REPUBLIC OF SLOVENIA
FISCAL COUNCIL

Assessment of budgetary documents for the 2024–2027 period

(Assessment of the proposed Ordinance on the framework for the preparation of the general government budgets 2025– 2027 and of the draft Stability Programme 2024, and an opinion on the cessation of the exceptional circumstances period)

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The assessment is based on the draft Stability Programme 2024, the proposed Ordinance on the framework for the preparation of the general government budgets for the 2025-2027 period, and the request by the Government of the Republic of Slovenia to establish the cessation of exceptional circumstances referred to in paragraph one, Article 12 of the Fiscal Rule Act. Some forecast values in EUR were calculated indirectly from the rounded shares of GDP shown in the Stability Programme 2024, which is why certain items do not sum up. Data available up to and including 16 April 2024 were used.

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EXECUTIVE SUMMARY

The general government deficit, excluding the intervention measures, is expected to remain at a similar level until 2027, after an increase to around 2.0% of GDP this year, despite the projected stable and relatively favourable macroeconomic conditions mirrored in general government revenue. The projected deterioration of the fiscal position this year is mainly due to the projections of investment, which, in the Fiscal Council's view, is again overestimated. The persistence of the deficit over the next three years is primarily expected to originate from the high level of current spending resulting from discretionary measures taken in previous years. This year, fiscal policy is inappropriately set with a markedly expansionary stance which is also not in line with last year's recommendation of the EU Council. In the face of a number of risks, assessing the fiscal policy stance in the coming three years on the basis of the documents presented is uncertain. The Fiscal Council considers that the projections do not follow the currently estimated anticipated path within the new EU governance framework. The EU Council will make a final decision on this path in autumn. Moreover, the analysis suggests that debt is unsustainable in the long term. The transitional nature of the budget documents, as cited by the Government, does not justify their shortcomings. The documents represent a missed opportunity to put in place an appropriate medium-term budgetary framework as the new fiscal rules are about to enter into force. As a consequence, the preparation of the first medium-term fiscal and structural plan under the new fiscal rules framework this autumn remains a major challenge.

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Over the 2024-2027 projection period of the submitted budgetary documents, the macroeconomic situation is expected to be relatively stable, with real economic growth at the level of the long-term average and the currently estimated potential growth. Nominal growth of GDP and other tax bases are projected to remain relatively high, despite a slowdown relative to the average of the previous three years, mainly due to only a gradual decline in inflation, and to have a favourable impact on general government revenue dynamics. Nevertheless, the general government deficit is projected to widen this year, following a decline last year. A key reason for the widening of the deficit this year is the renewed planned record high investment activity, which is again overestimated according to the Fiscal Council. Investment plans will be difficult to implement to the extent foreseen without loss of efficiency due to administrative constraints and the absorption capacity of the economy, increasing the risk of inappropriate resource allocation. Therefore, the investment planning and management system needs to be improved. Over the next three years, the so-called "core" deficit is projected to remain at around -2.0% of GDP, as the scale of intervention measures is reduced. Towards the end of the projection period, the projected deficit will be driven to a large extent by high current spending, mainly stemming from discretionary measures taken in previous years, as the level of investment activity gradually declines. Gross general government debt will not reach the 60% of GDP threshold by the end of 2027, but is expected to fall below the 65% of GDP achieved before the epidemic. This will be mainly due to relatively high nominal economic growth, which is expected to exceed the general government financing rate.

Assessing compliance with the fiscal rules on the basis of the submitted budgetary documents is not feasible due to the transition to the reformed economic governance framework in the EU. The lack of information in the documents also prevents a comprehensive indicative quantitative assessment. Fiscal

policy is set to be markedly expansionary this year, as the structural position is set to deteriorate significantly this year. This conclusion would remain the same even if a more realistic level of investment spending than in the projections were taken into account. Projected fiscal stance this year is inappropriately set with regard to the cyclical position of the economy and is also not in line with last year's recommendation of the EU Council. In the coming years, fiscal policy is expected to be relatively neutral, but the number of risks makes such an assessment rather uncertain.

The inadequacy of the presented fiscal policy path is also indicated by the current Fiscal Council assessments of the required structural adjustment under the new rules, which will be more demanding than both the projections in the Stability Programme and the average long-term outturn. Economic policy will thus need to ensure that net expenditure growth will significantly lag behind average growth over the 2018-2023 period. The debt sustainability analysis, which we have prepared this time in line with the reformed economic governance framework in the EU, further shows that, taking into account long-term risks and the absence of action, debt sustainability is not ensured in the long run.

According to the government, the budgetary documents presented are of a transitional nature. The government is expected to proceed with the elaboration of a comprehensive exit strategy, as required by the Fiscal Rule Act after the end of the exceptional circumstances period, in the autumn. In the assessment of the Fiscal Council, the submitted documents do not materially demonstrate such a strategy. The expiry of the general escape clause at the EU level or of the exceptional circumstances under domestic law at the beginning of this year was already identified by the European Commission and the Fiscal Council in the first half of last year. This time, the Fiscal Council confirms this finding at the explicit request of the Government. Despite the transitory nature of the Framework for the preparation of the general government budgets and the Stability Programme, which were submitted to the Fiscal Council for assessment in accordance with the Fiscal Rule Act, the documents demonstrate a lack of a medium-term fiscal strategy. The way they have been prepared also represents a missed opportunity to put in place an appropriate framework for a medium-term budgetary plan in view of the imminent entry into force of the new fiscal rules. Medium-term budgetary planning, which will be a central pillar of the reformed economic governance framework in the EU, remains deficient in terms of credibility, strategic approach and ambition in the pursuit of fiscal sustainability. As a consequence, the preparation of the first medium-term fiscal and structural plan under the new fiscal rules framework this autumn will be a major challenge.

The shortcomings are particularly evident in the Stability Programme. In the calculation of the structural indicators, the Fiscal Council considers that there appears to have been a computational error in taking into account the impact of the stated one-off measures, as a correct calculation would have shown a structural deterioration of public finances this year, as well as a lower level of the expenditure ceiling in the proposed Ordinance on the framework. The Fiscal Council expects that a correct calculation will be presented before the final version is finalised or sent to the European Commission. Unlike in the past, the document does not contain comprehensive information on the intervention measures and the projected dynamics of revenue from EU funds. The latter will fundamentally determine the evolution of net expenditure, the central indicator of the new system of economic governance in the EU. The document also shows an unusual adjustment of some of the variables determining the dynamics of public debt.

Legislative basis

On 10 April 2024, the Government of the Republic of Slovenia (hereinafter: the Government) submitted to the Fiscal Council within the statutory deadline the draft Stability Programme 2024 for the 2025-2027 period (hereinafter: the SP24), the proposed Ordinance on the framework for the preparation of the general government budgets for the 2025-2027 period (hereinafter: the Framework) for assessment of their compliance with the fiscal rules and, in addition, a request to the Fiscal Council for an assessment of the cessation of the circumstances referred to in paragraph one of Article 12 of the Fiscal Rule Act (hereinafter: FRA). On 10 April 2024, in accordance with the Memorandum of Understanding[1] between the Fiscal Council and the Ministry of Finance, the Ministry of Finance also provided the Fiscal Council with certain other information.

Under the provisions of paragraph two of Article 6 of the FRA, the Slovenian Government is required to submit the proposed framework for the preparation of the general government budgets together with the draft Stability Programme to the National Assembly of the Republic of Slovenia (hereinafter: the National Assembly) and to the Fiscal Council no later than 20 days before the deadline for submitting the Stability Programme to the European Commission (hereinafter: the EC). In accordance with paragraph two of Article 6 of the FRA, the Ordinance on the framework for the preparation of the general government budgets must be adopted by the National Assembly on the proposal of the Slovenian Government no later than five days before the deadline for the submission of the Stability Programme to the EC, which is at the end of April each year, as stated in the document "Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes". This document also sets out the usual content of the Stability Programme, which is reduced this year, in line with the informal guidance given by the EC prior to the establishment of the reformed economic governance framework in the EU.

Pursuant to paragraph one of Article 9f of the Public Finance Act, the Fiscal Council must submit its assessment of the framework proposal and the draft Stability Programme to the Slovenian Government and to the National Assembly within seven days of their receipt. The deadline to be respected by the Fiscal Council is therefore 17 April 2024. In accordance with Article 12 of the Public Finance Act, the Fiscal Council is required to provide the Government with an assessment on the cessation of the circumstances referred to in paragraph one of Article 12 of the FRA within 15 days of the request. The deadline to be respected by the Fiscal Council in this case is therefore 24 April 2024.

Pursuant to Article 12 of the FRA, the Government shall determine whether exceptional circumstances have arisen or have ceased to exist after having obtained the assessment of the Fiscal Council. The Fiscal Council had already assessed in April 2023[2] that there were no longer grounds for claiming exceptional circumstances in 2024. This, according to the Fiscal Council assessment, already at the beginning of the year ended the 4-year period during which a temporary deviation from the fiscal rules was allowed, provided that this did not endanger fiscal sustainability. When the Government, in accordance with Article 14 of the FRA, on the basis of a Fiscal Council assessment, determines that the circumstances referred to in paragraph one of Article 12 of the FRA have ceased to exist and that the structural balance of the general government sector is below the minimum value laid down in paragraph one of Article 3 of the FRA, the Minister responsible for finance shall apply the measures laid down in the Public Finance Act with a view to balancing public finances in the medium term.[3]

[1] The Agreement is available at https://www.fs-rs.si/fiscal-council/co-operation/.

[2] Available at: https://www.fs-rs.si/wp-content/uploads/2023/04/OcenaPS_eng.pdf.

[3] The SP24 foresees the preparation of an exit fiscal strategy, which should include the envisaged fiscal path and a proposal of measures to achieve the outlined fiscal targets for the medium-term sustainability of public finances, within the preparation of the medium-term structural-fiscal plan (hereinafter: the "Plan") this autumn.

Under paragraph two of Article 6, and point 1 of paragraph two and point 1 of paragraph three of Article 7 of the FRA, and on the basis of the framework proposal and the draft Stability Programme, the Fiscal Council is obliged to assess the sustainability and compliance of government fiscal policy with the fiscal rules. Article 3 of the FRA stipulates the method of determining the ceiling for general government expenditure in relation to the economy's cyclical position. Whether the proposed amendments to the framework are appropriate is to be assessed by the Fiscal Council in accordance with point 5 of paragraph two and point 4 of paragraph three of Article 7 of the FRA. Under Article 15 of the FRA. As long as the Republic of Slovenia is approaching the medium-term budgetary objective, it shall be deemed that the budgets of the state are balanced in the medium term if the structural balance of the general government sector is adjusting to the medium-term budgetary objective in accordance with the pace determined on the basis of the Stability and Growth Pact.

As the new system of economic governance in the EU[4] has not yet been adopted, and as some of the parameters of the existing FRA are currently not set, it is not feasible to assess the fiscal policy stance with the new fiscal rules at this stage. In addition, the value of the minimum allowable structural general government balance entering into the formula under Article 3 of the FRA, which was last set by the EC in May 2023,[5] has not been updated for 2024 despite the preparation of the Ageing Report 2024.[6] Nor have its values for future years been established. This prevents the Fiscal Council from assessing the compliance of the Framework and the SP24 with the fiscal rules in the way foreseen in the FRA. A more comprehensive assessment of the medium-term budget documents will therefore only be possible in the autumn of this year, when the Government is expected to prepare the first Plan in line with the provisions of the Preventive Arm Regulation. The methodology, conditions and resulting requirements for its preparation will become binding after the approval of the Directive by the EU Parliament, expected at the end of April, and the final adoption of the Directive and the two Regulations by the EU Council. This legislation will become the basis for assessing the compliance of budgetary documents with fiscal rules, until the already identified inconsistencies are reconciled in the context of the amendments to the FRA. In the event of the non-compliance of the FRA with these provisions, the EU regulations will prevail over the domestic legal order. According to the legal opinion obtained by the Fiscal Council, the provisions of the adopted European legislation, and in particular the two Regulations, will therefore become applicable at the national level once they enter into force. The legal opinion also points to the fact that, in view of the legal ambiguity created by the inconsistency between the European and domestic legal orders, amendments to the FRA or the relevant domestic legislation should be made as soon as possible.

[4] Proposals for two Regulations and one Directive are available at: https://www.consilium.europa.eu/en/press/press-releases/2023/12/21/economic-governance-review-council-agrees-on-reform-of-fiscal-rules/, and the latest proposal for one of the regulations (the so-called Preventive Arm Regulation) at: https://www.consilium.europa.eu/en/press/press-releases/2024/02/10/economic-governance-review-council-and-parliament-strike-deal-on-reform-of-fiscal-rules/. The above-mentioned documents include a Regulation on the effective coordination of economic policies and multilateral budgetary surveillance (hereinafter: the Preventive Arm Regulation), a regulation on the implementation of the excessive deficit procedure (hereinafter: the Corrective Regulation) and a Directive on requirements for budgetary frameworks (hereinafter: the Directive) in EU Member States.

[5] Available at: https://commission.europa.eu/system/files/2023-05/Fiscal%20Statistical%20Tables_SWD_2023_600_2_EN.pdf.

[6] The last Ageing Report was produced in 2021 and the new Ageing Report is not currently publicly available. It is expected to be published by the EC in the second half of April.

1. Macroeconomic and fiscal trends

Key findings

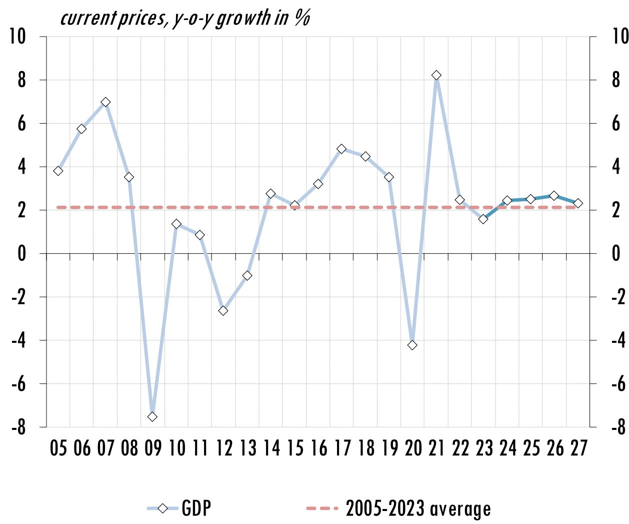
- The macroeconomic situation is expected to be relatively stable over the SP24 period 2024-2027. Real economic growth is projected to average 2.5%, which is in line with the long-term average or the currently estimated potential growth.
- Nominal growth of GDP and other tax bases are projected to remain relatively high, despite a slowdown relative to the average of the previous three years, mainly due to only a gradual decline in inflation, with a favourable impact on general government revenue dynamics.
- After a reduction last year, the general government deficit is expected to widen this year, mainly due to the yet again planned record-high investment activity, which is again excessive according to the Fiscal Council.
- Over the next three years, the so-called "core" deficit (excluding intervention measures) is projected to remain at around -2.0% of GDP. Given the relatively cautious revenue projection in view of the projected evolution of macroeconomic fundamentals, this will be mainly due to the persistence of a high level of "core" expenditure, which, towards the end of the projection period, will be largely driven by high current expenditure, given the projected decline in the investment-to-GDP ratio.
- The gross general government debt-to-GDP ratio is projected to decline further and to be lower at the end of 2027 than before the onset of the epidemic, mainly as a result of the relatively high nominal economic growth, which is projected to exceed the general government financing rate.

