REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Assessment of fiscal and macroeconomic consequences of the Coalition Agreement on Cooperation within the Government of the Republic of Slovenia in the 2018–2022 term-of-office

September 2018

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Summary

The *Coalition Agreement on Cooperation within the Government of the Republic of Slovenia in the 2018–2022 term-of-office*[1] provides only the government's general guidelines, which was also the case with the previous agreements. The fact that the content and the time-line of measures are not fully defined limits the usefulness of the Coalition Agreement, as the public cannot comprehensively evaluate the effects of the envisaged measures and hence the document cannot be used by economic agents to steer their expectations. Because they are not defined, it is also difficult to assess more precisely the fiscal and macroeconomic consequences of these measures. Therefore, the present assessment and simulation results may be considered merely as an indication of possible risks associated with the full implementation of the Coalition Agreement. The actual fiscal policy direction will be outlined in the autumn budget documents.

Having examined the Coalition Agreement, the Fiscal Council established that:

- Full implementation of the envisaged measures could significantly worsen the fiscal position, which would in turn distance Slovenia from its medium-term fiscal objective and ensuring fiscal sustainability. Considering the cyclical position of the economy, this would translate as procyclical and hence unsuitable fiscal policy.
- The basic framework of the Coalition Agreement indicates a considerable increase in the general government expenditure, with respect to which the objectives are presented in more detail, and an increase in taxation of households and the business sector with a much less detailed plan of measures.
- In order to ensure fiscal sustainability, the list of priority areas of expenditure should be shortened or expenditure in other areas reduced or revenues significantly increased through measures that at this point mostly cannot be quantified.
- The measures from the Coalition Agreement would in the short run provide further impetus to the high economic growth at the expense of a worsened fiscal situation and other macroeconomic balances.
- The Coalition Agreement does not adequately tackle the long-term risks to fiscal sustainability that are primarily linked to demographic change and the funding of social protection systems, or some of its anticipated measures even increase the risks in these areas. The envisaged measures in these areas tackle primarily the social status of pensioners. A law on long-term care is to be adopted and a demographic reserve fund established. However, the content and the timeline of these two measures are not defined.

Considering the relatively unfavourable effects of the measures in the Coalition Agreement on public finances, the Fiscal Council expects that the government's measures will pursue fiscal sustainability and respect the fiscal rule. The awareness of fiscal risks or taking them into consideration is usually not adequate during an economic upswing. The initially low general government debt level enabled Slovenia to independently tackle the crisis in the past, which significantly increased its debt. Owing to the current relatively high level of public debt, the fiscal space would be restricted in case of any new negative shocks hitting the economy.

[1] http://www.strankalms.si/o-stranki/koalicijski-sporazum-o-sodelovanju-v-vladi-republike-slovenije-za-mandatno-obdobje-2018-2022-2/

Introduction

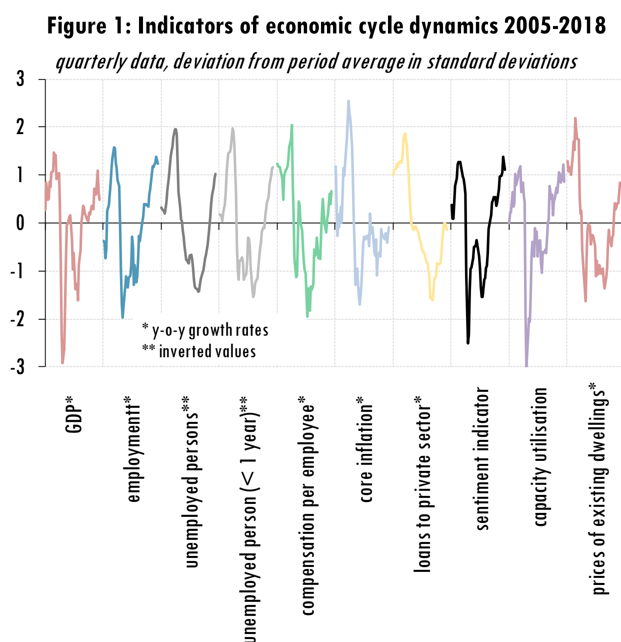
In addition to its regular statutory tasks that primarily focus on checking the compliance of budget documents with fiscal rules, the Fiscal Council also points to the impact of important political decisions on public finances. A coalition agreement is a government's key document and includes a package of measures with which the government plans to keep its election campaign promises. In accordance with its status and statutory powers, the Fiscal Council does not evaluate the suitability of measures envisaged in a coalition agreement but gives an overall assessment of their impact on fiscal sustainability. The Fiscal Council will continue to assess the essential economic policy documents and expects these documents to be comprehensive and to include more clearly defined measures, which would enable a suitable assessment of their impact. In the Netherlands for example, assessments of political parties' platforms in election campaigns and coalition agreements by the fiscal council have been a well-established practice for two decades.[2]

