



Fiscal Space of Slovakia 2026

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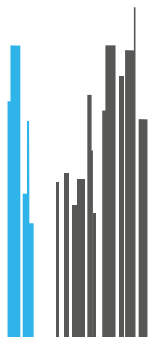
This report presents the official positions of the Council for Budget Responsibility in line with its mandate laid down in Constitutional Act No. 493/2011 Coll. on Fiscal Responsibility.

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Comments or remarks on the report are welcome at the e-mail address sekretariat@rrz.sk.



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Foreword

Sound public finances enable the state to finance the social safety net and public services such as healthcare, education or security not only in normal times, but also when conditions deteriorate. Slovakia has experienced this repeatedly in recent years. The global financial crisis, the COVID-19 pandemic, the Russian invasion of Ukraine, the sharp rise in energy prices were situations in which the state was naturally expected to protect people's living standards and the economy against the worst impacts. Such assistance is, however, sustainable only if the country has sufficient fiscal space.

Slovakia no longer has such space today. General government debt exceeds 60 % of GDP and, without additional measures, it may reach 75 % of GDP at the end of this decade. In the event of a deeper recession, debt could move significantly above 80 % of GDP within a few years of its outbreak. The safe level of debt for Slovakia is estimated to be significantly lower, below the threshold of 50 % of GDP.

The safe level of debt is not the same for all countries. It depends on the ability of the given economy to grow and to repay its debts through higher revenues, on whether the government is able to secure its ordinary functioning without further borrowing, and also on future objective expenditure pressures stemming, for example, from demographics. All of these are factors that influence investors' willingness to lend to the state on acceptable terms. Slovakia, as a small open economy threatened by the middle-income trap and, moreover, with unfavourable demographic developments, has a significantly lower safe level of debt than many other advanced countries.

The risk scenario does not mean only formal bankruptcy. It means above all the loss of the full-fledged ability to decide on one's own economic policy, when a country is no longer able to finance its needs by its own means and must rely on external assistance under conditions it does not set itself. This is neither a theoretical possibility nor a rare phenomenon. After the global financial crisis, several European countries had to request assistance, most strikingly Greece: after 2010 it lost access to market financing and accepted rescue programmes conditional on cuts in pensions and public sector wages, layoffs and tax increases. Economic output fell by more than a quarter and unemployment exceeded 27 %.

This is precisely why it makes sense to act as soon as possible. Slovakia is not in a situation where it would have to take decisions under the dictate of a crisis. If, however, debt continues to grow, the space for its own decision-making will narrow. At the same time, Slovakia cannot rely on simply growing out of its debt. The country's growth potential is weaker than in the past, and therefore stabilising debt requires credible, long-term and concrete budgetary measures.

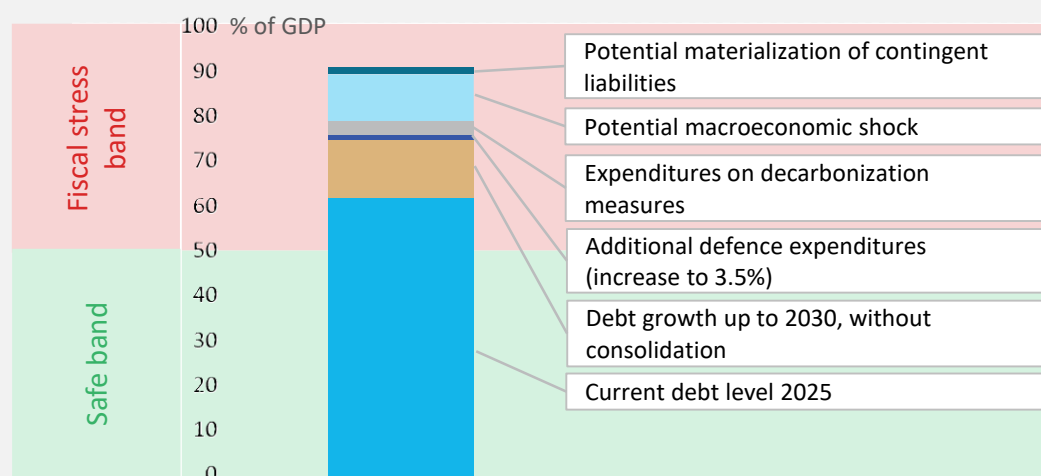
The most urgent task should therefore be to halt the growth of debt and restore confidence that Slovakia has its public finances under control. Only then can fiscal space be gradually created to manage possible future risks. This is not a technical objective of economists, but a basic precondition for the state to be able to protect people and the economy at the time when they will need it most.

In line with its mandate, the Council for Budget Responsibility has prepared a report on fiscal space and fiscal risks, that is, on threats which, if they materialise, may significantly alter the expected development of public finances. These risks are often underestimated, which increases the vulnerability of public finances. They may, however, have a significantly negative impact not only on public finances, but also on the living standards of the population. The report also includes a proposal for a framework for monitoring and managing fiscal risks.

Fiscal space of Slovakia: from identifying risks to more resilient public finances

- **Slovakia's fiscal space for absorbing the impacts of negative shocks is exhausted.** General government debt exceeds 60 % of GDP, well above the safe level for Slovakia of below 50 % of GDP, and without additional measures it is heading towards 75 % of GDP by the end of the decade.
- **Slovakia is in the zone of fiscal stress.** In the past, Slovakia addressed crises by drawing on its fiscal space; its absence means that even ordinary shocks may force pro-cyclical measures that harm the economy and living standards. Vulnerability to further shocks is rising, translating first into higher financing costs and a higher risk premium.
- **The safe level of debt will continue to decline even without new crises.** Ageing raises expenditures and weakens the ability to stabilise debt: by 2075 it adds 97.5 % of GDP to debt and cuts the safe level of debt by some 10 % of GDP.
- **The identified fiscal risks may materialise simultaneously and their impacts are amplified.** A deeper recession could raise debt by more than 10 % of GDP, to well above 80 % of GDP; combined with other factors (e.g. forced higher defence spending), the increase would be even sharper.
- **Fiscal policy must move from a reactive to a proactive risk management regime with clear institutional anchoring at the technical and political level.** Restoring fiscal space is a necessary condition for managing future shocks and for financing long-term challenges. This requires measures in three areas:
 - ✓ **Absorption:** reducing the deficit towards 2.5 % of GDP and stabilising debt; in favourable periods, moving towards a balanced budget for a faster decline in debt.
 - ✓ **Prevention:** systematic reduction of risk exposures (state-owned enterprises, guarantees, investment debt), budgetary coverage of identified risks, and modernising the economy to raise its growth potential.
 - ✓ **Preparedness:** building crisis mechanisms and plans for managing shocks without undermining long-term sustainability.
- **Without fiscal space, the economic and social costs of crises increase.** In the extreme, the absence of a timely response may cost Slovakia its fiscal sovereignty - fiscal policy would be dictated by financial markets or by the terms of external financing.

Figure 1: Expected development of debt up to 2030 and the potential materialisation of selected risks



Source: CBR

Summary

This report provides a systematic view of fiscal risks and of the state of resilience of Slovakia's public finances. The CBR regularly publishes analyses focused on individual areas of fiscal policy, but these capture risks separately, over different time horizons, and do not provide an overall picture of their combined effect. The experience of international institutions (IMF, OECD), of independent fiscal councils, as well as the practice of other countries show that the long-term sustainability of public finance can be supported by a systematic assessment of fiscal risks together with an estimate of fiscal space, which determines a country's ability to deal with materialised risks.

Fiscal policy must work systematically with uncertainty, rather than proceed from the assumption of a stable environment. Over the past decade Slovakia has faced a series of pronounced negative shocks which fiscal policy did not anticipate. The COVID-19 pandemic, Russian aggression in Ukraine and the resulting energy and inflation shock, another energy shock owing to the war in Iran, and trade wars have fundamentally affected the economy and public finances. These events show that risks emerge repeatedly, often accumulate, and their impacts are amplified. At the same time, even risks that appear in forecasts as hypothetical scenarios often materialise sooner or later, even though their exact scale and timing cannot be determined in advance. Fiscal policy therefore cannot be based solely on the “central scenario”, but must work systematically with all risks, including extreme events.

The ability of public finances to absorb fiscal risks depends on the existence of fiscal space. It makes it possible to respond to negative shocks by a temporary increase in debt without jeopardising its sustainability. In this document, fiscal space is defined as the positive difference between the current level of debt and the boundary of the safe zone. If this difference is negative, fiscal space is exhausted and debt lies in the zone of fiscal stress. A further increase in debt leads first to a rise in the risk premium and may result even in the loss of access to financial markets. In such situations, stabilising debt requires rapid and substantial consolidation at an inopportune time, often with pro-cyclical negative impacts on the economy and on living standards.

According to CBR estimates, the safe level of gross debt for Slovakia does not exceed the level of 50 % of GDP. This is not a fixed threshold of the collapse of public finances, but a level of debt associated with an acceptable minimum probability of fiscal failure. The estimate is based on a combination of approaches taking into account the probability of shocks, the ability of fiscal policy to stabilise debt, and also the impacts of indebtedness on the economy. The stochastic approach suggests a safe level of debt of around 30 to 45 % of GDP, the fiscal limit model approximately 35 to 50 % of GDP and the fiscal reaction model approximately 35 % of GDP. Approaches focused on growth and welfare estimate the optimal level of debt in the range of 30 to 50 % of GDP. The estimated safe level of debt is thus fully in line with the legislative setting of the debt brake, which implicitly aims at maintaining gross debt below the level of 50 % of GDP, with sanctions already from 40 % of GDP.

The development of Slovakia's public finances shows that fiscal space has not been restored over the long term. After the global financial crisis subsided, sufficient consolidation did not take place and Slovakia entered the COVID-19 pandemic with an already elevated level of indebtedness, exceeding the first sanction band of the debt brake, which subsequently exceeded 60 % of GDP. Each successive crisis thus began from a worse initial position, which gradually increased the vulnerability of public finances. Experience also shows that the materialisation of a negative shock as a rule causes a rapid and pronounced deterioration of the balance and of debt, whereas the return to a sustainable

trajectory is subsequently slow, requires extensive measures and entails higher economic, social and political costs.

The baseline scenario of public finances suggests a deterioration of the fiscal position even without new shocks. Fiscal risks do not operate in isolation, but against the background of the baseline scenario, which is already affected by predictable structural pressures. The most significant of these is ageing, which systematically increases expenditures on pensions, healthcare and long-term care and at the same time weakens the growth potential of the economy. The baseline scenario implies a rising debt trajectory even without the materialisation of fiscal risks. These pressures also reduce the ability to stabilise debt, so that fiscal space will gradually shrink even without active fiscal policy decisions, since the level of debt that can be considered sustainable is declining.

The analysis of fiscal risks does not serve to create alternative forecasts, but to capture the uncertainty associated with the future development of public finances. General government debt is, moreover, only one part of the state's overall fiscal position. The broader concept of net worth also takes into account current and future assets and liabilities and in this report serves as a framework for the most complete possible identification of risks, although, owing to data and methodological limitations, it is not quantified directly. It is a systematic assessment of factors that may expose public finances to additional pressures beyond the baseline scenario. Risks may be of both a positive and a negative nature; the fundamental problem, however, tends to be the systematic underestimation of negative shocks.

The dominant fiscal risks are of a systemic nature and affect several sectors of the economy at once. These are in particular macroeconomic shocks and geopolitical events, which may rapidly and substantially worsen both the balance and debt. Structural pressures (ageing) and risks (climate challenges, investment debt) act more slowly, but cumulatively. Specific risks (e.g. the financial performance of state-owned enterprises and hospitals,) as a rule have a lower individual impact, but their simultaneous materialisation may be a problem.

- **Macroeconomic shocks and financial crises remain the most likely and historically most costly risk.** Experience suggests that a more serious economic shock occurs approximately once a decade. The simulated risk scenario shows that another deeper recession could move Slovakia's debt significantly above 80 % of GDP. Economic crises typically increase debt by up to 9 % of GDP over a short period; in combination with stress in the financial sector the increase may be even higher.
- **Geopolitical risks have changed from hypothetical into permanent commitments.** For example, the increase in defence expenditures to 3.5 % of GDP alone may increase debt by approximately 7 % of GDP (in 2035) if it is not accompanied by compensating measures.
- **Structural risks represent a long-term and cumulative pressure on Slovakia's public finances.** The investment debt, climate change or the loss of competitiveness do not act as one-off shocks, but manifest themselves gradually through the growth of expenditures or the weakening of the revenue base. Their impact accumulates over time and may range between 2 and 10 % of GDP over a longer horizon.
- **Specific risks have a lower individual impact, but their simultaneous materialisation may be fiscally significant.** PPP projects, the financial performance of local governments, or problems in the drawdown of EU funds as a rule represent a risk of up to 2 % of GDP individually, but in

combination they may create significant additional pressure. Contingent liabilities and the financial performance of state-owned enterprises and hospitals are classified among the medium-sized specific risks.

Figure 2: Sources of fiscal risks according to the maximum size of their potential impact and the nature of the risk

	Systemic risks	Structural risks	Specific risks
High impact >10 % of GDP	Financial / banking crisis Geopolitical tensions / war / break-up of the EU or the EA	-	-
Medium impact 2-10 % of GDP	Macroeconomic shock Pandemic	Investment debt Competitiveness	Contingent liabilities State-owned enterprises and hospitals
Low impact <2 % of GDP	-	Climate change* Policy settings*	PPPs EU funds and the RRP Local governments Cyber attack

Source: CBR Secretariat

Note: The values represent historically observed or model-estimated impacts on general government debt in the event of the materialisation of the given risk. The classification according to the nature of the risk expresses the mechanism of transmission into public finances.

* Climate change or policy settings are permanent risks, therefore the impact on debt over a three-year horizon is shown.

Fiscal policy must move from a reactive to a proactive risk management regime. This means working systematically with uncertainty even before shocks materialise and creating the conditions for managing them without destabilising public finances. The resilience of public finances rests on three complementary pillars:

- 1. Absorption capacity (fiscal space).** The basis of resilience is sufficient fiscal space created above all in favourable economic conditions. A country should be able to deal with one large (systemic) shock, or with a chain of several smaller and medium-sized shocks.
- 2. Prevention and reduction of exposures.** Some risks cannot be eliminated, but for many of them the probability of occurrence or the scale of the impact can be reduced. This requires an appropriate legislative setting, rigorous oversight of state-owned enterprises, continuous reassessment of contingent liabilities, transparency and annual budgetary coverage of measures for the continuous resolution of identified risk areas (e.g. investment debt, cyber security). Prevention can also include supporting the diversification of sectors of the economy or supporting the diversification of suppliers of key raw materials.
- 3. Consequence management mechanisms (crisis preparedness).** In the case of shocks that cannot be eliminated, it is key to have clear procedures, resolution tools and crisis mechanisms in place that allow a rapid and coordinated response. These are frameworks for stabilising the financial sector, managing state-owned enterprises, or activating temporary budgetary measures without undermining long-term sustainability.

Not all fiscal risks require an immediate and full response, but all of them require a clear strategy and the correct timing of measures. The differing probability, intensity and time profile of costs mean

that the response of fiscal policy must be prioritised and phased over time. The safe zone of debt is lower than the current level of around 60 % of GDP. If Slovakia is to be able to absorb a larger macroeconomic shock with an impact on debt exceeding 10 % of GDP without a sharp increase in the risk premium and the risk of default, it should implement steps to reduce debt significantly below 50 % of GDP. At the same time, without prevention and preparedness, shocks are addressed exclusively through higher debt – which is the most costly form of building resilience.

- **The priority for the coming three years must be to halt the growth of debt and not to deepen fiscal stress.** This means, as a first step, reducing the deficit towards the level of 2.5 % of GDP over the medium term. In parallel with reducing the deficit, it is necessary to implement reforms that increase the growth potential, which mitigate the immediate impacts of consolidation and also the long-term pressures on public finances. Consolidation is, however, at present already a necessary condition for sustainable economic growth.
- **Over a horizon of three to ten years, the objective should be the gradual restoration of the fiscal buffer and the reduction of exposure in risk areas.** After debt has been stabilised, further movement towards a balanced budget in favourable periods is necessary so that debt begins to decline more rapidly. The monitoring of risk areas concerns above all the reduction of the investment debt, state-owned enterprises and the guarantees provided.
- **Over a horizon of approximately ten years it is necessary to create a stable framework for financing long-term structural challenges – risks and trends.** This concerns in particular the challenges associated with climate change and demographic changes, the failure to address which may lead to crises with systemic potential.

Slovakia does not yet have a framework in place for the systematic management of fiscal risks. The Ministry of Finance of the Slovak Republic, in cooperation with the IMF, is preparing a proposal for the monitoring and management of fiscal risks. According to the CBR, an effective arrangement should combine active risk management by the Ministry of Finance with independent analytical assessment by the CBR, the SAO and the NBS, which reduces the risk of underestimating threats and strengthens the credibility of fiscal policy. The analytical level must systematically identify, quantify and evaluate risks, while the political level bears responsibility for their prioritisation and for the implementation of measures.

In an environment of high indebtedness and strong demographic pressures, building resilience becomes a condition for preserving fiscal sovereignty. Publishing comprehensive assessments of fiscal space improves the quality of decision-making by providing a coherent picture of risks and by refining the interpretation of developments in public finances. In an environment of information asymmetry, independent assessment helps to distinguish between the consequences of adverse circumstances and those of political decisions, thereby strengthening the government's accountability and voters' awareness. The aim of this report is therefore not only to increase transparency, but above all to contribute to making the management of fiscal risks an integral part of budgetary policy and to strengthening the resilience of public finances.

As part of its regular monitoring, the CBR will, alongside this report and its updates, publish analytical studies focusing on selected types of the identified risks.

1. Fiscal risks – known and unknown threats

Fiscal risks are unexpected events that may cause a significant deviation of general government outturns from their assumed development. Their analysis does not serve to create alternative forecasts, but to capture the uncertainty associated with the future development of the deficit and of general government debt.

Risks may be of both a positive and a negative nature; the fundamental problem, however, tends to be the systematic underestimation of negative shocks. These as a rule have a larger and non-linear impact, while they often reinforce one another. Slovakia's experience with the COVID-19 pandemic, the energy crisis and the war in Ukraine confirmed that events considered unlikely may materialise with a fundamental impact on public finances.

With debt high, a larger negative shock may limit the state's ability to respond and, in the extreme, cost Slovakia its fiscal sovereignty. Systematic risk management is therefore key to fiscal stability and to the state's decision-making autonomy.

Fiscal risks do not operate in isolation - the outlook for public finances is already being worsened by predictable structural pressures, above all ageing.

This report builds on the internationally used definition of fiscal risks as sources of uncertainty around the assumed development of public finances. The International Monetary Fund (IMF) considers fiscal risks to be “factors that may cause fiscal developments to deviate from expectations or forecasts”.¹ The OECD offers a broader perspective and views fiscal risks in the context of comprehensive management of fiscal uncertainty. The Recommendation of the OECD Council on Budgetary Governance is to clearly identify, classify by type, explain and, where possible, quantify fiscal risks. It also recommends applying mechanisms to strengthen the resilience of budgetary plans and to mitigate the potential impact of fiscal risks, and thereby to support the stable development of public finances.²

In this sense, fiscal risks do not represent an alternative forecast, but the range of possible deviations from the baseline scenario.³ The baseline scenario captures the most likely development of public finances in the absence of significant shocks and legislative changes. Fiscal risks reflect the uncertainty of this development and represent potential sources of deterioration, but also of possible improvement of the fiscal position.

- **Positive fiscal risks** are factors that may lead to a more favourable development of public finances than the baseline scenario assumes. An example may be an unexpected increase in

¹ IMF 2016: [Analyzing and managing fiscal risks – best practices](#).

² OECD 2015: [Recommendation of the Council on Budgetary Governance, OECD/LEGAL/0410](#).

³ The baseline scenario is defined in the CBR methodology and analysed in the annual Report on the Long-term Sustainability of Public Finances. It shows the development of debt assuming the policies in force at the end of the previous year remain unchanged.

the number of qualified immigrants and an increase in employment⁴, the arrival of new investors, higher dividends of state-owned enterprises⁵ or an unexpected decline in interest rates⁶. The existence of positive shocks reduces the costs of mitigating the impacts of negative shocks.

- **Negative fiscal risks**, by contrast, represent factors whose materialisation leads to a deterioration of the fiscal position, in particular to an increase in gross debt or in the deficit. Typical examples include the impacts of economic recessions, natural disasters, geopolitical shocks or the adoption of new permanent expenditure commitments without secured financing.

The tendency of governments to systematically underestimate negative risks is problematic. While positive scenarios are often reflected in forecasts ex ante, negative risks are taken into account predominantly only ex post – that is, only at the time of their actual materialisation. For this reason, analyses of fiscal risks focus primarily on negative fiscal risks, which represent the main threat to the sustainability of public finance.

Box 1: Why negative fiscal risks are underestimated

The systematic underestimation of fiscal shocks represents a fundamental problem in the management of public finances. According to the IMF, both analysts and policymakers tend to underestimate the potential impact of shocks on the fiscal position.⁷ This error often stems from unrealistic assumptions that characterise fiscal risks as:

- moderate (of small scale),
- independent (unrelated to one another),
- symmetric (with comparable positive and negative potential),
- linear (with proportional impacts).

Empirical evidence, however, points to a substantially different reality. Fiscal risks are often of considerable scale, mutually interlinked and strongly asymmetric, that is, with a markedly negative direction of effect. Their impacts moreover exhibit a non-linear character, where the combination of several risks may produce exponentially greater damage than the sum of the individual effects.

A special category is represented by extreme events (so-called “tail risks”), which even at a very low probability require particular attention, since their impact is non-linear and potentially catastrophic. An example may be a sudden debt crisis with the loss of access to financial markets, a collapse of the banking sector requiring extensive state aid, or a combination of several shocks leading to a sharp increase in general government debt and the loss of fiscal space.

The experience of recent years shows that ignoring negative fiscal risks leads to a systematic underestimation of fiscal vulnerability and to excessive optimism in medium-term and long-term

⁴ The influx of Ukrainian immigrants represented, irrespective of the circumstances that led to it (Russian aggression in Ukraine), an opportunity to fill vacant positions in the domestic labour market and thus to make use of the potential of a qualified, culturally close labour force.

⁵ Higher dividends may stem from various sector-specific situations that may lead to excess profits.

⁶ Slovakia, as a member of the euro area, may benefit from situations where monetary policy takes greater account of the differing situation in the euro area, and a possible loosening of monetary policy may thus provide, at least temporarily, a reduction of pressures on public finances through a decline in the costs of financing debt.

⁷ IMF 2016: [Analyzing and managing fiscal risks – best practices](#).

outlooks. In addition to economic crises, which occur in every economy more or less regularly over a period of several years, Slovakia has also experienced other unexpected events. The global COVID-19 pandemic or a war conflict on the European continent (Russian aggression in Ukraine) are events that were still considered highly unlikely a decade ago, yet in the end they occurred and had a fundamental impact not only on the economy, but also on fiscal stability. These were not extreme hypothetical scenarios, but risks whose probability of occurrence and possible consequences were underestimated in practice.⁸

When managing public finances, the probability of occurrence should not be the main criterion for setting priorities. What is decisive is the potential impact of risks and the ability of public finances to absorb even extreme shocks. Classifying risks exclusively according to probability may lead to underestimating events which, although they appear unlikely, would have significant budgetary consequences if they materialised. Over the long-term horizon, practically no significant risk can be ruled out. It is therefore more appropriate to assess risks above all according to their source and their potential impact on public finances.

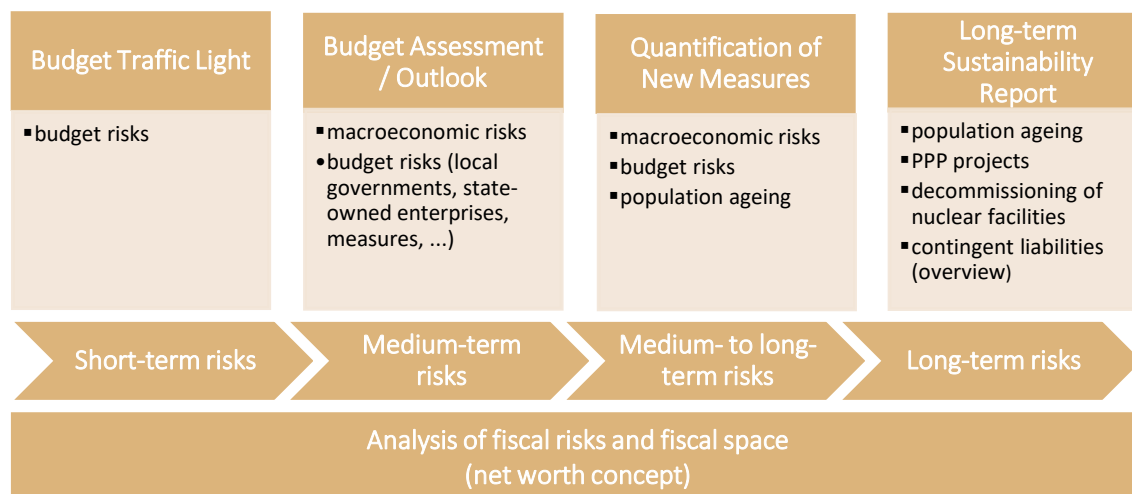
For countries with high general government debt, the materialisation of fiscal risks has particularly serious consequences and may lead even to the loss of fiscal sovereignty. When fiscal risks materialise, high debt significantly limits the government's ability to respond adequately and to use fiscal policy instruments to stabilise the economy and support long-term economic growth, and it increases the risk of an unsustainable development of general government debt. In the extreme case, the loss of fiscal sovereignty may occur, where the state formally remains sovereign, but its fiscal policy is effectively constrained by the conditions of financial markets or of external institutions providing financing. For example, as a result of a sharp increase in the risk premium, a deterioration of the credit rating or the loss of access to markets.

The relative seriousness of fiscal risks depends not only on their nature, but also on the fiscal position and on the ability of public finances to absorb shocks without destabilising debt. This ability, referred to as fiscal space, is also influenced by long-term structural factors that shape the basic trajectory of public finances. In its publications to date, the CBR has systematically drawn attention to selected fiscal risks threatening the development of public finances (Figure 3). The report on fiscal space follows on from the annually published report on the long-term sustainability of the public finance and its aim is to comprehensively summarise the medium-term and long-term fiscal risks that are not explicitly included in the baseline scenario (Box 2).

The key criterion for determining whether a particular factor is a fiscal risk is whether or not it is included in the baseline scenario. Not all pressures on public finances therefore have the character of fiscal risks. In addition to the uncertainties associated with future shocks, public finances are also affected by long-term and predictable trends, in particular ageing, which worsen the baseline scenario of the development of public finances itself (details in Box 2).

⁸ Indications of this type of risk had been available since the SARS epidemic in 2002–2003 or since the Russian invasions of Crimea (2014), and earlier of Georgia (2008).

Figure 3: Scheme for the assessment of fiscal risks in the CBR



Source: CBR Secretariat

The analysis of fiscal space focuses primarily on medium-term and long-term fiscal risks, which are of the greatest importance for assessing the sustainability of public finance.⁹

- **Medium-term fiscal risks** may affect budgetary management over the following four years. In most cases these are one-off or temporary events with a significant impact, such as legislative changes or temporary revenue shortfalls.
- **Long-term fiscal risks** operate over a horizon exceeding the four-year electoral horizon and often have a structural character. These risks may significantly affect the long-term sustainability of the public finance.

The CBR's framework for identifying fiscal risks is based on a broader view of the net worth of the public sector. Risks may indeed affect not only the deficit and debt, but also the value of current and future public assets and liabilities, while their consequences may be reflected in debt only later. In view of data and methodological limitations, net worth is not quantified directly in this report, but serves as a framework for ensuring the broadest possible identification of fiscal risks (in more detail Box 23 in Annex 3).

