REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Report on the Fiscal Council's operations in 2019

May 2020

Document No.: 00-2/2020/1

TABLE OF CONTENTS :

FIGURES:

TABLES:

FOREWORD

In 2019, in addition to performing its regular tasks required by law, the Fiscal Council, through its opinions and recommendations, drew attention to the risks to which the general government sector is exposed and which may endanger fiscal sustainability in the medium term and even more so in the long term. The economic and social environment was marked by declining economic growth, which was still high in comparison with the EU, but lower than in the previous year. This also had an impact on expectations and forecasts. While we witnessed upward revisions to economic forecasts in the previous two years, downward revisions were seen in 2019. Optimism slowly diminished, and there was a growing awareness among professional circles of a coming recession.

The Fiscal Council began assessing compliance with fiscal rules in budget documents in the years of lively economic activity and fiscal nominal surpluses achieved in a relatively comfortable manner. The requirement of structurally balanced position was seen by many political players as overly pessimistic. There were strong political tendencies to plan the use of future surpluses regardless of the short-term uncertainty and considerable medium-term risks. Unfortunately, further developments showed that the conditions for budget planning on the revenue side are so uncertain that they never justify excessive optimism.

In the context of political debate, requests have been made to change fiscal rules. In their populist interpretation, interest groups like to suggest, misleadingly, that their interests are impeded by rules rather than limited resources. Although fiscal rules are also the subject of critical scrutiny by experts, this does not mean that their relaxation or abolition would increase prosperity. This might only happen in the short term. According to theoretical findings and practical experience, the opposite would be the case, as such relaxation or abolition would result in the diminished rationality of managing limited resources and insufficient fiscal space for taking action in response to shocks.

The position of a small export-oriented country like Slovenia in financial markets can be worsened by even the merest suspicion of fiscal irresponsibility. The consequences are known: worse terms for refinancing its borrowing, an increase in the required rate of return on its debt instruments and, consequently, an increase in public expenditure on interest payments. Instead of the expected relaxation, we would see a reduction in the available public spending space. This is why Slovenia should not in any way stand out from the family of fiscally responsible countries and reliable financial partners by hastily relaxing fiscal rules.

It is possible that the EU as a whole will begin to adjust fiscal rules to our possible new reality, particularly as we have seen recently how important it is to create sufficient fiscal space in times of prosperity to respond to shocks. In this respect, harmful hasty action by Slovenia is not necessary, and this is also substantiated by the national legislation. The provision of the Fiscal Rule Act (paragraph six of Article 3) stipulates that if the Stability and Growth Pact is amended or the National Assembly of the Republic of Slovenia ratifies the amendment of the international treaty on stability, coordination and governance in the economic and monetary union, the manner of calculating the maximum level of expenditures of the general government sector shall be changed accordingly.

The year 2019, to which this Fiscal Council report refers, was apparently the last year in which the economy was on an above-potential level before we entered a period of prolonged uncertainty due to exceptional circumstances caused by the pandemic. Considering the temporary deviation from pursuing the medium-term balance, fiscal rules are flexible enough in the medium and long term to also be used in such changed circumstances. They provide the main support to fiscal policy, which, even in these conditions, must take decisions on which fiscal stability, as a precondition for the well-being of the population now and in the future, depends. Support in achieving both goals in the medium and long term is the guiding principle of the Fiscal Council's operations.

Dr Davorin Kračun,

President of the Fiscal Council

1. The Fiscal Council's operations in 2019

The year 2019 was the second full calendar year of operation of the Fiscal Council. The Fiscal Rule Act (hereinafter: the ZFisP)[1], adopted in July 2015 by the National Assembly of the Republic of Slovenia (hereinafter: the National Assembly), constitutes the basis for the establishment and operations of the Fiscal Council. The ZFisP defines, inter alia, the tasks, composition and method of the Fiscal Council's operations. Its members were appointed by a constitutional majority of deputies of the National Assembly on 21 March 2017, when the Fiscal Council also started its operations. In accordance with Article 10 of the ZFisP, the Fiscal Council is obliged to submit a report on its work to the National Assembly for consideration annually by the end of May each year for the previous year. The Fiscal Council drew up its first annual report for 2017 in May 2018, while the current report presents the main aspects of the Fiscal Council's operations in 2019.

1.1 The guiding principles of the Fiscal Council's operations

The Fiscal Council is an independent and autonomous state authority that assesses the appropriateness of the planned and of the implemented fiscal policy, i.e. its compliance with the statutory fiscal rules. It is accountable for its operations solely to the National Assembly, which appoints and can also replace its members, who are appointed for a fixed term of five years. The autonomy of this authority is an essential condition for the provision of opinions that are not subject to political developments each time a new government takes office. This is facilitated by the two-thirds majority vote of all deputies required for the appointment of the Fiscal Council's members and the autonomous disposal of the funds allocated from the state budget.[2] In budget planning, the Fiscal Council itself proposes the funds it needs for its operations in accordance with the ZFisP. The autonomy of and strong analytical support for the Fiscal Council's opinions are essential for the credibility of the operations of the new institution. The guiding principle in the formulation of the Fiscal Council's opinions on public finances is their focus on the medium and long term, as only stable and sustainable public finances can in the long term provide a basis for economic development and, thus, the welfare of the population.

The tasks of the Fiscal Council are defined by the ZFisP. They mostly include the assessment of the appropriateness of budget documents, which must ensure compliance with the statutory fiscal rules and/or fiscal stability in the medium term. The Fiscal Council also assesses whether exceptional circumstances that justify a deviation from the medium-term fiscal balance have occurred and when they ceased to exist. The full range of the Fiscal Council's tasks is described in Article 7 of the ZFisP. In addition to the provisions of the ZFisP, the Act Amending the Public Finance Act of February 2018 (hereinafter: the ZJF-H)[3] imposed on the Fiscal Council the task of ex-post assessing the bias of the macroeconomic forecasts that represent the basis for preparing the budget documents. The Decree amending the Decree on development planning documents and procedures for the preparation of the central government budget of May 2018[4] imposes on the Fiscal Council the task of ex-post assessing the general government revenue and expenditure forecast. Considering the transitional periods laid down by law, the Fiscal Council will prepare, for the first time, the two assessments of the past forecasts in 2020.

[1] http://www.pisrs.si/Pis.web/npbDocPdf?idPredpisa=ZAKO7056&type=doc&lang=EN

[2] For more information on the operating costs and select components of the Fiscal Council's balance sheet for 2019, see Annex 1.

[3] https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2018-01-0544?sop=2018-01-0544 - only in Slovene.

[4] https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2018-01-1754?sop=2018-01-1754 - only in Slovene.

Table 1.1: Annual schedule of releases by Fiscal Council and by other institutions

	Week 1	Week 2	Week 3	Week 4
January		**FC: Current Developments**		
February				*SORS: National Accounts*
March		*IMAD: macro projection*		*SORS: General Govt Accounts*
April	*MoF: SP&NRP; Framework*	**FC: assess SP/Framework**		
May			*EC: assess SP/CSR*	*SORS: National Accounts;* **FC: Annual Report**
June				*SORS: Gen Govt Accounts* **FC: assess t-1 Budget**
July	**FC: Current Developments**			
August				*SORS: National Accounts*
September		*IMAD: macro projection*		*SORS: General Govt Accounts*
October		*MoF: State Budget, Framework, DBP*	*SORS: EDP;* **FC: assess SB/FR/DBP**	
November		*EC: assess DBP*		*SORS: National Accounts*
December				*SORS: General Govt Accounts*

Note: This scheme shows the time aspect of Fiscal Council regular publication releases (in red) during a calendar year. Fiscal Council may publish assessments which are not mandated by law outside this schedule. Abbreviations: CSR: Country Specific Recommendation, DBP: Draft Budgetary Plan, EDP: Excessive Deficit Procedure Report, FR: Framework, NRP: National Reform Programme, SB: State Budget, SP: Stability Programme.
Source: Fiscal Council.

In 2019, the Fiscal Council operated within the framework of the set regular annual operating cycle. In terms of its schedule, the annual work plan is largely defined by the ZFisP and the ZJF-H, namely by the procedure of preparing budget documents and by the publication of important macroeconomic and fiscal data. In addition to carrying out its statutory tasks, the Fiscal Council publishes opinions and press releases based on current macroeconomic and fiscal developments and envisaged legislative amendments that might affect fiscal sustainability. At the beginning of 2018, the Fiscal Council began publishing the "Public Finance and Macroeconomic Developments" publication on a regular basis. This publication is not expressly required by the ZFisP and its preparation is part of the task of regularly monitoring the implementation of the government budget, local government budgets and the health and pension insurance fund budget pursuant to point 3 of paragraph two of Article 7 of the ZFisP and is also part of the implementation of other tasks required for the exercise of the Fiscal Council's powers pursuant to point 9 of paragraph two of Article 7 of the ZFisP. As a rule, the publication is published in January and July each year after the publication of quarterly data about trends in the general government sector. In this publication, in addition to giving an overview of fiscal trends, the Fiscal Council presents its view on the cyclical situation of the economy, with a special emphasis on the assessment of factors and risks that could impact the achievement of fiscal objectives.

