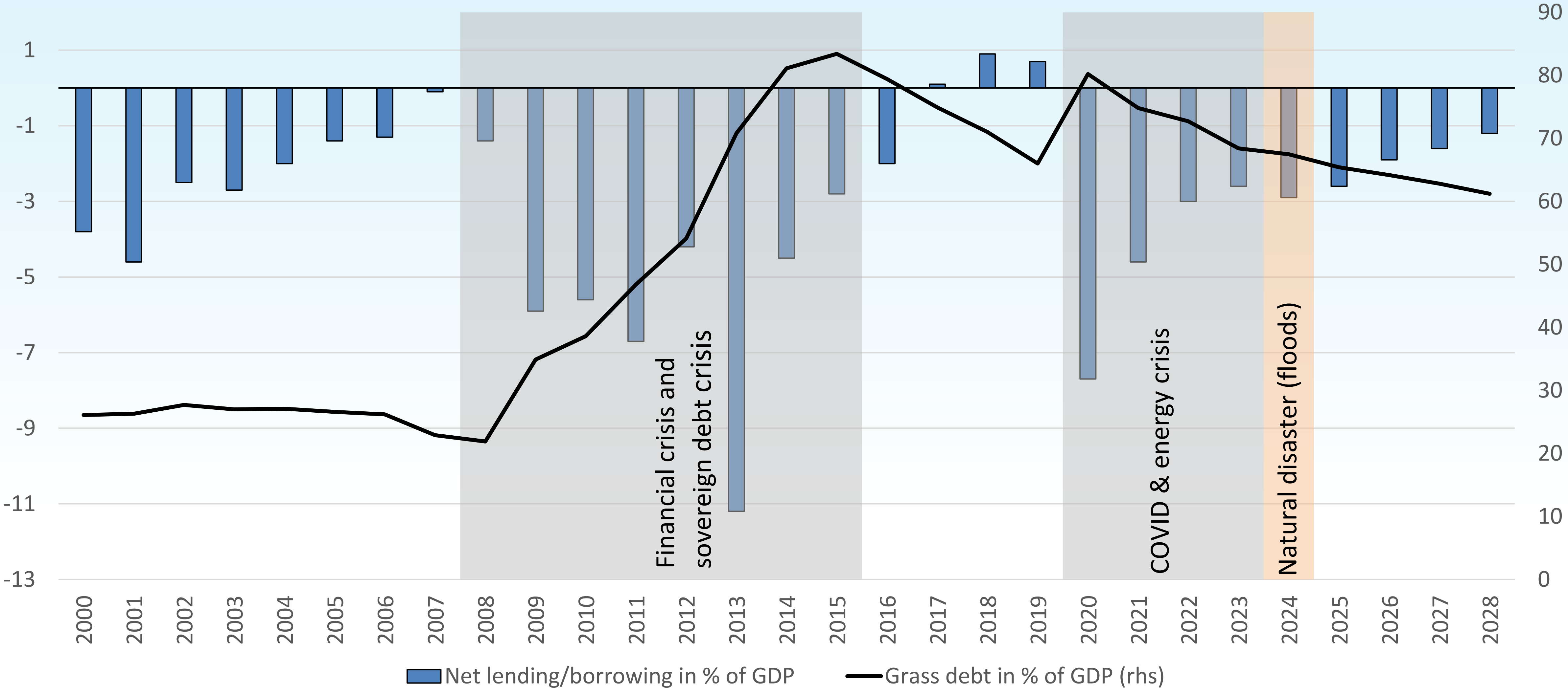
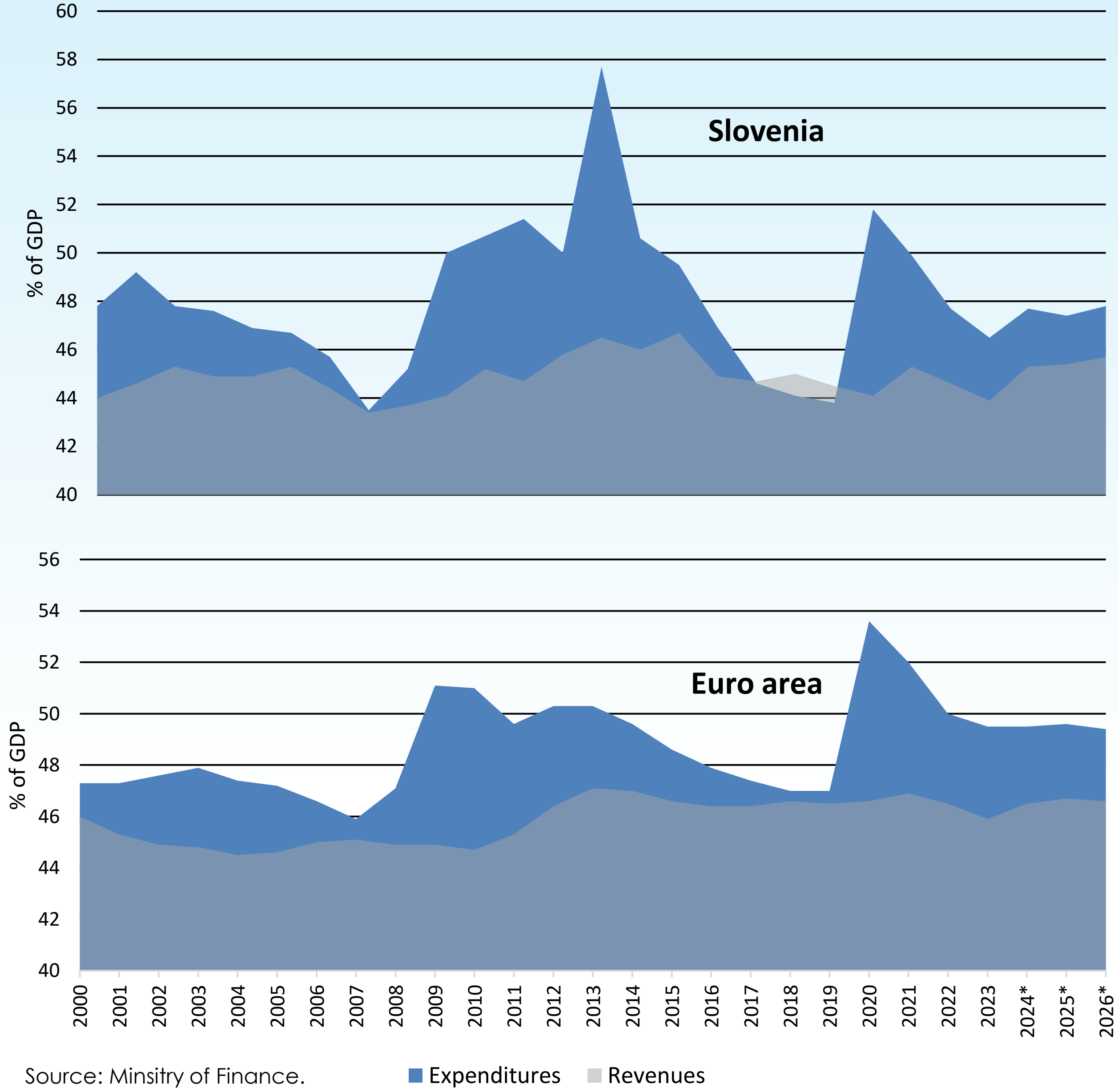
STARTING POINT - FISCAL POLICY IN SLOVENIA