Box 2: The baseline scenario and fiscal risks

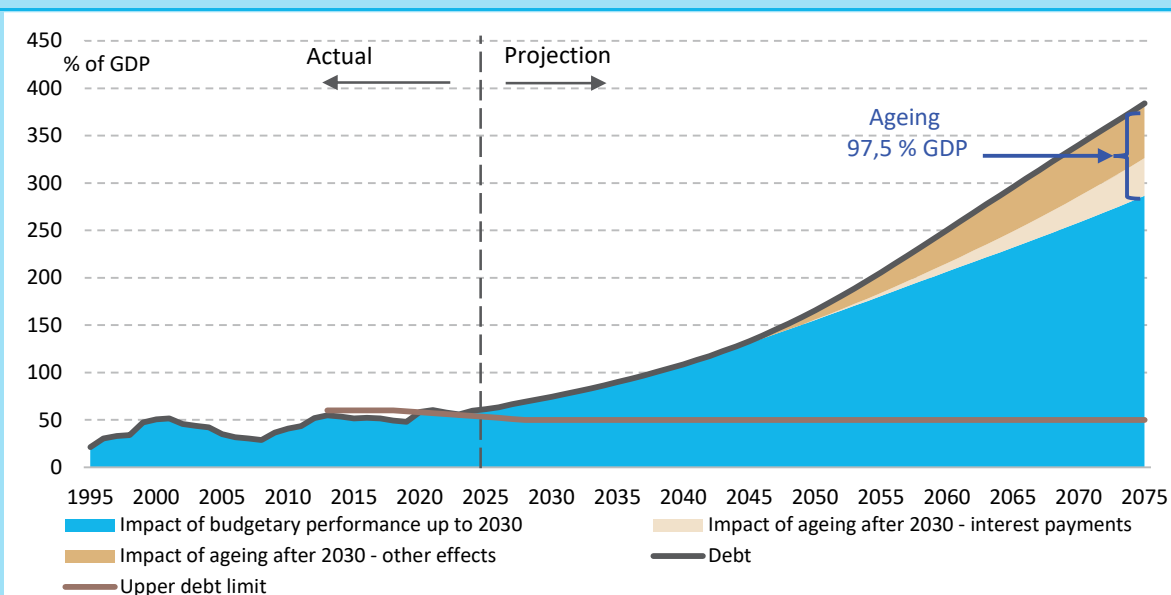
The baseline scenario captures the predictable and systematic factors influencing the development of debt. Fiscal risks represent the uncertainty in the development of public finances beyond the baseline scenario. The analysis of fiscal risks therefore focuses on events that may lead to deviations from the expected development, not on the trajectory of public finances itself.

⁹ Short-term fiscal risks represent factors with a potential impact on the general government budget over a horizon of up to one year. These risks are not the subject of this report, since they are regularly analysed in monthly assessments within the so-called budget traffic light and in medium-term fiscal forecasts. The budget traffic light has been published since 2018. At the same time, however, this type of report may point to a possible recurring materialisation of short-term risks, which would indicate systemic failures in the preparation of short-term and medium-term forecasts of budget revenues or expenditures.

The projection of the development of debt in the CBR's baseline scenario¹⁰ assumes unchanged policies and the expected demographic and macroeconomic developments. Expenditures associated with ageing are therefore not considered a separate fiscal risk. This is a predictable trend. Likewise, the largest PPP projects and the costs of decommissioning nuclear installations are incorporated in the scenario. The baseline scenario does not yet include the costs associated with the climate transformation, so for the time being we consider these to be a risk. In perspective, however, they will become part of the baseline scenario.

According to the current projection¹¹, general government debt would grow continuously over a fifty-year horizon and in 2075 would reach 384 % of GDP.¹²

Chart 1: Development of debt and the projection of debt in the baseline scenario (without additional measures)



Source: CBR

Note: This is the situation presented in the Sustainability Report in April 2026.

Projections show that age-sensitive expenditure alone will contribute to an increase in debt of approximately 97.5 % of GDP by 2074 (Chart 1: gold colour). Of this, almost 40 % of GDP will consist of interest payments. This concerns the growth of expenditures on pensions and healthcare together with a decline in the labour force, which increase the pressure on public finances in particular after 2029, that is, beyond the horizon of the medium-term forecast. This contribution represents one quarter of the total projected debt. Ageing thus represents the most significant long-term pressure on Slovakia's public finances. The remaining part of the increase in indebtedness results from the current legislative setting of public finances, including the already existing deficits and ageing up to 2030, while growing interest payments will also play a significant role (Chart 1: blue colour). The overall outlook thus suggests that, without additional measures, debt would reach extremely high levels over the long-term horizon.

¹⁰ The baseline scenario is defined in the CBR methodology and analysed in the annual Report on the Long-term Sustainability of Public Finances. It shows the development of debt assuming the policies in force at the end of the previous year remain unchanged.

¹¹ CBR 2026: Report on the Long-term Sustainability of Public Finances for 2025.

¹² This is a hypothetical development. Financial markets would probably stop financing Slovakia's needs at a significantly lower level of indebtedness.

2. Sources of fiscal risks

From the perspective of the potential impact on general government debt, systemic fiscal risks dominate, such as an economic recession, a financial crisis or pronounced geopolitical tensions, which affect the entire economy and simultaneously influence both the revenue and the expenditure side of the budget. In the short term they may increase debt by more than 10 % of GDP.

Structural risks such as the investment debt, climate change or the loss of competitiveness act gradually. Their estimated impact as a rule ranges between 2 and 10 % of GDP, while it manifests itself as long-term pressure on expenditures or a weakening of the revenue base.

Specific risks are linked to particular sectors or to the state's liabilities. In most cases they have a lower individual impact (up to 2 % of GDP), but if they materialise simultaneously they may create additional pressure on public finances.

Fiscal risks have identifiable sources that can be systematically analysed. Risks are classified by their source, the mechanism of transmission into public finances and the potential impact on general government debt (Box 3). Institutions such as the IMF¹³ or the OBR¹⁴ usually also assess the probabilities of a risk materialising on the basis of historical data. The historical frequency is useful information, but for the purposes of this report it is not the main criterion for classifying risks¹⁵.

Figure 4: Sources of fiscal risks according to the maximum size of their potential impact and the nature of the risk

	Systemic risks	Structural risks	Specific risks
High impact >10 % of GDP	Financial / banking crisis Geopolitical tensions / war / break-up of the EU or the EA	-	-
Medium impact 2-10 % of GDP	Macroeconomic shock Pandemic	Investment debt Competitiveness	Contingent liabilities State-owned enterprises and hospitals
Low impact <2 % of GDP	-	Climate change* Policy settings*	PPPs EU funds and the RRP Local governments Cyber attack

Source: CBR Secretariat

Note: The values represent historically observed or model-estimated impacts on general government debt in the event of the materialisation of the given risk. The classification according to the nature of the risk expresses the mechanism of transmission into public finances.

* Climate change or policy settings are permanent risks, therefore the impact on debt over a three-year horizon is shown.

¹³ IMF 2016: [Analyzing and managing fiscal risks – best practices](#) and IMF 2016: [The Fiscal Costs of Contingent Liabilities: A New Dataset](#).

¹⁴ The Office for Budget Responsibility is the independent fiscal council of the United Kingdom.

¹⁵ This information helps to distinguish which risks materialised more frequently in the past and which rather exceptionally. In itself, however, it does not determine their significance for fiscal policy. A risk with a low historical frequency may be fundamental from the perspective of public finances if it has a high impact when it materialises, or if it can combine with other shocks.

From the perspective of the potential impact on general government debt, systemic macro-financial risks dominate in Slovakia's conditions. A deeper recession, a financial crisis or pronounced geopolitical tensions may in the short term increase debt by tens of per cent of GDP. Their significant impact is related in particular to the openness of the Slovak economy and to the cyclical sensitivity of general government revenues. In a period of economic downturn, the shortfall in revenues combines with the growth of selected expenditures and the adoption of extraordinary measures, which leads to a sharp deterioration of the balance and a subsequent increase in debt.

Structural risks have a different dynamic, whereby they are not unexpected sudden shocks. The investment debt and climate challenges may require increased public investment or adaptation expenditures, which are reflected in the short term in a higher deficit and debt, while their benefits materialise over a longer or very long horizon. Conversely, addressing problems with, for example, competitiveness does not necessarily require additional fiscal costs; often a budget-neutral adjustment of the structure of taxes, expenditures or of the regulatory environment is sufficient, with the aim of increasing efficiency and supporting the growth potential of the economy.

Specific and contingent risks as a rule have a lower individual impact, but if they materialise they may represent additional pressure on public finances.

A brief list of selected fiscal risks is provided in Table 1; their detailed description is set out in Annex 1.

Box 3: Frequency and average fiscal costs of selected risks according to the IMF

According to studies of the International Monetary Fund¹⁶, the most frequent sources of fiscal risks are:

Macroeconomic shocks – Public finances are usually hit by a macroeconomic shock once every 12 years, while the average fiscal cost amounts to approximately 9 % of GDP.

Financial sector – Government interventions to rescue distressed financial institutions occur on average once every 24 years, with an average fiscal cost of approximately 10 % of GDP.

Litigation – Claims for damages against the government amount on average to 8 % of GDP, while in extreme cases up to 15 % of GDP.

Regional and local governments – The rescue of distressed local governments has cost governments on average 4 % of GDP, and in the most serious cases up to 12 % of GDP.

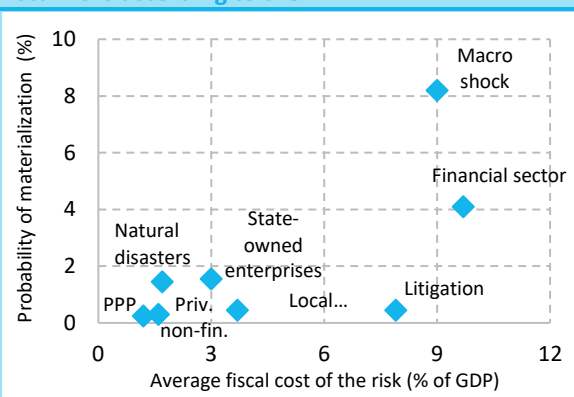
State-owned enterprises – Government interventions to rescue state-owned enterprises have cost on average 3 % of GDP, while in extreme cases up to 15 % of GDP.

Private non-financial corporations – Assistance to these companies (whether in the form of a rescue or of taking over their liabilities) has cost on average approximately 1.5 % of GDP, and in the most serious cases up to 4.5 % of GDP.

Natural disasters – Governments have on average faced costs amounting to 1.5 % of GDP, while in extreme cases it was up to 6 % of GDP.

Public-private partnerships (PPPs) – Government interventions in the event of the failure of PPP projects have cost on average 1 % of GDP and in extreme cases up to 2 % of GDP.

Chart 2: Costs and probability of materialisation of fiscal risks according to the IMF



Source: IMF 2016 and Bova et al. 2016

¹⁶ IMF 2016: [Analyzing and managing fiscal risks – best practices](#) and IMF 2016: [The Fiscal Costs of Contingent Liabilities: A New Dataset](#).

Table 1: Summary overview of selected risks

Financial crisis	A banking crisis requiring stabilisation through capital injections, guarantees or the assumption of liabilities. Rehabilitating Slovakia's banking sector in the late 1990s cost over 12 % of GDP.
Geopolitical and security risks	Geo-economic confrontation, a war conflict in the vicinity and an energy crisis. The gradual increase in defence expenditures to the level of 3.5 % of GDP by 2035 would in itself increase debt by 6.8 % of GDP.
Macroeconomic shock: economic recession	A pronounced slowdown or recession cuts tax revenues and raises the expenditures of automatic stabilizers. During the global financial crisis, Slovakia's debt rose by almost 20 % of GDP.
Macroeconomic shock: price / inflation shock	A sudden and unexpected increase in prices (commodities, energy, food), which may develop into a permanent increase in the price level. It negatively affects public finances through indexed expenditures and the weakening of competitiveness.
Global crisis events: pandemic	A systemic shock affecting health, the economy and public finances simultaneously. During the COVID-19 pandemic, gross debt increased over two years by more than 10 % of GDP.
Investment debt	Long-term neglect of repairs and of investment in public property, which in the future requires significantly higher capital expenditures. The estimated volume of the investment debt reaches EUR 40 billion (37 % of 2022 GDP).
Competitiveness and structural limits to growth	A gradual loss of competitiveness through weak productivity growth, an exhausted growth model and a weak institutional environment. It slows economic growth, weakens the revenue base and worsens the sustainability of public finance. A crisis of a systemically important sector (once the armaments industry, now automotive).
Contingent liabilities	Liabilities that become due only if certain conditions are met (callable capital in IFIs, guarantees, litigation). In 2024 they amounted in total to EUR 21 billion (16 % of GDP).
State-owned enterprises and hospitals	Inefficient management or weak oversight of enterprises in strategic sectors may lead to repeated transfers from the state budget to the accumulation of investment debt and to a direct impact on the deficit.
Climate change	Decarbonisation measures, physical damage from warming and adaptation needs. The cumulative contribution of decarbonisation measures to gross debt by 2050 is estimated at approximately 25 % of GDP.
Policy settings	Risks arising from policy design: deficit bias, time inconsistency, expenditure rigidity, temporary measures becoming permanent. They gradually reduce fiscal space, with an annual impact estimated at 0.1 to 0.7 % of GDP.
EU funds and the Recovery Plan	The dependence of public investment on external financing, slow and uneven drawdown and the risk of financial corrections by the EC. By 2024 Slovakia had to return almost EUR 1.4 billion. In an extreme scenario of the suspension of part of the payments amounting to EUR 5 billion, debt would rise by 7 % of GDP.
Financial performance of local governments	Deteriorating financial stability of municipalities and regions owing to the economic cycle, legislative changes and rising operating costs. A systemic crisis would require state intervention.
Public-private partnerships	Disruption of the PPP contractual framework (failure of the concessionaire, technical or legal problems). The state assumes operating and investment liabilities or faces compensation claims.
Cyber attack	Growth in the number and sophistication of incidents as a result of digitalisation, the use of artificial intelligence, ransomware and geopolitical tensions. The number of reported incidents in Slovakia in 2025 reached 1 650 (a year-on-year increase of 40 %).

Note: The background colour indicates the potential size of the impact of the specific risk in line with Figure 4. Pink means an impact of more than 10 % of GDP, blue 2 to 10 % of GDP and grey less than 2 % of GDP.

3. Fiscal space and the resilience of public finances

Slovakia's gross debt in 2025 exceeded 60 % of GDP and reached its historically highest level. Its trajectory was shaped in particular by large fiscal shocks - the rehabilitation of banks, the global financial crisis, the COVID-19 pandemic and the energy crisis.

The long-term growth of indebtedness was contributed to by asymmetric fiscal policy: during crises the expansion was as a rule justified, but in favourable periods after shocks subsided sufficient consolidation did not take place. Each successive shock thus arrived in a worse initial position. The unused space for reducing debt over the period 2009 to 2025 is estimated at the level of 11 % of GDP.

At the current high level of debt, the impacts of new shocks will be more pronounced. Slower growth, high interest payments and a possible further increase in the risk premium will make it more difficult to achieve the primary surpluses needed to stabilise debt. At the same time, the risk of fiscal fatigue is increasing, whereby the government's ability to achieve such surpluses gradually weakens.

The safe level of debt is already today significantly below the current value and, owing to ageing, it will decline in the coming decades from the current approximately 50 % towards 40 % of GDP. The baseline scenario of the development of debt without new shocks meanwhile indicates growth towards 75 % of GDP in 2030. Fiscal space is practically exhausted and Slovakia is in the zone of fiscal stress, in which the ability to absorb shocks is significantly limited.

Fiscal space is understood as the ability of public finances to absorb negative shocks without debt being destabilised and without triggering the need for immediate and costly consolidation.¹⁷ It is therefore not a measure of how much the government can afford to spend or to borrow on financial markets, but of what loss of revenues or increase in expenditures Slovakia is able to absorb at the time of a shock without undermining the sustainability of public finance.

Fiscal space is not free capacity for increasing expenditures or debt in normal times. Its existence does not mean the automatic appropriateness of a fiscal stimulus, nor does it legitimise an expansionary policy. It serves primarily to absorb shocks, its use should be temporary and its exhaustion reduces the ability to respond to future crises.

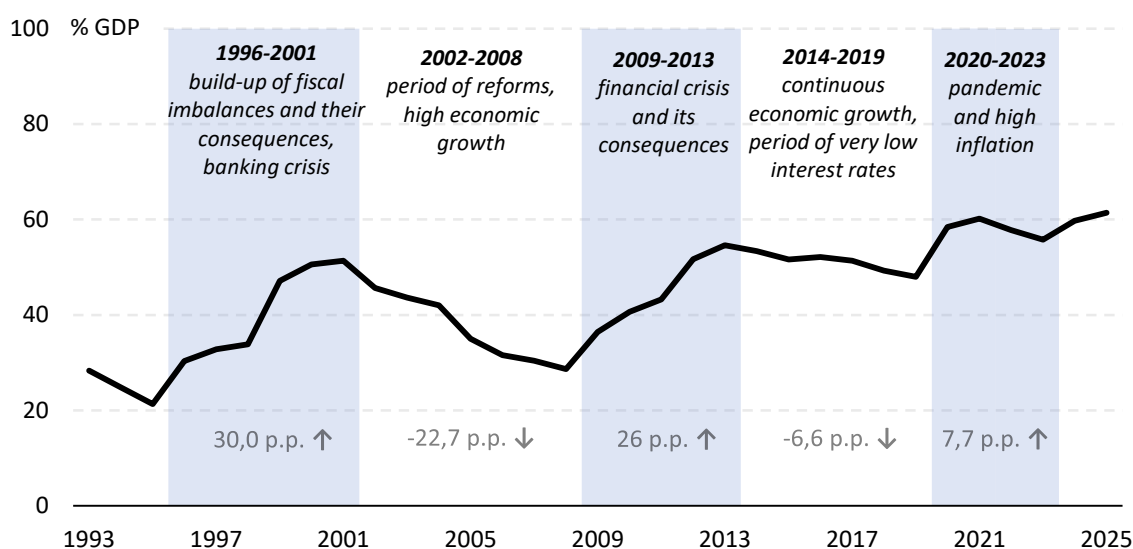
At the same time, fiscal space may change even without active fiscal policy interventions. Its size is determined not only by today's level of debt, but also by the expected development of debt in the baseline scenario and by the ability of public finances to generate future primary surpluses. If the baseline scenario assumes growth of debt, or if long-term structural factors, in particular ageing, weaken the ability to achieve these surpluses, fiscal space shrinks even without the occurrence of new shocks.

¹⁷ CBR study 2016: [What should we include in the Fiscal Space Review?](#) defines fiscal space as the ability of fiscal policy to absorb fiscal risks without a significant increase in the risk premium on government debt and without the need for immediate consolidation.

3.1. Initial position of public finance

Gross general government debt in 2025 exceeded 60 % of GDP and reached its historically highest level since the establishment of the independent Slovak Republic (Chart 3). Its development in recent decades shows that large fiscal shocks led to step increases in debt. The subsequent decline after the financial crisis was slow, incomplete or did not occur at all. Slovakia thus gradually entered further shocks with higher debt and less fiscal space.

Chart 3: Historical development of gross general government debt



Source: CBR Secretariat calculations based on data of the SO SR and the MF SR

An exception was the period after the restructuring of the banking sector at the turn of the millennium. Gross debt in 1998 – 2001 first increased owing to the high one-off costs of the rehabilitation of the banking sector, but after the rehabilitation was completed, debt declined significantly. This decline therefore did not reflect only an improvement in budgetary management. It was also contributed to by privatisation revenues from the sale of the rehabilitated banks and of other state-owned enterprises, as well as by more efficient management of the state's liquidity.

The key turning point was the period after 2009. The global financial crisis increased general government debt and the more favourable years 2014 to 2019 brought only a partial improvement. Despite economic growth and loose monetary policy, Slovakia was no longer able to repeat the restoration of fiscal space after the global financial crisis. The COVID-19 pandemic, the energy crisis, Russian aggression in Ukraine and high inflation therefore hit public finances in a worse initial position.

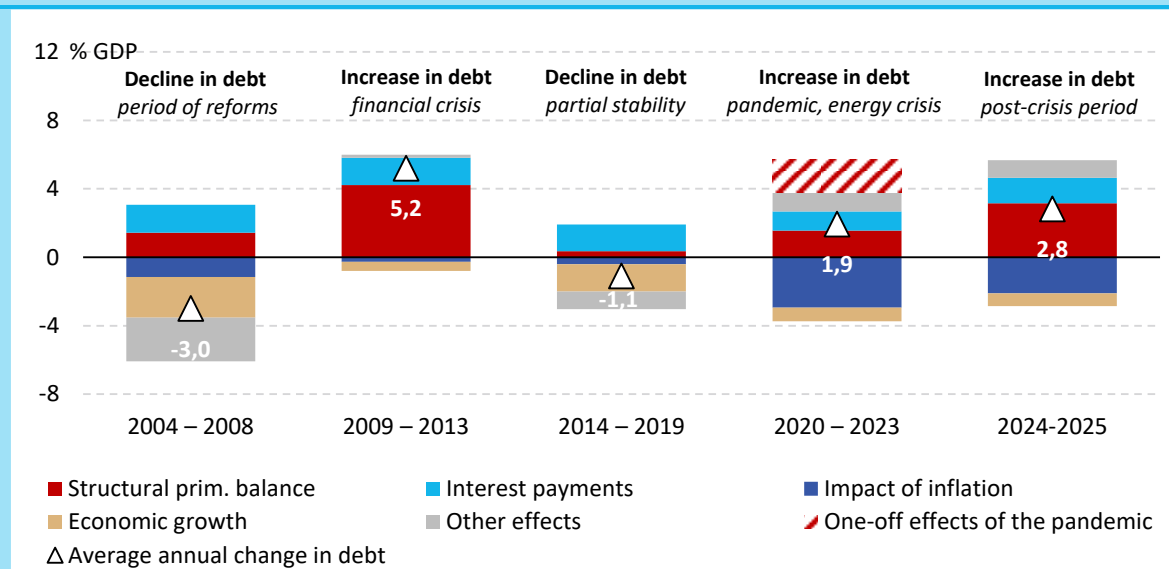
Box 4: Slovakia's debt is growing even without a new shock

Crisis periods usually bring with them a step increase in public expenditures, while revenues remain tied to the development of the weakened economy.¹⁸ The permanent loss of part of potential output during a crisis automatically increases the structural deficit to GDP, even without additional loosening of budgetary policy.

¹⁸ CBR blog 2025: [We do not compensate for the growth of general government debt in crises by a responsible budgetary policy in better times.](#)

Slovakia is currently in a period of debt growth despite the fact that the economy is not facing any significant crisis. The structure of the contributions to debt is meanwhile similar to that in the period of the financial crisis and is characterised by a high contribution of the structural primary balance. The contribution of interest payments to the growth of debt is even slightly higher (Chart 4). This means that fiscal space is shrinking even without the existence of a new large shock.

Chart 4: Overview of annual contributions to the change in debt in individual periods

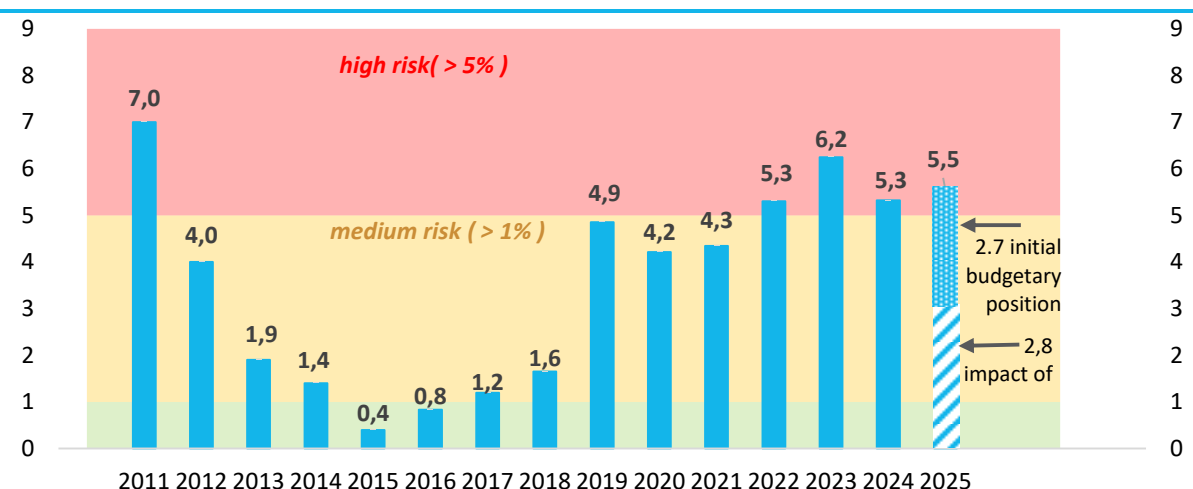


Source: CBR Secretariat calculations

Note: For better comparison, the data are recalculated per year.

The weak initial position of public finances represents not only a medium-term but also a significant long-term risk. The initial position is also reflected in the long-term sustainability indicator calculated by the CBR, which in 2025 reached a value of 5.5 and placed Slovak public finances in the high-risk zone (Chart 5). This value expresses the extent of the fiscal correction that would need to be carried out immediately and permanently, through an increase in revenues and/or a reduction in expenditures, in order for gross general government debt to decline to the level of 50 % of GDP over a fifty-year horizon.

Chart 5: Long-term sustainability indicator



Source: CBR

Note: From the Report on the Long-term Sustainability of Public Finances for 2025.

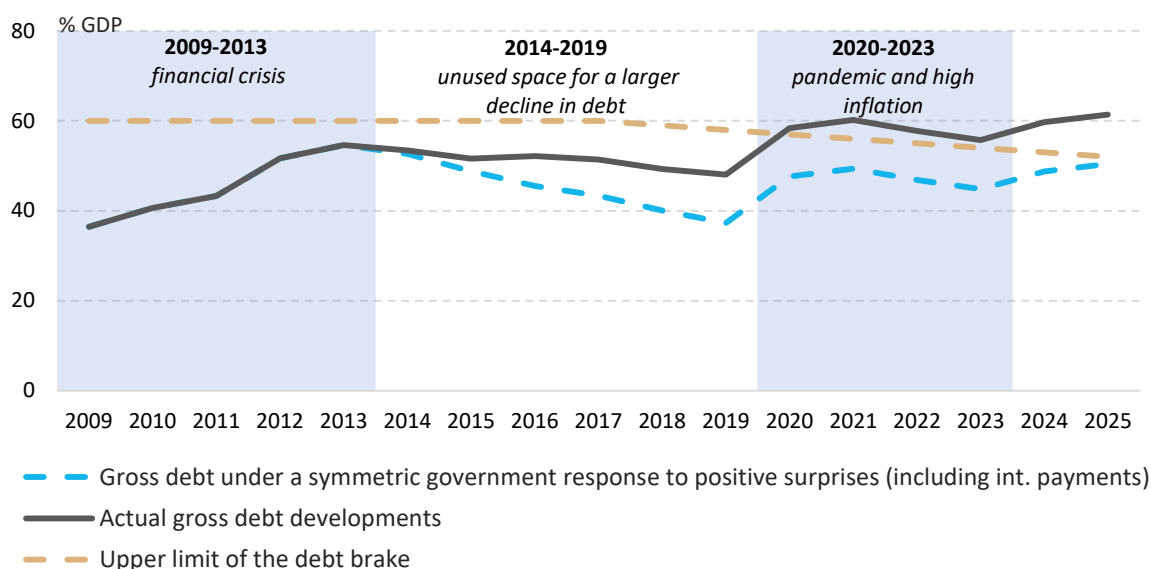
Almost half of the risk of long-term unsustainability already results from the current state of public finances. The value of the indicator can be broken down into two contributions. Approximately one half, specifically 2.7 p.p., is represented by the current state of public finances, which in itself significantly threatens long-term fiscal stability. The remainder, amounting to 2.8 p.p., reflects the expected additional pressures in the future, associated in particular with ageing and the growth of expenditures on pensions and healthcare.

