Speech of the President of the Fiscal Council on the presentation of the Assessment of the Ordinance amending the Ordinance on a framework for the preparation of the general government budgets for the 2020–2022 period at the National Assembly of the Republic of Slovenia (3 November 2021)

Ladies and Gentlemen,

According to the Fiscal Council, the proposed amendment to the Framework for the 2020–2022 period, which only concerns 2021, includes many elements of inadequate planning in a situation, where exceptional circumstances have been invoked and which is only partly justified by the uncertainties caused by the epidemic.

The proposed changes to the Framework have not been accompanied by publicly presented budget documents which, according to the Fiscal Council, would increase the transparency of the Framework amendment process. Thus, in the process of drafting the assessment of the proposed Framework amendment, Fiscal Council obtained additional documents from the Government, which enabled it to draw up a comprehensive assessment.

I want to reiterate that the Fiscal Council only prepares indicative assessments of compliance with fiscal rules in a period of exceptional circumstances. We recognise the considerable uncertainty as to the reliability of the calculations of key parameters in the quantitative assessment.

We assess that the proposed amendment to the Framework for the preparation of general government budgets for 2021 is based on unrealistic projections of government revenue and expenditure until the end of this year. It is expected that the actual state budget expenditure for the entire year will be lower than anticipated in the amended Framework. This could also result in a lower deficit. Without taking into account the direct effect of COVID-related measures, expenditure in the first ten months of this year was 7.5% higher than in the same period last year, and it follows from the Ministry of Finance's estimate of the outturn that its growth is expected to rise to 43.5% year on year in the last two months of this year. Similar unrealistic figures are obtained if the expected high investment spending is excluded (from 5.0% growth in ten months to 31.8% growth in the last two months of the year).

As early as last year, when the 2020 revised budget was being drafted, the level of state budget expenditure was set at an unrealistically high level. Given that the projection for 2021 and 2022 was also made on this basis, this high level of expenditure is carried from the preceding year onto the following years. I have previously addressed this issue, when examining the framework for the 2022–2024 period. As a result, the estimates of the budget documents for the coming years are again not based on appropriate bases. One issue is that this opens up room for excessive public spending and thus increases the risk for a structural deterioration of public finances.

The proposed 2021 increase in general government expenditure by EUR 500 million and the increase in state budget expenditure by EUR 670 million, compared to the framework adopted in April this year, is the third increase in the expenditure ceiling for 2021. It follows from the explanatory note accompanying the amendment to the Framework that the increase in the expenditure ceiling compared to April is mainly due to the adoption of two additional laws for mitigating the consequences of the COVID-19 epidemic. At the time of their adoption, their total financial effect was estimated at EUR 300 million, while their outturn by the end of October amounted to EUR 88 million. Also the difference between EUR 670 million and EUR 300 million is neither transparently explained in the explanatory note nor supported by quantitative estimates.

Based on a detailed comparison between the 2021 budget adopted in October 2020 and the assessed realisation from September 2021, the Fiscal Council assesses that the key reason for an additional increase in expenditure ceiling is not explicitly stated in the explanatory note. According to our estimates, the key reason for the proposed increase are employee benefits, which partially spiralled out of control during the epidemic. These amounted to over EUR 900 million from the beginning of the epidemic in March last year to the end of September this year, of which about EUR 700 million was paid in the first ten months of this year. It should be noted that this is the single most substantial measure adopted under the anti-crisis legislation.

In addition to more systemic and transparent solutions for current expenditure, a better planned and efficient use of investment funds should also be the basis for ensuring sustainable economic growth and sustainable public finances. During the period of exceptional circumstances, the revised budget for 2020 started to plan investment spending even more optimistically than in the past. While, in the past, this had been typical only of the planning for EU funds, it has also recently become characteristic of domestically funded projects. In its explanation of reasons for the increase in the Framework, the Government states that it is important not to deviate from the anticipated dynamics of investment projects. At the same time, it also acknowledges that there are delays in their implementation, which result in actual expenditure being lower than the commitment appropriations. Thus, the assessment of the achievement of the state budget envisages investment spending to be lower by about EUR 400 million than the spending envisaged by the adopted budget for 2021.

The current Framework amendment supports our previous assessments that the frameworks for the preparation of general government budgets continue to fail to serve their primary purpose. According to the Fiscal Rule Act (FRA), the framework should provide the basis for medium-term budget planning and the basis for counter-cyclical fiscal policy. Even in the years preceding the epidemic, the values in the frameworks changed too frequently and mostly only for one year, which is contrary to the mission of a multi-annual framework.

Allow me to conclude. We believe that, given the current Framework and given that economic conditions are better than expected at the time when the current Framework was drawn up, the proposal for the amended Framework allows for additional fiscal stimulus. In this context, we note that while a fiscal stimulus is, to a certain extent, still warranted in the current environment, fiscal policy should be geared more towards strengthening the resilience of the economy and increasing long-term economic potential rather than towards increasing current expenditure.

A significant increase in expenditure in 2021 would set the stage for a structural deterioration of public finances in the future. This is supported by the act proposals that are being discussed by the National Assembly. The proposed act on long-term care postpones the decision regarding the systemic source of financing to 2024 or 2025. According to all model simulations carried out by the Fiscal Council, the proposed amendments to personal income tax would have a long-lasting negative impact on public finance. We believe that a proposal with such far-reaching consequences for general government revenue should be accompanied by measures that would neutralise these effects. In addition, a third extraordinary indexation of pensions in last three years has now been proposed, which puts public finances under additional permanent pressure. Again, no measures have been introduced to ensure the sustainable financing of the pension insurance fund.

Thus, the proposed Framework and individual measures expose Slovenia to great risks. Financing conditions will probably not remain as favourable as they are now due to the current monetary policy. At the same time, the fiscal outcomes will increasingly reflect the negative effects of an ageing population and the costs of tackling climate change.