REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Assessment of budgetary documents for 2026 and 2027

October 2025

Document No: 30-2/2025/5

Data available up to and including 10 October 2025 were taken into account.

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EXECUTIVE SUMMARY

Fiscal policy is diverging from the path set out in the Medium-term Fiscal and Structural Plan for the 2025–2028 period (hereinafter: the Plan). Despite Slovenia's commitment to gradual consolidation, the state of public finances has already begun to deteriorate in 2025. The Fiscal Council projects that the general government deficit will continue to increase, reaching around –2.5% of GDP by 2028. The main factor behind this deterioration is the reform of the public sector salary system and the resulting growth in current expenditure, which is expected to exceed the projected economic growth. These developments call for measures to address fiscal risks and ensure the sustainability of public finances. However, the budget documents do not contain any such measures. Without timely intervention, more severe adjustments will be required in the coming years.

For the 2025–2028 period, the national escape clause for defence expenditure is in effect. However, the budget documents do not clearly distinguish between these expenditures, nor do they specify how the initial additional borrowing for this purpose will be replaced by other sources once the clause expires. While the escape clause remains in force, growth in other expenditure should be consistent with the Plan. Yet projections suggest that net expenditure growth will exceed the planned limits in both 2026 and 2027, even when increased defence spending is excluded. Furthermore, projections indicate that total net expenditure growth over the 2025–2028 period will exceed the planned dynamics. These developments would constitute a deviation from the provisions of the Fiscal Rule Act.

The reduction in public debt is expected to be slower than anticipated, with gross debt projected to remain above 60% of GDP by the end of the Plan period. Although Slovenia currently enjoys investor confidence, favourable access to funding and high liquidity reserves, these advantages are neither guaranteed nor permanent. Market confidence hinges directly on maintaining the credibility of fiscal policy. Experience from a decade ago demonstrates that deviating from a path that ensures fiscal sustainability can result in a rapid downgrade in credit ratings and a deterioration in financial market sentiment.

From a public finance sustainability perspective, setting aside dedicated resources for post-flood recovery and for the introduction of long-term care has eased the pressure on public finances. However, it is essential that these funds are used transparently and efficiently. Although the implementation of the adopted pension reform will contribute to medium-term fiscal sustainability, this reform alone will not ensure debt sustainability in the medium term given the expected deterioration of public finances over the Plan period. Substantial fiscal risks remain, stemming from the proposed mandatory Christmas bonus, potential additional transfers to the healthcare fund, and – in the absence of pension fund reform – to the pension fund. Without balancing measures, more stringent adjustments that could hinder economic growth may be required in the years ahead.

The Fiscal Council stresses that aligning budget policy with the Plan is essential to ensure fiscal sustainability. Specifically, growth in current expenditure must be contained, as the increased level of spending is largely permanent. Any deviation from the rules must be temporary, and expenditure must be both transparent and efficient. Only timely and gradual adjustments will ensure economic and fiscal stability, and preserve confidence in the sustainability of Slovenia's public finances.

1. A framework for the assessment of the Draft Budgets

1.1 Legislative and formal framework

The Fiscal Council received budget documents in accordance with the statutory deadlines and the Memorandum of Understanding between the Fiscal Council and the Ministry of Finance. On 30 September 2025, the Government of the Republic of Slovenia (hereinafter: the Government) submitted the draft amendment to the budget of the Republic of Slovenia for 2026 and the draft budget of the Republic of Slovenia for 2027 (hereinafter: the Draft Budgets) to the Fiscal Council for assessment. In line with the Memorandum of Understanding,[1] on 1 October 2025, the Ministry of Finance also provided the Fiscal Council with detailed data related to both draft budgets. At the Fiscal Council's request, the Ministry of Finance provided further clarification that defence expenditure, except for that under the budgetary heading '07-Defence and Protection', is not presented separately in the state budget. The Fiscal Council assesses the compliance of budget documents with medium-term fiscal sustainability in accordance with the provisions of the Fiscal Rule Act (ZFisP)[2], based on data for the general government sector, compiled using the ESA2010 methodology. In accordance with the Memorandum of Understanding, the Ministry of Finance provided these data to the Fiscal Council on 10 October.

The deadlines for the Fiscal Council's assessments depend on the date on which the general government sector projections are received. However, the National Assembly's timeline for considering the Draft Budgets fails to take this into account. According to point 3 of paragraph 2 of Article 7 of ZFisP, the Fiscal Council must prepare its assessment within ten days of receiving the projections of general government revenue and expenditure that are based on the Draft Budgets. Given the date on which these projections were received, the deadline for the current assessment was 20 October. However, the National Assembly of the Republic of Slovenia's timeline[3] for considering the Draft Budgets does not adequately take this deadline into account. The Fiscal Council therefore calls on the National Assembly to comply with statutory provisions when preparing the timeline for considering budget documents.

The activation of the national escape clause permits Slovenia's net expenditure growth in the 2025–2028 period to temporarily exceed the level set out in the Plan.[4] Slovenia requested the activation of the escape clause along with 15 other EU Member States due to increased defence spending needs. The clause permits, under certain conditions, a deviation from the net primary expenditure growth envisaged in the Plan during the 2025–2028 period for the portion attributable to increased defence spending (see Box 3.1). On 6 July 2025, the Council of the EU granted the request for a temporary deviation.[5]

In its assessment, the Fiscal Council examines the risks to achieving the projections set out in the Draft Budgets and the related general government projections. It also provides an opinion on whether the fiscal path set out in the Draft Budgets is consistent with the projected net expenditure growth in the Plan.

[1] Memorandum of Understanding is available at: https://www.fs-rs.si/wp-content/uploads/2025/09/SporazumFSinMF_sept2025.pdf (Only in Slovene).

[2] Available at: https://www.fs-rs.si/wp-content/uploads/2025/05/ZAKO9122_NPB0-lektoriran-prevod_eng_.pdf

[3] The session of the Committee on Finance is scheduled for the same day as the deadline for the Fiscal Council's assessment (20 October). The timetable for the consideration of the Draft Budgets is available at: https://imss.dz-rs.si/IMiS/ImisAdmin.nsf/ImisnetAgent?OpenAgent&2&DZ-MSS-01/a4a264538f10f37071eae560f35424e71faaded482d5b7a383e5956a3aaa5899 (Only in Slovene).

[4] Medium-term Fiscal and Structural Plan 2025–2028 (hereinafter: Plan). Available at: https://www.gov.si/assets/ministrstva/MF/ekonomska-in-fiskalna-poltika/evropski-semester/Medium-term-Fiscal-Structural-Plan-of-the-Republic-of-Slovenia-2025-2028.pdf.

[5] Available at https://eur-lex.europa.eu/eli/C/2025/3973/oj.

1.2 Macroeconomic developments

Economic growth is expected to remain relatively subdued in the coming years. The autumn[6] forecast by IMAD[7] indicates that real GDP is projected to grow by an average of 1.7% between 2025 and 2027, while nominal GDP is expected to rise by 4.7%. As a result, real growth is anticipated to be about one quarter lower, and nominal growth to remain roughly in line with the long-term average (2005–2024: 2.2% and 4.7% respectively).

Tax bases are generally less favourable than those forecast within the most recent budgets. Their growth is expected to be broadly similar to that in the pre-pandemic period (Figure 1.1). Compared with IMAD's Autumn 2024 forecast,[8] which served as the basis for the currently valid budget documents, the changes in their levels are significant, amounting to roughly EUR 1 billion in both GDP and compensation of employees (Figure 1.2). The downward revision of nominal GDP growth by nearly 2 percentage points in 2025 stems from the subdued export and investment growth forecast (Figure 1.3). Both components are largely affected by uncertainty. The stagnation in export dynamics is partly linked to structural changes in foreign demand and may partly also reflect a loss of competitiveness. Investment is expected to increase in the coming years, supported by favourable financing conditions, an improved international environment, increased post-flood reconstruction activity, and accelerated absorption of EU funds, particularly from the Recovery and Resilience Plan. Economic growth is expected to be driven by capital and increased productivity, coupled with a standstill in employment growth (Figure 1.4).

Labour market developments will be characterised by an increase in demographic pressures, which, along with changes to the public sector salary system, will contribute to relatively high salary growth (Figure 1.5). Employment is projected to stagnate over the next two years, in contrast to an average annual increase of almost 1% in the past (Figure 1.6). Gradual economic growth, which would usually drive employment growth, is being held back by the falling number of working-age people and rising retirement rates. Nevertheless, the number of people in employment is expected to remain at a record high, with unemployment staying at a very low level. Projected salary growth is mainly fuelled by the public sector salary reform. Its demonstration effect also contributes to stronger salary increases in the private sector, exceeding pre-pandemic dynamic. An even more significant factor contributing to pressure on salaries is the intensifying shortage of available labour. Throughout the entire forecast period, salary growth is expected to exceed productivity growth. In the private sector, however, rising salaries will primarily be restrained by the need to maintain competitiveness, particularly in export-oriented industries.

Cost pressures are expected to be the primary driver of inflation, which is predicted to remain above 2%. This will largely reflect the labour shortage, which is expected to drive up service prices in particular by putting pressure on salary growth. In addition, food price pressures will continue to affect inflation. These pressures have recently intensified due to adverse weather conditions and geopolitical developments affecting food commodity prices in international markets. Demand-driven price pressures will remain relatively subdued, though they are expected to gradually strengthen. Consequently, inflation is projected to exceed both pre-pandemic levels and the euro area's average rate over the entire draft budget period.

