Addendum to the Evaluation of the 2026-2028 General Government Budget

(Reflecting changes that have occurred since the approval of the 2026-2028 general government budget proposal by the Slovak government)

January 2026

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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

- **In its updated forecast, which incorporates information available as of the end of 2025, the Council for Budget Responsibility (CBR) continues to estimate higher deficits compared to the approved budget over the entire forecast horizon. The general government deficit in 2026 could reach 4.4% of GDP (EUR 6.2 billion), exceeding the government's budgetary target by 0.3% of GDP (EUR 407 million). The slight improvement compared to the original budget evaluation, which projected a deficit of 4.6% of GDP, is due to temporary factors, in particular the postponement of deliveries of military equipment.**
- **As in 2025, the most significant risk to the budget balance in 2026 stems from lower-than-expected tax and social contribution revenues. The estimated shortfall amounts to EUR 588 million and is driven by a less favourable economic outlook compared to the assumptions underlying the approved budget.**
- **According to the CBR, the positive contribution of the general government budget to long-term sustainability has declined to a marginal level of 0.1% of GDP as a result of newly adopted measures. As a consequence, this contribution may be insufficient to ensure an improvement in long-term sustainability on a year-on-year basis.**
- **In the absence of additional measures, the deficit is expected to increase after 2026 to around 5.5% of GDP, while gross debt will accelerate towards 70% of GDP. This underscores the need to continue consolidation efforts beyond 2026. In order to meet the budgetary target of a deficit of 3.5% of GDP by the end of the current electoral term, additional measures amounting to 1.9% of GDP (EUR 2.8 billion) would be required. Achieving the original target of reducing the deficit to 3% of GDP would require measures with an estimated impact of 2.4% of GDP (EUR 3.5 billion).**
- **From the perspective of the macroeconomic effects of fiscal policy, it is desirable that further consolidation has the smallest possible negative impact on economic growth. The composition of consolidation measures is therefore crucial and should not undermine competitiveness or reduce the investment attractiveness of the economy. At the same time, consolidation should be accompanied by the most intensive possible use of available EU funds, particularly given that 2026 marks the final year of the Recovery and Resilience Plan.**
- **The currently applicable numerical fiscal rules will not be sufficiently effective in the coming years. Expenditure rules (both the national nominal expenditure ceilings and the net expenditure growth limits under European rules) are, due to shortcomings in their design and the inappropriate application of the escape clause to defence spending, too loose and therefore fail to ensure a sufficient improvement in public finances. By contrast, the debt brake will require the preparation of a general government budget for 2027 with a balanced or surplus position and non-increasing expenditure (including at the level of local governments). The approval of such a budget would represent a significant negative shock to the economy, as the deficit has not been reduced during the two-year period in which the escape clause was applied and remains very high.**
- **A key risk to continued consolidation stems from the behaviour of governments and parliaments in an election year, during which consolidation measures are typically not adopted, as well as from potential consolidation fatigue, given that the three consolidation packages implemented so far have not led to an adequate reduction in the deficit relative to the size of the measures adopted.**

The Council for Budget Responsibility (the Council, CBR) prepared an update to the Evaluation of the General Government Budget for 2026–2028. The addendum assesses changes that occurred after the government approved the draft budget and that affect the expected development of public finances in the coming years, in particular the final design of energy subsidies approved by the government for 2026 and an updated delivery schedule for military equipment, which affects the deficit only at the time of delivery.

Compared with the government's proposal, the budget approved by Parliament changed only formally in its structure, while the expected levels of the general government balance in individual years remained unchanged. The approved budget foresees a general government deficit of 4.1% of GDP (EUR 5.9 billion) in 2026; without additional consolidation, a deficit of 5.0% of GDP (EUR 7.6 billion) in 2027; and a deficit of 4.6% of GDP (EUR 7.2 billion) in 2028.

Table 1: Comparison of the expected balance and debt under the approved general government budget and the CBR's estimate (without additional measures)

(% of GDP)	2024	2025	2026	2027	2028
1. GG Balance (government's targets)	-5.3	-5.0	-4.1	-3.5	-2.8
2. Budget balance for 2026-2028	-5.3	-5.0	-4.1	-5.0	-4.6
3. Balance estimated by the CBR *	**-5.5**	**-5.0**	**-4.4**	**-5.4**	**-5.5**
difference (3-1)		**0.0**	**-0.3**	**-1.9**	**-2.7**
in EUR mil.		35	-407	-2803	-4134
difference (3-2)		**0.0**	**-0.3**	**-0.4**	**-0.9**
in EUR mil.		35	-407	-540	-1404
4. Gross debt (government's targets)	59.3	61.5	62.8	64.0	63.9
5. Gross debt under the 2026-2028 budget	59.3	61.5	62.8	65.7	67.6
6. Gross debt estimated by the CBR *	**59.7**	**61.7**	**64.0**	**68.0**	**71.0**
difference (6-4)		**0.2**	**1.3**	**3.9**	**7.1**
difference (6-5)		**0.2**	**1.3**	**2.3**	**3.4**
p.m. Upper debt limit in the constitutional act	*53.0*	*52.0*	*51.0*	*50.0*	*50.0*

