**Executive Summary**

Having examined the proposal for the Ordinance Amending the Ordinance on the Framework for Preparing General Government Budgets for the 2018–2020 Period, the Fiscal Council has established that the projected fiscal trends could not ensure the sustainability of public finances.

Pursuant to the Fiscal Rule Act, the Fiscal Council is not obliged to give an opinion on the Draft Budget Plan. In mid-October 2018 the Government drew up a Draft Budget Plan for 2019 which was based on the assumption of unchanged policies. The revised proposal for the Draft Budget Plan for 2019, which was made in December 2018 and of which the Fiscal Council has taken note, indeed included the projections of key fiscal policy elements, but the Fiscal Council did not simultaneously receive for assessment a proposal for the revised state budget for 2019, on which it is obliged to give its opinion under the Fiscal Rule Act.

The Fiscal Council's statements about the macroeconomic situation and the projections that served as the basis for the submitted documents are the following:

- Economic growth is expected to slow down in 2019, but the situation will remain sufficiently favourable to allow the adoption of measures that would enable a sustainable improvement of public finances.
- The risks of economic growth below the projected level are increasing particularly in light of uncertainty in the international environment.

In the Fiscal Council's opinion, the expansive fiscal policy set in the current budget documents would not be adequate in 2019. Economic growth is expected to slow down, but the level of activity would still exceed that of the long-term economic potential. The main conclusions reached upon the examination of the available budget document proposals are as follows:

- The proposed amendments to the Ordinance on the Framework for Preparing General Government Budgets changes the target values only for 2019, which does not create a sound basis for ensuring medium-term fiscal sustainability.
- The fiscal rules based on the law would not be complied with in terms of the proposed amendments to the Ordinance on the Framework for Preparing General Government Budgets even though a modest nominal surplus in the general government sector has been projected for 2019. The projected trends thus show a deviation from the achievement of medium-term fiscal sustainability. The anticipated, albeit cyclical, decrease of debt-to-GDP ratio represents an exception in terms of compliance with the valid rules.
- The maximum general government expenditures, determined by the proposed amendments to the Ordinance on the Framework for Preparing General Government Budgets, are too high with respect to the projected revenues and in terms of the medium-term fiscal sustainability. Taking into account the national fiscal rules, they should be below the level determined by the proposed Framework by approximately EUR 270 million in 2019. The general government's nominal surplus should be higher by the same amount and thus reach about 1% of GDP in 2019.
- The approach to fiscal consolidation in the past two years was not sustainable since, in addition to the lifting of the remaining austerity measures and of the already adopted measures with fiscal consequences, a deterioration of the structural balance can be anticipated for 2019. Following two years of structural balance a structural deficit can be expected. A deterioration of the structural balance is even higher in the general government's primary balance, which does not include the currently still favourable trend in interest expenditure.
- In terms of the proposed Draft Budget Plan for 2019, 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.

- In terms of the proposed Draft Budget Plan for 2019, Slovenia would meet the required dynamic for reducing the debt-to-GDP ratio, which should next year be lower than 70% of GDP, but only on account of cyclical factors.

In light of a major risk of deviation from the fiscal rules in 2019, the Fiscal Council recommends the following:

- In current and in the anticipated macroeconomic environment, a slightly restrictive or, depending on the achievement of the medium-term fiscal objective, at least a neutral fiscal policy should be implemented. In circumstances of a relatively high public debt level, this would facilitate creating space for manoeuvre when a period of considerable slowdown in economic activity might occur;
- measures should be adopted to ensure a balanced structural position of the general government sector in the draft revised state budget for 2019. The proposed amendments to the Ordinance on the Framework for Preparing General Government Budgets for the 2018–2020 Period show a deviation from the sustainable fiscal policy;
- The Government of the Republic of Slovenia should adopt structural measures to ensure medium-term fiscal sustainability and to simultaneously increase long-term economic potential. These measures and the anticipated schedule for their implementation should be presented at the latest in the updated Stability Programme and in the accompanying National Reform Programme, both of which should be prepared in the spring of 2019;
- While preparing the updated Stability Programme for 2019 the Government of the Republic of Slovenia should prepare a consistent and credible Ordinance for the 2019–2022 period that will define a stable course for a medium-term fiscal policy. This and appropriate adjustments of the final Draft Budget Plan for 2019, which should be made on the adoption of the draft revised state budget for 2019, should help materialise the commitments made by the Government in respect of the fiscal rules.

The Fiscal Council also points out that it is essential to observe the precautionary principle in the case of negative risks in the macroeconomic environment in the planning of revenues and expenditures.