

# **Draft Budgetary Plan of the Slovak Republic for 2021**

 October 2020



## Table of Content

<b>I.</b>	<b>Macroeconomic basis of the draft budget</b> .....	<b>7</b>
I.1.	Macroeconomic forecast (baseline scenario).....	7
I.2.	Alternative macroeconomic forecast scenarios .....	11
<b>II.</b>	<b>Budgetary objectives for the years 2020-2023</b> .....	<b>13</b>
<b>III.</b>	<b>Current development of public finance in 2020</b> .....	<b>16</b>
<b>IV.</b>	<b>No-policy-change scenario and budgetary measures</b> .....	<b>22</b>
IV.1.	No-policy-change scenario for the years 2021 – 2023.....	22
IV.2.	Description of measures .....	23
IV.3.	Revenue objectives of the general government budget.....	26
IV.4.	Expenditure targets of the general government budget by function.....	27
<b>V.</b>	<b>General government debt and long-term sustainability of public finance</b> .....	<b>29</b>
V.1.	Debt development in 2019 .....	29
V.2.	Debt forecast.....	29
V.3.	Net debt .....	31
V.4.	Long-term sustainability .....	31
<b>VI.</b>	<b>Linking the budgetary plan to the objectives of the Growth and Employment Strategy and the EU Council's Country-Specific Recommendations for Slovakia</b> .....	<b>33</b>
VI.1.	Priorities for the sustainability of pensions and fiscal policy.....	33
VI.2.	Reviews and saving measures .....	34
VI.3.	Priorities to improve fiscal discipline .....	35
VI.4.	Priorities in structural policies.....	38
<b>ANNEXES</b>	.....	<b>40</b>



## List of Boxes, Tables, Figures and Diagrams

BOX 1 - External environment assumptions.....	9
BOX 2 - Output gap estimate for the years 2020 and 2021.....	10
BOX 3 – Historically high long-term sustainability risks.....	14
BOX 4 – Measures adopted in fight against coronavirus.....	18
BOX 5 – Legislative amendment to the Constitutional Act on budgetary responsibility.....	35
BOX 6 – Independent Committees estimating the macroeconomic development and development of tax revenues.....	46
TABLE 1 - Output gap and factor contributions to potential growth, national methodology.....	10
TABLE 2 - Re-introduction of restrictions in the economy.....	11
TABLE 3 - Arbitrary allocation of funds from the Recovery and Resilience Facility.....	11
TABLE 4 - Draw-down of funds from the Recovery and Resilience Facility.....	12
TABLE 5 - Consolidation effort (ESA 2010,% of GDP).....	13
TABLE 6 - List of measures adopted in fight against coronavirus (estimate as of 31 December in EUR million, unless indicated otherwise).....	18
TABLE 7 - Comparison of revenue/expenditure balances and the NPC scenario for 2021 - 2023 (% of GDP)....	22
TABLE 8 - Revenue measures included in the draft general government budget (ESA 2010 vs. NPC).....	23
TABLE 9 - Expenditure measures included in the draft general government budget (ESA 2010 vs. NPC).....	24
TABLE 10 General government expenditure by function (COFOG).....	28
TABLE 11 - Potential of measures from spending reviews approved in 2020, in EUR million.....	34
TABLE 12 - Saving measures incorporated in the budget for 2021 - 2023, in EUR million.....	35
TABLE 13 - Forecast of selected indicators of the Slovak economy.....	40
TABLE 14 - Comparison between the Commission' forecast and the a Slovak Ministry of Finance's forecast....	40
TABLE 15 - Comparison of budgetary objectives with the Stability Programme.....	41
TABLE 16 - Rating of the MF SR's forecast of September 2020 by the members of the Macroeconomic Forecasting Committee.....	45
TABLE 17 - Average forecast of the Committee members* (except MF SR) and MF SR's forecast.....	45
TABLE 18 - Rating of the MF SR's forecast by the members of the Tax Revenue Forecasts Committee.....	46
TABLE 19 - Cash effects on changes in the nominal gross general government gross debt (in EUR million).....	47
TABLE 20 - List of one-off measures.....	49
TABLE 21 - Expenditure benchmark.....	50
TABLE 22 - Discretionary measures – year-on-year impact of measures (EUR million, ESA2010).....	51
TABLE 23 - Summary of measures adopted in fight against coronavirus.....	52
FIGURE 1 - Contributions to GDP growth - forecast (p.p.).....	8
FIGURE 2 – Montly export of goods (EUR million).....	8
FIGURE 3 - Contributions of industries to employment growth (p.p.).....	8
FIGURE 4 - Contributions to inflation (p.p.).....	8
FIGURE 5 – GDP of Slovakia's business partners according to IFP's September forecast (yoy in %).....	9
FIGURE 6 - Stock indices recovered after a deep fall (15 January = 1).....	9
FIGURE 7 - Output gap (% of potential GDP): comparison between the MF SR, NBS, EC, OECD and IMF.....	10
FIGURE 8 –General government gross debt (% of GDP).....	14
FIGURE 9 – Simulation of long-term sustainability for selected reform and consolidation scenarios.....	15
FIGURE 10 - One-year consolidation of the structural primary balance.....	15
FIGURE 11 - Three-year consolidation of the structural primary balance.....	15



FIGURE 12 - Performance of the approved budget: differences in key items (ESA 2010), contributions in EUR million .....	16
FIGURE 13 – General government revenues (% of GDP) .....	26
FIGURE 14 - Growth of taxes, health and social contributions (year-on-year)* .....	26
FIGURE 15 – Tax wedge of a low-paid employee, 2009 and 2019 (50% of average wage, % of labour cost) .....	27
FIGURE 16 - VAT gap (% of potential revenue).....	27
FIGURE 17 – Development of the general government expenditure (% of GDP) .....	28
FIGURE 18 – Development of the general government capital expenditures (% of GDP).....	28
FIGURE 19 – General government gross debt forecast (% of GDP).....	29
FIGURE 20 – Contributions to gross debt (% of GDP).....	29
FIGURE 21 – Alternative debt forecast scenarios (% of GDP).....	30
FIGURE 22 – Debt-stabilising balance compared to budget shortfalls / budget targets (% GDP).....	30
FIGURE 23 – Net debt (% of GDP) .....	31
FIGURE 24 – Financing needs (% of GDP) .....	31
FIGURE 25 – Medium-term sustainability indicator (S1, p.p.) .....	32
FIGURE 26 – Long-term sustainability indicator (S2, p.p.).....	32
FIGURE 27 - Former and new debt brake bands compared to the no-policy-change scenario after 2023 (% of GDP) .....	37
FIGURE 28 - Differences in key items (ESA 2010) against the Stability Programme, contributions in EUR million .....	42
FIGURE 29 - Comparison of macroeconomic base forecasts for budget revenue with the Committee members	45
DIAGRAM 1 – Expenditure benchmark.....	36
DIAGRAM 2 – Novel sanctions of debt rule.....	36



## Summary

The global coronavirus outbreak has caused the historically highest decline in the Slovak economy and significantly impaired the sustainability of public finance, which was already affected by the need to cover past budgetary risks. The fiscal policy plans thus aim to strike a balance between economic stabilisation related to the covid outbreak and long-term sustainability of public finance.

In 2020, the utmost priority is protecting citizens' health and lives and mitigating the economic impact of the crisis by active fiscal measures. Given the significant overcooling of the economy and prevailing uncertainty around the further development of the pandemic, the general government budget for 2021 is planned with a substantial reserve to cater for possible worsening in the situation and a near-neutral effect on the structural balance of public finance.

The general government debt will eventually reach the historically highest level and continue rising in next years. The long-term sustainability indicators S1 and S2 will also grow to markedly elevated levels above the high-risk band. The stabilisation of the economy will thus have to be followed by a public finance recovery stage. Its success will depend on meeting five pre-requisites:

- 1) Long-term gradual structural deficit reduction, starting from 2022;
- 2) Improved efficiency of public resources;
- 3) Fostering binding budget plans including counter-cyclical aspects;
- 4) A pension reform to improve its long-term sustainability;
- 5) An overhaul of the Slovak economy aimed to boost growth, including the use of funds from the Recovery and Resilience Facility.

As a consequence of the global pandemic, Slovakia's economy will decline by 6.7% in 2020, which is the worst downturn in history. The fall seen during the global financial crisis in 2009 was 5.4%. The dramatic economic downturn will entail increased unemployment and a marked slow-down in wage growth. In the second half of 2020, domestic as well as foreign demand has started to recover. The recovery is supposed to bring 5.5% GDP growth in 2021. Nevertheless, the economy will remain overcooled and new jobs will be created at a slow rate. The main negative risk to economic development is still the advancement of the pandemic, so particularly in view of the current rapidly growing numbers of people tested positive. On the other hand, additional funds available under the EU Recovery and Resilience Facility are a positive risk in the forecast.

In 2020, the priority for public finance to support the economy during the pandemic, which will result in the deficit rising to 9.7% of GDP this year. Measures aiming to support the economy during the pandemic and a revenue shortfall due to the economic decline (with a total effect of 4.3% of GDP) are among the major contributors to the increase in the deficit. Another factor, with almost the same amount of impact on the deficit increase, is materialization of budgetary risks (with a total effect of 4.1% of GDP). This includes, in particular, additional financing for state-owned enterprises falling under the responsibility of the Ministry of Transport; shortfall of non-tax revenues; additional allocations to IT projects and operations of a number of ministries; and the financial performance of the Social Security Fund and local governments. A part of the deficit increase is attributable to new policies of the Government. This includes, in particular, costs of establishing the new Ministry of Investment, Regional Development and Informatisation, abolition of the bank levy and introduction of the 13<sup>th</sup> pension benefit (total effect of 0.4% of GDP).

With the slack in the economy and rising numbers of people tested positive, a prudential approach to fiscal policy is of utmost importance. This corresponds to a deficit target of 7.4% of GDP for 2021, with a provision of approx. EUR 1 billion to cater for risks associated with the pandemic. Except this provision, the deficit remains structurally at about the same level. New measures target mainly the social area. Expenditure on pension benefits will be higher because of the introduction of the 13<sup>th</sup> pension benefit and retirement age adjustment for insured persons who have brought up children. The negative fiscal impact will be mitigated to some extent by freezing the growth of minimum pensions. A new pregnancy benefit will be introduced from April



2021. The budget also provides for the abolition of co-payments for medicines for children, disabled persons and pensioners. The change of motor tax rates aims to improve competitiveness of the industry. The most important consolidation measures concern expenditure cuts in compensations and goods and services and higher taxation of tobacco products.

**In 2020, the general government debt will rise to the historically highest level above 60% of GDP. Long-term public finance sustainability risks will also reach the highest levels ever.** Without additional measures, the debt would continue growing in upcoming years and reach nearly 70% of GDP in 2023. To halt this debt growth through gradual consolidation, it is necessary to reduce the deficit to around 3% of GDP. Deficit reduction is of critical importance also in the context of significant worsening of long-term sustainability, to which a pension system reform and consolidation achievable only within the current budget horizon would not be a sufficient response. Therefore, bringing the high sustainability risk to at least a medium level will require extending the consolidation far beyond 2023 and supporting it with further structural reforms.

**The Government's draft budget foresees a structural deficit reduction of 1% of GDP in 2022, which corresponds to a nominal deficit target of 5.4% of GDP.** In 2023, the application of the current Constitutional Act on budget responsibility would require big leaps in balancing revenue and expenditure. This would correspond to unrealistic consolidation measures in an amount of around EUR 6 billion. To continue the gradual consolidation in next years, it is necessary to make adjustments in the Constitutional Act.

**To achieve sustainable recovery of public finance, consolidation efforts must inevitably be complemented by further reform pillars: enhancement of public finance quality, promotion of binding medium-term budgeting, and improvement of the long-term sustainability of the pension system supported by structural reforms to boost the growth of the Slovak economy.** The so-called zero-based budgeting will help to improve the quality of public finance and it is applied in the draft capital expenditure budget for the years 2021 to 2023. Also, formalised assessment of investment projects exceeding EUR 1 million is being introduced. The medium-term binding budgeting and counter-cyclical fiscal policy will be supported the adoption of medium term expenditure ceilings as well as the envisaged changes to the Constitutional Act on budget responsibility. Also, a Constitutional Act on the pension system is being prepared. Structural reforms will be incorporated in the upcoming Recovery and Resilience Plan, with emphasis on the efficient use of resources.

**The Draft Budgetary Plan is based on the draft general government budget for the years 2021 to 2023.** Preparation of the document is a requirement of the European Union's legislation. The Plan presents the development of the fiscal position, economic development projections and a description of fiscal policy measures to achieve mid-term objectives. The European Commission will issue its opinion on the Budgetary Plan consequently.



## I. Macroeconomic basis of the draft budget

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*The global coronavirus pandemic has caused worldwide recession. Slovakia's GDP is expected to drop by 6.7% in 2020, which is the worst downturn in history<sup>1</sup>, deeper than the 5.4% fall seen during the global financial crisis in 2009. The dramatic economic decline will increase the unemployment rate and wage growth will slow down markedly. In the second half of 2020, domestic as well as foreign demand has started to recover, which should lead to a 5.5% increase in GDP in 2021. Nevertheless, the output will be significantly below its potential with plenty of slack in the economy and the job creation will be subdued. Investment activity will strengthen only with the last minute EU funds drawing at the end of the forecast horizon. The ongoing pandemic remains the main negative risk to economic development, even more so with the current rapidly growing numbers of people tested positive. With the better-targeted measures, the second wave could have a milder impact on the economy than the first wave. The economy would decline by 8.4% in 2020 and the growth rate in 2021 would be slightly lower, 4.3%. Additional shortfall in revenue from taxes and social security contributions would amount to approx. 1% of GDP per year. On the other hand, as a positive risk in the forecast, additional funds will available under the EU Recovery and Resilience Facility, which could spur the economic growth to 4% in 2022 and 2023.*

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### I.1. Macroeconomic forecast (baseline scenario)<sup>2</sup>

**The Slovak economy will decline by historical 6.7% in 2020 because of the coronavirus crisis.** The severe downturn of the economy in the first half-year was caused by weak domestic and foreign demand. Economic activity hit the bottom during the second quarter and industrial production decline reached historical levels. The labour market, however, has turned out to be more resilient and it mitigated the decrease in household consumption and retail sales. **Some recovery of the economy is being seen in the second half of the year.** In particular, automotive production has resumed, which was already indicated by June export figures. While the summer season helped restaurants and the accommodation sector to take a breath, business tourism, restaurants and culture will continue to lag behind substantially. Recession and uncertainty regarding the development of the pandemic will dampen investment dynamics and this will reflect in a low performance of the construction sector.

**In 2021, the economy is expected to recover, with GDP growing by 5.5%.** Growing disposable income and reduction in savings will support household consumption<sup>3</sup>. Revival of foreign demand will prop up exports. There is going to be a substantial amount of slack in the economy, with many capacities remaining unused. This will dampen somewhat the economic growth, which will reach 2.2% in 2022. Investment activity will strengthen at the end of the forecast horizon, with booming EU funds drawing.

**Risks to the forecast are negative, particularly from a short-term perspective.** The growing number of second-wave infections in too many countries may lead to more stringent measures, which will turn down economic activity. We suppose, however, that even if such restrictive measures are adopted again, they will be more targeted and more efficient than during the first wave and their impact will be relatively milder (Box 2). **The main positive risk is the access to substantial additional EU funds** available under the EU Recovery and Resilience Facility which, when approved, could support the economy from 2022 on. Availability of a vaccine could also bring a positive impetus to the economy.

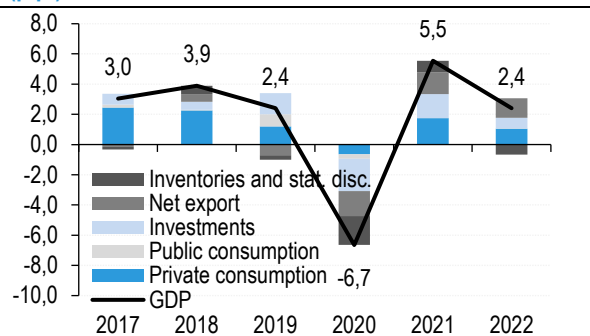
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<sup>1</sup> Eurostat's uniform methodology has been applied to GDP data since 1995.

<sup>2</sup> The time series of expected GDP levels for the years 2020 to 2023 is computed on the basis of revised GDP data for 2019 from autumn notifications to Eurostat and adjusted by chain-linking nominal year-on-year growth rates taken from the September forecast of the Macroeconomic Forecasting Committee. These assumption are also applied to other indicators related to GDP. The forecast embeds an reduction in the structural deficit of public finance of 0.5% of GDP assumed for the years 2022 - 2023.

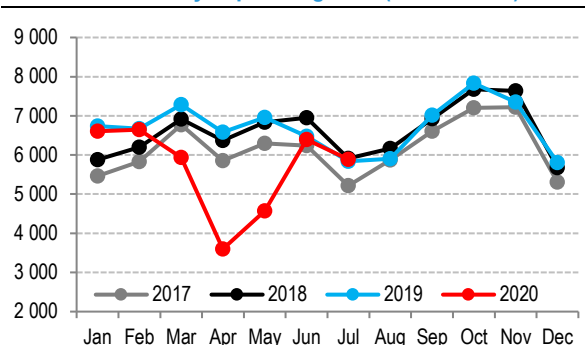
<sup>3</sup> Because of the budget preparation process, the macroeconomic forecast does not include the provision of EUR 1 billion for 2021 for the second outbreak wave.

**FIGURE 1 - Contributions to GDP growth - forecast (p.p.)**



Source: MF SR

**FIGURE 2 – Monthly export of goods (EUR million)**



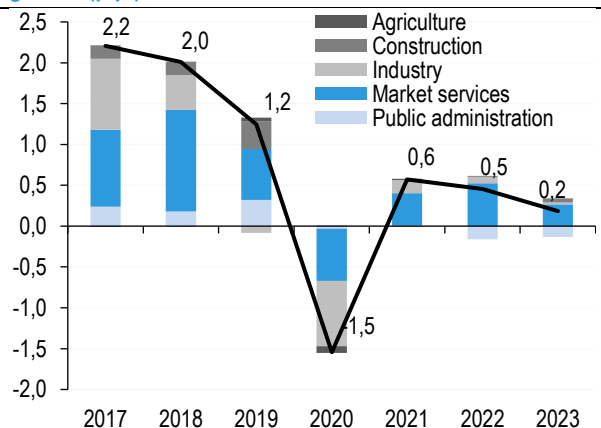
Source: MF SR

Following a 1.5% reduction in jobs in 2020, we expect employment to grow by 0.6% in 2021. The economic crisis brought about by the coronavirus pandemic will reduce employment by 38 thousand jobs this year. In light of the marked decline in economic activity, however, the labour market shows more resilience, which is partially attributable to the implementation of short-time working arrangements (so-called *Kurzarbeit*). Coronavirus crisis will thus reduce numbers of hours worked rather than numbers of jobs. Employment will be lost mainly in certain service sectors (tourism, catering services, retail, recreation or transport), but also in the industry and construction sector. Recovery could be seen in the second half of 2020, but it will be slow and gradual. Around 14 thousand new jobs will be created in 2021 and the pre-crisis employment level will be achieved no sooner than at the end of 2023. **After the initial increase, the unemployment rate will decrease moderately, to 6.8%, in 2021.** In upcoming years, unemployment is expected to decrease at a rate of 0.5 p.p. annually.

**In the post-crisis period, the wage growth dynamics should be restored and the average nominal wage growth rate is expected to reach 4.1% in 2021.** With the strengthening of the labour market, wages will also continue rising in subsequent years and the growth will reach a rate of 4 to 5%. The forecast assumes that fiscal consolidation will also impact the labour market and it will halt wage growth mainly in the public sector.

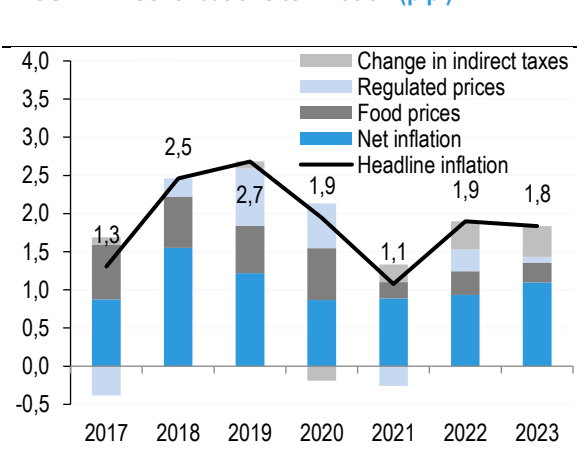
**The pandemic lead to a slow-down in price growth from 1.9% to 1.1% in 2021.** Low oil prices and development of energy commodity futures indicate a price decrease for fuels and regulated energy prices as well. This will be accompanied by a slow-down in prices of services and goods due to economic downturn and substantial overcooling. On the other hand, a higher excise duty on tobacco products will push prices upwards. The price growth rate is projected to remain slightly below 2% over a medium-term.

**FIGURE 3 - Contributions of industries to employment growth (p.p.)**



Source: MF SR

**FIGURE 4 - Contributions to inflation (p.p.)**



Source: MF SR



**BOX 1 - External environment assumptions**

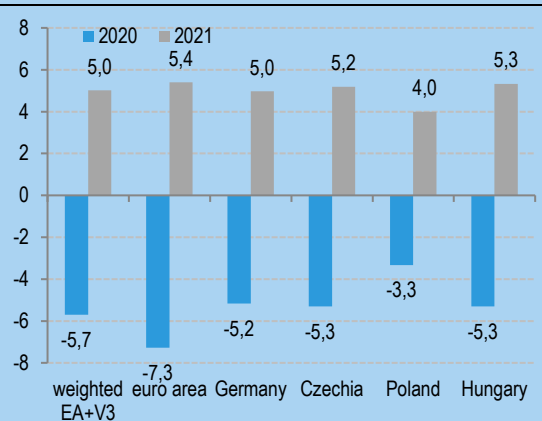
**In consequence of the coronavirus pandemic, the euro area's economy fell into a deep recession in the first half of 2020.** A dramatic downturn was seen particularly in the economies of Spain, Italy and France. Germany, on the contrary, experienced milder consequences of the corona-shock. Major contributors to the second quarter's deep recession were weak household consumption and, to a lesser extent, foreign export shortfall. The most affected sectors were restaurant and hotel services and the aviation industry. The recession also affected Europe's key sector, the automotive industry, which influenced the performance of the whole industry across countries, with severity depending on the proportion of a country's automotive production to total industrial output.

**A brisk recovery in the euro area should be seen already in the third quarter (FIGURE 5).** As an indicator of growing economic activity, Germany's truck toll mileage reached its pre-crisis level in summer 2020. Vehicle registrations have been on a fast recovery track in most European countries and the revival of retail sales in the euro area also continued in July. Economic sentiment indicators (ESI) as well as the Purchasing Manager's Index (PMI) suggest that the German economy has taken a good run. However, indicators uniformly point to a slower recovery of services, which may be postponed to the next year.

**The V3 countries have also experienced severe economic recession, though not so pronounced as the major economies of the euro area.** GDP decline in the V3 countries was due to both domestic and foreign factors. Business survey readings suggest, however, that a fast and relatively strong recovery is expected in the V3 countries, too.

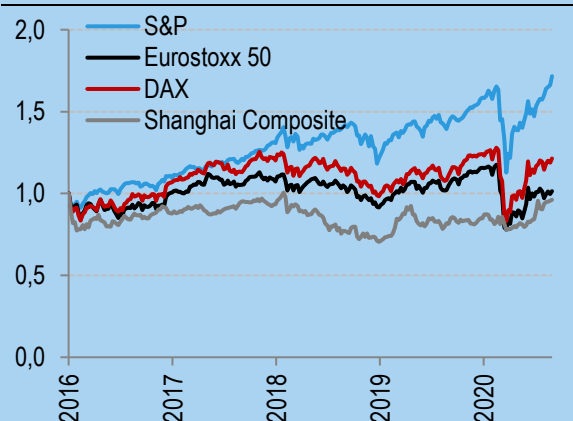
**The euro area countries are planning a wide range of fiscal and monetary measures to support their domestic economies.** Generous monetary and fiscal incentives, combined with low yields on bonds, have encouraged confidence in stock markets (FIGURE 6). Uncertainty indicators have stabilised despite the increase in numbers of infected people in many regions, protests in the USA, approaching US presidential election, tension between the USA and China and Brexit risks. ECB's concerns are rising because of the development of the euro, which substantially strengthened during summer and may damp inflation. Brisker recovery in Europe has probably contributed to the appreciation of the common euro currency. **After the initial collapse, Brent crude oil prices rose up to USD 46 per barrel, while still remaining at low levels.** The price of the commodity is expected to exceed USD 50 per barrel in a medium term.

