



Fiscal sustainability and EU rules

March 31, 2026

Martin Šuster

Council for Budget Responsibility

- Independent fiscal institution (IFI)
- Established in 2012 – Constitutional Law on Budget Responsibility
- Council – 3 members, non-renewable
 - Nominated by government, president and central bank governor
- Secretariat – analytical staff to support the council
- Financing – via central bank
- Main tasks
 - Report on the Long-term sustainability of public finances
 - Report on the Compliance with the Fiscal Responsibility and Fiscal Transparency Rules
 - Opinions on fiscal consequences of proposed legislation
 - Calculation of Expenditure limits
 - Other: opinions on (draft) budget, quarterly macro forecast, working papers ...

Macroeconomic outlook

Growth subdued by both domestic and external inhibitors

Growth in % (unless stated otherwise)	Actual	Forecast				
	2025	2026	2027	2028	2029	2030
Real GDP	0.8	0.9	1.6	1.6	1.3	1.7
Household consumption	0.2	0.3	2.4	1.5	1.1	0.7
Gross fixed capital formation	2.2	-0.7	-4.3	0.4	2.0	5.7
Government consumption	1.1	0.7	1.8	-0.7	-1.4	1.7
Exports	4.0	2.5	3.9	3.4	3.4	3.4
Imports	3.7	3.4	3.6	2.9	3.2	3.7
Employment (ESA)	-0.1	-0.4	-0.1	-0.2	-0.2	-0.1
Nominal wage	5.6	4.4	4.6	4.4	4.2	4.2
Real wage	1.5	0.8	2.4	1.3	1.7	1.8
Inflation (CPI)	4.0	3.6	2.2	3.1	2.4	2.4
Output gap	-0.6	-1.0	-0.8	-0.6	-0.6	-0.3

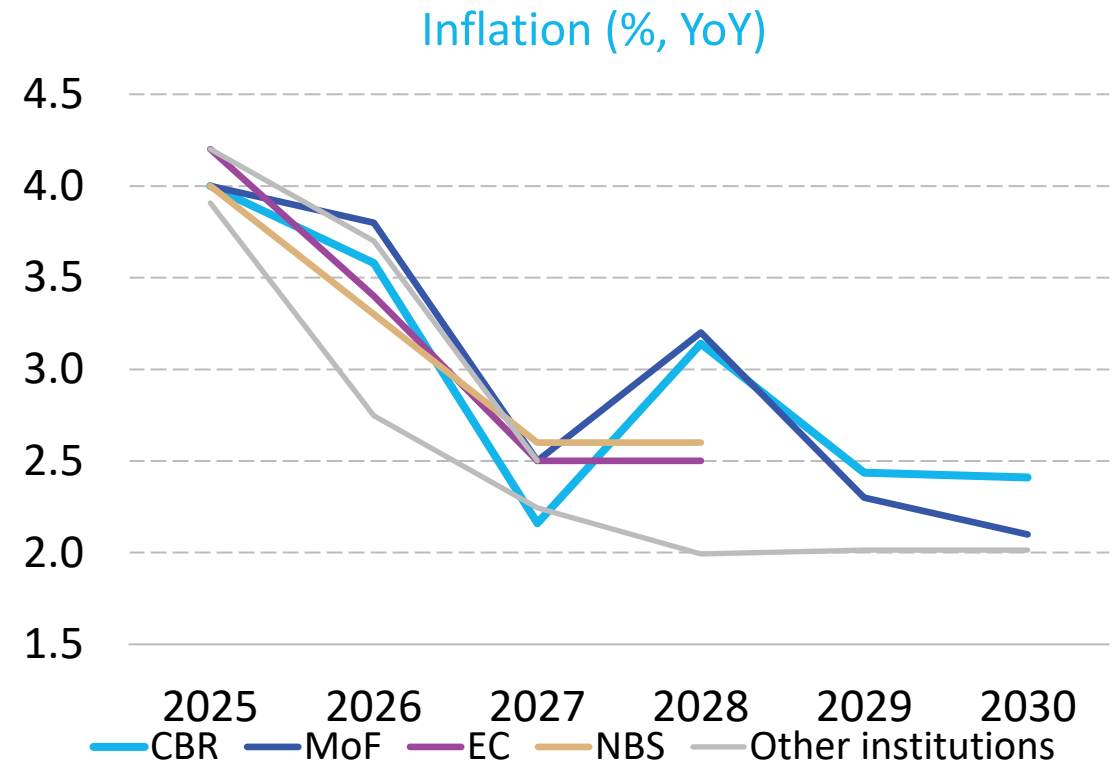
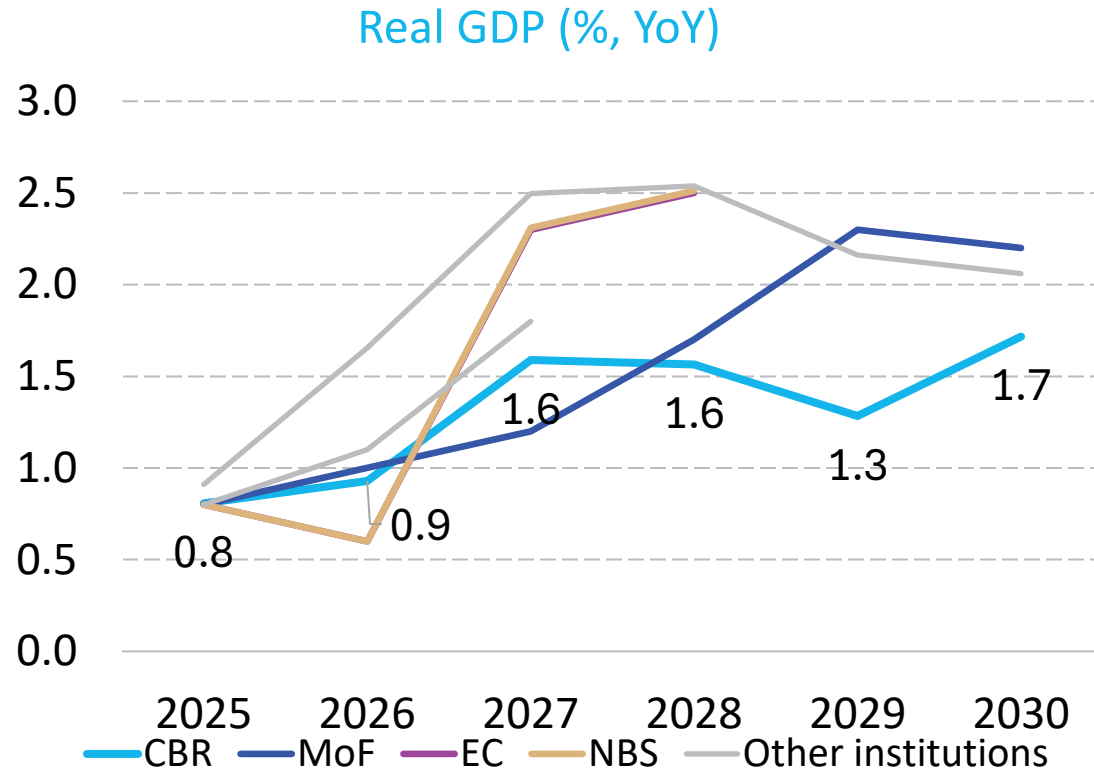
2026: price cap on regulated prices for most households (90 %), RRF, slow implementation of the remaining EU funds, ongoing anti-growth fiscal consolidation

2027: start of production at Volvo in 2H, EU funds fiscal cliff, no more fiscal tightening assumed (political cycle)

2028-30: consolidation resumed, decline in the labor force, economic growth similar to 2027, EU funds absorption cycle

Risks: global uncertainty, armed conflicts (Iran, Ukraine), volatility in trade tariff policy, only slow recovery of the European automotive, consolidation measures having an impact on competitiveness, trade deals (India)

Inflation and GDP Forecasts: CBR vs. Other Institutions



MinFin assumptions: stuck to the APR + no adjustment for the political cycle; generic structure of the future consolidation packages

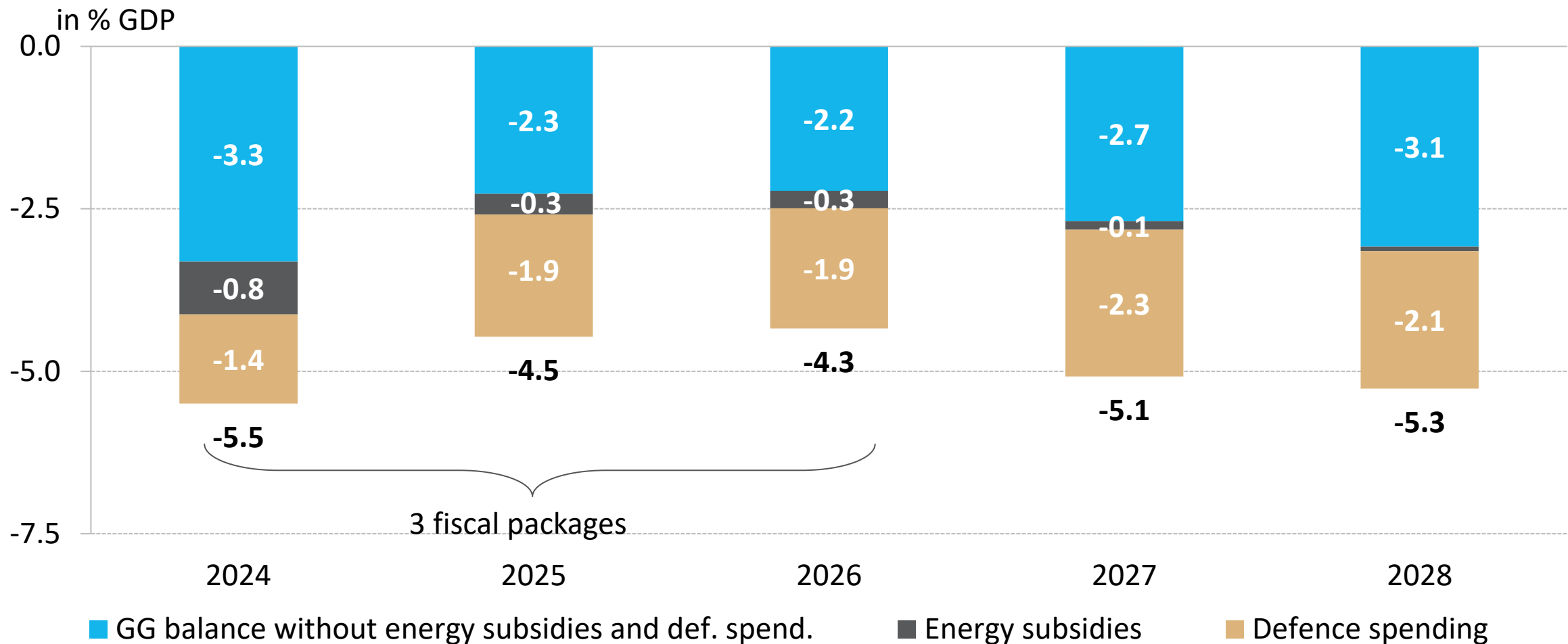
CBR assumptions: smaller final fiscal package (1.7bn package in 2026) + no fiscal tightening in election's year 2027, stronger consolidation later on; most-likely structure of the future consolidation packages