Source: SORS, Minsitry of Finance.

Fiscal space is limited



Source: Minsitry of Finance.

- In SI we had fiscal space without creating deficit after consolidation process in period 2017 – 2019.
- Without structural changes the gab will increse.

Key elements of the new EU fiscal framework

The **fiscal path** must ensure that:

The general government **deficit decreases and remains below 3% of GDP** over the medium-term (without further measures after the adjustment period, while also including the impact of ageing costs).

Deficit resilience safeguard: required minimum annual structural adjustment until the structural deficit is below 1.5% of GDP (0.4 pp. of GDP in case of a 4-year adjustment period, or 0.25 pp. of GDP in case of extension).

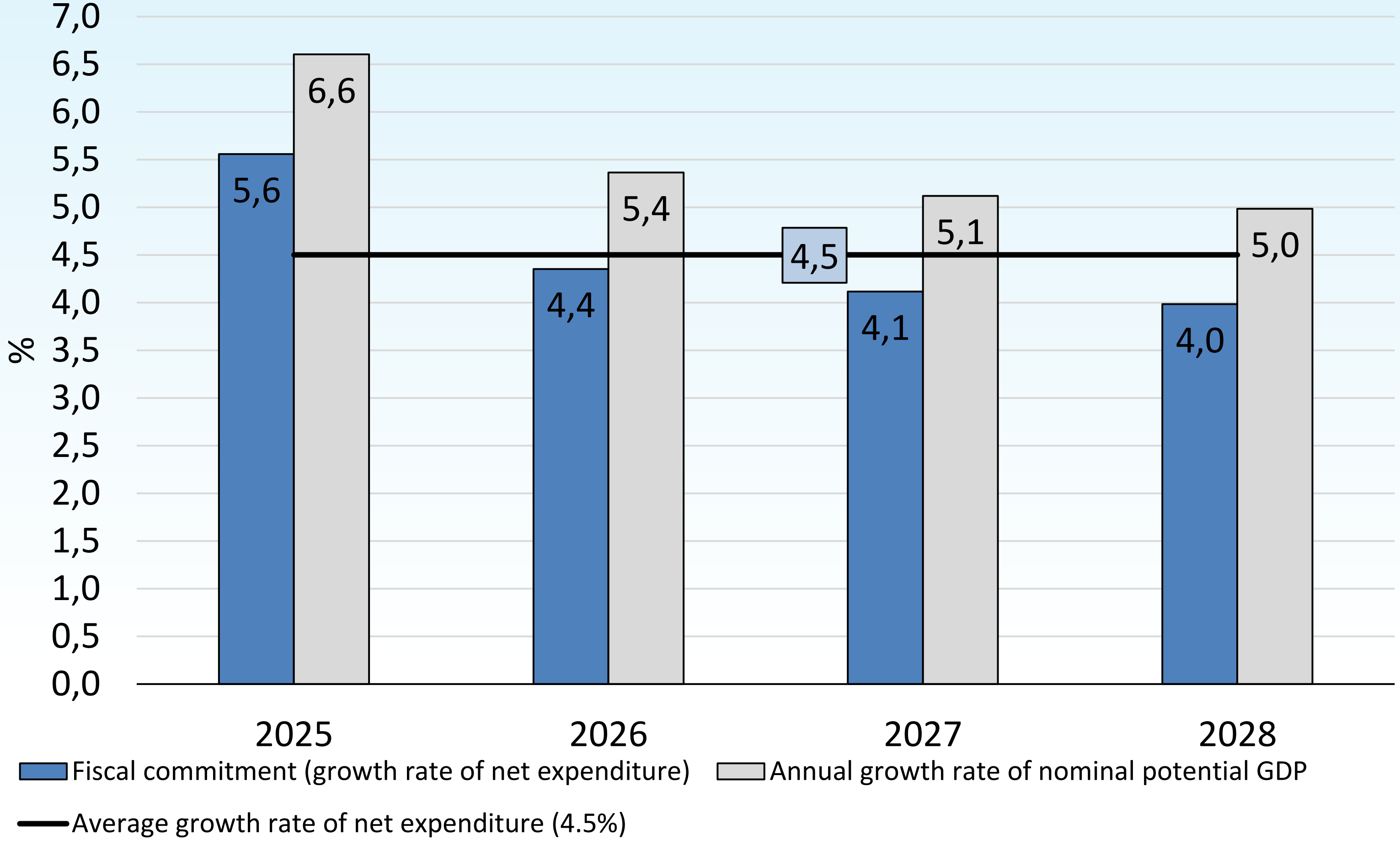
Deficit criterion (corrective path): if the deficit is above the 3% of GDP reference value a minimum annual structural adjustment of 0.5 pp. of GDP is required (which is adjusted to take into account the increase of interest payments for the remainder of the RRP until 2027).

Debt remains on a credible **declining path or remains below 60% of GDP** over-the medium term.

Debt sustainability safeguard: required minimum annual decrease in the debt ratio (0.5 pp. of GDP for MS whose debt is between 60% and 90% of GDP and 1 pp. of GDP in case of a debt ratio above 90% of GDP). Excludes years for which the MS is under the excessive deficit procedure.

- Compliance with the requirements is based on the **debt sustainability analysis.**

