

# LINKING EU STRATEGIC GOALS WITH NATIONAL BUDGETS: INSIGHTS FROM SLOVENIA

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## **ABSTRACT**

*With the development of the European Union as a political community, also its public finances and fiscal policies have gradually taken shape and developed. The research focuses on the period from 2020 to 2025 and seeks to answer the question of whether and how the European Union's economic governance system ensures that its strategic goals and priorities are reflected in the Member States' strategic and budgetary planning, and what new developments in this respect have been brought about in 2024 and 2025 by the fiscal rules reform, the new composition of the European Parliament and the European Commission, as well as by the substantially changed geopolitical and economic situation and increased security risks. The research is based on empirical and qualitative research methods. The results of the research analysis shows that the European Union's economic and fiscal governance system has linked its strategic goals to national budgetary and reform policies and has responded to changing circumstances through ad hoc emergency instruments such as the fiscal escape clause and the Recovery and Resilience Facility. In particular, the 2024 reform of the European Union's fiscal rules, and changes in the geopolitical and security situation, have brought about greater flexibility and individualisation in the coordination of fiscal policy when dealing with Member States according to their characteristics. The findings of the research indicate the start of a new, broader reform of the economic governance of the European Union, which will allow sustainable adjustments of the European Union to changing geopolitical circumstances and security challenges. While the Republic of Slovenia has kept pace with the European Union's objectives in terms of economic and fiscal governance, it has been less successful in achieving its national goals. Between 2020 and 2025, the transition from national strategic to budgetary planning in the Republic of Slovenia remained incomplete.*

**Key words:** European Union, economic and fiscal governance, extraordinary situations, Republic of Slovenia, strategic goals, priorities

## 1. INTRODUCTION

The European Union (EU) was established by the Maastricht Treaty<sup>1</sup> in 1992 to pursue the common objectives of the Member States. The EU is an international transnational organisation and a legal entity, based on the Treaty on European Union (TEU) and Treaty on the Functioning of the European Union (TFEU).<sup>2</sup> The TEU provides that the Contracting States delegate to the EU powers for the pursuit of common objectives.<sup>3</sup> The TEU defines the fundamental values and objectives of the EU.<sup>4</sup> The integration of the Member States into the EU aims for a balanced<sup>5</sup> and sustainable<sup>6</sup> economic and social progress and a common economic and monetary policy,<sup>7</sup> including the introduction of a single currency - the euro.<sup>8</sup>

With the development of the EU as a political community, also its public finances and fiscal policies have gradually taken shape and developed.<sup>9</sup> In this context, the

<sup>1</sup> Treaty on European Union [1992] OJ C 191/1. The Maastricht Treaty marked the beginning of political integration of EU Member States.

<sup>2</sup> Consolidated version of the Treaty of the European Union and the Treaty on the Functioning of the European Union [2016] OJ C 202/1. The EU was given legal personality for the first time by the Treaty of Lisbon (Article 47 TEU (Lisbon)). For more, see Cvikl, M. M., *Prenovljeno pravo Evropske unije*, 2009, pp. 46, 47, 51, 70.

<sup>3</sup> Article 1(1) TEU (Lisbon). Joint action in the so-called “strategic policy”, such as security issues, presumes a certain leap in the integration process for which the states must be politically prepared. Several international relations theorists believe that international threats force sovereign states to enter into alliances of a federal nature. For more, see Brinar, I., *Politično sodelovanje in politično združevanje v Evropski skupnosti*, Teorija in praksa, Vol. 28, No. 1/2, 1991, pp. 115–118.

<sup>4</sup> Articles 1 to 3 TEU (Lisbon).

<sup>5</sup> The EU’s general budget (the EU budget) must be balanced (Article 314(10) TFEU (Lisbon)) and must not be in deficit.

<sup>6</sup> From 2015 to 2025, the United Nations 2030 Agenda for Sustainable Development was in force at the global level, see Resolution adopted by the General Assembly of United Nations on 25 September 2015, A/RES/70/1. In 2017, the EU fully integrated the Agenda for Sustainable Development 2030 into its policy framework and the European Commission’s priorities. This integration has been reflected in the EU’s focus on employment and social affairs to promote a more sustainable socio-economic model. More on the concept of sustainable development see in Rainer L.; Ronny, R., *Managing sustainable development with management control systems*, in: A literature review, European Management Journal, Vol. 34, No. 2, 2016, pp. 158–171.

<sup>7</sup> The term “policy” refers to the regulation and decision-making by the state and its authorities regarding social issues, either at the societal level or within a specific area. For more, see Klajnšek, A., *Jezikovna politika Republike Slovenije in oglaševanje*, in: Repas, M. (ed.), *Dileme sodobnega oglaševanja: izbrane teme*, Univerza v Mariboru, Univerzitetna založba, Maribor, 2023, p. 5. Policy is a complete set of programmes with a common overall objective. See Art. 2 of the Decree on Development Planning Documents and Procedures for the Preparation of the Draft State Budget, Official Gazette No. 54/2010, 35/2018. Policy is also the highest level of the programme classification of budget expenditure, according to which budget expenditure in the budget of the Republic of Slovenia (Slovenia) is classified.

<sup>8</sup> For more, see Cvikl, M. M.; Korpič-Horvat, E., *Pronačunsko pravo: priprava, izvrševanje in nadzor proračunov*, GV Založba, Ljubljana, 2007, p. 134.

<sup>9</sup> *Ibid.*, p. 258.

EU budget has also evolved<sup>10</sup> as a key instrument for achieving the objectives incorporated in the TEU and for implementing the EU policies and priorities. EU and Member States' national policies are formulated through a strategic planning process, with the formulation of strategies and priorities as the starting point for budgetary planning.<sup>11</sup>

Strategic documents and budgetary plans need to adapt to significant changes in circumstances, as these affect the needs and present challenges facing the EU and its Member States. Such changes require appropriate adjustments in policy content, objectives and priorities. Also, political changes in the EU, such as the changes in the composition of the European Parliament and the European Commission in 2024, normally lead to adjustments and amendments of strategic documents.