3.2. Asymmetric fiscal policy and the growth of general government debt

Slovakia could have had general government debt approximately 11 % of GDP lower if favourable periods and positive budgetary surprises had been used more for reducing debt. Part of today's general government debt is therefore not only a consequence of large external shocks, but also of unused opportunities to restore fiscal space in good times (Chart 6).

The problem was not only the increase in the deficit itself during crises, but also the insufficient restoration of fiscal space after they subsided. During crises, the increase in the deficit and in debt is as a rule justified, since public finances are to cushion the negative impacts on the economy, households and businesses.¹⁹ In more favourable periods, however, a better-than-expected development of public finances should automatically be reflected in an improvement of the balance and a reduction of debt, even under a passive government policy. If this does not happen and governments respond with additional expenditures, fiscal space is not restored after shocks and the economy may be exposed to additional destabilising pressures of overheating.

Chart 6: Comparison of the development of debt in an alternative scenario with a symmetric reaction of the government to positive budgetary surprises



Source: CBR Secretariat calculations

Note: The estimate of the development of debt under a symmetric reaction of the government does not take into account the effect of any permanent measures that were already reflected in the deterioration of the planned targets. If the scenario took into account the permanent measures adopted as part of the government's reaction increasing the deficit, the decline in debt would be even more pronounced.

¹⁹ In periods of crises and extraordinary situations, a more pronounced deterioration of the general government balance automatically occurred through automatic stabilisers as well as through the adoption of extraordinary measures.

The largest part of the unused space arose in the years 2014 to 2019. The favourable economic environment, low interest rates and positive surprises relative to the budget automatically created the conditions for a more pronounced decline in debt, but this space was not used to a sufficient extent. This is also illustrated by the comparison with the Czech Republic: if Slovakia had reduced debt at a similar pace in this period, it could have come close before the pandemic to the level of debt of 2009.

The asymmetry led not only to higher debt, but also to a shift of public finances towards ever higher expenditures and the need to increase taxes, potentially threatening the growth potential of the economy. This increases the requirements for future consolidation and makes the restoration of fiscal space more difficult.

3.3. High debt as a catalyst of fiscal risks

Slovakia's high level of debt increases the sensitivity of public finances to unfavourable developments, since negative shocks are reflected in public finances more quickly and with greater intensity. At an indebtedness exceeding 60 % of GDP, the materialisation of the same fiscal shock has a more pronounced impact on the growth of debt in relation to GDP than in the past.

Higher debt increases the vulnerability of public finances through several mutually interlinked channels: from

- **Macroeconomic channel:** A decline in economic activity worsens the general government balance through lower revenues and higher expenditures, as well as through the rising ratio of debt to GDP (the so-called denominator effect).²⁰ At a higher initial level of debt, the same decline of the economy therefore has a greater impact on the rate of indebtedness.
- **Interest channel:** A higher volume of debt increases the costs of servicing it and the sensitivity to changes in interest rates. Even a relatively small increase in interest rates is reflected, when refinancing the existing debt, in the growth of interest expenditures, which crowd out the space for financing other public policies.
- **Market channel (risk premium):** If confidence in the country's ability to stabilise debt deteriorates, financial markets may demand a higher risk premium. This increases the costs of new issues beyond the general increase in market rates and may further worsen the dynamics of debt.

Box 5: Fiscal fatigue

Fiscal fatigue is the term used in the economic literature (Ghosh et al., 2013) for a state in which the government's ability to respond to rising debt by further increasing the primary balance gradually weakens.²¹ This is not necessarily an abandonment of consolidation, but the economic and political limits to further increases in primary surpluses.

This problem is more pronounced in an environment in which interest rates approach the rate of growth of the economy or exceed it in growth terms ($r - g > 0$). In such a case, stabilising debt requires a higher primary balance. It is even more demanding to achieve surpluses sufficient for the gradual reduction of debt.

²⁰ Revenues respond to a change in economic conditions automatically, and therefore their level as a share of GDP does not change. On the other hand, rigidity in expenditures (e.g. pensions) means that at comparable absolute expenditures the ratio of expenditures to GDP increases.

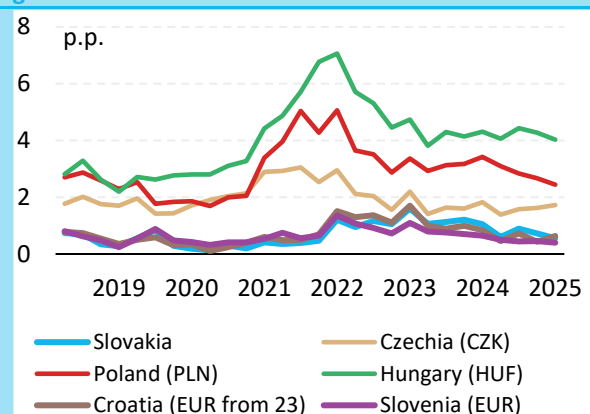
²¹ See Ghosh, A. R., Kim, J. I., Mendoza, E. G., Ostry, J. D. and Qureshi, M. S. (2013): "Fiscal Fatigue, Fiscal Space and Debt Sustainability in Advanced Economies", The Economic Journal, 123(566), F4–F30.

Box 6: Risk premium and rating

Compared with the V4 countries, the Slovak risk premium is significantly lower. This difference, however, does not reflect more favourable domestic fiscal fundamentals, since in recent years Slovakia has faced high structural deficits, rising general government debt and weaker growth prospects (Chart 7). An important stabilising role is played by membership of the euro area, which eliminates currency risk and places Slovak bonds in the broader market of euro government bonds. The euro thus provides Slovakia with a stabilising cushion against part of the market risks, but not a substitute for a credible fiscal policy.

In Slovakia and Hungary the rating has declined in recent years, unlike in the Czech Republic and Poland, whose rating has been stable in recent years and at a relatively high level. Slovenia and Croatia are examples of countries with a significant improvement in their rating in recent years. Slovakia currently has the lowest rating in the last 20 years. At higher debt, however, investors are more sensitive to persistent deficits, weaker growth and an unclear consolidation strategy. The downgrade of Slovakia's rating in 2025 and 2026 is a signal of a worsened assessment of the expected fiscal trajectory (Chart 8).

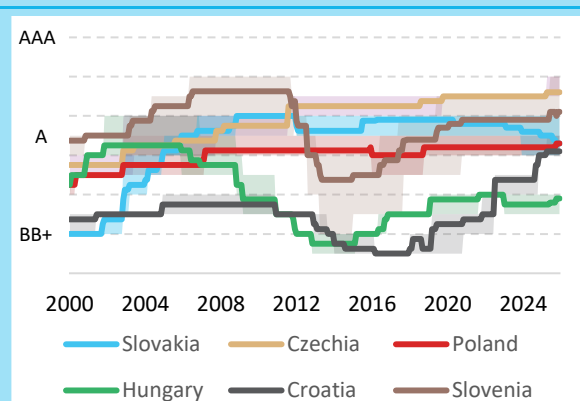
Chart 7: Development of risk premiums against the weighted average of AAA* countries on 10-year government bonds



Source: FRED/OECD, CBR Secretariat calculations

Note: *The countries with a AAA credit rating included are Germany, Luxembourg and the Netherlands. The average rate on 10-year bonds is subsequently calculated according to the weight of the nominal GDP of each of the countries. Debt in local currency.

Chart 8: Rating assessment of Slovakia, the neighbouring V4 countries, Slovenia and Croatia



Source: S&P, Moody's, Fitch, DBRS, Scope, Debt Sustainability Monitor 2025

Note: The unification of ratings on a common ordinal scale is taken from the Debt Sustainability Monitor 2025 (European Commission). The charts show the average of the ratings of the available rating agencies and the dispersion between the rating agencies.

The ability to stabilise general government debt is at present weakened by a combination of high indebtedness, slowing economic growth and higher costs of financing it. In such an environment, the stabilisation of debt cannot rely on the growth of the economy alone, but requires an active reduction of the primary deficit.²² Achieving the required consolidation effort is, at a higher level of debt, more demanding both economically and politically, because fiscal fatigue may occur (Box 5).

High debt shortens the time for the government to respond in the event of another shock. A country with lower debt can cushion a negative shock gradually and without immediate pressure for consolidation. At higher debt, however, the space for postponing measures shrinks, since a further

²² The stabilisation of the ratio of general government debt to GDP depends on the relationship between the effective interest rate paid on general government debt and the nominal rate of growth of the economy. If the interest rate is higher than, or approaches, the rate of nominal GDP growth, debt tends to grow unless the government achieves sufficient primary surpluses. The mechanism is a standard part of the analysis of general government debt dynamics (see e.g. Escolano, 2010; Ghosh et al., 2013).

increase in indebtedness is reflected more quickly in financing costs and in the risk of losing investors' confidence.

Box 7: The impacts of an economic crisis are more harmful if a country has high debt

The CRASH model simulates the impacts of a hypothetical macroeconomic crisis and its effect on the level of general government debt and on economic growth, in two alternative initial situations of public finances.

The hypothetical crisis represents a standard (external) macroeconomic shock which begins in 2031 and lasts three years. It combines:

- a collapse of foreign demand - a decline in the GDP and in the imports of our trading partners,
- an increase in tensions on the interbank market, which is transmitted into a rise in interest rates,
- a deterioration of the situation on the labour market - that is, a higher risk of layoffs, lower willingness of firms to hire new people and a weaker bargaining position of employees.

The baseline scenario captures the expected development of the Slovak economy under unchanged policies. General government debt is, before the outbreak of the crisis, at a level of approximately 77 % of GDP and is growing unsustainably. The deficit will be at the level of 6 % of GDP. At such a high level of debt and deficit it is assumed that the government will not have sufficient fiscal space to support the economy during the crisis.

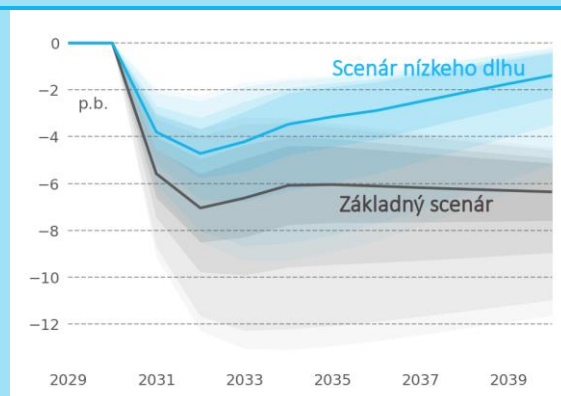
The low-debt scenario simulates a situation in which public finances would be in much better condition in 2030. General government debt would amount to 58 % of GDP and the deficit to around 1 % of GDP. A better fiscal position would in this case allow the government to respond to the crisis with temporary support measures amounting to 0.75 % of GDP in the two years 2031 and 2032.

In the baseline scenario the crisis has more pronounced and more lasting consequences. The level of GDP is permanently lower by more than 6 p. p. (Chart 9), the worse economic performance is reflected also in a higher deficit (it deepens on average by 2% of GDP) and in debt, which over a ten-year horizon increases by 20 % of GDP (Chart 10). Moreover, the uncertainty of the forecast, shown by the fan chart, is higher in the baseline scenario than in the low-debt scenario.

In the low-debt scenario the impacts of the crisis are significantly milder. The performance of the economy as well as the deficit itself return after ten years almost to the crisis-free trajectory. Likewise, general government debt returns after the crisis subsides back to the crisis-free level.

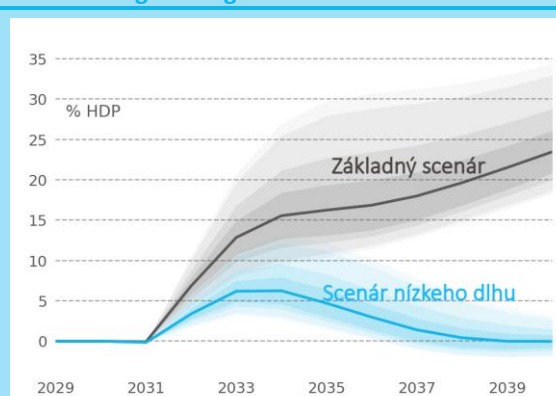
The simulation shows that the government's fiscal policy and the size of fiscal space before a crisis fundamentally influence how deeply and for how long its consequences will be reflected in the economy. Lower initial debt and deficit allow a more active anti-crisis response and a faster recovery, while higher initial debt leads to a permanent loss of economic output and to a significant, persistent increase in debt.

Chart 9: Cumulative effect of the hypothetical crisis on the level of GDP



Source: CBR Secretariat calculations

Chart 10: Effect of the hypothetical crisis on the increase in general government debt



Source: CBR Secretariat calculations

3.4. Safe, optimal and limit levels of debt

Slovakia's current level of general government debt exceeds the zone that can be considered safe from an economic point of view.²³

- **The legislative** limits on indebtedness laid down in Slovak legislation²⁴ or in the Stability and Growth Pact represent formal boundaries of fiscal discipline. They do not, however, express the economically optimal level of debt or the extent of fiscal space available for absorbing shocks.
- **When assessing fiscal space, it is most important to monitor the safe level of debt.** The economic literature distinguishes between the safe, the optimal and the limit level of debt. The safe level makes it possible to absorb adverse shocks without a significant increase in financing costs. At the optimal level, the benefits and costs of indebtedness are balanced. The limit level is the threshold at which a loss of confidence of financial markets and a sharp increase in the risk premium may occur.

Estimates calibrated for Slovakia's conditions²⁵ suggest that the safe level of debt lies significantly below the current value exceeding 60 % of GDP. Chart 11 compares model estimates of the safe and optimal level of debt with the legislative limit on indebtedness.

The safe level of debt may decline further owing to long-term pressures. In the coming decades the safe level will fall from the current level of approximately 50% of GDP to the lower threshold of the debt brake, to the level of 40 % of GDP.²⁶ The main cause of this decline is the fiscal pressure of ageing, which reduces the future ability of public finances to generate primary surpluses and to absorb new shocks. (more in Annex 2).

Box 8: The debt brake and the safe level of debt

The debt brake defined by the Constitutional Act on Fiscal Responsibility is the legislative expression of a prudent approach to general government debt. The gradually tightening sanction bands begin from 2027 already at the level of 40 % of GDP and the upper limit on debt is set at the level of 50 % of GDP²⁷. The rule thus implicitly proceeds from the assumption that, for a small and open economy in an environment of an ageing population, safe debt is lower than the European reference value of 60 % of GDP. The analysis of safe levels of debt on the basis of Slovakia's economic fundamentals confirms that this framework is approximately in line with the levels at which the country still retains the ability to absorb negative shocks without undermining the sustainability of public finance.

From an economic point of view, the debt brake is to function above all as an emergency brake, not as the main instrument of annual budget management. This role is to be fulfilled primarily by effective expenditure limits, realistic budgeting and a functioning correction mechanism, which are to prevent debt from entering the bands of the strictest sanctions. Current debt above 60 % of GDP therefore underlines the need to

²³ CBR 2025: [Evaluation of the General government budget proposal for 2026 to 2028](#).

²⁴ Constitutional Act [No. 493/2011 Coll. on Fiscal Responsibility](#).

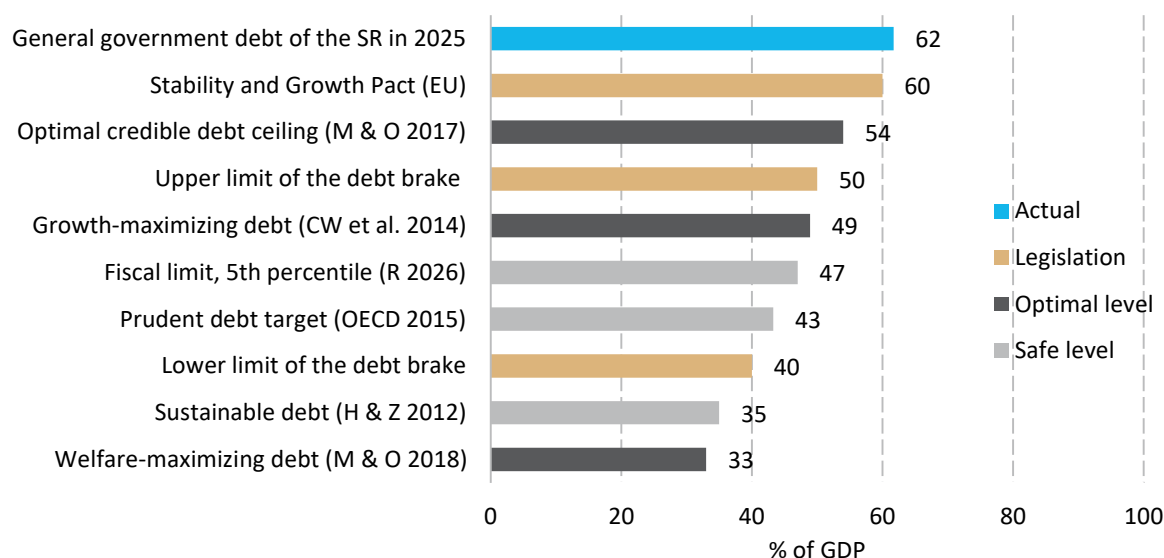
²⁵ This is an estimate of the fiscal limit as one of the types of estimate of the safe level of debt. CBR study 2026: [Too old for high debt: Fiscal limits and ageing in Slovakia](#).

²⁶ The safe level should be interpreted as an orientation point in the distribution of risk, not as an unambiguous threshold; it does not represent a fixed threshold of the collapse of public finances, but the level of debt at which the risk of fiscal failure does not exceed 5 %.

²⁷ The initial limit at the level of 60 % of GDP was based primarily on the great uncertainty regarding medium-term economic developments in the euro area at that time. Since 2018 this limit has declined annually by 1 percentage point, until it reaches 50 % of GDP in 2027.

modernise the national rules of responsible management so that their individual elements form an effective framework for achieving the long-term sustainability of public finance.

Chart 11: Model estimates of the safe and optimal level of gross debt and comparison with the legislative limits



Source: CBR, Hajnovič and Zeman 2012, Checherita-Westphal et al. 2014, OECD 2015, Múčka and Ódor 2017, Múčka and Ódor 2018, Rakús 2026

Note: The chart in the annex also contains limit levels for the level of debt, but these represent theoretical levels at which it is not meaningful for investors to lend to Slovakia. The optimal credible ceiling (Múčka and Ódor 2017) is not an estimate of the targeted level of debt. This level represents an estimate of the optimal setting of a credible ceiling for debt, i.e. the level that the government commits not to exceed under any circumstances.

3.5. Fiscal space and the ability to absorb fiscal shocks

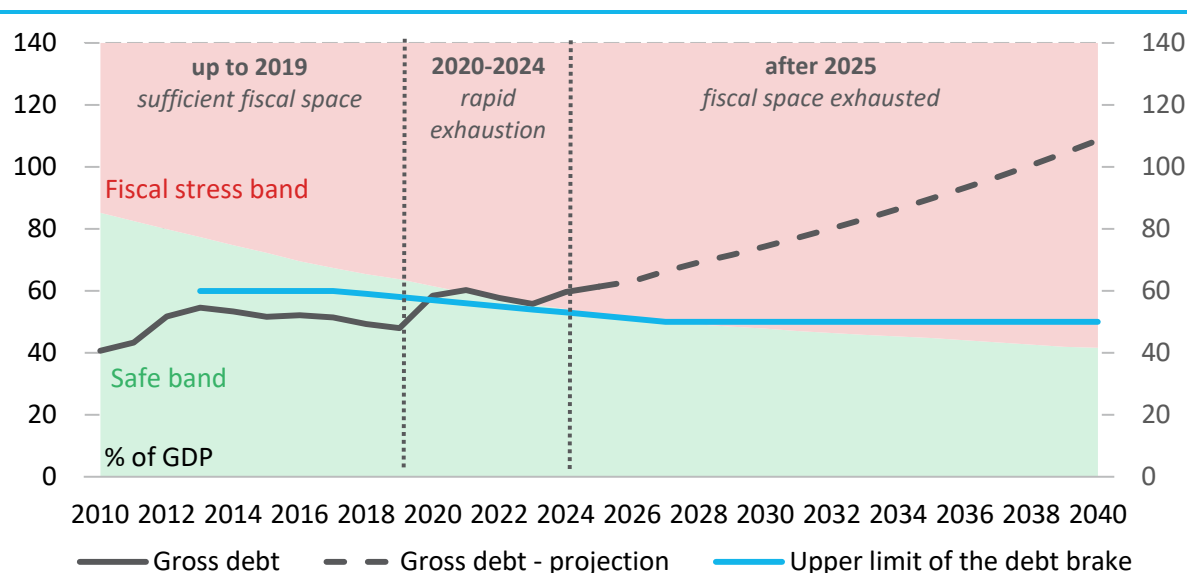
Fiscal space expresses the ability of public finances to absorb negative shocks without destabilising debt and without the need for immediate consolidation. In this report it is measured as the distance of the current general government debt from the safe level of debt. Since the previous part showed that the safe level of debt is for Slovakia lower than today's debt and may decline further owing to long-term pressures, what is also decisive is how debt develops in the baseline scenario.

Slovakia's fiscal space is practically exhausted and public finances are in the zone of fiscal stress (Chart 12). Current debt already exceeds the safe level and the baseline scenario does not lead to its decline. The ability of public finances to absorb further shocks is therefore significantly limited. General government debt continues to be financeable under normal conditions, but the budget faces higher debt servicing costs and the sensitivity of public finances to macroeconomic and financial shocks is higher. This increases the risk that even ordinary negative shocks or surprises will require rapid and more costly measures.

Fiscal stress does not automatically mean bankruptcy. It is a phase in which the rising probability of fiscal failure is reflected both in the behaviour of financial markets and in the narrowing of the space for fiscal policy. Fiscal stress is not tied to one precise level of debt, but represents a continuous change

of increasing vulnerability. Manifestations of fiscal stress may be recorded even at debt below the estimated safe level, if the other conditions are unfavourable.²⁸

Chart 12: Development of gross debt and the zone of fiscal stress



Source: CBR Secretariat calculations

Fiscal stress is increasing even without the emergence of a new large shock. According to the CBR's baseline scenario, under unchanged policies general government debt will increase from the current approximately 60 % of GDP to almost 75 % of GDP by 2030. At the same time, the safe level of debt will decline. This means that even without the materialisation of new risks, public finances will move deeper into the zone of fiscal stress. Fiscal stress may therefore increase even in “calm” periods if fiscal space is not restored.

Box 9: Sensitivity of the development of general government debt to realistic fiscal shocks and their impact on debt

The simulation is based on the baseline scenario of the development of public finances and on alternative scenarios of selected shocks. The alternative scenarios capture the impact of individual shocks on the development of gross debt. The purpose of this part is not to predict a specific future crisis, but to point to the sensitivity of public finances to selected types of shocks. For illustration, shocks are used that are of the greatest significance for Slovakia in terms of potential impact or probability of materialisation.²⁹ Specifically, these are:

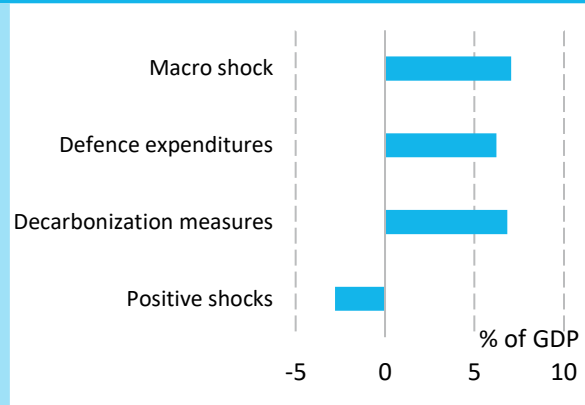
- **Macroeconomic shock:** This represents an estimate of the impacts of a significant slowdown of economic growth or of a recession from 2031, which temporarily leads to a decline in tax revenues, growth of automatic stabilizers and a deterioration of the general government balance.

²⁸ The actual onset of fiscal stress may thus occur at various levels of debt, depending in particular on: the development of interest rates and the growth of the economy, the confidence of financial markets, the structure of debt and of its holders, institutional quality and the credibility of fiscal policy, and the taking into account of expected future liabilities (in particular in connection with ageing).

²⁹ The estimate of the necessary size of fiscal space depends not only on individual shocks, but also on their mutual correlation and on the possibility of their simultaneous materialisation. In practice it is therefore not a simple addition of the impacts of individual risks, but an analysis of the most adverse development scenarios (tail risks), which take into account their combined effect. At the same time, it is necessary to take into account the likely responses of fiscal policy, since automatic stabilisers and discretionary measures influence the resulting trajectory of debt.

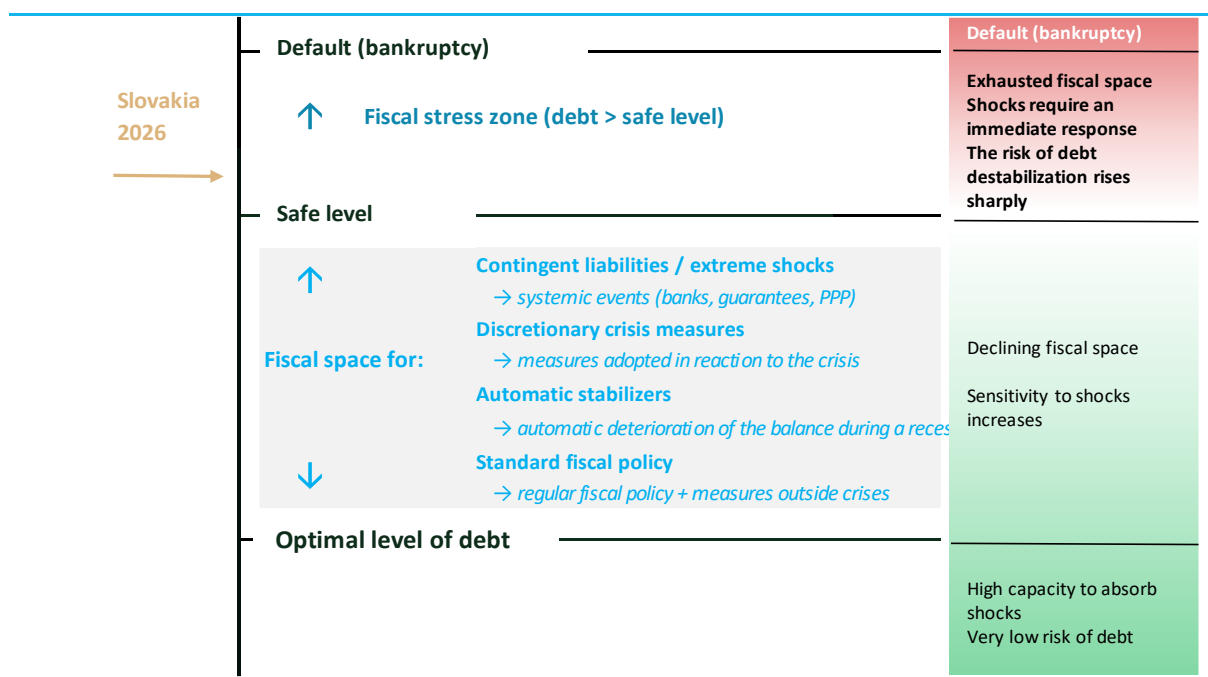
- **Geopolitical shock (defence expenditures):** This represents a permanent increase in public expenditures on defence and security in response to the deteriorated security environment.
- **Expenditures on decarbonisation measures** : These are the estimated general government expenditures in 2035 on measures that are necessary to achieve the objectives of a low-carbon economy.
- **Positive shocks:** these include more efficient drawdown of EU funds and measures increasing the labour supply.

