Brussels, 21.11.2018
C(2018) 8027 final

COMMISSION OPINION

of 21.11.2018

on the Draft Budgetary Plan of Slovakia

{SWD(2018) 527 final}

COMMISSION OPINION

of 21.11.2018

on the Draft Budgetary Plan of Slovakia

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 (SGP) 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 the basis of the Draft Budgetary Plan for 201 submitted on 10 October 2018 by Slovakia, 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 SGP. On 13 July 2018, the Council recommended Slovakia to ensure that the nominal growth rate of net primary government expenditure did not exceed 4.1 % in 2019, corresponding to an annual structural adjustment of 0.5 % of GDP towards the medium-term budgetary objective (MTO) of -0.5% of GDP.

5. According to the Commission 2018 autumn forecast, the Slovak economy is expected to grow by 4.0% in 2018 and 4.1% in 2019. The macroeconomic scenario underlying the Draft Budgetary Plan is broadly in line with the Commission 2018 autumn forecast. The former expects overall economic growth of 4.1% in 2018 and 4.5% in 2019. Both forecasts equally expect private consumption to remain the major driver of growth. In contrast to the Commission scenario, the Draft Budgetary Plan forecast expects a stronger contribution of net trade to overall growth in both years. Overall, the macroeconomic assumptions underpinning the Draft Budgetary Plan appear to be plausible in 2018 and favourable in 2019. 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 two out of six voting members nevertheless flagged the forecast as optimistic.

6. The Draft Budgetary Plan targets a general government balance of -0.6% of GDP in 2018, which is projected to fall to -0.1% of GDP in 2019. The recalculated structural balance is projected to remain unchanged in 2018 at the previous year's deficit level of -0.9% of GDP before declining marginally to -0.8% of GDP in 2019.[1] The Commission 2018 autumn forecast also projects a 2018 general government balance of -0.6% of GDP, followed by a balance of -0.3% of GDP in 2019, implying a slightly less pronounced deficit reduction compared to the Draft Budgetary Plan. The

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

Commission 2018 autumn forecast expects the structural balance to follow a very similar path to the one implied by the Draft Budgetary Plan, with the structural budget balance improving slightly from -0.9% of GDP in 2017 to -0.8% of GDP in 2018, and to maintain this deficit in 2019. The minor differences between the forecasts are predominantly accounted for by different assumptions on the profile of Union funds drawdowns and a lower assumed impact of discretionary revenue measures in 2019 in the Commission 2018 autumn forecast.

7. The Draft Budgetary Plan presents several measures for 2019 on both the revenue and expenditure side of the budget. For 2019, revenue-increasing measures amounting to 0.7% of GDP are envisaged. They include the introduction of a levy on retail business chains and measures linked to the online electronic evidence of sales, as well as due to the abolition of health insurance allowance for employers. The Draft Budgetary Plan reports no new measures affecting the tax wedge on labour. On the expenditure side, the Draft Budgetary Plan includes mainly expansionary measures for 2019 amounting to 0.9% of GDP compared to the no-policy change scenario. The main measures are higher outlays for public employees' wages as well as an increase in intermediate consumption as a reserve for covering the impact of new legislation. Differences from the Commission 2018 autumn forecast are minor. On the expenditure side, the Commission 2018 autumn forecast assumes faster growth in the wage bill and social benefits, as well as higher gross fixed capital formation. The Commission 2018 autumn forecast incorporates all revenue and expenditure measures mentioned in the Draft Budgetary Plan, but anticipates a slightly lower revenue yield from the introduction of nano-marker additives and electronic evidence of sales.

   In response to the Recommendation of 13 July 2018 to increase the cost-effectiveness of healthcare and develop an effective healthcare workforce strategy, the Draft Budgetary Plan reports a fall in healthcare outlays by EUR 108 million due to the implementation of measures proposed in the first phase of the healthcare spending review. Additional resources in the budget for 2019 will be used for increasing wages for nurses and health personnel, upgrading technology and constructing new facilities.

8. In 2018, 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[2], should not exceed 2.9%, corresponding to an annual structural adjustment of the structural balance by 0.5% of GDP. According to the recalculated information provided in the Draft Budgetary Plan, the nominal growth rate of net primary government expenditure in 2018 will exceed the applicable expenditure benchmark. The magnitude of the deviation both over one year and over two years suggests a risk of a significant deviation from the requirements in 2018. The structural balance pillar confirms the risk of significant deviation in 2018, while pointing to some deviation over 2017 and 2018 taken together. The overall assessment, which favours the expenditure benchmark as capturing more accurately the fiscal effort of Slovakia, indicates a risk of a significant deviation in 2018 and in 2017 and 2018 together. That conclusion is confirmed based on Commission 2018 autumn forecast.

[2] 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, for Slovakia to comply with the requirements of the preventive arm, and in view of the Commission autumn 2018 forecast projecting a closer position to the MTO than in spring 2018, the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs, should not exceed 4.6%, corresponding to an annual structural adjustment of the structural balance by 0.3% of GDP, which in turn would allow the MTO to be met in 2019. Based on the information in the Draft Budgetary Plan, the expenditure benchmark points to compliance in 2019 but to a risk of significant deviation over 2018 and 2019 together. The structural balance pillar points to some deviation in 2019 and to a risk of a significant deviation when looking at 2018 and 2019 together. Based on the Commission 2018 autumn forecast, both the expenditure benchmark and the structural balance point to some deviation in 2019 and to a risk of a significant deviation in 2018 and 2019 taken together. Following an overall assessment, there is a risk of a significant deviation over 2018 and 2019 together, both on the basis of the Draft Budgetary Plan and the Commission 2018 autumn forecast. That conclusion principally results from fiscal slippages expected in 2018 not being adequately compensated for in 2019.

In light of the Commission's assessment of additional information about a planned reduction in government expenditure equivalent to 0.1% of GDP in 2019, which was publicly announced by the Slovak authorities and agreed by Slovakia's budgetary and financial committee on 20 November 2018, the Commission considers that the (recalculated) structural balance is expected to be close to the medium-term budgetary objective in 2019. On this basis, the overall assessment points to a risk of some deviation from the medium-term budgetary objective. However, if the structural balance is no longer projected to be close to the medium-term budgetary objective in future assessments for 2019, the overall assessment of compliance will need to take into account a possible deviation from that requirement. In particular, the overall assessment of compliance needs to assess how much the growth in primary expenditure net of discretionary revenue measures deviates from the expenditure benchmark requirement over 2018 and 2019 taken together.

9. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Slovakia is broadly compliant with the provisions of the Stability and Growth Pact. However, this assessment is dependent on the current projection that Slovakia will be close to its medium-term budgetary objective in 2019. If such a projection is not confirmed in future assessments, the overall assessment of compliance will need to take into account the extent of the deviation from the requirement set by the Council. The Commission invites the authorities to stand ready to take the necessary measures within the national budgetary process to ensure that the 2019 budget will be compliant with the SGP rules.

The Commission is also of the opinion that Slovakia has made some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 13 July 2018 in the context of the European Semester and invites the authorities to make further progress. A comprehensive description of progress made with the implementation of the CSRs will be made in the 2019 Country Reports and assessed in the context of the country-specific recommendations to be proposed by the Commission in May 2019.

Done at Brussels, 21.11.2018

For the Commission
Pierre MOSCOVICI
Member of the Commission