REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Assessment of budgetary documents for 2027 and 2028

October 2026

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Summary

The budget documents foresee a decline in the fiscal deficit for 2027 and 2028, which is necessary to ensure debt sustainability. However, the measures by which this is to be achieved have not been duly presented. Both the Fiscal Council's and the Government's no-policy-change scenarios indicate that the deficit will continue to increase. The aggregate net expenditure growth, which serves as the benchmark for the assessment of fiscal rules, is projected to exceed the commitment set out in the medium-term fiscal plan. The budget documents also fail to account for the potential negative impact of the planned expenditure constraints on economic activity. The Government should prepare a more credible budget proposal and a medium-term fiscal framework, incorporating clearly defined measures to ensure fiscal sustainability and support the strengthening of long-term economic potential.

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The Fiscal Council's projections, which exclude the measures envisaged in the budget package due to their lack of specificity, indicate a further departure from the fiscal trajectory set out in the medium-term plan. A similar deterioration is also evident in the Government's no-policy-change scenario, which is, however, only available until 2027. Although the growth in net expenditure is expected to slow down, the total deviation from the agreed path set out in the medium-term plan would continue to increase. The total deviation would exceed the threshold, even after taking into account the temporary deviation permitted for higher defence spending.

According to the Government's plans, the general government deficit in 2027 and 2028 is expected to be lower than in 2026. In 2028, it is projected to reach 2.3% of GDP, whereas, according to the Fiscal Council's projections, it could approach 4% of GDP in the absence of additional measures. The Government's target is thus a deficit approximately 1.5% of GDP lower than the deficit that would result without measures. While the draft state budgets for 2027 and 2028 assume extensive measures across numerous budget items, these are presented without the explanations or details necessary for an independent calculation of their financial effects. For instance, the documents fail to clarify how state budget expenditures on wages and household transfers are to be reduced compared to this year, especially given the ongoing implementation of the pay reform and the statutory indexation of transfers, both of which are envisaged in the explanatory notes to the budget package. The planned expenditure constraints could, in particular, slow the growth of household income and consumption, and consequently of tax revenues. The Government's projections do not take this into account; therefore, the anticipated reduction in the deficits is likely overestimated.

In the future, a strengthening of the factors limiting the operation of fiscal policy can be expected. The projected slowdown in economic growth will be increasingly less effective in reducing the public debt-to-GDP ratio, while higher borrowing costs will increase interest expenditure. Debt reduction will therefore depend increasingly on reducing deficits. At the same time, the potential implementation of the Intervention Measures for the Development of Slovenia Act, the effects of which are not included in the baseline projection, could lead to a permanent fiscal deterioration. A temporary derogation from the fiscal rules does not preclude the permanent impact of higher defence spending on public finances. Furthermore, the cost pressure of an ageing population on public finances will persist despite the adopted pension reform.

The state of public finances is not favourable despite solid macroeconomic conditions. In the budget documents, the Government should supplement its objectives with specific measures, verifiable estimates of their financial effects, and an implementation timetable. These measures should be incorporated into a credible medium-term fiscal framework that also takes into account the impact of the planned measures on economic growth.

1. Basis for the assessment of the Draft Budgets

1.1 Legislative and formal basis

The Fiscal Council did not receive the budget documents within the legally defined deadlines. On 4 October 2026, the Government of the Republic of Slovenia submitted the Draft Amendment to the State Budget for 2027 and the Draft State Budget of the Republic of Slovenia for 2028 (hereinafter: the 'Draft Budgets') to the Fiscal Council and the National Assembly for assessment. This was not in line with the Public Finance Act, which requires the Government to submit budget documents to the National Assembly by 1 October of the current year.[1] The Fiscal Council received the aforementioned documents on 5 October 2026, while on 6 October it also received detailed information relating to the Draft Budgets from the Ministry of Finance as required by the cooperation agreement.[2] The Fiscal Council assesses the compliance of budget documents with medium-term sustainability requirements in accordance with the provisions of the Fiscal Rule Act (hereinafter: the ZFisP-1)[3], based on data for the general government sector, compiled using the ESA2010 methodology. In accordance with the cooperation agreement, the Ministry of Finance provided this information to the Fiscal Council on 15 October 2026.

The deadlines for the Fiscal Council's assessments depend on the date of receipt of the general government sector projections. However, the National Assembly's timetable for considering the Draft Budgets does not take this into account. According to the ZFisP-1 (point 3 of paragraph two of Article 7), the Fiscal Council must prepare its assessment of the Draft Budgets within ten days of receiving the projections of general government revenue and expenditure prepared on the basis of the Draft Budgets. Given the date on which these projections were received (15 October), the deadline for the Fiscal Council's current assessment was set on 25 October 2026. However, the timetable established by the National Assembly of the Republic of Slovenia[4] for considering the Draft Budgets once again fails to take adequate account of this deadline. The first budget session of the Committee on Finance was scheduled just six days after the receipt of the complete documentation for assessment. This curtailed the scope for a comprehensive discussion of the Draft Budgets in the National Assembly of the Republic of Slovenia, as well as hindered the effective implementation of paragraph seven of Article 2 of the ZFisP-1.[5] The Fiscal Council therefore once again calls on the National Assembly to comply with the provisions of the ZFisP-1 when preparing the timetable for considering budget documents.[6]

[1] Article 28 The Public Finance Act, available (in Slovene) at: https://pisrs.si/pregledPredpisa?id=ZAKO1227.
[2] Agreement between the Ministry of Finance and the Fiscal Council, available (in Slovene) at: https://www.fs-rs.si/wp-content/uploads/2025/09/SporazumFSinMF_sept2025.pdf
[3] Available at: https://pisrs.si/api/datoteke/Download?path=/Prevodi/EN-2025-01-0860.doc
[4] Available (in Slovene) at: https://imss.dz-rs.si/IMiS/ImisAdmin.nsf/ImisnetAgent?OpenAgent&2&DZ-MSS-01/890a11beb9cd832372e47c07a3a327ed4318352ff88dd1e11e92743a5c6d34ac
[5] »The Fiscal Council participates in regular presentations and discussions in the National Assembly on planning and implementing the fiscal policy.«
[6] See also the Fiscal Council (2025).

The activation of the national escape clause permits net expenditure growth in Slovenia to temporarily exceed the path set out in the Medium-Term Fiscal and Structural Plan during the 2025–2028 period.[7] Slovenia requested the activation of the national escape clause along with 18 other EU Member States due to increased defence spending needs. The clause permits net expenditure growth to deviate from the planned path during the 2025–2028 period to the extent attributable to increased defence spending, provided that certain conditions set out in the Plan are met. On 6 July 2025, the Council of the EU granted Slovenia's request for a temporary deviation along with those of the majority of other EU Member States that had applied for it.[8]

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, according to its own projections, the fiscal path complies with the net expenditure growth projected in the Plan.

[7] Medium-Term Fiscal and Structural Plan for 2025–2028 (hereinafter: the Plan), approved by the Council of the EU in September 2024. Available at https://economy-finance.ec.europa.eu/document/download/c252d826-5130-4408-969e-c94fc1483008_en?filename=national_medium-term_fiscal-structural_plan_slovenia_en.pdf

[8] Available at https://eur-lex.europa.eu/eli/C/2025/3973/oj. Within the scope of the permitted deviation of 1.5% of GDP for defence expenditure, the national escape clause was extended in 2026 to cover certain expenditures related to reducing dependence on fossil fuels (up to 0.3% of GDP annually or 0.6% of GDP cumulatively), including measures effective from 28 February 2026, with the extension applying from February 2026 to the end of 2028. See: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:C_202604514.

1.2 Macroeconomic basis

Economic growth is expected to exceed the long-term average also in the coming years. Following strong GDP growth in 2026, projected at 3.8% in constant prices and 7.3% in nominal terms, economic growth is expected to slow in the coming years, while remaining above the long-term average. According to IMAD's Autumn Forecast[9], real GDP and nominal GDP are projected to grow in 2027–2028 by an average of 2.4% and 5.4%, respectively (their long-term average growth rates in 2005–2025 were 2.1% and 4.8%, respectively).

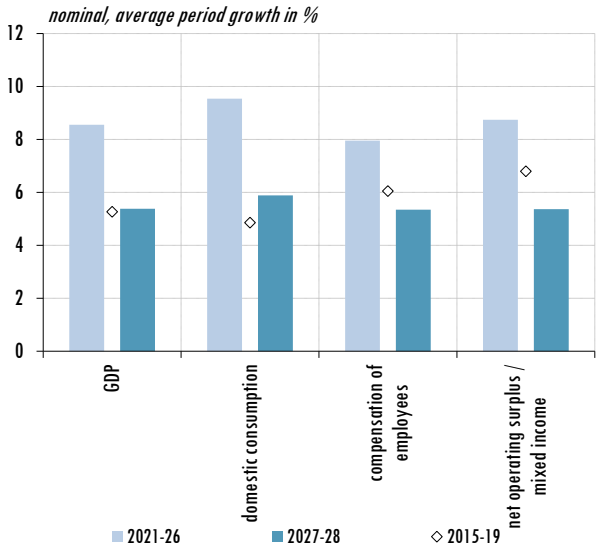
Tax base levels are higher than those forecast in the latest budgets prepared in autumn 2025. Their growth is expected to be relatively similar to that in the pre-epidemic period (Figure 1.1). Compared with IMAD's 2025 Autumn Forecast,[10] which served as the basis for the budget documents in force, the changes in tax base levels are significant (Figure 1.2). The latest forecasts for nominal GDP and domestic consumption in 2027 are approximately EUR 3.5 billion higher than those made in autumn last year. The upward revision of the nominal GDP growth forecast for 2027 by 1 percentage point is largely due to higher inflation, while the nominal GDP growth forecast for 2028 has remained virtually unchanged. In contrast to the significant revision of the forecast for 2026, the growth projections for consumption components in the coming years remain relatively unchanged. This indicates the dominance of cyclical factors in the acceleration in growth this year. Despite this and the continued decline in the contribution of labour, relatively strong growth in real economic potential is projected for the future, driven by higher investment (Figure 1.3) and an increased productivity contribution.

