

CROATIA



HIGHLIGHTS

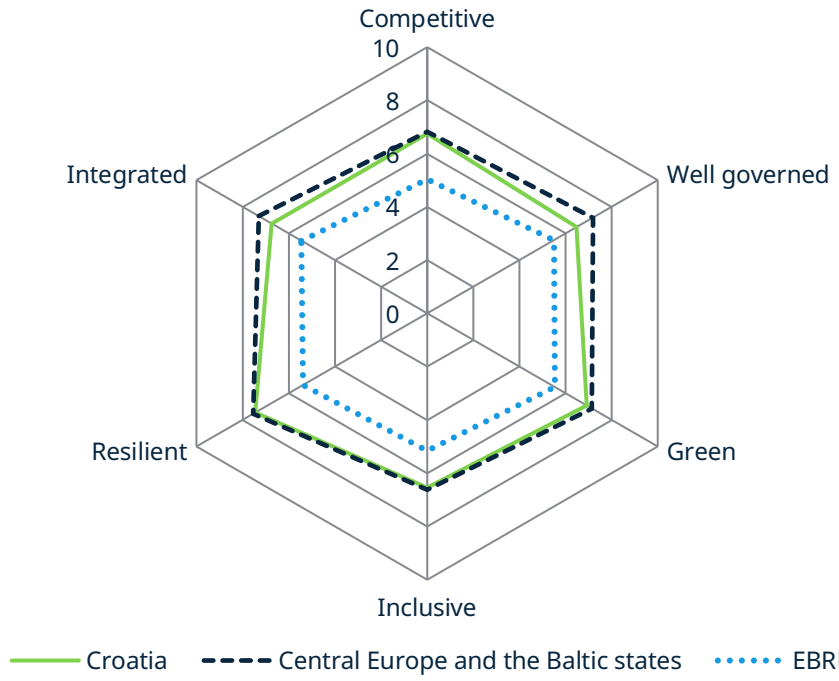
- **Economic growth is slowing**. Real gross domestic product (GDP) grew 3.4 per cent in 2025 but weakened in the first quarter of 2026 on slower investment growth and a decline in export growth. Private consumption continues to moderate amid a gradual deceleration in real wage growth.
- **Implementation of the Recovery and Resilience Plan is being finalised**. As at the end of August 2026, Croatia had received €4.9 billion in grants and €2.4 billion in loans from the European Union, with 62 per cent of the requisite measures fulfilled. The final payment request was submitted at the end of September, following the completion of the remaining targets and milestones.
- **A grid connection fee for renewable energy has been set**. The energy regulator approved a fee for new capacity connections to the electricity grid, removing an obstacle to more investment in renewable energy in the country.

For more information about country macroeconomic developments, please consult our latest Regional Economic Prospects report.

KEY PRIORITIES FOR 2027

- **Contain fiscal pressures.** Rising public wages, social transfers, and defence and investment spending are increasing budgetary pressures. The European Commission projects net expenditure growth to exceed the agreed fiscal path in 2026 and recommends spending reviews, more effective property taxation and better prioritisation of growth-enhancing investment.
- **Implement the state-owned enterprise (SOE) governance framework.** The updated governance framework will require effective implementation and monitoring to enforce the new rules and achieve higher operational efficiency in the SOE sector.
- **Enable more private investment in renewable energy.** Following a few years of regulatory and grid barriers that resulted in less renewable capacity being installed than in regional peers, the authorities should streamline the permitting and connection processes for the existing pipeline of projects.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

Digitalisation of fiscal and tax administration

- The Fiscalisation 2.0 reform, applied from January 2026, made e-invoicing mandatory for domestic business-to-business transactions between taxpayers within the value-added tax (VAT) system and introduced electronic reporting. This extends fiscalisation beyond cash and consumer transactions and creates a fuller digital record of economic activity.
- The reform includes the modernisation of the tax administration's information system.

1 From the fourth quarter of 2025 to October 2026.

Construction, spatial-planning and permitting reform

- Adopted in December 2025 and effective from January 2026, new construction and spatial-planning legislation digitalised spatial plans, introduced a 30-day target period for issuing building permits and re-established urban land consolidation to facilitate the assembly and servicing of development land.

Renewable energy grid connection network

- In April 2026 the Croatian energy regulator adopted updated electricity grid connection charges, providing greater cost predictability for renewable-energy developers.
- The move will potentially unblock up to 3.5 GW of utility-scale renewable projects delayed by uncertainty over connection costs.

Water-sector consolidation

- Croatia has consolidated nearly 160 local water service providers into 41 regional utilities and established a regulatory and benchmarking framework to compare operational performance, costs and service quality.
- The reform aims to achieve economies of scale, improve investment capacity and reduce substantial water losses, while supporting investment in more than 1,200 km of water supply and more than 1,000 km of wastewater networks under the country's Recovery and Resilience Plan.

Corporate governance and commercialisation of state- and locally owned enterprises

- Completed in June 2026, the reform extends Organisation for Economic Co-operation and Development (OECD) corporate governance principles, previously applied only to centrally owned SOEs, to those majority owned by local and regional governments. The same month, five of the nine implementing acts were presented to parliament, including those on ownership policy, appointments, reporting and compliance. Gradual implementation will start in 2027.
- As part of its Recovery and Resilience Plan, Croatia has also completed the sale of more than 130 non-strategic SOEs from its central portfolio.

Affordable Housing Act

- Adopted in 2026, the Affordable Housing Act introduces the concept of affordable housing into Croatian legislation, defining housing costs as affordable when they do not exceed 30 per cent of household net income.
- It supports the construction and renovation of more than 20,000 housing units by 2030 through regulated sale and rental schemes, targeting households without adequate housing, particularly younger and lower-income groups.

