REPUBLIC OF SLOVENIA
**FISCAL COUNCIL**

# Report on the Fiscal Council's operations in 2023

May 2024

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# FOREWORD

The year 2023 was quite favourable in macroeconomic terms. Economic growth was close to the long-term average, employment was high and unemployment was at a record low. Inflation started to ease in the second half of the year, although it remains high and above the euro area average.

With exceptional circumstances still in place until the end of the year, fiscal policy seemingly had more room for manoeuvre in 2023 and remained expansionary despite favourable macroeconomic trends. While the general government deficit was smaller than projected, this is more evidence of the weaknesses in fiscal planning that the Fiscal Council has consistently pointed out, than of austerity. In particular, fiscal planning is flawed in terms of including oversized investment plans, which exceed the absorption capacity of the administration and providers and which, in addition to inefficiencies, can lead to irrational decisions.

The relatively favourable macroeconomic context has not been sufficiently used to strengthen fiscal sustainability. The deficit is projected to be higher in 2024 than the outturn in 2023. Government debt increased in nominal terms last year and declined in relative terms, mainly due to inflation-driven growth in nominal economic activity. Moreover, key challenges to the sustainability of public finances were not addressed in the previous year either.

Demands for public sector wage increases represent the biggest short-term risk to public finances. The various partial agreements adopted in recent years have generated asymmetries that have made the existing system unstable. It is therefore necessary to establish a new system that is stable, meets generally accepted notions of fairness and should not significantly exceed the average share of GDP in recent years in terms of expenditure. Above all, the solution must also be linked to efficiency and accessibility for users – tax and contribution payers.

The state budget is allocating increasing amounts of transfers to cover the requirements of the health and pension funds. While this was understandable in times of lower economic activity, the current high level of employment in Slovenia should allow not only for covering current needs but also for building up reserves for periods when revenues will be lower. Longer life expectancy is one of the greatest gains of civilisation, but it comes at a price, which is also reflected in rising public expenditure. Given the level of public debt and the normalisation of the monetary policy stance, and thus of financing conditions, it is necessary to take into account the constraints imposed by the long-term sustainability of public finances.

Public social protection systems need to maintain a balance between revenues and expenditures, in addition to ensuring a dignified old age. This implies, among other things, the need to extend the period during which an individual makes contributions to public funds as life expectancy increases. Otherwise, increases in contributions become inevitable. The healthcare problem is the biggest challenge facing public action and is only partly related to public finances. It covers a wide range of problems, from the organisation of work and institutions, to purchasing and investment, to issues of compulsory and voluntary insurance. Solutions to the problems of pensions should encourage recognition of the need to save for old age among as wide a population as possible and promote a pension system in which citizens see their individual interest. The latter would also be facilitated by the closest possible link between contributions paid and pension rights at the individual level, which would, among other things, eliminate the moral hazard of avoiding paying the appropriate contributions.

The last year of the agreed exceptional circumstances and the need to return to a functioning system of economic governance in the EU have run parallel to the process of adopting new fiscal rules. These are primarily aimed at ensuring medium- and long-term sustainability of public debt in a way that allows for individual adjustment paths by Member States. It is important that the EU and its Member States maintain their position as a reliable partner in financial markets through credible rules. The EU's ability to enforce the new rules is the best basis for investor confidence and thus for unhindered financing across the EU. The new rules will also require legislative adaptation in Slovenia.

The Fiscal Council thanks all stakeholders for their fruitful cooperation. The Fiscal Council will continue to consistently pursue its mission to monitor and warn about the sustainability of public finances in the medium and longer term. Here the main tool remains the power of argumentation. In particular, the public presence of the Fiscal Council, facilitated by the media, ensures that the general public can follow independent views on fiscal policy. In this way, the Fiscal Council creates indirect pressure on democratically elected decision-makers, while at the same time we also strive to support these decision -makers to take fiscally sustainable decisions through our assessments.

May 2024

Dr Davorin Kračun

President of the Fiscal Council

## 1. The operation of the Fiscal Council in 2023

The Fiscal Rule Act,[1] adopted in July 2015 by the National Assembly of the Republic of Slovenia (hereinafter: the National Assembly), constitutes the basis for the establishment and operation of the Fiscal Council. The Fiscal Rule Act defines, *inter alia*, the tasks, composition and method of operation of the Fiscal Council. Its members were appointed by a constitutional majority in the National Assembly for a five-year term of office on 21 March 2017, when the Fiscal Council began its work. Thus, in 2022, five years after the Fiscal Council started its work, the existing members of the Fiscal Council were reconfirmed for a new five-year term after the expiry of their first term of office. In accordance with Article 10 of the Fiscal Rule Act, the Fiscal Council is required to submit an annual report on its work to the National Assembly for consideration by the end of May each year for the previous year. The Fiscal Council drew up its first annual report for 2017 in May 2018. The present report covers the main aspects of the operation of the Fiscal Council in 2023.

### 1.1 The composition and operation of the Fiscal Council

The Fiscal Council is an independent and autonomous state authority that assesses the appropriateness of the planned and implemented fiscal policy, i.e. its compliance with statutory fiscal rules. It is accountable solely to the National Assembly, which approves and may replace its members, who are otherwise appointed for a five-year term of office. The autonomy of this authority is an essential condition for the provision of opinions that are not subject to political developments each time a new government takes office. This is facilitated by the two-thirds majority vote of all Members of the National Assembly required for the appointment of the Fiscal Council's members and the autonomous management of the funds allocated from the state budget.[2] In budget planning, the Fiscal Council itself proposes the funds it needs for its operation in accordance with the Fiscal Rule Act. The autonomy of and strong analytical support for the Fiscal Council's opinions are essential for its credible and autonomous operation. The guiding principle in the formulation of the Fiscal Council's opinions on public finances is a focus on the medium and long term, as only long-term stable and sustainable public finances can provide the basis for economic development and thus for the well-being of the population.

The tasks of the Fiscal Council are defined by the Fiscal Rule Act. They are linked above all to assessing the adequacy of budget documents, which must ensure compliance with statutory fiscal rules and fiscal stability in the medium term. The Fiscal Council also assesses whether exceptional circumstances that justify a deviation from the medium-term fiscal balance have arisen and when they cease to exist. The full range of the Fiscal Council's tasks is described in Article 7 of the Fiscal Rule Act. In addition to the Fiscal Rule Act, the Act Amending the Public Finance Act[3] of February 2018 imposed on the Fiscal Council the task of assessing the bias of past macroeconomic forecasts that represented the basis for preparing budget documents. The Decree amending the Decree on development planning documents and procedures for the preparation of the central government budget of May 2018[4] imposes on the Fiscal Council the biennial task of subsequently assessing the general government sector's revenue and expenditure forecast. Considering the transitional periods laid down by law, the

[1] https://www.fs-rs.si/wp-content/uploads/2018/02/ZFisP_EN.pdf

[2] For more information on operating costs and selected components of the Fiscal Council's 2023 balance sheet, see Annex 1.

[3] https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2018-01-0544?sop=2018-01-0544 (Only in Slovene)

[4] https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2018-01-1754?sop=2018-01-1754 (Only in Slovene)

**Table 1.1: Annual schedule of releases by Fiscal Council and by other institutions**

| | week 1 | week 2 | week 3 | week 4 |
|---|---|---|---|---|
| January | **FC: Monthly information** | | | |
| February | | **FC: Public Finance and Macroeconomic Dev.** | *SORS: National Accounts* | |
| March | **FC: Monthly information**<br>*IMAD: macro projection* | | | *SORS: General Govt Accounts* |
| April | **FC: Monthly information**<br>*MoF: draft SP* | **FC: assess SP/FR** | | |
| May | **FC: Monthly information** | | *SORS: National Accounts*<br>*EC: assess SP/CSR* | **FC: Annual Report** |
| June | **FC: Monthly information** | | | *SORS: General Govt Accounts*<br>**FC: assess previous year** |
| July | | **FC: Public Finance and Macroeconomic Dev.** | | |
| August | | | *SORS: National Accounts* | |
| September | **FC: Monthly information**<br>*IMAD: macro projection* | | | *SORS: General Govt Accounts*<br>*MoF: FR* |
| October | **FC: Monthly information** | *MoF: SB, FR, DBP* | *SORS: EDP*<br>**FC: assess FR/SB/DBP** | |
| November | **FC: Monthly information** | *EC: assess DBP* | *SORS: National Accounts* | |
| December | **FC: Monthly information** | | | *SORS: General Govt Accounts* |

*Note: This scheme shows the time aspect of Fiscal Council regular publication releases (in red) during a calendar year. It is based on current schedule of budgetary document adoption. Due to change in economic governance in the EU and subsequent expected changes in FRA the annual schedule of releases by Fiscal Council is likely to change in the future. Fiscal Council may publish assessments which are not mandated by law outside this schedule. Abbreviations: CSR: Country Specific Recommendation, DBP: Draft Budgetary Plan, EDP: Excessive Deficit Procedure Report, FR: Framework, SB: State Budget, SP: Stability Programme. In August 2020, the Fiscal Council published for the first time an analysis of deviations of forecasts of macroeconomic and fiscal aggregates. In accordance with legislation, this analysis must be prepared every two years, however, the legislation does not prescribe a deadline within an individual calendar year.*

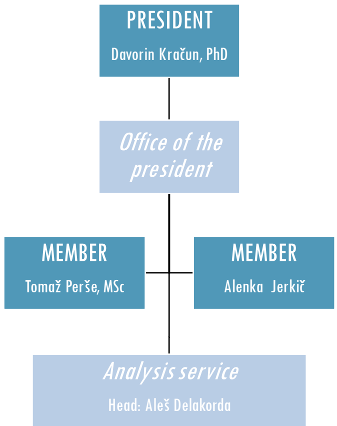
*Source: Fiscal Council.*

Fiscal Council prepared the first estimate of past forecasts for the first time in 2020 and the second estimate in 2022, in line with the legal constraints, on a reduced scale. The analysis prepared in 2024[5] will be similarly limited.

