

# **Draft Budgetary Plan of the Slovak Republic for 2020**

 October 2019



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## Summary

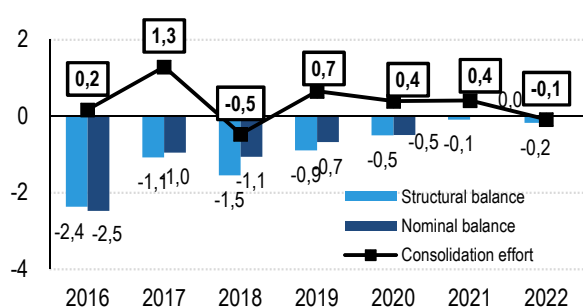
The general government budget for 2020 is based on the expected economic growth slightly below its mid-term potential. Due to the worsened outlook in the euro area, the Slovak economy is expected to slow down its growth rate to 2.3% in 2020. The modest overheated economy will cool down and the positive output gap close. Poorer prospects of our main trade partners will press down dynamics of the Slovak labour market and household spending. The unemployment rate will stagnate and the growth in wages will be slackened. In the year 2021, is expected recovery of the economy and investment activities will gradually intensify with end of the third EU funds' programming. The main risks to the forecast are Brexit without an agreement, disputes in international trade and a considerable slowdown in the euro area and in the Visegrad region.

The original objective of the balanced budget will not be met this year, considering the present slowdown of the Slovak economy. The most recent monitoring indicates that the deficit of the general government decline to 0.68% of GDP. It will remain the historically lowest deficit, while maintaining the primary surplus. Worsened expected fiscal outturn stems, in particular, from the postponement of new tax measures and shortfall in several non-tax revenues. The expenditure side of the budget shows, in particular, higher spending social benefits and higher expenditures from EU funds co-financing. In the fiscal outturn in 2019 is also affected by wide ranging benchmark revision of national accounts by Eurostat, which brings a update of longer time series of gross debt and the general government balance. The Government responds to the unfavourable budget development in 2019 by binding expenditures in chapters of the State Budget, which is expected to bring savings of around 0.3% of GDP.

Next year, the Government will reach nominal and structural deficit of approximately 0.5% of GDP. The update from the balanced budget target for 2020 from the Stability Programme fully reflects the fact that the Slovak economy is cooling back to its long-term potential. The updated fiscal target is in line with achieving the mid-term budget objective (MTO) and it means a year-on-year increase in the primary surplus. The submitted draft budgetary plan respects both EU (Stability and Growth Pact) and the national fiscal rules. The draft budget assumes balanced budget for 2021 and 2022, aiming to keep the gross debt below the lowest sanction threshold of the debt brake. To achieve the objective of the balanced budget in 2021 and 2022, it will be necessary to adopt additional measures in the amount of EUR 770 million (0.7% of GDP) or EUR 1,246 million (1.2% of GDP).

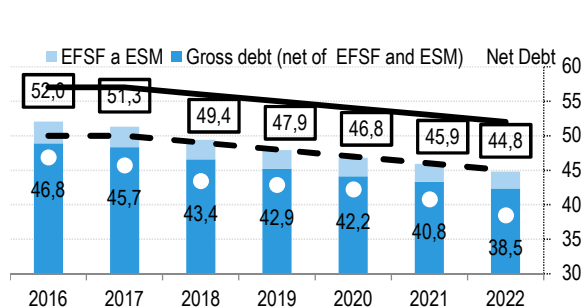
Gross indebtedness of the general government is expected to stay at the forecast horizon below sanction thresholds. Under the preliminary revised data, total indebtedness of the general government in 2018 reached 49.4% of GDP and thus it will be revised above the level of lower sanction threshold of the debt brake. After increase of the primary surplus, in the current year, the general government gross debt is expected to drop to 47.9% of GDP, thus getting back below the lower sanction threshold. In 2020, the debt is expected to stay outside sanction thresholds, at the level of 46.8% of GDP. Despite the slowdown, the economic growth in Slovakia and the increase in the primary surplus of the general government will be the main factors contributing to additional decrease of the debt. Compared to the Stability Programme, the forecast is just slightly revised upwards, which is mainly due to more active management of the state's liquid assets. Assuming overall budgetary balance since 2021, the draft budget expects an additional drop in gross debt to 44.8% of GDP by 2022. The general government's net debt will decrease faster than gross debt and by 2022 will fall below 40% of the GDP.

FIGURE 1 – Structural balance (% GDP)



Source: MF SR

FIGURE 2 – General government's gross debt (% GDP)



Source: MF SR

The budget for 2020 is focused, in particular, on reduction of taxes and legislative increase of social benefits. The shortfall in revenues from taxes and social contributions results, in particular, from increase in the non-taxable part of the tax base, lower tax rates applied on food, higher excise tax on tobacco and lower income tax rate for small



enterprises and self-employed persons. Compared to the no policy change scenario, total general government expenditures grow by 0.2% of GDP, which is related, in particular, to legislative increase of social benefits. In healthcare sector, expenditures are reallocated in the amount of 0.1% of GDP as a part of value increase. These savings dampen overall growth of expenditures in the healthcare sector, which is by 0.1% of GDP higher compared to the no policy change scenario. The reduction in the deficit is caused primarily by reduction of capital expenditures (0.4% of GDP), in particular, by binding expenditures in the defence and transportation sectors (in the amount of 0.2% of GDP).

**The Government responds to EC's recommendations by structural measures focused on the largest challenges of the Slovak economy – primary schools, labour market and healthcare.** The priority in the education sector is to make the teaching profession more attractive by increasing salaries for teachers. Measures adopted in education are focused on improving the quality of university education and improving inclusion in pre-school education. Implementation of projects to improve social integration of marginalized Roma communities and the employment rate of vulnerable groups at the labour market continues. Women employment rates are also encouraged by increasing capacities of childcare facilities for children aged below three years and by flexible forms of employment. Starting from 2020, there will be better terms to encourage development of rental apartments, which is expected to improve mobility of labour. Implementation of measures from revision of expenditures in healthcare gradually increases efficiency of expenditures in public health insurance. Furthermore, several measures will be implemented to lease the existing administrative burden for businesses. A better operation of the general government and the justice should bring measures as a solution of old distraint proceedings, protection of whistleblowers, or hosting judges.

**The draft budgetary plan is based on the draft budget of the general government for 2020 - 2022.** Preparation of the document is an integral part of the requirements resulting from the EU legislation. It presents the development of the fiscal position, the expected economic development and description of measures of the budget policy aiming to achieve the defined plans in the medium-term horizon. The European Commission then issues their opinion on the budget plan.

## I. Macroeconomic assumptions underlying the draft budgetary plan

The government budget for 2020 is based on the assumption that the Slovak economy will grow slightly below its medium-term potential rate. Together with the declining performance of the euro area economy, the Slovak GDP growth is expected to slow down to 2.3 per cent in 2020. The overheating will ease off and the output gap is expected to close. Unfavourable prospects of our business partners will dampen domestic labour market dynamism and thus the private consumption as well. The unemployment rate will remain flat and the wage growth will cool of. The recovery is expected in 2021, as the investment activity spurs with the forthcoming end of the third EU fund programming period. Risks to the forecast stem from the Hard Brexit, international trade wars and from a sharper slowdown in the euro area and the V3 region than anticipated.

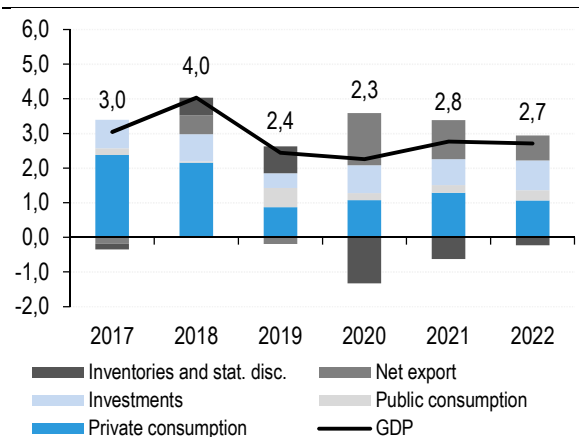
### I.1. Macroeconomic forecast<sup>1</sup>

The growth rate of the Slovak economy is set to decelerate to 2.4 per cent in 2019, in the wake of the cyclical slowdown taking place in the euro area. The main reason for the declining dynamism lies in the weak German industrial sector. Falling external demand weighed on Slovak exports, particularly in the second quarter of 2019. In addition, the private consumption growth was below of what the labour market development would suggest. During the first half of 2019, investments were driven by the private sector, while for the second half of the year, we expect the public investments to kick in. Government consumption has been on the rise thanks to the increased employee compensations in the public sector.

In 2020 the economy is projected to continue on its downward trajectory, dropping to 2.3 per cent. Next year's growth will be, to some extent, fuelled by more dynamic export activity, thanks to the projected contribution of Jaguar Land Rover (JLR) production capacities. Lower disposable income will weigh down household consumption, whilst government consumption is expected to correct the strong performance posted in the preceding year. Following a decline in the previous period, the output gap is set to close by this point.

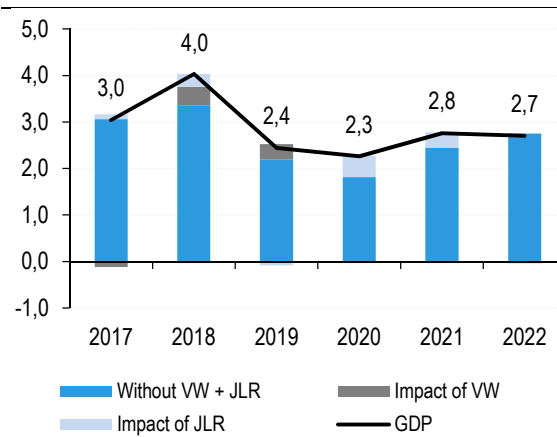
In the following years, a brisker pace of expansion will resume, with the economy projected to rise over its potential. In terms of growth structure, export will outperform foreign demand thanks to JLR, and both, investment and government consumption will pick up as the next EU funds programming period draws to a close. In addition, household consumption is set to accelerate as saving rate is projected to fall.

FIGURE 3 - Contribution to GDP growth - forecast (p.p.)



Source: MF SR

FIGURE 4 - Contribution to GDP growth - forecast (p.p.)



Source: MF SR

<sup>1</sup> The time series of expected GDP levels from 2019 to 2022 is based on the revised GDP data for 2018 sent to the Eurostat autumn notification and converted by chain-linking nominal year-on-year growth rates from the September forecast of the Macroeconomic Forecasting Committee. These assumptions are underlying also other indicators expressed in proportion to GDP.

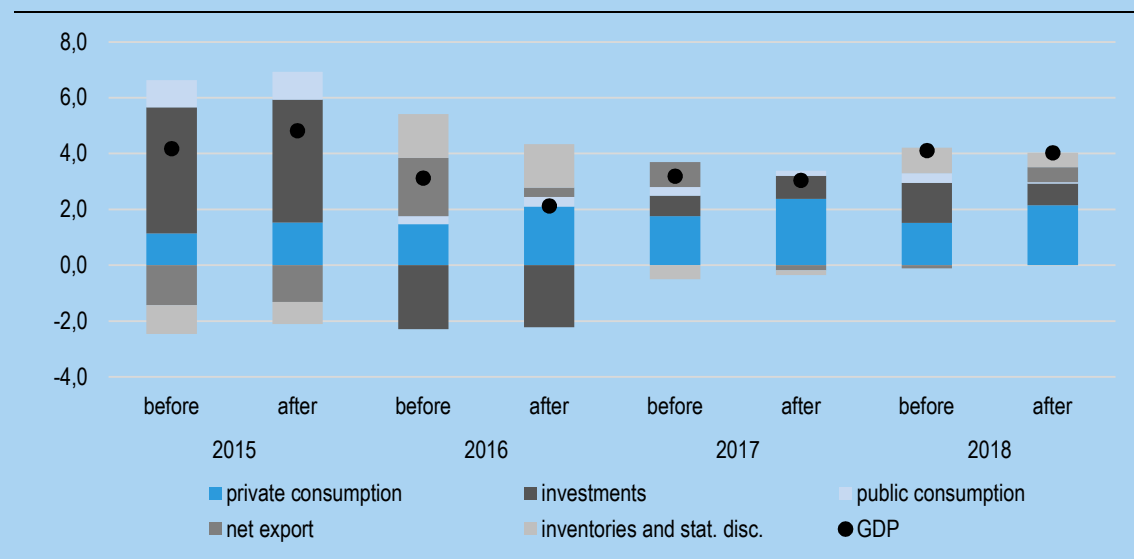
**BOX 1 – National accounts revision and impact on the macroeconomic data**

In October 2019 the Statistical Office of the Slovak Republic revised the national accounts as a part of the benchmark revision under the ESA 2010 methodology. The revision covered the macroeconomic data for the time period from 1995 to 2018. The revision also recalculated the data basis in constant prices from 2010 to 2015.

Over the last three years, the revision had a negative impact on the real GDP. Considering the contributions to GDP growth, private consumption was revised upwards, according to a rapidly growing income of households. On the other side, government consumption, total investments and net exports were revised rather downwards (FIGURE 5). Altogether, the revision of GDP growth from 1995 to 2018 varies between -1.0 per cent and 0.7 per cent.

According to the Statistical Office of the Slovak Republic, the factors having the major impact on the revision of GDP were incorporating the estimates for the self-employed persons and improving the estimates of the shadow economy. Administrative sources were applied instead of the information from the intelligence units. Additionally, the impact of the housing services and the construction has been revised. The estimates of private consumption for the energies and the health services were also revised. The revision of the foreign trade aimed to synchronize the cross-border and accounting flows of electricity and natural gas. However, the foreign trade data also changed according to the routine revision taken from the balance of payments and the business statistics.

FIGURE 5 – Contribution to real GDP before and after the revision (p.p.)



Source: MF SR

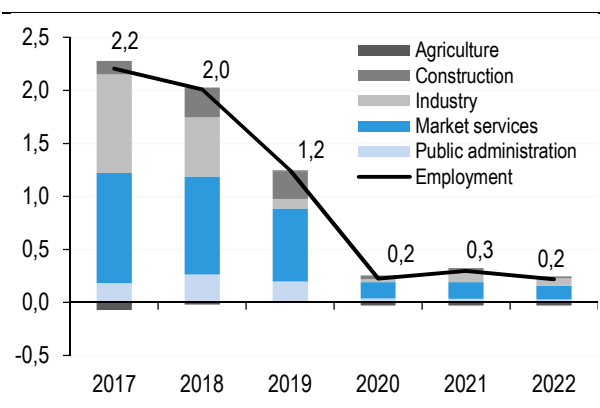
**The employment growth is expected to slow down to 0.2 per cent in 2020.** The current decline in the external environment suppress the industrial production in Slovakia, thus hitting the labour market in the second half of 2019. Job creation should recover at the beginning of 2020. New jobs will appear mainly in the construction sector where the employment is expected to grow by 0.5 per cent. **The unemployment rate will be flat at the recent historical minimum of 5.8 per cent.** Throughout the rest of the forecasting horizon, the overall employment will grow by 0.3 per cent per year.

**The average wage growth in 2020 will slide down to 4.7 per cent and will reach the level of EUR 1,139.** The easing will be significant across all sectors, yet particularly in the export-oriented industry. Public sector employees



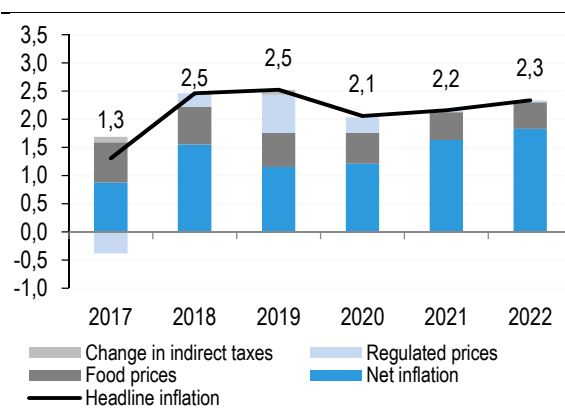
will benefit the most as a result of the public sector wage valorisation by 10 per cent. **In 2021, nominal wages will increase by more than 5.0 per cent.** The growth will accelerate in all sectors except for the general government. Real wages will grow slightly below 3.0 per cent over the entire forecasting period.

FIGURE 6 - Contribution to employment growth (p. p.)



Source: MF SR

FIGURE 7 - Contributions to inflation (p. p.)



Source: MF SR

**The cyclical slowdown will reduce inflation over the medium-term.** On the one hand, weaker domestic demand will soften price growth in the services sector, on the other, the slowdown abroad will limit inflation in the tradables sector. Meanwhile, regulated prices will be fuelled by the expected significant rise in the prices of electricity in 2020, and to small extent offset by cheaper elementary school lunches. With a gradual pick-up in the pace of growth, inflation will converge to about 2.3 per cent over the medium term.

### BOX 2 – Underlying assumptions for the external environment

**The economy of the euro area faces a considerable slowdown and besides poor external demand the dropout of the economic growth is also caused by domestic factors.** In particular, a negative development in the German industrial sector, which slows down not only the local economy but also the entire economy of the euro area (FIGURE 8). The sector of services appears to be relatively insulated so far but the weaker dynamics is expected to be reflected at the labour market, which would hinder the growth of services. Along with Germany, economic fundamentals weaken also in Italy and France. Spain is so far the only large economy in the euro area with a solid economic growth.

**Poor performance of the euro area contrasts with the robust growth in the V3 region.** Although in the V3 countries, contributions of the exports to GDP growth are also rather moderate, strong domestic factors encourage a solid economic performance. Dynamic private consumption and investment activities of companies supported by government incentives in Poland and Hungary pushed up the performance of the entire region. However, the impact of these supporting factors should reach its limits.

**Under the pressure of the economic slowdown, monetary policies in both the USA and the EA were forced to revert their direction.** American Fed promised to gradually reduce the key interest rate if the US economy is further slackening. At the September meeting, the ECB implemented a new package of incentives aimed to recover the inflation in the euro area. The ECB reduced the deposit interest rate by 0.1 p.p. and initiated the Quantitative Easing in the amount of EUR 20 billion per month. Additionally, the ECB adopted supporting measures for the banking sector to set off the falling interest rate margins. The economic slowdown was also reflected in the downward-sloping yield curves (FIGURE 9). The US yield curve has inverted, which is empirically regarded as an indicator of recession. The European yield curve has not only flattened, but also turned negative.

**The substantial slowdown of the economic performance in the euro area, along with the uncertainty regarding the Brexit, resulted in weakening of the nominal exchange rate to 1.1 EUR/USD.** On the other

hand, the EUR is stronger compared to the GBP, which weakened in the first half of this year as a result of the Brexit negotiations. The threat of a weaker global economic activity is also felt in a reduction of the demand for the oil. On the other side, the oil prices are pushed upwards as a result of the tensions in the Middle East.

FIGURE 8 - PMI in the euro area

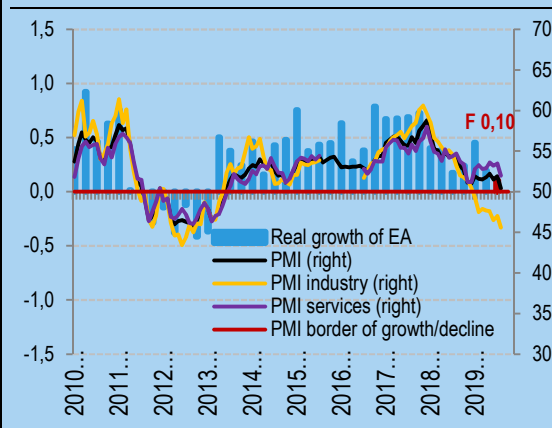
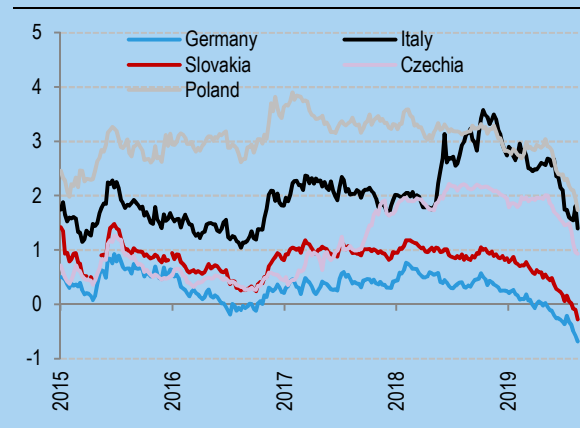


FIGURE 9 - Yields of government bonds



**The balance of risks to the current forecast is tilted to the downside.** Most downside risks emanate from the external environment, including a pronounced slowdown in the euro area, the closing of the output gaps in the V3 region, enduring trade wars, and a 'no-deal' Brexit. Domestically, a stronger labour market reaction to the ongoing cyclical slowdown through the channel of private consumption poses the main downside risk.

### BOX 3 – Estimated output gap for 2019 and 2020

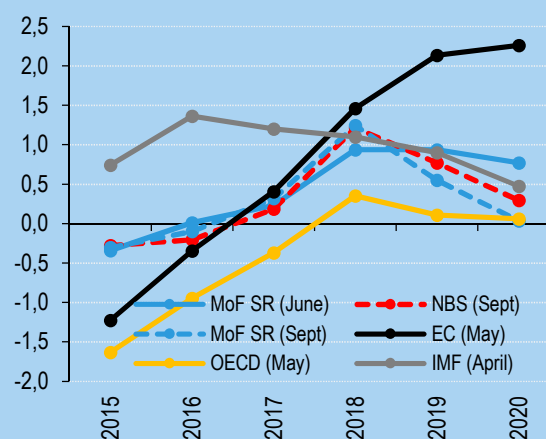
Slovak economy reached its cyclical peak in 2018 and on the back of a weaker dynamics of GDP growth in 2019, the output gap is expected to be reduced to 0.6 per cent of the potential product. Subsequently, the output gap will be fully closed in 2020. This estimation is based solely on the national methodology of the Ministry of Finance of the Slovak Republic (MF SR). The estimate of the MF SR is different from the EC forecast from May 2019, which estimates further overheating of the Slovak economy in 2019 and also increase in the output gap in 2020, despite the economic slowdown. On the other hand, the IMF and OECD forecasts are more intuitive from the economic point of view and closer to the estimate of the MF SR. In this document, the MF SR national methodology is used for the estimation of the cyclical component needed to calculate the structural balance of the public finance.

Under the national methodology of the MF SR, the output gap will reach 0.6 per cent of the potential GDP in 2019 and will be fully closed to 0.0 per cent of potential GDP in 2020. The estimate is close to the estimation of international institutions such as the IMF and the OECD. In contrast, the EC spring estimate states that the overheating of the Slovak economy is even larger and is set to increase in 2020 (FIGURE 10).

**The output gap estimated according to the national methodology of the MF SR generates results that are more intuitive with respect to the economic development compared to the EC methodology.** First, the launch of car production at the new JLR plant represents a positive structural shock for the Slovak economy, similar to the one from the years 2005-2008. The actual economic growth and its potential are expected to increase as a result of the structural shock. Therefore, the output gap should only increase to a limited extent. While the national methodology of the MF SR considers this phenomenon, the EC methodology may *ex post* indicate a higher overheating of the economy, similarly to the years 2005-2008. Secondly, in response to the slowdown in the euro area, the economic growth in Slovakia will be considerably lower than expected in 2019 and 2020 and it should be reflected in a cyclical downturn of the economy and a reduction of

the output gap. On the other hand, the EC spring forecast revised the Slovak estimate of the output gap upwards and the economic overheating should peak in 2020.

**FIGURE 10 - Development of the output gap (% of pot. GDP): MFSR, NBS, EC, OECD, IMF**



Source: MF SR, NBS, AMECO, OECD, IMF

**TABLE 1 – Output gap and contributions of factors to growth of potential product – National methodology**

	Output gap (% pot. GDP)	Pot. GDP (growth, %)	TFP*	Capital	Labour
2015	-0,3	2,9	1,8	0,5	0,6
2016	-0,1	2,9	1,6	0,6	0,6
2017	0,3	2,8	1,7	0,5	0,6
2018	1,2	3,2	2,0	0,7	0,5
2019F	0,6	3,1	2,1	0,7	0,3
2020F	0,0	2,8	1,9	0,7	0,1
2021F	0,2	2,6	1,8	0,7	0,1
2022F	0,4	2,5	1,7	0,8	0,0

\*Total factor productivity

Source: MF SR

**Gap between the estimates of the EC and the MF SR (national methodology) is based on different forecast horizon and different total factor productivity (TFP).** While the EC methodology estimates the output gap two years in advance, the MF SR forecast makes estimates for four years. The EC methodology is based on the trends and filtration and thus prolongation of the forecast horizon may result in different estimates of the output gap on the shorter horizon, even though the input macroeconomic variables in particular years remain unchanged. Another difference results from the historical data of the total factor productivity (TFP), since the MFSR takes into account the one-off effects of the automotive sector (VW, JLR) to the domestic productivity.

**When estimating the potential production, MF SR takes into account also the output gap, which affects the dynamics of the domestic inflation, the trade balance and the labour market.** The resulting of GDP decomposition is thus based not only on the estimate of the structural component, but also on the estimate of the cyclical component. The EC methodology does not take into account the impact of the cyclical component, which could lead to a less accurate estimate of the output gap. Examples include subdued growth of the consumer prices and positive trade balance (indicating that the external demand is over the domestic one), which indicates only a mild overheating of the Slovak economy in the recent years.

## II. Recent development in public finance in 2018 and 2019

*The initial target of the balanced budget will not be met this year, considering the present slowdown in growth rate of the Slovak economy. The actual monitoring of budget indicates that the deficit of the general government will experience a year-on year decrease to 0.68% of GDP. The failure to meet the target balanced general government budget stems, in particular, from the postponed effectiveness of new tax measures and shortfall in several non-tax revenues. The expenditure side of the budget shows, in particular, higher amount of social security benefits from the Social Insurance Agency and higher expenditures for EU funds co-financing. The expected budgetary balance in 2019 is also affected by revision of national accounts which brings a significant revision of time series of gross debt and the general government balance. The Government responded to the unfavourable budget development in 2019 by bidding expenditures in chapters of the State Budget, which is expected to bring savings of around 0.2% of GDP.*

### Development in 2018

**Under the preliminary data from the autumn Eurostat notification<sup>2</sup>, the general government deficit for 2018 reached the level of 1.06% of GDP.** The increase in the deficit by 0.36 p. p. compared to spring Eurostat notification is caused mainly by improving the accuracy of transactions entered to separate accounts (-0.23% of GDP), tax revenue updates (+0.05% of GDP) and the benchmark revision of national accounts<sup>3</sup> (-0.15% of GDP), having impact on government accounts also in past years (for details see [BOX 4](#)).

#### **BOX 4 – Benchmark revision of national accounts (impact on general government debt and balance)**

**During this-year autumn Eurostat notification, national accounts are subject to an extensive benchmark revision in accordance with the ESA 2010 methodology.** Large benchmark revisions of national accounts are made on a regular basis - every 5 years. Subject to the revision is the period from 1995. Below is the information about preliminary impacts on the general government balance and debt, which are partly considered by the Draft Budgetary Plan<sup>4</sup>. The final outcome of the revision will be known after government accounts are published by Eurostat on 21 October.