** - The CBR estimate is compiled without unspecified additional measures adopted after 2026.* *Source: MoF, CBR*

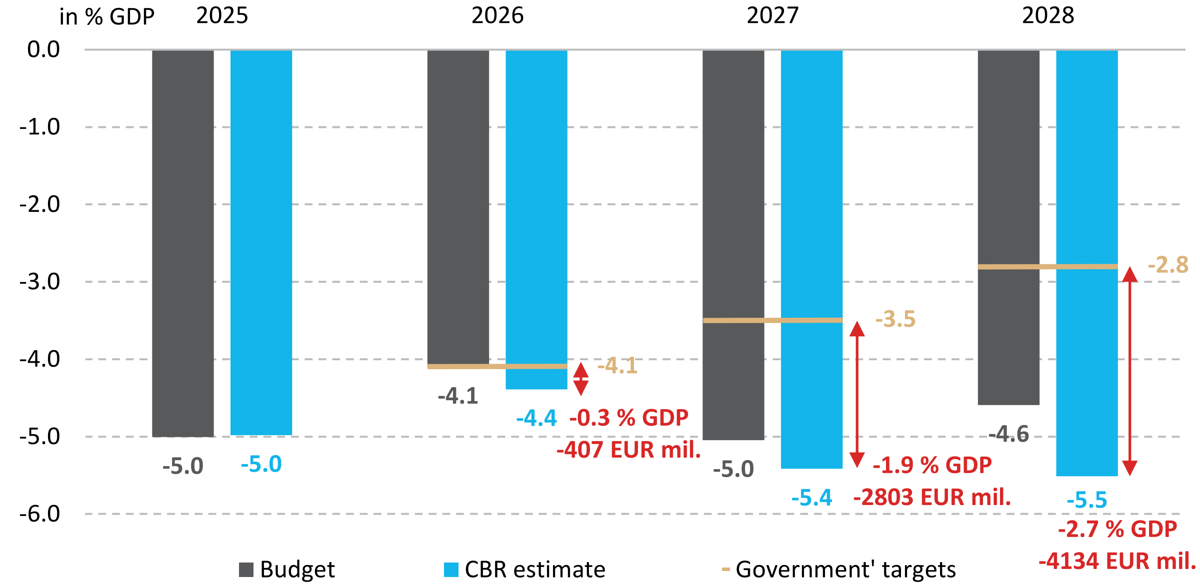
The CBR updated its macroeconomic forecast based on the approved scheme for providing energy subsidies to households and refined statistical information reflecting a deterioration in the macroeconomic environment during the second and third quarters of 2025. The volume and form of the 'targeted' subsidies will also be reflected in macroeconomic indicators, particularly through higher inflation. A significant impact stems from the worsening of preliminary data on economic performance in 2025, which also negatively affects expectations for the current year. As a result, the CBR increased its inflation forecast for the coming year to 3.5%. Economic growth below 1% in 2026, which is also the final year of drawing funds from the Recovery and Resilience Plan, mainly reflects the way fiscal consolidation is implemented and unfavourable external developments.

Compared with its earlier assessment of the draft budget, and based on the latest developments and the updated delivery schedule for military equipment, the CBR maintained its estimate of the 2025 general government deficit at 5.0% of GDP. After incorporating these changes, the updated macroeconomic forecast, and new government measures, the CBR revised deficit estimates across the entire forecast horizon. **The expected deficit for 2026 was slightly reduced; by contrast, estimated deficits for 2027 and 2028 were increased, mainly due to the assumed postponement of military equipment deliveries and the introduction of a reform of the financing of long-term social and healthcare services.** Without additional measures, the general government deficit could reach 4.4% of GDP (EUR 6.2 billion) in 2026, rise to 5.4% of GDP in 2027, and further increase slightly to 5.5% of GDP in 2028.

