6 June 2022

Press Release: Assessment of the Fiscal Consequences of the Coalition Agreement "The 15th Government of the Republic of Slovenia: The Work Programme of the 2022-2026 Coalition"

In addition to its regular statutory tasks, the Fiscal Council also analyses the fiscal impact of important economic policy decisions. As the Coalition Agreement is an essential document regarding the formation of the government and contains a package of measures to be adopted, the Fiscal Council has carried out an assessment of its impact on public finances. In doing so, however, it did not assess the appropriateness of the announced measures. The Fiscal Council will continue to assess essential economic policy documents and expects these documents to be comprehensive and transparent and to include clearly defined measures.

The Coalition Agreement "The 15th Government of the Republic of Slovenia: The Work Programme of the 2022-2026 Coalition" contains a set of broadly defined measures that go well beyond the four-year term of office. In terms of public finances, one of the key orientations of the Coalition Agreement is to gradually reach the EU-27 average share of revenue and expenditure. In addition to methodological questionability, such an orientation is also risky for a small and open economy, which is generally more exposed to financial markets. The measures whose direction of impact on government aggregates can be established are aimed predominantly at increasing expenditure. The Fiscal Council reiterates its warning that the growth of current spending must not exceed the growth of long-term economic potential. At the same time, the Coalition Agreement also reflects to a considerable extent some orientations regarding the financing of additional expenditure, which is a difference compared to the two previously assessed coalition agreements. Funding is also expected to be provided by increased use of EU funds and partly by alternative sources of funding not yet specified in the Coalition Agreement, which would not necessarily lead to a deterioration of the fiscal position. Substantial implementation of the economic policies set out in the Coalition Agreement would represent a departure from the fiscal path presented in the unchanged policies scenario of the Stability Programme 2022, which indicated a gradual consolidation of public finances. A stalling of consolidation would increase the risk to the achievement of the medium-term fiscal balance in the coming years. Several times, the Coalition Agreement also mentions commitments to ensuring (long-term) fiscal sustainability in relation to the measures it refers to. At the same time, the Coalition Agreement indicates some elements of solving the long-term challenges faced by Slovenia’s public finances, but again does not specify the measures in detail. The Fiscal Council considers that the Coalition Agreement does not provide a sufficient basis for the planning of economic entities, due to its high degree of vagueness, in terms of both the scope and the timing of the measures. In this context, the Fiscal Council suggests moving towards the good practices of some countries where coalition agreements allow for a more accurate evaluation. This also gives the general public insight into their fiscal and macroeconomic implications.

The Fiscal Council expects the Government to present the measures in future official budget documents in a transparent manner and to precisely specify their fiscal implications. Against the background of current and projected macroeconomic developments and global and domestic risks, economic policy needs to prepare an appropriate set of measures that, while addressing the current challenges, will ensure a macroeconomic environment enabling sustainable economic growth without deepening imbalances and providing room to manoeuvre for future economic policy interventions. In doing so, measures should not jeopardise the achievement of the medium-term fiscal balance. This is all the more important in view of the expected gradual tightening of monetary policy and thus higher debt financing costs. In connection with the announcement of a change in the fiscal rule, the Fiscal Council points out that this should be considered and aligned as much as possible, in terms of both timing and content, with the expected changes to the EU's economic governance rules. At the same time, the Fiscal Council stresses that after the end of the period of exceptional circumstances, Slovenian and European legislation should establish the method and timing of the so-called corrective mechanism to restore the medium-term balance of the general government balance.