The Fiscal Council is composed of three members, i.e. a chair and two members. The Fiscal Council members are elected for a term of five years but for no more than two consecutive terms. Article 8 of the Fiscal Rule Act lays down that the function of a member of the Fiscal Council shall be incompatible with holding a public office and activities of managing, supervising or representing direct and indirect spending units of the budgets of the general government sector. After the expiry of the first term of office (2017–2022), all three existing members of the Fiscal Council had their term reconfirmed in March 2022 for a new five-year period.

[5] Article 33 of the Act Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic (ZDLGPE), adopted at the end of April 2020, stipulates that "...Notwithstanding paragraph one of Article 9g of the Public Finance Act (ZJF), the Fiscal Council shall not take into account macroeconomic aggregates and revenue and expenditure forecasts for 2020 and 2021 in its analysis."

**Figure 1.1: Organizational chart of the Fiscal Council**




*Source: Fiscal Council.*

The President represents the Fiscal Council and organises and manages its work. In accordance with the provisions of Article 10 of the Fiscal Rule Act, the President of the Fiscal Council shall be employed with the Fiscal Council for at least 50% of full-time employment. Currently, the President of the Fiscal Council is employed full-time with the Fiscal Council and the two members for 50% of full-time employment each.

The Rules of Procedure of the Fiscal Council, which were published in the Official Gazette of the Republic of Slovenia [*Uradni list RS*], No 26/2017,[6] define the organisation and method of the Fiscal Council's work. The Fiscal Council usually meets once per week at closed sessions to discuss the current macroeconomic and fiscal developments and, inter alia, to decide on the publication of its opinions, press releases and documents.

Four public employees are employed by the Fiscal Council. This is the maximum number of employees as laid down by paragraph five of Article 10 of the Fiscal Rule Act. The public employees provide administrative and expert support to the Fiscal Council's members. The staffing of expert services was completed in October 2017 and remained unchanged in 2023. One public employee works in the President's office and performs administrative and organisational tasks, and three public employees work in the Analysis Service.

In accordance with paragraph six of Article 10 of the Fiscal Rule Act, administrative and technical tasks (tasks related to staffing, information technology, accounting, public relations, etc.) for the Fiscal Council are performed by the services of the Court of Audit of the Republic of Slovenia (hereinafter: the Court of Audit), where the Fiscal Council's premises were located until April 2020. Due to changes in the Court of Audit's spatial requirements, the Fiscal Council began to look for new rental premises in which to perform its activities in 2019. The Court of Audit assisted the Fiscal Council in this process by looking for appropriate premises at the Ministry of Public Administration, but the Ministry was unable to provide such premises. The Fiscal Council moved to its new rented premises at Likozarjeva ulica 3 in Ljubljana in April 2020 and has been operating there since then. In agreement with the Fiscal Council,

[6] https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2017-01-1384?sop=2017-01-1384 1384 (Only in Slovene)

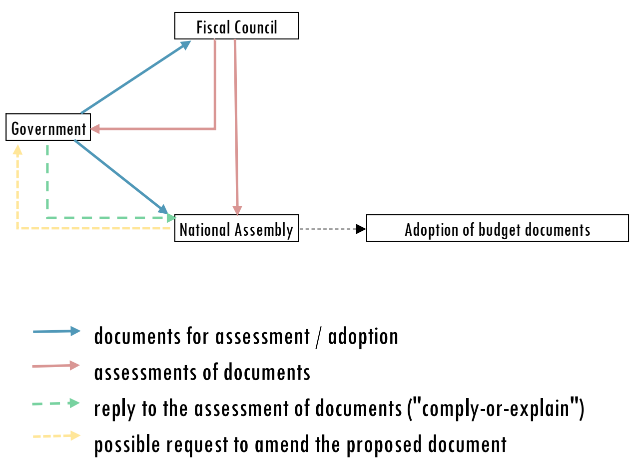
part of the premises is also used for the needs of the Court of Audit, which, also at the new location, provides administrative and technical support to the Fiscal Council under the Fiscal Policy Act.

The Analysis Service provides expert assistance to the Fiscal Council's members. It regularly monitors and analyses macroeconomic and fiscal developments in Slovenia and abroad and prepares working documents for the members and expert groundwork for their opinions. The Analysis Service's priority tasks in 2023 included, in particular, monitoring the fiscal effects of measures to prevent the effects of the COVID-19 epidemic, the cost-of-living crisis, the flood recovery measures, the management and expansion of databases, and the maintenance and upgrading of process automation, analysing changes to the EU economic governance framework, upgrading tools for analysing cyclical and fiscal trends, participating in two DG REFORM (European Commission) projects, managing the Fiscal Council's presence on the social network X, and producing regular and special Fiscal Council publications.

## 1.2 The main guidelines for the Fiscal Council's operation in 2023

In 2023, the Fiscal Council operated within the framework of its regular annual operating cycle, which was updated with new analyses and publications after the outbreak of the epidemic. The schedule of the annual cycle is broadly defined by the Fiscal Rule Act and the Act Amending the Public Finance Act and specifically by the procedure for preparing budget documents and by the publication of important macroeconomic and fiscal data. In addition to the statutory tasks, the Fiscal Council also publishes analysis of current macroeconomic and, in particular, fiscal developments, as well as technical analyses in the broader field of public finances, which also form the basis for the Fiscal Council's assessments. The existing legislation, particularly Articles 12–14 of the Fiscal Rule Act, also determines Fiscal Council actions in the event of exceptional circumstances, such as an epidemic. Thus, in March 2020, the Fiscal Council identified the existence of exceptional circumstances to support increased fiscal policy flexibility during the period of the epidemic and, also in 2023, regularly monitored and published the fiscal effects of the measures taken to limit the impact of the epidemic, the measures related to the cost-of-living crisis and the measures related to the flood recovery.

**Figure 1.2: Relations between the Fiscal Council, the Government and the National Assembly during the process of adoption of budget documents**




*Source: Fiscal Council.*

It also made significant changes to its publications to address the new situation, distinguishing between the analysis of aggregate fiscal data and the analysis of data that did not include the effects of the various interventionist fiscal measures taken to limit the impact of extreme events. Thus, in January 2021, it started publishing its regular Monthly Information, which presents current developments in the State budget alongside the ongoing monitoring of the public finance implications related to the epidemic, the cost-of-living crisis and the floods. The Fiscal Rule Act does not explicitly prescribe the monitoring and publication of such data, but, in the Fiscal Council's opinion, this was necessary to ensure transparency, on the one hand, and on the other, to analyse on an ongoing basis the credibility of the budget documents prepared by the Government in the period of exceptional circumstances and their compliance with the applicable fiscal rules. The Fiscal Council continued the preparation of this publication, which attracted considerable public interest, in 2023.

To support its operations, the Fiscal Council has concluded cooperation agreements with the Institute of Macroeconomic Analysis and Development (hereinafter: IMAD) and the Ministry of Finance.[7] The Fiscal Council is the only public institution in Slovenia with a legal limit on the number of civil servants and has one of the smallest staffing levels compared to similar institutions operating in other EU countries. This is one of the reasons why paragraph seven of Article 10 of the Fiscal Rule Act also provides for the possibility of concluding cooperation agreements with institutional units of the general government sector, which are obliged under this Act to provide the Fiscal Council with all the information, analyses and data they have at their disposal. The two agreements (with the IMAD and the Ministry of Finance) define the data and documents that the two institutions have to provide to the Fiscal Council and the time limits for their provision.

In 2023, the Fiscal Council met with representatives of the domestic institutions on several occasions. The cooperation agreements concluded with the IMAD and the Ministry of Finance also include a provision on holding regular meetings at the technical level for the purpose of informing the Fiscal Council of the current macroeconomic and fiscal developments and forecasts. The Fiscal Council's Analysis Service held meetings at the technical level with the representatives of the two institutions on a regular basis in 2023.

For the purposes of its operations, the Fiscal Council also needs data and information that are not available to the public. In 2023, for the purposes of making analyses and providing opinions, the Fiscal Council, in accordance with the Fiscal Rule Act, requested data and information from the Agency of the Republic of Slovenia for Public Legal Records and Related Services, the Ministry of Labour, Family, Social Affairs and Equal Opportunities, the Ministry of Public Administration, the Ministry of Agriculture, Forestry and Food, the Ministry of Natural Resources and Spatial Planning, the Ministry of the Environment, Climate and Energy, the Ministry of Higher Education, Science and Innovation, the Ministry of Education, the Ministry of Health, the Administration of the Republic of Slovenia for Civil Protection and Disaster Relief, the Office of the Republic of Slovenia for Recovery and Resilience, the Employment Service of Slovenia, the Health Insurance Institute of Slovenia, and the Pension and Disability Insurance Institute of Slovenia, with which it does not otherwise have a cooperation agreement in place.

