



SLOVAK REPUBLIC

SELECTED ISSUES

March 2026

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Approved By
European Department

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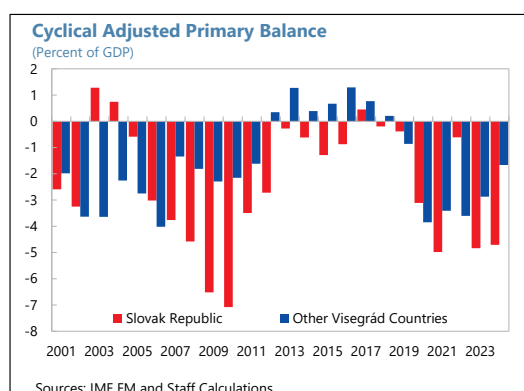
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EFFICIENT PUBLIC SPENDING: PATHWAYS FOR FISCAL SUSTAINABILITY¹

Slovakia's fiscal position has weakened considerably over the past 15 years, with public debt and expenditure rising faster than in peer countries. Given limited scope for additional revenue-based consolidation, policy efforts will increasingly need to focus on the expenditure side. This paper benchmarks the level, efficiency and allocation of public spending in Slovakia relative to peer countries to identify reform areas that can generate savings and strengthen the country's fiscal position. Most of Slovakia's recent increase in public expenditure is mainly due to rising spending on social protection, driven by intensifying demographic pressures as well as generous pension and family benefits. At the same time, spending efficiency gaps relative to international benchmarks span multiple government functions. Policy measures aimed at (i) increasing the efficiency of public service delivery, (ii) ensuring that social transfers are specifically targeted at the most vulnerable and (iii) reallocating resources toward more growth-enhancing areas have the potential to improve the fiscal outlook and safeguard long-term debt sustainability.

A. Introduction: Enhancing Spending Efficiency Amid Fiscal Pressures

1. Slovakia's fiscal trajectory is deteriorating rapidly, marked by persistent fiscal deficits and rising public debt. Since the Global Financial Crisis (GFC), public debt has increased much more rapidly in Slovakia than in the average EU or neighboring country, gradually eroding a fiscal position which used to be strong relative to peers.² For instance, in contrast to peer Visegrád countries—where debt as a share of GDP increased by 0.5 percentage points since 2010 on average—Slovakia experienced a notable 17 percentage point increase.³ The worsening debt trajectory has been driven by persistently negative primary fiscal balances and a trend increase in public expenditure, which has now reached 48 percent of GDP (Figure 1). A deteriorating fiscal position can increase the risk of sovereign distress, restrain the government's ability to respond to future economic shocks and crowd out growth-enhancing investments. Against this backdrop, implementing fiscal consolidation measures to stabilize debt

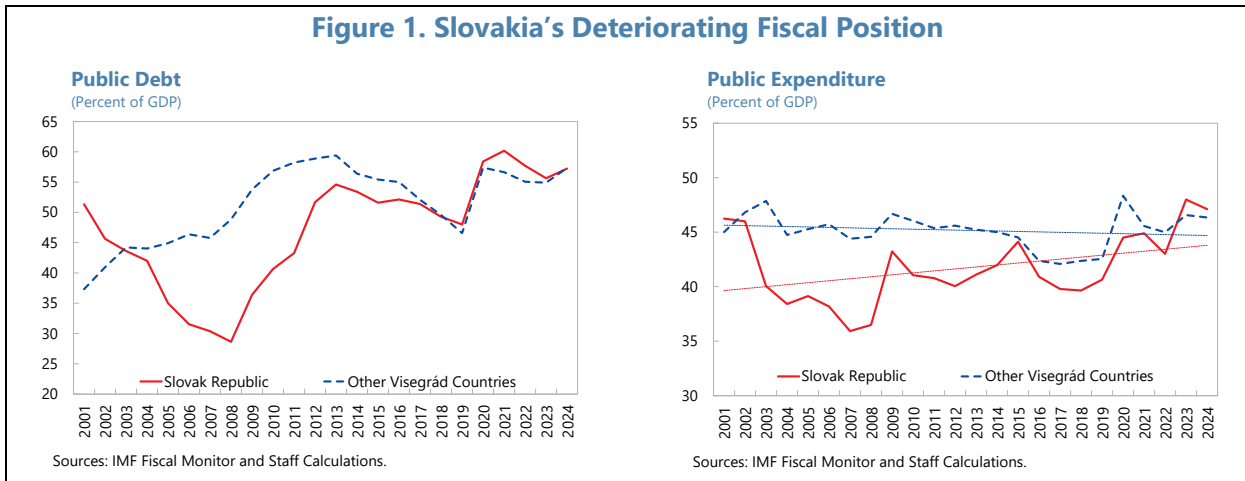


¹ Prepared by Leonardo Indraccolo and Yen Mooi. This paper greatly benefitted from comments by Magnus Saxegaard, Shinya Kotera and colleagues from the Fiscal Affairs Department. Additionally, it received excellent suggestions from seminar participants at the National Bank of Slovakia and staff from the Value for Money Department of the Ministry of Finance of the Slovak Republic.

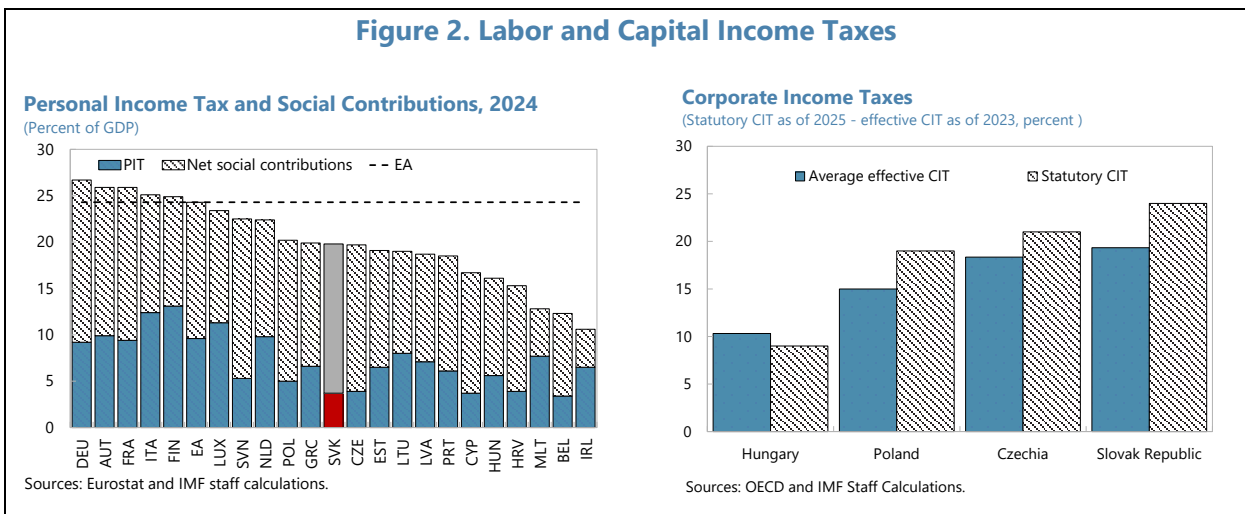
² Between 2010 and 2024, the Euro area and EU debt-to-GDP ratio increased by about 2pp and 0.3pp respectively.

