GOVERNMENT OF THE REPUBLIC OF SLOVENIA

Medium-term Fiscal-Structural Plan of the Republic of Slovenia 2025-2028

October 2024

Table of contents

1 Introduction

The year 2024 is a transition year from the aspect of fiscal rules. At the end of April, the **revised legislation of the European Union** (hereinafter: EU) **in the field of economic and fiscal policy governance** entered into force in the form of a package of three documents; two regulations and one directive[1]. The revised EU rules envisage that states draft medium-term fiscal-structural plan for a period of four years, which will determine fixed fiscal targets in this period regarding the growth of so-called net expenditure[2]. The anticipated growth of net expenditure (or general government expenses) must ensure the medium-term sustainability of the public debt and the maintenance of the general government deficit below the reference value of 3% of gross domestic product (hereinafter: GDP).

At the national level, **the guidelines for fiscal policy are determined by the Public Finance Act** (Official Gazette of the Republic of Slovenia, Nos. 11/11 – official consolidated text, 14/13 – corrected, 101/13, 55/15 – ZFisP, 96/15 – ZIPRS1617, 13/18, 195/20 – Constitutional Court Decision, 18/23 – ZDU-1O and 76/23; hereinafter: ZJF) and the **Fiscal Rule Act** (Official Gazette of the Republic of Slovenia, Nos. 55/15, 177/20 – corrected and 129/22; hereinafter: ZFisP), which relies heavily on the requirements of EU legislation before the revision. In the light of the amended EU legislation, both Acts **require adjustments** referring to the Directive on requirements for budgetary frameworks to be enacted by 31 December 2025. The amendments to the Slovenian legislation are also planned due to the inconsistency of the ZJF and the ZFisP with both regulations to prevent different requirements at the EU level on the one hand and the national legislation on the other, which will facilitate the fiscal policy governance and eliminate the inconsistencies that have arisen in the planning and monitoring of the implementation of fiscal rules.

The Medium-Term Fiscal-Structural Plan of the Republic of Slovenia 2025–2028 (hereinafter: the Plan) has been drafted while respecting the requirements of the reformed economic governance legislative package of EU, and it simultaneously represents the so-called Exit Strategy envisaged by Article 14 of the ZFisP after the cessation of exceptional circumstances. In addition to the fiscal path in the coming years, which is defined by **the growth of net general government expenditure**[3], the Plan also contains the description of the anticipated reforms and investments addressing the country-specific recommendations addressed to the Republic of Slovenia (hereinafter: Slovenia) within the European Semester and the priority areas of EU action.

The Plan anticipates **a four-year period of consolidation**, which will ensure a reduction of the general government debt and the maintenance of the general government deficit below 3% of GDP in the medium-term after the end of the period of the Plan. The expected growth of net expenditure is comparable to the reference path, as submitted by the European Commission to Slovenia in June as part of the preliminary guidelines. It should be noted that the growth limit is based on model calculations based on the common methodology on which the debt sustainability analysis (DSA) is based. Within this analysis, the assumptions may differ from the official macroeconomic forecasts on which the annual budgetary planning is based.

In addition to annual budgets, the medium-term fiscal-structural plan is a key instrument of the country's economic policy and features the Government's future programme and political priorities. The key priorities include **health**, as one of the fundamental values with a direct impact on welfare, productivity and development of the entire society, and **knowledge**, the establishment of knowledge society and provision of high-quality and accessible education "from birth to death". Considering current developments, other priorities further include the provision of reliable and accessible **energy supply**

[1] Regulation - 2024/1263 - EN - EUR-Lex (europa.eu); Regulation - EU - 2024/1264 - EN - EUR-Lex (europa.eu); Regulation - 2024/1265 - EN - EUR-Lex (europa.eu)

[2] In the Republic of Slovenia, the term expense is used for general government expenditure (Article 2 of the Fiscal Rule Act – ZFisP).

[3] The net general government expenditure includes entire general government expenditure, excluding interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure for co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

and access to suitable and affordable **housing**. Other priority fields include **resilience, security, rule of law and democracy**. The foundation for the foregoing is **sound public finances**.

2 Political endorsement of the Plan, consultation process and complementarity with EU funds

The competent committee of the Parliament of the Republic of Slovenia became acquainted with the draft Medium-Term Fiscal-Structural Plan of the Republic of Slovenia 2025–2028 on 4 October. The committee discussed the material, but did not propose major supplements. On 2 October, the draft Plan was discussed within the Economic and Social Council. The proposals provided during the discussion referred to Chapter 7 and were observed to the greatest extent possible. The Plan was also presented at the public consultation with the interested public on 3 October, at which the attendees were interested in the background of adopting the Plan, the content of key reforms and the method of assessing the green transition needs.

The key measures of the Plan support the measures of Slovenia's EU Cohesion Policy Programme for 2021–2027, which pursues the objectives of greater resilience of the economy and society, exploitation of new opportunities and acceleration of the transition to a highly productive, low-carbon and circular economy. The main objectives of the Programme, which, as with the measures in the Plan, derive from country-specific recommendations for Slovenia, include acceleration of productivity growth, acceleration of the transition to a low-carbon circular economy, enhancement of the health system resilience and financial sustainability of social security systems, enhancement of the development role of the country and its institutions, improvement of the efficiency of public sector management, and reduction of regulatory burdens, which was largely addressed in the Recovery and Resilience Plan (hereinafter: RRP). The measures of the Plan also support the measures of the RRP, which are aimed at green transition, digital transformation, support to the economy, research and development, education, healthcare, social security and housing policy.

3 Overview of fiscal commitments and summary of the main macroeconomic and budgetary variables

Reformed fiscal rules at the EU level entered into force in 2024. One of the main elements is the medium-term fiscal-structural plan for four years, which defines a maximum growth of net expenditure in the period of the Plan. In 2024, the Plan is, exceptionally, being drafted in September; normally, it will be drawn up in spring every four years. Following the adoption of the Plan, Annual progress reports will be drafted in spring.

Box 1: New fiscal rules at the EU level

Net expenditure includes general government expenditure, excluding:

- interest expenditure,
- discretionary revenue measures (only year-on-year discretionary changes in revenue that increase or decrease the expenditure limit are considered),
- 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.

The estimated growth of net expenditure in the fiscal-structural plan must ensure:

- that general government deficit decreases and remains below 3% of GDP in the medium-term (without further measures);
- medium-term debt sustainability, which is calculated using the debt sustainability analysis:
    - no later than by the end of the adjustment period and in the next ten years (t+4/7+10), the debt is to be decreased or remain below the reference value of 60% of GDP, even when all three deterministic stress tests are performed,

- that five years after the end of the adjustment period (t+4/7+5) there will be at least a 70% probability that the debt-to-GDP ratio will be lower than the level it reached at the end of the fiscal adjustment period.

The reduction of debt as a percentage of GDP is achieved by limiting the growth of net expenditure. The growth is fixed for four years, a deviation (above 0.3 p.p. of GDP in one year or 0.6 p.p. of GDP cumulatively over several years) may denote a violation of the rules, which is decided by the Council of Finance Ministers[4].

In addition to the criteria based on debt sustainability analysis, a **further three criteria** must be met in the new framework. These increase the required fiscal adjustment if it is too low in the basic calculation:

- **Deficit resilience safeguard:** If the structural deficit is above 1.5% of GDP, fiscal adjustment in the amount of at least 0.4% p.p. of GDP (for a 4-year adjustment period) or in the amount of at least 0.25% p.p. of GDP (in case of an extension of the adjustment period, when additional reforms with an impact on fiscal sustainability are implemented) per year is required.
- **Debt sustainability safeguard:** The minimum average annual reduction of the public debt during the adjustment period (which does not include years when the country is in the excessive deficit procedure) is required:
  - 1 p.p. of GDP per year for countries with public debt above 90%, or
  - 0.5 p.p. of GDP per year for countries with public debt between 60 and 90%.
- **Deficit criterion:** When the country is undergoing the excessive deficit procedure, at least 0.5% p.p. of GDP of structural adjustment is required annually (the adjustment of the structural primary balance is taken into account when determining the effort until 2027).

The net expenditure growth in the Plan derives from the debt sustainability analysis, in which estimates of the fiscal baseline in 2024 are important. Projections of ageing costs, the interest rates developments and the GDP deflator play an important role, as does the growth of real and potential GDP.

The debt sustainability analysis includes the data from the Autumn Forecast of Economic Trends 2024 of the Institute of Macroeconomic Analysis and Development (hereinafter: IMAD), whereby the estimates of real and potential growth are prepared on the basis of the common EU methodology from 2025 onwards. To meet the requirements of the revised Stability and Growth Pact, an average annual growth of 4.5% in net expenditure is permitted as per the analysis.

On the basis of its spring economic forecast, the European Commission assessed that all the requirements of the Stability and Growth Pact were met by the average net expenditure growth of 4.4%. The difference is the result of somewhat different macroeconomic forecasts. The probability of medium-term general government debt reduction for the first medium-term fiscal-structural plan must be based on the methodology described in the Debt Sustainability Monitor 2023 (hereinafter: DSM 2023) prepared by the European Commission, whereby certain limited deviations are permitted. The estimates of potential growth and closing of the output gap must be based on the common EU methodology until year t+10 and on the 2024 Ageing Report. The deviations in fiscal assumptions that were taken into account in the calculations of the Ministry of Finance are the higher planned values of the variable of stock-flow adjustment (SFA) in 2024 and 2025, as well as the different estimate of the Ministry of Finance regarding the general government deficit and debt in 2024. The initial macroeconomic data is based on the IMAD Autumn Forecast of Economic Trends 2024, which was also used until 2025 as input data for the calculation of real and potential GDP growth for the period t+10, while also including the full revision

---

[4] The excessive deficit procedure can be opened due to exceeding the deficit criterion of 3% or insufficient public debt reduction towards 60% of GDP. The excessive deficit procedure due to a deficit higher than 3% remained unchanged under the reformed EU fiscal rules.
The opening of the excessive deficit procedure due to insufficient public debt reduction towards the limit of 60% of GDP is now linked to exceeding of net expenditure growth.
The opening of procedures may:

- include a demand for faster and greater consolidation,
- include possible sanctions,
- enable the suspensions of first commitments and then payments of EU funds.

.

of GDP by the Statistical Office of the Republic of Slovenia (hereinafter: SORS) on 30 August 2024. The interest rates and inflation developments are consistent with the assumptions described in the Debt Sustainability Monitor 2023, whereby market data with a more recent cut-off date (30 August 2024) was used, compared to the calculations of the European Commission.

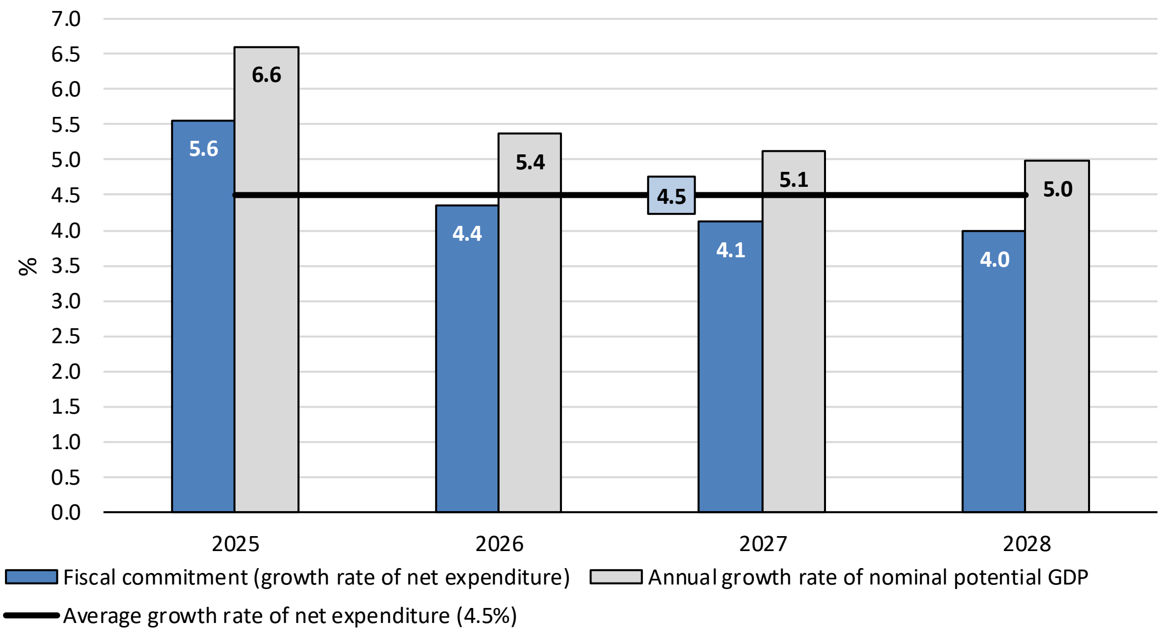
Table 1a: Fiscal commitment

	Commitments		2024	2025	2026	2027	2028
1	Net nationally financed primary expenditure	(growth rate in %)	6.2	5.6	4.4	4.1	4.0
		(average 2025-2028 in %)		4.5			
2		(cumulative growth rate in %)	6.2	12.1	17.0	21.8	26.6
3	Fiscal effort	(change in SPB in pp. of pot. GDP)		0.44	0.44	0.44	0.44
		(average 2025-2028)		0.44			

Source: Calculations of the Ministry of Finance.

It is important that net expenditure does not grow faster than the production capacity of the economy or potential GDP. This ensures gradual reduction of the general government deficit and debt. The revised fiscal rules at the EU level enable a more gradual consolidation than was required by the former fiscal rules, given Slovenia's initial fiscal situation.

Figure 1: Fiscal commitment (net expenditure growth) compared with the annual nominal potential GDP growth



Source: Calculations of the Ministry of Finance.

Table 1b: Main variables

			2023	2024	2025	2026	2027	2028
			Growth rate	Growth rate	Growth rate	Growth rate	Growth rate	Growth rate
1	Potential GDP	Table 2, line 26	2.9	2.9	2.8	2.4	2.2	2.1
2	GDP deflator	Table 2, line 2	10.1	3.0	3.7	2.9	2.9	2.8
			% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
3	Net lending/borrowing	Table 4, line 31	-2.6	-2.9	-2.6	-1.9	-1.6	-1.2
4	Structural balance	Table 4, line 33	-3.1	-2.7	-2.2	-1.8	-1.4	-1.0

5	Structural primary balance	Table 4, line 34	-1.8	-1.3	-0.9	-0.4	0.0	0.5
6	Gross debt	Table 4, line 35	68.4	67.5	65.4	64.2	62.8	61.2
7	Change in gross debt	Table 4, line 36	-4.3	-0.9	-2.1	-1.2	-1.4	-1.6

Source: SORS; IMAD Autumn Forecast of Economic Trends 2024; calculations of the Ministry of Finance.

4 Macroeconomic assumptions

The IMAD Autumn Forecast of Economic Trends 2024 data for 2024 and 2025 (also 2026 for the GDP deflator as an exception) was used in the calculation of fiscal targets in the Plan. For other years, the assumptions consistent with the common EU methodology for the calculation of real and potential GDP growth were used, including the assumptions from the debt sustainability analysis.

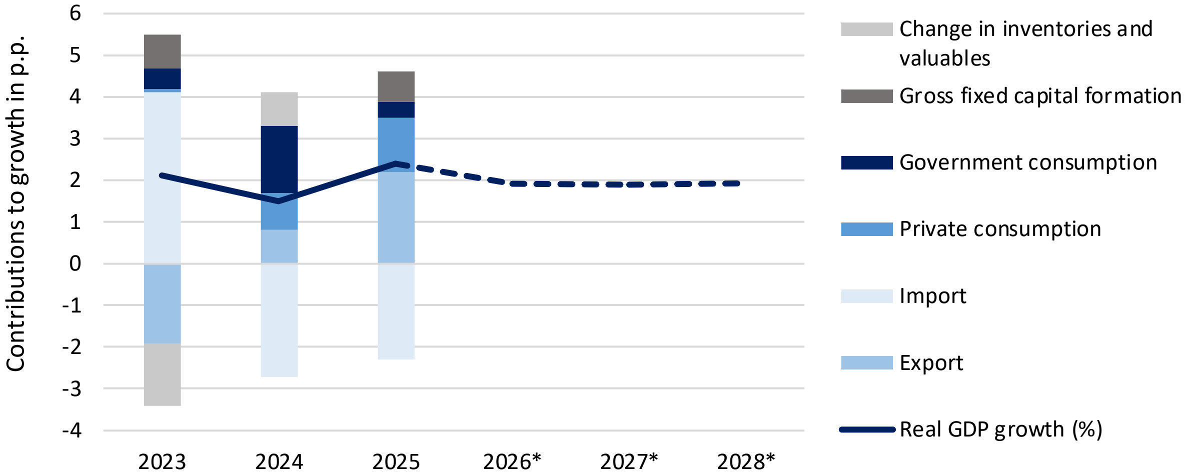
Real economic growth in Slovenia amounted to 2.1% in 2023 (2.7% in 2022) and was significantly higher than the euro area average, where it was 0.4%. Last year, economic growth in Slovenia was mainly fuelled by gross fixed capital formation, which increased by 3.9% in real terms and contributed 0.9 p.p. to the growth of Slovenia's GDP. Government consumption increased by 2.4% in real terms and contributed 0.5 p.p. to real GDP growth, while private consumption stagnated and contributed 0.1 p.p. to growth. As imports decreased in real terms (2.0%) more than exports (4.5%) in 2023, the contribution of external balance was positive (2.3 p.p.).

In the Autumn Forecast of Economic Trends 2024, IMAD assumes 1.5% real GDP growth in 2024. The slowdown in growth this year stems from the anticipated stagnation of investments, as the result of weaker investment activity in the construction sector and the weak recovery of foreign demand. Private consumption growth, which is expected to increase to 1.6% this year, will be supported by high employment, further wage growth, lower inflation and greater consumer optimism. This year's increase in the growth of government consumption to 8.5% is primarily the result of the transformation of voluntary supplementary health insurance into a compulsory health insurance contribution, which is henceforth a public source of financing healthcare services[5]. In addition, the state's expenditure on goods and services will also be affected this year by the reconstruction related to last year's floods and the growth of employment in the general government sector, which will be slightly higher than it was last year. With the high growth of domestic consumption, including inventories, the growth of imports (3.5%) is expected to significantly outpace the growth of exports (0.9%), which is why the contribution of external trade balance to the increase in the GDP volume is expected to be negative this year (−1.9 p.p.).

In 2025, IMAD expects economic growth of 2.4%, to which growth in private consumption is expected to contribute the most (1.3 p.p.). With stronger real income growth, private consumption is expected to increase by 2.5%. With the assumed increase in economic activity in the international environment in 2025, further growth in investment in manufacturing activities is expected. Government investment activity in connection with flood control and reconstruction, and in connection with investment as part of the use of funds from the Recovery and Resilience Plan, is also expected to be high. Gross fixed capital formation is thus expected to increase by 3.5% and contribute 0.7 p.p. to the real GDP growth. With slightly higher growth in foreign demand in 2025, exports are expected to increase by 2.7%, but since imports are expected to grow even faster (3.0%), the contribution of the trade balance to economic growth is expected to be slightly negative (−0.1 p.p.). Government consumption growth (1.7%) will in 2025 be affected by further growth in employment, growth in healthcare expenditure and the gradual establishment of the long-term care system. According to debt sustainability analysis assumptions, a 1.9-per cent annual economic growth is anticipated in Slovenia on average in the 2026–2028 period.

[5] What has until now been private expenditure thus becomes public, mostly as part of the categories of government consumption.