The Rules of Procedure of the Fiscal Council, which were published in the Official Gazette of the Republic of Slovenia [Uradni list RS], No 26/2017,[5] define the organisation and the method of the Fiscal Council's work. The Fiscal Council usually meets once per week at closed sessions to discuss the current macroeconomic and fiscal developments and, among other things, decide on the publication of its opinions, press releases and documents.

To support its operations, the Fiscal Council has concluded cooperation agreements with the Institute of Macroeconomic Analysis and Development (hereinafter: IMAD) and the Ministry of Finance.[6] In comparison with similar institutions operating in other EU Member States, the Slovenian Fiscal Council is one of the smallest bodies in terms of staffing. This is one of the reasons why paragraph seven of Article 10 of the ZFisP also provides for the possibility of concluding cooperation agreements with institutional units of the general government sector, which are obliged to provide the Fiscal Council with all the information, analyses and data they have at their disposal. The two agreements define the data and documents that the two institutions have to provide to the Fiscal Council and the deadlines for their provision. In 2019, the two cooperation agreements concluded with IMAD and the Ministry of Finance were implemented as agreed.

In 2019, the Fiscal Council met with representatives of domestic institutions on several occasions. The cooperation agreements concluded with the Ministry of Finance and IMAD also include a provision on holding regular meetings at the technical level for the purpose of informing the Fiscal Council of the current macroeconomic and fiscal developments and forecasts. In 2019, the Analysis Service of the Fiscal Council held technical-level meetings with the representatives of the two institutions on a regular basis and also held two technical-level meetings on macroeconomic forecasts with the Bank of Slovenia, which has not yet accepted the proposal for a formal cooperation agreement. In 2019, the Fiscal Council held a meeting with the Minister of Health and the State Secretary of the Ministry of Labour, Family, Social Affairs and Equal Opportunities to discuss proposals for amendments to the pension legislation.

For the purpose of its operations, the Fiscal Council also needs data and information that are not available to the public. In 2019, for the purpose of making analyses and providing opinions, the Fiscal Council, in accordance with the ZFisP, requested data and information from the Ministry of Public Administration, the Ministry of Labour, Family, Social Affairs and Equal Opportunities, the Financial Administration of the Republic of Slovenia, and the Statistical Office of the Republic of Slovenia, with which it does not have concluded cooperation agreements.

In 2019, the Fiscal Council organised two consultation meetings with Slovenian economists engaged in public finance[7] to obtain opinions and recommendations regarding its operations. At the meeting on the occasion of the 2nd anniversary of the Fiscal Council's operations held in March 2019, opinions were put forward on the key short-term and long-term fiscal policy challenges and the role and implementation of fiscal rules in ensuring fiscal balance in the medium term. At the second meeting held in December 2019, on the initiative of the Fiscal Council, the discussion touched upon two broad areas: fiscal rules and long-term fiscal sustainability. The participants were of the opinion that the fiscal rules should impose strict limitations on excessive budgetary spending and have a stabilising effect on the cyclical position of the economy. Although, in terms of methodology, it is difficult to determine the

[5] https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2017-01-1384?sop=2017-01-1384 - only in Slovene.

[6] Both agreements are published on the website of the Fiscal Council: http://www.fs-rs.si/fiscal-council/co-operation/ - only in Slovene.

[7] The records of the meetings are available at http://www.fs-rs.si/consultation-marking-the-second-anniversary-of-the-fiscal-council/ and at http://www.fs-rs.si/fiscal-council-consultation-at-the-end-of-2019/

cyclical position and thus accurately assess compliance with the fiscal rules based thereon, the benefits of fiscal rules are obvious. Since the national fiscal rule imposes expenditure ceilings, economic policy-makers should take greater account of the precautionary principle, while paying much more attention to the quality and structure of expenditure within the ceilings determined by the fiscal rule. Economic policy-makers should tackle, as soon as possible, the challenges associated with the expected economic slowdown and, in the long term, demographic change in particular. Accordingly, the question arises as to whether the years of favourable economic conditions have been sufficiently used to create the fiscal space needed to address the slowdown in economic activity. Furthermore, some participants in the consultation believed that tackling the consequences of demographic change would not only require measures of expenditure but also finding additional resources or restructuring the public purse revenues.

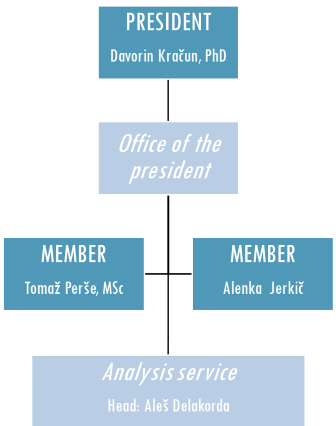
1.2 Composition of the Fiscal Council

The Fiscal Council has three members, i.e. the President and two members. Members of the Fiscal Council are appointed for a period of five years, but for no more than two consecutive periods. Article 8 of the ZFisP lays down that the function of a member of the Fiscal Council is incompatible with holding a public office and activities of managing, supervising or representing direct and indirect spending units of the budgets of the general government sector.

The President represents the Fiscal Council and organises and manages its work. In accordance with the provisions of Article 10 of the ZFisP, the President of the Fiscal Council must be employed with the Fiscal Council for at least 50% of full-time employment, and the members of the Fiscal Council may be employed with the Fiscal Council for no more than 50% of full-time employment. Currently, the President is employed full-time with the Fiscal Council and the two members for 50% of full-time employment each.

Four public employees are employed with the Fiscal Council. This is also the maximum number of employees as laid down by paragraph five of Article 10 of the ZFisP. Public employees provide

Figure 1.1: Organizational chart of the Fiscal Council



Source: Fiscal Council.

administrative and expert support to the Fiscal Council's members. The staffing of expert services was completed in October 2017 and remained unchanged in 2019. One public employee works in the President's office and performs administrative and organisational tasks, and three public employees work in the Analysis Service. In accordance with paragraph six of Article 10 of the ZFisP, administrative and technical tasks (tasks related to human resources, information technology, public relations, etc.) for the Fiscal Council are performed by the services of the Court of Audit of the Republic of Slovenia (hereinafter: the Court of Audit), where the Fiscal Council's premises were located in 2019.[8] In accordance with the agreement concluded between the two institutions, the Fiscal Council covers the cost of services and rental of premises to the Court of Audit (see the explanation for the item "Material expenses" in Table 1 contained in Annex 1).

The Analysis Service provides expert assistance to the Fiscal Council's members. In this context, it regularly monitors and analyses macroeconomic and fiscal developments in Slovenia and abroad and prepares notes for the members and expert groundwork for their opinions. In its third year of operation, the Analysis Service's priority tasks included database management, maintaining and upgrading the automation of processes of monitoring economic indicators, upgrading analytical tools for the analysis of cyclical and fiscal trends, updating the Fiscal Council's website and designing the Fiscal Council's new publication.

2. The Fiscal Council's opinions and the Government's responses in 2019

Most of the Fiscal Council's operations in 2019 related to the tasks defined by the ZFisP. In this regard, it should be noted that paragraph four of Article 7 of the ZFisP lays down that the Government of the Republic of Slovenia (hereinafter: the Government) is obliged to respond to the opinions provided by the Fiscal Council in accordance with this Act. The Government must draw up a written reasoned opinion on the assessments of the Fiscal Council and submit it to the National Assembly. This is the "comply-or-explain" principle laid down in EU law in Directive 2011/85/EU. The drafting of written reasoned opinions by the Government increases the transparency of its operations, and a possible lack of response to the Fiscal Council's recommendations increases its political responsibility.

In accordance with the ZFisP, the Fiscal Council made the following assessments in 2019:[9]

- On 11 February 2019, it submitted to the National Assembly and the Government the Assessment of compliance of the draft Revised Budget of the Republic of Slovenia for 2019 with the fiscal rules (as required in point 2 of paragraph two of Article 7 of the ZFisP).
- On 18 April 2019, it submitted to the National Assembly and the Government the Assessment of the draft Stability Programme – Update 2019 (as laid down in point 1 of paragraph two of Article 7 of the ZFisP).
- On 31 May 2019, it submitted to the National Assembly the Report on the Fiscal Council's operations in 2018 (as laid down in point 8 of Article 10 of the ZFisP).

[8] Due to the changed spatial needs of the Court of Audit, the Fiscal Council began to look for new rental premises in which to perform its activities in 2019. The Court of Audit assisted the Fiscal Council in this process by enquiring about appropriate premises at the Ministry of Public Administration, which the Ministry was unable to provide. The Fiscal Council moved to new premises on Likozarjeva ulica 3 in Ljubljana in April 2020. Together with the owner of the premises, the Court of Audit carried out all the necessary activities to ensure that the premises at the new location are appropriate for the needs of the Fiscal Council and meet the standards set out in the criteria for arranging business premises for the needs of budget users. In agreement with the Fiscal Council, the Court of Audit will use part of the premises for its own needs (meetings and training courses) and will provide administrative and technical support to the Fiscal Council at the new location in accordance with the Fiscal Rule Act.

