REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Assessment of compliance of fiscal policy with the fiscal rules on the basis of the draft Stability Programme 2019 and the proposed Ordinance on the framework for the preparation of the general government budgets for the 2020-2022 period

April 2019

Document No.: 30-2/2019/3

The assessment is based on the proposal of the Framework for the drafting of the budgets of the general government sector for the 2020-2022 period and the draft Stability Programme 2019, which were received by the Fiscal Council on 10 April 2019. Some forecast values in EUR were calculated indirectly from rounded shares in GDP shown in the Stability Programme 2019, therefore certain items do not sum up. Account was taken of data available up to and including 10 April 2019.

TABLE OF CONTENTS:

Executive Summary	**5**
Legislative framework	**8**
1. Macroeconomic conditions and forecasts for the 2019-2022 period	**9**
1.1 An overview of macroeconomic conditions and projections	**9**
1.2 Assessment of the cyclical position of the economy	**11**
1.3 Comparison of macroeconomic scenarios in the Stability Programmes 2019 and 2018	**13**
1.4 Risks to the macroeconomic scenario	**13**
2. The budgetary trends projected by the draft Stability Programme 2019	**15**
2.1 An overview of the public finance projections	**15**
2.2 Comparison of budgetary trend projections in the 2019 and 2018 Stability Programmes	**20**
2.3 Risks to public finances	**21**
3. Compliance of the proposal of the Framework and the draft SP 2019 with fiscal rules	**24**
3.1 Compliance with the national fiscal rule	**24**
3.2 Achievement of medium-term budgetary objective	**28**
3.3 Compliance with the structural effort rule	**29**
3.4 Compliance with the expenditure rule	**30**
3.5 Compliance with the general government debt rule	**30**
4. Statistical annex	**32**

FIGURES:

Figure 1	Fiscal policy stance 2001–2022	7
Figure 2	Contributions to general government balance	7
Figure 3	Contributions to changes in nominal general government balance	7
Figure 4	Change in general government debt	7
Figure 1.1	Contributions to y-o-yreal GDP growth	9
Figure 1.2	Contributions to nominal GDP growth	10
Figure 1.3	Growth of macroeconomic aggregates	10
Figure 1.4	Output gap estimates	12
Figure 1.5	Output gap estimates for 2019–2022	12
Figure 1.6	Indicators of economic cycle dynamics 2005–2019	12
Figure 1.7	Indicators of economic cycle dynamics	12
Figure 1.8	International environment - expectations	14
Figure 1.9	Forecasts of real GDP growth in Slovenia for 2019	14
Figure 2.1	Main aggregates of the general government 2018 - change on 2017	15
Figure 2.2	Main aggregates of the general government 2018 - difference between the outcome and DBP 2019	15
Figure 2.3	General government balance and primary balance	16
Figure 2.4	Change in nominal general government balance	16
Figure 2.5	Revenue types and their bases	17
Figure 2.6	General government revenue growth	17
Figure 2.7	Expenditure categories	18
Figure 2.8	Structure of general government investment growth	18
Figure 2.9	General government debt	19
Figure 2.10	Harmonised long-term interest rate* and implicit public debt interest rate	19
Figure 2.11	Change between 2021 and 2017, comparison between SP 2019 in SP 2018	20
Figure 2.12	Difference between expenditure outcome and forecast in Stability programmes two years ahead	21
Figure 2.13	Estimates of sensitivity of general government balance (ESA) to deviation in GDP growth	22
Figure 2.14	Estimates of sensitivity of general government debt (ESA) to deviation in GDP growth	22
Figure 2.15	Estimates of sensitivity of general government balance (ESA) to interest rate deviation of 1 p.p.	22
Figure 2.16	Estimates of sensitivity of general government debt (ESA) to interest rate deviation of 1 p.p.	22
Figure 3.1	Structural balance over the medium-term	25
Figure 3.2	Estimates of maximum level of general government expenditure	25
Figure 3.3	Structural balance estimates	28
Figure 3.4	Structural primary balance estimates	28
Figure 3.5	Debt reduction rule	31

TABLES:

Table 1	Compliance with fiscal rules	7
Table 1.1	IMAD forecasts	13
Table 2.1	Key revenue and expenditure categories 2018–2022	16
Table 3.1	Previous two Frameworks and simulation of the Framework for budget preparation	26
Table 3.2	Calculation of compliance with the maximum expenditure rule	27
Table 4.1	Comparison of macroeconomic projections for 2019 and 2020	32
Table 4.2	Comparison of outcome and forecast for the 2017–2021 period	33
Table 4.3	Output gap estimates	34
Table 4.4	Structural balance estimates	35
Table 4.5	Structural effort estimates	36
Table 4.6	Structural primary balance estimates	37
Table 4.7	Structural primary effort estimates	38
Table 4.8	Maximum expenditure and deviation from the Framework	39

EXECUTIVE SUMMARY

The Fiscal Council, after reviewing the draft Ordinance on the framework for the preparation of the general government budgets and the draft Stability Programme 2019, finds that in the 2019-2022 period the expected fiscal developments are outside the bounds of the fiscal rules in 2019, but are compliant with them from 2020 on. However, the projections set out in the submitted documents are set near the limit values of the fiscal rules. They are exposed to significant risks which arise in particular as a result of various economic policy measures which have been announced but have not yet been taken into account in the submitted documents. There are also risks arising from the macroeconomic environment. The persistence of a favourable economic developments allows for the adoption of the necessary structural measures that will ensure long-term fiscal sustainability, particularly given the increasing fiscal pressures associated with the ageing of the population.

With regard to the macroeconomic and fiscal projections, the Fiscal Council finds that:

- Economic growth is currently higher than the estimated growth of potential output. During the period covered by the Stability Programme 2019 the positive output gap will narrow, but only gradually. Domestic demand is expected to make an increased contribution to economic growth, while limiting factors on the labour market, also associated with demographic factors, are expected to lead to increased cost pressures.
- Economic growth, its changed structure and the continued reduction in expenditure on interest were the key factors behind last year's improved fiscal situation. The Stability Programme 2019 envisages a general government surplus in the 2019-2022 period at a level of approximately 1% of GDP. After this year's rise in growth of revenues and expenditure, growth is expected to slow in the coming years, which in our view is partly a consequence of a lack of clear policies from next year on.

With regard to the compliance with current fiscal rules (shown in Table 1), the main findings based on the draft Framework and projections within the Stability Programme 2019 are:

- In the assessment of the Fiscal Council, the submitted fiscal projections in the Stability Programme 2019 for the year 2019 are not in accordance with the fiscal rules. The Stability Programme 2019 envisages a higher level of general government expenditure in 2019 than was foreseen in the Ordinance on the framework for the preparation of budgets for the 2018-2020 period, adopted in December 2018.
- The EU's criterion that starting next year the deficit in Slovenia's structural position may not be higher than -0.25% of GDP, will be achieved during the projection period. Given the current assessment of the initial status in 2019, no fiscal effort will be required to achieve compliance with that rule in the 2020-2022 period. The Stability Programme 2019 does not define the medium-term balance as set out in Article 3 of the Fiscal Rule Act as a target unambiguously. The structural position is planned to be balanced in 2022 over the medium-term, taking account of the current estimates of the length of the business cycle. However, the estimates do indicate that structural surpluses will have to be created in order to achieve this target in the future.

- The EU's expenditure rule will not be complied with in 2019. In 2020 and on average in both years the net expenditure will grow more slowly than the estimated long-term growth of potential output.
- The debt rule will be complied with throughout the period, as the debt-to-GDP ratio will be reduced at an appropriate rate and is planned to be brought below the limit of 60% of GDP in 2021.
- Taking account of the average of a wider range of estimates of output gaps, the domestic fiscal rule will be complied with if the projections in the 2020-2022 period are met, as the planned levels of expenditure remain below the current estimates of the maximum benchmark expenditure based on the Fiscal Rule Act in all of the years concerned.

In the opinion of the Fiscal Council, the planned increase in the nominal surplus is associated with significant negative risks. This requires consistent adherence to the principle of caution in planning the key aggregates of fiscal policy, as set out in Article 4 of the Fiscal Rule Act. Therefore the Fiscal Council, despite the planned compliance with the fiscal rules in the draft Framework for the preparation of the general government budget for the 2020-2022 period and in the draft Stability Programme 2019, warns of the following risks associated with the projections in both documents:

- The projections included in the submitted documents currently take account only of the measures that will positively impact fiscal developments.
- Risks relating to revenues are associated primarily with the possible deterioration of conditions in the international environment and with measures that the government has already announced but have not yet been included in the assessed documents.
- Risks relating to expenditure are associated primarily with announced measures that could significantly worsen not just short-term but particularly long-term fiscal prospects, and with potential additional requirements for increasing expenditure.

Both of the submitted documents, in accordance with the law, present a basis for budgetary planning in the medium-term. The Fiscal Council expects that in the event of changed circumstances, the budget documents will also be appropriately amended, and that also in the event of their changes they will always be integrated within a comprehensive multiannual medium-term framework pursuant to the legislative requirements.

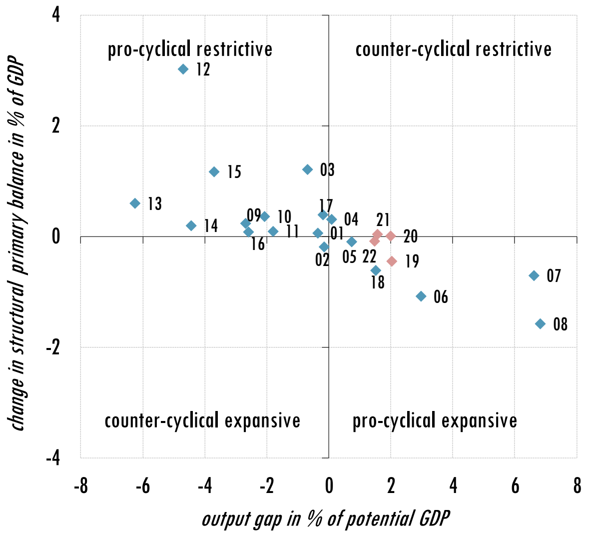
The planned roughly balanced structural fiscal position in the coming medium-term period and the persistence of a favourable macroeconomic developments create opportunities for the implementation of wide-reaching structural reforms. These would have to address the expected long-term deterioration of the fiscal situation associated with the ageing of the population already in the beginning of the political cycle. Otherwise, even in the absence of macroeconomic shocks, the fiscal pressures will increase, and will gradually require unpopular measures that could have a negative effect on the wellbeing of the population.

Table 1: Compliance with fiscal rules

		2019	2020	2021	2022
A	Medium term objective (MTO)	✗	✓	✓	✓
B	Expenditure rule	✗	✓		
C	Change in gross public debt	✓	✓	✓	✓
D	Domestic fiscal rule	✗	✓	✓	✓
A	Structural balance (in % GDP)	-0.1	0.0	0.4	0.5
	Medium term objective (MTO)	*0.25*	*-0.25*	*-0.25*	*-0.25*
	Medium-term balance (8 year average)*				-0.1
B	Growth in net expenditure (in %)	5.3	3.9		
	Reference rate to be applied - nominal (in %)	*5.1*	*4.9*		
C	Gross public debt (in % GDP)	65.4	61.3	57.9	54.7
	Reference level of debt (in % GDP)	*69.6*	*69.1*	*68.6*	*68.1*
D	Level of public expenditure in draft Framework 2020-2022 (mio EUR)	...	21,480	22,160	23,000
	Maximum level of public expenditure (mio EUR)	*...*	*21,546*	*22,375*	*23,270*

*Source: SORS, MoF, FC estimates and calculations. Note: * Balance over the business cycle.*

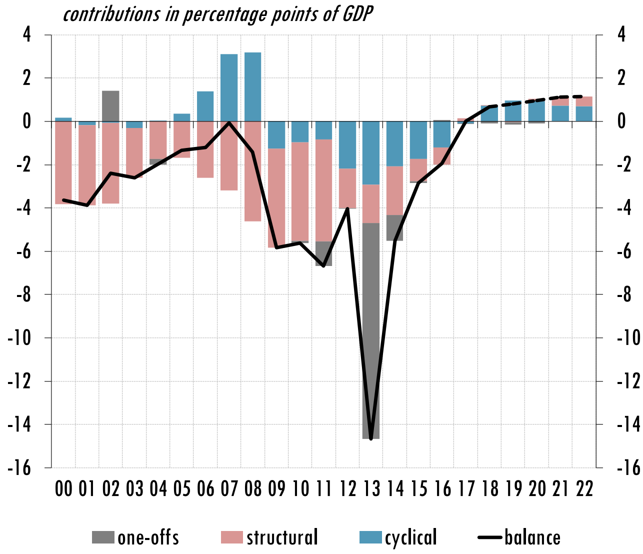
Figure 1: Fiscal policy stance 2001–2022



Sources: SORS,IMAD, IMF, OECD, EC, MoF; FC calculations. See note below Table 4.3.

Figure 2: Contributions to general government balance

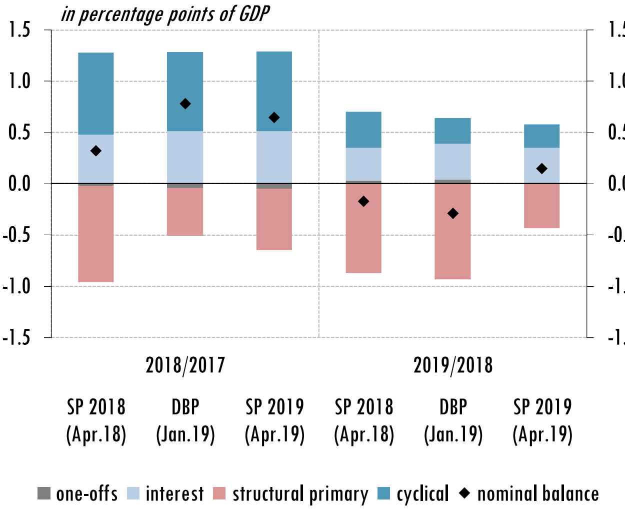
contributions in percentage points of GDP



Source: SORS, Stability Programme 2019, FC calculations.

Figure 3: Contributions to changes in nominal general government balance

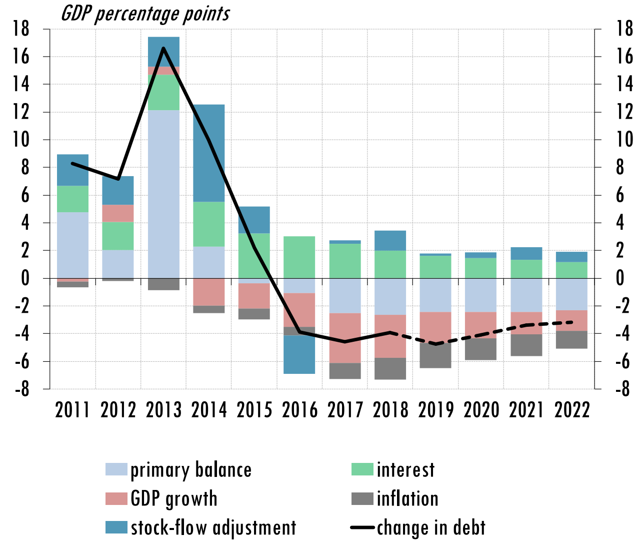
in percentage points of GDP



Note: A decrease in interest expenditure is reflected in improvement in balance.
Source: MoF, FC calculations.

Figure 4: Change in general government debt

GDP percentage points



Source: SORS, Stability Programme 2019, FC calculations.

Legislative framework

On 10 April 2019, the Ministry of Finance submitted a proposal for the Ordinance on a framework for the preparation of the general government budget for the 2020-2022 period (hereinafter: the proposed Framework) and the draft Stability Programme 2019 (hereinafter: the SP 2019) to the Fiscal Council for the assessment of compliance with fiscal rules.