Figure 2: Projections of Slovenian real GDP growth (in %) and its contributions (in p.p.) over the 2024–2028 period



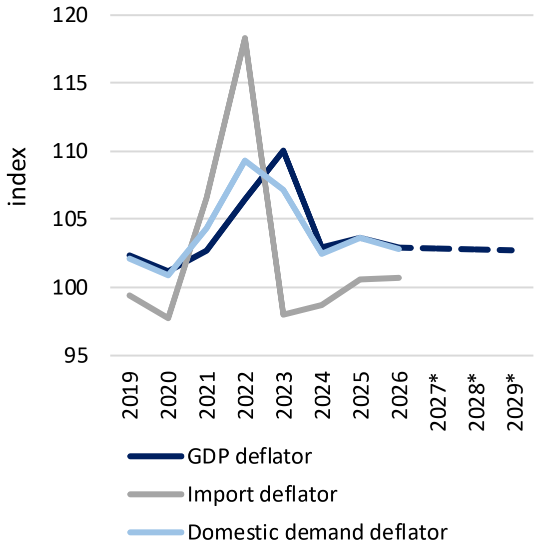
Note: *Real GDP growth projections according to the debt sustainability analysis.
Source: IMAD Autumn Forecast of Economic Trends 2024; European Commission (debt sustainability analysis).

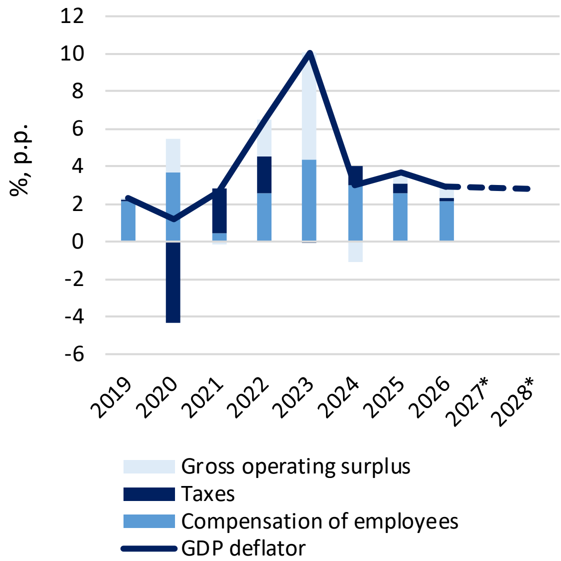
IMAD expects that average inflation (CPI) will decrease this year to 2.1% from 7.4% last year. Year-on-year growth in consumer prices decreased from 3.3% in January 2024 to 0.9% in August 2024 (1.1% measured with the harmonised index of consumer prices (HICP)), when it was also lower than the euro area average by more than one percentage point. Stabilisation of prices on the raw material markets and the moderation in economic activity in the face of tighter borrowing conditions significantly contributed to the decrease in year-on-year inflation.

Compared to the beginning of 2024, the contribution of most groups to inflation has decreased. On the other hand, the prices of services continue to rise this year (4.1% in August), which also contribute the most to inflation. As a result, core inflation (HICP excluding food and energy prices) remains above headline inflation despite a decline (from 3.9% in January 2024 to 2% in August 2024). In 2025, IMAD expects inflation to rise again to 3.3%, which will be particularly the result of expiry of the measures, as well as additional taxation. With price growth slowing down for most groups, the price growth for services will remain at elevated levels. The inflation is to settle at 2.3% in 2026.

After last year's decrease in inflation resulted primarily from a decrease in foreign price pressures (the import deflator decreased from 118.3 in 2022 to 98.0 in 2023), domestic price pressures will also decrease this year – Figure 3 left. The (negative) impact of the gross operating surplus (Figure 3 right) will contribute the most to this year's reduction of the GDP deflator. The (otherwise positive) contribution of labour cost growth per unit will also shrink compared to that of the previous year. On the other hand, the contribution of taxes will increase this year. A slight increase in the GDP deflator (by 0.7 p.p.) is expected in 2025, to which the positive impact of the gross operating surplus will again contribute. The contribution of growth in labour costs and taxes will decrease in the next two years. According to debt sustainability analysis, the GDP deflator will amount to 2.9% on average in the 2026–2028 period.

Figure 3: Growth of the GDP deflator, deflator of import and deflator of domestic demand[6] (index) – left, and Growth of the GDP deflator (%) and its contributions (expressed in real GDP, in p.p.) – right





*Projections of GDP deflator according to the debt sustainability analysis.
Source: IMAD Autumn Forecast of Economic Trends 2024; own calculations.

For 2024, IMAD expects a modest growth in employment and a decrease in unemployment. Employment growth is expected to decrease to 0.5% (from 1.6% in 2023), and the number of registered unemployed people is expected to drop from around 49,000 in 2023 to around 46,000 on annual average. Unemployment rate (labour force survey) is expected to remain at 3.7%. In the next two years, IMAD does not expect a significant increase in employment, despite the anticipated higher economic growth, mainly due to restrictions on the labour supply side and already high level of employment. The labour force shortage will be mitigated somewhat by certain measures to facilitate the employment and recruitment of foreign labour, as a result of which IMAD forecasts that growth will be further based primarily on the employment of foreign citizens. Employment growth is expected amount to 0.6% in 2025 and by 0.1 p.p. lower in 2026. The unemployment rate is expected to decrease somewhat by 2026 (to 3.6%).

Nominal wage growth slowed down in the first half of 2024 and is expected to average 6.2% for the year (9.7% in 2023). Wages in the private sector will continue to be affected by labour force shortages, the tendences of employees to maintain real income and increase in minimum wage. However, with the slowdown in economic activity and lower inflation, the rate of nominal growth of the average gross wage in the private sector will decrease to 7.1% this year (from 9.4% last year). Wage growth in the public sector will this year be mainly affected by the agreement on this year's partial harmonisation of the values of the wage brackets to growth of consumer prices, so that the growth of the average gross wage in the public sector will be more than halved compared to that of last year (to 4.4%). Due to the expected entry into force of the public sector wage system reform, wage growth in the public sector is expected to increase to 7.1% in 2025 as assessed by IMAD, but in 2026, it will be lower (5.2%) in accordance with the expected pace of the implementation of the reform. In the private sector, wage growth will amount to around 6% until 2026. This will maintain the pressure on the cost-competitive position of Slovenian firms, which already significantly worsened last year.

[6] Domestic demand is the sum of private and government consumption and gross fixed capital formation.

Table 2: Macroeconomic scenario

			2023	2023	2024	2025	2026	2027	2028
	GDP	ESA code	bn. EUR	growth (%)	growth (%)	growth (%)	growth (%)	growth (%)	growth (%)
1	Real GDP*	B.1*g		2.1	1.5	2.4	1.9	1.9	1.9
2	GDP deflator**			10.1	3.0	3.7	2.9	2.9	2.8
3	Nominal GDP	B.1*g	64.0	12.4	4.5	6.1	4.9	4.8	4.8
	Components of real GDP	ESA code	bn. EUR	growth (%)	growth (%)	growth (%)	growth (%)	growth (%)	growth (%)
4	Private consumption expenditure	P.3		0.1	1.6				
5	Government consumption expenditure	P.3		2.4	8.5				
6	Gross fixed capital formation	P.51		3.9	0.0				
7	Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53							
8	Exports of goods and services	P.6		-2.0	0.9				
9	Imports of goods and services	P.7		-4.5	3.5				
	Contribution to real GDP growth								
10	Final domestic demand			0.7	3.5				
11	Changes in inventories and net acquisition of value	P.52 + P.53		-1.5	0.8				
12	External balance of goods and services	B.11		2.3	-1.9				
	Deflators and HICP			growth (%)	growth (%)	growth (%)	growth (%)	growth (%)	growth (%)
13	Private consumption deflator			7.5	2.1				
14	p.m. HICP			7.2	2.1				
15	Government consumption deflator			8.8	3.5				
16	Investment deflator			5.2	2.3				
17	Export price deflator (goods and services)			1.6	-0.4				
18	Import price deflator (goods and services)			-2.0	-1.3				
	Labour market	ESA code	Level	growth (%)	growth (%)	growth (%)	growth (%)	growth (%)	growth (%)
19	Domestic employment (1000 persons, national accounts)		1,100	1.6	0.5				
20	Average annual hours worked per person employed		1,588	-1.4	2.7				
21	Real GDP per person employed			0.5	1.0				
22	Real GDP per hour worked			1.9	-1.6				
23	Compensation of employees (bn NAC)	D.1	32.7	10.8	7.5				
24	Compensation per employee (NAC) (= 23 / 19)		29.7	9.1	7.0				
				%	%	%	%	%	%
25	Unemployment rate (%)			3.7	3.7				
	Potential GDP and components			growth (%)	growth (%)	growth (%)	growth (%)	growth (%)	growth (%)
26	Potential GDP			2.9	2.9	2.8	2.4	2.2	2.1
	Contribution to potential growth								
27	Labour			1.0	0.9				
28	Capital			0.6	0.6				
29	Total factor productivity			1.3	1.3				
				% pot. GDP	% pot. GDP	% pot. GDP	% pot. GDP	% pot. GDP	% pot. GDP
30	Output gap			2.2	0.8	0.3	-0.1	-0.4	-0.6

Note: * IMAD Autumn Forecast of Economic Trends 2024 was used as input data until 2025 to calculate real and potential growth until 2033 according to the common EU methodology. In the years of fiscal adjustment, the impact of the fiscal multiplier on real GDP growth is taken into account in accordance with the assumptions of the debt sustainability analysis. ** The debt sustainability analysis took into account the GDP deflator until 2026 from the forecast, which then linearly converges to a common value for all euro countries until 2034 (in line with market expectations and the cut-off date of 30 August 2024) and then to the monetary target of the ECB.
Source: SORS; IMAD Autumn Forecast of Economic Trends 2024; calculations of the Ministry of Finance.

Table 3: External assumptions

			2023	2024	2025	2026	2027	2028
1	Short-term interest rate	(%, annual average)	3.4	3.2	2.4	2.4	2.4	2.5
2	Long-term interest rate	(%, annual average)	3.4	3.0	3.1	3.1	3.2	3.3
3	USD/EUR exchange rate	(annual average)	1.08	1.09				
4	NAC/EUR exchange rate (only for non-EA Member States)	(annual average)						
5	World real GDP (excluding EU)	(growth rate)						
6	EU real GDP	(growth rate)	0.4	1.0				
7	World import volumes, excluding EU	(growth rate)						
8	Oil prices	(Brent, USD/barrel)	82.5	81.9				

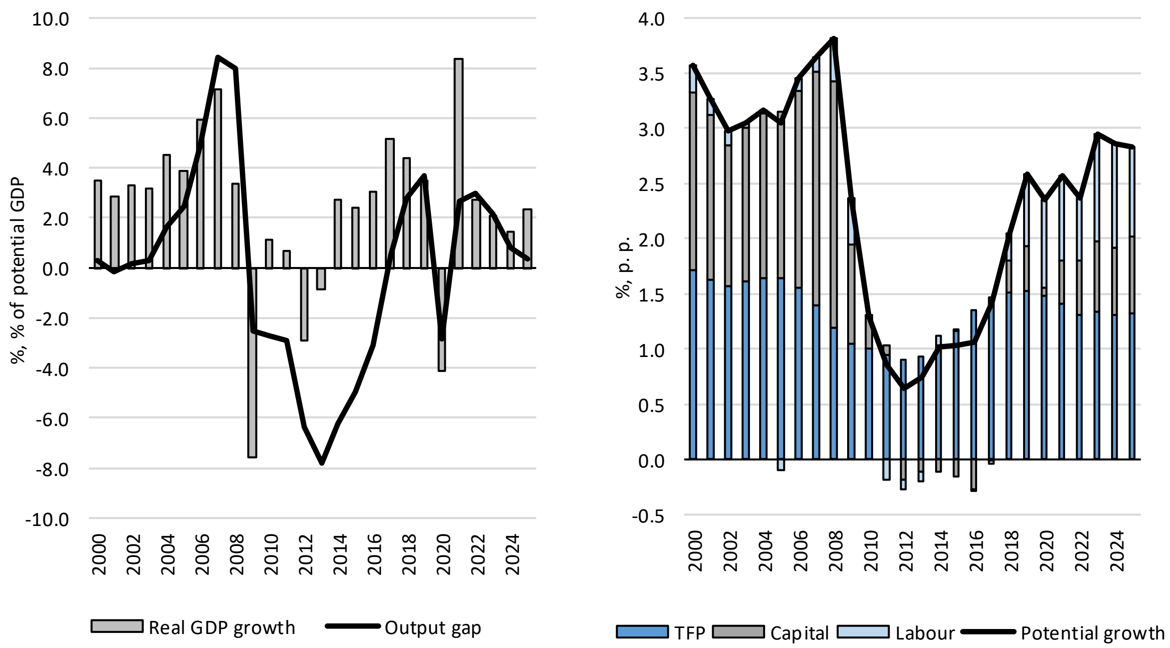
Source: IMAD Autumn Forecast of Economic Trends 2024 and calculations of the Ministry of Finance in line with the assumptions of interest rates in the debt sustainability analysis.

Position in the cycle and potential growth

According to the estimates of the Ministry of Finance on the basis of the IMAD Autumn Forecast of Economic Trends 2024, the Slovenian economy reached its cyclical peak in 2022, when the output gap amounted to 3% of potential GDP. After decreasing to 2.2% in 2023, the output gap is expected to more than halve (to 0.8%) due to this year's slowdown in economic growth (Figure 4 left).

The growth of potential GDP (Figure 4 right) reached 2.9% in 2023 and 2024 and is expected to somewhat decrease to 2.8% in 2025, but will remain above its long-term average (between 2.4% to 2.5%). Total factor productivity will further contribute the most to the growth of Slovenia's potential GDP (1.3 p.p. in 2025). The labour contribution will drop from 1.0 p.p. in 2024 to 0.8 p.p. in 2025. On the other hand, the contribution of capital to potential growth will slightly increase towards the end of the forecast period (from 0.6 p.p. in 2023 to 0.7 p.p. in 2025).

Figure 4: Output gap estimates by the Ministry of Finance on the basis of the IMAD Autumn Forecast of Economic Trends 2024 and real GDP growth – left, and Estimates of potential growth and contributions of individual components of potential growth – right



Source: Calculations of the Ministry of Finance based on the IMAD Autumn Forecast of Economic Trends 2024.

5 Budgetary projections

The general government deficit in 2023 amounted to 2.6% of GDP, which is 0.4 p.p. of GDP lower than at the end of 2022 (3% of GDP). The deficit was thus below the average in the EU countries or the euro area in the past two years. This year's estimated deficit of 2.9% of GDP will remain slightly below the average in the EU countries and the euro area (around 3.0% of GDP) according to the latest economic forecast of the European Commission.

Fiscal policy in the 2025–2028 period will be aimed at gradual consolidation, while simultaneously ensuring high levels of investments of the general government. Priority measures will be aimed at healthcare, pension system, just green transition, digital transition, research, innovation, incentives for competitiveness, and housing policy. After 2026, there will be a reform of taxation (delay due to post-flood reconstruction and provision of resources for the Reconstruction Fund) and measures for monitoring the effectiveness (e.g. investments, spill-over effects and less focus on input indicators in % of GDP). A significant proportion of public expenditure will also be aimed for national security. Substantial funds will be further allocated to measures for reconstruction of the areas affected by the floods in 2023.

Table 4: Budgetary projections

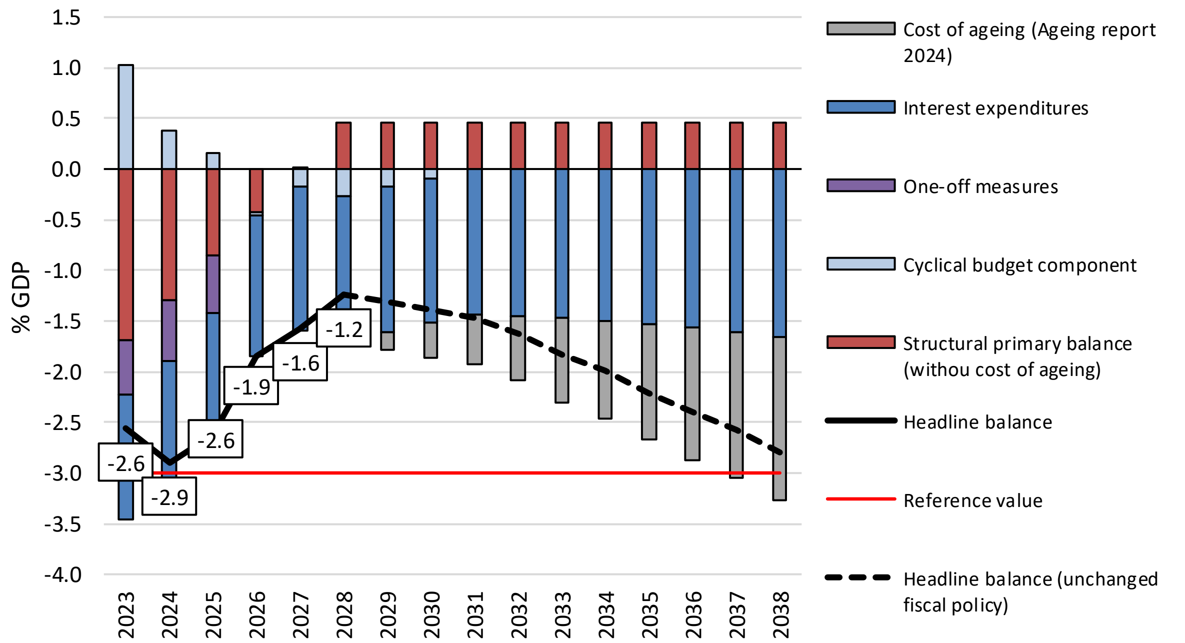
			2023	2023	2024	2025	2026	2027	2028
	Revenue	ESA code	bn EUR	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
1	Taxes on production and imports	D.2	8.3	12.9	13.0				
2	Current taxes on income, wealth, etc	D.5	5.0	7.9	8.4				
3	Social contributions	D.61	10.2	15.9	17.2				
4	Other current revenue	(P.11+P.12+P.131) + D.39 + D.4 + D.7	4.0	6.2	5.9				
5	Capital taxes	D.91	0.0	0.0	0.0				
6	Other capital revenue	D.92+D.99	0.6	1.0	0.6				
7	Total revenue (= 1+2+3+4+5+6)	TR	28.1	43.9	45.2				
8	Of which: Transfers from the EU (accrued revenue, not cash)	D.7EU+D.9EU	0.8	1.3	1.1				
9	Total revenue other than transfers from the EU (= 7-8)		27.2	42.6	44.1				
10	p.m. Revenue measures (increments, excluding EU funded measures)		0.1	0.3	1.0				
11	p.m. One-off revenue included in the projections (levels, excluding EU funded measures)								
	Expenditure	ESA code	bn EUR	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
12	Compensation of employees	D.1	7.2	11.2	11.3				
13	Intermediate consumption	P.2	4.2	6.5	6.8				
14	Interest expenditure	D.41	0.8	1.2	1.4	1.4	1.4	1.4	1.4
15	Social benefits other than social transfers in kind	D.62	9.7	15.2	15.2				
16	Social transfers in kind via market producers	D.632	1.5	2.3	3.0				
17	Subsidies	D.3	1.3	2.0	1.6				
18	Other current expenditure	D.29+(D.4-D.41)+ D.5 + D.7 + D.8	1.3	2.1	2.2				
19	Gross fixed capital formation	P.51	3.3	5.2	5.9				
20	Of which: Nationally financed public investment		2.8	4.4	5.3	4.9	5.0	5.2	5.1
21	Capital transfers	D.9	0.4	0.6	0.8				
22	Other capital expenditure	P.52+P.53+NP	0.1	0.1	0.0				
23	Total expenditure (= 12+13+14+15+16+17+18+19+21+22)	TE	29.7	46.5	48.1				
24	Of which: Expenditure funded by transfers from the EU (= 8)	D.7EU+D.9EU	0.8	1.3	1.1				
25	Nationally financed expenditure (23-24)		28.9	45.2	47.0				
26	p.m. National co-financing of programmes funded by the Union		0.2	0.2	0.2				
27	p.m. Cyclical component of unemployment benefits		-0.1	-0.1	-0.1				

28	p.m. One-off expenditure included in the projections (levels, excluding EU funded measures)		0.3	0.5	0.6				
29	Net nationally financed primary expenditure (before revenue measures) (= 25-26-27-28-14)		27.7	43.3	44.9				
	Net nationally financed primary expenditure				growth (%)	growth (%)	growth (%)	growth (%)	growth (%)
30	Net nationally financed primary expenditure growth	Table 1a, line 1			6.2	5.6	4.4	4.1	4.0
	Balances	ESA code	bn EUR	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
31	Net lending/borrowing (= 7-23)	B.9	-1.6	-2.6	-2.9	-2.6	-1.9	-1.6	-1.2
32	Primary balance (= 31+14)	B.9+D.41p	-0.8	-1.3	-1.5	-1.3	-0.5	-0.2	0.2
	Cyclical adjustment			% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
33	Structural balance			-3.1	-2.7	-2.2	-1.8	-1.4	-1.0
34	Structural primary balance			-1.8	-1.3	-0.9	-0.4	0.0	0.5
	Debt		bn EUR	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
35	Gross debt		43.7	68.4	67.5	65.4	64.2	62.8	61.2
36	Change in gross debt		2.3	-4.3	-0.9	-2.1	-1.2	-1.4	-1.6
37	Contributions to changes in gross debt								
38	Primary balance (= minus 32)			1.3	1.5	1.3	0.5	0.2	-0.2
39	Snowball effect			-6.8	-1.6	-2.5	-1.7	-1.5	-1.4
40	Interest expenditure (= 14)			1.2	1.4	1.4	1.4	1.4	1.4
41	Growth			-1.4	-1.0	-1.5	-1.2	-1.2	-1.2
42	Inflation			-6.6	-2.0	-2.4	-1.9	-1.8	-1.7
43	Stock-flow adjustment (= 36-38-39)			1.1	-0.9	-0.8	0.0	0.0	0.0
				%	%	%	%	%	%
44	p.m. Implicit interest rate on debt (=14/DEBT(t-1))			1.9	2.1	2.2	2.2	2.3	2.4

Source: SORS; calculations of the Ministry of Finance.

