

Report on the Fiscal Council's operations in 2017

In accordance with the Fiscal Rule Act, the Fiscal Council is obliged to submit to the National Assembly a report on its operations in the previous year by the end of May each year. Pursuant to the aforementioned act, adopted in June 2015, the Fiscal Council is an independent and autonomous state authority that prepares and makes publicly available assessments regarding the compliance of fiscal policies with fiscal rules. The Fiscal Rule Act also defines the method of implementing Article 148 of the Constitution of the Republic of Slovenia, which lays down that revenues and expenditures of the budgets of the state must be balanced in the medium term without borrowing, or revenues must exceed expenditures. Ensuring fiscal balance hardly scores political points in the short term, as it usually implies an unpopular message of restrictions in (growth of) expenditure. This is one of the reasons why the Fiscal Council participates in drafting the fiscal policy through its assessments and opinions, thus increasing the transparency of the process and giving the public greater control over the process, which in turn imposes a greater fiscal and, consequently, political responsibility, on decision-makers.

The Fiscal Council started its operations at the end of March 2017, after the National Assembly had appointed its members by more than a two-thirds majority on 21 March 2017. The present report is thus the first one to describe the operations and activities of the new institution in the past year. In the opinion of the Fiscal Council all the obligations imposed by the legislation were duly fulfilled in 2017. The first part of the report describes the structure and various levels of operations of the Fiscal Council in the first year of its existence. In 2017 the Fiscal Council elaborated several assessments of the budgetary documents as imposed by the legislation, and at the same time responded to the macroeconomic and economic-political events that marked the past year. The second part of the report presents selected topics that the Fiscal Council has examined in detail and/or that constitute the basis for the opinions and assessments provided.

The first year of the Fiscal Council's operations was marked by strong economic growth and continued fiscal consolidation, which, however, is not a guarantee for a long-term sustainability of public finances. The general government revenues have been boosted by a 5% economic growth rate, thus providing for a slight nominal surplus of the general government balance. This balance has enabled Slovenia to draw closer to the structural balance and has significantly reduced the public debt-to-GDP ratio to 73.6%.

Nevertheless, such results, supported by very favourable cyclical economic conditions, should not encourage thoughts about putting an end to the efforts aimed at the ultimate consolidation of public finances. Due to political circumstances, no measures have been taken this year to ensure that the favourable fiscal trends would continue and/or would lead to the long-term sustainability of public finances, including, among other things, any measures to limit the growth of government expenditure. A similar opinion has been voiced by the European Commission in its proposal for recommendations on Slovenia's economic policies, drawn-up in May 2018.

Slovenia, despite its good economic performance, remains vulnerable to risks in terms of fiscal sustainability. The public debt is excessive and the medium-term fiscal target with a slight structural surplus has not yet been achieved; at the same time, Slovenia is one of the EU Member

States in which the general government expenditure on aging populations is expected to increase most, also due to the insufficiently adapted social protection systems. High levels of economic growth, facilitated by the current global economic expansion combined with simultaneous record low interest rates, will not persist over a longer period and thus enable favourable fiscal trends. The precautionary principle (as laid down by Article 4 of the Fiscal Rule Act) must be therefore an important consideration in public finance decision-making, given the uncertainties underlying the planning of the general government budgets (some of which are addressed in the selected topics of the Report on the Fiscal Council's operations in 2017).