REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Assessment of the compliance of the fiscal policy with the fiscal rules based on the draft Stability Programme – 2018 amendment

April 2018

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The assessment was produced based on the draft Stability Programme – 2018 amendment, which was received by the Fiscal Council on 10 April 2018. Forecast values in EUR are calculated indirectly from shares in GDP, which are included in the above mentioned document, consequently numbers do not necessarily add up.
Based on data available on 11 April 2018.

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EXECUTIVE SUMMARY

Having examined the draft Stability Programme (SP 2018) for the 2018–2021 period, the Fiscal Council has established that the projected fiscal trends do not comply with fiscal rules. The SP 2018 has been drafted based on the scenario of unchanged economic policies, since the Government of Slovenia is of the opinion that its regular duties do not include changes in policies to ensure the respect of fiscal rules in the period of the Stability Programme and thus achieve mid-term fiscal sustainability. For the same reason, the Government did not draft an amendment to the framework for drafting general government budgets.

The opinion of the Fiscal Council concerning the procedure of drafting the spring budget documents is as follows:

- The drafting of the Stability Programme based on the scenario of unchanged policies is deemed appropriate in the current political situation, when the Government is limited to performing its regular duties.
- The decision of the Government to not draft an amended framework because of performing its regular duties is generally understandable. Within the framework, the Government should determine measures to achieve target balance and ensure that the maximum general government expenditure in the period until 2021 is not exceeded. The assessment about acceptability of the procedure, however, does not apply to 2018, in which the Government will be operative for most of the year and should thus ensure the respect of fiscal frameworks by taking appropriate measures.

The Fiscal Council's statements about the macroeconomic situation are the following:

- The economy is not yet overheating. The continuation of rapid economic growth, especially the consequent restrictions in the labour market, is increasing the possibilities for the emergence of macroeconomic imbalances.
- Our assessment is that negative risks for economic growth are increasing, especially in the international environment.

The principal findings concerning compliance with the applicable fiscal rules (see Table 1) based on the submitted scenario of unchanged policies in the SP 2018 are the following:

- the appropriate mid-term fiscal objective for Slovenia is a surplus in structural balance of 0.25% of GDP, which will not be achieved in the period of projection. The SP 2018 defines the mid-term fiscal objective as a balancing of the structural balance by 2020, but this is not in accordance with the Fiscal Rule Act. In fact, the Stability and Growth Pact does not define the year when the objective must be achieved, but only the dynamics of the convergence towards the objective;
- in conditions of high economic growth, the structural effort in 2018–2021 will be insufficient both at the annual level and in the average of two years. The structural balance is even expected to deteriorate again in 2018 and 2019. There is also a possibility of significant deviations from the required structural efforts almost throughout the period;
- the expenditure rule will not be complied with in 2018–2019, because net expenditure will

grow faster than the long-term potential output adjusted for the required structural effort. The pursuing of the expenditure rule also brings the risk of excessive deviation in the case of realisation of the scenario of unchanged policies, at least in 2019;

- the debt rule will be fulfilled throughout the period concerned because the share of debt in the GDP will decrease with adequate dynamics. This should be enabled by the projected primary surplus of the general government balance, which is, however, cyclical to a large extent;
- the domestic fiscal rule will not be fulfilled, because, according to the scenario of unchanged policies, projected levels of expenditure exceed the legally determined expenditure ceilings in the framework from November 2017 in all years.

In view of a high risk of persistent and significant deviations from the fiscal rules in the 2018–2021 period, the Fiscal Council:

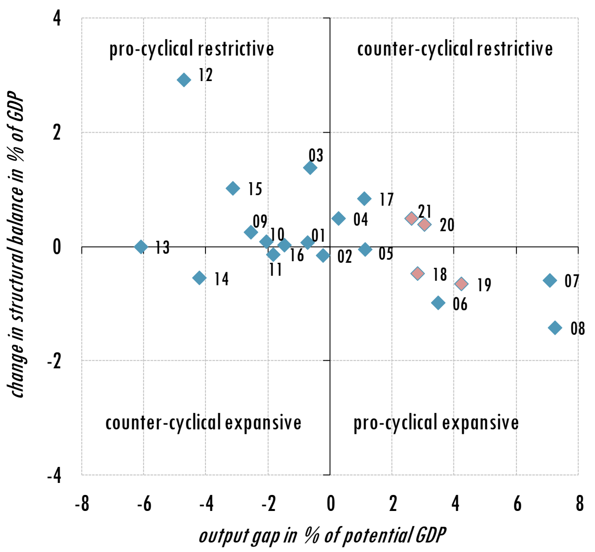
- estimates that the deterioration of the structural balance in 2018 and 2019 based on the SP 2018 constitutes a significant deviation from the convergence towards the mid-term fiscal objective at an inappropriate moment, especially during conditions of high economic growth and given the approaching peak of the economic cycle;
- calls for the adopting of measures to reduce expenditure growth so that the expenditure in 2018 does not exceed the expenditure ceiling set in the framework from November 2017. This would make the fiscal policy in 2018 at least neutral;
- estimates that measures ensuring mid-term fiscal sustainability would not hinder economic growth in the current favourable macroeconomic situation. On the contrary, the Fiscal Council assesses that the structural adjustment of public finance could be a factor contributing to more stable and sustainable conditions for economic growth, simultaneously creating necessary leeway for action in less favourable times;
- notes that the need for action is also dictated by risks to which fiscal trends are subject. There is an increase noted in short-term risks in the national and international environment that could threaten the prospects for achieving mid-term fiscal sustainability. If actions are not taken, Slovenia will also be exposed to considerable long-term risks because of the expected strengthening of unfavourable fiscal effects of demographic trends;
- estimates that risks include the possibility that a new government is not formed before the beginning of budget-related activities in the autumn. As a consequence, the uncertainty concerning the fiscal policy orientations for 2019 would increase further;
- notes that the indicated general non-compliance with the fiscal rules in the entire period requires that new measures are adopted as soon as possible after the formation of the new government; these measures should guarantee mid-term and long-term fiscal sustainability and therefore compliance with fiscal rules. Measures that will comprehensively address the costs of population ageing should be adopted and implemented already in the first half of the new government's term;
- stresses that compliance with the fiscal rules is not an end in itself. A consistent counter-cyclical fiscal policy based on credible mid-term planning is necessary for creating sufficient surpluses leaving adequate leeway for action when the economic cycle turns. This is also confirmed by the experience with the consequences of a pro-cyclical economic policy in the past.

Table 1: Compliance with fiscal rules

		2017	2018	2019	2020	2021
A	Medium term objective	✗	✗	✗	✗	✗
	Change in the structural balance	✓	✗	✗	✗	✗
B	Expenditure rule	✗	✗	✗		
C	Change in gross public debt	✓	✓	✓	✓	✓
D	Domestic fiscal rule	✗	✗	✗	✗	✗
A	Structural balance (in % GDP)	-0.1	-0.5	-1.1	-0.3	0.1
	Medium term objective	*0.25*	*0.25*	*0.25*	*0.25*	*0.25*
B	Growth in net expenditure (in %)	1.5	3.4	5.0		
	Reference rate to be applied - nominal (in %)	*0.0*	*1.0*	*2.6*		
C	Gross public debt (in % GDP)	73.6	69.3	65.2	61.5	58.3
	Reference level of debt (in % GDP)		*76.3*	*68.8*	*68.4*	*67.9*
D	Level of public expenditure in SP2018 (no policy change) (mio EUR)		19,539	20,579	21,070	21,450
	Maximum level of public expenditure (mio EUR)		*19,111*	*19,932*	*20,776*	*21,363*

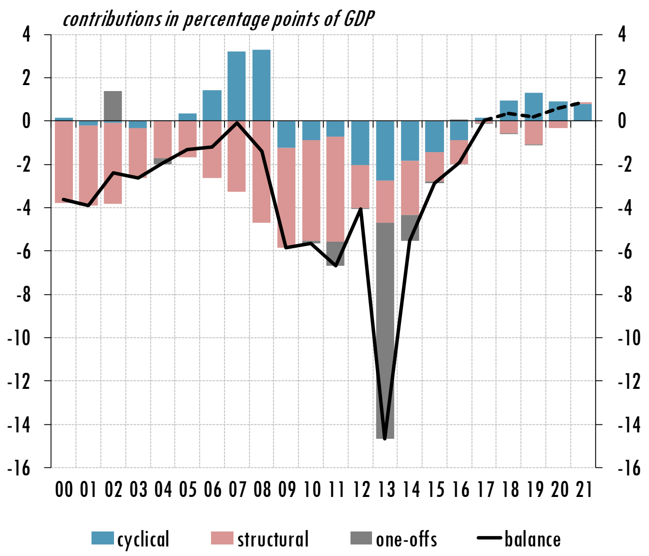
Source: SORS, Stability Programme 2018, FC estimates and calculations.

Figure 1: Fiscal policy stance 2001–2021



Source: SORS,IMAD, IMF, OECD, EC, SP 18; FC calculations; see note under table 4.3.

Figure 2: Contributions to general government balance



Source: SORS, Stability Programme 2018, FC calculations.

The legislative framework

On 10 April 2018 the Ministry of Finance submitted the draft Stability Programme – amendment 2018 (hereinafter SP 2018) to the Fiscal Council for the assessment of compliance with fiscal rules. Pursuant to the provisions of paragraph 2 of Article 6 of the Fiscal Rule Act (ZFisP) the Government of the Republic of Slovenia shall forward the draft of the Stability Programme together with the proposal of a Framework for the preparation of budgets to the National Assembly of the Republic of Slovenia and the Fiscal Council at least 20 days before the due date for submitting the Stability Programme to the European Commission (EC) at the end of April. Pursuant to paragraph 1 of Article 9.f of the Act amending Public Finance Act (ZJF-H) the Fiscal Council shall submit the assessment of the draft Stability Programme to the Government and the National Assembly of the Republic of Slovenia within seven days of the receipt of the draft Stability Programme. The Fiscal Council has not received the Framework for the preparation of general government budgets harmonised with the draft Stability Programme , which, on the basis of the ZFisP, determines the target balance and the highest level of general government expenditure and of the four general government sub-sectors. On 4 April 2018 the Fiscal Council obtained otherwise a non-binding opinion of the Government Office for Legislation, according to which the preparation of the Framework falls within the Government's current operations. The Government Office for Legislation also added that content-related concerns may affect the assessment of whether the preparation of the Framework as well as the preparation and then the adoption of the Stability Programme fall within the Government's regular duties.

According to paragraph two of Article 6 and point 1 of paragraph two and point 1 of paragraph three of Article 7 of the ZFisP, the Fiscal Council is obliged to submit an assessment of sustainability and compliance of the fiscal policy with the fiscal rules. Article 3 of the ZFisP stipulates the method for determining the ceiling for general government expenditure in relation to the position in the economic cycle. The Fiscal Council shall assess the adequacy of the proposed amendments to the Framework in accordance with point 5 of paragraph two and point 4 of paragraph three of Article 7 of the ZFisP.

However, in accordance with Article 15 of the ZFisP, in the period when Slovenia is approaching the medium-term fiscal objective, general government budgets are deemed balanced in the medium term if the structural balance of the general government approaches the medium-term fiscal objective in accordance with the dynamics determined on the basis of the Stability and Growth Pact. The corresponding medium-term fiscal objective is a structural balance of 0.25% of GDP; available estimates indicate that Slovenia is drawing closer to the target but has not yet reached it. Thus, the Fiscal Council used the approach verifying (i) compliance with the national fiscal rules referred to in Article 3 of the ZFisP, and (ii) compliance with the fiscal rules referred to in Article 15 of the ZFisP.

1. Macroeconomic conditions in the 2018–2021 period

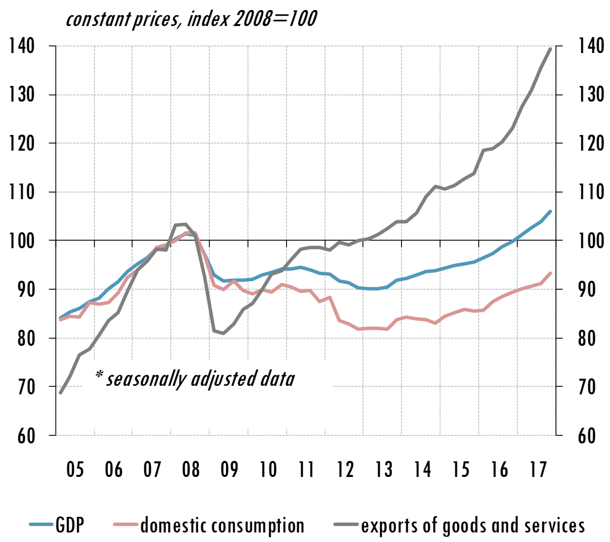
Key findings

- Last year's favourable economic trends were accompanied by a significant increase in the tax base.
- The expected continuation of good economic conditions provides a favourable basis for adopting measures that would facilitate a more permanent improvement of public finances, particularly in light of the high level of public debt and the challenges related to an aging population.
- The economy is still not overheating at present, but, nevertheless, the risks for the onset of macroeconomic imbalances are increasing. Consequently, the need for insisting on a counter-cyclic economic policy, particularly in the years 2018 and 2019, is gaining in importance.

1.1 A review of macroeconomic projections

In 2017, economic growth increased (5.0%) and was the highest since 2007, with significant growth in exports and domestic consumption.[1] Exports, driven by increased foreign demand, improved competitiveness of the export sector and some one-off factors, remained the key factor of economic growth. Improved business results, favourable financial conditions and the high utilisation of production capacities further supported the growth of investments in machinery and equipment. The turnaround in the real estate market and the cessation of the decline in public investment contributed to the revival of construction investment. The growth of private consumption continued as a result of the high level of consumers' confidence and a further significant improvement in the labour market,

Figure 1.1: GDP, domestic consumption and exports



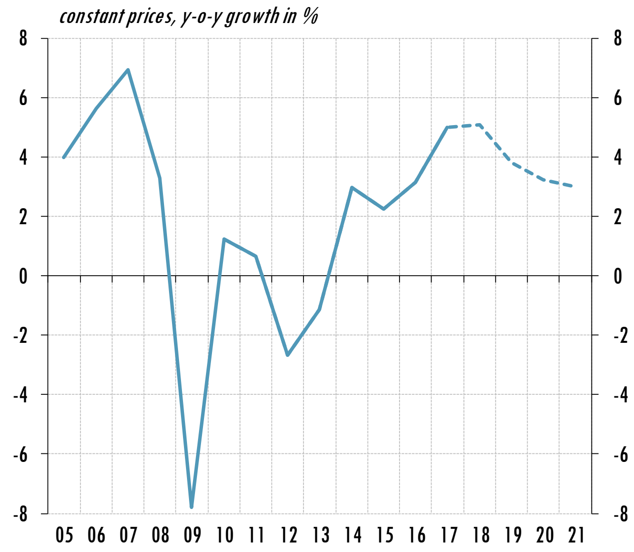
Source: SORS, FS calculations.

[1] Growth thus exceeded the forecasts by IMAD and all other institutions. Furthermore, all the institutions that are preparing economic growth forecasts for Slovenia have been upgrading them lately.

especially in employment, while wage growth remained relatively modest. Further growth of employment in the government sector and considerable growth of intermediate consumption led to an increase in government consumption. In the last year inflation remained relatively low, though, in conditions of strengthened domestic demand and with somewhat more pronounced price pressures from abroad, it was higher than a year earlier.

