Council of the European Union

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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Slovenia

Delegations will find attached the above-mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalized by the Economic and Financial Committee, based on the Commission Proposal COM(2025) 224 final.

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Slovenia

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(2) and Article 148(4) thereof,

Having regard to 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[1], and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

[1] OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

Whereas:

General considerations

(1) Regulation (EU) 2024/1263, which entered into force on 30 April 2024, specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the TFEU. The European Semester includes, in particular, the formulation, and the surveillance of the implementation of country-specific recommendations. The Regulation also promotes national ownership of fiscal policy and emphasises its medium-term focus, combined with more effective and coherent enforcement. Each Member State must submit to the Council and the Commission a national medium-term fiscal-structural plan, containing its fiscal, reform and investment commitments, over 4 or 5 years, depending on the length of the national legislative term. The net expenditure[2] path in these plans has to comply with the Regulation's requirements, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60% of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3%-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in the Regulation, the adjustment period may be extended by up to three years.

[2] Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: 'net expenditure' means government expenditure net of (i) interest expenditure; (ii) discretionary revenue measures; (iii) expenditure on programmes of the Union fully matched by revenue from Union funds; (iv) national expenditure on co-financing of programmes funded by the Union; (v) cyclical elements of unemployment benefit expenditure; and (vi) one-offs and other temporary measures.

(2) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility (the 'RRF'), entered into force on 19 February 2021. The RRF provides financial support to Member States for implementing reforms and investments, delivering a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the RRF fosters economic and social recovery while driving sustainable reforms and investments, in particular promoting the green and digital transitions and making Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights.

(3) Regulation (EU) 2023/435 of the European Parliament and of the Council[4] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This helps achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Slovenia added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

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3 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

4 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1, ELI: http://data.europa.eu/eli/reg/2023/435/oj).

(4) On 30 April 2021, Slovenia submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of that Regulation, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V. On 20 July 2021, the Council adopted its Implementing Decision approving the assessment of the recovery and resilience plan for Slovenia[5], which was amended under Article 18(2) on 16 October 2023 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[6]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5), stating that Slovenia has satisfactorily achieved the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory achievement requires that the achievement of preceding milestones and targets for the same reform or investment has not been reversed.

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[5] Council Implementing Decision of 20 July 2021 on the approval of the assessment of the recovery and resilience plan for Slovenia (ST 10612/21).

[6] Council Implementing Decision of 16 October 2023 amending the Implementing Decision of 20 July 2021 on the approval of the assessment of the recovery and resilience plan for Slovenia (ST 13615/1/23).

(5) On 21 January 2025, the Council, upon the recommendation of the Commission, adopted a recommendation endorsing the national medium-term fiscal-structural plan of Slovenia[7]. The plan was submitted in accordance with Article 11 and Article 36(1), point (a), of Regulation (EU) 2024/1263, covers the period from 2025 until 2028 and presents a fiscal adjustment spread over four years.

(6) On 26 November 2024, the Commission adopted an opinion on the 2025 draft budgetary plan of Slovenia. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2025 Alert Mechanism Report, in which it did not identify Slovenia as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2025 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[8] on 13 May 2025 and the Joint Employment Report on 10 March 2025.

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[7] Council Recommendation endorsing the national medium-term fiscal-structural plan of Slovenia, ST 5028/25.

[8] Council Recommendation of 13 May 2025 on the economic policy of the euro area (OJ C, C/2025/2782, 22.5.2025, ELI: http:// data.europa.eu/eli/C/2025/2782/oj).

(7) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the EU's global competitiveness over the next five years. It identifies the three transformative imperatives of sustainable economic growth: (i) innovation; (ii) decarbonisation and competitiveness; and (iii) security. To close the innovation gap, the EU aims to foster industrial innovation, support the growth of start-ups through initiatives like the EU Start-up and Scale-up Strategy, and promote the adoption of advanced technologies like artificial intelligence and quantum computing. In pursuit of a greener economy, the Commission has outlined a comprehensive Affordable Energy Action Plan and a Clean Industrial Deal, ensuring that the shift to clean energy remains cost-effective, competitiveness-friendly, particularly for energy-intensive sectors, and is a driver for growth. To reduce excessive dependencies and increase security, the Union is committed to strengthening global trade partnerships, diversifying supply chains and securing access to critical raw materials and clean energy sources. These priorities are underpinned by horizontal enablers, namely regulatory simplification, deepening of the single market, financing competitiveness and a Savings and Investments Union, promotion of skills and quality jobs, and better coordination of EU policies. The Competitiveness Compass is aligned with the European Semester, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

(8) In 2025, the European Semester for economic policy coordination continues to develop alongside the implementation of the RRF. The full implementation of the recovery and resilience plans remains essential for delivering on the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. These country-specific recommendations remain equally relevant for the assessment of amended recovery and resilience plans in accordance with Article 21 of Regulation (EU) 2021/241.