The general government deficit is projected to decline from 2.9% of GDP in 2024 to 1.2% of GDP in 2028. Deficit reductions will be made possible by structural changes, increased efficiency of public expenditure, expiry of measures to mitigate high energy costs and discretionary revenue measures.

Figure 5: Projections of the general government balance in the 2025–2028 adjustment period and in the period of unchanged fiscal policy after 2029



Source: SORS; calculations of the Ministry of Finance.

Structural changes in the field of the pension and disability system are underway. Their aim is to ensure adequate pensions and the long-term sustainability of the pension system. Lower growth of expenditure for pensions than estimated in the 2024 Ageing Report is envisaged due to the changes. The latter will provide more fiscal space and limit the growth of net expenditure in the adjustment period as well. At the same time, the fiscal pressure of ageing costs on the general government balance in the medium and long term will also be restricted. Structural changes in healthcare will also have a positive impact on the dynamics of healthcare expenditure or limit their growth (Chapter 7).

The measures mitigating high energy costs were being gradually phased out in 2024. In the previous two years, numerous measures aimed at households and the economy (1.7% of GDP) were implemented due to the energy crisis and high energy prices. In 2024, households are still subject to regulated energy prices and measures to help the economy, which so far amount to 0.2% of GDP. Most of the funds are allocated for compensation to energy distributors who claimed differences between higher prices of futures contracts and lower regulated prices of electricity and natural gas for deliveries to households in 2023. In 2024, the possibility of compensation payments to electricity suppliers was extended to the first half of 2025. The estimated value amounted to no more than 0.03% of GDP. On the expenditure side, it is estimated that the outflow in 2025 will thus further decrease by 0.15% of GDP due to the elimination of the measures.

In doing so, the focus of fiscal policy is on ensuring the quality and efficiency[7] of public finances in all areas (irrespective of COFOG - functional classification), as well as taking into account the country-specific recommendations for Slovenia (CSR 2024/1). Within this the logic of planning (and of development orientation) of measures, reforms and projects is observed, in which so-called input indicators (in % of GDP) are on the one side and the activities and specific results achieved (output indicators) are on the other side[8].

Discretionary measures

Discretionary revenue measures in 2023 and 2024 relate to the provision of funds for the post-flood reconstruction, tax changes and legislative changes, which impact government revenue.

For the purpose of post-flood reconstruction, the Government of the Republic of Slovenia (hereinafter: the Government) adopted a series of measures to remedy the consequences in the Reconstruction, Development and Provision of Financial Resources Act (Official Gazette of the Republic of Slovenia, No. 131/23):

- a temporary increase in corporate income tax by three percentage points from 19 to 22% (for 2024 up to and including 2028; the effect of the increase in the tax rate for 2024 will already be felt in advance tax payments during 2024, and in 2025, as usual, refunds will be made, if necessary);
- a temporary tax on the balance sheet of banks and savings banks (introduced for the calendar years from 2024 up to and including 2028 – this means that revenue from this tax will be transferred to the state budget for the first time in 2025 – for the calendar year 2024);
- temporary use of the net and available profit of the Slovenian Sovereign Holding.

To this end, the budgetary Reconstruction Fund was established. For the reconstruction after the August 2023 floods, Slovenia received EUR 100 million from the European Union Solidarity Fund at the end of 2023, and EUR 328 million is planned as budget revenue in 2024 and 2025.

The measure of non-indexation of the income tax scale and reliefs was adopted for 2024, which had a positive effect on public finances, while indexation is again being planned for 2025.

[7] The state budget also uses the programme classification, in which for each objective (different levels) a timeline and the amount of funds earmarked for the implementation of this objective need to be determined. Within the state budget (the largest unit of the general government sector) performance is monitored with indicators revealing the extent to which the objective has been achieved. It is thus indicated whether the objective was achieved, exceeded or could not be achieved due to certain reasons (which must be explained). Efficiency is an indicator that reveals the achieved result compared to the funds invested. In most cases, efficiency can be measured later, i.e. in a year or two, or at the end of the project.

[8] Explained in more detail in Article 2 of the Decree on development planning documents and procedures for the preparation of the central government budget (Official Gazette of the Republic of Slovenia, Nos. 54/10 and 35/18).

With the Act Amending the Excise Duty Act (Official Gazette of the Republic of Slovenia, No. 38/24) being adopted, an additional inflow of EUR 20 million is estimated due to the increase in excise duties on tobacco in 2024. In the new package of tax changes adopted by the Government in August 2024, when it comes to value added tax, the rate of taxation on sweetened beverages (with added sugar) and energy drinks is being increased (from 9.5% to 22%). It is estimated that this measure will generate an additional EUR 20 million in annual revenue.

In the second half of 2025, the social contribution for long-term care will be introduced to provide funding. It is assessed that the inflow in 2025 will amount to EUR 250 million and EUR 620 million in 2026. Due to the introduction of the contribution, revenue from income tax is expected to drop by an estimated EUR 30 million in 2025 and EUR 60 million in 2026.

In 2023, the amendments to the Personal Income Tax Act (Official Gazette of the Republic of Slovenia, No. 158/22) helped to strengthen and improve the public finance situation and eliminate the financial consequences of the previous amendments to the Personal Income Tax Act on public revenue (gradual increase in the general relief). There is no longer an impact in 2024.

In 2022, the Government also adopted a series of measures on the revenue side to mitigate the effects of the price increase, which were gradually eliminated in 2023 and 2024 due to the general easing of inflationary pressures.

Table 5 shows the impact of discretionary revenue measures for 2023 and 2024. The total impact of the listed discretionary measures is estimated at 1% of GDP in 2024.

Table 5: Estimated impact of discretionary revenue measures

	Title/description measure	One-off	Exp / Rev	Sub-sector		2023	2024
					ESA code	% GDP	% GDP
1	The amendment ZDoh-2AA, which eliminates the financial consequences due to the increase of the general income tax reliefs in the years 2023, 2024 and 2025.	No	Revenue		D.51	0.2%	0.1%
2	Gradual elimination of energy measures to mitigate price increases (reduction of excise duties on energy products for fuels, heating oil, natural gas, reduction of value added taxes for certain energy products from 22% to 9.5%, reduction of CO_2 duties).	No	Revenue		D.21	0.1%	0.2%
3	Increase of corporate income tax by 3 p.p. (Article 64 ZORZFS) for the period 2024 – 2028 (dedicated revenue of the Reconstruction Fund).	No	Revenue		D.51	/	0.3%
4	Tax on the balance sheet of banks and savings banks (Article 78 ZORZFS) for the period 2024	No	Revenue		D.29	/	0.1%

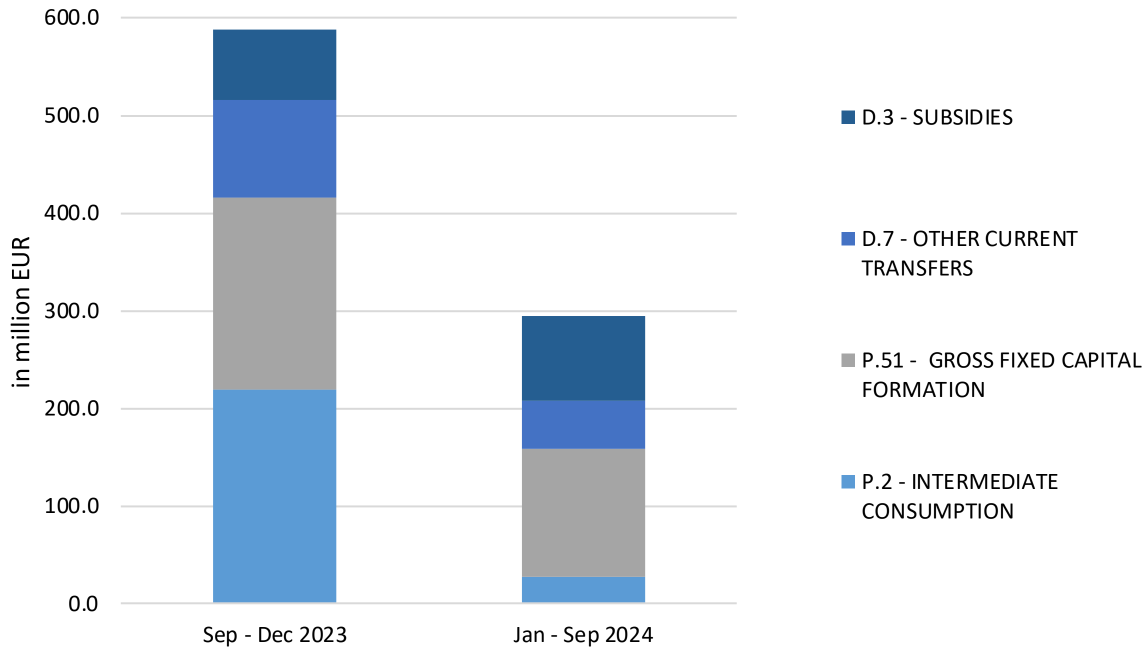
	– 2028 (earmarked revenue of the Reconstruction Fund).						
5	Non- harmonize the income tax scale and reliefs in 2024 (Article 77 ZIPRS2425).	No	Revenue		D.51	/	0.2%
	Total					0.3%	1.0%*

Note: *The impact of the transformation of supplementary insurance into compulsory health insurance is neutral on the total revenue of the general government sector.
Source: calculations of the Ministry of Finance based on the classification of discretionary measures in the Report on public finances in EMU – 2015 (Institutional Paper 014) and the Report on public finances in EMU – 2016 (Institutional Paper 045).

One-off expenditure

As per the Reconstruction, Development and Provision of Financial Resources Act (Official Gazette of the Republic of Slovenia, Nos. 131/23 and 81/24), a total of EUR 856.3 million was paid from the state budget for reconstruction after the floods from September 2023 to the beginning of September 2024, of which EUR 588.1 million or 0.9% of GDP was paid in 2023 and EUR 268.3 million or 0.4% of GDP in 2024. The largest proportion of payments in 2023 was intended for investment expenditure and transfers to municipalities (including pre-payments):

Figure 6: Payments from the state budget for post-flood reconstruction from September 2023 to the beginning of September 2024 by ESA categories



Source: Calculations of the Ministry of Finance.

On accrual basis, this means that the value of one-off expenditure measures in 2023 is estimated at 0.7% of GDP. Measures in the amount of up to 1% of GDP are planned in 2024. The measures are intended for the reconstruction of watercourses and roads, direct damage, advance payments to the economy, housing renovation, etc. The renovation largely depends on the utilisation of capacities (construction, personnel, etc.).

Indicative revenue and expenditure measures envisaged in the Plan

The table below shows the indicative timeline of the anticipated revenue and expenditure measures, which are discussed in more detail below.

Table 6: Indicative revenue and expenditure measures envisaged in the Plan

	Title	Impact on Exp / Rev	Planned implementation date
1	Phasing out of energy measures	expenditure	Q2 2025
2	Emission coupons	revenue	Q1 2025
3	Tax changes	revenue	Q1 2025
4	Pension reform	expenditure and revenue	Q1 2026
5	Healthcare changes	expenditure	
6	Wage reform	expenditure	01 2025
7	Long-term care	revenue	Q3 2025

Source: Ministry of Finance.

6 Projections of general government debt

The consolidated general government debt stood at EUR 43.739 million or 68.4% of GDP at the end of 2023 after the last SORS audit of GDP and general government debt, which is 4.3 p.p. of GDP lower than it was at the end of 2022 (72.7% of GDP). With regard to the level of general government debt as a percentage of GDP, Slovenia is a below-average indebted country in the EU and the euro area (average of EU 27 countries is 81.7% of GDP and 88.6% of GDP in EA 20 countries).

The Ministry of Finance is projecting the level of the consolidated general government debt at the end of 2024 in the amount of 67.5% of GDP. In the medium-term fiscal-structural plan, the period of 4-year fiscal adjustment-consolidation begins in 2025, taking the fiscal position in 2024 as a starting point. The scope of necessary fiscal adjustment and, within this framework, the determined average growth of net primary general government expenditure must ensure compliance with the principal criteria in the debt sustainability analysis and additional safeguards, including one regarding debt among the three. The new EU fiscal framework keeps its anchoring on the 60% of GDP reference value for the general government debt. Likewise, the reference value for the general government deficit remains unchanged at 3% of GDP.

The planned trajectory of general government debt in the medium-term fiscal-structural plan[9] must ensure the fulfilment of three criteria based on the debt sustainability analysis:

1. that the general government debt is shown, at the latest by the end of the 4-year fiscal adjustment period and for the following 10 years, when the assumption of an unchanged fiscal policy applies, to be on a trend to decrease or remain below the reference value of 60% of GDP, even when all three deterministic stress tests, as prescribed by the adopted debt sustainability methodology under the new EU fiscal rules, are implemented;
2. that five years after the end of the fiscal adjustment period (T+9) there is at least a 70% probability that the debt-to-GDP ratio will be lower than the level it reached at the end of the fiscal adjustment period (T+4). The stochastic test and the limit of at least 70% probability are defined in the adopted debt sustainability methodology under the new EU fiscal rules. When generating shocks on key macroeconomic variables such as primary balance, nominal short-term and long-term interest rates, nominal GDP growth and exchange rate, a joint normal distribution with zero mean and a historical variance-covariance matrix is assumed. Variance-covariance is identical to that of historical quarterly shocks. It encompasses country specific conditions, i.e. the observed volatility in the past and the correlation between the outlined variables, which provides the basis for stochastic simulations within debt sustainability analysis;
3. that general government deficit is brought and remains below 3% of GDP over the medium term.

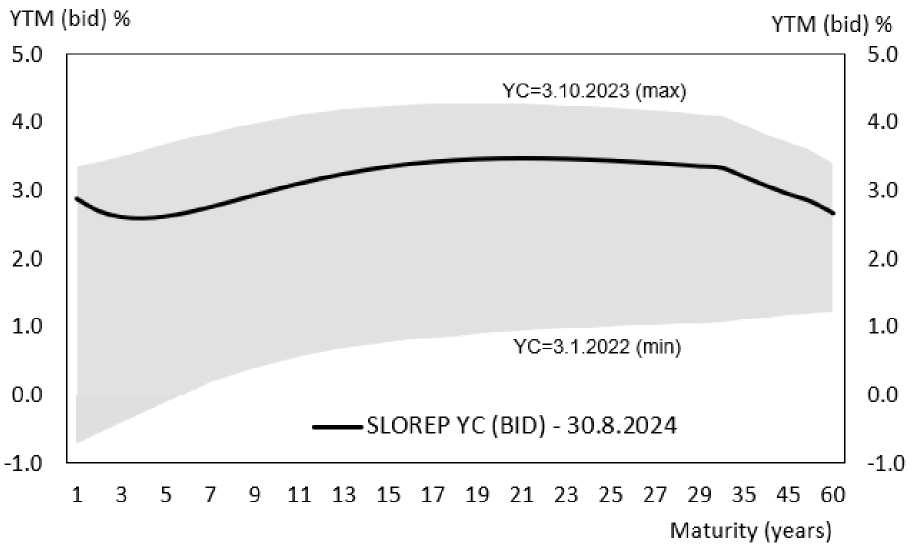
[9] The methodology for debt sustainability analysis under the new EU fiscal rules is taken into account, which is in detail outlined in the Debt Sustainability Monitor 2023, March 2024.

Within the debt dynamic equation, the stock-flow adjustment (hereinafter: SFA) also has its important place. The latter indicates the factors that explain the remaining difference between the change in the general government debt and the outlined general government balance. An important factor is the usage of the state budget cash reserves, which in its size eliminates the need for borrowing. In this respect, Slovenia has a capacity to ensure an adequate level of SFA within the debt management and the debt level, as the liquidity reserve or the balance of the state's single treasury account as of 6 September 2024 is 14.0% of GDP and that of the state budget is 8.0% of GDP. In the medium-term fiscal-structural plan, the SFA in 2024 and 2025 is planned at the level of -0.9% of GDP and -0.8% of GDP respectively, and at the level of 0.0% of GDP in the following years. The liquidity reserve significantly contributes to the lower level of the net general government debt to GDP ratio.

The environment of extraordinary low interest rates came to an end in 2022 with the start of the ECB's restrictive monetary policy. On 27th of July 2024, after the first in a series of key three ECB reference interest rates hikes, the growth of market interest rates followed as expected. The cycle of ECB interest rates hike ended on 20 September 2023. On 12 June 2024, the ECB already cut all three reference interest rates by 25 basis points. On 3 January 2022, Slovenia's 10-year euro credit spread stood at 0.08%, while it was 0.52% on 30 August 2024, whereby the interpolated euro 10-year yield to maturity increased from 0.42% to 3.07%, mainly due to the increase in the euro mid swap rate. This means that the credit spread in the interest rate structure now represents a lower proportion.

The figure below outlines the range of the movement of the euro SLOREP yield curve in the observed period before the increases, during the increases and the last lowering of the ECB's interest rates. The current euro yield curve is within the marginal (min./max.) values reached between 2022 and August 2024.

Figure 7: Range of movement of the EUR SLOREP yield curve between 2022 and August 2024



Source: Bloomberg; calculations of the Ministry of Finance, 30 August 2024.

In accordance with the adopted methodological guidelines/assumptions, short-term and long-term interest rates for refinancing of the existing debt and new debt are calculated in the medium-term fiscal-structural plan and taken into account based on the data from the Bloomberg financial platform and convergence values in the European Commission's DSM 2023 for T+30 years. The cut-off date for the Bloomberg data and the calculation is 30 August 2024. On this basis, the nominal implicit interest rate is calculated and used in the medium-term fiscal-structural plan.

