REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Report on the Fiscal Council's operations in 2021

May 2022

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Foreword

In line with the persistence of pandemic, the exceptional circumstances identified in March 2020 have remained in place throughout 2021. Until they are lifted, they allow for a temporary deviation from the medium-term fiscal objectives provided that medium-term fiscal sustainability is not jeopardised. At the same time, a strong economic rebound was also visible in 2021, and especially at its end. The high annual GDP growth in 2021 was thus the result of both the low base of the previous year and the recovery of economic potential, with the relaxation of epidemiological constraints and the consequent removal of barriers to economic life.

One of the two criteria for exceptional circumstances, as defined in Article 12 of the Fiscal Rule Act, has was not valid at the end of 2021. Not only is there no serious economic downturn, but the rebound has been increasingly accompanied by clear signs of economic overheating, which have persisted well into 2022. However, there remains an uncertainty about the second criterion, an unusual event outside the control, which has a major impact on the financial situation of the general government sector. The epidemiological risk, which seems to be evolving towards seasonal cycles, has been compounded by the geopolitical risk in 2022. That is why the timeline for lifting the exceptional circumstances by activating the correction mechanism has still not been finalised. However, public debt is rising with high fiscal deficits, and financing conditions will tighten as monetary policy begins to normalise.

Fiscal policy has responded to the changing epidemiological situation both by taking a number of temporary measures that were directly linked to the epidemic and by introducing measures that will change public finances in a more permanent way. As the measures have an impact on the state of public finances, the Fiscal Council has monitored and analysed them in its – including new – regular publications and expressed its views on them when assessing the budget documents submitted. In doing so, it pointed, *inter alia*, to the lack of transparency in assessing their impact and tried to compensate for such shortcomings with its own assessments. The Fiscal Council aims to raise awareness among economic policy makers, and especially the general public, of the risks to fiscal sustainability in the medium and long term.

In such a situation, the expected, but at the moment still not timetabled, deactivation of the escape clause at the European level also raises a debate on possible fiscal rule adjustments. Of course, with the strong tendency to allow greater flexibility to facilitate economic development, we quickly encounter constraints imposed by the financial markets given their perception of the sustainability of government financing. Relaxations of rules and the associated borrowing increase risks for investors, and the real question is how much risk financial markets are willing to take when deciding on the financing of governments. As the experience of the debt crisis less than a decade ago showed, smaller countries with weak fiscal governance can quickly approach this limit.

As a small, medium-developed and below-average indebted country in the EU, Slovenia needs fiscal rules, strictly dedicated to ensuring medium term public finance sustainability in order to prevent consequences of stronger and more indebted members increasing uncertainty and thereby crowding out other member states from financial markets.

Notwithstanding the critical attitude towards the existing fiscal rules, there is a general perception that the current rules – albeit imperfect – have made an important contribution to improving fiscal discipline and to increasing long-term fiscal sustainability. The period of the epidemiological crisis has also shown that they are flexible enough to allow a rapid fiscal policy response at the EU and national levels in exceptional circumstances. Considering all the currently available information, changing the national fiscal rule before at least a general agreement on orientations has been reached at the EU level would be premature, as it could unnecessarily expose Slovenia in international financial markets. This could be particularly true in the case of a change in the national rule towards loosening the rules which – even if only in the opinion of financial market participants – would not ensure the sustainability of the fiscal position.

The Fiscal Council will continue to provide independent and expert-based opinions on the stance of fiscal policy and on its compliance with the existing fiscal rules. In this way, it aims to contribute, in accordance with its legislative powers, to creating the conditions for ensuring fiscal sustainability in the medium and long term, thereby enhancing Slovenia's economic development and permanent well-being.

May 2022

Dr Davorin Kračun

President of the Fiscal Council

1. The Fiscal Council's operations in 2021

The year of 2021 was the fourth full calendar year of the operation of the Fiscal Council and the last full year of the first term of office of the Fiscal Council members. The Fiscal Rule Act (hereinafter: the FRA)[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 FRA defines, *inter alia*, the tasks, composition and method of the Fiscal Council's operations. Its members were appointed by a constitutional majority in the National Assembly for a five-year term of office on 21 March 2017, when the Fiscal Council began its work. In accordance with Article 10 of the FRA, the Fiscal Council is required to submit an annual report on its operation to the National Assembly for consideration 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; the present report covers the main aspects of the Fiscal Council's operations in 2021.

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 implemented fiscal policy, i.e. its compliance with statutory fiscal rules. It is accountable 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 management 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 FRA. The autonomy of and strong analytical support for the Fiscal Council's opinions are essential for the credible and autonomous operation of the relatively 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 long-term stable and sustainable public finances can provide the basis for economic development and thus for the well-being of the population.

The tasks of the Fiscal Council are defined by the FRA. They are linked above all to assessing the adequacy of budget documents, which must ensure compliance with statutory fiscal rules and/or 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 arisen and when they cease to exist. The full range of the Fiscal Council's tasks is described in Article 7 of the FRA. In addition to the provisions of the FRA, the Act Amending the Public Finance Act of February 2018 (hereinafter: the ZJF-H)[3] imposed on the Fiscal Council the task of assessing the bias of macroeconomic forecasts that represent the basis for preparing the budget documents. The Decree amending the Decree on development planning documents and procedures for the preparation of the central government budget of May 2018[4] imposes on the Fiscal Council the task of subsequently assessing 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 operating costs and selected components of the Fiscal Council's balance sheet for 2021, 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: Monthly Information**			
February		**FC: Public Finance and Macroeconomic Dev.**		*SORS: National Accounts*
March	**FC: Monthly Information**	*IMAD: macro projection*		*SORS: General Govt Accounts*
April	**FC: Monthly Information**	**FC: assess SP/FR**		
May	**FC: Monthly Information**		*EC: assess SP/CSR*	*SORS: National Accounts;* **FC: Annual Report**
June	**FC: Monthly Information**			*SORS: General Govt Accounts* **FC: assess t-1 Budget**
July		**FC: Public Finance and Macroeconomic Dev.**		
August				*SORS: National Accounts*
September	**FC: Monthly Information**	*IMAD: macro projection*		*SORS: General Govt Accounts; MoF: Framework*
October	**FC: Monthly Information**	*MoF: SB, DBP*	*SORS: EDP;* **FC: assess FR/SB (DBP)**	
November	**FC: Monthly Information**	*EC: assess DBP*		*SORS: National Accounts*
December	**FC: Monthly Information**			*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, so the next one is due in 2022. 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 FRA lays down that the function of a member of the Fiscal Council is incompatible with holding public office and activities entailing the management, supervision or representation of direct and indirect spending units of the budgets of the general government sector.

The President represents the Fiscal Council, and organises and manages its work. In accordance with Article 10 of the FRA, 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 method of the Fiscal

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

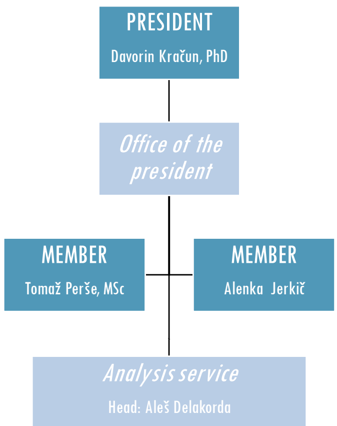
Council's work. The Fiscal Council usually meets once per week at closed sessions to discuss the current macroeconomic and fiscal developments and, among other things, decide on the publication of its opinions, press releases and documents.

Four public employees are employed by the Fiscal Council. This is also the maximum number of employees as laid down by paragraph five of Article 10 of the FRA. 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 2021. 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 FRA, administrative and technical tasks (tasks related to staffing, information technology, accounting, 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 2020. Due to changes in the Court of Audit's spatial requirements, 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, but the Ministry was unable to provide such premises. The Fiscal Council moved to its new rented premises on Likozarjeva ulica 3 in Ljubljana in April 2020, where it has been operating since then. 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 were appropriate for the needs of the Fiscal Council and met 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 uses part of the premises for its own needs and provides administrative and technical support to the Fiscal Council at the new location in accordance with the FRA.

