



Ref. No.: 30-1/2017/20

Date: 19 October 2017

Assessment by the Fiscal Council:

Compliance of the budgetary documents for the 2018–2020 period with the fiscal rules

Summary

On the basis of the review of the macroeconomic and fiscal trends forecasts the **Fiscal Council assesses that the submitted budgetary documents¹ are only partially in compliance with the fiscal rules** that apply in the period in which Slovenia has not yet achieved its medium-term fiscal target.

The growth of Slovenian economy will be robust in the coming years. In accordance with the current projections, in which the majority of risks are positive, this growth will not cause macroeconomic imbalances. On the basis of the currently available data, the Fiscal Council assesses that Slovenia will be in the upper area of the normal economic cycle. **Therefore, it should achieve the average annual structural effort of at least 0.6 percentage points of GDP in the years from 2017 to 2019.** By exerting such effort in the years from 2018 to 2019, the relevant structural surplus of at least 0.25% of GDP should be achieved already in 2019.

Main findings concerning the compliance with the applicable fiscal rules (see Table 1) are summarised in the following points:

- **Slovenia should achieve sufficient structural effort in 2018, but will not make up for failing to achieve appropriate improvement in the structural position in 2017**, when, according to the forecasts available, economic growth will be the highest in the period. **The majority of the expected fiscal effort is related to the cuts in interest expenditure**, which are mostly due to the extraordinary monetary policy measures, but the room for further expenditure cuts on this basis is becoming increasingly limited.
- **The structural position will not improve sufficiently in 2019** and Slovenia could risk the initiation of the excessive deviation procedure. The structural effort in the amount of 0.6 percentage points of GDP could be achieved in 2019 with the increase in headline surplus by approximately 1.0% of GDP in relation to the target balance referred to in the Ordinance on the framework for the preparation of the general government budget for the 2018–2020 period (or by 0.4% of GDP in relation to the target balance in 2019 referred to in the Draft budgetary plan for 2018).

¹ Ordinance amending the Ordinance on the framework for the preparation of the general government budget for the 2018–2020 period, Proposal for the amendment of the state budget for 2018, State budget proposal for 2019, Draft act governing the implementation of the budget for 2018 and 2019, 2018–2020 Budget Memorandum, Draft budgetary plan for 2018.

- **The two-year averages of the planned structural effort indicate the possibility of substantial deviation from the required structural adjustments in 2018 and 2019.** The failure to achieve appropriate two-year average structural efforts is the result of the insufficient structural effort in 2017, but even more so highlights the lack of medium-term orientation of the fiscal policy. Furthermore, the target scenarios of fiscal trends are exposed to risks due to still undefined developments in certain items (e.g. salaries, the dissemination of data related to interest expenditure) and simulations show that even relatively small deviations of economic growth from the baseline scenario could jeopardize the achievement of the relevant medium-term fiscal target in the coming years.
- **Slovenia will comply with the expenditure rule in 2018.** However, like in the assessment of the compliance of the draft of the Stability programme (2017 Update), the Fiscal Council **cannot assess the compliance with the expenditure rule in 2019** due to the lack of data, as the Ministry of Finance has not submitted the required information.²
- **In 2018 and 2019 Slovenia will comply with the debt-reduction rule, largely due to the favourable cyclical trends.**
- The Fiscal Council also points out that the target balances referred to in the Ordinance on the framework for amending the general government budget for the 2018–2020 period are not in accordance with the proposed state budgets for 2018 and 2019 (for the state budget) and with the medium-term fiscal targets referred to in the Draft budgetary plan for 2018 (for the general government). This indicates that **fiscal planning is not sufficiently oriented toward the medium term**. In view of this the prompt adoption of the new public finance act, which should eliminate these anomalies to the greatest extent possible, is essential.

