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.