

## Assessment by the Fiscal Council: Draft Stability Programme – the 2018 update is not in accordance with fiscal rules

The favourable economic situation in 2017 enabled an accelerated fiscal consolidation and further convergence towards the mid-term fiscal objective in Slovenia. Having examined the draft Stability Programme (SP 2018) for the 2018–2021 period, the Fiscal Council unfortunately needs to establish that the projected fiscal trends are not in compliance with fiscal rules. The appropriate mid-term fiscal objective, i.e. the surplus of a structural balance of 0.25% of GDP, will not be achieved over the period covered by the Stability Programme, as measures for further fiscal consolidation are not foreseen.

Basing the draft of the Stability Programme on the scenario of unchanged policies is reasonable in the current political situation, when the Government is limited to performing its regular duties. The deterioration of the structural balance in 2018 and 2019 based on the SP 2018, however, represents a deviation from the convergence towards the mid-term fiscal objective, which is problematic especially in the conditions of the currently high economic growth and the approaching peak of the economic cycle.

The government that will assume office after the elections will have to act immediately and thus enable further fiscal consolidation. In good economic times it is necessary to ensure a consistent counter-cyclical fiscal policy based on credible mid-term planning. This is necessary for creating sufficient surpluses providing for an adequate leeway for action when the economic cycle turns. This is also confirmed by the experience with the consequences of a pro-cyclical economic policy in the past.

Given the possibility that the formation of the new government may take a long time, the Fiscal Council calls upon the present Government to adopt measures restricting the growth in general government expenditure in 2018 so that it does not exceed the ceiling set in the Framework for the preparation of the general government budget from November 2017. This would prevent a considerable deviation from the convergence towards the mid-term fiscal objective. We assess that policies ensuring mid-term fiscal sustainability would not considerably hinder economic growth in the current favourable macroeconomic situation.

In view of the rapid growth in the gross domestic product, the decrease in the general government debt ratio is foreseen to continue even if the scenario of unchanged policies is applied, but only if the currently favourable situation does not worsen.

The need for action is also dictated by the uncertainty to which fiscal trends are subject. There is an increase noted in short-term risks in the domestic and, more so, in the international environment that could threaten the prospects for achieving mid-term fiscal sustainability. In the long run, Slovenia, whose government debt ratio remains relatively high, is also exposed to considerable risks based on the expected strengthening of unfavourable fiscal effects of demographic trends.