Stability Programme of the Slovak Republic for 2021 to 2024

May 2021

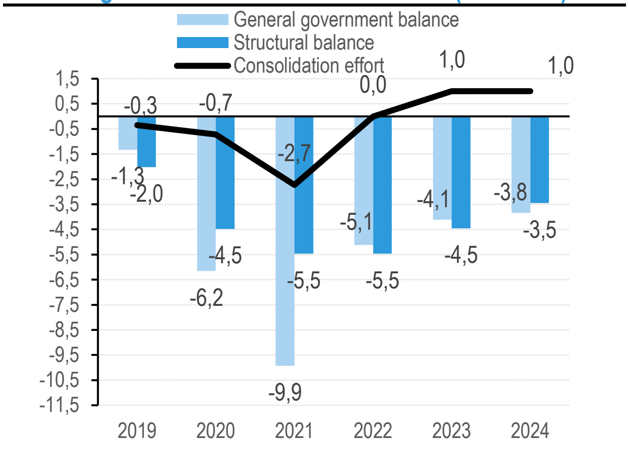
After being approved by the Government of the SR, the material was slightly corrected. Some discrepancies were eliminated.

SUMMARY

Unfortunately, the previous year as well as the beginning of this year were significantly affected by negative consequences of the COVID19 pandemic, including its influence on health and lives of people living in Slovakia. With the restriction of social contacts, economic activity slowed down again at the beginning of this year. Thus, this year the fight against pandemic, to which the Government actively reacted by taking measures in healthcare as well as measures to maintain employment and provide social assistance, will remain priority. The uncertainty about the further development will be decreasing with the progress of vaccination but, in the meantime, it is necessary to keep the possibility to react flexibly to events caused by the pandemic. Therefore, the assumptions relating to the implementation of the budget for this year remain conservative, together with additional reserve creation. In the event of full utilisation, this year, the higher expenditures related to the pandemic and an additional reserve could increase the general government deficit from last year's 6.2 % to 9.9 % of GDP and general government gross debt from 60.6 to 64.1 % of GDP.

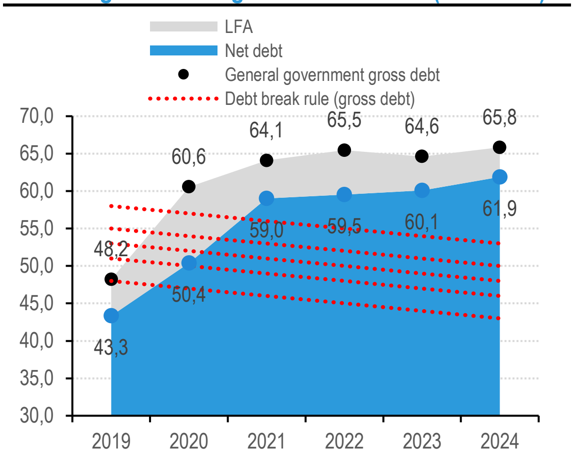
In 2022, a return to a more stable healthcare and economic situation is expected, in 2023, active healing of the management balance will also begin. The Stability Programme expects that with the vaccination under way, the pandemic situation will stabilise which will enable gradual withdrawal of assistance from economy. After their subsidence, the deficit of public finance will decrease to a level of 5.1 % of GDP in 2022. Subsequently, after the stabilisation phase, it will be necessary to continue to improve public finance by reducing the structural deficit. **The achievement of a structural surplus of 0.5 % of GDP no later than in 2028 will represent a new medium-term objective (MTO) of budgetary policy**. Annual reduction of the structural deficit by 1 p. p. of GDP from 2023 is planned in order to achieve the MTO. In compliance with that, nominal budgetary objectives for 2023 and 2024 are set at levels of 4.1 % of GDP and 3.8 % of GDP. At the same time, from 2022, the fulfilment of objectives from the Recovery and Resilience Plan of the Slovak Republic (RRP) is expected, which will bring additional funds to economy amounting to over 6 % of GDP[1]. On the Stability Programme horizon, the gross general government debt will stabilise around a level of 65 % of GDP.

General government consolidation efforts (% of GDP)



Source: MoF SR

General government gross and net debt (% of GDP)



Source: MoF SR

Continuing with pension scheme reforms is among the Government's main priorities. Already before the crisis, an unprecedented deterioration of public finance sustainability occurred, in particular as a consequence of introduction of a retirement age ceiling. The outbreak of the pandemic, with a budget adjusted optimistically, increased the risks of medium-term and long-term sustainability. Poor demographic prospects of Slovakia along with the current status of pension legislation lead to an expected increase in ageing expenditures till 2070 by about 9 p. p. of GDP compared to the current level. In addition to the planned consolidation, the long-term sustainability can also be improved by pension scheme reforms from the Government Manifesto, in particular re-establishing a link between the retirement age and life expectancy. The amendment to the Constitution of the SR adopted in December 2020, which cancelled the retirement age ceiling from the beginning of 2023, was the first step. At the same time, a draft constitutional act on pension scheme was submitted to the legislative process. The objective is

[1] In proportion to the projected GDP of 2021.

to improve the sustainability of the first pay-as-you-go pension pillar, effectiveness of the 2nd fully funded pillar, as well as the overall transparency and stability of the pension scheme. In the Recovery and Resilience Plan of the SR, the Government committed to apply reforms to the first pillar thus improving the S2 indicator by almost 2 p. p. of GDP. With the fulfilment of consolidation and pension reform implementation, the medium level of risk of long-term sustainability (S2) could be achieved in 2026.

Management of public finance will also be strengthened by the reform of the constitutional Fiscal Responsibility Act along with other reforms. In autumn 2020, the Government of the SR submitted to the National Council of the SR an amendment to the constitutional act, whose objective is to implement absent expenditure limits of general government, strengthen the emphasis on the long-term sustainability of public finance and ensure more flexible escape clauses for the case of extraordinary events. Last year, in compliance with the Manifesto, the Parliament also modified the rules for the preparation of budget and investment projects. They will ensure a better transparency and effectiveness in compliance with value for money. Programme budgeting, more regular information provided on the development of the general government budget and better availability of data both to analysts and general public should bring a more transparent budgetary process.

The long-term sustainability of public finance will also be supported by structural reforms for economic growth takeoff introduced within the approved Recovery and Resilience Plan of the SR. The measures will be focused on main structural challenges of the Slovak economy, education, labour market, more effective utilisation of economy resources including the green economy and healthcare quality. Digitisation of general government, fight against corruption and increasing the effectiveness of the judicial system are also among the main priorities.

The Stability Programme is the main medium-term budgetary document of the Slovak Republic. Through this, Slovakia observes its duty specified in Article 4 of Council Regulation (EU) 473/2013. The Stability Programme for 2021-2024 was approved by the Government on 12 May 2021 and will also be negotiated by Members of the National Council of the Slovak Republic. The Stability Programme is based on the March forecast of the Macroeconomic Forecasts Committee and Tax Revenue Forecasts Committee.

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ECONOMIC OUTLOOK AND PROJECTIONS

The second wave of the pandemic slowed down the recovery of the Slovak economy in 2021 to 3.3 %. The performance of the economy will be reduced in particular in the first quarter, affected mainly by lower household consumption. Economic activity will be supported by resilient industry and stable foreign demand, whereas services and the construction sector will be lagging behind as a consequence of anti-epidemic restrictions and persisting uncertainty. After the retreat of the pandemic, output will rise by 6.3 % in 2022, because of faster catching up after the slow-down in 2021, but also thanks to the resources from the Recovery and Resilience Plan of the SR. In 2023, the activity will be supported by additional draw-down of EU funds and in general, by 2023, the economy will catch up about one half of the loss from 2020. At the end of the forecast horizon, growth will fade due to the gradual commencement of EU funds draw-down in a new programme period. The biggest negative risks still result from the pandemic, whose worsening could lead to stricter restrictions, and from possible logistical issues of vaccination. On the contrary, stimulative packages in the USA and EU can positively affect Slovak exports.

1.1 Economic development in Slovakia in 2020

As a consequence of the global crisis caused by the coronavirus pandemic, the GDP of Slovakia dropped by 5.2 % in 2020[2]. Economic activity decreased in particular in the second quarter when the drop of industrial production achieved historical values. The labour market was more resilient during the pandemic which was also supported by the measures taken to maintain employment. This stabilised household consumption and accelerated industry restart after the measures had been eased. The growth of wages slowed down as a consequence of a large number of recipients of allowance for care of a family member and sick pay, as well as lower wages resulting from part-time work. Thanks to the resilient industry and foreign demand, the second wave at the end of the year caused considerably lower economic damage than the first wave of the pandemic. The growth of consumer prices slowed down which was caused in particular by the drop in oil prices due to the reduced global demand for mobility.

1.2 Medium-term economic forecast[3] for 2021 - 2024

The second wave of the pandemic will slow down the recovery of the Slovak economy in 2021 to 3.3 %. Re-adoption of measures limiting coronavirus spread attenuated economic activity in the first quarter. However, thanks to the resilient industry and foreign demand, economic damage is lower than during the first wave. Labour market remains stable which will allow activity recovery in the next quarters with gradual easing of measures and increase in the number of vaccinated people.

In 2021, the GDP will decrease in particular due to household consumption, whereas net export should support it. The fall in retail revenues, collection of value added tax, as well as data from eKasa suggest a significant fall in household consumption in the first quarter. However, foreign demand remains resilient, in particular automotive manufacturing is going well and it drives domestic industrial activity. On the contrary, anti-epidemic measures and persisting uncertainty will slow down recovery in the sector of services and building industry.

In 2022, the rate of economy growth will increase to 6.3 %, which will be considerably supported by drawing of resources from the Recovery and Resilience Plan of the SR (RRP). With the pandemic in retreat, we expect the recovery of consumer confidence which should positively affect domestic demand. Both private and government investments will increase. Government investments will also be supported by investments from the Recovery and Resilience Plan of the SR in the expected volume of over EUR bn. in 2022. The forecast is based on the assumption of Recovery and Resilience Fund resources draw-down amounting to EUR 6.1 bn. till 2026.

In 2023, the economy will also be supported by drawing EU funds. By 2023, the draw-down from the 3rd programme period of EU funds will culminate which will additionally support capital formation. With the beginning of a new programme period of EU funds, however, we only expect a gradual onset of draw-down of funds, which will be manifested by a reduction in the creation of investments at the end of the forecast horizon in 2024.

[2] According to the latest data published on 30 April 2021, the GDP of Slovakia dropped by 4.8 % in 2020, which is not reflected in the Stability Programme due to an earlier deadline. This change has a positive effect on the general government gross debt in proportion to GDP at a level of 0.2 p. p. of GDP.
[3] Forecast of the Macroeconomic Forecasts Committee.

TABLE 1 – Forecast of selected SR economy development indicators for 2021 to 2024[4]

Ser. No.	Indicator	Unit	Outcome 2019	Outcome 2020	Outcome 2021	Forecast 2022	Forecast 2023	Forecast 2024
1	GDP, current prices	EUR bn.	93.9	91.1	95.4	103.5	109.3	112.4
2	GDP, constant prices	%	2.3	-5.2	3.3	6.3	2.8	0.3
3	Final consumption of households and NPISH[5]	%	2.3	-1.1	-3.3	6.8	2.7	2.4
4	Final general government consumption	%	4.7	-2.3	3.6	0.9	3.7	-0.7
5	Gross fixed capital formation	%	5.8	-11.9	0.8	11.9	8.4	-10.9
6	Export of goods and services	%	0.8	-7.2	10.6	4.8	4.2	3.6
7	Import of goods and services	%	2.1	-8.5	8.8	5.3	4.1	2.0
8	Output gap (share of potential output)	%	1.8	-4.1	-2.6	0.9	0.9	-1.0
9	Average monthly wage in the economy (nominal growth)	%	7.8	3.8	4.9	5.0	4.7	4.1
10	Average employment growth, LFS	%	0.7	-2.0	-0.2	0.9	1.1	0.3
11	Average employment growth, ESA 2010	%	1.0	-1.9	-0.4	0.9	1.2	0.3
12	Average unemployment rate, LFS	%	5.8	6.7	7.1	6.5	5.4	4.7
13	Average registered unemployment rate	%	5.0	6.8	7.6	7.0	5.9	5.2
14	Harmonized index of consumer price (HICP)	%	2.8	2.0	1.1	2.2	2.5	2.3
15	Current account balance (share of GDP)	%	-2.7	-1.2	-0.8	-0.8	-0.7	-0.3

Source: MoF SR

BOX 1 – Estimated effects of the recovery plan on the Slovak economy in the medium term

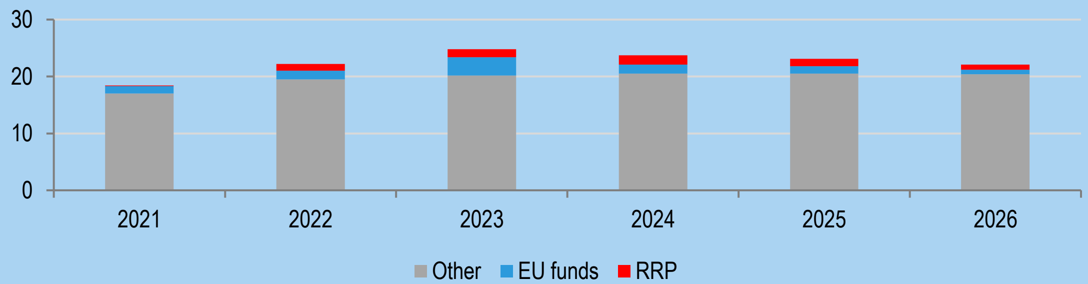
The forecast of the MoF SR works with data on recovery plan allocations available at the beginning of March (TABLE 2), which were sent to the European Commission with marginal differences (on 8 March). The allocation expects that the implementation of expenditure will have the shape of an upside-down U with a peak in 2024, where the prevailing part of resources will go to investments.

TABLE 2 – Assumptions of the implementation of expenditures from the Recovery and Resilience Plan of the SR from the forecast (EUR mil.)

	2021	2022	2023	2024	2025	2026	Total
Recovery plan total	177	1,156	1,374	1,490	1,186	765	6,148
Investments	114	978	1,161	1,280	1,035	688	5,256
Compensations	34	112	125	125	95	58	549
Intermediate consumption	29	66	88	85	56	19	343

Note: The total volume of expenditure of EUR 6.15 bn. (current prices) for the Recovery Plan was based on the assumptions at the beginning of March 2021 and was part of the March forecast.

FIGURE 1 – Gross fixed capital formation structure (current prices, EUR bn)



[4] Forecast for 2021 to 2024 was approved by the Macroeconomic Forecasts Committee in March 2021.
[5] In the following text, household consumption will mean the consumption of households and non-profit institutions serving households (NPISH).

By 2024, the resources from the fund for the support of recovery and resilience will increase the GDP of Slovakia by 1.8 % and employment by 1.5 %. The effect on GDP will copy the trajectory of draw-down and it will be supported mainly by fixed capital formation. In 2024, investments should be higher by almost 8 % thanks to the resources from the recovery plan (FIGURE 1). Subsequently, its effect on investments and GDP will be mitigated at the end of the horizon when draw-down will be finished. Labour market will react to the stimulus with a short delay. In 2024, total employment will be higher by 1.5 %, however, at the end of the draw-down horizon, a slight strengthening of the effect is expected. Economic effects presented in TABLE 3 and FIGURES 2 and 3 are estimated by the forecast model as part of the March forecast of the MoF SR and abstract from positive effects of the recovery plan to total production factor productivity. They also abstract from positive effects of structural reforms which are part of the recovery plan.

TABLE 3 – Effects of Recovery and Resilience Plan of the SR implementation included in the forecast

Change of value of individual variables compared to the development without the recovery plan (in %)

	Real GDP	Real investments	Total employment
2021	0.2	0.7	0.0
2022	1.4	6.5	0.2
2023	1.8	6.7	0.8
2024	1.8	7.9	1.5
2025	1.3	5.7	1.8
2026	0.7	2.6	1.7

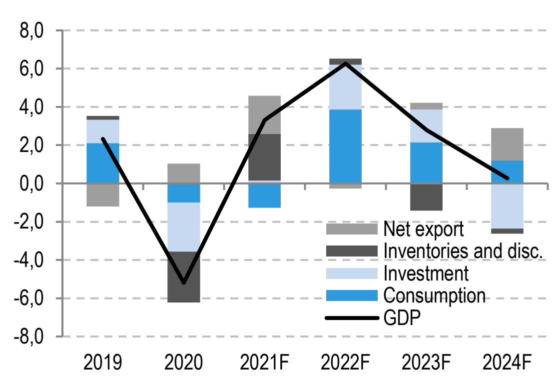
Source: MoF SR

Labour market will be stable in 2021. The impact of the second wave on employment will be significantly lower compared to the first wave. However, at the beginning of the year, the number of people working in services and construction sector will decrease and the unemployment rate will slightly increase to 7.1 %. Employment will be considerably lagging behind pre-crisis levels and 54 thousand jobs will be missing from the labour market.

Job creation recovery will commence with the improvement of the pandemic situation and faster economic growth starting from 2022. The ongoing vaccination and easing of measures will allow enterprises to gradually increase employment in the next period.. Thus, at the end of 2023, we expect labour market to reach pre-crisis levels of employment.

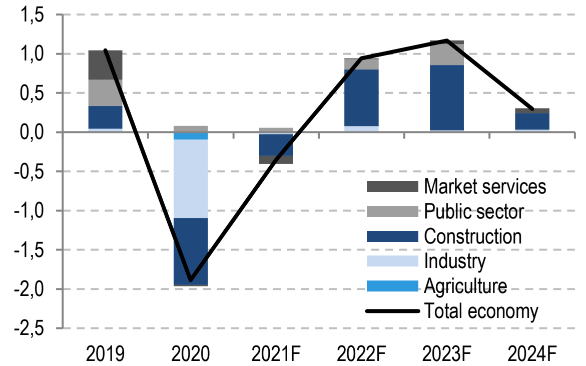
In 2021, the average nominal wage will increase by 4.9 %. The strong year-on-year growth will be taken up by a low reference base and strong end-of-the-year result in 2020. Thus, the average wage will increase despite the fact that the economic situation will not allow many employers to considerably increase salaries. On the other handthe wage development will be inhibited by the large number of recipients of sickness and nursing allowances.. Reduction of labour costs in the public sector can also negatively affect wage development in 2021. In the coming years, the wage dynamics will recover along with the revival of growth and job creation.

FIGURE 2 - Contributions to GDP growth (constant prices, p. p.)



Source: SO SR, MoF SR

FIGURE 3 - Contributions to employment growth (p. p.)

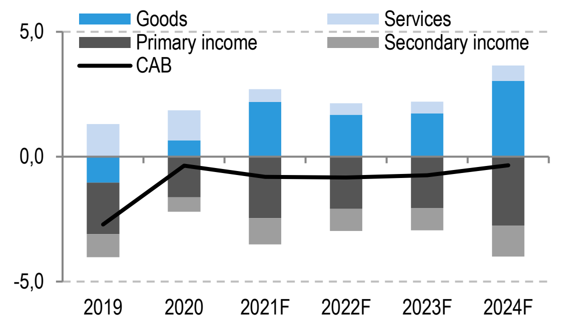


Source: SO SR, MoF SR

Inflation will decelerate to 1.1 % in 2021. In particular the decrease of regulated prices of energy from this January as well as the base effect of the year-on-year drop in prices of foodstuffs will contribute to the slow-down of growth. The growth of prices of goods will not change significantly and the growth of prices of market services will slow down only slightly, as the impact of the measures to tackle the pandemic fell predominanlty on the supply rather than the demand side. At the beginning of the year, prices of fuels increased as a consequence of rising oil prices. An increase in tobacco excise tax from February will also contribute to inflation.

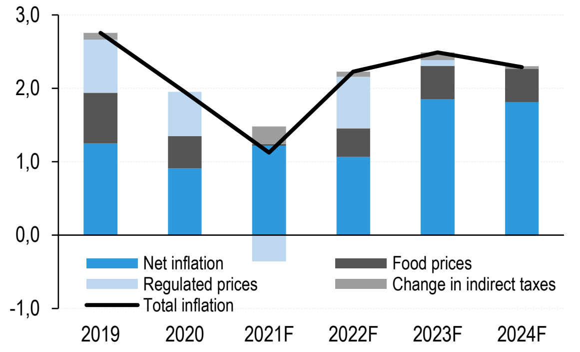
Next year, the growth of consumer prices will return to a value over two percent. The revival of demand on world markets will boost prices of future contracts of energy commodities which could again lead to an increase in the regulated prices. In the medium term, the demand inflation will significantly increase with the expected speedy revival of the economy. In 2023, a further increase in tobacco excise tax will have an additional impact on the inflation rate.

FIGURE 4 – External unbalances – components of balance of the current account of the balance of payments (% of GDP)



Source: NBS, MoF SR

FIGURE 5 – Structure of consumer inflation – YoY contribution of components to CPI (in p. p.)



Source: SO SR, MoF SR

BOX 2 – External environment assumptions

After an intense wave of sales, share indices recovered quickly and at the beginning of 2021, they reached new historic highs (FIGURE 6). The quick restart of stock market results from the disproportional effect of the pandemic from which the technological giants quoted on the stock exchange benefit (purchases, meetings, interactions moved to the online environment), whereas smaller companies in services do not (e.g., tourism, hotels, restaurants). However, prompt and sufficient monetary and fiscal stimuli contributed to the quick revival on stock markets. Last but not least, the market was also strengthened thanks to the fast invention of vaccines.

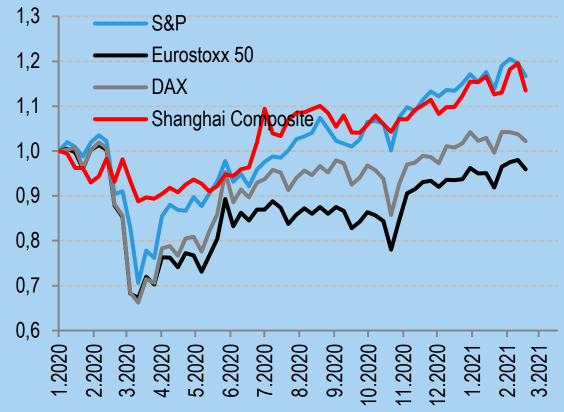
Negative consequences of the pandemic are dampened by measures of central banks as well as world governments. The American Fed reduced its key interest rate to a level of 0 – 0.25 % and offered sufficient liquidity to financial markets to manage the shock produced by the pandemic. The European Central Bank, too, restored its programme of bond purchases and introduced several supporting measures with the objective to dampen the negative consequences of the pandemic. It left the key interest rates unchanged and promised to reduce them, if necessary.

After an intense drop, the Brent oil price recovered and reached USD 70/bl. in March. It was caused by a relatively fast recovery of economic activity after the first wave of the pandemic and positive expectations in global trade along with the restriction of production by OPEC+. In the medium term, the price of the commodity should stabilise according to futures at a level of USD 45/bl.

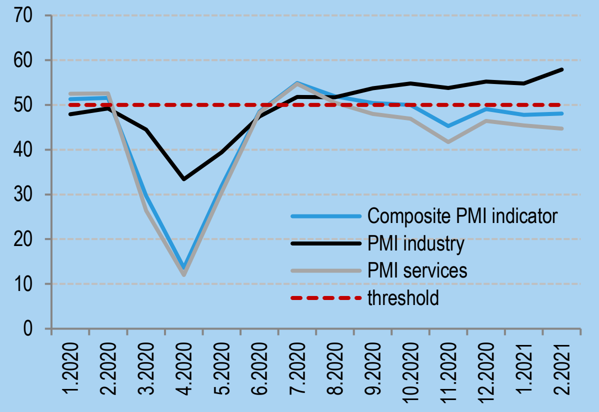
The revival of global trade will help European economy dampen the negative effects of the second pandemic wave. The stronger foreign demand manifested itself by an interest in cars produced in Europe which helped the industry in the whole region. However, an adverse pandemic situation in several countries causes a longer closure of those sectors which require physical contact. Services, which pull the w economic performance behind them, are the most affected sector (FIGURE 7). Economy will start recovering probably only after a greater part of population has been vaccinated in the second half of 2021.

FIGURE 6 – Share indices going well in the last half-year (10 Jan 2020 = 100)

FIGURE 7 – Euro area economy is in a two-speed regime (PMI index)



Source: IHS Markit, IFP



Source: Eurostat, IFP

Conjunctural surveys suggest stagnation to moderate recession pulled by the sector of services in the first half of 2021. Economic sentiment indicators (ESI) in the Euro area, as well as the Purchasing Managers' Index (PMI) mention a solid growth of German industrial production. At the same time, however, they suggest poor performance in services which hinders overall economic activity.

The deadline of the assumptions of the external environment including the interest rates, commodity prices and exchange rates was on 3 March 2021.

1.3 Cyclical development of the economy

The growth of potential output will speed up as the pandemic retreats. After the intense slow-down of potential creation in the pandemic year 2020, we expect a gradual increase in the dynamics of production factors in the medium term; while investments from the Recovery and Resilience Plan will also contribute to it. The attenuated labour market and limited creation of investments in 2021 will cause, however, that the dynamics of potential output will reach pre-crisis values only from 2022.

FIGURE 8 – Contributions of production factors to potential output growth (p. p.) – MoF SR approach

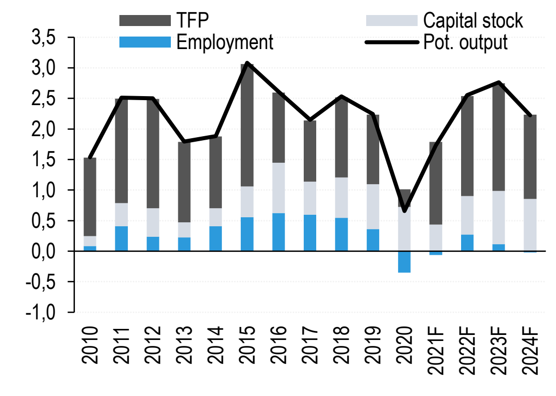


TABLE 4 – Contributions of production factors to potential output growth – MoF SR approach

	Pot. GDP (growth, %)	TFP*	Capital stock	Labour
2016	2.6	**1.1**	**0.8**	**0.6**
2017	2.2	**1.0**	**0.5**	**0.6**
2018	2.5	**1.3**	**0.7**	**0.5**
2019	2.2	**1.1**	**0.7**	**0.4**
2020F	0.7	**0.3**	**0.7**	**-0.3**
2021F	1.7	**1.4**	**0.4**	**-0.1**
2022F	2.6	**1.6**	**0.6**	**0.3**
2023F	2.8	**1.8**	**0.9**	**0.1**
2024F	2.2	**1.4**	**0.9**	**0.0**

** total production factor productivity*

Source: MoF SR

In 2021, the Slovak economy will still be overcooled, but compared to the previous year it will close about two thirds of the output gap caused by the corona crisis. Investments from the Recovery and Resilience Plan of the SR and additional draw-down of EU funds in 2023 will contribute to the fact that in 2022 and 2023, GDP may slightly exceed potential output. However, economic slow-down in 2024 will push GDP below the potential.

FIGURE 9 – Output gap (% of pot. GDP) - MoF SR approach

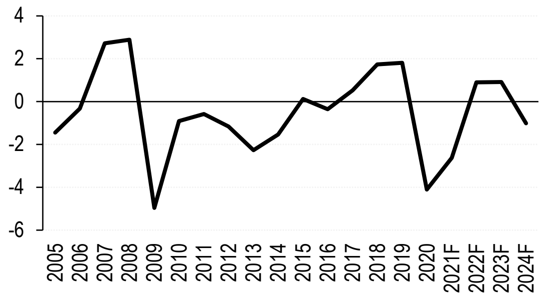


TABLE 5 – Output gap development - MoF SR approach

	GDP (real growth, %)	Pot. GDP (growth, %)	Output gap (% of pot. GDP)
2017	3.0	2.2	**0.5**
2018	3.8	2.5	**1.7**
2019	2.3	2.2	**1.8**
2020	-5.2	0.7	**-4.1**
2021F	3.3	1.7	**-2.6**
2022F	6.3	2.6	**0.9**
2023F	2.8	2.8	**0.9**
2024F	0.3	2.2	**-1.0**

Source: MoF SR

1.4 Comparison of Slovak economy forecasts of the MoF SR and of other institutions

The forecast of the MoF SR is more pessimistic than the forecasts of the other institutions. Compared to the EC's forecast, GDP recovery in the forecast of the MoF SR in 2021 is slower by 0.7 p. p., on the other hand, the EC expects a slower growth of prices. According to the MoF SR, the reason for the slower dynamics of economy is in particular a deeper drop of household consumption in the first quarter 2021. However, because of a more significant influence of the second wave of pandemic in 2021, MoF SR expects a greater recovery in 2022 compared to the other institutions. The differences in the current account balance are negligible and none of the institutions forecasts an increase in macroeconomic imbalances.

TABLE 6 – Comparison of Slovak economy forecasts of the MoF SR and of other institutions

	2020	2021	2022
		Real GDP growth (%)	
MoF SR	**-5.2**	**3.3**	**6.3**
Macro committee (median)	-5.2	4.0	4.8
NBS	-5.2	5.0	5.6
EC	-5.9	4.0	5.4
OECD	-6.3	2.7	4.3
IMF	-5.2	4.7	4.5
		HICP (CPI, if not available) (%)	
MoF SR	**2.0**	**1.1**	**2.2**
Macro committee (median)	1.9	1.6	1.9
NBS	2.0	1.3	1.9
EC	2.0	0.5	1.6
OECD	1.9	0.9	1.4
IMF	2.0	1.2	1.9
		Current account (% of GDP)	
MoF SR	**-0.4**	**-0.8**	**-0.8**
Macro committee (median)	-	-	-
NBS	-0.4	-0.3	-0.9
EC	-	-	-
OECD	-1.3	-0.6	0.1
IMF	-0.4	-1.2	-2.0

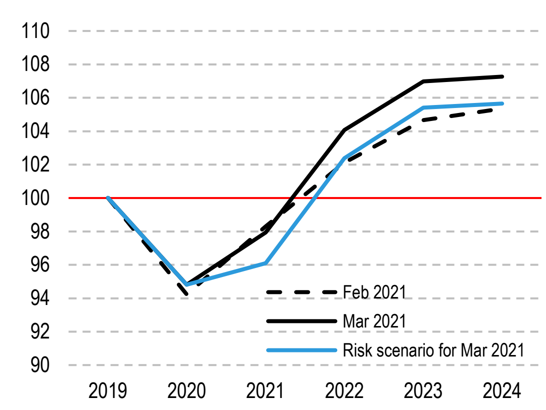
Source: MoF SR (March 2021), Macroeconomic Forecasts Committee (March 2021), NBS (March 2021), EC (February 2021), OECD (December 2020) and IMF (April 2021).

1.5 Risk scenarios

The risk scenario simulates a 3-week economic shutdown including the industry at the turn of the 1st and 2nd quarters of 2021. The Oxford Stringency Index (OSI) would reach a level of 92.5 points. This would mean the shutdown of all schools, border regime and public transport limitations like during the first wave, and also a limited regime at workplaces including production. The influence of measures on GDP is calibrated in compliance with the development in the first wave. Although no direct measures restricting the industry were adopted in the first wave, the freezing of supplier/customer chains caused serious production process failures thanks to which it is a suitable base for comparison of economic impacts. Subsequently, after three weeks, measures would be eased along the same trajectory as in the basic forecast.