New industrial strategy

- Adopted in September 2026, the National Industrial Development Plan 2027-34 aims to increase the competitiveness, decarbonisation and resilience of Croatian industry through digitalisation, industrial modernisation, innovation and export growth.
- The strategy will be implemented by way of 10 measures and 55 projects and activities spanning automation, clean technologies, energy efficiency, renewable energy and industrial research and development, with total planned investment of around €3 billion by 2034.



ESTONIA



HIGHLIGHTS

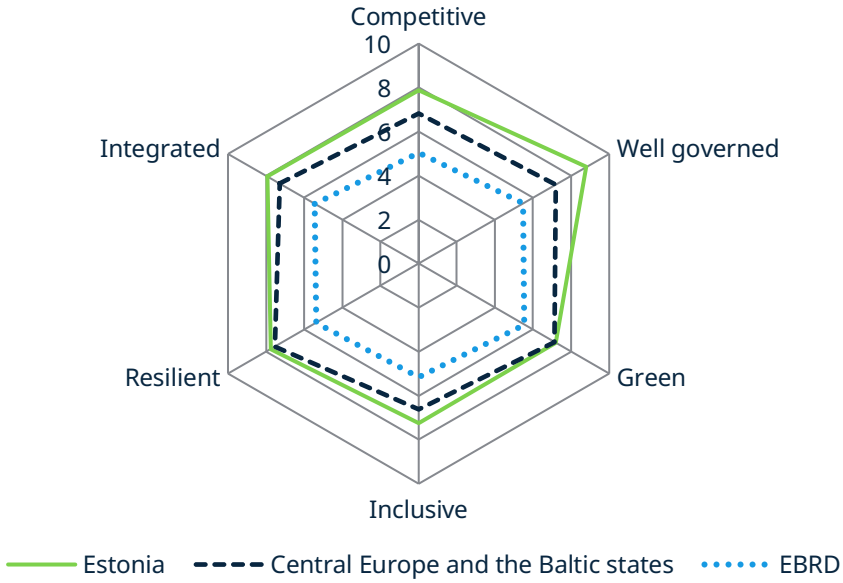
- **Economic growth picked up as household consumption recovered, while investment fell and net exports turned negative.** Real gross domestic product (GDP) grew by 2.3 per cent year on year in the first half of 2026, supported by a higher tax-free income threshold introduced in January. The 2026 budget allocated 5.4 per cent of GDP to defence, although much of it was expected to be spent on imported equipment. Inflation rose to an estimated 3.6 per cent in October 2026, driven by higher fuel and electricity prices.
- **An energy plan adopted in January 2026 envisages oil-shale power generation being phased out by market forces by 2035.** Oil shale supplies about a quarter of Estonia's energy and leaves the country among the most carbon-intensive economies in the European Union (EU). The first large-scale onshore wind auction followed in March 2026.
- **A national artificial intelligence (AI) programme aims to double labour productivity by 2035, responding to a decade of weak productivity growth.** Eesti.ai, launched by the government in January 2026, helps companies to adopt AI and train their workers.

For more information about country macroeconomic developments, please consult our latest Regional Economic Prospects report.

KEY PRIORITIES FOR 2027

- **Deepen capital markets so that recent legal reforms lead to more stock-market listings and domestic investment.** Index providers rate the Baltic region as "strong" on accessibility but "frontier" on size and liquidity. The 2021 pension reform took €1.29 billion, a quarter of second-pillar assets, out of the funded system. Meanwhile, the fastest-growing companies tend to raise capital and exit abroad.
- **Give wind developers a stable long-term framework and clear the planning and grid bottlenecks.** Permitting, environmental data and grid capacity slow the delivery of projects. Elering, the country's electricity and gas network operator, estimates that Estonia will need about 2,100 megawatts (MW) of dispatchable (on-demand) capacity by 2035, including around 1,000 MW of new capacity as oil-shale units retire.
- **Facilitate exits for unviable companies and restructuring for viable ones.** Baltic insolvency systems have low recovery rates and long procedures compared with their Nordic peers, and out-of-court settlements for small firms are not widely available. Total factor productivity has declined in recent years, pointing to weaker efficiency gains and competitiveness challenges.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

Income-tax reform

- From January 2026 a uniform tax-free allowance of €700 a month replaced the previous tapered allowance. The rise in the income-tax rate to 24 per cent that had been planned for 2026 was cancelled in December 2025.

1 From the fourth quarter of 2025 to October 2026.

- The uniform allowance raises household disposable income but reduces personal income-tax receipts. Partly as a result, the government deficit is forecast to widen from 2.0 per cent of GDP in 2025 to 4.4 per cent in 2026.

Defence financing

- In August 2026 Estonia signed a 45-year loan agreement of up to €2.34 billion under the EU's Security Action for Europe instrument, including €352 million in pre-financing.
- The loan will pay for air defence, military vehicles and artillery ammunition, and complements a budget-funded defence investment plan of more than €10 billion for 2026-29.

Oil-shale phasing out and climate law

- The National Energy Development Plan 2035, adopted in January 2026, expects market forces to end the direct burning of oil shale for electricity by 2035, with plants held in strategic reserve if replacement capacity is delayed.
- A climate framework bill sent to parliament in May 2026 sets economy-wide emissions targets for 2030, 2035 and 2040, with sector pathways agreed separately.

Onshore wind auction

- A reverse auction opened in March 2026 for 1 terawatt hour (TWh) a year of onshore wind, with an option to double that volume. Winning bidders will receive support of up to €20 per megawatt hour (MWh) for 12 years.
- Since January 2026 grid and renewable charges on batteries have been levied on net rather than gross consumption, cutting storage costs.

AI adoption programme

- Eesti.ai, launched by the government in January 2026, had 15 flagship projects approved by its council in April, with €11 million allocated for their initial implementation in 2026.
- Companies can claim vouchers of up to €20,000 and grants of up to €500,000. As many as 100,000 people of working age are to be trained by the end of 2027.