**FIGURE 5 – GDP of Slovakia's business partners according to IFP's September forecast (yoy in %)**



Source: IFP

**FIGURE 6 - Stock indices recovered after a deep fall (15 January = 1)**



Source: IFP, Bloomberg

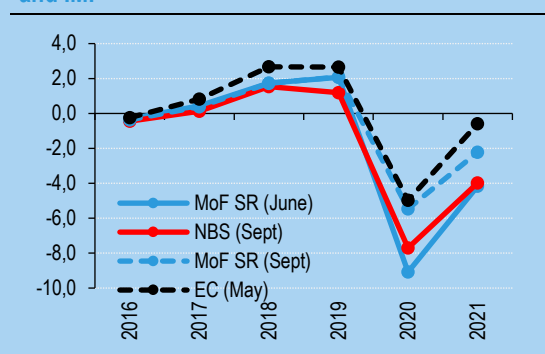


## BOX 2 - Output gap estimate for the years 2020 and 2021

The decrease in GDP due to the coronavirus pandemic in 2020 will lead to substantial opening of the output gap to -5.5% of potential output. With economic recovery, the output gap will close moderately to -2.2% in 2021. This estimate is based on the national methodology of the Ministry of Finance of the Slovak Republic (MF SR). The MF SR's estimate is not much different from the Commission's forecast of May 2020. The national methodology of the MF SR is used in this document to estimate the cyclical component required for computing the structural balance of public finance.

Based on the MF SR's national methodology, the output gap will reach -5.5% of potential GDP in 2020 and it will close only gradually. For comparison, during the financial crisis in 2009, the output gap amounted to -4.9% of potential GDP. The pandemic will weaken both the supply and the demand side of the economy. The potential growth will temporarily decelerate because of decrease in employment and in total factor productivity. A strong decline in the aggregate demand will open the output gap and many unused capacities will emerge in the economy. With restored economic activity, however, the output gap will start to gradually close. In 2021, it will amount to -2.2%, and to 0.9% of potential GDP at the end of the forecast horizon. (FIGURE 7).

FIGURE 7 - Output gap (% of potential GDP): comparison between the MF SR, NBS, EC, OECD and IMF



Source: MF SR, NBS, AMECO

TABLE 1 - Output gap and factor contributions to potential growth, national methodology

	Output gap (% pot. GDP)	Pot. GDP (growth, %)	TFP*	Capital stock	Labour
2016	-0,4	2,6	1,1	0,8	0,6
2017	0,4	2,3	1,2	0,5	0,6
2018	1,7	2,5	1,3	0,7	0,5
2019	2,1	2,0	1,0	0,8	0,3
2020F	-5,5	0,8	0,0	0,8	0,0
2021F	-2,2	2,0	1,2	0,6	0,3
2022F	-1,9	2,0	1,2	0,8	0,1
2023F	-0,9	2,3	1,6	0,9	-0,2

\*Total factor productivity

Source: MF SR

The difference in output gap estimates between the Commission's approach and the MF SR's approach (national methodology) is due to different forecast horizons and different total factor productivities (TFP). While the Commission estimates the output gap over the horizon of next two years, the estimate in the MF SR's forecast covers four years. The Commission's approach is based on trends and on variable filtering, and the extended forecast horizon may thus lead to differences in an output gap estimate covering a shorter term even though the input macroeconomic forecast for the years covered remains unchanged. Another difference lies in the historical data on total factor productivity (TFP): in contrast to the Commission's approach, the MF SR considers the one-off effects of increase in automotive capacities (VW, JLR) on domestic output.

The MF SR's potential output estimate also takes account of the trend in the output gap which influences the dynamics of the domestic inflation, balance of trade and labour market. The resulting GDP breakdown is, therefore, based not only on the structural component, but on the cyclical component estimate as well. The Commission's approach disregards the effect of the cyclical component on the economy, which may lead to a less accurate output gap estimate. As an example, the decelerated growth of consumer prices and a positive balance of trade (indicating an excess of foreign demand over domestic demand) in recent years indicate only low overheating of the Slovak economy.



## I.2. Alternative macroeconomic forecast scenarios

### Scenario 1: Re-introduction of restrictions in the economy

The first scenario simulates a second Covid-19 outbreak wave with re-introduction of restrictions to economic activity in Slovakia and in trading partners' economies. The risk scenarios anticipate the new measures to hit the economy in the second quarter of 2020. In light of the experience of the first half of 2020, however, the economic impact could be less severe because of more targeted measures. The second wave of restrictions abroad would reduce the weighted GDPs of Slovakia's business partners by 2.3% in 2020 compared to the baseline scenarios of the MF SR's forecast. The economic recovery is expected in the first quarter of 2021.

**With this scenario, Slovakia's GDP would decrease by 8.4% in 2020.** In terms of the expenditure-side of the economy, the decline would be similar to the second quarter. The total output of the economy would be driven mainly by lower foreign demand, as decrease in domestic consumption would be somewhat milder. Uncertainty about the future development would mitigate corporate investments. **Adverse consequences of the second outbreak wave would extend to 2021 and the Slovak economy would grow at a rate of 4.3%.**

**The impact of the second wave on the labour market and public finance would be more pronounced.** The slack in the economy would be present for a longer period and the recovery would come with a delay. This would push the general government debt up in 2021. Employment would remain on decline in 2021 and 2022. Revival of job creation would be seen no earlier than the end of the scenario horizon, in 2023.

TABLE 2 - Re-introduction of restrictions in the economy

The cumulative change in the growth of variables on the baseline scenario is expressed in percentage points ( p.p.).  
The change in tax revenue is a change on the baseline scenario; the gross general government debt is shown as a cumulative change based on revenue change.

	Real GDP	Consumer prices	Output gap	Private consumption	Government consumption	Real investment	Real export	Employment	Nominal wages	Tax revenue (% of GDP)
2021	-3.1	-0.9	-2.2	-2.0	-2.2	-4.3	-5.2	-1.4	-2.8	-1.1
2022	-1.7	-1.2	-0.6	-1.5	-1.0	-2.2	-3.2	-2.4	-1.1	-0.9
2023	-1.8	-1.7	-0.6	-3.0	-1.9	-1.6	-2.2	-2.4	-3.1	-1.4

Source: MF SR

### Scenario 2: Draw-down of funds from the Recovery and Resilience Facility

**The effects of additional funds from the Recovery and Resilience Facility to be drawn in the years 2022 - 2024 in the total amount of EUR 5.8 billion are simulated in the second scenario.** The scenario is based on the assumption that funds from the Facility would spur investments in the amount of EUR 4.8 billion and labour compensations in the amount of EUR 1.0 billion. The allocation of funds to years is rather arbitrary and it is actually subject to decisions to be made. The drawing of funds from the Facility will be specified on the basis of new relevant information.

TABLE 3 - Arbitrary allocation of funds from the Recovery and Resilience Facility

Nominal amount in EUR million	2022	2023	2024
GG compensations	500	400	100
GG investments	900	1700	2200

**With the funding from the Recovery and Resilience Facility, the growth of real GDP could accelerate to 3.9% in 2022 and 4.3% in 2023.** The additional EU funds will contribute both to government consumption and investment and to faster recovery of the private sector and the labour market. Employment will reach pre-pandemic levels at the end of 2022, with a growth rate higher by 2.2 p.p. than the baseline scenario. In 2023, the difference in employment against the baseline scenario will reach 0.7 p.p., with more significant growth of job



creation also in the private sector. This will also support the development of wages and household consumption. With funding from the Recovery and Resilience Facility, the Slovak economy could regain its potential in 2022.

**TABLE 4 - Draw-down of funds from the Recovery and Resilience Facility**

The cumulative change in the growth of variables on the baseline scenario is expressed in p.p.

The change in tax revenue is change on the baseline scenario; the gross general government debt is shown as a cumulative change based on revenue change.

	Real GDP	Consumer prices	Output gap	Private consumption	Government consumption	Real investment	Real export	Employment	Nominal wages	Tax revenue (% of GDP)
2021	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2022	1.5	0.3	1.4	0.9	3.2	4.6	0.0	0.3	1.8	0.7
2023	2.5	1.1	2.3	1.5	5.1	8.2	-0.1	1.0	3.1	1.3

Source: MF SR



## II. Budgetary objectives for the years 2020-2023

The fiscal policy for the upcoming period must aim to strike a balance between economic stabilisation needs and long-term sustainability of public finance. With the overcooled economy and rising numbers of people tested positive, maintaining a prudential approach to fiscal policy in the next year is of utmost importance. This corresponds to a deficit target of 7.44% of GDP for 2021, with includes a reserve of approx. EUR 1 billion (1.1% of GDP) to cover risks associated with the pandemic. The record-breaking debt and long-term sustainability risks cannot be tackled in a short time and; a comprehensive long-term strategy will be needed. It will have to provide for a long-lasting, gradual consolidation of public finance starting from 2022. The budgetary objective of a deficit of 5.35% of GDP reflects the foreseen gradual consolidation in an amount of 1% of GDP. For this objective to be attained, additional saving measures amounting to EUR 830 million will need to be adopted. To continue the gradual consolidation in next years, it is necessary to amend the Constitutional Act. With the current framework, unrealistically high consolidation would be required in 2023.

**Support for the economy struck by the pandemic is the priority for 2020 and 2021.** According to the current forecast, the Slovak economy will find itself in a deep recession in 2020. The output gap will exceed 5% of GDP and even in the next year, it will not approach a balanced level. The Commission also communicates support to economies as the present-time priority. According to the [rules of the Pact](#), in such a deep recession, a year-on-year reduction in the structural deficit is temporarily waived. Accordingly, the Commission has proposed triggering the so-called general escape clause for 2020 on 20 March<sup>4</sup>, and announced its extension to 2021 on 19 September<sup>5</sup>. This means that any procedures arising from deviation from a balanced budget, based on the prior year's data, are also suspended. Since the nominal deficit will exceed 3% of GDP in the next years, the fiscal policy will be influenced by the rules of the corrective arm of the Pact. The Commission's specific recommendations for necessary adjustments for 2022 are not expected before spring next year.

**With regard to the significant overcooling of the economy and uncertainty as to the further development of the pandemic, the general government budget for 2021 is planned with a neutral economic impact and with a substantial provision for possible worsening of the situation.** The Government will operate with a deficit of 7.44% of GDP and a neutral fiscal policy. The budget provides reserve 1.1% of GDP for the second wave of COVID-19, while the structural balance is net of this reserve. In light of the need to strike a balance between stabilisation of the economy and long-term sustainability, the structural shortfall will stabilise year-on-year at 5.6% of GDP, with the economy remaining overcooled.

TABLE 5 - Consolidation effort (ESA 2010, % of GDP)<sup>6</sup>

	2017	2018	2019	2020 E	2021 DGGB	2022 DGGB	2023 DGGB
<b>Nominal balance, budgetary target</b>	<b>-0.94</b>	<b>-0.99</b>	<b>-1.37</b>	<b>-9.68</b>	<b>-7.44</b>	<b>-5.35</b>	<b>0.00</b>
Cyclical component	0.1	0.7	0.8	-2.1	-0.8	-0.7	-0.4
One-off effects	0.0	0.0	0.0	-1.9	-1.0	0.0	0.0
<b>Structural balance</b>	<b>-1.1</b>	<b>-1.6</b>	<b>-2.2</b>	<b>-5.6</b>	<b>-5.6</b>	<b>-4.6</b>	<b>0.4</b>
<b>Consolidation effort</b>	<b>1.4</b>	<b>-0.6</b>	<b>-0.5</b>	<b>-3.5</b>	<b>0.0</b>	<b>1.0</b>	<b>4.9</b>
Required consolidation effort	0.5	0.5	0.35	-	-	to be determined in the corrective arm	to be determined in the corrective arm
<b>p.m. Nominal balance, GGB</b>						<b>-6.2</b>	<b>-5.7</b>
<b>p.m. Structural balance in GGB</b>						<b>-5.5</b>	<b>-5.4</b>
<i>p.m. - Measures required to achieve budgetary targets (EUR million)</i>						830	6025

<sup>4</sup> [https://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS\\_BRI\(2020\)649351](https://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2020)649351)

<sup>5</sup> <https://ec.europa.eu/info/sites/info/files/economy-finance/sk.pdf>

<sup>6</sup> The values in the Table were calculated using GDP values published in the September forecast of the Macroeconomic Forecasting Committee.

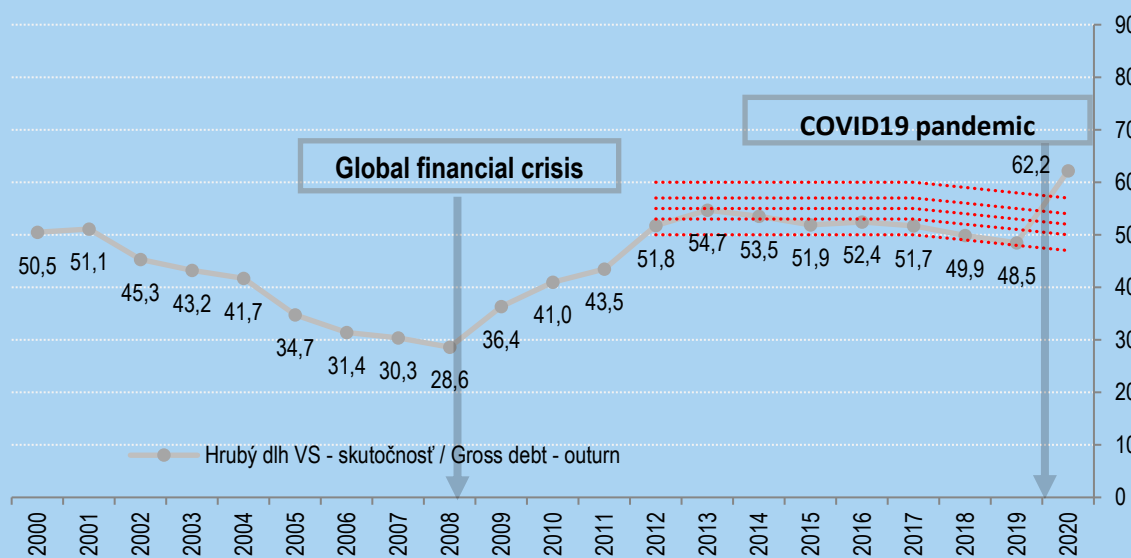


The economic stabilisation will be followed by an extended stage of gradual recovery of public finance aimed at reducing the record-breaking risks to long-term sustainability of public finance. The general government debt will achieve a historically high level in 2020 and continue rising in 2021. Long-term sustainability risks will also achieve the highest-ever level. Elimination of these risks will not be achievable over a short term (Box 3) or thorough partial solutions. The stabilisation of the economy will thus have to be followed by an extended public finance recovery stage. **To manage this, the following five components will be needed: 1) long-lasting gradual reduction in the structural deficit from 2020 on; 2) efficiency improvement of the exploitation of public resources; 3) promotion of the binding force of budget plans and of their counter-cyclical effect; 4) a reform of the pension system to improve its long-term sustainability; and 5) reforms to boost the growth of the Slovak economy.** The budget foresees starting the deficit reduction in 2022 by reducing the structural deficit by 1 p.p. of GDP, which corresponds to the average adjustment requested by the Commission after the previous crisis<sup>7</sup>. Achieving the nominal target of 5.4% of GDP requires new specific consolidation measures in an amount of EUR 830 million.

### BOX 3 – Historically high long-term sustainability risks

**Slovakia's public debt will rise above the historical levels.** The general government debt will reach record-breaking 62% of GDP in 2020, which is markedly higher than the peak level after the previous financial crisis (55% of GDP). With the present deficit levels, the debt will continue to rise in the upcoming years. Stopping this rise requires reducing the deficit to approx. 3% of GDP (refer to Chapter 5).

FIGURE 8 – General government gross debt (% of GDP)



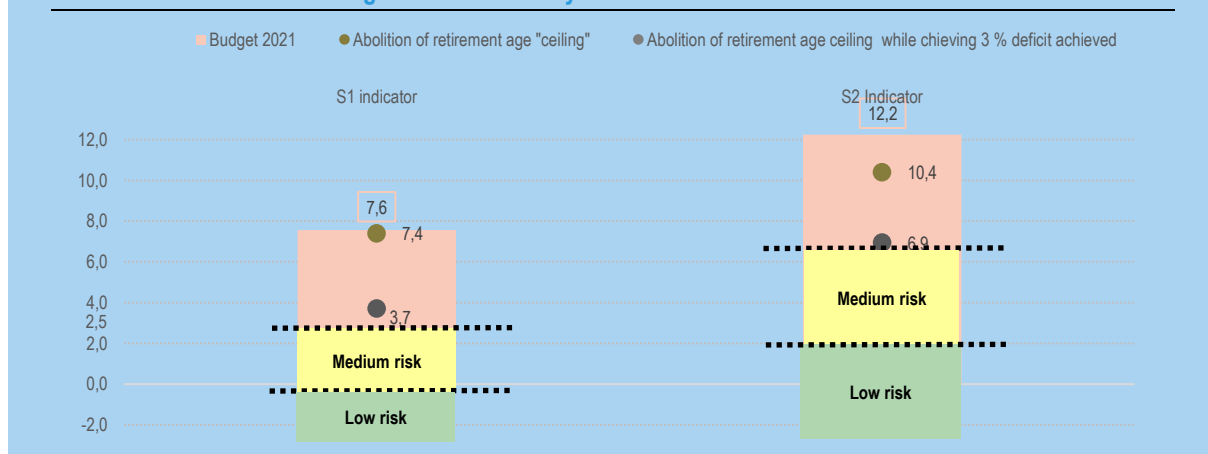
Source: MF SR

**Indicators of risks to long-term sustainability of public finance (for details refer to Chapter 5) have also reached the highest levels ever.** Partial risk mitigation measures will not suffice. Long-term sustainability will still remain at severe risk even if the deficit drops to 3% of GDP (a level sufficient to stop the rise of the debt) and sustainability of the pension system will improve. As an example, the abolition of the retirement age ceiling and return to linking retirement age to life expectancy will improve S2 only by 1.8 p.p. To reduce the risk to long-term sustainability to at least the medium level (S2), it is necessary, in addition to reforming the pension system, to achieve a structural deficit of 1.6% of GDP.

<sup>7</sup> In the recent period when Slovakia was in the corrective arm, the Commission recommended an average annual adjustment of 1% of GDP (for the years 2010-2013) to Slovakia.

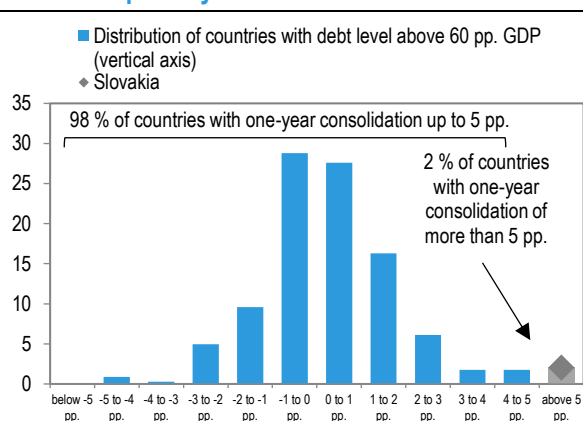


FIGURE 9 – Simulation of long-term sustainability for selected reform and consolidation scenarios



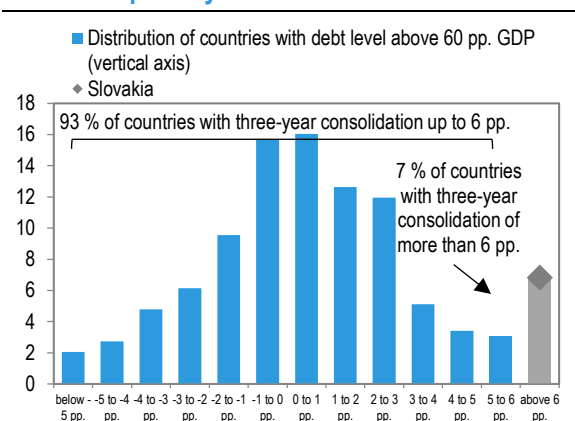
With the present-time debt amount and the foreseen economic decline, the current framework set by the Constitutional Act on budget responsibility requires a balanced budget for 2023<sup>8</sup>, which is unrealistic. To meet this requirement, consolidation effort at a level of nearly 5 p.p. of GDP would be required, which would necessitate adopting measures in an amount exceeding EUR 6 billion. Historical experience indicates a minimal likelihood of achieving such consolidation. The International Monetary Fund tries the feasibility of a consolidation plan when it exceeds 3% of GDP over a three-year term. The achievement of consolidation effort of 5 p.p. in one year, or of over 6 p.p. in three years, is historically very rare<sup>9</sup> (FIGURES 10 and 11) and little realistic in Slovakia's circumstances. In this context, an amendment to the Constitutional Act on budget responsibility has been submitted to the legislative process, which is intended to improve the proportionality of sanctions, among other things. When the amendment is approved, the budgetary targets will be further fine-tuned in the Stability Programme in spring 2021, taking regard of the actual developments in the economy and the course of the pandemic.

FIGURE 10 - One-year consolidation of the structural primary balance



Source: MF SR

FIGURE 11 - Three-year consolidation of the structural primary balance



Source: MF SR

Note: Consolidation for developed countries measured by year-on-year change in cyclically-adjusted primary balance, including one-off effects. Slovakia with planned one-off effects at 0% of GDP in 2023.  
Source: IMF, MF SR

<sup>8</sup> For the years 2021 and 2022, sanctions for exceeding the three highest debt brake sanction bands will not be applied because of the election of a new Government in 2020.

<sup>9</sup> Consolidation of five or more percentage points over one year or of six or more percentage points over three years has actually occurred in very rare cases only; examples may include Greece (2010 and 2011) and Portugal (2011) which were forced to substantial consolidation by creditors under the official European Financial Stability Facility. Other cases were mostly consolidations which were overvalued, through one-off effects, relative to the period for which the balance reduction was measured. Example may include the Netherlands (1996) where future liabilities were paid to housing companies in an amount of 5.5% of GDP; or Malta (2004) which was made to restructure its shipyards sector and this resulted in a deficit increase of 3% GDP; or Slovenia (2014) and Iceland (2009) with substantial consolidation following banking sector bailout, which also basically affected one year only.

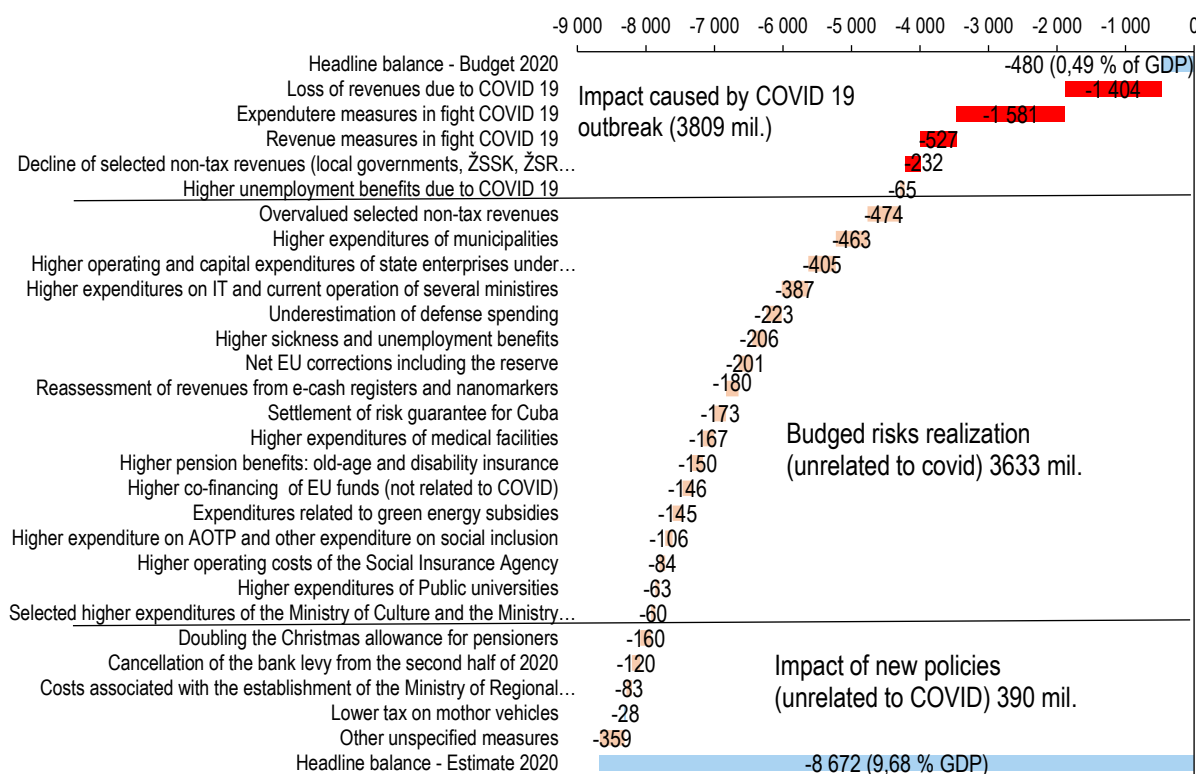


### III. Current development of public finance in 2020

In 2020, priority in public finance is support the economy during the pandemic. The deficit will rise to 9.7% of GDP this year. Measures aiming to support the economy during the pandemic and revenue shortfall due to the economic decline contribute to the deficit with a total effect of 4.25% of GDP. This includes a space for the existing counter-crisis measures planned by the end of the year in view of the current increasing risk of the second outbreak wave, and a provision for new measures, if needed. In addition to the effects due to the COVID-19 outbreak, the deficit increase is due to allocations to cover budget risks (with a total effect of 4.05% of GDP). This includes, in particular, additional financing for state-owned enterprises in the scope of responsibility of the Ministry of Transport; more realistic expectations regarding the development of non-tax revenues; and additional allocations to IT projects and operations of a number of Ministries; and the financial performance of the Social Security Fund and local governments. A part of the deficit increase is attributed to costs of new policies of the Government. They include, in particular, establishing the new Ministry of Investment, Regional Development and Informatisation, abolishing the bank levy, or doubling the Christmas pension benefit (effect of 0.44% of GDP).