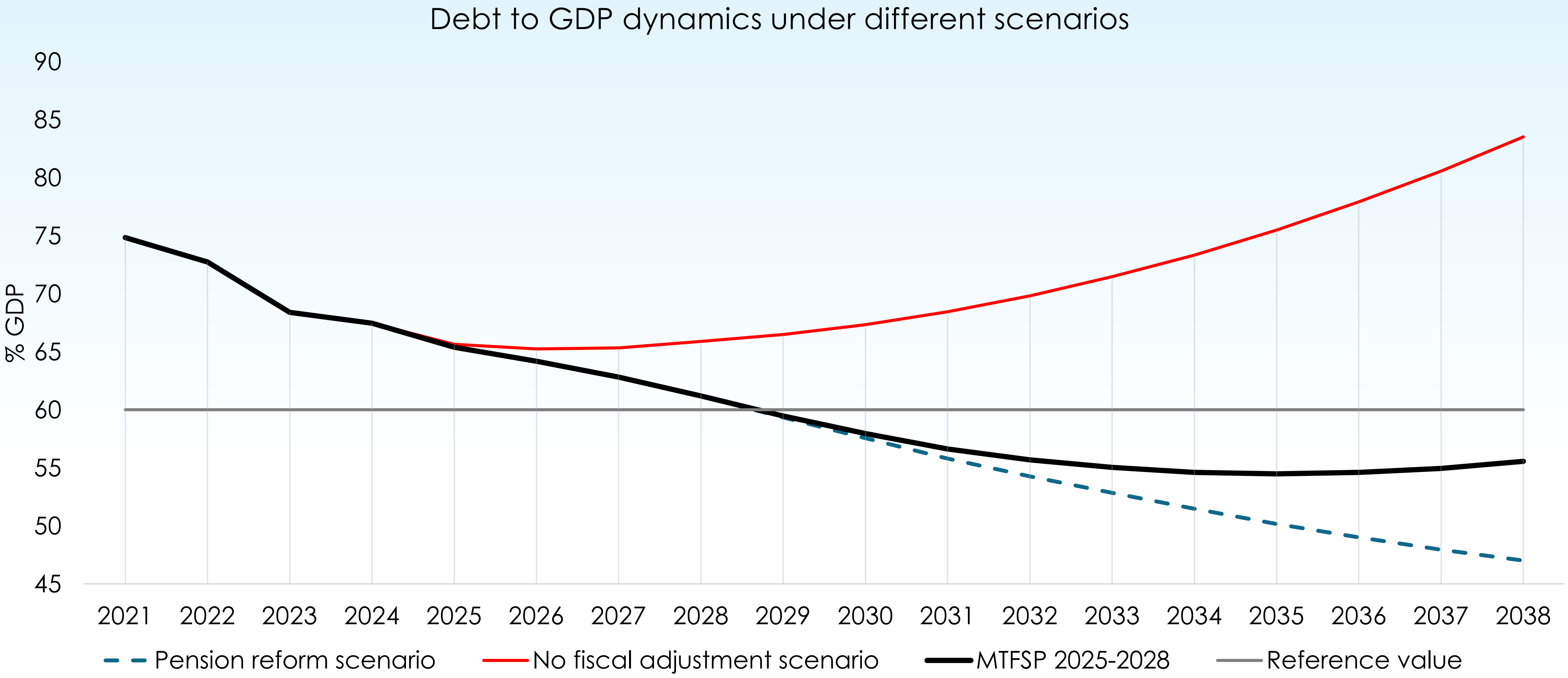
Importance of a medium-term fiscal policy strategy ...



- ... It is important that net expenditure does not grow faster than the production capacity of the economy or potential GDP.

Source: SORS, Minsitry of Finance.

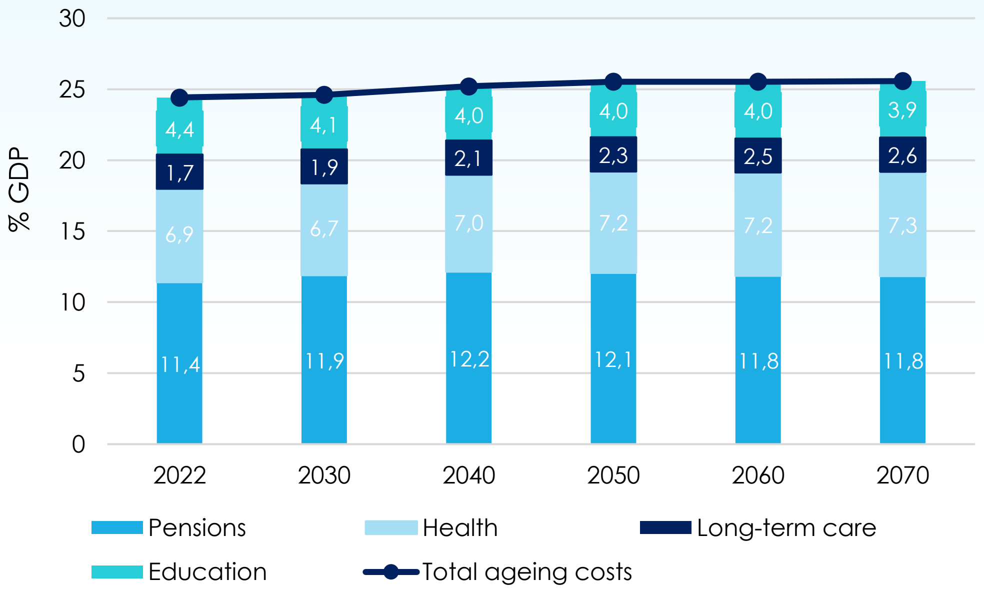
Debt sustainability analysis becomes central tool for fiscal policy – with targeted expenditures growth (4.5% on average) should ensure debt reduction on medium term below 60 % of GDP (black line)