The Analysis Service provides expert assistance to the Fiscal Council's members. 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 2021 included, in particular, monitoring the fiscal effects of measures to prevent the consequences of the COVID-19 epidemic, permanent database management, maintaining and

Figure 1.1: Organizational chart of the Fiscal Council



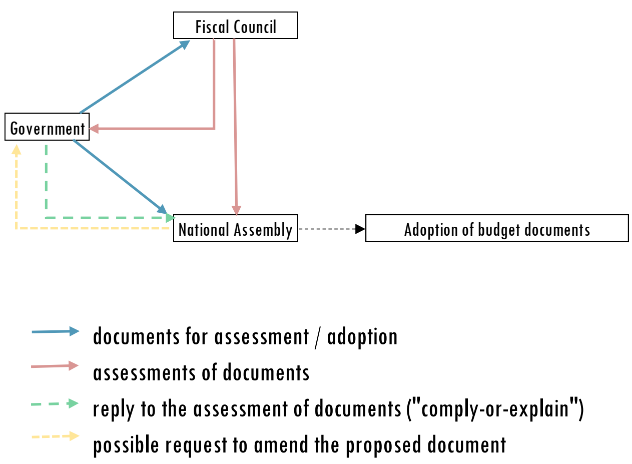
Source: Fiscal Council.

upgrading the automation of processes to monitor economic indicators, upgrading analytical tools for the analysis of cyclical and fiscal trends, managing the Fiscal Council's presence on Twitter and preparing new regular and extraordinary publications of the Fiscal Council.

1.2 The main guidelines of the Fiscal Council in 2021

In 2021, the Fiscal Council operated within the framework of its regular annual operating cycle, which was updated with new analyses and publications after the outbreak of the epidemic. The schedule of the annual cycle is largely defined by the FRA and the ZJF-H, and specifically by the procedure for 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 planned legislative amendments that could have an impact on fiscal sustainability. The existing legislation, particularly Articles 12–14 of the FRA, also determines Fiscal Council actions in the event of exceptional circumstances, such as an epidemic. Thus, in March 2020, the Fiscal Council identified the existence of exceptional circumstances to support increased fiscal policy flexibility during the period of the epidemic and, in the following months, regularly monitored and published the fiscal effects of the measures taken to limit the impact of the epidemic. It also made significant changes to its publications to address the new situation, distinguishing between the analysis of aggregate fiscal data and the analysis of data that did not include the effects of fiscal measures taken to limit the effects of the epidemic. In addition, in January 2021, it launched a regular publication, Monthly Information, which presents current developments in the state budget alongside ongoing monitoring of the fiscal impact of the epidemic. The FRA does not explicitly prescribe the monitoring and publication of such data, but, in the Fiscal Council's opinion, this task was needed to ensure transparency, on the one hand, and on the other to analyse on an ongoing basis the credibility of the budget documents prepared by the Government in exceptional circumstances and their compliance with applicable fiscal rules.

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.

To support its operations, the Fiscal Council has concluded cooperation agreements with the Institute of Macroeconomic Analysis and Development (hereinafter: IMAD) and the Ministry of Finance.[6] In comparison with similar institutions operating in other 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 FRA 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 agreements define the data and documents that the two institutions have to provide to the Fiscal Council and the time limits for their provision. The cooperation agreement with the Ministry of Finance was supplemented in 2021, at the initiative of the Fiscal Council, by an agreement to extend the set of data produced by the Ministry of Finance and needed by the Fiscal Council for the performance of its tasks. In 2021 the two cooperation agreements concluded with IMAD and the Ministry of Finance were implemented as agreed.

In 2021 the Fiscal Council met with representatives of domestic institutions on several occasions. 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 in 2021.

For the purpose of its operations, the Fiscal Council also needs data and information that are not available to the public. In 2021, for the purpose of making analyses and providing opinions, the Fiscal Council, in accordance with the FRA, 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 has not concluded cooperation agreements.

In 2021, the Fiscal Council met once (April) with the Minister of Finance and once (August) with the Prime Minister and the Minister of Finance. The President of the Fiscal Council met once (October) with the representative of the European Commission in Slovenia.

In 2021, the Fiscal Council did not organise regular consultation meetings with Slovenian economists engaged in public finances due to the epidemiological restrictions.

2. The Fiscal Council's opinions and the Government's responses in 2021

Most of the Fiscal Council's operations in 2021 related to the tasks defined by the FRA. In this regard, it should be noted that paragraph four of Article 7 of the FRA lays down that the Government of the 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 Fiscal Council recommendations increases its political responsibility.

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

In accordance with the FRA, the Fiscal Council made the following assessments in 2021:[7]

– –On 1 April 2021, it submitted to the National Assembly and the Government the assessment of the fulfilment of conditions for the existence of exceptional circumstances in 2022 (as provided for in point 2 of Article 12 of the FRA).
– On 16 April 2021, 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 2021 and the amendments to the proposed Ordinance on the framework for the preparation of the general government budget for the 2020–2022 period and the proposed Ordinance on the framework for the preparation of the general government budget for the 2022–2024 period (as laid down in point 1 of paragraph two of Article 7 of the FRA).
– On 13 May 2021, 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 FRA).
– On 14 June 2021, it submitted to the National Assembly and the Government the Assessment of the compliance of the implemented budgets of the general government sector with the fiscal rules in 2020 (as laid down in point 4 of paragraph two of Article 7 of the FRA).
– On 23 October 2021, it submitted to the National Assembly and the Government the Assessment of the fulfilment of the conditions for invoking exceptional circumstances in 2022 (as laid down in point 2 of Article 12 of the FRA).
– On 8 October 2021, it submitted to the National Assembly and the Government the Assessment of the compliance of the proposed Ordinance amending the Ordinance on the framework for the preparation of the general government budget for the 2020–2022 period with the fiscal rules (as laid down in point 2 of paragraph two of Article 7 of the FRA).
– On 15 October 2021, it submitted to the National Assembly and the Government the Assessment of the compliance of the proposed Ordinance amending the Ordinance on the framework for the preparation of the general government budget for the 2022–2024 period, the proposed amendments to the budget of the Republic of Slovenia for 2022 and the proposed amendments to the budget of the Republic of Slovenia for 2023 with the fiscal rules (as laid down in point 2 of Article 12 and points 1 and 2 of paragraph two of Article 7 of the FRA).

In addition to the assessments required under the FRA, in 2021 the Fiscal Council prepared the following assessments, opinions and recommendations:

– On 10 February 2021, it published its regular publication Fiscal and Macroeconomic Trends.
– On 30 March 2021, it published the analysis 'General government debt in Slovenia: characteristics, medium-term sustainability and long-term simulations'.
– On 8 April 2021, it published the analysis 'Public investment in Slovenia: trends, structure and challenges'.
– On 5 July 2021, at the request of the Commission for Public Finance Supervisoin, it submitted the ‘Analysis of the fiscal effects of proposed changes to tax legislation’.

[7] Appendix 2 contains a summary of the assessments of the Fiscal Council from 2021.

- On 9 July 2021, it published its regular publication 'Fiscal and Macroeconomic Trends'.
- It published 10 editions of the 'Monthly Information' publication.

