Addendum to the Evaluation of the 2025-2027 General Government Budget

(Reflecting changes that have occurred since the approval of the 2025-2027 general government budget proposal by the Slovak government)

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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 which is based on the CBR scenario but does not include the impacts of the measures contained therein. 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**.

Summary

- **The budget approved by the parliament differs from the government's proposal in structure only, while deficit targets for individual years have remained unchanged.**
- **The positive contribution of the general government budget on the long-term sustainability has decreased to 1.2% of GDP; it still holds that the measures contained in the budget should ensure an improvement in the long-term sustainability indicator below the upper limit of the medium-risk zone.**
- **The CBR estimates higher deficits than those specified in the approved budget over the entire budgetary horizon; the deficit could reach 6.75bn euros (4.9% of GDP) in 2025, that is, 0.2% of GDP above the deficit target set by the government.**
- **The CBR has increased its deficit estimates mainly in response to a negative economic outlook and higher expenditure on energy subsidies.**
- **According to the CBR, the largest budgetary risk in 2025 comes from a shortfall in tax and contribution revenues, estimated at 921mn euros, and from an increase in health care expenditure by 300mn euros.**
- **The CBR estimates that blanket energy subsidies will amount to 372mn euros, instead of around 100mn euros in the form of targeted support originally announced by the government.**
- **Without additional consolidation efforts, the nominal expenditure ceiling will only be met in 2025, according to the CBR's estimate.**
- **Additional consolidation efforts amounting to 3.1bn euros are necessary in order to meet the budgetary target by the end of the current election term.**
- **Without additional measures (and provided that energy subsidies do not continue), the deficit will amount to 4.9% of GDP in 2026 and 5.0% of GDP in 2027. With such high deficit levels, the debt will continue to rise, from 59.2% of GDP at the end of 2024 to as much as 65% of GDP in 2027, and its growth will keep accelerating.**
- **Therefore, the CBR emphasises the need to continue the consolidation efforts, which should primarily focus on 2026 and not be postponed to 2027, taking into account the political cycle, the culmination of the financing from the Recovery Plan in 2026, as well as emerging global trade risks.**

The Council for Budget Responsibility (the Council, CBR) has prepared an update to its evaluation of the 2025-2027 general government budget. The update reflects on the differences between the general government budget proposal originally presented by the government and its final version approved by the parliament. The updated evaluation takes also account of other changes that occurred after the approval of the budget proposal by the government, which affect the development in public finances expected over the next years, especially the final form of energy subsidies approved by the government for 2025, as well as an agreement reached with the union of medical professionals.

Compared to the government's proposal, the budget approved by the parliament has changed only formally in its structure; the levels of the general government deficits envisaged for individual years remain unchanged. The changes include several minor measures on the revenue side, while the changes on the expenditure side include a transfer of funds from the budgetary reserve to cover public health expenditures. The approved budget projects the 2025 deficit at the level of 4.7% of GDP (6.6bn euros); the 2026 deficit is estimated at 4.2% of GDP (6.1bn euros), and the 2027 deficit at 4.9% of GDP (7.4bn euros).

Table 1: Balance and debt expected under the approved GG budget compared to the CBR's estimate

(% of GDP)	2023*	2024	2025	2026	2027
GG Balance (government's targets)			*-4.7*	*-3.7*	*-3.0*
Gross debt (government's targets)			*59.6*	*60.4*	*60.5*
1. Budget balance for 2025-2027	-5.2	-5.8	-4.7	-4.2	-4.9
2. Balance estimated by the CBR	-5.2	-5.8	-4.9	-4.9	-5.0
difference (2-1)	**0.0**	**0.0**	**-0.2**	**-0.7**	**-0.2**
3. Gross debt under the 2025-2027 budget	56.1	58.9	59.6	61.7	65.8
4. Gross debt estimated by the CBR	56.1	59.2	60.6	63.1	65.4
difference (4-3)	**0.0**	**0.3**	**1.0**	**1.4**	**-0.4**
p.m. Upper debt limit in the constitutional act	*54.0*	*53.0*	*52.0*	*51.0*	*50.0*

