

Assessment by the Fiscal Council: Compliance of fiscal policy with the fiscal rules on the basis of the draft Stability Programme 2020 and the proposed Ordinance amending the Ordinance on the framework for the preparation of the general government budgets for the 2020-2022 period

On 24 April 2020, the Fiscal Council received the proposal for the Ordinance amending the Ordinance on the framework for the preparation of the general government budgets for the 2020–2022 period and the draft Stability Programme 2020 in order to assess their compliance with the fiscal rules. According to the assessment of the Fiscal Council of 17 March 2020, the COVID-19 epidemic constitutes exceptional circumstances, which, under Article 12 of the Fiscal Rule Act, allow a temporary deviation from the medium-term balance of public finances. In such circumstances, extensive and multi-stage fiscal measures are appropriate and necessary, provided that they do not compromise medium-term fiscal sustainability. The measures are more effective when they are appropriately targeted, timely and simple. Due to their extensive nature, they must be fully transparent and, with regard to fiscal sustainability, temporary and appropriately embedded in a credible medium-term framework. While recognising a high uncertainty of the depth and duration of the decline in economic activity and the actual fiscal effect of the accepted and the announced measures, we find that the measures adopted so far do not fully comply with the stated principles.

Slovenia has entered this crisis after years of relatively high economic growth and general government surpluses, but with a higher general government debt than prior to the financial crisis. Moreover, economic growth had already declined more than expected before the outbreak of the epidemic, while fiscal policy has been inappropriately expansionary over the past two years. Whether the current crisis is only temporary or if it becomes a structural crisis with long-term negative consequences for prosperity and fiscal sustainability depends on the effectiveness of the measures.

Declaring extraordinary circumstances allows for a temporary deviation from pursuing the medium-term fiscal balance; however, the part of the expenditure that is not temporary or related to the measures adopted to limit the consequences of the epidemic must remain in accordance with the applicable fiscal rules. Only in this case will the temporary deviation not compromise medium-term fiscal sustainability. The Fiscal Council assesses that, according to the mathematical formula determined in the Fiscal Rule Act, the part of general government expenditure that is not related to the crisis is set too high; however, considering the high level of uncertainty, it could fall within the range that is still in accordance with the permitted maximum expenditure level.