When reviewing budget documents in 2021, the Fiscal Council found that they set an expansionary fiscal policy that was appropriate given the cyclical position 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, which were similar to those adopted in other EU Member States, it pointed out that some measures deviated from the principle of taking measures that should only apply during a period of exceptional circumstances. Some of the measures taken have worsened the structural position of public finances or will affect the long-term sustainability of public finances in the future. The Fiscal Council also drew attention to the envisaged acceleration of investment activity, which makes sense in the given situation, especially when financing conditions on government debt securities markets are extremely favourable due to the extremely stimulative monetary policy. However, this only applies if investment expenditure largely strengthens the long-term economic potential and if 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 general government debt during the crisis will not be too heavy in the future. Otherwise, in the opinion of the Fiscal Council, the room to manoeuvre to act in the face of future turns in the economic cycle could be reduced as we emerge from the crisis, which could also make it more difficult to ensure long-term fiscal sustainability. The Fiscal Council also regularly called on the Government to increase transparency regarding the expected fiscal impact of 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 2021 with public written explanations in accordance with the legislation.[8] In its written explanations, the Government highlighted the uncertain conditions for fiscal policy during the epidemic and the unreliability of the parameters used for calculating compliance with fiscal rules, and especially the uncertainty related to the calculation of the output gap. The Government also emphasised that due to the uncertain situation, budgetary reserves are being created in budget documents to cope with a possible worsening of the epidemiological situation. At the same time, the Government considers that it ensured a high level of transparency, as the funds earmarked for measures related to the COVID-19 epidemic are kept under the general budget reserve item and can only be used for measures related to the COVID-19 epidemic. The aim of this monitoring is to achieve significantly more transparency than that provided for in the regulations on the integral part of the budget.

3. 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 accordance with its mandate, in its work the Fiscal Council relies consciously on a positive analysis and

[8] All government opinions are published on the Fiscal Council's website alongside the corresponding assessments of budget documents.

[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.

does not provide regulatory opinions on specific fiscal measures and/or laws. This policy enables the Fiscal Council to maintain its impartial status, while at the same time ensuring the apolitical nature of its operations.

In 2021, the Fiscal Council's representatives attended six meetings of the Committee on Finance, one meeting of the National Assembly's Commission for Public Finance Supervision and one meeting of the National Council's Commission for the Economy, Trade, 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 (the "comply-or-explain" rule).

The legislation concerning the Fiscal Council's operations did not change in 2021.

4. The Fiscal Council's contact with the media

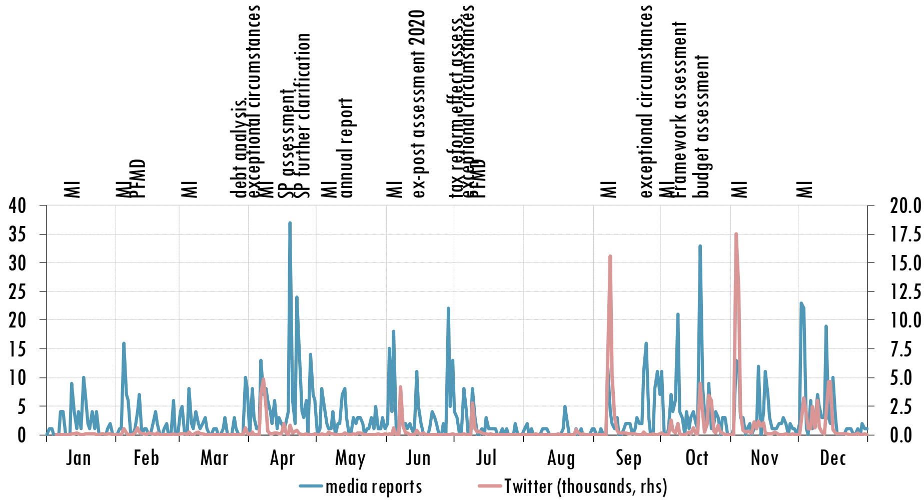
The key tasks of independent fiscal institutions include communicating with the media and informing the general public of their findings. Since the Fiscal Council merely provides opinions on budget documents that the Government is not obliged to take into account (only the "comply-or-explain" principle applies), it can only have an indirect impact on fiscal policy. Accordingly, its task is 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. A prerequisite for its views to be taken into account in public debates is the establishment of credibility, i.e. public confidence in the Fiscal Council's analyses and opinions.

In 2021, the Fiscal Council provided information about its work to the public by publishing recommendations and opinions and holding interviews and press conferences. The President of the Fiscal Council held four interviews with various media, covering a wide range of macroeconomic and fiscal topics. Media coverage of the Fiscal Council's publications doubled compared to the previous year and was similar to that in 2019. Media coverage focused on the spring and autumn assessments of the budget documents and on the new regular publication Monthly Information. The two press conferences were also widely covered, with the one in April being held virtually due to the epidemiological situation, and the one in October being held live.

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.[10] Through its website, the Fiscal Council provides access to the current published assessments, opinions, views and recommendations to the wider interested public. 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 it uses in its work and communications. In 2020, a special section was added to the website to monitor the fiscal effects of measures designed to limit the consequences of the epidemic, whereas in 2021 the Fiscal

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

Figure 4.1: Number of media reports about the Fiscal Council and engagements with Twitter posts in 2021

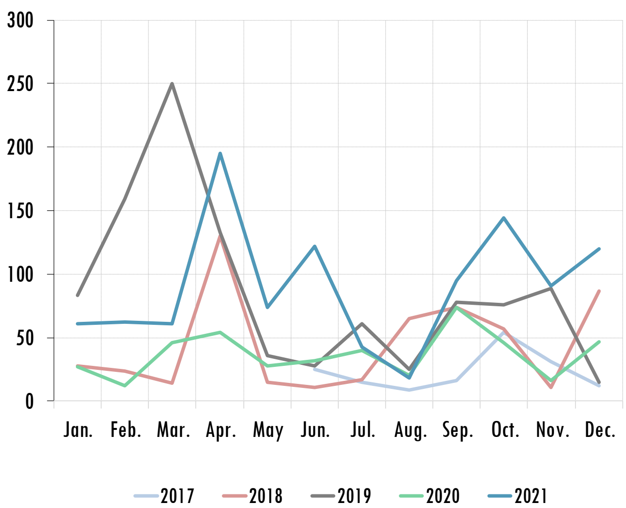


Note: Data about engagements on Twitter include all uses of posts on @FiskalnisvetRS.
Source: Press Clipping d.o.o., Twitter Analytics, Fiscal Council calculations.

Council also regularly published updated data collected with the help of several institutions. The majority of publications, including other basic information on the Fiscal Council's operations, are also available in English.

In order to keep the wider public informed, the Fiscal Council launched a Twitter account at the beginning of 2021. On this social network, the Fiscal Council mostly posts messages when publishing its assessments, views and analyses, but also short alerts on publications by other institutions, in particular the EU IFIs, other independent fiscal institutions, Eurostat and the European Commission. Fiscal Council messages received over 150,000 views in 2021. In addition to reporting on the participation of the President of the Fiscal Council in the Committee on Finance's November discussion of the budget documents for 2022 and 2023, publications on the findings of the new Monthly Information publication had the most views.

Figure 4.2: Number of media reports about the Fiscal Council by year



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

5. International cooperation of the Fiscal Council

Shortly after it began operating, the Fiscal Council joined international networks connecting 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 keep up with 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 also works with international institutions. In doing so, it presents and explains its views on the macroeconomic and fiscal developments in Slovenia.

5.1 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 governance and compliance with the fiscal rules laid down by EU law. The EU IFI[11], however, is a voluntary and informal network of independent fiscal institutions, which provides a platform for exchanging views and information among its members, but without the participation of EU institutions. In 2021, Fiscal Council representatives attended two EUNIFI meetings (both virtual) and five EU IF regular meetings and two EU IFI seminars (all virtual). Representatives also attended one OECD PBO virtual meeting in 2021.

In 2021, the Fiscal Council prepared four contributions for an online presentation of fiscal developments in Slovenia within the EU IFI framework. The EU IFI usually publishes brief information on economic and fiscal developments in Member States four times a year.[12] Given the type of tasks, IMAD[13] 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 2021, the Fiscal Council additionally prepared estimates of the fiscal effects of measures to limit the consequences of the epidemic. The main topic of this publication, which was prepared four times in 2021, was the fiscal response of individual countries to the epidemic and the impact of the epidemic on the functioning of independent fiscal institutions.

