

Summary

The general government balance has improved significantly in the last few years; in 2017 it was balanced, due not just to improved economic conditions, but also to fiscal consolidation measures. Since 2013 the general government deficit has been persistently falling, which can be attributed to two sets of factors. The first includes the improvement in macroeconomic conditions following the stabilisation of the banking sector and the recovery of domestic and foreign confidence, which coincided with buoyant economic growth in the international environment. The other is the adoption of measures which, on the revenue side, increased general government revenue and, on the expenditure side, curbed expenditure growth through interventions in wages and employment in the public sector, by lowering certain social benefits, reducing material expenses and containing flexible expenditure.

The measures for reducing the general government deficit have, to a large extent, been of a temporary and non-systemic nature, particularly on the expenditure side, and therefore not sustainable in the long term. At the time of tight economic conditions and great uncertainty, these measures, particularly the austerity package in 2012, were comparable with those adopted in other EU Member States. In circumstances when Slovenia had difficulty accessing finance on foreign markets, the measures successfully stemmed the growth of the deficit and contributed to its gradual decline. Some of the measures were more permanent in nature, particularly on the revenue side, but most were temporary and intervention measures. The weaknesses of this approach and the unsustainability of measures in the long term became evident within just a few years. In our assessment, given the significant role played by temporary measures and the reduction in flexible expenditure in the consolidation process thus far, the reduction in the structural balance, which was balanced in 2017, cannot be sustainable in the long term either.

The structure of tax revenues and expenditures has changed since the onset of the crisis, and the crowding out of flexible expenditure is limiting the room for fiscal manoeuvre should economic conditions deteriorate. In the structure of general government revenues from taxes, in 2016 the shares of taxes on goods and services and social security contributions were higher than ten years before and higher than in other developed countries on average. With the tax changes in 2017, this structure did not change notably. The changes did lower somewhat the burden on income from work, which, according to model-based simulations, has a positive impact not only on economic activity (particularly through lower labour costs and hence higher employment), but also on individuals' decisions regarding further education. In the structure of general government expenditure, particularly the shares of interest payments and pension expenditure increased in the last ten years of the period analysed, while the share of investment expenditure declined – in the first pre-crisis years owing to the policy of reducing flexible expenditure, and in the last two mainly due to the transition to the new financial perspective.

The main reason for the very limited room for countercyclical fiscal policy is the high general government debt. The deficit reduction in favourable economic and borrowing conditions in the last two years has contributed to a contraction of general government debt. This is nevertheless still very high, which is significantly reducing the room for fiscal policy action. In 2017 the general government debt amounted to 74.1% of GDP, which is less than in 2015, when it peaked, but as much as 52.3 pps more than in 2008. This means that the government has considerably less room for introducing countercyclical measures if economic and public finance conditions deteriorate.

The capacity of the policy approach applied in the last few years to improving the fiscal position has been largely exhausted; maintaining sound public finances and reducing debt over the medium-term period will therefore require systemic measures. The budgetary documents for 2018 and 2019 envisage a significant rise in total expenditure. This could even be higher with the possible adoption of new measures that would further increase the level of expenditure foreseen, if not accompanied by measures that would neutralise their effect. The stability of public finances would thus be even more difficult to maintain. Especially in any deterioration of economic conditions, the fiscal position could worsen rapidly in the absence of systemic measures. The scope for increasing public sources of funding are limited, but, at the same time needs are rising due to demographic change. In the given fiscal policy framework in the euro area, this is additionally limiting the room for expansionary fiscal policy in the medium term. The medium-term fiscal strategy should therefore ensure the efficiency of social protection systems, maintenance of the quality of public services and support for economic activity by restructuring revenue and expenditure. Budgetary planning will also have to be adapted in the coming years, particularly in view of the urgent need to design more sustainable adjustments of social protection systems. In restructuring revenue, the importance of a stable and predictable tax system for business planning and behaviour should be borne in mind.