REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Report on the Fiscal Council's operations in 2020

May 2021

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FOREWORD

The work of the Fiscal Council in 2020 took place outside the established trajectory. As early as March, it was clear that we were dealing with a pandemic, an unusual event which is outside the control and has a major impact on the financial situation of the general government sector. This development has triggered a severe economic downturn, as measures to prevent the spread of the disease have limited or even prevented many economic activities. Both, the unusual event and the economic downturn, satisfy criteria for determining exceptional circumstances, as defined in Article 12 of the Fiscal Rule Act, which allows for a deviation from the medium-term balance, but only provided that it does not endanger fiscal sustainability in the medium term. With the decline in general government revenue, public expenditure increased significantly due to greater needs of the healthcare sector, to preserve economic potential and to solve the difficult social problems that have arisen. Fiscal results of all these events are increased deficits, which will not be completely avoidable for many years to come, and thus an increase in public debt.

Such circumstances pose a particular challenge to the work of the Fiscal Council. Therefore, in addition to the usual assessment of quantitative rules, the Fiscal Council in 2020 focused more on qualitative assessment and evaluation of whether measures to overcome the crisis can be effective and aimed at actually solving the issued caused by the epidemic. The actual and potential accumulation of public debt is an important risk factor for the sustainability of public finances. At the EU level, however, the use of all the flexibility available under existing rules applicable in the case of an unusual event outside the control of the state is encouraged. In this regard, the temporary nature of such measures and the possibility of their expiry once the reasons for them have subsided are important. Therefore, in 2020, the Fiscal Council repeatedly called upon stakeholders to avoid long-tail emergency measures that structurally worsen the state of public finances.

The current expansionary fiscal policy can, as far as possible, rely on an accommodative monetary policy, both in Slovenia and in other countries, which seemingly expands the fiscal capacity by enabling comfortable borrowing. However, expansionary policies are approaching their limits. Regarding fiscal policy, this is the willingness of investors to invest in government bonds even at relatively low yields, but this willingness may dry up under changed conditions. The risk of inflation could force monetary authorities into tightening, bearing in mind that a long period of zero or even negative interest rates also creates imbalances in the financial markets, which could be an additional source of risk.

When the epidemic is defeated, economic activity is expected to strengthen, which will not only reflect a return to the old or pre-crisis levels. Structural changes are also taking place during this time, many activities are maintained only with significant fiscal support and with a questionable ability to act independently. However, both accumulated deficits and the changing economic structure pose major challenges for public finances. Public finance frameworks such as fiscal rules will be an important support for the policies of the new normal.

Due to limited resources, political decision-makers need the limits of decision-making set by fiscal rules. Indicators are needed to alert us of future risks to the sustainability of public finances when making decisions today. Such decision-making limits are necessary both in the domestic political process and in international relations. Especially in the monetary union, despite the fiscal sovereignty of its members, the degree of interdependence is high, thus safeguarding against any incidence of fiscal irresponsibility is important.

Needless to say, with strong guidance from the relevant institutions, domestic political decisions are easier to make on the basis of credible fiscal rules. On an international scale, strong and respected guidelines are a strong support for countries that do not assert their interests or cannot enforce them by force.

As thus far, the Fiscal Council will continue to closely monitor macroeconomic and public finance developments, including all decisions that may affect the position of public finances, and draw attention to the risks associated with them. With such guidance, the Fiscal Council aims to contribute to the awareness of the importance of having stable and sustainable public finances and to making room for strengthening the well-being of people and society in general in the long run.

May 2021

Davorin Kračun, PhD

President of the Fiscal Council

1. The Fiscal Council's operations in 2020

The year 2020 was the third full calendar year of operation of the Fiscal Council in its first term of office. 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 for a five-year term of office 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 required 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 this report presents the main aspects of the Fiscal Council's operations in 2020.

1.1 The composition and operation of the Fiscal Council

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 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 credible and autonomous 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 public finances that are stable and sustainable in the long term can provide a basis for economic development and, thus, the well-being of people.

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 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 ZFisP, the Act Amending the Public Finance Act of February 2018 (hereinafter: the ZJF-H)[3] imposed on the Fiscal Council the task of assessing ex-post the biasedness of the macroeconomic forecasts that represent the basis for preparing budgetary documents. The Decree amending the Decree on development planning documents and procedures for the preparation of the central government budget proposal of May 2018[4] imposes on the Fiscal Council the task of assessing ex-post the general government sector's revenue and expenditure forecast. Considering the transitional periods laid down by law, the Fiscal Council prepared 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 expenses and select components of the Fiscal Council's balance sheet for 2020, 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. In August 2020, the Fiscal Council published for the first time an analysis of deviations of forecasts of macroeconomic and fiscal aggregates. In accordance with legislation, this analysis must be prepared every two years. However, the legislation does not prescribe a deadline within an individual calendar year.
Source: Fiscal Council.

The Fiscal Council has three members, i.e. the President and two members. The Fiscal Council members 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 Fiscal Council member 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.

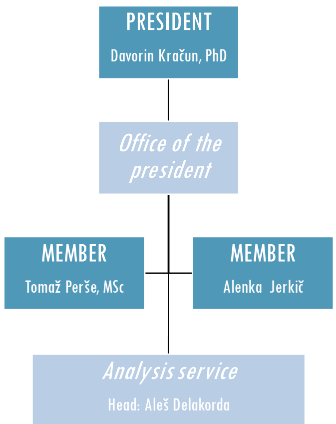
The President represents the Fiscal Council, organises and manages its work. In accordance with Article 10 of the ZFisP, the President of the Fiscal Council must be employed with the Fiscal Council for at least 50% of full-time employment, and the Fiscal Council members must be employed with the Fiscal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

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.

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 administrative and expert support to the Fiscal Council's members. The staffing of expert services was completed in October 2017 and remained unchanged in 2020. 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 staffing, 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 until April 2019. 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 Annex1). 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 looking for appropriate premises at the Ministry of Public Administration, which was unable to provide such premises. 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

Figure 1.1: Organizational chart of the Fiscal Council



Source: Fiscal Council.

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

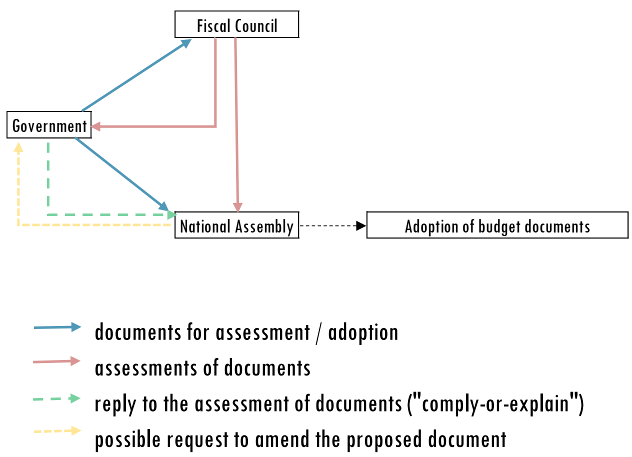
provide administrative and technical support to the Fiscal Council at the new location in accordance with the ZFisP.

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 working documents for the members and expert groundwork for their opinions. The Analysis Service's priority tasks in 2020 included the establishment of an analytical basis for monitoring the public finance effects of measures to prevent the consequences of the COVID-19 epidemic, permanent database management, maintaining and upgrading the automation of processes of monitoring economic indicators, upgrading analytical tools for the analysis of cyclical and fiscal trends, the concept of the appearance of the Fiscal Council on Twitter and designing the Fiscal Council's new extraordinary and regular publications.

1.2 Main guidelines of the Fiscal Council in 2020

In 2020, the Fiscal Council operated within the framework of the set regular annual operating cycle, which was updated with new analyses and publications after the outbreak of the epidemic. In terms of its schedule, the annual cycle is largely defined by the ZFisP and the ZJF-H, specifically 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. The existing legislation, particularly Articles 12–14 of the ZFisP, also determines the Fiscal Council's actions to be taken in the event of exceptional circumstances, such as an epidemic. Thus, in March 2020, in order to support increased flexibility in fiscal policy at the time of the epidemic, the Fiscal Council established the existence of exceptional circumstances, and in the following months regularly monitored and published the fiscal effects of measures taken to limit the effects of the epidemic. Furthermore, it largely adapted its publications to the new situation, distinguishing between the analysis of aggregate fiscal data and the analysis of data that do not include the effects of fiscal measures taken to limit the effects of the epidemic. The

Figure 1.2: Relations between the Fiscal Council, the Government and the National Assembly during the process of adoption of budget documents



Source: Fiscal Council.

ZFisP does not explicitly prescribe the monitoring and publication of such data, but in the Fiscal Council's opinion this task was necessary to ensure transparency on the one hand and to establish the credibility and compliance of budget documents prepared by the government in exceptional circumstances with applicable fiscal rules on the other.