5.2 Cooperation with international institutions

The Fiscal Council cooperates with the EC within the framework of the European Semester. In 2021, 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 current and future budgetary developments, in particular in terms of the fiscal effects of measures to limit the consequences of the epidemic and the assessments of budget documents prepared by the

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

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

[13] Due to its independent drawing-up of macroeconomic forecasts, which constitute the basis for the preparation of budget documents, IMAD is recognised as an independent fiscal institution and participates in the EU IFI and the EUNIFI.

Fiscal Council. In December, the President and the Head of the Analysis Service also attended a consultative meeting organised by EC to exchange views on changes to the EU's economic governance framework, in particular with regard to changes to the existing fiscal rules.

In 2020, the Fiscal Council was granted technical assistance for the construction of a model infrastructure to analyse the long-term fiscal sustainability. In October 2020, the Fiscal Council applied for a call under the Technical Support Instrument, which is launched annually by the European Commission.[14] Improved infrastructure in this area will provide the Fiscal Council with greater autonomy in preparing estimates of changes in parameters, especially with regard to social protection systems, which may affect the long-term fiscal sustainability. The project was approved in February 2021[15] and in 2021 the EC was looking for an external contractor to develop the planned model 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 the network of parliamentary budget officials and independent fiscal institutions (the PBO network)[16], which serves as 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 2021 (the meeting was held virtually). Within the network of independent fiscal institutions, the OECD also keeps a database[17], which includes Slovenia, the purpose of which is to provide an overview of the key features of independent fiscal institutions.[18]

In 2021, the Fiscal Council met twice with representatives of the IMF mission to Slovenia. In 2021, the Fiscal Council also met with credit rating agencies. In September, it met with representatives of Moody’s. 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 or the fiscal effects of measures taken to limit them. Discussions also focused on long-term challenges to public finances.

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

- a workshop on the role of fiscal policy in tackling the COVID-19 crisis, organised by DG ECFIN in January;
- a joint meeting of independent fiscal institutions with EFC Alternates in January;
- a seminar organised by the Irish Fiscal Council in February on fiscal sustainability in a post-COVID-19 world;
- an annual conference organised by the European Fiscal Board in February;
- a seminar organised by the EU IFI Network in September on changes to the Stability and Growth Pact;

[14] See https://ec.europa.eu/info/overview-funding-programmes/technical-support-instrument-tsi_en

[15] 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

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

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

[18] The overview of key features covers a range of areas, including the legal basis, institutional form, leadership, the relationship with the legislative branch of government, the term of office and tasks, financial resources and the number of staff, independence, publications, access to information, transparency and an external evaluation of the work of independent fiscal institutions.

- a seminar organised by DG ECFIN in November on the future of fiscal governance in the EU, and
- a seminar organised by DG ECFIN in December on economic policy coordination in the euro area.

Annex 1: The Fiscal Council's operations in 2021

(Summary of the document "Obrazložitve zaključnega računa proračuna za leto 2021" (Notes on the Annual Financial Statement of the Budget of the Republic of Slovenia for 2021)).

In accordance with the provisions of Article 12 of the Rules on the common bases for work procedures of financial services of direct spending units of the budget of the Republic of Slovenia, in April 2017 the President of the Fiscal Council issued Financial Management Instruction No. 00-1/2017/3, which regulates the organisation of financial management and the way financial management is carried out, the responsible persons and signatories, the preparation of the financial plan, the execution of the financial plan, reporting on the use of budgetary resources, and internal control. Financial management is carried out by the Court of Audit's Finance and Accounting Service. Financial management is carried out in a single computerised accounting programme, MFERAC. The Public Accounting Directorate of the Ministry of Finance is responsible for keeping accounting records. The organisation and management of accounting at the Ministry of Finance is governed by the Accounting Rules, No. 450-221/2017/1.

Funds in the amount of EUR 676,388.00 were originally planned for the implementation of the tasks of the Fiscal Council for 2021 (Official Gazette of the Republic of Slovenia [Uradni list RS], Nos 75/2019 – the Adopted Budget of the Republic of Slovenia for 2021 and 174/20 – the Amendments to the Budget of the Republic of Slovenia for 2021). Due to operational constraints as a consequence of the COVID-19 epidemic and on the basis of the letter from the Ministry of Finance No. 4103-1/2021/791 of 3 December 2021, proposals have been made to transfer the remaining balance to budget item 7640 – Reserve of the Republic of Slovenia. The transfers were made in accordance with Decisions of the Government of the Republic of Slovenia No. 41012-99/2021/2 of 17 December 2021 and No. 41012-101/2021/3 of 26 December 2021.

The adopted financial plan was thus reduced by EUR 166,500.00, specifically item 160001 – Salaries by EUR 16,600, item 160002 – Material costs by EUR 131,500.00, item 160003 – Investments and major maintenance by EUR 16,900, and item 200479 – Control of the COVID-19 epidemic by EUR 1,500.

As at 31 December 2021, the financial plan for 2021 thus totalled EUR 509,888.00. In 2021, a total of EUR 504,588.34 was spent, accounting for 74.6% of the adopted budget and 99.0% of the financial plan in force.

Notes on some major expenditure items of the Fiscal Council for 2021:

1) Salaries were calculated and paid in accordance with the provisions of the Public Sector Salary System Act (ZSPJS), the Fiscal Balance Act (ZUJF), the Public Employees Act, the Implementation of the Republic of Slovenia Budget for 2021 and 2022 Act (ZIPRS2122), the Act Regulating Salaries and Other Labour Costs in the Public Sector for 2020 and 2021 and on the Extraordinary Adjustment of Pensions, the provisions of the Collective Agreement for the Public Sector, the Collective Agreement in the Republic of Slovenia, Annexes to the Collective Agreement for Non-Commercial Activities in the Republic of Slovenia, and other regulations and internal acts of the Fiscal Council.

Holiday pay for 2021 was EUR 1,024.24 for public office holders (in accordance with the provisions of the Employment Relationships Act and the minimum wage for 2021 published in the Official

Gazette of the RS [Uradni list RS], No. 12/21) and EUR 1,050 for public employees (Annex to the Collective Agreement for Non-Commercial Activities published in the Official Gazette of the RS [Uradni list RS], No. 88/21).

Labour costs were higher in 2021 compared to 2020 due to the transfer of a public employee, higher overtime pay and performance-related bonuses for regular work. However, the payment of reimbursements for transport costs to and from work due to homeworking was lower compared to 2020.

For salaries and benefits, EUR 371,128.00 was allocated in the existing financial plan, which represents 72.79% of the total funds planned for 2021.

A total of EUR 369,869.72 was spent on the payment of salaries, other expenditure on employees and benefits, representing 99.66% of the planned funds for salaries and benefits, or 72.79% of the total funds spent.

Table 1: Fiscal Council expenditure

	2020 EUR	2021 EUR	share in total expenditure (%, 2021)
Expenditure on salaries and duties			
Salaries, supplements and other	286,548	296,040	58.7
Annual allowance	5,643	6,248	1.2
Restitutions, work-related bonuses	13,413	18,160	3.6
Social security contributions	44,528	46,785	9.3
Collective supplementary pension insurance according to ZKDPZJU	2,520	2,636	0.5
Total	352,653	369,869	73.3
Material expenditure			
Stationery and general goods and services	11,230	12,936	2.6
Special goods and services	1,127	355	0.1
Energy, water, communal services and communications	5,406	8,041	1.6
Transport costs and services	22	0	0.0
Expenses on business travel	3,885	0	0.0
Regular maintenance	2,313	2,987	0.6
Business rents	40,416	54,280	10.8
Other operative expenditure	61,168	55,380	11.0
Total	125,568	133,979	26.6
Expenditure on investment and investment maintainance			
Other means of transport	592	0	0.0
Hardware computer equipment	2,439	49	0.0
Telecommunication equipment	58	203	0.0
Audio-visual equipment	1,915	30	0.0
Intangibles (computer software)	1,798	457	0.1
Other equipment	1,109	0	0.0
Total	7,910	739	0.1
Total expenditure	**486,131**	**504,588**	**100.0**

Source: Notes to the Annual Financial Statement of the Budget of the Republic of Slovenia for 2020 and 2021.