³ Visegrád countries are: Slovakia, Czech Republic, Hungary, and Poland.

and restore fiscal buffers is a key priority for the authorities.⁴



2. With limited scope for additional revenue-based consolidation, the focus will need to shift towards improving the efficiency and composition of public spending. Slovakia's fiscal challenges call for a comprehensive policy response, including fiscal consolidation measures and structural reforms to boost economic growth. On the consolidation front, several revenue-raising measures have been taken in the past years, including increases in income tax rates and social security contributions. While there remains scope to increase consumption taxes, e.g. by raising environmental taxes to the EU average and through reforms to the VAT tax regime, taxes on labor and capital are already relatively high (Figure 2).⁵ In this context, a gradual shift towards containing public spending as well as improving its efficiency will be required to ensure a sustainable fiscal path.



⁴ See 2026 Article IV report for the Slovak Republic.

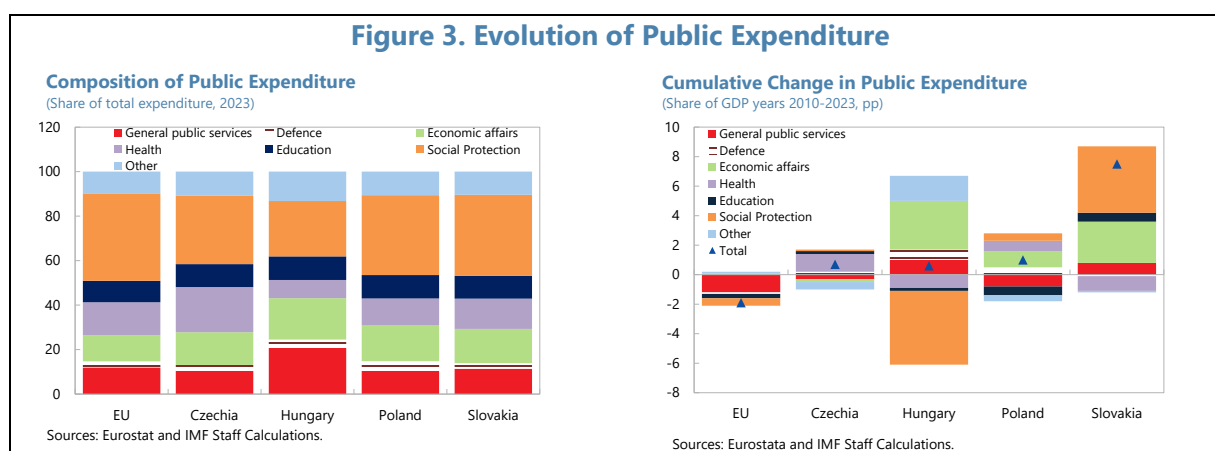
⁵ See VFM (2025c) and OECD (2024) for details on how environmental taxes in Slovakia compare to the EU.

3. This paper compares the level, allocation and efficiency of Slovakia’s public spending to peer countries to identify areas for reform. The analysis begins by unpacking public expenditure to uncover how the composition of public spending has changed over time and which spending categories have grown the most compared to peer countries. Next, the paper turns to an analysis of *technical* and *allocative* efficiency of public spending. Technical efficiency captures the extent to which a country can generate fiscal savings through reforms that minimize the costs of public service provision, while keeping the quality of the services unchanged. Allocative efficiency, on the other hand, reflects the gains that can be obtained from redirecting spending towards areas that are more pro-growth, thereby lowering fiscal pressures and improving debt dynamics. The paper concludes with a discussion of reform priorities to enhance spending efficiency and proposals to contain and reallocate public expenditure.

B. Unpacking Public Expenditure: The Role of Social Protection Spending

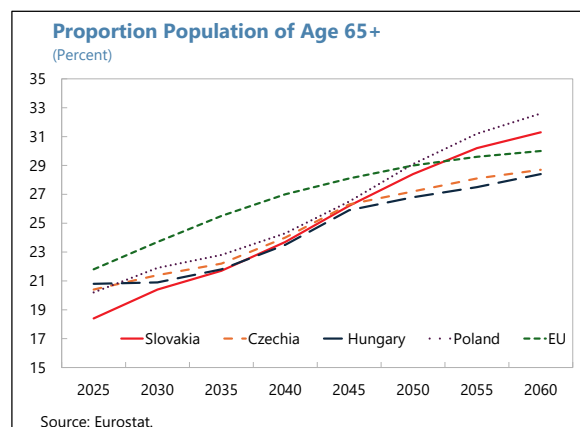
This section examines which spending categories have contributed to the rapid increase in public expenditure since the GFC and compares current levels of spending to peer countries. Given the prominent role of social protection spending, the analysis then zooms into how pension and family benefits are contributing to rising public expenditure.

4. Social protection spending explains more than half of the overall rise in public expenditure since the GFC. Aggregate public expenditure across Visegrád and EU countries can be decomposed into common spending categories following the COFOG classification. Among these, social protection is the largest spending item in all Visegrád countries, but it is particularly prominent in Slovakia, where it accounts for 37 percent of total expenditure. Slovakia’s public spending has risen by 8 percentage points since 2010, from 41 percent of GDP to 49 percent in 2023, primarily due to an increase in social protection spending and expenditure on economic affairs.⁶ This contrasts with a modest 0.8 percentage point increase on average in other Visegrád countries and a decline among EU countries (Figure 3).