Pursuant to paragraph 2 of Article 6 of the Fiscal Rules Act (the ZFisP), the Government of the Republic of Slovenia forwards the draft of the Stability Programme together with a proposal of a Framework for the preparation of budgets to the National Assembly of the Republic of Slovenia and the Fiscal Council at least 20 days before the due date for submitting the Stability Programme to the European Commission (EC) at the end of April. Pursuant to paragraph 1 of Article 9f of the Act Amending the Public Finance Act (ZJF-H), the Fiscal Council submits its assessment of the draft Stability Programme to the Government of the Republic of Slovenia and to the National Assembly within seven days of its receipt. Pursuant to Article 6 of the ZFisP, the Framework is adopted by the National Assembly of the Republic of Slovenia upon the proposal of the Government of the Republic of Slovenia.

Pursuant to paragraph two of Article 6 and point 1 of paragraph two and point 1 of paragraph three of Article 7 of the ZFisP, the Fiscal Council assesses the sustainability and compliance of the budgetary policy with fiscal rules based on the draft Stability Programme. Article 3 of the ZFisP stipulates the method for determining the general government expenditure ceiling in relation to the position in the economic cycle. The Fiscal Council assesses the appropriateness of the proposed amendments to the Framework in accordance with point 5 of paragraph two and point 4 of paragraph three of Article 7 of the ZFisP.

In accordance with Article 15 of the ZFisP, in periods when Slovenia is approaching its medium-term budgetary objective, general government budgets are deemed balanced in the medium term if the structural balance of the general government sector approaches the medium-term budgetary objective in accordance with the dynamics determined based on the Stability and Growth Pact. The relevant medium-term budgetary objective for Slovenia in the 2017-2019 period is a structural surplus of 0.25% of GDP. According to the Stability and Growth Pact the permitted deviation is set at 0.25 percentage points of GDP. The Fiscal Council is of the opinion that in the past few years Slovenia approached its budgetary objective and, taking into account the deviation permitted, attained it in 2017 and 2018. Based on actual macroeconomic data and recent projections of population ageing costs, a new relevant medium-term budgetary objective for the 2020-2022 period was set by the EC at -0.25% of GDP.[1] Article 3 of the ZFisP lays down that, during the period in which the medium-term budgetary objective is attained, the medium-term balanced position is ensured by determining the maximum expenditure level of the general government in relation to the position in the economic cycle. Thus, the Fiscal Council used the approach verifying (i) compliance with the national fiscal rules referred to in Article 3 of the ZFisP and (ii) compliance with the fiscal rules referred to in Article 15 of the ZFisP.

[1] For more information about the medium-term budgetary objective, i.e. MTO, in the framework of the Stability and Growth Pact, see the Report on the Fiscal Council's operations in 2017, pages 31-34 (May 2018).

1. Macroeconomic conditions and forecasts for the 2019-2022 period

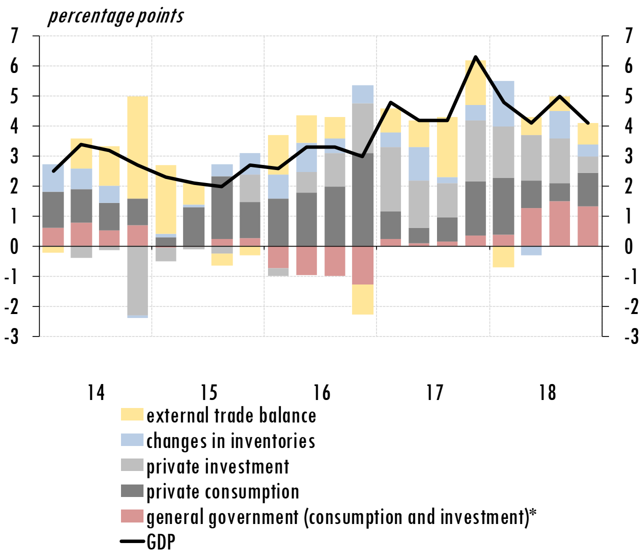
Key findings

- Continuation of favourable economic developments in 2018 was accompanied by an even more significant increase in tax bases compared to the previous year.
- Economic growth is expected to gradually slowdown in the 2019-2022 period; its changed structure with increased wage bill and domestic consumption's contribution will have a favourable impact on tax bases and will thus provide a positive foundation for improving the public finance situation.
- The risks related to the macroeconomic projections are mainly negative and arise primarily from the international environment.

1.1 An overview of macroeconomic conditions and projections

Economic growth slowed down somewhat in 2018 due to lower export growth; the contribution of domestic consumption increased. Real GDP growth continued to be high (4.5%) and significantly above the EU average (1.9%). Following exceptionally high growth in 2017, exports slowed down due to decreased demand from our main trading partners and the termination of the contribution generated by the one-off impact of producing a new model in the automotive industry. The increase in domestic consumption was even higher than in the previous year, mainly due to the increase in government consumption and investment (see Figure 1.1). The increase in the growth rate in government consumption over the previous year resulted mainly from a more significant increase in intermediate consumption, while employment growth continued at a similar pace.[2] A major increase in

Figure 1.1: Contributions to y-o-y real GDP growth



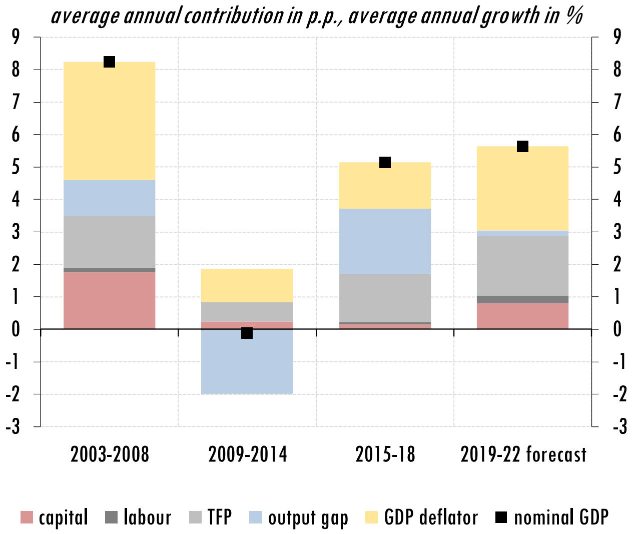
*Sources: SORS, FC calculations. Note: *Estimated using the total investment deflator for public investment.*

[2] Following a 3.7% increase in 2017, intermediate consumption of the general government sector increased by 7.0% last year, representing the highest growth since 2011.

public investment[3] was recorded last year; in our view, that was also linked to elections and to the somewhat higher absorption of European funds. Growth in private investment continued to be high, but investments in machinery and equipment slowed down slightly at the end of the year, with declining export prospects being a contributory factor.[4] Growth in private consumption was similar to that in the previous year, even though growth in disposable income accelerated further boosted by higher increases in employee compensation and gross operating surplus.[5] Increased household savings may be a sign of greater consumer caution, also indicated by the worsening of consumer sentiment and expectations in the second half of last year.

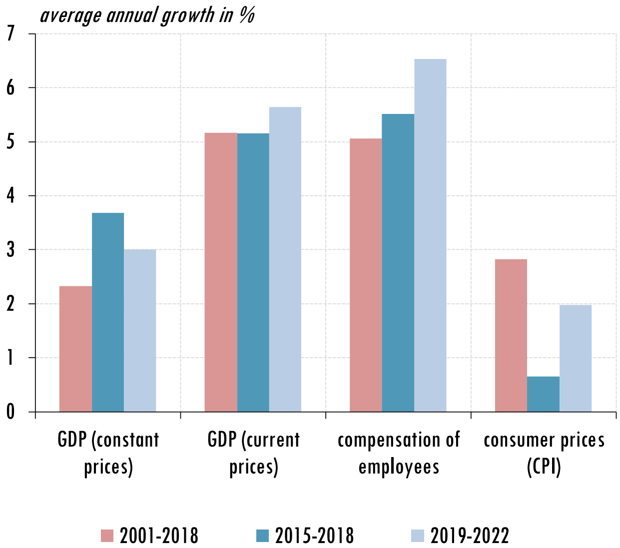
According to IMAD[6] economic growth will slow down in the 2019-2022 period, in particular due to less favourable impulses from the international environment. The average real GDP growth in the period is projected to reach 3.0%; the growth will be mainly based on private consumption growth, as exports are expected to slow down.[7] Lower expectations regarding growth in exports stem from less favourable growth forecasts among main trading partners, as well as from less favourable expectations about competitiveness in subsequent years due to expected higher labour cost growth. The growth in investment is expected to moderate somewhat, but remain relatively high. IMAD expects the continued growth in investment in construction, including public in connection with the expected higher absorption of European funds, as well as investments in equipment and machinery, where however growth is expected to ease further in view of lower export expectations. This year an increase in the government final consumption is expected to be similar to that of last year; thereafter,

Figure 1.2: Contributions to nominal GDP growth



Source: IMAD Spring forecast 2019, FC calculations.

Figure 1.3: Growth of macroeconomic aggregates



Sources: SORS, IMAD Spring forecast 2019, FC calculations.

[3] Gross fixed capital formation in the general government sector increased by 24.8% last year, following a 6.8% nominal growth in 2017; significant growth was recorded in the second half of the year (36.8%).

[4] The year-on-year growth in investment in machinery and equipment that, in our estimate, originates mainly from the private sector slowed down in the last quarter of the year to reach its lowest point since early 2015.

[5] The average growth in disposable household income stood at 4.6% in 2017 and at 6.1% in the past year.

[6] The macroeconomic forecasts of IMAD constitute the basis for the budgetary planning in accordance with the Decree on development planning documents and procedures for the preparation of the central government budget and local government budgets (Official Gazette of the Republic of Slovenia [*Uradni list RS*], Nos 44/07 and 54/10). The current budgetary documents assessed by the Fiscal Council are based on IMAD Spring forecast of economic trends 2019, March 2019 (http://www.umar.gov.si/en/forecasts/single/forecast/news/pomladanska-napoved-gospodarskih-gibanj-2019/?cHash=ccfa376ae3a3f826668c808970ab8201&tx_news_pi1%5Baction%5D=detail&tx_news_pi1%5Bcontroller%5D=News).

[7] Average real GDP growth in the 2014-2018 period stood at 3.7%; in the last two years it was as high as 4.7%.

growth is expected to slow due to expected lower growth of employment and intermediate consumption of the general government sector. The growth in household consumption is projected to increase this year, driven by the expected higher growth in wages and social benefits; it is expected to slow down towards the end of the period because of the lower employment growth resulting from demographic change. Contrary to the previous four years, in the SP 2019 horizon the cyclical contribution to the growth of nominal GDP is to be significantly reduced, given the foreseen stabilisation and subsequent reduction in the estimated positive output gap (see Figure 1.2). The contribution of total factor productivity will remain significant; after several years of investment growth, the contribution of capital will increase. The growth of nominal GDP is also expected to be driven by a higher level of inflation that in the declining cyclical momentum predominantly reflects cost pressures. On average, inflation will reach 2.2% in the 2019-2022 period (2015-2018: 0.8%). The surplus in the current account of the balance of payments is projected to decline slightly mainly due to expected lower export growth, but is to remain high (at approximately 6% of GDP on average).

Despite the expected slowdown in real economic growth, its structure in the 2019-2022 period is projected to have a positive impact on the tax bases, which are expected to increase above the past four years' average. Annual GDP growth in current prices is expected to gradually ease compared to the past two years, but GDP is still projected to grow by 5.6% on average per year (2015-2018: 5.1%), in total by one quarter or EUR 11.2 billion by 2022. The average annual increase in compensation of employees is expected to increase even more, i.e. to 6.5% (2015-2018: 5.5%). Given the expected slowdown in employment dynamics, the aforementioned increase is to be attributed mainly to significantly accelerated nominal growth of the gross wage per employee (5.3%; 2015-2018: 2.2%). The primary causes thereof are the workforce shortage and the agreement on the minimum wage rise and pay rise in the public sector. The wage growth projected for the period will exceed productivity growth, even though productivity is also expected to strengthen, and will thus pose a risk to the competitiveness of the tradable sector.

1.2 Assessment of the cyclical position of the economy

Available estimates lead the Fiscal Council to assess that the output gap in the period 2019–2022 will be positive in Slovenia. The positive output gap is expected to widen further in 2019, followed by a gradual narrowing at the end of the period.[8] According to the currently available calculations, its average is expected to stand at 2% in 2019, thus exceeding 1.5% set by the EC methodology to delimit normal economic times from good economic times.[9] This definition is used when determining the structural effort required from a country that falls short of the medium-term budgetary objective.[10]

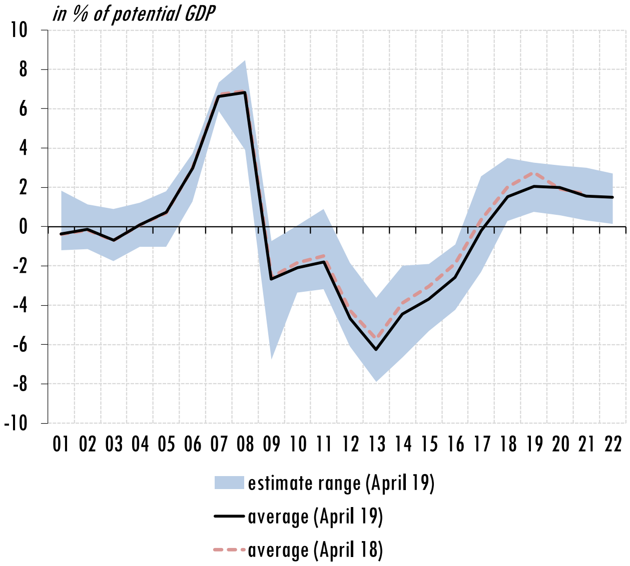
Based on an overview of a broader set of indicators, which are monitored by the Fiscal Council in order to determine the position of the economic cycle, and based on IMAD's forecasts, we assess that the cyclical momentum is gradually slowing. Economic conditions remain favourable, but the pace of economic activity is gradually decreasing. The values of most indicators diverge from the

[8] The output gap represents the difference between the actual economic activity (in terms of GDP) and the estimated economic activity made possible by the economy's available capacities, without causing inflationary pressures (potential output). In its output gap estimates the Fiscal Council uses the calculations of five institutions and four statistical methods. For more details on the output gap calculations used by the Fiscal Council, see the Report on the Fiscal Council's operations in 2017, pages 23-26 (May 2018).

[9] The EC defines good times as the period in which the output gap is equal to or above 1.5% (Vade Mecum on the Stability and Growth Pact, 2019 Edition, pages 16-17; April 2019).

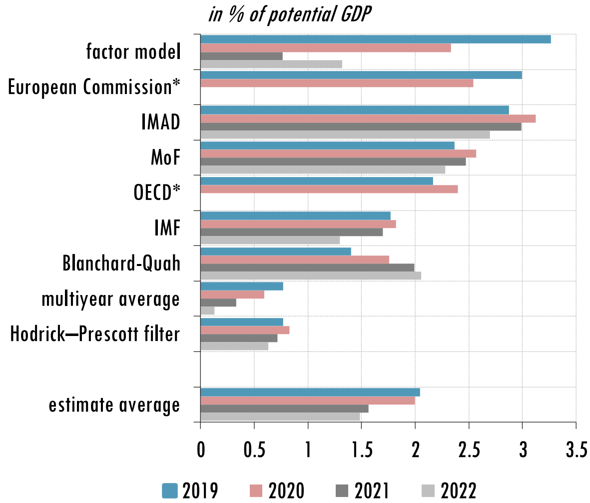
[10] It should be noted in this context that output gap estimates may change significantly over time. The EC has also established that, under a commonly agreed methodology, output gap estimates for Slovenia are subject to a high degree of uncertainty and are not necessarily in line with other macroeconomic indicators. Using the plausibility tool, the output gap for Slovenia in 2018 was projected at 1.1%; according to the latest available official calculations based on the commonly accepted methodology, it is projected at 2.9% (Commission Staff Working Document — Analysis of the Draft Budgetary Plan of Slovenia, Box 3, p. 13, February 2019).