To support its operations, the Fiscal Council has concluded memorandums of understanding with the Institute of Macroeconomic Analysis and Development (hereinafter: IMAD) and the Ministry of Finance.[6] In comparison with similar institutions operating in EU Member States, the 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 memorandums of understanding define the data and documents that the two institutions have to provide to the Fiscal Council and the dedlines for their provision. In 2020, the two cooperation agreements concluded with IMAD and the Ministry of Finance were implemented as agreed.

The Fiscal Council met with representatives of domestic institutions on several occasions in the reporting period. 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. The Fiscal Council's Analysis Service held meetings at the technical level with the representatives of the two institutions on a regular basis and prepared separate presentations for both institutions on the main findings of the new publication *An ex post evaluation of forecasts of macroeconomic and fiscal aggregates in the reference period 2016–2019*. In 2020, the Fiscal Council's Analysis Service also met once with the Bank of Slovenia's Analysis and Research Centre to discuss anti-crisis measures and macroeconomic forecasts. The Fiscal Council met with the Prime Minister-designate and the candidate for the Minister of Finance, and had three more meetings with the Minister of Finance, one of which was attended by the Governor of the Bank of Slovenia.

For the purpose of its operations, the Fiscal Council also needs data and information that are not publicly available. In 2020, 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 Employment Service of Slovenia, the Financial Administration of the Republic of Slovenia, the Statistical Office of the Republic of Slovenia, the Bank of Slovenia, SID banka d.d. and the Slovene Enterprise Fund, with which it does not have concluded cooperation agreements.

In the reporting period, due to epidemiological restrictions, the Fiscal Council did not organise regular consultation meetings with Slovenian economists engaged in public finances. The international conference on long-term sustainability of public finances scheduled for March 2020 was also cancelled.

2. The Fiscal Council's opinions and the Government's responses in 2020

Most of the Fiscal Council's operations in 2020 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

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

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, while its failure to adhere to the Fiscal Council's recommendations increases its political responsibility.

In accordance with the ZFisP, the Fiscal Council made the following assessments in 2020:[7]

- On 17 March 2020, it submitted to the National Assembly and the Government the Assessment on the establishment of conditions for invoking exceptional circumstances within the framework of the Fiscal Rule Act (as laid down in point 2 of Article 12 of the ZFisP).
- On 28 April 2020, it submitted to the National Assembly and the Government The Fiscal Council's Assessment of the compliance of fiscal policies with fiscal rules on the basis of the draft Stability Programme 2020 and the proposed Ordinance on the framework for drawing up the general government sector budgets for 2020–2022 (as laid down in point 1 of paragraph two of Article 7 of the ZFisP).
- On 13 May 2020, it submitted to the National Assembly the Report on the Fiscal Council's operations in 2020 (as laid down in point 8 of Article 10 of the ZFisP).
- On 17 June 2020, it submitted to the National Assembly and the Government the Assessment of compliance of the implemented budgets of the general government sector with the fiscal rules in 2019 (as laid down in point 4 of paragraph two of Article 7 of the ZFisP).
- On 27 August 2020, it submitted to the Government An ex post evaluation of forecasts of macroeconomic and fiscal aggregates in the reference period 2016–2019 (as laid down in point 1 of Article 9g of the ZJF-H).
- On 10 September 2020, it submitted to the National Assembly and the Government the Assessment of compliance of the draft Revised budget of the Republic of Slovenia for 2020 and the proposed Ordinance amending the Ordinance on the framework for drawing up the general government budgets for 2020–2022 with the fiscal rules (as laid down in point 2 of paragraph two of Article 7 of the ZFisP).
- On 16 October 2020, it submitted to the National Assembly and the Government the Assessment of the fulfilment of conditions for invoking exceptional circumstances (as laid down in point 2 of Article 12 of the ZFisP).
- On 16 October 2020, it submitted to the National Assembly and the Government the Assessment of budget documents for 2021 and 2022 (Fulfilment of conditions for invoking exceptional circumstances and Assessment of the proposed Ordinance amending the Ordinance on the framework for drawing up the general government budgets for 2020–2022, proposed amendments to the budget of the Republic of Slovenia for 2021 and proposed amendments to the budget of the Republic of Slovenia for 2022) as laid down in point 2 of Article 12 and points 1 and 2 of Article 7 of the ZFisP.

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

[7] The summary of assessments of the Fiscal Council from 2020 is in Annex 2.

- On 8 January 2020, it published its regular publication Fiscal and Macroeconomic Trends.
- On 17 March 2020, it published its assessment of the Coalition Agreement on Participation in the Government of the Republic of Slovenia 2020–2022.
- On 7 April 2020, it published its opinion at the adoption of measures to prevent the consequences of the COVID-19 epidemic.
- On 5 June 2020, it published the updated assessment of the actual fiscal impact of the adopted one-off anti-crisis measures and assessment of the fiscal impact of the Act Determining the Intervention Measures to Mitigate and Remedy the Consequences of the COVID-19 Epidemic (ZIUOOPE).
- On 6 July 2020, it published the updated assessment of the actual fiscal impact of the adopted one-off anti-crisis measures.
- On 7 July 2020, it published its regular publication Fiscal and Macroeconomic Trends.
- On 31 August 2020, it published the updated assessment of the actual fiscal impact of the adopted one-off anti-crisis measures.
- On 22 December 2020, it published its recommendation against adopting anti-corona legislation measures that would worsen the structural position of public finance.

When reviewing budget documents in 2020, the Fiscal Council found that they set an expansionary fiscal policy that was appropriate given the cyclical situation of the economy. Although it agreed that measures to limit the consequences of the epidemic were necessary, it also consistently emphasised that they must be one-off, targeted and effective. Even though the Fiscal Council generally agreed with the scope and content of measures similar to those adopted in other EU Member States, it pointed out that some measures deviated from the principles of taking measures, which should apply during the period of exceptional circumstances. Some measures taken have worsened the structural position of public finances or will affect the long-term sustainability of public finances. The Fiscal Council also drew attention to the planned accelerated investment activity, which makes sense in the given situation, especially when the financing conditions on government debt securities markets are extremely favourable due to the extremely stimulative monetary policy. However, this only applies provided that investment expenditure largely strengthens the long-term economic potential and that the efficiency of investment is not limited by the absorption capacity of the administration and the national economy. This would ensure that the burden of significantly increased government debt during the crisis will not be too heavy in the future. Otherwise, when the crisis is over, the room for manoeuvre in the context of future reversals of the business cycle could be reduced and it will be difficult to ensure the long-term sustainability of public finances. Moreover, the Fiscal Council regularly called on the Government to increase transparency regarding the projected general government expenditure when adopting individual anti-corona packages and to draw up a medium-term framework that would credibly indicate the future path of public finances.

The Government responded to the Fiscal Council's assessments for 2020 with public written explanations in accordance with the legislation.[8] In its written explanations, the Government highlighted in particular the uncertain conditions of the fiscal policy at the time of the epidemic and the

[8] All opinions are published along with the relevant documents on the Fiscal Council's website.

unreliability of the parameters used for the calculation of compliance with the fiscal rules, especially the uncertainty related to the calculation of the output gap. In addition, it emphasised that due to the uncertain situation budgetary reserves are created in budget documents, which would make it possible to deal with any deteriorating epidemiological situation. Furthermore, the Government ensured high transparency, because funds earmarked exclusively for measures related to the COVID-19 epidemic are kept under the general budget reserve item, which may be used exclusively for measures related to the COVID-19 epidemic. Such monitoring is supposed to be established in a way that is significantly more transparent than that provided for in the regulations for the implementation of the integral part of the budget.

3. The Fiscal Council's recommendations in 2020

The Fiscal Council's recommendations in 2020 related mainly to the observance of basic principles, which should apply when taking measures to prevent the consequences of the epidemic.

As early as March 2020, the Fiscal Council, assessing that the conditions to invoke exceptional circumstances were met, emphasised that measures related to the epidemic should be, in accordance with the applicable EU fiscal rules, directly linked to exceptional circumstances and be temporary. Moreover, the Fiscal Council expressed the expectation that the Government is to precisely define and quantify these measures when adopting them. After reviewing and evaluating the first anti-corona package in April, the Fiscal Council assessed that the content of the measures is largely in accordance with the recommendations of international organisations and their scope is also comparable to those adopted in other countries. Despite the fact that temporary deviation from medium-term fiscal sustainability is justified, the Fiscal Council called on all stakeholders, when adopting further measures, to follow the principle of focusing on the elimination of consequences of the pandemic and to keep them simple and time limited to the greatest extent possible. Being aware of the increased general social and economic uncertainty accompanied by considerable public finance cost of actions, the Fiscal Council recommended thinking more carefully about when or at what stage of the epidemic would certain measures be most effective, or when will it be the right time for potential incentive measures to revive the economy. At the end of 2020, as part of adopting the anti-corona package 7 (PKP7), the Fiscal Council again recommended that no measures be taken in the anti-corona legislation that would worsen the structural position of public finances. The PKP7 proposal contained, among other things, provisions that may be contrary to the requirements of ensuring the long-term sustainability of public finances and contrary to the aim of extending the employment of the elderly, as well as several measures to resolve the existing problems of certain groups, which, in the opinion of the Fiscal Council, would be more reasonable to be resolved with more permanent solutions than with one-off expenditure.

