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COMMISSION OPINION

of 26.11.2024

on the Draft Budgetary Plan of Slovakia

{SWD(2024) 950 final}

(Only the Slovak text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order to ensure that national budgets are consistent with the economic policy guidance issued in the context of the EU economic governance framework.

2. Article 6 of Regulation (EU) No 473/2013 requires euro area Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan, by 15 October, setting out the budgetary targets for the forthcoming year, and outlining the main aspects underlying the budgetary outlook for general government and its subsectors.

3. On 30 April 2024, the new economic governance framework entered into force. The main objectives of the new framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments. The framework helps to make the EU more competitive and better prepared for future challenges by supporting progress towards a green, digital, inclusive, and resilient economy.

4. In order to simplify the Union fiscal framework and increase transparency, a single operational indicator, anchored in debt sustainability, serves as a basis for setting the fiscal path and for carrying out annual fiscal surveillance for each Member State. That single operational indicator is the nominal growth rate of net expenditure[1].

5. The Recovery and Resilience Facility[2] provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union's energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level ('REPowerEU objectives'). The Facility is expected to strengthen the resilience and potential growth of Member States' economies, which contributes to job creation and sustainable public finances. Part of this support takes the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the

[1] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

[2] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 17–75.

Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.

CONSIDERATIONS CONCERNING SLOVAKIA

6. On 15 October 2024, Slovakia submitted its Draft Budgetary Plan for 2025 to the Commission and to the Eurogroup. On that basis, the Commission adopts this opinion in accordance with Article 7 of Regulation (EU) No 473/2013, and taking into account the Council Recommendation on economic, budgetary, employment and structural policies of Slovakia of 21 October 2024[3]. This opinion is adopted by the Commission together with the Commission Recommendation for a Council Recommendation under Article 126(7) of the Treaty with a view to bringing an end to the situation of an excessive deficit in Slovakia[4], and the Commission Recommendation for a Council Recommendation setting the net expenditure path of Slovakia for the years 2025 to 2028[5], which the Commission expects the Council to act upon in a timely manner.

7. On 21 October 2024, upon the Commission recommendation for Council Recommendation on the economic, social, employment, structural and budgetary policies of Slovakia of 19 June 2024[6], the Council recommended Slovakia, in line with the requirements of the reformed Stability and Growth Pact, to limit the growth in net expenditure in 2025 to a rate consistent with, inter alia, reducing the general government deficit below the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term.

8. On 15 October 2024, Slovakia submitted to the Commission its medium-term fiscal-structural plan in line with Regulation (EU) 2024/1263[7]. The plan commits to net expenditure growth not exceeding 3.8% in 2025, 0.9% in 2026, 1.6% in 2027 and 1.5% in 2028. The Commission has assessed the medium-term fiscal-structural plan of Slovakia and recommended to the Council to adopt a recommendation setting the net expenditure growth ceilings contained therein. The Draft Budgetary Plan for 2025 is the first step in the implementation of the medium-term fiscal-structural plan.

9. On 26 July 2024, the Council adopted a decision under Article 126(6) of the Treaty on the existence of an excessive deficit in Slovakia due to non-compliance with the deficit criterion[8]. On [26 November] 2024, the Commission adopted a recommendation for a Council Recommendation under Article 126(7) of the Treaty with a view to bringing an end to the situation of an excessive deficit in Slovakia by

[3] Not yet published.

[4] Recommendation for a Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Slovakia, 26.11.2024, COM(2024)958 final.

[5] Commission Recommendation for a Council Recommendation endorsing the national medium-term fiscal-structural plan of Slovakia, 26.11.2024, COM(2024)727 final.

[6] Commission Recommendation for a Council Recommendation on the economic, social, employment, structural and budgetary policies of Slovakia, 19.06.2024, COM(2024)625 final.

[7] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, OJ L, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

[8] Council Decision of 26 July 2024 on the existence of an excessive deficit in Slovakia, OJ L, 2024/2129, 1.8.2024.