Unemployment insurance and pension reform

- Unemployment insurance was extended from January 2026 to cover people providing services under non-standard contracts.
- In May 2026 the government approved a bill cutting the wait to rejoin the second pension pillar from 10 to 5 years. More than a third of members withdrew their savings between 2021 and 2025, and the assets that remain are largely invested abroad.

Rail Baltica

- Estonia, Latvia and Lithuania launched a joint tender to procure regional trains in March 2026, with the first deliveries due in 2029 and services to be provided from the end of 2030.
- Estonia budgeted €684 million for Rail Baltica and other rail projects in 2026 and remains committed to a 2030 opening, but slow progress in Latvia puts that timetable in doubt.



HUNGARY



HIGHLIGHTS

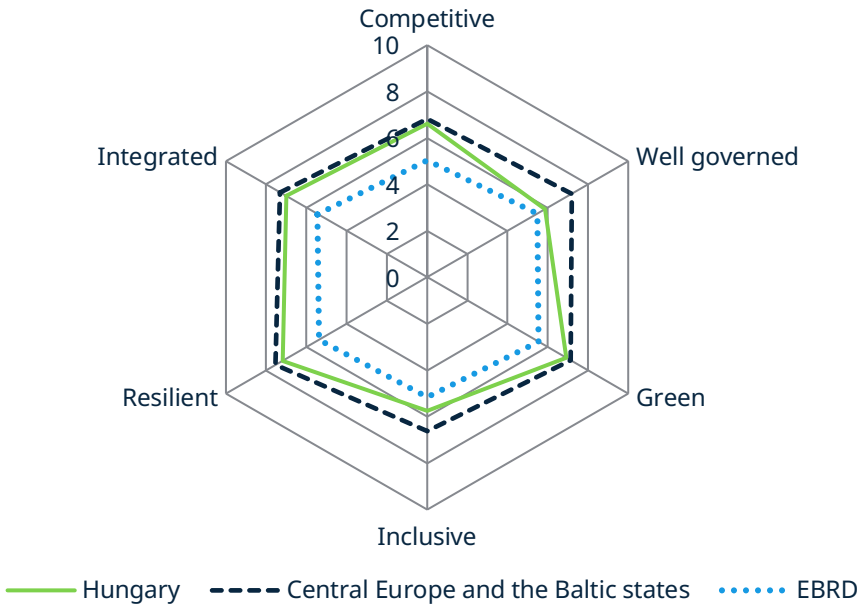
- **Economic growth picked up after three years of stagnation. Real gross domestic product (GDP) grew by 1.8 per cent year on year in the first half of 2026, its fastest pace since 2024, despite a negative contribution from net exports.** Inflation stood at 2.1 per cent in September 2026, among the lowest rates in the European Union (EU). The government more than doubled its original 2026 deficit target, from 3.7 per cent to 7.5 per cent of GDP, and expects public debt to reach 77.5 per cent of GDP by the end of 2026.
- **Hungary moved closer to regaining access to substantial EU funding.** In July 2026 the Council of the EU approved a revised €10 billion Recovery and Resilience Facility (RRF), around 4.6 per cent of GDP, with payments subject to the European Commission's verification of completed milestones. In September, the Commission proposed releasing €4.2 billion in suspended cohesion funding, around 1.9 per cent of GDP, subject to approval by the Council of the EU.
- **A record drought cut output at the nuclear plant that supplies half of the nation's electricity.** Water levels on the Danube fell to a record low in August 2026, leaving too little cooling water and forcing reliance on imported power. A government package for grids, storage and household solar followed, with the first tender for new wind capacity since 2011.

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KEY PRIORITIES FOR 2027

- **Anchor fiscal consolidation in a credible medium-term framework.** The government is aiming to significantly reduce the fiscal deficit in the coming years within a new medium-term fiscal framework. It is vital that durable measures to reduce the primary deficit and put public debt on a downward path are adhered to and supported by robust fiscal rules and realistic macroeconomic assumptions.
- **Improve conditions for private investment before EU grants end.** The Recovery and Resilience Facility (RRF) closes at the end of 2026 and Hungary's cohesion spending lags the EU average. Shallow capital markets, subsidised lending, retail price caps and sectoral taxes worth over 2 per cent of GDP deter private investors.
- **Diversify energy supply and make it resilient to drought.** More than 90 per cent of the country's oil imports came from Russia in 2025, and low river levels forced cuts to electricity output in 2026. Electricity prices for firms remain far above the EU average, fuelled by weak competition and high grid charges.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

Progress towards restoring access to EU funding

- Following a political agreement in May 2026 the Council of the EU approved Hungary's revised €10 billion RRF in July, with payments remaining conditional on the European Commission's verification of completed milestones.
- In September 2026 the European Commission proposed releasing €4.2 billion in suspended cohesion funding and restoring access to Erasmus+ and Horizon Europe, subject to approval by the Council of the EU. RRF payments remain due by the end of 2026.

1 From the fourth quarter of 2025 to October 2026.

Anti-corruption framework strengthened

- Senior public officials and their relatives must now declare their assets under a law adopted in June 2026, which also allows the Integrity Authority, the state anti-corruption body, to examine the declarations and suspend risky procurement.
- In July 2026 the European Commission approved Hungary's request to join the European Public Prosecutor's Office, with participation taking effect in August.

Rule by decree ends as the "state of danger" lapses

- The "state of danger", the emergency legal order in force since 2020 under which the government could suspend the application of laws, expired in May 2026.
- The European Commission had identified prolonged rule by decree as a source of legal uncertainty for business. Parliament voted in June 2026 to abolish the Sovereignty Protection Office, which investigated journalists and civic groups.

Public-service media and the media regulator restructured

- The mandates of the Media Council, the broadcasting regulator, were terminated in June 2026 and the country's public-service media were reorganised into a new broadcaster and a separate national news agency.
- Oversight passed to a board with equal government, opposition and industry representation. Rules on state advertising, which the European Commission has identified as a potential lever of political influence over the media, remained unchanged.