There are three institutions relevant in the adoption of the EU budget:<sup>12</sup> The European Commission<sup>13</sup>, the Council of the EU<sup>14</sup> (Economic and Financial Affairs Council, ECOFIN) and the European Parliament<sup>15</sup>. The European Council gives the EU the necessary impetus for its development and defines the broad political orientations.<sup>16</sup> The budgetary procedure involves negotiation and coordination of political priorities between the EU institutions. Political and institutional negotiations and coordination result in an interinstitutional agreement. Decision-making power on budgetary matters is divided between the European Parliament and the Council of the EU, which adopt the EU budget under a special legislative procedure upon a proposal of the European Commission,<sup>17</sup> making the general EU budget a *sui generis* legal act.

<sup>10</sup> *Ibid.*, pp. 257–271.

<sup>11</sup> For more, see Vitalis, N. *et al.*, *New development: Between politics and strategic planning—the management of government priorities in Lithuania*, Public Money & Management, Vol. 40, No. 4, 2020, pp. 299–303.

<sup>12</sup> For more, see Cvikl, M. M.; Korpič-Horvat, E., *op. cit.*, note 8, pp. 268–269.

<sup>13</sup> The TEU and TFEU set out the legal framework within which the European Commission functions and its core competences and tasks. Article 17 TEU (Lisbon) sets out the general tasks and competences of the European Commission, including the management and implementation of the EU budget. The European Commission is responsible for strategic, medium-term and annual planning at the EU level. Under these competences, the European Commission plays the role of a manager of EU policies in specific areas. Articles 244 to 250 TFEU (Lisbon) set out the composition and functioning of the European Commission. The European Commission sets out its priorities and strategic orientations in various multiannual documents.

<sup>14</sup> Article 17 TEU (Lisbon) sets out the general tasks and competences of the Council of the EU. The Council of the EU has a policy-making function and legislative and budgetary function.

<sup>15</sup> Article 14 TEU (Lisbon) sets out that the European Parliament has legislative, budgetary and political control functions.

<sup>16</sup> Article 15 TEU (Lisbon).

<sup>17</sup> Article 314 TFEU (Lisbon).

As an EU country and a member of the Economic and Monetary Union (EMU), Slovenia must pursue the EU's common strategic and long-term objectives, in addition to its national ones. In its economic and fiscal governance, Slovenia must respect the rules of the Stability and Growth Pact (SGP),<sup>18</sup> the EU's main instrument for safeguarding economic stability and fiscal discipline<sup>19</sup> in the euro area. At the EU level, the so-called European Semester<sup>20</sup> process provides basic framework for delivering on these objectives and priorities. The rules of the European Semester are covered by the governance package, known as "six-pack"<sup>21</sup> and were reformed in 2024.<sup>22</sup>

<sup>18</sup> Originally, in 1997, the SGP consisted of: Resolution of the European Council on the Stability and Growth Pact [1997] OJ C 236/1, Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (Council Regulation (EC) No 1466/97) [1997] OJ L 209/84 and Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (Council Regulation (EC) No 1467/97) [1997] OJ L 209/89. In 2005 the SGP was reformed with the adoption of the Council Regulation (EC) No 1055/2005 of 27 June 2005 amending Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [2005] OJ L 174/1 and Council Regulation (EC) No 1056/2005 of 27 June 2005 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure [2005] OJ L 174/5.

<sup>19</sup> Fiscal policy can be defined as a state measure to stabilise the economy and achieve economic and other broader societal objectives (sustainable development) through the use of public revenues and setting of tax policy. For more, see Stare, J.; Pečarič, M., *Znanost o javni upravi*, Fakulteta za upravo, Ljubljana, 2021, p. 252; Afonso, A. et al., *Sovereign risk dynamics in the EU: The time varying relevance of fiscal and external (im)balances*, Journal of International Financial Markets, Institutions & Money, 2024, Vol. 94., pp. 1–22; Asteriou, D.; Spanos, K., *The relationship between financial development and economic growth during the recent crisis: Evidence from the EU*, Finance Research Letters, Let. 28, 2019, pp. 238–245.

<sup>20</sup> The European Semester is fundamentally about the *ex ante* coordination of the EU countries' economic policies. The procedure was established in 2011 by Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (Regulation (EU) No 1175/2011) [2011] OJ L 306/12. Since 2024, the European Semester has been defined in Art. 3 of the 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 multi-lateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (Regulation (EU) 2024/1263 [2024] OJ L 1263/1).

<sup>21</sup> The "six-pack" (EU law) includes: Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (Council Directive 2011/85/EU) [2011] OJ L 306/41, Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area [2011] OJ L 306/1, Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area [2011] OJ L 306/8, Regulation (EU) No 1175/2011, Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances [2011] OJ L 306/25 and Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure [2011] OJ L 306/33. For more, see Kamnar, H.; Borak N., *Fiskalna pravila*, Zveza ekonomistov Slovenije, Ljubljana, 2013, pp. 57–67.

<sup>22</sup> Regulation (EU) 2024/1263, Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure [2024] OJ L 1264/1 and Council Directive (EU) 2024/1265 of 29 April 2024 amending

The period from 2020 to 2025 has been marked by a number of crises and extraordinary situations in the EU, which have changed both the external and internal circumstances of the EU and its Member States action in a highly dynamic and intense manner. This paper presents the key regulations and strategic documents for the EU and Slovenia's budgetary governance, links them together and highlights how have the changes at the EU level affected Slovenia's budgetary governance as an EU Member State in the period from 2020 to 2025.