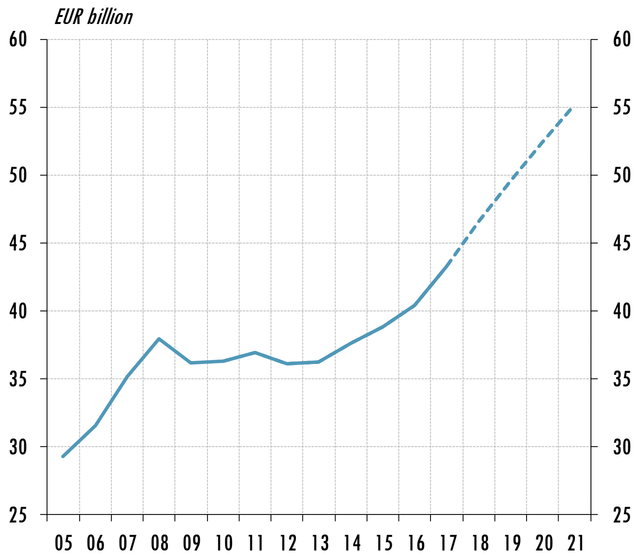
The IMAD[2] forecast predicts that broad-based economic growth will continue in the period 2018-2021, being comparably as high this year (5.1%) as that of last year, after which it will gradually slow down to reach an average 3.3% in the next three years. At current prices gross domestic product is projected to increase on a four-year average by 6.3% per year, by 2021 altogether by

Figure 1.2: Gross domestic product, real growth



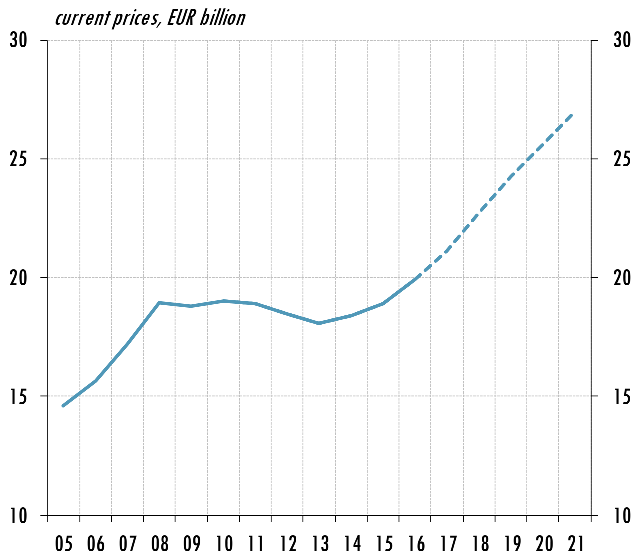
Sources: SORS, forecast: IMAD.

Figure 1.3: Gross domestic product in current prices



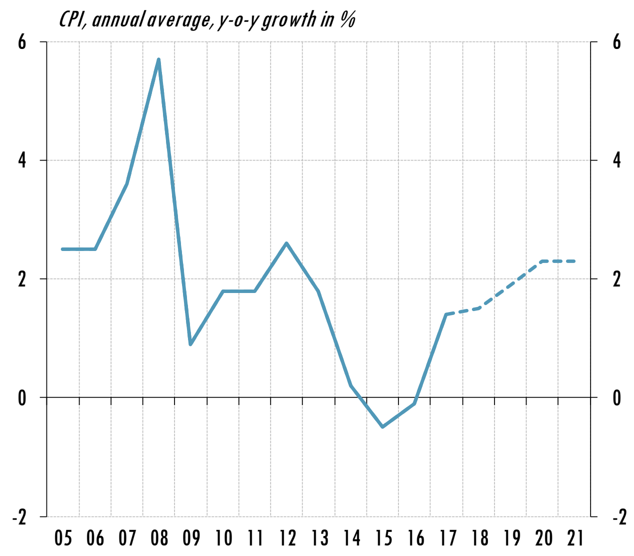
Sources: SORS, forecast: IMAD.

Figure 1.4: Compensation of employees



Sources: SORS, forecast: IMAD.

Figure 1.5: Inflation



Sources: SORS, forecast: IMAD.

[2] The IMAD Spring forecast of economic trends 2018, March 2018 (http://www.umar.gov.si/en/forecasts/single/forecast/news/pomladanska-napoved-gospodarskih-gibanj-2018/?tx_news_pi1%5Bcontroller%5D=News&tx_news_pi1%5Baction%5D=detail&cHash=93e41dffe21fb896930e51c4afed9b45). Pursuant to the Public Finance Act, IMAD's forecast is the basis for the preparation of budget documents.

more than a quarter, thus being considerably higher than in the previous four-year period, which coincided with the beginning of the economic recovery. Economic growth is expected to be supported by the continuation of high export growth resulting from favourable economic conditions in the trading partners and the maintained competitiveness of exporters. The growth of investment activity is also expected to remain high. Similar factors as in previous years will contribute to maintaining high growth in investments in equipment and machinery, and the recently revived growth of construction investment is expected to continue, stimulated by increased activity in the real estate market and by more substantial drawing on EU funds. Final government consumption is expected to grow relatively moderately throughout the period until 2021. Growth in household expenditure will remain higher than the long-term average, but will slow down, particularly in connection with the expected decrease in employment growth due to demographic pressures. The surplus in the current account of the balance of payments is expected to persist throughout the period of up to 2021 at a high level of around 7% of GDP, which is mainly related to the expected continuation of relatively high export growth.

The level and structure of the projected economic growth for the period 2018-2021 has a very positive impact on the tax bases, which are expected to increase considerably more than in the previous years. This applies in particular to compensations to employees, which is expected to increase on average by 6.3% annually in this period (2014–2017: 4.0%). Due to a slowdown in the dynamics of employment growth, this should be attributable in particular to the expected increase in the nominal wage growth per employee on an average 4.4% per year (2014–2017: 1.7%). Given favourable cyclical conditions, this should be mainly due to the lack of adequate labour force and expected wage increases in the public sector. Nevertheless, the wage growth on average should not exceed productivity growth and thus jeopardize the competitiveness of the tradable sector. With a high domestic and foreign demand and the related strengthening of domestic price pressures in particular, consumer price growth will gradually increase in the coming years, though it is expected to remain moderate, i.e. slightly above 2%, through the end of the forecast period.

1.2 Evaluation of the cyclical position of economy

Available estimates lead the Fiscal Council to assess that output gap in the period 2018–2021 will be positive in Slovenia, which, according to the EC definition, reflects so-called "good times".[3] According to the estimates of all institutions assessing the output gap for Slovenia, in 2017 the output gap[4] moved towards the positive range. Currently available calculations for the period through 2021 show that this would amount to about 2% on average, thus exceeding 1.5%, which according to the EC methodology draws a distinction between the area of normal cycle of the economy and so-called "good times".[5] It should be taken into account, however, that the output gap estimates can change significantly over time, this applying particularly to the periods when the output gap is quite far from the equilibrium level. Taking into account the past adjustments of the output gap, in 2018 and 2019 the output gap could be between 0 % and 4 % of potential output,[6] and a similar range is also indicated by the estimates of the output gap based on alternative methodologies. At the same time,

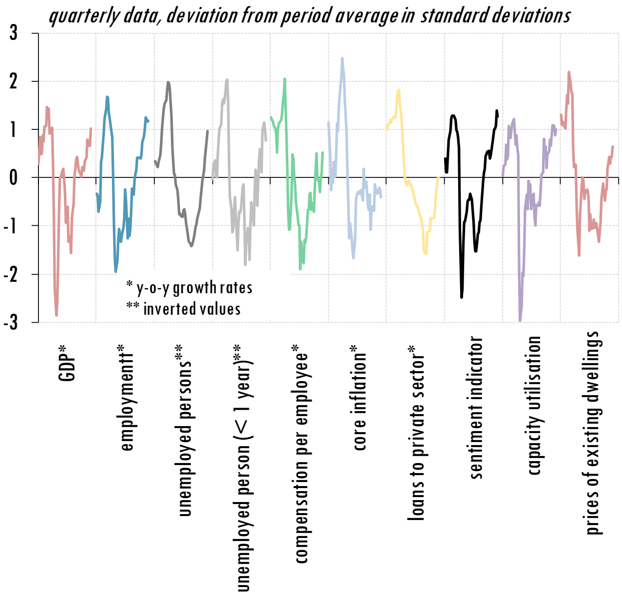
[3] The EC defines good times as the period when the output gap is equal to or higher than 1.5% (Vade Mecum on the Stability and Growth Pact 2018 Edition, p. 38; March 2018).

[4] The difference between the level of actual economic activity (measured by GDP) and an estimate of the economic activity provided by the available capacities in the economy without triggering inflationary pressures (i.e., the "potential product").

[5] The limit has been determined technically and is the same for all EU Member States, although the fluctuation ranges of average economic cycles vary from country to country. According to the output gap estimates of the European Commission, the long-term standard deviation of output gap fluctuation in Slovenia is around 3.5, while in the EU it is only approximately 1.8 p.p. of the potential GDP. The fluctuations in the output gap between the old and the new EU Member States differ by a coefficient of two. The average unweighted standard deviation of output gap estimates for the old EU Member States is 1.5, and for the new Member States it exceeds 3 p.p. of potential GDP.

[6] The output gap estimates for Slovenia for individual years in the period 2011 to 2019 varied by ± 2 percentage points.

Figure 1.6: Indicators of economic cycle dynamics 2005-2017

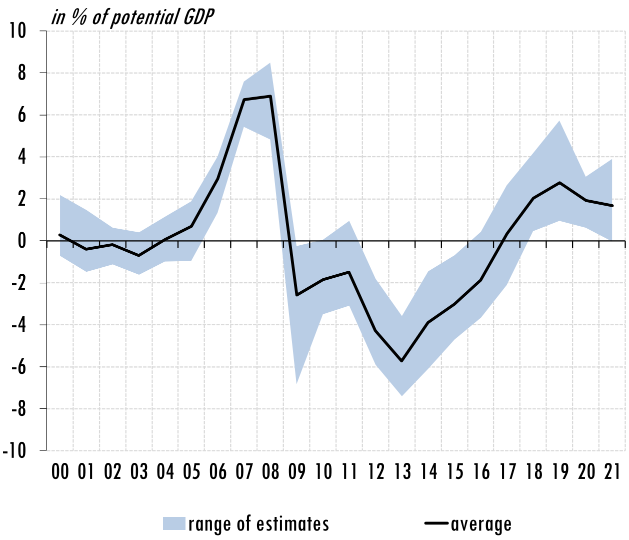


Sources: SORS, ECB, Eurostat, Employment Service of Slovenia, FC calculations.

the EC too concludes that the estimates of the output gap for Slovenia on the basis of the common methodology are not consistent with other macroeconomic indicators.[7]

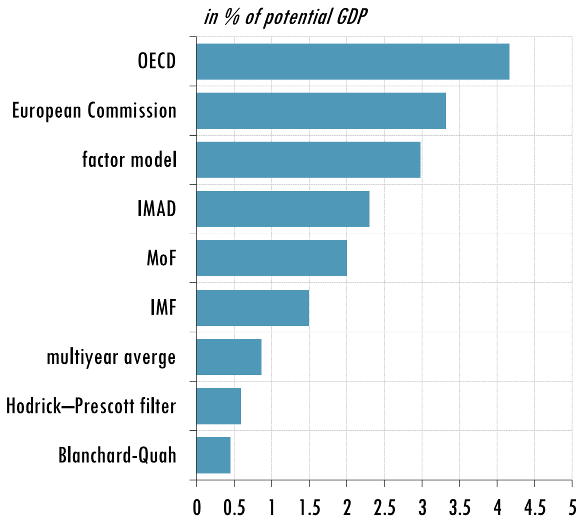
Based on an overview of a broader set of currently available indicators monitored by the Fiscal Council to determine the state of the economic cycle, we assess that it is currently not possible to speak about the overheating of the economy that would lead to significant macroeconomic imbalances. The indicators of economic activity, employment and economic sentiment mostly exceed the long-term averages and approach the highest growth rates/levels achieved to date. Limitations on the supply side are increasingly evident particularly in the labour market due to demographic changes. The dynamics of prices and transactions on the real estate market are gradually approaching those before the outbreak of the crisis. Nevertheless, the increase in demand is not yet reflected in an excessive increase in cost and price pressures. According to the IMAD's forecast, wage

Figure 1.7: Output gap estimates



Sources: IMAD, EC, IMF, OECD, MoF, FC estimates. See also note under Table 4.3.

Figure 1.8: Output gap estimates for 2018



Sources: IMAD, EC, IMF, OECD, SP 2018, FC. See also note under Table 4.3.

[7] Commission Staff Working Document – Analysis of the Draft budgetary plan of Slovenia – Box 3, p. 13 (November 2017).

growth should not exceed productivity growth, and core inflation is projected to remain moderate. Also, from the financing point of view, there is currently no evidence of imbalances in the economy. After several years of substantial deleveraging, the level of indebtedness of the corporate sector is considerably lower than before the crisis and among the lowest in the euro area. After almost a decade the volume of loans began to increase only towards the end of last year. At the same time excessive private sector savings remain high, which is reflected in the surplus in the current account of the balance of payments. The resilience of the banking sector has also improved. Capital adequacy is high and the share of non-performing claims is further decreasing.

In the wake of the continued rapid economic growth, particularly with further tightening of the labour market situation, the risks for the emergence of macroeconomic imbalances are increasing, thereby also increasing the need for a more consistent countercyclical economic policy. Given the prevailing short-term positive risks for economic growth, the pre-crisis experience suggests that in the period of rapid economic growth estimates of the cyclical situation of the economy may prove to be underestimated in the future and that indicators that are currently still lagging behind the long-term averages can rapidly increase. This applies in the current situation particularly to cost and price indicators as a result of structural labour market constraints, and partly also to financial indicators, given the persistence of low interest rates. Consequently, the fiscal policy in the current favourable economic situation must be cautious or distinctly countercyclical to create a sufficient surplus leaving adequate leeway for action when the economic cycle turns.

1.3 Comparison of the macroeconomic scenario of 2018 and 2017 Stability Programmes

The macroeconomic scenario of the 2018 Stability Programme, based on the IMAD's forecast, is much more favourable than the basis of last year's Programme, which is attributable to better realisation in 2017 and to a higher forecast of macroeconomic aggregates for the period 2018–2021. The past year's noticeably higher economic growth than the forecasts from the spring of 2017 was primarily the result of a stronger impulse from the international environment. Economic growth in trading partners was higher than the forecasts of international institutions and, consequently, the growth of our exports was also higher. An additional factor for better performance was also the slightly higher growth of investments than expected, which is attributable to a more substantial boom in construction investment. According to the current forecast, higher economic growth is foreseen especially in the years 2018 and 2019, mainly due to the expected higher growth of private and investment spending, and in this year also due to the higher contribution of foreign trade. Given the projected higher economic growth the estimated tax bases have also increased. The expected nominal GDP in 2018 is almost EUR 3 billion higher than the forecasts from last spring. A good half of the increase is due to a higher output in 2017, and the remaining half due to forecast correction. In

Table 1.1: IMAD forecasts

	2017			2018			2019			2020			2021		
	mar.17	mar.18	Δ	mar.17	mar.18	Δ	mar.17	mar.18	Δ	mar.17	mar.18	Δ	mar.17	mar.18	Δ
Real GDP, % change	3.6	5.0	*1.4*	3.2	5.1	*1.9*	2.6	3.8	*1.2*	2.6	3.2	*0.7*	...	3.0	...
Nominal GDP*	41,625	43,278	*1,653*	43,675	46,588	*2,913*	45,577	49,611	*4,034*	47,576	52,413	*4,836*	...	55,170	...
Compensation of employees*	21,004	21,112	*108*	22,088	22,729	*641*	23,097	24,253	*1,156*	24,177	25,591	*1,414*	...	26,975	...
Inflation, annual average, %	1.8	1.4	*-0.4*	1.6	1.5	*-0.1*	2.0	1.9	*-0.1*	2.1	2.3	*0.2*	...	2.3	...

** EUR million.*

Sources: IMAD, FC calculations.

comparison with the spring 2017 forecast, IMAD expects employee compensation to be higher by more than EUR 600 million in 2018, which is related to the expected acceleration of wage growth with respect to more favourable economic results and the increasing difficulties in obtaining labour force. Inflation forecasts have not changed significantly over the whole period.