**Pursuant to the preliminary date, the revision is expected to have a negative impact on the general government balance throughout most of the revised period<sup>5</sup>;** the largest impact is expected in 2000, 2001, 2003, 2013 and 2014 – 0.4 up to 0.8% of GDP (the average annual impact is 0.2% of GDP). Items from the revision with the largest negative impact on the balance include: derecognition of fees to the National Nuclear Fund from general government revenues under the ESA 2010 methodology<sup>6</sup>, subsidies to electricity from renewable sources, distribution of revenues from sale of telecommunication licences over a longer period, changes in recognition of receivables and liabilities related to taxes and contributions and reclassification of the Deposits Protection Fund to the general government sector ([FIGURE 11](#)).

**The revision of the government accounts also affected the gross general government debt ([FIGURE 12](#)).** The identified cumulative impact for 2018 is 0.5 p.p. of GDP. The revision of the nominal level of the debt involved changes amounting to 0.2 p.p. of GDP. Additional negative impact in the amount of 0.3 p.p. of GDP resulted from revision of GDP historical time series, against which the debt is expressed in numerical terms. Considering the Fiscal Responsibility Act (so-called debt brake), the data from the autumn Eurostat notification indicate that, compared to the spring notification, the bottom sanction zone will be exceeded. Pursuant to the existing interpretation of the Act, the MFSR will be obliged to send to the National Council of the Slovak Republic a written explanation of the amount of the debt for 2018 with draft measures for decreasing the debt.

<sup>2</sup> Based on data sent by the Statistical Office of the SR for the autumn Eurostat notification on 7 October 2019.

<sup>3</sup> Benchmark revision improves accuracy and makes methodological adjustments of macroeconomic indicators. The Eurostat schedule requires that all EU countries carry out the revision in the period from 2019 to 2024.

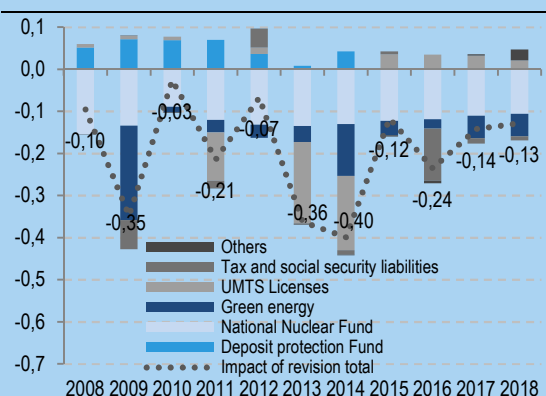
<sup>4</sup> Consideration is being given to revision of NNF revenues and UMTS licences effective from 2019.

<sup>5</sup> A minor positive impact of the revision is seen in 2005 and 2006 (positive impact of EUR 4 million and EUR 3 million, respectively)

<sup>6</sup> This refers to almost all NNF revenues – 99 %. The remaining 1 % is classified by ESA 2010 as a tax revenue.

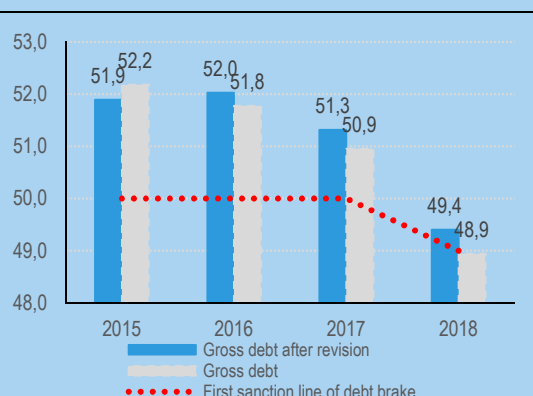


FIGURE 11 – Changes in national accounts revision



Source: MF SR

FIGURE 12 – GG gross debt before and after revision



Source: MF SR

**Selected items of the revision having major impact on the general government balance:**

- National Nuclear Fund (NNF):** Under the revision rules, revenues of the NNF from holders of licences for operation of electricity generating nuclear plants cannot be recognised as ESA revenues; instead they shall be recognised as a financial operation as, considering the economic substance, it is an accumulation of NNF funds for future certain expenditure<sup>7</sup>. Additionally, received NNF payments were reclassified to taxes. Before the revision, NNF did not recognise any liabilities to its contributors<sup>8</sup>. However, for that purpose, NNF has created a financial reserve and administers the same to be used for financing decommissioning of nuclear plants. From 1996, the average impact of this revision on deficit is -0.14% of GDP.
- Subsidies for electricity from renewable sources (Green energy):** The price for electricity generated from renewable sources is higher than the one from traditional sources. When supporting the green energy through subsidies, payments to producers are made right after the electricity is generated. However, the distributors can include the additional costs in the final price of electricity for end customers with a delay of up to two years. This is why there is a time discrepancy between subsidies provided to the producers by distributors upon purchase of the electricity and the fees which are subsequently collected from final consumers. One of the consequences of the time discrepancy is the difference in electricity prices<sup>9</sup>, and pursuant to ESA 2010 methodology, the discrepancy should be included in the deficit. The major impact that the revision has on the deficit is the effect of the subsidies, namely in 2009 in the amount of -0.22% of GDP (the average impact from 2009 (the adoption date) is -0.06% of GDP).<sup>10</sup>
- UMTS licences:** After the revision, revenues from sale of licences for mobile services earned in 2002, 2011, 2013 and 2014 were distributed over the years of validity of the licence. The average impact from 2002 is -0.03% of GDP. In the future, the impact on the general government balance will be positive.
- Deposits Protection Fund (DPF):** The DPF was reclassified back to the general government sector from 1996<sup>11</sup>. The Fund serves for protection of monetary deposits of individuals and certain legal entities defined by law. Revenues of the Fund consist of charges paid by banks operating at the Slovak market. The average impact of the reclassification from 1996 to 2014 is -0.16% of GDP.
- Receivables and liabilities from taxes and social contributions:** It is the change in the conversion scheme for receivables and liabilities from taxes and social insurance. The revision results from

<sup>7</sup> Contributors to the NNF expect that their entitlement to drawing the funds, under the condition of meeting the legal requirements, is guaranteed for the future as those are formal conditions.

<sup>8</sup> Along with the revenue, it is also necessary to impute the liability resulting from the future necessity to spend funds for decommissioning of nuclear facilities. If the Fund receives financial funds, those shall be regarded as advance payments, prepayments for future expenses.

<sup>9</sup> It is established for two reasons: electricity prices which are different in individual years and owing to the difference between planned and actual volumes of consumed electricity.

<sup>10</sup> The measure retroactively increases revenues of the general government (namely excise taxes on electricity) by 0.7% of GDP and, at the same time, it increases expenditures for subsidies in a similar amount. The impact on the balance results from the time discrepancy between the two items.

<sup>11</sup> The Fund is not a state fund and is not financed from the state budget.

improving the accuracy of the accrual recognition of transactions<sup>12</sup>. The average impact since 2009 is -0.02% of GDP.

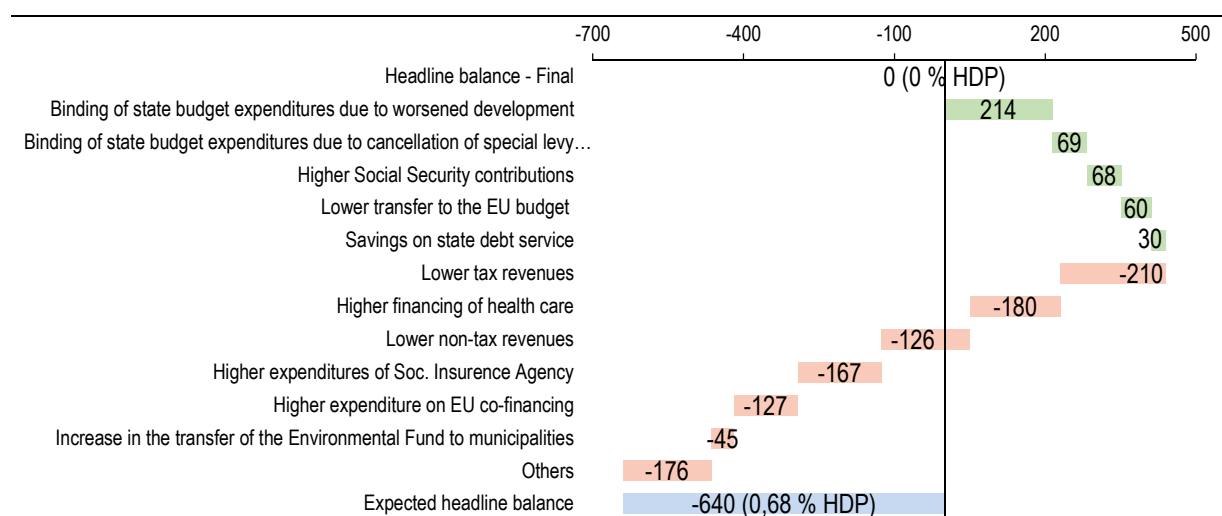
**Revision items having major impact on gross debt of the general government:**

- **Recording long-term trade credits:** Pursuant to the updated manual on the deficit and the debt of the general government<sup>13</sup> it was necessary that long-term trade payables with original maturity longer than 1 year, are recognised as a debt instrument. The revision was carried out starting from 1995 with cumulative negative effect to gross debt for 2018 in the amount of 0.1% of GDP.
- **Recording liabilities to financial agents:** The revision resulted from improving the interpretation of the methodology of recognition of liabilities, in particular, by healthcare facilities and other general government entities<sup>14</sup>. The update was carried out from 2009 with a cumulative negative impact on the gross debt for 2018 in the amount of 0.1% of GDP.

**Development in 2019**

According to the preliminary monitoring, in 2019, the deficit of the general government will decrease on a year-on-year basis to 0.68% of GDP, which means not meeting the original target of a balanced budget. However, it will remain the historically best result of the general government's operations and maintenance of the primary surplus (surplus without interest expense) at the level of 0.52% of GDP. The monitoring of developments in public finance results from the recent macroeconomic and tax forecast of September 2019<sup>15</sup> and the latest estimate of developments in other revenue and expenditure items in the general government budget, which are monitored on an ongoing basis.

**FIGURE 13 – Differences in the present estimate of the general government balance in 2019 vs. the budget assumptions (EUR million)\***



(+) / (-) means a positive / negative impact on the general government deficit

Source: MF SR

\* Compared to the budget, tax and social contribution revenues are analytically adjusted for several measures which were adopted after the budget was approved

<sup>12</sup> In case of a change in the conversion scheme in the public sector and discharge of hospitals from their debts, revenues of the Social Insurance Agency (or the Financial Administration in case of taxes) will increase above the level of the deferred cash, as the receivables and liabilities are recognised in the period when the obligation to pay arose.

<sup>13</sup> Publication of the new manual in August 2019 ended up the long-term discussion between Eurostat and the member state on making allowance for the liabilities in relation to the Maastricht debt. [Manual on Government Deficit and Debt – Implementation of ESA 2010 – 2019 edition](#).

<sup>14</sup> The revision improves accuracy of the amount of liabilities resulting from the change in the creditor for the liabilities and terms thereof – for healthcare facilities it is a change from materials suppliers and services to a factoring company.

<sup>15</sup> Forecast of the Macroeconomic Forecasts Committee under its [Statute](#) and in accordance with Art. 8 par. 2 of the Constitutional Act on Fiscal Responsibility No. 493/2011 Coll. and the Forecast of the Tax Revenue Forecasts Committee in accordance with the [Statute](#) from September 2019.



- **The amount by which lower tax revenues contribute to the results of the deficit operations is EUR 210 million (0.22% of GDP)<sup>16</sup>.** Tax revenues are lower compared to the approved budget mainly due to unfulfilled expectations about legislative measures, in particular, owing to cancellation of the special levy imposed on retail chains (EUR 119 million net impact, including CIT, 0.1% of GDP) and the postponement in introduction of eKasa<sup>17</sup> and nano markers (altogether EUR 90 mil., 0.1% of GDP)<sup>18</sup>. The economic slowdown has a negative impact on tax revenues, but, at the same time, the effect is counterbalanced by higher effectiveness in tax collection (in particular VAT and personal income tax).
- **Social security contribution revenues from the labour market have a positive impact on results of activities of the general government in the amount of EUR 68 million (0.07% of GDP)<sup>19</sup>.** Social contributions participate in the growth in the amount of EUR 63 million (0.07% of GDP) and health insurance contributions in the amount of EUR 4 million. For details to the analytical description of tax and social contribution revenues vs. the budget see **BOX 5**.

#### **BOX 5 - Analytical decomposition of tax-levy revenues compared to the budget**

The current estimate of tax revenue development, approved by the Tax Revenue Forecasts Committee (TRFC) in September 2019, decrease revenues compared to the analytically adjusted budget in 2019 by EUR 148 million. (FIGURE 14). The major causes of decrease are by slowdown of economic growth, legislative measures (cancellation of the special levy for retail chains) and unfulfilled expectations for revenues from introduction of eKasa and nano-markers. Increasing efficiency of collection has a positive impact on tax and levy revenues of the general government, in particular from personal income tax. Contrary a slower economic pace has a negative impact on revenues from corporate income tax. Expectations regarding revenues from mineral oils also have not been met. On the other side, prevailing strong development on labour market contributed to better social security contributions collection. For health insurance contributions, the increase is counterbalanced by the updated estimate of the claimed allowance on contributions. Altogether, in 2019 the negative impact of legislative measures and a worse macroeconomic environment offset the effective tax rate.

**FIGURE 14 – Contributions to the change in the forecast vs. the general government budget (2018 and 2019, in EUR million)<sup>20</sup>**

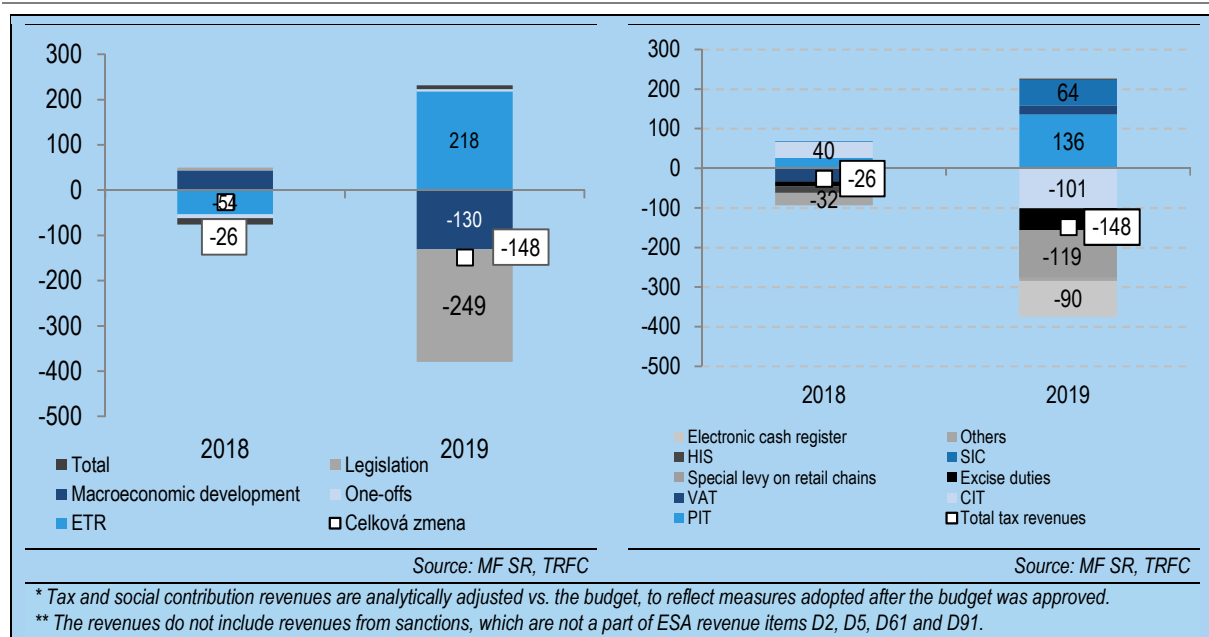
<sup>16</sup> Compared to the budget, the revision of tax and contribution revenues is analytically adjusted for the effect of lower VAT on accommodation services and introduction of recreation vouchers, as those were recognised on the expenditure side of the budget of the general government. Additionally, tax revenues are net of the impact of exemption of benefits in kind provided to employees for accommodation (max. EUR 60 per month) and reduction of the limit for VAT refund for tourists, as the measures, similarly to the prior ones, these items were approved after the budget was adopted.

<sup>17</sup> The legislation approved introduction of eKasa for all entities by not later than 1. July. Penalties for a failure to implement the measure were later postponed to 1 January 2020 so that the entities have time enough for transition to a new online cash register as the regulator would risk a lack of certified cash registers at the market.

<sup>18</sup> The budget of the general government for 2019 through 2021 shows only total impact of eKasa and the nano-markers.

<sup>19</sup> This is a development of revenues from economically active population, not the included changes in payments to the state. These revenues from social contributions are analytically adjusted to include the impact of recreation vouchers and exemption of benefits in kind provided to employees for accommodation (max EUR 60 per month), as these were approved after the budget was adopted.

<sup>20</sup> Contributions to amendment of the present TRFC forecast vs the TRFC forecast used in preparation of the budget for 2018. It does not include the difference in non-tax revenues per national classification (EKRK), which are not forecasted by the TRFC, but are tax revenues per ESA 2010. methodology



- Compared to the approved budget, non-tax revenues are expected to decline.** Lower non-tax revenues are expected, in particular, by the National Nuclear Fund. The dropout is caused by the fact that most of NNF's revenues are not recognised under the ESA 2010 methodology. This is a result of the benchmark revision of the national accounts (EUR 144 million, 0.15% of GDP).<sup>21</sup> Lower revenues are also expected by the Emergency Oil Stocks Agency (EOSA) resulting from postponed increase of the fee for management of oil and oil products for 2020 (EUR 33 million, 0.03% of GDP).
- Contribution to deteriorating of the balance is expected in consequence of the additional finance provided to the health service in the amount of EUR 180 million (0.19% of GDP).** The purpose of the provided additional finance is to cover the growing expenditures of health insurance compared to the budget (EUR 173 million, 0.18% of GDP) and the increasing liabilities of hospitals, which are partly covered by higher revenues received as fees from patients (EUR 32 million, 0.03% of GDP).
- In contrast with the approved budget, it is expected that expenditures of the Social Insurance Agency will also be higher.** The expenditures higher than budgeted by EUR 167 million (0.18% of GDP) refer to the high year-on-year growth of expenditures for sickness benefits and unemployment benefits (EUR 120 million, 0.13% of GDP), and higher operating costs (EUR 46 million, 0.04% of GDP<sup>22</sup>).
- Accelerated drawing of EU funds increases co-financing expenditures by EUR 127 million (0.13% of GDP).** Improvement in drawing of EU funds is expected, in particular, in the transportation infrastructure (EUR 50 million, 0.05% of GDP) and municipalities (EUR 34 million, 0.03% of GDP).
- It is also expected that expenditures of the Environmental Fund will grow.** Extra expenditures were incurred mainly for extra financing of water pipelines and sewer systems in local government from transfer from the state budget in the amount of EUR 45 million (0.05% of GDP).
- The government responded to the existing budget risk by binding the expenditures of the state budget.** With reference to the negative development in general government's operations, expenditures are bound in the amount of EUR 214 million (0.2% of the GDP). The binding is expected across all sectors in wages (EUR 66 mil., 0.07% of GDP), intermediate consumption (EUR 67 mil., 0.07% of GDP) and also expenses for projects (EUR 81 million, 0.08% of GDP) in defence and transport within the Housing Support Agency. Due to the cancellation of the levy imposed on retail chains, there are also expenses in the amount of EUR 69.5 million in the chapter of the Ministry of Agriculture SR.

**Negative impacts are also partly counterbalanced at expenditure items outside the government's control.** The following factors have a positive impact compared to the approved budget: a lower than

<sup>21</sup> Included are also revenues which were expected from completion of the construction of the 3rd and the 4th unit of Mochovce nuclear power plant

<sup>22</sup> Although operating costs are higher, remain at the level of actual figures of 2017.





budgeted contribution to the EU by EUR 60 million (0.06% of GDP) and lower expenses for the state debt service by EUR 30 million (0.03% of GDP).

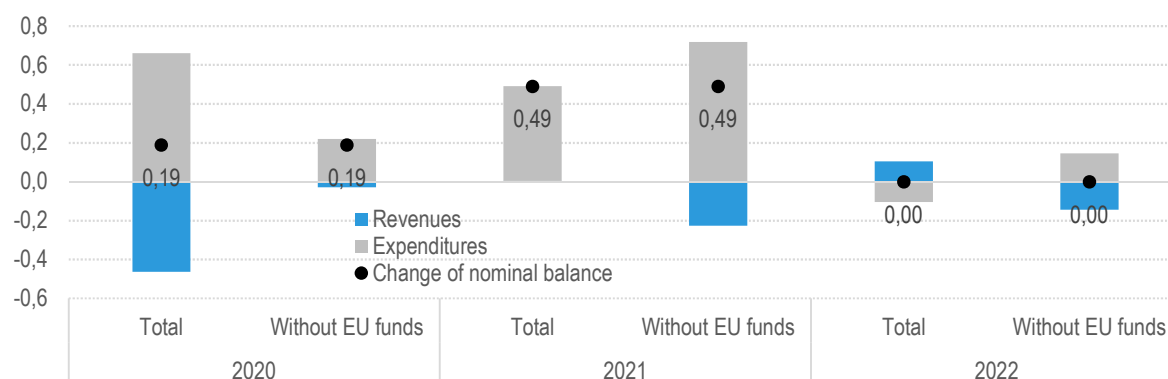
### III. Budget objectives

The Government will operate with both nominal and structural deficit at the level around 0.5% of GDP next year. The adjustment of the objective of the nominal balanced budget for 2020 compared to the Stability Programme fully reflects cooling of the Slovak economy back to its potential. This aim means reaching the medium-term budget objective and the year-on-year increase of the primary surplus. The submitted draft budget respects both EU and national fiscal rules. For 2021 and 2022, the draft budget assumes balanced budget, aiming to maintain the gross debt below the lowest sanction zone of the debt brake. To reach the objectives of the balanced budget in 2021 and 2022, it will be necessary to adopt additional measures in the amount of EUR 770 million (0.7% of GDP) and EUR 1,246 million (1.2% of GDP), respectively. Without additional measures, the first sanction zone of the debt brake will be exceeded, the national fiscal rules will not be fulfilled in both years and the EU rules will not be fulfilled in 2022.

The budget objective for the following year is to decrease the deficit of the general government to the level of 0.49% of GDP, which, in line with the Government's policy statement, will also ensure meeting the medium-term budget objective (MTO). The budget for 2021 and 2022 includes an indicative assumption of a balanced budget. Meeting of this goal is consistent with the ambition to keep the gross debt below the sanction zones established by the Constitutional Act on Fiscal Responsibility, which are getting more stringent by one percentage point each year from 2018 until 2027. Nominal objectives across the whole budget aim to maintain the primary surplus.

The reduction on total deficit of the general government in 2020 by 0.2 p. p. of GDP against the present expected actual figures in 2019 is ensured by the expenditure (0.7 p. p. of GDP), which, among other factors, relates to slower drawing of the EU funds (FIGURE 15). After netting off the drawing of EU funds, consolidation on the expenditure side in 2020 is in the amount of 0.2 p. p. of GDP with almost unchanged revenues. In 2021, the additional reduction of the deficit steams from the reduction of expenditures in proportion to GDP. In the following year, nominal balance is not expected to change on a year-on-year basis.

FIGURE 15 – Year-on-year change in revenues and expenditures (in % GDP, including or excluding EU funds<sup>23</sup>)



Source: MF SR

#### III.1. Budget objectives by sub-sectors

The balance of the central government budget remains almost unchanged on year-on-year basis in 2020. However, the state budget will increase the deficit on a year-on-year basis by 0.28 p. p. of GDP<sup>24</sup>. It is mainly due to valorisation of tariff salaries in the public sector and new coalition measures on the revenues and expenditures side. The deficit will also be deepened by the slowed growth of revenues resulting from the cooled economy and the transfer to the Social Insurance Agency. The Environmental Fund (EF) will contribute to reduction of the deficit of the central government budget in the amount of 0.19 p. p. of GDP. The reason for the increase in the surplus operation

<sup>23</sup> Co-financing remains included in order to maintain the year-on-year change in the nominal balance.

<sup>24</sup> The state budget includes state financial assets and the state debt.

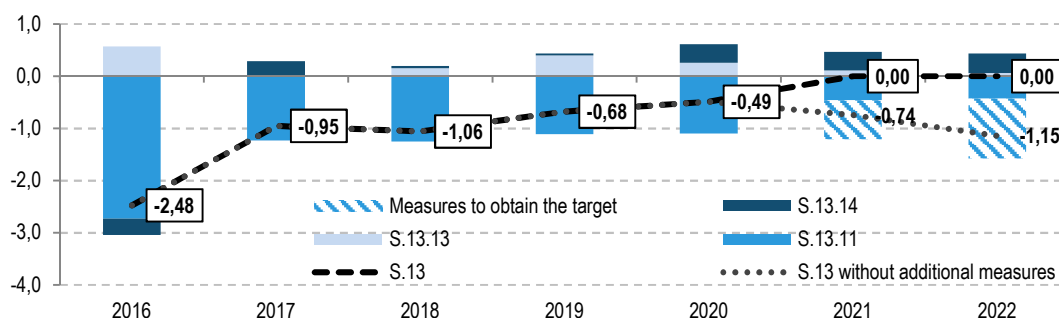
of the EF are higher expected revenues from emission allowances, taking into account higher expected market prices.

**Local government is expected to worsen their budgets by 0.14 p. p. of GDP on a year-on-year basis.** The reasons are similar to those given for the state budget – valorisation of tariff salaries and slowdown in growth of revenues due to the adopted legislation (e.g. increase in the non-taxable part of the tax base).

**From subsectors point of view, social security funds will contribute to consolidation of the budget (0.32 p. p. of GDP).** Thereof, the performance of the Social Insurance Agency will be improved by 0.39 p. p. of GDP on a year-on-year basis. The growth of expenditures in social security is subdued even after reflecting the new legislative measures (as described in Chapter 5). Certain social allowances, in particular sickness benefits and unemployment benefits will decrease on a year-on-year basis. It is also assumed that implementation of measures to minimize negative development of expenditures in health insurance and unemployment insurance will take place<sup>25</sup>. The planned increase in the surplus results also from higher amount of transfers from the state budget to the Social Insurance Agency in the amount of EUR 200 million (0.2% of GDP).

**The budget for 2021 and 2022 considers the assumption of additional need for consolidation on the side of the state budget.** To achieve the level of the planned balances budgets, it will be necessary to specify measures in 2021 and 2022 in the amount of EUR 770 million (0.74 % of GDP), or EUR 1,246 million (1.15 % of GDP), respectively. The draft budget plan considers adoption of cost-saving measures. In social security funds, it is expected that budgetary surplus will be maintained. Local governments should gradually release surpluses achieved in past years. Without additional measures, the first sanction zone of the debt brake will be exceeded, the national fiscal rules will not be fulfilled in both years and the EU rules will not be fulfilled in 2022<sup>26</sup>.

FIGURE 16 – Nominal balances by sub-sectors (in % of the GDP)



Source: MF SR

### III.2. Trajectory of achieving a medium-term budget objective

Since 2014, the fiscal policy of the Slovak Republic is subject to rules of the preventive part of the Stability and Growth Pact, the goal of which is achieving the medium-term budget objective (MTO) in form of structurally balanced budget. Although the value of the MTO for Slovakia equalled to the structural deficit of 0.5% GDP until 2019. The MTO is less strict, in accordance with the EU fiscal rules (1% of GDP), starting from 2020. The approach to the MTO is evaluated on an ongoing basis through the structural balance and the expenditure benchmark under the standard EU fiscal supervision schedule.<sup>27</sup> In recent years, the European Commission's evaluations of fiscal developments put increasing emphasis on the expenditure benchmark.

