Stability Programme of the Slovak Republic for 2016 to 2019

April 2016

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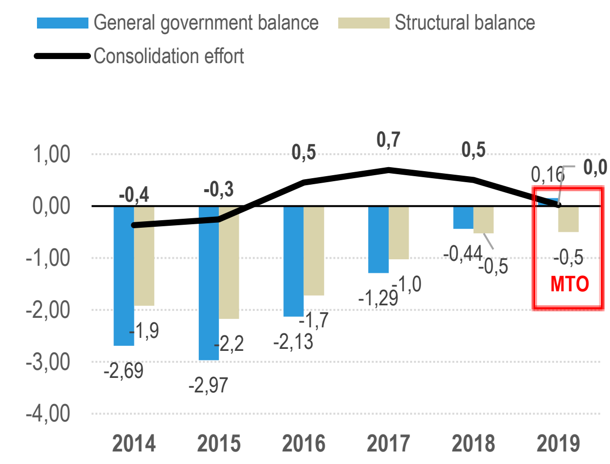
Summary

Last year, Slovak economy recorded an increase of 3.6%, which is the highest increase for the last five years. Thanks to the growth of both domestic and foreign demand, labour market recovery continued. Forty-four thousand new jobs were created in the economy. Job vacancies reach maximum historical values, therefore the ongoing positive development of employment can be further expected. In 2015, the average nominal monthly wage in the economy increased to EUR 883, which represents an annual growth rate of 2.9%. Taking into account the continuing decrease in prices, the real wage increased by 3.2%, which represents the second fastest growth in the post-crisis period.

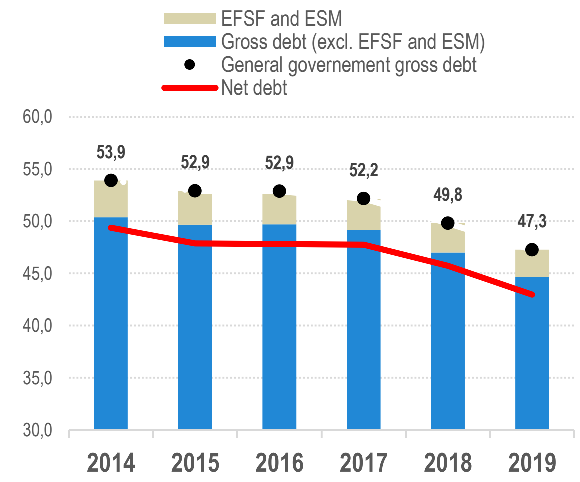
In the following years, the gradual decrease in the general government deficit will continue until the medium-term budgetary objective (MTO) is achieved in 2019. The set fiscal objectives **are fully compliant with the rules of the Stability and Growth Pact** and allow financing the investment priorities of the new government. In the years 2017 to 2019, the fiscal framework expects a gradual decrease in the general government deficit to 1.29% of GDP in 2017, 0.44 % of GDP in 2018 and the achievement of a budgetary surplus of 0.16% of GDP in 2019. In comparison with the general government budget for 2016 to 2018, previous ambitiously set deficits are increased by approximately 0.9 p.p. in 2017 and by 0.4 p.p. in 2018. **General government primary balance will reach a surplus of 0.1% of GDP already in 2017, with ongoing improvement** until it reach 1.5% of GDP in 2019.

FIGURE 1 - Planned consolidation efforts (% of GDP)



Source: MoF SR

FIGURE 2 - Gross general governement debt (% of GDP)



Source: MoF SR

The general government's budgetary targets are in compliance with the European and national fiscal rules. An insignificant deviation from the fulfilment of consolidation requirements identified in 2015 is compensated by a stronger than required decrease in the structural balance in 2016. The expected fiscal performance in 2016 and budgetary objectives correspond to the year-on-year structural consolidation amounting to 0.7% of GDP in 2017 and 0.5% of GDP in 2018. **With almost neutral fiscal policy, in 2019 Slovakia will reach its medium-term budgetary objective (MTO) expressed by structural deficit of 0.5% of GDP.**

The temporary character of several expenditures and the forecast collection of taxes in the no-policy-change scenario allow a deficit drop to 0.9% of GDP in 2017. In 2017, fiscal space amounting to 0.4% of GDP will be used in particular for the priorities of the new government. These include reduction of corporate taxes and investment expenditures connected with the preparation of a strategic industrial park near Nitra and the Bratislava highway bypass D4/R7. A moderate stimulus in the governmental intermediate consumption balanced by a slower growth of employee compensations is expected on the expenditure side of the fiscal framework. In 2018 and 2019, consolidation measures amounting to 0.2% and 0.3% of GDP will contribute to the fulfilment of objectives. Expenditures on governmental priorities should be financed by a slow growth of wage costs, a higher efficiency from spending reviews and continuing higher efficiency of tax collection.

The evaluation of public expenditure efficiency is a new instrument for achieving a balanced budget and improving value for money. In 2016, a spending review will take place, focused on healthcare, transport and general government informatization, which represent 40% of general government expenditures. The mandate for individual reviews is approved by the government and review conclusions will be used as an input for general government budget preparation.

The expected consolidation will not limit considerably the economic growth. In 2017, a positive influence on the growth of GDP of 0.1 p.p. is estimated from the expected fiscal impulse. The consolidation needed for the achievement of the budgetary objective in 2018 will suppress GDP growth by about 0.2 p.p. Fiscal policy will have negligible influence on the economy in 2019.

The fulfilment of the medium-term budgetary plan will allow a decrease in the general government gross debt on the forecast horizon below 50% of GDP. Up to 2017, the level of the general government debt will remain without considerable changes below 53% of GDP. Starting in 2018, a faster debt reduction is forecasted. Taking into account the expected faster growth of economy, price growth recovery, and the expected surplus of fiscal performance of the general government, debt in 2019 will make towards the lowest sanction band of that year amounting to 48% of GDP.

The government keeps the budgetary objective for 2016 at the level of 1.93% GDP based on the identified positive risks. According to the continuous monitoring of general government fiscal performance trends, which includes negative risks resulting from key government investments, the deficit could reach 2.13% of GDP. The last update of the tax forecast (February 2016) partially covers higher investments related to the preparation of a strategic industrial park near Nitra and the Bratislava bypass D4/R7, which were not confirmed at the time of budget preparation. Slightly higher expenditures of public health insurance are compensated by higher revenues and savings in particular in the area of social transfers and interest payments. Higher current and capital expenditures of local governments in comparison with the budget are also expected but they are fully covered by the expected higher collection of taxes and better draw-down of EU resources. Higher tax and social contribution revenues from the continuing efficiency of collection as well as active management of expenditures available to the government can contribute to the fulfilment of the original budgetary objective.

According to the Eurostat data notification, the general government deficit was below three percent in 2015, too, achieving 2.97% of GDP. The overrun of the planned deficit amounting to 2.49% of GDP results in particular from non-recognising several transactions amounting to 0.4% of GDP among the accrual revenues in the methodology ESA2010. Slovakia entered the notification negotiations with a deficit of 2.56% of GDP, which already contained necessary corrections of EU funds amounting to about 0.3% of GDP, which were out of reach of the government budgetary policy. In comparison with the assumptions of the general government budget for 2015, there is a considerably higher tax and social contribution revenues. The positive influences on the budget revenue side resulting from better macroeconomic development and more successful collection were compensated in particular by higher investments connected with accelerated draw-down of resources of European funds and also higher expenditures in healthcare and compensations of employees.

1. ECONOMIC OUTLOOK AND PROJECTIONS

This year, the economic growth will reach a solid rate of 3.2%, despite the worsening development of the external environment. The structure of growth will be more balanced than in 2015, and after two years of dominance of domestic demand, the contribution of net export to the growth will be renewed. Household consumption acceleration will be supported by sound labour market development. The low-inflation environment will create room for further growth of real income of households. Public investments will not repeat the extraordinary development recorded in 2015 and they will return closer to their long-term trend. Direct foreign investments in new production capacities in the automotive industry will result in significant acceleration of economic growth at the end of the medium-term horizon.

1.1 External environment

Despite a turbulent period, the developed countries were getting on well last year. The boom of the American economy has been lasting for seven years now and unemployment is well below the long-term average. Last year, the Eurozone recorded the best economic performance since 2011. The transfer of growth from foreign trade to domestic demand is a positive aspect. The European countries are pulled up in particular by the growing consumption of households. The developing economies face greater challenges. The rate of growth in BRICS[1] countries has considerably dropped. The economies of Russia and Brazil are currently in recession. China is leaving the orientation to export and investments. The economy of Germany - our most important business partner, however, keeps itself in a satisfactory condition. The positive structure of growth of German economy, along with the quickly growing neighbouring countries out of the Eurozone also helped Slovak economy in 2015.

The development of leading indicators along with the forecasts of foreign institutions[2] show that the room for a more considerable acceleration of economies of our main business partners has been exhausted. A drop in oil prices partially helps European economies. However, the unresolved macroeconomic and structural questions along with the persisting political uncertainty remain the main brake of a greater acceleration of economic growth. External risk for Eurozone economies consists in the possible transfer of slowdown in the BRICS countries into the global economy and an unpredictable response of stock markets and developing economies to the tightening of the monetary policy of the American Fed.

The table below shows a comparison of estimated development abroad according to the Ministry of Finance of the Slovak Republic (MoF SR) with a winter forecast of the European Commision (EC). The difference between the estimates at the aggregate level is negligible. MoF SR, analogous to the EC expects stabilisation and only a slight acceleration of the Eurozone economies in the upcoming years. The growth of GDP in Germany will stay close to 2%. The neighbouring countries out of the Eurozone will grow faster.

TABLE 1 - External assumptions for the current forecast (in %)

	MoF SR			EC		
	2015	2016	2017	2015	2016	2017
Economic growth						
EU	1.9	2.0	2.0	1.9	1.9	2.0
Eurozone	1.6	1.8	1.7	1.6	1.7	1.9
Germany	1.7	1.8	1.7	1.7	1.8	1.8
Czech Republic	4.2	2.7	2.8	4.5	2.3	2.7
Poland	3.4	3.3	3.4	3.5	3.5	3.5
Hungary	2.6	2.5	2.5	2.7	2.1	2.5
Long-term interest rates (10Y)						
Germany	0.53	0.80	1.33	-	-	-
ECB key interest rate	0.05	0.05	0.05	-	-	-
Exchange rate (USD/EUR)	1.11	1.06	1.06	1.11	1.08	1.08
Oil prices (Brent, USD/bl)	53.6	34.6	41.1	53.4	35.8	42.5

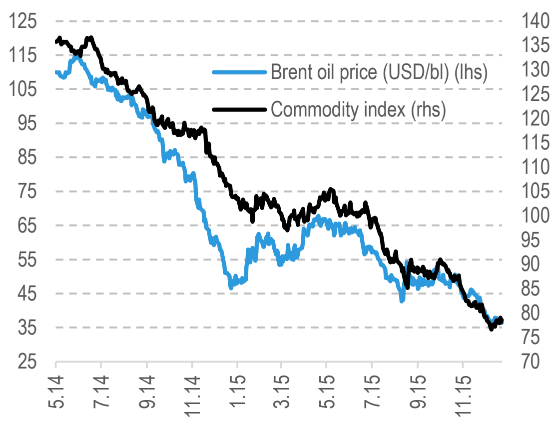
[1] Brazil, Russia, India, China and South Africa.
[2] European Commission (EC), International Monetary Fund (IMF) and OECD.

Oil prices (Brent, EUR/bl.)	48.3	32.7	38.7	48.1	33.0	39.2
p.m. Economic growth in Slovakia	*3.6*	*3.2*	*3.6*	*3.5*	*3.2*	*3.4*

*Source: MoF SR February 2016 *EC Winter Forecast February 2016*

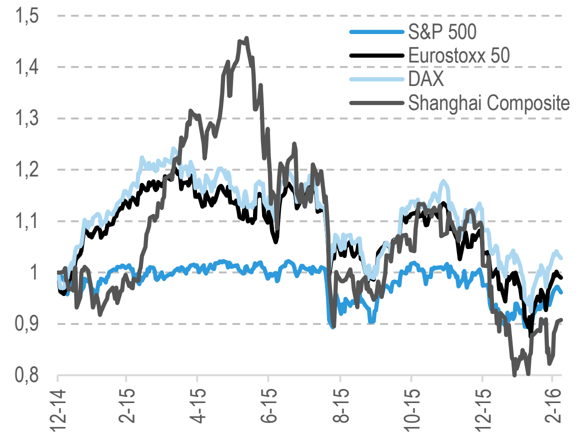
Last year, uncertainty returned to financial markets. The main events included oil price collapse and correction on stock markets. Last year, oil even broke the minimum values from 2009. The low oil prices are supported by the slowdown of demand from developing countries and a short-term surplus on the supply side. European economies are net importers of oil. Therefore, low prices mean a stimulus for them. The correction on stock markets is partially caused by expectations regarding the tightening of the monetary policy in the USA. The slowdown of real growth in particular in China and other developing economies also plays its role. We expect that the American Fed will continue in the policy of interest rate increasing up to a level of 0.75% at the end of this year. This policy will strengthen the dollar and push stock markets downwards. The response of corporations and developing economies to the tightening of the monetary policy in the USA remains questionable. However, the prices of shares remain overestimated with respect to the long-term average, even despite the correction in January.

FIGURE 3 - BRENT oil (USD/bl) and development of commodity prices



Source: MoF SR, Bloomberg

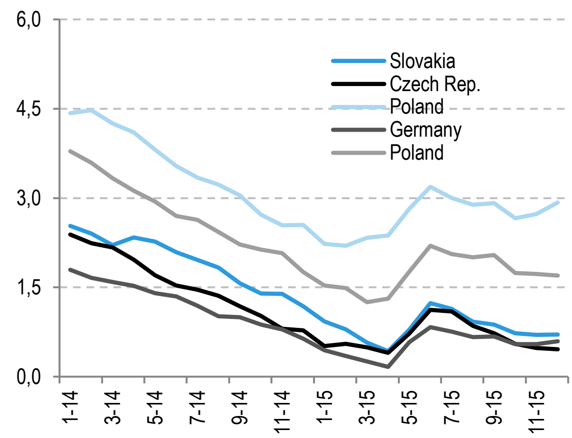
FIGURE 4 - Stock market slump (basis=12.2014)



Source: MoF SR, Bloomberg

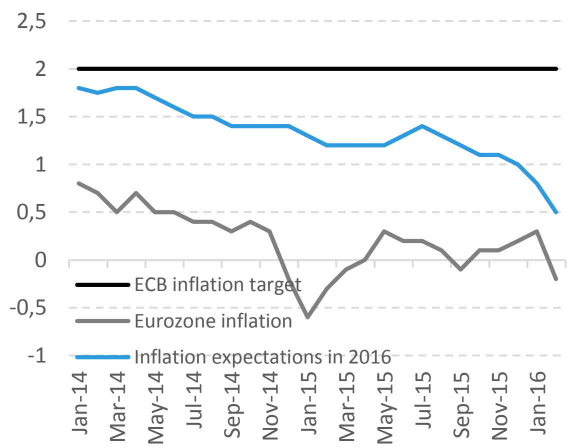
Quantitative easing (QE) of the ECB has not been transferred into real economy yet. Even the European stock markets have not recorded the expected growth. A certain effect can be seen in yields from governmental bonds. These remain on extremely low values. The inflation expectations in the Eurozone have not been stabilised yet. The negative surprise from February results of inflation brought an increase in the programme of quantitative easing to EUR 80 bil. per month and its extension in combination with the reduction of key interest rates.

FIGURE 5 - 10y government bond yields (%)



Source: MoF SR, ECB

FIGURE 6 - Drop of both actual inflation and expectations (%)

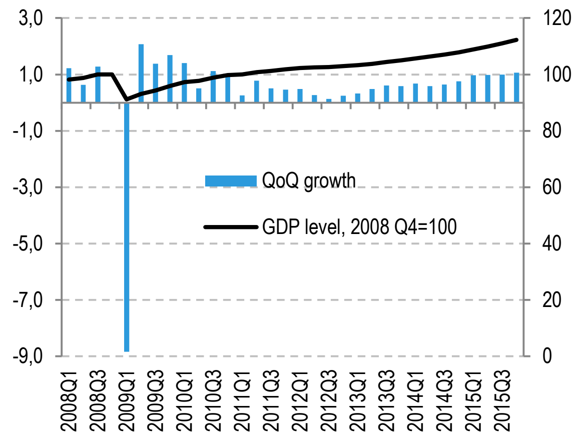


Source: MoF SR, ECB

1.2 Economic development in Slovakia in 2015

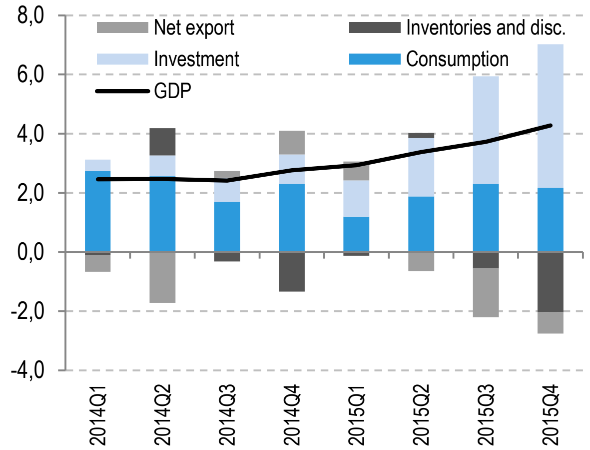
Last year, Slovak economy recorded an increase of 3.6%, which is the highest increase for the last five years. It was supported mainly by the domestic demand with a dominant contribution of investments. Investments along with the general government consumption profited from the accelerated draw-down of EU funds from the ending second programme period 2007 to 2013 (hereinafter "EU funds"). Last year, the household consumption kept its solid level but its growth keeps lagging behind the growth of disposable income of population. It resulted in a continuous increase in the rate of savings that attacked the 15-year maximum values. Exports were also getting on well, they got ahead of the growth of foreign demand in particular thanks to better performance of the automotive industry. The growth of import-intensive investments from the EU funds produced pressure on the growth of imports. Thus, the net export contributed negatively to GDP growth.

FIGURE 7 - GDP, adjusted for seasonal effects*



**GDP adjusted for cigarettes stockpiling and one-off VAT payments after the final inspection of the R1 highway*
Source: SO SR, calculated by MoF SR

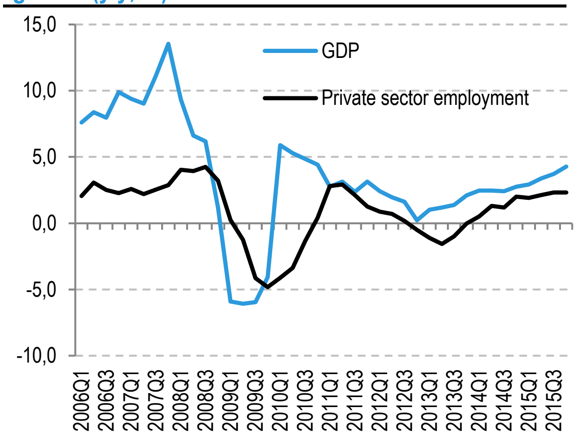
FIGURE 8 - Contributions to GDP growth (p. p.)



Source: SO SR, MoF SR

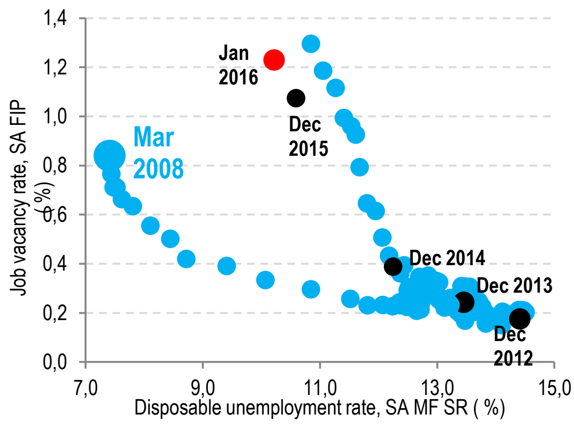
Thanks to the growth of both domestic and foreign demand in 2015, labour market recovery continued. During the whole year 2015, the average employment according to the ESA methodology has increased by 2.0% to a level of 2,267 thousand people. Thus, on a year-on-year basis, approximately 44 thousand new jobs were created in the economy. They were created across the whole economy but in particular in market services. Job vacancies (according to the COLSAF[3]) reach historical maximum values, therefore, the ongoing positive employment trends on the short-term horizon can be expected.

FIGURE 9 - Private sector employment and GDP growth (y/y, %)



Source: SO SR, MoF SR

FIGURE 10 - Beveridge curve

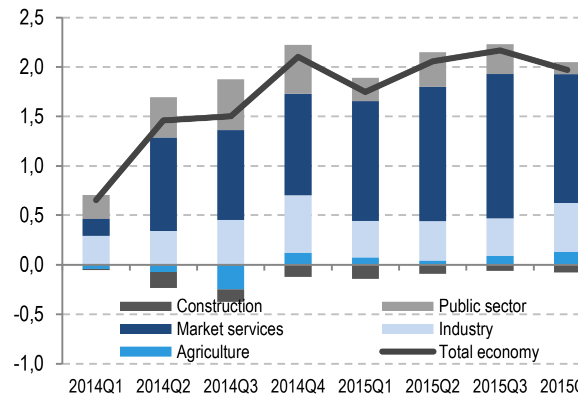


Source: COLSAF, MoF SR

[3] Central Office of Labour, Social Affairs and Family.

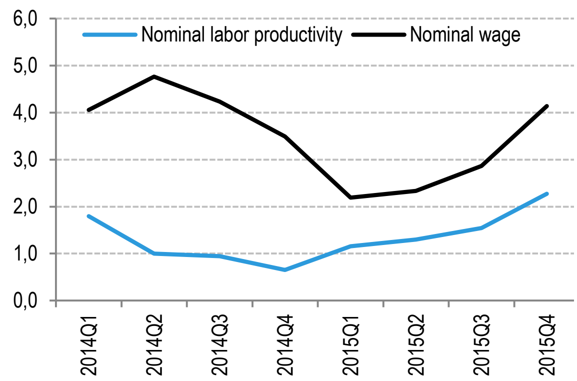
The rapid growth of employment was also reflected in the reduction of the unemployment rate. In 2015, it dropped by 1.7 p.p. to a level of 11.5 %[4]. During the whole year 2015, Slovakia recorded slightly overheated labour market. It was reflected in a significant decrease of the rate of long-term unemployment, the effect on the dynamics of wages remained limited.

FIGURE 11 - Contributions of selected sectors to employment growth (p. p.)



Source: SO SR, MoF SR

FIGURE 12 - Average wage and labor productivity growth (y/y, %)



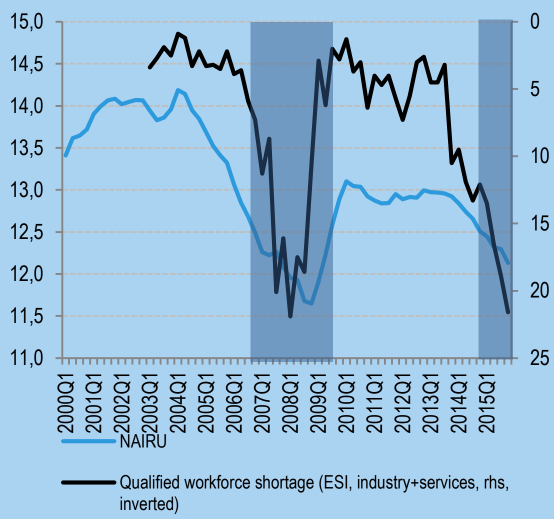
Source: SO SR

In 2015, the average nominal monthly wage of an employee in the economy increased to EUR 883, which represents an annual growth rate of 2.9 %. The building industry recorded the fastest growth of wages, with a considerable growth of productivity. Taking into account the ongoing decrease in prices, the real wage increased by 3.2%, which represents the second fastest growth in the post-crisis period.

BOX 1 - Slight overheating of the labour market in 2015

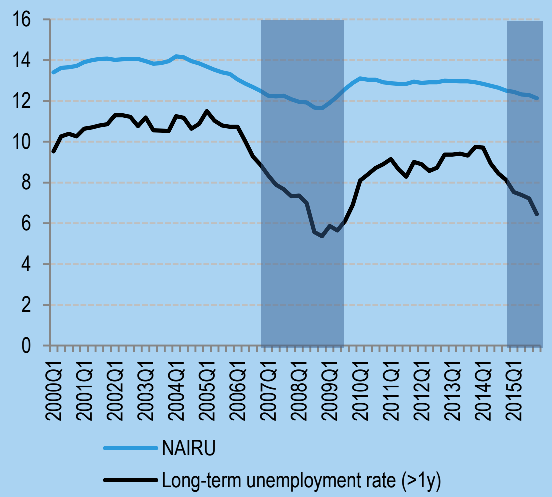
During the previous year, the Slovak labour market started slightly overheating. It results from the estimate of the MoF SR focused on the structural unemployment defined by the NAIRU concept, which reaches 12.3% for 2015 and in the long term, it ranges from 12 to 14 percent in Slovakia.

FIGURE 13 - Correlation of NAIRU and qualified workforce shortage (%)



Source: SO SR, MoF SR

FIGURE 14 - Correlation of NAIRU and long-term unemployment (%)



Source: SO SR

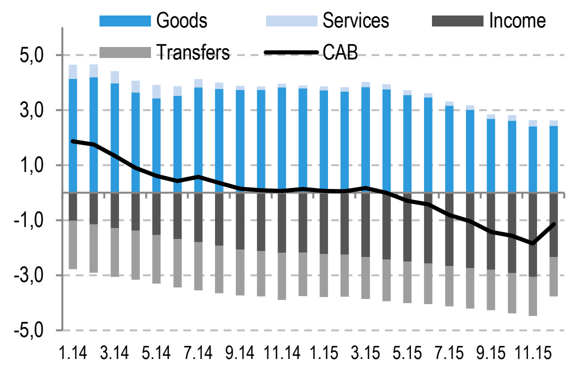
[4] The same unemployment rate was also achieved according to the methodology of the Central Office of Labour, Social Affairs and Family (COLSAF).