[7] Both agreements are published on the Fiscal Council's website: https://www.fs-rs.si/fiscal-council/co-operation/ (Only in Slovene)

## 2. The Fiscal Council's opinions and the Government's responses in 2023

While the main part of the Fiscal Council's work in 2023 related to the tasks set out in the Fiscal Rule Act, a large part of its tasks was also devoted to other topics, both because of the extensive government action in areas that justified maintaining a period of exceptional circumstances (COVID-19, the cost-of-living crisis, floods) and because of the reform of the economic governance system in the EU. It should be noted that paragraph four of Article 7 of the Fiscal Policy Act requires the Government of the Republic of Slovenia (hereinafter: the Government) to respond to the Fiscal Council's opinions which are required by the Act. The Government must draw up a written reasoned opinion on the assessments of the Fiscal Council and submit it to the National Assembly. This is the "comply-or-explain" principle laid down in EU law in Directive 2011/85/EU. The drafting of written reasoned opinions by the Government increases the transparency of its operations, while its failure to adhere to Fiscal Council recommendations increases its political responsibility in the conduct of public fiscal policies.

The President of the Fiscal Council met twice with the Minister of Finance in 2023 (in May and September).

The Fiscal Council made the following assessments in accordance with the Fiscal Policy Act in 2023:[8]

– On 17 April 2023, it submitted to the National Assembly and the Government the Fiscal Council's Assessment of the compliance of fiscal policies with fiscal rules on the basis of the draft Stability Programme 2023 and the proposed Ordinance on the framework for the preparation of the general government budget for the 2024–2026 period (as required in point 1 of paragraph two of Article 7 of the Fiscal Rule Act);

– On 8 May 2023, it submitted to the National Assembly and the Government the Assessment of compliance of the Revised Budget of the Republic of Slovenia for 2023 with fiscal rules (as required in point 2 of paragraph two of Article 7 of the Fiscal Rule Act);

– On 18 May 2023, it submitted to the National Assembly the Report on the Fiscal Council's operation in 2022 (as required in point 8 of Article 10 of the Fiscal Rule Act);

– On 13 June 2023, it submitted to the National Assembly and the Government the Assessment by the Fiscal Council of the compliance of the implemented general government budgets with fiscal rules in 2022 (as required in point 4 of paragraph two of Article 7 of the Fiscal Rule Act);

– On 25 August 2023, it submitted to the National Assembly and the Government the Assessment of compliance of the Revised Budget of the Republic of Slovenia for 2023 with fiscal rules (as required in point 2 of paragraph two of Article 7 of the Fiscal Rule Act);

– – On 16 October 2023, it submitted to the National Assembly and the Government the Assessment of the compliance of the proposed Ordinance amending the Ordinance on the framework for the preparation of the general government budget for the 2022–2024 period, the proposed Ordinance amending the Ordinance on the framework for the preparation of the general government budget for the 2024–2026 period, the proposed revised budget of the Republic of Slovenia for 2024 and the proposed budget of the Republic of Slovenia for 2025 with fiscal rules (as laid down in point 2 of paragraph two of Article 7 of the Fiscal Rule Act).

[8] Annex 2 contains a summary of the assessments of the Fiscal Council from 2023.

In addition to the assessments required under the Fiscal Rule Act, in 2023 the Fiscal Council prepared the following assessments and opinions:

– On 6 February 2023, it published its regular publication Fiscal and Macroeconomic Trends;

– On 6 March 2023, it published an analysis of the simulations of government sector debt with regard to the proposed EU economic governance reform;

– On 6 March 2023, it published an analysis of the medium-term fiscal framework in light of the proposed changes to the EU economic governance;

– On 13 July 2023, it published its regular publication Fiscal and Macroeconomic Trends;

– It published eight editions of the publication Monthly Information.

In its assessments of the budget documents in 2023, the Fiscal Council mainly noted that they projected revenue growth that largely stemmed from the relatively favourable macroeconomic environment. The high tax base was thus, in the Fiscal Council's view, a result of the increased economic activity, due considerably to the expansionary fiscal policy, and of the contribution of the higher inflation also related to excess demand. It also noted that the Government's fiscal position was largely influenced by the adopted discretionary structural measures which at the time of the application of exceptional circumstances were not directly related to limiting the impact of the epidemic. The adoption of these measures significantly limited the room for manoeuvre for fiscal policy and reinforced expectations about its future performance. In the assessment of the Fiscal Council, additional fiscal policy incentives were not necessary, given the fiscal situation and the current assessment of the cyclical position, as well as, despite the uncertainty, the still favourable macroeconomic outlook, as they increase the risks of more significant imbalances. The fiscal policy's main aims should be to ensure sustainable growth of current expenditure, to respond in an appropriate manner to development challenges and to strengthen the economy's resilience with efficient investments financed, to the greatest possible extent, with a higher amount of available European funding. In this context, the Fiscal Council concluded that additional fiscal incentives, in the proposed budget documents mainly in the form of a further increase in the already high level of investment, were not necessary or appropriate in the given circumstances and expected economic trends. At the same time, the estimates of projections in the submitted budget documents were made more difficult as their basis was unrealistically set in the 2023 revised budget. As a consequence, and due to the high budgetary reserve, the likelihood of higher-than-projected growth rates of government expenditure in 2024 in particular has increased.

In accordance with the legislation, the Government responded to the Fiscal Council's assessments for 2023 with publicly available written explanations.[9] In particular, the Government stressed the uncertainty about the performance of fiscal policy in times of an epidemic, cost-of-living crisis and floods, the period of exceptional circumstances still in place in 2023, and the unreliability of the parameters used for calculating the estimates of compliance with the fiscal rules. Moreover, the Government emphasised that due to the uncertain situation, budgetary reserves were being created in budget documents to cope with a possible worsening of the cost-of-living situation. In its responses, the Government also mentioned the development orientation of the budgets, reflected in high investments, also as a consequence of the simultaneous availability of funds from several EU sources, and the possibility of changing project schedules according to the submitted plans.

[9] All government opinions are also apublished on the Fiscal Council's website at the time of each assessment of the budget documents.

## 3. The Fiscal Council and the National Assembly

The Fiscal Council's cooperation with the legislative branch of government is extremely important. As an independent institution providing impartial analyses of economic and fiscal trends, the Fiscal Council provides direct support to the National Assembly's decisions on budget guidelines and public finance topics. In accordance with its mandate, the Fiscal Council in its work relies deliberately on a positive analysis and does not provide regulatory opinions on specific fiscal measures and laws. This orientation allows the Fiscal Council to maintain its status of impartiality while at the same time ensures the apolitical nature of its operation.

The Fiscal Council also submits its assessments of budget documents and fiscal trends to the Government for response and to the National Assembly for consideration or for assistance in the adoption of budget documents. Accordingly, the Fiscal Council also takes part in the meetings held by the Committee on Finance, where it presents and explains its opinions and weighs them against those of the Government. If opinions on budget documents are provided, the Government must respond to them by explaining how such opinions will be taken into account or why they will not be taken into account (the "comply-or-explain" rule).

In 2023, the Fiscal Council's representatives attended eight meetings of the Committee on Finance and five meetings of the National Assembly's Commission for Public Finance Control.

In May, the President of the Fiscal Council met with the Chair of the Committee on Finance of the National Assembly of the Republic of Slovenia.

In 2023, the legislation concerning the Fiscal Council's operation remained unchanged.

## 4. The Fiscal Council's contact with the media

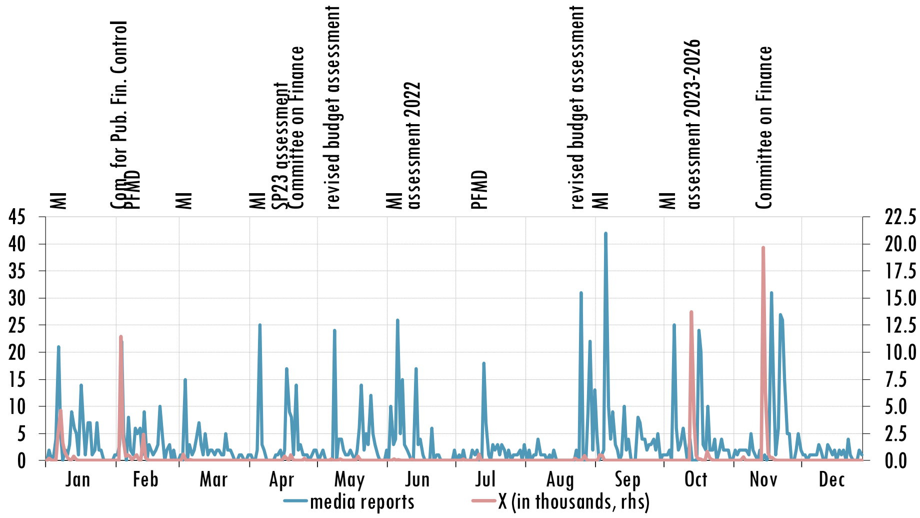
Communicating with the media and informing the general public of their findings is one of the key tasks of independent fiscal institutions. Since the Fiscal Council merely provides opinions on budget documents that the Government is not obliged to take into account (only the “comply-or-explain” principle applies), it can only have an indirect impact on fiscal policy. Therefore, its task is primarily to raise the awareness of the general public, public opinion-makers and other stakeholders of the importance of ensuring a sustainable fiscal policy in the long term. The establishment of credibility, i.e. public confidence in the Fiscal Council's analyses and opinions, is a prerequisite for its views to be taken into account in public debates.