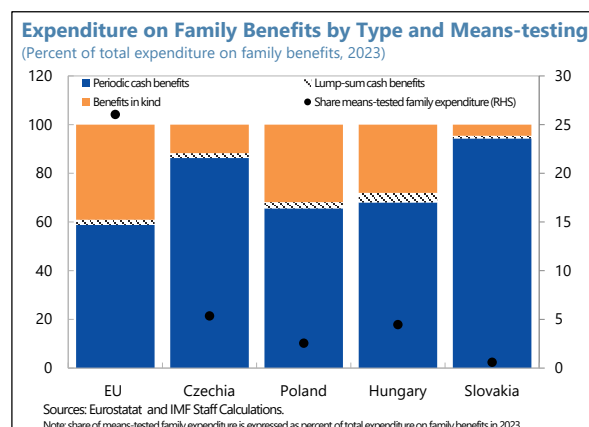
⁶ Cross-country data from Eurostat on public expenditure and its categories is available until 2023. Public expenditure as share of GDP in Slovakia was 49 percent in 2023 and 48 percent in 2024.

5. Within social protection spending, pensions and family benefits are increasing the fastest. Pension spending accounts for more than 50 percent of total social protection expenditure across all Visegrád countries. While pension spending in Slovakia is still below that of some peer countries, it is rapidly increasing. Since 2010, pension spending as a share of GDP has increased by 2.3 percentage points compared to a 0.3 percentage points average increase in other Visegrád countries. The share of the population above 65 years is expected to increase further, reaching 30 percent by 2060, above the EU average and most peer countries. This implies that without policy action, spending pressures related to aging will intensify in the coming decades, compounding already existing fiscal challenges. Besides spending on pensions, family and children benefits are the second biggest category of social protection spending in Slovakia and have markedly increased over time (Figure 4).



6. The most recent increase in pension spending reflects a combination of increased generosity and higher number of recipients. Pension spending has increased markedly since the pension reform of 2023, driven by (i) increased generosity in the pension system with gross replacement ratios reaching 77 percent in 2024—above the EU average of 60 percent—and (ii) a spike in early retirements (see Box 1 for recent reforms to the pension system).⁷ The recent wave of early retirements, together with the steady rise in pensioners due to population aging, has led to an increase in the number of beneficiaries in recent years (Figure 4).

7. Slovakia's family benefit system mostly relies on universal cash transfers, with limited use of in-kind benefits. The second largest social protection spending category in Slovakia is on family and child benefits. These total 3.4 percent of GDP and account for almost 20 percent of total social protection spending in the country. Family and child benefits are primarily provided through direct cash transfers, accounting for more than 90 percent of total spending on children and family benefits. Less than 1 percent of total spending on family benefits in Slovakia is means-tested, compared to more than 25 percent in the EU and around 5.5 percent in the Czech Republic, Hungary and Poland (text chart). While social transfers



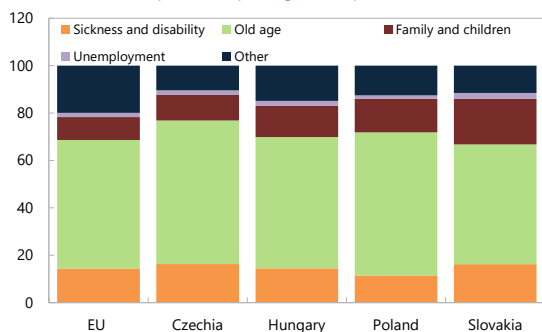
⁷ Data on gross replacement rates come from Eurostat. Net replacement rates for males in Slovakia in 2024 were 76 percent compared to 68 percent on average in the EU and 58 percent on average in other Visegrád countries (see [OECD](#)).

reflect the country’s commitment to reducing inequality, these objectives could be met more efficiently. For instance, targeting assistance based on household income and wealth, and ensuring that support is directed to those most in need, would create fiscal space for other expenditures, while still protecting the vulnerable. Additionally, more than 90 percent of total family benefits in Slovakia take the form of direct cash transfers to families, while in-kind benefits account for just around 7 percent. This contrasts with peer countries and the EU, where a larger share of family benefits takes the form of spending on childcare facilities, as well as on housing assistance to families and provision of school supplies. The lack of childcare services is a factor that contributes to the lower employment rates of mothers with young children relative to the EU average (VFM 2023). Thus, expanding in-kind benefits—such as on the construction of childcare infrastructure—may be more effective than cash transfers in supporting women to participate in the labor force.

Figure 4. Composition of Social Protection Spending

Composition of Social Protection Spending

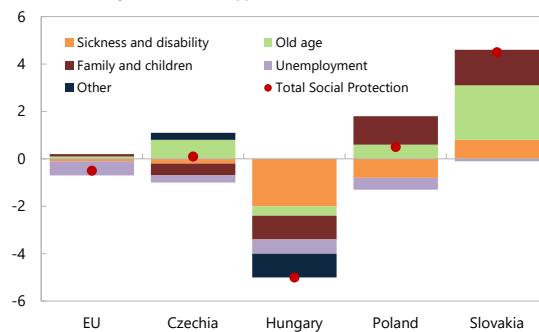
(Share of total social protection spending in 2023, percent)



Sources: Eurostat and IMF Staff Calculations.

Cumulative Change in Social Protection Spending

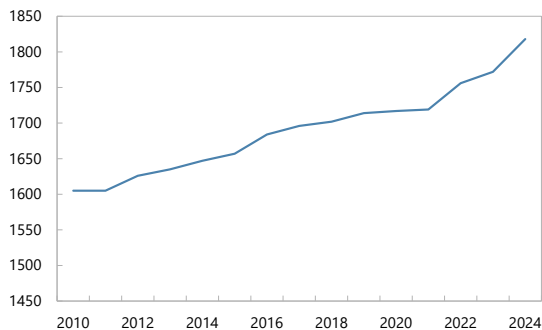
(Share of GDP years 2010-2023, pp)



Sources: Eurostat and IMF Staff Calculations.