1.1 Macroeconomic forecasts

The macroeconomic situation is projected to be relatively stable over the 2024-2027 projection period; nominal growth in tax bases is projected to have a relatively favourable impact on the general government revenue dynamics, despite a slowdown relative to the average of the last three years, mainly due to only a gradual decline in inflation. Economic growth slowed down last year, with the real level of economic activity at the end of last year 8.3% above the level at the end of 2019, before the start of the epidemic. This is significantly higher than the EU average, or the eighth highest growth among Member States, but the level of GDP is still lower than indicated by the trend before the epidemic. Over the period 2024-2027, real economic growth is projected by the Institute of Macroeconomic Analysis and Development (IMAD)[7] to be relatively stable and broad-based, averaging 2.5%. This is at the level of the long-term average or currently estimated potential growth. As a result, the cyclical impulse to growth will be neutral, as the current estimate of the average output gap over the projection period of the SP24 is only 0.1%. The fiscal impulse is expected to strengthen markedly this year, mainly due to the projected high growth in government

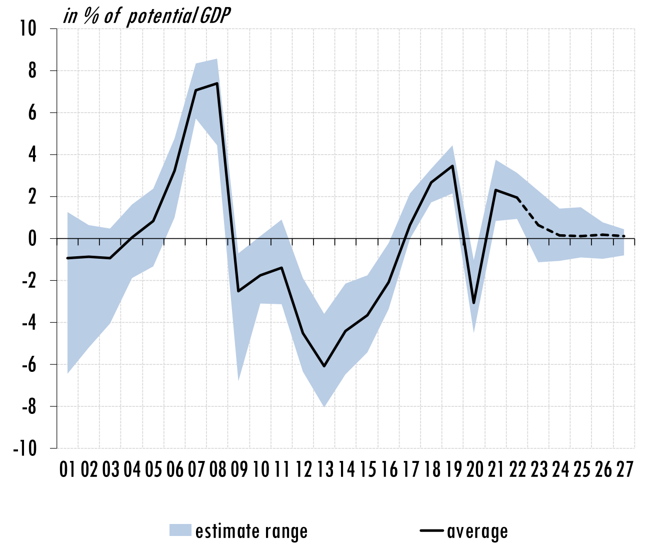
[7] IMAD (2024).

Figure 1.1: Gross domestic product



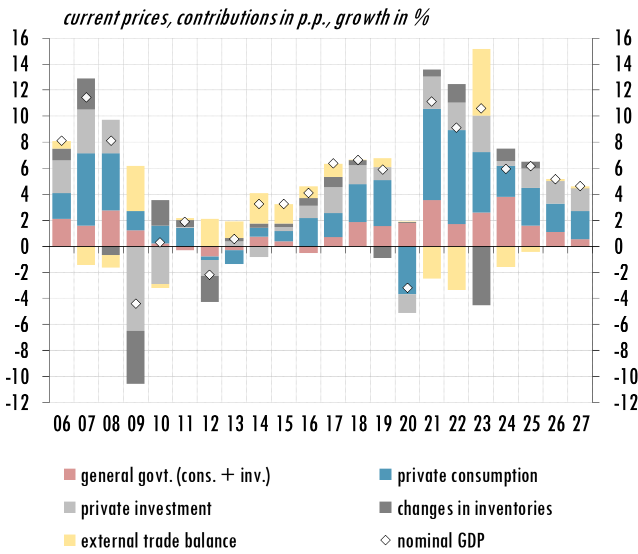
Source: SORS, IMAD, FC calculations.

Figure 1.2: Output gap estimates



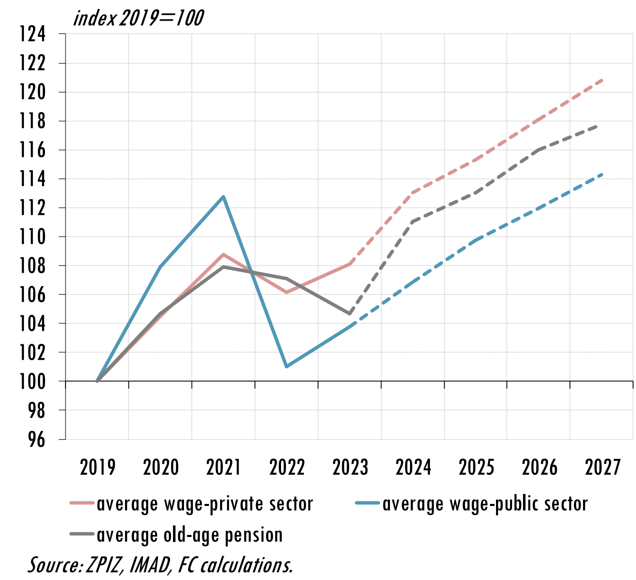
Source: IMAD, EC, OECD, IMF, MoF, FC. See note under Table 3.2.

Figure 1.3: Demand factors and GDP



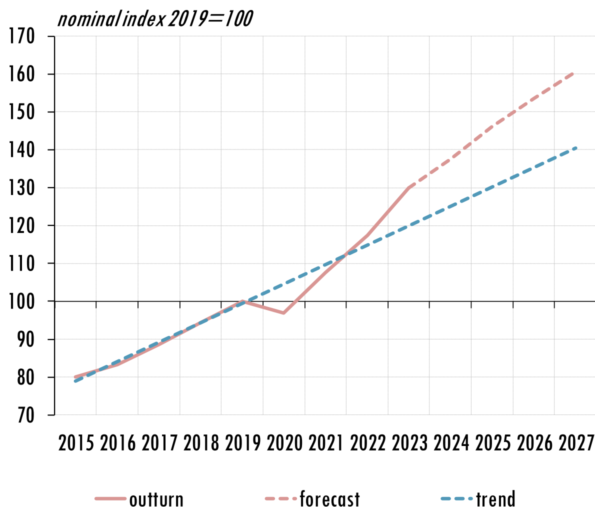
Source: SORS, IMAD, MoF, FC calculations

Figure 1.4: Real purchasing power



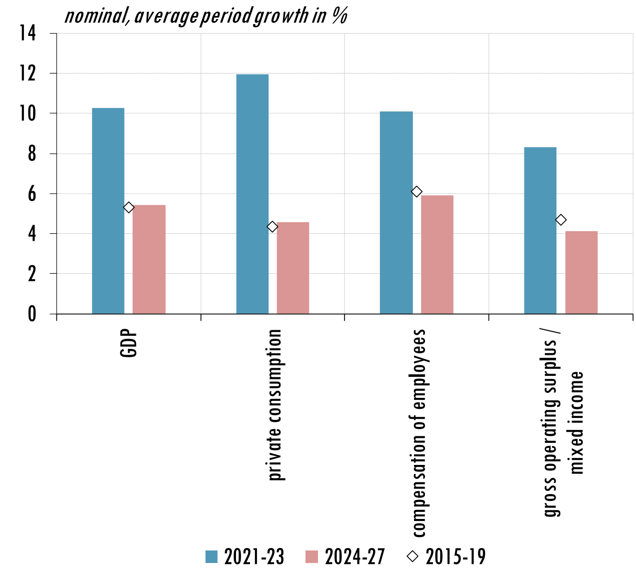
Source: ZPIZ, IMAD, FC calculations.

Figure 1.5: GDP compared to pre-crisis trend



Source: SORS, IMAD, FC calculation. Note: *Trend is based on 2015-2019 period.

Figure 1.6: Tax bases



Source: SORS, IMAD, FC calculations

investment activity, which is again excessive according to the assessment of the Fiscal Council (see Chapter 1.2). Indeed, at the highest growth rate ever the direct contribution of government consumption and investment to nominal GDP growth is projected to be 3.8 pp, or more than two-thirds, this year. On the other hand, private domestic demand growth is expected to slow down temporarily this year, but its contribution to nominal GDP growth is expected to strengthen over the next three years and be similarly strong on average than over the 2015-2019 period.[8] Labour market conditions are also expected to have a favourable impact on private demand dynamics over the projection period. According to the IMAD, the unemployment rate and the number of unemployed are projected to remain at historically low levels throughout the projection period. Labour shortages will also be a key factor behind the expected relatively high growth in average wages, which is expected to be above the long-term average. As a consequence, the real purchasing power of employees, and of pensioners due to the statutory pension adjustment formula, is projected to increase steadily over the projection period of the SP24.[9] The projected similarly high average nominal GDP growth over the 2024-2027 period as in the pre-epidemic years will mostly be due to a gradual decline in inflation, which is projected by the IMAD to converge towards the European Central Bank (ECB) target only towards the end of the projections. Similar to nominal GDP, the forecast for the other key tax bases is also similar, which are projected to increase less on average over the projection horizon of the SP24 than over the average of the last three years, but to grow at a similarly high rate as in the pre-epidemic years.

1.2 Assessment of the revenue and expenditure projections in the draft Stability Programme 2024

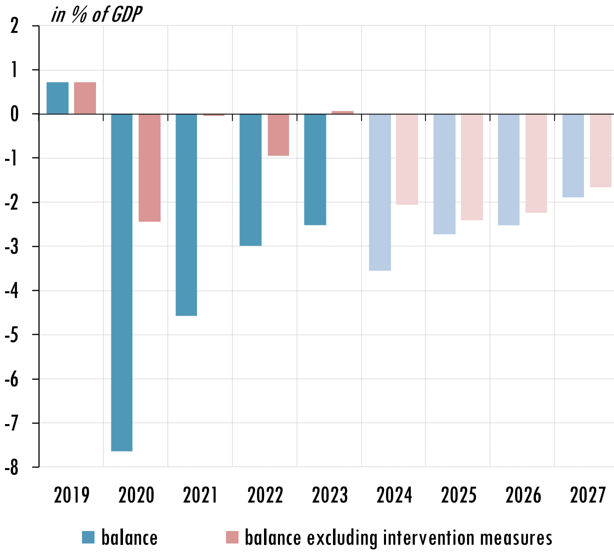
The general government deficit declined last year (-2.5% of GDP) and was as expected by the Fiscal Council much lower than the government's projections due to an inadequate fiscal planning system. The deficit reduction of 0.5 pp of GDP was entirely due to lower "core" spending (excluding intervention measures), mainly as a result of social benefits expenditure growth lagging behind nominal GDP growth. The total volume of the intervention measures amounted to 2.6% of GDP last year, 0.5 pp of GDP higher than in 2022. As a result, the "core" primary balance of the general government was in surplus last year (1.3% of GDP), with a deficit of 1.9 pp of GDP lower than the government's projections in the Draft Budgetary Plan in October. In addition, uncertainty about the actual size of the intervention measures contributed only to a limited extent to the discrepancy, as their realisation did not differ significantly from the projections. As in previous years, the discrepancy was most pronounced in investment spending, which again fell significantly short of plans that the Fiscal Council had already considered excessive when adopted.

Both the overall (-3.6% of GDP) and the "core" (-2.1% of GDP) deficits are expected to widen this year, mainly due to the yet again planned record-high investment activity. As the impact of the measures to mitigate the impact of the epidemic and the cost-of-living crisis measures has come to an end, the overall volume of intervention measures is expected to decrease markedly this year, despite the increased scale of the post-flood response. While the revenue-to-GDP ratio is projected to be maintained, the deterioration in the general government fiscal position this year is thus almost

[8] The expected dynamics of government and private consumption in 2024 are significantly affected by the methodological change in the transformation of supplementary health insurance, which was a source of financing private health expenditure and private consumption, respectively, into a compulsory contribution, which is a source of financing government expenditure. For more, see IMAD (2024).

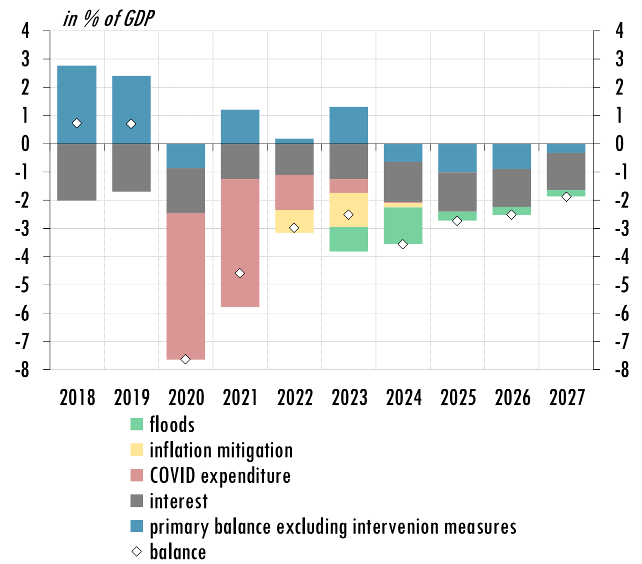
[9] According to the IMAD forecast, real growth in average private and public sector wages and old-age pensions is projected to be higher between 2019 and 2027 than it was between 2007 and 2019.

Figure 1.7: General government budget balance



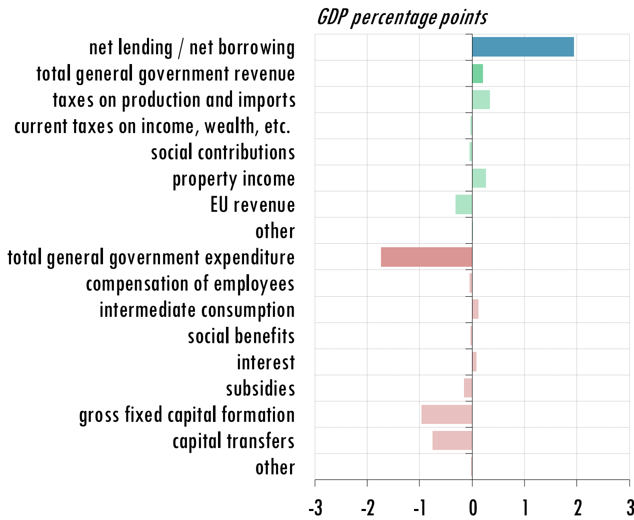
Source: SORS, MoF, FC calculations.

Figure 1.8: General government budget balance



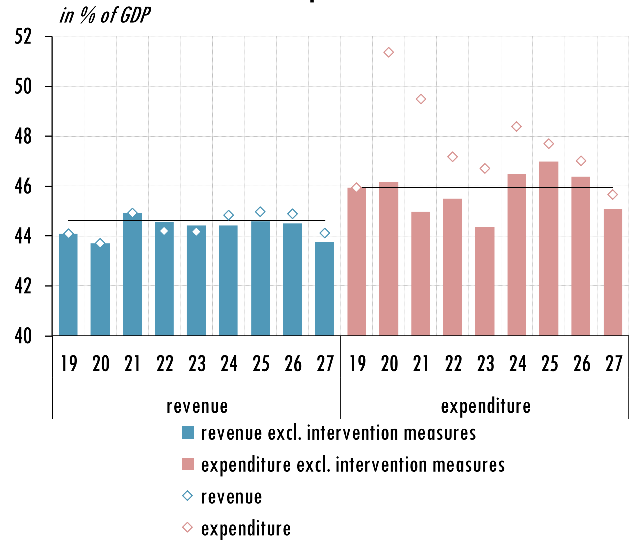
Source: SORS, MoF, FC calculations.

Figure 1.9: Main aggregates of the general government 2023 - difference between the outturn and DBP 2024 forecast



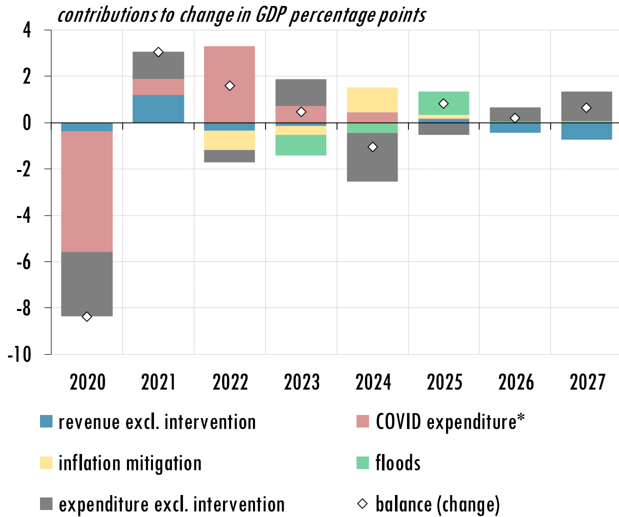
Source: SORS, Draft budgetary plan 2024 (October 2023).