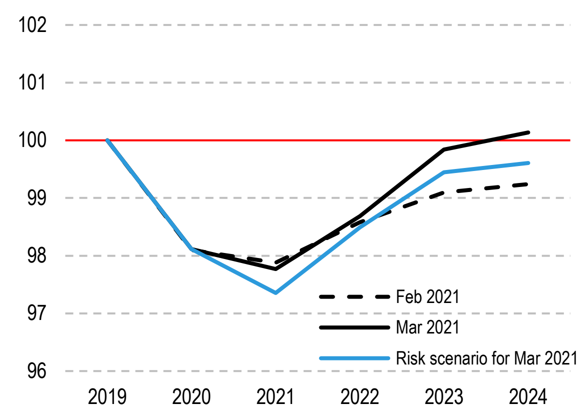
With a 3-week economic shutdown at the turn of the 1st and 2nd quarters of 2021, the real GDP would increase by only 1.4 % in 2021. It is by almost 2 p. p. less compared to the baseline scenario. A great part of the drop would be more permanent, even on the horizon of the forecast in 2024, the GDP would be lower by 1.5 % compared to the baseline scenario. The fulfilment of the risk scenario would also mean a significant weakening of the labour market and employment decrease in 2021 by 0.8 %. Thus, the number of employed people would be by 10,000 lower than in the baseline forecast without the need to shutdown economy. However, this shock would also negatively affect the potential output through the channel of employment and productivity in a longer term. Thus, in 2024, total employment would be lower by about 0.5 % compared to the baseline scenario.

FIGURE 10 – GDP of Slovakia in forecast and in the scenario with strict lockdown (index, 2019 = 100)



Source: IFP

FIGURE 11 – Employment in forecast and in the scenario with strict lockdown (index, 2019 = 100)



Source: IFP

TABLE 7 – Risk scenario of 3-week economy shutdown at the turn of the 1st and 2nd quarters

Percentage difference of levels of individual variables in comparison with the forecast

	Real GDP	CPI	Private consumption	Government consumption	Real investments	Real export	Total employment	Nominal wages
2021	-1.9	0.1	-1.7	-1.5	-1.8	-2.3	-0.4	-1.3
2022	-1.6	0.1	-1.6	-1.2	-1.7	-1.9	-0.2	-1.4
2023	-1.5	0.0	-1.2	-0.9	-1.6	-2.0	-0.4	-1.0
2024	-1.5	-0.2	-1.2	-0.9	-1.8	-2.0	-0.5	-1.1

** In scenario 1, the level of GDP in 2021 would be even by 1.9 % lower (and in 2024 by 1.5 % lower) compared to the basic forecast* Source: MoF SR

2 PUBLIC FINANCE POSITION

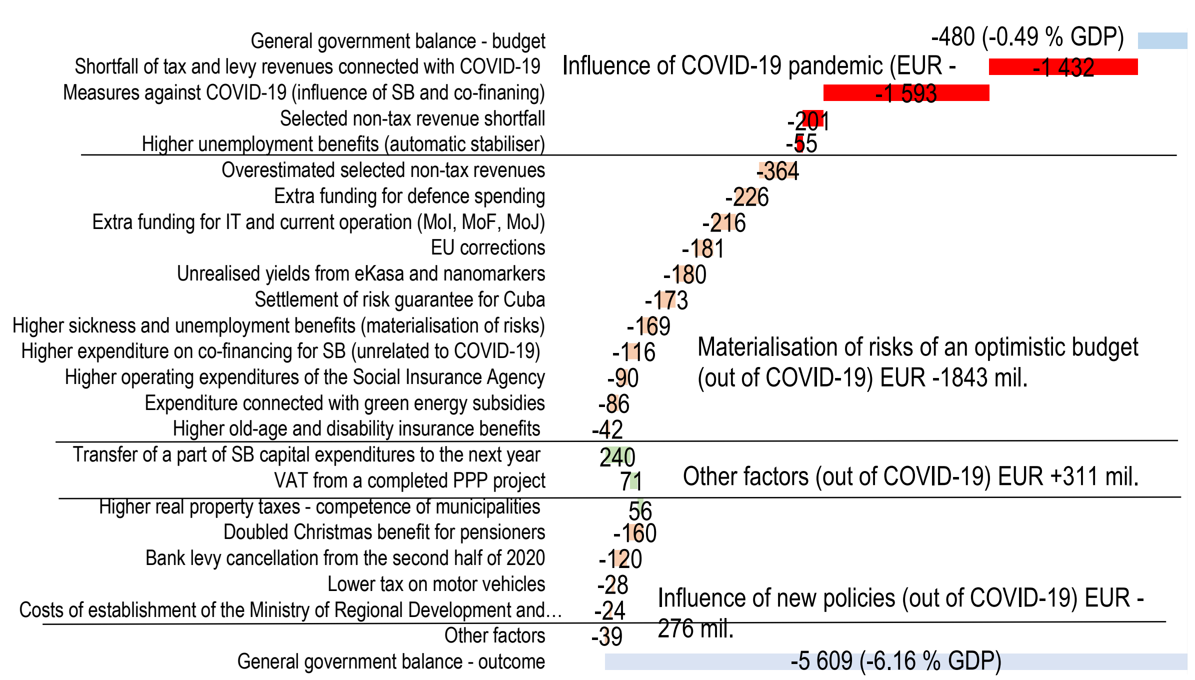
The pandemic caused by coronavirus considerably affected both the health situation and Slovak public finance in 2020. Last year, the deficit reached 6.2 % of GDP. Measures taken to support economy during the pandemic and the shortfall of revenues due to the economic fall contributed to an increase in the deficit compared to the original budgetary objective (total effect of 3.7 % of GDP). At the same time, besides the influences caused by the COVID-19 pandemic outbreak, the coverage of risks (with an effect of 2.1 % of GDP), which were not taken into account by the last year's budget, contributed to an increase in the deficit compared to the original budgetary objective. The first months of this year were considerably affected by negative consequences of the second wave of the pandemic. The budget reacted to these facts by higher healthcare expenditures as well as expenditures to maintain employment and on social protection. This year, it is necessary to retain the possibility to flexibly respond to COVID-19-related events. Higher expenditures related to the pandemic and a new reserve increase the public finance deficit this year to 9.9 % of GDP.

The return to a more stable situation in healthcare as well as economy is expected in 2022. Thus, it will be possible to gradually withdraw the supporting measures taken in response to the pandemic. Once they have ended, the public finance deficit in 2022 will drop to 5.1 % of GDP. Subsequently, it will be necessary to continue to improve public finance by reducing the structural deficit. The achievement of a structural surplus of 0.5 % of GDP no later than in 2028 will represent a new medium-term objective (MTO) of budgetary policy. To reach the MTO, it will be necessary to reduce the structural deficit by 1 p. p. of GDP every year, which corresponds to nominal budgetary objectives for 2023 and 2024 at a level of 4.1 % of GDP and 3.8 % of GDP. The planned reduction of the deficit will also be crucial for the stabilisation of debt development around 65 % of GDP till 2024. If the necessary measures to reach the planned consolidation were not adopted, the general government debt would further increase.

2.1 General government balance in 2020

According to the Eurostat notification, the general government deficit reached 6.2 % of GDP in 2020. It is an increase amounting to 5.7 p.p. of GDP compared to the assumptions of the approved budget, which counted with a deficit of 0.5 % of GDP. The difference compared to the budget can be divided into four categories – a) the influence of the pandemic (including the measures for the support of economy and shortfall of revenues), b) making some budget items more realistic, c) new policies of the current government, and d) other factors.

FIGURE 12 – Approved budget implementation - differences in main items (ESA 2010), contributions in EUR mil.



(+) / (-) means positive/ negative influence on GG balance *Source: MoF SR*

Public finance development caused by coronavirus

The COVID-19 pandemic reduced general government revenues compared to budget assumptions by 1.8 % of GDP. The fall of economic activity is reflected in particular in the shortfall of tax revenues and social contributions, with an estimated effect 1.6 % of GDP[6]. The revenue from corporate income tax (0.7 % of GDP) suffered most because profitability of companies reacts very sensitively to a fall of economy. Social security and health insurance contributions, which are linked to labour market, were also much lower (0.5 % of GDP). The revenue from value added tax was also slightly lower than the budget (0.1 % of GDP). The reduced mobility last year also caused a lower revenue from mineral oil tax (0.1 % of GDP). Non-tax revenues of state enterprises in the area of transport infrastructure and local governments decreased compared to budgetary plans by 0.2 % of GDP. This includes in particular a shortfall of toll revenues for Národná diaľničná spoločnosť (NDS), revenues from the sale of train tickets for Železničná spoločnosť Slovensko (ŽSSK), or a lower volume of freight transport during the strongest attenuation of economic activity which was reflected in a drop in the revenues of the Railways of the Slovak Republic (ŽSR) from the use of railway infrastructure.

The Government responded to pandemic impacts by measures affecting the deficit 1.7 % of GDP[7] (BOX 3 and Annex 2). The support to maintain employment consisted in particular in the reimbursement of wages in the companies forced to close their operations, shorten the working hours of their employees or where a significant fall of revenues occurred. Allowances were also provided by refunding a part of rental costs and through a support for kindergartens[8] (total 1.0 % of GDP). The Government also took measures in the social area to provide for the reimbursement of lost income during the pandemic. This includes in particular more flexible payment of the allowance for care of a family member and sick pay, and also the extension of payment of unemployment benefits or parental allowance (with a volume of 0.3 % of GDP). As a consequence of the pandemic, healthcare expenditures increased by 0.4 % of GDP. They were spent in particular on testing, ventilators, medicines and remunerations for medical staff. Pandemic-related expenditures not classified above amounted to 0.3 % of GDP. They were spent on frontline workers (out of healthcare), on disinfection and protective equipment, as well as to provide finance to sport, culture or air transport. The above expenditure measures were funded from European resources amounting to 0.4 % of GDP. The remission of social contributions for April, as well as an additional possibility to redeem losses for 2015 to 2019 provided assistance to the business sector in an amount of 0.1 % of GDP. Social expenditures also increased by 0.1 % of GDP above the limit of creation of new assistance schemes through the function of automatic stabilisers, when during a crisis, the number of unemployment benefit recipients automatically increases. Total unconsolidated measures in cash form aimed to help the economy reached as much as 5.4 % of GDP in 2020 (BOX 3, Annex 2).

Materialisation of risks of optimistic budget assumptions (other factors excluding coronavirus)

The state budget revenues during its preparation expected an income from new measures beyond the limit of the estimate of the Tax Revenue Forecasts Committee. The last year's budget contained income from electronic cash registers (eKasa) and fuel identification substance (nanomarkers) amounting to 0.2 % of GDP, which was included beyond the limit of the Committee's forecast. Identification substance introduction into fuels was not implemented. The evaluation of effects of eKasa for 2020 did not bring unambiguous results as due to pandemic measures, the first year of effect was affected by closed operations in particular in those sectors, where eKasa should have had the largest influence.

The last year's budget also included an optimistic assumption on several non-tax revenues not related to pandemic effects. The biggest shortfall concerned dividends, 0.2 % of GDP[9]. For the environmental fund, the shortfall of revenues amounted to 0.1 % of GDP after revenues from emission quotas were made more realistic (full application of the ESA2010 methodology). The revenues from gambling games were also lower. The

[6] It is a comparison of the accrual, i.e. March forecast of the Tax Revenue Forecasts Committee (TRFC) with the forecast used in preparing the budget for 2020. The March forecast is adjusted for effects of new legislation, i.e. for instance, the cancellation of the bank levy and one-off receipt of VAT payment of D4/R7 Project concessionaire, increase in real property tax under the competence of towns and municipalities, as well as remission of social contributions for April 2020 (the remission is included in the Government's assistance against pandemic).
[7] Measures amounted to 2.1 % of GDP, however, a part of the Government's expenditures was refunded from EU funds. Thus, the impact on the deficit is lower. The volume of finance refunded from EU funds amounts to EUR 343 mil. The volume of assistance may slightly differ from other documents of the Ministry of Finance of the Slovak Republic or other institutions due to a different methodology used to allow for the measures.
[8] A detailed breakdown is included in Annex 2.
[9] Almost entire drop is caused by updating the supporting documents of respective ministries. SPP decreases dividends by EUR 131 mil., SS by EUR 15 mil., VSE by EUR 12 mil., Slovenská elektrizačná prenosová sústava (SEPS) by EUR 14 mil.

Emergency Oil Stocks Agency (EOSA) reached lower than budgeted revenues due to a repeated failure to increase fees for oil and oil products management. Non-tax revenues were also reduced by a failure to execute a planned sale of the property of the Ministry of Interior (total 0.1 % of GDP).

The expenditures related to the European budget were undervalued by 0.3 % of GDP. Higher draw-down of co-financing resources of European projects (except for the co-financing of COVID-19 measures) contributed in the amount of 0.1 % of GDP. Corrections of irregularities in drawing EU funds, for which the approved budget had no reserve, increased the deficit by 0.2 % of GDP.

The undervalued expenditures on IT, current operation or military technology were also made more realistic, across several ministries. Additional funds were provided to the Ministry of Interior in the amount of 0.2 % of GDP, where about one half of the sum was intended for IT technologies[10]. The expenditures of the Ministry of Finance on Microsoft services licences and other IT technologies also slightly increased. As regards the Ministry of Defence, the approved budget did not take into account the full effect of expenditures on military technology modernisation (0.2 % of GDP). Additional funds were also necessary at the Ministry of Justice for the area of judicial system, prison service, as well as personal bankruptcy.

Uncovered expenditures in the budget also concerned the Social Insurance Agency. Making expenditures on unemployment benefits, sick pay and maternity allowances more realistic resulted in an increase in the level of expenditures with an effect of 0.2 % of GDP. Higher old-age and disability pension benefits increased the deficit by 0.1 p. p. of GDP[11]. The Social Insurance Agency also recorded higher operating expenditures of the management fund amounting to 0.1 % of GDP, the same result like in 2019,.

The settlement with a risk guarantee for Cuba also participated in the deterioration of economy. The settlement of risk guarantees for Cuba deteriorates the deficit by 0.2 p. p. of GDP. The guarantee was recognised through the balance of the EXIM bank.

The approved budget did not include supplementary payments to green energy producers as well (0.1 % of GDP). In Slovakia, electric energy consumers pay a so-called system operation tariff (TPS). A part of the tariff is used for supplementary payments for producers of energy from renewable sources. These supplementary payments were not included in the budget in particular because the effect on the general government deficit stemming from time lag between TPS collection and green energy subsidies was resolved methodologically only during a benchmark revision last year[12].

The other factors increasing the deficit compared to budget assumptions include mainly expenditures of NDS and healthcare facilities. The expenditures of NDS connected with D4/R7 completion, implemented rentals as well as real burdens of the company were not covered in the budget[13]. Healthcare facilities increased the expenditures because of their modernisation commenced at the beginning of 2019, which was not taken into account by the budget. There is also another reason the budget did not reflect the real need of healthcare resources provided.

New policies of general government (unrelated directly to coronavirus occurrence)

New policies of general government were also implemented beyond the limit of the approved budget (0.3 % of GDP). A doubling of the Christmas pension benefit caused an increase in expenditures by 0.2 % of GDP, although it means a saving of 0.3 % of GDP compared to the original proposal of the previous Government from

[10] In the area of current expenditures, additional funds cover in particular the services of standard support, maintenance and development of ICT, IS Register addresses, data and voice services, and service agreement for the camera system at the airports of the SR. As regards capital expenditures, the expenditures are spent on the Critical Infrastructure and on services of standard support, maintenance and service for the telecommunication structure of the Ministry of Interior of the SR.

[11] Benefits grow in particular due to the expected growth of the average amount of the benefit, which is faster than last year, and a growing number of recipients. This trend was reflected in pension benefits, maternity benefit (because of a growing number of fathers on maternity leave) within the sickness insurance, and also in payments of unemployment benefits, even after the deduction of one-off expenditures for the reason of crisis.

[12] Green energy is a system of support to renewable energy sources and highly efficient combined energy production, which is redirected through the general government sector in accordance with the ESA 2010 methodology. The volume of TPS collected represents tax revenues of the budget and the costs of support provision represent subsidies. See more detail in the Draft Budgetary Plan of the SR for 2020, Part 2.5 Information on the implemented modifications of some revenues and expenditures of the general government budget in ESA 2010 methodology.

[13] Based on a decision of the Statistical Office of the SR, the modifying factor is recorded as a capital transfer affecting the deficit.

February, which expected area payments of 13th pensions of the same amount regardless of the pensioner's income. The deficit was slightly increased by the expenditures connected with the creation of a new Ministry of Regional Development and Investments. In the middle of the year, the Government also cancelled a special levy from financial institutions with a shortfall of 0.1 % of GDP. The reduced tax on motor vehicles had also a moderately negative effect on the deficit. The deficit was positively affected by municipalities; through their generally binding regulations, they increased real property taxes by 0.1 % of GDP.

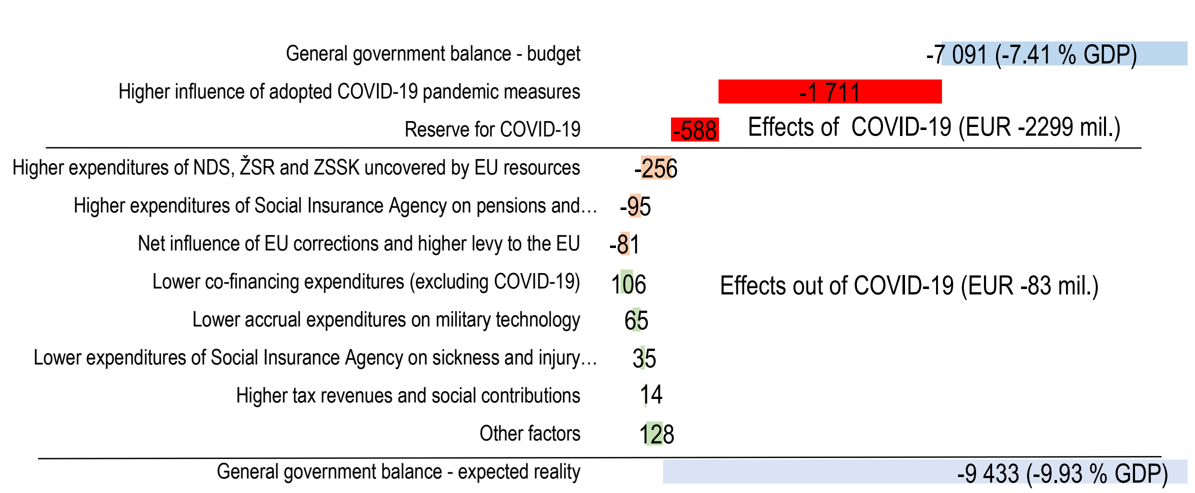
Other factors (unrelated directly to coronavirus occurrence)

The general government deficit was decreased compared to budget assumptions by other factors (in the amount of 0.3 % of GDP). The transfer of a part of capital expenditures, which were not implemented till 2021, improved the deficit by 0.3 p. p. of GDP. The unbudgeted VAT revenue from the D1/R4 PPP Project also reduced the deficit by additional 0.1 p. p. of GDP.

2.2 Current development in 2021

At the end of the previous year and the beginning of this year, the pandemic intensity considerably increased with negative impacts on health and lives of people living in Slovakia. The Government responded to the situation, *inter alia*, by higher expenditures spent on healthcare and restriction of social contacts, as well as by measures taken to maintain jobs and strengthen social assistance. In consequence, the deficit in 2021 increases to 9.9 % of GDP. Compared to the assumptions of the budget with a planned deficit of 7.4 % of GDP, in particular expenditures on the pandemic are conservatively increased, along with an increase of the reserve for the case of further unexpected COVID-19-related development (a total increase by 2.4 p. p. of GDP). Other factors, in particular higher expenditures of state enterprises managed by the Ministry of Transport of the SR and higher expenditures of the Social Insurance Agency increase the deficit by additional 0.1 p. p. of GDP.

FIGURE 13 – Approved budget implementation - differences in main items (contributions in EUR mil., ESA2010)



(+) / (-) means positive/ negative influence on GG balance *Source: MoF SR*

Public finance development caused by coronavirus

Expenditures affecting the deficit higher by 2.4 p. p. of GDP are expected for the fight against the COVID-19 pandemic compared to the budgetary expectations. Budget created a reserve for that purpose (1.1 % of GDP)[14]. Total costs of the measures taken (with effect on the accrual deficit in the ESA2010 methodology), which the Government implemented in response to coronavirus, are conservatively estimated to reach 3.0 % of GDP by the end of the year. This estimate includes the financing of a part of expenditures from EU funds[15] (BOX 3 and Annex 2). Compared to the previous year, the Government extended the support to employment by increasing the limits that can be received per employee. Sick pay as well as allowance for care of a family member were increased in such a way as to substitute net wages of employees during April. New schemes to support most affected sectors

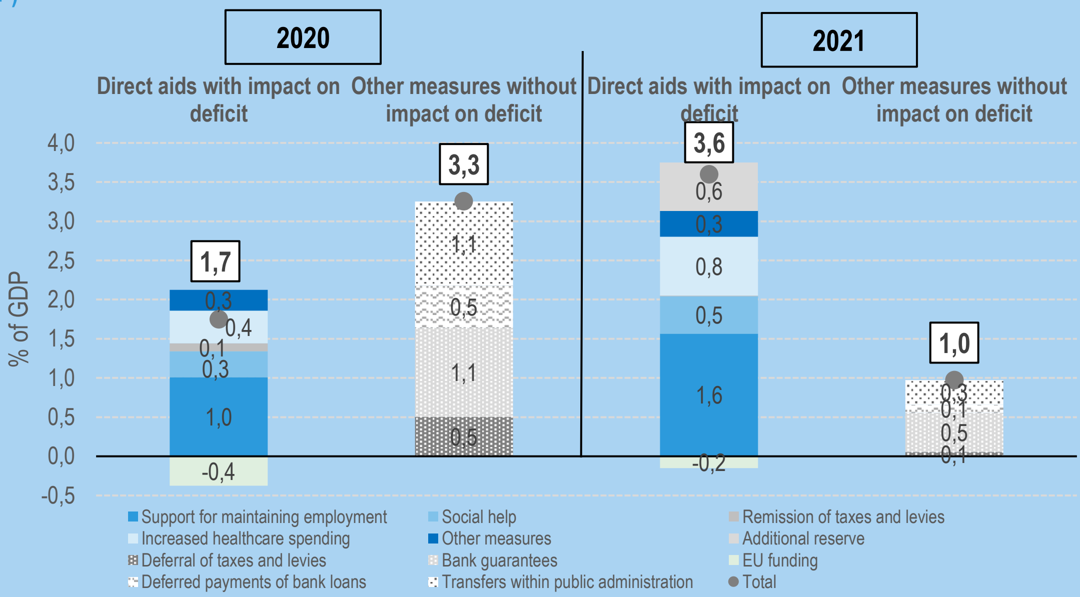
[14] In creating the budget, a reserve for this purpose was created in the amount of EUR 1,041 mil.
[15] It means financing amounting to EUR 138 mil. (0.2 % of GDP), this funding has no impact on the deficit.

were also created. They supported in particular workers and entrepreneurs in culture and at elementary schools of the arts. Significant subsidies will flow to support tourism and hospitality sectors. Currently, the creation of a scheme to reimburse losses in road transport is being planned; exact conditions of assistance provision are being determined. A conservative assumption is used in particular for expenditures in healthcare so that there are also sufficient resources for the case of a similarly strong course of pandemic till the end of the year. Taking into account the persisting uncertainty regarding the course of the pandemic till the end of the year, additional expenditures for the measures unspecified yet amounting to 0.6 % of GDP are earmarked within the reserve[16].

BOX 3 – Summary of measures taken to fight against coronavirus expressed in cash

The measures taken to fight against coronavirus have a character of direct assistance, deferral of taxes and contributions, bank guarantees for business loans and transfers within general government. The deferral of taxes and contributions is to help companies with liquidity and will not have an effect on the accrual deficit in the medium term or a cash effect[17]. Guarantees, which also help overcome the unfavourable period, will affect the deficit and debt only provided that a part of debtors will stop repaying the provided loans (it is a so-called conditional obligation)[18]. Transfers within general government affect the accrual deficit only if the entity implements the received transfer in expenditures[19]. Deferral of loan repayment is carried out by commercial banks based on an agreement with the Government which helps keep household liquidity. Thus, only the measures of direct assistance directly affect the accrual economy results.

FIGURE 14 – Summary of measures taken to fight against coronavirus (estimate till the end of the year in % of GDP)[20]



** The impact of employment support on the general government deficit in 2020 was much lower than expenditures allocated to this type of assistance. Claims for repayment in supporting the maintenance of employment in 2020 amounted to as much as 1.2 % of GDP. However, a part of employment maintenance expenditures for the last months of 2020 was paid only in 2021 and these expenditures will affect the deficit this year.* These are expenditures amounting to EUR 223 mil. *Moreover, there is conservative assumption for 2021 that employment support will be financed from EU Funds only to the extent repaid till April 2021. For these reasons, the influence of this assistance on the general government deficit in 2021 is estimated to reach 1.4 % of GDP for the whole year.*
***For guarantees, the amount of secured loans is provided instead of the effect on the accrual deficit of general government. The same applies to deferrals of taxes and contributions.*

Source: MoF SR

[16] Within the chapter General Treasury Administration (VPS), the original reserve for COVID-19 pandemic solving is increased by EUR 2 bn.,which serves to cover several effects of the pandemic. This document contains analytical breakdown to estimate the effect of already adopted measures of the Government for the whole year 2021. The rest part of the reserve is presented as a reserve for measures not announced yet.
[17] In the part of social contributions, we expect an accrual effect of EUR -8 mil. due to a failure to pay the deferred contributions in selected risk sectors.
[18] A potential negative risk of the estimated reality of 2021 is expected to be 66 mil. from the guarantees provided in 2020. (For the budgetary deficit in 2022) a risk of 31 mil. is estimated from guarantees provided in 2021.
[19] For example, the Social Insurance Agency receives a transfer from the SB, which is used to a large extent to cover pandemic allowances for care of a family member and sick pays.
[20] For 2022, a reserve is also determined for finishing expenditures connected with the pandemic in the amount of EUR 270 mil. (these are expenditures from 2021, with expected requests for repayment only in 2022).

Other factors excluding coronavirus

Increased expenditures of selected companies managed by the Ministry of Transport participate in the deficit higher than the budgeted one by 0.3 p. p. of GDP[21]. An increase in the expenditures of Národná diaľničná spoločnosť (NDS) and Railways of the SR (ŽSR) is caused in particular by the transfer of unspent capital resources from previous years (0.1 % of GDP). Železničná spoločnosť Slovensko (ŽSSK) increases expenditures as a follow up to a non-budgeted loan and an increased transfer from the state budget (0.2 % of GDP).

The expenditures of the Social Insurance Agency are slightly higher compared to the budget. An increased estimate of expenditures on unemployment benefits and pensions has a negative effect on the deficit of 0.1 % of GDP. The unemployment benefit expenditures grow because of a higher growth of average wage and worsened status of labour market, and a higher number of unemployed people receiving the benefit. Pension expenditures are affected by the continuously increasing average amounts of benefits. On the contrary, the deficit is slightly reduced by lower expected expenditures on sickness benefits. They decrease due to lower draw-down of maternity leaves by fathers and of pregnancy benefits[22].

The expenditures related to the European budget, also slightly decrease the expected deficit compared to the budget. A lower draw-down of resources of co-financing of European projects contributes with more than 0.1 p. p. of GDP. On the contrary, adjusted corrections[23] from irregularities in drawing EU funds and a higher levy due to an update of the GDP forecast (total 0.1 % of GDP) negate almost the entire effect of lower co-financing.

Tax and contribution revenues are slightly higher compared to the approved budget[24]. In response to a worse economic development (pandemic restrictions from the beginning of 2021), a lower VAT revenue is expected by 0.4 p. p. of GDP and a lower revenue from excise duties by additional 0.1 p. p. of GDP. The efficiency of collection itself[25] is stable at the level of 2020, whereas a slight drop is expected for excise duties on mineral oils. The shortfall of indirect taxes is further fully compensated by better corporate tax performance from 2020, which is also transferred to 2021, and by taxes and contributions from stronger labour market (total 0.3 % of GDP compared to the budget). There are minimum legislative changes.

2.3 Medium-term budgetary outlook for 2022 to 2024 and determination of the medium-term objective

Stabilisation of economy with the withdrawal of anti-crisis measures is the priority for the next year. The priority is to support health and economy in 2020 and 2021 during the COVID-19 pandemic. The pandemic causes significant uncertainty this year as well. However, with the ongoing vaccination, the situation will gradually stabilise. Thanks to it, it will be possible to gradually withdraw the supporting measures for the fight against coronavirus. With full withdrawal of temporary measures, next year, the general government deficit will considerably decrease to 5.1 % of GDP, which also represents the budgetary objective for 2022. If this objective is achieved, the structural deficit in 2022 will remain at an unchanged level of 5.5 % of GDP compared to 2021[26]. Even without an additional reduction in the structural deficit, the end of anti-pandemic measures amounting to several percent of GDP will represent for economy a significant fiscal restriction in 2022 (TABLE 9). The restriction will be compensated only partially by resources from the EU Recovery and Resilience Facility.

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[21] It concerns three enterprises - NDS, ŽSSK and ŽSR - and the influence of financing from the state budget without EU funds and co-financing.

[22] The drop in expenditures on sickness benefits is also affected by the growth of of expenditures on pandemic benefits (allowances for care of a family member and sick pay), which are presented within the account of pandemic assistance. The people, who would otherwise receive standard allowances for care of a family member and sick pay, are presented in pandemic expenditures, thus, current expenditures on other sickness benefits drop.

[23] Corrections are adjusted for payment unit's revenues.

[24] These are revenues from taxes and contributions forecast by the Tax Revenue Forecasts Committee.

[25] Measured by VAT effective rate.

[26] In baseline scenario, the preparation of general government budget for 2021-2023 was based on the assumption of a significant economy recovery in 2021 without the second wave of the pandemic. In such case, the budget expected an additional reduction of the structural deficit already in 2022, which was reassessed taking into account the real pandemic and economic development in 2021.

After the stabilisation, it will be necessary to start a consolidation of public finance with a clearly defined medium-term budgetary objective at a level of surplus. Compared to the past, the new medium-term budgetary objective must be set more ambitiously with respect to the general government debt at a record level and high risks for the long-term sustainability of public finance resulting from expected ageing. The new MTO is to achieve a structural surplus of 0.5 % of GDP no later than in 2028, which corresponds to annual consolidation of public finance by 1 p. p. of GDP from 2023. The medium-term objective is estimated by the Ministry of Finance of the SR based on the rules of the European Commission[27].

