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COMMISSION OPINION

of 26.11.2024

on the Draft Budgetary Plan of Slovenia

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(only the Slovenian text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order to ensure that national budgets are consistent with the economic policy guidance issued in the context of the EU economic governance framework.

2. Article 6 of Regulation (EU) No 473/2013 requires euro area Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan, by 15 October, setting out the budgetary targets for the forthcoming year, and outlining the main aspects underlying the budgetary outlook for general government and its subsectors.

3. On 30 April 2024, the new economic governance framework entered into force. The main objectives of the new framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments. The framework helps to make the EU more competitive and better prepared for future challenges by supporting progress towards a green, digital, inclusive, and resilient economy.

4. In order to simplify the Union fiscal framework and increase transparency, a single operational indicator, anchored in debt sustainability, serves as a basis for setting the fiscal path and for carrying out annual fiscal surveillance for each Member State. That single operational indicator is the nominal growth rate of net expenditure[1].

5. The Recovery and Resilience Facility[2] provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union's energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level ('REPowerEU objectives'). The Facility is expected to strengthen the resilience and potential growth of Member States' economies, which contributes to job creation and sustainable public finances. Part of this support takes the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the

[1] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

[2] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 17–75.

Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.

CONSIDERATIONS CONCERNING SLOVENIA

6. On 15 October 2024, Slovenia submitted its Draft Budgetary Plan for 2025 to the Commission and to the Eurogroup. On that basis, the Commission adopts this opinion in accordance with Article 7 of Regulation (EU) No 473/2013, and taking into account the Council Recommendation on economic, budgetary, employment and structural policies of 21 October 2024[3]. This opinion is adopted by the Commission together with the Commission Recommendation for a Council Recommendation setting the net expenditure path of Slovenia for the years 2025 to 2028[4], which the Commission expects the Council to act upon in a timely manner.

7. On 21 October 2024, upon the Commission recommendation for Council Recommendation on the economic, social, employment, structural and budgetary policies of Slovenia of 19 June 2024[5], the Council recommended Slovenia, in line with the requirements of the reformed Stability and Growth Pact, to limit the growth in net expenditure in 2025 to a rate consistent with, inter alia, putting the general government debt on a plausibly downward trajectory over the medium term and maintaining the general government deficit below the 3% of GDP Treaty reference value.

8. On 15 October 2024, Slovenia submitted to the Commission its medium-term fiscal-structural plan in line with Regulation (EU) 2024/1263[6]. The plan commits to net expenditure growth not exceeding 5.6% in 2025, 4.4% in 2026, 4.1% in 2027 and 4.0% in 2028. The Commission has assessed the medium-term fiscal-structural plan of Slovenia and recommended to the Council to adopt a recommendation setting the net expenditure growth ceilings contained therein. The Draft Budgetary Plan for 2025 is the first step in the implementation of the medium-term fiscal-structural plan.

9. According to the Draft Budgetary Plan, Slovenia's real GDP is projected to grow by 2.4% in 2025 (1.5% in 2024), while inflation is forecast at 3.3% in 2025 (2.1% in 2024). According to the European Commission Autumn 2024 Forecast, Slovenia's real GDP is projected to grow by 2.5% in 2025 (1.4% in 2024), while inflation is forecast at 3.2% in 2025 (2.1% in 2024). Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be in line with the Commission's forecast for 2025 and 2024. Slovenia complies with the requirement of Article 4(4) of Regulation (EU) No 473/2013, since the Draft Budgetary Plan is based on independently produced macroeconomic forecasts.

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[3] Not yet published.

[4] Commission Recommendation for a Council Recommendation endorsing the national medium-term fiscal-structural plan of Slovenia, 26.11.2024, COM(2024)728 final.

[5] Commission Recommendation for Council Recommendation on the economic, social, employment, structural and budgetary policies of Slovenia, 19.06.2024, COM(2024)624 final.

[6] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, OJ L, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

10. Based on the Commission's estimates, the fiscal stance[7] is projected to be contractionary by 0.6% of GDP in 2025, following a contractionary fiscal stance of 0.7% in 2024. This measure of fiscal stance appropriately considers the impact on aggregate demand of expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds.

11. According to the Draft Budgetary Plan, Slovenia's general government deficit is projected to decrease to 2.6% of GDP in 2025 (2.9% in 2024)[8], while the general government debt-to-GDP ratio is set to decrease to 65.4% at the end of 2025 (67.5% at the end of 2024). According to the Draft Budgetary Plan, net expenditure is projected to grow by 6.2% in 2024 and 4.5% in 2025. The growth rate of net expenditure in 2025 according to the Draft Budgetary Plan is thus below the growth rate in the medium-term fiscal-structural plan submitted by Slovenia on 15 October 2024. In turn, according to the European Commission Autumn 2024 Forecast, Slovenia's general government deficit is projected to decrease to 2.1% of GDP in 2025 (2.4% in 2024), while the general government debt-to-GDP ratio is set to decrease to 64.4% at the end of 2025 (67.1% at the end of 2024). The decrease in the deficit is driven by withdrawal of remaining measures to mitigate the impact of high energy prices, higher CO_2 emission tax, and a new mandatory long-term care contribution that will be levied from 1 July 2025. According to the European Commission Autumn 2024 Forecast, net expenditure is projected to grow by 5.2% in 2024 and 4.7% in 2025. For 2024, the main difference between both sets of projections comes from the expenditure side, where the European Commission Autumn 2024 Forecast projects lower public investment in view of administrative and capacity constraints. For 2025, the Commission's forecast projects lower public investment due to implementation risks and higher revenue from taxes on production and imports. The risks to achieving the fiscal objectives for 2025 set out in the Draft Budgetary Plan are broadly balanced, and mainly relate to the reform of the public sector salary system; investment, whose implementation depends on planning and maturity of projects and capacity constraints; and spending on long-term care which will depend on the type of long-term care services provided and participation in the new system.

