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COMMISSION OPINION

of 21.11.2023

on the Draft Budgetary Plan of Slovakia

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(Only the Slovakian text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013¹ 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 Stability and Growth Pact and the European Semester for economic policy coordination.
2. Article 6 of Regulation (EU) No 473/2013 requires 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 8 March 2023, the Commission adopted a Communication² providing fiscal policy guidance for 2024, which confirmed that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023.
4. On 26 April 2023, the Commission presented three legislative proposals³ to implement a comprehensive reform of the EU fiscal framework. The central objective of the proposals is to strengthen public debt sustainability and to promote sustainable and inclusive growth through reforms and investments. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023⁴ and on 27 October 2023⁵, the objective is to conclude the legislative work in 2023. As a new legal framework, based on the outcome of the ongoing economic governance review, is not yet in place, the current legal framework continues to

¹ Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, (OJ L 140, 27.5.2013, pp. 11).

² Communication from the Commission to the Council, ‘Fiscal policy guidance for 2024’, 8.3.2023, COM(2023) 141 final.

³ Commission Proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, 26.4.2023, COM(2023) 240 final; Commission Proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, 26.4.2023, COM(2023) 241 final; Commission Proposal for a Council Directive amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, 26.4.2023, COM(2023) 242 final.

⁴ Council Conclusions on ‘Orientations for a reform of the EU economic governance framework’ of the ECOFIN Council meeting, 14.3.2023, 6995/1/23 – REV 1.

⁵ European Council meeting (26 and 27 October 2023) – Conclusions, EUCO 14/23.

apply. The fiscal component of the Spring 2023 country-specific recommendations included elements of the legislative proposals of 26 April 2023 that were consistent with the existing legislation.

5. As announced in its fiscal policy guidance for 2024⁶, the Commission will propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023, in line with the existing legal provisions. Member States were invited to take this into account when executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024.
6. The Recovery and Resilience Facility⁷ 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')⁸. The Facility will 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 Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.
7. Economic policy should continue to tackle the risks linked to high inflation and address long-term challenges. Despite declining, inflation in the euro area remains a concern. It is essential that inflation continues to fall and that inflation expectations remain well anchored, with consistent monetary and fiscal policies, while remaining agile in the face of high uncertainty. In particular, emergency energy support measures taken to respond to the energy price shock should be wound down, using the related savings to reduce the government deficits, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, these should be targeted at protecting vulnerable households and firms, as well as be fiscally affordable and preserve incentives for energy savings. Furthermore, Member States should continue to preserve nationally financed public investment and ensure the effective absorption of grants under the Recovery and Resilience Facility and of other EU funds, in particular to foster the green and digital transitions.

CONSIDERATIONS CONCERNING SLOVAKIA

8. On 12 October 2023, Slovakia submitted its Draft Budgetary Plan for 2024.⁹ On that basis and taking into account the Council Recommendation to Slovakia of 14 July

⁶ Communication from the Commission to the Council, 'Fiscal policy guidance for 2024', 8.3.2023, COM(2023) 141 final.

⁷ 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).

⁸ Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

⁹ A corrigendum to the Draft Budgetary Plan for 2024 was submitted on 26 October 2023.

2023¹⁰, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013. The Commission sent a letter to Slovakia on 27 October 2023 with preliminary observations on the Draft Budgetary Plan and asking for further information. Slovakia replied on 31 October 2023¹¹. This information has been taken into account in the Commission's assessment of budgetary developments and risks.

The Draft Budgetary Plan was submitted by the outgoing government on the basis of unchanged policies; therefore, the figures shown for the 2024 government balance and other budgetary variables do not constitute effective budgetary targets.

9. On 24 May 2023, the Commission adopted a report under Article 126(3) of the TFEU¹². That report assessed the budgetary situation of Slovakia, as its general government deficit in 2022 exceeded 3% of GDP. The report concluded that the deficit criterion was not fulfilled.
10. According to the Draft Budgetary Plan, Slovakia's real GDP is projected to grow by 1.3% in 2024 (1.3% in 2023), while HICP inflation is forecast at 4.8% in 2024 (11.0% in 2023). Similarly, according to the Commission 2023 autumn forecast, Slovakia's real GDP is projected to grow by 1.7% in 2024 (1.3% in 2023), while inflation is forecast at 5.2% in 2024 (10.8% in 2023).

Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be in line with the Commission's 2023 autumn forecast for 2023 and 2024.

In order to ensure compliance with the requirement of Regulation (EU) No 473/2013, the draft budget to be transmitted to the national parliament would need to be based on an independently produced macroeconomic forecast.