For the short-term interest rate in the euro area, the methodology defines the use of a reference 3-month maturity, i.e. the use of a 3-month Euribor interest rate. In 2024, Slovenia issued 3-month treasury bills at five auctions with an interest rate that was on average of 77.5 basis points lower than the 3-month

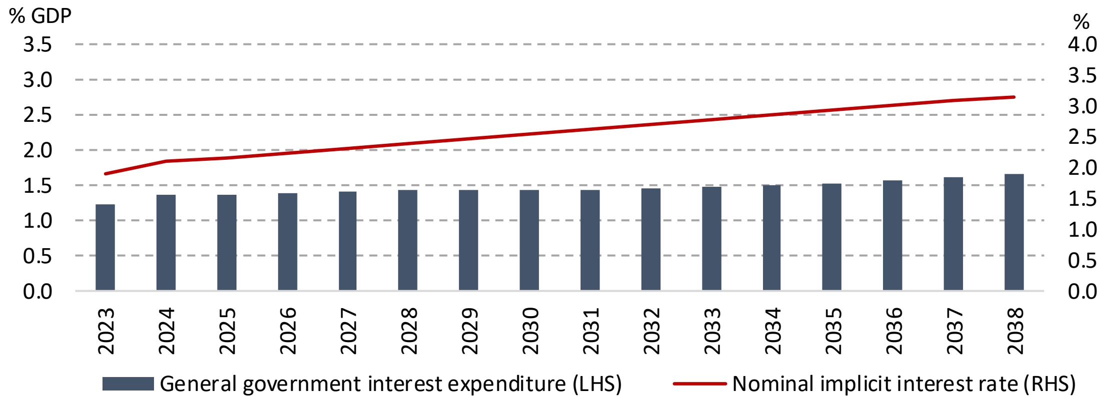
Euribor in the first quarter of 2024 and on average by 77.7 basis points lower than the 3-month Euribor in the second quarter of 2024. This market-proven fact is also duly taken into consideration in the calculation of the short-term interest rate in 2024. The convergence value of the short-term interest rate for T+10 years is calculated on the basis of market data in the amount of 2.7%. For the convergence value of the short-term interest rate for T+30 years, 2.0% is assumed, as required under the assumptions of the debt sustainability analysis in DSM 2023.

For the long-term interest rate, the methodology defines the use of a reference 10-year maturity that is on-the run 10-year euro bond benchmark. In the case of Slovenia, the used reference euro bond is SLOREP 3% 3/10/2034. The convergence value of the long-term interest rate for T+10 years is calculated on the basis of market data in the amount of 3.7%. For the convergence value of the long-term interest rate for T+30 years, 4.0% is assumed, as required under the assumptions of the debt sustainability analysis in DSM 2023.

The level of the interest rate on government borrowing is importantly influenced by the credit rating of internationally renowned credit rating agencies. As of 10 September 2024, Slovenia maintains high investment grade credit ratings by S&P: AA- / Fitch: A / Moody's: A3 / JCR: AA- and DBRS: AH, all with stable outlooks. The stable outlook in the credit assessment indicates that the agencies assess as most likely that the country's credit ratings will remain unchanged in the medium term. Slovenia thus strengthens its resilience to the growth of the credit spread in the interest rate structure, i.e. in that part of the interest rate which is country-specific and on which it has an impact.

The figure below shows the projection of interest on general government debt in % of GDP and nominal implicit interest rates of the general government debt portfolio in the fiscal-structural plan.

Figure 8: Projection of interest of general government in % of GDP and nominal implicit interest rates in the fiscal-structural plan

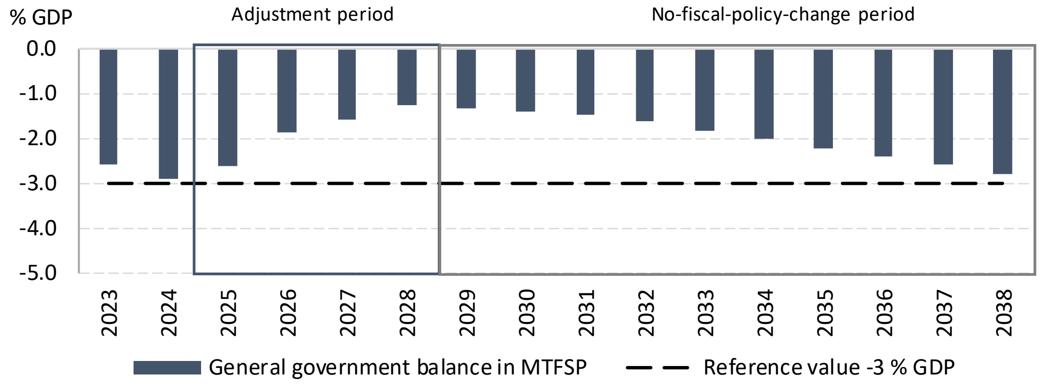


Source: Calculations of the Ministry of Finance, 2 October 2024.

Graphical representation of DSA-based criteria

Slovenia is planning the growth of net primary expenditure in the fiscal-structural plan, which ensures such path of the general government debt that will meet all the criteria and safeguards within the framework of the new EU fiscal rules. Among other, DSA-based criterion that general government deficit is brought and remains below 3% of GDP over the medium term is met. The figure below outlines the projection of the general government balance in the medium-term fiscal-structural plan.

Figure 9: Projection of the general government balance in the fiscal-structural plan



Source: Calculations of the Ministry of Finance, 2 October 2024.

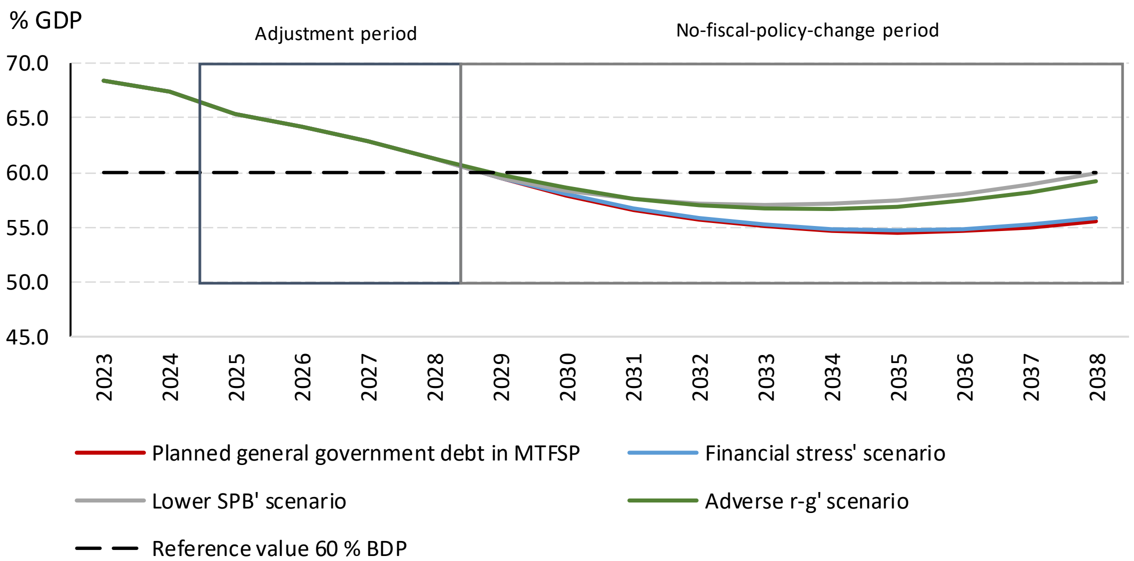
The figure below outlines the movement of general government debt in a 4-year adjustment period and in a 10-year no fiscal policy change period. It is outlined as planned debt trajectory in mid-term fiscal-structural plan, as well as from the perspective of all three deterministic stress tests defined within the debt sustainability analysis methodology, namely:

- Deterioration of the structural primary balance after the adjustment period, i.e. in the amount of -0.25 p.p. of GDP in 2029 if compared to 2028 and in the amount of -0.5 p.p. of GDP in 2030 if compared to 2028. The structural primary balance remains in the years that follow the same as in 2030, including changes in the cost of ageing. (Lower SPB' scenario);

- Difference between the nominal interest rate and nominal GDP growth (r-g) increases (deteriorates) by 1 p.p. in the entire no fiscal policy change period, i.e. after the fiscal adjustment period (Adverse r-g' scenario);

- Increase in short-term and long-term market interest rates in the first year after the adjustment period, i.e. in 2029, by 1 p.p. (Financial stress' scenario).

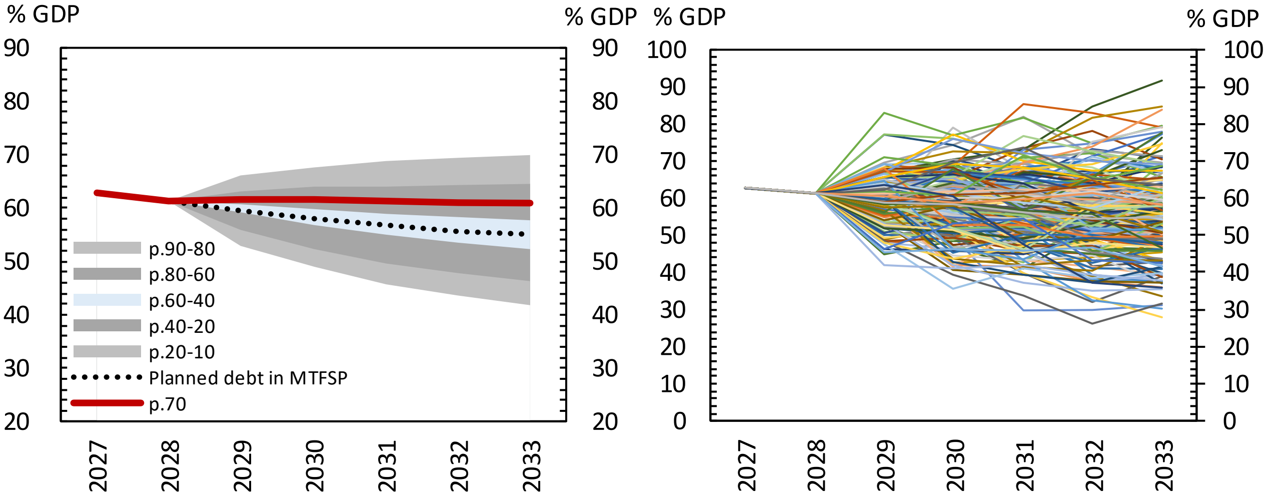
Figure 10: Planned general government debt trajectory in MTFSP and debt projections under the deterministic stress tests



Source: Calculations of the Ministry of Finance, 2 October 2024.

The figure below outlines the probability distribution of general government debt as a percentage of GDP over a 5-year period, which follows a 4-year adjustment period. The performed debt stochastic simulation (stochastic test) demonstrates that there is a 70.8% probability that the debt at the end of 2033 (T+9) will be lower than 61.2% of GDP, i.e. the level reached at the end of 2028 (T+4), which meets the criterion from the debt sustainability analysis.

Figure 11: Stochastic general government debt projections around the planned trajectory in the medium-term fiscal-structural plan (MTFSP)



Source: Calculations of the Ministry of Finance, 2 October 2024.

Demonstrated compliance as per the debt sustainability safeguard

The planned debt trajectory in the medium-term fiscal-structural plan in addition to the DSA-based criteria fulfils the provision of the debt sustainability safeguard, which requires that the general government debt should decrease on average by at least 0.5% p.p. of GDP in the fiscal adjustment period taking into consideration Slovenia's level of indebtedness of 67.5% of GDP planned for 2024. It is planned and demonstrated that the general government debt will decrease to 61.2% of GDP by the end of 2028, i.e. by -1.6 p.p. of GDP on average annually.

7 Information on reforms and investment

7.1 Key reforms and areas of future action

This chapter includes the Government's proposals, while the final orientations and solutions will be prepared to the greatest extent possible in dialogue with social partners.

The links between reforms and measures involving country-specific recommendations (hereinafter: CSR) for Slovenia, the RRP, the partnership agreement and common Union priorities are listed in Table 7a. The measures provided in Chapter 7 also address the key orientations of the European Pillar of Social Rights.

A) Changes in the pension system

One of the fundamental purposes of changes to the pension and disability insurance system is to adapt the system to demographic trends. The objectives of the proposed pension reform are to ensure the sustainability of the pension system, adequacy of pensions and transparency of the system.

The relationship between active and retired population has a great impact on ensuring the adequacy of pensions and the long-term sustainability of the pension system. The measures on the labour market already include measures for faster employment of young people and prolonging activity of the older workforce. A longer contributory period guarantees higher pensions on the one hand and more contributions for pension insurance on the other, which affects both key aspects of the pension system.

It is crucial that the changes in retirement conditions are accompanied by supporting measures, such as measures for the elderly in the labour market, lifelong learning, safety and health at work, social security systems, etc. **The pension reform will be simultaneously harmonised with measures on the labour market**, which refer to adapting work processes and work organisation to changed circumstances both within and outside companies (work from home, partial retirement, continuing to work after fulfilling the conditions for retirement, etc.).

One of the most important measures that contribute directly to the sustainability of the system and indirectly to the adequacy of pensions is **raising the actual retirement age**. The reform proposes the raising of the statutory retirement age from 60 to 62 years and from 65 to 67 years for those who do not have 40 years of contributory period. The proposed reform additionally includes changes in the field of **pension indexation**, the purpose of which is to maintain the level of pension benefits and thereby ensure the social security of pensioners. At the same time, pension indexation has a very large impact on the amount of necessary funds from the state budget intended to cover the entitlements that are paid from the pension fund. The anticipated change in pension indexation is to be linked to inflation to a greater extent.

It is also planned to **increase accrual rates** from 63.5% to 65.5% for 40 years of contributory period and to 30% for 15 years of contributory period (an increase to 30% in 2028 and an increase from 63.5% by 0.25 p.p. per year as of 2028). In order to better match contributions with pension benefits, it is planned **to extend the period for calculating the pension base**, whereby a gradual transition would be ensured in such a way that the period would be extended to 40 years in 8 years.

Since single retired persons are among the most vulnerable groups with the highest risk of poverty, the reform proposal **includes an increase in widow's** (and family) pensions from 70% to 80%. Such an increase subsequently affects the calculation of the share of the widow's pension. Due to the increase to 80%, some of those who are currently receiving a share of widow's pension and share of own old-age pension, will receive full widow's pension instead, as it will prove more favourable for them.

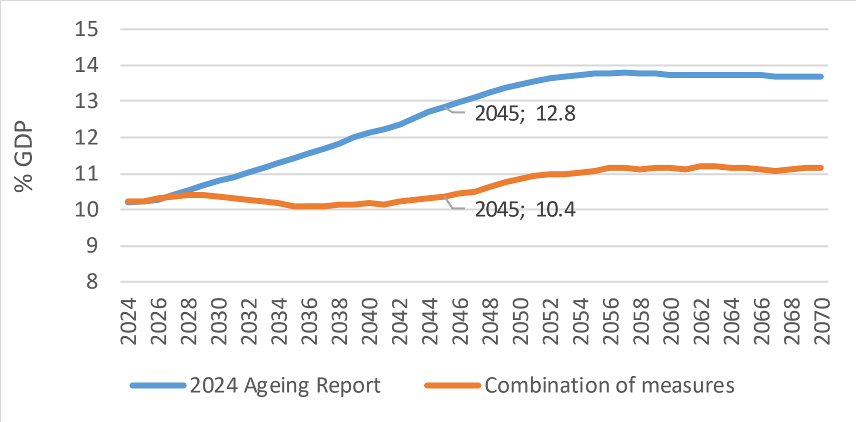
An important part of the pension reform includes the planned changes in the field of **disability insurance**, which emphasises rehabilitation. The basic purpose of vocational rehabilitation is to eliminate or mitigate the consequences of illnesses or injuries and the subsequently resulting reduced work capacity. To this end, it is necessary to simultaneously adapt health and disability insurance and to involve key players in the rehabilitation process (Health Insurance Institute of Slovenia – ZZZS, Pension and Disability Insurance Institute of the Republic of Slovenia – ZPIZ, Employment Service of Slovenia – ZRSZ, occupational health providers and vocational rehabilitation providers). The establishment of a single expert body and the introduction of universal working documentation could also contribute to ensuring a rapid activation of all stakeholders in the process.

Changes will also occur in the field of supplementary pension insurance. The proposed measures, such as the automatic inclusion of all employees in the second pillar, the gradual introduction of a system for equating the employee's voluntary contribution with the employer's contribution, and adequate information, would increase the proportion or number of those included in supplementary pension insurance through their employers and enable an appropriate amount of payments into this insurance. As part of the legislative changes, it is also planned to remove normative barriers to achieve better profitability of the funds, which could make saving in the second pension pillar more attractive for insured persons.

As a result of the proposed measures as part of the pension reform, **the long-term projections of pension expenditure in % of GDP are significantly more favourable**. The Institute for Economic

Research (hereinafter: IER) prepared a projection of the total effect of a set of possible measures[10] on pension expenditure. The simulation shows that the combination of measures would keep the share of pensions expressed as a percentage of GDP at approximately the same level as it is today for the next 20 years after the adoption of the amendments to the revised legislation.

Figure 12: Long-term projections of pension expenditure in % of GDP



Source: IER, 2024 Ageing Report.

B) Measures in the field of healthcare

In the field of healthcare, we encounter the challenges of ensuring financial sustainability, longevity of populations, optimisation of processes within public healthcare and providing efficient, accessible and high-quality public healthcare.

The measures, some of which are also anticipated within the RRP, aim to address the area of payment models, primarily by establishing mechanisms for a more rational use of resources, whereby uninterrupted provision of health services and their accessibility would be maintained. Possibilities for improvement are in the direction of achieving better cost-effectiveness of healthcare providers when recording of, and billing for, provided healthcare services. The Health Insurance Institute of Slovenia (ZZZS) is already implementing controls over individual sections of the provision of healthcare services (e.g. issuance of e-prescriptions, recording of performed healthcare services), which results in current financial savings. The revised legislation defined the bases for a stronger role of ZZZS as the active buyer with strategic purchasing of healthcare services and a focus on the quality and outcomes of treatment. In this sense, the strengthening of the supervisory function of the payer is also envisaged, which will systematically and comprehensively address the challenges of incorrectly charged or overcharged healthcare services, as well as the challenges of paying for unnecessary healthcare services, which will mitigate the expected growth of expenditure in the long run. As part of the zVem project, users can access invoices for healthcare services provided or medicinal products prescribed, which enables an additional option of checking whether the healthcare services were actually performed and medicinal products provided have been charged. The project additionally informs users of how much a healthcare service actually costs and promotes the awareness that services are not free of charge.

On 12 September 2024, the Government adopted the Strategy for the development of healthcare activities at the primary level until 2031, which plans an enhanced, more integrated, efficient and patient-oriented treatment in primary healthcare, which would result in lower costs to improve health outcomes

[10] The simulation assumes an increase in accrual rates, extension of the period for calculating the pension base, increase of widows' pensions, gradual change in the indexation of pensions in the 60 (wage growth) / 40 (inflation) ratio in a way that pensions are indexed in the 50/50 ratio as of 2027, in the 40/60 ratio as of 2029, in the 30/70 ratio as of 2031, in the 20/80 ratio as of 2033, in the 10/90 ratio as of 2036, and from 2039 onwards only with inflation, a raise in the retirement age and adjustments of disability and widows' pensions (gradual increase in the age of a widow/widower to 60 years from 2028 to 2035), harmonisation of the minimum age reduction limit for men and women due to the contributory period obtained before the age of 20 to 60 years, and an increase in migrations by 2,000 as per the basic assumption of 5,000 annually.

than at the hospital level. High-quality and more accessible treatment at the primary level can reduce the rate of hospital admission, the use of specialised services and the influx of patients to the emergency room, which can have a significant impact on health expenditure management. Greater promotion of health and the introduction of cost-effective preventive programmes are also highlighted in the mentioned strategy.

