Evaluation of the General Government Budget Proposal for 2025-2027

Key Conclusions and Recommendations

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Basic information about CBR's positions

In order to achieve long-term sustainability of Slovakia's economy, enhance transparency and increase public spending efficiency and in an effort to promote long-term competitiveness of the Slovak Republic while taking into account the requirement of economic and social justice and solidarity between the present and future generations, the Council for Budget Responsibility (CBR, the Council) was formed in 2012 as an independent body set up to monitor and evaluate the fiscal performance of the Slovak Republic. Its role is to provide professional, comprehensive and politically unbiased information to the public on the development of public finances.

Basic information on how the budget is evaluated

In order to realistically evaluate the country's budgetary policy, the Council first estimates the budget balance for the current year. These estimates are based on an updated Budgetary Traffic Lights. The CBR then prepares a fiscal outlook for each next year based on the most recent estimate of macroeconomic developments and a realistic estimate of the proposed revenue- and expenditure-side measures. The result is a "CBR scenario". The CBR scenario thus describes the impact the budget is likely to have on public finances provided that no additional measures are adopted.

The CBR scenario is than compared against a no-policy-change (NPC) scenario. The two scenarios are subsequently used to quantify analytical indicators, such as the government's consolidation effort, and to prepare an overall analytical assessment of the budget.

Any suggestions or comments on the report are welcome at **sekretariat@rrz.sk**.

Main conclusions and recommendations

- **According to the CBR, the 2025 target deficit of 4.7 % of GDP is a realistic goal only if a reserve is not spent for new expenditure; the CBR estimates the general government deficit at 4.5 % of GDP provided that the reserve will only be used to offset the existing risks in taxation and healthcare sector**
- **According to the CBR calculations, the budget proposal improves the long-term sustainability by 1.4 % of GDP mainly due to the effects of the approved package of consolidation measures; the long-term sustainability indicator could decrease just below the upper limit of the medium risk zone**
- **The adopted consolidation package will enable the government to increase the limit on the year-on-year growth in expenditure from 3.8 % to 6.9 % (i.e., by 1.8bn euros) next year**
- **The budget proposal is lacking the measures to meet government's targets in 2026 and 2027; additional consolidation efforts amounting to as much as 1.9 % of GDP are needed, according to the CBR**
- **Additional consolidation efforts should primarily focus on 2026 and not be postponed to 2027 not only due to a political cycle, but also due to the estimated economic development and the availability of EU funding under the Recovery and Resilience Plan**
- **Without additional consolidation efforts, the nominal expenditure ceiling will not be met throughout the entire budgetary horizon; the CBR estimates the deviation to reach 114mn euros in 2025, subsequently increasing towards the level of 2.1bn euros in 2026**
- **According to the CBR (as well as according to the government's estimate) complying with the net expenditure trajectory at the level recommended by the European Commission would not result in a sustainable reduction of the deficit below 3 % of GDP, or of the debt below 60 % of GDP**
- **In order to stabilise the debt by the end of the current election term, the deficit would need to be reduced to the 2.5 % of GDP level, allowing, if permanent measures are adopted, to safely bring the long-term sustainability indicator down to the medium-risk zone**

Government's budget proposal

The proposal of the 2025-2027 general government budget approved by the government on 15 October 2024 is the first budget prepared in accordance with the EU's new fiscal rules.

Due to the persistent bad state of public finances and with respect to the requirements of European fiscal rules, the government incorporated a package of consolidation measures in the budget proposal, especially with respect to tax revenues. The consolidation package was approved by the Slovak parliament in October 2024, largely consisting of measures with permanent effects on the general government's fiscal performance[1]. The adopted measures allow the government to target a year-on-year reduction in deficit for 2025, however, it is only the first step in the public finance recovery process.

Compared to the general government deficit originally estimated at the level of 6.0 % of GDP, the government currently expects a slightly lower deficit of 5.8 % of GDP in 2024. **The budget proposal**

[1] The Council published a comprehensive overview of these measures, including their effects on public finances, households and economy, in a paper entitled Quantification of the Effects of the Measures.

targets the deficit to improve to 4.7 % of GDP year-on-year in 2025. Subsequently, the budget proposal expects the deficit to fall below 4.2 % of GDP in 2026, followed by an increase to4.9 % of GDP level in 2027. At the same time, however, **the government plans to attain a general government deficit of 3.7 % of GDP in 2026 and 3.0 % of GDP in 2027**, yet it has not presented any specific measures to achieve these targets.