In 2023, the Fiscal Council continued to inform the public of its work by publishing recommendations, opinions and interviews. The President of the Fiscal Council held eight interviews with various media, covering a wide range of macroeconomic and fiscal topics. Media coverage of the Fiscal Council's publications was similar to that in the previous year. It focused on the spring and autumn assessments of the budget documents, the regular publication Monthly Information and the presentation by the President of the Fiscal Council to the Committee on Finance.

As soon as it began to operate in 2017, the Fiscal Council set up its own website with a view to increasing the transparency and impartiality of its operation.[10] Through its website, the Fiscal Council provides access to the current published assessments, opinions, views and recommendations to the wider interested public. Legislation relating to the work of the Fiscal Council, cooperation agreements

[10] https://www.fs-rs.si/news/

**Figure 4.1: Number of daily media reports about the Fiscal Council and engagements with X posts in 2023**



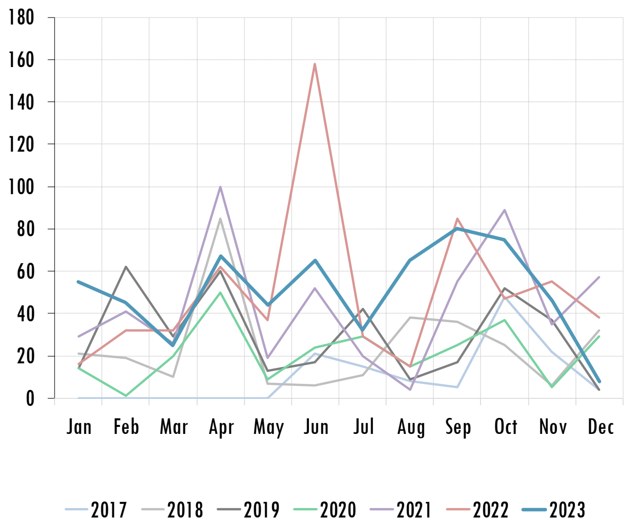

*Note: Data about engagements on X include all uses of posts on @FiskalnisvetRS.*

*Source: Press Clipping d.o.o., Twitter Analytics, Fiscal Council calculations.*

with other institutions, events in which the Fiscal Council participates and interviews with its members are also available on the website. In the course of the 2019 upgrade of the website, a set of frequently asked questions with answers relating to the Fiscal Council's area of work was added. With this, the Fiscal Council aimed to help familiarise the public in a simple way with the basic concepts it uses in its work and communications. The majority of the publications, including other basic information on the Fiscal Council's operations, are also available on the English pages.

In order to keep the wider public informed, the Fiscal Council launched a Twitter account (now X) at the beginning of 2021. On this social network, the Fiscal Council mostly posts messages when publishing its assessments, views and analyses, but also short alerts on publications by other institutions, in particular the EU IFI, other independent fiscal institutions, Eurostat and the European Commission. The Fiscal Council's messages on this online platform received around 85,000 views in 2023. Again, the most viewed posts were those from the spring and autumn assessments of the budget documents and those

**Figure 4.2: Number of monthly media reports about the Fiscal Council by year**




*Source: Press Clipping d.o.o., Fiscal Council calculations.*

on the findings of the publication Monthly Information, and there was also a high response rate to the presentations of the Fiscal Council's opinions in the National Assembly.

## 5. International cooperation of the Fiscal Council

Shortly after it began operating, the Fiscal Council joined international networks of similar institutions and participated in discussions with international institutions that analyse economic and fiscal developments in Slovenia. The purpose of joining international networks of independent fiscal institutions is to keep up with the current trends in budgetary control, to exchange information and to transfer good practices of similar institutions. In addition to other institutions that formulate and implement economic policy in Slovenia, the Fiscal Council is also a counterpart to international institutions. In such contacts, it presents and explains its view on macroeconomic and fiscal developments in Slovenia.

### 5.1 The Fiscal Council and networks of EU independent fiscal institutions

The Fiscal Council is included in the EU IFI and EUNIFI networks. The EU IFI[11] (EU Independent Fiscal Institutions) is a voluntary and informal network of independent fiscal institutions which provides a platform for exchanging views and information among its members, but without the participation of EU institutions. The EUNIFI (EU Network of Independent Fiscal Institutions) is a formal network of EU independent fiscal institutions whose work is organised by the European Commission (hereinafter: the EC) and whose purpose is to link institutions predominantly in terms of public finance management and compliance with the fiscal rules laid down by EU law. In 2023, Fiscal Council representatives attended two EUNIFI meetings and one EFC-A meeting organised by EUNIFI, as well as two EU IFI regular meetings and seven EU IFI seminars. Fiscal Council representatives also attended one OECD PBO meeting in 2023.

In 2023, the Fiscal Council prepared two contributions for an online presentation of fiscal developments in Slovenia within the EU IFI framework. The EU IFI regularly publishes brief information on economic and fiscal developments in the Member States in the publication European Fiscal Monitor.[12] Given the type of tasks, the IMAD[13] usually presents macroeconomic forecasts in this context, while the Fiscal Council presents its view on short-term and long-term fiscal developments and the related challenges and risks. In 2023, the Fiscal Council additionally provided the European Fiscal Monitor with estimates of the fiscal impact of measures to contain the effects of the cost-of-living crisis and other discretionary measures. The main topics of this publication, which was produced twice in 2023, were the fiscal responses of individual countries to the cost-of-living crisis and the impact of inflation and climate change on public finances.

### 5.2 Cooperation with international institutions

The Fiscal Council cooperates with the European Commission (EC) within the framework of the European Semester. In 2023, representatives of the EC met virtually with the Fiscal Council's Analysis Service

[11] http://www.euifis.eu/

[12] https://www.euifis.eu/publicationsfilter/efm

[13] Due to its independent drawing-up of macroeconomic forecasts, which constitute the basis for the preparation of budget documents, the IMAD is recognised as an independent fiscal institution and participates in the EU IFI and the EUNIFI.

twice, in April and October. Cooperation took place at a technical level and was intended to exchange views on the current and future budgetary developments, in particular in terms of the fiscal effects of measures to limit the consequences of the cost-of-living crisis and the floods, the assessments of the budget documents prepared by the Fiscal Council, and the changes to the EU's economic governance system.

In March, the President of the Fiscal Council met with the European Commissioner for the Economy on the reform of the EU's economic governance system, and in September the Fiscal Council met with a representative of the EIB.

In 2023, the Fiscal Council started to participate in a joint project of eight independent fiscal institutions, which receives technical assistance from the European Commission (DG REFORM) through the use of the TSI (Technical Support Instrument).[14] The project, which is being implemented by a consortium of economic institutes from Greece, the Netherlands and the UK, is being carried out in four areas, and the Fiscal Council is involved in the part concerning the assessment of the impact of the green transition on the long-term sustainability of public finances. The project is expected to be completed in autumn 2026. In 2023, the Fiscal Council continued its participation in the DG REFORM project, launched in 2022. The contractor, the Danish DREAM Institute (https://dreamgroup.dk/), will develop a long-term public finance model for the Fiscal Council. The model will focus on social protection systems, and its simulations will enable the Fiscal Council, once the project has been completed, to provide an independent, impartial and transparent opinion on long-term trends and measures taken, as well as an assessment of long-term risks and the sustainability of the social protection systems and public finances in general. The project will be completed in June 2024.

The Fiscal Council also cooperates with the Organisation for Economic Co-operation and Development (OECD). Within the OECD, there is also the PBO network of independent fiscal institutions,[15] which serves as a platform for the exchange of information and good practices. On the basis of multi-annual cooperation and monitoring, the OECD has drawn up good practice guidelines for the effective operation of fiscal councils. Representatives of the Fiscal Council attended the regular annual meeting of the network in 2023. Within the network of independent institutions, the OECD also keeps a database,[16] which includes Slovenia, the purpose of which is to provide an overview of the key features of independent fiscal institutions.[17]

The Fiscal Council met three times in 2023 with representatives of the IMF mission to Slovenia, one of which concerned the preparation of a report on the effectiveness of public investment management in Slovenia (PIMA[18]). The Fiscal Council also met once with representatives of the OECD. In 2023, the Fiscal Council also met with representatives of investors in government securities (Citibank Europe, Norges Bank Investment Management, Unicredit and Erste Bank Croatia) and with representatives of credit rating agencies (Fitch, Moody's and S&P). At these meetings, the Fiscal Council gave its views on the economic and fiscal situation in Slovenia, in particular from the perspective of the fiscal implications of the cost-of-living crisis and the floods and the fiscal impact of the measures taken to contain them. Discussions also focused on the long-term challenges to public finances and the reform of the economic governance system in the EU, which was also discussed at a meeting in June at the initiative of the French Ministry of Finance, Economy and Momentum.