To provide high-quality and safe treatment in the field of family medicine and paediatric and school children's outpatient clinics, a model with capitation coefficients and a digression scale is being introduced, which motivates optimal definition and comprehensive quality monitoring. In order to ensure fairer financing, separate prices will be introduced for providers who provide continuous healthcare services and for those who do not. Redefinition of the public healthcare service network and specialisation of hospitals are envisaged with the aim of ensuring safer treatment and more efficient use of resources. A new model will be introduced for acute hospital treatment, which will take into account the actual costs of Slovenian providers (until now, the ratios between the weights in this activity were calculated on the basis of the Australian model).

A public agency will be established, which will ensure the development and operations of the quality management system in healthcare and monitor the progress of realising the fundamental quality healthcare principles. The evaluation of healthcare technologies, as an aid in the introduction of new healthcare technologies into the compulsory health insurance system, has not been formally established in Slovenia. There are several types of evaluation for medicinal products. These are governed by regulations in the field of medicinal products and rights from compulsory health insurance and provided by ZZZS. The evaluation relating to medical devices, the right to which arises from the compulsory health insurance and which are issued on the basis of an order form issued by an authorised physician, is also provided by ZZZS. The Health Council evaluates new diagnostics, treatment methods, procedures and therapies. The field of evaluation of healthcare technologies and their implementation into the healthcare system is being transferred to the public agency. New technologies and treatment methods are inherently more expensive than the existing ones, but the introduction of more patient-friendly and less invasive procedures is expected to result in long-term savings (in terms of re-admissions for the same diagnosis, faster recovery and shorter hospital stays, shorter sick leaves, etc.).

Through the comprehensive collection of resources in healthcare, the Ministry of Health will establish a comprehensive overview of the network of healthcare providers, their capacities and personnel resources through the entry of its own data and simultaneous linking with the databases of other stakeholders.

The currently established social security model of temporary absence from work in Slovenia means a greater risk for inefficient use of public funds intended for the maintenance and restoration of health due to the relatively high wage compensation with simultaneously insufficient incentives to return to work, deficient integration and work rehabilitation of patients with reduced work capacity and the lack of established expert practices to obtain the latter right. In cooperation with the Ministry of Labour, Family, Social Affairs and Equal Opportunities, the Ministry of Health drafted a number of measures (a single expert body, return to work plan, uniform work documentation, revision of preventive examinations of workers, etc.) with the aim of limiting the growth of sickness benefits, while at the same time enabling employees to return to work as quickly and easily as possible in cooperation with their employer.

The purpose of the bill dealing with the digitisation of healthcare is to lay the foundations for optimising the establishment and maintenance of information solutions in healthcare in such a way that it will centralise similar systems and professionalise IT in healthcare (which is currently struggling with the lack of qualified IT personnel). Furthermore, patient data will be entered in the central electronic health record (eKarton), which will reduce unnecessary duplication of examinations (in the case of imaging, this also denotes less radiation exposure for patients). Patient data will be accessible in a structured form, thereby enabling better prevention and healthcare.

The described measures to improve quality and safety of patient care, enhanced primary healthcare and better accessibility, the enhanced role of the ZZZS as an active strategic buyer of healthcare services, the upgrade of the payment method for healthcare services by monitoring treatment outcomes and a more systematic approach to monitoring the billing of healthcare services will impact the reduction of healthcare expenditure growth in the coming years. Measures in the field of absenteeism linked with the pension reform and better indicators for healthy years of life will also reduce the need to use healthcare services and thereby alleviate the pressure arising from healthcare expenditure growth. The total impact on sustainable growth in the health system is estimated at 0.3% of GDP.

In the coming years, the most important investments will continue to be implemented in healthcare, which are determined in the Resolution on the National Healthcare Plan 2016–2025 "Together for a Healthy Society" and the development programme plan for healthcare and public secondary and higher vocational schools and higher educational institutions in the field of healthcare to ensure a sustainable and resilient health system for the efficient realisation of rights to healthcare. The projects include energy rehabilitation, renovations and construction of new hospitals. The investments defined in RRP and within the cohesion policy will continue to be implemented. To this end, the challenges involving the digital transformation of health services will be addressed.

In 2023, the adopted act for the first time comprehensively and systematically regulated the field of **long-term care** from the aspect of financing, provision of rights and the exercise of these rights. Long-term care will be financed from the state budget and by means of a new contribution for employers, employees and retired persons, which will be introduced on 1 July 2025. The first right to long-term care services, which entered into force on 1 January 2024, referred specifically to the home care assistants obtaining the status of carers of family members. E-care and long-term care at home will be introduced in July 2025, whereby the accessibility to long-term care services at home will greatly depend on having a sufficient number of personnel. Improving of long-term care in institutions and a financial benefit are planned for the end of 2025. Due to the current situation on the labour market, there is uncertainty regarding the possibility of ensuring greater availability of personnel in long-term care, which will result in lower expenditure growth. To make this field more attractive, an act has been adopted that specifies temporary measures to improve staffing and working conditions and the capacities of providers of social care and long-term care services. In the coming years, the amount of general government expenditure will be affected by the gradual exercising of the right to long-term care, an increase in care standards and an increase in the number of long-term care beneficiaries.

C) Tax changes

The Government adopted measures in the field of tax that are intended to support the economy in generating favourable conditions for recruiting new key personnel, rewarding workers and promoting entrepreneurial initiatives. It is expected that, in the long term, these key development measures will support the increase of added value in the section of the economy that has potentially high added value. These measures can also serve as the basis for other measures in various policies (labour market, migrations, etc.).

The main purpose of the package of tax changes is not to provide additional public financial resources, but to create a stimulating environment for key employees with the aim of increasing the productivity and international competitiveness of the Slovenian economy. The effects on public finances will be positive in the long term, as the economy will be able to contribute to economic growth through various incentives or benefits for key personnel that did not exist before and which could also be reflected in public finances in the medium term, but it is practically impossible to predict the amount at this point.

The key and substantively most important part of the package includes three development-oriented measures to address quicker closing of the gap behind innovation leaders, which are expected to represent the first steps in creating a comprehensive response to the challenges faced by the exposed areas in the field of tax. The challenges of innovative start-up companies in terms of rewarding employees and ensuring adequate liquidity in the initial stages of business operations are also addressed.

With the second set of measures, the Government wishes to improve the competitive environment and international competitiveness of the Slovenian economy and enhance the fairness of the tax system. Important changes in this context are changes in the field of value added tax, corporate tax (and personal income tax).

The last set of measures are measures adopted by the Government with the aim of obtaining additional sources for public finances on the one hand and to pursue other policies and objectives on the other (for example, in healthcare). Thus, the taxation of sweetened beverages (with added sugar) and energy drinks will be adjusted, and the amounts of excise duties on alcohol and alcoholic beverages will be raised.

Reducing the burden of labour taxation and increasing other tax sources, such as capital, real property and property, are part of broader fiscal and structural reforms (such as healthcare reform and pension reform), which are often proposed to stimulate economic growth and ensure the long-term sustainability of public finances. In consultation with key social partners, stakeholders and other ministries, the Government is preparing proposals for measures that will be related to the above-mentioned policies and will be aimed at considering the expansion of the basis for the payment of contributions and personal income tax. Irrespective of the foregoing, additional revenue will also be adequately ensured by the taxation of capital and real property from the point of view of ensuring the stability of public finances in a way that will create a more sustainable and competitive economic environment in Slovenia.

Relating to the green transition, it must be highlighted that the tax policy is not the only method of promoting green objectives, but it can be part of the broader political framework with the same objective. In this context, coordinated action at the EU level and particularly between neighbouring countries is crucial, as different policies between member states can have a negative impact on the competitiveness of the Slovenian economy as a whole.

D) Public sector – wage system

Due to the lack of sustainability of the current wage system, the Government began reforming the system (wage reform) while simultaneously eliminating the disparities that have occurred in the past between basic wages for individual jobs. Because the elimination of disparities and the change of the wage system will require a relaitvely considerable investment of funds, it is foreseen that the reform will be gradually implemented over the next four years.

The objectives of the renovation are to maintain transparency and the fiscal sustainability of the wage system. To this end, it is expected that the method of wage indexation will be lower during the transition period due to the gradual transition to a new wage scale, which will have a smaller, i.e. 3% range between grades (currently 4%). One of the objectives is also greater variability linked to work efficiency and greater appeal of the system for young people or certain experts needed by the public sector to perform high-quality public services (significantly increased possibilities for variable remuneration and determination of wages with the aim of incentive payment), and a reduction of the impact of seniority on the amount of wage (so-called automatic promotion will be changed). To establish more appropriate wage ratios, the ratio between the lowest and the highest wage is planned to be one to seven. The overall medium-term impact (annually proportionately linear) is estimated at 1.8% of GDP.

E) Productivity

In the face of rapid and profound economic change in the international environment, driven by the interlinked effects of climate, technological, geopolitical, cultural and social change, Slovenia will continue to accelerate the sustainable, digital and innovation transformation of the Slovenian economy in the coming period. The aim is to position Slovenia as a new European centre for the development and innovation of advanced and sustainable technologies.

In line with current economic policy trends, Slovenia is therefore developing a proactive economic policy focused on innovation, the development of new breakthrough technologies, increasing the resilience, decarbonisation and energy efficiency of the above-average energy-intensive economy, diversifying markets, attracting new investors, strengthening the ecosystem approach and improving the conditions for business creation and growth, while targeting the elimination of weaknesses in all competitiveness indicators.

- **Measures to increase competitiveness and productivity**

In order to define a new vision for Slovenia as a leading European development centre for advanced technologies, an **Action Plan to increase the productivity and competitiveness of the Slovenian economy** is under preparation. The main objective is to accelerate the increase in productivity, to bring Slovenia to EUR 100,000 value added per employee and to position Slovenia as a new innovation centre for advanced and sustainable technologies. This will be achieved through actions, policies and incentives focused on three pillars: upgrading and decarbonising existing industries; developing new products and new industries; and making global high-tech companies more attractive for innovation operations.

In the context of upgrading and decarbonising existing industries, measures are foreseen to accelerate the decarbonisation of the economy, to increase the circularity and sustainable design of products and processes, to transform and increase the innovativeness of key industries (e.g. automotive and other process industries, in particular the development of new materials, biotechnologies and pharmaceutical industry, chemical industry), to further accelerate digitalisation and robotisation of industrial production, as well as measures to increase resilience and higher positioning in all key value chains, to generate higher added value based on domestic resources (natural resources and attractions, knowledge, raw materials/materials, etc.) and exploit their development potential.

With a view to developing new products and new industries, the plan includes:

- adoption of a Slovenian Startup Strategy focused on targeted improvement of key indicators;

- implementation of the strategic initiatives already identified with the startup ecosystem and the supportive environment (lean society as a special form of company adapted to fast-growing and innovative companies, characterised by ease of management and easy entry and exit of investors, creation of a special startup visa, improvement of the conditions for investing in start-ups and venture capital funds, the development of a venture capital fund to invest in strategic and breakthrough innovations, the further development of ecosystem support services including a network of technology parks, incubators and accelerators, better regulation of employee remuneration and involvement in business ownership, including joint-stock and shareholder options);

- rapid kick-starting and integration of the Slovenian innovation and industrial ecosystem into the opportunities provided by the adopted STEP (Strategic Technologies for Europe Platform) regulation by reallocating resources to the development of strategic technologies, strengthening domestic production capacities (in Slovenia and in the EU) and integrating the Slovenian economy into newly formed value chains;

- improvement of the integration of the Slovenian innovation ecosystem into centralised EU resources and targeted strategic initiatives at the EU level (e.g. IPCEI) and strengthening the ecosystem approach in all areas of the Smart Specialisation Strategy (further operation and upgrading of strategic development and innovation partnerships) and in niche breakthrough areas (e.g. space).

The Government continues to strengthen the competitiveness and added value of the Slovenian economy. In 2024, EUR 512 million in reimbursable funds will be made available to the economy in the form of favourable loans and various financial instruments for technological development, capital consolidation, liquidity and crisis mitigation, and tourism. The reimbursable funds will be provided by the Slovenian Export and Development Bank (SID Bank), the Slovenian Enterprise Fund (SPS) and the Ministry of Economy, Tourism and Sport. Furthermore, the EU Cohesion Funds are providing EUR 190 million of financial instruments until the end of 2029, e.g. in the areas of research, development and innovation, start-ups and growing micro, small and medium-sized enterprises (hereinafter: SMEs) and the circular economy. In addition, the Ministry of Economy, Tourism and Sport will also provide EUR 339.2 million in grants to the economy this year, through 42 calls for tenders. Important emphasis will also be given to measures contributing to the creation of higher added value based on domestic resources (natural resources and attractions, knowledge, raw materials/materials, etc.) and the exploitation of their development potential.

Measures are designed along several pillars, such as the operation and advice of Slovenian business points (SPOT), subjects of innovative environment (SIO), the development of the startup ecosystem (initial support, content support, venture capital), incentives for innovation (RRI, demopilots, digitalisation, business models), decarbonisation and the circular economy, the restructuring of coal regions (Just Transition Fund), promoting internationalisation (brand development, promotion of trade fairs, SPOT Global, support for economic delegations, better positioning of Slovenia in the world), tourism development and productivity growth (implementation of the adopted tourism development strategy with a focus on high quality and boutique), and support for specific target groups in entrepreneurship (young people, women, craftspeople).

In the future, reimbursable funds and new financial instruments, including blending, will become increasingly important. Partnerships between the private and public sectors will also play an important role.

- **Knowledge, labour market and migration policy**

Ensuring a resilient labour market, a skilled workforce and addressing labour shortages remain Slovenia's key orientations in **the area of the labour market** and employment. In addition to the measures already foreseen in the context of the RRP and cohesion policy to strengthen labour market resilience (short working time shemes in times of crises), including active labour market policy measures, the key in the coming years will be to prolong the work activity of the population in Slovenia and to attract a new labour force. The prolongation of the work activity is foreseen in the framework of pension legislation, and a set of measures is being prepared to prologn working life of older people and to prevent premature departures from the labour market, as part of the amendments to the Labour Market Regulation Act. An analysis document for workers aged 58 and over and a set of possible proposals for measures and changes to unemployment benefit legislation with regard to early exit from the labour market and transition to inactivity have been prepared. The **Immigration** Strategy of the Government of the Republic of Slovenia, adopted this year, identifies a number of objectives relating to the conclusion of bilateral employment agreements, the improvement of the legislative framework and the monitoring of the implementation of the rules in practice, and includes the extension of the list of deficit occupations and reducing the administrative barriers or simplification of administrative procedures. Measures[11] have already been taken to optimise certain procedures at administrative units, such as the abolition of local jurisdiction for residence and work permits for foreigners, which will make the administrative units more evenly loaded across the country and reduce the time it takes to resolve cases. It also grants foreigners to work and reside legally in Slovenia after obtaining a so-called temporary permit, while the procedure at the administrative unit continues until a final decision is taken. Further changes to legislation regarding the employment of foreigners will also include provisions on seasonal work in the hospitality and tourism sectors. It will be easier to employ foreigners already residing in Slovenia. The designation of qualifications will also be aligned with the Slovenian Qualifications Framework. To ensure the integration of foreigners, the programmes set out in the Strategy for the Integration of Foreigners have been and will continue to be implemented, based in particular on the learning of the Slovenian language and culture.

Measures are also envisaged under the tax legislation to attract expatriate domestic and foreign experts. This provides for the introduction of more favourable tax treatment in the form of reduced income tax. Changes or modernisation of **the education system** are planned. A draft National Education Programme for the period 2023-2033 has been prepared by experts. The proposed strategic objectives and measures aim at a high-quality and sustainable education system, which is based on scientific knowledge, builds on the best practices of the Slovenian kindergarten and school profession, and adapts sensitively and flexibly to the challenges of modern society. The goal is also to evaluate the structure and purpose of secondary vocational and professional education programmes. The aim is to identify which programmes could be strengthened in terms of their general educational and pre-vocational purpose.

[11] Act on Measures to Optimise Certain Procedures at Administrative Units (Official Gazette of the Republic of Slovenia, no. 62/24).

At the same time, a comprehensive revision of the curricula in primary and secondary schools is being prepared in the framework of the implementation of the RRP. These are broader educational guidelines which, in addition to digital competences, sustainable development, computer science and financial literacy, also address the strengthening of key competences[12], by including key (fundamental) objectives in five areas: language, citizenship, culture and the arts; sustainable development; health and well-being; and entrepreneurship. By 2026, the common, fundamental objectives will be included in the objectives and knowledge standards for all school subjects. For this purpose, training for teachers is planned for the effective implementation of the updated curricula.

In addition to the above, development projects are planned under the European Cohesion Policy to strengthen key competences such as linguistic and intercultural competences, multilingualism, reading literacy, mathematical and scientific competences, digital, personal and social competences, entrepreneurial competences, civic competences, cultural awareness and expression, and creativity, media literacy, computational thinking, critical thinking, healthy self-concept, violence prevention, addiction prevention, and global learning and education for sustainable development. Some projects are already in the final stages of preparing calls for tenders. In the field of adult education, a specific project on "acquisition of basic and vocational competences for adults" is being implemented. The project aims to increase the participation of adults in lifelong learning, improving their core competences in responding to technological, demographic and climate change in modern society. The programmes focus on foreign language learning and Slovenian for foreigners, digital skills and personal growth.

Key investments also include active labour market policy measures, some of which are also financed by EU funds, and measures implemented under the RRP. Most of the active labour market policy measures funded by the European Social Fund started in 2024, including subsidy and on-the-job training programmes, non-formal education and training programmes for vulnerable groups being unemployed.

In the field of non-formal education and training, EU funds will co-finance measures to promote lifelong learning, with a focus on digitalisation, competence development and upgrading, such as support to enterprises to prolong work acitvity retirement age; non-formal education and training for unemployed people, especially vulnerable groups such as social assistance recipients, people with disabilities, the long-term unemployed, people over 50 and the less educated; promoting the integration of employees whose employment is at risk.

The adopted Strategy and Action Plan for the Greening of Education and Research Infrastructure by 2030 was defined in the context of the RRP. The investment aims to contribute to the provision of a more modern and environmentally friendly educational infrastructure. Other important investments in the field of education include the modernisation of secondary vocational and professional education, including apprenticeships, and the strengthening of cooperation between the education system and the labour market, which is also foreseen under the implementation of the RRP.

- **Investing in research and development and changes in the higher education system**

The skills and knowledge of the population are addressed through the preparation of a comprehensive reform of **higher education** legislation, which will enable the further development of Slovenia as a knowledge, creativity and innovation society. The amendments include the regulation of lifelong higher education and its integration into the quality system. The envisaged micro-credentials will be an important step towards the acquisition of specific knowledge, skills and competences that meet social, personal, cultural or labour market needs. It will also address the organisation and status forms of higher education institutions in a way that supports greater diversity and flexibility in the carrying out higher education.

Improving the efficiency and effectiveness of public investment and fostering cooperation between academia and business are key priorities for Slovenia in research, development and innovation (hereinafter: RDI) and higher education. Actions implemented under the RRP in the field of RDI

[12] The document entitled "Common objectives and their placement in curricula and knowledge catalogues" was approved by the Curriculum Council for monitoring and guiding the renewal of educational programmes through the renewal of key curriculum documents (2023).

operation and management include co-funding of research and innovation projects in support of the green transition and digitalisation, co-funding of projects to enhance the international mobility of Slovenian researchers and research organisations, and co-funding of investments in RDI demonstration and pilot projects. The aim is to increase the success rate of RDI investments, to create an efficient research and innovation environment and to focus RDI activities on the green and digital transition.

Changes to funding are foreseen in the area of scientific research and innovation. Changes are also foreseen in the area of evaluation. More detailed arrangements will be defined for the transition of new public research institutions to the revised funding system.