1.4 Risks to realising macroeconomic scenario

The Fiscal Council warns that negative risks in realising the basic scenario of the IMAD's economic forecasts are increasing, particularly in the international environment. The positive risk in the short-run mainly relates to the possible further acceleration of cyclical dynamics, supported by high sentiment, faster drawing on EU funds and higher wage growth. In this case the economy would be faced even more quickly and more severely with the restrictions on the supply side, which could lead to a faster slowdown of economic growth than that foreseen in the baseline scenario. Among the mid-term negative risks in the domestic environment the challenges of confronting demographic changes stand out. Negative risks prevail in the international environment. They are associated with the threat of rising protectionism, which is already reflected in the deterioration of confidence indicators in recent months and may have an adverse impact on the volume of global trade. In this case the economic growth in Slovenia could be considerably lower as its small open economy, which largely depends on the growth of exports, would be relatively severely affected. There is also the possibility of a faster normalisation of monetary policy, which could, inter alia, affect the level of interest rates and, consequently, increase the costs of financing, including the financing of high public debt. In addition, many risks – including political ones – in the closer international environment are linked especially with Brexit, while geopolitical risks have recently been escalating at the global level.

2. The fiscal trends foreseen in the draft Stability Programme – update 2018

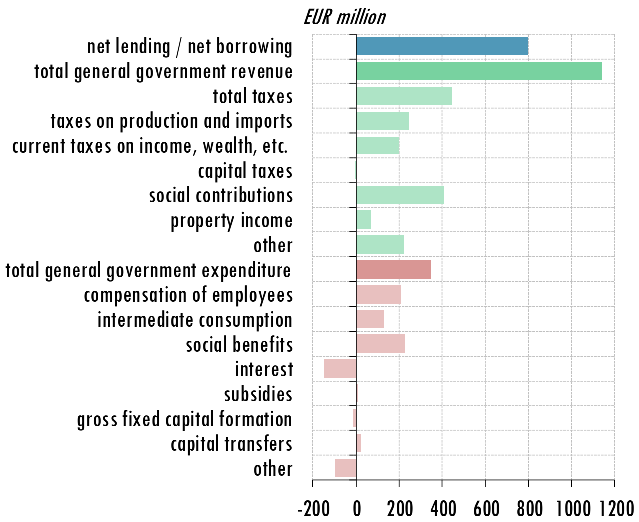
Key findings

- Last year high economic growth facilitated further fiscal consolidation, and a slight general government surplus was achieved.
- SP 2018, which was prepared on the basis of a no-policy-change scenario, also envisages the maintenance of a modest surplus throughout the projection period, which is mainly attributable to improved macroeconomic conditions.
- The growth in revenues and expenditures is expected to be higher than in the past few years, but should lag behind nominal GDP growth. The projections, particularly at the end of the projection period, probably underestimate the revenue growth and even more the expenditure growth.
- Projections of fiscal trends are subject to considerable risks, among which the possibility of additional growth in the compensation for employees stands out.

2.1 A review of the projections of fiscal trends

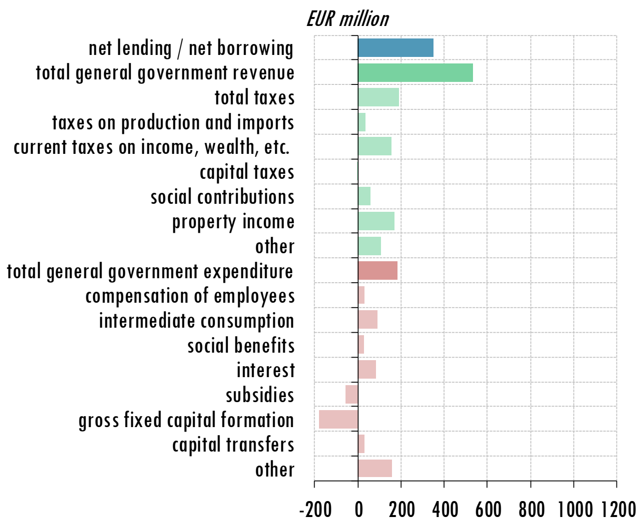
The fiscal situation improved significantly last year as the general government sector showed a slight surplus for the first time (EUR 13 million). The general government balance improved by almost EUR 800 million in relation to 2016, i.e. 1.9 p.p. of GDP, which by far exceeds the expectations from last year's budgetary documents. Also extensive though somewhat smaller was an increase in the surplus of the primary general government balance, which does not include interest expenses, from 1.1% of GDP in 2016 to 2.5% of GDP in last year. The improved public finance situation was the result of a stronger revenue growth, which significantly exceeded the increase in

Figure 2.1: The difference between 2017 and 2016 (ESA)



Sources: SORS, FC calculations.

Figure 2.2: The difference between actual outcome for 2017 and Stability programme 2017

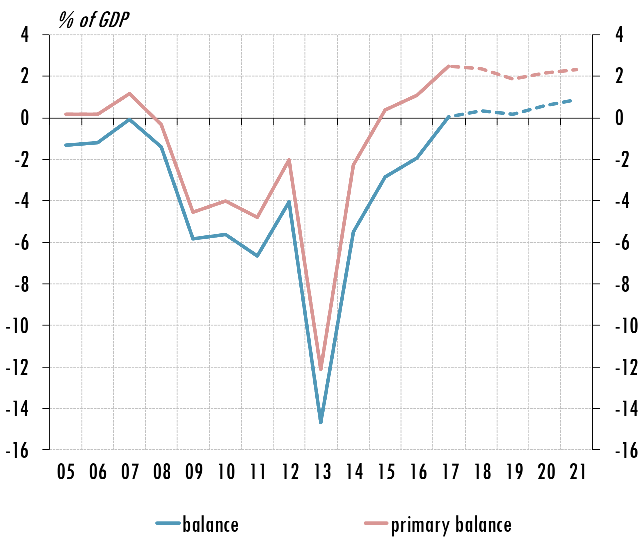


Sources: actual outcome: SORS, Stability programme 2017 (April 2017).

general government expenditure. The revenue growth (6.5%) was higher than expected in the budgetary documents, and was mainly related to high and broadly-based economic growth and further improvement of labour market conditions. It was mainly due to higher revenues derived from taxes and social contributions, which increased more than in the previous year and also more than expected. The strengthening of total revenue growth in relation to 2016 was mainly due to the growth in capital revenues, which decreased significantly in 2016, with the transition to the new European financial perspective. Despite the growth, the capital revenues remained low and lagged behind the planned ones. This shows two missed years in drawing on EU funds and has a significant – and in the given economic circumstances a desired – counter-cyclical impact on the dynamics of the Government's investment activity. Other revenue groups also showed an increase in other current revenues, including property income resulting from higher dividend payments by state-owned companies in last year. After a decline in 2016 total general government expenditure increased by 1.9 % in the last year. Deviations from the planned expenditure were mainly noted among more flexible components, while the overall increase in expenditures was higher than the one planned in last year's Stability Programme. The quarterly year-on-year rate of total expenditure growth increased last year. The increase in compensations to employees continued, and the relaxation of austerity measures resulted in an increased growth in social transfers. Higher than in the previous year was also intermediate consumption growth, where the year-on-year dynamics at the end of the year were particularly strong. The subsidies remained similar to those in the previous year and were lower than planned, however the planned growth had significantly exceeded the long-term averages. Interest expenses decreased last year, though less than planned, and remain high (EUR 1 billion or 2.5% of GDP). Lagging behind the plans was most apparent in investment expenditures, which, rather than recording growth after the almost 30% decrease in 2016, underwent a slight further decrease, thus reaching the lowest share of GDP so far.

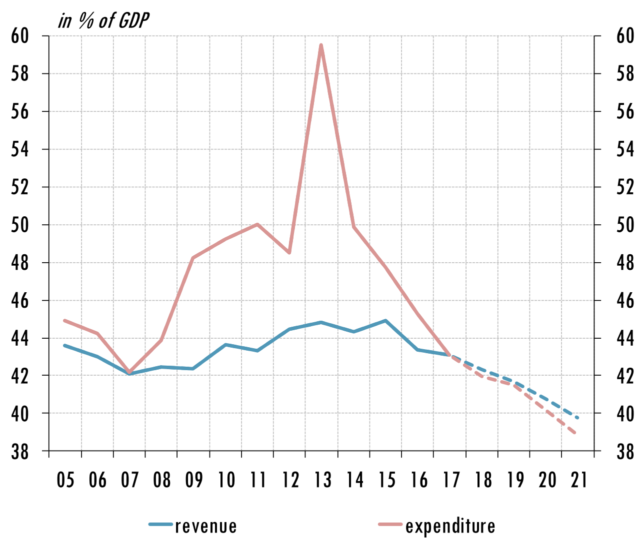
The draft SP 2018, prepared on the assumption of unchanged policies, provides for the maintenance of a modest general government surplus in the period 2018–2021. In all years, except in 2019, revenue growth will exceed expenditure growth, with the surplus reaching 0.9% of GDP at the end of the period. In all years, however, the growth in revenues and expenditures will lag behind the nominal economic growth, so that their share in GDP will fall significantly below the long-

Figure 2.3: General government balance and primary balance



Sources: SORS, forecast: Stability programme 2018.

Figure 2.4: General government revenue and expenditure



Sources: SORS, forecast: Stability programme 2018.

Table 2.1: Key revenue and expenditure categories 2017–2021

	2017	2018			2019			2020			2021		
	outcome SORS	SP 18	growth in EUR	growth in %	SP 18	growth in EUR	growth in %	SP 18	growth in EUR	growth in %	SP 18	growth in EUR	growth in %
Net lending / net borrowing	**13**	**163**	**150**		**89**	**-74**		**309**	**220**		**485**	**176**	
Total revenue	**18,658**	**19,707**	**1,049**	**5.6**	**20,668**	**961**	**4.9**	**21,379**	**711**	**3.4**	**21,930**	**551**	**2.6**
Total taxes	9,365	9,988	623	6.7	10,428	440	4.4	10,802	374	3.6	11,183	381	3.5
Taxes on production and imports	6,135	6,457	320	5.2	6,663	206	3.2	6,840	177	2.7	7,034	194	2.8
Current taxes on income, wealth, etc.	3,218	3,522	306	9.5	3,751	229	6.5	3,947	196	5.2	4,138	191	4.8
Capital taxes	12	14	1	7.6	15	1	6.5	10	-4	-29.6	11	1	5.3
Social contributions	6,371	6,741	371	5.8	7,154	413	6.1	7,526	373	5.2	7,917	390	5.2
Property income	547	382	-163	-29.9	372	-10	-2.6	330	-42	-11.3	298	-32	-9.8
Other	2,375	2,595	219	9.2	2,714	119	4.6	2,720	6	0.2	2,538	-182	-6.7
Total expenditure	**18,645**	**19,539**	**895**	**4.8**	**20,579**	**1,040**	**5.3**	**21,070**	**491**	**2.4**	**21,450**	**380**	**1.8**
Compensation of employees	4,790	5,120	329	6.9	5,388	268	5.2	5,519	131	2.4	5,611	92	1.7
Intermediate consumption	2,729	2,767	36	1.3	2,813	46	1.6	2,883	70	2.5	2,952	69	2.4
Social benefits	7,302	7,580	279	3.8	7,968	388	5.1	8,286	319	4.0	8,656	370	4.5
Interest	1,073	932	-142	-13.2	833	-98	-10.5	818	-16	-1.9	800	-18	-2.2
Subsidies	323	331	6	1.9	342	12	3.5	299	-44	-12.7	292	-6	-2.1
Gross fixed capital formation	1,276	1,603	326	25.5	1,915	312	19.5	1,955	40	2.1	1,854	-101	-5.2
Capital transfers	159	172	-44	-20.3	164	-9	-5.0	142	-22	-13.6	138	-4	-2.5
Other	992	1,030	95	10.1	1,151	121	11.8	1,158	7	0.6	1,142	-16	-1.4

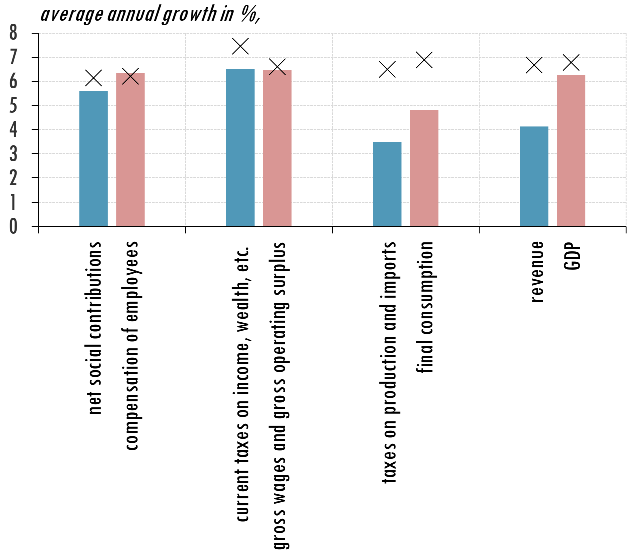
Source: SORS, Stability Programme 2018 (SP 18, April 2018), FC calculations.

term average. With unchanged policies, the further gradual improvement of the public finance situation, which will be less apparent than in the previous three years, will be made possible particularly due to the anticipated further economic growth. That growth will support the growth of the main revenue categories, which, however, will gradually slow down along with slowdown of economic growth. On the assumption of unchanged policies the expenditure growth will accelerate this and next year. This will be mainly attributable to the withdrawal of austerity measures in labour costs and social transfers and a significant acceleration of investment activity linked with the projected increased drawing of European funds. The projected reduction of interest expenses will continue to play an important role behind the increasing surplus of public finances. At the end of the SP period the primary surplus will be slightly lower than last year.

In the SP 2018 projection period the growth in revenues will be higher on average than in previous years, but will lag behind the projected nominal GDP growth. The projection of revenues foresees a gradual slowdown in their growth over the coming years, and taking into account the trends in tax bases and past trends in individual categories, it is estimated that it is – especially at the end of the period – probably underestimated. The increase in revenues will mainly result from the growth of taxes and social transfers, while the overall dynamics will be significantly influenced by property income and other revenues. The increase in taxes and social transfers will largely be in line with the projected trends in tax bases as a result of the IMAD's spring forecast. The projected slowdown in the growth of these revenues in 2020 and 2021 is slightly more pronounced than the expected slowdown in tax base growth. This applies particularly to taxes on production and imports. Property income is expected to drop significantly this year, thus contributing significantly to a lower total revenue growth compared to last year. This is partly due to high extraordinary revenues last year[8] and, according to

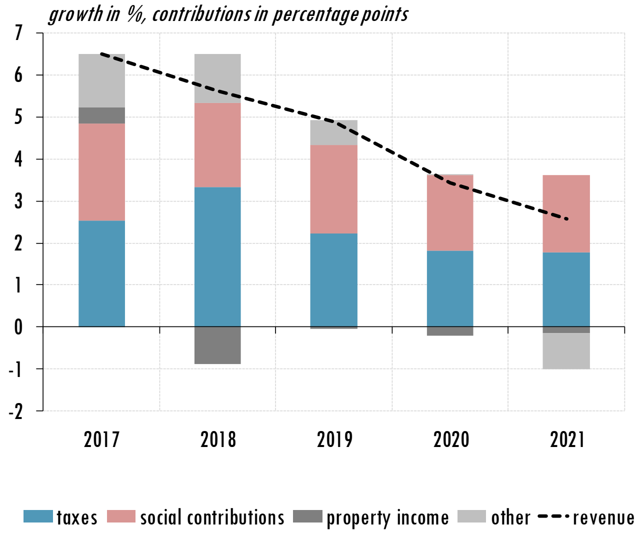
[8] In January 2017 other extraordinary non-tax revenues of the state budget amounted to EUR 49.8 million, due to the one-off accrued interest on the opening and additional issue of a series of bonds already issued.