Chart 13: Effect of the alternative scenarios on the development of general government debt in 2035



Source: CBR Secretariat calculations

Figure 5: Fiscal space and its interpretation



Source: CBR

4. Protection against the impacts of fiscal shocks

Public finances cannot be protected against all risks in the same way. In the case of large systemic shocks, what is decisive is the absorption capacity made possible by the fiscal space created. In the case of others, it is prevention or a prepared consequence management plan. Effective protection of public finances as a rule requires a combination of all three approaches.

A shock may come suddenly, but fiscal space is built gradually, and preventive measures as well as crisis mechanisms are introduced gradually. Fiscal space in particular needs to be created in favourable economic periods. Its restoration during a crisis as a rule increases macroeconomic and social costs and limits the government's ability to stabilise the economy.

Preparation for all significant risks needs to begin today, but the individual measures differ in their degree of urgency and in the time profile of costs. Over the next three years, the priority should be to reduce the deficit to a level allowing the stabilisation of debt. Subsequently, the objective is to restore fiscal space by bringing the deficit closer to a balanced budget and to reduce exposures in risk areas (state-owned enterprises, guarantees, investment debt). In parallel, it is necessary to create a stable framework for financing long-term risks, in particular climate change and other structural pressures with systemic potential.

The protection of Slovak public finances against fiscal shocks is not a supplementary element of the management of public finances, but one of its key objectives. The previous chapters showed that Slovakia is entering a further period of uncertainty with high debt, a limited ability to absorb new shocks and growing long-term pressures on public finances. This increases the importance of the government not only identifying risks, but also distinguishing them in advance according to the type of response they require.

The individual identified risks differ in their nature as well as in the time horizon of their materialisation, but from the perspective of management they can be divided into three groups³⁰ :

- risks requiring fiscal space,
- risks requiring above all prevention,
- risks for which it is key to have a prepared consequence management plan.

The decisive factor is time: a shock may occur suddenly, but fiscal space, as well as the instruments of prevention and management, are built gradually. Absorption creates the space to manage a large shock without destabilising debt. Prevention reduces the probability of a risk arising or the scale of its

³⁰ The conceptual framework of prevention, absorption and consequence management is based on the international literature on the management of fiscal risks and the building of fiscal resilience, in particular:

IMF 2016: Analyzing and Managing Fiscal Risks: Best Practices, IMF Policy Paper, available at: <https://www.imf.org/external/np/pp/eng/2016/050416.pdf>;

IMF 2018: Fiscal Monitor: Managing Public Wealth, October 2018, available at: <https://www.imf.org/-/media/files/publications/fiscal-monitor/2018/october/pdf/fm1802.pdf>;

OECD 2025: Managing Emerging Critical Risks: Case Studies and Cross-Country Synthesis Report, available at: https://www.oecd.org/en/publications/managing-emerging-critical-risks_1f9858ea-en.html.

future costs. Plans and procedures for consequence management make it possible to respond rapidly and in a coordinated manner if a risk materialises. Often, however, it is necessary to combine the individual management approaches when addressing the impacts of risks.

4.1. Risks requiring fiscal space

In the case of large systemic shocks that cannot be reliably prevented, the basic protection is sufficient fiscal space. These are in particular deep macroeconomic shocks, significant geopolitical events (e.g. a pandemic, war conflicts) or a sudden deterioration of financing conditions. Their timing and scale cannot be precisely predicted and preventive measures cannot completely eliminate their impact on public finances.

Fiscal space allows the government to temporarily increase the deficit and debt without undermining their long-term sustainability. The objective is not to cover

the entire potential increase in debt, but to reduce vulnerability and create space for a stabilising response without the need for sharp and pro-cyclical consolidation during a crisis.

Slovakia's primary task in the coming years is therefore to halt the growth of debt. This will require reducing the deficit below the level of approximately 2.5 % of GDP, which under the assumed macroeconomic conditions would make it possible to stabilise debt. According to current estimates, such a shift would require an improvement of the structural balance of approximately 3 to 4 % of GDP.

The stabilisation of debt is only the first step, not the restoration of the full fiscal buffer.

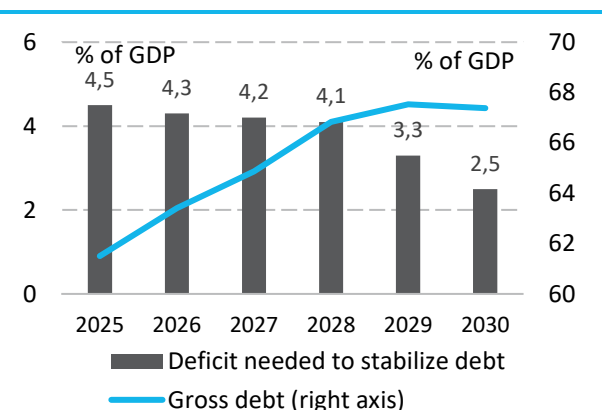
Even with a significant improvement of the structural balance, Slovakia's debt would stabilise in 2030 at a level slightly below 70 % of GDP, that is, significantly above the safe zone

(Chart 14). Over the long-term horizon, fiscal policy must therefore maintain significantly better outturns and gradually reduce debt towards a level further below 50 % of GDP.

Box 10: Instruments for restoring fiscal space

- reduction of the structural deficit
- stabilisation and gradual reduction of debt
- adequate liquid reserves

Chart 14: Scenario of debt stabilisation in 2030



Source: CBR Secretariat calculations

Note: Based on the CBR Secretariat forecast of June 2026. The government's targets for 2026-2028 are taken from the Annual Progress Report of the SR 2026.

4.2. Risks requiring systematic prevention

In the case of risks whose emergence or scale the government can influence, prevention is as a rule less costly than financing their consequences. These are in particular gradually accumulating pressures or systemic weaknesses. Their materialisation may indeed lead to potentially high fiscal impacts, but the probability of their emergence or the scale of the consequences can be significantly influenced by timely preventive measures.

These include in particular:

- cyber attacks on critical infrastructure,
- climate impacts and extreme weather events,

- contingent liabilities of the state,
- weak performance of state-owned enterprises,
- investment debt,
- gradual loss of competitiveness and a reduction of economic growth,
- risks arising from inappropriately designed public policies.

Part of the preventive measures requires continuous budgetary resources, in particular for the maintenance, protection and increased resilience of infrastructure. This is not, however, only about increasing expenditures, but also about their better timing and their redirection from remedying consequences to preventing damage. Regular maintenance can prevent a substantially more expensive reconstruction and adequate cyber protection can reduce the costs of restoring systems and services after a serious incident.

In the case of risks arising outside the visible deficit, what is decisive is a high-quality setting of the rules, continuous oversight and transparency. Weak financial performance of state-owned enterprises, state guarantees, PPP projects or the postponement of investment need not immediately worsen the general government balance, but they create liabilities and costs for the future. Their systematic monitoring, realistic valuation, transparent reporting and timely corrective measures reduce the risk that they will later be reflected in sudden pressure on the deficit and on general government debt.

A special group is represented by risks associated with competitiveness and the quality of public policies. Their prevention consists in the systematic assessment of the impact of taxes, expenditures, regulations and support schemes on productivity, investment and the growth potential of the economy. Better preparation of legislation and the rigorous application of the value-for-money principles can limit the emergence of new permanent liabilities, prevent the adoption of measures that would weaken the economy and public finances over the long term, and at the same time improve the efficiency of public investment and its contribution to growth.

Prevention does not eliminate the need for a fiscal buffer, but it reduces the size of the risks that the budget must absorb. In an environment of limited fiscal space, the systematic reduction of exposures is therefore just as important as consolidation itself.

The achievement of this objective would be supported by the modernisation of the debt brake and the introduction of an effective instrument for budget management in the form of functioning expenditure limits³¹.

Box 11: Instruments for prevention

Regulatory and institutional instruments

- functioning expenditure limits
- modernisation of the debt brake
- rules for local governments
- limits on state guarantees
- macroprudential instruments of the NBS
- performance targets for state-owned enterprises
- mandatory transparent assessment of the value for money and of the risks of PPPs and guarantees
- compliance with the legislative process and with the rules for drafting laws

Investment and operational instruments

- strengthening cyber security
- maintenance and modernisation of infrastructure
- climate adaptation and mitigation
- energy diversification
- building defence and security capacities.

³¹ The reformed European fiscal rules were to help countries reduce the deficit and debt in a sustainable manner. In the case of Slovakia, however, they were set very loosely right from the outset, which the Council for Budget Responsibility

4.3. Risks requiring a prepared consequence management plan

Not all risks can be prevented, nor can their probability be sufficiently reduced. When they materialise, what is therefore decisive is the state's preparedness to manage the consequences rapidly and in a coordinated manner. These are in particular financial crises, extensive cyber and security incidents, natural disasters, pandemics or failures of critical infrastructure. In these cases, a delayed or uncoordinated response may significantly

increase the economic, social and fiscal damage.

A prepared consequence management plan must determine in advance the responsibilities, decision-making procedures and sources of financing. It should contain clear rules for activating crisis measures, the division of competences between institutions, mechanisms for ensuring the continuity of critical services, the manner of communication and scenarios for the return to normal functioning. Preparedness should also include the regular testing of these procedures through crisis exercises and stress scenarios.

Box 12: Instruments for consequence management

- crisis budgetary mechanisms
- predetermined competences and decision-making procedures,
- continuity plans for critical services,
- use of European stabilisation and solidarity instruments
- resolution mechanisms in the financial sector
- insurance mechanisms³²
- regular crisis exercises and stress testing.

Preparedness does not reduce the probability of a shock occurring, but it limits its secondary damage and shortens the recovery period. It allows the state to respond without improvisation, prevents the deepening of the crisis and the transmission of problems between sectors³³ and reduces the risk that a temporary shock will develop into a long-term deterioration of economic performance and of general government debt.

A high-quality consequence management plan does not, however, replace fiscal space or prevention. Effective protection of public finances arises only from the combination of a sufficient fiscal buffer, the continuous reduction of exposures and prepared crisis mechanisms.

4.4. Timetable of priorities for Slovakia

Regardless of the probability of a specific risk materialising, it is necessary to begin preparing for all identified fiscal risks already today. Even risks with a low probability of materialisation require attention and preparation already now, if their potential impact may be significant.

In view of the initial state of public finances, it is important that the following steps be taken.

- **Over the next 3 years** the priority is to halt the growth of debt and at the same time to set rules that reduce the probability of hidden liabilities materialising.

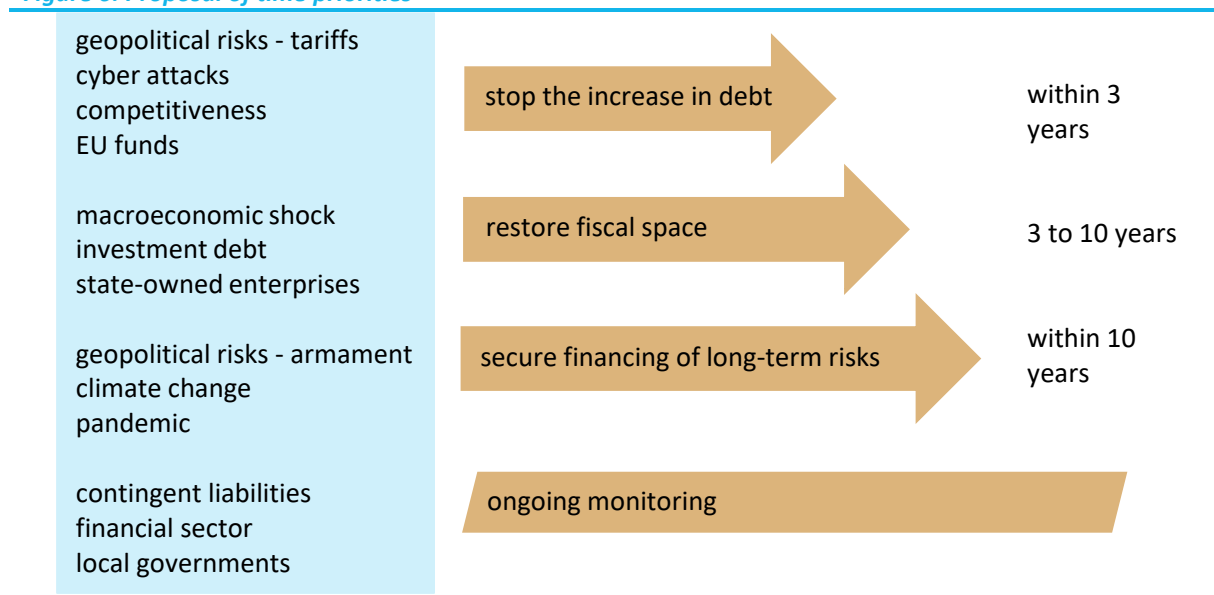
also pointed out (Source: CBR blog 2026: "[The incorrect setting of the European rules for Slovakia requires a more ambitious domestic approach to the rehabilitation of public finances](#)").

³² Although insuring low-value state property is usually not recommended, the creation of funds to cover extensive damage, for example in the case of natural disasters, is meaningful. Details can be found in the document entitled "[Best practice of insurance in the state](#)", which was approved by the Government of the Slovak Republic in May 2025. It is important that the funds created be outside the general government sector.

³³ The management of the consequences of a pandemic can also be included here, depending on its nature and impact on the economy.

- **Subsequently, after debt** has been stabilised, it is necessary to begin restoring fiscal space and gradually to create reserves for financing the possible impacts of future risks. The main instrument should be an improvement in general government outturns and moving closer to a balanced budget. It will also be necessary to reduce exposures in risk areas (state-owned enterprises, guarantees, investment debt).
- In addition, over a horizon of around 10 years, it is necessary to ensure a stable framework for financing long-term risks, in particular climate impacts, which manifest themselves gradually but whose costs may be systemic.

Figure 6: Proposal of time priorities



Source: CBR proposal

Table 2: Proposal for an action plan for the management of selected fiscal risks

Source/risk	Priority	Management	Example of an instrument
Competitiveness and structural limits to growth	within 3 years	3 prevention	reduction of the tax burden on activity, support for research
EU funds and the Recovery Plan	within 3 years	3 prevention	significantly speed up and improve the quality of the drawdown of EU funds, ensure the additionality
Cyber attack	within 3 years	3 prevention /management	regulation, crisis management, IT security, recommendations
Macroeconomic shock: economic recession	3 to 10 years	10 absorption	stabilisation of debt and the subsequent creation of a fiscal buffer to cover risks, expenditure limit
Macroeconomic shock: price / inflation shock	3 to 10 years	10 absorption	stabilisation of debt and the subsequent creation of a fiscal buffer to cover risks, expenditure limit
Investment debt	3 to 10 years	10 prevention	investment in neglected infrastructure
State-owned enterprises and hospitals	3 to 10 years	10 prevention	minimising inefficient management, performance targets for management
Geopolitical security risks and	within 10 years	10 absorption /prevention	diversification of exports, imports, energy sources, defence expenditures
Global crisis events: pandemic	within 10 years	10 management /absorption	crisis management
Climate change	within 10 years	10 prevention	investment in adaptation and decarbonisation measures
Financial crisis	monitoring	prevention /management	regulation, capital requirements, resolution funds
Contingent liabilities	monitoring	prevention	cap on guarantees, prevention of litigation
Policy settings	monitoring	prevention	more rigorous assessment of legislative proposals, application of value for money
Financial performance of local governments	monitoring	prevention	borrowing rules
Public-private partnerships	monitoring	prevention	value-for-money assessment, assessment of the risks

Note: The background colour indicates the potential size of the impact of the particular risk in line with Figure 4. Pink means an impact of more than 10 % of GDP, blue 2 to 10 % of GDP and grey less than 2 % of GDP.

5. Framework for monitoring and managing fiscal risks

Slovakia does not yet have a functioning framework in place for the systematic management of fiscal risks. The government has no statutory obligation to address risks preventively, which leads to their underestimation and to their being addressed only at a time of crisis (often pro-cyclically) and, as a rule, at the price of higher fiscal and economic costs.

An effective arrangement requires a clear division of roles. The Ministry of Finance should ensure the active management of risks, while making use of the existing analytical outputs of the ministries as well as of independent institutions, in particular the CBR, the SAO and the NBS. Such an arrangement makes it possible to separate the technical assessment of risks from political responsibility for the decisions taken or not taken.

Without systematic monitoring and publication of fiscal risks, fiscal policy remains reactive and vulnerable. International practice shows that regular risk assessment is a standard part of a modern fiscal framework (e.g. in the United Kingdom, Ireland and Portugal) and contributes to better management of public finances.

The systematic monitoring of fiscal risks is a standard part of the fiscal framework in international practice. Several fiscal councils in European countries address this topic regularly. The British OBR (Office for Budget Responsibility) publishes annually an extensive report with a register of fiscal risks, to which the government officially responds. The Irish Fiscal Advisory Council includes a risk assessment in its sustainability report; the Portuguese Public Finance Council publishes a report on fiscal risks and sustainability approximately every two years. In some countries (e.g. Latvia) specialised working groups operate that address risks in public finances (a more detailed description in Annex 3).

Supranational institutions provide methodological support for the identification and management of fiscal risks. The World Bank³⁴ and the International Monetary Fund have developed³⁵ practical tools, diagnostic procedures and methodological guidance that help countries to identify, quantify, disclose and effectively manage risks.

In Slovakia, an explicit legislative framework for the systematic management of fiscal risks is so far absent. There is no clear legal obligation for the government to address risks preventively, to create strategies for managing them, or to integrate them systematically into the budgetary process. Individual risks are monitored by the ministries, the National Bank of Slovakia³⁶, the Supreme Audit Office of the Slovak Republic³⁷, the Council for Budget Responsibility and other institutions. Their outputs are, however, not regularly brought together into a joint assessment on the basis of which the government would set priorities, adopt measures and publicly explain its response. Risks are therefore often assessed separately and begin to be addressed more intensively only when they are already creating pressure on the budget.

³⁴ <https://www.worldbank.org/en/programs/debt-toolkit/fiscal-risk>

³⁵ <https://www.imf.org/en/topics/fiscal-policies/fiscal-risks/fiscal-risks-toolkit>

³⁶ The NBS regularly publishes analyses of the general government budget proposal, the Financial Stability Report and a report on structural risks.

³⁷ The SAO regularly publishes opinions on the budget proposal and opinions on the draft state final account.

The CBR therefore views positively the activities of the Ministry of Finance, which in cooperation with the International Monetary Fund is preparing a process for monitoring fiscal risks.³⁸ Transparent publication of the list of fiscal risks by the Ministry of Finance may make this process more transparent.

For Slovakia, it is necessary to create a formally anchored framework that will regularly link the assessment of risks with the budgetary process and with government decision-making. Legal or binding procedural rules should determine the periodicity of the assessment³⁹, the basic tasks of the individual actors and the government's obligation to publish its response⁴⁰ to the most significant risks. The framework should use the existing budgetary documents and institutions without creating parallel administrative processes.

The CBR proposes a two-level arrangement combining active risk management by the executive with independent analytical assessment and parliamentary scrutiny. Such a separation of tasks may improve the quality of decision-making, strengthen the credibility of fiscal policy and reduce the risk that long-term and structural problems begin to be addressed only after they have materialised (see Box 13).

Box 13: Proposed institutional arrangement for the monitoring of fiscal risks

The proposed optimal framework combines active risk management by the executive with independent analytical oversight. From the CBR's perspective, it is desirable that the Ministry of Finance of the Slovak Republic carry out systematic monitoring of fiscal risks and actively manage them within the budgetary process, while also drawing on the existing analytical outputs of the ministries, the CBR, the SAO and the NBS in line with their statutory mandate, and on other relevant sources.

Institution	Main task	Contribution within the framework	Risk in its absence
Ministry of Finance of the Slovak Republic	Monitoring, management and mitigation of fiscal risks	Integration of risks into the budget, creation of reserves, adoption of measures	Ex post responses, political bias
Ministries and public sector entities	Timely identification and analysis of fiscal risks	Identification of risks, assessment of impacts	Absence of internal data and information
CBR	Independent analytical assessment	Identification of risks, assessment of impacts, transparency	Underestimation of long-term and structural risks
SAO	Audit and identification of systemic weaknesses	Uncovering operational and institutional risks	Overlooked inefficiencies and hidden liabilities
NBS	Monitoring of macroeconomic and	Analysis of cyclical and systemic risks, stress tests,	Underestimation of financial and banking risks, late response to

³⁸ In March 2026 a working meeting took place between CBR analysts and IMF consultants led by Fritz Bachmair, at which the tasks and the model apparatus of the CBR, as well as the current state of the monitoring of fiscal risks, were presented.

³⁹ This should be a regular cycle, not a one-off assessment, within which risks are continuously identified, analysed and prioritised, after which the effectiveness of the measures adopted is evaluated, the remaining exposure is updated and new information is taken into account, which allows the government to respond before the risks are fully reflected in the deficit and debt.

⁴⁰ The government's obligation to respond does not mean that it must automatically accept every expert recommendation. It preserves its political freedom to decide on priorities and on the manner of using public resources, but at the same time it strengthens accountability for decisions taken and not taken. It also reduces the incentive to postpone costs beyond the horizon of the current budget or electoral term.

	financial risks, financial stability	macroprudential instruments, early warning of financial imbalances	the credit or real estate cycle
International institutions / academia / other analyses	Long-term and methodological inputs	Alternative scenarios, new risks	Closed analytical framework
It is necessary to distinguish between the technical level of managing and assessing fiscal risks and the political level of responsibility. The technical level focuses on the identification, analytical assessment and quantification of fiscal risks. The political level concerns assuming responsibility for decisions, the prioritisation of risks and their mitigation. Independent institutions would provide an objective assessment and draw attention to threats that may be underestimated in political decision-making. A sustainable fiscal framework requires a clear separation, but also a linkage, of both levels.			
Two-level framework for the monitoring of fiscal risks			
Layer	Main function	Key actors	Output
Technical level	Identification, analysis and assessment of fiscal risks	ministries, CBR, SAO, NBS, international institutions, academia	Analytical assessments, scenarios, estimates of impacts
Political level	Assuming responsibility and deciding on the response	Government, parliament ⁴¹	Prioritisation of risks, measures, public scrutiny
A weak institutional arrangement is itself a fiscal risk. If the monitoring of fiscal risks were carried out exclusively within the Ministry of Finance of the Slovak Republic, without independent analytical assessment, the risk of underestimating fiscal threats and of weakening fiscal discipline increases. Likewise, if analytical assessments do not enter into political decision-making, or if political decisions ignore analytical inputs, the state's fiscal vulnerability increases.			

⁴¹ The parliament would ensure public scrutiny by regularly discussing the assessment of fiscal risks and the government's response, thereby strengthening transparency and accountability in the management of public finances.

Annex 1 - Description of selected risks and their sources

Macroeconomic and global shocks (systemic risks)

Macroeconomic shocks represent for Slovakia the most significant source of fiscal risk, which it can practically not avoid. Historical experience shows that at approximately ten-year intervals more pronounced economic upheavals occur, accompanied by a decline in the performance of the economy (GDP).

Macroeconomic shock - economic recession

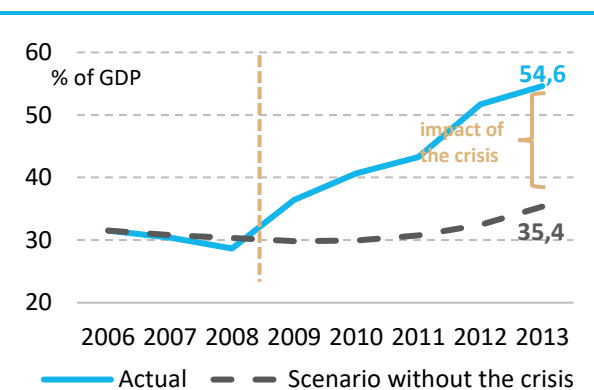
The outbreak of a crisis is usually followed by a three- to four-year period during which the level of gross debt increases. For example, during the global financial crisis, which had exceptionally strong impacts, Slovakia's indebtedness increased by almost 20 % of GDP (Chart 15).

Given its high openness and strong dependence on foreign demand, the Slovak economy is particularly sensitive to external shocks. Negative developments in the euro area, a disruption of global trade or a significant slowdown in the growth of trading partners are quickly reflected in a decline in output, employment and subsequently in general government revenues.

A macroeconomic shock affects public finances through a combination of a decline in revenues and growth in expenditures. A decline in economic activity reduces the collection of income taxes, VAT and social contributions, while automatic stabilizers (in particular unemployment benefits and social assistance) increase expenditures. In practice, these effects are often accompanied also by the introduction of extraordinary measures to support households and firms. The result is a significant deterioration of the budget balance and an increase in debt, even without a change in the long-term setting of fiscal policy.

The global financial crisis was accompanied by a liquidity crisis. With growing fear of excessive government debt, in 2010 creditors began to require higher interest rates from countries. As a consequence, even some advanced economies of the euro area had to request assistance from the IMF or the EC (namely Cyprus, Ireland, Portugal and Greece).

Chart 15: Comparison of the actual development of gross debt and a scenario without the global financial crisis



Source: CBR Secretariat calculations

Box 14: The next economic crisis will move Slovakia's debt into the danger zone

To illustrate the impact of an economic crisis, we simulate a crisis that would begin in 2031 and last three years.⁴² The aim is not to predict a specific crisis, but to illustrate the sensitivity of public finances to unfavourable developments at the current level of indebtedness. The simulation shows that in the event of another significant

⁴² This is a standard, large, unanticipated external shock beginning in 2031 and lasting 3 years. It combines a significant collapse of foreign demand (a decline in partners' GDP and in their imports), an increase in sensitivity on the interbank market with transmission into the sensitivity of all interest rates in the economy, and an increase in "stress" on the labour market (a higher probability of job loss, lower demand for labour).

recession, the gross debt of the Slovak Republic could, within three years of the outbreak of the crisis, significantly exceed 80 % of GDP (Chart 16).

The scenario assumes that the intensity of the crisis would correspond to the average of the impacts of the global financial crisis and the COVID-19 pandemic. The result would be a significant slowdown in economic activity (Chart 17). The government would subsequently respond to the negative development with an expansionary fiscal policy aimed at supporting the economy. This would lead to a deterioration of the general government balance and to an even faster increase in general government debt.

