Press release on the issue of the publication entitled "Public Finance and Macroeconomic Developments"

18 January 2017

In addition to current trends, the publication "Public Finance and Macroeconomic Developments", issued by the Fiscal Council, will also include an assessment of the factors and risks that could affect the attainment of fiscal objectives. In accordance with the Fiscal Rule Act, the Fiscal Council publishes its assessments of compliance with fiscal rules in its regular publications when budget documents are being drafted and also has the obligation to monitor the current fiscal trends. The time intervals between each drafting of budget documents can sometimes exceed six months, and in the meantime, important macroeconomic and fiscal data are published. The Fiscal Council thus expects to issue the publication "Public Finance and Macroeconomic Developments " twice a year, i.e. in January and July.

Macroeconomic data published after the budget documents were drafted in the autumn of 2017 point to continued strong and broad-based economic growth. In line with macroeconomic trends, fiscal trends are also favourable, though the structural deficit and high level of general government debt remain present. According to the internationally comparable ESA methodology, the general government deficit further decreased last year due to stronger revenue growth. In the first three quarters of 2017, the general government deficit was 0.4% of GDP or 1.4 percentage points of GDP less than in the same period of the previous year. According to the Fiscal Council's estimate, the reduction in the structural balance deficit, which does not take into account cyclical trends and one-off measures, was much less significant.

The general government debt increased further in the first three quarters of the previous year. In addition to economic growth, the improvement in the primary balance also had a positive effect on the 3 percentage points reduction in the share of debt in GDP to 78.5%, while further reduction thereof is still inhibited primarily by high interest payments. In addition to favourable financing conditions, the Government's active debt-management policy has in recent years contributed to a significant reduction in the implicit rate of interest for the general government debt and to a more appropriate time distribution of liabilities.

In 2017, the Slovenian economy was still in a normal economic cycle. By taking into account the available forecasts and risk assessments, the prevailing positive risk assumed in relation to future economic trends relates to a potentially even stronger upswing in investment activity. Structural labour market restrictions could result in greater pressure on costs and prices in the economy. The Fiscal Council believes that the occurrence of the aforementioned risks could increase the probability of new macroeconomic imbalances and overheating of the economy.

On examining the budget documents for the period 2018–2020, the Fiscal Council found that they only partially complied with the fiscal rules. Any pressure on public finances would represent a deviation from the planned fiscal expenditure policy and require the adoption of new measures to at least minimise the impact of such expenditure on the general government balance. In very favourable economic conditions, any deviation from the efforts required to achieve medium-term sustainability of public finances would be unjustified, in particular given the public finance risks associated with the ageing of the population. The current pressure on public finances particularly points to the urgency of adopting more medium-term-oriented fiscal policy measures. Such measures would, in the longer term, ensure a more effective and more appropriate use of general government revenue which is based on the economic activity of the economy as a whole. In the present circumstances, a consistent countercyclical fiscal policy will be of key importance in order to provide economic policy-makers with sufficient space for manoeuvre, including in less favourable economic conditions.