Figure 1.10: General government revenue and expenditure



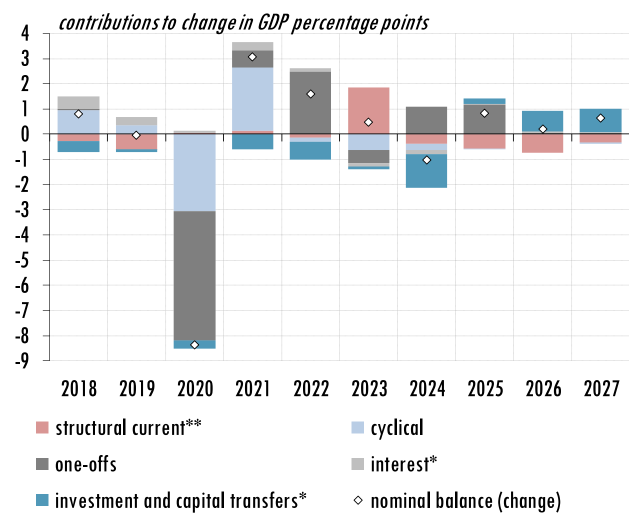
Source: SORS, MoF, IMAD. Note: Line denotes 2014-2019 average (expenditure excluding bank recovery costs).

Figure 1.11: Factors of general government nominal balance change



*Source: MoF, SORS, FC calculations. *Positive sign denotes a decrease, negative sign denotes an increase.*

Figure 1.12: Factors of general government nominal balance change



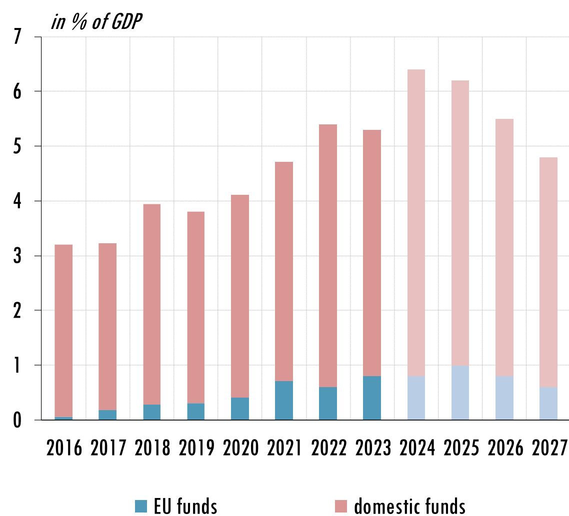
*Source: MoF, SORS, FC calculations. *Positive sign denotes a decrease, negative sign denotes an increase, **Balance excluding interest investment and capital transfers.*

Table 1.1: General government balance projections

EUR million, unless stated otherwise	outturn SORS	MoF (Apr. 24)				change in %					GDP share in %				
	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
Revenue	**27,877**	**29,971**	**31,904**	**33,207**	**34,167**	**10.6**	**7.5**	**6.5**	**4.1**	**2.9**	**44.2**	**44.8**	**45.0**	**44.5**	**43.8**
Total taxes	13,260	14,048	14,920	15,554	16,049	8.8	5.9	6.2	4.3	3.2	21.0	21.0	21.0	20.8	20.6
Taxes on production and imports	8,243	8,605	9,115	9,473	9,704	8.6	4.4	5.9	3.9	2.4	13.1	12.9	12.8	12.7	12.4
Current taxes on income, wealth	4,995	5,422	5,783	6,059	6,322	9.2	8.5	6.7	4.8	4.3	7.9	8.1	8.2	8.1	8.1
Capital taxes	21	22	22	23	23	3.9	2.3	3.4	2.2	2.1	0.0	0.0	0.0	0.0	0.0
Social contributions	10,176	11,517	12,485	13,504	14,121	9.3	13.2	8.4	8.2	4.6	16.1	17.2	17.6	18.1	18.1
Property income	639	949	731	667	636	57.7	48.5	-23.0	-8.8	-4.5	1.0	1.4	1.0	0.9	0.8
Other	3,803	3,456	3,768	3,483	3,360	14.8	-9.1	9.0	-7.6	-3.5	6.0	5.2	5.3	4.7	4.3
Expenditure	**29,465**	**32,344**	**33,834**	**35,084**	**35,632**	**9.5**	**9.8**	**4.6**	**3.7**	**1.6**	**46.7**	**48.4**	**47.7**	**47.0**	**45.7**
Compensation of employees	7,180	7,566	8,143	8,653	8,958	10.9	5.4	7.6	6.3	3.5	11.4	11.3	11.5	11.6	11.5
Intermediate consumption	4,122	4,350	4,567	4,777	4,889	10.2	5.5	5.0	4.6	2.3	6.5	6.5	6.4	6.4	6.3
Social benefits	11,068	12,219	12,991	13,875	14,517	4.6	10.4	6.3	6.8	4.6	17.5	18.3	18.3	18.6	18.6
Interest	785	943	988	1,000	1,031	22.8	20.2	4.7	1.2	3.1	1.2	1.4	1.4	1.3	1.3
Subsidies	1,212	926	769	795	765	77.3	-23.6	-16.9	3.3	-3.7	1.9	1.4	1.1	1.1	1.0
Gross fixed capital formation	3,367	4,317	4,407	4,131	3,712	9.3	28.2	2.1	-6.3	-10.2	5.3	6.5	6.2	5.5	4.8
Other	1,730	2,024	1,968	1,853	1,761	1.0	17.0	-2.8	-5.9	-5.0	2.7	3.0	2.8	2.5	2.3
Balance	**-1,587**	**-2,373**	**-1,930**	**-1,877**	**-1,464**						**-2.5**	**-3.6**	**-2.7**	**-2.5**	**-1.9**

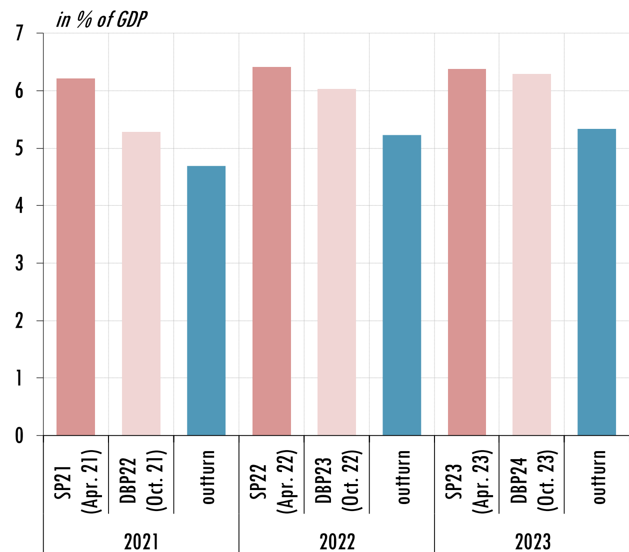
Source: MoF, SORS, IMAD, FC calculations.

Figure 1.13: Structure of general government gross fixed capital formation



Source: SORS, MoF, FC calculations.

Figure 1.14: General government investment



Source: MoF, SORS.

exclusively due to an increase in "core" spending. It is projected to increase by as much as 11.0%,[10] its share in GDP is projected to rise by 2.1 pp of GDP. The structural primary balance (excluding investment) is set to deteriorate, while the dominant reason for the increase in spending will be the projected resumed record high level of general government investment activity (6.4% of GDP). This is expected to be a good pp of GDP above the all-time high and significantly higher than the long-term average (4.2% of GDP). The Fiscal Council regularly points to administrative and productive capacity constraints that prevent investment from being carried out to the planned extent, and insistence on plans leads in particular to cost-ineffective implementation and inadequate allocation of resources for investment spending.[11] While some of the projected increase in investment is also attributable to a planned increase in expenditure on flood recovery, detailed information on the planned intervention measures is not available in this document. This would allow a proper assessment of the fiscal trend projections without the impact of the direct effect of the intervention measures that the Fiscal Council has been emphasising since the beginning of the epidemic. According to the Fiscal Council, only such an analysis provides an accurate picture of the state of public finances and allows for an assessment of the risks to their medium-term sustainability. The absence of detailed information on the intervention measures, together with some other elements that are not available in the SP24, unlike in past budgetary documents, is to some extent also an indicator of an inadequate system of fiscal planning.

Over the next three years, the overall deficit is projected to gradually decrease slightly, mainly due to the projected reduction in flood recovery expenditure, while the '"core" deficit is projected to remain at around -2.0% of GDP on average. The direct impact of flood recovery on the balance is expected to be around -0.3% of GDP per year over the period 2025-2027, with expenditure of around EUR 0.5 billion per year, more than half of which would be financed by temporary earmarked increases of or the introduction of new tax liabilities. The revenue projection over the whole period of the SP24 is assessed as relatively conservative in view of the projected evolution of the macroeconomic fundamentals, which is in line with the precautionary principle.[12] Unlike usual practice, the SP24 does not include projections of revenue from EU funds, which will otherwise be one of the key factors for determining net expenditure in the new economic governance framework. The projection of "core" spending suggests that it will remain at a high level in the coming years. However, taking into account the principles of the no-policy-change scenario, the expected dynamics of individual spending categories are assessed as somewhat underestimated, especially towards the end of the projection period. This is a common approach in budget documents, but should no longer be possible under the changed system of economic governance at the EU level.

[10] Even if the direct effect of the transformation of supplementary health insurance into a compulsory contribution and thus higher general government expenditure, estimated by the Health Insurance Fund of Slovenia to be EUR 620 million in 2024, is excluded, the growth of "core" expenditure would be high, at 8.8%.

[11] In 2023, the government commissioned the IMF to assess the effectiveness of public investment planning and implementation (the Public Investment Management Assessment) (PIMA)). The results of this study, which have led to improvements in the efficiency of public investment in a number of countries, have not been made public by the government. It is therefore not possible to assess whether improvements in this area are being made on the basis of this study.

[12] The precautionary principle under Article 4 of the FRA stipulates that, in planning and estimating the level of revenue and expenditure of general government budgets, account should be taken of risks that could adversely affect macroeconomic stability and, hence, the revenue and expenditure of general government budgets.

1.3 Gross general government debt

The gross general government debt-to-GDP ratio is projected to decline further and to be lower at the end of 2027 than before the onset of the COVID crisis. Government debt reached 79.6% of GDP at the end of 2020 just after the outbreak of the crisis. Most of the contraction in the debt ratio in the years that followed was made possible by relatively high economic growth and, in particular, high inflation, despite high primary deficits, which, on a cumulative basis, are comparable only to those after the global financial crisis. The further decline from 69.2% in 2023 is projected to be half as slow as in the previous three years, with the debt-to-GDP ratio falling by around 5 pp of GDP in total over the SP24 period. At the end of 2027, with the primary deficit projected to persist and nominal GDP growth projected to remain above the implicit interest rate, the debt ratio is projected to be 64.3% of GDP, 1 pp of GDP lower than at the end of 2019.[13]

The general government's financing conditions were relatively stable in 2023 and are improving this year, while borrowing has been relatively modest over the last year and a half. The required yield on 10-year Slovenian government bonds declined at the end of last year as inflation converged towards the target and monetary easing was subsequently forecast to start, and has remained close to 3% since the beginning of 2024. The required yield spread against German government bonds has largely been declining since the beginning of last year. The harmonised interest rate on newly issued debt has been above the implicit interest rate calculated on total debt since the start of 2022. This, together with the relatively high level of debt and only a gradual easing of financing conditions, implies a future increase in interest costs. The credit ratings remain unchanged and the outlook stable. Three bonds (EUR 2.3 billion) and two additional issues of existing bonds (EUR 0.45 billion) were issued in 2023. The Treasury also made two partial early redemptions of existing bonds last year (EUR 0.1 billion). Two bonds totalling EUR 2.3 billion were issued in early 2024, including the first one for individuals. In 2023, the government further issued around EUR 1.2 billion and at the beginning of 2024 EUR 0.3 billion of Treasury bills. Treasury bill interest rates peaked last autumn, and by April this year had fallen by around 0.5 pp to just above 3%.

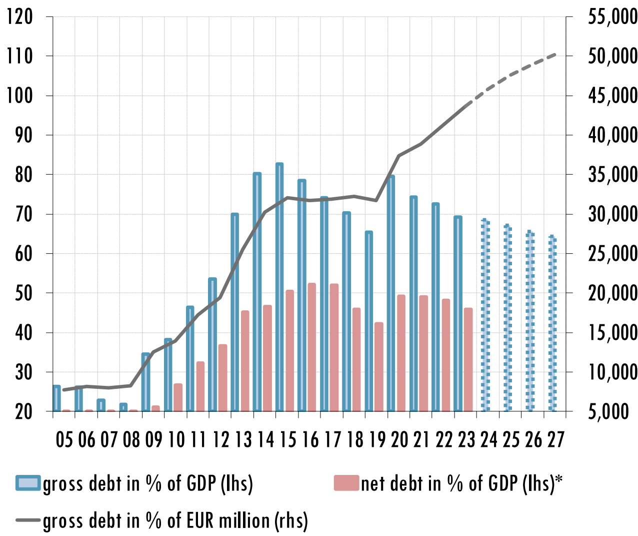
The liquidity position of the government budget and the maturity structure of the debt remain favourable. The balance in the Treasury Single Account increased by EUR 0.9 billion to EUR 9 billion by the end of March this year (around 13.5% of projected GDP for 2024). In particular due to high liquidity buffers, the net public debt-to-GDP ratio stood at around 46% in the third quarter of last year. The government projects in the SP24 that it will also reduce debt by a part of the high liquidity buffer created by prefinancing, cumulatively over the period 2024-2027 by around 1.5% of GDP, which is appropriate from a debt management perspective in the current circumstances.[14] The total volume of maturing liabilities (around EUR 2.5 billion in annual total, or 3.5% of GDP) this year and over the next two years is among the average in this decade, while the refinancing needs will rise to 4.3% of GDP in 2027. In contrast to previous Stability Programmes, the current one does not contain data on government guarantees and their projections.[15]

[13] Slovenia is projected to rank 11th among EU Member States in terms of gross debt-to-GDP in 2027, while the change in the debt ratio in 2027 relative to the pre-crisis year 2019 is projected to be among the smallest in the EU (IMF, 2024). While not based on the ESA2010 methodology, the forecast is the most recent one (April) that allows for comparability across countries. Similar conclusions were also reached in the last EC forecast for 2025, made in autumn 2023, which included a forecast of the general government debt ratio using the ESA2010 methodology.

[14] Nevertheless, we note the unusual dynamics of the impact of the so-called stock-flow adjustment, which denotes the change in the financial position or the difference between the change in debt and the balance of public finances. The usual value of this item is 0 or changes linearly at least from year 2 of the projections onwards (see, e.g., EC, 2024: Chapter II.2). In the specific debt projection, this item reflects the use of financial resources and amounts to -0.4%, -0.2%, -0.7% and -0.3% of GDP in 2024, 2025, 2026 and 2027, respectively.