Drought exposed the power system and accelerated the return of wind power

- Record low water levels on the Danube in August 2026 shut down most capacity at the Paks nuclear plant, which supplies around half of the nation's electricity.
- An HUF 868 billion (€2.4 billion) RRF-backed programme supports grid and renewable energy investment. In September 2026 the first wind capacity tender since 2011 opened for at least 700 megawatts, as part of plans to add 4 gigawatts by 2030.

Distorting taxes and price controls partly removed

- The carbon dioxide quota tax – a levy on the sale of corporate carbon permits, which the Court of Justice of the European Union (CJEU) found to be incompatible with EU law – was abolished in July 2026.
- The capped retail price for motor fuels was withdrawn in June 2026. The government is also planning to withdraw the margin caps on food and pharmacy products (which were referred to the CJEU by the European Commission), although the date of withdrawal has not yet been set.



LATVIA



HIGHLIGHTS

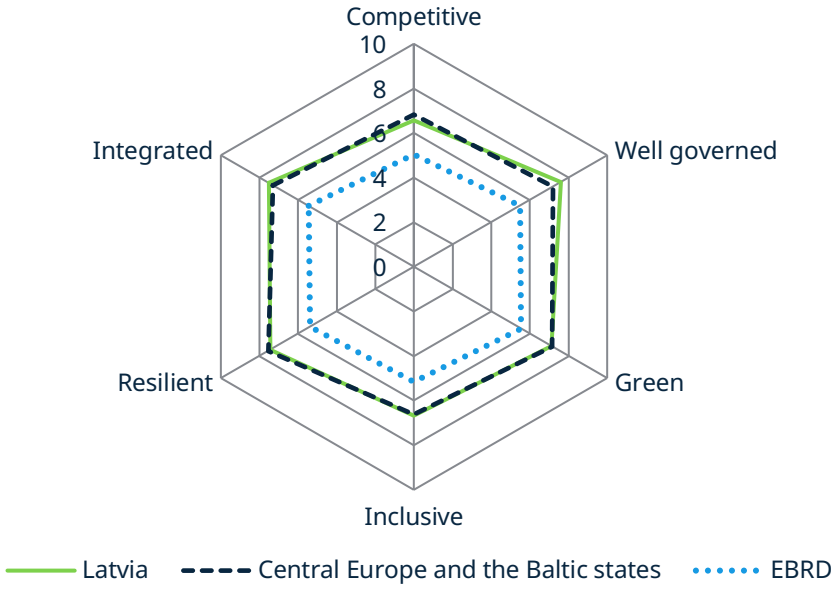
- **Economic growth broadened in early 2026 as household consumption recovered and investment remained strong**. Real gross domestic product (GDP) grew by 3.2 per cent year on year in the first half of 2026 after expanding 2.2 per cent in 2025. Inflation stood at an estimated 3.0 per cent in October 2026.
- **Parliament raised the statutory floor for defence spending from 3 per cent to 5 per cent of GDP with effect from 2027**. The 2026 budget allocated €2.2 billion to defence, and a €3.5 billion European Union (EU) loan signed in June 2026 will fund some of the procurement.
- **The Baltic finance ministries and the EBRD renewed their capital markets memorandum in June 2026, targeting MSCI emerging-market status.** Cooperation since 2017 has produced common frameworks for covered bonds and commercial paper, as well as a fund to finance companies preparing to list.

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KEY PRIORITIES FOR 2027

- **Widen the sources of finance available to companies beyond bank credit.** Companies remain heavily reliant on bank credit, while access to alternative sources of finance is limited. No state-owned company is listed in Riga.
- **Ensure that grid connections and permitting keep pace with new wind generation.** Latvia remains a net electricity importer and its renewable output is mostly hydro. Two large wind farms totalling 256 megawatts (MW) are under development and a state joint venture plans at least a further 800 MW.
- **Broaden the financing of Rail Baltica beyond EU grants and the state budget.** Latvia's share of the first phase of the Rail Baltica high-speed link is €6.4 billion. The country has delivered road projects as public-private partnerships that Eurostat has classified as being off balance sheet, and RB Rail, the joint venture managing the rail project, has examined similar structures.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

Defence financing

- In March 2026 parliament raised statutory minimum defence spending from 3 per cent to 5 per cent of GDP with effect from 2027.
- The 2026 budget allocated €2.2 billion to defence and, in June 2026, Latvia signed a €3.49 billion loan agreement under Security Action for Europe (SAFE), receiving €524.7 million in pre-financing in August.

airBaltic state support

- Parliament passed a financial stabilisation law in August 2026 that allows repayment of a €30 million state loan to be extended and claims arising from the loan and up to €50 million in state-owned bonds to be converted into equity.

1 From the fourth quarter of 2025 to October 2026.

- The airline's August 2026 business plan envisages cutting the fleet from 54 to 36 aircraft by the end of the year. In September, airBaltic entered a court-supervised process to restructure its financial obligations while continuing normal operations.

Rail Baltica

- The European Court of Auditors reported in January 2026 that the cost of the rail link connecting the Baltic states to the European network had more than doubled since 2020. It put the cost of the first phase at €15.3 billion, with €6.4 billion of that falling to Latvia.
- RB Rail reported in 2026 that around €5.2 billion had been secured for the Rail Baltica project across Estonia, Latvia and Lithuania, including €4.5 billion in EU funding.

Alternative dividend taxation

- Parliament adopted amendments to corporate and personal income tax laws in December 2025, with effect from January 2026. Companies whose shareholders are exclusively individuals can now pay 15 per cent corporate income tax on distributed profits and withhold 6 per cent personal income tax from shareholders as an alternative to paying a 20 per cent tax on distributed profits.
- The aim is to improve the treatment of non-resident shareholders, allowing Latvian personal income tax on dividends to be credited in their country of residence.