[14] https://ec.europa.eu/info/overview-funding-programmes/technical-support-instrument-tsi_en

[15] http://www.oecd.org/gov/budgeting/oecdnetworkofparliamentarybudgetofficialspbo.htm

[16] http://www.oecd.org/gov/budgeting/OECD-Independent-Fiscal-Institutions-Database.xlsx

[17] V pregled značilnosti je vključenih več področij, med njimi pa so zakonodajna podlaga, institucionalna oblika, vodstvo, odnosi z zakonodajno vejo oblasti, mandat in naloge, finančni

[18] https://infrastructuregovern.imf.org/content/PIMA/Home/PimaTool/What-is-PIMA.html

At the initiative of the Croatian independent fiscal institution, the Fiscal Policy Commission, which operates within the parliament, we hosted representatives of this nascent institution in November. The representatives of the Fiscal Policy Commission were particularly interested in the experience and organisation of the work of the Fiscal Council.

As part of international cooperation and in addition to the above-mentioned events, Fiscal Council representatives also took part in the following events:

- EUNIFI seminar on discretionary measures on the revenue side of government finances (January, virtual);
- ECFIN workshop on fiscal policy in a context of high debt and high economic volatility (January, virtual);
- Conference of the Ministry of Finance and the EC Representation in Slovenia on the reform of economic governance in the EU (March, Brdo pri Kranju);
- IER consultation on microsimulation models of the pension system (March, Ljubljana);
- EFB Conference on Centralisation and Decentralisation in the EU Fiscal Framework (May, virtual);
- DG REFORM Annual Conference on the Technical Support Instrument (TSI) (May, virtual);
- EU IFI Working Group consultation on the role of independent fiscal institutions in the context of the reform of the EU economic governance system (May, virtual);
- EU IFI seminar on election programme evaluation (May, virtual);
- DG ECFIN seminar on EC proposals for reforming the EU's economic governance system (May, virtual);
- Workshop on climate change and long-term fiscal sustainability (May, Brussels);
- DG REFORM seminar on sustainable changes to public governance (June, virtual);
- DG ECFIN seminar on the methodology for calculating public debt projections (June, virtual);
- Conference of the Association of Banks of Slovenia (June, Ljubljana);
- Meeting of IFI representatives from Central, Eastern and South-Eastern Europe (September, Tbilisi);
- ECB and EU IFI workshop (September, Frankfurt);
- EU IFI workshop on output gap methodology (September, virtual);
- DG ECFIN Annual Conference (November, virtual);
- Umanotera Conference on Green Reform of Economic Governance in the EU (November, Ljubljana);
- EUNIFI Conference on Fiscal Risks (December, Brussels); and
- World Bank Conference on Fiscal Councils and Fiscal Rules in the Western Balkan Countries (December, Vienna).

## Annex 1: The Fiscal Council's operations in 2023

### Summary of the document "Obrazložitve zaključnega računa proračuna za leto 2023" (Notes on the Annual Financial Statement of the Budget of the Republic of Slovenia for 2023)

In accordance with the provisions of Article 12 of the Rules on the common bases for the work procedures of financial services of direct spending units of the budget of the Republic of Slovenia, in April 2017 the President of the Fiscal Council issued Financial Management Instruction No 00-1/2017/3, which regulates the organisation and conduct of financial management, responsible persons and signatories, the preparation of the financial plan, the execution of the financial plan, reporting on the use of budgetary resources, and internal control. Financial management is conducted by the Court of Audit's Financial Accounting Service. Financial management is conducted in a uniform computerised accounting programme, MFERAC. The accounting is managed by the Directorate for Public Accounting of the Ministry of Finance. The organisation and management of accounting at the Ministry of Finance is governed by Accounting Rules No 450-221/2017/1.

For the implementation of the Fiscal Council's tasks, EUR 745,252.00 was planned for 2023 in the adopted Budget – Rebalance 2023) (Official Gazette of the Republic of Slovenia [*Uradni list RS*], No 65/23). As at 31 December 2023, the financial plan in force for 2023 thus amounted to EUR 745,679.00. An increase of EUR 20,773.82 over the 2022 budget of EUR 561,015.79 has been spent, representing 75.28% of the approved budget and 75.24% of the appropriations of the financial plan in force.

**Notes on some major expenditure items of the Fiscal Council for 2023:**

1) Salaries were calculated and paid in accordance with the provisions of the Public Sector Salary System Act (ZSPJS), the Public Employees Act and the Act Regulating the Implementation of the Budget of the Republic of Slovenia for 2023 and 2024 (ZIPRS2324), the provisions of the Collective Agreement for the Public Sector, the Collective Agreement for Non-Commercial Activities in the Republic of Slovenia, annexes to the Collective Agreement for Non-Commercial Activities in the Republic of Slovenia, the Agreement on Measures Relating to Salaries and Other Labour Costs in the Public Sector for 2022 and 2023 (hereinafter: the Agreement), and other regulations and internal acts of the Fiscal Council. In accordance with the Agreement, the pay scale was harmonised and applied starting with the salary for October 2022 and ending on 31 March 2023. The salary scale (Official Gazette of the Republic of Slovenia [*Uradni list RS*], No 139/22) in force as from 1 April 2023 did not change the level of the salary grades; only the basic salary for the 66th salary grade was added. Reimbursement for meals during work and the scientific title allowance were also harmonised under the Agreement. The reimbursement for meals during work for both civil servants and officials was set at EUR 6.60 per day for the period from 1 January to 30 June 2023 and at EUR 6.91 per day for the period from 1 July to 31 December 2023. The separation allowance in 2023 was EUR 162.62 per month.

In accordance with paragraphs one and two of Article 8 of the Public Sector Salary System Act (ZSPJS -AA), high government officials are entitled to reimbursement of expenses and other emoluments in connection with their work in the same amount and under the same conditions as civil servants.

The holiday allowance for 2023 for officials and civil servants amounted to EUR 1,203.36, in accordance with the provisions of the Employment Relationships Act and the minimum wage for 2023 published in the Official Gazette of the Republic of Slovenia [*Uradni list RS*], No 4/23. The holiday allowance was paid in the May 2023 salary.

Labour costs were higher in 2023 compared to 2022 due to the 4.5% adjustment of salary grades as of 1 October 2022 and the increase of one salary grade for civil servants as of 1 April 2023, resulting in higher payment of seniority allowance, salary contributions, performance-related bonus payment for regular work and overtime.

2) In accordance with Article 10 of the Fiscal Rule Act (Official Gazette of the Republic of Slovenia [Uradni list RS], Nos 55/15 and 129/22), on 27 March 2017 the Fiscal Council and the Court of Audit entered into the Agreement on providing administrative and technical support and premises for the needs of the Fiscal Council, No 014-1/2017/1. In order to share a meeting room, on 8 July 2020, the Court of Audit and the Fiscal Council concluded a new Agreement on providing administrative and technical support and the sharing of premises and equipment, No 014-2/2020/1. In October 2022, a new Agreement was concluded, No 014-2/2022/1, redefining the tasks to be performed by the Court of Audit's staff for the Fiscal Council.

**Table: Fiscal Council expenditure**

| | 2022 EUR | 2023 EUR | % share in total expenditure 2023 |
|---|---|---|---|
| **Expenditure on salaries and duties** | | | |
| Salaries, supplements and other | 311,886 | 335,454 | 59.8 |
| Annual allowance | 6,613 | 7,220 | 1.3 |
| Restitutions, work-related bonuses | 20,146 | 28,633 | 5.1 |
| Social security contributions | 49,306 | 53,354 | 9.5 |
| Collective supplementary pension insurance according to ZKDPZJU | 2,793 | 2,854 | 0.5 |
| Total | 390,743 | 427,514 | 76.2 |
| **Material expenditure** | | | |
| Stationery and general goods and services | 18,471 | 20,806 | 3.7 |
| Special goods and services | 49 | 99 | 0.0 |
| Energy, water, communal services and communications | 13,339 | 7,721 | 1.4 |
| Transport costs and services | 90 | 22 | 0.0 |
| Expenses on business travel | 6,986 | 8,604 | 1.5 |
| Regular maintenance | 2,509 | 4,931 | 0.9 |
| Business rents | 48,986 | 48,591 | 8.7 |
| Other operative expenditure | 41,703 | 42,248 | 7.5 |
| Total | 132,133 | 133,020 | 23.7 |
| **Expenditure on investment and investment maintainance** | | | |
| Other means of transport | 0 | 0 | 0.0 |
| Hardware computer equipment | 15,748 | 0 | 0.0 |
| Telecommunication equipment | 60 | 110 | 0.0 |
| Audio-visual equipment | 357 | 0 | 0.0 |
| Intangibles (computer software) | 1,200 | 371 | 0.1 |
| Other equipment | 0 | 0 | 0.0 |
| Total | 17,365 | 481 | 0.1 |
| **Total expenditure** | **540,242** | **561,016** | **100.0** |

*Source: Notes on the Annual Financial Statement of the Budget of the Republic of Slovenia for 2022 and 2023.*

In accordance with the Agreement, tasks relating to information technology, the main office, human resources and general affairs, finance, legal affairs, and other tasks for the Fiscal Council are performed by the services of the Court of Audit. In 2023, EUR 40,116.50 was spent on administrative and technical assistance. The costs of administrative and technical assistance are recorded as "other operating expenditure".

