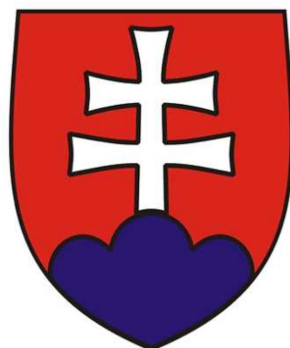

Draft Budgetary Plan
of the Slovak Republic for 2023

October 2022

After Government's approval, the material was updated due to the correction of the original gross debt forecast, which revised the General Government debt and liquid financial assets upwards by approximately 2 percentage points of GDP.

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LIST OF ABBREVIATIONS

CPV - Current Pension Value

BCR – Benefit/Cost Ratio of a project

CSR - Country-Specific Recommendations

TE - Total Expenditure

VAT - Value Added Tax

CIT - Corporate Income Tax

DRG – system of payments to hospitals based on Diagnosis-Related Groups

DSS - Pension Fund Management Company

ECB - European Central Bank

ETR – Effective Tax Rate

EFSF – European Financial Stability Facility

EC (Commission) - European Commission

ECBT - Economic Classification of Budgetary Transactions

ESM – European Stability Mechanism

EU - European Union

GDP - Gross Domestic Product

HICP - Harmonised Consumer Price Index

JAVYS - *Jadrová a vyraďovacia spoločnosť* (Slovak Nuclear and Decommissioning Company)

OCBR - Office of the Council for Budget Responsibility

LFA – Liquid Financial Assets

MF SR - Ministry of Finance of the Slovak Republic

IMF - International Monetary Fund

MD SR - Ministry of Defence of the Slovak Republic

MLSaF - Ministry of Labour, Social Affairs and Family of the Slovak Republic

MTO - Medium-Term (budgetary) Objective

MH SR - Ministry of Health of the Slovak Republic

NBS - National Bank of Slovakia

NDS - *Národná diaľničná spoločnosť* (National Motorway Management Company)

NISH - Non-profit Institutions Serving Households

NPC - No-Policy-Change Scenario

NC SR - National Council of the Slovak Republic

FFGG – Fiscal Framework of General Government Budget

HNB – Home-Nursing Benefit

E – Expected actual result

RES - Renewable Energy Sources

SB - Sickness Benefit

RRP - Recovery and Resilience Plan

RRF - Recovery and Resilience Facility

CBR - Council for Budget Responsibility

S1 –Medium-term sustainability indicator of public finances

S2 – Long-term sustainability indicator of public finances

SAV - Slovak Academy of Sciences

SIH – Slovak Investment Holding

SEP - Self-Employed Person

SZRB – Slovak Guarantee and Development Bank

ST - State Treasury

SB - State Budget

TFP – Total Factor Productivity

SD – Severe Disability

RONI - Regulatory Office for Network Industries

GG - General Government

HTU - Higher Territorial Unit

GBR – Generally Binding Regulation

PHI - Public Health Insurance

TA - Taxable Amount

ZSR – *Železnice Slovenskej republiky* (Railways of the Slovak Republic)

ZSSK – *Železničná spoločnosť Slovensko* (Railway Company of Slovakia)

Summary

The budget for the upcoming years will continue to be characterised by the necessity of responding to the most urgent challenges. After some stabilisation of the situation arising from the consequences of the COVID-19 pandemic and the military conflict in Ukraine, an energy crisis has come to the fore. The rise in energy prices in the market environment is so high that if fully reflected in the economy, it would lead to an increase in the costs of households, businesses and general government of approximately EUR 24 billion. This would amount to almost a quarter of the output of the whole economy, or a half of the general government budget. It is thus an unprecedented shock both for the economy and for public finances.

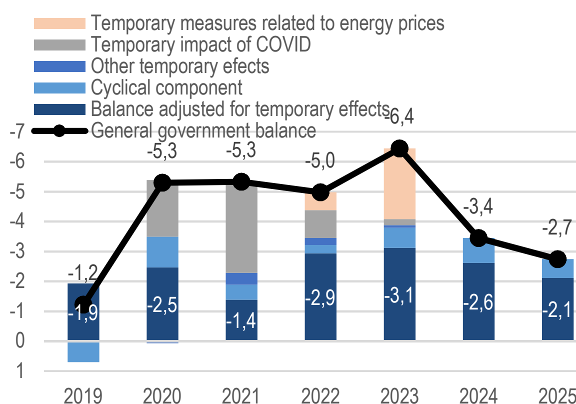
The double-digit inflation will gradually impact all sectors of the economy. The Russian invasion of Ukraine has caused a shortage of some commodities and energy in the global market, which has triggered a rise in prices. Despite that, the Slovak economy will further strengthen by 1.9% in 2022 and unemployment will slightly decrease. Next year, however, the impact of the price growth will be significant. Real wages will fall for the second year in a row, and so will the rates of households' savings and consumption. The GDP growth dynamics will slow down to 0.6%. The labour market will be stagnant and some recovery will be seen only in 2024.

The general government fiscal deficit may reach 5.0% of GDP this year, which is approximately at the level of the last two years. While the costs of the pandemic is expected to amount only by one third compared to the last year, the necessity of compensating the high inflation is a new challenge to be coped with. Measures taken so far have been targeting mainly pensioners and, to a lesser extent, the most vulnerable groups of the population. The baseline estimate of the deficit is based on an assumption that certain, so far unspecified, additional measures in the amount of 0.6% of GDP would be adopted this year to the benefit of private enterprises and public sector entities to make up for high energy costs. Revenue measures based on the temporary regulation of surplus profits will cover approximately one third of these costs. While the baseline scenario underlying the deficit estimate remains subject to great uncertainty, more positive budgetary risks prevail. Current spending as at September has been slower than foreseen in the budgetary plan and indicates that the deficit could eventually be significantly lower.

Considering the prospects of a stagnant economy, the fiscal policy planned by the Government for the next year is about neutral, but with a significant amount of one-off compensatory measures targeting households, businesses as well as public administration. The budget for the next year assumes a level of permanent deficit that is approximately the same as the level of the current year. Moreover, it provides for temporary measures in value of more than 3% of GDP. These will mainly be related to new schemes to mitigate the consequences of rising energy prices, especially for companies and, also, for households. From the next year on, the rise in energy costs for households will also be attenuated through an agreement on price stabilisation signed with *Slovenské elektrárne (*Slovakia's electricity producer) and the utilisation of gas reserves. A part of the Government's costs can be refinanced from the temporary regulation of so-called surplus profits and, possibly, reallocation of unused European funds.

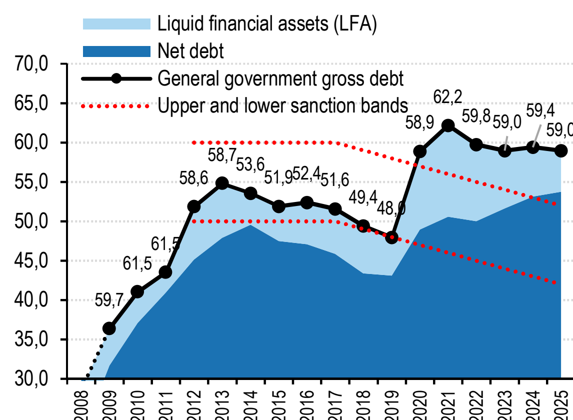
Despite higher deficits, the inflationary environment will drive a short-term reduction in the debt and subsequent stabilization slightly below 60 % of GDP. In 2023, the debt is expected to decrease from the last year's 62.2 % of GDP to 59 % of GDP. Subsequently, after some easing of inflation, the debt will stabilize at unchanged level, or will decrease by 2 percentage points if a reduction in the deficit is achieved in line with the Government's plans. The outlined consolidation plan will require measures with a cost of almost EUR 2 billion, which have not yet been particularised. However, the situation around the debt brake remains unclear. Without the relevant legislative amendment, the Government will be obliged to present a balanced budget for 2024, which will mean an abrupt tightening of the budget with a need for threefold austerity measures.

FIGURE 1 – General government fiscal deficit (% of GDP)



Source: MoF SR

FIGURE 2 – Gross general government debt (% of GDP)



Source: MoF SR

In addition to short-term challenges, it is also necessary to respond to long-term ones that mainly arise from the reforms foreseen in the Recovery and Resilience Plan. The long-term sustainability of public finances is in a high-risk band. The Parliament approved a reform of the first pillar of the pension system which, while involving measures to reduce future expenditures of the pension system, increases the current amount of expenditure, and this mainly through the so-called parental bonus. The Government has also approved a reform of the second pillar aiming to improve the efficiency of appreciation of pension savings through the application of predefined investment strategies. As regards measures to improve the quality of human capital, those of major importance will include the introduction of mandatory pre-primary education, or the gradual implementation of a curricular reform and changes in the tertiary education system. In order to increase the inflow of highly qualified labour force, measures are also being prepared to streamline processes under the residence and work permission legislation. The setting up of centres of excellence will support the linking of vocational education to the labour market. As regards social policies, activities aimed at the integration of Roma communities continue to be implemented in the areas of education, health, housing and employment. Productivity-enhancing measures will focus on increasing overall investment in science and research, supporting digitisation by providing the infrastructure in areas not covered by the market, improving digital skills and building effective electronic public administration. At the same time, the investment management reform will be continued with the goal of increasing the social return on projects and speeding up the investment process and enhancing its transparency. The business environment will benefit from a reduction in the administrative burden and the elimination of inefficient regulations.

The Draft Budgetary Plan is based on the draft general government budget for the years 2023 to 2025. The preparation of the document follows from requirements arising from the European Union's legislation. The Plan presents the fiscal stance trend, economic development projections and a description of fiscal policy measures to achieve the medium-term objectives. The European Commission will then issue its opinion concerning the Budgetary Plan. The Budgetary Plan is based on the September forecast of the Macroeconomic and Tax Revenue Forecasting Committees. The data presented as actual results are based on the data previously submitted for Eurostat's October notification, which is presently in progress, and the final figures may change.

I Macroeconomic basis of the draft budget

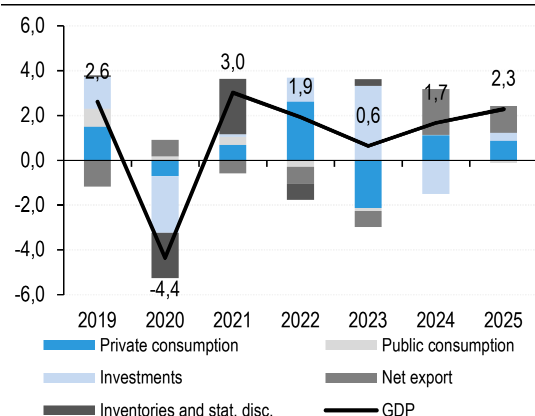
The global pandemic has been replaced by global inflation. The invasion of Ukraine by Russian troops has caused a shortage of some agricultural commodities and energy in the global market, which has triggered a rise in prices of almost all goods and services. Despite the growing cost pressures, the Slovak economy is expected to further strengthen by 1.9% in 2022, with a moderate decrease in unemployment. The reason is the post-pandemic revival of private investment and consumption. However, at the beginning of 2023, the economy will be significantly affected by the sharp rise in electricity and gas prices, which will lead to double-digit inflation. Real wages will fall, and so will households' savings and consumption. The dynamics of GDP will slow down to 0.6%. The labour market will be stagnant and some economic recovery will be seen only in 2024.

I.1. Macroeconomic forecast[1]

Despite the growing cost pressures, the Slovak economy is expected to further strengthen by 1.9 per cent in 2022. The reason is the post-pandemic revival of investment and consumption. However, in the second half of the year, high inflation will start to weaken the dynamics of the economy. Foreign trade will slow down because of stagnation in the euro area and the V3 countries. Energy-intensive industries will be particularly affected. Rising consumer prices will lead to a drop in domestic consumption in the second half of the year since households have already exhausted the savings they accumulated during the pandemic. The economy will be supported by the expenditure of people fleeing Ukraine and, in the last quarter, a higher tax bonus, which is a part of the "pro-family package" of measures. The labour market will be hit by the negative effects of high prices at the turn of the year when many companies' older energy supply contracts will expire and households will be affected by a rise in regulated electricity and gas prices. Employment will stagnate. The development of nominal wages will be supported by the indexation of salaries and a one-off bonus for employees in the public sector.

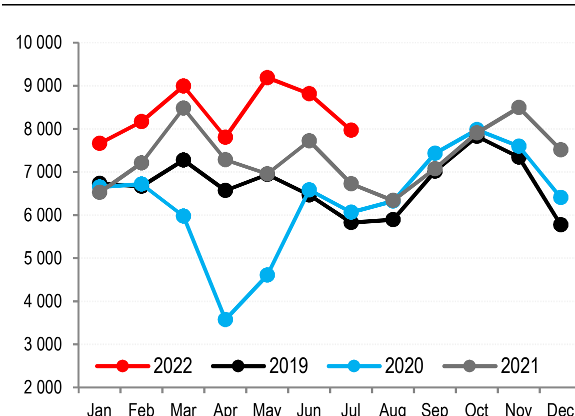
The energy crisis will slow down the growth of the Slovak GDP from 1.9 per cent to 0.6 per cent in 2023. A significant drop in dynamics will be accompanied by a reduction in both foreign and domestic consumption, as prices will outpace nominal wages. Saving rates will approach historic lows. Disposable income will be supported by the indexation of salaries in the public sector and the "pro-family package", which will mitigate the negative impact of inflation on consumption. Positive factors for the economic activity will include investments under the Recovery and Resilience Plan and drawing down of allocations from the EU structural funds remaining at the end of the third programming period. In the second half of the year, we expect to see an acceleration of exports, but the sector will remain affected by great uncertainty from lasting supply chain problems.

FIGURE 3 - GDP growth contributors - forecast (pp)



Source: MF SR

FIGURE 4 – Exports of goods by month (EUR million)



Source: SO SR

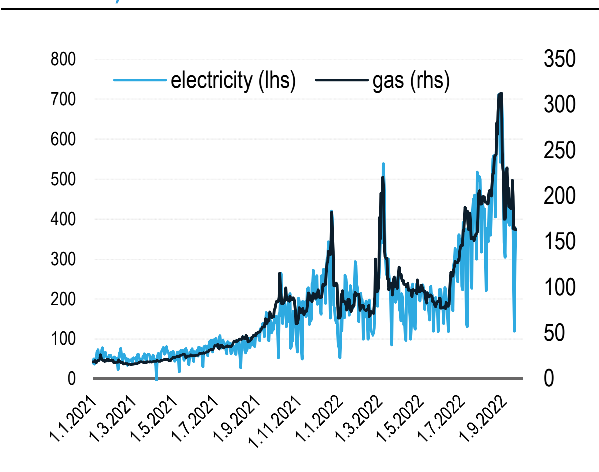
[1] The time series of expected GDP levels for the years 2021 to 2024 is computed on the basis of the revised GDP data for 2020 submitted to Eurostat for autumn notifications and adjusted by chain-linking nominal year-to-year growth rates taken from the September forecast of the Macroeconomic Forecasting Committee. These assumptions are also applied to other indicators related to GDP. The forecast embeds an assumption of a reduction in the structural deficit of public finances of 1 % of GDP in the years 2023 - 2024.

We expect the economy to recover in 2024 and 2025 when the undercooling will gradually diminish. Slovak exports will be driven not only by foreign demand, but also by regaining of the market shares lost in the recent years. However, return to the normal, lower rates of drawing the EU funds and a slower inflow of young people to the labour market due to demoFIGUREic changes will pose a hindrance.

Despite growing price pressures, the labour market will strengthen in 2022. The first half of the year was marked by post-Covid recovery, which was also reflected in a high growth of employment. Accordingly, the unemployment rate fell by a half of a percentage point in the first six months of the year. The service sector, which was hit the hardest during the pandemic, was the major contributor to the positive development; another one was people from Ukraine, with approximately 10,000 people employed in the first half of the year. For now, they mostly take up low-skilled jobs in industry and services that have remained overlooked by domestic workers for a long time. In the second half of the year, we expect a slowdown in industry due to high energy prices, which will also reduce employment. The unemployment rate is expected to reach 6 per cent as at the end of 2022.

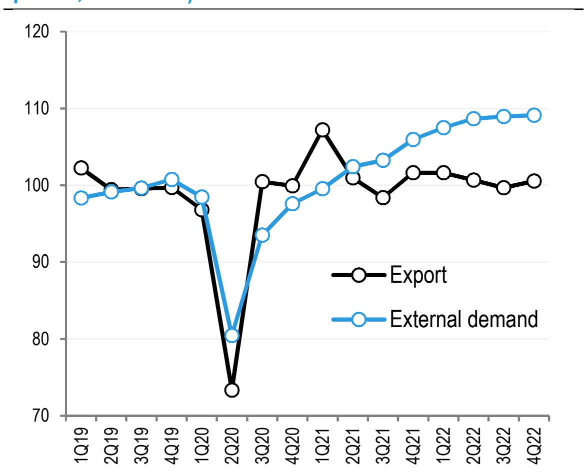
The deceleration of GDP growth will bring about stagnation of employment in 2023. High energy prices will inhibit household consumption, which, together with the decline in industry, will negatively affect job creation. The increase in unemployment will affect particularly workers in energy-intensive production, but overall we do not expect a significant decrease in the number of jobs. The unemployment rate is expected to reach 6.1 per cent on average in 2023. When the energy shock wears off, investments under the Recovery and Resilience Plan, industrial recovery and the adopted “pro-family package” are supposed to drive a reduction in unemployment.

FIGURE 5 – Wholesale energy prices (spot prices, EUR/MWh)



Source: ENTSO-E, EEX

FIGURE 6 – Market share regain forecast (constant prices, 2019=100)



Source: MF SR

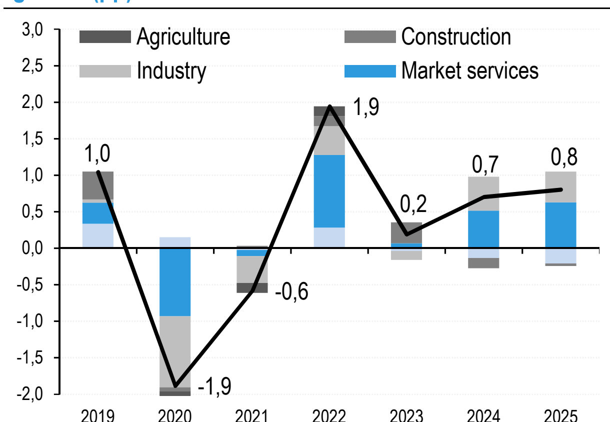
Fuelled mainly by energy prices, inflation will reach 12.4 per cent in 2022. Global prices of agricultural commodities have slightly fallen down from the levels to which they were initially driven by the Russian aggression. On the contrary, European gas and electricity prices increased during the summer, even though they no longer reach the extreme values seen at the end of August. The higher costs of businesses will thus drive a rise in prices of food as well as goods and services until the end of the year. Regulated prices are pushed up by the upcoming increase in energy prices for households at the beginning of the year. Imputed rent is also higher, reflecting the increased prices of energy and building materials. Fuel prices will be a quarter higher than the last year even though they have been falling for several months in a row.

The rise in prices will culminate in 2023 at 13.5 per cent. The Russian invasion combined with the effect of an increased demand for goods (as opposed to services) during the pandemic has significantly pushed up the prices of future energy commodity contracts. Under the standard regulatory framework, this would lead to a nearly fivefold and threefold increase in the prices of electricity and gas, respectively, for 2023. With such development, total

inflation could exceed 30 per cent. Measures to cap energy prices are being prepared at both the European and the national levels; at the time of the forecast, however, the specific measures were not known yet. Based on the available information, the forecast for 2023 assumes a 40 per cent price increase for electricity and a 60 per cent price increase for gas. The full impact of the higher wholesale price of gas is likely to be reflected in prices of heat which, for now, are not subject to a cap. With the proposed regulation, only a slight increase would be expected in the following years. The price of electricity will rise again after the expiration of the two-year period agreed in the memorandum with Slovenské elektrárne. In a medium term, inflation will also be attenuated by the expected consolidation of public finances.

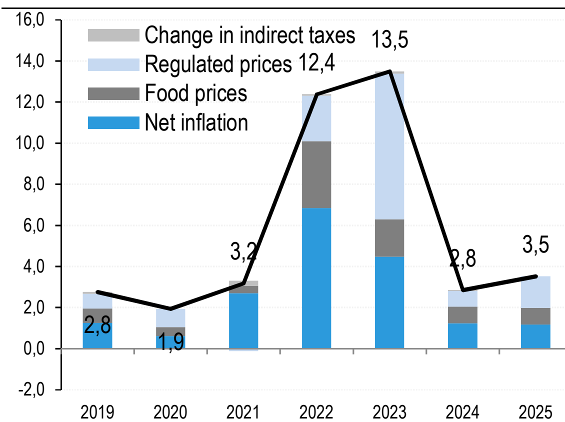
Real wages will cumulatively decrease by more than 6 per cent in 2022 and 2023. While nominal wages will grow at a high rate in the years ahead, they will not catch up with inflation in this or the next year. The significant salary gap between the public sector and other sectors will be somewhat alleviated this year by the three percent increase in salary rates and disbursement of a one-off bonus of EUR 500, as adopted in July. Next year, salaries in public administration (including education) will see a significant increase in January due to a strong indexation. In the private sector, the growth of nominal wages may be limited by higher energy costs for companies.

FIGURE 7 - Contributions of sectors to employment growth (pp)



Source: MF SR

FIGURE 8 - Contributions to inflation (pp)



Source: MF SR

The forecast of the MF SR is more pessimistic compared to the Commission's spring and summer forecasts[2]. The main reason is the fact that the September forecast of the MF SR reflects the sharp increase in energy prices experienced in the summer months which pushes up costs of firms in Europe and will probably lead to a recession in the euro area and a slowdown in the growth of GDP and employment in Slovakia. The Commission's earlier forecasts did not reflect the summer price increase. According to the MF SR, the output gap is going to widen in 2023 for this reason, contrary to the estimate of the Commission.

TABLE 1 – Comparison between the Commission' forecast and the MF SR's forecast

Growth in %, unless otherwise stated		2022	2023
Real GDP	Forecast EC (spring)	2.3	3.6
	Forecast EC (summer)	1.9	2.7
	Forecast MoF (sept)	1.9	0.6
Personal consumption	Forecast EC (spring)	1.9	1.9
	Forecast MoF (sept)	4.6	-3.7
Government consumption	Forecast EC (spring)	-1.7	0.2

[2] 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.

