

10/22/2019

Assessment of compliance of the Proposal of budgets of the Republic of Slovenia for 2020 and 2021 with the fiscal rules

The Fiscal Council assesses that the Proposal of budgets of the Republic of Slovenia for 2020 and 2021 is clouded by significant negative risks. While projections are formally compliant with the fiscal rules, even a realisation of a small fraction of identified risks could result in a deviation from formal compliance.

These risks relate to the inconsistencies between projections and proposed measures. The aforementioned proposal includes the projected financial effects of certain laws with positive fiscal effects, which have not yet been adopted by the National Assembly, and does not take into consideration the effects of the laws which are at the same stage of the legislative procedure and have a potential negative impact on the fiscal balance. Moreover, the proposal includes headings with a positive impact on the fiscal balance, which, according to the Fiscal Council, do not currently have an adequate basis in the applicable legislation. Furthermore, the proposed measures that are still being discussed could add to the burden on public finances. Additional risks are associated with macroeconomic forecasts and arise, in particular, from the international environment, which the IMAD has already drawn attention to when drafting an alternative scenario.

The expenditure level of the state budget in the 2020-2021 period is lower than the maximum permitted in the current Framework for drafting general government budgets, while the level of general government sector expenditure exceeds it. The latter is due to the national accounts data revised after the date by which the framework could still be amended. The Fiscal Council assesses that the projected level of general government sector expenditure is in line with the recalculated expenditure ceilings based on current estimates of the output gap and revenue projections of the general government sector. The assessed structural balance is expected to be in surplus in the projection period, which is in line with the requirements of the Fiscal Rule Act in terms of the state of public finances in a given year and in line with the Stability and Growth Pact. Taking into account the varying estimates of the economic cycle duration, the structural balance is converging towards the medium-term balance. However, the Fiscal Council assesses that, in order to achieve this objective, the creation of structural surpluses will also be necessary after 2021.

The Fiscal Council notes that the proposal of the state budget for 2020 and 2021 represents a continuation of fiscal policy without a comprehensive set of policies to adequately ensure the long-term sustainability of public finances, especially in relation to the expenditure on the ageing population. Recently, measures have been put in place or are in the pipeline that could lead to a structural deterioration of public finances in the future. In the past, the lack of room for manoeuvre of fiscal policy often led to the shrinking of public investment. In the period of an economic growth slowdown, such a restrictive fiscal policy would be inappropriate and would also worsen the long-term economic outlook.

The Fiscal Council proposes that the Government should prepare an amended budget proposal

for 2020 and 2021, which will take full account of the financial impact of the proposed legislation or support the proposal with measures that are consistent with the projected revenue and expenditure levels. In a period of an economic growth slowdown and given the significant macroeconomic risks, due account must be taken of the precautionary principle, which is also required under the Fiscal Rule Act.