TABLE 8 – Consolidation effort (ESA 2010, % of GDP)

	2019 S	2020 S	2021 ER	2022 SP	2023 SP	2024 SP
1. General government balance	**-1.3**	**-6.2**	**-9.9**	**-5.1**	**-4.1**	**-3.8**
2. Cyclical component	0.7	-1.6	-1.0	0.3	0.3	-0.4
3. One-off effects[28]	0.0	-1.9*	-3.5*	0.0	0.0	0.0
4. Structural balance (1-2-3)	**-2.0**	**-2.7**	**-5.5**	**-5.5**	**-4.5**	**-3.5**
5. Consolidation effort	**-0.3**	**-0.7**	**-2.7**	**0.0**	**1.0**	**1.0**
p. m. Structural balance without the inclusion of COVID measures into one-off effects		-4.5	-9.1	-5.5	-4.5	-3.5
p.m. Structural balance without adopted measures				-5.5	-4.9	-4.1

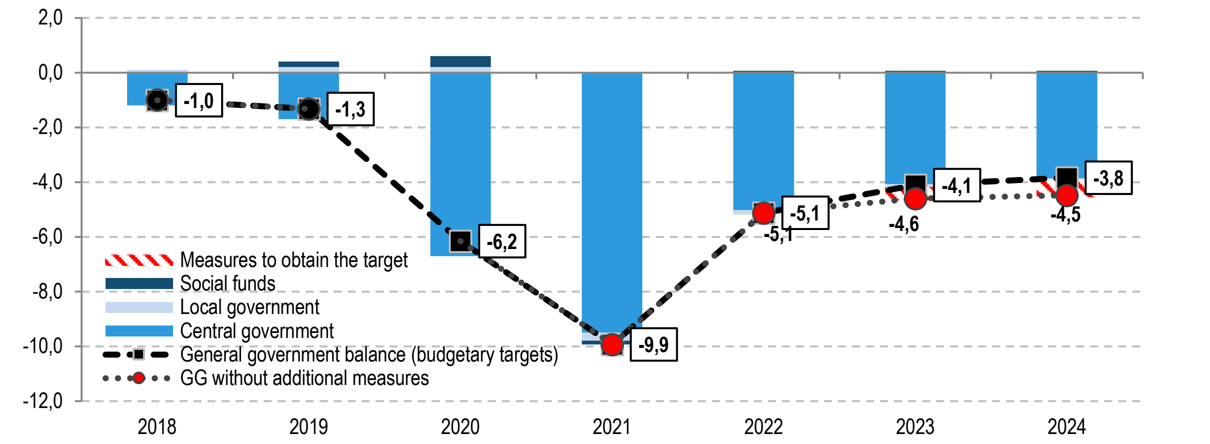
** Also including the effect of measures related to COVID-19* *Source: MoF SR*

*** Some amounts may differ from the sum of individual components due to rounding.*

In compliance with that, the Stability Programme wants to decrease the nominal deficit below 4 % of GDP till the end of 2024. Nominal budgetary objectives for 2023-2024 are set by the Government in the form of deficit amounting to 4.1 % of GDP in 2023 and 3.8 % of GDP in 2024. The budget is brought closer to the achievement of these objectives by an increase in excise taxes on tobacco products in 2023 approved last year, zero indexation of wages in central government expected in the following years, as well as a drop of social transfers in proportion to the GDP with standard indexation. However, according to current estimates, to achieve the budgetary objective for 2023, it will also be necessary to adopt additional consolidation measures amounting to at least 0.5 % of GDP (see more in the part of no-policy-change scenario). In setting a particular consolidation plan, measures increasing the effectiveness of public finance will be preferred. As regards expenditures, the priority is to apply value-for-money principles with the implementation of strategic investment plans, continued reassessment of purchases of goods and services, as well as process-optimisation audits. The measures from revisions of expenditures for 1 % of GDP (more in Chapter 4) identified but not implemented yet, in particular in the area of remuneration and employment in general government 0.5 % of GDP, may contribute to consolidation. As regards revenues, emphasis will be on the achievement of internationally comparable results of combating tax evasion (more in Chapter 4).

[27] The medium-term objective of +0.5 % of GDP has been calculated by the Ministry of Finance of the SR. The European Commission publishes a minimum MTO for Member States once per three years.
[28] Table with one-off effects is provided in Annex 3.

FIGURE 15 – Nominal balances by sub-sectors (in % of GDP) compared to budgetary objectives



Source: MoF SR

TABLE 9 – Calculation of fiscal position (in % of GDP)

	2020	2021	2022	2023	2024
1. Structural balance	-2.7	-5.5	-5.5	-4.5	-3.5
2. Interest payments	-1.2	-1.0	-0.9	-0.9	-1.1
3. COVID-19 measures	1.7	3.6	0.0	0.0	0.0
4. Effects of relationships with the EU (except for RRP), of which:	0.1	0.2	0.3	1.3	0.0
- revenues from the 3rd and 4th programme budget of the EU	*1.0*	*1.3*	*1.4*	*2.3*	*1.0*
- contributions to the EU budget	*-1.0*	*-1.1*	*-1.0*	*-1.0*	*-1.0*
5. Recovery and Resilience Plan of the SR		0.2	1.1	1.3	1.3
6. Adjusted structural balance (1-2-3-4-5)	-3.3	-8.5	-6.0	-6.1	-3.7
7. Fiscal position (fiscal impulse) ($6_t – 6_{t-1}$)	**-2.3**	**-5.2**	**+2.5**	**-0.1**	**+2.4**

Note: The fiscal position with a minus sign expresses fiscal expansion, with a plus sign fiscal restriction. *Source: MoF SR*

BOX 4 – Fiscal rules during and after the COVID-19 pandemic

In spring 2020, in response to the coronavirus pandemic, the European Commission (EC) activated the General Escape Clause (GEC), which temporarily does not require structural deficit reduction to achieve a medium-term budgetary objective (MTO). The activation of the GEC opened room for Member States including Slovakia for fiscal stimuli to support economies and for additional expenditures for necessary anti-pandemic measures. In autumn 2020, the Commission extended the validity of the Clause also for 2021 and recommended that Member States should continue in the fiscal policy focused on sustaining economy and support of recovery[29]. Based on the preliminary data, the General Escape Clause could also remain in force in 2022. The final decision on the date of its deactivation will be made on the basis of a spring forecast of the EC in May 2021[30].

The Government also anchors the return to fiscal rules in 2023 by setting a new MTO at a level of structural surplus and trajectory to its achievement. According to the communication of the EC, the fiscal rules of the Stability and Growth Pact should be restored in 2023[31]. Subsequently, Slovakia will enter the Excessive Deficit Procedure (EDP)[32], which will determine the year-on-year rate of public finance consolidation recommended by the EC for the return to the MTO, which is not known yet. Its current level for Slovakia is a structural deficit of 1 % of GDP. As a consequence of a new projection of the costs of ageing (AWG) and its negative impact on long-term sustainability, the EC may set the MTO for Slovakia up to a level of structural surplus. The Government sets a new MTO at a level of structural surplus of 0.5 % of GDP already in this Stability Programme[33].

From 2023 to the achievement of the new MTO, consolidation will take place with an annual rate of at least 1 p. p. of GDP. After the financial crisis in 2008/09, the fiscal rules of the EU required consolidation by 1 p. p. annually. Unlike the previous post-crisis

[29] Commission guidance for Slovakia on fiscal policy orientations for 2021.
[30] Commission presents updated approach to fiscal policy response to coronavirus pandemic.
[31] In its winter forecast 2021, the European Commission expects that neither the EU nor the Euro area will achieve the pre-crisis level of real GDP earlier than in the 4th quarter of 2022.
[32] On the horizon of the budget, the general government deficit of Slovakia will not achieve a limit of 3 % of GDP – in the next years, the MoF estimates the deficit at a level of 9.9 % of GDP (2021), 5.1 % of GDP (2022), 4.1 % of GDP (2023), and 3.8 % of GDP (2024). In 2020, the debt exceeded a reference limit of 60 % of GDP and it will not drop below this level on the horizon of the budget.
[33] Internal calculations of the MoF SR indicate a minimum MTO at a level of the structural surplus 0.25-0.5 % of GDP, which is reflected already in this year's Stability Programme, although the MoF SR expects that the EC will revise the MTO with effect from 2023.

period, the general government debt of Slovakia is currently above the reference limit 60 % of GDP, and in this period, also stimuli from the Recovery and Resilience Plan of the Slovak Republic will apply. The rate of structural consolidation at a level of 1 % of GDP is expected by the debt brake in the amendment to the constitutional Fiscal Responsibility Act. National fiscal rules may request consolidation of 1 % of GDP annually even despite that European fiscal rules will be less stringent in consolidation efforts for Slovakia.

Historical experience of Slovakia after the financial crisis 2009 shows that the trajectory of a similar structural consolidation is realistic (FIGURE 16). Internationally, it is a consolidation, which was achieved in 10 % of countries with a debt over 60 % of GDP (FIGURE 17), and out of the programme countries of the European rescue mechanism, a cumulative consolidation by 6 p.p. of GDP and more in six years was executed in Croatia and Hungary. In addition to the new MTO, a long-term consolidation will also be anchored by expenditure limits (more in Chapter 5). The projection of the amendment to the constitutional act, which was not approved yet, would extend the need of consolidation to 2030 through the MTO at a level of the structural surplus as high as 2 % of GDP[34].

FIGURE 16 – Planned development of structural balance till 2028 in comparison with consolidation after the previous crisis (% of GDP)

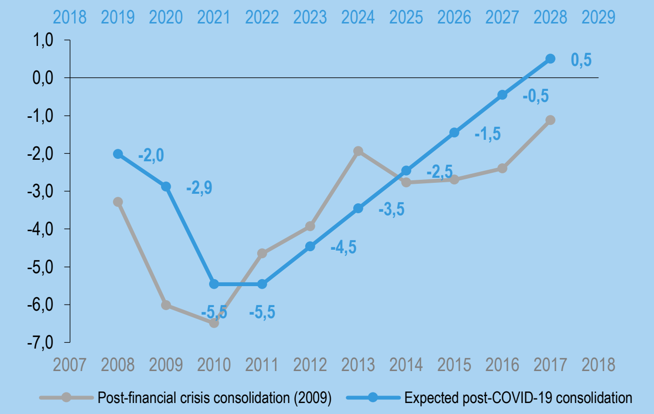
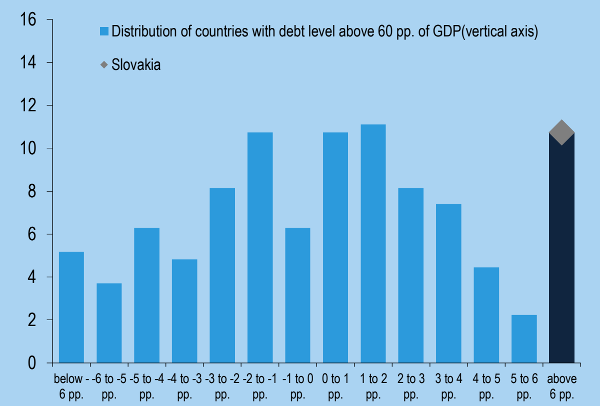


FIGURE 17 – Six-year consolidation of cyclically-adjusted primary balance (1990-2019)[35]



Source: IMF, MoF SR

Note: FIGURE 17 - Consolidation in developed countries with a debt over 60 % of GDP measured as a cumulative year-on-year change of cyclically-adjusted primary balance (structural balance including one-off effects adjusted for costs of servicing the debt).

Note: FIGURE 17 - Most cases of consolidation of 6 and more % of GDP in six years are programme countries which consolidated in the period after the Euro area crisis (Greece, Ireland, Portugal, Cyprus and Spain) or underwent a one-off consolidation after the rescue of bank sector (Iceland, Slovenia). Recently, Croatia has been an example of an ambitious consolidation; during six years (2011-2017) it consolidated over 9 % of GDP thanks to improved tax collection administration and effective freezing of expenditures. Hungary also executed a fast consolidation (7 % of GDP) (2007-2013) through austerity measures in intermediate consumption, wages in general government and transfers. On the budget side of revenues, the Government consolidated by increasing excise duties, sectoral taxes and social security contributions.

2.4 Structural balance in 2020 and 2021

In 2020, the structural deficit increased to 2.7 % of GDP from 2.0 % of GDP in 2019. The expenditure measures focused on fight against coronavirus have a one-off character, therefore, they do no affect a structural balance (more in Part 2.2). Several measures adopted already in 2019, in particular a wage growth by 10 % in general government, increased parental allowance, increase in minimum pensions, increase in the non-taxable tax base and reduced VAT rate for selected foodstuffs, contribute to a significant growth of structural deficit. Measures of the current Government, in particular the doubling of the Christmas pension benefit and cancellation of the bank levy from 1 July 2020, also contribute to a moderate increase in structural balance.

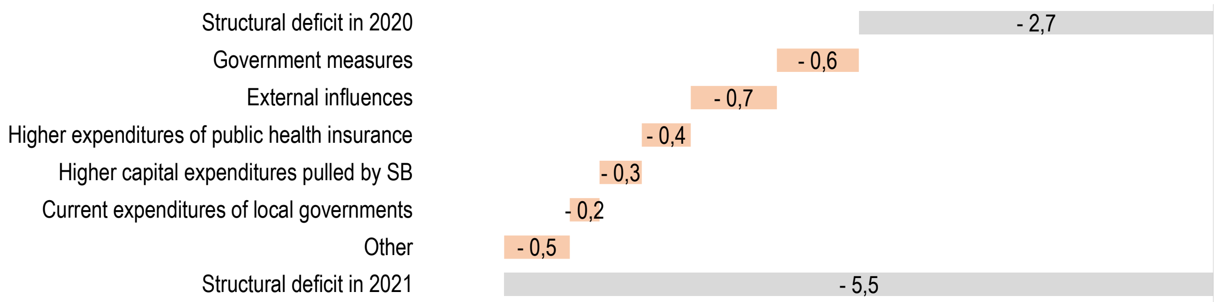
Structural deficit further grows by 2.7 p. p. to a level of 5.5 % of GDP in 2021. Taking into account the negative output gap, fiscal expansion in 2020 and 2021 has a stabilising effect on the growth. This year, structural deficit grows in particular as a consequence of new permanent measures of the Government for 0.6 % of GDP. They include the cancellation of co-payments for medicines for selected groups, introduction of a pregnancy benefit or earlier retirement for selected birth years. The Government also increased expenditures on first-class roads or

[34] Due to a high value of the long-term sustainability indicator (GAP), the MTO would be set at a level of the structural surplus of 2 % of GDP. The long-term sustainability indicator (GAP) represents a value by which the structural primary balance should change so that the level of net debt would be below the upper limit 80 years later (in the interpretation of the amendment to the constitutional act).

[35] No internationally comparable data on structural balance development on the time horizon 1990-2019 is available. Therefore, the change of cyclically-adjusted primary balance is an approximation to structural balance change. On the horizon till 2030, the MoF SR expects a relatively constant development of interest payments around 1 % of GDP annually.

support of regional schools. On the revenue side, structural deficit is increased mainly by the cancellation of bank levy, changes in the taxation of motor vehicles or increase in tax credit. These measures were slightly compensated by increasing the tobacco excise tax, binding a part of expenditures on goods and services in the state budget and freezing of growth of minimum pensions (more details in Annex 8). External effects include the growing contribution to the European Union due to Brexit (0.2 % of GDP), an increase in expenditure on co-financing of EU funds (0.2 % of GDP), the growing number of pension recipients, as well as accruals of pensions[36] (0.3 % of GDP). Growing expenditures of health insurance companies contribute to an increase in structural balance by 0.4 p. p. of GDP. Growth of investments from national resources participates in the expansion in the amount of 0.3 % of GDP and is pulled by higher investments of the state budget. Current expenditure of local governments (0.2 % of GDP) also contribute to structural balance increase.

FIGURE 18 – Factors leading to structural deficit increase between 2020 and 2021 in % of GDP



Source: MoF SR

2.5 No-policy-change scenario and budgetary measures from 2022

The no-policy-change scenario (NPC) presents a reference development of public finance assuming a current estimate of macroeconomic development and unchanged legislation after 2020. The quantification of an approximate volume of contribution of new active Government's measures to general management of general government separately from other effects (e.g. economic development that the Government does not have under control) is its contribution. The starting point for the preparation of a no-policy-change scenario for 2022 to 2024 is the continuous monitoring of general government deficit in 2021 in the amount of 9.9 % of GDP. After the deduction of one-off effects connected in particular with pandemic influences, individual revenue and expenditure items are indexed according to the latest macroeconomic forecast. In addition to item indexation, the NPC also contains measures taken before the initial year 2021[37]. Thus, only the newly adopted measures from 2021 are considered budgetary measures of the Government beyond NPC in Table 10.

TABLE 10 – Comparison of expenditure and revenue balance and NPC in 2022 to 2024 (% of GDP)

	R	R	ER	GG DB			NPC			GG DB-NPC		
	2019	2020	2021	2022	2023	2024	2022	2023	2024	2022	2023	2024
Total revenues	**41.4**	**41.8**	**41.6**	**40.5**	**41.3**	**39.7**	**40.5**	**41.3**	**39.7**	**0.0**	**0.0**	**0.0**
Tax revenues	**19.2**	19.0	18.5	18.4	18.5	18.2	18.4	18.5	18.2	0.0	0.0	0.0
Social security contributions	**15.3**	15.9	16.1	15.4	15.3	15.4	15.4	15.3	15.4	0.0	0.0	0.0
Non-tax revenues	**5.1**	5.2	5.2	4.9	4.7	4.7	4.9	4.7	4.7	0.0	0.0	0.0
Grants and transfers	**1.7**	1.8	1.9	1.9	2.7	1.4	1.9	2.8	1.4	0.0	0.0	0.0
- of which EU funds	**1.0**	1.1	1.3	1.4	2.3	1.0	1.4	2.3	1.0	0.0	0.0	0.0
Total expenditures	**42.7**	**48.0**	**51.6**	**45.6**	**45.9**	**44.2**	**45.6**	**45.9**	**44.6**	**0.1**	**-0.1**	**-0.4**
Current expenditures	**38.6**	43.5	47.3	42.0	41.9	41.0	41.7	42.0	41.2	0.3	-0.1	-0.2
Compensation of employees	**10.2**	11.5	11.3	10.3	10.0	10.0	10.6	10.4	10.5	-0.2	-0.4	-0.6
Intermediate consumption	**5.6**	6.1	7.9	6.7	7.3	6.9	6.3	7.0	6.6	0.4	0.2	0.3
Subsidies	**1.0**	1.4	1.7	1.3	1.4	1.2	1.3	1.4	1.2	0.0	0.0	0.0
Interest payments	**1.2**	1.2	1.0	0.9	0.9	1.1	0.9	0.9	1.1	0.0	0.0	0.0

[36] Accruals represent the transfer of cash expenditures to respective years which they are related to in terms of time. As in 2021, January started by more rest days than in other years, a greater part of pensions was paid already in December 2020. Thus, compared to other years, within accruals, a greater part of expenditures was transferred from 2020 to 2021, which increased the difference between the years.
[37] In accordance with the NPC scenario methodology.

Total social payments	**18.6**	21.3	22.9	20.1	19.6	19.7	20.0	19.5	19.6	0.0	0.0	0.0
- Social benefits other than social transfers in kind	**13.4**	15.9	17.2	14.7	14.3	14.4	14.7	14.3	14.4	0.0	0.0	0.0
- Social transfers in kind	**5.2**	5.4	5.7	5.3	5.3	5.3	5.3	5.2	5.3	0.0	0.0	0.0
Other current transfers	**1.8**	2.0	2.5	2.5	2.5	2.1	2.5	2.5	2.1	0.0	0.0	0.1
Capital expenditures	**4.0**	4.5	4.3	3.7	4.0	3.2	3.9	4.0	3.4	-0.2	0.0	-0.1
Capital investments	**3.7**	3.7	3.9	3.5	3.8	3.1	3.7	3.8	3.2	-0.2	0.0	-0.1
- Gross fixed capital formation	**3.6**	3.5	3.8	3.5	3.7	3.1	3.7	3.7	3.2	-0.2	0.0	-0.1
Capital transfers	**0.4**	0.8	0.4	0.1	0.2	0.1	0.1	0.2	0.1	0.0	0.0	0.0
General government balance	**-1.3**	**-6.2**	**-9.9**	**-5.1**	**-4.6**	**-4.5**	**-5.1**	**-4.7**	**-4.8**	**-0.1**	**0.1**	**0.3**
Measures unspecified in the general government budget in comparison with budget objectives					0.5	0.6						
General government balance with additional measures	**-1.3**	**-6.2**	**-9.9**	**-5.1**	**-4.1**	**-3.8**						
p.m. Expenditures from RRP*, of which:			**0.1**	**1.1**	**1.4**	**1.5**						
Investments			0.1	0.9	1.1	1.3						
Compensations			0.1	0.1	0.1	0.1						
Intermediate consumption			0.0	0.1	0.1	0.1						

** Expenditures from the Recovery and Resilience Plan of the SR will not be fully financed through general government, therefore, they will not be fully reflected in public expenditures.*

Source: MoF SR

Description of measures

In the current year, no revenue measures are taken. No significant measures were taken in the area of taxes and social contributions[38]. No measures in non-tax revenues were taken, either.

In the first year, expenditure development on the expenditure side of the budget is matched with the no-policy-change scenario, in the next two years, the volume of saving cumulatively increases. The growth of expenditures is attenuated in particular by freezing the size of the wage package paid from the state budget, or a slower growth of expenditures on compensations, intermediate consumption and investments for local governments and other general government entities, such as NDS, public universities, ŽSR or ŽSSK. Individual items do not include expenditures (and revenues) connected with the Recovery and Resilience Plan of the SR yet[39].

TABLE 11 – Expenditure measures included in the draft general government budget (ESA 2010, comparison to NPC)

	ESA2010	2022	2023	2024
Compensations, of which:	**D.1**	**0.25**	**0.40**	**0.58**
reserve to solve the impact of legislative changes		-0.02	-0.02	-0.02
freezing of the size of wage package paid from the SB		0.05	0.15	0.26
a lower growth of expenditures for municipalities and other entities (in particular state legal entities, public universities, ŽSR, NDS)		0.29	0.34	0.41
Intermediate consumption, of which:	**P.2**	**-0.44**	**-0.25**	**-0.27**
reserve for pandemic effects (finishing the refunding of expenditures from 2021)		-0.20		
reserve to address the impact of legislative changes		-0.13	-0.13	-0.09
reserve for EU resources and EU contributions		-0.10	-0.10	-0.09
reserve to implement court and execution decisions		-0.01	-0.01	-0.01
repairs and maintenance of first-class roads		-0.05	-0.05	-0.04
development for SB without reserves (in particular expenditures of MoD and MoI)		-0.03	-0.07	-0.17
a lower growth of expenditures on municipalities, self-governing regions and other GG entities without reserves (NDS, ŽSSK and RTVS)		0.07	0.10	0.12
Subsidies	**D.3P**	**-0.01**	**0.00**	**0.00**
Total social payments, of which:	**D.6P**	**-0.05**	**-0.05**	**-0.05**
Social transfers in kind	D.632	-0.05	-0.05	-0.05
Other current transfers, of which:	**D.7p**	**-0.02**	**0.00**	**-0.06**
reserve for crisis situations besides the time of war		-0.01	-0.01	-0.01
Capital expenditures, of which:	**P.5L**	**0.21**	**0.00**	**0.14**
Gross fixed capital formation, of which:	P.51g	0.20	0.00	0.12
investments from the SB		0.11	-0.28	-0.19

[38] The NPC scenario also includes the adoption of certain measures before the initial year, e.g. an increase in the rate of tax on cigarettes, which has a positive effect on the entire horizon with a gradual onset (see more in the table of discretionary revenue measures).
[39] However, the forecast of the Tax Revenue Forecasts Committee already includes the effect of the Recovery and Resilience Plan of the SR on a higher revenue from taxes and social contributions.

investments of municipalities, self-governing regions and other GG entities	0.09	0.27	0.31
Total expenditures	**-0.07**	**0.10**	**0.35**

Note: (+) increased revenue or decreased expenditures

The Government plans to attenuate the growth of compensations in particular by freezing the wage package in the state budget. The commitment to make wage expenditures more effective will be most clearly reflected in state budget expenditures and contributory organisations. It should be reached in particular by reducing the number of employees depending on the quantity of their tasks and responsibility. This should also be reflected in fairer wage remuneration of individual employees. Reduction of expenditures compared to an expected growth of wages in private sector is also expected for municipalities and ŽSR, from 2023 also for NDS and ŽSSK. Particular measures for the achievement of these objectives will be the subject of budgetary negotiations. The reserve to address the impact of legislative changes affects total expenditure reversely (draft act on judicial map, reform of judicial system and creation of the Supreme Administrative Court).

A faster growth of expenditures on intermediate consumption is slightly compensated by the planned saving on other general government entities. There are reserves in the intermediate consumption (to address the pandemic[40], to address the effects of legislative changes or for EU resources and EU contributions) due to which this item grows faster compared to the NPC scenario. The reserve for the coverage of new measures will be spent in particular on possible introduction of the judicial map and reform of the judicial system, on an amendment to the act on land consolidation, on the provision of free transport in municipal and suburb bus transportation, and on GG matters digitisation. The expenditures financed from state budget are also increased, a part will serve to cover the expenditures of the Ministry of Interior and Ministry of Defence. Repairs and maintenance of first-class roads will continue on the entire horizon. On the contrary, the attenuation of the growth of expenditures compared to the rate of inflation is expected for municipalities and NDS, from 2023 also for ŽSSK and RTVS.

On the entire horizon of the budget, healthcare expenditures are higher due to new legislation and fulfilment of measures from the healthcare spending review. The changes introduced for co-paid groups of medicines, changes of payments for stand-by service, measures supporting the change of mental health care system or expenditures on the transplantation programme will be reflected on the entire horizon. Measures to increase value for money identified in the previous spending review are also gradually implemented.

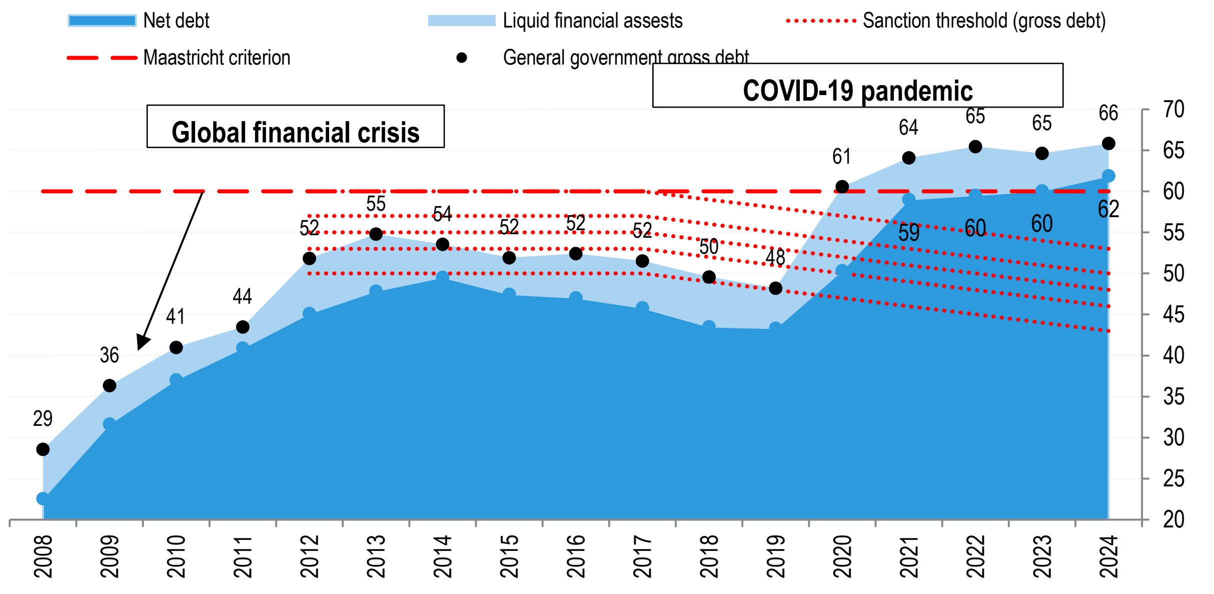
Capital expenditures growth will match the GDP growth, however, slightly above the level of the no-policy-change scenario. Investments financed from the state budget will increase due to defence expenditures; in 2023 and 2024 a significant part of ordered technology will be delivered. In particular local government expenditures contribute to slower growth of investments. For other general government entities, capital expenditures are lower compared to the no-policy-change scenario for NDS and ŽSR. Investments in healthcare facilities will, however, increase (in the amount of almost EUR 80 mil.). Between 2022 and 2024, in particular the National Institute of Childhood Diseases in Bratislava, Central Slovak Institute for Cardiovascular Diseases in Banská Bystrica, National Oncology Institute in Bratislava, University Hospital in Bratislava and University Hospital in Nitra will be supported.

2.6 General government debt

At the end of 2020, the gross debt achieved a value of 60.6 % of GDP, thus exceeding the Maastricht limit, as well as the highest debt brake band[41]. The debt increase over 60% of GDP, considerably above the maximum value achieved after the global financial crisis, confirmed that debt consolidation in the previous decade was not sufficient. From the culmination in 2013, the debt was reduced till 2019 only by about one quarter of the post-crisis increase. The main reason is that surplus was not achieved even with a solid economic growth. The corona crisis under way will also delay the achievement of a safe level of debt in the amount of 40 % of GDP, which is also expected by the constitutional Fiscal Responsibility Act.[42]

[40] In 2022, too, expenditures related to the pandemic are expected, in particular the handling of applications for 2021, which will be processed only in 2022.
[41] According to the current wording of the constitutional Fiscal Responsibility Act.
[42] The draft amendment to the constitutional Fiscal Responsibility Act expects a safe level of net debt of 35 % of GDP, which approximately respects a gross debt amounting to 40 % of GDP.

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



Source: MoF SR

The temporary factor of stocking up to cover the risks of a more negative course of pandemic is responsible for over one third of gross debt increase over 60 % of GDP in 2020. The year-on-year debt increase (FIGURE 20) was primarily caused by the economic crisis, i.e. in particular the fall of economy (denominator effect) and increase in deficit as a consequence of decreased revenues and anti-pandemic measures taken. However, the stocking up on liquid financial assets of the State also significantly contributed to the gross debt increase. With respect to a significantly lower resulting deficit,[43] the amount of resources obtained considerably exceeded the gross financing needs[44]. Therefore, the net debt for 2020 is lower than the gross debt by 10 p. p. of GDP. The net debt increase in 2020 was lower than the net debt increase in the crisis year 2009 (see more in BOX 5 on the comparison of the current pandemic crisis and the global financial crisis in 2008/2009).

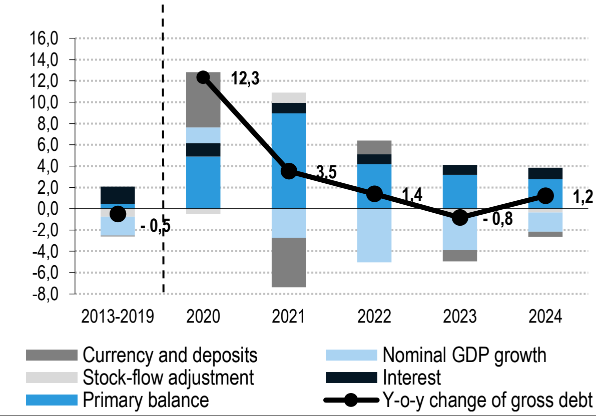
The gross debt will also increase in 2021 and if the created reserve is used, it will reach 64.1 % of GDP. The year-on-year increase reflects the assumption of high deficit, which is increased due to addition of the current costs of the anti-crisis package till the end of the year and additional reserve for further measures. Despite the mobility slow-down from the beginning of the year, the debt increase will be attenuated by economic growth recovery. The use of accumulated cash from 2020 will also be reflected in the attenuation of debt increase.