Based on the current development characterised by the COVID-19 outbreak, the general government deficit will increase to 9.7% of GDP in 2020. This amounts to an increase of 9.2% of GDP compared to the approved budget, which foresaw a deficit of 0.49% of GDP. The contributors to this difference may be categorised into three groups: a) impact of the pandemic (including measures to support the economy and revenue shortfall); b) materialisation of risks and consideration of some budget items in more realistic proportions; and c) new policies of the current Government. With a reserve in the estimated impact of each pandemic measure, the amended budget covers a possible more adverse course of the second outbreak wave.

FIGURE 12 - Performance of the approved budget: differences in key items (ESA 2010), contributions in EUR million



Source: MF SR





## Developments in public finance attributable to the coronavirus pandemic

**The Government has responded to the impacts of the pandemic by announcing a range of aid spending programmes in an amount of nearly 2.5% of GDP<sup>10</sup>. As part of spending will be financed by the EU funds, the amount of deficit is 1.76% of GDP<sup>11</sup> (BOX 4 and Annex 7).** Aid to the economy takes form mainly of compensating wage costs of firms which were forced to close their operations or reduce the time worked by employees<sup>12</sup>, or experienced a major drop in revenues. Contributions are also provided, either on a flat-rate basis or proportionally to lost revenues, to self-employed persons and micro-enterprises (the total effect on the deficit is 0.39% of GDP<sup>13</sup>). Further, the Government has adopted measures targeting more flexible disbursement of sickness benefits and home-nursing benefits and extended the period of eligibility to unemployment benefits; the planned amount of the measures is 0.42% of GDP. As at the end of September, social security benefits disbursed on the account of the pandemic included sickness benefits amounting to EUR 60 million and home-nursing benefits of nearly EUR 130 million. Aid paid out to employers by the end of September totalled EUR 491 million and support drawn by self-employed persons amounted to EUR 92 million<sup>14</sup>, while the sum earmarked for the aid is close to EUR 1 billion. The pandemic also affected general government's current expenditure. Costs of protective equipment and other goods and services related to COVID-19 and compensations paid to front-line personnel increased state budget expenditure by 0.31% of GDP. Self-governing regions and municipalities had to increase subsidies to suburban and urban mass transportation and the state supported bus service operators and the Bratislava Airport. These measures totalled 0.09% of GDP. At the same time, expenditure in the social security area rose by 0.07% of GDP on account of the operation of automatic stabilisers, i.e. due to the automatic increase in the number of people receiving employment benefits during a crisis.

**The COVID-19 outbreak has also markedly struck the revenue side of public finance (2.15% of GDP).** The downturn in economic activity results in a shortfall in revenue from taxes and social security contributions and its estimated impact is as high as 1.57% of GDP<sup>15</sup>. The highest drop is seen in corporate income tax revenue, which is due to the sensitivity of firms' profitability to economic decline. Given its size, lost value added tax revenue will be a major contributor to the shortfall in budget revenue. The case of public social and health insurance contributions linked to the labour market will be very similar. The measures adopted by the Government to counter the impact of the pandemic affect the State's revenue, as lower wages mean lower taxes and social security contributions. Non-tax revenues of state-owned transport infrastructure enterprises and of local governments are 0.26% of GDP lower than their budgetary plans. This is mainly due to a shortfall in toll revenues of the National Motorway Company (NDS) and in fare revenues of the Slovak Railway Company (ZSSK), and lower revenues of the Railways of the Slovak Republic (ZSR) from the use of railway infrastructure as a consequence of reduction in goods transport volumes during the period of the most pronounced downturn in economic activity.

<sup>10</sup> The GDP-related values in this Chapter were calculated using data published in the September forecast of the Macroeconomic Forecasting Committee.

<sup>11</sup> Net effect of measures on the deficit. The envisaged amount of refund from the EU funds is EUR 625 million.

<sup>12</sup> Impediment at work on the part of employer.

<sup>13</sup> The expected amount of EU funding for these measures is EUR 460 million.

<sup>14</sup> Social security benefits and support measures for employers and self-employed persons disbursed by August (payments are made monthly in arrears).

<sup>15</sup> This is a comparison between the forecasts of the Tax Revenue Forecasts Committee (TRFC) of September and of February 2020. The September forecast is adjusted for the effect of the new legislation, i.e. the abolition of the bank levy, and a lump-sum VAT payment received from the concessionaire of the D4/R7 construction project. The value is adjusted for the COVID-19 related revenue measures and of spending measures with a revenue-side impact (refer to the data in the Box on measures adopted in fight against coronavirus).



#### BOX 4 – Measures adopted in fight against coronavirus

The measures adopted to counter the impact of the coronavirus outbreak have the form of direct aid, deferral of tax and public insurance contribution payments and bank guarantees for business loans.

The deferral of tax and public insurance contribution payments aims to support firms' liquidity positions and it will not affect the accrual deficit or medium-term general government debt<sup>16</sup>. Guarantees which also help to overcome this unfavourable period would have an impact on the deficit and debt only if a part of borrowers stop repaying their loans (a contingent liability). Accrual fiscal performance will thus be influenced only by direct aid measures and pertinent adverse effects on the revenue side. The aim is to indicate the overall impact of direct aid measures and, accordingly, both revenue and expenditure effects are reported.

TABLE 6 - List of measures adopted in fight against coronavirus (estimate as of 31 December in EUR million, unless indicated otherwise)

Title of measure	Direct aid		Deferral of taxes and social security contributions	Guarantees / bank loans	% of GDP	Draw-down (as of 30 Sept.)*
	Revenue	Expenditure				
Sickness benefits during quarantine/home isolation and employees' home-nursing benefits at 55% of gross wage	387	324			0.79	190
Employment retention allowance for enterprises struck by the crisis (80% of gross wage, max. EUR 880, or a flat-rate allowance depending on the decrease in revenues)**	46	737			0.87	433
Employment retention allowance for closed enterprises (80% of gross wage, max. EUR 1,100)**	10	58			0.08	58
Allowances to self-employed persons and micro-firms (EUR 880, or a flat-rate allowance depending on the decrease in revenues)**		185			0.21	92
Rent subsidies for operating units **		200			0.22	15
COVID-19 second-wave provision		150			0.17	
Purchases of medical material in connection with COVID-19 (state material reserves)		123			0.14	
Subsidies to airlines and to government-owned and private bus service operators		84			0.09	
Intensified operation of rescue service units + material equipment (Ministry of Interior)		84			0.09	
Other Ministries - extra operating expenses due to COVID-19 (mainly protective materials)		12			0.01	
Support to kindergartens (job retention)	14	83			0.11	29
Remuneration of front-line personnel		77			0.09	
Waiver of public insurance contributions for closed operating units	58	0			0.06	
Extended unemployment benefit payment period		56			0.06	
Extended parental allowance payment period		19			0.02	11
Application of loss carried forward from years 2015 to 2018 to income reported in the income tax return for 2019	20				0.02	
SOS allowance (support to contract workers and other persons without income)		10			0.01	10
Suspension of tax audits	13				0.01	
Material-need benefit		5			0.01	6
Deferral of employer's social contribution payments in case of a decrease in revenues exceeding 40%			46		0.05	
Deferral of income tax advance payments in case			248		0.28	

<sup>16</sup> The quantification disregards possible bankruptcies and assumes that firms will pay the deferred tax and public insurance liabilities.



of a decrease in revenues exceeding 40%					
Postponement of income tax returns		203	0.23	-	
Other measures related to taxes and public insurance contributions		-30	-0.03	-	
Provision of bank guarantees for loans			1,500	1.67	
Bank loans to local governments at advantageous terms			173	0.19	
<b>Total in EUR million</b>	<b>547</b>	<b>2,207</b>	<b>467</b>	<b>1,673</b>	
<b>Total in% of GDP</b>	<b>0.61</b>	<b>2.46</b>	<b>0.52</b>	<b>1.87</b>	<b>5.46</b>
<i>* Cash effect (in case of rent subsidies and support to kindergartens as of 28 September 2020; SOS allowance was provided only till August 2020).</i>					
<i>** Including financing from the EU funds, which amounts to EUR 460 million for unemployment benefits and EUR 165 million for rent subsidies.</i>					
<i>Source: MF SR</i>					

### Materialisation of budget risks (additional factors not related to coronavirus)

**State budget revenue was planned with an assumption of revenues from new measures exceeding the Tax Revenue Forecasts Committee's estimate, which were not realised.** The last year's budget included revenue from electronic cash registers (*eKasa* system) and fuel identification nanomarkers in an amount of 0.20% of GDP in excess of the TRFC's estimate. The embedding of nanomarkers in fuels has not been implemented into practice<sup>17</sup>. The effect of the *eKasa* system will be assessable only when analytical data from the system and from tax returns for 2020 are available for each sector.

**The last year's budget also included over-optimistic assumptions in respect of various non-tax revenues which are unrelated to the effects of the pandemic.** The highest expected shortfall is that in dividends, amounting to 0.20% of GDP<sup>18</sup>. With revenue from emission quotas reassessed through the full application of the ESA2010 approach, a shortfall of 0.16% in the environmental fund is expected. Foreseen revenues from gaming are 0.07% of GDP lower than planned. The Emergency Oil Supply Agency (EOSA) will have lower than budgeted revenues because of the repeated non-implementation of higher charges for the management of oil supplies (0.05% of GDP). Non-tax revenues will also be reduced because of non-realisation of planned disposals of the Ministry of Interior's property (0.05% of GDP).

**Municipalities' expenditures were grossly undervalued in the state budget (0.52%).** The increase in local governments' expenditure compared to the budget is due to shortfall resulting from the undervaluation which is carried forward from 2019. Another factor is the fact that the Ministries budgeted grants and transfers to municipalities at minimal levels and increased them in the course of the year through extraordinary budgetary measures.

**Expected operating and capital expenditures of the state-owned enterprises in the scope of responsibility of the Ministry of Transport (0.45% of GDP<sup>19</sup>)** are higher than assumed in the budget. For NDS, expenditures not provided for in the budget included those related to the finalisation of the D4/R7 construction project and NDS's leases and easement arrangements (0.54% of GDP). Expenses of ZSK or ZSSK were also outside default expenditure trends. The excess of capital and operating expenditures of the two railway companies above the budget amounts to 0.27% of GDP.

**Expenditure linked to the EU budget significantly elevates the expected deficit above the budget level (0.39% of GDP).** Higher co-financing of EU projects (other than COVID-19 measures) amounts to 0.16% of GDP.

<sup>17</sup> The possible implementation of the so-called Serbian approach to marking mineral oil now in discussion seem not to be suitable to Slovakia. The reason is that the EU legislation requires Slovakia to not create barriers to the free circulation of mineral oil and, accordingly it is impossible to collect consignments destined for the EU in reserved areas to mark them, as is the case in Serbia.

<sup>18</sup> Nearly the full amount of the shortfall results from updates of the relevant Ministries' supporting documentation. SPP reduces dividends by EUR 131 million, SS by EUR 15 million, VSE by EUR 12 million, Slovak Electricity Transmission System by EUR 14 million.

<sup>19</sup> The effect is net of co-financing from the EU funds, which is reported separately. The EU funding as such is deficit-neutral.



Adjusted corrections<sup>20</sup> from irregularities in the drawing of the EU funds are expected to reach 0.17% of GDP. 0.06% of GDP is provisioned for further corrections.

**Also, adjustments across all Ministries were necessary to bring budgeted expenditure on IT, current operations, social inclusion or military equipment to more realistic levels.** An additional allocation of 0.23% of GDP to the Ministry of Interior had to be made, with more than a half of it being earmarked for IT technology<sup>21</sup>. Planned expenditure of the Ministry of Labour, Social Affairs and Family rose by 0.19% of GDP. The additional financing is allocated mainly to active labour market policies and other social inclusion related spending. Also, expenditure on state-insured persons increased. Expenditure of the National Agency for Network and Electronic Services, falling under the newly established Ministry of Investments, Regional Development and Informatisation, was underestimated with a difference amounting to 0.07% of GDP. Non-budgeted licences for the use of Microsoft services and other IT technologies increased the Ministry of Finance's expenditure by 0.06% of GDP<sup>22</sup>. For the Ministry of Defence, the approved budget did not provide for the full impact of expenditure on military equipment upgrade (0.25% of GDP)<sup>23</sup>.

**Lack of expenditure coverage also concerns the Social Security Fund.** More realistic allocations to unemployment, sickness and maternity benefits based on the actual figures of 2019 lead to expenditure increase with an effect of 0.23 of GDP this year. Higher old-age and disability pension benefits increase expenditure by 0.17% of GDP<sup>24</sup>. Similarly to 2019, the Social Security Fund expects operating expenses of the management fund to amount to 0.08% of GDP.

**Further contributors to fiscal performance worsening are the settlement of a risk guarantee for Cuba and healthcare facilities and public universities.** The effect of the settlement of risk guarantees for Cuba on the deficit amounts to 0.19% of GDP<sup>25</sup>. Healthcare facilities' expenditures rose equally by 0.19% of GDP. The increase is due to modernisation of facilities launched at the end of 2019, which was not provided for in the budget. Another factor is undervaluation of the amount needed for healthcare funding in the budget<sup>26</sup>. Draw-down by universities of allocations carried forward from previous periods increases the deficit by 0.07% of GDP against the budget.

**Also, the approved budget did not provide for additional payments to green energy producers (0.16% of GDP).** Electricity consumers in Slovakia pay a so-called tariff charge for the operation of the system. A part of this tariff charge (TC) is used for the additional payments to producers of renewable energy. The additional payments were not considered in the budget mainly for the reason that the deficit impact arising from the time lag between the collection of TC and payment of green energy subsidies was methodologically resolved only in the last year's benchmark revision<sup>27</sup>.

<sup>20</sup> Corrections are adjusted for the payment units' revenues.

<sup>21</sup> Current expenditure includes additional allocations to standard ICT support, maintenance and development services, IS Address Register, data and voice services and a service agreement for CCTV systems covering airports in the Slovak Republic. Capital expenditure includes expenses on the Critical Infrastructure and standard support, maintenance and servicing of the telecommunications infrastructure of the Ministry of Interior of the Slovak Republic (MI SR).

<sup>22</sup> This includes additional financing for information systems of the Financial Directorate of the Slovak Republic, expenditure on DEUS (Data Centre of Electronisation of Slovakia's Local Governments, a special-interest association) membership fees and the operation of DCOM (Data Centre of Towns and Municipalities) and UNITAS project financing.

<sup>23</sup> Particularly an instalment for F-16 tactical fighter aircraft (0.18% of GDP), since the Ministry has negotiated a modified payment schedule effective from 2021.

<sup>24</sup> Benefits rise particularly for the reason of a higher than the prior-year growth of the average benefit amount and an increasing number of beneficiaries. This trend has affected pension benefits, maternity benefits (because of rising numbers of fathers on maternity leave) in the sickness insurance arm, as well as unemployment benefits, even when considered net of expenditures due to the crisis.

<sup>25</sup> Based on the decision of the Statistical Office of the Slovak Republic (SO SR), the modifier is recognised as a capital transfer affecting deficit.

<sup>26</sup> The actual need reveals only in the course of a year on the basis of the terms of contracts made with healthcare providers, which are made for varied durations and on varied dates (i.e. the validity period of a contract with a healthcare provider is not identical to calendar year).

<sup>27</sup> Green energy refers to a system of support for renewable energy generation and high-efficiency co-generation, which the ESA 2010 methodology includes in the general government sector. Collected TCs constitute tax revenue and costs of the delivery of support are treated as subsidies. For more details refer to [Draft Budgetary Plan for 2020](#), Chapter 2.5 Information on modifications of certain revenue and expenditure categories of general government budget incorporated in the ESA 2010 methodology.



**Certain expenditures of the Ministry of Culture and the Ministry of Education contribute additional 0.07% of GDP to the deficit.** Expenses connected with the reconstruction of the Slovak National Gallery<sup>28</sup> and of the Opera in Banská Bystrica were not considered in the preparation of the budget. The Ministry of Education's additional expenditure included mainly financing of student dormitories and special assistants at primary schools.

#### **New policies of the Government (not directly related to the coronavirus outbreak)**

**New policies of the present Government are also incorporated, which go in excess of the approved budget (0.44% of GDP).** Doubling the Christmas pensioner bonus will amount to an expenditure increase of 0.18% of GDP. However, compared to the Government's initial proposal from February to pay out a flat-rate 13<sup>th</sup> pension benefit to all pensioners irrespective of their income, the change saves 0.3% of GDP. Expenditure connected with setting up the new Ministry of Investments, Regional Development and Informatisation will increase the deficit by 0.09% of GDP. Concurrently, in the middle of the year, the Government abolished the special levy on financial institutions, which leads to a shortfall of 0.13% of GDP. The effect of the deficit of the retroactive reduction of motor tax rate amounts to 0.03% of GDP.

<sup>28</sup> In January 2020, the Government approved the Government Decree No 14 of 15 January 2020 concerning the Proposal to Extend and Update the Investment Project of Reconstruction, Modernisation and Completion of the Premises of Slovak National Gallery in Bratislava.



## IV. No-policy-change scenario and budgetary measures

Assuming no changes in economic policies from 2020, the general government deficit would reach 6% of GDP in 2021 and stabilise at 6.4% of GDP in subsequent years. The higher deficit foreseen in 2021 is largely due to a prudent approach, as it includes a provision of 1.1% of GDP for an adverse development of the pandemic. Additionally, the Government's current measures increase the 2021 deficit by 0.4% of GDP. Some of the measures already impact the deficit of 2020. They include revenue-side measures, the abolition of the special bank sector levy, as well as the motor tax rate adjustment which aims to promote the industry's competitiveness. In line with the target of increasing the proportion of taxation of negative externalities, excise duties on tobacco products will gradually rise and this will reduce the revenue shortfall by the end of the budget horizon. Expenditure-side measures also contribute to the increase in the deficit, in particular through higher social benefits. Expenditure on pension benefits will rise by 0.3% of GDP already in 2020; this is due to higher Christmas pensioner bonus and adjustment of the retirement age of insured persons who have brought up children. The rise in expenditure is halted by freezing the growth of minimum pensions, which aims to eliminate unfairness in the pension system. The new year will also see the introduction of a new pregnancy benefit and abolition of co-payments for medicines for children, disabled persons and pensioners. On the other hand, the reduction in expenditure on compensations and other operating expenses reduces the deficit by 0.3% of GDP.

### IV.1. No-policy-change scenario for the years 2021 – 2023

The no-policy-change (NPC) scenario represents a reference trend of public finance, which is based on the assumption of unchanged legislation and uses updated macroeconomic development estimates. The benefit of this approach lies in the quantification of the approximate amount which the active measures of the Government contribute to the general government's overall fiscal performance irrespective of other factors (e.g. the economic development which is beyond the Government's control). The basis of the NPC scenario for the years 2020 to 2023 is the continuous monitoring of the general government deficit in 2020, reaching 9.68% of GDP. In line with the NPC-scenario methodology, this Chapter considers as budgetary measures only those newly adopted in 2020.

TABLE 7 - Comparison of revenue/expenditure balances and the NPC scenario for 2021 - 2023 (% of GDP)

	ESA code	A		E			DGGB			NPC			DGGB - NPC		
		2019	2020	2021	2022	2023	2021	2022	2023	2021	2022	2023			
<b>Total revenue</b>	<b>TR</b>	<b>40.7</b>	<b>42.1</b>	<b>41.4</b>	<b>41.4</b>	<b>40.9</b>	<b>41.6</b>	<b>41.5</b>	<b>41.1</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.1</b>			
Taxes on production and imports	D.2	12.0	12.4	12.0	11.7	11.6	12.3	11.9	11.7	-0.3	-0.2	-0.1			
Current taxes on income, wealth, etc.	D.5	7.2	6.7	6.6	6.6	6.7	6.5	6.5	6.6	0.1	0.1	0.1			
Capital taxes	D.91	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Social security contributions	D.61	15.3	16.0	15.9	15.7	15.5	15.9	15.7	15.5	0.0	0.0	0.0			
Property income	D.4R	0.6	0.5	0.6	0.6	0.5	0.6	0.6	0.5	0.0	0.0	0.0			
Other*		5.7	5.8	6.3	6.8	6.7	6.3	6.8	6.7	0.0	0.0	0.0			
<b>Total expenditure</b>	<b>TE</b>	<b>42.8</b>	<b>51.8</b>	<b>48.8</b>	<b>47.6</b>	<b>46.7</b>	<b>47.5</b>	<b>47.9</b>	<b>47.4</b>	<b>1.3</b>	<b>-0.4</b>	<b>-0.7</b>			
Employee compensations	D.1P	10.2	11.6	10.8	10.6	10.3	11.2	11.1	11.1	-0.3	-0.5	-0.8			
Intermediate consumption	P.2	5.6	7.9	7.8	6.7	7.2	6.7	6.9	7.3	1.1	-0.2	-0.1			
Subsidies	D.3P	1.0	1.4	1.5	1.5	1.4	1.5	1.6	1.4	0.0	0.0	0.0			
Interest expense	D.41P	1.2	1.1	1.0	1.0	1.1	1.0	1.0	1.1	0.0	0.0	0.0			
Total social transfers	D.6P.D632	18.6	22.4	21.1	20.7	20.1	20.8	20.4	19.8	0.3	0.3	0.3			
Of which: Unemployment benefits		0.2	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.0	0.0	0.0			
Gross fixed capital generation	P.51G	3.6	3.8	3.4	3.7	3.8	3.2	3.8	3.9	0.2	-0.1	-0.1			
Capital transfers	D.9P	0.4	0.9	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.0	0.0			
Other**		2.0	2.6	2.7	3.0	2.6	2.8	2.9	2.6	0.1	0.1	0.0			
<b>General government balance</b>	<b>B.9 (4)</b>	<b>-1.4</b>	<b>-9.7</b>	<b>-7.4</b>	<b>-6.2</b>	<b>-5.7</b>	<b>-6.0</b>	<b>-6.4</b>	<b>-6.4</b>	<b>-1.5</b>	<b>0.3</b>	<b>0.7</b>			
Unspecified GGB measures to achieve budget targets					0.8	5.7									

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

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

Source: MF SR



## IV.2. Description of measures

### Revenue measures

**Changes on the revenue side of the budget contribute 0.3% of GDP for 2021 to the deficit, with a gradual decrease in the late periods of the plan horizon.** Changes in the tax area also target a tax mix which promotes the competitiveness of the Slovak economy. The abolition of the bank levy with effect from 2020 reduces the share of sector taxes. A sound banking sector is at the same time an important factor in overcoming the recession and kick-starting the economic recovery. Measures concerning motor tax, also effective already in this year, respond to the sector's requirements and aim to improve its competitiveness. The gradual increase in excise duty rates for tobacco products dampens the fiscal stimulus at the end of the budget horizon and increases the proportion of taxation of negative externalities in the tax mix.