11. According to the Draft Budgetary Plan, Slovakia's general government deficit is projected to increase to 6.5% of GDP in 2024 (from 6.2% in 2023)¹³, remaining above 3% of GDP. This increase is mainly driven by the increase in expenditure indexed to inflation as well as deficit-increasing discretionary measures. The general government debt-to-GDP ratio is set to increase to 60% at the end of 2024 (from 57.1 % at the end of 2023). In turn, according to the Commission 2023 autumn forecast, Slovakia's general government deficit is projected to increase to 6.5% of GDP in 2024 (from 5.7% in 2023), while the general government debt-to-GDP ratio is set to increase to 59.9% at the end of 2024 (from 56.7% at the end of 2023). The main differences between both sets of projections in 2023 reflect several smaller measures with an aggregate budgetary impact below 0.2% of GDP, such as

¹⁰ Council Recommendation on the 2023 National Reform Programme of Slovakia and delivering a Council opinion on the 2023 Stability Programme of Slovakia, OJ C 312, 1.9.2023, p. 233.

¹¹ The Commission's letter and the reply by Slovakia have been published: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2024_en

¹² Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 24.5.2023, COM(2023) 631 final.

¹³ According to the Draft Budgetary Plan, one-off measures have a deficit-increasing impact of 0.4% of GDP in 2024 (1.4% of GDP in 2023). These one-off measures relate to the support of Ukraine and support related to high energy prices. This is not in line with the assessment embodied in the Commission 2023 autumn forecast, as the Draft Budgetary Plan does not follow the Commission's guiding principles for the identification of one-off measures and uses a national methodology for the identification of one-off measures.

expenditures related to the judge reform, reform on construction and urban planning and a support for policemen, all of which are included in the Draft Budgetary Plan, but not in the Commission autumn forecast given a lack of information.

12. Based on the Commission's estimates, the fiscal stance¹⁴ is projected to be contractionary at 2.4% of GDP in 2024, following an expansionary fiscal stance of 6.2% in 2023.
13. The Draft Budgetary Plan assumes that expenditure amounting to 1.0% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 1.1% of GDP in 2023. This is in line with the assumptions underlying the Commission 2023 autumn forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Slovakia.
14. According to the Commission 2023 autumn forecast, taking into account the information contained in the Draft Budgetary Plan, the measures adopted to mitigate the economic and social impact of the increase in energy prices are planned to be wound down by the end of 2023.

In addition, the Draft Budgetary Plan includes new expenditure measures for 2024 that are not directly related to energy price developments. These include an additional increase in pensions, a change in the assessment of pensions for disabled people, an increase in wage costs due to new performance-based contracts for public university employees and a reform of the Education Law, support for research and innovation, support for the industrial park Valaliki and an increase in defence expenditure. The aggregate cost of these new expenditure measures is estimated by the Commission at 1.0% of GDP in 2024 and most measures are expected to have a permanent impact on public finances.

15. On 14 July 2023, the Council recommended that Slovakia ensure a prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure¹⁵ in 2024 to not more than 5.7%.

According to the Commission 2023 autumn forecast, Slovakia's net nationally financed primary expenditure is projected to increase by 6.5% in 2024, which is above the recommended maximum growth rate. This excess spending over the recommended maximum growth rate in net nationally financed primary expenditure corresponds to 0.3% of GDP in 2024. However, current estimates of net expenditure in 2023 are lower than expected at the time of the recommendation (by 0.6% of GDP). Therefore, as the recommendation for 2024 was formulated as a growth rate, the assessment of compliance takes into account the base effect from 2023. If net expenditure in 2023 had been the same as expected at the time of the recommendation, the resulting growth rate of net expenditure in 2024 would be below the recommended growth rate, by 0.3% of GDP. Therefore, net nationally

¹⁴ 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.

¹⁵ Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

financed primary expenditure is assessed as not being fully in line with the recommendation.

16. Moreover, the Council recommended that Slovakia take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Slovakia should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.

According to the Commission 2023 autumn forecast, the net budgetary cost¹⁶ of energy support measures is projected at 2.1% of GDP in 2023, -0.1% in 2024 and 0.0% in 2025. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 2.2% of GDP in 2024, whereas net nationally financed primary expenditure¹⁷ provides a contractionary contribution to the fiscal stance of 0.3% of GDP in that year. The energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council. However, the related savings are not projected to be fully used to reduce the government deficit. This risks being not in line with the Council recommendation.

17. In addition, the Council recommended that Slovakia preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions.

According to the Commission 2023 autumn forecast, nationally financed public investment is projected to increase to 3.1% of GDP in 2024 (from 2.9% of GDP in 2023) and, therefore, it is expected to be preserved. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to decrease to 1.4% of GDP in 2024 (from 3.5% of GDP in 2023). This decrease is driven by the end of the 2014-2020 programming period of EU structural funds, for which funds are available until 2023.

