Speech by the President of the Fiscal Council at the 56th emergency meeting of the National Assembly's Committee on Finance held on 16 November 2024 on the draft state budget for 2025

I must conclude the discussion of budget documents for 2025 and 2026 in the same way at its start. On 4 October, the Committee on Finance took note of the draft Medium-Term Fiscal and Structural Plan 2025–2028. In accordance with the revised European fiscal rules, this is the key fiscal document setting the fiscal policy context for the next four years. As a result, it also determines the fundamentals for the two state budget proposals that you have been discussing for the past few weeks.

We are in a transitional period and it is understandable that EU legislation has not yet been transposed into national law due to the short time span. However, this transitional period has certain pitfalls. Neither of the country's two independent fiscal institutions was invited to a discussion of the plan in this Committee. This means that there was no opportunity to exchange views on the plan. The absence of a discussion in this Committee on the framework for preparing general government budgets for the period 2025–2027, which the plan formally replaces, is also noteworthy. Based on these two experiences, we believe that, when revising national legislation from the perspective of medium-term planning, one of the key tasks will be to determine the role of the government's legislative branch and independent oversight in the plan's adoption.

Before I move on to the discussion of the 2025 budget proposal itself, I will make a few more substantive points regarding the plan. As it has already been mentioned, the plan is what sets the fiscal policy framework in the period 2025–2028, including the formation of the state budget, which you will discuss today. According to the plan, Slovenia is committed to increase the core general government expenditure by 4.5% per year. This is approximately half the average of the previous three years. At the same time, it is roughly in line with the estimated medium-term growth of the Slovenian economy. Such growth in expenditures therefore does not mean austerity or consolidation, as we experienced in the years following the recovery of the banking system. From a formal point of view, such a commitment is, according to the Fiscal Council's assessment, in line with the rules. The European Commission will only decide on the plan in the coming weeks. Including from the perspective of the discussion on the 2025 budget proposal, it is crucial to determine whether the current set of policies and measures ensures compliance with the commitment set out in the plan. The Fiscal Council believes there is a significant risk that this is not the case. This is also confirmed by the technical scenario with unchanged policies that the Government presented in the plan. According to this plan, the 2028 deficit could come close to -3% of GDP, while it should be -1.2% of GDP as planned.

The total state budget deficit is projected to increase to EUR 1.9 billion (2.6% of GDP) next year. Intervention measures could no longer be expected to affect the balance for the first time in the past five years, as they are to be fully financed by dedicated revenues. The deficit excluding the impact of the intervention measures is expected to double, increasing by approximately EUR 0.9 million to EUR 1.8 billion. This will occur despite the projected strengthening of revenue growth, as budget expenditure is expected to increase further without intervention measures. It is assumed to increase by EUR 1.8 billion or 12.3%, which is three times the long-term average increase. In this regard, it should be pointed out that the estimated outturn for 2024 is again probably too high. The projected expenditure level excluding intervention measures for 2025 could show an increase of even more than 15%, given the probable outturn for this year. If this growth actually occurs, the Fiscal Council considers that it will be too high and significantly above the commitment.

I agree with the common claim by representatives of the Ministry of Finance that life goes on even during the process of adopting budget documents. However, it is necessary to warn against and be aware of the consequences of legislative changes that occur after the budget proposal is submitted. The consequence of agreeing on a higher lump sum payment to local communities, which is indeed included in the amendments to the Act Regulating the Implementation of the Budgets, and the possible transformation of dividend revenues due the Šalek Valley heating act from regular budget revenue to a dedicated source of funding, may be a larger state budget deficit next year than that set out in the proposal currently under your consideration. Both cases confirm the frequently repeated criticism expressed by the Fiscal Council that the fiscal planning system has numerous systemic shortcomings. This is especially true for drafting the state budget, which is a highly fragmented process involving numerous stakeholders, and is characterised more by satisfying the demands of individual users than by clear economic policy guidelines. The result is a repeated practice of overestimating the expenditure level. This often leads to an inefficient use of public money. The greater medium-term orientation of the revised European fiscal rules is thus primarily an opportunity to fundamentally improve the fiscal planning system. In the Fiscal Council's opinion, this opportunity was not exploited during the transition to a new system of fiscal rules and during the preparation of this budget.