Number of Pensions Paid

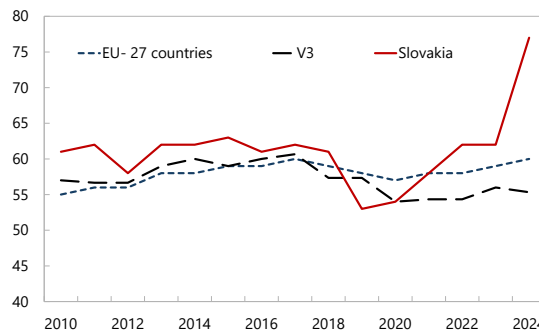
(Thousands)



Sources: Statistical Office Slovak Republic and IMF Staff Calculations.

Replacement Ratio for Pensions

(Median gross pensions as share of median gross earnings, percent)



Sources: Eurostat and IMF Staff Calculations.

Box 1. Recent Reforms to the Pension System and Family Benefits

Recent reforms to the pension system

The pension system in Slovakia is composed of two main pillars, a PAYGO defined-benefit system and a voluntary defined-contribution one. The first pillar is the primary source of income for the elderly and includes old-age, early old-age, disability and survivor benefits.

Among other measures, the two most recent reforms to the pension system in 2023 and 2024 changed the rules for early retirement and the 13th pension. The pension reform of 2023 loosened the early retirement options by allowing anyone with at least 40 years of work to retire, with a pension cut of approximately 4 percent a year relative to the pension they would have received if retiring at the statutory age. This induced a spike in the number of early retirements, which in 2024 more than doubled compared to the year before. A subsequent reform in 2024 has tightened rules for early retirement by linking early retirement age to life expectancy and reinstated the pension reduction penalty to previously higher levels.

- **The amount of the 13th pension was increased in 2023.** The 13th pension is a supplementary payment on top of the regular pension. The 2023 pension reform set the amount of the 13th pension equal to the average pension of the previous year—removing the former €300 cap—and making it available to all pensioners. In 2024, eligibility was changed so that only pensioners with at least ten years of employment in Slovakia qualify for the benefit.

Pension indexation is based on the previous year's average inflation. In 2024, a temporary two-step indexation process was introduced: pensions awarded before 2024 were adjusted according to past inflation, while new pensions granted in 2024 received a 14.5 percent increase to account for high inflation in 2023. Additionally, an extraordinary 5.22 percent increase was applied to all pensions in July 2024. Newly granted pensions receive an initial immediate valorization that adjusts them for inflation.

Recent reforms to family benefits

Family benefits in Slovakia have a strong emphasis on universal cash transfers. They mainly comprise of a child tax benefit, and child, maternity, and parental allowances. In addition, parental leave in Slovakia – including maternity and paid home care leave- is one of the longest in the OECD, with a maximum of almost 3 years (see [OECD Family Database](#)). Women with children can also retire earlier, based on the number of children they have.

In 2022-2023, a major “Family Package” reform was introduced. This included higher child allowances and tax benefits. The stated aim of the reform was to mitigate the impact of inflation, and help families with children cope with the higher cost of living and improve their living situation.

Several adjustments to the measures were made in 2024 and 2025, including cuts to the child tax bonuses and the tightening of income eligibility thresholds, as part of the fiscal consolidation measures. Many benefits are automatically indexed for inflation.

C. Spending Efficiency Gaps

After having identified the role of social protection spending in driving the increase in public expenditure, this section turns to the concept of spending efficiency. It provides cross-country comparisons of measures of technical efficiency across four key spending categories to identify areas where Slovakia could generate fiscal savings by narrowing the gap vis-à-vis international benchmarks.

8. Measures of spending efficiency capture the gap between the actual quality of public service delivery and outcomes achievable by adopting international best practices. Technical efficiency in public spending can be viewed in two ways: first, as the maximum amount of output governments can achieve with a fixed level of spending; and second as the fiscal savings that can be realized by reducing spending while maintaining the same level of output. Both perspectives underscore that improving the productivity of public service delivery benefits citizens, either through better service quality or through lower public expenditure.

9. Estimating spending efficiencies across countries poses several challenges, which can be addressed using stochastic frontier analysis methods. The first challenge comes from appropriately measuring outcomes. For instance, higher education spending will affect multiple outputs—such as enrollment rates, pupil-to-teacher ratios, and literacy scores—which are difficult to aggregate into a single measure. A second challenge comes from distinguishing between the government’s structural capacity to deliver certain outputs from transitory shocks outside the government’s control that hinder service delivery (e.g., a natural disaster or a global commodity price shock). We rely on measures of spending efficiency constructed by IMF (2025), which are based on stochastic frontier analysis methods. The approach assumes a stochastic production function relationship between government spending and outcomes in order to separate inefficiencies that are within a government’s control from those that are not. The methodology provides standardized efficiency scores for infrastructure, education, health, and R&D spending across countries, ranging from zero (fully efficient) to one (fully inefficient).⁸

10. Compared to the frontier, Slovakia exhibits large efficiency gaps across all government sectors. The latest cross-country data available for 2023 indicates that Slovakia’s efficiency gap vis-à-vis the frontier (i.e., best performing OECD countries) ranges from 30 percent in spending on education and health to around 40 percent in spending on infrastructure and R&D. This means that if Slovakia operated at the efficiency frontier, it could deliver the same level of public services, while

⁸ The outcome variables used to assess government output vary by sector. For example, on education the analysis includes outcome variables such as teacher-pupil ratios, school enrollment rates, average years of schooling among other indicators. On R&D, the analysis includes the number of researchers per inhabitants, number of patent applications, number of patent citations. A similar approach is used when estimating efficiency gaps in health and infrastructure spending. The analysis uses multi-output distance functions that preserve the diversity of government outputs instead of collapsing them into a single composite indicator. For further details on the methodology see the [Online Annex of IMF \(2025\)](#).

reducing expenditure by 30–40 percent. Closing these gaps would likely take years and these numbers should therefore be viewed as an upper bound on potential savings achievable through reforms that improve public administration efficiency.

