MINISTRY
OF FINANCE
OF THE SLOVAK REPUBLIC

Ladislav Kamenický
Minister of Finance

Bratislava, 6 November 2019

Dear Mr. Vice-President and Mr. Commissioner,

I would like to inform you about the additional circumstances after the Slovak Government adopted the Draft Budgetary Plan of Slovakia for 2020 on October 15.

As part of the political negotiations, additional measures have been adopted after the submission of the Draft Budgetary Plan of Slovakia for 2020. Both revenue and expenditure measures have been adopted by the Government. In order to allow the Commission to have a comprehensive assessment of the Draft Budgetary Plan, I would like to provide you with details about the measures.

First, the Government adopted on the 6 November 2019 an increase in the bank levy for 2020 and beyond. The levy was originally supposed to be abolished by 2021. The new legislation prolongs the measures also after 2021 and doubles the rate for of the levy as of 2020. Since the bank levy is a tax expenditure item for banks, the corporate tax income has to be lower in order to obtain the net effect on public finances. The impact on public finances is as follows:

Additional impact of increased bank levy (in EUR mil.)

	2020	2021	2022
Legislative change			
Gross estimate of increased bank levy	144	303	318
Lower corporate tax	-30	-64	-67
Net effect	**114**	**239**	**251**

Secondly, the Parliament adopted increased minimum pensions as of 2020. The budgetary costs originally communicated within the legislative draft proposal expected the impact of increased minimal pensions of EUR 147 mil. in 2021 (based on preliminary estimates). Following modifications in the Parliament, which shifts the effect of the measure to 2020, the expected budgetary impact for 2020 is revised downwards vis-à-vis the effect included for 2021. The revision also includes refined assumptions in the draft proposal, which were communicated to the technical units in the Commission. The revised impact for 2020 is aligned with the most recent estimate of the Slovak Fiscal council (CBR) and with the one of The Ministry of Labour, Social Affairs and Family, which updated its estimates after technical consultations with the Ministry of Finance.

Budgetary cost of increase in minimum pension (in EUR mil.)

	2020	2021	2022
Draft legislative proposal	0	-147	-188
Revised quantification (after modifications in the Parliament)	**-80**	**-119**	**-147**

Thirdly, the draft budget included the effect of an increased excise tax for tobacco products as of 2020. According to the newest information, the legislation will not be adopted. The budget contained a reserve for this purpose. Additionally, the levy from profit of the state owned company Lesy will be waived. This amounts to EUR 5 mil.

To eliminate the above mentioned negative risks which materialised after the adoption of the Draft Budgetary Plan, the Ministry of Finance will submit an amendment to the government budget proposal which will include cuts in reserves on the expenditure side of the state budget. Specifically, the reserve for increased excise taxes for tobacco in the amount of around EUR 50 mil. and a smaller amount in the reserve for faster implementation of EU projects will be decreased by 22 mil. eur.

In order to reach the fiscal target for 2020 of 0.49 % of GDP, the above mentioned changes can be summarized in the table below.

Changes of the fiscal target 2020 after additionally adopted measures

	mil. EUR	% of GDP
Fiscal target for 2020	**-480**	**-0,49%**
Increased bank levy	114	0,12%
Higher minimum pensions	-80	-0,08%
Non-adoption of tobacco legislation	-51	-0,05%
Lower levy for state company (Lesy SK)	-5	-0,01%
Decrease of the reserve for EU projects	22	0,02%
Fiscal target after changes	**-480**	**-0,49%**

Best Regards.

Sincerely Yours,

Valdis Dombrovskis
Vice-President of the European Commission
for the Euro and Social Dialogue

Pierre Moscovici
European Commissioner
for Economic and Financial Affairs, Taxation and Customs