Labour market developments will be characterised by increasing demographic pressures, which, along with the albeit declining effects of changes to the public sector pay system, will contribute to relatively high wage growth (Figure 1.5). Employment is projected to remain unchanged over the next two years, in contrast to an average annual increase of almost 1% in the past (Figure 1.6). The increase in employment, which would otherwise be facilitated by relatively high economic growth, is, in fact, limited by the decline in the working-age population. Nevertheless, the number of people in employment is expected to remain at record highs, with unemployment staying at a very low level. An even more significant factor contributing to pressure on wages is thus the intensifying shortage of available labour. Furthermore, the projected wage growth also reflects the effects of the public sector pay reform, even though these will be less pronounced than last year and this year. Throughout the forecast period, wage growth is expected to exceed productivity growth as it has been the case since the recovery from the COVID-19 crisis.

Cost pressures are expected to be the primary driver of inflation, which is forecast 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 wage growth. Inflation will also be driven by higher energy prices resulting from geopolitical factors. Demand-driven price pressures are expected to remain relatively subdued. Inflation is projected to exceed both pre-epidemic levels and be close to that in the euro area throughout the draft budget period

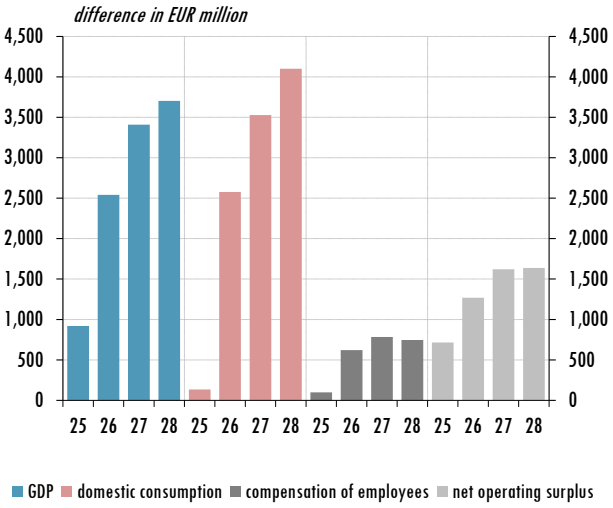
[9] IMAD (2026). The IMAD forecasts provide the basis for budgeting as laid down in the Decree on development planning documents and procedures for the preparation of the draft state budget and draft local government budgets (Official Gazette of the Republic of Slovenia [Uradni list RS] , Nos 44/07 and 54/10).
[10] IMAD (2025).

Figure 1.1: Tax bases



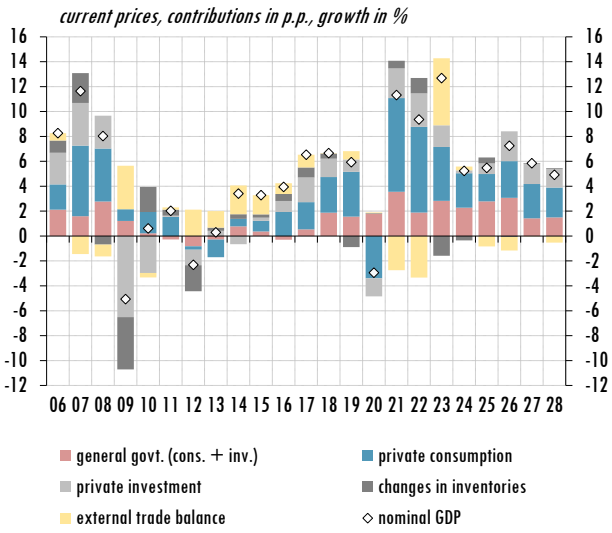
Source: SORS, IMAD, FC calculations.

Figure 1.2: Nominal level of tax bases from 2026 Autumn forecast compared to 2025 Autumn forecast



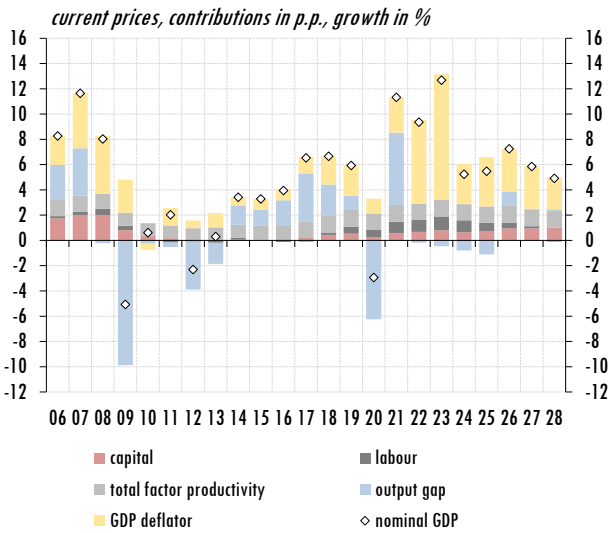
Source: IMAD, SORS, FC calculations.

Figure 1.3: Demand factors and GDP



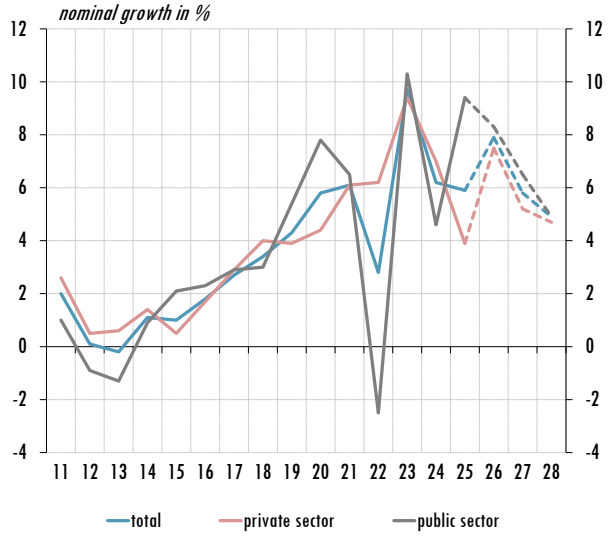
Source: SORS, IMAD, FC calculations.

Figure 1.4: Supply factors and GDP



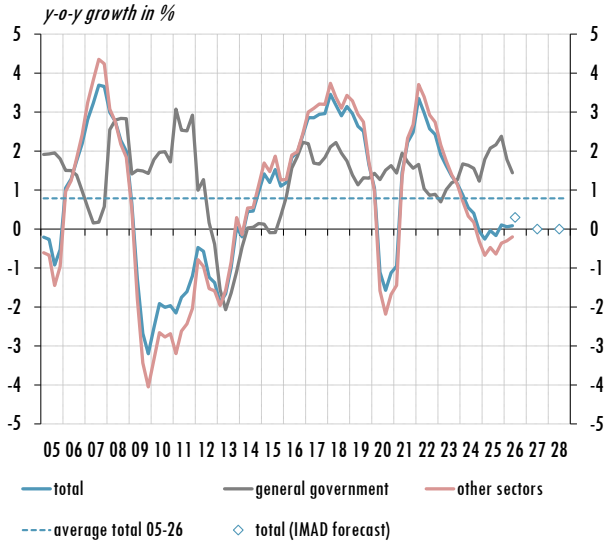
Source: SORS, IMAD, FC calculations.

Figure 1.5: Gross wages per employee



Source: SORS, IMAD.

Figure 1.6: Employment



Source: SORS, IMAD, FC calculations.

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

The extensive consolidation envisaged in the draft budgets is based on measures that have not yet been presented in sufficient detail to allow for an assessment of the feasibility of the plans. Next year, the state budget deficit in terms of GDP is expected to remain at a level similar to this year's and is projected to decrease by one third in 2028. The Draft Budgets indicate that the reduction in the deficit is expected to be based on measures with a significant financial impact as early as 2027. These measures have either not yet been adopted or have they been publicly presented. The Public Finance Act,[11] requires the Government to prepare and submit to the National Assembly the draft legislation necessary to implement the proposed state budget. In accordance with the Decree on Development Planning Documents and Procedures for Preparing the Draft State Budget,[12] the explanatory notes to the financial plan must include the legal and other bases upon which the plan is based, as well as the underlying assumptions and indicators used to calculate and estimate the funding required. Regarding the line items underpinning the projected consolidation, the submitted budget documents[13] do not provide sufficient information to verify the specific measures, legal bases, and calculations underlying the planned amounts. It is therefore not possible to appropriately assess the likelihood of their realisation. We also note that the consolidation to the assumed extent would affect the trajectory of key macroeconomic variables. This would likely be less favourable than in the baseline scenario of IMAD's Autumn Forecast, upon which the Draft Budgets should be based. This would also result in lower growth in tax revenue than forecast (see also Chapter 3).

Following relatively strong growth this year, revenue growth is expected to slow over the next two years; however, this slowdown could be more pronounced than projected in the Draft Budgets. The growth of key tax revenue depends on developments in tax bases. The Fiscal Council has observed that the projected trajectory of certain significant revenue items in the Draft Budgets, particularly for 2028, deviates from the projected trend in tax bases derived from IMAD's forecasts. According to government projections, growth in *VAT and personal income tax* revenue is expected to strengthen significantly, while, according to IMAD's forecast, growth in their respective tax bases is expected to slow.[14] In the absence of changes to taxation in the past, developments in these aggregates were broadly consistent. It is estimated that this revenue could be lower by around EUR 400 million in 2028. Among the projections for other revenue, that for *revenue from the sale of buildings and premises* stands out in particular. The Draft Budgets envisage the revenue from this source totalling EUR 303 million and EUR 106 million in 2027 and 2028, respectively. The highest revenue from this source to date totalling EUR 23 million was recorded in 2022, while the annual long-term average stands at EUR 10 million.[15] Budget documents contain no information that could be used to assess the realism of this assumption.[16] Taking into account past revenue and expenditure realised from the sale or purchase of buildings, the deficit could be approximately EUR 140 million and EUR 100 million higher in 2027 and 2028, respectively. In terms of the projected deficit, one of the most significant projections is that of *corporation tax revenue*. Since 2024, the rate of this tax has been 3 percentage points higher. Pursuant to Article 64 of the Act on Reconstruction, Development and the Provision of Financial Resources, this

[11] Point 4 of paragraph one of Article 13. Available (in Slovene) at https://pisrs.si/pregledPredpisa?id=ZAKO1227.

