is expected for the euro area. The measures to limit negative consequences of the epidemic for citizens and the economy and for its faster recovery, which are financed from domestic and EU resources, have contributed significantly to preventing deeper and lasting consequences of the epidemic on the economy.
With further gradual recovery, GDP will increase by 5.1 percent in 2021 and 3.7 percent in 2022. The majority of activities are only likely to attain the pre-pandemic levels in 2022. The recovery will be, in the presence of the virus and the maintenance of certain restrictive measures, different across activities.

Figure 2: Dynamics of real GDP relative to pre-COVID expectations



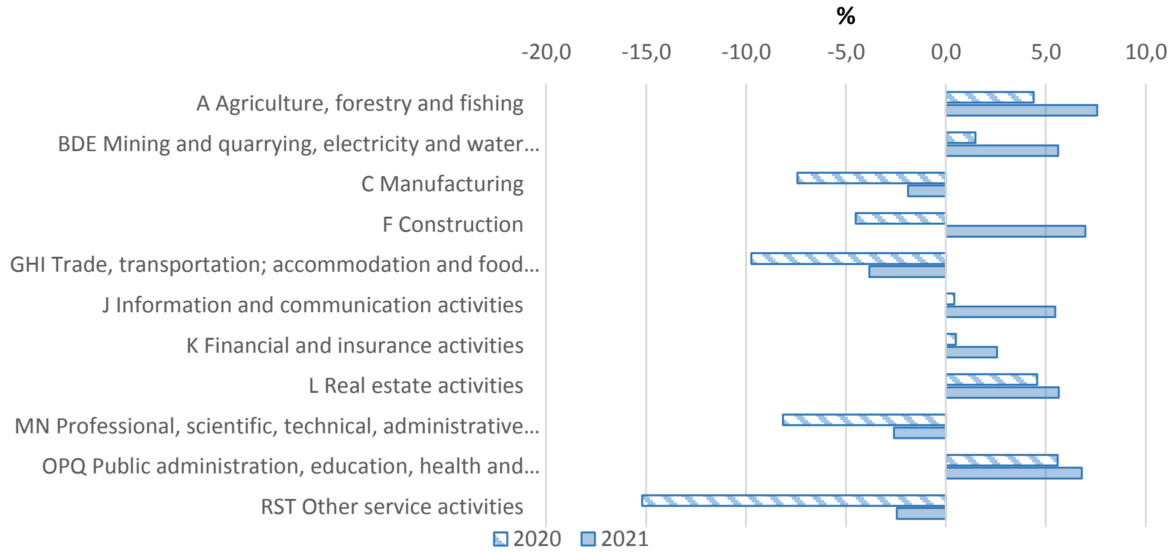
Source: IMAD Spring forecast 2020, IMAD Autumn forecast 2020; IMAD Summer forecast 2020, IMAD COVID-19 scenarios (april 2020); Ministry of Finance, own estimation

The IMAD anticipates that only government spending will increase in 2020 among the consumption aggregates, while all other aggregates will be reduced. A significant decline in exports (-12.5 percent) and imports (-12 percent) is expected this year due to the negative impact from the international environment and foreign and domestic containment measures. Private consumption will also decrease sharply (-6.6 percent), although the available income with government support measures will be similar to that of 2019. Lower consumption is also affected by increased unemployment and general uncertainty that impact the postponement of non-essential purchases and the increased level of saving. With heightened uncertainty and a drop in production in the first half of the year, which is also reflected in low utilisation of production capacities, the companies will delay investments or postpone them further in the future (-13 percent in 2020).

Investment (with expected 11 percent growth in 2021), import, export and private consumption (4.7 percent growth in 2021) are expected to recover to their pre-crisis level in the next two years. The growth of domestic activities and foreign demand will be supported by the measures for recovery of the economy at EU and state levels, relatively favourable financing conditions and "relaxed" monetary policy.

A decline in certain service activities will contribute greatly to the drop of GDP in 2020. After a severe decline in April due to containment measures, these activities started to improve, although their recovery is slow due to certain restrictive measures (Figure 3). In 2020, the value added is anticipated to decline most significantly in hospitality, recreational, sports, cultural and personal services, hotel accommodation services and transportation. Somewhat smaller, although still significant, will be a drop in processing activities and construction. This year's growth will only be positive in a few activities (e.g. public services, pharmaceutical industry).

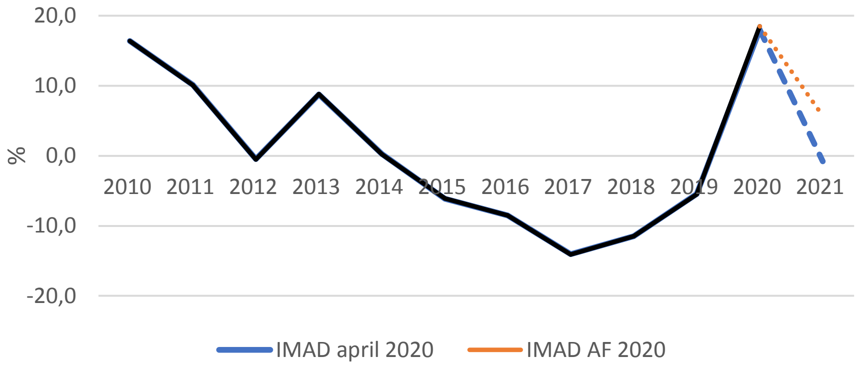
Figure 3: Value added growth forecast by activities relative to the level in 2019



Source: IMAD Autumn forecast 2020

After a relatively favourable first two months of 2020, conditions in the labour market deteriorated rapidly in mid-March with the adoption of measures to contain the coronavirus epidemic. An explicit interim decline in the number of working people (by 0.9 percent) and an increase of registered unemployed people (by 19.9 percent) occurred most significantly in April. The conditions visibly stabilised by the middle of the year with the gradual lifting of containment measures or the start of majority of activities and the adoption of intervention legislation in the field of labour. Nevertheless, the number of active working people was interim lower by 1.6 percent at the end of June, and the decline was especially prominent in hospitality, processing activities and trade. It is expected that the stabilisation of conditions in the labour market will continue with the implementation of the remaining measures relating to labour and recovery of the economic activity, and that the employment will be lower by 1.5 percent in 2020 with the number of unemployed people higher by approximately one fifth. The conditions in the labour market will be improving in the next two years on the assumption of gradual economic recovery.

Figure 4: Annual growth of the number of registered unemployed persons



Source: IMAD Autumn forecast (AF) 2020; IMAD COVID-19 scenarios

Inflation in 2020 will be on average much lower (0.3 percent) than in 2019, particularly in relation to lower prices of oil derivatives and electric energy. On the assumption of gradual economic recovery, it will increase to the pre-pandemic level in the next two years (to 1.6 in 2021 and 1.9 in 2022). A higher growth of energy product prices will particularly contribute to this next year and a higher growth of service prices in 2022.

Position in the cycle and economic cycle length

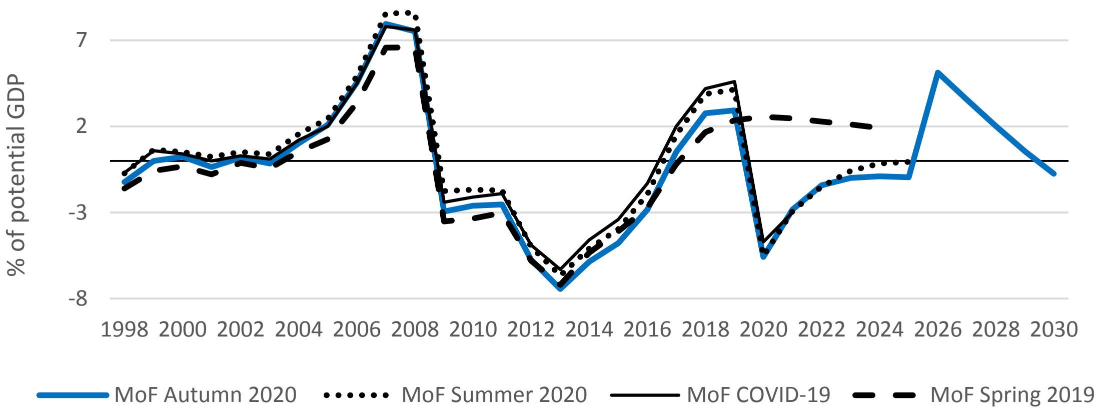
Output gap estimates are used to determine the phase of the business cycle in which a certain economy is situated and represent a base for conduction of fiscal policy. In accordance with Slovenian fiscal rule, fiscal policy must ensure balanced public finances on medium-term or on average of a business cycle. Defining the duration of the latter in real time, however, is challenging, as substantial uncertainties around output gap estimates, especially around those at the end of the sample, exist. Uncertainties are, in addition to the type of methodology used for estimation of output gap, impacted by the method used for estimation of potential output, revisions of past growth estimates, changes in the forecasts of macroeconomic aggregates and the length of included series (Orphanides and Van Norden, 2002)[2]. Frequent and substantial revisions of macroeconomic data and changes in the forecasts of future economic trends that accompany an exogenous shock, are thus one of the key factors for possible deviations of realization from fiscal targets, and thus compliance with fiscal rules.

The changing of output gap estimates was particularly evident at the time before and after the outbreak of the COVID-19 pandemic. Estimates of the Ministry of Finance (MoF) based on the IMAD’s 2019 spring forecast suggested an output gap of 2.4 percent of potential GDP in 2019. The estimates based on the IMAD’s COVID-19 scenario for the 2017–2019 period were adjusted upwards significantly. In 2019, the peak of the output gap was estimated to be for 2.2 percentage points higher, amounting to 4.6 percent of the potential GDP. The change in the estimates coincided with reduced growth of the potential GDP in the COVID-19 scenario, which was estimated to drop from 2.7 percent to 2 percent in 2019. Based on the IMAD’s 2020 Autumn forecast, output gap was again lower in 2019, exceeding the value from 2019 Spring forecast by only a 0.5 percentage point (it amounted to 2.9 percent of the potential GDP).

According to the estimates based on the 2019 Spring forecast, the Slovenian economy was expected to remain in the positive section of the business cycle at least until 2024, while it would be in the negative section of the cycle until 2025 as per the estimates based on the 2020 Summer and Autumn forecasts. In accordance with the estimates based on the 2020 Autumn forecast, the gap between the real and potential GDP would be larger than as per the estimates based on the Summer forecast, i.e. by a 0.9 percentage point. It is evident that the length of the business cycle is difficult to determine due to the uncertainties around estimates of the output gap. It may represent different periods and consequently lead to different medium-term objectives.

