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Assessment of the 2018 Stability Programme for

Slovakia

(Note prepared by DG ECFIN staff)

CONTENTS

1. INTRODUCTION

On 25 April 2018 Slovakia submitted its 2018 Stability Programme (hereafter called Stability Programme), covering the period 2017-2021. The government approved the programme on 25 April 2018 and it will be submitted to Parliament in May.

Slovakia is currently subject to the preventive arm of the Stability and Growth Pact (SGP) and should ensure sufficient progress towards its medium-term budgetary objective (MTO).

This document complements the Country Report published on 7 March 2018 and updates it with the information included in the Stability Programme.

Section 2 presents the macroeconomic outlook underlying the Stability Programme and provides an assessment based on the Commission 2018 spring forecast. The following section presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview of the medium term budgetary plans, an assessment of the measures underpinning the Stability Programme and a risk analysis of the budgetary plans based on the Commission forecast. Section 4 assesses compliance with the rules of the SGP, including on the basis of the Commission forecast. Section 5 provides an overview of long term sustainability risks and Section 6 reviews recent developments and plans regarding the fiscal framework. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

Slovakia's economic growth rate increased marginally to 3.4% in 2017 on the back of accelerating household spending and a recovery in investment. Private consumption became the key driver of growth, supported by solid employment growth, robust increases in real wages and low credit costs. Investment returned to growth in 2017 after a sharp fall in the previous year linked to the EU funding cycle. The continued tightening of the labour market exerted upward pressure on nominal wage growth, particularly in an environment of reviving consumer prices.

According to the Stability Programme, economic growth is set to strengthen to 4.2% in 2018 and to 4.5% in 2019, reflecting an upswing in investment in 2018 and more positive contributions from net trade in both years. Private consumption growth is projected to gradually soften, leaving net exports as the main contributor to GDP growth in 2019. Export growth is expected to rise above 8% in 2019, with expanded production facilities in the car industry boosting Slovakia’s export capacities in conditions of robust foreign demand. Total investment growth is likely to peak in 2018, driven by booming investment in the automotive industry and some large-scale public infrastructure projects such as the Bratislava ring road. From 2019 onwards investment growth is projected to settle at annual rates of around 3%.

The macroeconomic scenario in the Stability Programme is broadly in line with the latest Draft Budgetary Plan (DBP) with regard to both the headline growth path and its composition, although the Stability Programme assumes somewhat stronger growth in private consumption and investment in 2018, which is offset by weaker expected contributions of net trade. At the same time, the macroeconomic scenario underlying the Stability Programme is broadly in line with the Commission 2018 spring forecast in terms of the headline growth figures.

Nevertheless, there are larger differences with regard to the composition of real GDP growth. In particular, the Stability Programme scenario projects significantly higher net trade contributions to overall growth in 2018 and 2019, reflecting stronger export growth in both years combined with weaker import dynamics in 2019. The Stability Programme expects somewhat lower growth in total investment and both private and public consumption. These differences in the composition of GDP growth are less pronounced in 2018 but increase in 2019.

Table 1: Comparison of macroeconomic developments and forecasts

	2017		2018		2019		2020	2021
	COM	**SP**	**COM**	**SP**	**COM**	**SP**	**SP**	**SP**
Real GDP (% change)	3.4	3.4	4.0	4.2	4.2	4.5	3.9	3.4
Private consumption (% change)	3.6	3.7	3.6	3.5	3.6	3.2	2.8	2.5
Gross fixed capital formation (% change)	3.2	3.2	6.5	5.2	5.2	3.3	3.3	3.0
Exports of goods and services (% change)	4.3	4.3	7.1	7.9	7.9	8.5	7.1	5.9
Imports of goods and services (% change)	3.9	3.9	6.8	7.1	7.6	7.2	6.2	5.2
Contributions to real GDP growth:								
- Final domestic demand	2.7	2.6	3.6	3.1	3.5	2.6	2.3	2.1
- Change in inventories	-0.1	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0
- Net exports	0.5	0.6	0.6	1.2	0.7	1.9	1.6	1.3
Output gap[1]	0.0	-0.4	0.6	0.2	1.2	0.7	0.7	0.6
Employment (% change)	2.2	2.2	1.4	1.6	1.2	1.0	1.0	0.7
Unemployment rate (%)	8.1	8.1	7.1	7.3	6.3	6.7	6.1	5.9
Labour productivity (% change)	1.2	1.2	2.6	2.5	2.9	3.4	2.8	2.7
HICP inflation (%)	1.4	1.4	2.4	2.0	2.1	2.0	2.2	2.3
GDP deflator (% change)	1.3	1.3	2.7	1.8	2.5	2.0	2.2	2.3
Comp. of employees (per head, % change)	4.1	4.0	5.4	5.3	5.7	5.3	5.2	5.3
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	0.2	-0.8	0.6	0.0	1.5	0.9	1.5	2.1

<u>Note</u>:

[1] In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

<u>Source</u> *:*

Commission 2018 spring forecast (COM); Stability Programme (SP).

Both the Stability Programme and the Commission 2018 spring forecast expect the labour market to further tighten on the back of continued economic expansion, with the unemployment rate gradually declining to below 7% in 2019. Labour shortages in various sectors are expected to push nominal wage growth to over 5% in 2018 and 2019, particularly in an environment of increasing consumer inflation. Still, the Commission expects slightly stronger nominal wage growth, partly reflecting higher consumer price inflation.

The output gap, as recalculated by the Commission based on the information in the Stability Programme and following the commonly agreed methodology, is somewhat below the estimates in the Commission 2018 spring forecast in both 2018 and 2019. At the same time, both the Stability Programme and the Commission estimate the output gap to enter positive territory in 2018 and to widen further in 2019, reflecting the quickened pace of economic expansion.

Overall, the macroeconomic assumptions underpinning the Stability Programme appear to be plausible.

3. Recent and planned budgetary developments

The Stability Programme presents two fully-fledged fiscal scenarios – a 'no-policy change' (NPC) and a central scenario[1]. The NPC scenario takes the end-year outcome of the 2018 budget as a basis for projecting expected fiscal outcomes for 2019 and beyond; it therefore does not assume any additional measures. The central scenario is presented as the single most likely outcome of fiscal policy. From 2019 onwards, the central scenario is consistent with the fiscal targets presented in the Stability Programme being met, including the 2018 headline deficit target of -0.8% of GDP. The current assessment and the tables in the Annexes are based on the central scenario.