[12] Article 39. Available (in Slovene) at https://pisrs.si/pregledPredpisa?id=URED5312.

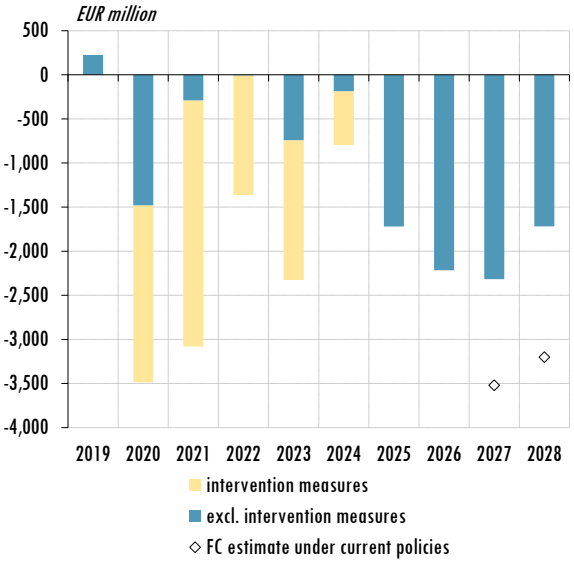
[13] ZIPRS2728, Budget Memorandum, explanatory notes to the general section of the Draft Amendment to the 2027 State Budget and the Draft Budget for 2028, along with the explanations of the budget proposal by policy area and by budget spending unit.

[14] VAT revenue growth is expected to increase from 6.0% in 2027 to 8.0% in 2028, while nominal growth of domestic consumption is expected to decline from 6.1% in 2027 to 5.7% in 2028. Personal income tax revenue growth is expected to increase from 7.5% in 2027 to 12.2% in 2028, while nominal growth in compensation of employees is expected to slow from 4.9% in 2027 to 4.2% in 2028.

[15] In terms of assessing the realism of the projected balance, it should be noted that the expenditure side for 2027 includes EUR 170 million for the purchase of buildings, which is significantly higher than the actual expenditure in previous years (the long-term annual average being EUR 10 million).

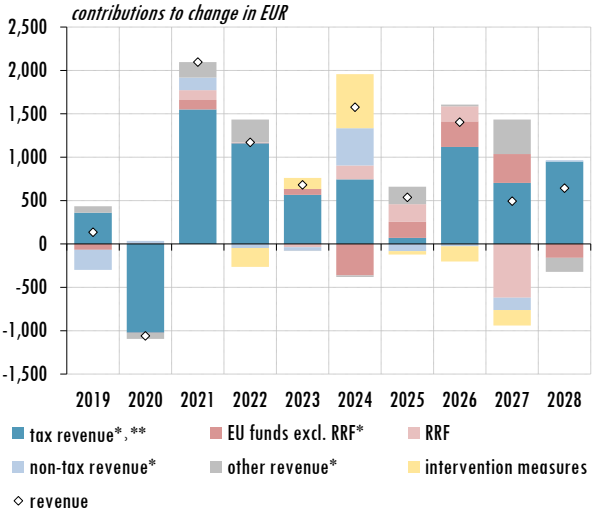
[16] In the budget documents, there is, for example, no concrete sales plan outlining the stage of preparation of the transaction, the bases for valuation or the projected payment schedule.

Figure 2.1: State budget balance



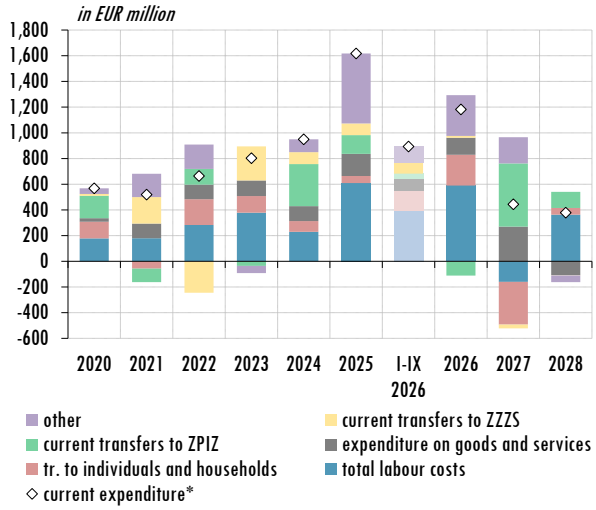
Source: MoF (26-28: budgetary documents), FC calculations.

Figure 2.2: State budget revenue change



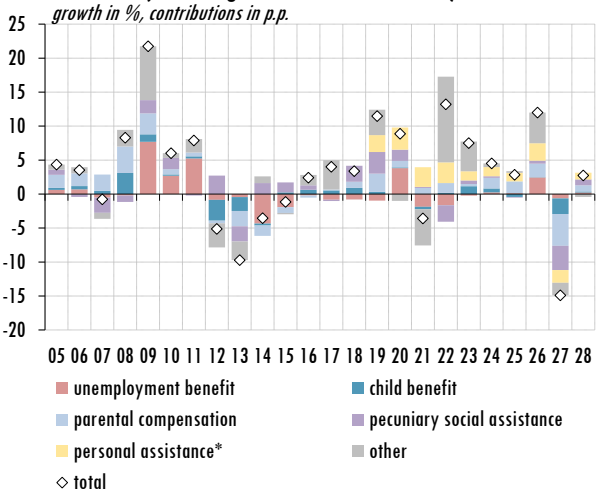
*Source: MoF (26-28: budgetary documents), FC calculations. Note: * excluding direct effect of intervention measures. ** VAT, excise duties, personal income tax, corporation tax.*

Figure 2.3: Factors of current expenditure change (excluding intervention measures)



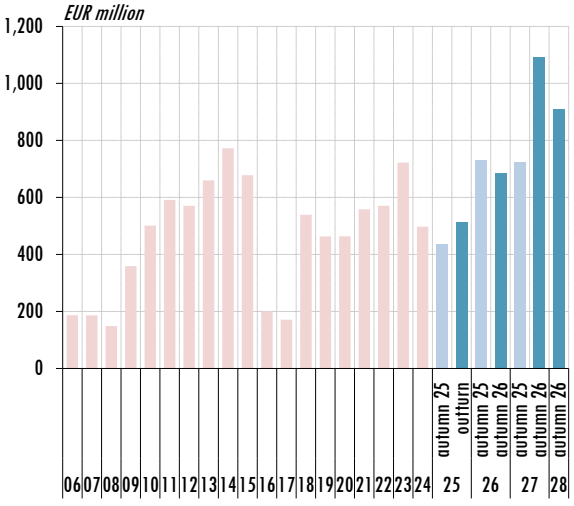
*Source: MoF (26-28: budgetary documents), FC calculations. Note: * excluding investment, interest and reserves.*

Figure 2.4: Transfers to individuals and households (excluding intervention measures)



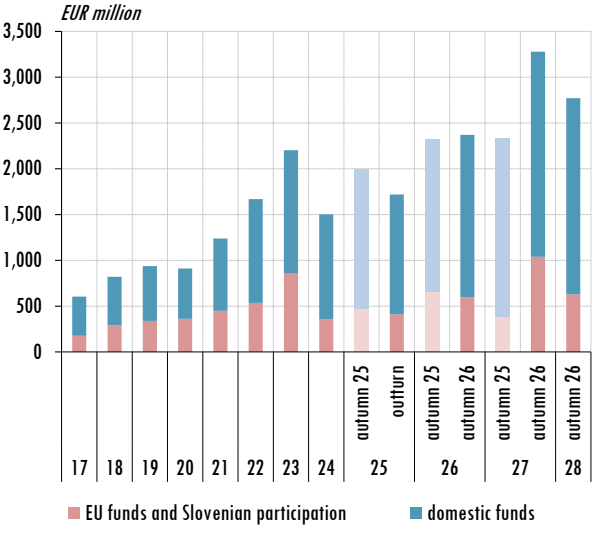
*Source: MoF, MDDSZ, FC calculations. note: * outturn: MDDSZ data, projections: MoF for the whole 411299 account. Personal assistance represents almost the entirety of this account.*

Figure 2.5: State budget receipts from the EU budget excluding RRF and agriculture*



*Surce: MoF, FC calculations. Note: *excluding accounts 786018, 780 in 781.*

Figure 2.6: State budget investment expenditure



Source: MoF, FC calculations.

difference constitutes a temporary, earmarked source of funding for the Fund for the Reconstruction of Slovenia. According to budget documents, revenues from this source will no longer be allocated to the Fund for the Reconstruction of Slovenia in 2027 and 2028. The tax rate is expected to remain higher, while the revenue generated from this source would become part of the general revenue of the state budget. In this way, the state budget deficit projected for 2027 and 2028 could be reduced by at least approximately EUR 150 million.[17]

Expenditure growth is expected to slow considerably next year and come to a halt in 2028. The materialisation of these assumptions would require extensive measures that have not yet been adopted or publicly announced. Projected labour costs and transfers to individuals and households contribute the most to the envisaged consolidation. According to the Draft Budgets, labour costs are expected to decline by 2.9 % or EUR 160 million next year. In this context, transfers to cover labour costs in public institutions, mainly in the fields of education, science, and culture, are expected to decrease by 6.2%, or approximately EUR 200 million. In this regard, budget documents state that the pay reform is expected to be implemented in accordance with legislation, while staffing plans are expected to remain at this year's level. According to IMAD's forecast, the continued implementation of the pay reform means that the average wage in the public sector is expected to increase by 6.5% next year. The gap between the Draft Budget projection and a simulation assuming an unchanged level of employment, taking into account the projected wage growth and the continued pay reform implementation, exceeds EUR 500 million in 2027. The budget documents provide no suitable explanation of how employment and/or labour costs per employee are expected to change to close this gap. Another factor that contributes significantly to the consolidation proposed in the Draft Budgets is transfers to individuals and households. These transfers are expected to decline by 14.9 % or EUR 330 million next year.[18] The budget explanatory memorandum explicitly states that, in accordance with legislation, the level of transfers next year is to be adjusted in line with this year's inflation, which, according to IMAD's forecast, will reach 3.7 % by the end of the year. In the absence of information regarding potential changes to the level of benefits, it is inferred that the bulk of the projected expenditure reduction is expected to be achieved by reducing the number of beneficiaries. More than two-thirds of all transfers to individuals and households relate to the five transfers shown in Figure 2.4. To achieve the projections set out in the Draft Budgets, the number of beneficiaries of these five transfers would need to be reduced by between one-fifth and one-third. The available explanatory notes provide no justification for such a large reduction in the number of recipients of these transfers.