** data from the Slovak Statistical Office autumn notification* *Source: MoF SR, CBR*

The CBR has updated its macroeconomic forecast based on the gas and heat price ceilings approved at the level of 2024. The provision of blanket energy subsidies financed through a higher deficit will provide a short-term stimulus to household and government consumption, which will temporarily and artificially boost economic growth in 2025 at the cost of an increase in public debt. However, an even greater negative impact will come from the worsened outlook on economic development in Europe over the next few years, particularly the growing economic and structural problems in the eurozone. **Taken together, these factors imply an overall reduction in the CBR's estimate of next year's economic growth to 1.8 per cent (last October, the CBR projected economic growth at almost 2 per cent). This estimate, however, does not reflect the risks to global trade resulting from the change in US administration.**

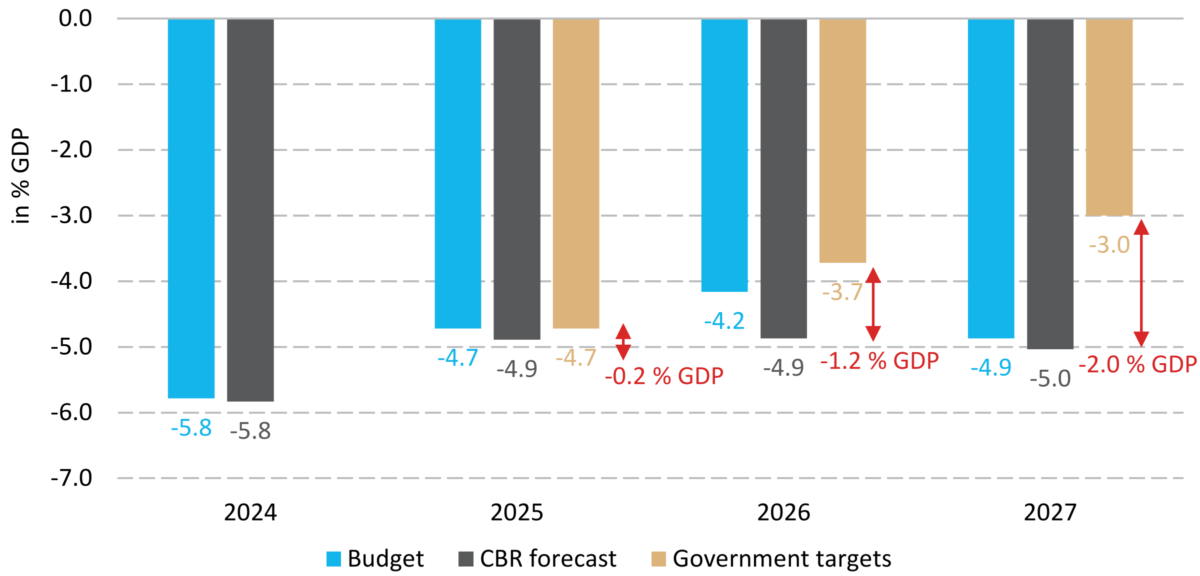
Compared to the evaluation of the budget proposal, the CBR has slightly increased its estimate of the general government deficit in 2024 in light of the recent developments. Having considered these changes, together with an updated macroeconomic forecast and new measures adopted by the government, **the CBR now estimates higher deficits over the entire forecast horizon.** If no additional measures are taken, the general government deficit could reach 6.75 bn euro (4.9% of GDP) in 2026, remain at the 4.9% of GDP level in 2026, and then increase slightly to 5.0% of GDP in 2027.

The worsened medium-term outlook for the fiscal performance of the general government means that the CBR estimates higher deficits compared to the approved budget in each year of the medium-term horizon. In 2025, the negative deviation from the declared budgetary framework is expected to be 148mn euros, in 2026 the difference will be 989mn euros and in 2027, the estimate of the risk represents 344mn euros. At the same time, there are no specific and credible measures in 2026 and 2027 aimed at meeting the targets set by the government. **Assessed against the declared targets, the government lacks specific measures in the amount of 1.2% of GDP in 2026 and 2.0% of GDP in 2027 (3.1bn euros).**

The largest risk for the budget balance comes in 2025 from a shortfall in tax and contribution revenues estimated at 921mn euros. Most of the difference between the CBR's tax forecast and the approved budget is due to a worse estimate of economic developments when taking into account the most recent data, since the budget is based on older and more positive macroeconomic assumptions from September 2024. Increased healthcare expenditure represents a risk for the budget balance amounting to 300mn euros. The negative deviation is mainly driven by a faster growth in health care expenditure projected by the CBR.

