

11. 11. 2019

Ensuring fiscal responsibility and sustainability must be a fundamental guiding principle of the fiscal rule

The Fiscal Council's answer to the STA question

Fiscal rules need to be stable and should clearly impose restrictions on the economic policy when it comes to the selection of measures that would lead to excessive deficits and unsustainable levels of the general government debt.

The main purpose of fiscal rules is to ensure sustainable public finances in the medium and long term. Fiscal rules must be stable and should clearly impose restrictions on the economic policy when it comes to the selection of measures that would lead to pro-cyclical operations, excessive deficits and unsustainable levels of the general government debt in the medium and long term.

The Fiscal Council assesses the compliance of budget documents with fiscal rules on the basis of the Fiscal Rule Act whose main purpose is to ensure the medium-term balance of public finances required by Article 148 of the Slovenian Constitution. The Fiscal Rule Act was adopted by the Slovenian National Assembly in July 2015 by more than the required two-thirds majority of votes cast.

The views on the need and direction of changes to fiscal rules are not uniform, neither among experts nor at the EU political level. Discussions about the need to adjust the EU fiscal rules are also held in liaison with independent fiscal institutions in the EU. In the past, EU-level rules proved to lack transparency or to be too complex, but it is believed that they have contributed significantly to improving the state of public finances. The divided views about the adequacy of EU-level rules are not expected to change in reasonable time.

The Fiscal Council assess that, in terms of strictness, the national fiscal rule does not deviate substantially from fiscal rules in most other EU countries as their creation is subject to the Stability and Growth Pact. At the same time, we should bear in mind that a small open economy, such as Slovenia, is as a rule faster and more exposed to shocks from the international environment, as well as to shocks in financial markets. In addition, Slovenia is expected to have more pronounced long-term fiscal implications of aging than in most EU countries. Any amendment to the Fiscal Rule Act because of concrete political circumstances provides cover for fiscal irresponsibility. This increases the risk of triggering processes that can compromise the favourable results of fiscal consolidation so far, and undermine the foundations of long-term economic growth and the well-being of the population.