According to the government's estimate, the consolidation measures on the revenue and expenditure side will contribute to deficit reduction by 2.1 % of GDP in 2025. On the other hand, the budget proposal includes measures that increase expenditures by 0.4 % of GDP and a budgetary reserve of 0.3 % of GDP (421mn euros) to address the negative impacts of the development in fiscal performance[2].

According to the government, the budget proposal should lead to a gross debt increase from the 2023 level of 56.1 % of GDP to 58.9 % of GDP in 2024 with a subsequent gradual increase towards 60.5 % of GDP at the end of 2027, provided that the budgetary objectives are met, for which, however, no specific measures exist. The increase is mainly driven by the high levels of deficits expected in the near term. Regardless of the expected development, the debt has **since 2020 been above the upper limit of the sanction brackets under the constitutional act and, according to the government, will remain above this limit throughout the forecast period, as well.**

Balance and debt expected under the GG budget proposal compared to the CBR's estimate

(in % of GDP)	2023	2024	2025	2026	2027
Balance under the 2025-2027 GG budget proposal (government's targets)	*-5.2*	-5.8	*-4.7*	*-3.7*	*-3.0*
Gross debt under the 2025-2027 GG budget proposal (government's targets)	*56.1*	*58.9*	*59.6*	*60.4*	*60.5*
1. General government budget balance for 2025-2027	-5.2	-5.8	-4.7	-4.2	-4.9
2. Budget balance estimated by the CBR	**-5.2**	**-5.8**	**-4.5**	**-4.8**	**-4.9**
Difference (2-1)	**0.0**	**0.0**	**0.2**	**-0.6**	**0.0**
3. General government gross debt for 2025-2027	56.1	58.9	59.6	61.7	65.8
4. Gross debt estimated by the CBR	**56.1**	**59.3**	**59.7**	**62.4**	**64.0**
Difference (4-3)	**0.0**	**0.4**	**0.1**	**0.7**	**-1.8**
p.m. Upper debt limit in the constitutional act	*54.0*	*53.0*	*52.0*	*51.0*	*50.0*

Source: MF SR, CBR

The budget proposal contains a public expenditure ceiling for each year from 2025 to 2027 which was for the first time calculated by the Ministry of Finance in accordance with an amendment to the Budgetary Rules Act which links the calculation of public expenditure ceilings to the European fiscal rules under the reformed Stability and Growth Pact. The size of expenditure ceilings for 2025 to 2027 is based on the maximum permitted growth in net expenditures[3] set by the government in the National Medium-Term Fiscal-Structural Plan of the Slovak Republic for 2025-2028.

According to the government, the expenditures contained in the general government budget proposal meet the ceiling in 2025 only, exceeding it by 345mn euros in 2026 and by 1.9bn euros in 2027. The government estimates that the ceiling will also be met in 2024. If the ceiling is met in 2026

[2] According to the budget proposal, the reserve is designed to cover essential or unforeseen expenditures, mainly in response to macroeconomic effects and measures related to meeting the general government's expenditures.

[3] Net expenditures include the maximum amount of the total accrued consolidated general government expenditure as per unified methodology applicable to the European Union, excluding interest expenditure, transfers from the EU budget, funds from the Recovery and Resilience Mechanism, general government's mandatory expenditures on co-financing, cyclical expenditures on unemployment benefits, and one-off expenditures. The final size of the ceiling is also affected by the size of year-on-year effects of so-called discretionary revenue measures which should enable the government to perform consolidation on the revenue-side of the budget.

and 2027, the deficit will decrease to 3.6 % of GDP, which, however, is insufficient to meet the government's deficit target of 3.0 % of GDP under the current forecast.

The CBR's evaluation

- The baseline year for the preparation of the 2025-2027 general government budget proposal is 2024. Based on the currently available information, **the deficit may reach 5.8 % of GDP in 2024, according to the Council.** Compared with the government's current estimate, this is approximately the same starting position for the fiscal performance of the general government over the 2025-2027 period (the Council estimates the deficit to be 0.02 % of GDP lower).