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. 014-1/2017/1 as amended (hereinafter: the Agreement). In order to share a meeting room, on 8 July 2020, the Court of Audit and the Fiscal Council concluded a new Agreement on providing administrative and technical support and the sharing of premises and equipment No. 014-2/2020/1 as amended.

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. In 2021, EUR 54,826.82 was spent on administrative and technical assistance. The costs of administrative and technical assistance are recorded as "other operating expenditure".

In accordance with the agreement, the Court of Audit may use the meeting room on the business premises of the Fiscal Council, for which it pays the corresponding average daily usage fee, which amounts to a share of 11.09% per month of use, and for the first three months of 2021 it also used one office on the Fiscal Council's premises. The reimbursement for the use of the business premises in 2021 was EUR 1,213.07.

Under the "commercial rents and leases" account, the highest cost is the rent for the business premises at Likozarjeva ulica 3 in Ljubljana (EUR 50,267.91). The monthly rent for business premises is EUR 4,266.50. The Fiscal Council also covers the general costs of building management and common areas, which are determined by a special agreement. The meeting room at Likozarjeva 3 in Ljubljana is also used by the Court of Audit of the Republic of Slovenia by agreement between the two institutions.

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 2021 was EUR 500.00.

Table 2: Value of tanglible and intangible fixed assets in 2021

	Intangible assets	Immovable assets	Equipment and other tangible assets	Total
PURCHASE VALUE				
As at 1 January 2021	16,164	0	35,652	51,817
Direct acquisition	1,572	0	282	1,854
Removal – transfer	0	0	-145	-145
As at 31 December 2021	17,736	0	35,789	53,525
VALUE ADJUSTMENT				
As at 1 January 2021	8,586	0	28,760	37,347
Reduction of value due to exclusions or transfers			-145	-145
Value adjustment	3,286	0	2,309	5,595
As at 31 December 2021	11,873	0	30,924	42,796
RESIDUAL VALUE				
As at 31 December 2021	**5,863**	**0**	**4,866**	**10,729**

Source: Notes to the Annual Financial Statement of the Budget of the Republic of Slovenia for 2021.

3) For investments and major maintenance, EUR 2,150 in budget funds was allocated in the existing financial plan (EUR 2,100 under budget item 160003 – Investments and major maintenance and EUR 50 under budget item 200479 – Funds to tackle the COVID-19 epidemic), which represented 0.42% of total funds under the existing 2021 financial plan.

A total of EUR 739.21 was spent, which represents 34.38% realisation of the total funds for investment in the existing financial plan or 0.15% of total expenditure in 2021. Investment expenditure was financed from budget funds.

Investments in 2021 included:

- Matlab software update (EUR 457.20),
- mobile phones (EUR 203.00)
- camera (EUR 30.43)
- shelves (EUR 48.58).

Notes on some balance sheet items for 2021

As at 1 January 2021, the Fiscal Council also reported in its balance sheet outstanding expenditure in the amount of EUR 41,352.74, which was settled at the beginning of 2021. These included the following liabilities incurred in 2020, the documents for which were received in December 2020 and January 2021:

- the payment of salaries, benefits and the reimbursements of costs and the collective supplementary insurance premium for December 2020 in the amount of EUR 29,455.15;
- payments to suppliers for services rendered and materials supplied in the amount of EUR 7,359.84;
- services provided and calculated expenses of budget users in the amount of EUR 4,537.75.

As at 31 December 2021, 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.

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.

Two mobile phones with a book value of EUR 0 at the date of disposal were removed from the fixed asset register due to obsolescence. A part of the telecommunication equipment of T-2 d.o.o. was also removed from the off-balance-sheet records for the purpose of replacement. The value of the equipment as at 31 December 2020 was EUR 544.64, and as at 31 December 2021 it was EUR 454.85. As at 31 December 2021, the present value of intangible assets and tangible fixed assets was EUR 10,728.69.

As at 31 December 2021, the Fiscal Council reported in its balance sheet outstanding expenditure in the amount of EUR 47,918.58, which was carried over into 2022.

These claims relate to the following:

- short-term receivables from direct budget users amounting to EUR 64.53 (receivables from the Court of Audit for the use of the meeting room in November and December 2021);
- other short-term receivables amounting to EUR 588.42 (receivables from the Health Insurance Institute of Slovenia (ZZZS) arising from the calculated and paid sick leave for November and December 2021);
- outstanding current expenditure amounting to EUR 47,265.63 (which includes calculated and unpaid salaries, benefits, premiums for collective supplementary insurance for public employees and reimbursements of expenses for December 2021 amounting to EUR 30,661.30, services rendered and materials and equipment supplied, amounting to EUR 11,351.63, and services rendered to direct budget users amounting to EUR 5,252.70).

Outstanding expenditure shown in the balance sheet as at 31 December 2021 has fallen due for payment in 2022.

As at 31 December 2021, the Fiscal Council reported in its balance sheet short-term liabilities and accrued and deferred liability items in the amount of EUR 47,918.58, which will be paid in 2022.

These liabilities relate to the following:

- short-term liabilities to employees arising from salaries in the amount of EUR 26,494.05 (net salaries of EUR 15,772.50, employer contributions of EUR 5,688.76, liabilities from income tax prepayment of EUR 4,279.77 and other short-term liabilities to employees amounting to EUR 753.02 – separation allowance, meal allowance, travel allowance);
- short-term liabilities to suppliers in the amount of EUR 11,351.63 (for materials supplied and services provided in November and December 2021, of which EUR 371.47 relates to a commitment to purchase MS software licences);
- other short-term operating liabilities in the amount of EUR 4,167.25 (EUR 3,946.73 for the calculated employer contributions and EUR 220.52 for premiums for collective supplementary insurance for December 2021);
- short-term liabilities to users of the standard chart of accounts in the amount of EUR 5,252.70 (liabilities to the Court of Audit for administrative and technical services provided in December 2021);
- unpaid non-tax revenue of EUR 64.53 (relating to an invoice issued to the Court of Audit for the use of the meeting room in November and December 2021);
- accrued and deferred liability items in the amount of EUR 588.42 (relating to the calculated and paid sick leave for November and December 2021).

As at 31 December 2021, a general fund for intangible assets and tangible fixed assets totalling EUR 10,728.69 was shown on the Fiscal Council's books among own funds and long-term liabilities. The gross balance sheet also shows long-term operating liabilities from the purchase of Microsoft software for the period 2021–2023 totalling EUR 1,114.41 to be paid in three instalments. The first and second instalments fall due in 2022.

As at 31 December 2021, the Fiscal Council's books recorded off-balance-sheet equipment in a total amount of EUR 2,311.55, which 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 454.85, a Canon multifunctional device in the amount of EUR 1,506.70 and a water cooler and heater in the amount of EUR 350.00.

The Fiscal Council conducted an internal audit of its operations for 2021, which included audits of:

- the annual inventory of assets and liabilities for 2021;
- the legal basis for the annual inventory;
- procedures and decision-making regarding the write-off of assets;
- an overview of implementation by item and by account;
- for a selected sample, a review of other operating expenditure.

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 2021

4/2/2021

Fulfilment of conditions for the existence of exceptional circumstances in 2022

On 25 March 2021, pursuant to paragraph two of Article 12 of the Fiscal Rule Act the Government of the Republic of Slovenia communicated a decision of the 66th regular session of 24 March 2021 requesting the Fiscal Council to assess the existence of the exceptional circumstances in 2022.