Macroeconomic conditions

According to the Fiscal Council's assessment, Slovenia has a positive output gap. Furthermore, according to the latest data from the Statistical Office of the Republic of Slovenia, the broad-based economic growth continued last year, reaching 4.9%. The situation on the labour market has further improved with accelerated growth of employment (2.9%) and employees' earnings (3.2%). The price trends remained moderate (1.7%). In addition to the output gap, certain other indicators used by the Fiscal Council to assess the cyclical position of the economy considerably exceed the average long-term values (capacity utilisation rate, lack of labour force, property prices). Economic growth, however, has slowed down in the first half of this year and amounted to 4.2% year-on-year. On the basis of the latest available macroeconomic forecasts for Slovenia and its main trading partners, economic growth is expected to continue to slow down gradually in the next years.

Figure 1: Indicators of economic cycle dynamics 2005-2018

quarterly data, deviation from period average in standard deviations



Sources: SORS, ECB, Eurostat, Employment Service of Slovenia, FC calculations.

[2] https://www.cpb.nl/en/topic/elections

Fiscal conditions

In line with the favourable economic trends, the general government deficit decreased significantly in recent years and a modest surplus was recorded in 2017. Although the government did not implement any active measures aimed at reducing the structural deficit, the latter shrunk in the favourable cyclical conditions primarily due to the gradual removal of anti-crisis measures introduced mostly in 2012 and 2013. As most of these measures were abolished, any future improvement of the structural situation of public finances or action preventing its worsening will have to stem from a proactive implementation of a comprehensive anti-cyclical economic policy. This was confirmed by the 2018 Stability Programme prepared under the assumption of a no-policy change scenario, which for the coming years again indicates a move away from the medium-term fiscal objective and a worsening of the structural balance, after the objective was nearly attained last year. The anticipated continuation of favourable economic conditions is a suitable basis for adequate nominal surpluses and the attainment of a medium-term fiscal objective. The fiscal policy would thus help reduce the general government debt and related costs of financing that annually total around EUR 1 billion.

The latest available data and estimates show relatively favourable trends in public finances in 2018 and the potential for a surplus higher than projected in the 2018 Stability Programme. This has been indicated by the fiscal trends over the past seven months, the Report on the implementation of the budget of the Republic of Slovenia for 2018 (in the period from January to June) and the Ministry of Finance's assessments of the budget realisation by the end of the year contained in this Report.[3] The realisation, however, may be better than projected by the 2018 Stability Programme due to the fact that the state budget and municipal budgets, along with the financial plans of the Pension and Invalidity Insurance Institute and the Health Insurance Institute, were prepared on the basis of IMAD's Autumn 2017 Forecast. It forecast a lower economic growth for 2018 than this year's Spring Forecast, on whose basis the 2018 Stability Programme was drawn up. A lower growth of revenue and expenditure was consequently anticipated in the budget documents currently in force. In recent months, the outgoing government adopted two measures, additionally increasing expenditure compared to the planned expenditure in the valid budget documents. Because of a rise in social assistance in cash, the government even temporarily halted the implementation of the general government budget in June, and in August, with a partial amendment to the Ordinance on the framework for the preparation of the general government budgets and pursuant to its own forecast of revenue until the end of 2018, raised the health insurance fund's expenditure.

Assessment of the impact of measures in the Coalition Agreement on fiscal and macroeconomic aggregates

The Coalition Agreement envisages extensive measures with a significant impact on public finances. The content and the timeline of the majority of these measures are not fully defined. The emphasis in the Coalition Agreement is placed on increasing public finance expenditure, which is also the more detailed part of the document. It at the same time envisages a rise in public finance revenue, primarily with the increase of tax burden and increase or reallocation of existing taxes but this is the less precise part of the document. From the standpoint of the long-term sustainability of public finances, the Fiscal Council estimates that the Coalition Agreement does not adequately tackle the key long-term challeng-

[3] The Ministry of Finance estimates that the surplus of the central government budget will amount to EUR 227 million this year; according to the budget currently in force it will amount to EUR 51 million.
http://www.mf.gov.si/fileadmin/mf.gov.si/pageuploads/mediji/2018/JULIJ/Porocilo_o_izvrsevanju_proracuna_januar-junij_2018.pdf

es to public finance, particularly the financing of social protection systems in light of demographic changes. The planned increase in pension expenditure and inadequately defined measures for a rise in revenue increase the risks for the sustainable financing of social protection systems or public finances in the long run.

The effects of the planned measures were assessed in three phases.

1. *The first phase* identified measures, whose effects are quantifiable on the basis of the available data and with the existing analytical tools. It was established that these measures represent only a small share of measures from the Coalition Agreement. Other measures, whose effects cannot be assessed, are listed in Appendix 1 together with their anticipated impact on public finance revenue and expenditure. It is not possible to assess, on the basis of the Coalition Agreement, to what extent the objectives or envisaged measures overlap in terms of expenditure primarily.
2. *In the second phase*, the effects of individual measures on public finances were evaluated ex ante via static simulation.
3. *In the third phase*, the impact of measures on fiscal and macroeconomic aggregates was simulated, taking into consideration the reverse effects.