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

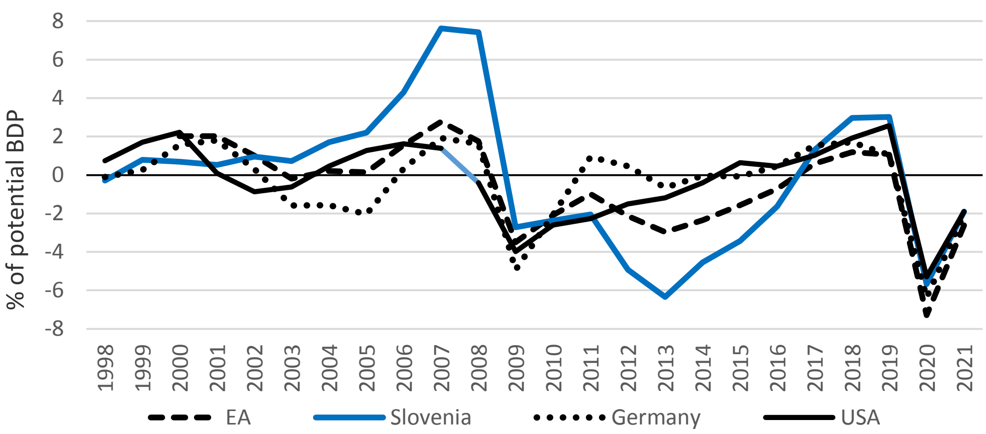
Figure 5: Output gap, Ministry of Finance estimations



Source: Ministry of Finance, own estimation

Burns and Mitchell (1946)[3] defined the business cycle in their fundamental work as fluctuations in economic activity that last between 1.5 and 8 years. As per the basic literature, the duration of an average business cycle is approximately 5 to 6 years (Artis, Kontolemis and Osborn, 1997)[4]. Alqaralleh (2019)[5] finds that the specifics of the business cycle vary over time and across countries. Over the years, recessions became less significant, while frequent periods of expansion were extended (Backus and Kehode, 1992)[6]. Jagrič (2002)[7] notes that Slovenian business cycles in the 1990s and the beginning of 2000 were asymmetric, synchronised with the German business cycle and lasted five to six years. According to the output gap dynamics in Figure 6, Slovenia has more pronounced business cycles than Germany, the euro area average and the USA since the beginning of 2000, which are also longer. Eleven years have passed since 2007, when the economic activity was at its peak, until 2019 when the Slovenian output gap again reached its highest point.

Figure 6: Output gap dynamics across countries



Source: AMECO

[3] Burns, A. and Mitchell W.C. (1946). Measuring Business Cycles. New York: National Bureau of Economic Research.
[4] Artis, M.J., Kontolemis, Z.G., and Osborn D.R. (1997). Business Cycles for G-7 and European Countries. *Journal of Business, 70*, 249-279.
[5] Alqaralleh, H. (2019). Measuring business cycles: Empirical evidence based on an unobserved component approach. *Cogent Economics & Finance, 7*, 1.
[6] Backus, D.K., and Kehoe P.J. (1992). International Evidence of the Historical Properties of Business Cycles. *American Economic Review*, *82*, 864-888.
[7] Jagrič, T. (2002). Measuring Business Cycles. *Eastern European Economics, 40*, 63-87.

A credible and unified (with Fiscal Council), definition of a business cycle is required since incorporation of shorter or longer medium-term period than actual leads to different fiscal objectives. The Ministry of Finance certainly believes that the recovery after the COVID-19 crisis will take longer than usual. The effects of expansionary measures will be reflected in greater aggregate demand with a delay, which is why the Ministry of Finance believes that the Slovenian cycle will be balanced at around 2030, which is also empirically confirmed by ex-post estimates. As a result, 2030 should be the deadline for balancing the budget.

Situation in the banking system

To mitigate consequences of the epidemic, the Government of the Republic of Slovenia also adopted intervention measures to limit the increase of non-payments. Based on the data on bank performance in July, which was published in the Monthly report on bank performance, September 2020,[8] the situation is also reflected in bank performance:

- the borrowing activities of households and businesses are not growing as much as before the onset of the epidemic (interim growth in loans to households was 1.8 percent and to businesses 0.6 percent),
- deposits from households and businesses are growing (interim growth in deposits from households was 9.4 percent and from businesses 10.4 percent),
- the share of non-performing exposure (NPE) in the bank portfolio remains low (1.9 percent of all exposure; the share of NPE to businesses was 4.0 percent and 2.0 percent to households),
- development of additional impairments (on the performing and non-performing part of the portfolio) and reservations (these presented 15.6 percent of generated income at the level of the banking system),
- reduction of interest and non-interest income and consequently net interest margin (interim interest income lower by 3.9 percent and non-interest income by 24.1 percent),
- lower profitability (pre-tax profit is lower by 65.7 percent than in the same period of the previous year and ROE is lower by 67.5 percent).

The table below shows a comparison of year-on-year growth of the share of loans and deposits as of 31 July 2020 for Slovenian banks and those in the euro area according to the data provided by the European Central Bank and national central banks of the Eurosystem. The growth of loans and deposits of businesses in the euro area by the end of July 2020 was higher than in Slovenia if compared to the same period the previous year (Table 1), while the growth of household deposits in Slovenia was higher than in the euro area.

Table 1: Year-on-year growth of loans and deposits in Slovenian and euro area banks as of 31 July 2020

Year-to-Year Growth in %	Slovenia households	Slovenia businesses	Euro area households	Euro area businesses
Loans	2.2	1.1	3.3	6.5
Deposits	9.5	10.0	6.6	19.1

Source: Euro Area Statistics, data is available on its website.

The comparison of growth of certain key performance indicators of Slovenian banks against the euro area banks in the first quarter of 2020 with regard to the last quarter of 2019 shows that both groups of banks encountered a worsening of key indicators and are displayed in the table below.

[8] Bank of Slovenia, Monthly information on bank performance. September 2020. Available at https://www.bsi.si/publikacije.

Table 2: Quarterly growth of certain key performance indicators of banks in Slovenia and the euro area in Q2020 as per Q2019

Quarterly Growth in %	Slovenia	Euro area
Net Interest	-5.4	-75.1
NPEs in relation to the total exposures	-11.6	-5.2
NPEs – Households	-7.6	-0.1
NPEs – Businesses	-10.1	-1.8
Net Impairments and Provisions	-13.2	-59,2
Pre-Tax Profit	-5.7	-91.7
ROE	-53.1	-77.8

Source: Bank of Slovenia, Monthly report on bank performance. Publications from November 2019, February 2020 and May 2020 are available on its website. Bank of Slovenia: Information on non-performing exposures, data is available on its website. ECB: Supervisory Banking Statistic, data for Q1 2020 and July 2020 is available on its website.

3 Fiscal scenario for 2021 and recovery measures

The fiscal policy for 2021 is based on a better macroeconomic scenario than that of 2020; nevertheless, uncertainties still remain. The macroeconomic environment will depend on the scope of realisation of all measures for combating consequences of COVID-19 and subsequently their effects on the economy. Revenue estimated for 2021 is higher than for 2020, although it is still lower than expected before the crisis in 2019. From the medium-term point of view and compliant with the Fiscal Rule Act, high expenditure was planned in certain fields, which must now be adjusted. It is revealed again how uncertainties prevent the drafting of suitable and reliable mid-term forecasts, which means that the highest permitted expenditure limits in the mid-term framework are also uncertain. In order to attain the medium-term objective, the countries will have to set the fiscal policy from the viewpoint of the long-term sustainability of public finances only when the broader economic conditions permit this. Slovenia will have already achieved sufficient fiscal effort compliant with the fiscal adjustment matrix in 2022.

The Government of the Republic of Slovenia remains committed to compliance with the fiscal rule and the medium-term balance. When determining the method of reducing the nominal deficit, the requirements of the so-called fiscal adjustment matrix will not necessarily always be observed, instead the phase of the cycle and the principle of economic rationality will be considered. It seems that recovery after COVID-19 will be lengthy. According to the Ministry of Finance, the cycle will not be balanced before 2030, which is why maintenance of the expansionary fiscal policy in the following years is crucial. For a decade, the Government of the Republic of Slovenia has been pointing out the shortcoming of MTO (medium-term objective) calculation that emphasises more strongly the costs of ageing (CoA) than explicit liabilities. The reduction of debt remains a priority of the Government of the Republic of Slovenia. The observance of the costs of ageing until 2070, which do not coincide with political cycles nor with the short-term costs of ageing, must not endanger the recovery or require a policy that is too restrictive. The Government of the Republic of Slovenia certainly advocates the compliance with the rules, although not to the extent that would endanger growth or wellbeing.

In addition to recovery measures, the Government of the Republic of Slovenia plans gradual reduction of nominal balance from -8.6 percent of GDP in 2020 to -6.6 percent in 2021 and -4.6 percent of GDP in 2022.

Table 3: Nominal and structural balance of the general government sector and fiscal effort

in % of GDP	2019	2020	2021	2022
Nominal balance of general government	0.52	-8.64	-6.59	-4.59
Structural balance of general government	-0.83	-5.92	-5.16	-3.83
Fiscal effort				1.33

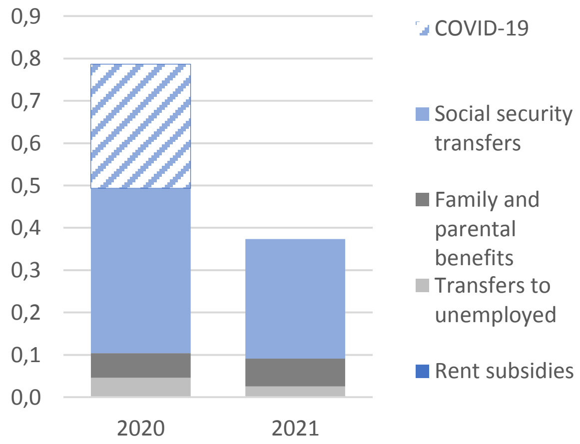
Source: Ministry of Finance

Considering the circumstances, the Government of the Republic of Slovenia does not focus on the structural fiscal position when preparing the Draft Budgetary Plan. In addition to all uncertainties, further unreliability of various assessments of the structural fiscal position is caused by the variability of estimates of the output gap and the perceived length of the economic cycle.