2027[9], which the Commission expects the Council to adopt in a timely manner. According to that recommendation, in the context of the correction of the excessive deficit, Slovakia should ensure that the nominal growth of net expenditure does not exceed 3.8% in 2025, 0.9% in 2026 and 1.6% in 2027.

10. According to the Draft Budgetary Plan, Slovakia's real GDP is projected to grow by 2.2% in 2025 (2.3% in 2024), while inflation is forecast at 5.6% in 2025 (3.0% in 2024). According to the European Commission Autumn 2024 Forecast, Slovakia's real GDP is projected to grow by 2.3% in 2025 (2.2% in 2024), while inflation is forecast at 5.1% in 2025 (3.1% in 2024). The main difference between both sets of projections reflects their different cut-off dates. Inflation is projected to be around 0.5% lower in the European Commission Autumn 2024 Forecast than in the Draft Budgetary Plan, due to some products being removed from a previously announced VAT increase, communicated only after the cut-off date used for the Draft Budgetary Plan. Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be in line with the European Commission's forecast for 2025 (and 2024). Slovakia complies with the requirement of Article 4(4) of Regulation (EU) No 473/2013, since the Draft Budgetary Plan is based on independently produced macroeconomic forecasts.

11. Based on the Commission's estimates, the fiscal stance[10] is projected to be contractionary by 0.3% of GDP in 2025, following a contractionary fiscal stance of 2.5% in 2024. This measure of fiscal stance appropriately considers the impact on aggregate demand of expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds.

12. According to the Draft Budgetary Plan, Slovakia's general government deficit is projected to decrease to 4.7% of GDP in 2025 (5.8% in 2024), while the general government debt-to-GDP ratio is set to increase to 59.6% at the end of 2025 (58.9% at the end of 2024). According to the Draft Budgetary Plan, net expenditure is projected to grow by 5.4% in 2024 and 3.7% in 2025. The growth rate of net expenditure in 2025 according to the Draft Budgetary Plan is below the growth rate in the medium-term fiscal-structural plan submitted by Slovakia on 15 October 2024. In turn, according to the European Commission Autumn 2024 Forecast, Slovakia's general government deficit is projected to decrease to 4.7% of GDP in 2025 (5.8% in 2024), while the general government debt-to-GDP ratio is set to increase to 59.8% at the end of 2025 (58.9% at the end of 2024). The decrease in the deficit is driven by consolidation measures including broader value-added tax and corporate income tax reforms. According to the European Commission Autumn 2024 Forecast, net expenditure is projected to grow by 5.6% in 2024 and 3.5% in 2025. The risks to achieving the fiscal objectives for 2025 set out in the Draft Budgetary Plan are tilted to the downside, and mainly relate to the fiscal adjustment being based primarily on discretionary revenue increases. The burden of the strong consolidation effort is skewed towards households and firms as opposed to the government, which could

[9] Recommendation for a Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Slovakia, 26.11.2024, COM(2024)958 final.

[10] The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

result in additional macroeconomic effects, with potential fiscal consequences. In particular, a tax-driven consolidation entails the fiscal risk of a lower tax revenue collection than assumed in the Draft Budgetary Plan.

13. The Draft Budgetary Plan assumes that expenditure amounting to 0.9% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 0.5% of GDP in 2024. Expenditure financed by Recovery and Resilience Facility grants enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Slovakia.

14. The Draft Budgetary Plan includes several policy measures with a fiscal impact in 2025. On the revenue side, these include an increase in value added taxes and corporate taxes, new taxes on financial transactions for businesses, and higher excise duties on sweetened beverages and tobacco and non-tobacco products. On the expenditure side, these measures include a winding down of existing support measures related to high energy prices, and cutting public sector wages. According to Commission estimates, the overall additional impact of the revenue measures decreases the general government deficit by 1.3% of GDP in 2025.

