

Speech by the President of the Fiscal Council at the 64th emergency session of the Committee on Finance, 20 October 2025

The Fiscal Council has assessed the budget documents for 2026 and 2027, as well as their compliance with the Medium-term Fiscal and Structural Plan. Our conclusion is clear and supported by both our own projections and those of the Ministry of Finance: fiscal policy is diverging from the path set out in the Medium-term Fiscal and Structural Plan for 2025–2028, which aims to ensure the medium-term sustainability of public finances through gradual consolidation.

The public finance deficit has already increased this year, in 2025. The main reason for this is the substantial rise in current expenditure, primarily driven by the reform of the public sector salary system. This rapid growth in expenditure exceeds overall economic growth, and is permanently increasing the spending level. At the same time, only a moderate increase in revenues is anticipated due to a deteriorating economic outlook. Coupled with high expenditure, this further reduces fiscal room for manoeuvre. If this trend continues, both the Ministry of Finance and the Fiscal Council project that the general government deficit will increase further to reach approximately 2.5% of GDP by 2028. Such a trajectory indicates a deviation from the planned consolidation, that is deficit reduction, as set out in the Plan. Under these circumstances, the public debt-to-GDP ratio is expected to remain above 60%, and it will take longer than initially planned to reduce it.

It should also be noted that the national escape clause temporarily permits increased spending solely for defence purposes. However, this clause is time-limited, while the budget documents do not specify how the additional borrowing required to finance the permanent increase in defence spending will be replaced by other sources once it expires.

We find that, even when defence expenditure is excluded, the growth in overall expenditure exceeds the limits to which the Government committed itself in the Medium-term Fiscal and Structural Plan for 2025–2028. This represents a deviation from the path required to ensure the medium-term sustainability of public finances, and consequently constitutes non-compliance with the Fiscal Rule Act's provisions.

Although Slovenia currently retains favourable access to funding and maintains high liquidity reserves, this situation cannot be taken for granted. The financial market's confidence is based on the credibility of fiscal policy. Lessons from the recent past teach us that credit ratings and borrowing conditions can deteriorate rapidly once that credibility is called into question.

The Fiscal Council welcomes measures that alleviate some of the pressure on public finances, such as establishing dedicated resources for post-flood reconstruction, introducing long-term care and reforming the pension system. However, without the actual implementation of reforms and further measures – particularly those that curb current spending and improve spending efficiency – it will not be possible to sustain stable public finances and market confidence.

Our recommendations are simple:

- Ensure transparent and efficient spending enabling the long-term development;
- Keep labour cost growth in the public sector sustainable in the long term and in line with economic reality;
- Implement timely and gradual adjustments, as delayed action inevitably leads to sharper and more painful adjustments.

- Finally, compliance with the commitments set out in the Plan is not merely a formality but the basis for confidence in the sustainability of public finances.

Dear Deputies of the National Assembly, Slovenia's position and its ability to repay public debt remain favourable in the eyes of investors. However, decisive action is essential in light of the deteriorating economic situation and the rapid increase in current expenditure.

Now is the time to take corrective measures to prevent further deviation from committed targets, while the market conditions for financing sovereign debt remain stable and there is still scope for action. Only by acting prudently and avoiding the pursuit of short-term objectives can we ensure that fiscal policy remains a safe anchor for the country, rather than becoming a risk to its future development.