Projections from the 2018 Stability Programme were used as the starting point in the assessment of the Coalition Agreement's impact. The basis for these projections included IMAD's spring forecasts. These two documents are the last consistent assessment or forecast of fiscal and macroeconomic trends. For the purpose of simulating fiscal and macroeconomic aggregate trends throughout the new government's term, we additionally assumed for 2022 that the trends forecast for 2021 would continue.

Static assessment of fiscal and macroeconomic effects of measures

The anticipated measures in the Coalition Agreement were classified into those directly changing revenue and those directly changing expenditure.[4] Having examined these two groups, it was established that measures increasing expenditure predominate. The assessed static effects must be interpreted with great caution as significant differences may occur in calculations of effects due to different assumptions. The effects of measures are hence presented via ranges presenting the minimum and the maximum estimated value. The data from the Coalition Agreement were used to determine the time when the measures will start taking effect. Where the Coalition Agreement defines the year in which the objective is to be reached (e.g. share of expenditure in GDP for a specific area by the end of the government's term-of-office), a linear increase of the share in GDP[5] between 2019 and 2022 was taken into consideration in the assessments.

The planned increase of the employers' contributions for pension and disability insurance is the most significant envisaged quantifiable measure affecting **public finance revenue**. The introduction of the healthcare cent and the lowest threshold for corporate income tax, and the integration of personal income from capital and annuities into the tax base for personal income tax would have a smaller effect. The envisaged increase in the minimum wage and the removal of supplementary health insurance, under the assumption that with respect to supplementary health insurance there will be no shift towards the introduction of income-based progressive payments, have a relatively neutral effect on the public

[4] The table of the estimated ranges of the effects of measures that are quantifiable is in Appendix 2.

[5] Nominal GDP in all static calculations is taken from IMAD's 2018 Spring Forecast; it was extrapolated for 2022 based on identical economic growth as forecast for 2021.

Table 1: Estimates of static effects of the envisaged measures on fiscal revenue, expenditure and balance

	in % of GDP			
	2019	2020	2021	2022
Revenue	1.9-2.2	2.2-2.5	2.4-2.9	2.8-3.2
Expenditure	2.7-3.2	3.8-4.8	4.9-6.4	6.1-8.0
NET EFFECT ON PUBLIC FINANCE	-0.6 to -1.4	-1.3 to -2.6	-2.0 to -4.0	-2.9 to -5.2

Note: Nominal GDP in 2022 is set by extrapolating the 2021 growth rate from IMAD 2018 Spring Forecast (5.3 %).

Source: FC estimates.

finance balance – the two were taken into account in both revenue and expenditure. When joined, these measures could, at the end of the government's term-of-office, increase the ex-ante revenue by around 3% of GDP or EUR 1.7 billion compared to the base-line scenario in the 2018 Stability Programme. Other envisaged measures concerning revenue could not be quantified (in particular, the introduction of real estate tax and compulsory insurance for long-term care, and reduction of the burden placed on labour by changes to income tax regulation) but their implementation could considerably alter the total assessment of the fiscal and macroeconomic effects.

The much more detailed measures concerning **public finance expenditure** would significantly increase expenditure over the next four years. Objectives concerning public funds in healthcare, education, research and development, defence, sport and housing are the most clearly defined. Depending on the initial position, the objectives in these areas imply an ex-ante increase in public expenditure between 4% and 6% of GDP or between EUR 2.3 and 3.5 billion in the next four years compared to the scenario in the 2018 Stability Programme. Other quantified measures concerning pensions, social assistance and free-of-charge kindergarten in total increase public expenditure by an additional 1% of GDP.

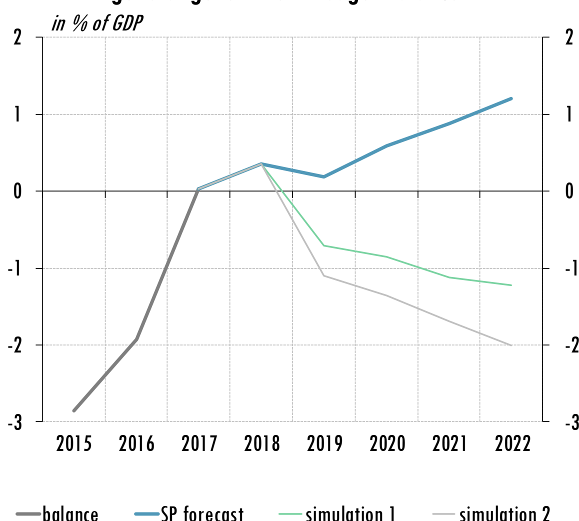
The static analysis of fiscal effects of the measures shows in 2022 a worsening in the **general government balance** between 2.9% and 5.2% of GDP or EUR 1.7 billion and 3 billion. The estimated ranges of the general government balance were defined on the basis of assessments of the envisaged measures' effects on general government revenue and expenditure that differed because they were made under different assumptions. The assessments with ranges were used to highlight the uncertainties associated with the assessment of the effects of measures in the Coalition Agreement.