Under the ESA 2010 methodology, the CBR estimates the impact of blanket energy subsidies on the 2025 deficit at 372mn euros instead of the targeted support amounting to some 100mn. The difference is due to expenditure accrual and the inclusion of the costs of energy subsidies, which the government transferred to entities classified outside the general government (state-run heat producer MH TH and gas undertaking SPP).

Chart 1: Estimates of GG fiscal performance in 2024-2027 by the CBR and the Ministry of Finance



Source: MoF SR, CBR

According to the CBR's estimate, the government has not complied with the statutory public expenditure ceiling for 2024, exceeding it by 512mn euros. The ceiling is expected to be met only in 2025 and, subsequently, the required consolidation measures should amount to 1.3bn euros in 2026 and 2.7bn euros in 2027. **Meeting the set amount of the public expenditure ceiling between 2024 and 2027 would, as estimated by the CBR, gradually bring the deficit down to 3.2% of GDP in 2027, while general government gross debt would decline, when compared to the CBR's latest estimate, by 3.0 p.p. to 62.4% of GDP at the end of 2027[1].**

[1] In 2028, the deficit will decrease to 2.6% of GDP and the debt will reach 61.8% of GDP if the ceiling is met.

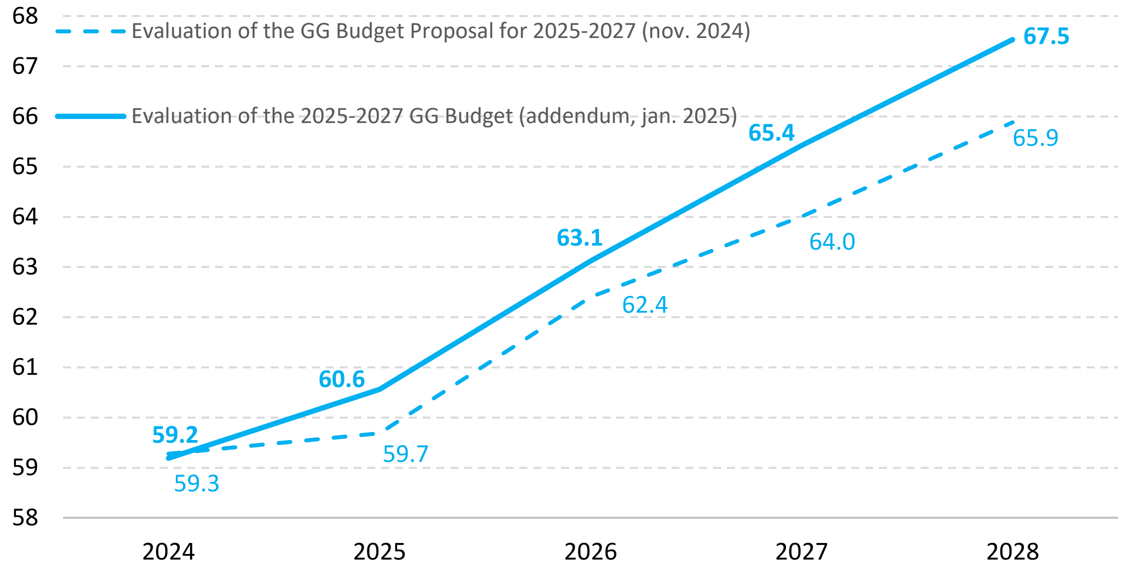
The public expenditure ceiling is calculated using the trajectory of year-on-year growth in net expenditure set by the government in the National Medium-Term Fiscal-Structural Plan approved by the European Commission. In terms of meeting the objectives of the European rules, the key is to comply with the year-on-year growth in net expenditure (rather than the nominal amount set as the ceiling). The CBR estimates that**, in 2024, expenditure growth will be in line with the trajectory**[2] **and, in 2025, it would even slow down by nearly 1 p.p. In the subsequent years, due to the absence of consolidation measures in the budget, expenditure will be rising significantly faster compared to the permitted year-on-year growth in net expenditure based on the trajectory approved by the EC.**

The gross debt relative to GDP is estimated by the CBR at 59.2% of GDP in 2024. Subsequently, it will exceed 60% of GDP in 2025 and will further increase, by the end of the medium-term horizon, to 67.5% of HDP in 2028, if no additional measures are taken beyond the already approved consolidation effort. Compared to the evaluation of the budget proposal where the CBR estimated the gross debt at 65.9% of GDP at the end of 2028, the estimate of the gross debt relative to GDP has increased mainly due to the higher estimated deficit over the entire horizon (by 0.6 p.p. of GDP) and the lower estimated GDP growth through the denominator effect (0.6 p.p. of GDP). Net debt reached 51.4% of GDP at the end of 2024 and is estimated by the CBR to increase to 61.4% of GDP by the end of 2028.