[9] The summary of assessments of the Fiscal Council from 2019 is in Annex 2.

- On 12 June 2019, it submitted to the National Assembly and the Government the Assessment of compliance of the executed budgets of the general government sector with the fiscal rules in 2018 (as laid down in point 4 of paragraph two of Article 7 of the ZFisP).
- On 22 October 2019, it submitted to the National Assembly and the Government the Assessment of compliance of the Proposal of budgets of the Republic of Slovenia with the fiscal rules (as required in point 2 of paragraph two of Article 7 of the ZFisP).
- On 14 November 2019, it submitted to the National Assembly and the Government the Assessment of compliance of the supplemented Proposal of budgets of the Republic of Slovenia with the fiscal rules (as required in point 2 of paragraph two of Article 7 of the ZFisP).

In addition to the assessments required under the ZFisP, in 2019 the Fiscal Council prepared the following opinions and recommendations:

- On 6 March 2019, it replied to the request of the Commission for Public Finance Control of the National Assembly of the Republic of Slovenia concerning an opinion on fiscal sustainability regarding the financing of and risks posed by the construction project of the second track of the Divača-Koper railway line.
- On 30 July 2019, it provided an opinion that amendments to the pension legislation should be accompanied by explanations of their long-term fiscal consequences.
- On 9 September 2019, it assessed that the long-term fiscal consequences of the amendments to the pension legislation indicated an additional increase in ageing-related expenditure, which should be presented by the Government publicly and transparently and which requires the adoption of comprehensive measures to ensure fiscal sustainability in the long term.

In 2019, upon examining the budget documents, the Fiscal Council established that the fiscal trends for 2019 projected in these documents deviated from the fiscal rules but were mostly consistent with the fiscal rules in the following years, although the precautionary principle was not complied with in their drafting and their projections were exposed to considerable risks. According to an assessment by the Fiscal Council, compliance with the precautionary principle while the negative risks to which public finances were increasingly exposed in 2019 would mean that the projected actual level of expenditure should lag behind the allowed maximum level of expenditure. In addition to the expected weakening of favourable macroeconomic conditions, the risks foreseen in fiscal projections were related to the inconsistencies between projections and proposed measures. The Fiscal Council called on the Government to implement a countercyclical fiscal policy in order to gradually reduce the general government debt and create sufficient reserves to ensure long-term sustainability given the demographic changes. The Fiscal Council also drew attention to the absence of a medium-term orientation of the fiscal policy and to the insufficiently defined measures aimed at ensuring the appropriate structural effort. In reviewing the implementation of the fiscal policy in 2018, the Fiscal Council assessed that in 2018 Slovenia mostly complied with the fiscal rules; in addition to high revenue conditioned primarily by favourable cyclical conditions, this was also enabled by the increase of certain non-tax categories and the deferral of certain measures that have unfavourable structural fiscal consequences due to political uncertainty to the coming years. The domestic expenditure rule, which lays down the maximum level or growth of general government expenditure, was an exception to the finding regarding compliance with the fiscal rules in 2018. Despite this, the ex-post analysis made by the Fiscal Council showed that the general government sector expenditure did not exceed the ceiling set by taking into account up-to-date data used for the calculation of the allowed maximum level of expenditure.

The Government responded to the Fiscal Council's assessments for 2019 with public written explanations in accordance with the legislation. In the written explanations, it highlighted the unreliability of the parameters used for the calculation of compliance with the fiscal rules, in particular, uncertainty related to the calculation of the output gap. In addition, it drew attention to the revisions of published statistical data for the general government sector and the fact that, in the event that the risks related to public finances materialise, the Government has instruments at hand to adjust fiscal trends to fiscal rule requirements, pursuant to the Public Finance Act. In this regard, the Government stressed that, due to potential risks, state budget expenditure in 2020 is planned to be below the ceiling determined in the framework for drawing up general government budgets, which ensures that the budget is implemented in accordance with the fiscal rules.

3. The Fiscal Council's recommendations in 2019

In 2019, the Fiscal Council's recommendations were related particularly to the necessity to take into account the medium-term and long-term consequences of the planned amendments to the pension legislation.

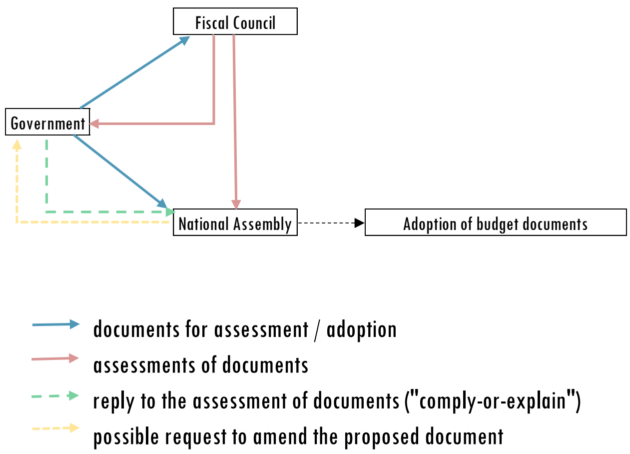
Based on publicly available data and its own assessments, the Fiscal Council has established that certain provisions of the proposed Act Amending the Pension and Disability Insurance Act, which was the subject of public debate, could have significant long-term consequences for fiscal sustainability. The results of calculations of the short-term effects of an increase in the assessment percentage did not indicate a significant impact on public finances, as due to demographic influences and a gradual increase in the assessment percentage, a more pronounced overall effect was expected to be seen after 2025 when the planned increase will reach its final value. That is why the Fiscal Council called on the Government to transparently present the calculations of overall long-term fiscal consequences and/or the calculations of long-term fiscal effects of individual provisions of a proposed act during public debate on the proposed act and, in particular, during its drafting for further consideration. The Fiscal Council cautioned the Government that the introduction of measures that improve the social position of new pensioners and introduce the same pension conditions for both sexes should be accompanied by broader policies that would ensure long-term fiscal sustainability. The increase in expenditure resulting from such measures requires measures to alleviate their financial consequences. These measures should therefore address not only the reform of social security system parameters but also a wide range of areas that would comprehensively tackle the challenges of a long-lived society.

4. The Fiscal Council and the National Assembly

The Fiscal Council's cooperation with the legislative branch of government is extremely important. As an independent institution providing non-partisan analyses of economic and fiscal trends, the Fiscal Council may provide direct support to deputies' decisions on budget guidelines and public finance topics.[10] In accordance with its mandate, in its work, the Fiscal Council relies consciously on a positive

[10] In some countries (such as Australia, Croatia, Italy, South Korea, Canada and the USA), fiscal councils are placed within the parliamentary framework by institutional regulation.

Figure 4.1: Relations between the Fiscal Council, the Government and the National Assembly during the process of adoption of budget documents



Source: Fiscal Council.

analysis and does not provide normative opinions on particular fiscal measures and/or laws. Such policy enables the Fiscal Council to maintain its unbiased status, while at the same time ensuring the apolitical nature of its operations.

In 2019 the representatives of the Fiscal Council attended four sessions of the National Assembly's Committee on Finance, one session of the National Assembly's Commission for Public Finance Oversight, one session of the National Assembly's Committee on Infrastructure, Environment and Spatial Planning, and one session of the National Council's Commission for Economy, Trade, Tourism and Finance. The Fiscal Council also submits its assessments of budget documents and fiscal trends to the Government for response and to the National Assembly for consideration. Accordingly, it also takes part in the sessions held by the Committee on Finance, where it presents and explains its opinions and weighs them against the Government's opinions. If opinions on budget documents are provided, the Government must respond to them by explaining how such opinions will be taken into account or why they will not be taken into account ("comply-or-explain"). In 2019, the Fiscal Council as an independent authority was invited to participate in a session of the Commission for Public Finance Oversight on the construction of the single-track Divača–Koper railway line in the light of cost-effective planning of investments in the area of transport infrastructure, their cost-effective implementation and the economical and cost-effective use of public funds. In this regard, the Fiscal Council published a reply to a request made by the aforementioned Commission.[11] The Fiscal Council participated as an observer in the session on the public presentation of opinions about the construction and management of the second track of the Divača-Koper railway line, which was prepared by the National Assembly’s Committee on Infrastructure, Environment and Spatial Planning. At the session of the National Council's Commission for Economy, Trade, Tourism and Finance, the Fiscal Council presented its opinion on amendments to the Public Finance Act and the findings of the Report on the Fiscal Council's operations in 2018.