Ageing cost projections

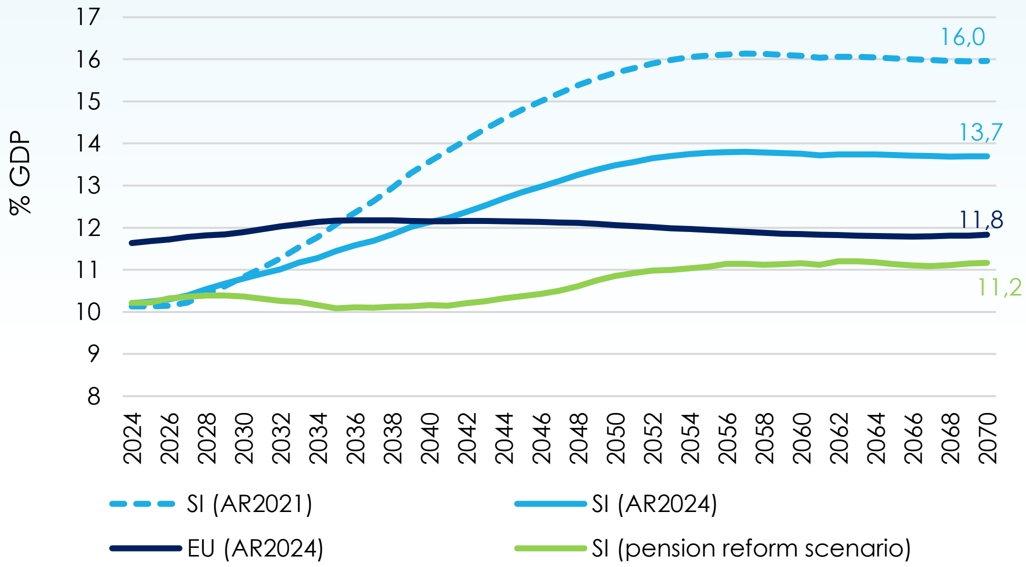
- Long-term projections of age-related expenditure are prepared by the European Commission every 3 years.
- According to the 2024 Ageing Report, ageing costs in Slovenia are expected to increase from 22.1% GDP in 2024 to 27.5% of GDP in 2070, mainly due to large increase in pension expenditure (from 10.2% of GDP in 2024 to 13.7% of GDP in 2070).
- The above-average increase in pension expenditure in Slovenia is steaming from low participation rates of older workers (especially in the 60-64 age group), which are among the lowest in the EU.
- In the EU average, pension expenditure is expected to hover around 12% of GDP by 2070.
- Combination of the proposed measures (‚pension reform scenario‘) would keep the pension expenditure at around 11% of GDP by 2070.

Ageing costs in % of GDP in Slovenia



Source: 2024 Ageing Report; 2021 Ageing Report; Institute for Economic Research.

Pension expenditure in % of GDP



Source: 2024 Ageing Report; 2021 Ageing Report; Institute for Economic Research.

The estimation of impacts of the reforms and investments becomes more important

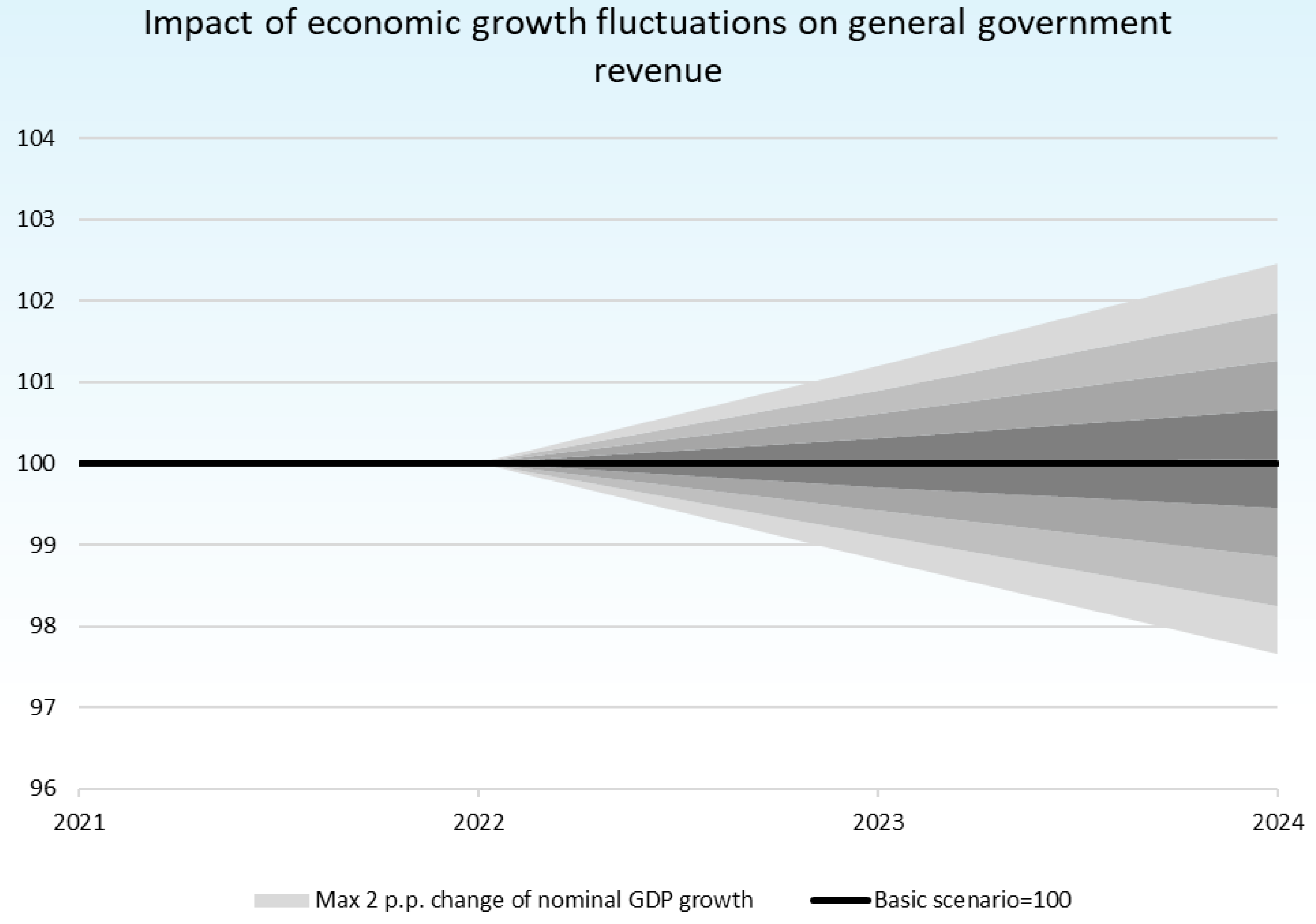
Example form MTFSP: Model-based assessment of the potential macroeconomic effects of green investments by the general government sector.