(9) The 2025 country-specific recommendations cover the key economic policy challenges that are not sufficiently addressed by measures included in the recovery and resilience plans, taking into account the relevant challenges identified in the 2019−2024 country-specific recommendations.

(10) On 4th of June 2025, the Commission published the 2025 country report for Slovenia. It assessed Slovenia's progress in addressing the relevant country-specific recommendations and took stock of Slovenia's implementation of the recovery and resilience plan. Based on this analysis, the country report identified the most pressing challenges Slovenia is facing. It also assessed Slovenia's progress in implementing the European Pillar of Social Rights and in achieving the Union's 2030 headline targets on employment, skills and poverty and social exclusion reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

Assessment of the Annual Progress Report

(11) On 21 January 2025 the Council recommended the following maximum growth rates of net expenditure for Slovenia: 5.6% in 2025, 4.4% in 2026, 4.1% in 2027, and 4.0% in 2028, which correspond to the maximum cumulative growth rates calculated by reference to 2023 of 12.1% in 2025, 17.0% in 2026, 21.8% in 2027, and 26.6% in 2028. On 28 April 2025 Slovenia submitted its Annual Progress Report[9], on adherence to the recommended maximum growth rates of net expenditure and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Slovenia's biannual reporting on the progress made in achieving its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(12) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission recommended to activate the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending and this proposal was welcomed by the European Council of 6 March 2025. Following the request of Slovenia on 29 April 2025, on [date; OJ: please insert here as date 8 July 2025] the Council, upon the recommendation of the Commission, adopted a recommendation allowing Slovenia to deviate from, and exceed, the recommended maximum growth rates of net expenditure[10].

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[9] The 2025 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en.

[10] Council recommendation allowing Slovenia to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), OJ [OJ: please insert in this footnote the reference and date of adoption of Council Recommendation contained in document ST 10477/25].

(13) Based on data validated by Eurostat[11], Slovenia's general government deficit decreased from 2.6% of GDP in 2023 to 0.9% in 2024, while the general government debt fell from 68.4% of GDP at the end of 2023 to 67.0% at the end of 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 4.5% in 2024. In the Annual Progress Report, Slovenia estimates the net expenditure growth in 2024 also at 4.5%. Based on the Commission's estimates, the fiscal stance[12], which includes both nationally and EU financed expenditure, was contractionary, by 1.1% of GDP, in 2024.

(14) According to the Annual Progress Report, the macroeconomic scenario underpinning the budgetary projections by Slovenia expects real GDP growth at 2.1% in 2025 and 2.4% in 2026, while HICP inflation is projected at 2.3% in 2025 and 2.3% in 2026. The Commission Spring 2025 Forecast projects real GDP to grow by 2.0% in 2025 and 2.4% in 2026, and HICP inflation to stand at 2.1% in 2025 and 1.9% in 2026.

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[11] Eurostat-Euro Indicators, 22.4.2025.

[12] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

(15) In the Annual Progress Report, the general government deficit is expected to increase to 1.9% of GDP in 2025, while the general government debt-to-GDP ratio is set to decrease to 66.0% by the end of 2025. These developments correspond to net expenditure growth of 5.3% in 2025. The Commission Spring 2025 Forecast projects a general government deficit of 1.3% of GDP in 2025. The increase of the deficit in 2025 mainly reflects lower property income and higher compensation of employees due to the phasing in of the public sector wage reform. According to the Commission's calculations, these developments correspond to a net expenditure growth of 4.6% in 2025. These lower projections of net expenditure growth than in the Annual Progress Report and the difference between the general government balance projected by Commission and Slovenia are mostly due to a lower projection of gross fixed capital formation and different assessment of discretionary revenue measures. The Commission also projects higher revenue from taxes on production and imports and from social contributions that further explain the difference between the general government balance as projected by Commission and Slovenia. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be expansionary, by 0.3% of GDP, in 2025. The general government debt-to-GDP ratio is set to decrease to 65.5% by the end of 2025.

