14 June 2021

Press release: The Fiscal Council assessed the compliance of the general government budgets with the fiscal rules in 2020

In accordance with the Fiscal Rule Act, the Fiscal Council produced an assessment of compliance of the implemented general government budgets with the fiscal rules in 2020. At the outbreak of the epidemic in March 2020, the Fiscal Council confirmed that the conditions to invoke exceptional circumstances were met. The fiscal rules continue to apply during this period, while the legislation allows for temporary measures and deviations from achieving the medium-term balance of public finances for measures related to mitigating the consequences of such event, provided that the medium-term public finance sustainability is not compromised.

According to the Fiscal Council, the fiscal rules were mostly complied with in 2020. The national rule referring to the maximum permitted level of general government expenditure was complied with in the past year. The minimum permitted level of structural balance under the EU rules (MTO) in 2020 was attained, considering the allowed deviation. Growth in general government expenditure, excluding one-off effects, was also below the limit permitted under the expenditure rule of the Stability and Growth Pact. Despite the favourable outcome in 2020, the average deviation of both the structural balance and the structural effort over a two-year period, which reached over 0.25 percentage point of GDP according to current calculations, was exceeded due to the expansionary fiscal policy implemented in 2019. The general government debt increased in 2020 contrary to the rules, according to which it should have decreased. The Fiscal Council did not assess the balance over the business cycle due to the temporary deviation from the medium-term balance allowed during the period of exceptional circumstances.

The framework for drawing up budgets was adjusted frequently and substantially, and failed in its core function of setting the medium-term orientation of the fiscal policy. It was amended twice last year, by a total of over EUR 3 billion. General government expenditure (excluding one-off effects) thus remained below the maximum level permitted under the current framework for drawing up budgets, also in terms of the current assessment of the output gap and one-off factors.

The outbreak of the COVID-19 epidemic posed a major challenge for fiscal policy management, to which countries responded with large-scale measures, also thanks to the flexibility of formal fiscal frameworks. The scope of discretionary measures in Slovenia with a direct impact on the general government balance, estimated by the Ministry of Finance at 6% of GDP in 2020, was higher by about a half compared to the EU average. Estimates suggest that their short-term impact on cushioning the fall in economic activity was smaller than the EU average, as the fall in real GDP last year was similar to the EU average, although the share of tourism in value added is lower in Slovenia than the EU average. Most discretionary measures were aimed at preserving jobs through subsidies, as in other countries. However, the main deviation from measures in other countries was recorded in the higher share of employee compensation (allowances for public employees) and social transfers (transfers to certain population groups). In all countries, job preservation measures significantly contributed to a smaller increase in unemployment, although in Slovenia it was slightly higher than the EU average; nevertheless, estimates of the short-term impact of measures on unemployment point to similar effectiveness.

In 2020, no measures were adopted to mitigate the expected adverse fiscal impacts of structural, particularly demographic pressures to which the economy and public finances will be exposed already this decade. On the contrary, some economic policy measures adopted in 2020 have even weakened the sustainability of public finances in the medium and long term.