

Country note, July 2019

Key messages:

- The broad-based expansion of Slovenian economy continues
- Structurally balanced position projected for 2019–2022
- Times appropriate for adopting structural measures to address long-term sustainability issues
- Revised state budget will be assessed by the Constitutional Court of Slovenia

Macroeconomic outlook (prepared by IMAD)

The economy continued to expand in the first quarter of 2019 (3.2% y-o-y). According to s. a. data the pace of economic growth picked up slightly. Private consumption growth strengthened somewhat and the growth of gross fixed capital formation remained high. Gross capital formation growth was lower y-o-y owing to a significant negative contribution of changes in stocks. Exports growth accelerated leading to a notable positive contribution of external trade balance to GDP growth. Labour market is becoming tighter, while most other indicators point to sustained growth. The GDP growth forecast of 3.4% for 2019 remains valid.

Short-term fiscal outlook (prepared by Fiscal Council)

Public finances continued to improve in 2018. General government recorded a nominal surplus of 0.7% GDP and it remained balanced in structural terms. Improvement in the nominal balance was more substantial than anticipated, which was mostly due to higher cyclical revenues, but also due to an increase in some non-tax revenues. The structural primary balance deteriorated for the first time since 2008 reflecting an important impact of the decrease in interest expenditure on improving public finances. The Stability Programme anticipates a nominal surplus of around 1% GDP in 2019–2022, which according to Fiscal Council's (FC) current estimates implies a slight structural surplus. Revenue growth is expected to remain high in 2019 before gradually slowing down in line with IMAD's macroeconomic projections, while expenditure growth is expected to accelerate further this year, mainly due to a substantial increase in compensation of employees after the new government reached an agreement with the public unions. In the following years expenditure growth is expected to slow down, which according to the FC's estimates is mainly due to undefined policy measures. Public debt is expected to further decline and reach around 55% GDP by 2022.

Medium-term fiscal outlook (prepared by Fiscal Council)

FC believes that the ongoing favourable macroeconomic conditions envisaged for 2019–2022 provide a platform for the government to finally implement structural reforms that would address medium and long-term challenges to public finance sustainability, in particular fiscal risks related to an aging population. Unfortunately, several policy measures adopted and announced by the new government so far indicate an increase in structural expenditures (wages in the public sector) and a decline in structural revenue (restructuring of personal income tax). There continues to be a lack of a coherent medium-term fiscal policy strategy which would bring about a reform of the pension system, health care and long-term care.

Fiscal framework and national fiscal rules (prepared by Fiscal Council)

Budgetary planning in Slovenia is formally anchored around the Framework for preparing budgets of the general government, that sets a goal for the general government balance and an expenditure ceiling over a three-year period. In December 2018 the government amended the framework for 2019 which FC assessed as not in line with the Fiscal Rule Act. The National Assembly adopted the Framework nonetheless and the Government prepared the revised state budget. This was followed up by a request of opposition MPs for an assessment by the Constitutional Court of Slovenia, as the fiscal rule in Slovenia is embedded in the Constitution.

Key indicator forecast

		2015	2016	2017 f	2018 f	2019 f	2020 f	Source
Real GDP growth rate	[% y-to-y]	2,3	3,1	4,9	4,5	3,4	3,1	1
Output Gap - FC est.	[%]	-3,7	-2,6	-0,2	1,5	2,0	2,0	2
GG balance - MoF target	[% of GDP]	-2,8	-1,9	0,0	0,7	1,0	1,0	3
GG primary balance - MoF target	[% of GDP]	0,4	1,1	2,5	2,7	2,6	2,4	3
GG structural balance - FC est.	[% of GDP]	-1,0	-0,8	0,2	0,1	0,1	0,1	2
GG debt - MoF target.	[% of GDP]	82,6	78,7	74,1	70,1	65,4	61,3	3

Sources: 1 - Statistical Office of the Republic of Slovenia; forecast: IMAD, Spring Report 2019;

2 - Fiscal Council: average and range (Chart 2 and base for Chart 3) of estimates of institutions (IMF, OECD, EC, IMAD, MoF) and of statistical estimates

3 - Ministry of Finance

Chart 1: Contributions to Slovenia's real GDP growth

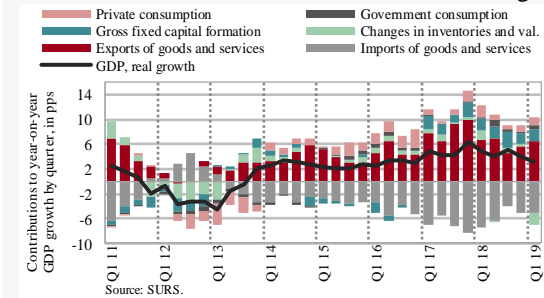


Chart 2: Output gap estimates

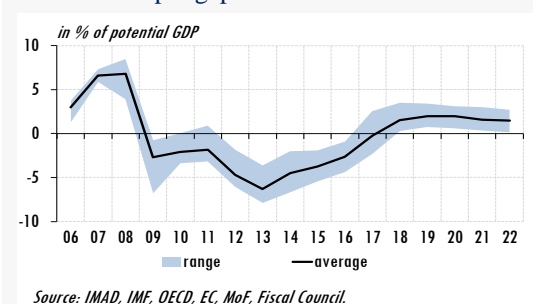


Chart 3: Public finance balances

