Fiscal Council assesses the draft revised budget and proposal for amending the framework for drafting budgets

The Fiscal Council has assessed the draft revised budget of the Republic of Slovenia for 2020 and the draft Ordinance amending the Ordinance on the framework for the preparation of the general government budget for the 2020–2022 period. Due to exceptional circumstances, a temporary deviation from the fiscal rules is permitted this year, but the Fiscal Council has some significant reservations with respect to the submitted budget documents. Given such a marked deterioration in the state of public finances, additional transparency is expected from the government in the preparation of budget documents.

Taking into account the realisation so far, the expenditure in the revised budget proposal, both that related to COVID-19 and that excluding these measures, is forecast to be very high. As regards expenditure, the relatively high planned reserves have not been sufficiently explained. The state budget expenditure not related to COVID-19 measures is expected to grow much faster than last year and in the adopted budget for 2020, while, considering present realisation, its growth is expected to significantly accelerate in the last five months of the year. In the current situation it is even more necessary for economic policymakers to be aware that, despite the urgent expenditure related to the epidemic, government spending in the part that does not include this expenditure should be rational, efficient and development-oriented. This year's increase of the upper limit of borrowing, which does not reflect the current budgetary needs in their entirety, is also not properly explained. The reservations also relate to budgetary planning, which, despite the uncertain situation, should focus on the period after the expected end of the crisis using a properly set medium-term framework.

The economic situation and thus also the macroeconomic bases, which serve as the basis for budget planning, have significantly deteriorated this year justifying the preparation of a revised budget and a change in the framework for drafting budgets. Real GDP is expected to decline by around 7% this year, while labour market conditions have also deteriorated. The government's measures contributed to alleviating the decline in activity and employment, while after the end of the period of restrictive measures mid-year, activity indicators began to show economic recovery.

Following the revised budget proposal, the state budget balance is expected to show a deficit of 9.3% of GDP this year, while the state budget debt increased by more than EUR 5 billion in seven months. According to the revised budget proposal, measures to limit the consequences of the epidemic are expected to amount to EUR 2.6 billion this year. Their implementation over the first eight months amounts to just over half of this amount, so the government is creating a lot of manoeuvring room for the rest of the year with the revised budget. The envisaged scope of measures is otherwise comparable to the average of such expenditure in other EU countries. Differences in the scope of action between countries confirm the need to create manoeuvring room for fiscal policy in more favourable times. In the case of individual countries, this crisis has once again shown that in the absence of adequate room for manoeuvre, the possibility of taking action in difficult times or in the event of exceptional events is limited.

The general government expenditure, which does not include one-off expenditures, is in line with the maximum allowed under the Fiscal Rule Act, given the currently estimated cyclical situation. However, it would become non-compliant even with a slightly smaller volume of one-off expenditures and/or a less negative output gap than currently projected. Simulations suggest that the resulting maximum deviation in respect of the currently known data could be just under a one per cent of GDP.