Source: CBR, MoF, EC, NBS, OECD, IMF

Medium-term fiscal outlook

Fiscal deficit tends to return to previous 5%+ levels

The medium-term CBR forecast for the GG balance

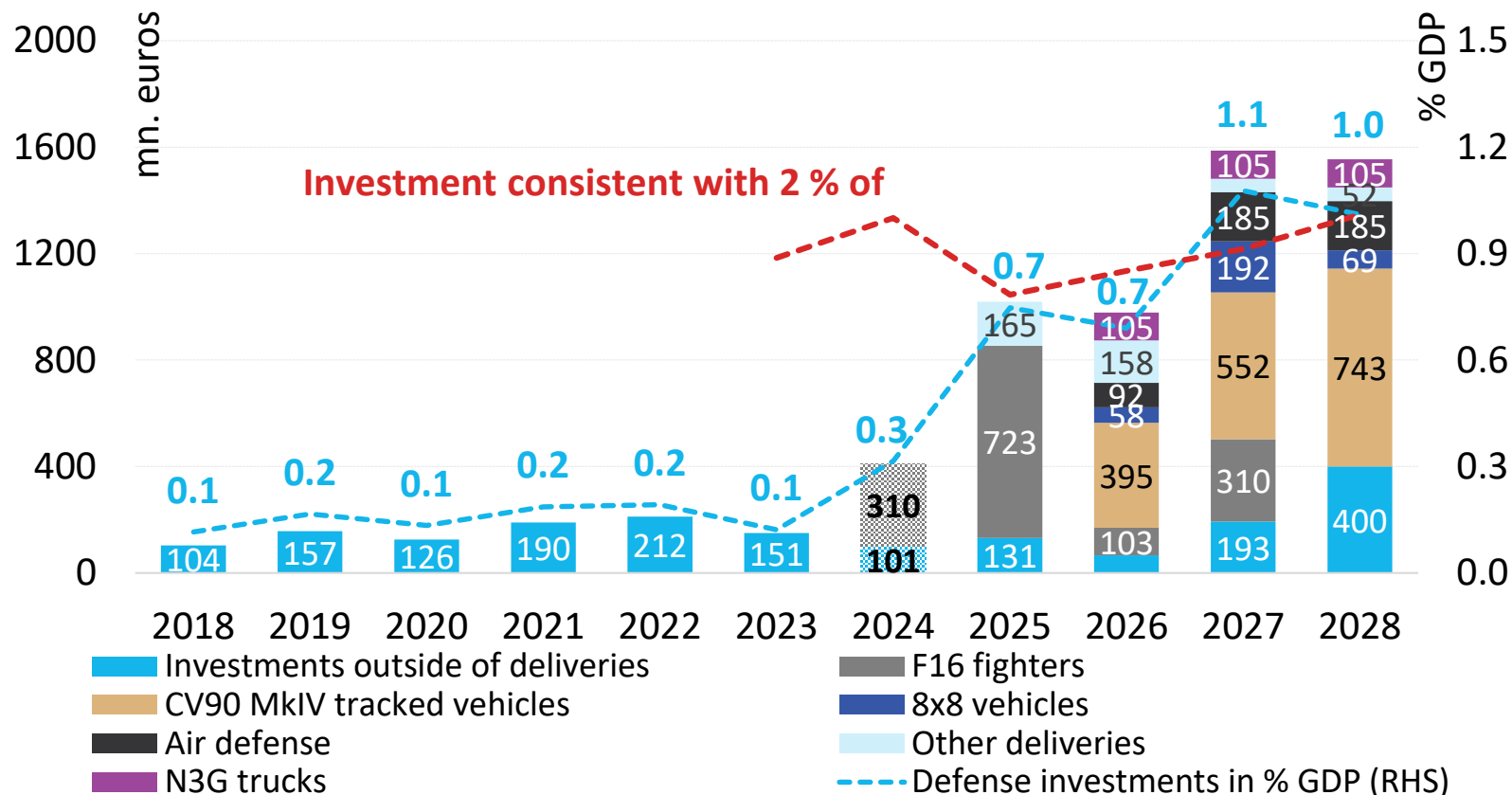


Defense investment: a permanent shift to levels above 0.7% of GDP

Loss of the “peace dividend” – defense expenditures at 1.1-1.4% GDP in the recent past

Defense expenditures to reach at least 2% GDP, permanently

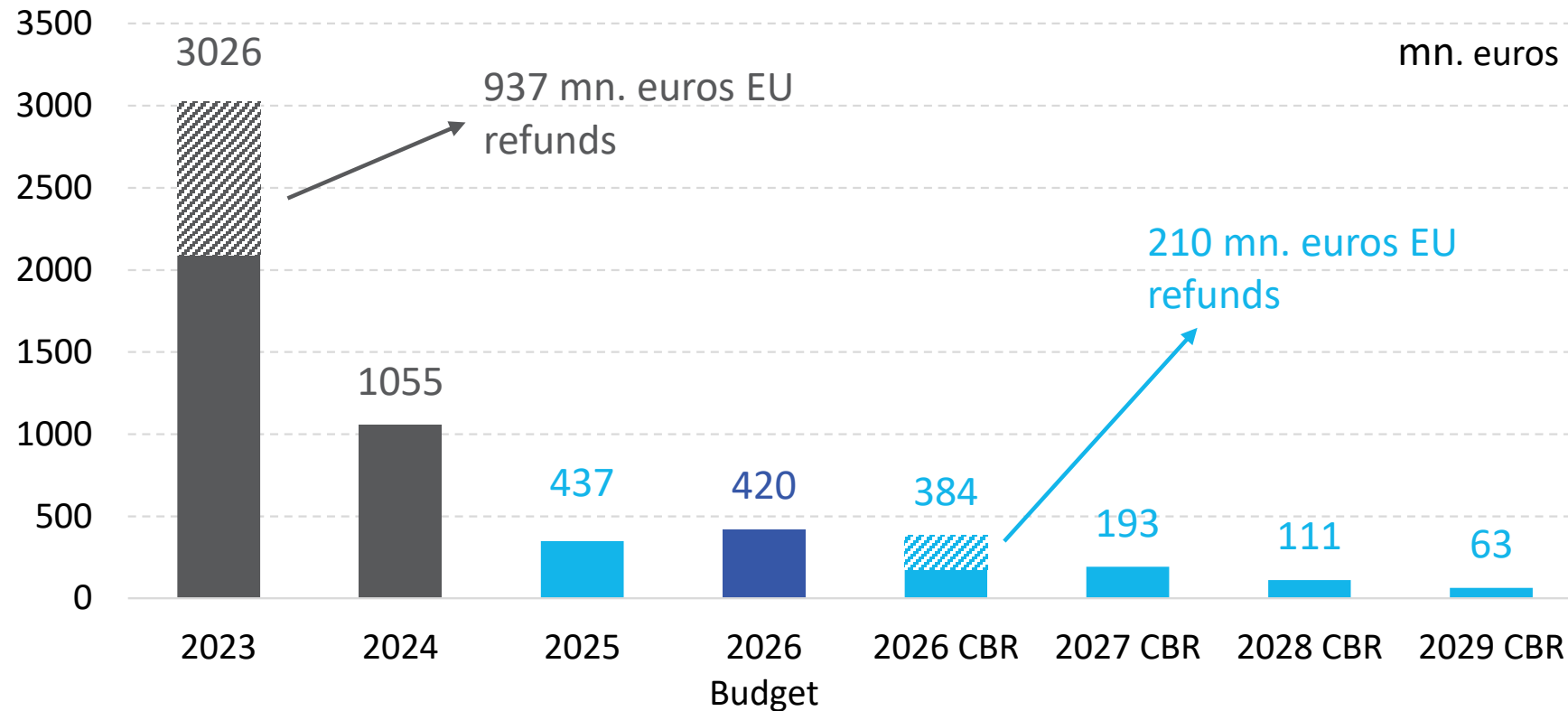
Investment expenditure in defense (ESA 2010)



Source: SoSR, MoF, MoD, own calculations by CBR

Broad-based energy compensations in 2026 expected to cost 384 mn. € instead of 420 mn € originally budgeted

Expenditures on compensation schemes

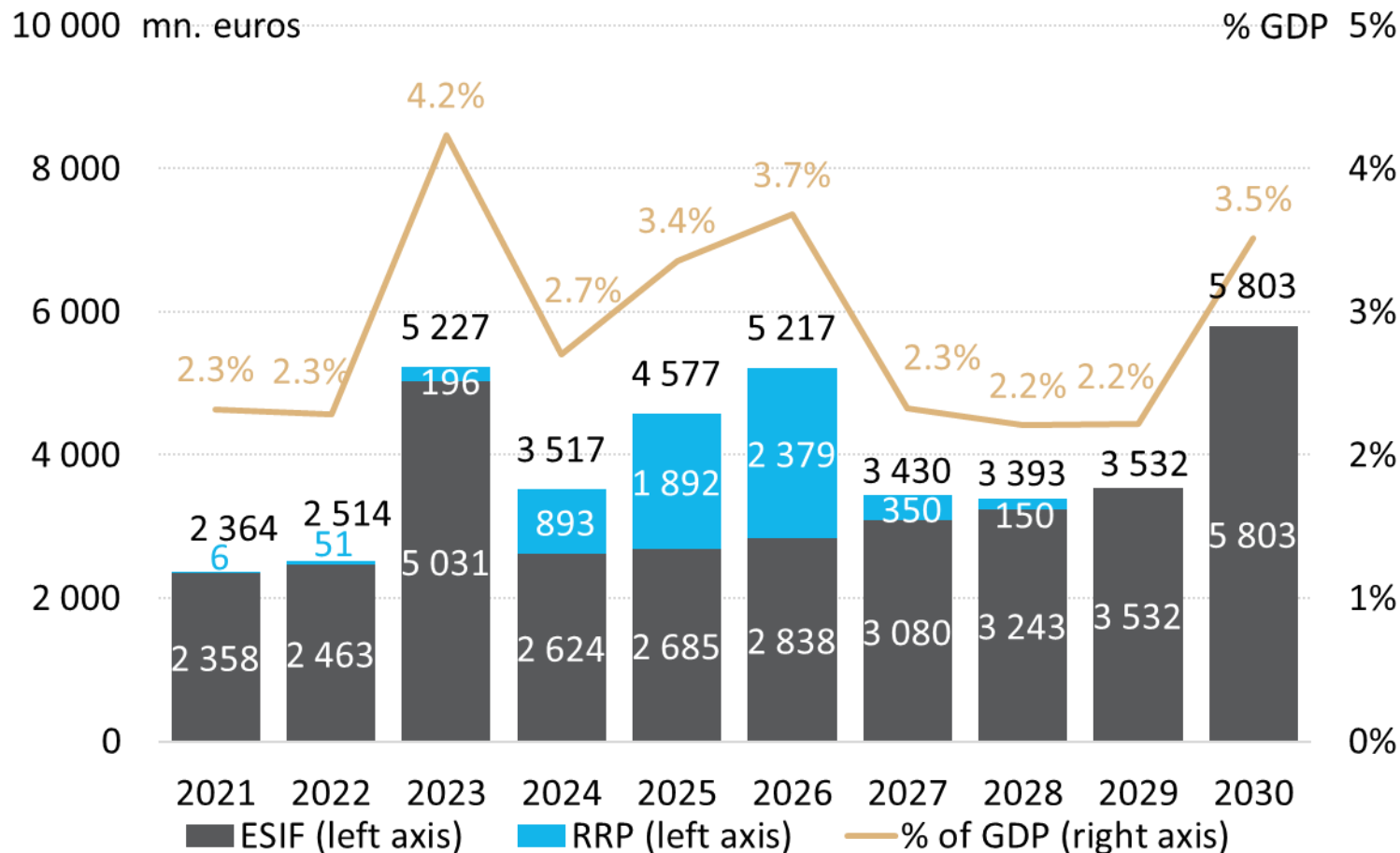


Source: MoF, CBR

RRP offsets lower regular EU funds and keeps the overall level higher throughout 2023-26 (1.4 % GDP drop in 2027)

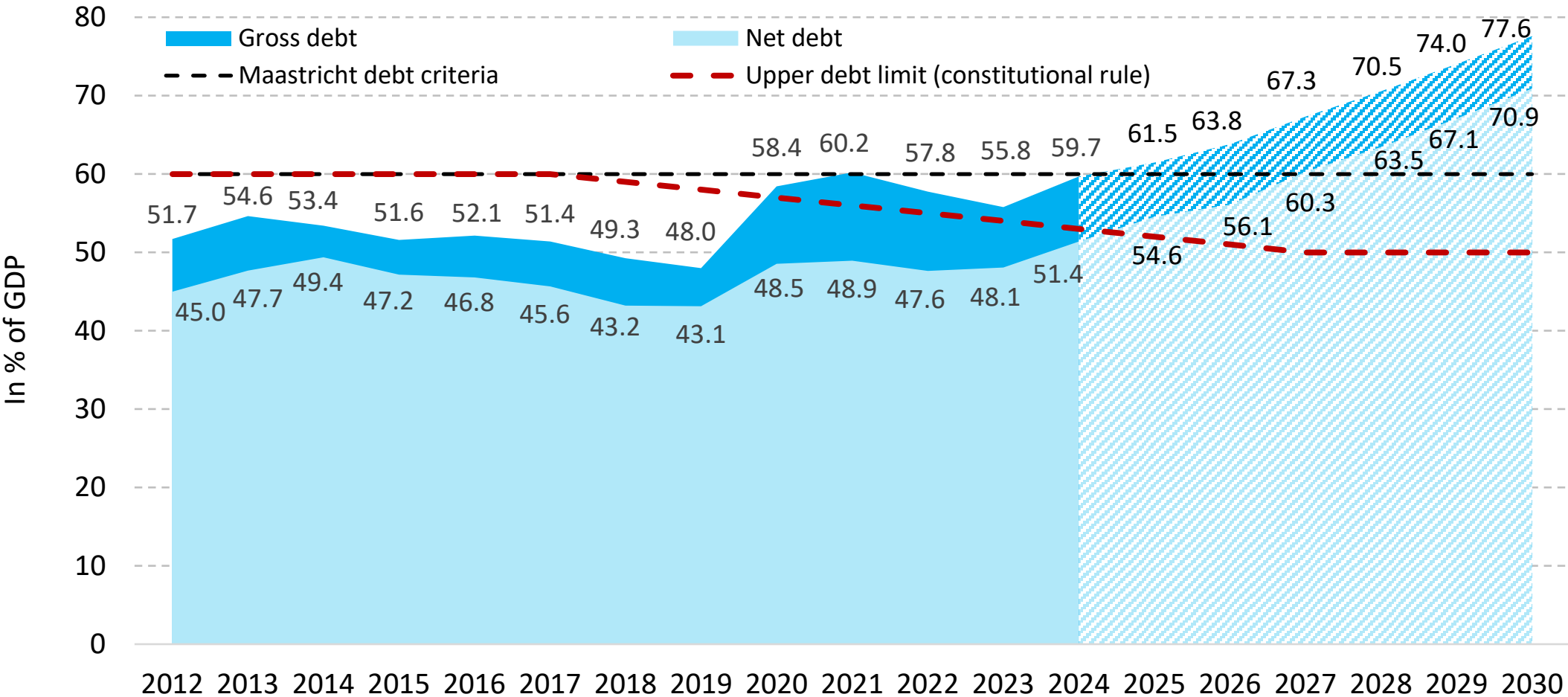


CBR medium-term forecast for EU funds and the RRP (expenditures)