Dynamic simulation of fiscal and macroeconomic effects of measures

The dynamic effects of measures envisaged in the Coalition Agreement were assessed in this phase. The initial and static effects of measures on individual fiscal components served as a basis for assessing their impact on fiscal and macroeconomic aggregates through their interaction. The scope of the shock was defined on the basis of the scope of effects – evaluated in the static analysis – on individual fiscal aggregates (revenue from indirect taxation, corporate income tax and social contributions, and expenditures on wages, investment, goods and services and social transfers) and, with respect to a rise in the minimum wage, also effects on the wages in the private sector. Shocks in the simulation of individual measures were defined separately for each measure while the simulation was conducted with the simultaneous application of these shocks.

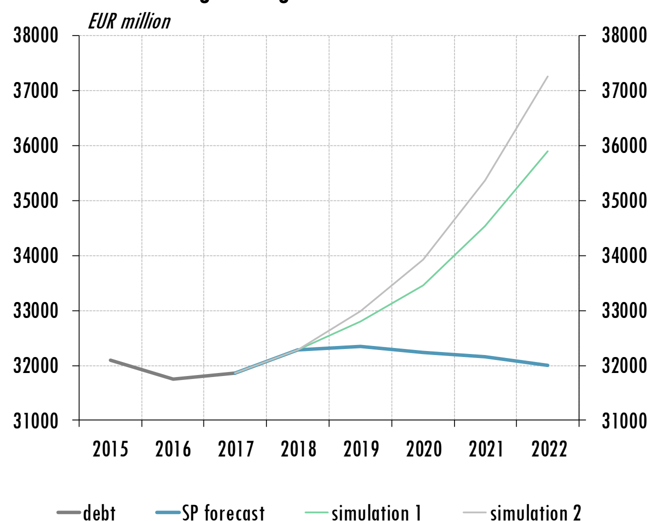
Contrary to the static simulation, the results of dynamic simulations show a smaller impact, yet still significant in terms of fiscal aggregates. Nevertheless, the dynamic simulation also implies that a devia-

Figure 2: Dynamic simulation of measures: effects on the general government budget balance



Source: SORS, forecast: Stability Programme 2018, FC calculations.

Figure 3: Dynamic simulation of the measures: effects on general government debt



Source: SORS, forecast: Stability Programme 2018, FC calculations.

Note: The nominal general government balance for 2022 was defined by extrapolating an identical increase in balance as forecast for 2021 in the 2018 Stability Programme. The public debt was determined accordingly. Results of two simulations based on different assumptions with respect to the implemented measures from the Coalition Agreement are presented. Simulation 1 includes a combination of measures with the biggest static effect on revenue and the smallest static effect on expenditure. Simulation 2, by contrast, includes a combination of measures with the smallest static effect on revenue and the biggest static effect on expenditure. See Appendix 2.

tion from projections of the baseline scenario or an additional deviation from the medium-term fiscal objective is very likely. The simulation also shows that, compared to the balance in the baseline scenario of the 2018 Stability Programme, the general government balance would worsen by around 3% of GDP and gradually move towards a deficit of 2% of GDP at the end of the simulation period. Considerable public funds earmarked for final consumption and investment of the general government sector and social transfers would temporarily increase economic activity but worsen other macroeconomic balances. Compared to the baseline scenario, inflation and labour costs would grow, which would in turn have an unfavourable impact on export trends. Rising imports driven by an increase in domestic consumption would consequently by the end of the simulation period cut the surplus of the current account balance almost by half.

Table 2: Dynamic simulation of measures: effects on macroeconomic aggregates

average 2019 - 2022	IMAD Spring 2018*	FC** Simulation 1 (dynamic)	FC** Simulation 2 (dynamic)
GDP - real growth in %	3.3	3.9	4.2
Employment - change in %	0.8	1.0	0.9
Inflation - end of year	2.3	2.5	2.7
Current account balance - in % of GDP	6.9	5.7	5.4

*Notes: *Data for 2022 is identical to 2021 forecast. **A dynamic simulation of the effects of measures from the Coalition Agreement. Simulation 1 includes a combination of measures with the biggest static effect on revenue and the smallest static effect on expenditure. Simulation 2, by contrast, includes a combination of measures with the smallest static effect on revenue and the biggest static effect on expenditure. See Appendix 2.*

Source: IMAD Spring forecast 2018, FC estimates.