<sup>25</sup> Expenditures for sickness benefits which are budgeted as a part of social insurance expenditures, are based on the assumption that the percentage of incapacity to work owing to sickness or injury will reach the level of the expected actual figures for 2019.

<sup>26</sup> Without the planned additional measures, the structural deficit in 2021 and 2022 would be 0.8% of GDP, and 1.3% of GDP, respectively.

<sup>27</sup> Vade mecum on the Stability and Growth Pact – 2016 edition, European Economy. Institutional Paper. 021. March 2016.

### III.2.1. Structural balance

The structural deficit is expected to drop below 0.9% of GDP, with identified 2-year deviation from directing towards the MTO<sup>28</sup> this year. The structural balance is consolidated on a year-on-year basis by 0.6% of GDP, i.e., above the level of the required consolidation efforts<sup>29</sup>. After taking into account the increase of the structural deficit last year,<sup>30</sup> during 2018 and 2019 a mild deviation from the MTO trajectory occurred (deviation amounting to 0.2% of GDP<sup>31</sup>).

In 2020, the general government's structural deficit is expected to reach 0.5% of the GDP, which means meeting the MTO and correction of the deviation from 2018. Through the Stability Programme of the Slovak Republic for 2019 - 2022, the Government, observing the rules of the Stability Pact, defined the MTO at the level of the structural deficit 1% of the GDP<sup>32</sup>. However, in the present draft budget, similarly to the Stability Programme<sup>33</sup>, the objective for the budgetary balance are more ambitious – reduction of the structural deficit to 0.5% GDP in 2020. The economy is cooling towards its potential, therefore the defined objective equals to year-on-year consolidation effort in the amount of 0.4% of the GDP.

For 2021 and 2022, the draft budget assumes a balanced budget. These objectives refer to reduction of structural deficits to 0.1 and 0.2% of the GDP, respectively. To achieve those levels, it will be necessary to adopt additional structural consolidation measures since 2021. Without additional measures, the structural deficit would reach 0.8% of the GDP in 2021 and 1.3% of the GDP in 2022.

TABLE 2 - Consolidation efforts (ESA 2010, % of the GDP)

	2016 S	2017 S	2018 S	2019 OS	2020	2021	2022
<b>Nominal balance</b>	<b>-2.48</b>	<b>-0.95</b>	<b>-1.06</b>	<b>-0.68</b>	<b>-0.49</b>	<b>0.00</b>	<b>0.00</b>
Cyclical component	-0.1	0.1	0.5	0.2	0.0	0.1	0.2
One-off effects	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Structural balance</b>	<b>-2.4</b>	<b>-1.1</b>	<b>-1.5</b>	<b>-0.9</b>	<b>-0.5</b>	<b>-0.1</b>	<b>-0.2</b>
<b>Consolidation effort</b>	<b>0.2</b>	<b>1.3</b>	<b>-0.5</b>	<b>0.7</b>	<b>0.4</b>	<b>0.4</b>	<b>-0.1</b>
Required consolidation effort	0.25	0.5	0.5	0.35*	MTO*	MTO	MTO
<b>Deviation (year 1)**</b>	<b>0.5**</b>	<b>0.4**</b>	<b>-0.8**</b>	<b>0.3</b>	MTO	MTO	MTO
<b>Deviation (year 2)**</b>	<b>0.1**</b>	<b>0.5**</b>	<b>-0.2</b>	<b>-0.2</b>	MTO	MTO	MTO
Two-year unfreezed deviation	0.1	0.4	-0.1	-0.3			

The data is rounded to the nearest one decimal place (for nominal balance two decimal places)

\* Pursuant to the Country Specific Recommendation in 2019.

\*\* The values until 2018 have been frozen pursuant to the spring 2019 forecast in accordance with the EC approach

Source: MF SR

The budget plan assumes a counter-cyclical to neutral fiscal policy over the three-year horizon. The economic performance will be cooling down, however, considering the prior overheating, it means that in 2020 it will regain its potential level. After the subsequent recovery of the economic growth in 2021 and 2022, the positive impact of the cycle will increase again. Considering the above-mentioned facts, the outlook plan of further recovery of public finance after 2020 is adequately consistent with the counter-cyclical to neutral fiscal policy. The primary structural surplus will increase from 0.1% GDP in 2020 to 0.8% GDP in 2022.

<sup>28</sup> Thus, the fiscal position of the SR in fact gets below the level of the medium-term budget objective in accordance with the Stability and Growth Pact starting from the current year. However, as a part of evaluation of the pace of approaching to the MTO the value 1% of the GDP can only be used as a benchmark from 2020, as the MTO became less strict from April 2019 during preparation of the Stability Programme.

<sup>29</sup> On 13 July 2018, the Council recommended to Slovakia to ensure that the growth of the adjusted public expenditures in 2019 does not exceed 4.1%, which refers to a year-on-year consolidation equal to 0.5% of GDP. However, considering the EC forecast from autumn 2018 which assumed a position closer to MTO, and in accordance with the rule of "unfreezing" the required consolidation, the permitted growth of expenditures was adjusted to 4.6%, which refers to structural consolidation in the amount 0.3% in 2019.

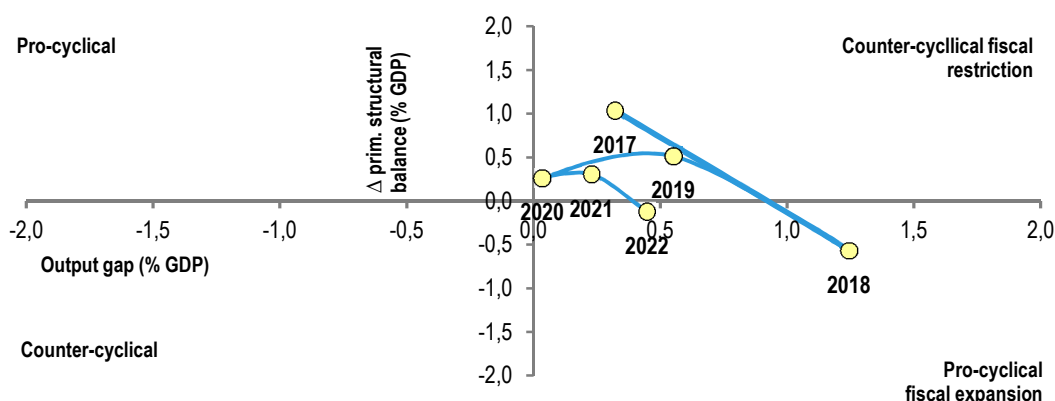
<sup>30</sup> The expansion at the level of 0.4% of GDP is caused in particular by a stronger positive gap of the economic cycle.

<sup>31</sup> Similar deviation results both for "frozen" and "non-frozen" values.

<sup>32</sup> This objective remains unchanged and it also refers to the Draft Budgetary Plan for 2020.

<sup>33</sup> This more ambitious objective results from national fiscal rules, under which general government budget shall be either balanced or surplus. The Act on Budgetary Rules defines a balanced budget as achieving structural deficit of minimum amount 0.5% of GDP (and/or 1% of GDP, if the achieved amount of the general government debt is considerably lower than 60% of GDP and there are minimum risks in relation to the long-term sustainability). In the present Stability Programme, the objective of the structural deficit was 0.4% of GDP.

FIGURE 17 – Change in the primary structural balance vs output gap (% of the GDP)



Source: MF SR

### III.2.2. Expenditure benchmark

The expenditure benchmark is used for calculation of the permitted year-on-year growth of adjusted expenditures<sup>34</sup>, which should be in line with medium-term potential economic growth<sup>35</sup>. The permitted growth rate of adjusted expenditures also respects the fact whether the country has reached its medium-term objective (MTO) or not. If MTO has not been reached, then the dynamics of the expenditures shall properly contribute to achieving the objective. The Slovakia's structural balance so far has not reached the level of MTO and therefore the permitted growth of expenditures is adjusted to reflect the required consolidation of the structural balance<sup>36</sup>.

The adjusted expenditures grew at a higher rate than permitted by the expenditure benchmark in 2018. That results in a deviation over one-year horizon by 1.2% of GDP. A lower, however still considerable, deviation over two-year horizon (0.6% of GDP) is supported by meeting the expenditure benchmark in prior year. However, the stronger year-on-year growth of expenditures relates to better results of 2017, partly increasing the deviation in 2018.

TABLE 3 - Calculation of compliance with expenditure benchmark (ESA 2010)

		2017	2018	2019 OS	2020	2021	2022
Total expenditures <sup>37</sup>	million	35,026	37,521	38,380	39,346	40,813**	43,026**
<b>Primary expenditure aggregate</b>	million	<b>33,166</b>	<b>35,270</b>	<b>36,515</b>	<b>38,243</b>	<b>39,060</b>	<b>40,121</b>
Discretionary revenue measures (DRM)	million	332	-51	-63	-37	166**	254**
Nominal growth of expenditure aggregate net of DRM	%	1.7	6.5	3.7	4.8	1.7	2.1
<b>Real growth of expenditure aggregate</b>	%	<b>0.5</b>	<b>4.9</b>	<b>1.2</b>	<b>2.3</b>	<b>-0.5</b>	<b>-0.3</b>
<b>Expenditure benchmark (reference rate)</b>	p. p.	<b>1.3</b>	<b>1.3</b>	<b>2.0</b>	<b>3.3</b>	<b>2.9</b>	<b>2.9</b>
Deviation from expenditure benchmark	p. p.	0.8	-3.6	0.8	1.0	3.3	3.2
<b>One-year deviation*</b>	% of GDP	<b>0.0</b>	<b>-1.2</b>	<b>0.3</b>	<b>0.4</b>	<b>1.2</b>	<b>1.2</b>
<b>Two-year deviation*</b>	% of GDP	<b>0.1</b>	<b>-0.6</b>	<b>-0.4</b>	<b>0.3</b>	<b>0.8</b>	<b>1.2</b>
Two-year unfixed deviation	% of GDP	0.4	-0.5	-0.5			

\* Value until 2018 have been frozen in accordance with the EC approach under spring 2019 forecast.

Source: MF SR

\*\* The additional non-specified measures for achieving the targeted RVS deficit in 2021 and 2022 are attributable in a 1:1 proportion to current expenditures and discretionary revenue measures.

<sup>34</sup> The adjusted expenditures are expenditures net of expenditure items outside the government's control (interest expense related to debt financing, expenditures responding to economic cycle, expenditures financed from EU funds, smoothed national investments), discretionary revenue measures and one-off impacts.

<sup>35</sup> The expenditure benchmark assumes a unit elasticity of revenues (1% growth of nominal GDP refers to 1% growth of revenues). If, besides revenues, grow also expenditures in line with potential growth, the balance of the general government becomes stabilized.

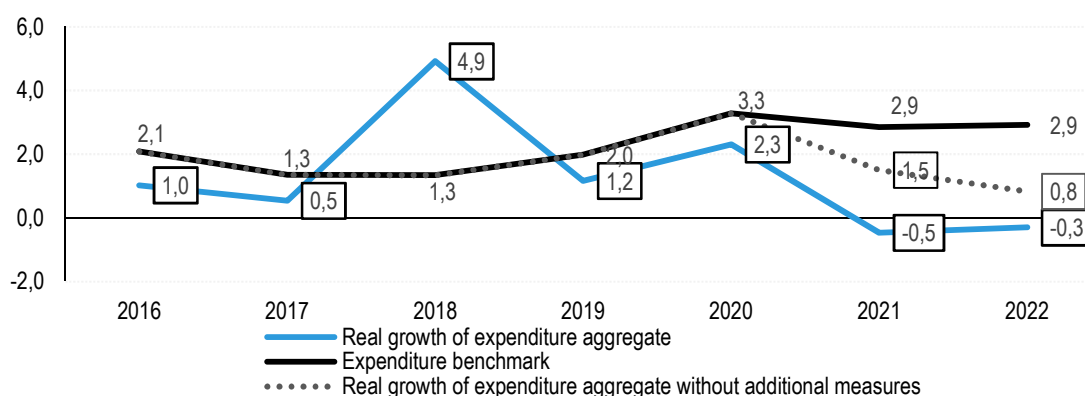
<sup>36</sup> The development of expenditures is to contribute to year-on-year consolidation of the structural balance at 0.5% of GDP, which is in the expenditure benchmark converted through the convergence clause, by which the reference rate of the long-term growth of the economic potential is decreased.

<sup>37</sup> The draft budget for 2019 - 2022 reflects the benchmark revision in recording of UMTS licences, NNF revenues and revenues from levies imposed on operators of transmission grids and distribution systems. The amendment in recognition of green energy subsidies has not been reflected.

We assume the year-on-year growth in expenditures far below the level required by the expenditure benchmark in 219. In 2019, the aggregate expenditure is growing on a year-on-year basis in real expression by 0.8%, below the level of the reference growth rate. Thus, on the one-year horizon, the expenditure benchmark is met with a positive deviation of 0.3% of GDP. However, the high growth of real expenditures in 2018 still causes a substantial deviation over the two-year horizon (0.4% of GDP).

Starting from 2020, the growth of budgeted expenditures is far below the level permitted by the expenditure benchmark<sup>38</sup> and it contributes to meeting the MTO<sup>39</sup>. The same applies upon failure to meet the additional measures which are necessary for achieving the goals of the target. Without those measures, in 2021 and 2022 the positive deviation from the expenditure benchmark will be 0.5% of GDP and 0.8% of GDP, respectively.

FIGURE 18 – Development of aggregate expenditure vs expenditure benchmark (% growth)



Source: MF SR

<sup>38</sup> The factors contributing to low growth of the budgeted expenditures after 2020 include also non-specified additional measures for achieving the budget objectives.

<sup>39</sup> From achieving the MTO, the expenditure benchmark is less strict, as no additional consolidation is necessary to maintain the MTO. The expenditure benchmark for 2020 also reflects the change in MTO to -1% of GDP.

## IV. General government gross debt

*Based on the preliminary data revision the general government debt reached 49.4% of GDP in 2018 and thus get upwards to the first sanction threshold of the debt brake. Along with the rise of primary surplus, 2019 gross debt is expected to drop to 47.9% of GDP, and thus shift below the lower sanction threshold. For 2020, the debt will preserve outside the sanction thresholds at the level of 46.8% of GDP. Despite the slowdown, the main items contributing to additional reduction of the debt are the growth of the Slovak economy and the increase of the primary surplus of the general government balance. In contrary with the assumptions of the Stability Programme, the forecast has been slightly revised upwards, which stems mainly from active state liquidity management. In line with the planned balanced budget since 2021 (considering also the unspecified consolidation measures in the amount of 0.7 and 1.2% of GDP in 2021 and 2022), it is expected that the gross debt will drop to 44.8% of GDP by 2022. General government's net debt will decrease faster than the gross debt. By 2022 it should drop from to 38.5% of GDP (of the current 42.9% of GDP). Simulation of selected risk scenarios does not indicate any considerable deviation of the forecast from the basic scenario. The most risky scenario representing stagnation of foreign demand which would result in a cumulative increase in gross debt by 1.6 p.p. vs the basic scenario and exceeding the lower sanction threshold by 1.4 p.p.*

### IV.1. Assumed update of the debt in 2018 after the Eurostat benchmark revision

**Based on the preliminary data revision the general government debt reached 49.4% of GDP<sup>40</sup>.** Compared to data sent in the spring notification, the revision should result in debt increasing upwards by 0.5 p.p. Spring notification initially confirmed debt-to-GDP ratio below the lower sanction threshold as defined in the Constitutional Act on Fiscal Responsibility (so-called debt brake). Following the autumn notification, and the benchmark revision, the debt is expected to exceed the limit again (for details see **BOX 4** in Chapter 2). Based on revised data, the debt in 2018 should decrease on a year-on-year basis by 1.9 p.p., positively influenced by the strong economic growth, inflation level above the European Central Bank target (ECB)<sup>41</sup> and maintaining the primary surplus of the general government<sup>42</sup>. Since the 2013 culmination, the gross debt of the general government cumulatively decreased by 5.3 p. p. until 2018.

### IV.2. Forecast of the general government debt until 2022

**Based on the actual monitoring of 2019, the gross debt should reach the level of 47.9% of GDP representing a year-on-year decrease of 1.5 p. p.** The key factor of the year-on-year reduction of the debt is the economic growth, which, despite the slowdown, remains solid, significantly above the market interest rates. An additional contribution has been also brought by a mild year-on-year increase in the primary surplus. Thus, in 2019, the gross debt will repeatedly fall below the lower sanction threshold.

**In 2020, the debt will drop to 46.8% of GDP, and thus will remain below the level of the lower sanction threshold.** Dynamics of the year-on-year reduction of the debt will slightly decelerate to 1.1 p.p., along with the continued lower growth of the Slovak economy. The economic slowdown will partly counterbalance the increase of the primary surplus to 0.6% of GDP. The interest costs to GDP ratio will decrease on a year-on-year basis considering the persisting positive outlook at bond markets. The debt reduction dynamics in 2020 will be temporarily moderated by one-off contribution to the European Stabilization Mechanism in the amount of approx. 0.1% of GDP.<sup>43</sup>

<sup>40</sup> Under the preliminary data sent to the Eurostat autumn notification. The presented forecast of the gross debt also considers the benchmark revision of national accounts with impact on the Maastricht debt (pursuant to the expected Eurostat autumn notification). At the same time, the time series of the expected GDP levels for 2019 through 2022 was converted by chaining nominal year-in-year growths from the last forecast of the Macroeconomic Forecasting Committee. The assumptions are also used for other indicators.

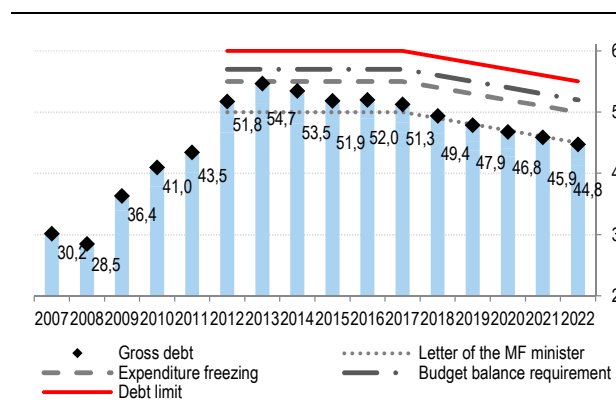
<sup>41</sup> [The objective of the ECB](#) is the annual inflation rate measured through [harmonized index of consumer prices \(HICP\)](#) lower, however close to 2 % in medium-term horizon.

<sup>42</sup> The primary balance is the balance of operation of the general government net of interest expense.

<sup>43</sup> In 2020, the fiscal framework assumes a one-off contribution to the European Stabilization Mechanism (EUR 134 million) owing to termination of the temporary exclusion temporarily adjusting for Slovakia the amount of the repaid contribution to ESM. The exclusion was intended for countries, whose GDP was below

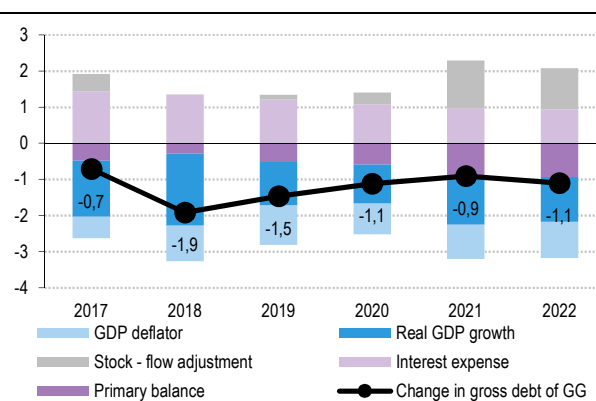
In line with the draft budget expectations, gross debt will fall by additional 2 p.p. by end of 2022, reaching the level of 44.8 % of GDP. The recovery of the economic growth will be the main driver contributing to reduction of the debt-to-GDP ratio. Along with the budgetary outlook of achieving balanced budget from 2021, assuming additional measures adoption<sup>44</sup>, a gradual increase of the primary surplus up to 1% of GDP is also expected. However, any stronger reduction of the debt will be restrained by increased stock-flow adjustment (through the difference of accrual and cash accounting<sup>45</sup>). In 2022, total amount of state liquidity will increase again, considering the higher maturities of government bond in the following period. Without the additional budgetary measures adopted in 2021 and 2022, the gross debt would reach 46.6% of GDP and 46.7% of GDP, respectively (given that higher cash deficit will be fully covered by additional debt issuance).

FIGURE 19 - General government gross debt (% of GDP)



Source: MF SR

FIGURE 20 - Contributions to change in gross debt (% of GDP)



Source: MF SR

## Net debt

The net debt of the general government<sup>46</sup> will decrease faster compared to the dynamics of the gross debt (FIGURE 21). In 2019, the net debt should achieve 42.9% of GDP, decreasing by 0.6 p. p. on a year-on-year basis. By 2022, an additional decrease by 4.4 p.p. is expected. The reason for faster net debt fall compared to the gross debt stems from the ongoing accumulation of the cash surpluses of specific general government entities<sup>47</sup>, leading to increase of liquid assets of the general government to 6.3% of GDP. At the end of the budget horizon, net debt will achieve the value of 38.5% of GDP.

Compared to the forecast in the Stability Programme, the debt and liquidity management will benefit from higher intensity of the cash reserve use. The higher coverage of state liabilities from State Treasury over the budgetary horizon (by more than 0.7 p.p. compared to the Stability Programme - FIGURE 22) is partly allowed by the increase of funds in the State Treasury accumulated from general government entities surpluses. While in 2019 and 2020 the higher drawdown of State Treasury funds to cover the state debt is planned, at the end of the period the previously used liquidity will be replenished.

75% of the EU average for 12 years starting from their accession to the EMU. During that period, those countries used an adjusted key for calculation of the amount of cash contribution to ESM.

<sup>44</sup> To achieve target balances in 2021 and 2022, the forecast of the gross debt, using the assumptions underlying the Draft Budget of the General Government, assumes adoption of additional unspecified measures in the amount of EUR 770 million or EUR 1,246 million. The unspecified measures also reduce the cash deficit used in the debt forecast above the scope of the data presented in Chapter 2.3 of the Budget Book.

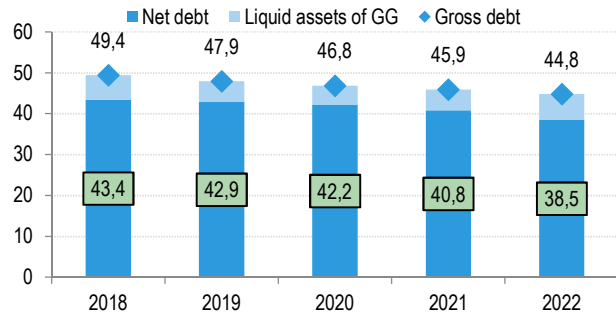
<sup>45</sup> In relation to purchase of military assets, which, under ESA 2010 methodology is not recognised in the accrual balance until the moment of delivery of goods.

<sup>46</sup> Presently, there is not standardized methodology which would clearly define quantification of net debt. MF SR applies the concept of netting off the amount of gross debt by liquid financial assets (LFA), in particular deposits to accounts of general government entities. Net financial debt = Maastricht (gross) debt – gold and SDR – cash – securities – listed shares. Calculation of net debt makes allowance for cash held on accounts of all general government entities. Presently, the general government does not hold any listed shares, gold and SDR on its accounts.

<sup>47</sup> In particular, the Social Insurance Company, Environmental Fund, National Nuclear Fund and higher territorial units.

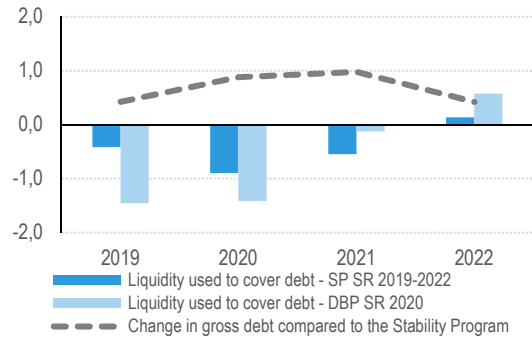


FIGURE 21 – Net debt (% of GDP)



Source: MF SR

FIGURE 22 – Use of liquid funds of the Treasury (% of GDP)



Source: MF SR

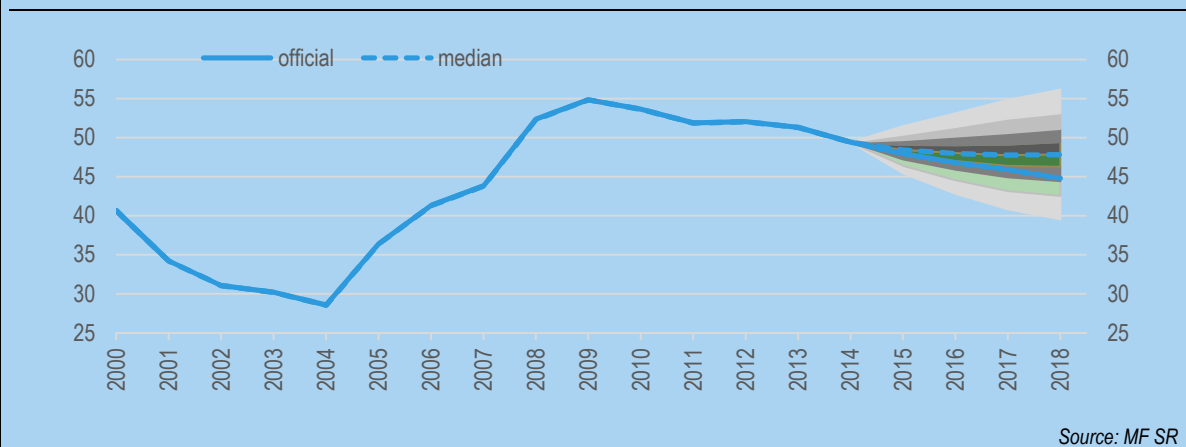
**BOX 6 - Stochastic forecast**

**Model forecast of general government’s debt indicates reduction of the debt, although it is more conservative over the whole horizon.** Lower contributions of the primary balance to reduction of the debt are the key difference between the two forecasts. Another factor that is likely to contribute to the difference is a more active management of the state’s liquid assets included in the official forecast.

Under the stochastic model, the probability of decrease of the debt ratio below the present value by the end of the horizon is around 65%. At the end of the forecasted horizon, in 2022, the median level of the stochastic debt forecast is 3.0 p. p. above the official estimate (47.8 vs. 44.8 % of GDP) and 68% of scenarios simulated in the stochastic model exceeded in 2022 the official debt forecast.

The model forecast is based on the stochastic model. The advantage of such approach is the lower demand on the input assumptions. It provides an independent source of debt estimate as well as quantification of the forecast risks. On the other hand, the weakness of this approach is that it only takes into account a limited amount of information and presumes that interactions among the components of the model will be the same during the forecasted period as they were in the past. The fan-shaped figure is a visual presentation of a large number of random simulations of debt levels over the horizon of the forecast, generated in the stochastic model. The methodology of the estimate is available in the Draft Budgetary Plan for 2016.