Pan-Baltic Capital Markets Framework

- Latvia's Finance Minister signed a memorandum of understanding in Riga in June 2026 on developing a pan-Baltic Capital Markets Framework, along with his Estonian counterpart and Lithuania's Vice Minister of Finance and the President of the EBRD, which has supported the initiative since 2017.
- That cooperation has also produced the Baltic Capital Markets Acceleration Fund, the region's first vehicle for companies preparing to list, to which ALTUM, the state development finance institution, and Lithuania's ILTE have committed €38.8 million.

Renewable energy grid constraints

- Augstsprieguma tīkls, the Latvian transmission system operator, had connected more than 1,100 MW of wind and solar generation capacity to the transmission grid by mid-2026. Existing connection agreements could double generation and battery storage capacity over the next three years.
- Further expansion will increasingly rely on flexible connections, as standard connection capacity varies by location and can be limited by wider network constraints. Flexible connections allow the transmission system operator to curtail output when the network is constrained.



LITHUANIA



HIGHLIGHTS

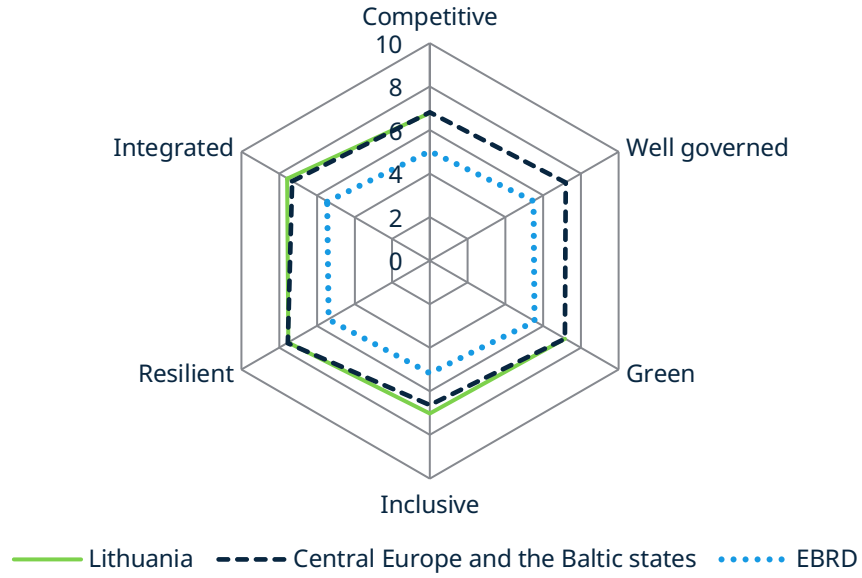
- **Growth strengthened as manufacturing expanded and household spending was boosted by pension withdrawals**. Real gross domestic product (GDP) grew by 3.0 per cent in 2025 and 3.3 per cent year on year in the first half of 2026, supported by stronger manufacturing and household spending. Inflation stood at an estimated 6.1 per cent in October 2026, one of the highest in the European Union (EU), mostly driven by higher fuel and heating prices.
- **Defence commitments have reshaped Lithuania's medium-term fiscal path**. The 2026 budget allocated 5.4 per cent of projected GDP to defence, while Lithuania signed a European defence loan agreement in May 2026.
- **Reform prompted large withdrawals from the country's funded second-pillar pension**. Participation became voluntary in January 2026 and by June 2026 more than 500,000 people had withdrawn over €3 billion.

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KEY PRIORITIES FOR 2027

- **Broaden the revenue base and tighten spending to preserve fiscal sustainability.** Gross debt is projected to rise from 44.9 per cent of GDP in 2026 to 55.7 per cent in 2029. Better tax compliance and fewer inefficient special tax regimes would preserve fiscal space for defence and public services.
- **Rebuild long-term savings and deepen domestic capital markets.** Preserving state contributions to the second-pillar pension would support its near-term stability. Broader access to market finance would expand funding options for smaller firms and reduce reliance on bank lending.
- **Focus on strengthening grid capacity and connection access to deploy more renewable energy.** The second offshore wind tender failed after attracting only one applicant, leaving the designated 700 MW site without a developer. Adequate network capacity would strengthen energy security and reduce dependence on electricity imports.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

2026 budget and defence spending

- Lithuania's parliament, the Seimas, approved the 2026 budget in December 2025, allocating 5.4 per cent of projected GDP to defence.
- Lithuania signed a €6.38 billion Security Action for Europe (SAFE) loan agreement in May 2026 and received a €956 million advance in June 2026 for defence procurement and infrastructure.

Second-pillar pension reform

- The reform made second-pillar participation voluntary from January 2026 and opened an exit window until December 2027.

1 From the fourth quarter of 2025 to October 2026.

- More than 500,000 participants had withdrawn over €3 billion by June 2026, equivalent to about 3 per cent of GDP.

National development bank

- The government approved a €412 million capital increase for Lithuania's national development bank, ILTE, in January 2026, bringing the bank's authorised capital to €800 million through staged injections by 2028.
- In June 2026 the parliament adopted legal changes enabling ILTE to conduct balance-sheet activities using its own or borrowed funds from January 2027, alongside mandated activities financed from public and EU funds.

Offshore wind tender

- Lithuania's energy regulator declared the tender for a 700 MW offshore wind farm invalid in October 2025 after receiving only one application.
- Lithuanian law requires at least two applicants and the decision on whether to relaunch the tender rests with the government.

Rail Baltica (Kaunas-Vilnius section)

- The government approved the special plan for the Kaunas-Vilnius section of the Rail Baltica project in April 2026 and initiated land acquisition procedures in the Kaunas and Jonava districts.
- The plan allows project implementation to continue once funding is secured, while several land acquisition procedures outside the Kaunas and Jonava districts are due to begin in 2030.

Public broadcaster reform

- The president signed legislative amendments in June 2026 that expanded the council of Lithuanian National Radio and Television, LRT, from 12 to 15 members, created a management board and narrowed the grounds for dismissing the director general.
- The Venice Commission, the Council of Europe's advisory body on constitutional matters, welcomed several improvements to the draft law, but retained concerns over the political composition of the LRT council and the application of the revised dismissal rules to the serving director general.