The Fiscal Council notes that in 2022, given the available information and forecasts at the time of drafting this assessment, at least one of two conditions will be met which under Article 12 of the Fiscal Rule Act enable exceptional circumstances to be enforced and thus permit a deviation from the applicable rules within the measures aimed at mitigating the consequences of an unusual event, provided that this does not jeopardise the medium-term sustainability of the public finance. Such a finding is subject to uncertainty and may change in the future. The Fiscal Council will regularly check the fulfilment of the stated conditions for the enforcement of exceptional circumstances in the case of any updated macroeconomic forecasts or assessment of future budget documents.

4/19/2021

Assessment by the Fiscal Council: Assessment of budgetary documents for 2021–2024

In the current uncertain climate, deviations from the medium-term balance are permitted due to exceptional circumstances in accordance with the Fiscal Rule Act, provided that this does not endanger fiscal sustainability in the medium term. The projections for 2021 and 2022 in the submitted budget documents indicate an expansionary fiscal policy that is countercyclical according to currently available forecasts; however, certain measures that have already been adopted are also structural and will therefore burden future public finances. The anticipated worsening of the structural position in these two years is mostly the result of the increased investment activity of the state, which is to be financed only to a lesser extent by European funds. In the 2023–2024 period, the anticipated decrease in the headline deficit indicates a slightly more restrictive fiscal policy, which would be appropriate considering the current macroeconomic projections. In addition, for a certain part of expenditure, the projection is not realistic and its realisation would require the adoption of measures that are not presented in the submitted documents. The assumptions regarding the ability to obtain European funds are also quite optimistic. Up to and including 2024, more than three quarters of all grants available in the next ten years are expected to be spent. An increase in debt in a crisis is largely understandable, but the anticipated high nominal growth in debt would have to be efficiently used to strengthen economic potential. In this regard, it should be noted that, if debt is persistently high, this could additionally endanger fiscal sustainability in the long term, particularly considering the public finance challenges of population ageing and possible new shocks.

In October 2020 and April 2021, the Fiscal Council found that, according to the data available when the assessments for 2021 and 2022 were made, at least one of the two conditions laid down in the Fiscal Rule Act for invoking exceptional circumstances was met. The Fiscal Council stressed that these findings were not fixed and that it would regularly verify them each time budget documents are submitted. At the time of the preparation of the assessment of budget documents, the European Commission did not yet adopt the final decision to extend the activation of the general escape clause into 2022. It will adopt the decision on the basis of its own updated forecasts, taking into account the expected level of economic activity compared to pre-crisis levels. In its recommendations, the European Commission also mentions the possibility of differentiation in fiscal guidance to Member States after 2022, also based on long-term fiscal sustainability risks.

The submitted budget documents should outline the basic fiscal policy orientations for the following years and transparently show that their content is in compliance with the national Recovery and Resilience Plan. Despite the uncertainties about the future course of the epidemic, the harmonised documents should credibly indicate the path of public finances in the post-crisis period, supported with a significant part of the funding coming from the existing and new European mechanisms. Only on this basis, it would be possible to appropriately evaluate the projections of fiscal aggregates.

The fiscal projections in the proposed budget documents continue to be significantly marked by the impacts of measures to limit the consequences of the COVID-19 epidemic. In addition to the uncertainty about the future use of funding from European mechanisms, these measures are a major risk to macroeconomic and fiscal projections. The latter are based on the projected recovery in economic activity, whereby the pre-crisis level of GDP is expected to be reached in 2022. The current assessments of the cyclical position indicate a gradual closing of the output gap and a fairly rapid transition to a normal economic cycle.

The Fiscal Council verifies the compliance of submitted budget documents with fiscal rules for parts of general government accounts that are not directly related to the crisis and must be consistent with the position of the economy in the cycle. The Fiscal Council already advocated this approach when it assessed the fulfilment of conditions for invoking exceptional circumstances in March 2020.

The exclusion of the direct impact of COVID-related measures suggests a rather different picture from that presented in the headline projections. According to the headline projections, the total general government deficit in 2021 is expected to remain at the same level as last year despite the economic recovery. Without considering the direct impact of COVID-related measures, the state of public finances is expected to worsen considerably this year due to the high structural primary deficit. In addition to the projected significant growth in investment expenditure, to which European funds will contribute less than a fifth, this will be largely due to the adoption of discretionary measures which are not related to the epidemic and will impact the structural position of public finances in the following years. In the 2022–2024 period, without the impact of COVID-related measures and due to the positive contribution of the economic cycle, the deficit is expected to be gradually reduced. The Fiscal Council assesses that the projections are not entirely realistic, as their realisation would require the adoption of measures that are not outlined in the submitted documents.

These findings are also reflected in the assessment of the compliance of budget documents (the Stability Programme 2021 and the two ordinance proposals) with fiscal rules. Most indicators suggest non-compliance with fiscal rules. Deviations will be particularly significant in 2021 and 2022, when, in accordance with the European Commission's guidance, on the basis of invoking exceptional circumstances, deviations are possible only in the case of measures directly related to the crisis. In 2023 and 2024 when the conditions for invoking exceptional circumstances are expected to no longer be met, deviations from fiscal rules will be considerably smaller. However, this finding is largely related to the aforementioned doubts as to how realistic the fiscal projections for these two years really are. Assessments of compliance with fiscal rules are based on a wide range of indicators; nonetheless, due to the aforementioned uncertainties, it is necessary to take them into account with a certain degree of caution.

The Fiscal Council assesses that the measures adopted to limit the consequences of the epidemic were appropriately designed and comparable in extent to those in other EU Member States. However, in addition to the measures to limit the consequences of the epidemic, measures have been recently adopted or announced which, in the opinion of the Fiscal Council, worsen the structural position of public finances and reduce the room for manoeuvre for the implementation of fiscal policy in the years to come. Such measures are particularly inappropriate in the given situation, and the Fiscal Council calls on all stakeholders to refrain from adopting further structural measures that would additionally reduce this fiscal space. As part of measures to overcome the crisis, more targeted measures would need to be adopted, to a greater extent, to address economic agents that are actually entitled to assistance or incentives. The Fiscal Council believes that, in the current situation, it would be necessary to strengthen Slovenia's long-term economic position by taking economic policy measures and more appropriately address other challenges, including challenges in the area of social security that endanger fiscal sustainability in the long-term.

The fiscal policy should be particularly prudent in favourable financing conditions, which are mostly the result of a highly stimulative monetary policy. In the crisis, the debt again increased significantly and is expected to increase in nominal terms or remain at the level of 80% of GDP in the projection period. The relatively high level of debt due to increased sensitivity to changes in the variables that define debt may represent an additional source of instability in the conduct of economic policy in the upcoming years and does not provide fiscal space to deal with future shocks, which are more frequent due to greater global connectedness, and the challenges of long-term fiscal sustainability. According to the latest available forecasts, Slovenia will record one of the largest deficits at the end of the forecast period in 2024 compared to other EU Member States despite the anticipated gradual reduction in the deficit, which, however, is not based on entirely realistic assumptions. Accordingly, considering the possible withdrawal of monetary policy support measures over a longer period and in the light of the challenges posed by the expected cost of ageing to long-term fiscal sustainability, there may be a higher risk of an increase in borrowing costs.

5/13/2021

Report on the Fiscal Council's operation in 2020

The Fiscal Council has prepared a report on its operation in the past year, which it is obliged to submit, pursuant to the Fiscal Rule Act, to the National Assembly of the Republic of Slovenia by the end of May each year.

The Fiscal Council estimates that in 2020 all the obligations imposed by legislation were duly fulfilled in their entirety. In 2020, it carried out all the necessary assessments of budget documents. Furthermore, it monitored the response to the epidemic in the period of exceptional circumstances, in which using all the flexibility available under existing rules applicable in the case of an unusual event outside the control of the state is encouraged at the EU level. It strived to contribute to the transparency and to informing the public about the fiscal impact of the measures related to the epidemic. For this reason, it relied even more heavily than before on the qualitative assessment and evaluation of whether or not the measures to overcome the crisis can be effective and oriented towards actually resolving the issues related to the epidemic. In this regard, the temporary nature of such measures is important, meaning that their effect expires when the reasons for them subside.