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 impartial analyses of economic and fiscal trends, the Fiscal Council may provide direct support to deputies' decisions on budget guidelines and public finance topics.[9] In

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

accordance with its mandate, in its work, the Fiscal Council relies consciously on a positive analysis and does not provide regulatory opinions on particular fiscal measures and/or laws. Such policy enables the Fiscal Council to maintain its impartial status, while at the same time ensuring the apolitical nature of its operations.

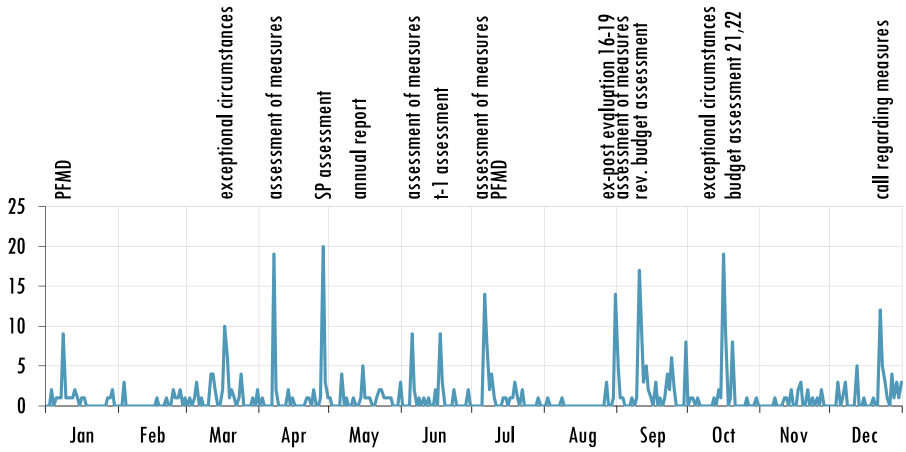
In 2020, the Fiscal Council's representatives attended seven meetings of the Committee on Finance of the National Assembly and one meeting of the National Council's Commission for the Economy, Craft Industry, Tourism and Finance. The Fiscal Council also submits its assessments of budget documents and fiscal trends to the Government for response and to the National Assembly for consideration. Accordingly, it also takes part in the meetings 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 2020, the legislation governing the operation of the Fiscal Council was amended by Article 33 of the Act Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic (ZDLGPE; available at: https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2020-01-0897?sop=2020-01-0897), adopted at the end of April 2020. It stipulates that "...Notwithstanding paragraph one of Article 9g of the ZJF, the Fiscal Council shall not take into account macroeconomic aggregates and revenue and expenditure forecasts for 2020 and 2021 in its analysis."[10]

5. The Fiscal Council's contact with the media

One of the key tasks of independent fiscal institutions is 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

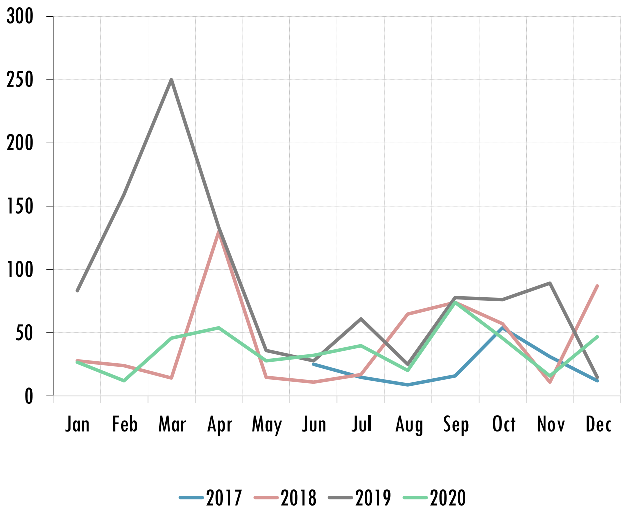
Figure 5.1: Number of media reports about the Fiscal Council in 2020 by month



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

[10] When preparing the Analysis of deviations of macroeconomic and fiscal aggregates in 2016–2019 (August 2020), the Fiscal Council found that the analysis of deviations in forecasts that the Fiscal Council is required to prepare in 2022 for 2018–2021 will be seriously impaired. The same applies to the drawing up of this type of analysis in 2024 (the forecast deviation analysis period will be the 2020–2023 period).

Figure 5.2: Number of media reports by year



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

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 2020, 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 five interviews with various media, covering a wide range of macroeconomic and fiscal topics. The response of the media to the public announcements and publications of the Fiscal Council was lower compared to the previous year, as the number of announcements and publications in 2020 was about half lower than in 2019 or similar to 2018. The media responded mainly to individual publications of assessments of budget documents and to the monitoring of estimates of public finance effects of measures designed to prevent the consequences of the epidemic, which were prepared by the Fiscal Council. Due to the epidemiological situation, the only press conference of the Fiscal Council in 2020, which was held virtually, achieved significant response. It took place in October following the publication of the Assessment of budget documents for 2021 and 2022.

As soon as it began to operate in 2017, the Fiscal Council set up its own website with a view to increasing the transparency and impartiality of its operations.[11] Through its website, the Fiscal Council provides access to the current published assessments, opinions, views and recommendations for 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 2019 upgrade of the website, a set of frequently asked questions with answers relating to the Fiscal Council's area of work was 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. In 2020, a special section was added on the website to monitor the public finance effects of measures designed to limit the consequences of the epidemic, where the Fiscal Council regularly publishes updated data collected with the help of several

[11] https://www.fs-rs.si/news/

institutions. 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.

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: EC) and whose purpose is to link the institutions predominantly in terms of public finance management and compliance with the fiscal rules laid down by EU law. The EU IFI[12], 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 participation of EU institutions. In 2020, the Fiscal Council's representatives attended two EUNIFI meetings (one was virtual) and two EU IFI meetings (both were virtual).

In the reporting period, the Fiscal Council prepared four contributions for an online presentation of fiscal developments in Slovenia within the EU IFI framework. Usually twice a year the EU IFI publishes brief information on economic and fiscal developments in Member States.[13] Given the type of tasks, IMAD[14] usually presents macroeconomic forecasts in this context, while the Fiscal Council presents its view on short-term and long-term fiscal developments and related challenges and risks. In 2020, the Fiscal Council additionally prepared estimates of the public finance effects of measures to limit the consequences of the epidemic. The main topic of this publication, which was prepared four times in 2020, was the fiscal response of individual countries to the epidemic and the impact of the epidemic on the functioning of independent fiscal institutions.

6.2 Cooperation with international institutions

The Fiscal Council cooperates with the EC within the framework of the European Semester. In 2020, representatives of the EC met virtually with the Fiscal Council's Analysis Service twice, in April and October. Cooperation took place at a technical level and was intended to exchange views on the

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

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

[14] 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.

current and future budgetary developments, in particular in terms of the fiscal effects of measures to limit the consequences of the epidemic and assessments of budget documents prepared by the Fiscal Council.

In 2020, the Fiscal Council was granted technical assistance for the construction of a model infrastructure to analyse the long-term sustainability of public finances. In October 2020, the Fiscal Council applied for a technical assistance tender advertised every year by the European Commission.[15] Improved infrastructure in this area will allow the Fiscal Council greater autonomy in preparing estimates of changes in parameters, especially with regard to social protection systems, which may affect the long-term sustainability of public finances. The project was approved in February 2021[16] and the EC is currently looking for an external contractor to develop the planned modelling framework. The estimated duration of the project is 18 months.

The Fiscal Council also cooperates with the Organisation for Economic Co-operation and Development (hereinafter: OECD). Within the OECD, there is also a network of independent fiscal institutions[17] 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. Representatives of the Fiscal Council attended the regular annual meeting of the network in 2020 (the meeting was held virtually), and the Analysis Service also held an introductory virtual meeting with the new chairman of this network. Within the framework of the network of independent fiscal institutions, the OECD also keeps a database[18], which also includes Slovenia and the purpose of which is to provide an overview of the key features of independent fiscal institutions.[19]

In 2020, the Fiscal Council also met with credit rating agencies. It met with Moody's representatives in March and September. At the meetings, the Fiscal Council gave its opinion on the economic and fiscal situation in Slovenia, especially in terms of the fiscal consequences of the epidemic i.e., fiscal effects of measures taken to limit them. The Fiscal Council and the representatives of credit rating agencies also discussed long-term challenges to public finances.