The topic of the paper is interdisciplinary, at the intersection of political science, economics, law and organisational studies. It addresses economic governance at the EU and Member State level and analyses the impact of a transnational organization on the budgetary management of a Member State.

The paper results from gaps in the academic literature addressing the legal and strategic basis for strategic and budgetary planning in the context of the EU economic and fiscal governance, and the link between the EU and Slovenia's economic and fiscal governance. The research seeks to fill this gap by addressing the following question: whether and how the European Union's economic governance system ensures that its strategic goals and priorities are reflected in the Member States' strategic and budgetary planning, and what new developments in this respect have been brought about in the period from 2024 to 2025 by the fiscal rules reform, the new composition of the European Parliament and the European Commission, as well as by the substantially changed geopolitical and economic situation and increased security risks.

The research is based on empirical and qualitative research methods, primarily on the analysis of legal and strategic documents, and includes methods of description, compilation, logical integration and inference, and the method of synthesis. Slovenia as an EU and EMU Member State is considered as a case study.

In the main part, following the introduction, the paper starts with chapter on the EU economic and fiscal governance. A chapter on Slovenia's economic and fiscal governance follows. The two central analytical chapters include developments from 2020 to 2025. The conclusion of the paper summarises the findings.

## **2. EU ECONOMIC AND FISCAL GOVERNANCE**

The EU budget is a fundamental tool for implementing EU policies and achieving the EU's long-term and strategic goals. The TEU defines the general political

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Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States [2024] OJ L, 1265/1. The Regulations and the Directive were first used in the preparation of the Member States' budgets for 2025.

objectives of the EU<sup>23</sup> and the basic provisions of the EU institutions.<sup>24</sup> The budgetary functions are implemented by the European Parliament, the Council of the EU and the European Commission.<sup>25</sup> In the context of the budgetary procedure, these institutions present their positions, negotiate and coordinate budgetary priorities. Since 1988, the annual budget has been based on a political agreement on the so-called Multiannual Financial Frameworks<sup>26</sup> (MFF).<sup>27</sup> Decision-making power on budgetary matters is divided between the European Parliament and the Council of the EU, while the European Commission implements the EU budget and manages programmes.<sup>28</sup> The EU budget shall be implemented in accordance with the principle of sound financial management.<sup>29</sup>

The EU budget is managed and implemented at several levels, including the European Commission, the Member States<sup>30</sup> and indirect management structures. Member States cooperate with the EU to ensure that the appropriations are used in accordance with the principle of sound financial management. The ultimate responsibility for implementation of the EU budget lies with the European Commission.<sup>31</sup>

The basic rules for the EU's economic governance and budgetary management are laid out in the financial provisions of the TFEU<sup>32</sup> and the Financial Regulation.<sup>33</sup>

<sup>23</sup> Article 3 TEU (Lisbon).

<sup>24</sup> Articles 13 to 19 TEU (Lisbon).

<sup>25</sup> See notes 14 to 16.

<sup>26</sup> The MFF is the EU's long-term budget plan that sets out the limits for EU spending over a period of 5-7 years. It defines the overall financial priorities, allocations, and ceilings for different areas of expenditure within the EU, ensuring that spending aligns with the EU's political priorities and long-term objectives.

<sup>27</sup> Cvikl; Korpič-Horvat, *op. cit.*, note 8, p. 134.

<sup>28</sup> Approach to EU budgetary management constitutes *sui generis*. For more, see Downes, R. et al., *Budgeting and performance in the European Union: A review by the OECD in the context of EU budget focused on results*, OECD Publishing, Paris, 2017, p. 2.

<sup>29</sup> Article 310(5) TFEU (Lisbon). The principle of sound financial management requires efficient implementation of the EU budget, which means applying the principles of economy, efficiency, and effectiveness.

<sup>30</sup> For more, see Franek, S., *Diversity of public finance management instruments in EU countries*, Optimum Studia Ekonomiczne, Vol. 93, No. 3, 2018, pp. 63-75.

<sup>31</sup> Article 317 TFEU (Lisbon).

<sup>32</sup> Articles 310 to 325 TFEU (Lisbon).

<sup>33</sup> The Financial Regulation is the most important implementing act, which specifies in more detail the provisions of the TFEU on the financial management of the EU budget. The Financial Regulation lays down the rules for the preparation and implementation of the EU budget. In the period from 2020 to 2025, the following two regulations were in force, the Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No

The EU budget is an annual financial and programming plan (work programme), which includes all revenue and expenditure.

The TFEU provides that to achieve the EU policy objectives, the Member States and the EU shall include the adoption of an economic policy,<sup>34</sup> which is based on the close coordination of Member States' economic policies, on the internal market and on the definition of common objectives.<sup>35</sup>

The MFF is a key instrument for strategic and budgetary planning, as it sets out spending priorities and budgetary limits. The MFF ensures stability and predictability of budgetary resources and enables the exercise of long-term projects in line with the EU strategies.<sup>36</sup> It shall be adopted for a period of at least five years. The EU's annual budget shall be in conformity with the MFF.<sup>37</sup> The European Commission presents a proposal for a MFF for the new multiannual period in line with its priorities, which are then set out by a special legislative procedure. The adoption of the MFF is confirmed by a Council Regulation, approved by the European Parliament.

In the MFF for the period from 2014 to 2020, the main spending categories were the Common Agricultural Policy (around 40%) and the Structural Funds and Cohesion Fund (30%).<sup>38</sup> For the period from 2021 to 2027, in line with the new priorities of the EU, larger shares of the budget are assigned to moving to sustainable economy, strengthening social cohesion and developing digital technologies.<sup>39</sup> The

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1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 (Regulation EU 2018/1046) [2018] OJ L 193/1 and Regulation (EU, Euratom) 2024/2509 of the European Parliament and of the Council of 23 September 2024 on the financial rules applicable to the general budget of the Union (Regulation (EU, Euratom) 2024/2509) [2024] OJ L, 2509/1. For the substantive and financial management of policy areas in the EU, in accordance with Article 317 TFEU (Lisbon) and Article 33 of Regulation (EU, Euratom) 2018/1046, or Regulation (EU) 2024/2509, a "budget focused on results" approach is applied.