3.1 DEFICIT DEVELOPMENTS IN YEAR 2017 AND 2018

In 2017, the general government headline balance declined to 1.0% of GDP. The outturn exceeded the 2017 deficit target of 1.2% of GDP presented in the 2017 Stability Programme. It thereby also significantly exceeded the expected outcome of 1.6% of GDP presented in the DBP for 2018.

Unexpectedly weak public spending and stronger-than-expected economic growth and labour market performance were the main reasons for the observed difference between the outcome for 2017 and the target for that year as presented in the 2018 DBP. While total revenues grew broadly in line with GDP, value added and personal income taxes grew more strongly than expected on the basis of past estimated elasticities. This appears to have been partly due to the growing efficiency of VAT collection. Also unexpectedly, the general government expenditure-to-GDP ratio declined strongly to 40.4% on the back of lower central government gross fixed capital formation, lower-than-expected EU funds drawdown and interest payments. The deficit-reducing impact of these surprises relative to the projections in the DBP was, however, partly offset by a higher-than-expected public wage bill, intermediate consumption and also local government investment. Finally, while the statistical reclassification of Slovakia's statutory deposit guarantee schemes (Deposit Protection Fund and Investment Guarantee Fund) had an almost negligible positive impact on the general government balance in 2017 (0.01% of GDP), the reclassification has the potential to affect government expenditure more significantly in the case of future payments from these Funds.

For 2018, the Stability Programme forecasts a headline deficit of 0.8% of GDP, which is identical to the target presented in the DBP for 2018 but larger than the 0.5% of GDP deficit planned in the 2017 Stability Programme. At the level of revenues and expenditures, discrepancies between the current Stability Programme and the DBP are minor. The revenue structure is almost the same, with only slightly higher social security contributions (by 0.1 percentage point of GDP) expected in the current Stability Programme, while the tax burden is 0.2 percentage points lower compared to the DBP (at 32.6% of GDP). The largest decline is projected for taxes on production and imports, which as a share of GDP is projected to decline by 0.2 percentage points. On the expenditure side, the main differences result from weaker intermediate consumption and social payments compared to the DBP, while gross fixed capital formation is expected of 0.1 percentage point higher. The abovementioned developments and solid economic growth should create preconditions for getting the debt under 50% of GDP in 2018.

[1] The central scenario is referred to as the "fiscal framework of the public administration budget ('FR RVS')" in the Stability Programme and is contrasted with the no-policy change scenario for 2019.

3.2 MEDIUM-TERM STRATEGY AND TARGETS

The aim of the fiscal strategy presented in the Stability Programme is to bring down the headline deficit from 1.0% of GDP in 2017 to a position of balance (0.0% of GDP) by 2020. According to the authorities, this strategy would allow the structural balance to fall below the MTO by 2020. Based on the information in the Stability Programme, the recalculated structural balance is projected to decline to -0.6% of GDP in 2019 and further to -0.3% of GDP in 2020. This implies that the MTO would be met two years later than envisaged in the 2017 Stability Programme, which showed the (recalculated) structural balance falling to a level of -0.5% of GDP already in 2018. The MTO reflects the objectives of the Pact.

According to the Stability Programme, in 2019 the expenditure-to-GDP ratio is projected to decline 0.5 percentage points faster than the revenue ratio, making the expenditure side the main driver of the adjustment. Here, the expected 1.0 percentage point fall in the expenditure ratio between 2018 and 2019 is driven mainly by a decline in social payments, ostensibly due to subdued growth in healthcare outlays as social transfers in kind are expected to decline by 0.7 percentage points of GDP between 2018 and 2019. Notwithstanding fast public wage growth, the compensation of employees as a share of GDP is also projected to decline by 0.3 percentage points. These contractionary measures are partly offset by a moderate rise in public investment. Overall, the Stability Programme's expected decline in the spending ratio appears to be endogenously driven as spending levels projected under the NPC scenario are significantly lower (0.7 percentage points) than in the central scenario.

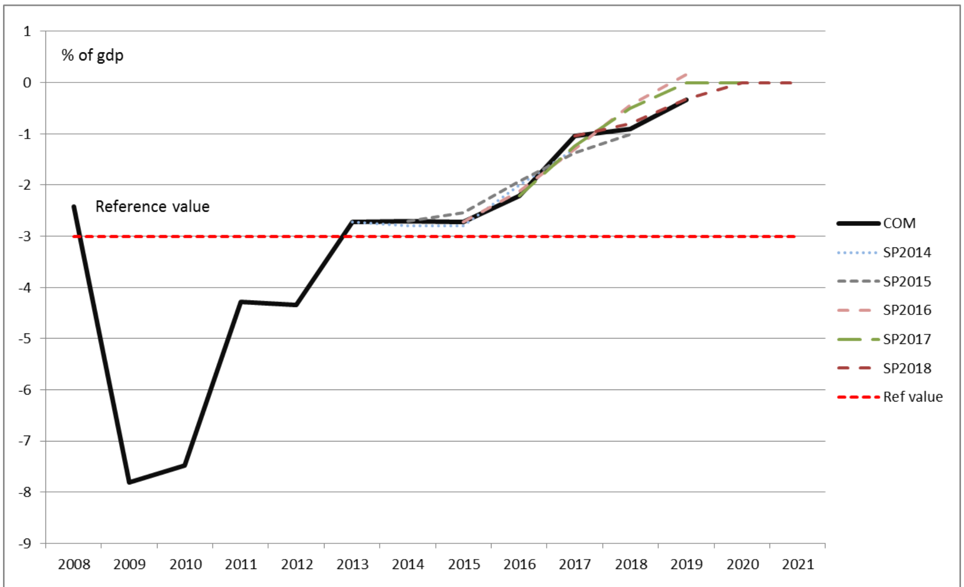
On the revenue side, the largest decline is projected for social contributions, which as a share of GDP are projected to decline by 0.4 percentage points. The Stability Programme does not fully indicate the cause for this decline. The Programme suggests that the consolidation effort mainly originates in central government, while other two subsectors' balances are projected to remain unchanged from 2018. The Commission 2018 spring forecast projects a similar deficit improvement as the Stability Programme, with the deficit declining to 0.3% of GDP in 2019 in both projections. The Commission assumes weaker revenues from taxes on production and imports, which are, however, compensated by higher social contributions as a share of GDP. On the expenditure side, the Commission assumes slightly higher growth of compensations of employees, intermediate consumption and gross fixed capital formation. The growth of other spending mirrors partly the assumed pick-up in EU funds drawdown.