As part of international cooperation, the Fiscal Council's representatives also took part in the following events:

– a workshop on fiscal rules organised by the DG ECFIN in Brussels in January;
– a workshop on changes to the fiscal framework in the EU, organised in Brussels in February by the European Fiscal Board (EFB), the Centre for Economic Policy Research (CEPR) and the Amsterdam Centre for Economic Studies (ACES);
– a conference on the long-term challenges of public finances in green transition, organised by the Irish Fiscal Council in Dublin in February,
– an online workshop on fiscal policy response to the epidemic, organised by CEPS in April;
– a webinar on public expenditure estimates, organised by the EU IFI in October.

[15] See: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0123&from=EN

[16] See: https://ec.europa.eu/slovenia/news/tsi-projects_sl or https://ec.europa.eu/info/sites/default/files/tsi_2021_country_factsheet_slovenia.pdf

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

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

[19] The survey of key features includes several areas, among them the legal basis, institutional model, leadership, relationship with legislature, mandate and functions, financial resources and the number of staff, 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 2020«)

Funds in the amount of EUR 663,136 were originally planned for the implementation of the tasks of the Fiscal Council for 2020 (Official Gazette of the Republic of Slovenia [*Uradni list RS*], No. 75/2019 – Adopted Budget of the Republic of Slovenia for 2020). Due to the management of the COVID-19 epidemic, by Decision No. 41003-2/2020/1 of 13 March 2020 the Government of the Republic of Slovenia (hereinafter: the Government) adopted a measure suspending the implementation of the 2020 budget, reducing by 30% the adopted financial plan for expenditure on goods and services and for investment expenditure. The adopted financial plan was thus reduced by EUR 84,800, specifically item 160002 – Material costs by EUR 72,900 and budget item 160003 – Investments and major maintenance by EUR 11,900. The Revised Budget of the Republic of Slovenia for 2020 (Official Gazette of the Republic of Slovenia [*Uradni list RS*], No. 133/20) allocated funds totalling EUR 578,546 to the Fiscal Council for its activities.

Due to business restrictions as a result of the COVID-19 epidemic, it was established that the some budget funds allocated by the revised budget will not be spent, thus in December the Government adopted a decision on the reallocation of commitment appropriations no. 4102-113/2020/3 of 23 December 2020, based on which the available budget funds in the total amount of EUR 74,700 were allocated to the reserve of the Republic of Slovenia. As at 31 December 2020, the financial plan for 2020 thus totalled EUR 503,846.

Explanation of some major expenditure items of the Fiscal Council for 2020:

1) Salaries were calculated and paid in accordance with the Public Sector Salary System Act (ZSPJS), the Fiscal Balance Act (ZUJF), the Implementation of the Republic of Slovenia's Budget for 2020 and 2021 Act (ZIPRS2021), 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, the Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (Official Gazette of the Republic of Slovenia [*Uradni list RS*], Nos. 49/20 and 62/20), and other regulations and general acts.

Together with their salary for May 2020, employees were paid a holiday pay in the amount of EUR 940.58 or in proportion to their employment with the Fiscal Council. It was paid in accordance with Article 131 of the Employment Relationship Act (ZDR-1). The amount of the minimum wage for 2020 was determined in the Act Amending the Minimum Wage Act (ZMinP-B) (Official Gazette of the Republic of Slovenia [*Uradni list RS*], No. 83/18). The holiday pay for the public employees for 2020 of EUR 940.58 was subsequently published in the 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. 97/20). For public employees receiving a basic salary corresponding to the 20th or lower salary grade, it was EUR 1,050. The Fiscal Council has no employees in those salary grades.

2) Pursuant to Article 10 of the Fiscal Rule Act (Official Gazette of the Republic of Slovenia [*Uradni list RS*], No. 55/15), on 27 March 2017 the Fiscal Council and the Court of Audit entered into the Agreement on providing administrative and technical support and premises for the needs of the Fiscal Council No. 010-2/2017/1 as amended (hereinafter: the Agreement). Due to the lack of space for

the operation of the Court of Audit, the Fiscal Council leased business premises in Likozarjeva ulica in Ljubljana. The Fiscal Council signed a lease agreement for business premises at Likozarjeva ulica 3 in Ljubljana from 1 April 2020 onwards for an indefinite term. The monthly lease for business premises is EUR 4,266.50. Under the "commercial rents and leases" account, the cost of rent for business premises is EUR 34,101.47. The Fiscal Council also covers the general costs of building management and common areas, which are determined by a special agreement. A part of business premises at Likozarjeva 3 in Ljubljana is also used by the Court of Audit of the Republic of Slovenia by agreement between the two institutions. On 8 July 2020, the new Agreement on providing administrative and technical support and sharing of premises and equipment No. 014-2/2020/1 was concluded. In accordance with the agreement, tasks relating to information technology, the main office, human resources and general affairs, finance, legal affairs and other tasks for the Fiscal Council are performed by the services of the Court of Audit. Until 31 March 2020, the Court of Audit also provided business premises to the Fiscal Council. In 2020, EUR 61,737.30 was used for this purpose (EUR 59,642.53 for administrative and technical assistance and EUR 2,094.77 for the use of premises

Table 1: Fiscal Council expenditure

	2019 EUR	2020 EUR	share in total expenditure (%, 2020)
Expenditure on salaries and duties			
Salaries, supplements and other	273,813	286,548	58.9
Annual allowance	5,320	5,643	1.2
Restitutions, work-related bonuses	13,424	13,413	2.8
Social security contributions	44,354	44,528	9.2
Collective supplementary pension insurance according to ZKDPZJU	2,431	2,520	0.5
Total	339,342	352,653	72.5
Material expenditure			
Stationery and general goods and services	12,974	11,230	2.3
Special goods and services	113	1,127	0.2
Energy, water, communal services and communications	3,230	5,406	1.1
Transport costs and services	38	22	0.0
Expenses on business travel	8,030	3,885	0.8
Regular maintenance	2,604	2,313	0.5
Business rents	3,668	40,416	8.3
Other operative expenditure	49,001	61,168	12.6
Total	79,659	125,568	25.8
Expenditure on investment and investment maintainance			
Other means of transport	...	592	0.1
Hardware computer equipment	1,194	2,439	0.5
Telecommunication equipment	377	58	0.0
Audio-visual equipment	...	1,915	0.4
Intangibles (computer software)	3,324	1,798	0.4
Other equipment	107	1,109	0.2
Total	5,002	7,910	1.6
Total expenditure	**424,003**	**486,131**	100,0

Sources: Notes to the Annual Financial Statement of the Budget of the Republic of Slovenia for 2019 and 2020 .

and certain equipment in the premises of the Court of Audit). The costs of administrative and technical assistance are recorded as "other operating expenses". In accordance with the agreement concluded in July 2020, the Court of Audit may use, by prior arrangement, the meeting room in the business premises of the Fiscal Council, for which it pays the corresponding average daily usage fee of 11.09% in the month when the meeting room is used. For two days of use in 2020, it amounted to EUR 37.41. In March 2020, the Fiscal Council planned to hold an international conference "Long-term sustainability of public finances in Slovenia", but it was cancelled due to the declared pandemic. The costs of airline tickets and other transport costs of EUR 972.68 were incurred for the participating representatives from abroad, who would participate in the conference free of charge. The Fiscal Council is also part of the EU IFIs network, which is linked to the CEPS (Centre for European Policy Studies), and performs the tasks of the EU IFI Secretariat. The membership fee for 2020 was EUR 500.00.

3) For investments and major maintenance, the existing 2020 financial plan allocated EUR 8,800 in budget funds (budget item 160003) and EUR 210 in earmarked funds (budget item 190041), which represents 1.79% of total funds under the existing 2020 financial plan. A total of EUR 7,910.27 was spent, which represents 87.79% realisation of total funds for investment in the existing financial plan or 1.57% of total expenditure in 2020. Major maintenance was financed from budget funds in the amount of EUR 7,700.27 (budget item 160003) and earmarked funds of EUR 210 (budget item 190041). Most funds were spent on the purchase of equipment for new business premises (server equipment, a projector with a screen and a scanner).