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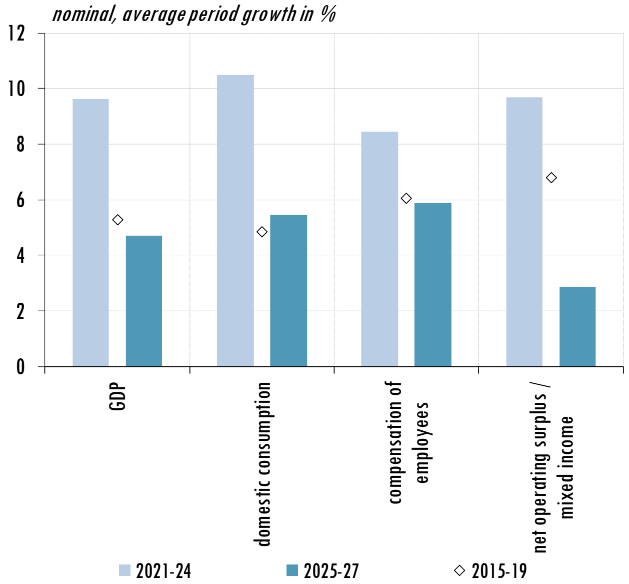
[6] IMAD (2025).

[7] The IMAD forecasts provide the basis for budgeting as laid down in the Decree on development planning documents and procedures for the preparation of the draft state budget and draft local government budgets (Official Gazette of the Republic of Slovenia [*Uradni list RS*], Nos 44/07 and 54/10).

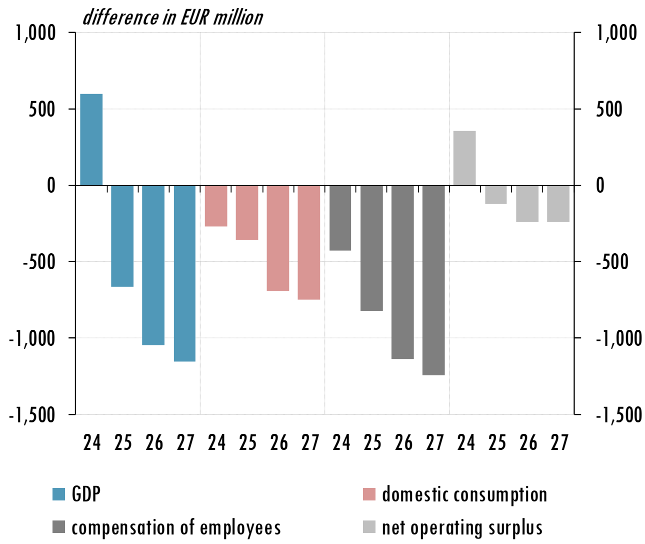
[8] IMAD (2024).

Figure 1.1: Tax bases



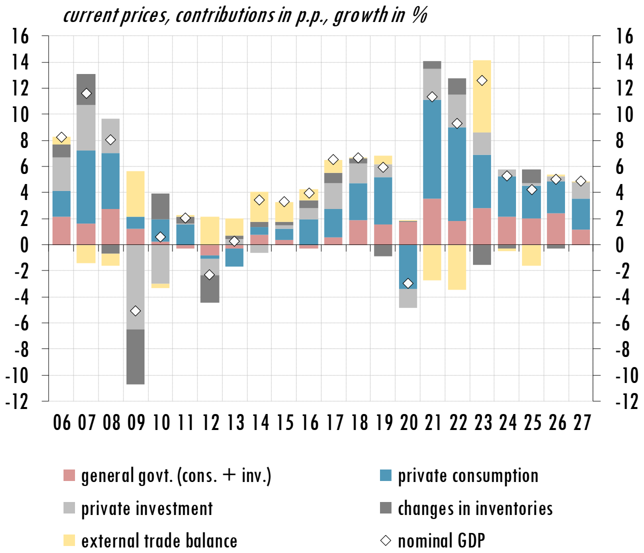
Source: SORS, IMAD, FC calculations.

Figure 1.2: Nominal level of tax bases from 2025 Autumn forecast compared to 2024 Autumn forecast



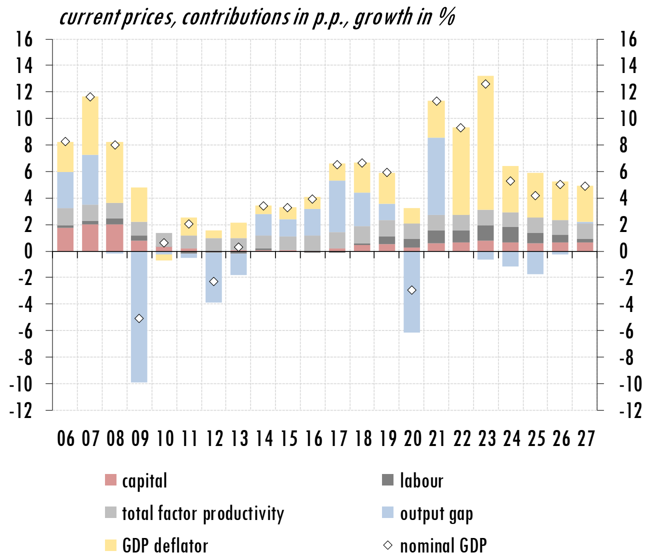
Source: IMAD, SORS, FC calculations.

Figure 1.3: Demand factors and GDP



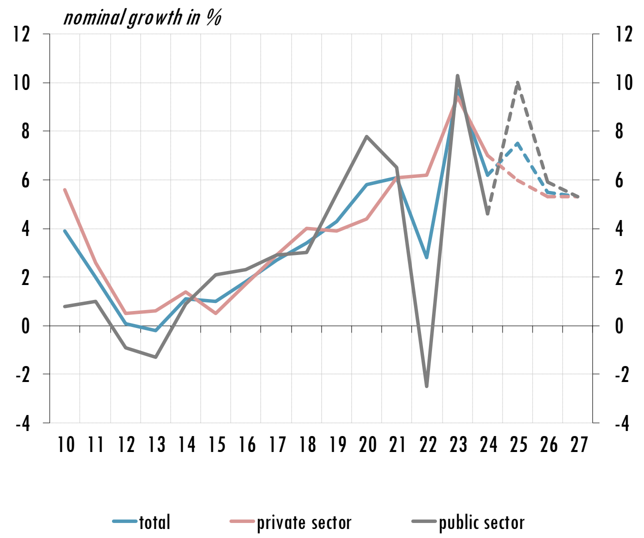
Source: SORS, IMAD, FC calculations.

Figure 1.4: Supply factors and GDP



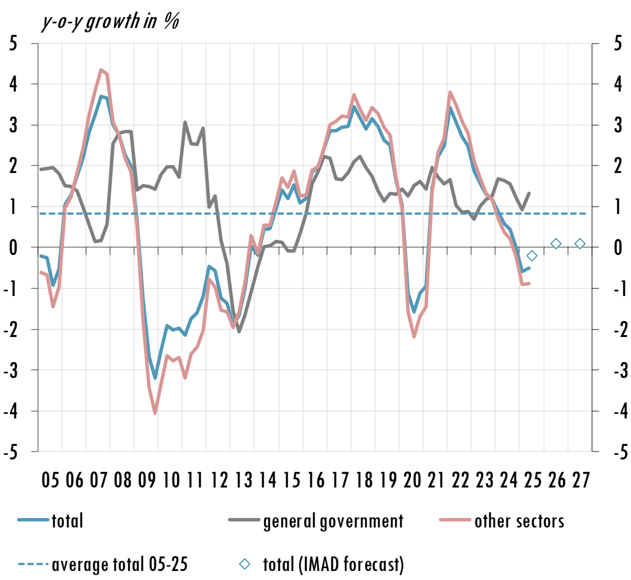
Source: SORS, IMAD, FC calculations.

Figure 1.5: Gross wages per employee



Source: SORS, IMAD.

Slika 1.6: Employment



Source: SORS, IMAD, FC calculations.

2. Assessment of the projected revenues and expenditure in the Draft Budgets

The increase in the state budget deficit in 2025 will primarily be due to a sharp rise in current expenditure which will permanently increase the level of spending, and partly to cyclically subdued revenue growth. In 2024, the deficit stood at EUR 0.8 billion, or only EUR 0.2 billion when the effects of intervention measures were excluded. In 2025, the deficit is projected to reach EUR 1.9 billion. As intervention measures will have a negligible effect on the state budget balance this year,[9] the deficit (excluding intervention measures) is expected to increase by as much as EUR 1.7 billion (Figure 2.1). The main reason for the growing deficit is the increase in current expenditure,[10] which has strengthened considerably over the past few years (Figure 2.10). Excluding intervention measures, its growth averaged 7.5% over the last five years, compared to a long-term pre-pandemic average of 2.4%. In 2025, current expenditure is projected to increase by over 12%, mainly due to the changes in the public sector salary system. A substantially higher transfer to cover public transport costs is also a significant contributor to this year's growth.[11] Concurrently, the growth of most other components of current expenditure is relatively high too, exceeding nominal GDP growth. High investment growth, which has not yet materialised in the first nine months, is also expected to contribute to the larger deficit in 2025. The largest shortfall against plans is observed in investments financed by EU funds. The increase in the deficit in 2025 is also linked to the deterioration of macroeconomic trends, and is reflected in a pronounced slowdown in revenue growth. Excluding revenues from EU funds, the estimates of which are unreliable, revenues are expected to increase by only 1.4% this year, compared to an average of around 9% over the past three years.

However, the expected increase in the deficit in 2025 is based on some questionable assumptions regarding high expenditure growth. The Ministry of Finance's estimates of realisation have consistently shown significant deviations from the final outcome over the past four years (Figure 2.3),[12] although a somewhat smaller deviation is expected for the 2025 estimate. According to the Ministry's estimates, the deficit for the final three months of the year will be as high as the total deficit for the first nine months combined, reaching approximately EUR 0.9 billion (Figure 2.1). Year-on-year expenditure growth, already high at 11.6% in the first nine months, is expected to nearly double in the final quarter (Figure 2.4). The main reasons for this are a pronounced acceleration in investment growth and a doubling of labour cost growth relative to the first nine months. Based on past experience, the estimated investment growth seems excessive. Although investment expenditure usually increases towards the end of the year,[13] the Ministry of Finance's estimate of around 85% year-on-year growth in the final quarter seems unrealistic. The same applies to the labour cost estimates, even though another payment tranche under the new salary system will be made by the end of the year. The Ministry of Finance's estimate could include the effect of the announced introduction of a Christmas bonus, though this is not explicitly stated in the budget documents. Revenue growth is expected to remain modest in the final quarter. The exception is the projected high growth in revenues from EU funds, which also appears optimistic based on past experience.