- **EU funds:** slower expected implementation over the new program period
- **RRP:** Up to now, a total of 3.96 bn. euros received from RRP (five payments received), including advance payments
- In October 2025, Slovakia submitted a modified RRP, to re-allocate funds from no longer achievable measures
- The 6th payment request was positively assessed, but the disbursement remains pending due to unresolved issues concerning certain milestones
- The 7th payment request was submitted in November 2025 and received a preliminarily positive evaluation in February
- Expected possibility of the usage of unused funds beyond 2026

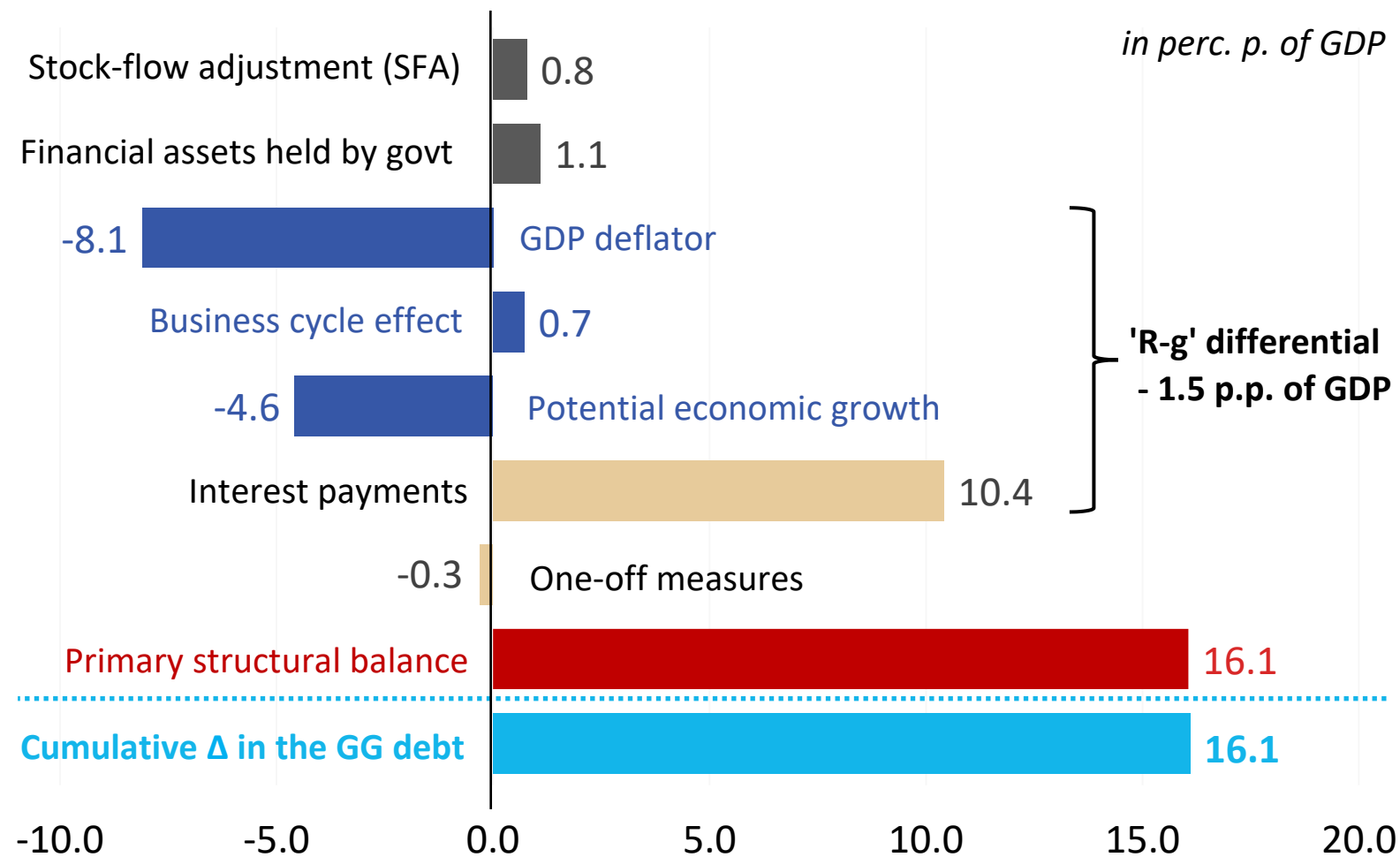
Public debt projected to rise to 77.6 % GDP (NPC scenario)



Source: CBR, SO SR, MoF



Contributions to the change in gross GG debt (2026-2030)



- Gross debt at the end of **2030** projected **16.1 pp** above **estimated 2025 level**, reaching **77.6 % of GDP**
- (r-g) offsets only a part of the increase due to very high primary structural deficits and interest payments (NPC scenario)

Source: CBR, SO SR, MoF



Assessment of the GG budget 2026-2028

CBR assessment of the currently approved GG budget

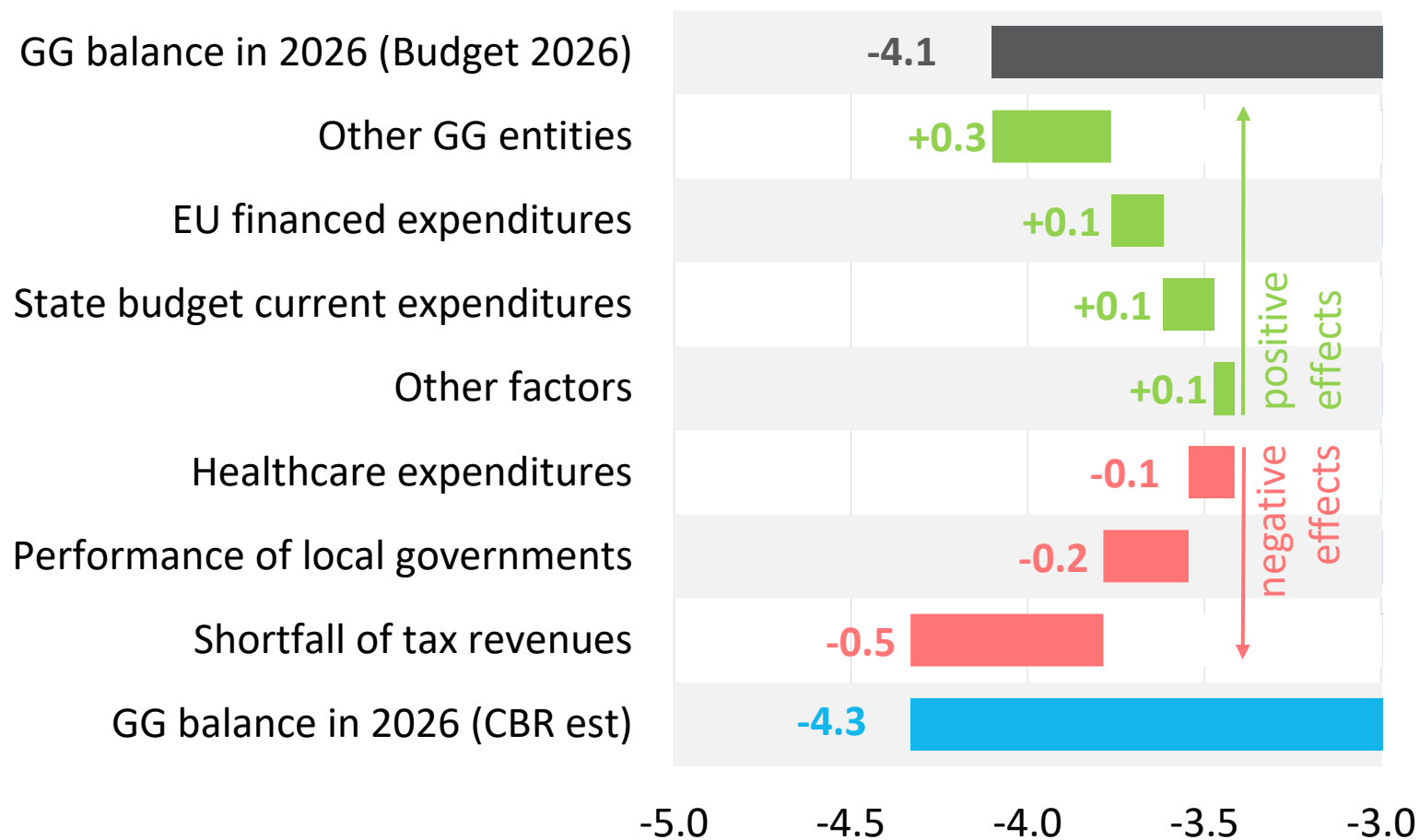
- 2026 government fiscal target of 4.1 % GDP likely exceeded, CBR forecasts the GG deficit at **4.3 % GDP**.
- The largest differences with a negative impact on the balance:
 - Tax revenues
 - Municipalities (elections' year for them)
 - Healthcare expenditures
- CBR expects the gross debt level in 2026 at 63.8 % GDP.
If there is no further consolidation after 2026, debt to exceed 70 % GDP in 2028.



2026 Forecast: deficit exceeding government target due to lower tax revenues

- Significant risk of tax revenue shortfall:
 - Lower revenue from VAT, CIT and labour taxes
- Elections' performance of local governments
 - Wages and investments
- Positive risks in performance of other GG entities

Main factors contributing to the deviation in the GG balance in 2026 from the 2026 budget (% GDP)

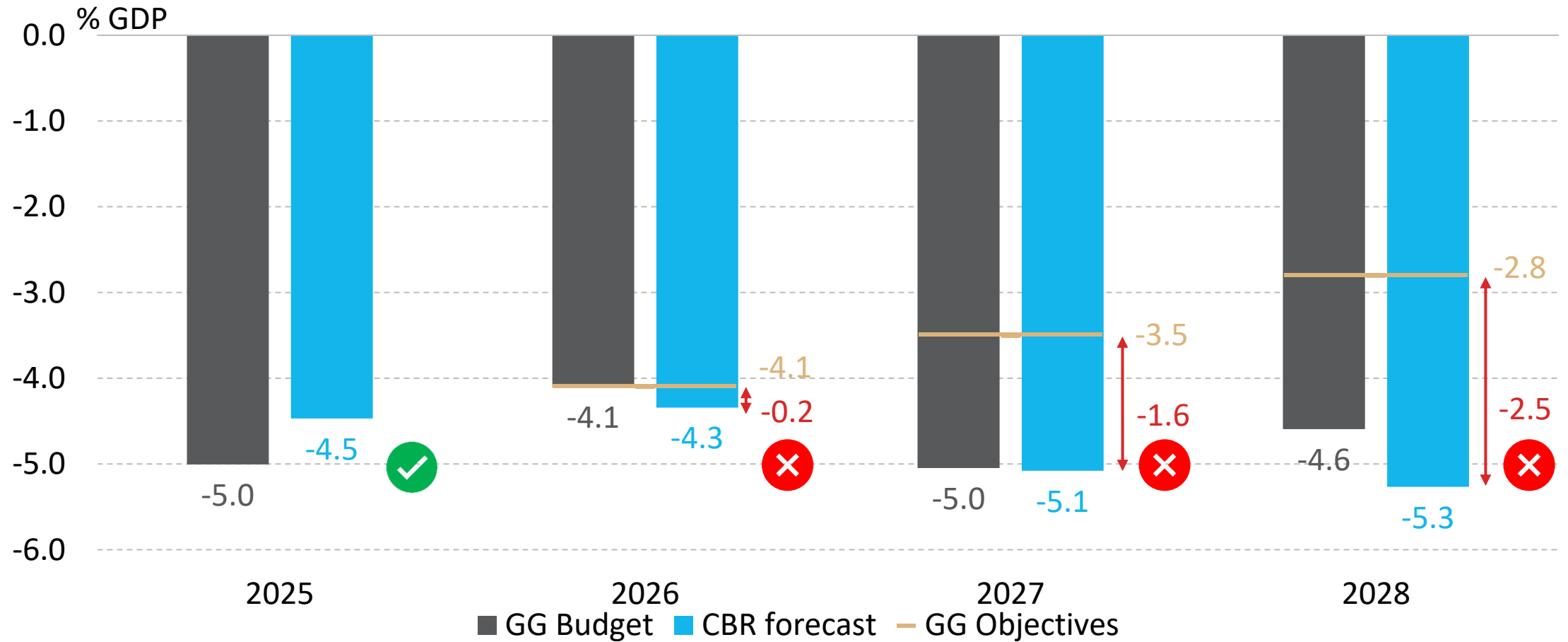


CBR assessment of the budget (cont'd)

- Missing measures to meet government fiscal targets in 2026-2028.
- CBR estimates the amount of necessary consolidation measures cummulative at 2.5 % GDP (3.8 bn. euros).
- The government does not comply with 2 sanctions of the debt brake (vote of no-confidence and the preparation of measures submitted to parliament to decrease the debt).
- The budget does not aim to stabilize the debt within the gov't term.
- The budget improves the long-term sustainability by only 0.1 % GDP; contribution of the package is diminished by new expenditures.

