

Assessing Slovak Republic's 2025 Fiscal Consolidation Plan

Supplementary material

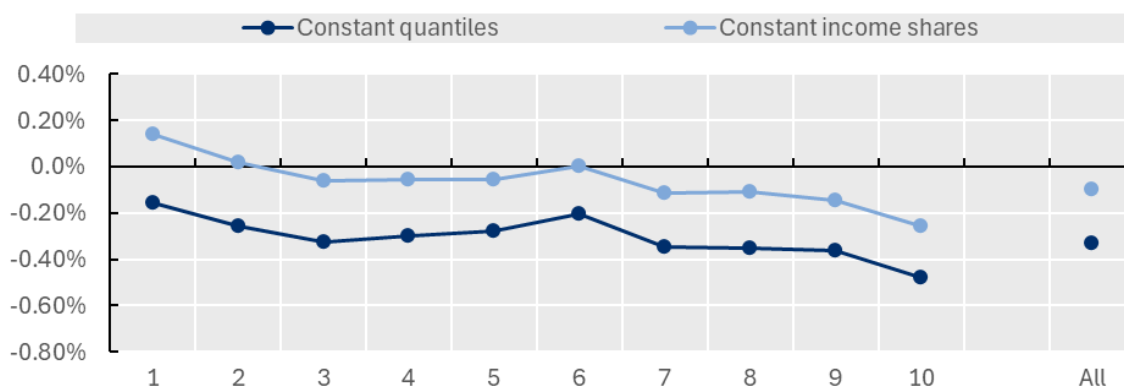
The supplementary material includes a sensitivity check showing how alternative behavioural assumptions affect the estimated impact of the VAT reform.

1. Behavioural assumptions change VAT reform outcomes

The estimated impact of the VAT reform depends on the underlying assumption about how households adjust their spending following a change in the VAT rates (Figure 1). Under the constant-quantities assumption, incomes would fall slightly across all deciles. By contrast, assuming constant income shares produces slightly different results: average losses would be closer to zero while the bottom two deciles gain slightly. In this case, the underlying assumption is that households would buy more of the goods that become cheaper and less of those that become more expensive. This would also reduce the reform's additional revenue.

Figure 1. Lowest deciles gain under constant income share assumption

Impact of the VAT reform package by income decile under alternative behavioural assumptions, as % of pre-reform equivalised post-CT disposable income



Note: Deciles are based on the equivalized disposable income distribution in the baseline (pre-reforms) scenario, using the OECD modified equivalence scale. Baseline scenario includes the self-employed PIT and Child tax credit reforms. Constant quantity assumes that households do not adjust their consumption behaviour w.r.t. the baseline and adjust savings accordingly. Constant income shares assume that household continue to spend the same share of their income on each good, adjust quantities accordingly.

Source: Calculations using EUROMOD J1.0+, EU-SILC 2022 and HBS 2015 data.

Further information

The reforms described in this note were carried out as part of the 2025 Technical Support Instrument (TSI) project “Boosting the Usage of Distributional Impact Assessments through Microsimulation”, funded by the European Union. The beneficiary authority in Slovak Republic was the Council for Budget Responsibility. The reforms assessed during the project implementation, including those described in this note, were for capacity building purposes only and do not necessarily reflect the official views of the beneficiary authority.

More information on Slovak Republic’s tax-benefit system is available in the [OECD Descriptions of Tax and Benefit Systems](#).

How do taxes and benefits affect disposable household income, benefit replacement rates, benefit adequacy, and financial work incentives? Find out using the [OECD tax-benefit web calculator](#).

More information on the EUROMOD microsimulation model: [here](#).

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