POLAND



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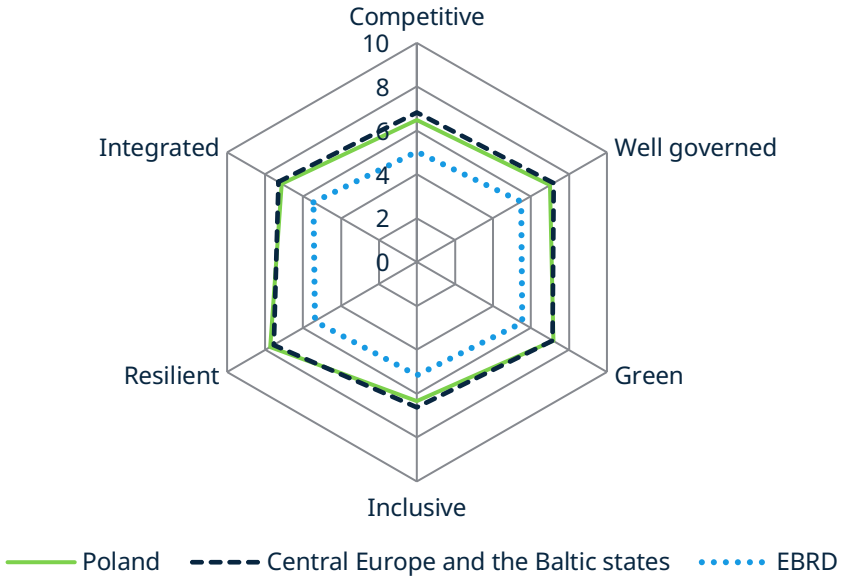
- **Poland's economic growth has remained robust, supported by European Union (EU) funds, but its current fiscal position is weak.** Real gross domestic product (GDP) grew by 3.5 per cent year on year in the first half of 2026, while inflation picked up again on higher fuel and energy prices. The budget deficit was 7.2 per cent of GDP in 2025 and Poland remains subject to the EU's excessive deficit procedure.
- **The National Energy and Climate Plan was adopted and the first offshore wind capacity entered the system.** The plan requires renewables to supply more than half of the country's electricity by 2030, up from less than a third in 2025. The first offshore farm – the start of 9.3 GW of capacity already contracted – connected in July 2026, with a target of 18 GW by 2040.
- **Parliament legislated for tax-advantaged personal investment accounts to deepen the domestic capital market.** Available from January 2027, the accounts exempt investment income from capital income tax, while assets above PLN 100,000 (€23,500) face a 0.85 per cent annual tax.

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KEY PRIORITIES FOR 2027

- **Anchor fiscal consolidation in a binding medium-term framework.** The budget deficit has widened entirely on the spending side and the International Monetary Fund (IMF) puts the adjustment needed to stabilise debt at 4 per cent of GDP. Social benefits are largely untargeted and spending reviews have had little effect on reallocation. Capital spending should be protected as Recovery and Resilience Facility (RRF) financing ends.
- **Mobilise private investment by deepening domestic capital markets.** The Innovate Poland programme commits public capital to equity funds, and the new personal investment accounts open up a retail channel. Poland sits in the lowest group on the European Innovation Scoreboard and few firms are ready to raise equity finance.
- **Prioritise energy resilience and electrification by expanding and modernising grids, strengthening interconnection and deploying flexibility and climate adaptation measures.** Connection requests for about 42 GW of renewables were declined in 2025, equivalent to more than half of Poland's total installed power capacity. Interconnection with neighbouring countries is limited and capacity allocation constraints have decoupled Polish electricity prices from the EU market.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

Proposed tax changes

- In August 2026 the government proposed smoothing the country's personal income-tax progression, frozen since 2022, which had pushed 14 per cent of taxpayers into the top tax band. This would be funded by a higher corporate tax rate on large firms, a higher solidarity levy and a lower ceiling for lump-sum taxation. The package requires parliamentary approval and the president's signature.

Fuel tax and price controls

- The government temporarily cut value-added tax (VAT) on fuel from 23 per cent to 8 per cent, lowered excise duties and capped retail prices in the second quarter of 2026. Following renewed fuel-price increases, the package was reinstated in October and extended to the end of the year.
- The latest package is expected to cost about PLN 5 billion (€1.2 billion). It followed the president's signature of a 60 per cent windfall tax on excess fuel company profits, expected to raise about PLN 4 billion (€0.9 billion). The law took effect but was referred to the Constitutional Tribunal for subsequent review.

Recovery and Resilience Facility

- Despite a two-year delay in launching the Recovery and Resilience Facility, Poland reported completing all 272 milestones and targets by the August 2026 deadline. The government expects to use the full €54.7 billion allocation, of which about €35 billion had already been received by the end of August.
- Poland submitted its final payment request by the September deadline. The European Commission is assessing the results, with payments for satisfactorily fulfilled milestones and targets due by the end of 2026.

Deepening capital markets

- Innovate Poland, launched in November 2025, pooled PLN 4 billion (€0.9 billion) from national and international development institutions and financial conglomerate PZU for private equity and venture funds.
- Personal investment accounts were signed into law in August 2026 and will become available in January 2027, exempting investment income from capital income tax, while assets above PLN 100,000 (€23,500) will face a 0.85 per cent annual tax.

Offshore wind development

- The Council of Ministers adopted the National Energy and Climate Plan in June 2026, requiring renewables to supply over half of electricity by 2030, up from nearly 30 per cent in 2025.
- The first offshore wind farm connected to the grid in July 2026. In December 2025 the energy regulator awarded contracts for difference to a further 3.4 GW in the country's first competitive auction, with further rounds planned until 2031.