<sup>34</sup> Article 3 TFEU (Lisbon). For more, see Klajnsšek, A., *Vpliv Evropske unije na ekonomsko upravljanje Republike Slovenije*, in: Repas, M. (ed.), *Studia Iuridica Miscellanea: MMXXI*, Univerza v Mariboru, Univerzitetna založba, Maribor, 2024, pp. 657–687.

<sup>35</sup> Article 119 TFEU (Lisbon).

<sup>36</sup> Article 312(1) TFEU (Lisbon).

<sup>37</sup> Article 312(3) TFEU (Lisbon).

<sup>38</sup> Council Regulation (EU, Euratom) No 1311/2013 of 2 December 2013 laying down the Multiannual Financial Framework for the years 2014–2020 [2013] OJ L 347/884. More about the Fiscal Union in the period from 2005 to 2017 see Delgado, F. J., *On the Determinants of Fiscal Decentralization: Evidence From the EU*, *Amfiteatru Economic*, Vol. 23, No. 56, 2021, pp. 206–220.

<sup>39</sup> Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the Multiannual Financial Framework for the years 2021 to 2027 [2020] OJ L 433I/11.

MFF for the period from 2021 to 2027 sets out also new own sources for the EU budget.

In March 2020, in the light of the COVID-19 epidemic, the European Commission activated the general escape clause of the SGP, allowing the Member States to temporarily derogate from the fiscal rules.<sup>40</sup> In December 2020, the COVID-19 Recovery Facility was agreed under the MFF 2021-2027<sup>41</sup> and launched in February 2021 (Recovery and Resilience Facility, RRF).<sup>42</sup> The RRF incorporates much of the content of the European Green Deal, with the use of funds linked to the implementation of the reforms included in the European Semester.

In February 2022, the war in Ukraine caused not only a security crisis but also an energy crisis in the EU, to which the EU responded in 2023 by creating a new REPowerEU chapter<sup>43</sup> under the RRF. REPowerEU is the EU's plan to reduce dependence on Russian fossil fuels and accelerate the green transition.

<sup>40</sup> European Commission, *Activation of the general escape clause of the Stability and Growth Pact*, Communication, COM(2020) 123. The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of the Council Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of the Council Regulation (EC) No 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. In 2024, the Regulation (EU) 2024/1263 was adopted, which in Article 25 provides a general escape clause for the event of a severe economic downturn in the euro area or EU as a whole. Article 26 of the Regulation (EU) 2024/1263 introduces a national escape clause for exceptional circumstances beyond the control of a Member State that significantly impact the public finances of the concerned Member State. For more see Tofan, M., et al., *Fiscal responsibility legal framework: New paradigm for fiscal discipline in the EU*, Risks, Vol. 8, No.3, 2020, pp. 1–18.

<sup>41</sup> Council Regulation (EU) 2020/2094 of 14 December 2020 establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis [2020] OJ L 433I/23.

<sup>42</sup> Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility [2021] OJ L 57/17. For more, see Crescenzi, R. et al., *Mind the Covid-19 crisis: An evidence-based implementation of Next Generation EU*, Journal of Policy Modeling, Vol. 43, No. 2, 2021, pp. 278–297; Dermine, P.; Markakis, M., *EU economic governance and the COVID-19 crisis: Between path-dependency and paradigmatic shift*, International journal of public law and policy, Vol. 6, No. 4, 2020, pp. 326–345; Dornean, A.; Oanea, D.-C., *The effectiveness of fiscal-budgetary measures to counteract the COVID-19 crisis: Evidence from EU countries*, Economics, Vol. 16, No.1, 2022, pp. 137–151; Kramer, Z., *Fiscal sovereignty under EU crisis management: A comparison of Greece and Hungary*, Acta Oeconomica, Vol. 69, No. 4, 2019, pp. 595–624; Ladi, S.; Tsarouhas, D., *EU economic governance and Covid-19: policy learning and windows of opportunity*, Journal of European Integration: Pandemic Politics and European Union responses, Vol. 42, No. 8, 2020, pp. 1041–1056; Levy, D. L., *COVID-19 and Global Governance*, Journal of management studies, Vol. 58, No. 2, 2021, pp. 562–566; Vitalis, et al., *op. cit.*, note 11.

<sup>43</sup> 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 [2023] OJ L 63/1.



In February 2024, the European Parliament and the Council of the EU reached a political agreement on a reform of the EU's economic and fiscal governance framework, including better coordination of economic policies, simplification of fiscal rules, focus on medium-term fiscal-structural plans and strengthening of national fiscal frameworks, including by improving budgetary procedures and making Member States more accountable managing their public finances. On the basis of a political agreement, in April 2024 the Council of the EU adopted three rules reforming the EU's economic governance.<sup>44</sup>

After the European Parliament elections in June 2024, the European Council has set out the EU's new priorities in the EU Strategic Agenda 2024-2029.<sup>45</sup> A new European Commission was also constituted at the end of 2024, which set out its new priorities for the 2024-2029 mandate based on the EU Strategic Agenda.<sup>46</sup>

In 2025, the period of deviation from the fiscal rules ended<sup>47</sup> and Member States had to start applying the reformed rules of the SGP in 2024. At the same time, the war in Ukraine and the significantly changed external political situation in the EU have increased the security risks, geopolitical and economic environment, giving additional priority to objectives and activities related to security, defence and economic competitiveness.