- The additional investments by the general government could result in Slovenian GDP in 2030 being 1.2% higher than in the baseline scenario without measures.
- Estimates suggest that the positive impact would be maintained even after the completion of the investment period. In the long term, Slovenian GDP could be around 0.7% higher than in the baseline scenario without measures.

Impact on Slovenian GDP of an increase in public investment (as % deviation from the baseline scenario without measures), by year (Source: QUEST III R&D model)

	2024	2025	2026	2027	2028	2029	2030	2035	2040	2045
GDP	0.4	0.4	0.6	0.7	0.9	1.1	1.2	1.0	0.8	0.7

Fiscal risks: I. General government revenue sensitivity



- General government revenue path in case of 0.5, 1 and 2 percentage points higher/lower nominal economic growth than that projected in the latest IMAD forecast.
- Revenue projections are based on projections of the movement of fiscal revenues bases.

Source: Draft Budgetary Plan 2024 of the Republic of Slovenia.

Fiscal risks II. General government budget sensitivity

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

Source: Draft Budgetary Plan 2024 of the Republic of Slovenia.

- Fiscal ready reckoner tool is used to evaluate the impact of 1 percentage point change in the annual growth rate of selected economic determinant on individual general government sector item.
- Revenue projections are based on projections of the movement of fiscal revenues bases.

CONSOLIDATED PUBLIC FINANCE ACCOUNTS

REPUBLIC OF SLOVENIA
MINISTRY OF FINANCE

Fiscal transparency A.

lus/deficit in year 2023
169,6 milijonov
ear: 129,2 milijonov (+31.28 %)

surplus/deficit in year 2023
206,4 milijonov
ear: 146,9 milijonov (+40.44 %)

surplus/deficit in year 2023
186,0 milijonov
ear: 47,0 milijonov (+295.81 %)

inus repayments in year 2023
0,4 milijonov
s year: 3,4 milijonov (-89.1 %)

ling/borrowing in year 2023
499,6 milijonov
ear: 1.866,1 milijonov (-19.64 %)

in cash and deposits in year 2023
669,6 milijonov
ear: 1.998,7 milijonov (-16.47 %)

