REPUBLIC OF SLOVENIA
FISCAL COUNCIL

IMAD
Institute of Macroeconomic Analysis and Development

Slovenia

Country note, January 2019

Key messages:

- **Broad based GDP growth continues at a slightly more moderate pace**
- **Renewed deterioration of structural balance projected for 2019**
- **Absence of credible medium-term path of fiscal policy**

Macroeconomic outlook (prepared by IMAD)

The economy continues to expand at a slightly more moderate pace this year (4.5% in the first three quarters of 2018 compared to 4.9% in 2017). The rapid export growth is slowing gradually amidst slower foreign demand growth, while domestic demand growth has picked up pace. GDP growth is projected to reach 4.4% in 2018 and slow gradually in the next two years to somewhat above 3%. Output gap closed in 2017 and is expected to hover around 2% in 2018 and 2019. Labor market is becoming tighter, while most other indicators point to sustained growth without overheating.

Short-term fiscal outlook (Fiscal Council)

The new government's proposal of an amended Draft Budgetary Plan 2019 prepared in December 2018 foresees nominal surpluses of 0.8 % GDP in 2018 and 0.4 % GDP in 2019. The projected nominal surpluses are mainly related to favorable macroeconomic conditions and as such susceptible to their possible deterioration. Public revenue growth is expected to gradually slow down next year in line with slowing economic growth, while expenditure growth is expected to strengthen further. Expenditure growth will be driven by elimination of the last austerity measures in compensation of employees and social transfers, while investment activity is also expected to pick-up substantially, related to planned increase in drawing of EU funds. According to the Fiscal Council's (FC) estimates the projected expansive fiscal policy is procyclical as the nominal targets imply a renewed worsening of the structural balance in 2019 after almost attaining the MTO of 0.25 % GDP in 2017 and 2018. Public debt as a share of GDP is expected to decrease further to 66.6 % GDP in 2019, mainly due to assumed continuation of economic growth.

Medium-term fiscal outlook (Fiscal Council)

FC believes that the fiscal targets of the Ministry of Finance for 2019 confirm previous warnings that the consolidation strategy of the last four years was not sustainable. It was mainly based on a gradual abolition of austerity measures adopted in the crisis years of 2012 and 2013 with not enough emphasis on structural measures with a permanent effect that would contain expenditure growth, once temporary measures are rolled-out. FC believes that still favourable macroeconomic conditions forecast for 2019 provide a platform for the government to implement structural reforms that would address medium and long-term challenges to public finance sustainability, in particular in relation to fiscal risks related to an aging population.

Fiscal framework and national fiscal rules (Fiscal Council)

Budgetary planning in Slovenia is formally anchored around the Framework for preparing budgets of the general government, that should be prepared annually for a three-year period. FC has continuously warned about the need to update the Framework in a comprehensive and consistent manner as the government updated the framework two times last year but each time only correcting one year. This implies that there is no comprehensive medium-term framework for fiscal policy in place. FC also believes that the current expenditure targets for 2019 should be lowered which would bring public finances on a more sustainable path.

Chart 1: GDP growth

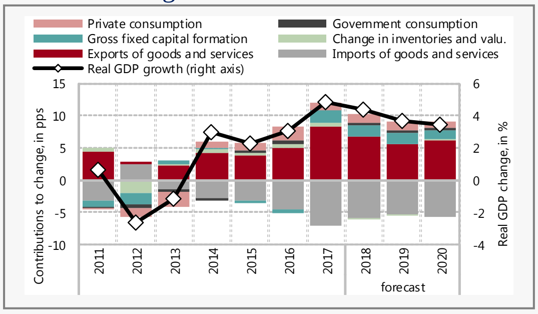


Chart 2: Output gap estimates

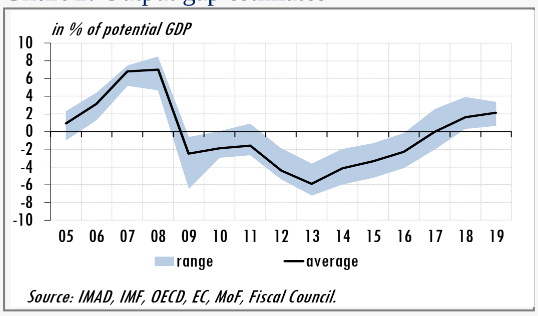
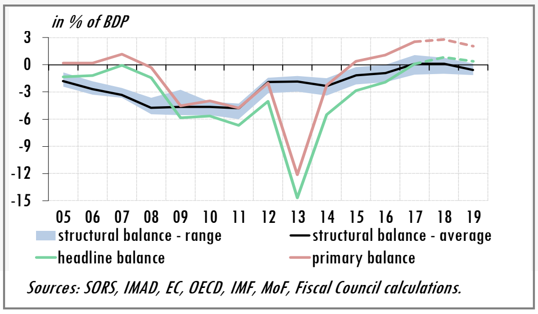


Chart 3: Public finance balances



Key indicator forecast

		2014	2015	2016	2017	2018 f	2019 f	Source
Real GDP growth rate	[% y-to-y]	3.0	2.3	3.1	4.9	4.4	3.7	1
Output Gap - FC est.	[%]	-4.2	-3.4	-2.3	0.0	1.6	2.1	2
GG balance – MoF target	[% of GDP]	-5.5	-2.8	-1.9	0.1	0.8	0.4	3
GG primary balance - MoF target	[% of GDP]	-2.3	0.4	1.1	2.6	2.8	2.1	3
GG structural balance - FC est.	[% of GDP]	-2.3	-1.2	-0.9	0.1	0.1	-0.6	2
GG debt - MoF target.	[% of GDP]	80.4	82.6	78.7	74.1	70.3	66.6	3

Sources: 1 - Statistical Office of the Republic of Slovenia; forecast: IMAD, Autumn Report 2018;

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

f - forecast

gp.fs@fs-rs.si

www.fs-rs.si

+386 1 4785870