In March 2025, the European Commission presented a proposal for a new plan to strengthen defence capabilities, EU ReArm Europe,<sup>48</sup> which includes the possibility of unlocking public defence funding at national level in the amount of EUR 800 billion. The proposal includes the activation of the national escape clause of

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<sup>44</sup> See note 24.

<sup>45</sup> The Strategic Agenda, which guides the work of the EU institutions, sets out the EU's priorities and strategic orientations for the 2024-2029 institutional cycle. European Council, *Strategic Agenda 2024-2029*, [https://www.consilium.europa.eu/media/yxrc05pz/sn02167en24\_web.pdf], Accessed 5 April 2025.

<sup>46</sup> European Commission, [https://commission.europa.eu/priorities-2024-2029\_en] and European Commission, *Political Guidelines for 2024-2029*, [https://commission.europa.eu/document/download/e6cd4328-673c-4e7a-8683-f63ffb2cf648\_en?filename=Political%20Guidelines%202024-2029\_EN.pdf], Accessed 5 April 2025. European Commission, *Political Guidelines for 2019-2024*, [https://commission.europa.eu/system/files/2020-04/political-guidelines-next-commission\_en\_0.pdf], Accessed 5 April 2025.

<sup>47</sup> [https://ec.europa.eu/slovenia/news/eu-general-escape-clause\_sl], Accessed 5 April 2025. For more, see Nahtigal, M., *EU recovery plans, inclusive knowledge economy and overcoming regional disparities*, Lex localis, Vol. 20, No.4, 2022, pp. 1171-1189.

<sup>48</sup> European Commission, [https://ec.europa.eu/commission/presscorner/detail/en/ip\_25\_793], Accessed 5 April 2025.

the SGP,<sup>49</sup> which would allow Member States to increase defence expenditure without triggering the Excessive Deficit Procedure. It also proposes the creation of a new instrument providing loans of EUR 150 billion for defence investments.

In the period between 2020 and 2025, the EU's economic and fiscal governance system has, despite the exceptional situation and significant changes in circumstances, linked links the EU's strategic goals with national budgetary and reform policies. Increased security risks due to the war in Ukraine and changes in the internal and external political situation have changed the EU's priorities, now focusing on security, defence, and competition in the economic area. The EU has responded to the changed circumstances mainly through *ad hoc* emergency instruments such as the fiscal escape clause and the innovative and temporary RRF.<sup>50</sup> In particular, the 2024 reform of the EU fiscal rules and changes in the geopolitical and security situation, have brought about greater flexibility and individualisation in the coordination of fiscal policy when dealing with Member States according to their characteristics.<sup>51</sup> Adjustments to budgetary programming have been made to enhance the focus on defence investment and encourage Member States to allocate cohesion policy funds toward defence spending. These adjustments indicate the start of a new, broader reform of the EU economic governance, which will allow sustainable adjustments to changing geopolitical circumstances and security challenges, while accommodating the need for more comprehensive financing and more coordinated economic governance.

### 3. ECONOMIC AND FISCAL GOVERNANCE IN SLOVENIA

Slovenia is an EU Member State and an EMU member and must thus pursue the EU's common strategic and long-term objectives, in addition to its national ones.<sup>52</sup> In its fiscal governance, it must follow the rules of the SGP. The European Semester represents the fundamental framework for the implementation of the EU's strategic goals and priorities at Member State level, which aims to provide coherence between economic decisions, budgetary constraints and effective implementation of European policies at national level.<sup>53</sup>

<sup>49</sup> Art. 26 of the Regulation (EU) 2024/1263.

<sup>50</sup> For more, see Regling, K., *EU Fiscal Rules: A Look Back and the Way Forward*, Inter Economics, Vol. 57, No. 1, 2022, pp. 8–10.

<sup>51</sup> For more, see Voda, A. D. *et al.*, *Error correction model for analysis of influence of fiscal policy on economic growth in EU*, Journal of Business Economics and Management, 2022, pp. 586–605.

<sup>52</sup> For more, see Kovač, P.; Bileišis, M. (eds.), *Public Administration Reforms in Eastern European Union Member States: Post-Accession Convergence and Divergence*, Faculty of Administration and Mykolas Romeris University, Ljubljana: Vilnius, 2017.

<sup>53</sup> For more, see Klajnšek, *op. cit.*, note 42, pp. 657–687.

The European Semester requires medium-term fiscal policy planning.<sup>54</sup> The key documents for medium-term fiscal planning are the Stability Programme and the National Reform Programme.<sup>55</sup> Member States of the euro area have submitted these documents to the European Commission and the other Member States in the context of the European Semester. Since 2021, Member States are also required to submit a National Recovery and Resilience Plan under the European Semester, under which additional funding for reforms and investment from the RRF takes place.

The annual Stability Programme set out the multiannual macroeconomic and fiscal framework, key fiscal projections and components, and assessed the public finance objectives, in compliance with the requirements of the European Commission and the SGP. The European Commission assessed whether the objectives and the contents of the programme are such as to enable the achievement of the medium-term public finance objectives.

The National Reform Programmes set out the Member States' plans in relation to structural reforms, growth-enhancing measures, job creation measures and measures to progress towards the EU's strategic and policy objectives.<sup>56</sup> In the National Reform Programme, the government set out the priorities, planned to pursue the<sup>57</sup> European Commission's specific recommendations and the EU's strategic goals. The National Reform Programme set out the content of the Member State government's planned actions over the medium term.

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<sup>54</sup> Council Directive 2011/85/EU. The Directive had to be transposed into national legislation by the end of 2013. In Slovenia, this requirement was only met in 2018 with the adoption of the Act Amending the Public Finance Act (ZJF-H), Official Gazette No. 13/2018. Računsko sodišče Republike Slovenije, *Uresničevanje Strategije razvoja Slovenije 2030 in Agende za trajnostni razvoj do leta 2030*, Računsko sodišče Republike Slovenije, Ljubljana, 2021, pp. 9–13.