In accordance with the Agreement, the Court of Audit may use the meeting room on the business premises of the Fiscal Council, for which it pays a corresponding average daily usage fee, which amounts to a share of 11.09% per month of use. The reimbursement for the use of the business premises in 2023 was EUR 48.45. The Court of Auditors only used the meeting room in September and November 2023.

Under the "commercial rents and leases" account, the highest cost is the rent for the business premises at Likozarjeva ulica 3 in Ljubljana (EUR 42,294.00). The Fiscal Council also covers the general costs of building management and common areas, which are determined by a special contract.

The Fiscal Council is also part of the EU IFI network, which is linked to the Centre for European Policy Studies (CEPS), and performs the tasks of the EU IFI Secretariat. The membership fee for 2023 was EUR 500.

3) For investments and major maintenance, EUR 11,427 in budget funds was allocated in the existing financial plan at 31 December 2023 (under budget item 160003 – Investments and major maintenance EUR 10,900.00 and under budget item 190041 – Tangible assets – funds from the sale of state property EUR 527.00), which represented 1.53% of the total funds under the 2023 financial plan in force.

A total of EUR 481.47 was spent, which represents 4.21% realisation of the total funds for investment in the existing financial plan or 0.09% of total expenditure in 2023. Investment expenditure was financed from budget funds.

**Notes on some balance sheet items for 2023**

As at 31 December 2023, the Fiscal Council reported in its balance sheet outstanding expenses in the amount of EUR 49,401.39, which were carried into 2024.

These claims relate to the following:

- receivables from the Court of Audit for the use of a meeting room, amounting to EUR 48.45;
- receivables from the Health Insurance Institute of Slovenia for sick leave compensation in the amount of EUR 103.63;
- outstanding current expenditure amounting to EUR 49,239.31 (which includes calculated and unpaid salaries, benefits, premiums for collective supplementary insurance for public employees and reimbursements of expenses for December 2023 amounting to EUR 34,384.98, services rendered and materials and equipment supplied amounting to EUR 11,572.71, accrued and unpaid mission expenses amounting to EUR 191.15, and services rendered to direct budget users, namely the Court of Audit amounting to EUR 3,030.47 and the Archives of the Republic of Slovenia amounting to EUR 60);
- unpaid capital expenditure of EUR 10 for the purchase of a mobile phone.

Outstanding expenditures shown in the balance sheet as at 31 December 2023 have fallen due for payment in 2024.

As at 31 December 2023, the Fiscal Council reported in its balance sheet short-term liabilities in the amount of EUR 49,401.39, which were paid in 2024.

These liabilities relate to the following:

- short-term liabilities to employees arising from salaries in the amount of EUR 29,935.30 (net salaries in the amount of EUR 17,652.31, employer's contributions in the amount of EUR 6,340.17, liabilities arising from income tax prepayment in the amount of EUR 4,684.05 and other short-term liabilities to employees amounting to EUR 1,258.77 – separation allowance, long-service bonus, meals, and transport and travel orders);
- short-term liabilities to suppliers in the amount of EUR 11,582.71 (for supplies and services provided in November and December 2023, of which EUR 10 is the cost of a mobile phone);
- other short-term operating liabilities in the amount of EUR 4,640.83 (EUR 4,402.67 for the calculated employer's contributions and EUR 238.16 for collective supplementary pension insurance premiums for December 2023);
- short-term liabilities to users of the standard chart of accounts amounting to EUR 3,090.47 (liabilities to the Court of Audit for administrative and technical services provided in December 2023 amounting to EUR 3,030.47 and to the Archives of the Republic of Slovenia for professional training amounting to EUR 60.00);
- unpaid non-tax revenue of EUR 48.45 (an invoice issued to the Court of Audit for the use of the meeting room);
- accrued and deferred liability items in the amount of EUR 103.63 (accrued liabilities relating to the refund of compensations by the Health Insurance Institute of Slovenia).

As at 31 December 2023, a general restricted tangible and intangible fixed assets fund totalling EUR 5,857.10 was recorded in the Fiscal Council's books among own funds and long-term liabilities. In 2023, the third and final instalment for the Microsoft software for the period 2021–2023, amounting to EUR 371.47, is due and therefore no non-current payables are recorded in the Fiscal Council's gross balance sheet as at 31 December 2023.

The Fiscal Council's books also recorded off-balance sheet equipment as at 31 December 2023 in the total amount of EUR 1,769.73 that is not owned by the Fiscal Council but is held in temporary use. This equipment includes communication technology equipment (owned by T-2 d.o.o.) in the amount of EUR 263.03 and a Canon multifunctional device in the amount of EUR 1,506.70.

The Fiscal Council did not conduct an internal audit of its operations for 2023. The Fiscal Council's annual budget is less than EUR 2,086,000, and it is therefore obliged to provide an internal audit of its operations at least once every three years. An audit was carried out for the years 2020 and 2021.

## Annex 2: Summaries of Fiscal Council's assessments in 2023

**04/17/2023**

**Assessment of budgetary documents for the 2023–2026 period (Assessment of the proposed Ordinance on the framework for the preparation of the general government budgets 2024– 2026 and the draft Stability Programme 2023)**

The fiscal policy stance projected in the medium-term budgetary documents is on average neutral in the 2023–2026 period, but in the absence of reforms, the projections imply rather limited room for manoeuvre in the conduct of fiscal policy in the years ahead. Most of the indicators used by the Fiscal Council in preparing its assessment show compliance with the rules in 2025 and 2026. The deviations in 2024 are mainly due to the projected high investment activity and a further decline in the revenue-to-GDP ratio and are within the range of variability of the assessments of the cyclical position of the economy. Against this background, the projections in the draft Stability Programme 2023 are assessed as broadly realistic or, considering the IMAD macroeconomic forecast, consistent with the precautionary principle. This approach is appropriate given the continuing high uncertainty and number of risks. Apart from macroeconomic risks, the main risk is posed by the announced reforms. Their financial effects are not included in the submitted documents while, in view of the assessed risks to the long-term sustainability of public finances, reforms of the social protection systems are particularly urgent.

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After almost four years, the period of exceptional circumstances will terminate in 2024, but unfortunately the European Commission's guidelines on the conduct of fiscal policy in 2024 continue to allow a considerable degree of discretion in the assessment of the budget documents. Formally, the existing fiscal rules are supposed to be reapplied, but the European Commission considers that some parameters of the existing fiscal rules are not appropriate under the current uncertain circumstances. At the same time, the proposed new rules are not yet fully spelled out at the EU level due to the absence of a final agreement. An additional risk to the current assessment is that current fiscal projections are subject to change, as the 2023 revised state budget is still under preparation. Such sequencing of preparing and adopting budget documents is inappropriate, especially given that a credible medium-term fiscal plan is expected to play a central role in the revised system of economic governance in the EU.

The draft Stability Programme 2023 projects a relatively high general government deficit in 2023 (4.1% of GDP), which, if actually realised, would trigger the excessive deficit procedure next year. This year's deficit is expected to be mainly driven by the projected record high investment activity and the impact of measures to mitigate the effects of the cost-of-living crisis. In the context of relatively high levels of nominal economic activity, the deficit should decline to 1.3% of GDP by 2026. This would be 2 pp of GDP lower than in the year before the epidemic and is solely due to the projected lower revenue-to-GDP ratio. The current expenditure-to-GDP ratio is expected to remain relatively constant over the projection period, despite the high growth rate, and is not expected to have a significant impact on the change in the fiscal balance. After several years of decline, the share of interest expenditure will increase slightly from 2023 onwards, reflecting the deterioration in financing conditions in addition to the higher nominal debt stock. The government gross debt ratio is expected to fall below its 2019 level to about 63.5% of GDP by 2026. Against this backdrop, the large fiscal liquidity buffer of over 10% of GDP provides some room for manoeuvre to accelerate debt reduction and, in particular, resilience to a possible further tightening of financing conditions.

05/08/2023

**Assessment of the Draft Revised Budget of the Republic of Slovenia for 2023**

This year's Draft Revised Budget foresees a high general government deficit (-4.5% of GDP), similarly affected by the intervention measures to mitigate the effects of the of the cost-of-living crisis and the epidemic and the "core" deficit (excluding the impact of intervention measures). The latter is also the only reason for the significant increase in the deficit compared to last year (by 2.2 percentage points of GDP), which is largely due to the assumed decline in the revenue-to-GDP ratio and the further strengthening of the already high level of investment activity. Growth in "core" current spending is also expected to be significantly higher this year than its long-term average and the current estimate of medium-term economic potential growth, mainly reflecting the high inflation and, to some extent, discretionary measures. Its ratio to GDP will not increase significantly, so that core current spending will not contribute significantly to the increase in the deficit-to-GDP ratio.