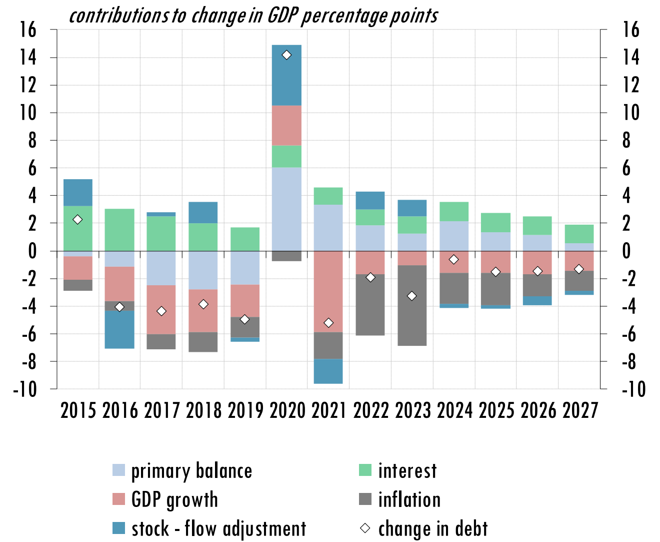
[15] The latest public data on guarantees refer to the end of 2022 (Ministry of Finance, 2023), when they amounted to EUR 4.5 billion (7.9% of GDP), and according to the previous Stability Programme of 2023 (Government of the Republic of Slovenia, 2023) they are expected to decrease to EUR 3.9 billion (5.2% of GDP) by 2026.

Figure 1.15: General government debt



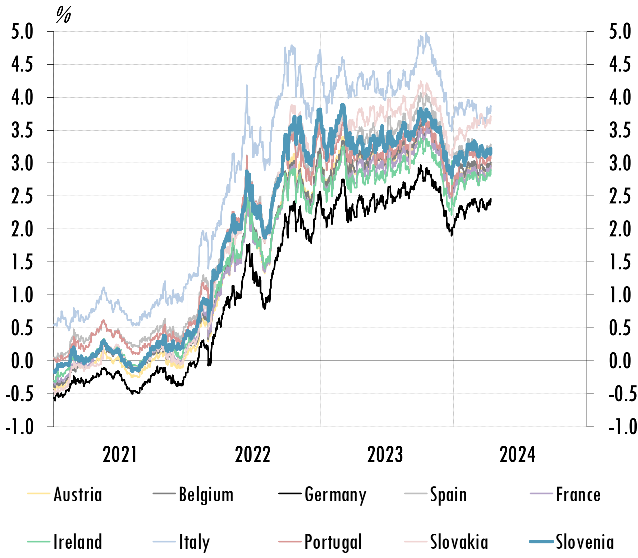
Source: SORS, MoF, ECB, FC calculations. Note: * 2023 : Q3 data.

Figure 1.16: Change in general government gross debt



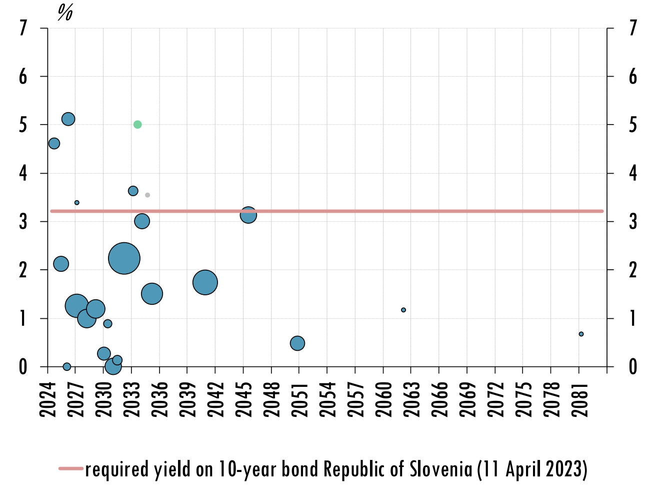
Source: SORS, MoF, IMAD, FC calculations.

Figure 1.17: Yields on 10-year government EUR reference bonds



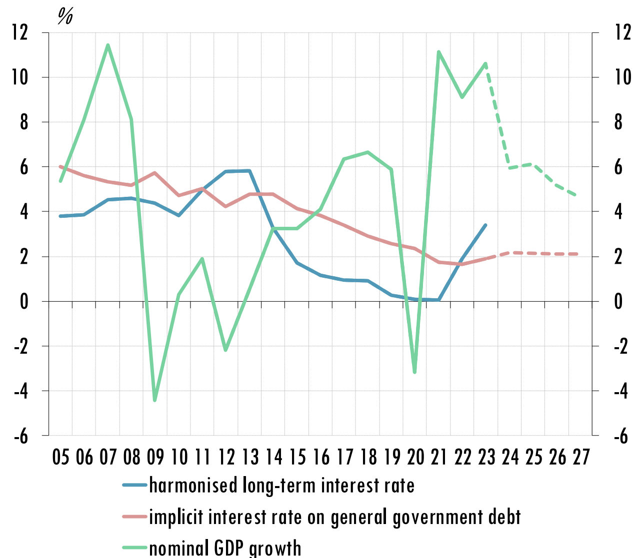
Source: Bloomberg.

Figure 1.18: Key characteristics of debt maturities and current required yields



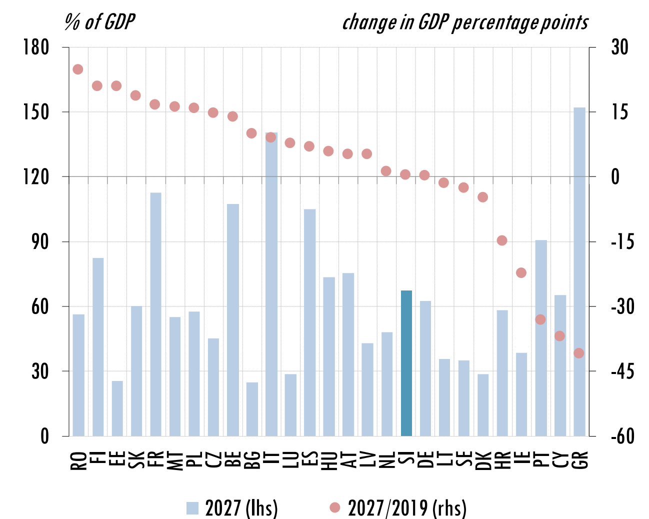
Source: MoF, FC calculations. Note: The size of circles represents the volume of matured liabilities based on long-term bonds. The green colour marks the bonds issued in USD, grey color marks inflation-linked bonds.

Figure 1.19: Harmonised long-term interest rate, implicit interest rate and nominal GDP growth



Source: ECB, SORS, MoF, IMAD, FC calculations.

Figure 1.20: General government gross debt



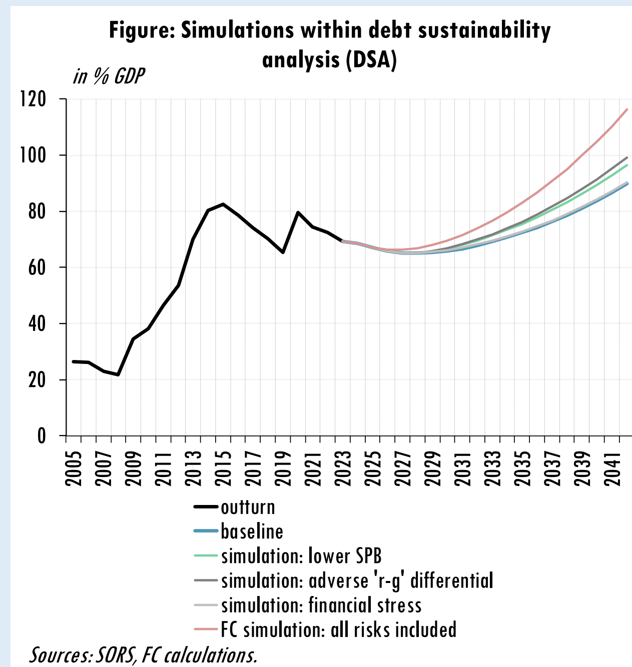
Source: IMF, FC calculations.

Box 1.1: Slovenia's general government debt: an analysis of medium-term sustainability

A debt sustainability analysis shows the state's ability to finance the liabilities stemming from its past fiscal policy in the face of potential macroeconomic and fiscal shocks. In order to move to a new system of economic governance in the EU, the Fiscal Council has replaced the previously used IMF's methodology with the EC's methodology.[1] A debt sustainability analysis starts with a baseline scenario based on macroeconomic and fiscal projections,[2] followed by alternative scenarios showing the debt reaction to different shocks. Changes in the dynamics and the level of the general government debt indicate the vulnerability of public finances to shocks other than those included in the baseline scenario. Actual shocks may deviate from those used in the analysis, both in direction and magnitude.

The Fiscal Council has extended the usual analysis period for medium-term debt sustainability to the period that is expected to apply in the reformed economic governance framework in the EU. The extension of the analysis period is also important because a short period does not necessarily capture all the risks associated with debt developments.[3] In the initial phase of the debt sustainability analysis, the Fiscal Council took into account the general government fiscal projections submitted by the Ministry of Finance to the Fiscal Council together with the budget documents, as well as IMAD's spring forecast for 2024. The macroeconomic aggregates have been extended beyond the end of the IMAD forecast based on the 2027 projection values. In view of the increasing long-term fiscal risks, the Fiscal Council complemented the basic methodology used by the EC with an assessment of risks beyond the ageing costs. The Fiscal Council has assumed an increase in general government expenditure due to demographic change, based on the previous Ageing Report 2021 (EC, 2021) and the updated pension projection by the Institute for Economic Research (IER) (2023). At the time of writing, the estimate of the total ageing costs in the updated Ageing Report 2024 is not yet publicly available in a way (in particular the distribution of the change in ageing costs across years) that would allow it to be directly incorporated into the debt sustainability analysis. In addition, the Fiscal Council has taken into account other fiscal risks (estimated by the Fiscal Council to be of a similar magnitude to the projected increase in the cost of ageing), in line with the assessment presented in Figure 2.6.[4] The Fiscal Council has assumed a very gradual tightening of financing conditions, with the implicit interest rate on general government debt lagging behind the projected nominal GDP growth throughout the analysis period, and an average required rate of return on new (short- and long-term) debt of around 3.8% by the end of the analysis period. In the baseline scenario, the Fiscal Council has also taken into account the assumption that the high cash and deposit stock (the general government's TSA (Treasury Single Account) balance) declines by a good EUR 1 billion cumulatively over the years 2024-2027, as shown in the SP24.

The analysis of medium-term debt sustainability provides several alternative scenarios, with standardised shocks. In the alternative *scenario of a deteriorating primary balance*, the primary balance is reduced by a cumulative 0.5 pp of GDP over two years relative to the baseline scenario, and remains at the lower level so specified in the remainder of the analysis. The *scenario of a deterioration in the difference between nominal GDP growth and interest rates* is designed so that nominal GDP growth declines by 0.5 pp, while interest rates increase by 0.5 pp relative to the baseline scenario over the whole period of analysis. The *interest rate shock* is implemented by increasing the interest rates from the baseline scenario by 100 basis points over the entire period of the simulations. None of these alternative scenarios assumes a fiscal policy response.



The analysis suggests the possibility of rising debt already in the medium term and unsustainable government debt dynamics in the longer term. The simulations of the baseline scenario of the debt sustainability analysis imply a debt increase that, under the assumptions considered and in the absence of economic policy action, occurs shortly after the period covered by the Framework proposal and the SP24.[5] Similar results are also shown for EU countries in the EC (2024) analysis, where the reversal also occurs due to the prevailing impact of higher interest rate costs and rising ageing costs. Note that in the debt sustainability analysis, we present so-called "spontaneous" scenarios that do not involve economic policy action. Taking into account the currently perceived risks, the assessment of debt unsustainability in the medium term is confirmed and stems in particular from the possibility of lower economic growth, while a deterioration of the primary balance would also have an impact on the higher risk assessment. In these cases, the debt-to-GDP ratio could increase by around 5-10 pp of GDP relative to the baseline scenario, in which it is just below 80% of GDP[6] at the end of the simulation period. Even the relatively high nominal economic growth implied by the IMAD projections would thus not ensure sustainable debt levels, assuming that current financing conditions persist and taking into account demographic change and green-transition costs. The results presented are a warning against the short-term focus of economic policy. Delaying action can thus lead to significant negative long-term consequences for public finances and thus for economic stability.

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[1] See EC (2024).

[2] In the context of the debt sustainability analysis prepared by the EC, the assumption that the structural primary balance (SPB) excluding ageing costs remains unchanged over the whole period at the level of the first year of the analysis (in the case of the preparation of both the SP24 and the Autumn Plan, this will be 2024) plays a fundamental role in the public finance projections, while only the projection of ageing costs is added to the calculation of the overall structural primary balance.

[3] See also the simulations in Delakorda (2023).

[4] Please note that this only takes into account the lower bound of the estimated range of risks. All simulations use the assumption that all the risks mentioned above are financed by borrowing only.

[5] Even taking into account the stock-flow adjustments that reduce debt in the projections shown in the SP24.

[6] When the simulation takes into account all the risks shown in Figure 2.6, the debt-to-GDP ratio rises to close to 120% of GDP at the end of the observation period (see the Figure in this Box). If the simulation were to take into account neither the expected increased costs of demographic change nor other long-term risks, general government debt would be just below 70% of GDP at the end of the period. However, even in this case, its dynamics would suggest the possibility of an unsustainable increase, given the assumption of a relatively high initial primary deficit and the insufficient gap between interest rates and nominal GDP growth, in the presence of simulated shocks.

2. Fiscal policy orientation and stance

Key findings

- The transition to the reformed economic governance framework in the EU does not make it feasible to assess compliance with fiscal rules, and the lack of information in the submitted documents also prevents a comprehensive indicative quantitative assessment.
- Fiscal policy stance is set to be markedly expansionary this year, which is not appropriate given the state of the economic cycle and is also not in line with last year's recommendations of the Council of the EU. In the coming years, fiscal policy is expected to be relatively neutral, but the number of risks make such an assessment rather uncertain at present.
- The budget submissions are assessed by the Fiscal Council as containing incorrect calculations and are not comprehensive, indicating a continuation of the inappropriate approach to fiscal planning.
- Economic policy will face a number of challenges in the new system of economic governance in the EU, given the medium- and long-term risks.
- Risks are accumulating both from taking discretionary measures that lead to a deterioration of public finances and from delaying action to address longer-term challenges.
- According to the current Fiscal Council estimates, in order to ensure the sustainability of public finances in the medium term, net expenditure growth would need to significantly lag behind the growth achieved over the last few years.
- In the context of a credible medium-term fiscal-structural plan to be prepared in the autumn, the government should ensure a high level of transparency on the assumptions, the measures included in the medium-term fiscal framework, and the impact of the measures on public finances.

2.1 Fiscal policy stance

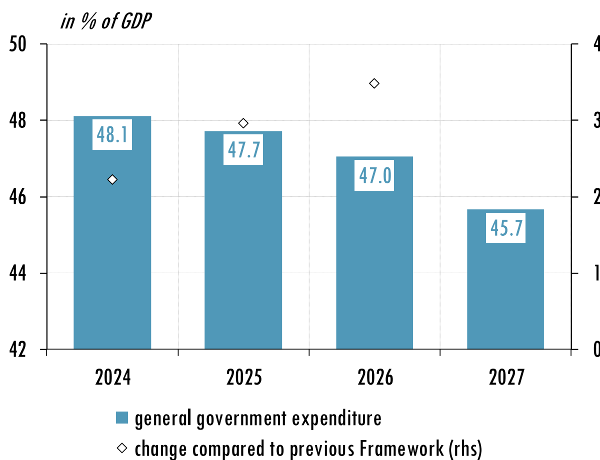
The transition to the reformed economic governance framework in the EU makes it infeasible to assess compliance with fiscal rules on the basis of the current budgetary documents, and the lack of information in the documents also prevents an indicative quantitative assessment. Assessing compliance with the existing fiscal rules on the basis of the Framework, which would be consistent with Article 3 of the FRA, is hampered by the fact that the EC has not updated the values of the general government minimum structural balance (MTO)[16] for 2024 and at the same time has not presented its values for the period 2025-2027 (see also the Legislative Basis Chapter). At the same time, the EC explicitly stated in the Guidelines for the conduct of fiscal policy of March last year that the use of the structural balance adjustment matrix is not currently meaningful due to the transition to the new fiscal rules.[17] Despite the transitional status of the budgetary documents subject to this assessment, at least

[16] This indicator has been abolished in the EU's new system of economic governance.
[17] EC (2023a).

an indicative quantitative assessment based on the new fiscal rules would be reasonable from the point of view of consistency in the assessment of government fiscal plans. A central element of the assessment in the reformed economic governance framework will be the growth of so-called net expenditure.[18] Contrary to past practice and despite the key importance of this item in the future, the SP24 does not contain a comprehensive projection of EU budget revenue. This makes it impossible to compare the projected growth in net expenditure in the SP24 projection with the Fiscal Council estimate of the allowed growth under the new rules, and to assess compliance with the EU Council Recommendation[19] of May last year of no more than 5.5% growth in net expenditure in 2024.

