REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Assessment of compliance of the supplemented Proposal of budgets of the Republic of Slovenia for 2020 and 2021 with the fiscal rules

November 2019

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Having reviewed the supplemented proposal of the budget documents (the supplemented 2020-2021 Budget proposal and the supplemented 2020 Draft Budgetary Plan), the Fiscal Council continues to assess that the fiscal development projections are clouded by significant negative risks. While projections formally comply with the fiscal rules, the Fiscal Council still notes inconsistencies between the projections of certain items and the proposed or applicable measures. The materialisation of only a small fraction of identified risks could result in a deviation from formal compliance.

On 20 October 2019, the Fiscal Council submitted the assessment of the compliance of the 2020-2021 Budget proposal with the fiscal rules to the Slovenian National Assembly and the Government as required by law.[1] The Fiscal Council proposed that the Government should prepare an amended state budget proposal for 2020 and 2021, which will take into consideration the financial impact of the proposed legislation and to support the proposal with measures consistent with the projected revenue and expenditure levels. On 6 November 2019, the Government submitted the supplemented 2020-2021 Budget proposal and the supplemented 2020 Draft Budgetary Plan to the Fiscal Council.

The substantive changes to the supplemented proposals of budget documents relate to taking into account the effects of the adopted amendments to tax legislation. They will reduce the fiscal balance on a cumulative basis in the 2020-2021 period by EUR 44 million. These projections are based on the assumption of improved tax collection efficiency. According to the supplemented Budget proposal of the Republic of Slovenia, in 2020 this refers to additional revenues from personal income tax, corporate income tax and VAT, and in 2021 to additional revenues from VAT. The total impact of these measures is estimated at EUR 74 million in 2020 and EUR 25 million in 2021. The Fiscal Council assesses that the assumption about the improved efficiency poses an additional risk to the revenue projections provided in the proposed budgets.

In addition, most of the risks identified by the Fiscal Council when assessing compliance with the 2020-2021 Budget proposal remain present in the supplemented budgetary documents. The materialisation of these risks could compromise the findings on formal compliance with the fiscal rules. The most important risks are as follows:

- The supplemented Budget proposal also includes items that have a positive impact on the fiscal balance, which, according to the Fiscal Council, do not currently have an adequate basis in the applicable legislation (a decrease in expenditure on transfers to individuals and households in 2020 compared to 2019).
- The proposed measures that are still being negotiated could add to the burden on public finance (an extraordinary adjustment of pensions).
- Some amendments to the legislation that are currently under discussion will, in the short-term, only have a minor negative effect on public finances, whereas in the long-term they may substantially reduce the sustainability of public finances, which the Fiscal Council has already pointed out (amendments to pension legislation).

The risks associated with macroeconomic forecasts arise, in particular, from the international environment to which IMAD has already drawn attention when drafting an alternative scenario. Incoming data and forecasts from other institutions, published after IMAD's forecast, confirm those risks.

The submitted budget documents show that in 2019-2021 the surplus of the general government is set at a level slightly below 1% of GDP throughout the period, while the surplus of the state budget is

[1] http://www.fs-rs.si/assessment-by-the-fiscal-council-compliance-of-the-proposal-of-budgets-of-the-republic-of-slovenia-for-2020-and-2021-with-the-fiscal-rules/

expected to increase from 0.3% in 2019 to over 1.2% of GDP in 2021. Gross general government debt is expected to decrease by the end of 2020 in nominal terms, and as a share in GDP and should be close to 60% of GDP.

The expenditure level of the general government in the 2020-2021 period that is set in the supplemented budget documents also exceeds the ceiling determined in the current Framework for drawing up general government budgets for the 2020-2022 period. This is due to the revision of the national accounts data after the date by which the Framework could still be amended. Based on the current estimates of the level of the output gap and revenue projections of the general government in the submitted budget documents, the Fiscal Council assesses that the projected level of general government expenditure is in line with the recalculated expenditure ceilings. The estimated annual structural balance is projected to run a surplus in the projection period and will thus formally be in compliance with the requirements of the Fiscal Rule Act and the Stability and Growth Pact. Taking into account the varying estimates of the length of the business cycle, the structural balance is expected to converge towards the balanced position over the medium-term. The Fiscal Council assesses that, in order to achieve this objective, the structural surpluses will also be necessary after 2021.

The Fiscal Council notes that the supplemented 2020-2021 Budget proposal continues to represent a fiscal policy managed in the absence of a comprehensive set of policies to adequately ensure the long -term sustainability of public finances, especially in relation to the ageing population. Recently, measures have been put in place or are in the pipeline that could lead to a structural deterioration in public finances in the future. In the past, the lack of room for manoeuvre within fiscal policy often led to a contraction in the government investment. In the period of an economic growth slowdown, the restrictive fiscal policy based on a contraction in the government investments would be inappropriate and would worsen the long-term economic outlook. In such economic conditions and given the significant negative macroeconomic risks, due account must be taken of the precautionary principle, which is also required under the Fiscal Rule Act.

