# EXECUTIVE SUMMARY

The Fiscal Council, after reviewing the draft Ordinance on the framework for the preparation of the general government budgets and the draft Stability Programme 2019, finds that in the 2019-2022 period the expected fiscal developments are outside the bounds of the fiscal rules in 2019, but are compliant with them from 2020 on. However, the projections set out in the submitted documents are set near the limit values of the fiscal rules. They are exposed to significant risks which arise in particular as a result of various economic policy measures which have been announced but have not yet been taken into account in the submitted documents. There are also risks arising from the macroeconomic environment. The persistence of a favourable economic developments allows for the adoption of the necessary structural measures that will ensure long-term fiscal sustainability, particularly given the increasing fiscal pressures associated with the ageing of the population.

With regard to the macroeconomic and fiscal projections, the Fiscal Council finds that:

- Economic growth is currently higher than the estimated growth of potential output. During the period covered by the Stability Programme 2019 the positive output gap will narrow, but only gradually. Domestic demand is expected to make an increased contribution to economic growth, while limiting factors on the labour market, also associated with demographic factors, are expected to lead to increased cost pressures.
- Economic growth, its changed structure and the continued reduction in expenditure on interest were the key factors behind last year's improved fiscal situation. The Stability Programme 2019 envisages a general government surplus in the 2019-2022 period at a level of approximately 1% of GDP. After this year's rise in growth of revenues and expenditure, growth is expected to slow in the coming years, which in our view is partly a consequence of a lack of clear policies from next year on.

With regard to the compliance with current fiscal rules (shown in Table 1), the main findings based on the draft Framework and projections within the Stability Programme 2019 are:

- In the assessment of the Fiscal Council, the submitted fiscal projections in the Stability Programme 2019 for the year 2019 are not in accordance with the fiscal rules. The Stability Programme 2019 envisages a higher level of general government expenditure in 2019 than was foreseen in the Ordinance on the framework for the preparation of budgets for the 2018-2020 period, adopted in December 2018.
- The EU's criterion that starting next year the deficit in Slovenia's structural position may not be higher than -0.25% of GDP, will be achieved during the projection period. Given the current assessment of the initial status in 2019, no fiscal effort will be required to achieve compliance with that rule in the 2020-2022 period. The Stability Programme 2019 does not define the medium-term balance as set out in Article 3 of the Fiscal Rule Act as a target unambiguously. The structural position is planned to be balanced in 2022 over the medium-term, taking account of the current estimates of the length of the business cycle. However, the estimates do indicate that structural surpluses will have to be created in order to achieve this target in the future.

- The EU's expenditure rule will not be complied with in 2019. In 2020 and on average in both years the net expenditure will grow more slowly than the estimated long-term growth of potential output.
- The debt rule will be complied with throughout the period, as the debt-to-GDP ratio will be reduced at an appropriate rate and is planned to be brought below the limit of 60% of GDP in 2021.
- Taking account of the average of a wider range of estimates of output gaps, the domestic fiscal rule will be complied with if the projections in the 2020-2022 period are met, as the planned levels of expenditure remain below the current estimates of the maximum benchmark expenditure based on the Fiscal Rule Act in all of the years concerned.

In the opinion of the Fiscal Council, the planned increase in the nominal surplus is associated with significant negative risks. This requires consistent adherence to the principle of caution in planning the key aggregates of fiscal policy, as set out in Article 4 of the Fiscal Rule Act. Therefore the Fiscal Council, despite the planned compliance with the fiscal rules in the draft Framework for the preparation of the general government budget for the 2020-2022 period and in the draft Stability Programme 2019, warns of the following risks associated with the projections in both documents:

- The projections included in the submitted documents currently take account only of the measures that will positively impact fiscal developments.
- Risks relating to revenues are associated primarily with the possible deterioration of conditions in the international environment and with measures that the government has already announced but have not yet been included in the assessed documents.
- Risks relating to expenditure are associated primarily with announced measures that could significantly worsen not just short-term but particularly long-term fiscal prospects, and with potential additional requirements for increasing expenditure.

Both of the submitted documents, in accordance with the law, present a basis for budgetary planning in the medium-term. The Fiscal Council expects that in the event of changed circumstances, the budget documents will also be appropriately amended, and that also in the event of their changes they will always be integrated within a comprehensive multiannual medium-term framework pursuant to the legislative requirements.

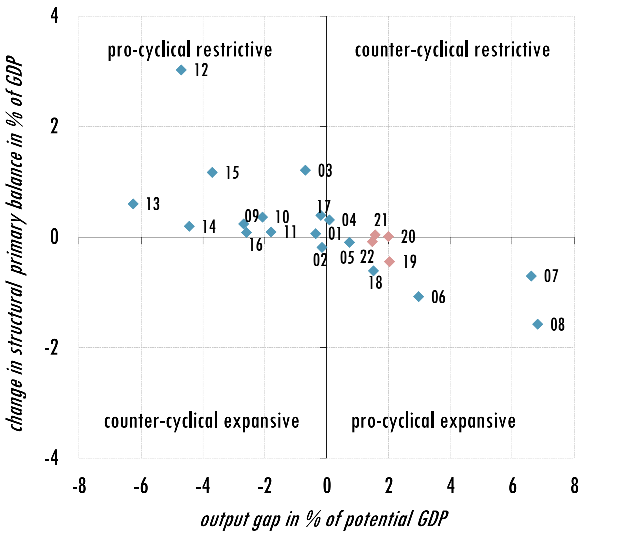
The planned roughly balanced structural fiscal position in the coming medium-term period and the persistence of a favourable macroeconomic developments create opportunities for the implementation of wide-reaching structural reforms. These would have to address the expected long-term deterioration of the fiscal situation associated with the ageing of the population already in the beginning of the political cycle. Otherwise, even in the absence of macroeconomic shocks, the fiscal pressures will increase, and will gradually require unpopular measures that could have a negative effect on the wellbeing of the population.