It is important to draw attention to a merely temporary effect on promotion of economic growth through additional spending of the general government sector. According to the results of the simulation, a slower dynamic of private investment and slowed down growth of exports would bring economic growth more or less on a par with the projected growth in the 2018 Stability Programme already by the end of the period. The results of long-term simulations also imply that after 2022 also the level of economic activity could start lagging behind the one in the baseline scenario.

As the assessments from dynamic simulations are also exposed to considerable uncertainties, the simulation results are merely a starting point for defining risks associated with the implementation of all the proposed measures. The applied relations between fiscal and macroeconomic aggregates are based on the behaviour of economic agents in the past, which may change as a result of major interventions with general government expenditure and revenue assumed in the simulations. Furthermore, the relations are exclusively of macroeconomic nature and thus prevent us from including all the specific details of individual measures in the simulations. Simulation results must be interpreted with caution also because the response of international financial markets or a potential increase in the required yields on sovereign debt has not been taken into consideration in the calculations. Financial markets would most probably respond to increased general government borrowing and the private sector financing costs would in turn go up, which could translate into reduced economic activity of this part of the economy.

Risks

A considerable portion of the measures in the Coalition Agreement that may have a significant impact on public finances and behaviour of economic agents has not yet been presented to the extent that would enable an assessment of their effects. As a result, the fiscal and macroeconomic effects of the implemented measures may differ greatly from the current estimates.

Negative risks associated with the international environment have been increasing in macroeconomic terms and could significantly slow down the recent economic growth forecasts. Economic growth in Slovenia has slowed in the first half of this year. A potential more significant slow-down of economic growth in the next years than forecasted in spring could imply a smaller growth in general government revenue from that projected in the 2018 Stability Programme.

The demands of the public sector trade unions – negotiations with them were interrupted in spring 2018 – were not considered in the simulations and hence pose the greatest short-term risk from the standpoint of public finances. The government's most recent offer amounted to approximately EUR 260 million. The medium-term risk is associated with the possibility of a continued or even accelerated relatively high employment growth in the public sector that would be in part a direct consequence of the adoption of certain envisaged measures. This could lead to an increase in general government expenditure on compensation of employees that is much more pronounced than the projection in the 2018 Stability Programme. The risk of an additional increase in the funds for employees is probably somewhat reduced by the anticipated increase in the funds for healthcare, education, defence, and research and development. An increase in these expenditures was considered in the present simulations and could at least in part involve an increase in compensation of employees.

Long-term risks are primarily associated with the fiscal consequences of demographic change, which is not adequately addressed by the Coalition Agreement. Structural measures in the Coalition Agreement that could mitigate these risks include only the transformation of KAD (Pension Fund Management) into a demographic reserve fund and the adoption of the law on long-term care – the two measures

are not defined in terms of their content and timeline. The transfer from the general government budget to the pension fund currently totals EUR 1.1 billion per year. In order to provide this amount and additional funds, the demographic reserve fund would need to have an extremely significant amount of very profitable assets.

The counter-cyclical action of the golden investment rule mentioned in the Coalition Agreement is not detailed enough so as to facilitate assessment of the manner and effectiveness of its implementation.

The positive risks for public finances in the Coalition Agreement stem from its anticipated measures to increase revenue. However, a bigger tax burden for citizens and businesses would probably force economic agents to behave differently and these measures would have less positive effects on public finances than envisaged by legislation. This primarily refers to the envisaged introduction of the real estate tax and compulsory insurance for long-term care.

Compliance with fiscal rules upon the implementation of measures

The assessments of fiscal and macroeconomic effects of proposed measures serve as a basis for checking compliance with fiscal rules. The Fiscal Council assesses that the implementation of the proposed measures together with the estimated worsening of the fiscal situation would distance Slovenia from long-term fiscal sustainability and compliance with fiscal rules. This table was compiled on the basis of the available data and shows only the simulation of the attainment of the medium-term fiscal objective and the structural effort.

Table 3: Compliance with fiscal rules considering the estimated effects of the measures

	share of GDP, in %			
	2019	2020	2021	2022
Structural balance				
Stability Programme 2018	-1.1	-0.4	0.1	0.4
Static simulation 1	-1.7	-1.7	-1.9	-2.5
Static simulation 2	-2.4	-3.1	-4.0	-4.9
Dynamic simulation 1	-2.0	-1.9	-1.9	-2.1
Dynamic simulation 2	-2.4	-2.4	-2.5	-2.8
Structural effort				
Stability Programme 2018	-0.5	0.7	0.5	0.3
Static simulation 1	-1.1	-0.1	-0.2	-0.5
Static simulation 2	-1.9	-0.6	-0.9	-0.9
Dynamic simulation 1	-1.5	0.1	-0.1	-0.1
Dynamic simulation 2	-1.8	0.0	-0.1	-0.3
One-off measures	0.0	0.0	0.0	0.0
Output gap (June 18)	2.7	2.1	1.7	1.7

Note: Nominal GDP in 2022 is set by extrapolating the 2021 growth rate from IMAD Spring Forecast 2018 (5.3 %). The nominal general government balance for 2022 was defined by extrapolating an identical increase in balance as forecast for 2021 in the 2018 Stability Programme. The public debt was determined accordingly. Results of two simulations based on different assumptions with respect to the implemented measures from the Coalition Agreement are presented. Simulation 1 includes a combination of measures with the biggest static effect on revenue and the smallest static effect on expenditure. Simulation 2, by contrast, includes a combination of measures with the smallest static effect on revenue and the biggest static effect on expenditure. See Appendix 2.