Figure 2.5: Revenue types and their bases 2018–2021



Note: Crosses denote average annual growth in the 1996-2017 period.
Sources: SORS, forecasts: IMAD, Stability programme 2018, FC calculations.

Figure 2.6: General government revenue growth



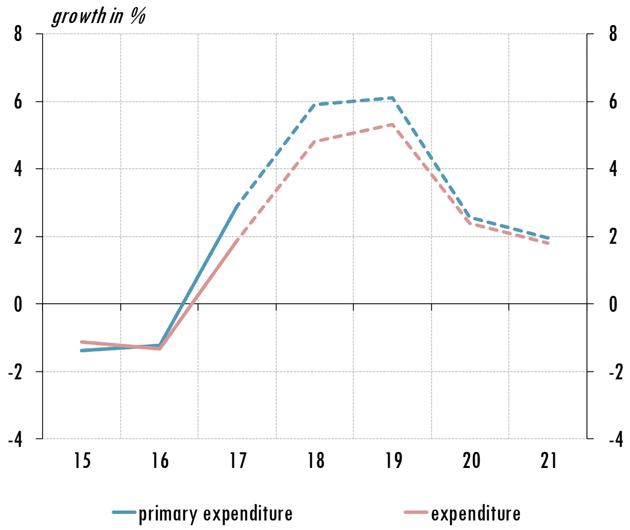
Sources: SORS (for 2017), forecast: Stability programme 2018, FC calculations.

our estimates, also due to lower expectations regarding revenues from participation in the profits of state-owned companies. Property revenues are expected to decrease in the coming years, despite the currently known data on the profits of state-owned companies in 2017 and the planned increase in the return on equity of state-owned investments, as the state's withdrawal from company ownership is expected to continue. The dynamics of other revenues (capital revenues, including the anticipated drawing of European funds, market output and other current transfers) and consequently total revenues are decisively influenced by the expectations of drawing on EU funds. A significant increase in the drawing is expected particularly in 2018,[9] while at the end of SP 2018 period it is expected to decrease according to the presently available documents, and thus markedly contribute to the reduced overall revenue growth. It should be noted that the assumed growth of other revenues in 2018 implies that the revenues from the market output and other current transfers will not change significantly, which represents a deviation from the long-term trends.

Expenditure growth will also be higher on average over the next four years than in the years after the crisis, but, with the exception of 2019, it will lag behind the revenue growth; we assess that the expenditure growth in the last two years of SP 2018 projection might be slightly underestimated. Significant strengthening of expenditure growth this year and next year will mainly result from the release of the remaining austerity measures, in accordance with the already adopted agreements and principles of the no-policy-change scenario, as well as the anticipated revitalisation of the country's investment activity with the planned acceleration of the drawing of European funds. Compensation of employees growth is expected to be almost 7% this year. This will be partly underpinned by the agreed suspensions of the reduction of premiums for supplementary pension insurance, holiday bonus payouts for all employees in the amount of the minimum wage, the agreed elimination of anomalies and higher expenditures resulting from an agreement with individual occupational groups. In 2019, in line with the no-policy-change scenario, measures regarding work performance and increased workload will be released, and the time delay in the payment of promotions will be suspended. The relaxation of austerity measures and higher pension indexation, as a result of the projected higher wage and inflation growth, also affect the growth of social benefits. Total expenditure growth this and next year will be further slowed down by the decrease in interest

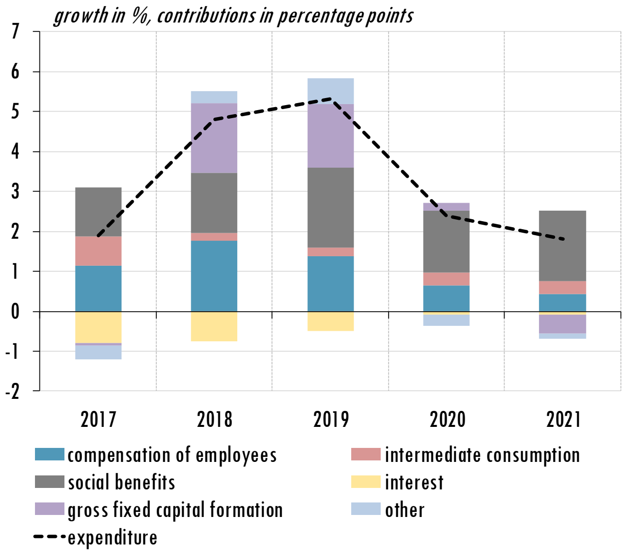
[9] The implementation plan of the Operational Program for the Implementation of European Policy for the 2014-2020 Programming Period (27 March 2018) foresees that the use of European funds will increase by EUR 337 million this year or by 157.2% compared to last year.

Figure 2.7: General government expenditure and primary expenditure



Sources: SORS, forecast: Stability programme 2018.

Figure 2.8: General government expenditure growth

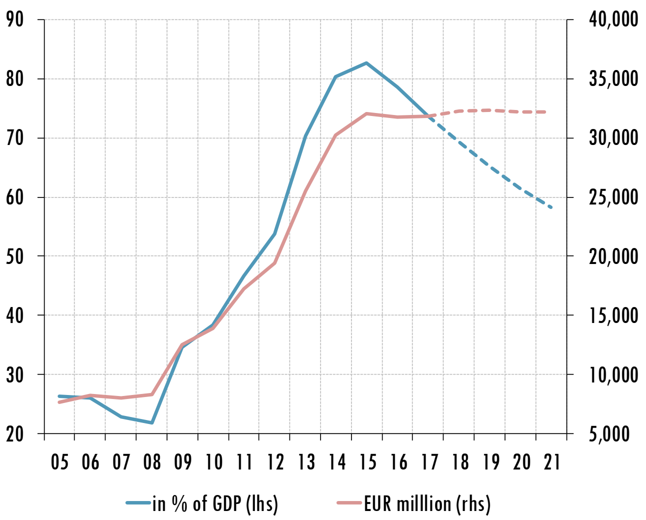


Sources: SORS (for 2017), forecast: Stability programme 2018, FC calculations.

expenditure, which is expected to be similar to last year (slightly above 10%), while afterwards these expenditures should stabilise at approximately EUR 800 million per year. Throughout the SP 2018 period expenditure on intermediate consumption, which increased significantly last year, is expected to grow less than the average of the last few years or comparably to the predicted inflation, which is deemed to be conservative. Projections for 2020 and 2021 indicate a slowdown in overall expenditure growth, which is expected to come from all key categories. While in investment expenditure the slowdown is in line with the planned dynamics of drawing on European funds, the projected increase in compensations to employees, given the long-term dynamics of employment growth in the general government sector, implies an increase in average wages, which would be significantly lower than the projected inflation.

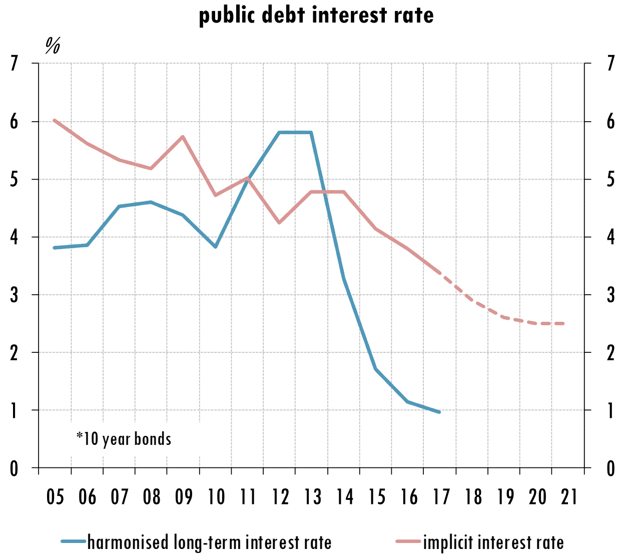
If the policies remain unchanged, the debt of the general government sector should remain at around EUR 32 billion, i.e. will be higher by about EUR 300 million in the year 2021 relative to

Figure 2.9: General government debt



Source: SORS, forecast: Stability programme 2018.

Figure 2.10: Harmonised long-term interest rate* and implicit public debt interest rate



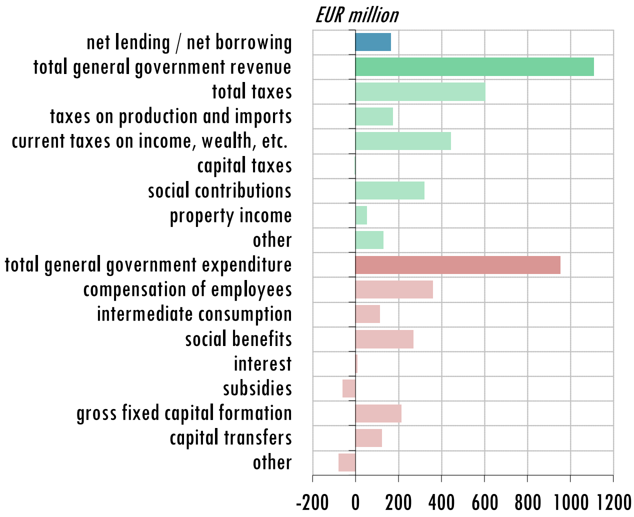
Sources: ECB, SORS, forecast: Stability programme 2018; FC calculations.

2017. The share of general government debt in GDP should gradually be reduced from 73.6% of GDP in 2017 to slightly below 60% in 2021, which is the Maastricht threshold. Reducing the debt-to-GDP ratio will be provided by the expected primary balance surplus of the general government balance, which however should be largely of cyclical nature. The contribution of interest to debt will also decrease over the entire period. With debt reduction below the level of 60% of GDP, according to EU rules, public finances are considered to be more sustainable, their adjustment being subject to more lenient rules. In 2016 the level of debt below 60% of GDP was achieved by 11 EU Member States (the last available data for the whole EU). Although the dynamics of the reduction of debt-to-GDP ratio due to the assumed higher economic growth is even faster than that presented in the SP 2017 target scenario, the cumulative nominal increase in debt in the SP 2018 is higher. Debt will increase most significantly in 2018, by around EUR 400 million, largely due to increased pre-financing of future liabilities in the period of favourable conditions on the international financial markets. For similar reasons, at the end of the SP 2018 projection period, the reduction of the debt is expected to be slightly below the projected cumulative general government deficit.

2.2 The comparison of fiscal trends in the Stability Programmes 2018 and 2017

SP 2018 projects a significant improvement in the public finance situation in the period 2016–2020 compared to SP 2017, mainly due to the better macroeconomic baseline.[10] According to the latest data from SORS and IMAD's forecast, nominal GDP is expected to increase cumulatively by almost EUR 12 billion in this period, which is well over EUR 4 billion more than the amount, based on data on GDP realisation for 2016 reported in spring and last spring's forecast of IMAD. Better last year's performance in terms of economic growth and the situation on the labour market than predicted, and better forecasts for the coming years are reflected in a higher revenue growth, particularly in taxes and social contributions, than in last year's SP. At the same time a higher cumulative growth of all key categories of expenditure than in last year is expected in the SP 2018 for the period 2016–2020. This is partly due to the higher year-on-year realisation than anticipated, and partly due to anticipated higher expenditure growth in the coming years on the assumption of

Figure 2.11: Change between 2020 in 2016, comparison between SP 2018 in SP 2017



Sources: SORS (2016 actual outcome), Stability programmes 2017 and 2018.

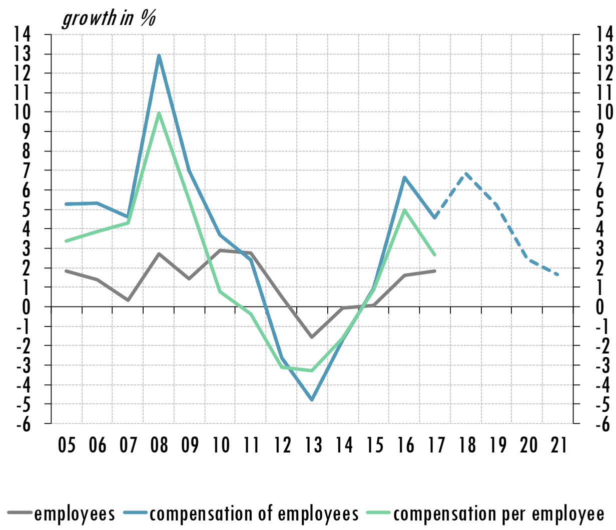
[10] The period 2016–2020 is compared, since these are the initial and final years of the period covered by the SP 2017.

unchanged policies. The greatest increase is noted in the projections of expenditure growth for employee compensations and social transfers. This is partly attributable to the fact that SP 2018 was prepared on the basis of a no-policy-change scenario, and partly to the measures adopted after the preparation of SP 2017, which increase these expenditures.[11] A considerable increase with respect to last year's projections is noted in the projected investment funds, in line with the new plans for drawing of European funds.[12] We estimate that this is to replace the backlog in drawing, since the actual investment expenditure last year was almost EUR 200 million lower than projected in the SP 2017. The expected cumulative improvement of the general government balance in SP 2018 is thus slightly higher than in SP2017, but we believe that, given the improvement in the macroeconomic situation, it should be even more substantial.

2.3 Risks for public finances

We estimate that the risks associated with the projections of fiscal trends in the no-policy-change scenario are prevailingly negative and result mainly from possible higher expenditures for employee compensations. Compensation of employees in the general government increased by EUR 463 million or 10.7% in the period 2013-2017, due to the release of austerity measures and the growth of employment.[13] SP 2018, in line with the no-policy-change scenario, foresees a further cumulative increase of EUR 820 million or 17.1% by 2021. Nevertheless, it is realistic to expect that the compensations of employees in the following years will increase even more, as negotiations with

Figure 2.12: General government compensation of employees



Sources: SORS, Stability programme 2018, FC calculations.

[11] Following the adoption of the SP 2017 the following measures were taken that raise expenditures on compensation of employees and social transfers: suspension of reduced premiums for collective supplementary pension insurance, holiday bonus payouts for all civil servants in the amount of the minimum wage, the elimination of anomalies at workplaces up to and including the 26th pay grade and at the posts of authorized officials, the elimination of disparities in salaries of directors in the public sector, minimum wage increase, the restitution of the seventh and eighth income brackets in child benefits, the extended circle of children entitled to snack and lunch subsidies, the release of legislation regarding eligibility for cash social assistance, income support for a wider range of pensioners, increase in the amount of minimum income. http://www.mju.gov.si/si/delovna_podrocja/place_v_javnem_sektorju/.

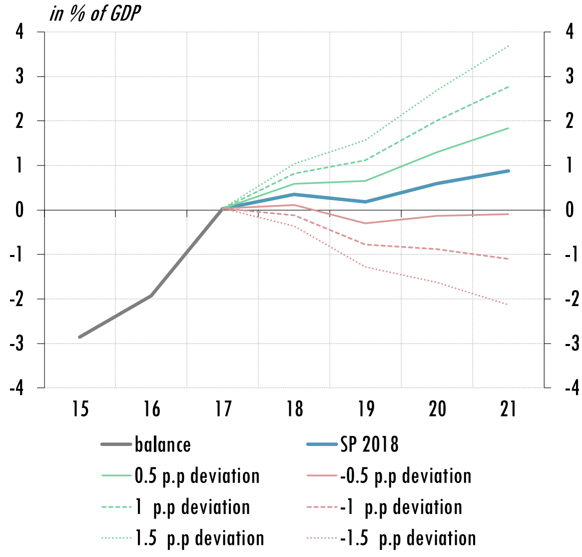
[12] Operational Programme for the Implementation of the EU Cohesion Policy in the Period 2014–2020, 2nd amendment, approved by the European Commission on 6 December 2017 (http://www.eu-skladi.si/sl/ekp/kljucni-dokumenti). The implementation plan of the Operational Program for the Implementation of European Cohesion Policy for the 2014-2020 Programming Period – 8th amendment, 27 March 2018 (http://www.eu-skladi.si/portal/sl/ekp/izvajanje/izvedbeni-nacrt-operativnega-programa-za-izvajanje-evropske-kohezijske-politike-za-programsko-obdobje-2014-2020).