- Under a no-policy-change scenario (without new measures approved by the government), the general government deficit would remain at the level of the 2024 deficit of 5.7 % of GDP[4] in 2025, followed by a more significant increase within the range of 6.2 % of GDP to 6.6 % of GDP over the 2026-2028 period. Defence expenditures are increasing in accrual terms over the entire horizon, as high-worth deliveries of military equipment are expected for the period. At the same time, the development in public finances is also negatively affected by a decline in tax revenues relative to GDP due to applicable legislation (bank tax and health insurance contribution), as well as by a slower growth in tax macroeconomic bases in the medium term.

Size of measures under CBR's balance estimate against a NPC scenario

(in % of GDP)	2024	2025	2026	2027	2028
1. NPC balance	**-5.7**	**-5.7**	**-6.4**	**-6.2**	**-6.6**
2. Balance estimate (including the measures and risks, CBR)	**-5.8**	**-4.5**	**-4.8**	**-4.9**	**-5.2**
3. Size of measures (2-1)	**0.0**	**1.2**	**1.6**	**1.3**	**1.3**
- with no impact on structural balance	0.0	-0.1	0.0	0.0	0.0
- structural measures	-0.1	1.2	1.8	1.4	1.5
- change in interest payments (due to the measures)	0.0	0.0	0.1	0.1	0.2
- macroeconomic effects of the measures	0.0	0.0	-0.2	-0.2	-0.4

Source: CBR

- **In 2025, the Council estimates the deficit at 4.5 % of GDP, i.e. 0.2 % of GDP less than the deficit expected in the budget.** The budget structure shows negative risks, in particular regarding tax revenue and healthcare expenditure, which are offset by positive effects in the expenditure of the state budget and of other entities, however, mostly due to the expected underspending of funds from the reserve for new expenditure[5]. The Council assumes that the reserve will offset the risks in tax revenue and healthcare expenditure, which saw additional adjustments in terms of automatic wage increases for health sector employees beyond the consolidation package and the budget proposal[6]. From this perspective, **the intention to**

[4] The difference between the 2024 deficit levels contained in the current estimate and in the no-policy-change scenario is caused by the impact of the measures which were approved during the preparation of the 2025 budget but also increase expenditures in 2024. These measures include a retainment and recruitment bonus for police officers and a regional bonus for pedagogic employees.

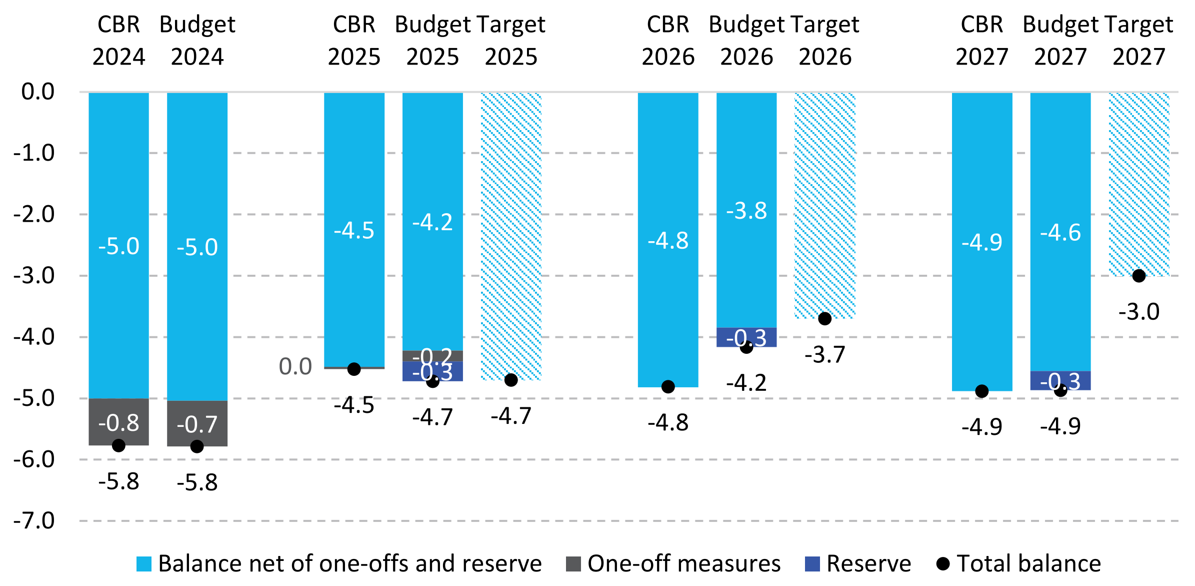
[5] The reserve for addressing negative impacts of the development in fiscal performance designed to cover essential or unforeseen expenditures, mainly in response to macroeconomic effects.