Following the update of the public finance outlook, the CBR estimates higher deficits than those assumed in the approved budget in every year of the medium-term horizon. In 2026, the negative deviation relative to the budget amounts to 0.3% of GDP (EUR 407 million); in 2027 the difference is

0.4% of GDP; and in 2028 the estimated risk reaches 0.9% of GDP. At the same time, concrete and credible measures to achieve the government's stated targets are missing in 2027 and 2028. **The CBR estimates that, relative to the declared targets, measures amounting to 1.9% of GDP (EUR 2.8 billion) are missing for 2027 and an additional 0.8% of GDP (EUR 1.2 billion) for 2028.**

Chart 1: General government fiscal performance in 2025–2028 according to the CBR (without additional measures) and the Ministry of Finance



** The CBR estimate is compiled without unspecified additional measures adopted after 2026.* *Source: MoF, CBR*

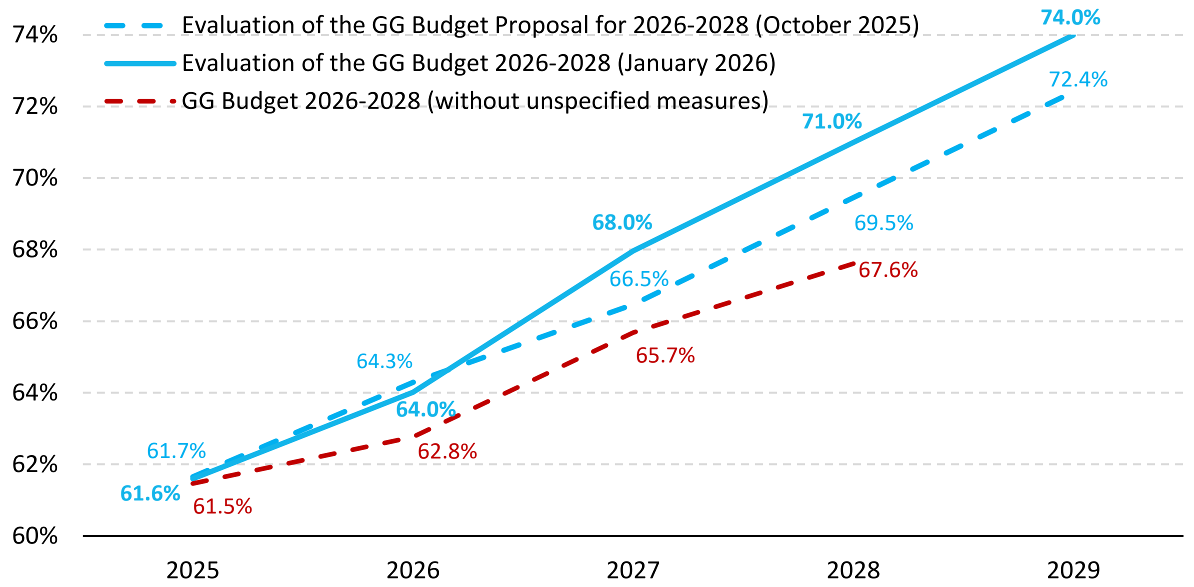
The most significant risk to the budget balance in 2026 is the estimated shortfall in tax and social contribution revenues amounting to EUR 588 million. The bulk of the difference between the CBR's tax revenue forecast and the approved budget is due to a less favourable assessment of economic developments based on the most recent available information, as the budget is built on older and more optimistic macroeconomic assumptions from September 2025.

According to the CBR's estimate, general government gross debt reached 61.6% of GDP in 2025. It is expected to increase further to 64.0% of GDP in 2026 and, in the absence of additional measures beyond the already adopted consolidation, to rise to 74.0% of GDP by the end of the medium-term horizon in 2029. Compared to the evaluation of the budget proposal, in which the CBR estimated gross debt at 72.4% of GDP at the end of 2029, the projected debt-to-GDP ratio has increased mainly as a result of higher estimated deficits over the entire horizon (by 1.2 percentage points of GDP), lower projected GDP growth through the denominator effect, as well as the use of a more appropriate method for estimating the state's cash reserve between 2027 and 2029. Net debt is estimated by the CBR to have reached 54.7% of GDP at the end of 2025 and is projected to increase to 67.2% of GDP by the end of 2029.

According to the CBR's estimate, gross debt will remain well above the upper limit of the debt brake throughout the entire forecast horizon, despite the three consolidation packages already adopted. Following the expiry of the escape clause from the application of debt brake sanctions, the sanctions regime was reinstated in full as of 22 November 2025, triggering several obligations for the government under the constitutional act. **To date, however, the government has not complied with its obligation to immediately request a vote of confidence from the National Council of the Slovak**

Republic, nor did it submit a proposal of measures to reduce debt in 2025. Additional sanction measures, including the freezing of salaries of members of the government, are being applied or will be assessed following the publication of the financial statements for 2025.

Chart 2: General government gross debt developments (% of GDP, without additional measures)



Note: The gross debt estimate prepared by the Ministry of Finance as part of the 2026–2028 budget planning process is traditionally compiled over a three-year horizon, whereas CBR estimates are prepared over a medium-term horizon that is one year longer.