[13] According to the national accounts statistics the number of employees in the general government sector increased by 5,800 persons or by 3.5% in this period. In 2014 and 2015 this number remained unchanged, while in 2016 and 2017 the growth significantly exceeded the multi-annual average.

the trade unions have been terminated following the resignation of the government. Available information indicates that the last offer from the Government of the Republic of Slovenia[14] was worth altogether over EUR 250 million in the next few years. According to our estimates there is but a minor chance that the financial consequences of the final agreement with the unions that will be adopted by the next government will be smaller. Given recent pressures, we estimate that there is also the risk of higher growth in social benefits, although the projections of their annual growth rates are already high throughout the period covered by the SP 2018. As usual, the risk is also associated with projections of drawing of European funds and consequently, the dynamics of investment expenditures. We estimate that the projected growth for this year is relatively optimistic, and that despite efforts to ensure as even as possible distribution throughout the financial framework, the drawing will be concentrated in the final years. This will also have implications for the projected dynamics of investment activity. However, the most important medium-term risks to public finances are still the financial consequences of demographic changes. In our opinion an undelayed adoption of comprehensive measures to face these challenges is among the key priorities of the next government.

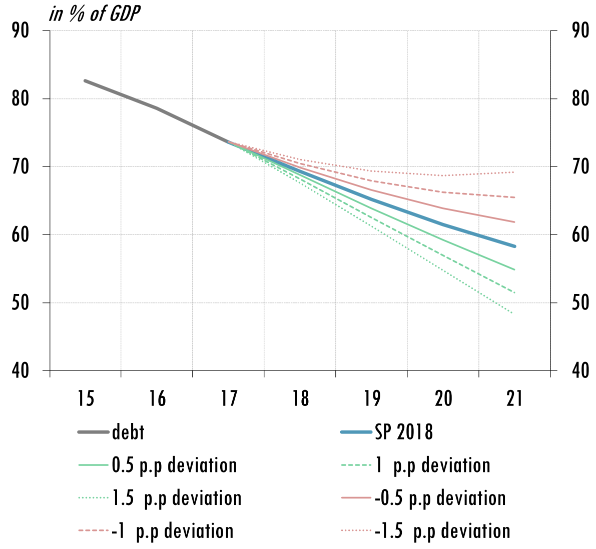
The materialisation of risks arising from the macroeconomic projections could adversely affect the state of public finances. In relation to the medium-term risk of lower economic growth and a possible onset of monetary policy tightening or increased uncertainties in the international financial markets, we have simulated the effects of deviation from the projected growth in economic activity and from the assumption of interest rates. The estimates based on a simple model[15] show that with economic growth that would be by 0.5 p.p. lower than that in the baseline scenario each year, the general government balance would turn from a projected surplus to a slight deficit over the medium-term horizon. Should economic growth every year be by 1.5 p.p. lower than that foreseen in the baseline scenario, the deficit could approach 2% of GDP at the end of the medium-term period.[16] In this case the general

Figure 2.13: Estimates of sensitivity of general government balance (ESA) to deviation in GDP growth



Sources: SORS, forecast: Stability programme 2018, FC calculations.

Figure 2.14: Estimates of sensitivity of general government debt (ESA) to deviation in GDP growth



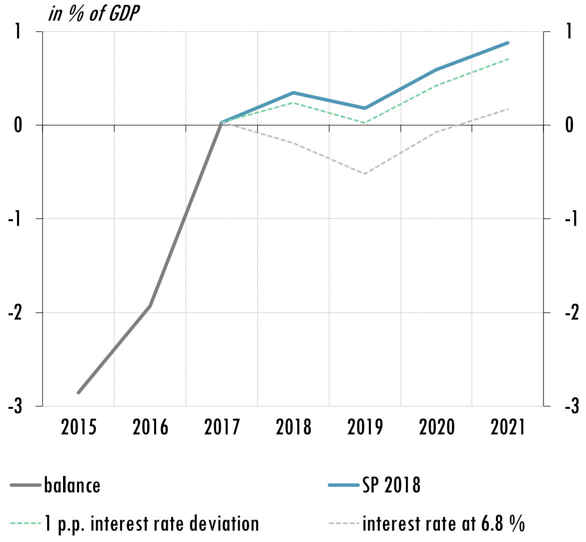
Sources: SORS, forecast: Stability programme 2018, FC calculations.

[14] Concluding information on the progress of negotiations over the strike demands of representatives of public sector trade unions (21 March 2018).

[15] A simple model that enables the simulation of the impact of different assumptions on economic growth on public finances and the effects of fiscal policy on economic growth. Economic activity in this model influences public finances through automatic stabilizers, while fiscal policy exerts a back influence on economic activity through multipliers. For detailed explanation of the model see: http://www.fiscalcouncil.ie/wp-content/uploads/2012/09/FAR_Sept2012.pdf (Enclosure B).

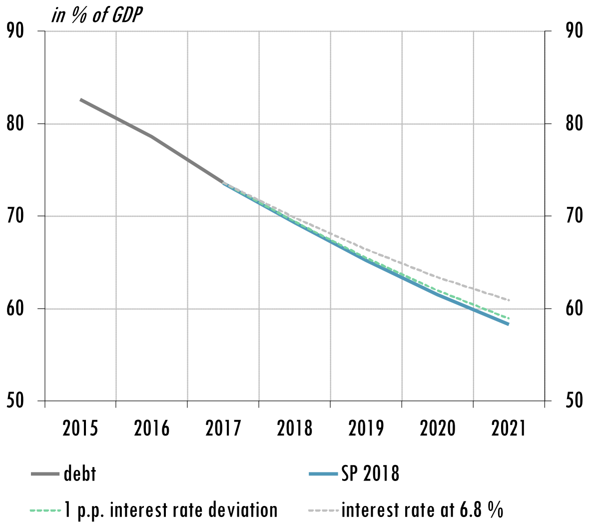
[16] Figures 2.13 and 2.14 show possible balance and debt trends of the general government sector with regard to different economic growth assumptions. The baseline scenario is the no-policy-change scenario for the general government balance from the Stability Program, 2018 supplement. The economic growth assumptions in each year of the period 2018–2021 are higher or lower by 0.5, 1 and 1.5 pp relative to the baseline scenario of the IMAD's forecast (spring forecast, 2018). The maximum shock with regard to the deviation of GDP growth by ±1.5 percentage points is determined on the basis of average absolute errors in the IMAD forecasts in the current and the next year in the 2002-2017 period.

Figure 2.15: Estimates of sensitivity of general government balance (ESA) to interest rate deviation



Sources: SORS, forecast: Stability programme 2018, FC calculations.

Figure 2.16: Estimates of sensitivity of general government debt (ESA) to interest rate deviation



Sources: SORS, forecast: Stability programme 2018, FC calculations.

government debt could increase by 10 p.p. in five years and thus persist at a level of around 70% of GDP. The direct effects on the balance and on the debt of the general government sector, exerted by changes in the required returns or assumed interest rates, would be much smaller though not negligible. If in all the years from 2018 to 2021 the estimated interest rate on the general government's debt financing increases by 1 p.p., taking into account the current maturity structure of the debt, the balance could deteriorate by around 0.1-0.2% of GDP per year. Cumulatively, in four years, this amounts to approximately EUR 250 million or about 0.6% of GDP. The simulation of the required return in the period 2018–2021 at the highest level ever, which amounted to around 6.8% for the reference bond, shows however that the balance would deteriorate by around 0.7% of GDP per year. Cumulatively, interest costs would increase by over EUR 1 billion over the four years, or around 2.5% of GDP.

3. Compliance of the Stability Programme with the fiscal rules

Key findings

- The level of general government expenditure in the SP 2018 exceeds the expenditure ceiling defined in the applicable Framework for the Preparation of the General Government Budget. At the same time the Government of the Republic of Slovenia has not prepared a new Framework that would – according to the simulations of the Fiscal Council in 2018 – allow a maximum level of expenditure by approximately EUR 400 million lower than planned in the SP 2018.
- The medium term fiscal objective in the SP 2018 has not been adequately defined since it is defined as a balanced structural balance instead of a surplus of at least 0.25% of GDP. Slovenia will not achieve the goal in the SP 2018 period. On the contrary, due to the deterioration of the structural balance, it will drift further away from the goal in 2018 and 2019. Structural surplus is needed because the high debt of the general government sector represents a very poor starting point for dealing with fiscal consequences of population aging.
- In the years 2018 and 2019 the growth of net general government expenditure will exceed the expenditure rule threshold. The significant deviation in 2019 indicates the urgency for defining measures for the structural improvement of public finances as soon as possible.
- The general government debt reduction in the period 2018–2021 will be in line with the requirements.
- The domestic fiscal rule in the period 2018–2020 will not be met, as expenditures are expected to exceed the maximum expenditure levels set out in the Framework for the Preparation of the General Government Budget of November 2017.

In its assessment of the fulfilment of fiscal rules the Fiscal Council verified the compliance with the national fiscal rules set out in the ZFisP, and prepared an assessment of compliance of budget documents with fiscal rules on the basis of the Stability and Growth Pact. The Stability and Growth Pact includes three key components: (i) whether the medium-term fiscal objective is properly defined; (ii) whether the dynamics of convergence with the medium-term fiscal objective is appropriate in view of the cyclical position of the economy; (iii) whether the planned dynamics of general government expenditure are in line with the expenditure rule; In addition, Slovenia is still under obligation in 2018 to observe the rule on the reduction of the general government debt, which is in force for three years after the general government deficit has fallen below 3% of GDP, which happened in Slovenia in 2015. In the years after 2018 the debt must be reduced following the dynamics corresponds to a 1/20 deviation in the debt level from the base-year level of 60% of GDP.

3.1 Compliance with the national fiscal rule

The Government of the Republic of Slovenia has not submitted to the Fiscal Council the amended Framework for the Preparation of the General Government Budget**.** Pursuant to Article 6 of the ZFisP the Government of the RS should submit the proposal of the Framework to the National Assembly of the Republic of Slovenia and the Fiscal Council, together with the draft Stability Programme, while ensuring the compliance of both documents. Regarding the Framework preparation, the Fiscal Council obtained a non-binding opinion from the Government Office for Legislation, according to which the preparation of the Framework falls within the Government's regular duties; however, substantial reasons could prevent the Framework's preparation. In the Framework the target balances and the highest possible range of expenditures for the general government sector (the state budget, local communities, ZPIZ, ZZZS) are determined for each financial year. In accordance with Article 6 of the ZFisP the Framework shall be adopted by the National Assembly of the Republic of Slovenia upon the proposal of the Government of the Republic of Slovenia.

The last amendment to the Framework was adopted by the General Assembly of the Republic of Slovenia along with the autumn budget documents in 2017.[17] In September 2017 the Government took note of the information on the change in circumstances regarding the framework for the drafting of the general government budget for 2018–2020.[18] As the main reasons for the assessment of the changed circumstances the Government listed the revised data on the national accounts for the 2012–2015 period, the first annual estimates of GDP for 2016 and the changed macroeconomic forecasts by IMAD. Due to the changed macroeconomic situation, the newly-adopted commitments, and changes in the planned drawing of EU funds, the Government amended only certain parameters for 2018, although the economic activity forecasts for the other two years covered by the Framework Ordinance were also changed.[19] By changing the parameters for 2018 only, the required dynamics of fiscal consolidation was curtailed, which was pointed out by the Fiscal Council when adopting the budgetary documents.[20]

The highest possible level of general government expenditure within the Framework is determined with regard to the established cyclical position of the economy and the expected

Table 3.1: Simulation of maximum expenditure according to Fiscal Rule Act

	2017	2018	2019	2020	2021
Revenue share (in %); SP 2018	43.1	42.3	41.7	40.8	39.7
Required structural effort (GDP p.p.); FC simulation	0.7	0.3	0	0	0
Balance share (GDP %); FC simulation	0.03	1.3	1.5	1.2	1.0
Output gap (% of potential GDP); FC estimate	0.3	2.0	2.8	1.9	1.7
One-offs (GDP %); SP 2018	0.1	0.1	0.0	0.0	0.0
Structural balance (GDP %); FC simulation	-0.10	0.24	0.21	0.23	0.23
GDP (EUR million); SP 2018	43,278	46,588	49,611	52,413	55,170
Simulation of maximum expenditure share (GDP %)		41.0	40.2	39.6	38.7
A. Maximum level of expenditure (EUR million); FC simulation		19,111	19,932	20,776	21,363
B. Expenditure volume SP 2018 (unchanged policy scenario) (EUR million)		19,539	20,579	21,070	21,450
C. Maximum level of expenditure - Framework November 2017 (EUR million)		19,290	19,512	19,952	...
A-B (mio EUR)		-428	-647	-294	-87
A-C (mio EUR)		-179	420	824	...

Sources: Official Gazzette of the Republic of Slovenia, IMAD, Stability Programme 2018 and Fiscal Council calculations.

[17] Published in the Ordinance amending the Ordinance on the framework for the preparation of general government budget for the 2018 to 2020 period, Official Gazette of the Republic of Slovenia [Uradni list RS] No.65/2017.

[18] Pursuant to point 6 of Article 6 of the ZFisP, when the Government submits a budget or budget amendment proposal to the General Assembly and the Fiscal Council it must also submit for adoption a proposal for a framework amendment if it finds by 15 September of the current year that the circumstances on the basis of which the framework was adopted have changed. The General Assembly shall adopt framework amendments when adopting the state budget or amendments thereto.

[19] In the Ordinance amending the Ordinance on the framework for the preparation of general government budget for the 2018 to 2020 period the Government stated: "For the years 2019 and 2020, in line with the rules, the fiscal path will be updated in the spring of 2018, because uncertainties or risks by SORS (data revisions, data on GDP growth in the last quarter of 2017) and the IMAD (winter forecast or new spring forecast) are considerable." This document is available at http://imss.dz-rs.si/imis/fcbbdce3ae732cf00171.pdf.

[20] http://www.fs-rs.si/assessment-by-the-fiscal-council-compliance-of-the-budgetary-documents-for-the-2018-2020-period-with-the-fiscal-rules-executive-summary/

Box: Determination of the maximum level of expenditure when the medium-term fiscal objective has not yet been achieved.

In the period when the medium-term fiscal objective has not yet been achieved it is necessary to take into account the requirements of the domestic fiscal rule of the ZFisP and the requirements of the Stability and Growth Pact to determine the expenditure ceiling in the Framework for the Preparation of the General Government Budget. For the needs of verifying the compliance with the domestic fiscal rule the expenditure ceilings were estimated on the basis of the procedure described in this box.

The general government balance (b_t) represents the difference between revenue (r_t) and expenditure expressed in GDP shares:

$$b_t = r_t - e_t$$

Structural effort (Δsb_t) is defined on the basis of changes in the level of the structural balance (sb_t) in two consecutive years ($t, t-1$):

$$\Delta sb_t = (b_t - \alpha * og_t - f_t) - (b_{t-1} - \alpha * og_{t-1} - f_{t-1})$$

The structural balance is thus determined by eliminating cyclical factors from the general government balance relative to the level of the output gap (og_t; α representing the responsiveness of the general government sector to the output gap and one-off factors (f_t).

