

## Report on the Fiscal Council's operations in 2018

Pursuant to the Fiscal Rule Act, the Fiscal Council is required to submit a report on its operations in the past year to the National Assembly of the Republic of Slovenia by the end of May each year. The aforementioned Act, adopted in June 2015, identifies the Fiscal Council as an independent and autonomous state authority responsible for drawing up and publishing assessments of the budgetary policy's compliance with fiscal rules. The Fiscal Rule Act also defines how to implement Article 148 of the Constitution of the Republic of Slovenia, which lays down that revenues and expenditures of the general government budgets must be balanced in the medium term without borrowing, or revenues must exceed expenditures.

The present report is the first one to describe the operations and the activities of the Fiscal Council throughout the entire calendar year. The Fiscal Council became operational at the end of March 2017, after its members were appointed by a two-thirds majority vote by the National Assembly on 21 March 2017. The Fiscal Council holds that in 2018 all its obligations imposed by the legislation were duly fulfilled. The first part of the report describes the structure and various levels of operations of the Fiscal Council in the last year. In 2018, the Fiscal Council drew up all budgetary document assessments envisaged by the legislation, and at the same time responded to economic and political events that marked the past year. The second part of the report presents selected topics that the Fiscal Council examined in more detail and that constituted the basis for the opinions and assessments provided.

Challenges to the sustainability of public finances increased in 2018 due to the resignation of the Government, the interim period in which the Government did not have full powers and the pre-election campaign. In such a situation the Fiscal Council needed to draw up recommendations and opinions beyond the scope of documents directly required by law.

Despite a relatively uncertain political situation, 2018 was marked by strong economic growth and the continued consolidation of public finances. The general government revenue was boosted by a 4.5% economic growth rate, thus providing for a nominal surplus in the general government balance. This enabled Slovenia to maintain the structural balance and reduced the public debt-to-GDP ratio to 70% of GDP.

However, such results, supported by very favourable cyclical economic conditions, should not limit the search for measures to ensure societal welfare in the long term. Slovenia is increasingly facing challenges that will impact the long-term sustainability of public finances and the trends in economic potential in the future. Slovenia remains one of the EU Member States in which the general government expenditure related to population aging is expected to increase most, inter alia because the existing social protection systems are not sufficiently adapted to such a situation. A comprehensive set of measures to appropriately address these challenges should therefore be developed and adopted as soon as possible. High economic growth, facilitated by the current global economic expansion combined with historically low interest rates, will not indefinitely allow for favourable public finance trends. Therefore, it is necessary to take a prudent and cautious approach in good economic times and – in addition to addressing the long-term challenges – to look beyond political cycle horizon with the aim of building reserves to enable economic policy to respond appropriately in less favourable economic and demographic conditions.