Speech by the President of the Fiscal Council at the meeting of the Committee on Finance on 18 November 2023

The period of exceptional circumstances, which began with the outbreak of the epidemic in March 2020, is about to finish at the end of 2023. The structural position of public finances has deteriorated in this period in both Slovenia and according to the European Fiscal Board, also at the EU level. Since an agreement on the reformed economic governance framework at the EU level has not yet been adopted, the existing rules should be formally re-enacted in 2024. In the spring of 2023, the European Commission advised against the use of the current rules in its 2024 fiscal policy guidelines, but, for the first time since the onset of the epidemic, it issued quantitative recommendations to the Member States. In view of the high risks to fiscal sustainability, it recommends that, in 2024, Slovenia should start consolidation with a structural effort of at least 0.5% of GDP and ensure growth in "core" spending of not higher than 5.5%.

The fundamental difference in the Fiscal Council's and the Government's assessment of the adequacy of fiscal policy stems from the manner exceptional events are taken into account. The Government uses these effects in its calculations selectively as one-off factors that are excluded from the assessment, while the Fiscal Council treats them in a coherent manner. According to the Fiscal Council, the budget proposal for 2024 does not meet the requirements of domestic legislation and the recommendations of the European Commission. In terms of content, this is primarily the result of a large number of discretionary measures that have been adopted in the past few years and are increasingly burdening public finances. We find the adopted fiscal policy to be expansionary and stimulative. This does not correspond to the cyclical situation of the economy, nor is it consistent with a tighter monetary policy, and may thus be contributing to more persistent high inflation. Again, I must clearly stress that these conclusions are independent of the planned post-flood recovery measures, which will, later in the discussion, probably be (again inadequately) highlighted as a key factor in the expenditure and deficit level that are set too high.

The conclusion of an inadequately stimulative-oriented fiscal policy for 2024 is even more appropriate considering that this year's spending excluding intervention measures will not reach the anticipated levels. This is already quite clear two months before the end of the year. The increase in government budget expenditure in the first ten months of this year was around 10%, and is in order to reach annual estimates set to increase year-on-year by almost one half, while the deficit could reach as much as EUR 2.0 billion over the remaining two months of the year. In the current budgetary plan discussions, government representatives continued to assess the lagging behind the unrealistically high envisaged expenditure level as positive. Here is a simple example: We give a child a ten euro banknote to buy bread that costs two euros. The child also buys some ice cream for two euros. We would certainly not commend the child for returning to us a change of only six euros.

Overestimated plans increase the risk of an irrational and non-transparent increase in expenditure. A concrete example from the budget proposal we are now discussing is the following. Taking into account the officially assessed outturn for this year and that proposed for 2024, it follows that, next year, government budget expenditure should increase by only about 1% excluding intervention measures. However, taking into account a more realistic, i.e. lower estimate of the expenditure level for this year, the proposed budget that is about to be adopted allows an over 10% increase in "core" expenditure next year. This would not be in line with the current legislation and would again be above the long-term average and approximately twice the currently estimated economic potential growth.

This growth rate could be even higher as a result of the measures taken during the budget adoption process and not included in the current budget proposal. I already spoke yesterday about the inadmissibility and inappropriateness of this manner of budget preparation from the viewpoint of credible budget planning.

Incomplete and insufficiently credible budget documents, the search for various bypasses, selective displays – all with a view to creating the impression of accounting compliance with fiscal rules – demonstrate a lack of understanding of the fundamental purpose of these rules. Decision-makers and economic policy holders should be aware that fiscal sustainability is in Slovenia's own interest, independent of its EU commitments. It can only be achieved by adequately addressing long-term challenges. Fiscal sustainability is, among other things, a condition for using the ECB's emergency instrument, which is intended to help the Member States that are facing difficulties in accessing markets. At the same time, fiscal sustainability will play a fundamental role in the EU's economic governance framework in the future and is a key factor in convincing the financial markets to fund a country's development policies under acceptable conditions.