Speech by the President of the Fiscal Council at the meeting of the Committee on Finance (23 October 2023)

We note similar shortcomings in both the documents that you are considering today as we have been noting for the last few years. We highlight a lack of comprehensiveness and credibility of the projections as problematic. The criterion of medium-term budgeting and addressing long-term fiscal challenges is also not met.

First, comprehensiveness.

The documentation submitted by the Government to the Fiscal Council is not comprehensive. In fact, the general government sector projections do not include 2025, which has prevented an assessment of compliance with fiscal rules in that year, as required by the Fiscal Rule Act.

Consideration of comprehensive budgetary documents would contribute significantly to understanding the overall fiscal picture. The state budget in a given year is the result of the Government's fiscal position in previous years and of economic policy measures in previous years and in the current year. In order to consider the 2025 budget, it would therefore be essential to consider the budgets for at least 2024. Although this will be the subject of a meeting of this Committee in less than a month's time, let me mention today that even the adequacy of the draft amending budget for 2024 cannot be established without a credible assessment of the 2023 budget outturn.

Secondly, authenticity or rather credibility.

The term authenticity (note: Slovenian translation of credibility ("verodostojnost") can be authenticity or credibility and was conquered in the MoF response to Fiscal Council's assessment) is, of course, not used in a legal sense, but as denoting something that is trustworthy. The Fiscal Council considers that the Draft Budget for 2025 lacks credibility again, as has been the case for the last few years. This uncertainty cannot be a reason for less credible projections. In our view, it is precisely because of the high uncertainty that the Government should present projections based on a no-policy-change scenario, which does not include the direct impact of intervention measures. This does not require the preparation of any measures but should be based on the legislation currently in force and on known measures. This would be a prerequisite for identifying room for manoeuvre both in the context of post-flood recovery and for designing measures that would ultimately address the longer-term challenges.

In particular, the projections for transfers to individuals and households and transfers to social security funds are considered to be underestimated in the Draft Budget 2025. The proposed budget suggests a virtual stagnation for both these categories. However, the alignment of transfers with inflation and of pensions according to the statutory formula and the increasing negative impact of the abolition of complementary health insurance would imply higher growth than projected. On the revenue side, we view as overly optimistic in particular the projection of growth in personal income tax revenue, which is markedly above the projected improvement of respective macroeconomic basis.

The estimates of post-flood reconstruction costs should also be credible and presented in a transparent manner. In the budgets for the coming years, reconstruction costs and financing will undoubtedly play an important role. However, a proper definition of the scope and of the financing sources will only be possible on the basis of credible cost estimates. In the context of post-flood reconstruction, the Government should, due to the supply-side constraints, avoid measures that would reduce the effectiveness of its own actions, such as measures to curb the high cost of living. These may also increase inequality in income distribution through inappropriate targeting, while at the same time the Government should avoid measures that are not appropriate in the light of the cyclical position of the economy.

Third, medium-term budgeting.

It is worth noting that, even in the period 2024–2026, to which the proposed revision of the framework refers, the fiscal rules do not require any cuts in public spending. They only require that spending growth is consistent with sustainable public finances. A deviation from this requirement is implied by both domestic and EU rules. According to the current domestic fiscal rule, total general government expenditure could increase by around 3.4% in 2024, while the growth rate proposed in the budget documents is 5.4%. This implies an overspending of around EUR 700 million or around one percent of GDP. Spending, based on the European Commission's indicator, could also increase in 2024, by 5.5%. According to this criterion and the budget documents, it is expected to increase by 7.5% in 2024.

When assessing budget documents, the Fiscal Council is obliged to take into account the Fiscal Rule Act. Although it is not ideal, it is in force and should be respected. In this context, fiscal rules are not seen as a static category, but as a guarantee for fiscal sustainability in the long term.

The consequences of the absence of fiscal rules, or of a bindingly set up medium-term framework, have been clearly demonstrated by the consequences of discretionary action, unrelated to crises, since the beginning of the epidemic. In this period, a number of measures have been adopted that increase the public deficit each year by at least around 1.5% of GDP. Such actions reduce the room for manoeuvre of fiscal policy, make it more difficult to comply with fiscal rules and, of course, increase fiscal sustainability risks. In addition, they further raise the expectations of various social groups and trigger new demands for action that are becoming increasingly difficult to manage.

The framework for the preparation of general government budgets for the 2024–2026 period is once again being amended for only one year, thus not playing the role it should in the context of medium-term budgeting. It therefore remains, in effect, a statutory formalism rather than an anchor for medium-term fiscal policy. Such a treatment of the framework is also worrying because it is precisely medium-term budgeting that is supposed to be the cornerstone of a revised system of economic governance in the EU.

And fourth, long-term sustainability.

The budget documents again fail to address the long-term fiscal challenges. Decision-makers should be more aware of the risks that could threaten fiscal sustainability in the future. Our simulations show that in the absence of action, public debt dynamics could become unsustainable already in the next decade. This should also be a warning against an excessively short-term focusing of economic policy, which, by delaying action, could lead to significant negative long-term consequences for public finances and thus for economic stability. At the same time, such debt sustainability analysis results should encourage decision-makers to think carefully about what we as a country can afford to provide and how to do it from the perspective of fiscal sustainability.