The automatic stabilisers automatically adjust transfer payments in such a way as to balance income and consumption in a business cycle. The automatic stabilisers, which include transfers to unemployed, family and parental benefits, social security transfers and rent subsidies, are to increase by 0.5 percent of GDP in 2020 compared to 2019 as a response to the crisis, and by 0.4 percent of GDP in 2021 compared to 2019. The transfers for ensuring social security will increase the most (in the amount of 0.4 percent of GDP) – Figure 7. Within categories considered as automatic stabilisers, the transfers for ensuring social security particularly greatly increased in 2020 due to the COVID-19 measures, i.e. in the amount of 0.3 percent of GDP.

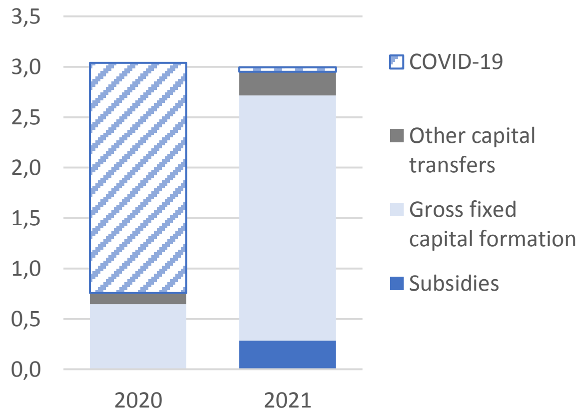
Fiscal stimulus (Figure 8), encompassing subsidies, gross fixed capital formation and other capital transfers, will also increase significantly, i.e. for 0.8 percent of GDP in 2020 compared to 2019 and in the amount of 3 percent of GDP in 2021 compared to 2019, of which investments in gross fixed capital formation increased the most. Within categories of fiscal stimulus, subsidies due to the COVID-19 measures further sharply increased in 2020 compared to 2019, i.e. for 2.3 percent of GDP.

Figure 7: Automatic stabilisers, change compared to 2019 in percent of GDP



Source: Ministry of Finance, own estimation

Figure 8: Fiscal stimulus, change compared to 2019 in percent of GDP



Source: Ministry of Finance, own estimation

Measures to mitigate the COVID-19 crisis

Slovenia adopted five packages of measures in response to COVID-19. The measures are aimed at companies and individuals with incentives to preserve economic activity, e.g. incentives for waiting for work at home and reduced working hours, basic income, crisis and solidarity allowances, etc. The measures also focus on support when implementing public services, particularly health and social care. The introduction of tourist vouchers as a direct aid to tourism also has a positive effect. There is still insufficient data for a final analysis. Based on primary data limited to the duration of the epidemic, some 27,000 companies and 150,000 employees were involved in the measures of waiting for work at home on average a month. Some 49,000 companies and 480,000 employees monthly participated on average in the measure of financing social contribution for pension insurance to preserve economic activity. During the epidemic, some 43,000 self-employed people on average received basic income every month. On average, 47,500 self-employed people, farmers, religious workers and company members per month were exempt from payment of social contributions. More than half a million people received various forms of income support. Guarantee measures for companies were also adopted. The extension of measures to 2021 depends on further development of the COVID-19 epidemic.

Table 4: Assessment of the realisation of measures by individual fields according to the ESA methodology (until mid-September 2020)

Field	Assessment of realization - ESA methodology (expenditures in mio EUR)
Measures in the field of labour and social security contributions	984
Measures in the field of health care	91
Measures in the field of social security	99
Measures in the field of wages	191
Measures in the field of education	27
Other measures (purchase of equipment, tourist vouchers,..)	173
Together	1,566

Source: Ministry of Finance

The joint impact of measures related to COVID-19 is assessed at EUR 2,737 million in 2020. Measures relating to expenditure will reach the level of EUR 2,432 million in 2020, and measures with regard to revenue will amount to EUR 305 million. On the side of revenue, its loss on behalf of deferred and unpaid prepayments on income from self-employment, corporate income tax and deferred payment of certain taxes, especially VAT, excise duties, corporate income tax and income tax at the total value of EUR 298 million, is particularly observed. The loss of revenue will impact the cash flow of the state budget, while it will not affect the accounting flow of revenue. Due to COVID-19, expenditure for subsidies (by EUR 1,044 million), other current transfers, especially tourist vouchers (by EUR 432 million), social benefits and cash aid (by EUR 402 million) and funds for employees (by EUR 393 million) will increase most significantly in 2020. EUR 1,566 million expenditure was realised by mid-September 2020 due to the COVID-19 measures.

On 29 September 2020, the Government of the Republic of Slovenia adopted the fifth package for mitigation and elimination of consequences and the effect of COVID-19 in the health care, labour, social care, the business sector, education, etc. The relevant act prolongs certain measures from previous acts, e.g. compensating employees who work with COVID-19 patients, financing of the basic income for self-employed people until the end of 2020 and certain new measures were also added. In 2021, the state budget will ensure additional funds for protective equipment, implementation of microbiological research and to cover other costs related to the epidemic. It will also provide additional resources to the Health Insurance Institute of Slovenia to cover possible excess of expenditure over revenue. Total expenditure arising from the COVID-19 measures is assessed at EUR 456 million in 2021 and the resources intended to cover this expenditure are ensured in the general budgetary provision of the state budget.

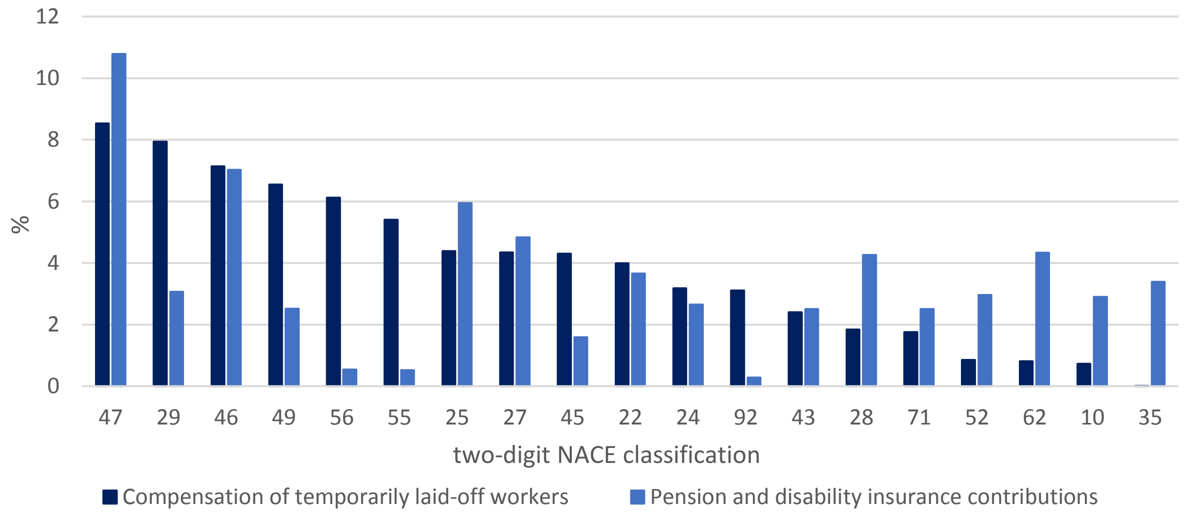
Due to its nature, the COVID-19 crisis affected the service activities and those incorporated in global supply chains the most and also with a long-lasting effect. The speed of returning to the pre-crisis level of business activity is to vary between the sectors. The economists assess that the recovery will take place in the shape of a letter K, which could lead to changes in the structure of the economy and society in general.

Companies from the most affected industries received the largest amount of state aid by 20 July 2020 from intervention measures in the field of wages and contributions. The added value declined most significantly in RST (Other service activities; by 30 percent), GHI (Trade, maintenance and repair of motor vehicles, transportation and storage and food service activities; by 21 percent), MN (Professional, scientific and technical activities, and various other administrative activities; by 20 percent) and C (Manufacturing; by 16 percent) in the second quarter of 2020 if compared to the second quarter of 2019. The number of performed working hours also dropped most significantly in the aforementioned activities, while the number of employees decreased the most in MN and somewhat less in RST, C and GHI.

As much as 71 percent of funds paid to employers for compensation of temporarily laid-off workers was allocated to companies[9] from 15 economic activities of two-digit NACE classification, which mostly belonged to GHI and C. The largest share, i.e. 9 percent, went to companies involved in Retail trade services (47), 8 percent to Motor vehicle production (29) and 7 percent to Wholesale trade services (46) and Land transportation services (49). Retail trade services (47) received the largest share (11 percent) of state aid for the payment of pensions and disability insurance contributions. More than 5 percent of the payment of pensions and disability insurance contributions went to companies from activities 46 and 27 (Manufacture of electrical equipment).

[9] The analysis includes companies with more than one employee, which performed their operations in 2019.

Figure 9: Share of financial aid received by economic activities as per the two-digit NACE classification[10] in percent from the total of funds paid for waiting for work at home and the payment of pension and disability insurance contributions



Source: AJPES; Ministry of Finance, own estimation

Recovery and Resilience Plan

In mid-July 2020, the European Council achieved an agreement on a recovery package worth EUR 750 billion, which will, in the light of the emergency situation, supplement the applicable and future multi-annual financial frameworks and thus pave the way to overcome the crisis and lay down the foundations for a modern and more sustainable Europe. Within the programmes with predetermined national envelopes, Slovenia would additionally obtain approximately EUR 380 million from the "Next Generation EU" instrument to implement cohesion policy (React-EU programme) and rural development policies from the multi-annual financial framework 2014–2020 and EUR 5.3 billion relating to the multi-annual financial framework 2021–2027, of which EUR 3.6 billion would be in the form of loans and EUR 1.7 billion in the form of grants. The largest share of grants would come from the new Recovery and Resilience Facility, i.e. EUR 1.6 billion. The speed of drawing and positive effects on the economic growth and the maintenance of citizens' disposable income will be the guideline in further development and formation of fiscal policy. Reducing incentives too quickly in the following years could endanger recovery and consequently impact the growth and social situation of an individual in society. The recovery will take several years and fiscal policy must adapt accordingly, which is a point that all international institutions (the European Central Bank, the European Commission, the International Monetary Fund) and all EU Member States emphasise.