financing in year 2023

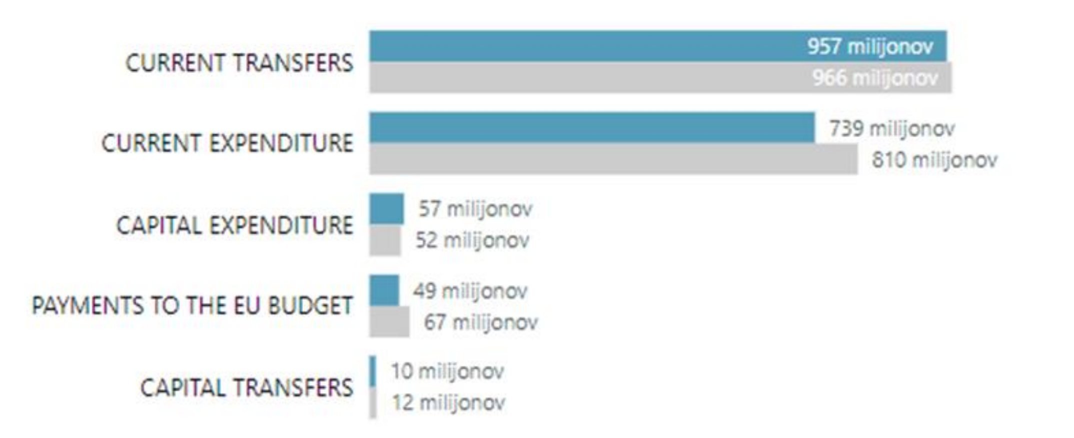
Select year: 2023

Select month/-s: Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec

Download Data

REVENUES

EXPENDITURES



Budget (in EUR)	Current year	Trend current year	Previous year	Trend previous year	Absolute difference	Annual change	Prvi Vrstni red ...	Štetje Hier
⊟ I. TOTAL REVENUES	1.982.755.152	•	2.035.834.597	•	-53.079.445 ↓	97,4	10	
⊞ 70 - TAX REVENUES	1.788.882.982	•	1.737.930.778	•	50.952.203 ↑	102,9	10	
⊞ 71 - NON-TAX REVENUES	93.415.857	•	84.833.578	•	8.582.280 ↑	110,1	10	
⊞ 72 - CAPITAL REVENUES	14.999.660	•	18.540.573	•	-3.540.914 ↓	80,9	10	
⊞ 73 - DONATIONS RECEIVED	937.344	•	887.339	•	50.006 ↑	105,6	10	
⊞ 74 - TRANSFERED REVENUES	1.104.418	•	133.700	•	970.718 ↑	826,0	10	
⊞ 78 - RECEIPTS FROM THE EU BUDGET	83.414.891	•	193.508.630	•	-110.093.739 ↓	43,1	10	
⊟ II. TOTAL EXPENDITURES	1.813.157.878	•	1.906.648.772	•	-93.490.893 ↓	95,1	21	

Fiscal transparency B. PENSION FUND

REPUBLIC OF SLOVENIA
MINISTRY OF FINANCE

Surplus/deficit in year 2020
0,0 milijonov
Previous year: 0,0 milijonov

Primary surplus/deficit in year 2020
0,0 milijonov
Previous year: 0,0 milijonov

Current surplus/deficit in year 2020
-1.256,3 milijonov
Previous year: -1.014,1 milijonov (-23.89 %)

Lending minus repayments in year 2020
0,0 milijonov
Previous year: 0,0 milijonov (-100 %)

Net lending/borrowing in year 2020
0,0 milijonov
Previous year: 0,0 milijonov

Changes in cash and deposits in year 2020
0,0 milijonov
Previous year: 0,0 milijonov (-100 %)

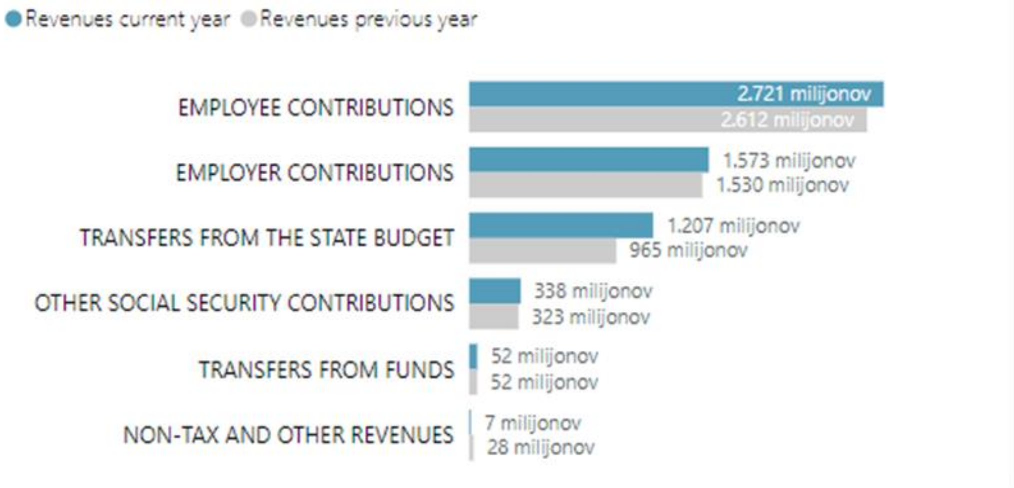
Net financing in year 2020
0,0 milijonov
Previous year: 8,4E-7 (-100 %)