Notes to some balance sheet items for 2020

As at 1 January 2020, the Fiscal Council reported in its balance sheet outstanding expenses in the amount of EUR 40.327, which were settled by the payment due date in early 2020. These included

Table 2: Value of tanglible and intangible fixed assets in 2020

	Intangible assets	Immovable assets	Equipment and other tangible assets	Total
PURCHASE VALUE				
As at 1 January 2020	15,151	0	29,640	44,791
Direct acquisition	1,013	0	6,113	7,126
Removal – transfer	0	0	-100	-100
As at 31 December 2020	16,164	0	35,652	51,817
VALUE ADJUSTMENT				
As at 1 January 2020	5,484	0	26,361	31,846
Reduction of value due to exclusions or transfers			-100	-100
Value adjustment	3,102	0	2,499	5,601
As at 31 December 2020	8,586	0	28,760	37,347
RESIDUAL VALUE				
As at 31 December 2020	**7,578**	**0**	**6,892**	**14,470**

Source: Notes to the Annual Financial Statement of the Budget of the Republic of Slovenia for 2020.

the following liabilities incurred in 2019, the documents for which were received in December 2019 and January 2020:

– payment of salaries, benefits and reimbursements of costs and supplemental group insurance premium for December 2019 in the amount of EUR 29,437.55;
– payments to suppliers for services rendered and materials supplied in the amount of EUR 3,723.82;
– services provided and calculated expenses of budget users in the amount of EUR 6,925.22;
– receivables from the Health Insurance Institute of Slovenia arising from the calculated and paid sick leave for December 2019 totalling EUR 240.41.

As at 31 December 2020, 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.

A total of EUR 7,910.27 was spent on investment in 2020:

– Matlab software update (EUR 457.20), the three-year subscription to VEEAM backup archiving software (EUR 556.06) and the third instalment of Microsoft licensed equipment (EUR 784.46),
– two bicycles (EUR 591.84),
– a portable speaker (EUR 81.34),
– a projector with a projection screen (EUR 1,833.66),
– hardware for uninterruptible power supply of server equipment (EUR 1,513.90),
– a scanner (EUR 924.91),
– stands (EUR 1,056.90),
– a heater (EUR 52.00),
– a mobile phone (EUR 58.00).

As at 31 December 2020, the present value of intangible assets and tangible fixed assets was EUR 14,469.96.

As at 31 December 2020, the Fiscal Council reported in its balance sheet outstanding expenses in the amount of EUR 41,352.74, which were carried into 2021. These receivables included:

– calculated and not yet paid salaries, duties and reimbursement of expenses for December 2020 in the amount of EUR 29,455.15 (of this, EUR 28,492.90 for salaries and allowances, including contributions and income tax prepayment, EUR 741.62 for other benefits, EUR 220.63 for supplemental group insurance premium),

- services provided and calculated expenses of budget users in the amount of EUR 4,537.75,
- services rendered and supplies delivered in the amount of EUR 7,359.84.

Outstanding expenses shown in the balance sheet as at 31 December 2020 have fallen due for payment in 2021.

As at 31 December 2020, the Fiscal Council reported in its balance sheet short-term liabilities and accrued and deferred liability items in the amount of EUR 41,352.74, which will be paid in 2021. These liabilities included:

- short-term liabilities to employees arising from salaries in the amount of EUR 24,719.94 (net salaries of EUR 15,209.71, employer contributions of EUR 5,463.10, liabilities from income tax prepayment of EUR 4,047.13);
- other short-term liabilities to employees in the amount of EUR 741.62 (separation allowance, meal allowance, travel allowance);
- short-term liabilities to suppliers in the amount of EUR 7,359.84 (for supplies and services provided in November and December 2020);
- other short-term operating liabilities in the amount of EUR 3,993.59 (EUR 3,782.96 for the calculated employer contributions and EUR 210.63 for supplemental group insurance premium for December 2020);
- short-term liabilities to users of the uniform chart of accounts in the amount of EUR 4,537.75 for services provided in November and December 2020 (liabilities to the Court of Audit for administrative and technical services of EUR 4,536.69 and postage costs of EUR 1.06);

As at 31 December 2020, a general restricted tangible and intangible fixed assets fund totalling EUR 14,469.96 was recorded in the Fiscal Council's books among own funds and long-term liabilities. The opening balance sheet also includes long-term operating liabilities 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 (final) instalment that fell due on 6 February 2020.

As at 31 December 2020, the Fiscal Council's books recorded off-balance-sheet equipment in the total amount of EUR 2,401.34 that is not owned by the Fiscal Council but is held in temporary use. This equipment includes communication technology equipment (owner T-2 d.o.o.) in the amount of EUR 544.64, 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.

The Fiscal Council conducted an internal audit of its operations for 2020, which included the audit of:

- costs of material and services,
- investment and major maintenance;
- public tenders and
- the risk register.

The audit was performed by the external auditor REVIDERA, družba za revizijo in podjetniško svetovanje, d.o.o., Tomažičeva ulica 4, 2310 Slovenska Bistrica. The audit did not reveal any deviations from the prescribed standards of operation.

Annex 2: Summaries of Fiscal Council's assessments in 2020

March 2020

The declaration of an epidemic is an extraordinary event that enables a resort to exceptional circumstances according to the Fiscal Rule Act

According to the Fiscal Council assessment, the declaration of an epidemic in Slovenia meets the definition from Point 2 of Paragraph 1 of Article 12 of the Fiscal Rule Act (ZFisP), which, in the case of an unusual event that can not be controlled, enables a resort to exceptional circumstances for measures mitigating the consequences of such an event and thus temporary deviation from the medium term balance of public finances.

The outbreak of the SARS-CoV-2 virus will have a considerable negative impact on macroeconomic and fiscal trends. In such uncertain conditions, the economic policy should draft and promptly and aggressively implement a set of measures that will –apart from the measures to contain the spread of the epidemic to the greatest possible extent –prevent a fast and large decline in economic activity and employment. Slovenian and EU legislation also provide the procedure and time-frame of the so-called corrective mechanism for re-establishing the medium-term general government balance after the exceptional circumstances have ceased.

In anticipation of a considerable aggravation of the economic situation due to the outbreak and spread of the SARS-CoV-2 virus, the Fiscal Council notes that Point 2 of Paragraph 1 of Article 12 of the ZFisP permits, in the case of an unusual event that can not be controlled, and which has a major impact on the financial situation of the general government sector, a deviation from the medium-term balance provided that it does not endanger fiscal sustainability in the medium term. The Government determines whether exceptional circumstances exist or have ceased to exist, after obtaining the assessment of the Fiscal Council. According to Article 13 of the ZFisP, the extent of permitted deviations from the medium-term balance shall be defined by the National Assembly by adopting an amended Framework for drawing up budgets of the general government sector. In accordance with the EU fiscal rules in force, measures should be directly linked to the unusual event and permitted on a temporary basis only. The Fiscal Council therefore expects the Government to detail and quantify these measures. Article 14 of the ZFisP provides the so-called corrective mechanism determining the procedure and time-frame for re-establishing the medium-term general government balance after exceptional circumstances have ceased to exist. Paragraph 1 of Article 14 provides that when the structural balance of the general government sector is lower than the minimum value as defined in Paragraph 1 of Article 3 of the ZFisP, the minister responsible for finance shall implement measures as defined in the Act governing public finance for the purpose of balancing public finance in the medium term. If these measures do not ensure that the structural balance of the general government sector is at least equal to the minimum value referred to in Paragraph 1 of Article 3, the Government shall, in accordance with Paragraph 2 of Article 14, within three months submit to the National Assembly for adoption a proposed amendment of the Framework and a proposal for a corrective action plan, which shall reinstate compliance with the medium-term balance.

April 2020

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

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

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

The Fiscal Council's findings about the macroeconomic and fiscal projections are as follows:

- The economic situation is extremely uncertain, with all currently available projections indicating a considerable economic downturn in 2020. In the given circumstances, the uncertainties are, even more than usual, linked to long-term economic growth estimates and thus to the estimates of the level of the output gap. It is not known whether the current shock will be only temporary or whether the effects of the epidemic on the contribution of individual production factors to the economic potential will become more significant in the long-term and to what extent.
- The draft Stability Programme 2020 predicts a general government deficit of approximately 8% of GDP in 2020. This is due to lower revenue, mainly because of the economic downturn, and even more so to an increased expenditure resulting from the operation of automatic stabilisers and the measures to prevent the consequences of the epidemic. The general government debt is projected to exceed 80% of GDP by the end of 2020. In addition to the institutional framework and the measures at the euro area level that are currently contributing to maintaining favourable financing conditions, effective measures for maintaining the economic potential could particularly contribute to the sustainability of the increased debt in the long-term.

The main findings regarding compliance with the applicable fiscal rules on the basis of the Framework proposal and the projections of the draft Stability Programme 2020:

- In 2020, declaring exceptional circumstances provides for a temporary deviation from pursuing the medium-term fiscal balance; however, the part of the expenditure that is not temporary or related to the measures adopted to limit the consequences of the epidemic must remain in accordance with the applicable fiscal rules. Only in this case, remaining in accordance with the legislation, will the temporary deviation not compromise the medium-term fiscal sustainability.