15. According to the European Commission Autumn 2024 Forecast, Slovakia's net expenditure is projected to increase by 3.5% in 2025, which corresponds to a cumulative growth of 9.1% in 2024 and 2025 taken together. The Commission is of the view that these net expenditure growth rates are in line with the Council recommendation of 21 October 2024 to limit the growth in net expenditure in 2025 to a rate consistent with reducing the general government deficit below the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term. Those net expenditure growth rates would be appropriate initial steps towards the correction of the excessive deficit by 2027, as the Commission recommends to the Council to recommend to Slovakia. Moreover, those net expenditure growth rates would be appropriate initial steps towards the implementation of the medium-term fiscal structural plan.

16. According to the European Commission Autumn 2024 Forecast, nationally financed public investment is projected to increase to 2.9% of GDP in 2025 (from 2.5% of GDP in 2024). In turn, public expenditure on EU funded programmes, including Recovery and Resilience Facility grants, is expected to increase to 2.5% of GDP in 2025 (from 1.8% of GDP in 2024).

17. Finally, the Council also recommended Slovakia to make the tax mix more efficient, including by reducing disincentives on the labour market, and making a stronger use of environmental and recurrent property taxation. It was further recommended to reduce costly spending measures, also by implementing spending reviews, to continue to strengthen tax compliance, including by further digitalising tax administration, and to reduce the risks related to household debt by supporting housing supply and the expansion of the rental market. To improve the availability of the labour force, the Draft Budgetary Plan envisages the expansion of the provision of services facilitating settlement in Slovakia. The new Act on Research, Development and Innovation will contribute to the modernization of the research infrastructure. Digital transformation should be built on the development of electronic services and cyber security. Measures from the REPowerEU should focus on reducing dependence on fossil fuels and more significantly integrating renewable energy sources into the energy mix, thus contributing to the green energy transition.

18. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Slovakia is in line with the Council Recommendation of 21 October 2024. According to the European Commission Autumn 2024 Forecast, Slovakia's net expenditure growth in 2025 is consistent with what was recommended by the Council on 21 October 2024. The progress made with the implementation of the Council's country-specific recommendations will be assessed by the Commission in spring 2025, in the context of the European Semester Spring Package.

Table 1. Key macroeconomic and fiscal figures

#	Variables		2023	2024		2025	
			Outturn	DBP	COM	DBP	COM
1	Real GDP	% change	1.4	2.3	2.2	2.2	2.3
2	HICP inflation	% change	11.0	3.0	3.1	5.6	5.1
3	General government balance	% GDP	-5.2	-5.8	-5.8	-4.7	-4.7
4	Primary balance	% GDP	-4.0	-4.4	-4.4	-3.2	-3.3
5	General government gross debt	% GDP	56.1	58.9	58.9	59.6	59.8
6	Fiscal stance (**)	% GDP	-5.8		2.5		0.3
7	Net expenditure growth (annual)	% change		5.4	5.6	3.7	3.5
8	Net expenditure growth (cumulative)	% change				9.3	9.3
			Commission Recommendation of 26 November 2024 for a Council recommendation under Article 126(7) of the Treaty setting the net expenditure path of Slovakia				
9	Maximum growth rates of net expenditure (*)	% change			Annual	**3.8**	
10		% change			Cumulative	**10.3**	

Notes :
* According to the Commission Recommendation of 26 November 2024 for a Council recommendation under Article 126(7) of the Treaty setting the net expenditure path of Slovakia for the years 2025 to 2028.
** The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of both discretionary revenue measures and COVID-19 pandemic-related temporary emergency measures, excluding cyclical unemployment expenditure, but including the change in expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential GDP growth rate in nominal terms. A negative (positive) sign indicates an excess (shortfall) of primary expenditure growth over medium-term potential GDP growth, which corresponds to an expansionary (contractionary) fiscal stance. For more details, see Box 1 of the Fiscal Statistical Tables.

Source : European Commission Autumn 2024 Forecast and Draft Budgetary Plan for 2025

Done at Brussels, 26.11.2024

For the Commission
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