	Forecast MoF (sept)	-1.5	-0.7
Total investments	Forecast EC (spring)	10.8	13.4
	Forecast MoF (sept)	5.4	16.3
Export of goods and services	Forecast EC (spring)	2.9	7.4
	Forecast MoF (sept)	-1.6	1.7
Import of goods anservices	Forecast EC (spring)	3.4	7.6
	Forecast MoF (sept)	-0.9	2.4
HICP	Forecast EC (spring)	9.8	6.8
	Forecast EC (summer)	10.5	8.2
	Forecast MoF (sept)	11.6	13.5
Employment (ESA)	Forecast EC (spring)	1.9	0.6
	Forecast MoF (sept)	1.9	0.2
Output gap (% of potential GDP)	Forecast EC (spring)	-0.8	0.0
	Forecast MoF (sept)	-0.7	-1.8

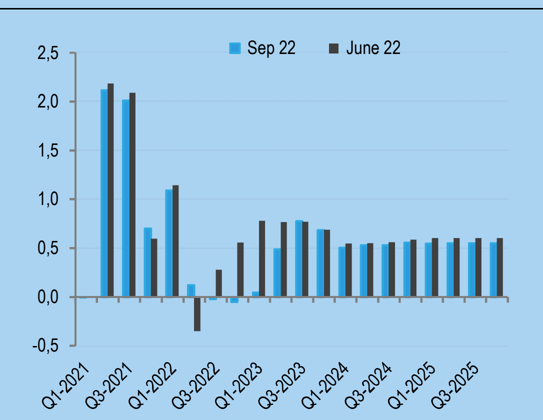
Source: MF SR

BOX 1 – External environment assumptions

The Russian aggression against Ukraine has increased commodity prices around the world. Europe is currently facing additional price pressures as it seeks to move away from a heavy reliance on commodity supplies from Russia. High inflation in the euro area and the V3 countries is worsening the countries' expected real economic development and they are about to face a threat of recession at the turn of the year (FIGURE 9). The recovery effect of the opening of economies seen at the beginning of 2022 has faded and the population's real income is decreasing. The downturn in the economy will be driven mainly by a decline in consumer spending. Economic activity will be negatively affected by high input costs and limitation of production by unprofitable companies. The energy market tension will be relieved only in the second half of 2023; households will release savings and will gradually contribute to the recovery of our business partners' economic activity. The collapse and subsequent recovery of foreign demand will go hand in hand with effective fiscal measures aimed at limiting the full transfer of high market prices into companies' costs and consumer prices. GDP will also be supported by the drawing of funds under the RRF.

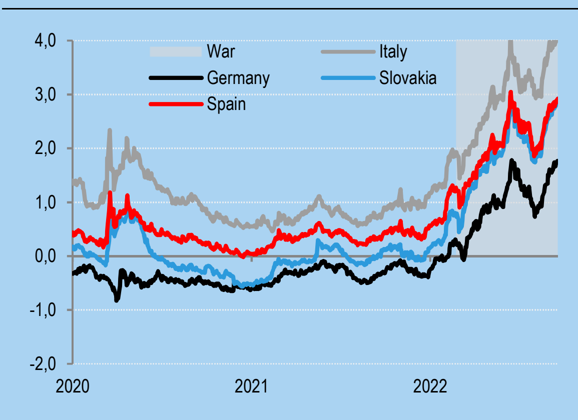
The strong and widespread price growth has prompted the European Central Bank (ECB) to increase short-term interest rates, and this step has augmented the pressure on long-term government bond yields (FIGURE 10). In response to the expected slowdown of the euro-area economy and the tightening of the monetary policy, the euro is wobbling around parity with the US dollar. The Central Bank is expected to respond to high inflation by further tightening the monetary policy, and this raises concerns about a weaker performance of the euro-area economy. Higher interest rates and uncertainty are slowing the investment activity down. Fiscal measures to moderate the rise in energy prices for households and businesses will help to stabilise the economic situation. The alternative sourcing of energy from suppliers other than Russia and availability of new sources within Europe will stabilise the energy market in 2023 and stop the deterioration of financial conditions.

FIGURE 9 – GDP growth forecast for the external environment – weighted euro area and V3 (%, qoq)



Source: IFP

FIGURE 10 – Yields on 10-year government bonds (%)



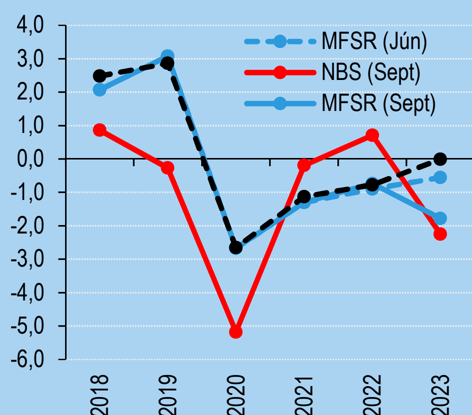
Source: Macrobond, IFP

BOX 2 – Output gap estimate

Russian invasion has caused a sharp increase in production costs and limited the production potential of the Slovak economy. In 2022, the potential GDP dynamics is expected to reach only 1.3 per cent. Inflation will also weaken demand and the economy will decline to -0.7 per cent below the potential. The consequences of the energy crisis will persist and the economic performance in 2023 will fall even deeper, to a level of -1.8 per cent of potential GDP. The estimates based on the national methodology of the MF SR are even more pessimistic than the Commission's forecast of May 2022. The Commission estimated that the production gap would close in 2023. The national methodology of the MF SR is used in this document for the estimation of the cyclical component required for computing the structural balance of public finances.

According to the national methodology of the Ministry of Finance of the Slovak Republic, the undercooling of the Slovak economy is expected to be only moderate, with a gap of 0.7 per cent below the potential. While in the first half of 2022 the GDP growth was supported by the lifting of pandemic measures, the high inflation will manifest itself more significantly in 2023 through weaker consumer demand. The recovery of the economy will be affected by a lack of additional savings. In 2023, the economic performance will be supported by the availability of undrawn allocations from the EU funds and the start of a more intensive use of funding under the Recovery Plan. Nevertheless, the economy will further decline to 1.8 per cent below potential. The demand side of the economy will recover only slowly. The output gap will slightly widen in 2024 due to the lack of the EU funds, while it is expected to gradually close thereafter. Potential output growth rate will be driven mainly by capital accumulation from investments from the EU funds and total factor productivity. However, TFP is significantly limited compared to the previous years' assumptions, which is attributable to the pandemic, lack of production inputs and, eventually, the energy crisis. As a result of the negative demoFIGUREic development, the contribution of potential employment growth will gradually fall substantially into negative values.

FIGURE 11 – Output gap (% of potential GDP): comparison between the estimates of the MF SR, the NBS and the Commission



Source: MF SR, NBS, AMECO

TABLE 2 – Output gap and contributions of factors to potential output growth, national methodology

	Output gap (% pot. GDP)	Pot. GDP (growth, %)	TFP*	Capital stock	Labour
2018	2.1	2.2	1.0	0.7	0.5
2019	3.1	1.6	0.6	0.7	0.2
2020	-2.7	1.3	0.6	0.7	-0.1
2021	-1.3	1.6	1.1	0.5	0.0
2022F	-0.7	1.3	0.8	0.6	0.0
2023F	-1.8	1.7	0.9	0.8	-0.1
2024F	-2.2	2.1	1.3	1.0	-0.2
2025F	-1.7	1.7	1.2	0.8	-0.3

*Total factor productivity

Source: MF SR

The difference in output gap estimations between the Commission's approach and the MF SR's approach (national methodology) lies in different forecast horizons and different total factor productivities (TFP). While the Commission estimates the output gap for 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 extension of the forecast horizon may thus lead to differences in the output gap estimate covering a shorter term. Another difference is the adjustment of TFP for the impact of investments under the Recovery Plan, which are estimated on the basis of panel data for 34 countries (EU, UK, USA, Iceland, Norway, Switzerland, Canada and Japan) for the years 2010 to 2019. An increase in the growth rate of investments by one percentage point is associated with an increase in the growth rate of total productivity by 0.061 pp. We then adjusted the growth of total factor productivity on the basis of the investment volume planned for each individual year and the estimated impact on TFP.

The MF SR's potential output estimate also takes account of the trend of the output gap which affects 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 estimate, but also on the cyclical component estimate. 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 positive balance of trade (indicating an excess of foreign demand over domestic demand) in recent years suggest only low overheating of the Slovak economy.

I.2. Alternative scenario of the macroeconomic forecast: higher energy prices for households

Due to the persisting sharp changes in the electricity and gas market, a scenario considering their more pessimistic development has been modelled, too.

The more pessimistic scenario with higher energy prices envisages an increase in the price of electricity and gas for households by up to 75 per cent and 160 per cent, respectively. Coping with the burden of high energy costs, households would significantly limit their current consumption of goods and services and real GDP would fall by 0.5 per cent in 2023. The opening of the economy after the pandemic lockdowns in the first half of 2022 promoted the recovery of household consumption despite high inflation. However, this consumption was at the expense of savings, which have fallen to historic lows. The outlined increases in final energy prices would put a big strain on the real income of households, and this would induce a threat of a consumption-driven recession of the economy. In this scenario, household consumption falls by more than 5 per cent year-on-year and inflation

reaches 18.5 per cent. The 160 per cent increase in gas prices supposed in this scenario is based on the information regarding the mixing of a part of cheap gas (with a price based on CAL-26 futures, currently approx. 60 EUR/MWh) with gas with a price based on the current RONI framework for the year 2023 (93 EUR/MWh). The scenario does not take in consideration an additional increase in gas and electricity prices for companies, assuming that they will absorb the increase gradually during 2022. Further, no major growth in nominal wages due to higher inflation is foreseen in the scenario since the bargaining positions of employees will be limited due to the previous high rise in companies' costs. In addition to consumption, households will also limit their capital spending, and this because of not only higher construction material costs and the uncertainty concerning future energy prices, but also the gradually rising interest rates on loans. The average growth of regulated prices in 2023 will reach 76 per cent, compared to 43 per cent in the baseline scenario.

TABLE 3 – Alternate scenario of the macroeconomic forecast: higher energy prices for households

Cumulative change of growth of individual variables in p.p.
Change in tax revenue as a difference to baseline scenario, gross GG debt as a difference to baseline forecast

	Real GDP	CPI	Output gap	Private consumption	Public consumption	Real investment	Real export	Employment	Nominal wages	Tax revenue (% of GDP)	GG debt (% of GDP)
2021	-0.3	0.2	-0.3	-0.5	0.0	-0.3	0.0	-0.2	-0.2	-0.2	0.3
2022	-0.1	0.4	-0.4	0.0	0.4	-0.3	-0.1	0.0	0.0	-0.1	0.2
2023	-0.1	0.4	-0.4	-0.1	0.3	-0.2	-0.1	0.0	-0.1	-0.1	0.3
2024	-0.1	0.4	-0.5	-0.2	0.3	-0.2	-0.1	-0.1	-0.1	-0.1	0.4

Source: MFSR

II Budgetary targets

The deficit may reach 5.0% of GDP this year, which is approximately at the level of the last two years. Although the costs of the pandemic amount to approximately one-third of those of the last year, a new challenge arising for the budget is the necessity of compensating for the high rise in prices for low-income groups of the population and entities that are most markedly affected by the price growth. The one-off compensatory measures taken so far target mainly pensioners and, to a lesser extent, families with children and the most vulnerable groups of the population. At the same time, the estimate of the MF SR assumes that so far unspecified compensatory measures in an amount of approximately 0.6% of GDP would be taken with the aim mainly to compensate private enterprises and public sector entities. Because of the effects of inflation, both the revenue and expenditure sides of the budget are rising at a double-digit rate. While the baseline scenario of the deficit estimate remains subject to great uncertainty, positive budgetary risks prevail. The main reason is the previous trend in the drawing of expenditure allocations as at September, which is lower than predicted in the budget, and if this trend is maintained, the deficit could be significantly lower than budgeted.

Taking regard of the prospects of a stagnant economy, the Government is planning an approximately neutral fiscal policy for the next year. Accordingly, the budget targets an approximately the same level of the deficit, without the influence of temporary effects, as the current year. However, the draft budget also provides for the adoption of one-off compensatory measures for households, companies and public administration to make up for the increase in energy prices in an amount of up to 2.9% of GDP, which may potentially increase the nominal deficit to up to 6.4% of GDP. The preliminary plan for 2024 and 2025 is to reduce the permanent deficit annually by 0.5% of GDP, in addition to the withdrawal of support measures in line with the expected stabilisation of the macroeconomic environment. In order to meet the nominal deficit targets of 3.4% and 2.7% of GDP, it is necessary to design general consolidation measures in an amount of approximately 1.4% of GDP. In the absence of an amendment to the Budgetary Responsibility Act, the Government would have to present a fully balanced budget for 2024, which would require approximately threefold savings.

II.1. Current development of public finances in 2022

Compared to budget assumptions, this year's expected deficit has slightly increased to 5.0% of GDP and remains approximately unchanged compared to the last two years. General government revenue has grown by 11.6% year-on-year, while a somewhat more moderate growth of 10.6% is seen on the expenditure side. The high year-on-year increase in both revenue and expenditure is mainly due to the sharp rise in inflation. The strong year-on-year increase in expenditure is also driven by the measures taken by the Government, especially those aiming to mitigate the impact of price increases on selected groups of the population and the "pro-family package". A part of the allocation for measures to respond to the energy crisis in the amount of 0.6% of GDP has not yet been particularised. Also, the trend in other spendings so far supports expectations that the deficit may eventually be much lower (for more, see **BOX 5**).

FIGURE 12 – Overview of nominal deficit (% of GDP)

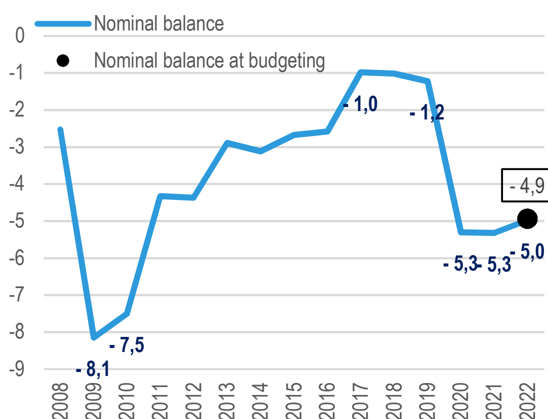
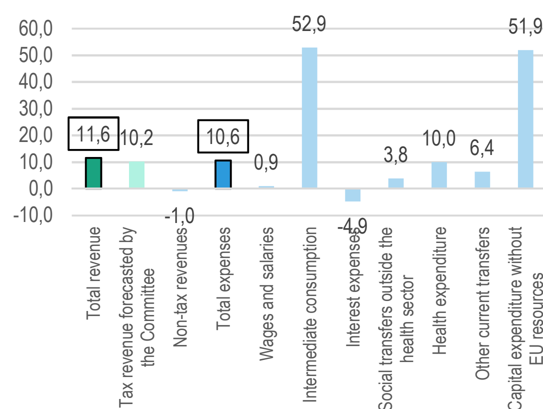


FIGURE 13 – Year-on-year increases in selected items in 2022 (% of increase, ESA2010)



Source: MF SR

Overall, revenue from taxes and social security contributions will grow slightly above 10% this year, which is a dynamic growth last observed in the pre-crisis years of 2007 and 2008. The sharp rise in prices has translated through macroeconomic bases into strong tax collection, which remains at high levels year-on-year. Apart from the macroeconomic fundamentals, tax performance for the first half of 2022 was weaker and indicates a slight slowdown in collection for some taxes. The received corporate tax returns confirm that 2021 was an exceptional year for some companies and sectors, but the sharp rise in energy prices might negatively affect the profitability of companies, especially in 2022. On the contrary, the expected VAT revenue is robust and will grow by double digits in 2022 (17% growth). It is driven by strong consumption, but also by rising prices. The overall effectivity of VAT collection remains high, but there are downside risks of weaker VAT revenues due to lower household consumption in the second half of the year. More than a half of the increase in the total revenue from taxes and social security contributions is attributable to personal income taxes and social security contributions. They are increasing due to positive developments in the labour market and a 10.7% growth of the wage bill. In addition to this, debt relief was once again granted to hospitals in 2022, which has led to a higher revenue from social contributions in the current year, but the increase is counterbalanced by the same amount on the expenditure side. Lastly, revenue from excise duties will be higher in 2022, mainly due to a better than expected development of the macroeconomic bases.

FIGURE 14 –Contributions to the year-on-year increase in revenue from taxes and social contributions (2022, ESA 2010, in pp)

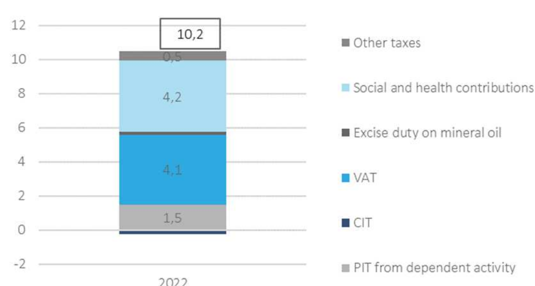
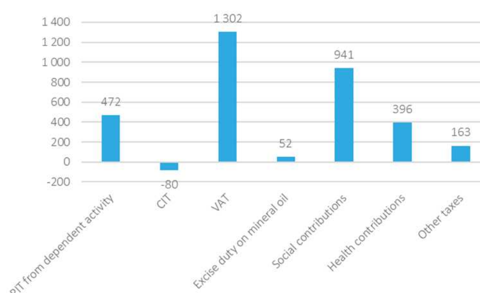


FIGURE 15 – Year-on-year changes for individual taxes (2022, ESA 2010, in EUR million)



Source: MF SR

Non-tax revenue, on the other hand, will see a year-on-year decrease of 1%. Revenue from the sale of emission allowances will grow in 2022 due to rising prices of emission allowances on the stock exchange[3]. Revenue from dividends from enterprises co-owned by the state, on the contrary, will decrease by up to 27% year-on-year[4]. For revenue from the gambling levy, a growing trend continues and a 12% year-on-year increase is expected in 2022. The main contributor to the higher intake from the gambling levy stems from on-line casinos. The total revenue from electronic tolls and vignettes continued its year-on-year recovery at the level of 7%. Vignette sales will exceed the pre-crisis level of 2019.

This year, the growth of wages and salaries will still lag behind both the inflation rate and the rate of growth of wages and salaries in the private sector. The total expenditure on compensatory measures will increase by 1% on the previous year, which is significantly less than the inflation rate. The slight increase in expenditure is attributable to the 3% indexation of salaries of employees in the public sector with effect from July 2022, as well as

[3]The accrual methodology of recognising revenue from emission allowances was changed in the course of 2022. Newly, the methodology will be based on allowances auctioned in year t-1 (time-adjusted cash, i.e. the cash effect of year t-1 corresponds to the accrual effect of year t). With the current methodology, which was implemented by the Statistical Office in October 2015, the number of all emission allowances transferred in a given year is valued at the average price of consumed allowances. The average price of consumed allowances is equal to the ratio of the price of "live" allowances and the number of "live" allowances.

[4] Almost a third of the expected dividends have already been disbursed by the enterprises and the outstanding balance is based on profits of the completed financial year 2021.

the one-off bonus in the amount of EUR 500 paid to civil servants and public service workers in September.[5] The wage package volume is also growing due to a slight increase in the number of employees.[6] On the contrary, it is being slowed down by the gradual withdrawal of pandemic measures[7].

Along with the rise in prices, spending on goods and services will sharply go up[8]. The substantial year-on-year increase is mainly caused by a higher energy expenditure of general government. For goods and services, there is a budgeted, while not yet specifically allocated, provision of EUR of 650 million for measures related to the increase in energy prices[9]. The baseline scenario foresees a substantial rise in expenditure on goods and services due to the year-on-year increase in the use of EU funds, co-financing as well as spending under the Recovery and Resilience Plan[10]. However, the rate of use of allocations so far suggests that the whole volume may not be spent by the end of the year (more in **BOX 5**). To a lesser extent, the year-on-year growth is also attributable to expenditure induced by the war in Ukraine[11] (more **BOX 3**), a reform of the Police Force and compensations paid to farmers on account of this year's drought. On the other hand, the slow-down factors include a reduction in operating expenses associated with the COVID 19 pandemic, which decreased by approximately a half year-on-year. This is mainly because of lower expenditure on testing as well as a reduction in pandemic-related expenses of healthcare institutions.

BOX 3 – Expenditure due to the military conflict in Ukraine

The expenditure caused by the war in Ukraine may reach 0.2% of GDP this year. The expenditure result mainly from the so-called *Lex* Ukraine (I, II and III) and direct costs associated with the direct contact with refugees as well as their integration into society. The MF SR expects that around 100,000 people will apply for a temporary refuge in Slovakia by the end of the year[12]. A part of this expenditure will be refunded from the EU funds. There is also expenditure on military and humanitarian aid sent directly to Ukraine[13]. The military conflict in Ukraine also affects public finances indirectly, through so-called induced costs. This includes primarily the costs of building a container town for NATO soldiers who came to Slovakia in response to the Russian aggression. Another item is the purchase of new helicopters.

The *Lex* Ukraine mainly lays down the conditions for the provision of healthcare, the amount of housing allowances as well as entitlements to benefits in material need. A refugee is entitled to emergency healthcare for a period of 30 days. After applying for a temporary refuge, the entitlement extends even beyond this 30-day period. Starting from October, the housing allowance amounts of EUR 10 per day for a person over 15, or to a half, i.e. EUR 5 per child up to 15[14]. The benefit in material need is paid in the standard amount payable to other applicants for this benefit. A meal allowance is paid to each child who attends a schooling facility in the amount of EUR 1.3 per day of school attendance. At the same time, the child's parents are deemed to be in material need. Starting from this school year, the amount of costs refundable to regional schools for pupils from Ukraine is the same as for other pupils. The expenditure on education will be refunded from the EU funds.

[5] The EUR 500 bonuses were disbursed in September only to civil servants. Public service workers are to receive their bonuses by December 2022. The increase in wages and salaries in the general government sector significantly lags behind the development of wages and salaries in the private sector. The wage growth rate in the private sector is 9.3%.
[6]Compared to the last year, almost 5,000 more people work in the general government sector, which is an approximately 1% increase. This higher employment is almost fully attributable to local governments.
[7]In 2021, bonuses were paid to workers fighting the pandemic.
[8] Treated as intermediate consumption in ESA 2010 (P.2)
[9] It is based on an assumption that 50% of the buffer provided by the 2022 budget amendment, reduced by expenditure on the 14th pension benefit, will be used.
[10] This is a year-on-year increase of EUR 731 million (the relevant expenditure of 2021 amounted to EUR 187.6 million; the expectation for this year is EUR 931 million).
[11]Not all costs associated with the military conflict in Ukraine are attributable to intermediate consumption; they also include social transfers, other current transfers and capital expenditure.
[12]Until 6 October, 96,512 refugees from Ukraine applied for temporary refuge in Slovakia.
[13]This expenditure is already included in the expected deficit.
[14]At the same time, price caps depending on the size of the dwelling are set. https://rokovania.gov.sk/RVL/Material/27615/1 Higher price limits apply to commercial accommodation facilities (EUR 24 per person over 15 and a half per child under 15). The relevant Regulation of the Government of the SR is available here: https://rokovania.gov.sk/RVL/Material/27650/1 The allowance is to be provided by the end of February 2023.