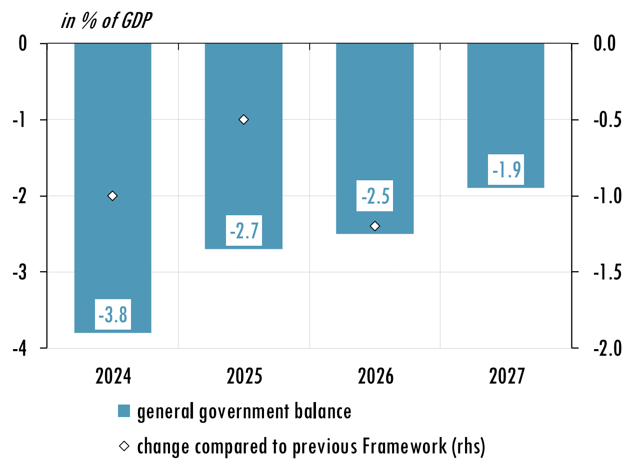
The new Framework proposal foresees a gradual reduction in the general government deficit and a declining expenditure-to-GDP ratio over the period up to 2027, although the nominal

Figure 2.1: Proposed Framework - general government expenditure



Source: MoF, SORS, IMAD, FC calculations. Note: There is no comparison for 2027, as it is included for the first time in the proposed Framework. Year 2024 is not part of the proposed Framework, but the last change to the Framework for that year is included for the completeness of the presentation of the period.

Figure 2.2: Proposed Framework - general government balance



Source: MoF, SORS, IMAD, FC calculations. Note: There is no comparison for 2027, as it is included for the first time in the proposed Framework. Year 2024 is not part of the proposed Framework, but the last change to the Framework for that year is included for the completeness of the presentation of the period..

Table 2.1: Framework for the preparation of the general government budgets

in % of GDP	2023	2024	2025	2026	2027
	expenditure level				
general government	48.3	48.1	47.7	47.0	45.7
state budget	26.5	24.3	24.1	22.9	21.7
local budgets	5.0	4.8	4.7	4.4	4.2
ZPIZ	11.3	11.7	11.8	11.9	11.9
ZZZS	7.0	8.0	8.3	9.0	9.0
	deviation from outturn (2023) or last valid Framework				
general government	-1.6	2.2	3.0	3.5	
state budget	-2.1	1.4	1.7	1.7	
local budgets	0.0	0.3	0.4	0.4	
ZPIZ	0.0	0.3	0.1	0.2	
ZZZS	-0.1	0.5	0.9	1.5	

Source: MoF, SORS, IMAD, FC calculations. Note: There is no comparison for 2027, as it is included for the first time in the proposed Framework. Year 2024 is not part of the proposed Framework, but the last change to the Framework for that year is included for the completeness of the presentation of the period., while the comparison of the last valid framework value and the outturn for 2023 is also presented.

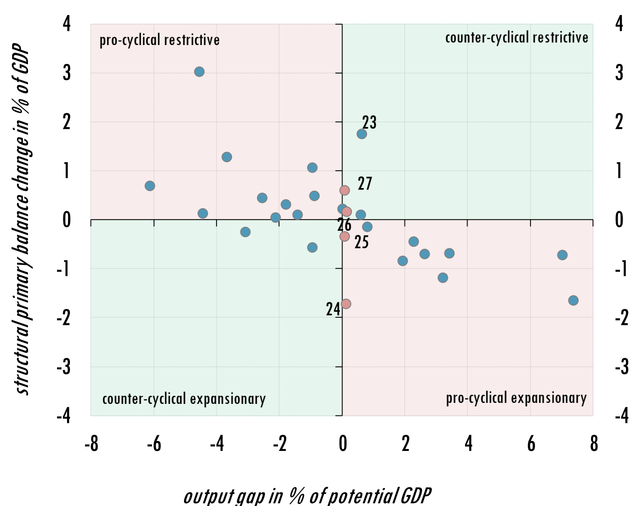
[18] See Box 2.2.

[19] EC (2023b).

expenditure ceiling is rising significantly. The data or projections of the overall general government balance and expenditure do not provide an adequate picture of public finances due to the envisaged flood recovery measures, similar to the measures to mitigate the impact of the epidemic and the cost-of-living crisis in previous years. The absence of information in the SP24 on the detailed composition of the intervention measures by expenditure category prevents a proper assessment of their impact on the proposed path of public finances in the Framework. The Framework is again characterised by a significant increase in the expenditure ceilings compared to the previous Framework, which is not explained in either the SP24 or the explanatory memorandum to the Framework proposal.[20] This is the case for the general government balance sheet as well as for all four public finance budgets. Part of the increase is justified by legislative changes (the transformation of supplementary healthcare insurance into a compulsory contribution and the introduction of the long-term care system, which have an impact on the increase in general government and Health Insurance Institute of Slovenia expenditure).

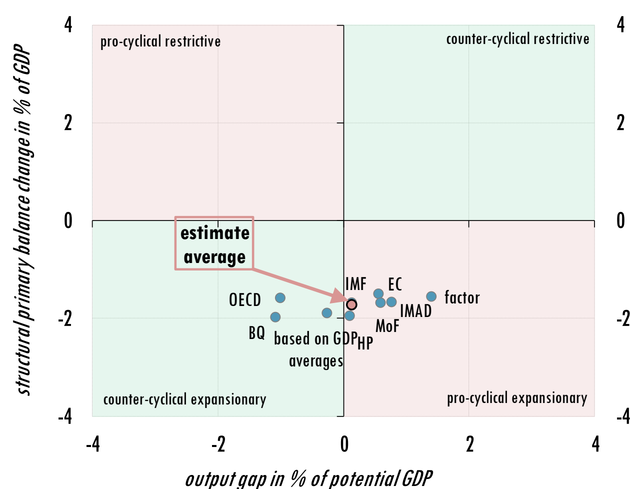
Contrary to the autumn projections, fiscal policy was appropriately restrictive last year, but this year it is expected to be pro-cyclically expansionary to a similar extent and, as a result, inappropriate given the state of the economic cycle and the EC recommendations. Since the start of the 2020 epidemic, the Fiscal Council has consistently treated all intervention measures as "one-off" in the calculation of the structural position of public finances, excluding them from the structural balance calculation. At the EU level, despite the EC taking a different view at the start of the epidemic, measures to mitigate both the effects of the epidemic and the cost of the epidemic are not treated as one-offs. This practice is considered to be more political in nature and the Fiscal Council maintains the view that intervention measures to mitigate different crises should be treated in the same way in all cases. If they are mainly of a temporary nature and therefore do not affect the long-term position of public finances, they should always be excluded from the calculation of the structural position of public finances, even if they are implemented for more than a short-term period. It is thus not acceptable, for example, to treat expenditure on epidemics differently from expenditure on flood relief. Given this approach, fiscal policy in Slovenia last year was appropriately counter-cyclically restrictive. At the

Figure 2.3: Fiscal policy stance 2001–2027



Source: SORS, MoF, FC estimates.

Figure 2.4: Fiscal policy stance in 2024



Vir: SURS, MF, ocene FS.

[20] A comparison is only possible for 2025 and 2026, which were already covered by the previous Framework of April 2023.

time of the adoption of the Draft Budgetary Plan in October last year, there were indications that it would be markedly expansionary in the face of a projected significant increase in the deficit. The different current assessment of the fiscal stance than in the autumn, with other parameters largely unchanged (the size of one-off factors, output gap estimate), is almost exclusively due to the fact that the actual deficit last year was significantly smaller than both the projections and the 2022 outturn, in line with Fiscal Council expectations. However, based on the SP24 projections, the Fiscal Council estimates that, contrary to last year, fiscal policy this year is set to be markedly pro-cyclically expansionary, which is the opposite of last year's stance. This is not in line with last year's Council of the EU recommendation that a restrictive fiscal policy, reflected by a structural effort of 0.5% of GDP, would be appropriate in Slovenia this year. The assessment of a deterioration in the structural position this year is mainly driven by the projected increase in the headline deficit, while the size of the intervention measures is being reduced. The assessment of an inappropriately pro-cyclically expansionary fiscal policy in 2024 would remain unchanged even if the projection of the overall deficit is hypothetically adjusted for the size of the projected increase in investment spending, which the Fiscal Council again assesses as excessive (see Chapter 1.2). Based on the SP24 projections, fiscal policy is projected to be relatively neutral over the next three years, and the implied structural effort at the end of the projections in 2027 is assessed as unrealistic, given the less than credible projection of the general government balance.

The budget documents presented contain significant shortcomings and are not comprehensive, indicating an inadequate system of fiscal planning. In the SP24, the government states that the current documents are of a transitional nature and that the medium-term plan should only be properly prepared in the autumn, when the first Plan will have to be submitted to the EC. The alleged transitional nature of the documents cannot, according to the Fiscal Council, be the reason for the miscalculation of the structural balance and, consequently, of the structural effort shown in the SP24, which is incorrect for the whole projection period 2024-2027. Indeed, the post-flood recovery measures on the revenue side (in the form of a temporary increase or introduction of new taxes) are taken into account in the government's public finance calculations in a way that further increases the burden on public finances, when in fact they increase revenues and thus mitigate the impact of the projected recovery expenditure on the balance. This calculation also affects the level of expenditure ceilings resulting from the Framework proposal and is therefore overestimated by at least 0.8% of GDP (2 x 0.4% of GDP according to Table 3 in the SP24) each year over the period 2025-2027. Even if the calculation were correct, the approach taken by the government, which considers only flood recovery measures as a one-off, would show that the structural position is set to deteriorate this year, not improve, as misrepresented in the SP24, according to the Fiscal Council estimate. This error calls into question the overall credibility of the budget documents submitted and the Fiscal Council expects it to be corrected in the final version of the SP24. In addition, unlike in the past, the SP24 does not include projections of the total volume of revenue from EU sources, which would allow at least an indicative assessment of the projected growth in net expenditure, which will be the basic criterion for assessing compliance with fiscal rules in the reformed economic governance framework in the EU. It is also worth noting the continuation of the inappropriate practice of showing an improvement in the final year of the projections, which is again not in line with the principles of the no-policy-change scenario. One of the important objectives of the reformed economic governance framework and the surveillance account introduced within it (see also footnote 40) is to avoid so-called "back-loading", whereby states replace a relatively reliable deterioration in the government fiscal position in the initial projection

period with unreliable or inadequately supported projections of improvement at the end of the medium-term period.

2.2 Fiscal policy challenges

The new system of economic governance in the EU could pose a significant challenge to the functioning of economic policy, given the current approach to fiscal planning and the underlying state of public finances. We assess that the setting of public finance paths in the first Plan, and in particular the adherence to them, with Slovenia thus far in the bottom half of EU states,[21] will largely determine the credibility of the new fiscal framework. The Fiscal Council simulations show that the required adjustment of public finances in the Plan, regardless of the adjustment period (four or seven years), could exceed the average change in the primary structural balance over the last two decades.[22] Current Fiscal Council estimates also suggest that net expenditure growth would average 4.2% per year over a 4-year adjustment period and 4.4% over an extended 7-year period.[23] Such growth, while similar to the long-run average, is well below the average for the period 2018-2023 (7.0%), i.e. the years when the effects of the 2012 Fiscal Balance Act had largely dissipated, and the years after the onset of the epidemic, when the exceptional circumstances were in place. The government should not neglect the substance of public finances when preparing budgetary documents during the transition to the new system of fiscal rules. This is particularly true given the high baseline level of expenditure, given the risks to the future position of public finances, as the Fiscal Council regularly points out in its assessments.[24] Failure to do so weakens the room for manoeuvre for future action and the prospects for achieving the long-term sustainability of public finances.

Fiscal risks accumulate by delaying action and by taking discretionary measures that lead to a deterioration in the structural position of public finances. Since the start of the epidemic, a number of discretionary measures have been taken that were not directly linked to the exceptional circumstances and have led to a sustained deterioration in the fiscal position,[25] without measures being taken to prevent this deterioration. Currently, the most important short-term risk to public finances is the uncertain outcome of the agreement on the reform of the public sector wage system and the possibility of partial agreements with individual stakeholders. According to the EC[26] and OECD[27] analyses, Slovenia is one of the states with the highest long-term fiscal risks, which in these analyses relate only to the increased costs of social security systems. According to internationally comparable projections in the latest publicly available Ageing Report,[28] the annual fiscal cost of population ageing in Slovenia is

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[21] See, e.g., Larch et al. (2023). The European Fiscal Board (EFB) regularly monitors individual states' compliance with fiscal rules at: https://commission.europa.eu/business-economy-euro/economic-and-fiscal-policy-coordination/european-fiscal-board-efb/compliance-tracker_en.

[22] The average change in the structural primary balance over the period was just above 0.0 pp of GDP. The estimated adjustment is currently estimated by the Fiscal Council to be around 0.4 pp of GDP for the 4-year and around 0.25 pp of GDP for the 7-year Plan.

[23] The growth rates of net expenditure will be set on a year-by-year basis in the Plan. Please note that the current Fiscal Council estimates are indicative estimates only, based on the currently known methodology as understood by the Fiscal Council (the EC has not yet publicly presented the calculation methodology). The methodology used is based on the proposal for the Preventive Arm Regulation, the description of the implementation of the Preventive Regulation, and the methodology and procedures for setting assumptions in EC (2024) and EC (2022, Box 1.2.1), and on the description and programming code in Darvas et al. (2023). For further explanations, see also Box 1.1 and in particular Box 2.1. In the analysis, the Fiscal Council has used data stemming from the IMAD spring projections (2024), the projections in the SP24 and the Fiscal Council revisions to the latter (for further explanations on the use of one-off effects in the SP24 structural balance calculations, see Section 2.1), as well as the Fiscal Council's additional assumptions for GDP growth, the output gap and inflation after the end of the IMAD projections.

[24] See Fiscal Council (2023) and Fiscal Council (2024) as well as Box 1.1.

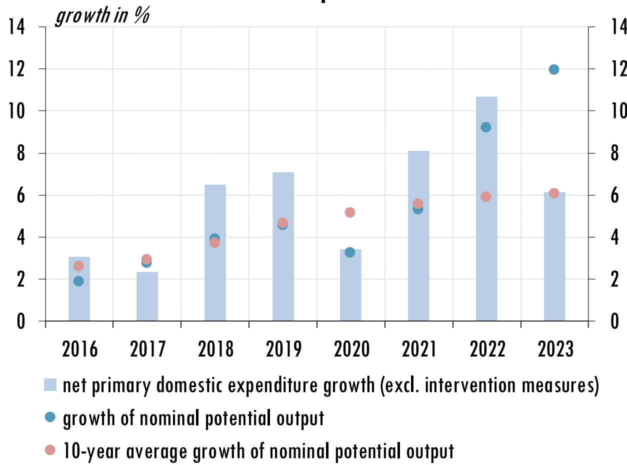
[25] See, e.g., Fiscal Council (2023: Box 2.3).

