REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Slovenska cesta 50, 1000 Ljubljana

P: 01 478 58 70
F: 01 478 58 80
E: gp.fs@fs-rs.si
W: www.fs-rs.si

Number: 30-2/2017/7
Date: 23 February 2018

Fiscal Council's call in relation to an increased risk to fiscal sustainability

The current economic and political developments are marked by pressure, and giving in to the pressure would jeopardise short-term and even more so long-term fiscal stability and the prospects for economic growth. The Fiscal Council hence again calls on all the stakeholders not to exploit the present combination of favourable economic conditions and the end of a political cycle to attain short-term and narrowly defined objectives that will lead to increase of debt. In the present favourable conditions, the Government and the National Assembly must ensure further fiscal consolidation.

Fiscal stability and long-term sustainability are a precondition for economic development and greater prosperity. The stabilising role of the fiscal policy acts as a cushion against economic cycles. This must also be taken into consideration during periods of fast economic growth. In good times, the fiscal policy thus creates reserves that are urgently needed when the fiscal situation is not sustainable in the long run. Reserves enable the adoption of measures when economic growth slows or economic activity falls. This logic is inherent to the fiscal rules.

Following the severe economic crisis, Slovenia's fiscal situation has gradually improved, though the general government balance still shows a deficit and debt remains high. As public expenditure related to the ageing population is expected to increase significantly in the coming years, the fiscal policy should, in the current favourable economic conditions, reduce the high indebtedness and create reserves from fiscal surpluses in order to guarantee long-term fiscal sustainability. Current developments, however, are marked by pressure, and giving in to this pressure would jeopardise short-term and even more so long-term fiscal stability.

An assessment of the current demands, in particular for increased expenditure in addition to reduced revenue, stemming also from numerous proposed legislative amendments (more than 30 proposed acts are currently in parliamentary procedure), has shown that their adoption could seriously compromise the fiscal consolidation envisaged in the budgetary documents. According to the information available, these demands could directly result in a decrease in the annual general government balance ranging from 150 million euros if the proposed acts with a minor financial impact are adopted to 900 million euros annually (approximately 2% of GDP) over the next few years if all the proposed acts are adopted. The Fiscal Council estimates that it will not be possible to finance the large scope of these demands without increasing indebtedness. This could in turn increase government bond yields and drive up the already high cost of interest to be paid by the general government sector. The implementation of currently planned programmes would also be put at risk, as the earmarked expenditure for the already adopted plans would have to be reduced or tax revenues increased. As a consequence economic growth would decline in the medium and long term, as would the well-being of Slovenia's citizens.

It should also be noted that, due to restrictions on the supply side, it will not be possible to sustain the present strong economic growth with additional demand, which would overheat the economy, and that measures to that end might permanently worsen the fiscal situation.

The Fiscal Council hence again calls on all stakeholders not to exploit the present combination of favourable economic conditions and the end of a political cycle to attain short-term and narrowly defined objectives. In the present favourable conditions, the Government and the National Assembly must ensure further fiscal consolidation. This would enable the continuation of favourable economic trends without interruption, and the present favourable conditions would be used to strengthen the fiscal potential for tackling issues in bad times.