Figure 1.4: Output gap estimates



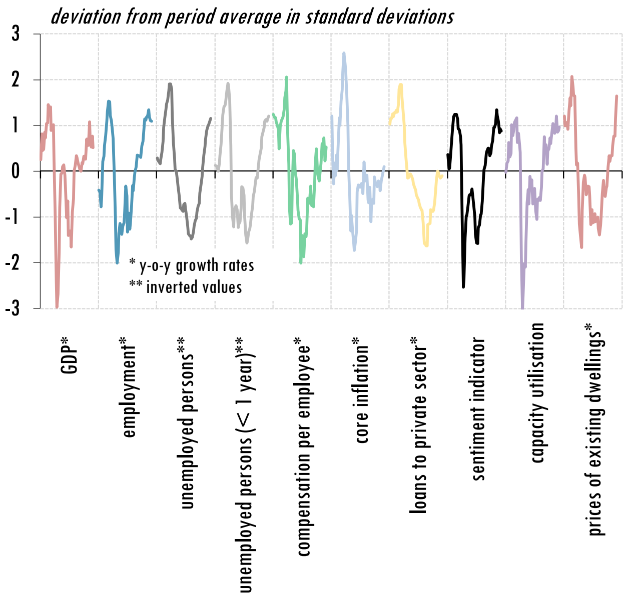
Sources: IMAD, EC, OECD, IMF, MoF, FC calculations. See note below Table 4.3.

Figure 1.5: Output gap estimates for 2019–2022



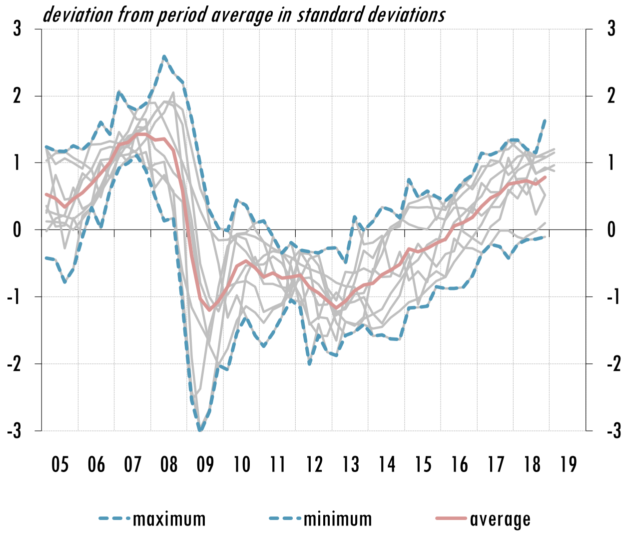
** EC and OECD have not published estimates for 2021 and 2022.*
Sources: IMAD, EC, OECD, IMF, MoF, FC. See note below Table 4.3.

Figure 1.6: Indicators of economic cycle dynamics 2005–2019



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

Figure 1.7: Indicators of economic cycle dynamics



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

peak values recorded from the beginning of 2014 in the period of economic recovery. This primarily applies to indicators of economic growth, employment, economic sentiment, and partly also to private sector lending and capacity utilisation. Supply-side constraints continue to be reflected in the labour market, not least due to demographic changes. According to IMAD's autumn forecast, a more significant increase in wages that will exceed productivity grow is expected in circumstances of slower economic activity in the next period. Inflation will gradually increase, but will remain moderate. The increase in property market prices continues to be considerably above the long-term average, which is due to continued imbalance between supply and demand after a multi-annual decline in housing investments.

1.3 Comparison of macroeconomic scenarios in the Stability Programmes 2019 and 2018

The SP 2019 macroeconomic scenario based on IMAD forecast is slightly less favourable than SP 2018; due to the changed structure of the forecast, however, some tax bases are nevertheless more favourable. Last year's economic growth fell below spring 2018 projections, which was mainly due to lower than expected export growth, as in 2018 the economic growth among main trading partners was lower than presented in forecasts of international institutions that were available last spring. The growth in private consumption was also significantly below forecasted levels, partly as a result of lower than projected turnover and partly due to downward revision of growth in 2017. The current forecast projects slightly lower economic growth in the SP 2019 horizon, mainly owing to expected lower growth in exports, i.e. the contribution of net exports. The nominal GDP forecast for 2019 is more than EUR 800 million lower than anticipated by last year's spring forecast.[11] In the context of the changed structure of the forecast, in particular wage growth and resulting compensation of employees higher than anticipated by last year's spring forecast, some tax bases are increased. According to IMAD and compared to the 2018 spring forecast, a total of almost EUR 1.7 billion more in compensation of employees is expected in the 2019-2021 period. Inflation projections remained essentially unchanged throughout the period.

Table 1.1: IMAD forecasts

	2018			2019			2020			2021			2022		
	Mar.18	Mar.19	*diff.*	Mar.18	Mar.19	*diff.*	Mar.18	Mar.19	*diff.*	Mar.18	Mar.19	*diff.*	Mar.18	Mar.19	*diff.*
Real GDP, % change	5.1	4.5	*-0.6*	3.8	3.4	*-0.4*	3.2	3.1	*-0.1*	3.0	2.8	*-0.2*	...	2.7	...
Nominal GDP, EUR million	46,588	45,948	*-640*	49,611	48,797	*-814*	52,413	51,578	*-835*	55,170	54,443	*-727*	...	57,225	...
Compensation of employees, EUR million	22,729	22,803	*74*	24,253	24,513	*259*	25,591	26,164	*574*	26,975	27,817	*842*	...	29,373	...
Inflation, annual average, %	1.5	1.7	*0.2*	1.9	1.6	*-0.3*	2.3	1.9	*-0.4*	2.3	2.2	*-0.1*	...	2.2	...

Sources: IMAD, FC calculations.

1.4 Risks to the macroeconomic scenario

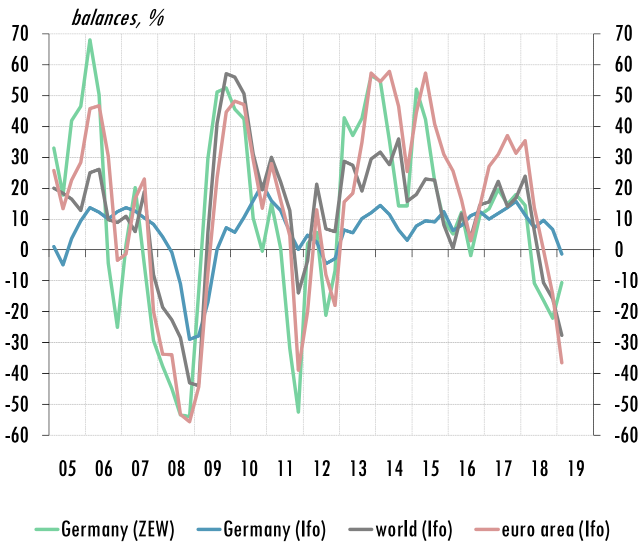
Risks to the macroeconomic scenario that serves as the basis for fiscal projections of the Framework proposal and SP 2019 are assessed as negative and primarily arising from the international environment. The slowdown recorded in the euro area's economic growth in the second half of the past year was sharper than projected; consequently, international institutions have been lowering their forecasts in recent months. According to the currently available forecasts, GDP growth is expected to slow down to approximately 1% this year. All institutions point to negative risks, particularly in the context of uncertainty about future global trade relations. In addition, there is continued uncertainty regarding the UK's exit from the EU, which can have notable indirect negative effects on the Slovenian economy if hard Brexit materialises.[12] Further risks are associated with uncertainties on the part of some major trading partners, a possible slowdown in the Chinese economy and the tightening of global financial conditions. Uncertainty is currently reflected in decreased world trade trends and production in manufacturing, as well as in worsened sentiment indicators. Risks

[11] Four-fifths of the reduction is due to lower outturn in 2018 and one-fifth to the downward revision of the forecast. The 2018 autumn forecast, which formed the basis for drafting the 2019 revised central government budget, envisaged a EUR 268 million lower nominal GDP this year compared to the last spring forecast, which formed the basis for drafting the SP 2019. This is primarily due to the 2018 outturn, which was higher than IMAD's forecast from the autumn.

[12] IMAD refers to a number of studies that assess the long-term effects on the Slovenian economy to range from -0.2% to -1.0% of GDP (IMAD's Spring Forecast 2019, pages 24, 25).

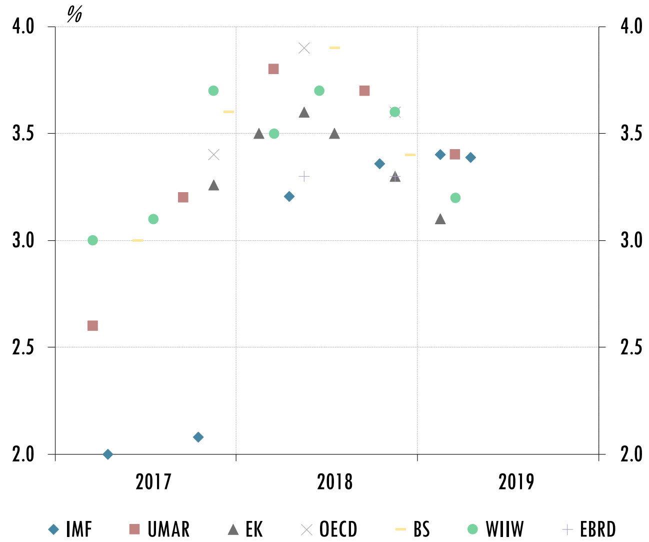
associated with the domestic environment arise from the envisaged changes in tax, labour market and pensions policies. These can, in particular in the short term, result in the higher-than-baseline scenario growth through increased disposable income and higher private consumption.

Figure 1.8: International environment - expectations



Sources: ZEW, Ifo.

Figure 1.9: Forecasts of real GDP growth in Slovenia for 2019



Vir: IMF,IMAD EC, OECD, BS, WIIW, EBRD.

2. The budgetary trends projected by the draft Stability Programme 2019

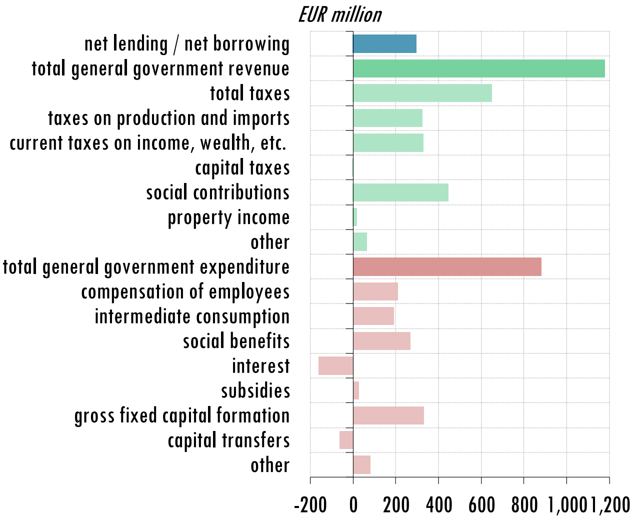
Key findings

- Favourable economic trends, changes in the structure of economic growth and a further reduction in interest expenditure were key factors behind the improvement of public finances last year.
- The general government surplus at a level of approximately 1% of GDP is estimated in the SP 2019 for the 2019-2022 period; following this year's increase in growth of revenue and expenditure, growth is expected to moderate in the next years, in our view also because of the ambiguities regarding policies from the next year onwards.
- The risks associated with the public finance projections are significant and mainly linked to the announced but not yet specified measures and to potential – partly already noted – additional pressures from interest groups, while lower revenue growth can be expected if macroeconomic risks realise.
- The general government debt is projected to fall below 60% of GDP by 2022.

2.1 An overview of the public finance projections

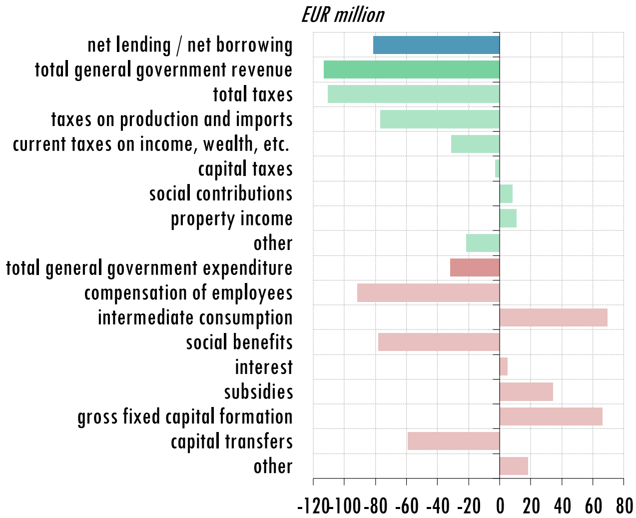
The general government sector recorded a surplus of 0.7% of GDP last year as a result of favourable economic conditions, the changed structure of economic growth and further reduction in interest expenditure. Compared to 2017, the balance increased by approximately EUR 300 million or 0.7 percentage points of GDP in 2018, which is slightly less than estimated in the Draft Budgetary Plan[13] of January this year (see Figure 2.2). The primary balance, which excludes interest expenditure, only increased by 0.1 percentage point of GDP, to 2.6% of GDP. This points to the importance of reducing interest expenditure behind improvements in public finances. Last year's

Figure 2.1: Main aggregates of the general government 2018 - change on 2017



Sources: SORS, FC calculations.

Figure 2.2: Main aggregates of the general government 2018 - difference between the outcome and DBP 2019

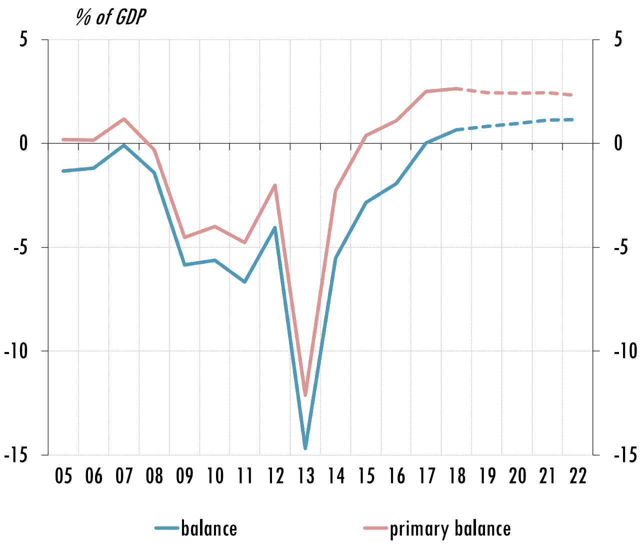


Sources: SORS, Draft Budgetary Plan 2019 (January 2019), FC calculations.

[13] There was a surplus of 0.8% of GDP or EUR 365 million projected for 2018.

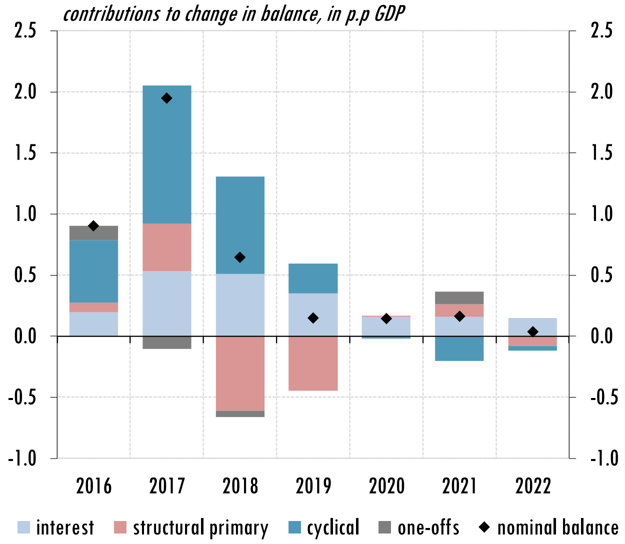
continued favourable conditions in the economy and the labour market resulted in high revenue growth (6.3%) that was comparable to the previous year. It continued to primarily stem from an increase in revenue from social contributions and taxes. Compared to the previous year, a stronger increase was recorded particularly in taxes on individual or household income, which was linked to a stronger increase in wages coupled with continued increase in employment. Among other revenue groups there was also an increase in property income resulting from major dividend payments by state-owned enterprises. The increase in other capital transfers was similar to that recorded in the previous year (by approximately 25%) while capital transfers remain low. Expenditure growth strengthened significantly last year (from 1.5% to 4.7%) in conjunction with an accelerated growth in investment and also in intermediate consumption. Investment expenditure increased by approximately one quarter,

Figure 2.3: General government balance and primary balance



Sources: SORS, Stability Programme 2019.