Fiscal trends 2025-2028

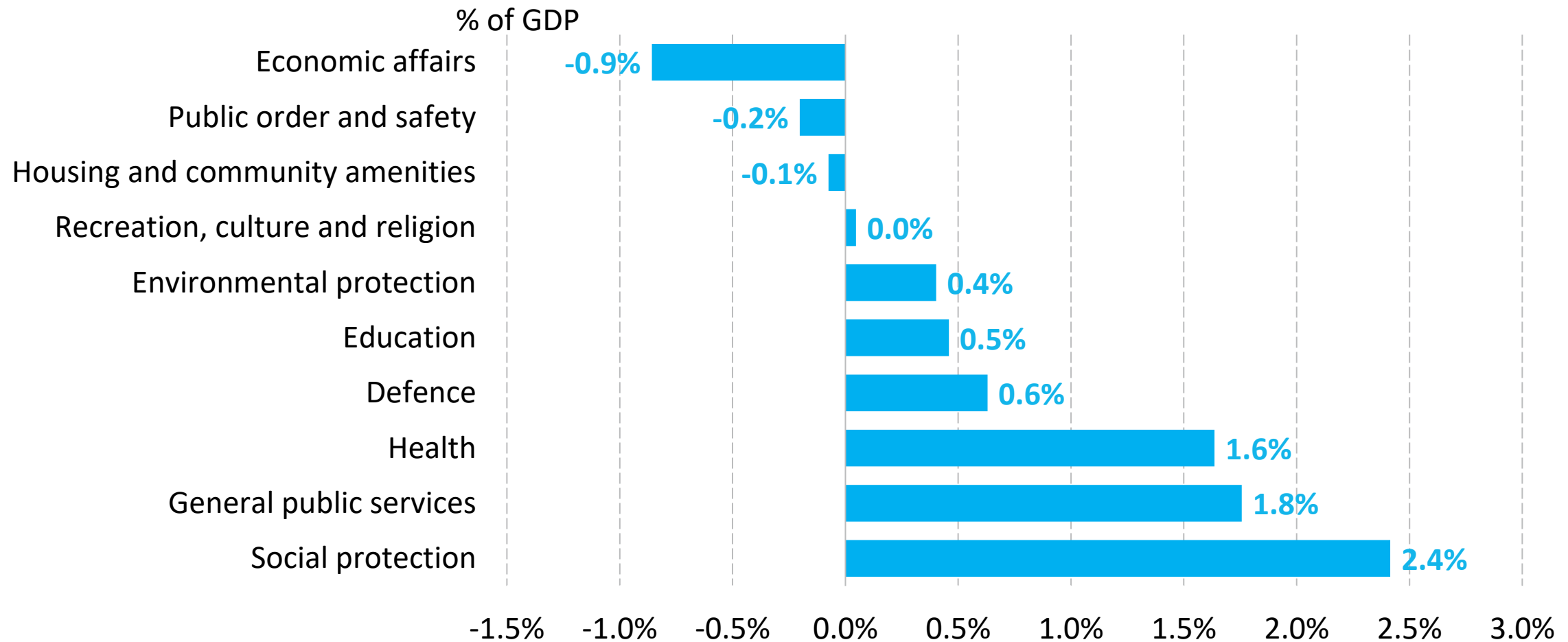
GG Balance



Source: MoF, CBR

Highest increases in expenditures in social protection

Differences in expenditures budgeted for 2026 relative to pre-crisis averages (2012-2019)



Source: Eurostat, MoF, CBR calculations

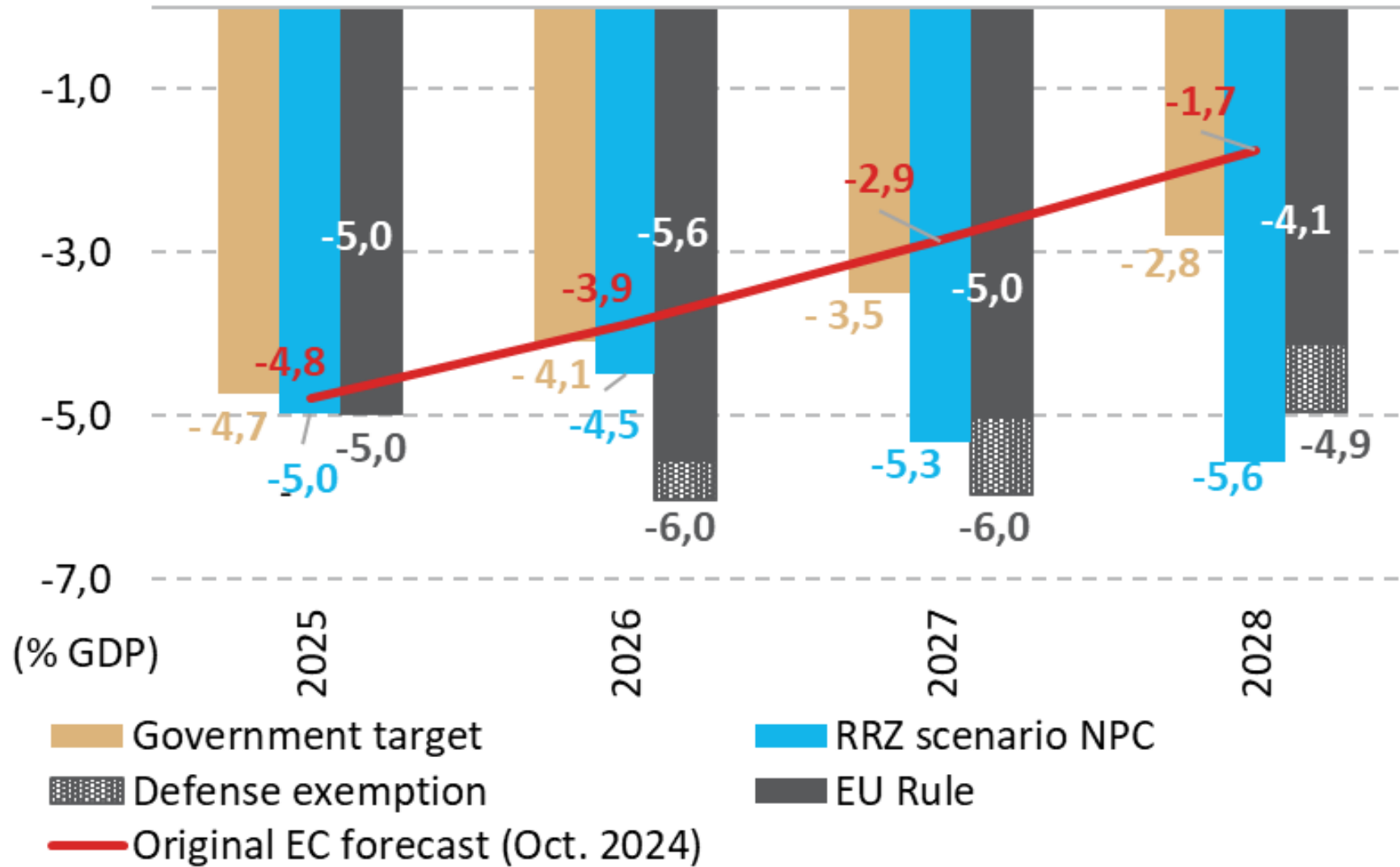
Reformed EU rules - expenditure ceilings not helpful

New EU fiscal rules not biting due to wrong implementation

- Wrong initial assumptions about stable revenues/GDP in the future (in fact declining by 3.1% GDP by 2028 compared to 2023)
- Inflation in 2024 lower than assumed (by 1.9 p.p.) with no adjustment to exp. ceilings
- Generous escape clause on defense – current rise in defense expenditure mostly due to decisions made already in 2018 (F-16 fighter jets)

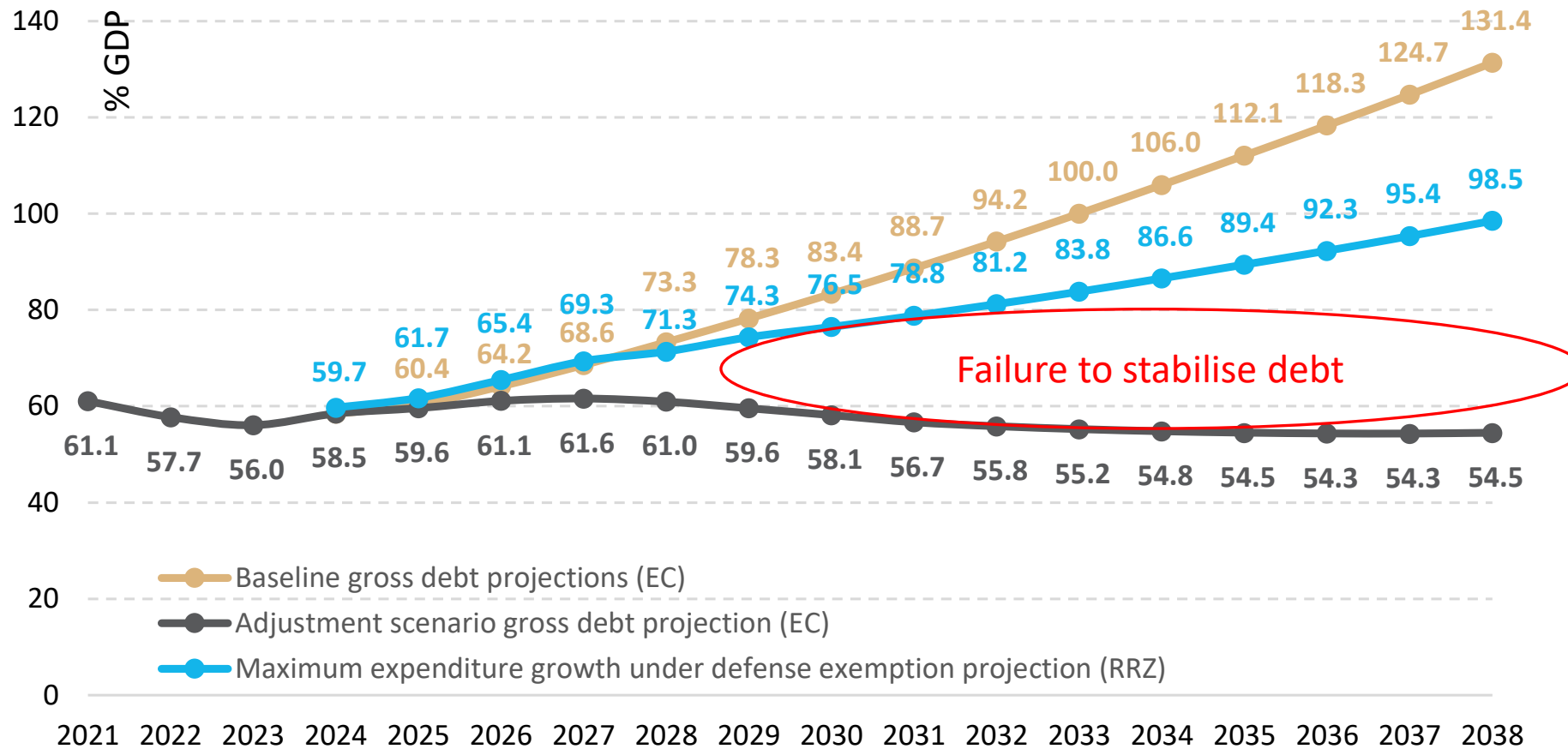
New EU rules would still allow a deficit of 4.9 % of GDP by 2028

Deficits under EU rules



By how much the new EU rules failed

Gross debt projection under the new EU rules compared to the initial DSA trajectory