[6] The amendment approved by the parliament on 6 November 2024 expects only a temporary slowdown in the increase of physicians' wages in 2025 and 2026; therefore, expenditure cuts in 2025 will be lower by some €150mn compared to the provision incorporated in the budget.

achieve a deficit targeted at 4.7 % of GDP in 2025 can be assessed as realistic only if the reserve is not spent for the funding of new measures[7].

- **In the subsequent years, the Council estimates the deficit to increase to 4.8 % of GDP in 2026, 4.9 % of GDP in 2027 and 5.2 % of GDP in 2028.** In 2026, the estimate is 0.6 % higher than the budgeted deficit expected by the government; therefore, the **budget prepared for 2026 cannot be considered realistic**. Furthermore, **assessed against the declared targets, the government lacks specific measures in the amount of 1.1 % of GDP in 2026 and 1.9 % of GDP in 2027**.

Estimates of GG fiscal performance in 2024-2027 by the CBR and the GG Budget Proposal (in % of GDP)



Source: Ministry of Finance, CBR

- **The net contribution of the measures**[8] **towards a permanent change in the general government balance will be positive over the medium term, at 1.5 % of GDP, mainly due to measures causing the general government revenue to increase permanently.** These include, in particular, an adjustment of VAT tax rates, an increase in excise duties, including the introduction of a new tax on sweetened beverages and a tax on financial transactions, a higher corporate income tax, and an increase in the maximum assessment ceilings for social contributions. Non-tax revenue will increase permanently due to changes in toll payments and higher prices of vignettes. On the expenditure side, the cuts will primarily apply to the tax bonus for children and the parental pension.

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[7] In terms of the structure of general government revenue and expenditure, the CBR's forecast shows many differences from the budget proposal, having both positive and negative effects on the general government balance. However, as opposed to the sources of other deviations, the budgeted reserve for addressing negative impacts is the only item that is not earmarked for a specific type of expenditure while at the same time being under full control of the government. For these reasons, this plays the key role in the differences between the assumptions of the budget proposal and the CBR's forecast.

[8] The indicator concerning the government's consolidation effort is related exclusively to the contribution of government measures towards a permanent change in the general government's fiscal performance. Its detailed description is presented in the CBR's discussion paper No. 02/2014: How to measure public finance consolidation.

Basic indicators of the budget proposal under the CBR scenario

(ESA2010, in % of GDP)	2024	2025	2026	2027	2028
General government balance	**-5.8**	**-4.5**	**-4.8**	**-4.9**	**-5.2**
Structural balance	**-4.8**	**-4.3**	**-4.5**	**-4.8**	**-5.1**
Structural balance (defence, fixed at 2 % of GDP)	-5.1	-3.9	-4.2	-4.8	-5.2
Government consolidation effort* (+ means consolidation)	-	1.2	0.3	0.0	0.0
General government gross debt	**59.3**	**59.7**	**62.4**	**64.0**	**65.9**
General government net debt	**50.6**	**51.2**	**53.8**	**56.9**	**59.8**
Fiscal impulse (+ means restriction, - expansion)	1.5	0.7	-0.5	1.8	-0.2
p.m. output gap according to the CBR methodology	*-0.4*	*-0.6*	*-0.5*	*0.0*	*0.0*

