Recent Developments: Constitutional Changes and Fiscal Consolidation Measures

Parliament Tightens Conditions for Recourse to Referendums on Fiscal Issues with Constitutional Amendment

On 24th of May The Parliament amended the Constitution to impose tighter conditions on the calling of referendums with support of 86 out of 90 MPs votes.

The amendments limit the calling of referendums only to initiatives backed by 40,000 voters, eliminating this possibility for the Parliament and the National Council. Moreover, referendum challenges from now on will not be allowed for legislation dealing with taxes, customs and other levies. Additionally banned under the amendments will be referendums on legislation needed to implement the national budget and on laws implementing emergency measures for defending the country, dealing with the consequences of natural disasters, ratifying international treaties and fixing unconstitutionalities.

Parliament Endorses Fiscal Rule into Constitution

On 24th of May the Parliament mustered the necessary two-thirds majority to endorse the introduction of the medium-term fiscal balance into the Constitution. MPs supported constitutional change with large majority of 78 out of 90 MPs votes in favour of balance budget rule.

According to the agreement reached by parliamentary parties the details of the balancing of public finances will be set down in a separate implementing law which also has to be adopted by the Parliament with a two-thirds majority. The new fiscal rule and the implementing law will first be applied in the drafting of the 2015 budget.

Exceptions to the balanced budget rule will only be possible under extraordinary circumstances that will be set down in the implementing law, along with the course of action that must be taken in such cases. Among special circumstances envisaged by the EU's Fiscal Compact are unforeseeable events with a significant impact on public finances, such as natural disasters, and periods of significant economic contraction.

Additional Fiscal Consolidation Measures Adopted by Parliament

On 22nd of May the Parliament passed legislation putting into law the public sector pay deal signed by the government and the trade unions and the government's motion to raise VAT, both constituent parts of fiscal consolidation measures. MPs supported changes with 49 out of 90 votes.

- The deal reached between the government and public sector trade unions envisages of around EUR 208 million in annual savings for 2013 and 2014 when combined with agreed savings in material costs. The cuts - a mix of progressive cuts in base pay and cuts in bonuses and top-up pension insurance - will take effect in June as part of amendments to the public sector wage act.

- Higher VAT was adopted with amendments to the 2013 and 2014 budget implementation acts. The standard VAT rate will be raised from 20% to 22% and the reduced rate from 8.5% to 9.5% on 1st July.

Fitch Downgraded Slovenia

On 17th of May Fitch Ratings agency downgraded Slovenia's long-term foreign and local currency Issuer Default Ratings (IDR) by one notch to BBB+ from A-. The Outlook on the Long-term IDRs remains Negative.

Key rating drivers concerns a deteriorated macroeconomic and fiscal outlook since Fitch's last rating review of the Slovenian sovereign in August 2012 and a frail banking system.

Fitch also said that the government has shown "a renewed sense of urgency in addressing bank balance sheet clean-up and structural reforms".

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