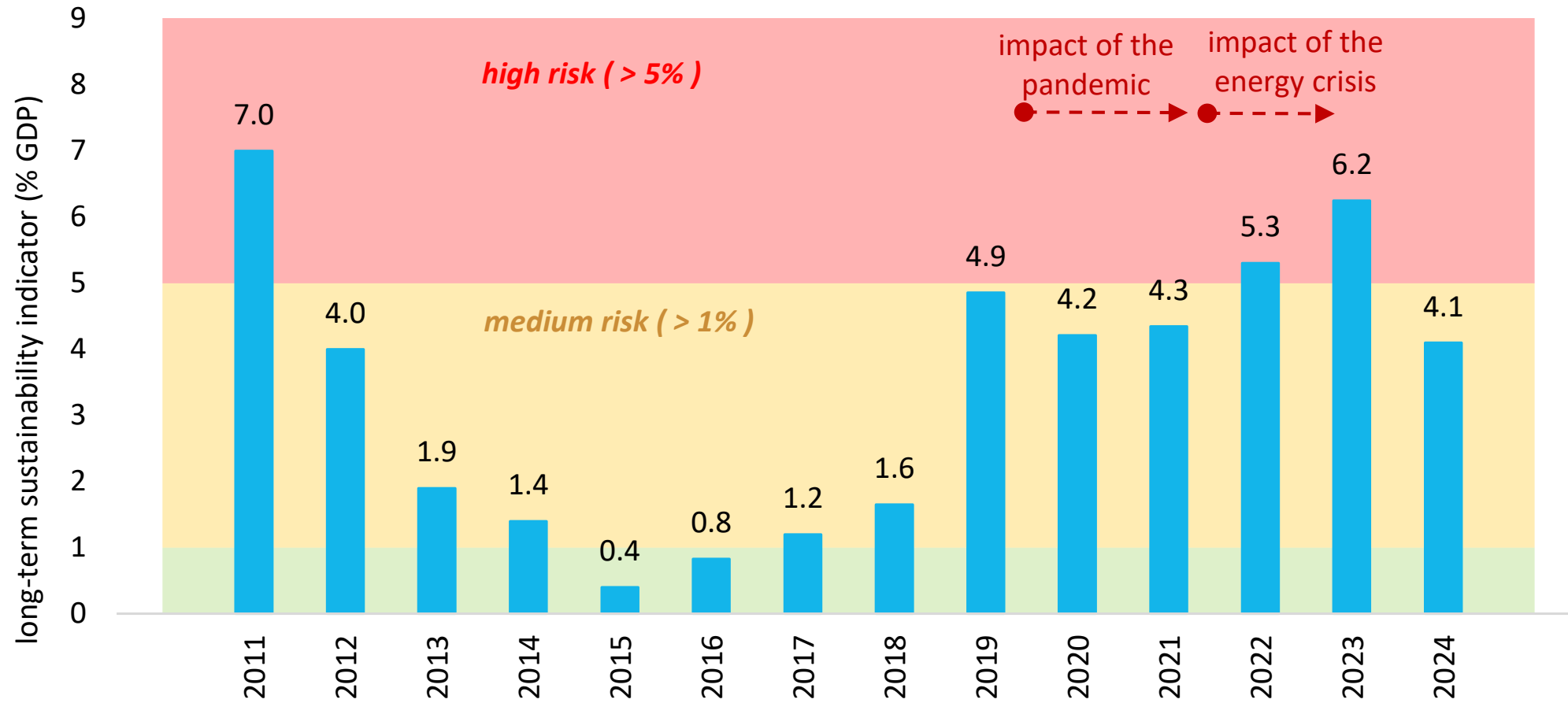
Source: EC, RRZ



Long-term sustainability

2024 assessment – medium risk

Development of the long-term sustainability indicator*



*required consolidation of the primary structural balance to ensure sustainability over a 50-year horizon

Source: CBR



- **Total impact of the budget is 0.1 % GDP (minimum improvement in sustainability):**
 - Fiscal package for 2026 – improvement by 0.9 % GDP
 - Other measures adopted in 2025 (salaries of teachers, reform of long-term care, expenditures in healthcare) – worsening by 0.6 % GDP
 - Other factors (mainly higher transfer to EU budget) – worsening by 0.2 % GDP
- On y-o-y basis, long-term sustainability indicator might not improve in 2025 – worse macroeconomic outlook and higher deficit in 2025.

Fiscal costs and benefits of climate policies

Costs of policies

- Environmental taxes or tariffs, incl. ETS
- Research subsidies
- Investment subsidies
- Consumption subsidies

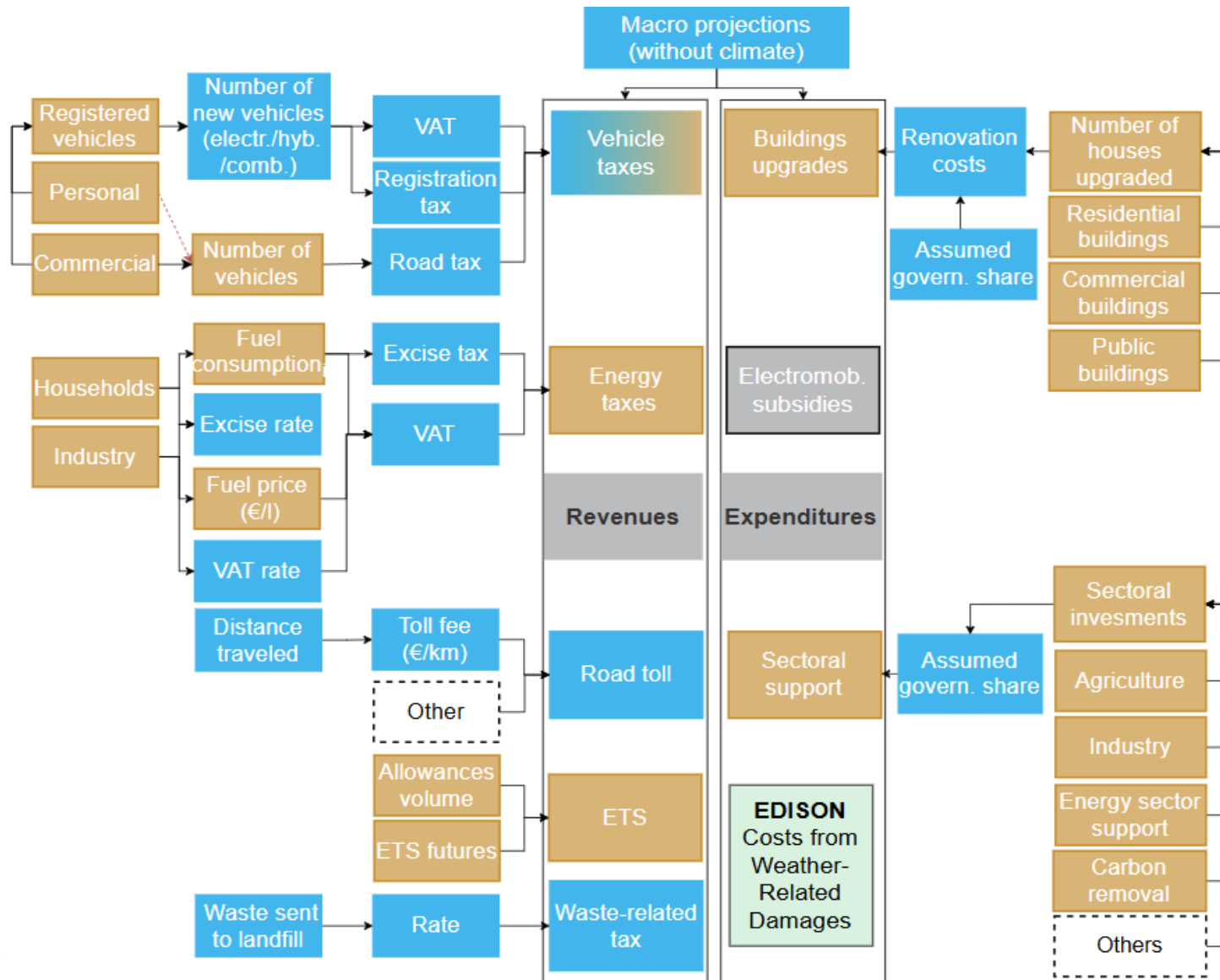
Costs of inaction

- Lower GDP growth – and proportionally also lower tax revenues
- Higher infrastructure investment – to mitigate severe weather events, droughts, fires ...



- Assuming coordinated climate policies across countries
 - EU target of net zero emissions by 2050 and 55% reduction by 2030.
 - US (original) plan was to also achieve net zero by 2050 and 50% cut by 2030 – although OBBB aimed to dismantle most of IRA
 - Similar targets in China – net zero to be achieved by 2060, with peak emissions by 2030
 - More vague plans in India – net zero by 2070, intermediate targets on emissions intensity, not on overall emissions
- Coordination is hard – global climate action faces a repeated prisoners dilemma problem
 - Mankind has managed to solve the ozone layer hole, eventually → there is hope we may solve also the carbon problem
- Drawing on:
 - OECD model EDISON
 - NGFS climate scenarios under alternate policies (no additional action vs. coordinated net zero)

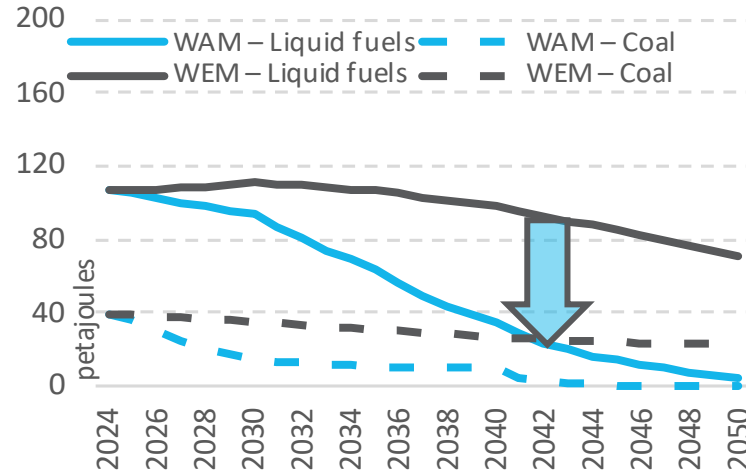
Climate transition channels into public finances



- Schematic overview of the EDISON climate-fiscal model
- **Inputs from Compact PRIMES (SK)**
 - A partial equilibrium model for the energy sectors
- **Our inputs / assumptions**
 - CBR projections

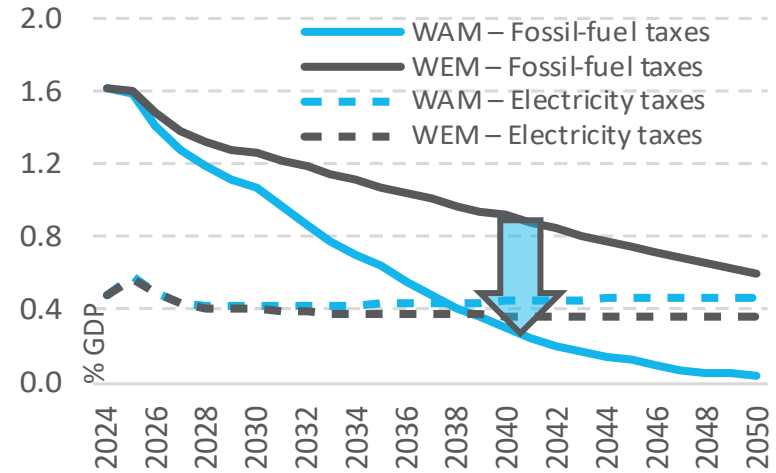
Additional measures (WAM)

Liquid fuels and coal consumption



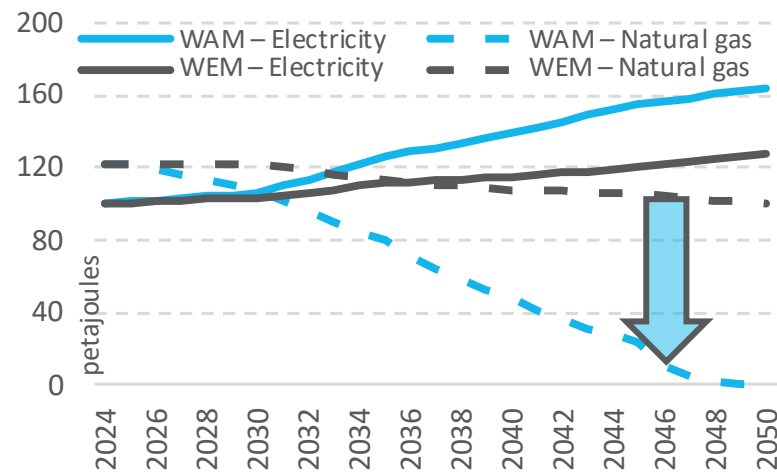
Source: CBR calculations based on SK-PRIMES