If the measures implicitly included in the Draft Budgets are not implemented, the state budget deficit increase in each of 2027 and 2028 could be EUR 1 billion higher, an amount equivalent to approximately half of the currently projected deficits. This is the estimated potential gap between the Draft Budgets and the projections for the highlighted revenue and expenditure categories based on current policies or on the basis of past realisations, where new measures are not taken into account. The Fiscal Council stresses that, contrary to established practices for preparing fiscal projections, the Draft Budgets include significant financial impacts from measures that have not been formally adopted or have not yet been publicly presented. It is standard practice followed by the EC,[19] ECB[20] and OECD[21] when making fiscal projections to include measures that have not yet been adopted by parliament or are not yet formally in force; however, such measures must be presented publicly and in sufficient detail, and it must be possible to reliably assess whether they will actually be implemented to the envisaged extent. The planned measures must therefore be public and defined in such a way that their

[17] If this difference constitutes an earmarked source of funding for the Fund for the Reconstruction of Slovenia, it does not have an effect on the state budget balance, since higher revenue from this source is offset by expenditure to the Fund for the Reconstruction of Slovenia in the account 409300 Funds for special purposes.

[18] The realisation of this assumption would mean that a reduction of similar magnitude would be achieved within one year to that achieved in the three years following the implementation of the Fiscal Balance Act (ZUJF) between 2012 and 2015, when the total reduction was 17.4%.

[19] See Box I.2.3 in EC (2024a).

[20] See ECB (2016).

[21] See Annex 1.A. in OECD (2026)

financial impacts and feasibility can be verified. Lower planned expenditure amounts alone cannot substitute for such an explanation. The planned deficit reduction will remain insufficiently justified until this gap has been credibly explained.

Table 2.1: State budget

	EUR million				change in %			change in EUR million		
	outturn	forecast								
	2025	2026	2027	2028	2026	2027	2028	2026	2027	2028
Excluding intervention measures										
Revenue	**14,647**	**16,226**	**16,898**	**17,542**	**10.8**	**4.1**	**3.8**	**1,579**	**672**	**644**
VAT	5,563	6,265	6,641	7,172	12.6	6.0	8.0	702	376	531
Excise duties	1,632	1,534	1,455	1,453	-6.0	-5.1	-0.1	-98	-78	-2
Personal income tax	2,189	2,357	2,534	2,844	7.6	7.5	12.2	167	178	309
Corporation tax	1,487	1,834	2,062	2,173	23.3	12.4	5.4	347	228	112
Receipts from the EU budget	1,174	1,643	1,357	1,197	40.0	-17.4	-11.8	469	-286	-160
Non-tax revenues	1,076	1,050	906	922	-2.5	-13.7	1.8	-26	-143	16
Other	1,526	1,545	1,942	1,780	1.2	25.7	-8.3	18	398	-162
Expenditure	**16,366**	**18,443**	**19,215**	**19,260**	**12.7**	**4.2**	**0.2**	**2,077**	**772**	**45**
Total labour costs	4,931	5,521	5,361	5,724	12.0	-2.9	6.8	590	-160	364
Transfers to individuals and households	1,995	2,234	1,901	1,953	12.0	-14.9	2.7	239	-333	52
Expenditure on goods and services	1,780	1,913	2,183	2,076	7.5	14.1	-4.9	133	271	-108
Investment	1,661	2,368	3,278	2,771	42.6	38.4	-15.5	708	910	-508
Transfer to ZPIZ	1,589	1,477	1,968	2,094	-7.0	33.3	6.4	-112	491	125
Transfer to ZZZS	544	558	529	526	2.5	-5.3	-0.5	14	-30	-3
Subsidies	447	519	672	655	15.9	29.6	-2.5	71	153	-17
Interest	808	899	942	1,095	11.3	4.7	16.3	92	42	153
Payments to the EU budget	720	888	970	976	23.4	9.3	0.6	168	82	6
Reserves	786	882	259	280	12.2	-70.7	8.1	96	-623	21
Other	1,105	1,183	1,151	1,110	7.1	-2.7	-3.6	78	-32	-41
Balance (excl. interv. measures)	**-1,719**	**-2,217**	**-2,317**	**-1,719**				**-497**	**-101**	**599**
in % of GDP	*-2.4*	*-2.9*	*-2.9*	*-2.0*						
Intervention measures	**8**	**-2**	**0**	**0**				**-9**	**2**	**0**
Balance (total)	**-1,711**	**-2,218**	**-2,317**	**-1,719**				**-507**	**-99**	**599**
in % of GDP	*-2.4*	*-2.9*	*-2.9*	*-2.0*						

Source: MoF, FC calculations.

3. Assessment of compliance of budget documents with the Plan

The Government has set itself the goal of extensive fiscal consolidation over the next two years; however, the measures to achieve this goal are not transparently presented or credibly evaluated in the budget documents. According to the Draft Budgetary Plan and other budget documents, the Government has set an objective of reducing the general government deficit to 2.3% of GDP by 2028. This objective is to be achieved through a significant curbing of expenditure growth, particularly in 2027 when, according to government projections, the cumulative excess over the net expenditure growth commitments set out in the Plan is also expected to be fully eliminated. The bulk of the curbing of expenditure growth in 2027 is expected to result from the nominal level of employee compensation and social benefits remaining virtually unchanged compared to 2026. This would mean that, in 2007, the share of employee compensation in GDP would decrease by 0.6 percentage points and the share of social benefits by 1 percentage point of GDP. Achieving such a goal would entail extensive consolidation[22] requiring measures that are presented more transparently and evaluated more credibly than those set out in the Draft Budgetary Plan and other budget documents. The Fiscal Council's projections have therefore been made on the basis of policies and measures currently in force.

In our assessment, the planned consolidation would have negative feedback effects on economic activity and consequently on revenue trends, which is not accounted for in the government projections. In the Draft Budgetary Plan there is no difference between the revenue projection in the target scenario and the no-policy-change scenario. The difference between our projection of expenditure on employee compensation and social benefits based on currently applicable measures and the Ministry of Finance's target scenario amounts to approximately EUR 1.3 billion, or 1.7% of GDP in 2027. When compared to the Ministry of Finance's target scenario, we estimate that this difference would reduce general government revenue by approximately EUR 400 million or 0.5% of GDP, primarily as a result of lower disposable income. Approximately one half of this difference is accounted for by lower social security contributions, while personal income tax and VAT revenue would be around EUR 100 million lower each. This assessment does not take into account a potential negative impact on consumer sentiment, which could lead to an even more significant decline in consumption and the associated fiscal revenue. This is what happened in the period 2012–2014, when a consolidation of a scale similar to that planned for the next two years was carried out.

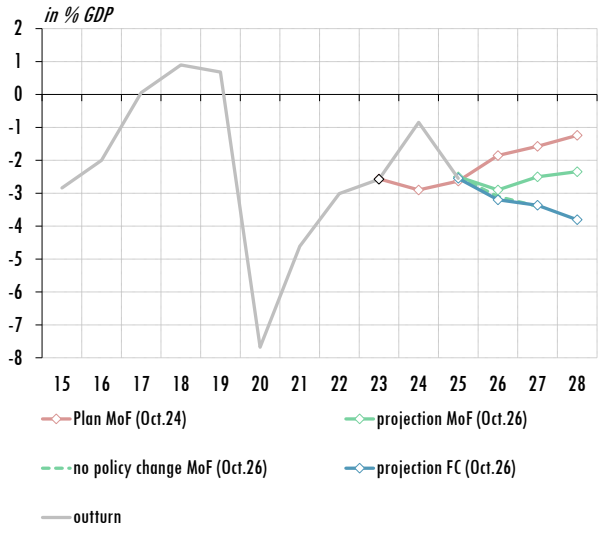
According to the Fiscal Council's projection, the general government deficit is expected to increase further over the next two years, approaching 4% of GDP in 2028. The Fiscal Council's projection has been made in line with legislation and established practice of international institutions, and takes into account only currently applicable policies and measures.[23] At the same time, the Fiscal Council's projection is quite similar to the Government's projection under the no-policy-change scenario, which is, however, available only up to 2027 (Figure 3.1). In contrast to the Ministry of Finance's target scenario, the Fiscal Council estimates that the deficit could slightly exceed the reference value of 3% of GDP as early as this year.[24] According to the Fiscal Council's projection, the increase in revenue in the next two years would be approximately half that recorded this year. This is consistent with the projected slowdown in the growth of tax bases in IMAD's forecast, which serves as the macroeconomic basis for the fiscal projections of the Fiscal Council and the Ministry of Finance. On the revenue side, the projections differ primarily in terms of revenue from EU funds. Due to the completion of the Recovery and Resilience Plan (RRP), the Fiscal Council anticipates a more significant decline in this revenue in 2027 than the Ministry of Finance, which assumes a marked increase in the utilisation of cohesion funds. The key difference between the Fiscal Council's projection and the Ministry of Finance's target scenario,

[22] In 2014, the shares of employee compensation and social benefits in GDP each decreased by 0.7 percentage points of GDP as a result of measures under the Fiscal Balance Act.

[23] For more information, see Chapter 2.