11. Compared to peer Visegrád countries, efficiency gaps are larger in healthcare, while broadly similar in infrastructure. Figure 5 compares Slovakia’s efficiency gaps to the ones of the Czech Republic, Hungary and Poland over time. While efficiency gaps in infrastructure spending have reduced over time and are now very similar across the four countries, efficiency gaps have increased in education, R&D and particularly in the health sector in all Visegrád countries. Notably, Slovakia’s efficiency gap in healthcare is larger than in peer Visegrád countries and is at the higher end of the EU range (see text chart above showing range of inefficiencies for EU countries). This, together with the size of healthcare spending, suggests there is scope for fiscal savings through reforms that enhance the productivity of healthcare service provision.⁹

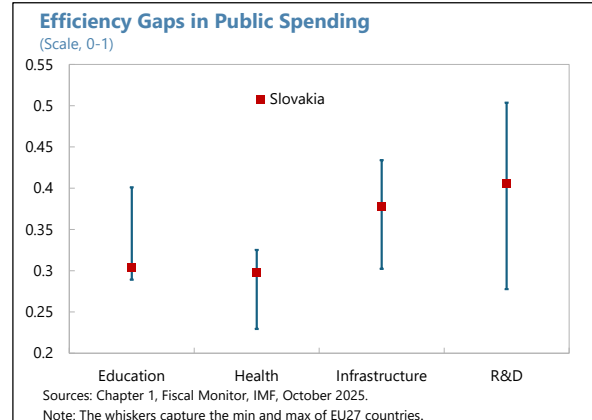
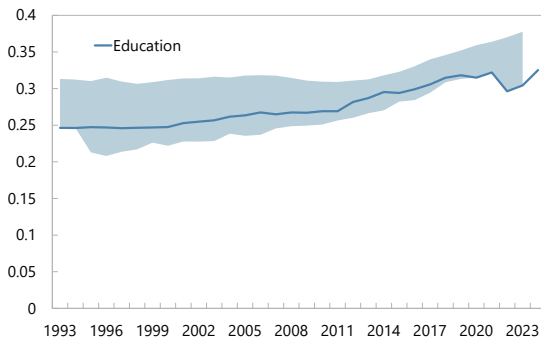


Figure 5. Spending Efficiency in Slovakia and Visegrád Countries Over Time

Efficiency Gaps in Education Spending

(Scale, 0-1)

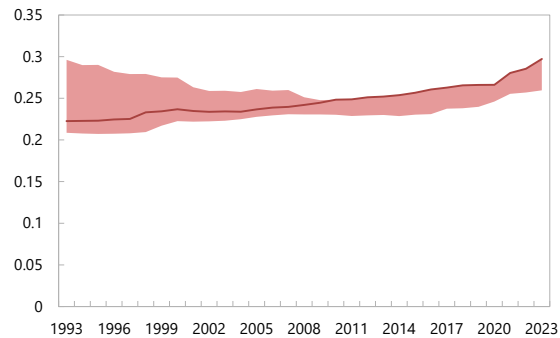


Sources: Chapter 1, Fiscal Monitor, IMF, October 2025.

Note: Shaded bands show min and max values of group of Visegrad countries. The solid line shows values for Slovakia. Higher values capture bigger efficiency gaps.

Efficiency Gaps in Health Spending

(Scale, 0-1)

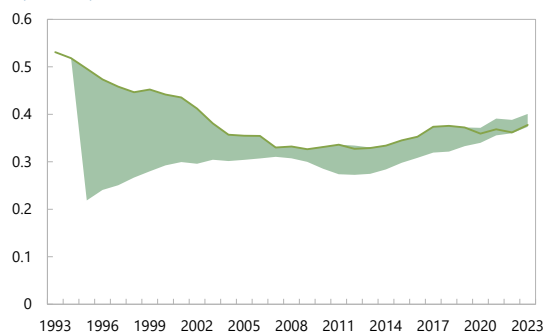


Sources: Chapter 1, Fiscal Monitor, IMF, October 2025.

⁹ Health care spending accounts for approximately 6.6 percent of GDP in Slovakia, higher than spending on education, R&D and infrastructure. Because of its size, even relatively small improvements in spending efficiency can yield savings comparable to those achieved through larger efficiency gains in other spending categories.

Figure 5. Spending Efficiency in Slovakia and Visegrád Countries Over Time (Concluded)**Efficiency Gaps in Infrastructure Spending**

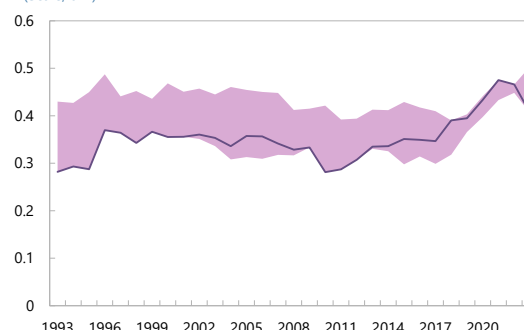
(Scale, 0-1)



Sources: Chapter 1, Fiscal Monitor, IMF, October 2025.

Efficiency Gaps in R&D Spending

(Scale, 0-1)



Sources: Chapter 1, Fiscal Monitor, IMF, October 2025.

Note: Shaded bands show min and max values of group of Visegrad countries. The solid line shows values for Slovakia. Higher values capture bigger efficiency gaps.

12. Decentralized procurement for pharmaceuticals and hospital supplies, alongside poor hospital management practices contribute to inefficiencies in the health sector.

Slovakia operates a public health insurance system, financed mainly through mandatory contributions and administered by multiple insurance funds. The system is universal and is based on several insurers that collect contributions and purchase healthcare. Insurers negotiate contracts with providers, set reimbursement rates, and decide whether to reimburse pharmaceuticals and services. Slovakia's largest public health insurance fund (VšZP) pays significantly higher prices for identical healthcare services compared to smaller funds, suggesting that savings can be generated through a renegotiation of contracts and aligning prices with market averages.¹⁰ Inefficiencies are also created by the lack of central procurement of pharmaceuticals, which leads to lower bargaining power by VšZP and eventually higher unit prices per pharmaceutical. The lack of centralized procurement is also prevalent for hospital supplies and technology, which together with a lack of cost benchmarking contributes to cost challenges in Slovakia's hospitals. In addition, hospitals in Slovakia face inefficient management, indebtedness, a lack of budget compliance, and infrastructure investment needs.¹¹