The estimated period of labour market overheating correlates with the period, in which the private sector feels a lack of qualified workers. It is also connected with a significant drop in the number of the long-term unemployed because in the period of labour market overheating, wages of the existing employees grow, thus, employers are also willing to engage less-qualified unemployed. The last year's drop in the rate of unemployment by 1.7 p.p. was fully reflected in the drop in long-term unemployment, which dropped by the same amount. With a continuing trend, we can expect a gradual growth of core inflation and prices of services.

In 2015, after three years of surplus, the balance of payments reached a level of -1.1% of GDP. The drop in the balance of payments is almost entirely caused by reducing the surplus of the trade balance of goods. In 2015, the import of goods has increased in particular under the influence of growth of import-intensive investments related to an increased draw-down of EU funds and to the continuation of investments in the automotive industry. However, it was also supported by a growing consumption of households. Thus, the surplus of the trade balance dropped despite the acceleration of growth of export of goods. The other components of the balance of payments remained at an approximate same level as in the previous year – the balance of services and secondary income slightly improved, the negative balance of primary income deepened.

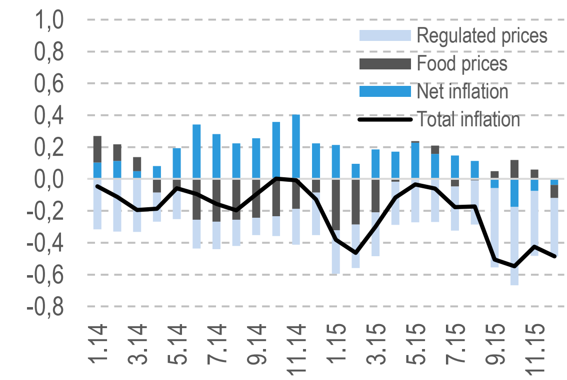
During the whole year 2015, the deflationary environment prevailed. In October, the historically lowest value of inflation was reached -0.6 %. Both external and domestic factors caused the drop of the price level. The decreasing prices of energy commodities were the most important external factor contributing to this development. The oil price dropped to a 12-year minimum and through secondary effects, it also influenced the prices of goods and services. Food prices on world markets were also extremely low due to the surplus of supply. In the domestic environment, the transmission of the solid growth of wages into the prices of services has not manifested itself yet.

FIGURE 15 - External imbalances - CAB components (% of GDP, rolling 12 months)



Source: SO SR

FIGURE 16 - Structure of consumer inflation – year-on-year contributions of CPI components (p. p.)



Source: SO SR, MoF SR

1.3 Medium-term economic forecast

The updated official MoF SR forecast from February 2016 expects in 2016 a solid economic growth at a level of 3.2%. The structure of growth will be more balanced than in 2015. The acceleration of real wage growth along with an increase in the number of jobs will support the growth of household consumption. Public investments will return closer to the level from 2014. In the private sector, in particular investments in the automotive industry will accelerate, supported by the construction of Jaguar Land Rover automobile plant. The foreign demand slowdown will be slightly hampered by the growth of export. The drop in import-intensive investments will contribute to the slowdown of import, and the positive contribution of net export to GDP growth will be renewed. In the following years, the economy growth will gradually accelerate thanks to new production capacities in the automotive industry.

TABLE 2 - Forecast of selected indicators of the Slovak economy for 2017 to 2019

No.	Indicator	Unit	Actual 2014	Actual 2015	Actual 2016	Forecast 2017	Forecast 2018	Forecast 2019
1	GDP, current prices	EUR bn.	75.6	78.1	80.6	84.8	90.2	96.4
2	GDP, constant prices	%	2.5	3.6	3.2	3.6	4.1	4.6
3	Final consumption of households and NPISH[5]	%	2.4	2.4	3.2	2.6	2.7	2.9
4	Final general government consumption	%	5.9	3.4	-0.6	2.1	1.3	0.8
5	Gross fixed capital formation	%	3.5	14.0	0.9	1.4	0.9	2.0
6	Export of goods and services	%	3.6	7.0	4.9	6.1	7.5	8.5
7	Import of goods and services	%	4.3	8.2	3.6	4.6	5.8	6.6
8	Output gap (share of the potential output)	%	-1.3	-0.8	-0.4	0.2	0.5	1.3
9	Average monthly wage in the economy (nominal growth)	%	4.1	2.9	3.3	4.5	4.7	5.1
10	Average employment growth, LFS	%	1.5	2.6	1.4	1.0	1.2	1.0
11	Average employment growth, ESA95	%	1.4	2.0	1.3	0.9	1.1	0.9
12	Average unemployment rate, LFS	%	13.2	11.5	10.4	9.5	8.3	7.3
13	Average registered unemployment rate	%	12.8	11.5	10.3	9.3	8.2	7.2
14	Harmonized index of consumer price (HICP)	%	-0.1	-0.3	0.2	1.6	2.1	2.2
15	Current account balance (share of GDP)	%	0.1	-1.1	-0.5	0.2	1.0	2.6

Source: MoF SR

BOX 2 - The impact of new investments in the automotive industry on the Slovak economy

Last year, Slovakia obtained an investment of Jaguar Land Rover (JLR) car company amounting to EUR 1.4 billion, which represents the biggest green field investment in the post-crisis period. The construction of a new plant should start this year. In the first year of the investment phase, investments related to plant construction will dominate. In the following years (2017 to 2019), machines and technological equipment with a high import intensity will prevail in the investment expenditure. JLR plans the production of two new state-of-the-art models of sport utility vehicles. The investor expects an added value on the overall production amounting to 14 %[6]. First cars will leave the manufacturing line in September 2018. The production of a more luxurious model is planned from June 2019. The plant's production capacity of 150 thousand cars will be reached only in 2020.

The investment will strengthen the positive labour market development. Up to 2017, new jobs will be created in particular in the building industry (investment phase). In the next years, the influence in the automotive industry will dominate (production phase). In the subsupplier network, three jobs will be created per one job in the car manufacturing plant. A more conservative assumption[7] was adopted due to partial connection to the already existing network of subsuppliers. The secondary influences on the growth of employment in low-skilled services will be significant only from 2019. The sector of services will generate one job per each job created in the car manufacturing company.

TABLE 3 - Assumptions of the investment project and production of JLR

	2016	2017	2018	2019
Investment (EUR mil.)[1]	196	456	529	202
Sales (EUR mil.)			614	3,100
Number of produced cars			30,000	115,000
Model 1			30,000	75,000
Model 2				40,000
Number of jobs JLR[1]	164	405	1,402	2,588
Number of jobs provided by subsuppliers	410	1,094	4,066	7,764
Wage costs per employee (EUR)[1]	1,621	1,657	1,693	1,730

[5] In the following text, household consumption will mean the consumption of households and non-profit institutions serving households (referred to as NPISH).
[6] The estimated share of added value in the production based on the input-output tables from 2011 for the three car manufacturers operating in Slovakia amounts to 10% (MoF SR calculation).
[7] According to the study Ľuptáčik et al. (2013), one job created in the Slovakia car factories brought as many as four jobs at subsuppliers.

Import intensity of the investment[2]	48%	59%	74%	79%
Import intensity of export			67%	67%

[1] Investor's assumptions fully taken over [2] An import intensity of 30 % during construction is expected. An import intensity of 80% is expected for import of machines and technologies, 0% for land treatment and 100% for know-how.

Source: expert assumptions of IFP

Volkswagen (VW) Bratislava expands the manufacturing capacity with a new assembly hall. From 2018, our biggest car manufacturing company plans to fully produce the new generation of Porsche Cayenne vehicles in Slovakia. At present, the Cayenne model is mostly produced in Bratislava, however, the final treatment is performed in the German plant in Leipzig. According to an estimate of the MoF SR, this change will bring an additional investment amounting to EUR 800 mil. in the next two years. The new assembly hall has been under construction since last December. The start of production is planned for the beginning of 2018. The assumptions regarding the number of produced cars were adjusted according to the historical experience in the start-up of production of more luxurious cars.

TABLE 4 - Assumptions of the investment and new production of VW

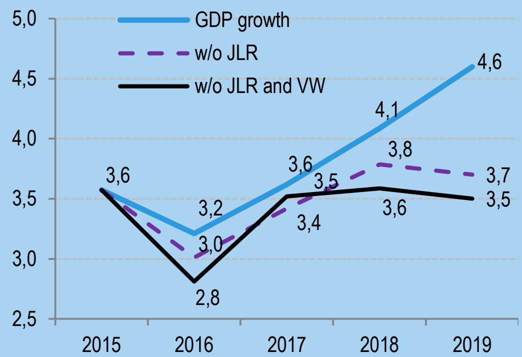
	2016	2017	2018	2019
Investment (EUR mil.)	360	440		
Sales (EUR mil.)			1,000	1,600
Number of produced cars			50,000	80,000
Import intensity of the investment	48%	70%		

Source: MoF SR

The arrival of the fourth car manufacturing company will increase the growth of the Slovak economy till 2020 cumulatively by 2 %. The influence at the horizon of the Stability Programme will reach 1.6% with the culmination for economic growth in 2019. During the years 2016 to 2020, it will cumulatively increase employment by 0.6 %, which represents 14,453 newly created jobs.

The extension of production capacities in the VW Bratislava plant will help increase the growth of GDP cumulatively by 0.5 p.p. till 2019. In 2016 and 2017, the contribution to growth will be created through investments. On the contrary, since 2019, the end of the investment phase will reduce the growth, and after the production has been commenced, the influence through export will dominate. In the whole period of forecast, the growth of employment will cumulatively increase by 0.2 p.p., which represents almost 4,600 new jobs. The peak influence on employment will be achieved in 2018.

FIGURE 17 - Impact of new production and investment of VW and JLR on Slovak economy



Source: MoF SR

TABLE 5 - Contributions of JLR and VW to year-on-year growths

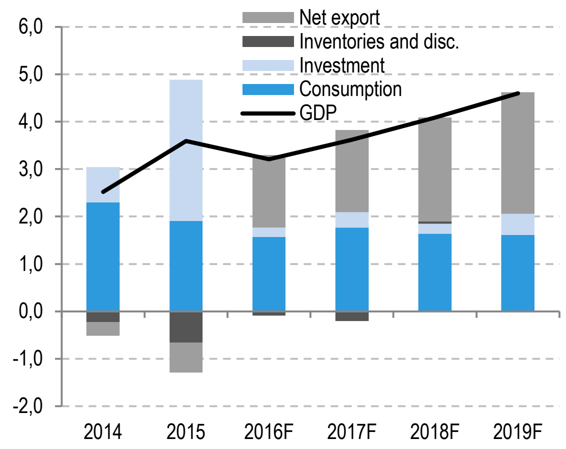
	2016	2017	2018	2019
		JLR		
Investment	1,2	1,5	0,4	-1,6
Export			0,7	2,5
Employment	0,04	0,05	0,21	0,26
GDP	0,2	0,2	0,3	0,9
		VW		
Investment	2	0,4	-2,4	0
Export			1,2	0,6
Employment	0,02	0,02	0,12	0,03
GDP	0,2	-0,1	0,2	0,2

Source: SO SR, MoF SR

The positive development of the labour market will continue in 2016. The economic growth will lead to a solid growth of employment by 1.3 %, and in the following years it will also be close to 1 % (according to ESA 2010). In 2016, about 30 thousand new jobs will be created, in particular in the services sector. Thanks to this development, the rate of unemployment will drop to 10.3 % (labour force survey - LFS). Already in 2017, we can overcome the historical minimum from 2008 and reach a single-digit level.

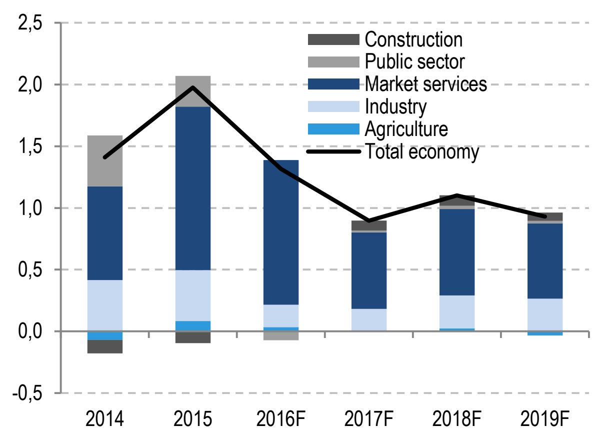
Real wages will rise considerably in 2016, too; they will increase by 3.1 %. They will exceed the growth of real productivity as well as a 3% limit for the third year in a row. Their growth is again supported by the stagnating inflation which will be only partially reflected in wage negotiations. The growth of wages will also be supported by a significant increase of the minimum wage and partially also by labour market overheating. Wages should increase evenly across all sectors, however, thanks to a 4% increase of tariffs, the highest increase should be recorded by the public sector. The growth of real wages and labour productivity will reach equilibrium only at the end of 2017.

FIGURE 18 - Contributions to GDP growth (p. p.)



Source: SO SR, MoF SR

FIGURE 19 - Contributions to employment growth (p. p.)

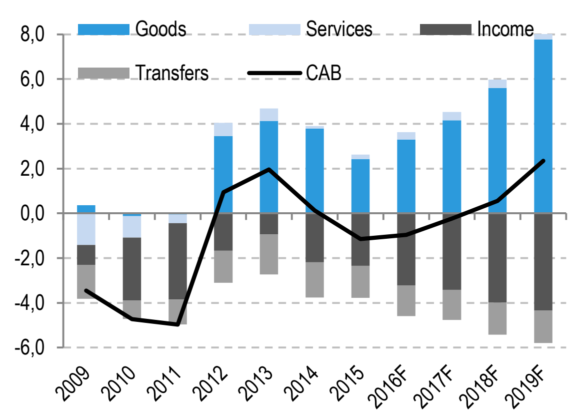


Source: SO SR, MoF SR

During the year 2016, the deficit of the balance of payments will gradually decrease. Next year, a more realistic growth of imports will lead to the return of the trade balance to a more significant surplus. Starting from 2018, the growth of the foreign-trade balance will be mainly caused by a higher export of the new car manufacturer Jaguar Land Rover. Repatriation of profit of foreign investments will further deepen the deficit of primary income, however, it will not compensate the increase in the positive balance of goods. The balance of services and secondary income will remain stable in the long term.

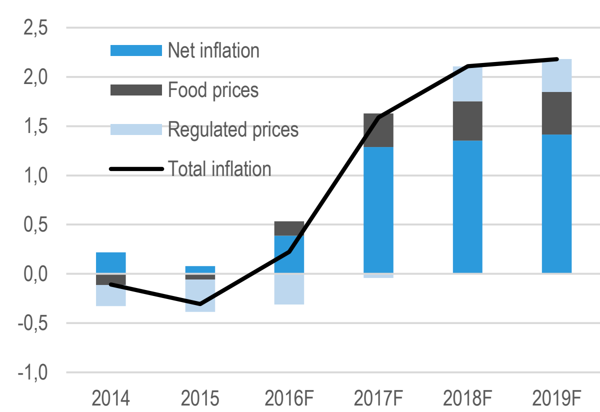
In 2016, inflation will remain at a very low level. The average year-on-year inflation will reach 0.2 %. At the beginning of the year, the reduced energy prices as well as the reduction in VAT rate for selected kinds of food contributed to even bigger drop in consumer prices. It is expected that the domestic demand pressures will be strengthening and they will support gradual acceleration of prices of goods and services in the second half of the year. The latest measures of the ECB should also contribute to the price level increase. On the medium-term horizon, the growth of consumer prices will gradually accelerate and it will reach the desired level of 2% in 2018.

FIGURE 20 - External imbalances – components of the CAB (% of GDP)



Source: NBS, MoF SR

FIGURE 21 - Structure of consumer inflation – YoY contribution of components to CPI (in p. p.)



Source: SO SR, MoF SR

Main risks of the forecast[8]

The risks of the macroeconomic forecast are balanced. Negative risks connected with the global growth slowdown under the burden of problems of several large economies (China, Russia, Brazil) dominate in the external environment. The response of the developing economies and corporations to the tightening of the monetary policy in the USA is an opening negative risk. Low commodity prices predict problems for mining and metallurgy branches at a global level. After the ECB's step in March, a stronger influence of QE on investments and consumption of households in the Eurozone means a positive risk in the external environment. The ongoing low oil prices may bring an additional stimulus of economic growth in the Eurozone or neighbouring countries. Internally, the change of consumer behaviour supported by the continuing positive labour market development represents a positive risk. Labour market overheating may also bring an additional pressure of wage growth in the private sector.

1.4 Cyclical development of the economy

According to the EC methodology and based on the MoF SR forecast, the growth of potential output in 2016 will amount to 3.0% and in the following years will slightly accelerate to 3.2%, or 3.1% in 2019. All production factors should positively contribute to the potential GDP growth. The total factor productivity, which will slightly accelerate during the forecast period, will represent the greatest contribution. On the other hand, the contribution of potential employment will be gradually fading, which stems from the demographic development. At the end of the period, it will even contribute negatively. Despite the recovery, capital stock will not reach pre-crisis growth rates.

FIGURE 22 - Contributions of production factors to potential growth (p. p.) – EC approach

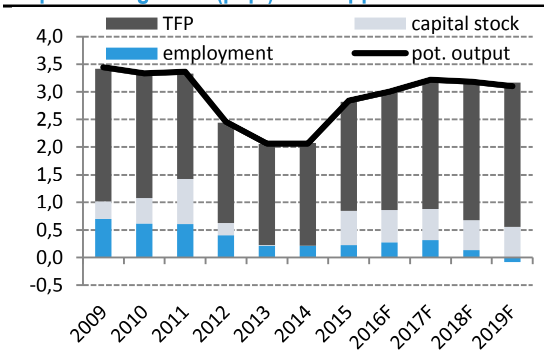


TABLE 6 - Contributions of production factors to potential output growth – EC approach

	Pot. GDP (growth, %)	TFP*	Capital stock	Labour
2011	3.4	**1.9**	**0.8**	**0.6**
2012	2.5	**1.8**	**0.2**	**0.4**
2013	2.1	**1.8**	**0.0**	**0.2**
2014	2.1	**1.9**	**0.0**	**0.2**
2015	2.8	**2.0**	**0.6**	**0.2**
2016F	3.0	**2.1**	**0.6**	**0.3**
2017F	3.2	**2.3**	**0.6**	**0.3**
2018F	3.2	**2.5**	**0.5**	**0.1**
2019F	3.1	**2.6**	**0.6**	**-0.1**

** total factor productivity* *Source: MoF SR*

The output gap according to the EC methodology is gradually decreasing and in 2016, it will reach -1.0 % of the potential output. It will fully close as late as at the end of 2018. Due to a high growth of GDP, at the end of the forecast period, more considerable economy overheating can be expected according to the EC methodology. The EC methodology, similarly to the pre-crisis period, cannot correctly capture the supply shock in a small open economy resulting from an increase in the production capacities through direct foreign investments.

FIGURE 23 - Output gap (% of pot. GDP) - EC approach

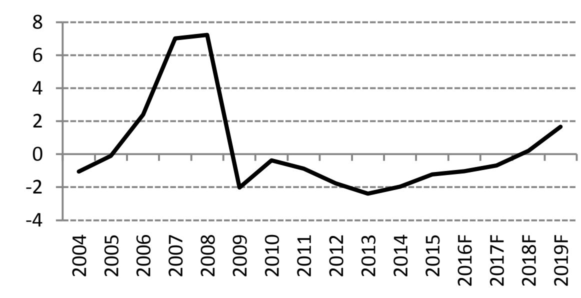


TABLE 7 - Output gap – EC approach

	GDP (real growth, %)	Pot. GDP (growth, %)	Output gap (% of pot. GDP
2011	2.8	3.4	**-0.9**
2012	1.5	2.5	**-1.8**
2013	1.4	2.1	**-2.4**
2014	2.5	2.1	**-2.0**
2015	3.6	2.8	**-1.2**
2016F	3.2	3.0	**-1.0**
2017F	3.6	3.2	**-0.7**
2018F	4.1	3.2	**0.2**
2019F	4.9	3.1	**1.7**

Source: MoF SR

[8] Some risk scenarios are included in Chapter 3.1.

BOX 3 - Methodological differences in the calculation of potential output, EC vs. MoF SR

The estimate of the potential of the economy and the output gap made by the MoF SR is different in methodology from EC estimates. The estimate in the EC methodology is decisive in assessing the structural balance for the purposes of European fiscal rules. The MoF SR discloses its own methodology within the Macroeconomic Forecasts Committee.

According to the MoF SR estimates, the potential growth of the economy in 2016 will remain at a level of 2.8%. However, on the medium-term horizon the potential growth of the economy will come close to four percent. This estimate takes into account the supply shock brought to the economy by the commencement of production in the car manufacturing plant Jaguar Land Rover in particular through the growth of productivity of production factors.

FIGURE 24 – Contributions of production factors to potential output growth (p. p.) – MoF SR approach

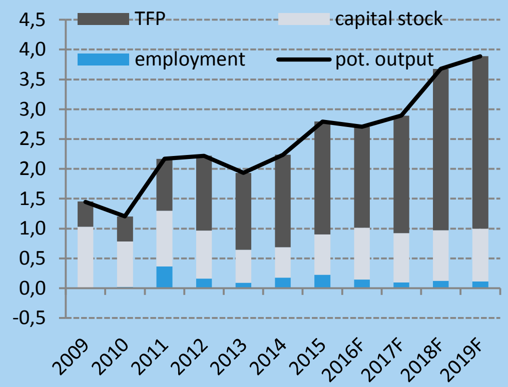


TABLE 8 – Contributions of production factors to potential output growth – MoF SR approach

	Pot. GDP (growth, %)	TFP*	Capital stock	Labour
2011	2.2	**0.9**	**0.9**	**0.4**
2012	2.2	**1.3**	**0.8**	**0.2**
2013	1.9	**1.3**	**0.5**	**0.1**
2014	2.2	**1.5**	**0.5**	**0.2**
2015	2.8	**1.9**	**0.7**	**0.2**
2016F	2.8	**1.7**	**0.9**	**0.1**
2017F	3.0	**2.0**	**0.8**	**0.1**
2018F	3.7	**2.7**	**0.8**	**0.1**
2019F	3.9	**2.9**	**0.9**	**0.1**

** total factor productivity*

Source: MoF SR

The output gap will be closing in 2016, too, despite the slowdown of GDP growth. In the next years we also expect that the GDP growth will exceed the potential growth of economy and the output gap will be closed already in 2017. Even despite the dominating supply impulse, economy will overheat on the medium-term horizon.

FIGURE 25 - Output gap (% of pot. GDP) - MoF SR approach

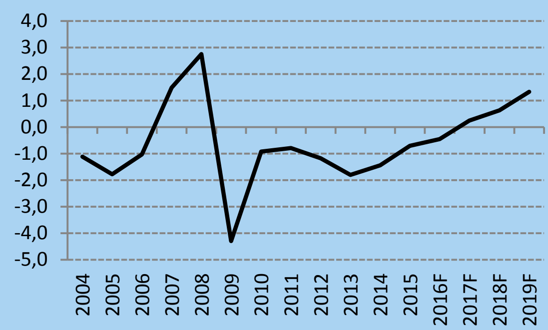


TABLE 9 - Output gap development – MoF SR approach

	GDP (real growth, %)	Pot. GDP (growth, %)	Output gap (% of pot. GDP
2011	2.8	2.2	**-0.8**
2012	1.5	2.2	**-1.2**
2013	1.4	1.9	**-1.8**
2014	2.5	2.3	**-1.5**
2015	3.6	2.8	**-0.8**
2016F	3.2	2.8	**-0.3**
2017F	3.6	3.0	**0.3**
2018F	4.1	3.7	**0.6**
2019F	4.9	3.9	**1.3**

Source: MoF SR

The differences in the MoF SR and EC methodologies apply to almost all items of the calculation, although the base of both methodologies is the same. Both institutions calculate the potential output using the Cobb-Douglas production function. But while the MoF SR calculates the potential output from quarterly data, the EC uses yearly data.

Another difference results from different shares of production factors. The EC uses common shares for all new Member States; 0.63 for labour elasticity and 0.37 for capital elasticity. On the other hand, the MoF SR derives the factor ratios from national accounts; labour as the share of employee compensations in GDP at 0.43 and capital, analogically, at 0.57 (average values for 1995–2010).

As for the capital stock, the main difference is in the original value and in the rate of depreciation. For all new Member States (with the exception of the Czech Republic), the EC estimated the capital stock in 1995 as a double of the GDP, and uses a common depreciation rate of 5%. The MoF SR uses the current estimate of the capital stock of 1999 from the Statistical Office and the depreciation rate is obtained from annual national accounts.

Both institutions obtain the equilibrium employment estimate from the working-age population using the trend participation rate, NAIRU and the trend of hours worked. Yet there is a difference in input; the MoF uses the population aged 15+, while the EC population aged 15 to 64.