FIGURE 23 – Stochastic forecast of the debt (% of GDP)



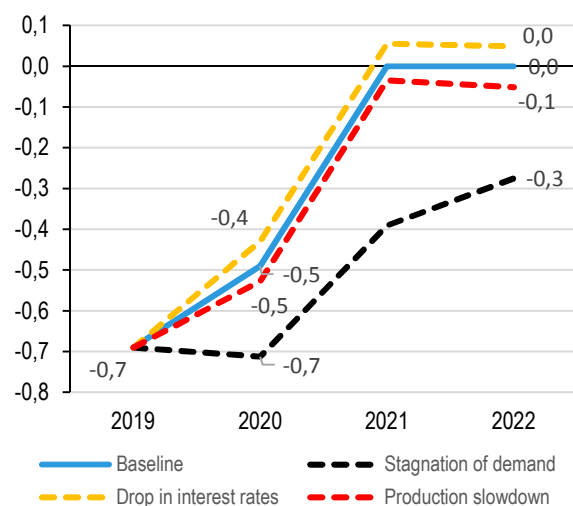
Source: MF SR

### IV.3. Forecast of the general government's gross debt in risk scenarios

The simulation of selected risk scenarios<sup>48</sup> does not indicate a significant deviation of the general government gross debt and nominal deficit forecast from the baseline scenario. For both fiscal indicators, the baseline scenario is based on the latest MF SR forecast, estimated performance in the current year (Chapter 2) and the latest budget objectives of the government from 2020 to 2022 (Chapter 3). In the baseline scenario<sup>49</sup>, MF SR assumes that the gross debt remains below the lower threshold of the debt brake. However, under more negative development, the debt is likely to exceed the lower threshold.

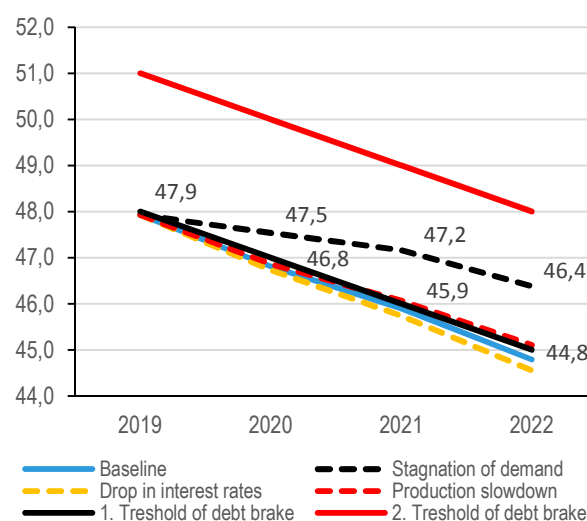
In this case, the most risky scenario is the stagnation of external demand in the first half of 2020, under which the gross debt could increase by 1.6 p.p. compared to the baseline scenario. Somewhat negative impact has also a slowdown in the domestic production, under which the gross debt would exceed the lower threshold in 2021 and 2022. On the other hand, under more expansive monetary policy of the ECB, the gross debt would be deeper below the level of the lower threshold in all forecasted years.

FIGURE 24 - Nominal balance of general government in the baseline and risk scenarios (% of GDP)



Source: MF SR

FIGURE 25 – General government gross debt in the baseline and risk scenarios (% of GDP)



Source: MF SR

#### Scenario 1: External demand stagnation

In the first scenario, we simulate a stagnation in the external demand in the first half of 2020. The latest MFSR forecast assumes deceleration in the economic growth rate of our key business partners in both short-term and medium-term horizon. However, the adverse economic development in Germany and potential response in the V3 region (i.e. Czech Republic, Hungary, Poland) raise concerns that the slowdown in the euro area may halt the growth in foreign trade in the first two quarters of 2020. Stagnation of the external demand is specifically simulated as the zero quarter-on-quarter growth of weighted foreign imports during the first two quarters of 2020, which means a decline in the growth rate by approx. 0.9 p.p. during both quarters.

<sup>48</sup> Preparation of the risk scenarios is also based on the requirement of the Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.

<sup>49</sup> Deficit 0.68% of GDP and 0.49% of the GDP in 2019 and 2020 and achieving a balanced budget in 2021 and 2022.

**Decline in the external demand would cause a cumulative reduction in the real gross domestic product of Slovakia by 0.8 p.p. by 2022.** The negative demand shock will immediately affect domestic exports. With lower sales, firms will have to reduce wage costs and investments when compared to the baseline scenario. Lower wages and employment will dampen households' consumption. Declining output gap will ease the inflation pressure in the economy. Lower tax revenues due to cyclical development will push down the government budget balance by 0.3 per cent of GDP by the end of the horizon. This will increase the gross debt cumulatively by 1.6 p.p. of GDP in 2022 when compared to the baseline scenario.

**TABLE 4 – External demand stagnation**

The cumulative change in growths of individual variables vs basic scenario is given in p.p. Total balance of the general government is shown as a change in the given year, gross debt of the general government is shown as a cumulative change.

	Real GDP	Consumer prices	Output gap	Private consumption	Public consumption	Real investments	Real exports	Employment	Nominal wages	GG balance (% of GDP)	GG debt (% of GDP)
2020	-0.9	-0.2	-0.9	-0.5	-0.6	-1.0	-1.6	-0.2	-0.8	-0.2	0.7
2021	-1.0	-0.7	-0.9	-0.5	-0.7	-1.1	-1.7	-0.9	-0.8	-0.4	1.3
2022	-0.8	-1.1	-0.7	-0.3	-0.8	-0.9	-1.6	-1.1	-1.2	-0.3	1.6

Source: MF SR

### Scenario 2: Decline in interest rates

**In the second scenario, we assume a decline in the short-term and long-term interest rates caused by a more expansionary monetary policy of the ECB.** Stronger response of the central bank to the economic slowdown in the euro area will reduce the short-term interest rate on deposits by 0.2 p.p. and together with the quantitative easing it will also reduce the long-term interest rate with a maximum impact of 0.5 p.p.

**The decline in interest rates will spur consumption and investments with the cumulative effect on real GDP of approx. 0.1 p.p.** The strongest effect is observed in the investment channel. The effect on consumption is subdued as the space for further drop in short-term interest rates is limited. The labour market and the price level respond in line with more favourable development of the economy. Government balance improves not only because of economic conditions but also because of the decline in the interest rate costs. The general government gross debt will consequently fall by more than 0.2 p.p. of GDP.

**TABLE 5 – Decline of interest rates**

The cumulative change in growths of individual variables vs basic scenario is given in p.p. Total balance of the general government is shown as a change in the given year, gross debt of the general government is shown as a cumulative change.

	Real GDP	Consumer prices	Output gap	Private consumption	Public consumption	Real investments	Real exports	Employment	Nominal wages	GG balance (% of GDP)	GG debt (% of GDP)
2020	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	-0.1
2021	0.1	0.0	0.1	0.1	0.2	0.3	0.0	0.0	0.1	0.1	-0.2
2022	0.1	0.1	0.1	0.1	0.3	0.4	0.0	0.1	0.1	0.0	-0.2

Source: MF SR

### Scenario 3: Slowdown in domestic production

**In the third scenario, we simulate a slowdown in the potential production of local companies via lower productivity and potential employment.** The protracted negative economic outlook may bring structural changes to the domestic economy, which could lower both the productivity growth and the potential employment. Unlike demand shocks, supply shocks start more gradually, yet last for a longer period of time, following weaker production capacities of local companies. We simulate a slowdown in the domestic production as an average decrease in the year-on-year productivity growth by 0.1 p.p. along with an average increase of the potential unemployment rate



by 0.2 p.p. and an average decline in the potential participation rate by 0.3 p.p. on the forecast horizon.

**The slowdown of potential production leads to lower activity of domestic companies and cumulative reduction of real GDP by 0.7 p.p.** Weaker production capacities will dampen investments and exports leading to layoffs. Thus, both private and public consumption will decline. Consumer prices and nominal wages will slightly increase in line with widening of the output gap responding to production shocks in the economy. Thus, the impact on the budget balance would be relatively low, although the structural position would worsen. Nominal balance of the general government will decline by 0.1 p.p. of GDP by the end of the horizon, which will cause a cumulative increase in the gross debt by 0.3 p.p. of GDP.

**TABLE 6 - Slowdown of domestic production**

The cumulative change in growths of individual variables vs basic scenario is given in p.p. Total balance of the general government is shown as a change in the given year, gross debt of the general government is recognised as a cumulative change.

	Real GDP	Consumer prices	Output gap	Private consumption	Public consumption	Real investments	Real exports	Employment	Nominal wages	GG balance (% of GDP)	GG debt (% of GDP)
2020	-0.1	0.0	0.2	0.0	0.0	-0.1	-0.2	-0.2	0.2	0.0	0.1
2021	-0.3	0.2	0.2	-0.2	-0.2	-0.4	-0.5	-0.4	0.3	0.0	0.2
2022	-0.7	0.2	0.1	-0.5	-0.4	-0.8	-0.8	-0.6	0.3	-0.1	0.3

Source: MF SR

## V. General government balance under NPC scenario and description of budget measures

*Under the assumption of no changes in economic policies, operation of the general government would in 2020 get in a mild surplus at 0.09% of GDP (vs the budgeted deficit of 0.49% of GDP). An incentive is provided on the revenue side, in particular in form of new tax and social contribution measures, in the amount of 0.3% of GDP. This, in particular, involves increasing of non-taxable part of the tax base, lower VAT rate on food, lower income tax rate for small companies and self-employed persons. Another factor having a positive impact on tax revenues is the increase in excise tax on tobacco. Total expenditures of the general government are growing by 0.2% of GDP vs the no-policy-change scenario, which refers, in particular to legislative increasing of social benefits. In the health sector, expenditures are reallocated in the amount of 0.1% of GDP as a part of the process of increasing the value for money in the sector. These savings have only a mild subduing effect on total growth of expenditures in the health sector, which is by 0.1% of GDP higher compared to the no-policy-change scenario. The reduction of deficit is primarily caused by reduction of capital expenditures (0.4% of GDP), and the factors contribution thereto include, in particular, commitment of expenditures in defence and transportation sectors (in the amount of 0.2% of GDP). Local governments are also expected to have a subdued growth of investment expenditures compared to GDP growth.*

### V.1. No-policy-change scenario in 2020-2022

**The no-policy-change scenario (NPC) illustrates a reference development in public finance under the assumption of unchanged legislation and updated estimate of macroeconomic development.** The benefit thereof is quantification of the approximate size of new consolidation and/or expansive measures for meeting medium-term objectives. The scope of the measures can be quantified by comparing the balance of the general government's operation in the NPC scenario to the approved medium-term budget objectives. The starting point for development of the no-policy-change scenario for 2020 through 2022 is the ongoing monitoring of the general government deficit in 2019 in the amount of 0.68% of GDP. The year-on-year development of the balance under the no-policy-change scenario in the period 2019 through 2022 is also influenced by the adopted measures before the base year 2019, in particular valorisation of wages by 10 % for 2019 and 2020 and measures for improving collection of taxes (eKasa, nano-markers). For complete list of measures, irrespective of the year of adoption, see Annex 7. This Chapter, in accordance with the NPC scenario methodology describes only newly adopted measures since 2019.

**If there are no changes in economic policies from 2019, then in 2020 the general government would end up in a mild surplus at 0.09% of GDP (compared to the budgeted deficit of 0.49% of GDP).** The difference in the general government balance when comparing the draft budget for 2020 and the no-policy-change scenario, is 0.58% of GDP. On the expenditure side, the growth vs the NPC scenario is 0.2% of GDP. On the other hand, the revenue side experiences a fiscal expansion owing to new tax and social contribution measures.

**Under the NPC scenario, in 2021 and 2022 the general government's results would worsen, ending up with a deficit of 0.21% or 0.68% of GDP, respectively.** In 2021 and 2022, the budgeted revenues are, again, lower compared to the NPC, which is further counterbalanced by lower investment expenditures compared to the NPC scenario. The factor contributing to mitigation of the difference between the targeted general government's results and the NPC scenario balance is the lower valorisation growth rate (2%) assumed in 2021 and 2022 compared to the expected growth rate of salaries in the private sector. The budget so far does not include specified measures for 2021 and 2022 in the amount of 0.7% and 1.2% of GDP, respectively, which are necessary to meet the objective of balanced budget.



**TABLE 7 - Comparing the balance of expenditures and revenues and the NPC scenario in 2020 - 2022 (% of GDP)**

	ESA code	NPC			Draft GG Budget			Draft GG Budget -NPC		
		2020	2021	2022	2020	2021***	2022***	2020	2021	2022
Taxes on production and imports	TR	40.02	39.67	39.57	39.64	39.65	39.75	-0.38	-0.02	0.18
Current taxes on income, wealth, etc	D.2	11.6	11.2	11.2	11.7	11.3	11.3	0.0	0.1	0.0
Capital taxes	D.5	7.4	7.4	7.3	7.1	7.1	7.1	-0.3	-0.3	-0.2
Social security contributions	D.91	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property income	D.61	15.1	15.1	15.0	15.1	15.0	15.0	0.0	0.0	0.0
Taxes on production and imports	D.4R	0.6	0.6	0.5	0.6	0.6	0.5	0.0	0.0	0.0
Other*		5.2	5.4	5.5	5.1	5.6	5.9	-0.1	0.2	0.4
Unspecified revenue measures		0.0	0.0	0.0	0.0	0.4	0.6	0.0	0.4	0.6
<b>Total expenditures</b>	<b>TE</b>	<b>39.93</b>	<b>39.88</b>	<b>40.26</b>	<b>40.13</b>	<b>39.65</b>	<b>39.75</b>	<b>0.21</b>	<b>-0.23</b>	<b>-0.51</b>
Compensation for employees	D.1P	9.8	9.8	9.8	9.9	9.8	9.7	0.1	0.0	-0.1
Intermediate consumption	P.2	5.5	5.5	5.4	5.5	5.5	5.4	0.0	0.0	0.0
Subsidies	D.3P	0.5	0.5	0.4	0.5	0.5	0.4	0.0	0.0	0.0
Interest expense	D.41P	1.1	1.0	0.9	1.1	1.0	0.9	0.0	0.0	0.0
Total social transfers	D.6P,D632	18.3	18.0	17.7	18.7	18.4	18.1	0.4	0.4	0.4
Incl.: unemployment benefits		0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.0	0.0
Gross fixed capital generation	P.51G	2.3	2.4	3.4	1.9	2.0	3.1	-0.4	-0.4	-0.3
Capital transfers	D.9P	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.0	0.0
Other**		2.2	2.5	2.4	2.4	2.2	1.9	0.2	-0.2	-0.4
Unspecified expenditure measures		0.0	0.0	0.0	0.0	-0.4	-0.6	0.0	-0.4	-0.6
<b>General government balance</b>	<b>B.9</b>	<b>0.09</b>	<b>-0.21</b>	<b>-0.68</b>	<b>-0.49</b>	<b>0.00</b>	<b>0.00</b>	<b>-0.58</b>	<b>0.21</b>	<b>0.68</b>

Note: \* P.11+P.12+P131+D.39rec+D.7rec+D.9rec (other than D.91rec)

Source: MF SR

\*\* D.29p+D.5p+D.7p+P.5M+NP

Note: The additional unspecified measures to achieve the targeted deficit of the GG budget in 2021 and 2022 are split in proportion 1:1 to current expenditures and discretionary revenue measures.

\*\*\* Technically, the assumption includes unspecified measures.

## V.2. Description of measures

### Measures in revenues

In the forecasted period, the revenue side of the budget is subject to outage of revenues compared to the NPC scenario in the amount of 0.38% of GDP. The new tax and social security contribution measures were adopted in two steps – several measures were adopted in May as a part of the amendment of the Income Tax Act and/or other legislation. Further measures, as a part of the coalition package, were adopted in September, and come in force from 2020. The following section presents impact of revenue legislative measures and the aggregate differences vs NPC scenario on non-tax revenues and grants and transfers. The impact of the discretionary revenue measures is described in Annexes 6 and 7.

**TABLE 8 – Revenue measures included in the draft general government budget (ESA 2010, vs NPC)**

	Sub-sector	ESA2010	2020	2021	2022
<b>Total tax and social contribution revenues</b>	<b>S. 13</b>		<b>-0.25</b>	<b>-0.23</b>	<b>-0.22</b>
<b>Taxes on production</b>	<b>S. 13</b>	<b>D.2</b>	<b>0.02</b>	<b>0.05</b>	<b>0.05</b>
Increased excise tax on tobacco products			0.10	0.13	0.13
Decreased VAT rate on selected food items			-0.08	-0.08	-0.08
Other (below 0.01% of GDP)			0.00	0.00	0.00
<b>Taxes on income</b>	<b>S. 13</b>	<b>D.5</b>	<b>-0.26</b>	<b>-0.25</b>	<b>-0.24</b>
Increase in non-taxable part of the tax base to 21 multiple of minimum subsistence level			-0.14	-0.13	-0.13
Income tax rate for the self-employed and firms reduced to 15% for turnover < EUR 100k			-0.06	-0.06	-0.06
Increasing deduction for science and research to 150% from 2019 and 200% from 2020			-0.02	-0.02	-0.03
Tax loss deduction for other firms max. to 50% of the tax base over 5 years			0.00	0.03	0.03
New depreciation group for electric vehicles			-0.02	-0.02	-0.01
Other (below 0.01% of GDP)			-0.02	-0.05	-0.04
<b>Social contribution revenues</b>	<b>S. 13</b>	<b>D.61</b>	<b>-0.01</b>	<b>-0.04</b>	<b>-0.03</b>
13th and 14th salary - legislative changes			-0.01	-0.03	-0.02



Other (below 0.01% of GDP)			0.00	-0.01	-0.01
<b>Total non-tax revenues</b>	<b>S.13</b>	<b>P.11+P.12</b>	<b>0.09</b>	<b>0.03</b>	<b>0.01</b>
<b>Grants and transfers</b>	<b>S.13</b>		<b>-0.21</b>	<b>-0.19</b>	<b>-0.19</b>
<b>TOTAL</b>			<b>-0.38</b>	<b>-0.40</b>	<b>-0.40</b>

Source: MF SR

## Package of measures

**The amendment of the VAT Act introduced a reduced 10 % rate for selected food items (in particular fruits and vegetables).** The selected food items also include sheep cheese (bryndza), natural honey, potatoes, tomatoes, onion, cauliflower and other food items. Further adjustment adopted by this Act is the reduced 10 % rate on newspapers, magazines and periodicals issued at least 4 times a week.

**As a part of the effort to increase disposable income earned by employees and self-employed persons, the Government increased the amount of the non-taxable part of the tax base for taxpayers** by increasing the coefficient from 19.2 multiple of the minimum subsistence income to 21 multiple of the minimum subsistence income. Besides the abovementioned, a change was also made to the level since when the non-taxable part of the tax base starts falling, from the 100 multiple of the minimum subsistence income to 92.8 multiple of the minimum subsistence income. Another measure supporting small businesses is the reduction of the rate to 15% for the group of self-employed persons whose annual income does not exceed EUR 100 thousand. Self-employed persons exceeding the EUR 100 thousand limit will be subject to the 19% and 25% tax rates, as before.

**In corporate income tax, the rate will be reduced to 15% for legal entities with annual revenues (income) below EUR 100 thousand.**

**The amendment of the Income Tax Act introduced a new category in the tax system – so-called “micro-taxpayer”.** It means a natural person or a legal entity with turnover below EUR 49,790. Effective from 2021, micro-taxpayers will be allowed to choose any depreciation period, carry forward their tax loss over 5 years without limitation and, at the same time, will be allowed to claim their value adjustments as tax expenditures in accordance with the valid accounting procedures, without limitations applied by the present wording of the Act. On the other hand, firms not meeting the definition of a micro-taxpayer, can carry forward their tax losses over 5 years, however, up to 50% of the tax base compared to the present 25% of the amount of the loss. Another from the series of measures aimed to support the business environment is increasing the limit for payment of quarterly advance payments from EUR 2,500 to EUR 5,000 for both natural persons and legal entities.<sup>50</sup> Based on available data, approximately 15% of total amount of advance payment is paid one month to one year after the due date. The shift of the cash backlog to 2022 (unpaid tax settlement for 2021) will result in an accrual outage in 2021.

**Sports vouchers for children and youth introduce a new form of employee benefit.** The terms for application and exemptions are similar to recreation vouchers. Entitlement to receiving a recreation voucher in the amount of EUR 500 is earned by an employee who worked at least 2 years and his/her child is below 18 years of age and is a member of a sports organization for at least six months. The amendment also slacks the requirement for the 13th salary. Now it must be at least in the amount of EUR 500, while the former wording required the amount of an average wage. The quantification makes allowance for the effect of actual payment of the 13<sup>th</sup> salary for 2019.

**To support mobility of labour, the benefit in kind for accommodation will be increased from EUR 60 to EUR 100 per month.** Along with this change, effective from 2021 adjustment is made also to providing a benefit in kind for transportation in the amount of EUR 100 per month. The present system is getting harmonized with the existing system of paid benefits for rented housing through introduction of a lump-sum allowance.

**The amendment of the Act on payment for services provided to the public by Slovak Radio and Television exempt pensioners<sup>51</sup> the fees.**

<sup>50</sup> The fiscal effect is expected in 2021, as lower advance payments will be reflected in a higher settlement.

<sup>51</sup> This means beneficiaries of pensions having no regular in earning and not sharing a household with other person with a regular earning and persons receiving “benefit in material need” and persons considered jointly with the beneficiary of the benefit in material need.

## Other tax measures

**The Slovak Government approved increasing the excise tax rate on tobacco products.** The minimum rate on cigarettes will go up to EUR 116.5 /1000 pcs. The specific portion of the combined rate on cigarettes will be increased by EUR 10.5 /1000 pcs to the resulting EUR 74.6 /1000 pcs. The tax on smokeless tobacco products will also be increased to EUR 146.1 /kg. This measure will have a positive impact on tax revenues of the general government.

**Amendment of the Income Tax Act from January 2019 brings a number of changes.** It introduces a new depreciation group with depreciation period of 2 years, applicable to battery-charged electric vehicle or plug-in hybrids. This legislation will be retroactively applied to both new vehicles and vehicles purchased in the past. In the same year, the option to deduct expenditures science and research is extended from 100% of expenditures recognised in accounting to 150 % in 2019 and 200% in 2020.

**As a prevention of tax evasion, we introduced and online evidence of revenues (eKasa) and fuel marking (nano-markers).** Every invoice issued will be registered in the central repository and thus the financial administration will be immediately notified of the transactions. Since July 2019, entities using electronic cash registers are obliged to shift to eKasa system. Owing to lack of the cash registers at the market the starting date for sanctioning a not using the eKasa system was postponed to the beginning of 2020. Another measure is marking of fuel using a special identification substance, so called nano-marker, to prevent non-registration of income in final consumption and a better targeting of controls focused on registration of sales. The system will enable a more efficient control over fuel sold in Slovakia, which will be reflected in lower amount of tax evasions and a higher quality of fuel. The obligation to use nano-markers will apply to all entities producing and importing fuel. Considering the fact that this measure was approved in 2018, it is not presented separately, in accordance with the NPC Manual (TABLE 8).

## Non-tax revenues, grants and transfers

**In non-tax revenues,** we expect a temporary increase above NPC in 2020, which is given by higher sales generated by healthcare facilities (EUR 90 million, 0.1% of GDP). In the past years, the estimate in the budget has been higher than assumed by the NPC.

**Grants and transfers have been estimated lower in the budget than in the NPC scenario,** in particular owing to lower foreign capital grants for the Railways of the Slovak Republic (EUR 70 million, 0.07% of GDP), healthcare facilities (EUR 17 million, 0.02% of GDP) and the National Highway Company (EUR 13 million, 0.01% of GDP). In case of the state budget (EUR 55 mil., 0.06% of GDP) and public universities (EUR 19 million, 0.02% of GDP) it is a decrease on current transfers.

## Expenditure measures

**In the following year, the budget expenditures will see an increase of against the NPC scenario in the amount of 0.2% of GDP.** The factors accelerating the growth in expenditures above the NPC level are, in particular, the increase in social benefits and additional finance provided to the health service sector. The growth of expenditures is subdued by saving measures in the health services sector, intermediate consumption and capital investments.

**TABLE 9 – Expenditure measures included in the general government budget (ESA 2010, vs NPC)**

	Sub-sector	ESA2010	2020	2021	2022
Compensations	S.13	D.1	-0.09	0.01	0.13
Intermediate consumption	S.13	P.2	0.03	0.04	-0.02
Subsidies	S.13	D.3p	-0.01	-0.01	0.00
<b>Total social transfers, thereof:</b>	<b>S.13</b>	<b>D.6P</b>	<b>-0.41</b>	<b>-0.41</b>	<b>-0.41</b>
Increasing parental benefits			-0.17	-0.16	-0.16
Increasing Christmas benefit			-0.09	-0.09	-0.08
Increasing benefit for disability nursing (allowance for care of the disabled)			-0.04	-0.04	-0.04
Retirement age growth slowdown (amendment to the Social Insurance Act)			-0.03	-0.04	-0.05





Allowance for first-graders at primary school (amendment to the Child Allowance Act)			-0.01	-0.01	-0.01
Additional finance to the health service sector	S.13	D632	-0.06	-0.07	-0.07
<b>Other current transfers</b>	<b>S.13</b>	<b>D.7p</b>	<b>-0.17</b>	<b>-0.13</b>	<b>-0.14</b>
<b>Capital expenditures, thereof:</b>	<b>S.13</b>		<b>0.45</b>	<b>0.36</b>	<b>0.37</b>
Anticipated savings in capital expenditures in defence			0.08	0.00	0.05
Anticipated savings in capital expenditures in transportation			0.10	0.10	0.09
Municipalities			0.08	0.07	0.03
Railways of the Slovak Republic			0.09	0.09	0.08
<b>TOTAL</b>			<b>-0.21</b>	<b>-0.14</b>	<b>-0.07</b>

Note: (+) increase in revenues and decrease in expenditures

**Over the whole budgeted period, the growth of compensations decelerates compared to the NPC scenario.** Valorisation of salaries of civil servants, teaching staff and university teachers in 2020 is included in the NPC scenario as the memorandum was signed in 2018 and pursuant to the NPC methodology, it is not recognised as a measure<sup>52</sup>.

**Intermediate consumption expenditures grow at a slower pace than under the NPC scenario in 2020 and 2021.** The largest amount of anticipated savings refers to expenditures for modernization of defence. Despite the savings, the growth rate of expenditures on modernization of defence is expected to maintain a dynamic pace which would push the general government's total intermediate consumption above the NPC level in 2022. Anticipated savings in operating costs and current expenditures will affect the Ministry of Interior, Ministry of Agriculture, Ministry of Justice and the Ministry of Finance.

**Social benefits are substantially increasing compared to NPC scenario, owing to the newly adopted legislation in 2019.** Expenditures grow due to an increase in parental benefit and introduction of two levels of the benefit<sup>53</sup>. Pension benefits are higher owing to doubling of Christmas benefit. The adopted amendment of the Social Insurance Act slowed down the growth of the retirement age. An allowance of EUR 100 was established for first-graders of primary schools to cover costs related to starting the first grade of primary school. An amendment of the Act on Cash Benefits for Compensation of Severe Disability increased the benefit for assistance and cash contributions for disability nursing. Thus, those doing disability nursing get a benefit equal to the amount up to minimum wage. Over the budgeted period, the growth of expenditures will slow down on this item. It is assumed that measures will be implemented to minimize the negative trends observed recently in expenditures in sickness insurance and unemployment insurance.

**Social transfers in kind over the forecasted period are characterised by higher growth rate compared to the NPC scenario owing to higher expenditures in the health service sector.** The increase in expenditures in public health insurance is intended for additional finance to cover the increasing wages earned as a result of the growth in minimum wage, salaries of healthcare staff and introduction of recreation allowances, as well as coverage of higher operating costs.

