

## Speech by the President of the Fiscal Council at the meeting of the Committee on Finance on 17 November 2023

The budget planning for 2025, together with the amended budget proposal, mirrors the majority of the shortcomings that the Fiscal Council has been drawing attention to since at least the beginning of the COVID-19 epidemic. Despite the uncertainties which relate in particular to the estimated costs of the flood damage and the methods of their financing, the Government should prepare a credible no-policy-change scenario. This would unequivocally indicate a room available for fiscal policy manoeuvre and consequently define the scope of measures that need to be taken to address both the short-term and long-term fiscal challenges.

Nevertheless, the planning in the submitted budgetary documents is inadequate and does not allow for confidence. The adoption of and changes to additional measures during the budgetary process have further enhanced the uncertainty. Some such measures are indeed case associated with the flood recovery and demonstrate a lack of consideration before their introduction, such as the introduction and subsequent elimination of the solidarity levy. Such action has introduced additional uncertainty into an already uncertain economic environment and could trigger an unpredictable reaction from economic agents. However, the budgetary proposal was also followed by measures unrelated to flood relief.

This way of preparing budgetary documents indicates, among other things, the ineffectiveness of budgetary planning. It also requires explanations as to whether and how additional measures, such as a change in the amount of the solidarity levy, are excluded from the amendment to the budget proposal which is under your consideration, or whether they have been included therein at all. This also applies to the lump sum grants to municipalities, which differ from that envisaged in the proposed Act Regulating the Implementation of the Budgets of the Republic of Slovenia for 2024 and 2025. The aforementioned and the possible additional measures result in a change to the budget proposal. After all, despite the unchanged total revenues and expenses, a change in the budget structure by itself can result in a change in macroeconomic trends and forecasts, which are the basis for the preparation of budgets and which also impact other budgetary items. Such impacts cannot be perceived when examining the amended budget proposal for 2025, which further reduces its credibility.

The decisions adopted by the Government yesterday regarding the indexation of social transfers and salaries, relief from the payment of the contribution for renewable energy sources and the search for solutions regarding taking into consideration the mandatory health insurance contribution in the income tax base confirm the aforementioned claims. Before today's debate on the amended budget proposal for 2025 and tomorrow's debate on the amendment to the 2024 budget, the Government should present the expected fiscal effects of the additional measures adopted. This is, however, not possible due to their impact on macroeconomic bases. Therefore, the budget documents that have been evaluated by the Fiscal Council and presented to you for consideration today are irrelevant, and such behaviour by the Government is intolerable and inappropriate from the viewpoint of credible budgetary planning.

In conclusion, I repeat another key finding of our evaluation of the budget documents for 2024 and 2025, namely that the Fiscal Council could not assess compliance with the fiscal rules for 2025 as required by the Fiscal Rule Act. The documents submitted to the Fiscal Council by the Government were incomplete since the projections for the general government sector failed to include those for 2025. In the amended EU economic governance framework, medium-term

budget planning should play a key role and should cover a period of at least four years. The limitation of projections to only two years in advance, in addition to being inconsistent with the applicable national legislation, causes concerns from this point of view as well.