- The projections in the submitted documents and thus the inputs determining the maximum permitted level of general government expenditure are exposed to significant risks. The Fiscal Council assesses that, according to the mathematical formula determined in the Fiscal Rule Act, the general government expenditure for 2020 that is projected in the Framework proposal and is not one-off or temporary or aimed at eliminating the consequences of the epidemic is too high; however, considering the high level of uncertainty, the regular expenditure projected in the Framework proposal could fall within the area that is still in accordance with the permitted maximum expenditure level defined on the basis of all the currently available data.

The received budgetary documents do not include all the measures to eliminate the consequences of the epidemic, since some of them are still in the process of adoption or preparation. The Fiscal Council does not assess the adequacy of measures but gives an assessment of their fiscal impact. Room for manoeuvre for expenditure that is not related to the epidemic also depends on this assessment. The main findings are as follows:

- The content and the estimated scope of the measures are similar to those in other countries and address the direct social and economic consequences of the crisis in order to maintain the economic potential.
- The complexity of the measures may contribute to the delay and the efficiency of their implementation, thus increasing the risk of job losses that could be prevented with a simpler and faster implementation.
- A significant part of the measures includes lump-sum transfers to certain population groups, which will have a smaller impact on maintaining the consumption level while the restrictive measures to contain the epidemic still apply than they would have at the exit from the crisis. Moreover, the conditions of entitlement to benefits for individual groups are unclear.
- While introducing extensive measures to eliminate the consequences of the epidemic, decision-makers must be aware that this will place a significant burden on public finances. The government will have to finance the measures by borrowing on financial markets or predominantly using debt instruments available at the EU institution level.

The received documents contain some shortcomings regarding the legislative provisions that could have negative consequences for the transparency of fiscal planning. According to the Fiscal Council, transparency should be one of the basic guidelines of economic policy-makers despite the current uncertainty, in particular considering the significant fiscal consequences of the current situation:

- The Government of the Republic of Slovenia submitted the proposal for the Ordinance amending the Ordinance on the framework for the preparation of the general government budgets for the 2020–2022 period and the draft Stability Programme 2020 to the National Assembly and the Fiscal Council after the expiry of the deadlines determined by the Fiscal Rule Act. According to the Act, the draft documents should be submitted 20 days before the due date for submitting the Stability Programme to the European Commission at the end of April, and the National Assembly should adopt the framework five days before the end of April. The delay is somewhat understandable, since the new government was formed in mid-March and, in the following weeks, proceeded to adopt measures to mitigate the consequences of the epidemic, which are mostly included in both documents.
- The Public Finance Act stipulates that the Institute of Macroeconomic Analysis and Development (IMAD) prepares and publishes the macroeconomic scenario for the preparation of fiscal projections in the Stability Programme. The draft Stability Programme 2020 did not comply with this stipulation, since the IMAD forecasts have not been published and the document contains only a limited part of the macroeconomic scenario. Since comprehensive forecasts, on the basis of which the general government revenue projections were prepared, are unavailable, the Fiscal Council cannot fully assess the latter, which, considering the current risks, raises additional doubts about their credibility.
- While, in accordance with the legislation, both submitted documents should provide the basis for medium-term budget planning and budget preparation for 2021, they only include assessments for 2020. Thus, formally they do not comply with the legal requirements for medium-term budget planning. The Fiscal Council anticipates that the expected changes to the budgetary documents will set out an appropriate path towards the gradual rebalancing of public finances in the medium-term as early as this year. According to the Fiscal Council, the proposed solution of the Act on Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic, which has not been adopted yet, providing that the government would not adopt a National Development Policy Programme and a medium-term fiscal strategy in 2020 and 2021, which are determined by the Public Finance Act, also means a deviation from a transparent medium-term budget planning.

June 2020

Assessment by the Fiscal Council: Compliance of the general government budgets with the fiscal rules in 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 2019. According to the Fiscal Council's assessment, the budgetary policy was expansionary in 2019, although it should have been restrictive given the cyclical position of the economy. The expansionary policy largely derived from measures that did not promote long-term economic potential, but rather strengthened disposable household income.

Fiscal rules in 2019 were largely not complied with despite the relatively high revenue growth, which was mainly driven by favourable cyclical conditions. The minimum level of structural balance under the EU rules (MTO) in 2019 was not achieved. The national rule applying to the maximum permitted general government expenditure was not complied with, as the general government expenditure of the general government sector exceeded the level set in the adopted medium-term framework. All public finance budgets, except for the total expenditure of the municipalities, remained in line with the spending restrictions set by the framework for drawing up budgets. Compliance with the expenditure restrictions set by the framework is in principle a form of formal guidance for pursuing a countercyclical fiscal policy; compliance with this rule in 2019 would have resulted in a surplus of the general government sector balance twice as high than actually recorded. Growth in net expenditure under the EU rules exceeded the permitted level. Last year's decrease in the share of general government debt in GDP was appropriate.

Economic growth slowed to 2.4% last year, but given the still favourable position in the economic cycle, its nominal level and structure were encouraging general government revenue growth (4.8%). After a few years, general government revenue grew at a slower pace than expenditure (5.2%), which increased primarily due to economic policy measures, while the general government sector balance (0.5% of GDP) saw an almost half lower surplus than planned. The range of structural balance estimates indicates its deficit and a relatively unchanged situation compared to 2018, while the primary structural balance surplus, according to current estimates, decreased relative to the preceding year. In 2019, gross debt decreased both in nominal terms and as a share in GDP (to 66.1% of GDP).

The Fiscal Council assesses that also in 2019 the opportunity to create manoeuvring room for countercyclical fiscal policy action in less favourable macroeconomic conditions and appropriately strengthen general government debt sustainability was not fully seized. In addition to the expansionary economic policy, non-compliance with the fiscal rules also reflected the given institutional framework, which requires control over the entire general government expenditure. In 2019, the Government failed to implement measures to mitigate the expected adverse fiscal impacts of structural, especially demographic, pressures to which the economy will be exposed in the coming decades. On the contrary, some economic policy measures adopted in 2019 have even undermined medium- and long-term sustainability by reforming the pension system without taking measures to offset the additional burden on public finances.

August 2020

An ex post evaluation of forecasts of macroeconomic and fiscal aggregates in the reference period 2016 – 2019

The forecast differences of macroeconomic aggregates of the Institute of Macroeconomic Analysis and Development and the forecast differences of fiscal aggregates of the Ministry of Finance with regard to outturn on average over the last four years, and even over a longer period of time, have not been statistically significantly inconsistent with the principle of accuracy or with the principle of unbiasedness.

Forecast differences are an unavoidable part of any forecast, so it is reasonable to compare the forecasts of domestic institutions with those of other institutions. We have established that forecast differences of both national institutions from the outturn do not vary significantly from those forecasts drawn up for Slovenia by international institutions. In this regard, the order of magnitude of differences between the forecasts of institutions is relatively small compared to the size of the differences of all forecasts from the outturn.

Nevertheless, it was possible to identify a few features that need to be highlighted in the review of forecast differences. Regarding the forecasts of the macroeconomic aggregates, these refer mainly to a certain conditionality of forecast differences of economic activity in relation to the economic cycle and to less accurate forecasts of nominal variables. As regards the forecasts of the fiscal aggregates, they relate mainly to overestimating EU funds revenue, to the persistence of successive deviations in general government expenditure in the same direction, to the need to ensure greater transparency in the drawing up of public finance forecasts and, in particular, to the absence of credible medium-term fiscal planning. In connection with these findings, we have also made suggestions for improving the quality of the forecasts of both national institutions.

In accordance with the transposition of Directive EU/2011/85 into Slovenian legislation from 2020 onwards, every two years the Fiscal Council is obliged to evaluate and publicly publish the results of the assessment of macroeconomic and fiscal forecast differences. National institutional frameworks also set out the practice of assessing forecast differences and of endorsing the macroeconomic and fiscal forecasts. Forecast differences are evaluated on a regular basis by the majority of independent fiscal institutions, and an assessment of the forecast differences for all the EU countries is also published by the European Commission.

Objective and realistic macroeconomic and fiscal forecasts constitute an important basis for the effectiveness of fiscal planning and thus contribute to the credible pursuit and achievement of fiscal sustainability. An independent analysis of forecast differences, possibly detecting deviations from the principles of unbiased and realistic forecast, can thus help to reduce forecast differences in future forecasting exercises and thereby improve the adequacy of economic policy orientations.

Due to the interconnectedness and dependency of the forecasts of macroeconomic and fiscal aggregates, the present document combines an evaluation of the forecast differences of the two forecasts. In Slovenia, the Institute of Macroeconomic Analysis and Development of the Republic of Slovenia and the Bank of Slovenia have been regularly reviewing the quality of their macroeconomic forecasts and publishing them, including a comparison with other institutions. In the meantime, no domestic institution has so far prepared and published an assessment of fiscal forecast differences in Slovenia.