[9] According to data from the Ministry of Finance, the pandemic and cost of living mitigation measures expired in 2024. From 2025 onwards, post-flood reconstruction has predominantly been financed by revenues assigned to the Fund for the Reconstruction of Slovenia, with no impact on the state budget balance.

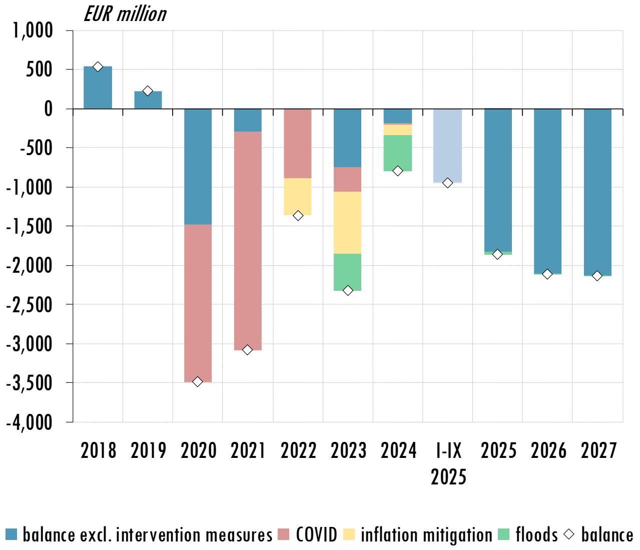
[10] Expenditure excluding intervention measures, investments, interest and reserves, which mainly consists of transfers of assigned revenues to budgetary funds and thus largely has no impact on the balance.

[11] The transfer for the provision of service of general economic interest in public regular passenger transport during the first nine months of this year was almost twice as high as in the same period last year, increasing by around EUR 100 million.

[12] Over the past four years, the actual balance (excluding intervention measures) has averaged at around EUR 700 million higher than the outturn estimate made at the time the budget documents were drafted three months before the end of the year. The main reason for the deviation was the overestimation of expenditure.

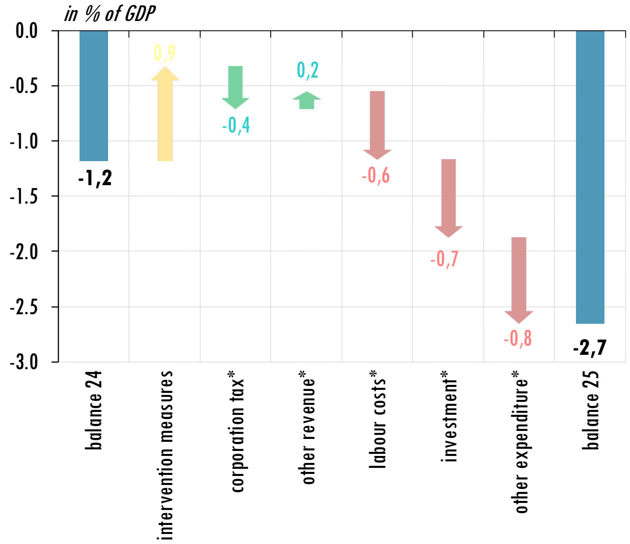
[13] On average over the last ten years, around half of the annual investment expenditure of the state budget has been realised in the last three months of the year.

Figure 2.1: State budget balance structure



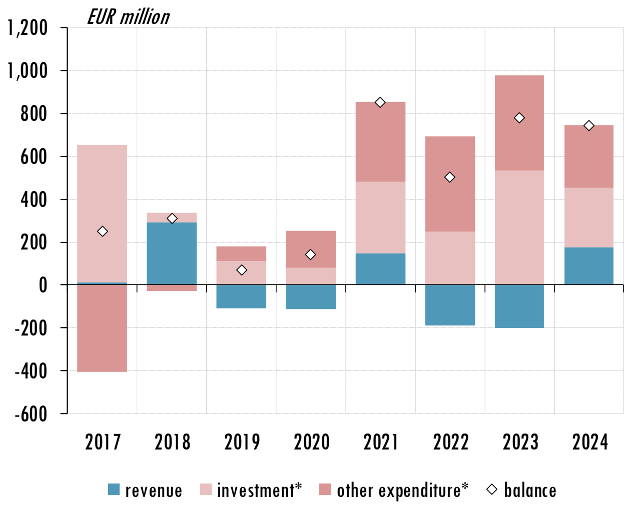
Source: MoF, FC calculations.

Figure 2.2: Factors of state budget balance change 2024-2025



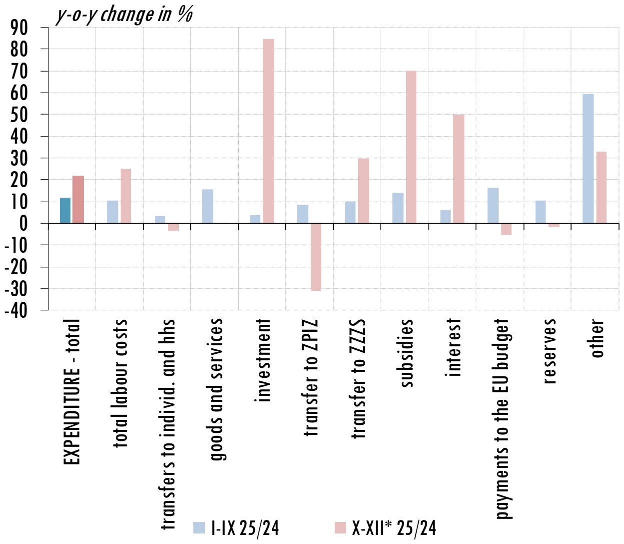
*Source: MoF, SORS, IMAD, FC calcualtions. Note: * excluding intervention*

Figure 2.3: Deviation of state budget outturn from autumn estimates (excluding intervention measures)



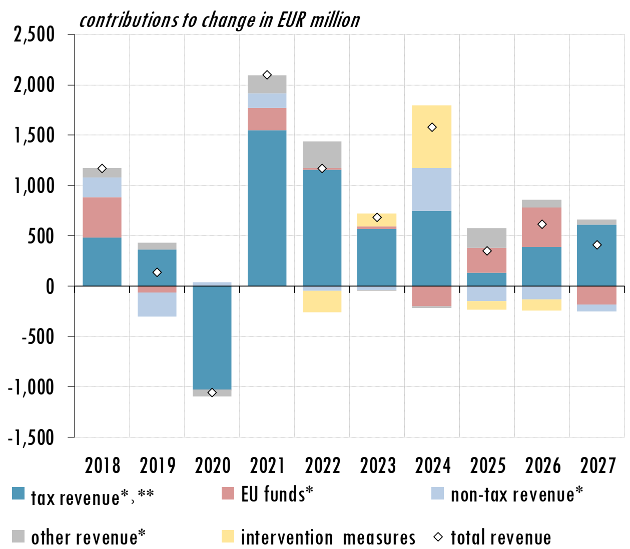
*Source: MoF, FC calculations. Note: *positive sign denotes overestimation, negative sign denotes underestimation in the autumn MoF estimate.*

Figure 2.4: State budget expenditure in 2025 (excluding intervention measures)



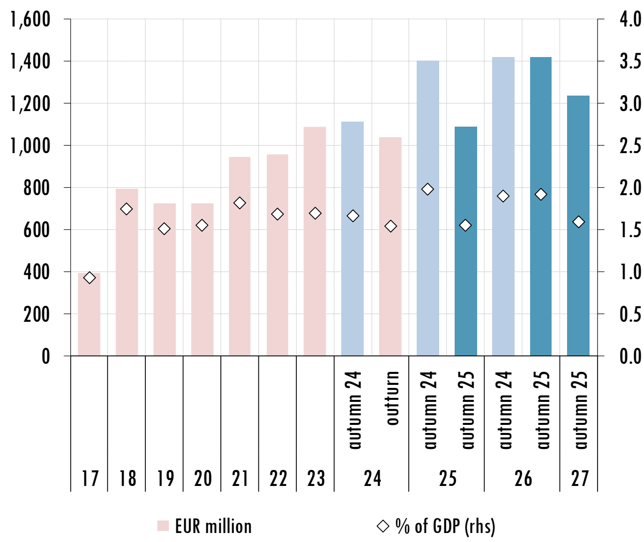
*Source: MoF, FC calculations. Note: *2025 implicitly considering the 2025 MoF estimate (September 2025) and actual outturn for the first nine months of 2025.*

Figure 2.5: State budget revenue change



*Source: MoF, FC calculations. Note: * excluding direct effect of intervention measures.** VAT, excise duties, personal income tax, corporation tax.*

Figure 2.6: State budget receipts from the EU budget



Source: SORS, MoF, IMAD, FC calculations.

Planned maintenance of a high deficit in 2026 and 2027 suggests an absence of consolidation measures. Over the next two years, the state budget deficit is expected to remain at approximately EUR 2.1 billion. The increase relative to 2025 is mainly due to the projected further rise in investment, which is expected to reach around 3% of GDP. While this is expected to be linked to increased absorption of EU funds,[14] past experience suggests that this is unlikely to be fully realised. The persistence of a high deficit will primarily be the result of current expenditure continuing to grow faster than revenues. The budget documents therefore reflect an absence of measures of gradual fiscal consolidation. Furthermore, there is a risk that certain expenditure components in the budget documents may be underestimated. Consequently, the deficit could be higher than anticipated, even if the projected investment growth does not fully materialise. It should be noted that the amendment to the 2026 budget anticipates a considerably higher deficit than the budget adopted in autumn 2024.[15] Last year, the Fiscal Council already warned in its assessment of the budget documents that the projected deficit reduction in 2026 compared to 2025 was inconsistent with a no-policy-change scenario. The drafting of budget documents for the next two years thus fails to reflect appropriate medium-term planning, representing merely the fulfilment of formal obligations.