Figure 2.4: Change in nominal general government balance



Note: A decrease in interest expenditure is reflected in improvement in balance.
Source: SORS, Stability Programme 2019, FC calculations.

Table 2.1: Key revenue and expenditure categories 2018–2022

	2018	2019			2020			2021			2022		
	outcome SORS	SP 19	growth EUR mln	growth in %	SP 19	growth EUR mln	growth in %	SP 19	growth EUR mln	growth in %	SP 19	growth EUR mln	growth in %
Net lending / net borrowing	**303**	**395**	**92**		**490**	**95**		**610**	**120**		**658**	**48**	
Total revenue	**19,748**	**21,071**	**1,322**	**6.7**	**21,967**	**896**	**4.3**	**22,768**	**801**	**3.6**	**23,662**	**894**	**3.9**
Total taxes	10,017	10,657	641	6.4	11,105	447	4.2	11,547	443	4.0	11,977	430	3.7
Taxes on production and imports	6,464	6,832	367	5.7	7,051	219	3.2	7,279	228	3.2	7,485	206	2.8
Current taxes on income, wealth, etc.	3,541	3,811	270	7.6	4,039	227	6.0	4,257	219	5.4	4,481	223	5.2
Capital taxes	11	10	-1	-10.9	10	1	5.7	11	1	5.6	11	1	5.1
Social contributions	6,819	7,344	525	7.7	7,799	455	6.2	8,264	466	6.0	8,721	457	5.5
Property income	509	454	-56	-10.9	366	-88	-19.3	354	-12	-3.4	343	-11	-3.0
Other	2,403	2,616	213	8.9	2,698	82	3.1	2,602	-95	-3.5	2,621	19	0.7
Total expenditure	**19,445**	**20,680**	**1,235**	**6.4**	**21,477**	**797**	**3.9**	**22,158**	**681**	**3.2**	**23,004**	**846**	**3.8**
Compensation of employees	5,022	5,470	448	8.9	5,720	250	4.6	5,929	209	3.7	6,134	206	3.5
Intermediate consumption	2,887	2,933	46	1.6	3,017	85	2.9	3,060	42	1.4	3,124	65	2.1
Social benefits	7,593	7,998	405	5.3	8,330	332	4.2	8,771	441	5.3	9,225	454	5.2
Interest	911	795	-115	-12.6	758	-37	-4.7	713	-45	-5.9	664	-49	-6.9
Subsidies	350	366	16	4.6	392	26	7.1	392	0	0.0	406	14	3.6
Gross fixed capital formation	1,663	2,001	338	20.3	2,130	129	6.5	2,210	80	3.8	2,346	136	6.1
Capital transfers	174	234	60	34.3	227	-7	-3.1	174	-53	-23.2	166	-8	-4.7
Other	846	883	37	4.4	903	19	2.2	909	7	0.7	938	29	3.2

Souces: SORS, Stability Programme 2019, FC calculations.

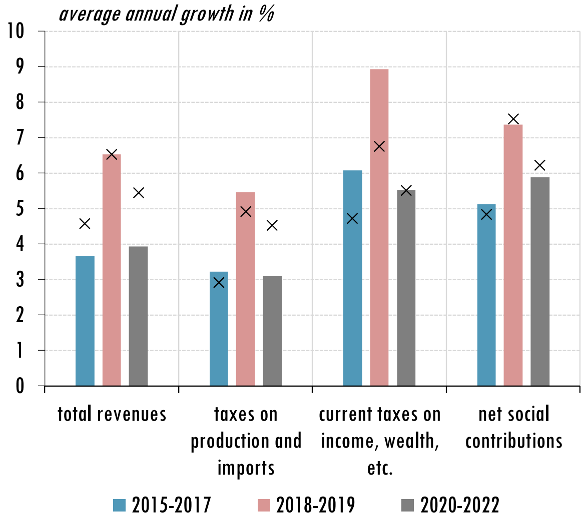
which is also linked to elections and slightly increased absorption of EU funds. The intermediate consumption increased by 7.0% last year – the highest growth since 2011. Coupled with the absorption of EU funds, expenditure on subsidies increased significantly. The increase in social benefits and compensation of employees was similar to that recorded in the previous year. Interest expenditure again recoded a significant decrease last year.

According to the draft SP 2019, an average annual general government surplus of around 1.0% of GDP is projected for the 2019-2022 period. Revenue growth will exceed expenditure growth throughout the period, with a surplus of 1.2% of GDP projected at the end of the period. Except in 2019, the growth in revenue and expenditure is projected to lag behind nominal GDP growth, so that their share in GDP is to be significantly below the long-term average. A slight improvement in the balance by 2022 is, in particular, expected as a result of a further decrease in interest expenditure and this year also due to favourable economic growth (see Figure 2.4). The increase in the main categories of revenue will gradually ease as the growth in economic activity slows down. Expenditure growth will further accelerate this year, while its gradual decrease is expected in coming years; in our view, this might also be attributed to the ambiguities regarding economic policy measures envisaged after the current year. At the end of the SP 2019 horizon, the primary surplus will be slightly lower than last year.

Revenue growth is expected to record a gradual slowdown after this year and is to lag behind the projected nominal economic growth rate. The acceleration of revenue growth in 2019 is mainly driven by a high increase in capital transfers with a projected further increased absorption of EU funds.[14] The increase in revenue from VAT, income and profit tax of companies and social contributions is expected to be notably higher than in the previous year. A substantial slowdown in the growth of revenue from taxes on individual or household income is expected due to tax relief on holiday pay; according to the Ministry of Finance, an impact of EUR 90 million is expected. Property income is projected to decrease by more than one tenth, partly due to the high base from the previous year and to the planned and concluded sales of state-owned companies. In the next three years, the increase in key revenue categories is expected to slow down, their trends being approximately in line with the

Figure 2.5: Revenue types and their bases

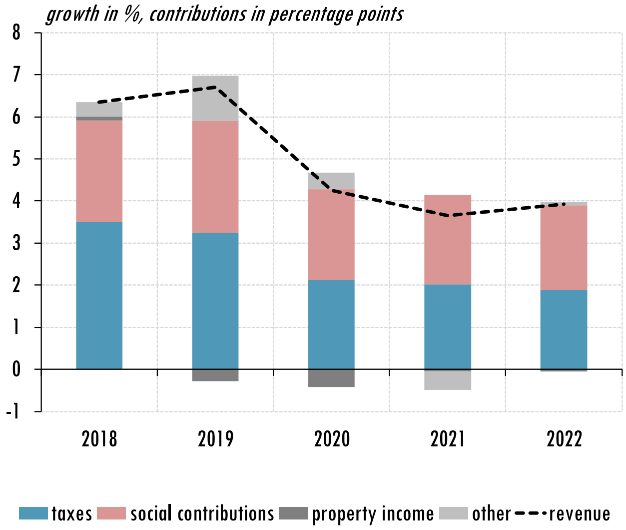
average annual growth in %



Note: Crosses denote average annual growth of the bases.
Sources: SORS, IMAD, Stability Programme 2019, FC calculations.

Figure 2.6: General government revenue growth

growth in %, contributions in percentage points



Source: SORS, Stability Programme 2019, FC calculations.

[14] Following a 26.7% increase last year, capital transfers are expected to increase by 76.0% this year.

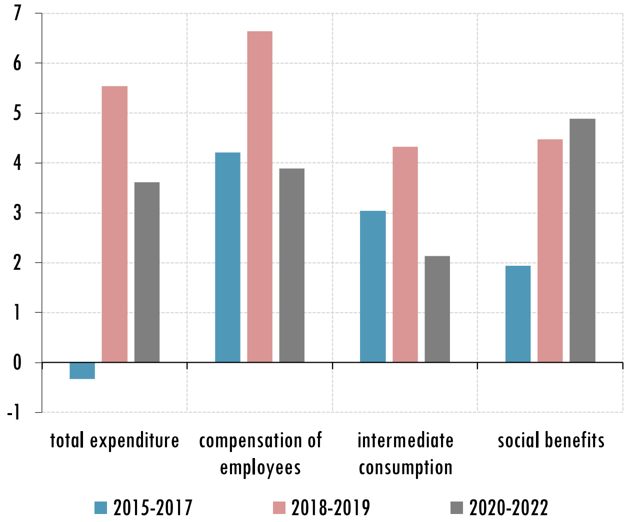
projected tax bases trends. To a similar extent, growth will stem from an increase in tax and social contribution revenues.

Expenditure growth this year will be the highest since 2009.[15] Accelerated expenditure growth is projected to reach 6.3% this year, predominantly on account of the higher growth in the compensation of employees and social benefits. Compensation of employees is expected to increase by as much as 8.9%[16] as a result of the agreement signed with the trade unions in the public sector in December[17]; the increased minimum salary will also give rise to higher holiday payment. The increase in social benefits will be higher than last year's due to the lifting of austerity measures and the introduction of new measures,[18] and, in the case of pensions, to extraordinary pension indexation and changed annual supplement. The increase in investment is projected to be only slightly lower than last year as investments are expected to increase by approximately one fifth. Growth is to stem from the projected absorption of EU funds, which are expected to contribute to about half of overall growth[19]; the relatively high growth in domestic investment resources is also expected to continue (see Figure 2.8). The total expenditure increase will be curbed by intermediate consumption that is expected to increase significantly less than last year. A further reduction in interest expenditure is also expected.

The expected slowdown in the growth of expenditure over the next three years may be exaggerated, given the ambiguities regarding economic policy measures. Compared to 2018 and 2019, the growth in expenditure is expected to slow significantly over the next three years (see Figure 2.7). In our view, such projections are also associated with ambiguous policies after 2019 that pose a

Figure 2.7: Expenditure categories

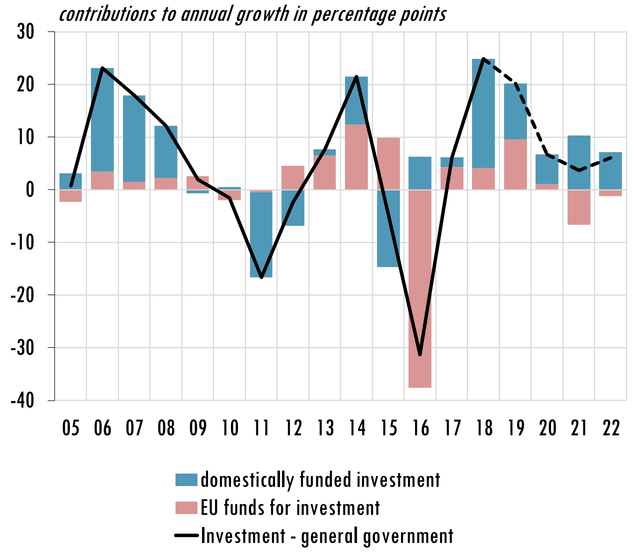
average annual growth in %



Sources: SORS, Stability Programme 2019, FC calculations.

Figure 2.8: Structure of general government investment growth

contributions to annual growth in percentage points



Sources: ECB, SORS, Stability Programme 2019, FC calculations.

[15] Expenditure growth net of capital transfers. Bank recovery triggered high increase in expenditure in 2013 (23.2%).

[16] This has been the highest growth since 2008 (12.9%) when a uniform salary system was introduced.

[17] The agreement includes a salary increase of one salary grade for all public officials in January this year (with certain exceptions); additional increases of one salary grade for all public officials in salary grades above 26th salary grade are planned in November this year and in September 2020. There will also be an increase in the number of supplementary payments and an additional salary increase of one salary grade for some occupational groups. Agreement on salaries and other payments of labour costs in the public sector (https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2018-01-3862?sop=2018-01-3862).

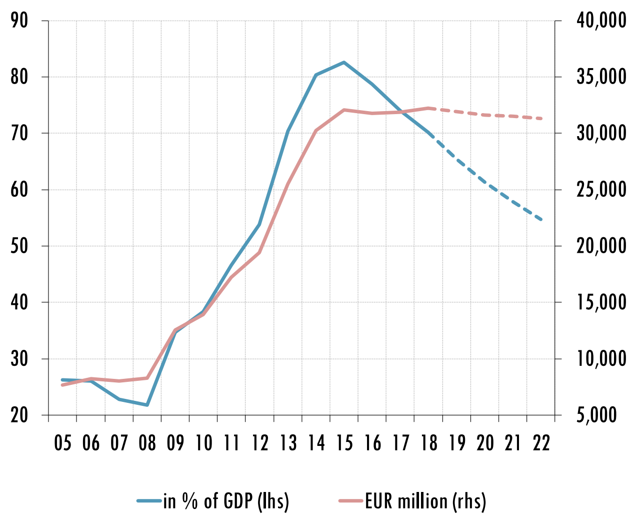
[18] For measures lifted last year see the Stability Programme Amendment 2018, p. 28 (April 2018). This year, a higher amount of social assistance, which was increased in June 2018, will continue to be paid; transfers linked to the GDP growth exceeding 2.5% and to the increased activity rate that were subject to the austerity measures adopted during the crisis will no longer be limited, social benefits will be adjusted to inflation, etc.

[19] European funds for investments increased by 74% or EUR 55 million last year and are expected to increase by 124% or EUR 160 million this year to amount to a total of EUR 288 million.

significant risk for higher than currently expected growth. Throughout this three-year period, expenditure growth will be primarily generated by further increases in social benefits. A more significant increase in pension expenditure than in previous years is expected due to the high level of indexation resulting from the projected wage and inflation growth, coupled with additional risks posed by the measures announced.[20] The projections include certain labour market and social activation measures that have not been adopted yet. Given that the SP 2019 refers to no other measures considered in the projections, we are of the opinion that the aforementioned labour market measures will, in each year of the 2020-2022 period, reduce the total expenditure by 0.25% of GDP. Over the next three years, compensation of employees is expected to increase considerably less than in the current and previous years. This growth is expected on account of regular promotions and higher employment, and in 2020 and 2021 also from the effects of the agreement adopted in December. We estimate that the growth could also be higher on account of further pressure exerted by trade unions, as also indicated in the SP 2019.[21] Following a significant leap last year, the growth in investment is expected to moderate somewhat and be increasingly based on domestic resources. The share of public investment in GDP is projected to level at a long-term average of approximately 4% GDP. Intermediate consumption expenditure is expected to grow at a moderate and much slower pace than in the previous four years. Interest expenditure is expected to further decrease and thus hold back the overall increase in expenditure and make a key contribution to maintaining the general government surplus.

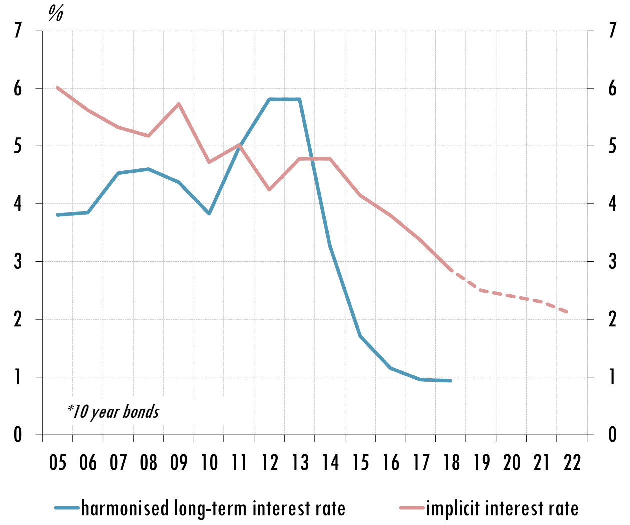
The general government debt is projected to decline to 54.7% of GDP by 2022 and to also be lower in nominal terms compared to 2018 (by approximately EUR 900 million). The maintenance of the primary general government surplus, the expected continued economic growth and inflation will contribute equally to the decreasing debt-to-GDP ratio. The contribution of interest to debt will also be reduced throughout the period, as further reduction of debt is expected. The implicit interest rate is expected to fall to 2.1% at the end of the SP 2019 period. With regard to the projected debt developments, its active management in the past few years should be highlighted, because it

Figure 2.9: General government debt



Sources: SORS, Stability Programme 2019, FC calculations.