Chart 16: Risk scenario, development of debt

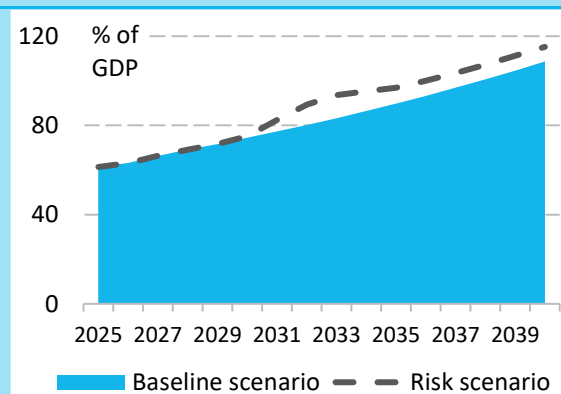
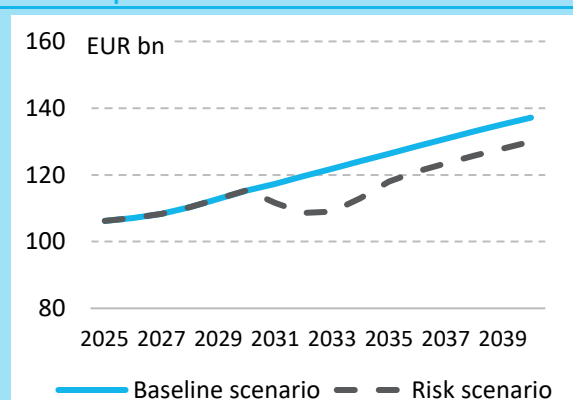


Chart 17: Risk scenario, development of GDP at constant prices



Source: CBR Secretariat calculations (OGRE and CRASH models)

Source: CBR Secretariat calculations (OGRE and CRASH models)

Price/inflation shock

A price shock is a sudden and unexpected increase in the prices of certain goods. Price shocks most frequently arise on the supply side, for example as a result of sudden disruptions in the supply of commodities (oil, natural gas, food, etc.), natural disasters or geopolitical conflicts. The common denominator of all these causes is a sudden reduction in the available quantity of goods or raw materials that the economy needs, which, with unchanged demand, inevitably leads to price increases. Examples are:

- the sharp increase in oil prices in 2008 or the increase in gas prices in Europe in 2022,
- the sharp increase in food prices on commodity markets was also transmitted into a significant increase in food prices in Slovakia in 2022 and 2023, when food prices rose year-on-year by 19 and 17 %. In the same period, energy prices also rose and together they thus significantly increased overall inflation in Slovakia.

If a significant price shock spreads from one sector to a broader range of goods and services, it may lead to a permanent increase in the price level in the economy, that is, to an inflation shock.

The impacts of an inflation shock on public finances are as a rule negative.⁴³ On the revenue side, nominal growth of taxes (in particular VAT and taxes on labour) may occur, but this effect is conditional on there being no significant slowdown in real economic growth. On the expenditure side, there is permanent pressure on the growth of expenditures, since social transfers including pensions are indexed to inflation. The result is a deterioration of the general government balance.

⁴³ In the case of an unexpected inflation shock, high nominal GDP growth may reduce the debt-to-GDP ratio. This is, however, only a one-off effect of a higher price level, not genuine fiscal consolidation.

An inflation shock at the same time negatively affects the real economy. It worsens our price competitiveness, which is restored only through a relative reduction in the price of labour vis-à-vis abroad (i.e. slow growth in real wages).

A problem in the financial sector

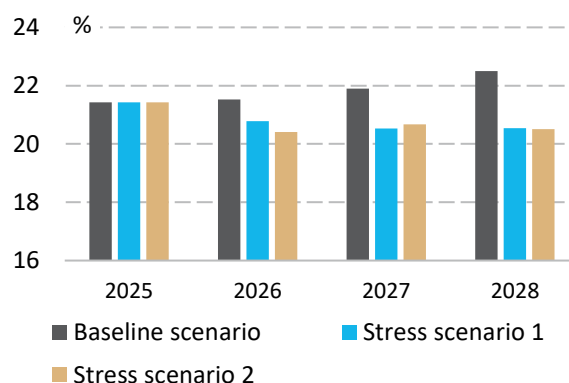
Crises in the financial sector are not as frequent as macroeconomic shocks, but their consequences for public finances are usually high. According to an IMF analysis, the consequences of problems in the financial sector are among the most costly of all fiscal risks.⁴⁴ Past experience shows that banking crises often lead to a sharp increase in general government debt, as a result of a combination of direct fiscal costs and indirect macroeconomic consequences.

A direct fiscal impact may arise if there is a need to stabilise financial institutions by means of capital injections, guarantees or the assumption of part of their liabilities. We saw this in Slovakia as well, when problems in the banking sector culminated here at the end of the last century. The government subsequently had to stabilise and restructure part of the banking sector. The costs of this rescue are estimated at more than 12 % of GDP.

An indirect impact manifests itself through a weakening of lending activity, a decline in investment and an economic recession, which subsequently reduces general government revenues and increases expenditures.

According to the assessments of the National Bank of Slovakia, the financial position of Slovak firms and households is favourable and the share of non-performing loans remains low. In the stress scenarios tested, the adequacy of banks' own funds does not fall below 20 %, which means that the banking sector would be resilient to ordinary risks (Chart 18).⁴⁵ If, however, extraordinarily unfavourable conditions arise, the consequence may be high impacts on public finances.

Chart 18: Total capital adequacy, comparison of the baseline scenario and two stress scenarios



Source: NBS

Note: The adequacy of own funds also takes into account the profits achieved in the given year.

Global crisis events (e.g. a pandemic)

A pandemic represents a specific type of systemic shock which simultaneously affects public health, economic activity and public finances. The experience with the COVID-19 pandemic showed that its impacts may be rapid and extensive.

The fiscal risk associated with a pandemic materialised in full in 2020. During the COVID-19 pandemic, Slovakia's gross debt increased over two years by more than 10 % of GDP (net debt rose by 6 % of GDP). As a result of the COVID-19 pandemic, establishments in Slovakia were temporarily closed, in particular in the services and retail sectors. The tightened epidemiological measures, however, affected practically all sectors of the economy. The restrictions introduced led to a slowdown in economic activity and to a decline in the GDP trend (Chart 19). From an economic perspective, the

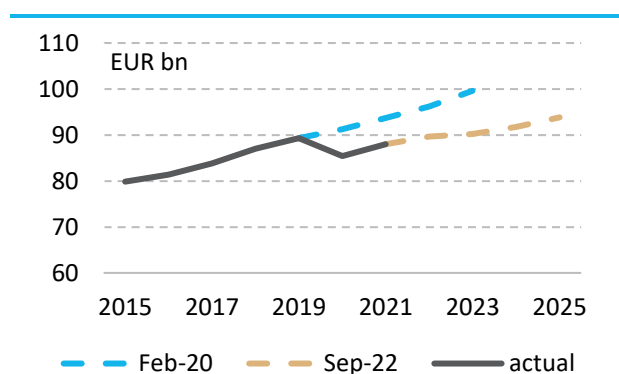
⁴⁴ IMF 2016: [Analyzing and managing fiscal risks – best practices](#) and IMF 2016: [The Fiscal Costs of Contingent Liabilities: A New Dataset](#).

⁴⁵ NBS 2026: [Financial Stability Report – May 2026](#).

pandemic had rather the character of a negative supply shock.⁴⁶ Employment temporarily declined and after the pandemic returned to the pre-crisis period (Chart 20). Its more significant collapse was prevented by government measures to support employment.

The risk of the occurrence of a pandemic remains active in future years as well, although the probability of its materialisation is very low.

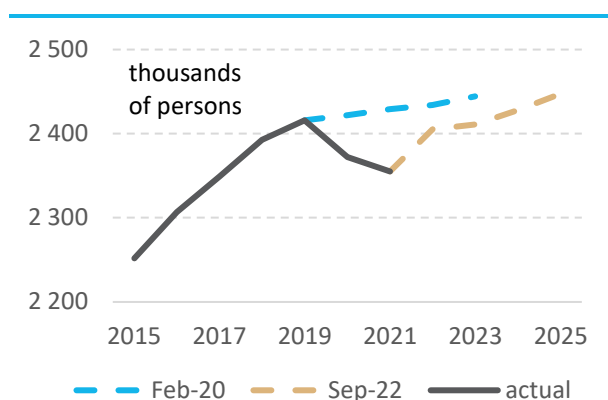
Chart 19: GDP at constant prices, comparison of pre-pandemic forecasts with post-pandemic forecasts



Source: MF SR, forecasts of the Macroeconomic Forecasting Committee

Note: Owing to methodological changes, the time series for the outturn ends in 2021.

Chart 20: Employment, statistical reporting, comparison of pre-pandemic forecasts with post-pandemic forecasts

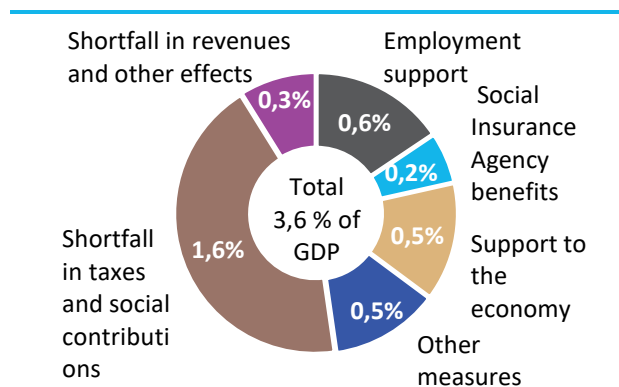


Source: MF SR, forecasts of the Macroeconomic Forecasting Committee

Note: Owing to methodological changes, the time series for the outturn ends in 2021.

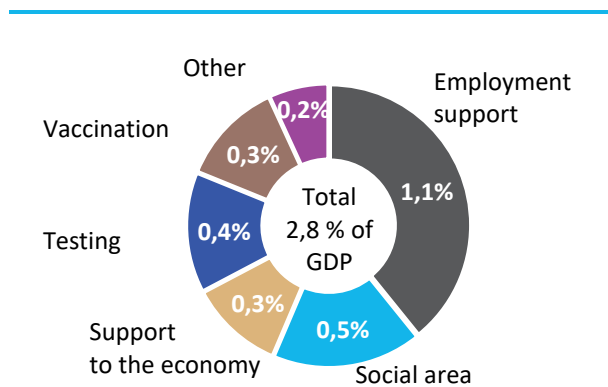
The unfavourable development was also reflected in a deterioration of the general government balance. The revenue side of the budget was negatively affected by lower collection of taxes and contributions compared with the original expectations. At the same time, public expenditures increased significantly, directed at mitigating the economic and social impacts of the pandemic, supporting the business sector and protecting jobs, as well as at ensuring health measures including testing, vaccination and the purchase of medical supplies.

Chart 21: The size of the measures and other impacts of the pandemic in 2020



Source: CBR Secretariat calculations

Chart 22: Government measures to manage the pandemic in 2021



Source: CBR Secretariat calculations

⁴⁶ CNB 2021: [Global Economic Outlook](#).

The impacts of the pandemic on the budget were analysed in the reports on general government budget outturns for 2020⁴⁷ and 2021.⁴⁸ In 2020, government measures aimed at managing the pandemic worsened the balance by 1.7 % of GDP (Chart 21). These were in particular expenditures on employment support schemes (so-called kurzarbeit), on the pandemic care allowance, quarantine sick leave and the extension of unemployment benefits. Additional negative impacts of the pandemic outside direct government measures reached the level of 1.9 % of GDP, primarily as a result of shortfalls in tax and contribution revenues caused by the economic downturn. Fiscal support for the economy continued in 2021 as well, with expenditures on support measures reaching approximately 1.9 % of GDP (Chart 22). Additional expenditures of 0.9 % of GDP represented the costs of testing and of vaccination and the purchase of medical supplies.

Geopolitical and security risks

According to the latest Global Risks Report, geopolitical risks are among the most likely risks that may materialise (and are indeed materialising) in the period ahead.⁴⁹ Three main threats dominate in this category. All three have been topical in the recent period.

- **Geoeconomic confrontation** - represents a form of strategic rivalry between states in which not military but economic power is used to assert national interests. Typical instruments are trade wars or the imposition of tariffs. In 2025 this risk materialised, for example, in the form of additional tariffs on imports of goods into the USA or the introduction of licences for the export of certain rare earths from China. The consequence is worsening global uncertainty, disruption of existing trade flows and increasing costs for firms operating in the international environment. A restriction of access to AI technologies would also be a risk for Europe.
- **A war conflict** - is currently taking place in neighbouring Ukraine, which is defending itself against the Russian invasion. This conflict has extensive consequences for the entire European region. One of the most pronounced manifestations is the loss of the peace dividend and the increase in public expenditures on defence, which is already now increasing the pressure on the public finances of EU Member States. Thanks to its membership in the North Atlantic Alliance (NATO), Slovakia has obtained the benefits of collective defence. Its possible loss would, in view of the war conflict in a neighbouring country, mean additional expenditures on defence.
- **Energy crisis** – The high concentration of imports of strategic energy commodities (oil, gas, nuclear fuel) from Russia represents a significant risk for Slovakia's energy security. This risk has increased significantly since 2022 as a result of the Russian invasion of Ukraine, which at the same time serves as a key transit country for oil and gas supplies. Insufficient diversification of supply sources may lead to two main scenarios: (1) a reduction or interruption of supplies of energy commodities for geopolitical reasons or (2) a sharp increase in energy prices, which has a direct impact on economic growth, inflation and public finances. Both scenarios have already materialised during the energy crisis in 2022. Moreover, this risk is still active; an example may be the attack on Iran and the subsequent restriction of shipping in the Strait of

⁴⁷ CBR 2021: [General government budget outturn in 2020](#).

⁴⁸ CBR 2022: [General government budget outturn in 2021](#).

⁴⁹ World Economic Forum 2025: [The Global Risks Report 2025](#).

Hormuz, which is a strategically important maritime route along which oil and natural gas are exported out of the Persian Gulf region.

Box 15: Slovakia's defence expenditures

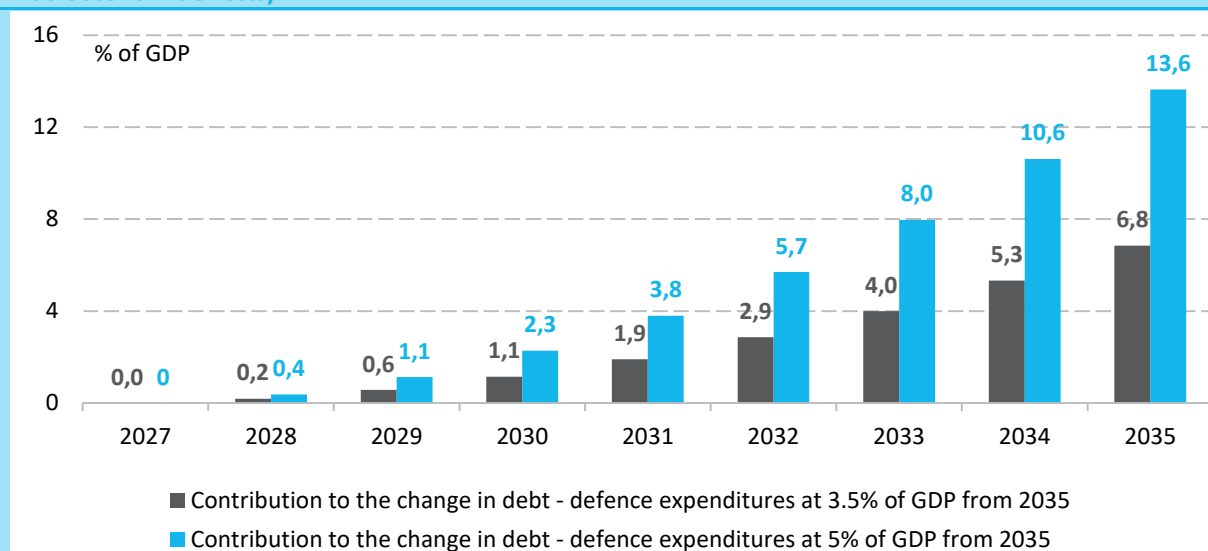
In accordance with its membership in NATO, the Slovak Republic committed to investing funds in defence amounting to 2 % of GDP annually. The CBR also assumed such defence expenditures when compiling the baseline scenario of the development of public finances in 2024.⁵⁰

In June 2025, the NATO member countries committed to increasing their defence expenditures to 5 % of GDP by 2035, with 3.5 % of GDP to be earmarked for the army and 1.5 % of GDP for broader security-related expenditures, which may however also be used by civilians (so-called dual-use projects).

- If between 2028 and 2035 defence expenditures were to increase linearly to the level of 3.5 % of GDP, debt would by 2035 increase as a result of the higher investment by 6.8 % of GDP (Chart 23: – grey colour).
- If, however, a gradual increase in defence expenditures up to the level of 5 % of GDP were translated into defence investment, debt would in 2035 be higher by as much as 13.6 % of GDP (Chart 23: – blue colour).

The net effect will depend on the nature of the dual-use projects and on the compensating measures. In fact, since Slovakia's accession to NATO in 2004, defence expenditures have on average been lower than 1.5 % of GDP, that is, less than the baseline scenario assumes.⁵¹ The peace dividend was thus in the past around 0.5 % of GDP.

Chart 23: Contribution of higher defence expenditures to the increase in debt (without dynamic macroeconomic effects)



Source: CBR Secretariat calculations

Note: In the scenario, defence expenditures grow linearly to the level of 3.5 and 5 % of GDP. The impacts on the balance are stated including interest payments.

In view of the high openness of Slovakia's economy, the import intensity of production and the limited fiscal space, the positive macroeconomic effects of higher defence expenditures may be relatively weaker, while the risks associated with the growth of debt and of financing costs may be more pronounced.

According to the IMF, the macroeconomic effects of increased defence expenditures are positive over the short-term horizon, but their size and sustainability depend on the structural characteristics of the economy and on the

⁵⁰ CBR 2025: [Report on the Long-term Sustainability of Public Finances for 2024](#).

⁵¹ Source: [SIPRI Military Expenditure Database](#).

fiscal position.⁵² Empirical estimates for EU countries show that an increase in defence expenditures has a more pronounced multiplier effect over the short-term horizon, accompanied by growth not only in public consumption, but also in private consumption and investment, which suggests a strong demand impulse and a crowd-in effect.⁵³ At the same time, however, this is predominantly a cyclical effect and does not automatically mean an increase in potential GDP, since the impact on trend productivity (TFP) is limited. Three key factors play a significant role:

- the import intensity of expenditures, where a higher share of imports leads to an outflow of the stimulus abroad
- fiscal space, where countries with lower debt and lower risk premia achieve higher multipliers, while limited space dampens the effects and increases financing costs,
- the efficiency of public investment and the structure of expenditures, with the highest effects being associated with expenditures on equipment,

In EU conditions, cross-border spillover effects are at the same time significant, which increases the overall effect of coordinated policies, but at the same time means that part of the stimulus shifts between countries. At the same time, the increase in defence expenditures is larger and more synchronised than in historical episodes, which means that the multipliers achieved may be lower than in the past. This may be further reinforced by a situation in which monetary policy does not respond by easing financing conditions, but on the contrary may tighten monetary policy, thereby dampening the positive macroeconomic effects of the fiscal expansion.

Structural risks

Investment debt

The investment debt arises from the neglect of repairs and the postponement of investment in general government assets. It manifests itself in the deteriorated technical condition of infrastructure such as railways, bridges, hospitals or other public assets. In the short term it therefore means savings for public finances, but this deteriorated condition will need to be improved in the future through additional larger investment, which will have a negative impact on public finances.

Estimating the size of the investment debt is difficult, because there is no uniform definition or methodology for it. According to a rough estimate, the investment debt of general government in Slovakia may amount to as much as EUR 40 billion (37 % of GDP). This amount will, however, not be reflected in expenditures all at once. We rather expect gradual and long-term pressure on the growth of general government expenditures.

The highest investment debt is accumulated in transport infrastructure (an estimate of EUR 15 billion), followed by the area of water mains, sewerage and flood protection (EUR 5.5 billion) and inpatient and healthcare (EUR 4.7 billion).⁵⁴ In a more recent publication, the MF SR estimates the investment debt of public hospitals alone in the range of EUR 4.5 to 7.1 billion.⁵⁵

⁵² Davide Furceri, Pedro Juarros, Saurabh Mishra, Anh Dinh Minh Nguyen, Ana Sofia Pessoa, and Alexandre Sollaci. "Macroeconomic Impacts of EU Defense Spending". IMF Working Paper No. 26/53 (2025), Washington, DC. The study estimates short-term fiscal multipliers of defence expenditures above the level of 1 on the basis of a panel of EU countries (1989–2023), while their size is higher in the case of low import intensity, sufficient fiscal space (measured through risk premia) and high efficiency of public investment.

⁵³ The public sector does not crowd out but, on the contrary, stimulates the growth of the private sector.

⁵⁴ The estimate was published in the Government Office material [Dobehnúť zameškané](#) (Catching up on what has been missed). The estimate of the investment debt is based on a comparison of the current condition of assets with the condition according to the recommended standards (e.g. environmental, safety). In Slovakia there is no study that would deal in detail with an analysis of the investment debt in all areas.

⁵⁵ MF SR and MoH SR 2025: [Spending review on hospitals](#).

The investment debt represents a fiscal risk at two levels:

- The deterioration of the condition of infrastructure increases the probability of unplanned and sudden expenditures, for example as a result of accidents, restrictions on operation or the need for urgent repairs. Such expenditures may arise in an unfavourable macroeconomic period and increase the deficit without the possibility of postponing them.
- **The systematic resolution of the investment debt requires permanently increased expenditures on the necessary public investment, with an impact on the deficit and debt,** while any positive effects on the growth potential of the economy would manifest themselves only over a longer horizon. In parallel with this, it is necessary to carry out the planned and necessary maintenance, which should be financially included in the budget.

Competitiveness and structural limits to growth

The loss of competitiveness represents a structural fiscal risk that acts indirectly and gradually. This is not a one-off shock, but a long-term process manifesting itself in a weakening of productivity and of the growth potential of the economy. This development is typically the result of a combination of factors, in particular the deterioration of cost competitiveness, weak productivity growth, an unsuitable structure of the economy and the quality of the institutional environment.

Competitiveness is a topical challenge not only for Slovakia and its important automotive sector, but also for the entire European Union, as the Draghi report on EU competitiveness argues.⁵⁶ Slowing productivity, demographic challenges, rising energy costs and strengthening global competition create pressure on Europe's long-term prosperity.

The loss of competitiveness is reflected in public finances in particular through a slowdown in economic growth, which is accompanied by a weakening of the revenue base. With an unchanged level of expenditures, this leads to higher deficits, growth in debt and a deterioration of the long-term sustainability of the public finance.

In the past, Slovakia's economic growth was to a large extent supported by the development of physical infrastructure, geographical proximity to the main target markets and relatively low labour costs compared with the “western” EU countries. These factors, together with the country's integration into the European Union, the euro area and NATO, created favourable conditions for an inflow of foreign investment and for the country's involvement in global value chains. At present, however, physical infrastructure alone no longer represents a sufficient precondition for a qualitative shift of the economy to a higher level.

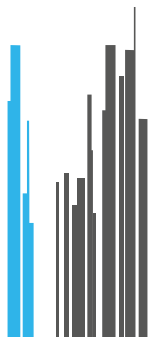
In the composite competitiveness ranking, Slovakia placed 21st among the countries of the European Union, which points to the persisting structural weaknesses of the economy.⁵⁷ Over the past three years, Slovakia's position in the world competitiveness ranking has also deteriorated and in 2025 the country ranked 63rd out of 69 assessed states.⁵⁸

Key problems of Slovakia's competitiveness:

⁵⁶ EC 2024: [The future of European competitiveness](#).

⁵⁷ MoE SR 2023 (Ministry of Economy of the SR, IHP, 2023): [Report on productivity and competitiveness for 2022](#). The ranking was compiled on the basis of selected sub-indices, pillars or elements of seven supranational organisations.

⁵⁸ IMD [World Competitiveness Ranking](#).



- **Slovakia is facing a slowdown in convergence and long-term weak productivity growth.** After a period of rapid catching-up, convergence towards the EU average has practically stopped and productivity reaches approximately 75 - 80 % of the EU average⁵⁹, while its growth is slowing (MoE SR 2023; NBS 2025).⁶⁰
- **The existing growth model based on cheap labour and foreign investment has been exhausted without an adequate replacement.** The transfer of technology from foreign firms to the domestic sector remains limited and the economy remains concentrated in sectors with lower value added (MoE SR 2023).
- **The economy is characterised by pronounced duality and weak performance of the domestic sector.** Foreign enterprises achieve approximately twice the productivity and pay more than twice the wages compared with domestic firms, while the differences between the best and the weakest enterprises are among the highest in the EU (MoE SR 2024).
- **Investment activity and technological progress are lagging behind.** The share of investment in GDP has been declining over the long term and the economy lags behind in investment in research, development and digitalisation, which limits the shift into higher segments of the value chain (NBS 2025).
- **Human capital and the outflow of talent represent a growing barrier to growth.** The shortage of qualified labour, the mismatch between education and the needs of the labour market and the departure of young people abroad weaken the innovation potential of the economy (MoE SR 2023; NBS 2025).
- **The quality of the institutional and business environment remains a weak point of competitiveness.** Slovakia is among the most weakly rated EU countries in the area of competitiveness and innovation, which reflects problems in the efficiency of public administration, regulation and legal certainty (MoE SR 2023; NBS 2025).

The identified competitiveness problems represent a significant risk for the future development of public finances and their resolution is key to restoring fiscal space. In order for Slovakia to avoid falling further behind other countries, it is essential to increase competitiveness systematically and continuously in all relevant areas of economic policy. Maintaining the current state is not sufficient, since the continuous improvement of competitiveness in other countries leads to a relative deterioration of Slovakia's position even without changes in the domestic economic environment. This requires the adoption of measures in particular in the following areas:

- **Restoring competitiveness requires a shift to an innovation-based growth model.** Without a significant strengthening of research, development, digitalisation and of the ability to attract technologically demanding investment, it will not be possible to restore convergence (NBS 2025).
- **Increasing productivity requires coordinated reforms across policies.** Reforms of education, the labour market, the business environment and the functioning of public institutions are key in particular, while isolated measures will not suffice (NBS 2025).

⁵⁹ MoE SR 2024 (Ministry of Economy of the SR, IHP, 2024): [Report on productivity and competitiveness for 2023](#).

⁶⁰ NBS 2025 (National Bank of Slovakia, 2025): [Structural challenges 2025](#).

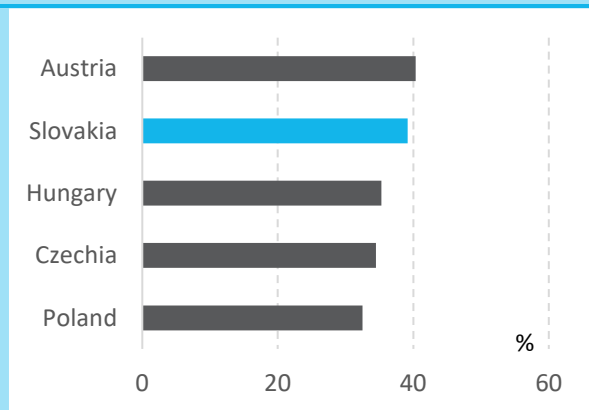
- **Strengthening the domestic sector and its links to foreign firms is critical.** Reducing the differences between foreign and domestic enterprises and better involvement of domestic firms in value chains may significantly increase the productivity of the entire economy (MoE SR 2024).
- **Improving the business environment is a necessary condition for investment.** Without greater predictability and efficiency of public administration, Slovakia will lose the ability both to attract and to retain investment (MoE SR 2023; NBS 2025).

Box 16: Slovakia's tax competitiveness

A significant risk from the perspective of the quality of the business environment is also the gradual weakening of Slovakia's tax competitiveness. The implicit tax rate on labour (Chart 24) is among the highest within the V4 countries. In a broader regional comparison, only Austria reaches higher values. The effective corporate income tax rate (Chart 25) is higher in Slovakia than in the V4 countries and also than in Austria. This development is amplified by the fact that increases in tax and contribution rates have repeatedly been part of consolidation measures in recent years.

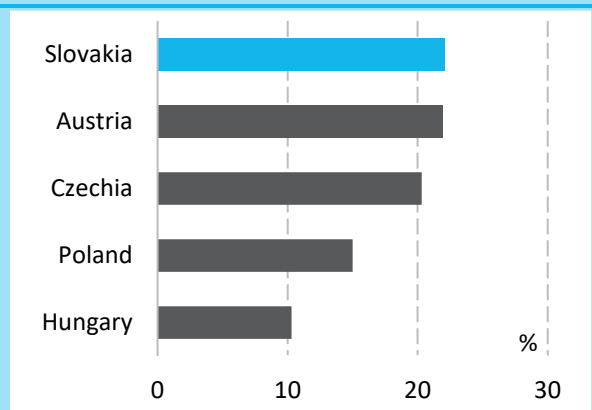
Higher tax burden may adversely affect firms' decisions on the location of investment and on the employment of highly qualified workers, as well as the motivation to declare taxable income on the territory of Slovakia. Over a longer horizon there is therefore a risk of a weakening of the revenue base of public finances or of pressure to adjust tax rates, which could negatively affect budgetary revenues.