It is necessary to implement a consistent restrictive fiscal policy in such favourable conditions of the economic cycle, so that the debt is gradually reduced to the pre-crisis level and sufficient buffer is created also with regard to demographic changes. This is particularly important for small economies, which are more exposed to external and internal shocks. **Therefore, the Fiscal Council again calls on all stakeholders participating in budget drafting to show moderation and thus contribute to achieving the state of public finances that will allow the fiscal policy to respond appropriately also in the periods when economic growth will be lower and demographic pressures accumulate further.**³ The guideline should be to ensure efficient expenditure, which should not diminish the quality of services and the performance of the public sector, and which will provide an inclusive and growth-friendly economic environment. Only fiscal policy sustainable in the long-term will create suitable conditions for sufficient confidence and an rise in economic potential, thus increasing the welfare of Slovenian population.

² Following the receipt of incomplete data on 16 October 2017, the Fiscal Council on 17 October 2017 requested that the Ministry of Finance provide data that would allow it to make calculations for the assessment of compliance with the expenditure rule in 2019. The Ministry of Finance did not provide these data.

³ They could also contribute to the change in the medium-term fiscal target. See footnote 10 of the main text.

Table 1: Summary of compliance with the fiscal rules

		Required	Proposal	Achievement	Deviation	Deviation	Significant		
				of rules	(% GDP)	(mio EUR)	deviation		
		Zahtevano	Predlog	Izpolnjevanje	Odstopanje	Odstopanje	Presežno		
					(% BDP)	(mio EUR)	odstopanje		
A. Fiskalni položaj									A. Fiscal stance
Strukturni saldo (% BDP)									Structural balance (% GDP)
2017	državni proračun	-	-1,6 / -0,8*						
2018	državni proračun	-	-1,1 / -0,1*	...	...	...	...
2019	državni proračun	-	-1,1 / -0,1*	...	...	...	...
2017	sektor država	0,25	-1,3 / 0,0*	MTO ni dosežen					
2018	sektor država	0,25	-0,8 / 0,2*	MTO ni dosežen	...	...	...
2019	sektor država	0,25	-1,0 / 0,0*	MTO ni dosežen	...	...	...
B. Strukturno prilagajanje									B. Structural adjustment
I. Sprememba strukturne bilance									I. Change in structural balance
Enoletna sprememba (o.t. BDP)									One year change (p.p. BDP)
2017	sektor država	0,6	-0,3 / 0,6*	NE	-0,9 / 0,0	-385 / 0	NE		
2018	sektor država	0,6	0,2 / 0,7*	DA	-0,4 / 0,1	-181 / 45	-		
2019	sektor država	0,6	-0,7 / -0,2*	NE	-0,7 / -0,2	-380 / -140	DA		
Dvoletna povprečna sprememba (o.t. BDP)									Two year change (p.p. BDP)
2018	sektor država	0,6	0,0 / 0,7*	NE	...	...	DA	
2019	sektor država	0,6	-0,2 / 0,3*	NE	...	...	DA	
II. Izdatkovno pravilo									II. Expenditure Rule
Enoletna sprememba (%)									One year change (%)
2017	sektor država	1,7	3,1	NE			NE		
2018	sektor država	2,2	1,0	DA					
Dvoletna povprečna sprememba (%)									Two year change (%)
2018	sektor država	2,0	2,0	(DA)					
C. Prilagajanje dolga									C. Debt adjustment
MLSA									MLSA
2018	sektor država	76,8	71,7	DA	...	...	-
Sprememba dolga (o.t. BDP)									Debt change (p.p. BDP)
2018	sektor država	-0,9	-3,5	DA	...	...	...

Note: *Two estimates are provided, given the minimum and maximum of the available output gap values. The output gap estimates made by the institutions (IMAD, MF, EC, IMF, OECD) and the output gap estimates based on statistical models (the potential GDP determined by the HP filter at various values of parameter λ (100, 400, 1600) and with a 7-year GDP average) were taken into account.

Source: Data from the Ministry of Finance and calculations by the Fiscal Council.