In 2019, the Fiscal Council organised meetings with deputy groups of the National Assembly on its own initiative to increase its visibility and raise political parties' awareness of its work. Five deputy groups

[11] http://www.fs-rs.si/wp-content/uploads/2019/03/Odgovor-FS_KNJF.pdf - only in Slovene.

responded to the Fiscal Council's initiative; discussions with these deputy groups were held in February and March.[12]

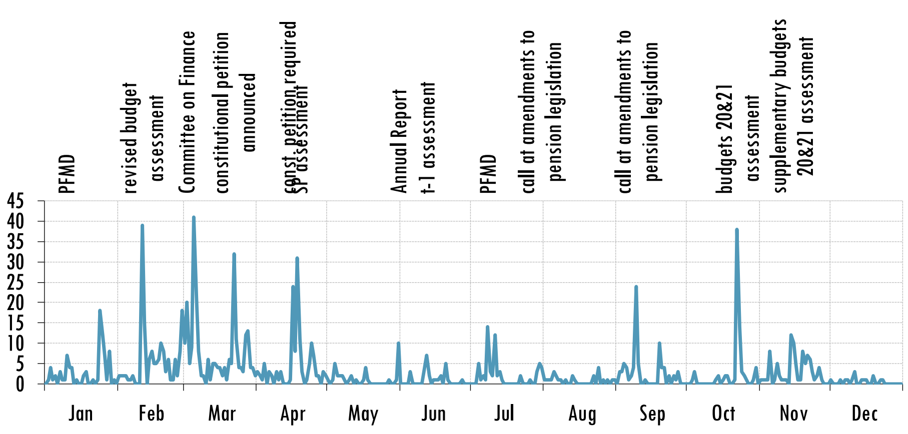
The legislation governing the Fiscal Council's operations did not change in 2019.

5. The Fiscal Council's contact with the media

Some of the key tasks of independent fiscal institutions are communication with the media and informing the general public of their findings. Since the Fiscal Council merely provides opinions on budget documents that the Government is not obliged to take into account (only the "comply-or-explain" principle applies), it can only have an indirect impact on the fiscal policy. Accordingly, its task is primarily to raise the awareness of the general public, public opinion makers and other stakeholders about the importance of ensuring a sustainable fiscal policy in the long-term. However, in order for its opinions to be taken into account in public debates, its credibility must be established, i.e. public confidence in the Fiscal Council's analyses and opinions.

In 2019, the Fiscal Council provided information about its work to the public by publishing recommendations and opinions, holding interviews and press conferences. The President of the Fiscal Council held six interviews with various media, covering a wide range of macroeconomic and fiscal topics. The publications of the Fiscal Council received a significant response from the media compared to the previous year, and the number of media coverage in 2019 was almost double the number of media coverage in 2018. The media particularly responded to individual publications of the Fiscal Council's opinions and views. Two press conferences held by the Fiscal Council received a significant response. The first conference of the Fiscal Council was held in April when the Assessment of the Stability Programme – Update 2019 was published, and the second conference was held in October when the Assessment of Compliance of the Proposed Budget of the Republic of Slovenia for 2020 and 2021 with the fiscal rules was published. The Assessment of the Revised Budget of the Republic of Slovenia for 2019 and the submitted petition for a constitutional review (the Implementation of the

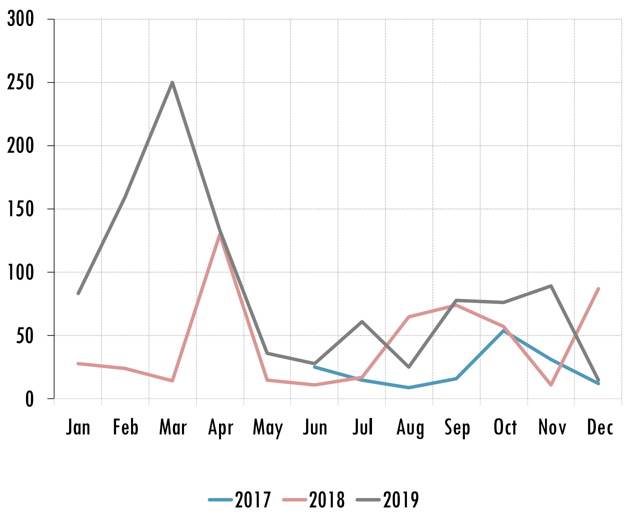
Figure 5.1: Number of media reports about the Fiscal Council in 2019 by month



Source: Press Clipping d.o.o., Fiscal Council calculations.

[12] Records of meetings with deputy groups of the National Assembly are available at http://www.fs-rs.si/fiscal-council/events/

Figure 5.3: Number of media reports by year



Source: Press Clipping d.o.o., Fiscal Council calculations.

Republic of Slovenia Budget for 2018 and 2019, the Revised budget of the Republic of Slovenia for 2019, and the Ordinance on the Fiscal Framework for the 2018–2020 period) also received a significant response from the media. The media devoted considerable attention to the Fiscal Council's calls, as amendments to the pension legislation were announced.

As soon as it began to operate, the Fiscal Council set up its own website with a view to increasing the transparency of its operations.[13] Through its website, the Fiscal Council provides access to the current published opinions, assessments, views and recommendations to the wider interested public. Furthermore, the legislation relating to the work of the Fiscal Council, cooperation agreements with other institutions, events in which the Fiscal Council participates and interviews with its members are also available on the website. During the overhaul of the website, a set of frequently asked questions with answers relating to the Fiscal Council's area of work were added to the website. In this way, the Fiscal Council aims to familiarise the public in a simple way with the basic concepts used in its work and communication. The majority of publications, including other basic information on the Fiscal Council's operations, are also available in English.

6. International cooperation of the Fiscal Council

Shortly after it began operating, the Fiscal Council joined the international networks of similar institutions and participated in discussions with international institutions that analyse economic and fiscal developments in Slovenia. The purpose of joining international networks of independent fiscal institutions is to follow the current trends in budgetary control, the exchange of information and the transfer of good practices of similar institutions. In addition to cooperating with other institutions that formulate and implement economic policy in Slovenia, the Fiscal Council cooperates with international institutions. In doing so, it presents and explains its views on the macroeconomic and fiscal developments in Slovenia.

[13] http://www.fs-rs.si/news/

6.1 The Fiscal Council and networks of EU independent fiscal institutions

The Fiscal Council is part of the EU Network of Independent Fiscal Institutions (EUNIFI) and the European Union's Independent Fiscal Institutions network (EU IFI). The EUNIFI is a formal network of EU independent fiscal institutions whose work is organised by the European Commission (hereinafter: the EC) and whose purpose is to connect the institutions predominantly in terms of public finance governance and compliance with the fiscal rules laid down by EU law. The EU IFI[14], however, is a voluntary and informal network of independent fiscal institutions, which provides a platform to exchange views and information among its members, but without the involvement of EU institutions. In 2019, the EU IFI drew up a report on the need to increase and protect the role of independent fiscal institutions at the national level and the EU level.[15] In 2019, the Fiscal Council's representatives attended two EUNIFI meetings and two EU IFI meetings.

The Fiscal Council prepared two contributions for the web presentation of fiscal developments in Slovenia within the EU IFI framework. Twice per year the EU IFI publishes brief statements on the economic developments in EU Member States, and the EU IFI's Secretariat also summarises the contributions on the basis thereof.[16] For this purpose, IMAD[17] presented the macroeconomic forecasts, while the Fiscal Council presented its view on the short- and long-term fiscal trends and the related challenges and risks.

6.2 Cooperation with international institutions

The Fiscal Council cooperates with the EC within the framework of the European Semester. In 2019, representatives of the EC visited the Fiscal Council twice, in April and in October. Cooperation took place at a technical level and was intended to exchange views on the current and future budgetary developments, in particular in terms of compliance with the fiscal rules. In this context, the Fiscal Council presented its independent assessments of budget documents.

The Fiscal Council was visited by a delegation of the International Monetary Fund (IMF) in July 2019. During the visit, the delegation and members of the Fiscal Council exchanged views on the current and the expected fiscal position of Slovenia and on the medium-term fiscal policy challenges. The discussion focused primarily on the Fiscal Council's assessments of the risks posed to public finances and on the key fiscal policy priorities.

The Fiscal Council also cooperates with the Organisation for Economic Co-operation and Development (OECD). An OECD delegation visited the Fiscal Council in May to exchange opinions for the purpose of the preparation of the annual report on Slovenia. Within the OECD, there is also a network of independent fiscal institutions[18] that provides a platform for the exchange of information and good practices. On the basis of multi-annual cooperation and monitoring, the OECD has drawn up good practice guidelines for the effective operation of fiscal councils. Within the framework of the aforementioned network of independent fiscal institutions, the OECD keeps a database[19] which also

[14] http://www.euifis.eu/

[15] https://www.euifis.eu/download/statement_reinforcing_and_protecting_ifi_s.pdf

[16] https://www.euifis.eu/eng/fiscal/174/european-fiscal-monitor

[17] Due to its independent drawing-up of macroeconomic forecasts, which constitute the basis for the preparation of budgets, IMAD is recognised as an independent fiscal institution and participates in the EU IFI and the EUNIFI.