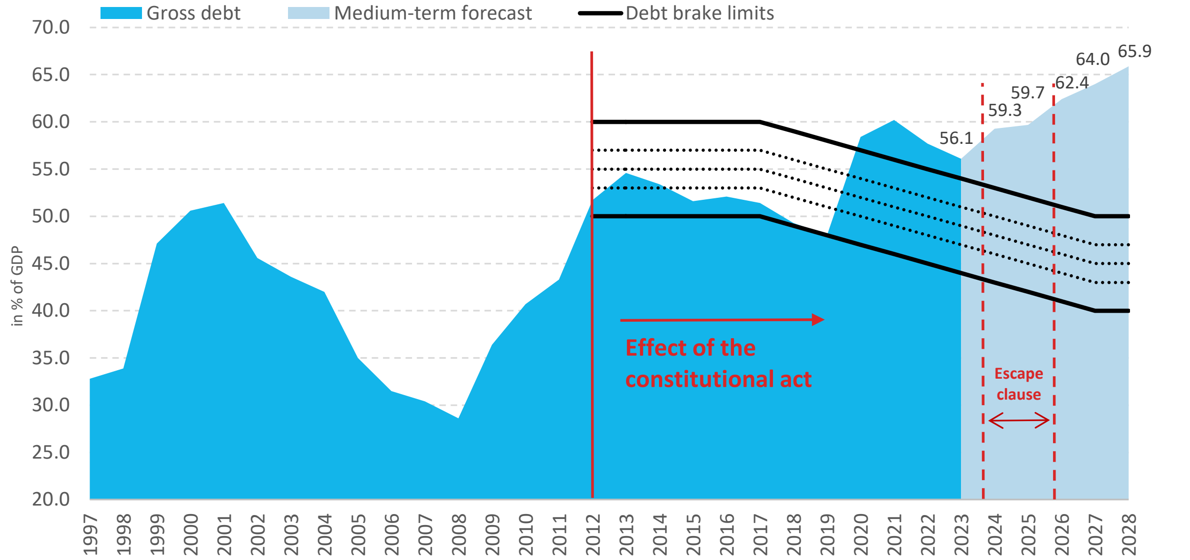
Source: CBR

*Note: *The government's consolidation effort is defined as a year-on-year change in structural balance beyond the development under the no-policy-change scenario, after taking into account the factors with no impact on long-term sustainability (2nd pension system pillar, PPP projects, temporarily increased taxes, temporarily reduced expenditure) and debt interest payments.*

- The CBR estimates that, during 2024, the gross debt-to-GDP ratio will increase from 56.1 % of GDP to 59.3 % of GDP. Over the medium term, **gross debt will increase continuously between 2024 and 2028 to reach 65.9 % of GDP at the end of 2028.** Compared to 2023, net debt will increase by 11.5 p.p. to 59.8 % of GDP at the end of 2028. To stabilise gross debt around 60 % of GDP, the government should continue the consolidation effort even beyond 2025 and reduce the general government deficit to some 2.5 % of GDP.
- Considering a gradual decrease in the thresholds of sanction brackets of the debt brake, the most recent debt forecast would imply that **debt is to remain high above the upper limit of the debt brake, exceeding it by as much as nearly 16 p.p. in 2028**. Currently, due to the 24-month exemption[9], only the sanctions based on overrunning the second sanction bracket (an obligation for the government to submit to the parliament a proposal for measures to reduce debt and freeze salaries of Cabinet members) are applicable. After the exemption ceases to apply, the **government will be required, after 21 November 2025, to present a general government budget proposal with a balanced or surplus budget including no growth in expenditure, as well as to request the parliament to pass a vote of confidence.**

[9] During a period of 24 months following the approval of the government's manifesto and the vote of confidence in the government, the sanctions based on overrunning the third, fourth and fifth sanction bands are not applied. The approval of the government manifesto and the vote of confidence in the government took place on 21 November 2023, therefore the escape clause expires on 21 November 2025.

General government gross debt development



Source: Statistical Office, CBR

Note: The medium-term forecast covering the 2024-2028 period is an estimate made by the CBR

- **The CBR estimates that the government will not meet the statutory public expenditure ceiling for 2024, exceeding it by €304mn. A comparison of the CBR's estimate with the public expenditure ceiling approved by the government shows that, without taking additional measures, the ceiling would not be met over the entire budget horizon.** The amount of required consolidation measures is €114mn in 2025, but rises sharply above €2bn in 2026 and 2027.
- According to the CBR, complying with the public expenditure ceiling between 2024 and 2028 would reduce the deficit to 2.4 % of GDP by 2028, while general government gross debt would decline by 5.9 p.p. to 59.9 % of GDP at the end of 2028, when compared to the CBR's latest estimate.
- Under the reformed framework of the European fiscal rules, the government approved the National Medium-Term Fiscal-Structural Plan of the Slovak Republic for 2025-2028, thus committing itself to a cumulative net expenditure growth of up to 8.1 % between 2025 and 2028. **According to the CBR (as well as the government's estimate), complying with the net expenditure trajectory would not result in a sustainable reduction of the deficit below 3 % of GDP or of the debt below 60 % of GDP within ten years following the implementation of the consolidation plan, which contrasts with the main targets of the new reformed fiscal**

rules[10]**.** In order to achieve the objectives of the European rules, cumulative four-year expenditure growth rate of not more than 4.9 %[11] would be necessary.