According to the Government's assurances, the Draft Revised Budget is in line with the Stability Programme 2023 and therefore the assessment of compliance with the fiscal rules made by the Fiscal Council in April this year remains unchanged. According to this indicative assessment, most of the indicators used for 2023 point to a deviation in fiscal policy from compliance with the fiscal rules. In particular, due to the high inflation and the projected further strengthening of investment activity, the projections for the general government balance in the Stability Programme 2023 suggest an expansionary fiscal policy stance this year, while exceptional circumstances still apply. In this context, it should be noted that the set high level of government expenditure in 2023 and the declining cyclical revenue-to-GDP ratio also contribute significantly to the limited room for manoeuvre for additional fiscal policy measures in the coming years, which would worsen the structural position of public finances and thus affect the medium-term sustainability of public debt.

The lower deficit in the Draft Revised Budget compared to the current budget adopted last autumn is mainly due to lower expenditure related to the cost-of-living crisis, partly reflecting the new measures, and partly due to more appropriate projections of certain items, the shortcomings of which were already highlighted by the Fiscal Council in the autumn. Nevertheless, budgeting remains deficient due to the inadequate classification of measures as intervention measures, insufficient assessment of the impact of discretionary measures, systematic under- or overestimation of individual revenue and expenditure categories, and uncoordinated processes for the preparation of budget documents.

05/18/2023

**Report on the Fiscal Council's operations in 2022**

2022 was characterised by a strong rebound in economic activity after the end of the epidemic. Slovenia recorded high economic growth and an increase in employment. At the same time, however, this was accompanied by high inflation, which is actually a broader European and global phenomenon, stemming mainly from global supply-side restrictions and expansionary economic policies. The ECB has responded to rising inflation by tightening monetary policy, which lags somewhat behind the US Fed in both the initiation and scope of action. Such a response brings characteristic risks to the financial system and thus to European economies, and indirectly increases the cost of financing the general government. While inflation was largely imported into Slovenia, the adjustment process, which autonomously generates domestic inflation, started already in the second half of the year.

Domestic fiscal policy did not align with the European monetary policy stance. The actual general government deficit, while slightly lower than forecast, was relatively high given the buoyant economic activity. Excluding the impact of measures to limit the impact of the epidemic and of the cost-of-living crisis, the budget was close to balanced. Deficits are projected to persist over the medium term, but to decline gradually – provided that economic growth rates are not lower than projected. The outlook for economic activity is related to a number of risks, stemming from both the global environment and possible ill-considered domestic policy decisions.

Slovenia's public debt is above the Maastricht limit of 60% of GDP. In the short term, risks are relatively low, as they are mitigated by the good liquidity position of the government budget, while rising interest rates will only gradually increase budget interest costs. Deficits will lead to an increase in public debt in absolute terms, but debt will decline in relative terms if nominal GDP growth rates are sufficiently high. However, demographic challenges and other expected costs that will be borne by public finances in the future are accumulating risks related to the long-term sustainability of public debt.

Despite the proposal made by the European Commission in April this year, uncertainties regarding the revamp of the European fiscal rules are currently still present. Whatever the individual countries' interests in their formulation are, it is important that on the financial markets the EU as a whole enjoys the full confidence of investors as a reliable partner. Credible fiscal rules that are binding and are acceptable to Member States without any reservations are a prerequisite for government bonds to be sold on financial markets under appropriate conditions, thus allowing the smooth financing of development plans.

Also in these uncertain circumstances, the Fiscal Council will consistently pursue its mission of monitoring and warning about the sustainability of public finances in the medium and long term. Here the main tool remains the power of argumentation. At this point, I would like to thank the media for their extensive coverage of the Fiscal Council's activities. Fiscal policy decisions, while guided by democratically elected bodies, affect everyone's lives. It is therefore important that the transparency made possible by the wide publication of the Fiscal Council's assessments ensures that everyone can follow fiscal policy. In this way, democratic pressure is created on decision-makers, while at the same time the assessments help decision-makers to take fiscally sustainable decisions on budget documents.

06/13/2023

**Assessment of compliance of the general government budgets with the fiscal rules in 2022**

In 2022, the general government deficit was high (-3.0% of GDP), despite a decrease compared to the previous year, which was mainly due to the smaller scope of the intervention measures. The deterioration in the fiscal position excluding this effect was mainly due to a significant decline in the revenue-to-GDP ratio, mainly as a result of the slower growth in the wage bill following the expiry of the COVID-19 benefits. This has not been matched by public spending in a favourable economic environment marked by continued cyclical momentum following the calming of the epidemic, but also by high inflation. Fiscal policy was expansionary-oriented, which was not appropriate in a very favourable cyclical context. On the expenditure side, this was mainly due to a further strengthening of investment activity, financed exclusively by domestic resources. The growth of general government domestic current spending also picked up, which should have been lower relative to other developments in public finances, at least in the part not related to mitigating the impact of high inflation. The inappropriate expansionary stance of fiscal policy in 2022 is confirmed by the indicative quantitative assessments, according to which most fiscal rules were not complied with last year. Thus, general government expenditure last year was significantly higher than the currently estimated maximum permissible level. The latter is, in fact, lower than the ceiling of the last applicable multiannual framework adopted in September last year, which, however, the Fiscal Council already assessed at that time as too high. Last year, only the reduction of the gross debt-to-GDP ratio to 69.9% complied with the existing rules, mainly due to the inflationary increase in nominal GDP.

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The post-epidemic recovery in economic activity continued at a slightly slower pace last year, with inflation strengthening to its highest level since 2000 on the back of persistent external and rising domestic factors. Last year again, private consumption was a key contributor to economic growth. Construction investment was another growth driver, due to both the property market situation and to the government's increased investment activity. According to the Fiscal Council's current estimates, the output gap reached a cyclical peak last year. Slovenia's post-epidemic recovery was among the fastest in the EU, and last year's average level of economic activity exceeded the level of 2019 by 9.1%.

The overall general government deficit narrowed last year mainly due to lower COVID-related expenditure, while the deficit excluding the impact of intervention measures (0.9% of GDP) widened mainly due to the largest year-on-year decline in the revenue-to-GDP ratio since data became available. The decline in the ratio was mainly driven by a fall in the social contributions ratio, against a background of lower wage bill growth following the expiry of the COVID-19 benefits, which, in addition to amendments to legislation, also had an impact on the fall in the personal income tax ratio. Public spending did not adjust accordingly, as expenditure growth, net of the impact of the intervention measures, picked up further (to 9.8%), thus exceeding both current and medium-term estimates of potential output growth. While the overall deficit in Slovenia last year was lower than the EU average, the deterioration compared to the 2019 pre-crisis year was larger.

Last year, general government gross debt decreased to 69.9% of GDP, thus exceeding the pre-crisis level by around 4.5 pp of GDP. Last year's decline in the ratio was mainly driven by stronger inflation and thus also to a significant extent by high nominal GDP growth, which together more than compensated for the further deterioration in the primary balance. The decline was slightly higher than the EU-27 average, while the increase from the 2019 pre-crisis level was slightly lower than the EU-27 average. The government's financing conditions tightened last year, with spreads increasing slightly more than in some similar euro area countries. In particular, the favourable liquidity position of the state budget provides some room for manoeuvre in the face of rising interest rates. The balance in the Treasury Single Account increased further last year, reaching 13.0% of GDP at the end of the year.

In a period of exceptional circumstances, which was also the case last year, the Fiscal Council provides only indicative quantitative assessments of compliance with the fiscal rules and places greater emphasis on qualitative assessments, given the increased uncertainty in the calculation of key input variables. Nevertheless, the Fiscal Council has to determine, based on domestic legislation, whether the actual volume of general government expenditure corresponded to the last applicable ceiling set by the amendment of the framework under Article 13 of the Fiscal Rule Act. While the level of expenditure incurred last year was lower than the last ceiling set by the Ordinance in September last year, the Fiscal Council assessed that it was already too high at the time of adoption. The significantly excessive level of expenditure incurred last year in view of the existing fiscal rules is also evident from the ex post assessment based on the latest known estimates of input data.

08/25/2023

**Assessment of the Draft Revised Budget of the Republic of Slovenia for 2023**

The scale of the August floods in Slovenia represents also an exceptional macroeconomic and fiscal shock. Although its financial impact is currently unknown, the draft revised state budget for 2023 represents only the first step in the budgetary financing aimed at addressing the large financial impact of the floods. The impact will be more clearly reflected in the autumn draft budget documents for 2024 and 2025, which should include damage assessments and estimates of the effects of the Government's recovery measures. The natural disaster occurred at a time when the state budget deficit for the first seven months was higher than in the same period of the previous year. As regards the outturn of the adopted state budget, the deficit for the last five months of the year is expected to amount to about EUR 2.6 billion, almost twice as high as for the whole of last year. Against this background, economic activity has been at a relatively high level, with some signs of a slowdown in the otherwise solid economic dynamics, amid growing pessimism and unfavourable economic trends in the EU.

In April this year, the Fiscal Council assessed the Stability Programme and, on this basis, in May presented its assessment of the revised state budget for 2023. In this regard, it highlighted the expansionary fiscal policy stance this year, in which exceptional circumstances still apply. The Fiscal Council noted that the set high level of state budget expenditure in 2023 and the declining cyclical revenue-to-GDP ratio also contribute significantly to the limited room for manoeuvre for additional fiscal policy measures in the coming years, as they weaken the structural position of public finances and thus affect the medium-term sustainability of public debt.