Energy tax revenues



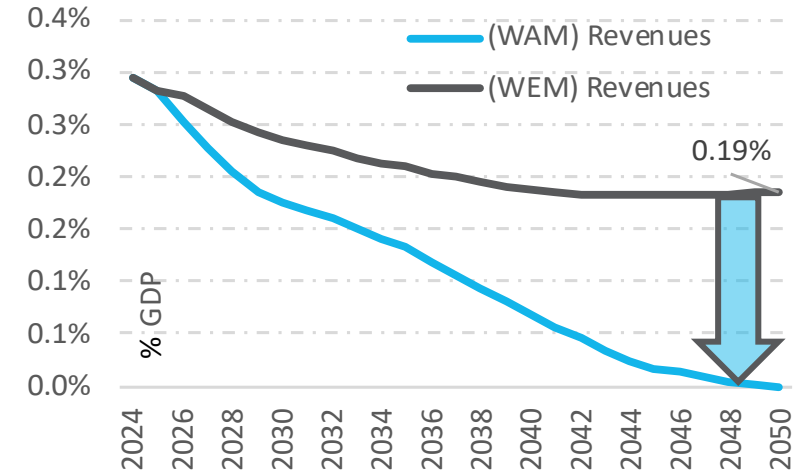
Source: CBR calculations based on SK-PRIMES

Energy consumption



Source: CBR calculations based on SK-PRIMES

ETS revenues



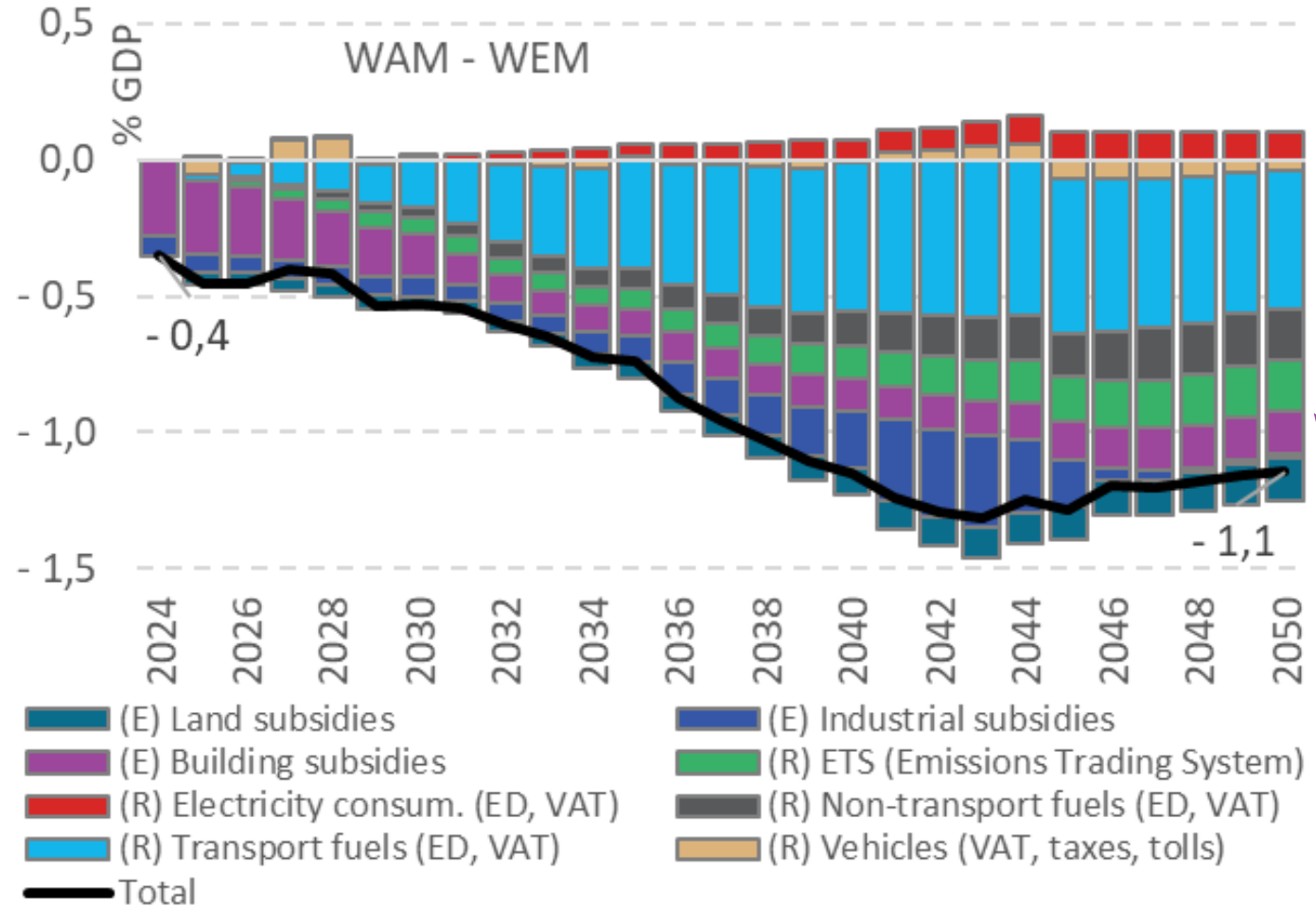
Source: CBR calculations based on SK-PRIMES



Policy action impact in Slovakia

- Preliminary estimate of the net fiscal impact of climate action: 1.2% GDP in 2050.
- WEM – continuation of current climate policies
WAM – further efforts aligned with Net Zero climate targets.
- Both scenarios currently assume the same macroeconomic (GDP) baseline, so the chart isolates the fiscal effect of policy action — not the broader economic impact of climate.

Impact on fiscal balance (WAM - WEM)

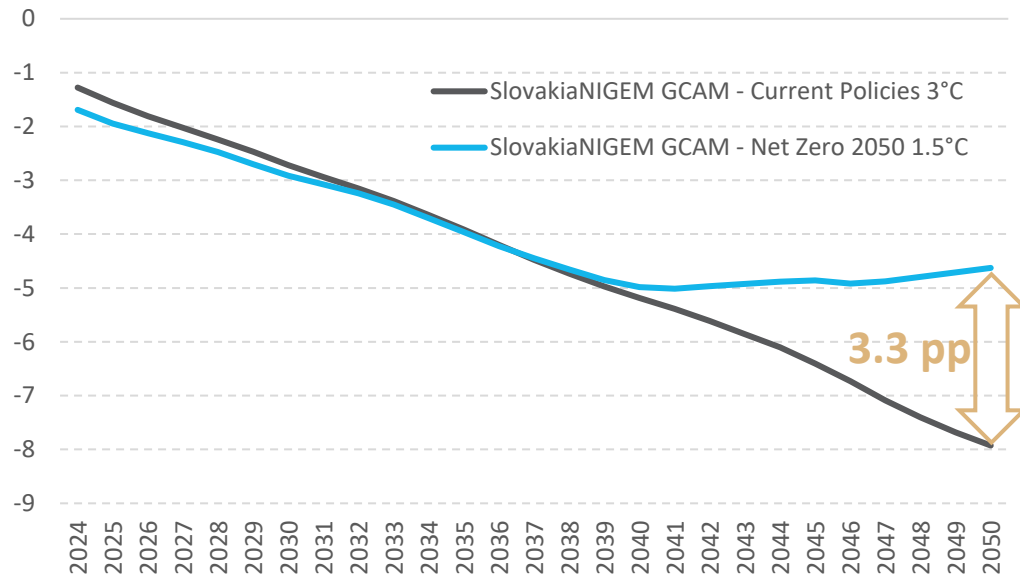


Note: The transition toward electromobility is expected to follow an optimistic trajectory, even though Slovakia currently lags behind the EU according to the latest available data.

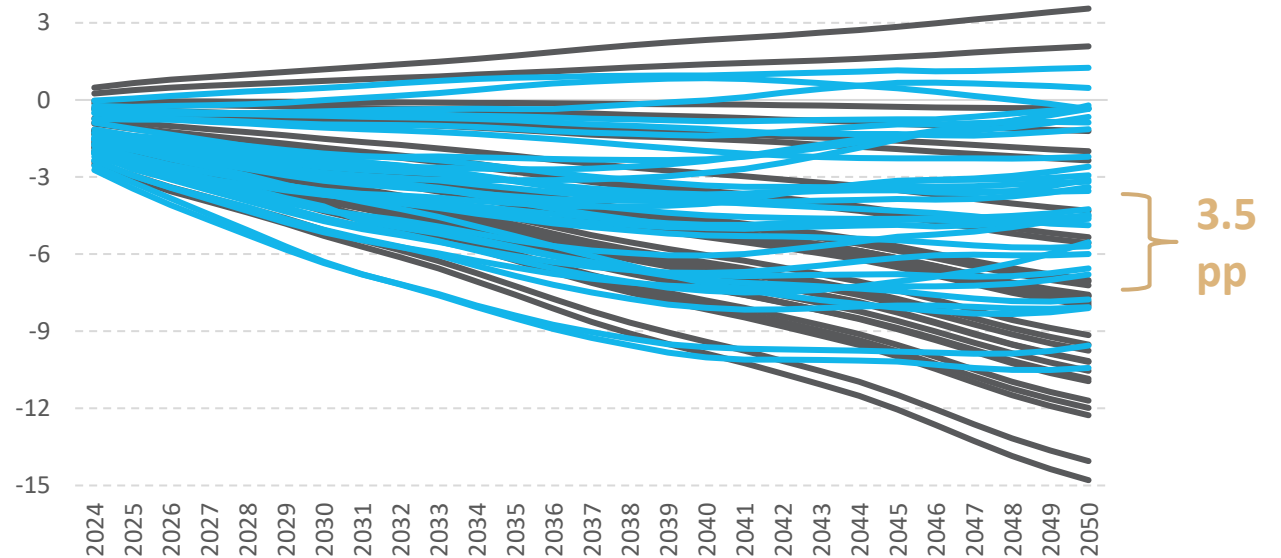
*(R) denotes impacts on public finance revenues, while (E) denotes impacts on public expenditure.

Climate change long-term GDP impact

Slovakia



OECD – Net zero vs. Current Policies



- While the Net Zero scenario is not costless, **inaction is worse**.
- By 2050, GDP is projected to be on average **3,9 % lower** under the Net Zero 2050 scenario and **7.4% lower** under the currently pledged climate policies scenario, relative to a baseline path without climate-related shocks.

Source: NFGS (2025)

Note: The Current Policies scenario reflects the continuation of existing climate policies across countries, without further policy tightening or global coordination, and leads to approximately 3 °C of global warming by the end of the century. In contrast, the Net Zero 2050 scenario assumes a globally coordinated mitigation effort aimed at achieving climate neutrality by mid-century and limiting global warming to around 1.5 °C.





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TWIN CITY B

Mlynské nivy 12

821 09 Bratislava

Slovakia

www.rrz.sk/en/



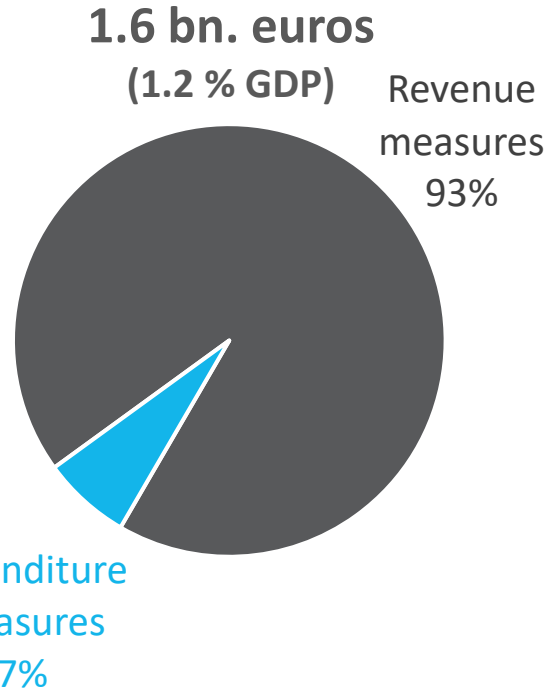
Thank you for your attention!