The Government Office of the Republic of Slovenia for Development and European Cohesion Policy is currently drafting the National Recovery and Resilience Plan, which will

[10] Key: 47 (Retail trade, except of motor vehicles and motorcycles); 29 (Manufacture of motor vehicles, trailers and semi-trailers); 46 (Wholesale trade, except of motor vehicles and motorcycles); 49 (Land transport and transport via pipelines); 56 (Food and beverage service activities); 55 (Hotel and catering activities); 25 (Manufacture of fabricated metal products, except machinery and equipment); 27 (Manufacture of electrical equipment); 45 (Wholesale and retail trade and repair of motor vehicles and motorcycles); 22 (Manufacture of rubber and plastic products); 24 (Manufacture of basic metals); 92 (Gaming); 43 (Specialised construction activities); 28 (Manufacture of machinery and equipment n.e.c.); 71 (Architectural and engineering activities; technical testing and analysis); 52 (Warehousing and support activities for transportation); 62 (Computer programming, consultancy and related activities); 10 (Manufacture of food products); 35 (Electricity, gas, steam and air-conditioning supply)

outline action in the field of structural reforms and key investments in the following years. The resources planned from this mechanism will be earmarked for reforms and investments supporting the transition to a green, digital and knowledge-based society and promoting connectivity. When drafting proposals, country specific recommendations of the European Commission, the 2020 Development Report (IMAD), the 2020 Economic Survey of Slovenia (OECD) and numerous national strategic documents were observed. The recovery and resilience plan will be focused on improvements in the labour market, the health system, the social care and long-term care system, the financial and fiscal system and the reduction of administrative obstacles. It will support investments that improve the functioning of individual systems, particularly in health care, long-term care, infrastructure related to the environment and transport, and investments that ensure sustainable, green and digital transition, provide supportive environment for companies, support tourism and culture, research, development and innovation with the aim of enhancing resilience and Slovenia's sustainable development.

Table 5: Resources planned from the Recovery and Resilience Facility (RRF) included in the draft budgetary plan, cash flow

in mio EUR	2021	2022
RRF grants	300	600
of which:		
Capital transfers to entities in general government sector (S.13)	47	94
Capital transfers to legal entities and individuals	187	374
Subsidies to private corporations and individuals	66	132
RRF loans		

Source: Ministry of Finance

Table 6: Resources planned from the Recovery and Resilience Facility (RRF) included in the draft budgetary plan, accrual principle

in mio EUR	ESA code	2021	2022
RFF expenditures			
RRF – general government expenditure		113	226
Compensation of employees	D.1		
Intermediate consumption	P.2		
Social payments and social transfers in kind	D.62+D.632		
Interest, payable	D.41		
Subsidies	D.3	66	132
Other current transfers, payable	D.7		
Gross fixed capital formation	P.51	47	94
Capital transfers payable	D.9		
Other			

Source: Ministry of Finance

To implement future programmes and projects from the National Recovery and Resilience Plan, commitment appropriations (for grants) are planned and assigned to the financial plans of competent line ministries as per the rules of budget execution. The record project includes commitment appropriations planned only as per the basic structure of five development pillars (Sustainable and green transition, Digital Slovenia, Supportive environment for companies, Knowledge-based society, Tourism and culture) and an indicative structure of the review of financial needs according to ministries' assessments arising from the first proposal for drafting the recovery and resilience plan. Considering the fact that these are currently indicative assessments, the factual background from the programme and economic aspect will be revealed in the final recovery and resilience plan (in preparation) and concrete projects and programmes placed in the financial plans of competent ministries, which will also be classified accordingly as per their programme content.

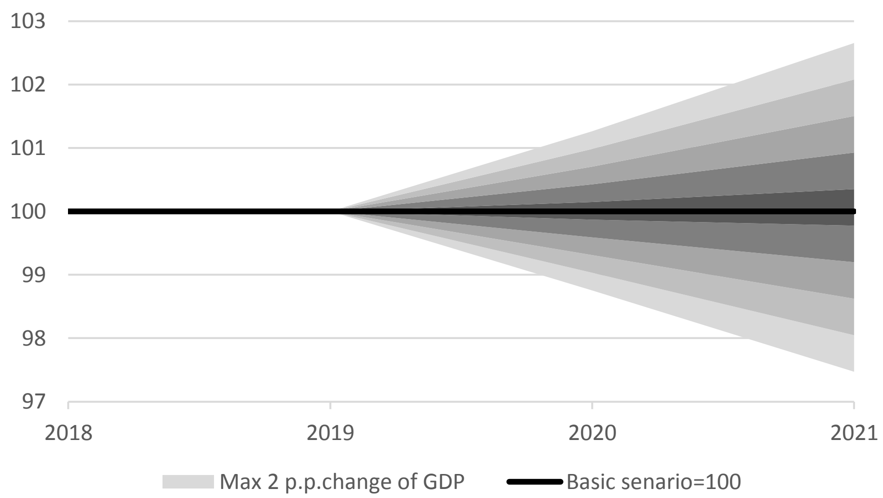
The resources planned from the national plan will only be granted after the European Commission's prior approval of the plan, which will also monitor the implementation of reforms and investments on the basis of milestones and targets determined in advance.

Fiscal risks

The COVID-19 pandemic in combination with strict healthcare and safeguard measures is a major negative shock for economic activity. The projections of economic growth are thus extremely uncertain and are changing rapidly. Uncertainty and risks for greater decline in GDP linked with the uncertain epidemiological situation and the possibility of reintroducing stricter containment measures remain significant. In last few weeks, Slovenia and its main trading partners have registered an increase in infections which are managed by escalating or extending the containment measures. Possible uncontrolled spread of the virus and consequently the possibility of an extensive closure of certain activities represent the most significant barrier to recovery. Extensive containment measures would again severely hamper operations in service activities and industries. Certain business entities would experience further problems when implementing their activities, the number of bankruptcies would increase and the labour market would also experience major consequences. The 2020 budget currently includes all measures, also from the firth package, that re-extend the measures to help the economy. In the event of successful permanent containment of the virus or the imminent development and availability of a vaccine or medication for broader use, there is a possibility of quicker recovery of the activities than anticipated in the main scenario.

Figure 10 shows alternative scenarios of the impact of economic growth fluctuation on general government revenue. For the 2020–2021 period, scenarios assume that the nominal GDP growth will be up to 2 percentage points higher or lower than the basic projection (used in this draft budgetary plan) at the annual level linearly in all years (grey field).

Figure 10: Impact of economic growth fluctuation on general government revenue



Source: Ministry of Finance, own estimation

Under the assumption of unchanged policies, general government revenue would improve by 1.3 percent in 2020 compared to the basic projection and by 2.7 percent in 2021 if nominal GDP growth is 2 percentage points higher than anticipated. General government revenue would reach 98.8 percent of the revenue from the basic projection for 2020 and 97.5 percent in 2021 if GDP growth is 2 percentage points lower than anticipated. General government revenue would be lower by 0.6 percent in 2020 and by 1.3 percent in 2021 from the basic projection if the realised GDP growth in 2020 is 1 percentage point lower than anticipated.

4 General government debt

The borrowing size for a fiscal year 2020 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 (2021 and 2022). 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 2020. In April 2020 the Stability program for 2020 was adopted by the Government in which the general government debt target is set at 82.4 % GDP. Elevated uncertainty linked to central government budget execution, costs of adopted intervention laws for Covid-19 containment, EUR 3.7 billion of debt repayment in 2021 and uncertain epidemic development in Slovenia/broader region are key determination factors for a budget debt linked cash buffer policy. In this respect, the debt based increased cash reserves can always be used for debt repayments in the future when economic situation improves. Such awareness prevails in all EU-27 countries since none of the EU-27 countries contemplates the reduction of the general government debt in respect to GDP in 2020. Based on the Eurostat and European Commission Ameco database data, the estimated general government debt increase in Slovenia is +16.3 p.p. of GDP in 2020 in comparison to EA-19 average of 16.7 p.p. of GDP.

Table 7: General government debt

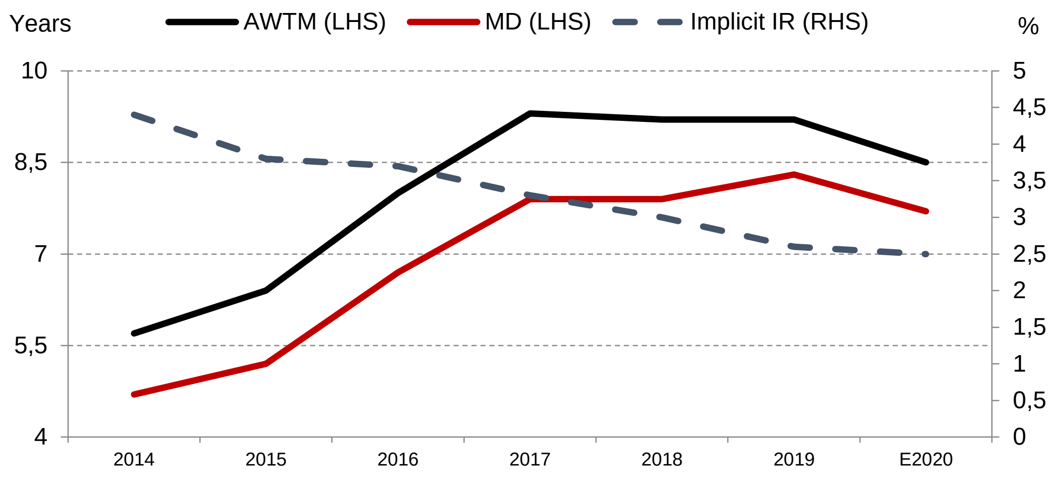
	ESA code	2019	2020	2021	2022
1. Gross debt (mio EUR)		31,744	37,710	39,495	40,959
2. GDP (mio EUR)		48,007	45,769	48,818	51,630
3. Gross debt (% GDP)		66.1	82.4	80.9	79.3
4. Change in gross debt ratio (% GDP)		-4.3	16.3	-1.5	-1.6
5. Primary balance (% GDP)		2.2	-6.9	-5.0	-3.2
6. Interest expenditure (% GDP)	D.41	1.7	1.7	1.6	1.4
7. Stock-flow adjustments (SFA) (% GDP)		-0.3	4.4	-2.9	-1.8
Implicit interest rate on debt (% GDP)		2.6	2.5	2.1	1.8

Source: Ministry of Finance, Treasury Directorate, September 2020

In respect to the past general government debt to GDP dynamics, the Republic of Slovenia proved to be one of the most successful among EA countries in terms of the general government debt do GDP reduction since 2015 – the year of general government debt peak for Republic. The general government debt to GDP ratio is projected to decrease again in the forthcoming period starting with the fiscal year 2021.

The state budget debt average weighted time to maturity is estimated to 8.5 years and modified duration to 7.7 years in 2020. At the same time the average (implicit) interest rate of the state budget debt portfolio decreased to 2.5 % in 2020. Since 2014 the long term financing cost of the central government budget has been reduced significantly, i. e. for more than 300 million from 1,083 million in 2014 (2,9 % GDP) to estimated 776 million in 2020 (1,7 % GDP). Important part of this reduction is linked to active debt management while the other is attributed to a low interest rate environment in the euro debt capital markets to the size of debt refinancing and financing of the central government budget. The share of state budget debt denominated in USD (all obligations are hedged and paid in euros) decreased from initial exposure of 25% in portfolio to today’s 4%.