Source: MoF Stability Programme 2018, FC estimates.

APPENDICES

Appendix 1: Measures which were not incorporated in the calculation of the estimates of the effects due to lack of precise definition and their possible (positive or negative) effect on public finance revenue and expenditure

REVENUE		EXPENDITURE	
+	-	+	-
Introduction of real estate tax	Reduction of income tax (or an increase in general income tax relief, or potential changes to the income tax scale and income brackets)	Continuation of negotiations in the public sector regarding the elimination of anomalies	Reduction of the administrative burden, more efficient public procurement
Introduction of compulsory social insurance for long-term care	Introduction of tax relief – up to 5% of a person's annual income tax assessment basis – on funds invested in culture, sport, health and craft works	Introduction of different incentives and reliefs (active employment policy for older persons, integration of low-income employees into supplementary pension insurance, financial and education support to cooperatives and social entrepreneurship, provision of financing sources for the strengthening of the construction sector, integration of researchers into the European research area, increased funding for excellence in universities, co-financing of doctoral studies, co-financing of voluntary organisations active in the system of protection against natural disasters, technical committees for quality management in construction, higher subsidies for public transport, co-financing investment in agriculture, incentives for corporate scholarships, a rise in the supplement paid to social assistance recipients for their active approach, free-of-charge textbooks in the first triad, twice as much funds for NGOs and self-employed in culture)	Removal of subsidies harmful to the environment and climate
Payment of social insurance contributions for any type of work	Revision of the mechanism of financial incentives for businesses (including SMEs) based primarily on tax relief for companies	Targeted increase in employment (an independent agency for standardisation in healthcare, adequate number of staff caring for the elderly, twice as many labour inspectors, more young researchers, more staff in the Slovenian Water Agency, introduction of civic education)	
Provision of a systemic source for the financing of Slovenian tourism	Re-introduction of seniority relief	Broader base for entitlement to social transfers and higher transfers (a rise in disability and widow(er)s' pensions, guaranteed minimum maternity benefit for all mothers who are citizens of the Republic of Slovenia, broader base for entitlement to income pension supplement, a rise in minimum income, a rise in the minimum unemployment benefit)	
Introduction of a surcharge on all transactions to tax oases	Zero VAT rate on books, e-books and magazines	Increase in funds for primary healthcare, including an increase in the number of doctors and other health professionals	
Redirection of concessions now awarded to student work services (around EUR 10 million per year) to the scholarship fund		Funds to reduce waiting times in healthcare	
Law on cultural Euro		Transformation of KAD (the Pension Fund) into a demographic reserve fund by transferring assets and providing additional permanent financial sources for the fund	
		Increase in lump-sums mitigating regional differences	
		Investment in the real estate area (to set up a network of sheltered housing units and provide more student accommodation)	
		Investment in infrastructure (start of the construction of the 2nd railway track, the 3rd development axis, completion of hydroelectric power plants on the lower Sava river, start of construction works on the middle Sava river, modernisation of energy networks, provision of ultra-speed Internet, railway stations, rehabilitation of degraded sites, construction of solar and wind power plants, renovation of the key cultural	