Consolidation Package(s)

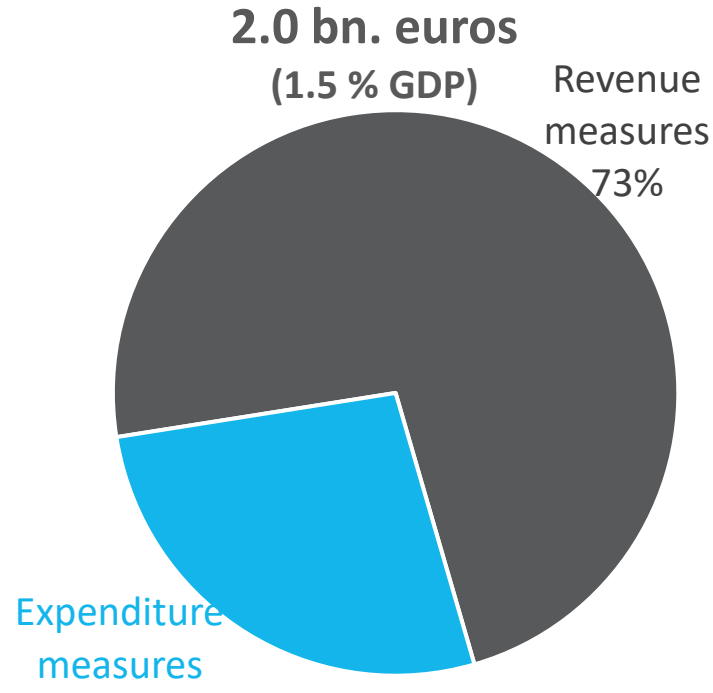
Measures highly skewed towards revenues

2024



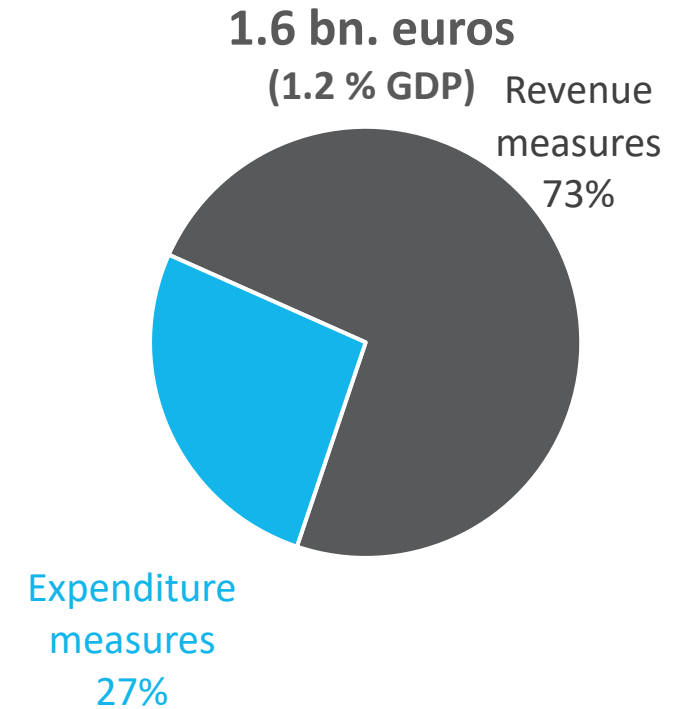
+ deconsolidation measures
0.9 bn. euros (0.7 % GDP)

2025



+ deconsolidation measures
0.7 bn. euros (0.5 % GDP)

2026 (CBR estimate)



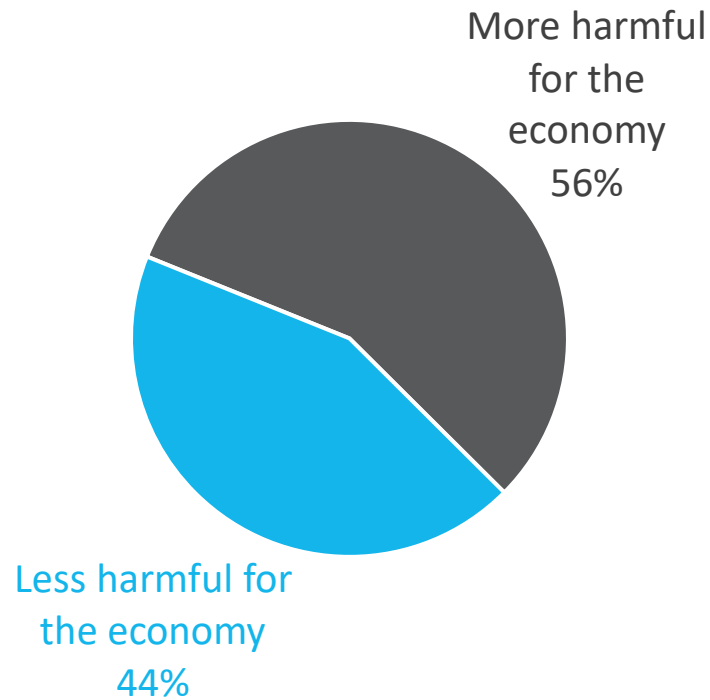
+ deconsolidation measures
0.6 bn. euros (0.4 % GDP)

- **The total size of the packages is 3.9 % GDP (5.2 bn euros)** in terms of immediate impact
- Revenue-increasing measures contribute a high **79 %** of the total amount

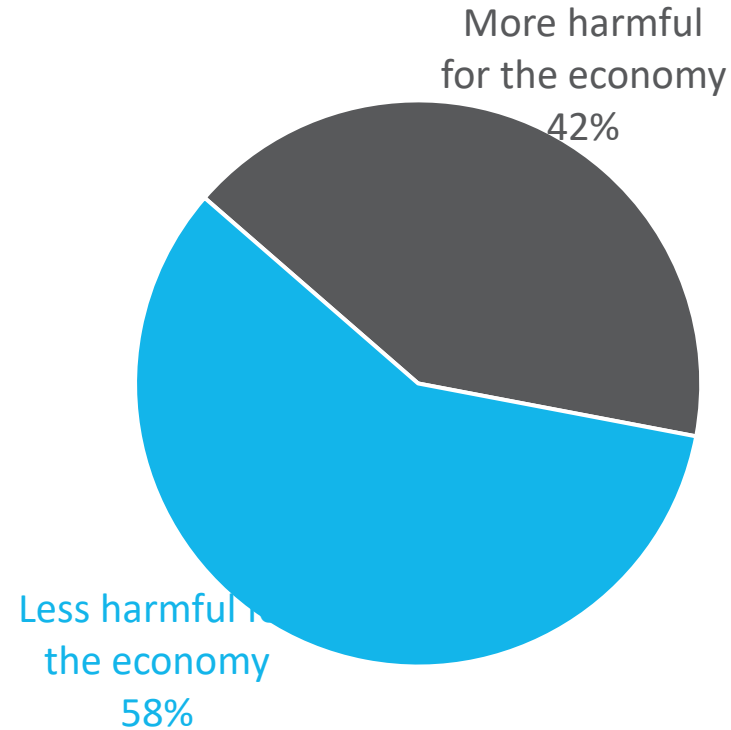


Half of measures painful for potential output

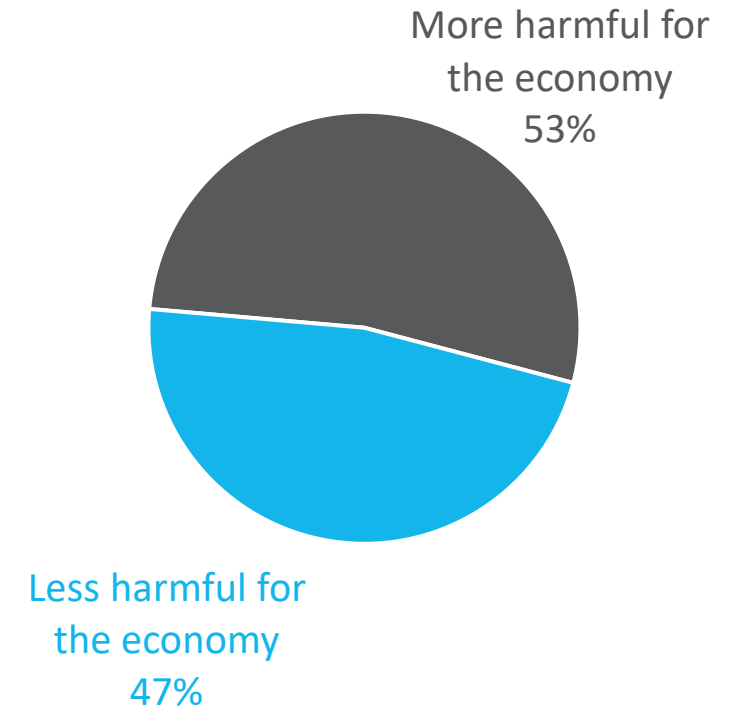
2024



2025



2026 (CBR estimate)

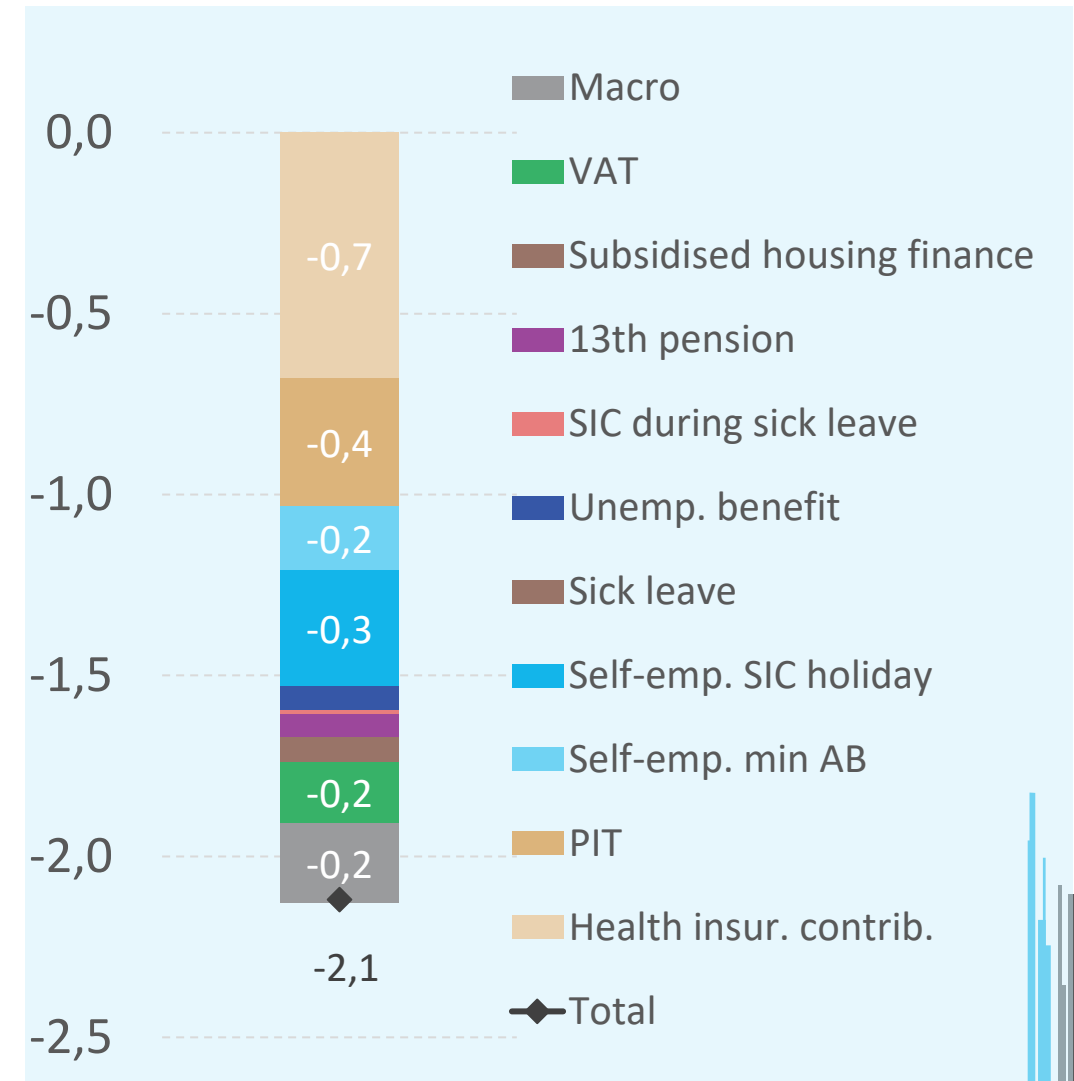


- Total share of measures more harmful for the economy (i.e. taxation of activity, lower investment) cumulatively stands at a high **49 %**