1 From the fourth quarter of 2025 to October 2026.

Labour market and contract enforcement

- An amendment to the State Labour Inspection Act, which came into force in July 2026, allows inspectors to convert sham civil-law and business-to-business contracts into binding employment contracts where an employer ignores an order.



SLOVAK REPUBLIC

HIGHLIGHTS

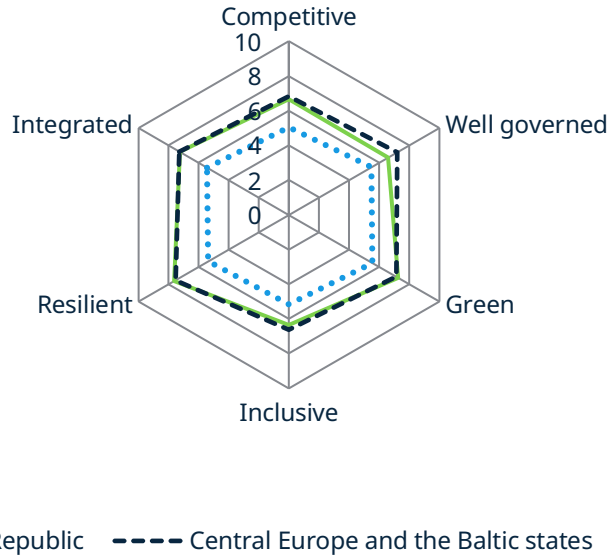
- **Growth remained subdued in 2026 as investment and industrial output fell.** Real gross domestic product (GDP) grew 0.9 per cent in 2025 and 0.9 per cent year on year in the first half of 2026. Investment fell, industrial output contracted and car production was flat in the first half of 2026.
- **Energy policy promoted nuclear expansion but provided limited space for wind generation.** The government retained one proposed renewables acceleration area in August 2026 and gave a new reactor at Jaslovské Bohunice strategic investment status in September 2026.
- **Fiscal consolidation has relied mainly on revenue measures but has not placed public finances on a sustainable path.** The Fiscal Responsibility Council expects the deficit to reach 4.3 per cent of GDP in 2026 and warns that further measures are needed to stabilise public debt.

For more information about country macroeconomic developments, please consult our latest Regional Economic Prospects report.

KEY PRIORITIES FOR 2027

- **Adopt a credible multi-year fiscal consolidation plan to place public debt on a sustainable path.** Public debt is expected to continue rising without further measures. Better-targeted energy support and social transfers would improve spending efficiency while protecting vulnerable households.
- **Apply consistent impact assessments and stakeholder consultations to improve the quality of law-making.** Frequent use of accelerated procedures has limited effective public participation in the legislative process. More predictable regulation would reduce uncertainty for firms and support private investment.
- **Streamline permitting and ensure predictable grid access to unlock investment in wind energy.** Only one proposed renewables acceleration area remained in August 2026, while individual projects still require binding municipal consent. Clearer connection procedures would help convert available wind potential into investment.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

Fiscal consolidation

- The 2026 budget included consolidation measures centred on higher personal income taxes and health contributions. The Fiscal Responsibility Council estimates that the package will reduce the 2026 deficit by €1.6 billion, below the government's headline estimate of €2.7 billion.
- Despite these measures, the Council expects the deficit to reach 4.3 per cent of GDP in 2026, above the budget target of 4.1 per cent. It warns that further measures are needed to prevent renewed fiscal deterioration and stabilise public debt.

1 From the fourth quarter of 2025 to October 2026.

Electric vehicle (EV) and battery investment

- Public investment in the Valaliky industrial park and services in nearby municipalities is expected to reach €733.5 million by 2029. The park will host Volvo Cars' €1.2 billion EV plant, for which the European Commission approved €267 million in state aid.
- Kia began production of a second EV model in Žilina in March 2026. Gotion InoBat started building a €1.2 billion battery plant in Šurany in October 2025, with an initial capacity of 20 GWh.

Renewables acceleration area

- The environment ministry retained one of eight proposed renewables acceleration areas in August 2026 following a strategic environmental assessment.
- The proposed area is in the Košice region, but individual projects still require binding consent from all affected municipalities.

Nuclear power expansion

- The government designated a new reactor of up to 1,200 MW at Jaslovské Bohunice as a strategic investment in September 2026, with planned expenditure of at least €10.9 billion.
- The country's main electricity producer, Slovenské elektrárne, connected Mochovce unit 4, with a capacity of 471 megawatts electrical (MWe), to the grid in October 2026. Once fully operational, the unit is expected to cover about 13 per cent of domestic electricity consumption. The company also plans to increase the output of all four Mochovce units, with no set timeline.

Reform of long-term-care financing

- The president signed the social services financing reform in December 2025, introducing phased implementation of personal allowances paid directly to people requiring care rather than to their carers.
- From January 2027 monthly allowances will range between €236.50 and €1,038.50 according to the level of dependency, and up to three carers will be able to share caring responsibilities.

Whistleblower protection office

- A law was passed in March 2026 repealing changes that would have dissolved the existing office and transferred its functions to a new authority covering both whistleblowers and victims of crime.
- The repeal preserved the existing office and its independence, leading the European Commission to close the related infringement proceedings in July 2026.