Appendix 2: Static estimates of fiscal effects of the envisaged measures

	in % of GDP			
	2019	2020	2021	2022
REVENUE				
a) a rise in contributions for pension and disability insurance paid by employers (0.8% annually)	0.28-0.31	0.55-0.61	0.83-0.93	1.11-1.25
b) integration of personal income from capital and annuities into the tax base for personal income tax assessment	0.19-0.39	0.19-0.39	0.19-0.39	0.19-0.39
c) introduction of the lowest threshold for the corporate income tax (5%)	0.06-0.10	0.06-0.10	0.06-0.10	0.06-0.10
d) introduction of the healthcare cent	0.12	0.12	0.11	0.11
e) a rise in the minimum wage (4.5% annually)	0.07-0.10	0.12-0.15	0.03-0.20	0.17-0.23
f) removal of supplementary health insurance and its transfer to compulsory health insurance	1.16	1.14	1.13	1.12
TOTAL	**1.9-2.2**	**2.2-2.5**	**2.4-2.9**	**2.8-3.2**
EXPENDITURE				
a) a rise in funds for healthcare to 9% of GDP, share of public funds at least 85%	0.24-0.44	0.48-0.88	0.71-1.31	0.95-1.75
b) a rise in funds for education to 6% of GDP	0.10-0.30	0.20-0.60	0.30-0.90	0.40-1.20
c) funding of defence in compliance with international commitments (2% of GDP)	0.25-0.28	0.50-0.55	0.75-0.83	1.00-1.10
d) a rise in funds for sport to 1% of GDP	0.17-0.23	0.34-0.46	0.51-0.69	0.68-0.92
e) a rise in funds for research and development to 1% of GDP	0.13-0.15	0.25-0.30	0.38-0.45	0.50-0.60
f) a rise in housing funds to 0.4% of GDP	0.09	0.18	0.28	0.37
g) a rise above the poverty threshold in the minimum pension paid for a full pension qualifying period	0.13	0.24	0.34	0.43
h) additional extraordinary adjustments of pensions to economic growth	0.09	0.09	0.09	0.09
i) progressive annual allowance for pensioners	0.04	0.04	0.04	0.03
j) a rise in social assistance to EUR 385	0.20	0.19	0.18	0.17
k) free of charge kindergarten	0.23	0.22	0.21	0.20
l) a rise in the minimum wage (4.5% annually)	0.01-0.05	0.06-0.07	0.06-0.09	0.12-0.24
m) removal of supplementary health insurance and its transfer to compulsory health insurance	1.04	1.03	1.02	1.00
TOTAL	**2.7-3.2**	**3.8-4.8**	**4.9-6.4**	**6.1-8.0**
Net impact on public finances	**-0.6 to -1.4**	**-1.3 to -2.6**	**-2.0 to -4.0**	**-2.9 to -5.2**

Note: Nominal GDP in 2022 is set by extrapolating the 2021 growth rate from IMAD Spring Forecast 2018 (5.3 %).

Source: FC estimates.

Appendix 3: Simulation of the effects of the measures from the Coalition Agreement (CA) on the baseline scenario of the Stability Programme 2018 (SP 2018)

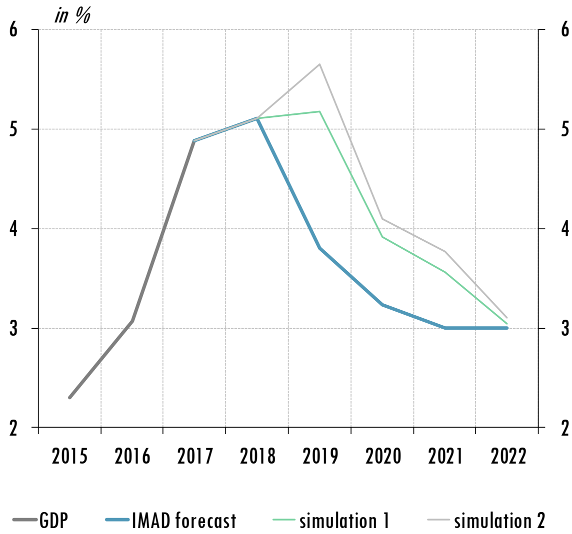
	2019	2020	2021	2022
SP 2018	share of GDP, in %			
Total general government revenue	41.7	40.8	39.8	38.8
Total general government expenditure	41.5	40.2	38.9	37.6
Net lending / net borrowing	0.2	0.6	0.9	1.2
Estimated effect of CA (deviations from SP 2018)	*GDP percentage points*			
Static simulation 1				
Total general government revenue	2.2	2.5	2.9	3.2
Total general government expenditure	2.7	3.8	4.9	6.1
Net lending / net borrowing	-0.6	-1.3	-2.0	-2.9
Static simulation 2				
Total general government revenue	1.9	2.2	2.4	2.8
Total general government expenditure	3.2	4.8	6.4	8.0
Net lending / net borrowing	-1.4	-2.6	-4.0	-5.2
Dynamic simulation1				
Total general government revenue	0.5	0.4	0.3	0.4
Total general government expenditure	1.4	1.8	2.3	2.8
Net lending / net borrowing	-0.9	-1.5	-2.0	-2.4
Dynamic simulation 2				
Total general government revenue	0.3	0.1	0.1	0.1
Total general government expenditure	1.6	2.1	2.7	3.4
Net lending / net borrowing	-1.3	-2.0	-2.6	-3.2
Coalition Agreement scenario	share of GDP, in %			
Static simulation 1				
Total general government revenue	43.8	43.3	42.6	41.9
Total general government expenditure	44.2	44.0	43.8	43.6
Net lending / net borrowing	-0.4	-0.7	-1.1	-1.7
Static simulation 2				
Total general government revenue	43.5	43.0	42.1	41.5
Total general government expenditure	44.7	45.0	45.3	45.6
Net lending / net borrowing	-1.2	-2.1	-3.2	-4.1
Dynamic simulation1				
Total general government revenue	42.2	41.2	40.1	39.1
Total general government expenditure	42.9	42.0	41.2	40.4
Net lending / net borrowing	-0.7	-0.9	-1.1	-1.2
Dynamic simulation 2				
Total general government revenue	41.9	40.9	39.9	38.9
Total general government expenditure	43.1	42.3	41.6	40.9
Net lending / net borrowing	-1.1	-1.4	-1.7	-2.0