Differences can also be found in calculating the trend component of the total factors of productivity (TFP). While the EC uses additional information regarding the use of production capacities out of the soft indicators by applying a multi-dimensional filtration method, the MoF SR uses the standard Hodrick-Prescott filter. Subsequently, it incorporates expert adjustments so that the estimate reflects structural changes in the economy, which the statistic filter cannot capture. This shortcoming is not removed even by applying a more complex statistical approach using data on the utilisation of production capacities in the industry used by the EC. Small open economies can generally face significant demand shocks from foreign countries, which the uniform EC methodology cannot capture, and/or they have experienced a high variability of the potential output due to the ongoing reforms in the course of economic transformation. The excessive output gap in 2007 and 2008 resulting from the estimates according to the EC methodology is not confirmed by other imbalance indicators, such as inflation, external imbalances or excess of the unit labour costs over the productivity growth, real estate represents an exception. Overestimation of the output gap values by the EC in the pre-crisis period led to a non-intuitive underestimation of the demand shock effect in 2009. On the medium-term horizon, the risk of overestimation of the positive output gap is opening, resulting from the acceleration of growth thanks to the new production capacities in the automotive industry.

1.5 Comparison of forecasts of the MoF SR and of other institutions

The forecasts of other institutions are not considerably different from the forecast of the MoF SR for 2016 and 2017. An older forecast of the OECD predicts a significantly higher rate of inflation in 2016, which in 2017, all institutions are more or less in accord. The forecast of the MoF SR is more optimistic, as regards the development of the current account balance, where it expects a significant influence on export after the beginning of production in JLR.

TABLE 10 - Comparison of MoF's and other institutions' forecasts

	2016	2017	2018
		Real GDP growth (%)	
MoF SR	**3.2**	**3.6**	**4.1**
Macro committee (median)	3.3	3.5	3.6
NBS	3.2	3.3	4.2
EC	3.2	3.4	-
OECD	3.4	3.5	-
IMF	3.3	3.4	3.4
		HICP (%)	
MoF SR	**0.2**	**1.6**	**2.1**
Macro committee (median)	0.2	1.6	2.0
NBS	-0.2	1.3	1.9
EC	0.3	1.7	-
OECD	1.0	1.5	-
IMF	0.1	1.4	1.7
		Current account (% of GDP)	
MoF SR	**-0.5**	**0.2**	**1.0**
Macro committee (median)	-1.7	-1.9	-2.1
NBS	-0.8	-0.9	-0.1
EC	-2.2	-2.2	-
OECD	-0.5	0.3	-
IMF	-1.0	-1.0	1.0

Source: Source: MoF SR (February 2016), Macroeconomic Forecasts Committee (February 2016), NBS (March 2016), EC (February 2016), OECD (November 2015) and IMF (April 2016)

2 PUBLIC FINANCE POSITION

According to the Eurostat data notification, the general government deficit reached 2.97% of GDP in 2015. The overrun of the planned deficit amounting to 2.49 % of GDP results, inter alia, from non-recognising several revenues amounting to 0.4% of GDP among the accrual revenues in the methodology ESA2010.[9] In comparison with the assumptions in the budget, the tax and social contribution revenue was considerably higher thanks to a better macroeconomic development and more successful collection. These positive effects were compensated by higher investments connected with the accelerated draw-down of European funds and also with higher expenditure in healthcare and compensations of employees. Corrections from discrepancies in drawing the EU funds, which are out of reach of the government budgetary policy, represented another difference.

The original budgetary objective of 1.93% of GDP remains unchanged in 2016. The estimated general government deficit based on the continuous monitoring is currently at a level of 2.13% of GDP. The last update of the tax forecast (February 2016) partially covers higher investments related to the preparation of a strategic industrial park near Nitra and the Bratislava bypass D4/R7, which were not confirmed at the time of budget preparation. Slightly higher expenditures of public health insurance compensate higher revenues and savings in particular in social benefits and interest payments**.** Higher current and capital expenditures of local governments in comparison with the budget expectations are also expected, which are fully covered by the expected higher collection of taxes and better draw-down of EU funds. Higher tax and social contribution revenues from the continuing efficiency of collection as well as active management of expenditures available to the government can contribute to the fulfilment of the original budgetary objective.

In the following years, the gradual decrease in the general government deficit will continue until the medium-term budgetary objective (MTO) is achieved in 2019. The set fiscal objectives **are fully compliant with the rules of the Stability and Growth Pact** and allow financing the investment priorities of the new government. In the years 2017 to 2019, the fiscal framework expects a gradual decrease in the general government deficit to 1.29% of GDP in 2017, 0.44% of GDP in 2018 and the achievement of a budgetary surplus of 0.16% of GDP in 2019. In comparison with the general government budget for 2016 to 2018, there is a change of the original ambitious deficits that are increased by approx. 0.9 p.p. in 2017 and by 0.4 p.p. in 2018. The fiscal framework does not reflect the measures of the new government yet, except the priority investments and a part of tax measures.[10]

FIGURE 26 - Planned consolidation effort (% of GDP)

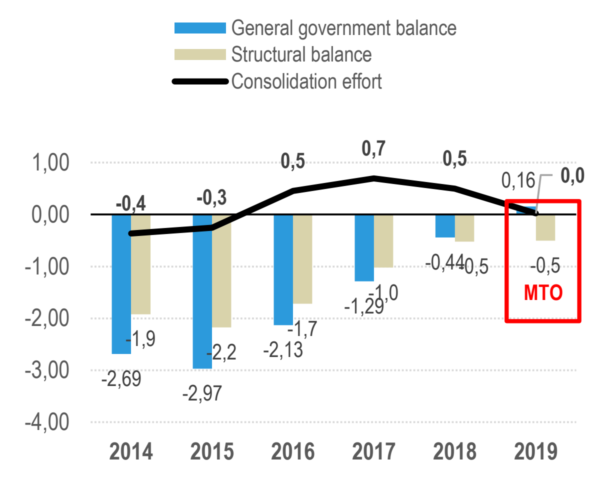
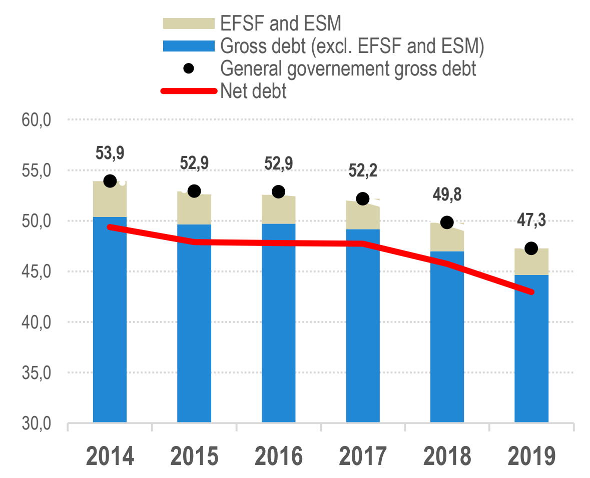


FIGURE 27 - Gross general government debt (% of GDP)



Source: MoF SR

The general government's budgetary targets are in compliance with the European and national fiscal rules. An insignificant deviation from the fulfilment of consolidation requirements identified in 2015 is fully compensated by a stronger than required decrease in the structural balance in 2016. The expected fiscal performance in 2016

[9] The ex-post decision of Eurostat did not allow active management of expenditures as at the end of 2015.
[10] The summary of main measures from the Government's Manifesto can be found in Annex No. 2.

and budgetary objectives correspond to the year-on-year structural consolidation amounting to 0.7% of GDP in 2017 and 0.5% of GDP in 2018. **With almost neutral fiscal policy, in 2019 Slovakia will reach its medium-term budgetary objective (MTO) expressed by a structural deficit of 0.5% of GDP.**

The temporary character of several expenditures and the forecast collection of taxes in the no-policy-change scenario allow a deficit drop to 0.9% of GDP in 2017. In 2017, fiscal space amounting to 0.4% of GDP will be used in particular for the priorities of the new government. These include reduction of corporate taxes and investment expenditures connected with the preparation of a strategic industrial park near Nitra and the Bratislava bypass D4/R7. A moderate stimulus in the governmental intermediate consumption balanced by savings from employee compensations is expected on the expenditure side of the fiscal framework. In 2018 and 2019, consolidation measures amounting to 0.2 and 0.3% of GDP will contribute to the fulfilment of objectives. Expenditures on governmental priorities should be financed by a slow growth of wage costs, a higher efficiency from spending reviews, and continuing higher efficiency of tax collection.

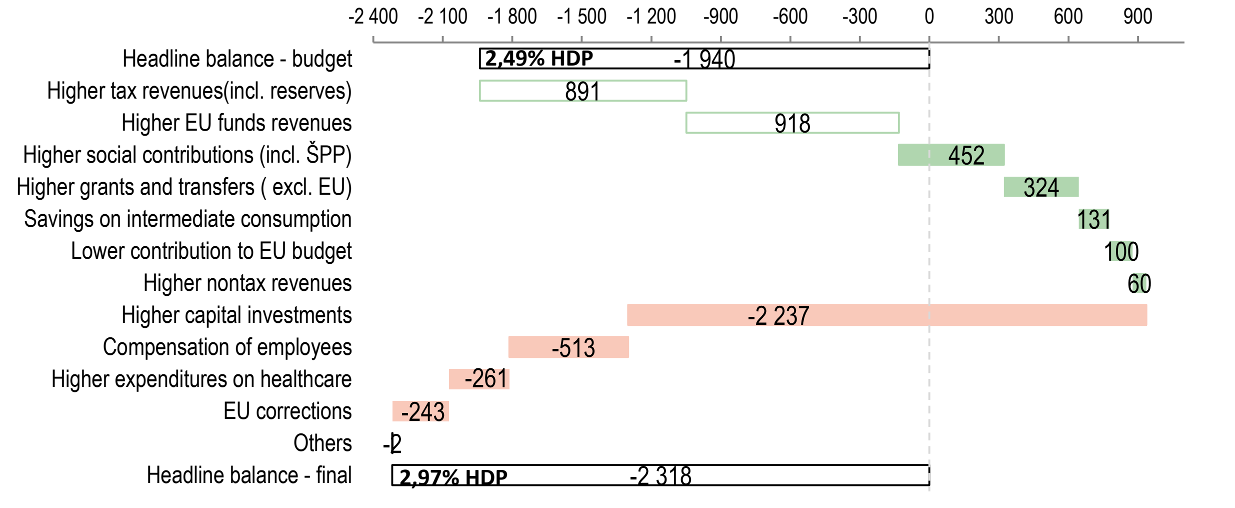
The expected consolidation will not limit considerably the economic growth. In 2017, a positive influence on the growth of GDP of 0.1 p.p. is estimated from the expected fiscal impulse. The consolidation needed for the achievement of the budgetary objective in 2018 will reduce the GDP growth by about 0.2 p.p. Fiscal policy will have negligible influence on the economy in 2019.

The fulfilment of the medium-term budgetary plan will allow a decrease in the general government gross debt on the forecast horizon below 50% of GDP. Up to 2017, the level of the general government debt will remain without considerable changes below 53% of GDP. Starting in 2018, a faster debt reduction is forecast. Taking into account the expected faster growth of economy, price growth recovery, and the expected surplus of fiscal performance of the general government, debt in 2019 will make towards the lowest sanction band of the year amounting to 48% of GDP.

2.1 General government balance in 2015

Based on the Eurostat data notification, the general government deficit achieved 2.97% of GDP in 2015.[11] The planned deficit of 2.49% of GDP was also exceeded due to the ex-post decisions of Eurostat on non-recognising several accrual revenues amounting to 0.4% of GDP.[12]

FIGURE 28 - Analytical description of GG balance development in 2015 (ESA 2010), contributions in EUR mil.



ŠPP - contributions paid by the State for public health insurance (VZP) *Source: MoF SR*

[11] The general government budget for 2015 did not include such entities as Železničná spoločnosť Slovenskej republiky (ŽSSK), MH Invest and the revenues and expenditures of healthcare facilities. Beyond the ambit of these methodological changes raised by the requirement of Eurostat, the budget did not include the revenues and expenditures of the extra-budgetary accounts either. Therefore, for the purpose of analytical comparison, the real performance is adjusted for these influences. The cumulative contribution of all these entities to the general government deficit in 2015 is almost neutral.

[12] The revenues of Štátny fond rozvoja bývania (State Housing Development Fund) related to the transfer of EU funds, and repayment of the returnable subsidy from Cargo.

General government **tax revenues** were, in comparison with the budget, which already included a reserve for more efficient tax collection[13] (EUR 300 mil.), higher by **EUR 591 mil.** The higher income was caused by a more positive macroeconomic development and a higher collection effectiveness. The economy accelerated in particular at the end of the year thanks to extraordinarily strong draw-down of EU funds, which caused an acceleration of general government consumption growth, and in particular government investments. In terms of tax revenues, the domestic demand growth and positive labour market development were important. A higher collection effectiveness was again recorded for VAT, and subsequently it meant also more efficient collection of corporate income tax (CIT).

TABLE 11 - Change of tax revenues in 2016 (against budget, mil. eur, % GDP)

	mil. EUR	in % of GDP
Value added tax (VAT)	217	0.3
Corporate income tax (CIT)	222	0.3
Excise taxes	16	0.0
Personal income tax (PIT)	77	0.1
Other taxes and sanctions	59	0.1
Tax total (excl. of social contributions)	**591**	**0.8**
p.m. Tax in total compared to the forecast of the Tax Revenue Forecasts Committee (TRFC)	891	1.1
Social contributions[14]	**452**	**0.6**
- of which: Social Insurance Agency (economically active population-EAP and amounts due)	203	0.3
- of which: General health insurance	249	0.3
- of which: EAP and amounts due	181	0.2
- of which: contributions paid by the State	68	0.1
Tax total including social contributions	**1,343**	**1.7**

Source: MoF SR

Social contributions recorded surprisingly positive development; in 2015 they grew more rapidly than the wage base. As regards the health contributions, a part of the higher yield is caused by lower monthly application of the health contribution allowance (HCA), which will be fully reflected in the annual settlement of 2015 in 2016.[15] The better labour market led to higher revenues from health contributions, which along with the contributions paid by the State brought additional resources to the public health insurance in the amount of EUR 249 mil. Healthcare expenditures increased by EUR 261 mil. in comparison with the budget, and along with the lower shareholders' expenditures led to a surplus in the public health insurance.

Grants and transfers (EUR 324 mil.) divided to an approximately same degree to current and capital revenues were also higher in comparison with the budget. This sum was decreased by EUR 97 mil. due to non-recognising of accrual revenues from repayment of the returnable subsidy from Cargo.

Higher non-tax revenues from general government market output (EUR 208 mil.), in particular on the part of public universities, local governments, Railways of the Slovak Republic (ŽSR) and from contributions from gambling (EUR 33 mil.), compensated considerably the lower than expected revenues from State dividends (EUR -158 mil.). The accrual revenues from dividends of Slovenský plynárenský priemysel (SPP) were lower by EUR 173 mil. in comparison with the budget.[16] The assumptions regarding the revenues from the equity capital in Slovak Telekom were not fulfilled either, they were lower by EUR 31 mil., and in Východoslovenská energetika Holding, a.s. (EUR

[13] The budget expected more efficient collection of corporate income tax by EUR 150 mil., VAT by EUR 100 mil. and excise taxes by EUR 50 mil. than the officially approved forecast of the Tax Revenue Forecasts Committee dated 23 September 2015.

[14] Total revenues from social contributions were higher by as much as EUR 638 mil. in comparison with the budget. The additional difference results from higher payment of the State for its insured persons (about EUR 50 mil.), from imputed contributions higher by EUR 30 mil. and social contributions for the armed forces amounting to EUR 183 mil., which are not budgeted in the extra-budgetary account.

[15] Currently, the annual settlement of health contributions is not accrued.

[16] It is a one-off effect due to the end of the company restructuring process.

-8 mil.). These influences were partially compensated by revenues from the share in profits (EUR 51 mil.) in Slovenská elektrizačná a prenosová sústava (SEPS).

The lower contribution to the EU increased the savings in comparison with the budget by EUR 100 mil.[17]

Higher revenues from the EU funds amounting to EUR 918 mil. ended in higher expenditures of general government. Total expenditures grew more significantly than the revenue items in comparison with the budget, also with respect to the need of co-financing and the induced additional necessary investments. Capital expenditures, in particular those spent by Národná diaľničná spoločnosť (NDS), state budget, local governments and public universities, exceeded the budgeted value by more than EUR 2.2 bl.

The growth of employee compensations in general government (EUR 513 mil.), which recorded a year-on-year increase by 6.4 %, contributed to a more significant growth of expenditures in comparison with the budget assumptions. In terms of division among general government entities, the above difference is explained in particular by the wage growth in municipalities (EUR 148 mil.), in state budget chapters (EUR 130 mil.) and higher territorial units (EUR 51 mil.). The growth was also caused by the involvement of EU funds and co-financing amounting to EUR 74.3 mil., which had not been considered in the budget.

Within the audit of using the EU funds, the EC identified discrepancies in several operational programmes, which caused financial corrections for Slovakia amounting to EUR 243 mil.[18]. However, the identified corrections also economically relate to the draw-down of funds in the previous years thus adversely affecting general government performance only in 2015.

Purchases of goods and services were lower by EUR 431 mil. in comparison with the budget. The analytical adjustment for a reserve for more efficient tax collection corresponds to a lower saving amounting to EUR 131 mil.[19]

2.2 Developments in 2016

The ongoing monitoring of general government performance in 2016 is based on the updated macroeconomic and tax forecast from February 2016 and the updated estimate of development of other revenue and expenditure components of the general government budget. **According to the current estimate, which includes negative risks resulting from key government investments, the deficit could reach 2.13% of GDP.[20]**

The original budgetary objective of 1.93% of GDP remains unchanged. Higher tax and social contribution revenues from the continuing efficiency of collection as well as active management of expenditures available to the government can contribute to the fulfilment of the original budgetary objective.

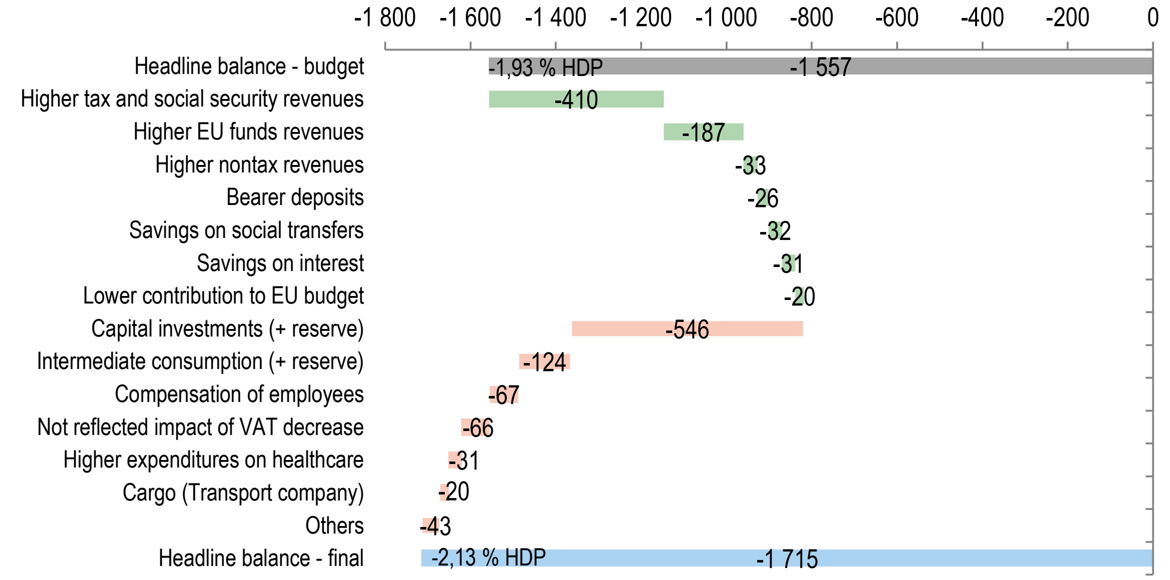
[17] The budget also considered a reserve for the case of need to pay a higher contribution to the EU budget amounting to EUR 51 mil., which was not confirmed. The above resources were used to cover other expenditure items for 2015.

[18] EU corrections mean only those, which are connected with discrepancies in drawing EU funds and affect the flows related to the receivables from the EU (i.e. the receivables of the SR from the EU are not settled).

[19] The reserve in the intermediate consumption in the approved budget considered in addition also the reserves for the case of coverage of the risks connected with worsened macroeconomic development (EUR 156 mil.) and with worsened management of healthcare facilities (EUR 50 mil.).

[20] The GG budget for 2016 to 2018 did not include the entities ZSSK and MH Invest, which were reclassified into the general government sector by Eurostat in the interim. For ZSSK, a neutral influence on the GG is expected, and MH Invest will contribute to the deficit negatively in the amount of approximately 0.1% of GDP in 2016.

FIGURE 29 - Analytical description of GG balance development in 2016 (ESA 2010), contributions in EUR mil.



(+) / (-) means positive/ negative effect on GG deficit *Source: MoF SR*

General government **tax revenues** were, in comparison with the budget, which already included a reserve for more efficient tax collection, higher by **EUR 94 mil.**[21] The reserve for more efficient tax collection was created based on a parliamentary modification in the amount of EUR 250 mil., without any impact on the general government deficit (BOX 4). **The update of the macroeconomic and tax forecast increased the estimated tax and social contribution revenues compared to the official October forecast[22] by EUR 410 mil. (0.5% of GDP)**.

The higher effectiveness of tax collection achieved in the previous year and transmitted to the current year has a positive impact on the increase in the estimated tax revenues in 2016. The expected development on the labour market and the investments started in the automotive industry also contribute positively. The tax revenues of the state budget are higher by about EUR 140 mil. compared to the official forecast of the tax committee, in particular due to better results in the collection of value added tax, excise taxes, and corporate income taxes.

Income taxes on labour also record positive development; they represent revenues for local governments and social and health insurance. Higher revenues from social contributions (EUR 130 mil.) as well as the savings from social benefits allow reducing the State's transfer to the Social Insurance Agency and contribute to reducing the GG deficit. On the contrary, higher revenues from health insurance contributions (EUR 33 mil.) shall be used for public health insurance expenditures, thus, they do not have a positive impact on the GG balance. The higher tax revenues of local governments (EUR 108 mil.) are used in an approximately proportional ratio for their higher compensations of employees and purchase of goods and services.

Through a sufficiently better development of tax revenues, a part of expenditures is preliminarily bound on the expenditure side of the budget, in the intermediate consumption, this part will be unbound only if better tax collection is achieved.

The incorporation of investment priorities of the Government, which increase the volume of general government investments by more than EUR 546 mil. (0.7% of GDP), **represents the most important negative impact compared to the budget**. The priorities include in particular the expenditures connected with the preparation of a strategic industrial park near Nitra and with the preparation of a project of Bratislava highway bypass D4/R7. Higher capital investments of local governments (municipalities and higher territorial units) by EUR 171 mil. are fully matched by higher EU funds revenue and higher tax revenues of local governements from PIT.

[21] The approved budget did not reflect the introduction of a lower VAT rate for food (EUR -65.8 mil.).
[22] Macro Committee – September 2015 and Tax Revenue Forecasts Committee - October 2015.

Other positive factors include in particular higher non-tax revenues, savings resulting from lower state debt interest payments and a lower contribution to the EU budget, partially compensated by the contribution to the National Resolution Fund.

BOX 4 - Parliamentary changes in the general government budget

Beyond the ambit of the officially approved forecast of the Tax Revenue Forecasts Committee (TRFC) dated 26 October 2015, the approved budget was based on the assumption of a higher effectiveness of tax collection amounting to EUR 250 mil. The assumption was based on the more positive development of tax and social contribution revenues in the third quarter 2015, which was known in December, and on the signature of the investment agreement with the car manufacturer JLR. **To the reserve on the side of revenues the same reserve on the side of expenditures corresponded, to which particular expenditure items were not assigned**.

The MoF SR binds this sum of expenditures until the moment of higher revenue confirmation by the forecast of the TRFC. In case of achieving better taxes, spending of these revenues to unspecified expenditure items is automatically assumed. Unspecified expenditure items in the intermediate consumption and capital investments of the Government for the purpose of financing the priority investment projects in the ratio 60:40 is assumed.

Based on the published forecast of the TRFC dated 11 February, in 2016 **the reserve of state budget revenues for VAT, CIT and excise taxes was achieved in the amount of approximately EUR 145 mil.**[23] **The remaining amount of EUR 105 mil. is still bound**. A comparison of updated tax revenues compared to the official Tax Committee and to the approved budget with the reserve incorporated is shown below. Looking at the development of tax and social contribution revenues compared to the GG budget including the reserve, the positive influence in the balance amounts only to 0.1% of GDP.

TABLE 12 - Change of GG tax revenues compared to the approved budget in 2016 (in EUR mil. and in % of GDP)

	Update of revenues compared to the last forecast		Comparison with the budget	
	mil. EUR	**in % of GDP**	**mil. EUR**	**in % of GDP**
Change of state budget tax revenues (including state financial assets)[24]	140	0.2	-176	-0.2
of which: an increase in the estimated corporate income tax	49	0.1	49	0.1
of which: an increase in the estimated VAT[25]	83	0.1	-183	-0.2
of which: an increase in the estimated excise taxes[26]	34	0.0	-16	0.0
of which: other	-26	0.0	-26	0.0
Change of contributions - Social Insurance Agency	130	0.2	130	0.2
Changes of cotributions - health insurance companies	33	0.0	33	0.0
Change of tax revenues of municipalities and higher territorial units (in particular personal income taxes)	108	0.1	108	0.1
Total[27]	**410**	**0.5**	**94**	**0.1**

In 2016 to 2018, the total tax and social contribution revenues were increased in the amount of EUR 410 to 449 mil. (0.5% of GDP).

[23] Higher cash revenues of the state budget including lower expenditures on tax credits and expenditures on tax assignation. In principle, the filling of the reserve has no impact on the deficit as at the moment of confirmation of higher revenues, resources can be released to pay the expenditures to the extent they were originally bound to.