SLOVENIA



COUNTRY ASSESSMENTS

HIGHLIGHTS

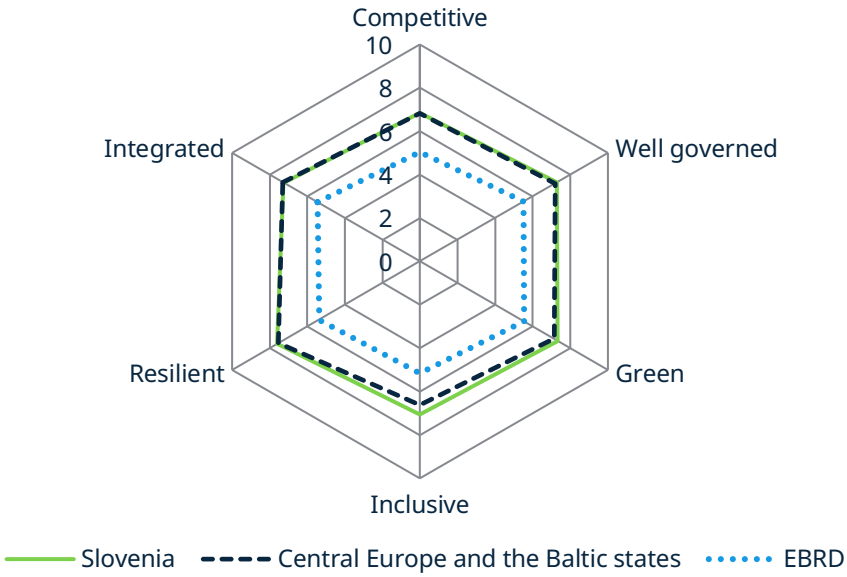
- **Economic growth is accelerating.** After recording modest output growth of 1.5 per cent in 2025, the economy rebounded, posting 4.1 per cent year-on-year growth in the first half of 2026, supported by recovering household consumption and accelerating investment and exports.
- **The new coalition government has announced a range of reforms.** The government aims to streamline taxation and the business environment while ensuring fiscal consolidation. Its new programme also emphasises energy security, faster infrastructure delivery, anti-corruption measures and demographic policies.
- **Implementation of Slovenia's Recovery and Resilience Plan (RRP) entered its final phase with a high disbursement rate.** By the end of July 2026, Slovenia had received €1.81 billion, or 87 per cent of its allocation, and officially completed 122 of its 182 milestones and targets. Of the 60 still outstanding, 26 had been fully documented and the other 34 were in the final stages of completion ahead of the end-of-August deadline.

For more information about country macroeconomic developments, please consult our latest Regional Economic Prospects report.

KEY PRIORITIES FOR 2027

- **Sustain infrastructure investment after the RRP.** The authorities should consider mobilising blended and private financing for rail, urban transport, water, flood resilience and energy-efficient building renovation**.**
- **Remove bottlenecks to deploying green energy.** Building on the 2026 electricity-grid modernisation programme, Slovenia should accelerate network upgrades, digitalisation and storage deployment, while simplifying renewable energy permitting and connection procedures.
- **Scale up market-based financing for innovative firms.** Slovenia should expand venture capital, growth equity and corporate bond markets, strengthen science-business links and facilitate institutional investment to support technology commercialisation and the startup ecosystem.

ASSESSMENT OF TRANSITION QUALITIES (1-10)



For more on reforms and transition qualities, see Chapter 5 of the Transition Report 2026-27.

KEY REFORMS AND POLICY DEVELOPMENTS[1]

Pension system reform

- Adopted by parliament in September 2025, the pension reform gradually raises the general retirement age from 65 to 67 and the retirement age for people with 40 years of contributions from 60 to 62 by 2035.
- It also extends the earnings reference period used to calculate pensions to 40 years, excluding the five least favourable years, while increasing the full-career accrual rate from 63.5 per cent to 70 per cent.

1 From the fourth quarter of 2025 to October 2026.

Judicial governance and court reform

- A judicial reform package adopted in November 2025 and published in December 2025 includes a new Courts Act and Judges Act, along with amendments to Judicial Council and State Prosecution Service legislation. The package reorganises first-instance courts around judicial districts while retaining local courts as external departments, enabling better workload distribution, judicial specialisation and substitution across court locations. It also introduces information system-based case allocation and stronger management responsibilities for court presidents.
- The Judges Act overhauls judicial selection, evaluation, promotion and disciplinary responsibility, as well as safeguards for judicial independence. The accompanying Judicial Council reform strengthens its professional administration and reporting requirements and revises the disciplinary framework. The wider package also transfers the appointment of Supreme Court judges from parliament to the Judicial Council, reducing direct political involvement in senior judicial appointments.

Labour market measures

- The "80/90/100" arrangement became operational on 1 January 2026 under amendments to labour-market legislation adopted in 2025. Eligible workers approaching retirement may work 80 per cent of full-time hours, receive 90 per cent of their previous basic salary, and continue accruing pension and disability insurance rights as if employed full time.
- The measure seeks to extend working lives without requiring an abrupt transition from full-time employment to retirement. It can help retain experienced workers amid persistent labour shortages.

Startup and AI strategies

- In March 2026 the government adopted the National Artificial Intelligence Strategy to 2030 and a new Slovenian Startup Strategy.
- The Startup Strategy aims to improve conditions for creating and scaling up innovative firms and is based on five strategic initiatives: strengthening the support environment for startup and scaleup companies; developing the venture capital market; improving conditions for rewarding employees; attracting global high-tech talent; and establishing a new form of business entity tailored to the needs of startup companies.

Decarbonisation support for electricity-intensive industry

- The authorities have introduced temporary electricity cost support for trade-exposed, electricity-intensive companies for 2026-28, targeting firms consuming more than 15 GWh annually and with electricity costs exceeding 5 per cent of gross value added. The assistance may cover up to half of eligible electricity bills, subject to safeguards limiting overcompensation.
- At least half of the support must be reinvested in renewable generation, storage, demand-side flexibility, energy efficiency, process electrification or other decarbonisation measures, linking short-term competitiveness support to industrial transformation. Around 40 companies in sectors including steel, chemicals and paper are expected to qualify.

Electricity grid modernisation programme

- In March 2026 the government approved a €174 million electricity-grid investment programme, co-financed by €59 million from the EU Modernisation Fund, covering projects by transmission operator ELES and Slovenia's five regional distribution companies.
- The programme aims to strengthen transmission and distribution networks through substation upgrades, new power lines and grid digitalisation, facilitating renewable energy integration, electrification and security of supply. The authorities also announced additional smart-grid investments through 2030 to support the green transition.