

## Speech by the President of the Fiscal Council at the meeting of the Finance Committee, 29 August 2023

The Fiscal Council, assessing the draft second revised state budget for 2023, concludes that the changes in the draft revised state budget are reasonable in view of the reason for the current revision. Although the financial impact of the natural disaster is currently unknown, the draft revised state budget for 2023 is the first step in the budgetary financing aimed at addressing the large financial impact of the floods. The impact will be much more clearly reflected in the autumn draft budget documents for 2024 and 2025. These should include damage assessments and estimates of the effects of the Government's recovery measures.

The changes of EUR 220 million in terms of expenditure under the reserve item, and of EUR 300 million in the financial assets and liabilities account do not change the assessment already made by the Fiscal Council on the first revision of this year's budget in May. There it highlighted in particular the expansionary fiscal policy stance in a year in which exceptional circumstances are still in place.

In our first assessment of this year's revised budget, we also stressed that this year's budget is oversized. The data on budget outturn over the first seven months confirm this. The data suggest that expenditure in particular is likely to have been overestimated and that the budget deficit could therefore be lower than foreseen in budgetary plans this year. In order to realise the planned deficit, the deficit in the last five months of the year would have to be almost double the deficit generated in the whole of 2022.

In particular, the Fiscal Council, in its current assessment of the revised budget, draws attention to the need for transparent and credible planning and implementation of the measures needed to recover from the floods. In principle, a large-scale natural disaster is a "one-off event", which is not taken into account in the calculation of the indicators of compliance with the fiscal rules; this is not, however, necessarily the case for all measures. The need for transparency applies in particular in the case of the establishment of an extra-budgetary flood relief fund that would be part of the general government sector. The same applies to already existing budgetary funds that could be a source of flood relief financing and for which no regular publications on their operation are available.

Also, with a stronger role for the state in assistance and recovery, it is necessary to limit the moral hazard, including by raising private sector awareness of property insurance. The funds currently available to Slovenia, in particular from various EU sources, are namely unlikely to be available at such high levels in the coming decades.

Recognising the need for emergency measures, these measures should also be well targeted while ensuring the efficient use of public money and preventing any misuse of public funds as far as possible. In future budget documents, the Government will also need to address challenges that were not adequately addressed before the natural disaster. Delaying action in these areas also affects the sustainability of public finances in the medium term.