D. Pro-Growth Public Spending

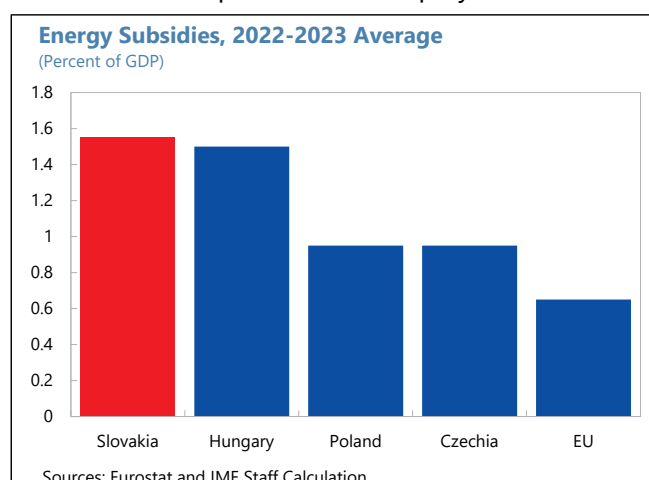
This section analyses the allocative efficiency of public spending in Slovakia. It discusses how reallocating public expenditure towards more pro-growth programs can be complementary to improving technical efficiency and help ease fiscal pressures over the medium-term.

¹⁰ Healthcare Spending Review, 2022, Ministry of Finance of the Slovak Republic

¹¹ Spending Review of Hospitals, 2025, Ministry of Finance of the Slovak Republic.

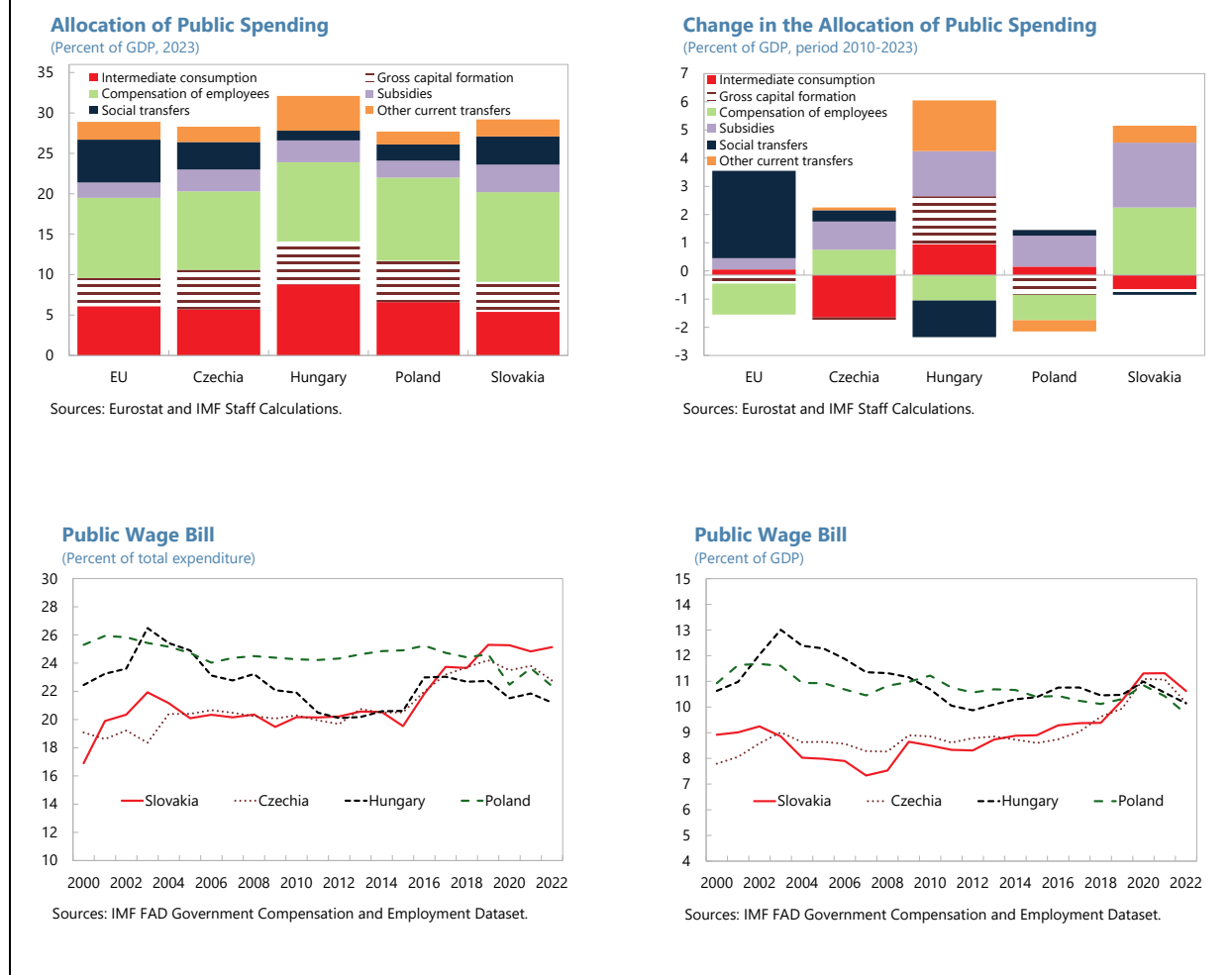
13. Governments can support long-term growth both through higher public investment and by indirectly stimulating private investment. Public spending can stimulate medium-term economic growth through several channels. The first direct channel through which governments can lift the economy’s growth potential is by increasing public spending on physical and human capital, for example through new infrastructure projects or expanding education programs, thereby strengthening overall production capacity.¹² A second, more indirect channel, involves crowding in and stimulating private investment through co-financing, public procurement, and tax incentives. Such interventions can enhance growth when they target projects with social returns that exceed private ones—for example, supporting private investments in digital infrastructure or R&D that drive technological innovations.