On the horizon of the budget, general government debt will be stabilised around 65 % of GDP. Economic recovery will markedly help stabilise the debt till 2022. At the end of the horizon, the economic growth will weaken, and to maintain a gross debt around 65 % of GDP, it will be necessary to observe the planned decrease in the structural deficit. With the reduction of risks, it will be possible to use the accumulated cash assets. At the end of the horizon, the net debt will exceed a limit of 60 % of GDP.

If no other measures were taken, gross debt would further increase. Without the structural consolidation in 2023-2024, gross debt would further increase to 67 % of GDP already in 2024. Without consolidation, the debt would exceed 70 % of GDP in 2024 in the risk scenario of worsened pandemic situation and re-tightening of restrictions in economy (see the risk scenario in Chapter 1).

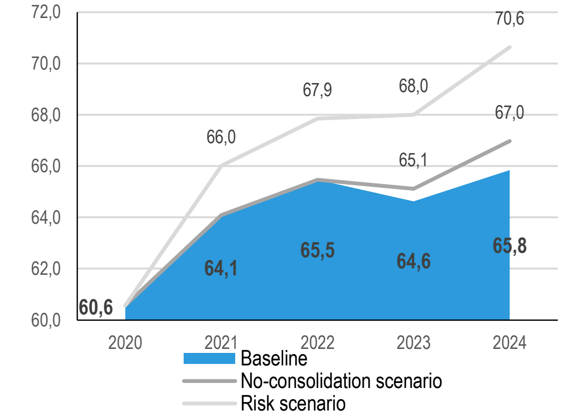
[43] The amendment to the budget from summer 2020 expected a deficit of 11.6 % of GDP, whereas the real result was lower by almost one half (6.2 % of GDP).
[44] Gross financing needs (GFN) express the volume of resources for primary deficit financing, costs of debt service and maturity of the existing debt.

FIGURE 20 – Contributions to YoY change in GG gross debt (p. p. of GDP)



Source: MoF SR

FIGURE 21 – Risk scenarios of GG gross debt (% of GDP)

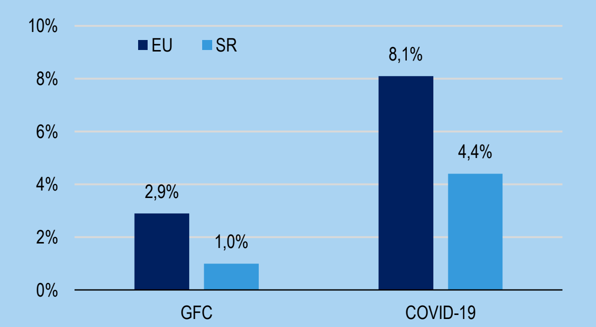


Source: MoF SR

BOX 5 – Corona crisis 2020/2021 in comparison with the global financial crisis 2008/2009

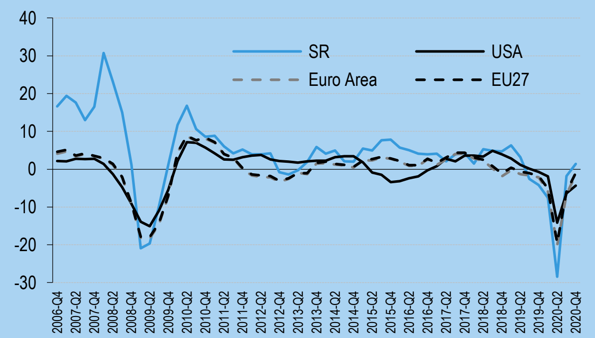
With its speed and intensity of initial fall of economic activity, the COVID-19 pandemic was stronger than the global financial crisis in 2008/09 (GFC) and governments responded by a considerably higher volume of fiscal stimuli. As regards its character, the GFC was a systemic crisis caused by an endogenous (internal) shock which was globally asymmetric. Moreover, the crisis was accompanied by a moral hazard within the failing financial sector. On the contrary, the current corona crisis was caused by an exogenous (external) shock in real economy similar to a natural disaster, which operated more symmetrically in the world, without a moral hazard, and required a considerably higher volume of anti-crisis measures both at European and national levels (FIGURE 22). The fast and as regards its scope, unprecedented assistance after the first wave of the pandemic restored economic activity more quickly than during the GFC (V-curve), also as a consequence of lessons learnt from previous crises (FIGURE 23). According to the International Monetary Fund (IMF), since 2020, fiscal measures in the form of direct support in the world have necessitated cumulatively almost USD 10 trillion (9.2 % of global GDP).

FIGURE 22 – Volume of direct fiscal stimuli during the global financial crisis and COVID-19 pandemic (% of GDP)



Source: IMF, EC

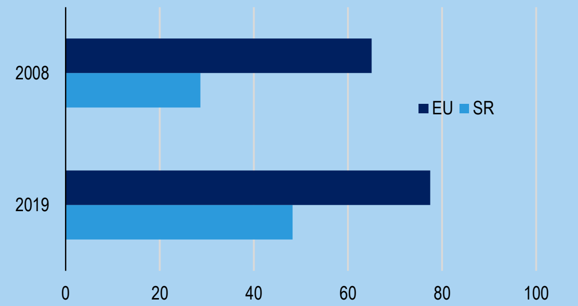
FIGURE 23 – Year-on-year change of industrial production (average 2015 = 100)



Source: OECD

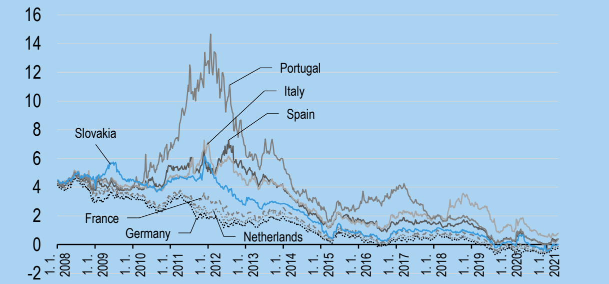
In 2020, more favourable conditions on financial markets allowed executing unprecedented stimuli despite the fact that the fiscal space was strongly limited compared to the GFC period. Smaller-scope fiscal stimuli during the GFC were implemented from a markedly different initial position – Slovakia and the EU as a whole entered the COVID-19 pandemic with a considerably higher debt than in 2008 (FIGURE 24). However, the current situation of robust fiscal stimuli and growing debt is perceived on financial markets in other way than in 2009 – lower market interest rates compared to 2008/09, monetary policy and absenting moral hazard do not push on the rise of risk premiums (FIGURE 25) despite the historically highest levels of general government debt.

FIGURE 24 – General government debt in the pre-crisis period (% of GDP)



Source EC

FIGURE 25 – Yield of 10-year government bonds of selected EU27 countries and the SR (%)

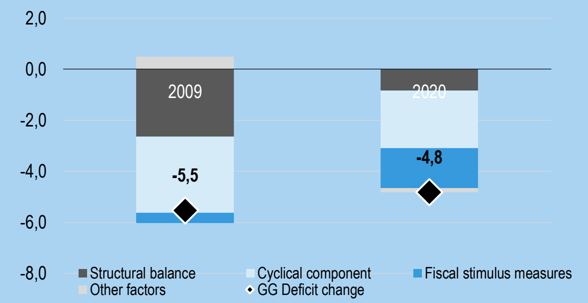


Source: ECB

Impact on public finance of the SR

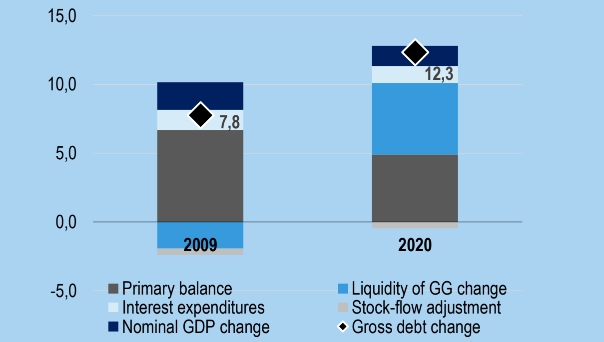
Both crises were reflected in the public finance of Slovakia by an increase in deficit and general government debt; however, the structure of growth was different. During the pandemic in 2020, the total increase in deficit was lower than during the GFC by 0.7 p.p. of GDP. Stimuli are larger and also more specific in the corona crisis, and they were taken as one-off anti-crisis measures. On the contrary, during the financial crisis, measures in Slovakia had a more permanent character, which could also be seen on a higher year-on-year growth of structural deficit. Its increase during the GFC was also supported by worsened efficiency of tax collection (VAT), which was not present during the pandemic in 2020[45]. The stronger year-on-year debt increase during the corona crisis (by 4.5 p.p. of GDP) is caused in particular by a significant increase in the cash reserve of the Debt and Liquidity Management Agency. It was created as a consequence of a high level of uncertainty during the COVID-19 pandemic but it was not fully used (FIGURE 27).

FIGURE 26 – Contributions to the year-on-year GG deficit change in 2009 and 2020 (% of GDP)



Source: MoF SR

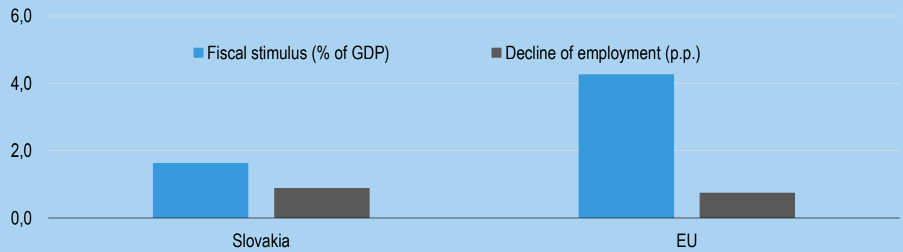
FIGURE 27 – Contributions to change in general government gross debt (% of GDP)



Source: MoF SR

If employment development and GDP are compared , in 2020, Slovakia reached a level comparable with the EU average with about one third of pandemic support. The volume of fiscal stimulus in the fight against pandemic was in Slovakia in 2020 lower than the average of the EU. The primary objective of the measures was to stabilise economy and maintain employment. Employment in Slovakia decreased comparably with the average in the observed countries of the EU. In like manner, the decrease in real GDP in Slovakia reached 4.8% in 2020, the GDP decrease in the observed EU countries reached 5.9 %. Taking into account the size of fiscal stimulus implemented in the SR in 2020, the support od Slovakia seems preliminarily to be more efficient than the average in the EU (FIGURE 28).

FIGURE 28 – Assistance volume versus employment decrease (% of GDP, p. p.)



Source: Eurostat, EUIFIs

Note: The EU represents an average of 22 EU27 countries whose data on the volume of assistance were available as at 1 February 2021.

[45] The year-on-year increase in VAT gap in 2009 was 3.2 p.p. to 28.7 % of potential revenue, whereas in 2020, there was a year-on-year decrease by 0.3 p.p. to 16.6 %.

2.7 Comparison with the previous update

The update of the Stability Programme compared to the last year's version reflects the continuing uncertainty in the healthcare and economic situation in 2021. The last year's Stability Programme expected the end of the pandemic in 2020 and a strong economic recovery in 2021. However, the unexpected second wave of the pandemic shifts the assumption of economy recovery to 2022. The budgetary situation also reacts to the worsened forecast of medium-term development. In 2021, a much higher deficit is expected which reflects the continuing uncertainty and increased support to economy. A gradual decrease in the higher initial deficit will be reflected in debt stabilisation at a higher level compared to the last year's assumptions.

TABLE 12 – Comparison of the previous and updated forecasts

	ESA code	2020	2021	2022	2023	2024
Real GDP growth (%)						
Previous update*		-7.2	6.8	4.1	3.2	-
Outcome and current update		-5.2	3.3	6.3	2.8	0.3
Difference		2.0	-3.5	2.2	-0.4	-
General government balance (% of GDP)	EDP B.9					
Previous update*		-8.4	-4.9	-3.7	-2.9	-
Outcome and current update		-6.2	-9.9	-5.1	-4.1	-3.8
Difference		2.2	-5.1	-1.4	-1.2	-
Gross general government debt (% of GDP)						
Previous update*		61.2	61.9	61.4	60.1	-
Outcome and current update		60.6	64.1	65.5	64.6	65.8
Difference		-0.7	2.2	4.0	4.5	-

*Note: * Stability Programme of the SR for 2020–2023* *Source: MoF SR*

3 SUSTAINABILITY OF PUBLIC FINANCE

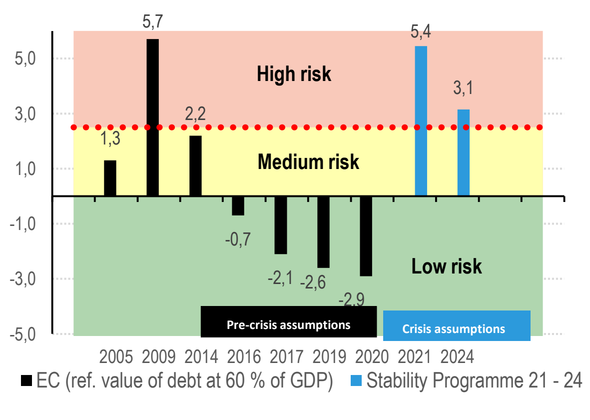
In 2020, an unprecedented deterioration of public finance sustainability occurred, in particular as a consequence of the pandemic outbreak. However, the sustainability would worsen even without an effect of the corona crisis, as a consequence of legislative measures taken in the previous years with a long-term negative impact, in particular the introduction of a retirement age cap and materialisation of several budgetary risks. Poor demographic prospects of Slovakia along with the current status of pension legislation lead to an increase in ageing expenditures till 2070 by about 9 % of GDP compared to the current level. The long-term sustainability can be improved by pension scheme reforms from the Government Manifesto, in particular re-establishing a link between the retirement age and life expectancy. In the Recovery and Resilience Plan of the SR, the Government committed to apply reforms to the first pillar thus improving the S2 indicator by almost 2 p. p. of GDP. However, for a stronger improvement of sustainability to the medium-risk band, it will be necessary to continue in consolidation even after the horizon of the Stability Programme. The medium risk of long-term sustainability could be reached in 2026.

3.1 Evaluation of public finance sustainability

Public finance sustainability expresses the risks resulting from the current budgetary position in the context of ageing effects. It is assessed whether the general government debt will be under control on a longer horizon with the current amount of debt and balance of the general government and with the current adjustment ageing policies[46]. To assess the long-term sustainability, like the EU, the MoF SR uses sustainability indicators - S1 (medium-term horizon) and S2 (long-term horizon)[47].

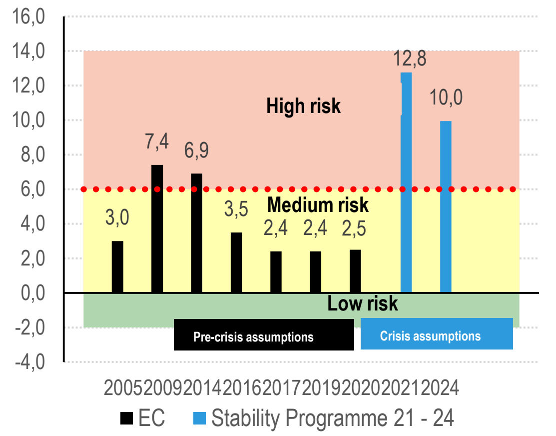
In 2020, an unprecedented deterioration of public finance sustainability occurred. The S1 and S2 indicators exceeded the high-risk limit and for S2, also the status during the global financial crisis in 2008 (FIGURES 29 and 30). In particular an increase in the primary structural deficit[48] and for S1, debt increase over 60 % of GDP as a consequence of corona crisis outbreak had negative impacts on sustainability. External negative factors also include the update of projections of ageing expenditures in terms of expected demography and macroeconomic development (see more in the part of update of long-term forecast of costs of ageing)[49]. Based on the latests forecast, if policies are not changed, expenditures on pensions, health and long-term care connected with ageing and education will increase from 2021 to 2070 by 9.1 p. p. of GDP.

FIGURE 29 – Sustainability S1 (EC, MoF SR % of GDP)



Source: EC, MoF SR

FIGURE 30 – Sustainability S2 (EC, MoF SR % of GDP)



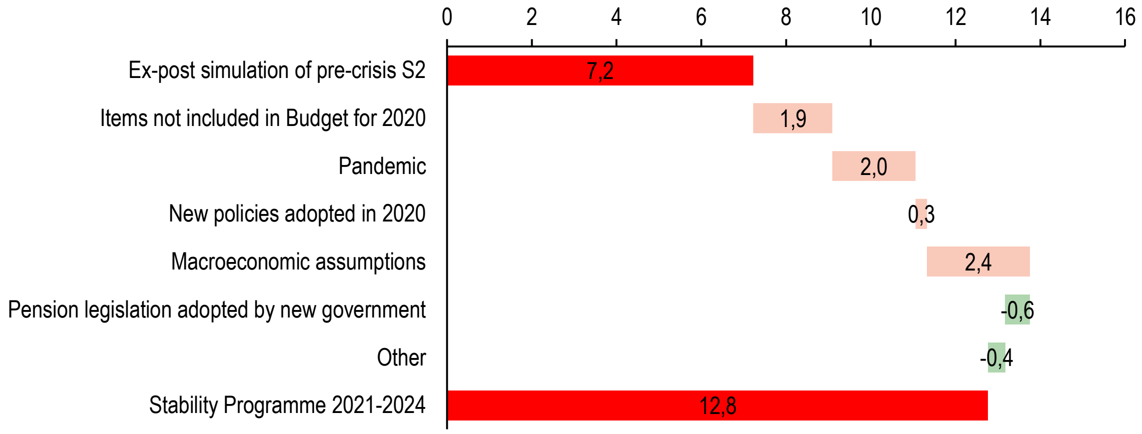
Source: EC, MoF SR

[46] It means the current budgetary position or its short-term objective, and long-term forecasts of pension scheme, healthcare and long-term care, and education system.
[47] S1 (medium-term horizon) - presents a value, by which the current primary structural balance must be permanently changed so that the general government gross debt does not exceed a level of 60 % of GDP till 2034 (t0+15) (after taking into account the expected future ageing expenditures). The MoF SR also takes into account the revenue and expenditure effects of the second pillar.
S2 (long-term horizon) – the value presents how much primary structural balance must permanently change for the current value of future primary balances to equal the current level of gross debt (after taking into account the expected future ageing expenditures). Unlike S1, the S2 indicator takes into account projections related to ageing in an infinite horizon, while the required change in the balance should ensure a stabilisation of the current level of debt. In its quantifications, the MoF SR also for this indicator takes into account the revenue and expenditure effects of the second pillar.
[48] The balance adjusted for the influence of economic cycle, one-off effects and debt service costs.
[49] Ageing Report for 2021.

Note: 1 - The years provided in FIGUREs present the initial year for sustainability assessment in individual EC reports on sustainability or in the calculation of the MoF SR. The EC's assessments are based on the autumn forecast published in the year preceding the initial year by two years, for which the sustainability is assessed. E.g. the Sustainability Report published in January 2020 evaluates sustainability for 2021 on the basis of the autumn forecast of the EC from 2019.

However, even without the outbreak of the pandemic, sustainability would have worsened. The ex post estimate of the S2 long-term indicator indicates high sustainability risks (FIGURE 31) on the basis of the pre-crisis estimate of debt and structural balance (adjusted for selected effects) and previous ageing expenditure projections.[50] Thus, the additional negative effect of corona crisis and the update of demographic and macroeconomic assumptions only highlighted the existing high risks. After the elections in 2020, the Government also adopted changes concerning the freezing of minimum pensions and retirement age for mothers with a general positive effect on long-term sustainability.

FIGURE 31 – Factors leading to S2 indicator deterioration after the corona crisis (% of GDP)



Source: MoF SR

Note 1: FIGURE 31 – the estimate of pre-crisis values of indicators reflects the ex post simulation of structural balance and gross debt adjusted for effects of selected items (effect of corona crisis, materialisation of risks and new policies with a budgetary effect for 2020) with the assumption of long-term projections from the Stability Programme for 2020 – 2023. The effect of updated projections from 2021 is divided into macroeconomic assumptions, where a change in demography is taken into account, interest rates and methodological modifications, and into pension measures adopted in 2020 (freezing of minimum pensions and modification of retirement age for mothers).

For a stronger reduction in sustainability risks, it is necessary to continue in consolidation as well as reforms beyond the horizon of the Stability Programme. Thanks to the planned consolidation, till 2024 the sustainability risks will decrease, however, in particular for S2, they will remain above the limit of medium risks because of the still high structural deficit and debt (TABLE 13). To reduce the risks below the level of high risk, it will be necessary to continue in consolidation by 1 p. p. even after the year 2024 (FIGURE 32). Consolidation will also be anchored by the approval of an amendment to the Fiscal Responsibility Act which also expects the introduction of expenditure limits. In the event of a more favourable post-crisis development, the observance of expenditure limits would lead to a faster decrease in deficit, thus to a more significant improvement of sustainability[51].

TABLE 13 – S2 indicator breakdown in 2021 and 2024 (% of GDP)

	S2 Indicator – ex post estimate (pre-crisis value)	**S2 Indicator** (2021)	**S2 Indicator** (2024, after the planned consolidation)	**S2 Indicator** (2024, also after the pension reform in RRP)[52]
Total value of S2	**7.2**	**12.8**	**10.0**	**8.0**
of which:				
Initial budgetary position of the structural balance and debt	1.6	4.7	2.6	2.5

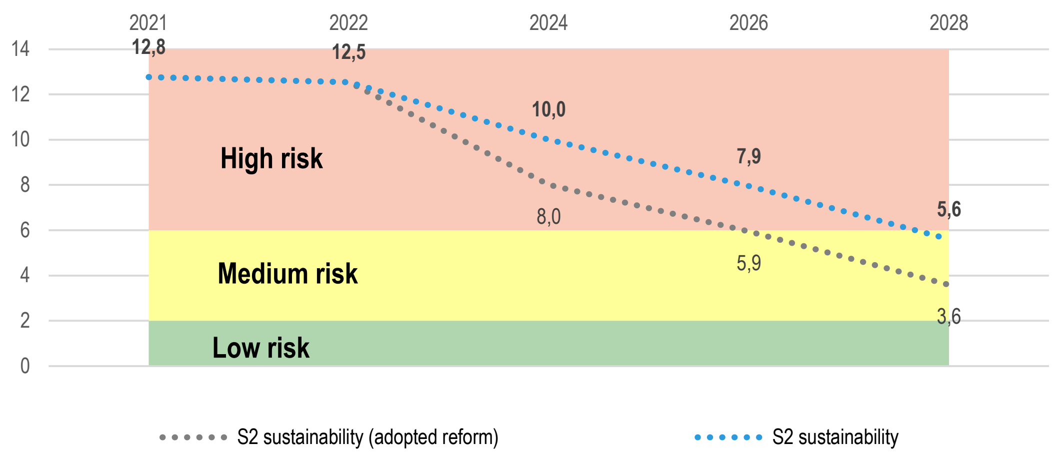
[50] In compliance with the Ageing Report for 2018 and legislative changes till 2019 approved by the AWG group.
[51] The adjustment of expenditure limits leads to saving of positive budgetary effects, such as higher tax revenues and social contributions or lower interest expenditures in the event of a more favourable economic development than expected in determining the expenditure limits. The projection of savings leads to a faster decrease in deficit
[52] In addition to a direct reduction in pension expenditures, the pension reform will also affect further expenditure items in the future. The expected increase in GDP thanks to the adoption of the reform and denominator effect will reduce the value of all expenditures in proportion to GDP. E.g., for education expenditures, the biggest share is represented by employee wages; their increase is primarily based on the growth of work productivity, which will not be significantly affected by the consequences of the pension reform.

Pension expenditures	3.5	4.3	4.1	2.9
Healthcare	1.1	1.8	1.6	1.4
Long-term care	0.5	1.7	1.6	1.6
Education expenditure	0.4	0.4	0.4	0.1
Other	0.0	-0.2	-0.2	-0.3

Source: MoF SR

A pension scheme reform, which has not been approved yet, will also help achieve a stronger improvement of sustainability. In its Manifesto, the Government committed to prepare a pension scheme reform, which will improve the financial sustainability of the pension scheme, improve the efficiency of the fully funded pillar and ensure a better transparency of the whole system (see more in BOX 6, which presents effects of the proposals under discussion). At the same time, with the objective to stabilise the pension scheme, it also committed to adopt a constitutional act defining basic parameters of the first and the second pillars. The first step to improvement of long-term financial sustainability of the pay-as-you-go first pillar was the cancellation of the constitutional guarantee of retirement age in December 2020[53]. The change of the Constitution does not mean the automatic cancellation of the retirement age cap and restoration of its increasing depending on the growth of life expectancy – however, room was created to adopt such legislative regulation in implementing regulations. The long-term sustainability measured by the S2 indicator could be improved after the reform has been adopted by almost 2 p. p. of GDP (FIGURE 32). The fulfilment of planned consolidation by 1 p. p. of GDP annually even after the horizon of the Stability Programme and adoption of the pension reform will allow achieving medium risks in 2026. Compared to the past, the main challenge for low risk achievement will remain the costs of healthcare, including long-term care expenditures.

FIGURE 32 – Development of S2 till 2028 (% of GDP)



Source: MoF SR

Update on the long-term forecast of age-related expenditure

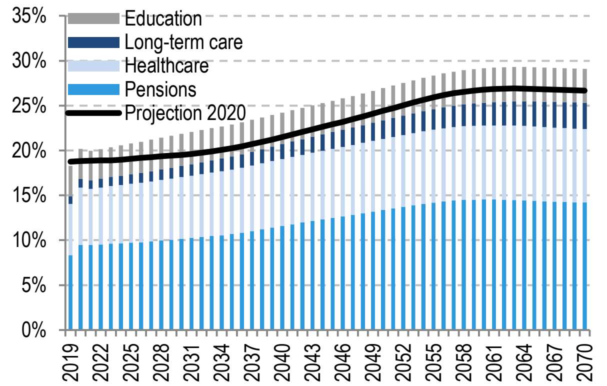
According to the latest projection, the age-related expenditure will increase from 18.3 % of GDP in 2019 to 29.1 % of GDP in 2070[54]. The most significant increase will be seen in pension expenditures (5.9 p. p.), in healthcare (2.5 p. p.) and long-term care (2.1 p. p.). Expenditures on education will increase by 0.4 p. p. A large increase of total expenditures was already seen between 2019 and 2020 in particular due to a drop in GDP[55]. In the following period, a continuous increase until 2060 is expected, when expenditures stabilize at a level of 29 %

[53] The change of the Constitution was approved with effect from 1 January 2023.
[54] Ageing Report of the European Commission published every three years. The report for 2021 has not been officially published yet, however, the provided data is based on the officially approved projection.
[55] A large increase in expenditures between 2019 and 2020 was also caused by legislative changes in pension scheme, healthcare and in the system of long-term care. In 2021, expenditures will not return to the original level despite a significant expected growth of GDP, for the reason of additional measures in the pension scheme (reduced retirement age for mothers) or in healthcare and long-term sustainability (e.g. an increase in wages and benefits).

of GDP. Compared to the last projection of expenditures from 2020[56], expenditures in 2070 are expected to be higher by 2.4 p. p.[57].

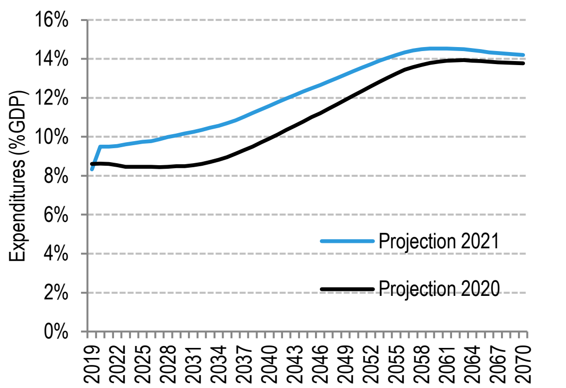
Compared to the previous projection, expenditures increased in particular as a consequence of an update of demographic and macroeconomic assumptions. Within the new projection, the assumption of fertility rate decreased which will be reflected in a lower number of workers. In comparison with the previous assumptions, the age structure of the population will remain almost unchanged[58]. Between the projections, the assumption of growth of total factor productivity decreased which was reflected in a lower expected growth of GDP until 2040. Thus, until 2040, the level of expenditures reported against the GDP will grow faster than for the last projection. To a smaller extent, the level of age-related expenditure are also affected by legislative and methodological changes in pensions and long-term care described below.

FIGURE 33 – Development of age-related expenditure (in % of GDP)



Source: AWG

FIGURE 34 – Comparison of pensions expenditures between the projections of 2020 and 2021 (in % of GDP)



Source: MoF SR

The projection of pension expenditures in 2070 increased compared to the last projection from 13.8 % of GDP to 14.2 %[59]. Like total age-related expenditure, the pension expenditures recorded a step increase between 2019 and 2020 as a consequence of GDP decrease and increase in the Christmas benefit by changing it to the 13th pension. Subsequently, expenditures will gradually grow until 2035, when the growth will speed up due to retirement of strong cohorts. The level of expenditures will be stabilised after 2060. Compared to the previous projection, they will increase at the projection horizon by 0.4 p.p. of GDP, however, the new projection is in 2033 higher by 1.8 p. p. of GDP. New macroeconomic assumptions are the main factor of the increase in the projection. The level of projection was also affected by a set of methodological changes[60], which increase the level of expenditures till 2055 but then, they decrease it.

The long-term projection of pension expenditures was also affected by legislative changes adopted in 2020. From 2021, the level of minimum pensions will remained frozen at the level from 2020. For the inclusion of a worked year in the calculation of a minimum pension, the condition of achieving a minimum amount of income in that year was re-introduced. In 2020, the retirement age for mothers was additionally reduced so that it is lower by 6 months for each child, however, by a maximum of 18 months. This principle was originally applied only after reaching the cap of retirement age (in 2030). Newly, the retirement age for mothers is already reduced and applies also

[56] The updated projection of age-related expenditure from 2020 (projection 2020) was executed as a consequence of introduction of measures with a significant impact on the pension scheme. This included in particular the introduction of a retirement age ceiling, increase and change of minimum pensions indexation, change of reduction of pensions from the first pillar for the participants in the 2nd pillar and doubling of the Christmas benefit. This projection was part of the Stability Programme of the Slovak Republic for 2020 - 2023. The introduction of a retirement age ceiling in 2019 affected the forecast GDP which decreased as a consequence of a decrease in the number of workers. This also affected the projection of other age-related expenditure (healthcare, long-term care, and education).

[57] Moreover, unlike in the last projection, the expenditures on unemployment benefit are not part of the long-term projection of costs of ageing anymore. In the last projection, the effect of this item on total expenditures amounted to 0.2 % of GDP on the entire horizon. Within the modification of the methodology for a new round of projection, the working group AWG adopted a decision that the expenditures on unemployment benefit are not sensitive to ageing, therefore, they should not be included in the projection.