(16) General government expenditure amounting to 0.9% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 0.3% of GDP in 2024, according to the Commission Spring 2025 Forecast. Expenditure financed by Recovery and Resilience Facility non-repayable support enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Slovenia.

(17) General government defence expenditure in Slovenia remained stable at 1.2% of GDP between 2021 and 2023[13]. According to the Commission Spring 2025 Forecast, expenditure on defence is projected at 1.4% of GDP in 2024 and 1.6% of GDP in 2025. This corresponds to an increase of 0.4 percentage points of GDP compared to 2021. The period when the national escape clause is activated (2025-2028) allows Slovenia to reprioritise government expenditure or increase government revenue so that lastingly higher defence expenditure would not endanger fiscal sustainability in the medium term.

(18) According to the Commission Spring 2025 Forecast, net expenditure in Slovenia is projected to grow by 4.6% in 2025 and 9.3% cumulatively in 2024 and 2025. Based on the Commission Spring 2025 Forecast, the net expenditure growth of Slovenia in 2025 is projected to be below the recommended maximum growth rate, both annually and when considering 2024 and 2025 together.

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[13] Eurostat, government expenditure by classification of functions of government (COFOG). Due to methodological differences between the COFOG and NATO definitions, expenditure based on the COFOG definition may differ from the expenditure based on the NATO definition.

(19) The Annual Progress Report does not include budgetary projections beyond 2025. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2025 Forecast projects a government deficit of 1.5% of GDP in 2026. The increase of the deficit in 2026 mainly reflects higher compensation of employees. These developments correspond to net expenditure growth of 7.0% in 2026. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be expansionary, at 0.8% of GDP, in 2026. The general government debt-to-GDP ratio is projected by the Commission to decrease to 63.8% by the end of 2026.

Key policy challenges

(20) Although Slovenia's tax-to-GDP ratio remains below the EU average, its composition is not very growth-friendly. The top personal income tax bracket and the labour tax wedge[14] for a single person for various income levels remain among the highest in the EU. At the same time, property taxes, including recurrent property taxes, remain very low, with a share below half the EU average. Reducing the labour tax wedge would bring down labour costs, boost labour demand and improve competitiveness. Moreover, higher net wages could increase labour supply. Although the share of environmental tax revenue is above the EU average, the tax system could be used to further promote green objectives, including by applying the 'polluter pays' principle.

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[14] The tax wedge is defined as the sum of personal income taxes and employee and employer social security contributions net of family allowances, expressed as a percentage of total labour costs.

(21) A substantial increase in ageing costs is projected for Slovenia, resulting in increases in spending on healthcare, long-term care and pension systems in the coming decades. The recovery and resilience plan already contains several measures to support the fiscal sustainability of these systems and the introduction of a review clause in the Long-Term Care Act can be considered a major improvement. Beyond the plan, it would nevertheless be important to monitor spending to ensure the adequacy and fiscal sustainability of social protection as many elements of the above systems are still not finalised and the economic environment is in constant flux. Spending reviews are recognised as a useful tool for identifying areas of lower priority or inefficient spending and the savings made as a result could be reallocated to address new fiscal challenges in defence, and the digital and green transformations and for closing the innovation gap where expenditure will have to be sustained at a higher level.

(22) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, finalising the effective implementation of the recovery and resilience plan including the REPowerEU chapter, is essential to boost Slovenia's long-term competitiveness through the green and digital transitions, while ensuring social fairness. To deliver on the commitments of the recovery and resilience plan by August 2026, it is essential for Slovenia to accelerate the implementation of reforms and investments by addressing relevant challenges. Investments are highly concentrated towards the end of the implementation period, which could create significant capacity challenges at various levels. This therefore merits special attention. The systematic involvement of local and regional authorities, social partners, civil society organisations and other relevant stakeholders remains essential to ensure broad ownership for the recovery and resilience plan to be successfully implemented.

