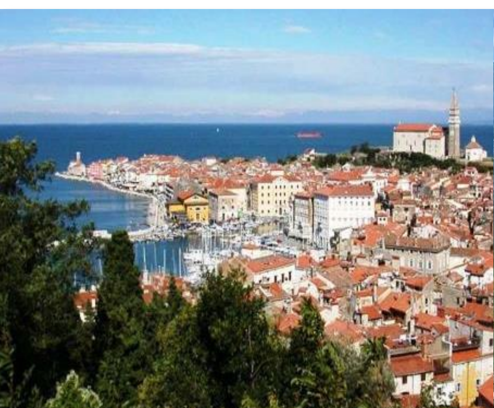
PRACTICAL ASPECTS AND DILEMMAS OF MEDIUM TERM FISCAL PLANNING - CASE OF SLOVENIA

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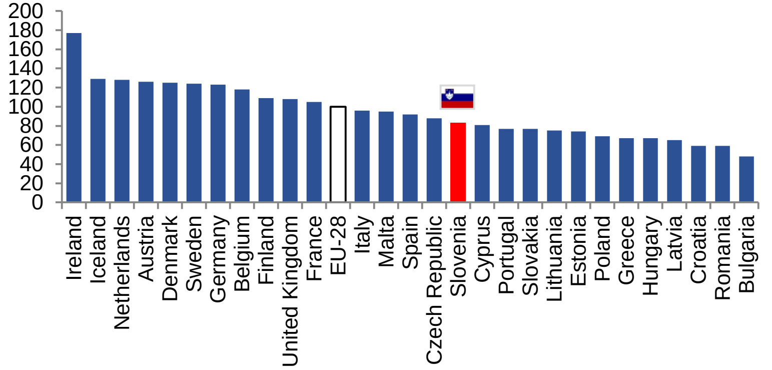
Agenda

- Country Overview – Basic Figures
- Key Policy Reforms Underpinning Rebound in Economic Performance
- Fiscal Framework complete – practical dilemmas (coverage of MTFP, binding vs. flexible)
- Conclusions

Country overview

Basic figures

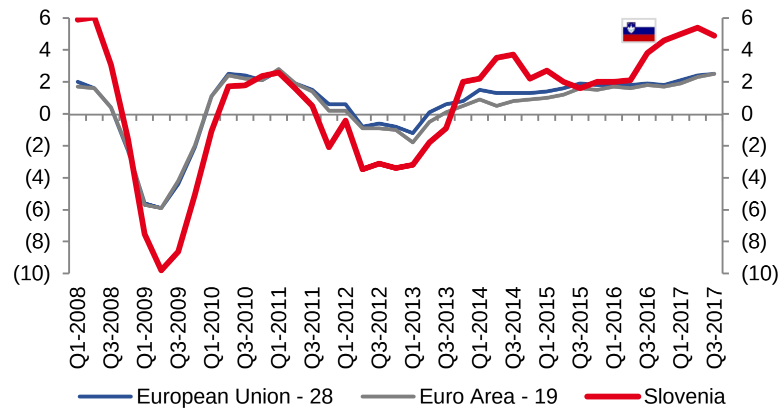
GDP per Capita PPP* in 2016 (EU28 = 100)(1)



1. Source: Eurostat, 12.2.2018 *Purchasing Power Parity

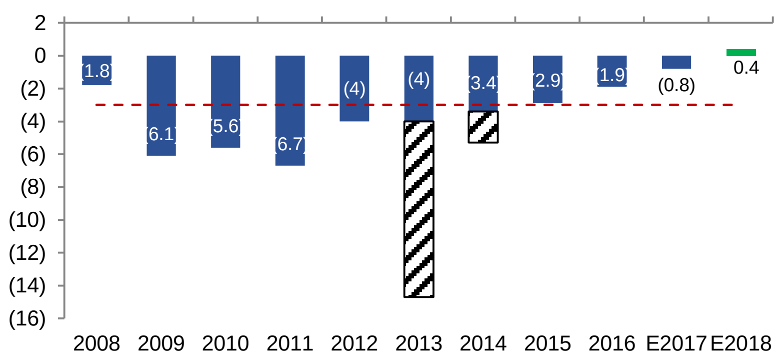
Key growth drivers: Strong exports performance and domestic demand recovery