<sup>55</sup> The rules on National Reform Programmes are laid down in Regulation (EU) No 1175/2011, which was replaced by Regulation (EU) 2024/1263 in April 2024. The Member States' National Reform Programmes are intended to support the EU strategy and have been designed in line with the guidance provided in Regulation (EU) No 1175/2011 and the general guidelines for the Member State issued by the European Commission and the European Council at the start of the annual cycle of surveillance.

<sup>56</sup> In the period between 2010 and 2020 the strategic development objectives derived from European Commission, *Europe 2020: A strategy for smart, sustainable and inclusive growth*, Communication, COM(2010) 2020 final.

<sup>57</sup> Country-Specific Recommendations (CSRs) in the context of the European Semester are a tool for implementing EU strategic goals and priorities at national level. They serve as a bridge between the EU's long-term strategies and the concrete reform and budgetary measures that Member States need to introduce into their economic, social and budgetary policies. The content of the recommendations is based on assessments of the Member State's situation, in particular, as regards economic imbalances, sustainability of public finances, employment, social inclusion, climate objectives, digitalisation, etc.

Since 1999, the Public Finance Act (ZJF) and the Accounting Act<sup>58</sup> have been the main national normative basis for public expenditure management in Slovenia.<sup>59</sup> ZJF enacted the budget focused on results and multiannual budgetary planning,<sup>60</sup> while strategic and development planning was regulated by a government decree in 2010.<sup>61</sup> In Slovenia, the transition from strategic and development to budgetary planning<sup>62</sup> is still incomplete.<sup>63</sup> In Slovenia, the conditions regarding supplementing, amending or replacing development planning documents<sup>64</sup> with new ones in the event of a significant change in circumstances are laid down in the Regulation on development planning documents and procedures for preparing the state budget proposal.<sup>65</sup> The Fiscal Rule was incorporated in the Constitution of the Republic of Slovenia in 2013,<sup>66</sup> and the implementing Fiscal Rule Act was adopted in 2015.<sup>67</sup>

The last implementation of the “six-pack” rules in Slovenia was implemented by amending the ZJF in 2018. Even in 2018, important shortcomings in the strategic and development planning regime in Slovenia were not remedied with the amendment of the ZJF and the amendments to the Regulation on development planning documents and procedures for the preparation of the draft state budget.<sup>68</sup>

The procedures, key documents, and responsible entities for medium-term fiscal policy planning for the years 2020 and 2021 were laid down in Articles 9.a to 9.o

<sup>58</sup> Official Gazette No. 11/2011 – Official Consolidated Text, 14/2013 – amended, 101/2013, 55/2015 – ZFisP, 96/2015 – ZIPRS1617, 13/2018, 195/2020 – Decision of the Constitutional Court.

<sup>59</sup> Official Gazette No. 23/1999, 30/2002 – ZJF-C, 114/2006 – ZUE.

<sup>60</sup> Official Gazette No. 11/2011 – Official Consolidated Text, 14/2013 – amended, 101/2013, 55/2015 – ZFisP, 96/2015 – ZIPRS1617, 13/2018, 195/2020 – Decision of the Constitutional Court.

<sup>61</sup> For more, see Vitalis *et al.*, *op. cit.*, note 11.

<sup>62</sup> For more, see Klužer, F., Lautar, K., *Razvojno načrtovanje, spremljanje in vrednotenje ter zasnova program-skega proračuna 2009 – 2011*, SVREZ, Ljubljana, 2011; Vries, Michiel S. de *et al.* *Performance-based budgeting in the public sector*, Palgrave Macmillan, Cham, 2019, pp. 209–226.

<sup>63</sup> For more, see Klajnšek, A., *Uspešnost uveljavljanja k ciljem in rezultatom usmerjenega proračunskega procesa ministrstev v letih 2010-2011*, in: Aristovnik, A. (ed.), *Zbornik referatov: XXI. Dnevi slovenske uprave*, 2014, Fakulteta za upravo, Ljubljana, 2014, 16 pp.; Klajnšek, A., *Strateško-razvojno načrtovanje Republike Slovenije in epidemija*, in: Repas, M. (ed.), *Pravo in ekonomija: pravo, ekonomija in epidemija*, Univerza v Mariboru, Univerzitetna založba, Maribor, 2022, pp. 146–162.

<sup>64</sup> Decree on Development Planning Documents and Procedures for the Preparation of the Draft State Budget, the framework long-term strategic and development planning document is the Development Strategy of Slovenia Official Gazette No. 54/2010, 35/2018.

<sup>65</sup> *Ibid.*

<sup>66</sup> Art. 148 of the Constitution of the Republic of Slovenia Official Gazette No 33/1991-I, 42/1997 – UZS68, 66/2000 – UZ80, 24/2003 – UZ3a, 47, 68, 69/2004 – UZ14, 69/2004 – UZ43, 69/2004 – UZ50, 68/2006 – UZ121, 140, 143, 47/2013 – UZ148, 47/2013 – UZ90, 97, 99, 75/2016 – UZ70a, 92/2021 – UZ62a.

<sup>67</sup> Fiscal Rule Act, Official Gazette No. 55/2015, 177/2020 – amended.