Therefore, in 2020, the Fiscal Council repeatedly called upon stakeholders to avoid intervention measures that structurally worsen the state of public finances in the medium term.

The Fiscal Council began assessing compliance with fiscal rules in budget documents in the years of lively economic activity and fiscal nominal surpluses achieved in a relatively comfortable manner. Considering the epidemic and the significant decline in economic activity, the year 2020, to which this Fiscal Council report refers, is a clear turning point and a transition to a period of prolonged uncertainty due to exceptional circumstances caused by the pandemic. The year 2020 also marks a turning point in the economic policy response practiced in previous crises, both at the monetary policy level and in terms of the orientation of fiscal policy priorities in the EU during the crisis, together with the new aid instruments adopted. Thus far, the current fiscal rules have proven to be flexible enough to respond appropriately even in these changed circumstances, as they also allow for measures aimed at the recovery of economic activity. However, despite the temporary exemption from pursuing the medium-term balance in times of exceptional circumstances, they remain the main support of the fiscal policy in the medium and long term where decisions are made on which fiscal stability and, in turn, the well-being of the population now and in the future depends. Support in achieving both goals in the medium and long term is the guiding principle of the Fiscal Council's operations.

6/14/2021

Assessment by the Fiscal Council: Assessment of compliance of the general government budgets with the fiscal rules in 2020

In accordance with the provisions of the Fiscal Rule Act, the Fiscal Council issued its Assessment of compliance of the implemented budgets of the general government sector with the fiscal rules in 2020. At the outbreak of the epidemic in March 2020, the Fiscal Council confirmed that the situation allowed a period of exceptional circumstances to be invoked. Over this period, the fiscal rules apply but the legislation permits temporary action and deviation from achieving medium-term balancing of public finances for measures related to mitigating the consequences of such an event, provided that their medium-term sustainability is not compromised. The assessment of the rules during the period of exceptional circumstances was therefore carried out on the basis of indicators that are also used in normal circumstances. Despite increased flexibility in the application of fiscal rules, it must be ensured that, even in exceptional circumstances, government expenditure is consistent with the established budgetary frameworks.

According to the Fiscal Council, the fiscal rules were mostly complied with in 2020. The national rule referring to the maximum allowable level of 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 permitted 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 exceeded 0.25 pps of GDP according to current calculations, was exceeded due to the expansionary fiscal policy implemented in 2019. General government debt increased in 2020 contrary to the rules, which required it to decrease. The Fiscal Council did not assess the balance over the business cycle due to the temporary deviation from the medium-term balance permitted during a period of exceptional circumstances.

The framework for drawing up budgets was frequently and substantially adjusted and failed in its core function of setting the medium-term orientation of the fiscal policy. Last year it was amended twice, 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, including in terms of the current assessment of the output gap and one-off factors. Expenditure for individual public finance budgets, calculated using the cash flow methodology, were below the maximum permitted level of expenditure, considering the applicable budgetary framework.

Economic activity in 2020 was marked by a sharp drop. GDP declined by 5.5 %, which was less than expected at the start of the epidemic. A greater fall in GDP was prevented by an improvement in the epidemiological situation in the middle of the year, a successful adjustment of the economy to restrictive measures in the second wave of the epidemic at the end of the year and comprehensive measures to counter the impact of the epidemic on the economy. Together with the fall in economic activity and the functioning of automatic stabilisers, these also contributed to a general government deficit of 8.4 % of GDP, which was the second highest to date. Revenue decreased by 4.7% and expenditure increased by 14.9%. General government debt rose by 15.2 pps last year, reaching 80.8% of GDP at the end of the year. Approximately a quarter of this came from adjustments in balances and flows, mainly pre-financing of future borrowing, reflected in increased resources in the single treasury account of the general government.

The outbreak of the COVID-19 epidemic posed a major challenge for fiscal policy management, to which countries responded with large-scale measures, also because of 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 last year, 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, despite the fact that 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 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; in addition, estimates of the short-term impact of measures on unemployment point to similar effectiveness.

Effectiveness, correct targeting and transparency should remain fundamental guidelines even when measures are taken when exiting the crisis. If measures are not only temporary, then they must maximise economic potential. No measures were adopted in 2020 to mitigate the expected adverse fiscal impacts of structural, particularly demographic pressures to which the economy and public finances will be exposed in 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.

9/23/2021

Assessment by the Fiscal Council: Fulfilment of conditions for the existence of exceptional circumstances in 2022

The Fiscal Council assesses that, based on currently available information and forecasts, the conditions for the existence of exceptional circumstances will continue to be met in 2022. The existence of exceptional circumstances in 2022 only allows for flexibility in the conduct of fiscal policy to directly deal with the challenges brought by the epidemic, while its additional expansionary orientation is not justified according to the Fiscal Council's assessment based on the latest IMAD forecasts. In particular, exceptional circumstances should not be used for the adoption of measures reflecting the final stage of the political cycle. The continuation of exceptional circumstances in 2022 was recommended at EU level by the European Commission in June 2021, which also called for the differentiation of EU Member States' fiscal policies, taking into account differences in the stage of recovery of economic activity and the different risks to the medium- and long-term fiscal sustainability of each country. In this context, the Fiscal Council assesses that in Slovenia excessive fiscal policy support of economic growth based on significant deficits could create macroeconomic imbalances in the coming years, increase the possibilities for the inefficient use of public funds, reduce opportunities to create room for manoeuvre in bad times and make the transition to the correction mechanism process more difficult. Even only the optimal use of available EU grants, which does not worsen fiscal balance, would provide a major boost to economic growth. While the domestic economic situation is improving this year also as a result of support measures, and the outlook is favourable, the sustainability of the recovery is subject to a number of risks, many related to the further course of the epidemic. The recovery is also seen in the labour market, where some indicators already suggest constraints on the supply side. The Fiscal Council expects that, once none of the both conditions for invoking exceptional circumstances is met, the Government will adhere to the implementation of the correction mechanism in accordance with the legislation, ensure that structural measures are in place to prepare for future shocks, and adequately address the challenges to the long-term sustainability of public finances.

10/8/2021

Assessment by the Fiscal Council: Compliance of the draft Ordinance amending the Ordinance on the framework for the preparation of the general government budgets for the 2020–2022 period with the fiscal rules

The proposal of the amended Framework allows for additional fiscal stimulus, given that economic conditions are better than expected at the time when the current Framework was drawn up. A significant increase in expenditure in 2021 would set the stage for an inappropriate structural deterioration of public finances in the future.

According to the Fiscal Council, in a situation where exceptional circumstances have been approved, the proposed amendment to the Framework represents a continuation of inadequate planning, which is only partly justified by the uncertainties caused by the epidemic. The Fiscal Council assesses that the proposed Framework for the preparation of general government budgets for 2021 is based on the unrealistic projections of government revenue and expenditure until the end of this year. The proposed changes to the Framework are not accompanied by publicly presented budget documents which, according to the Fiscal Council, would increase the transparency of the 2021 Framework amendment process.

Compared to the Framework adopted in April this year, the proposed increase in general government expenditure by EUR 500 million and the state budget expenditure by EUR 670 million is the third increase in the expenditure ceiling for 2021. The ceiling has already increased by a total of EUR 3,640 million for the general government sector as a whole, including the first amendment in September 2020, and by EUR 4,535 million for the state budget. With the amendment to the 2021 Framework, expenditure not directly related to the epidemic has increased by approximately EUR 1.5 billion at the general government level and by approximately EUR 1.7 billion at the state budget level.

In its assessments of budget documents during the period of exceptional circumstances, the Fiscal Council's focus is on assessing the realism of the projections, excluding the direct effect of COVID-related measures in the analysis. Quantitative assessments of compliance with fiscal rules in the period of exceptional circumstances are only indicative, recognising the considerable uncertainty as to the reliability of the calculations of the key parameters entering the calculation. The excessive increase in general government expenditure in 2021 is indicated both by calculations based on the domestic statutory fiscal rule and by alternative indicators of fiscal policy stance. In this context, the Fiscal Council notes that while a limited fiscal stimulus is still warranted in the current cyclical environment, the fiscal policy should be more geared towards strengthening the resilience of the economy and increasing long-term economic potential rather than towards increasing current expenditure.

