



REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Fulfilment of conditions for the enforcement of exceptional circumstances

October 2020

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The assessment was prepared following a request by the Government of the Republic of Slovenia to evaluate the occurrence of exceptional circumstances (received on 30 September 2020). The documentation is mainly based on the text from Chapter 4.1 of the Assessments of budget documents for 2021 and 2022 (Fulfilment of conditions for the enforcement of exceptional circumstances, and the assessment of the draft Ordinance amending the Ordinance on a framework for the preparation of the general government budgets for the 2020–2022 period, draft Amendments to the Budget of the Republic of Slovenia for 2021 and draft Amendments to the Budget of the Republic of Slovenia for 2022). Data available up to and including 11 October 2020 was used.

The Fiscal Council notes that, given the available data and forecasts at the time of drafting this assessment, both conditions are met that, pursuant to Article 12 of the Fiscal Rule Act (hereinafter: FRA), enable exceptional circumstances to be enforced and thus permit a temporary deviation from achieving medium-term fiscal sustainability. In 2021, at least one of both legally stipulated conditions is expected to be met, while for 2022 this cannot be unequivocally confirmed. These findings are not static, but depend on the given circumstances and available forecasts, which is why they are subject to uncertainties and may change in the future. As of 30 September 2020, the Government of the Republic of Slovenia adopted a decision "...requesting the Fiscal Council to assess the occurrence of exceptional circumstances referred to in paragraph one of Article 12 of the Fiscal Rule Act (Official Gazette of the Republic of Slovenia [Uradni list RS], No. 55/15)" and communicated it to the Fiscal Council. In accordance with Article 12 of the FRA, the Government shall determine whether exceptional circumstances have arisen or have ceased to exist after obtaining the assessment of the Fiscal Council. In accordance with point 7 of paragraph two of Article 7 of the FRA, the assessment regarding the occurrence or cessation of exceptional circumstances shall be drafted and, in accordance with paragraph two of Article 12 of the FRA, provided in no later than 15 days, if the assessment is requested by the Government. The FRA does not specify the period that the Fiscal Council's assessment concerning the aforementioned conditions should refer to, as it merely requests the Fiscal Council to provide an assessment on the existence or non-existence of conditions on the basis of which exceptional circumstances may be enforced.

On 17 March 2020, the Fiscal Council assessed¹ the announcement of the epidemic as an unusual event, which, under Article 12 of the FRA, makes it possible to invoke exceptional circumstances for measures aimed at mitigating the consequences of such an event, and thus to temporarily deviate from the medium-term fiscal balanced position.² Considering the epidemiological situation, the