<sup>68</sup> For more, see Računsko sodišče Republike Slovenije, *op. cit.*, note 64 pp. 9–13.

of the ZJF and in the Regulation on development planning documents and procedures for preparation of the draft state budget. According to the ZJF, the first National Development Policy Programme for the period between 2020 and 2023 should have been drafted and adopted in November 2019, but it was not.<sup>69</sup>

In March 2020, the European Commission assessed that the EU found itself in exceptional situation due to the COVID-19 pandemic and activated the general escape clause of the SGP, allowing a temporary derogation from the fiscal rules. In March 2020, Slovenia was also declared to be in a COVID-19 epidemic.<sup>70</sup>

In the period from 2020 to 2024, the National Development Policy Programme and the medium-term fiscal strategy were not prepared due to the temporary derogation from the fiscal rules and the simplified European Semester procedure. The link between the EU's strategic and long-term objectives and Slovenia's budgetary planning was established in the context of the European Semester through the National Reform Programme<sup>71</sup>, the Stability Programme<sup>72</sup> and the National Recovery and Resilience Plan.<sup>73</sup> From 2020 to 2024, the European Semester was adapted to the exceptional situation (activation of the general escape clause) and to the implementation of the RRF. To meet the priority policy objectives in the context of the European Semester, it was particularly important that the national Recovery and Resilience Plans be fully implemented, contributing to the effective addressing of the challenges identified in the specific recommendations for EU Member States.<sup>74</sup>

At the end of April 2024, renewed EU legislation on the governance of economic and fiscal policies entered into force. Member States were required to draw up and submit to the European Commission a medium-term fiscal and structural plan for the period from 2025 onwards.<sup>75</sup> The plan should specify the planned fiscal

<sup>69</sup> *Ibid.*, p. 48.

<sup>70</sup> Order on the Declaration of an Epidemic of the SARS-CoV-2 (COVID-19) Communicable Disease in the territory of the Republic of Slovenia, Official Gazette No. 19/2020.

<sup>71</sup> [[https://commission.europa.eu/documents\\_en?prefLang=sl&f%5B0%5D=document\\_title%3Aslovenia%2C%20national%20reform%20programme](https://commission.europa.eu/documents_en?prefLang=sl&f%5B0%5D=document_title%3Aslovenia%2C%20national%20reform%20programme)], Accessed 5 April 2025.

<sup>72</sup> [[https://commission.europa.eu/documents\\_en?prefLang=sl&f%5B0%5D=document\\_title%3Aslovenia%2C%20stability%20programme](https://commission.europa.eu/documents_en?prefLang=sl&f%5B0%5D=document_title%3Aslovenia%2C%20stability%20programme)], Accessed 5 April 2025.

<sup>73</sup> Služba Vlade RS za razvoj in evropsko kohezijsko politiko, [<https://www.eu-skladi.si/sl/po-2020/nacr-za-okrevanje-in-krepitev-odpornosti>], Accessed 5 April 2025.

<sup>74</sup> Council Recommendation of 21 October 2024 on economic, budgetary, employment and structural policies of Slovenia [2024] OJ C 6831/1.

<sup>75</sup> In 2025, the government drafted a proposal for a new Fiscal Rule Act. Following the reform of the fiscal rules at the EU level, it will unify the legal basis for the conduct of fiscal policy at both the national and European levels.

policy and key reforms and investments in response to country-specific recommendations under the European Semester and other EU priorities. The suitability of the plan is verified by the European Commission and endorsed by the Council of the EU.

On 19 June 2024, the European Commission published the Country Report for Slovenia 2024,<sup>76</sup> assessing Slovenia's progress in implementing the country-specific recommendations and the Recovery and Resilience Plan. The report also addressed Slovenia's progress in meeting the objectives of the European Pillar of Social Rights and the United Nations Sustainable Development Goals.<sup>77</sup>

By October 2024, Slovenia prepared its first Medium-Term Fiscal and Structural Plan for the period 2025-2028,<sup>78</sup> which includes fiscal, reform and investment commitments based on the challenges of the European Semester, such as a fair green and digital transition, energy security, and strengthening of defence capabilities.

Following the submission of the document, the Council of the EU forwarded to Slovenia new specific recommendations,<sup>79</sup> and the European Commission adopted its Opinion on Slovenia's medium-term fiscal-structural plan on 26 November 2024.<sup>80</sup> In its opinion, the Commission stated that the plan includes all necessary information and measures for addressing the main challenges established in the context of the European Semester and the EU priorities, including environmental sustainability, social and economic resilience and defence capabilities. Slovenia's medium-term fiscal-structural plan includes also correlation tables linking individual policy areas financed by the European Cohesion Policy Programme 2021-2027 to country-specific recommendations, and provides information on possible synergy with the Cohesion Policy Funds and the Slovenia's Recovery and Resilience Plan.<sup>81</sup>

As an EU Member State, Slovenia is required to coordinate its national objectives with the EU's long-term strategic goals, which requires an effective integration of

<sup>76</sup> European Commission, *Country Report – Slovenia Accompanying the document Recommendation for a Council Recommendation on the economic, social, employment, structural and budgetary policies of Slovenia*, Staff Working Document, SWD/2024/624 final.

<sup>77</sup> Council, *op. cit.*, note 86, p. 6.

<sup>78</sup> On 4 October 2024, the National Assembly of the Republic of Slovenia discussed draft medium-term fiscal-structural plan. It was adopted by the Government of the Republic of Slovenia on 10 October 2024.

<sup>79</sup> Council, *op. cit.*, note 86, p. 1.

<sup>80</sup> European Commission, *Opinion on the Draft Budgetary Plan of Slovenia*, C(2024) 9064 final, p. 8.

<sup>81</sup> Slovenia's medium-term fiscal-structural plan includes correlation tables linking the individual policy areas financed by the European Cohesion Policy Programme 2021-2027 to country-specific recommendations.

national strategic development objectives into the European framework. However, Slovenia lacks a suitable legal basis for strategic development planning within its national public finance system. In the period between 2020 and 2025, the integration between the European strategic goals and Slovenia's national objectives took place mainly through the European Semester.