If in the equation defining the structural effort we take into account that the balance of the general government sector in a given year (b_t) represents the difference between revenue and expenditure, the share of expenditure in GDP in a given year can be expressed as:

$$e_t = r_t - ((\Delta sb_t + \alpha * og_t + f_t) + (b_{t-1} - \alpha * og_{t-1} - f_{t-1}))$$

In this regard for the structural effort (Δsbt) in the period in which the medium-term fiscal objective has not yet been achieved we take into account the values arising from the requirements of the Stability and Growth Pact (Article 15 ZFisP). The expenditure ceiling is then determined on the basis of the calculated share of expenditure in GDP relative to the projected level of GDP. When the medium-term fiscal objective is achieved, the last segment, which reflects the required structural effort, falls out of the equation and hence all the segments referring to the previous year. The changed equation is identical to the definition of the domestic fiscal rule referred to in Article 3 of the ZFisP.

revenue level. The maximum level of expenditure is established according to the mathematical expression in points 3 and 4 of Article 3 of the ZFisP, with respect to the cyclical position of the economy. In accordance with the findings in Chapter 1.2 (Evaluation of the cyclical position of economy) we used in the simulations during the projection period of the present Stability Programme the formula that applies when the actual GDP is above the potential level (point 4 of Article 3 of the ZFisP). In such a case the maximum scope of expenditure is determined by deducting the foreseen scope of potential GDP multiplied by the factor reflecting the status of the economy in the business cycle from the foreseen scope of general government revenue. Temporary or one-off expenditures are not taken into account. In the period when the medium-term fiscal objective has not yet been achieved, in accordance with Article 15 of the ZfisP, the maximum expenditure level is determined on the basis of the adjustment of the aforementioned formulas. The level of expenditure thus determined must enable the adjustment of the structural balance of the general government towards the pursuit of the medium-term fiscal objective with the dynamics prescribed by the Stability and Growth Pact.

Table 3.2: Previous two Frameworks and simulation of the framework for budget preparation

	General government		State budget		Local government		Pension Fund		Health Fund		*GDP*
	targ.balance	max exp.	targ.bal.	max E	targ.bal.	max E	targ.bal.	max E	targ.bal.	max E	*(IMAD)*
	GDP %	EUR million	GDP %	EUR million	GDP %	EUR million	GDP %	EUR million	GDP %	EUR million	*EUR million*
A. Ordinance on Framework, May 2017 (UL RS 21/2017)											
2018	-0.2	19,158	-0.2	9,575	0.1	2,174	0.0	5,381	0.0	2,827	*43,696*
2019	0.2	19,512	-0.6	9,697	0.1	2,174	0.0	5,600	0.0	2,944	*45,598*
2020	0.4	19,952	-0.6	9,942	0.1	2,219	0.0	5,842	0.0	3,087	*47,598*
B. Ordinance on Framework, November 2017 (UL RS, 65/2017)											
2018	0.4	19,290	0.1	9,625	0.0	2,174	0.0	5,381	0.0	2,847	*45,265*
2019	0.2	19,512	0.1	9,697	0.1	2,174	0.0	5,600	0.0	2,944	*47,507*
2020	0.4	19,952	-0.6	9,942	0.1	2,219	0.0	5,842	0.0	3,087	*49,738*
C. Framework simulation, April 2018 (Fiscal Council)											
2018	1.3	19,111	...	...	...	...	...	...	...	...	*46,588*
2019	1.5	19,932	...	...	...	...	...	...	...	...	*49,611*
2020	1.2	20,776	...	...	...	...	...	...	...	...	*52,413*
2021	1.0	21,363	...	...	...	...	...	...	...	...	*55,170*
Difference: C-A											
2018	1.5	-46.7	...	...	...	...	...	...	...	...	*2,892*
2019	1.4	380.4	...	...	...	...	...	...	...	...	*4,013*
2020	0.8	824.2	...	...	...	...	...	...	...	...	*4,814*
Difference: C-B											
2018	0.9	-178.7	...	...	...	...	...	...	...	...	*1,323*
2019	1.4	380.4	...	...	...	...	...	...	...	...	*2,104*
2020	0.8	824.2	...	...	...	...	...	...	...	...	*2,675*

Sources: Official Gazzette of the Republic of Slovenia, IMAD, Stability Programme 2018 and Fiscal Council calculations.

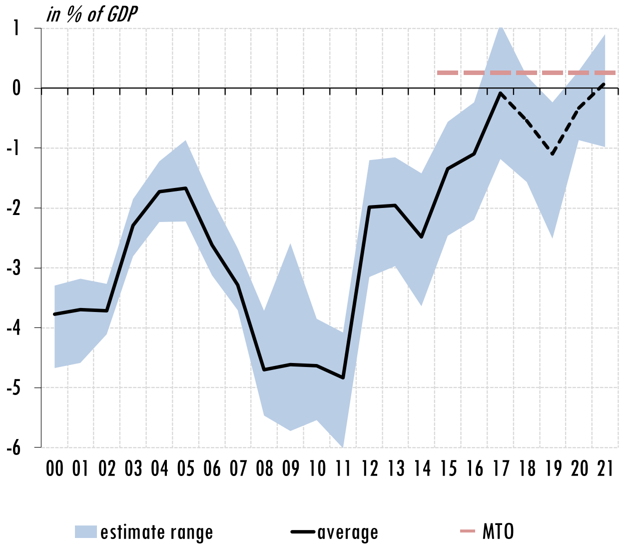
Since the preparation of the last Framework, the macroeconomic conditions have further improved and, while respecting the requirements of the ZFisP, they would have a significant impact on the maximum level of expenditure and on the expected general government balance. Despite the changed macroeconomic conditions, when preparing the SP 2018, the Government of the Republic of Slovenia did not change the Framework. The changed conditions influence both the level of revenues, which depends on macroeconomic trends even in the no-policy-change scenario, as well as the determination of the maximum level of expenditures. The Fiscal Council's estimates indicate that the expenditure ceiling should be decreased by almost EUR 200 million with respect to the previous Framework of November 2017, despite the level of GDP, which is well over EUR 1 billion higher than the one taken into account in the previous Framework, thanks to the high position in the economic cycle, and considering the forecast of revenues according to the no-policy-change scenario and the rules for achieving the medium-term fiscal objective. At the same time the expenditure ceiling in 2018 would be by around EUR 400 million lower than the general government expenditure foreseen in the no-policy-change scenario and in the path to the SP 2018 target scenario. In 2019 and 2020 the expenditure ceiling could increase by around EUR 400 or 800 million with respect to the November 2017 Framework. In 2018, contrary to the projected no-policy-change scenario in SP 2018, the growth of expenditures determined in this manner should fall behind the projected revenue growth or expenditure growth in the no-policy-change scenario by around a half. In the following years the growth rates of revenues and expenditures could be equal due to the medium-term fiscal objective achieved in 2018.

3.2 Achievement of medium-term fiscal objective

Presently available assessments forecast that Slovenia will not achieve the medium-term fiscal objective in the SP 2018 projection period. The medium-term fiscal objective must be determined by the government in the Stability Program in the form of a target structural balance.[21] Based on the EU rules[22] an adequate structural surplus for Slovenia should amount to at least 0.25% of BDP. The Stability and Growth Pact does not specify the year in which the medium-term fiscal objective must be achieved, but determines the dynamics of convergence with the target, depending on the cyclical position of the economy (between 0 and 1.0 p.p.). Since SP 2018 states that Slovenia's medium-term objective is to achieve a balanced structural balance of public finances in 2020, we find that medium-term consolidation is not properly targeted.

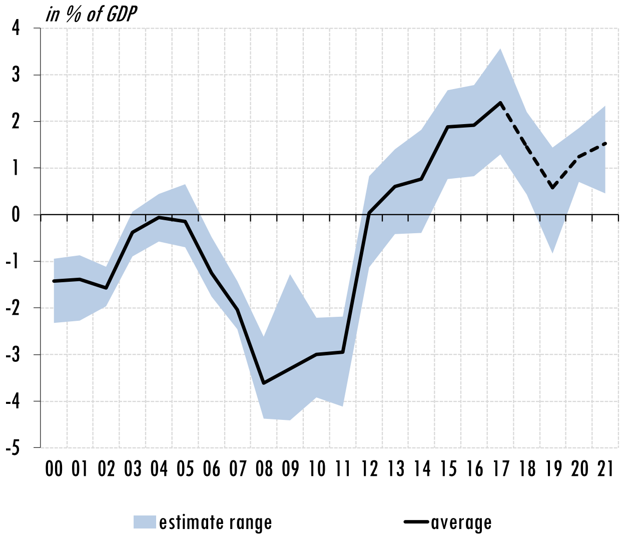
After a major step towards achieving the medium-term fiscal objective was made in 2017, there will be a considerable deviation from it particularly in 2018 and 2019, while further convergence will be achieved only in the last two years of the SP 2018 period. Last year, the structural deficit dropped to the lowest level ever, with an estimated 1 p.p. structural effort, amounting to -0.1 % of GDP. The anticipated absence of structural effort in 2018 and 2019 will mean a shift from convergence to the medium-term fiscal objective, as the structural deficit in these two years is projected to increase. In 2020 and 2021 the structural deficit is expected to start decreasing again, so that by the end of the SP 2018 period a structurally balanced balance would be achieved though not also the current medium-term objective.[23]

Figure 3.1: Structural balance estimates



Sources: SORS, OECD, IMF, IMAD, EC, MoF, FC. See also note under Table 4.3.

Figure 3.2: Structural primary balance estimates



Sources: SORS, OECD, IMF, IMAD, EC, MoF, FC. See also note under Table 4.3.

[21] Structural balance is defined as the general government balance with the exclusion of cyclical factors, one-off and temporary measures.

[22] Pursuant to Commission regulation (EC) No. 1466/97.

[23] There is also the possibility of increasing the required structural surplus for Slovenia. Simulations of the effects of variables that determine the medium-term fiscal objective are shown in the Fiscal Council document, available at http://www.fs-rs.si/fiscal-councils-call-in-relation-to-an-increased-risk-to-fiscal-sustainability/. The updated medium-term fiscal objective will be determined next year on the basis of a new Aging Report, which is expected to be published at the end of May 2018.

The trend of the primary structural balance deviates even further from the fiscal rules, which points to further importance of the assumption of interest reduction in fiscal policy conduct. Projections of the no-policy-change scenario in SP 2018 suggest that the surplus of the primary balance in the following years will remain at a similar level to last year (2021: 2.3% of GDP). However, the Fiscal Council's estimates show that the surplus of the primary structural balance of the general government – without cyclical and one-off factors and interest expenditure – will decrease in the following years. This indicates the further major impact of actual and projected reduction of interest expenditure in the achievement of fiscal objectives, but also points out the risks to which public finances may be exposed in the event of a sudden and rapid conversion of interest rate policies or deteriorating conditions on international financial markets.

3.3 Compliance with the structural effort rule

After Slovenia exceeded the required structural effort in 2017 and, according to currently available information, achieved compliance with the fiscal rule, the no-policy-change scenario in the SP 2018 indicates an insufficient structural effort throughout the 2018–2021period. In accordance with Article 15 of the ZFisP, in the period when Slovenia is approaching the medium-term fiscal objective, general government budgets are deemed balanced in the medium term if the structural balance of the general government approaches the medium-term fiscal objective in line with the dynamics, i.e. the structural effort, determined on the basis of the Stability and Growth Pact. Slovenia will not meet any of the two assessment criteria, i.e. the structural effort in one year and the average of two years. Moreover, SP 2018 even indicates that a deviation from the required structural effort will be such that, in the event of the implementation of unchanged policy scenario, the risk would arise of triggering an excessive deviation process, which – according to European rules – ultimately leads to financial sanctions.

According to SP 2018 projections and structural effort estimates the years 2018 and 2019 are deemed to be lost years in terms of continued consolidation of public finances. This year, with good economic results, the average estimate of the output gap exceeds the 1.5% limit, which according to the EK[24] matrix means transition to so-called good times. Consequently, the required structural effort is increased from 0.6 p.p. to 1.0 p.p., while, depending on the matrix, the required

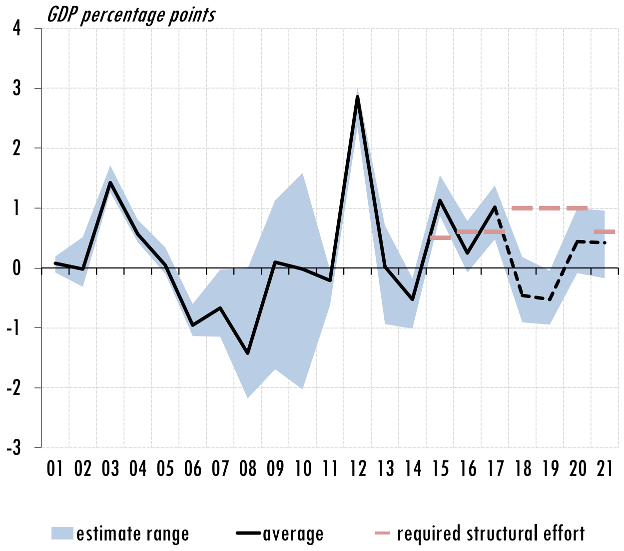
Table 3.3: Compliance with the structural effort rule

	2017	2018	2019	2020	2021
Medium-term objective (MTO, in % GDP)	0.25	0.25	0.25	0.25	0.25
Structural balance (in % GDP)	-0.1	-0.5	-1.1	-0.3	0.1
Change in structural balance (GDP p.p.)	1.0	-0.5	-0.6	0.8	0.4
Required change in structural balance (GDP p.p.)	0.6	1.0	1.0	1.0	0.6
Deviation (GDP %)	0.4	-1.5	-1.6	-0.2	-0.2
Deviation (EUR million)	178.4	-680.6	-769.7	-124.3	-100.4
Significant deviation		✘	✘		
Change in structural balance - 2 year average (GDP p.p.)	0.6	0.3	-0.5	0.1	0.6
Required change in structural balance - 2 year average (GDP p.p.)	0.6	1.0	1.0	1.0	0.6
Significant deviation		✘	✘	✘	

Sources: SORS, OECD, IMF, IMAD, EC, SP 2018, FS. See also note under Table 4.3

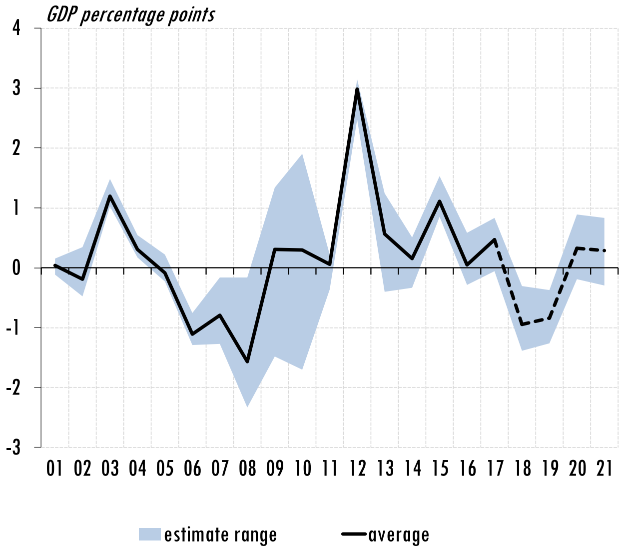
[24] Vade Mecum on the Stability and Growth Pact 2018 Edition, p. 38 (March 2018).

Figure 3.3: Structural effort estimates



Sources: SORS, OECD, IMF, IMAD, EC, MoF, FC. See also note under Table 4.3.

Figure 3.4: Structural primary effort estimates



Sources: SORS, OECD, IMF, IMAD, EC, MoF, FC. See also note under Table 4.3.

effort in 2021 would again decrease to 0.6 pp.[25] Further to that, the EC acknowledges that the estimates of the output gap are uncertain and, in the assessment of the Draft Budget Plan 2018 in last autumn, Slovenia was approved a smaller structural effort than that which would have been required by the matrix, i.e. at least a half of the required.[26] With a structural balance in the amount of -0.1% of GDP in 2017 an even smaller structural effort would be sufficient to achieve the medium-term fiscal objective in 2018. Regardless of the actual required structural effort, the one envisaged by the no-policy-change scenario in the SP 2018 is deemed insufficient. This year and next year the structural effort would even be absent, and that to the extent that the excessive imbalance procedure could be initiated in case of inaction. In addition, the deviation of the structural effort measured in both one year and the average of two years would be excessive in all years except in 2021.