18. Furthermore, on 14 July 2023, the Council also recommended that, for the period beyond 2024, Slovakia continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.

The Draft Budgetary Plan includes medium-term budgetary projections until 2026. The general government deficit is projected to increase to 6.9% of GDP in 2025 and then decrease to 6.6% in 2026. In turn, the general government debt is projected to increase gradually to 62.6% of GDP in 2025 and 67.4% in 2026.

¹⁶ The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

¹⁷ This contribution 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, as well as 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 nominal GDP growth rate, expressed as a ratio to nominal GDP.

19. Finally, on 14 July 2023, the Council also recommended Slovakia for the period beyond 2024 to make the tax mix more efficient and more supportive of inclusive and sustainable growth, including by leveraging the potential of environmental and property taxation; to continue to strengthen tax compliance, including by further digitalising the tax administration; and to reduce the risks related to household debt by supporting housing supply and the expansion of the rental market. The Draft Budgetary Plan, which was prepared under the assumption of no policy change, does not include information on the follow-up to the fiscal structural recommendation.
20. According to the Commission's forecast, the growth of net nationally financed primary expenditure is projected to not respect the recommended maximum growth rate in 2024. However, if net expenditure in 2023 had been the same as expected at the time of the recommendation, the resulting growth rate of net expenditure in 2024 would be below the recommended one.

According to the Commission 2023 autumn forecast, and taking into consideration the information included in Slovakia's Draft Budgetary Plan, the emergency energy support measures are expected to be wound by the end of 2023. Nevertheless, the related savings are not projected to be fully used to reduce the general government deficit in 2024.

Furthermore, Slovakia is expected to preserve nationally financed public investment. Slovakia should also continue to ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds.

Overall, the Commission is of the opinion that the updated Draft Budgetary Plan of Slovakia is not fully in line with the Council Recommendation of 14 July 2023.

Furthermore, the Commission projects Slovakia's headline budget deficit at 6.5% of GDP in 2024, above the Treaty reference value of 3% of GDP, while the government debt ratio at 59.9% in 2024, just below the Treaty reference value of 60% of GDP.

The Commission is also of the opinion that Slovakia made limited progress with regard to the structural elements of the fiscal recommendations made by the Council on 14 July 2023, and thus invites the Slovak authorities to accelerate progress.

A comprehensive description of progress made with the implementation of the Council's country-specific recommendations will be included in the 2024 Country Report and assessed in the context of the Council's country-specific recommendations to be recommended by the Commission in spring 2024.

As a new government has taken office, Slovakia is invited to submit to the Commission and to the Eurogroup an updated Draft Budgetary Plan which is in line with the Council Recommendation of 14 July 2023, as soon as possible and as a rule at least one month before the draft budget law is planned to be adopted by the national parliament.

Table: Key macroeconomic and fiscal figures

	2022	2023		2024	
	Outturn	DBP	COM	DBP	COM
Real GDP (% change)	1.8	1.3	1.3	1.3	1.7
HICP inflation (%; annual average)	12.1	11.0	10.8	4.8	5.2
General government balance (% of GDP)	-2.0	-6.2	-5.7	-6.5	-6.5
Primary balance (% of GDP)		-5.3		-5.4	
General government gross debt (% of GDP; at end-year)	57.8	57.1	56.7	60.0	59.9
	COM	COM		COM	
Fiscal stance (*) (% of GDP)	1.1	-6.2		2.4	
Fiscal adjustment (**) (% of GDP)	1.0	-3.9		0.3	
Change in total net budgetary cost of energy support measures (***) (% of GDP)	0.2	2.0		-2.2	
Growth in net nationally financed primary expenditure (% change) (A)				6.5	
Recommended maximum growth rate of net nationally financed primary expenditure (****) (% change) (B)				5.7	
Difference from recommended growth in net nationally financed primary expenditure (pps.) (B-A)				-0.8	
[If net expenditure grows above CSR] Impact on fiscal adjustment of deviation in net nationally financed primary expenditure compared with the Council recommendation (*****) (% of GDP)				0.3	

Notes:

(*) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency 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 the medium-term (10-year) average potential nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal stance.

(**) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, as well as 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 nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net nationally financed primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal adjustment.

(***) Energy support measures less revenue from new taxes and levies on windfall profits by energy producers.

(***) According to the Council Recommendation ‘on the 2023 National Reform Programme of Slovakia and delivering a Council opinion on the 2023 Stability Programme of Slovakia’, (OJ C 312, 1.9.2023, p. 233).

(****) Excess in growth of net nationally financed primary expenditure over the recommended maximum growth rate, expressed as a percentage of GDP.

‘DBP’ 2024 Draft Budgetary Plan, ‘COM’ Commission 2023 autumn forecast.

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