Revenue growth (excluding intervention measures) is expected to remain modest over the next two years.[16] Its dynamics will be strongly influenced by the volume of projected EU funds. Given the frequent discrepancies between projections and actual realisations in the past, the Fiscal Council again assess the current projection of EU funds as optimistic (Figure 2.6).[17] The growth of other revenues is expected to strengthen slightly over the next two years, though it will remain below the average of the past four years (Figure 2.5).[18] VAT revenues are projected to increase similarly o this year, while corporate income tax revenues are expected to recover slightly following this year's decline. Both developments are largely in line with IMAD's forecast. State budget revenue from personal income tax is expected to stagnate in 2026, mainly due to a higher amount being allocated to municipalities,[19] while advance payments from employment and business activity are projected to increase broadly in line with the macroeconomic forecast. Excise duty revenues are expected to continue declining due to a fall in revenue from excise duties on motor fuels. Non-tax revenues, particularly interest income, are also projected to decline. This is due to lower interest rates and the projected lower balance of deposits.[20]

Although growth in expenditure (excluding intervention measures) is projected to slow over the next two years, there is a risk of higher growth in current expenditure. Total expenditure growth is expected to decrease by more than half in 2026, with a further slowdown anticipated in 2027 (Figure 2.7). Next year, expenditure growth is expected to be primarily driven by further increases in investment. Based on past experience, this again appears to be an optimistic assumption (Figure 2.8). Current expenditure is projected to grow by an average of around 5% per year over the next two

[14] The This refers implicitly to cohesion funds for the 2021–2027 period, as well as to funds for implementing centralised and other EU programmes. Measures under the Recovery and Resilience Plan (RRP) are financed through the RRP Fund, which is outside the state budget.

[15] The projected deficit for 2026 is expected to be around EUR 900 million higher than that in the budget adopted in autumn 2024.

[16] The overall revenue level in the 2024–2027 period is significantly influenced by intervention measures for post-2023 flood reconstruction. State budget projections include funds from the Reconstruction Fund, while the 2025 outturn estimate includes the remaining funds from the EU Solidarity Fund.

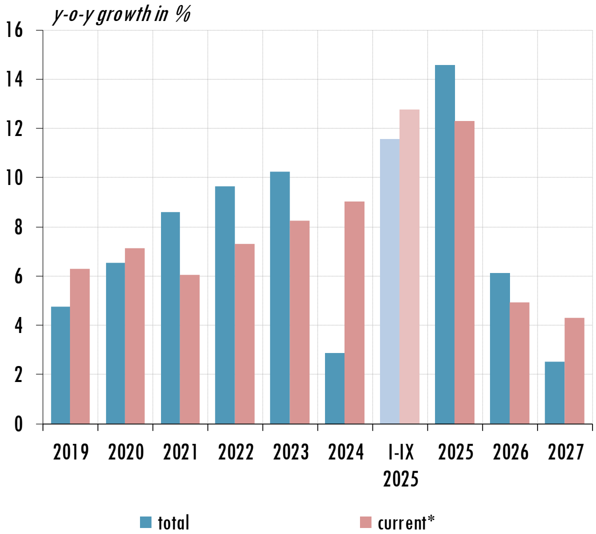
[17] This particularly applies to the projection of cohesion fund revenues for the 2021–2027 period. However, higher RRP funding is also expected to contribute significantly to growth in EU revenue.

[18] However, the significant increase in tax and non-tax revenues between 2021 and 2024 was largely influenced by the post-pandemic recovery and high inflation.

[19] According to the explanations provided by the Ministry of Finance, an additional transfer of personal income tax funds from the state budget to municipalities, amounting to around EUR 50 million per year, is planned from 2026 onwards to reduce objective disparities among municipalities, based on the amendment to the Financing of Municipalities Act (ZFO-1).

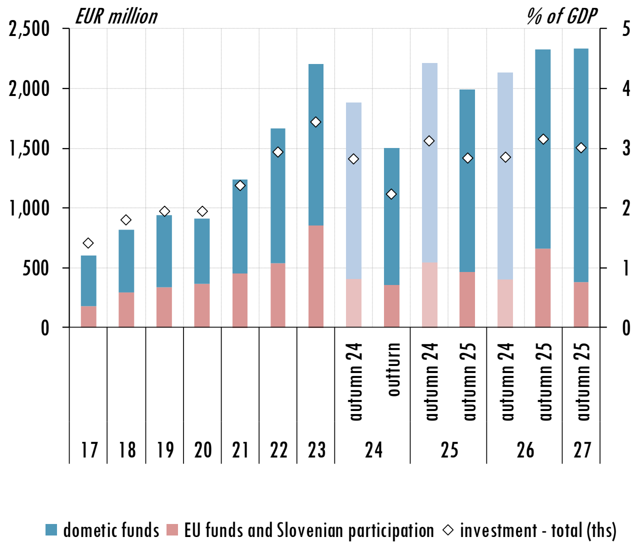
[20] The projected lower balance of deposits is based on the Ministry of Finance's projection of the state budget financing account. In the first nine months of 2025, the volume of deposits in the treasury single account was around EUR 1 billion higher than in the same period last year.

Figure 2.7: State budget expenditure (excluding intervention measures)



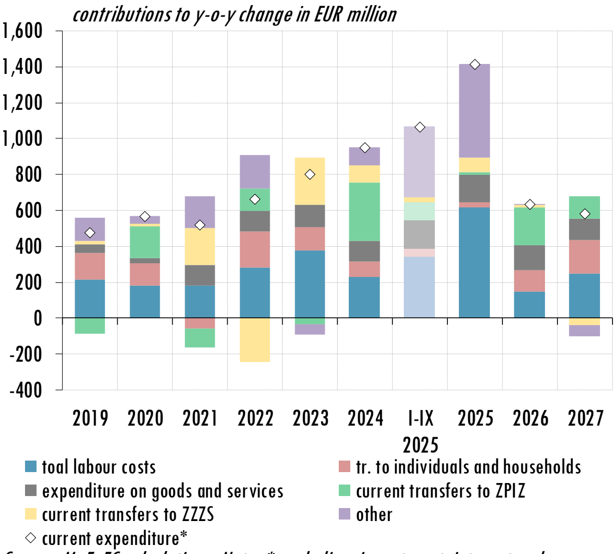
*Source: MoF, FC calculations. Note: * excluding investment, interest and reserves.*

Figure 2.8: State budget investment expenditure



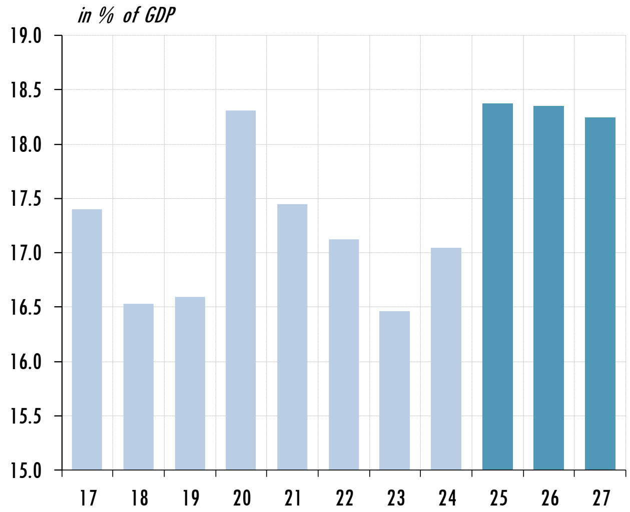
Source: MoF, FC calcualtions.

Figure 2.9: Factors of current expenditure change (excluding intervention measures)



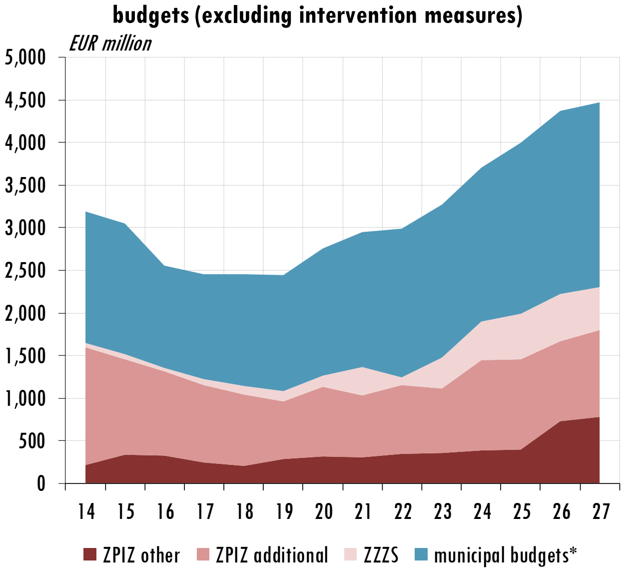
*Source: MoF, FC calculations. Note: * excluding investment, interest and reserves.*