[24] The update of state financial assets revenues amounts to EUR 1.4 mil.

[25] The budget considered a reserve for better VAT collection amounting to EUR 200 mil. Besides that, it did not reflect the introduction of a lower VAT rate for food amounting to EUR 65.8 mil., which explains the difference between both compared figures.

[26] The budget considered a reserve for better collection of excise tax on mineral oil amounting to EUR 50 mil.

[27] The difference between EUR 410 mil. and EUR 94 mil. is explained by the reserve for better tax collection incorporated in the budget and amounting to EUR 250 mil. and the non-incorporated impact of the reduced VAT rate amounting to EUR 65.8 mil.

2.3 Medium-term budgetary outlook for 2017 to 2019

In the fiscal framework of the Stability Programme, which is considered as the national medium-term budget framework in the context of the legislative requirements of the European semester[28], the Government announced **the update of nominal budgetary objectives compared to the assumptions of the GG budget for 2016 to 2018**. The deficit objective for 2016 remains at the level of 1.93% of GDP. In 2017 and 2018, it is at a level of 1.29 and 0.44% of GDP, and in 2019, the achievement of surplus in public finance management is expected in the amount of 0.16% of GDP. This corresponds to the release of nominal budgetary objectives by 0.9 or 0.4 p.p. in 2017 and 2018.[29]

TABLE 13 - Change of fiscal targets (headline deficits) of public sector (% GDP)

	2014	2015	2016	2017	2018	2019
1. GG budget for 2014 to 2016	-2.64	-2.57	-1.50	-	-	-
2. GG budget for 2015 to 2017	-2.93	-2.49	-1.43	-0.39	-	-
3. GG budget for 2016 to 2018	-2.87	-2.49	-1.93	-0.42	0.00	-
4. Fiscal framework of the GG budget in the Stability Programme for 2017-2019	**-2.69**	**-2.97**	**-1.93**	**-1.29**	**-0.44**	**0.16**
Change compared to the GG budget 2014 to 2016 (4-1)	-0.05	-0.40	-0.43	-	-	-
Change compared to the GG budget 2015 to 2017 (4-2)	0.24	-0.48	-0.50	-0.90	-	-
Change compared to the GG budget 2016 to 2018 (4-3)	**0.18**	**-0.48**	**0.00**	**-0.87**	**-0.44**	**-**

Source: MoF SR

The review of the fiscal objectives in 2017 and 2018 and the setting of new budgetary objectives is in compliance with the fiscal rules of the Stability and Growth Pact. The targeted values of deficits corresponding to the required pace of the year-on-year structural consolidation effort according to the preventive arm of the Stability and Growth Pact will lead to the achievement of approximately structurally balanced budget (MTO) [30] in 2019 (BOX 5).

BOX 5 - Update of the budgetary objectives in compliance with the national and European fiscal rules

The Government's Manifesto of the SR declares the achievement of a balanced budget by 2020. The setting of new objectives is in compliance with the European and national fiscal rules. The extension of the deadline for achieving the medium-term budgetary objective (MTO) to 2019 corresponds in the respective year to a nominal surplus amounting to 0.16% of GDP, and in 2017 and 2018, to a change of nominal budgetary objectives by 0.9 or 0.4 p.p. compared to the approved general government budget for 2016 to 2018. The possibility of changing the objectives is also based, besides the MTO shifting, on the review of the potential growth of the economy upwards.[31]

The originally ambitious goal of the previous Government to achieve the medium-term budgetary objective (MTO) already in 2017 was not required strictly by the European fiscal rules of the Stability and Growth Pact (SGP).

Compliance with the European fiscal rules

In compliance with the preventive arm of the Stability and Growth Pact, the MTO achievement is planned in 2019. The MTO determined by the Government at a level of 0.5% of GDP is based on the interpretation of the national fiscal rules included in the Budgetary Rules Act.

The objectives for 2017 to 2019 set by the Government fully respect the required pace of consolidation pursuant to the Pact until the MTO is achieved. The setting of the objectives for 2017 to 2019 is based on the assumption of fulfilment of the budgetary objective in 2016. With the updated estimate of the cyclical component and temporary effects for

[28] The requirement to publish the national medium-term budget framework results from the Two-pack (473/2013, Article 4).
[29] Compared to the assumptions in the Draft Budget Plan for 2016.
[30] Structural deficit amounting to 0.5% of GDP
[31] Based on the estimated output gap (the difference between the real and potential state of the economy), which represents the basic input for the calculation of the required year-on-year consolidation. Compared to the initial assumptions, the output gap should close a year later (in 2018). In particular the growth of government investments and higher participation in the labour market contributed to the growth of economy potential.

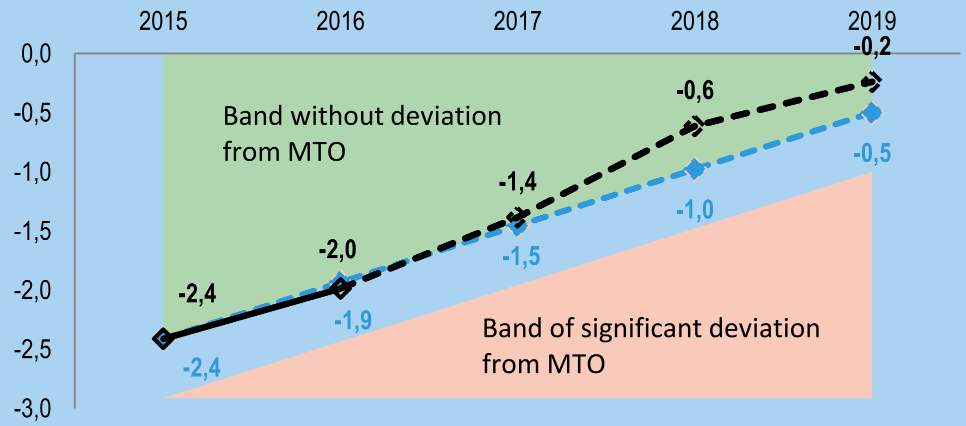
2016, the budgeted structural deficit is at a level of 1.5% of GDP, and it has to be decreased from 2017 with a year-on-year decline by 0.5% of GDP until the MTO is achieved. The required year-on-year pace of consolidation reflects the low to medium risk of medium-term public finance sustainability and the growth of the Slovak economy close to its potential (corresponding to a value of the output gap between -1.5 to 1.5% of GDP, more details in Annex 5).

Compliance with the national fiscal rules

The national fiscal rules also require the achievement of the MTO in a sufficiently fast horizon.[32] However, in contrast to the European fiscal rules, **the year-on-year consolidation** determined on the basis of the long-term sustainability indicator and output gap **is not assessed**; for the achievement of the MTO, **the fixed deadline pursuant to the Stability Programme** is taken over (or according to the Draft Budgetary Plan). Thus, the national assessment of the balanced budget rule monitors whether the Government heads sufficiently quickly for its declared objective set in compliance with the European and national fiscal legislation[33]. Based on this the required reference trajectory for reducing the structural balance is set, on the basis of the assumption of a linear pace of consolidation (FIGURE 30).

The update of budgetary objectives **shifts the fixed deadline of MTO achieving from 2017 to 2019, which will also reflect the assessment of compliance with national rules** assessed by the MoF SR and Fiscal Responsibility Council (RRZ). New budgetary objectives will also affect the reference trajectory in the case of evaluation of the balanced budget rule starting from 2016.[34] For the purpose of setting a new trajectory, due to MTO shifting, **the year 2015 will be selected as a new starting point.** It is the last ended year confirmed by Eurostat's notification, from which the structural balance will have to be reduced until the Achievement of the MTO in 2019. The required average year-on-year pace of consolidation 0.5 p.p. preliminarily results from the new trajectory. The observance of the set objectives should ensure compliance of the medium-term budgetary objective according to the national rules with the updated estimate of the output gap and one-off effects.

FIGURE 30 - Assessment according to national rules



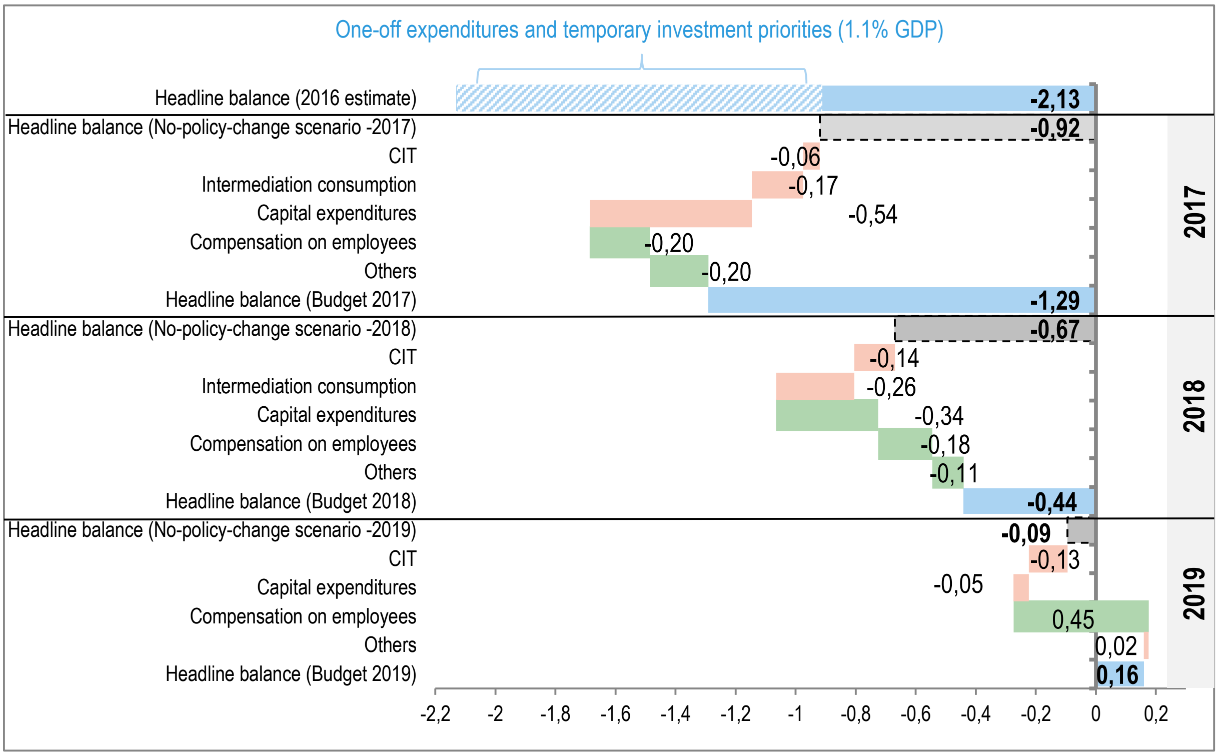
Source: MoF SR

2.4 No-policy-change scenario

The no-policy-change scenario (NPC)[35] presenting the development of the general government balance assuming no changes of legislation and updated estimate of macroeconomic development, quantifies the measures necessary for fulfilling the budgetary objectives. The size of measures (or fiscal space) for the achievement of the budgetary objectives can be quantified by comparing the general government balance in the NPC scenario compared to the budgetary objective. The effect of governmental measures (consolidation or stimulus) on the economy can be estimated by taking into account the difference of the budgeted revenues and expenditures compared to the structure in the NPC scenario.

[32] Based on the transposition of the Fiscal Compact, principles of the European fiscal legislation have been introduced to the national Budgetary Rules Act, with the freedom to take into account national particularities in assessing the fulfilment of rule.
[33] Pursuant to Act No. 523/2004 on budgetary rules of general government, which transposes the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.
[34] The evaluation of the balanced budget rule for 2015, which evaluates the ended year 2015 pursuant to the notified data, will still be based on the deadline for MTO achievement in 2017.
[35] The Manual for preparing an NPC scenario is accessible at the website of the MoF SR: http://www.finance.gov.sk/Default.aspx?CatID=9301.

FIGURE 31 - Measures of achieving the objectives in 2017 to 2019 compared to NPC scenario (ESA 2010, % of GDP)



Source: MoF SR

The achievement of the budgetary objectives in the fiscal framework is covered by budgetary measures. Provided that there is no change in the economic policies, the general government deficit would drop to 0.9% of GDP in 2017, and in 2018 and 2019 it would further decrease to 0.7% and 0.1% of GDP. The identified fiscal space in 2017 amounting to 0.4% of GDP is considered in the priorities of the Government in particular in the area of reduction of corporate income taxation and government investments. On the contrary, in 2018 and 2019, budgetary measures amounting to 0.2% of GDP (EUR 207 mil.) and 0.3% of GDP (EUR 245 mil.) had to be incorporated in order to achieve the objectives compared to the NPC scenario. In comparison with the no-policy-change scenario, the fiscal framework expects in particular more slowly growing employee compensations on the whole horizon 2017 to 2019.

TABLE 14 - List of measures in the fiscal framework for 2017 to 2019 (ESA 2010, compared to NPC, impact on the balance)

Measure	2,017		2,018		2,019	
	mil. EUR	% of GDP	mil. EUR	% of GDP	mil. EUR	% of GDP
Total revenues (1+2+3)	**19**	**0.02**	**-147**	**-0.16**	**-265**	**-0.27**
1. Tax measures	**-52**	**-0.06**	**-156**	**-0.17**	**-190**	**-0.20**
of which: Reduction of corporate income tax rate from 22% to 21%	-127	-0.15	-136	-0.15	-146	-0.15
of which: Tax licence cancellation (from 1 January 2018)	-	-	-72	-0.08	-69	-0.07
of which: Extension of the special levy in regulated industries	80	0.09	85	0.09	91	0.09
of which: Change taxation of cigars and cigarillos	21	0.02	21	0.02	21	0.02
of which: Increased contribution to the fully-funded pillar from 4% to 4.25% from 2017	-26	-0.03	-28	-0.03	-29	-0.03
of which: Increased contribution to the fully-funded pillar from 4.25 % to 4.5 % from 2018	0	0.00	-28	-0.03	-29	-0.03
of which: Increased contribution to the fully-funded pillar from 4.5 % to 4.75 % from 2019	0	0.00	0	0.00	-29	-0.03
2. Non-tax revenues	**44**	**0.05**	**-3**	**0.00**	**-61**	**-0.06**

3. Grants and transfers	**27**	**0.03**	**12**	**0.01**	**-13**	**-0.01**
Total expenditures (4+5+6+7)	**-334**	**-0.39**	**354**	**0.39**	**510**	**0.53**
4. Capital expenditures	**-454**	**-0.54**	**-238**	**-0.26**	**-49**	**-0.05**
Of which: investment expenditures (D4R7, industrial park near Nitra	-341	-0.40	-92	-0.10	-	-
5. Compensations	**171**	**0.20**	**308**	**0.34**	**433**	**0.45**
6. Intermediate consumption	**-145**	**-0.17**	**162**	**0.18**	**-9**	**-0.01**
7. Other changes compared to NPC on the side of expenditures, of which	**94**	**0.11**	**122**	**0.14**	**135**	**0.14**
Other current transfers	45	0.05	60	0.07	100	0.10
Capital transfers	47	0.06	60	0.07	3	0.00
Other	2	0.00	2	0.00	32	0.03
Total (volume of consolidation/stimulus compared to NPC)	**-315**	**-0.4**	**207**	**0.2**	**245**	**0.3**

Source: MoF SR

Development on the revenues side

In comparison with the no-policy-change scenario, in 2017 tax revenues will decrease by EUR 52 mil. (0.06% of GDP) due to execution of the priorities of the new Government. **In 2018 and 2019, tax revenues will be lower by EUR 156 mil. (0.17% of GDP) or EUR 190 mil. (0.20% of GDP)**. The decreased corporate income tax rate from 22% to 21% from 2017, and with effect from 2018, the cancellation of the tax licence will mainly contribute to the drop in tax revenues. From 2017, the rate of contribution to the fully-funded pension pillar will be gradually increased, with a negative influence on the GG budget. On the contrary, compared to the no-policy-change scenario, the prolongation of the special levy of the regulated industries and the change of taxation of cigars and cigarillos from 2017 will bring the growth of tax revenues.

With a goal to maintain a high-quality and competitive business environment with the potential of attracting foreign investments, **the corporate income tax rate will drop by one percentage point from 22% to 21%**, and from 2018, **the tax licence will be cancelled**[36]**.** Moreover, with the objective of a fairer and more effective competition in the regulated industries, **the the special levy will be extended.**

In connection with the effort to increase the efficiency of tax collection, **there is a change of cigar taxation**. The current method of taxation depending on the quantity will be replaced by taxation depending on weight. The measure responds to the increasing share of „pseudo-cigars“ on the market with the objective to profit from lower taxation of cigars in comparison with tobacco. These are fake cigars meeting the formal features of cigars but the tobacco from them is used for making home-made cigarettes.

Based on the Act on Old-Age Pension Insurance, **in 2017 the rate of compulsory contributions to the fully-funded pension pillar will increase from 0.25 p.p. from the current value 4% to 4.25%**. In the next years, the rate will annually increase by 0.25 p.p. until it reaches 6% in 2024.[37]

Compared to the NPC scenario, the fiscal framework in 2017 also expects higher non-tax revenues of other general government entities (NDS, ZSSK, Railways of the SR, healthcare facilities) by 44 mil. (0.1% of GDP). The positive influence decreases in the next year and in 2019, on the contrary, a shortfall at a level of EUR 61 mil. (0.1% of GDP) occurs compared to NPC.

Development on the expenditure side

The budgeted expenditures for 2017 will grow faster by EUR 334 mil. (0.39% of GDP) in comparison with the no-policy-change scenario (NPC). There is an opposite development in 2018 and 2019, with savings

[36] Last time, the licence will apply in 2018 for 2017.

[37] Beyond the ambit of current recording of measures compared to the NPC scenario we also provide the legislative effects (a change of taxation of cigars and gradual increase of the rate to the fully-funded pillar by 0.25 p.p.), which were adopted before the initial year but they will come into effect in 2017 and onward.

amounting to EUR 354 mil. (0.39% of GDP) or EUR 510 mil. (0.53% of GDP). The high increase in the capital expenditures is compensated in particular by a slower growth of employee compensations.

The fiscal framework expects higher capital expenditures than the NPC scenario on the whole horizon. In 2017, capital expenditures will grow faster by EUR 454 mil. (0.54% of GDP). The increase is caused in particular by the preparation of the industrial park near Nitra and the project of Bratislava bypass D4/R7. In 2018 and 2019, expansion continues on the side of investments. In addition to the expenditures in the area of preparations of strategic investments, the budget expects the growth of investments of municipalities and transportation companies in 2018 due to rolling stock renovation and modernization.

Budgeted employee compensations grow more slowly than NPC. The slower growth of compensation will reach in 2017, in comparison with NPC, EUR 171 mil. (0.2% of GDP). For wages in the public sector, the fiscal framework currently does not take into account wage indexation, which grow more slowly than showed by the wage growth forecast in the private sector.[38] The assumption applies to 2018 and 2019.

In 2017, the expenditures on intermediate consumption are higher in the budget than in the NPC scenario, by EUR 145 mil. (0.17% of GDP). Opposite development occurs in 2018, with a saving of EUR 162 mil. (0.18% of GDP). In 2019, the expenditures on intermediate consumption moderately exceed the level of the no-policy-change scenario.

BOX 6 - One-off and temporary expenditures in 2016

In 2017, many of the temporary expenditures from the previous year **will not be repeated or are expected in a considerably lower volume.** For the estimate of deficit development in the no-policy-change scenario, **one-off expenditures amounting to EUR 792 mil. (1.0% of GDP)** were removed from the base of the base year 2016. They include in particular the expenditures connected with the preparation of the industrial park near Nitra, the project D4/R7 (in total, EUR 535 mil.) and an additional increase in payments for the persons insured by the State due to the health contribution allowance (EUR 96 mil.).

The actual estimate of 2016 also assumes several one-off reserves cumulatively at a level of EUR 40 mil. The biggest items include the reserve for expenditures connected with the migration crisis and the reserve for worsened management of healthcare facilities in the general government sector. One-off expenditures amounting to EUR 53 mil. are expected in connection with the Presidency of the Council of the EU held by the SR.

TABLE 15 - The list of one-off measures in 2016 for the needs of NPC (ESA 2010, EUR mil.)

	ESA2010	2016	2017	2018	2017 - 2016
1. SK Pres	D.1/P.2	53	12		-41
2. Investment priorities (D4/R7, industrial part near Nitra)	P.5/NP	535	341	92	-194
3. Change in State's payment to public health insurance due to HCA	D.6	96			-96
4. Gas consumption refunds to households	D.6	48			-48
5. Reserves		40			-40
Of which: Migration crisis	D.7	20			-20
Of which: Worsened development of healthcare facilities	P.2	20			-20
6. Other	P.2/P.5/D.7	20			-20
TOTAL		**792**	**353**	**92**	-439

Source: MoF SR

The consolidation effort in terms of the NPC scenario and year-on-year change in the structural balance

The temporary and one-off expenditures in 2016 also affect the year-on-year decrease in the general government deficit. Although the above-mentioned expenditure items cannot be assessed as one-off in accordance with the official EC

[38] The wage growth in the private sector for 2017 is forecast at a level of 3.9%.

methodology for the calculation of the structural balance,[39] the temporary character of the measures is the reason allowing to fulfil the required consolidation in 2017 without the need to adopt additional measures. **One-off measures in 2016 and the decreasing expenditures on Government's investment priorities will automatically allow a drop in the general government deficit by EUR 439 mil. (0.5% of GDP) in 2017.**

TABLE 16 - No-policy-change scenario and general government balance (ESA2010, % of GDP)

	E	NPC scenario			Budget framework			GGB - NPC		
	2016	2017	2018	2019	2017	2018	2019	2017	2018	2019
1. Total revenues	**38.6**	**37.6**	**37.2**	**36.0**	**37.6**	**37.1**	**35.8**	**0.0**	**-0.2**	**-0.3**
Tax revenues	17.9	17.5	17.2	17.0	17.4	17.1	16.9	0.0	-0.1	-0.1
Taxes on production and imports	10.6	10.4	10.0	9.9	10.4	10.1	9.9	0.0	0.0	0.0
- Value added tax	6.8	6.6	6.5	6.4	6.6	6.5	6.4	0.0	0.0	0.0
- Excise taxes	2.7	2.6	2.5	2.4	2.6	2.5	2.4	0.0	0.0	0.0
Current taxes on income, wealth	7.3	7.1	7.2	7.2	7.0	7.0	7.1	-0.1	-0.1	-0.1
- Personal income tax (PIT)	3.2	3.3	3.3	3.3	3.3	3.3	3.3	0.0	0.0	0.0
- Corporate income tax (CIT)	3.4	3.3	3.3	3.3	3.2	3.2	3.2	-0.1	-0.1	-0.1
- Withholding income tax	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.0	0.0
Social security contributions	13.7	13.6	13.5	13.3	13.5	13.4	13.3	0.0	-0.1	-0.1
Non-tax revenues	4.6	4.4	4.2	4.1	4.5	4.2	4.0	0.1	0.0	-0.1
Grants and transfers	2.4	2.2	2.3	1.6	2.2	2.3	1.6	0.0	0.0	0.0
2. Total expenditures	**40.7**	**38.5**	**37.9**	**36.1**	**38.9**	**37.5**	**35.6**	**0.4**	**-0.4**	**-0.5**
Current expenditures	37.0	35.7	35.0	34.0	35.6	34.4	33.4	-0.1	-0.6	-0.6
Compensation of employees	8.7	8.6	8.5	8.4	8.4	8.2	7.9	-0.2	-0.3	-0.4
Intermediate consumption	5.3	5.0	4.8	4.6	5.0	4.6	4.5	0.0	-0.2	-0.1
Subsidies	0.5	0.5	0.5	0.4	0.5	0.5	0.4	0.0	0.0	0.0
Interest payments	1.5	1.4	1.4	1.3	1.4	1.4	1.3	0.0	0.0	0.0
Total social payments	18.5	17.7	17.3	16.8	17.7	17.3	16.8	0.0	0.0	0.0
- Social benefits other than social transfers in kind	13.5	12.8	12.4	12.0	12.8	12.4	12.0	0.0	0.0	0.0
- Social transfers in kind (healthcare facilities)	5.1	4.9	4.9	4.8	4.9	4.9	4.8	0.0	0.0	0.0
Other current transfers	2.4	2.3	2.4	2.4	2.4	2.4	2.4	0.1	0.0	0.0
Capital expenditures	3.7	2.9	2.9	2.1	3.3	3.1	2.2	0.5	0.2	0.0
Capital investments	3.5	2.6	2.6	1.8	3.1	2.8	1.8	0.5	0.3	0.1
- Gross fixed capital formation	3.2	2.7	2.6	1.8	3.2	2.9	1.9	0.5	0.3	0.1
Capital transfers	0.2	0.3	0.3	0.3	0.2	0.3	0.3	-0.1	-0.1	0.0
3. Net lending/borrowing	**-2.1**	**-0.9**	**-0.7**	**-0.1**	**-1.3**	**-0.4**	**0.2**	**-0.4**	**0.2**	**0.3**

Source: MoF SR

2.4.1 The impact of fiscal policy on the economy in 2017 to 2019

The no-policy-change (NPC) scenario represents a starting point of the quantification[40] of the size of fiscal measures affecting the economy. The impact of fiscal policy on the economy in 2017 to 2019 is based on the measures necessary to achieve the budgetary objectives contained in the fiscal framework of the Stability Programme compared to NPC. However, the fiscal framework does not contain the priorities of the new Government on the expenditure side of the budget.

[39] Vade Mecum 2016 contains EC guideline for the one-off measures.
[40] More details on the impacts of fiscal policy in 2017 to 2019 can be found in Annex 3.