#### BOX 7 – Savings from healthcare spending review

**In 2020, based on the agreement between the Ministry of Finance and the Ministry of Health, it is possible to save EUR 148 million without a negative effect on the results of provided healthcare.** The overall annual potential of the saving measures identified by the Healthcare spending review is EUR 542 million. The measures require a gradual launching, some of them up to 10 years.

**Almost all savings in health services in 2020 (EUR 144 million) is made directly in health insurance, in natural social transfers.** Majority of the savings are due to lower expenses for drugs (EUR 114 million). Improved

<sup>52</sup> For the purposes of the NPC scenario, compensations in 2020 were indexed by 9.3%, which refers to assumed growth in compensations in the general government net of impact of EU funds and SF for 2020 under the general government budget for 2019-2021. In 2021-2022 the compensations are indexed by growth in wages in the private sector.

<sup>53</sup> From the original amount EUR 220.7 it will be increased to EUR 370 for those eligible persons who were receiving maternity benefits or other similar benefits in a member state. If the eligible person does not meet the requirement, then he/she will be entitled to receiving an allowance in the amount of EUR 270.

effectiveness of operation of the public health insurance company (VšZP) will be reflected in lower expenses for compensations of employees and intermediate consumption.

**TABULE 10 – Value for money saving measures**

(GG expenditures)	ESA 2010	2020	2021	2022	Potential
Compensation of employees	D.1	-1	-3	-4	-4
Intermediate consumption	P.2	-3	-8	-11	-11
Social transfers in kind	D.632	-144	-241	-318	-527
<i>of this:</i>					
<i>Drugs</i>		-114	-158	-179	-216
<i>CT, MR a lab. vyšetrenia a iné</i>		-10	-26	-43	-43
<i>Medical devices</i>		-10	-15	-20	-20
<i>Others</i>		-11	-41	-76	-247
<b>Total savings</b>		<b>-148</b>	<b>-251</b>	<b>-333</b>	<b>-542</b>

**The savings measures countervail the growth in expenditures in public health insurance resulting from the change in the policies partly contributing to increasing the value.** In contrast to the NPC scenario, the budgeted expenditures for public health insurance will experience a mild growth by EUR 19 million, despite the savings measures. The growth of the expenditures will be, in particular, caused by the additional financing provided to hospital health care (EUR 38 million), entry of newly categorised pharmaceuticals (EUR 19.5 million) or extension of the scope of pharmaceuticals covered by health insurance on a long-term basis (EUR 35 million). The effect of deferred old contracts from 2019 will increase the expenditures by further EUR 33 million.

**TABULE 11 – Expenditures for public health insurance**

<b>NPC in 2020</b>	<b>5 399</b>
Changes in policy	167
Austerity measures	-148
<b>Budget proposal 2020</b>	<b>5 418</b>

Source: Draft GG budget 2020-2022

**Higher other current transfers** refer to the increase in the budgeted expenditure of the Ministry of Education and the Ministry of Welfare. The Ministry of Education is planning higher expenditures for financing dual education, supporting science and research projects of the Slovak Research and Development Agency and financing of sports.

**The highest savings compared to the NPC scenario are achieved in capital expenditures.** They are caused by anticipated savings in investment expenditures of the Ministry of Defense related to development of armaments, equipment and materials. Additional anticipated savings of the Ministry of Transportation will have an impact on the expenditures for GAP<sup>54</sup> and will reduce an amount of subsidies for construction and renovation of residential buildings (housing policy)<sup>55</sup>. Capital expenditures of local government, Railways of the Slovak Republic and healthcare facilities will also be reduced.

### V.3. Revenue objectives of the general government budget

**Slovakia has the lowest total general government revenues in proportion to GDP compared to V3 countries and compared to average of the euro area.** In 2018, total revenues increased to the level of 40.8% of GDP in 2018 and the revenues are expected to decrease to 40.1% of GDP in 2019 and then it is expected to experience a mild growth to 39.6% in 2020 (FIGURE 26). Despite partial convergence in past years, Slovakia keeps reporting the lowest ratio of tax and social contribution revenues in proportion to GDP compared to average of the euro area and the other V4 countries. In the period from 2020 to 2022, total revenues under the draft budget of the general government will be falling, with tax revenues falling more slowly than non-tax revenues. The analytical decomposition to macroeconomic effects, effectiveness of tax rates and impact of legislation indicate decline in dynamism of revenue, in particular, owing to slower growth of macroeconomic bases. In 2020, it can be observed the impact of the adopted legislation since 2020 (FIGURE 27). The year-on-year dynamism of each of tax revenues forecasted by the Tax Revenue Forecasts Committee in proportion to GDP is relatively stable. An exemption are taxes not indexed

<sup>54</sup> GAP expenditures are additional investments from the state budget upon construction of major infrastructural projects financed from EU funds.

<sup>55</sup> GAP expenditures EUR 65.5 million (Slovak Road Administration EUR 7.42 million, Railways of the SR EUR 18 million and NDS EUR 40 million), subsidies for building and renovation of residential buildings EUR 20 million and EUR 3.62 million for implementation of sectoral policies.

by macroeconomic parameters (such as drop in excise taxes) and the corporate tax, which is falling over the forecasted period (FIGURE 28).

FIGURE 26 – Comparing the development of the general government revenues (% of GDP)

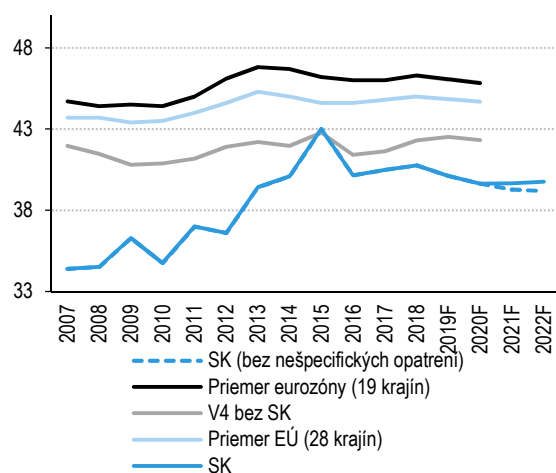
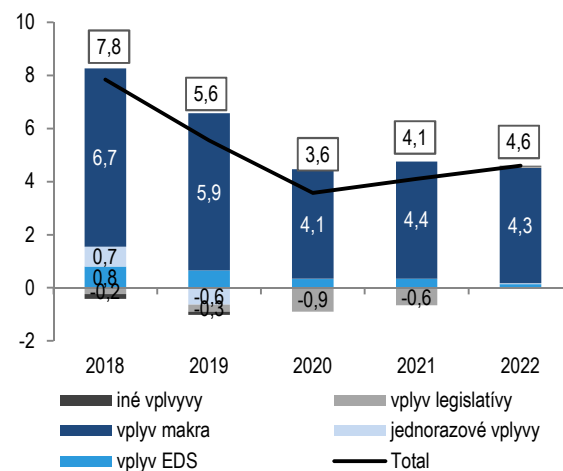


FIGURE 27 – Comparison of the growth of taxes and social contributions (year-on-year growth)\*



Source: Eurostat, TRFC, MF SR, AMECO

Note: The tax and social-contribution revenues equal to sum of ESA items D.2r, D.5r, D.61r and D.995r.

\* Approved by the Tax Revenue Forecasts Committee, which forecasts approx. 90 % of total tax revenues. It does not include the benchmark revision.

Note: To achieve the objectives of balanced budget in 2021 and 2022, it will be necessary to adopt additional measures in the amount of EUR 770 mil. (0.7% of GDP) and/or EUR 1,246 million (1.2% of GDP). Additional unspecified measures to achieve the targeted deficit of the GG budget in 2021 and 2022 are split in proportion 1:1 to current expenditures and discretionary revenue measures.

The measures adopted between 2012 - 2018 significantly improved the effectiveness of VAT collection (FIGURE 29). The fight against tax evasions was so far focused mainly on VAT, which contributed to decline of the gap, when during the period from 2012 to 2018 the fell from 41.0% to 26.9%. This trend is also confirmed by improved results of Slovakia's evaluation within the EU, supervised by the European Commission<sup>56</sup>. Under the EC's conclusion, in 2017, the VAT gap fell to 23.2%, which is a decrease by more than a third compared to 2012. A flash estimate made by EC for one year ahead signalizes a decrease also in 2018, however, the pace will decelerate and it is expected to drop to 22%. Despite a significant improvement, Slovakia still has a room for further closing of the gap towards the EU average, which is 11.5%. Introduction of eKasa system could again help to improve the indicator of the VAT gap.

FIGURE 28 – Development of tax revenues (% of GDP)\*

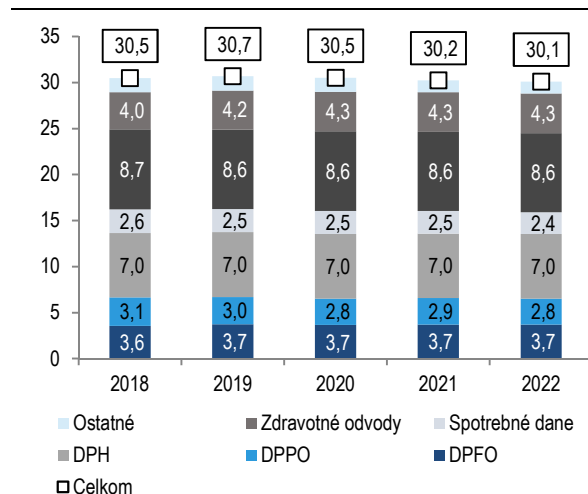
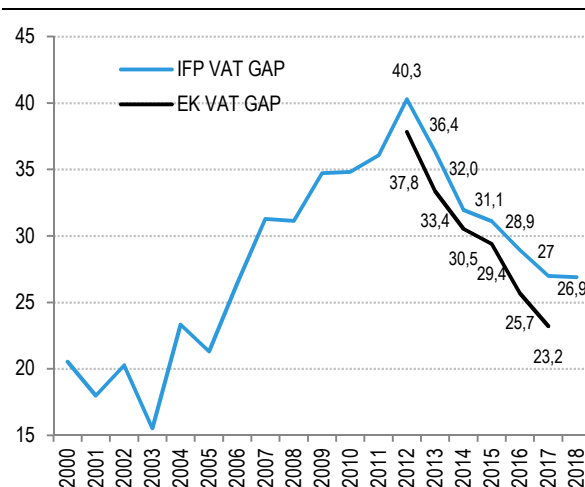


FIGURE 29 – VAT gap (% potential revenues)



Source: EC, Tax Revenue Forecasts Committee, MF SR

\* Approved by the Tax Revenue Forecasts Committee, forecasting approx. 90 % of all tax revenues. It does not include the benchmark revision.

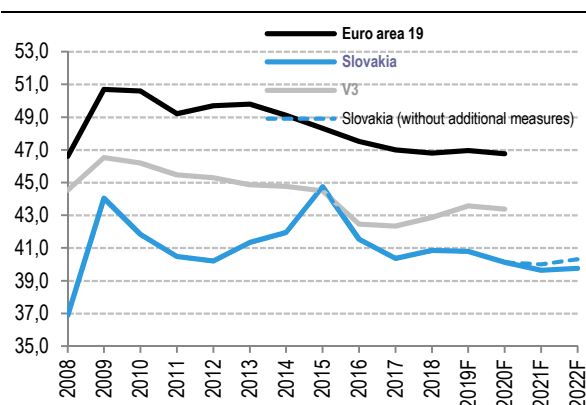
<sup>56</sup> Methodology of the European Commission is available at this [website](#).

## V.4. Expenditure targets of the general government budget by function

The ratio of total public expenditure to GDP in Slovakia has long been below the Euro area average. Since 2015, when drawing of EU funds in the second programming period peaked, the ratio of public expenditures to GDP slowly decreases. It is expected that the proportion of GG expenditures to GDP remains stable over the period 2020-2022. A positive risk is carry-over spending of EU funds from previous years.

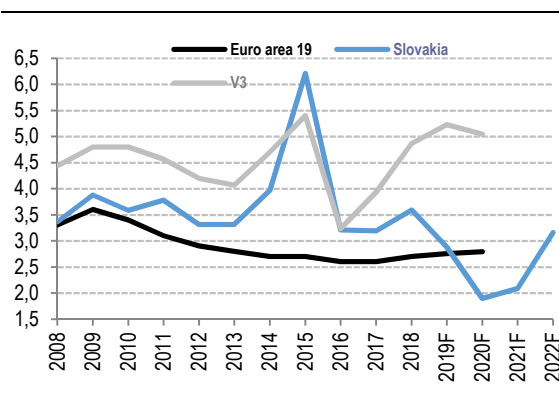
Over the budget horizon the proportion of capital expenditures in GDP converges to the euro area average. Compared to development in other V4 countries, Slovakia falls behind in the pace of EU funds drawing. After drawing of EU funds reached its maximum in 2015, the proportion of capital expenditures to GDP returned to the long-term average. In relation to the consolidation effort aiming to comply with fiscal rules, the Government decided to decrease capital investments in 2020 and 2021. However, at the end of the budgeted period the level of capital expenditures increases, covering substantial investments for modernization of defence. The additional positive risk is carry-over EU funds drawing and acceleration of drawing at the end of the 3rd programming period.

FIGURE 30 – Development of GG expenditures<sup>57</sup> (% GDP)<sup>58</sup>



\* EA19 (euro area average), V3 (V4 excl. SR) Source: Eurostat, AMECO, MF SR

FIGURE 31 – Development of GG capital expenditures (% GDP)



\* EA19 (euro area average), V3 (V4 excl. SR) Source: Eurostat, AMECO, MF SR

The international comparison of the structure of expenditures by their function compared to other V4 countries shows that Slovakia spends less on economic affairs<sup>59</sup>, recreation, culture and religion and education. The share of expenditures on GDP in the economic area has dropped owing to reversal of provisions for other items<sup>60</sup>. Compared to the average of other V4 countries, the proportion of expenditures in GDP was so far slightly higher only in social protection area. The opposite is true when comparing the same with the euro area average, where expenditures for social protection fall behind at most. One of the reasons is relatively lower expenditures for long-term care and other social services<sup>61</sup>. Another reason is the slower growth caused by lower indexation of valorisation of pensions compared to the growth of GDP. It is expected that in the future there will be a considerable increase in funds needed for financing, which will be related to the population ageing.

The proportion of total expenditures in GDP is stable over the entire horizon of the medium-term budget framework. Recently, there have been some mild changes in the structure, where, thanks to prioritization, the proportion of expenditures for education increased significantly. Despite the stable proportion in GDP, nominal expenditures for education will be growing over the entire budgeted period. Thus, by 2022, expenditures for education will increase by 15% compared to the present figures. In order to comply with international obligations and the subsequent modernization, expenditures for defence will increase above 2% of the GDP at the end of the

<sup>57</sup> Methodology of recording expenditures by functional classification can differ between countries. This can cause that in various countries different data can be presented under the same item (e.g. taxable and non-taxable pensions). COFOG classification also does not reflect expenditures realised through tax system (e.g. tax allowances for children).

<sup>58</sup> To achieve the objectives of a balanced budget in 2021 and 2022 it will be necessary to adopt additional measure in the amount of EUR 770 million (0.7 % of GDP) or EUR 1,246 million (1.2% of GDP). Additional unspecified measures for achieving the targeted deficit of the GG budget in 2021 and 2022 are split in proportion 1:1 to current expenditures and to discretionary revenue measures.

<sup>59</sup> In the economic area, major expenditures refer to transportation, agriculture and provisions not specified in detail.

<sup>60</sup> This involves, in particular, release of provisions earmarked for increasing wages in the general government by 10% in 2020.

<sup>61</sup> E.g. childcare, persons in emergency.



budgeted period. Thus, expenditures for defence under COFOG classification will significantly exceed the average level in other V4 countries, as well as the average of the euro area. The proportion of remaining items in GDP will be either falling or stagnating, which is caused, in particular, by higher expected growth of nominal GDP and slow drawing of EU funds.

**TABLE 12 - General government expenditures under COFOG classification**

Functions	COFOG code	SK (2017)	DGGB SK (2020)	DGGB SK (2021)	DGGB SK (2022)	V3 (2017)	EA 19 (2017)
		% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
1. General public services	1	5.6	5.1	5.1	4.8	5.4	6.1
2. Defence	2	1.0	1.1	1.4	2.2	1.2	1.2
3. Public order and safety	3	2.1	2.2	2.1	2.0	2.1	1.7
4. Economic affairs	4	4.1	3.5	3.4	3.7	5.8	4.2
5. Environmental protection	5	0.7	0.7	0.7	0.7	0.5	0.8
6. Housing and community amenities	6	0.5	0.4	0.4	0.4	0.7	0.6
7. Health <sup>62</sup>	7	7.1	7.6	7.6	7.5	5.7	7.1
8. Recreation, culture and religion	8	0.8	1.0	1.0	1.0	2.0	1.1
9. Education	9	3.8	4.3	4.3	4.3	4.9	4.5
10. Social protection	10	14.5	14.2	13.9	13.7	14.1	19.8
p.m. unspecified measures to achieve goals				-0.4	-0.6		
<b>Total expenditures</b>	<b>TE</b>	<b>40.2</b>	<b>40.1</b>	<b>39.6</b>	<b>39.8</b>	<b>47.2</b>	<b>47.0</b>
Total expenditures excl. additional measures*	TE	40.2	40.1	40.0	40.3	47.2	47.0

Note: DGGB –draft budget of the general government

Source: MF SR, Eurostat

Note: To achieve the objectives of a balanced budget in 2021 and 2022 it will be necessary to adopt additional measures in the amount of EUR 770 million (0.7 % of GDP) and EUR 1,246 million (1.2% of GDP) respectively. Additional unspecified measures for achieving the targeted deficit of the GG budget in 2021 and 2022 are split in proportion 1:1 to current expenditures and to discretionary revenue measures.

<sup>62</sup> The information about public expenditures for health service in the amount of 7.1% of GDP in 2017 is based on the COFOG methodology and ESA 2010 methodology. Under the SHA methodology (System of Health Accounts) and OECD data, expenditures for health services are estimated in 2018 at the level of 5.4% of GDP. COFOG and ESA 2010 include double-counting of expenditures of public hospitals..



## VI. Linking the budgetary plan to the objectives of the Growth and Employment Strategy and Country-specific Recommendations of the EU Council

*The government responds to recommendations of the EC through structural measures focused on major challenges of the Slovak economy – primary and lower secondary education, labour market and healthcare. Improving attractiveness of teaching profession through increasing teachers' salaries remains the priority in education. Measures in education are also focused on improving the quality of tertiary education and strengthening of inclusion in pre-primary education. Implementation of projects aimed at increasing social integration of marginalized Roma communities and employability of disadvantaged groups in the labour market further continues. Employability of women is also supported by increasing capacities of childcare facilities for children below 3 years of age and flexible forms of employment. Since 2020, the conditions for providing support for rental housing will improve to help promote labour mobility. Implementation of measures from spending reviews on healthcare gradually improves efficiency of public expenditures on public health insurance. Implementation of a number of measures for reducing administrative burden for businesses will further continue. A better functioning of the general government and the justice should bring such measures as resolution of old distraint proceedings, protection of whistleblowers, or hosting judges.*

### VI.1. Structural measures

The key challenges in terms of falling behind other countries include quality of primary schools, the labour market and the quality of healthcare<sup>63</sup>. These issues overlap with specific recommendations from the European Semester held in July 2019<sup>64</sup>. Additional challenges identified for Slovakia in the specific recommendations include sustainability of public finance, investments in infrastructure in a number of structural areas, effectiveness of the judicial system and fight against corruption. This chapter describes major structural measures in these and in other areas, which are implemented by the Slovak Government or which the Slovak Government intends to implement in the next two years in accordance with the National Reform Programme of the SR 2019.

**CSR 1 – Achieve the medium-term budgetary objective in 2020. Safeguard the long-term sustainability of public finances, notably that of the healthcare and pension systems.**

**Implementation of measures from two health care spending reviews gradually improves the cost effectiveness of the sector.** Yet, the expenditure of university hospitals grow, mainly due to automatic growth of wage bill spending. Implementation of a result-based budgeting system is being prepared, and this new system should help to link the allocated funds to actually achieved results. Thus, the budgetary spending from public health insurance for 2021 will be in more detailed program structure with measurable indicators for selected areas of the health care sector. As a part of the project of hospital stratification in 2019 the Ministry of Health introduced first legislative proposal. The strategy defining basic rules for providing long term care was approved by the Government in August 2019. In September, the Government also approved the first legislative proposal defining rules for hospital stratification. Another system currently in the process of implementation is the system of payments by diagnoses (DRG). This is expected to improve transparency in payments for health services and to improve the effectiveness in management of hospitals.

**The general retirement age keeps increasing with the aim to reduce expenditures for pensions, this however will only last until 2030.** Then it will stop at the level of 64 years and the maximum retirement age for women will be reduced depending on the number of children raised<sup>65</sup>. Implementation of the constitutional law on the cap for retirement age increases the pressure on long-term sustainability of the pension scheme. Under the original scenario, expenditures for pensions should increase from 8.6% of GDP in 2016 to 9.8% of GDP in 2070. Establishing retirement age cap is expected to increase expenditures in 2070 to 11.5% of GDP. As a part of implementation of the retirement age limit, further decrease in the growth rate of the retirement age was approved, both for men and women<sup>66</sup>.

<sup>63</sup> The priorities were identified in the National Reform Programme SR 2019.

<sup>64</sup> [Specific recommendations for Slovakia in 2019](#).

<sup>65</sup> Six months for every child raised, maximum by 1.5 year. The maximum retirement age for women who raised 3 and more children is approved at 62.5 years.

<sup>66</sup> [Parliament press No.1530](#). The slowdown of growth rate of retirement age increases expenditures for pensions above the level of the constitutional limit for retirement age. A stronger growth of expenditures for pensions can be expected after the draft regulation of minimum pension is approved ([Parliament press No. 1644](#)). Another reason for the growth of expenditures for pensions are already approved changes in Christmas pensions. In 2019, expenditures will grow

**Implementation of the default saving strategy and improving awareness of savers will result in a more effective pension saving.** Better performance of the II. and the III. pillar of the pension saving scheme will release the pressure of increasing benefits from the pay as you go I. pillar. This is expected to contribute to improving the long-term sustainability of public finance. At the end of 2017, up to 79% of savings in the II. pillar were in guaranteed bond funds with low profitability. A lifelong investing in conservative bond funds increases the risk of an inadequate pension over a long horizon. Implementation of a default saving strategy will thus help common savers to increase their savings in the II. pillar.<sup>67</sup> Pension savings can also be increased by regular sending of simplified saving statements in the II. and the III. pillar. Clear information about present and future pension savings were received by savers in the III. pillar in 2019, savers in the II. pillar will receive the information for the first time in 2021.

**CSR 2 – Improve the quality and inclusiveness of education at all levels and foster skills. Enhance access to affordable and quality childcare and long-term care. Promote integration of disadvantaged groups, in particular Roma.**

**The National Program for Development of Education approved by the Government provides strategic framework for improving the quality of education on the ten-year horizon.** Attractiveness of the teaching profession continues, particularly through repeated increases of teachers' salaries above the level declared by the *Policy Statement of the Slovak Government*. After several increases, effective from January 2020 salaries will be increased by another 10%<sup>68</sup>. Additionally, effective from September 2019, increased were tariff salaries for starting teachers by additional 9.5% with full impact on public finance from 2020. The new act on pedagogical employees and professional employees<sup>69</sup> regulates the link between compensation of teachers and the quality of their work by modification of attestation proceedings which are a condition for career promotion. A better preparation of future teachers is a subject of the recently announced call. Changes in the regulation of dual education encourage participation of schools and employers by reducing barriers to enter the system by direct subsidies provided to employers.

**In tertiary education a reform of the accreditation process is currently under way with the aim to comply with European standards.** The newly established Slovak Accreditation Agency will start its operation from January 2020. It is expected that external professionals will participate in evaluation of university research. The call to support development of professionally-oriented university study programs from December 2018 will ensure a better link with the labour market. To increase a share of private funds in university education, starting from the new academic year 2019/2020, the possibility to provide corporate scholarship to university students was introduced. This will make it possible for employers to improve incentives for students to attend fields of study with a shortage of graduates for the needs of the labour market.

**Various projects and measures are being implemented to support inclusion of children from socially disadvantaged background.** Starting from 2021, an amendment of the act on mandatory education in pre-primary schools comes in force and applies to all children aged 5 years. Implementation thereof will require expansion of the existing capacities of pre-primary schools, which will be financed primarily from structural funds. The government also continues implementation of national projects focused on supporting inclusive education of children with special needs in both pre-primary and primary schools and informal education of children from marginalized Roma communities (MRC)<sup>70</sup>. Children and pupils from disadvantaged environment are also supported by newly approved "free lunches" – a subsidy to support education to eating habits – for children of the last year of pre-primary schools from January 2019 and pupils of primary schools from September 2019. Full impact of the measure will be seen in 2020.

**Continued implementation of various projects to improve social integration.** These are national projects focused on support of inclusion of marginalized communities in social services and social work, education, settlement

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by approx. 0.1% of GDP. The reason is doubling the value the maximum amount of the Christmas allowance in 2019. And what is more, the number of beneficiaries will also increase. While in 2018, entitled to Christmas pensions were only pensioners whose pensions do not exceed 60% of the average wage, in 2019, the limit will be increased to 65%.

<sup>67</sup> Implementation of the necessary legislation is planned until 31 December 2020.

<sup>68</sup> Wages of teachers were increased as follows: in January 2016 by 4%, in September 2016 and September 2017 by another 6%, and in January 2019 by 10%  
<sup>69</sup> Approved by the Parliament in April 2019.

<sup>70</sup> Overall allocation to the project is almost EUR 30 mil. from EU funds. As at January 2019, support was provided to 19,106 pupils of primary schools, 5,353 children at nursery schools and 2,027 teachers and professional staff improving their professional competence at 130 primary schools and 50 nursery schools.



of title to land and monitoring and evaluation of policies<sup>71</sup>. The project figures are expected to be approved by the end of 2019, which will be followed by smooth continuation of second phases of national projects *Fieldwork in Social Services and Fieldwork in Municipalities with involvement of the MRC and the Community Centres*.

**Several supporting projects will be launched to increase development and availability of childcare facilities for children up to 3 years of age.** Support to childcare facilities for children up to 3 years of age is provided for public and private operators of the facilities (total financial allocation of the support equals EUR 13.3 million)<sup>72</sup>. To improve employment rate of persons with parental obligations, in particular women, from September 2019, the government launched a project of flexible employment forms (financial allocation in the amount of EUR 11 million).

**One of challenges persisting at the labour market is employment of disadvantaged groups. The main support is provided through active labour market measures.** Slovakia continues in implementation of the *Action Plan to strengthen integration of long-term unemployed at the labour market in the Slovak Republic*<sup>73</sup> focusing on activation measures for disadvantaged groups, in particular, persons with low skills level, marginalized Roma communities and young people lacking proper skills. Improvement of the existing situation will be achieved through innovated measures, in particular through comprehensive approach to personalised services, providing specialised counselling services, identification of skills of disadvantaged job seekers, ongoing implementation of the new profiling system and providing targeted programs designed by employers based on needs of the regional labour market.

**Improving skills at the labour market will also be supported by the system of measures to improve adaptability to labour market changes.** Effective from April, Slovakia launched a national project named *Sector-Managed Innovations for an Effective Labour Market in the Slovak Republic*, which is to improve anticipation of needs in skills and employment, improving of quality and capacity of public services in employment to achieve a better match between labour demand and supply. Total financial allocation to the project is almost EUR 20 million with implementation scheduled until February 2023.

