Speech by the President of the Fiscal Council at the 42nd urgent meeting of the Commission for Public Finance Control (29 May 2025)

The negative macroeconomic surprise in the first quarter reaffirms the need for prudent public finance planning, as required by the Fiscal Rule Act. In both its autumn 2024 and spring 2025 forecasts, the Institute of Macroeconomic Analysis and Development explicitly stated that the baseline scenarios are predominantly accompanied by negative risks. If in a context of heightened uncertainty budget documents are prepared and based on the upper limit of the projected tax base dynamics, the realisation of such risks can rapidly worsen the fiscal position.

The slowdown in tax revenue growth already indicates a stagnation of economic activity at the beginning of this year. The Fiscal Council highlighted this in the last two editions of the publication *Monthly Information*. In the state budget, the realised growth in revenue from all four key taxes (VAT, excise duty, personal income tax and corporate income tax) has been lower this year than at the beginning of last year, and also lower than the 2025 projections at the time of budgeting. Growth would need to strengthen considerably over the remainder of the year in order to meet the autumn budget projections. If similar trends in tax revenue persist, the fiscal outcome for this year could be worse than planned, assuming the forecast expenditure is realised.

In the context of weaker-than-expected macroeconomic developments at the beginning of the year, it is also important to highlight the decline in public investments. Investment spending from the state budget in the first four months of this year was approximately five percent lower than in the same period last year. This decline is evident across almost all sectors, most notably in road and train infrastructure investments. For illustration purposes, assuming an investment multiplier of 1, a decline in public investments of this magnitude could reduce GDP growth by approximately 1 percentage point. It should be noted that under the current budget, investment spending is expected to increase by around 50 percent this year, which could contribute approximately 2.5 percentage points to GDP growth. The investment setback relative to plans is the result of inefficiencies in the planning and implementation processes, compounded by the persistent lag in the realisation of the European funds compared to projections. It is also likely the result of limited absorption capacities of the administration as well as the current labour market situation—issues the Fiscal Council has been warning about for some time.

An appropriate response by economic policymakers to increased uncertainty would be to place greater emphasis on a reliable, predictable, and, above all, more medium-term oriented planning. This applies to both current expenditure and investments. In the current economic climate, decision-makers should refrain from adopting measures that may be popular in the short-term but have adverse medium-term consequences for public finances. Given the uncertainty surrounding macroeconomic trends, the upcoming autumn budgeting should be based on cautious planning and realistic expenditure projections.

Adopting key reforms currently under preparation – particularly pension reform – would significantly reduce risks to the long-term sustainability of public finances.