[18] http://www.oecd.org/gov/budgeting/oecdnetworkofparliamentarybudgetofficialspbo.htm

[19] http://www.oecd.org/gov/budgeting/OECD-Independent-Fiscal-Institutions-Database.xlsx

includes Slovenia and the purpose of which is to provide an overview of the key features of independent fiscal institutions.[20]

In 2019, the Fiscal Council met with representatives of credit rating agencies. In March, it had a meeting with representatives of Moody's, and in July a meeting with representatives of Fitch Ratings. At these meetings, the Fiscal Council delivered its opinions on the economic and fiscal situation in Slovenia and presented its assessments of compliance with fiscal rules. The Fiscal Council and the representatives of credit rating agencies also discussed long-term challenges to public finances.

In addition to the above, the Fiscal Council's representatives also took part in the following events as part of international cooperation:

- a seminar on long-term fiscal sustainability organised by the DG ECFIN in Brussels in January;
- a workshop on forecasting fiscal revenue organised by the CEF in Ljubljana in January;
- the regular annual meeting of OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions, held in Lisbon in February;
- the annual conference of the Irish Fiscal Advisory Council, which was held in February on the topic of "Path for the Public Finances" in Dublin;
- a workshop organised by the European Fiscal Board on the topic of "Independent Fiscal Institutions in the EU Fiscal Framework" in Brussels in February;
- the "ESTP GFS/EDP Government Financial Statistics and Excessive Deficit Procedure" workshop, organised by EUROSTAT and the Statistical Office of the Republic of Slovenia (SURS) in Ljubljana in May and November;
- the "Fiscal Policies in a Challenging World" workshop, organised by the IMF Fiscal Affairs Department and IMF Europe Office in Brussels in September;
- two workshops – "Election costing around the world" and "The instruments and processes around the Dutch election costing for IFIs", organised by CBP in The Hague in November.

[20] The summary of key features includes several areas, including the legal basis, institutional form, leadership, relationship with the legislative branch of government, mandate and functions, financial resources and the number of employees, independence, publications, access to information, transparency and external evaluation of the work of independent fiscal institutions.

Annex 1: The Fiscal Council's operations in 2019

Summary of the document "Obrazložitve zaključnega računa proračuna za leto 2019" (Notes to the Annual Financial Statement of the Budget of the Republic of Slovenia for 2019).

The Revised Budget of the Republic of Slovenia for 2019 (Official Gazette of the Republic of Slovenia [Uradni list RS], No 19/19) allocated funds totalling EUR 644,991 to the Fiscal Council for its activities.

The Fiscal Council carried out its tasks in 2019 with full staff participation.

As it was established that the funds allocated in the adopted financial plan will not be fully used, funds totalling:

- EUR 140,000.00 were reallocated to the Ministry of Labour, Family, Social Affairs and Equal Opportunities under the budget heading 'Parental benefits' (Government Decision No 41012-47/2019/3 of 19 November 2019);
- EUR 50,000.00 were reallocated to the Ministry of Labour, Family, Social Affairs and Equal Opportunities under the budget heading 'Transfers for socially disadvantaged persons' (Government Decision No 41012-54/2019/3 of 10 December 2019), and
- EUR 10,000 were reallocated to the Ministry of Finance under the budget heading 'Reserves' (Government Decision No 41012-60/2019/2 of 23 December 2019).

As at 31 December 2019, the financial plan for 2019 thus totalled EUR 444,991. A total of EUR 424,003.26 was used, accounting for 95.28% of the planned funds.

Explanation of certain major headings:

1) Salaries are calculated and paid in accordance with the provisions of the Public Sector Salary System Act (ZSPJS), the Fiscal Balance Act (ZUJF), the Implementation of the Republic of Slovenia's Budget for 2018 and 2019 Act (ZIPRS1819), the provisions of the Collective Agreement for the public sector, the Collective Agreement for non-commercial activities in the Republic of Slovenia, Annexes to the Collective Agreement for non-commercial activities in the Republic of Slovenia, and other regulations and general acts. Together with their salary for May 2019, employees were paid a holiday pay in the amount of EUR 886.63 in proportion to their employment with the Fiscal Council. The amount of holiday pay was defined in Annex to the Collective agreement for non-commercial activities in the Republic of Slovenia (Official Gazette of the Republic of Slovenia [Uradni list RS], No 31/19). The collective supplementary pension insurance for public employees is implemented in the form of a closed mutual pension fund managed by Modra zavarovalnica, d. d., Ljubljana pursuant to the Act Governing Conversion of the Pension Fund Management and Investment Policy of Pension Fund Management (KAD) and the Slovenian Compensation Company (SOD) (Official Gazette of the Republic of Slovenia [Uradni list RS], Nos 79/10, 26/11 and 105/12-ZSDH). In 2019, the collective supplementary pension insurance premiums were paid in the amount laid down in the Decision on Adjusting the Minimum Premium Amount of Collective Supplementary Pension Insurance for Public Employees (Official Gazette of the Republic of Slovenia [Uradni list RS], No 82/18).

2) In accordance with Article 10 of the Fiscal Rule Act (Official Gazette of the Republic of Slovenia [Uradni list RS], No 55/15), administrative and technical tasks for the Fiscal Council are performed by the services of the Court of Audit of the Republic of Slovenia. In accordance with the Agreement on providing administrative and technical support and premises for the needs of the Fiscal Council No 010-2/2017/1 of 27 March 2017, concluded with the Court of Audit, the services of the Court of Audit perform certain tasks within their competence also for the Fiscal Council. In addition to the above, the Court of Audit provides furnished offices with a surface area of 96.20 square metres and enables the sharing of the common areas, which accounts for 4.62% of the premises owned by the Court of Audit (i.e. the State). The Fiscal Council contributes to the payment of the corresponding part of the costs. In 2019, EUR 53,510.09 was used for this purpose (EUR 48,337.15 for administrative and technical assistance and EUR 5,172.94 for the use of premises and certain equipment). The costs of administrative and technical assistance are recorded as "other operating expenses". The staff attended various seminars, conferences, presentations, discussions, workshops, expert consultations in Slovenia and abroad. Statutorily required training courses about the protection of information and evacuation exercises were also held in 2019. An attendance fee was charged for the seminar on the protocol for top-level business meetings and personal excellence. Employees also participated in free-of-charge ESTP (European Statistical Training Programme) training courses and workshops held at the

Table 1: Fiscal Council expenditure

	2018 EUR	2019 EUR	share in total expenditure (%, 2019)
Expenditure on salaries and duties			
Salaries, supplements and other	261,677	273,813	64.6
Annual allowance	5,057	5,320	1.3
Restitutions, work-related bonuses	15,285	13,424	3.2
Social security contributions	42,604	44,354	10.5
Collective supplementary pension insurance according to ZKDPZJU	2,261	2,431	0.6
Total	326,883	339,342	80.0
Material expenditure			
Stationery and general goods and services	13,217	12,974	3.1
Special goods and services	1,029	113	0.0
Energy, water, communal services and communications	3,224	3,230	0.8
Transport costs and services	78	38	0.0
Expenses on business travel	6,692	8,030	1.9
Regular maintenance	3,262	2,604	0.6
Business rents	3,693	3,668	0.9
Other operative expenditure	40,653	49,001	11.6
Total	71,846	79,659	18.8
Expenditure on investment and investment maintainance			
Hardware computer equipment	5,008	1,194	0.3
Intangibles (computer software)	3,653	3,324	0.8
Telecommunication equipment	1,749	484	0.1
Total	10,410	5,002	1.2
Total expenditure	**409,140**	**424,003**	100.0

Sources: Notes to the Annual Financial Statement of the Budget of the Republic of Slovenia for 2018 and 2019 .

Centre of Excellence in Finance on the topic of revenue forecast. As regards expert consultations abroad, the biggest costs are the costs of accommodation, subsistence allowance and other travel-related expenses.

3) Additional computer hardware and software required for normal operation was purchased in 2019 (laptop computer, an LCD monitor, mobile phones, licence software). The MS EA software is rented.

As at 31 December 2019, the Fiscal Council did not have any funds recorded in the account of the Ljubljana Office of the Public Payments Administration of the Republic of Slovenia. The Fiscal Council operates through the account of the budget of the Republic of Slovenia. The Fiscal Council has no recorded claims from long-term investments and loans.

In recording intangible assets, real estate, equipment and other tangible fixed assets, the Rules on the method and rates of depreciation of intangible fixed assets and tangible fixed assets (Official Gazette of the Republic of Slovenia [Uradni list RS], No 45/05, as amended) and the Accounting Act (Official Gazette of the Republic of Slovenia [Uradni list RS], No 23/99, 30/02-ZJF-C, 114/06-ZUE) were taken into account.

Equipment in the value of EUR 4,110.98 was purchased in 2019, namely:

- licence software in the amount of EUR 2,540.00;
- computer hardware in the amount of EUR 1,193.99 (a laptop computer in the amount of EUR 988.99 and an LCD monitor in the amount of EUR 205.00);
- mobile phones in the amount of EUR 376.99;

As at 31 December 2019, the present value of intangible assets and tangible fixed assets was EUR 12,945.10.