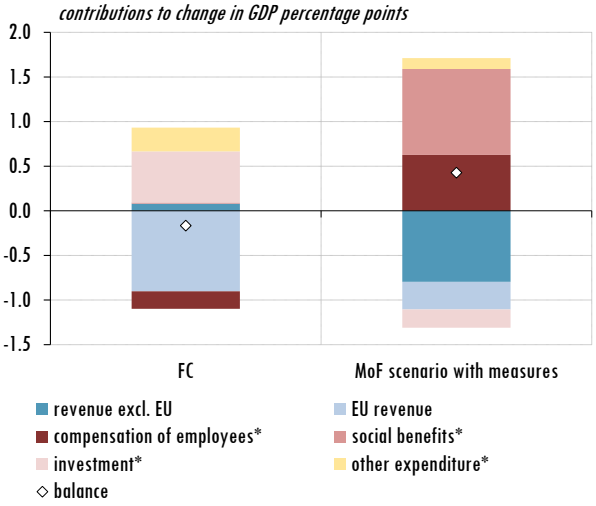
[24] In its unchanged-policies scenario, the Ministry of Finance also forecasts a deficit of 3.1 % of GDP in 2026. In the EU's reformed economic governance framework, a deficit in excess of 3% of GDP is no longer the primary indicator of the state of public finances. See also Box 3.1.

Figure 3.1: General government budget balance



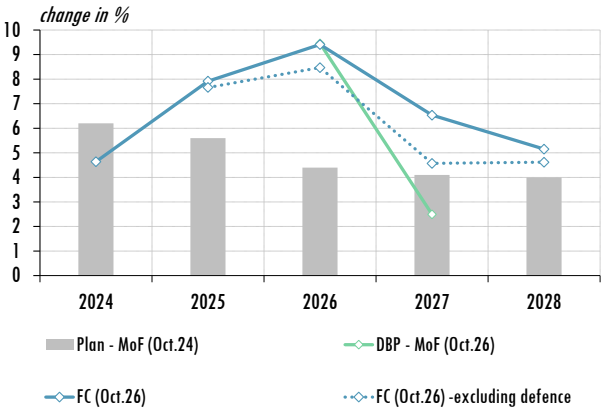
Source: FC, MoF, IMAD, SORS.

Figure 3.2: Factors of general government budget balance change 2027/2026



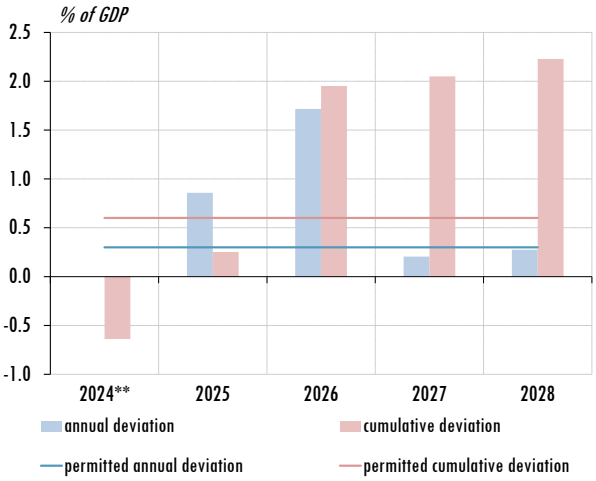
*Source: MoF, FC calculations. Note: *positive contribution represents a decrease of share in GDP.*

Figure 3.3: Net expenditure*



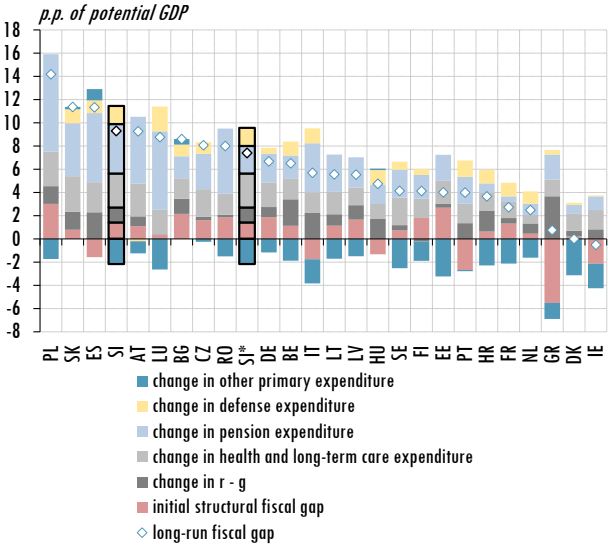
*Source: SORS, IMAD, MoF, FC calculations. Note: *expenditure excluding intervention measures and discretionary revenue measures, interest, cyclical components of unemployment benefit expenditure, expenditure on EU programmes fully financed by EU funds, national co-financing of EU-funded programmes and the effect of reclassification of 2 energy companies.*

Figure 3.4: Net expenditure* deviations according to FC projection



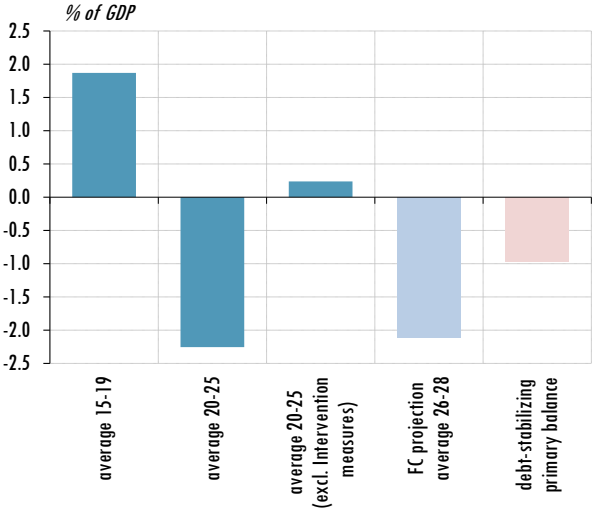
*Source: FC, Council Regulation (EU) (2024/1264). Notes: *in addition to the components listed in the note under Figure 3.3, change in defense expenditure is also excluded. ** as 2024 is not part of the Plan, the deviation in this year is not noted.*

Figure 3.5: Long-run fiscal gap



*Source: Guillemette, Y. (2026). Note: *alternative calculation for Slovenia: FC based on IER calculations, which take into account 2025 pension reform.*

Figure 3.6: Primary balance



Source: SORS, FC projections and calculations.

Table 3.1: Key fiscal indicators

	outturn		FC projection		
	2024	2025	2026	2027	2028
General government balance (% of GDP)	-0.8	-2.5	-3.2	-3.4	-3.8
Gross general government debt (% of GDP)	66.3	65.1	63.4	62.7	63.6
Net expenditure growth (%)	4.6	7.9	9.4	6.5	5.2
Maximum net expenditure growth, as set out in Plan (%)	6.2	5.6	4.4	4.1	4.0
Annual deviation (% of GDP)[1,2]		0.9	1.7	0.2	0.3
Cumulative deviation (% of GDP)[1,3]	-0.6	0.3	2.0	2.0	2.2

Source: SORS, FC estimates and projections. Notes: [1] change in defence expenditure is excluded; [2] permitted annual deviation is 0.3 % of GDP; [3] permitted cumulative deviation is 0,6 % of GDP.

however, lies in the projection of expenditure growth. According to the Fiscal Council's projections, expenditure growth is expected to slow down significantly less than under the Ministry of Finance's target scenario and to remain higher than revenue growth. Under the policies and measures currently in force, expenditure growth would continue to be driven mainly by employee compensation and social benefits, although their growth would be considerably lower than in 2025 and 2026. In line with the completion of the RRP this year, a decrease in general government investment is expected in the coming years. This runs counter to the assumption of the Ministry of Finance's target scenario, in which investment continues to increase despite the aforementioned loss of a significant portion of EU funding from the RRP.

According to the Fiscal Council's projections, the commitments set out in the Plan will not be met and fiscal policy will drift even further away from meeting them if no action is taken. In the scenario without additional measures, the excess growth in net expenditure compared to the path set out in the Plan in 2026[25] would be followed by a further divergence over the two years covered by the Draft Budgets (Figure 3.3). The annual excess for 2027 and 2028 would range between 0.2% and 0.3% of GDP (on average around EUR 0.2 billion per year), which is within the permitted limits. However, the cumulative deviation, which is essential for assessing fiscal compliance during the period of the valid the escape clause, would be EUR 1.9 billion or 2.2% of GDP for the entire duration of the Plan. This is nearly four times the permitted limits (Figure 3.4).[26]Addressing excessive deviation from the commitments set out in the Plan alone would require consolidation of close to 1.6% of GDP or slightly less than EUR 1.4 billion by 2028. A consolidation of this scale would likely also alter the economic outlook, which is not factored into IMAD's latest forecast.[27] In line with the applicable national escape clause and to the same extent as the Ministry of Finance, all the Fiscal Council's calculations take into account increased defence spending, as well as the inclusion of two energy companies in the general government sector in 2025.[28] Under EU rules, the scenario without additional measures increases the likelihood of an excessive deficit procedure being initiated against Slovenia (see Box 3.1). This would expose public finances to greater pressure to meet the established targets, while simultaneously reducing the room for manoeuvre during the procedure. Accelerated net expenditure growth and a widening deficit would result in a slower-than-planned reduction in the debt-to-GDP

[25] See also Fiscal Council (2026a).

[26] Article 1(1) of the Corrective Regulation (EU 2024/1264) limits the permitted excess to 0.3 percentage points of GDP annually, or 0.6 percentage points of GDP cumulatively, and exceeding these limits, subject to certain conditions, may lead to an excessive deficit procedure. See Box 3.1. for an explanation.

[27] A simple calculation shows that, assuming values of 0.4 and 0.8 for the short-term and long-term multipliers, respectively (see FC, 2026), such extensive consolidation could reduce economic activity by approximately 0.6% in the short term and by nearly 1.5% in the long term. Among other things, this also poses a risk to maintaining a sustainable relationship between the average interest rate on debt and nominal economic growth (see Box 3.2) and to the impact of this relationship on the dynamics of public debt.