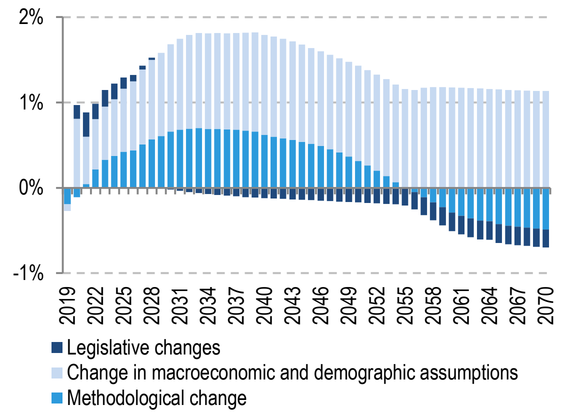
[58] The share of inhabitants older than 64 years in the population at 20-64 years of age will increase in 2070 from 62.5 % to 63.1 %.

[59] The AWG methodology is used for quantification. This methodology takes into account the growth of indexation of minimum pensions and Christmas benefit using the average wage regardless of legislation. Projections were approved by AWG and subsequently also by the Economic Policy Committee (EPC) in February 2020 for the projection for 2020 and in January 2021 for the projection for 2021.

[60] A set of methodological changes concerning in particular the improvement of the original calculation of minimum, disability and survivor pensions.

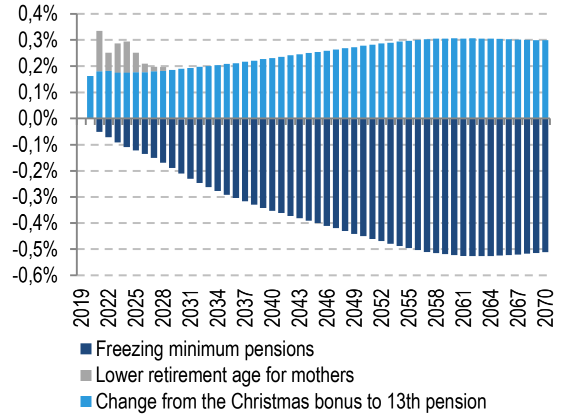
retroactively to mothers who retired in the last two years. At the same time, in 2020, the Christmas benefit was transformed into the so-called 13th pension. Originally, the 13th pension amounting to an average pension should have been paid to every pensioner. Then, the benefit was revised with the objective of public finance consolidation. Thus, a maximum 13th pension amounts to EUR 300 and decreases with the amount of pension. In 2020, the reduction of minimum pension was also cancelled due to participation in old-age pension saving, the effect of which was not included in the forecast. However, its effect on long-term sustainability is low.

FIGURE 35 – Decomposition of pension expenditure difference between individual projections (in % of GDP)



Source: MoF SR

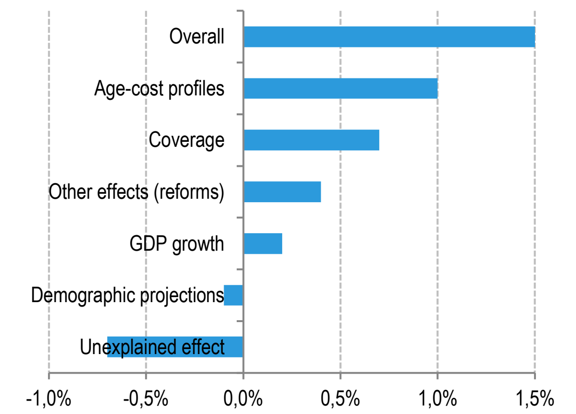
FIGURE 36 – Impacts of pension measures from 2020 on pension scheme expenditures (in % of GDP)



Source: MoF SR

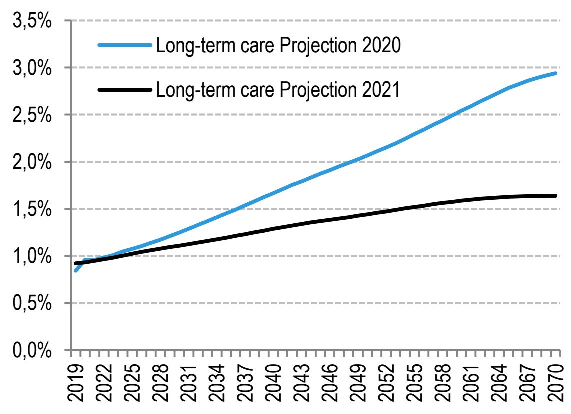
Until 2028, legislative changes adopted in 2020 will have a negative effect on pension expenditures, subsequently, they will reduce them. The freezing of minimum pensions will reduce pension expenditures in 2070 by 0.5 p. p. of GDP. The effect of the measure will grow over time, along with an increase in expenditures on minimum pensions. The additional reduction of retirement age for mother will increase pension expenditures. The measure will have an effect only till 2028, and its effect will be up to 0.2 % of GDP. The conversion of the Christmas benefit into the 13th pension will cause an increase in expenditures on the horizon of the entire projection, consequently, in 2070, pension expenditures will be higher by 0.3 % of GDP.

FIGURE 37 – Decomposition of main components increasing long-term expenditures between two projection rounds* (in % of GDP)



**The FIGURE compares the results of Projection 2021 with Projection 2018, where the difference between expenditures in 2070 was at a level of 1.5 % of GDP[61]. Source: AWG*

FIGURE 38 – Comparison of growth of long-term care expenditures between 2019 – 2070 (in % of GDP)



Source: AWG

[61] The decomposition of components is based on the supporting documents for the Ageing Report 2021, where the European Commission compares difference between Projection 2021 and Projection 2018. Due to data unavailability, it is not possible to compare the results of Projection 2021 and Projection 2020 for the purposes of Stability Programme. However, the effect of individual components would remain approximately identical, probably with a slight reduction of GDP growth effect (due to new macroeconomic assumptions in Projection 2020). The total effect of components would be 1.3 % of GDP in 2070.

The projection of long-term care expenditures increased compared to the last projection from 1.6 % of GDP to 2.9 % of GDP in 2070 due to improved expenditure reporting. Within the new projection, reporting of expenditures was improved in compliance with the methodology of the European Commission. Thanks to more accurate classification of individual items and services, expenditures in the basic year decreased. On the other hand, the coverage of older cohorts by long-term care services increased, mostly by the institutional care which is more expensive. The growth of expenditures will also be caused by more accurate reporting of age-expenditure profiles. Expenditures will also be affected by the reforms adopted in 2019 and 2020[62], which additionally increase the age-expenditure profiles immediately at the beginning of the projection years.

BOX 6 – Planned and currently discussed measures in the pension system

The following box presents the quantification of impacts of individual discussed measures. It is not to indicate which measures will be adopted.

In its Manifesto for 2020-2024, the Government undertook to adopt a comprehensive reform of all pension scheme pillars. The most important elements of the pension reform include the improvement of financial sustainability of the 1st pillar and increase in the profitability of the 2nd pillar for a common saver. The amendment to the Constitution of the SR adopted in December 2020[63] was the first step for the fulfilment of the Government Manifesto; with effect from 1 January 2023, it cancelled the retirement age cap. At the same time, a draft constitutional act on pension scheme was submitted to the legislative process[64], which defines the basic parameters of the first and second pillars. Its objective is to improve the sustainability of the first pay-as-you-go pension pillar, effectiveness of the 2nd fully funded pillar, as well as the overall transparency and stability of the pension scheme.

Re-establishing a link between the retirement age growth and life expectancy growth is a key measure for improving the long-term sustainability of the pension scheme. According to the act on social insurance currently in force, the growth of retirement age will stop in 2030 at a level of 64 years.[65] The erasure of the retirement age cap from the Constitution created room for re-inclusion of this mechanism of retirement age determination and life expectancy growth, however, without a change in the act, the status quo in practice will not change. The change of retirement age determination is part of the draft constitutional Pension Scheme Act, as well as one of the measures of the Recovery and Resilience Plan of the SR (hereinafter the "Recovery Plan"). The final version as well as the form (constitutional/common act) of this measure are still under discussion. The implementation of this measure would help reduce pension expenditures in 2070 by 2.3 p. p of GDP and significantly contribute to the improvement of pension scheme sustainability. However, the positive effect on expenditures would be seen only after 2030, i.e. when according to the current regulation, the retirement age cap would come into force. Additional measures need to be taken to immediately reduce the pension scheme balance and general government deficit.

Other discussed measures in the first pillar: 1) A person may retire not only after they have reached the retirement age but also earlier, after they have worked a set number of years. If an earlier retirement is permitted after a person has worked a set number of years, a time delay of expenditures incurred may be assumed. However, thanks to the principle of actuarial neutrality, this change should not considerably affect the total volume of pension expenditures. However, a slight decrease in labour force and subsequently, a slight decrease in GDP can be expected as a consequence of the measure. Due to this change of GDP, there will be an increase in the age-related expenditure relatively to GDP by about 0.3 p. p. of GDP. 2) Taking care of a child without a negative impact on the amount of pension with an estimated influence on pension expenditures of a maximum in the amount of 0.3 p. p. of GDP in 2070. 3) Working children can assign a part of their taxes or contributions to their parents (a so-called parental credit). Depending on a more detailed specification of the measure[66], if this measure is implemented, expenditures could increase from 0.7 to 1 p. p. of GDP during the entire projection. In contrast to the link between the retirement age and life expectancy growth, whose positive effect on the pension scheme balance will be seen only after a decade, with the parental credit there will be a significant increase in expenditures right from the first day of effect of the measure.

In the second pillar, the priority is to increase its efficiency, in particular by increasing the profitability of the investment strategy for a common saver. To achieve this objective, it will be necessary to introduce a default

[62] An increase in the benefit for social service facilities and increase in the benefits for care and personal assistance according to the growth of minimum wage. The effect of incorporation of reforms in the projection will be reflected in the amount of 0.4 % of GDP in 2070.

[63] Act No. 422/2020 Coll. available at https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2020/422/20250101.html.

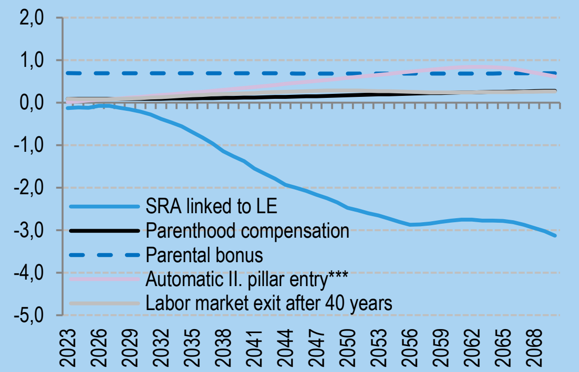
[64] https://www.slov-lex.sk/legislativne-procesy/SK/LP/2020/549.

[65] For women-mothers at an age of 62.5-63.5 years – depending on the number of children raised.

[66] According to the version of the constitutional Pension Scheme Act submitted to the public interdepartmental procedure for the provision of comments, a parent could be entitled to a surcharge to old-age pension in the amount of the child's contribution to a reserve fund of solidarity (4.75 % of gross wage). The proposal does not specify whether in case of two parents receiving old-age pensions, the contribution will be divided to two halves or it will be provided to both of them at the same amount.

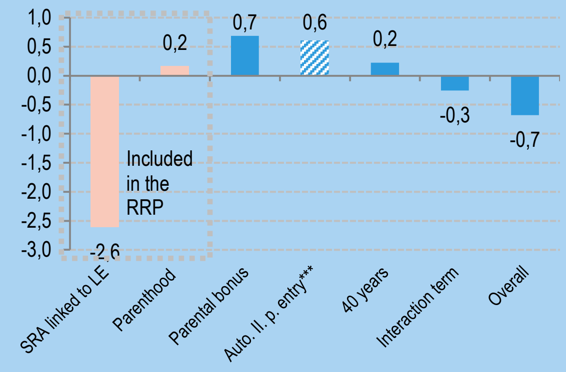
recommended investment strategy on a life-cycle basis[67], connected with investment in passively administrated global funds meeting the requirement for diversification of the macroeconomic risk. It will also be necessary to ensure automatic harmonisation of the investment strategy with the recommended strategy for the current savers, with a possibility to actively refuse the recommended strategy. The reform should also concern the pay-out phase of saving in the 2nd pillar, where the possibility of one-off withdrawal of savings should be restricted and long-term receiving of pension from the second pillar should be supported. Important changes being proposed also include the introduction of an automatic entry into the 2nd pillar for the insured up to an age of 35 years[68], or a modification of the fee policy.[69] The automatic entry into the 2nd pillar diversifies the source of income of retired individuals and decomposes the increase in the age-related expenditure. In the long term, the implementation of automatic entry into the 2nd pillar has a neutral effect on the sustainability of public finance[70]. However, positive effects will be seen only after 2070, i.e. beyond the horizon taken into account in calculating the S2 indicator. With respect to this methodological characteristic, the effect of introduction of automatic entry into the 2nd pillar has a negative effect on the S2 indicator.[71]

FIGURE 39 – The effect of measures on the age-related expenditure, comparison with the current setting (% of GDP)**



Source: IFP

FIGURE 40 – Change of S2 upon the implementation of individual measures (in p. p. of GDP)



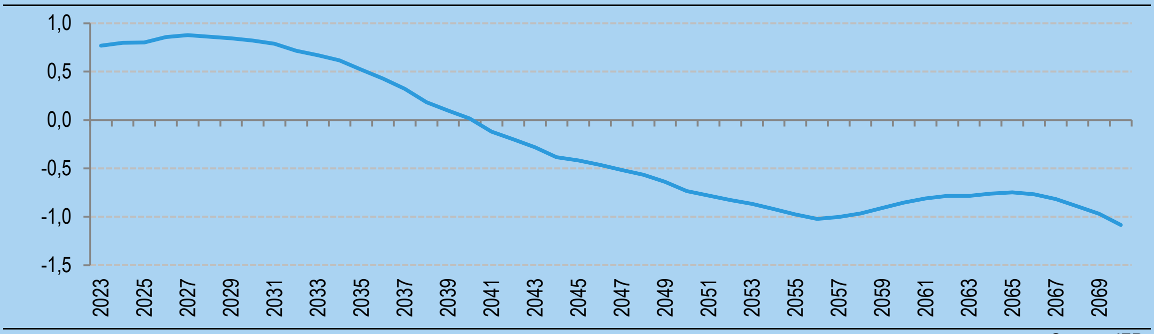
Source: IFP

** The deterioration of long-term sustainability for the reason of automatic entry into the 2nd pillar will occur only due to a short horizon of the projection. However, positive effects of this measure will be seen only after 2070, i.e. beyond the horizon taken into account in calculating the S2 indicator. In the long term, the implementation of automatic entry into the 2nd pillar has a neutral effect on the sustainability of public finance.*
*** All measures are calculated as an effect compared to the current setting, except for the effect of an earlier departure from the labour market after 40 years. It is taken as an additional effect to the restoration of retirement age growth with life expectancy. With the current setting of the retirement age, this effect would be only minimal.*
****The reduction in pension scheme revenues due to the implementation of automatic entry into the 2nd pillar is presented in the FIGURE as an increase in expenditures because the reduction in revenues is in this case equivalent with an increase in expenditures and this measure affects both revenues and expenditures.*

In the Recovery Plan, the Government undertook to adopt such measures in the 1st pay-as-you-go pension pillar which will lead to an improvement of the S2 indicator of long-term financial sustainability in total at a level of at least 1.8 p. p. of GDP. The effects of individual measures are calculated with the assumptions adopted in Annex 6. Re-establishing a link between the retirement age and life expectancy has the highest positive effect on S2. The other measures worsen S2 (FIGURE 40). If all the measures were adopted at the same time, in the next two decades, it would lead to a significant increase in expenditures (in particular the influence of assignation) and the reduction in expenditures would take place only after 2040. The Government undertook to adopt two of five calculated measures in the Recovery Plan: re-establishing a link between the retirement age and life expectancy growth, and to permit retirement after an individual has worked 40 years with actuarial neutrality principle. These two measures summarily improve S2 by 2.4 p. p.

[67] Analysis of IFP (2019): Default strategy in pension saving: The case of Slovakia.
[68] Automatic entry with the possibility to refuse participation in the 2nd pillar is considered.
[69] The fee policy should differ between the passive and active way of investment of pension resources.
[70] With the concurrent improvement of the profitability of the 2nd pillar, the risks of long-term sustainability of public finance would decrease upon the introduction of the compulsory entry into the 2nd pillar.
[71] With the current setting, only about 30 % of workers enter the 2nd pillar. After the experience from the past, the restoration of the automatic entry into the 2nd pillar should increase the participation of new cohorts of workers to as many as about 90 %. A massive increase in savers will be reflected in the decrease in revenues of the 1st pillar, where the full effect of lower expenditures from the 1st pillar due to savers' participation in the 2nd pillar (pensions from the 1st pillar are reduced for a period of participation in the 2nd pillar) will be seen only after 2070.

FIGURE 41 – Cumulative effect of implementation of all measures under discussion* on the age-related expenditure (in % of GDP)



Source: IFP

** The calculation includes five measures: establishing a link between the retirement age and life expectancy growth, parenthood compensation, parental credit (assignation), a possibility of earlier retirement after 40 years worked, and automatic entry into the 2nd pillar.*

Note: The reduction in pension scheme revenues due to the implementation of automatic entry into the 2nd pillar is presented in the FIGURE as an increase in expenditures because the reduction in revenues is in this case equivalent with an increase in expenditures and this measure affects both revenues and expenditures.

Improvement of provision of information on future pension entitlements to the insured is considered within the reform. Thus, people in the economically productive period should obtain comprehensive information on the expected amount of pension from all three pillars through an information letter sent in electronic form on a regular basis according to the model of an "orange envelope". They should also get advice on how they can increase their pension. Savers in the 2nd and 3rd pillars already receive such information on an annual basis. Based on the Strategic Intentions of the Activity of the Social Insurance Agency for 2021 – 2026 approved by the Government,[72] such information should also be provided for the 1st pillar.[73] The document approved by the Government also assumes that measures implemented by the Social Insurance Agency will be prepared so that after the adoption of a necessary legislative framework, the so-called orange envelope can be implemented.

[72] https://rokovania.gov.sk/RVL/Material/25807/1.

[73] Transformation of the individual account of the insured should be executed by the end of 2022. Within this period, the necessary data preparation should also be carried out. No later than in 2023, the website of the Social Insurance Agency (SIA) should be modified.

4 PUBLIC FINANCE QUALITY

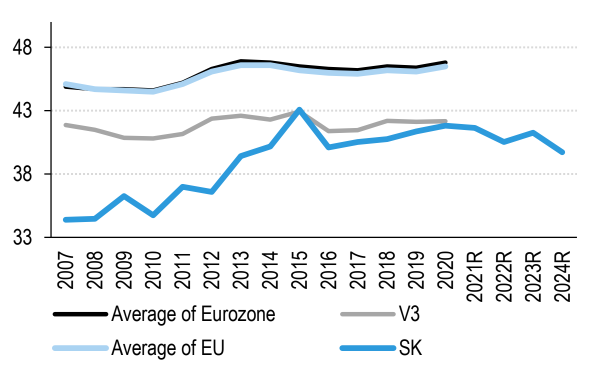
Reduction in tax evasion remains the main challenge on the side of revenues. Crisis years may have a negative impact on the efficiency of tax collection. In 2020, however, the efficiency of VAT collection did not decrease, which is much better result than in 2009. Despite the decreasing trend of VAT gap, there is room for additional increase in the efficiency of collection towards the average of the EU. The challenge for the tax system is to adjust the tax mix so that it leads to growth. In the current year, the general government expenditures are strongly affected in particular by financing the measures mitigating the influence of the pandemic. A closer link between expenditure revisions and the budgetary process may improve the quality and sustainability of general government expenditures. In 2022 and 2023, the share of expenditures in the GDP will not return to pre-crisis values yet because of additional drawing of EU resources from the ending 3rd programme period.

4.1 Revenue targets of the general government budget

In the long term, Slovakia reaches the lowest ratio of total GG revenues to GDP in comparison with the V3 or EU average. The current close position of total revenues to V3 average is caused by a stable income from taxes on labour and on consumption, which did not drop in Slovakia during the pandemic. In 2020, total revenues reached 41.8 % of GDP (FIGURE 42). Although the tax burden reaches a relatively lower level, in the last decade it grew most quickly from among the EU countries (FIGURE 43).

In terms of the structure of tax mix, in particular taxes on labour grew although they drag on economic activity to some extent. In terms of income structure, in the last 10 years taxes and contributions grew for low-income and high-income employees. Tax burden is higher than the EU average in particular for low-income employees. The achievement of a growth-oriented tax mix through the transfer of tax burden to consumption, property and negative externalities are the main principles in compliance with the line of Government Manifesto.

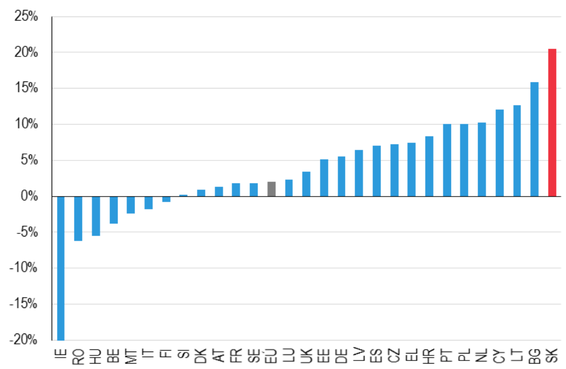
FIGURE 42 – Comparison of development of total GG revenues (% of GDP)



Euro area 19 = Euro area average *Source: Eurostat, AMECO*

Note 2: GG revenues contain neither transfers from the Recovery Plan nor the yet unspecified consolidation measures to reach the budgetary objectives.

FIGURE 43 – Change of tax burden 2019 vs. 2012 (% of tax burden change in proportion to GDP)



Euro area 19 = Euro area average *Source: Eurostat*

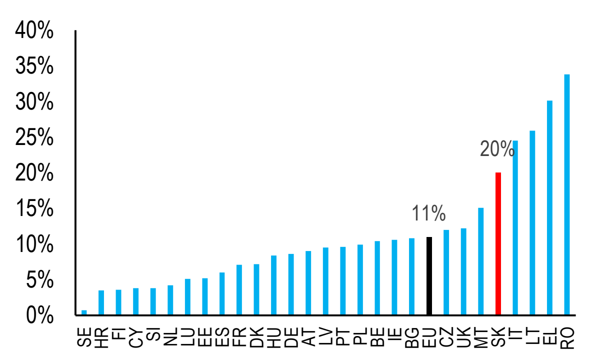
Note The FIGURE shows a percentage change of tax and contribution burden according to the ESA 2010 methodology expressed in % of GDP of the respective year.

Improving the efficiency of tax collection is a long-term challenge of the tax system. Since 2012, packages of measures have largely contributed to collection efficiency of VAT (FIGURE 45). However, in comparison with EU countries, there is still room to increase additional revenues by about EUR 0.5 bn. with the reduction of VAT collection gap at a level of about 11 % of potential collection. Positive news is that compared to the previous crisis in 2009, the scenario of a strong drop of VAT collection efficiency did not materialise in 2020, although during crisis the situation of companies worsens, which is also reflected in greater efforts to optimise taxes,legally or illegally. It could have been also partially caused by a different character of the crisis connected with the pandemic. As a consequence of the pandemic situation, households spent less on accommodation and catering services which are among the most risky ones as regards VAT payment. On the contrary, they purchased more foodstuffs in supermarkets and used electronic payments when shopping online.

Another milestone in the fight against VAT evasion is the introduction of electronic invoice, a so-called e-invoice from June 2022. It will allow the Financial Administration to detect frauds in the supply chain in real time, in particular to eliminate high tax arrears imposed only after audits. Today, such frauds are identified with a delay of about 30 to 50 days from the time when the liability to pay the tax arises[74], which can allow the entities to hide so that they cannot be contacted. The Financial Administration estimates that thanks to implementation of an e-invoice, additional revenues will amount to about EUR 130 mil. in the first year, of which EUR 90 mil. from VAT and EUR 40 mil. from corporate income tax[75].

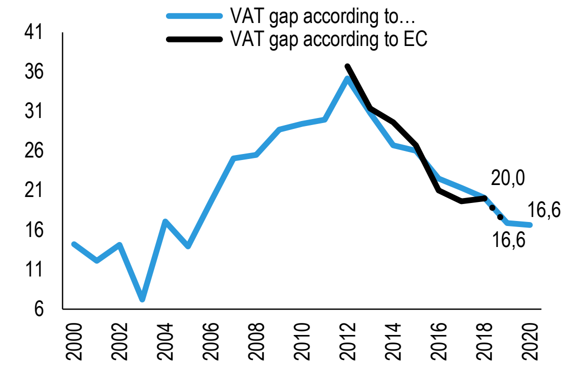
In the medium term, organisational and procedural changes planned by the new management of the Financial Administration will be crucial for the reduction of tax evasions. They include in particular the expansion of VAT controls to other taxes, or the building of analytical capacities based on recommendations of the International Monetary Fund within the TADAT Project[76]. These deficiencies are consistent with findings of corporate tax gap estimate[77].

FIGURE 44 – Comparison of VAT gap in the EU (in % of total VAT liabilities, 2018)



Source: CASE

FIGURE 45 – VAT gap (% of pot. collection)



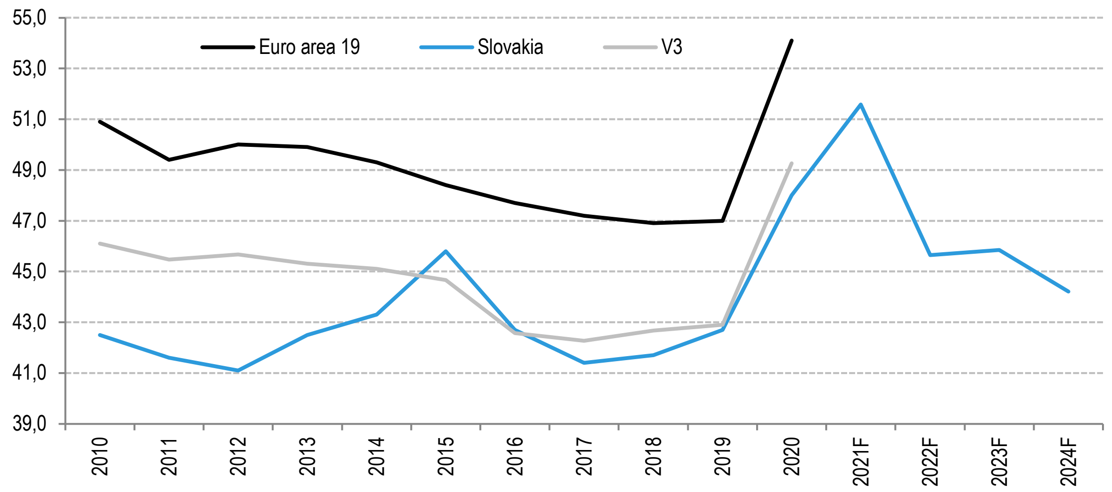
Note: The VAT gap according to the EC for 2019 is an estimate.
Source: FD SR, EC

4.2 Expenditure targets of the general government budget by function

The pandemic and economic crisis together have been reflected in a strong increase in total general government expenditures in 2020 and 2021. Since 2017, the share of expenditures in GDP has been moderately growing, however, in particular the corona crisis in 2020 caused a strong jump. This increase was caused by the supporting measures for the crisis, as well as a strong fall of GDP. The drawing of EU funds due to the end of the current 3rd programme period (PP) will maintain the share of total expenditures above the level from the time before crisis in 2022 and 2023. The subsequent additional drop in 2024 is caused by the end of the 3rd PP in 2023.

[74] Today, the Financial Administration works with tax returns and control statement (which contains information on invoices). These documents are filed only on the 25th day in month following the month in which the transaction took place. It means that if a taxable transaction takes place on 1 March, the Financial Administration will obtain the invoice concerning this transaction only on 25 April.
[75] It is a positive risk of the latest tax forecast.
[76] https://www.tadat.org/assets/files/Slovak_Republic_FINAL_PAR.pdf.
[77] A Slovak commentary is available at: https://www.mfsr.sk/sk/financie/institut-financnej-politiky/publikacie-ifp/komentare/komentare-z-roku-2020/15-nikdy-ich-vsetky-neskontrolujes-mas-snazit.html.

FIGURE 46 – Development of general government expenditures[78] (% of GDP)[79]



** EA19 (Euro area average), V3 (V4 without the SR)* *Source: Eurostat, MoF SR, SO SR*

The international comparison of expenditure structure according to expenditure functions with the other V4 countries shows that in 2019, Slovakia spent a lower share of expenditures in particular on economic affairs, recreation, culture and religion, and education. As we currently belong to younger countries of the Euro area, in comparison the social security expenditures in Slovakia are lower. In the future, a strong increase in these expenditures connected with ageing is expected. Therefore, in this case, comparison with the other V4 countries having a demographic structure of population similar to the SR is more suitable. The share of expenditures in the GDP spent on social security was in this case even slightly higher than the average of the other V4 countries.

The share of total expenditures in GDP will grow in particular as a consequence of corona crisis and the finishing of draw-down of EU funds in the current programme period. The share of expenditures in GDP will grow in general public services and in social security. Within general public services, expenditures are increased due to a reserve for new legislative plans and new investment projects. As regards social security, in particular expenditures on pensions and support for families will children will increase. Measures concerning an increase in parental allowance, introduction of a pregnancy benefit, expansion of the title and length of payment of allowance for care were approved. As regards old-age pensions, the retirement age of mothers was reduced as a compensation for raising children, changes in minimum pension calculation were approved and the 13th pension was introduced. Pension expenditures are indexed in time based on inflation, therefore, the level of expenditures in relation to GDP will also increase due to a decrease in GDP caused by the pandemic[80]. Defence expenditures increase because in 2023 and 2024, a great part of fighter jets ordered in the past will be delivered.

TABLE 14 – General government expenditures according to the COFOG classification

Functions	COFOG code	SK (2019)	GGB FF SK (2022)	GGB FF SK (2023)	GGB FF SK (2024)	V3 (2019)	EA 19 (2019)
		% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. General public services	1	5.4	7.0	7.3	6.5	5.6	5.8
2. Defence	2	1.1	1.3	1.8	1.9	1.2	1.2
3. Public order and safety	3	2.3	2.2	2.1	2.0	2.0	1.7
4. Economic affairs	4	5.1	4.5	4.8	4.1	6.3	4.3

[78] Note: The methodology for recording expenditures based on the classification of the functions of government may vary between individual countries. As a result, the same item may contain different data for different countries (for instance, taxable and non-taxable pensions). COFOG classification also does not account for expenditures made through the tax system (e.g. child tax credits).
[79] Expenditures similarly to revenues of general government do not contain resources from the Recovery Plan and their induced spending. Expenditures do not take into account the consolidation measures unspecified yet either.
[80] More details on the effect of GDP drop due to the pandemic are provided in the chapter about long-term sustainability.

