

Fiscal Council warns against adopting anti-corona legislation measures that will worsen the structural position of public finance

Due to the changing demographic structure, the long-term sustainability of public finance in Slovenia is exposed to many risks. The amendments to the pension legislation adopted in 2019 only led the situation to deteriorate, while appropriate compensatory measures have not yet been adopted. The proposal of the seventh anti-corona package (ACP7-PKP7 in Slovene version) contains a provision on the possibility of facilitating the termination of employment contracts of persons who fulfil the conditions for entitlement to an old-age pension. Such measures could contravene the requirements to ensure the long-term sustainability of public finance and the tendency to prolong the employment of older workers, as the increase in life expectancy in conjunction with the same retirement age worsens the ratio between contributions and expenditure of the pension fund. Maintaining a predominantly public pension system that sufficiently protects pensioners therefore requires constant adaptation, with the extension of working life being among the least painful solutions for both pensioners and employees paying contributions. The ACP7 also includes several measures to resolve the existing issues of certain groups, which should be tackled with sustainable solutions rather than with one-off expenditure.

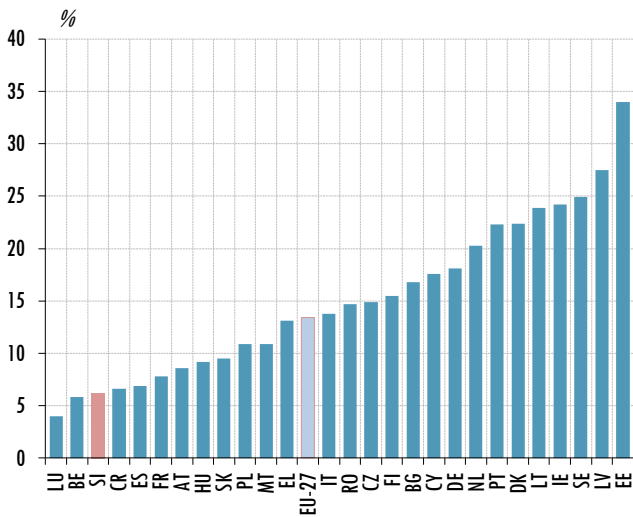
The Fiscal Council usually takes no position on individual legislative proposals or measures, with the exception of proposals that increase risk to the long-term sustainability of public finance. This is also important due to demographic changes, which according to official projections prepared in the framework of regular triennial Ageing Reports are expected to pose a significant risk to the sustainability of social security systems in the future. In this regard, Slovenia is allegedly one of the most severely affected EU countries. The related position of the Fiscal Council presented in mid-2019 was 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. Despite this, the Act Amending the Pension and Disability Insurance Act that includes a provision on the gradual equalisation or increase of the pension accrual rate was adopted in November 2019. According to the official calculations of the Ministry of Finance, it is to be expected that this amendment will cause structural and irreversible deterioration of the fiscal situation in Slovenia.

One of the solutions for a more sustainable long-term fiscal situation is to extend the working life of the population. Slovenia has one of the lowest activity rates of persons aged over 65 years among the EU Member States (left figure below). Working life should also be extended due to an increase in life expectancy. Once again, the Government failed to present the fiscal implications of the measure, which according to the calculations of the Fiscal Council could worsen the fiscal position by at least EUR 35 million per year. Despite a sharp increase in unemployment in 2020, above average among young people, it is not sensible to address short-term difficulties and structural imbalances in the labour market (see right figure below) with measures that will negatively affect the long-term fiscal situation in Slovenia.

Since the outbreak of the epidemic, the Fiscal Council has highlighted that the measures for tackling the health and economic crisis should be targeted and temporary. Measures such as the one proposed in Articles 28 and 29 of the ACP7 proposal that aggravate the structural position of public finance should therefore be avoided. The Fiscal Council therefore calls upon all stakeholders to carefully reconsider the proposal of this measure. The Fiscal Council proposes that the measure described be replaced with measures that will address the labour market difficulties systematically while taking into account the structural changes in the economy and which will not aggravate the long-term sustainability of public finance.

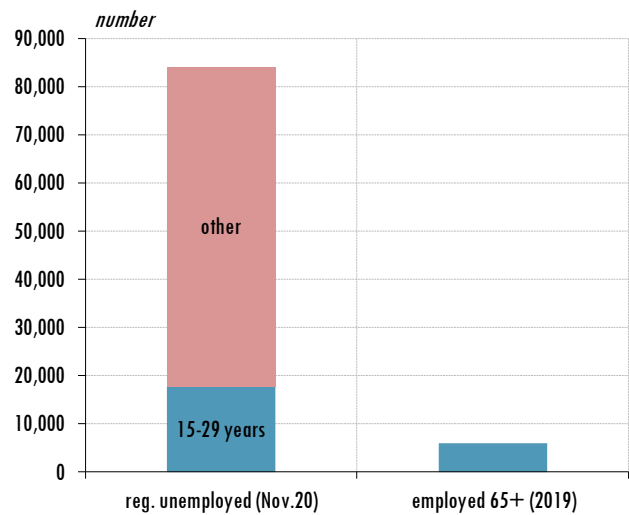
The Fiscal Council also stresses that the measures in legislative solutions should be prudent and targeted towards eliminating the health, economic and social impacts of the epidemic for the groups actually affected by it. Granting one-off support to population groups that were not directly affected by the epidemic is, in the current situation of high uncertainty and closure of a large part of activities, inappropriate both from the perspective of public finance and with regards to the kick-starting of the economy. Such aid cannot solve the existing problems of certain groups, therefore changes that would address such problems in a more permanent manner would be more appropriate here as well. It should be noted that by the end of November 2020, around EUR 2.1 billion out of the planned EUR 2.6 billion have been earmarked from the state budget for anti-corona measures. With such a high level of aid, the remaining available funds need to be managed wisely and efficiently. The Fiscal Council thus once again calls upon the Government to credibly justify and explain all the proposed legislative solutions and their expected impacts and support them with transparent calculations of their fiscal implications.

Activity rate 65-69 years (2019)



Source: Eurostat.

Registered unemployed and employed persons in various age groups



Source: Employment Service of Slovenia, SORS.