In 2020, the Stability Programme assumes further consolidation that would ensure a balanced general government budget. The decrease in the deficit is again planned mainly in the central government subsector (by 0.3 percentage points). The adjustment is projected to stem from both the expenditure and the revenue side in equal amounts. Both expenditure and revenues ratios to GDP are projected to decline to 37.9% of GDP.

In 2021, the Stability Programme presents the same fiscal target as in 2020, with ongoing declines in both the revenues and expenditure shares to 37.1% of GDP.

The Stability Programme does not explicitly quantify any one-off or temporary measures in any of the years covered by projections.

Figure 1: Government balance projections in successive programmes (% of GDP)



Source: Commission 2018 Spring Forecast, Stability programmes

Table 2: Composition of the budgetary adjustment

(% of GDP)	2017	2018		2019		2020	2021	Change: 2017-2021
	COM	**COM**	**SP**	**COM**	**SP**	**SP**	**SP**	**SP**
Revenue	**39.4**	**38.6**	**38.2**	**38.0**	**37.7**	**37.9**	**37.1**	**-2.3**
of which:								
- Taxes on production and imports	10.9	10.7	10.8	10.4	10.8	10.5	10.2	-0.7
- Current taxes on income, wealth, etc.	7.1	7.0	7.1	7.0	7.0	7.0	7.0	-0.1
- Social contributions	14.7	14.7	14.7	14.6	14.3	14.1	13.9	-0.9
- Other (residual)	6.6	6.2	5.7	6.0	5.5	6.3	6.0	-0.5
Expenditure	**40.4**	**39.5**	**39.0**	**38.3**	**38.0**	**37.9**	**37.1**	**-3.3**
of which:								
- Primary expenditure	39.0	38.2	37.8	37.1	36.8	36.9	36.0	-3.0
of which:								
Compensation of employees	9.2	9.1	9.1	9.0	8.8	8.9	8.6	-0.6
Intermediate consumption	5.6	5.5	5.4	5.4	5.3	5.2	5.2	-0.5
Social payments	18.5	18.0	18.1	17.2	17.3	16.7	16.2	-2.3
Subsidies	0.4	0.4	0.4	0.4	0.4	0.4	0.3	-0.2
Gross fixed capital formation	3.2	3.0	2.5	2.8	2.7	2.9	3.0	-0.2
Other (residual)	2.1	2.3	2.3	2.4	2.3	2.7	2.8	0.7
- Interest expenditure	1.4	1.3	1.3	1.2	1.2	1.1	1.1	-0.3
General government balance (GGB)	**-1.0**	**-0.9**	**-0.8**	**-0.3**	**-0.3**	**0.0**	**0.0**	**1.0**
Primary balance	**0.4**	**0.4**	**0.5**	**0.9**	**0.9**	**1.1**	**1.1**	**0.7**
One-off and other temporary	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GGB excl. one-offs	**-1.0**	**-0.9**	**-0.8**	**-0.3**	**-0.3**	**0.0**	**0.0**	**1.0**
Output gap[1]	0.0	0.6	0.2	1.2	0.7	0.7	0.6	1.0
Cyclically-adjusted balance[1]	-1.0	-1.2	-0.9	-0.8	-0.6	-0.3	-0.2	0.6
Structural balance[2]	**-1.0**	**-1.2**	**-0.9**	**-0.8**	**-0.6**	**-0.3**	**-0.2**	**0.6**
Structural primary balance[2]	0.4	0.1	0.4	0.4	0.6	0.8	0.8	0.3

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source :

Stability Programme (SP); Commission 2018 spring forecasts (COM); Commission calculations.

3.3 MEASURES UNDERPINNING THE PROGRAMME

In 2018, no additional revenue measures are presented in the Stability Programme with the exception of the introduction of changes in gambling taxation, which were postponed from 2018 to 2019. Other revenue measures were approved before 2018 and have therefore been included as a part of the central scenario in the Stability Programme. On the expenditure side, measures are mainly expansionary in nature when compared to the NPC scenario. The main measures are 'reserves' created for a variety of purposes.[2] These include notional expenditure to counterbalance the likely undershooting of government forecasts for tax and non-tax revenues (0.2% of GDP), as well as planned increases in capital transfers due to spending on the national football stadium (0.1% of DGP) and investment for the support of the strategic park preparation and transport projects (0.24% of GDP).

The total impact of revenue measures for the years 2019 – 2021 is approximately neutral compared to NPC scenario presented in the Stability Programme. Legislative measures identified regard mainly taxes, social contributions and transfers and compensate each other in the Stability Programme's horizon. In 2019, the most important consolidation measures relate to the de-monopolisation of the online gambling, the introduction of the new insurance tax replacing the tax applied on non-life insurance and the increase of the levy for the maintenance of emergency oil storage. However, no measure exceeds 0.1% of GDP. The positive impact of these measures is expected to be partially compensated by the introduction of the 13 and 14 salaries (since May 2018) relating to the amendment of the Labour Code. These will not be subject to health and social insurance and personnel income tax with the negative impact of less than 0.1% of GDP in 2019 and 2020 and slightly above 0.1% of GDP in 2021. The Stability Programme also includes an assumption of higher non-tax revenues of hospitals backed by stronger growth of expenditure in the healthcare sector in comparison with the NPC scenario. In year 2019, a small negative impact is expected, which will change into a positive impact exceeding 0.1% of GDP in 2021.

When comparing expenditure plans to the NPC scenario presented in the Stability Programme, the government expects to carry out expenditure-increasing measures in the areas of wages, intermediate consumption, social transfers in kind, current transfers and investment and capital spending. The additional increase of wages above the NPC scenario in 2019 and 2020 relates to teachers and professionals in the education in line with the government manifesto. Higher intermediate consumption is e.g. due to additional expenditure of health-care institutions compensated by growing revenues from health insurance premiums. The same compensation is expected in relation to higher expenditure for social transfers in kind. Higher current transfers than in the NPC scenario are explained by the co-financing of so far unallocated resources from EU funds. Higher investment and capital spending than in the NPC scenario are expected for army modernisation and other yet unspecified recovery measures.

Measures that the Stability Programme describes in sufficient detail (i.e. the revenue-side measures) are also included in the Commission 2018 spring forecast.

No one-offs are planned in 2018 or the coming years. The Commission 2018 spring forecast also does not assume any single one-off measure.

[2] Budgetary 'reserves' here refer to expenditure items showing some degree of uncertainty of realisation (e.g. investment projects) or typically not accounted for in line with their final allocation. This growing reliance on accounting via reserves reduces budgetary transparency and the predictability of budget execution.