TABLE 4 – Expected expenditure due to the military aggression in Ukraine (EUR million)

	2022	2023
Expenditure related to refugees	162	100
Humanitarian and military aid to Ukraine	27	0
Other (induced) expenses	61	0
Total	**250**	**100**

Source: MF SR

The cost of servicing the public debt has been stabilised so far and is even decreasing year-on-year[15]. In an effort to relieve the inflationary strain and reduce the degree of uncertainty in financial markets, the European Central Bank has increased interest rates in 2022. But the effects of this step are not going to be much visible in the current year since the rates of the existing portfolio of Slovak bonds are fixed and the higher rates will only be reflected in new issues. In addition, Slovakia has accumulated a significant volume of liquid assets in the last two years (11.6% of GDP) when interest rates were at minimums and will gradually use these funds instead of new bond issuance.

Under the current legislation, social expenditures[16] are indexed with a delay and in line with the macroeconomic development and, accordingly, they lag behind inflation, similarly to compensatory spending. The rate of increase is lower than the rise in prices, which is mainly due to the existing indexation legislation which applies to a wide range of social benefits. Social benefits are generally indexed as of the beginning of a year, reflecting the growth of prices, wages or other variables in the previous period[17]. The high growth of prices and wages in 2022 will thus be reflected in higher expenditure on social transfers only from 2023. In 2022, expenditure on pensions will increase by 2% year-on-year, driven mainly by expenditure on newly awarded benefits. Expenditure on sickness benefits will even decrease by 7% year-on-year, which is due to a reduction in the payments of pandemic sickness benefits and home-care benefits as the Omicron wave will entail less benefit payments than the previous waves of the pandemic. On the other hand, there is an increase in social expenditure resulting from the adoption of the "pro-family package", amounting to EUR 164 million (0.2% of GDP) [18]. Starting from July, the tax bonus is increased to EUR 70 for children up to 15 years, or EUR 40 for children over 15, and the child allowance to EUR 30. Another reason behind the rise in expenditures is the Government's measures to compensate for inflation. This includes one-off assistance targeting families and selected groups of the population (for more, see BOX 4).

BOX4 – The Government's measures adopted in response to rising prices

The biggest challenge for the current budget is the need to compensate for the high price growth. After a moderate stabilisation of the situation resulting from the impact of the COVID-19 pandemic and the conflict in Ukraine, an energy crisis has come to the fore. The rise in energy prices in the market environment is so high that its full reflection would lead to an increase in the costs of households, businesses and general government of approximately EUR 24 billion. This would correspond to almost a quarter of the whole economy, or a half of the general government budget. It is thus an unprecedented shock both for the economy and for public finances.

TABLE 5 – Estimated difference between current and market and regulated energy prices in 2023

	Consumption in GWh	Current reg. price EUR/GWh	Expenditures in millions EUR at the current reg. price	New market price	Expenses in millions EUR at the new price	Increase in costs in mil. EUR
Heat						
Companies and others	2 127	85 084	181	188 035	400	**219**
Households	4 801	89 880	432	198 635	954	**522**
Electricity						

[15] Interest expense in net terms, i.e. net of interest income.
[16] Social transfers except healthcare
[17] For example, pensions are indexed at the average rate of pension inflation measured for the first six months of the preceding year.
[18] Moreover, both tax bonus and child allowance are to increase even more significantly in the next year.

Companies and others	18 821	158 200	2 977	846 401	15 930	**12 953**
Households	5 874	170 500	1 002	928 032	5 451	**4 450**
Gas						
Companies and others	20 098	44 350	891	256 343	5 152	**4 261**
Households	14 432	46 850	676	155 308	2 241	**1 565**
Total						**23 969**

Sources: calculations of MF SR

Note: Quantification assumptions: The new market price for businesses was calculated on the basis of future contracts of 16 September. The calculation for households is based on prices determined according to the then valid RONI regulation. The quantification assumes no change in energy consumption amounts for the regulated, current (regulated) as well as market prices. The assumed energy consumption amounts are at the level of 2020.

The one-off compensatory measures taken so far target mainly pensioners and, to a lesser extent, families with children and the most vulnerable groups of the population. The cost for public finances of the one-off assistance of EUR 100 paid to families and low-income population groups[19] in June was EUR 106 million (0.1% of GDP). The help to seniors through the announced payment of a "fourteenth pension benefit" in the amount of 70% of the thirteenth pension benefit will total EUR 208 million (0.2% of GDP). At the same time, the estimate of the MF SR assumes that so far unspecified measures in an amount of approximately 0.6% of GDP, aimed at compensating private enterprises and public sector entities, would be taken by the end of this year. A much larger compensation package in the amount of 2.8% of GDP is prepared for the next year. The plan for now is to distribute the package as an assistance to households and to private companies and general government entities. A part of these measures can be reimbursed from so far unused allocations of the EU funds from the third programming period. However, this reimbursement is not considered in the budget yet.

The cost of the energy price- related compensatory measures will be offset to some extent by temporary revenue from surplus profits. In response to high energy prices, the European Union adopted a regulation concerning the solidarity contribution from surplus profits derived by companies from the energy crisis. At the same time, revenue from electricity production is capped at EUR 180 per MWh. The profits of companies selling electricity above this price will be the state's revenue. The approved regulation is valid and effective for all Member States and establishes a legislative framework which is to be further particularised by the governments through national legislations. In addition to the framework set up by the EU regulation, a special levy will be imposed on the state-owned enterprise *Vodohospodárska výstavba*. Similar to the EU regulation, it aims to tax surplus profits derived from the sale of electricity. A state-owned enterprise may be subject to a special levy on profits after tax under the Act on state enterprises. This instrument allows the Government to transfer a part of the profit of *Vodohospodárska výstavba* to the state budget through the State Budget Act for the respective budget year.

TABLE 6 – Measures taken by the Government to counter the energy crisis with an impact on the budget

	2022	2023
One-off increase of child allowance	-83	
One-off assistance to low-income groups	-23	
Payment of the 14th pension	-208	
Unspecified measures	-650	-3500
Of which: companies		-1400
Of which: households		-900
Of which: public administration entities (ŽSSK, ŽSR and SSC)		-160
Of which: others (allocated in general treasury account)		-940
Of which: additional resources from non-payment of bonuses until April 2023		-100
Temporary income from the EU regulation on excessive profits	313	462
Temporary income from a special levy for water management construction		150
Total	-651	-2888
Measures without direct impact on the budget		

[19]A one-off child allowance in the amount of EUR 100 was disbursed. Households in material need, low-income seniors, caregivers of severely disabled people as well as professional foster parents taking care of children from orphanages also received the EUR 100 benefit.

ÚRSO regulation within the existing legislation in the area of electricity prices
Use of emergency reserves of natural gas in Dolné Bojanovice
Advance payment of 13th pensions
Agreement on a fixed electricity price with Slovak Power Plants

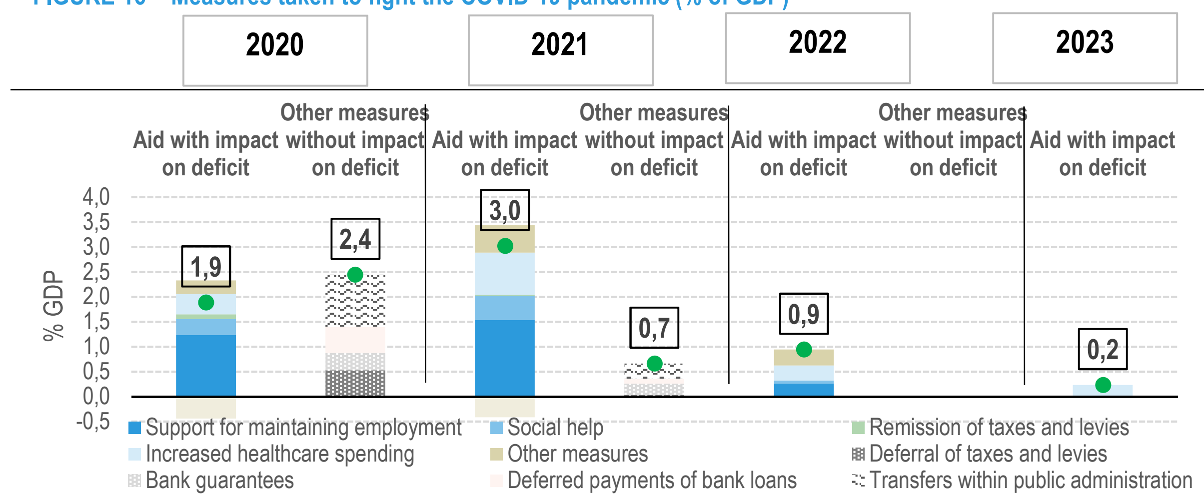
Source: MF SR

At the same time, measures were taken that have no direct impact on public finances. Beginning from the next year, the rise in energy costs for households will also be attenuated through the agreement with *Slovenské elektrárne, a. s.* and the utilisation of gas reserves. The cap on electricity prices for households for 2023 and 2024 is at the price level of 2022, i.e. approximately EUR 61 per MWh without VAT. The agreement with *Slovenské elektrárne, a. s.* on a fixed price of electricity applies to a volume of 6.15 TWh. The newly adopted legislation authorising the Government to order electricity producers to whom and at what price they must supply electricity is also supposed to ensure the sufficiency of electricity supply in the event of an emergency. The Government is also considering the use of the emergency reserves of natural gas kept in *Dolné Bojanovice* during the period of high gas prices and subsequent replenishment of the storage reservoirs in 2026. The Regulatory Office for Network Industries has exercised its powers to reduce the distribution and transmission fee as well as the tariff for the operation of the system[20]. Also, the Government rescheduled the disbursement of the thirteenth pension benefit from November to June.

Healthcare expenditure will react to the inflation already this year[21] and record an almost double-digit increase. The major contributors to the increase in expenditure, which is close to 10%, include a higher-than-expected rise in energy prices and inflation, as well as deferred healthcare services which were postponed because of the COVID-19 pandemic. Other factors in the growth of expenditure are the regular indexation health workers' salaries as well as pending saving measures that were supposed to be implemented this year**.**

On the contrary, the 6.4% year-on-year increase in other current transfers remains below the rate of inflation. The slower growth is due, among other things, by the diminution of the assistance provided to businesses during the COVID-19 pandemic in the form of part-time working arrangements (so-called "*kurzarbeit*"). The pandemic *kurzarbeit* scheme was operated until the end of March this year. Subsequently, it was replaced by a permanent part-time work support scheme (so-called "permanent *kurzarbeit*") which has been utilised to a much lower extent[22].

FIGURE 16 – Measures taken to fight the COVID-19 pandemic (% of GDP)



Source: MF SR

[20] https://www.urso.gov.sk/urso-vyrazne-znizil-tps-a-zredukoval-naklady-na-distribuciu-a-prenos-elektriny-cim-v-maximalnej-miere-vyuzil-svoje-regulacne-nastroje-aby-zmiernil-narast-celkovej-ceny-elektriny-pre-slovenske-domacnosti-a-podnikatelov-v-roku-2022/
[21] Including the budget chapter of the MH SR
[22] EUR 278 million was paid in 2022 to finance the *kurzarbeit* pandemic assistance to businesses to maintain employment. Claims made under the permanent part-time work support scheme from March to the end of August 2022 amount to EUR 19.5 million.

The baseline estimate of capital expenditure without funding from the EU funds and the RRF assumes a year-on-year increase of approximately 50%, but the drawing of funds so far does not support this assumption. Capital expenditure allocations of previous years transferred to this year's budget amount to almost EUR 600 million. One of contributors to the envisaged increase is expenditure on the establishment of a strategic industrial park near *Košice* in the amount of EUR 209 million.[23] Compared to the budget plans, however, the actual drawing of allocations is significantly lower. So far, only a quarter of the available funds allocated in the state budget for the whole year have been used. The current estimate of the MF SR assumes that the allocations, including those carried forward from previous years, would be fully used, with the intensity of drawing culminating at the end of the year (especially in connection with capex spending in the defence and transport sectors and additional measures). The possibility of re-categorising certain capital expenditure to current expenditure is also considered. At this moment, however, this is the major positive budgetary risk in terms of the final deficit amount (for more, see BOX 5).

BOX 5 – Alternative estimate of the deficit of 2022 (extrapolation of the current drawdown of cash expenditure of the state budget as of September 2022)

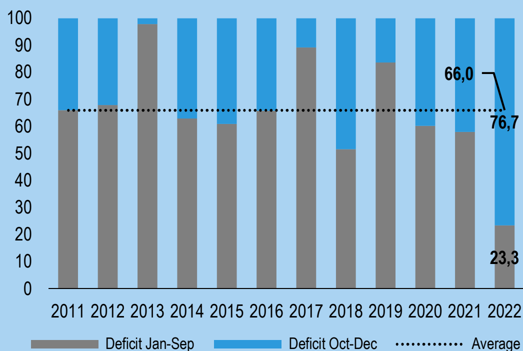
While the baseline scenario of the deficit estimate is associated with a great amount of uncertainty, positive budgetary risks prevail. The baseline estimate of the MF SR is based mainly on the assumption that the available budgeted allocations, including those carried over from previous years, will be drawdowned in full scale, together with 50 % of the additional provision arising from the budget amendment[24]. The MF SR's baseline estimate thus better corresponds to the available fiscal space for the implementation of measures by the end of the year. The alternative approach, with which the deficit estimate would be based on the last known actual drawing of allocations, offers a different perspective and highlights the possible risks of the baseline estimate. On the other hand, it does not take into account possible other measures that the Government may still prepare at the end of the year (in particular, compensations for businesses to cope with price increases, as mentioned above), or a deviation from the established seasonal cycles of drawing expenditure allocations seen in previous years, i.e. much stronger drawing in the last months of the year.

While the baseline scenario assumes a general government deficit of 5 % of GDP in 2022, in reality it could theoretically reach a level below 3 % of GDP (assuming no additional Government measures are adopted). Developments in the last nine months of 2022 have indicated that the expected accrual deficit of general government at a level of 5 % of GDP may not materialise. In order to reach the envisaged cash deficit, the amount of deficit as at September would have to increase by up to EUR 4.3 billion in the last quarter of 2022. The cash deficit of the state budget for the three quarters of the year is at a level of just under 25 % of the expected actual amount for 2022. This is the lowest rate of reaching the budgeted annual deficit in the last 10 years (FIGURE 17). This trend of cash expenditure relative to budget allocations is even below the development in the pre-pandemic year 2019 (FIGURE 18), when the cash deficit reached EUR 2.2 billion and the accrual deficit of general government amounted to 1.2% of GDP.

The lower-than-expected cash spending can be observed mainly in operations, co-financing of EU funds and capital investment. Capital expenditure from the state budget for the three quarters of 2022 is substantially behind the plan and the pace of spending is the lowest since 2014[25]. Likewise, actual expenditure on goods and services amounts only to approximately 30 % of allocations and it mainly includes items such as leases and rentals, purchase of special machines and materials, software, services or meals. Similarly, co-financing of the EU projects is at a level of only 44 % of allocations. If spending on the individual items for the rest of the year followed the usual patterns of the previous years and the additional provisions arising from the budget amendment were not used for new measures, the potential difference compared to the baseline estimate of the deficit could be up to EUR 2.5 billion.

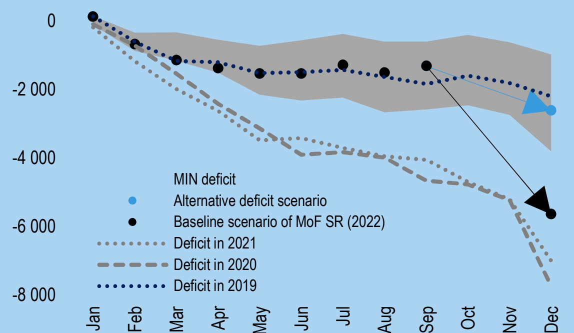
[23] The expenditure allocation covers the purchase of land under the park, the construction of infrastructure and other expenses associated with the project implementation.
[24] 50% of the increase in spending of EUR 1.5 billion, but after deducting the expenditure on the fourteenth pension benefit (EUR 209 million).
[25] In the past, budgeted amounts were deemed used up when at least a half of capital expenditure allocations was used by September; the current spending, in contrast, amounts to only a quarter of the budget.

FIGURE 17 – Cash deficit development relative to end-year (%)



Source: MoF SR

FIGURE 18 – Expected development of Central Government cash deficit (mil. EUR)

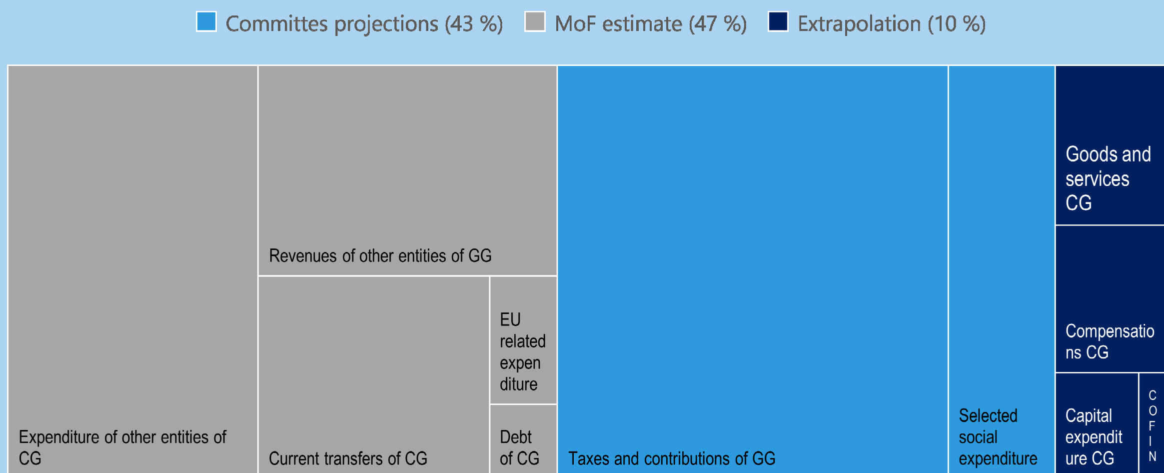


Source: MoF SR

Alternative deficit estimate methodology

The estimate of the general government deficit as such is based on an extrapolation of the spending on the various state budget expenditure items by the end of the year. The extrapolation of spending is made primarily in respect of the non-mandatory expenditure of the state budget that falls under the direct control of the Government (compensations, goods and services, capital expenditure including co-financing) on a cash basis. Several items of the state budget, on the other hand, are adopted from the official estimate of expected actual results, where the extrapolation of September data has already largely been reflected). The forecast of revenue and social expenditure is adopted from the output of the current Tax Revenue Forecasts Committee's session. A part of the expenditure items included in the category of regular transfers is also adopted from the expected actual results, and so is the balance for other general government entities[26].

FIGURE 19 – Structure of used and extrapolated revenues and expenditure of General Government (non-consolidated)



Note: Debt of CG – expenditure on state debt service; COFIN – state budget expenditure on the co-financing of EU projects. The adopted forecasts of the Committees cover 43 % of the revenue and expenditure items of the general government budget. Data adopted from the expected actual results account for another 47 %. The extrapolated expenditure items cover 10 % of the total expected general government revenue and expenditure.
Source: MoF SR

[26] The reason for this is a significant time delay in the availability of data on the actual expenditure of these entities, especially local governments, during the year.

II.2. Budgetary targets for the years 2023 to 2025

With the prospects of a stagnant economy, the fiscal policy planned by the Government for the next year is about neutral, but with a substantial room for compensatory measures to respond to the energy crisis. The amendment to the Act on the budgetary rules of general government lays down the obligation to prepare the budgets for the years 2023-2025 in accordance with the public expenditure limit calculated by the Council for Budget Responsibility (CBR). However, the CBR and the MF SR have not yet reached an agreement on the calculation methodology and the public expenditure limit has thus not been published and approved by the NC SR yet. Accordingly, the General Government budget for the next year is governed by the Commission guidelines that do not require taking active measures towards the recovery of public finances in 2023[27]. On the contrary, it is desirable to adopt Government measures to compensate for the increase in energy prices, which are supposed to be targeted and of a one-off nature to avoid the deterioration of long-term sustainability. Support for the economy and growth is supposed to take the form of increasing investments.

Along with the temporary measures, the budget provides for a general government deficit of up to 6.4% of GDP. The draft budget for the next year envisages the adoption of one-off compensations for households, companies and public administration in the amount of 2.8% of GDP to make up for high energy prices. Most of the temporary measures will be implemented through new schemes, not yet particularised, to mitigate the consequences of rising energy prices. A part of the envisaged expenditure will be financially covered by temporary revenues to be collected under the EU Regulation regarding surplus profits of selected sectors. Another part of the costs may be financed from the reallocation of the European funds, but this option is disregarded in the budget for now for the reason of a conservative approach. The temporary measures for the next year also include, to a lesser extent, expenditure caused by the war in Ukraine and the reserve created for possible further waves of the COVID-19 pandemic. This, together with the permanent portion of the deficit (3.1% of GDP) and the negative cyclical component resulting from the economic downturn (0.7% of GDP), corresponds to a nominal deficit of up to 6.4% of GDP. Without the temporary effects, however, the level of the deficit remains nearly unchanged year-on-year (an increase from 2.9 to 3.1% of GDP), i.e. a fiscal policy with neutral effects is envisaged (for more details, see **TABLE**).

TABLE 7 - Consolidation effort (ESA 2010, % of GDP)

	2020 S	2021 S	2022 OS	2023 NRVS	2024 NRVS	2025 NRVS
Net lending/borrowing - target (1)	-5,3*	-5,3*	**-5,0**	**-6,4**	**-3,4**	**-2,7**
Cyklical component (2)	-1,0	-0,5	-0,3	-0,7	-0,8	-0,6
One-off and temporary measures (3)	-1,8	-3,4	-1,8	-2,6	0,0	0,0
of which: the COVID-19 pandemic	-1,9	-3,0	-0,9	-0,2		
of which: the war in Ukraine			-0,2	-0,1		
of which: measures to compensate for energy growth***			-0,6	-2,4		
of which: others	0,1	-0,4				
Balance adjusted for temporary effects (4=1-2-3) **	-2,5	-1,4	**-2,9**	**-3,1**	**-2,6**	**-2,1**
Consolidation efforts (year-on-year change 4)	-0,5	1,1	**-1,5**	**-0,2**	**0,5**	**0,5**
p.m. nominal balance according the budget framework				*-6,4*	*-4,3*	*-4,1*
p.m. necessary measures to achieve budget targets (million euros)					*1145*	*1889*
p.m. nominal balance – budget target in the absence of an amendment of the debt brake				*-6,4*	*0,0*	*0,0*

** According to the data of the SO SR submitted for the first round of Eurostat's notification on 30 September 2022, which is to be published in the second half of October. The data may change. The same approach is employed in the gross debt forecast.*

*** This is the balance adjusted for the cyclical component and one-off and temporary measures. It is not the same as the structural balance, since the one-off and temporary measures also include measures that do not meet the principles of the SGP methodology for determining one-off impacts.*

**** Netted of the sources of funding, mainly from the regulation of surplus profits.*

[27] https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1476

The Government's plan for the years ahead is to reduce the deficit without temporary effects by 0.5% of GDP. After the turbulent period from 2020 to 2023, the Government plans to proceed to the recovery of public finances. In 2024, the economy is expected to recover and return to the application of the rules of the Stability and Growth Pact is envisaged. The planned nominal deficits in 2024 and 2025 correspond to 3.4 and 2.7% of GDP, respectively. However, given the levels of deficit currently considered in the budget, achieving those targets will require consolidation measures in an amount of approximately 1.4% of GDP, or EUR 1.9 billion, that are pending a more detailed specification. The recovery of public finances can also be supported by austerity measures to follow from the upcoming final report on the review of subsidies and tax expenditures (for more, see **BOX 8** in Chapter 5). The consolidation plan will be continuously updated to reflect the expected final methodology for setting expenditure limits as well as the future form of European rules and the national debt brake.