Real GDP Growth Rate (% chg Q/Q-4)(3)



2. Source: SORS, Eurostat, Seasonally Adjusted Data, 12.2.2018

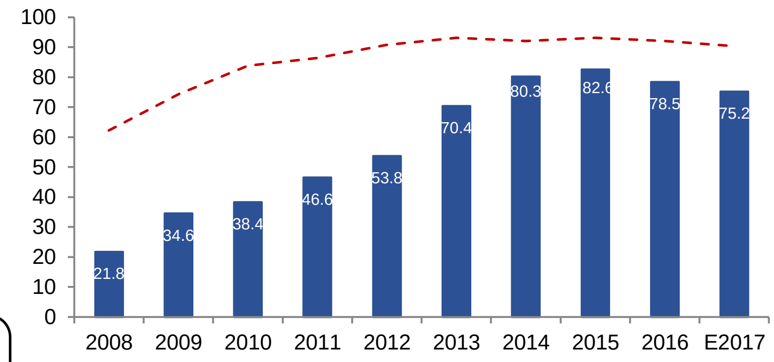
General Government Balance (% of GDP)(1)



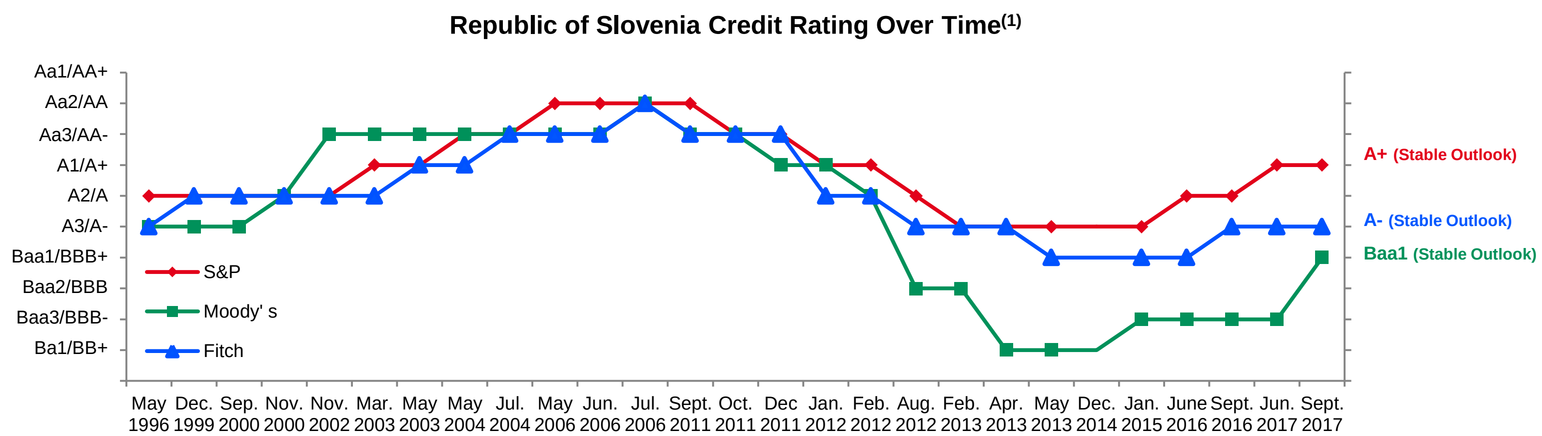
Headline deficit in 2013 of -14.7% due to bank recapitalizations (one-offs 10.7% of GDP).

Headline deficit in 2014 of -5.3% due to bank recapitalizations and -3.4% of GDP excluding one-offs.

General Government Gross Debt (% of GDP)(1)



Slovenia Sovereign Rating



Sovereign[2]	S&P	Fitch	Moody's
Germany	AAA	AAA	Aaa
Austria	AA+	AA+	Aa1
Czech Republic	AA-	A+	A1
Estonia	AA-	A+	A1
Slovakia	A+	A+	A2
Ireland	A+	A+	A2
Slovenia	**A+**	**A-**	**Baa1**
Latvia	A-	A-	A3
Lithuania	A-	A-	A3
Poland	BBB+	A-	A2
Spain	BBB+	A-	Baa2
Italy	BBB	BBB	Baa2
Hungary	BBB-	BBB-	Baa3
Portugal	BBB-	BBB	Ba1
Cyprus	BB+	BB	Ba3
Croatia	BB	BB+	Ba2
Serbia	BB	BB	Ba3