TABLE 17 - Overall consolidation need to achieve the fiscal targets compared to NPC (ESA2010, % of GDP)

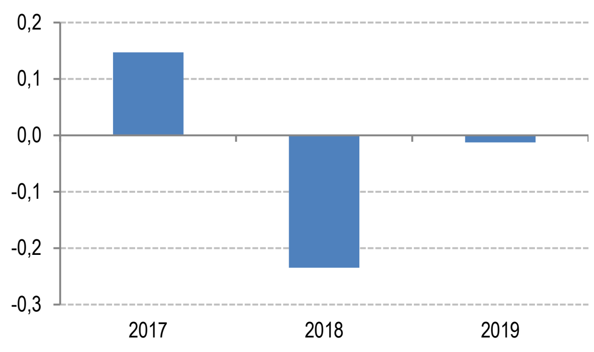
	2017	2018	2019
1. General government balance - Fiscal objectives	-1.29	-0.44	0.16
2. General government balance - Fiscal framework	-1.29	-0.44	0.16
3. General government balance - NPC scenario	-0.92	-0.67	-0.09
4. Size of measures (1-3)	-0.37	0.23	0.25
- year-on-year change	**-0.40**	**0.60**	**0.02**

Source: MoF SR

In 2017, a fiscal space amounting to 0.4% of GDP is created in comparison with the NPC scenario, and based on the fiscal framework, the fiscal impulse is concentrated in particular in the investments and intermediate consumption of the general government. In the next years, assuming the adoption of permanent measures for fulfilling the budgetary objectives, consolidation measures are needed, which will achieve 0.6% of GDP in 2018 and only 0.02% of GDP in 2019. These are expected almost exclusively on the expenditure side of the budget. On the revenue side, expansive priority measures of the new Government (reducing the corporate income tax rate and cancellation of the tax licences) and restrictive measures (higher excise taxes, prolongation of the special levy in the regulated industries and increase in the market output of general government) are mutually compensated in each year. The measures without direct impact on the GDP were not included in the calculations of impacts of fiscal policy on the economy.[41] **In 2017, a positive influence on the growth of GDP of 0.1 p.p. is estimated. The consolidation needed for the achievement of the budgetary objective in 2018 will reduce the GDP growth by 0.2 p.p. The expected volume of consolidation measures in 2019 has almost a zero effect on the growth of GDP in 2019.**

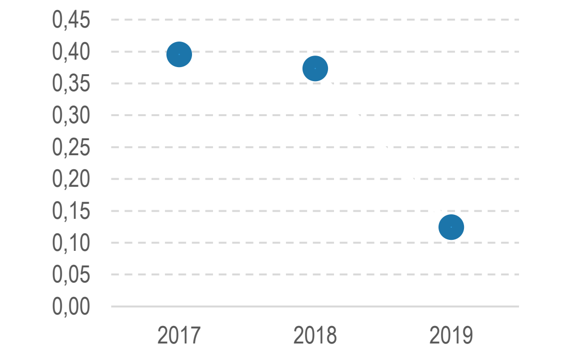
The implied fiscal multiplier in 2017 is estimated at a value of 0.4. The multiplier's value corresponds to the structure of the stimulus, which is concentrated in particular on the expenditure side of the budget - in the intermediate consumption and in the investments of general government. The drop in compensations, capital transfers and other current transfers represents a contradictory action. **The estimated implied multiplier of the consolidation package[42] in 2018 is at a level of 0.37. In 2019,** restrictive and expansive measure are compensated in the structure of expected consolidation, which **results in the implied fiscal multiplier at a level of 0.12.**

FIGURE 32 - Impact of fiscal policy on GDP (% of GDP)



Source: MoF SR

FIGURE 33 - Implied fiscal multipliers



Source: MoF SR

2.5 Structural balance and the expenditure benchmark

Since 2014, the fiscal policy of the SR has been governed by the rules of the preventive arm of the Stability and Growth Pact, which requires gradual decreasing of the structural balance[43] until the medium-term

[41] On the revenue side, it means the category of grants and transfers, which are, in comparison with NPC higher by EUR 27 mil. in 2017, whereas in 2018 and 2019 they are lower by EUR 15 and 25 mil. The zero impact on the macroeconomic fundaments in the respective year is also expected for the increase of contributions to the fully-funded pillar.

[42] The difference between the no-policy-change scenario and draft fiscal framework in individual revenue and expenditure items.

[43] The year-on-year decrease in the structural balance by 0.5% of GDP represents the reference value. The exact consolidation requirements are based on the cyclical position of the country and sustainability risks (Annex 5).

objective (MTO) has been achieved. The general government structural balance expresses the outcome of general government fiscal performance adjusted for cyclical and one-off effects (Annex 4). This adjusted balance reflects more accurately the realistic fiscal position of the country and it is also the key pillar when assessing compliance with European (and national) fiscal rules.

The fulfilment of the expenditure benchmark represents the second pillar of the preventive arm of the Pact, according to which the growth of general government expenditures should grow according to the long-term potential of the economy, taking into account the target of the medium-term budget objective. The analytical indicators presented in this part are quantified according to the EC methodology focused on the international comparability.

Based on the preventive arm of the Stability and Growth Pact, neutral fiscal policy was requested for Slovakia in 2015. In 2015, Slovakia recorded a temporary fiscal expansion amounting to 0.3% of GDP, also in connection with the Eurostat's decision on non-recognising several accrual revenues in the ESA2010 methodology. The achieved insignificant deviation is compensated by the expected consolidation in 2016, which will lead to a year-on-year decrease in the structural balance by 0.5 p.p. (compared to the required decrease by 0.25 p.p). **In 2016, the structural deficit will be decreasing and it will drop to 1.72% of GDP.**[44] The reduction of the structural balance by 0.7% of GDP in 2017 also results from the non-repeating of some expenditure items from 2016 (BOX 6). The original objective to achieve the MTO in 2017 is shifted to 2019 after taking into account the priorities of the new Government. The declared achievement of the MTO's limit at a level of the structural deficit 0.5% of GDP is expected in 2019[45] with almost neutral fiscal policy. In 2016 to 2019, with new budgetary objectives, the average consolidation achieves approximately 0.4% of GDP annually.

TABLE 18 – Consolidation effort (ESA2010, % of GDP)

	2014	2015	2016	2017	2018	2019
1. General government balance	**-2.69**	**-2.97**	**-2.13**	**-1.29**	**-0.44**	**0.16**
2. Cyclical component	-0.8	-0.5	-0.4	-0.3	0.1	0.7
3. One-off effects	0.0	-0.3	0.0	0.0	0.0	0.0
4. Structural balance (1-2-3)	**-1.92**	**-2.17**	**-1.72**	**-1.02**	**-0.52**	**-0.50**
5. Consolidation effort according to the EC	**-0.38***	**-0.25**	**0.45**	**0.70**	**0.50**	**0.02**
p.m. required consolidation according to the EC	*0.0*	*0.0*	*0.25*	*0.5*	*0.5*	*MTO*

**Taking into account the investment exception amounting to 0.4%, the year-on-year consolidation effort amounts to 0.03% of GDP*

Source: MoF SR

BOX 7 - Fiscal position, macroeconomic stabilisation and long-term sustainability

The fiscal position of the country can be assessed in terms of the achieved equilibrium between the fulfilment of two objectives:[46] public finance sustainability and active macroeconomic stabilisation.

With the excessive debt burden and expected high expenditures, in the future the adjustment of the fiscal policy should reflect in particular the need of achieving of long-term sustainability. In the period, when the economic activity is out of its potential, [47] and the possibilities of the monetary policy are limited, the budgetary policy should also act counter cyclically.[48]

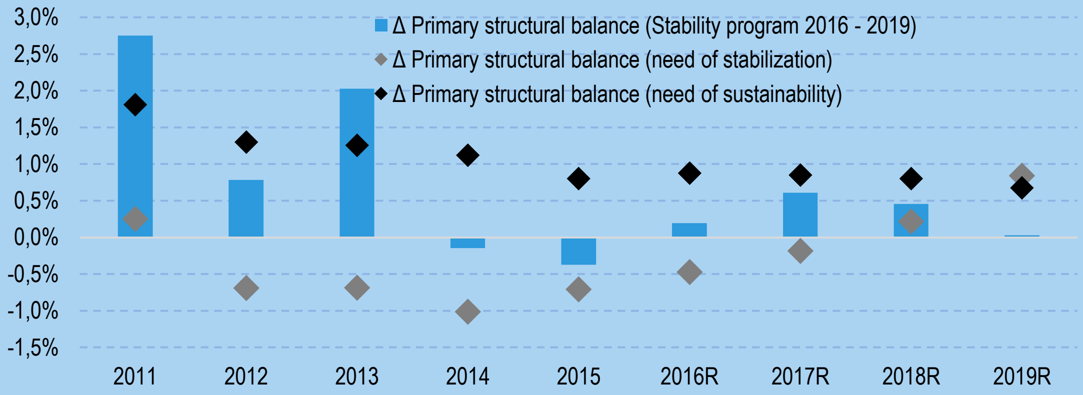
The objective of macroeconomic stabilisation can be defined as the adjustment of fiscal policy, which gets the economy closer to its potential (closing of the output gap). On the other hand, the sustainability of public finance can be achieved by reducing the fiscal gap (e.g. S1 and S2 indicators), through the improvement of the current and future general government performance.

[44] With an estimated GG deficit at a level of 2.13% of GDP for 2016.
[45] MTO is de facto achieved already in 2018 at a level of 0.52% of GDP.
[46] Inspired by the methodology from Report on Public Finances in EMU (European Commission, 2015).
[47] Within an economic cycle, economy can be overheated or undercooled.
[48] During economy expansion beyond the ambit of its potential growth, the deficit should decrease. On the contrary, with the undercooled economy, a slower pace of consolidation is suitable for the purpose of stabilisation of the aggregate demand (and also slightly expansive fiscal policy in case of sufficient fiscal space).

Sustainability of public finance vs. macroeconomic stabilisation in Slovakia

The objectives of long-term sustainability and short-term macroeconomic stabilisation were in significant conflict in particular in the post-crisis period (see the variance - FIGURE 34). A precipitous post-crisis increase in indebtedness and nervousness on the financial markets required the quickest possible consolidation. On the other hand, the growth of economy below its potential corresponded rather to slower pace of public finance recovery with the objective to support the economy revival.

FIGURE 34 - Change in the primary structural balance implied by the objectives of stabilisation and sustainability (% of GDP)



Note: (+) means a year-on-year decrease in the structural balance

In 2014, the undercooling of the Slovak economy was more intensive. From this view, the reaction of the approximately neutral fiscal position in 2014 and 2015 can be assessed as adequate. However, besides the slower pace of public finance consolidation, accelerated draw-down of EU funds also contributed to economy stabilisation, in particular in 2015. Although the use of European funds has a neutral impact on the balance[49], it affects positively the aggregate demand thus helping fulfil the stabilisation function of fiscal policy even without an increase in the deficit. **Thus, the preferences of the budgetary policy of the SR in 2014 and 2015 corresponded to a greater emphasis on the stabilisation of the overall demand**.

From 2017, the preferences of fiscal policy are approximately on the boundary between the two objectives. At the same time, both objectives become consistent as at the end of the forecast period because the economic activity should gradually get close to its potential. In 2019, the aggregate demand will get more distinctively above its potential, therefore counter-cyclical acting of fiscal policy seems to be suitable in this period.

Technical assumptions

To determine the necessary change in the primary structural balance for fulfilling the stabilisation and sustainability objectives, it is necessary to set several methodical and technical assumptions:

A. Change in the structural balance implied by the need of achieving sustainability

Long-term sustainability consists in the achievement of a secure level of debt, which can be affected in particular by decreasing the current structural balance. The position of general government sustainability is also significantly affected by future costs of ageing. For example, the public finance sustainability indicators S1 and S2 also used by the European Commission (more in Chapter 4) represent a suitable indicator combining both aspects. An optimum fiscal attitude for the fulfilment of this objective is expressed as a year-on-year decrease in the primary structural balance, which would correspond to *the year-on-year improvement of S2 indicator by one quarter*. The selection of S2 indicator better considers the challenges of long-term sustainability of the Slovak public finance because the costs of ageing will create a financial load mainly after 2030.

B. Change in the structural balance implied by the need of achieving macroeconomic stabilisation

[49] Abstracting from the costs of co-financing and induced investments.

Macroeconomic stabilisation can be expressed as the decreasing or increasing of the structural primary balance, which leads to gradual closing of the output gap (both positive and negative). Similarly for this criterion, the assumption of year-on-year change in the primary structural balance is analogically selected, which will allow *the closure of the output gap by one quarter in the respective year*.[50] The acting of the fiscal policy on the economic activity is measured by means of the so-called fiscal multiplier, which in simplification expresses the percentage, by which the economic activity will change as a response to a change in the general government deficit. Within the simplification, in the conditions of the Slovak economy the assumption of the multiplier at a level of 0.5 is used for all the years, which is approximately at the upper level of estimates in the conditions of Slovakia.

Expenditure benchmark

The Stability and Growth Pact implemented an expenditure benchmark as a supplementary tool to assess the fiscal position. **The expenditure benchmark should compare whether the the expenditure growth rate adjusted for expenditure items out of Government's control and discretionary revenue measures[51] corresponds to the average growth of the potential of the economy**[52]. The advantage of the expenditure benchmark compared to the structural balance is the fact that it is based on the long-term and more stable estimate of potential growth, which is not subject to significant revisions. As regards the structural balance, for correct decision-making on fiscal policy, it is crucial to have its real time good-class estimate.

Taking into account that Slovakia has not reached a structurally balanced budget yet, the expenditures on the medium-term horizon must grow according to the expenditure benchmark at a lower speed than the potential of economy. This technical assumption is taken into account by the so-called convergence margin derived from the required year-on-year consolidation effort, by which the rate of potential growth needs decreasing (more details in Annex 6).

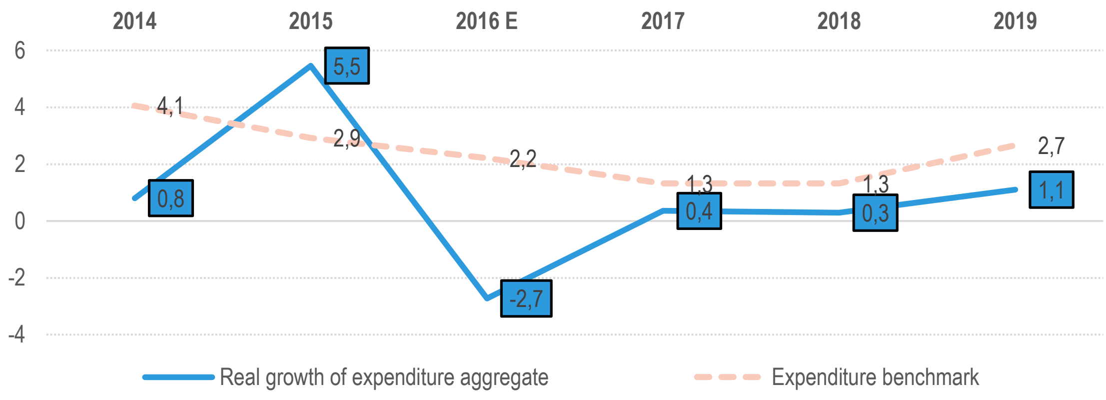
In 2015, Slovakia recorded a significant growth of expenditures caused in particular by higher capital expenditures than those planned in the budget. A considerable part of the increase was connected not only with the expenditures covered by the EU funds but also by co-financing and the so-called induced investments, which were necessary for the execution of the projects financed from the EU funds. The primary expenditure aggregate adjusted for discretionary revenue measures[53] increased in stable prices in comparison with 2014 by 5.5% compared to the reference rate amounting to 2.9% determined by the potential of the economy. **Based on the preliminary estimate of the MoF SR, the result is a negative deviation expressed in proportion to GDP in the amount of 0.9.**[54]

After a significant growth of general government expenditures in 2015, due to draw-down of EU funds from the second programme period, in 2016 a year-on-year decrease in expenditures by 7.9% is expected. The expenditures in stable prices adjusted for discretionary revenue measures should drop in 2016 by 2.7 %[55], while the expenditure benchmark allows an increase by 2.2 %. The adjusted expenditures, growing slower than allowed by the potential of the economy, **will considerably contribute to the fulfilment of the required consolidation effort in 2016.**

In the next years, too, the overall expenditures will develop in compliance with the expenditure benchmark with the required year-on-year consolidation of 0.5% of GDP from 2017. **On the horizon of the years 2017 to 2019, the development of expenditures is expected well below the level required by the expenditure benchmark, which will help achieve the medium-term budgetary objective MTO in 2019.** The adjusted overall expenditures (primary aggregate) will record an average growth of 0.6% in 2017 to 2019.

[50] In compliance with the EC methodology, in the first step the forecast of output gap development is adjusted for the impacts of the expected fiscal policy.
[51] Discretionary revenue measures represent additional year-on-year influences of legislative tax measures (more details in Annex 7).
[52] The potential of economy is expressed as a reference rate for expenditure growth, calculated as a 10-year average of potential growth.
[53] The volume of discretionary measures does not include the measures, which helped reach an increased effectiveness of tax collection, which grew in 2015 in particular for VAT (0.14% of GDP) and corporate income tax. With effect from 2015, the duty to keep records of income in the electronic cash register was extended and thin-capitalization rules were implemented, and the VAT control statement introduced on 2014 brought an additional effect.
[54] Quantification of deviation from the expenditure benchmark (Annex 6).
[55] In calculating the expenditure benchmark based on the actual estimate of 2016.

FIGURE 35 - Expenditure aggregate development in comparison with the expenditure benchmark (% year-on-year change)



Source: MoF SR, EC

2.6 General government debt

At the end of 2015, the general government gross debt reached 52.9% of GDP[56]. Compared to 2014, there was an annual decrease in the debt in proportion to GDP by 1 p. p., whereas in nominal terms it increased by EUR 581 mil. Without ZSSK reclassification into the general government sector, on which Eurostat make decision in the interim, the level of the gross debt would be lower by additional 0.4% of GDP (EUR 311 mil.). This decision led to an additional increase in the gross debt in 2015 and its review retroactively for the previous years. Main positive impacts on the debt reduction in 2015 included in particular the growth of the nominal GDP and active management of the cash reserve of the State with a one-off increase in its resources in connection with the privatization of Slovak Telekom (1% of GDP) and with the opening of the fully-funded pillar (0.6% of GDP).

On condition of fulfilment of the budgetary objectives it can be expected that the gross debt of the general government will be gradually decreasing in proportion to the GDP below the level of 48% of GDP in 2019.

In 2016, the debt will be stabilised slightly below the level of 53% of GDP. **From 2017, the fiscal framework assumes a primary surplus** (the general government balance adjusted for interest costs), which along with the forecast of accelerating growth of GDP and with inflation acceleration will contribute to a more significant debt reduction. At the end of 2019, a gross debt of general government is forecast at a level below 48% of GDP, in the respective year by the lowest sanction band according to the constitutional Act on Fiscal Responsibility.

TABLE 19 - Gross general government debt (% of GDP, as at 31 December)

	2014	2015	2016	2017	2018	2019
Gross general government debt	53.9	52.9	52.9	52.2	49.8	47.3
- state debt (excl. the impact of international liabilities)	48.4	47.8	48.0	47.7	45.7	43.6
- SR commitment under EFSF	2.6	2.4	2.3	2.2	2.1	2.0
- contributions to ESM	0.9	0.8	0.8	0.8	0.7	0.7
- debt of other general government entities	2.0	1.9	1.7	1.5	1.2	1.1
p.m. gross debt net of the influence of ZSSK classification	*53.6*	*52.5*	*52.5*	*51.8*	*49.4*	*46.9*
p.m. change in gross debt	*-1.1*	*-1.0*	*-0.1*	*-0.7*	*-2.4*	*-2.5*
p.m. net debt	*49.4*	*47.9*	*47.8*	*47.7*	*45.7*	*43.0*

Source: MoF SR

[56] According to the preliminary notification of Eurostat. All the mentioned values are calculated in the methodology used in assessing the fulfilment of the Maastricht criterion for general government gross debt amount – so-called Maastricht gross debt of general government. The general government debt is expressed as a percentage of the GDP.

In particular the amount of the cash deficit of the state budget, which needs financing, contributes to the change of the general government debt. A more significant drop in the cash deficit is expected in particular in the following years as a consequence of the continuing consolidation of public finance towards the achievement of the surplus performance of general government. Repayment of the liabilities of other general government entities from cash surplus, in particular by local governments and Národná diaľničná spoločnosť, will also contribute to an overall drop in the gross debt of general government.

International liabilities of Slovakia vis-à-vis the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) should not affect the public debt in 2017–2019.

Methodological adjustments, such as a discount on the issuance and at maturity of bonds, have to be taken into account for the debt calculation.[57] The total effect of these factors considerably increases the debt due to the prevailing impact of a higher discount on issuance, in particular from 2017.

TABLE 20 - Impact on the general government gross debt change (EUR mil.)

	2014	2015	2016	2017	2018	2019
A. Gross debt of general government (as of 1 January)	**40,600**	**40,725**	**41,306**	**42,589**	**44,253**	**44,922**
B. Total YoY change of the GG gross debt	**125**	**401**	**1,283**	**1,664**	**669**	**643**
- state budget deficit (cash accounting)	2,923	1,932	1,443	2,459	1,299	797
- State Treasury funds used to finance state needs	-2,377	-1,262	-58	-840	-766	-235
- SR commitment under EFSF	102	-116	0	0	0	0
- Contributions to ESM	132	0	0	0	0	0
- issuance discount	11	18	60	228	259	184
- discount at maturity	-114	-86	-61	-69	-6	-3
- indebtedness of other GG entities	-532	24	-101	-114	-117	-99
of which: ŽSSK	-9	-9	10	5	7	18
of which: Railways of the SR (ŽSR)	-1	-2	0	0	0	0
of which: NDS	-54	-77	-37	-37	-37	-37
of which: EOSA	-520	0	0	0	0	0
of which: municipal public transportation companies	85	33	-3	-3	-8	-2
of which: municipalities	3	138	-76	-74	-72	-72
of which: higher territorial units	-38	6	0	0	0	0
- other	-21	72	0	0	0	0
C. Gross debt of general government (as at 31 December) (A+B)	**40,725**	**41,306**	**42,589**	**44,253**	**44,922**	**45,565**
in % of GDP	**53.9**	**52.9**	**52.9**	**52.2**	**49.8**	**47.3**

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

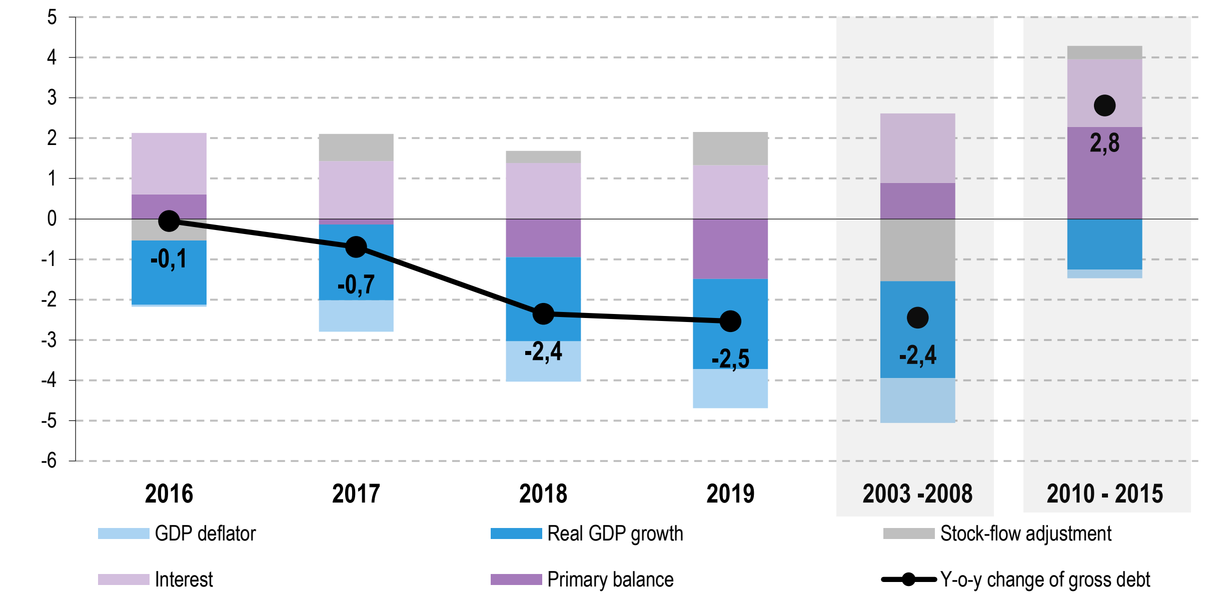
Going beyond the debt cash changes, the debt dynamics can be analysed according to the particular contributions to the debt change. **The most important impacts on the decrease in the public debt include the accelerating growth of economy from 2016 and a more significant reducing of the general government primary balance from 2017**.

On the medium-term horizon, the debt development dynamics should get closer to the pre-crisis period (2003 to 2008), in which the considerable growth of economic activity represented the main factor of debt reduction. Compared to that period, the debt reduction should also be supported by the improving performance of general government including lower interest payments, to which expansion measures of the monetary policy of the ECB

[57] The discount on the issuance of state bonds and state treasury bills increases the debt, since as at the date of bond issue, the state liabilities increase by the nominal value of the bonds. The state, however, gains a lower amount of cash (decreased by the discount). On the contrary, the discount at maturity of state bonds reduces the debt. This is due to the fact that the debt increase already occurs when bonds are issued, at the level of the nominal value of the bonds, rather than at the time of their redemption.

help, besides the stabilisation of public finance. In comparison with the post-crisis years (2010 to 2015), a gradual increase in the price level is also expected, which will help in the relative reducing of the debt as a share of GDP.