**Several prepared measures are aimed at reduction of barriers to labour mobility in Slovakia.** In order to improve labour mobility, starting from 2020 a new purpose of support will be introduced under the State Housing Development Fund for acquisition of a lodging/boarding house. Thus will be supported the option of providing accommodation to employees by companies employing people from distant regions of Slovakia and/or foreign nationals. To support mobility of labour, the tax legislation from 2020 introduces exemption on benefits in kind up to EUR 100, provided by the employer with the aim of partial coverage of accommodation costs. Along with this change, starting from 2021 the legislation also regulates provision of non-monetary benefit for transportation, in the amount of EUR 100 per month (for more details see Chapter 5). Improving attractiveness and increasing interest of private sector in rental accommodation, the government will further improve loan conditions for acquisition of such type of accommodation. Under the approved *Strategy of labour mobility of foreign national in the Slovak Republic*<sup>74</sup> further measures will be implemented to reduce barriers to employment of foreign nationals, e.g., simplified procedures for acknowledgment of qualification and education.

**CSR 3 – Focus investment-related economic policy on healthcare, research and innovation, transport, notably on its sustainability, digital infrastructure, energy efficiency, competitiveness of small and medium-sized enterprises, and social housing, taking into account regional disparities. Increase the use of quality-related and lifecycle cost criteria in public procurement operations.**

**Investments in the health care sector are focused on renovation of hospitals.** In the 2020 budget, the amount earmarked for this purpose equals EUR 69 million in excess of the health insurance contributions. The Government approved comprehensive renovation of the university hospital in Banská Bystrica, which is expected to be finished by 2023. At the same time, a project of a new university hospital in Martin is currently under preparation. The Government also intends to open a new university hospital complex in Bratislava (UNBA) in 2023. As a part of this

<sup>71</sup> Fieldwork in Social Services and Fieldwork in Municipalities with involvement of the MRC, Community centres in cities and municipalities with involvement of MRC – Phase I. Support to pre-primary education of children from marginalized Roma communities I., Support to settlement of title to land in marginalized Roma communities and National Project of Monitoring and Evaluation of Inclusive Policies and their impact on marginalized Roma communities, which, as a part of OP HR supports comprehensive monitoring and evaluation of inclusive policies and evaluation of their impact on marginalized Roma communities

<sup>72</sup> So far, by the end of 2018 approved were projects for 49 operators with financial allocation in the amount of EUR 4.9 million.

<sup>73</sup> [Action Plan to strengthen integration of the long unemployed at the labour market in the Slovak Republic](#).

<sup>74</sup> [Strategy of foreign nationals' mobility of labour in the Slovak Republic](#).



project, demolition works of the existing skeleton started in August 2019 at the location where the new main building of the hospital is to be built.

**Effective from January 2020, better terms for supporting construction of rental apartments for both businesses and local government will be carried out.** Businesses will be provided by favourable terms on borrowings from the State Housing Development Fund to finance acquisition of rental apartments. This, in particular, means increasing the limit for maximum loan and average floor size and elimination of the limit of total maximum eligible costs per m<sup>2</sup> of floor size of the apartment. More favourable terms will also apply to local government, both with respect to subsidies from the Ministry of Transport, as well as to terms of drawing loans from the State Housing Development Fund. The new regulation is expected to increase the general limit on maximum costs of acquisition and, at the same time, will consider specifics of regional cities.

**The Slovak Government intends to continue in meeting the requirements of spending reviews of informatization.** The key objectives of the review is to establish an additional fiscal space, higher value of investments and adoption of methodological measures for more effective assessment and management of the public IT. Preparation of a binding plan for migration to cloud and linking it to IT budgets, publication of the portfolio of IT projects and public evaluation and examination of alternative methods of identity verification to eID remain priorities in the area of informatization. These measures can bring potential benefits to citizens and improve management of public IT. After two waves of reduction of the administrative burden, the third wave, which has been recently implemented, is focused on using the general government IT systems by cancellation of submitting mandatory documents in communication with the state<sup>75</sup>. The expected expenditures in 2020 are approximately EUR 6.5 million for establishing new IT systems.

**Various measures are implemented to reduce the administrative burden for businesses.** Further progress was achieved in providing support to electronic and automated communication with the Financial Administration, implementation of measures from already approved anti-bureaucratic business packages, and further optimization of services provided by the Commercial Register. The last, third package, approved in February 2019 is focused on electronization of services and improvement of processes upon starting business. Rules for granting business licences will be simplified and certain obligations and required confirmations will be cancelled, e.g. in relation to sanitation or building permit procedures. Draft amendment to Income Tax Act was approved to simplify meeting tax obligations by small and medium-sized companies. The amendment also increases the tax allowance for research and development from the present 100% to 150% in 2019 and to 200% in 2020.

**It is expected that by the end of 2019, the 1<sup>st</sup> Action Plan of the Economic Policy Strategy of the SR until 2030<sup>76</sup> will be approved to support competitiveness of small and medium-sized companies.** The plan includes 42 measures for implementation in 2020 and 2021, including anti-crisis measures. These are solutions in the area of education, labour market, research, environmental sustainability, business environment and regional development. The plan includes, for instance, mechanism for stabilization of employees in case of economic crisis following the approach presented by *Kurzarbeit* instrument, de-linking wage allowances from the level of minimum wage or implementation of the *one in – one out* rule in the legislative process

**Principles of Value for Money will be strengthened in transportation through prioritization of productive investments.** The Ministry of Finance in cooperation with the Ministry of Transport, Construction and Regional Development of the Slovak Republic will prepare a draft document presenting an analytically supported list of priorities, a plan of preparation and construction of roads and highways and a plan of modernization of the rail network in Slovakia until 2030. The plan will be based on the calculation of social returns of investment.. Priorities will be selected considering the transportation view, social benefit of the projects, state project capacities budgetary limitations, capacities of the construction sector, the economic cycle and impact on development of regions. Effectivity of expenditures in transportation will also be increased through measures recommended as a part of the audit of the Railways of the Slovak Republic. The audit identified measures with potential savings in tens of millions EUR and investment priorities for automation in the amount of EUR 300 million<sup>77</sup>.

**Subsidies for purchase of vehicles using alternative fuel and deposits for disposable beverage packaging will contribute to improving energy efficiency of the economy.** Effective from November 2019, the amendment

<sup>75</sup> The documents, submission of which is cancelled effective from November 2020, include e.g., birth certificates, marriage certificates, residence certificates, certificate of no breach of regulations on illegal employment, confirmation assigned ID, etc.

<sup>76</sup> [Strategy of economic policy until 2030.](#)

<sup>77</sup> [https://www.mfsr.sk/files/archiv/85/ZSR\\_sumarprojektu\\_20190628.pdf](https://www.mfsr.sk/files/archiv/85/ZSR_sumarprojektu_20190628.pdf)



of the Act on Subsidies introduces a possibility of providing subsidies for vehicles with alternative fuel. The approved act on deposits for disposable beverage packaging introduced a special deposit-refund system on PET bottles and cans effective from January 2022. In October 2019, the Government approved the *Concept of Development and Implementation of Green Public Procurement*<sup>78</sup>. It presents specific measures to encourage application of green public procurement. It includes, for example, preparation of methodology for green procurement, emphasis on trainings, identification of commodities which can be acquired in accordance with green procurement principles, presented amendment of the Act on Public Procurement.

**CSR 4 – Continue to improve the effectiveness of the justice system, focussing on strengthening its independence, including on judicial appointments. Increase efforts to detect and prosecute corruption, in particular in large-scale corruption cases.**

**There are several measures which are expected to improve functioning of the general government and the judicial system.** Starting from March 2019, a new legal regulation comes in force to protect persons reporting corruption (*whistleblowers*). Whistleblowers will be protected by the new specialised Office for Protection of Persons Reporting Anti-Social Activities (Whistleblower Protection Office). Currently, selection procedures are pending for appointing the Chairman. In the judicial system, the focus will be on resolution of the problem of old distraint proceedings. The conditions for providing legal assistance will be further improved, including better availability of legal assistance through the *Centre of Legal Assistance*. In accordance with the *Government Manifesto* an act on judicial state service will be prepared.

**In order to improve effectiveness and efficiency of the judicial system, from August 2019, the concept of hosting judge was established.** The purpose of the amendment is to create conditions for resolution of events having a negative impact on functioning of courts by causing a temporary absence of the statutory judge (e.g., maternity or parental leave, suspension of performance of the office by the judge, internship attended by the judge, etc.). The budgeted annual costs for implementation of the measure amount to EUR 3.2 million<sup>79</sup>.

**Additionally, effective from 2017 a common project with OECD is implemented in relation to anti-corruption measures and development of risk management strategies associated with frauds and corruption.** The key output of the project will be an action plan, which was presented in October 2019. The purpose is to improve risk management processes related to corruption and frauds in implementation of European structures and investment funds.

<sup>78</sup> <https://rokovania.gov.sk/RVL/Material/24227/1>

<sup>79</sup> Specific expenditures for introduction of the new concept of the hosting judge amount to EUR 1.6 million in 2019 and EUR 9.6 million in 2020 through 2022 respectively (EUR 3.2 million per annum).

## VII. Comparison with the Stability Programme and the EC Forecast

**Compared to the Stability Programme, the Draft Budgetary Plan expects a substantially lower economic performance by 2020, which is reflected in most indicators.** The macroeconomic forecast of February 2019<sup>80</sup>, which was the basis for preparation of the Stability Programme for 2019 – 2022, assumed 4.0 per cent and 3.7 per cent growth rate of real GDP in 2019 and 2020, respectively. The updated forecast of the Macroeconomic Forecasting Committee of September 2019, in compliance with which the Draft Budgetary Plan of the general government has been prepared, reduces the estimate of the performance for both years. In 2019 and 2020, the real GDP is expected to increase by 2.4 per cent and 2.3 per cent, respectively. The reason is the slowdown in the performance of our foreign business partners, which will be reflected also in the domestic labour market and private consumption. The differences for the years 2021 and 2022 between the Stability Programme and the Draft Budgetary Plan are milder.

**TABLE 13 - Forecast of selected economic indicators in SR**

#	Indicator	unit	Stability Programme				Draft budgetary plan			
			2019	2020	2021	2022	2019	2020	2021	2022
1	GDP, current prices	bil. eur	96.3	102.2	108.0	113.4	94.1	98.0	102.9	108.2
2	GDP, permanent prices	%	4.0	3.7	3.2	2.5	2.4	2.3	2.8	2.7
3	Personal consumption	%	3.3	2.9	2.2	1.7	1.7	2.1	2.5	2.1
4	Government consumption	%	1.8	1.7	1.0	1.2	3.1	1.1	1.3	1.7
5	Gross fixed capital formation	%	1.9	2.9	3.1	3.6	1.9	3.6	3.3	3.8
6	Export of goods and services	%	6.9	6.1	5.2	4.1	2.8	5.3	4.6	4.2
7	Import of goods and services	%	5.9	5.3	4.5	3.8	3.2	4.1	3.8	3.8
8	Output gap (share of potential product)	%	1.1	1.1	0.9	0.6	0.6	0.0	0.2	0.4
9	Average monthly wage (nominal growth)	%	6.7	6.3	5.3	4.5	7.4	4.7	5.1	4.8
10	Average employment growth by LFS	%	0.6	0.4	0.2	0.2	0.6	0.1	0.0	-0.1
11	Average employment growth by ESA 2010	%	1.1	0.8	0.6	0.5	1.2	0.2	0.3	0.2
12	Average unemployment rate by LFS	%	6.0	5.6	5.5	5.3	5.8	5.8	5.8	5.7
13	Average registered unemployment rate	%	4.8	4.5	4.4	4.3	5.0	5.0	5.0	4.9
14	Harmonised index of consumer prices (HICP)	%	2.6	2.4	2.4	2.4	2.5	2.1	2.2	2.3
15	Current account balance (share of GDP)	%	-2.0	-1.5	-1.1	-1.0	-3.2	-2.2	-1.5	-1.3

Source: MF SR

**Compared to the spring and summer EC forecast, the forecast of the MFSR is more conservative** <sup>81</sup> On the one hand, at the time of preparation of the September forecast of the MFSR, economic data for the second quarter of 2019 were already available. In particular, the difference in GDP growth rates is caused by a decline in the exports in the second quarter and a slower dynamics of the private consumption over the first half of 2019. On the other hand, according the forecast of the MFSR, the economic slowdown is reflected also at the labour market and private consumption in 2020.

<sup>80</sup> Officially approved by the Macroeconomic Forecasting Committee.

<sup>81</sup> Comparison of the MF SR Forecast to EC Forecast results from the requirement of the Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.

**TABLE 14 – Comparing EC and MF SR Forecasts**

Indicator (growth rate in % unless stated otherwise)		2019	2020
Real GDP	Forecast EC (spring)	3.8	3.4
	Forecast EC (summer)	3.6	3.3
	Forecast MFSR (Sept)	2.4	2.3
Private consumption	Forecast EC (spring)	3.2	2.9
	Forecast MFSR (Sept)	1.7	2.1
Public consumption	Forecast EC (spring)	2.5	2.4
	Forecast MFSR (Sept)	3.1	1.1
Total investments	Forecast EC (spring)	2.6	2.8
	Forecast MFSR (Sept)	1.9	3.6
Export of goods and services	Forecast EC (spring)	6.1	5.5
	Forecast MFSR (Sept)	2.8	5.3
Import of goods and services	Forecast EC (spring)	5.2	5.0
	Forecast MFSR (Sept)	3.2	4.1
Inflation (HICP)	Forecast EC (spring)	2.4	2.3
	Forecast EC (summer)	2.4	2.3
	Forecast MFSR (Sept)	2.5	2.1
Employment (ESA)	Forecast EC (spring)	0.8	0.4
	Forecast MFSR (Sept)	1.2	0.2
Output gap (% of pot. GDP)	Forecast EC (spring)	2.1	2.3
	Forecast MFSR (Sept)	0.6	0.0

Source: MF SR, EC

**TABLE 15 – Comparison of budget objectives to Stability Programme**

	ESA code	2018 ACT % of GDP	2019 EX % of GDP	2020 DGB % of GDP	2021 DGB % of GDP	2022 DGB % of GDP
<b>Target general government balances</b>	<b>B,9</b>					
Stability Programme (1)		-0.70	0.00	0.00	0.00	0.00
Draft budget plan (2)		-1.06	-0.68	-0.49	0.00	0.00
<b>Difference (2-1)</b>		<b>-0.36</b>	<b>-0.68</b>	<b>-0.49</b>	<b>0.00</b>	<b>0.00</b>

EX – Expectation

Source: MF SR

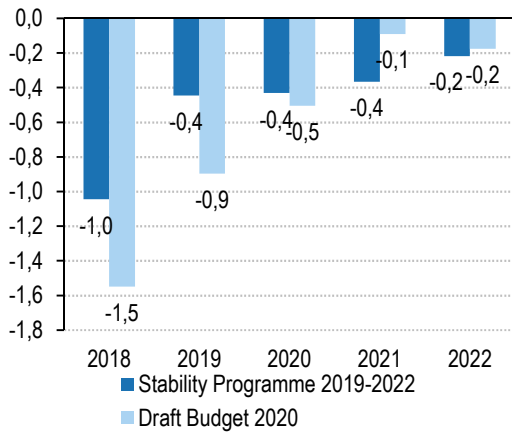
DGGB – Draft budget of the general government

Since 2019, slowdown of the economic growth is largely cyclical, which is fully reflected by the budget plan for 2020 through revision of the objective of nominal balanced budget for deficit in the amount of 0.5 % of GDP. While the Stability Programme assumed that the economic performance would continue above its potential, the latest expectation is closing the positive output gap in 2020. The objective of the structural deficit up to 0.5% GDP remains approximately<sup>82</sup> unchanged. In the medium-term horizon, the economy is expected to get back above its potential at a slower pace. To meet the original objectives of nominal balanced budget since 2021, it will be necessary to proceed to a more radical structural consolidation.

<sup>82</sup> The Stability Program assumed a mild provision vs the level of 0.5% GDP.

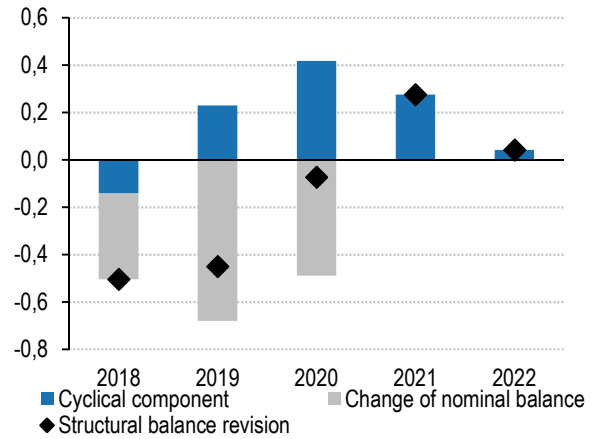


FIGURE 32 – Comparison of the structural balance under Stability Programme and the Draft Budget Plan



Source: MF SR

FIGURE 33 – Contributions of individual factors to revision of the structural balance



Source: MF SR

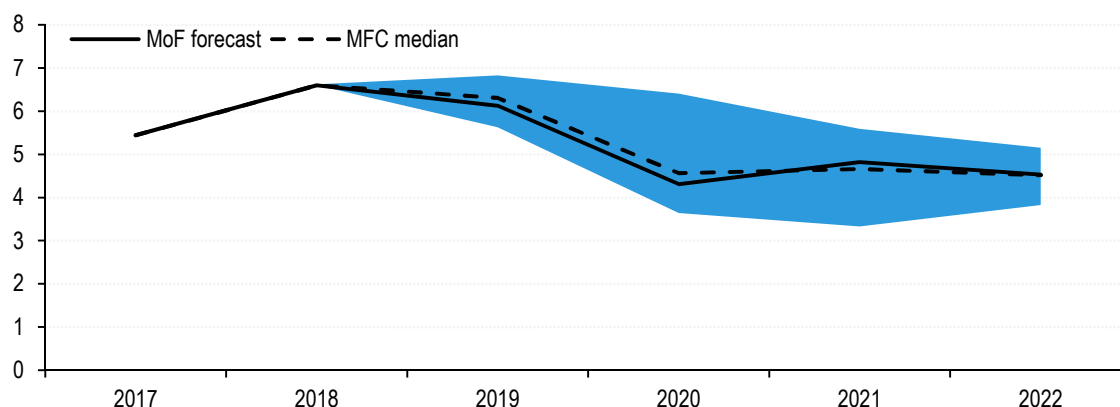
## ANNEXES

### Annex 1 – Evaluation of forecasts by Macroeconomic and Tax Revenue Forecasts Committees

The September 2019 Draft Budget Plan for 2020 through 2022 is based on macroeconomic and tax forecasts over the horizon 2020 - 2022. The macroeconomic scenario, as well as forecasted tax revenues are subject to ongoing discussion, approval and control by professional public through committees, members of which are national experts from public and private sectors. The deadlines for publication of forecasts and principles of activities of committees are laid down in the Act on Fiscal Responsibility.

After the session of the Macroeconomic Forecasting Committee held in September 2019, seven members concluded that the MF SR medium-term macroeconomic forecast is realistic and one concluded that it is conservative. Considering the impact on budget revenues for 2020, the macroeconomic forecast of the Ministry of Finance (MF) of September 2019 is lower than the median of members of the Macroeconomic Forecasting Committee. This impact is presented as a weighted average of individual bases relevant for budget revenues, where weights are given by the share of individual taxes in the total budgetary revenues<sup>1</sup>. The difference is caused by lower estimate by the MF for 2020 pre employment growth rate, average wage and household spending. Forecast of the MF was assessed by majority of members of the Committee (ČSOB, Infostat, NBS, SLSP, VÚB, Tatrabanka, Unicredit) as realistic. One of the members regarded the forecast as conservative (SAV).

FIGURE 34 – Comparison of forecasts of macroeconomic bases<sup>83</sup> for budget revenues to members of the Committee



Source: MF SR

#### BOX 8 – Independent Committees for estimating the macroeconomic development and estimate of development of tax revenues

**Macroeconomic Forecasting Committee and Tax Revenue Forecasts Committee are established in accordance with the Constitutional Act No. 493/2011 Coll. on Fiscal Responsibility** as the advisory body of the Ministry of Finance. The purpose of the Committees is to achieve a higher transparency, objectiveness and quality of macroeconomic and tax forecasts. The Committees under the Constitutional Act prepare forecasts at least twice a year, by 15 February and by 30 June of the current budget year. However, under the generally established practice, for the purpose of budgeting process, forecasts are prepared also at the end of September. In extraordinary cases, session of the Committee can be convened by the Chairman of the Committee, the Minister of Finance or an absolute majority of members of the Committee.

**Besides the Ministry of Finance, members of the Committees are representatives of institutions independent from the government** (NBS, SAV, Infostat and private banks). Members of the **Macroeconomic Forecasting Committee** assess the macroeconomic forecast of the Ministry of Finance using the words *conservative*, *optimistic* or *realistic*. The tax forecast of the Ministry of Finance is assessed by members of the Tax Revenue Forecasts Committee by sending their forecast; their evaluation is calculated automatically based on the deviation. **The Forecast of the Ministry of Finance is approved as the Committee's forecast, if absolute majority of the members concludes that the forecast is conservative or realistic.** If

<sup>83</sup> Macroeconomic bases for budget revenues (weight of the indicators depends on the proportion of individual taxes in total tax and non-tax revenues); the wage base (employment rate + nominal wage) – 51.1%, Nominal private spending – 25.7%, Real private spending – 6.6%, Nominal growth of GDP – 9.9%, Real growth of GDP – 6.7%.



the forecast does to receive such assessment, then the Ministry of Finance is obliged to rework the forecast and to submit it again to the Committee for reconsidering. The process is repeated until the forecast of the Ministry of Finance is approved as the forecast of the Committee.

**TABLE 16 – Assessment of the February forecast MF SR by the Macroeconomic Forecasting Committee**

Member of the Committee	Forecast characteristics
NBS, Infostat, UNICREDIT Bank, SLSP, ČSOB, VÚB, Tatrabanka	realistic
SAV	conservative

Source: Macroeconomic Forecasting Committee

**TABLE 17 - Average forecast by members of the Committee\* (excl. MF SR) and MF SR forecast**

in %, unless stated otherwise	2018	2019		2020		2021		2022	
		Comm ittee	MFSR	Comm ittee	MFSR	Committ ee	MFSR	Comm ittee	MFSR
Gross domestic product; real growth	4.0	2.6	2.4	2.3	2.3	2.6	2.8	2.6	2.7
Gross domestic product , current prices; EUR bil.	89.7	95.0	94.6	99.4	98.6	103.8	103.5	108.6	108.8
Final household spending; real growth	3.9	1.8	1.7	2.2	2.1	2.3	2.5	2.1	2.1
Final household spending; nominal growth	6.3	4.4	4.0	4.5	4.2	4.3	4.7	4.3	4.5
Average monthly wage; real growth	3.6	4.6	4.8	2.9	2.5	2.5	2.9	2.4	2.4
Average monthly wage; nominal growth	6.2	7.4	7.4	5.1	4.7	4.7	5.1	4.5	4.8
Employment growth rate (stat. reporting)	1.9	1.2	1.1	0.6	0.2	0.5	0.3	0.3	0.2
Consumer price index; average growth	2.5	2.6	2.5	2.3	2.1	2.1	2.2	2.2	2.3
Current account balance; proportion in GDP	-2.5	-2.0	-3.2	-2.0	-2.2	-2.0	-1.5	-1.2	-1.3

\* Macroeconomic Forecasting Committee

Source: Macroeconomic Forecasting Committee

## Tax Revenue Forecasts Committee

At the session of the Tax Revenue Forecast Committee in September 2019, MF SR presented its updated medium-term forecast of tax revenues for 2019 - 2022. All members of the Committee concluded that the MF SR's medium-term forecast of tax and social contributions revenues is **realistic**.

**TABLE 18 – Assessment of the MF SR forecast by the Tax Revenue Forecast Committee**

Member of the Committee	Forecast characteristics
NBS, Infostat, Tatra banka, ČSOB, KRRZ, SLSP, UniCredit Bank	realistic



## Annex 2 – Monitoring of development of public finance in current year

TABLE 19 – General government balance (ESA 2010, in EUR million)

	2019	EXP	EXP - ACT
<b>Revenues</b>	<b>37,216</b>	<b>37,734</b>	<b>517</b>
Higher social contributions (D.61)	14,053	14,233	179
Lower tax revenues (D.2+D.5+D.91)	17,782	17,615	-167
Higher non-tax revenues (P.11+P.12+P.131+D.4)	4,182	4,314	132
Higher grants and transfers (D.39+D.7R+D.9R)	1,199	1,572	373
<b>Expenditures</b>	<b>37,216</b>	<b>38,380</b>	<b>1,164</b>
Lower other current transfers (D.7P)	1,887	1,696	-190
Higher subsidies (D.3P)	455	465	10
Higher expenditures for social benefits (D.62P)	12,201	12,640	439
Higher interest expense (D.41P)	1,125	1,135	10
Higher expenditures for public health insurance (D.632P)	4,759	4,931	173
Higher intermediate consumption (P.2)	5,430	5,506	76
Higher compensations for employees (D.1P)	8,900	8,950	50
Higher capital transfers (D.9P)	194	281	87
Higher capital investments (P.5L)	2,199	2,708	509
<b>Net lending / borrowing</b>	<b>0</b>	<b>-647</b>	<b>-647</b>
% GDP	0.00	-0.68	-0.68
<b>GDP</b>	<b>96,890</b>	<b>94,087</b>	<b>-2,803</b>

Source: MF SR



### Annex 3 – Forecast of gross debt of the general government by cash flows

**Among cash factors contributing to changes in nominal level of debt prevailing is the necessity to cover the cash deficit.** In 2020, the cash deficit of the state budget is expected to be slightly above EUR 2 billion and, assuming that the GG budget is balanced under the accrual principle, as at the end of the forecasted period, the deficit would fall to EUR 0.6 billion.

**Regular issues of government bonds at the financial market increasing the nominal level of the debt will provide only a partial coverage to the cash deficit of the state budget in 2020 and 2021<sup>84</sup>.** Therefore, release of financial funds accumulated the Treasury is largely expected. In 2022, thanks to the amount of the issues exceeding the expenditures for financing the cash deficits and due bonds, the used financial funds from the Treasury will be replenished.

On the other hand, the lending activity of other general government entities will contribute to reduction of total nominal debt. Methodological adjustments (e.g. discount on issue and repayment of bonds) are expected to have a negative impact on the level of debt<sup>85</sup>, and the major impact will come from government bonds with longer maturities. Other changes in the debt forecast are related to exchange rate differences and changes in client deposits at the Treasury, outside the general government.

