

## Key messages:

- **Broad based GDP growth continues.**
- **Current fiscal developments mirror the cyclical position of the economy, but are also affected by EU-related funds.**
- **Government expects the MTO to be reached by 2020, while the Fiscal Council believes that the implied medium-term structural effort is too low.**

## Macroeconomic outlook (prepared by IMAD)

The economic growth momentum in Slovenia continues. It is supported by the favourable international economic situation and strengthening of the domestic demand, especially household consumption, and private investments in machinery and equipment. Public investment is expected to pick up in 2018 after significant decline in 2016. The latest macroeconomic forecasts, prepared by Institute for Macroeconomic Analysis and Development (IMAD) predict 4.4% GDP growth for 2017. In the next two years the broad-based economic growth will continue, hovering between 3% and 4%. Output gap is expected to close in 2017, but several indicators point to sustained growth without overheating (moderate wage and credit growth and inflationary expectations, current account surplus).

## Short-term fiscal outlook (Fiscal Council)

The October government estimate (DBP 2018) for the general government deficit in 2017 remains at 0.8% of GDP, unchanged compared to April's Stability Programme Update despite higher GDP growth than forecast in spring. The estimate implies a reduction of the headline deficit by 1.1 p.p. of GDP compared to 2016, but the structural effort is much less pronounced. The improvement in headline balance is driven by high growth of taxes and social contributions, while the overall expenditure growth remains subdued, mainly due to low growth of investment and falling interest payments. Total revenues and expenditures continue to be strongly influenced by drawing of EU funds, and consequently investment expenditure, that both fell considerably in 2016 and are growing only slightly in 2017. Public debt as share of GDP has begun to decrease after 2015 but remains high in nominal terms.

## Medium-term fiscal outlook (Fiscal Council)

According to DBP 2018, the Government plans to reach a slight budget surplus in 2018, accompanied by a primary surplus above 2% of GDP. According to these plans, MTO (currently set at 0.25% of GDP) will not be reached before 2020, as the reduction of the structural deficit is below the required 0.6 p.p. per year. This reflects a lack of medium-term oriented reforms and a gradual waning of saving measures, introduced mainly in 2012. The next general elections are to be held in mid-2018, currently reducing an appetite for additional fiscal efforts. Fiscal Council believes the required dynamics of structural adjustment should be adhered to, as the economic cycle and outlook remain favorable. Furthermore, longer-term fiscal pressures are becoming more imminent, with Slovenia facing the highest fiscal risk related to aging among EU countries.

## Fiscal framework and national fiscal rules (Fiscal Council)

Members of the newly established Fiscal Council were confirmed with a required two-third majority parliamentary vote in March 2017. The Fiscal Rule Act (FRA) defines the national fiscal rule, ensuring medium-term structural balance by limiting the expenditure based on estimated revenues and on the position in the economic cycle. The FRA also defines the national fiscal rule to become active once the MTO is met. In the meantime, adherence to the SGP rules in terms of structural adjustment is required. An amended Public Finance Law is being prepared with an aim of providing a more medium-term oriented budgetary framework.

## Key indicator forecast

		2014	2015	2016	2017 f	2018 f	2019 f	Source
Real GDP growth rate	[% y-to-y]	3,0	2,3	3,1	4,4	3,9	3,2	1
Output Gap	[%]	-4,1	-3,3	-1,9	0,5	1,7	2,4	2
GG balance – MoF target	[% of GDP]	-5,3	-2,9	-1,9	-0,8	0,4		3
GG primary balance – MoF target	[% of GDP]	-2,1	0,3	1,1	1,9	2,3		3
GG debt - MoF estimate	[% of GDP]	80,3	82,6	78,5	75,2	71,7		3
GG structural balance - FC estimate	[% of GDP]	-2,2	-1,2	-1,0	-0,8	-0,4		4
Adjusted nominal GG expenditure growth – FC estimate	[% y-to-y]		-5,1	-0,9	3,1	1,0		4

Chart 1: Output gap estimates

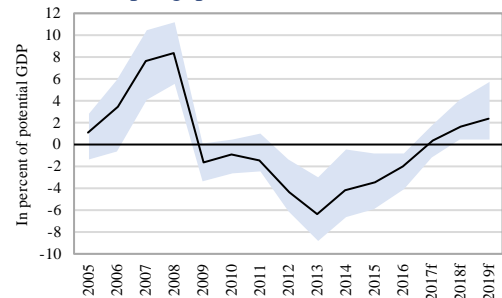


Chart 2: Public finance balances

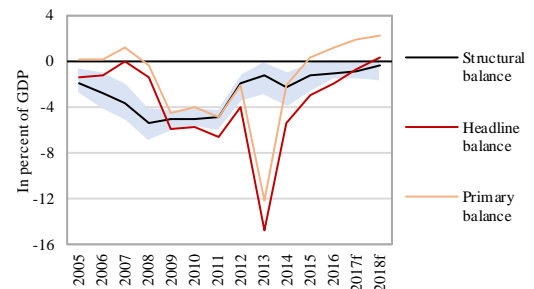
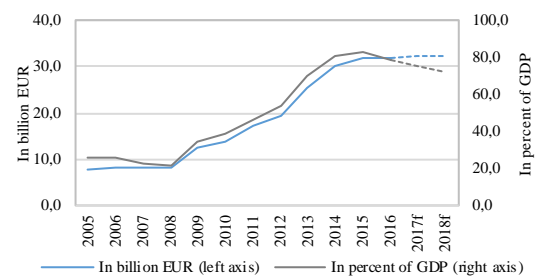


Chart 3: Public debt



Sources: 1 – Statistical Office of the Republic of Slovenia; forecast: IMAD

2 – Fiscal Council: average and range (Chart 1 and base for Chart 2) of estimates of institutions (IMF, OECD, EC, IMAD, MoF) and of statistical calculations

3 – Ministry of Finance (DBP 2018)

4 – Fiscal Council

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