3.4 Compliance with the expenditure rule

Within the framework of the expenditure rule the calculation of appropriate expenditure growth excludes certain types of expenditures that cannot be directly influenced by the fiscal policy.[27] Such expenditures include interest payments, the cyclical component of unemployment benefits and expenditures resulting from receipts from EU funds. The rule also takes into consideration that government investments vary considerably from year to year therefore the four-year average of investment expenditure that excludes received EU funds earmarked for investment spending is considered in the evaluation of compliance with the expenditure rule. The growth of such expenditures should not exceed the average 10-year growth of the potential product. For countries that do not meet the medium-term objective expenditure growth must be even lower as it is adjusted by the convergence margin that ensures the expenditure rule is harmonised with the required adjustment of

[25] The required structural effort is determined on the basis of trend in the output gap, the level of public debt and the ratio between actual and potential GDP growth. The presently available estimates of the output gap indicate that in the overall period from 2018–2021 the gap will exceed 1.5%, which, according to the matrix, implies the so-called "good times". In addition, the public debt will exceed 60% of GDP by 2021, while actual GDP growth will be higher than the potential. All these criteria require a structural effort in the amount of 1% of GDP. In 2021 public debt will fall below 60% of GDP, while actual GDP growth will be lower than the potential, which implies a structural effort of 0.6% of GDP. Vade Mecum on the Stability and Growth Pact 2017 Edition, pages 37-40 (March 2017).

[26] 2018 Draft Budgetary Plans: Overall Assessment, pages 18-19 (November 2017).

[27] More details on the expenditure rule in Vade Mecum on the Stability and Growth Pact 2017 Edition, pages 47-53 (March 2017).

Table 3.4: Compliance with the expenditure rule

	2017	2018	2019	2017	2018	2019
	according to SGP rules			data available at the time of assesment		
Reference rate to be applied (nominal, in %)	0.0	1.0	2.6	2.5	2.2	2.6
Convergence margin, corrected by required structural effort	1.4	2.4	2.5	1.4	2.5	2.5
Medium-term potential GDP growth (IMAD)	1.2	1.7	2.5	1.9	2.2	2.5
Net public expenditure annual growth in % (nominal)	1.5	3.4	5.0	1.5	3.4	4.9
Deviation in year t (in % GDP)	-0.5	-0.9	-0.9	0.4	-0.5	-0.8
Average deviation in t and t-1 (in % GDP)	-0.7	-0.7	-0.9	0.1	0.0	-0.6
Net public expenditure annual growth in % (nominal) net of one-offs	1.2	3.3	5.1	1.2	3.3	4.9
'Deviation net of one-offs in year t (in % GDP)	-0.6	-0.9	-0.9	0.5	-0.4	-0.8
Average deviation net of one-offs in t-1 and t (in % GDP)	-0.7	-0.7	-0.9	0.1	0.0	-0.6

Sources SORS, IMAD, SP 2016,2017 in 2018, FC calculations

the structural balance. Due to possible annual fluctuations, the estimate also considers the two-year average of the growth of expenditure determined in this manner. In addition, expenditure growth is estimated, with deducted one-off effects that influence the trend of general government expenditure and revenue.

According to the no-policy-change scenario of the SP 2018 the growth in net expenditure exceeds the allowed growth in the entire 2017-2019 period[28], as shown by both methods of assessment (with and without one-off effects). In the calculation of (compliance with) the expenditure rule, we used the IMAD's data on long-term growth of potential output, which has been increasing with favourable economic results, but at the same time, due to the higher required structural effort, the adjustment coefficient is also increasing. On this basis net expenditure should remain unchanged last year, but this and next year it could increase by 1.0% and 2.6%. According to last year's data and the SP 2018 the growth of expenditure throughout the three years will exceed the ceiling, but the year 2019, when the net expenditure growth is expected to increase considerably, raises particular concern. In addition to the fact that in accordance with the Stability and Growth Pact some criteria for determining the permissible limits were determined in the spring of the previous year,[29] we also made a simulation of the expenditure rule based on the currently available information. Threshold growth of net expenditure determined in this way would be higher, in particular due to higher estimates of the medium-term growth of potential GDP, and partly also due to a higher GDP deflator than projected. Nevertheless, even in this case, the estimates for 2019 show an excessive deviation in the growth of net expenditure, which implies the urgency of adequately defined measures for the structural improvement of public finances as soon as possible.

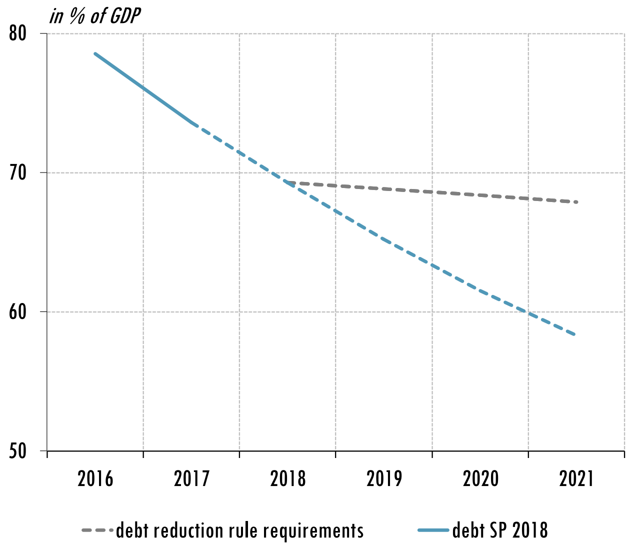
3.5 Compliance with the general government debt rule

Pursuant to the rules of the Fiscal Pact the general government debt must be reduced in the transitional three-year period after the country exits excessive deficit procedures according to certain rules; Slovenia is expected to comply with these rules in 2018. For Slovenia the three-year

[28] Compliance with the rule in 2017 is assessed to calculate two-year averages of the growth of expenditure.

[29] In accordance with the rules, certain criteria for the year t are determined in the spring of t-1. These criteria are the medium-term growth of potential GDP, the data on primary expenditure and GDP deflator.

Figure 3.5: Debt reduction rule



Sources: Stability programme 2018, SORS and FC calculations.

transitional period applies to the years 2016–2018. The reduction must allow a structural adjustment to be made, so that after the expiry of the transitional period debt reduction rules can be complied with within the preventive arm of the Stability and Growth Pact. The country must therefore fulfil the MLSA rule (minimum linear structural adjustment) in the transitional period. This rule has been determined on the basis of three indicators: (i) debt adjusted to the economic cycle, (ii) debt taking into account its past trends and (iii) debt taking into account its future trends. The calculations show that Slovenia will fulfil the required minimum structural adjustment in the future as the projection of debt in 2018 in the SP 2018 is lower than the maximum value of the three indicators on the basis of which compliance with the debt rule in the transitional period is assessed.

Upon the expiry of the three-year transitional period, Slovenia should also comply with the rule of gradual debt reduction. Starting in 2019 the general government debt must be reduced following the yearly dynamics, which in a three-year average correspond to a 1/20 deviation in the debt level from the base-year level of 60% of GDP. In the case of Slovenia this is expected to be around 0.5 pp of GDP per year. The projections of the SP 2018 indicate that this rule will be complied with in all years, including 2019.

Table 3.5: Compliance with the debt rule in transition period

	2018
a) Maximum allowed cyclically adjusted debt	74.0
b) Maximum allowed debt (backward-looking benchmark)	76.3
c) Maximum allowed debt (forward-looking benchmark)	68.3
Maximum (a,b,c)	**76.3**
Debt in Stability programme 2018	**69.3**

4. Statistical annex

Table 4.1: Comparison of macroeconomic projections for 2018 and 2019

	2018						2019					
	IMF	EC	OECD	BoS	EC	IMAD	IMF	EC	OECD	BoS	EC	IMAD
growth in %, except where otherwise noted	(Oct.17)	(Nov.17)	(Nov.17)	(Dec.17)	(Feb.18)	(Mar. 18)	(Oct.17)	(Nov.17)	(Nov.17)	(Dec.17)	(Feb.18)	(Mar.18)
GDP	**2.5**	**4.0**	**4.3**	**4.2**	**4.2**	**5.1**	**2.1**	**3.3**	**3.4**	**3.6**	**3.5**	**3.8**
Exports of goods and services	4.1	7.4	9.1	6.2		9.2	3.8	5.5	6.6	6.1		7.5
Imports of goods and services	4.5	8.4	9.4	6.4		9.3	4.9	6.2	7.9	6.5		8.1
External trade balance, contr. to growth		0.0	0.6	0.4		0.9		0.0	-0.3	0.3		0.3
Private consumption		3.6	3.7	3.2		3.6		3.0	4.3	2.9		3.0
Government consumption		1.6	1.0	1.6		1.7		1.3	0.9	1.6		1.4
Gross fixed capital formation		9.8	8.0	10.2		10.0		7.4	6.9	8.2		8.5
Changes in inventories, contr. to growth		0.0	0.0	0.0		0.1		0.0	0.0	0.0		0.0

Sources IMF, European Commission (EC), OECD, Bank of Slovenis (BS), IMAD.

Table 4.2: Comparison of outcame and forecasts for the 2016-2020 period EUR milion

	2016	2017						2018					2019			2020		
	SORS	SP 17	DBP 18	SORS	*SORS-SP 17*	*SORS-OPN 18*	*SORS (17-16)*	SP 17	DBP 18	SP 18	*SP 18-SP 17*	*SP 18-DBP 18*	SP 17	SP 18	*SP 18-SP 17*	SP 17	SP 18	*SP 18-SP 17*
Net lending / net borrowing	**-781**	**-337**	**-321**	**13**	***351***	***334***	***794***	**-70**	**163**	**163**	***233***	***0***	**105**	**89**	***-16***	**195**	**309**	***114***
Total revenue	**17,519**	**18,124**	**18,456**	**18,658**	***535***	***203***	***1,140***	**19,086**	**19,459**	**19,707**	***621***	***247***	**19,616**	**20,668**	***1,052***	**20,101**	**21,379**	***1,278***
Total taxes	8,921	9,174	9,386	9,365	*191*	*-21*	*444*	9,504	9,741	9,988	*485*	*247*	9,808	10,428	*620*	10,181	10,802	*621*
Taxes on production and imports	5,888	6,098	6,115	6,135	*37*	*20*	*248*	6,267	6,296	6,457	*190*	*161*	6,449	6,663	*214*	6,675	6,840	*165*
Current taxes on income, wealth, etc.	3,021	3,064	3,263	3,218	*154*	*-45*	*197*	3,223	3,436	3,522	*299*	*86*	3,350	3,751	*401*	3,478	3,947	*469*
Capital taxes	12	12	9	12	*0*	*4*	*0*	13	9	14	*1*	*5*	14	15	*1*	14	10	*-4*
Social contributions	5,967	6,310	6,307	6,371	*61*	*64*	*404*	6,621	6,636	6,741	*120*	*105*	6,905	7,154	*249*	7,208	7,526	*319*
Property income	479	375	475	547	*172*	*72*	*68*	424	466	382	*-42*	*-84*	337	372	*35*	304	330	*26*
Other	2,152	2,269	2,283	2,375	*107*	*92*	*223*	2,538	2,612	2,595	*57*	*-17*	2,566	2,714	*148*	2,426	2,720	*294*
Total expenditure	**18,299**	**18,461**	**18,777**	**18,645**	***184***	***-131***	***346***	**19,160**	**19,296**	**19,539**	***379***	***243***	**19,511**	**20,579**	***1,067***	**19,906**	**21,070**	***1,164***
Compensation of employees	4,581	4,758	4,789	4,790	*33*	*1*	*209*	4,900	4,979	5,120	*220*	*141*	4,991	5,388	*397*	5,162	5,519	*357*
Intermediate consumption	2,597	2,639	2,822	2,729	*90*	*-93*	*132*	2,669	2,770	2,767	*99*	*-3*	2,725	2,813	*87*	2,774	2,883	*109*
Social benefits	7,075	7,276	7,265	7,302	*26*	*37*	*227*	7,560	7,482	7,580	*20*	*98*	7,798	7,968	*169*	8,083	8,286	*203*
Interest	1,220	991	1,116	1,073	*82*	*-43*	*-147*	917	874	932	*15*	*58*	893	833	*-60*	866	818	*-48*
Subsidies	315	379	372	323	*-56*	*-49*	*8*	419	394	331	*-89*	*-63*	378	342	*-36*	362	299	*-63*
Gross fixed capital formation	1,288	1,457	1,330	1,276	*-181*	*-54*	*-11*	1,642	1,774	1,603	*-40*	*-172*	1,709	1,915	*206*	1,665	1,955	*290*
Capital transfers	136	129	227	159	*30*	*-68*	*23*	96	122	172	*76*	*50*	59	164	*104*	62	142	*80*
Other	1,087	833	855	992	*160*	*137*	*-95*	961	896	1,030	*69*	*133*	957	1,151	*194*	904	1,158	*254*

Sources: Outcome for 2016 and 2017: SORS. Forecasts: Stability Programme 2017 (SP 17, Apr.17), Draft Budgetary Plan 2018 (DBP 18, Oct. 17), Stability Programme 2018 (SP 18, Apr. 18), FC calclulations.
Forecast values are calculated indirectly from shares in GDP, consequently numbers do not add up.

Table 4.3: Output gap estimates

% pot. GDP	IMF (Oct. 17)	EC (Nov.17)	OECD (Nov.17)	IMAD (Mar. 18)	SP 2018 (Apr. 18)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions
2001	-1.1	-0.2	-1.5	-0.2	-0.9	-0.7	-0.1	...	1.5	-0.4	-0.8
2002	-0.9	0.6	-1.1	0.5	-0.3	-0.6	-0.1	...	0.6	-0.2	-0.2
2003	-1.5	0.4	-1.6	0.2	-0.7	-1.4	-1.3	...	0.4	-0.7	-0.7
2004	-0.5	1.1	-0.6	1.0	0.3	-0.8	-1.0	...	0.9	0.1	0.3
2005	0.5	1.8	0.4	1.9	0.9	-0.2	-1.0	0.6	1.5	0.7	1.1
2006	3.1	3.8	3.0	4.0	3.0	2.3	1.3	3.2	3.0	3.0	3.4
2007	7.1	7.0	7.1	7.1	6.3	6.7	6.1	7.6	5.4	6.7	6.9
2008	7.9	6.6	7.8	6.8	6.4	8.5	7.8	4.8	5.5	6.9	7.1
2009	-1.8	-3.2	-2.2	-3.0	-3.7	-0.8	-1.5	-6.8	-0.2	-2.6	-2.8
2010	-1.2	-2.6	-1.8	-2.6	-3.5	0.1	-0.3	-1.9	-2.9	-1.9	-2.3
2011	-1.0	-2.3	-1.6	-2.4	-3.1	0.4	0.9	-1.9	-2.6	-1.5	-2.1
2012	-3.9	-5.0	-4.6	-5.3	-5.9	-2.7	-1.8	-4.9	-4.3	-4.3	-4.9
2013	-5.5	-6.1	-6.2	-6.6	-7.4	-4.6	-3.6	-4.3	-7.2	-5.7	-6.4
2014	-3.5	-4.0	-4.5	-4.8	-5.4	-3.2	-2.0	-1.5	-6.1	-3.9	-4.4
2015	-2.3	-2.7	-3.6	-3.8	-4.3	-3.1	-2.0	-0.7	-4.7	-3.0	-3.4
2016	-0.9	-0.8	-1.8	-2.4	-2.9	-2.8	-2.0	0.4	-3.7	-1.9	-1.8
2017	1.0	1.8	1.6	0.1	-0.3	-1.1	-0.5	2.7	-2.1	0.3	0.8
2018	1.5	3.3	4.2	2.3	2.0	0.6	0.9	3.0	0.5	2.0	2.7
2019	...	3.9	5.7	3.1	2.7	1.0	1.0	2.7	2.0	2.8	3.8
2020	...	...	...	3.0	2.6	1.0	0.6	1.4	3.0	1.9	2.8
2021	...	...	...	2.6	2.3	0.9	0.3	0.0	3.9	1.7	2.5

Sources: IMAD, EC, IMF, OECD, Stability Programme 2018, FC calculations.