5. Environmental protection	5	0.8	0.7	0.7	0.7	0.6	0.8
6. Housing and community amenities	6	0.5	0.5	0.4	0.4	0.7	0.6
7. Healthcare[81]	7	7.7	8.1	7.9	7.9	5.7	7.2
8. Recreation, culture and religion	8	1.2	1.2	1.1	1.1	1.9	1.1
9. Education	9	4.2	4.5	4.4	4.3	4.9	4.6
10. Social security	10	14.4	15.6	15.2	15.3	14.0	19.8
Total expenditures	**TE**	**42.7**	**45.6**	**45.9**	**44.2**	**42.8**	**47.1**

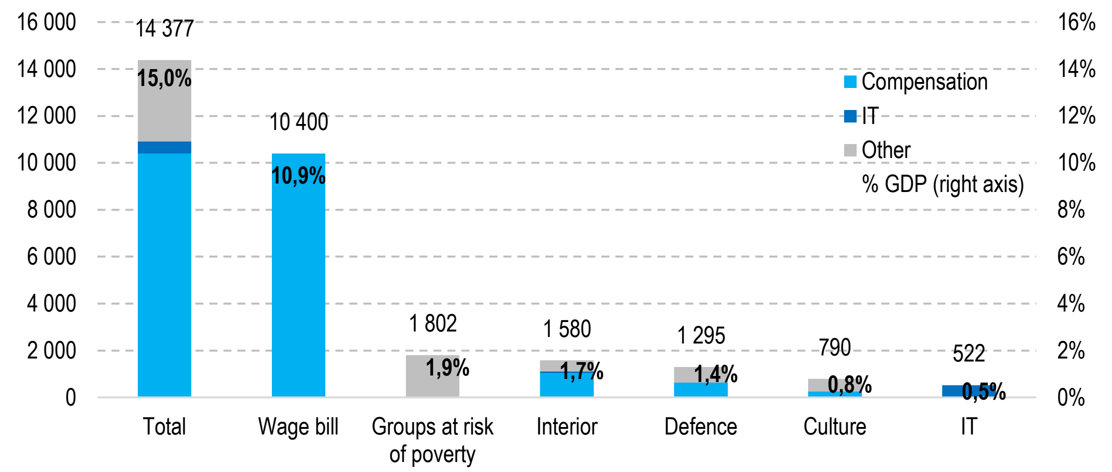
Note: DGGB - draft general government budget *Source: MoF SR, Eurostat*

Note: 2: General government expenditures do not contain expenditures from the Recovery Plan and their induced spending or the consolidation measures, which have not been specified yet.

Revisions of general government expenditures

The Government approached the objective to revise at least one half of general government expenditures during four years after the approval of the Government Manifesto already in the first year, when it approved revisions of expenditures for EUR 14.4 bil. (15 % of GDP, in prices of 2021). According to the budgetary rules, the Government should revise at least one half of general government expenditures, which meant EUR 20.06 bn. for the Government created in 2020. The decisive contribution was the revision of expenditures on remuneration and employment in general government, which assessed expenditures amounting to EUR10.4 bn. (11 % of GDP).

FIGURE 47 – Expenditures assessed by the revision of expenditures from 2020 (in EUR mil. and % of GDP)



Note: In the total column, repeating expenditures are excluded. *Source: MoF SR*

Revisions approved in 2020 identified austerity measures with a potential of EUR 1.13 bn. (1.2 % of GDP). In employment and remuneration, the revision identified room of EUR 765 mil. (0.8 % of GDP) in particular in the optimisation of local governments (EUR 396 mil.) and number of civil servants in central government (EUR 147 mil.), and a reduced number of policemen (EUR 96 mil.). The revision of defence expenditures identified savings for EUR 191 mil. in particular by freezing the wage envelope of soldiers (EUR 101 mil.). The revision of IT expenditures identified savings amounting to EUR 83-165 mil. which should be materialised from 2021. Savings amounting to EUR 150 mil. consisting of reduction in wage costs of civil servants in central government amounting to EUR 109 mil., policemen EUR 14 mil. and university employees EUR 27 mil., were incorporated into the budget for 2021 in response to the recommendation of a wage revision. The austerity measures of healthcare expenditure revision from 2019 were incorporated into the budget for 2021 in the amount of EUR 107 mil. from a long-term potential of EUR 465 mil.

[81] The data on healthcare general government expenditures amounting to 7.7 % of GDP in 2019 is based on the COFOG and ESA 2010 methodologies. According to the SHA methodology (System of Health Accounts) and OECD data, healthcare expenditures in 2019 are estimated at a level of 5.6 % of GDP. COFOG and ESA 2010 include expenditures of public hospitals twice.

The revisions also identified areas, where additional resources are needed amounting to EUR 1.5 bn. The revision of employment and remuneration expenditures proposes in particular a gradual increase in numbers of nurses, salaries of teachers and numbers and salaries of social service workers in a total volume EUR 1.2 bn. The revision of expenditures on groups at risk of poverty or social exclusion proposes a need of additional EUR 263 mil. The revision identified decreased expenditures for zero school grades, special education and activation jobs. Two thirds of additional resources (EUR 174 mil.) should go to early care and education, in particular to expansion and improvement of staff quality for work with disadvantaged children.

5 INSTITUTIONAL ASPECTS OF PUBLIC FINANCE

The extraordinary situation and insufficiently ambitious consolidation in the previous years[82] has called forth changes in the constitutional Fiscal Responsibility Act. Therefore, in autumn 2020, the Government of the SR submitted to the National Council of the SR an amendment to the constitutional act, whose objective is to implement absent expenditure ceilings of general government, strengthen the long-term sustainability of public finance and ensure more flexible escape clauses for the case of extraordinary events. Last year, in compliance with the Manifesto, the Parliament also modified the rules for the preparation of budget and investment projects, which will provide for their higher transparency and efficiency in compliance with value for money. Programme budgeting, more regular information provided on the development of the general government budget and better availability of data both to analysts and general public should bring a more transparent budgetary process.

Amendment to the constitutional Fiscal Responsibility Act

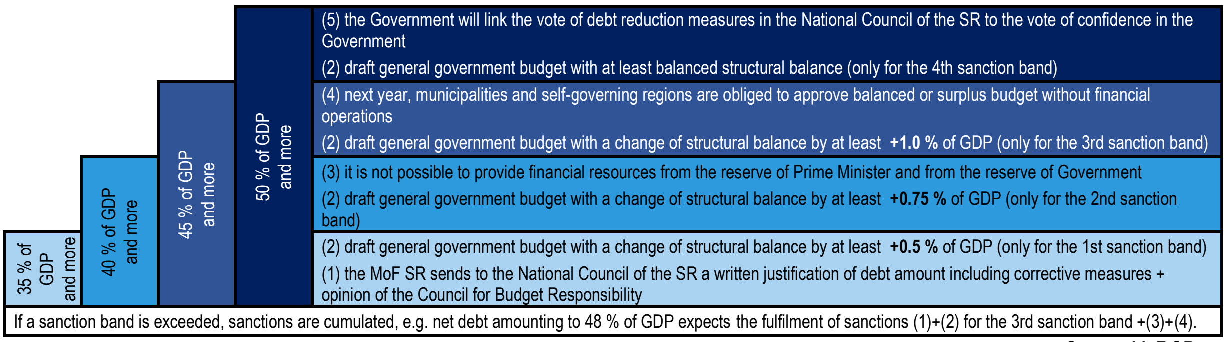
After having been approved, the amendment to the constitutional Fiscal Responsibility Act will bring the introduction of expenditure ceilings and transition to the net debt indicator. The change of indicator from gross to net debt is accompanied by the reduction in the number of sanction bands and stricter rules for consolidation in good times. Competences of the Council for Budget Responsibility are strengthened and new duties of it are added. The amendment will also bring a better decision-making basis for temporary suspension of rules during extraordinary situations thus improving the flexibility of the act in case of future crises.

Debt brake changes

Transition to the net debt indicator will increase the efficiency of liquidity management in servicing the debt on foreign markets by adjusting the gross debt indicator for financial assets (in particular the cash reserve of the central goverment). Creation of a cash reserve by the Debt and Liquidity Management Agency is part of the gross debt indicator. Ideally, the amount of the reserve should be specified on the basis of assessment of financing risks and associated costs and should not be affected by the need to fulfil the rule for debt amount. The transition to the net debt indicator will exclude financial assets from the rule, for example, the cash reserve.

The amendment also brings four new sanction bands – the lower limit for net debt will be 35 % of GDP, the upper one 50 % of GDP[83]. At the same time, sanctions are tightened be determining the necessary year-on-year consolidation of structural balance for the first three bands (0.5 % - 1 % of GDP) (FIGURE 48). The fourth band expects the submission of a structurally balanced budget and a vote of confidence in the Government but only provided that in the previous period, the Government did not fulfil the three remaining sanctions from lower bands, whose observance will be evaluated by the Council for Budget Responsibility.[84]

FIGURE 48 – New bands and sanctions of debt brake bound to net debt



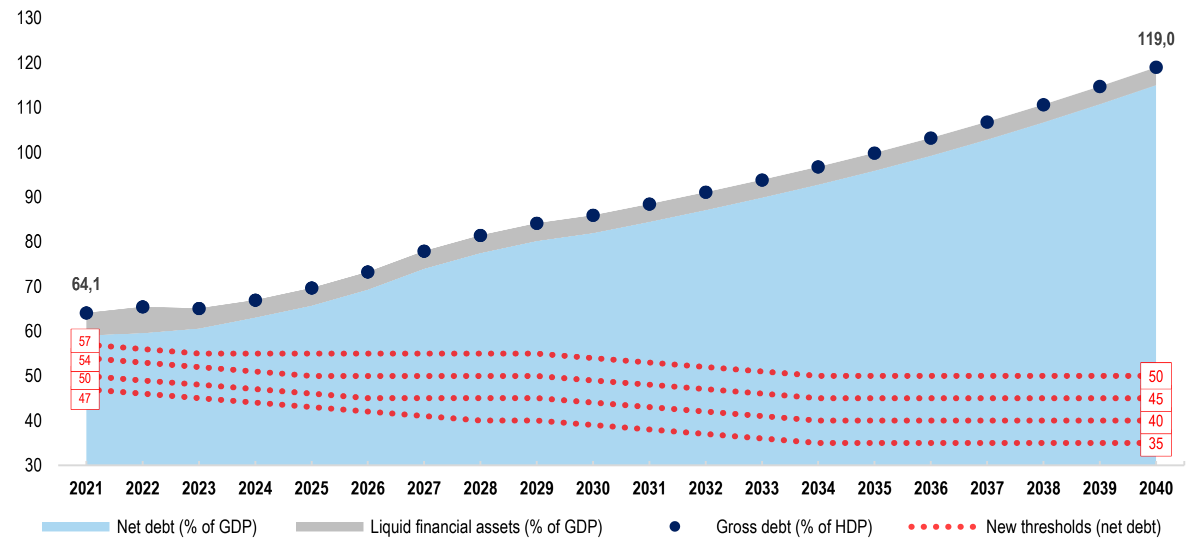
Source: MoF SR

[82] According to the evaluation of the balanced budget rule carried out by the Ministry of Finance (MoF SR) and the Council for Budget Responsibility, public finance in 2019 strongly deviated from the objective of structural deficit 0.5 % of GDP.
[83] The draft Government's amendment to the constitutional act contains a slightly different wording than the Stability Programme. The Stability Programme mentions in the part of net debt limit and expenditure ceilings a wording of an amendment which should come into effect after the approval of an amending proposal from the National Council of the SR in 2021. Detailed information on this wording is part of communication of the Council for Budget Responsibility.
[84] After an extraordinary circumstance has been declared and after it has been ended, during the consolidation in the very next budget year, a half value of structural balance improvement resulting from the 1st to 3rd sanction bands will be applied.

A countercyclical fiscal policy and a greater flexibility of debt brake during unexpected events will be ensured by the expansion of an escape clause[85]. After an extraordinary circumstance has been declared, sanctions will not be applied temporarily, for one year – if the Statistical Office of the SR (SO SR) notifies a year-on-year drop in real GDP in the previous quarter and the very next Macroeconomic Forecasts Committee confirms a decrease in real GDP for the whole year by more than 3 p. p. If after the same notification of the SO SR, the Committee forecasts a year-on-year drop in real GDP by more than 6 p. p., sanctions will be deactivated for two years. The strictest sanctions of the 4th band will not be applied for one year in the event of a new Government, change of methodology valid in the EU, extraordinary expenditures related to banking sector rescue after a financial crisis, consequences of natural disasters or performance of international treaties, whose cumulative volume exceeds 2 % of GDP per year.

The amendment to the Fiscal Responsibility Act was approved by the Government in September 2020. After several amending proposals from the National Council of the SR, its negotiation and approval in the National Council of the SR is expected during the year 2021. From 2022, the amendment assumes a gradual decrease in sanction bands until final levels of 35 %, 40 %, 45 % and 50 % of GDP are achieved in 2034[86] (FIGURE 49).

FIGURE 49 – New thresholds of debt brake compared to debt development in the no-policy-change scenario (% of GDP)



Note: No-policy-change scenario (NPC) – a scenario of debt development without additional consolidation measures and with ageing effect.

Source: MoF SR

Limit of general government expenditures

After the amendment to the constitutional act has been approved, the limits for general government expenditures will strengthen the countercyclical character of fiscal policy on a 4-year horizon of the electoral cycle and ensure long-term sustainability of public finance. Expenditures ceilings are calculated for the Government by the Council for Budget Responsibility and submitted to the negotiation of the National Council of the SR within 60 days after the Government Manifesto has been approved. The Council for Budget Responsibility determines the limits corresponding to a planned modified structural balance[87] with respect to an indicator of long-term sustainability of public finance (GAP). For a high risk, the structural balance is determined in such a way as to improve the indicator of long-term sustainability by 1 % of GDP annually, for a medium risk by 0.5 % of GDP, and

[85] Escape clause is a common part of credible fiscal rules. After activation for a certain period it ensures certain flexibility of fiscal policy by suspending sanction mechanisms temporarily.
[86] In 2022, the bands will reach the levels of 46 – 49 – 53 and 56 % of GDP and will decrease by 1 p. p. annually so that in 2029 they reach the levels of 40 – 45 – 50 and 55 % of GDP. In the following five years, band decreasing will continue by 1 p. p. annually to final levels. Band decreasing can be temporarily suspended in case of extraordinary circumstances declared by Government.
[87] In determining the expenditure ceilings, the structural balance is adjusted for expenditures for general government debt service, contributions to the EU budget and expenditures on co-financing of SR and EU programmes. On the contrary, consolidated tax revenues including insurance fund revenues (adjusted for the effect of economic cycle and one-off effects), estimated economic result of local governments and expected non-tax revenues, grants and transfers except for grants and transfers from the EU are added to the balance.

for a low risk so that the indicator will not change. The maximum value of modified structural balance of general government achieved through this procedure is set to a structural surplus of 2 % of GDP.

The Council evaluates the fulfilment of expenditure limit for the previous period and updates it always by 30 June, at the request of the Government or after the approval of legislative changes affecting the long-term sustainability. The update takes into account the adopted legislative changes and also ensures corrections of non-fulfilment of limits, if any, from the previous period. If expenditure ceilings are not fulfilled for two consecutive periods by more than 1 % of GDP, the Government should ask the National Council of the SR for a vote of confidence.

In the electoral term 2020-2024, the limit of general government expenditures will be determined for 2023 and 2024. By the end of 2021, changes should be made in the Budgetary Rules Act which will reflect constitutional expenditure limits. In 2022, within 30 days after the submission of the report on long-term sustainability of public finance, the Council for Budget Responsibility will determine an expenditure limit for 2023 in compliance with the requirement for improvement of long-term sustainability of public finance. Subsequently, the Council will submit this limit to the negotiation of the National Council of the SR, which will approve it by a resolution.

Strengthening the committees and Council for Budget Responsibility

Separation of political decision-making from analytical work on budget and expansion of competences of committees and Council for Budget Responsibility are preconditions for credible budgetary process and fiscal policy credibility. In addition to projections of development of economy and tax revenues, the Macroeconomic Forecasts Committee and Tax Revenue Forecasts Committee will also focus on the estimate of non-tax revenues and selected expenditures of the general government budget whose development is closely linked to economic development. The process of expansion of committees' competences was already started this March by a forecast of sickness benefits and revenues from toll, vignettes and emission allowances in a total volume of EUR 1.5 billion. Its objective is to ensure more transparent preparation and more accurate estimate of development of the budget.

The Council for Budget Responsibility will strengthen its independence by a modified way of appointing its members. The Council for Budget Responsibility will also obtain new competences within the determination and evaluation of fulfilment of expenditure limits, as well as tasks in submitting new reports and opinions with the objective to improve professional public discussions for decision-making on fiscal policy adjustment. In addition to the currently submitted reports (report on long-term sustainability, report on the fulfilment of fiscal responsibility rules), the Council for Budget Responsibility will also submit an opinion on the draft general government budget, report on fiscal risks, on pension scheme sustainability and evaluations of macroeconomic and budgetary forecasts.

Investments in compliance with value for money

The objective of the reform of investment management under way is to increase the economic value of newly implemented investment projects and obtain a higher return from every Euro. For all phases of investments in general government, the supervision of the Value for Money department at the Ministry of Finance is strengthened. New instruments will ensure the introduction of a systematic approach in selecting investment projects, as well as the setting of check milestones during the investment process. Right at the beginning, at the level of strategy, objective criteria for the selection of best projects will be defined, and only the investments, which are prepared and returnable, regardless of the investor, will be included in the budget.

The following activities have already been executed or are under way for the purpose of better budget planning and fulfilment:

- **The amendment to the Budgetary Rules Act[88] orders to general government entities and their organisations to prepare and publish a feasibility study for all investments or concessions whose value achieves at least EUR 40 mil. before they are procured (EUR 10 mil. for investments in computerisation).** The investor is obliged to publish a feasibility study at the beginning of the investment

[88] Amendment to Act No. 524/2004 Coll. on general government budgetary rules with effect from 1 January 2020. The duty to publish a feasibility study and project monitoring by the Ministry of Finance is valid according to the amendment with effect from 1 January 2021.

process or before its closest important continuation. The Ministry of Finance evaluates and monitors projects from the date of study publication to the date of completion.

- **At the same time, through its resolution,[89] the Government of the SR introduced compulsory assessment of investments with assumed total expenditures higher than EUR 1 mil. inclusive of VAT by the Ministry of Finance of the SR (MoF SR).** General government entities, except for local government and organisations established by it, are obliged to submit at least a detailed budget of the project and documents proving project compliance with the sectoral strategy, or compliance with the prioritised investment plan and schedule, to the MoF SR for assessment.

BOX 7 – Summary of evaluated projects from 2020

Within the Value for Money department (VfMD) at the Ministry of Finance, an Investment Authority (IA) was created by strengthening capacities for investment evaluation. The VfMD has evaluated total 56 projects worth about EUR 4.5 bn. since 1 January 2020. Projects worth more than EUR 40 mil. (or EUR 10 mil. in IT area), evaluated on the basis of the Budgetary Rules Act, have reached a value of EUR 4.2 bn. since the beginning of 2020 (18 projects)[90]. Projects over EUR 1 mil., which have been evaluated on the basis of the Government Resolution since October 2020, represent capital expenditures worth almost EUR 300 mil. (39 projects).

TABLE 15 – Summary of evaluated projects exceeding EUR 1 mil. from 2020 (EUR mil.)

Project area and size	Number of projects	Value of projects
TOTAL	56	4,541
Projects exceeding EUR 40 mil. (EUR 10 mil. for IT investments)	**17**	**4,244**
of which IT	*6*	*1,066*
of which transport	*10*	*3,029*
of which defence	*1*	*148*
Projects exceeding EUR 1 mil. (less than EUR 40 mil. / EUR 10 mil. for IT investments)	**39**	**297**
of which IT	*14*	*81*
of which transport	*5*	*107*
of which defence	*16*	*103*
of which other	*4*	*7*

Note: Summary of projects over EUR 40 mil. from 1 January 2020 and projects over EUR 1 mil. from 14 October 2020.

Source: MoF SR (VfMD)

- **According to the same Government Resolution concerning the general government budget, all state budget chapters will prepare a methodology of prioritisation of their planned investments and publish the prioritised investment plans.** Transparent and prioritised investment preparation plans will be evaluated and updated on a regular basis. The preparation of a reservoir of priority investments will speed up the implementation of prepared public investments and increase the accuracy of investment budgeting.
- **Changes were also made in the way of general government budget preparation for capital expenditures. From 2021, only provably socially returnable and prepared projects are included in the budget besides the projects under way.** The other planned projects are bound in the budget of the General Treasury Administration within the reservoir of investments, and they can be drawn only after they have been evaluated by the MoF SR.
- **The Ministry of Finance also prepares a methodological material which will define details of investment preparation procedures.** The material will include guidance and rules for the creation and prioritisation of investment plans, preparation of feasibility studies and evaluation of projects, and creation of budget of general government capital expenditures.

The MoF SR in cooperation with all ministries is responsible for the reform implementation. To complete the reform, it is necessary to strengthen the central coordination authority at the MoF SR and complete analytical units

[89] Resolution No. 649 from 2020 concerning the general government budget with effect from 14 October 2020.
[90] Evaluations of investment projects exceeding EUR 40 mil. (EUR 10 mil. for IT investments) available online: https://www.mfsr.sk/sk/financie/hodnota-za-peniaze/hodnotenie-investicnych-projektov/hodnotenie-investicnych-projektov.html.

responsible for analytically supported investment plans of priorities of ministries. It is also necessary to simplify the preparation process, complete the methodologies and increase the efficiency of procurement.

Programme budgeting

The reform of programme budgeting should bring a strengthened focus on the result in the budget. In compliance with the Government Manifesto from 2020, the Ministry of Finance started preparations for strengthening the programme budgeting in the budgetary process. The basic principles were introduced at the end of 2020 and will be pilot-verified during the preparation of the budget for 2022-2024 at selected ministries. Reduction of the high number of logical or process indicators at low levels of programme structure and focusing on key result indicators will strengthen the orientation on achieved results. Re-organisation of programmes should increase the comprehensibility of the purpose of expenditures as well as facilitate the use of data of analytical purposes.

More transparent budgetary process

From 2021, changes in the rules of budgetary process (within the general government budgetary rules act) are supplemented with reserves for solving crisis situations, for solving legislative change influences, and other reserves according to the State Budget Act. The amount of reserves is approved by the National Council of the SR in the State Budget Act; in case of crisis situations, the decision on using the reserves is made in compliance with special regulations. The amendment to the act introduces the Government's duty to inform the National Council of the SR on the disposal of reserves, including the information on recipients of financial resources, purpose and amount of drawing them.

Based on the data for the first half-year, the Ministry of Finance will publish the expected development of the general government budget as at the end of the year. From 2021, the expected real development of the budget in the respective year (expected reality) and changes compared to the approved budget will be published by the MoF SR on a regular basis, always by 15 August. The first publication of the half-year report on budget was carried out already in 2020. The time-limit for the publication of data on the general government budget after its approval is reduced from 60 to 30 days. The amendment also introduces the duty to provide the public with structured data on the budget in the form allowing its further automated processing.

The improved transparency of the budget process[91] will allow more efficient public control of the budget and better-informed discussion on budget resources which will also help fiscal discipline. With the budget for 2021-2023, also the first Budget for People was published, whose objective was to explain the budgetary objectives to the public in comprehensible form. The scope of published budgetary data at rozpocet.sk was also considerably expanded; more changes are planned to make continuous budget modifications more transparent.

[91] Speaking the truth, even in the budget.

6 STRUCTURAL POLICIES

The long-term sustainability of public finance will be supported by structural reforms introduced within the approved Recovery and Resilience Plan of the SR (hereinafter the "Recovery Plan"). Measures will be focused on solving the main structural challenges of the Slovak economy: education, labour market, healthcare, ageing and general ineffective use of resources in economy. More than one third of the investment package of the recovery plan will be spent on measures in green economy, and a significant part of investments is also intended for IT solutions development and digitatisation in public administration. There is also an emphasis on the improvement of business environment and enforceability of the law – in particular on fight against corruption and improvement of the effectiveness of the judicial system.

The approved Recovery Plan[92] introduces a package of main reform initiatives of Slovakia for the coming years. It is a comprehensive response to consequences of the crisis connected with the COVID-19 pandemic, as well as a reaction to main challenges of the Slovak economy. The reforms and investments from the Recovery Plan are based on structural challenges identified by the EC and at the same time, they address its specific recommendations for Slovakia from 2020 and 2019. The Recovery Plan is focused on five key areas of public policies: 1) green economy, 2) education, 3) science, research and innovations, 4) health, and 5) effective public administration and digitalisation.

TABLE 16 – Allocation of resources from the Recovery Plan according to components in five key areas of public policies

Number	Component name	Allocation in EUR mil.[93]
	Green economy	2,301
1	Renewable energy sources and energy infrastructure	232
2	Building renovations	741
3	Sustainable transport	801
4	Decarbonisation of industry	368
5	Adaptation to climate change	159
	Education	892
6	Availability, development and quality of inclusive education at all degrees	210
7	Education for the 21st century	469
8	Improvement of performance of Slovak universities	213
	Science, research, innovations	739
9	More efficient management and strengthening of the financing of science, research and innovations	633
10	Attraction and retention of talents	106
	Health	1,533
11	Modern and available healthcare	1,163
12	Humane, modern and available mental health care	105
13	Available and high-quality long-term social care and healthcare	265
	Effective general government and digitisation	1,110
14	Improving business environment	11
15	Justice reform	255
16	Fight against corruption and money laundering, security and protection of population	229
17	Digital Slovakia (State in the mobile, cybersecurity, fast internet for everyone, digital economy)	615
18	Sound, sustainable and competitive public finance	0
	Total	**6,575**

[92] A draft Recovery and Resilience Plan of the SR was approved by the Government on 28 April 2021.
[93] The list of investment priorities within the Recovery Plan worth EUR 6.58 bn. approved by the Government was sent to the European Commission. The most up-to-date estimate of allocation of sources from the EU within the Recovery and Resilience Fund of the EU for the SR amounts to EUR 6.33 bn. Thus, the resulting list of investment priorities still may change so that the total allocation earmarked for Slovakia by the EC is not exceeded.

Complementarily to the Recovery Plan, a Partnership Agreement for the EU programming period 2021 to 2027 is under preparation. The total allocation represents approximately two times the allocation of the Recovery Plan amounting to EUR 12.8 bn[94]. The proposed investments are aimed at the same priorities as in the Recovery Plan thus strengthening them (in particular science, research and innovations, education and green economy), as well as to supplementary areas (transport and digital infrastructure, development of regions, labour market, and social care). Thus, the Recovery Plan and European structural and investment funds together create a comprehensive approach to solving the structural challenges identified by the EC in specific recommendations and by the National Programme of Reforms of the SR.

The quality of the Slovak educational system will be supported in particular by measures in pre-primary education, investments in the infrastructure in regional education and reform of financing in tertiary education. To strengthen inclusion, access to early care, pre-primary education and strengthening of supporting teams for inclusion in education will be supported. The conditions for the implementation of compulsory pre-primary education for children from the age of five years and introduction of a legal entitlement to a place in kindergarten or at other providers of pre-primary education from the age of three years will be provided for. Investments in regional education will focus on digital infrastructure, completion of school infrastructure and removal of barriers. The improvement of education and research quality at universities will be supported by the reform of management and change of financing of universities including the introduction of performance agreements. The *Strategy of lifelong learning for 2021 to 2030* will bring a proposal for a scheme of individual learning accounts.

In science, research and innovations, the support will be focused on the improvement of quality of outputs and improvement of system financing efficiency. The government support of private research and development is only getting under way, in particular in indirect form through a so-called tax super-deduction and patent box. Changes will be focused on professionalisation, central management and assessment in the area of support of science, research and innovations. With the objective to solve the fragmentation of research capacities, the consolidation, standardisation and simplification of processes in support agencies will take place. Financing will focus on the support schemes on the principle of competition, support of innovations in the private sector, international cooperation and cooperation with universities. For Slovakia, the priority will be to reverse the trend of brain drain and attract highly qualified labour force by student scholarships, assistance to returning people and highly-qualified workers. Measures will also be focused on the simplification of obtaining a work permit for highly-qualified workers and recognition of educational documents.

Several initiatives are focused on employment of disadvantaged groups which represents a long-term main challenge of labour market. Also for the reason of the pandemic crisis, it will be necessary to continue to implement efficient instruments for the support of disadvantaged groups including the significantly affected group of young people when entering the labour market. The support under way will focus on employers of disadvantaged or vulnerable people in the form of investment aid to social enterprises and financial contributions to integration enterprises. Sector-focused projects pay a support to employers creating jobs in agriculture or social services[95]. With the objective to make social and economic inclusion of Roma more efficient, in April 2021, a new *Strategy for equality, inclusion and participation of Roma till 2030*[96] was approved. The priority areas of the strategy focus on employment, education, health and housing. The approval of follow-up action plans with measures is expected by the end of 2021.

The impacts of ageing are addressed by reforms of long-term care and pension scheme. With the objective to improve the quality of long-term care, capacities of community social care, subsequent healthcare and nursing care including palliative care will be expanded and renewed. A concept of financing of social services will be submitted for public discussion by the end of 2023. Assessment activities and social care supervision will be reformed. The most important elements of the pension reform include the improvement of financial sustainability of the 1st pillar by re-establishing a link between the retirement age and life expectancy growth and the increase in profitability of the 2nd pillar for a common saver by introducing a pre-selected investment strategy which copies a lifecycle of investment[97]. The first step was the amendment to the Constitution of the SR adopted in December

[94] Including the Just Transition Fund.
[95] Employment in the area of cultural heritage or in the community (municipality, school) was also supported until the beginning of the pandemic.
[96] Strategy for equality, inclusion and participation of Roma till 2030 (April 2021).
[97] The life-cycle principle.

2020[98], which cancelled the retirement age ceiling with effect from January 2023[99]. At the same time, a draft constitutional act on pension scheme was submitted to the legislative process[100], which defines the basic parameters of the first and second pillars (see more in Chapter 3 Sustainability of public finance).

In healthcare, the main objective of reforms and investments in infrastructure is to improve the quality of provided healthcare. Cost-efficiency and strategic management of staff at all levels are necessary preconditions for improvement. Centralisation and optimisation of the hospital network and acute healthcare network will contribute to better results in institutional care. The introduced new method of the public health insurance financing or defining a basic package of healthcare will also contribute to improvement of the cost-efficiency of healthcare system. Investments will be focused on a new network of hospitals through the construction of new and reconstruction of the existing facilities, modernisation of emergency medical service, including investments in the improvement of quality of mental illnesses treatment.

Initiatives in the area of environmental improvement are focused on waste management, renewable energy resources or air quality, in which Slovakia lags behind,considering international context. In the coming years, the support of green economy will focus on an increase in the utilisation of renewable energy resources, improvement of energy infrastructure, decarbonisation of economy, adaptation to climate change, sustainable passenger and freight transport. To increase the energy efficiency, complex renovation of public and private buildings will be speeded up also with guaranteed energy services. The *National Emission Reduction Programme* approved by the Government in March 2020 proposes policies and measures for the achievement of national commitments in reducing emissions of pollutants[101]. It is among key documents of the comprehensive *Strategy of Air Protection of the Slovak Republic till 2030* under preparation. The amendment to the Waste Act approved in September 2020 brings a legislative framework for the creation of an information system of waste management to improve control over waste flows.

Reform efforts also focus on the area of digital services of general government and digital infrastructure. The strengthening of central management of digitisation will allow improving the quality of services provided to citizens, as well as cost-effectiveness. Ministerial capacities of IT specialists will be created. To improve the satisfaction of citizens with digital services, electronic processes will be established with the objective to minimise the number of steps necessary to solve life situations without submitting data which the State already disposes of. As a follow-up to the approved national plan of broadband connection, investments will also be focused on building ultra-fast internet. A strategic approach to education in the area of development of digital skills in cooperation with representatives of key stakeholders will be supported.