Figure 11: Key characteristics of the state budget debt: Modified duration (MD), average weighted time to maturity (AWTM) and implicit interest rate



Source: Ministry of Finance, September 2020

Table 8: Data on key characteristics of the state budget debt, as shown in figure 11

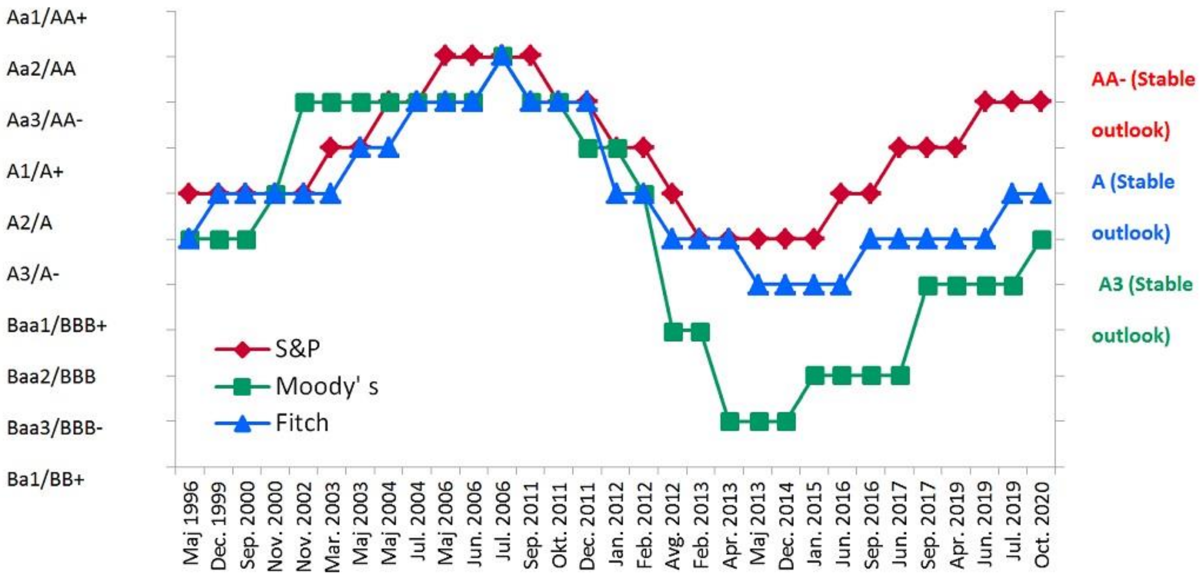
	2014	2015	2016	2017	2018	2019	E2020
AWTM (LHS)	5,7	6,4	8,0	9,3	9,2	9,2	8,5
MD (LHS)	4,7	5,2	6,7	7,9	7,9	8,3	7,7
Implicit IR (LHS)	4,4	3,8	3,7	3,3	3,0	2,6	2,5

Source: Ministry of Finance, September 2020

Republic of Slovenia external ratings positive trend started in 2015. In 2020 it reached today's levels of AA- (S&P) Stable outlook and A (Fitch) – Stable outlook. Despite the significant economic impact after outbreak of Covid-19 epidemics both credit agencies maintained credit rating of Slovenia at the same level. The prevailing assessment of S&P and Fitch is that existing fiscal and external buffers, following years of robust growth without the build-up of major macroeconomic imbalances, allows Slovenia to weather the temporary shock from the Covid-19 pandemic.

On 2 October 2020, Moody's Investors Service upgraded Slovenia's long-term issuer and senior unsecured bond ratings to A3 from Baa1. Concurrently, the outlook has been changed to stable from positive. Moody's outlined the following key drivers for upgrade: (1) the improvement of Slovenia's debt burden and debt affordability metrics relative to peers. Moody's expectation is that the debt reduction trend will resume next year as the economy recovers from the pandemic shock and (2) the significant improvement of the health of the banking system, as well as the completion of the privatization of the country's largest banks, since Moody's previous upgrade of the sovereign rating.

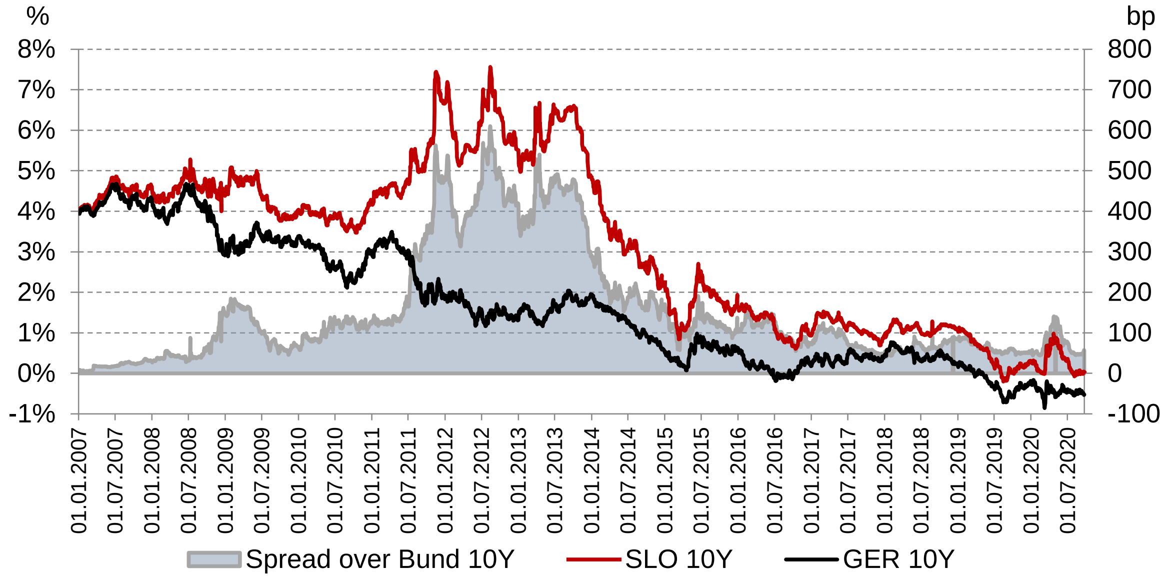
Figure 12: Republic of Slovenia Credit Rating over time



Source: S&P, Moody‘s and Fitch, October 5, 2020

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 22 September the spread over benchmark bund is at historically low levels at 57 bp.

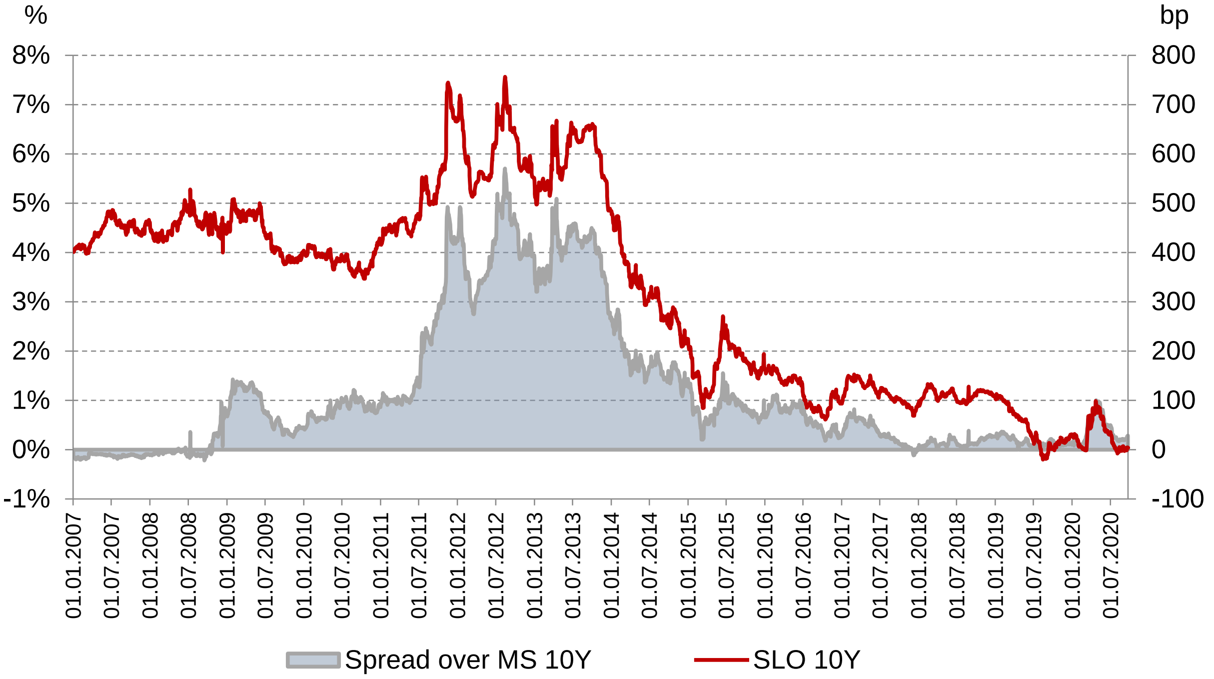
Figure 13: 10-year YTM Dynamics of Republic of Slovenia in Comparison to Germany



Source: Ministry of Finance, September 22, 2020

As shown in the figure below, in the year 2012 the Republic of Slovenia 10-year yield to maturity in the secondary market crossed 7% mark for the first time. Since then we are observing significantly lower levels. In todays environment the credit spread over EUR 10-year mid swap stands at 0.3 % and 10-year yield at 0.04 %.