Source: MoF, CBR

The expenditure rules (nationally defined nominal expenditure ceilings and net expenditure growth limits under European fiscal rules) will not be sufficiently effective in the coming years. Achieving the maximum permitted expenditure growth through to 2028 while applying the escape clause to defence spending would not be sufficient to meet the primary stated objective of the rules, namely a sustainable reduction of the deficit below 3% of GDP and the stabilisation of debt below 60% of GDP[1]. Although the budget is formally aligned with both expenditure rules in 2026, this does not imply that public finances are being sufficiently consolidated[2].

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1 The trajectory of year-on-year net expenditure growth (the European rule), from which the nationally defined nominal public expenditure ceiling is derived, was set in a significantly flawed manner for Slovakia, as pointed out by the CBR immediately after its publication in October 2024. The main reason was that the calculated expenditure growth rates were based on an unrealistically high share of revenues in GDP (in particular tax revenues) compared to the estimates of both the CBR and the Ministry of Finance. The CBR informed the European Commission of this unrealistic assumption in a letter dated 29 October 2024. During the technical discussions on the trajectory with the European Commission, the Ministry of Finance did not make use of the option to request a more realistic revenue forecast and thus did not correct this miscalibration in the rules. This flawed revenue forecast was subsequently implicitly carried over by the Ministry of Finance into the national rule.

2 If the maximum cumulative growth of net expenditure under the European rules were to be reached, the deficit could amount to 4.9% of GDP in 2028, while gross debt would reach a high level of 72.2% of GDP. Compliance with the nominally defined national expenditure ceilings would result in a lower deficit of 3.3% of GDP by 2028 and gross debt of 68% of GDP; however, this would still be insufficient to restore the health of public finances.

According to the CBR's current estimate, the positive contribution of the general government budget to long-term sustainability reaches only a marginal level of 0.1% of GDP (EUR 99 million). Compared to the previous evaluation of the budget, the update of the expected development of public finances prepared by the CBR implies a negative change in the long-term outlook for public finances, driven by permanent expenditure measures adopted by the government. It therefore continues to hold that the measures incorporated in the budget will not ensure a more pronounced decline of the long-term sustainability indicator below the upper bound of the medium-risk zone. At the same time, once the worsened economic developments and the higher deficit in 2025 – i.e. developments preceding the adoption of the budget – are taken into account, an improvement in the long-term sustainability indicator for 2025 may not materialise.

The government's consolidation effort over the period 2026–2029 is assessed as positive and amounts to a cumulative 0.2% of GDP. This is mainly driven by measures permanently increasing revenues adopted as part of the 2026 consolidation package (higher progressivity of personal income taxation, an increase in health insurance contributions by 1 percentage point for employees, the self-employed and voluntary contributors, and higher taxation of the self-employed). These effects are partly offset by measures permanently increasing expenditure, in particular in the areas of long-term care, old-age pensions and health care.

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

(ESA2010, % of GDP)	2025	2026	2027	2028	2029
General government balance	**-5.0**	**-4.4**	**-5.4**	**-5.5**	**-5.5**
Structural balance	**-5.0**	**-4.2**	**-5.2**	**-5.4**	**-5.3**
Structural balance (defence, fixed at 2% of GDP)	-5.2	-4.4	-5.0	-5.3	-5.3
Government consolidation effort* (+ means consolidation)		0.4	-0.0	-0.0	-0.1
General government gross debt	**61.7**	**64.0**	**68.0**	**71.0**	**74.0**
General government net debt	**52.8**	**56.4**	**60.9**	**64.0**	**67.2**
p.m. output gap according to the CBR methodology	*-0.6*	*-1.4*	*-1.3*	*-0.9*	*-0.6*

Source: CBR

** The government's consolidation effort is defined as the year-on-year change in the structural balance beyond developments under the no-policy-change scenario, after taking into account factors with no impact on long-term sustainability (PPP projects, temporary increases in taxes, temporary expenditure measures) and interest expenditure.*

From the perspective of transparency, the Council considers the most significant shortcoming to be the budget approval process itself, which, given the importance of the document, was disproportionately short. This significantly limited the scope for independent public scrutiny, as well as for Members of Parliament to be adequately informed prior to the budget's approval. Established practice from recent years was also disrupted, as the CBR was not informed in advance and was not invited in the standard manner to participate in the deliberations of the National Council's Committee for Finance and Budget. The discussion within the committee was itself shortened. As a result, public and expert debate on the budget was constrained and the quality of parliamentary oversight was reduced.

TWIN CITY B
Mlyské nivy 12
821 09 Bratislava
Slovakia
www.rrz.sk/en