Figure 2.10: Harmonised long-term interest rate* and implicit public debt interest rate



Sources: ECB, SORS, Stability Programme 2019, FC calculations.

[20] The Government announced that new pensioners will have their retirement age percentage set at a rate of at least 63% for 40 years of pensionable service and will also be entitled to a higher percentage for childcare (National Reform Programme 2019-2020, p. 6; April 2019).

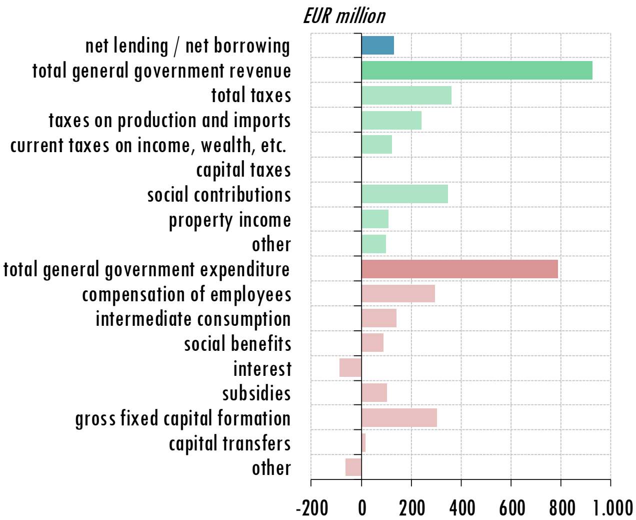
[21] Stability Programme 2019, p. 26 (April 2019).

contributed to the extension of the duration to maturity, a higher diversification of individual debt instrument maturity and a decrease in the proportion of debt in US dollars. In addition to providing fiscal policy more manoeuvring space, debt reduction below 60% of GDP is also important in terms of EU rules, as public finances are thus seen as more sustainable and their adjustment is subject to less stringent rules.[22] The Fiscal Council is of the view that further debt reduction continues to be one of the key priorities of fiscal policy; in periods of good economic conditions the aforementioned should be achieved by generating sufficient and sustainable primary general government surpluses. That is of utmost importance in terms of long-term public finance sustainability, as the failure to appropriately adjust the social protection systems might again cause increased indebtedness associated with the ageing of the population, even in the absence of negative macroeconomic shocks.

2.2 Comparison of budgetary trend projections in the 2019 and 2018 Stability Programmes

A slightly higher improvement in the public finance situation in the 2017-2021 period is foreseen by the SP 2019 compared to the SP 2018, which is due to last year's higher than anticipated turnover and changed structure of macroeconomic forecasts.[23] In 2018, the general government balance was higher than projected in the SP 2018[24] due to higher revenue growth, in particular property income[25] and lower expenditure growth. Expenditure for compensation of employees was lower than projected in the SP 2018, while intermediate consumption expenditure was higher. In addition, the changed structure of the macroeconomic forecast contributed to the higher growth in some tax bases. The new macroeconomic forecast also projects a higher increase in compensation of employees, which is expected to cumulatively increase by almost EUR 1.7 billion above the last year's spring projection. This in turn increases the projected revenue from social security contributions and taxes. The overall increase in expenditure expected up to 2021 is much higher than in the SP 2018.

Figure 2.11: Change between 2021 and 2017, comparison between SP 2019 in SP 2018



Sources: SORS, Stability Programmes 2018 and 2019, FC calculations.

[22] In the third quarter of 2018, a level of debt below a threshold of 60% of GDP was reached by half of the EU Member States (the latest available data for the entire EU).

[23] The 2017-2021 period is taken for comparison because this is the first and the last year of the period covered by the SP 2018.

[24] The SP 2018 projected a surplus of 0.4% of GDP, but, in fact, it reached 0.7% of GDP. For more details see also Table 4.2.

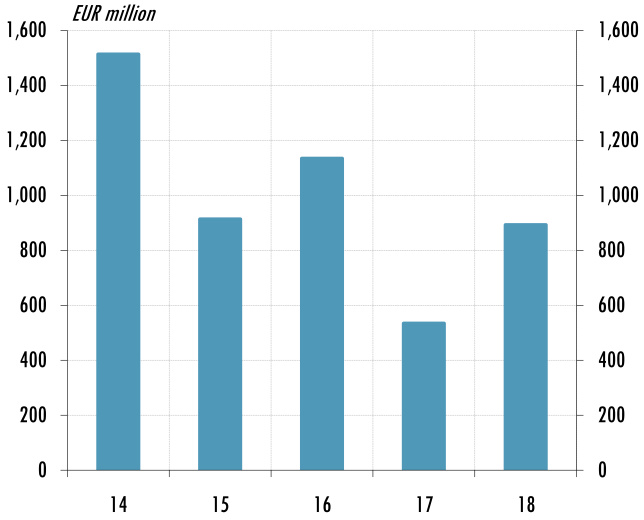
[25] Property income increased by EUR 127 million over the SP 2018 projection, mainly on account of higher dividend payments by state owned enterprises.

The largest increase is recorded in the growth projections of general government expenditure for compensation of employees and investment. The higher growth in compensation of employees was prompted by the December agreement with the trade unions; as regards investments the projections increased mainly on account of the envisaged more efficient absorption of EU funds.

2.3 Risks to public finances

The risks related to the public finance projections are, in our view, predominantly negative and associated with the macroeconomic risks and the effects of the envisaged measures that remain to be defined. This conclusion requires strict adherence to the precautionary principle in the planning of the main fiscal aggregates, as referred to in Article 4 of the ZFisP. If the macroeconomic risks materialise, revenue growth may be lower than projected in the SP 2019. EU funds absorption may again be below expectations, given that funds were only rarely drawn down in line with plans in the past.[26] Additional risks are posed by envisaged measures regarding taxes, pensions and the labour market that may have a negative impact on public finance. The proposals have not yet been finalised, hence their detailed public finance impacts are not yet available. In addition, there are risks of higher increases in compensation of employees due to possible additional trade union requirements. The general government expenditure on the ageing population poses the key risk to the long-term sustainability of public finances; in the absence of structural measures, it is expected to increase by 2% of GDP in the next ten years relative to the baseline situation.[27] On the presumption of a linear increase in these expenses, the general government debt share could increase by approximately 10 percentage points of GDP in 10 years.

Figure 2.12: Difference between expenditure outcome and forecast in Stability programmes two years ahead



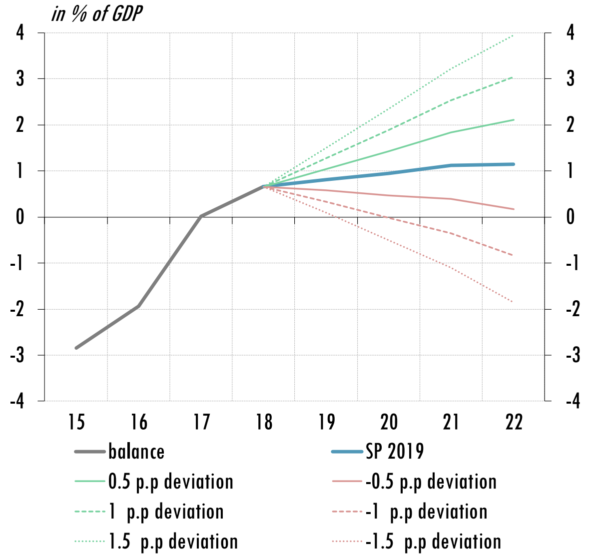
Sources: SORS, MoF, FC calculations.

[26] In our estimate, European fund absorption in the past decade reached an average approximately 70% compared to plans.

[27] For more details see the Stability Programme Amendment 2019, pages 37–39 (April 2019).

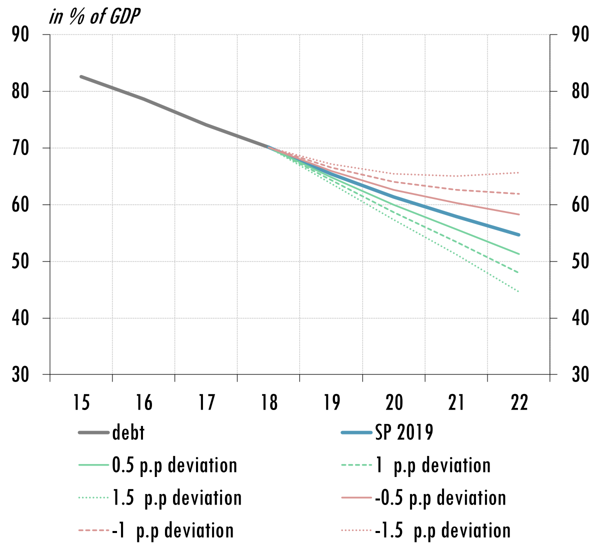
The materialisation of risks indicated by the economic growth projections could have a predominantly adverse impact on the public finances. In relation with the risk of lower economic growth, we have simulated the effects of deviation from the projected growth in economic activity and from the assumption of interest rates. The estimates based on a simple model[28] show that if economic growth in each year of the 2019-2022 period is 0.5 percentage points lower than in the baseline scenario (real GDP would on average increase by 2.5% per year instead of 3.0%) and the fiscal policy does not react, the general government balance would be close to a balanced position instead of recording a surplus of approximately 1% GDP in 2022 as projected. If economic growth in each year of the 2019-2022 period is 1.5 percentage point lower than foreseen in the baseline scenario, a

Figure 2.13: Estimates of sensitivity of general government balance (ESA) to deviation in GDP growth



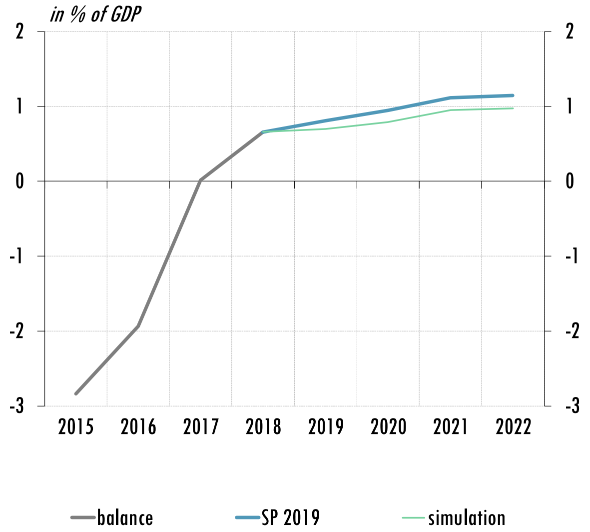
Sources: SORS, forecast: Stability Programme 2019, FC calculations.

Figure 2.14: Estimates of sensitivity of general government debt (ESA) to deviation in GDP growth



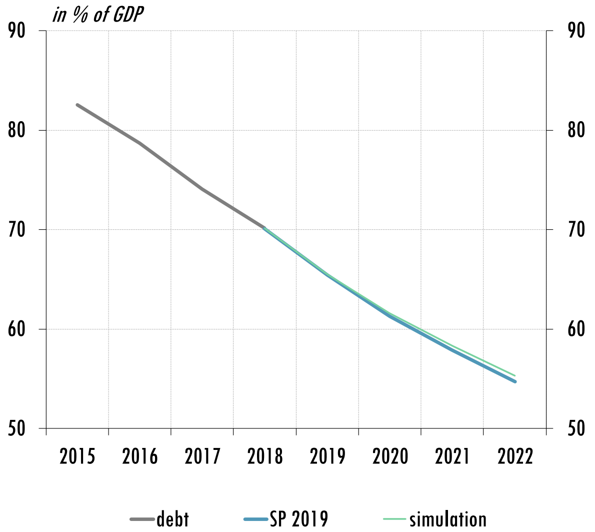
Sources: SORS, forecast: Stability Programme 2019, FC calculations.

Figure 2.15: Estimates of sensitivity of general government balance (ESA) to interest rate deviation of 1 p.p.



Sources: SORS, forecast: Stability Programme 2019, FC calculations.

Figure 2.16: Estimates of sensitivity of general government debt (ESA) to interest rate deviation of 1 p.p.



Sources: SORS, forecast: Stability Programme 2019, FC calculations.

[28] This is a simple model that enables simulation of the effects of various economic growth assumptions on public finance and of fiscal policy effects on economic growth. In this model, economic activity affects public finance through automatic stabilisers, and the fiscal policy affects economic activity reversely through multipliers. For a more detailed explanation of

deficit of approximately 2% of GDP may occur in 2022.[29] In this case, the share of general government debt in GDP would not drop below 60%.

Changes in the required yield or assumed interest rates could have minor direct effects on the general government balance and debt. If assumed interest rate on the general government debt financing rises by one percentage point in the 2019-2022 period, the balance could deteriorate by approximately 0.2% of GDP in 2022, taking into account the current debt maturity structure and the assumed refinancing of the debt principal amounts due in the next four years. The risks to which public finances are exposed in the events of a sudden and rapid change in interest rate policy or a deterioration in international financial markets are thus constrained by the favourable term and maturity structure of the general government debt.

[29] Figures 2.13 and 2.14 show the possible general government balance and debt trends with regard to different economic growth assumptions. The baseline scenario shows the projected general government balance and debt as provided in the proposal of the Framework and the draft Stability Programme 2019. According to the baseline scenario of the IMAD forecast (spring forecast 2019), the economic growth assumptions are 0.5, 1 and 1.5 percentage points higher or lower for the 2019-2022 period. The maximum shock with regard to the deviation of GDP growth by ±1.5 percentage points is determined based on average absolute errors in the IMAD forecasts in the current and the next year in the 2002-2017 period.

3. Compliance of the proposal of the Framework and the draft SP 2019 with fiscal rules

Key findings

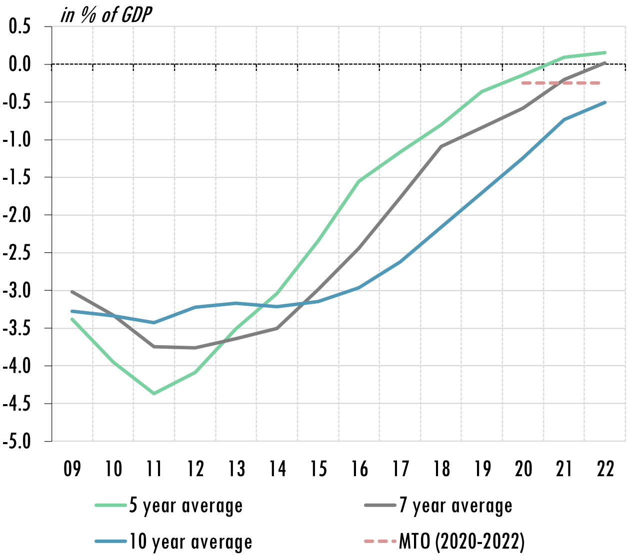
- The 2019 level of public expenditure as presented in the SP 2019 exceeds the level of expenditure defined in the 2018-2020 Framework from December 2018 and is, hence, inconsistent with the national fiscal rule. Taking into account an average of the range of the output gap estimates, the level of expenditure in the 2020-2022 period envisaged in the proposal of the Framework and in the SP 2019 is in line with the maximum threshold set in the ZFisP. The Framework proposal was drawn up by the Government of the Republic of Slovenia for the medium term.
- The EU criterion that as of the next year Slovenia's structural balance deficit should not exceed -0.25% of GDP will be achieved in the period of projections. Given the current estimated baseline situation in 2019, no structural effort is required for compliance with this rule in the 2020-2022 period. The SP 2019 contains no explicit definition of medium-term balance objective within the meaning of the medium term as defined in Article 2 of the ZFisP. The medium -term structural balance is projected to be achieved in 2022, account taken of current estimates of the length of the business cycle ie. an average of eight years. Estimates show that in order to achieve this objective, the creation of structural surpluses will also be necessary in the future.
- The growth of net general government expenditure in 2019 is expected to exceed the maximum limit set by the EU expenditure rule, but will lag behind in 2020. On average, growth in both years will be below the permitted maximum level.
- The expected general government debt reduction in the 2020-2022 period will be as required.