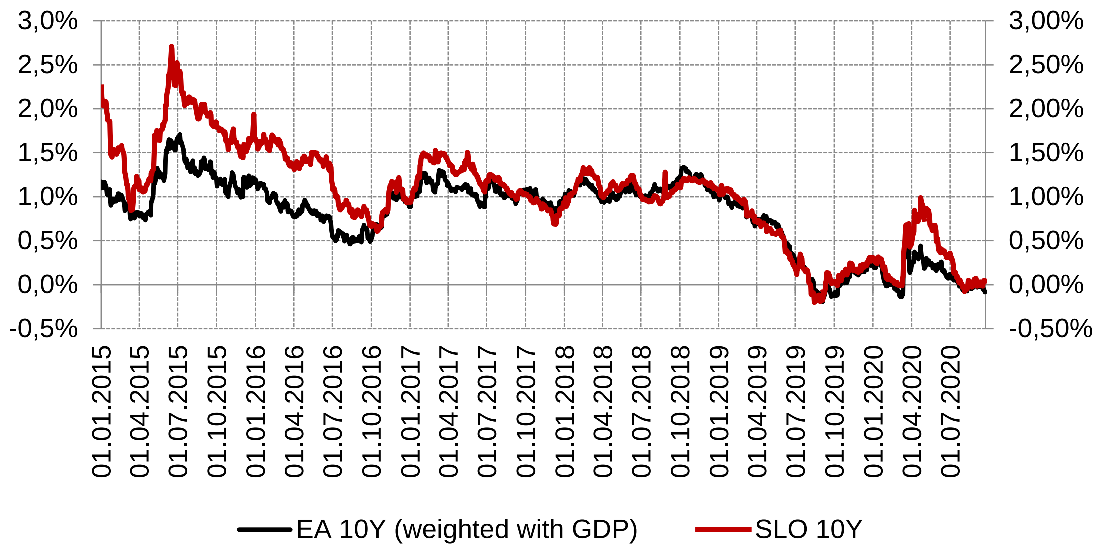
Figure 14: Slovenia 10-year EUR YTM and Credit spread over Mid Swap



Source: Ministry of Finance, September 22, 2020

On the back of improved credit ratings, Republic of Slovenia managed to move and anchor close to EA average weighted 10-year YTM. As it is shown in the figure below Republic of Slovenia 10-year YTM is close to EA average weighted 10-year yield (weight represents country GDP in total EA GDP).

Figure 15: 10-year EUR YTM Dynamics for Slovenia in Comparison to EA average



Source: Eurostat, Bloomberg, Ministry of Finance, own calculations, September 22, 2020

The outstanding guarantees of the Republic of Slovenia as at 30 June 2020 amounted to EUR 5,230 million, of which the balance of government guarantees for the liabilities of the financial sector (S 12) was EUR 669 million. The assessment of outstanding guarantees of the Republic of Slovenia at the end of 2020, 2021 and 2022 was made on the basis of certain assumptions regarding the repayment of existing guarantees and the granting of new ones.

Table 9: Contingent liabilities

	2020 (% GDP)	2021 (% GDP)	2022 (% GDP)
Public guarantees	12.7	13.7	10.7
Public guarantees: [1] linked to the financial sector	1.5	1.4	1.3

Note: [1]In accordance with the Classification of Institutional Sectors (SKIS) data "linked to the financial sector" contains the data of outstanding guarantees for S.12, Financial corporations.
Source: Ministry of Finance

The quota for new guarantees is planned by the act governing budget implementation, while the government may also issue guarantees outside the quota if this is permitted by an individual act. For 2020, the quota is EUR 2,800 million, of which EUR 2,000 million is earmarked for crisis measures related to COVID-19. In the proposal of the act governing budget implementation for 2021 and 2022, the proposed quota for 2021 is EUR 1,170 million and for 2022 the proposed quota is EUR 450 million, and separately EUR 350 million the quota for guarantees of SID bank.

In 2020, three acts were adopted in the field of anti-crisis measures related to COVID-19, namely Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (ZIUZEOP), which allows for the deferral of payment of liabilities of borrowers with a guarantee of the Republic of Slovenia, Act Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic (ZDLGPE), which enables the raising of liquidity loans with a guarantee of the Republic of Slovenia and 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). The ZIUZEOP guarantee quota of EUR 200 million and the ZPEIPUTB guarantee quota of EUR 88 million are not included in the guarantee quota set by the act governing budget implementation. The guarantee quota under the ZDLGPE in the amount of EUR 2,000 million is taken into account in the quota for guarantees set by the act governing budget implementation.

For guarantees, the possibility of a realisation is estimated at EUR 30 million for 2021 and EUR 50 million for 2022, of which most of it is estimated for the realization of guarantees issued on the basis of anti-crisis measures related to COVID-19.

5 General government developments 2020–2021

General government revenue will amount to EUR 20,692 million in 2020, which is 2.5 percent or EUR 534 million less than in 2019. The greatest impact on the decrease in revenue will have lower revenue from taxes (EUR 800 million or 7.7 percent less), particularly on consumption, namely VAT revenues. These will be lower by EUR 346 million or 8.9 percent compared to 2019. The revenue from excise duties will also be lower (by EUR 191 million or 11.8 percent). The decrease in revenue from taxes on consumption may to the greatest extent be attributed to lower consumption during the COVID-19 epidemic. Revenue from taxes on income will be lower by EUR 203 million or 5.3 percent in 2020. Revenue from personal income tax will be lower by EUR 115 million or 4.5 percent and corporate income tax revenues will be lower by EUR 89 million or 9.3 percent. Revenue from social contributions will increase by EUR 232 million or 3.0 percent in 2020, which can be mostly attributed to the Government’s measures in the field of wages and employment during and after the COVID-19 epidemic. In other revenue groups, property income will also decrease notably, mostly because of lower distribution of company capital gains (by EUR 73 million or 27.2 percent). Other revenue groups will have a lesser impact on the total drop in revenue.

A growth in total general government revenue in the amount of EUR 967 million or 4.7 percent in comparison to 2020 is expected again in 2021. Revenue from taxes will grow fastest (by EUR 527 million or 5.5 percent), particularly VAT revenue (by EUR 248 million or 7.0 percent) and revenue from excise duties (by EUR 80 million or 5.5 percent). Revenue from taxes on income will be higher by EUR 139 million or 3.9 percent, especially on the account of income taxes. Revenue from personal income tax will be higher by EUR 129 million or 5.2 percent, while corporate income tax revenues will remain at the similar level than in 2020. The growth of revenue from social contributions will be somewhat slower and will increase by EUR 182 million or 2.3 percent if compared to 2020. Property income will remain at the level of 2020 and capital transfer revenues will increase (by EUR 232 million or 57.6 percent).

2020 will be marked by extreme growth of general government expenditure as a result of the Government's response to the COVID-19 epidemic. Expenditure will thus increase by EUR 3,669 million or 17.5 percent if compared to 2019. Expenditure for subsidies will increase the most (by EUR 1,046 million or 301.8 percent) as a result of state aid to companies for labour costs. Government expenditure for social benefits will also be high. It will increase by EUR 1,022 million or 12.1 percent in comparison to 2019, particularly due to higher payments of social benefits in cash (by EUR 872 million or 11.8 percent) earmarked by the state for households. Expenditure on compensation of employees will also increase in 2020 by EUR 628 million or 11.5 percent, especially for hazard pay and special burdens during the epidemic. Expenditure for various current transfers will increase significantly (by EUR 414 million or 171.0 percent), primarily due to tourist vouchers and the purchase of protective equipment and medical devices. Gross investments in fixed assets will amount to EUR 2,146 million in 2020, which is 16.9 percent higher than in 2019, and expenditure on interest will again be lower since it will be reduced by EUR 38 million or 4.7 percent if compared to 2019.

The growth in expenditure in 2021 will be less explicit and lower than the revenue growth. Expenditure will thus increase by EUR 231 million or 0.9 percent if compared to 2019. In 2021, investment expenditure (by EUR 901 million or 42.0 percent) and compensation of employees (by EUR 230 million or 3.8 percent) will increase the most, while the majority of main expenditure categories, which grew notably in 2020 due to the Government's measures in response to the COVID-19 epidemic, will be reduced. In 2020, expenditure for subsidies will be lower by EUR 885 million or 63.5 percent than in 2019. The growth of expenditure for social benefits will subside and amount to 0.2 percent, while expenditure for various current transfers will be reduced by EUR 315 million or 47.9 percent. A decrease in interest expenditure is also expected in 2021; this will amount to EUR 779 million, which is EUR 8 million or 1.0 percent less than in the previous year.

<u>Description of the main general government expenditure components in 2021:</u>

Compensation of employees

Expenditure on compensation of employees will increase in 2021 by 3.8 percent to EUR 6,332 million if compared to 2020. In particular, this growth observes liabilities to employees based on legal provisions governing wages and other labour costs in the public sector. As per the provisions of the Implementation of the Republic of Slovenia's Budget for 2021 and 2022 Act, the establishment plan of public law entities may, on the basis of prior consent from the competent ministry and valid reasons, increase by no more than 0.5 percent in 2021, whereby exemptions are permitted for certain bodies, which refer to the greatest extent possible to Slovenia's Presidency of the European Union in 2021. Higher liabilities in 2021 also arise from promotions, since public employees promoted to a higher salary grade in 2020 obtain the right to a higher salary as of December 2020. Furthermore, the measure of work performance must also be observed, which was reinstated at the end of June 2020. To a certain extent, higher expenditure for labour costs is also affected by the provisions of the Minimum Wage Act, i.e. minimum wage surcharges and the amount of holiday pay for annual leave.

Intermediate consumption

Expenditure for intermediate consumption will increase by 5.8 percent or EUR 186 million in 2021 if compared to 2020. The largest share of this expenditure will be earmarked for ongoing maintenance of railway and road infrastructure. A significant share will be intended for other operational expenditure, such as the costs of financial relations, management of state assets, costs of borrowing and liabilities for judicial decisions. A high share of expenditure will also be earmarked for the modernisation of the Slovenian Armed Forces and the costs of railway transportation management.

Social benefits (together with pensions)

Social benefits and pensions will remain at a similar level in 2021 as in the previous year, or they will increase by 0.2 percent or EUR 17 million. Negligible growth is particularly the result of high payments of social benefits relating to the COVID-19 epidemic in 2020. From the viewpoint of the state budget, the largest share of expenditure in 2021 represents family benefits with parental allowances, transfers for ensuring social security, other transfers to individuals, transfers to unemployed people, scholarships, and transfers to war invalids, veterans and victims of war violence. In 2021, expenditure on pensions will increase by 5.5 percent, which is the result of regular and extraordinary adjustment in 2020, regular adjustment in 2021 (by 2.3 percent) and the growth in the number of beneficiaries in 2021 (by 1.0 percent).

Interest expenditure

Despite increased borrowing in 2020 due to higher general government expenditure linked to the COVID-19 epidemic, interest expenditure will decrease by 1.0 percent or EUR 8 million in 2021.

Investment expenditure

Gross investments in fixed assets will increase by 42 percent or EUR 901 million in 2021 if compared to 2020. The increased growth of investment expenditure may be attributed to several factors, including the end of the 2014–2020 EU financial framework and subsequently expected increased drawing of funds and the resources planned from the recovery facility, which will be determined in the Recovery and Resilience Plan. In addition to the higher revenue expected in the form EU funds, higher expenditure arising from integral funds of the state budget will also impact the growth of investment expenditure. The largest share of investments will be earmarked for transportation and the transportation infrastructure, especially railway and road transportation, followed by investments in defence and protection.

