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COMMISSION OPINION

of 20.11.2019

on the Draft Budgetary Plan of Slovakia

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.
2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING SLOVAKIA

3. On 14 October 2019, Slovakia submitted the Draft Budgetary Plan for 2020. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.
4. Slovakia is subject to the preventive arm of the Stability and Growth Pact. On 5 June 2019, the Council recommended Slovakia to achieve the medium-term budgetary objective of a deficit of -0.5% of GDP in 2019 and its revised medium-term budgetary objective of a deficit of to -1.0 % of GDP in 2020.[1]
5. According to the Commission 2019 autumn forecast, the Slovak economy is expected to grow by 2.7% in 2019 and 2.6% in 2020. The macroeconomic scenario underlying the Draft Budgetary Plan is broadly in line with the Commission 2019 autumn forecast. The former expects overall economic growth of 2.4% in 2019 and 2.3% in 2020. Both forecasts expect domestic demand to remain the major driver of growth. In contrast to the Commission scenario, the Draft Budgetary Plan forecast expects a stronger contribution of net exports to overall growth in 2020. Overall, the macroeconomic assumptions underpinning the Draft Budgetary Plan appear to be plausible for both years. Slovakia complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently endorsed macroeconomic forecasts. In its endorsement of the forecasts the four voting members of the Macroeconomic Forecast Committee flagged the forecast as realistic at their meeting held on 11 September 2019.
6. The Draft Budgetary Plan targets a general government headline balance of -0.7% of GDP in 2019, which is projected to fall to -0.5% of GDP in 2020. The recalculated structural balance[2] is projected to decrease from -1.4% of GDP in 2019 to -1.1% of GDP in 2020. The Commission 2019 autumn forecast projects a general government

[1] Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of Slovakia and delivering a Council opinion on the 2019 Stability Programme of Slovakia, OJ C 301, 5.9.2019, p. 148.

[2] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

balance of -0.9% of GDP in 2019 and of -1.2% of GDP in 2020, i.e. a significantly higher deficit than that expected in the Draft Budgetary Plan. Also, the Commission 2019 autumn forecast expects the structural balance to improve only slightly from -1.7% of GDP in 2018 to -1.6% of GDP in 2019, then deteriorate to 1.8% of GDP in 2020. The differences between the forecasts are predominantly accounted for by different assumptions on EU funds drawdowns, on the investment profile and a different assumed impact of discretionary expenditure measures in 2020 in the Commission 2019 autumn forecast.

7. The Draft Budgetary Plan foresees a contractionary fiscal policy stance, based on the structural budget balance stimates, in 2020 and presents several measures on both the revenue and expenditure side of the budget. For 2020, a roughly neutral impact of revenue measures on balance is envisaged. Measures include a reduction of the tax wedge on labour via the introduction of a lower income tax rate for small businesses and self-employed persons and the increase of the non-taxable part of income. Furthermore, a reduction of value added tax on some foodstuff is introduced. These measures are to be compensated by an increase in the excise tax on tobacco products, the implementation of measures to electronically monitor online sales (“e-Kasa”) and the use of fuel identifiers (“nanomarkers”). On the expenditure side, the Draft Budgetary Plan includes mainly expansionary measures for 2020 amounting to 0.3% of GDP compared to the no-policy change scenario. The main measures are higher outlays associated with public employees' wages and parental allowances, the doubling of Christmas bonuses and additional financing of health services. Part of these measures are expected to be offset by a freeze in investment projects. These cuts in investment are not in line with the Recommendation of 9 July 2019 addressed by the Council to focus investment-related economic policy inter alia on transport, competitiveness and social housing. Differences with the Commission 2019 autumn forecast stem from implementation risks linked to some of the measures put forward. On the expenditure side, the Commission 2019 autumn forecast assumes faster growth in public employees' wages and social benefits, as well as higher gross fixed capital formation. The Commission 2019 autumn forecast incorporates all discretionary revenue and expenditure measures mentioned in the Draft Budgetary Plan, though it assumes a lower impact where implementation is more uncertain and anticipates lower investment cuts. The impact of a change in the minimum pension formula is also included, unlike the Draft Budgetary Plan. On that basis, the Commission projects an expansionary stance in 2020.