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

GG revenues	ESA2010	2020	2021	2022	2023
<b>Taxes on production</b>	<b>D.2</b>	<b>-0.20</b>	<b>-0.27</b>	<b>-0.20</b>	<b>-0.14</b>
Abolition of the bank levy		-0.17	-0.32	-0.33	-0.33
Reduced motor tax rate for freight transport		-0.03	-0.03	-0.03	-0.03
Increased excise duties on tobacco products			0.11	0.19	0.24
Adjustment of VAT tax base on goods or service delivery			-0.04	-0.04	-0.04
Abolition of VAT exemption for consignments from third countries up to EUR 22			0.01	0.02	0.02
<b>Income taxes</b>	<b>D.5</b>	<b>0.04</b>	<b>0.06</b>	<b>0.07</b>	<b>0.06</b>
Increased deductible fuel expenses			0.00	0.00	0.00
Increase in corporate income tax due to the abolition of bank levy		0.04	0.07	0.07	0.07
<b>Social contribution revenue</b>	<b>D.61</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Total non-tax revenue</b>	<b>P.11+P.12</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Higher customs duty revenue for Member States			0.00	0.00	0.00
<b>Grants and transfers</b>			<b>-0.01</b>	<b>-0.04</b>	<b>-0.03</b>
<b>Total revenue</b>		<b>-0.16</b>	<b>-0.22</b>	<b>-0.17</b>	<b>-0.10</b>

### Tax measures

**The abolition of the special levy for certain financial institutions (banks) will reduce state budget revenue by 0.25% of GDP in 2020.** The measure has been effective since the middle of 2020, which means that a half of the impact has already reflected in the general government's fiscal performance in this year. In return, banks made a commitment to invest annually half a billion euros in loans for state-run projects and one billion in loans to people and firms in excess of the current financing levels.

**In line with the Government's goal to increase the proportion of consumption taxation of negative externalities, excise duties on tobacco products will rise.** Increased excise rates on tobacco products are to be implemented gradually within a foreseeable tax schedule, in 2021, 2022 and 2023. The increase is intended to reflect prevailing trends in the neighbouring EU Member States' rate policies and to establish a reasonable balance between tax revenues and public health objectives. For 2021, the rate increase will mean that the price of a packet will rise by 40 cents in 2020 and then by 20 cents in 2022 and 2023. Tax on smokeless tobacco products will also increase every year.

**The change of motor tax rates targets improved competitiveness of the industry.** The current tax on a semi-trailer, which is above average at both regional and EU scales, will be reduced. More particularly, the tax rate reductions will apply to trailers, trucks and buses. The environmental principle, i.e. higher rates for older vehicles, remains in place. The measure has already been in effect for 2020.



**For value added tax, two changes are introduced: tax base adjustment for bad debts and abolition of VAT exemption for consignments up to EUR 22.** The tax base adjustment rules target cases of goods or service delivery when the supplier does not receive the payment or a part of it. The buyer who fails to pay its debt, or a part of it, will be obligated to correct the deducted tax and the difference will be returned to the supplier by the state. Further changes concern, in particular, mail order trading and imports of small consignments from third countries. The changes include the abolition of VAT exemption upon importation of consignments with a value of up to EUR 22 since this exemption increases costs and therefore lower competition ability for competitors established within EU compared to the ones outside the EU. Also, measures to avoid tax evasion and to streamline VAT collection are being implemented.

**Other minor tax measures include increasing own revenues in the collection of customs duties and a change in accounting for fuel expenses.** The upcoming financial framework assumes an increase in costs of customs duty collection from 20% to 25% for each Member State, which means a higher retained proportion of collected duties. The amendment of the Income Tax Act amendment allow 20% higher deduction of fuel expenses.

### Non-tax revenues, grants and transfers

**Because of non-tax revenues, there is no difference between the budget and the NPC scenario.** The economic decline of spring 2020 lead to a short-fall in non-tax revenues<sup>29</sup> and with the current methodology, this would cause NPC scenario undervaluation in subsequent years (because of the lower baseline values of 2020). Since economic recovery is supposed to bring an increase in non-tax revenues even without the Government's measures, the NPC scenario has been adjusted analytically to match the budget. Grants and transfers are marginally lower in the budget than the NPC scenario.

### Expenditure measures

**Budget expenditure in the next year increases by 1.5% of GDP compared to the NPC scenario, of which over 1% of GDP represents a reserve for adverse development of the pandemic.** The higher growth of expenditure above the NPC scenario was mainly due to reserves for possible long-term effects of the pandemic in the next year or new legislation and investments funded from the state budget. On the other side, the growth of expenditure is mitigated by saving measures, particularly reduction in expenditure on compensations in general government and intermediate consumption.

**TABLE 9 - Expenditure measures included in the draft general government budget (ESA 2010 vs. NPC)**

	ESA2010	2020	2021	2022	2023
<b>Compensations, of which:</b>	<b>D.1</b>		<b>-0.34</b>	<b>-0.51</b>	<b>-0.75</b>
Reduction in expenditure on compensations			-0.21	-0.26	-0.31
Gradual reduction in the number of policemen to the EU average			-0.01	-0.03	-0.04
Optimisation of the numbers of pedagogical and non-pedagogical staff of universities			-0.01	-0.04	-0.06
Higher compensations of the Central and Regional Public Health Offices' employees			0.03	0.03	0.02
<b>Intermediate consumption, of which:</b>	<b>P.2</b>		<b>1.08</b>	<b>-0.19</b>	<b>-0.11</b>
Reserve for impacts of the pandemic			1.09	0.00	0.00
Reserve for new legislative measures, of which:			0.12	0.11	0.11
Free bus transportation for children and pensioners			0.07	0.07	0.07
Reserve for co-financing of EU projects			0.11	0.11	0.10
Increase in funding for maintenance and repair of 1 <sup>st</sup> class roads			0.06	0.00	0.00
Reduction in expenditure on goods and services			-0.23	-0.26	-0.28
Optimisation of ZSSK's expenditure			-0.06	-0.05	-0.05
Audit of ZSR - reduction in expenditure on goods and services			-0.04	-0.05	-0.06

<sup>29</sup> The most affected categories include revenue from administrative charges, particularly for NDS, ZSR and ZSSK (e.g. toll revenue shortfall for NDS or lower transport volumes for ZSR).





<b>Subsidies, of which:</b>	<b>D.3p</b>	<b>0.09</b>	<b>0.09</b>	<b>0.08</b>
Support to regional schools, science and research		0.10	0.10	0.10
<b>Total social transfers, of which:</b>	<b>D.6P</b>	<b>0.32</b>	<b>0.33</b>	<b>0.29</b>
Adjustment of Christmas pension benefits	0.17	0.17	0.16	0.15
Freezing of the growth of minimum pensions		-0.06	-0.08	-0.10
Early retirement for persons who have raised children (born in 1957 or 1958)		0.11	0.14	0.09
Introduction of pregnancy benefit		0.04	0.06	0.06
Increased allowance for caregivers of disabled persons		0.03	0.03	0.03
Increased contributions for social services		0.02	0.02	0.02
Increased expenditure on substitute alimony benefit		0.02	0.02	0.02
Social transfers in kind, of which:	D.632	0.00	-0.01	0.02
Value-oriented measures (particularly higher expenditure on outpatient healthcare)		0.06	0.18	0.25
Other policies (abolition of co-payments for medicines for children, disabled persons and pensioners)		0.05	0.05	0.05
Implementation of saving measures from spending reviews		-0.11	-0.25	-0.28
<b>Other current transfers, of which:</b>	<b>D.7p</b>	<b>0.14</b>	<b>0.13</b>	<b>0.12</b>
Contribution to necessary operating expenses of selected healthcare providers		0.13	0.12	0.12
Allowance for education and upbringing of children in kindergartens		0.02	0.03	0.02
<b>Capital expenditure</b>		<b>0.24</b>	<b>-0.02</b>	<b>-0.10</b>
<b>Total expenditure</b>		<b>1.53</b>	<b>-0.17</b>	<b>-0.47</b>

Note: (+) expenditure increase and revenue decrease

**Growth of compensations is being slowed down against the NPC scenario over the whole horizon.** The consolidation of public finance will mainly be reflected through 10% reduction in expenditure on compensations for certain central government employees. The growth of expenditure on compensations will also slow down because of reducing numbers of non-pedagogical staff at universities. This effect will be further promoted by gradually reducing numbers of university teachers, while the remaining salaries will increase. Further, gradual reduction in the number of policemen is planned with a target at the EU average level. The present pandemic will cause an increase in expenditure on compensations of public health offices' employees. At the same time, the budget foresees a lower growth of salaries than in the private sector throughout the budget horizon also for some other general government entities, particularly for organisations partially funded from the state budget, local governments and ZSSK.

**Due to Reserves, intermediate consumption expenditure grows above the NPC scenario level in 2021, then the expenditure reduction will take the full effect.** For 2021, reserve is made in intermediate consumption for possible additional impacts of the pandemic or for effects of new legislation and additional expenditure on co-financing of EU projects. Additional allocations will also be made for funding the maintenance and repair of 1st class roads. In addition to a 10% reduction in expenditure in selected chapters of the state budget, the growth of expenditure will also be kept below the inflation growth rate for ZSSK, ZSR, public universities, the Radio and TV of the Slovakia (RTVS) and other organisations partially funded from the state budget.

**The growth of subsidies above the NPC scenario level is caused by an increased support to regional schools, science and research.** The subsidies are intended to promote the motivation of pedagogical personnel and to encourage an interest of future teachers in working at regional schools.

**Social benefits are slightly above the NPC scenario level because of new legislation adopted this year.** Expenditure on pension benefits will rise because of higher Christmas bonus for pensioners and adjustment of retirement age of insured persons who have raised children. The retirement age limit of such insured persons will be reduced proportionally to the number of children they have raised. The measure freezing the minimum pension growth will have the opposite effect. A new pregnancy benefit will be introduced from April 2021<sup>30</sup>. Also,

<sup>30</sup> Eligible women are working mothers and pregnant students in the last grade of secondary school and university students.



an amendment to the Act on disability compensation was adopted under which higher allowances will be provided to caregivers of disabled persons. The allowance amount is regularly increased to the level of the net minimum wage. Contributions for social services will also increase to cover higher wage expenses related to increase in minimum wage. Expenditure on substitute alimony benefit will rise because of elevation on the eligibility income threshold and of the maximum benefit amount.

**Social transfers in kind grow in line with the NPC scenario over the budget horizon.** This item will reflect increase in expenditure on medicines due to the abolition of co-payments for the disabled, children up to 6 years of age and pensioners with a lower income or benefit. Also, higher financing of outpatient care and of nurses' compensations will be provided in the upcoming periods. However, the priorities will at the same time be compensated by savings in other areas which were identified in healthcare spending reviews.

**Other current transfers are above the NPC scenario level over the entire budget horizon, particularly because of additional allocations to operating expenses of healthcare providers.** Moreover, allowance for education and upbringing of children in kindergartens will increase.

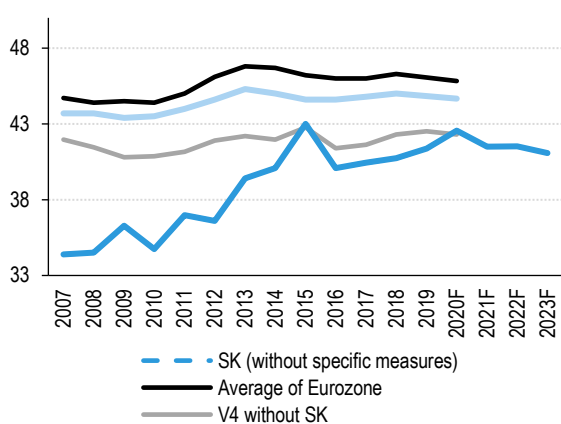
**Capital expenditure grow markedly above the NPC scenario level in 2021.** Additional allocations will be made mainly to selected investment projects of NDS, including certain sections of D1, D3 and R2 highways. On the contrary, the sale of redundant assets of ZSR will bring savings to the state budget. Furthermore, capital expenditures of ZSSK and municipalities will be reduced.

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

**Slovakia has for a long-term the lowest total general government revenue in proportion to GDP compared to V3 countries and to the average of the euro area.** Economic decline in 2020 was deeper than the shortfall in tax revenues, especially due to resilience of the labour market and household consumption. Therefore, the total revenue as a percentage of GDP has slightly increased this year (FIGURE 12). Even with the expected sharp economic recovery from 2021, including improving situation in the labour market and rising household consumption, tax revenue does not reach the levels of 2019 over the budget horizon (FIGURE 13). Accordingly, an shortfall in state budget revenue from corporate tax ranging between approx.15% and 25%, as compared to the pre-crisis period, will persist throughout the budget horizon as the expected growth of profits of the corporate sector will be curbed by the carry-forward losses reported in 2020.

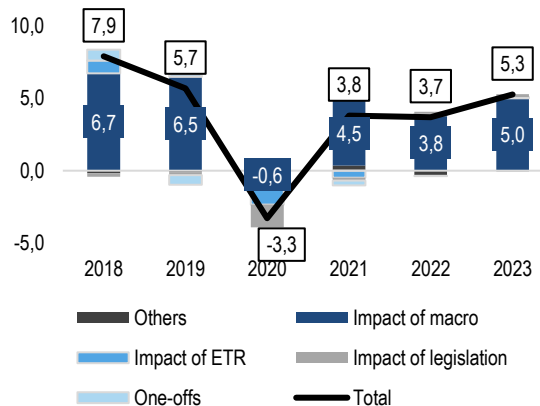
**Key changes in a tax system will target modification of the tax mix.** The burden of labour taxes as well as health and social contributions, have substantially increased in recent years (FIGURE 14) and hampered economic activity; alleviation is envisaged which will be compensated by taxation of wealth and consumption which is less harmful to economic growth.

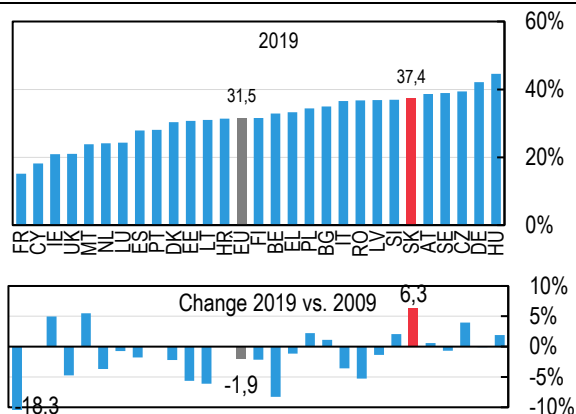
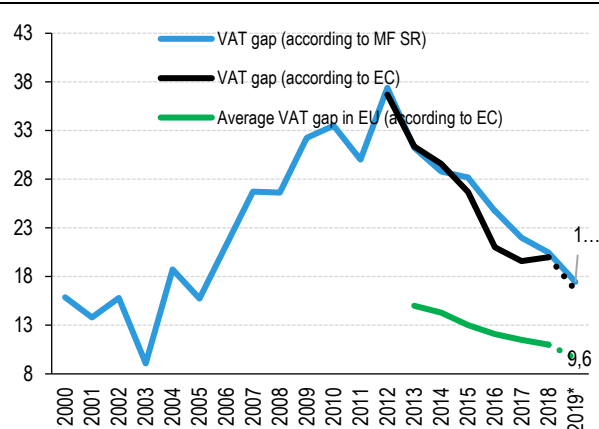
FIGURE 13 –General government revenues (% of GDP)



Source: Eurostat, TRFC, MF SR, AMECO

FIGURE 14 - Growth of taxes, health and social contributions (year-on-year)\*



**FIGURE 15 – Tax wedge of a low-paid employee, 2009 and 2019 (50% of average wage, % of labour cost)****FIGURE 16 - VAT gap (% of potential revenue)**

Source: EC, MF SR

**Measures adopted between 2012 and 2019 substantially improved VAT collection (FIGURE 15)**<sup>31</sup>. Measures to counter tax evasion have so far been focused primarily on VAT, which contributed to VAT gap reduction from 41.5% to 17.5% between 2012 and 2019. This positive trend is also confirmed in regular evaluations of Slovakia made by the Commission<sup>32</sup>. According to the Commission, the VAT gap dropped to 20% in 2018. The Commission's fast estimate for 2019 indicates reduction to even 16.6%, i.e. by more than half compared to the level of 2012. Despite this significant improvement, further efforts are needed to close the gap toward the EU average, which the Commission's fast estimate suggests to be around 10% for 2019. From a medium-term perspective, key to reducing tax (not only VAT) evasion will be organisational and process changes planned by the new management of the Financial Administration, which are based on recommendations of the International Monetary Fund within the framework of TADAT<sup>33</sup> project and other best practices derived from international experience.

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

**For a long time, Slovakia's ratio of total general government expenditure to GDP has been below the euro area average, but the pandemic has changed this.** Total expenditure as a percentage of GDP has approached the euro area average of 2015 when the spending of EU funds of the second programming period reached the peak. Since 2017, the ratio of expenditure to GDP was growing moderately with a significant increase in 2020 as a consequence of the coronavirus crisis. This increase is due to not only support measures adopted to manage the crisis, but also a strong drop in GDP. Nevertheless, intensified draw-down of the EU funds due to the approaching end of the current programming period and the lower GDP level persisting over extended period will keep the ratio of total expenditure way above pre-crisis level.

**Capital expenditure as a percentage of GDP remains stable over the budget horizon.** Compared to the other V4 countries, Slovakia lags behind mainly due to slow drawing of EU funds. After the peak of spending EU funds in 2015, the ratio of capital expenditure to GDP remained at a normalised level in subsequent years, in contrast to growth in the other V4 countries driven by the EU funds.

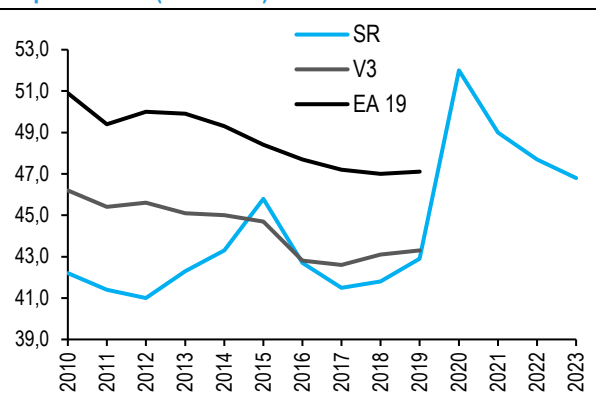
<sup>31</sup> Compared to previous versions of the document, a level-shift is observed in the tax gap reduction measured according to the MF SR's methodology. The main underlying reason is the benchmark revision of final consumption in national accounts which increased the proportion of consumption attributed to items not subject to VAT (e.g. imputed rent, FISIM).

<sup>32</sup> The Commission's methodology is published on this [website](#).

<sup>33</sup> More information about the assessment is available on the project [website](#). The TADAT assessment for Slovakia was prepared in June 2018.

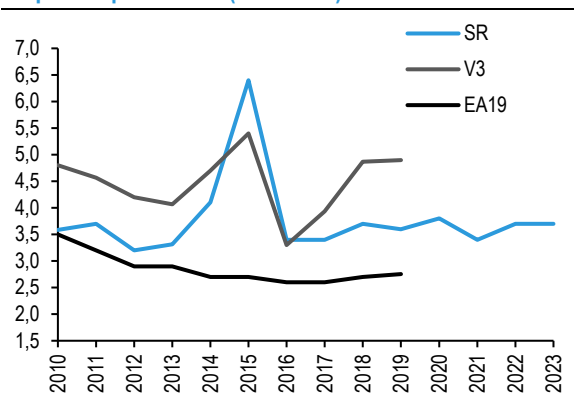


**FIGURE 17 – Development of the general government expenditure<sup>34</sup> (% of GDP)**



\* EA19 (euro area average), V3 (V4 without SR) Source: Eurostat, MF SR

**FIGURE 18 – Development of the general government capital expenditures (% of GDP)**



\* EA19 (euro area average), V3 (V4 without SR) Source: Eurostat, MF SR

The international comparison of the structure of expenditure by function against the other V4 countries shows that Slovakia spends less on education, recreation, culture and religion, general public services<sup>35</sup> and the economic area<sup>36</sup>. Expenditure on healthcare and on social security as a percentage of GDP is slightly higher than the average of the other V4 countries. Compared to the euro area average, the biggest lag is seen in social security expenditure. The main reason is a relatively lower expenditure on the elderly population and survivors as Slovakia is currently one of the youngest countries of the EU. Population ageing will drive growing expenditure in the future. For the education area, Slovakia spends markedly less on pre-primary, primary and secondary education.

The fall in GDP causes a significant increase in expenditure on most items of the functional expenditure classification. In 2021, the expenditure on general public services beyond the common trend represents a reserve on negative effects of the coronavirus pandemic. Also, a reserve for contributions to the general budget of the EU or for dealing with new legislation is included throughout the budgetary framework. A gradual growth of expenditure due to international commitments and related defence modernization is foreseen at the end of the budget horizon. Gradual recovery of GDP growth will outrun the growth of expenditure for a majority of items, and the ratio of expenditure relative to GDP will thus decrease or stabilise.

**TABLE 10 General government expenditure by function (COFOG)**

COFOG functions	Code	SR (2018)	DGGB SR (2021)	DGGB SR (2022)	DGGB SR (2023)	V3 (2018)	EA 19 (2018)
		% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. General public services	1	5.0	8.6	7.7	7.4	5.7	6.1
2. Defence	2	1.0	1.1	1.3	1.8	1.1	1.2
3. Public order and safety	3	2.2	2.4	2.3	2.2	2.1	1.7
4. Economic affairs	4	5.5	4.8	4.9	4.8	6.2	4.3
5. Environmental protection	5	0.8	0.8	0.8	0.8	0.6	0.8
6. Housing and community amenities	6	0.5	0.4	0.4	0.4	0.7	0.6
7. Health <sup>37</sup>	7	7.3	8.4	8.2	8.0	5.7	7.1
8. Recreation, culture and religion	8	1.1	1.2	1.2	1.2	2.0	1.1
9. Education	9	4.0	4.8	4.7	4.5	4.9	4.5
10. Social protection	10	14.3	16.5	16.2	15.8	13.8	19.6
<b>Total expenditure</b>	<b>TE</b>	<b>41.8</b>	<b>49.0</b>	<b>47.7</b>	<b>46.8</b>	<b>43.0</b>	<b>47.0</b>

Note: DGGB – Draft General Government Budget Source: MF SR, Eurostat

<sup>34</sup> Note: The expenditure recording methodology based on classification by function may vary between countries. This may cause differences in data included in an item in different countries (e.g. taxable and non-taxable income). Also, COFOG (Classification of Function of Government) does not consider expenditure made via the tax system (e.g. tax credits on children).

<sup>35</sup> The highest expenditure items include executive and legislative bodies, financial and budgetary affairs and international relations.

<sup>36</sup> The highest expenditure items are transport, fuels and energy.

<sup>37</sup> The public expenditure on health of 7.3% of GDP for 2018 is reported on the basis of the COFOG and ESA 2010 methodologies. Health expenditure for 2018 estimated with the application of the SHA (System of Health Accounts) methodology and OECD data is 5.4% of GDP. Public hospital expenditure is included twice under the COFOG and ESA 2010 approaches.

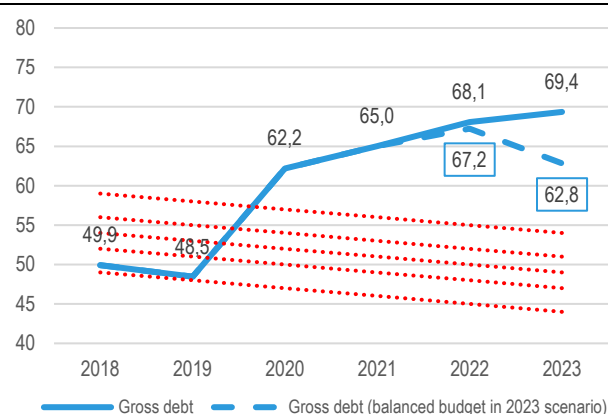
## V. General government debt and long-term sustainability of public finance

The adverse economic situation caused by the pandemic will lead to an unprecedented rise of the general government debt over 60% of GDP. Long-term sustainability risks will also reach the highest levels ever. No-policy change scenario expects debt rise in upcoming years to nearly 70% of GDP in 2023. To stabilize debt growth, it will be necessary to reduce the nominal deficit to around 3% of GDP. Utilisation of the EU funds from the Recovery and Resilience Facility may help to stabilise the debt, but only temporarily. However, without consolidation measures, debt would return to a growth trajectory from 2024. A substantial decrease of the general government deficit is crucial also in the context of rapid worsening of long-term sustainability. Necessary reform of the pension system would not be sufficient without a doable consolidation within the budget horizon. To push the risk down to a medium level a gradual consolidation supported by further structural reforms will have to be achieved beyond the budget horizon.