- **The adopted package of measures enabled the government to increase the limit of the year-on-year increase in expenditure from 3.8 %**[12] **to 6.9 % (i.e. by €1.8bn) in 2025, which is 3.0 p.p. higher than it would have been without such measures.**
- **According to the CBR's estimate, the general government budget proposal contributes 1.4 % of GDP to the improvement of the long-term sustainability indicator.** The positive contribution of 1.3 % of GDP is mainly attributable to the adoption of the consolidation package due to its permanent nature. To a small extent, the impact of the consolidation measures is offset by additional measures increasing the state budget expenditure. As a result, the **measures incorporated in the budget proposal should cause the long-term sustainability indicator to drop below the upper limit of the medium-risk zone**. The improvement can only materialise if the reserve earmarked in the budget is not spent on funding new expenditure and, simultaneously, if 2024 sees no major revision of macroeconomic assumptions or differences in fiscal performance.
- **As regards the impact on the economy, the consolidation effort planned in the years ahead should be concentrated primarily in 2026.** In 2025, the CBR estimates the fiscal restriction to stand at 0.7 % of GDP, as the already approved significant consolidation is expected to be partly offset by accelerated spending of EU funds[13], which will thus temporarily provide an additional impetus to economic growth. As the economy will be operating around its potential during this period, the continuation of significant consolidation effort even in 2026 should not cause imbalances in the economy; on the contrary, this situation would be desirable considering the current unfavourable development in public finances. **The reduced availability of European funding to finance expenditure as the recovery plan is expected to come to an end will have a dampening effect on domestic demand in 2027.** Carrying over a significant part of the consolidation effort from 2026 to 2027, as implied by the objectives of the budget proposal, may cause an additional, unintended restriction with a significant impact on economic growth.
- In terms of transparency, the CBR considers it positive that the total amount of tax revenue in the budget proposal is consistent with the approved forecast of the Tax Revenue Forecasting Committee and with the applicable legislation, as in effect at the time of adoption of the budget proposal. On the other hand, the **failure to prepare the budget in line with the budgetary objectives for 2026 and 2027, as there are no specific consolidation measures for**

[10] The reason is that the European Commission bases its assumptions, when setting the recommended growth rate in expenditure, on the premise that that general government revenue will grow at the level of GDP growth potential over the medium term, which is an optimistic assumption for the current medium-term revenue forecast approved by the Tax Revenue Forecasting Committee (a significant part of revenue, such as certain excise taxes and non-tax revenue, are inelastic to GDP, which means that their share of GDP declines over time).

[11] According to the debt sustainability analysis, Slovakia would need to improve its structural primary balance by 1.3 % of GDP every year (i.e. cumulatively by 5.2 % of GDP over four years) in order to sustainably reduce the deficit and debt below 3 % and, respectively, 60 % of GDP. Considering that elasticity of revenue to GDP (based on the TRFC's projection) is less than 1, net expenditure should cumulatively grow by 4.9 % instead of the recommended level of 8.1 %.

[12] The 3.8 % growth in net expenditure in 2025 is based on the medium-term fiscal-structural plan.

[13] Between 2025 and 2026, the higher estimated absorption rate of the Recovery and Resilience Plan will considerably compensate for a slower start in the spending of Structural Funds and the Cohesion Fund.

these years, is seen as a persisting problem. The budget proposal also lacks a transparent view of the measures incorporated primarily on the expenditure side, which is also linked to the abolition of the statutory obligation to draw up the budget based on no-policy-change scenarios. Transparency has also worsened in the budgeting of expenditure which used to be treated as reserves in the past, thus weakening the parliamentary and public control over the use of state budget expenditure[14].

[14] In 2024, the number of budgetary reserves was changed through an amendment to the Act on the General Government Budgetary Rules. Some expenditure items that were previously budgeted as reserves continue to be included in the budget, however, without being classified as reserves (for example, wages and insurance premiums, addressing the impacts of legislative changes, energy subsidies). As the Ministry of Finance is required to report performance in terms of budgetary reserves during the year and subsequently, after the end of the year, in the Final State Budgetary Account, information about the use of a part of the expenditure will no longer be provided to the public.

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