**TABLE 20 – Cash impacts on changes in nominal gross debt of the general government (in EUR million)**

	2016 A	2017 A	2018 A	2019*	2020	2021	2022
<b>A. Gross debt of the general government (as of 1 January)</b>	41,384	42,160	43,370	44,322	45,095	45,895	47,252
<b>B. Total y/y change in GG gross debt</b>	776	1,210	952	774	799	1,357	1,232
- cash deficit of the state budget <sup>(86)</sup>	980	1,220	1,182	2,134	2,382	1,582	686
- Treasury funds used for financing of cash deficit of the state budget	45	1	-498	-1,369	-1,388	-129	617
- Indebtedness of other GG entities	-93	3	111	1	-129	-132	-108
thereof: ŽSR + ŽSSK	32	8	34	-3	-40	-65	-65
thereof: NDS	-40	-36	-37	-37	-37	-37	-37
thereof: Municipal public transportation companies	-23	-4	-4	-5	5	4	4
thereof: Local government (municipalities and higher territorial units)	-62	50	92	11	-73	-45	-21
- Change in SR's guarantees in EFSF	0	0	0	0	-5	-5	-5
- Discount on issue	43	68	7	4	1	50	54
- Discount at maturity	-61	-62	-7	1	-59	-6	-13
- Other	-155	-53	118	3	-2	-2	0
<b>C. Gross debt of the general government (as of 31 Dec)</b>	<b>42,160</b>	<b>43,370</b>	<b>44,322</b>	<b>45,095</b>	<b>45,895</b>	<b>47,252</b>	<b>48,484</b>
% GDP	<b>52.0</b>	<b>51.3</b>	<b>49.4</b>	<b>47.9</b>	<b>46.8</b>	<b>45.9</b>	<b>44.8</b>
<b>D. Change in gross debt vs Stability Programme (p.p.)</b>	0.3	0.4	0.5	0.4	0.9	1.0	0.4
thereof: attributable to change in forecast of nom. GDP	0.1	0.2	0.3	1.1	1.9	2.2	2.0
attributable to change in forecast of nom. debt	0.1	0.2	0.2	-0.7	-1.0	-1.2	-1.6
p.m. contribution of SR to ESM	0	0	0	0	134	0	0

Note: Plus items increase the debt of the general government as at 31.12. of the relevant year, minus items decrease the debt.

Source: MF SR

\* 2019 – ongoing monitoring of compliance with the GG Budget 2019

<sup>84</sup> Besides coverage of cash deficit of the state budget, the financial funds earned from issue of government bonds are used for refinancing of due bonds issued in the past.

<sup>85</sup> Discount on issuing government bonds and government treasury bills increases debt, as at the time of bond issuance, the state's debt obligations are rising by the value of the bonds. However, the state receives a lower amount in cash (reduced by discount). On the contrary, the discount on debt repayments reduces debt. The reason for this is that the debt increase is already on the issue of bonds, in the nominal value of the bond, and not on its repayment.

<sup>86</sup> In relation to ending of the 2007-2013 programming period, there is a need of financial settlement of corrections recognised in prior years. Thus recognised corrections had a negative impact on deficit of the GG Budget under ESA2010 methodology in years of their recognition. Therefore the General Treasury Administration includes a reserve for settlement of such corrections in the amount of EUR 300 million in 2020, and thus the cash deficit is increased to EUR 2 682 million (deficit of the State Budget recognised in the Budget Book). Realization of this expenditure will not have a factual impact on the cash deficit of the state budget as, at the same time, it is a revenue to the state budget for EU funds. Thus, neither the debt forecast nor the cash deficit of the state budget are affected by the reserve.

## Annex 4 - Structural balance

The structural balance represents the difference between general government revenue and expenditure excluding one-off and temporary effects, and assuming that the economy is at its potential level. Despite the use of several unobserved variables for its calculation, the structural balance more faithfully shows the country's medium-term fiscal position as compared to the nominal balance.

The Stability and Growth Pact is based on the premise that Member States should achieve a symmetrical approach to fiscal policy in line with the cyclical development of the economy. The main objective is to increase the focus on budgetary discipline in times of economic recovery, in order to avoid the pro-cyclical nature of fiscal policy and gradually achieve its medium-term budgetary objective. As a result of this behaviour, a cushion should be created for periods with an economic decrease, at the same time reducing the public debt at a reasonable pace and positively influencing the long-term sustainability of public finances.

The following matrix clarifies and specifies the requirements of the Stability and Growth Pact for fiscal consolidation within its preventive part. This matrix is symmetrical and distinguishes between the greater consolidation efforts to be made at better times and lesser efforts being made in difficult economic conditions.

	Condition	Required y/y consolidation	
		Debt under 60% and no sustainability risk	Debt under 60% and no sustainability risk
Exceptionally severe period	Real GDP growth < 0 or output gap < -4	No consolidation required	
Very severe period	$-4 \leq \text{output gap (OG)} < -3$	0	0,25
Severe period	$-3 \leq \text{output gap (OG)} < -1.5$	0 in the event of opening OG, 0.25 in the event of closing OG	0.25 in the event of opening OG, 0.5 in the event of closing OG
Normal period	$-1.5 \leq \text{output gap (OG)} < 1.5$	0,5	> 0,5
Good period	output gap (OG) $\geq 1,5$	> 0.5 in the event of opening OG, $\geq 0.75$ in the event of closing OG	$\geq 0.75$ in the event of opening OG, $\geq 1$ in the event of closing OG

The assessment of compliance with the structural balance and the expenditure benchmark is assessed on the basis of the one-year and two-year deviation indicated in% of the GDP. The one-off deviation is with a limit of -0.5% of GDP and a the two-year deviation is with a limit of -0.25% of GDP.

### Calculation of the structural balance

In the first step, the cyclical component is used to net the nominal general government balance of the impact of economic fluctuations (estimated through the output gap, i.e. the difference between actual and potential GDP level). The output gap is estimated based on the current macroeconomic forecast of the Ministry of Finance SR from September 2019 (for more details see **BOX 1**). The estimate of how sensitive is the general government balance to changes in the output gap is based on the OECD methodology<sup>87</sup> and is taken over by the Ministry of Finance of the Slovak Republic in full from the EC. In the next step, the resulting net balance is adjusted for effect of the one-off and temporary measures whose fiscal impact is not repeated in the following years. For the purpose of the draft budgetary plan, the Ministry of Finance of the Slovak Republic identifies the same in accordance with the EC methodology.

<sup>87</sup> The original methodology was presented in: Girouard, N., André, Ch. (2005): Measuring cyclically-adjusted budget balances for OECD countries. In 2014 the methodology was updated and new data were included for calculation of elasticity. The methodology was approved by member states in September 2014.



The methodology of the European Commission (EC) <sup>88</sup> Methodology of the European Commission (EC) <sup>89</sup> characterizes a one-off measure as a temporary measure which is of a non-permanent nature and has arisen independently of government decisions. The EC has established a one-off action classification directive:

**Principle 1** : Only a temporary, unrepeatable impact on revenue or GG costs can be classified as a one-off impact.

**Principle 2**: Are one-off measurement may not be imposed by law or autonomous government decision.

**Principle 3**: Components of high volatility revenues or expenditures should not be considered as one-off effects. In order to smooth the time series, the cyclic component is used in the SB calculation.

**Principle 4**: Governmental aware decisions that lead to an increase in the deficit can not be classified as one-off effects.

**Principle 5**: Only measures with a stronger impact on the budget of the GG (higher than 0.05% of GDP) should be considered as one-off.

All typical one-off measures are described in Chapter 3.3 (Report of Public Finances in EMU<sup>90</sup>). In addition, the EC has identified specific exceptions and procedures for them, where a one-off measure can also be considered as an impact that violates the above principles, but these cases are also covered by this chapter.

**The Draft Budgetary Plan SR for 2020 does not recognize any one-off measures over the horizon of 2020 - 2022.**

<sup>88</sup> Vade Mecum on the Stability and Growth Pact – 2016 Edition – Guiding principles page.28.

<sup>70</sup> Report on Public Finances in EMU, December 2015.

<sup>90</sup> Report on Public Finances in EMU, December 2015.

## Annex 5 – Expenditure benchmark

The revised **Stability and Growth Pact** introduced an **expenditure benchmark** as an additional tool for analysing the fiscal position of the country. It expresses the year-on-year growth of expenditure aggregate netted by revenue measures, which in comparison with reference value of allowed expenditure growth will enable progress to be assessed in fiscal consolidation as in the case of the structural balance development.

**According to the expenditure benchmark, real general government expenditure should not grow faster than the average potential growth of the economy.** These expenditures can grow at a higher rate only when additional revenue measures are implemented, which are confirmed by the quantification of an independent Committee (we are talking about discretionary measures)<sup>91</sup>. For those countries that have reached their MTO, expenditure growth can accurately duplicate the potential of the economy. For those countries that have not yet reached the MTO, the pace of expenditure growth must also reflect the fiscal consolidation needed to achieve it. In this case, the potential growth rate of the economy is corrected by the necessary consolidation effort.

**Expenditure development is settled by factors outside the government's control.** These are interest expenditure, changes in expenditure on unemployment benefits resulting from the current economic cycle and expenditure financed by EU funds. Given the high volatility of government investment, their level is flattening to the average level for the current and the three previous years<sup>92</sup>. The nominal growth of such adjusted expenditures is converted to real growth via the GDP deflator to make it comparable to the expenditure benchmark.

Comparison of the year-on-year development of the expenditure aggregate with the expenditure benchmark shows that expenditure growth was exceeded in 2019. When assessing the compliance of expenditures with the expenditure benchmark, account is taken of the deviations in two horizons, expressed as a percentage of GDP. **The one-year deviation (the difference between the expenditure aggregate and the expenditure benchmark calculated as % of GDP) is observed, with a limit of -0.5% of GDP and the two-year deviation (the average of the current and previous deviations), which is heightened due to lower volatility and dependence on current year, with a limit of -0.25% of GDP.** If the deviation is at a worse level than the specified limit, this is a significant discrepancy with the expenditure benchmark and it is approaching the overall assessment of the fiscal position.

TABLE 21 - Expenditure benchmark

		2017	2018	2019	2020	2021	2022
<b>1. Total expenditures</b>	million	<b>35,026</b>	<b>37,521</b>	<b>38,380</b>	<b>39,346</b>	<b>40,813</b>	<b>43,026</b>
2. Interest expense	million	1,217	1,207	1,135	1,057	1,001	1,012
3. Expenditures covered by EU (capital)	million	440	749	575	118	23	348
3a. Expenditures covered by EU funds (total)	million	632	957	940	547	812	1,124
4. Capital expenditures covered by national funds	million	2,411	2,604	2,151	1,721	2,082	3,017
5. Smoothed capital exp. (nat. funds 4-year run. average)	million	2,396	2,504	2,354	2,222	2,140	2,243
6. Cyclical expenditures for unemployment benefits	million	-3	-13	-6	0	-3	-6
7. Expenditures fully covered aut. increase of revenues	million	0	0	0	0	0	0
<b>8. Primary expenditure aggregate (1-2-3a-4+5-6-7)</b>	million	<b>33,166</b>	<b>35,270</b>	<b>36,515</b>	<b>38,243</b>	<b>39,060</b>	<b>40,121</b>
9. Y/Y change of primary expenditure aggregate (8t-8t-1)	million	883	2,104	1,246	1,728	817	1,060
10. Change in revenues due to discretionary rev. measures	million	332	-51	-63	-37	166	254
11. One-off measures on revenue side	million	0	0	0	0	0	0
12. One-off measures on expenditure side	million	0	0	0	0	0	0
13. Methodological adjustments	million	0	0	0	0	0	0
14. Nominal growth of the expenditure aggregate net of revenue measures ((9t-10t)/8t-1)	%	1.7	6.5	3.7	4.8	1.7	2.1
15. Real growth of the exp. aggregate net of revenue measures	%	0.5	4.9	1.2	2.3	-0.5	-0.3

<sup>91</sup> Positive cyclical revenues at the time of the conjuncture (unrealized through discretionary measures) allow expenditure to rise above the potential of the economy. The expenditure benchmark monitors this undesired fiscal impact as the temporary increase in revenue from unrealized measures should be used to achieve the MTO.

<sup>92</sup> *Vade Mecum on Stability and Growth Pact*, page 30.



16. Exp. benchmark (reduced reference rate of the GDP potential growth)	p.b.	1.3	1.3	2.0	3.3	2.9	2.9
17. Deviation from the expenditure benchmark (16-15)	p.b.	0.8	-3.6	0.8	1.0	3.3	3.2
<b>One-year deviation from the expenditure benchmark</b>	% GDP	<b>0.0</b>	<b>-1.2</b>	<b>0.3</b>	<b>0.4</b>	<b>1.2</b>	<b>1.2</b>
<b>Two-year deviation from the expenditure benchmark</b>	% GDP	<b>0.1</b>	<b>-0.6</b>	<b>-0.4</b>	<b>0.3</b>	<b>0.8</b>	<b>1.2</b>
<i>p. m. GDP deflator</i>	%	1.2	1.5	2.5	2.5	2.2	2.4
Deviation limit on 1-year horizon		-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Deviation limit on 2-year horizon		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

Source: MF SR



## Annex 6 – Discretionary revenue measures (DRM)

The EC methodology defines discretionary revenue measures as measures of a legislative nature with an impact on general government revenues. Evaluation of the measures is carried out by means of the so called additional effects (marginal changes) to these measures. It is distinguished whether it is a permanent or a one-off measure. Permanent measures shall be recorded with impact in the first year (at the time of entry into force) and in the remaining years without impact. In other words, the change in the impact of the measure in the coming years due to macroeconomic developments is not taken into account. If there is a difference in impact due to the shifted force of measure, only a marginal change is recorded.<sup>93</sup> For one-off revenue measures, the impact is recorded in one year and in the next drop in the same amount, i.e. the overall impact of the measure in two consecutive years is zero.

TABLE 22 - Discretionary measures – y/y impact of measures (million, ESA2010)

Description	2016	2017	2018	2019	2020	2021	2022
Reduced VAT rate (10 %) on selected food items	-77	0	0	0	0	0	0
Opening the 2nd pillar – current effect	13	0	0	0	0	0	0
Exemption of income from trading securities on a regulated market after 1 year preliminary period	-11	0	0	0	0	0	0
Reduction of CIT rate to 21%	0	-121	0	0	0	0	0
Cancellation of tax licence	0	0	-100	0	0	0	0
Increasing lump-sum expenditures for the self-employed	0	-34	0	0	0	0	0
Introduction of 13th and 14th pay (introduced 2018, legislative changes from 2019)	0	0	-2	-28	-9	-42	3
Exemption of recreation vouchers from taxes and social contributions	0	0	0	-58	0	0	0
Exemption of non-monetary benefit provided to employees for accommodation	0	0	0	-16	6	0	0
Taxation of dividends by 7% withholding tax	0	0	24	29	0	0	0
Exemption of income from sale of shares and securities	0	0	0	-5	-23	0	0
Set of measures leading to increasing effectiveness in VAT collection	243	189	22	0	0	0	0
Reduced VAT rate on accommodation services	0	0	0	-24	0	0	0
Fuel identification substance + eKasa	0	0	0	0	180	10	10
Increasing excise tax on tobacco products	0	30	3	36	102	0	0
Cancellation of max. assessment base for health insurance	0	97	0	0	0	0	0
Increasing max. assessment base for social contributions	0	70	0	0	0	0	0
Annual social insurance clearing – shift to 2022	0	0	0	0	0	0	50
Introduction of allowance on contributions and later changes (changes in claiming the allowance, cancellation for employers, introduced for pensioners)	-109	21	35	37	0	0	0
Gradual growth of contributions to 2 <sup>nd</sup> pillar (automat. from 2017 by 0.25 p.p./year)	0	-28	-32	-41	-42	-44	-47
Non-life insurance – introduction of contribution, replaced by excise tax on insurance	0	16	14	44	0	0	0
Doubled rate on special contribution in regulated sectors, later decrease (2019, 2021)	0	63	0	-39	0	-23	0
Planned cancellation of the bank levy	0	0	0	0	0	-116	0
Increased allowance on expenditures for science and research	0	0	-15	-9	-13	0	0
Introduction of licences on gambling and other changes in taxation of gambling	0	0	0	12	3	0	0
Increased fees for services - EOSA	0	30	0	0	33	0	0
Higher limits of tax advances (from EUR 2500 to EUR 5000)	0	0	0	0	0	-11	0
Deduction of tax loss for other companies (max. 50% of tax base over 5 years)	0	0	0	0	0	36	0
Optional depreciation rate for micro-companies	0	0	0	0	0	-15	0
15% CIT rate for companies with turnover below EUR 100 thousand	0	0	0	0	-42	0	0
Increasing non-taxable part of the tax base to 21-multiple of min. subsistence allowance	0	0	0	0	-135	0	0
Reduced rate for the self-employed to 15% for turnover below EUR 100 thousand	0	0	0	0	-19	0	0
Reduced VAT rate on other foodstuff	0	0	0	0	-77	0	0
Lump-sum on benefit in kind provided to employees for transportation (EUR 100/month)	0	0	0	0	0	-12	0
Unspecified revenue measures	0	0	0	0	0	385	238
<b>Total</b>	<b>58.3</b>	<b>331.7</b>	<b>-51.4</b>	<b>-63.2</b>	<b>-37.5</b>	<b>166.3</b>	<b>254.0</b>

<sup>93</sup> An illustrative example of the DRM explanation can be a legislative measure with an estimated impact of 200. The measure was introduced in the middle of the year, i.e. its total impact in a given year is 100. In the next year, the impact on the total 200 will increase, but marginally only the difference of the two influences is recorded, i.e. 100. Cumulatively is the total impact of 200, but it is spread over two years.



## Annex 7 – List of measures having impact in general government balance in 2019 - 2022

The no-policy-change scenario describes development of items by macroeconomic forecast assumptions, and based on measures decided before 1 January 2019. The table below shows all budget measures having impact on changes in GG balance during 2019 - 2022 (compared to 2018), irrespective of the date of deciding on adoption of the measure.

TABLE 23 – List of measures (effect compared to 2018 base), million

Revenue measures	2019	2020	2021	2022
Introduction of tax on dividend	29	28	29	31
Increased rate on tobacco products	36	37	37	38
Introduction of licences on gambling	12	15	15	15
Doubled rate on special contribution in regulated sectors, later decrease	-34	-30	-57	-57
Cancellation of bank levy	0	0	-117	-117
Increased administration fee (EOSA)	0	33	33	33
Spa sector (tech. equipment)	-1	-1	-1	-1
Change in allowance for science and research, increase from 2019 and 2020	-13	-30	-36	-44
Gradual increase of rate for 2 <sup>nd</sup> pillar	-41	-83	-127	-175
Contribution on insurance (cancellation) + tax on insurance (introduction)	44	46	48	50
Introduction of 13th and 14th pay (introduced 2018, legislative changes from 2019, multiple application of 13 <sup>th</sup> pay for social contributions)	-28	-37	-79	-76
Exemption of income from sale of shares and securities	-5	-28	-30	-31
Introduction of allowance on contributions and later changes (changes in claiming the allowance, cancellation for employers, introduced for pensioners)	73	79	83	83
Annual social contributions clearing	0	0	0	50
Dumping fees	6	15	21	21
Home distilling	-4	-4	-4	-4
Reduced VAT rate for accommodation services	-24	-25	-27	-28
Exemption of recreation vouchers from taxes and social contributions	-58	-59	-60	-62
Reduced VAT refund limits for tourists	-2	-2	-3	-3
Transition of banks to new IFRS 9 accounting standard	-2	-2	-2	-2
Exemption of non-monetary benefit for employees for accommodation (from EUR 60 to EUR 100)	-16	-16	-16	-16
New depreciation group for electric vehicles	-7	-17	-16	-9
Increased limits for advance payments from EUR 2500 to EUR 5000	0	0	-11	-11
Tax loss deduction for other firms max. to 50% of tax base during 5 years	0	0	36	30
Tax loss deduction for micro companies – no limitation over 5 years	0	0	0	-5
Optional depreciation period for micro companies	0	0	-15	-15
15 % CIT rate for companies with turnover below EUR 100 thousand	0	-42	-44	-45
Increasing non-taxable part of the tax base to 21-multiple of min. subsistence allowance	0	-135	-136	-137
Introduction of sports vouchers	0	-2	-2	-2
Cancellation of concessionary fees for pensioners and persons receiving material need benefits	0	-8	-8	-8
Increasing excise tax on tobacco products from 2020	0	102	137	138
Reduced rate for the self-employed to 15% for turnover below EUR 100 thousand	0	-20	-19	-21
Reduced VAT rate on other foodstuff	0	-77	-81	-84
Reduced VAT rate on printed media (daily newspapers)	0	-7	-7	-7
Fuel identification substance + eKasa	0	180	190	200
Levy for operation of gambling	0	6	6	6
Unspecified revenue measures	0	0	385	623
<b>Total revenue measures</b>	<b>-35</b>	<b>-84</b>	<b>124</b>	<b>361</b>
Expenditure benchmark	2019	2020	2021	2022
Free lunches at schools	70	85	91	91
Double Christmas pensions	0	91	90	89
Double tax bonuses for parents of children below 6 years of age	58	79	81	81
Expenditures on revenues from special levy imposed on retail chains	50	25	25	25
Valorisation of wages by 10% in 2019 and additional 10% in 2020, and 2% in 2021, including provisions related to new compensation legislation (effect vs zero growth)	592	1138	1266	1291
Amendment of Act on Compensations to Severe Disabled Persons – higher allowances for compensation of severe disablement and for nursing	17	43	45	46
Amendment of Act on Social Insurance – slowdown in growth of retirement age	0	32	45	57
Increased parental allowance	0	164	169	173
Allowance for first-graders at primary schools (amendment of the Act on Child Allowance)	6	6	6	6
Additional finance for health service sector, summer and autumn round	180	180	180	180
Change in compensation system for members of armed forces	0	79	104	118
Unspecified expenditure consolidation measures	0	0	-385	-623
<b>Total expenditure measures</b>	<b>973</b>	<b>1922</b>	<b>1716</b>	<b>1534</b>

\* The total revenue and total expenditure lines can differ from sum of individual items due to rounding



## Annex 8 – Required tables

TABLE 0i – Key assumptions

	2018	2019	2020
Short-term interest rate (annual average)	-0.3	-0.4	-0.4
Long-term interest rate (annual average)	1.0	0.4	0.8
Exchange rate USD/EUR (average)	1.2	1.1	1.1
World GDP growth	0.5	-0.1	0.4
Nominal effective exchange rate (change in %)	n/a	n/a	n/a
EU GDP growth	1.9	1.0	1.2
GDP growth of major foreign partners	2.7	2.0	1.9
World imports growth in constant prices excl. EU	n/a	n/a	n/a
Oil price (Brent, USD/barrel)	60.6	56.4	49.5

Source: MF SR

TABLE 0ii - Key assumptions

	2018	2019	2020
1. External environment			
Oil price (EUR)	60.6	56.4	49.5
2. Fiscal policy			
Net lending/net borrowing of the general government	-1.1	-0.7	-0.5
Gross debt of the general government	49.4	47.9	46.8
3. Monetary policy, financial sector			
Interest rates:			
Euribor 3M (average)	-0.3	-0.4	-0.4
Deposits	0.2	0.2	0.2
Yield from 10-year Slovak government bonds (average)	1.0	0.4	0.8
Balance of deposits (growth)	6.1	3.6	3.7
4. Demographic trends			
Economic-active population (growth)	-0.7	-0.7	-0.7
Total dependency ratio	45.4	46.6	47.8

Source: MF SR

TABLE 1.a - Macroeconomic overview

	ESA code	2018	2018	2019	2020
		Actual	Growth rate	Growth rate	Growth rate
1. Real GDP	B1*g	87.3	4.0	2.4	2.3
thereof					
1.1 Estimated impact of aggregate budgetary measures on economic growth		-	-	-	-
2. Potential GDP		84.0	3.2	3.1	2.8
Contributions:					
- labour		-	0.5	0.3	0.1
- capital		-	0.7	0.7	0.7
- total productivity of factors		-	2.0	2.1	1.9
3. Nominal GDP	B1*g	89.7	6.2	4.9	4.2
	<b>Components of real GDP</b>				
3. Final household spending a NISD	P.3	48.5	3.9	1.7	2.1
4. Final general government spending	P.3	15.3	0.2	3.1	1.1





5. Gross fixed capital generation	P.51g	18.5	3.7	1.9	3.6
6. Change in inventories and net acquisition of valuables (%GDP)	P.52 + P.53	-	2.3	2.6	1.3
7. Exports of products and services	P.6	84.1	5.4	2.8	5.3
8. Imports of products and services	P.7	81.1	5.0	3.2	4.1
<b>Contributions to real growth of GDP</b>					
9. Total local demand		-	3.0	1.8	2.1
10. Change in inventories and net acquisition of valuables	P.52 + P.53	-	0.6	1.0	-1.3
11. External balance of products and services	B.11	-	0.5	-0.2	1.5

Source: MF SR

TABLE 1.b – Price development

ESA code	2018	2018	2019	2020
	Actual	Growth rate	Growth rate	Growth rate
1. GDP deflator	1.0	2.0	2.4	1.9
2. Private spending deflator	1.0	2.3	2.3	2.0
3. HICP	103.5	2.5	2.5	2.1
4. Public spending deflator	1.1	4.2	5.5	5.7
5. Investment deflator	1.0	2.3	2.0	1.7
6. Export price deflator (goods and services)	1.0	1.8	0.7	1.7
7. Import price deflator (goods and services)	1.0	2.4	0.8	1.7

Source: MF SR

TABLE 1.c – Labour market indicators

ESA code	2018	2018	2019	2020	
	Actual	Growth rate	Growth rate	Growth rate	
1. Number of employed persons (th.) [1]	2,420	2.0	1.2	0.2	
2. Number of hours worked (mil.) [2]	4,108	1.1	0.2	0.2	
3. Unemployment rate (%) [3]	-	6.6	5.8	5.8	
4. Labour productivity, per person (EUR) [4]	36,082	2.0	1.2	2.0	
5. Labour productivity, per hour (EUR) [5]	21,253	2.9	2.3	2.0	
6. Compensation for employees (million)	D.1	37,294	8.0	7.8	4.9
7. Compensation per employee (EUR)		17,781	5.6	6.5	4.6

[1] Occupied population, domestic concept national accounts definition

Source: MF SR

[2] National accounts definition

[3] Harmonised definition, Eurostat; levels

[4] Real GDP per person employed

[5] Real GDP per hour worked

TABLE 1.d - Sectoral balances (ESA 2010, % of the GDP)

ESA code	2018	2019	2020	
1. Net lending / borrowing from rest of the world	B.9	-0.9	-1.4	-0.6
thereof:				
- Goods and services		0.9	0.5	1.6
- Primary income and transfers		-3.4	-3.5	-3.8
- Capital account		1.6	1.6	1.6
2. Net lending / borrowing from other sectors	B.9	0.2	-0.7	-0.1
3. Net lending / borrowing of the general government	B.9	-1.1	-0.7	-0.5
4. Statistical difference		0.0	0.0	0.0

Source: MF SR

TABLE 2.a: Development of general government budgets (% of the GDP)

Net lending / borrowing (EDP B.9) of general government sub-sectors	ESA code	2019	2020
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		% GDP	% GDP
1. General government	S.13	-0.7	-0.5
2. Central government	S.1311	-1.1	-1.1
3. Regional state government	S.1312	n/a	n/a
4. Local state government	S.1313	0.4	0.3
5. Social security funds	S.1314	0.0	0.4
6. Interest expense	D.41	1.2	1.1
7. General government primary balance (1+6)		0.5	0.6
8. One-off and temporary effects		0.0	0.0
9. Real GDP growth (%)		2.4	2.3
10. Potential GDP growth (%)		3.1	2.8
contributions:		3.1	2.8
- labour		0.3	0.1
- capital		0.7	0.7
- total productivity of factors		2.1	1.9
11. Output gap (% of potential GDP)		0.6	0.0
12. Cyclical component (% of potential GDP)		0.2	0.0
13. Cyclically-adjusted balance (1-12) (% of potential GDP)		-0.9	-0.5
14. Cyclically-adjusted primary balance (13+6) (% of potential GDP)		0.3	0.6
15. Structural balance (13-8) (% of potential GDP)		-0.9	-0.5

[1] Adjusted for swap-related net flows so that TR-TE=EDP B.9.