Chart 24: Implicit tax rate on taxes on labour in 2023
(adjusted for the second pillar and tax credits)



Source: EC, CBR Secretariat calculations

Chart 25: Effective tax rate, corporate income tax in 2025



Source: OECD: Corporate Tax Statistics Effective Tax Rates

Climate change

Climate change represents a significant challenge not only for public finances, but also for the long-term sustainability of Slovakia's economic growth. The costs associated with the impacts of climate change are not currently part of the baseline scenario and therefore represent additional fiscal risks.

According to CBR estimates, additional decarbonisation measures to achieve climate neutrality will lead to a gradual deterioration of the general government balance of approximately 1.1 % of GDP, while approximately 60 % of this impact will be caused by a decline in revenues and the remaining approximately 40 % will be accounted for by increased investment needs on the expenditure side.

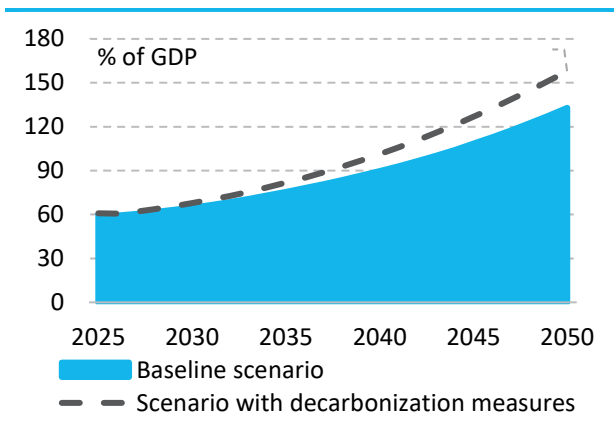
This development will also be reflected in the trajectory of general government gross debt, which by 2050 will increase by approximately 25 % of GDP compared with the baseline scenario (Chart 26).⁶¹ A positive aspect is that the decline in revenues can be corrected by an appropriate setting of domestic tax policy so that the overall tax burden for people ultimately does not change.

The professional literature confirms that a long-term increase in average temperatures has a negative impact on GDP per capita.⁶² Quantifying this damage is, however, associated with considerable uncertainty – both as regards the extent of climate change and as regards its economic consequences.

To capture this uncertainty, three methodological approaches were used (Kahn et al. 2021⁶³; OECD⁶⁴; NGFS)⁶⁵, on the basis of which the impacts of gradual warming on economic growth were estimated in three climate scenarios:

- The first scenario (NZ 2050) assumes rapid and coordinated global tightening of measures to reduce greenhouse gas emissions with the aim of achieving global climate neutrality by approximately 2050 and keeping the increase in global temperatures in line with the objective of the Paris Agreement – that is, at the level of 1.5 °C by 2100.⁶⁶ If this scenario materialised, the physical damage from climate change would remain limited and the estimated impact on economic growth would be minimal, or slightly positive (Chart 27: green colour). The impact on the level of Slovakia's gross public debt would be similarly negligible to slightly favourable (Chart 28: green colour).

Chart 26: Impact of decarbonisation measures on general government gross debt



Source: CBR Secretariat calculations

⁶¹ CBR Commentary 2026: [Fiscal challenges of the transition to a low-carbon economy](#).

⁶² Source: <https://journals.plos.org/climate/article/figure?id=10.1371/journal.pclm.0000621.g007>

⁶³ Kahn, M. E.; Mohaddes, K.; Ng, R. N. C.; Pesaran, M. H.; Raissi, M.; Yang, J.-C. Long-term macroeconomic effects of climate change: A cross-country analysis. *Energy Economics*, 2021, 104, art. 105624.

⁶⁴ OECD. OECD global long-run economic scenarios: 2025 update. OECD Economic Policy Papers, 2025, No. 36.

⁶⁵ Network for Greening the Financial System. NGFS Climate Scenarios. Technical Documentation. V4.2, 2023, according to Kalkuhl, M.; Wenz, L. The impact of climate conditions on economic production. Evidence from a global panel of regions. *Journal of Environmental Economics and Management*, 2020, 103, art. 102360.

⁶⁶ NGFS scenarios.

- The second scenario (SP) assumes the continuation of current policies without the adoption of any additional climate measures. The absence of further measures would lead to higher emissions, more pronounced warming and growing physical damage to the economy. The cumulative slowdown in economic growth would in this scenario reach 0.4 to 1.8 % of GDP (Chart 27: blue colour), which by 2075 would translate into an increase in general government debt of 1.5 to 6 % of GDP (Chart 28: blue colour).
- The third scenario (SP High impact) is based on the same emissions trajectory as the second scenario – that is, on the continuation of current policies without additional measures – but assumes a more pronounced climate response to the same level of emissions.⁶⁷ This scenario serves primarily as a stress test of physical climate risks and captures the case where the climate system proved to be more sensitive to emissions than the central estimates suggest. It is precisely for this reason that the estimated economic impacts are the most serious in this scenario – the cumulative slowdown in economic growth would reach 1.4 to 3.5 % of GDP (Chart 27: red colour) and the contribution of warming to the growth of Slovakia's gross public debt would amount to 5 to 13 % of GDP (Chart 28: red colour).

Chart 27: Cumulative impact on GDP as a result of global warming

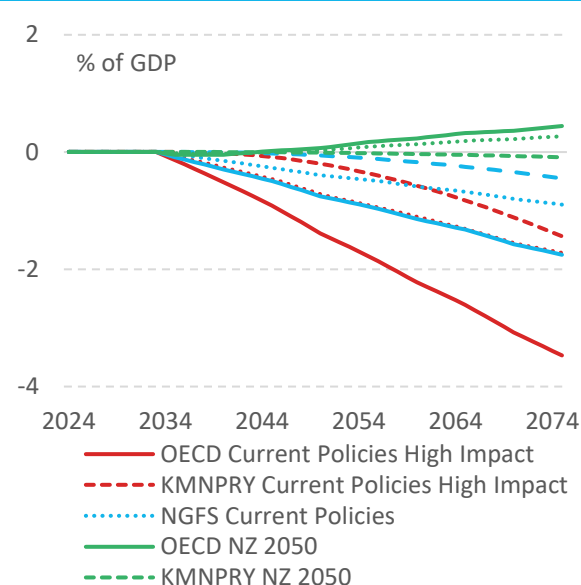
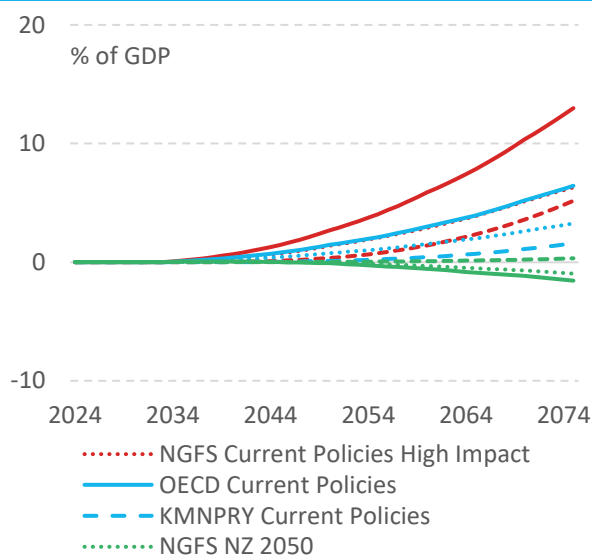


Chart 28: Contribution of global warming to general government gross debt as a result of changes in GDP



Source: CBR Secretariat calculations

Note: The chart shows estimates according to three methodological approaches: OECD, NGFS and KMNPRY (Kahn et al. 2021).

The impact on public finances itself is estimated separately on the revenue and on the expenditure side.⁶⁸

⁶⁷ [Climate Impact Explorer](#).

⁶⁸ The CBR's quantification assumes that the climate scenarios will begin to affect the macroeconomic and fiscal projections from 2034. The channel for the effect of global warming on GDP is a decline in total factor productivity in the Cobb-Douglas production function.

- **Revenues:** most state revenues respond automatically to a slowdown in productivity, and therefore their ratio to GDP does not change significantly (the coefficient of the response of revenues to a change in GDP is on average 0.94).
- **Expenditures:** a certain rigidity is assumed for some expenditures, which do not adjust proportionally to a decline in GDP – as GDP declines, their share in GDP thus increases (the coefficient of the response of expenditures to a change in GDP is on average 0.66).⁶⁹

Box 17: Main sources of risks associated with climate change

In general, the risks associated with climate change can be divided into three main categories:

Decarbonisation measures – These are mainly measures aimed at reducing the production and/or increasing the sinks of greenhouse gases. Public expenditures on decarbonisation will be concentrated mainly in industry and the renovation of buildings. The transformation towards a low-carbon economy will also bring changes in the structure of tax revenues. The introduction of carbon taxes, the decline in the consumption of fossil fuels, as well as the growing share of zero-emission vehicles, will affect revenues from excise taxes and energy taxes.

Damage caused by climate change – This includes the reduction of the economy's potential as a result of the increase in global temperatures and the associated occurrence of more extreme and less predictable weather. Specifically, this concerns damage to capital assets used in production, to agricultural production and to the health of the labour force. Damage related to climate change at the same time represents direct fiscal risks for governments, by reducing the value of the assets they own (for example through the destruction of transport infrastructure) and by creating pressure to compensate part or all of the uninsured losses of citizens and firms.

Adaptation costs – Climate change will require significant investment in adaptation measures on the part of both the public and the private sector. These are measures aimed in particular at addressing the excess or shortage of water in the country, or investment in climate-resilient infrastructure.

Policy settings

In Slovakia, fiscal risks arise not only from external shocks, but also from the way in which public policies are designed, approved and subsequently changed. Risk arises in particular where the long-term costs are insufficiently taken into account, where measures are adopted outside the budgetary framework without secured financing, or where the rules and the objectives pursued are repeatedly changed.⁷⁰ The problem is often created not by a single isolated measure, but by the gradual non-systemic layering of decisions. The examples given below illustrate how these mechanisms have manifested themselves in Slovakia in recent years.

Box 18: Why policy settings may create fiscal risks

The professional literature identifies in particular the following mechanisms:

⁶⁹ An identical methodological approach is also used by the IMF (Q-CRAFT) or the OBR (Fiscal risks and sustainability, September 2024, page 34), which assumes a coefficient of 1 for revenues and of 0.5 for primary expenditures. The CBR applies this approach only to expenditures and revenues that it does not model over the long term (expenditures on pensions and healthcare are modelled endogenously in response to the decline in the productivity assumption) and in the baseline scenario it assumes a stable share of them in GDP.

⁷⁰ An example may also be insufficient quality of the legislative process, for instance the absence of a proper interdepartmental review procedure or of the mandatory assessment of fiscal impacts, which may lead to the adoption of measures with unforeseen budgetary consequences.

1. **Deficit bias and the preference for current benefits** - governments tend to prefer measures with immediate and visible benefits⁷¹ and to underestimate their long-term costs.⁷²
2. **Weak commitment to adhering to the plan** - policies change over time and if households and firms expect the government to back away later from the announced policy, they will adjust their behaviour accordingly, thereby weakening its effectiveness.⁷³
3. **Reversal of reforms and instability of rules** - measures improving sustainability may later be weakened or abolished, while measures bringing immediate benefits (in particular increases in expenditures) tend to persist. Frequent changes at the same time reduce the predictability of the system and weaken the expected benefits of the original reforms.
4. **Transformation of temporary measures into permanent ones** - measures introduced during crises or on a temporary basis are often difficult to abolish, so they turn into permanent commitments, while compensating savings are postponed.
5. **Rigidity and asymmetry of expenditures** - automatic mechanisms increase the stability of households' incomes, but at the same time they limit the flexibility of fiscal policy.⁷⁴
6. **Disruption of the systemic design of policies** - a combination of contradictory principles (e.g. targeting vs. universality) creates pressure to equalise benefits between groups, increases overall expenditures and weakens the consistency of the system.⁷⁵

A common feature of these mechanisms is that part of the future costs or liabilities is not fully visible in the budget at the time of the decision. This points to the importance of a stable fiscal framework with clear rules⁷⁶, which makes it possible to implement policies without accumulating hidden risks.

An inappropriate setting of the system may lead to high costs even without the adoption of a new measure. The combination of high inflation and an inappropriate setting of the functioning of some parameters of the pension system (together with the relaxation of the conditions for entitlement to early retirement pensions, the so-called early pension after 40 years worked) led in 2023 and 2024 to

⁷¹ Alesina, A., Tabellini, G. (1990): A Positive Theory of Fiscal Deficits and Government Debt, *Review of Economic Studies*, 57(3). Fiscal deficits and the growth of general government debt may be the result of political interaction between governments with differing preferences, whereby each government has an incentive to influence the decisions of its successors through the level of debt. In conditions of disagreement between governments, indebtedness is therefore systematically higher than would arise under full agreement, while this effect is more pronounced the greater the political polarisation and the rigidity of public expenditures.

⁷² Legislative changes are often adopted without a thorough assessment of their long-term fiscal consequences. A measure that appears relatively cheap over the short-term horizon may entail significant budgetary costs in the long-term perspective. The IMF stresses the need to integrate long-term projections into decision-making; otherwise a gradual deterioration of sustainability occurs.

⁷³ Kydland, F., Prescott, E. (1977): Rules Rather than Discretion: The Inconsistency of Optimal Plans, *Journal of Political Economy*, 85(3), pp. 473–492. After circumstances change, a government may have an incentive to deviate from a plan that was originally optimal. If economic agents anticipate this incentive, the government's measures lose credibility at the time of their adoption and the outcome may be worse than under a stable and credible rule.

⁷⁴ IMF (2016): *Analyzing and Managing Fiscal Risks – Best Practices* and the OECD point out that a high share of rigid expenditures limits the ability to respond to shocks, in particular if the mechanisms do not reflect developments in the revenue base or contain asymmetries (e.g. no nominal reductions).

⁷⁵ OECD (2019): *Budgeting and Public Expenditures in OECD Countries 2019*. A high share of mandatory expenditures (bound by legislation or otherwise) limits the ability to change allocations and leads to the crowding out of other priorities, while historical commitments fix a considerable part of the budget. The discussion moreover focuses mainly on marginal changes, not on the overall efficiency of existing expenditures, and decisions are often influenced by short-term interests at the expense of strategic objectives. Insufficient coordination between strategic planning and the budget deepens this problem, which leads to a mismatch between policies and the allocation of resources and weakens the ability of public finances to respond flexibly to new challenges.

⁷⁶ OECD (2025): *Recommendation of the Council on Budgetary Governance*. The identified risks arising from the design of policies are consistent with the OECD principles for budgetary governance, which emphasise the need for a credible fiscal framework, a medium-term and long-term horizon, the linkage of policies with the budget, systematic spending reviews, evidence-based decision-making and the active management of fiscal risks.

a sharp increase in the number of early retirement pensions (by almost 40 thousand), in particular as a result of the multiple reflection of inflation in the amount of newly granted pensions. In addition to problems on the labour market, this also led to an immediate deterioration of the balance by 0.4 % of GDP with a gradual fading out over a horizon of 7 years. Overall, this will increase general government debt by approximately 1 % of GDP.⁷⁷

The same problem also manifested itself in the period of low inflation (2018 to 2021), when the illusion perceived by pensioners of low or insufficient pension indexation contributed to the introduction of a temporary minimum indexation of pensions. This caused an increase in the level of expenditures of approximately 0.15 % of GDP, which will gradually decline over a horizon of approximately a further 30 years.⁷⁸

The time mismatch between costs and future savings increases the risk that the planned savings will ultimately not be realised. The introduction of the parental pension in 2022 brought immediate costs at the level of 0.25 % of GDP, while its financial coverage was based on other measures bringing savings gradually, and which will manifest themselves in full only over a horizon of decades. Such a time mismatch increases the risk that the saving measures will be revised in the future, while the expenditures will be retained.⁷⁹

Repeated changes of rules reduce the predictability of policies and may change their original budgetary impact. Changes in the parameters of the 13th pension, from its introduction before the elections in 2020 up to its significant increase in 2024, led to permanent growth in expenditures. A similar problem is represented by the repeated changes in the retirement age, which led to fluctuations in implicit liabilities and reduced the predictability of the system.⁸⁰

Fiscal risks also arise where measures are adopted outside the standard budgetary process or without financial coverage. Changes in the long-term care system were adopted without identified financial coverage only after the budget had been approved, whereby the additional costs (0.2 – 0.3 % of GDP) are shifted into the future without their explicit consideration at the time of the decision.

⁷⁷ CBR Commentary 2025: [The price of early retirement pensions](#). The increase in the number of early retirement pensioners was the result of a combination of an inappropriate setting of the pension system and high inflation. In particular, the first indexation of pensions, which in its present form has applied since 2009, has long been set in a non-systemic (and unfair) manner, because it allows the growth of the price level to be counted several times into the amount of the pension. The second factor was the excessively loose setting of the conditions for retiring on an early retirement pension after 40 years worked.

⁷⁸ Porubský M., Novýsedlák V. (CBR Secretariat, 2017): [The nominal illusion of pension indexation](#). The minimum indexation was introduced in response to an environment of low inflation with the aim of ensuring its acceptability for recipients. This mechanism, however, meant that pensions grew even in a situation where their growth under the standard indexation formula would have been lower. The authors pointed out that the budgetary consequences persist even after the measure itself has expired. The impact of EUR 1 billion is quantified over a horizon of 8 years (0.15 % of GDP immediately in the year of introduction).

⁷⁹ CBR 2021: [Quantification of the impact of measures: Amendment to the Social Insurance Act – the 2021 pension reform](#). From 2022, measures were adopted in the pension system which as a whole were aimed at improving long-term sustainability, but were accompanied by a significant time mismatch. Since the saving measures (the slowdown of the current pension point value from 100 % to 95 % of nominal wage growth) are not anchored in the Constitution, there is a significant risk of their future revision, while expenditure measures tend to persist, which reduces their real contribution to long-term sustainability.

⁸⁰ The rules on retirement have undergone several fundamental and repeated changes which had significant impacts on the long-term sustainability of public finances. The introduction of the adjustment of the retirement age according to life expectancy (2013) contributed to a reduction of implicit liabilities, but its later capping at 64 years (2019) conversely increased them. The subsequent abolition of the cap and the renewed linking of the retirement age to life expectancy (2020, with further adjustments including an advantage according to the number of children) again moved towards improving sustainability, but to a lesser extent than the original reform.

Similarly, the significant increase in support for families in 2023 (approximately 1 % of GDP) was not accompanied by simultaneous coverage and in the following years had to be partially corrected.⁸¹ The result was high volatility of policies and of expenditures instead of a stable and predictable setting.

A particular risk is represented by the transformation of temporary crisis measures into permanent schemes. Energy assistance introduced in response to the price shock was repeatedly extended in Slovakia and was ultimately transformed into a permanent scheme covering approximately 90 % of the population. A temporary measure was thereby gradually turned into a new permanent expenditure and at the same time it began to overlap with other forms of social protection, for example with pension indexation.⁸²

Rigid rules may, in particular in unfavourable economic times, contribute to a reduction in the budget's ability to respond to a change in economic conditions. The automatic indexation of social transfers to inflation contributed in 2023 and 2024 to faster growth of expenditures than of revenues, since real wages were declining. While in the case of a short-term decline in real wages this does not represent a fundamental problem, in the case of longer-term economic problems, when real wages may decline for several years, such a mechanism may more significantly complicate efforts to restore the health of public finances.

The asymmetry of rules may shift expenditures predominantly in one direction – upwards. When policies are changed, in particular in the case of pensions, they are often applied retroactively as well, while this retroactivity tends to be asymmetric, that is, the new rules are adjusted retroactively only where this is advantageous for the citizen.⁸³ There is, however, no legal or constitutional obligation to apply a more advantageous new policy also to pensions already granted and being paid. Despite this, this practice is applied regularly, above all in the pension system, which leads to a systematic growth of expenditures without the possibility of correcting them downwards.⁸⁴ The opposite example is a

⁸¹ Child allowances and the tax credit were for a long time indexed mainly to inflation, which led to a decline in their relative value. Their significant increase in 2023, even beyond “catching up” with the historical level, was adopted without simultaneous financial coverage. Subsequently, in 2024 and 2025 they were reduced as part of measures to reduce the deficit, which increased the volatility of expenditures. The original legislative intention was annulled by a decision of the Constitutional Court of the SR (PL. ÚS 13/2022), where one of the principles applied was Article 55a of the Constitution of the SR, the aim of which is to protect the long-term sustainability of the Slovak Republic. The final adjustment was subsequently implemented through a different legislative process, which was no longer challenged and thus entered into effect.

⁸² After the energy shock of 2022–2023, most countries introduced temporary measures which they gradually abolished. Slovakia, despite the European Commission's recommendation to target vulnerable households, postponed the abolition of across-the-board support. This is an example of a temporary crisis measure growing into a permanent expenditure. At the same time, there is an overlap of support – pensioners in particular are protected both through pension indexation and through direct compensation. Expenditures from national resources (outside the EU) in 2023–2024 amounted to EUR 3.1 billion and a further EUR 1.0 billion is expected by the end of 2029.

⁸³ The reason is above all that negative retroactivity is in principle prohibited, since it contradicts the principle of the rule of law, legal certainty and the protection of acquired rights (Article 1(1) of the Constitution of the SR).

⁸⁴ In recent years the pensions of so-called old-age pensioners under earlier rules (pensions of higher-income recipients granted under the legislation in force before 2004) were recalculated retroactively; a lower reduction of all original early retirement pensions was granted as a result of the introduction of the condition of 40 years worked; pension entitlements of women for periods of childcare were granted; and the retirement age of selected cohorts of women was reduced retroactively.

situation where certain benefits are not regularly reassessed,⁸⁵ which leads to their gradual relative erosion and to subsequent step increases.⁸⁶

Table 3: Examples of the emergence of fiscal risks

Example from the SR	How the risk arises	Fiscal impact
Early retirement pensions	incorrect setting of the parameters of the pension system for the case of an inflation shock and the relaxation of eligibility conditions.	deterioration of the balance by 0.4 % of GDP with a gradual fading out over a horizon of 7 years. Increase in debt by 1 % of GDP.
Minimum indexation of benefits	introduction of more generous indexation during a period of low inflation as a result of the illusion of low nominal amounts of pension increases.	deterioration of the balance by 0.15 % of GDP with a gradual decline over a horizon of 30 years.
13th pension	an originally small non-systemic measure is, through the gradual increase in the generosity of its parameters, turning into an across-the-board and highly costly one	permanent deterioration of the balance by 0.7 % of GDP
Parental pension	immediate costs covered by future savings from other measures.	permanent deterioration of the balance by 0.25 % of GDP.
Long-term care	adoption of the measure without budgetary coverage, adopted only after the budget had been approved	permanent deterioration of the balance by 0.3 % of GDP (long-term sustainability indicator).
Silent taxation	gradual increase in the effective tax burden with a future risk of a step reduction of the burden	revenue shortfall of 0.1 - 0.5 % of GDP as a result of the correction
Energy subsidies	repeated extension of originally temporary crisis support and its transition into a permanent scheme	increase in debt for the years 2025 to 2030 of approximately 1 % of GDP
Recalculations of pensions	application of new, more advantageous rules also to benefits already being paid.	systematic growth of expenditures
Retirement age	a measure without any immediate impacts, but with markedly strong long-term impacts.	permanent deterioration of the balance at the level of 1.1 % of GDP (long-term sustainability indicator).

Note: The fiscal impacts stated are illustrative in character and are not directly comparable. They are based on different time horizons and in some cases express the cumulative impact on general government debt, in others the impact on the general government balance or on

Inconsistent or hidden policy settings may create pressure for additional expenditures or for later revenue shortfalls. The simultaneous combination of targeted and across-the-board measures (e.g. targeted material need benefits and other social transfers including across-the-board energy subsidies) leads to ambiguous objectives of the social system and creates pressure to equalise support between individual groups. So-called silent taxation leads to a gradual increase in the tax burden on labour without legislative changes⁸⁷ and clearly stated objectives, while its future correction may cause a sudden shortfall in general government revenues, in particular of local governments.

⁸⁵ The subsistence minimum is an effective element of the social system only if its level is regularly reassessed and, at the same time, an appropriate indexation mechanism is in place. The subsistence minimum has not been reassessed since 1998; its amount is indexed by the established mechanism. Today, however, as a result of structural changes and the applied indexation, the current amounts may not correspond to the basic needs of households. There is also a risk of a step increase in expenditures in the future.

⁸⁶ CBR 2022: [Report on the development of the social system – Welfare Report](#). Examples are the repeated significant increases in selected benefits, e.g. the childbirth allowance in 2009 or benefits compensating for the loss of employment income (the parental allowance, the care allowance and the personal assistance allowance in the system of compensation for severe disability), which were implemented after a period of their relative decline.

⁸⁷ CBR Commentary 2016: [Sometimes loudly, mostly quietly](#); IFP Commentary 2021: [What you may not yet have heard about the growth of the taxation of wages](#). The basic tax allowance was last increased in a step manner with effect from 1 January 2020, with a total impact of approximately 0.1 % of GDP (Tax Revenue Forecasts Committee, IFP (MF SR), September 2019).

Specific fiscal risks

Contingent liabilities

Contingent liabilities are liability items that become payable only if certain conditions are met and in such a case they may negatively affect general government outturns. Since it is not possible to determine precisely when and in what amount these liabilities will materialise, they are not yet included in the baseline scenario of the development of public finances. Their future materialisation does, however, represent a risk for the development of public finances.

According to the Summary Annual Report of the SR for 2024, non-consolidated contingent liabilities amounted to EUR 20,965 million (16 % of GDP).⁸⁸ Compared with the previous year, the volume of liabilities declined by EUR 1,502 million (Chart 29).

The CBR's baseline scenario includes the part of contingent liabilities attributable to the European Financial Stability Facility (EFSF, the so-called temporary euro bailout fund)⁸⁹ amounting to EUR 2,281 million (1.7 % of GDP).⁹⁰ Other contingent liabilities amounting to more than EUR 18 billion are not included in the baseline scenario and therefore represent a fiscal risk for the development of public finances in the future.

- **Liabilities in the form of callable capital and guarantees in international financial institutions outside the EFSF amount to EUR 7,600 million (5.8 % of GDP).** The largest part is accounted for by calls under the European Stability Mechanism (ESM, the so-called permanent euro bailout fund), which serves to provide assistance to those euro area states that have found themselves in serious financial difficulties.
- A significant part of contingent liabilities consists of threatened or ongoing litigation amounting to EUR 3,015 million (2.3 % of GDP). The most significant litigation concerns the Ministry of Finance of the SR and the Ministry of Labour, Social Affairs and Family of the SR. The volume of threatened or ongoing litigation declined in 2024 by almost EUR 1 billion (Chart 30), mainly thanks to a decline in the disputes handled by the Ministry of the Interior. For a better assessment of fiscal risks, it would be appropriate for the Summary Annual Report to contain more details on the individual court disputes.
- Guarantees issued or provided amount to EUR 751 million (0.6 % of GDP). These are guarantees provided by the Export-Import Bank, the Ministry of Finance of the SR and the joint-stock company National Development Fund II. Their volume declined year-on-year by approximately EUR 200 million.
- Other contingent liabilities amount to more than EUR 6 billion. This concerns mainly the assets of the joint-stock company Slovenské elektrárne pledged in favour of a bank.⁹¹
- No international arbitrations were recorded in 2024.