In the absence of an amendment to the Budget Responsibility Act, the Government would be required to submit a balanced budget in 2024. The forecast of the gross debt of general government assumes that the gross debt will reach a level that automatically triggers, by virtue of the Constitutional Act on budget responsibility, strict debt brake sanctions to achieve debt reduction. The sanctions will begin to be applied from May next year since the application of certain measures defined in the Constitutional Act is suspended for two years following the approval of the Government's Manifesto. Considering the amount of the forecast gross debt, the Government must submit to the National Council a balanced or surplus draft general government budget. Accordingly, the budgetary target for 2024 would automatically be a balanced budget; with the current fiscal framework, however, this would require an abrupt adoption of consolidation measures in an amount of 4.3 % of GDP.

II.3. Overall fiscal stance (including the fiscal impulse from the EU funds)

The Government's plans also correspond to the Commission's more comprehensive guidelines regarding the overall fiscal stance (including funding from the EU), which in the case of Slovakia is expected to be neither too expansive nor too restrictive next year. Since 2020, the Commission has been using the fiscal stance indicator to measure the impact of fiscal policy on the impulse for the economy. It reflects the year-on-year development of public expenditure after adjustment for new revenue measures, including the impulse from the EU funds and the Recovery Facility, but excluding expenditure related to temporary measures[28]. The scope of expenditure defined in this way is subsequently compared with the growth trend of the Slovak economy, increased by inflation[29]. The impact of fiscal policy calculated on the basis of these assumptions and using budget data indicates a slight restriction, at a level of 0.6 % of GDP (**FIGURE 20**). The restrictive contribution of national sources partially negates the impulse from the EU funds and the Recovery Facility. Compared to the perspective of a neutral fiscal policy, this indicator, based on a year-on-year change in the permanent part of the deficit (see section above), is slightly moderate in that it allows the current inflation to be translated more markedly into higher expenditure[30].

If the positive budgetary risks materialise this year, a part of the expansion of the current year could be carried forward to the next year, which would be even better aligned with the Commission's recommendation. In line with the Commission's main recommendation regarding the structure of the fiscal position, the year-on-year development of nationally funded current expenditure[31] is projected for this and the next year under medium-term economic growth assumptions (**FIGURE 21**). The development of capital expenditure in 2023 is similarly restrictive, which, however, results mainly from the assumption that spending would largely be concentrated in the current year. Overall, the restrictive contribution of national sources is, contrarily, reduced by expenditure from the Recovery Facility and EU funds, which will increase expenditure year-on-year by almost EUR

[28] In addition to the pandemic measures, the impulse considered by the MoF SR also disregards expenditure on temporary anti-inflation aid in 2022 and 2023.
[29] The trend represents a 10-year (the period *t*-5, *t* and projection *t*+4) average rate of growth of real potential product (the Commission's estimate for SR is around 2 % per year) translated into nominal values, taking into account inflation measured by the GDP deflator of the given year.
[30] The Commission's indicator allows the expenditure part of the budget to grow at the level of the medium-term potential. The MoF SR estimates its growth in 2023 at the level of 14.5 %, which is mainly the result of a high expected inflation measured by the GDP deflator of 12 %. The indicator, therefore, allows the total spending aggregate (including funds from the EU) to grow faster than the draft budget predicts, thus providing for an additional expansion. In contrast to the Commission's methodology, the indicator of the year-on-year change in the permanent deficit also takes into account the revenue part of the budget. However, the nominal revenue growth for 2023 (12.6 %) lags behind the pace of the medium-term potential, which reduces the room for additional spending and, as a result, seems more restrictive.
[31] Nationally-financed current expenditure adjusted for temporary and one-off effects, mainly related to the pandemic and the energy crisis. At the time the budget is drafted, however, it is not clear how the Commission will approach the calculation methodology.

2 billion in the next year. The baseline estimate of the overall fiscal stance is still slightly restrictive (0.6% of GDP), in contrast to the expansive fiscal policy of this year (-1.5% of GDP). However, if the significant positive budgetary risks materialised this year (especially lower than expected capital and, to some extent, current expenditure - for more, see **BOX 5**), the expansion would at least partially shift from 2022 to 2023.

FIGURE 20 – Fiscal stance in the EC's methodology (% of GDP)

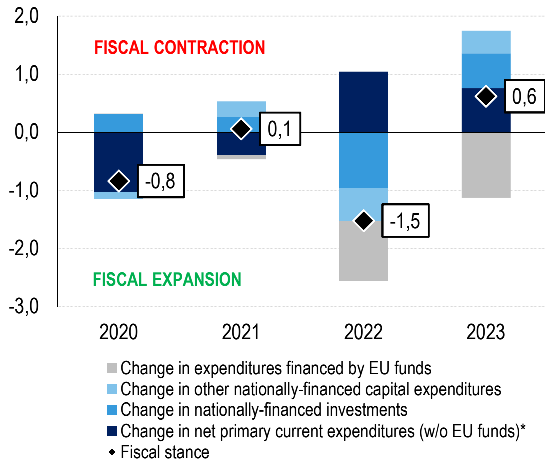
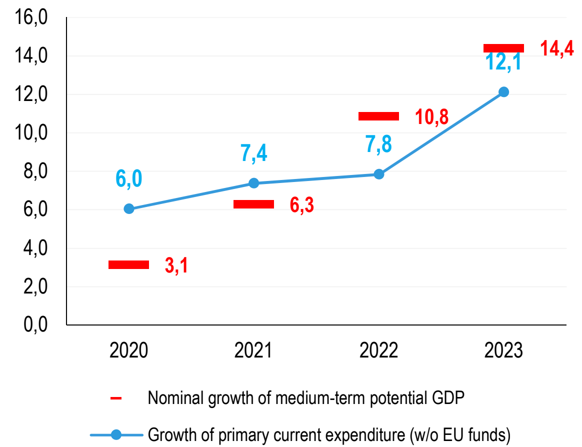


FIGURE 21 – Growth of current nationally-financed expenditure (%)



Source: MoF SR, EC

III General government debt and long-term sustainability of public finances

Last year gross debt exceeded 60 % of GDP for the first time. Despite the unfavourable economic growth prospects for this year and the next year and persistent deficits, the gross debt will decrease to 59.8 % of GDP and will stabilize at 59 % of GDP over the whole budget horizon. The main factor contributing to this expected debt reduction is the high rate of inflation which will reduce the debt in proportion to the performance of the economy through the denominator effect. The decrease in the gross debt will also partly be promoted by the reduction of the COVID-19 pandemic accumulated cash reserve. The net debt will decrease year-on-year this year, but due to the high deficit expected in 2023, it will return to above 50 % of GDP. In medium-term until 2025, it will gradually grow because of still high deficits and, under current assumptions, could reach 53.8 % of GDP. If the budgetary targets are met, the trajectory of the net debt and gross debt will be more favourable, improving by approximately 2 pp by 2025. A long-term view of the debt from the perspective of a no-policy-change scenario suggests the possibility of the debt rising to 100 % of GDP already in the next two decades. At the same time, the values of medium- and long-term sustainability indicate medium or high risks. The recently approved reform of the Ministry of Labour improves long-term sustainability measured by the S2 indicator by 2.6 % of GDP, but, at the same time, it would drive a significant temporary increase in the deficit already in the next two decades. This highlights the need for further reforms and, also, for consolidation efforts continued beyond the budget horizon.

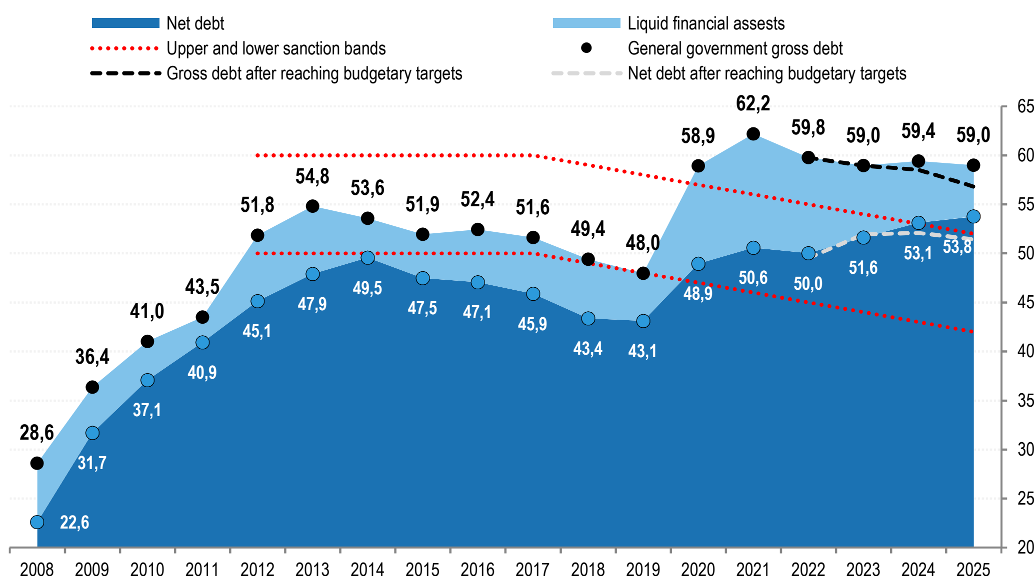
III.1. General government debt

The gross debt in 2021 rose to a historic 62.2 %[32] of GDP, mainly due to the impact of expenditure related to the COVID-19 pandemic[33]. Last year, the general government debt exceeded the Maastricht threshold of 60 % of GDP for the first time and has remained above the highest sanction band of the debt brake (56 % of GDP for 2021). Despite the economic recovery, the debt has increased by 3.3 pp year-on-year. This increase results primarily from the persisting general government deficit (5.3 percentage points), which reflects the high expenditure incurred in countering the coronavirus pandemic, including job retention measures, social assistance and expenses of the health sector. Growing deposits of non-general government entities in the State Treasury also contributed to the year-on-year increase in indebtedness (1.6 pp)[34].

In the current year, the gross debt will return to a level close below the 60 % threshold by reaching 59.8% of GDP. Due to the still present deficit, the nominal gross debt will grow in 2022. In relation to GDP, however, it will fall below 60% of GDP year-on-year, which will be ensured by the still growing economy and the denominator effect of the current high rate of inflation. The year-on-year reduction of gross debt by 2.4 percentage points of GDP will be faster than the MoF SR predicted in the Stability Programme. The main reason for the difference is the increase in interest rates and the resulting change in the terms of the State Treasury, which have led to an outflow of non-general government entities' deposits in the second half of 2022 and, accordingly, to a reduction in state liabilities.

[32] Compared to the spring value (63.1% of GDP), the debt-to-GDP ratio has been revised down by less than 1 pp of GDP because of the refinement of the level of nominal GDP.
[33] The value is based on the preliminary autumn notification data sent to Eurostat. The time series of expected GDP levels for the years 2022 to 2025 was computed by chain-linking nominal year-to-year growth rates taken from the most recent forecast of the Macroeconomic Forecasting Committee. These assumptions are also applied to other indicators.
[34] The State Treasury Act allows entities in which the state has a holding to deposit funds in State Treasury accounts. Funds held in such accounts by non-general-government entities are considered liabilities of the Slovak Republic and are included in the gross debt.

FIGURE 22 – Medium-term forecast of the gross and net general government debt (% of GDP)

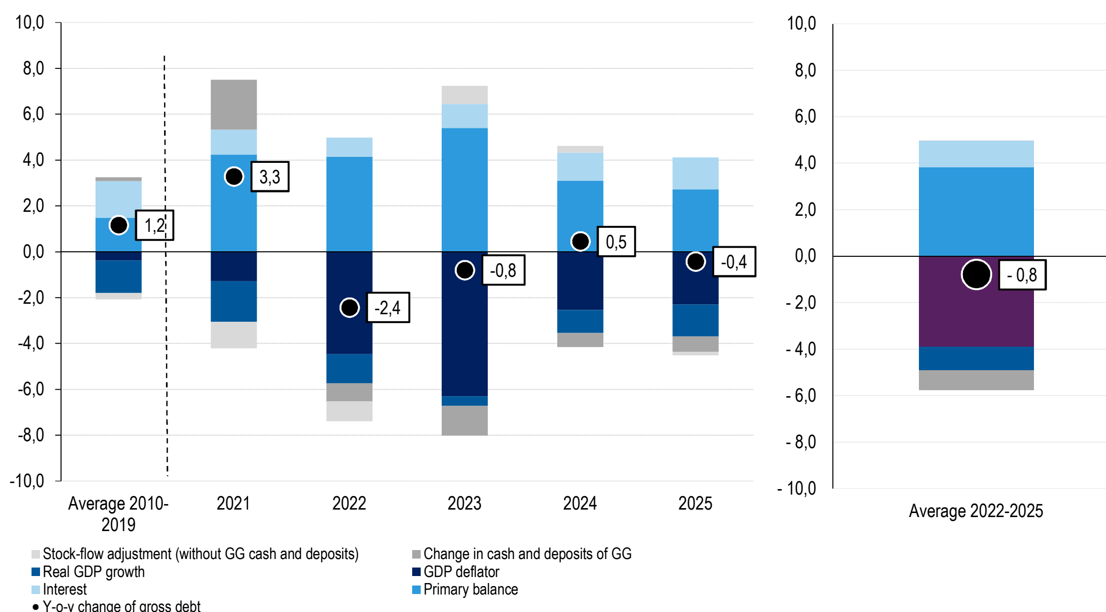


Note: The sanction bands are based on the currently valid Constitutional Act on budget responsibility. The forecast is based on the issue plan considered in the deficit assumptions of the fiscal framework of the budget for the years 2023 to 2025, which correspond to accrued general government deficits at the levels of 6.4, 4.3, and 4.1 % of GDP for the years 2023, 2024 and 2025, respectively. Source: MoF SR

The debt will continue to decrease in 2023, which will be significantly supported by the expected high inflation and the use of accumulated liquid sources. Despite the high expected deficit in 2023, gross debt will decrease year-on-year by 0.8 percentage points of GDP. The negative impact of the budget deficit on the debt will be compensated by the nominal growth of the economy, driven primarily by high inflation and the use of liquid resources accumulated over the last two years, at the expense of new issues. Thus, the general government deficit will not fully translate into a debt increase. The debt is expected not to grow even under the influence of deposits of non-general government entities in the State Treasury. Based on the development trend of interest rates in the domestic market, no recurrence of the situation seen in the State Treasury at the end of 2021 is expected.

A medium-term forecast beyond the horizon of the next year indicates a stabilization of gross debt at the level of 59 % of GDP. The debt-to-GDP ratio will stabilize slightly below 60 % of GDP in 2024 and 2025. Inflation will slow down, while the primary economic deficit will continue to be above average. At the same time, interest costs will grow over the whole budget horizon, reflecting the increase in bond yields in financial markets in 2022. Thanks to fixed interest and accumulated liquid assets from previous years, the impact on interest costs will be partially attenuated, though they will rise to 1.4% of GDP by 2025. The gradual reversal of the cash reserve will also contribute to the decrease in debt, especially by the end of budget horizon. However, up to 2025 the gross debt will not decrease closer to lower sanction band of the debt break. This target could be met under assumption that a large part of the costs of the energy crisis would be covered from unused allocations from the European funds and that consolidation measures are implemented in 2024 and 2025 as foreseen in the Government's preliminary plans.

FIGURE 23 – Decomposition of gross debt of GG (% of GDP)



Source: MoF SR

The net debt is expected to stabilise in a short term, but without a recovery of public finances, it will slightly grow again within the budget horizon. The highlighted difference between the last year's gross and net debt levels reflects the two years of the COVID-19 pandemic when the accumulation of funds derived from emissions did not translate into higher deficits. The funds thus increased the Government's cash reserve and total liquid financial assets of general government, which reached a record level of 11.6 % of GDP in 2021. This trend will gradually reverse because of continued high projected deficits and gradual reduction of liquid assets. Accordingly, a rising trend of the net debt relative to GDP and its return to levels above the 50% threshold are foreseen for 2023 and on. On the contrary, if the budgetary targets are met, the net debt trajectory will stabilise.

BOX 6 – Implications of the debt brake

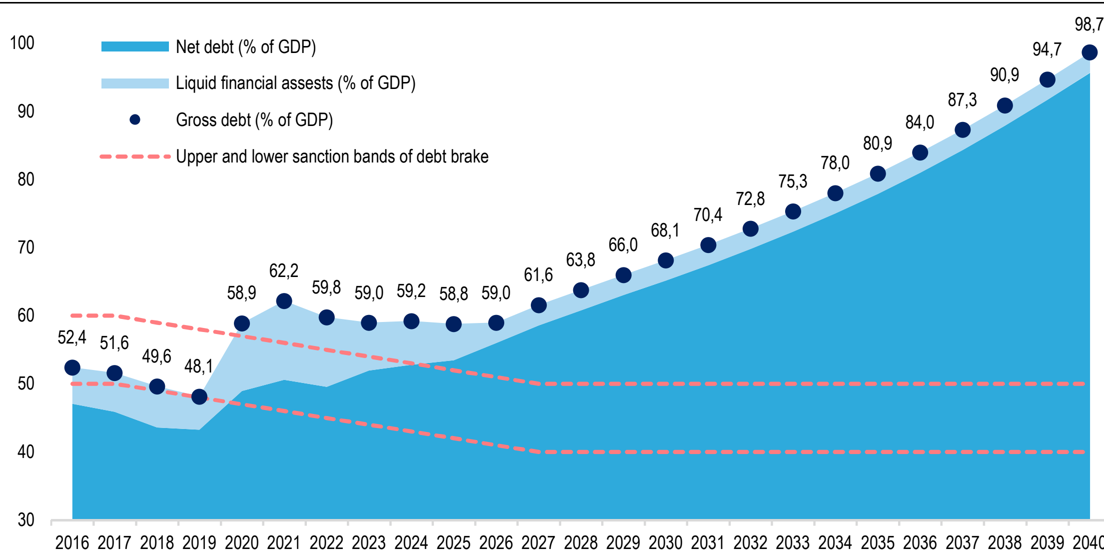
The NC SR has not yet approved an amendment to the Constitutional Act on budget responsibility which is supposed, among other things, to prevent an abrupt consolidation of the general government budget. The adoption of the amendment to the debt brake would change the monitored indicator from gross debt to net debt, the number of sanction bands of the debt brake from five to four and, also, introduce a requirement for structural consolidation for even the lowest bands. At the same time, the amendment would help the Government to avoid a so-called fiscal cliff by proposing balanced budget in case the Government had already fulfilled sanctions in previous period.

With the current debt brake legislation, the gross debt amount envisaged for 2022, which falls in the highest sanction band (55% of GDP and above), would trigger the application of the most severe sanctions in 2023. After the current Government took the office in 2021, it extended the 24-month escape clause applicable to sanctions for all debt brake bands exceeded from 2020 on. As the escape clause will expire in May 2023, because of the persistence of a gross debt falling in the highest band, the most severe sanctions will be activated. As an immediate step, this will mean binding 3 % of state budget expenditure for the whole year 2023, freezing the reserves of the Government and the Prime Minister, drafting a balanced general government budget for 2024 and balanced or surplus budgets of local governments, and a vote of confidence in the Government in the Parliament.

III.2. Medium-term and long-term sustainability of public finances

The gross debt would temporarily decrease even in the no-policy-change (NPC) scenario, but within two decades it would reach almost 100 % of GDP. The reduction in the debt as a share of GDP by 2025 will be significantly promoted by a higher inflation and an economic growth that will more than make up for the impact of high general government deficits even without additional consolidation measures. Over the budget horizon, the debt would start to grow more significantly, driven by expenditure associated with the ageing of the population. Without pension system reforms, this expenditure would increase by almost 4 pp of GDP by 2040. A lower nominal growth of the economy in the next 15 years (3.8 % vs. 5.5 % of the period 2000-2021) would also contribute to an increase in the debt ratio.

FIGURE 24 – Long-term projection of public debt in No-policy change scenario (% of GDP)

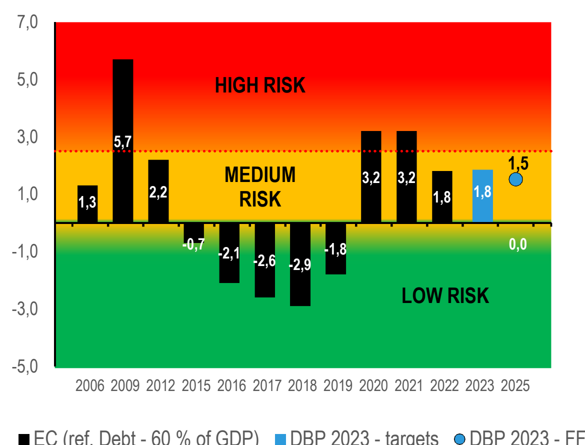


Note: The no-policy-change scenario assumes that after 2024 no additional consolidation measures are applied and deficit being driven by costs of population ageing. The macroeconomic outlook is taken from the macro forecast and the AWG. Liquid financial assets are expected to be constant at 3 % of GDP. Sanction bands represent the current constitutional Fiscal Responsibility Act. *Source: MoF SR*

Even after taking into account the recently approved reform of the first pillar, risks to the medium-term and long-term sustainability of public finances persist. Despite a more favourable development of the gross debt over the budget horizon, the medium- and long-term sustainability indicators (S1 and S2[35]) will remain at a middle or high risk level (FIGURE 25 and FIGURE 26). The recently approved reform of the first pillar, which contributes 2.6 percentage points to risk reduction already in 2023, markedly improves long-term sustainability. On the other side, in a medium term, the reform generates additional costs and worsens the S1 indicator by approximately 0.2 percentage points

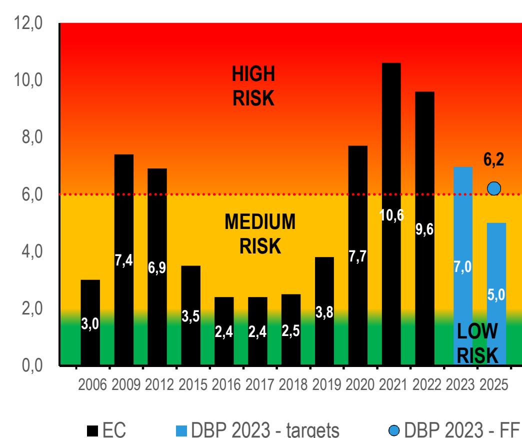
[35] S1 represents the value by which the current primary structural balance needs to change permanently in order for the gross general public debt to not exceed 60 % of GDP by 2034. S2 represents the value by which the current primary structural balance needs to change permanently in order for the current debt to be covered by future primary balances. In contrast to S1, S2 reflects population ageing projections over infinite horizon. In its quantifications of this indicator, the MoF SR takes account of both the revenue and the expenditure effects of the second pillar.