FIGURE 36 - Contributions of factors to the debt change (% of GDP)

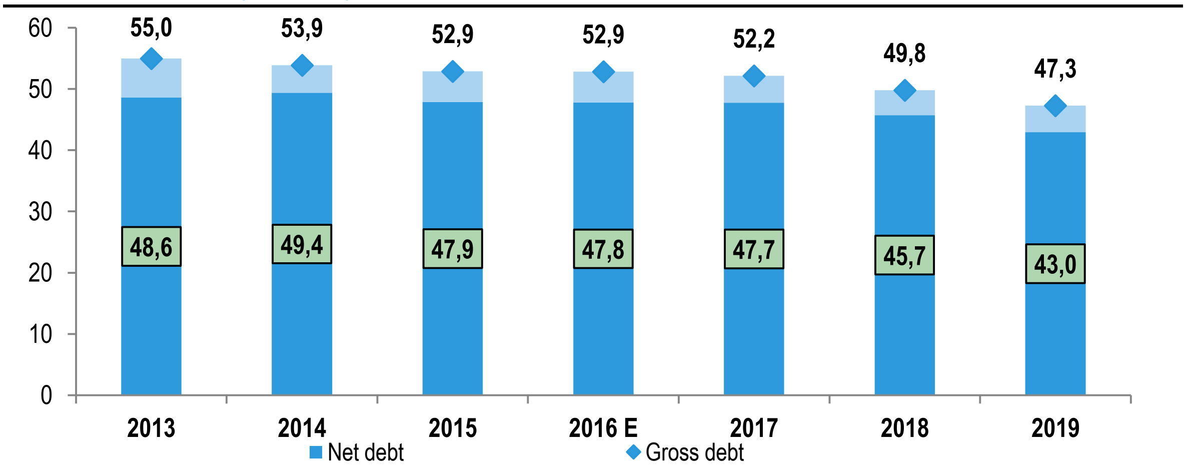


For the Intervals 2003 to 2008 and 2010 to 2015, these are average annual changes of debt *Source: MoF SR*

Net debt

To assess the development of the real indebtedness it is also suitable to monitor the development of net debt, expressed as the gross debt net of liquid assets (in particular of deposits on the accounts of individual GG entities). The Ministry of Finance presents the net debt defined in the EC manual for the preparation of the Stability Programme.[58] After a slight decrease in liquid financial assets in 2014, which was caused in particular by using the cash reserve for active debt management, from 2015 they have been again at a level of approximately 5% of GDP. After a slight drop in the next years, net debt should be lower in 2016 to 2019 in comparison with the gross debt level by 4.5 p. p. on the average.

FIGURE 37 - Net debt (% of GDP)



Source: MoF SR

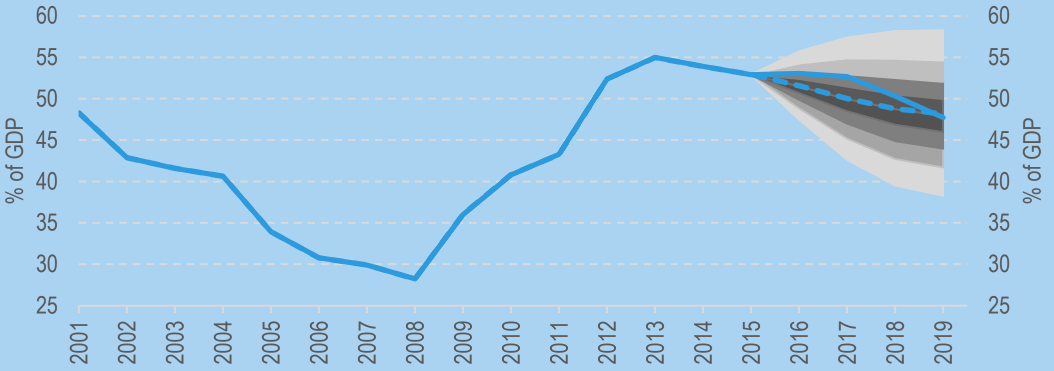
[58] The methodology is explained in greater detail in the Stability Programme of the SR 2014 to 2017 (BOX 5 on page 44).

BOX 8 - Stochastic forecast of the general government gross debt

A forecast using a stochastic model represents and alternative approach to debt forecast[59]. In compliance with the official forecast, the median stochastic forecast also assumes a decrease in the level of debt on the medium-term horizon. The alternative forecast suggests a more uniform decrease in comparison with the official forecast and at the end of the horizon, it predicts a debt at a level of 48% of GDP. At the same time, the fan chart indicates a high probability (almost 75 %) of debt reduction in comparison with the current level on the medium-term horizon.

The advantage of the model approach is that it is not demanding as regards the input assumptions, independent from the source of debt estimate, and it quantifies the risks of the forecast. On the contrary, there is a limitation of this approach - the fact that it takes into account only a limited quantity of information and the assumption that the mutual relations between individual components of the model will be the same in the forecast period as in the past. The fan chart is a graphic presentation of a great number[60] of random simulations of the level of debt on the horizon of the forecast generated in a stochastic model.

FIGURE 38 - Stochastic forecast of the general government debt (% of GDP)



Source: MoF SR

Cash reserve

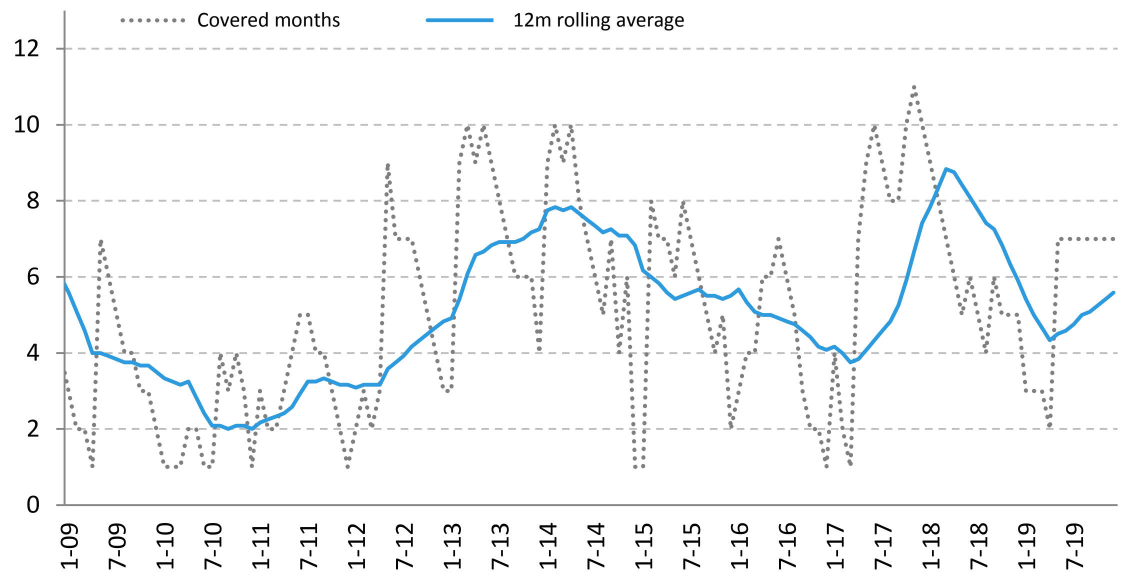
The cash reserve[61] of the State is volatile. It is given primarily by the nature of its use and creation, when it is incrementally influenced mainly by instalments or bond issuances. In relative terms, the reserve shows the number of months during which all state expenditures would be covered by the existing reserve. The reserve has never exceeded 8 months until 2012. In 2012, it started quickly growing in nominal terms, including the number of months covering the state expenditures. In several months in 2013 and 2014 the reserve covered up to 10 months of future state expenditures. The reserve level in 2013 seemed to be too high, mainly in the context of the improving situation on the financial markets. The expected significant increase in the reserve in 2017, which is of temporary character, is caused by an increased need of coverage of financial liabilities in this period.

[59] The debt is determined by its past value, interest payments, GDP growth, primary deficit and non-deficit financing. The model consists of vector autoregressions of interest rates, real GDP growth, inflation of the GDP deflator, these three variables for the EU and exchange rate. Another element is the fiscal reaction function, which determines the level of the primary deficit with respect to the debt and economic activity. A great number of random simulations of this system determine various debt trajectories, from which the probabilistic distribution of debt level in the next years will be subsequently calculated. A detailed explanation of the entire model is available at http://www.finance.gov.sk/Default.aspx?CatID=10516.

[60] The simulation included 5,000 random debt trajectories.

[61] The cash reserve is created by deposits deposited by the Debt and Liquidity Management Agency on the interbank money market in commercial banks and on current accounts of the State Treasury in the NBS. On the other hand, the reserve is reduced by loans which the Debt and Liquidity Management Agency obtains on the money market for the short-term coverage of liquidity mismatch or to settle liabilities in the situation when the reserve is zero.

FIGURE 39 - Cash reserve (number of months of state expenditures covered by the reserve)



Source: MoF SR

3 SENSITIVITY ANALYSES AND COMPARISON WITH THE PREVIOUS UPDATE

The Stability Programme of the SR is based on the baseline scenario of economic development with exogenous assumptions concerning the external environment, as described in Chapter 1. This section presents selected risk scenarios derived from model simulations assuming a slower growth of foreign demand and foreign prices, and a lower level of long-term interest rates in combination with an increase in the asset purchase programme by the ECB.[62]

3.1 Risk scenarios of development

Scenario 1: Lower foreign demand

This year, the latest forecast of MoF SR assumes an acceleration of the Eurozone growth, however, uncertain development in the developing economies may also be transmitted to the economies on the old continent. In particular BRICS countries face economic problems. Further slowdown of China and the recession under way in Russia and Brazil may weaken the demand for products and services from the EU countries, secondarily also those from Slovakia. The impact of tightening of the monetary policy by the American Fed on the developing economies and the transmission to corporations through stock markets is questionable. Right in Europe, political fragmentation resulting from disunity in solving the migration crisis and referendum on Brexit represents the main risk. Negative risks are intensified by the latest development of foreign leading indicators, which signalise a moderately worse outlook on the first half-year of 2016 compared to the original expectations. Therefore, the first scenario models a slower weighted growth of imports of the economies of the Slovak Republic's business partners. The simulation expects an additional single decrease in the real weighted foreign demand by 1 p.p. in 2016 compared to the original forecast.

The decreased dynamics of foreign demand will be reflected in reduced orders of export-oriented enterprises, and the growth of export of the SR will immediately slow down. As a consequence of the slower growth of profitability, enterprises will attenuate their investment activities in comparison with the baseline scenario. The lower utilisation of production capacities will also cause dismissals of employees. The worsened labour market situation will negatively affect household consumption. The slowdown of the aggregate domestic demand will reduce inflation pressures in the economy, however, to a smaller extent than in the past. The reason is the paralysed relation between the dynamics of prices and wages, which has been noticed in the economy for the previous two years. We expect the harmonisation of the link between prices and wages only after two years from the modelled shock. The impact on the external equilibrium is minimal as the slowdown of the growth of exports is almost fully compensated by the outage of import caused by the slower growth of household consumption and investments. The decrease in the economic activity, a slower growth of prices and wages, as well as a higher rate of unemployment would lead to the deepening of the general government balance. **The drop in the nominal GDP growth would lead, with respect to lower tax revenues, to an increase in the GG deficit by about 0.1 p.p. each year, which would subsequently increase the gross debt as at the end of the monitored period compared to the basic forecast of the debt by 0.6 p.p. in cumulative terms.**

TABLE 21 - Scenario 1: Foreign demand slowdown by 1 p.p. in 2016

The cumulative change in the value of individual variables compared to the baseline scenario is in p.p.

	Household consumption	Gross fixed investment	GDP	Unemployment rate	CPI	Current account balance (% of GDP)	General government balance (% of GDP)	General government debt (% of GDP)
2016	-0.2	-0.5	-0.6	0.1	0.0	0.0	-0.08	0.3
2017	-0.2	-0.6	-0.6	0.1	-0.1	0.0	-0.09	0.5
2018	-0.1	-0.5	-0.5	0.2	-0.3	0.0	-0.11	0.6

[62] The impact on the GG balance and gross debt is calculated with the use of the calculator of the macroeconomic development impact on the GG balance at http://www.finance.gov.sk/Default.aspx?CatID=8011.

2019	-0.1	-0.5	-0.5	0.2	-0.5	0.0	-0.13	0.6

CA - current account *Source: MoF*

Scenario 2: Lower interest rates and expanded QE programme

The asset purchase programme (QE) of the ECB has not produced satisfactory results so far. The ECB does not succeed in directing inflation to the required trajectory and in anchoring the inflation expectations. Prices in the Eurozone and in Slovakia keep decreasing. Therefore this March, the ECB proceeded to another reduction of interest rates and expansion of the QE programme. MoF SR has quantified the impact of QE on the yield on Slovak Government bonds at a level of -0.6 p.p.[63] Therefore, the second scenario analyses the sensitivity of the forecast to a shift of the short-term and long-term interest rate by additional 0.5 p.p. downwards in the entire forecast horizon.

The reduced interest rates will provide businesses and households with easier access to loans, which will accelerate the growth of household consumption and investments. It will result in a slight revival of economic growth, which will be seen in a higher growth of employment. This will again contribute to a faster growth of household consumption. The acceleration of the overall demand will increase pressures on price increase, whereas the faster employment growth will decrease pressures on wage growth. A higher consumption and investments will cause an acceleration of import growth, which will result in the worsened current account balance. Taking into account the relatively small shift of rates in the simulation and the low elasticity of investments and household consumption per the change of interest rates, the impact on the economy is minimal. The saving of interest payments of the general government may rise to 0.05% of GDP in 2019. **The overall positive influence on the general government balance after including the direct savings on the interest payments of the general government debt is at a level of 0.01 p.p. in 2016 to 0.07 p.p. as at the end of the forecast. The general government debt would be cumulatively lower by 0.2 p.p. as at the end of the period.**

TABLE 22 - Scenario 2: Decrease in short-term and long-term interest rates by 0.5 p.p. in the entire forecast

The cumulative change in the value of individual variables compared to the baseline scenario is in p.p.

	Household consumption	Gross fixed investment	GDP	CPI	Current account balance (% of GDP)	General government interest payments (% of GDP)	General government balance (% of GDP)	General government debt (% of GDP)
2016	0.02	0.03	0.01	0.00	0.00	0.00	0.01	-0.1
2017	0.01	0.06	0.01	0.00	0.00	0.03	0.04	-0.1
2018	0.01	0.08	0.01	0.01	0.00	0.04	0.06	-0.1
2019	0.01	0.11	0.02	0.01	0.00	0.05	0.07	-0.2

CA - current account *Source: MoF*

Scenario 3: Lower growth of foreign prices

The third scenario considers the risk of slowdown of consumer price dynamics for business partners of Slovakia. This development is supported by the data on prices in the Eurozone, which again went into the red in February. The development of the core inflation also brought a disappointment; it slowed down more than expected. In particular, the prices of energies brake the price development. During this year, this effect should gradually fade away, but the main risk of the current development is the anchoring of inflation expectations well below the monetary objective of the ECB. The scenario simulates the decrease in the rate of growth of foreign prices, equally on the export and import competitive side, by 1 p.p. in 2016.

The decrease in foreign export prices or competitive prices on the import side will express itself by an immediate slowdown of growth of import prices, which through the lower imported inflation will slow down the rate of growth of all deflators and the overall price level in the economy. The deflator of final government consumption also reacts, with a slight delay. Through the channel of real exchange rate, the growth of real imports of our goods and services

[63] The impact of the quantitative easing on Slovak bond yield is described in the commentary http://www.finance.gov.sk/Default.aspx?CatID=10608.

will slightly decrease. The slowdown of foreign prices will worsen the price competitiveness of our exporters, which will contribute to a lower creation of investments and production. In consequence, the creation of jobs will be slower and the rate of unemployment will rise. Subsequently, the slowdown of demand and production secondarily contributes to the reduction of the domestic price level. The lower dynamics of nominal exports in comparison with imports will be reflected by worsened current account balance. The drop in the nominal tax bases would result in an increase of the general government balance because the negative effect of lower tax revenues exceeds the lower increase in expenditures. **The lower growth of prices would summarily increase the GG deficit by 0.09 to 0.16 p.p., and the level of gross debt would by cumulatively by 0.8 p.p. higher in 2019.**

TABLE 23 - Scenario 3: Decrease in the growth of foreign prices by 1 p.p. in 2016

The cumulative change in the value of individual variables compared to the baseline scenario is in p.p.

	Household consumption	Gross fixed investment	GDP	Unemployment rate	CPI	Current account balance (% of GDP)	General government balance (% of GDP)	General government debt (% of GDP)
2016	-0.1	-0.3	-0.3	0.0	-0.3	0.0	-0.09	0.3
2017	0.0	-0.2	-0.1	0.1	-0.7	-0.2	-0.16	0.6
2018	0.0	-0.1	0.0	0.0	-0.8	-0.2	-0.16	0.8
2019	0.0	0.0	0.0	0.0	-0.9	-0.1	-0.16	0.8

CA - current account *Source: MoF SR*

3.2 Comparison with the previous update

The Stability Programme of the Slovak Republic for 2016–2019 contains updated macroeconomic estimates and budgetary objectives. **In comparison with the last year's version from April 2015, the budgetary objective of the general government is loosened in 2017 by 0.3 p.p., and compensated by tightening the objective in 2018 by 0.2 p.p.** This implies a slightly higher gross debt in proportion to GDP in 2017, but on the contrary also a lower expected debt level in 2019 with respect to the accelerated growth of the economy as at the end of the forecast, compared to the assumptions in the last year's Stability Programme.

TABLE 24 - Comparison of the previous and updated forecasts

	ESA code	2015	2016	2017	2018	2019
Real GDP growth (%)						
Previous update*		2.9	3.6	3.6	3.7	-
Outcome and current update		3.6	3.2	3.6	4.1	4.6
Difference		0.7	-0.4	0.0	0.4	-
General government balance (% of GDP)	EDP B.9					
Previous update*		-2.55	-1.93	-0.88	-0.53	-
Outcome and current update		-2.97	-2.13	-1.29	-0.44	0.16
Difference		0.42	0.20	0.31	-0.09	-
Gross general government debt (% of GDP)						
Previous update*		53.4	52.8	51.9	50.3	-
Outcome and current update		52.9	52.9	52.2	49.8	47.8
Difference		-0.5	0.0	0.3	-0.5	-

*Note: * Stability Programme of the SR for 2015–2018* *Source: MoF SR*

4 THE SUSTAINABILITY OF PUBLIC FINANCES

Despite the successful consolidation in the previous years, as well as planned structurally balanced budget, it will be necessary to further increase the rate of long-term sustainability of public finance. It is necessary to appropriately set the pension and healthcare system, as well as the long-term care system funding, which represent the most significant components of general government expenditures sensitive to population ageing.

Measures adopted in 2015[64] with an impact on the long-term sustainability of the pension system:

- In July 2015, the title to a minimum pension came into existence for the pensioners with 30 and more qualified years of pension insurance[65]. As it will be calculated as a multiple of the minimum subsistence income and will grow with the number of qualified years of pension insurance, it can motivate the insured to extend their participation in the labour market. Through this measure, 38 thousand pensions have already been increased by EUR 28 on the average.[66]
- From 15 March 2015 for three months, the fully-funded pillar was opened, allowing the entry or exit of the insured at their own discretion. The opening resulted in a single transfer to the Social Insurance Agency amounting to EUR 579.2 mil., 159 thousand of exiting and 24 thousand of entering savers.

In the following period, the Government will adopt further changes in the pension system:[67]

- The Government will modify the **pension indexation** with an emphasis on maintaining the long-term sustainability of public finance.
- The Government will modify the possibility of **programme withdrawal** in the fully-funded pillar. The current setting of conditions for payment of pensions from the fully-funded pillar through the programme withdrawal allows using this possibility only for a smaller number of savers. The savers will be allowed to freely decide how they will use their savings.

Assessment of long-term sustainability

The aim of the assessment of long-term sustainability is to assess the current situation in public finances in relation to the future growth of the public finance ageing-related expenditures (or income decrease). The current setting of the related policies (fiscal discipline, pension system, healthcare system) is sustainable in the long term with the current amount of the general government debt (so that the debt will not rise uncontrollably and remain at a stable level). For the assessment, the EC uses the sustainability indicators S0, S1 and S2.[68]

BOX 9 - Sustainability indicators in the EC methodology

S1 indicator (medium-term horizon) – shows the value of the durable adjustment of the primary structural balance required to reach the gross debt level of 60% of GDP in 2030. Based on the value of the indicator, countries are classified into several risk groups – if their S1 indicator is less than 0, they are classified as low risk. Indicator values between 0 and 2.5 place the countries in the medium risk group and values of more than 2.5 in the high-risk group.

S2 indicator (long term horizon) – the value represents how much primary structural balance must permanently change for the current value of future primary balances to equal the current level of gross debt. Unlike S1, the S2 indicator takes into account projections related to ageing on an infinite horizon, while the required change in the balance should ensure a non-growing level of debt. The countries whose S2 indicator is lower than 2 are classified as low risk. If the indicator value is between 2 and 6, the country is identified as a medium-risk country. If the value is above 6, the country is identified as a high-risk country.

[64] Their influence will be quantified till 2018, when the EC is going to publish the updated regular "Ageing Report“.
[65] Qualified years will mean essentially only those years of pension insurance during which the income of a natural person was at least at a level of the personal wage point of 0.241.
[66] According to the data of the Social Insurance Agency for December 2015.
[67] The measures are not included in the fiscal framework.
[68] European Commission - DG ECFIN (2012) ‘Fiscal Sustainability Report 2012, European Economy, No 8, 2012.

In addition to the standard sustainability indicators, on a short-term horizon shorter than one year, the EC also uses the **S0 indicator**. It is an early warning indicator of fiscal risks which could materialize based on the current fiscal and macroeconomic trends.

MoF SR uses the S1 and S2 indicators according to the EC methodology during the sustainability assessment. Unlike the EC, however, it also includes the impact of the fully-funded pillar on revenues and not only on expenditures. The MoF SR considers this approach as economically more appropriate because changes in fully-funded pillar systems affect not only the expenditures of pension systems, but also their revenues. The overall impact of revenues flowing in the fully funded pillar on the sustainability assessment will be moderately negative until 2030, while on the long-term horizon they will have slightly positive impact from 2030. The calculation of the S1 and S2 indicators takes into account the assumptions of the forecast cost of ageing according to the latest Ageing Report from 2015.[69]

In the following part the sustainability indicators are calculated according to the MoF SR approach for three scenarios.

- **2016 scenario** is based on the forecast of debt and of the primary structural balance for 2016.
- **MTO scenario** is based on the assumption of achieving the medium-term budgetary objective in 2019 and the corresponding level of debt and of the primary structural balance.
- **2016 scenario with the debt brake** is an adjusted scenario taking into account the national legislation. It is based on the forecast of debt and of the primary structural balance for 2016 and it also takes into account the national fiscal rules on the debt brake. In this scenario, the S1 indicator is calculated based on the assumption that the debt will amount to a level of 47% of GDP in 2030.[70] (in comparison with the baseline scenario with 60% of GDP).

TABLE 25 - Assumptions used in the calculation of sustainability indicators

	Base year (t_0)	Structural primary balance	DEBT (t_0)	Gradual consolidation	DEBT (t_1)	Final year (t_1)
Scenario 2016	2016	-0.2	52.9	-	60	2030
MTO scenario	2019	0.8	47.3	2020	60	2030
Scenario 2016 with debt brake	2016	-0.2	52.9	2017 to 2020	47	2030

Source: MoF SR

On the middle-term horizon Slovakia is classified as a low-risk country according to the S1 indicator. The negative values amounting to -0.1 in the 2016 scenario and to -1.6 in the scenario of achieving MTO in 2019 indicate that in the medium-term perspective additional consolidation measures are not needed, and there is even a fiscal space. Slovakia achieves favourable rating in both scenarios in particular thanks to the relatively positive situation caused by the level of gross debt under 60% of GDP and a considerable predicted increase in the ageing costs only on the long-term horizon after 2030. The scenario with the debt brake respecting more stringent national specific aspects of achieving a lower debt limit (47%[71] versus 60% of GDP in the EC methodology) indicates the medium risk of sustainability. To decrease the debt level to 47% of GDP in 2030, the current primary structural balance will have to be improved by 0.9% of GDP.

On the long-term horizon Slovakia is assessed as a country with medium risk. The sustainability gap based on the calculated values of the S2 indicator represents the value of 3.1. The need for an additional improvement of the primary structural balance is mainly due to the increasing expenditures on healthcare and long-term care (1.5-

[69] Ageing report (2015).
[70] This limit represents the second highest sanction band of the debt brake. According to the valid legislative provisions, if the debt level reaches 57% of GDP, the Government must submit a balanced budget limiting debt growth above this level to the Parliament. In compliance with Constitutional Act No. 493/2011 on fiscal responsibility, the above-mentioned limit will be annually decreased by 1 p.p. starting from 2018 until reaching the value of 47% of GDP.
[71] E.g. RRZ (2015) and OECD (2014) consider a value below 50% of GDP as a secure debt level for Slovakia.

1.6 p.p.) and pension expenditures which will increase in particular after 2030 (0.8-1.1 p.p.). If MTO was achieved in 2019, the S2 indicator value would achieve a level close to the limit of a low risk of long-term sustainability (2.2).