To improve the unfavourable position of Slovakia in international rankings, reforms are focused on administrative and regulatory obstacles to doing business. The problems for business commencement include the need of various licences and permits, as well as significant regulation in professional services. To increase business activities, anti-bureaucratic packages of measures will be gradually adopted and the *“one in – two out”* rule will be introduced. Insolvency proceedings will be revised and fully digitised in order to improve the business environment. A new companies register and bankruptcy and restructuring proceedings will be concentrated to a lower number of courts.

In order to fight against corruption and strengthen the integrity and independence of the judicial system, the implementation of several legislative changes is expected. The judicial map reform will be among the instruments to achieve effective justice and break the corruption link in the judicial system. It will also create room for the specialisation of judges in main matters with the objective to make the judicial system more efficient. The “Big Reform of the Judicial System” approved in December 2020 will also strengthen the powers and competences of judges for their internal control (e.g. the reform of creation and competences of the Judicial Council, establishment of the Supreme Administrative Court, introduction of new crimes) and safeguards strengthening the division of power will be introduced (a rotation principle in electing constitutional judges, natural replacement of judges). Property seizure and administration, including the creation of an individual administrating institution and interconnection with investigation of crimes, will be made more efficient. By electing the first chairperson by the

[98] Act No. 422/2020 Coll. amending the Constitution of the Slovak Republic No. 460/1992 Coll.
[99] Within the amendment, three new principles were added to the Constitution: 1) the care of child must not negatively affect the amount of pension, 2) working children can assign a part of their taxes or contributions to their parents (a so-called parental credit) and 3) a person may retire not only after they have reached the retirement age but also earlier, after they have worked a set number of years.
[100] Draft constitutional Pension Scheme Act.
[101] National Emission Reduction Programme of the SR.

National Council in February 2021, creation of the Office for the Protection of Individuals Notifying Activities Undermining the Functioning of Civil Society ("the Whistleblower Office") started.

ANNEXES

Annex 1 – Compulsory tables of the Stability Programme

TABLE 17 (Table 1a) – Macroeconomic overview (ESA 2010, EUR bn.)

	ESA code	2020 Outcome	2020 growth rate	2021 growth rate	2022 growth rate	2023 growth rate	2024 growth rate
1. Real GDP	B1*g	84.9	-4.8	3.3	6.3	2.8	0.3
2. Nominal GDP	B1*g	91.6	-2.5	4.7	8.5	5.6	2.8
Components of real GDP							
3. Final consumption of households and NPISH	P.3	49.3	-1.1	-3.3	6.8	2.7	2.4
4. Final general government consumption	P.3	15.7	-2.3	3.6	0.9	3.7	-0.7
5. Gross fixed capital formation	P.51g	17.0	-11.9	0.8	11.9	8.4	-10.9
6. Changes in inventories and the net acquisition of valuables (% of GDP)	P.52 + P.53	-0.3	-0.4	2.1	2.3	0.9	0.6
7. Export of goods and services	P.6	78.5	-7.2	10.6	4.8	4.2	3.6
8. Import of goods and services	P.7	75.8	-8.5	8.8	5.3	4.1	2.0
Contribution to real GDP growth							
9. Domestic demand (total)		81.9	-3.6	-1.1	6.2	3.9	-1.2
10. Changes in inventories and the net acquisition of valuables	P.52 + P.53	-0.3	-2.8	2.5	0.4	-1.4	-0.3
11. Balance of foreign trade in products and services	B.11	2.8	1.0	2.0	-0.3	0.3	1.7

Source: MoF SR

TABLE 18 (Table 1b) – Price developments (ESA 2010)

	ESA code	2020 Outcome	2020 growth rate	2021 growth rate	2022 growth rate	2023 growth rate	2024 growth rate
1. GDP deflator		1.1	2.4	1.4	2.1	2.8	2.6
2. Private consumption deflator		1.1	2.2	1.4	2.2	2.6	2.3
3. HICP		2.0	2.0	1.1	2.2	2.5	2.3
4. Public consumption deflator		1.2	6.6	1.7	2.5	4.2	4.0
5. Investment deflator		1.1	0.7	1.9	2.3	2.6	2.8
6. Export price deflator (goods and services)		1.0	-2.2	0.6	1.8	2.4	2.5
7. Import price deflator (goods and services)		1.0	-1.8	1.0	1.9	2.5	2.6

Source: MoF SR

TABLE 19 (Table 1c) – Labour market indicators (ESA 2010)

	ESA code	2020 Outcome	2020 growth rate	2021 growth rate	2022 growth rate	2023 growth rate	2024 growth rate
1. Employment, persons (thous.) [1]		2399	-1.9	-0.4	0.9	1.2	0.3
2. Employment, hours worked (mil.)[2]		3771	-8.8	-0.4	0.9	1.2	0.3
3. Unemployment rate (%)[3]		6.7	6.7	7.1	6.5	5.4	4.7
4. Labour productivity per person (EUR) [4]		35224.5	-3.4	3.7	5.3	1.6	0.0
5. Labour productivity per hours worked (EUR) [5]		22.4	4.0	3.7	5.3	1.6	0.0
6. Compensation of employees (EUR mil.)	D.1	41585	-0.8	5.4	6.3	6.7	4.8
7. Compensation per employee (EUR)		19362	1.9	5.0	5.0	5.5	4.6

[1] Total employment, national accounts – home concept *Source: SO SR, MoF SR*
[2] According to national accounts definition.
[3] Harmonized rate according to Eurostat.
[4] Real GDP per person employed.
[5] Real GDP per hour worked.

TABLE 20 (Table 1d) – Sectoral balance (ESA 2010, % of GDP)

	ESA code	2020	2021	2022	2023	2024
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	0	0.5	0.5	0.6	1.0
of which:						
- Goods and services		1.5	2.7	2.1	2.2	3.7
- Primary incomes and transfers		-2.6	-3.5	-3	-2.9	-4
- Capital account		1.2	1.3	1.3	1.3	1.3
2. Net lending/borrowing of other sectors	B.9	-	-	-	-	-
3. Net lending/borrowing of the general government (governmental objectives)	B.9	-6.2	-9.9	-5.1	-4.1	-3.8
4. Statistical discrepancy		-	-	-	-	-

Source: MoF SR

TABLE 21 (Table 2a) – General government budgetary prospects

	ESA code	2020 level	2020 % of GDP	2021 % of GDP	2022 % of GDP	2023 % of GDP	2024 % of GDP
Net lending (B.9) by general government sub-sectors							
1. General government	S.13	-5608.8	-6.2	-9.9	-5.1	-4.1	-3.8
2. Central government	S.1311	-6117.9	-6.7	-9.4	-5.0	-4.3	-4.2
3. State government	S.1312						
4. Local government	S.1313	180.0	0.2	-0.3	-0.2	0.1	0.3
5. Social security funds	S.1314	329.2	0.4	-0.2	0.1	0.1	0.1
General government (S13)							
6. Total revenues	TR	38109.8	41.8	41.6	40.5	41.5	40.0
7. Total expenditures	TE [1]	43718.6	48.0	51.6	45.6	45.6	43.9
8. Net lending/borrowing	B.9	-5608.8	-6.2	-9.9	-5.1	-4.1	-3.8
9. Interest payments	D.41	1134.5	1.2	1.0	0.9	0.9	1.1
10. Primary balance	[2]	-4474.3	-4.9	-8.9	-4.2	-3.2	-2.8
11. One-off and temporary measures	[3]	-1695.1	-1.9	-3.5	0.0	0.0	0.0
Selected components of revenues							
O 712. Total taxes (12=12a+12b+12c)		17282.7	19.0	18.5	18.4	18.5	18.2
12a. Taxes on production and imports	D.2	11129.6	12.2	11.7	11.6	11.6	11.3
12b. Current taxes on income, wealth, etc.	D.5	6153.1	6.8	6.9	6.8	6.9	6.9
12c. Capital taxes	D.91	0.0	0.0	0.0	0.0	0.0	0.0
13. Social security contributions	D.61	14472.8	15.9	16.1	15.4	15.3	15.4
14.Property income	D.4	514.1	0.6	0.7	0.5	0.5	0.5
15. Other	[4]	5840.2	6.4	6.4	6.2	7.2	5.9
16=6. Total revenues	TR	38109.8	41.8	41.6	40.5	41.5	40.0
p. m.: Tax burden (D.2+D.5+D.61+D.91-D.995)	[5]	31755.5	34.9	34.6	33.8	33.8	33.6
Selected components of expenditures							
17. Compensation of employees + intermediate consumption	D.1+P.2	15977.9	17.5	19.2	17.1	17.3	16.8
17a. Compensation of employees	D.1	10463.8	11.5	11.3	10.3	10.0	10.0
17b. Intermediate consumption	P.2	5514.1	6.1	7.9	6.7	7.3	6.9
18. Total social payments	D6	19371.6	21.3	22.9	20.1	19.6	19.7
of which: unemployment benefits	[6]	329.2	0.4	0.4	0.3	0.2	0.2

18a. Social transfers in kind	D.632	4917.0	5.4	5.7	5.3	5.3	5.3
18b. Social benefits other than social transfers in kind	D.62	14454.6	15.9	17.2	14.7	14.3	14.4
19.=9. Interest payments	D.41	1134.5	1.2	1.0	0.9	0.9	1.1
20. Subsidies	D.3	1236.6	1.4	1.7	1.3	1.4	1.2
21. Gross fixed capital formation	P.51g	3192.6	3.5	3.8	3.5	3.7	3.1
22. Capital transfers	D.9	730.2	0.8	0.4	0.1	0.2	0.1
23. Other	[7]	2075.2	2.3	2.6	2.6	2.5	2.0
24=7. Total expenditures	TE [1]	43718.6	48.0	51.6	45.6	45.6	43.9
p. m.: Government consumption (nominal)	P.3	19226.4	21.1	21.2	20.2	20.7	20.8

[1] Adjusted for the net flow of swap-related flows, so that TR-TE=B.9 *Source: MoF SR*
[2] The primary balance is calculated as (B.9, item 8) plus (D.41, item 9)
[3] A plus sign means a deficit-reducing one-off measure
[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)
[5] Including those collected by the EU
[6] Includes cash benefits (D.621 and D.624) and in kind benefits (D.631) related to unemployment benefits
[7] D.29+D4 (other than D.41)+ D.5+D.7+P.52+P.53+K.2+D.8

TABLE 22 (Table 2b) – No-policy-change scenario

	2021 NPC EUR mil.	2021 NPC % of GDP	2022 NPC % of GDP	2023 NPC % of GDP	2024 NPC % of GDP
1. Total revenue at no-policy-change scenario			40.4	41.1	39.5
2. Total expenditure at no-policy-change scenario			45.6	45.9	44.6

Note: The basis for the NPC purposes for 2022 to 2024 is the current estimate for 2021. *Source: MoF SR*

TABLE 23 (Table 2c) - Amounts to be excluded from the expenditure benchmark

	2020 EUR mil.	2020 % of GDP	2021 % of GDP	2022 % of GDP	2023 % of GDP	2024 % of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue	931.4	1.0	1.3	1.4	2.3	1.0
1.a. of it investments fully matched by EU funds revenue	573.6	0.6	0.6	0.4	0.5	0.0
2. Cyclical unemployment benefit expenditure not related to governmental measures (cyclical component)	57.7	0.1	0.0	0.0	0.0	0.0
3. Effect of discretionary revenue measures	-479.7	-0.5	0.1	0.0	0.3	0.3
4. Automatic revenue changes mandated by law	0.0	0.0	0.0	0.0	0.0	0.0

Source: MoF SR

TABLE 24 (Table 3) - General government expenditures (% of GDP)

	COFOG code	2019	2024
1. General public services	1	5.4	6.5
2. Defence	2	1.1	1.9
3. Public order and security	3	2.3	2.0
4. Economic affairs	4	5.1	4.1
5. Environmental protection	5	0.8	0.7
6. Housing and community amenities	6	0.5	0.4
7. Healthcare	7	7.7	7.9
8. Recreation, culture and religion	8	1.2	1.1
9. Education	9	4.2	4.3
10. Social security	10	14.4	15.3
11. Total expenditures	**TE**	42.7	44.2

Source: Eurostat, MoF SR

TABLE 25 (Table 4) - General government debt development (% of GDP)

	ESA code	2020	2021	2022	2023	2024
1. Gross debt		60.6	64.1	65.5	64.6	65.8
2. Change in gross debt		12.3	3.5	1.4	-0.8	1.2
Contributions to change in gross debt						
3. Primary balance		4.9	8.9	4.2	3.2	2.8
4. Interest expenditures		1.2	1.0	0.9	0.9	1.1
5. Stock-flow adjustment		4.7	-3.7	1.3	-1.5	-0.8
of which:						
- Differences between cash and accruals		-0.6	0.8	-0.2	-0.6	-0.8
- Net accumulation of financial assets		6.0	-4.7	1.3	-1.1	-0.5
of which: revenues from privatisation		0.0	0.0	0.0	0.0	0.0
- Valuation effects and others		-0.7	0.2	0.2	0.2	0.4
Implicit interest rate p. m.		2.5	1.7	1.6	1.5	1.7
Other relevant variables						
6. Liquid financial assets		10.2	5.1	5.9	4.5	3.9
7. Net financial debt (1-6)		50.4	59.0	59.5	60.1	61.9
8. Debt repayment (current debts) from previous year		5.0	2.7	1.3	4.3	4.4
9. Share of debt denominated in foreign currency		3.6	3.6	1.1	0.8	0.6
10. Average maturity		8.2	8.6	-	-	-

TABLE 26 (Table 5) - Cyclical developments

% of GDP	ESA code	2020	2021	2022	2023	2024
1. Real GDP growth (%)		-5.2	3.3	6.3	2.8	0.3
2. Net lending of the general government*	B.9	-6.2	-9.9	-5.1	-4.1	-3.8
3. Interest payments	D.41	1.2	1.0	0.9	0.9	1.1
4. One-off and temporary measures	[1]	-1.9	-3.5	0.0	0.0	0.0
Of which:						
Revenue measures - general government		0.2	0.1	0.0	0	0
Expenditure measures - general government		-2.0	-3.6	0.0	0	0
5. Potential GDP growth (%)		0.7	1.7	2.6	2.8	2.2
contributions:						
- labour		-0.3	-0.1	0.3	0.1	0.0
- capital		0.7	0.4	0.6	0.9	0.9
- total factor productivity		0.3	1.4	1.6	1.8	1.4
6. Output gap		-4.1	-2.6	0.9	0.9	-1.0
7. Cyclical budgetary component		-1.6	-1.0	0.3	0.3	-0.4
8. Cyclically-adjusted balance (2 - 7)		-4.6	-8.9	-5.5	-4.5	-3.5
9. Cyclically-adjusted primary balance (8 + 3)		-3.3	-7.9	-4.5	-3.5	-2.4
10. Structural balance (8 - 4)		-2.7	-5.5	-5.5	-4.5	-3.5

[1] A plus sign means a deficit-reducing one-off measure
* For 2021, the expected reality is provided

Source: MoF SR

TABLE 27 (Table 6 – Comparison between the previous forecast and the updated forecast

	ESA code	2020	2021	2022	2023	2024
Real GDP growth (%)						
Previous update*		-7.2	6.8	4.1	3.2	-
Outcome and current update		-5.2	3.3	6.3	2.8	0.3
Difference		2.0	-3.5	2.2	-0.4	-
General government balance (% of GDP)	EDP B.9					
Previous update*		-8.4	-4.9	-3.7	-2.9	-

Outcome and current update**	-6.2	-9.9	-5.1	-4.1	-3.8
Difference	2.2	-5.1	-1.4	-1.2	-
General government gross debt (% of GDP)					
Previous update*	61.2	61.9	61.4	60.1	-
Outcome and current update**	60.6	64.1	65.5	64.6	65.8
Difference	-0.7	2.2	4.0	4.5	-

*Note: * Stability Programme of the SR for 2020–2023*
** For 2021, the expected reality is provided

Source: MoF SR

TABLE 28 (Table 7) - Long-term sustainability of public finances (% of GDP)

	2021	2030	2040	2050	2060	2070
Total expenditure	51.6					
Of which: Age-related expenditures	20.0	21.9	24.2	26.9	29.2	29.1
A. Pension expenditure	9.5	10.2	11.6	13.4	14.5	14.2
a) Old-age and early pensions	7.2	7.5	8.6	10.4	11.6	11.4
b) Other pensions (disability, survivors)	1.9	2.4	2.8	2.9	2.9	2.8
B. Healthcare	6.2	6.9	7.5	7.9	8.2	8.2
C. Long-term care	1.0	1.2	1.7	2.1	2.5	2.9
D. Education	3.3	3.6	3.5	3.6	3.8	3.8
E. Other age-related expenditures						
of which: Interest expenditures	1.0	0.8	0.8	3.5	4.4	4.5
Total revenues	41.6					
of which: Property income (D.4)	0.7	0.8	0.8	0.8	0.8	0.8
of which: Pension contributions	7.3	7.0	7.2	7.4	7.5	7.5
Pension reserve fund assets						
of which: consolidated public pension fund assets						
Systemic pension reforms						
Social contributions diverted to voluntary private scheme	0.8	1.0	0.9	0.7	0.6	0.6
Pension expenditure paid by a voluntary private scheme	-	-	-	-	-	-
Assumptions						
Labour productivity growth	1.6	2.5	2.2	2.0	1.8	1.5
Real GDP growth	6.6	1.7	1.2	1.0	1.3	1.2
Participation rate males (aged 15-64)	84.7	84.4	82.3	83.0	84.2	83.9
Participation rate females (aged 15-64)	71.5	71.0	67.7	67.3	68.9	68.6
Total participation rate (aged 15-64)	78.2	77.8	75.1	75.3	76.8	76.4
Unemployment rate (aged 15-64)	6.8	7.8	7.3	6.7	6.7	6.7
Population aged 65+ of the total population (in %)	17.4	21.1	24.6	29.6	32.6	31.7

Source: MoF SR

TABLE 29 (Table 7a) – Contingent liabilities

	2020 % of GDP	2021 % of GDP
Public guarantees	**12.2**	**-**
of which: linked to EFSF and ESM	9.4	-
of which: linked to international institutions	1.4	-
of which: linked to the corona crisis	1.1	1.6
of which: linked to financial institutions with government participation	0.3	-

Source: MoF SR

TABLE 30 (Table 8) – Basic assumptions

	2020	2021	2022	2023	2024
Short-term interest rate EONIA (annual average, %)	-0.4	-0.5	-0.5	-0.4	-0.4
Long-term interest rate 10Y-SLOVGB (annual average, %)	0.1	0.3	1.0	1.5	1.8
USD/€ exchange rate (annual average) (euro area and ERM II countries)	1.1	1.2	1.2	1.2	1.2
Nominal effective interest rate	-1.5	0.5	0.7	0.8	0.4
World excluding EU, GDP growth (%)	-	-	-	-	-
EU GDP growth (%)	-6.8	4.4	4.1		
Growth of relevant foreign markets (%)	-5.6	3.8	4.4	2.2	1.7
World import volumes, excluding EU (%)	-	-	-	-	-
Oil prices (Brent, USD/bl)	43.2	61.5	58.5	56.5	55.4

TABLE 31 (Table 9a) – Recovery Plan influence (grants)*

	ESA	2021 (% of GDP)	2022 (% of GDP)	2023 (% of GDP)	2024 (% of GDP)
Revenues from RRF grants					
1. RRF grants included in projections					
2. Paid RRF grants from the EU					
Expenditures funded by RRF grants					
3.Total current expenditure					
of which:					
- Compensation of employees	D.1				
- Intermediate consumption	P.2				
- Social benefits	D.62+D.632				
- Interest payments	D.41				
- Subsidies	D.3				
- Current transfers	D.7				
4. Total capital expenditures					
of which:					
- Gross fixed capital formation	P.51g				
- Capital transfers	D.9				
Other expenditures funded from the grant					
5. Tax revenue reduction					
6. Other expenditures affecting revenues					
7. Financial transactions					

Source: MoF SR

*The EU Recovery and Resilience Plan (RRP) is not an official part of the Stability Programme, the general government balance includes grants and expenditures from the RRP only as a memorandum item

TABLE 32 (Table 9a) – Recovery Plan influence (loans)

	ESA	2021 (% of GDP)	2022 (% of GDP)	2023 (% of GDP)	2024 (% of GDP)
Loan from RRF					
1. Paid RRF loan from the EU					
2. Repaid RRF loan to the EU					
Expenditures funded by RRF loan					
3.Total current expenditure					
of which:					
- Compensation of employees	D.1				
- Intermediate consumption	P.2				
- Social benefits	D.62+D.632				
- Interest payments	D.41				
- Subsidies	D.3				
- Current transfers	D.7				
4. Total capital expenditures					
of which:					

- Gross fixed capital formation	P.51g
- Capital transfers	D.9
Other expenditures funded from the loan	
5. Tax revenue reduction	
6. Other expenditures affecting revenues	
7. Financial transactions	

Source: MoF SR

TABLE 33 – Status of government guarantees (% of GDP)

	Measure	Implementation	Maximum value	Estimated drawdown
Response to COVID-19	Anti-corona guarantees (cumulatively 2020 and 2021)	2020		1.6
	Subtotal			1.6
Other	EFSF and ESM		9.4	
	International financial institutions		1.4	
	Financial institutions with government participation			0.3
	Subtotal		10.7	0.3
Total			**10.7**	**1.9**

Source: MoF SR

Annex 2 – Discretionary measures taken in the fight against COVID-19 pandemic

TABLE 34 – List of measures taken in the fight against coronavirus (2021 - estimate till the end of the year)

			2020		2021		Total	
	EKRK	ESA	mil.	% of GDP	mil.	% of GDP	mil.	% of GDP
Direct assistance total			**1936**	**2.13**	**3578**	**3.75**	**5514**	**5.88**
Support to maintain employment			**921**	**1.01**	**1495**	**1.57**	**2416**	**2.58**
Total measures 1 to 4B (Kurzarbeit)	642032	D.62	773	0.85	1233	1.29	2006	2.14
Kurzarbeit for kindergartens	642032	D.62	59	0.07			59	0.07
Kurzarbeit for elementary schools of the arts	642032	D.62			21	0.02	21	0.02
Entrepreneurship promotion in tourism and hospitality sector	644	D.3p			159	0.17	159	0.17
Entrepreneurship promotion in culture and creative industry	644	D.3p			11	0.01	11	0.01
Reimbursement of rents	644	D.3p	40	0.04	70	0.07	110	0.12
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**	**0.33**	**453**	**0.48**	**754**	**0.81**
SOS allowance	642032	D.62	15	0.02	78	0.08	93	0.10
Parental allowance (extended period of provision)	642041	D.62	13	0.01	47	0.05	60	0.06
Unemployment benefit (extended period of provision)	642033	D.62	32	0.04	69	0.07	101	0.11
Sick pay - paid above the level of 2019 (indexed)	642015	D.62	106	0.12	213	0.22	319	0.34
Allowance for care of a family member - paid above the level of 2019 (indexed)	642015	D.62	133	0.15	47	0.05	180	0.20
Remission of taxes and levies			**92**	**0.10**	**10**	**0.01**	**103**	**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.51B	28	0.03			28	0.03
Unpaid part of deferred levies		D.61	8	0.01			8	0.01
Zero value added tax on FFP2/3 respirators		D.211			10	0.01	10	0.01
Increased healthcare expenditures			**381**	**0.42**	**717**	**0.75**	**1098**	**1.17**
Rewards for healthcare employees	610, 620	D.1	13	0.01	114	0.12	127	0.13
Payment to medical specialists		D.99	138	0.15			138	0.15
Increased expenditures - ventilators and other		P.2	39	0.04			39	0.04
Testing expenditures	630, 710	P.2, P.51	124	0.14	422	0.44	546	0.57
Costs of medicines and vaccination	630	P.2	3	0.00	182	0.19	185	0.19
Equipment and other expenditures of healthcare facilities		P.2	63	0.07			63	0.07
Other measures			**241**	**0.26**	**315**	**0.33**	**556**	**0.59**
Creation of emergency stock (excluding tests)	630	P.2	33	0.04	5	0.01	43	0.05
Rewards to frontline workers (excluding the Ministry of Health)	610, 620	D.1	64	0.07	6		70	0.07
Goods and services related to COVID-19 (disinfection, other)		P.2	22	0.02			22	0.02
Subsidy schemes for various sectors/entities	644	D.3p	16	0.02	84	0.09	100	0.11
Economic mobilisation measures	630	P.2	24	0.03	172	0.18	197	0.21
Contribution to the share capital of Slovenská záručná a rozvojová banka (Slovak Guarantee and Development Bank)		D.99	50	0.05			50	0.05
Contribution to the share capital of Letové prevádzkové služby (Air Navigation Services)		D.99	13	0.01			13	0.01
Other	630	P.2	18	0.02	47	0.05	66	0.07
Additional reserve in 2021	630	P.2			**588**	**0.62**	**588**	**0.62**
Financing from EU resources			**343**	0.38	**138**			
Direct assistance total after including the coverage from EU funds			**1593**	1.75	**3440**	3.61	**5033**	**5.52**
p.m. Deferral of taxes and levies (without direct influence on deficit)			**459**	**0.50**	**52**	**0.05**	**511**	**0.56**
Deferral of corporate income tax return			187	0.21			187	0.21
Postponement of advance corporate/personal income tax payments in the event of revenue drop by 40 %			249	0.27			249	0.27
Deferral of health insurance contributions for March			6	0.01			6	0.01
Deferral of social security contributions for March, May, June, July (effects in 2020)			17	0.02			17	0.02
Postponement of payment of deferred contributions from 2020 to June 2021					28	0.03	28	0.03
Deferral of social security contributions for December to June 2021					5	0.00	5	0.00
Deferral of social security contributions for 2021 (January, February, March) to June 2021					19	0.02	19	0.02
p. m. Bank guarantees (without direct influence on deficit)			**1038**	**1.14**	**480**	**0.50**	**1518**	**1.64**
SZRB - contracted de minimis scheme			65	0.07	82	0.09	147	0.16
Eximbanka - contracted de minimis scheme			81	0.09	18	0.02	99	0.11
SIH - contracted de minimis scheme			343	0.38	180	0.19	523	0.56
Major scheme			550	0.60	200	0.21	750	0.81
p.m. Deferred instalments (banking sector measure)			**489**	**0.54**	**96**	**0.10**	**585**	**0.64**
p.m. Transfers within general government			**979**	**1.07**	**300**	**0.33**	**1,279**	**1.40**
Transfers ŽSR, ŽSSK and NDS			120	0.13			120	0.13
Repayable financial assistance to municipalities and towns			152	0.17			152	0.17

Contribution to Všeobecná zdravotná poisťovňa (General Health Insurance Company)			198	0.22			198	0.22
Transfer Social Insurance Agency			459	0.50	300	0.31	759	0.82
Various increased current transfers for other general government entities			50	0.06			50	0.06
All measures total			**4,901**	**5.38**	**4,506**	**4.74**	**9,408**	**10.12**

**The effect of sick pay and allowance for care of a family member is calculated through an increase in allowances in comparison with 2019, with base indexing for calculation for 2021. Thus, some sick pays and allowances for care of a family member are included which were not classified as pandemic.

Source: MoF SR

Measures concerning direct support

Payment to employees incapable for work in quarantine or self-isolation or employees taking care of a household member in the amount of 55 % of their gross wage[102]. For sick pay, a possibility of drawing due to quarantine or self-isolation was introduced. The State temporarily pays sick pay from the first day[103] in the amount of 55 % of previous income. A working parent with a child at an age of up to 11 years can draw an allowance for care during the whole period when schools and kindergartens are closed[104]. When these allowances are drawn, public finance revenues from personal income taxes and social contributions will also decrease. In April 2021, the rate of reimbursement is increased to 75 % of gross wage for both allowances.

Other social support measures: 1. Extension of unemployment benefit payment also after the expiry of a maximum period of receiving. The first round was between March and August 2020, the second round is under way between March and May 2021. 2. Extension of a title to parental allowance also after the child reaches the age of 3 years. 3. SOS allowance to help those people who are not entitled to any other financial assistance. The target group includes, for example, employees working by agreement.

An allowance to maintain employment for enterprises affected by the crisis. In February 2021, those employers that will maintain jobs during the emergency status, received an allowance to reimburse 100 % of total price of employee's work (maximum to an amount of EUR 1,100)[105] and a flat-rate allowance in the event of a drop in revenues of at least 20 % per each employee (a monthly support amounts to EUR 330 to 870 according to the drop in revenues)[106]. The employer should select the type of support they will apply for.

An allowance to maintain employment for closed establishments. From February 2021, 100% of total price of employee's work[107] (maximum up to EUR 1,100) is reimbursed to those employers that will maintain jobs during the emergency status regardless of the size of the enterprise.

The support for people working by agreement, one-man companies and self-employed people will amount to EUR 360[108]. In February 2021, the flat-rate allowances for low-income self-employed people and one-man limited liability companies were increased.

Other measures to support the maintenance of employment: 1. Sectoral schemes focused on maintaining employment in kindergartens and elementary schools of the arts. They receive assistance if they maintained jobs during the emergency status. 2. The support for entrepreneurship is provided in tourism, to entrepreneurs in hospitality, culture and creative industry. The assistance in tourism is intended for compensation of damage incurred by the applicants as a consequence of measures adopted to mitigate the negative consequences of the pandemic. The objective of the support for culture and creative industry is to provide a subsidy for uncovered fixed costs for micro, small and medium enterprises operating in this area during the existence of difficult conditions for

102 With the respective limitation of a maximum amount of the daily assessment base.

103 Before these measures were taken, from the 11th day - the employer paid first ten days, where first three days only in the amount of 25 % previous income.

104 The allowance for care of a family member has been paid for maximum 10 days per one diagnosis so far. If a child is sick or seriously disabled, the allowance for care of a family member is similarly released to parents with children up to an age of 16 or 18 years (seriously disabled). During the whole period of drawing the allowance for care of a family member, the parent remains socially insured with the exemption from the duty to pay premium.

105 From April 2020 to September 2020, the allowance for the reimbursement of 80% of employee's gross wage amounted maximum to EUR 880 and from October 2020 to January 2021, the allowance for the reimbursement of 80% of total price of employee's work amounted maximum to EUR 1,100.

106 From April 2020 to September 2020, a monthly support amounted to EUR 180 to 540 and from October 2020 to January 2021, the monthly support amounted to EUR 270 to 810 according to the drop in revenues.

107 From April 2020 to September 2020, the allowance amounted to 80% of employee's gross wage and from October 2020 to January 2021, the allowance amounted to 80% of total price of employee's work.

108 From April 2020 to September 2020, the support amounted to EUR 210 and from October 2020 to January 2021, the support amounted to EUR 315.

the performance of business activities. 3. Reimbursement of rents to enterprises The scheme is intended for enterprises paying rents for establishments during the period of obstacles to use.

Full remission of social contributions for employers and self-employed people with closed establishments for April. The measure can be applied if the establishment is closed for at least 15 days. The Government can also extend the measure through a regulation for further months.

Zero value added tax rate for FFP2/3 respirators is applied in the period from 12 February to 30 June 2021. If the worsened pandemic situation persists, the period of the measure will be probably extended.