* The table shows estimates of the output gap by domestic and international institutions that provide these estimates for Slovenia (IMAD, MF, EC, IMF, OECD) and estimates of the output gap generated by statistical models in which the potential product is determined by (i) HP filters at different values of the parameter λ (10,100,400), (ii) the 3-, 5- and 7-year average of GDP, (iii) factor models estimated on the basis of survey about limitations in the economy and forecasts of a simple VAR model that includes these factors, and factor models that take into account a large number of IMAD and EC macroeconomic variables in the estimates and forecasts; and (iv) the SVAR model based on the Blanchard and Quah methodology (1989), which uses restrictions with regard to the assumption that GDP is affected in the long term only by shocks in the aggregate supply, while demand shocks affect the level of activity only in the short term).

Table 4.4: Structural balance estimates

% GDP	IMF (Oct. 17)	EC (Nov.17)	OECD (Nov.17)	IMAD (Mar. 18)	SP 2018 (Apr. 18)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions
2001	-3.4	-3.8	-3.2	-3.8	-3.5	-3.5	-3.9	...	-4.6	-3.7	-3.5
2002	-3.4	-4.1	-3.3	-4.0	-3.7	-3.5	-3.7	...	-4.1	-3.7	-3.7
2003	-1.9	-2.8	-1.8	-2.7	-2.3	-1.9	-2.0	...	-2.8	-2.3	-2.3
2004	-1.5	-2.2	-1.4	-2.2	-1.8	-1.3	-1.2	...	-2.1	-1.7	-1.8
2005	-1.6	-2.2	-1.5	-2.2	-1.8	-1.2	-0.9	-1.6	-2.0	-1.7	-1.9
2006	-2.7	-3.0	-2.6	-3.1	-2.6	-2.3	-1.8	-2.7	-2.6	-2.6	-2.8
2007	-3.5	-3.4	-3.4	-3.5	-3.1	-3.3	-3.0	-3.7	-2.7	-3.3	-3.4
2008	-5.2	-4.6	-5.1	-4.7	-4.5	-5.5	-5.2	-3.7	-4.0	-4.7	-4.8
2009	-5.0	-4.3	-4.8	-4.4	-4.1	-5.5	-5.1	-2.6	-5.7	-4.6	-4.5
2010	-5.0	-4.3	-4.7	-4.3	-3.8	-5.5	-5.4	-4.6	-4.1	-4.6	-4.4
2011	-5.1	-4.4	-4.8	-4.4	-4.1	-5.8	-6.0	-4.7	-4.3	-4.8	-4.6
2012	-2.2	-1.6	-1.8	-1.5	-1.2	-2.7	-3.2	-1.7	-2.0	-2.0	-1.7
2013	-2.1	-1.8	-1.7	-1.5	-1.2	-2.5	-3.0	-2.6	-1.2	-2.0	-1.7
2014	-2.7	-2.4	-2.2	-2.0	-1.8	-2.8	-3.4	-3.6	-1.4	-2.5	-2.2
2015	-1.7	-1.5	-1.1	-1.0	-0.7	-1.3	-1.8	-2.5	-0.6	-1.3	-1.2
2016	-1.6	-1.6	-1.2	-0.8	-0.6	-0.7	-1.0	-2.2	-0.2	-1.1	-1.1
2017	-0.4	-0.8	-0.7	0.0	0.2	0.6	0.3	-1.2	1.1	-0.1	-0.3
2018	-0.3	-1.2	-1.6	-0.7	-0.5	0.1	0.0	-1.0	0.2	-0.5	-0.8
2019	...	-1.6	-2.5	-1.3	-1.1	-0.3	-0.2	-1.1	-0.7	-1.1	-1.6
2020	...	...	...	-0.9	-0.7	0.1	0.3	-0.1	-0.8	-0.3	-0.8
2021	...	...	...	-0.4	-0.2	0.4	0.7	0.9	-1.0	0.1	-0.3

Sources: IMAD, EC, IMF, OECD, Stability Programme 2018, FC calculations on the basis of Table 4.3.

Table 4.5: Structural effort estimates

p.p. GDP	IMF (Oct. 17)	EC (Nov.17)	OECD (Nov.17)	IMAD (Mar. 18)	SP 2018 (Apr. 18)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions
2001	0.2	-0.1	0.1	0.0	-0.1	0.2	0.2	...	0.1	0.1	0.0
2002	0.0	-0.3	-0.1	-0.2	-0.2	0.0	0.1	...	0.5	0.0	-0.2
2003	1.5	1.3	1.4	1.3	1.4	1.6	1.7	...	1.3	1.4	1.4
2004	0.5	0.6	0.4	0.5	0.5	0.6	0.8	...	0.7	0.6	0.5
2005	-0.1	0.0	-0.1	0.0	0.1	0.1	0.3	...	0.1	0.1	0.0
2006	-1.1	-0.8	-1.1	-0.9	-0.9	-1.1	-1.0	-1.1	-0.6	-1.0	-1.0
2007	-0.8	-0.4	-0.8	-0.4	-0.5	-1.0	-1.1	-1.0	0.0	-0.7	-0.6
2008	-1.7	-1.2	-1.7	-1.2	-1.4	-2.2	-2.2	0.0	-1.4	-1.4	-1.4
2009	0.2	0.2	0.3	0.3	0.4	0.0	0.0	1.1	-1.7	0.1	0.3
2010	0.0	0.1	0.1	0.1	0.2	-0.1	-0.3	-2.0	1.6	0.0	0.1
2011	-0.1	-0.2	-0.1	-0.1	-0.2	-0.2	-0.6	0.0	-0.2	-0.2	-0.2
2012	2.9	2.8	3.0	2.9	2.9	3.0	2.9	3.0	2.3	2.9	2.9
2013	0.1	-0.2	0.1	-0.1	0.0	0.2	0.2	-0.9	0.7	0.0	0.0
2014	-0.6	-0.6	-0.5	-0.5	-0.6	-0.3	-0.4	-1.0	-0.2	-0.5	-0.6
2015	1.0	0.9	1.1	1.1	1.0	1.5	1.6	1.2	0.9	1.1	1.0
2016	0.1	-0.1	-0.1	0.1	0.1	0.6	0.8	0.3	0.3	0.3	0.0
2017	1.2	0.8	0.5	0.9	0.8	1.2	1.4	1.0	1.3	1.0	0.8
2018	0.1	-0.4	-0.9	-0.7	-0.8	-0.5	-0.3	0.2	-0.9	-0.5	-0.5
2019	...	-0.5	-0.9	-0.6	-0.5	-0.4	-0.2	-0.1	-0.9	-0.5	-0.6
2020	...	...	...	0.4	0.4	0.4	0.5	1.0	-0.1	0.4	0.4
2021	...	...	...	0.5	0.4	0.3	0.5	1.0	-0.2	0.4	0.5

Sources: IMAD, EC, IMF, OECD, Stability Programme 2018, FC calculations on the basis of Table 4.3.

Table 4.6: Structural primary balance estimates

% GDP	IMF (Oct. 17)	EC (Nov.17)	OECD (Nov.17)	IMAD (Mar. 18)	SP 2018 (Apr. 18)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions
2001	-1.0	-1.5	-0.9	-1.5	-1.1	-1.2	-1.5	...	-2.3	-1.4	-1.2
2002	-1.2	-2.0	-1.1	-1.9	-1.5	-1.4	-1.6	...	-1.9	-1.6	-1.5
2003	0.0	-0.9	0.1	-0.8	-0.4	0.0	-0.1	...	-0.9	-0.4	-0.4
2004	0.2	-0.6	0.2	-0.5	-0.2	0.3	0.4	...	-0.4	-0.1	-0.2
2005	0.0	-0.7	0.0	-0.7	-0.2	0.3	0.7	-0.1	-0.5	-0.1	-0.3
2006	-1.3	-1.6	-1.3	-1.8	-1.3	-0.9	-0.5	-1.4	-1.3	-1.3	-1.5
2007	-2.2	-2.2	-2.2	-2.2	-1.8	-2.0	-1.7	-2.5	-1.4	-2.0	-2.1
2008	-4.1	-3.5	-4.0	-3.6	-3.4	-4.4	-4.1	-2.6	-2.9	-3.6	-3.7
2009	-3.7	-3.0	-3.5	-3.1	-2.8	-4.2	-3.8	-1.3	-4.4	-3.3	-3.2
2010	-3.3	-2.6	-3.0	-2.7	-2.2	-3.9	-3.8	-3.0	-2.5	-3.0	-2.8
2011	-3.2	-2.5	-2.9	-2.5	-2.2	-3.9	-4.1	-2.8	-2.4	-2.9	-2.7
2012	-0.1	0.4	0.2	0.5	0.8	-0.7	-1.1	0.3	0.1	0.0	0.4
2013	0.5	0.8	0.8	1.0	1.4	0.1	-0.4	-0.1	1.3	0.6	0.9
2014	0.6	0.8	1.1	1.2	1.5	0.4	-0.1	-0.4	1.8	0.8	1.0
2015	1.5	1.7	2.1	2.3	2.5	1.9	1.4	0.8	2.7	1.9	2.0
2016	1.5	1.4	1.9	2.2	2.4	2.4	2.0	0.8	2.8	1.9	1.9
2017	2.1	1.7	1.8	2.5	2.7	3.1	2.8	1.3	3.6	2.4	2.2
2018	1.7	0.8	0.4	1.3	1.5	2.1	2.0	1.0	2.2	1.5	1.2
2019	...	0.1	-0.8	0.4	0.6	1.4	1.4	0.6	0.9	0.6	0.1
2020	...	...	...	0.7	0.9	1.7	1.9	1.5	0.8	1.2	0.8
2021	...	...	...	1.1	1.2	1.9	2.2	2.3	0.5	1.5	1.1

Sources: IMAD EC, IMF, OECD, Ptability Programme 2018, FC calculations on the basis of Table 4.3.

Table 4.7: Structural primary effort estimates

p.p. GDP	IMF (Oct. 17)	EC (Nov.17)	OECD (Nov.17)	IMAD (Mar. 18)	SP 2018 (Apr. 18)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions
2001	0.2	-0.1	0.1	0.0	-0.1	0.1	0.1	...	0.1	0.0	0.0
2002	-0.2	-0.5	-0.2	-0.4	-0.4	-0.1	0.0	...	0.3	-0.2	-0.3
2003	1.2	1.1	1.2	1.1	1.1	1.3	1.5	...	1.0	1.2	1.1
2004	0.2	0.3	0.2	0.3	0.2	0.3	0.5	...	0.4	0.3	0.2
2005	-0.2	-0.1	-0.2	-0.2	-0.1	0.0	0.2	...	-0.1	-0.1	-0.2
2006	-1.3	-1.0	-1.3	-1.1	-1.0	-1.2	-1.1	-1.3	-0.8	-1.1	-1.1
2007	-0.9	-0.5	-0.9	-0.5	-0.6	-1.1	-1.3	-1.1	-0.2	-0.8	-0.7
2008	-1.8	-1.3	-1.8	-1.3	-1.5	-2.3	-2.3	-0.2	-1.5	-1.6	-1.6
2009	0.4	0.5	0.5	0.5	0.6	0.2	0.2	1.3	-1.5	0.3	0.5
2010	0.4	0.4	0.4	0.4	0.5	0.3	0.1	-1.7	1.9	0.3	0.4
2011	0.1	0.1	0.1	0.1	0.0	0.1	-0.4	0.2	0.1	0.1	0.1
2012	3.1	2.9	3.1	3.1	3.0	3.1	3.0	3.1	2.5	3.0	3.0
2013	0.6	0.4	0.6	0.5	0.6	0.8	0.7	-0.4	1.2	0.6	0.5
2014	0.1	0.1	0.2	0.2	0.1	0.4	0.3	-0.3	0.5	0.2	0.1
2015	1.0	0.9	1.1	1.1	1.0	1.5	1.5	1.2	0.8	1.1	1.0
2016	-0.1	-0.3	-0.3	-0.1	-0.1	0.4	0.6	0.1	0.1	0.0	-0.2
2017	0.6	0.3	-0.1	0.3	0.3	0.7	0.8	0.5	0.8	0.5	0.3
2018	-0.4	-0.9	-1.4	-1.2	-1.2	-0.9	-0.8	-0.3	-1.4	-0.9	-1.0
2019	...	-0.8	-1.3	-0.9	-0.9	-0.7	-0.6	-0.4	-1.3	-0.8	-0.9
2020	...	...	...	0.3	0.3	0.3	0.4	0.9	-0.2	0.3	0.3
2021	...	...	...	0.4	0.3	0.2	0.3	0.8	-0.3	0.3	0.3

Sources: IMAD EC, IMF, OECD, Stability Programme 2018, FC calculations on the basis of Table 4.3.

Table 4.8: Expenditure rule

	mio EUR, except when otherwise noted	2017	2018	2019
(1)	General government expenditure	18,645	19,539	20,579
(2)	Interest expenditure	1,073	932	833
(3)	Government expenditure on EU programmes fully matched by EU funds revenue	398	703	794
(4)	Gross fixed capital formation t-3 net of EU funds revenues spent in investment projects	*1,398*	*1,118*	*1,267*
(5)	Gross fixed capital formation t-2 net of EU funds revenues spent in investment projects	*1,118*	*1,267*	*1,203*
(6)	Gross fixed capital formation t-1 net of EU funds revenues spent in investment projects	*1,267*	*1,203*	*1,314*
(7)	Gross fixed capital formation t net of EU funds revenues spent in investment projects	1,203	1,314	1,602
(8)	Annual average gross fixed capital formation t-3 to t	1,247	1,225	1,347
(9)	Cyclical unemployment expenditure	9	23	5
(10)	One-offs on expenditure side	-22	-33	-20
(11)	*Discretionary measures current revenue*	0	0	0
(12)	*Discretionary measures capital transfers received*	0	0	0
(13)	*One-offs on the revenue side*	0	0	0
(14)	Total discretionary revenue measures	0	0	0
(16)	Revenue measures mandated by law	0	0	0
(17)	Corrected expenditure aggregate (nominal)	17,209	17,792	18,691
(18)	Corrected expenditure aggregate net of (14) and (16) (nominal)	17,209	17,792	18,691
(19)	Net public expenditure annual growth in % (nominal)	1.5	3.4	5.0
(20)	MTO (in % GDP)	0.25	0.25	0.25
(21)	Structural balance (in % GDP)	-0.1	-0.5	-1.1
(22)	Reference rate to be applied (real, in %)	-0.2	-0.6	0.0
(23)	GDP deflator (% change)	0.2	1.7	2.6
(24)	Reference rate to be applied (nominal, in %)	0.0	1.0	2.6
(25)	Deviation in year t (nominal)	-256	-410	-432
(26)	GDP (nominal)	43,278	46,588	49,611
(27)	Deviation in year t (in % GDP)	-0.6	-0.9	-0.9
(28)	Average deviation in t-1 and t (in % GDP)	-0.7	-0.7	-0.9
(29)	Total discretionary revenue measures net of one-offs	57	0	0
(30)	Corrected expenditure aggregate (nominal) net of one-offs	17,187	17,759	18,671
(31)	Corrected expenditure aggregate net of of one-offs (nominal)	17,130	17,759	18,671
(32)	Net public expenditure annual growth in % (nominal) net of one-offs	1.2	3.3	5.1
(33)	Deviation in year t (in national currency) net of one-offs	-212	-399	-446
(34)	Deviation net of one-offs in year t (in % GDP)	-0.5	-0.9	-0.9
(35)	Average deviation net of one-offs in t-1 and t (in % GDP)	-0.7	-0.7	-0.9

Sources: SORS, IMAD, Stability Programme 2016, 2017 and 2018, FC calculations.