Main budgetary measures

Revenue	Expenditure
2017	
• Lowering CIT rate by 1.0 percentage point (21%) (-0.1 % of GDP) • Extension and an increase of the regulated sector levy (0.1 % of GDP) • Increase in the ceiling for paying social contributions (0.1 % of GDP) • Removing the ceiling for paying healthcare contributions (0.1 % of GDP)	• Growth of public wage bill (0.1 % of GDP)
2018	
	• Intermediate consumption – reserve on worsening of tax and non-tax revenues (0.2% of GDP) • Capital transfers – National Football Stadium (0.1 % of GDP) • Investment – strategic park, projects of the Ministry of Transport (0.2 % of GDP)
2019	
• Change in taxation of gambling (0.1 % of GDP) • Tax free 13 and 14 salaries (-0.1 % of GDP)	• Growth of wage of teachers and other employees in education (0.1 % of GDP) • Intermediate consumption– e.g. hospitals' expenditure due to higher health insurance (0.2 % of GDP) • Social transfers – mainly due to higher health insurance (0.1 % of GDP) • Other current transfers – co-financing of EU funds (0.1 % of GDP) • Investment and capital spending – e.g. modernisation of defence (0.5 % of GDP)
2020	
• Tax free 13 and 14 salaries (-0.1 % of GDP)	• Intermediate consumption – e.g. hospitals expenditure due to higher health insurance (0.4 % of GDP) • Other current transfers – co-financing of EU funds (0.1 % of GDP) • Investment and capital spending – e.g. modernization of defence (0.4 % of GDP)
2021	
• Tax free 13 & 14 salaries (-0.1 % of GDP)	• Lower public wage bill (-0.2% of GDP) • Intermediate consumption – e.g. hospitals expenditure due to higher health insurance (0.4 % of GDP) • Other current transfers – co-financing of EU funds (0.3 % of GDP) • Investment and capital spending – e.g. modernisation of defence (0.6 % of GDP)

Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure. Only in the SP specified revenue measures are included. Majority of expenditure measures wasn't fully specified and presents difference between budget and NPC.

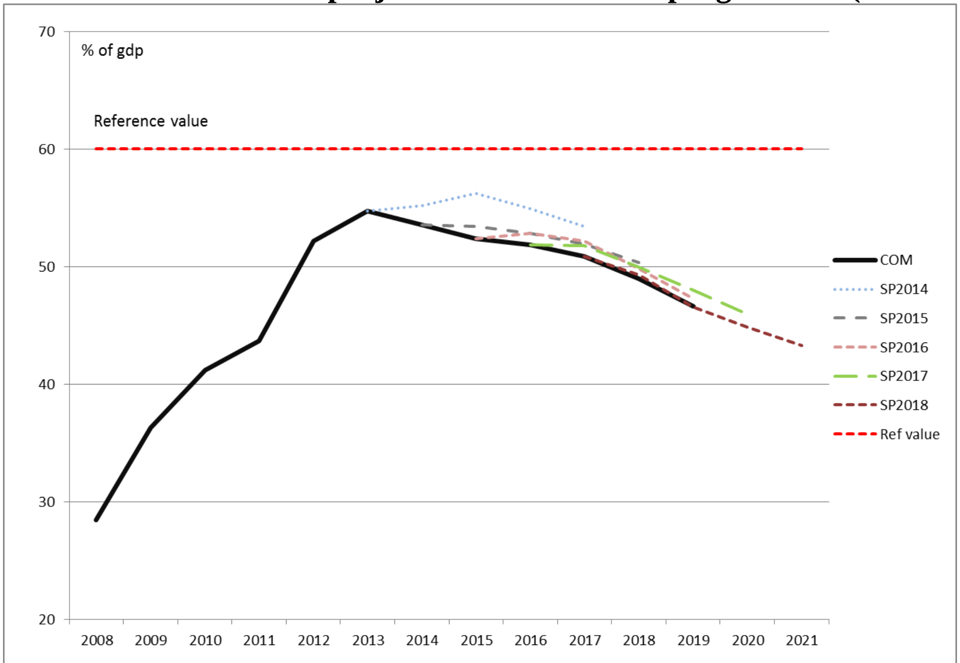
3.4 DEBT DEVELOPMENTS

The general government debt declined to 50.9% of GDP in 2017 (Table 3), driven mainly by favourable developments in the denominator of the ratio, in particular faster real GDP growth and accelerating inflation. A higher primary surplus also supported the decline in the debt burden in 2017, though to a comparatively smaller extent than the combined effect of nominal GDP growth. The 2017 debt outcome was below the projections presented in the 2017 Stability Programme and the DBP for 2018 (Figure 2). In 2018, the Stability Programme projects the debt-to-GDP ratio to decline markedly to 49.3%, which is again lower than projected in the DBP (49.9%). The reduction in the debt-to-GDP ratio will be primarily driven by a further acceleration of real GDP growth, as well as by faster inflation and a primary surplus.

These favourable debt developments are set to continue in 2019 (46.5% of GDP) and beyond according to the Stability Programme, with swift real GDP growth remaining the principal driver behind the decline in the debt ratio. While a rising primary surplus is projected to play an increasingly supportive part in Slovakia's debt reduction in the outer years, positive stock-flow adjustments are expected in 2020 and 2021. The ratio of net debt to GDP is expected to decline in the whole forecast horizon from 45.5% of GDP in 2017 to less than 40% of GDP in 2020 according to the 2018 Stability Programme.

The Commission 2018 spring forecast projects a similar downward trajectory in the general government debt compared to that of the Stability Programme in 2018 and 2019. The Commission projections also share the same main driving forces behind the debt reduction, and notably the rapid growth in the denominator of the debt-to-GDP ratio.

Figure 2: Government debt projections in successive programmes (% of GDP)



Source: Commission 2018 Spring Forecast, Stability programmes

Table 3: Debt developments

(% of GDP)	Average 2012-2016	2017	2018		2019		2020	2021
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**52.9**	**50.9**	**49.0**	**49.3**	**46.6**	**46.5**	**44.9**	**43.3**
Change in the ratio	1.6	-1.0	-1.9	-1.6	-2.4	-2.7	-1.7	-1.6
Contributions[2] :								
1. Primary balance	**1.2**	**-0.4**	**-0.4**	**-0.5**	**-0.9**	**-0.9**	**-1.1**	**-1.1**
2. "Snow-ball" effect	**0.4**	**-0.9**	**-1.9**	**-1.6**	**-1.9**	**-1.8**	**-1.6**	**-1.4**
Of which:								
Interest expenditure	1.8	1.4	1.3	1.3	1.2	1.2	1.1	1.1
Growth effect	-1.3	-1.7	-1.9	-2.0	-1.9	-2.1	-1.7	-1.4
Inflation effect	-0.1	-0.6	-1.3	-0.9	-1.2	-0.9	-1.0	-1.0
3. Stock-flow adjustment	**0.1**	**0.3**	**0.4**	**0.5**	**0.4**	**0.0**	**1.0**	**0.9**
Of which:								
Cash/accruals diff.				0.4		0.5	0.5	0.3
Acc. financial assets				0.3		-0.5	0.5	0.3
Privatisation				0.0		0.0	0.0	0.0
Val. effect & residual				-0.1		0.0	0.0	0.3

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source :

Commission 2018 spring forecast (COM); Stability Programme (SP), Comission calculations.