[26] EC (2024).

[27] Guilemette and Château (2023).

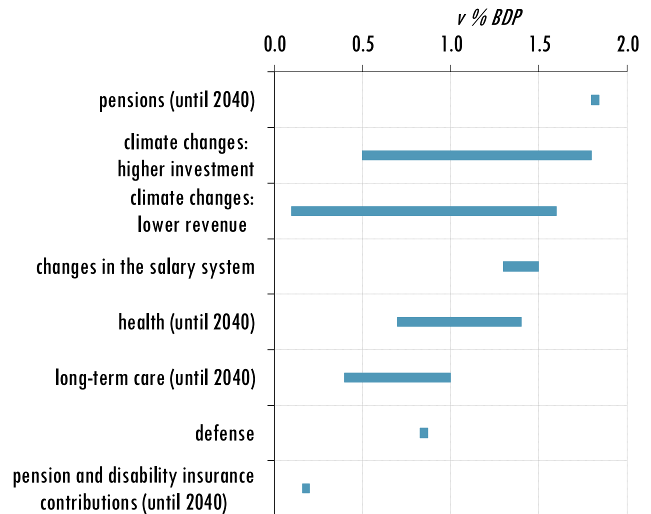
[28] EC (2021).

Figure 2.5: Net primary domestic expenditure and economic potential



Source: SORS, MoF, IMAD, FC calculations. Note: Net primary domestic expenditure is general government expenditure excluding interest expenditure, expenditure matched by EU funds revenue, cyclical unemployment benefit expenditure, measures on revenue side and intervention measures.

Figure 2.6: Estimates of impact of long-term fiscal risks



Source: Brložnik (2022), Casey and Carroll (2023), EC (2021), IER (2023), media releases, OBR (2021), SORS, FC calculations.

projected to increase by around 4 pp of GDP by 2040 compared to 2019.[29] A shrinking working population could also have an impact on, among other things, the slowdown in economic activity[30] and thus on government revenues. Green-transition costs also pose an important risk to public finances. The Fiscal Council[31] estimates that the annual investment gap required to meet the green-transition milestones of the National Energy and Climate Plan[32] could be close to 2% of GDP by 2030. Given the lack of interest from the private sector, most of the burden is expected to be borne by the general government.[33] A refreshed NECP is under preparation, which in its current version identifies the need to more than double the investment required by 2030 to meet the climate targets compared to the existing plan, and stresses the importance of selecting priority investments according to the results of the impact analysis, given the constraints on financial resources.[34] The green transition is also likely to be reflected in lower government revenues, resulting from lower consumption of current energy sources and, at least temporarily, reduced activity and potential restructuring of industries that are more dependent on these sources. An overview of these and other risks currently considered by the Fiscal Council to be the most important fiscal risks is presented in Figure 2.6.[35] In this context, the analysis of

[29] The IER (2023) projections, which refer only to public pension expenditure, imply an increase of around half of the EC (2021a) projections for pensions. A lower estimate of the increase in ageing costs over the next decade and a half by less than half is also implicit in the long-term debt sustainability analysis presented in the EC (2024) and in the SP24. A comprehensive updated analysis of the costs of ageing will be available after the publication of the 2024 Ageing Report (expected in the second half of April 2024).

[30] See, e.g., Chapter 4 in IMAD (2024) and Chapter 3 in IMF (2024).

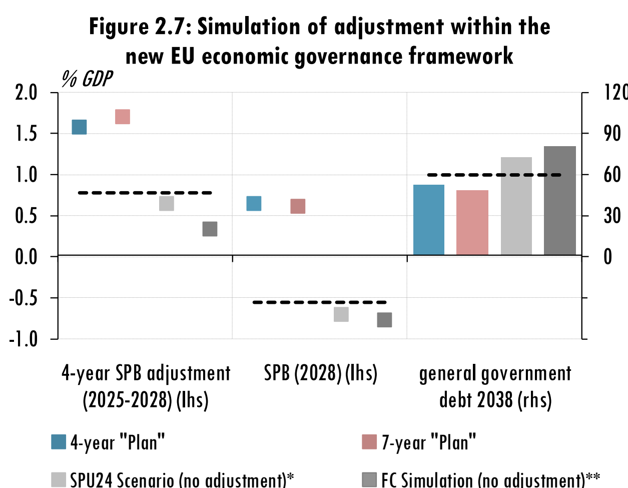
[31] Brložnik (2022).

[32] Government of the Republic of Slovenia (2020).

[33] The assumptions used in the OBR (2021) assessments suggest that, for example, public finances in the UK are expected to bear half of the total cost of the green transition. The relatively low share is mainly a reflection of the modest funding that the general government is expected to contribute to the transition to zero-carbon energy, as the initiative is left to the private sector.

[34] Ministry of the Environment, Climate and Energy (2024).

[35] The estimates in Figure 2.6 are based on various available sources. Mostly, estimates for Slovenia are used and in some cases (lower general government revenues resulting from climate change adaptation) analyses for other countries. Instead of a point score, ranges of scores are sometimes shown (where several different scores were available for the same category), indicating the risks associated with such scores. The values represent the ultimate impact (in 2040 for pensions, pension and disability contributions, long-term care, and healthcare) and the expected ongoing impact (after the introduction of the other categories) of the selected risks. The figure can thus be interpreted as the lower and upper bounds (the sum of the minimum and maximum points, respectively, of all the components shown) of the currently estimated risks to the general government balance in 2040. The overall magnitude of the above long-term risks (the sum of the minimum and maximum scores of all components shown) is very similar to the estimates for EU and developed countries, respectively (see Gaspar, 2024).



*Sources: MoF, FC calculations. Note: »SPU24 Scenario« and »FC Simulation« assume constant SPB, based on SPU24 from 2027 on, augmented by cost of ageing projection and impact of all perceived risks. * augmented by cost of ageing after 2027. ** augmented by impact of all perceived risks after 2027. Lines represent long-term averages, with exception of debt: 60 % of GDP.*

the sustainability of general government debt (see Box 1.1) suggests that, in the absence of economic policy action, debt dynamics could become unsustainable already in the medium term, even if only half of the lower bound (roughly corresponding to the expected increase in ageing costs) of the identified long-term risks were to materialise.

The trajectory of public finances under the new system of economic governance will depend on a number of factors. In addition to the determination of the values of the macroeconomic variables that enter into the debt sustainability analysis (see Box 1.1), the required adjustment of public finances will also depend to a large extent on the initial position of fiscal policy. The first Plan, which Member States will have to submit to the EC in autumn this year, will set 2024 as the baseline, taking into account data outturns up to 2023. Therefore, the structural position of public finances, or the realism of its projection for this year, is also important for the complexity of fiscal policy adjustment in the years ahead. The Fiscal Council calculations show that a deviation of the structural primary balance by one pp in 2024 from the baseline scenario[36] used in the simulations could imply a requirement for additional cumulative adjustment of this balance in the coming years by at least 1 pp in the case of a 4-year adjustment and by at least 0.5 pp in the case of a 7-year adjustment. This would translate into a reduction in the allowed growth of net expenditure per year by around 0.5 pp in the first case and by around 0.3 pp in the second case.[37] In addition to the risks already highlighted, interest rates can be expected to persist in the future at a higher level than during the period of significantly stimulative monetary policy since the start of the epidemic. This could gradually translate into higher interest expenditure as public debt rises and debt, issued on concessional financing terms over the past few years, matures. Maintaining relatively high interest rates on newly issued debt would thus narrow the gap between nominal economic growth and interest rates, which, in the context of an insufficient

[36] At the time of the preparation of the Plans, in the trajectory received from the EC at the end of June for Member States with a government debt above 60% of GDP or a general government deficit above -3% of GDP, this will be similar to the other variables under the debt sustainability analysis methodology, determined on the basis of the EC's spring forecasts. These are expected to be published in mid-May this year. For Slovenia, the government will prepare its draft Plan on the basis of the IMAD autumn forecasts, which are expected to be available at the end of August or early September.

[37] The simulations also suggest the possibility that relatively small – and in particular more persistent – deviations in the values of some other input assumptions (notably on economic growth and the output gap) may have a similar impact on the adjustment requirements of public finances in the medium-term structural-fiscal plans.

primary surplus, could contribute to a rising public debt-to-GDP ratio.[38] It is therefore essential to ensure that economic policy measures are well thought out and systemic in order to create the conditions for sustained growth in economic potential and thus to maintain a favourable growth-interest rate differential in the long term.

The simulations show the need for additional action over the next few years to ensure the sustainability of public finances in the medium term. The Fiscal Council has compared the implied fiscal policy path with the required adjustment over the next few years in the light of currently known data and information, in line with the methodology of the new economic governance framework.[39] The estimates suggest that the structural adjustment implied by the no-policy-change scenario in the SP24 would have to be much higher to achieve the adjustment needed to achieve medium-term debt sustainability over the adjustment period: cumulatively, by an additional 1 pp over the four years and almost 1.5 pp over the seven years of the Plan, respectively (see Figure 2.7). This implies an annual average of around 0.5 pp lower net expenditure growth over the adjustment period than is implicit in the no-policy-change scenarios. Current estimates thus suggest the possibility of exceeding the margin of tolerance still to be adopted by the EC.[40] This is also why the government will need to present measures in the autumn proposal of the Plan that will allow for an appropriately high structural adjustment of public finances in the period ahead.

Even in the transition to a new system of economic governance, the choice of consolidation dynamics should be considered in the light of the current and expected cyclical situation of the economy. This includes consideration of the adjustment required or the extension of the adjustment period. The same applies to economic policy action itself, which, in addition to ensuring the operationality, efficiency and quality of public sector services and the contribution to economic potential, should have particular regard to medium- and long-term fiscal sustainability. In fact, the longer adjustment period that a Member State may require, subject to certain conditions (in particular the country's commitment to investment and reforms), the greater the reduction in the annual size of the required adjustment, which is reflected in higher growth in net government expenditure. This has a direct impact on aggregate demand and, given the current labour market situation and the persistence of the projected labour shortages, may prolong the period of cost pressures and consequently weaken the competitiveness of the Slovenian economy.

The general government should ensure maximum transparency when preparing its medium-term fiscal strategy. In view of the many assumptions underlying the Plan and the not entirely clear methodology derived from the proposed legislative solutions, and to allow for an equal debate with

[38] Assuming a primary balance deficit (net of interventions) of -0.8% of GDP, which is the result of the SP24 projections for the 2025-2027 average, the difference between the implicit interest rate and nominal GDP growth at the current level of government debt of around 70% of GDP would have to be at least -1.2 pp to keep debt from rising (see also the simulations in Delakorda, 2021). If the difference were smaller, the so-called "snowball effect" would lead to an increase in the debt-to-GDP ratio, while at a larger difference the ratio would decrease. See Figure 1.19 for an illustration of the historical evolution of this difference, which has averaged only -0.1 pp over the last two decades and almost -2 pp over the five years preceding the epidemic.

[39] To ensure that the no-policy-change scenarios in the SP24 and in the Fiscal Council simulation are comparable with the 4- and 7-year adjustment period scenarios in the new EU economic governance framework, respectively, the Fiscal Council has kept the projections of the structural primary balance from the last year (2027) unchanged until the end of the analysis period and added a projection of the ageing costs in the period after 2028. This recognised a certain structural effort, which was partly compensated in the simulation by an earlier recognition of ageing costs according to the EC methodology. In the case of the Fiscal Council simulation, the projected increase in ageing costs has been increased by the estimated impact of the other risks shown in Figure 2.6.

[40] To monitor deviations from the required adjustment, the EC will create a special "control" account to show cumulative deviations from the requirements of the fiscal rules (Article 21 of the Preventive Arm Regulation). When public debt exceeds 60% of GDP and the general government balance is not in balance, and the deviations in the growth of net expenditure in the surveillance account amount to at least 0.3% of GDP per year or 0.6% of GDP cumulatively, the EC will initiate an Excessive Deficit Procedure against the Member State (Article 1 of the Corrective Regulation). The control account will not record deviations in case of exceptional circumstances and the value of the deviations will be erased when the new Plan is approved.

all stakeholders, an early public disclosure of the parameters of the Plan, together with as precise a quantification as possible of the economic policy measures,[41] which should ensure the achievement of the required structural adjustment, would be advisable. This would be more appropriate from a transparency point of view than that foreseen by Article 8 of the Preventive Arm Regulation as regards the publication by the EC of the input data for the preparation of the Plan. The EC is only supposed to publish the assumptions and methodology once the Member State has submitted its Plan, which is not, in the view of the Fiscal Council, an appropriate precursor to the transparency of the new economic governance framework. The government will also be constrained in the preparation of its own Plan, or in its deviation from the Plan received from the EC, as regards the determination of input data given the methodology, by the fact that the EU Council will decide on the required adjustment on the basis of the final proposal for the Plan by the EC.[42]

[41] The presentation of the measures in the Plan is required by Article 11(a) of the Preventive Arm Regulation.

[42] While the requirements of the Plan will be negotiated bilaterally between the EC and the Member State, in accordance with Article 16 of the Preventive Arm Regulation, the final proposal for the Plan will be submitted by the EC to the Council of the EU for a decision.