Overall investment in scientific research and innovation could increase to 3.5% of GDP by 2030 (with public investment at 1.25% of GDP) under the planned measures. Investment in research and development stimulates innovation activity, competitiveness and economic development. For example, Sokolov-Mladenović et al. (2016) find that an increase in total research and development expenditure in EU Member States by 1% of GDP leads to 2.2% higher real GDP growth over the period 2002–2012.

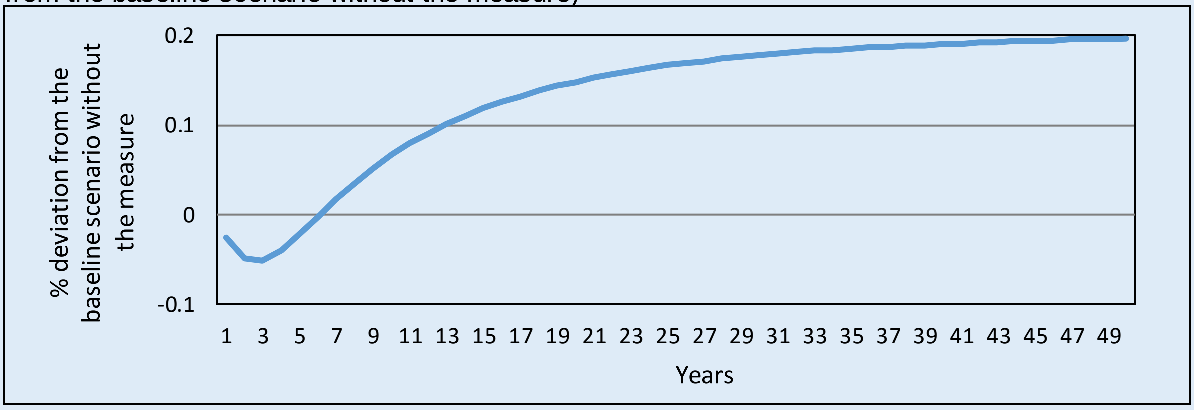
Slovenia is intensively working towards full membership in the European Organisation for Nuclear Research (CERN), a scientific research organisation. In 2025, Slovenia will become a full member of the European Space Agency, which will provide opportunities for participation in the basic technology research programme, the science programme and also in commercial projects.

Box 2: Model-based assessment of the potential macroeconomic effects of stimulating research and development

Investment in research and development is key to fostering innovation activity, competitiveness and economic development. The government can contribute to it in different ways. It can finance projects directly through subsidies, grants and tenders that support innovation and technological progress. Indirectly, it can stimulate research and development through tax reliefs and incentives that reduce the costs of research activities for firms. In addition, the government can create a supportive environment for cooperation between companies, research institutions and universities and invest in the development of science parks and incubators.

Using the QUEST III R&D model, we prepared an illustrative simulation estimating the impact on GDP of a 0.1% of GDP increase in subsidies for researchers' wages in private sector. We note that the measure would have positive effects, especially in the long-term, when the level of GDP could be 0.2% higher than in the baseline scenario without the measure.[13]

Figure 13: Slovenian GDP response to a permanent subsidy increase of 0.1% of GDP (as % deviation from the baseline scenario without the measure)



Source: QUEST III R&D model.

[13]The model parameters characterising the baseline scenario without measures are calibrated based on the national accounts, fiscal and other macroeconomic data. Behavioural parameters determining the dynamic adjustment to shocks are based on the QUEST model estimates.

- **Capital markets**

The objective of the adopted Capital Market Development Strategy for Slovenia for the period 2023–2030 is to enable the Slovenian capital market to contribute to sustainable economic growth in Slovenia, the green transition and digitalisation. The measures set out in the strategy can stimulate the development of existing and the launch of new technological and innovative SMEs with high potential for rapid and sustainable growth, on which the Slovenian economy could be based in the future. The objective of this reform is to strengthen the capital market system, which will help the economy to recover and start up and, as a consequence, lead to higher productivity.

The main pillars of the strategy are: (i) digitalisation and increasing SMEs participation in the capital market, with the objective of creating a technical and operational platform for SMEs to access modern capital raising, trading platforms and information channels, based on modern technologies (DLT – Distributed Ledger Technology); (ii) creating additional supply on the capital market in the form of bonds, with the aim of creating a larger supply of bonds and increasing their trading volume (Slovenia issued bonds for natural persons for the first time in February 2024 and, with the successful subscription of the bonds, fulfilled the objective of stimulating public interest in the capital market); (iii) promoting financial education in order to bring capital market financing options closer to the economy and to raise the awareness of the population on the possibilities of investing their savings on the capital market.

In order to achieve the objective of the strategy, various supporting measures are planned, including the establishment of a single entry point with transparent and easy to use capital market information, the introduction of individual investment accounts for financial instruments to enable individuals to save for the longer term by investing in financial instruments, and legislative changes in key areas of the main pillars of the strategy. As an example of legislative changes that could also stimulate capital market investment and have an impact on the provision of additional income in retirement, changes are also planned to the law governing pensions and disability insurance to allow pension fund managers to play a more active role in the selection and management of investments. The strategy also foresees the examination of a system of compulsory contributions to the second pillar of the pension system, which could increase investment opportunities for pension fund managers, address the problem of demographic projections and encourage the transfer of funds from bank accounts to earmarked savings in personal savings accounts in order to provide additional income after retirement. An amendment to the Financial Instruments Market Act (Official Gazette of the Republic of Slovenia, no. 45/24) was also adopted which, among other things, allows the issuance of financial instruments based on distributed ledger technology.

Some key measures are already being implemented in practice. One important measure was the issuance of three-year government bonds aimed at natural persons. Furthermore, the Securities Market Agency, together with the Ljubljana Stock Exchange and the Central Securities Clearing Corporation, has upgraded the single entry point so that all information on entering the capital market (the stock exchange), issuing securities (the Central Securities Clearing Corporation), on the necessary permits (the Securities Market Agency) and on the estimated costs is gathered in one place. The websites of all three institutions show the steps necessary for obtaining permits or consents, the forms and other documentation needed, and all the legislation. Financial education has also been strengthened, especially in the area of practical events and useful news for the target audiences.

The final overall objective of the strategy is for the Slovenian market to achieve emerging market status, which could enhance the attractiveness of the market and its issuers and benefit the country's credit standing. Upgrading the Slovenian market to emerging market status and obtaining the status would have a positive impact on liquidity and trading volumes on the capital market. The implementation of the strategy is monitored regularly and a report on the implementation of the strategy for the previous year shall be submitted to the Government of the Republic of Slovenia for information.

F) Green transition

- **Energy**

The measures adopted under **the Energy Act** (Official Gazette of the Republic of Slovenia, no. 38/24) foresee a gradual transition from fossil fuels to more environmentally friendly energy sources. Procedures are defined to speed up the allocation of financial incentives for investments in renewable energy sources and energy efficiency, which will be digitalised and simplified, ensuring transparency and equal treatment of applicants. Municipalities are required to prepare local energy concepts, which will set seven-year targets for achieving a share of energy savings and an increase in the share of renewable energy sources, as well as targets for the energy renovation of public buildings. Gas distribution concessions will be renewable for five and seven years respectively, subject to conditions laid down in the Act. The Act defines the competences, tasks and functioning of the Energy Agency as the regulator in the field and of the Energy Inspectorate, it establishes the energy infrastructure and, in this context, among other things, the procedures for expropriation in the public interest. It also sets out measures to be taken in the event of an energy crisis, which provides a systemic basis for the regulation of energy prices. The Act also defines the allocation of the EU Just Transition Fund for the revitalisation of the Šoštanj Thermal Power Plant site (hereinafter: TEŠ 6) and Zasavje, and the Modernisation Fund for the modernisation of the energy system. At the same time, a new instrument is made available – complementary financing for green transition projects that are successful in EU tenders.

The National Strategy for Coal Phase-Out and Restructuring of Coal Regions in Accordance with the Just Transition Principles stipulates that Slovenia will stop using coal for electricity production by 2033 at the latest. A new **Act on the restructuring of the Velenje Coal Mine** is planned to be adopted. The closure of the Velenje Coal Mine will also be supported by EU funds, the Just Transition Fund.

The National Energy and Climate Plan (hereinafter: NECP) is in the final stages of preparation and consists of five dimensions: decarbonisation; energy efficiency; energy security; internal energy market; and research, innovation and competitiveness.

The decarbonisation dimension includes, among others, various measures related to the economy (greenhouse gas emission (hereinafter: GHG) allowance trading, financial incentives for GHG reduction measures, circular economy), waste management (reduction of the use of plastic products, food waste), agriculture and forestry. Also relevant are the instruments of the ECO Fund, measures to promote local energy communities, support schemes for renewable energy production, spatial planning in the field of energy efficiency and renewable energy sources, district heating systems.

Energy efficiency includes, among other things, the upgrading of the savings guarantee scheme, the promotion of the use of excess heat, financial incentives for efficient use of energy and renewable energy in industry and for business, the renovation of buildings, sustainable mobility (public passenger transport, upgrading of the rail network).

Energy security covers measures for a just transition of coal regions and the construction of the necessary production capacity. The internal energy market contains, among other things, measures to ensure the conditions for accelerating the development of the electricity distribution and electricity transmission network and reducing energy poverty.

Research and innovation in energy efficiency, renewable energy and other low-carbon technologies will be promoted under the NECP.

The targets for decarbonisation, generation of electricity from renewable energy sources and efficient use of energy are aligned with international commitments such as the EU Green Deal, Fit for 55, REPower EU and the Digital Decade 2030.

The EU's "Fit for 55" document sets a target of reducing total GHG emissions by 55% from a 1990 baseline by 2030. According to the NECP, GHG emissions are to be reduced by 37% by 2030, compared to a 2005 baseline. The NECP also outlines emission reductions by sector (transport, agriculture, industry, energy) by 2030.

At least 33% of renewable energy sources in final energy use will have to be achieved by 2030. This is to be achieved through a 55% share of renewable energy sources in electricity production, a 30% share of renewable energy sources in industry (including excess heat) and a 55% share of energy consumption from renewable energy sources in buildings. The share of energy from renewable sources in heating and cooling should be 45% and 26% in transport.

In the area of **efficient use of energy**, accelerated improvements in energy and material efficiency are foreseen in all sectors. For this purpose, it will be necessary to ensure that the policies and measures adopted are systematically implemented to ensure that final energy consumption does not exceed 50.2 TWh per year. Final energy consumption in buildings will need to be reduced by 15% by 2030 compared to 2020 and GHG emissions in buildings will need to be reduced by at least 70% by 2030 compared to 2005. Public sector final energy consumption will be reduced by 1.9% per year compared to the 2005 baseline year, requiring the renovation of 3% of the total floor area of public sector buildings per year.

In order to manage climate change more effectively, and in particular to achieve climate neutrality in Slovenia by 2045 at the latest, the **Climate Change Act** is being prepared. The proposal defines the reduction of GHG emissions, adaptation to climate change and the reduction of vulnerability and increase of resilience of natural and human systems in Slovenia to current or expected impacts of climate change on the environment and society. Provisions are foreseen to meet the binding total annual reduction of GHG emissions in sectors not covered by the emission allowance trading scheme. The draft Act contains provisions on the national GHG inventory system, GHG emission projections, the preparation of the Climate Change Mitigation Report and the Report on the Adaptation to Climate Change. A special chapter is devoted to the trading of GHG emission rights in the EU. Measures such as climate impact assessments and climate resilience for interventions or plans requiring an environmental permit, the mandatory preparation of climate-neutral business plans for operators of installations covered by the EU emissions trading scheme, rules for the management of fluorinated GHGs and ozone-depleting substances, and sustainability criteria and benchmarks for GHG emission savings are also foreseen.

An integrated approach to transport and mobility planning is a key task for the state in the field of **sustainable mobility and transport policy**. This is also the concept of the document Transport Development Strategy by 2030. In the framework of the RRP and cohesion policy, measures and investments are foreseen, aiming at promoting the use of public transport and rail passenger and freight transport, the use of alternative fuels in transport and the digital transformation of rail and road transport.

- **Environment**

In the context of climate change, Slovenia is facing more frequent and intense natural disasters, such as floods and forest fires, which cause significant economic damage and threaten the population in the affected areas. In the face of these challenges, Slovenia intends to strengthen investment and action to limit the impacts of climate change and to establish protection against climate-related disasters. Measures will address (1) improving the response to climate-related disasters and strengthening flood risk prevention, (2) improving the efficiency of water and environmental public utility services, and (3) reforestation activities and biodiversity conservation.

Slovenia's response to improving the country's capacity to respond to natural disasters and to strengthen flood risk prevention will focus mainly on setting up systems to deal effectively and quickly with the consequences, giving priority to nature-based solutions and installing flood prevention measures where possible, as well as rebuilding affected areas. A strong emphasis will be placed on simplifying administrative procedures, particularly in the areas of spatial planning and building legislation, which will allow for faster implementation of reconstruction rehabilitation works and contribute to more efficient management of natural resources. In areas at risk of flooding, stricter conditionality will be introduced for spatial interventions. Measures to improve the efficiency of water and environmental public utility services will focus mainly on upgrading the management of water resources and municipal infrastructure, in particular in the areas of drinking water supply and wastewater treatment, to ensure the sustainable use of water resources and reduce the risks of pollution. An important part of the measures will also be the modernisation of information systems for monitoring and reporting on the performance of these services. In order to maintain forest health, regeneration and resilience to climate change, measures will be taken to reduce the risks of the spread of forest pests and to improve the traceability and quality of forest reproductive material.

For the implementation of environmental policy measures in the period 2021–2027, resources will be devoted mainly to addressing the consequences of natural disasters, strengthening the resilience to climate change, reducing flood risks and improving water resources management. Particular attention will also be paid to obtaining regional development funds in the affected areas to promote sustainable environmental recovery. In the period 2021–2027, funds will be allocated under the individual operational programmes for the implementation of waste water discharge and treatment measures to improve the supply of drinking water to the population and to implement measures to ensure the favourable status of water-dependent species and habitat types in Natura 2000 sites.

In the area of supporting the circular economy, investments will focus mainly on increasing the resource efficiency of companies, promoting eco-innovation and improving waste management. At the same time, measures will be put in place to increase wood processing based on environmentally friendly production processes and resource efficiency and to support companies in their transition towards sustainable and green business models, for which funding is earmarked under the RRP and cohesion policy.

G) Digital transition

The objectives set out in the overarching **Strategy of Digital Transformation of Slovenia until 2030** – DIGITAL SLOVENIA 2030 are being implemented. The implementation of digital transformation measures addresses digital society themes through the development of advanced digital technologies that enable the transformation of existing and the creation of new business models, the development of new products and services, increase the efficiency and competitiveness of the economy, and contribute to broader social and economic development (sectoral strategic documents – the Gigabit Infrastructure Plan 2030, the Digital Transformation of the Economy Strategy 2030 and the Digital Public Services Strategy 2030 – have also been adopted, are being implemented and are in line with the Digital Slovenia 2030). In line with green transition policies, they reduce negative environmental impacts and contribute to sustainability, resilience and energy efficiency. In the context of the digital inclusion of the Slovenian population, a mechanism for ensuring access to computer equipment for the most vulnerable members of Slovenian society, measures for the acquisition and development of basic and advanced digital competences, the wider society, with a focus on adolescents, the working population who do not have the opportunity to develop their digital competences in the context of their employment, and the elderly are being implemented. These measures promote the development of basic and digital competences, increase interest in ICT careers and encourage young people to enrol in science, technology, engineering, mathematics and AI-related study programmes. The measures also indirectly increase the productivity and competitiveness of SME employees. Awareness-raising measures on online etiquette and the prevention of online violence and hate speech are also being implemented. The objectives of the measures, which are to acquire and raise the basic digital competences of the Slovenian population, to promote interest in, understanding of, and responsible and safe use of digital technologies, and to acquire and raise advanced digital competences, are pursued in line with the Digital Inclusion Act (Official Gazette of the Republic of Slovenia, no. 35/22, 40/23 and 30/24) and the Digital Slovenia 2030 strategy.

The objectives set out in the National Strategic Plan for the Digital Decade, which sets out the way forward and how Slovenia will contribute to the common European objectives of the Digital Decade 2030 in the areas of digital competences, digital infrastructure, digital transformation of the economy and digital public services, are also being pursued.

In the context of the implementation of measures in the field of electronic communications, the implementation of the actions set out in **the Gigabit infrastructure development plan until 2030** to improve connectivity continues. The measures relate to the allocation of radio spectrum to provide coverage for new generations of 5G network technologies, to the co-financing of the construction of base stations and to the co-financing of the construction of next-generation open broadband networks in white spaces. In the latter respect, the operations under the "GOŠO 4" and "GOŠO 5" projects have been completed and a new project, "GOŠO 6", is under way. Other legislative and strategic measures are also being implemented to help improve connectivity and the establishment of a modern and high-capacity fixed and mobile electronic communications infrastructure, which is one of the key factors for the digital transformation of society and the competitiveness of the economy.

The Regulation on the use of public funds for the construction of high-capacity fixed broadband networks or the upgrade of existing fixed networks, the construction of 5G mobile networks, the construction of back-end networks and the promotion of connectivity sets out the conditions for the use of public funds for the construction of high-capacity fixed broadband networks or the upgrade of existing fixed networks, the construction of 5G mobile networks, the construction of back-end networks and the promotion of connectivity. Investments in information security and IT investments in the public administration are also continuing.

Most of the investments in digital transformation are made with the RRP and cohesion policy funds, specifically in the context of the digital transformation of the economy and the public sector and public administration, which is essential for the long-term development and competitiveness of Slovenia. Digital transformation of the economy measures will increase the efficiency and growth of businesses. The integration of Slovenian companies into global value chains is supported by participation in multi-country projects. As part of the digital transformation of the public sector and public administration, measures are underway to raise the skills of public administration employees, with the training of at least 40,000 public employees expected by the end of 2026. Investment in gigabit infrastructure will support the deployment of very high-capacity broadband networks in "white spot" areas, especially in sparsely populated and hard-to-reach areas.

The investment in the green Slovenian location framework will ensure that key digital spatial and environmental data are interlinked. Digitalisation in the cultural sector and digitalisation of the judiciary is planned to ensure a comprehensive exchange of information and legal documentation and faster resolution of court proceedings.

The National Programme for the Promotion of the Development and Use of Artificial Intelligence in the Republic of Slovenia until 2025 (hereinafter: NpUI) includes ten strategic objectives that Slovenia will achieve through various actions addressing the entire innovation cycle. The implementation of the NpUI includes: support for research, innovation, deployment and use of artificial intelligence; the creation of an innovation ecosystem and the launch of a supply and demand spiral in selected areas of the national economy and non-economic activities, including standardisation; the creation of an environment for the deployment of artificial intelligence that is human-friendly and for the benefit of humans – ensuring knowledge and skills, ethical principles, effective regulation and public trust – and support for the development of innovations to be offered as a benchmark to the international environment.

The Programme for the Development of Chips and Semiconductor Technologies in Slovenia until 2030 foresees three major actions to implement the programme: the establishment of the Čip.si Competence Centre, the strengthening of existing capacities and the creation of a Centre of Excellence for Chips and Semiconductor Technologies. The Competence Centre is directly linked to the incentives and objectives of the EU and the European Chip Act, which establishes a network of national centres for the benefit of the semiconductor ecosystem. The capacity building and the Centre of Excellence are national in nature with synergistic effects of a high-tech hub between research and education organisations and companies.

Measures will also promote the digital transformation of SMEs and the support and business environment for digital transformation (digital innovation hubs, chambers, hubs, FabLab networks, platforms to support value chains, digital creative centres, etc.).

H) Housing policy

A key task and objective of the Government in the field of real estate is the provision of affordable public rental housing, which is the cornerstone of any quality and development-oriented housing policy. The objective is to establish a stable, predictable and coordinated system for the construction of public rental housing.