Figure 2.10: Current expenditure*



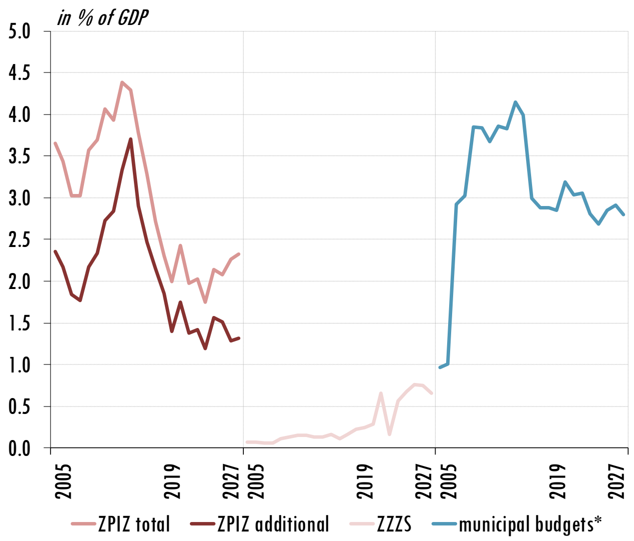
*Source: MoF, FC calculations. Note: * excluding interention measures, investment, interest and reserves.*

Figure 2.11: State budget transfers to other public finance budgets (excluding intervention measures)



*Source: MoF, FC calcualtions. Note: * current and capital transfers and income tax resources ceded to local government levels.*

Figure 2.12: Share of state budget transfers to other public finance budgets (excluding intervention measures)



*Source: MoF, SORS, IMAD, FC calcualtions. Note: * current and capital transfers and income tax resources ceded to local government levels.*

years, which is significantly lower than in 2025 (Figure 2.9). The main contributor to this growth is an increased transfer to the Pension and Disability Insurance Institute (ZPIZ), which the Ministry of Finance attributes to the introduction of a winter bonus for pensioners. However, labour cost growth is expected to decelerate markedly; the first implementation of regular promotions under the new salary system and the subsequent disbursement of instalment payments as part of the salary system reform pose risks of higher-than-planned growth. Transfers to public service providers pose an additional risk. Following this year's increase, the budget documents project a significant reduction for 2026. Such a reduction would only be achievable through a substantial cut in public transport service funding – a measure not indicated in the budget explanations. The greatest risk, however, lies with the transfers to the Health Insurance Institute of Slovenia (ZZZS). The Health Insurance Institute's proposed financial plan anticipates a significant increase in revenue from compulsory healthcare contributions, which is not feasible without legislative changes. Without these changes, an even higher transfer from the state budget would be required to balance the health insurance budget.

Increasing transfers from the state budget to other public finance budgets reflect structural pressures. Total transfers [21] are projected to increase by around EUR 750 million to EUR 4.5 billion over the 2025–2027 period (Figure 2.11). Although nominal transfers are increasing, their share in GDP (total 5.8% of GDP) remains below the long-term average. An exception is the transfer to the Health Insurance Institute of Slovenia, whose share has tripled compared to the pre-pandemic period (Figure 2.12). This development reflects the adoption of numerous discretionary measures, including changes to the salary system. At the same time, the aforementioned risk remains that, without changes to the financing of the system, an even larger transfer than currently envisaged will be required. The additional transfer to the Pension and Disability Insurance Institute,[22] intended to ensure balance in its budget, is projected at 1.4% of GDP for the 2025–2027 period. This is a relatively high proportion given the historically high level of social contributions paid.[23] The transfer also reflects the gradual decline in the ratio of insured persons to pension beneficiaries in recent years. If a pension reform is not adopted, demographic trends suggest that the share of the transfer is likely to increase further in the future. Despite significant systemic changes to municipal financing in recent years, the share of total transactions from the state budget to GDP is expected to remain roughly at its long-term average level in the coming years.

[21] Transfers to municipalities include current and investment transfers, as well as a share of personal income tax revenues.

[22] In addition to these regular transfers, which cover the payment of pension and disability insurance contributions for public employees and certain other population groups.

[23] This is due to record employment levels and high salary growth.

Table 2.1: State budget projections 2025–2027

	EUR million				growth in %*			contribution to growth in p.p.		
	outturn 2024	2025	2026	2027	2025	2026	2027	2025	2026	2027
Excluding intervention measures										
Revenue	**14,070**	**14,501**	**15,229**	**15,638**	**3.1**	**5.0**	**2.7**	**3.1**	**5.0**	**2.7**
VAT	5,336	5,575	5,856	6,142	4.5	5.0	4.9	1.7	1.9	1.9
Excise duties	1,668	1,664	1,646	1,644	-0.2	-1.1	-0.1	0.0	-0.1	0.0
Personal income tax	2,077	2,174	2,175	2,392	4.7	0.1	9.9	0.7	0.0	1.4
Corporation tax	1,719	1,524	1,644	1,755	-11.4	7.9	6.7	-1.4	0.8	0.7
Receipts from the EU budget	786	1,025	1,420	1,237	30.5	38.5	-12.9	1.7	2.7	-1.2
Non-tax revenues	1,159	1,011	880	810	-12.7	-13.0	-8.0	-1.0	-0.9	-0.5
Other	1,325	1,528	1,607	1,658	15.3	5.1	3.2	1.4	0.5	0.3
Expenditure	**14,257**	**16,335**	**17,335**	**17,771**	**14.6**	**6.1**	**2.5**	**14.6**	**6.1**	**2.5**
Total labour costs	4,322	4,938	5,086	5,332	14.2	3.0	4.8	4.3	0.9	1.4
Transfers to individuals and households	1,940	1,970	2,087	2,273	1.6	5.9	8.9	0.2	0.7	1.1
Expenditure on goods and services	1,607	1,760	1,899	2,021	9.5	7.9	6.5	1.1	0.8	0.7
Investment	1,358	1,912	2,324	2,331	40.8	21.5	0.3	3.9	2.5	0.0
Transfer to ZPIZ	1,443	1,459	1,672	1,797	1.1	14.6	7.5	0.1	1.3	0.7
Transfer to ZZZS	453	535	550	511	18.1	2.7	-7.1	0.6	0.1	-0.2
Subsidies	373	466	517	544	24.8	11.1	5.1	0.6	0.3	0.2
Interest	757	843	903	914	11.3	7.1	1.3	0.6	0.4	0.1
Payments to the EU budget	636	701	734	669	10.3	4.7	-8.8	0.5	0.2	-0.4
Reserves	648	673	567	404	3.8	-15.7	-28.9	0.2	-0.6	-0.9
Other	718	1,077	996	974	50.1	-7.5	-2.3	2.5	-0.5	-0.1
Balance (excl. interv. measures)	**-188**	**-1,833**	**-2,107**	**-2,133**	**-1,646**	**-274**	**-26**			
in % of GDP	*-0.3*	*-2.6*	*-2.9*	*-2.8*						
Intervention measures	**-608**	**-30**	**-1**	**-1**	**578**	**29**	**0**			
Balance (total)	**-796**	**-1,863**	**-2,108**	**-2,133**	**-1,067**	**-244**	**-26**			
in % of GDP	*-1.2*	*-2.7*	*-2.9*	*-2.8*						

*Source: MoF, FC calculations. *balance, intervention measures and balance excluding intervention measures change in EUR million.*

3. Assessment of compliance of budget documents with the Medium-Term Fiscal and Structural Plan

The Fiscal Council projects that the general government deficit will gradually increase to around 2.5% of GDP over the period of the Plan to 2028, primarily due to the impact of discretionary measures. The main reason for the projected increase in the general government deficit[24] over the 2025–2028 period (see Figure 3.1) is the reform of the public sector salary system. According to the latest projections, the effect of this reform will be around twice as large as initially estimated based on IMAD's pre-reform salary forecasts from autumn 2024. Consequently, compensation of employees as a percentage of GDP in 2028 will be around 1.5 percentage points higher than in 2024 (Figure 3.10). The actual impact on the general government balance will be approximately half this amount.[25] The larger deficit in the coming years will also result from an increase in the social-benefit expenditure as a percentage of GDP, primarily due to demographic changes. Pension expenditure is expected to rise further, partly due to the effect of the pension reform, which is anticipated to increase the deficit during its initial phase.[26] Further increases are projected for expenditure on medicines and sickness benefits, while unemployment benefits are expected to rise from 2026 onwards in accordance with legislative amendments. The Fiscal Council's projections do not include the announced introduction of mandatory Christmas bonuses for all employees. If implemented at the proposed level, this measure would increase the deficit by an estimated 0.3% of GDP per year.[27] The level of public investment is projected to remain relatively high – over 5% of GDP – with an additional spike anticipated in 2026 due to the completion of the Recovery and Resilience Plan (RRP). This high level of investment activity will be partly due to post-flood reconstruction, which will not affect the general government balance, as it will be fully financed from assigned revenues. A similar situation applies to the effect of introducing the long-term care system, which the Health Insurance Institute of Slovenia (ZZZS) projects will have a slightly positive impact on the balance in 2025. However, from 2026 onwards, revenues are projected to lag slightly behind expenditure. Growth in tax revenues and social contributions, excluding the effects of discretionary measures,[28] over 2025–2028 is projected to be almost half the average growth rate observed over the previous four years.[29] The Ministry of Finance projects that the deficit will exceed 3% of GDP in 2027.[30] Despite the primary deficit, the gross general government debt-to-GDP ratio is projected to decrease slightly during the period covered by the Plan (Figure 3.2), as nominal GDP growth rate is expected to exceed the implicit interest rate.[31] The latter changes much more slowly than the market interest rate due to the favourable maturity structure of the debt.

The Fiscal Council's projections suggest that the commitments set out in the Plan will not be met. Even when increased defence spending is taken into account, net expenditure growth will exceed these commitments in both years covered by the Draft Budgets (Box 3.1 and Figure 3.7). This overshoot will be primarily driven by the rapid growth in current expenditure (Figure 3.8). The average annual

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[24] For explanations of the assumptions used in the Fiscal Council's projections, see the Annex.

[25] The actual negative impact of the increase in employee compensation expenditure on the general government balance is smaller than the increase in expenditure itself. This is due to positive direct effects in the form of higher social contributions and personal income tax revenues, as well as indirect effects stemming from higher VAT and other tax revenues.

[26] This increase will be attributed to the introduction of a winter bonus, a minimum disability pension, an increase in the assessment of widows' and survivors' pensions, and an additional assessment percentage for childcare and compulsory military service.