[28] The level of revenue and expenditure of the general government sector in 2025 was significantly affected by the inclusion of two energy companies (Termoelektrarna Šoštanj - TEŠ and Premogovnik Velenje - PV) in the general government sector. The reclassification had a negligible impact on the general government balance.

ratio; in fact, the decline would come to a complete halt in 2028. The debt-to-GDP ratio is projected to be nearly 3 percentage points lower than in 2024, i.e. the year prior to the implementation of the Plan, approximately one-third of this reduction being attributable to the assumed utilisation of funds held in treasury accounts.[29] In this way, the average pace of debt reduction of 0.7 percentage points of GDP is expected to meet the minimum reduction requirement under the Plan (0.5 percentage points of GDP per year).[30]

Failure to meet the commitments set out in the Plan poses a risk in a context where debt sustainability will depend, to a greater extent on the ability to create fiscal space and achieve sufficient economic growth. Globally, there are signs of a shift away from a period of exceptionally low interest rates, which had for several years kept the budgetary costs of borrowing in check. Since the deficits were not eliminated, which would have allowed for a reduction in the substantial borrowing incurred during the period of low interest rates, an increase in interest expenditure can be expected, leading to further pressure on deficits and, consequently, on public debt (Box 3.2). Maintaining high deficits during a period of relatively strong economic growth also runs counter to the expected further tightening of monetary policy, which typically increases borrowing costs. Since the pass-through of higher required yields into interest expenditure will be only gradual, there is also a risk that economic policy will not devote sufficient attention to this challenge.

It is essential for Slovenia that its financing conditions do not deteriorate further as a result of adverse fiscal trends. Fiscal policy should prevent an increase in the country risk premium resulting from adverse fiscal developments. In addition to putting further pressure on interest expenditure, this would also lead to higher borrowing costs for the private sector and potentially have a negative impact on economic activity. The risk assessments assigned by credit rating agencies to debt issued by the Republic of Slovenia are currently favourable, with a stable outlook. However, in their latest reports, the agencies highlight that a deterioration in the fiscal position could be one of the significant factors leading to a downgrade of credit ratings.[31] This is particularly important given the current turmoil in debt markets.

Lower excise duties stand out among the major short-term fiscal risks: given the current fiscal position, particular caution is required when introducing them. Taking into account potential temporary excise duty reductions, which are expected to be approved by the Council of the EU based on a proposal from the European Commission[32] and assuming unchanged quantities of energy products sold, this could increase the deficit by approximately 0.3 percentage points of GDP per year. Generalised price capping is a form of regressive subsidisation of the population where higher income brackets benefit more in absolute terms,[33] and also subsidises energy purchases by foreign residents. For this reason, and with the aim of changing fuel consumption habits, international institutions[34] highlight the importance of targeted measures. To address the high cost of energy, the measures should not cap prices, but rather employ targeted and time-limited transfers.

Due to its lasting effect on public finances, a significant risk to the current forecast is associated with the potential enactment of the Intervention Measures for Slovenia's Development Act (ZIURS). According to the Fiscal Council's estimate, the Act's short-term effects would increase the deficit by approximately EUR 1.2 billion, or 1.5% of GDP.[35] These effects have not been included in the baseline

[29] The assumption of a reduction in funds of EUR 0.4 billion in each of the years 2026 and 2027 is based on the Draft Budgets.

[30] Without the use of funds held in accounts, this requirement would not be met, as the reduction in the debt ratio would be 0.4 percentage points of GDP per year.

[31] See Fitch (2026), Moody's (2026) and S&P (2026).

[32] EC (2026).

[33] According to SURS (Statistical Office of the Republic of Slovenia) data on the consumption of selected products by income bracket, expenditure on the "private transport" category by households in the top 20% income bracket is 50% higher than that of households in the bottom 20% income bracket. According to statistics on consumption by COICOP categories, the difference in the consumption of products within the "transport" group between the two quintiles is 5.5-fold.
See, for example, Chapter 2 in IMF (2026).

[34] See, for example, Chapter 2 in IMF (2026).

[35] FC (2026b).

forecast scenario despite the measures defined in the proposed Act due to uncertainty regarding the outcome of the legislative referendum. The implementation of the measures set out in this Act would represent a further deviation from the path outlined in the Plan, and would require additional, extensive compensatory measures to ensure sustainable public finances. Although the measures set out in the proposed Act are expected to stimulate economic activity, this would not be sufficient even in the long term to offset the initial deterioration in public finances. The permanent deterioration of the fiscal position resulting from the implementation of the Act would be approximately 0.7 percentage points of GDP.

Defence spending also poses a permanent risk to public finances. According to the Draft Budgets, the permanent deterioration in public finances due to defence spending by 2027 compared to 2021 is projected to reach around 1.3 percentage points of GDP. This allows for an increase in defence spending of up to 0.2 percentage points of GDP in 2028, without affecting the assessment of compliance with the growth of net expenditure. According to European Commission simulations, increasing defence spending to the maximum level permitted under the national escape clause would raise the deficit in 2028 by 1.2 percentage points of GDP and public debt by 2.4 percentage points of GDP.[36] This deterioration would require an additional fiscal adjustment of 0.4 percentage points of GDP once the national escape clause expires at the end of 2028. If this adjustment is not carried out by that date, the requirements for adjustment in the next Plan could increase.

To preserve medium-term fiscal sustainability and maintain favourable financing conditions, measures must be taken to reduce the deficit and to implement reforms that will alleviate future fiscal pressures. Given the currently unfavourable fiscal position and rising borrowing costs, Slovenia faces mounting fiscal challenges arising from demographic shifts, the costs of addressing climate change, and defence requirements. Such trends significantly reduce fiscal space and Slovenia faces some of the biggest long-term challenges among the EU Member States (Figure 3.5).[37] There are also other potential risks related to the possibility that Slovenia may find itself in a more unfavourable net position under the next multiannual financial framework, as well as to rising aggregate debt at EU level. To ensure fiscal sustainability, fiscal policy will therefore have to adhere to the fiscal trajectory set out in the Plan and, in order to stabilise debt, implement a fiscal adjustment that will significantly reduce the current primary deficit. This is not unachievable, as Slovenia has also recorded primary surpluses in the past (Figure 3.6). Given the current deviation, the Fiscal Council assesses that full alignment with the Plan by its conclusion in 2028 could significantly worsen the macroeconomic outlook. In its Draft Budgets, the Government has signalled a significant adjustment of public finances to ensure their sustainability. However, the measures intended to achieve these goals are not presented with sufficient transparency and are not evaluated in a reliable manner. A consolidation strategy should also be used for medium-term action in any potential revised Plan.[38] International organisations highlight the importance of a responsibly formulated fiscal policy based on credible medium-term planning.[39] This policy should be systematic and have a time horizon that transcends the political cycle. In addition to pursuing fiscal sustainability, the adopted reforms should not further exacerbate uncertain conditions or undermine economic prospects; rather, they should, to the greatest extent possible, effectively support sustained economic growth. Fiscal sustainability does not mean only complying with fiscal rules today, but primarily strengthening the state's capacity to respond to future needs.

[36] Table 5 in the Annex to the European Commission (2025).

[37] This figure is provided to allow comparisons between assessments of long-term challenges. For Slovenia, the figure does not include the latest estimate of the baseline primary structural balance which, according to the Draft Budgetary Plan (Ministry of Finance, 2026), is 0.5–1 percentage point higher than shown, nor the risk arising from the implementation of the ZIURS (approximately 0.7 percentage points of GDP). Taking both of the aforementioned factors into account would almost entirely negate the positive effect of the pension reform, as reflected in the estimated long-term fiscal gap.

[38] The plans are valid for four or five years. However, Council Regulation (EU) 2024/1263 allows for their revision no later than one year before the end of the Plan in the event of a change of government. Given that the current Plan remains in effect until 2028 and that a change of government has occurred following this year's parliamentary elections, an update to the Plan is possible as late as in 2027 – a prospect also indicated by the Ministry of Finance (2026a). Otherwise, a new Plan, covering the period 2029–2032, would have to be prepared in 2028.

[39] See, for example, Strauch (2026) and IMF (2026).

Box 3.1: Excessive Deficit Procedure

The Excessive Deficit Procedure (EDP) is an EU mechanism designed to eliminate serious fiscal deviations. The EDP is not designed to eliminate ordinary short-term fluctuations, but to correct an excessive fiscal deficit or an inadequate reduction in excessive government debt. The name of the procedure may be somewhat misleading, as it can be based on either the deficit or the debt criterion. The baseline reference values for initiating an EDP are a general government deficit exceeding 3% of GDP and general government debt above 60% of GDP. The EDP is based on Article 126 of the Treaty of the Functioning of the European Union (TFEU).[1] It is governed in greater detail by Council Regulation (EC) 1467/97, which was substantially amended in 2024 by Council Regulation (EU) 2024/1264, making compliance with the net expenditure path central to the decision to initiate a debt-based EDP.

An EDP is initiated on the basis of the report under Article 126(3)[2] of the TFEU. The European Semester spring and autumn packages, which include assessments of national budget documents, are particularly relevant to decisions on whether to open an EDP. The report under Article 126 is prepared by the EC and is adopted by the Council of the EU. The basis for preparing the report to determine whether an EDP should be initiated is a deficit exceeding 3% of GDP, or forecasts showing that the deficit will exceed that reference value. Where a Member State's debt exceeds 60% of GDP, the EC prepares a report if additional conditions are met. These are, in particular, a budgetary position that is not close to balance (a deficit exceeding 0.5% of GDP),[3] and debits recorded in the control account[4] exceeding 0.3% of GDP in a single year or 0.6% of GDP cumulatively. A report under Article 126(3) does not necessarily lead to a decision to open an EDP,[5] It also assesses other factors affecting fiscal sustainability.[6]

The Council of the EU does not prescribe specific budgetary measures for a Member State subject to an EDP,[7] but sets the targets and the path towards sustainable public finances. When it opens an EDP, the Council usually sets a deadline of no more than six months for effective action. In the case of an extremely serious breach, the deadline may be three months.[8] The Council also sets the maximum permitted growth rates for net expenditure, intermediate targets and a deadline for correcting the excessive deficit. Pursuant to Article 126(7), the Council's recommendations are not made public. The Member State chooses the method of adjustment, but the package of measures must be sufficiently specific, measurable and credible. In a deficit-based EDP, the corrective net expenditure path must be consistent with a minimum annual structural adjustment[9] of 0.5 percentage points[10] of GDP. In a debt-based EDP, the adjustment path must be at least as demanding as the net expenditure path set by the Council under the Member State's Plan from which the Member State has deviated. The deadline for correcting the deviations may extend over several years. It must allow the Member State to credibly reduce the deficit to below 3% of GDP and put debt on an appropriately declining path or bring it to a sustainable level, including beyond the end of the adjustment period.