FIGURE 25 – Indicator of sustainability S1 (EC, MoF SR, in % of GDP)



Note: European Commission's assessments of S1 and S2 are based on the autumn forecast published in the year preceding the initial year. As the indicators do not have to adequately reflect the adopted policy changes, the Ministry of Finance commits the S1 and S2 time series from the EC to the forecast period in order to more reliably capture the development of the sustainability of public finances. Source: EC, MoF SR

FIGURE 26 – Indicator of sustainability S2 (EC, MoF SR, in % of GDP)



** In 2020 the EC temporarily adjusted S1 and S2 quantification methodology due to exceptional circumstances related to the pandemic. Unlike in the past when the EC assumed the primary structural balance remains constant at last projected level, in 2020 the Commission used assumption of gradual return of primary structural balance to pre-crisis projected level. Source: EC, MoF SR*

The return of the S1 and S2 indicators to the low and medium risk bands is possible on the condition of additional reforms and multi-year consolidation extending even beyond the budget horizon. Achievement of the deficit targets within the budget horizon will be reflected in S1 decreasing slightly closer to the low risk band. The consolidation scenario would improve long-term sustainability measured by the S2 indicator by 2 percentage points, i.e. it close to the upper limit of the medium risk band. A further reduction of long-term sustainability risks to low levels will require continued consolidation of public finances and further reforms (TABLE 8).

TABLE 8 – Breakdown of the long-term sustainability indicator S2 in 2025 (% of GDP)

	Fiscal Framework 2023-2025	Budgetary targets
Total values	**6,2 (high risk)**	**5,0 (medium risk)**
of which:		
Initial budgetary position of structural balance and debt	1,9	0,6
Pension expenditures	1,7	1,7
Health care expenditure	1,4	1,4
Long-term care expenditure	1,5	1,5
Education expenditure	0,1	0,1
Other	-0,3	-0,3
p.m. contribution of 1st Pillar reform to S2 (included in total value)	*-2,6*	*-2,6*

Source: MoF SR

BOX 7 – Measures in the pension system

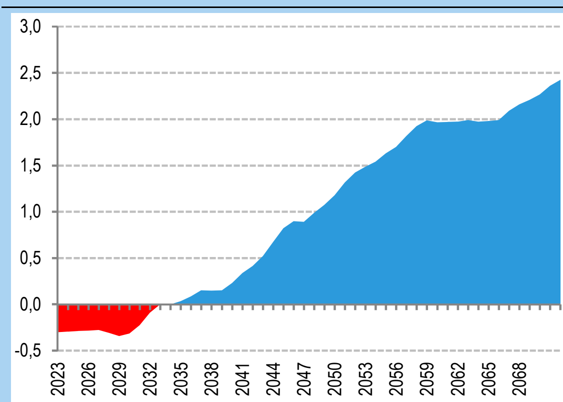
The adopted reform of the first pillar of the pension system contributes to the improvement of the long-term sustainability, but it creates additional pressures in public finances till 2033. Expenditures will increase in the short term because of the introduction of early retirement scheme after 40 years worked[36] and, in particular, the parental pension scheme[37]. This negative impact will be partly compensated in the short term by an

[36] Previously, the entitlement to the early pension arose no earlier than two years prior to the retirement age. Moreover, a new pension reduction coefficient was introduced for early pensioners with at least 40 years worked (of 0.3% for every started 30-day period), which is lower than the reduction coefficient applicable to other early retirees (0.5% for every started 30-day period).

[37] The parental pension for each child will amount to 1.5% of the child's assessment base two years prior to the pay-out year, while the child's assessment base will be limited to 1.2 times the general assessment base two years prior to the pay-out year.

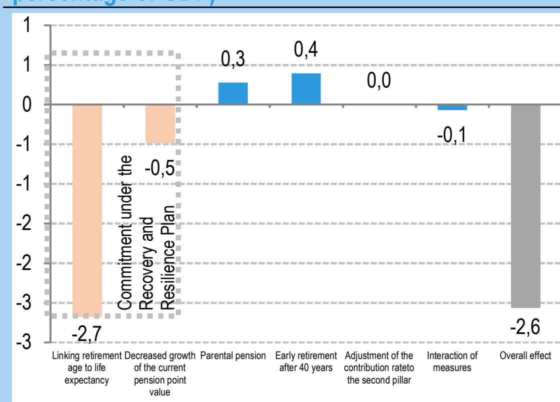
amendment that temporarily freezes the rates of social contributions to the second pillar[38]. However, from a long-term perspective, this measure will mean increased expenditures from the first pillar of the pension system, while the effect of the adjustment of rates on the long-term sustainability will be approximately neutral. Relinking the retirement age to life expectancy[39] and a slowdown in the growth of the current pension point value (CPPV)[40] will improve long-term sustainability. As these measures generate savings mainly in the long run, it will be important to ensure that they are maintained in the future when the savings start to be realised.

FIGURE 27 – Impact of the first-pillar reform on the balance of the pension system (in % of GDP)



Source: MF SR

FIGURE 28 – Change in S2 arising from each individual measure and the reform as a whole (in percentage of GDP)



Source: MF SR

Note: All measures are calculated as an effect against the current setting, except the effect of an early exit from the labour market after 40 years. The latter is considered as an additional effect to that of relinking the retirement age to life expectancy. With the previous retirement age setting this effect would be minimal.

The reform of the second pillar does not aim to improve long-term sustainability[41] directly, but it improves the adequacy of the system by making pension saving scheme more efficient. The old-age pension savings system has been facing issues in terms of an inefficient allocation of savings in low-return conservative funds. The upcoming reform of the second pillar[42] addresses the problem of an inappropriate portfolio allocation by introducing a default investment strategy for new and existing savers (up to the age of 54) which is based on the life cycle strategy[43]. Furthermore, the investment horizon for savers is extended so as to also cover the period of pension pay-out through programmed withdrawal[44], with a long-term withdrawal of savings being the preferred option. Further amendments include modification of the fee policy[45] of pension fund management companies (DSS) and the obligation of DSS to found and manage index funds that meet the mandatory qualitative requirements for their composition. On the other hand, the proposal in its current form does not include the introduction of automatic participation for people entering the labour market, which will limit the benefits of the second pillar[46] both for public finances and for the future pension recipients.

In addition to the reform of the first and second pillars, there are several other upcoming measures at various stages of the legislative process. As a measure to respond to high inflation, the Ministry of Labour,

[38] The rate for social contributions to the second pillar will remain at the level of 5.5% in 2023 and 2024; it will rise to 5.75% in 2025 and 2026; and from 2027 on it will be set at 6%. According to the former set-up, the rate was supposed to increase to 5.75% already in 2023 and remain at a level of 6% from 2024 on.
[39] Following the reform, the increase in the retirement age specified in Act No 461/2003 will remain in effect and the change will only apply to people born in 1967 or later.
[40] After the reform is approved, the CPPV will grow at 95% of the growth rate of average wage in the economy, which will have the effect of reducing future new pensions compared to the former arrangement.
[41] Measures within the framework of the second-pillar reform will have a largely neutral impact on long-term sustainability, with the exception of a minor negative impact resulting from the transfer of contributions to the second pillar of working pensioners during the period of pension pay-out through programmed withdrawal.
[42] At the time of preparation of this document, the draft amendment to Act No 43/2004 has passed to the second reading in the NC SR.
[43] Default strategy in pension saving: The case of Slovakia.
[44] This is to last for one half of the period of receiving a pension from the second pillar.
[45] The proposal abolishes the fee for maintaining a pension account and the performance fee; on the other hand, the maximum fee for the management of a pension fund is increased from 0.3% to 0.4% of the net asset value of the pension fund.
[46] Capitalisation pillars perform two main functions in the pension system: they diversify pension funding sources between the domestic and foreign economies and help to spread the future costs of population ageing over time. For beneficiaries, the combination of an appropriately designed capitalisation pillar with the pay-as-you-go (PAYG) pillar generates higher pensions than a pure PAYG pillar.

Social Affairs and Family (MLSAF) has presented a proposal for the disbursement in November of a one-off pension benefit in the amount of 70% of the thirteenth pension benefit paid in July 2022[47]. The pension benefit amount will range from EUR 35 to EUR 210 and the estimated total cost of the measure is EUR 207 million.

At the same time, the MLSAF has published preliminary information on four other measures being prepared[48]. In order to improve the access to information about future pension entitlements from all three pillars, it d a plan to introduce an information sheet based on the model of the so-called orange envelope was propose. The preliminary announcement also mentions an intention to unfreeze minimum pensions which currently remain at the levels of 2020. The MLSAF further proposes to extend the period of consumer price development taken into account for pension indexation purposes to ensure that the most recent data on price increases faced by pensioner households be considered. At the same time, there is a proposal to update the disablement percentage rates for selected diseases and to include new types of diseases in Annex 4 to the Social Insurance Act, which will have consequences for the granting of disability pensions and pension amounts.

In addition to the already announced measures, it can be assumed that a modified approach to considering long-term child care in the calculation of pensions will be introduced by the end of the year as it is explicitly foreseen in the amendment to the Constitution[49] to be effective from 1 January 2023.

[47] At the time of preparation of this material, the bill has passed to the first reading in the NC SR.
[48] PI/2022/201
[49] Constitutional Act No 422/2020

IV Trends in public finance revenues and expenditures

From the next year on, general government revenues will not keep pace with the growth of the economy. Despite a strong tax and contribution growth of 10% foreseen for 2022 and 2023, GDP will grow nominally even faster because of inflationary pressures. For the expenditure side, the consequences of the pandemic will be replaced by high inflation as the main driver of growth. The increase in prices is already visible this year, but social benefits will start to be affected more significantly only from the next year. Employee compensations in the public sector will similarly increase, though with a slight delay, and costs of debt service will also substantially rise towards the end of the budget horizon. The volume of investment will be robust, mainly thanks to projects to be implemented under the Recovery Plan and, also, to the drawing of allocations of the EU funds from the ending programming period.

IV.1. Revenue objectives of the budget

The dynamics of taxes and social contributions in 2023 lags behind the growth of the economy, which is due to a strong growth of nominal macroeconomic indicators (FIGURE 29). The causes of this effect also stem from previous years. The year 2021 was an exceptional one for several tax areas. The traditionally strong growth of taxes from the labour market and, in particular, record corporate tax amounts (year-on-year increase of 30%) caused tax revenue to outpace the economic growth. Almost half of the total year-on-year growth resulted from the growth of effective rates (FIGURE 30). In 2022 and 2023, the translation of nominal growth into tax growth will be slower and this will manifest itself through a slowdown and a cyclical decline in effective rates. This will also affect the development in 2023, with the growth rate difference between tax revenues and GDP becoming more marked. In the next years, growth of tax revenues will gradually recover and, with the contribution of funds from the Recovery Facility, return to stable levels.

For indirect taxes, the latest data suggest a stable effective tax rate (FIGURE 31) and a reduction in the VAT tax gap (FIGURE 32). According to the Commission, in 2019, Slovakia was among the top five EU countries that had reduced the tax gap by 2.2% year-on-year[50]. Observations for a longer period of time provide more relevant figures: the VAT gap decreased by approximately 9 percentage points between 2015 and 2019. The Commission's estimate for 2020 indicates a slight increase of one percentage point compared to the preceding year. The MoF 's estimate is more optimistic: the expected tax gaps for 2020 and 2021 are 16.6% and 12.1%, respectively. Despite this significant improvement, Slovakia still has options to further close the gap towards the EU average, which the Commission's estimate suggests to be around 11.9 % for 2020. The Financial Administration has introduced more frequent and targeted checks on active taxpayers and various measures, such as *eKasa* and the planned *eInvoice*, which are supposed to contribute to reducing tax evasion.

FIGURE 29 – Year-on-year growth of GDP, taxes and social contributions

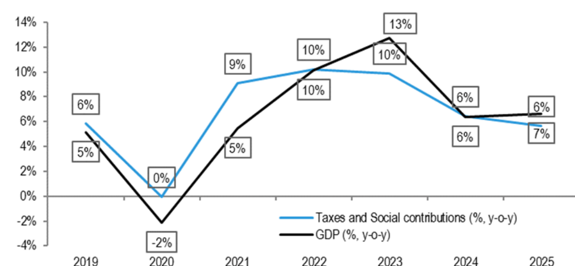
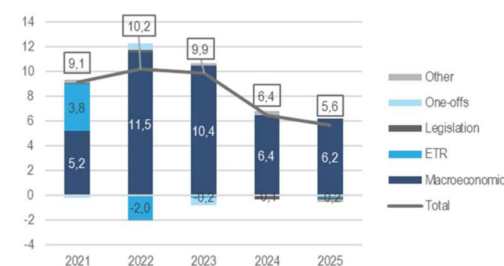


FIGURE 30 – The pro-cyclical development of CIT has nor recurred



Source: EC, MF SR

[50] The Commission's methodology is published on this website.

FIGURE 31 – Strong growth of VAT ETR (in %)

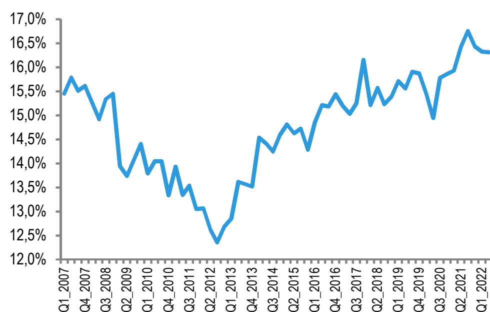
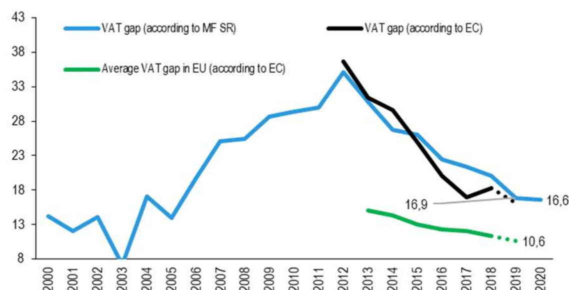


FIGURE 32 - VAT gap (% of potential revenue)



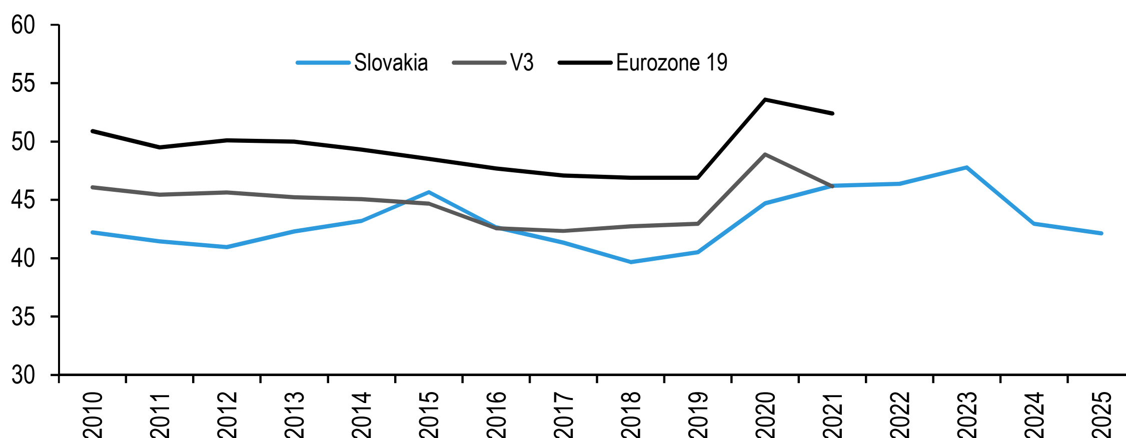
Source: Eurostat, MF SR, AMECO

IV.2. Expenditure objectives of the budget

In recent years, general government expenditures were mainly affected by the pandemic. After the stabilisation of expenditure in 2017-2019 following the end of the second European funding period came a shock in the form of the COVID-19 pandemic. It not only pushed up healthcare expenditure but also necessitated compensations for households to make up for reduced income and for companies to alleviate the effects of the downturn in economic activity. The impact of the pandemic is still visible this year, even though it is significantly milder. However, the current year's decrease in pandemic-driven expenditure is counterbalanced by costs incurred by the effects of the war in Ukraine, and in the second half of the year, the first measures to compensate for the impact of rising prices began to show.

From 2023 on, inflation will significantly affect the whole expenditure side of the budget and the total general government expenditure will grow at an accelerated pace. The rise in prices will affect social benefits, and employee compensations in the public sector, and the cost of debt service will also increase. In addition to the subsidy scheme introduced in connection with the increase in prices (see BOX 4), provisions are made in the budget to cater to possible additional effects of the pandemic and also for new legislative bills. The provision is intended primarily for the costs of the pension reform, the financing of family support, and the judicial map reform. The investment will mainly be driven by projects to be implemented under the Recovery Plan and, also, the drawing of EU fund allocations of the ending programming period.

FIGURE 33 – Overview of general government expenditure (% of GDP)



** Note 1: V3 – average for Hungary, Poland and Czechia.* *Source: Eurostat, MF SR*
Note 2: Slovak data accounts for the 2022 autumn Eurostat notification, other data is based on the 2022 spring notification.

Overview of expenditure by function

The international comparison of the structure of expenditure by function against the other V4 countries shows that Slovakia spends less on the economic area, recreation, culture and religion, and education. A comparison with the euro-area average indicates that Slovakia is currently one of the euro-area countries with more favourable demoFIGUREics, which is why Slovakia's social security spending is lower compared to other countries. A rise in this expenditure is expected in the future as a consequence of the aging of the population. Compared to the other V4 countries whose populations have a demoFIGUREic structure similar to the Slovak Republic, social expenditure is even slightly higher than the V3 average.

In contrast to past periods, defense expenditures and, also, temporary expenditure responding to the energy crisis will dominate the budget horizon. Total expenditure in 2023 will amount to 48% of GDP. For the economic area, the expenditure is subject to a one-off increase due to the subsidy scheme. For general public services, provisions are made for possible additional effects of the pandemic and the impact of the war in Ukraine. This expenditure is also influenced, over the whole budget horizon, by providing for new legislative bills which, however, are more related to the social area (parental bonus and tax bonus, or services for children). Defense expenditure is rising over the whole budget horizon, especially in 2025, which follows mainly from the delivery of a large part of military equipment already ordered and paid for in the past (in particular multi-purpose tactical aircraft). The proportion of social security expenditures in GDP will suddenly rise in 2024 when the delayed impact of price growth on the indexation of social benefits fully materialises (the increase in expenditure will be driven mainly by a high indexation of pensions). The GDP shares of other items will decrease, mainly because of significant GDP growth.

TABLE 9 – General government expenditure by function (COFOG)

Function	COFOG kód	SK (2020)	NRVS SK (2023)	NRVS SK (2024)	NRVS SK (2025)	V3 (2020)	EA 19 (2020)
		% HDP	% HDP	% HDP	% HDP	% HDP	% HDP
1. General public services	1	6,2	8,1	7,1	7,2	5,9	6,2
2. Defence	2	1,4	1,7*	1,9*	2,3	1,3	1,3
3. Public order and safety	3	2,5	2,3	2,1	1,9	2,2	1,8
4. Economic area	4	5,8	8,2	3,9	3,7	8,6	5,9
5. Environmental protection	5	0,9	0,9	0,7	0,7	0,8	0,9
6. Housing and amenities	6	0,5	0,6	0,5	0,4	0,7	0,6
7. Healthcare system	7	6,3	6,0	6,1	5,9	7,0	8,2
8. Recreation, culture and religion	8	1,2	0,9	0,9	0,8	2,2	1,2
9. Education	9	4,6	4,3	4,2	4,0	5,0	4,9
10. Social security	10	16,3	14,7	15,6	15,3	15,4	22,7
Total expenditure	**TE**	**45,6**	**47,8**	**42,9**	**42,1**	**49,2**	**53,7**

Note 1: NRVS – Proposed Budget
Source: MF SR, Eurostat
Note 2: Data for 2020 is based on the 2022 spring Eurostat notification.
** COFOG classification is reported in the ESA 2010 methodology (i.e. accrual), where expenses are recorded at the moment of delivery. Large investment projects are traditionally delivered several years later after payments have been made. Therefore are some projects accounted for several years later in the ESA 2010 classification when compared to the national accounting methodology.*

TABLE 10 – Fifteen largest investment projects in 2023 (cash, in EUR million)

Project name	Chapter	Source	Total cost	Until 2023	2023	2024	2025	After 2025
Štátna hranica ČR/SR - Devínska Nová Ves	MDV SR	ŠR, EÚ	276	41	205	30	0	0
Viacúčelové taktické lietadlá - PVT	MO SR	ŠR						
Lietavská Lúčka – Višňové – Dubná Skala	MDV SR	ŠR, EÚ	269	135	91	27	3	13
Kriváň - Mýtna	MDV SR	ŠR	319	74	78	114	40	14
Modernizácia vozového parku ŽKV 3. časť	MDV SR	EÚ	76	8	69	0	0	0

Hubová - Ivachnová (II. fáza)	MDV SR	ŠR	501	345	53	81	1	21
Modernizácia vozového parku ŽKV 7. časť	MDV SR	EÚ	77	27	50	0	0	0
Šaca - Košické Olšany II.úsek	MDV SR	ŠR, EÚ	207	70	47	49	31	10
Prešov - severný obchvat I. etapa	MDV SR	ŠR, EÚ	200	142	45	5	0	8
Čadca - Svrčinovec - št. hranica ČR/SR	MDV SR	ŠR, EÚ	88	25	42	21	0	0
D1 Bratislava – Triblavina	MDV SR	ŠR	150	23	39	34	32	22
Tvrdošín - Nižná	MDV SR	ŠR, EÚ	77	35	39	0	0	3
Haniska pri Košiciach – Moldava nad Bodvou	MDV SR	ŠR, EÚ	72	33	39	0	0	0
Rádiolokátor 3D - stredný dosah - PVT	MO SR	ŠR						
BOV 8x8 - PVT	MO SR	ŠR						

Source: MF SR, inputs from the ministries for the preparation of the general budget for 2023 – 25 and economic assessments of projects by the MF SR

V Planned budgetary measures

The budget for the next year focuses mainly on countering the energy crisis, for which 2.9% of GDP is provided. This will partially be funded from proceeds to be collected under the approved Council Regulation introducing a solidarity contribution from surplus profits (0.5% of GDP), which is earmarked for aid to companies and households. A one-off provisions in the budget is also needed for the delayed effects of the pandemic and possible expenses that may be incurred in connection with the war in Ukraine. The permanent measures that will push expenditure up include the parental bonus and other family policy measures, such as higher child allowances and an increase in the tax bonus. The indexation of salaries in general government approved by the Government will preserve the purchasing power of salaries. In the health sector, salaries will grow significantly faster because of an increase in excess of the automatic adjustment mechanism. Also, value-based and saving measures resulting from the recent spending review will be implemented in the sector. For the years 2024 and 2025, it is necessary to specify saving measures in an amount of approximately 1.4% of GDP to achieve the set deficit targets.

