

## Speech by the President of the Fiscal Council on the presentation of the assessment of the draft ordinance amending the ordinance on the Framework for the Preparation of the General Government Budgets for the 2022–2024 period at the National Assembly of the Republic of Slovenia (21 October 2022)

Both of my regular addresses today include the Fiscal Council's explanations following and reactions to the Government's position presented by the minister. By definition, the Framework for the Preparation of the General Government Budgets sets out the basic outlines of budgetary planning. The Fiscal Council's assessment of the present – fourth – proposed revision of the 2022–2024 framework is again indicative only, as exceptional circumstances will still be in place in 2023. The assessment is also indicative due to methodological challenges, which are partly related to determining the cyclical position of the economy, an important input for setting expenditure ceilings. In this assessment, we were also confronted with a high level of expenditures, which are shown in the draft state budget under the item “reserve”. There is no such item in the context of the general government balance sheets, so the Ministry of Finance has to allocate them to selected spending categories without a proper basis. In addition, it is not known whether the exceptional circumstances will still apply in 2024. The reform of economic governance in the EU, and possible changes to fiscal rules in this context, is another unknown.

The proposed level of general government expenditure in 2024, when, according to currently available information, exceptional circumstances will not apply, is within the range of estimates of the ceiling. The latter is determined on the basis of the set of output gap estimates that we regularly use to prepare our assessments. However, in our estimation, the expenditure in that year is probably underestimated, which I will explain in the next item on the agenda. Insofar as the exceptional circumstances conditions would not be met in 2022 and 2023, the proposed expenditure ceilings would be above the range of estimates of expenditure ceilings. This confirms that the existing national legislative framework allows considerable flexibility in the conduct of fiscal policy in times of stress and uncertainty. This time, however, the proposed ceiling increases are the highest ever. There is also a large difference between the proposed increase for the general government sector and the sum of the proposed ceilings of the individual public finance budgets, which is probably partly due to the large transfers between the individual budgets.

This time, the amendments to the otherwise three-year framework are looking towards changes to the ceilings for 2023 and 2024, while the ceiling for 2022 was recently amended in the revised budget. This is a continuation of the practice of inadequate medium-term planning where the ceilings are changed on a year-by-year basis. The main purpose of the introduction of the three-year framework instrument by the Fiscal Rule Act was to establish credible medium-term planning. This has so far been ignored by economic policymakers. At least since the beginning of the epidemic, frequent and incomplete changes to the framework have been argued for on the basis of increased uncertainty. Despite the uncertainties, it is important to note – as the European Commission, the IMF and other institutions have done – that credible medium-term planning at a time when public debt has risen significantly is an important guarantee that those who finance this debt do not demand a higher rate of return on it because of the increased risks.