### V.1. Debt development in 2019

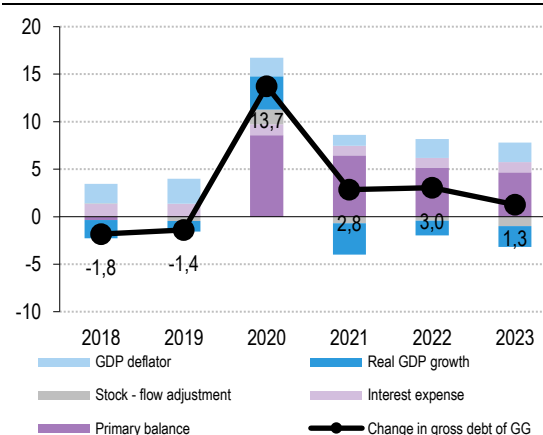
According to preliminary results general government gross debt reached 48.5% of GDP in 2019<sup>38</sup>. Comparing to the Eurostat spring notification a negative revision of 0.5 p.p.<sup>39</sup> will be recorded. As a result of this change gross debt will remain within the lowest threshold of debt brake rule. Ministry of Finance will be need to present a reasoning of debt level and introduce corrective measures to the National Council of the Slovak Republic as a consequence.

FIGURE 19 – General government gross debt forecast (% of GDP)



Note: The graph shows the three upper "debt brake" sanction bands

FIGURE 20 – Contributions to gross debt (% of GDP)



Source: MF SR

### V.2. Debt forecast

Ministry of Finance forecasts gross debt growth toward a historical level of 62.2% of GDP at the end of 2020 while exceeding the highest debt brake threshold<sup>40</sup>. The year-on-year increase of 13.7 p.p. reflects mainly the marked worsening of the deficit (Chapter 3) and the denominator effect of economic decline due to COVID-19. The rise in the gross debt in 2020 is also attributable to the foreseen increase in the state's liquid assets due to stock-piling to buffer against a worsened course of the pandemic.

<sup>38</sup> Based on preliminary autumn notification data sent to Eurostat. The time series of expected GDP levels for the years 2020 to 2023 was computed by chain-linking nominal year-to-year growth rates taken from the most recent forecast of the Macroeconomic Forecasting Committee. These assumption are also applied to other indicators.

<sup>39</sup> Compared to the spring notification, an adjustment was made in data related to the recognition of the negative debt effects of "green energy" in an amount of 0.3 p.p. Further, nominal GDP was revised downwards, which amounts to a 0.2 p.p. increase in the debt.

<sup>40</sup> The Constitutional Act sets the highest sanction band to 57% of GDP for 2020.



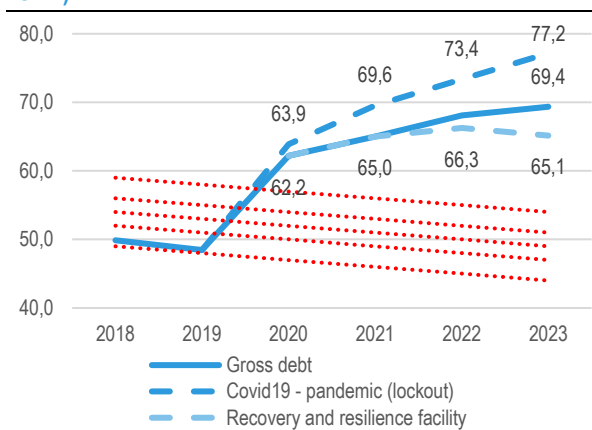
**General government gross debt will continue to rise over the forecast horizon<sup>41</sup> and approach 70% of GDP in 2023 without adopting consolidation measures in 2022 and 2023.** This debt forecast considers the expected deficit of 9.7% of GDP in 2020, the target deficit of 7.4% of GDP in 2021, and a forecast deficit of 6.2% and 5.7% of GDP for 2022 and 2023, respectively, corresponding to a no-policy change situation. In 2021, the debt will rise to 65% of GDP, which reflects mainly the primary deficit of above 6% of GDP. The accelerating real growth of the economy (of 3.7% on average over the 2021- 2023 horizon) and inflation at around the ECB target will slow down the growth of the deficit<sup>42</sup>. Without additional saving measures, however the debt will not stabilise and may reach 70% of GDP by the end of 2023 (FIGURE 20). Stopping this rise requires reducing the deficit to approx. 3% of GDP (FIGURE 21).

**Following the Constitutional Act's requirement of balanced budget in 2023 debt would decrease to 63%.** The application of the 24-month escape clause to the new Government will end in 2022 and then, the debt brake will impose the highest penalties. With the forecast debt of more than 60% of GDP,<sup>43</sup> the requirements of the highest sanction threshold will be applied by proposing a balanced draft budget for 2023<sup>44</sup>. For the sake of transparency, the forecast indicates how the debt would develop if a balanced budget was achieved. Such a scenario is, however, neither feasible, nor desirable (Figure 18 – dashed line).

### Development of the gross debt in alternative macroeconomic scenarios

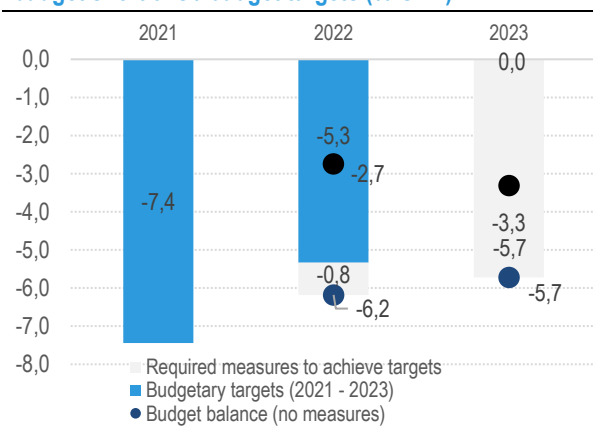
**Alternative scenarios do not expect debt to decrease below 60% of GDP by 2023.** If the second pandemic wave worsens<sup>45</sup>, the deficit will remain at a level above 7% of GDP also in 2023. In this scenario, without consolidation measures, the debt would exceed 75% of GDP by 2023. The second alternative scenario considers a temporary fiscal stimulus brought by the draw-down of funding from the Recovery and Resilience Facility, which accelerates the economic growth and increases budget revenue. But without sufficient consolidation measures, the deficit would still remain above 3% of GDP in the next years and, accordingly, the debt would continue to rise.

FIGURE 21 – Alternative debt forecast scenarios (% of GDP)



Source: MF SR

FIGURE 22 – Debt-stabilising balance compared to budget shortfalls / budget targets (% GDP)



Source: MF SR

<sup>41</sup> While the debt will exceed the sanction bands, triggering the 24-month escape clause will prevent the application of sanction measures of the 3rd to 5th debt brake bands until 2022.

<sup>42</sup> The Central European Bank targets an annual inflation, measured by the harmonised index of consumer prices (HICP), lower than, but close to, 2% over a medium term.

<sup>43</sup> The fourth sanction band will start at 51% of GDP in 2023.

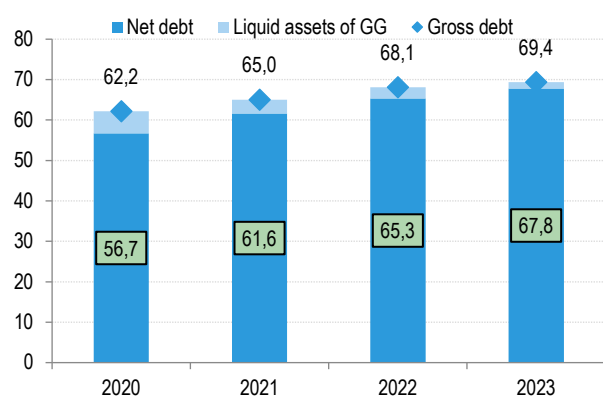
<sup>44</sup> In addition to that, the application of the sanction bands will also require freezing state budget expenditure of the current year, ensuring non-increasing general government expenditure in 2023 and a vote of confidence in the Government.

<sup>45</sup> In case of worsened epidemiological situation during the second coronavirus outbreak wave.

### V.3. Net debt

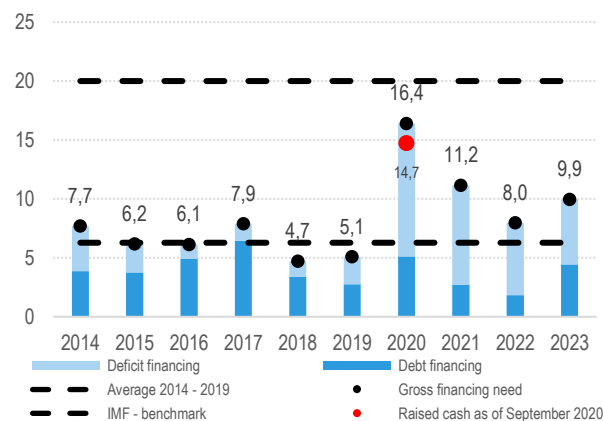
**Amendment of the Constitutional Act will evaluate net debt instead of gross debt.** The current forecast indicates that without additional consolidation measures, liquid financial assets would drop in 2022 and 2023 and this would cause an additional increase in the debt above the current forecast level. In contrast, the net debt growth dynamics will be moderated in 2020 by a temporary increase in financial assets<sup>46</sup>. The envisaged liquidity requirement in the current year, based on the need to finance the deficit and refinance the debt, is above 16% of GDP (FIGURE 23). The net debt will thus reach 56.7% of GDP. By 2023, the difference between net and gross debt will decrease to 1.4% of GDP, this as a result of the use of cash to fund deficits.

FIGURE 23 – Net debt (% of GDP)



Source: MF SR

FIGURE 24 – Financing needs (% of GDP)<sup>47</sup>



Source: MF SR

### V.4. Long-term sustainability

**The most recent estimate of S1 and S2 indicators<sup>48</sup> signals worsening in long-term sustainability of public finance towards a high risk.** The impact of the pandemic, materialisation of the budgetary risks and ageing projection update (prepared for AWG 2021) have shifted the risk sustainability indicators to the historically highest values (FIGURE 24 and 25). Both indicators exceeded the high risk levels, at 7.6 p.p. (S1) and 12.2 p.p. (S2). For comparison, following the Global financial crisis, which also adversely affected sustainability indicators, S1 reached 5.7 p.p. and S2 7.4 p.p..<sup>49</sup> S1 represents the value by which the current primary structural balance needs to change permanently in order for the general public gross debt to not exceed 60% of GDP by 2034. S2 represents the value by which the current primary structural balance needs to change permanently in order to retain the debt at its current level<sup>50</sup>.

**Major factors in the worsening of sustainability were the development of the primary structural balance and the increase of the debt to above 60% of GDP.** Another negative factor was the incorporation of the upcoming long-term forecast update of age-related expenditure items (AWG)<sup>51</sup>. The new projections assume an additional increase in expenditure sensitive to population ageing, which is due to more adverse demographic developments. The incorporation of current legislative changes to the pension system has an approximately

<sup>46</sup> The forecast of liquid financial assets expects a year-on-year increase of 0.5% GDP due to cumulative growth of liquid assets of general government entities and the State Financial Assets in form of funds for the bank guarantee schemes.

<sup>47</sup> IMF uses so-called benchmark values to analyse debt sustainability risks in connection with debt financing needs in proportion to GDP. The benchmarks are 20% of GDP for developed economies and 18% of GDP for developing economies.

<sup>48</sup> Public finance sustainability risks reflect not only the current fiscal position, but also risks ensuing from the current policy set-up in the context of effects of population ageing. The combined effects of these elements should ensure that with the current state of the primary balance of revenue of expenditure, the debt will not grow in an uncontrolled manner in the future, taking regard the expected growth of expenditure driven by the ageing of population (mainly pensions, healthcare and long-term care).

<sup>49</sup> The S1 and S2 indicators have risen from the pre-crisis levels of 2.3 p.p. and 4.0 p.p., respectively. To reduce them, not only consolidation measures, but also pension system re-design measures will need to be implemented in the future.

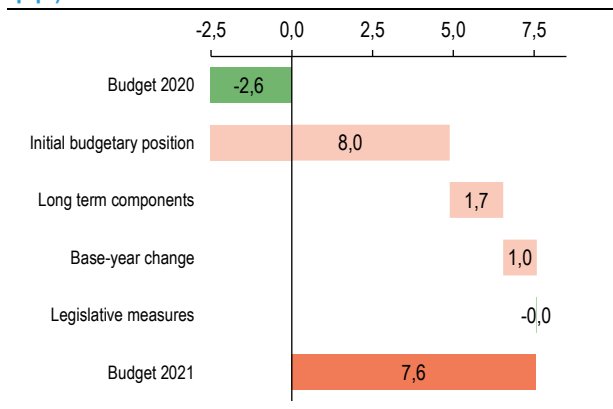
<sup>50</sup> In contrast to S1, S2 reflects population ageing projections over infinite horizon. In its quantifications of this indicator, the MF SR takes account of both revenue and expenditure effects of the second pillar.

<sup>51</sup> Based on the upcoming "The 2021 Ageing Report", which has not yet been approved by the Working Group (this is expected in May 2021). The data are the MF SR's preliminary estimate.



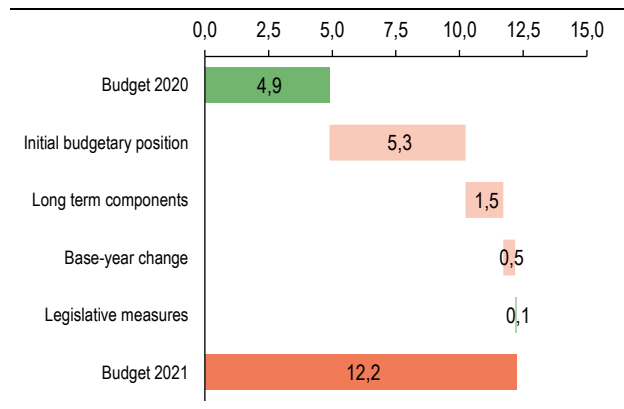
neutral effect on the sustainability indicators. Modification of the 13th pensions adopted earlier this year, will positively contribute to sustainability. The decrease of retirement age for mothers will, in turn, have a moderately negative effect. Recently adopted freezing of minimum pensions does not have an effect of improving S1 and S2 since, according to the AWG methodology such freezing may not be sustained for extended periods.

**FIGURE 25 – Medium-term sustainability indicator (S1, p.p.)**



Source: MF SR

**FIGURE 26 – Long-term sustainability indicator (S2, p.p.)**



Source: MF SR





## VI. Linking the budgetary plan to the objectives of the Growth and Employment Strategy and the EU Council's Country-Specific Recommendations for Slovakia

*The economic stabilisation phase should be followed by structural reforms. For fiscal reforms, the key is to ensure long-term sustainability of public finance. Long-term sustainability of the pension system will be fostered by a stronger link to the demographic development in the first pillar and increased returns in the second pillar. Efforts towards enhanced quality of public finance should be supported by an improved investment planning and budgeting process and a greater focus on a pro-growth tax mix. Budgetary discipline is to be supported by the implementation of multi-year binding expenditure caps and an investment management reform. The Constitutional Act amendment intended to promote long-term sustainability of public finance, the counter-cyclical nature of budget policy and transparency of the budgeting process, has been already in the legislative process. Education, labour market and quality of public institutions remain the key priority for structural reforms. In the education area, a key objective is making the teachers' profession more attractive and improving the inclusion of children in the education process. For science and research, measures will target an improved standard of the tertiary-level education system and a consolidated and coordinated support for the single eco-system concept. Alike previous years, employment of disadvantaged groups, in particular people from marginalised Roma communities, remains a challenge for the labour market.*

**The National Integrated Reform Plan for Modern and Successful Slovakia was introduced in October 2020 which offers a menu for the prioritisation of reforms to respond to the EU Council's Country-Specific Recommendations.** Based on this document, the Recovery Plan will be prepared for publishing no later than April 2021. Efforts to counter the crisis started by the COVID-19 pandemic remain a top priority for the next period. The National Reform Programme focuses on a long-term process of preparation of structural reforms the necessity of which has become even more pronounced with the pandemic. The following Chapter describes the measures by which the Slovak Republic reacts to the EU Council's Country-Specific Recommendations for Slovakia, also taking regard of the Manifesto of the Government of the Slovak Republic for 2020 to 2024. The comprehensive approach to prioritisation, which also considers other aspects of the quality of life in addition to GDP, takes education, labour market and allocation efficiency based on effective public administration for the major structural challenges for the Slovak economy.

### VI.1. Priorities for the sustainability of pensions and fiscal policy

**In order to improve the sustainability and stability of the pension system, a Constitutional Act will be adopted to define the fundamental elements of the first and second pillars.** The most recent projection suggests that as a consequence of population ageing, expenditure on pensions will grow from 8.4% of GDP of 2019 to 14.9% of GDP in 2070. In accordance with the Government's Manifesto, pension expenditure will be linked to the demographic development. Return to the former system with retirement age linked to life expectancy without a retirement age ceiling would reduce expected expenditure by 2.5% of GDP in 2070. Improvement of long-term sustainability would also be supported by a reduced growth of minimum pension, which has grown faster than other types of pension. Automatic entry into the second pillar will be instituted for insured persons below 35 years of age and the minimum contribution rate for the second pillar will be established. Distribution of comprehensive information on pension entitlements from each of the three pillars will promote the insured persons' awareness as well as transparency of the pension system. The main problem with the second pillar is non-efficient distribution of savers' assets which curtails their returns. The key priority for the second pillar is the introduction of an investment strategy and use of reference indices and modification of the pay-out stage.

**For the tax system, emphasis will be on its pro-growth nature.** Slovakia still largely relies on taxes that hinder economic activity. Conversely, wealth and consumption taxes, which are less harmful to economic growth, are used to a relatively lesser extent. The Government's priority will, therefore, be a pro-growth tax mix which, with the increasing effects of digitalisation and automation, will help to fund future budgets, while at the same time boosting Slovakia's economic growth potential. The tax system reform goes hand-in-hand with strengthened tax collection, including via reducing the VAT gap ([refer to section IV.3 in the Chapter on revenue measures](#)). In addition, more efficient processes of the Financial Administration, based on international best practices, and



continued digitalisation will improve tax discipline. As a counterpart to the value-of-money revenue-side concept, comprehensive reviews of existing tax expenditure and evaluations of their benefits will support these efforts.

**An improvement in investment preparation and budgeting processes will reduce the difference in social returns on projects between Slovakia and foreign countries.** Starting from 2021, the preparation of investment projects will be based on investment plans than are supported by analysis and prioritised. Ministries, working together with the MF SR Investment Authority, will prepare a methodology for the prioritisation of investment projects and a list of prioritised investments. The draft capital expenditure plan for 2021 - 2023 has been prepared according to “zero-based budgeting” principle. Chapters submit prioritised capital expenditure requirements as inputs for the preparation of a draft budget. Investments and projects of an investment nature exceeding EUR 1 million are subject to economic assessment by the MF SR and their inclusion in the draft budget is subject to consideration of budget funding possibilities, their state of preparedness and economic return.

## VI.2. Reviews and saving measures

**In 2020, the Government approved spending reviews of defence, culture, IT and the public wage bill with a total annual saving potential of EUR 1.1billion (1.2 of GDP).** In addition to reviewing investment spending, which is primarily focused on return, reviews are intended to also examine other areas of expenditure and evoke a push on efficiency. Savings of EUR 1.5 billion (1.7% of GDP) could be available for reallocation to measures that bring a higher value to citizens. As much as EUR 765 million could be saved on **employee compensations**, particularly through concentrating local governments into bigger units. Funds saved could suitably be used for better remuneration of professions with internationally low wages, including those in the school system and social services (EUR 1.2 billion in total). Optimisation of personnel expenditure in **defence** could bring an annual saving of EUR 191 million, and this particularly through not increasing professional soldiers’ salaries until they are at par with the reference group’s wage level. A reduction in personnel expenditure on soldiers in proportion to total expenditure will be the key enabler of defence investments and modernisation. As regards **informatisation**, Slovakia’s performance has improved, but the digitalisation of general governments has still not achieved its full potential. IT expenditure could be reduced by EUR 48 to 95 million in a medium term, without affecting the quality of supported services. The **culture** spending review identified a potential for annual savings in an amount of EUR 19 million, which could be realised through reducing expenditure on software and hardware maintenance of digitalisation units (EUR 8 million), increasing own income of organisations of the Ministry of Culture (EUR 7 million) and improving the efficiency of collection of payments for public services. The review of spending on **marginalised groups** proposed social inclusion improvement measures in the total amount of EUR 263 million, 66% of which should be allocated to pre-primary care and education. Value-oriented measures could be supported by reallocation of EUR 14 million, mainly through reducing the proportion of pupils from marginalised Roma communities (MRC) with minor mental disorders and abolishing zero grade classes at primary schools.

**TABLE 11 - Potential of measures from spending reviews approved in 2020, in EUR million**

Review	Savings	Value
Employment and compensations	765	1,243
Defence	191	
IT	95	
Culture	19	25
Marginalised groups	14	263
<b>Total</b>	<b>1,084</b>	<b>1,531</b>

Source: VfMD

**Implemented measures from the spending review of employee compensations will improve value for money throughout the budget horizon.** The highest contributor to saving will be decrease in spending on remuneration of officials in state budget chapters. Another saving will result from gradual reduction in the number of policemen to the EU average. Optimisation of the number of pedagogic and non-pedagogic staff numbers at universities should translate in the future into higher salaries of university teachers who are paid low in comparison to counterparts abroad.



TABLE 12 - Saving measures incorporated in the budget for 2021 - 2023, in EUR million

	2021	2022	2023
10% reduction in expenditure on remuneration of officials	199	256	329
Gradual reduction in the number of policemen to the EU average	14	29	45
Reduction in the number, and pay increase of, university teachers	8	21	35
Optimisation of the number of non-pedagogical university staff	6	16	29
<b>Total</b>	<b>227</b>	<b>322</b>	<b>438</b>

Source: MF SR

As regards the structure of public expenditure, fewer resources are allocated to education (primary schools in particular), health and labour market. In 2021, the MF SR will present a proposal for the reallocation of expenditure between sectors. A modern structure of expenditure, following models set by the most developed countries, will be achieved through trans-sector identification of priorities, based on the prioritisation outlined in the National Reform Programme, and of value-for-money measures proposed by spending reviews.

**Allocations for necessary funding and equipment of Ministries' analytical units are made in the budget for 2021 - 2023.** The existence of an analytical unit is a minimum pre-requisite for better prepared decisions of a general government institution. Research units will cooperate in the preparation of investment plans and sector-specific methodologies for the prioritisation of investments. While the State's analytical capacities have markedly improved in the last four years, they still require substantial building efforts. The ability to attract and retain highly skilled staff will be supported by remuneration levels comparable to the private sector. The key is a high quality of research units, reinforced through fulfilment of criteria, a credible work plan and mutual networking and supervision.

### VI.3. Priorities to improve fiscal discipline

**The low binding force of Slovakia's medium-term budget framework fails to create sufficient motivation to the application of a counter-cyclical fiscal policy and consideration of objectives relevant to the long-term sustainability of public finance.** To improve fiscal discipline, it is necessary to reinforce the framework of national rules, including implementing multi-year expenditure ceilings. In addition, incorporation of spending review measures into the budget would support the introduction of expenditure ceilings and pilot scenarios for all Ministries would be included in the future budget.

**The amendment to the Constitutional Act on budget responsibility promotes long-term sustainability of public finance, a counter-cyclical nature of budget policy and transparency of the budgeting process.** Main changes include implementation of expenditure limits, change of sanction bands, extension of the escape clause and adjustment of sanctions, transition from indicators based on general government gross debt to a net-debt basis,<sup>52</sup> new tasks of the Council for Budget Responsibility (CBR) and extension of the scopes of reference of the Macroeconomic and Tax Revenue Forecasts Committees. The Act was prepared by an expert team of economists; adoption by the Parliament requires a broader political consensus and approval by a constitutional majority of votes. A detailed overview of the draft changes is provided in **BOX 5**. In addition, the amendment to the Constitutional Act on budgetary rules<sup>53</sup> also provides for other changes, such as the obligation to use Tax Revenue Forecasts Committee's forecast in budgeting. Further, general government budget will have to consider only tax and social contribution revenues that were included in official forecasts. Also, rules for budgetary provisioning have been modified to support clarity of the purpose of their use.

#### BOX 5 – Legislative amendment to the Constitutional Act on budgetary responsibility

##### Expenditure limits

**Binding general government expenditure limits set for a four-year parliamentary term will become the core operational instrument to achieve long-term sustainability of public finance and a counter-cyclical fiscal policy<sup>54</sup>.** Expenditure limits will be calculated on the basis of

<sup>52</sup> The aim is to enhance flexibility in debt management, including in particular the possibility to temporarily increase a cash reserve in case of favourable market conditions.

<sup>53</sup> The amendment to the Act on budgetary rules is on the current agenda of the National Council.  
<https://www.nrsr.sk/web/Default.aspx?sid=zakony/zakon&MasterID=7964>

<sup>54</sup> Its implementation was already foreseen in the former Constitutional Act on budget responsibility of 2011, but it will take effect only with the present amendment to the Constitutional Act.