V.1. No-policy-change scenarios for 2023-2025

The no-policy-change (NPC) scenario represents a reference development in public finance based on the assumption of the legislation in effect in 2022 remaining unchanged, and considering the current estimates of macroeconomic developments and their impact on the budget. 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. The basis of the NPC scenario for the years 2023 to 2025 is the result of the continuous monitoring of the general government deficit in 2022, which is 5.0 % of GDP.

The analytical NPC scenario indicates that without specific measures, a substantial reduction in the fiscal deficit below 5% of GDP by 2025 would not be possible. Inflation will push operating expenditure up. The inflationary pressure on social expenditure is already reflected in the budget, including the new family policy measures. On the contrary, the expenditure on compensations for wages and goods and services planned in the budget is significantly below the growth of inflation or the development of wages in the private sector. This is one of the reasons behind the difference in the deficit estimates between the NPC scenario and the budget for 2024 and 2025. It will, therefore, be necessary to design as soon as possible specific measures to preserve the development planned in the budget. Moreover, to meet the budgetary targets, it will be necessary to specify measures for another approximately 1.4% of GDP by 2025.

TABLE 11 - Comparison of the revenue/expenditure balances and the NPC scenario for 2023 - 2025 (% of GDP)

		F	E	Budget			NPC			NPC-Budget		
	ESA code	2021	2022	2023	2024	2025	2023	2024	2025	2023	2024	2025
Total revenue		**40,9**	**41,4**	**41,4**	**38,6**	**38,0**	**40,9**	**38,7**	**38,1**	**0,4**	**-0,1**	**-0,1**
Taxes on production and imports	D.2	12,2	12,2	11,8	11,5	11,2	11,8	11,5	11,2	0,00	0,00	0,00
Current taxes on income, wealth	D.5	8,0	7,7	7,7	7,7	7,7	7,7	7,7	7,7	0,0	0,0	0,0
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	15,9	15,4	14,6	14,8	14,8	14,7	15,0	14,9	-0,1	-0,1	-0,1
Property income	D.4R	0,7	0,5	0,6	0,4	0,4	0,6	0,4	0,4	0,0	0,0	0,0
Other*		4,1	5,6	6,6	4,2	4,0	6,1	4,2	4,0	0,5	0,0	0,0
Total expenditure		**46,2**	**46,4**	**47,8**	**42,9**	**42,1**	**44,2**	**43,2**	**42,7**	**-3,5**	**0,2**	**0,6**
Compensations for employees	D.1P	11,5	10,3	9,9	9,8	9,3	9,9	9,9	9,9	-0,1	0,1	0,5
Intermediate consumption	P.2	5,8	8,1	9,8	5,4	5,2	7,8	6,3	6,1	-2,1	0,9	0,9
Subsidies	D.3P	1,4	1,1	0,8	0,7	0,7	0,8	0,7	0,7	0,0	0,0	0,0
Interest cost	D.41P	1,1	0,8	1,0	1,2	1,4	1,0	1,2	1,4	0,0	0,0	0,0
Total social transfers	D.6P,D632	18,7	18,0	17,2	18,3	17,9	16,6	17,7	17,4	-0,7	-0,6	-0,6
thereof: Unemployment benefits		0,3	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,0	0,0	0,0
Gross fixed capital generation	P.51G	3,1	4,7	4,0	3,4	3,3	4,3	3,5	3,2	0,3	0,2	-0,1
Capital transfers	D.9P	0,3	0,8	0,4	0,2	0,2	0,3	0,1	0,1	-0,1	-0,1	-0,1
Other**		4,3	2,6	4,6	3,9	4,0	3,6	3,7	3,9	-0,9	-0,2	-0,1
Unspecified measures				0,0	0,9	1,4						
General Government Balance	**B.9**	**5,3**	**5,0**	**6,4**	**3,4**	**2,7**						

Balance without unspecified measures	B.9			6,4	4,3	4,1	3,3	4,5	4,5	-3,1	0,1	0,4

Note: * P.11+P.12+P131+D.39rec+D.7rec+D.9rec (other than D.91rec) *Source: MF SR*
** D.29p+D.5p+D.7p+P.5M+NP

V.2. Description of measures

Revenue measures

Measures related to tax and social contribution revenue

Tax revenue will increase slightly due to the implementation of the IFRS accounting standard applicable to the insurance sector into the national legislation. This will increase the next year's tax revenue by EUR 23 million. The introduction of a social contribution allowance for selected seasonal works with an estimated impact of around EUR 11 million aims to address the shortage of workforce in agriculture and in services in tourism.

Temporary regulation of surplus profits

The current energy crisis has negatively affected all EU Member States, albeit to varying degrees. The sharp rise in energy prices contributes significantly to the overall inflation in the euro area and slows down economic growth in the EU. Therefore, as part of the Member States' relatively fast and coordinated reaction, Council Regulation (EU) 2022/1854 approved an emergency intervention to address high energy prices in order to establish a framework for new revenue measures. The Regulation introduces a solidarity contribution from surplus profits and a cap on market revenues (at 180 EUR per MWh). The EU Regulation only establishes a legislative framework, while the key details, exact implementation, method of selection, and other parameters may be specified in national legislation, or in another legal form. Both measures are to be applied in parallel with national corporate taxes.[51] The collected proceeds are to be earmarked for helping households and companies while also reducing energy consumption.

a) Solidarity contribution from surplus profits

The base for calculating the contribution is taxable profit, which must be 20% above the average for the years 2018-2021. Above this level, the minimum rate of 33% applies[52]. The contribution is to be payable by companies generating at least 75% of turnover with activities in the crude petroleum, natural gas, coal, and refinery sectors. The amount of solidarity contribution from the surplus profit was estimated on the basis of historical data on cost and income items of selected companies from which estimated future profits to be subject to the contribution were derived. For entities processing crude oil, the estimate was based on the Brent - Urals oil price difference. The solidarity contribution is to be in effect for the years 2022 and 2023.

b) Cap on market revenues of EUR 180 per MWh

The cap on market revenues is relevant for entities that produce and sell electricity. The measure is to apply to those entities' contracts to be cleared in 2023. In the Slovak context, the capping will affect the major electricity producers, *Slovenské elektrárne* a *Vodohospodárska výstavba*, as well as distributors. The estimate of the impact is based on data on how much electricity the companies have already contracted, or what portion of electricity is to be sold by them in the electricity spot market[53]. The underlying data for the quantification thus consisted of information on existing contracts, of which only those priced above EUR 180 per MWh were taken into account. 100% of the amount above this threshold is to be subject to the contribution. Small producers with an output below 1 MWh are to be exempt. The measures are to be effective from December 2022 to the end of June 2023.

[51] The fiscal estimate does not include a reduction in corporate tax and other general government budget revenue since the GGB is based the approved outputs of the Tax Revenue Forecasts Committee. The overall impact would probably be lower and will be updated at the Committee's next session.
[52] Example: In each year between 2018 and 2021, the Company achieved a taxable income of 100. A rate of 20% will be applied to the four-year average of 100. The Company will reach a profit of 200. The Company will pay a levy of 33% on the base of 80 (200-120), i.e. 26.
[53] The estimate of future contracts for Slovakia from the Prague Power Exchange as of 29 September 2022 assumes prices for 2023 of EUR 496 per MWh, EUR 247 per MWh in 2024, and EUR 189 per MWh in 2025.

Vodohospodárska výstavba is liable to several taxes and levies. The company is a regular payer of corporate income tax. Since its operations are subject to regulation, a special levy on regulated industries also applies to the company. Moreover, as a state-owned enterprise, the company may be subject to a special levy on profits after tax under the Act on state enterprises. The amount to be paid by the company can be determined directly through the State Budget Act. *Vodohospodárska výstavba* is expected to temporarily achieve a higher taxable income due to "surplus profits" from the sale of energy in the spot market (approximately half of its annual production) and the state is entitled to impose a special levy to cope with an extraordinary energy situation. The market revenue estimate is based on the expected price of electricity for the next year, while the price is still subject to substantial uncertainty.

Expenditure measures

Indexation of salaries in public administration

The intended result of the indexation is maintaining the purchasing power of salaries of public employees in the face of strong price growth. Teachers' salaries will increase by 10% from January 2023 and a further 12% from September 2023. Salaries of public workers and civil servants will be higher by 7% from January 2023 and by another 10% from September 2023. In addition, creating a reserve for salaries and public insurance contributions in 2023 is also being considered to provide for possible expenditure on the administrative capacities of the European structural funds and spending review expenses.

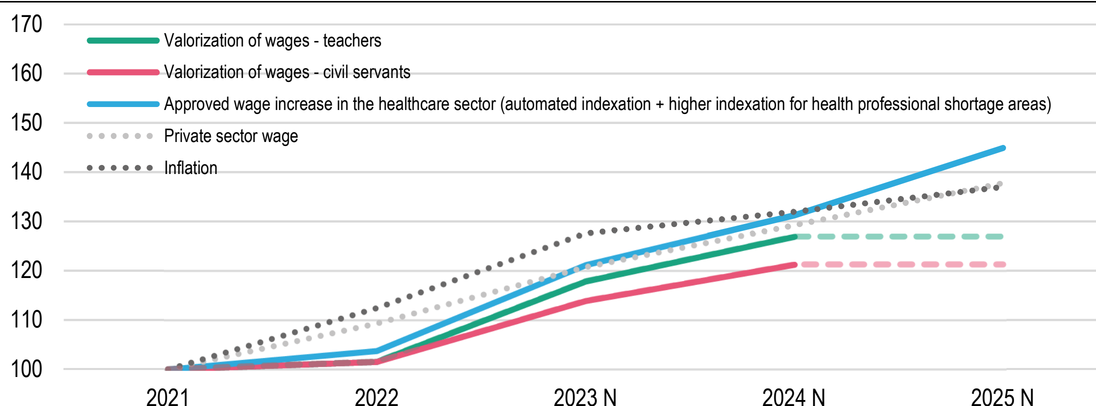
Measures in the health sector

The National Council has approved an increase in the salaries of health workers in above of the automatic adjustment mechanism. The salary increase will mainly cover shortage professions in institutional healthcare facilities (mainly doctors, nurses, midwives, paramedics, public health workers, practical nurses, and orderlies). Years of experience are also taken into account in salary adjustments for all institutional healthcare professions.

In addition to the salary increase, the incentive measures being introduced in the healthcare sector also include easier access to some innovative therapies, the availability of which was previously subject to exception, and, accordingly, to higher-quality treatment based on new medical knowledge. Also, a greater focus will be placed on long-term and palliative healthcare, especially at home.

The value-based measures will be offset by savings aimed at improving value-for-money. The saving measures relate mainly to the pharmaceutical policy (increasing the cost-effectiveness of medicinal products, reducing expenses on medicinal products subject to exception, enabling the entry of new generic medicinal products), or optimising the provision of shared examination and treatment services (elimination of redundant procedures, benchmarking of prices and volumes - for more, see **BOX 8**).

FIGURE 34 – Salary development after the approved indexations (index 2021=100)



**Note: Development of wages in the healthcare sector from 2024 reflects the effect of the valid automatic system, due to which are wages increased in line with the growth of the average wage in the economy from two years ago. The currently valid collective agreement regulates the salaries of teachers and employees in the public and state service only until the end of August 2024.*

Source: MF SR

Reserves and allocations to compensate for rising energy prices, consequences of the war in Ukraine, and healthcare needs

Compensatory measures in the amount of EUR 3.5 billion (2.8% of GDP) are being considered in connection with the increase in energy prices. The aid will target households (EUR 0.9 billion), companies (EUR 1.4 billion), and general government entities falling under the responsibility of the Ministry of Transport (EUR 0.16 billion). The amount remaining in the General Treasury Account (GTA) is EUR 0.94 billion. At the same time, there is a proposal to suspend the payment of non-claimable bonuses to employees until the end of April 2023 which, if necessary, will create a provision of approximately EUR 0.1 billion. In addition, a provision in the amount of EUR 0.4 billion has been made for possible additional needs in the health sector, of which EUR 250 million is earmarked for possible further waves of the COVID-19 pandemic. These sources will be used for both vaccination and treatment, whether acute or deferred from previous years. There is also a provision of EUR 0.1 billion for expenditure related to the war conflict in Ukraine.

Approved family policy measures

Measures aiming to support families were introduced with effect from July 2022, including increasing the tax bonus per dependent child to EUR 100 and the monthly child allowance to EUR 30. Starting from January 2023, the child allowance will further rise to EUR 40 per month. In addition to the growth of employment and average wages, the increase in the expenditure on sickness benefits is also due to the introduction of simultaneous payment of maternity benefits to both parents in the period around childbirth.

Provisions for new bills pending in the legislative process

The provisions are intended to cover the recently approved changes in the first pillar of the pension system, fund leisure activities of children (services for children)[54], the costs of the judicial map reform, and other measures pending in the legislative proceedings. The adopted pension measures abolish the retirement age cap and, at the same time, introduce the possibility of early retirement after 40 years of working. However, the required amount of pension an applicant for an early old-age pension must earn is higher. Also, a parental bonus is being introduced, where children will contribute to their parents' pensions. The resulting expenditure will partially be counterbalanced by reducing the pension indexation rate from 100% to 95% of the current pension value. Another compensatory measure is freezing the rate of contributions payable to the second pillar for the next two years.

TABLE 12 – Revenue and expenditure measures (EUR million)

	ESA2010	2023	2024	2025
Measures within the framework of taxes		**12**	**15**	**3**
Implementation of the IFRS accounting standard into national legislation	**D.5**	23	26	17
Introduction of a social insurance contribution allowance for selected seasonal works	**D.61**	-11	-12	-13
Temporary regulation regarding excess profits		**612**	**0**	**0**
Temporary income from the EU regulation regarding excessive profits (solidarity contribution, price ceiling)		462	0	0
Special levy for water management construction (from excess profit)		150	0	0
Changes to remuneration of public servants, of which:	**D.1**	**-637**	**-1 046**	**-1 046**
Valorisation of wages of public servants - besides teachers		-291	-469	-469
Valorisation of wages of public servants - teachers		-345	-577	-577
Reserve for wages and insurance premiums	**D.1**	**-188**	**-168**	**-213**
Value-increasing health care policy measures	**D.632**	**-312**	**-377**	**-439**
Approved wage increase in the healthcare sector (increased indexation + bonus for years of experience)*		-232	-244	-261
Implementation of innovative treatment procedures		-60	-109	-150
Long-term care		-20	-24	-28

[54] At the moment, there is no final determination as to whether it is possible to launch the leisure vouchers with effect from January 2023, or if the measure is to be replaced by another form of assistance to families.

Cost-saving health care policy measures	**D.632**	**127**	**241**	**309**
State health insurance company (more efficient operation)		40	75	75
Inpatient care		2	3	5
Pharmaceuticals		67	126	175
Common examination and treatment units (CT, MR and laboratory examinations)		14	27	39
Medical aids		5	9	13
Compensation for growing energy prices	**D.1/P.2**	**-3 500**	**0**	**0**
Reserve for expenditure caused by war in Ukraine	**P.2**	**-100**	**0**	**0**
Reserve for additional health care expenditure	**P.2**	**-400**	**0**	**0**
Family policies	**D.6**	**-773**	**-745**	**-723**
Increased child allowance to 40 eur from January 2023		-157	-144	-138
Increased tax credit up to 100 eur per child		-596	-582	-569
Uptake of maternity benefit by both parents at the same time around the time of birth		-20	-20	-16
Reserve for new legislative measures, of which:	**D.1/P.2/D.7p/P.51g**	**-891**	**-985**	**-1 053**
Amendments to the I. pillar (pensions)		-276	-339	-405
Introduction of subsidy promoting extra-curricular activities for children		-440	-480	-480

* Impact on top of the automatic indexation of wages

(+) decreases deficit of the general budget, (-) increases deficit of the general budget

BOX 8 – Value-for-money reviews

The update of healthcare spending review measures of September 2022 has generated savings that are incorporated into the general government budget for 2023 to 2025. At the same time, the update offers a menu of value-based measures the implementation of which will be aligned with saving measures and the availability of other resources. The total savings potential by 2030 is EUR 483 million, including almost EUR 426 million on public health insurance (PHI) expenditure, of which almost EUR 130 million is scheduled for 2023. Nearly three-quarters of the saving potential can be realised within the horizon of the general government budget by 2025. The measures most important in terms of the amount of savings include pharmaceutical cost-effectiveness and international referencing of prices and numbers of diagnostic examinations. The implementation of certain cost-saving measures is also linked to value-based and system measures, such as the transfer of some services from specialised to general outpatient care. These measures will require additional allocations.

The interim subsidy spending review, which is not yet included in the budget, covers expenditure in the amount of EUR 1.3 billion per year (1.3% of GDP, 2.6% of public expenditure). The scope of the review includes selected subsidies and transfers in the amount of EUR 940 million and selected tax expenditure in the amount of EUR 360 million. As subsidies may often distort competition and thereby reduce the pressure on effectiveness, it is necessary to subject them to regular reviews. The interim report presents an overview and description of subsidies from the state budget for eight subject areas. The final report will propose cost-saving measures as well as measures to increase the social value of provided subsidies. It will also propose mechanisms for launching and running subsidy schemes to ensure that they bring the highest possible value for money. The identified savings could provide a source for the Government's planned consolidation efforts, mainly in 2024 and 2025.

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

In the upcoming years, the successful implementation of the RRP will be crucial for the re-acceleration of Slovakia's convergence and the improvement of the quality of life of its people. In the context of the war in Ukraine, it will be essential to take measures to alleviate the energy crisis and continue to reduce the overall dependence on fossil fuels. As regards measures to improve the performance of the education system, among those most important will be the implementation of compulsory pre-primary education or the gradual introduction of a curricular reform and changes in the tertiary education system. In order to increase the inflow of high-skilled workforce, measures are being prepared to streamline processes under the residence and work permission legislation. The setting up of centres of excellence will support the linking of vocational education to the labour market. Within social policies, activities aimed at the integration of Roma communities continue to be implemented in the areas of education, health, housing and employment. Productivity-enhancing measures will focus on increasing overall investment in science and R&D, supporting digitalisation by building infrastructure in the areas not covered by the market, improving digital skills and building effective electronic public administration. At the same time, the investment management reform will continue with the goal of increasing the social return on projects and speeding up the investment process and enhancing its transparency. The business environment will benefit from a reduction in the administrative burden and the elimination of inefficient regulations.

VI.1. Main priorities of structural policies

The curricular reform of education will gradually transform the content of education with an emphasis on the development of the necessary skills, including digital ones. It will be accompanied by changes in teacher training and professional development, textbook reform and mentoring support for the implementation of the new curriculum in the newly established regional centres. Improvements in higher education should come from new accreditation standards for internal quality assurance systems, reform of the internal management of schools, and changes in funding to support performance in research and creative activity.

The measures foreseen in the RRP aim to increase the overall investment in research and development, including providing incentives for increased private sector spending. The trans-ministerial coordination of research and development and the evaluation of projects financed from public sources are being professionalised in order to achieve more effective links between the research efforts of the public and private sectors. Public policies to increase productivity will be focused on promoting digitalisation by building infrastructure in the areas not covered by the market, improving digital skills, building an efficient e-government delivering quality citizen and business-oriented services. Digitalisation will also take place in the areas of health, education, the judiciary, construction procedures, social insurance, the fight against corruption and public security.

With a view to increase the inflow of high-skilled workforce, the processes under the residence and work permission legislation are being gradually streamlined. The new Act on lifelong learning will bring a more effective system of accreditation of adult education programmes. The setting up of centres of excellence will support the linking of vocational education to the labour market. Within social policies, activities aimed at the integration of Roma communities are further implemented in the areas of education, health, housing and employment. The upcoming pension reform will bring significant changes that go beyond sustainability improvement. They include, in particular, the improvement in the adequacy of pensions from the second pillar by introducing a default life cycle-based investment strategy and improving the delivery of information on current and expected future pension entitlements from all three pillars. Affordable housing in centres of economic activity has a potential to support the mobility of workforce. The adoption of the Housing Policy of the Slovak Republic until 2030 and the related Action Plan aim to improve the physical availability, affordability and quality of housing in Slovakia. The new Construction Act and Act on Territorial Planning will streamline the construction process and support an increase in the overall level of housing construction .

The business environment will benefit from a reduction in the administrative burden and the elimination of inefficient regulations. By adopting the one-in-two-out mechanism, any measure increasing the costs for the business environment will be offset by a measure reducing the costs by at least a double amount. The adopted anti-bureaucratic packages will thus gradually reduce the administrative burden. The public procurement reform will bring greater transparency to the business environment. Anti-money laundering efforts will be supported by the new Act on the seizure of assets. The reform of the judiciary, the judicial map and the specialisation of courts will bring faster proceedings and more trust in the judicial system.

Optimisation of the network of hospitals will be the backbone of the healthcare reform. Its goal is to create a modern, accessible and efficient network to ensure quality healthcare. The availability of emergency medical services will be improved and better aligned with the needs of the new hospital network. Primary care will be improved to better serve as the basic integration point of patient healthcare. The fight against cancer will be also strengthened through better coordination and screening in cancer care. Special attention will be paid to the reform of mental health care, including improving the availability of modern educational programs for mental health care providers, while modernising screening and diagnostic methods and treatments. As regards long-term and palliative care, emphasis will be placed mainly on the quality, availability and coordination of services. Long-term healthcare and social care will be integrated and the supervision of the provision of services will be improved. At the same time, calls for the reconstruction and expansion of residential, community or home care capacities will be launched, with an emphasis on the deinstitutionalisation of services.

Reforms of rules in the area of electric power and RES support will contribute to further increasing the share of RES in the energy mix of the Slovak Republic. Industrial decarbonisation measures will lead to lower greenhouse gas emissions and less energy losses while using innovative and ecological technologies in industrial production. Investments in ecological modes of transport (especially railways and cycling) and support for the development of alternative fuel infrastructure will also have a positive impact on greenhouse gas emissions as well as the quality of transport. Investments in the renovation of public and private buildings will be made in order to improve energy efficiency. Improved water management in the landscape, more rigorous protection of existing landscape structures and expansion of the no-intervention areas of national parks and other protected areas will promote the long-term resistance of ecosystems in the landscape to the consequences of climate change**.**

Several measures are planned in the health sector and long-term care that should contribute to improving the long-term sustainability of public finances. For non-RRP measures, they include, in particular, the implementation of a set of cost-saving measures, mainly in the areas of the pharmaceutical policy, but also a revision of the system of payments to hospitals based on diagnosis-related groups (DRG), which aims to improve the efficiency of the financial management of hospitals. Effort within RRP, for example, include the measures aimed at the integration of long-term healthcare and social care.