1. Selected drivers highlighted by agencies: S&P, Moody's and Fitch
2. Source: S&P, Fitch and Moody's, 12.2.2018

Key Policy Reforms Underpinning Rebound in Economic Performance

1 **Pension System Reform**	Pension reform enhanced sustainability of public finances (2013).	✓
2 **Labour Market Reform**	Labour market reform streamlined employment protection, labour market flexibility, reduced labour market segmentation and equalized labour cost for young people under 30.	✓
3 **Privatization underway**	State Asset Management Strategy being implemented by Slovenian Sovereign Holding, to facilitate privatization.	✓
4 **Strengthened Banking System**	Well-capitalized banking system. Ongoing bank system consolidation and privatization. Stark reduction in non-performing loans ratio since 2013.	✓
5 **Bank Asset Management Company**	Bank Asset Management Company (BAMC) actively restructuring viable enterprises (2015).	✓
6 **Fiscal rule and Council in place**	Constitutionally mandated balanced budget (2013). Fiscal Rule Act (2015). Fiscal council (2017).	✓

Source: Ministry of Finance (MoF), Government of the Republic of Slovenia, 12.2.2018

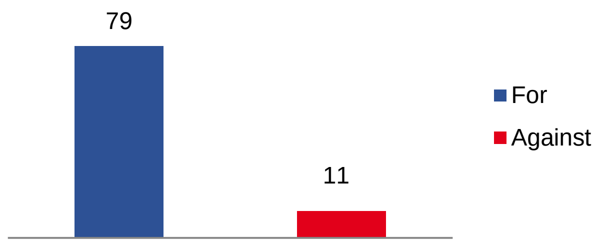
Fiscal Framework is Complete (Fiscal Rule Act, Operational Fiscal Council, transposition of 2011/85/EU Directive)

In May 2013, MPs supported constitutional change by a large majority: 79 out of 90 Votes

Exceptions to the balanced budget rule only under two conditions:

- Extraordinary circumstances that are set down in the implementing law
- In special cases such as natural disasters and periods of significant economic contraction.

Constitutional Change vote in May 2013

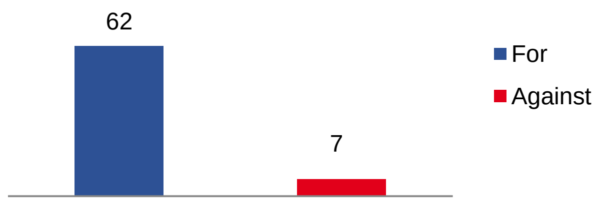


In 2015 62 out of 90 MPs supported implementation Fiscal Rule Act

In line with the EU Fiscal compact the adopted Fiscal Rule defines the following:

- Allows for a maximum structural deficit of 0.5% of GDP only when the economy faces adverse economic conditions (negative output gap),
- A structurally balanced budget position during times of a positive output gap to compensate for eventual fiscal stimulus,
- Demands structurally balanced position over the medium term and as such is more stringent than EU Treaty on Stability, Coordination and Governance in EMU,
- Legal basis for establisment of fiscal council.

Implementation Fiscal Rule Act ote in July 2015



Fiscal Council is fully operational since mid 2017.

Council Directive 2011/85/EU on requirements for budgetary frameworks transposed in Public Finance Act in Feb 2018.

Source: Ministry of Finance, Government of the Republic of Slovenia, 12.2.2018

Policy measures & priorities

- Public sector wage bill restrain. Level in 2016 below peak in 2011 by 1.9 %
- Rationalization of benefits and reimbursements to employees in public sector
- Cuts of benefits of labour market, social and family policies
- Increased VAT rates (general rate 22 % (+2 p.p.), reduced rate 9.5 % (+1 p.p))
- Gradual phase-out of crisis-related temporary restraining measures until 2020
- Active and prudent debt management operations