In the analysis, in line with domestic legislation, we focused on the forecast differences for the last four years (2016-2019), which for some aggregates, following the examples of this type of analysis by the majority of institutions, has been extended to the maximum period for which the comparable forecasts are currently available (2005-2019). Although the period has been extended, the time series entering the analysis remain short. This fact constitutes an important limitation to the provision of value judgments of forecast differences and it is therefore appropriate to consider the proposals listed below only as recommendations.

Significant detected features of macroeconomic forecast differences and proposals for the Institute of Macroeconomic Analysis and Development of the Republic of Slovenia:

- Although the longer successive differences from the forecast do not indicate repeated one-way bias, the periods of successive differences in the same direction exceed four years, both in the over- and under-estimation of economic activity growth. In line with a favourable economic cycle, the economic activity for the last four years has been under-estimated.

Proposal: *In drawing up the forecasts, it would be necessary to take into account to a greater extent that the sequence of differences can be conditioned by the economic cycle, with due respect to an awareness of the constraints imposed by existing methods on determining the cyclical conditions.*

- Nominal GDP growth forecasts are relatively less accurate than the real GDP growth forecasts. Although the differences in the inflation forecasts do not indicate the abovementioned, this may reflect problems in forecasting the GDP deflator or individual components of the GDP deflator. A similar conclusion applies to forecasts of nominal developments in other macroeconomic aggregates, which are relevant for the drawing up of fiscal projections.

Proposal: *Since the fiscal planning is mainly based on nominal variables, where forecast differences compared to the forecasts of real economic activity indicators are relatively higher, additional attention should be paid to the accuracy of the forecast of nominal variables.*

Significant perceived features of fiscal forecast differences and proposals for the Ministry of Finance:

- Although the general government revenue for the past four years has been slightly under-estimated on average, similar to the economic activity growth, we have not detected the persistence of a significant bias of forecasts over a longer period. However, there are weaknesses regarding the direction of their forecasts, in particular in forecasting revenue increases. We estimate that an important factor behind this was the EU funds revenue over-estimation.

Proposal: *The analytical capacity of forecasting revenue should be strengthened, taking into account the precautionary principle in accordance with the Fiscal Rule Act and, in particular, the ability to forecast budget flows with the EU funds should be increased.*

- The sequence of the forecast differences in the same direction persisted the longest in connection with the under-estimated share of government expenditure in GDP, although the analysis for only the last four years suggests an over-estimation. In this regard, we note that most of the differences in the forecasts of fiscal indicators have resulted from forecast differences in nominal fiscal variables, i.e. the general government expenditure forecast in this specific case.

Proposal: *Since fiscal policy has a discretionary option to determine the level of expenditure of the general government sector, it is necessary to pursue the legally prescribed precautionary principle in planning, whereas the agreements on the increase of individual categories of expenditure should not be accepted after the adoption of the general government plans without measures neutralising such increases.*

- The findings of the forecast difference evaluation also point to the potential absence of a link between the forecasts of the variables constituting the macroeconomic basis and the forecasts of the related government revenue categories.

Proposal: *Transparency of government forecasts should be increased by regularly publishing or updating elasticity coefficients of the revenue components that depend on macroeconomic bases. A clear costing of individual economic policy measures would also make a significant contribution to greater transparency.*

Moreover, greater transparency in budget documents would also be desirable for revenue components not related to the economic cycle.

- The sequence and long period of the general government balance over-estimation is directly linked, in particular, to the conclusion that expenditure was under-estimated. In this regard, the assessments show that, in the absence of major shocks, the forecast differences of structural balance stemmed from the forecast difference of the nominal balance of the general government sector, more than from the forecast difference of the output gap. Such findings, to a large extent, also reflect the way in which the achievement of fiscal targets in fiscal planning is postponed to later years of the forecast horizon.

Proposal: *Fiscal planning should be more medium-term oriented, on the basis of a credible medium-term framework of public finances with clear objectives and transparently evaluated measures.*

Differences in macroeconomic and fiscal forecasts may also depend to a significant extent on factors beyond the control of the institutions that prepare these forecasts. In this context, two main factors have been identified:

- Differences in macroeconomic forecasts are significantly influenced by the quality of official statistical releases. In reviewing the scope of the revisions of individual aggregates by the Statistical Office of the Republic of Slovenia, the nominal value of private consumption stands out, which is an important aggregate to draw up the fiscal projections.

Proposal: *Additional efforts by the Statistical Office of the Republic of Slovenia to improve the quality of the first release of the data on private consumption.*

- An important part of forecast differences of the government revenue relate to the forecast of revenue from EU funds. In this context, investment and subsidies expenditure forecasts also differ significantly. This reduces the transparency, predictability and efficiency of public finances.

Proposal: *The medium-term planning and preparation of projects, co-financed by EU funds, should be implemented in a more comprehensive, realistic and transparent manner. This will be even more important in the light of the newly available financial instruments and EU funds in the coming years.*

In 2022, the Fiscal Council will prepare the next ex post assessment of the macroeconomic and fiscal forecast differences for the 2018-2021 period. The assessment is expected to be significantly impaired, following the provisions of the Act Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic (ZDLGPE), which assumes that the forecasts for 2020 and 2021 are not taken into account in the forthcoming evaluations of the forecast differences.

September 2020

Assessment of compliance of the draft revised budget of the Republic of Slovenia for 2020 and of the proposal for the Ordinance amending the Ordinance on the framework for preparing the general government budgets for the 2020–2022 period with the fiscal rules

The Fiscal Council has received for assessment the draft revised budget of the Republic of Slovenia for 2020 and the Proposal for Ordinance amending the Ordinance on the framework for preparing the budgets for 2020-2022. Due to exceptional circumstances, a temporary deviation from the fiscal rules is allowed this year, but the Fiscal Council has some important reservations with respect to the submitted budget documents.

Taking into account the realisation so far, the expenditure in the draft revised budget proposal is forecast to be very high, both related to Covid-19 and excluding these measures. As regards components of expenditure, the projected relatively high reserves have not been sufficiently explained. At the same time, the Fiscal Council calls attention to the high level of borrowing this year, which does not fully reflect the budgetary needs and which, despite the currently favourable financing conditions, brings additional costs, while historical experience shows that debt reduction may be difficult. In the current situation, it is therefore even more necessary for economic policymakers to be aware that, despite the inevitable and urgent expenditure related to the epidemic, the government spending in the part that does not include this one-off expenditure should be prudent, efficient and development-oriented. In particular, possible structural increases in expenditure must be avoided. The reservations also relate to budgetary planning, which, despite the uncertain situation, with the help of a properly set out medium-term framework should focus on the period beyond the expected end of the crisis.

In the process of preparing the revised national budget, there was also a mismatch with the usual and legally set time frame for the preparation of macroeconomic forecasts, since updated forecasts will only be available at the time of adoption of the revised budget by the National Assembly. This, given the differences in comparison to the end of June forecast based on which the draft revised budget and the proposal of the Framework were prepared, may at the same time mean that both documents mentioned above will not be prepared on an adequate basis.

The economic situation and thus also the macroeconomic bases, which form the basis of budget planning, have significantly deteriorated this year justifying the preparation of a revised budget and a change in the framework. Real GDP is expected to drop by around 7% this year, affecting in particular service activities. The labour market situation has also deteriorated, which is evident from the rising unemployment rate. The government's measures contributed to alleviating the decline in activities and employment, while after the end of the period of restrictive measures in mid-year, activity indicators began to show economic recovery.

Fiscal indicators and their projections reflect the deteriorating macroeconomic situation and functioning of automatic stabilisers, and in particular measures to limit the effects of the epidemic. Following the draft revised budget, the state budget balance is expected to show a deficit of 9.3% this year, the general government balance 8.6% of the projected GDP, while the state budget debt increased by more than EUR 5 billion in seven months. According to the draft revised budget, measures to limit the consequences of the epidemic are expected to amount to EUR 2.6 billion this year, or slightly less than

6% of GDP. Their implementation over the first eight months amounts to just over half of this amount, so that the government is creating a lot of room for manoeuver with the revised budget for the rest of the year. 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 room for manoeuver 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 manoeuver, the possibility of taking action in difficult times or in the event of exceptional events is limited.

State budget expenditure not related to Covid-19 measures is projected to grow fast or much faster than last year and in the adopted budget for 2020, while growth is expected to accelerate in the final months of the year. The general government sector expenditure, which does not include one-off expenditure, is otherwise 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 expenditure and a milder decline in the economic activity than currently projected. Simulations suggest that the resulting maximum deviation in respect of the currently known data could be just under one per cent of GDP.