In addition to more systemic and transparent solutions for current expenditure, where spending has partly spiralled out of control during the epidemic, a better planned and efficient use of investment expenditure should also be the basis for ensuring sustainable economic growth and sustainable public finances. During the period of exceptional circumstances, the revised budget for 2020 started to plan investment spending even more optimistically than in the past. While this has in the past been typical of the planning of European funds, it has also recently become characteristic of domestically funded projects. We believe that the contribution of domestic funds to public investment financing should be more closely aligned with cyclical conditions and the absorption capacities of both the economy and the administration. As early as last year, when the 2020 revised budget was being drafted, the level of state budget expenditure was set at an unrealistically high level. Given that the projection for 2021 and 2022 was also made on this basis, this high level of expenditure is carried over into the following years. As a result, the estimates of the budget documents for the coming years are again not based on appropriate bases. This opens up room for excessive public spending and, in many cases, also for the structural deterioration of public finances. Avoiding the latter is particularly necessary in view of the fact that financing conditions are unlikely to remain as favourable as those currently provided by monetary policy and also in view of the fact that, at the same time, the fiscal outcomes will increasingly reflect the negative effects of an ageing population and the costs tackling climate change.

In our view, the frameworks for the preparation of general government budgets continue to be applied inadequately and do not serve the primary purpose. According to the Fiscal Rule Act (FRA), the framework should provide the basis for medium-term budget planning and the basis for counter-cyclical fiscal policy. Even in the years preceding the epidemic, the values in the frameworks changed frequently and mostly only for one year, which does not correspond to the purpose of a multi-annual framework. The present proposal for the 2021 amendment is the third amendment over a period of one year, which is partly understandable in view of the uncertain conditions brought about by the epidemic. However, since the beginning of the epidemic, the changes to the frameworks under the approved exceptional circumstances have been substantial. The lack of understanding of the framework instrument as a counter-cyclical fiscal policy tool is also indicated by the arguments put forward at the presentation of the latest budget documents that the forecasts of higher economic growth and, consequently, higher government revenues justify further increases in the expenditure ceilings.

10/18/2021

Assessment by the Fiscal Council: Assessment of budgetary documents for 2022 and 2023

The proposed budget documents set out an additionally stimulative fiscal policy for the coming years, over and above that included in the documents currently in force, although there are already signs of overheating in the economy, with supply-side constraints emerging. This increases the risk that the temporary exceptional increase in public spending, which was largely justified because of the epidemic, could turn into a structural and thus permanent deterioration of public finances. Fiscal policy should, to a greater extent than indicated in the budget documents, strike a balance between the need to create room for manoeuvre to cope with future crises, effective strengthening of long-term economic potential and resilience, and short-term economy boosting.

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The epidemic and the measures put in place to mitigate its effects are a key reason for the significant deterioration in public finances both last and this year. The measures imposed were similar to those in other countries and largely in line with the guidelines that they should be temporary and aimed at addressing the immediate effects of the epidemic. The large-scale package, amounting to around 5% of GDP per year, has made an important contribution to cushioning the fall in economic activity last year and to supporting the recovery this year. Nevertheless, the measures have revealed certain shortcomings, which also point to systemic weaknesses in the allocation of the otherwise large public funds available in a situation that allows budget users too much spending discretion.

The general government deficit, excluding expenditure on COVID-19 measures, is expected to increase significantly both this year and next as a result of expenditure growth. The projected increase in public investment contributes to this to a lesser extent than the increase in current expenditure, which should be limited in the face of a sharp increase in public debt due to the crisis. The deficit in 2023 is projected to be more than 3% of GDP if the budget documents materialise.

The growth in current expenditure, excluding measures to mitigate the effect of the epidemic and investments, is expected to be well above the long-term average this year and next. The proposed expenditure levels in 2022, following the expected lower actual outturn this year, will show higher growth than would be justified by the legislation currently in force. Such fiscal planning opens the way for measures to be taken in the final phase of the policy cycle, which could lead to inefficient spending or a structural deterioration of the public finances. The planned deficit reduction in 2023 will be mainly due to the projected reduction in current expenditure growth, despite the insufficient presentation of the measures to ensure this. Growth in this expenditure in 2023 is projected to be well below the long-term average. While the high investment spending is to be retained, the projection of very low increase in compensation of employees and the unchanged level of expenditure on social benefits stand out in particular. Indicative estimates suggest that, if all plans are implemented, general government expenditure will remain above the level allowed by the fiscal rules in 2022. In 2023, the projected levels are partly appropriate, but with insufficiently specified policies for that year.

If well targeted and implemented effectively, public investments can make an important contribution to kick-starting the economy in the short term and to building resilience and increasing economic potential in the long term. According to the submitted budget plans, the level of general government investment is set to rise to around 6.5% of GDP over the next two years, which is well above its highest level ever. The decrease in the outturn estimate for this year confirms the Fiscal Council's previous assessment that the plans in this area exceed the absorption capacity of the economy and the administration. If plans are to be implemented in full, the risk of inefficient project implementation and also of creating macroeconomic imbalances increases. The Fiscal Council assesses that it would make sense to give priority to projects financed by EU grants, where control over the efficiency of spending is also stricter. The domestically-funded investments should, however, be more closely aligned with cyclical conditions and the absorption capacities of the economy.

The excessive general government debt is only expected to decline in line with the rules in 2023 and 2024, remaining well above the 60% of GDP threshold. The favourable macroeconomic outlook and the high liquidity of the state budget, combined with more moderate expenditure growth than currently projected, would allow for a faster reduction of debt without jeopardising the economic recovery. The level of debt achieved and the increased possibility of a reversal of the highly accommodative monetary policy, which is a key contributor to the current low financing costs, suggest that in future there will be no additional room for fiscal policy created based on lowering interest expenditure.

Macroeconomic risks are predominantly concentrated on the downside, which, in addition to the epidemic, is mainly related to institutional and logistical constraints in international trade, which are currently also reflected in high prices of commodities. Risks to the realisation of the fiscal scenario are more balanced mainly due to the probably overestimated investment projections as well as current spending.

In September 2021, the Fiscal Council assessed that, based on currently available information and forecasts, the conditions for the existence of exceptional circumstances will continue to be met in 2022. The Fiscal Council expects that, once none of the conditions for invoking exceptional circumstances is met any longer, the Government will immediately adhere to the implementation of the correction mechanism in accordance with the legislation.

Annex 3: Glossary

Automatic stabilisers:
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.

Budget balance:
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.

Cyclical component of budget balance:
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.

Discretionary fiscal policy:
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.

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

Draft budgetary plan:
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.

Excessive Deficit Procedure:
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.

Expenditure rules:
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.

Fiscal consolidation:
An improvement in the budget balance through measures of discretionary fiscal policy.

<u>General government:</u>
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/.

<u>Maastricht reference values for public debt and deficits:</u>
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).

<u>Maximum expenditure:</u>
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.

<u>Medium-term budgetary framework:</u>
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).

<u>Medium-term budgetary objective (MTO):</u>
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.

<u>Minimum benchmarks:</u>
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.

<u>Neutral fiscal policy:</u>
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.

<u>One-off and temporary measures:</u>
Government measures and transactions having a transitory budgetary effect that does not lead to a sustained change in the budgetary position.

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

Potential GDP:
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.

Primary budget balance:
The budget balance net of interest payments on general government debt.

Primary structural budget balance:
The structural budget balance net of interest payments.

Pro-cyclical fiscal policy:
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.

Public debt:
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.

Significant deviations:
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.

Stability and Growth Pact (SGP):
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.

Stability programme:
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.