[27] According to the latest available information, the mandatory Christmas bonus is expected to be half the minimum wage and be exempt from all duties up to that amount.

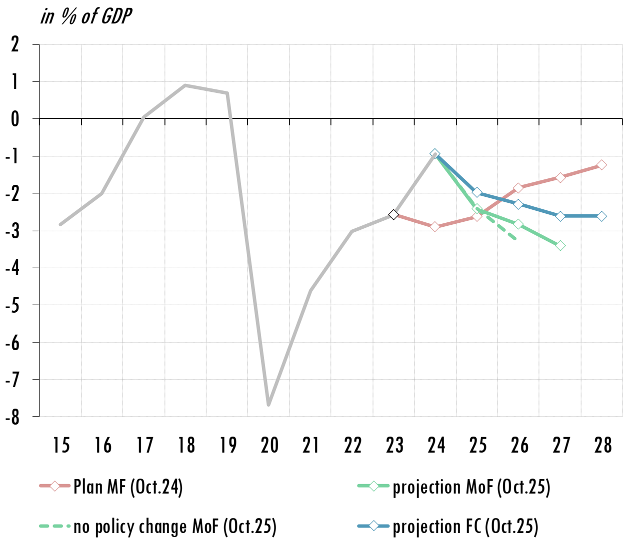
[28] The effects of the assigned revenues introduced for post-flood reconstruction, the revenues from the mandatory health insurance contribution introduced in 2024 and the long-term care contribution introduced in 2025 have been excluded.

[29] The significant growth in these revenues over the past four years has been largely influenced by the post-pandemic recovery and a period of high inflation.

[30] According to projections by the Ministry of Finance, the main reasons for the higher deficit are a more cautious projection for certain smaller revenue categories and a slightly higher level of investment.

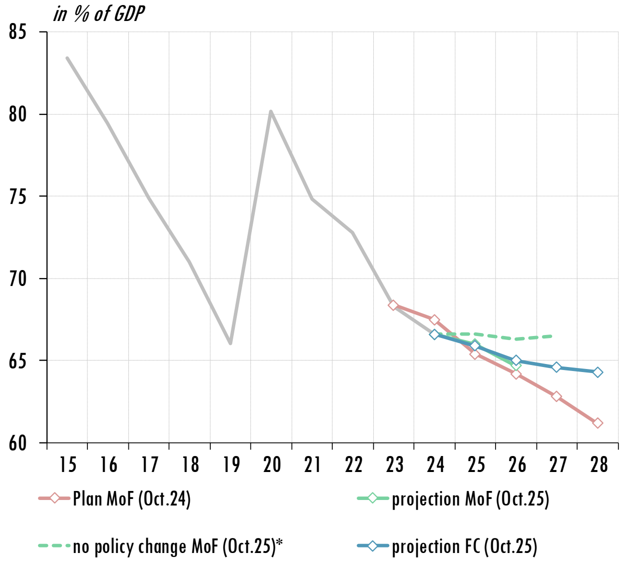
[31] The implicit interest rate is defined as the ratio of the interest expenditure in a given year to the nominal gross debt in the previous year.

Figure 3.1: General government budget balance



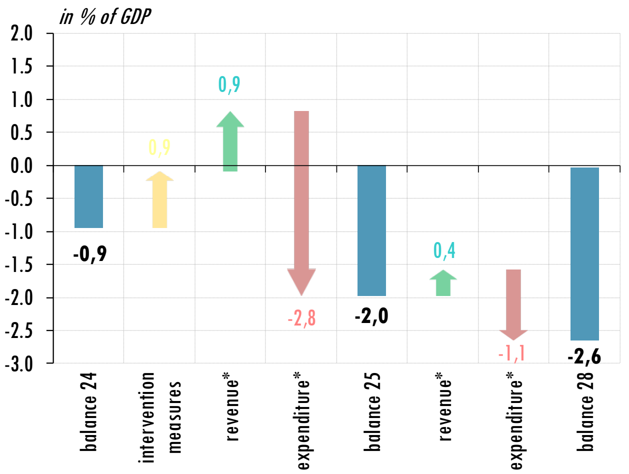
Source: FC, MoF, IMAD, SORS.

Figure 3.2: General government gross debt



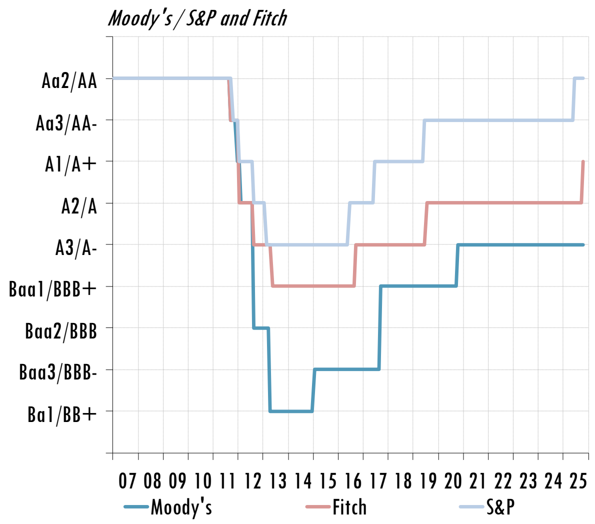
*Source: FC, MoF, SORS, IMAD. Note: *FC calculations.*

Figure 3.3: Factors of general government budget balance change 2024-2028



*Source: MoF, SORS, IMAD, FC calculations. Note: * excluding intervention measures.*

Figure 3.4: Slovenia sovereign rating

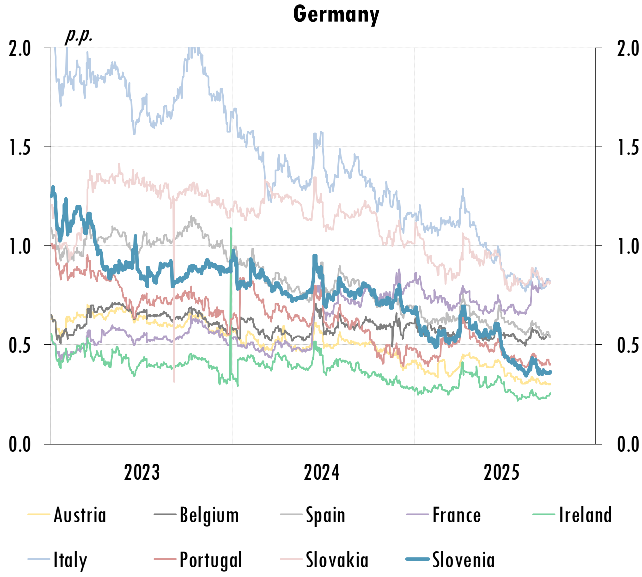


Source: Fitch, Moody's, Standard & Poor's (S&P).

Figure 3.5: Long-term interest rate - Slovenia

Soirce: ECB, FC calculations.

Figure 3.6: Spreads of 10-year reference Euro bonds vs. Germany



Source: Bloomberg, FC calculations.

overshoot for 2026 and 2027 is about 0.8 percentage points of GDP (EUR 0.6 billion). Over the entire 2025–2028 projection period, the average annual overshoot is slightly lower, at 0.6 percentage points of GDP (EUR 0.4 billion). Cumulatively, this represents a deviation of 0.2 percentage points of GDP in the 2024–2026 period and 1.6 percentage points of GDP over the entire Plan period. This will offset the slack in net expenditure growth recorded in 2024, which was primarily a result of overly optimistic high expenditure projections when the Plan was drawn up, as highlighted by the Fiscal Council last autumn.[32] Annual overshooting (except in 2028) and cumulative overshooting from 2027 onwards would exceed the thresholds that could prompt the initiation of an excessive deficit procedure under EU fiscal rules (Figure 3.9).[33] Accelerated net expenditure growth will result in a slower-than-planned reduction in the debt-to-GDP ratio, with debt remaining above 60% of GDP (Figure 3.2). Nevertheless, the pace of debt reduction will still comply with the minimum contraction required by the Plan (0.5 percentage points of GDP per year). The Fiscal Council estimates that the debt-to-GDP ratio will decrease by an average of 0.6 percentage points of GDP per year between 2024 and 2028.

Without appropriate measures, increased defence spending will permanently weaken public finances. According to the Draft Budgets, the projected permanent deterioration in public finances due to defence spending compared to 2021 is projected to reach around 0.6 percentage points of GDP by 2027 (Figure 3.11 and Box 3.1). Simulations by the European Commission (EC) suggest that gradually increasing defence expenditure to the maximum permissible level would raise the deficit by 1.2 percentage points of GDP and public debt by 2.4 percentage points of GDP by 2028.[34] The EC estimates that this deterioration would require an additional fiscal adjustment of 0.4 percentage points of GDP once the general escape clause expires. To ensure that the requirements of the next Plan remain feasible and do not hinder economic growth, it is crucial that public finances do not deviate from the current Plan's commitments. Otherwise, the adjustment requirements after the general escape clause expires could significantly increase in the next Plan, which will enter into force by 2029 at the latest.[35] It is therefore essential to adopt corrective measures during the current Plan period to offset the permanent increase in defence spending and ensure the sustainability of public finances.[36]

Slovenia maintains favourable access to financing, albeit with significant caveats. Interest rate at which Slovenia currently draws funds in the markets is higher than during the 2014–2022 period, reflecting tighter monetary policy and developments in international financial markets. Nevertheless, the spreads on Slovenian government bonds relative to benchmark German bonds – an indicator of investor confidence – are near record lows (Figure 3.5). Their reduction over the past year has been among the largest in the euro area (Figure 3.6). Treasury liquidity reserves are high (around 13% of GDP), allowing Slovenia to cushion potential financial market disruptions and manage public debt more effectively. These high reserves are also reflected in a relatively low net debt level of around 45% of GDP in the second quarter of this year. Effective public-debt management is further evidenced by the average maturity of government securities, which is currently at around ten years. This reduces the risk of a rapid pass-through of higher interest rates to total borrowing costs. Credit

[32] Fiscal Council (2024).

