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Press release

Fiscal Council recommendation:

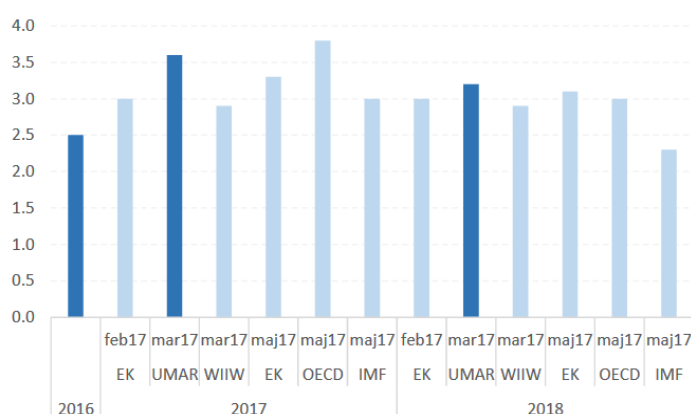
Strong economic growth facilitates and requires additional fiscal effort

All stakeholders proposing state budget expenditures should contribute constructively to conditions leading to sustainable medium-term public finances.

The first publication of SORS shows that GDP increased by 5.3% year-on-year in the first quarter of 2017, or by 1.5% compared to the previous quarter. The structure of economic growth is encouraging as it is based on high export growth and the growth of all components of domestic demand. Such growth reflects a high level of confidence in the economy and among consumers, which indicates the continuation of favourable conditions in the future.

The Ministry of Finance has set its targets for medium-term consolidation, as presented in the Stability Program - Supplement 2017 (PS 2017) and the Proposal of the Ordinance amending the Ordinance on the Framework for the Preparation of the general government budgets for the 2017–2019 period on the basis of the spring forecast of the IMAD.

Figure: Comparison of forecasts of institutions preparing forecasts for Slovenia for 2017



Source: Projections of the institutions.

Although the IMAD's GDP growth projections were, during the time of preparation, among the highest forecasts of institutions making assessments for Slovenia, the data for the first quarter of 2017, according to the Fiscal Council, suggest that the realization could be higher than the economic growth that formed the basis for the drafting of medium-term budget documents at the beginning of this year. A simple extrapolation of

the growth achieved in the first quarter, in the absence of further quarterly growth in the period to the end of the year, allows for GDP growth of an average of around 4% in 2017, which was not forecasted by any institution before the publication of data on GDP growth in the first quarter. Without the assumed absence of quarterly growth by the end of the year, average growth in 2017 could be even higher¹.

Table: Alternative scenario of economic growth in 2017

<i>GDP growth in %</i>	2015	2016	2017
IMAD forecast	2.3	2.5	3.6
Without quarterly growth in the remainder of 2017	2.3	2.5	4.0
Quarterly growth of the long-term potential product (2.6% per year) in the remainder of 2017	2.3	2.5	4.4

Source: SORS, calculations by Fiscal Council.

GDP growth that would exceed the current expectations could increase the currently estimated positive output gap. According to the projections in the PS 2017, it is expected to form already in 2017. Its further increase, which could mean a transition to overheating of the economy, requires consideration of the additional structural adjustment of public finances at least in 2018.

The consequences of more favourable macroeconomic conditions this year are reflected in high budgetary inflows. So far, the fiscal effort has been largely generated on the revenue side and by insisting on the set spending frameworks for all subsectors of the general government in 2017. In these much more favourable times the need for state intervention to promote growth and mitigate social conditions is lesser than during the recession, so it is necessary to limit expenditure to build-up reserves or accelerate the reduction of the government's debt. This implies the need to seek additional measures. Only in this way could the structural balance be brought closer to the required medium-term budgetary objective at a faster pace than expected in this period of a more favourable economic cycle.

Given the high current economic growth, the Fiscal Council reiterates its position on the need for an immediate determination of an additional structural fiscal effort² in 2017 and 2018, and supports the MF's³ response to the statistical release indicating high economic growth in the first quarter of 2017. The Fiscal Council further urges the Government of the Republic of Slovenia and all stakeholders involved in proposing budget expenditures to be prudent in the planning of general government expenditure when the budget for the following years is planned under favourable macroeconomic conditions. In favourable economic conditions too, the government must maintain countercyclical and prudent approach, and plan expenditures⁴ so as to create the conditions for ensuring a budgetary reserve for the period when the economic cycle again takes a downward course. This reserve was largely exhausted during the latest crisis, which was reflected in the rapid increase in general government debt, currently accounting for around 80% of GDP.

It is particularly important that, in the current phase of the political cycle, all stakeholders involved in proposing budget expenditure, including the social partners, should contribute constructively to conditions supporting sustainable medium-term public finances.

This recommendation was adopted by the Fiscal Council at its meeting on 6 June 2017.

¹All the above simulations are valid on the basis of currently known economic growth data, which may also change downwards, being subject to regular revisions.

²[http://www.fs-rs.si/wp-content/uploads/2017/04/Assessment of sustainability and coherence.pdf](http://www.fs-rs.si/wp-content/uploads/2017/04/Assessment%20of%20sustainability%20and%20coherence.pdf)

³http://www.mf.gov.si/si/medijsko_sredisce/novica/article/3/3213/

⁴ Caution in the planning of expenditures is also necessary because the currently known data may change and the actual GDP growth turns out to be lower than that indicated at present.