DWhile subject to an EDP, the Member State must report regularly to the EC, which monitors progress towards the targets. The Member State must submit details of the measures, the timetable for implementing them and estimates of their budgetary impacts by the agreed deadlines. Only measures that have been adopted or announced in sufficient detail are taken into account, rather than merely general statements of political merit. The EC assesses whether the measures, together with developments in net expenditure, ensure compliance with the recommended path. If the Member State has taken effective action and exceptional circumstances beyond its control have a major impact on

its public finances during implementation, the Council of the EU may, upon a recommendation from the EC, set a revised path or extend the deadline for meeting the targets. In order to close an EDP, the deviations must be permanently corrected. A temporary deficit reduction to below 3% of GDP is not sufficient if forecasts indicate that the deficit will exceed this threshold again. Once the EDP has been closed, the Member State returns to regular preventive surveillance under the European Semester.[11]

Failure to comply with the agreed commitments may lead to increased pressure on the Member State.[12] If the Council of the EU finds that the Member State has failed to take effective action, it may make its recommendations public. This increases the pressure on the Member State, including from international financial markets. If the Member State repeatedly fails to comply with its commitments under the EDP, the Council of the EU may give it formal notice to take measures within a specified period. Continued non-compliance may result in sanctions, including fines. The Council may also escalate the sanctions. These may include inviting the European Investment Bank to reconsider its lending policy towards the Member State or requiring a non-interest-bearing deposit (0.2% of GDP) to be lodged until the excessive deficit has been corrected. The Council may also impose a fine of up to 0.05% of GDP[13], payable every six months until the Council concludes that the Member State has taken effective action.

[1] The TFEU is available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:C:2012:326:FULL.

[2] Article 126(3).

[3] See recital 14 of Regulation (EU) 2024/1264.

[4] The control account is used to measure annual and cumulative deviations of net expenditure growth from the rates prescribed by the Plan.

[5] Based on the report, the Commission may decide that no further action is warranted at present, but it continues to monitor the Member State concerned. One such example was Slovenia in June 2026. Given the projected deficit above, but close to, 3% of GDP, and a debt level exceeding 60% of GDP, the EC prepared a report under Article 126(3) of the TFEU; however, following the opinion of the Economic and Financial Committee, it did not propose the opening of an Excessive Deficit Procedure (EDP), while noting uncertainties regarding the forecasts. In the opinion of the EFB (2026), this approach was inappropriate, as it was based on subjective judgment and an insufficiently systematic approach.

[6] The latest report prepared under Article 126(3) of the TFEU, which also includes Slovenia, is available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52026DC0302.

[7] The list of Member States currently subject to an EDP is available at: https://www.consilium.europa.eu/en/policies/excessive-deficit-procedure/#ongoing

[8] This is the deadline for adopting and credibly implementing the measures, not the deadline for correcting deviations.

[9] Structural adjustment means a permanent adjustment of public finances, i.e. a change in the balance adjusted for cyclical impacts and one-off measures. Therefore, structural adjustment does not necessarily correspond to the annual change in the nominal deficit.

[10] In the preventive arm of the European Semester, the required structural adjustment under the Plan is 0.4 percentage points of GDP.

[11] Under this framework, EU Member States report regularly to the EC and set out fiscal developments and forecasts in their spring annual progress reports and autumn draft budgetary plans.

[12] The steps the Council may take if a Member State fails to act are set out in paragraphs 8 to 11 of Article 126 of the TFEU.

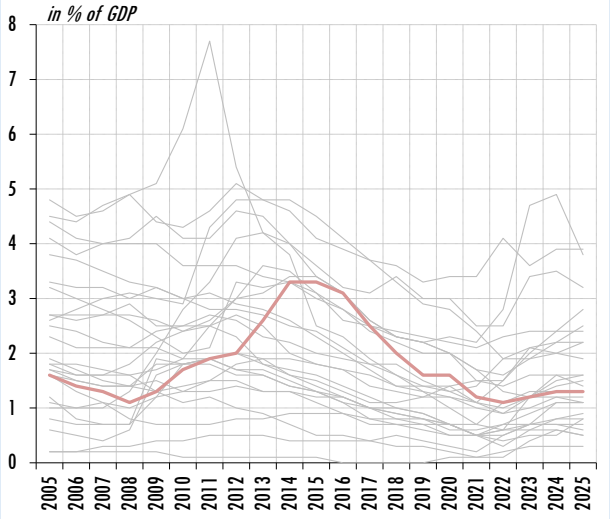
[13] By way of illustration, this equals approximately EUR 40 million based on the projected GDP for 2027.

Box 3.2: Increased pressures on financing costs and government debt

The current costs of government debt financing are below the EU average and lower than in the past. At 1.3%[1], the general government sector's interest expenditure as a share of GDP is lower than the EU average and represents just over one-third of the peak level recorded in 2014 and 2015 (Figure 1). With this share, Slovenia ranks in the middle of EU Member States. The average interest rate on existing debt (the so-called implicit interest rate) is close to 2% (Figure 5), which is significantly lower than the long-term average (around 3.8%), but higher than the 2022 low (1.6%).

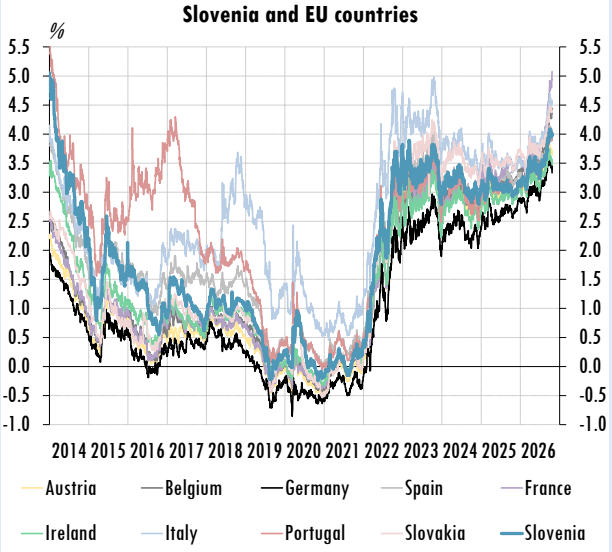
Required yields on new debt are rising this year. Since the end of February this year, the required yields on newly issued government debt have been rising, reaching their highest levels in the last decade. This year, the required yield on the 10-year Slovenian government bond has increased from its lowest level by almost 1 percentage point to over 4% (Figure 2) according to the latest available data.[2] At the same time, the spread on Slovenian bonds relative to the required yield on the benchmark German bond increased by just under 0.3 percentage points compared to the beginning of the year.

Figure 1: Interest expenditure of EU countries



Source: Eurostat. Note: Slovenia is shown in red, other EU countries in grey.

Figure 2: Required yields on 10-year benchmark bonds of Slovenia and EU countries

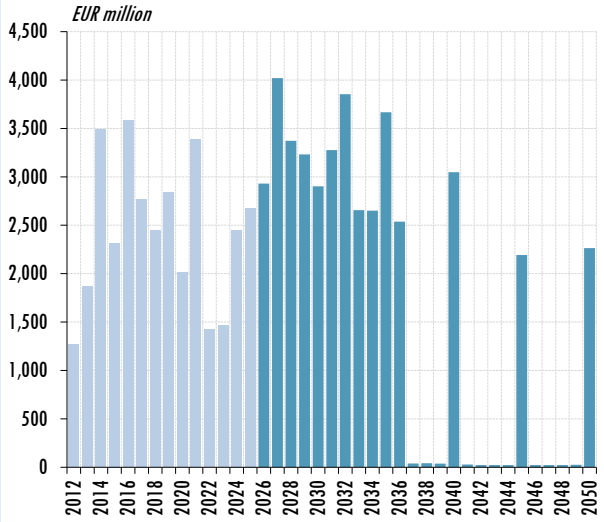


Source: Bloomberg.

In the coming years, a relatively large volume of state debt securities issued under extremely favourable terms is scheduled to fall due. The state will have to refinance the maturing liabilities and take on additional debt to cover deficits. If new borrowings prove to be more expensive than liabilities falling due, the costs of debt financing will gradually increase. Compared to the past ten years, and based on the current stock of outstanding securities, the amount of debt maturing annually over the next ten years will be, on average, about a third higher, or nearly EUR 800 million more per year (Figure 3). The average maturity of liabilities of approximately nine years (a figure similar to the average for Eurozone countries) will limit the rapid pass through of higher required yields into the average interest rate on issued debt.[3]

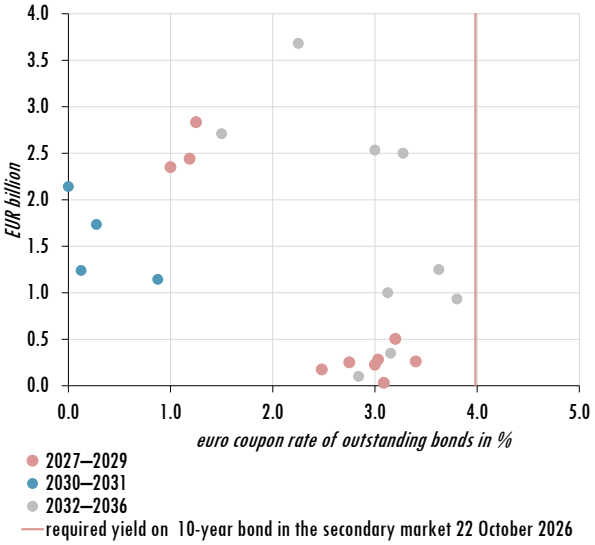
Higher required yields could therefore result in higher interest expenditure. Even if current high required yields are maintained, an increase in interest expenditure may be expected. In the coming years, it will be necessary to refinance liabilities incurred during a period of low interest rates. Three large bond issues with a total volume exceeding EUR 7.5 billion, carrying an average interest rate of around 1%, are scheduled to mature over the next three years (Figure 4).[4] Following the refinancing of only these liabilities at the currently required yield, total interest costs would increase by approximately EUR 150 million, or nearly 0.2% of GDP per year.[5] The maturing of a large volume of bonds in 2030

Figure 3: State budget debt repayments*



*Note: as of 9 October 2026.
Source: MoF.