Other measures: 1. Charging for the tax loss non-applied yet for 2015 to 2018 in the tax return for 2019, 2. Interruption of tax audits and tax proceedings at the request of the tax entity, 3. Advancing the deadline for the filing of tax return for the tax on motor vehicles (for the fiscal year 2019). 4. Extensions of periods of receiving unemployment benefits

Measures concerning deferrals of payment of taxes and social contributions

The deferral of payment of social contributions contains several measures depending on the period concerned. It is in particular a cash deferral because the current setting does not allow deferral of payment to the next year. In the part of social contributions, we expect an accrual effect due to a possible failure to pay the contributions in selected risk sectors.

The deferral of advance income tax payments when revenues drop by more than 40 %. It is a cash effect, accrual settlement of tax should occur within the annual settlement (in 2021).

Other measures: 1. Postponement of advance payments for taxes on motor vehicles from April to the end of the pandemic (with the settlement on tax return filing). 2. Optional postponement of the duty to file a tax return for natural and legal persons (income tax). 3. Extension of the time-limit for employers for payment of income tax overpaid, child tax credit and tax credit for paid interests after the annual settlement after the end of the pandemic.

Bank guarantees

Banking measures include new loans with guarantee to be provided through five programmes. The first three of them are launched on the basis of **de minimis scheme** within which enterprises will be able to draw assistance from May 2020 through three institutions. The first possibility is loan provision with a guarantee from the state-owned joint stock company Slovak Investment Holding (SIH). The volume of provided guarantees was originally set to EUR 38 mil., however, additionally, the allocation was increased by additional EUR 57 mil. The loans are provided to enterprises by commercial banks. The second institution is EXIMBANKA SR, which also supports large enterprises in the form of credits, guarantees and remission of fees for guarantees. Assistance is also provided by Slovenská záručná a rozvojová banka - (Slovak Guarantee and Development Bank, SZRB) in the form of credits from EUR 10,000 to 350,000 for small and medium enterprises and for self-employed people. The other two programmes of the so-called **major scheme of assistance** from the State follow the new rules of temporary framework issued by the European Commission. The major scheme of assistance should provide resources to small, medium and large enterprises through SIH and Eximbanka. Estimated guarantees amount to EUR 1.5 bn.

The Government also agreed with financial institutions upon a postponement of credit instalments for a period of maximum 9 months[109]. This concerns people injured by the current pandemic who will apply for postponement. The postponement is free of charge, however, it does not mean any remission of a part of debt or interest. The clients applying for the postponement will not have any record in the credit register.

[109] The agreement on postponement concerns banks, leasing and non-banking companies for all types of credits from mortgages to consumer credits; bank credits can be postponed by nine months. Clients may ask non-banking and leasing companies for a 3-month postponement with the possibility to additionally apply for another three-month postponement.

Annex 3 – Structural balance

Structural balance represents a difference between general government revenues and expenditures without one-off and temporary measures provided that economy is at its potential level. The structural balance displays a medium-term fiscal position of the country more truly than the nominal balance.

The Stability and Growth Pact is based on the premise that Member States should reach a symmetrical approach to the fiscal policy in compliance with the cyclical development of economy. The basic objective is to increase orientation to budgetary discipline in the periods of economic recovery with the objective to avoid a pro-cyclical character of fiscal policy and gradually achieve the medium-term budgetary objective[110]. It should result in the creation of fiscal space for periods with economic downturn and at the same time, it should reduce the general government debt at an adequate speed thus positively affecting the long-term sustainability of public finance.

Structural balance calculation

Step 1 - by means of a cyclical component, nominal balance of public finance adjusts for the effect of economic fluctuations[111]. The estimate of the output gap is based on the current macroeconomic forecast of the Ministry of Finance of the Slovak Republic from March 2021. The Ministry of Finance of the SR uses estimates of the sensitivity of the general government balance to changes in the output gap, which is based on OECD methodology,[112] which is fully in line with the European Commission methodology.

Step 2 - the modified balance is adjusted for one-off and temporary measures[113], whose fiscal effect is not repeated in the next years. For the needs of draft Budgetary Plan, in identifying them, the Ministry of Finance of the SR follows the EC's methodology[114].

The following measures have been evaluated as one-off effects on the structural balance calculation.

TABLE 35 – List of one-off measures

		2020	2021	2022	2023	2024
1	Total measures 1 to 4B (Kurzarbeit)	-773	-1233	-	-	-
2	Kurzarbeit for kindergartens	-59	-	-	-	-
3	Kurzarbeit for elementary schools of the arts	-	-21	-	-	-
4	Entrepreneurship promotion in tourism and hospitality sector	-	-159	-	-	-
5	Entrepreneurship promotion in culture and creative industry	-	-11	-	-	-
6	Reimbursement of rents	-40	-70	-	-	-
7	Support for job applicants	-49	-	-	-	-
8	SOS allowance	-15	-78	-	-	-
9	Parental allowance (extended period of provision during the state of emergency)	-13	-47	-	-	-
10	Unemployment benefit (extended period of provision)	-32	-69	-	-	-
11	Sick pay - paid above the level of 2019 (indexed)	-106	-213	-	-	-
12	Allowance for care of a family member - paid above the level of 2019 (indexed)	-133	-47	-	-	-
13	Remission of social security contributions for April	-57	-	-	-	-

[110] The Stability and Growth Pact is based on the premise that Member States should reach a symmetrical approach to the fiscal policy in compliance with the cyclical development of economy.
[111] Estimated by means of output gap as a difference between the real and potential level of GDP.
[112] The original methodology was presented in Girouard, N., André, Ch. (2005): Measuring cyclically-adjusted budget balances for OECD countries. The process of updating methodology and including new data for calculating elasticity took place in 2014. The methodology was adopted by the Member States in September 2014.
[113] Methodology of the European Commission (EC) characterises one-off measures as temporary measures which do not have permanent character and came into existence independently from governmental decisions. The EC created a guidance on the procedure of classification of one-off measures - Vade Mecum on the Stability and Growth Pact – 2018 Edition – Guiding principles p.28.
[114] All typical one-off measures are described in 2015 Report of Public Finances in EMU[114], Chapter 3.3. Moreover, the EC determined specific exemptions and procedures, when an effect disturbing the above principles may also be considered a one-off measure; these cases are also provided in the chapter.

14	Deduction of company losses from 2015-18	-28	-	-	-	-
15	Unpaid part of deferred levies	-8	-	-	-	-
16	Zero value added tax on FFP2/3 respirators	-	-10	-	-	-
17	Rewards for healthcare employees	-13	-114	-	-	-
18	Payment to medical specialists	-138	-	-	-	-
19	Increased expenditures - ventilators and other	-39	-	-	-	-
20	Testing expenditures	-124	-422	-	-	-
21	Costs of medicines and vaccination	-3	-182	-	-	-
22	Equipment and other expenditures of healthcare facilities	-63	0	-	-	-
23	Creation of emergency stock (excluding tests)	-33	-5	-	-	-
24	Rewards to frontline workers (excluding the Ministry of Health)	-64	-6	-	-	-
25	Goods and services related to COVID-19 (disinfection, other)	-22	-	-	-	-
26	Subsidy schemes for various sectors/entities	-16	-84	-	-	-
27	Economic mobilisation measures	-24	-172	-	-	-
28	Contribution to the share capital of Slovenská záručná a rozvojová banka (Slovak Guarantee and Development Bank)	-50	-	-	-	-
29	Contribution to the share capital of Letové prevádzkové služby (Air Navigation Services)	-13	-	-	-	-
30	Other	-18	-47	-	-	-
31	Additional reserve in the year for COVID	-	-588	-	-	-
32	Financing from EU resources	343	138	-	-	-
33	VAT payment of D4/R7 Project concessionaire	71	131	-	-	-
34	Settlement of risk guarantee for Cuba	-173	-	-	-	-
	Total	**-1695**	**-3309**	**0**	**0**	**0**

Source: MoF SR

Annex 4 - Expenditure benchmark

The second pillar of the preventive part of the Stability and Growth Pact is the expenditure benchmark which is compared to the structural balance rule a more countercyclical indicator and it takes into account the effects under Government control to a greater extent. According to it, general government expenditures (adjusted for items out of Government control and new revenue measures[115]) should not grow faster than the medium-term potential growth of economy[116]. The expenditure benchmark also abstracts from other than standard (average) dynamics of tax collection[117] and from supply shocks to economy – like the one experienced in these years. In good times, when tax revenues and social contributions increase faster than VAT and improve the fiscal position to a greater extent, the expenditure benchmark is compared to the structural balance a stricter and more countercyclical indicator for the evaluation of consolidation efforts. In worse times, on the contrary, it offers greater room for economy stabilisation.

TABLE 36 – Expenditure benchmark

	2019 R	2020 R	2021 ER	2022	2023	2024
1. Total expenditure**	**40,066**	**43,719**	**49,200**	**47,251**	**49,866**	**49,339**
2. Interest payments	1,163	1,134	936	969	1,024	1,195
3. Expenditures covered by the EU (capital)	587	574	616	461	531	4
3a. Expenditures covered by EU resources (total)	890	931	1,278	1,441	2,563	1,141
4. Capital expenditures covered by national resources	2,767	2,619	3,039	3,209	3,557	3,426
5. Smoothed capital expenditures (national resources 4-year moving average)	2,506	2,598	2,756	2,908	3,106	3,308
6. Cyclical unemployment benefit expenditure	-26	58	39	-14	-15	17
7. Expenditures fully matched by automatic revenue increase	0	0	0	0	0	0
8. Primary expenditure aggregate (1-2-3a-4+5-6-7)	**37,779**	**41,574**	**46,665**	**44,555**	**45,843**	**46,867**
9. Year-on-year change of the primary expenditure aggregate (8t-8t-1)	2,730	3,795	5,091	-2,110	1,288	1,024
10. Change in revenues due to discretionary revenue measures**	177	-480	74	41	331	303
11. One-off measures on the revenue side (COVID-19)	0	-92	82	10	0	0
12. One-off measures on the expenditure side (COVID-19)	0	-1,501	-1,939	3,440	0	0
13. Methodological adjustments	0	0	0	0	0	0
14. Nominal increase in the expenditure aggregate adjusted for revenue measures ((9t-10t)/8t-1)	7.3	7.1	7.6	2.8	2.1	1.6
15. Real increase in the expenditure aggregate adjusted for revenue measures	4.6	4.5	6.3	0.7	-0.6	-1.0
16. Expenditure benchmark (reduced reference rate of pot. GDP growth)	2.0	2.8	1.9	1.6	-0.4	-0.4
17. Deviation from the expenditure benchmark (16 -15)	-2.7	-1.7	-4.4	1.0	0.2	0.6
Single-year deviation - fixed	**-1.3**	**-**	**-**	**-**	**0.1**	**0.2**
Two-year deviation - fixed	**-1.2**	**-**	**-**	**-**	**0.1**	**0.2**
p.m. GDP deflator	*2.5*	*2.5*	*1.3*	*2.1*	*2.8*	*2.6*
Limit of deviation on a single-year horizon	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Limit of deviation on a two-year horizon	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

* Deviations in 2019 result from frozen values from the last evaluation by the European Commission.
** In 2022 and 2023, the unspecified measures necessary to achieve the budgetary objectives are divided as follows: a half of necessary measures is imputed in current expenditures and a half is imputed through revenue measures – DRM.

Source: MoF SR

[115] Discretionary revenue measures represent additional year-on-year effects of revenue measures.
[116] The potential of economy is expressed as a reference rate for expenditure growth, calculated as a 10-year average of potential growth (in the years t-5 to t+4). Such rate should ensure the stabilisation of GG balance level. If country has not achieved its MTO yet, the expenditure growth must also take into account the need of gradual convergence to this objective. In such case, the expenditure benchmark is adjusted in individual years for a so-called convergence rate which depends on the required consolidation effort of the structural balance.
[117] Unit elasticity of tax collection against the GDP growth is expected.

Discretionary revenue measures

The EC's methodology defines discretionary revenue measures as measures of legislative character with effects on general government revenues. They are evaluated by means of additional effects (marginal changes) of these measures. Permanent or one-off measures are distinguished. Permanent structural measures are recorded with an impact in the first year (at the moment when they come into effect) and with no additional impact in the following years. Macroeconomic development in the following years is not taken into account. If different effects occur due to a postponed application of a measure, only the marginal, year-on-year change is recorded.[118] For one-off revenue measures, the impact is recorded only in one year and in the following year a shortfall of the same amount - the overall impact in two subsequent years is zero.

TABLE 37 – Discretionary revenue measures – YoY effects of measures (EUR mil., ESA2010)

Description of measures	2019	2020	2021	2022	2023	2024
Introduction of the 13th and 14th salary (introduction from 2018, legislative changes from 2019), cancellation from 2021	-30.1	11.1	20.6	0.0	0	0
Exemption of recreation vouchers from taxes and contributions	-31.4	0	0	0	0	0
Exemption of in-kind benefit for employee for accommodation	-15.7	6.4	0	0	0	0
Taxation of dividends through a 7 % withholding tax	31.7	0	0	0	0	0
Exemption of income from the sale of shares and business share	-5	-23	0	0	0	0
Set of measures leading to better efficiency of VAT collection	216	-24	0	0	0	0
Reduced VAT rate for accommodation services	-24	0	0	0	0	0
Increasing the tobacco products excise tax	36	0	102	85	67	0
Annual account of social insurance	0	0	0	0	49	0
Introduction of health contribution allowance (OOP) and subsequent changes (change of OOP application, cancellation of OOP for employer, introduction of OOP for pensioners)	37	0	0	0	0	0
Gradual increase in the contribution to the 2nd pillar (automatically from 2017 by 0.25 p.p./year)	-41	-49	-34	-50	-53	-62
Non-life insurance - introduction of a levy and substitution by a premium tax	42	0	0	0	0	0
Doubling of the rate of a special levy in regulated industries and subsequent reduction	-40	0	-17	0	0	0
Increase in the bank levy and its cancellation from the second half of 2020	0	1	-120	0	0	0
Increased deduction of expenditures on research and development	-10	-2	0	0	0	0
Introduction of licences for gambling games and other changes in the taxation of gambling	12	3	0	0	0	0
Increased limit for advance tax payments (from EUR 2500 to 5000).	0	0	-11	0	0	0
Tax loss deduction for other companies (max. up to 50 % of tax base during 5 years)	0	0	36	-6	0	0
Arbitrary period of depreciations for microenterprises	0	0	-15	0	0	0
A 15-percent rate of corporate income tax for companies with a turnover of up to EUR 100 thous., subsequent adjustment up to EUR 49.79 thous.	0	-42	19	0	0	0
Increase in the non-taxable part of tax base to 21-times the minimum subsistence amount	0	-112	0	0	0	0
Reduced rate for self-employed persons to 15 % for a turnover of up to EUR 100 thous., subsequent adjustment up to EUR 49.79 thous.	0	-19	2	0	0	0
Reduced VAT rate for additional foodstuffs	0	-81	0	0	0	0
Introduction of a flat-rate benefit in kind for an employee for transport (EUR 100 per month)	0	-6	-12	0	0	0
Measures supporting job mobility	0	-34	0	0	0	0
Change of property tax rates at the level of generally binding regulation	0	56	2	0	0	0
Interruption of tax audits and tax proceedings except for audits with the result of money return	0	-13	13	0	0	0
Remission of payment of contributions for closed establishments	0	-58	58	0	0	0
A possibility to charge for the tax loss non-applied yet for 2015 to 2018	0	-28	28	0	0	0
Correction of VAT base when goods or services are delivered	0	0	-41	0	0	0
Cancellation of VAT exemption for consignments up to EUR 22 from third countries	0	0	11	12	0	0
Changes in the taxation of motor vehicles	0	-28.5	0	0	0	0
Postponement of the date for payment of deferrals to the Social Insurance Agency	0	-28	23	0	0	0
Temporary exemption from VAT for FFP2 and FFP3 respirators	0	-10	10	0	0	0
Total	**176.9**	**-479.7**	**74.3**	**41.1**	**62.7**	**-62.1**

Source: MoF SR

[118] Illustration of impact of marginal changes: The overall effect of a measure is 200. Since it is introduced in the middle of the year, the effect in the respective year is 100. In the next year, the effect rises to the amount 200, however, marginally only the difference between the two effects is recorded, i.e. 100. Cumulatively, the entire effect is 200, only it is distributed into two years.

Annex 5 – Cash-based general government gross debt forecast

In terms of cash development, gross debt will be affected in particular by the need to finance high cash deficits, which in 2024 will still be twice as high as in the pre-crisis year 2019. The presented development also assumes the adoption of additional consolidation measures otherwise the debt till the end of 2024 would be by about EUR 1.2 bn. higher with the preservation of the cash reserve over EUR 3 bn. The debt dynamics in 2021 will be attenuated by drawing the accumulated reserve from 2020 for the case of more negative development of the pandemic. In the following years, the work with cash reserve will continue and its utilisation will help stabilise the debt in particular at the end of the horizon when a slow-down of economic growth is expected. The indebtedness of other entities will contribute to debt increase slightly negatively (cumulatively) in particular through the contribution of transport companies of selected towns. Methodological adjustments, such as a discount on the issuance and redemption of bonds, will also affect the debt value on the budget horizon. The negative influence is based in particular on the issue discount for bonds with a longer maturity period. Other changes in the debt forecast are connected to exchange rate differences and a change in the deposits of State Treasury clients outside of the general government.

TABLE 38 – Cash effects on the general government gross debt change (in EUR mil.)

	2019	2020	2021 ER	2022 SP	2023 SP	2024 SP
A. Gross debt of general government (as at 1 January)	44,383	45,275	55,181	61,141	67,762	70,660
B. Total YoY change of the GG gross debt	892	9,905	5,960	6,622	2,897	3,372
- state budget cash deficit	2,201	7,758	10,072	5,322	4,324	4,031
of which: SR contribution to ESM	0	134	0	0	0	0
- State Treasury funds used to fund the SB cash deficit	-1,586	1,767	-4,203	1,130	-1,626	-1,053
- indebtedness of other GG entities	248	85	33	-12	22	13
of which: Local government (municipalities and self-governing regions)	46	-9	11	-28	-27	-26
of which: NDS	-42	-30	-37	-37	0	0
of which: ŽSR + ŽSSK	117	56	16	-17	-8	-12
of which: Municipal public transportation companies	-15	9	9	39	33	31
- change of guarantees of the SR in the EFSF	-21	0	0	0	0	0
- issuance discount	4	28	62	194	226	387
- discount at maturity	2	-16	-2	-11	-49	-6
- other	44	283*	-1	-1	0	0
C. Gross debt of general government (as at 31 December)	45,275	55,181	61,141	67,762	70,660	74,032
in % of GDP	48.2	60.6	64.1	65.5	64.6	65.8

Note: Positive items increase the general government debt as at 31 December of the given year, negative items decrease the debt. *Source: MoF SR*

** consisting in particular of imputed items, such as green energy and differences of analytical forecast and notified Maastricht debt in the ESA2010 methodology.*

Annex 6 – Assumptions for the calculation of sustainability indicators

In analysing the medium-term and long-term sustainability, the MoF SR worked with current data from expected reality in the Stability Programme for 2021 to 2024 (for the estimate of general government balance and general government debt in the initial year 2021), and with the last update of projections of costs of ageing for 2021. The MoF SR includes in the projections both expenditure and revenue effects of the 2nd pillar.[119] Several scenarios were analysed for the purposes of Stability Programme (Chapter 4). The baseline scenario for 2021, consolidation scenario till 2024 and reform scenario with the assumption of approval of pension scheme changes and achievement of consolidation till 2024. The assumptions of calculation and the analysis of contributions of individual factors to the resulting values of S1 and S2 are provided in the table below.

TABLE 39 – Assumptions of the MoF SR for S2 sustainability indicator calculation

	Base year (t_0)	Structural primary balance	DEBT (t_0)	Gradual consolidation*	Final year (t_1)	DEBT (t_1)	Revenue and expenditure effects of the 2nd pillar	The resulting value of S1	Sustainability risk
ER 2021	2021	-4.5	64.1	2022 to 2026	2034	60	**yes**	**5.4**	**high**
R 2024 – no reform	2024	-2.4	65.8	2025 to 2029	2037	60	**yes**	**3.1**	**high**
R 2024 – with reform	2024	-2.4	65.8	2025 to 2029	2037	60	**yes**	**3.1**	**high**

Source: MoF SR

TABLE 40 – S1 sustainability indicator analysis

	ER 2021	R 2024 – no reform	R 2024 – with reform
S1 Indicator (% of GDP)	**5.4**	**3.1**	**3.1**
of which:			
Initial budgetary position	2.7	0.6	0.8
Cost of delaying adjustment	0.7	0.4	0.4
Debt requirement in the final year	0.4	0.5	0.5
Long-term expenditures (ageing costs)	1.5	1.6	1.3
Revenue shortfall due to the second pillar	0.1	0.0	0.0

Source: MoF SR

TABLE 41 – Assumptions of the MoF SR for S2 sustainability indicator calculation

	Base year (t_0)	Structural primary balance	DEBT (t_0)	Revenue and expenditure effects of the 2nd pillar	The resulting value of S1	Sustainability risk
ER 2021	2021	-4.5	64.1	**yes**	**12.8**	**high**
R 2024 – no reform	2024	-2.4	65.8	**yes**	**10.0**	**high**
R 2024 – with reform	2024	-2.4	65.8	**yes**	**8.0**	**high**

Source: MoF SR

TABLE 42 – S2 sustainability indicator analysis

	ER 2021	R 2024 – no reform	R 2024 – with reform
S2 Indicator (% of GDP)	**12.8**	**10.0**	**8.0**
of which:			
Initial budgetary position	4.7	2.6	2.5
Pension expenditures	4.3	4.1	2.9
Health and long-term care expenditure	3.5	3.2	2.9
Education and unemployment benefits expenditure	0.4	0.3	0.0
Revenue shortfall due to the second pillar	-0.2	-0.3	-0.3

[119] The overall effect of revenues to the 2nd pillar on sustainability evaluation till 2032 is slightly negative. It is slightly positive in the long term. The MoF SR considers this approach as more appropriate because changes in fully-funded pillar systems affect not only the expenditures of pension schemes, but also their revenues.

Assumptions for the calculation of planned measures in the pension scheme

TABLE 43 – Assumptions for the calculation of effects of planned measures.

Measures	Assumptions
Growth of retirement age with life expectancy	Retirement age is automatically increased on an annual basis by a year-on-year difference of 5-year moving average of life expectancy without distinction based on sex[120], rounded to whole months. After the achievement of the retirement age ceiling according to Article 39 of the Constitution, mothers switch to general retirement age.
Parenthood compensation	Lower social contributions due parental leave, which cause a lower pension, are compensated. The premium paid by the State during parental leave will be paid from 100 % of average wage instead of 60 % of average wage. A higher contribution to the 2nd pillar is expected, equally from 100 % of average wage instead of 60 %. Pensions will be increased to current mothers receiving old-age pensions and mothers who will be granted old-age pensions in the future.
Parental credit - assignation	The credit is expected to amount to the child's contribution to the reserve solidarity fund (4.75 % of gross wage). It will be paid either in full amount to one living parent receiving an old-age pension or it will be divided between both parents if they are alive and receive old-age pensions.
An earlier retirement after 40 years worked	The GDP is adjusted for a decrease in labour force individuals who will decide to retire earlier. Thanks to the actuarial principle, this change should not considerably affect the total volume of pension expenditures. The calculation also expects the already established link between the retirement age and life expectancy growth*.
Automatic entry into the 2nd pillar	By 2060, the share of participation in the 2nd pillar will converge to 95 %.

** Thus, it is an additional effect to the introduction of retirement age growth with life expectancy, and not compared to the current setting. Compared to the current setting, the effect would be lower because fewer people could use this possibility. For the reason of a growing share of time spent on education and unchanging retirement age (because of the ceiling), careers will be shorter and an ever-decreasing number of people will reach 40 years worked.*

[120] It is the same mechanism as the one, which was part of Article 65a of Act No. 461/2003 Coll. on social insurance with effect till 31 December 2018.

Annex 8 – List of measures affecting the general government balance in 2021 to 2024

The no-policy-change scenario describes the development of items according to the assumptions of the macroeconomic forecast, as well as on the basis of measures, the decision on which was made before 1 January 2021. The table below contains all the budgetary measures affecting the change of the general government balance in 2020 to 2024 (compared to 2019), regardless of the date of decision on the measure. Taking into account the one-off nature, the measures related to the pandemic outbreak are not considered in the following table.

TABLE 44 – List of measures (effect in comparison with the 2019 base), EUR mil.

Revenue measures	2020	2021	2022	2023	2024
Introduction of the 13th and 14th salary (introduction from 2018, legislative changes from 2019), cancellation from 2021	11	32	32	32	32
Exemption of income from the sale of shares and business share	-23	-30	-31	-31	-31
Annual account of social insurance	0	0	0	49	49
Gradual increase in the contribution to the 2nd pillar (automatically from 2017 by 0.25 p.p./year)	-49	-83	-133	-186	-248
Doubling of the rate of a special levy in regulated industries and subsequent reduction	0	-17	-17	-17	-17
Increase in the bank levy and its cancellation from the second half of 2020	1	-120	-120	-120	-120
Increased limit for advance tax payments (from EUR 2500 to 5000).	0	-11	-11	-11	-11
Tax loss deduction for other companies (max. up to 50 % of tax base during 5 years)	0	36	30	30	30
Arbitrary period of depreciations for microenterprises	0	-15	-15	-15	-15
A 15-percent rate of corporate income tax for companies with a turnover of up to EUR 100 thous., subsequent adjustment up to EUR 49.79 thous.	-42	-23	-22	-21	-21
Increase in the non-taxable part of tax base to 21-times the minimum subsistence amount	-112	-114	-115	-113	-118
Reduced rate for self-employed persons to 15% for a turnover of up to EUR 100 thous., subsequent adjustment up to EUR 49.79 thous.	-19	-18	-16	-15	-14
Reduced VAT rate for additional foodstuffs	-81	-84	-87	-91	-95
Introduction of a flat-rate benefit in kind for an employee for transport (EUR 100 per month)	-6	-19	-19	-19	-19
Measures supporting job mobility	-34	-34	-34	-34	-34
Change of property tax rates at the level of generally binding regulation	56	59	59	59	59
Interruption of tax audits and tax proceedings except for audits with the result of money return	-13	0	0	0	0
Remission of payment of contributions for closed establishments	-58	0	0	0	0
A possibility to charge for the tax loss non-applied yet for 2015 to 2018	-28	0	0	0	0
Correction of VAT base when goods or services are delivered	0	-41	-41	-41	-41
Cancellation of VAT exemption for consignments up to EUR 22 from third countries	0	11	23	23	23
Changes in the taxation of motor vehicles	-28	-28	-28	-28	-28
Postponement of the date for payment of deferrals to the Social Insurance Agency	-28	-4	-4	-4	-4
Temporary exemption from VAT for FFP2 and FFP3 respirators	-10	0	0	0	0
Total revenue	**-463**	**-502**	**-550**	**-554**	**-624**

Expenditure measures	2020	2021	2022	2023	2024
Free school meals	0	-60	-112	-113	-113
Doubling of the tax credit for parents of children up to an age of 15 years	0	26	99	113	115
Wage indexation by 10% in 2020 (effect compared to zero growth)	546	607	619	654	679
Amendment to the Act on Compensation of Seriously Disabled – an increase for the compensation of seriously disabled and for care from 2019 - from July 2020	17	43	45	46	46
Amendment to the Social Insurance Act – slow-down of retirement age growth	19	37	47	46	46
Increased parental allowance	164	169	173	177	177

Change of the system of remuneration of Armed Forces members	79	103	118	118	118
Minimum amount of paid pensions	90	136	163	192	224
Compulsory pre-primary education in kindergartens	16	47	47	47	47
Allowance for education of children in kindergartens	0	15	26	24	24
Fund to promote sport	20	20	20	20	20
Payment for D4/D7 availability	0	0	22	53	53
Establishment of medical emergency service rooms	13	13	13	13	13
Reserve to execute court and execution decisions	0	20	10	10	10
Reserve to solve the impact of new legal regulations	0	111	0	0	0
Reserve to solve the impact of legislative changes	0	0	155	165	124
Gradual reduction of the number of policemen to the EU average	0	-14	-36	-54	-71
Optimisation of the number of pedagogical and non-pedagogical employees of public universities	0	-18	-45	-73	-73
Improvement of remuneration of employees of Public Health Authority of the SR and Regional Public Health Authorities	0	24	24	24	24
Increased resources for maintenance and repairs of Class 1 roads administered by Slovenská správa ciest (Slovak Road Administration)	0	60	50	50	40
Commitment of ŽSSK transfer - reduced expenditures on goods and services	0	-53	-53	-53	-53
Audit of ŽSR - reduced expenditures on goods and services	0	-35	-47	-62	-62
Support of regional education, science and research	0	100	100	100	100
Adjustment of Christmas pensions/Introduction of the 13th pension	157	158	158	158	158
Earlier retirement for people who brought up children (born in 1957 and 1958)	0	105	136	90	82
Freezing of minimum pension growth	0	-59	-76	-103	-132
Introduction of a new pregnancy benefit	0	39	62	64	65
Increased financial allowance in social service facilities	0	21	21	21	21
Increased cash allowances for care of seriously disabled - from July 2019	30	30	31	32	32
Increased allowance for substitute maintenance payment	15	15	15	15	15
Cancellation of co-payments for medicines for children, pensioners and seriously disabled from 2020	0	37	37	37	37
Contribution for necessary operating expenses for selected healthcare facilities	0	125	125	125	125
Total measures 1 to 4B (Kurzarbeit)	773	1233	0	0	0
Kurzarbeit for kindergartens	59	0	0	0	0
Kurzarbeit for elementary schools of the arts	0	21	0	0	0
Entrepreneurship promotion in tourism and hospitality sector	0	159	0	0	0
Entrepreneurship promotion in culture and creative industry	0	11	0	0	0
Reimbursement of rents	40	70	0	0	0
Support for job applicants	49	0	0	0	0
SOS allowance	15	78	0	0	0
Parental allowance (extended period of provision during the state of emergency)	13	47	0	0	0
Unemployment benefit (extended period of provision)	32	69	0	0	0
Sick pay - paid above the level of the previous year	106	213	0	0	0
Allowance for care of a family member - paid above the level of the previous year	133	47	0	0	0
Rewards for healthcare employees	13	114	0	0	0
Payment to medical specialists	138	0	0	0	0
Increased expenditures - ventilators and other	39	0	0	0	0
Testing expenditures	124	422	0	0	0
Costs of medicines and vaccination	3	182	0	0	0
Equipment and other expenditures of healthcare facilities	63	0	0	0	0
Creation of emergency stock (excluding tests)	33	5	0	0	0
Rewards to frontline workers (excluding the Ministry of Health)	64	6	0	0	0
Goods and services related to COVID-19 (disinfection, other)	22	0	0	0	0
Subsidy schemes for various sectors/entities	16	84	0	0	0
Economic mobilisation measures	24	172	0	0	0

Contribution to the share capital of Slovenská záručná a rozvojová banka (Slovak Guarantee and Development Bank)	50	0	0	0	0
Contribution to the share capital of Letové prevádzkové služby (Air Navigation Services)	13	0	0	0	0
Additional reserve for COVID-19 in 2021	0	588	0	0	0
Freezing of the wage package paid from the SB	0	0	-302	-466	-748
Total expenditure	**2988**	**5343**	**1645**	**1470**	**1143**

Note: The effect of measures adopted in reaction to the COVID-19 pandemic includes financing from the EU funds. See Annex No. 2.