In the assessment of compliance with fiscal rules, the Fiscal Council verified the compliance with the national fiscal rule as defined in the ZFisP, and produced an assessment of the compliance of the submitted documents with fiscal rules on the basis of the Stability and Growth Pact. According to the provisions of the ZFisP, the following three key elements are assessed: (i) whether the medium-term budgetary objective is appropriately defined; (ii) whether the medium-term budgetary objective is achieved; and (iii) whether the general government sector’s planned level of expenditure is consistent with the national fiscal rule. The Fiscal Council examined two further indicators identified by the Stability and Growth Pact: (iv) whether the budgetary expenditure dynamics are in line with the EU expenditure rule; and (v) whether the planned debt dynamics are in line with the debt reduction benchmark.

3.1 Compliance with the national fiscal rule

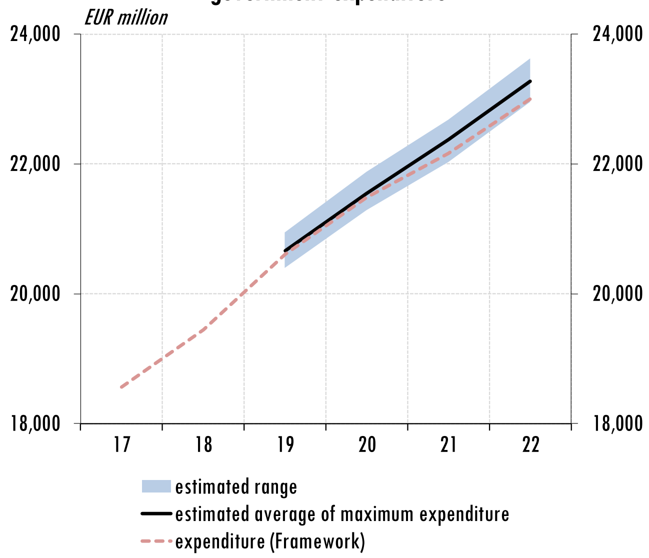
The Framework proposal constitutes the basis for medium-term budgetary planning. Pursuant to Article 6 of the ZFisP, the Government of the Republic of Slovenia must submit the Framework proposal to the National Assembly of the Republic of Slovenia and to the Fiscal Council together with the draft Stability Programme and ensure their consistency. The Framework defines the target balances and the maximum level of expenditures of the general government sector and public finance budgets (state

Figure 3.1: Structural balance over the medium-term



Sources: SORS, Stability Programme 2019, FC calculations.

Figure 3.2: Estimates of maximum level of general government expenditure



Sources: SORS, OECD, IMF, IMAD, EC, MoF, FC. See note below Table 4.3.

budget, local government budgets, pension insurance fund budget, health insurance fund budget) every year for at least the next three years. Pursuant to Article 6 of the ZFisP, the Framework is adopted by the National Assembly of the Republic of Slovenia on the proposal of the Government of the Republic of Slovenia. The ZFisP lays down that compliance with the national fiscal rule, set out in Article 3, is deemed a criterion of compliance with the medium-term balance in periods when Slovenia's medium-term budgetary objective is achieved. Therefore, the assessment of compliance with the national fiscal rule is also based on the findings referred to in Chapter 3.2 (Achievement of the medium-term budgetary objective).

According to the first paragraph of Article 3 of the ZFisP, revenues and expenditures are balanced in the medium term if the structural balance in an individual year is not lower than the minimum value as defined in the Stability and Growth Pact and if in the medium term it is at least in balance or in surplus. The minimum value of the structural balance required by the Stability and Growth Pact in the 2020-2022 period is -0.25% of GDP. Based on the SP 2019 data, the Fiscal Council estimates show that in the 2020-2022 period the structural balance will be close to equilibrium. The minimum value of the structural balance would thus be reached in each year. On the other hand, the requirement of the medium-term equilibrium or surplus of the structural balance relates to the entire business cycle period. Taking into account the aforementioned period, the Fiscal Council expects the medium-term structural balance be achieved in 2022, which is in line with a constitutional requirement of medium-term balanced position. In view of the fact that for a part of the period taken into account for the calculation of medium-term average Slovenia was subject to the Excessive Deficit Procedure or had just exited this procedure, and given that the structural balance continued to approach medium-term budgetary objective in the remaining period, a conclusion can be drawn that, in order to be balanced in the medium term, at least a balanced structural position will be needed after the end of the SP 2019 period. The SP 2019 does not explicitly define the medium-term objective of a balanced structural deficit, as envisaged by the ZFisP, but refers to reaching medium-term budgetary objective of -0.25% of GDP.

Table 3.1: Previous two Frameworks and simulation of the Framework for budget preparation

	General government		State budget		Local government		Pension Fund		Health Fund		*GDP*
	targ.balance	max exp.	targ.bal.	max E	targ.bal.	max E	targ.bal.	max E	targ.bal.	max E	*(IMAD)*
	GDP %	EUR million	GDP %	EUR million	GDP %	EUR million	GDP %	EUR million	GDP %	EUR million	*EUR million*
A. Ordinance on Framework, December 2018 (UL RS 82/2018)											
2018	0.4	19,290	0.1	9,625	0.0	2,174	0.0	5,381	0.0	2,873	*45,742*
2019	0.4	20,610	0.3	10,160	0.1	2,235	0.0	5,530	0.0	3,055	*48,529*
2020	0.4	19,952	-0.6	9,942	0.1	2,219	0.0	5,842	0.0	3,087	*51,445*
B. Proposed Ordinance on Framework, April 2019											
2020	1.0	21,480	0.8	10,450	0.1	2,320	0.0	5,845	0.0	3,320	*51,578*
2021	1.1	22,160	1.2	10,455	0.1	2,360	0.0	6,180	0.0	3,525	*54,443*
2022	1.2	23,000	1.0	10,705	0.1	2,430	0.0	6,530	0.0	3,725	*57,225*
C. Framework simulation, April 2019 (Fiscal Council)											
2020	0.8	21,546	...	...	...	...	...	...	...	...	*51,578*
2021	0.7	22,375	...	...	...	...	...	...	...	...	*54,443*
2022	0.7	23,270	...	...	...	...	...	...	...	...	*57,225*
Difference: B-A											
2020	0.6	1,528	1.4	508	0.0	101	0.0	3	0.0	233	*132*
Difference: C-A											
2020	0.4	1,594	...	...	...	...	...	...	...	...	*132*
Difference: C-B											
2020	-0.2	66	...	...	...	...	...	...	...	...	*0*
2021	-0.4	215	...	...	...	...	...	...	...	...	*0*
2022	-0.5	270	...	...	...	...	...	...	...	...	*0*

Sources: Official Gazette of the RS, IMAD , the draft Ordinance on the framework, April 2019 and FC calculations.

The highest potential level of expenditure of the general government sector that allows for the medium-term balance is determined in the Framework based on the expected level of revenue and the established cyclical position of the economy. The maximum level of expenditure is calculated in accordance with the mathematical formula set out in points 3 and 4 of Article 3 of the ZFisP depending on the position of the economy in the cycle. In accordance with the findings referred to in Chapter 1.2 (Assessment of the cyclical position of the economy), the formula that applies when the actual GDP is above the potential level (paragraph 4 of Article 3 of the ZFisP) was used in the simulations over the projection period of the applicable Stability Programme. In such a case the maximum level of expenditure is determined by deducting the projected level of potential GDP multiplied by the factor corresponding to the state of the economy in the business cycle from the projected amount of general government revenue. Temporary or one-off expenditures are not taken into account.

The currently applicable Framework was adopted in December 2018 despite the warnings by the Fiscal Council that the projected expenditure exceeded the threshold permitted by the ZFisP. The amendment to the 2018-2020 Framework adopted in December 2018 only applied to 2019; according to the Fiscal Council, this indicated the absence of the fiscal policy's medium-term orientation.[30] According to the estimate of the Fiscal Council, the projected expenditure exceeded by approximately EUR 270 the level of expenditure permitted by the ZFisP relative to the cyclical position of the economy.

[30] The opinion of the Fiscal Council is available at: http://www.fs-rs.si/wp-content/uploads/2018/12/Assessment_-December_2018.pdf

Table 3.2: Calculation of compliance with the maximum expenditure rule

			2019* (SP 2019)	2020 (SP 2019)	2021 (SP 2019)	2022 (SP 2019)
Revenues (MoF)	*% of GDP*		43.18	42.59	41.82	41.35
Revenues (MoF, FC calculations)	*EUR million*	R	21,071	21,967	22,768	23,662
Expenditures (Framework)	***EUR million***	**E**	**20,610**	**21,480**	**22,160**	**23,000**
GDP (IMAD)	*EUR million*	Y	48,797	51,578	54,443	57,225
Output gap (FC)	*% potencialnega proizvoda*	OG	2.0	2.0	1.6	1.5
Potential output (FC)	*EUR million*	YP	47,824	50,568	53,603	56,386
Elasticity of the balance to the output gap		á	0.468	0.468	0.468	0.468
One-offs (MoF)	*% of GDP*	o	-0.1	-0.1	0	0
Maximum expenditure (FC estimate)	***EUR million***	**E_max=R-á*YP*OG/100-o*Y/100**	**20,664**	**21,546**	**22,375**	**23,270**
Difference Framework-FC estimate	*EUR million*	E-E_max	-54	-66	-215	-270

*Note: *Estimates for 2019 are given for informative purposes and are not part of the assessment of domestic fiscal rule for the 2020-2022 period.*
Sources: Stability Programme 2019 and the draft Ordinance on the framework, April 2019, FC calculations.

The changed estimates and projections of general government aggregates for 2018 and 2019 give rise to changes in the assessment of the compliance with fiscal rules for 2019; the foreseen 2019 expenditures are not in compliance with the national fiscal rule. General government expenditures envisaged in the SP 2019 exceed general government expenditure projections in the Framework for the 2018-2020 period, adopted in December 2018, by EUR 68 million. In the SP 2019, revenue forecasted by the Ministry of Finance for this year amounts to approximately EUR 270 million more than in the proposed Draft Budgetary Plan for 2019, which was used as the basis for the assessment of the amended Framework for the 2018-2020 period in December 2018. That was also the amount of the excessive expenditure estimated by Fiscal Council in December 2018. In consequence, the estimate of the amount of excessive expenditure for 2019 is changed. At the same time, the estimate of the headline balance has also changed; instead of its reduction, its increase is envisaged in 2019. Given the practically identical estimates of the positive output gap, the structural balance estimate is also changed; according to the SP 2019 projections it is expected to deteriorate less than implied by the estimate made on the basis of the Framework adopted in December 2018.

The Fiscal Council estimates, drawn up based on a wide range of output gap estimates, show that expenditures projected in the Framework proposal for the 2020-2022 period comply with the national fiscal rule. The estimates show that expenditures – as indicated by the SP 2019 general government revenue projections and the current Fiscal Council estimates regarding the cyclical position of the economy – are expected to lag behind the maximum permitted level over the entire 2020-2022 period. For the first time since spring 2017, the Framework proposal has been set for the medium-term, i.e. for the 2020-2022 period as required by the ZFisP.

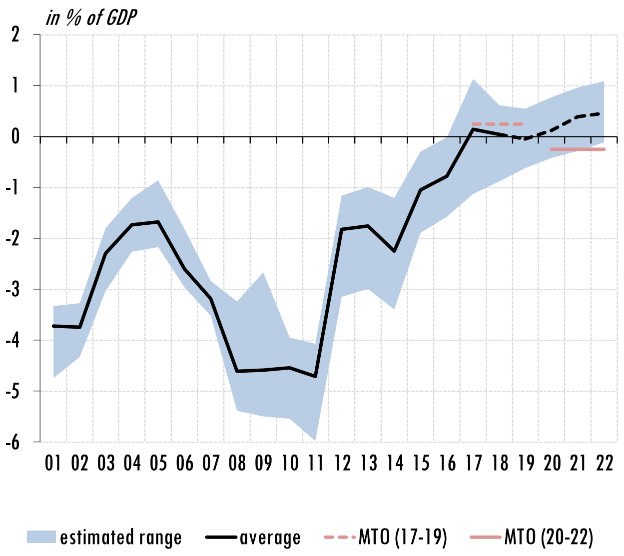
The structure of the projected expenditures by individual budgets of the general government sector shows their rather divergent trends, which can indicate additional risks associated with the projected level of the total expenditure. The state budget expenditure is expected to record the slowest growth of all individual budgets, totalling to 5.3% in the 2020-2022 period. Expenditure of the social security funds is expected to increase significantly: expenditure of the pension insurance fund budget by approximately 18% and expenditure of the health insurance fund budget by almost 22%. The assumed slow increase in the state budget expenditure implies that the actual expenditure of the entire general government sector could increase more than projected in the Framework proposal.

3.2 Achievement of medium-term budgetary objective

The Government must set the medium-term budgetary objective (MTO) as a target structural balance[31] in the Stability Programme. The medium-term budgetary objective is adjusted for a period of three years following the Ageing Report.[32] In addition to the projected long-term cost of ageing, updated long-term economic growth estimates and data on general government debt levels are also included in the calculation of the medium-term budgetary objective.[33]

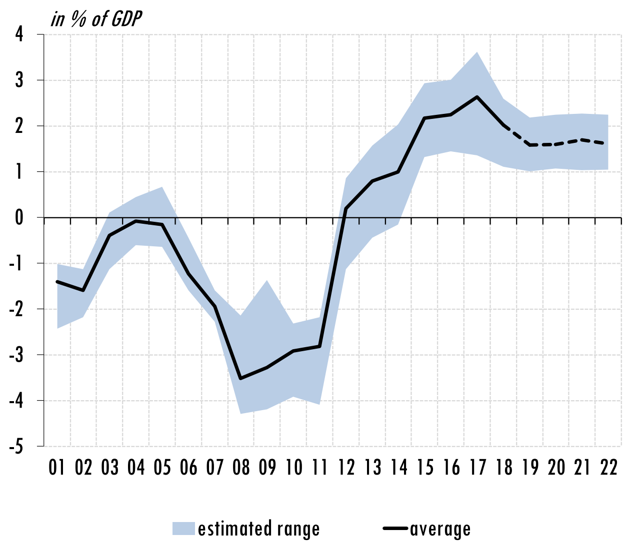
Compared to the previous SP, the MTO changed and according to new estimates based on EU rules[34] the appropriate structural balance for Slovenia in the 2020-2022 period is set as a deficit of a maximum of -0.25% of GDP. The medium-term budgetary objective for the 2017-2019 period, set in 2016, required a structural surplus of at least 0.25% of GDP. A Member State may opt for a more binding medium-term budgetary objective that exceeds the minimum commitment – a choice made by almost two thirds of the EU Member States in 2019. Given the data available at the time, the Fiscal Council drew attention to the option to reduce the MTO value already in the Report on the Fiscal Council's Operations 2017, published in May 2018.[35] In the current calculation of the MTO value the long-term cost of ageing again played a key role. Adoption of measures that would increase long-term cost of ageing would probably again lead to an increased MTO and thus trigger requirements for a renewed structural effort. In 2022, MTO for the 2023-2025 period will be recalculated; its calculations will take account of any intermediate changes to factors included in its calculation.

Figure 3.3: Structural balance estimates



Sources: SORS, OECD, IMF, IMAD, EC, MoF, FC. See note below Table 4.3.

Figure 3.4: Structural primary balance estimates



Sources: SORS, OECD, IMF, IMAD, EC, MoF, FC. See note below Table 4.3.