(23) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF), and the European Social Fund Plus (ESF+) and the Cohesion Fund (CF), has accelerated in Slovenia. It is important to continue efforts to ensure the swift implementation of these programmes, while maximising their impact on the ground. Slovenia is already taking action under its cohesion policy programmes to boost competitiveness and growth while enhancing social cohesion. At the same time, Slovenia continues to face challenges, including the need to enhance competitiveness by focusing on innovation, including by developing and manufacturing critical technologies, as well as challenges related to the energy transition, water resilience and housing, which are especially relevant to urban centres and areas facing high tourism, skills shortages and mismatches, including in relation to digital and green skills, the labour market integration of migrant workers and vulnerable groups, deinstitutionalisation and development of quality, adequate and affordable community-based social services. In accordance with Article 18 of Regulation (EU) 2021/1060, Slovenia is required – as part of the mid-term review of the cohesion policy funds – to review each programme taking into account, among other things, the challenges identified in the 2024 country-specific recommendations. The Commission proposals adopted on 1 April 2025[15] extend the deadline for submitting an assessment – for each programme – of the outcome of the mid-term review beyond 31 March 2025. They also provide flexibilities to help speed up programme implementation and incentives for Member States to allocate cohesion policy resources to five strategic priority areas of the Union, namely competitiveness in strategic technologies, defence, housing, water resilience and energy transition, and to investments in skills in priority sectors while maintaining the focus on persons in most vulnerable situations in ESF+ programmes.

[15] Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review − COM(2025) 123 final.

(24) The Strategic Technologies for Europe Platform (STEP) provides the opportunity to invest in a key EU strategic priority by strengthening the EU's competitiveness. STEP is channelled through 11 existing EU funds. Member States can also contribute to the InvestEU programme supporting investments in priority areas. Slovenia could make optimal use of these initiatives to support the development or manufacturing of critical technologies, including clean and resource-efficient technologies.

(25) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Slovenia should effectively address the remaining challenges related to the energy sector, sustainable transport, climate resilience and environment, business environment, competitiveness and labour shortages.

(26) As set in the Competitiveness Compass, all the EU, national, and local institutions must make a major effort to produce simpler rules and to accelerate the speed of administrative procedures. The Commission has set ambitious goals for reducing administrative burden: by at least 25% and by at least 35% for SMEs; and has created new tools to achieve these goals, including systematic stress test of the stock of EU legislation and enhanced stakeholders' dialogue. To match this ambition, Slovenia also needs to take action. 67% of businesses consider the complexity of administrative procedures to be a problem for their company when doing business in Slovenia[16] Regulatory hurdles in certain sectors remain higher than in the rest of the EU. Reducing regulatory barriers in the professional services sector would make entry into this sector easier and may improve quality and lower prices as well as help achieve the EU's simplification goals. In particular, the legal profession is more strictly regulated than in other EU countries. With tightness in the labour market expected to persist as the population ages, restrictions in these professions negatively affect economic activity and can constrain growth in the long term. Slovenia is one of the most restrictive Member States for trade in services based on the OECD trade restrictiveness index.

16 'Businesses' attitudes towards corruption in the EU' Flash Report, Eurobarometer Report (April 2024)

(27) Slovenia's business dynamism has weakened over recent years. The creation of new companies, and the winding-down of inefficient companies, is important so resources can be reallocated efficiently to more productive uses and more innovative products and services. Until 2020, the entry and exit of companies from the market was higher than the EU average, reflecting a strong ability to adjust to new opportunities, but a slowdown has been noticeable in recent years, due, in particular, to a decline in the exit rate of companies. While the exit of companies from the market cannot be seen as an objective in itself, measures to protect the existing production structure should not be excessive. Additional birth and growth of new companies could help to increase the productivity and competitiveness of the economy.

(28) Slovenian companies mainly rely on bank loans and are rarely able to tap the financial markets for bond or equity funding. At the end of 2023, the share of bank loans in all funding sources of non-financial corporations in Slovenia was similar to the EU average, but the share of listed shares and bonds was only a third of the EU average. More capital other than loans would allow companies in Slovenia to undertake more ambitious, development-oriented investments with higher risk. In particular, venture capital investment relative to GDP is among the lowest in the EU, hindering the growth of start-up companies. Institutional investors do not participate sufficiently in these markets. Slovenia has taken legislative measures to improve conditions, notably for mobilizing savings of retail investors by establishing a comprehensive tax-advantaged framework for retail participation in capital markets. However, further improving the conditions for equity funding and venture capital, such as by encouraging pension fund investment, and investment of household savings through the individual investment accounts, could help attract more foreign capital and help innovative start-ups to scale up.