3.5 RISK ASSESSMENT

A key risk surrounding the Stability Programme's central scenario is its possible underestimation of public expenditure trends. In particular, in 2018, the Stability Programme projects considerably lower general government gross fixed capital formation compared to both 2017 and the Commission 2018 spring forecast. The ratio of government gross fixed capital formation to GDP expected in the Stability Programme is lower than its long-term average and even than during the crisis and the weak post-crisis years (2009, 2012 and 2013). Furthermore, the Commission 2018 spring forecast cites higher-than-planned gross fixed capital formation spending at the local government level as possible fiscal risk in view of the upcoming municipal elections to be held in autumn 2018. Similar developments occurred in 2017, in the context of Slovakia's regional elections. Compared to the Stability Programme, the Commission 2018 spring forecast also expects a slower decrease in intermediate consumption in 2018. The risk of potential spending overruns at the local government level is made more significant by the fact that the general government consolidation effort in 2018 is wholly concentrated at the local government level and hence outside the direct control of central government.

The likelihood of the above expenditure risks in public investment and intermediate consumption materialising in parts depends on the extent to which the EU funds are drawn as planned. The acceleration of EU funds absorption expected in the Commission 2018 spring forecast is based on the assumption that a certain part of allocated funds must be spent by the end of 2018. In addition, the Commission forecast projects higher revenue from sales of market output of goods and services of the general government, but the impact on the budget balance is partly offset by a higher public wage bill linked to the production of these goods and services.

In 2019, risks are again concentrated on the expenditure side. The Stability Programme includes only very limited details on the planned expenditure savings underlying its 'no-policy-change' scenario, which is supplemented with additional discretionary measures to form the Programme's central scenario. Therefore, any slippages vis-à-vis the 'no-policy-change scenario' will equally affect the achievement of the central scenario's targets. In 2019 and 2020, discretionary measures lie mainly on the expenditure side and are of negative impact (-1.0 percentage point in 2019 and -0.9 percentage points in 2020) on government headline balance. Additional risks to the achievement of the targets outlined in the Stability Programme are ad hoc operations accounted for in the category of budgetary reserves. By contrast, the Commission 2018 spring forecast[3] projects higher public wage bill, intermediate consumption and gross fixed capital formation, which in total accounts for higher expenditure equivalent to 0.3% of GDP. Nevertheless, the 2019 deficit projected in the Commission 2018 spring forecast is the same as in the Stability Programme due to commensurately higher projected revenues, especially from unspecified sales of market output.

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

Box 1. Council Recommendation addressed to Slovakia

"*On 11 July 2017, the Council addressed recommendations to Slovakia in the context of the European Semester. In particular, in the area of public finances the Council recommended to Slovakia to pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Slovakia's public finances.*"

The Council noted that in 2018, in the light of its fiscal situation, Slovakia is expected to further adjust towards its medium-term budgetary objective of a structural deficit of 0.5 % of GDP. According to the commonly agreed adjustment matrix under the Stability and Growth Pact, that adjustment translates into a requirement of a nominal growth rate of net primary government expenditure (2) which does not exceed 2.9 %. It would correspond to a structural adjustment of 0.5 % of GDP. As recalled in the Commission Communication on the 2017 European Semester accompanying these country-specific recommendations, the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes will need to take due account of the goal of achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of Slovakia's public finances.

Slovakia is subject to the preventive arm of the SGP. Based on outturn data for 2017, the growth of net primary government expenditure[4] in real terms[5], in 2017 exceeded the

[3] The Commission spring forecast for year 2019 is made largely on a no-policy-change basis, whereas the programme usually includes targets, which may account for a significant part of the difference between both.

[4] Net government expenditure is comprised of total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and nondiscretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a 4-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

applicable expenditure benchmark pillar by -0.06% of GDP. Some uncertainty surrounds this estimate due to a number of small factors, including higher inflation than the frozen deflator and some volatility in public investment. The improvement in the structural balance exceeded the required adjustment by 0.4% of GDP. However, the structural balance reading is positively impacted by interest savings and revenue windfalls, accounting for which would substantially reduce – but still preserve – a positive margin on the structural balance pillar. Overall, given the over-performance in the structural balance and the aforementioned uncertainty surrounding the marginal deviation on the expenditure benchmark in 2017 alone, a conclusion of compliance is warranted.

In 2018, according to the information provided in the Stability Programme, the expenditure benchmark pillar points to a risk of a significant deviation (-0.3% of GDP) in 2017 and 2018 taken together. When assessed together over the same time period, the (recalculated) structural balance points to compliance in 2018. This calls for an overall assessment, which finds that the structural balance's shows a positive bias stemming from a very high point estimate for potential growth in 2018. As the expenditure benchmark is based on a ten-year average estimate for potential growth, its signals can be considered more robust in the current context. This supports the conclusion of Slovakia facing a risk of a significant deviation from the SGP requirements in 2018, based on the information provided in the Stability Programme. The Commission 2018 forecast points to a risk of a significant deviation from the expenditure benchmark in 2018 alone (-0.7% of GDP). The risk of significant deviation is confirmed when looking at the two-year average for 2017 and 2018, even though the deviation in 2017 itself is minimal. The structural balance pillar confirms the conclusion of Slovakia being at a risk of significant deviation in 2018 alone. Although the structural balance is positively biased by a higher underlying potential growth rate and deflator, this effect is more than offset by revenue shortfalls weighing on the structural balance. Both pillars therefore support the conclusion of there being a risk of significant deviation in 2018, based on the Commission 2018 spring forecast.