Based on the CBR's estimate, gross debt will remain above the upper limit of the debt brake over the entire forecast horizon (despite the already approved public finance consolidation effort in 2025). The budget, as approved in its current wording, falls short of bringing sufficient consolidation measures to meet the debt brake sanctions after 21 November 2025, i.e., the date of expiry of an escape clause under which the government is exempt from complying with the sanctions associated with surpassing the third, fourth and fifth sanction bands of the constitutional act. After this date, the government will be required 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.

[2] Taking 2024 as an example, mutual inconsistencies between the set amount of the expenditure ceiling as prescribed by law (national rule) and the ceiling which restricts expenditure growth rate (EU rule) can be shown. While the CBR's estimate suggests that the set amount of the ceiling has been exceeded by 512mn euros, the expenditure growth rate in 2024 is, based on the same estimate, lower than what the rule prescribes (5.6% versus 5.7%). The reason is that the set amount of the expenditure ceiling was calculated using the actual expenditure in 2023, as published in April 2024. However, the revised data from October 2024 (where the expenditure falling under the ceiling increased for 2023) were not reflected in an update of the ceiling amount for 2024. On the other hand, net expenditure growth is always calculated in comparison with the most recent data of the baseline year.

Chart 2: General government gross debt development (% of GDP)



Source: CBR

Compared to the evaluation of the budget, an update to the development of public finances as expected by the CBR only introduces a **slightly negative change to the long-term development of public finances** due to the effect of permanent expenditure measures approved by the government. Thanks to the consolidation package, the positive contribution of the general government budget amounts to 1.2% of GDP. **Therefore, it still holds that the measures incorporated in the budget should cause the long-term sustainability indicator to drop slightly below the upper limit of the medium-risk zone.**

Table 2: Overview of basic indicators of the approved budget under the CBR scenario

(ESA2010, % of GDP)	2024	2025	2026	2027	2028
General government balance	**-5.8**	**-4.9**	**-4.9**	**-5.0**	**-5.5**
Structural balance	**-4.9**	**-4.5**	**-4.6**	**-5.0**	**-5.4**
Structural balance (defence, fixed at 2% of GDP)	-5.2	-4.1	-4.3	-4.9	-5.3
Government consolidation effort* (+ means consolidation)	-0.1**	1.1	0.4	0	-0.1
General government gross debt	**59.2**	**60.6**	**63.1**	**65.4**	**67.5**
General government net debt	**51.4**	**52.7**	**55.1**	**58.2**	**61.4**
p.m. output gap according to the CBR methodology	*-0.4*	*-0.6*	*-0.4*	*0.0*	*0.1*

Source: CBR

** 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.*
*** Capturing only the measures adopted in connection with the approve budget. Excluding the overall development of public finances in 2024 in comparison with the NPC scenario.*

In terms of transparency, the **Council considers it positive that the total amount of tax and contribution revenue of the budget is consistent with the forecast published by the Tax Revenue Forecasting Committee in November 2024 and with the applicable legislation, as in effect at the time of budget approval**.

On the negative side, blanket energy subsidies approved by the government have been presented rather late and there is no comprehensive information available as regards their estimated effects for 2025 under the ESA2010 methodology. In impact clauses, the effects on public finances are presented only on a cash basis rather than an accrual basis, which is contrary to the ESA2010 methodology. At the same time, they do not contain estimates for the part of the costs that the government has transferred, by its decision, to undertakings classified outside the general government[3], and this will also affect the general government budget. **Without additional information,[4] impact clauses do not allow for a comprehensive assessment of the estimated impacts of this measure on the general government budget and significantly underestimate the budgetary impact of this measure for 2025[5].**

[3] I.e., the heat producer and supplier MH Teplárenský holding, a.s. and gas undertaking SPP, a.s.

[4] The CBR received additional data necessary for a comprehensive estimate of the effect of energy subsidies on the general government budget in 2025 from the Ministry of Economy of the Slovak Republic.

[5] According to impact clauses, the expenditure associated with energy subsidies will reach 174mn euros in 2025, while the CBR estimates this effect at 372mn euros.

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