Speech by the President of the Fiscal Council at the consideration of the proposed amended budget of the Republic of Slovenia for 2023 (19 November 2022)

Budgetary planning is a process that involves many uncertainties but that should nevertheless give a credible indication of the medium-term path of public finances and the risks involved. The 2023 budget should be based on realistic 2022 bases to pursue this objective. The state budget deficit amounted to only EUR 280 million in the first ten months of the year; excluding measures to mitigate the effects of the epidemic and inflation, it shows a surplus of EUR 470 million. This outturn and the adopted revised state budget for 2022 indicate that a deficit of as much as EUR 1.8 billion is expected in the last two months of the year, of which EUR 1.2 billion is unrelated to measures to mitigate the effects of the epidemic and inflation. We are therefore talking about an implicit assumption of a significant deterioration in the fiscal situation at the end of the year. Against a backdrop of significant increases in investment, current transfers to social security funds and in labour costs, transfers to individuals and households and expenditure on goods and services are even expected to drop year-on-year in the last two months of the year. The outturn up to and including October thus confirms the Fiscal Council's assessment that the revised budget for 2022 did not provide an adequate basis for the preparation of the 2023 and 2024 budget documents. Therefore, despite signs of a deterioration in the economic situation in the third quarter, the state budget outturn in 2022 is likely to be more favourable than projected in the revised budget due to an overestimation of expenditure.

So what does this mean for the planning of the budget components for 2023? In view of the above, the assumed expenditure in the 2022 revised budget, which is significantly too high, provides an inappropriate basis for making assumptions about expenditure levels in 2023. The basic components of each proposed budget amendment are the levels of revenue and expenditure. If the proposed levels of the components forming the basis for the 2023 budget amendments are adopted, the overestimation of expenditure in the 2022 revised budget will create ample room for manoeuvre for additional spending in 2023, against an already high estimated budget reserve. The creation of such wide room for expenditure – at least EUR 500 million in the Fiscal Council's estimate – seemingly also reduces the impact of measures which were adopted after the entry into force of the revised budget but have had effect on the fiscal outturn already in 2022.

After this introduction on the bases for planning the 2023 budget, please allow me to say a few words on the main principles of budgeting that the Fiscal Council supports in principle, namely flexibility, investment and current spending, and their application in the proposed amended budget.

The flexibility of budget implementation in 2023 is ensured by a substantial budget reserve of EUR 2.5 billion. As much as EUR 1.2 billion of the reserve in 2023 is earmarked for inflation mitigation measures, which have not been determined yet. This reserve is roughly twice as high as the impact on the state budget of all the measures taken so far. Because it is unlikely that inflation mitigation measures will be needed only this winter, these funds need to be handled particularly rationally and be strictly targeted. As an example of a deviation from strictly dedicated spending, the draft Act on Healthcare Emergency Measures to Contain the Spread of the COVID-19 Communicable Disease and Mitigate its Consequences in the Health Sector should be highlighted. The Fiscal Council assesses that the draft act continues the practice of adopting intervention legislation not necessarily directly linked to the situation it addresses. This may suggest the risk that intervention legislation to mitigate the effects of inflation will also contain provisions that are not directly related to the energy crisis.

Investment is again planned at record levels, although the outturn over at least the past three years has confirmed our assessment that plans exceed the absorption capacity of the administration and of the economy. Next year, state budget investment is expected to account for 4.0% of GDP and the general government 7.0% of GDP. This is almost double the long-term average, the highest among EU Member States and far above the EU average according to the European Commission's autumn forecasts.

The growth in current spending, i.e. expenditure excluding the effect of one-off measures, investment and interest, is projected at around 6% per year over the next two years. This growth in current spending is largely due to the extensive discretionary measures taken after the budget was enacted last autumn. In our estimation, these measures will worsen the state of public finances by about 2% of GDP per year, acting on both the revenues and expenditure sides. The risks of even higher growth in current spending are considerable and are further increased, notably in the area of wages, also as a result of the discretionary measures adopted in the last year.

My discussion in the introduction to this presentation of the Fiscal Council's opinion on the 2023 budget, which is of course based in 2022, was mainly aimed at pointing out the unrealistic budget planning for the current year and for next year. This is not the first time we are witnessing it – indeed it has been a characteristic occurrence in the last few years.

This planning is largely inconsistent with the European Commission's communication on orientations for a reform of the EU economic governance framework published last week. The envisaged changes give an important role to credible budget plans for a minimum of four years, which the Fiscal Council believes should receive much more attention from the Government in the future. Otherwise, if the European Commission's current proposal were to be adopted, the country would face prolonged, stricter scrutiny on public finance management, financial penalties and, in the worst case scenario, adverse reactions from international financial markets. Only stability and independence in the management of public finances can ensure lasting and sustainable prosperity.