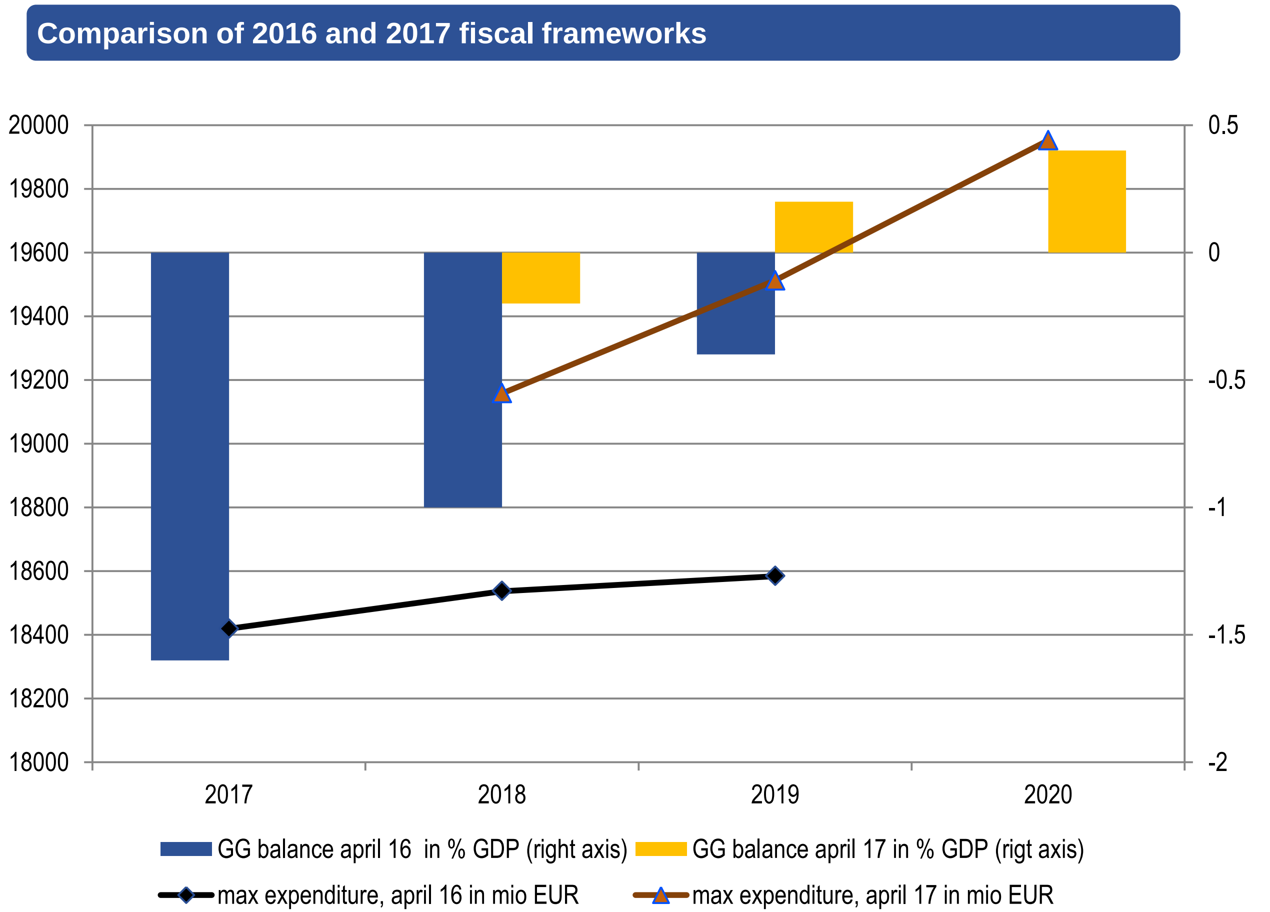
- Implementation of fiscal rule and elimination of structural deficit
- Enhancing fiscal framework and tax collection
- Improving effectiveness and efficiency of government expenditure