Annex: Tables of Draft Budgetary Plan 2021

Annex tables to Draft Budgetary plan 2021 are based on IMAD 2020 Autumn Forecast, which the government confirmed on 23. 9. 2020. SORS published a regular revision of estimates on 30. 9. 2020 and corrected data on gross domestic product for the period 2016-2019, namely for 2019 from growth of 2.4% to 3.2%. Details from the revision are available in a message on the SORS website (https://www.stat.si/StatWeb/en/News/Index/9102).

Table 0.a. Basic assumptions	2019	2020	2021
Short-term interest rate (annual average)[1]	-0.4	-0.4	-0.5
Long-term interest rate (annual average)[2]	0.4	0.1	0.1
USD/€ exchange rate (annual average)[3]	1.120	1.138	1.181
Nominal effective exchange rate	-0.4	0.9	0.6
World excluding EU, GDP growth			
EU GDP growth	1.5	-7.0	5.2
Growth of relevant foreign markets[4]	2.6	-10.2	7.8
World import volumes, excluding EU			
Oil prices (Brent, USD/barrel)	64.3	42.4	47.4

Notes: [1] ECB assumptions; [2] yield to maturity of 10-year government bond, data for 2020 is the average of Jan-Aug 2020; [3] technical assumption on the basis of average values between 3 and 18 August 2020; [4] real imports of goods and services from trade partners weighted by means of Slovenian export rates to these countries. Source: EIA, ECB, IMF, CME, IMAD 2020 Autumn Forecast

Table 0.b. Main assumptions	2019 (Levels)	2020 (Levels)	2021 (Levels)
1. External environment			
a. Prices of commodities[1]	-3.6	-1.5	2.0
b. Spreads of German Bond	0.61	0.78 (Jan-Aug)	
2. Fiscal policy			
a. General Government net lending/ net borrowing (in million EUR)	249.4	-3,954.2	-3,217.5
b. General gross debt (in million EUR)	31,744	37,710	39,495
3. Monetary policy / Financial sector / Interest rates assumptions			
a. interest rates			
i. Euribor[2]	-0.4	-0.4 (Jan-Aug)	
ii. Deposit rates[3]	0.17	0.15 (Jan-July)	
iii. Interest rates for loans[4]	1.58	1.63 (Jan-July)	
iv. Yields to maturity of 10 year government bonds	0.40	0.34 (Jan-Aug)	
b. Evolution of deposits[5]	6.4	8.0 (July yoy)	
c. Evolution of loans[5]	3.6	0.8 (July yoy)	
d. NPL Trends	1.1	1.2 (July)	
Demographic trends			
a. Evolution of working age population[6]	1,261.3	1,260.4	1,252.0
b. Dependency ratios[7]	32.7	34.0	35.1
Structural dependencies			

Notes: [1] Prices of commodities: non-energy commodities in USD, change in %; [2] 3-month EURIBOR, data for 2020 is the average of Jan-Aug 2020; [3] deposits with maturity of up to 1 year, [4] corporate loans over an amount of 1 million EUR, [5] domestic non-banking sectors, year-on-year growth rate, [6] 20-64 years, 1. January of year; [7] 65+/20-64*100, annual average. Source: SURS, IMAD and Ministry of Finance

Table 1.a. Macroeconomic Prospects	ESA Code	2019 (Levels Million EUR)	2019 (rate of change)	2020 (rate of change)	2021 (rate of change)
1. Real GDP	B1*g		2.4	-6.7	5.1
of which:					
~attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP			2.3	1.8	2.1
Contributions:					
- Labour			*0.5*	*0.4*	*0.5*
- Capital			*0.4*	*0.0*	*0.3*
- Total factor productivity			*1.4*	*1.4*	*1.3*
3. Nominal GDP	B1*g	48,007	4.9	-4.7	6.7
Components of real GDP:					
4. Private consumption expenditure	P.3	24,823	2.7	-6.6	4.7
5. Government consumption expenditure	P.3	8,846	1.6	3.0	1.0
6. Gross fixed capital formation	P.51	9,267	3.2	-13.0	11.0
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	684	1.4	1.7	1.6
8. Exports of goods and services	P.6	40,535	4.4	-12.5	9.3
9. Imports of goods and services	P.7	36,149	4.2	-12.0	9.6
Contribution to real GDP growth (in pp):					
10. Final domestic demand		43,620	1.9	-5.1	4.6
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	684	-0.4	0.2	0.0
12. External balance of goods and services	B.11	4,387	0.5	-1.5	0.5

Source: SORS (first estimation of GDP, quarterly data for 2019: 28.2.2020), IMAD 2020 Autumn Forecast and Ministry of Finance

Table 1.b. Price developments *Change, %*	ESA Code	2019 (Levels)	2019 (rate of change)	2020 (rate of change)	2021 (rate of change)
1. GDP deflator			2.4	2.1	1.5
2. Private consumption deflator			1.8	0.3	1.7
3. HICP[1]			1.6	0.3	1.6
4. Public consumption deflator			3.8	4.8	1.3
5. Investment deflator			2.3	1.1	1.5
6. Export price deflator (goods and services)			0.1	-1.6	0.9
7. Import price deflator (goods and services)			-0.3	-2.9	0.9

Note: [1] National index.
Source: SURS, IMAD 2020 Autumn Forecast

Table 1.c. Labour market developments	ESA Code	2019 (Levels)	2019 (rate of change)	2020 (rate of change)	2021 (rate of change)
1. Employment, persons[1], in 000		1,045.0	2.4	-1.5	0.3
2. Employment, hours worked, in 000		1,664.6	2.0	-2.6	3.6
3. Unemployment rate (%) – *ILO unemployment rate*		45.8	4.5	5.6	5.4
4. Labour productivity, nominal[2] (persons), in 000		47.0	4.8	-6.9	8.3
5. Labour productivity, nominal, hours worked		28.8	2.9	-2.1	2.9
6. Compensation of employees[3] (in million EUR)	D.1	24,503.7	7.4	1.2	2.6
7. Compensation per employee[3,4]		28,867.8	4.5	2.7	2.2

Notes: [1] Employed population, national accounts definition (domestic concept), [2] GDP per employee (in current prices), [3] Nominal growth, [4] Full-time employed are taken into account.
Source: SORS, IMAD 2020 Autumn Forecast

Table 1.d. Sectoral balances	ESA Code	2019 (% BDP)	2020 (% BDP)	2021 (% BDP)
1. Net lending/borrowing vis-a-vis the rest of the world	B.9	6.5		
of which:				
- Balance on goods and services		9.1	8.8	8.8
- Balance of primary incomes and transfers		-2.5	-2.6	-2.4
- Capital account		-0.3		
2. Net lending/borrowing of the private sector	B.9			
3. Net lending/borrowing of general government	EDP B.9	0.5	-8.6	-6.6
4. Statistical discrepancy				

Source: SORS, IMAD and Ministry of Finance

Table 2.a. General government budgetary targets broken down by subsector	ESA Code	2020 (% of GDP)	2021 (% of GDP)
Net lending (EDP B.9) by sub-sector			
1. Net lending/net borrowing: General government	S.13	-8.6	-6.6
2. Net lending/net borrowing: Central government	S.1311	-8.4	-6.7
3. Net lending/net borrowing: State government	S.1312	-	-
4. Net lending/net borrowing: Local government	S.1313	0.1	0.1
5.Social security funds	S.1314	-0.3	0.0
6. Interest expenditure	EDP D.41	1.72	1.60
7. Primary balance		-6.9	-5.0
8. One-off and other temporary measures		-0.1	-0.1
8.a Of which one-offs on the revenue side: general government			
8.b Of which one-offs on the expenditure side: general government		-0.1	-0.1
9. Real GDP Growth (%) (=1 in Table 1a)		-6.7	5.1
10. Potential GDP Growth (%) (=2 in Table 1a)		1.8	2.1
Contributions			
-Labour		0.4	0.5
-Capital		0.0	0.3
-Total factor productivity		1.4	1.3
11. Output gap (% of potential GDP)		-5.6	-2.8
12. Cyclical budgetary Component (% of potential GDP)		-2.6	-1.3
13. Cyclically adjusted balance (1-12) (% of potential GDP)		-6.0	-5.3
14. Cyclically adjusted primary balance (13+6) (% of potential GDP)			
15. Structural balance (13-8) (% of potential GDP)		-5.9	-5.2

Source: Ministry of Finance

Table 2.b. General government debt developments	ESA Code	2020 (% of GDP)	2021 (% of GDP)
1. Gross debt		82.4	80.9
2. Change in gross debt ratio		16.3	-1.5
Contributions to changes in gross debt:			
3. Primary balance		-6.9	-5.0
4. Interest expenditure	EDP D.41	1.7	1.6
5. Stock-flow adjustments		4.4	2.9
of which:			
- Differences between cash and accruals			
- Net accumulation of financial assets			
of which:			
- Privatization proceeds		-0.9	-
- Valuation effects and other			
p.m.: Implicit interest rate on debt		2.5	2.1
Other relevant variables:			
6. Liquid financial assets		10.8	8.7
7. Net financial debt (7=1-6)		71.6	72.2
8. Debt amortization (existing bonds) since the end of the previous year		3.8	6.9
9. Percentage of debt denominated in foreign currency		0.1	0.1
10. Average maturity		8.4	8.4

Source: Ministry of Finance.