12. The Draft Budgetary Plan assumes that expenditure amounting to 0.8% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 0.5% of GDP in 2024. Expenditure financed by Recovery and Resilience Facility grants enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Slovenia. The Draft Budgetary Plan also assumes expenditure

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[7] The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

[8] According to the Draft Budgetary Plan, one-off measures are associated with a balance-deteriorating impact of 0.6% of GDP in 2025 (0.6% of GDP in 2024). These one-off measures relate to short term emergency costs for reconstructions after floods in August 2023. According to the Draft Budgetary Plan one-off measures will among others finance emergency measures for reconstruction of watercourses and roads, payments to businesses for direct damage on business equipment and buildings and payments to individuals for housing renovation. Slovenia finances additional emergency costs for reconstruction after floods also with funds from the EU Solidarity Fund amounting to 0.3% of GDP in 2025 (0.15% of GDP in 2024). This is in line with the European Commission Autumn 2024 Forecast.

supported by loans from the Recovery and Resilience Facility, amounting to 0.5% of GDP in 2025, compared with 0.3% of GDP in 2024.

13. The Draft Budgetary Plan includes several policy measures with a fiscal impact in 2025. On the revenue side, these include a new mandatory long-term care contribution, that will be levied from 1 July 2025 and a higher CO_2 emission tax. On the expenditure side, these measures include a withdrawal of remaining measures to mitigate the impact of high energy prices, full introduction of the long-term care reform and the first step of the public sector wage reform that will be gradually introduced over 2025-2028. According to Commission estimates, the overall additional impact of the revenue measures decreases the government deficit by 0.6% of GDP in 2025.

14. According to the European Commission Autumn 2024 Forecast, Slovenia's net expenditure is projected to increase by 4.7% in 2025, which corresponds to a cumulative growth of 10.2% in 2024 and 2025 taken together. The Commission is of the view that these net expenditure growth rates are in line with the Council recommendation of 21 October 2024 to limit the growth in net expenditure in 2025 to a rate consistent with putting the general government debt on a plausibly downward trajectory over the medium term and maintaining the general government deficit below the 3% of GDP Treaty reference value. Those net expenditure growth rates would be appropriate initial steps towards the implementation of the medium-term fiscal structural plan.

15. According to the European Commission Autumn 2024 Forecast, nationally financed public investment is projected to decrease to 4.7% of GDP in 2025 (from 4.8% of GDP in 2024). In turn, public expenditure on EU funded programmes, including Recovery and Resilience Facility grants, is expected to remain stable at 1.0% of GDP in 2025 (from 1.0% of GDP in 2024).

16. Finally, the Council also recommended Slovenia to ensure the fiscal sustainability of social protection and rebalance tax revenues towards more growth-friendly and sustainable sources and to improve the efficiency of public spending by carrying out spending reviews and through better management of public investment. The government has adopted a proposal for the pension reform that is currently with the social partners. The Personal Income Tax Act has been amended by adjusting tax rates for new residents in gainful employment in Slovenia and harmonising the tax allowance framework for non-residents with taxable incomes in Slovenia. The new long-term care contribution will be levied from 1 July 2025. Finally, the CO_2 emission tax has increased in September 2024. The plan states that the Internal Audit Public Finance Service at the Ministry of Finance will start addressing shortcomings of the current internal audit of public finances in 2025.

17. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Slovenia is in line with the Council Recommendation of 21 October 2024. According to the European Commission Autumn 2024 Forecast, Slovenia's net expenditure growth in 2025 is consistent with what was recommended by the Council on 21 October 2024. The progress made with the implementation of the Council's country-specific recommendations will be assessed by the Commission in spring 2025, in the context of the European Semester Spring Package.

Table 1. Key macroeconomic and fiscal figures

#	Variables		2023	2024		2025	
			Outturn	**DBP**	**COM**	**DBP**	**COM**
1	Real GDP	% change	2.1	1.5	1.4	2.4	2.5
2	HICP inflation	% change	7.2	2.1	2.1	3.3	3.2
3	General government balance	% GDP	-2.6	-2.9	-2.4	-2.6	-2.1
4	Primary balance	% GDP	-1.3	-1.5	-1.0	-1.3	-0.7
5	General government gross debt	% GDP	68.4	67.5	67.1	65.4	64.4
6	Fiscal stance (**)	% GDP	1.0		0.7		0.6
7	Net expenditure growth (annual)	% change		6.2	5.2	4.5	4.7
8	Net expenditure growth (cumulative)	% change				11.0	10.2
			Commission Recommendation for Council Recommendation setting the net expenditure path of Slovenia				
9	Maximum growth rates of net expenditure (*)	% change			Annual	**5.6**	
10		% change			Cumulative	**12.1**	

Notes :

* According to the Commission Recommendation for a Council Recommendation setting the net expenditure path of Slovenia for the years 2025 to 2028.

** The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of both discretionary revenue measures and COVID-19 pandemic-related temporary emergency measures, excluding cyclical unemployment expenditure, but including the change in expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential GDP growth rate in nominal terms. A negative (positive) sign indicates an excess (shortfall) of primary expenditure growth over medium-term potential GDP growth, which corresponds to an expansionary (contractionary) fiscal stance. For more details , see Box 1 of these Fiscal Statistical Tables.

Source : European Commission Autumn 2024 Forecast and Draft Budgetary Plan for 2025

Done at Brussels, 26.11.2024

For the Commission
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