Note: Nominal GDP in 2022 is set by extrapolating the 2021 growth rate from IMAD Spring Forecast 2018 (5.3 %). The nominal general government balance for 2022 was defined by extrapolating an identical increase in balance as forecast for 2021 in the 2018 Stability Programme. The public debt was determined accordingly. Results of two simulations based on different assumptions with respect to the implemented measures from the Coalition Agreement are presented. Simulation 1 includes a combination of measures with the biggest static effect on revenue and the smallest static effect on expenditure. Simulation 2, by contrast, includes a combination of measures with the smallest static effect on revenue and the biggest static effect on expenditure. See Appendix 2.

Source: MoF Stability Programme 2018, FC estimates.

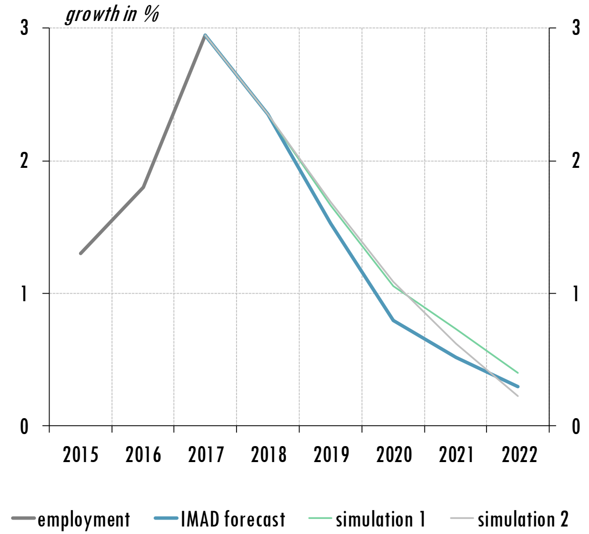
Appendix 4: Dynamic simulation - effects of the measures on selected macroeconomic aggregates

Figure 1: Effects on real GDP growth



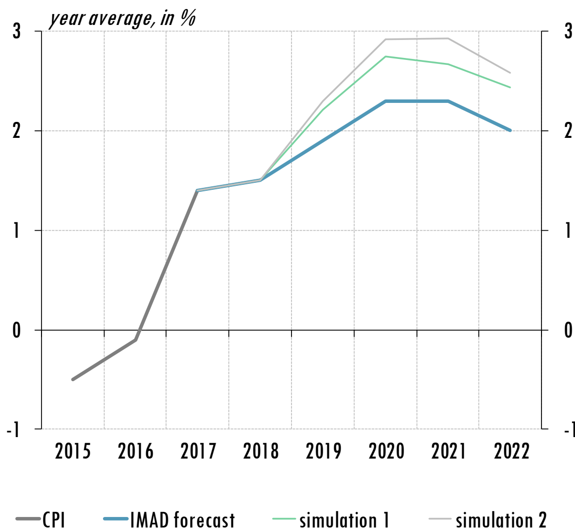
Source: SORS, forecast: IMAD Spring forecast 2018, FC calculations.

Figure 2: Effects on employment



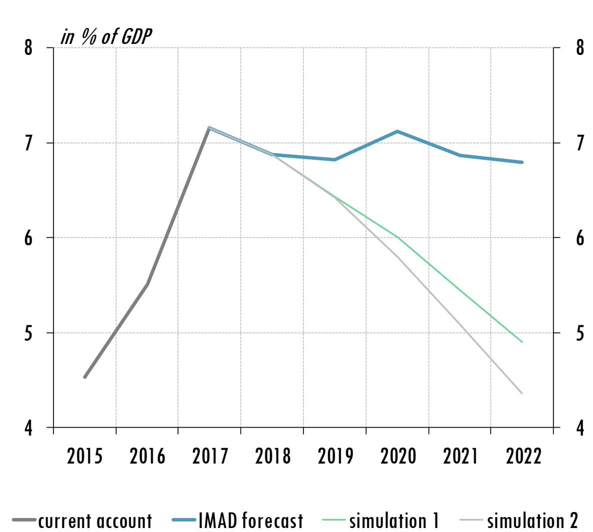
Source: SORS, forecast: IMAD Spring forecast 2018, FC calculations.

Figure 3: Effects on inflation



Source: SORS, forecast: IMAD Spring forecast 2018, FC calculations.

Figure 4: Effects on current account balance



Source: SORS, forecast: IMAD Spring forecast 2018, FC calculations.

Note: Simulation 1 includes a combination of measures with the biggest static effect on revenue and the smallest static effect on expenditure. Simulation 2, by contrast, includes a combination of measures with the smallest static effect on revenue and the biggest static effect on expenditure.