* * *

In uncertain times and given such a marked deterioration in the position of public finances, as assumed in the revised budget and in the amended Framework, additional transparency is to be expected in the preparation of budget documents. The Fiscal Council thus recommends that the government provide additional clarifications regarding:

i) bases for determining the expenditure related to Covid-19 measures,

ii) the purpose of expenditure under the item "reserve",

iii) differences in changes regarding the volume of general government expenditure and changes in the volume of state budget expenditure and the Health Insurance Fund expenditure; and

iv) the expected dynamic of the state budget and the general government sector debt.

October 2020

Assessment by the Fiscal Council: Fulfilment of conditions for the enforcement of exceptional circumstances

The Fiscal Council notes that, given the available data and forecasts at the time of drafting this assessment, both conditions are met, which, pursuant to Article 12 of the Fiscal Rule Act (hereinafter: ZFisP), enable exceptional circumstances to be enforced and thus permit a temporary deviation from achieving medium-term fiscal sustainability. In 2021, at least one of both legally stipulated conditions is expected to be met, while for 2022 this cannot be unequivocally confirmed. These findings are not static, but depend on the given circumstances and available forecasts, which is why they are subject to uncertainties and may change in the future.

October 2020

Assessment by the Fiscal Council: Assessment of budgetary documents for 2021and 2022

In an uncertain environment, when deviations from the medium-term fiscal balance under the FRA are permitted due to exceptional circumstances, expansionary fiscal policy is counter-cyclical and, as such, appropriate in the light of currently available forecasts. However, according to the Fiscal Council, the projected expenditure of the general government in the coming years is high and therefore exposed to significant risks, especially related to their effectiveness. At the same time, the current situation should not be exploited for implementing measures that structurally worsen the position of public finances. The envisaged accelerated investment activity for promoting economic growth should strengthen long-term economic potential as much as possible. This would ensure that the burden of significantly increased government debt during the crisis will not be too heavy in the future. Otherwise, when the crisis is over, the room for manoeuvre in the context of future reversals of the business cycle will be reduced and it will be difficult to ensure the medium-term fiscal balance and thus the long-term sustainability of public finances.

The Fiscal Council notes that the conditions set out in the Fiscal Rule Act enable the enforcement of exceptional circumstances, given the available data at the time of drafting this assessment, this year and next, while for 2022 this cannot be unequivocally confirmed at this time. The European Commission has extended the enforcement of the general escape clause from 2020 to 2021, while guidelines at EU level concerning the course of fiscal policy for 2022 have not yet been made public. Uncertainty regarding the future course of the epidemic and its impact on economic activity are crucial in deciding on the eligibility of the enforcement of exceptional circumstances in the current situation. According to the currently available information, it is not possible to unequivocally confirm that exceptional circumstances will still exist in 2022. This finding is not static and will be regularly examined by the Fiscal Council.

The fiscal projections in the proposed budget documents continue to be significantly marked by the effects of measures to limit the consequences of the COVID-19 epidemic. With the projected relatively rapid recovery of economic activity, which will reach the pre-crisis level of GDP in 2022, the state budget deficit is expected to gradually shrink over the next two years after this year's sharp deterioration, given the projected lower impact of COVID-19 measures. Due to the uncertain assessment of the realisation in 2020, which the Fiscal Council pointed out when preparing the assessment of the revised budget, it is rather difficult to assess the projections for the next two years. According to the Fiscal Council's assessment, the planned realisation for 2020 is not in line with the currently valid measures and actual data on state budget up to September.

As early as in March 2020, the Fiscal Council noted that the conditions stipulated by the Fiscal Rule Act for a temporary deviation from achieving medium-term fiscal sustainability were met, and that, in these circumstances, it would pay special attention to fiscal developments without considering the direct effects of COVID-19 measures. Such an analysis of the given fiscal projections shows that the general government deficit will increase significantly next year due to expenditure growth almost doubling. The increase in investment expenditure is expected to be particularly pronounced and the growth in other expenditure is also expected to be much higher than the growth of the long-term economic potential. The indicative calculations of the compliance of general government expenditure with the Fiscal Rule Act as set out in the Framework Proposal indicate that although the deviation from the medium-term balance is allowed on a temporary basis, the expenditure is too high. This finding also applies when a wide range of alternative values of input variables is considered, on the basis of which the maximum allowed expenditure is determined in accordance with the Fiscal Rule Act.

Given the expected conditions, the expansionary fiscal policy is justified next year; however, the proposed scope and structure of fiscal incentives are optimistic and their actual implementation could entail a number of risks. In the event of a projected significant increase in investments that are expected to be financed by loans and grants, the risks are related to their efficiency and to the actual short-term and especially long-term effect on economic activity. Despite being supportive of investment as a major factor in restarting the economy in the current circumstances, international institutions also draw attention to these risks. With such a rapid and extensive increase in investment activity, there are also risks regarding the actual absorption capacity and governance concerning the management, supervision and implementation of projects, while restrictions may also appear on the supply side, including the labour market. The projected high growth of other expenditure not related to COVID-19 measures poses a risk to the structural position of public finances. According to the Fiscal Council, the planned expenditure is not entirely based on the measures currently in force, which is especially true for projections of labour cost growth.

In addition to the uncertainties associated with the forecasts of macroeconomic and fiscal aggregates, the given assessment by the Fiscal Council also explicitly highlights the numerous risks arising from economic policy measures. The structural position of public finances may deteriorate, in particular due to discretionary measures already adopted and announced that are not directly related to the epidemic. This is inappropriate in the current adverse economic and fiscal conditions according to the assessment of the Fiscal Council. It is necessary to be aware that the political cycle is already in a mature phase, which is why solutions should be sought that will solve problems not only in the short term, but also systemically, and that will be sustainable in the long run.

As in most other countries, the general government debt is expected to increase significantly in the crisis and temporarily exceed 80% of GDP in the baseline scenario. An increase in debt during a period of low interest rates and the expected recovery in economic growth may still be acceptable. However, it becomes risky if debt is not used mainly to increase economic potential before the interest rate normalisation period begins. It is therefore essential that all funds earmarked for financing the projected expenditure, both grants and loans, are spent effectively in finding solutions that will have the greatest multiplier effect and enable the sustainable growth and development of the economy.

After the end of the current crisis, Slovenia will face many long-term challenges for which it had not found appropriate systemic solutions even before the crisis. This applies especially to the challenges of demographic change and their impact on public finances. Many analyses show that long-term sustainable public finances can only be ensured through broader policies that 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.

Given the findings of the analysis and perceived risks, the Fiscal Council:

- considers that the assessment of the existence of exceptional circumstances and the assessment of budget documents should follow an appropriate chronological order, so that the preparation of budgetary documents is based on a preliminary assessment of the existence of exceptional circumstances.

- expects clarification of the projected budgetary developments for 2020, which also form the basis for assessing the adequacy of public finance projections in the coming years.
- calls for clarification of the difference between the change in general government expenditure and the change in the sum of expenditure of public finance accounts in the Framework Proposal.
- calls on economic policymakers that public spending, in the part that does not include necessary expenditure to mitigate the effects of the epidemic, should be effective and development-oriented and should not structurally worsen the state of public finances.
- draws attention to the risks associated with the feasibility of planning, managing, monitoring and implementing a rapid and extensive increase in investment projects and the need to observe the related absorption capacity of the administration and the economy as a whole, including the labour market.
- highlights the need for transparency regarding the use of funds in the general budget reserve item, which may be used exclusively for measures related to the COVID-19 epidemic.
- warns of the risk that any over-planned funds of individual items in the draft budget documents will not be used efficiently.
- although it recognises that a stalemate in this area is partly understandable due to the crisis, the Fiscal Council reiterates its call for the implementation of changes which will enable decent aging and sustainable public finances in the long run as soon as possible.

Annex 3: Glossary

<u>*Automatic stabilisers:*</u>

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.

<u>*Budget balance:*</u>

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.

<u>*Cyclical component of budget balance:*</u>

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.

<u>*Discretionary fiscal policy:*</u>

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.

<u>*Discretionary revenue measures:*</u>

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

<u>*Draft budgetary plan:*</u>

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.

<u>*Excessive Deficit Procedure:*</u>

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.

<u>*Expenditure rules:*</u>

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.

<u>*Fiscal consolidation:*</u>

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.

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

<u>Potential GDP:</u>
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.

<u>Primary budget balance:</u>
The budget balance net of interest payments on general government debt.

<u>Primary structural budget balance:</u>
The structural budget balance net of interest payments.

<u>Pro-cyclical fiscal policy:</u>
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.

<u>Public debt:</u>
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.

<u>Significant deviations:</u>
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.

<u>Stability and Growth Pact (SGP):</u>
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.

<u>Stability programme:</u>
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.