Source: MF SR

[2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

[3] A plus sign means deficit-reducing effect of an one-off measure on the general government balance

[4] Including those collected by the EU

TABLE 2.b: Development of the general government debt (% of the GDP)

	ESA code	2019	2020
1. Gross debt <sup>1</sup>		47.9	46.8
2. Change in gross debt		-1.5	-1.1
<b>Contributions to change in gross debt</b>			
3. Primary balance		0.5	0.6
4. Interest expense	D.41	1.2	1.1
5. Stock-flow adjustment		0.1	0.3
- Differences between cash and accruals			
- Net accumulation of financial assets		0.9	0.7
thereof: privatisation proceeds		-0.6	-0.1
- Valuation effects etc		0.0	0.0
p.m. Implicit interest rate		-0.1	-0.3
<b>Other relevant factors</b>			
6. Liquid financial assets		5.1	4.6
7. Net financial debt (1-6)		42.9	42.2
8. Debt amortization (existing bonds) since the end of the previous year		2.6	3.1
9. Percentage of debt denominated in foreign currency		2.1	2.0
10. Average maturity*		8.7	9.0

Note: \*maturity of the government debt at the end of the year

Source: MF SR

TABLE 2.c: Contingent liabilities (% of the GDP)

	2017	2018	2019



Public guarantees	16.4	19.2	n/a
thereof: connected with EFSF and ESM	8.9	8.4	n/a

Source: MF SR

**TABLE 3: General government expenditure and revenue projections according to the no-policy-change scenario (breakdown by components)**

General government (S13)	ESA code	2019 % GDP	2020 NPC % GDP	2019 million	2020 NPC million
<b>1. Total revenue</b>	<b>TR</b>	40.1	40.0	37,740	39,237
thereof		-	-	-	-
1.1. Taxes on production and imports	D.2	11.4	11.6	10,681	11,406
1.2. Current taxes on income, wealth, etc.	D.5	7.4	7.4	6,934	7,265
1.3. Capital taxes	D.91	-	-	-	-
1.4. Social security contributions	D.61	15.1	15.1	14,233	14,843
1.5. Property income	D.4	0.7	0.5	637	475
1.6. Other <sup>1</sup>		5.6	5.4	5,255	5,248
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		33.8	34.2	31,848	33,514
<b>2. Total expenditures</b>	<b>TE</b>	40.8	39.9	38,380	39,144
thereof		-	-	-	-
2.1. Compensation for employees	D.1	9.5	9.8	8,950	9,653
2.2. Intermediate consumption	P.2	5.9	5.5	5,506	5,383
2.3. Total social transfers	D.62, D.632	18.7	18.3	17,571	17,895
thereof: unemployment benefits		0.2	0.2	202	177
2.4. Interest expense	D.41	1.2	1.1	1,135	1,057
2.5. Subsidies	D.3	0.5	0.5	465	486
2.6. Gross fixed capital generation	P.51	2.9	2.3	2,726	2,279
2.7. Capital transfers	D.9	0.3	0.2	281	200
2.8. Other <sup>2</sup>		1.9	2.2	1,746	2,191

Note: 2019 = ongoing monitoring.

Source: MFSR

[1] P.11+P.12+P.131+D.39r+D.7r+D.9r (excl. D.91r)

[2] D.29p + D.4p (excl. D.41p) +D.5p +D.7p +P.52+P.53+NP+D.8.

**TABLE 4.a: General government expenditure and revenue targets (breakdown by components)**

General government (S13)	ESA code	2019 % GDP	2020 % GDP	2019 million	2020 million
<b>1. Total revenues</b>	<b>TR</b>	40.1	39.6	37,740	38,866
thereof		-	-	-	-
1.1. Taxes on production and imports	D.2	11.4	11.7	10,681	11,430
1.2. Current taxes on income, wealth, etc.	D.5	7.4	7.1	6,934	7,009
1.3. Capital taxes	D.91	0.0	0.0	0	0
1.4. Social security contributions	D.61	15.1	15.1	14,233	14,829
1.5. Property income	D.4	0.7	0.6	637	583
1.6. Other [1]		5.6	5.1	5,255	5,016
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		33.8	33.9	31,848	33,267
<b>2. Total expenditures</b>	<b>TE</b>	40.8	40.1	38,380	39,346
thereof		-	-	-	-
2.1. Compensation for employees	D.1	9.5	9.9	8,950	9,740
2.2. Intermediate consumption	P.2	5.9	5.5	5,506	5,353
2.3. Total social transfers	D.62, D.632	18.7	18.7	17,571	18,295
thereof: unemployment benefits		0.2	0.2	202	177



2.4. Interest expenses	D.41	1.2	1.1	1,135	1,057
2.5. Subsidies	D.3	0.5	0.5	465	496
2.6. Gross fixed capital generation	P.51	2.9	1.9	2,726	1,839
2.7. Capital transfers	D.9	0.3	0.2	281	207
2.8. Other [2]		1.9	2.4	1,746	2,359

[1] P.11+P.12+P.131+D.39r+D.7r+D.9r (excl. D.91r)

[2] D.29p + D.4p (excl. D.41p) +D.5p +D.7p +P.52+P.53+NP+D.8.

Note: Data for 2019 express expected actual results.

Source: MFSR

TABLE 4.b.: Amounts to be excluded from the expenditure aggregate

	2017	2018	2019	2020
	million	% GDP	% GDP	% GDP
1. Expenditure for EU programmes fully matched by EU funds revenue	632	1.1	1.0	0.6
1.a. thereof investments fully matched by EU funds revenue	440	0.8	0.6	0.1
2. Unemployment benefit expenditures not related to government measures (cyclical component)	-3	0.0	0.0	0.0
3. Change in revenues due to measures (effect of discretionary revenue measures)	332	-0.1	-0.1	0.0
4. Revenue increases mandated by law	0	0	0	0

Source: MFSR

TABLE 4.c.i): General government expenditure on education, healthcare and employment

	2019		2020	
	% GDP	% TGE	% GDP	% TGE
Education	4.2	10.7	4.3	10.7
Health service sector	7.4	18.6	7.6	19.0
Employment	0.1	0.2	0.1	0.2

Note: TGE – Total expenditures of the general government

Source: MF SR

TABLE 4.c.ii): General government expenditures in accordance with COFOG classification

Functions	COFOG code	2019		2020	
		% GDP	% CV	% GDP	% CV
1. General public services	1	4.8	12.2	5.1	12.8
2. Defence	2	1.2	3.1	1.1	2.8
3. Public order and safety	3	2.1	5.3	2.2	5.6
4. Economic area	4	4.1	10.3	3.5	8.7
5. Environmental protection	5	0.6	1.6	0.7	1.8
6. Housing and amenities	6	0.4	1.0	0.4	0.9
7. Healthcare system	7	7.4	18.6	7.6	19.0
8. Recreation, culture and religion	8	1.0	2.4	1.0	2.6
9. Education	9	4.2	10.7	4.3	10.6
10. Social security	10	13.8	34.8	14.2	35.3
<b>Total expenditures</b>	<b>TE</b>	<b>39.6</b>	<b>100.0</b>	<b>40.1</b>	<b>100.0</b>

Note: TGGE – Total general government expenditure. The methodology of recording expenditures based on functional classification can vary between individual countries. As a result, different data, can enter into the same category in different countries (e.g. taxed and non-taxed pensions). COFOG classification also doesn't take into account expenditure realized through the tax system (e.g. tax benefits).

Source: MF SR

TABLE 5a: Measures included in draft general government budget (ESA 2010, % GDP, compared to NPC)

Revenues	Sub-sector	ESA2010	2020	2021	2022
Total tax revenues	S. 13		-0.24	-0.20	-0.19



Taxes on production	S. 13	D.2	0.02	0.05	0.05
Increase of excise tax on tobacco products			0.10	0.13	0.13
Reduced VAT rate on other food items			-0.08	-0.08	-0.08
Other			0.00	0.00	0.00
Income tax	S. 13	D.5	-0.26	-0.25	-0.24
Increase of non-taxable part of the tax base to 21-multiple minimum subsistence allowance			-0.14	-0.13	-0.13
Reduced income tax rate doe self-employed and companies to 15% for turnover below EUR 100 thousand			-0.06	-0.06	-0.06
Increase of allowance for science and research to 150% since 2019 and 200% since 2020			-0.02	-0.02	-0.03
Deduction of tax loss for other companies max. to 50% of tax base over 5 years			0.00	0.03	0.03
New depreciation group for electric vehicles			-0.02	-0.02	-0.01
Other			-0.02	-0.05	-0.04
Social contribution revenues	S. 13	D.61	-0.01	-0.04	-0.03
13th and 14th salary - legislative changes			-0.01	-0.03	-0.02
Other			0.00	-0.01	-0.01
Total non-tax revenues	S.13	P.11+P.12	0.09	0.03	0.01
Grants and transfers	S.13		-0.21	-0.19	-0.19
Total revenues			-0.38	-0.40	-0.40
Expenditures	Sub-sector	ESA2010	2020	2021	2022
Compensations	S.13	D.1	-0.09	0.01	0.13
Intermediate consumption	S.13	P.2	0.03	0.04	-0.02
Subsidies	S.13	D.3p	-0.01	-0.01	0.00
Total social transfers, thereof:	S.13	D.6P	-0.41	-0.41	-0.41
Increase of parental allowance			-0.17	-0.16	-0.16
Doubled Christmas allowance			-0.09	-0.09	-0.08
Increase of benefit for nursing a severe disable person			-0.04	-0.04	-0.04
slowdown in growth of retirement age (amendment of Act on Social Insurance)			-0.03	-0.04	-0.05
Allowance for first-graders at primary school (amendment of the Act on Child Allowance)			-0.01	-0.01	-0.01
Additional financing for health service sector	S.13	D632	-0.06	-0.07	-0.07
Capital expenditures, thereof:	S.13		0.45	0.36	0.37
Commitment of capital expenditures in defence sector			0.08	0.00	0.05
Commitment of capital expenditures in transportation			0.10	0.10	0.09
Municipalities			0.08	0.07	0.03
Total expenditures			-0.21	-0.14	-0.07

Note: (+) increase in revenues and decrease in expenditures

Source: MF SR

TABLE 6.a: NPR response to specific recommendations for Slovakia

CS R	Measure	Description of measures linked to CSR
1	<b>Achieve the medium-term budgetary objective in 2020. Safeguard the long-term sustainability of public finances, notably that of the healthcare and pension systems.</b>	
1	Ensure long-term sustainability of the healthcare system	Implementation of a result-based budgeting system is being prepared, and this new system should help to link the allocated funds to actually achieved results. Thus, the budgetary spending from public health insurance for 2021 will be in more detailed program structure with measurable indicators for selected areas of the health care sector. As a part of the project of hospital stratification in 2019 the Ministry of Health introduced first legislative proposal. The strategy defining basic rules for providing long term care was approved by the Government in August 2019. In September, the Government also approved the first legislative proposal defining rules for hospital stratification. Another



		system currently in the process of implementation is the system of payments by diagnoses (DRG). This is expected to improve transparency in payments for health services and to improve the effectiveness in management of hospitals.
1	Implementation of default saving strategy in the 2 <sup>nd</sup> pillar of the pension system	The spending review on labour market and social policies identified a discrepancy between the structure of assets of savers and the time horizon of their saving. The default saving strategy defines a share of the assets that should be invested in stocks depending on the saver's age. Within implementation, also the payout phase should be amended whereas the appropriate selection of optimum investment strategy also depends on the selection of the pension payout conditions. Additionally, the existing savers should be transferred to the default strategy in order to reduce the risk of inappropriate pensions of such savers. Implementation of the default strategy will substantially increase savings of savers in the 2 <sup>nd</sup> pillar and will support the long-term sustainability of the pension system and public finance.
2	<b>Improve the quality and inclusiveness of education at all levels and foster skills. Enhance access to affordable and quality childcare and long-term care. Promote integration of disadvantaged groups, in particular Roma.</b>	
2	Increasing attractiveness of the teaching profession and quality in education	We continue in increasing attractiveness of the teaching profession, in particular by repeated increases of teachers' salaries exceeding the framework declared by the Policy Statement of the Slovak Government. After repeated increases, salaries will be increased by another 10% on January 2020. Additionally, increased were tariff salaries for starting teachers effective from September 2019 by another 9.5% with full impact on public finance from 2020. The new act on pedagogical and professional staff addresses the link between compensation of teachers and quality of their teaching by modification of attestation proceedings, which are a precondition for career growth. Better preparation of future teachers is the substance of the newly announced call in this area. Changes in regulation of dual education support participation of schools and employers through reducing barriers for entering the system by direct subsidies to employers.
2	Inclusion of disadvantaged groups in education	The amendment of the Act on mandatory pre-primary education in kindergarten for all children aged five years comes into force from 2021. The implementation will require expansion of the existing capacities at kindergarten, which will be financed primarily from structural funds. We also continue in implementation of national projects focused on supporting inclusive education of children with special needs in kindergartens and primary schools and informal education of children from marginalized Roma communities. The support provided to children and pupils from disadvantaged environment is also provided in form of approved "free lunches" – subsidies to support education to eating habits – for children of the last year of pre-primary schools from January 2019 and pupils of primary schools from September 2019. Full effect of the measures will be seen in 2020; expenditures estimated for 2020 are approximately EUR 115 million.
2	Support to marginalized Roma communities	In order to improve social integration, implementation of several projects will continue. These are national projects focused on supporting inclusion of marginalized communities in social services and social work, in education, settlement of title to land and monitoring and evaluation of policies. The project figures are expected to be approved by the end of 2019, which will be followed by smooth continuation of second phases of national projects <i>Fieldwork in Social Services and Fieldwork in Municipalities with involvement of the MRC and the Community Centres</i> .
2	Improve work-life balance for parents	Several supporting projects will be launched to increase development and availability of childcare facilities for children up to 3 years of age. Support to childcare facilities for children up to 3 years of age is provided for public and private operators of the facilities (total financial allocation of the support equals EUR 13.3 million). To improve employment rate of persons with parental obligations, in particular women, from September 2019, the government launched a project of flexible employment forms (financial allocation in the amount of EUR 11 million). Projects approved by the end of 2018 involved 49 operators with financial allocation of EUR 4.9 million. To improve employment rate of persons with parental obligations, in particular women, from September 2019, the government launched a project of flexible employment forms (financial allocation in the amount of EUR 11 million).



2	New or modified tools of employment services	<p>Slovakia continues in implementation of the Action Plan to strengthen integration of long-term unemployed at the labour market in the Slovak Republic focusing on activation measures for disadvantaged groups, in particular, persons with low skills level, marginalized Roma communities and young people lacking proper skills. Improvement of the existing situation will be achieved through innovated measures, in particular through comprehensive approach to personalised services, providing specialised counselling services, identification of skills of disadvantaged job seekers, ongoing implementation of the new profiling system and providing targeted programs designed by employers based on needs of the regional labour market.</p> <p>Improving skills at the labour market will also be supported by the system of measures to improve adaptability to labour market changes. Effective from April, Slovakia launched a national project named Sector-Managed Innovations for an Effective Labour Market in the Slovak Republic, which is to improve anticipation of needs in skills and employment, improving of quality and capacity of public services in employment to achieve a better match between labour demand and supply. Total financial allocation to the project is almost EUR 20 million with implementation scheduled until February 2023.</p>
2	Improve support for labour mobility	<p>Several prepared measures are aimed at reduction of barriers to labour mobility in Slovakia. In order to improve labour mobility, starting from 2020 a new purpose of support will be introduced under the State Housing Development Fund for acquisition of a lodging/boarding house. Thus will be supported the option of providing accommodation to employees by companies employing people from distant regions of Slovakia and/or foreign nationals. To support mobility of labour, the tax legislation from 2020 introduces exemption on benefits in kind up to EUR 100, provided by the employer with the aim of partial coverage of accommodation costs. Along with this change, starting from 2021 the legislation also regulates provision of non-monetary benefit for transportation, in the amount of EUR 100 per month. Improving attractiveness and increasing interest of private sector in rental accommodation, the government will further improve loan conditions for acquisition of such type of accommodation. Under the approved Strategy of labour mobility of foreign national in the Slovak Republic further measures will be implemented to reduce barriers to employment of foreign nationals, e.g., simplified procedures for acknowledgment of qualification and education.</p>
3	<p><b>Focus investment-related economic policy on healthcare, research and innovation, transport, notably on its sustainability, digital infrastructure, energy efficiency, competitiveness of small and medium-sized enterprises, and social housing, taking into account regional disparities. Increase the use of quality-related and lifecycle cost criteria in public procurement operations.</b></p>	
3	Focus economic policy on investments in the health services sector	<p>The Government approved comprehensive renovation of the university hospital in Banská Bystrica, which is expected to be finished by 2023. At the same time, a project of a new university hospital in Martin is currently under preparation. The Government also intends to open a new university hospital complex in Bratislava (UNBA) in 2023. As a part of this project, demolition works of the existing skeleton started in August 2019 at the location where the new main building of the hospital is to be built.</p>
3	Increase the number of rental apartments and improve availability of accommodation in Slovakia	<p>Effective from January 2020, better terms for supporting construction of rental apartments for both businesses and local government will be carried out. Businesses will be provided by favourable terms on borrowings from the State Housing Development Fund to finance acquisition of rental apartments. This, in particular, means increasing the limit for maximum loan and average floor size and elimination of the limit of total maximum eligible costs per m<sup>2</sup> of floor size of the apartment. More favourable terms will also apply to local government, both with respect to subsidies from the Ministry of Transport, as well as to terms of drawing loans from the State Housing Development Fund. The new regulation is expected to increase the general limit on maximum costs of acquisition and, at the same time, will consider specifics of regional cities.</p>



3	Reduce the administrative burden on business environment, in particular, on small and medium-sized companies	<p>Further progress was achieved in providing support to electronic and automated communication with the Financial Administration, implementation of measures from already approved anti-bureaucratic business packages, and further optimization of services provided by the Commercial Register. The last, third package, approved in February 2019 is focused on electrification of services and improvement of processes upon starting business. Rules for granting business licences will be simplified and certain obligations and required confirmations will be cancelled, e.g. in relation to sanitation or building permit procedures. Draft amendment to Income Tax Act was approved to simplify meeting tax obligations by small and medium-sized companies.</p> <p>It is expected that by the end of 2019, the 1<sup>st</sup> Action Plan of the <i>Economic Policy Strategy of the SR until 2030</i> will be approved to support competitiveness of small and medium-sized companies. The plan includes 42 measures for implementation on 2020 and 2021, including anti-crisis measures. The plan includes, for instance, mechanism for stabilization of employees in case of economic crisis following the approach presented by <i>Kurzarbeit</i> instrument, de-linking of wage allowances from the level of minimum wage or implementation of the <i>one in – one out</i> principle in the legislative process.</p> <p>After two waves of releasing the administrative burden, the third wave, which is recently implemented, is focused on using the general government IT systems by cancellation of submitting mandatory documents in communication with the state. The assumed expenditures in 2020 are approximately EUR 6.5 million for establishing new IT systems</p>
3	More efficient and sustainable expenditures in transportation	<p>Principles of <i>Value for Money</i> will be strengthened in transportation through prioritization of productive investments. The Ministry of Finance, in cooperation with the Ministry of Transport, Construction and Regional Development of the Slovak Republic will prepare a draft document presenting an analytically supported list of priorities, a plan of preparation and construction of roads and highways and plan of modernization of the rail network in Slovakia until 2030. The plan will be based on the calculation of social returns of investment. Priorities will be selected considering the transportation view, social benefit of the projects, state project capacities, budgetary limitations, capacities of the construction sector and the economic cycle and impact on development of regions. Effectivity of expenditures in transportation will also be increased through measures recommended as a part of the audit of the Railways of the Slovak Republic.</p>
3	Reduce energy intensity of the economy, improve waste separation and introduce green public procurement	<p>Subsidies for purchase of vehicles using alternative fuel and deposits for disposable beverage packaging will contribute to improving energy efficiency of the economy. Effective from November 2019, the amendment of the Act on Subsidies introduces a possibility of providing subsidies for vehicles with alternative fuel. The approved act on deposits for disposable beverage packaging introduced a special deposit-refund system on PET bottles and cans effective from January 2022. In October 2019, the Government approved the <i>Concept of Development and Implementation of Green Public Procurement</i>. It presents specific measures to encourage application of green public procurement. It includes, for example, preparation of methodology for green procurement, emphasis on trainings, identification of commodities which can be acquired in accordance with green procurement principles, presented amendment of the Act on Public Procurement.</p>
4	<b>Continue to improve the effectiveness of the justice system, focussing on strengthening its independence, including on judicial appointments. Increase efforts to detect and prosecute corruption, in particular in large-scale corruption cases.</b>	
4	Improve efficiency of the judicial system	<p>The conditions for providing legal assistance will be further improved, including better availability of legal assistance through the Centre of Legal Assistance. In accordance with the Government Manifesto an act on judicial state service will be prepared. In order to improve effectiveness and efficiency of the judicial system, from August 2019, the concept of hosting judge was established. The purpose of the amendment is to create conditions for resolution of events having a negative impact on functioning of courts by causing a temporary absence of the statutory judge (e.g., maternity or parental leave, suspension of performance of the office by the judge, internship attended by the judge, etc.). The budgeted annual costs for implementation of the measure amount to EUR 3.2 million</p>
4	Increase efforts focused on detection and prosecution of corruption	<p>Starting from March 2019, a new legal regulation comes in force to protect persons reporting corruption (whistleblowers). Whistleblowers will be protected by the new specialised Office for Protection of Persons Reporting Anti-Social Activities (Whistleblower Protection Office). Currently, selection procedures are pending for appointing the Chairman. In the judicial system, the focus will be on resolution of the problem of old distraint proceedings. Additionally, effective from 2017 a joint project with OECD is implemented in relation to anti-corruption measures and development of risk management strategies associated with frauds and corruption. The key output of the project will be an action plan, which was presented in October 2019. The purpose is to</p>





	improve risk management processes related to corruption and frauds in implementation of European structures and investment funds.
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TABLE 6.b: EU objectives for growth and employment

Key EU2020 indicator	Measure	Description of measures linked to target
Employment	New and modified active labour market policies (ALMP) tools	<p>Slovakia continues in implementation of the Action Plan to strengthen integration of long-term unemployed at the labour market in the Slovak Republic focusing on activation measures for disadvantaged groups, in particular, persons with low skills level, marginalized Roma communities and young people lacking proper skills. Improvement of the existing situation will be achieved through innovated measures, in particular through comprehensive approach to personalised services, providing specialised counselling services, identification of skills of disadvantaged job seekers, ongoing implementation of the new profiling system and providing targeted programs designed by employers based on needs of the regional labour market.</p> <p>Improving skills at the labour market will also be supported by the system of measures to improve adaptability to labour market changes. Effective from April, Slovakia launched a national project named Sector-Managed Innovations for an Effective Labour Market in the Slovak Republic, which is to improve anticipation of needs in skills and employment, improving of quality and capacity of public services in employment to achieve a better match between labour demand and supply. Total financial allocation to the project is almost EUR 20 million with implementation scheduled until February 2023.</p>
	Measures to promote labour mobility	<p>Several prepared measures are aimed at reduction of barriers to labour mobility in Slovakia. In order to improve labour mobility, starting from 2020 a new purpose of support will be introduced under the State Housing Development Fund for acquisition of a lodging/boarding house. Thus will be supported the option of providing accommodation to employees by companies employing people from distant regions of Slovakia and/or foreign nationals. To support mobility of labour, the tax legislation from 2020 introduces exemption on benefits in kind up to EUR 100, provided by the employer with the aim of partial coverage of accommodation costs. Along with this change, starting from 2021 the legislation also regulates provision of non-monetary benefit for transportation, in the amount of EUR 100 per month. Improving attractiveness and increasing interest of private sector in rental accommodation, the government will further improve loan conditions for acquisition of such type of accommodation. Under the approved Strategy of labour mobility of foreign national in the Slovak Republic further measures will be implemented to reduce barriers to employment of foreign nationals, e.g., simplified procedures for acknowledgment of qualification and education.</p>
	Measures to improve work-life balance for parents	<p>Several supporting projects will be launched to increase development and availability of childcare facilities for children up to 3 years of age. Support to childcare facilities for children up to 3 years of age is provided for public and private operators of the facilities (total financial allocation of the support equals EUR 13.3 million). Projects approved by the end of 2018 involved 49 operators with financial allocation of EUR 4.9 million. To improve employment rate of persons with parental obligations, in particular women, from September 2019, the government launched a project of flexible employment forms (financial allocation in the amount of EUR 11 million).</p>
Research and Development	Research and innovation support	<p>Effective from January 2020, Slovakia is increasing tax allowance for research and development expenditures to 200 % and, at the same time from the level of year-on-year accrual in research and development expenditures to 100 % level. The purpose of these measures is to encourage motivation of the private sector to spend higher amount of own funds for research and development</p>



Climate change and energy	Reduce energy efficiency, improve waste separation and introduce green procurement	Effective from November 2019, the amendment of the Act on Subsidies introduces a possibility of providing subsidies for vehicles with alternative fuel. The approved at on deposits for disposable beverage packaging introduced a special deposit-refund system on PET bottles and cans effective from January 2022. In October 2019, the Government approved the <i>Concept of Development and Implementation of Green Public Procurement</i> . It presents specific measures to encourage application of green public procurement. It includes, for example, preparation of methodology for green procurement, emphasis on trainings, identification of commodities which can be acquired in accordance with green procurement principles, presented amendment of the Act on Public Procurement.
Education	Increasing attractiveness of the teaching profession	After repeated increases, salaries will be increased by another 10% since January 2020. Additionally, increased were tariff salaries for starting teachers effective from September 2019 by another 9.5% with full impact on public finance from 2020. The new act on pedagogical and professional staff addresses the link between compensation of teachers and quality of their teaching by modification of attestation proceedings, which are a precondition for career growth. Better preparation of future teachers is the subject of a newly announced call. Changes in dual education support participation of schools and employers through reduction of barriers for entering the system by direct subsidies to employers.
	Supporting inclusion in education	Starting from 2021, an amendment of the act on mandatory education in pre-primary schools comes into effect and applies to all children aged 5 years. Implementation thereof will require expansion of existing capacities of pre-primary schools, which will be financed primarily from structural funds. The government also continues implementation of national projects focused on supporting inclusive education of children with special needs at both pre-primary and primary schools and informal education of children from marginalized Roma communities. Children and pupils from disadvantaged environment are also supported by approving "free lunches" – subsidy to support education to eating habits – for children of the last year of pre-primary schools from January 2019 and pupils of primary schools from September 2019. Full impact of the measures will be seen in 2020; the expenditures estimated for 2020 are approximately EUR 115 million.
	Improving quality of higher education	The newly established Slovak Accreditation Agency will start its operation from January 2020. It is expected that foreign professionals will participate in evaluation of university research. The call to support development of professionally-oriented university study programs from December 2018 will ensure a better link with the labour market. To increase the share of private funds in university education, starting from the new academic year 2019/2020 introduced was the possibility to provide corporate scholarship to university students. This will make it possible for employers to improve incentives for students to attend fields of study with a shortage of graduates for the needs of the labour market
Poverty and social exclusion	Integration of marginalized Roma communities (education, labour market, and social inclusion)	In order to improve social integration, implementation of several projects will continue. These are national projects focused on supporting inclusion of marginalized communities in social services and social work, in education, settlement of title to land and monitoring and evaluation of policies. The project figures are expected to be approved by the end of 2019, which will be followed by smooth continuation of second phases of national projects <i>Fieldwork in Social Services and Fieldwork in Municipalities with involvement of the MRC and the Community Centres</i>