Figure 1: Real GDP and domestic consumption components during the crisis

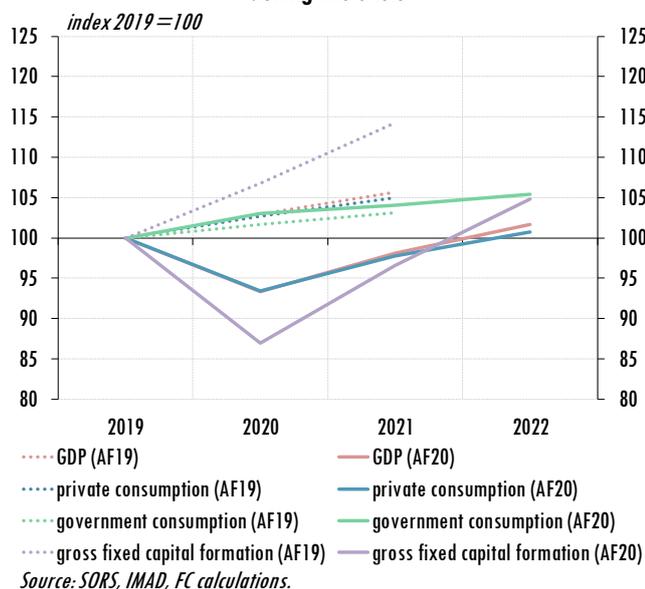
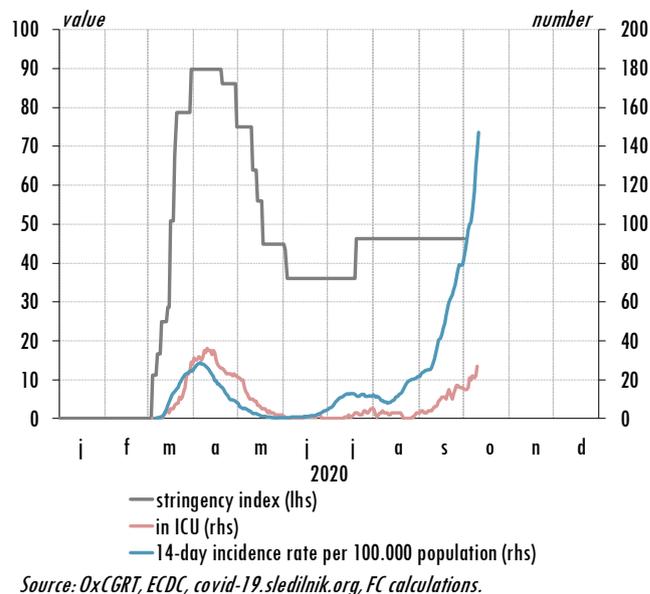


Figure 2: Stringency, ICU patients in 14-day incidence rate per 100.000 population



¹ Available at: http://www.fs-rs.si/wp-content/uploads/2020/03/Assessment_extraordinary-event-under-the-Fiscal-Rule-Act_March-2020.pdf

² On 23 March 2020, the EU Council, on the proposal of the EC, adopted a decision permitting "the possibility of a general deviation" (a general escape clause) from fiscal compliance during the pandemic. The latest available data gathered by the network of EU independent fiscal institutions, including the Fiscal Council as a network member, indicate that the exceptional circumstances that existed until the end of May 2020 and which permit deviations from national fiscal rules have been established by 19 out of 25 network members. See https://www.euifis.eu/download/european_fiscal_monitor_special_updatevol2_01.pdf (p. 1).

Fiscal Council assesses that the conditions for the enforcement of exceptional circumstances still exist at the time of drafting this assessment. At the same time, the Fiscal Council notes that the Government, bound by paragraph two of Article 12 of the FRA to determine the existence of exceptional circumstances on the basis of the Fiscal Council's assessment, has already used its assessment from March in Government's documents, while it has not yet formally established the occurrence of exceptional circumstances on the basis of the Fiscal Council's assessment.³

The Government's request to establish the occurrence of exceptional circumstances submitted at the end of September 2020 fails to follow the timeline for the preparation of the budget assessment that is to be drawn up by the Fiscal Council. Nevertheless, the law does not specify the time frame for the preparation of an exceptional circumstances assessment within the timeline of the budget drafting procedure. The Fiscal Council notes that, although their compliance with fiscal rules is to be determined by the Fiscal Council, the Government requested the assessment simultaneously with, i.e. upon the submission of budget documents for 2021 and 2022. In this regard, policies in budget documents should have depended on the assessment of the potential occurrence or existence of exceptional circumstances in the period that these documents refer to.

Although not in detail, the FRA lays down two conditions for the existence of exceptional circumstances that permit temporary deviations from the medium-term fiscal balanced position, provided that this does not endanger fiscal sustainability. In accordance with paragraph one of Article 12 of the FRA, such deviation is only permitted in (i) periods of severe economic downturn or (ii) in the case of an unusual event outside the control of the party concerned which has a major impact on the financial situation of the general government sector, as defined by the Stability and Growth Pact. The FRA does not set out the criteria for determining the severity of an economic downturn or the magnitude of the unusual event which has a major impact on the financial situation of the general government sector.⁴ Therefore, the Fiscal Council applies in its assessment the criteria for defining the adequacy of conditions which, according to the Fiscal Council, correspond best to the requirements referred to in the FRA.