Tabela 2: Value of tanglible and intangible fixed assets in 2019

	Intangible assets	Immovable assets	Equipment and other tangible assets	Total
PURCHASE VALUE				
As at 1 January 2019	12,611	0	28,719	41,330
Direct acquisition	2,540	0	1,571	4,111
Removal – transfer	0	0	-650	650
As at 31 December 2019	15,151	0	29,640	44,791
VALUE ADJUSTMENT				
As at 1 January 2018	2,708	0	16,568	19,277
Reduction of value due to exclusions or transfers			-650	-650
Value adjustment	2,776	0	10,443	13,219
Value adjustment stationery				
As at 31 December 2019	5,484	0	26,361	31,846
RESIDUAL VALUE				
As at 31 December 2019	**9,667**	**0**	**3,279**	**12,945**

Source: Notes to the Annual Financial Statement of the Budget of the Republic of Slovenia for 2019.

In December 2019, 5 mobile phones, the total value of which was EUR 650.00, were sold. On the day they were delivered to the buyers, the mobile phones were excluded from the analytical gross balance sheet.

As at 1 January 2019, the Fiscal Council also reported in its balance sheet outstanding expenses in the amount of EUR 32,472.72, which were settled at the beginning of 2019.

As at 31 December 2019, the Fiscal Council reported in its balance sheet outstanding expenses in the amount of EUR 40,327.00, which were carried into 2020.

These claims relate to the following:

– calculated and not yet paid salaries, duties and reimbursement of expenses for December 2019 in the amount of EUR 29,437.55 (of this, EUR 28,067.12 for salaries and allowances, including contributions and income tax prepayment, EUR 1,167.36 for other benefits, EUR 203.07 for collective supplementary pension insurance premiums);
– services provided and calculated expenses of budget users in the amount of EUR 6,925.22;
– services provided and supplies delivered in the amount of EUR 3,723.82;
– claims against the Health Insurance Institute of Slovenia arising from the calculated and paid sick leave for December 2019 totalling EUR 240.41.

Outstanding expenses shown on the balance sheet as at 31 December 2019 fall due for payment in 2020.

As at 31 December 2019, the Fiscal Council reported in its balance sheet short-term liabilities and accrued and deferred liability items in the amount of EUR 40,327.00, which will be paid in 2020.

These liabilities related to the following:

– short-term liabilities to employees arising from salaries in the amount of EUR 24,153.11 (net salaries in the amount of EUR 14,901.38, the employer's contributions in the amount of EUR 5,337.79, liabilities arising from income tax prepayment in the amount of EUR 3,913.94);
– other short-term liabilities to employees in the amount of EUR 1,167.36 (separation allowance, meal allowance, travel allowance);
– short-term liabilities to suppliers in the amount of EUR 3,723.82 (for supplies and services provided in November and December 2019);
– other short-term operating liabilities in the amount of EUR 4,117.08 (EUR 3,914.01 for the calculated employer's contributions and EUR 203.07 for collective supplementary pension insurance premiums for December 2019);
– short-term liabilities to users of the uniform chart of accounts in the amount of EUR 6,925.22 for services provided in November and December 2018 (liabilities to the Court of Audit for administrative and technical services and the use of office premises in the amount of EUR 6,906.11, and to the Secretariat-General of the Government of the Republic of Slovenia for the provision of translation and language editing services in the amount of EUR 19.11);
– accrued and deferred liability items in the amount of EUR 240.41 relating to the refund of sick pay by the Health Insurance Institute of Slovenia calculated on the salary for December 2019.

As at 31 December 2019, a general restricted tangible and intangible fixed assets fund totalling EUR 12,945.10 was shown on the Fiscal Council's books among own funds and long-term liabilities. Long-term operating liabilities arising from the purchase of Microsoft software in the period from 21 May 2018 to 31 December 2020 totalling EUR 784.46 for the payment of the third instalment that falls due in 2020 were also shown.

As at 31 December 2019, the Fiscal Council's books also recorded off-balance-sheet equipment in the total amount of EUR 3,499.32 that is not owned by the Fiscal Council but is held in temporary use. This equipment includes communication technology equipment (owner Telekom Slovenije, d.d.) in the amount of EUR 1,642.62, a Canon multifunctional device (owner FITEH, servis in trgovina biro opreme, d.o.o.) in the amount of EUR 1,506.70 and a water cooler and heater (owner KOPIRSERVIS, d.o.o.) in the amount of EUR 350.00.

Annex 2: Summaries of Fiscal Council's assessments in 2019

Assessment of compliance of the Proposal of Revised State Budget 2019 with the fiscal rules

February 2019

The proposal of revised state budget and the Framework for the Preparation of the General Government Budget indicate an expansive and pro-cyclical fiscal policy in 2019. In the Fiscal Council's opinion, this policy is unsuitable under the current circumstances. According to the estimates of the Fiscal Council and the Government of the Republic of Slovenia, the fiscal situation will this year deteriorate in the environment of expected persistently favourable economic conditions. The implementation of a procyclical policy means missing the opportunity to create sufficient space for manoeuvre in times of prosperity to mitigate the negative consequences of the economy's cooling in the future. At the same time, Slovenia is returning to a situation in which a renewed fiscal effort will be required to structurally balance public finances.

In the current situation, fiscal rules do not require decreasing expenditure, but only a restriction on their rapid growth. A sufficient nominal surplus should be created to maintain the structural balance of the general government, which has been achieved over the past two years. According to the submitted budget documents, the Government of the Republic of Slovenia expects an increase in general government expenditure by EUR 1.13 billion compared to 2018. Such a level of expenditure, in the opinion of the Fiscal Council, is determined in contravention to legislation. According to the proposal of revised budget, the bulk of the increase in expenditure is the result of higher costs of labour. Expenditure on investment and subsidies are also planned to substantially increase, partly also in conjunction with relatively optimistic assumptions regarding the drawdown of the EU funding.

The law requires the Fiscal Council to assess the appropriateness of the anticipated total expenditure level and general government balance and not to determine the structure of budget revenues and expenditures, which is the responsibility of the Government. The provisions of the Fiscal Rules Act would be respected if the overall general government expenditure were increased in 2019 by approximately EUR 870 million, which would, with the exception of last year, be the highest growth in expenditure after 2009. This increase would fall short of the one anticipated by the adopted Framework by approximately EUR 270 million. The Fiscal Council assesses that an increase in expenditure, harmonised with fiscal rules, would not limit the Government's ability to pursue its objectives of promoting long-term economic growth and redistributing income, but would enable the Government to achieve its objectives without endangering medium-term fiscal sustainability and thus the population's long-term well-being.

Recent months have seen increased risk of a more severe slowdown in 2019's economic growth than was forecast in projections that served as a basis for the budget documents. In an uncertain environment, the Government should follow the precautionary principle in planning both public revenue and expenditure. With regard to the high increase in revenue which is mainly a result of economic growth, the proposed budget documents anticipate a permanent increase in expenditure without addressing long-term challenges.

This year, public debt is expected to continue to decline and about half of the reduction in the public debt-to-GDP ratio is expected to be contributed by the projected growth in the nominal GDP and, to a significant extent, also by revenues from privatisation. Despite a decrease in recent years, public debt has remained high and its increase is one of the of the highest in the EU compared to the precrisis level. As a result, the interest expenditure level will still exceed that of 2008 by approximately EUR 400 million despite the continued decrease. The Fiscal Council believes that the current debt reduction is not in itself a sufficient condition to ensure sustainable public finances in the long run, whereas structurally sustainable public finances are a necessary condition for debt reduction in the long term.

Budget documents are adopted outside the statutory time limits, which is understandable due to the formation of the new government last autumn. However, the Fiscal Council believes that the process of preparing budget documents again does not reflect the legal requirement for synchronising their adoption and medium-term fiscal policy planning. Although the Fiscal Rule Act requires a simultaneous adoption of amendments to the Framework and of the state budget, the proposal of revised state budget was submitted only more than one month after the adoption of the amendments to the Framework by the National Assembly of the Republic of Slovenia. Moreover, the proposal of revised state budget to a certain extent deviates from the adopted Framework. Furthermore, the Framework has been amended again for one year only, although the law requires a comprehensive revision for the current and the following three years. In the opinion of the Fiscal Council, this is particularly problematic because following the formation of the government, measures were taken with fiscal consequences for the coming years. In the persistent absence of medium-term budget planning the aforementioned deviation from the structural balance gives rise to doubts about the ability to achieve medium-term fiscal sustainability. The Fiscal Council therefore expects the Government to present credible and comprehensive budgetary plans leading to medium term fiscal sustainability in the context of the preparation of the Stability Programme and the National Reform Programme in spring 2019.

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

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.