---

[31] Structural balance is defined as the general government balance excluding cyclical factors, one-offs and temporary measures.

[32] The last Ageing Report was drawn up in 2018. Available at https://ec.europa.eu/info/sites/info/files/economy-finance/ip079_en.pdf

[33] For more information, see Vade Mecum on the Stability and Growth Pact, 2019 Edition, p. 7-13; APRIL 19 (available at: https://ec.europa.eu/info/sites/info/files/economy-finance/ip101_en.pdf).

[34] Pursuant to EC Regulation no. 1466/97.

[35] Report on the Fiscal Council's operations in 2017, pages 31-34; May 2018 (available at http://www.fs-rs.si/wp-content/uploads/2018/05/Report-on-the-FC-operations-in-2017.pdf).

According to the available estimates, Slovenia will achieve its MTO during the SP 2019 projection period. The Fiscal Council prepared the structural balance estimates to assess compliance with the medium-term budgetary objective on the basis of currently available estimates of the cyclical position[36] and updated estimate of the elasticity of the balance of the general government sector in relation to the cyclical position of the economy calculated by the European Commission.[37] The estimate also takes into account the value of one-off effects of 0.1% of GDP in 2019 as projected by the Ministry of Finance in the SP 2019. Following a temporary deviation and deterioration of the structural balance in 2019, as the Fiscal Council pointed out in its assessment of the 2018-2020 Framework,[38] the SP 2019 projections and the current assessments of the cyclical position of the economy indicate that the structural balance is expected to be close to the medium-term budgetary objective or structurally balanced. The structural balance would thus be in line with the medium-term budgetary objective.

Contrasting the structural balance improvements, the projections imply a slight decrease in the structural primary balance surplus, indicating the continued favourable effect of the reduction in interest expenditure in fiscal policy management. The Fiscal Council's estimates show that the surplus in the primary structural balance of the general government sector, excluding cyclical and one-off factors and interest expenditure, is to somewhat decrease in the following years in contrast to the increased structural balance surplus. This implies a relatively high dependence of fiscal policy management on interest expenditure developments. Given the current maturity structure and the high share of debt with a fixed interest rate, the risk to which public finance might be exposed in the event of a sudden and rapid change in interest rate policy or a deterioration in international financial markets is relatively small.

3.3 Compliance with the structural effort rule

No additional structural effort is required in the SP 2019 period, as Slovenia is expected to achieve the medium-term budgetary objective. Article 15 of the ZFisP lays down that as long as the Republic of Slovenia is adjusting towards the medium-term budgetary objective the budgets of the general government are deemed balanced in the medium term, if the structural balance of the general government sector is adjusting to the medium-term budgetary objective in accordance with the pace determined on the basis of the Stability and Growth Pact.[39] The current projections of the Ministry of Finance and the Fiscal Council's estimates indicate that Slovenia is to achieve the medium-term budgetary objective in the period 2020-2022 and the Fiscal Council is of the opinion that no additional fiscal effort is required.

---

[36] Due to the incomplete time series the set of estimates of the output gap taken into account by the Fiscal Council to determine the cyclical position of the economy and to exclude cyclical factors from the nominal general government balance does not include the projections of all institutions that produce estimates of the output gap for Slovenia for the duration of the current SP period (missing are the EC and OECD forecasts for 2021 and 2022). If the full time series – obtained for example by simply extrapolating the EC and OECD output gap estimates deviation from the average value of all output gap estimates considered by the Fiscal Council – were observed, the estimated values of the structural budget indicator would be slightly less favourable, but the assessment of compliance with the MTO would not change.

[37] Annex III: Vade Mecum on the Stability and Growth Pact, 2019 Edition. European Commission (available at: https://ec.europa.eu/info/sites/info/files/economy-finance/ip101_en.pdf). After the weights used as a basis for elasticity calculations had been updated, the estimated elasticity for Slovenia decreased from 0.477 to 0.468. The Fiscal Council's estimates that also take account of the updated econometric estimates of the elasticity of income and expenditure indicate that the estimated total elasticity could further decrease because of the envisaged official revision of specific elasticities. The revised aggregate elasticity would have no significant impact on the current assessment of the structural balance. For more details see the annual Report on the Fiscal Council's operations in 2018, forthcoming in May 2019.

[38] Available at: http://www.fs-rs.si/wp-content/uploads/2018/12/Assessment_-December_2018.pdf

[39] The matrix of the structural effort required in the period in which the medium-term budgetary objective is not attained is defined in Box 1.6 in: Vade Mecum on the Stability and Growth Pact, 2019 Edition. European Commission (available at: https://ec.europa.eu/info/sites/info/files/economy-finance/ip101_en.pdf).

3.4 Compliance with the expenditure rule

Within the framework of the expenditure rule the calculation of appropriate expenditure growth excludes certain types of expenditures that cannot be directly influenced by the fiscal policy.[40] Such expenditures include interest payments, the cyclical component of unemployment benefits and expenditures resulting from receipts from EU funds. The rule also takes into consideration that government investment varies considerably from year to year, therefore the evaluation of compliance with the expenditure rule takes into account the four-year average of investment expenditure, excluding received EU funds earmarked for investment spending. The growth of such expenditures should not exceed the average 10-year growth of the potential product. For countries that do not meet the medium-term objective, expenditure growth must be even lower and adjusted by a convergence margin that ensures the expenditure rule is harmonised with the required adjustment of the structural balance. Due to possible annual fluctuations, the estimate also considers the two-year average of the growth of expenditure determined in this manner. In addition, expenditure growth is estimated, with deducted one-off effects that influence the trend of general government expenditure and revenue.

According to the SP 2019 projections, the growth in net expenditure will exceed the permitted growth in 2019 and lag behind it in 2020. In calculating (compliance with) the expenditure rule, we used the IMAD's data on long-term growth of potential output, which has been increasing with relatively high investment growth. Given that no further structural effort is required, as the medium-term budgetary objective has been achieved, expenditure growth is to only lag behind average long-term potential economic growth. On this basis, net expenditure may increase by 5.1% and 4.9% in the current and next year respectively. According to the SP 2019 projections, this year's growth will be slightly above the level permitted and will lag behind it in the next year.[41] Its two-year average will be below the permitted limits.

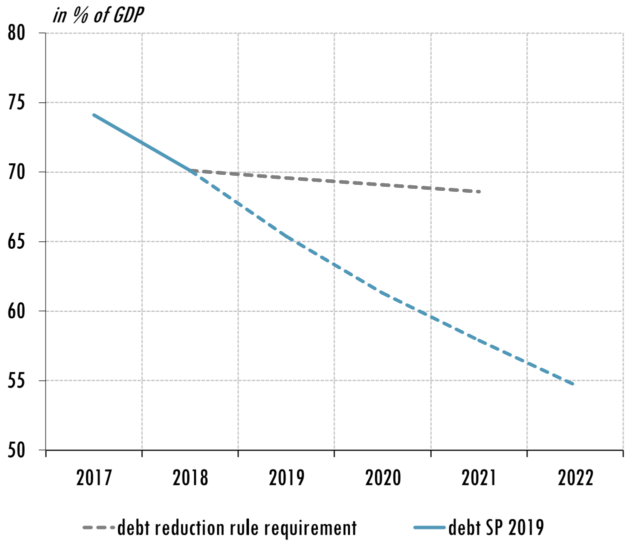
3.5 Compliance with the general government debt rule

Pursuant to the rules of the Fiscal Pact, laid down in the preventive arm of the Stability and Growth Pact, the general government debt exceeding 60% of GDP must be gradually reduced. Slovenia is expected to comply with these rules in the 2020-2022 period; debt is expected to fall below 60% of GDP in 2021. The three-year transitional period expired in 2018; it followed the exit from the Excessive Deficit Procedure, in which specific rules on reducing debt of the general government sector had been in place since 2016. For a part of the SP 2019 period the share of debt in GDP is to continue to be above the reference value specified in the Maastricht Treaty on European Union, signed in 1992, and Slovenia is required to reduce general government debt following the yearly dynamics, which in a three-year average corresponds to a 1/20 deviation in the debt level from the base-year level of 60% of GDP in the period from 2019 to 2021, when debt will fall below 60% of GDP. In Slovenia's case this is expected to be around half a percentage point of GDP per year. According to the SP 2019 projections, compliance with this rule is expected in all years covered by the aforementioned projections, as debt is expected to fall on average by almost 4 percentage points of GDP per year.

[40] For more information about the expenditure rule see Vade Mecum on Stability and Growth Pact 2018, pages 48–53 (March 2018).

[41] In accordance with the rules of the Stability and Growth Pact, some of the indicators for expenditure in year t are defined in the spring of the previous year (t-1). These indicators are the medium-term growth of the potential GDP and data on primary expenditure and the GDP deflator.

Figure 3.5: Debt reduction rule



Source: SORS, Stability Programme 2019, FC calculations.

4. Statistical annex

Table 4.1: Comparison of macroeconomic projections for 2019 and 2020

	2019						2020					
	EC (Nov.18)	OECD (Nov.18)	BoS (Dec.18)	EC (Feb.19)	IMAD (Mar. 19)	IMF (Apr.19)	EC (Nov.18)	OECD (Nov.18)	BoS (Dec.18)	EC (Feb.19)	IMAD (Mar. 19)	IMF (Apr.19)
GDP	**3.3**	**3.6**	**3.4**	**3.1**	**3.4**	**3.4**	**3.0**	**2.7**	**3.0**	**2.8**	**3.1**	**2.8**
Exports of goods and services	6.2	6.4	6.6		5.1	5.2	4.2	6.3	6.5		5.3	4.9
Imports of goods and services	6.9	6.9	7.0		6.0	7.9	5.2	7.0	6.8		5.8	6.4
External trade balance, contr. to growth	0.1	0.3	0.3		-0.1		-0.4	0.1	0.4		0.1	
Private consumption	2.9	2.6	2.4		2.9		3.1	2.0	2.2		2.4	
Government consumption	1.6	2.0	1.8		2.2		1.4	1.5	1.7		1.9	
Gross fixed capital formation	7.5	8.5	7.8		7.7		7.4	6.4	6.4		7.0	
Changes in inventories, contr. to growth	0.0	0.0	0.0		0.1		0.0	0.0	0.0		0.0	

Sources: IMF, European Commisionn (EC), OECD, Bank of Slovenia (BoS), IMAD.

Table 4.2: Comparison of outcome and forecast for the 2017–2021 period (EUR million)

	2017	2018						2019					2020			2021		
	SORS	SP 18	DBP 19	SORS	SORS-SP 18	SORS-DBP 19	SORS (18-17)	SP 18	DBP 19	SP 19	SP 19-SP 18	SP 19-DBP 19	SP 18	SP 19	SP 19-SP 18	SP 18	SP 19	SP 19-SP 18
Net lending / net borrowing	**5**	**163**	**384**	**303**	**140**	**-81**	**298**	**89**	**267**	**395**	**306**	**128**	**309**	**490**	**181**	**485**	**610**	**124**
Total revenue	**18,570**	**19,707**	**19,861**	**19,748**	**42**	**-113**	**1,178**	**20,668**	**20,877**	**21,071**	**403**	**193**	**21,379**	**21,967**	**588**	**21,930**	**22,768**	**838**
Total taxes	9,367	9,988	10,127	10,017	28	-111	649	10,428	10,545	10,657	229	112	10,802	11,105	302	11,183	11,547	364
Taxes on production and imports	6,142	6,457	6,541	6,464	7	-77	323	6,663	6,755	6,832	169	76	6,840	7,051	211	7,034	7,279	245
Current taxes on income, wealth, etc.	3,213	3,522	3,572	3,541	19	-31	328	3,751	3,776	3,811	60	35	3,947	4,039	92	4,138	4,257	120
Capital taxes	12	14	14	11	-3	-3	-1	15	15	10	-5	-5	10	10	0	11	11	0
Social contributions	6,371	6,741	6,811	6,819	78	8	448	7,154	7,182	7,344	190	162	7,526	7,799	272	7,917	8,264	348
Property income	491	382	499	509	127	11	18	372	442	454	82	12	330	366	36	298	354	56
Other	2,340	2,595	2,424	2,403	-192	-22	63	2,714	2,713	2,616	-98	-97	2,720	2,698	-23	2,538	2,602	65
Total expenditure	**18,564**	**19,539**	**19,477**	**19,445**	**-94**	**-32**	**881**	**20,579**	**20,610**	**20,680**	**102**	**70**	**21,070**	**21,477**	**407**	**21,450**	**22,158**	**708**
Compensation of employees	4,812	5,120	5,114	5,022	-98	-92	210	5,388	5,416	5,470	82	54	5,519	5,720	201	5,611	5,929	318
Intermediate consumption	2,698	2,767	2,818	2,887	120	69	189	2,813	2,951	2,933	120	-18	2,883	3,017	135	2,952	3,060	108
Social benefits	7,326	7,580	7,671	7,593	13	-78	266	7,968	7,944	7,998	30	54	8,286	8,330	43	8,656	8,771	115
Interest	1,071	932	906	911	-21	5	-161	833	791	795	-38	4	818	758	-59	800	713	-87
Subsidies	322	331	316	350	19	34	28	342	325	366	24	41	299	392	93	292	392	100
Gross fixed capital formation	1,332	1,603	1,596	1,663	60	66	331	1,915	2,067	2,001	86	-67	1,955	2,130	175	1,854	2,210	357
Capital transfers	237	172	233	174	2	-59	-63	164	194	234	71	40	142	227	85	138	174	36
Other	765	1,030	828	846	-184	18	81	1,151	912	883	-268	-29	1,158	903	-256	1,142	909	-233

Sources: Outcome for 2017 and 2018: SORS. Forecasts: Stability Programme 2018 (SP 18, Apr.18), Draft Budgetary Plan 2019 (DBP 19, Jan. 19), Stability Programme 2019 (SP 19, Apr. 19), FC calclulations.

Forecast values are calculated indirectly from shares in GDP, consequently numbers do not add up.

Table 4.3: Output gap estimates*

	IMF (Apr. 19)	EC (Nov. 18)	OECD (Nov. 18)	IMAD (Mar. 19)	MoF (Apr.19)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions
2001	-1.1	0.1	-1.2	-0.8	-0.8	-0.7	-0.1	...	1.8	-0.4	-0.8
2002	-0.8	0.8	-1.1	-0.1	-0.1	-0.7	-0.2	...	1.1	-0.1	-0.3
2003	-1.4	0.4	-1.7	-0.4	-0.4	-1.5	-1.3	...	0.9	-0.7	-0.7
2004	-0.3	1.2	-0.7	0.6	0.5	-0.8	-1.0	...	1.1	0.1	0.3
2005	0.9	1.8	0.4	1.4	1.3	-0.2	-1.0	0.4	1.7	0.7	1.2
2006	3.4	3.7	3.2	3.6	3.4	2.2	1.3	2.5	3.4	3.0	3.5
2007	7.3	7.0	7.3	6.8	6.6	6.7	6.0	5.9	5.9	6.6	7.0
2008	7.6	6.7	8.0	6.4	6.6	8.5	7.8	3.9	6.0	6.8	7.1
2009	-1.7	-3.4	-2.1	-3.6	-3.5	-0.8	-1.5	-6.8	-0.7	-2.7	-2.9
2010	-1.6	-3.0	-1.9	-3.3	-3.3	0.1	-0.3	-2.6	-2.8	-2.1	-2.6
2011	-1.5	-2.6	-2.0	-3.2	-3.0	0.4	0.9	-2.8	-2.4	-1.8	-2.5
2012	-4.5	-5.3	-5.3	-6.1	-5.8	-2.6	-1.8	-6.0	-4.8	-4.7	-5.4
2013	-6.3	-6.5	-7.3	-7.5	-7.2	-4.5	-3.6	-5.5	-7.9	-6.3	-6.9
2014	-4.5	-4.5	-5.8	-5.6	-5.3	-3.1	-2.0	-2.5	-6.7	-4.4	-5.1
2015	-3.9	-3.2	-5.2	-4.5	-4.1	-2.9	-1.9	-2.2	-5.3	-3.7	-4.2
2016	-2.7	-1.6	-4.1	-2.9	-2.7	-2.5	-1.8	-0.9	-4.2	-2.6	-2.8
2017	-0.4	1.1	-1.3	0.0	-0.2	-0.8	-0.2	2.5	-2.3	-0.2	-0.2
2018	1.2	2.7	0.9	2.1	1.7	0.5	0.8	3.5	0.3	1.5	1.7
2019	1.8	3.0	2.2	2.9	2.4	0.8	0.8	3.3	1.4	2.0	2.4
2020	1.8	2.5	2.4	3.1	2.6	0.8	0.6	2.3	1.8	2.0	2.5
2021	1.7	...	...	3.0	2.5	0.7	0.3	0.8	2.0	1.6	2.4
2022	1.3	...	...	2.7	2.3	0.6	0.1	1.3	2.1	1.5	2.1

Sources: IMAD, EC, IMF, OECD, Stability Programme 2019, FC calculations.