In order to accelerate the achievement of the objectives, non-profit housing organisations will be redefined with the primary purpose of providing affordable rental housing. Affordable rental housing will be defined as housing that is rented out in perpetuity to legally defined beneficiaries at a rent that covers the costs of providing, financing, managing and maintaining the housing units.

With the new legislative proposals, the Government intends to define a stable source of financing for affordable housing construction. The key characteristics of a stable source are its adequate size, and above all its stability and predictability. The funds will be used to subsidise the construction and renovation of public rental housing, to provide favourable loans for the provision of public rental housing, to subsidise the renovation and adaptation of the public housing stock, to finance land policy measures, and for other development and research tasks in the housing sector. A new role will also be defined for the National Housing Fund, which will strengthen its activities in the area of financing housing construction by granting favourable repayable resources on the basis of an open call for proposals, in addition to its own construction.

Other measures are aimed at identifying new land policy instruments for the provision of public rental and affordable housing, aimed at promoting the construction of affordable rental housing and rationalising project development costs.

Legal bases will be established for the co-financing of the provision of suitable land (acquisition, regulation of spatial acts, furnishing) for affordable housing at the municipal level. This will allow for the development of land in stock, which will speed up the development of projects, improve the quality of their siting and encourage municipalities to develop land.

In the area of rents and subsidies, the methodology for calculating rents will also be redesigned to ensure sustainable operations (covering the lifetime costs of providing housing) and to make public rental housing widely available. At the same time, the subsidy system will be reformed, which will still ensure the availability of the public rental housing for a wide range of the population when the rents for public rental housing change.

Under the RRP, investments are being made in the construction of new public rental housing and in the renovation of existing public rental housing. The investments include important aspects of energy efficiency, with the aim of achieving sustainable development and reducing greenhouse gas emissions in line with the European green transition goals.

7.1.1 Links between reforms and measures and EU recommendations and priorities

The envisaged reforms and measures address the orientations identified in the RRP, in the partnership agreement and the main challenges identified in the context of the European semester. By implementing these measures, Slovenia will also respond to the common EU priorities of a fair green and digital transition, social and economic resilience, including the European Pillar of Social Rights, energy security and strengthening defence capabilities.

Table 7a: Links between reforms and measures and EU recommendations and priorities

	Recovery and Resilience Facility (RRF) / Partnership agreement (PS)	Country-specific recommendations (CSR)	Common priorities of the EU*
Pensions	RRF	CSR 2019 -2024	ii
Health	RRF PS	CSR 2019/1, 2020/1, 2021/3, 2022/1, 2023/1,	ii
Tax area		CSR	ii

		2022/1, 2023/1, 2024/1,	
Public sector – wage system	RRF		ii
Productivity (RDI, education, labour market, migration, capital markets, business environment)	RRF PS	CSR 2019/1, 2, 3 2020/1, 32023/3, 2024/3	ii
Green transition (energy, environment)	RRF	CSR 2019/3, 2020/3, 2021/3, 2022/1, 3, 2023/3,	i, iii
Digital tranistion	RRF PS	CSR 2019/1, 2020/3, 2021/3, 2023/3	i
Housing policy	RRF	CSR 2023	ii
Public finances		CSR 2024/1	
Defence			iv

Note: *Regulation (EU) 2024/1263 on effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 *(Article 13/c): Common Union priorities: (i) a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119; (ii) social and economic resilience, including the European Pillar of Social Rights; (iii) energy security; and (iv) strengthening defence capabilities, if necessary.*
Source: Ministry of Finance.

Table 7b: Links between the priority areas of the European Cohesion Policy Programme 2021–2027 and the country-specific recommendations for Slovenia

Prioriy areas of European Cohesion Policy Programme 2021-2027	Country-specific reommendations
Smarter Europe	CSR 2024/3 CSR 2021/3 CSR 2020/3 CSR 2019/3
Green Europe	CSR 2023/3 CSR 2022/3 CSR 2021/3 CSR 2020/3 CSR 2019/3
Connected Europe	CSR 2022/3 CSR 2020/3 CSR 2019/3
Social Europe	CSR 2024/1, 3 CSR 2023/3 CSR 2021/3 CSR 2020/1 CSR 2019/1
Europe, closer to its people	
Europe for just transition	CSR 2023/3 CSR 2022/3 CSR 2021/3 CSR 2020/3 CSR 2019/3

Source: Ministry of Finance.

7.1.2 Investments under the RRP

Slovenia will continue to take the necessary measures for the effective implementation of the RRP, with the aim of accelerating the absorption of the EU funds available under the Recovery and Resilience

Facility by 2026. In addition to implementation, the Government regularly monitors potential risks to the implementation of measures and investments.

Priority investments under the RRP include investments in health, flood safety, landslide rehabilitation, energy and sustainable renovation of buildings, for new renewable energy production installations, investments in training and response facilities for climate-related operational disasters, investments related to digital competence building, research and innovation projects, RDI projects in the circular economy, broadband network, and investments in the development of IT solutions in public administration. Key reforms are in the areas of pension legislation, wage legislation, the civil service system, health, education and public utility services of environmental protection.

In view of the changed circumstances affecting the achievement of milestones and targets, some investments are assessed to be subject to risks to their timely implementation.

Box 3: Assessment of the potential macroeconomic effects of the Slovenian RRP[14]

The RRP[15] foresees spending EUR 2.7 billion, of which EUR 1.61 billion will be in grants and EUR 1.07 billion in loans. The set of recovery and resilience measures has been significantly affected by the Russian military invasion of Ukraine, and the REPowerEU initiative to reduce dependence on Russian fossil fuels and accelerate the green transition has been adopted at the EU level and is included in the plan as an additional REPowerEU pillar. A total of EUR 122 million in grants is foreseen for Slovenia under this title in the period 2024–2026.

The macroeconomic effects of the RRP were estimated using the European Commission's QUEST III R&D[16] model calibrated for Slovenia. This is a dynamic stochastic general equilibrium (DSGE) model used by the European Commission to estimate the macroeconomic effects of various economic measures. The biggest challenge of the RRP simulations is the conversion of measures into model variables (shocks), which in some areas would require additional (microeconomic) analyses to be carried out. As most of the RRP measures can be classified as public (infrastructure) investment, we have developed a simplified simulation for which the full amount of funds is simulated as public investment. In assessing the impact of the RRP, we considered the realisation as of August 30, 2024 and the updated estimate of the spending up to the end of the eligibility period provided by the Recovery and Resilience Office of the Republic of Slovenia (Figure 14).

[14] The assessment was prepared by the Institute of Macroeconomic Analysis and Development of the Republic of Slovenia.

Literature and sources:

Bom. P. R, and Ligthart, J. E. (2014). What Have We Learned From Three Decades Of Research On The Productivity Of Public Capital?, 28(5); pp. 889–916.

Pfeiffer, P., Varga, J. and 't Veld, J. (2022). Quantifying spillovers of coordinated investment stimulus in the EU, 27/7; pp . 1843–1865.

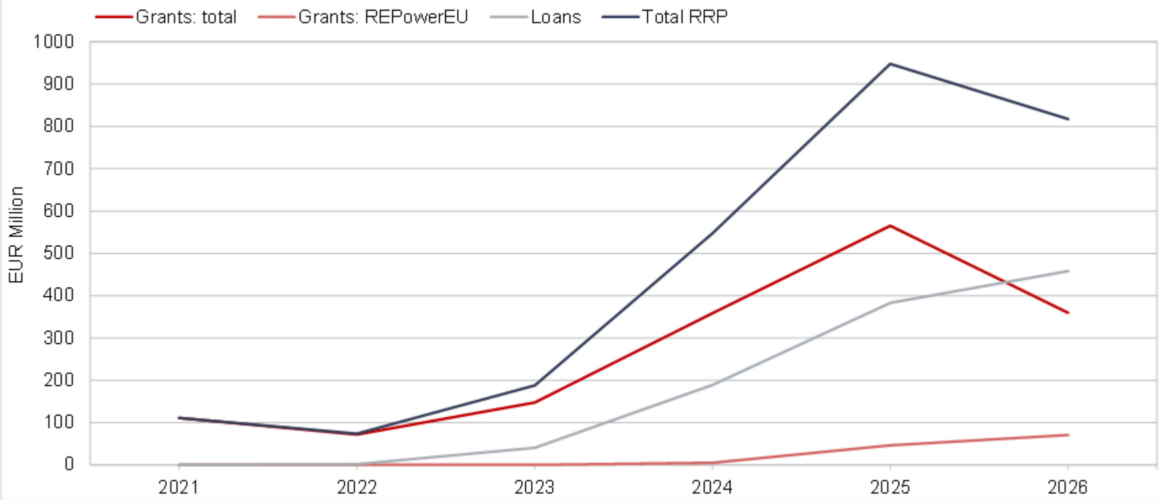
Pfeiffer, P., Varga, J. and 't Veld, J. (2023). Unleashing Potential: Model-Based Reform Benchmarking for EU Member States, 192. European Commission.

Roeger, W., Varga, J. and 't Veld, J. (2008). Structural Reforms in the EU: A simulation-based analysis using the QUEST model with endogenous growth. Brussels: Directorate-General for Economic and Financial Affairs, European Commission.

[15] The Recovery and Resilience Plan is a national programme of reforms and investments intended to mitigate the economic and social consequences of the COVID-19 pandemic in Slovenia. It serves as the basis for drawing the funds from the Recovery and Resilience Facility, which is financially the most extensive section of the European recovery and resilience instrument "NextGenerationEU". Since the endorsement of the Slovenian plan by the Council of the European Union in July 2021, circumstances have arisen which have significantly affected its implementation, and an adjustment of the Plan has been necessary. On 14 July 2023, the Government launched a formal dialogue with the European Commission to amend the Plan. On 17 October 2023, the Council of the European Union approved the positive assessment of the proposed amendment of the Plan given by the European Commission on 29 September 2023.

[16] A detailed description of the model and its calibration process can be found in Roeger et al. (2008).

Figure 14: Realised and planned RRP spending, by year



Source: The Recovery and Resilience Office of the Republic of Slovenia. Note: This takes into account the realisation up to the end of August 2024 and the estimated spending up to the end of the eligibility period.

The impact of public investment on GDP in the medium and long term depends crucially on the assumed value of the elasticity of output to public capital. This is one of the most important parameters in this analysis, for which estimates vary considerably in the empirical literature. In the simulations, we set the value of this parameter to 0.12, which is consistent with the average elasticity used in the analysis of Bom and Ligthart (2014), which is often used in the calibration of DSGE models. Following the approach of comparable analyses, we ran simulations with varying productivity levels of public capital in addition to the baseline simulation with an average productivity of 0.12. Specifically, we performed simulations assuming low (0.07) and high (0.17) productivity of public capital.

In running the simulations, we also made some other assumptions, in particular regarding fiscal and monetary policy. To ensure the sustainability of public finances, the model assumes a fiscal rule in the form of a lump-sum tax. In line with the fiscal rule, this responds to deviations of the debt-to-GDP ratio from the target and to the current deficit. For grants, the fiscal rule was completely excluded, while for loans it was temporary excluded for a shorter period (10 years), as these are long-term loans[17]. The short- and medium-term effects therefore only reflect the impact of the RRP measures, while the long-term effects also include the impact of the operation of the fiscal rule as defined. Additionally, we assumed that the ECB follows the Taylor rule in setting the interest rate[18].

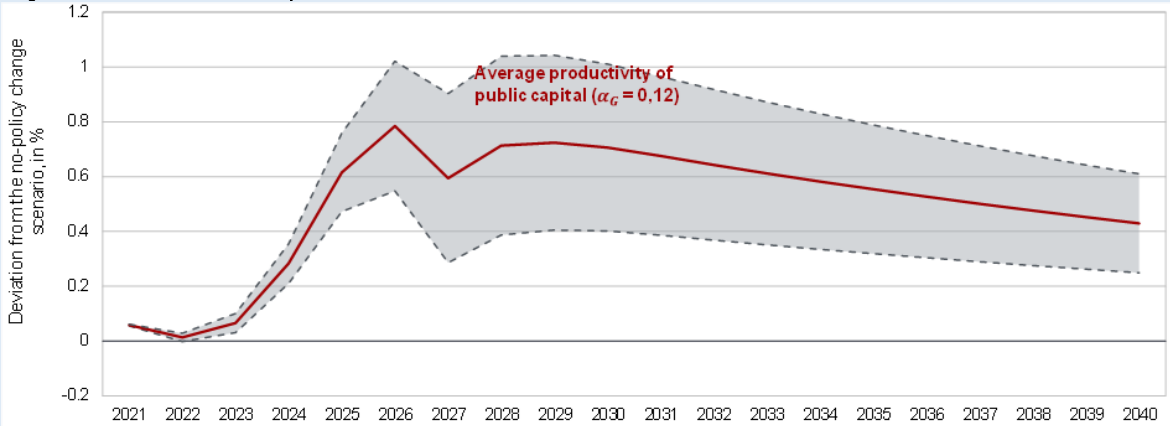
Model estimates suggest that the RRP could raise the level of Slovenian GDP by around 0.8% in 2026, when the effect would be the largest[19]. The simulations are based on a comparison of two scenarios, one taking into account the RRP measures and the other not. The positive effects of the RRP would be maintained even after the end of the measures, as the estimates show that Slovenian GDP could be higher by almost 0.6% per year on average between 2027 and 2040. This long-term effect is mainly due to the assumed productivity of public capital.

[17] The model estimates do not take into account the possible introduction of new levies at the EU level to repay the debt to finance the grants. The estimates also do not take into account Slovenia's contributions to the EU budget, which may be a perfectly acceptable assumption from the point of view of Slovenia's position.

[18] The Taylor rule is a reaction function of the central bank, which adjusts the interest rate in response to movements in inflation and the output gap.

[19] In addition to the assumption on the productivity of public capital, the magnitude of the effects is also influenced by certain characteristics of the Slovenian economy. The multiplier of a small open economy such as that of Slovenia is lower due to import dependency. The multiplier in the model also decreases as the initial share of public capital increases, which in Slovenia has historically been strengthened mainly thanks to cohesion funds. The magnitude of the effects is also influenced by the share of funds received in GDP and the dynamics of drawing by year, which is projected to increase towards the middle and end of the eligibility period, resulting in small short-term effects.

Figure 15: Estimated impact of RRP measures on Slovenian GDP



Source: QUEST III R&D model (2021). Note: The lower boundary of the shaded area shows the impact estimate assuming low (α_G = 0.07) and the upper boundary shows the impact estimate assuming high (α_G = 0.17) productivity of public capital.

For some reasons, an even larger impact can be expected. As we only have a basic version of the QUEST model, we have only been able to estimate the effects of investment measures in isolation, but given Slovenia's significant dependence on international trade flows, the implementation of other countries' plans can be expected to have significant positive spill-over effects on the Slovenian economy[20]. We can also expect that the strengthening of economic growth (especially in the long term) will be further boosted by the proposed reform measures, the effects of which are not currently considered. The model estimates by Pfeiffer et al. (2023) show that the reform measures could increase Slovenian GDP by more than 10% in the long term relative to the no-measures scenario by having an impact on the supply side of the economy, which is at the core of the European post-pandemic recovery plan.[21]. Positive effects on economic growth can also be expected from the implementation of the other mechanisms, which, in addition to the central Recovery and Resilience Facility, make up the "Next Generation EU" instrument.

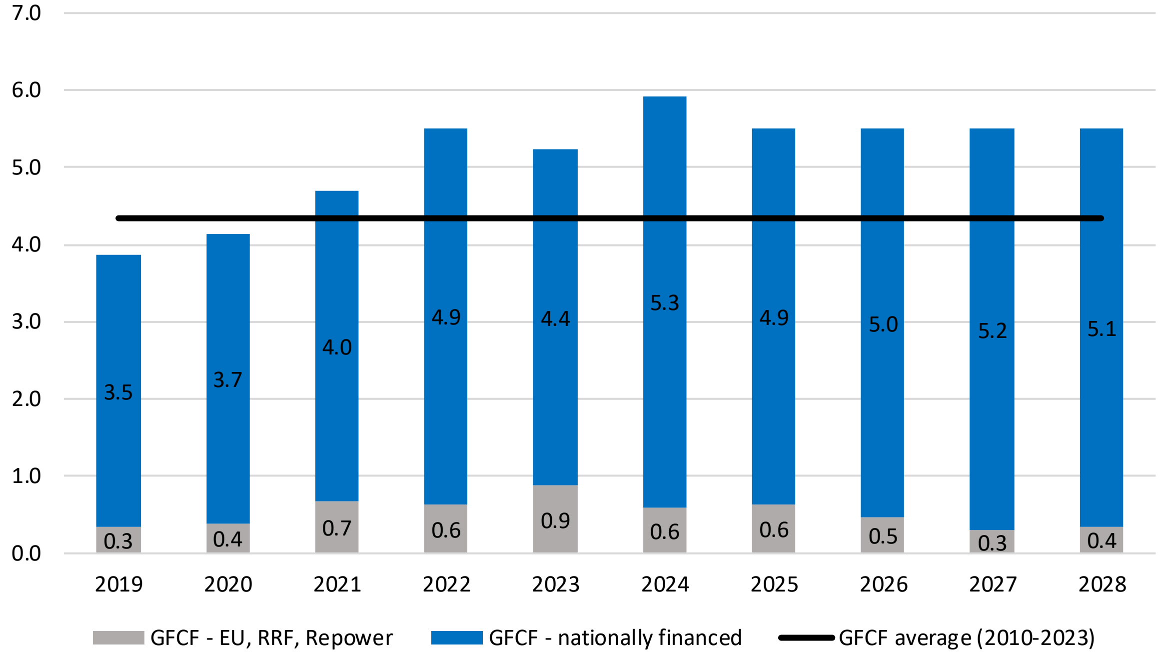
7.2 Investment needs

Over the plan period, a high share of gross fixed capital formation as a percentage of GDP is projected at around 5.5% of GDP (Figure 16). The share remains above the long-term average and in line with the EU recommendations. Investments will be earmarked for green transition purposes, including transport infrastructure (railways), environmental infrastructure, health and long-term care, housing policy, education and sport, culture, and a significant share will also be earmarked for security. Apart from the state budget, investments are also being made in a significant proportion by municipalities and other entities (companies such as Slovenian Railways, 2 TDK, etc.). EU funding represents only part of the total investment. In order to monitor and ensure the efficiency of public spending, the Internal Public Finance Control Service was established at the Ministry of Finance, and this will begin to address the shortcomings of the existing system of internal control of public finances next year. Proposals will be developed for systemic solutions in the area of internal control of public finances that will support the legality, purposefulness, efficiency and cost effectiveness of public spending. The main objective of the service is to strengthen the existing and establish additional internal control mechanisms to support the appropriate planning and implementation of projects and the monitoring of the effects of projects financed with budget funds, with an emphasis on integrity, responsibility, use of digital technologies and transparency. Thus, Slovenia also addresses country-specific recommendations (CSR 2024/1).

[20] This is suggested by the analysis carried out by Pfeiffer et al. (2022) using a more sophisticated version of the QUEST model.

[21] However, if reform measures are implemented simultaneously in all EU Member States, Slovenian GDP could be up to 20% higher in the long term compared to a no-measures scenario due to spill-over effects.

Figure 16: Gross fixed capital formation (general government) in % of GDP



Source: SORS, calculations of the Ministry of Finance.

- **Green transition.**

The **NECP** estimates the projected investment needs for the period 2021–2030. The plan foresees two scenarios of development with the introduction of additional measures. The first is a development scenario that takes into account the shift to renewable sources, and the second is a scenario in which the energy mix also relies on nuclear energy alongside renewable sources. As the inclusion of an additional nuclear power supply has been postponed to 2040, both scenarios are similar in the investment period 2021–2030.

The renovation of public buildings represents the fourth most important segment as a share of public investment. The renovation of the building stock is divided into the renovation of heating systems and the renovation of building envelopes. In this context, the state also seeks to attract private investors through energy partnerships.