Assessment of compliance of the general government budgets with the fiscal rules in 2018

June 2019

Pursuant to the provisions of the Fiscal Rule Act, the Fiscal Council produced an assessment of compliance of the implemented budgets of the general government sector with the fiscal rules in 2018. According to the Fiscal Council's assessment, in 2018 the budgetary policy was neutral, but given the cyclical position of the economy it should have been restrictive. The fiscal rules were predominantly complied with, which was primarily made possible by high revenues driven by favourable cyclical conditions and partly by an increase in certain non-tax categories. Taking into account the deviation permitted, the medium-term budgetary objective under EU rules was attained in 2018. The relevant national rule was not complied with as the general government expenditure exceeded the level set in the adopted medium-term Framework. The ex-post analysis indicates that the general government sector expenditure did not exceed that ceiling set by taking into account the currently available revenue data and the output gap estimates. Compliance with the expenditure ceiling set by the Framework is in principle a form of formal guidance for conducting countercyclical fiscal policy; last year, compliance with this rule would have resulted in a higher than recorded surplus of the general government balance. Thus, more manoeuvring room would have been created for the fiscal policy in the subsequent years in which economic growth is expected to slow and negative risks are simultaneously increasing. A decrease in the share of general government debt in GDP was appropriate.

A favourable macroeconomic situation in 2018 – with economic growth close to 5% for the second consecutive year – was reflected in a further significant and broadly-based increase in general government revenue. The general government sector balance increased and amounted to 0.7% of GDP, as revenue increases exceeded those in expenditures, which, in fact, rose above the level set in the Framework. An important role was played by a reduction in interest expenditure as the primary balance surplus increase was lower. Last year, the structural balance continued to be close to equilibrium. The share of gross debt in GDP was further reduced; the Government took advantage of the favourable situation in the financial markets and continued to actively manage the debt.

The Fiscal Council is of the view that in 2018 the potential for a more sustainable improvement of public finance remained untapped. In addition to favourable macroeconomic conditions, the nearly full compliance with the fiscal rules was also due to the fact that certain measures with unfavourable structural fiscal implications were postponed to future years because of political uncertainty. According to current Fiscal Council's estimates, the annual achievement of the medium-term budgetary objective under EU rules, which is defined as a slight structural deficit for the 2020-2022 period, will not suffice to attain balanced position over the medium-term and that structural surpluses will need to be generated in the future. In order to ensure balance over the economic cycle, these surpluses will be required because of structural deficits in years past. The increased risks associated in particular with the anticipated negative fiscal implications of demographic change narrow the timeframe for adopting the measures to contribute to a more sustained improvement of public finance. In the current favourable cyclical conditions the state budget already transfers approximately 2% of GDP to the pension fund. If the measures to ensure long-term sustainability are not adopted, the implications for public finances will be far more extensive than that of a deviation from fiscal rules in a single year. Experience shows that the adoption of structural measures is more feasible in the first part of the policy cycle; in addition, Slovenia is still experiencing favourable economic conditions.

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

October 2019

The Fiscal Council assesses that the projections of fiscal developments provided in the supplied budget documents (the 2020-2021 Budget Proposal and the 2020 Draft Budgetary Plan) are clouded by significant negative risks. While projections are formally compliant with the fiscal rules, the Fiscal Council has identified inconsistencies between the projections of certain items and the proposed or applicable measures. The materialisation of only a small fraction of identified risks could result in a deviation from formal compliance.

The risks to which the projections of fiscal developments are exposed relate to the inconsistencies between the projections and proposed or applicable measures, the possibility of introducing measures that are still to be defined, as well as to macroeconomic forecasts that represent the basis for budget planning. The materialisation of risks related to the projections provided in the budget documents could jeopardise all of the stated findings regarding their formal compliance with the fiscal rules. The most important risks are as follows:

- The 2020-2021 Budget Proposal includes the expected financial effects of certain legislation with the positive fiscal effects that has already been discussed by the Government of the Republic of Slovenia (hereinafter: the Government) but have not yet been adopted by the

National Assembly. However, the aforementioned proposal does not take into consideration the effects of the legislation that is at the same stage of the legislative procedure with potentially negative impact on the fiscal balance.

- The 2020-2021 Budget Proposal includes the items that have a positive impact on the fiscal balance, which, according to the Fiscal Council, do not currently have an adequate basis in the applicable legislation.
- The proposed measures that are still being negotiated could add to the burden on public finance.
- Some changes to the legislation will, in the short-term, only have a minor negative effect on public finances, whereas in the long-term they may substantially reduce the sustainability of public finances, which the Fiscal Council has already pointed out (amendments to pension legislation).
- The risks associated to macroeconomic forecasts arise, in particular, from the international environment to which IMAD has already drawn attention when drafting an alternative scenario. Incoming data and forecasts from other institutions, published after IMAD's forecast, confirm those risks.

The presented budget documents show that in 2019-2021 the nominal surplus of the general government is set at a level slightly below 1% of GDP throughout the period, while the nominal surplus of the state budget is expected to increase from 0.3% to over 1% of GDP. Gross general government debt is expected to decrease by the end of 2020 in nominal terms, and as a share in GDP and should be close to 60% of GDP.

The expenditure level of the state budget in the 2020-2021 period corresponds to the ceiling determined in the current Framework for drawing up general government budgets (hereinafter: Framework), while the level of general government expenditure exceeds it. This is due to the national accounts data being revised after the date by which the Framework could still be amended. Based on the current estimates of the level of the output gap and revenue projections of the general government, the Fiscal Council assesses that the projected level of general government expenditure is in line with the recalculated expenditure ceilings. 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 business cycle duration, the structural balance is expected to converge towards the medium-term balanced position. However, the Fiscal Council assesses that, in order to achieve this objective, the structural surpluses will also be necessary after 2021.

The Fiscal Council notes that the 2020-2021 Budget Proposal represents a fiscal policy managed in the absence of a comprehensive set of policies to adequately ensure the long-term sustainability of public finances, especially in relation to the ageing population. Recently, measures have been put in place or are in the pipeline that could lead to a structural deterioration in public finances in the future. In the past, the lack of room for manoeuvre within 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 state budget proposal for 2020 and 2021, which will take full account of the financial impact of the proposed legislation or will support the proposal with measures that are consistent with the projected revenue and expenditure levels. In the period of an economic growth slowdown and given the significant negative macroeconomic risks, due account must be taken of the precautionary principle, which is also required under the Fiscal Rule Act.

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

November 2019

Having reviewed the supplemented proposal of the budget documents (the supplemented 2020-2021 Budget proposal and the supplemented 2020 Draft Budgetary Plan), the Fiscal Council continues to assess that the fiscal development projections are clouded by significant negative risks. While projections formally comply with the fiscal rules, the Fiscal Council still notes inconsistencies between the projections of certain items and the proposed or applicable measures. The materialisation of only a small fraction of identified risks could result in a deviation from formal compliance.

On 20 October 2019, the Fiscal Council submitted the assessment of the compliance of the 2020-2021 Budget proposal with the fiscal rules to the Slovenian National Assembly and the Government as required by law. The Fiscal Council proposed that the Government should prepare an amended state budget proposal for 2020 and 2021, which will take into consideration the financial impact of the proposed legislation and to support the proposal with measures consistent with the projected revenue and expenditure levels. On 6 November 2019, the Government submitted the supplemented 2020-2021 Budget proposal and the supplemented 2020 Draft Budgetary Plan to the Fiscal Council.

The substantive changes to the supplemented proposals of budget documents relate to taking into account the effects of the adopted amendments to tax legislation. They will reduce the fiscal balance on a cumulative basis in the 2020-2021 period by EUR 44 million. These projections are based on the assumption of improved tax collection efficiency. According to the supplemented Budget proposal of the Republic of Slovenia, in 2020 this refers to additional revenues from personal income tax, corporate income tax and VAT, and in 2021 to additional revenues from VAT. The total impact of these measures is estimated at EUR 74 million in 2020 and EUR 25 million in 2021. The Fiscal Council assesses that the assumption about the improved efficiency poses an additional risk to the revenue projections provided in the proposed budgets.

In addition, most of the risks identified by the Fiscal Council when assessing compliance with the 2020-2021 Budget proposal remain present in the supplemented budgetary documents. The materialisation of these risks could compromise the findings on formal compliance with the fiscal rules. The most important risks are as follows:

- The supplemented Budget proposal also includes items that have a positive impact on the fiscal balance, which, according to the Fiscal Council, do not currently have an adequate basis in the applicable legislation (a decrease in expenditure on transfers to individuals and households in 2020 compared to 2019).
- The proposed measures that are still being negotiated could add to the burden on public finance (an extraordinary adjustment of pensions).

- Some amendments to the legislation that are currently under discussion will, in the short-term, only have a minor negative effect on public finances, whereas in the long-term they may substantially reduce the sustainability of public finances, which the Fiscal Council has already pointed out (amendments to pension legislation).

The risks associated with macroeconomic forecasts arise, in particular, from the international environment to which IMAD has already drawn attention when drafting an alternative scenario. Incoming data and forecasts from other institutions, published after IMAD's forecast, confirm those risks.