TABLE 26 - Sustainability indicators S1 and S2 (% of GDP)

	Scenario 2016	Scenario MTO (2019)	Scenario 2016 with debt brake
S1 Indicator	**-0.1**	**-1.6**	**0.9**
of which:			
Initial budgetary position	0.2	-0.7	0.2
Cost of delaying adjustment	0.0	0.0	0.1
Debt requirement in the final year	-0.5	-1.1	0.4
Long-term expenditures (ageing costs)	0.0	0.2	0.0
Revenue shortfall due to the second pillar	0.2	0.1	0.2
S2 Indicator	**3.1**	**2.2**	**-**
of which:			
Initial budgetary position	1.2	0.2	-
Pension expenditures	0.8	1.1	-
Health and long-term care expenditure	1.6	1.5	-
Education and unemployment benefits expenditure	-0.3	-0.3	-
Revenue shortfall due to second pillar	-0.1	-0.2	-

Source: MoF SR

5 PUBLIC FINANCE QUALITY

The ongoing steps for improving the tax collection effectiveness and spending review as part of the endeavour at higher value for money in public policy will bring an improvement of public finance quality. Since 2012, the gap of VAT collection has been reduced from 40% of potential tax collection to 29.5% in 2014, and another drop is expected in the evaluation of the year 2015. Better informed public decisions as well as the comprehensive general government spending review, which will evaluate the majority of general government expenditures during the electoral term, will contribute to increased effectiveness of general government. Review reports along with draft measures will be included in the general government budget.

5.1 Higher value for money

The evaluation of public expenditure efficiency is a new instrument for achieving a balanced budget and increasing value for money. In this context, the Government led by the Ministry of Finance and in close cooperation with the Government Office and all ministries will reform the rules, adjust the processes and strengthen the institutions, which will support adoption of good decisions in public interest and significantly increase value for money in the Slovak public sector. The decisions on key investments, policies, regulation of behaviour of citizens and companies and operating expenditures of the State will go through comprehensive economic evaluation.

Analytical capacities

The Government will strengthen its evaluator and analytical capacities. Preliminary evaluations will be carried out by the governmental institutions especially the Government Office, Ministry of Finance with other ministries following the lead. On a regular basis, the analytical units will assess spending programmes, regulation, policies and important investments. Important assumptions, methodologies and results of evaluation will be published. The Government will also support the capacitity building of the Supreme Audit Office of the Slovak Republic for the preparation of high-quality and independent subsequent evaluations.

Spending review

The Government will review general government expenditures with the objective to achieve higher effectiveness, better state services and/or consolidation of public finance. It will do so regularly and systematically as part of of the budgetary process in order to assess the majority of general government expenditures, including the tax expenditures, over the election term. The inputs as well as outcomes of the public sector will be, to a maximum possible extent, compared on a regular basis, systematically and publicly with the best practice at home as well as abroad, with an emphasis on the quality of data necessary for correct comparison. The findings of the reviews will become part of preparation of the general government budget. Measures will be approved by the Government and binding for three years.

In 2015, pilot evaluations of the operation of the Financial Administration, labour bureaus and selected regulations of regional education were started. **In 2016, review will focus on healthcare, transport and general government informatization, which jointly represent 40% of general government expenditures.**

For purposes of spending review, sector projections of expenditures are quantified - baseline scenarios. Spending review mandates propose measures (Annex 9 to 11), whose implementation will increase the effectiveness of expenditures. The created fiscal space can be used for public finance consolidation or additional performances (better outcomes).

The review of informatization expenditures (0.6% of GDP annually) will propose measures for creating additional fiscal space preliminarily estimated at 30% (0.17% of GDP in 2019) from the planned investment and operation expenditures in a sustainable way. Savings will be achieved by optimising operations and increasing the value of investments in the Operational Programme Integrated Infrastructure (OPII). The objective is to improve the shares of pre-completed forms at the websites of state institutions and life situations of citizens that can be handled on-line (Annex 9).

The review of healthcare amounting to 5.2% of GDP annually will focus on possible savings in specific healthcare spending areas (Annex 10). This will identify the resources necessary for required and efficient investments in ward facilities. The total healthcare expenditures will not exceed the growth of inflation in the economy (0.17% of GDP in 2017). The objective is to reduce the amenable mortality to the average level of V3 countries.

The review of transport expenditures amounting to 2.7% of GDP annually will propose measures increasing the efficiency of the current investment envelope while preserving its size and increasing the efficiency of unit operating costs in a sustainable way (approximately 0.14% of GDP annually) for transport in the chapter of the Ministry of Transport, Construction and Regional Development (MoTCaRD SR) (Annex 11). The objective of public transport investments and policies is to develop transport so that it will enable transportation of goods and persons quickly, safely, at high quality, with the lowest possible negative externalities and for affordable prices in the areas, where the private sector cannot provide it.

Spending review became a standard instrument in public finances of the developed countries, even if their specific execution vaires. The review may evaluate all expenditures at once in one year or gradually during the electoral term. Successful reviews share several factors, such as a strong political mandate during the whole process, clear communication of objectives, emphasis on transparency, human capacities, stable methodology for the calculation of savings and involvement of all relevant partners. **Successful spending reviews become part of the budgetary process and serve as an instrument for the enforcement of political priorities within the Government and state administration.** They allow sufficient time to incorporate analytical results into multi-year binding plans as well as for the subsequent implementation. In Slovakia, no such comprehensive review of general government expenditures has not been carried out yet.

BOX 10 - Spending review organisation

Spending reviews will cover the most of the central government spending over the four-year parliament. It will assess efficiency and effectiveness of public expenditure and identify measures, which will increase the value for money, and thus enabling fiscal savings, better public services for citizens (results) and/or reallocation of financial resources towards the government's priorities.

Strategic decisions related to spending reviews will be taken by the government. It will take the most important decisions – mandates of reviews and their conclusions - concurrently with the Stability Programme and the GG budget, respectively, The MoF as a project sponsor designs objectives, organisation and technical parameters of reviews. A new unit will be created at the MoF, which will be responsible for spending review project management, preparation and coordination of spending reviews including their involvement in the budgetary process.

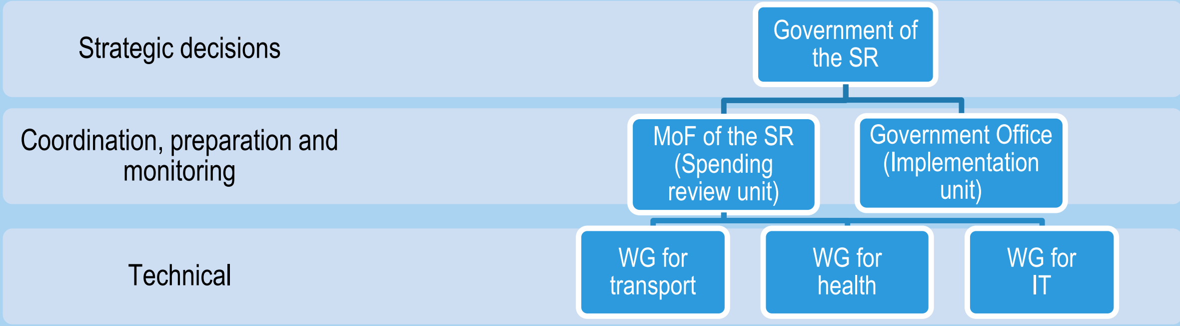
Joint teams of the MoF and a concerned government deparment will be responsible for particular sectoral reviews. It assumes formation of operational working groups (WG) with participation of analytical units, budgetary units and most important organisations of the concerned government departments.

During the pilot implementation of the instrument for public expenditure management the timetable for the first year of reviews is flexible. Its flexibility should primarily ensure sufficient space for quality execution of report proposals with participation of other government deparments in the first year of spending reviews. The objective is to include the spending review reports in the GG budget approved by the government by 15th October.

Effective from 2017 spending review teams deliver reports by 30th June. The government approves the reviews together with the GG budget by 15th October. The final report will include an action plan with measures. Their implementation will be monitored by the Implementation unit of the Government Office of the SR together with the Spending review unit of the MoF. Topics of spending reviews in the second and following years and their mandates will be determined by the government during yearly negotiations about the Draft Budgetary Plan in October.

The MoF is responsible for the final spending review reports, which are conducted in cooperation with concerned government deparments. Other government departments undertakes to collaborate on provision of complete and detailed data to conduct an analysis in the above mentioned areas.

FIGURE 40 - Spending review organisation



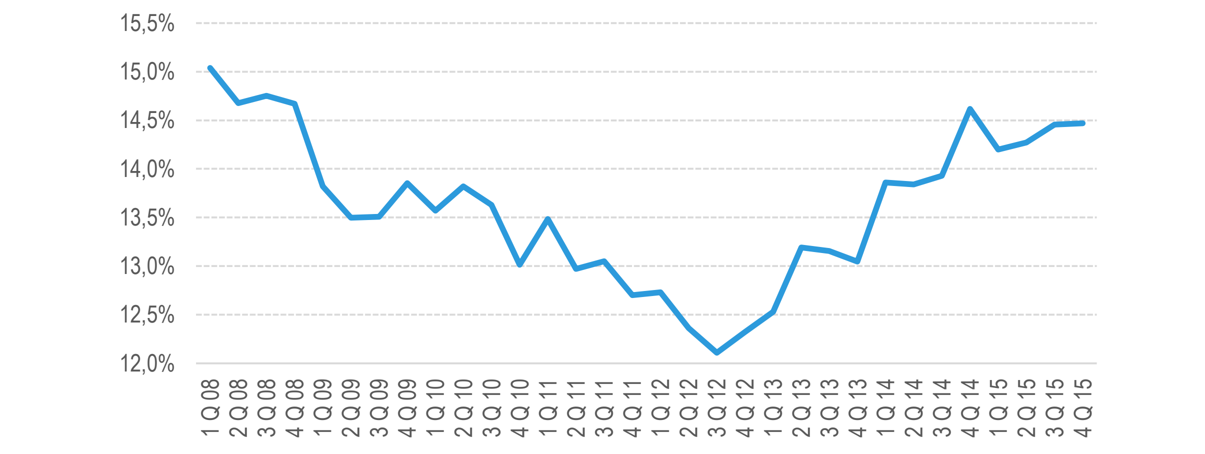
Source: MoF SR

5.2 Development on the revenues side

Based on the estimates of the EC (CASE[72]) and MoF SR, since 2012 the gap of VAT collection has been reduced from the level of 40% of potential tax collection to 29.5% in 2014. Based on the preliminary estimates of the MoF SR, the next, although milder, decrease in the VAT gap is also expected in 2015. However, despite the significant reduction Slovakia still does not reach the EU average with the value of VAT collection gap at a level of 18% of potential tax collection. In 2015, the action plan to combat tax frauds was updated and it contains measures to tackle tax evasion and also to increase tax collection and exaction effectiveness.

Slovakia is also involved in the BEPS project of the OECD. The project represents a coordinated approach of the OECD Member States and other countries in the fight against aggressive tax planning and includes 15 actions to counter the tax base erosion. Some of the measures have been already partially implemented within the Income Tax Act of the SR. They include in particular the adoption of thin capitalization rules, introduction of transfer pricing documentation and neutralising effects of hybrid mismatch arrangements in connection with the implementation of the amended Directive on the common system of taxation applicable in the case of parent companies and subsidiaries in context of the EU legislation.

FIGURE 41 - VAT collection success (EDS), in % of potential income



Source: MoF SR

[72] Study to quantify and analyse the VAT Gap in the EU Member States, 2015 Report.

5.3 Development on the expenditure side

The share of general government expenditures in GDP will decrease both in 2016 and 2017. The current expected reality of 2016 predicts a decrease in the expenditures by 4.9 p.p. to 40.7% of GDP. The fiscal framework for 2017 assumes another drop in expenditures by 1.8 p.p. to 38.9% of GDP in comparison with the current expected reality of 2016. The decrease in total expenditures is caused in particular by the decrease in European funds due to the gradual start-up of the third programme period. The biggest share in the total general government expenditures will be achieved by the area of social security (47.8%), general public services (13.1%) and economic area (12.6%).

In comparison with the EU average for 2014[73] the share of expenditures in GDP in Slovakia in 2016 is similar for most areas (-1.5 to 1.5 p. p. of GDP). A considerably lower share in total general government expenditures in comparison with the EU is budgeted in healthcare (10.4 p. p. of total general government expenditures), but the decrease is caused by a change of methodology (BOX 11). On the contrary, in comparison with the EU, a considerably higher share is budgeted for economic area (3.9 p. p. of total general government expenditures) and social security (7.3 p. p. of total general government expenditures). In comparison with the average of V3, the total budgeted expenditures of Slovakia are lower by 4.2% of GDP. As regards areas, the most significant difference can be seen in social security (by 4.5 p. p. more than the average in V3) and in healthcare (by 3.9 p. p. less than the average of V3).[74]

BOX 11 - Change in the methodology for the Classification of the Functions of Government (COFOG)

In May 2015, Eurostat modified the methodology[75] for the Classification of the Functions of Government (COFOG). **Now all the expenditures of the social security funds (S.1314) are considered expenditures of social security.** Based on the guide from Eurostat, the expenditures in the health insurance funds (in the sub-sector S.1314) were moved from healthcare to social security expenditures. Thus, Slovakia's healthcare expenditures dropped approximately by 5 p. p. of GDP and the expenditures of social security were increased to the same extent. Therefore now, the healthcare expenditures consist only of the expenditures of healthcare facilities in the general government sector.

The relatively small differences in the data of other EU countries for 2014 for the area of healthcare and social security suggest that **the new methodology was not applied (based on the decision of national statistic offices) uniformly by all countries**. This considerably hinders and limits the international comparability of data and time comparability. Based on the latest data it is therefore impossible to formulate any conclusions or recommendations for policy creators.

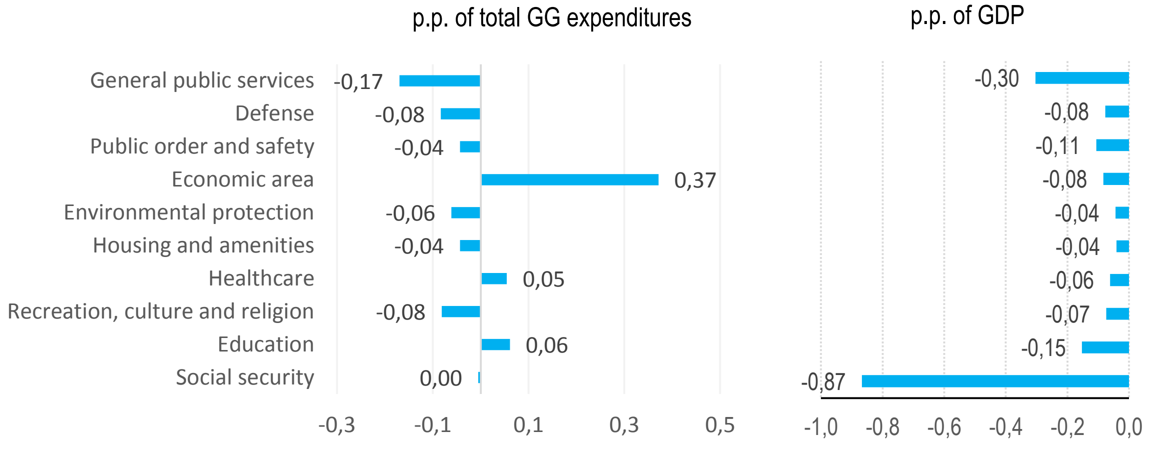
The most significant year-on-year changes in 2017 compared to the expectations for 2016 are in the area of social security, in general public services and in education. As the fiscal framework does not reflect the measures of the new Government, the share of GG expenditures in GDP decreases in all areas. The biggest drop is in the social security expenditures.

[73] The latest available data for the EU countries according to the COFOG classification.

[74] A great part of the difference in the healthcare expenditures between SK and V3 is again connected with the methodical guide of Eurostat, based on which expenditures were transferred from healthcare to social security.

[75] Eurostat (2015) Assessment of the COFOG statistics provided to ESTAT.

FIGURE 42 - General government expenditures according to COFOG classification in 2017 in comparison with the expectations for 2016 (year-on-year changes)



Source: MoF SR

The structure of expenditures is not changed significantly. the share of expenditures in the economic area in total general government expenditures increases by 0.4 p. p. The share of healthcare and education expenditures will slightly increase. In 2017, a drop in the share of expenditures in general public services by 0.2 p.b. is budgeted, it concerns in particular the decreasing of state administration costs. There is also a slight year-on-year drop in the expenditures on defence, public order and safety, environmental protection, housing and amenities, and recreation, culture and religion. The share of social security expenditures is not changed.

EU funds

The policy of EU cohesion will remain among the key instruments of social and economic development of the SR and fulfilment of objectives of the strategy Europe 2020. The funds of cohesion policy represent the main source of financing of public investments in Slovakia, with a share of over 80 %.

In 2015, main effort was focused on the completion of project activities and draw-down of resources from structural funds and Cohesion Fund 2007 to 2013 (SF and CF). Moreover, real implementation of the European Structural and Investment Funds 2014 to 2020 (ESIF) started. **As at the end of 2015, the draw-down of EU funds from the third programme period reached EUR 143 mil. (0.18% of GDP**), and its gradual acceleration is expected in compliance with the course of the previous programme period.

Within the ESIF objective 2014 to 2020 *Investing in jobs and growth,* the EC approved seven operational programmes financed from structural funds and the Cohesion Fund, and the Rural Development Programme of the Slovak Republic 2014 to 2020 financed from the European Agricultural Fund for Rural Development.

TABLE 27 - Summary of allocations, drawing and contracts concluded for operational programmes

Operational programme	Managing authority	Allocations from EU funds (EUR mil.)	Draw-down as at 31 December 2015 (EUR mil.)	Contracts concluded for the projects (%)
Research and Innovations	MoESRaS SR	2,267	-	3
Integrated Infrastructure	MoTCaRD SR	3,967	42	1.7
Human Resources	MoLSAaF SR	2,205	-	21
Quality of Environment	MoENV SR	3,138	4	4.2
Integrated Regional OP	MoARD SR	1,754	-	6.3
Effective Public Administration	MoI SR	278	-	-
Technical Aid	GO SR	159	-	-
Rural Development Programme	MoARD SR	1,560	97	-
Fisheries	MoARD SR	16	-	-

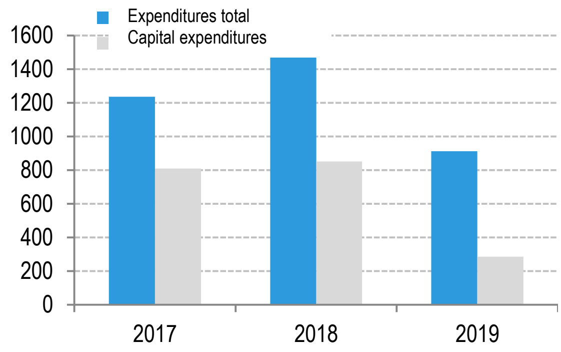
Total	**15,344**	**143**	**5.5**

Source: MoF SR

EU funds in the general government sector

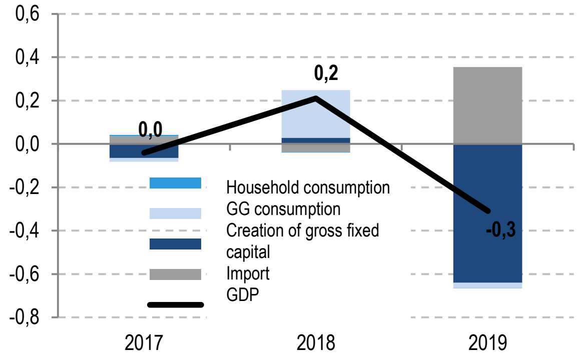
In 2017 to 2018, faster drawing of EU funds is expected (1,235 mil. in 2017, or 1,486 mil. in 2018) compared to 2019 (EUR 912 mil.). The increase represents in particular the draw-down of current expenditures intended for the intermediate consumption of general government in 2018, which will contribute to a higher growth of GDP by 0.2 p.p. In particular a significant drop in capital expenditures resulting from the schedule of the Operational Programme Integrate Infrastructure in particular in 2016 and 2017 affects the draw-down of EU funds in 2019. In the following years, only residual drawing of these funds is expected. The draft drawing of EU funds also expects the transfer of a part of unused resources from 2016 to 2017 and 2018. The slower rate of capital expenditures will reduce, through investments, the growth of GDP in 2019 by 0.3 p.p.

FIGURE 43 - Budgeted drawing of EU funds 2017 to 2019 (in EUR mil.)



Source: MoF SR

FIGURE 44 - The impact of drawing of EU funds in general government on the economy in 2017 to 2019 (in p.p.)



Source: MoF SR

6 INSTITUTIONAL ASPECTS OF PUBLIC FINANCE

With the objective to find a constitutional majority, the Government will initiate a wide public professional and political discussion about a reform of the constitutional act on fiscal responsibility based on the current experience in its practical application. The objective will be to achieve **the neutrality of the so-called debt brake in managing the public debt by linking the sanction bands of the constitutional act to the net public debt** instead of the gross public debt, **taking into account the strategic public investments** in applying sanctions and adjustment of parameters of **sanction bands supporting the economic development of Slovakia**. The discussion should also focus on the neutralisation of impact of methodological changes on the amount of debt.

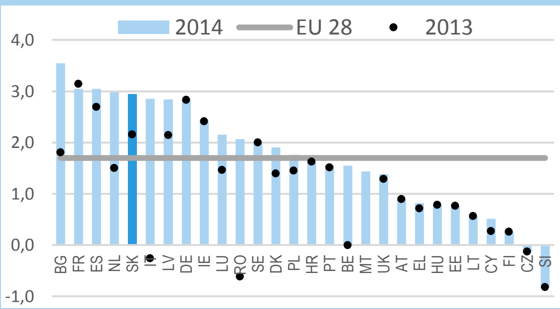
The government also plans to prepare an amendment to the Budgetary Rules Act with the objective to **harmonise the national legal standards with the European budgetary rules in order to further modernise the budgetary process**. **Within the framework of the budgetary process, the Government will regularly and systematically review the general government expenditures and** review conclusions will be part of the general government budget and draft budget plan.

BOX 12 - Assessment of national budgetary frameworks

The institutional framework of public finance achieves for the SR in comparison with other countries very good rating in the area of fiscal rules but there is a room for improvement in the medium-term budgetary framework. The index for national fiscal rules, which is prepared by the European Commission,[76] rose from a level of 2.2 to 2.9 in 2014 (of maximum 4.0), which places Slovakia among five best countries in the EU. Within the framework of Fiscal Compact transposition, a rule of balanced budget including a correction mechanism has been introduced recently. For the first time for 2015, local government will have to pay a penalty for exceeding the debt rule, which will additionally improve the overall rating of the SR in the area of fiscal rules.

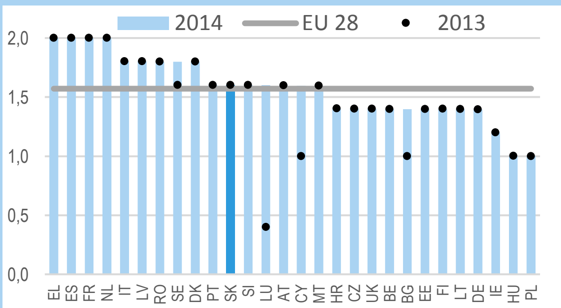
The index for national fiscal rules[77] for Slovakia reaches the EU average (1.6 of maximum 2.0). The SR reaches the full number of points in the area of the scope of budgetary frameworks, interconnection of the annual budgetary process with the medium-term framework and involvement of the parliament in the preparation of the medium-term frameworks. The medium-term budgetary of the SR is contained in the Stability Programme, which through an amendment to the Budgetary Rules Act in 2015 replaced the draft general government budget framework worked out in the past. **The SR is assessed below the EU average in the monitoring and binding force of medium-term budgetary objectives. The EC identifies the room for improvement of the index by introducing the binding limits of public expenditures[78] for the entire horizon of the budget.** At present, the objectives for the last budgeted years are not binding.

FIGURE 45 - National fiscal rules (index, points 0 to 4)



Source: EC

FIGURE 46 - Medium-term budgetary frameworks (index, points 0 to 2)



Source: EC

[76] The index for national fiscal rules evaluates the effectiveness of several dimensions of fiscal rules (legal basis, binding force of the rules, monitoring institutions, enforcing mechanisms), whose objective is to ensure budget discipline.
[77] The medium-term budgetary frameworks allow the creation of fiscal policy beyond the ambit of one-year horizon of the budget, which does not provide a sufficient basis for efficient budgetary planning. This pillar evaluates, inter alia, the coordination within the framework of the budgetary process, involvement of the national parliament and monitoring of fulfilment of objectives.
[78] The valid legislation expects the application of expenditure limits as part of the correction mechanism of the balanced budget rule.

7 STRUCTURAL POLICIES

The measures in structural policies are described in detail in the National Reform Programme of the Slovak Republic 2016 (NRP), which is approved by the Government of the SR and represents its plan for the next two years. The complex approach to the priorities identification taking into account GDP, as well as other life quality aspects, identified the labour market, the healthcare system and primary education as the biggest challenges of the Slovak economy. The NRP is based on the new Manifesto of the Government of the SR, which set the following priorities: to strengthen social and political stability, respond in a flexible way to opportunities and negative external environment, steadily continue to support the economic, social and environmental development, deepen economic, social and territorial cohesion of Slovakia, strengthen the role of the state and the protection of the public interest..

General government spending review will contribute to an increase in the effectiveness of general government. With the objective to increase value for money, the resort analytical units will assess the key expenditure programmes, regulation, policies and important investments on a regular basis. In 2016, the assessment will focus on healthcare, transport and digitisation of general government, and the findings will be used in the process of preparation of general government budget. The analytical capacities in general government will be strengthened.