(29) According to the 2024 European Innovation Scoreboard[17], Slovenia's innovation performance remained slightly below the EU average in 2024 and improved less than the EU average between 2017 and 2024. In Slovenia, public research expenditure, non-research innovation expenditure by companies and innovation expenditure per employee are still relatively low. To reach its own objective of becoming a leading innovator by 2030, Slovenia would need to accelerate its R&D investment in line with the commitments made in its RDI strategy under its recovery and resilience plan. Implementing relevant legislation fully and rapidly could provide a good basis for research investment and help enable this goal to be reached.

(30) Based on the Commission's business confidence survey[18], business managers in Slovenian industry have been reporting labour shortages as a major factor limiting economic activity since mid-2021. Vacancy rates are close to the EU average. With the labour market expected to remain tight, the overall skills mismatch is a concern. The skills available do not meet the demand in the labour market. In 2024, job vacancy rates in key sectors such as industry, construction and services remained high, although these decreased compared to the previous year. Almost half of all employers faced difficulties in hiring suitable workers, including among vocationally and notably post-secondary-educated individuals, undermining the productivity of firms and their ability to innovate.

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17 European Innovation Scoreboard - Slovenia.
18 Time series - European Commission (europa.eu).

(31) Between 2018 and 2022, basic skills among 15-year-olds deteriorated, which poses a challenge for skills development in the future. While between 2015 and 2018, underachievement was close to the EU level target of 15%, it rose significantly in mathematics and reading between 2018 and 2022. Teacher shortages have been rising as maintaining the attractiveness of the teaching profession became a challenge. In 2022, approximately 42% of 15-year-olds in Slovenia attended schools where instruction was compromised by a lack of teaching staff.

(32) Based on job vacancy data, ICT professionals, particularly new ICT graduates, are in shortage. This poses a challenge for meeting the needs of digital transformation in the corporate sector. The lack of digital skills among the population is a challenge for the entire adult population, but particularly for unemployed people and those lacking access to digital tools. Special attention should also be paid to green skills, as shortages of workers are prevalent across many occupations requiring specialised skills or expertise essential for the green transition.

(33) While the workforce lacks skills relevant to the labour market, including in digital and STEM fields, participation in adult learning has declined (according to the Adult Education Survey). Slovenia falls well short of its ambitious target of a 60% participation rate. The lack of digital skills among the adult population presents a barrier for many to move into more skilled employment sectors. The challenges were most pronounced among individuals who are older or have lower-level qualifications, those with a migrant background, and non-working people.

(34) According to the national statistical office, foreign-born workers currently make up 15.9% of the country's workforce. Since 2019, the number of foreign workers has increased by 46.8%. Most of these workers are low-skilled: 9 out of 10 have at most primary school education and more than one third are on the minimum wage. The Slovenian labour market has benefited from the inflow of these workers but there are continued shortages, also for the high-skilled jobs. Despite measures taken, there is still a significant backlog of permit applications submitted by foreign workers, due to excessively cumbersome legal requirements.

(35) Labour and skills shortages hinder the smooth provision of services particularly in the healthcare, social and long-term care and teaching sectors. Vacancy rates in the care sector and schools remain relatively high. As providers of these services have difficulties filling vacancies, the workload and working conditions for the existing staff is deteriorating further. To boost competitiveness and growth, it will be essential to make full use of skilled labour and to raise labour supply, by further stimulating labour market participation, notably of older workers and those with lower levels of skills, attracting workers from non-EU countries, and strengthening the integration of migrant workers into the labour market and society.

(36) Fossil fuels, a large proportion of which are imported, continue to constitute a significant share of Slovenia's energy mix (58%), therefore also contributing to higher and more volatile prices, in turn affecting competitiveness. Concentrated efforts are required to accelerate the roll-out of renewable energy sources across all sectors, the uptake of energy storage, and the implementation of energy efficiency measures.

(37) Permitting and administrative procedures for grid-scale renewable energy installations, in particular wind installations, remain a major bottleneck, due to the complex and lengthy environmental and municipal-level procedures, lasting up to several years. Slovenia has recorded no increase in wind power capacity in the last decade despite the existing potential. Designating areas for wind installations with detailed spatial planning rules could help unlock the potential. Furthermore, capacity building in the form of trainings and additional resources available to local authorities could help accelerate deployment of renewables.