**Table1: Compliance with the fiscal rules**

| | | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| A | Medium term objective (MTO) | ✗ | ✓ | ✓ | ✓ |
| B | Expenditure rule | ✗ | ✓ | | |
| C | Change in gross public debt | ✓ | ✓ | ✓ | ✓ |
| D | Domestic fiscal rule | ✗ | ✓ | ✓ | ✓ |
| A | Structural balance (in % GDP) | -0.1 | 0.0 | 0.4 | 0.5 |
| | *Medium term objective (MTO)* | *0.25* | *-0.25* | *-0.25* | *-0.25* |
| | Medium-term balance (8 year average)* | | | | -0.1 |
| B | Growth in net expenditure (in %) | 5.3 | 3.9 | | |
| | *Reference rate to be applied - nominal (in %)* | *5.1* | *4.9* | | |
| C | Gross public debt (in % GDP) | 65.4 | 61.3 | 57.9 | 54.7 |
| | *Reference level of debt (in % GDP)* | *69.6* | *69.1* | *68.6* | *68.1* |
| D | Level of public expenditure in draft Framework 2020-2022 (mio EUR) | ... | 21,480 | 22,160 | 23,000 |
| | *Maximum level of public expenditure (mio EUR)* | *...* | *21,546* | *22,375* | *23,270* |

*Source: SORS, MoF, FC estimates and calculations. Note: * Balance over the business cycle.*

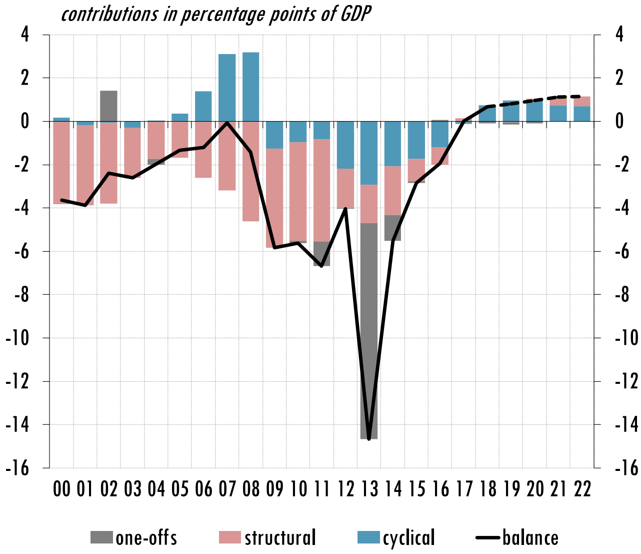
**Figure 1: Fiscal policy stance 2001–2022**




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

**Figure 2: Contributions to general government balance**

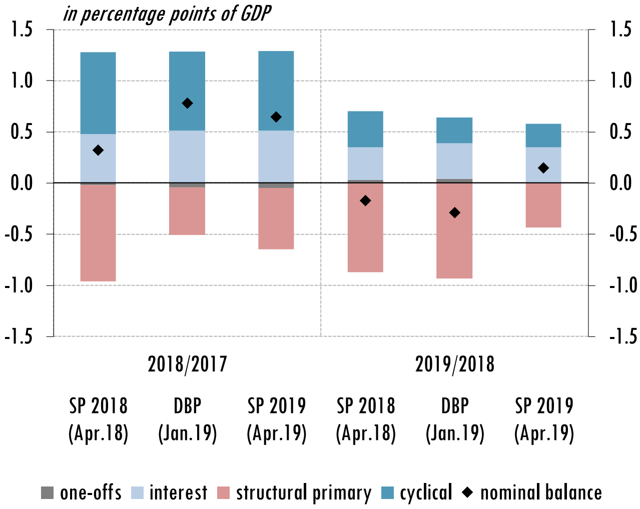
*contributions in percentage points of GDP*




*Source: SORS, Stability Programme 2019, FC calculations.*

**Figure 3: Contributions to change in nominal general government balance**

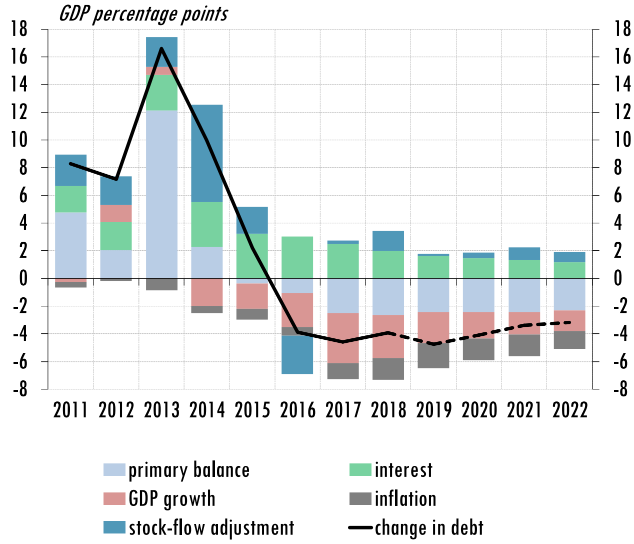
*in percentage points of GDP*




*Note: A decrease in interest expenditure is reflected in improvement in balance.*
*Source: MoF, FC calculations.*

**Figure 4: Change in general government debt**

*GDP percentage points*




*Source: SORS, Stability Programme 2019, FC calculations.*