Government's planned structural balances linked to the long-term sustainability objective. No later than sixty days of the approval of the new Government's Manifesto, the Government must present the planned structural balance value for each of the next four years of its term of office. The structural balance must support an improvement of the long-term sustainability indicator (GAP) by at least 0.5% of GDP at medium-level risk to long-term sustainability of public finance and at least 1% of GDP at high sustainability risk. General government expenditure limits will not extend to expenditure driven by economic cycle and one-off expenditure (structural balance), expenditure on general government debt service, local governments' expenditures and expenditure related to the European Union (**DIAGRAM 1**). Fixed limits that do not react to additional fluctuations in revenue will ensure a more counter-cyclical approach towards achieving long-term sustainability.

### DIAGRAM 1 – Calculation of the general government expenditure limit

#### Expenditure limit

$$= \text{structural balance} - \text{debt service} - \text{payment to EU budget} - \text{expenditure on co-financing joint EU programmess} + \text{local government budget balance} + \text{estimated tax and non-tax revenue} + \text{provision}$$

The binding force of the limit will be anchored in legislation and supported by supervision by the CBR and the automatic correction mechanism. The **four-year general government expenditure limit** will be approved by the National Council of the Slovak Republic in form of a law. Once approved, any measures with an impact on expenditure will have to be pre presented to the National Council along with compensation measures. Compliance with the **general government expenditure limit** for the prior year will be reviewed by the CBR as of 30 January of a year (or at the MoF of the SR's request). Application of the correction mechanism in case on non-compliance with the prior year's limit will be considered in updates.

For the present parliamentary period (2020 - 2024), **general government expenditure limits will be set for the years 2023 and 2024**. The CBR will publish a regular report on the long-term sustainability of public finance in 2022. Then, no later than 30 June 2022, the Government will submit to the National Council for approval the draft planned structural balance of general government for the years 2023 and 2024, which must support the requirement for improvement of the long-term sustainability (GAP) in line with the risk level determined by the CBR.

#### Debt brake

The modification of sanction bands and individual sanctions aims to credibly anchor reduction of the present high debt at the safe net debt limit of 40% of GDP<sup>55</sup>. The shift to the net-debt basis, which target more flexible management of the state's liquidity and reserves, leads to adjustment of the sanction bands. There will be four instead of five sanction bands with thresholds of 40%, 45%, 50% and 55% of GDP (**DIAGRAM 2, FIGURE 26**). Sanctions corresponding to the first two bands will be tightened by determining the required year-on-year adjustment of the structural balance (0.5% or 1% of GDP, as applicable) and the Government's consolidation plan will also be subject to assessment by the Council for Budget Responsibility (CBR). Moreover, the third band will require presentation of a balanced or surplus budget providing for sustainability risks. The highest, fourth band still remains a trigger of a vote of confidence in the Government.

### DIAGRAM 2 – New sanctions effective from 2021

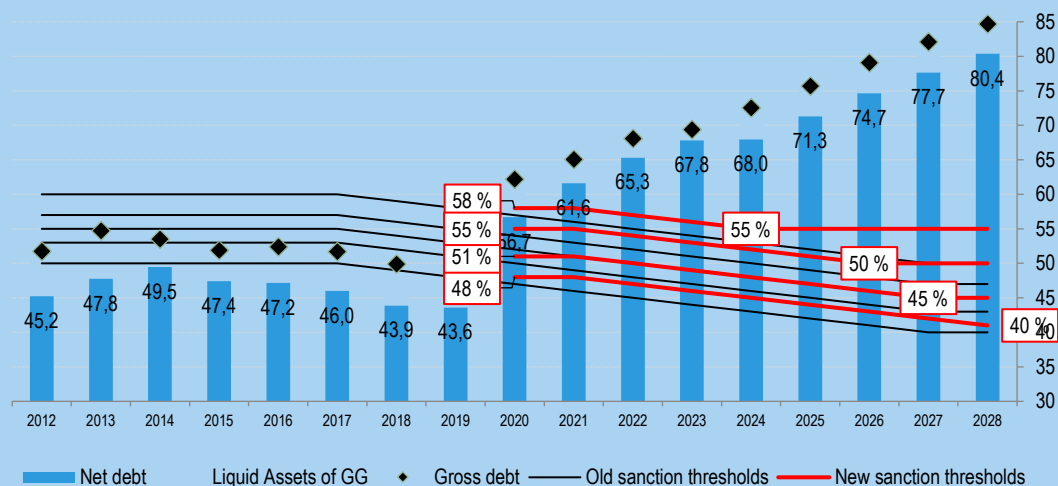
40 % GDP and higher	45 % GDP and higher	50 % GDP and higher	55 % GDP and higher	(6) vote of debt reduction measures in parliament along with vote of confidence in the Government
				(5) municipalities and others are obliged to approve a balanced or surplus budget for the following year
				(4) the Government submits structurally balanced draft of the general government or with structural surplus
				(3) not possible to disburse financial funds from reserves of the prime minister and the Government
				(2) draft of the general government budget with structural balance reduction at least +1 % of GDP (for 2nd to 4th band)
				(2) draft of the general government budget with structural balance reduction at least +0,5 % of GDP (only for first band)
				(1) MoF of the SR sending reasoning letter to parliament including reduction measures + CBR statement

<sup>55</sup> Múčka and Ódor, 2017.



Starting from 2021, the debt brake bands for net debt will gradually decrease to reach the eventual level of 40 - 55% of GDP in 2028 (FIGURE 26). The annual lowering of the net debt bands by one percentage point will be stopped if the escape clause is triggered.

**FIGURE 27 - Former and new debt brake bands compared to the no-policy-change scenario after 2023 (% of GDP)**



Source: MF SR

A proposal has been made that the escape clauses should be modified to avoid an undesirable pro-cyclical fiscal policy<sup>56</sup>. Starting from 2021, sanctions will be deactivated temporarily if the economy declines year-on-year by at least three percentage points, or the Government is made to make extraordinary expenditure in an amount of at least 2% of GDP to cope with unforeseen events, or the EU methodology changes (the third and fourth bands only) or if extraordinary circumstance arise, and this subject to presentation of a proposal to the Parliament by the CBR with unanimous approval by all its members. In such case, the National Council may temporarily extend the escape clause at the CBR's proposal by no more than three years and only for the third and fourth sanction bands. The purpose of such extension of escape clauses is to avoid a non-credible and pro-cyclical fiscal policy if the primary economic shock has far-reaching consequences. The amendment at the same time retains the initial two-year escape clause trigger option (for the third and fourth bands only), starting from the approval of the Government's Manifesto and expression of confidence in the Government after Parliamentary election.

### Reinforcing the empowerment of the Council for Budget Responsibility and the Macroeconomic Forecasting Committee and Tax Revenue Forecasts Committee

The empowerment of the CBR and the Committees will be reinforced in order to enhance budgeting transparency and separate political work and experts' analytical work. In particular, the CBR's powers will be strengthened with the aim of promoting its independence, and this from the initial stage of appointment of its members. The upcoming legislative amendment also supposes the CBR to submit an array of reports to Government and Parliament sessions in order to enhance public debate and political decisions concerning fiscal policy<sup>57</sup>. The Committees will also be able to estimate non-tax revenues and selected expenditure items tied to the economic cycle (in particular social benefits).

<sup>56</sup> Credible fiscal rules also allow for certain discretion in case of unforeseen events, which is referred to as escape clause. When triggered, it deactivates sanctioning mechanisms for some time.

<sup>57</sup> Besides present-time reports on sustainability of general government finance and assessment of compliance with budget responsibility rules presented now, opinions on draft general government budgets and regular reports on sustainability of the pension system and social system financing or fiscal risks.



#### VI.4. Priorities in structural policies

**An important weakness of Slovakia's education system is an insufficient quality of education and poor inclusion from the pre-primary stage, mainly of marginalised communities.** As a necessary pre-requisite for enhancing the quality and motivation of teachers, their social status must be improved and salaries increased in a leap; also, high-quality training at faculties of pedagogy, continuous learning, methodological support and mentoring are required. To promote inclusion, access to early care and pre-primary education will be supported and inclusive education support teams reinforced. The immediate priority is implementation of mandatory pre-primary education from five years of age with effect from September 2021. A higher quality of university education and research activity will be supported by a reform of university governance and financing, including new accreditation standards. Life-long learning culture will be promoted through a system of individual learning accounts. An inter-ministerial strategy for adult learning will be prepared, which will outline further support mechanisms.

**Compared to foreign countries, only a small amount of Slovak businesses engage in innovation and the quality of research is generally low and poorly funded. More intensive cooperation between the public and private sector is lacking.** Government support for private research and development efforts is at start only, taking form mainly of the so-called super-deduction of R&D expenses and patent box. If Slovakia is to become an attractive destination for corporate research and development and spawn innovation, it needs to spend on high-quality research at universities and in other research institutions. Besides addressing the fragmentation of research capacities, consolidation and coordination of support agencies and instruments under a single umbrella organisation and into a single eco-system are desirable. The inevitable increase in public resources for research and development will be distributed through a well-functioning support eco-system and it is supposed to drive closer cooperation between universities and the private sector and focus on attracting start-ups and researches from abroad. The priority for Slovakia is to reverse the brain-drain trend and attract highly skilled workforce.

**Employment of disadvantaged groups remains a long-persisting challenge to the labour market.** After years of positive developments in the labour market, the coronavirus pandemic may even deepen this problem. To mitigate this risk, promotion of the integration of long-term unemployed in the labour market, including individualised and specialised client services, will be supported. The Roma Integration Strategy will be prepared by the end of 2021. It will include relevant action plans detailed to the level of measures and schedules and, most importantly, financial allocations and ministerial responsibility.

**Slovakia has poor results in corruption perceptions, with prevailing distrust in judiciary, prosecution service and policy.** Enforceability of law and judicial ethics are prerequisites for confidence in judiciary. The length of court proceedings is an essential factor in the efficiency of the judicial system. The court map reform will be one of instruments to achieve an efficient judicial system and break the corruption links existing in the judiciary. It will also provide a room for judges' specialisation in the key agendas aiming to improve the effectiveness of the judicial system. The reform of the Judicial Council and the Constitutional Court (members and checks of their economic situation; set-up of the Supreme Administration Court) should contribute to regaining confidence in the judiciary. Changes in the prosecution service will enable the extension of entities authorised to nominate candidates for the office of General Prosecutor. The verification and election process will be similar to that of the Constitutional Court. To enhance the efficiency of anti-corruption efforts, a new concept of the declaration of assets will be implemented, along with effective tools to sanction illegal income.

**Business environment in Slovakia still remains poorly rated in international rankings comparing administrative and regulatory barriers to doing business.** Starting a business is uneasy mainly because of the need of a range of licences and permits, as well as strong regulation in professional services. For construction permission proceedings, the major challenge is an excessive length, which is due to not only legislation, but also slowness of construction administration offices and local governments. New construction legislation, supported by electronic services, would markedly improve the expeditiousness of construction permission proceedings. Packages of anti-bureaucracy measures will be gradually adopted, including a "one in - two out" rule, in order to boost business activity. The aim of improving the business environment will also be supported by revision of the insolvency procedure. A new commercial register will be implemented and the register as well as bankruptcy and restructuring proceedings will be administered by a lower number of courts.



**Slovakia's performance in digital services and digital infrastructure of general government has improved, but at a pace not sufficient to approach the EU average.** Strengthening the central management of digitalisation efforts will help to enhance the quality of services to citizens as well as cost efficiency. Ministry-specific IT specialist capacities will be provided. To increase citizens' satisfaction with digital services, processes will be electronised with the aim to reduce numbers of steps needed to resolve a life event without the need to provide data which are already available to the state. Effectiveness of expenditure and of services will be enhanced by centralisation of services provided by Ministries and authorities under the umbrella of shared service centres. In line with the national broadband coverage plan, investment in building ultra-fast broadband will increase.

**The health care area significantly lags behind in all key performance indicators, including avoidable mortality or life expectancy of women at birth.** Cost efficiency and strategic human resource management are required at all levels in order to improve this situation. Healthcare and long-term care consumption and the current state of staffing will be reviewed in 2021. The lagging-behind of primary healthcare will then be addressed by increasing numbers of general practitioners and strengthening their competence and regulating demand for their services on the basis of real needs. The scope of patient healthcare entitlement covered from public health insurance will be defined, including in terms of distance and waiting times. Improvement of institutional care performance will be supported by optimising the hospital network and building capacities which are now missing. A long-term care network will be defined in response to population ageing. Also, the disability determination process and disability allowance will be unified.

**Slovakia has substantially reduced its greenhouse gas emissions, which is a result of structural changes in the economy, among other things; but waste management, renewable energy and air quality are areas where Slovakia is still under-performing.** In the upcoming years, green energy support will concentrate on improved energy efficiency, de-carbonisation of the economy, circular economy, fight against climate change and rectification of environmental burdens. The general renovation of public and private buildings will be accelerated to improve energy efficiency, including through guaranteed energy services. Support programmes for industry, such as the Innovation and Modernisation Funds and Just Transition Fund will support faster transition to a low-carbon economy. The waste sorting and collection system will be reformed by way of gradually increasing landfilling charges and by introducing a mandatory quantity-based system of charges payable by originators for the collection of mixed municipal waste and construction debris and a special deposit-based system of collecting PET bottles and cans. Speeding up of investments in building water supply and sewer networks, nature-friendly flood control and water containment measures, and rectification of environmental damage will be promoted.

**Compared to the EU, the proportion of railway transport in Slovakia is low and the situation further worsens with growing automobilism. Despite growing expenditure, interest in public transportation services is stagnating.** Transport infrastructure development will be based on clear prioritisation and selection of the most needed and most purposeful projects. Top priorities will include renovation of the most frequent roads and railway tracks, elimination of capacity problems, development of the Trans-European Transport Network and development of multi-modal transport. A national transport service plan will be prepared to enhance the attractiveness of public transportation through gradual implementation of coordinated train and bus schedules, unification of fares and a system of planning, financing and ordering public transportation services by the National Transport Agency.



## ANNEXES

### Annex 1 - Comparison with the Stability Programme and the European Commission's forecast

The Draft Budgetary Plan envisages a slightly better performance of the economy by 2021 than the Stability Programme, and this is reflected in most indicators. The macroeconomic forecast of April 2020<sup>58</sup> on which the Stability Programme for 2020 to 2023 is based foresaw a 7.8% decrease in real GDP in 2020 and a 6.8% increase in 2021. The updated forecast of the Macroeconomic Forecasting Committee of September 2020, which underlies the Draft General Government Budget, reduces the decline for 2020 and lowers the increase for 2021. GDP will drop by 6.7% in 2020 and grow by 5.5% in 2021. The improved economic performance is supported by higher resilience of the labour market and also, faster than expected recovery of foreign demand.

TABLE 13 - Forecast of selected indicators of the Slovak economy

No	Indicator	unit	Stability Programme				Draft Budget Plan			
			2020	2021	2022	2023	2020	2021	2022	2023
1	GDP, current prices	EUR billion	89.0	95.2	100.5	105.8	89.6	95.7	99.9	105.3
2	GDP, constant prices	%	-7.2	6.8	4.1	3.2	-6.7	5.5	2.4	3.3
3	Final consumption of households and NPISH	%	-8.4	7.8	4.1	2.9	-1.2	3.0	1.8	2.3
4	General government final consumption	%	1.8	0.2	1.8	2.6	-1.7	0.0	0.2	1.6
5	Gross fixed capital generation	%	-20.3	17.0	5.2	5.8	-9.9	7.6	3.3	6.5
6	Export of goods and services	%	-21.4	17.6	6.5	3.6	-9.3	9.7	4.0	3.6
7	Import of goods and services	%	-25.5	19.0	6.5	4.0	-7.9	8.3	2.8	3.4
8	Output gap (percentage of potential output)	%	-7.1	-3.0	-1.3	-0.5	-5.5	-2.2	-1.9	-0.9
9	Average monthly wage in the economy (nominal growth)	%	1.6	4.0	4.9	4.9	2.6	4.1	3.9	4.8
10	Average employment growth, LFS	%	-3.5	1.5	1.0	0.2	-1.8	0.6	0.5	0.2
11	Average employment growth, ESA 2010	%	-3.6	1.6	1.0	0.3	-1.5	0.6	0.5	0.2
12	Average unemployment rate, LFS	%	8.8	7.7	6.8	6.4	6.8	6.8	6.2	5.7
13	Average unemployment rate, registered	%	7.7	6.7	5.9	5.5	6.5	6.0	5.4	5.0
14	Harmonised consumer price index (HICP)	%	1.7	0.2	1.9	2.0	2.0	1.1	1.9	1.8
15	Current account balance (share of GDP)	%	2.3	0.3	0.3	-0.5	-4.3	-3.9	-3.0	-3.1

Source: MF SR

The MF SR's forecast is more optimistic than the Commission's summer forecast and is closer to the Commission's spring forecast<sup>59</sup>. The main reason is that at the time the September forecast was prepared, the MF SR's already had available positive economic data for the second quarter of 2020. The difference in GDP growth figures is a result of better performance of the economy across sectors in the second quarter. The labour market turned out to be more resilient and saw a decrease in numbers of hours worked rather than numbers of jobs. The lower than expected drop in employment was reflected in a more moderate decrease in household consumption. Reduction in investments was not too massive and the revival of exports came sooner than foreseen in the Commission's forecasts.

TABLE 14 - Comparison between the Commission's forecast and the a Slovak Ministry of Finance's forecast

Indicator (growth in%, unless indicated otherwise)		2020	2021
Real GDP	EC forecast (Spring)	-6.7	6.6
	EC forecast (Summer)	-9.0	7.4
	MF SR forecast (Sept)	-6.7	5.5
Private consumption	EC forecast (Spring)	-7.1	7.2
	MF SR forecast (Sept)	-1.2	3.0
General government consumption	EC forecast (Spring)	4.2	1.5

<sup>58</sup> Officially approved by the Macroeconomic Forecasting Committee.

<sup>59</sup> The comparison between the MF SR's forecast and the Commission's forecast is made in line with the requirements of the Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.





	MF SR forecast (Sept)	-1.7	0.0
Total investment	EC forecast (Spring)	-14.7	10.7
	MF SR forecast (Sept)	-9.9	7.6
Export of goods and services	EC forecast (Spring)	-12.4	13.4
	MF SR forecast (Sept)	-9.3	9.7
Import of goods and services	EC forecast (Spring)	-12.6	13.3
	MF SR forecast (Sept)	-7.9	8.3
Inflation (HICP)	EC forecast (Spring)	1.9	1.1
	EC forecast (Summer)	1.9	0.8
	MF SR forecast (Sept)	2.0	1.1
Employment (ESA)	EC forecast (Spring)	-3.4	2
	MF SR forecast (Sept)	-1.5	0.6
Output gap (% of potential GDP)	EC forecast (Spring)	-5.0	-0.6
	MF SR forecast (Sept)	-5.5	-2.2

Source: MF SR

**TABLE 15 - Comparison of budgetary objectives with the Stability Programme**

	ESA code	2019 A	2020 E	2021 DGGB	2022 DGGB	2023 DGGB
		% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
<b>Target general government balances</b>	<b>B.9</b>					
Stability Programme (1)		-1.30	-8.40	-4.88	-3.72	-2.89
Draft Budgetary Plan (2)		-1.37	-9.68	-7.44	-5.35	0.00
<b>Difference (2 -1)</b>		<b>-0.08</b>	<b>-1.28</b>	<b>-2.56</b>	<b>-1.63</b>	<b>2.89</b>

E - Expectation

DGGB – Draft General Government Budget

Source: MF SR

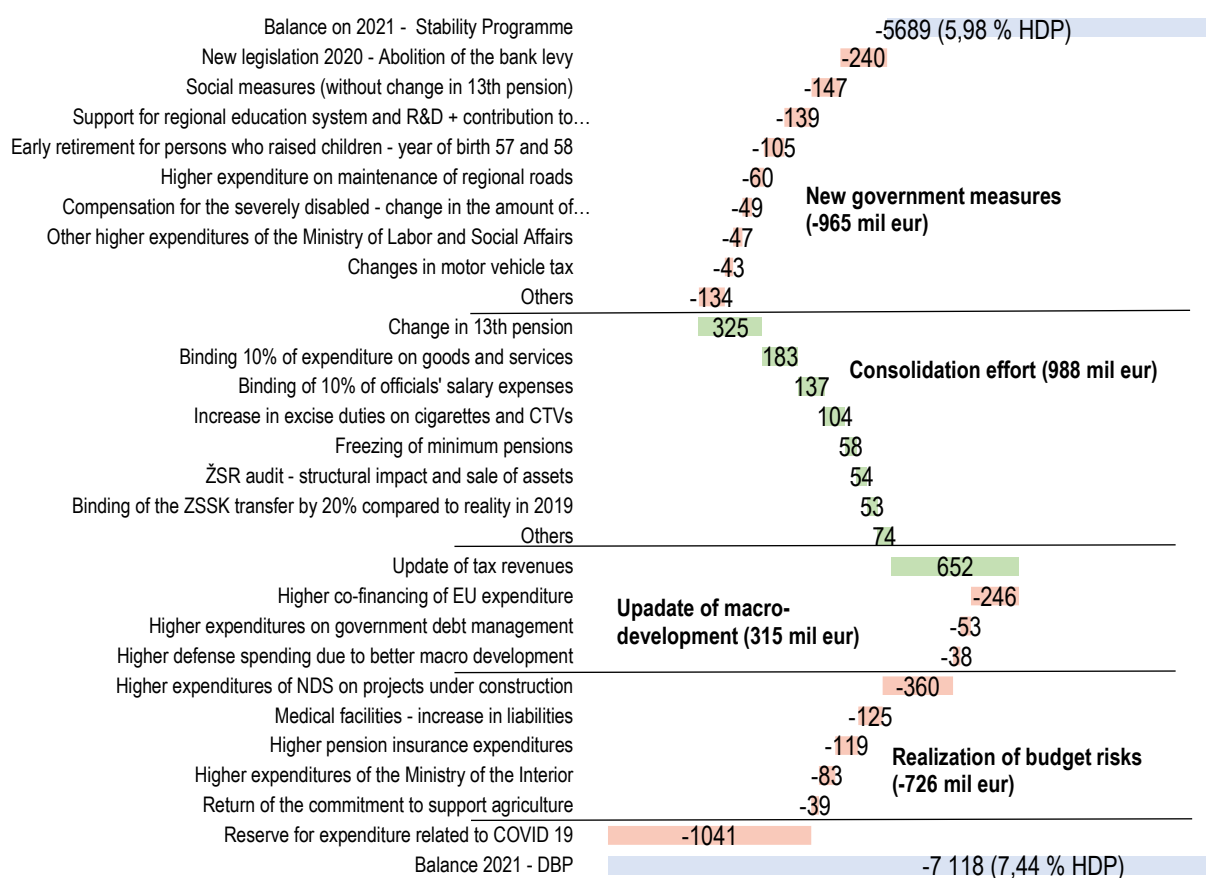
**With the continued strong overcooling of the economy and marked uncertainty ensuing from the growing numbers of people tested COVID-19 positive, no consolidation is considered for 2021.** On the contrary, a budget deficit of 7.44% GDP is targeted, which includes a substantial provision of 1.1% of GDP for the contingency of a necessary response to recurring negative impacts of the pandemic. By extending the effect of the general Escape Clause to 2021, the Commission implies that any significant consolidation would not be appropriate in the current situation. The higher shortfall of 2021 will also lead to a higher deficit in 2022, and so even with consolidation effort at a level of 1% of GDP. With regard to the marked elevation of the debt above the current sanction thresholds, a balanced budget is required for 2023 under the Constitutional Act on budget responsibility. This requirement was not taken in account in the Stability Programme.

**Compared to the Stability Programme, extensive changes have been made in the next year's budget structure<sup>60</sup>.** The Government's new policies, including announced measures in the social area, increase the balance by 1.01% of GDP. The Government has provided fiscally for those policies by way of consolidation measures that will improve the balance by 1.03% of GDP. External effects beyond the Government's control, including a better forecast, improve the deficit target for the next year by 0.33% of GDP. The general government budget deficit is also due to the materialisation of certain risks of the current year's budget and their effect on the next year's budget is 0.76% of GDP. The negative effect of the substantial provision on pandemic-driven expenditure for the next year amounts to 1.09% of GDP. Without this provision, the next year's shortfall would be only 0.4% of GDP higher than the projection in the Stability Programme.

<sup>60</sup> The published Stability Programme of the Slovak Republic for 2020 to 2023 includes only a NPC scenario for 2021 since the Fiscal Framework of the CBR (FF) was not yet completed at the time of finalisation of the Stability Programme. The FF presented here corresponds to the state closed as at the date of approval of the Stability Programme by the Government.