In 2019, according to the information provided in the Stability Programme, the expenditure benchmark pillar points to compliance in both 2019 alone and 2018 and 2019 taken together. The recalculated structural balance, however, shows a risk of a significant deviation from the required structural adjustment on the two-year average for 2018 and 2019. This calls for an overall assessment, which finds that the expenditure benchmark continues to provide an accurate assessment of Slovakia's fiscal position in 2019 due to its ability to smooth out spikes in potential growth estimates and investment. Therefore, based on information provided in the Stability Programme, Slovakia would appear to be compliant with the SGP requirements in 2019. The Commission 2018 spring forecast shows that in 2019, the expenditure benchmark suggests compliance with the requirements of the Pact, but given the considerable deviation in the preceding year there is a risk of a significant deviation using the two-year average for 2018 and 2019. Meanwhile, the structural balance figure shows the risk of some deviation from the requirement in 2018 alone, but its two-year average also suggests a risk of significant deviation. The structural balance in 2019 is negatively affected by revenue shortfalls that are only partly offset by its more favourable potential growth assumption. In summary, both pillars support the conclusion of a risk of significant deviation

[5] As part of the agreement on the EFC Opinion on "Improving the predictability and transparency the SGP: a stronger focus on the expenditure benchmark in the preventive arm", which was adopted by the EFC on 29 November 2016, the expenditure benchmark, that is the maximum allowable growth rate of expenditure net of discretionary revenue measures, is expressed in nominal terms as from 2018.

in 2019 on the two-year average, which results from fiscal slippage in 2018 being insufficiently compensated for in 2019.

Table 4: Compliance with the requirements of the preventive arm

(% of GDP)	2017	2018		2019	
Initial position[1]					
Medium-term objective (MTO)	-0.5	-0.5		-0.5	
Structural balance[2] (COM)	-1.0	-1.2		-0.8	
Structural balance based on freezing (COM)	-1.4	-1.2		-	
Position vis-a -vis the MTO[3]	Not at MTO	Not at MTO		Not at MTO	
(% of GDP)	**2017**	**2018**		**2019**	
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Required adjustment[4]	0.5	0.5		0.5	
Required adjustment corrected[5]	0.5	0.5		0.5	
Change in structural balance	0.9	0.0	-0.1	0.3	0.4
One-year deviation from the required adjustment [6]	0.4	-0.5	-0.6	-0.2	-0.1
Two-year average deviation from the required adjustment [6]	0.5	0.0	-0.1	-0.3	-0.4
Expenditure benchmark pillar					
Applicable reference rate[7]	1.3	2.9		4.1	
One-year deviation adjusted for one-offs[8]	-0.1	-0.5	-0.7	0.5	0.2
Two-year deviation adjusted for one-offs[8]	0.1	-0.3	-0.4	0.0	-0.3
PER MEMORIAM: One-year deviation [9]	0.0	-0.5	-0.7	0.5	0.2
PER MEMORIAM: Two-year average deviation [9]	0.1	-0.3	-0.4	0.0	-0.3

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2017) is carried out on the basis of Commission 2018 spring forecast.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

[10] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable

Source :

Stability Programme (SP); Commission 2018 spring forecast (COM); Commission calculations.

Based on the outturn data and the Commission 2018 spring forecast, the ex-post assessment suggests that the adjustment path towards the MTO was appropriate and compliant with the requirements of the preventive arm of the Pact in 2017. Following an overall assessment, a significant deviation from the adjustment path towards the MTO is to be expected in 2018 and 2019, putting at risk compliance with the requirements of the preventive arm of the Pact.

The Country-Specific Recommendation adopted by the Council on 11 July 2017 mentioned that the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes will need to take due account of the goal of achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of public finances.

The Commission has carried out a qualitative assessment of the strength of the recovery in Slovakia while giving due consideration to its sustainability challenges. Slovakia does not face short-term sustainability challenges. Moreover, government debt stands at around 50.9% of GDP in 2017 and sustainability risks are considered to be low in the medium term. Slovakia's projected real GDP growth in 2018 is the strongest since 2011, with the output gap estimated to enter positive territory in 2018 after four consecutive years of robust economic expansion. Signs of declining spare productive capacity are evident in the expected falls in an already low unemployment rate, as well as in rising wage and consumer inflation. Capacity utilisation has fluctuated around an elevated level of 85% since 2016. Robust economic expansion is accompanied by buoyant investment activity, which is expected to peak in 2018. Output gap estimates appear not to be subject to particular uncertainty, according to the plausibility tool. Overall, the framework indicates that the recovery in 2018 does not appear to be fragile. On that basis, it is concluded that no additional elements need to be taken into account.

5. FISCAL SUSTAINABILITY

The Slovak Republic does not appear to face fiscal sustainability risks in the short run.[6]

Based on the Commission 2018 spring forecast and a no-policy change scenario beyond the forecast horizon, government debt, at 50.9% of GDP in 2017, is expected to decrease to 34% in 2028, thus remaining below the 60% of GDP Treaty threshold. Over this horizon government debt peaks in 2017. Sensitivity analysis shows similarly low risks.[7] Overall, this highlights low risks for the country from debt sustainability analysis in the medium term. The full implementation of the Stability Programme would put debt on a similarly decreasing path by 2028, with debt remaining below the 60% of GDP reference value in 2028.

The medium-term fiscal sustainability risk indicator S1[8] stands at -2.7 percentage points of GDP primarily thanks to the initial budgetary position (contributing -1.6 percentage points of GDP), thus indicating low risks in the medium term. The full implementation of the Stability Programme would put the sustainability risk indicator S1 at -3.4 percentage points of GDP, leading to broadly similar medium-term risks. Overall, risks to fiscal sustainability over the medium term are, therefore low. Fully implementing the fiscal plans in the Stability Programme would not alter the level of medium-term risks.

The long-term fiscal sustainability risk indicator S2 stands at 2.4 percentage points of GDP. In the long term the Slovak Republic therefore appears to face medium fiscal risks, primarily related to ageing costs, which contribute 2.3 percentage points of GDP. Full implementation of the programme would put the S2 indicator at 2.2 percentage points of GDP, leading to a similar long-term risk.[9]

[6] This conclusion is based on the short-term fiscal sustainability risk indicator S0. See the note to Table 5 for a definition of the indicator.

[7] Sensitivity analysis includes several deterministic debt projections, as well as stochastic projections (see Debt Sensitivity Monitor 2017 for more details).

[8] See the note to Table 5 for a definition of the indicator.

[9] The projected costs of ageing used to compute the debt projections and the fiscal sustainability indicators S1 and S2 are based on the updated projections, endorsed by the EPC on 30 January 2018, and to be published in the forthcoming Ageing Report 2018.