The table shows estimates of the output gap by domestic and international institutions that provide these estimates for Slovenia (IMAD, MF, EC, IMF, OECD). It should be noted that due to incomplete time series the table does not include estimates of all institutions that provide the estimates of the output gap for Slovenia for the duration of the current SP period (missing are the EC and OECD forecasts for 2021 and 2022). IMF estimates for 2021 and 2022 are taken from the Republic of Slovenia Staff report for the 2018 Article IV consultation (January 2019). In addition, the table also shows estimates of the output gap generated by statistical models in which the potential product is determined by (i) HP filters at different values of the parameter λ (10,100,400), (ii) the 3-, 5- and 7-year average of GDP, (iii) factor models estimated on the basis of survey about limitations in the economy and forecasts of a simple VAR model that includes these factors, as well as factor models that take into account a large number of IMAD and EC macroeconomic variables in its estimates and forecasts; and (iv) the SVAR model based on the Blanchard and Quah methodology (1989), which uses restrictions with regard to the assumption that GDP is affected in the long term only by shocks to the aggregate supply, while demand shocks affect activity levels only in the short term.

Table 4.4: Structural balance estimates

	IMF (Apr. 19)	EC (Nov. 18)	OECD (Nov. 18)	IMAD (Mar. 19)	MoF (Apr.19)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions
2001	-3.4	-3.9	-3.3	-3.5	-3.5	-3.5	-3.8	...	-4.7	-3.7	-3.5
2002	-3.4	-4.2	-3.3	-3.7	-3.7	-3.5	-3.7	...	-4.3	-3.7	-3.7
2003	-2.0	-2.8	-1.8	-2.4	-2.4	-1.9	-2.0	...	-3.0	-2.3	-2.3
2004	-1.6	-2.3	-1.4	-2.0	-1.9	-1.3	-1.2	...	-2.2	-1.7	-1.8
2005	-1.8	-2.2	-1.5	-2.0	-1.9	-1.2	-0.9	-1.5	-2.1	-1.7	-1.9
2006	-2.8	-3.0	-2.7	-2.9	-2.8	-2.2	-1.8	-2.4	-2.8	-2.6	-2.8
2007	-3.5	-3.4	-3.5	-3.3	-3.2	-3.2	-2.9	-2.8	-2.9	-3.2	-3.4
2008	-5.0	-4.5	-5.2	-4.4	-4.5	-5.4	-5.1	-3.2	-4.2	-4.6	-4.7
2009	-5.1	-4.3	-4.9	-4.2	-4.2	-5.5	-5.1	-2.7	-5.5	-4.6	-4.5
2010	-4.8	-4.1	-4.6	-4.0	-3.9	-5.5	-5.4	-4.3	-4.2	-4.5	-4.3
2011	-4.8	-4.3	-4.6	-4.1	-4.1	-5.8	-6.0	-4.2	-4.4	-4.7	-4.4
2012	-1.9	-1.5	-1.5	-1.2	-1.3	-2.8	-3.2	-1.2	-1.8	-1.8	-1.5
2013	-1.8	-1.6	-1.3	-1.2	-1.3	-2.6	-3.0	-2.1	-1.0	-1.8	-1.4
2014	-2.2	-2.2	-1.6	-1.7	-1.8	-2.9	-3.4	-3.2	-1.2	-2.2	-1.9
2015	-1.0	-1.3	-0.3	-0.7	-0.9	-1.4	-1.9	-1.8	-0.3	-1.1	-0.8
2016	-0.7	-1.3	-0.1	-0.6	-0.7	-0.8	-1.2	-1.6	0.0	-0.8	-0.7
2017	0.3	-0.4	0.7	0.1	0.1	0.4	0.2	-1.1	1.1	0.1	0.1
2018	0.2	-0.5	0.3	-0.2	0.0	0.5	0.4	-0.9	0.6	0.0	0.0
2019	0.1	-0.5	-0.1	-0.4	-0.2	0.6	0.5	-0.6	0.3	0.0	-0.2
2020	0.2	-0.1	-0.1	-0.4	-0.2	0.7	0.8	0.0	0.2	0.1	-0.1
2021	0.3	...	...	-0.3	0.0	0.8	1.0	0.8	0.2	0.4	0.0
2022	0.5	...	...	-0.1	0.1	0.9	1.1	0.5	0.2	0.5	0.2

Sources: IMAD EC, IMF, OECD, Stability Programme 2019, FC calculations on the basis of Table 4.3.

Table 4.5: Structural effort estimates

	IMF (Apr. 19)	EC (Nov. 18)	OECD (Nov. 18)	IMAD (Mar. 19)	MoF (Apr.19)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions
2001	0.2	-0.1	0.3	0.0	0.0	0.1	0.2	...	0.2	0.1	0.1
2002	-0.1	-0.3	0.1	-0.2	-0.2	0.0	0.1	...	0.4	0.0	-0.1
2003	1.5	1.4	1.5	1.3	1.3	1.6	1.7	...	1.3	1.4	1.4
2004	0.4	0.5	0.4	0.5	0.5	0.6	0.8	...	0.8	0.6	0.5
2005	-0.2	0.1	-0.1	0.0	0.0	0.1	0.4	...	0.1	0.0	-0.1
2006	-1.1	-0.8	-1.2	-0.9	-0.9	-1.0	-1.0	-0.9	-0.7	-0.9	-1.0
2007	-0.7	-0.4	-0.8	-0.4	-0.4	-1.0	-1.1	-0.5	-0.1	-0.6	-0.5
2008	-1.5	-1.2	-1.7	-1.2	-1.3	-2.2	-2.1	-0.4	-1.3	-1.4	-1.4
2009	-0.1	0.3	0.3	0.3	0.3	-0.1	-0.1	0.6	-1.3	0.0	0.2
2010	0.3	0.1	0.2	0.2	0.2	-0.1	-0.3	-1.6	1.3	0.0	0.2
2011	-0.1	-0.2	0.0	-0.1	-0.2	-0.2	-0.6	0.1	-0.2	-0.2	-0.1
2012	2.9	2.8	3.1	2.9	2.8	3.0	2.8	3.0	2.7	2.9	2.9
2013	0.2	-0.1	0.2	0.0	0.0	0.2	0.2	-0.9	0.8	0.1	0.1
2014	-0.5	-0.6	-0.3	-0.5	-0.5	-0.3	-0.4	-1.1	-0.2	-0.5	-0.5
2015	1.3	0.9	1.3	1.0	1.0	1.5	1.5	1.4	0.9	1.2	1.1
2016	0.2	0.0	0.3	0.0	0.1	0.6	0.7	0.2	0.3	0.3	0.1
2017	1.0	0.8	0.7	0.7	0.9	1.2	1.3	0.4	1.1	0.9	0.8
2018	-0.1	-0.1	-0.4	-0.3	-0.2	0.1	0.2	0.3	-0.5	-0.1	-0.2
2019	-0.1	0.0	-0.4	-0.2	-0.2	0.0	0.2	0.3	-0.4	-0.1	-0.2
2020	0.1	0.4	0.0	0.0	0.0	0.1	0.2	0.6	0.0	0.2	0.1
2021	0.1	...	...	0.1	0.1	0.1	0.2	0.8	0.0	0.2	0.1
2022	0.2	...	...	0.2	0.1	0.1	0.1	-0.2	0.0	0.1	0.2

Sources: IMAD EC, IMF, OECD, Stability Programme 2019, FC calculations on the basis of Table 4.3.

Table 4.6: Structural primary balance estimates

	IMF (Apr. 19)	EC (Nov. 18)	OECD (Nov. 18)	IMAD (Mar. 19)	MoF (Apr.19)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions
2001	-1.1	-1.6	-1.0	-1.2	-1.2	-1.2	-1.5	...	-2.4	-1.4	-1.2
2002	-1.3	-2.0	-1.1	-1.6	-1.6	-1.4	-1.6	...	-2.2	-1.6	-1.5
2003	0.0	-0.9	0.1	-0.5	-0.5	0.0	-0.1	...	-1.1	-0.4	-0.4
2004	0.1	-0.6	0.3	-0.3	-0.3	0.3	0.5	...	-0.6	-0.1	-0.2
2005	-0.2	-0.6	0.0	-0.5	-0.4	0.3	0.7	0.0	-0.6	-0.1	-0.3
2006	-1.4	-1.6	-1.3	-1.5	-1.4	-0.9	-0.4	-1.0	-1.4	-1.2	-1.5
2007	-2.3	-2.1	-2.3	-2.0	-1.9	-2.0	-1.7	-1.6	-1.6	-1.9	-2.1
2008	-3.9	-3.4	-4.1	-3.3	-3.4	-4.3	-4.0	-2.1	-3.1	-3.5	-3.6
2009	-3.7	-2.9	-3.5	-2.8	-2.9	-4.2	-3.8	-1.4	-4.2	-3.3	-3.2
2010	-3.1	-2.5	-3.0	-2.3	-2.3	-3.9	-3.7	-2.7	-2.6	-2.9	-2.7
2011	-3.0	-2.4	-2.7	-2.2	-2.2	-3.9	-4.1	-2.3	-2.6	-2.8	-2.5
2012	0.1	0.5	0.5	0.9	0.7	-0.8	-1.1	0.8	0.2	0.2	0.5
2013	0.8	0.9	1.3	1.4	1.2	0.0	-0.4	0.5	1.6	0.8	1.1
2014	1.0	1.0	1.6	1.6	1.4	0.4	-0.1	0.1	2.0	1.0	1.3
2015	2.3	1.9	2.9	2.5	2.4	1.8	1.3	1.5	2.9	2.2	2.4
2016	2.3	1.8	3.0	2.4	2.3	2.2	1.9	1.5	3.0	2.2	2.3
2017	2.8	2.0	3.2	2.6	2.6	2.9	2.7	1.4	3.6	2.6	2.6
2018	2.2	1.5	2.3	1.8	2.0	2.5	2.4	1.1	2.6	2.0	1.9
2019	1.7	1.1	1.5	1.2	1.4	2.2	2.2	1.0	1.9	1.6	1.4
2020	1.7	1.3	1.4	1.1	1.3	2.1	2.3	1.4	1.7	1.6	1.4
2021	1.6	...	...	1.0	1.3	2.1	2.3	2.1	1.5	1.7	1.3
2022	1.7	...	...	1.0	1.2	2.0	2.2	1.7	1.3	1.6	1.3

Sources: IMAD EC, IMF, OECD, Stability Programme 2019, FC calculations on the basis of Table 4.3.

Table 4.7: Structural primary effort estimates

	IMF (Apr. 19)	EC (Nov. 18)	OECD (Nov. 18)	IMAD (Mar. 19)	MoF (Apr.19)	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions
2001	0.1	-0.1	0.2	-0.1	-0.1	0.1	0.1	...	0.1	0.1	0.0
2002	-0.2	-0.4	-0.1	-0.4	-0.4	-0.1	0.0	...	0.2	-0.2	-0.3
2003	1.2	1.1	1.2	1.1	1.1	1.3	1.5	...	1.1	1.2	1.2
2004	0.1	0.3	0.2	0.2	0.2	0.4	0.5	...	0.6	0.3	0.2
2005	-0.3	0.0	-0.3	-0.2	-0.1	0.0	0.2	...	0.0	-0.1	-0.2
2006	-1.2	-0.9	-1.3	-1.1	-1.0	-1.2	-1.1	-1.0	-0.8	-1.1	-1.1
2007	-0.8	-0.5	-0.9	-0.5	-0.5	-1.1	-1.2	-0.6	-0.2	-0.7	-0.7
2008	-1.6	-1.3	-1.8	-1.3	-1.5	-2.3	-2.3	-0.6	-1.5	-1.6	-1.5
2009	0.1	0.5	0.5	0.5	0.5	0.1	0.2	0.8	-1.1	0.2	0.4
2010	0.6	0.4	0.5	0.5	0.6	0.3	0.1	-1.3	1.6	0.4	0.5
2011	0.2	0.1	0.3	0.2	0.1	0.1	-0.3	0.3	0.0	0.1	0.2
2012	3.1	2.9	3.2	3.0	3.0	3.1	3.0	3.1	2.8	3.0	3.0
2013	0.7	0.4	0.8	0.5	0.5	0.8	0.7	-0.4	1.3	0.6	0.6
2014	0.2	0.1	0.4	0.2	0.2	0.4	0.3	-0.4	0.5	0.2	0.2
2015	1.3	0.9	1.3	1.0	0.9	1.4	1.5	1.4	0.9	1.2	1.1
2016	0.0	-0.2	0.1	-0.2	-0.1	0.4	0.5	0.0	0.1	0.1	-0.1
2017	0.5	0.3	0.2	0.2	0.3	0.7	0.8	-0.1	0.6	0.4	0.3
2018	-0.6	-0.6	-0.9	-0.8	-0.7	-0.4	-0.3	-0.3	-1.0	-0.6	-0.7
2019	-0.5	-0.3	-0.8	-0.6	-0.5	-0.3	-0.2	-0.1	-0.7	-0.4	-0.5
2020	0.0	0.2	-0.1	-0.1	-0.1	0.0	0.1	0.4	-0.2	0.0	0.0
2021	0.0	...	...	0.0	-0.1	0.0	0.0	0.6	-0.2	0.0	0.0
2022	0.1	...	...	0.0	0.0	-0.1	0.0	-0.4	-0.1	-0.1	0.0

Sources: IMAD EC, IMF, OECD, Stability Programme 2019, FC calculations on the basis of Table 4.3.

Table 4.8: Maximum expenditure and deviation from the Framework

	IMF (Apr.19)		EC (Nov. 18)		OECD (Nov. 18)		IMAD (Mar. 19)		MoF (Apr. 19)		HP (Apr. 19)		based on GDP averages (Apr. 19)		Factor (Apr. 19)		Blanchard-Quah (Apr. 19)		average		**Framework**
	max exp.	*diff.*	*max exp.*	*diff.*	*max exp.*	*diff.*	*max exp.*	*diff.*	*max exp.*	*diff.*	*max exp.*	*diff.*	*max exp.*	*diff.*	*max exp.*	*diff.*	*max exp.*	*diff.*	*max exp.*	*diff.*	
2019	20,716	*-106*	20,476	*134*	20,635	*-25*	20,481	*129*	20,592	*18*	20,945	*-335*	20,945	*-335*	20,396	*214*	20,803	*-193*	20,664	*-54*	**20,610**
2020	21,586	*-106*	21,420	*60*	21,454	*26*	21,287	*193*	21,414	*66*	21,821	*-341*	21,876	*-396*	21,468	*12*	21,602	*-122*	21,546	*-66*	**21,480**
2021	22,342	*-182*	...	...	...	...	22,028	*132*	22,153	*7*	22,586	*-426*	22,684	*-524*	22,575	*-415*	22,270	*-110*	22,375	*-215*	**22,160**
2022	23,319	*-319*	...	...	...	...	22,960	*40*	23,065	*-65*	23,495	*-495*	23,627	*-627*	23,313	*-313*	23,123	*-123*	23,270	*-270*	**23,000**

Sources: IMAD EC, IMF, OECD, Stability Programme 2019, FC calculations on the basis of Table 4.3.