Fiscal Framework #2*

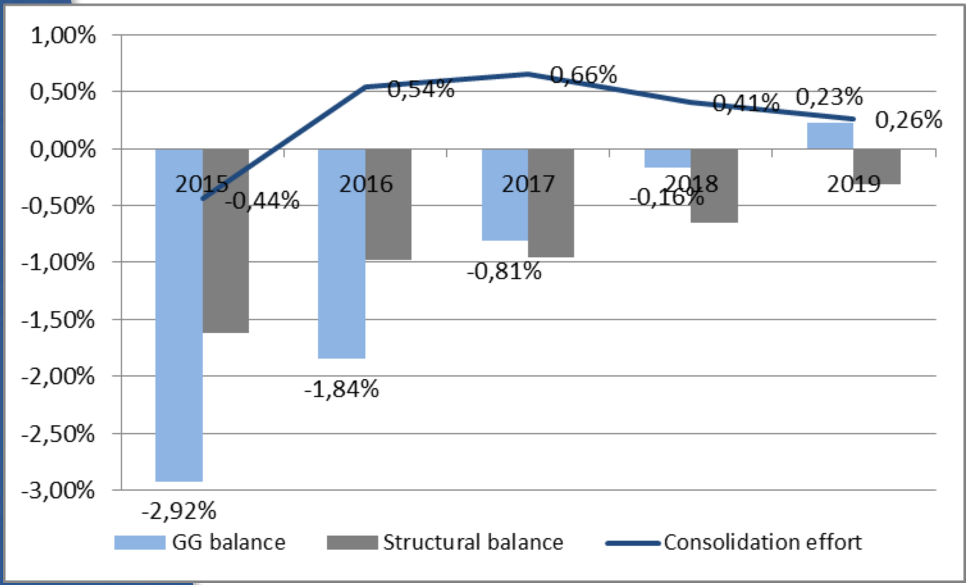
Institutional unit / year	2018		2019		2020	
	Expenditure ceiling (mio EUR)	Target balance (% GDP)	Expenditure ceiling (mio EUR)	Target balance (% GDP)	Expenditure ceiling (mio EUR)	Target balance (% GDP)
(ESA)						
S.13	19.290	0,4	19.512	0,2	19.952	0,4
(cash flow)						
State budget	9.625	0,1	9.697	–0,6	9.942	-0,6
Local authorities	2.174	0,1	2.174	0,1	2.219	0,1
Pension fund	5.381	0,0	5.600	0,0	5.842	0,0
Health fund	2.847	0,0	2.944	0,0	3.087	0,0

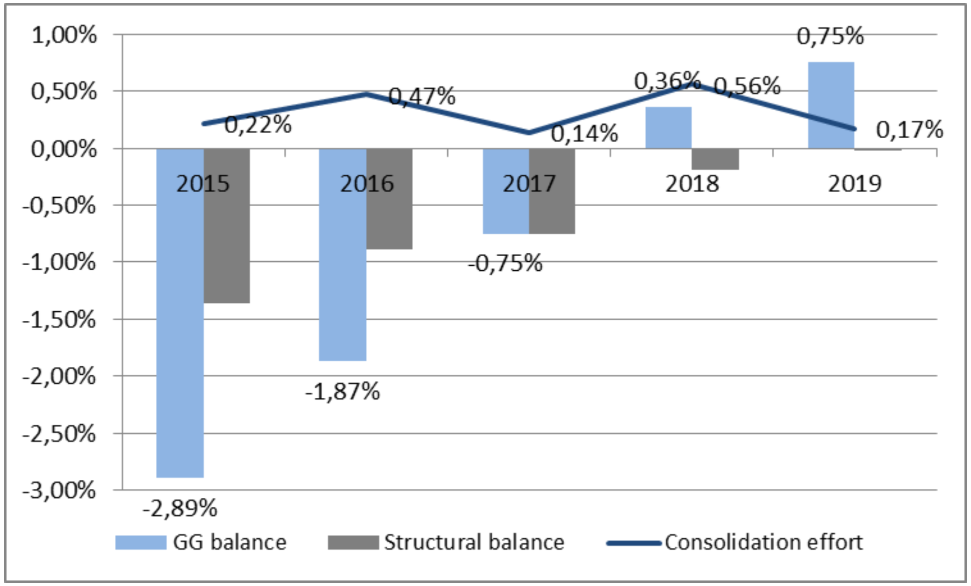
*(1st in 2016), a new one due next month (2019-2021)