Figure 4: Outsdanding bonds by year of maturity date (2027–2036)

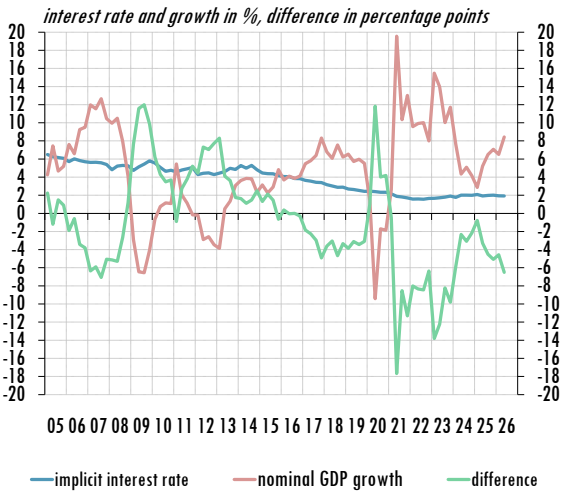


Vir: MF, Bloomberg, FC calculations.

and 2031, totalling over EUR 6 billion and issued at an average interest rate of just above 0%, could exert similar upward pressure on interest expenditure.[6]

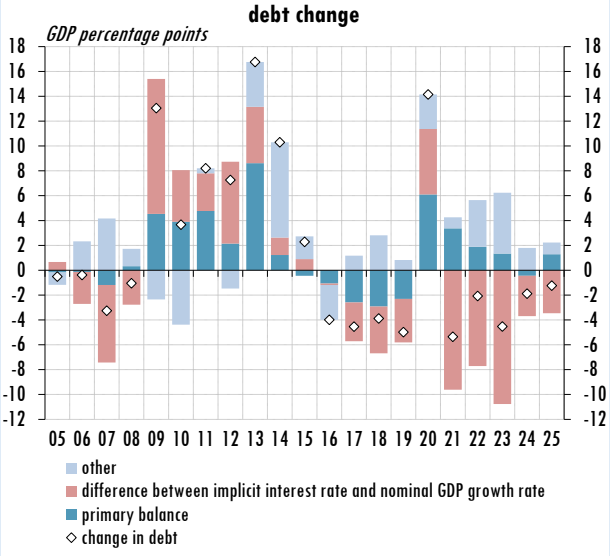
As economic growth slows and borrowing costs rise, pressures on public debt will increase, especially if large deficits persist. Large deficits increase debt directly, and indirectly through interest expenditure. The factors influencing debt include economic growth, interest rates, and the primary balance, i.e. the fiscal balance before interest payments.[7] If the average interest rate on debt is higher than the nominal economic growth rate, a primary surplus is required to stabilise debt. If the GDP growth rate exceeds the interest rate, the debt-to-GDP ratio can decrease even if there is a primary deficit.[8] The average interest rate on debt is currently lower than nominal economic growth (Figure 5), and this differential helps to limit the rise in the debt ratio. However, according to IMAD's forecasts, economic growth is expected to gradually moderate over the coming years,[9] while the average interest rate on debt could eventually rise if current required yields are maintained. Accordingly, the currently favourable impact of this differential (Figure 6) would gradually decrease.[10] Consequently, there will be less room for reducing the debt ratio, and debt will be more sensitive to new shocks.[11] The impact of higher interest rates on rising interest expenditure will thus necessitate an additional fiscal effort.[12]

Figure 5: The difference between implicit interest rate and nominal GDP growth



Source: SORS, FC calculations.

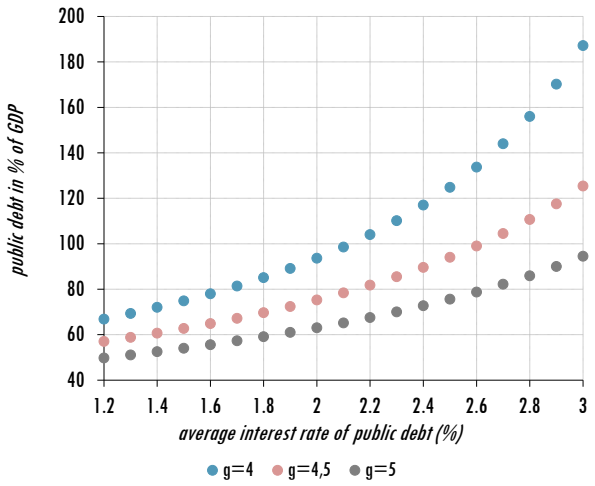
Figure 6: Contributions to general governement gross debt change



Source: SORS, FC calculations.

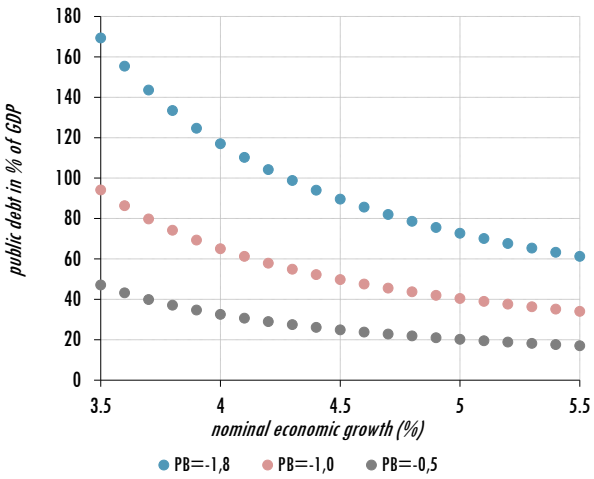
In such circumstances, containing deficits will be crucial to stabilising debt. The debt equation was used to prepare a number of simulations, which should not be viewed as forecasts. With the current deficit, and assuming a long-term nominal economic growth rate of around 4% and that current average interest rates on issued debt remain near 2%, the debt-to-GDP ratio would gradually increase by approximately 5 percentage points of GDP over ten years.[13] At the same time, the debt-to-GDP ratio would converge towards a level of around 75% of GDP, even with a relatively high nominal economic growth rate of 5% if, while maintaining the current deficit, average interest rates were to rise above their current level, for example to 2.5% (Figure 7). Simulations also show that balancing the primary balance, i.e. an adjustment of just over 1.5 percentage points of GDP relative to the current situation, would, in the long run, ensure a reduction of debt to below 60% of GDP, even with only modest economic growth and an average interest rate higher than the current one (Figure 8). The stabilisation of the current level of public debt alone would require an adjustment of the primary balance of approximately 1 percentage point of GDP.

Figure 7: Share of public debt in GDP at fixed primary balance



Note: Convergence values of public debt shares are shown at assumed primary budget balance of -1.8 % of GDP and presented values of interest rates and nominal economic growth (g). Source: FC calculations.

Figure 8: Share of public debt in GDP at fixed interest rate



Note: Convergence values of public debt shares are shown at assumed average debt interest rate of 2.5 % and presented values of nominal economic growth and primary balance (PB). Source: FC calculations.

[1] Data for 2025. It remained at this level in the first half of this year.

[2] As a result, after more than a decade, required yields are once again higher than the average interest rate on issued debt.

[3] If the current debt as a whole were refinanced at once, interest costs with debt at 65% of GDP and a current required yield of 4% would be approximately 2.6% of GDP. This is more than the current interest expenditure and the long-term average (1.9% of GDP).

[4] The aforementioned ten-year bonds were issued in the period 2017–2019.

[5] Without hedging instruments used by the Ministry of Finance in managing government debt (see MF 2026b), we estimate that these costs would exceed the aforementioned costs by approximately one third.

[6] The aforementioned ten-year bonds were issued in the period 2020–2021, during the COVID-19 crisis and a period of extremely low interest rates, to which a highly accommodative monetary policy stance contributed.

[7] See the so-called debt equation in equation No 28 in Escolano (2010). In the Fiscal Council's presentations, "g" is the symbol for nominal economic growth, "i" represents the average nominal interest rate on public debt, and "PB" denotes the primary balance as a share of GDP.

[8] Given the current public debt level of around 65% of GDP. See, for example, Table 1.1 in Delakorda (2021).

[9] Slovenia's long-term real economic growth is currently estimated at between 1.1% and 1.5% (see EC (2024b) and Guillemette and Château (2023)). To calculate nominal economic growth, 2% (an approximation of the ECB's inflation target) is typically added to this figure.

[10] This was particularly pronounced during the subsequent phase of the COVID-19 crisis, following the initial decline in economic activity.

[11] When the debt-to-GDP ratio is high, debt is more sensitive to shocks of a given magnitude (e.g. interest rates, economic growth, or the relationship between them) than when the debt-to-GDP ratio is low. See, for example, Figure 1.2 in Delakorda (2021).

[12] ESM analysis (Strauch, 2026) shows that, solely due to higher interest rates, euro area countries would need to implement an adjustment averaging 0.8% of GDP to ensure the fiscal sustainability envisaged in the Plans.

[13] Simulations carried out using the debt equation – see footnote No 7. The results of all subsequent simulations indicate long-term convergence values for the debt-to-GDP ratio, based on the assumptions set out in the text.

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