Speech by the President of the Fiscal Council on amendments to the state budget for 2023 at the National Assembly of the Republic of Slovenia (12 November 2021)

Ladies and Gentlemen,

As the amended draft state budget for 2023 does not contain any amendments that would alter the assessment made when considering the framework for drawing up the general government budgets for 2022–2024, I will only present two highlights from the assessment of budget documents for the 2020–2024 period that are relevant for 2023. I will focus on how realistic the projections in the budget documents are and on the movement of public debt.

The general government deficit excluding COVID-19 measures is projected to decrease by almost EUR 800 million in 2023 relative to 2022, i.e. from 5% to 3.3% of GDP. The planned reduction in the deficit in 2023 is mainly due to the projected, in the Fiscal Council's assessment unrealistically low, growth in current expenditure, which excludes the effects of the COVID-19 measures, thus it does not reflect base effects. Current expenditure is projected to stagnate or even decrease in 2023, which is contrary to the long-term average. In particular, the projection of a low increase in employee compensation and the unchanged level of expenditure on social benefits stand out, as well as the fall in expenditure on goods and services in the state budget, all excluding the effects of the COVID-19 measures. Moreover, the submitted budget documents lack a presentation of the measures that would ensure such low growth. Assuming a slightly more realistic assumption of a 3% increase in expenditure in 2023, the general government deficit excluding COVID-19 measures would remain nominally unchanged in 2023 relative to 2022, as would the share of GDP, at close to 5% of GDP, instead of the aforementioned reduction to around 3% of GDP.

Public debt is expected to remain much higher in 2023 and 2024 than before the crisis, at just below 80% of GDP. It does not of really matter whether the debt increase during the epidemic was higher or lower than the EU average. The fact is that it has increased by about 15% of GDP and is high. What is striking is the stark difference in debt reduction in 2015–2018 and the projected debt movement between 2021 and 2024, when the effects of the COVID-19 measures are no longer present to a significant extent. In the former period, debt decreased by over 12 percentage points and in the latter period by only 4 percentage points of GDP. The debt reduction in the former period was achieved against a backdrop of similarly high economic growth to that projected for the coming years, but also with a highly stimulative monetary policy by the ECB, which lowered interest costs, and a number of discretionary measures that were understandably unpopular. All this created room for manoeuvre that allowed us to act as extensively as we did during the epidemic.

At present, it is not yet known what fiscal rules will be in place in 2023. If the current economic outlook is largely realised, Slovenia will already be in a situation where the conditions for a more restrictive fiscal policy will exist. This will need to be demonstrated in reality and not just by very low growth projections for government expenditure. This is particularly true in the light of the risk that, if some of the legislative proposals currently under consideration in the National Assembly are implemented, the public finance position could deteriorate by around EUR 800 million in 2023, according to the estimates contained in the proposals. This, however, does not yet include the otherwise systemically regulated and most likely actually necessary increase in health and social care salaries that were agreed on this week, which will be disclosed in the general government accounts and which, according to the information available to us, is not included in the proposed budget documents.