Table 5: Sustainability indicators

Time horizon	No-policy Change Scenario		Stability / Convergence Programme Scenario	
Short Term	**LOW risk**			
S0 indicator [1]	0.3			
Fiscal subindex	0.0	LOW risk		
Financial & competitiveness subindex	0.4	LOW risk		
Medium Term	**LOW risk**			
DSA [2]	LOW risk			
S1 indicator [3]	-2.7	LOW risk	-3.4	LOW risk
of which				
Initial Budgetary Position	-1.6		-1.9	
Debt Requirement	-1.1		-1.6	
Cost of Ageing	0.0		0.1	
of which				
Pensions	-0.6		-0.4	
Health-care	0.3		0.3	
Long-term care	0.1		0.1	
Other	0.1		0.1	
Long Term	**MEDIUM risk**		**MEDIUM risk**	
S2 indicator [4]	2.4		2.2	
of which				
Initial Budgetary Position	0.2		-0.2	
Cost of Ageing	2.3		2.4	
of which				
Pensions	0.7		1.0	
Health-care	1.0		0.9	
Long-term care	0.5		0.4	
Other	0.1		0.1	

Source: Commission services; 2018 stability/convergence programme.

Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2018 forecast covering until 2019 included. The 'stability/convergence programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2018 Ageing Report.

[1] The S0 indicator of short term fiscal challenges informs the early detection of fiscal stress associated to fiscal risks within a one-year horizon. To estimate these risks S0 uses a set of fiscal, financial and competitiveness indicators selected and weighted according to their signalling power. S0 is therefore a composite indicator whose methodology is fundamentally different from the S1 and S2 indicators, which quantify fiscal adjustment efforts. The critical threshold for the overall S0 indicator is 0.46. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.36 and 0.49*.

[2] Debt Sustainability Analysis (DSA) is performed around the no fiscal policy change scenario in a manner that tests the response of this scenario to different shocks presented as sensitivity tests and stochastic projections*.

[3] The S1 indicator is a medium-term sustainability gap; it measures the upfront fiscal adjustment effort required to bring the debt-to-GDP ratio to 60 % by 2032. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2020 for No-policy Change scenario and from last available year for the SCP scenario); it must be then sustained, including financing for any additional expenditure until the target date, arising from an ageing population. The critical thresholds for S1 are 0 and 2.5, between which S1 indicates medium risk. If S1 is below 0 or above 2.5, it indicates low or high risk, respectively*.

[4] The S2 indicator is a long-term sustainability gap; it shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical thresholds for S2 are 2 and 6, between which S2 indicates medium risk. If S2 is below 2 or above 6, it indicates low or high risk, respectively*.

* For more information see Fiscal Sustainability Report 2015 and Debt Sustainability Monitor 2017.

The 2012 pension reform will mitigate the impact of adverse demographic trends. The old-age dependency ratio[10] is forecast to nearly triple by 2070 from 21.0 in 2016. However, its negative impact on the pension system will be limited by an automatic pension increase that mirrors improvements in life expectancy. The latest changes to the pension system have increased its distributional fairness. While the pension indexation is based on the concept of 'pensioner's inflation' as of 2018, for the period 2018-2021 individual pensions will have to

[10] It shows the relationship between people over 65 and those between 15 and 64 years of age.

increase by a minimum amount equal 2% of an average pension of the same type.[11] These changes will increase the deficit of the system during the coming two decades.

6. FISCAL FRAMEWORK

Two main national fiscal rules exist in Slovakia; a balanced budget rule and a debt brake. The rules' assessment is under the authority of the Ministry of Finance and the Council for Budget Responsibility (CBR) evaluates compliance with the rule. The balanced budget rule is enshrined in national legislation related to the Fiscal Compact[12]. It requires the government to achieve a balanced budget or surplus in the general government sector. A balanced budget is defined as a structural deficit equal or lower than 0.5% of GDP, which is the same as the MTO currently presented in the Stability Programme. The national deadline for reaching the balanced budget has been postponed to 2020 according to the latest Stability Programme when the structural balance is projected to reach 0.4% of GDP. However, as Slovakia's government debt-to-GDP ratio is significantly lower than 60%, national legislation allows for a structural balance equal to or below 1%. The structural balance presented for year 2017 in the current Stability Programme was slightly above this threshold. The structural balance for 2018 and beyond is in line with abovementioned requirement.

A constitutional debt brake was introduced in Slovakia in 2012, which foresees corrective measures once certain debt thresholds are exceeded. Its upper limit was set at the level of 50% of GDP[13].As of 2018, the thresholds will be lowered by 1 percentage point per until the lower bound reaches 40%[14] of GDP. In 2017 general government debt reached 50.9% of GDP, and thus still in excess of the debt brake's threshold. Although the government debt ratio has been declining since 2014, its level has continuously exceeded 50% of GDP since 2012 and in every year since then the Cabinet has introduced measures to reduce the debt burden. The CBR published its regular annual report on the evaluation of fiscal responsibility rules in August 2017, where it stated that the debt ratio was significantly affected by one-off measures. According to the CBR, the Cabinet also did not take advantage of the positive developments such as revenue windfalls to accelerate consolidation. The Stability Programme expects that the ratio of government debt to GDP will decline below 45% in 2020, which means that it will be will be below the activation threshold of the constitutional debt brake.[15]

Based on the information provided in the Stability Programme, the planned and forecast performance in Slovakia appears to broadly comply with the requirements of the applicable national numerical fiscal rules applied to general government.

Slovakia considers the Stability Programme to be the national medium-term fiscal plan (NMTFP) pursuant to Art. 4(1) of the Two-Pack Regulation 473/2013. Member States were required to include in their NMTFP (or national reform programmes) indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact. Such assessment is, however, neither part of the Stability Programme nor of the National Reform Plan.

[11] A similar ad-hoc increase of pension indexation to 2% was adopted in 2017 already.

[12] The requirements of the Fiscal Compact are enshrined in the national legislation (Act on Budgetary Rules of Public Administration, § 30a).

[13] Upper limit was increased temporarily by 10 percentage points (60% of GDP) until 2017. During 2018-2027, it will be decreased by 1.0 percentage point per year.

[14] Lower limit was increased temporarily for 10 percentage points (50% of GDP) until 2017. During 2018-2027, it will be decreased for 1.0 percentage point per year.

[15] The first sanctioning zone is set on the level of 40 % of GDP by the constitutional act on Fiscal Responsibility.