**FIGURE 28 - Differences in key items (ESA 2010) against the Stability Programme, contributions in EUR million**



Source: MF SR

## The Government policies

**Social measures aiming to support wide groups of citizens, which the Government announced in summer this year, will amount to 0.15% of GDP.** The Government has doubled the amount of the Christmas pensioner bonus. The Christmas bonus will be paid to every pensioner, but in an amount in indirect proportion to the pensioner's regular pension; the minimum allowance amount will be EUR 50<sup>61</sup>. Bus service and urban public transport service will be free of charge for children, students and the elderly. This is intended to also make free transport service available to target groups not using trains. In addition to free travelling, pensioners will also benefit from the abolition of co-payments for medicines. A so-called pregnancy benefit will be introduced. It will be paid from the end of the fourth month of pregnancy until the childbirth. The aim is to support young families.

**The abolition of the special levy for certain financial institutions will mean a shortfall in state budget revenue of 0.25% of GDP.** The Government agreed with banks on the abolition of the bank levy with effect from mid-2020. In return, banks made a commitment to invest annually half a billion euros in loans for state-run projects and one billion in loans to people and firms in excess of the current financing levels.

**The budget of the Ministry of Education, Science, Research and Sports for the next year will be significantly higher (0.15% of GDP).** 0.10% of GDP is earmarked for support to regional schools, science and

<sup>61</sup> The doubling of the Christmas allowance was adopted in lieu of the 13th pension benefit. This change has a positive budgetary effect, which is quantified in the section outlining consolidation measures.



research. Further, allowance for education and upbringing of children in kindergartens, compensation expenditure of the Ministry's Research Agency and funding for the renovation of football stadiums will increase.

**The Government will also allow people born in the years 1957 and 1958 who have brought up children to retire earlier (0.11% of GDP).** This is modification of the former legislation which discriminated persons born in the said years.

**The Government's other priorities will increase the budget deficit by 0.35% of GDP next year.** The Government will increase compensations to disabled persons and financial contributions to institutions providing care to disabled and dependent persons. Expenditure of the Ministry of Labour, Social Affairs and Family of the Slovak Republic is also higher. This is mainly due to higher allocations to the parental allowance, child allowance and material-need benefit, and to effects of new legislation<sup>62</sup>. Completion of the newly established Ministry of Investment, Regional Development and Informatisation and Office of Deputy Prime Minister for Legislation, and extension of the Value for Money Department which is supposed to assess every capital expenditure projects exceeding EUR 1 million. A higher allocation is made to the Slovak Road Management entity for funding maintenance of 1st class roads. The deficit will also increase on account of motor tax adjustments aiming to support the competitiveness of Slovak road carriers.

### Consolidation measures of the Government

**The Government has amended the legislation on the 13th pension benefit, which will reduce the deficit by 0.34% of GDP.** The introduction of the 13th pension benefit was approved shortly before the parliamentary election. It was designed as a flat-rate benefit payable to every pensioner irrespective of their regular pension amount. The Government chose to double the Christmas bonus to pensioners in lieu of disbursing the 13th pension benefit.

**The central government's expenditure on employee compensations and goods and services has been cut (0.33 of GDP).** The Ministries' expenditure on employee compensations and goods and services is budgeted for the next year at a level 10% lower than foreseen in the Stability Programme. The measure will bring savings of 0.14 of GDP for employee compensations and 0.19% of GDP for goods and services.

**Increased taxes on cigarettes and smokeless tobacco products and motor tax adjustments will bring 0.11% of GDP to the budget.** Excise duty on cigarettes, tobacco and smokeless tobacco products will increase by 40 cents per pocket next year. In each of 2022 and 2023, another increase by half that amount will be introduced.

**Optimisation of operating expenses of the Railways of the Slovak Republic and the Railway Company of Slovakia is supposed to save 0.11% of GDP.** The Railways of the Slovak Republic (ZSR) will be subjected to personnel and operations audits with the aim to reduce their expenses by 0.04% of GDP. Disposal of ZSR's redundant assets is to bring 0.02% of GDP to the state treasury. State budget transfers to the Railway Company of Slovakia (ZSSK) will be 20% lower than 2019 (0.06% of GDP) as a measure to encourage motivation to more effective spending and generate higher own income.

**Other consolidation measures will reduce the next year's deficit by 0.14% of GDP.** Freezing of the indexation of minimum pensions is adopted (0.06% of GDP). Postponement of minor investments will improve fiscal performance in the next year by 0.04% of GDP. Further measures lowering the deficit include reducing numbers of policemen and of university teachers, while concurrently increasing their salaries.

<sup>62</sup> Compensations to the previous regime's political prisoners; legislative amendment concerning social guardianship; legislative amendment concerning financial support of children and families.



### External effects beyond the Government's control

**The current forecast projects revenue from taxes and social contributions at 0.68% of GDP above the spring forecast.** The increase in revenue stems mainly from faster recovery of economic activity than foreseen in the Stability Programme.

**Expenditure linked to the EU budget increases the deficit (0.26% of GDP).** According to the most recent data, the drawing of the EU funds will be much faster in the next year than assumed in the Stability Programme. This acceleration will also extend to the subsequent year. Based on the present-time macroeconomic forecast, which foresees higher economic activity in 2021 than the forecast underlying the Stability Programme, the payment to the EU will also rise moderately. This is because the amount of the payment is linked to gross domestic product.

**There are also other external factors explaining the higher deficit (0% of GDP).** Expenditure on state debt service is higher because of an increase in the government bond issue plan after the adoption of the Stability Programme. The better macroeconomic forecast allows defence expenditure to rise<sup>63</sup>. This is based on Slovakia's pledge to the North Atlantic Treaty Organisation (NATO) to increase the proportion of defence expenditure to 2% of GDP by 2023.

### Materialisation of budget risks

**Undervaluation of expenditure budgeted for this year and materialisation of some risks contribute 0.75% of GDP to the deficit increase.** Completion of construction projects of the National Motorway Company now in progress will require expenditure of 0.38% of GDP in excess of the Stability Programme in the next year. Healthcare facilities' liabilities grow this year on account of insufficient budget provisions for their funding. The additional financing needed in the next year on that account amounts to 0.14% of GDP. Expenditure on old-age and disability pensions is budgeted for the next year at a level 0.12% higher than foreseen in the Stability Programme. Additional financing for goods and services for the Ministry of Interior at the current year's level and higher spending on enforcement proceedings and land title settlement increase the deficit by 0.09% of GDP. The Stability Programme assumed partial reduction in expenditure on support to agriculture, in an amount of 0.04% of GDP. Now, however, support to agriculture at the initially budgeted level is envisaged.

### Reserve for adverse developments

**Reserve for expenditure connected with the COVID-19 pandemic has a substantial negative effect (1.09% of GDP).** An extensive second outbreak wave may reduce revenue in the next year by approx. EUR 1 billion in excess of the forecast underlying the budget. The negative risks arises from possible restrictions in domestic economy and those of our business partners. In light of the experience of the first half of 2020. However, the economic impact on the global economy and the domestic economy could be less severe because of more targeted and milder measures.

<sup>63</sup> A higher GDP means a higher nominal expenditure needed to meet the pledge expressed as a percentage of GDP.



## Annex 2 - Assessment of forecasts by the Macroeconomic and Tax Revenue Forecasts Committees

The draft budgetary plan for 2021 to 2023 is based on the macroeconomic and tax forecasts of September 2020 covering the horizon of the years 2021 - 2023. The macroeconomic scenario and tax revenue forecasts are subject to continuous discussion, approval and control by expert public through the Committees whose members are national experts from the public and private sectors. The forecast publishing dates and principles of the Committee's work are laid down in the Constitutional Act on budget responsibility.

Given a higher degree of influence on budget revenue for 2021, the macroeconomic forecast of the Ministry of Finance (MF SR) of September 2020 is higher than the median of other members of the Macroeconomic Forecasting Committee. The influence is expressed as the weighted average of the relevant tax bases of budget revenue where the weights applied are the proportions of individual taxes to total budget revenue. The difference lies in the MF SR's higher estimate of the growth of wages and household consumption for 2020. All present members of the Committee (Infostat, NBS, SLSP, VÚB, Tatrabanka, Unicredit, SAV) rated the MF SR's forecast as realistic.

After the meeting of the Macroeconomic Forecasting Committee held in September 2020, seven members of the Committee rated the MF SR's medium-term macroeconomic forecast as realistic and one as conservative.

**TABLE 16 - Rating of the MF SR's forecast of September 2020 by the members of the Macroeconomic Forecasting Committee**

Committee member	Forecast characterisation
Infostat, NBS, SLSP, VÚB, Tatrabanka, Unicredit, SAV	Realistic

*Source: Macroeconomic Forecasting Committee*

**TABLE 17 - Average forecast of the Committee members\* (except MF SR) and MF SR's forecast**

	2019	2020		2021		2022		2023	
		Com mitte e	MF SR	Com mitte e	MF SR	Com mitte e	MF SR	Com mitte e	MF SR
<i>in%, unless indicated otherwise</i>									
Gross domestic product, real growth	2.4	-7.0	-6.7	5.3	5.5	3.5	2.4	3.2	3.3
Gross domestic product, current prices; in EUR billion	94.2	89.5	89.6	95.4	95.7	100.0	99.9	105.5	105.3
Final consumption of households, real growth	2.1	-1.8	-1.2	2.5	3.0	2.2	1.8	2.4	2.3
Final consumption of households, nominal growth	4.9	0.2	1.0	3.8	4.1	4.0	3.7	4.5	4.1
Average monthly wage, real growth	5.0	-0.1	0.6	2.0	2.9	2.3	1.9	2.4	2.9
Average monthly wage, nominal growth	7.8	1.9	2.6	3.5	4.1	4.0	3.9	4.5	4.8
Employment growth rate (statistical reporting)	1.0	-2.2	-1.6	0.4	0.5	0.5	0.5	0.4	0.2
Consumer price index (CPI), average growth	2.7	2.0	1.9	1.3	1.1	1.9	1.9	2.0	1.8
Current account balance as share of GDP	-2.9	-2.5	-4.3	-1.3	-3.9	-1.2	-3.0	-1.0	-3.1

\* Macroeconomic Forecasting Committee Source: Macroeconomic Forecasting Committee

**FIGURE 29 - Comparison of macroeconomic base<sup>64</sup> forecasts for budget revenue with the Committee members**

*Source: MF SR*

<sup>64</sup> Macroeconomic base forecasts for budget revenue (the weights of indicators depend on the proportions of individual taxes to the total tax and social contribution revenue); Wage base (employment + nominal basis) – 51.1%; Nominal private consumption – 25.7%; Real private consumption – 6.6%, Nominal growth of GDP – 9.9%; Real growth of GDP – 6.7%.



### BOX 6 – Independent Committees estimating the macroeconomic development and development of tax revenues

The Macroeconomic Forecasting Committee and the Tax Revenue Forecasts Committee are established in accordance with the Constitutional Act No 493/2011 on fiscal responsibility as an advisory body to the Ministry of Finance. The purpose of the Committees is to ensure a higher transparency, objectiveness and quality of macroeconomic and tax forecasts. Pursuant to the Constitutional Act, the Committees prepare forecasts at least twice a year, by 15 February and by 30 June of a current fiscal year. However, under the generally established practice, forecasts are also prepared by the end of September for purposes of the budgeting process. The Chair of the Committee, the Minister of Finance or an absolute majority of the Committee members may summon a meeting of the Committee in exceptional cases.

**Besides the Ministry of Finance, members of the Committees are representatives of institutions independent of the Government** (NBS, SAV, Infostat and private banks). Members of the Macroeconomic Forecasting Committee rate a macroeconomic forecast of the Ministry of Finance using the words *conservative*, *optimistic* or *realistic*. A tax forecast of the Ministry of Finance is rated by the members of the Tax Revenue Forecasts Committee by sending their own forecasts; their rating is calculated automatically on the basis of the deviation. **A forecast of the Ministry of Finance is approved as the Committee's forecast, if an absolute majority of the members determines that the forecast is *conservative* or *realistic*.** If the forecast does not receive such rating, the Ministry of Finance is obligated to revise the forecast and re-submit the forecast to the Committee for reconsideration. The process is repeated until the forecast of the Ministry of Finance is approved as the forecast of the Committee.

#### Tax Revenue Forecasts Committee

The MF SR presented its updated medium-term forecast of tax revenue for the years 2019 to 2023 at the Tax Revenue Forecasts Committee meeting in October 2020. The MF SR's medium-term forecast of tax revenue and social contributions was rated as **realistic** by all Committee members.

TABLE 18 - Rating of the MF SR's forecast by the members of the Tax Revenue Forecasts Committee

Committee member	Forecast characterisation
NBS, Infostat, Tatra banka, ČSOB, KRRZ, SLSP, UniCredit Bank, VÚB	Realistic



### Annex 3 - Cash-flow based forecast of the general government gross debt

The nominal level change in 2021 to 2023 will be affected by the necessity of funding high cash deficits in excess of EUR 5 billion. Proceeds from government bond issues<sup>65</sup> will be complemented by release of cash accumulated in the State Treasury in an amount of over EUR 3 billion. This will at the same time mitigate the debt rise.

TABLE 19 - Cash effects on changes in the nominal gross general government gross debt (in EUR million)

	2017 A	2018 A	2019 A	2020*	2021 DGGB	2022 DGGB	2023 DGGB
<b>A. General government gross debt (as of 1 Jan)</b>	<b>42,481</b>	<b>43,695</b>	<b>44,630</b>	<b>45,485</b>	<b>55,552</b>	<b>62,009</b>	<b>67,780</b>
<b>B. Total year-on-year change in gross GG debt</b>	<b>1,213</b>	<b>935</b>	<b>856</b>	<b>10,066</b>	<b>6,457</b>	<b>5,772</b>	<b>4,989</b>
- cash state budget deficit	1,220	1,182	2,201	10,076	8,049	6,130	5,778
State Treasury funds used for financing cash state budget deficit	1	-498	-1,586	-56	-1,506	-453	-1,229
Debt of other GG entities	3	111	248	80	-101	-62	36
Of which: ZSR + ZSSK	8	34	117	41	-65	-65	-65
Of which: NDS	-36	-37	-42	-37	-37	-37	0
Of which: Municipal public transportation entities	-4	-4	-15	13	9	8	8
Of which: Local governments (municipalities and higher territorial units)	50	92	46	17	-16	24	84
Change in Slovakia's EFSF guarantees	0	0	-21	0	0	0	0
Discount on issue	68	7	4	28	20	169	454
Discount on maturity	-62	-7	1	-62	-2	-11	-49
Other	-21	157	9	0	-2	-2	0
<b>C. General government gross debt (as of 31 Dec)</b>	<b>43,695</b>	<b>44,630</b>	<b>45,485</b>	<b>55,552</b>	<b>62,009</b>	<b>67,780</b>	<b>72,769</b>
<b>% of GDP</b>	<b>51.7</b>	<b>49.9</b>	<b>48.5</b>	<b>62.2</b>	<b>65.0</b>	<b>68.1</b>	<b>69.4</b>
<b>D.. Change in gross debt vs. Stability Programme (p.p.)</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>1.0</b>	<b>3.2</b>	<b>6.6</b>	<b>9.3</b>
Of which: contribution of change in nominal GDP forecast	0.0	0.1	0.2	-0.2	-0.1	0.6	0.6
Contribution of change in nominal GDP forecast	0.4	0.3	0.3	1.2	3.3	6.0	8.7
p.m. contribution of SR to ESM	0	0	0	136	0	0	0

Note: Plus items increase the general government debt as of 31 Dec of a year, minus items reduce the debt.

Source: MF SR

\* 2020 – interim GGB performance monitoring 2020

<sup>65</sup> In addition to funding the cash shortfall in the state budget, proceeds from government bond issues are also used for refinancing mature bonds from past issues.



## Annex 4 - Structural balance

**Structural balance is the difference between general government revenue and expenditure, net of one-off and temporary effects and assuming that the economy is at the level of its potential.** Despite the use of several unobserved variables in this calculation, structural balance gives a fairer picture of the country's medium-term fiscal position than nominal balance.

**The Stability and Growth Pact is based on the premise that the Member States should achieve a symmetrical approach to fiscal policy which is in line with the cyclical development of the economy.** The key objective is an enhanced focus on budgetary discipline in times of economic recovery to avoid a pro-cyclical nature of fiscal policy and gradually achieve the medium-term budgetary objective. Such behaviour is supposed to lead to creating a cushion for periods of economic decline, while reducing the general government debt at a reasonable pace and positively influencing long-term sustainability of public finance.

**The matrix below clarifies and specifies the fiscal consolidation requirements of the Stability and Growth Pact for its preventive arm.** The matrix is symmetrical and it differentiates between increased consolidation effort to be made in better times and reduced efforts made in difficult economic circumstances.

The assessment of compliance with the structural balance and the expenditure benchmark is based on one-year and two-year deviations expressed in% of the GDP. The one-year deviation limit is -0.5% of GDP and the two-year deviation limit is -0.25% of GDP.

### Calculation of the structural balance

In the first step, the cyclical component is applied to net the effect of economic fluctuations (estimated through the output gap, i.e. the difference between the actual and potential GDP levels) out of the nominal general government balance.

The output gap is estimated on the basis of the most recent macroeconomic forecast of the Ministry of Finance of the Slovak Republic (MF SR) of September 2020 (**BOX 2**). The estimate of sensitivity of the general government balance to changes in output gap is made by the Commission using the OECD methodology<sup>66</sup> and it is wholly adopted by the MF SR. In the next step, the resulting net balance is adjusted for the effect of so-called one-off and temporary measures whose fiscal effects does not recur in subsequent years. For the purpose of the Draft Budgetary Plan, the MF SR identifies the measures in line with the Commission's methodology.

The Commission's approach<sup>67</sup> characterizes a one-off measure as a temporary measure which is of a non-permanent nature and has arisen independently of the Government's decisions. The Commission developed directions for the classification of one-off measures:

<sup>66</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 for the calculation of elasticities were added. The methodology was approved by the Member States in September 2014.

<sup>67</sup> [Vade Mecum on the Stability and Growth Pact – 2016 Edition – Guiding principles, p. 28.](#)





1. **Principle I:** Only a temporary, non-recurrent impact on general government revenue or expenditure may be classified as a one-off effect.
2. **Principle II:** The one-off nature of a measure cannot be decreed by law or by an autonomous government decision.
3. **Principle III:** Highly volatile components of revenue or expenditure should not be considered one-off effects. Time series are smoothed using the cyclical component in the structural balance calculation.
4. **Principle IV:** Deliberate decisions of the Government that increase the deficit do not qualify as one-off effects.
5. **Principle V:** Only measures having a significant impact on the general government budget (in excess of 0.05% of GDP) should be considered one-offs.

All typical one-off measures are described in Chapter 3.3 (Report of Public Finances in EMU<sup>68</sup>). Moreover, the Commission identified specific exceptions and relevant procedures for an effect violating the above principles to be considered a one-off; such cases are also described in the same Chapter. Several measures have an effect below 0.05% of GDP, but as a whole, they are related to the coronavirus crisis and, accordingly, they are included in the list of one-off measures.

**The draft budgetary plan for 2021 to 2023 includes the following one-off measures for the horizon of the years 2019 - 2023.**

**TABLE 20 - List of one-off measures**

	2019	2020	2021	2022	2023
1 Application of loss carried forward from years 2015 to 2018	-20	-	-	-	-
2 Sickness benefits during quarantine/home isolation and employees' home-nursing benefits at 55% of gross wage	-	-324	-	-	-
3 Employment retention allowance for enterprises struck by the crisis or closed (80% of gross wage, max. EUR 880 or 1,100, or a flat-rate allowance depending on the decrease in revenues); allowances to micro-firms and self-employed persons*	-	-520	-	-	-
4 Rent subsidies for operating units*	-	-35	-	-	-
5 COVID-19 second-wave provision	-	-150	-	-	-
6 Purchases of medical material in connection with COVID-19 (state material reserves)	-	-123	-	-	-
7 Subsidies to airlines and to government-owned and private bus service operators	-	-84	-	-	-
8 Intensified operation of rescue service units + material equipment (Ministry of Interior)	-	-84	-	-	-
9 Other Ministries - extra operating expenses due to COVID-19 (mainly protective materials)	-	-12	-	-	-
10 Support to kindergartens (job retention)	-	-83	-	-	-
11 Remuneration of front-line personnel	-	-77	-	-	-
12 Waiver of public insurance contributions for closed operating units	-	-58	-	-	-
13 Extended unemployment benefit payment period	-	-56	-	-	-
14 Extended parental allowance payment period	-	-19	-	-	-
15 SOS allowance (support to contract workers and other persons without income)	-	-10	-	-	-
16 Suspension of tax audits	-	-13	-	-	-
17 Material-need benefit	-	-5	-	-	-
18 VAT payment by the concessionaire of the D4/R7 construction project	-	71	131	-	-
19 Settlement of a risk guarantee for Cuba	-	-173	-	-	-
20 Provision for additional expenditure due to COVID-19	-	-	-1041	-	-
<b>Total</b>	<b>-20</b>	<b>-1,754</b>	<b>-910</b>	<b>0</b>	<b>0</b>

\* Net effect of the measure on the deficit. The job retention allowance will be funded from the EU funds in the amount of EUR 460 million and rent subsidies for operating units in the amount of EUR 165 million.

Source: MF SR

<sup>68</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 a country. It is a measure of the year-on-year growth of aggregate expenditure net of revenue measures which, in comparison to the reference rate of permitted expenditure growth, will enable the assessment of progress in fiscal consolidation in a manner similar to structural balance development.

**According to the expenditure benchmark, real general government expenditure should not grow faster than the average potential rate of growth of the economy.** Expenditure may grow at a higher rate only if additional revenue measures are implemented, which are confirmed by quantification by an independent Committee (this applies to discretionary measures)<sup>69</sup>. For countries that have reached their MTO, expenditure growth may exactly follow the potential of the economy. For countries that have not yet reached the MTO, the expenditure growth rate also reflects the fiscal consolidation needed to achieve it. In such case, the potential growth rate of the economy is corrected to reflect the necessary consolidation effort.

**The development of expenditure is adjusted for factors beyond the Government's control.** This includes interest expenditure, changes in expenditure on unemployment benefits resulting from the current economic cycle and expenditure funded by the EU funds. Given the high volatility of government investments, their level is smoothed to the average level for the current and three prior years<sup>70</sup>. The nominal growth of such adjusted expenditure is converted into real growth by application of the GDP deflator to enable comparison against the expenditure benchmark.

TABLE 21 - Expenditure benchmark

		2018	2019	2020	2021
<b>1. Total expenditure</b>	EUR million	<b>37,343</b>	<b>40,121</b>	<b>46,440</b>	<b>46,689</b>
2. Interest expense	EUR million	1,207	1,164	1,007	949
3. Expenditure covered by the EU (capital)	EUR million	749	587	553	237
3a. Expenditure covered by the EU funds (total)	EUR million	957	890	1,007	1,175
4. Capital expenditures covered by national funds	EUR million	2,607	2,790	2,852	3,049
5. Smoothed capital expenditure (national funds, 4-year moving average)	EUR million	2,505	2,515	2,665	2,824
6. Cyclical expenditure on unemployment benefits	EUR million	-18	-23	57	25
7. Expenditures fully covered by automatic revenue increase	EUR million	0	0	0	0
<b>8. Aggregate primary expenditure (1-2-3a-4+5-6-7)</b>	EUR million	<b>35,096</b>	<b>37,816</b>	<b>44,183</b>	<b>44,316</b>
9. Year-on-year change in aggregate primary expenditure (8t-8t-1)	EUR million	1,981	2,720	6,367	133
10. Change in revenue due to discretionary revenue measures	EUR million	0	0	-411	-64
11. One-off revenue measures (COVID-19)	EUR million	0	0	-58	58
12. One-off expenditure measures (COVID-19)	EUR million	0	0	-2,207	2,207
13. Methodological adjustments	EUR million	0	0	0	0
14. Nominal growth of aggregate expenditure net of revenue measures (9t-10t)/8t-1)	%	6.0	7.8	11.9	5.6
15. Real growth of aggregate expenditure net of revenue measures	%	4.4	5.1	9.2	4.3
16. Expenditure benchmark (reduced reference rate of potential GDP growth)	p.p.	1.3	2.0	2.8	0.8
<i>p. m. GDP deflator</i>	%	1.5	2.5	2.5	1.3

Note: Slovakia will be in the corrective arm of the Pact in 2022 and 2023 and the expenditure benchmark does not apply.

Source: MF SR

## Annex 6 – Discretionary revenue measures (DRM)

<sup>69</sup> Positive cyclical revenues at the time of good economic situation (not realised through discretionary measures) allow expenditure to rise above the potential of the economy. The expenditure benchmark monitors this undesired fiscal effect as the temporary increase in revenue from non-realised measures should be used to achieve the MTO.

<sup>70</sup> *Vade Mecum on Stability and Growth Pact*, page 30.