Select year
2020

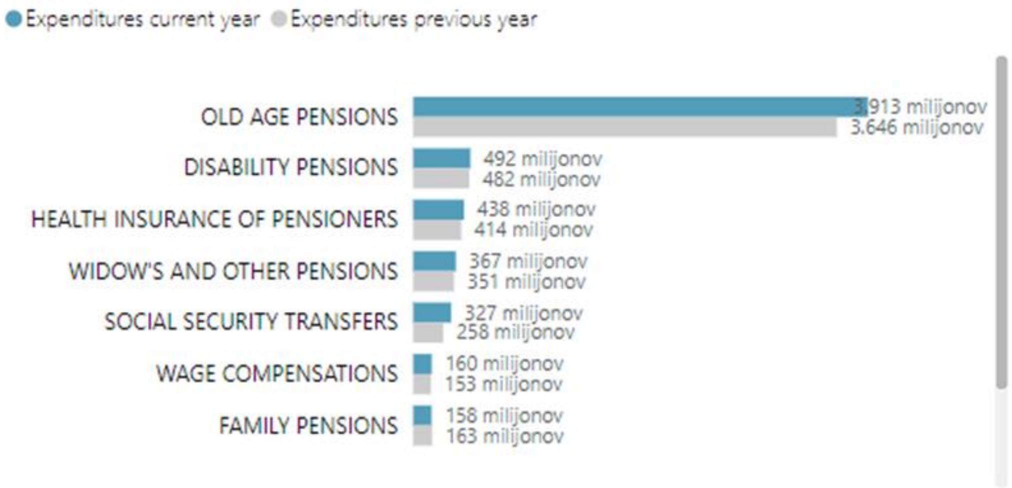
Select month/-s
Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec

Download Data

REVENUES



EXPENDITURES



Budget (in EUR)	Current year	Trend current year	Previous year	Trend previous year	Absolute difference	Annual change
I. TOTAL REVENUES (70+71+72+73+74+78)	5.899.059.128		5.510.479.417		388.579.711	↑
70 - TAX REVENUES	4.632.269.042		4.465.426.547		166.842.494	↑
701 - SOCIAL SECURITY CONTRIBUTIONS	4.631.672.674		4.465.426.547		166.246.126	↑
706 - OTHER TAXES	596.368		0		596.368	↑ 25613810993305
7060 - Other taxes	596.368		0		596.368	↑ 25613810993305
71 - NON - TAX REVENUES	6.842.831		27.566.032		-20.723.201	↓
72 - CAPITAL REVENUES	373.797		277.752		96.044	↑
73 - DONATIONS RECEIVED	0		0		0	
74 - TRANSFERED REVENUES	1.259.304.721		1.017.059.432		242.245.289	↑
78 - RECEIPTS FROM THE EU BUDGET	268.738		149.653		119.085	↑

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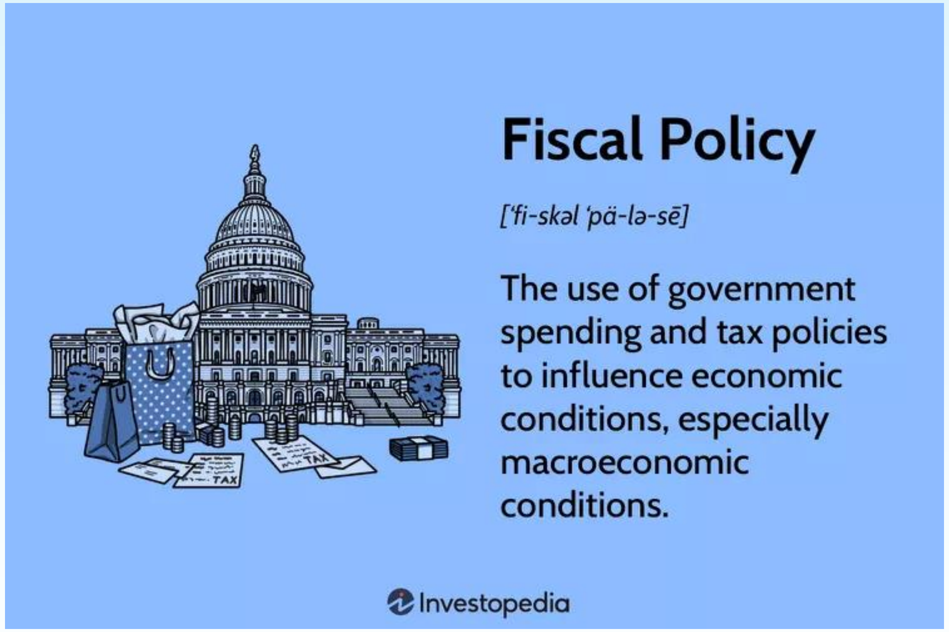

Source: Investopedia / Eliana Rodgers

Kenneth Rogoff, Harvard University:
"I have to say my biggest disappointment in the policy response to the financial crisis has not been in either of those. It's really been in structural reforms. Where is our third arrow? Where are the reforms that are going to generate, you know, more long-term growth in the United States? Simpson-Bowles, I think, had some good ideas about tax reform. Didn't happen. Dodd-Frank has 30,000 pages, when you do all the legislation, but I think it's missing high equity ratios, and such."

Conclusion:
The budgets we work on in parliament/government are more than just fiscal documents (MTFSP); they are a reflection of our moral values as well. In choosing where to spend money, members of parliament / government choose what priorities they value.

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