

## Speech delivered by the President of the Fiscal Council, Davorin Kračun, at the meeting of the Commission for Public Financial Control (5 October 2023)

The basis for the preparation, analysis and discussion of the budget documents for the next two years, which will take place in the next few weeks, has changed significantly since the adoption of the Stability Programme in the spring.

First, a significant revision of the national accounts data for last year shows that the recovery after the end of the epidemic may not have been as pronounced as initially thought. While revisions of statistical data are a normal procedure, this one resulted in the biggest change ever. Even over a longer period, the changes in data after revisions for Slovenia largely exceed those in other EU countries. Institutions involved in economic policymaking, analysis and forecasting require a comprehensive set of data that are as stable as possible. The scope of this revision requires, in the opinion of the Fiscal Council, certain efforts to improve the quality of statistical publications.

Second, according to the latest IMAD forecast, the macroeconomic outlook is deteriorating. Economic growth in the baseline scenario is projected to be lower in the coming years as amended compared to the years before the outbreak of the epidemic. Against this background, downside risks prevail, requiring a high degree of caution in the preparation of budget documents and economic policymaking.

Third, the general escape clause, which allowed considerable room for manoeuvre for fiscal policy between 2020 and 2023, expires next year. This room was used for very extensive measures to mitigate the effects of the epidemic and the cost-of-living crisis, which were often, however, not targeted well enough. At the same time, a number of discretionary measures of a structural nature, unrelated to the crises and with explicitly negative consequences for the sustainability of public finances, have been taken throughout the period since the start of the epidemic. This has raised the expectations of the population and the economy about fiscal policy options, which are largely unrealistic with regard to the numerous challenges which we face. The activation of the fiscal rules from next year will renew the focus on the sustainability of public finances and may help to contain these expectations.

Fourth, recovery from the meteorological disaster poses a major and additional challenge to public finances. Action must therefore be based on a credible assessment of the damage and the implementation of recovery measures must be targeted and transparent.

The government's fiscal position is slightly worse this year than in the same period last year. The higher core general government deficit, which does not take into account the direct impact of the intervention measures, is the result of lower revenue growth in the context of slowing demand, on the one hand, and higher expenditure, mainly due to higher labour costs linked to last year's agreement on wage increases and a higher transfer to the health insurance fund, on the other. In this context it should be noted that the higher deficit was forecast in the budget documents.

Before discussing the budget documents for the next two years, it is important to reiterate the importance of credible budget planning. The second revised budget for this year, adopted in August, is a continuation of the inadequate practice we have witnessed since at least 2020. In the absence of fiscal rules, public spending in particular is repeatedly planned at unrealistically high levels when drafting budget documents. This year, this translates into the possibility of a EUR 2.4 billion state budget deficit in the last three months of the year, which would be around

EUR 1 billion more than in the total of last year. Such planning is unrealistic; it raises stakeholder expectations which are then difficult to manage. It allows measures to be introduced after the adoption of budget documents, which might put at risk the sustainability of public finances and does not provide an adequate basis for future planning.

I would also like to inform you that on 29 September, the Fiscal Council received a proposal for an Amendment to the Decree on the Drafting of Budgets for the General Government Sector, as well as a proposal for amendments to the State Budget for 2024 and the proposal for the State Budget for 2025 from the Ministry of Finance. This marks the start of the 15-day deadline set by the Public Finance Act for the preparation of the assessment of the Framework, and the Fiscal Council has until 20 October to prepare its assessment of the draft national budget. The updated data for the assessment were received by the Fiscal Council by yesterday, 4 October, but are not yet complete. In particular, we lack the ESA projections for the general government sector for 2025, which the Fiscal Council, in accordance with the Fiscal Rule Act, needs to assess compliance with the fiscal rules in the draft national budget for that year.