The planned investments for the period 2021–2030 are expected to cost a total of EUR 56 billion. Private finance will be required to the maximum extent possible, and funding gaps will be covered by prioritising the use of available EU funds and funding through financial instruments and national resources. The planned financing model for the implementation of investments is based on the coordinated use of public grants, reimbursable public funds and funding sources provided by financial institutions and funds.

The sources of grants and reimbursable funds include cohesion funds, the Recovery and Resilience Facility, the Climate Change Fund, the Modernisation Fund, the Eco Fund, the Just Transition Fund, the Climate Social Fund, earmarked contributions (contribution to support the production of electricity from renewable energy sources, contribution for energy efficiency), revenues from the CO_2 levy and other funds from the national and municipal budgets, and revenues for the implementation of public service activities: network charges, road tolls, user charges, etc.

Planning and design of financial instruments (reimbursable funds, guarantees, capital injections) from cohesion funds and use of EU budget resources (InvestEU guarantee, European Green Deal Investment Plan (EGDIP), Just Transition Fund (JTF)) or use of European Investment Bank instruments with the necessary participation and contribution of the state budget for the implementation of financial engineering.

For the period 2021–2023, EUR 2.2 billion has already been invested in the green transition from public funds. The public funding needs over the plan period are estimated at around 4% of GDP. The largest share of public funds will be **required for investments in transport infrastructure (railways), part of the electricity network and investments in sustainable mobility**. Sustainable mobility includes the development of cycling infrastructure, multi-modal hubs, improvements to public transport infrastructure and improvements to pedestrian infrastructure.

Box 4: Model-based assessment of the potential macroeconomic effects of green investments by the general government sector

A simplified[22] estimate of the macroeconomic effects of general government green investments (mainly in rail infrastructure and sustainable mobility) was prepared using the European Commission's QUEST III R&D model, calibrated for Slovenia.

The simulation assumes an increase in general government investments of EUR 0.8 billion per year over the period 2024–2030. The value is based on the assumption that the potential volume of general government green investments over the period 2024–2030 would amount to around EUR 5.5 billion[23]. The impact of public investment on GDP in the medium and long term depends crucially on the assumed value of the elasticity of output to public capital. We assumed a value of 0.12, which is consistent with the average elasticity from the analysis by Bom and Ligthart (2014). In running simulations, we kept some other assumptions of the model: the fiscal rule to ensure the sustainability of public finances and the Taylor rule to guide monetary policy.

The additional investments by the general government could result in Slovenian GDP in 2030 being 1.2% higher than in the baseline scenario without measures[24]. Estimates suggest that the positive impact would be maintained even after the completion of the investment period. In the long term, Slovenian GDP could be around 0.7% higher than in the baseline scenario without measures. This long-term effect is mainly due to the assumed productivity of public capital.

Table 8: Impact on Slovenian GDP of an increase in public investment (as % deviation from the baseline scenario without measures), by year

	2024	2025	2026	2027	2028	2029	2030	2035	2040	2045
GDP	0.4	0.4	0.6	0.7	0.9	1.1	1.2	1.0	0.8	0.7

Source: QUEST III R&D model.

- **Defence**

For the defence sector, the Act on the Provision of Funds for Investments in the Slovenian Armed Forces in the Years 2021 to 2026 (Official Gazette of the RS, no.175/20) will provide EUR 780 million until 2026, or EUR 145 million per year. Investments are carried out in accordance with the annual plan and on the basis of the overall long-term development and equipping programme of the Slovenian Armed Forces and the medium-term defence programmes. NATO agreements are taken into account. In the years after 2026, the share of expenditure as a percentage of GDP will increase to 2% of GDP by 2030, within which 20% of defence expenditure will be allocated to investment, in accordance with the Resolution on the General Long-Term Programme for the Development and Equipping of the Slovenian Armed Forces until 2040 (Official Gazette of the Republic of Slovenia, no. 35/23). Investments will be in the areas of

[22] We simulated only the investment part of the environmental measures, while the assessment of environmental impacts goes beyond the purpose of this simulation and is also beyond the scope of the model's capabilities.
[23] Part of the investments will be financed from the RRP.
[24] The model parameters characterising the baseline scenario without measures are calibrated in the model based on the national accounts, fiscal and other macroeconomic data. Behavioural parameters determining the dynamic adjustment to shocks are based on the QUEST model estimates.

combat capabilities and their support, logistics, military infrastructure, command and control capabilities. Investments will also cover education and research.

Table 9: Investment needs

	Common priorities	Description of investment needs
1	A fair green and digital transition, integrated with compliance with European climate rules	Investments in transport infrastructure (railways), investments in sustainable mobility. Sustainable mobility includes the development of cycling infrastructure, multi-modal hubs, improvements to public transport infrastructure and improvements to pedestrian infrastructure. Investments in efficient energy use.
2	Social and economic resilience, including the European Pillar of Social Rights	Investments in health, long-term care and housing policy.
3	Energy security	Investments in energy interconnection, networks (part), to secure production capacity (solar power plants), for a just transition of coal regions
4	Strengthening defence capabilities, asf necessary	Investments combat capabilities and their support, logistics, military infrastructure, command and control capabilities.

Source: Ministry of Finance.

Table 9 covers selected priority areas and not all investment needs. In particular, those for which public co-financing is foreseen from grant and reimbursable sources (financial levers) are included. It is important that they have an impact on efficiency and raise potential GDP.

8 Information on implicit and contingent liabilities

The balance of guarantees of the Republic of Slovenia as of 30 June 2024 was EUR 3,967.6 million, of which the balance of government guarantees for the liabilities of the financial sector (S. 12) was EUR 669 million. The balance of guarantees of the Republic of Slovenia from the end of 2024 to 2028 was prepared on the basis of certain assumptions relating to the repayment of existing guarantees and approvals of new ones.

Table 10: Share of government guarantees in GDP (%)

	2024 (% GDP)	2025 (% GDP)	2026 (% GDP)	2027 (% GDP)	2028 (% GDP)
Public guarantees	5.8%	6.1%	5.8%	6.0%	5.7%
Of which: linked to the financial sector*	1.0%	0.9%	0.9%	0.9%	0.9%

Note: * In accordance with SKIS classification, legal entities with a SKIS mark S.12 are included.
Source: Calculations of the Ministry of Finance.

The quota of new guarantees is planned in the Implementation of the Republic of Slovenia Budget Act. For 2024 and 2025, a quota of EUR 1,400 million for each year is foreseen. A quota for guarantees of the SID Bank in the amount of EUR 350 million is determined for each year separately.

In 2024, a government guarantee of EUR 250 million is in the process of being issued to 2TDK d.d. on the basis of the Act regulating the guarantee of the Republic of Slovenia for the obligations of 2TDK d.o.o. for loans and debt securities contracted or issued to finance the construction of the second track of the Divača–Koper railway line, and for the obligations of DARS d.d. for loans and debt securities contracted or issued to finance the construction of part of the 3rd development axis (Official Gazette of the Republic of Slovenia, no. 81/19). On the basis of the Act regulating the guarantee of the Republic of Slovenia for the obligations of DARS d.d. for loans and debt securities contracted or issued to finance the motorway projects up to EUR 392.44 million (Official Gazette of the Republic of Slovenia, no. 54/22), the Act on the Housing Guarantee Scheme for Youth (Official Gazette of the Republic of Slovenia, no. 54/22) and the Act on Reconstruction, Development and the Provision of Financial Resources (Official Gazette of the Republic of Slovenia, no. 131/23 and 81/24), no government guarantees were issued in the year 2024 up to 31 August 2024.

The possibility of redeeming government guarantees is estimated at EUR 10 million for 2024, EUR 10 million for 2025 and EUR 5.6 million for 2026. Specifically, for the Pan-European Guarantee Fund liabilities, EUR 1.1 million is planned in 2024, EUR 0.6 million in 2025 and EUR 0.6 million in 2026.

Pursuant to the Act Regulating Guarantee of the Republic of Slovenia for Liabilities under the Long-Term Loan of 440 Million Euros Made to Termoelektrarna Šoštanj, d.o.o. by the European Investment Bank for Financing Termoelektrarna Šoštanj 600 MW Replacement Unit-6 Installation Project (Official Gazette of the Republic of Slovenia, no. 58/12), Slovenia signed a guarantee agreement with the European Investment Bank for a loan of EUR 440 million to Termoelektrarna Šoštanj in December 2012. As of 30 June 2024, the outstanding principal balance of the government guarantee for the liabilities of Termoelektrarna Šoštanj towards the European Investment Bank amounts to EUR 286.5 million. Termoelektrarna Šoštanj makes regular principal and interest payments to the European Investment Bank, semi-annually in March and September. It also pays the Republic of Slovenia a regular premium for the guarantee issued, 1.25% per year, based on the outstanding principal balance.

Appendices

Appendix 1 – European Commission reference trajectory

Table 11: European Commission reference trajectory and Ministry of Finance calculations

For a plan without extension, European Commission	2024	2025	2026	2027	2028	Average 2025-2028
Net nationally financed primary expenditure (growth in %)	5.6	4.9	4.5	4.3	4.2	4.4
Structural primary balance (% pot. GDP)	-1.2	-0.8	-0.4	0.1	0.5	-0.1
Fiscal effort (change in SPB in pp. of. pot. GDP)		0.44	0.44	0.44	0.44	0.44
For a plan without extension, Ministry of Finance	**2024**	**2025**	**2026**	**2027**	**2028**	**Average 2025-2028**
Net nationally financed primary expenditure (growth in %)	6.2	5.6	4.4	4.1	4.0	4.5
Structural primary balance (% pot. GDP)	-1.3	-0.9	-0.4	0.0	0.5	-0.2
Fiscal effort (change in SPB in pp. of. pot. GDP)		0.44	0.44	0.44	0,44	0.44

Source: European Commission, calculations of the Ministry of Finance.

The slightly higher average growth of nationally financed net primary expenditure in the calculations of the Ministry of Finance is mainly due to the higher estimated GDP deflator for 2025 (IMAD Autumn Forecast of Economic Trends 2024). The Ministry of Finance's calculations also project higher SFA balances in 2024 and 2025 (-0.9% and -0.8% of GDP respectively). The fiscal commitment in the form of average growth in net expenditure implies a higher-than-average effort at the beginning of the period (cessation of recourse to one-off expenditures). Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 does not prohibit this, as point c in Article 6 states that the fiscal adjustment effort should be linear as a rule, but not necessarily.

Table 12: Key fiscal, macroeconomic and financial variables, European Commission and calculations of the Ministry of Finance

	EC	EC	MoF*	MoF
Fiscal	**2023**	**2024**	**2023**	**2024**
Headline balance (% GDP)	-2.5	-2.8	-2.6	-2.9
Gross debt (% GDP)	69.2	68.1	68.4	67.5
Structural primary balance (% of pot. GDP)	-1.6	-1.2	-1.8	-1.3
Key variables for plan without extension	**Assumption**	**Period**	**Assumption**	**Period**
Change in cost of ageing (in pp. of GDP	1.6	2028-2038	1.6	2028-2038
SFA (% GDP)	0.0	2025-2038; average	0.0	2025-2038; average
Real GDP growth (in %)	2.2	2025-2038; average	2.1	2025-2038; average
Inflation (% change in the GDP deflator)	2.7	2025-2038; average	2.6	2025-2038; average
Nominal implicit interest rate	2.7	2025-2038; average	2.7	2025-2038; average

Note: *considered GDP revision (30 August 2024) as well as the revision for the general government sector (25 September 2024) by SURS and the IMAD Autumn Forecast of Economic Trends 2024.
Source: European Commission, calculations of the Ministry of Finance.

Appendix 2 – More detailed presentation of the variables used in the debt projection

Table 13a: Debt and headline balance projections and key underlying assumptions (under the planned fiscal path)

				2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
1	Gross debt	Table 4, line 35	(% GDP)	68.4	67.5	65.4	64.2	62.8	61.2	59.5	57.9	56.6	55.7	55.0	54.6	54.5	54.6	54.9	55.6
2	General government balance	Table 4, line 31	(% GDP)	-2.6	-2.9	-2.6	-1.9	-1.6	-1.2	-1.3	-1.4	-1.5	-1.6	-1.8	-2.0	-2.2	-2.4	-2.6	-2.8
3	Structural primary balance	Table 4, line 34	(% GDP)	-1.8	-1.3	-0.9	-0.4	0.0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
4	Cyclical component		(% GDP)	-1.0	-0.4	-0.2	0.0	0.2	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	One-off measures		(% GDP)	-0.5	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	Interest expenditure	Table 4, line 14	(% GDP)	1.2	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.6	1.6	1.7
7	Long-term interest rate	Table 3, line 1	(%)	3.4	3.0	3.1	3.1	3.2	3.3	3.3	3.4	3.5	3.5	3.6	3.7	3.7	3.7	3.7	3.7
8	Short-term interest rate	Table 3, line 2	(%)	3.4	3.2	2.4	2.4	2.4	2.5	2.5	2.6	2.6	2.6	2.7	2.7	2.7	2.6	2.6	2.6
9	Implicit average interest rate	Table 4, line 44	(%)	1.9	2.1	2.2	2.2	2.3	2.4	2.5	2.5	2.6	2.7	2.8	2.9	2.9	3.0	3.1	3.1
10	Stock-flow adjustment	Table 4, line 43	(% GDP)	1.1	-0.9	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	Potential GDP	Table 2, line 26	(growth rate)	2.9	2.9	2.8	2.4	2.2	2.1	2.2	2.2	2.2	2.2	2.1	2.2	2.0	1.9	1.9	1.8
12	Real GDP	Table 2, line 1	(growth rate)	2.1	1.5	2.4	1.9	1.9	1.9	2.4	2.4	2.4	2.2	2.1	2.2	2.0	1.9	1.9	1.8
13	GDP deflator	Table 2, line 2	(growth rate)	10.1	3.0	3.7	2.9	2.9	2.8	2.7	2.7	2.6	2.5	2.5	2.4	2.4	2.4	2.3	2.3
14	Nominal GDP	Table 2, line 3	(growth rate)	12.4	4.5	6.1	4.9	4.8	4.8	5.2	5.2	5.1	4.7	4.7	4.6	4.5	4.3	4.3	4.1

Source: MoF calculations.

Table 13b: Debt projections and key stressed variables, deterministic scenarios and stochastic simulations

	Financial stress scenario			2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
1	Gross debt	Table 4, line 35	(% GDP)	68.4	67.5	65.4	64.2	62.8	61.2	59.5	58.0	56.7	55.8	55.2	54.8	54.7	54.9	55.2	55.8
2	Long-term interest rate	Table 3, line 1	(%)	3.4	3.0	3.1	3.1	3.2	3.3	4.3	3.4	3.5	3.5	3.6	3.7	3.7	3.7	3.7	3.7
3	Short-term interest rate	Table 3, line 2	(%)	3.4	3.2	2.4	2.4	2.4	2.5	3.5	2.6	2.6	2.6	2.7	2.7	2.7	2.6	2.6	2.6
	Lower SPB scenario			2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
4	Gross debt	Table 4, line 35	(% GDP)	68.4	67.5	65.4	64.2	62.8	61.2	59.5	58.4	57.6	57.2	57.0	57.1	57.4	58.0	58.9	60.0
5	Structural primary balance	Table 4, line 34	(% GDP)	-1.8	-1.3	-0.9	-0.4	0.0	0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Adverse 'r-g' scenario			2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
6	Gross debt	Table 4, line 35	(% GDP)	68.4	67.5	65.4	64.2	62.8	61.2	59.8	58.6	57.6	57.0	56.7	56.6	56.9	57.4	58.2	59.2
7	Long-term interest rate	Table 3, line 1	(%)	3.4	3.0	3.1	3.1	3.2	3.3	3.8	3.9	4.0	4.0	4.1	4.2	4.2	4.2	4.2	4.2
8	Short-term interest rate	Table 3, line 2	(%)	3.4	3.2	2.4	2.4	2.4	2.5	3.0	3.1	3.1	3.1	3.2	3.2	3.2	3.1	3.1	3.1
9	Real GDP	Table 2, line 1	(growth rate)	2.1	1.5	2.4	1.9	1.9	1.9	1.9	1.9	1.9	1.7	1.6	1.7	1.5	1.4	1.4	1.3
10	Potential GDP	Table 2, line 26	(growth rate)	2.9	2.9	2.8	2.4	2.2	2.1	1.7	1.7	1.7	1.7	1.6	1.7	1.5	1.4	1.4	1.3
	Stochastic simulations																		
11	Probability of debt being below its value in T+4/7		(%)	70.8															

Source: MoF calculations.

Table 13c: Debt and headline balance projections and underlying assumptions (under 'no-fiscal-policy-change' baseline)

				2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
1	Gross debt	Table 4, line 35	(% GDP)	68.4	67.5	65.6	65.2	65.3	65.9	66.5	67.3	68.4	69.8	71.5	73.3	75.5	77.9	80.6	83.5
2	General government balance	Table 4, line 31	(% GDP)	-2.6	-2.9	-3.1	-2.8	-3.1	-3.5	-3.7	-4.0	-4.2	-4.5	-4.8	-5.0	-5.3	-5.6	-5.8	-6.1
3	Structural primary balance	Table 4, line 34	(% GDP)	-1.8	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
4	Cyclical component		(% GDP)	-1.0	-0.4	-0.3	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	Interest expenditure	Table 4, line 14	(% GDP)	1.2	1.4	1.4	1.4	1.4	1.5	1.6	1.7	1.7	1.8	1.9	2.0	2.2	2.3	2.4	2.5
6	Long-term interest rate	Table 3, line 1	(%)	3.4	3.0	3.1	3.1	3.2	3.3	3.3	3.4	3.5	3.5	3.6	3.7	3.7	3.7	3.7	3.7
7	Short-term interest rate	Table 3, line 2	(%)	3.4	3.2	2.4	2.4	2.4	2.5	2.5	2.6	2.6	2.6	2.7	2.7	2.7	2.6	2.6	2.6
8	Implicit average interest rate	Table 4, line 44	(%)	1.9	2.1	2.2	2.2	2.3	2.4	2.5	2.6	2.7	2.8	2.9	3.0	3.1	3.2	3.2	3.3
9	Potential GDP	Table 2, line 26	(growth rate)	2.9	2.9	2.8	2.4	2.2	2.1	2.2	2.2	2.2	2.2	2.1	2.2	2.0	1.9	1.9	1.8
10	Real GDP	Table 2, line 1	(growth rate)	2.1	1.5	2.7	2.1	2.0	1.9	2.2	2.2	2.2	2.2	2.1	2.2	2.0	1.9	1.9	1.8
11	GDP deflator	Table 2, line 2	(growth rate)	10.1	3.0	3.7	2.9	2.9	2.8	2.7	2.7	2.6	2.5	2.5	2.4	2.4	2.4	2.3	2.3
12	Nominal GDP	Table 2, line 3	(growth rate)	12.4	4.5	6.5	5.1	4.9	4.8	5.0	5.0	4.9	4.7	4.7	4.6	4.5	4.3	4.3	4.1
13	Fiscal multiplier		(%)	0.75															

Source: MoF calculations.

Table 13d: Debt projections and additional assumptions (under the planned fiscal path)

				2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
1	Gross debt	Table 4, line 35	(% GDP)	68.4	67.5	65.4	64.2	62.8	61.2	59.5	57.9	56.6	55.7	55.0	54.6	54.5	54.6	54.9	55.6
2	Rolled over long-term debt		(% GDP)	1.9	3.5	3.5	3.5	3.4	3.4	3.4	3.3	3.3	3.2	3.2	3.2	3.2	3.2	3.2	3.2
3	Rolled over short-term debt		(% GDP)	1.4	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
4	New long-term debt		(% GDP)	3.6	1.9	1.8	1.8	1.5	1.2	1.3	1.4	1.4	1.6	1.8	1.9	2.1	2.3	2.5	2.7
5	New short-term debt		(% GDP)	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1

Source: MoF calculations.