VI.2. Investment management reform

Slovakia continues the implementation of the investment management reform, which aims to increase the social return on projects and speed up the investment process and enhance its transparency. The economic value of most investment projects reviewed by the MF SR only closely exceeded their costs. This is expressed by the benefit-cost ratio (BCR) of a project, which in Slovakia usually amounts to up to 1.5. As the main points of the reform, projects are subjected to an economic evaluation before their implementation; Ministries' are required to pre-define their priorities and investment plans; and the inclusion of projects into the general government budget is subject to appropriate preparedness and economic return. More details concerning the progress of the reform and the state of investments in Slovakia are available in the Investment Evaluation Report for 2021.

- **In 2021, the MF SR evaluated 251 projects with identified savings in the amount of EUR 489 million.** The evaluations focus on the substantiation of the project and its scope, assessment of alternatives and design of ideal technical solutions. The estimate of the project costs and benefits is verified. Evaluations of projects totalling EUR 6.3 billion have so far resulted in recommendations for an optimisation of the technical solution and/or reduction of the project costs. The median of savings on the evaluated projects is 7% of the estimated costs. Most of the projects were recommended for implementation with modifications of their technical solutions or small adjustments to cost estimates.

- **An important part of the reform is the clear determination of priorities and methodically sound investment plans, which increase the transparency and predictability of the investment process.** At present, all chapters with annual investments exceeding EUR 20 million have a published prioritisation methodology and almost all of them also have an investment plan for the next 5 years. The methodologies and plans of the individual chapters are summarised on the MF SR's website.
- **As a part of the reform, the application of the zero-based budgeting principle was introduced in 2021.** Funding should be afforded only to projects that are well-prepared and guarantee an economic return and conform to the prioritised investment plans, and only within the boundaries of the budgetary allocations available in the given year. In the past, inaccurate planning and frequent prioritisation changes to unprepared projects led to unreasonable blocking of large packages of funds for a long time at the expense of well-prepared and better investments across sectors.

All important decisions of the Government should be analytically supported - and not only in the area of investment projects. A systematic ex-ante analysis of planned new policies and regulations would improve the effectiveness of spending and the transparency of the decisions taken.

BOX 9 – Implementation of capital expenditure

Slovakia has a long-lasting problem with implementing planned capital expenditure (see also BOX 5). It is necessary to improve both the preparation stage and the procurement and implementation stages of projects. The key prerequisite for good investment management is better institutions. The state of institutions in Slovakia was mapped by the International Monetary Fund (IMF) under the PIMA project. The IMF's recommendations focus mainly on the introduction of a better strategic planning system, creation of a pool of projects based on clear and robust criteria, better budgeting, more efficient public procurement, strengthening the central role of the Ministry of Finance in planning and risk identification and realistic maintenance budgeting.

TABLE 13 – Overview of the spending of capital expenditure allocations (EUR million)

	2018	2019	2020	2021
Available funds (budget + transfers)	1 821	2 476	1 657	2 443
Actual drawdown (2021 estimate)	1 215	1 793	1 667	1 562
Real drawdown % (2021 estimate)	61 %	72 %	97 %	70 %

Note: The spending of budgeted allocations is estimated using the average annual spending and the spending of the current year. The spending of carried-forward capital expenditure allocations is estimated using the average annual spending.

At the planning stage, it is necessary to improve primarily the investment planning and the linking of planned projects to the budget. Only high-priority, well-prepared and profitable projects should be planned in the budgets of chapters. Subsequent budget adjustments in the course of a year are lengthy and delay the process. Poorly prepared projects extend the procurement and implementation stages.

In the project procurement and implementation phase, bid evaluation postponements and non-compliance with the work schedule pose major issues. The reasons are mostly project-specific. The general ones include poorly prepared documents for the public procurement process, or necessary changes to the proposed technical solution. In 2022, another challenge is the dramatic rise in the prices of materials which necessitates amendments to both contracts and project budgets.

ANNEXES

Annex 1 - Divergence from the latest Stability Programme

The Draft Budgetary Plan envisages a much worse performance of the economy in 2023 than the Stability Programme, and this is reflected in most indicators. The macroeconomic forecast of March 2022 on which the Stability Programme for 2022 to 2025 is based foresaw a 2.1% increase in real GDP in 2021 and a 5.3% increase in 2022. The current forecast of the Macroeconomic Forecasting Committee of September 2022 slightly reduces the growth dynamics for 2022 and significantly worsens the estimate for 2023. The lower performance of the economy reflects the deterioration of external environment and high inflation due to the energy crisis. The latter will depress real income and consumption of households and the saving rate will drop to a historic low. The weak performance of the economy will lead to stagnation in the labour market.

TABLE 14 – Forecast of selected indicators of the Slovak economy

No.	Indicator		Stability programme				Draft budgetary plan			
		unit	2022	2023	2024	2025	2022	2023	2024	2025
1	GDP, current prices	mld, eur	106.5	117.9	122.8	127.7	108.5	122.3	130.1	138.8
2	GDP, constant prices	%	2.1	5.3	1.8	1.8	1.9	0.6	1.7	2.3
3	Final consumption of households and NPISH	%	1.4	2.3	2.8	2.1	4.6	-3.7	2.0	1.5
4	Final consumption of general government	%	-3.9	0.2	-0.7	-0.5	-1.5	-0.7	0.0	-0.7
5	Gross fixed capital formation	%	15.2	15.1	-2.5	-0.6	5.4	16.3	-6.4	1.7
6	Export of goods and services	%	1.5	9.0	4.7	3.1	-1.6	1.7	7.6	5.8
7	Import of goods and services	%	1.8	8.4	3.9	2.3	-0.9	2.4	5.5	4.8
8	Output gap (share of potential output)	%	-0.9	1.6	0.5	-0.1	-0.7	-1.8	-2.2	-1.7
9	Average monthly wage (nominal growth)	%	6.9	7.1	4.8	4.1	8.3	10.4	7.5	6.0
10	Average employment growth (LFS)	%	1.6	1.6	0.6	0.1	2.6	0.2	0.7	0.8
11	Average employment growth (ESA 2010)	%	0.6	1.6	0.6	0.0	1.9	0.2	0.7	0.8
12	Average unemployment rate (LFS)	%	7.1	6.5	5.4	4.7	6.1	6.1	5.6	4.8
13	Average unemployment rate (registered)	%	7.6	6.6	6.4	6.1	7.0	6.9	6.4	5.5
14	Harmonized index of consumer prices (HICP)	%	8.1	6.7	2.0	2.0	11.6	13.5	3.6	4.1
15	Current account balance (share of GDP)	%	-1.2	-1.0	-0.7	-0.5	-5.1	-4.7	-4.0	-3.6

Source: MF SR

TABLE 15 – Comparison of budgetary targets with the Stability Programme

	ESA code	2021 R	2022 E	2023 FFGG	2024 FFGG	2025 FFGG
		% GDP	% GDP	% GDP	% GDP	% GDP
Target balances of general government	**B,9**					
Stability Programme (1)		-6,15	-5,07	-2,40	-2,32	-2,02
Draft Budgetary Plan (2)		-5,32	-4,97	-6,44	-3,44	-2,74
Difference (2-1)		**0,83**	**0,10**	**-4,04**	**-1,12**	**-0,72**

E – Expected actual result
FFGG – Fiscal Framework of General Government

Source: MF SR

Annex 2 - Assessment of forecasts by the Macroeconomic and Tax Forecasting Committees

The draft budgetary plan for 2023 to 2025 is based on the macroeconomic and tax forecasts of September 2022 covering the horizon of the years 2023 - 2025. 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 Act on budget responsibility.

As far as the budget revenue for 2023 is concerned, the macroeconomic forecast of the Ministry of Finance of the Slovak Republic of September 2022 is higher than the median for the other members of the Macroeconomic Forecasting Committee. This is expressed as the weighted average of the relevant tax bases of budget revenue where the weights applied are the proportions of the individual taxes to the total budget revenue. The MF SR expects a higher inflation, which drives a higher growth of the nominal average wage and GDP. On the other hand, the estimate of the MF SR is lower in terms of real GDP, employment and nominal and real consumption. A majority of the present members of the Committee (CBR, SLSP, Tatrabanka, Infostat, SAV, Unicredit, ČSOB) rated the MF SR's forecast as realistic; the NBS saw it as optimistic.

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

MFC member	Rating
RRZ, SLSP, Tatrabanka, Infostat, SAV, Unicredit, ČSOB	realistic
NBS	optimistic

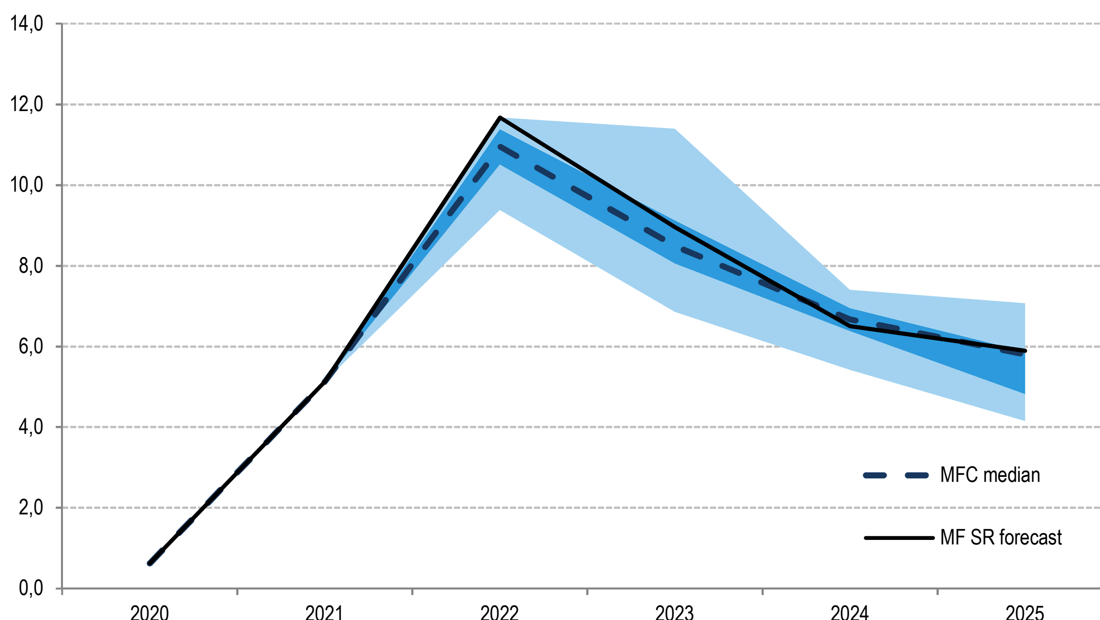
Source: Macroeconomic Forecasting Committee

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

	2021	2022		2023		2024		2025	
% unless otherwise stated		MFC	Mof SR	MFC	Mof SR	MFC	Mof SR	MFC	Mof SR
GDP, real growth	3.0	1.8	1.9	1.6	0.6	2.6	1.7	2.4	2.3
GDP, current prices**	98.5	107.0	108.5	118.7	122.3	126.4	130.1	133.7	138.8
Final consumption of households, real growth	1.2	3.9	4.6	-1.2	-3.7	2.1	2.0	2.0	1.5
Final consumption of households, nominal growth	4.5	16.8	19.0	10.7	9.5	6.7	5.7	5.1	5.8
Average monthly wage, real growth	3.6	-4.2	-3.6	-1.0	-2.7	2.6	3.9	2.5	2.1
Average monthly wage, nominal growth	6.9	7.8	8.3	8.4	10.4	6.6	7.5	5.5	6.0
Employment growth	-0.7	1.9	2.1	0.3	0.2	0.4	0.7	0.4	0.8
CPI (average growth)	3.2	12.2	12.4	11.2	13.5	4.2	3.4	3.0	3.8
GDP, real growth	3.0	1.8	1.9	1.6	0.6	2.6	1.7	2.4	2.3

** Macroeconomic Forecasting Committee* *Source: Macroeconomic Forecasting Committee*
*** The Committee members' GDP forecast in current prices was based on unrevised values*

FIGURE 35 - Comparison of the forecasts of macroeconomic bases[55] for budget revenue between the MF SR and the Committee members



Source: MF SR

BOX 10 – Independent Committees estimating the macroeconomic development and development of tax revenues

The Macroeconomic Forecasting Committee and the Tax Revenue Forecasts Committee are established under the Constitutional Act No 493/2011 on fiscal responsibility as advisory bodies 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 the 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, the 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*. The members of the Tax Revenue Forecasts Committee rate a tax forecast of the Ministry of Finance by submitting their own forecasts; their rating is calculated automatically on the basis of deviations. **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.

In the course of 2021, the scope of the Tax Revenue Forecasts Committee's work was extended to include forecasts of selected non-tax revenue and expenditure items that are largely influenced by economic developments. The consideration of economic developments and other specific assumptions in the forecasts, which is ensured through the involvement of a panel of experts from the public and private sectors, means more

[55] Forecasts of macroeconomic bases 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 HDP – 6.7 %.

transparent consultations regarding estimates and, eventually, a more accurate budget. In March and September 2021, the forecasts were extended to include non-tax revenue of approx. EUR 1.1 billion and expenditure in an amount of approx. EUR 7 to 8 billion. The additional revenue-side items are proceeds from the sale of emission allowances, tolls and vignettes, the gambling levy and dividends of state-owned enterprises. The additional expenditure-side items include unemployment benefits, sickness benefits and old-age pensions.

Tax Revenue Forecasts Committee

The MF SR presented its updated medium-term forecast of tax revenue for the years 2022 to 2025 at the Tax Revenue Forecasts Committee session on 22 September 2022. 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

MFC member	Rating
NBS, Infostat, Tatra banka, ČSOB, KRRZ, SLSP, UniCredit Bank, VÚB	realistic

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

As regards cash factors, it is apparent that the main driver of the growth of the debt in the budget horizon will be the cover for the state budget cash deficit. In 2024 and 2025, the cash deficit will remain around the level of EUR 5 billion, which will primarily affect the growth of the nominal gross debt. Debt-increasing government bond issues will not fully suffice to repay the principal of the debt and at the same time cover the newly generated state budget cash deficit. Accordingly, release of the funds accumulated in the State Treasury (ST) is expected over the whole budget horizon, which will enable a reduction in the volume of new bond issues and alleviate the pressure for higher indebtedness. The contribution of the borrowing activity of other general government entities to the total debt will be only moderate because of the excess of new borrowings over the repayment of principals. Methodological adjustments (e.g. discount on the issue and repayment of bonds) will have a markedly negative impact on the debt, which will come mainly from the government bonds with longer maturities. The current higher interest rates combined with low government bond coupons increase the required discounts on issues, which has an adverse impact on the gross debt.

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

	2019	2020	2021	2022 E	2023 D	2024 D	2025 D
A. Government gross debt (as of 1 January)	**44 405**	**45 306**	**55 023**	**61 267**	**64 418**	**70 733**	**74 909**
B. Total YoY change in general government gross debt	**901**	**9 717**	**6 244**	**3 151**	**6 315**	**4 175**	**3 781**
- cash deficit state budget	2 201	7 758	7 014	5 654	8 341	4 813	5 175
- MoF resources used to finance the cash deficit of the state Treasury	-1 586	1 767	-2 365	-1 542	-2 942	-1 690	-2 175
- indebtedness of other general government entities	248	79	-153	52	16	30	22
of which: the Railways of the Slovak Republic (ŽSR) + ŽSSK (Slovak Railway Company)	117	56	-140	-41	-42	-12	-12
of which: NDS (National Motorway Company)	-42	-30	-43	-37	0	0	0
of which: Municipal transport undertakings	-15	10	-6	39	35	28	24
of which: Local government (municipalities and higher territorial units)	46	-3	18	62	32	22	13
- modification of the guarantees of the Slovak Republic in the EFSF	-21	0	0	0	0	0	0
- emission discount	3	28	18	473	948	1 028	758
- discount at maturity	2	-16	-2	-11	-49	-6	0
- other	54	101	1 732*	-1 475*	0	0	0
C. Government gross debt (as of 31 December)	**45 306**	**55 023**	**61 267**	**64 418**	**70 733**	**74 909**	**78 690**
in % GDP	**48,0**	**58,9**	**62,2**	**59,4**	**57,8**	**57,6**	**56,7**
D. Change in gross debt compared to the Stability Programme (p.p.)	**-0,2**	**-0,8**	**-0,9**	**-2,2**	**-0,2**	**-0,6**	**-0,6**
of which: contribution of forecast changes nom. GDP	-0,2	-0,9	-0,9	-1,1	-2,2	-3,4	-4,9
contribution of the change in the forecast for nominal debt	0,0	0,0	0,0	-1,1	2,0	2,8	4,4
p.m. contribution of the Slovak Republic to the ESM	*0*	*134*	*0*	*0*	*0*	*0*	*0*

*Note: * Including the sources of non-general government entities. Plus items increase the general government debt as of 31 Dec of a year, minus items reduce the debt.*
Source: MoF SR
E – expected actual results as of the end the year; D – Draft General Government Budget.

Annex 4 – One-off and temporary measures

The draft budgetary plan for 2023 includes the following one-off and temporary measures for the horizon of the years 2021 - 2025.

TABLE 20 – List of one-off and temporary measures

(ESA 2010, mil. EUR)	2021	2022	2023	2024	2025
Total measures 1 to 4B (Kurzarbeit)	-1266	-204	-	-	-
Kurzarbeit for kindergartens and elementaryart schools	-18	-	-	-	-
Business support in tourism and gastronomy	-120	-65	-	-	-
Entrepreneurship support in the field of culture and creative industries	-8	-	-	-	-
Rent repayment	-94	-14	-	-	-
Support for jobseekers	-	-	-	-	-
First aid allowance	-66	-11	-	-	-
Parental allowance (extension of the period of receipt)	-49	-6	-	-	-
Unemployment benefit (extension of the acquisition period)	-40	-	-	-	-
One-off child allowance	-76	-	-	-	-
Humanitarian aid and accident supplement	-8				
Sickness (PN) - benefits paid above the level of 2019 (indexed)	-211	-36	-	-	-
Nursing allowances (OČR) - benefits paid above the level of 2019 (indexed)	-35	-8	-	-	-
Non - payment of part of deferred levies	-7	-2	-	-	-
Zero VAT on FFP2 / 3 respirators	-10	-	-	-	-
Remuneration of health care workers	-54	-10	-	-	-
Increased expenses - fans and others	-25	-	-	-	-
Testing expenses	-332	-84	-	-	-
Drug and vaccine costs	-162	-231	-250	-	-
Equipment and other expenses of medical facilities	-261	-	-	-	-
Creation of emergency stocks (excluding tests)	-15	-65	-	-	-
Remuneration of employees in the first line (outside the Ministry of Health)	-9	-	-	-	-
Goods and services related to COVID-19 (disinfection, other)	-17	-	-	-	-
Subsidy schemes for various sectors / entities	-76	-	-	-	-
Economic mobilization measures	-112	-74	-	-	-
Vaccination premium and mediation bonus	-28	-	-	-	-
Financial assistance for seniors who have been vaccinated	-216	-130	-	-	-
Invoked COVID guarrantiee	-23	-25	-	-	-
Other measures related to the COVID	-48	-49	-	-	-
Financing measures related to the pandemic from EU sources	388	-	-	-	-
Special levy to the EU - undervalued customs clearance of goods from III. countries	-527	-	-	-	-
Expenses caused by the war in Ukraine	-	-250	-100	-	-
One-off support for people endangered by inflation	-	-106	-	-	-
Payment of 14th pensions	-	-208	-	-	-
Additional measures related to the increase in energy prices	-	-650	-3500	-	-
Temporary income from the EU regulation regarding excessive profits (solidarity contribution, price ceiling)	-	313	462	-	-
Special levy for water management construction (from excess profit)	-	-	150	-	-
Payment of VAT by the construction D4 / R7	130	-	-	-	-
Total	**-3394**	**-1914**	**-3238**	**0**	**0**

Source: MF SR

Annex 5 – Discretionary revenue measures (DRM)

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) of the measures. A distinction is made as to whether a measure is permanent or one-off. A permanent measures is recognised with an impact in the first year (at the time of entry into effect) and with no impact in the other years. In other words, changes in the effect of the measure due to macroeconomic developments in subsequent years are disregarded. If a difference in effects arises because of the postponement of applicability of the measure, only the marginal change is recognised.[56] 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 21 - Discretionary measures – year-on-year impact of measures (EUR million, ESA2010)

Description	2021	2022	2023	2024	2025
Abolition of 13th and 14th salary	20,6	0,0	0	0	0
Change of VAT collection efficiency	385	0	0	0	0
Measures related to tobacco products	121	76	63	0	0
Fully-funded pension pillar (II. pension pillar)	-28	-90	-78	-88	-36
Abolition of special levy rate in regulated sectors	-17	0	0	0	0
Abolition of special levy in banking sector in mid 2020	-120	0	0	0	0
Increase in the limit for advance payments (from 2 500 to 5 000 EUR)	-11	0	0	0	0
Carry-forward tax losses for other non-microcompanies (max. 50 % tax base in 5 years)	36	-6	0	0	0
Individual volume of depreciation of assets for microcompanies	-15	0	0	0	0
15 % rate of corporate income tax for companies and personal income tax (business) with turnover up to 100 th./amendment up to 49,79th., 21% for others	19	0	0	0	0
Non-cash benefit for employees for transport (100 euro)	-12	0	0	0	0
Changes of tax rates of Property taxes	13	0	0	0	0
Suspension of tax audits and tax proceedings	13	0	0	0	0
General pardon on social and health contributions (closed business)	57	0	0	0	0
Possibility to include losses from 2014 (loss-carry forward) already in the current 2019 tax returns	28	0	0	0	0
Deferred social insurance contributions payments	14	28	4	-1	-5
Temporary exemption of respirators FFP2 and FFP3 from VAT	-10	10	0	0	0
Correction of the VAT base on the supply of goods or services	-22	0	0	0	0
Abolition of the VAT exemption for shipments up to 22 euros from third countries	11	12	0	0	0
Changes in superdeduction	0	15	-15	0	0
Initial implementation of the IFRS 17 accounting standard for insurance companies	0	0	23,2	0	0
Introduction of a seasonal contribution-deductible item for social contributions	0	0	-11,3	0	0
Temporary income from the EU regulation regarding excessive profits (solidarity contribution, price ceiling)	0	313	149	-462	0
Special levy for water management construction (from excess profit)	0	0	150	-150	0
Total	**480,9**	**357,7**	**285,3**	**-701,6**	**-40,2**

Note 1: For the COVID-19 measures, the figures reflect to the deferred effect of the measures adopted at the outset of the pandemic. Since the measures were of an one-off nature, in incremental terms, they first had a negative effect on revenue in 2021, and then, a partially positive effect in 2022.
Note 2: (+) improves the GG balance, (-) worsens the GG balance

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

Description	2021	2022	2023	2024	2025
Doubling of tax credit for parents with children below 15 years of age	26	73	0	0	0
Slowdown in growth of retirement age	12	2	16	-18	-2
Minimum pensions freeze	-59	-18	-27	-36	-49
Introduction of mandatory education in kindergartens for children above 5	47	0	0	0	0
Increased subsidy for raising and educating children in kindergartens	8	8	0	0	0
Increase of maintenance funds of 1st class roads managed by Slovak Road Administration	60	-10	0	-10	0
Early retirement for persons who raised children (born in 1957-1965)	105	31	-48	1	-7
Introduction of a new pregnancy allowance and pregnancy scholarship	33	21	0	0	0
Abolition of co-payments for medicines for children, pensioners and disabled people	37	0	0	0	0

[56] 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 is recognised, i.e. 100. All in all, the total effect is 200, but it is split between two years.