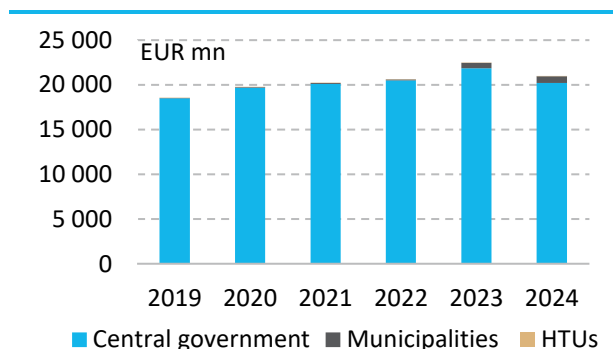
⁸⁸ An overview of contingent liabilities is provided by the [Summary Annual Report of the Slovak Republic for 2024](#).

⁸⁹ In 2013 the temporary euro bailout fund (EFSF) was replaced by the permanent one (ESM). Guarantees under the EFSF ceased to be provided and no further increases are expected.

⁹⁰ Only part of these EFSF liabilities is included in Slovakia's general government gross debt. At the end of 2024 they were recorded in debt in the amount of EUR 1,971 million (1.5 % of GDP).

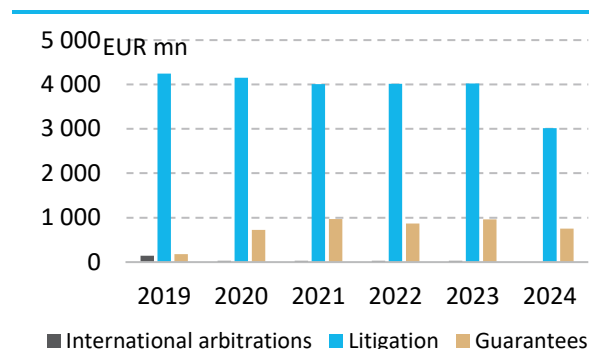
⁹¹ According to information reported in the media, Slovenské elektrárne obtained new financing. Its main benefit is the cancellation of the pledge over the company's assets.

Chart 29: Volume of non-consolidated contingent liabilities



Source: MF SR (Summary Annual Reports)

Chart 30: Selected contingent liabilities



Source: MF SR (Summary Annual Reports)

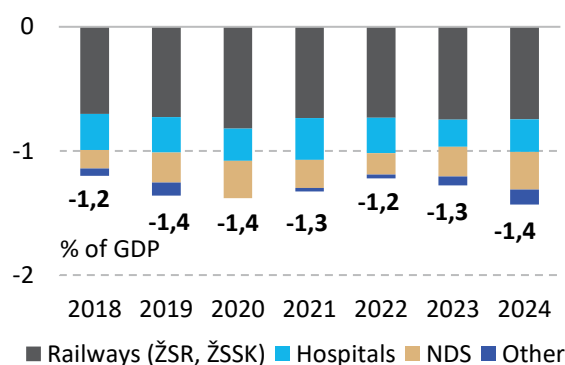
Financial performance of state-owned enterprises and hospitals

The fiscal risks stemming from the financial performance of state-owned enterprises in Slovakia are a relatively complex problem in the area of public finances. In the case of inefficient management or weak oversight, these risks may be a significant source of additional costs for public finances.

Part of the state-owned enterprises operate in strategic sectors (transport, healthcare) and are not profitable over the long term. Most of them would, without transfers from the state budget and without EU funds, be in loss over the long term (Chart 31). Their accumulated operating losses may lead to the need for repeated financial support from the state budget with questionable returns.⁹²

Another risk of these enterprises is the accumulated investment debt, which arose as a result of longer-postponed investment and asset maintenance. A significant part of state-owned enterprises is already today classified in the general government sector, i.e. their financial results continuously affect the deficit and debt (ŽSR, ŽSSK, NDS, SVP, public hospitals)⁹³. In combination with the requirement to reduce the deficit, this may, however, further deepen the creation of the investment debt.

Chart 31: Financial performance of state-owned enterprises in the general government sector excluding transfers from the state budget and EU funds



Source: SO SR, CBR

Note: In 2018 and 2022, the financial performance of hospitals is adjusted for the effect of debt relief.

⁹² A brief overview of the financial performance of state administration enterprises is provided by the [Summary Annual Report of the Slovak Republic for 2024](#) in Annex 1.

⁹³ In addition to public hospitals, this also includes other healthcare facilities classified in the general government sector. For example polyclinics, treatment institutes, specialised healthcare institutes, certain specialised healthcare facilities and laboratories, if they meet the ESA 2010 criteria.

Most large state-owned enterprises are not classified in the general government sector, since they generate the predominant part of their revenues on the market. These include, for example, Slovenské elektrárne, SPP, SEPS, Transpetrol, Lesy SR, or Slovenská pošta.

In 2024, the following four enterprises generated the highest profit: SPP (EUR 279 million), Slovenské elektrárne (EUR 277 million after recalculation to the state's ownership share), Vodohospodárska výstavba (EUR 163 million) and Západoslovenská energetika (EUR 162 million after recalculation to the state's ownership share). These budgetary revenues come mainly from the energy sector and it can be expected that the most profitable enterprises will face challenges associated with the transition to a low-carbon economy.⁹⁴

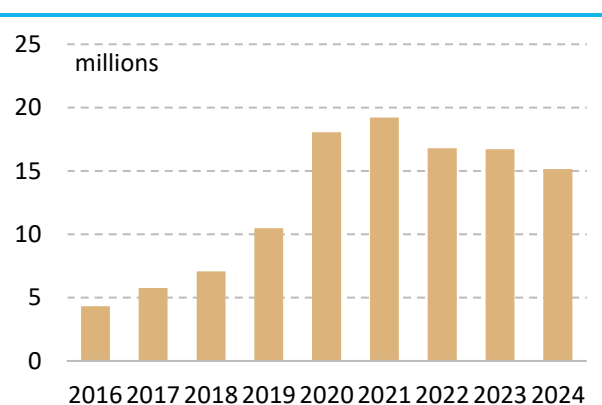
Cyber attack

Cyber attacks represent an increasingly significant global threat. The number of registered incidents worldwide has exceeded 15 million per year since 2020, while both their scale and their sophistication are constantly increasing (Chart 32). The actual number of attacks is higher, since not all incidents are registered or disclosed.

Several factors influence the increase in the number of cyber incidents:

- rapidly growing digital interconnectedness accelerated by the COVID-19 pandemic⁹⁵,
- growing dependence on technology and digital financial services,
- increasing geopolitical tension, which is also suggested by the increase in cyber attacks after Russia's invasion of Ukraine in February 2022.⁹⁶

Chart 32: Worldwide number of registered cyber incidents



Source: Statista

Although in 2024 the number of reported incidents declined in some countries (for example in the USA), the total damage caused continued to grow, which points to the increasing severity of individual attacks.⁹⁷

In the context of public finances, cyber incidents are classified as a fiscal risk with a higher probability of occurrence, but their direct impact on the budget has so far mostly been limited. The greatest risk remains the potential systemic consequences for the functioning of public institutions and critical infrastructure, which could have broader economic impacts.

⁹⁴ The documents published by the Ministry of Finance of the SR (the summary annual report and the general government budget) contain only basic information on the financial performance of state-owned enterprises, such as the amount of equity and the profit or loss. On their basis it is not possible to assess sufficiently the possible risks associated with their performance, which may lead to potential negative impacts on public finances.

⁹⁵ NBER 2005: [The Anatomy of Cyber Risk](#).

⁹⁶ IMF 2024: [Global Financial Stability Report: The Last Mile: Financial Vulnerabilities and Risks](#).

⁹⁷ FBI 2025: [Internet Crime Report 2024](#).

According to the report on cyber security, 1,650 cyber security incidents were recorded in Slovakia in 2025, which compared with the previous year represents an increase of 40 % (1,178 incidents).⁹⁸ Most frequently these were attempts to gain access to data or information systems (1,067 reports), disruption of the availability of services (DoS, DDoS), unauthorised intrusions into systems and other forms of digital disruption. From the perspective of the sectoral structure, the largest number of incidents came from public administration (912 reports), the financial sector (72 reports) and healthcare (38 reports).

The trend in the development of cyber incidents suggests an increase in the severity of impacts, in particular in critical sectors.

- In January 2025 a ransomware attack was carried out on the Geodesy, Cartography and Cadastre Authority of the SR, which paralysed the provision of online cadastre services for more than a month, and full restoration of the online services has still not occurred. This was the first cyber attack with fundamental operational consequences for the functioning of an important state institution.
- Another serious incident was recorded on 31 August 2025, when a worldwide cyber attack hit all production plants of the carmaker Jaguar Land Rover. The outage also affected the plant in Nitra, where production was suspended for more than 5 weeks. This attack confirmed that digital risks may have direct real impacts on industrial production and employment.⁹⁹
- In December 2025 a cyber attack on the servers of the Ministry of Economy of the SR was recorded and it paralysed its communication for several weeks.¹⁰⁰

Box 19: New trends in cyber threats

Cyber risk is changing above all qualitatively. What is decisive is not only the number of incidents, but their sophistication, the speed of their spread and the potential for systemic impact. For public finances this means a higher probability of sudden expenditure interventions and a growing importance of preventive investment in cyber resilience.

Factors increasing the probability or the scale of the impact of cyber threats

- **The use of artificial intelligence in attacks.** AI enables attackers to automate reconnaissance, the generation of malicious code and social engineering. The time between the discovery of a vulnerability and its exploitation is shortening, which increases the probability of successful and potentially coordinated incidents.
- **The stability of the ransomware ecosystem.** The “Ransomware-as-a-Service” model reduces barriers to entry for new actors. Even though individual groups disappear or transform themselves, the market for attacks itself persists. The risk is therefore of a permanent character and cannot be considered an isolated phenomenon.
- **Growing digitalisation and interconnectedness of systems.** The deepening integration of digital platforms, cloud solutions and AI tools increases the number of potential entry points. An incident may thus have a broader systemic impact, in particular if it hits critical infrastructure or significant economic entities.

⁹⁸ NSA 2026: [Report on cyber security in the Slovak Republic in 2025](#).

⁹⁹ BBC 2025: [Jaguar Land Rover counts the cost of cyber attack](#).

¹⁰⁰ <https://zive.aktuality.sk/clanok/dV39Gce/co-sa-dialo-pri-nedavnom-kyberutoku-na-stat-najprv-naznacili-hrozbu-teraz-ju-popreli/>

- **Latent technological risks (e.g. quantum decryption).** The collection of data encrypted today with the aim of decrypting it in the future represents a long-term risk with a potentially delayed, but significant materialisation of damage.

Factors affecting the scale of the fiscal consequences

- **Tightening of the regulatory framework and mandatory reporting of incidents.** Greater transparency increases the visibility of damage and may increase reputational, legal and compensation costs. This is a factor that does not change the probability of an attack itself, but may increase its fiscal impact.
- **Emphasis on measurable cyber resilience.** The growth of requirements to demonstrate resilience leads to higher preventive expenditures. The aim is to reduce the probability or the scale of future damage, but in the short term this may represent additional pressure on the budget.

Financial performance of local governments

The financial performance of local governments represents a specific fiscal risk that may materialise in particular through the gradual deterioration of the financial stability of individual municipalities and higher territorial units. A risk for public finances arises in a situation where the financial problems of local governments exceed the individual level and give rise to the need for systemic intervention on the part of the state.

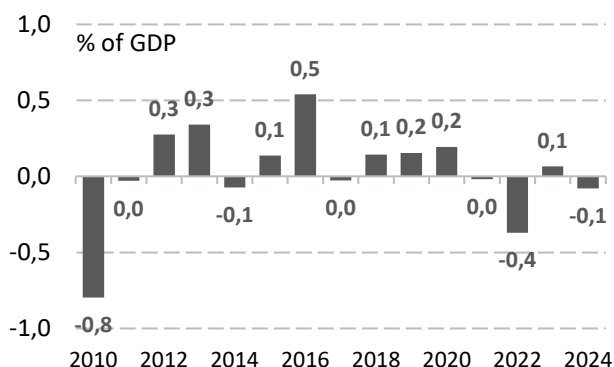
The financial situation of local governments is sensitive to developments in the economic cycle, legislative changes in the area of tax revenues and the growth of operating costs, in particular in the area of energy and wages. In an environment of an economic slowdown or slow growth (decline) in shared taxes, tension may arise in their budgets, which may lead to a curtailment of investment, growth in indebtedness or the need for extraordinary measures.

The regulatory framework for territorial self-government in Slovakia is relatively stricter compared with the rules applicable to the whole general government sector (Box 20). Strictly set rules and mechanisms for territorial self-government keep their financial performance at a balanced level (Chart 33) and indebtedness just above the level of 2 % of GDP (Chart 34) - at relatively low levels compared with the other general government sectors.¹⁰¹

A fiscal risk related to the financial performance of local governments is also the increase in their investment debt. Above all the smallest municipalities of up to 500 inhabitants are not able to invest regularly. Some of these municipalities did not report capital expenditures in more than half of the years in the period 2009 to 2024. In these municipalities, the administration and operation of the municipality alone accounts for approximately half of total expenditures, and therefore funds for the implementation of investment projects may be lacking.

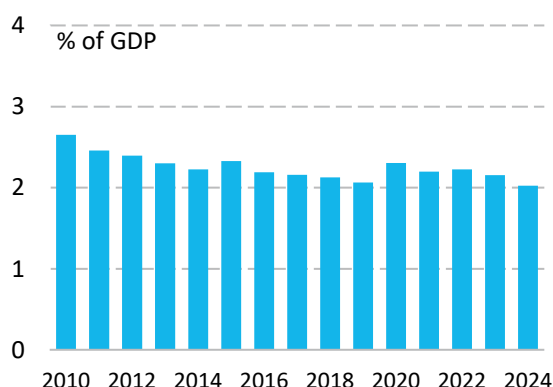
¹⁰¹ MF SR 2025: [Návrh štátneho záverečného účtu Slovenskej republiky za rok 2024](#).

Chart 33: Development of the financial performance of territorial self-government, ESA2010



Source: Eurostat

Chart 34: Development of the debt of territorial self-government, ESA2010



Source: Eurostat

Note: This is the amount of the debt of the territorial self-government subsector (S.1313) vis-à-vis other sectors, i.e. the data also include debt vis-à-vis central government (for example vis-à-vis the State Housing Development Fund).

Box 20: Regulatory framework of local governments

Territorial self-government is subject to statutory rules¹⁰² that limit the emergence of excessive fiscal imbalances:

- **Obligation of a balanced or surplus current budget.** Municipalities and higher territorial units are as a rule obliged to draw up current budgets as balanced or in surplus, which limits the creation of permanent deficits.
- **From January 2026, the possibility of financing current expenditures from the reserve fund was permanently extended,** which may temporarily ease the pressure on budgets, but at the same time weakens the originally strict framework of balanced financial management.¹⁰³
- **Limit on indebtedness and on repayments. Total debt is limited at the level of 60 % of actual current revenues of the previous year.** Exceeding the limit is sanctioned by a fine from the Ministry of Finance of the SR, which strengthens the motivation for prudent financial management. A similar limit at the level of 25 % applies to the level of loan repayments.
- **Absence of a state guarantee.** The state has no statutory obligation to ensure the solvency of municipalities or higher territorial units, whereby a bail-out by the central government is formally prohibited.¹⁰⁴

Public-private partnerships

In PPP projects the state enters into a partnership with a private entity (the concessionaire), which ensures the design, construction, financing, operation and maintenance of an infrastructure project. After the expiry of the concession period, the infrastructure is as a rule handed back free of charge into the ownership of the state.

The disadvantage of PPP projects from the perspective of fiscal risks is that the liabilities arising from them are often not reported in general government debt, although from an economic point of view

¹⁰² [Act No. 583/2004 Coll. on budgetary rules of territorial self-government.](#)

¹⁰³ Section 10(7) contains an exemption: "The current budget may be drawn up as a deficit budget if the expenditures of the current budget budget the use of reserve fund resources, of earmarked resources provided from the state budget, from the budget of the European Union or on the basis of a special regulation17a) that were not used in past years; the amount of the deficit of a current budget drawn up in this way must not be higher than the sum of these unused resources and the sum of the budgeted reserve fund resources."

¹⁰⁴ [Constitutional Act No. 493/2011 Coll. on Fiscal Responsibility.](#)

they constitute debt. The state undertakes to pay instalments to the private partner over 20–30 years, thereby committing future expenditures decades in advance. The private partner moreover borrows at higher interest rates than the state and also includes its profit margin in the price of the project. As a result, the overall price of a PPP project tends to be higher than if the investment were financed directly by the state. On the other hand, the higher costs may be offset by the higher efficiency of the private partner. The use of this instrument therefore requires a thorough value-for-money assessment in each individual case.

Existing PPP projects are part of the baseline scenario of the development of public finances, since the future payments of the state arising from the contractual obligations are taken into account in it. The mere existence of PPP projects therefore does not represent a fiscal risk in the sense of uncertainty relative to the baseline scenario.

A fiscal risk arises in the event of a disruption of the contractual framework, in particular if the concessionaire ceased to fulfil its obligations (e.g. owing to financial problems, technical failure or legal disputes). In such a case the state would have to ensure the continuation of the provision of the service or the operation of the infrastructure, which could lead to:

- the assumption of operating and investment liabilities,
- the need for extraordinary expenditures to stabilise the project,
- possible legal costs or compensation.

At the same time, however, in such a scenario the regular payments to the concessionaire could be halted or adjusted, which partially mitigates the net fiscal impact. The net effect on public finances would thus depend on the specific conditions of the contract and on the manner of resolving the situation that has arisen.

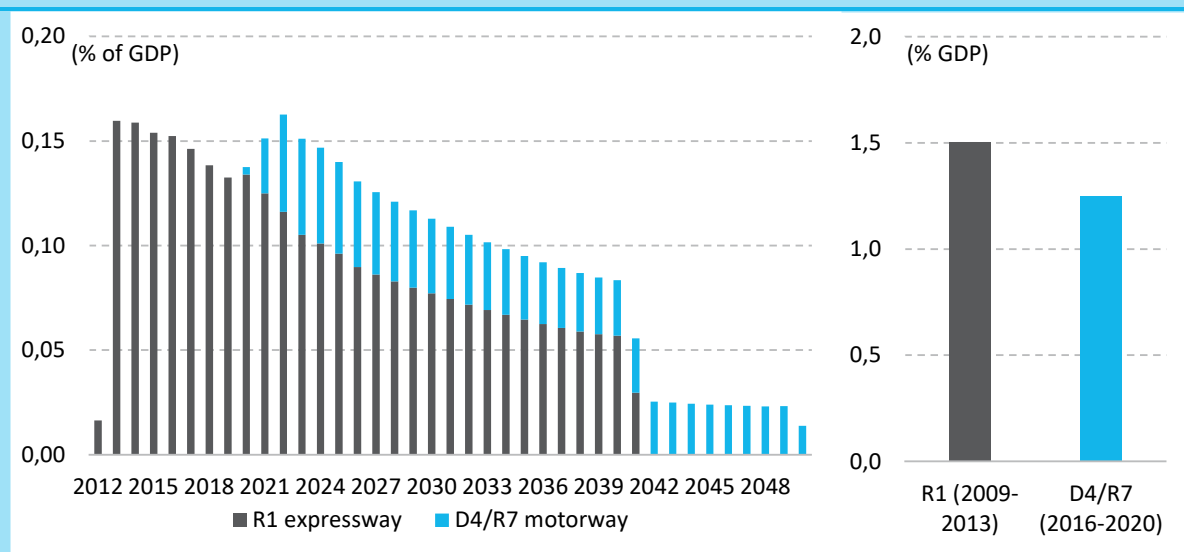
The risk of PPP projects therefore has the character of a contingent liability: its materialisation is not the baseline scenario, but in the event of a disruption of the scheme it may lead to a temporary increase in expenditures and to a potential impact on general government debt. According to the International Monetary Fund, public-private partnership (PPP) projects are among the fiscal risks with a low probability of materialisation and relatively low fiscal impacts. Despite this, they require thorough monitoring, in particular from the perspective of the long-term liabilities of the state.

Box 21: PPP projects in Slovakia

In Slovakia, three PPP projects with a concession contract for a period of 30 years are currently active:

- **The R1 expressway** - design, construction, financing, operation and maintenance (the state's availability payments are included in the baseline scenario – Chart 35);
- **The D4 motorway** (the Jarovce - Rača section) and the R7 expressway (the Bratislava, Prievoz - Holice section) - comprehensive provision of construction and operation (the state's availability payments are included in the baseline scenario – Chart 33);
- **The Žilina intermodal transport terminal** (TIP ZA) - operation and maintenance of an intermodal transport hub.

Chart 35: Current PPP projects in the area of road infrastructure (left: the state's availability payment, right: estimated investment expenditures of the private partner)



Source: MF SR, MTC SR, SO SR, CBR

In the coming years, the implementation of the following public and private sector projects is expected:

- In December 2025 the Government of the SR approved the conclusion of concession contracts for the construction of a national network of ultra-fast charging stations. This is a national initiative aimed at supporting electromobility. The main objective is to build a publicly accessible, high-capacity and reliable network of charging parks along motorways and expressways. The concession period of the contracts is 16 years and the expected total revenue for the general government budget over their duration amounts to EUR 46.1 million.
- By its resolution in December 2025, the government approved a proposal for a new public-private partnership project entitled Comprehensive renovation of bridges on class I roads.¹⁰⁵ The proposal prefers the variant in which almost 600 bridges would be removed and newly built or comprehensively reconstructed over a horizon of five years, with an expected value of up to EUR 2.8 billion.¹⁰⁶
- In January 2026 an agreement was signed between the Government of the SR and the Government of the USA on facilitating cooperation on the Jaslovské Bohunice nuclear power plant project and on the civil nuclear programme in the Slovak Republic.¹⁰⁷ The agreement assumes that the Slovak government will support the American nuclear reactor design. The new nuclear power plant should be built at the Jaslovské Bohunice site. The financing of the new nuclear power plant is not known. It will probably be another PPP project with a potential value of more than EUR 15 billion. In that case, the regular payments will increase gross debt over the long-term horizon.

¹⁰⁵ Detailed information can be found in the material entitled [Proposal for a public-private partnership project: Comprehensive renovation of bridges on class I roads](https://www.uvo.gov.sk/vestnik-a-registre/vestnik/oznamenie/detail/1392387).

¹⁰⁶ <https://www.uvo.gov.sk/vestnik-a-registre/vestnik/oznamenie/detail/1392387>

¹⁰⁷ https://static.slov-lex.sk/static/SK/ZZ/2026/5/vyhlasene_znenie.html#prilohy

EU funds and the Recovery and Resilience Plan

Slovakia is a net recipient of financial resources from the EU budget. Over four programming periods, revenues from the general EU budget exceeded contributions to the EU budget by EUR 25.4 billion at current prices. Despite this net inflow of resources, EU funds may under certain circumstances represent a source of fiscal risks.

Dependence on external financing. Public investment in Slovakia is currently lower than in the period before the country's accession to the EU (Chart 36). Despite considerable resources from EU funds, the overall level of public investment does not reach the values from the early 2000s. On average, general government investment financed from EU funds accounted for 1 % of GDP annually. This is even more visible when looking at investment excluding EU funds. This has been at historically low levels over the long term.

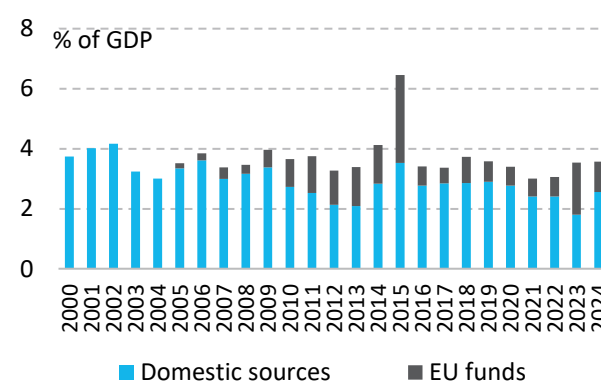
This trend suggests that EU resources in practice rather replace domestic public resources than complement them.¹⁰⁸ The consequence is the vulnerability of public investment to a possible reduction or shortfall in EU fund allocations in the future.

Risk of the suspension of EU funds. Precisely because of the aforementioned dependence on EU funds, the risk of the suspension of part of the payments, as happened in Hungary, may have very negative impacts on public finances and on the economy as well. In the extreme case, Slovakia would directly lose EUR 5 billion by the end of the decade. Economic growth would be on average 0.8 percentage point slower each year and the general government deficit would increase by a further 1.7 % of GDP by the end of the decade. Slovakia's gross debt would be higher by 7 % of GDP.¹⁰⁹

Slow and uneven drawdown. In Slovakia the drawdown of EU funds normally starts slowly and accelerates only towards the end of the programming period. This pattern of drawdown brings several risks. Delayed investment postpones its positive effect on economic growth. In an environment of higher inflation, moreover, the real value of resources drawn later declines. Accelerated final drawdown at the end of the programming period in turn creates pressure for rapid spending, which may lead to lower efficiency of the resources expended.

Risk of financial corrections. If the European Commission finds that resources were spent in breach of the rules, it may require their return. This is a contingent liability that is not budgeted in advance and may worsen the general government balance. In Slovakia this risk has materialised repeatedly in the past. As a result of shortcomings in the drawdown, the Slovak Republic had to return almost EUR 1.4 billion by the end of 2024. The implemented projects for which EU resources were originally drawn and which were subject to corrections were thus financed from national resources, which burdened Slovak public finances.

Chart 36: General government investment



Source: ECB, Eurostat

¹⁰⁸ The substitution effect of EU funds in Slovakia is analysed and confirmed by the NBS commentary 2023: [Slovakia's Achilles heel – EU funds](#).

¹⁰⁹ The impacts of the suspension of part of the EU funds are analysed by the CBR analytical blog 2026: [Three frozen euros from EU funds mean four missing in the economy](#).

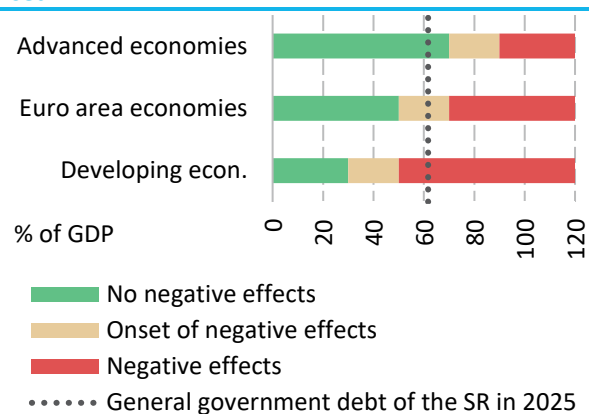
The Recovery and Resilience Plan as a specific risk. Unlike the standard structural funds, resources from the Recovery and Resilience Plan are conditional on the fulfilment of specific milestones and targets. If these are not fulfilled, the payment is withheld or reduced. For Slovakia this risk remains topical, since the drawdown of the Recovery Plan is lagging behind the original timetable, which increases the uncertainty regarding the volume of resources actually obtained and their timing.

Annex 2 - How to set a target for the level of debt?

Zero indebtedness should not be the objective

Achieving a zero level of indebtedness should not, under normal circumstances, be an objective of economic policy. An OECD study states that at a certain, limited level of indebtedness, government debt as a risk-free asset may support the functioning of the financial system, and debt used to finance public investment and infrastructure may contribute to the development of the economy.¹¹⁰ At a higher level of debt, however, the negative effects on the economy begin to outweigh the positive effects that indebtedness brings. On the basis of empirical data, the OECD estimates that such negative impacts of indebtedness begin to manifest themselves in the case of euro area countries at a level of debt in the range of 50 % to 70 % of GDP (Chart 37). In order for a country to avoid them, it is necessary to keep debt at a somewhat lower level. A sufficient buffer at the same time makes it possible to absorb unexpected crisis situations and unfavourable macroeconomic shocks without the negative impacts of indebtedness jeopardising the stable development of public finances.