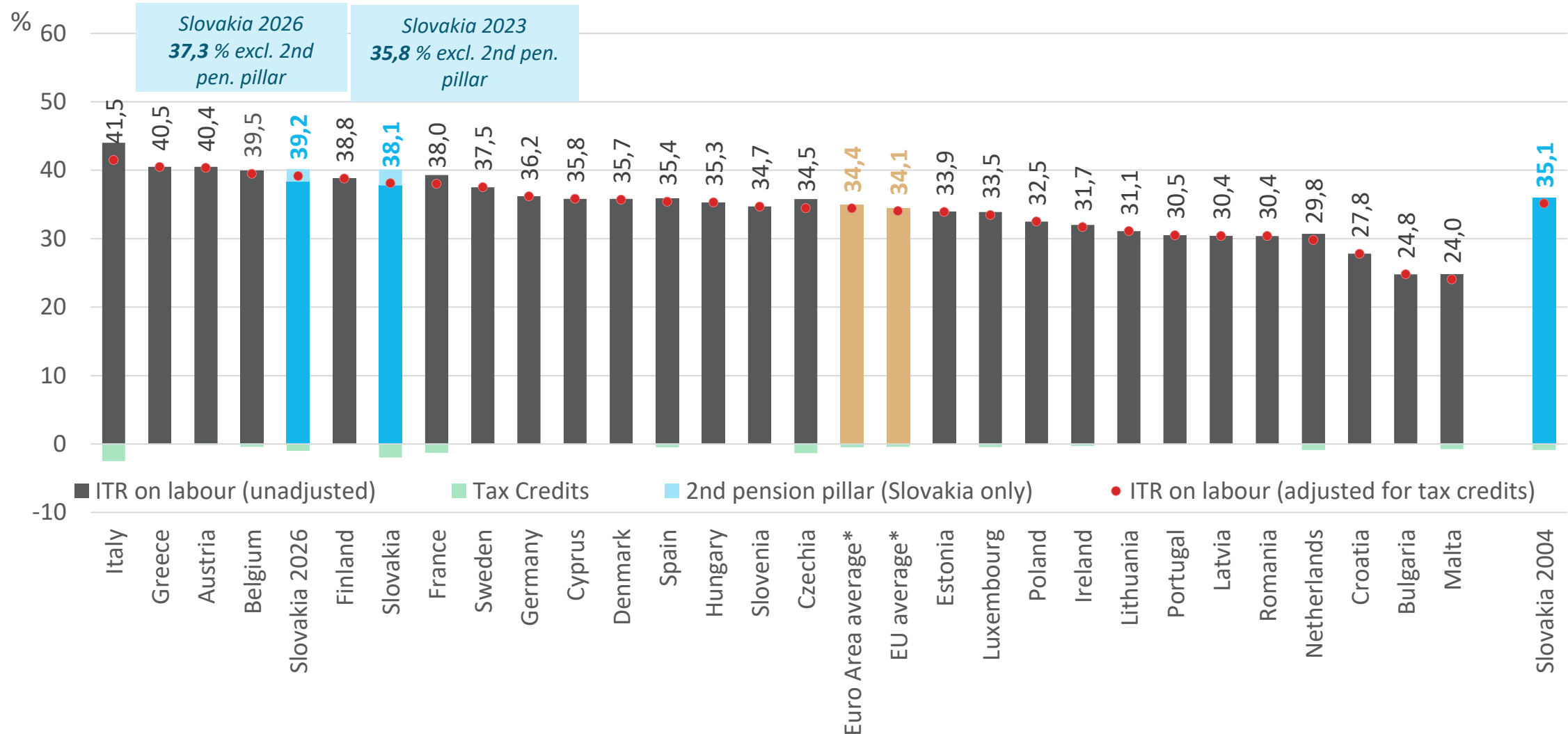


Impact of measures on net family income

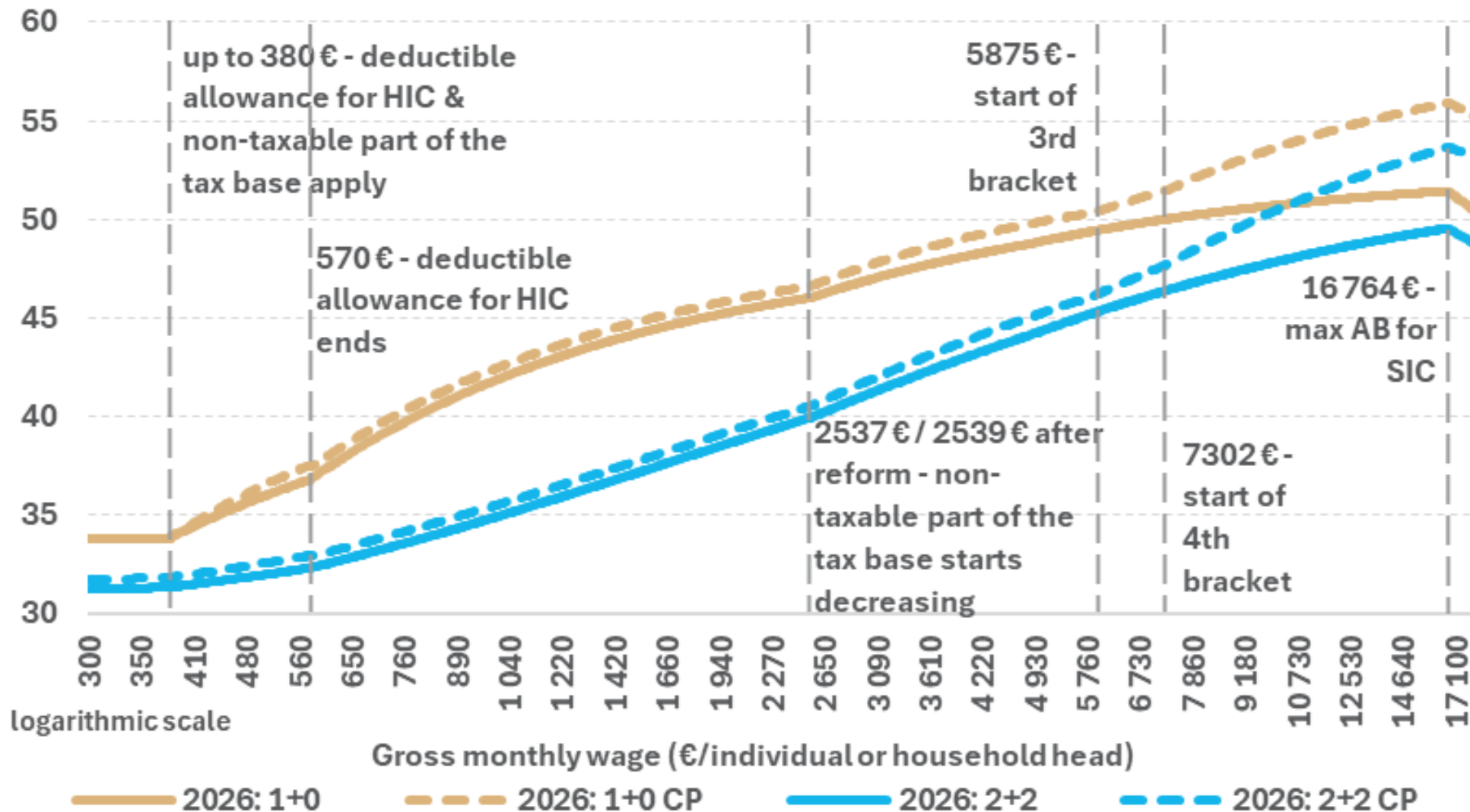
Family type	in euros	in %
Single, no children	-247	-2,2
Single + 1 child	-264	-1,9
Single + 2 children	-251	-1,7
Single + 3+ children	-158	-1,2
Couple, no children	-405	-1,7
Couple + 1 child	-742	-2,4
Couple + 2 children	-858	-2,5
Couple + 3+ children	-721	-2,3
All families	-376	-2,1



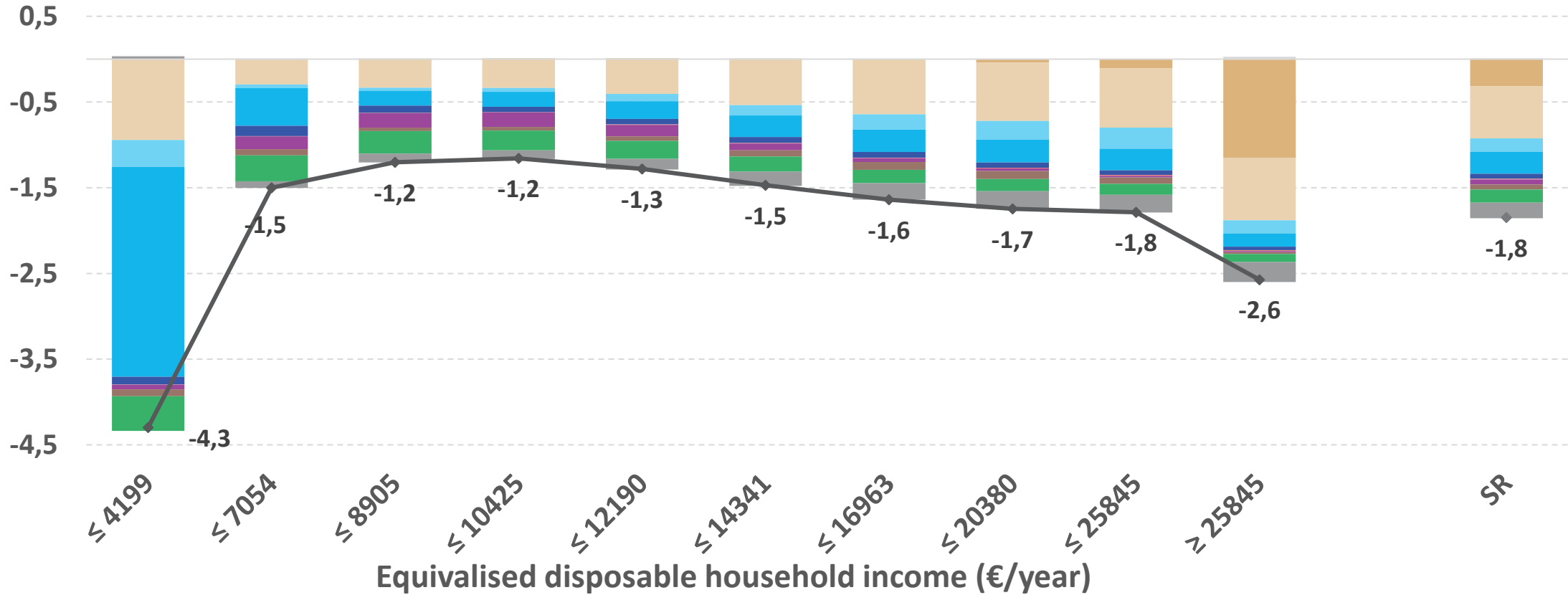
Labor taxes among highest in Europe



Increasing tax wedge



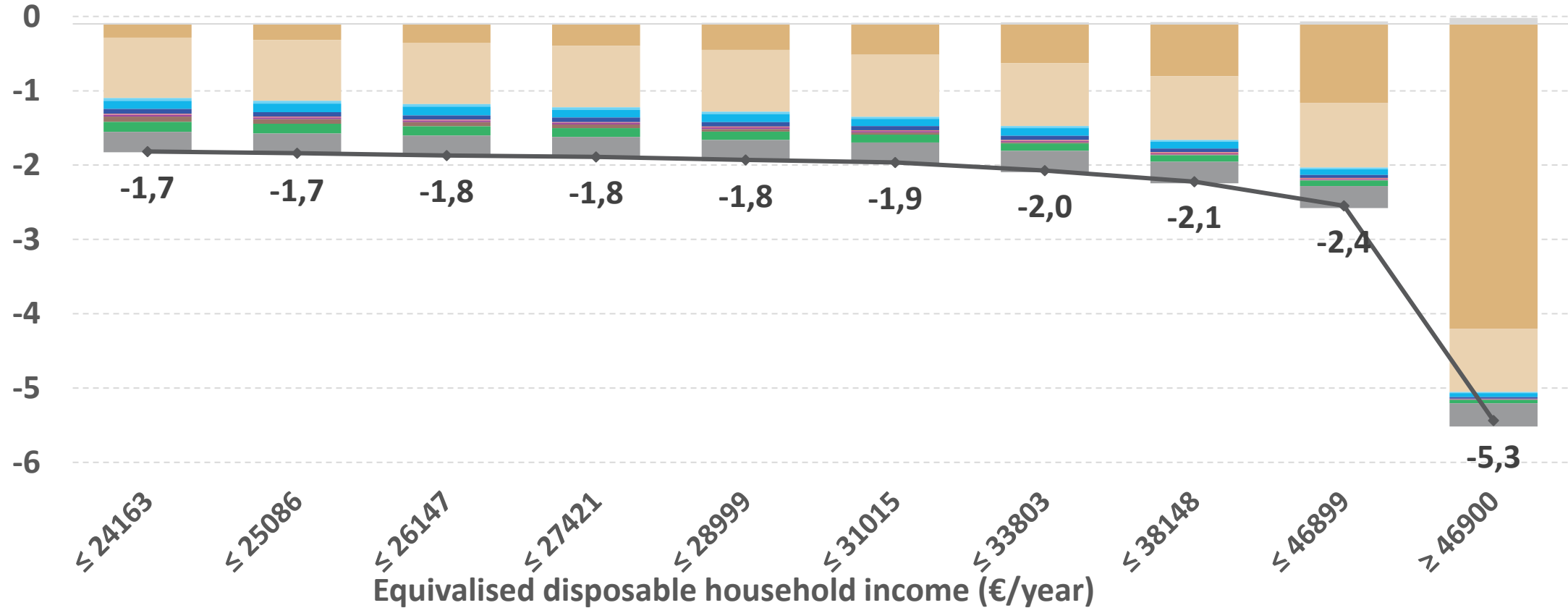
Distributional impact – 1st and 10th decile hit hardest



- PIT
- Unemp. benefit
- VAT
- Health insur. contrib.
- SIC during sick leave
- Macro
- Self-emp. min AB
- 13th pension
- Interaction effect
- Self-emp. SIC holiday
- Subsidised housing finance
- Total



... and among top earners the 100th %-ile



- PIT
- Health insur. contrib.
- Self-emp. min AB
- Self-emp. SIC holiday
- Unemp. benefit
- SIC during sick leave
- 13th pension
- Subsidised housing finance
- VAT
- Macro
- Interaction effect
- Total



Generational impact – annualized effect