Table 2.c. Contingent liabilities	2020 (% of GDP)	2021 (% of GDP)
Public guarantees	12.7	13.7
Public guarantees: [1] linked to the financial sector	1.5	1.4

Note: [1] In accordance with the Classification of Institutional Sectors (SKIS) data "linked to the financial sector" contains the data of outstanding guarantees for S.12, Financial corporations.
Source: Ministry of Finance

Table 3: General government expenditure and revenue projections at unchanged policies broken down by main components	ESA Code	2020 (% of GDP)	2021 (% of GDP)
General government (S13)			
1. Total revenue at unchanged policies	TR	45.21	44.37
Of which:			
1.1 Taxes on production and imports	D.2	13.17	13.14
1.2 Current taxes on income, wealth, etc.	D.5	7.89	7.68
1.3 Capital taxes	D.91	0.03	0.03
1.4 Social contributions	D.61	17.38	16.67
1.5 Property income	D.4	0.70	0.66
1.6 Other		6.04	6.19
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)			
Total expenditure at unchanged policies	TE	53.85	49.93
Of which:			
2.1 Compensation of employees	D.1	13.33	12.63
2.2 Intermediate consumption	P.2	6.96	6.54
2.3 Social payments	D.62, D.63	20.64	19.35
Of which unemployment benefits			
2.4 Interest expenditure	EDP D.41	1.72	1.60
2.5 Subsidies	D.3	3.04	1.00
2.6 Gross fixed capital formation	P.51	4.69	6.15
2.7 Capital transfers	D.9	0.51	0.61
2.8 Other		2.95	2.05

Note: The scenario excludes planned mitigation measures for COVID-19 and an assessment of the measures and projects planned in the preliminary draft Recovery and Resilience Facility for 2021.
Source: Ministry of Finance

Table 4.a. General government expenditure and revenue targets broken down by main components	ESA Code	2020 (% of GDP)	2021 (% of GDP)
General government (S13)			
1. Total revenue target	TR	45.21	44.37
Of which:			
1.1 Taxes on production and imports	D.2	13.17	13.14
1.2 Current taxes on income, wealth, etc.	D.5	7.89	7.68
1.3 Capital taxes	D.91	0.03	0.03
1.4 social contributions	D.61	17.38	16.67
1.5 Property income	D.4	0.70	0.66
1.6 Other		6.04	6.19
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		38.46	37.51
2. Total expenditure target	TE	53.85	50.96
Of which:			
2.1 Compensation of employees	D.1	13.33	12.97
2.2 Intermediate consumption	P.2	6.96	6.91
2.3 Social payments	D.62, D.63	20.64	19.38
Of which unemployment benefits		0.40	0.35
2.4 Interest expenditure(=9 in table 2.a)	EDP D.41	1.72	1.60
2.5 Subsidies	D.3	3.04	1.04
2.6 Gross fixed capital formation	P.51	4.69	6.24
2.7 Capital transfers	D.9	0.51	0.61
2.8 Other		2.95	2.21

Source: Ministry of Finance

Table 4.b. Amounts to be excluded from the expenditure benchmark	2019 (Levels million EUR)	2019 (% of GDP)	2020 (% of GDP)	2021 (% of GDP)
1. Expenditure on EU programmes fully matched by EU funds revenue	684	1.42	2.05	3.32
1a. Investment expenditure fully matched by EU funds revenue	167	0.35	0.44	1.03
2. Cyclical unemployment benefit expenditure	0	0	-0.05	0.02
3. Effect of discretionary revenue measures				
4. Revenues increased mandated by law	-23.50	-0.05	-0.11	-0.10

Source: Ministry of Finance.

Table 4.c.i. General government expenditure on education, healthcare and employment[1]	2020 (% of GDP)	2020 (% of government expenditure)	2021 (% of GDP)	2021 (% of government expenditure)
Education				
Health				
Employment				

Note: [1]Data for 2020 and 2021 are not available.

Table 4.c.ii. General government expenditure by function[1]	COFOG Code	2018 (% of GDP)	2019 (% of GDP)	2020 (% of GDP)	2021 (% of GDP)
1. General public services	1	5.3			
2. Defence	2	1.0			
3. Public order and safety	3	1.5			
4. Economic affairs	4	4.7			
5. Environmental protection	5	0.5			
6. Housing and community amenities	6	0.4			
7. Health	7	6.6			
8. Recreation, culture and religion	8	1.4			
9. Education	9	5.4			
10. Social protection	10	16.7			
11. Total expenditure (=2 in Table 4.a)	TE	43.5			

Note: [1] Data for 2019 and forecasts for 2020 and 2021 are not available.
Source: SORS

Table 5. Discretionary measures	Description	ESA	Accounting principle	Adoption status	Budgetary impact (% of GDP)		
					2020	2021	2022
Tax measures	Unsettled and unpaid prepayments of corporate income tax	D.5	Accrual	Already adopted	-0.33	0.31	0.00
	Unsettled and unpaid prepayments for economic activity imposed on each individual income	D.5	Accrual	Already adopted	-0.04	0.04	0.00
	Deferred tax payments	D.2	Accrual	Already adopted	-0.28	0.26	0.00
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	Accrual	Already adopted	0.00	0.00	0.00
	Exemption from payment of chargers for the use of water	D.2 -	Accrual	Already adopted	-0.01	0.01	0.00
	Reduced tax base for income from water rights, granted with water permits	D.2	Accrual	Already adopted	0.00	0.00	0.00
	Exemption from payment of water right concessions	D.2	Accrual	Already adopted	0.00	0.00	0.00
Total measures on the revenue side					-0.66	0.62	0.00
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	Accrual	Already adopted	0.44	-0.42	0.00
	Wage compensations for employees waiting at home	D.3	Accrual	Already adopted	0.73	-0.65	-0.03
	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	Accrual	Already adopted	0.03	-0.03	0.00
	Payment of social contributions for employees waiting at home	D.3	Accrual	Already adopted	0.32	-0.28	-0.01

Table 5. Discretionary measures	Description	ESA	Accounting principle	Adoption status	Budgetary impact (% of GDP)		
	Exemption from payment of social contributions for self-employed workers, farmers etc.	D.62+D.63+D.621+D.624+D.631	Accrual	Already adopted	0.22	-0.20	0.00
	Exemption from payment of contributions for pension and disability insurance for working employees	D.3	Accrual	Already adopted	0.97	-0.91	0.00
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	Accrual	Already adopted	0.23	-0.22	0.00
Measures in the area of wages in public sector	Allowances for special working conditions / indirect local budgetary units	D.1	Accrual	Already adopted	0.05	-0.05	0.00
	Allowances for special working conditions / direct budgetary units	D.1	Accrual	Already adopted	0.11	-0.10	0.00
	Reduction of salaries of all high functionaries (by 30 %)	D.1	Accrual	Already adopted	0.00	0.00	0.00
	Allowances for special working conditions / indirect budgetary units	D.1	Accrual	Already adopted	0.40	-0.17	-0.19
Measures in the field of social protection	One-time solidarity assistance for vulnerable groups	D.62+D.63+D.621+D.624+D.631	Accrual	Already adopted	0.03	-0.03	0.00
	One-time solidarity assistance for pensioners	D.62+D.63+D.621+D.624+D.631	Accrual	Already adopted	0.15	-0.14	0.00
	One-time solidarity assistance for students	D.62+D.63+D.621+D.624+D.631	Accrual	Already adopted	0.02	-0.02	0.00
	Allowance to large families	D.62+D.63+D.621+D.624+D.631	Accrual	Already adopted	0.01	-0.01	0.00
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	Accrual	Already adopted	0.02	0.02	-0.03
Support to public employment office and social welfare institutions	The aim is to provide additional human resources	D.1	Accrual	Already adopted	0.02	0.00	-0.02
Support to health care service	The aim is to provide additional health care programmes - cost lost covering	D.1	Accrual	Already adopted	0.28	-0.14	-0.12
Better access to the health care services	The aim is to provide additional health care programmes - access to services and microbiological research	P.2	Accrual	Already adopted	0.07	0.19	-0.25

Table 5. Discretionary measures	Description	ESA	Accounting principle	Adoption status	Budgetary impact (% of GDP)		
Purchase of protective equipment and accessories, maintenance, waste treatment	The aim is to purchase protective equipment, to cover cost of maintenance, waste treatment, COVDI-19 tests	P.2	Accrual	Already adopted	0.04	0.06	-0.10
Other (expenditure) measures	Purchase of medical, protective equipment and accessories	D.62+D.63+D.621+D.624+D.631	Accrual	Already adopted	0.38	-0.22	-0.09
	Payment of the remuneration of employees who perform public services (which can't be provide during the epidemic)	D.62+D.63+D.621+D.624+D.631	Accrual	Already adopted	0.11	-0.10	0.00
Measures in the field of education and science	Financing of private kindergartens	D.62+D.63+D.621+D.624+D.631	Accrual	Already adopted	0.01	-0.01	0.00
	Covering wages for market activities of indirect budgetary units	D.1	Accrual	Already adopted	0.01	-0.01	0.00
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	Accrual	Already adopted	0.00	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	Accrual	Already adopted	0.00	0.00	0.00
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 - Other (other than D.41)	Accrual	Already adopted	0.66	-0.61	0.00
Total measures on the expenditure side					5.29	-4.03	-0.82
Total					4.62	-3.41	-0.82

Source: Ministry of Finance

Table 6. Divergence from latest SP	ESA Code	2019 (% of GDP)	2020 (% of GDP)	2021 (% of GDP)
Target general government net lending/borrowing (S.13)				
	EDP B.9	0.5	-8.1	n.p.
Stability plan	EDP B.9	0.5	-8.6	-6.6
Draft budgetary plan		0.0	0.5	-
Difference				
General government net lending projection at unchanged policies	EDP B.9	n.p.	n.p.	n.p.
Stability plan	EDP B.9	n.p.	n.p.	n.p.
Draft budgetary Plan		-	-	-

Source: Ministry of Finance

Table 7. Compliance with EU 2020 National objectives and specific recommendations	Values
Employment rate: 75%	2018: 75.4% 2019: 76.4%
Investment in R&D: 3% of BDP	2017: 1.86% 2018: 1.95%
Greenhouse gas emission reduction: +4% (comparison to 2005)	The GHG emission records of the Republic of Slovenia for 2017 show that Slovenia achieves and significantly exceeds the annual targets for limiting GHG emissions from the non-ETS sectors under Decision 406/2009 / EC. GHG emissions in 2017 were 10.8% lower than allowed. In 2017, emissions decreased by 2.8% and, after two consecutive years of growth in emissions, the trend is again in line with the targets. The first estimates for 2018 show a renewed increase in emissions. Evaluations of the achievement of further annual targets under Decision 406/2009/EC remain positive. (Source: National Reform Program)
Renewable energy target: 25%	2018: 21.15 %
Efficient use of energy: 82.86TWh	Within the framework of the National Energy and Climate Plan, Slovenia has set itself the goal of improving energy efficiency by at least 35% by 2030.
Early school leaving: 5%	2018: 4.2% 2019: 4.6%
Tertiary education: 40%	2018: 42.7% 2019: 44.9%
Reducing the population at risk of poverty and social exclusion: –40,000 persons	2018: –34,000 2019: –68,000

Note: The extent of compliance with the specific recommendations will be addressed in the Recovery and Resilience Facility. In 2020, all measures are focused on mitigating the effects of the COVID-19 pandemic crisis.
Source: Eurostat, Ministry of Finance

Table 8. Contingent liabilities

List of measures	Description	Status	Maximum amount of contingent liability (% of GDP)	Guarantees issued (% 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

Source: Ministry of Finance