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# Slovenia’s general government debt is expected to remain sustainable in the medium term, while long-term risks will continue to increase if no economic policy actions are taken

The general government debt mirrors imbalances in public finances, which makes it one of the most important indicators of the macroeconomic situation. After the general government debt failed to reach pre-crisis levels following its significant increase in the previous global financial crisis, the current crisis contributed to its renewed strong increase in Slovenia and in the entire EU. In the current crisis, in which a temporary deviation from the fiscal rules has been permitted and certain limits for the implementation of monetary policy have been reached, the role of fiscal policy as an important tool of the counter-cyclical economic policy has strengthened. In spite of the increase in government debt, the current exceptionally accommodative monetary policy, which maintains favourable financing conditions on the government debt markets, changed the perception of financial markets and credit rating agencies regarding the medium-term risk of public finances.

The analysis shows that, considering standard shocks and maintaining the accommodative monetary policy stance, the general government debt would remain sustainable in the next five years. However, it should be noted that financing conditions might change. Moreover, when planning the economic policy, the increased frequency of extensive endogenous and exogenous shocks, which usually substantially increase the level of debt, should be taken into consideration. Such caution is required, since in favourable economic times, the fiscal policy generally fails to ensure adequate debt reduction and fails to create room for fiscal manoeuvre, which would, also without the support of monetary policy –provided in the current crisis – grant access to the market and support an adequate, extensive and active counter-cyclical policy in a recession. The currently favourable difference between interest rates and economic activity growth can quickly obscure the imbalances and its rapid change is usually followed by major increases in general government debt.

Furthermore, particularly long-term risks relating to debt sustainability, which is shown in multiple scenarios, will remain in place and will continue to increase if no economic policy actions are taken. The risks indicated by the analysis of long-term debt sustainability would come to the fore, especially if a potential deterioration in financing conditions would coincide with the forecast rapid growth of fiscal expenditure related to ageing and the associated revenue reduction. This, however, does not cover all risks, since fiscal expenditure may rise in the future, for example, due to measures related to climate change or any other additional liabilities that the general government might assume. With the chances of major shocks being high, the need to establish a suitable fiscal buffer is also growing.