Box 2.1: The reformed economic governance framework in the EU

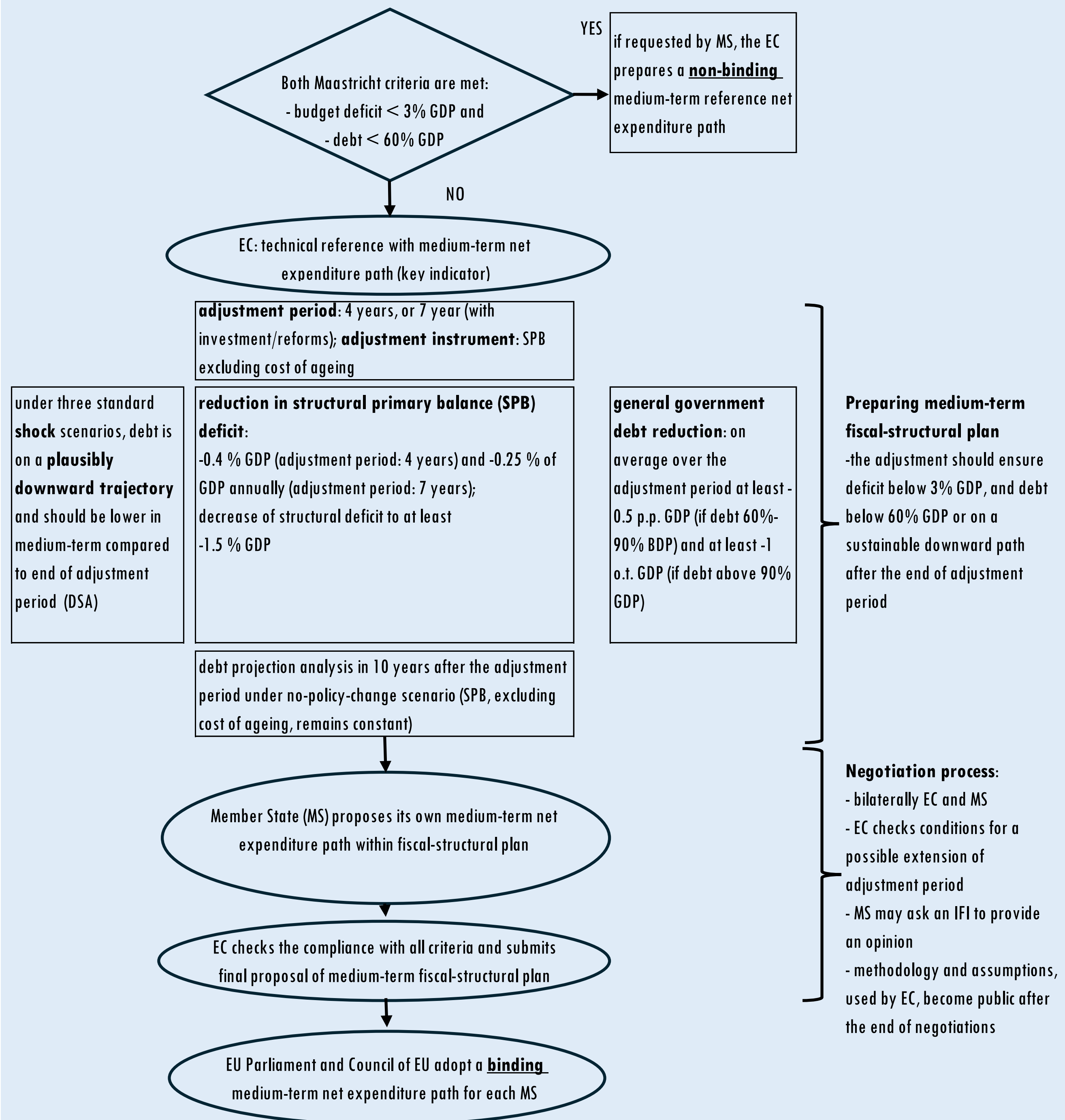
The reformed economic governance framework is a compromise that aims to both ensure public debt sustainability and strengthen long-term economic potential. The main objectives of the reform of the economic governance framework were to increase the transparency of budgetary planning, to eliminate the pro-cyclical behaviour of fiscal policy, to simplify fiscal rules, to take fiscal risks and the fiscal position of individual countries into account more thoroughly, and to provide simpler procedures for identifying and sanctioning deviations. The reform of the EU's economic governance framework, including (i) the Directive on the requirements for budgetary frameworks, (ii) the Regulation on effective coordination of economic policies and multilateral budgetary surveillance (the so-called "preventive" part) and (iii) the Regulation on the implementation of the Excessive Deficit Procedure (the so-called "corrective" part)[1] will finally be adopted by the Council of the EU once the Directive on the requirements for budgetary frameworks is approved by the European Parliament, which is expected to take place by the end of April 2024.

Medium-term budgetary planning has become the fundamental starting point of the reformed economic governance framework. This has a number of advantages over the annual budget cycle and can ensure more predictable, stable and sustainable fiscal policy. In an economic governance framework, the fiscal-structural plan will normally cover a period of four years, during which the adjustment of public finances will take place. This period can be extended to seven years if additional investment and structural reforms are justified as contributing to building economic potential and improving the government's fiscal position. The adjustment of the structural primary balance over the lifetime of the plan will need to ensure debt sustainability beyond the four- or seven-year horizon. The initial trajectory of the medium-term adjustment, or net expenditure path, will be proposed by the EC, followed by a Member State's proposal after negotiations and coordination, and final endorsement by the Council of the EU on a proposal from the EC. Based on past experience, the establishment of an appropriate medium-term fiscal framework could pose a significant challenge for Slovenia, as the approach to fiscal policy conduct will have to be fundamentally reversed. While medium-term planning is relatively well established formally in Slovenia, there is a significant gap between formal arrangements and actual practice.[2]

Net expenditure has become a key indicator for medium-term budgetary planning and operational implementation of fiscal policy. For the purpose of determining this indicator, total general government expenditure will exclude interest expenditure, expenditure on EU programmes fully financed by EU programmes, national expenditure related to the co-financing of EU programmes, cyclical unemployment expenditure and one-off or temporary measures, as well as effects of discretionary revenue measures. In the previous system, the general government structural balance (or its adjustment according to certain conditions) served as the basic indicator, while in the new system it will be used to determine the required growth in net expenditure. In the new economic governance framework, the medium-term trajectory of net expenditure will have to ensure that several conditions relating to the general government balance and debt and to the adjustment of the primary structural balance are met at the same time.

The medium-term trajectory of net expenditure will be determined on the basis of a broad set of conditions. The methodology and baseline data underlying the medium-term expenditure path will be made public by the EC only after each Member State has submitted its medium-term plan. The first basis for determining the medium-term path is the Debt Sustainability Analysis (DSA).[3] This depends on the extrapolation of a number of assumptions, including economic growth, interest rates and ageing costs, and includes simulations of standardised deterministic shocks.[4] In this context, the structural primary balance at the end of the adjustment period must ensure that, even in the presence of simulated shocks, debt will decline or remain below 60% of GDP in the medium term. At the same time, the probability of no increase in debt in the baseline scenario must be at least 70% in the five years after the adjustment period. Under both of these conditions, the general government deficit must be below -3% of GDP. All three of these basic conditions are complemented by additional requirements or safeguards that affect the adjustment process in individual years. The first requirement

Figure: The reformed economic governance framework in the EU



Source: https://www.consilium.europa.eu/en/press/press-releases/2023/12/21/economic-governance-review-council-agrees-on-reform-of-fiscal-rules/ and https://www.consilium.europa.eu/en/press/press-releases/2024/02/10/economic-governance-review-council-and-parliament-strike-deal-on-reform-of-fiscal-rules/, presentation by FC.

for setting an appropriate medium-term path relates to ensuring an adequate debt contraction, which should be at least 0.5 pp of GDP on average over the adjustment period if the debt is between 60% and 90% of GDP, and at least 1 pp of GDP if the debt exceeds 90% of GDP. The second requirement is an adjustment of the structural primary balance, which should be at least 0.4% of GDP in the case of a 4-year adjustment period, and at least 0.25% of GDP in the case of an adjustment period of 7 years. This adjustment should ensure a minimum structural balance deficit of -1.5% of GDP. An additional adjustment of the structural primary balance or structural balance of 0.5% of GDP

is required when the general government deficit exceeds the -3% of GDP threshold during the adjustment period.

[1] The final proposals for the above documents are available at: https://www.consilium.europa.eu/en/press/press-releases/2024/02/10/economic-governance-review-council-and-parliament-strike-deal-on-reform-of-fiscal-rules/

[2] For more information, see Brložnik (2023).

[3] A more detailed methodology is available in EC (2024).

[4] For this type of sensitivity analysis to selected assumptions contained in the DSA used by the IMF, see Delakorda (2023) and Fiscal Council (2023).

Box 2.2: The Fiscal Council opinion on the end of the exceptional circumstances period from and including 2024

The Fiscal Council confirms the assessment[1] already presented last spring that the conditions for maintaining exceptional circumstances do not exist from 2024 onwards. This is consistent with economic developments and their outlook, and the absence of shocks that could have significant implications for the country's financial situation and which are beyond the control of the authorities. The EC[2] confirmed already in autumn 2022 that the general escape clause in the EU will expire at the end of 2023.

The period of exceptional circumstances started in March 2020. At that time, the Fiscal Council adopted an assessment on the existence of exceptional circumstances,[3] triggered by the declaration of a COVID epidemic.[4] It concluded that the epidemic constituted an unusual event which, according to point two, paragraph one of Article 12 of the FRA, allowed for the application of exceptional circumstances for measures aimed at directly mitigating the consequences of such an event, and thus a temporary deviation from the medium-term fiscal balance. Following a request by the government and due to the persistence of the epidemic in October 2020[5], the Fiscal Council found that the conditions for maintaining exceptional circumstances were met in 2021, while it could not unequivocally confirm the same finding for 2022. Following a further request from the government, in April 2021[6] it assessed that the conditions for maintaining exceptional circumstances were met in 2022 as well, in particular given that the economic activity forecasts at that time suggested that GDP was lagging behind the pre-crisis level. This conclusion was confirmed in the October 2021 assessment.[7] Following the outbreak of war in Ukraine and the resulting energy price spike and the associated uncertainties about the economic outlook, the Fiscal Council made an assessment[8] in September 2022 that exceptional circumstances would continue to exist in 2023.

Current indicators and forecasts of the economic situation point to a recovery of the Slovenian economy after several successive shocks. Economic activity at the end of 2023 was more than 8% above the pre-crisis GDP level. Unemployment was at a historically low level in 2023, and employment growth remained close to its long-term average despite a moderation, with persistently high labour shortages and new employment of predominantly foreign workers. Current projections also suggest that economic growth will remain around the long-term average (Figure 1.1).

[1] https://www.fs-rs.si/wp-content/uploads/2023/04/OcenaPS_eng.pdf

[2] EC (2022).

[3] https://www.fs-rs.si/wp-content/uploads/2020/03/Assessment_extraordinary-event-under-the-Fiscal-Rule-Act-_March-2020.pdf

[4] https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2020-01-0532/odredba-o-razglasitvi-epidemije-nalezljive-bolezni-sars-cov-2-covid-19-na-obmocju-republike-slovenije (only in Slovene)

[5] https://www.fs-rs.si/assessment-by-the-fiscal-council-fulfilment-of-conditions-for-the-enforcement-of-exceptional-circumstances/

[6] https://www.fs-rs.si/assessment-by-the-fiscal-council-fulfilment-of-conditions-for-the-existence-of-exceptional-circumstances-in-2022/

[7] https://www.fs-rs.si/assessment-by-the-fiscal-council-fulfilment-of-conditions-for-the-existence-of-exceptional-circumstances-in-2022-2/

[8] https://www.fs-rs.si/assessment-by-the-fiscal-council-fulfilment-of-conditions-for-the-existence-of-exceptional-circumstances-in-2023/

3. Statistical annex

Table 3.1: Comparison of macroeconomic projections for 2024 and 2025

	2024						2025					
	EC (Nov.23)	OECD (Nov.23)	BoS (Dec.23)	EC (Feb.24)	IMAD (Feb.24)	IMF (Apr.24)	EC (Nov.23)	OECD (Nov.23)	BoS (Dec.23)	EC (Feb.24)	IMAD (Feb.24)	IMF (Apr.24)
GDP	2.0	1.8	2.2	1.9	2.4	2.0	2.7	2.7	2.3	2.7	2.5	2.5
Exports of goods and services	2.8	1.6	1.8		1.5	2.9	4.0	3.3	4.1		3.2	4.3
Imports of goods and services	3.3	1.1	3.8		3.7	5.2	4.2	3.4	4.4		4.0	5.1
External trade balance, contribution to growth	-0.2	0.5	-1.4		-1.6		0.0	0.2	0.0		-0.4	
Private consumption	1.7	1.3	1.4		1.6		2.0	2.6	2.1		2.0	
Government consumption	2.8	2.1	7.2		6.8		2.2	1.4	2.9		1.9	
Gross fixed capital formation	3.4	3.7	0.2		4.2		5.1	3.8	3.1		4.0	
Changes in inventories, contribution to growth	0.0	-0.3	1.5		1.0		0.0	0.0	0.0		0.5	

Source: IMF, EC, OECD, BoS, IMAD.

Table 3.2: Output gap estimates

	IMF	European Commission	OECD	IMAD	MoF	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions	average of estimates based on prod. funct.
2002	-5.2	0.6	-0.8	0.2	-0.3	-0.8	-0.5	...	-0.2	-0.9	-1.1	0.2
2003	-4.1	0.5	-1.1	0.1	-0.4	-1.5	-1.4	0.3	-0.8	-0.9	-1.0	0.1
2004	-1.9	1.6	-0.1	1.3	0.8	-0.8	-1.1	1.1	-0.6	0.0	0.3	1.2
2005	-0.1	2.4	0.6	2.3	1.6	-0.5	-1.3	2.1	0.3	0.8	1.4	2.1
2006	2.9	4.7	3.2	4.7	4.1	2.0	1.0	4.1	2.3	3.2	3.9	4.5
2007	7.2	8.0	7.2	8.3	7.6	6.4	5.7	6.7	6.2	7.0	7.7	8.0
2008	8.6	7.7	8.1	8.2	7.4	8.3	7.5	4.4	6.3	7.4	8.0	7.7
2009	-0.7	-2.8	-1.7	-2.2	-3.0	-0.7	-1.6	-6.8	-3.1	-2.5	-2.1	-2.7
2010	-0.6	-2.8	-1.3	-2.2	-3.1	0.1	-0.4	-2.8	-2.8	-1.8	-2.0	-2.7
2011	-0.7	-2.9	-0.9	-2.4	-3.1	0.6	0.9	-2.5	-1.7	-1.4	-2.0	-2.8
2012	-4.2	-6.1	-4.0	-5.7	-6.4	-2.5	-1.9	-5.4	-4.6	-4.5	-5.3	-6.1
2013	-5.8	-7.8	-5.7	-7.5	-8.1	-4.3	-3.6	-4.6	-7.6	-6.1	-7.0	-7.8
2014	-4.5	-6.2	-4.3	-6.0	-6.5	-3.0	-2.2	-2.4	-4.9	-4.4	-5.5	-6.2
2015	-3.5	-5.0	-3.6	-4.9	-5.4	-2.7	-2.0	-1.8	-3.9	-3.7	-4.5	-5.1
2016	-1.8	-2.9	-2.1	-2.8	-3.4	-2.0	-1.6	-0.2	-2.0	-2.1	-2.6	-3.0
2017	0.7	0.5	0.6	0.6	0.0	0.0	0.4	2.1	0.6	0.6	0.5	0.4
2018	2.9	3.0	2.6	3.2	2.5	1.7	2.1	2.7	3.3	2.7	2.8	2.9
2019	3.9	4.1	3.3	4.4	3.6	2.6	2.6	2.1	4.4	3.4	3.9	4.0
2020	-2.2	-2.4	-3.7	-2.1	-2.9	-4.2	-4.5	-4.5	-1.0	-3.1	-2.7	-2.5
2021	2.3	3.2	1.4	3.2	2.4	1.1	0.8	3.7	2.6	2.3	2.5	2.9
2022	1.9	3.1	1.1	2.9	2.5	1.0	0.9	2.5	1.6	2.0	2.3	2.8
2023	0.7	1.5	-0.2	1.4	1.2	0.1	-0.1	2.3	-1.1	0.6	0.9	1.4
2024	0.1	0.6	-1.0	0.8	0.6	0.1	-0.3	1.4	-1.1	0.1	0.2	0.6
2025	0.0	0.5	-0.9	0.4	0.3	0.2	-0.2	1.5	-0.9	0.1	0.0	0.4
2026	...	...	...	0.4	0.3	0.5	0.0	0.8	-1.0	0.2	0.4	0.4
2027	...	...	...	0.4	0.3	0.4	-0.2	0.4	-0.8	0.1	0.3	0.3

Source: IMAD, EC, IMF, OECD, Stability Programme 2024, FC calculations.

Note: The table shows estimates of the output gap by domestic and international institutions that provide these estimates for Slovenia (IMAD, MoF, EC, IMF, OECD). It should be noted that due to incomplete time series the table does not include estimates of all institutions that provide the estimates of the output gap for Slovenia for the duration of the current SP period (missing are the EC, IMF and OECD forecasts for 2026-2027). In addition, the table also shows estimates of the output gap generated by statistical models in which the potential product is determined by (i) HP filters at different values of the parameter λ (10,100,400) (ii) the 3-, 5- and 7-year average of GDP, (iii) factor models estimated on the basis of survey about limitations in the economy and forecasts of a simple VAR model that includes these factors, as well as factor models that take into account a large number of IMAD and EC macroeconomic variables in its estimates and forecasts; and (iv) the SVAR model based on the Blanchard and Quah methodology (1989), which uses restrictions with regard to the assumption that GDP is affected in the long term only by shocks to the aggregate supply, while demand shocks affect activity levels only in the short term.