(38) Grid constraints, particularly at distribution level, prevent an increasing share of renewable energy installations from being connected (over 20% of requests at low-voltage level being rejected), highlighting the need for reinforcement. While measures to strengthen the grid have continued to be implemented through the RRF, including under the REPowerEU chapter, Slovenia needs to increase its efforts, including by introducing smart grid components. While the energy efficiency measures, especially the renovation of buildings, have continued to be implemented through the national financing framework and different EU funds, including the RRF, Slovenia needs to increase its efforts, in particular to reach long-term renovation strategy targets to reduce the energy consumption of buildings by 17% by 2030 compared to 2020.

(39) The uptake of sustainable transport is still lagging behind the rest of the EU with dependence on private cars remaining very high. The electrification of transport is especially low with the share of electricity in final energy consumption in the transport sector remaining negligible at 1.3%. While at EU level greenhouse gas emissions from road transport decreased between 2005 and 2023, in Slovenia they visibly increased. Many large railway and e-mobility investments under the recovery and resilience plan are in progress. However, there is still room to further increase the uptake of public transport.

(40) Slovenia is highly vulnerable to climate-related risks, particularly floods, and has suffered multiple extreme weather events in recent years (such as wildfires in 2022 and windstorms with heavy floods in 2023). This has a negative impact on the country's economy and society with the economic loss per person in Slovenia being the highest in the EU. Despite efforts to strengthen climate resilience, challenges remain, particularly those concerning the implementation of flood protection measures and nature-based solutions, and environmental governance. Furthermore, the pressure on water resources is growing and the state of nature and ecosystems continues to deteriorate, further weakening Slovenia's climate and water resilience and highlighting the existing financing gaps in this regard.

(41) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, in 2025, the Council recommended that the euro-area Member States take action, including through their recovery and resilience plans, to implement the 2025 Recommendation on the economic policy of the euro area. For Slovenia, recommendations (2), (3) and (5) help implement the first euro-area recommendation on competitiveness, while recommendations (4) and (5) help implement the second euro-area recommendation on resilience, and recommendation (1) helps implement the euro-area recommendation on macroeconomic and financial stability set out in the 2025 Recommendation.

HEREBY RECOMMENDS that Slovenia take action in 2025 and 2026 to:

1. Reinforce overall defence and security spending and readiness while ensuring debt sustainability in line with the European Council conclusions of 6 March 2025. Adhere to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025, while making use of the allowance under the national escape clause for higher defence expenditure. Ensure the fiscal sustainability of social protection and rebalance tax revenues towards more growth-friendly and sustainable sources. Improve the efficiency of public spending, in particular by implementing spending reviews.

2. In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, accelerate the implementation of the recovery and resilience plan, including the REPowerEU chapter. Accelerate the implementation of cohesion policy programmes (ERDF, JTF, ESF+), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the opportunities provided by the InvestEU programme and the Strategic Technologies for Europe Platform, to improve competitiveness.

3. Simplify regulation, improve regulatory tools and reduce administrative burden on businesses, including in certain services and regulated professions, as well as reducing barriers to services trade. Strengthen competitiveness by promoting business dynamism and the creation of high-growth companies by improving the conditions for equity investment, including venture capital investment, for institutional investors, as well as for investments in research, development and innovation.

4. Accelerate the roll-out of renewables and energy storage, including by streamlining and expediting administrative and permitting procedures designating areas for wind power installations and by stepping up capacity building for permitting at local level. Strengthen the electricity grid infrastructure at distribution level and introduce smart grid components. In addition, accelerate the implementation of energy efficiency measures, particularly in the building sector. Promote the electrification of the transport sector and focus investments on sustainable transport, particularly rail. Further strengthen climate and water resilience by improving the environmental and climate adaptation governance and accelerating the implementation of targeted climate adaptation and environmental measures.

5. Address labour shortages by stepping up the provision and acquisition of skills and competences, including basic skills among pupils and those relevant for the green and digital transition. Boost lifelong learning and training, especially for low-skilled and older workers. Raise Slovenia's attractiveness for foreign workers with advanced skills. Improve working conditions, particularly in the healthcare, social and long-term care and teaching sectors.

Done at Brussels,

For the Council
The President