Chart 37: The band of general government gross debt in which, according to the OECD (2015), the negative impacts of indebtedness on the economy set in



Source: CBR, OECD

Limits for the level of debt are defined in legislation.

Constitutional Act No. 493/2011 Coll. on Fiscal Responsibility¹¹¹ establishes an upper limit for general government debt of 50 % of GDP.¹¹² In addition to the sanctions arising from the lower sanction bands (submission of a proposal for measures to reduce debt, freezing of the salaries of members of the government, freezing of budget expenditures and the obligation to submit a balanced or surplus budget), exceeding the upper debt limit gives rise to the government's obligation to ask the National Council of the SR for a vote of confidence. For the last three of the sanctions mentioned, an exemption of 24 months from the approval of the programme statement and the vote of confidence in the government applies.

At the same time, according to Article 126 of the Treaty on the Functioning of the European Union and Protocol No. 12 on the excessive deficit procedure, which forms part of it, the ratio of general government debt to GDP should remain below the reference value of 60 % of GDP.¹¹³ If it is exceeded, the European Commission will initiate the excessive deficit procedure, within which the Member State

¹¹⁰ Fall, F.; Bloch, D.; Fournier, J.-M.; Hoeller, P. Prudent debt targets and fiscal frameworks. OECD Economic Policy Papers, 2015, No. 15.

¹¹¹ Constitutional Act No. 493/2011 Coll. on Fiscal Responsibility.

¹¹² In the transitional period from 2018 to 2027, the upper debt limit declines year-on-year by one percentage point from the initial 60 % of GDP.

¹¹³ Protokol (č. 12) o postupe pri nadmernom deficite, Ú. v. EÚ C 202, 7. 6. 2016, s. 284.

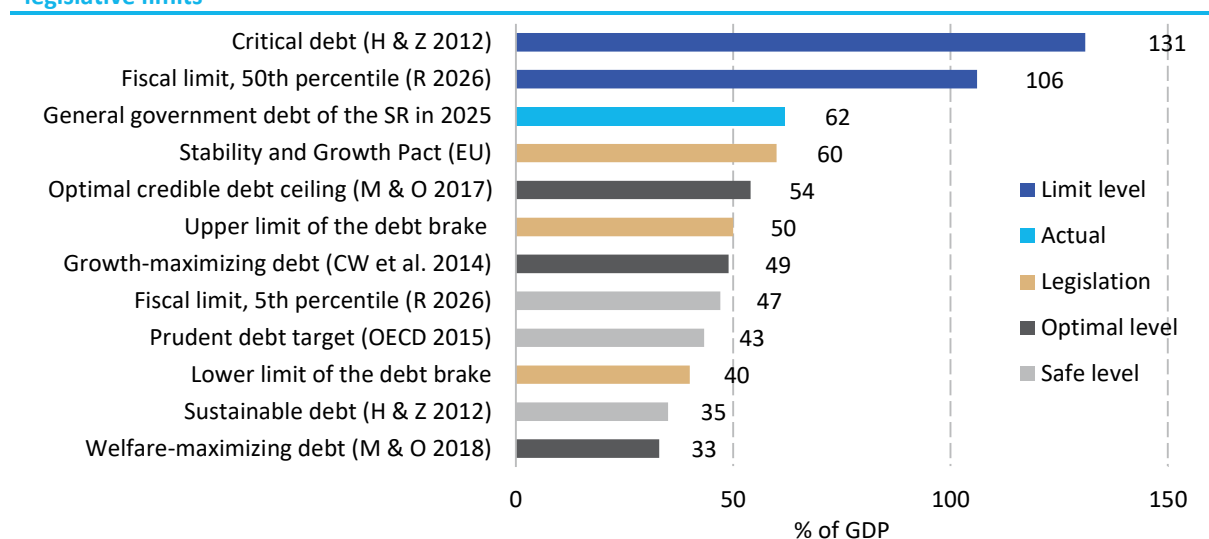
receives recommendations for correction and sanctions may be imposed on it if it does not adopt effective measures to reduce debt.

These legislative limits need not, however, necessarily represent an appropriate targeted level of indebtedness for Slovakia. In view of demographic developments, in particular ageing, as well as continuing convergence towards the EU average, the appropriate target level of debt may change over time and be lower than the thresholds laid down by legislation.

The economic literature distinguishes three concepts of targeted debt:

- **Safe level of debt** – ensures sufficient fiscal space and resilience to the materialisation of fiscal shocks (Chart 38: light grey colour).
- **Optimal level of debt** – maximises economic output or social welfare and takes into account the balance between the benefits and the costs of public indebtedness. The optimal level of debt need not at the same time also represent a safe level, if the level of debt is sensitive to unfavourable shocks and is not sustainable over the long term (Chart 38: grey colour).
- **Limit level** – once it is exceeded, a country effectively loses the ability to repay its debt. As a result of the loss of investor confidence, it may lose access to capital markets. The conditions for refinancing debt do, however, deteriorate significantly already before this threshold is exceeded. The targeted level of debt should therefore be set in such a way that the theoretical limit level could not be reached even in the event of significant unfavourable shocks (Chart 38: dark blue colour).

Chart 38: Model estimates of the safe, optimal and limit levels of gross debt and a comparison with the legislative limits



Source: CBR, Checherita-Westphal et al. 2014, Hajnovič and Zeman 2012, OECD 2015, Múčka and Ódor 2017, Múčka and Ódor 2018, Rakús 2026

Note: The optimal credible ceiling (Múčka and Ódor 2017) is not an estimate of the targeted level of debt. This level represents an estimate of the optimal setting of a credible ceiling for debt, i.e. of the level that the government commits itself not to exceed under any circumstances.

Slovak debt exceeds both the estimated safe and the estimated optimal level of debt

Estimates for the individual concepts of targeted debt are published in the economic literature. The values estimated specifically for Slovakia are shown in Chart 38. The current development of general government gross debt in Slovakia and the forecast for the coming years is higher than the estimated safe and optimal levels of debt and also higher than the legislatively set threshold of the debt brake. It can therefore be stated that Slovakia has not created the fiscal space needed to manage future fiscal risks. The potential materialisation of a fiscal risk will therefore mean a further significant increase in indebtedness and a possible deterioration of the country's rating.

Box 22: Economic models used for estimates of the various concepts of targeted debt.

The following part briefly describes the economic models used for estimates of the various concepts of targeted debt.

Fiscal reaction function model

The fiscal reaction function estimates how the government responds to changes in the macroeconomic environment, in particular to the level of general government debt, through adjustments of the primary balance. At lower levels of indebtedness the response tends to be strong enough for the increase in the primary balance to stabilise debt. In models dealing with the targeted level of debt, so-called fiscal fatigue is usually assumed from a certain level of indebtedness, which is a decline in the intensity of the fiscal response at higher indebtedness.

The year-on-year change in debt in the models is standardly controlled by the difference between the increase in debt as a result of the interest-growth differential (the so-called snowball effect) and the primary balance, which is determined by the fiscal reaction function. In the typical case there are several equilibrium points at which the positive response of the primary balance exactly offsets the snowball effect. These equilibrium points do, however, differ qualitatively:

- If the fiscal response in the vicinity of the equilibrium point is strong enough to overcome the snowball effect even under unfavourable macroeconomic conditions, debt naturally returns to this point. Such an equilibrium point represents an estimate of the safe level of debt; an example is so-called sustainable debt in the model of Hajnovič and Zeman (2012).^{114 115}
- Conversely, if the fiscal response is not sufficient to overcome the snowball effect, general government debt grows without limit once the equilibrium point is exceeded. Such a point may be considered an estimate of the limit level of debt, since once it is exceeded debt will only continue to grow. An example is so-called critical debt in the model of Hajnovič and Zeman (2012).

Growth-maximising debt model

The optimal level of debt can be estimated by means of a model that assumes the validity of the so-called golden rule. Over the long-term horizon, public finances are set in such a way that debt serves exclusively to finance public investment, while current expenditures are fully covered by current revenues. On the basis of the model of Checherita-Westphal et al. (2014)¹¹⁶, the economically optimal level of debt for euro area countries is 48.9 % of GDP.¹¹⁷ This estimate is, however, burdened by a relatively wide 95 % confidence interval, ranging from 27 % to 72 % of GDP.

¹¹⁴ Hajnovič, F.; Zeman, J. *Fiscal space in the euro zone. Working paper No. 5/2012. Národná banka Slovenska.*

¹¹⁵ Estimate based on data for the years 2000–2008.

¹¹⁶ Checherita-Westphal, C.; Hallett, A. H.; Rother, P. *Fiscal sustainability using growth-maximising debt targets. Applied Economics*, 2014, 46(6), pp. 638–647.

¹¹⁷ Based on data for the years 1960–2010; Slovakia does not feature in the input data.

The value stated need not, however, necessarily represent an appropriate target for Slovakia, since there are significant structural differences between euro area countries. For a small and open economy such as Slovakia, the growth-maximising level of debt may therefore be lower than the estimate for the euro area as a whole. The value of 48.9 % may serve as a long-term target, on the assumption that the Slovak economy achieves convergence towards the average of the euro area countries.

Stochastic model

An estimate of the safe level of debt can also be obtained by means of stochastic simulations based on historical macroeconomic shocks. On their basis, random projections of these shocks are generated, from which trajectories of the future development of macroeconomic variables and of general government debt are subsequently derived. The output consists of so-called fan charts of future debt, which make it possible to quantify the probability of exceeding a predetermined debt threshold. The safe level of debt is then defined as the level at which this probability does not exceed the chosen tolerance.

The OECD (2015) model¹¹⁸ combines (i) an empirically anchored debt threshold and (ii) a stochastic debt model. For the euro area, a threshold of 65 % of GDP and a tolerance of 25 % are used in the simulations. The prudent debt target is defined as the median debt in 2040¹¹⁹ under such an adjustment of fiscal policy as will ensure that the probability of exceeding the threshold of 65 % of GDP in 2040 is at most 25 %. This approach takes into account not only the average development, but also the risks arising from unfavourable shocks.

For 2040, the OECD estimates the prudent debt target in the case of Slovakia at the level of 43.3 % of GDP. After tightening the tolerance to 10 %, the prudent target decreases by 14.9 p. p. of GDP.

Credible ceiling model

In the model, the government finances expenditures through taxes and long-term debt, while at higher debt the probability of default, that is, of failure to repay liabilities, increases, and investors therefore demand a higher yield already today. The key mechanism is the problem of debt dilution: when incurring new debt, the government does not take into account that it is increasing the risk for existing creditors, which increases the tendency towards excessive borrowing. Put differently, in the absence of a credible ceiling on borrowing, today's investors penalise the government by demanding higher risk premia that would sufficiently compensate for the possibility of future non-repayment of debt owing to a government default. The optimal credible debt limit is then such a limit as constrains this tendency and, from the perspective of the model, maximises welfare over the entire investment horizon.

For Slovakia, the model of Múčka and Ódor (2017)¹²⁰ estimates the optimal gross debt ceiling at the level of 54 % of average GDP under a calibration for the period 2009 to 2016.¹²¹ This value should be interpreted as an appropriately set fiscal anchor, not as a desirable long-term level of debt at which debt should permanently remain. The credible commitment not to exceed the debt ceiling in itself reduces risk premia (in the model they decrease on average by approximately 50 basis points; empirically, using the synthetic control method, the decline in the risk premium is approximately half of that). Under an alternative calibration for the period 2009 to 2011, when markets were more sensitive to debt, the estimate of the optimal gross debt ceiling declines to 45 % of average GDP.

Welfare-maximising debt model

The model is based on the assumption that general government debt brings the economy both benefits and costs. On the one hand it mitigates the consequences of fluctuations in households' incomes and provides them with a certain form of insurance against idiosyncratic shocks; on the other hand, financing higher debt requires higher taxes and crowds out private investment. The model therefore compares social welfare at

¹¹⁸ Fall, F.; Bloch, D.; Fournier, J.-M.; Hoeller, P. Prudent debt targets and fiscal frameworks. OECD Economic Policy Papers, 2015, No. 15.

¹¹⁹ The starting year of the simulations is 2014.

¹²⁰ Múčka, Z.; Ódor, Ľ. Sovereign default risk and debt limits: Case of Slovakia. Working Paper No. 1/2017. Council for Budget Responsibility.

¹²¹ The model estimates the optimal net debt ceiling. The estimate was converted to gross debt by adding liquid financial assets of 6 % of GDP, which corresponds to the long-term historical average.

various levels of debt, taking into account the actual distribution of income and wealth of Slovak households, and considers as optimal the level at which welfare is highest. The optimal level of debt combines the effects arising from reaching a long-term equilibrium with the temporary costs associated with the transition to it (on the assumption that today's level of indebtedness is not assessed by the model as optimal), depending on the fiscal instrument used. Long-term benefits and short-term costs of consolidation are thus combined.

In the model of Múčka and Ódor (2018)¹²², the estimate of the optimal level of gross debt for Slovakia, after taking into account the transition dynamics, is 33 % of GDP.¹²³ In terms of sensitivity, if the necessary fiscal adjustment is implemented through transfers instead of taxes, the optimal level of gross debt increases to 51 % of GDP, which shows that the result also depends on the chosen manner of consolidation.

Fiscal limit model

The fiscal limit represents the maximum level of indebtedness at which a country is still able to repay its debt. From a mathematical point of view, the fiscal limit corresponds to the maximum sum of future primary surpluses. It is not determined unambiguously, since the projection of maximum primary surpluses is associated with a considerable degree of uncertainty. The output of the stochastic calculation of the fiscal limit is a probability distribution which characterises the probability that the country will not be able to repay its debt. We refer to this probability as the risk of unavoidable default.¹²⁴

The fifth percentile of the distribution of the fiscal limit represents an estimate of the safe level of debt. This level of indebtedness corresponds to a 5 % risk of unavoidable default.¹²⁵ Conversely, the fiftieth percentile of the distribution of the fiscal limit, associated with a 50 % risk of unavoidable default, represents an estimate of the limit level of debt, at which the country would effectively not be able to refinance its debt.

The distribution of the fiscal limit in the model of Rakús (2026)¹²⁶ is determined not only by the economic conditions in the starting year, but also by the long-term trend of the fiscal limit, which takes into account ageing. In 2025 the estimate of the safe level of debt in the fiscal limit model reached the value of 47 % of GDP,¹²⁷ while the estimate of the limit level of debt corresponded to 106 % of GDP.

The concept of debt used

All the concepts of targeted debt presented in this box are presented on gross (Maastricht) general government debt, and not on debt net of financial assets. In most of the models this is gross debt directly; the models of Múčka and Ódor (2017, 2018) are formulated on net debt and their outputs were converted to gross debt by adding liquid financial assets of approximately 6 % of GDP. The fiscal limit model likewise expresses the thresholds on gross debt, but unlike the other approaches it explicitly takes into account the buffer of liquid financial assets.¹²⁸ The choice of gross debt is deliberate, since it is the concept of debt on which both the Slovak fiscal rules and EU surveillance are based. Another reason is that general government liabilities must be repaid in full, whereas financial assets need not always be immediately available.

¹²² Múčka, Z.; Ódor, Ľ. Optimal sovereign debt Case of Slovakia. Working Paper No. 3/2018. Council for Budget Responsibility.

¹²³ The model estimates the optimal level of net debt. The estimate was converted to gross debt by adding liquid financial assets of 6 % of GDP, which corresponds to the long-term historical average.

¹²⁴ The risk of unavoidable default represents a lower-bound estimate of default risk. It may be higher if so-called political risks are present.

¹²⁵ An empirical benchmark is used to calibrate the safe level of debt. The safe level of debt is defined as the level at which the model-implied risk of unavoidable default over a long, or infinite, horizon remains sufficiently low and compatible with maintaining an investment-grade rating over the long term. We anchor this threshold in historical experience according to the initial rating, taking the default rate over a 15-year horizon as the empirical reference point.

¹²⁶ Rakús, M. Too old for high debt: Fiscal limits and ageing in Slovakia. Working Paper No. 01/2026. Council for Budget Responsibility.

¹²⁷ The tenth percentile of the fiscal limit, corresponding to a 10 % risk of unavoidable default, reached the value of 60 % of GDP in 2025. This value represents a somewhat higher estimate of the safe level of debt, but one burdened by a significantly higher risk. Conversely, the safe level of debt corresponding to a 2.5 % risk of unavoidable default represents a stricter estimate, which in 2025 reached the level of 35 % of GDP.

¹²⁸ The fiscal limit thresholds take into account that the government can avoid default by reducing liquid assets to the minimum level it is able to reach in the starting year. The safe level of debt stated already includes this buffer.

Development of targeted debt over time

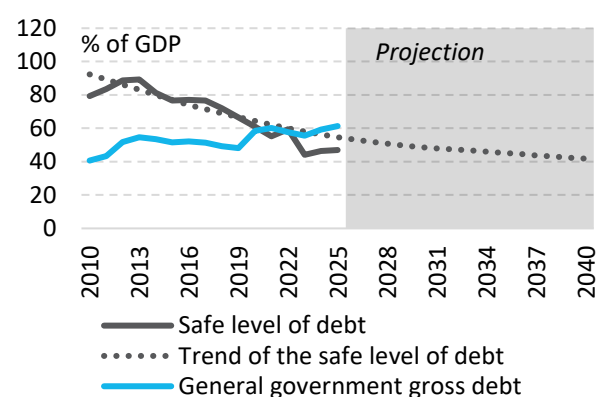
Most of the above estimates of the safe, optimal and limit levels of debt are static, i.e. they assume that there will be no significant change in economic conditions. These levels may, however, change over time depending on changes in fiscal policy and on the outlook for economic growth. Ageing, convergence towards advanced economies and the setting of expenditure policies are only some of the factors that may affect the appropriate level of indebtedness.

The fiscal limit represents an estimate that changes over time. The safe level of debt corresponding to a 5 % risk of unavoidable default has declined since 2010 by approximately 32 p. p. of GDP (Chart 39). The fiscal limit is determined by a country's ability to generate significantly positive primary surpluses. Ageing and the costs associated with it mean that this ability of the country is limited. Moreover, the fiscal limit is already today constrained by the future age distribution of the population, while, owing to the discount rate, the coming years have the greatest influence. This means that although the greatest impacts of ageing still lie ahead of Slovakia, its

influence is already fully translating into a limited possibility of borrowing without Slovakia facing dangerous levels of the risk of unavoidable default.

The long-term trend of the fiscal limit represents the fiscal limit adjusted for the effect of the starting year.¹²⁹ In the projection, the fifth percentile of the long-term trend of the fiscal limit can be considered an estimate of the safe level of debt.¹³⁰ The trend of the safe level (Chart 39) suggests that, in order to keep the risk of unavoidable default at an acceptable level, it will be necessary in the coming decades to stabilise debt significantly below the upper threshold of the debt brake.¹³¹

Chart 39: The safe level of debt corresponding to a 5 % risk of unavoidable default



Source: CBR Secretariat calculations

¹²⁹ Efekt východiskového roku zahrňa východiskovú úroveň produktivity, nastavenie fiškálnej politiky a stav likvidných finančných aktív v danom východiskovom roku.

¹³⁰ On the assumption that fiscal policy will be set in such a way that the safe level of debt does not fall significantly below its long-term trend. Historically, in the relevant period after Slovakia's accession to the European Union, the safe level of debt was in some years lower than its long-term trend by as much as 13.5 percentage points of GDP. Such a situation increases the risk of unavoidable default as a result of the starting-year effect.

¹³¹ The safe level of debt based on the fiscal limit concept does not capture all the potential risks associated with general government debt. Its increase does not necessarily mean that it is safe to increase debt. The fiscal limit concept says something only about the risk of unavoidable default over a long, or infinite, horizon.

Annex 3 - Proposal for a framework for the management of fiscal risks

In the proposed system, the CBR plays the role of an independent analytical assessor. Under the law it monitors the development of public finances, including their long-term sustainability, while the assessment of fiscal risks is a natural part of this mandate.¹³² This report is being produced with the aim of strengthening analytical assessment and transparency in the area of fiscal risks and the CBR plans to update it regularly. The initial edition provides a more extensive treatment of selected key risks; in the following years the report will focus on a narrower range of the most relevant risks from the perspective of current fiscal stability.

Box 23: The CBR's framework for monitoring risks

In 2014¹³³ and 2016¹³⁴ a framework for monitoring and assessing fiscal risks based on the concept of inter-temporal net worth was proposed. In it, general government debt represents only one part of the overall fiscal position; the framework therefore also monitors changes in assets, other liabilities and future revenues and expenditures. The concept of net worth serves as the main organising principle of the entire framework, which the Council for Budget Responsibility uses for the most complete possible identification of fiscal risks.

The assessment itself is carried out by means of the following seven-step approach:

1. **Unchanged policy scenario** (NPC scenario) – monitors macroeconomic risks and challenges associated mainly with ageing.
2. **Assessment of the impact of policies** – analysis of the costs and benefits of legislative changes.
3. **Other general government entities** – monitoring of risks in local governments, healthcare or EU funds.
4. **Interest payments and debt management** – assessment of liquidity and refinancing risks.
5. **Changes in other assets** – for example the net worth of the central bank or of state-owned firms.
6. **Changes in other liabilities** – includes implicit liabilities (e.g. pensions) and contingent liabilities (e.g. state guarantees).
7. **Revaluations** – the effects of changes in asset prices, exchange rates or data revisions.

The further steps are linking the individual fiscal risks into an overall picture and estimating the fiscal space needed to manage unfavourable scenarios.

For the effective communication of the results, three tools were proposed: a budget traffic light for short-term monitoring, an estimate of the safe level of debt (as a qualitative conclusion based on the results of several approaches) and a regular document Fiscal Space Review, currently entitled Fiscal Space of Slovakia.

¹³² RRZ vznikla v roku 2012 ako nezávislý orgán monitorovania a hodnotenia vývoja hospodárenia Slovenskej republiky a hodnotenia plnenia pravidiel rozpočtovej zodpovednosti a transparentnosti. Úlohy RRZ sú zadané v ústavnom zákone č. 493/2011 Z.z. o rozpočtovej zodpovednosti z 8. decembra 2011 s účinnosťou od 1. marca 2012.

¹³³ Štúdia RRZ 2014: [Fiscal Risk Assessment at the CBR: A Conceptual Framework](#).

¹³⁴ Štúdia RRZ 2016: [What should we include in the Fiscal Space Review?](#)

Box 24: Monitoring of fiscal risks in other European countries

The most comprehensive system for monitoring fiscal risks has been built in the United Kingdom. The independent fiscal council Office for Budget Responsibility (OBR for short) regularly publishes an extensive Fiscal Risks and Sustainability report, which represents a key instrument for identifying and assessing risks to public finances. The report includes a register of fiscal risks, in which the individual risks are systematically categorised according to the probability of their materialisation and their potential fiscal impact.

The OBR's reports are at the same time thematically profiled and in each edition they focus in detail on selected structural or long-term risks. The latest report deals, for example, with the consequences of demographics, savings and other trends for expenditures associated with the state pension. It provides updated estimates of the fiscal costs associated with meeting the government's net zero commitments and of the damage caused by climate change to the economy of the United Kingdom. The government responds to the OBR's reports by publishing its response to the fiscal risks report.

The Government of the United Kingdom responds systematically to the OBR's findings and recommendations by publishing an official government response to the fiscal risks report, thereby strengthening the transparency of fiscal policy.

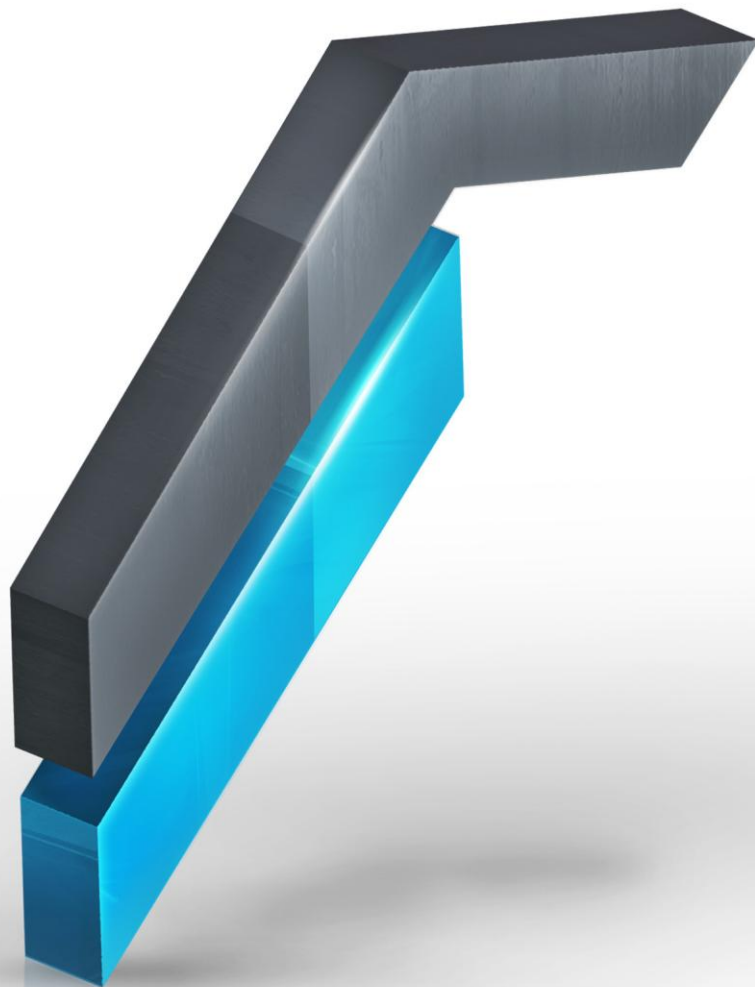
The Irish Fiscal Advisory Council published in 2020 a report on the long-term sustainability of public finances and fiscal risks, which so far represents the only comprehensive publication of this type in Ireland. The report focuses on the analysis of selected fiscal risks with a significant potential impact on public finances.

Thematically it covers in particular the impacts of the COVID-19 pandemic and the long-term risks associated with corporate income tax revenues, which are highly concentrated in Ireland (approximately 10 corporations generate around 40 % of total revenues from this tax). In addition, the report analyses the risks arising from a possible increase in interest rates, pressures on healthcare expenditures and the fiscal costs related to climate change.

The Portuguese Public Finance Council has to date published three reports on fiscal risks and the sustainability of public finances. The most recent report, from 2023, provides a comprehensive analysis of more than ten types of fiscal risks, including the most significant structural risks such as demographic and climate change.

In some countries, the issue of fiscal risks is institutionally secured directly at the level of the ministry of finance. An example is the Cypriot Ministry of Finance, which has regularly published a Fiscal Risk Statement since 2014. The legislation lays down the obligation of the minister of finance to prepare and submit a report on fiscal risks together with the draft state budget, while the document systematically identifies potential fiscal risks and at the same time describes measures aimed at mitigating them.

In some countries (e.g. Latvia) a specialised working group is established to assess risks in public finances. This working group meets twice a year and assesses the government's statement on fiscal risks, which forms part of the draft state budget. At the same time it assesses broader aspects of fiscal policy, including compliance with the fiscal discipline act. The group also assesses the adequacy of the fiscal reserve, taking into account the probability of the materialisation of the identified fiscal risks, thereby contributing to strengthening fiscal prudence and the sustainability of public finances.



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TWIN CITY B

Mlyské nivy 12

821 09 Bratislava

Slovakia

www.rrz.sk/en