Table 3.3: Structural balance estimates

	IMF	European Commission	OECD	IMAD	MoF	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions	average of estimates based on prod. funct.
2002	-1.3	-4.1	-3.4	-3.9	-3.6	-3.4	-3.6	...	-3.7	-3.4	-3.3	-3.9
2003	-0.7	-2.8	-2.1	-2.7	-2.4	-1.9	-1.9	-2.8	-2.2	-2.2	-2.1	-2.6
2004	-0.8	-2.4	-1.6	-2.3	-2.0	-1.3	-1.1	-2.2	-1.4	-1.7	-1.8	-2.2
2005	-1.3	-2.4	-1.6	-2.4	-2.1	-1.1	-0.7	-2.3	-1.5	-1.7	-2.0	-2.3
2006	-2.6	-3.4	-2.7	-3.5	-3.1	-2.2	-1.7	-3.2	-2.3	-2.7	-3.1	-3.3
2007	-3.4	-3.8	-3.4	-3.9	-3.6	-3.1	-2.7	-3.2	-3.0	-3.3	-3.6	-3.8
2008	-5.4	-5.0	-5.2	-5.2	-4.8	-5.3	-4.9	-3.5	-4.4	-4.9	-5.1	-5.0
2009	-5.5	-4.5	-5.0	-4.8	-4.4	-5.5	-5.1	-2.6	-4.4	-4.6	-4.8	-4.6
2010	-5.2	-4.2	-4.9	-4.4	-4.0	-5.5	-5.3	-4.2	-4.2	-4.7	-4.5	-4.2
2011	-5.2	-4.1	-5.1	-4.4	-4.0	-5.8	-5.9	-4.3	-4.7	-4.8	-4.5	-4.2
2012	-2.1	-1.2	-2.2	-1.4	-1.1	-2.9	-3.2	-1.5	-1.9	-1.9	-1.6	-1.2
2013	-1.9	-1.0	-2.0	-1.2	-0.9	-2.6	-3.0	-2.5	-1.1	-1.8	-1.4	-1.0
2014	-2.3	-1.5	-2.4	-1.6	-1.4	-3.0	-3.4	-3.3	-2.1	-2.4	-1.9	-1.5
2015	-1.1	-0.4	-1.1	-0.5	-0.2	-1.5	-1.8	-2.0	-0.9	-1.1	-0.7	-0.4
2016	-1.0	-0.5	-0.9	-0.5	-0.3	-0.9	-1.1	-1.7	-0.9	-0.9	-0.6	-0.4
2017	-0.3	-0.2	-0.2	-0.2	0.1	0.0	-0.1	-1.0	-0.3	-0.2	-0.2	-0.1
2018	-0.6	-0.6	-0.4	-0.7	-0.4	0.0	-0.2	-0.5	-0.8	-0.5	-0.5	-0.6
2019	-1.1	-1.2	-0.8	-1.3	-0.9	-0.5	-0.4	-0.2	-1.3	-0.8	-1.0	-1.1
2020	-1.4	-1.3	-0.7	-1.5	-1.1	-0.5	-0.3	-0.3	-2.0	-1.0	-1.2	-1.3
2021	-1.1	-1.5	-0.7	-1.5	-1.2	-0.6	-0.4	-1.8	-1.3	-1.1	-1.2	-1.4
2022	-1.8	-2.4	-1.4	-2.3	-2.1	-1.4	-1.4	-2.1	-1.7	-1.9	-2.0	-2.3
2023	-0.3	-0.7	0.2	-0.6	-0.5	0.0	0.1	-1.0	0.6	-0.2	-0.4	-0.6
2024	-2.1	-2.3	-1.6	-2.4	-2.3	-2.1	-1.9	-2.7	-1.6	-2.1	-2.2	-2.4
2025	-2.4	-2.6	-2.0	-2.6	-2.6	-2.5	-2.3	-3.1	-2.0	-2.5	-2.4	-2.6
2026	...	...	...	-2.4	-2.4	-2.4	-2.2	-2.6	-1.8	-2.3	-2.4	-2.4
2027	...	...	...	-1.8	-1.8	-1.9	-1.6	-1.9	-1.3	-1.7	-1.8	-1.8

Source: IMAD, EC, IMF, OECD, Stability Programme 2024, FC calculations based on Table 3.2.

Table 3.4: Structural effort estimates

	IMF	European Commission	OECD	IMAD	MoF	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions	average of estimates based on prod. funct.
2002	0.1	0.5	0.7	0.4	0.5	0.8	0.8	...	1.4	0.6	0.4	0.5
2003	0.7	1.3	1.4	1.2	1.2	1.5	1.6	...	1.5	1.3	1.1	1.2
2004	-0.1	0.4	0.4	0.4	0.4	0.6	0.8	0.6	0.8	0.5	0.3	0.4
2005	-0.5	0.0	0.0	-0.1	-0.1	0.2	0.4	-0.1	-0.1	0.0	-0.1	-0.1
2006	-1.3	-1.0	-1.1	-1.1	-1.0	-1.1	-1.0	-0.9	-0.8	-1.0	-1.1	-1.0
2007	-0.8	-0.4	-0.7	-0.5	-0.5	-0.9	-1.0	0.0	-0.7	-0.6	-0.6	-0.4
2008	-2.0	-1.2	-1.8	-1.3	-1.3	-2.2	-2.2	-0.3	-1.4	-1.5	-1.5	-1.2
2009	-0.1	0.5	0.2	0.4	0.4	-0.2	-0.1	0.8	0.0	0.2	0.3	0.5
2010	0.3	0.3	0.1	0.3	0.4	-0.1	-0.2	-1.5	0.2	0.0	0.3	0.4
2011	0.0	0.0	-0.2	0.1	0.0	-0.2	-0.6	-0.2	-0.5	-0.2	0.0	0.0
2012	3.1	2.9	2.8	3.0	2.9	2.9	2.7	2.8	2.8	2.9	2.9	2.9
2013	0.2	0.2	0.2	0.2	0.2	0.3	0.2	-0.9	0.8	0.2	0.2	0.2
2014	-0.4	-0.5	-0.4	-0.5	-0.5	-0.4	-0.5	-0.8	-1.0	-0.6	-0.5	-0.5
2015	1.2	1.1	1.3	1.1	1.1	1.5	1.6	1.4	1.2	1.3	1.2	1.1
2016	0.2	0.0	0.3	0.0	0.0	0.6	0.7	0.2	0.1	0.2	0.1	0.0
2017	0.7	0.3	0.6	0.3	0.3	0.9	1.0	0.8	0.6	0.6	0.4	0.3
2018	-0.3	-0.4	-0.2	-0.5	-0.4	0.0	-0.1	0.5	-0.5	-0.2	-0.4	-0.4
2019	-0.5	-0.5	-0.4	-0.6	-0.5	-0.4	-0.2	0.3	-0.5	-0.4	-0.5	-0.6
2020	-0.3	-0.2	0.1	-0.2	-0.1	0.0	0.1	-0.1	-0.7	-0.2	-0.1	-0.2
2021	0.3	-0.2	0.0	-0.1	-0.1	-0.1	-0.1	-1.5	0.7	-0.1	0.0	-0.1
2022	-0.7	-0.9	-0.8	-0.8	-0.9	-0.8	-1.0	-0.3	-0.4	-0.7	-0.8	-0.9
2023	1.6	1.7	1.6	1.7	1.6	1.4	1.5	1.1	2.3	1.6	1.6	1.7
2024	-1.8	-1.7	-1.7	-1.8	-1.9	-2.1	-2.1	-1.7	-2.1	-1.9	-1.8	-1.8
2025	-0.3	-0.3	-0.4	-0.2	-0.2	-0.4	-0.4	-0.4	-0.5	-0.3	-0.3	-0.2
2026	...	...	...	0.2	0.2	0.0	0.1	0.5	0.2	0.2	0.2	0.2
2027	...	...	...	0.6	0.6	0.6	0.6	0.7	0.5	0.6	0.6	0.6

Source: IMAD, EC, IMF, OECD, Stability Programme 2024, FC calculations based on Table 3.2.

Table 3.5: Structural primary balance estimates

	IMF	European Commission	OECD	IMAD	MoF	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions	average of estimates based on prod. funct.
2002	0.8	-1.9	-1.3	-1.7	-1.5	-1.2	-1.4	...	-1.5	-1.2	-1.1	-1.7
2003	1.2	-0.9	-0.1	-0.7	-0.5	0.0	0.0	-0.8	-0.3	-0.2	-0.2	-0.7
2004	0.9	-0.8	0.0	-0.6	-0.4	0.4	0.5	-0.5	0.3	0.0	-0.2	-0.6
2005	0.3	-0.9	-0.1	-0.9	-0.6	0.4	0.8	-0.7	0.1	-0.2	-0.4	-0.8
2006	-1.2	-2.0	-1.4	-2.1	-1.8	-0.8	-0.3	-1.8	-0.9	-1.4	-1.7	-2.0
2007	-2.2	-2.6	-2.2	-2.7	-2.3	-1.8	-1.5	-2.0	-1.7	-2.1	-2.4	-2.5
2008	-4.3	-3.9	-4.1	-4.1	-3.7	-4.2	-3.8	-2.4	-3.3	-3.8	-4.0	-3.9
2009	-4.2	-3.2	-3.7	-3.5	-3.1	-4.2	-3.7	-1.3	-3.1	-3.3	-3.5	-3.3
2010	-3.6	-2.5	-3.3	-2.8	-2.4	-3.9	-3.7	-2.5	-2.6	-3.0	-2.9	-2.6
2011	-3.3	-2.2	-3.2	-2.5	-2.1	-3.9	-4.0	-2.4	-2.8	-2.9	-2.7	-2.3
2012	-0.1	0.8	-0.2	0.6	0.9	-0.9	-1.2	0.5	0.1	0.1	0.4	0.8
2013	0.6	1.5	0.6	1.4	1.7	-0.1	-0.4	0.1	1.4	0.8	1.2	1.5
2014	0.9	1.7	0.8	1.6	1.8	0.2	-0.2	-0.1	1.1	0.9	1.4	1.7
2015	2.1	2.8	2.1	2.7	3.0	1.7	1.4	1.3	2.3	2.1	2.5	2.8
2016	2.1	2.6	2.2	2.5	2.8	2.1	1.9	1.3	2.1	2.2	2.4	2.6
2017	2.2	2.3	2.3	2.3	2.6	2.5	2.4	1.6	2.3	2.3	2.3	2.4
2018	1.5	1.4	1.6	1.3	1.6	2.0	1.8	1.5	1.3	1.6	1.5	1.4
2019	0.6	0.5	0.9	0.4	0.8	1.2	1.3	1.5	0.4	0.8	0.7	0.6
2020	0.2	0.3	0.9	0.1	0.5	1.1	1.2	1.3	-0.4	0.6	0.4	0.3
2021	0.1	-0.3	0.6	-0.3	0.1	0.7	0.8	-0.6	0.0	0.1	0.0	-0.2
2022	-0.7	-1.3	-0.3	-1.2	-1.0	-0.3	-0.3	-1.0	-0.6	-0.7	-0.9	-1.1
2023	1.0	0.6	1.4	0.7	0.8	1.3	1.4	0.2	1.8	1.0	0.9	0.7
2024	-0.7	-0.9	-0.2	-1.0	-0.9	-0.7	-0.5	-1.3	-0.1	-0.7	-0.7	-0.9
2025	-1.0	-1.2	-0.6	-1.2	-1.2	-1.1	-0.9	-1.7	-0.6	-1.1	-1.0	-1.2
2026	...	...	...	-1.1	-1.1	-1.1	-0.9	-1.3	-0.4	-1.0	-1.1	-1.1
2027	...	...	...	-0.5	-0.5	-0.5	-0.3	-0.5	0.0	-0.4	-0.5	-0.5

Source: IMAD, EC, IMF, OECD, Stability Programme 2024, FC calculations based on Table 3.2.

Table 3.6: Structural primary effort estimates

	IMF	European Commission	OECD	IMAD	MoF	HP filter	based on GDP averages	factor models	Blanchard-Quah	average of all estimates	average of institutions	average of estimates based on prod. funct.
2002	-0.1	0.3	0.5	0.3	0.4	0.6	0.7	...	1.2	0.5	0.3	0.3
2003	0.4	1.0	1.1	1.0	1.0	1.3	1.4	...	1.2	1.1	0.9	1.0
2004	-0.3	0.1	0.2	0.1	0.1	0.3	0.5	0.3	0.6	0.2	0.0	0.1
2005	-0.6	-0.1	-0.1	-0.3	-0.2	0.1	0.3	-0.2	-0.2	-0.2	-0.3	-0.2
2006	-1.5	-1.1	-1.3	-1.2	-1.2	-1.2	-1.2	-1.0	-1.0	-1.2	-1.3	-1.2
2007	-0.9	-0.5	-0.8	-0.6	-0.6	-1.0	-1.1	-0.2	-0.8	-0.7	-0.7	-0.6
2008	-2.2	-1.3	-1.9	-1.4	-1.4	-2.4	-2.4	-0.4	-1.5	-1.7	-1.6	-1.4
2009	0.1	0.7	0.4	0.7	0.6	0.0	0.1	1.1	0.2	0.4	0.5	0.7
2010	0.6	0.7	0.4	0.7	0.7	0.3	0.1	-1.2	0.5	0.3	0.6	0.7
2011	0.3	0.3	0.1	0.3	0.3	0.0	-0.4	0.1	-0.2	0.1	0.3	0.3
2012	3.2	3.0	3.0	3.1	3.1	3.0	2.9	2.9	2.9	3.0	3.1	3.1
2013	0.7	0.7	0.7	0.7	0.7	0.8	0.7	-0.4	1.3	0.7	0.7	0.7
2014	0.3	0.2	0.2	0.2	0.2	0.3	0.2	-0.1	-0.3	0.1	0.2	0.2
2015	1.2	1.1	1.3	1.1	1.1	1.5	1.6	1.3	1.2	1.3	1.2	1.1
2016	0.0	-0.2	0.1	-0.2	-0.2	0.4	0.6	0.0	-0.1	0.0	-0.1	-0.2
2017	0.2	-0.2	0.1	-0.2	-0.2	0.4	0.4	0.2	0.1	0.1	-0.1	-0.2
2018	-0.8	-0.9	-0.7	-1.0	-0.9	-0.5	-0.6	0.0	-1.0	-0.7	-0.9	-1.0
2019	-0.8	-0.9	-0.7	-0.9	-0.9	-0.8	-0.6	-0.1	-0.8	-0.7	-0.8	-0.9
2020	-0.4	-0.3	0.0	-0.3	-0.3	-0.1	0.0	-0.2	-0.8	-0.3	-0.3	-0.3
2021	-0.1	-0.6	-0.3	-0.4	-0.5	-0.4	-0.4	-1.8	0.3	-0.5	-0.4	-0.5
2022	-0.8	-1.0	-0.9	-0.9	-1.1	-1.0	-1.1	-0.4	-0.5	-0.9	-0.9	-1.0
2023	1.7	1.9	1.7	1.8	1.8	1.5	1.6	1.2	2.4	1.7	1.8	1.8
2024	-1.7	-1.5	-1.6	-1.7	-1.7	-1.9	-1.9	-1.6	-2.0	-1.7	-1.6	-1.6
2025	-0.3	-0.3	-0.4	-0.2	-0.2	-0.4	-0.4	-0.4	-0.5	-0.4	-0.3	-0.3
2026	...	...	...	0.1	0.1	0.0	0.1	0.5	0.2	0.2	0.1	0.1
2027	...	...	...	0.6	0.6	0.6	0.6	0.7	0.5	0.6	0.6	0.6

Source: IMAD, EC, IMF, OECD, Stability Programme 2024, FC calculations based on Table 3.2.

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