The submitted budget documents show that in 2019-2021 the surplus of the general government is set at a level slightly below 1% of GDP throughout the period, while the surplus of the state budget is expected to increase from 0.3% in 2019 to over 1.2% of GDP in 2021. Gross general government debt is expected to decrease by the end of 2020 in nominal terms, and as a share in GDP and should be close to 60% of GDP.

The expenditure level of the general government in the 2020-2021 period that is set in the supplemented budget documents also exceeds the ceiling determined in the current Framework for drawing up general government budgets for the 2020-2022 period. This is due to the revision of the national accounts data after the date by which the Framework could still be amended. Based on the current estimates of the level of the output gap and revenue projections of the general government in the submitted budget documents, the Fiscal Council assesses that the projected level of general government expenditure is in line with the recalculated expenditure ceilings. The estimated annual structural balance is projected to run a surplus in the projection period and will thus formally be in compliance with the requirements of the Fiscal Rule Act and the Stability and Growth Pact. Taking into account the varying estimates of the length of the business cycle, the structural balance is expected to converge towards the balanced position over the medium-term. The Fiscal Council assesses that, in order to achieve this objective, the structural surpluses will also be necessary after 2021.

The Fiscal Council notes that the supplemented 2020-2021 Budget proposal continues to represent a fiscal policy managed in the absence of a comprehensive set of policies to adequately ensure the long -term sustainability of public finances, especially in relation to the ageing population. Recently, measures have been put in place or are in the pipeline that could lead to a structural deterioration in public finances in the future. In the past, the lack of room for manoeuvre within fiscal policy often led to a contraction in the government investment. In the period of an economic growth slowdown, the restrictive fiscal policy based on a contraction in the government investments would be inappropriate and would worsen the long-term economic outlook. In such economic conditions and given the significant negative macroeconomic risks, due account must be taken of the precautionary principle, which is also required under the Fiscal Rule Act.

Annex 3: Glossary

Automatic stabilisers:

Automatic stabilisers are features of public finances that react automatically to the economic cycle and thus contribute to the stabilisation of activity in the economy without adopting additional measures. The most typical automatic revenue stabiliser is a progressive tax on the household income; on the expenditure side such a stabiliser includes social transfers, in particular unemployment allowances.

Budget balance:

The balance between total public expenditure and revenue in a specific year. A positive balance indicates a surplus and a negative balance indicates a deficit. The EU uses general government aggregates (according to the ESA2010 methodology) for the monitoring of Member State budgetary positions.

Cyclical component of budget balance:

A part of the change in the budget balance that follows automatically from the cyclical conditions of the economy, due to the reaction of public revenue and expenditure to changes in the output gap.

Discretionary fiscal policy:

Change in the budget balance and/or in its components under the direct control of government. It is usually measured as the residual of the change in the balance after the exclusion of the budgetary impact of automatic stabilisers.

Discretionary revenue measures:

The estimated effect of discretionary measures that change the government revenue (e.g. increasing or reducing tax rates).

Draft budgetary plan:

Presentation of the main orientations and elements in terms of the objectives and measures at the level of the general government and its subsectors for the coming year prior to their adoption by the national parliaments. By 15 October every year the draft budget plan must be submitted by EU Member States to the European Commission and the Eurogroup for evaluation.

Excessive Deficit Procedure:

Excessive Deficit Procedure (EDP), a procedure according to which the EC monitors the development of national budget balances and the general government debt in order to assess and/or correct the risk of an excessive deficit in each Member State.

Expenditure rules:

A subset of fiscal rules that target (a subset of) public expenditure. Expenditure rules in the EU set expenditure benchmarks that are estimated by the movement of expenditure excluding the impact of expenditure on the basis of EU flows and taking into account discretionary revenue measures.

Fiscal consolidation:

An improvement in the budget balance through measures of discretionary fiscal policy.

General government:
The general government sector covers state government, regional and local governments, as well as social security funds, public institutions, funds and agencies. State-owned enterprises are excluded. Such a definition of the general government sector is also used by the EC in its process of budgetary surveillance under the Stability and Growth Pact. For more details, see:
http://www.mf.gov.si/en/areas_of_work/general_government_finance/public_finances/general_goverment_sector/.

Maastricht reference values for public debt and deficits:
A 60% general government debt-to-GDP ratio,
a 3% general government deficit-to-GDP ratio.
Both reference values were specified within the framework of the Treaty of Maastricht establishing the EU (1992).

Maximum expenditure:
The maximum level of expenditures of the general government and individual budgets (state budget, the Health Insurance Institute of Slovenia – ZZZS, the Pension and Disability Insurance Institute of the Republic of Slovenia – ZPIZ, local communities), which is defined in the Framework for the Preparation of the General Government Budget. The level of expenditures depends on the cyclical position of the economy and the formula for its determination is laid down in Article 3 of the Fiscal Rule Act.

Medium-term budgetary framework:
An institutional fiscal device that lets policy-makers extend the horizon for fiscal policy making beyond the annual budgetary calendar, typically for a period from three to five years. Targets can be adjusted under medium-term budgetary frameworks (MTBF) either on an annual basis (flexible frameworks) or only at the end of the MTBF horizon (fixed frameworks).

Medium-term budgetary objective (MTO):
According to the reformed Stability and Growth Pact, Member States must present a medium-term objective in stability programmes and convergence programmes. The adequate minimum benchmark is country-specific to take into account the diversity of economic and budgetary positions and developments as well as of fiscal risks to the sustainability of public finances and is defined in structural terms.

Minimum benchmarks:
The lowest value of the structural budget balance that provides a safety margin against the risk of breaching the Maastricht reference value for the deficit during normal cyclical conditions while also being one of the determinants for the medium-term budgetary objectives. Minimum benchmarks do not cater to other risks such as unexpected budgetary developments and interest rate shocks. They are estimated by the EC.

Neutral fiscal policy:
This orientation of fiscal policy ensures that cyclically adjusted budgetary balance remains unchanged over the business cycle, while allowing for the operation of automatic stabilisers.

One-off and temporary measures:
Government measures and transactions having a transitory budgetary effect that does not lead to a sustained change in the budgetary position.

Output gap:
The difference between actual output and estimated potential output. In the average of the entire normal economic cycle, this difference is zero.

Potential GDP:
The level of real GDP in a given year that is consistent with a stable rate of inflation. If actual GDP rises above its potential level, then constraints on capacity begin to bind and inflationary pressures build; if GDP falls below potential, then resources are lying idle and inflationary pressures abate. In terms of methodology the measuring of potential output is associated with significant risks, wherefore the estimates of potential GDP may be subject to change.

Primary budget balance:
The budget balance net of interest payments on general government debt.

Primary structural budget balance:
The structural budget balance net of interest payments.

Pro-cyclical fiscal policy:
A fiscal stance that amplifies the economic cycle by increasing the structural primary deficit during an economic upturn, or by decreasing it in a downturn. A neutral fiscal policy keeps the cyclically-adjusted budget balance unchanged over the economic cycle but lets the automatic stabilisers work.

Public debt:
Consolidated gross debt for the general government sector. It includes the total nominal value of all debt owed by public institutions in the Member State, except that part of the debt owed to other public institutions in the same Member State.

Significant deviations:
Under EU law significant deviations in terms of budgetary developments are deemed to be those in which deviations from the adjustment path towards the medium-term budgetary objective is at least 0.5 percentage point of GDP in one year or 0.25 percentage point of GDP in the two year average. The same applies to deviations from the expenditure rule. If a significant deviation is established ex post, it may trigger a significant deviation procedure, which may also result in the imposition of fines on the Member State that violates the rules.

Stability and Growth Pact (SGP):
Approved in 1997 and reformed in 2005 and 2011. It is a set of rules which are to ensure the proper functioning of fiscal policies in EU Member States. It transposes the requirements of the Maastricht Treaty regarding the surveillance of Member State budgetary policies into EU legislation. A detailed description of the application of the SGP's provisions is published annually by the EC in the publication Vade Mecum on the Stability and Growth Pact.

Stability programme:
Medium-term budgetary strategies presented annually to the EC by those Member States that have already adopted the euro. The stability programme must be drafted in accordance with the provisions of the Stability and Growth Pact. In Slovenia the stability programme as a key medium-term budget document is also defined by the Fiscal Rule Act. Slovenia must submit it to the European Commission by the end of April every year.

Stock-flow adjustment:

The stock-flow adjustment (also known as the debt-deficit adjustment) ensures consistency between the net borrowing (flow) and the variation in the stock of gross debt. It includes the accumulation of financial assets, changes in the value of debt denominated in foreign currency, and remaining statistical adjustments.

Structural budget balance:

The actual budget balance net of the cyclical component and one-off and other temporary measures. As a result, the structural budget balance, in comparison with the budget balance, gives a better measure of the underlying trend in the budget balance, and the offset structural balance in the long run creates conditions for the functioning of the general government without borrowing.