14. A growing share of public expenditure in Slovakia is allocated to recurrent rather than capital spending. As a share of GDP, Slovakia spends more on compensation of employees than the EU average and other peer countries (Figure 6). Moreover, spending on compensation of employees has increased by almost 2.5 percent of GDP since 2010, and together with energy subsidies introduced to help households and firms cope with the spike in energy bills in 2022, account for most of the increase in public expenditure during this time. At the same time, compared to the Czech Republic, Poland and Hungary, Slovakia is allocating a declining share of its total expenditure to public investment (Figure 6).¹³

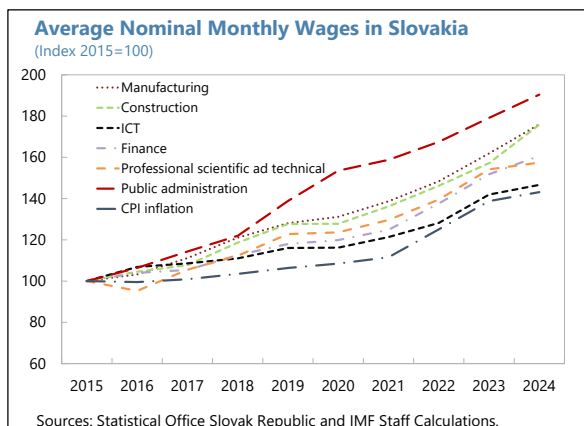


¹² Findings from the IMF (2025) show that reallocating 1 percent of GDP from government consumption (for example, administrative overhead) to public investment in human capital (for example on education) can increase output by 3 percent over the long-term in advanced economies. Similarly, reallocations towards infrastructure spending can lift output by 1.5 percent.

¹³ Approximately 80 percent of Slovakia’s subsidies are directed toward energy-related support, which are considered to be temporary. Excluding these energy support measures, the overall level of subsidies is broadly in line with that of neighboring Visegrád countries.

Figure 6. Allocation of Public Spending

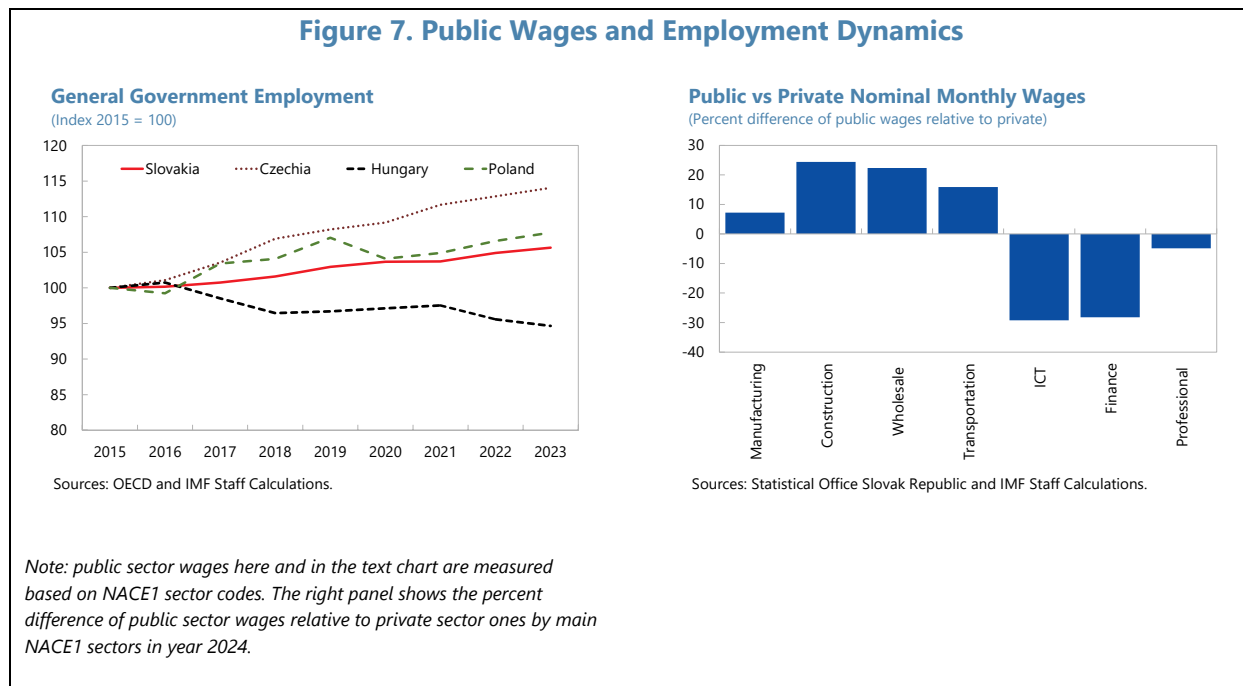
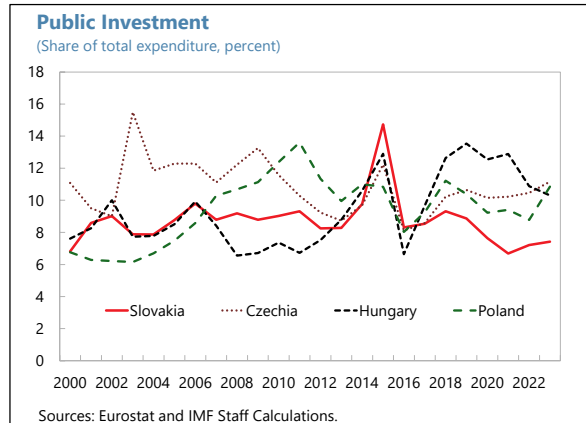
15. The rapid increase in the public wage bill over the last ten years mostly reflects increasing public wages rather than a rapid expansion of public sector employment. Slovakia's public wage bill has increased particularly fast after 2015 (Figure 6). While public sector employment grew faster in the Czech Republic and Poland than in Slovakia, these countries experienced a more moderate increase in their wage bills, suggesting that higher wages rather than increasing public sector employment are the main driver behind Slovakia's rising public sector wage bill. Notably, wages in public administration as a whole have recorded the highest cumulative growth, surpassing wage increases in all private sector



industries (Figure 6)¹⁴. The relative level of public and private sector wages differs across occupations and industries. As shown in Figure 7, public sector wages exceed those in the private sector in manufacturing, construction, wholesale, and transportation, whereas private sector employees in ICT and finance continue to earn roughly 30 percent more than their public sector counterparts. In addition, as noted in Boumediene (2024), Slovakia displays significant regional income disparities, which in turn can give rise to substantial public–private wage differentials across regions.

16. Meanwhile, public investment in areas with high growth dividends remains low relative to other EU countries.

Spending areas associated with higher long-run growth—such as on R&D—are lower than those in peer countries. For example, as of 2023 Slovakia spent approximately 1 percent of GDP on R&D, while other Visegrád countries spent around 1.4 percent or more (see OECD2025).