The currently available data and forecasts show that the conditions enabling exceptional circumstances to be enforced could be met for this year and next, while for 2022 this cannot be unequivocally confirmed at the time. Given the (a) severe economic downturn in the first half of 2020, which according to the available data stood at 8% year-on-year, while a quarterly decline of GDP in the second quarter of 2020 amounted to almost 10%, and (b) the fact that the level of GDP in constant prices before the crisis (from the fourth quarter of 2019) will be reached in mid-2022 according to the Fiscal Council's calculations based on the autumn's forecast by the Institute of Macroeconomic Analysis and Development (hereinafter: IMAD), the Fiscal Council expects that (i) the condition referred to in the preceding paragraph will be met in 2021, while for 2022 this cannot be unequivocally confirmed. IMAD's forecasts also suggest that, with the exception of government spending, no component of domestic consumption in constant prices will reach the 2019 level in 2021. Similarly, the 2019 employment level is only expected to be reached in 2022, while the number of unemployed people in 2022 will be more than 10% higher than in the year before the crisis. The comparison of the level from the most recent IMAD's forecast with the projected level based on IMAD's autumn 2019 forecast (the last forecast before the crisis) reveals that, in 2022, household consumption will supposedly decrease by

³ <https://www.gov.si/assets/ministrstva/MF/ekonomska-in-fiskalna-politika/evropski-semester/Program-stabilnosti-2020.pdf>

⁴ For example, Article 2(2) of Council Regulation (EC) No 1467/97 defines a severe economic downturn as a negative GDP growth rate in fixed prices or an accumulated loss of output during a protracted period of very low annual GDP volume growth relative to its potential. According to the Fiscal Council, such definition may apply to the standard conditions of a business cycle, but not in the case when the annual GDP of an individual country and nearly all EU countries shrinks by almost 10%.

6% and gross fixed capital formation by about 15%, while government spending will remain virtually unchanged. Based on such comparison, the GDP would be lower by 6%. Although the Fiscal Council's assessment submitted in March 2020 determined the fulfilment of condition (ii) based on the declaration of the epidemic, the Fiscal Council estimates that, in spite of the absence of an epidemic being declared at this point, the condition (ii) remains fulfilled in light of the current epidemic situation and the tightening of restrictive measures. The fulfilment of condition (ii) for the entire 2021–2022 period that the draft budget refers to cannot be assessed by the Fiscal Council due to considerable uncertainty as to the future course of the epidemic.

Upon establishing the occurrence of the aforementioned conditions, the Fiscal Council has called for caution in the enforcement of measures during the period of exceptional circumstances. It noted that, in accordance with applicable European fiscal rules,⁵ the measures adopted to tackle exceptional circumstances should be temporary and should directly address the exceptional circumstances. Just as in March 2020, the Fiscal Council reiterates its expectations that the Government will precisely define and quantify the measures adopted to mitigate the consequences of the epidemic. Upon establishing the occurrence of conditions that enable the enforcement of exceptional circumstances, the Fiscal Council also warned that, after the period of exceptional circumstances has ended, the medium-term fiscal balanced position of the general government should be re-established as stipulated by Slovenian and European law.

The fulfilment of the aforementioned conditions permitting the enforcement of exceptional circumstances will be regularly examined by the Fiscal Council in its future assessments of budget documents. The assessment regarding the fulfilment of conditions for the enforcement of exceptional circumstances is not static, but may change depending on the given circumstances and projections. Thus, additional uncertainty is introduced into budget planning that requires additional caution and reflection on how to frame fiscal policy to eliminate any future need for implementing measures that could substantially change the course of the adopted policy

⁵ EC (2019). Vade Mecum on the Stability and Growth Pact 2019 Edition, p. 26 Available at: https://ec.europa.eu/info/publications/vade-mecum-stability-and-growth-pact-2019-edition_en.