REPUBLIC OF SLOVENIA
FISCAL COUNCIL

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Assessment of the sustainability and coherence of public finance policy with the fiscal rules on the basis of the proposal for the ORDINANCE ON AMENDMENTS TO THE ORDINANCE on the framework for the preparation of the general government budget for the period 2017-2019

On the basis of the Fiscal Rule Act (ZFisP UL, 55/15 (2.) point 8 of Article 7) the Fiscal Council is obliged to provide an opinion on changes to the framework regarding the sustainability and coherence of public finance policy with fiscal rules. Pursuant to paragraph 2 of Article 6 of the Fiscal Rule Act (Official Gazette of the Republic of Slovenia [Uradni list RS], No. 55/15) the Ministry of Finance sent on 24 April 2017 a proposal to the Fiscal Council for an Ordinance on amendments to the Ordinance on the framework for the preparation of the general government budget for the period 2017-2019. The submitted Draft Proposal of the Ordinance is identical to the proposal that the Government of the Republic of Slovenia adopted at its 129th regular session on 6 April 2017, the opinion on which has already been submitted by the Fiscal Council in the framework of the Assessment of the Sustainability and Coherence of Public Finance Policy with the Fiscal Rules on the basis of the draft proposal for the amended Stability Programme and the draft of the framework for the preparation of the general government budget for the period 2018-2020. This opinion was sent to the National Assembly of the Republic of Slovenia on 11 April 2017, and at the same time was reported to the Ministry of Finance.

The Fiscal Council expects the Government of the Republic of Slovenia to prepare a set of additional measures amounting to 0.2% of GDP for 2017, so that an average structural effort of 0.6% of GDP in 2016 and 2017, or at least a correspondingly increased fiscal effort of 0.2% of GDP for years 2018 and 2019, will be achieved by a lower level of expenditures. As long as the RS Government considers that an increase in expenditures for a particular area is reasonable, it should propose further measures for decreasing the expenditures in other areas.

The framework for the preparation of budgets should be set in such a way that the structural balance is achieved already by the mid-programme period. Until further reforms for increasing long-term sustainability are determined, the medium-term framework should be set up in such a way so as to enable the achievement of a subsequent structural surplus. In the following years, the upper limit of expenditures referred to in Article 3 of the Fiscal Rule Act must already be taken into account.

The Ordinance in question increases the expenditure framework for the general government sector for 2017. The transfers of expenditures among the general government sub-sectors should not influence an increase in the total framework. If there is a need to increase expenditure for a specific purpose, it is necessary to further reduce the others accordingly. The proposal is based on the assumption of an increase in revenues, which itself is based on a rather optimistic expectation of a 3.6% growth rate of GDP in 2017. Namely, the International Monetary Fund in its Staff Concluding Statement of the 2017 Article IV Mission March 28, 2017 for Slovenia expects a robust though only 3% GDP growth rate.

According to the latest published data of the Statistical Office of the Republic of Slovenia (April Excessive Deficit Procedure Report, Slovenia, 2013-2016, forecast 2017), the government deficit is higher than the one that forms the basis of the Draft Stability Program. After the first revision in 2016, it amounted to EUR 733 million or 1.8% of GDP, which is EUR 124 million or 0.3 percentage points more than in the first estimate published at the end of March (EUR 609 million or 1.5% of GDP). This correction too indicates the volatility of public finance data, which increases the degree of uncertainty.

Given the expected, although not fully certain favourable development of the macroeconomic situation, and with regard to known fiscal risks, the Fiscal Council has already recommended to the RS Government the appropriate specification of measures to increase the fiscal effort for 2017, in order to achieve an average fiscal effort of 0.6% of GDP in reducing the structural balance in 2016 and 2017. Thereby, taking into account domestic and external risks, compliance with the Stability and Growth Pact will be achieved, and thus also with the Fiscal Rule Act. Further to that, it was considered that the requirement of an additional structural effort of 0.2% of GDP in 2017 could be difficult to implement, as it requires qualitative structural changes, the effects of which may not be visible by the end of this year. Therefore the possibility was considered that – based on the measures taken by the RS Government in 2017 – an additional structural effort in the total amount of 0.2% of GDP should be made in the years 2018 and 2019. This allows for structural measures to be taken with consideration and are of such a nature as to ensure medium-term sustainability.

Therefore the Fiscal Council notes that such a framework for the government's budget for the period 2017 to 2019 could be acceptable **only if** the Government of the Republic of Slovenia **provides for the preparation and implementation of measures** already in the course of this year, which will enable the corresponding increase in the fiscal effort in 2018 and 2019.

Enclosure: Assessment of the sustainability and coherence of public finance policy with the fiscal rules on the basis of the amended Stability Programme and the draft proposal of the framework for the preparation of the general government budget for the period 2018-2020 of 11 April 2017.