The Commission's methodology defines discretionary revenue measures as measures of a legislative nature having an effect on general government revenue. The measures are evaluated through so-called additional effects (marginal changes) to the measures. Distinction is made as to whether a measure is temporary or one-off. A permanent measure is recognised as having an effect in the first year (at the time of entry into effect) and as having no effect in the other years. In other words, the change in the effect of the measure in following years due to the macroeconomic development is not taken into account. If there a difference in effect arises due to postponed applicability of the measure, only the marginal change is recognised.<sup>71</sup> For one-off revenue measures, the effect is recognised in one year, and a shortfall in the same amount in the next year, i.e. the total effect of the measure in two consecutive years is zero.

**TABLE 22 - Discretionary measures – year-on-year impact of measures (EUR million, ESA2010)**

Description	2018	2019	2020	2021	2022	2023
Abolition of the tax licence	-100	0	0	0	0	0
Introduction of 13th and 14th salary (implemented in 2018, legislative change made in 2019)	-2	-30	10	-24.5	3.4	0
Exemption of recreation cheques from taxes and public insurance contributions	0	-31	0	0	0	0
Exemption of accommodation non-monetary employee benefit	0	-15.7	6.4	0	0	0
Taxation of dividend through 7% withholding tax	24	32	0	0	0	0
Exemption of proceeds of disposal of shares and interests	0	-5	-23	0	0	0
Set of measures to improve VAT collection efficiency	-26	216	0	0	0	0
Reduced VAT on accommodation services	0	-24	0	0	0	0
Increased excise duty on tobacco products	3	36	0	102	85	67
Annual clearing of social security payments, postponement to 2023	0	0	0	0	0	49
Introduction of a deductible allowance for purposes of public insurance payments and subsequent changes	35	37	0	0	0	0
Gradual increase in second-pillar contributions (automatic, by 0.25 p.p. annually since 2017)	-32	-41	-49	-42	-50	-52
Non-life insurance - introduction of levy and replacement with excise duty on insurance	14	65	0	0	0	0
Doubled and subsequently reduced rate of special levy on regulated sectors	0	-40	0	-17	0	0
Introduction of bank levy and its abolition from second half of 2020	0	0	8	-120	0	0
Increase in deductible amount of R&D expenses	-15	-10	-2	0	0	0
Introduction of licences for gambling games and other changes in gaming taxation	0	12	3	0	0	0
Higher threshold for payment of tax advances (from EUR 2,500 to 5,000)	0	0	0	-11	0	0
Loss deduction option for other firms (up to max. 50% of taxable profit over 5 years)	0	0	0	36	-6	0
Discretionary D&A period for micro-enterprises	0	0	0	-15	0	0
15% corporate income tax for firms with turnover of up to EUR 100,000	0	0	-42	0	0	0
Tax allowance amount increased to 21x minimum subsistence amount	0	0	-112	0	0	0
Tax reduction to 15% for self-employed persons with turnover of up to EUR 100,000	0	0	-19	0	0	0
Reduced VAT on additional food items	0	0	-78	0	0	0
Introduction of flat-rate commutation non-monetary employee benefit (EUR 100 per month)	0	0	0	-12	0	0
Measures to support labour mobility	0	0	-34	0	0	0
Suspension of tax audits and tax proceedings	0	0	-13	13	0	0
Time limit for filing motor vehicle tax return	0	0	0	0	0	0
Waiver of public insurance contributions for closed operating units	0	0	-58	58	0	0
Application of loss carried forward from years 2015 -2018	0	-20	20	0	0	0
Adjustment of VAT assessment base on goods or service delivery	0	0	0	-41	0	0
Abolition of VAT exemption for consignments from third countries up to EUR 22	0	0	0	11	12	0
Changes in taxes on motor vehicles	0	0	-28	0	0	0
<b>Total</b>	<b>-99</b>	<b>180</b>	<b>-411</b>	<b>-64</b>	<b>44</b>	<b>63</b>

<sup>71</sup> As an illustrative example to explain the operation of DRM: A legislative measure with an estimated effect of 200 is adopted in the middle of the year, i.e. its total effect for the year is 100. In the next year, the total effect is 200, but only the marginal difference of the two effects will be recognised, i.e. 100. All in all, the total effect is 200, but it is split between two years.



## Annex 7 - Description of the measures adopted in fight against coronavirus

The next Chapter describes the measures outlined in Box 4 in Chapter 3 in a greater detail. The measures are categorised into direct aid, deferral of taxes and public insurance contributions, and guarantees and bank loans.

TABLE 23 - Summary of measures adopted in fight against coronavirus

	Direct aid	Deferral of taxes and public insurance contributions		Guarantees / bank loans	% of GDP
	Revenue	Expenditure			
Total in EUR million	547	2,207	467	1,673	-
Total in% of GDP	0.61	2.46	0.52	1.87	5.46

### Direct aid measures

- Payment of 55% of gross wage<sup>72</sup> to employees on sickness leave due to quarantine/home isolation or to nursing a family member** Home isolation was made an eligible reason for receiving sickness benefits. The Government now temporarily pays thickness benefits starting from the first day<sup>73</sup> of sickness at 55% of the prior income. A working parent with a child up to 11 years of age can receive home-nursing benefits for the whole duration of the closure of schools and kindergartens<sup>74</sup>. At the same time, public finance revenue decreases during the time of payment of sickness benefits because of shortfall in taxes and public insurance payments otherwise receivable from natural persons.
- Employment retention allowance for enterprises struck by the crisis.** In mid-April, an allowance to employers was introduced to reimburse 80% of employees' gross wages (up to max. EUR 880) on the ground of impediment at work<sup>75</sup>, or a flat-rate allowance payable for each employee upon reduction in revenues, with an eligibility threshold of 20% (monthly support ranges between EUR 180 and 540, depending on the amount of reduction in revenues). The choice between the options is left at the employer's discretion.
- Employment retention allowance for closed operations.** Since April, irrespective of size, employers are reimbursed for 80% of employees' gross wages (up to max. EUR 1,100) on the ground of impediment at work.
- Support to contract workers, single-member limited liability companies and self-employed persons in the amount of EUR 210.** In April, flat-rate allowances were introduced for low-income self-employed persons and single-member LLCs. Also, a so-called SOS allowance was introduced for persons who ended up in a crisis situation and without income because of the pandemic. The target group includes, among other categories, contract workers.
- Rent subsidies to operating units closed because of operation of the measures.** The subsidy may be provided in an amount equal to the rent reduction agreed between the landlord and the tenant, subject to limit of 50% of rent. If the landlord reduces the tenant's rent by 50%, the state pays the remaining 50%. If the landlord offers a lower reduction, the state pays the same amount and the rest is to be paid by the tenant in instalments schedule over max. 48 months.<sup>76</sup>
- Provision for the second wave of the outbreak.** The provisions is intended primarily to cover further unforeseen expenditure connected with the autumn outbreak.
- Purchases of medical materials required for the fight against coronavirus.** This year, higher allocations will be required for purchases of medical devices and materials for healthcare facilities and general government institutions in connection with the pandemic.

<sup>72</sup> Subject to the applicable maximum daily assessment base limit.

<sup>73</sup> The benefits were previously paid from the eleventh day while the first 10 days were covered by employer; and the benefit amount payable for the first three days was only 25% of prior income.

<sup>74</sup> A home-nursing benefit was previously paid only for max.10 days per diagnosis. Home-nursing benefits are similarly available to parents with sick or disabled children up to 16 or 18, respectively, years of age. The parent remains covered by social security insurance, but relieved from the obligation to pay premiums, for the whole period of receiving a home-nursing benefit.

<sup>75</sup> The legal concept of impediments at work allows employers to reduce employees' salaries to 60% as the maximum if a collective agreement is in place and to 80% in situations without a collective agreement.

<sup>76</sup> In such case, the landlord will not be allowed to increase the rent, unless an increase was agreed already before the pandemic.



- **Job retention support to kindergartens.** An allowance is provided to reimburse a part of wage costs of pedagogical, special and non-pedagogical staff<sup>77</sup> at 80% of gross wage, subject to limit of EUR 1,100. The allowance is payable for the period when kindergartens were closed, i.e. from 13 March 2020 and to 30 June 2020 at the latest.
- **Waiver of the full amount of social contributions payable for April by employers and traders whose operations were closed.** The eligibility arises if operations were closed for at least 15 days.
- **Other measures:** 1. Application of loss carried forward from years 2015 to 2018 to income reported in the income tax return for 2019<sup>78</sup>; 2. Suspension of tax audits and tax proceedings at the tax entity's request; 3. Additional expenditure of the Ministry of Interior and other Ministries due to the pandemic and compensations to front-line personnel in the fight against COVID-19. 4. Extended unemployment benefit and parental allowance payment periods. 5. Support to airlines.

### Measures involving deferral of taxes and public insurance contributions

- **Deferral of public insurance contribution payments in case of a decrease in revenues exceeding 40%.** The measure defers the payment of social security and public health insurance contributions by employers and self-employed persons whose revenues dropped by more than 40% on the same month of the prior year. The measure was extended repeatedly and was effective till July.
- **Deferral of income tax advance payments in case of a decrease in revenues exceeding 40%.** This measure has a cash impact; the accrual settlement is to be made within the framework of the annual clearing (in 2021).
- Optional postponement of natural persons' and corporate entities' obligation to file income tax return for 2019 up to the end of September.
- **Other tax-related measures:** 1. Extension of the time limit for employers for the disbursement of overpaid income tax, child tax credit and tax credit for interest paid on a housing loan resulting from annual tax clearing past the end of the pandemic. 2. Measures for the non-profit sector: extension of the tax assignment deadline. 3. Waiver of advances for motor vehicle tax.<sup>79</sup>

**Another bank measure is new guaranteed loans which can be drawn through five programmes.** The first three have been launched under a de-minimis scheme allowing businesses to obtain aid through three institutions. The first option is a loan guaranteed by Slovak Investment Holding (SIH), a state-owned joint stock company. The announced allocation to guarantees is EUR 38 million, with a margin for increase by further EUR 57 million. The loans as such will be granted to businesses by commercial banks. Another lending institution is EXIMBANKA SR, which will also support large undertakings by way of loans, guarantees and remission of guarantee premiums. Aid to small and medium-sized enterprises and self-employed persons will also be provided by *Slovenská záručná a rozvojová banka* (SZRB) through loans ranging from EUR 10,000 to EUR 350,000. EXIMBANKA SR and SZRB envisage granting loans in an aggregate amount of around EUR 50 million, with possible further increase in this amount. The other two programmes under the so-called **Big State Aid Scheme** are based on the new rules of the temporary framework issued by the Commission. The Scheme is supposed to provide funding to small, medium as well as large enterprises through EXIMBANKA SR and SIH. The estimated total amount of guarantees is EUR 1.5 million per month.

**The Government also agreed with financial institutions on postponement of loan repayments for a maximum of 9 months<sup>80</sup>.** This applies to people affected by the current pandemic who ask for postponement. The postponement will be granted at no charge, but it does not mean forgiveness of any part of the debt or interest. Clients who choose to use the postponement option will not have a negative record in the credit register.

<sup>77</sup> The allowance is payable to employees whose employment started no later than 1 March 2020. Also, to be eligible, an employee must not have a layoff status as at the date of filing the allowance request.

<sup>78</sup> The measure has an accrual impact in 2019, but the cash aid will be available to firms in 2020.

<sup>79</sup> The Measures 1 and 2 have a positive effect on the balance of 2020 as they reduce the shortfall in revenue for the year by extending the relevant deadlines to 2021.

<sup>80</sup> The postponement arrangement extends to banks, leasing companies and non-banking companies for all types of loans, from mortgage loans to consumer loans, and the postponement is available for a maximum of 9 months. For non-bank companies and leasing companies, clients may request a three-month postponement with the option to ask for an additional three-month postponement.



**Local governments may ask for interest-free loans in an amount of up to the shortfall in revenue from personal income tax.** Local governments must spend such loans by the end of the current year. With regard to the adverse development in local government's fiscal performance due to the COVID-19 pandemic, the first repayments are postponed to 2024. Then, the loans will be repayable in four years, by 2027.



## Annex 8 – Compulsory tables (2-pack)

Table 0a	2019	2020	2021
Short-term interest rate (annual average)	-0,4	-0,4	-0,4
Long-term interest rate (annual average)	0,3	0,2	0,7
USD/€ exchange rate (annual average)	1,1	1,1	1,2
Nominal effective exchange rate	0,3	-0,8	-0,1
World excluding EU, GDP growth			
EU GDP growth			
Growth of relevant foreign markets	2,1	-5,7	5,0
World import volumes, excluding EU			
Oil prices (Brent, USD/barrel)	64,2	43,7	47,9

Table 0b	2019 (Levels)	2020 (Levels)	2021 (Levels)
<b>1. External environment</b>			
a. Prices of commodities	64,2	43,7	47,9
b. Spreads of German Bond	0,5	0,6	0,7
<b>2. Fiscal policy</b>			
a. General Government net lending/ net borrowing	-1,4	-9,7	-7,4
b. General gross debt	48,5	62,2	65
<b>3. Monetary policy / Financial sector / Interest rates assumptions</b>			
a. interest rates			
i. Euribor	-0,4	-0,4	-0,4
ii. Deposit rates	0,2	0,1	0,1
iii. Interest rates for loans			
iv. Yields to maturity of 10 year government bonds			
b. Evolution of deposits	61,1	62,6	65,6
c. Evolution of loans			
d. NPL Trends			
<b>Demographic trends</b>			
a. Evolution of working age population	3718,1	3690,6	3662,8
b. Dependency ratios	46,6	47,9	49,1
<b>Structural dependencies</b>			

Table 1a	ESA Code	2019 (Levels)	2019 (rate of change)	2020 (rate of change)	2021 (rate of change)
1. Real GDP	B1*g	89295,3	2,4	-6,7	5,5
of which					
Attributable to the estimated impact of aggregated budgetary measures on economic growth					
2. Potential GDP		87466,5	2	0,8	2
<b>Contributions</b>					
Potential GDP contributions: Labour			0,3	0	0,3
Potential GDP contributions: Capital			0,8	0,8	0,6
Potential GDP contributions: total factor productivity			1	0	1,2
3. Nominal GDP	B1*g	93865,2	4,9	-4,8	6,7
<b>Components Of real GDP</b>					
4. Private consumption expenditure	P.3	49714,8	2,1	-1,2	3
5. Government consumption expenditure	P.3	16030,8	4,6	-1,7	0
6. Gross fixed capital formation	P.51	19425	6,8	-9,9	7,6
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	1747,4	2	-0,3	1,1
8. Exports of goods and services	P.6	85548,8	1,7	-9,3	9,7



9. Imports of goods and services	P.7	83156,2	2,6	-7,9	8,3
Contribution to real GDP growth					
10. Final domestic demand			3,4	-3,1	3,3
11. Changes in inventories and net acquisition of value	P.52 + P.53		-0,3	-2,2	1,4
12. External balance of goods and services	B.11		-0,7	-1,6	1,4

**Table 1b**

	2019 (Levels)	2019 (rate of change)	2020 (rate of change)	2021 (rate of change)
1. GDP deflator	1,1	2,4	1,9	1,1
2. Private consumption deflator	1,1	2,7	2,2	1,1
3. HICP	106,3	2,8	2	1,1
4. Public consumption deflator	1,2	5,6	5,8	1,7
5. Investment deflator	1	1,2	0,4	1,3
6. Export price deflator (goods and services)	1	0	-2,2	0,8
7. Import price deflator (goods and services)	1	0,2	-1,4	1,1

**Table 1c**

	ESA Code	2019 (Levels)	2019 (rate of change)	2020 (rate of change)	2021 (rate of change)
1. Employment, persons		2450,1	1,2	-1,5	0,6
2. Employment, hours worked		4153	0,7	-7,4	7,2
3. Unemployment rate (%)		5,8	-0,8	1,1	0
4. Labour productivity, persons		36445,9	1,1	-5,2	4,9
5. Labour productivity, hours worked		21,5	1,7	1	4,9
6. Compensation of employees	D.1	40517,8	8,4	0,3	4,8
7. Compensation per employee		19085,1	7,1	1,7	4,2

**Table 1d**

	ESA Code	2019 (% of GDP)	2020 (% of GDP)	2021 (% of GDP)
1. Net lending/borrowing vis-a-vis the rest of the world	B.9	-3,3	-2,5	-1,6
of which				
- Balance on goods and services		-1,8	-0,9	0,2
- Balance of primary incomes and transfers		-2,5	-3	-3,2
- Capital account		1	1,4	1,4
2. Net lending/borrowing of the private sector	B.9			
3. Net lending/borrowing of general government	EDP B.9	-1,4	-9,7	-7,4
4. Statistical discrepancy		0	0	0

**Table 2a**

	ESA Code	2020 (% of GDP)	2021 (% of GDP)
Net lending (EDP B.9) by sub-sector			
1. Net lending/net borrowing: General government	S.13	-9,7	-7,4
2. Net lending/net borrowing: Central government	S.1311	-9,7	-7
3. Net lending/net borrowing: State government	S.1312		
4. Net lending/net borrowing: Local government	S.1313	-0,1	-0,4
5. Social security funds	S.1314	0,1	0
6. Interest expenditure	EDP D.41	1,1	1
7. Primary balance		-8,5	-6,4
8. One-off and other temporary measures		-2	-1
8.a Of which one-offs on the revenue side: general government		0	-0,1
8.b Of which one-offs on the expenditure side: general government		-2	-0,8





9. Real GDP Growth(%) (=1 in Table 1a)		-6,7	5,5
10. Potential GDP Growth(%) (=2 in Table 1a)		0,8	2
<b>Contributions</b>			
-Labour		0	0,3
-Capital		0,8	0,6
-Total factor productivity		0	1,2
11. Output gap (% of potential GDP)		-5,5	-2,2
12. Cyclical budgetary Component (% of potential GDP)		-2,1	-0,8
13. Cyclically adjusted balance (1-12) (% of potential GDP)		-7,6	-6,6
14. Cyclically adjusted primary balance (13+6) (% of potential GDP)		-6,5	-5,6
15. Structural balance (13-8) (% of potential GDP)		-5,6	-5,6

Table 2b	ESA Code	2020 (% of GDP)	2021 (% of GDP)
1. Gross debt		62,2	65
2. Change in gross debt ratio		13,7	2,8
<b>Contributions to changes in gross debt</b>			
3. Primary balance		8,6	6,5
4. Interest expenditure	EDP D.41	1,1	1
5. Stock-flow adjustment		1,6	-0,7
<b>of which:</b>			
- Differences between cash and accruals		1,1	0,9
- Net accumulation of financial assets		0,5	-1,7
<b>of which:</b>			
- privatisation proceeds		0	0
- Valuation effects and other		0	0
p.m.: Implicit interest rate on debt		2,2	1,7
<b>Other relevant variables</b>			
6. Liquid financial assets		5,5	3,4
7. Net financial debt (7=1-6)		56,7	61,6
8. Debt amortization (existing bonds) since the end of the previous year		5,1	2,7
9. Percentage of debt denominated in foreign currency		3,6	3,5
10. Average maturity		8,4	8,4

Table 2c	2020 (% of GDP)	2021 (% of GDP)
Public guarantees	19,3	19,8
Public guarantees: linked to the financial sector	10,8	11,7

Table 3	ESA Code	2020 (% of GDP)	2021 (% of GDP)
<b>General government (S13)</b>			
1. Total revenue at unchanged policies	TR	42,1	41,6
<b>Of which</b>			
1.1 Taxes on production and imports	D.2	12,4	12,3
1.2 Current taxes on income, wealth, etc	D.5	6,7	6,5
1.3 Capital taxes	D.91	0	0
1.4 social contributions	D.61	16	15,9
1.5 Property income	D.4	0,5	0,6
1.6 Other		6,5	6,3
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		35,1	34,7



Total expenditure at unchanged policies	TE	51,8	47,6
Of which			
2.1 Compensation of employees	D.1	11,6	11,2
2.2 Intermediate consumption	P.2	7,9	6,7
2.3 Social payments	D.62,D.63	22,4	21,4
Of which unemployment benefits		0,5	0,3
2.4 Interest expenditure	EDP D.41	1,1	1
2.5 Subsidies	D.3	1,4	1,5
2.6 Gross fixed capital formation	P.51	3,8	3,2
2.7 Capital transfers	D.9	0,9	0,2
2.8 Other		2,6	2,4

Table 4a

	ESA Code	2020 (% of GDP)	2021 (% of GDP)
<b>General government (S13)</b>			
1. Total revenue target	TR	42,1	41,4
Of which			
1.1 Taxes on production and imports	D.2	12,4	12
1.2 Current taxes on income, wealth, etc.	D.5	6,7	6,6
1.3 Capital taxes	D.91	0	0
1.4 social contributions	D.61	16	15,9
1.5 Property income	D.4	0,5	0,6
1.6 Other		6,5	6,3
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		35,1	34,4
Total expenditure target	TE	51,8	48,8
Of which			
2.1 Compensation of employees	D.1	11,6	10,8
2.2 Intermediate consumption	P.2	7,9	7,8
2.3 Social payments	D.62,D.63	22,4	21,1
Of which unemployment benefits		0,5	0,3
2.4 Interest expenditure( =9 in table 2.a)	EDP D.41	1,1	1
2.5 Subsidies	D.3	1,4	1,5
2.6 Gross fixed capital formation	P.51	3,8	3,4
2.7 Capital transfers	D.9	0,9	0,2
2.8 Other		2,6	2,9

Table 4b

	2019 (Levels)	2019 (% of GDP)	2020 (% of GDP)	2021 (% of GDP)
1. Expenditure on EU programmes fully matched by EU funds revenue	889,9	0,9	1,1	1,2
1a. Investment expenditure fully matched by EU funds revenue	587,4	0,6	0,6	0,2
2. Cyclical unemployment benefit expenditure	-22,7	0	0,1	0
3. Effect of discretionary revenue measures	0	0	-0,5	-0,1
4. Revenues increased mandated by law	0	0	0	0

Table 4ci

	2020 (% of GDP)	2020	2021 (% of GDP)	2021
Education	4,9	9,4	4,8	9,8
Health	8,8	16,9	8,4	17,2
Employment	0,8	1,5	0,1	0,1



Table 4cii	COFOG Code	2020 (% of GDP)	2021 (% of GDP)
1. General public services	1	6,7	8,6
2. Defence	2	1,5	1,1
3. Public order and safety	3	2,8	2,4
4. Economic affairs	4	7,3	4,8
5. Environmental protection	5	0,9	0,8
6. Housing and community amenities	6	0,6	0,4
7. Health	7	8,8	8,4
8. Recreation, culture and religion	8	1,3	1,2
9. Education	9	4,9	4,8
10. Social protection	10	17,3	16,5
11. Total expenditure (=2 in Table 2c)	TE	52	49

Table 5a	ESA Code	2019	2020	2021	2022	2023
<b>Revenue</b>						
Taxes on production and imports	D.2	308,5	-104,2	-46,4	96,9	66,7
Current taxes on income, wealth, etc	D.5	-78,5	-205,9	-4,4	-6,0	0,0
Capital taxes	D.91	0,0	0,0	0,0	0,0	0,0
Social contributions	D.61	-50,2	-100,7	-13,3	-46,6	-3,3
Property income	D.4	0,0	0,0	0,0	0,0	0,0
Other	P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)	0,0	0,0	0,0	0,0	0,0
<b>Total (revenue)</b>		<b>179,8</b>	<b>-410,8</b>	<b>-64,1</b>	<b>44,4</b>	<b>63,5</b>
<b>Expenditure</b>						
Compensation of employees	D.1		863,0	-104,5	-60,5	-56,0
Intermediate consumption	P.2		776,0	294,0	-1317,5	-50,0
Social payments, of which, where applicable, unemployment benefits including cash benefits and in...	D.62+D.63+D.621+D.624+D.631		1965,0	-1152,0	79,0	-36,0
Interest expenditure	EDP D.41		0,0	0,0	0,0	0,0
Subsidies	D.3		340,0	-184,0	0,0	0,0
Gross fixed capital formation	P.51		8,0	-1,0	-5,0	-1,0
Capital transfers	D.9		0,0	-19,0	-9,0	0,0
Other (other than D.41)	D.29+D.4+D.5+D.7+P.52+P.53+K.2+D.8		45,0	331,5	-152,0	-2,0
<b>Total (expenditure)</b>			<b>3997,0</b>	<b>-835,0</b>	<b>-1465,0</b>	<b>-145,0</b>
<b>Total</b>			<b>4407,8</b>	<b>-770,9</b>	<b>-1509,4</b>	<b>-208,5</b>

Table 7	ESA Code	2019 (% of GDP)	2020 (% of GDP)	2021 (% of GDP)
<b>Target general government net lending/borrowing</b>				
Stability plan	EDP B.9	-1,3	-8,4	-4,88
Draft budgetary plan	EDP B.9		-9,7	-7,4
Difference		0	1,3	2,52
<b>General government net Lending projection at unchanged policies</b>				
Stability plan	EDP B.9	0	0	0
Draft budgetary Plan	EDP B.9		-9,7	-6
Difference		0	9,7	6