According to the Fiscal Council, a change in only one component of budget expenditure, amounting to EUR 220 million, in the current revised state budget for 2023 does not affect the assessment of the fiscal policy situation and compliance with the fiscal rules adopted at the time of the first revised budget this year. The impact of the projected change of EUR 300 million in the financial assets and liabilities account on the general government balance and on the debt position, and thus on compliance with the fiscal rules, cannot be assessed at this stage. In principle, a large-scale natural disaster is "one-off event", which is not taken into account in the calculation of the indicators of compliance with the fiscal rules. In addition, the amendment presented in the draft revised state budget will increase the net debt but not the gross debt of the general government. This is because the financing will come from the reduction of funds in the state budget account. These remain high, also because of the effective public debt management.

The Fiscal Council regularly draws attention to deficient budgeting, insufficient assessment of the impact of discretionary measures, systematic under- or over-estimation of individual revenue and expenditure categories, and uncoordinated processes for the drafting of budget documents. All of the above warnings will be particularly relevant in the uncertain situation ahead, when the Government will have to ensure even greater transparency in the drafting and implementation of the state budget, in particular in the case of the establishment of an extra-budgetary flood relief fund and in the case of a fund that would be part of the entire general government sector subject to fiscal rules. The same applies to already existing budgetary funds that could be a source of financing for flood relief. The warnings about the need to create fiscal space in good times in order to make fiscal policy work in bad times have also proven to be adequate.

This natural disaster should be seen as an additional incentive to integrate a greater degree of risk analysis into the medium-term budget planning. Such analyses are also part of the recommendations of international institutions to ensure more stable and sustainable public finances, as the state is usually the first to help those affected by natural disasters. Such an analysis would probably suggest that Slovenia's small size, geographical features and the frequent occurrence of natural disasters would require the creation of a dedicated budget fund. In this context, it would also be necessary to limit the moral hazard associated with increasing the role of the state by raising private sector awareness of property insurance. The funds available to Slovenia, in particular from various EU sources, are unlikely to be available at the current high levels in the coming decades. Notwithstanding the need to act urgently, the emergency measures should also be well targeted and ensure the efficient use of public money. Against this background, and given the medium-term implications of delayed action for the sustainability of public finances, the Government should also address in its future budget plans the related challenges that had not been addressed before the natural disaster.

10/16/2023

**Assessment of budgetary documents for 2024 and 2025 (Proposed Ordinance amending the Ordinance on the framework for the preparation of the general government budgets for the 2022–2024 period, Proposed Ordinance amending the Ordinance on the framework for the preparation of the general government budgets for the 2024–2026 period, Draft Amending Budget of the Republic of Slovenia for 2024 and Draft Budget of the Republic of Slovenia for 2025)**

The budgetary documents submitted indicate a deteriorating fiscal situation and a continuation of pro-cyclical expansionary fiscal policy this year and next, if we consider a more realistic assessment of fiscal developments this year than the assessment presented in the documents. This conclusion is independent of the extensive funding foreseen for reconstruction after the August natural disaster. In the context of relatively high nominal economic growth and supply-side constraints, additional fiscal stimulus in the face of necessary intervention measures is not appropriate, as it may contribute, inter alia, to a prolonged persistence of high inflation. The challenges of recovering from a natural disaster further underline the need for a counter-cyclical fiscal policy, which would, in a favourable economic cycle, also create adequate room for manoeuvring in the event of emergency situations. As has been the case for many years, budgetary documents are failing to address important and growing long-term challenges, which therefore pose an increasing risk to fiscal sustainability. In contrast to the budgetary plans presented, in the context of high uncertainty, the starting point for budgetary planning should be a credible no-policy-change scenario, which is a prerequisite for identifying manoeuvring room for intervention and other discretionary measures. Once again, the budgetary documents submitted to the Fiscal Council for assessment, while taking into account the understandable uncertainty about the post-flood costs, are not comprehensive and sufficiently credible; they deviate from good medium-term budgetary planning practice and do not allow for a comprehensive assessment of compliance with the fiscal rules laid down in the legislation.

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The budgetary documents submitted imply that fiscal policy is expected to remain stimulating over the projection period, which is inappropriate, does not ensure compliance with fiscal rules and is also at odds with the tightening of monetary policy. In addition to the current estimates of the structural balance and the structural effort, this is also suggested by various indicators of expenditure growth, which are to a lesser extent subject to methodological uncertainties. Even after excluding the direct impact of all intervention measures, the spending indicators are well above the long-term sustainable levels and growth rates, while at the same time exceeding the values recommended by the Council of the EU. In calculating the indicators, the Fiscal Council has been excluding all intervention measures (epidemic, cost of living crisis, floods) since the beginning of the epidemic, as these are time-limited and do not affect the structural position of public finances. Most of the indicators, used by the Fiscal Council to assess the state of public finances, show a worse position at the end of the period of exceptional circumstances than in the period before the start of the epidemic. The possibility of temporary deviation from the fiscal rules has been abused many times in the past four years by adopting discretionary measures unrelated to crises. At the same time, such actions, combined with large-scale intervention measures that have often not been properly targeted, have created expectations for more sustained government action that are increasingly difficult to manage and have increased risks to the sustainability of public finances in the medium term. The debt sustainability analysis also points to increasing risks associated with postponing addressing long-term challenges and to the likely unsustainable public debt if these challenges are not addressed in time.

The expansionary fiscal policy orientation is inefficient in the current context and goes against both the Government's efforts in the light of the implementation of the cost of living and post-flood measures and the recommendations of international organisations. This is because additional fiscal policy stimulus, independent of the expected large-scale intervention measures, puts additional pressure on the persistence of high inflation in the face of supply-side constraints, especially in the labour market. This is associated with a loss of household purchasing power and a deterioration in the competitiveness of the economy, which could in turn lead to additional demands to compensate for high prices and increase direct pressures on public finances. Therefore, in addition to avoiding stimulus that overstimulates demand in the face of supply constraints, it would also be necessary to ensure a sensible sequencing of action in post-flood reconstruction, thereby maximising the efficiency of the use of public funds. The progressiveness of the post-flood measures will be affected to some extent by the already limited capacity of administration and the construction sector.

The budgetary documents submitted are not comprehensive, which prevents the Fiscal Council from producing an assessment that complies with the requirements of the Fiscal Rule Act. The Government did not provide the Fiscal Council with a projection of the general government balance for 2025 harmonised with the draft state budget, based on the internationally comparable ESA methodology, which is the legal basis for the assessment of compliance with the fiscal rules. The Fiscal Council is therefore not in a position to assess the compliance of the draft state budget for 2025 with the legally prescribed fiscal rules.

Budgetary projections again lack credibility to an important extent. As the Fiscal Council has repeatedly pointed out, the estimate of the state budget outturn for 2023 is unrealistic and does not allow for an adequate assessment of the dynamics of the fiscal aggregates in the draft budgets for the next two years. This is particularly the case for the so-called "core" spending, excluding the impact of intervention measures, which in our assessment is even more overestimated than in the previous three years. This approach to planning allows for growth in individual categories of expenditure in 2024 beyond that justified by current legislation. Unrealistic estimates of budgetary developments for 2023 just a few months before the end of the year thus obscure the fact that the budget deficit is likely to widen in 2024, contrary to the projections of the budgetary documents submitted. This is even more the case for the so-called "core" balance than for the overall deficit, which will be determined to an important extent by the understandably not fully evaluated post-flood measures. However, the draft state budget for 2025 does not meet the criteria of a credible no-policy-change scenario. This, together with other factors, suggests a lack of readiness to accept the proposed changes to the economic governance framework at the EU level, in which such a scenario would play a fundamental role. This is one of the reasons why the Government should pay more attention to it.

Only credible budgetary projections based on a no-policy-change scenario would give the Government and the general public insight into the extent of room for manoeuvre. On this basis, the Government would be better able to determine in a more meaningful way the type and scope of measures needed for current and intervention action, and households and businesses would be better able to formulate expectations about future fiscal policy action with less uncertainty. While fiscal policy room for manoeuvre is shrinking due to a number of discretionary measures taken in the past, the existing room is currently mainly due to the relatively random concentration of the large resources available from the various EU mechanisms and the favourable liquidity position of the budget.

One of the important risks to the public finances, which we address more broadly in this assessment, is the expected cost of natural disasters. According to current estimates, the damage caused by this year's floods is the largest ever caused by a natural disaster in independent Slovenia, and, given the size of the country and the size of its population, it will also be high on a European scale. The available estimates of the damage and reconstruction costs raise a certain degree of doubt due to their scale and uncertainty, and it is therefore not yet possible to give a credible estimate of the required public financial resources. These will certainly be high, which is why a high level of transparency is essential when estimating the cost of renovation. However, decisions on the sources of financing also require a comprehensive assessment of their appropriateness, taking into account the impact on the behaviour of households and firms in a cyclical slowdown and the efficiency of recovery measures, including from a moral hazard perspective. Limiting the high impact of natural disasters in the future will require proper risk assessment and timely and targeted action.