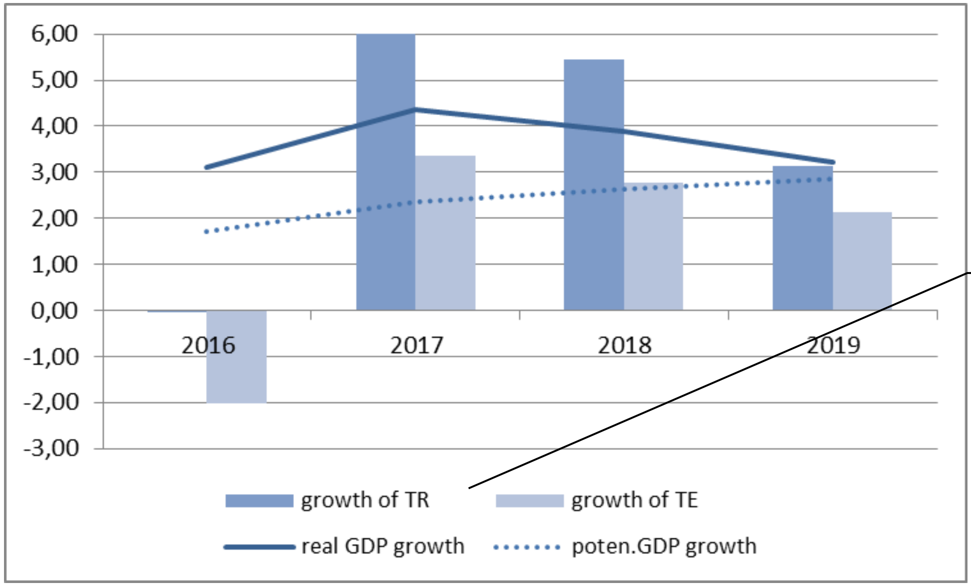
Trajectory of fiscal frameworks



Trajectory of fiscal frameworks (spring 17 vs autumn 17)







KEEP IT CLEAR & SIMPLE on medium term (MT)

Fiscal framework coverage

General Goverment(S.13)

NET lending (+) / NET borrowing (-) / B.9

CONSOLIDATED PUBLIC FUNDS -expenditures

Total

entral level units (S.1311)

STATE BUDGET (37%)

deficit -326 mio

Public entities oncentral level (12%)

Public funds central level (0,4%)

Budget.funds(0,4%)

Agencies (0,3%)

SOE's (2,4%)

53%

Local level units (S.1313)

MUNICIPALIES BUGETS (8%)

surplus 27 mio

16%

Social security funds (S.1314)

HEALTH FUND (11%)

balanced -

PENSION FUND (21%)

balanced -

Public entities onlocal level (8%)

Public funds local level (0,1%)

companies(0,0%)

agencies (0,0%)

KAD (0,3%)

32%

TOTAL

CONSOLIDATION

76%

24%

Consolidation

100,0%

Coverage of MTBF – state budget

- contingent liabilities – not included in MTBF, but managed as fiscal risks
- from practical point of view, earmarked revenues / expenditures are the first candidate to be left out (but unjust!)
- EU funds and over-committments (how do YOU deal with them?)
- idea of ex defence minister: defence expenditure to be left out (unjust!)

Coverage of MTBF – other units of general government

- Detailed overview of state budget, health & pension funds and local authorities, much less of other units of GG
- Problem of legal basis: public finance vs. SOE's
- How do you handle a major SOE investment (necessary for SOE, but a problem for PF consolidation).
- Nevertheless, multi-annual ceilings should be all-inclusive

Binding vs. flexible MTBF

- In theory - binding, leaving room for flexibility for times of unusual circumstances (Fiscal rule act: in April – must, in Sept – if changed circumstances)
- In practise – still realeasing savings measures from previous crisis and b/c economy is growing, we use some fiscal space for extra expenditure (not „unusual" circumstances) while we should be generating buffers. BUT we are consolidating at the same time.
- Aspect of policy mix: social, inclusive, smart growth – but what comes first, consolidated PF or higher potential (as well as actual) GDP?
- Learning by doing (hands on experience, literally)
- More questions than answers (time to adjust)
- And that is leaving aside all questions regarding EC methodology
- Role of IFI's
- new „fiscal responsibility", old formulas (S1, S2, MTO)
- focus on debt

Conclusion

- MTBF pre-requisite for sound fiscal planning
- European semester & TSCG good basis
- Homework for MS's: own fiscal discipline
- Practical dilemmas when formulating MTBF
- Happy to hear examples of good peer practise

- Thank you.