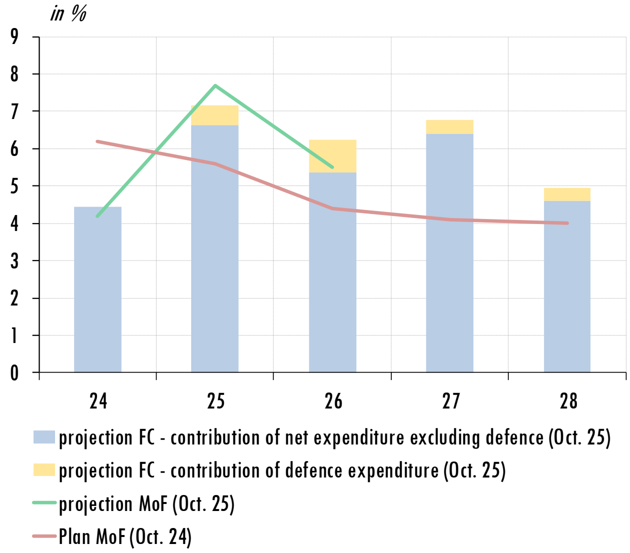
[33] Article 1(1) of the Corrective Regulation (EU 2024/1264) limits the permitted excess to 0.3 percentage points of GDP annually, and to 0.6 percentage points of GDP cumulatively. An Excessive Deficit Procedure (EDP) may be opened against an EU Member State that exceeds these limits if its general government debt exceeds 60% of GDP and its general government balance deficit exceeds 0.5% of GDP.

[34] Table 5 in the Annex of the European Commission (EC) (2025a).

[35] The plans are valid for four or five years. However, Council Regulation (EU) 2024/1263 allows for their revision up to one year before the end of the plan in the event of a change of government.

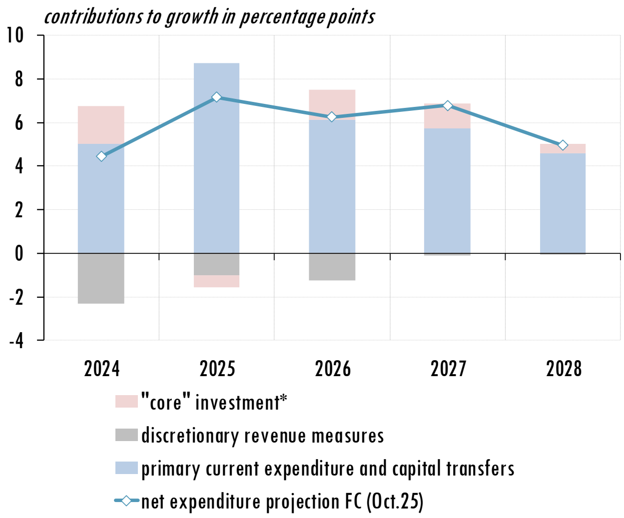
[36] EC (2025b).

Figure 3.7: Net expenditure growth and comparison with the Plan



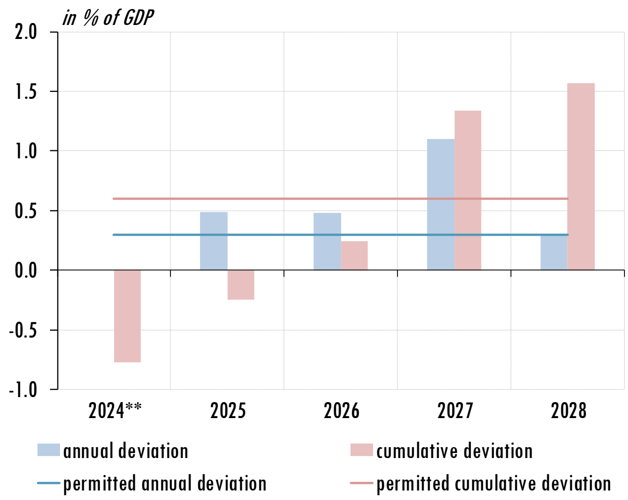
Source: MoF, SORS, FC.

Figure 3.8: Net expenditure growth by categories



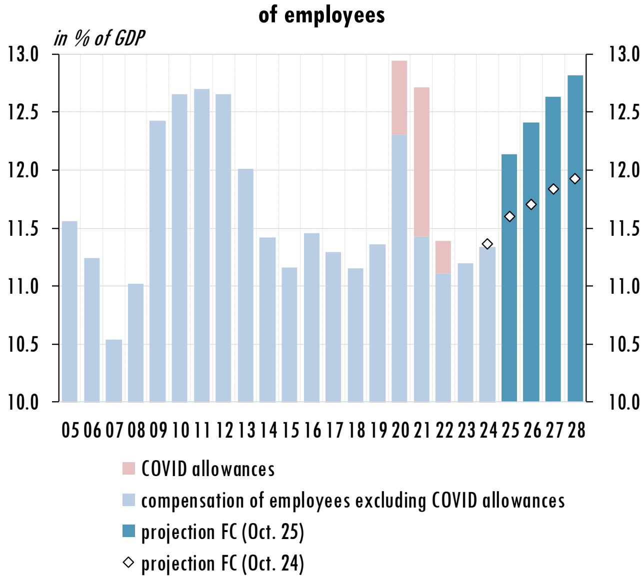
*Source: MoF, SORS, FC. Note: * excluding EU funded investment, national co-financing of EU programmes and one-off investment.*

Figure 3.9: Net expenditure* deviations in the period of the Plan according to FC projection



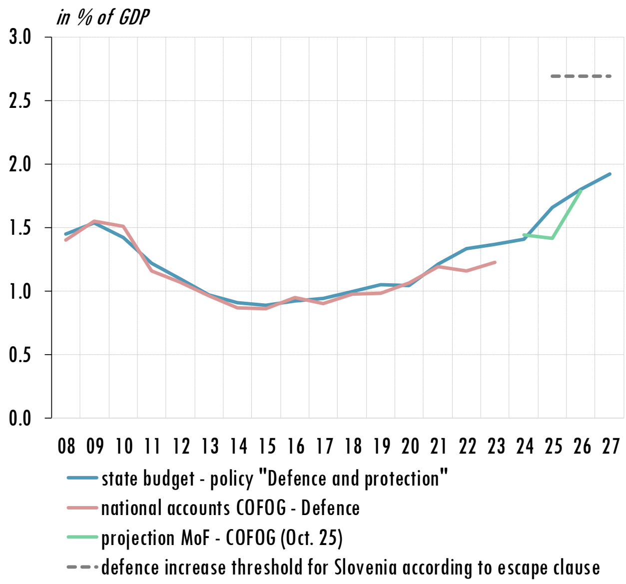
*Source: FC, Council Regulation (EU) (2024/1264). Notes: * after taking into account defence expenditure, ** as 2024 is not part of the Plan, the deviation in this year is not noted.*

Figure 3.10: Share of general government compensation of employees



Source: SORS, IMAD, compensation of employees projections FC.

Figure 3.11: Defence expenditure



Source: MoF, SORS, FC calculations.

rating agencies have maintained positive outlooks or raised Slovenia's ratings this year. However, they continue to draw attention to the structural and long-term risks to which Slovenia remains exposed.[37] It should be noted that credit ratings may drop rapidly if the fiscal situation deteriorates, which Slovenia already experienced just over a decade ago (Figure 3.4). Therefore, maintaining Slovenia's relatively favourable position in financial markets and its high credit ratings depend critically on preserving fiscal stability and addressing key challenges, most immediately by implementing the adopted pension reform.

Fiscal risks are increasing due to a combination of adopted measures, slower economic growth, and mounting medium- and long-term fiscal challenges. Current risks suggest that public finances could deteriorate further. Public finances are vulnerable to uncertainties in the economic environment that could reduce revenues or necessitate additional spending in the event of new shocks. In the short term, the main risks are linked to the implementation of public sector salary reform, its actual impact, and the possibility of additional pressure on public-sector labour costs. The uncertain dynamics of EU-fund absorption also pose a significant risk. Fluctuations can be significant, particularly towards the end of the drawing period from the Recovery and Resilience Facility. Such fluctuations, including the uncertain dynamics of post-flood reconstruction, could affect the scale and effectiveness of investments, which are already limited by labour shortages. Demographic conditions pose an increasingly serious challenge to public finances. While the direct impact of an ageing population on public finances is relatively well understood, uncertainties remain regarding the implementation of the adopted pension reform. Furthermore, demographic change and the uncertain impact of digitalisation and artificial intelligence pose risks to economic growth and, consequently, public finance revenues. In the medium to long term, further risks are associated with the scale and structure of defence expenditure and how it will be financed, the costs of mitigating climate change, and the implementation of large infrastructure projects, such as the construction of the second nuclear power plant unit.

To preserve medium-term fiscal sustainability of public finances and maintain favourable financing conditions, measures must be taken to reduce the deficit and to implement reforms that will alleviate future fiscal pressures. Slovenia is facing rising public expenditure driven by demographic and climate change, as well as defence requirements. At the same time, economic growth is likely to be slower than in the past, partly due to an ageing population. Borrowing costs are increasing and are likely to remain higher than they were before and during the pandemic. Furthermore, economic policy decisions since the onset of the pandemic have been characterised by overly optimistic expectations regarding the scope of public financing. A typical example of how such expectations have led to permanent measures is the increase in the share of general government employee compensation to GDP. This was brought about by changes to the salary system that have raised it to a level comparable to that reached during the pandemic, when COVID-related bonuses were in effect (Figure 3.10). Such trends significantly reduce fiscal space. To ensure fiscal sustainability, fiscal policy must therefore adhere to the fiscal trajectory set out in the Plan (see Box 3.2). This policy should be systemic and have a time horizon that goes beyond the political cycle. This is especially crucial during a pre-election period, when measures that would further constrain the already limited fiscal space should be avoided. To create additional room for policy action and maintain fiscal sustainability, the Government should also ensure the efficient use of public funds by conducting regular expenditure reviews and channelling funds towards areas that strengthen economic

[37] Moody's (2025) noted in its commentary on the importance of the pension reform for public finances that the agency's current positive rating for Slovenia is based, among other things, on the reform's positive contribution to reducing long-term, ageing-related costs and boosting the country's growth potential.

potential.[38] Moreover, urgent reforms are needed to comprehensively address structural challenges, particularly in the area of social protection. Such reforms would help maintain the sustainability of public finances and support long-term economic growth. All stakeholders should be aware of the importance of these actions and reforms, and should refrain from making decisions that could jeopardise fiscal sustainability and the currently favourable financing conditions.