Table 1: Compliance with fiscal rules

		2020	2021
A	Maximum threshold of general government expenditure (formal)*	(✗)	(✗)
	Maximum threshold of general government expenditure (recalculated)*	(✓)	(✓)
B	Minimum structural balance EU rules (MTO)	✓	✓
C	Expenditure rule EU	✓	...
D	Decline in gross government debt - EU rules	✓	...
A	Expenditure Framework 2020-2022 (mio EUR)	21,480	22,160
	Expenditure MoF projection (mio EUR)	21,885	22,676
	Recalculated maximum threshold expenditure (mio EUR)	*21,992*	*22,811*
B	Structural balance (% GDP)	0.2	0.2
	Minimum structural balance EU rules - MTO (% GDP)	*-0.25*	*-0.25*
	Structural balance over medium-term (% GDP)**	...	-1.0
C	Net expenditure growth - nominal (%)	3.9	...
	Maximum general government expenditure growth - nominal (%)	*4.9*	...
D	Gross government debt (% GDP)	62.1	...
	Maximum debt level (% GDP)	*69.4*	...

*Source: SORS, MoF, estimates and calculations FC. Note: *The difference in the estimate results from the revision of general government sector data.**Seven year period (2015-2021) is taken into account, in which - according to currently available information -the actual level of GDP moves from above- to below-potential output level and on average equals the potential GDP level.*

Table 2: Comparison of the original and supplemented 2020-2021 Budget proposal

EUR million	2019	2020		*difference*	2021		*difference*	change on previous year	
	estimate	Proposal (Sep. 19)	supplemented (Nov. 19)		Proposal (Sep. 19)	supplemented (Nov. 19)		2020 (Nov. 19)	2021 (Nov. 19)
Total revenue	**10,245**	**10,818**	**10,773**	**-45**	**11,112**	**11,112**	**0**	**528**	**338**
Personal income tax	1,357	1,469	1,360	-109	1,677	1,559	-118	3	199
Corporate income tax	1,000	1,082	1,111	29	1,157	1,251	94	111	140
Value added tax	3,948	4,153	4,188	36	4,349	4,374	25	240	185
Excise duties	1,541	1,530	1,530	0	1,523	1,523	0	-11	-8
Non-tax revenue	634	532	532	0	549	549	0	-102	17
Receipts from the EU budget	791	1,071	1,071	0	851	851	0	281	-221
Other	974	980	980	0	1,007	1,006	-1	6	26
Total expenditure	**10,091**	**10,350**	**10,358**	**8**	**10,455**	**10,455**	**0**	**267**	**97**
Salaries, wages and other personnel exp.	1,120	1,178	1,178	0	1,210	1,210	0	58	32
Expenditure on goods and services	865	904	904	0	1,066	1,063	-3	39	159
Transfers to individuals and households	1,425	1,332	1,332	0	1,341	1,341	0	-93	10
Interest payments	785	752	752	0	697	697	0	-33	-55
Subsidies	440	523	523	0	509	509	0	83	-14
Capital expenditure and transfers	1,050	1,157	1,157	0	989	992	3	107	-165
Current transfers to social security funds	1,072	1,106	1,106	0	1,102	1,102	0	34	-4
Current transf. to other government inst.	2,064	2,149	2,157	8	2,213	2,213	0	93	56
Other	1,270	1,250	1,250	0	1,328	1,328	0	-20	78
Balance	154	468	415	-53	657	657	0	261	241

Source: MoF, FC calculations.

Table 3: Comparison of the original and supplemented 2020 Draft Budgetary Plan

EUR million	2019 (DBP)	2020 (DBP Oct.19)	2020 (DBP Nov.19)	difference for 2020 between DBP (Nov. 19) and DBP (Oct. 19)	difference 2020-2019 DBP (Nov. 19)
Net lending / net borrowing	**391**	**446**	**446**	**0**	**55**
Total revenue	**21,467**	**22,330**	**22,330**	**0**	**863**
Total taxes	10,569	11,033	11,033	0	465
Taxes on production and imports	6,713	6,951	6,985	34	272
Current taxes on income, wealth, etc.	3,844	4,071	4,037	-34	193
Capital taxes	11	12	12	0	0
Social contributions	7,723	8,173	8,173	0	449
Property income	402	355	355	0	-46
Other	2,774	2,769	2,769	0	-5
Total expenditure	**21,076**	**21,885**	**21,885**	**0**	**808**
Compensation of employees	5,471	5,754	5,754	0	283
Intermediate consumption	2,933	3,039	3,039	0	106
Social benefits	8,484	8,840	8,840	0	356
Interest	789	757	757	0	-31
Subsidies	357	379	379	0	23
Gross fixed capital formation	1,844	1,962	1,962	0	118
Capital transfers	244	238	238	0	-6
Other	954	914	914	0	-40

Source: MoF, FC calculations.