COVID expenditure	1298	-1968	-762	-250	0
Introduction of permanent kurzarbeit scheme	0	37	-17	0	0
Establishment of SLOVAKIA TRAVEL agency	5	16	0	0	0
ŽSR - sale of redundant assets	0	0	-38	38	0
Increased transfer from HIC to social service facilities	0	11	11	0	0
Expenditure caused by the war in Ukraine	0	250	-151	-100	0
Amendments to the I. pillar (pensions)	0	0	276	0	0
Approved wage increase in the healthcare sector	0	0	232	0	0
Increased child allowance	0	24	133	0	0
Increased tax credit for parents with children below 15 years of age	0	148	448	0	0
Introduction of subsidy promoting extra-curricular activities for children	0	0	440	0	0
100 EUR transfer to citizens in material need (one-time transfer)	0	23	-23	0	0
100 EUR transfer to families (one-time increase of child allowance)	0	83	-83	0	0
Improved access to innovative medicines	0	0	60	0	0
14th pension (one-time transfer)	0	208	-208	0	0
Compensation for growing energy prices	0	650	2850	-3500	0
Total	**1 574**	**-411**	**3 111**	**-3 875**	**-58**

Note 1: For the COVID-19 measures, the figures reflect to the deferred effect of the measures adopted at the outset of the pandemic. Since the measures were of an one-off nature, in incremental terms, they first had an effect of increasing expenditure (worsening the balance), and then, their effect gradually decreased (with an improving impact on the balance)
Note 2: (+) improves the GG balance, (-) worsens the GG balance

Annex 6 – Measures taken to fight the COVID-19 pandemic

TABLE 23 – Measures taken to fight the pandemic

	EKRK	ESA	2020		2021		2022		2023		Total	
			mil. EUR	% GDP	mil. EUR	% GDP	mil. EUR	% GDP	mil. EUR	% GDP	mil. EUR	% GDP
Direct support together			**2185**	**2,34**	**3385**	**3,44**	**1014**	**0,93**	**250**	**0,23**	**6833**	**6,94**
Support for maintaining employment			**1151**	**1,23**	**1506**	**1,53**	**283**	**0,26**			**2940**	**3,02**
Total measures 1 to 4B (Kurzarbeit)	640	D.75	997	1,07	1266	1,29	204	0,19			2468	2,54
Kurzarbeit for kindergartens and elementary art schools	640	D.75	59	0,06	18	0,02					77	0,08
Entrepreneurship promotion in tourism and hospitality sector	644	D.3p	6		120	0,12	65	0,06			191	0,18
Entrepreneurship promotion in culture and creative industry	644	D.3p			8	0,01					8	0,01
Reimbursement of rents	644	D.3p	40	0,04	94	0,10	14	0,01			148	0,15
Support for job applicants	642	D.62	49	0,05							49	0,05
Social assistance (including pandemic allowance for care of a family member and sick pay)			**301**	**0,32**	**485**	**0,49**	**61**	**0,06**			**847**	**0,87**
SOS allowance	642032	D.62	15	0,02	66	0,07	11	0,01			92	0,09
Parental allowance (extension of the period of receipt)	642041	D.62	13	0,01	49	0,05	6	0,01			68	0,07
Unemployment benefit (extension of the acquisition period)	642033	D.62	32	0,03	40	0,04					73	0,08
One-off child allowance	642	D.62			76	0,08					76	0,08
Humanitarian aid and accident supplement	642	D.62			8	0,01					8	0,01
Sick pay - paid above the level of 2019 (indexed)	642015	D.62	106	0,11	211	0,21	36	0,03			353	0,36
Allowance for care of a family member - paid above the level of 2019 (indexed)	642015	D.62	133	0,14	35	0,04	8	0,01			177	0,19
Remission of taxes and levies			**90**	**0,10**	**17**	**0,02**	**2**				**108**	**0,11**
Remission of social security contributions for April		D.61	57	0,06							57	0,06
Deduction of company losses from 2015-18		D.51 B	28	0,03							28	0,03
Unpaid part of deferred levies		D.61	5	0,01	7	0,01	2	0,00			13	0,01
Zero value added tax on FFP2/3 respirators		D.211			10	0,01					10	0,01
Increased healthcare expenditures			**377**	**0,40**	**834**	**0,85**	**325**	**0,30**	**250**	**0,23**	**1785**	**1,78**
Rewards for healthcare employees	610, 620	D.1	13	0,01	54	0,05	10	0,01			77	0,08
Payment to medical specialists		D.99	138	0,15							138	0,15
Increased expenditures - ventilators and other	630	P.2	39	0,04	25						64	0,04
Testing expenditures	630, 710	P.2, P.51	124	0,13	332	0,34	84				540	0,47
Costs of medicines and vaccination	630	P.2		0,00	162	0,16	231	0,21	250	0,20	643	0,38
Equipment and other expenditures of healthcare facilities	630	P.2	63	0,07	261						323	0,07
Other measures			**266**	**0,28**	**543**	**0,55**	**343**	**0,32**			**1152**	**1,15**
Creation of emergency stocks (excluding tests)	630	P.2	33	0,04	15	0,02	65	0,06			113	0,11
Rewards to frontline workers (excluding the Ministry of Health)	610, 620	D.1	64	0,07	9						73	0,07
Goods and services related to COVID-19 (disinfection, other)	630	P.2	22	0,02	17						39	0,02
Subsidy schemes for various sectors / entities	644	D.3p	16	0,02	76	0,08					92	0,09
Economic mobilization measures	630	P.2	24	0,03	112	0,00	74	0,07			99	0,09
Contribution to the capital of the Slovak Guarantee and Development Bank		D.99	50	0,05							50	0,05
Contribution to the capital of Air Traffic Services		D.99	13	0,01							13	0,01
Vaccination premium and mediation bonus	640	D.7			28						28	0,00
Financial assistance for seniors who have been vaccinated	642	D.62			216	0,22	130	0,12			347	0,34
Others	630	P.2	43	0,05	70	0,07	74	0,07			187	0,19

Financing from EU resources			**413**	0,44	**388**	0,39					**802**	**0,84**
Direct support together without EU funds			**1771**	**1,90**	**2997**	**3,04**	**1014**	**0,93**			**5782**	**5,87**
											0	**0,00**
p.m. Deferment of taxes and levies (without impact on the deficit)			**489**	**0,52**	**30**	**0,03**	**7**	**0,01**			**526**	**0,56**
Postponement of DPPO tax return			187	0,20							187	0,20
Deferral of income tax advance payments in case of a decrease in revenues exceeding 40%			249	0,27							249	0,27
Postponement of health contributions			6	0,01							6	0,01
Postponement of social security contributions f			47	0,05	30	0,03	7	0,01			84	0,09
p. m. Bank guarantees (without direct effect on the deficit)			**645**	**0,65**	**187**	**0,19**					**831**	**0,84**
SZRB - contracted de minimis scheme			112	0,12	63	0,06					175	0,18
Eximbanka - contracted de minimis scheme			44	0,05	28	0,03					71	0,07
SIH - contracted de minimis scheme			0	0,00	0	0,00					0	0,00
Great scheme			489	0,52	96	0,10					584,9	0,62
p.m. Deferred installments (banking sector measure)			**489**	**0,52**	**96**	**0,10**					**585**	**0,62**
p.m. Transfers within public administration			**979**	**1,05**	**334**	**0,34**					**1 313**	**1,39**
Transfers to ŽSR, ŽSSK and NDS			120	0,13							120	0,13
Returnable fin. assistance to municipalities			152	0,16							152	0,16
Contribution to General Health insurance company			198	0,21							198	0,21
Transfer to Social Insurance company			459	0,49	300	0,30					759	0,80
Various increased current transfers for other public administration entities			50	0,05	34						84	0,05
All measures together			**4 786**	**5,09**	**4 032**	**4,09**	**1 021**	**0,94**	**250**	**0,23**	**10088**	**10,35**

**The effect of SB and HNB is quantified through the increase in the benefits compared to 2019, with the calculation base indexed to 2021 and 2022. This means that some SB and HNB are included that were not related to the pandemic.

Annex 7 – Mandatory Tables

Table 0a - Basic assumptions

	2021	2022	2023
Short-term interest rate (annual average) [1]	-0,5	0,2	2,1
Long-term interest rate (annual average) [2]	-0,1	1,7	3,0
USD/€ exchange rate (annual average)	1,2	1,1	1,1
Nominal effective exchange rate	0,6	0,4	-0,1
World excluding EU, GDP growth			
EU GDP growth	5,3	3,0	0,7
Growth of relevant foreign markets	4,9	3,2	1,0
World import volumes, excluding EU			
Oil prices (Brent, USD/barrel)	60,0	96,0	82,9

Source: MoF SR

[1] 3-months Euribor

[2] 10-year Slovak Government Bond

Table 0b - Key assumptions

	2021	2022	2023
1. External environment			
Prices of commodities	60,0	96,0	82,9
Spreads of German Bond	0,3	0,7	1,2
2. Fiscal policy			
General Government net lending/ net borrowing	-5,3	-5,0	-6,4
General gross debt	62,2	59,8	59,0
3. Monetary policy / Financial sector / Interest rates assumptions			
Interest rates			
Euribor	-0,5	0,2	2,1
Deposit rates	0,1	0,1	0,3
Interest rates for loans			
Yields to maturity of 10-year government bonds	-0,1	1,7	3,0
Evolution of deposits	67,9	69,9	75,2
Evolution of loans			
NPL Trends			
4. DemoFIGUREic trends			
Evolution of working age population	3 648,8	3 621,9	3 598,7
Dependency ratios	49,8	51,0	52,0

Source: MoF SR

Table 1a - Macroeconomic prospects

	ESA Code	2021 Level	2021 rate of change	2022 rate of change	2023 rate of change
1. Real GDP	B1*g	87 995,0	3,0	1,9	0,6
Of which					
1. Attributable to the estimated impact of aggregated budgetary measures on economic growth	-	-	-	-	-
2. Potential GDP	-	89 155,0	1,6	1,3	1,7
Contributions:					
- labour	-	-	0,0	0,0	-0,1
- capital	-	-	0,5	0,6	0,8
- total factor productivity	-	-	1,1	0,8	0,9
3. Nominal GDP	B1*g	98 523,0	5,5	10,2	12,7
Components of Real GDP					
3. Private consumption expenditure	P.3	50 003,3	1,2	4,6	-3,7

5. Government consumption expenditure	P.3	16 443,2	1,9	-1,5	-0,7
6. Gross fixed capital formation	P.51g	17 291,5	0,6	5,4	16,3
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	2 233,0	2,5	2,0	2,1
8. Exports of goods and services	P.6	86 537,0	10,2	-1,6	1,7
9. Imports of goods and services	P.7	84 519,5	11,2	-0,9	2,4
Contribution to real GDP growth					
10. Final domestic demand	-	-	3,8	2,9	1,2
11. Changes in inventories and net acquisition of value	P.52 + P.53	-	2,7	-0,5	0,2
12. External balance of goods and services	B.11	-	-0,6	-0,8	-0,7

Source: MoF SR

Table 1b - Price developments

	ESA Code	2021	2021	2022	2023
		Level	rate of change	rate of change	rate of change
1. GDP deflator	-	110,4	2,4	8,1	12,0
2. Private consumption deflator	-	112,1	3,3	13,7	13,7
3. HICP [1]	-	111,5	2,8	11,6	13,5
4. Public consumption deflator	-	127,2	3,9	8,7	13,0
5. Investment deflator	-	107,4	2,2	10,4	7,4
6. Export price deflator (goods and services)	-	105,3	5,1	17,1	6,9
7. Import price deflator (goods and services)	-	108,6	6,0	21,9	6,6

Source: MoF SR

[1] Index in 2015 = 100

Table 1c – Labour market developments

	ESA Code	2021	2021	2022	2023
		Level	rate of change	rate of change	rate of change
1. Employment, persons	-	2 385,1	-0,6	1,9	0,2
2. Employment, hours worked	-	3 776,0	0,1	4,1	-3,5
3. Unemployment rate (%)	-	6,9	0,3	-0,8	0,0
4. Labour productivity, persons	-	36 893,4	3,6	0,0	0,4
5. Labour productivity, hours worked	-	23,3	2,9	-2,1	4,3
6. Compensation of employees	D.1	42 854,6	4,8	8,6	10,5
7. Compensation per employee	-	20 860,7	5,9	6,9	10,3

Source: MoF SR

Table 1d - Sectoral balances

	ESA Code	2021	2022	2023
1. Net lending/borrowing vis-a-vis the rest of the world	B.9	-0,6	-3,7	-3,4
Of which				
- Balance on goods and services		0,7	-4,4	-4,8
- Balance of primary incomes and transfers		-2,7	-0,6	0,1
- Capital account		1,4	1,3	1,3
2. Net lending/borrowing of the private sector	B.9	4,7	1,2	3,1
3. Net lending/borrowing of general government	EDP B.9	-5,3	-5,0	-6,4
4. Statistical discrepancy		0,0	0,0	0,0

Source: MoF SR

Table 2a – Overview of general government budgets

	ESA Code	2022	2023
		% of GDP	% of GDP

Net lending (EDP B.9) by sub-sector			
1. Net lending/net borrowing: General government	S.13	-5,0	-6,4
2. Net lending/net borrowing: Central government	S.1311	-4,9	-6,0
3. Net lending/net borrowing: State government	S.1312		
4. Net lending/net borrowing: Local government	S.1313	-0,2	-0,3
5.Social security funds	S.1314	0,2	-0,1
6. Interest expenditure	D.41	0,8	1,0
7. Primary balance		-4,1	-5,4
8. One-off and other temporary measures		-1,8	-2,6
8.a Of which one-offs on the revenue side: general government		0,3	0,5
8.b Of which one-offs on the expenditure side: general government		-2,1	-3,1
9.Real GDP Growth(%) (=1 in Table 1a)		1,9	0,6
10.Potential GDP Growth(%) (=2 in Table 1a)		1,3	1,7
Contributions			
-Labour		0,0	-0,1
-Capital		0,6	0,8
-Total factor productivity		0,8	0,9
11. Output gap (% of potential GDP)		-0,7	-1,8
12. Cyclical budgetary Component (% of potential GDP)		-0,3	-0,7
13. Cyclically adjusted balance (1-12) (% of potential GDP)		-4,7	-5,8
14. Cyclically adjusted primary balance (13+6) (% of potential GDP)		-3,9	-4,7
15. Structural balance (13-8) (% of potential GDP)		-2,9	-3,1

Source: MoF SR

Table 2b - General government debt developments (% of GDP)

	ESA Code	2022	2023
1. Gross debt		59,8	59,0
2. Change in gross debt ratio		-2,4	-0,8
Contributions to changes in gross debt			
3. Primary balance		4,1	5,4
4. Interest expenditure	D.41	0,8	1,0
5. Stock-flow adjustment		-1,7	-0,5
of which:			
- Differences between cash and accruals		-0,4	0,7
- Net accumulation of financial assets		-0,8	-1,3
Of which: privatisation proceeds		0,0	0,0
- Valuation effects and other		-0,5	0,1
p.m.: Implicit interest rate on debt		1,5	2,0
Other relevant variables			
6. Liquid financial assets		9,8	7,4
7. Net financial debt (7=1-6)		50,0	51,6
8. Debt amortization (existing bonds) since the end of the previous year		1,2	1,2
9. Percentage of debt denominated in foreign currency		0,9	0,9
10. Average maturity		8,5	8,5

Source: MoF SR

Table 2c – Contingent liabilities (% of GDP)

	2021	2022
Public guarantees	12,3	-
Public guarantees: linked to EFSF and ESM	8,6	7,8

Public guarantees: linked to the int. financial institutions	1,4	-
Public guarantees: linked to COVID-19 guarantees	2,1	2,1
Public guarantees: linked to state-owned fin. institutions	0,2	-

Source: MoF SR

Table 3 – Balance of general government expenditures and revenues under no-policy-change scenario (breakdown by component)

General Government (S13)	ESA Code	2022 E % of GDP	2023 NPC % of GDP
1. Total Revenues	**TR**	**41,4**	**40,9**
Of which			
1.1 Taxes on production and imports	D.2	12,2	11,8
1.2 Current taxes on income, wealth, etc	D.5	7,7	7,7
1.3 Capital taxes	D.91	-	-
1.4 social contributions	D.61	15,4	14,7
1.5 Property income	D.4	0,5	0,6
1.6 Other		5,6	6,1
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		35,3	34,3
2. Total expenditure	**TE**	**46,4**	**44,2**
Of which			
2.1 Compensation of employees	D.1	10,3	9,9
2.2 Intermediate consumption	P.2	8,1	7,8
2.3 Social payments	D.62, D.632	18,0	16,6
Of which unemployment benefits		0,2	0,2
2.4 Interest expenditure	D.41	0,8	1,0
2.5 Subsidies	D.3	1,1	0,8
2.6 Gross fixed capital formation	P.51g	4,7	4,3
2.7 Capital transfers	D.9	0,8	0,3
2.8 Other		2,6	3,6

Source: MoF SR

Table 4a – Balance general government expenditure and revenue targets

General Government (S13)	ESA Code	2022 % of GDP	2023 % of GDP
1. Total Revenues	**TR**	**41,4**	**41,4**
Of which			
1.1 Taxes on production and imports	D.2	12,2	11,8
1.2 Current taxes on income, wealth, etc	D.5	7,7	7,7
1.3 Capital taxes	D.91	-	0,0
1.4 social contributions	D.61	15,4	14,6
1.5 Property income	D.4	0,5	0,6
1.6 Other		5,6	6,6
p.m.: Tax Burden (D.2+D.5+D.61+D.91-D.995)		35,3	34,2
2. Total expenditure	**TE**	**46,4**	**47,8**
Of which			
2.1 Compensation of employees	D.1	10,3	9,9
2.2 Intermediate consumption	P.2	8,1	9,8
2.3 Social payments	D.62, D.632	18,0	17,2
Of which unemployment benefits		0,2	0,2
2.4 Interest expenditure	D.41	0,8	1,0
2.5 Subsidies	D.3	1,1	0,8
2.6 Gross fixed capital formation	P.51g	4,7	4,0
2.7 Capital transfers	D.9	0,8	0,4
2.8 Other		2,6	4,6

Source: MoF SR

Table 4b – Expenditures excluded from the expenditure aggregate

	2021 Level	2021 % of GDP	2022 % of GDP	2023 % of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue	1 053	1,1	2,1	3,6

1a. Investment expenditure fully matched by EU funds revenue	564	0,6	1,2	1,4
2. Cyclical unemployment benefit expenditure	19,7	0,02	0,01	0,03
3. Effect of discretionary revenue measures	481	0,5	0,3	0,5
4. Revenues increased mandated by law	0	0	0	0

Source: MoF SR

Table 4c.i) – Total public expenditure on education, healthcare and employment

	2022		2023	
	% of GDP	%	% of GDP	%
Education	4,5	9,7	4,3	8,9
Health	6,5	13,9	6,0	12,5
Employment	0,2	0,5	0,0	0,1

Source: MoF SR

Table 4.c.ii) – General government expenditure by function (COFOG)

Functions	**COFOG Code**	**2022**		**2023**	
		% of GDP	%	% of GDP	%
1. General public services	1	7,3	15,8	8,1	16,9
2. Defence	2	1,5	3,2	1,7	3,6
3. Public order and safety	3	2,4	5,2	2,3	4,9
4. Economic affairs	4	6,5	13,9	8,2	17,2
5. Environmental protection	5	0,9	2,0	0,9	1,9
6. Housing and community amenities	6	0,5	1,2	0,6	1,2
7. Health	7	6,5	13,9	6,0	12,5
8. Recreation, culture and religion	8	1,1	2,5	0,9	2,0
9. Education	9	4,5	9,7	4,3	8,9
10. Social protection	10	15,1	32,6	14,7	30,9
Total expenditure	**TE**	**46,4**	**100,0**	**47,8**	**100,0**

Source: MoF SR

Table 9.a) – Revenue from RRF grants and its allocation

	ESA	2021 (% of GDP)	2022 (% of GDP)	2023 (% of GDP)	2024 (% of GDP)	2025 (% of GDP)
1. RRF GRANTS as included in the revenue projections			**0,6**	**0,8**	**0,6**	**0,4**
2. Cash disbursements of RRF GRANTS from EU		**0,8**	**1,0**	**1,3**	**1,2**	**0,8**
Expenditure financed by RRF grants						
3.TOTAL CURRENT EXPENDITURE			**0,1**	**0,1**	**0,1**	**0,1**
of which:						
- Compensation of employees	D.1		0,0	0,0	0,0	0,0
- Intermediate consumption	P.2		0,1	0,0	0,1	0,0
- Social Payments	D.62+D.632		0,0	0,0	0,0	0,0
- Interest expenditure	D.41					
- Subsidies, payable	D.3					
- Current transfers	D.7		0,0	0,0	0,0	0,0
4. TOTAL CAPITAL EXPENDITURE			**0,5**	**0,7**	**0,5**	**0,3**
of which:						
- Gross fixed capital formation	P.51g		0,5	0,7	0,5	0,3
- Capital transfers	D.9					
Other costs financed by RRF grants						
5. Reduction in tax revenue						
6. Other costs with impact on revenue						
7. Financial transactions						

Source: MoF SR

Table 10 - State of government guarantees (% of GDP)

	Measures	Date of adoption	Maximum amount of contingent liabilities	Estimated take-up
In response to COVID-19	Anti-Covid19 guarantees (cumulative since 2020, as of 31 May 2022)	2020	2,1	0,9
	Subtotal		2,1	0,9
Others	EFSF and ESM		8,6	
	International financial institutions		1,4	
	State-owned financial institutions			0,2
	Subtotal		10,0	0,2
	Total		**12,1**	**1,2**

Source: MoF SR