Box 3.1: A framework for assessing compliance with fiscal rules

The Plan sets out the Government's commitment for the 2025–2028 period regarding fiscal policy orientations. These are based on limiting net expenditure[1] growth and assume the implementation of measures to maintain the sustainability of public finances and reduce public debt gradually. Net expenditure growth is the primary operational indicator of fiscal policy, and it is expected to decrease gradually during this period, in line with the projected slowdown in long-term economic potential growth. This should also contribute to a gradual reduction in the general government deficit.

The national escape clause is in effect for the 2025–2028 period. The clause permits an increase in defence expenditure, allowing for higher net expenditure growth than that set out in the Plan. Deviation from the Plan's commitments is only permitted for the portion of expenditure related to defence. In this context, changes in its share of GDP compared to 2021 are taken into account, but the increase must not exceed 1.5% of GDP. Growth in other expenditure must remain consistent with the adopted Plan. According to the Draft Budgets, the increase in defence expenditure up to 2027 is expected to remain below the permitted level (Figure 3.11). Currently, there is uncertainty about how defence expenditure will be treated under the general escape clause. According to the latest information available from the European Commission, defence expenditure calculated using the COFOG methodology will be considered under the clause, while expenditure on dual-use items will be excluded. Despite this uncertainty, the Draft Budgets do not clearly specify which funds are covered by the general escape clause. Furthermore, the Draft Budgets fail to specify the measures for replacing the initial financing of the increased expenditure through borrowing once he general escape clause's validity period expires.

[1] Total expenditure net of interest payments, EU-funded expenditure, national co-financing of EU programmes, cyclical unemployment expenditure, one-off expenditure and discretionary revenue measures.

[38] See, for example, IMF (2025).

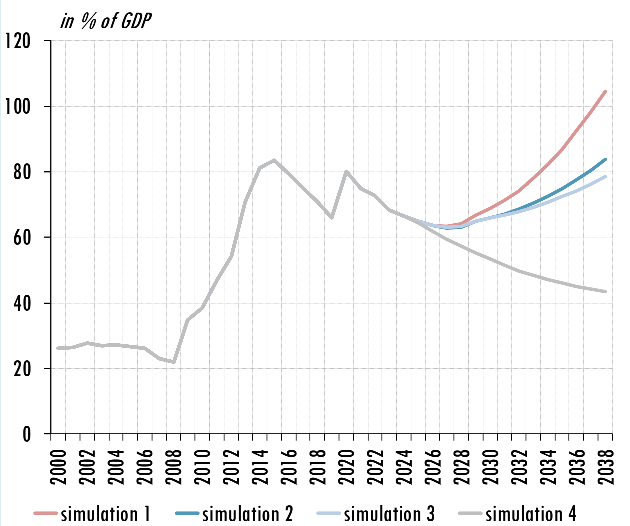
Box 3.2: Debt sustainability analysis

In the Debt Sustainability Analysis (DSA), simulations are presented to illustrate the development of debt in the medium term under various fiscal policy, fiscal risk and structural reform assumptions. The analysis includes two key marginal scenarios: one without fiscal policy adjustment and one with the adjustment (Simulations 1 and 4). The DSA assumes that the public finance stance, as measured by the structural primary balance, will remain at its current level of net of ageing costs and other risks (i.e. the initial position of public finances). As the Fiscal Council's forecasts predict a deterioration in public finances, all of the simulations (except Simulation 4) take into account the final year of the forecast period, when the structural primary deficit is at its highest.

Simulation 1 factors in the increased costs associated with an ageing population (the only factor affecting the position of public finances under the DSA methodology). It also includes additional fiscal risks (such as defence and climate-related expenditure), as well as the deterioration of public finances according to the Fiscal Council's projections, which assume that fiscal policy does not adhere to the commitments set out in the Plan. Simulation 2 assumes that fiscal policy addresses other risks and neutralises their impact on the fiscal balance, but without implementing the pension reform. Simulation 3 also addresses additional risks and assumes the implementation of the pension reform. Simulation 4 incorporates all risks and the pension reform, while assuming that fiscal adjustment complies with the Plan. Contrary to the Fiscal Council's forecasts, in this case the initial position of public finances remains at the 2025 level and does not deteriorate further.

The results show significant differences between the simulations. Without any action, public debt would exceed 100% of GDP by the end of the next decade, with interest costs reaching almost 4% of GDP (Simulation 1). By contrast, if the pension reform is implemented alongside consistent fiscal adjustment in line with the Plan (Simulation 4), debt would gradually decrease to around 45% of GDP, with the interest-to-GDP ratio remaining almost unchanged. Comparing the results of Simulations 3 and 4 highlights the importance of additional fiscal policy adjustments. While the pension reform would significantly contribute to limiting the deterioration of public finances, its effectiveness in ensuring fiscal sustainability would depend primarily on compliance with the Plan's fiscal policy commitments.

Figure: Alternative simulations* of general government debt



*Source: SORS, IMAD, FC calculations, assessment of the effects of pension legislature changes with DYPENSI model (IER, 2025). Note: * simulation definitions are provided in the text.*

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Annex: Assumptions underlying the general government balance projection for 2025–2028

The general government balance projections are based on the autumn 2025 forecast of economic trends.[39] The projections include a number of assumptions and adjustments that may deviate not only from tax bases and rates, as well as from the Ministry of Finance's expenditure assumptions used in its general government projections.

The most important assumptions underlying the revenue projections are as follows:

- Regarding social contribution revenues, the compulsory healthcare contribution is indexed in accordance with legislation[40] from 1 March of each year to the growth of the previous year's average gross salary.
- Revenues from the long-term care contribution are included within the scope presented in the Health Insurance Institute of Slovenia's (ZZZS) projected operations for the 2025–2027 period.[41]
- Regarding the Reconstruction Fund's assigned revenues, it is assumed that profits from the Slovenian Sovereign Holding and the bank balance-sheet tax will remain at their realised levels up to and including 2028. Meanwhile, revenues from the increased corporate income tax rate are indexed to the forecast of net operating surplus.
- Revenues arising from property have been adjusted to reflect the estimated financial impact of the Act Regulating the Transitional Financing for the Accelerated and Equitable Coal Phase-out.[42]
- Revenues arising from interest are based on the assumption that the balance of the general government Treasury Single Account remains at the level recorded at the end of September 2025.
- All RRP funds are assumed to be received in 2026.

The most important assumptions underlying the expenditure projections are as follows:

- Expenditure on compensation of employees is based on the IMAD projections for average gross salary growth in the public sector, assuming the same employment growth rate as that realised in the first half of 2025.
- Regarding social benefit expenditure, expenditure on long-term care is included within the scope presented in the Health Insurance Institute of Slovenia's (ZZZS) projected operations for the 2025–2027 period.[43]
- Expenditure on social benefits for pensions includes additional financial effects within the scope presented in the draft Act Amending the Pension and Disability Insurance Act.[44]

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[39] IMAD (2025).

[40] Article 48 of the Health Care and Health Insurance Act. Available at: https://pisrs.si/pregledPredpisa?id=ZAKO213 (Only in Slovene).

[41] Available at: https://imss.dz-rs.si/IMiS/ImisAdmin.nsf/ImisnetAgent?OpenAgent&2&DZ-MSS-01/baecf1634274eac2c641c96165adf54ca656aa7b981c7796a7d8062ee491d107 (Only in Slovene).

[42] Available at: https://pisrs.si/pregledPredpisa?id=ZAKO9127 (Only in Slovene).

[43] Available at: https://imss.dz-rs.si/IMiS/ImisAdmin.nsf/ImisnetAgent?OpenAgent&2&DZ-MSS-01/baecf1634274eac2c641c96165adf54ca656aa7b981c7796a7d8062ee491d107 (Only in Slovene).

[44] Available at: https://imss.dz-rs.si/IMiS/ImisAdmin.nsf/ImisnetAgent?OpenAgent&2&DZ-MSS-01/6059c53c21fbc0739a21624900c3478d068ca07f917a0baf7337f3567b7ec593. (Only in Slovene).

- Under social benefit expenditure, sickness benefit expenditure will grow at an average rate over the last 15 years.
- The expenditure on social benefits includes financial effects to the extent presented in the Act Amending the Labour Market Regulation Act.[45]
- State compensation for the operation of the Šoštanj Thermal Power Plant is included within the scope foreseen by the Act Regulating the Transitional Financing for the Accelerated and Equitable Coal Phase-out.[46]
- All available RRP funds are assumed to be used by the end of 2026.
- The Reconstruction Fund's expenditure in 2025 has been adjusted to reflect the actual outcome in the first nine months of 2025, which lags visibly behind the planned figures. It is also assumed that the fund will continue to incur expenditure until 2030, and not just until 2028, when it is scheduled to stop collecting assigned revenues.
- The announced introduction of a mandatory Christmas bonus for all employees has not been included in the projection.

[45] Available at: https://pisrs.si/pregledPredpisa?id=ZAKO9257 (Only in Slovene).

[46] Available at: https://pisrs.si/pregledPredpisa?id=ZAKO9127 (Only in Slovene).