With respect to the Recommendation of 9 July 2019 to safeguard the long-term sustainability of public finances, notably those of the healthcare and pension systems, the Draft Budgetary Plan reports a change in the structure of healthcare expenditure. Moreover, the implementation of a perfomance budgeting is proposed to improve allocation efficiency. Savings identified in healthcare spending reviews will, nevertheless, be used to support the implementation of other policies in the sector, facing a growing demand and sizable arrears. The long-term sustainability of the pension system is negatively impacted by the introduction of a new formula for the minimum pension calculation adopted by Parliament just after the submission of the Draft Budgetary Plan. Also, the implementation of a statutory retirement age cap of 64 years, enshrined in the Constitution in spring 2019 means that the retirement age is expected to continue to increase only until around 2030. The retirement age is projected to stabilise at a maximum of 64 years afterwards. Based on the Draft Budgetary Plan, pension expenditure is expected to increase by some additional 1.7 percentage points of GDP by 2070 compared to the original scenario.

8. In 2019, for Slovakia to comply with the requirements of the preventive arm, the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs, should not exceed 4.6%, corresponing to an annual structural adjustment by 0.3% of GDP. According to the information provided in the Draft Budgetary Plan, Slovakia is compliant with the requirements in 2019. At the same time, both the expenditure benchmark and the structural balance point to a risk of a significant deviation over 2018 and 2019 taken together, due to fiscal slippages in 2018 that are not expected to be adequately compensated for in 2019. An overall assessment based on the Commission 2019 autumn forecast finds that the expenditure benchmark captures more accurately the fiscal effort of Slovakia and, therefore points to a risk of significant deviation in 2019.

   In 2020, for Slovakia to comply with the requirements of the preventive arm, the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs, should again not exceed 4.6%, corresponding to an annual adjustment of the structural balance of 0.3% of GDP. Based on the information in the Draft Budgetary Plan, both expenditure benchmark and structural balance pillars point to compliance in 2020 and in 2019 and 2020 taken together. By contrast, based on the Commission 2019 autumn forecast, the expenditure benchmark, which more accurately captures the fiscal effort of Slovakia, points to a risk of significant deviation both in 2020 and when 2019 and 2020 are taken together. The overall assessment thus points to a risk of significant deviation from the path towards the medium-term budgetary objective for both 2020 and 2019 and 2020 taken together.

9. On 6 November 2019, the Slovak authorities announced further measures[3], in particular the doubling of a bank levy and a correction in the impact assessment of the minimum pension formula. According to the Commission's assessment, those additional corrective measures amount to 0.21% of GDP compared to the Commission 2019 autumn forecast. Taking that into account, the Commission assesses the deviation to have become smaller in 2020, with both the expenditure benchmark and the structural balance pointing to some deviation. For 2019 and 2020 taken together, the structural balance indicator would also point to a risk of some deviation, whereas the expenditure benchmark would still point to a risk of significant deviation, mainly in view of the slippage in 2019. On that basis, the overall assessment points to a risk of significant deviation.

10. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Slovakia is at risk of non-compliance with the provisions of the Stability and Growth Pact. The public debt ratio is well below 60% of GDP and further declining, while the headline budget balance provides a sizeable margin from the 3% of GDP Treaty reference value. Moreover, the additional measures announced on 6 November 2019 reduced the deviation from the recommended adjustment path towards the medium term budgetary objective as a result of which it is no longer significant in 2020. However, mainly in view of the slippage in 2019, there is still a risk of significant deviation for 2019 and 2020 together from the adjustment path towards the medium-term budgetary objective recommended by the Council. The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2020 budget will be compliant with the Stability and Growth Pact.

[3] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2020_en#slovakia

The Commission is also of the opinion that Slovakia has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 9 July 2019 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2020 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2020.

Done at Brussels, 20.11.2019

For the Commission
Pierre MOSCOVICI
Member of the Commission