¹⁴ While on aggregate public sector wages have experienced strong cumulative growth, there are large differences in how the level of compensation varies and compares to similar public sector employees in other countries. For example, VfM (2020) finds that teacher’s salaries in Slovakia are 30 percent lower than teachers’ salaries in other OECD countries.

E. Conclusions and Policy Recommendations

17. Policy measures on the spending side could help rebuild fiscal buffers and reduce fiscal pressures. Spending reforms to improve the fiscal outlook could focus on: (i) enhancing the efficiency of public expenditure; (ii) better targeting of social transfers; and (iii) reallocating resources toward more growth-enhancing areas.

18. Public spending efficiency in health care can be enhanced to improve value for money. The analysis on cross-country spending efficiency has highlighted the health sector as an area where Slovakia significantly lags the EU average and peer countries in terms of value for money. Given the size of spending on healthcare, even small efficiency improvements can generate substantial savings. To narrow these efficiency gaps the authorities could consider implementing the reform priorities identified in the 2022 Healthcare Spending Review and 2025 Hospitals Spending Review from the Ministry of Finance’s Value for Money Department:

- *Optimize pricing for outpatient and specialized healthcare services and extend the central procurement of pharmaceuticals.* Substantial savings could be achieved by renegotiating contracts between VŠZP and major healthcare providers to bring prices of health care services in line with those paid by other private insurers. Expanding central procurement of pharmaceuticals could generate savings by leveraging economies of scale, increasing bargaining power, and reducing administrative costs. Further savings could be achieved by promoting the use of generic or biosimilar medicines instead of original branded drugs, by ensuring their inclusion in the appropriate reimbursement categories.
- *Encourage the use of primary and preventive care.* Patients in Slovakia visit specialist doctors more often than patients in the V3 countries, while general doctors, on the contrary, are visited less often. Strengthening the primary care system can ensure that patients receive appropriate care without overuse of expensive specialist services, with substantial savings.
- *Adopt digital technologies.* Health information technologies—covering new software and hardware systems for collecting, storing, and sharing patient data—have the potential to improve health outcomes and lower costs. Case studies from Australia, Canada, the Netherlands, Spain, Sweden, and the United States highlight the possible advantages of adopting these technologies (OECD 2010).
- *Benchmark costs and strengthen the budget management of hospitals.* Benchmarking costs across hospitals and medical programs, as well as centralizing procurement for supplies and technology can help increase cost-effectiveness. Aligning budgets to actual costs, introducing management targets (e.g. compliance with financial plans), and increasing transparency of staff selection and compensation processes could generate better efficiency in Slovakia’s hospitals.

19. Better integrating investment plans with the budget process can improve the efficiency and absorption of public infrastructure investment. Clarifying institutional responsibilities regarding the execution of public investments, standardizing project appraisal

methodologies, integrating investment planning into multiyear budgets, and improving monitoring and evaluation systems can substantially improve the efficiency with which large public investment projects are delivered. In this regard, the authorities are developing a national investment plan to guide the timely selection and prioritization of projects, alongside efforts to standardize project milestones and monitoring. Further aligning investment plans with structural reforms would help ensure that the two sets of policies reinforce each other.

20. The targeting of social transfers can help achieve fiscal savings. Social transfers—such as family benefits and energy subsidies—are key government tools used for redistribution and for reducing income inequality. However, fiscal savings could be achieved by better targeting these interventions to the most vulnerable. This could be achieved through:

- *Increasing the use of mean-testing in the provision of family benefits.* Compared to peer countries, Slovakia has the lowest share of family benefits which are means-tested. Making greater use of means-testing would improve the efficiency of social protection spending. Additionally, strengthening incentives to return to work by partly reallocating direct cash transfers towards building childcare facilities can simultaneously benefit children’s cognitive and social development, while also increasing women’s labor supply.
- *Gradually phasing out energy subsidies.* Energy subsidies aim to support households by guaranteeing access to energy through lower and more stable prices. However, subsidies are an ineffective tool to address these concerns because they introduce price distortions, promote inefficient energy use, and disincentivize investments in energy-efficient technologies. While progress has been made to make energy support more targeted, about 90 percent of Slovakia’s population will still receive energy subsidies in 2026. Gradually phasing out these subsidies and redirecting support to the most vulnerable could strengthen public finances with minimal impact on inequality. Türkiye is an example of a country that has put in place a solid social infrastructure system that integrates the social registry with a system for payments and beneficiary monitoring that can be leveraged to better target social transfers, including energy subsidies (see World Bank 2022).
- *Tightening eligibility criteria for the 13th pension.* Under the current pension system, all pensioners receive an additional payment each December, equal to the previous year’s average pension. Reversing the recent increase in the 13th pension or introducing stricter eligibility criteria—such as limiting this benefit to pensioners with low pensions—could improve the long-term sustainability of the pension system while still helping to reduce old-age poverty. Effective and strategic communication on the importance of these measures for safeguarding macroeconomic stability will be essential to secure broad support for the reforms.

21. Reallocating resources to more pro-growth areas could support economic growth in a fiscally constrained environment. Slovakia’s spending on R&D to foster innovation and increase the knowledge base lags behind most peer countries. At the same time, an increasing share of public resources has been directed to employee compensation, especially since 2015. Against this backdrop, reforms could focus on:

- *Increasing the share of public expenditure allocated to human capital and R&D and spending it more efficiently.* Within a fixed spending envelope, reallocating resources from recurrent expenditures—such as administrative overhead—towards investments in human capital and R&D can ease medium-term fiscal pressures by boosting the economy’s growth potential. In particular, redirecting direct R&D spending to tax incentives for firms has the potential to stimulate firm-level innovation.
- *Setting explicit targets for the evolution of compensation spending as a share of GDP to create space for other expenditures.* While raising public sector wages may be necessary to attract talent from the private sector, such increases should be carefully balanced against a constrained fiscal environment. Establishing clear medium-term targets for both the size of the public workforce and average pay levels can help stabilize compensation spending. Complementing this with regionally differentiated wage-bargaining frameworks, that take into account geographic heterogeneity in price levels, would allow public sector pay to track regional price differences more closely, thereby reducing public–private wage disparities in low-cost regions and sustaining the attractiveness of public sector jobs in high-cost areas.

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