The macroeconomic forecast underlying the Stability Programme was published by the Institute for Financial Policy (IFP) of the Ministry of Finance on 5 February 2018 and was endorsed as realistic by the Macroeconomic Forecasting Committee at its meeting of 31 January 2018. The Macroeconomic Forecasting Committee[16] was established by the Constitutional Act on Fiscal Responsibility as an advisory body to the Mister of Finance. According to the Committee's statutes, it is independent from the government's influence in its deliberations.

In 2018, the Ministry of Finance announced that it started testing the use of expenditure ceilings as a new tool for general government budgetary management. The previous lack of binding expenditure ceilings – despite being envisaged by the Constitutional Act for the entire medium-term budgetary framework's horizon - weakened the effectiveness of budgetary management.

7. SUMMARY

In 2017 Slovakia was not at its MTO. An overall assessment, taking account of the over-performance in the structural balance (an improvement of 1.0% of GDP, i.e. twice the required effort) and the uncertainty surrounding the marginal deviation on the expenditure benchmark (by 0.1% of GDP), points to compliance with the recommended adjustment path towards the MTO in 2017.

Based on the Commission 2018 spring forecast, Slovakia plans a nominal growth rate of net primary government expenditure which exceeds the applicable expenditure benchmark rate in 2018. On the same basis, the structural balance is anticipated to deteriorate slightly in 2018. This path implies a risk of a significant deviation from the required adjustment path towards the MTO in 2018 on the basis of the Commission 2018 spring forecast. On the basis of information provided in the Stability Programme, there also appears to be a risk of a significant deviation from the required adjustment path in 2018.

Based on the Commission 2018 spring forecast, Slovakia's nominal growth rate of net primary government expenditure in 2019 respects the applicable benchmark. On the same basis, the planned improvement in the structural balance in 2019 falls slightly short of the required adjustment. However, both pillars support the conclusion of there being a risk of significant deviation in 2019 on the two-year average, based on the Commission 2018 spring forecast. On the basis of information provided in the Stability Programme, Slovakia appears to comply with the requirements of the Stability and Growth Pact in 2019.

[16] The Macroeconomic Forecasting Committee consists of a chairman (a director of the IFP) and members from nine independent institutions entitled to vote on a macroeconomic forecast nature – "conservative", "realistic" or "optimistic" (the Central Bank, the Academy of Science, the Institute of Informatics and Statistics and six commercial banks). Other three members are with an observer's status without voting rights (the Council for Budgetary Responsibility, the Statistical Office of the Slovak Republic and one commercial bank). The draft forecast is approved by the Committee if the majority of voting members assess the forecast as "conservative" or "realistic".

8. ANNEXES

Table I. Macroeconomic indicators

	2000-2004	2005-2009	2010-2014	2015	2016	2017	2018	2019
Core indicators								
GDP growth rate	3.9	5.2	2.8	3.9	3.3	3.4	4.0	4.2
Output gap [1]	-2.6	2.9	-1.7	-1.3	-0.5	0.0	0.6	1.2
HICP (annual % change)	7.8	2.8	2.0	-0.3	-0.5	1.4	2.4	2.1
Domestic demand (annual % change) [2]	3.8	4.1	1.1	5.6	0.9	2.7	3.6	3.6
Unemployment rate (% of labour force) [3]	18.7	12.6	13.9	11.5	9.7	8.1	7.1	6.3
Gross fixed capital formation (% of GDP)	27.4	25.7	21.8	23.9	21.2	21.2	21.4	21.4
Gross national saving (% of GDP)	22.5	20.9	21.1	23.2	23.0	23.2	23.4	24.0
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-6.3**	**-3.7**	**-4.3**	**-2.7**	**-2.2**	**-1.0**	**-0.9**	**-0.3**
Gross debt	**44.6**	**32.0**	**49.1**	**52.3**	**51.8**	**50.9**	**49.0**	**46.6**
Net financial assets	**-6.2**	**-15.2**	**-32.0**	**-35.6**	**-36.8**	**n.a**	**n.a**	**n.a**
Total revenue	37.6	35.4	37.1	42.5	39.3	39.4	38.6	38.0
Total expenditure	43.9	39.2	41.4	45.2	41.5	40.4	39.5	38.3
of which: Interest	3.2	1.5	1.7	1.7	1.6	1.4	1.3	1.2
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**0.3**	**-1.1**	**4.7**	**2.9**	**1.2**	**1.2**	**1.7**	**2.3**
Net financial assets; non-financial corporations	**-62.5**	**-60.3**	**-63.7**	**-62.1**	**-57.9**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-4.6**	**-0.7**	**3.2**	**-1.7**	**-1.2**	**n.a**	**n.a**	**n.a**
Gross capital formation	18.9	18.2	14.3	13.5	14.8	14.9	15.4	15.7
Gross operating surplus	25.1	26.8	26.4	25.3	24.7	24.3	25.2	26.3
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**-0.5**	**-1.2**	**-0.4**	**0.9**	**1.1**	**0.2**	**-0.2**	**-0.5**
Net financial assets	**43.2**	**32.4**	**37.5**	**39.5**	**41.1**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	30.9	30.4	30.2	31.0	31.9	32.2	32.4	32.5
Net property income	3.3	1.3	0.8	0.6	0.6	0.2	0.3	0.4
Current transfers received	16.7	16.6	18.5	18.9	19.4	19.6	19.3	18.8
Gross saving	5.2	4.1	4.0	5.4	5.7	4.6	4.0	3.4
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-6.5**	**-6.0**	**0.0**	**1.1**	**0.2**	**0.2**	**0.6**	**1.5**
Net financial assets	**30.1**	**43.8**	**55.0**	**60.1**	**54.7**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-4.5	-2.8	1.8	1.6	3.5	3.4	4.2	5.3
Net primary income from the rest of the world	-2.0	-2.3	-2.0	-1.8	-1.4	-1.5	-1.5	-1.4
Net capital transactions	-0.5	0.4	1.5	2.1	-0.2	-0.3	-0.1	0.1
Tradable sector	53.4	52.6	50.5	50.7	49.7	49.6	n.a	n.a
Non tradable sector	36.5	37.4	40.4	39.5	40.7	40.5	n.a	n.a
of which: Building and construction sector	6.0	7.4	7.7	7.3	7.1	7.0	n.a	n.a
Real effective exchange rate (index, 2000=100)	66.5	88.9	99.3	98.0	98.8	100.7	102.2	103.1
Terms of trade goods and services (index, 2000=100)	107.0	103.3	98.1	96.8	96.5	96.0	96.4	97.0
Market performance of exports (index, 2000=100)	69.1	96.2	112.6	120.0	122.2	120.4	121.9	125.4

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source:
AMECO data, Commission 2018 spring forecast