In Slovenia, no change to the national strategic development planning documents was proposed in the period between 2020 and 2025 due to a significant change in circumstances, which means that the formal national objectives and priorities remained unchanged despite the changed circumstances. Changes have only been made to documents directly related to the European Semester commitments and EU legislation, such as the National Reform Programme, the budgetary plans and the medium-term fiscal-structural plan. This represents a significant deficiency in Slovenia's strategic and budgetary planning, as outdated strategic documents reduce the consistency with the country's long-term development priorities and actual budgetary and reform measures. This reduces the country's resilience to new challenges and the effectiveness of budgetary planning, and may have a negative impact on the country's long-term development. A comprehensive alignment of national strategies could allow Slovenia to respond more effectively to current challenges, to more targeted spending and better coordination of national strategic goals with European ones.

Despite these requirements and the possibilities to adjust strategic documents in the light of significantly changed circumstances, Slovenia has not formally amended its key national strategic plans after 2020, including the Slovenian Development Strategy 2030<sup>82</sup>. Changes have only been made to documents directly related to the European Semester commitments and the EU legislation. This represents a significant deficiency in Slovenia's strategic and budgetary planning, as outdated strategic documents reduce the consistency with the country's long-term development priorities and actual budgetary and reform measures. Consequently, there is an increased risk of inefficiency in achieving strategic goals, which are driven by national interests as well as common EU objectives. The lack of a systematic and comprehensive approach to the alignment of national strategy papers puts Slovenia in a more unfavourable position in realising the full potential of all EU instruments available and in ensuring the long-term flexibility and resilience of the public finance management system.

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<sup>82</sup> Government of the Republic of Slovenia, *Slovenia Development Strategy 2030*, Government Office for Development and European Cohesion Policy, Ljubljana, 2017.

#### 4. CONCLUSION

This paper investigates whether and how the EU's economic governance system ensures that its strategic goals and priorities are reflected in the Member States' strategic and budgetary planning, and what new developments in this respect have been brought about in 2024 and 2025 by the fiscal rules reform, the new composition of the European Parliament and the European Commission, as well as by the substantially changed external political and economic situation and increased security risks. We were wondering whether the changes in the external political situation and the multiple crises have led to a change in the EU's long-term and strategic goals.

Strategic and budgetary planning in the EU and in the Member States is regulated by legal acts at the EU and the national level, and the national legislation should be in line with EU legislation. The fundamental objectives of the EU are set out in the EU primary law, in particular the TEU (stability of public finances, sustainable development, social cohesion, competitiveness of economic and strengthening strategic autonomy and defence capabilities).

The EU's economic and fiscal governance system for the period 2020-2025 was based on the connection between the European strategic goals and the national ones, notably through the SGP and the European Semester. This framework ensured that Member States' budgetary and reform policies were aligned with the EU priorities. The COVID-19 pandemic triggered the activation of the general escape clause, allowing Member States to temporarily derogate from the budgetary rules, however, the commitment to the EU strategic goals through the European Semester and the implementation of the RRF was maintained.

The reform of the fiscal rules adopted in April 2024 brought substantial changes to the economic and fiscal governance system. The reformed governance framework is based on medium-term fiscal-structural plans that integrate fiscal policy with structural reforms and investments, while at the same time taking into account country-specific recommendations. An important innovation is individualisation of fiscal paths, allowing the states more flexibility to respond to their specific fiscal challenges, with the possibility to extend the adjustment period to up to seven years if they include credible reforms and investments contributing to the EU objectives.

Due to the significantly changed geopolitical and security situation, priorities related to energy security and defence have been integrated into the European Commission's priorities and the reformed EU economic and fiscal governance frame-



work. Investments in energy diversification and infrastructure have become an integral part of the Member States' fiscal policies, which applies also for Slovenia.

The new composition of the European Parliament and the European Commission in 2024 further emphasised the importance of competitiveness, strategic autonomy and strengthening defence capabilities with the EU Strategic Agenda 2024-2029. In the coming years, these priorities will need to be reflected in national strategic and budgetary documents. In line with these priorities, Slovenia has prepared its first medium-term fiscal-structural plan 2025-2028, bringing together reforms and investments for Slovenia's green and digital transition, strengthening social and economic resilience, energy security, and increasing defence expenditure.

In March 2025, the European Commission again proposed the use of emergency instruments in view of the heightened geopolitical and security situation: The new EU's defence capabilities plan ReArm Europe and the use of the national escape clause under the SGP, to provide greater flexibility to increase Member States' defence spending in the short term and to encourage the redirection of funds from cohesion policy to security and defence.

Strategic documents such as the EU Strategic Agenda, the European Commission's priorities and work programmes, the MFF, the RRF and the medium-term fiscal-structural plans are derived from or are formally and substantively aligned with EU legal acts. These are political and governance acts with not formal legal nature in terms of directly binding regulations, however, they are indirectly binding as they constitute a key basis for the implementation of EU policies through the EU budget and guide the design of national reform programs, investments and budgetary plans of Member States in the context of the European Semester. Their binding nature is reflected in the surveillance mechanisms, the recommendations of the Council of the EU, the conditions for access to the EU funds (e.g. the RRF) and the sanctions in the event of non-compliance with the (fiscal) rules.

The EU budget and national budgets are the main instruments for financing policy objectives and EU priorities set out in legal and strategic instruments, including the green and digital transition, enhancing social cohesion, defence and ensuring security. This means that the content and the directions for European and national budgets in the period between 2020 and 2025 were directly connected to the priorities set out in the EU's strategic documents. The planned reuse of emergency instruments in 2025, following the reform of the EU's economic and fiscal governance in 2024, continues the use emergency mechanisms and marks the beginning of a new, broader reform of the EU's economic and fiscal governance, in particular towards allowing for greater flexibility in coordinating European and

national policies to respond and adapt to major changes in the geopolitical and security situation.

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