The Government will adopt several **changes in the tax system** and further improve the effectiveness of tax collection, not only for VAT. Corporate income tax will be reduced to 21 % and from 2018 tax licenses will be abolished.. Application of specific levies and taxes in regulated industries with the option to extend them to other sectors.. Technical prerequisities for the change of **real estate taxation** system towards the determination of tax base according to the value principle will be created. The implementation of the updated Action Plan to Combat Tax Fraud for 2012-2016 will increase the efficiency of tax collection..

Changes in **education** are focused on increasing the attractiveness of teaching profession by increasing the wages of teachers, extension of capacities of kindergartens, promotion of dual education and support of the inclusion of marginalised communities. In university education, an institutional reform of the Accreditation Commission and changes in the financing system are planned; the system of financing will distinguish to a greater extent the quality of schools. Measures improving **science, research and innovations** should improve the effectiveness of public spending and increase motivations for private investments in innovations and research.

In the next four years, 100 thousand jobs will be created on the **labour market** by supporting the economic growth. The conditions for providing social benefits will be tightened to activate the unemployed. Social economy entities will be supported (social enterprises). Changes in the **employment services** and introduction of new tools of active labour market policies (ALMP) will support the integration of less employable groups of jobseekers in the labour market. National projects focused on the support of community centres and field social work in the municipalities with marginalised Roma communities (MRC) will continue. A programme focused on the support of education of children from the MRC environment in early childhood will be started.

Pension system changes will be adopted. Pension indexation in the PAYG pillar will be modified while preserving the long-term sustainability of public finance, and the option for withdrawal of savings in the second pension pillar will be introduced..

Several measures will be focused on the **improvement of healthcare**. The gradual centralisation of procurement in public hospitals at the level of the Ministry of Health of the Slovak Republic and publishing of comparative price lists will begin. In the interest of better efficiency of state hospitals management, new rules of procurement of healthcare technology using **price benchmarks** and **compulsory external financial audits** will be adopted. The project of construction of **a new university hospital** in Bratislava continues. The process of financing of healthcare facilities will be more efficient by introducing payment for diagnostic group. Primary healthcare will be strengthened and an integrated model of healthcare provision will be introduced.

Improvements of the efficiency of the judiciary will consist mainly of specialization of the judicial system and judges, expansion of the competencies of senior judicial officials, and a review of the Code of Civil Procedure, the re-codification of the civil procedure. Transparency will be enhanced through the adoption of an effective anti-letterbox companies law and through publishing information on the management of state companies and municipal decision making. The ongoing creation of the Electronic Case File, the Electronic Legal Code, the Electronic Registry of Insolvent Entities and the electronic monitoring of the accused and sentenced will contribute to the speeding up of court proceedings.

Main measures in transport include **the construction of motorway and expressway sections,** and the construction, reconstruction and maintenance of class A roads. Transport priorities will be specified for the first time according to the national multi-modal transport model. In public transportation, the systematic increasing of railway transportation importance and of efficiency of public passenger transportation will continue.

Within the framework of **general government reform,** the provision of state services to citizens will be further simplified. Opening of approximately 30 client centres for the contact between the local and specialised government with the public will continue. Public administration reform will bring greater transparency at all levels from recruitment to remuneration

ANNEXES

Annex 1 - Compulsory tables

TABLE 1a - Macroeconomic prospects (ESA2010, in EUR bn.)[79]

	ESA code	2015 Reality	2015 growth rate	2016 growth rate	2017 growth rate	2018 growth rate	2019 growth rate
1. Real GDP	B1*g	75.8	3.6	3.2	3.6	4.1	4.6
2. Nominal GDP	B1*g	78.1	3.3	3.3	5.3	6.3	6.9
Components of real GDP							
3. Private consumption expenditure	P.3	40.2	2.4	3.2	2.6	2.7	2.9
4. Government consumption expenditure	P.3	14.0	3.4	-0.6	2.1	1.3	0.8
5. Gross fixed capital formation	P.51g	17.8	14.0	0.9	1.4	0.9	2.0
6. Changes in inventories and the net acquisition of valuables (% of GDP)	P.52 + P.53	-	-0.2	-0.2	-0.3	-0.3	-0.3
7. Export of goods and services	P.6	74.4	7.0	4.9	6.1	7.5	8.5
8. Import of goods and services	P.7	70.1	8.2	3.6	4.6	5.8	6.6
Contribution to real GDP growth							
8. Final domestic demand (total)		-	4.9	1.8	2.1	1.8	2.1
9. Changes in inventories and the net acquisition of valuables	P.52 + P.53	-	-0.2	0.0	-0.1	0.0	0.0
10. External balance of goods and services	B.11	-	-0.6	1.5	1.7	2.2	2.6

Source: SO SR, MoF SR

TABLE 1b - Price developments (ESA2010)

	ESA code	2015 Reality	2015 growth rate	2016 growth rate	2017 growth rate	2018 growth rate	2019 growth rate
1. GDP deflator		1.0	-0.3	0.1	1.6	2.1	2.2
2. Private consumption deflator		1.1	-0.1	0.1	1.6	2.1	2.2
3. HICP		-0.3	-0.3	0.2	1.6	2.1	2.2
4. Public consumption deflator		1.1	0.8	1.8	1.3	2.1	2.2
5. Investment deflator		1.0	0.0	0.5	1.9	2.4	2.0
6. Export price deflator (goods and services)		1.0	-1.4	1.1	2.0	2.3	2.2
7. Import price deflator (goods and services)		1.0	-1.1	1.3	2.5	2.5	2.2

Source: MoF SR

[79] The forecast of final government consumption is based on the February macroeconomic forecast of the MoF SR. The Macroeconomic Forecasts Committee approved the economic development forecast before publishing real data for 2015. Updating of the real data creates inconsistency in the nominal GDP level for 2016–2019 approved by the Committee and the GDP level derived from the growth rate of the nominal GDP also approved by the Committee. For the purpose of the general government budget, the level of nominal GDP approved by the Committee is applicable.

TABLE 1c - Labour market development (ESA2010)

	ESA code	2015 Reality	2015 growth rate	2016 growth rate	2017 growth rate	2018 growth rate	2019 growth rate
1. Employment, persons (thous.) [1]		2,267	2.0	1.3	0.9	1.1	0.9
2. Employment, hours worked (mil.)[2]		3,977	1.7	1.2	0.9	1.1	0.9
3. Unemployment rate (%)[3]			11.5	10.4	9.5	8.3	7.3
4. Labour productivity per person (EUR) [4]		33,432	1.6	1.9	2.7	3.0	3.9
5. Labour productivity per hours worked (EUR) [5]		19	1.9	1.9	2.7	3.0	3.9
6. Compensation of employees (EUR mil.)	D.1	29,942	4.9	4.5	5.4	5.8	6.0
7. Compensation per employee (EUR)		15,406	2.4	3.3	4.5	4.7	5.1

[1] Total occupied population, domestic concept – national accounts definition

Source: SO SR, MoF SR

[2] National accounts definition

[3] Harmonised definition according to Eurostat; levels

[4] Real GDP per person employed

[5] Real GDP per hour worked

TABLE 1d - Sectoral balance (ESA2010, % of GDP)

	ESA code	2015	2016	2017	2018	2019
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	2.4	3.1	4.1	4.7	5.7
of which:						
- Balance on goods and services		2.6	6.9	8.0	8.9	10.1
- Balance of primary incomes and transfers		-3.8	-5.0	-5.2	-5.4	-5.6
- Capital account		3.6	1.2	1.2	1.2	1.2
2. Net lending/borrowing of other sectors	B.9	5.4	5.0	5.4	5.2	5.6
3. Net lending/borrowing of the general government (budgetary target)*	B.9	-3.0	-1.9	-1.3	-0.4	0.2
4. Statistical discrepancy		-	-	-	-	-

** Final 2015*

Source: MoF SR

TABLE 2a: General government budgetary prospects

	ESA code	2015 level	2015 % of GDP	2016** % of GDP	2017 % of GDP	2018 % of GDP	2019 % of GDP
Net lending (B.9) by general government sub-sectors							
1. General government	S.13	-2,318	-2.97	-2.13	-1.29	-0.44	0.16
2. Central government	S.1311	-2,277	-2.9	-2.2	-1.7	-0.8	-0.2
3. State government	S.1312	-	-	-	-	-	-
4. Local government	S.1313	129	0.2	0.3	0.3	0.3	0.3
5. Social security funds	S.1314	-170	-0.2	-0.2	0.1	0.1	0.1
General government (S13)							
6. Total revenues	TR	33,304	42.7	38.6	37.6	37.1	35.8
7. Total expenditures	TE [1]	35,622	45.6	40.7	38.9	37.5	35.6
8. Net lending/borrowing	B.9	-2,318	-2.97	-2.13	-1.29	-0.44	0.16
9. Interest expenditure	D.41	1,390	1.8	1.5	1.4	1.4	1.3

10. Primary balance	[2]	-929	-1.2	-0.6	0.1	0.9	1.5
11. One-off and temporary effects	[3]	-1	-0.3	0.0	0.0	0.0	0.0
Selected components of revenues							
12. Total taxes (12=12a+12b+12c)		14,145	18.1	17.9	17.4	17.1	16.9
12a. Taxes on production and imports	D.2	8,499	10.9	10.6	10.4	10.1	9.9
12b. Current taxes on income, wealth, etc.	D.5	5,646	7.2	7.3	7.0	7.0	7.1
12c. Capital taxes	D.91	0	0.0	0.0	0.0	0.0	0.0
13. Social security contributions	D.61	10,954	14.0	13.7	13.5	13.4	13.3
14.Property income	D.4	731	0.9	0.7	0.6	0.6	0.6
15. Other	[4]	7,474	9.6	6.3	6.0	5.9	5.0
16=6. Total revenues	TR	33,304	42.7	38.6	37.6	37.1	35.8
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)	[5]	25,099	32.1	31.6	31.0	30.5	30.2
Selected components of expenditures							
17. Compensation of employees + intermediate consumption	D.1+P.2	11,605	14.9	14.0	13.6	12.8	12.5
17a. Compensation of employees	D.1	7,025	9.0	8.7	8.4	8.2	7.9
17b. Intermediate consumption	P.2	4,580	5.9	5.3	5.2	4.6	4.6
18. Social payments (18=18a+18b)		14,796	19.0	18.5	17.7	17.3	16.8
of which: unemployment benefits	[6]	159	0.2	0.2	0.2	0.1	0.1
18a. Social transfers in kind - purchased market production	D.632	3,993	5.1	5.1	4.9	4.9	4.8
18b. Social transfers other than in kind	D.62	10,803	13.8	13.5	12.8	12.4	12.0
19.=9. Interest expenditure	D.41	1,390	1.8	1.5	1.4	1.4	1.3
20. Subsidies	D.3	464	0.6	0.5	0.5	0.5	0.4
21. Gross fixed capital formation	P.51g	4,831	6.2	3.2	3.2	2.9	1.9
22. Capital transfers	D.9	750	1.0	0.2	0.2	0.3	0.3
23. Other	[7]	1,784	2.3	2.6	2.3	2.4	2.3
24=7. Total expenditures	TE [1]	35,622	45.6	40.7	38.9	37.5	35.6
p.m.: Government consumption (nominal)	P.3	15,416	19.7	18.7	18.4	17.9	17.2

[1] Adjusted for the net flow of swap-related flows, so that TR-TE=B.9

Source: MoF SR

[2] Primary balance is calculated as (EDP B.9, item 8) plus (EDP 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 and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.
[6] Includes cash benefit (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
** Tables shows GG balance according to the draft budgetary guideleines for 2017-2019. The presented balance differs from the fiscal targets of the government. Additional measures will be specified to achieve the budgetary targets.*

TABLE 2b - No-policy-change scenario (NPC)

	2015	2015	2016	2017	2018	2019
	mil. EUR	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Total revenue at unchanged policies	33,304	42.7	40.1	37.6	37.2	36.0
2. Total expenditure at unchanged policies	35,622	45.6	42.5	38.5	37.9	36.1

Note: The basis for the NPC purposes is the current estimate for 2016. Data for 2015 is the actual outcome for expenditures and revenues.

Source: MoF SR

TABLE 2c - Amounts to be excluded from the expenditure benchmark

	2015	2015	2016	2017	2018	2019
	mil. EUR	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP

1. Expenditure on EU programmes fully matched by EU funds revenue	2600	3.3	1.6	1.5	1.6	0.9
1.a. of it investments fully matched by EU funds revenue	2157	2.9	1.0	1.0	0.9	0.3
2. Cyclical unemployment benefit expenditure not related to governmental measures (cyclical component)	11	0.0	0.0	0.0	0.0	0.0
3. Effect of discretionary revenue measures	110	0.1	-0.1	-0.2	-0.1	0.0
4. Automatic revenue changes mandated by law	0	0.0	0.0	0.0	0.0	0.0

Source: MoF SR

TABLE 3: General government expenditures by function (% of GDP)

	COFOG code	2014	2016 B	2019*
1. General public services	1	5.7	5.5	4.4
2. Defence	2	0.9	1.0	0.9
3. Public order and safety	3	2.3	2.0	1.8
4. Economic affairs	4	4.5	4.5	3.9
5. Environmental protection	5	0.7	0.4	0.4
6. Housing and community amenities	6	0.6	0.5	0.5
7. Healthcare	7	1.9	1.9	1.6
8. Recreation, culture and religion	8	0.9	0.9	0.8
9. Education	9	4.1	3.8	3.7
10. Social protection	10	20.0	19.4	17.6
11. Total expenditures	**TE**	**41.6**	**40.0**	**35.6**

B – Official budget

Source: Eurostat, MoF SR

TABLE 4: General government debt development (% of GDP)

	ESA code	2014	2015	2016	2017	2018	2019
1. Gross debt		53.9	52.9	52.9	52.2	49.8	47.3
2. Change in gross debt		-1.1	-1.0	-0.1	-0.7	-2.4	-2.5
Contributions to change in gross debt							
3. Primary balance *		0.8	0.9	0.6	-0.1	-0.9	-1.5
4. Interest expenditures	EDP D.41	1.9	1.6	1.5	1.4	1.4	1.3
5. Stock-flow adjustment		-2.5	-1.8	-0.5	0.7	0.3	0.8
of which:							
- Differences between cash and accruals		-0.9	-1.7	-0.4	1.1	0.2	0.2
- Net accumulation of financial assets		-1.7	0.7	0.2	0.0	-0.1	0.5
of which: revenues from privatisation		0.0	-1.0	0.0	0.0	0.0	0.0
- Valuation effects and others		0.1	-0.7	-0.3	-0.4	0.2	0.2
p.m. implicit interest rate on debt		3.5	3.1	3.0	2.9	2.8	2.8
Other relevant variables							
6. Liquid financial assets		4.5	5.0	5.1	4.4	4.1	4.3
7. Net financial debt (1-6)		49.4	47.9	47.8	47.7	45.7	43.0
8. Debt repayment (current debts) from previous year		5.3	4.1	5.7	5.5	3.6	1.7
9. Share of debt denominated in foreign currency **		3.7	3.0	2.6	2.5	2.0	1.5
10. Average maturity ***		6.7	6.8	7.2	-	-	-

** Primary balance for 2016 is based on the approved budget for 2016*

Source: MoF SR

*** Including loans*

**** It concerns the maturity of state debt as of 31.12., for 2016 it concerns average maturity as of 14.4.2016*

TABLE 5: Cyclical developments

(% of GDP)	ESA code	2015	2016	2017	2018	2019
1. Real GDP growth (%)		3.6	3.2	3.6	4.1	4.6
2. Net lending of the general government*	B.9	-3.0	-2.1	-1.3	-0.4	0.2
3. Interest payments	D.41	1.8	1.5	1.4	1.4	1.3
4. One-off and temporary measures	[1]	-0.3	0.0	0.0	0.0	0.0
5. Potential GDP growth (%)		2.8	3.0	3.2	3.2	3.1
contributions:						
- labour		0.2	0.1	0.1	0.1	0.1
- capital		0.7	0.9	0.9	0.9	1.0
- total factor productivity		1.9	1.7	2.0	2.7	2.9
6. Output gap		-0.8	-0.3	0.3	0.6	1.3
7. Cyclical budgetary component		-0.5	-0.4	-0.3	0.1	0.7
8. Cyclically-adjusted balance (2 - 7)		-2.5	-1.7	-1.0	-0.5	-0.5
9. Cyclically-adjusted primary balance (8 + 3)		-0.7	-0.2	0.4	0.9	0.8
10. Structural balance (8 - 4)		-2.2	-1.7	-1.0	-0.5	-0.5

[1] A plus sign means a deficit-reducing one-off measure
**Current estimate in case of 2016*

Source: MoF SR

TABLE 6: Comparison of the previous and updated forecasts

	ESA code	2014	2015	2016	2017	2018	2019
Real GDP growth (%)							
Previous update*		2.4	2.9	3.6	3.6	3.7	
Outcome and current update**		2.5	3.6	3.2	3.6	4.1	4.6
Difference		0.1	0.7	-0.4	0.0	0.4	
General government balance (% of GDP)	EDP B.9						
Previous update*		-2.87	-2.55	-1.93	-0.88	-0.53	
Outcome and current update		-2.69	-2.97	-2.13	-1.29	-0.44	0.16
Difference		0.18	-0.42	-0.20	-0.41	0.09	
General government gross debt (% of GDP)							
Previous update*		53.6	53.4	52.8	51.9	50.3	
Outcome and current update		53.9	52.9	52.9	52.2	49.8	47.3
Difference		0.3	-0.5	0.0	0.3	-0.5	

*Note: * Stability Programme of the SR for 2015–2018*
*** For 2016, the expected reality is provided*

Source: MoF SR

TABLE 7: Long-term sustainability of public finances (% of GDP)*

	2013	2020	2030	2040	2050	2060
Total expenditure	**41.0**	**41.2**	**41.3**	**41.9**	**43.5**	**45.0**
Of which: Age-related expenditures	**18.1**	**18.3**	**18.3**	**19.0**	**20.5**	**22.1**
A. Pension expenditure	8.5	8.4	8.0	8.5	9.5	10.7
1. Social security pensions	8.1	8.0	7.6	8.1	9.1	10.2
a) Old-age and early pensions	6.1	6.2	5.7	6.0	6.9	7.9

b) Other pensions (disability, survivors)	1.9	1.7	1.7	1.9	2.1	2.1
2. Occupational pensions (if in the general government)	0.4	0.4	0.4	0.4	0.4	0.4
B. Healthcare	5.7	6.1	6.7	7.1	7.5	7.7
C. Long-term care	0.2	0.3	0.4	0.5	0.6	0.6
D. Education	3.4	3.2	3.1	2.8	2.8	2.9
E. Other age-related expenditures	0.2	0.2	0.2	0.1	0.1	0.1
Of which: Interest expenditures**	1.9	2.3	2.8	3.4	5.1	8.1
Total revenues	**38.4**	**38.3**	**38.0**	**38.0**	**38.2**	**38.4**
Of which: Property income (D.4)	1.1	1.0	0.9	0.9	0.8	0.8
Of which: Pension contributions	13.3	13.2	13.0	13.0	13.3	13.5
Pension reserve fund assets	-	-	-	-	-	-
Of which: consolidated public pension fund assets	-	-	-	-	-	-
Systemic pension reforms						
Social contributions diverted to voluntary private scheme	0.5	0.6	0.7	0.5	0.3	0.2
Pension expenditure paid by a voluntary private scheme	-	-	-	-	-	-
Assumptions						
Labour productivity growth	2.0	3.2	2.6	1.7	1.7	1.5
Real GDP growth	0.9	2.6	2.5	0.7	0.5	0.8
Participation rate males (aged 15-64)	77.5	78.3	77.4	77	78.3	79.5
Participation rate females (aged 15-64)	62.6	63.9	63.1	61.5	62	63.1
Total participation rate (aged 15-64)	70.1	71.1	70.3	69.4	70.2	71.4
Unemployment rate (aged 15-64)	14.2	12.8	10.8	7.5	7.5	7.5
Population aged 65+ of the total population (in %)	13.3	16.9	21.6	25.5	31.3	35.2

** Age-related expenditures as well as macroeconomic assumptions were updated after issuing Ageing Report 2015* *Source: MoF SR*

*** Baseline scenario 2016*

TABLE 7a - Contingent liabilities

	2014	2015*	2016
	% of GDP	% of GDP	% of GDP
Public guarantees	17.74	14.45	-
of which: linked to the financial sector	0.0	0.0	-

Source: MoF SR

**The estimate for 2015 is preliminary and does not contain data for all entities. The main change in comparison with 2014 is the reassessment of capital participation of the SR in foreign financial institutions in the EIB and IBRD. The decrease amounts to EUR 966 mil.*

Annex 2 - Measures from the Manifesto of the Government of the SR for 2016 - 2020, not included in the fiscal framework of the Stability Programme

No other measures of the new Government are reflected in the fiscal framework of the Stability Programme except for three priorities in tax area with the objective of support of the business environment. Below we provide other revenue and expenditure measures, which will be most probably incorporated during the next update of the General Government Budget.

Measures without direct impact on the budget

- The amendment to the constitutional act on fiscal responsibility will link the sanction bands to the net public debt instead of the currently used gross public debt and will take into account strategic public investments in applying sanctions.
- Institutional reform of the Accreditation Commission in compliance with the European standards. Increasing transparency and public control of the accreditation process
- The Government will create a possibility of programme withdrawal in the fully-funded pillar. The current setting of conditions for payment of pensions from the fully-funded pillar through the programme withdrawal allows using this possibility only for a smaller number of savers. It is suitable to allow the savers to freely decide how they will use their savings.

Expenditure measures

- Change in pension indexation while preserving the long-term sustainability of public finance
- Support to social economy by suitable financial instruments and by creating the legislative environment, including the application of the principle of positive discrimination in public procurement
- Introduction of transparent rules in payments of patients and creation of a multi-source financing system
- Setting the rules for expedient spending of public resources, which will also be applied through the limitation of profit of health insurance companies in compliance with law of the EU and SR
- Centralisation of procurement of state hospitals at a level of the Ministry of Health of the Slovak Republic and publishing of comparative price lists
- Increasing the tariffs of pedagogic and professional employees in regional education, as well as to university teachers from September 2016, and subsequently from January 2018 on the average by 6% annually

Tax measures

- With the objective to prevent tax revenue erosion in the tobacco excise tax, an increase in rates for cigarettes is proposed
- Introduction of annual settlement of social contributions responding to accumulation of one-off remunerations in individual months with the objective to minimise the optimisation of contribution duty
- Increasing the rate of taxation for the special levy in the regulated industries aiming to prevent the advantage of business in the regulated industries
- Re-assessment of the amounts of contributions and administration fees from gambling operation

Annex 3 - The impact of fiscal policy on the economy in 2017 to 2019

The extent of the necessary fiscal measures is calculated compared to the no-policy-change scenario based on the expected general government deficit for 2016. **In 2017, the budgetary target against the NPC scenario takes into account a fiscal impulse amounting to 0.4% of GDP, which represents EUR 314 million.** In the following years, the need for consolidation measures amounting to 0.2% of GDP in 2018 and to 0.3% of GDP in 2019 has been quantified. It is a cumulative need for measures compared to the NPC scenario; this means that in the case of the adoption of permanent measures, the need of additional measures decreases in the following years by the volume of the already implemented measures. **With the assumption of permanent measures, the overall need for measures would amount to EUR 521 million (0.6% of GDP) in 2018 and EUR 38 million (0% of GDP) in 2019.**

TABLE 28 - Overall consolidation need to achieve the fiscal targets compared to NPC (ESA2010, % of GDP)

	2017	2018	2019
1. Budget balance – fiscal targets	-1.3	-0.4	0.2
2. Budget balance – NPC scenario	-0.9	-0.7	-0.1
3. Size of measures (1-2)	-0.4	0.2	0.3
- need for additional measures in the given year (year-on-year change)	**-0.4**	**0.6**	**0.0**

Source: MoF SR

Volume of measures with a direct impact on GDP amounts to EUR 316 mil. (0.4% of GDP). Fiscal expansion is assumed almost exclusively on the expenditure side, with an increase in the expenditures connected with capital investments (EUR 454 mil.) and intermediate consumption of general government (EUR 146 mil.). On the contrary, savings are expected for compensation of employees, other current transfers and capital transfers (in total EUR 264 mil.). Expansive and restrictive measures will be compensated on the revenue side. The most important measure is the reduction of corporate income tax rate from 22% to 21% (EUR 127 mil.), which will support the growth of economy through higher investments, wage base and inflation. The extension of the special levy in the regulated industries (EUR 80 mil.) will act in the opposite direction. The change in taxation of cigars and cigarillos (EUR 21 mil.) will speed up the rate of inflation.

In 2018, measures in the fiscal framework with an identified direct impact on GDP amount to EUR 566 mil. (0.6% of GDP). The fiscal framework of the Stability Programme expects **consolidation** measures in particular on the expenditure side. In current expenditures, these are mainly deletions in the intermediate consumption (EUR 308 mil.) and in compensations in general government (EUR 136 mil.). A significant saving will be achieved in capital expenditures (EUR 228 mil.). The measures on the side of expenditures will affect the growth of economy negatively through a lower final consumption of government, reduced public investments and slowdown of average wage growth in the national economy. The negative impact of consolidation measures will be partially mitigated by the measures on the revenue side (cancellation of tax licences and reduction of corporate income tax rate), which together amount to EUR 122 mil.

In 2019, the influence of measures with a direct impact of GDP growth is quantified at a level of EUR 96 mil. (0.1% of GDP). In the structure of expenditure measures, the negative influence of reduced compensations (EUR 125 mil.), capital investments (EUR 190 mil.) and other current transfers (EUR 40 mil.) will be compensated with the increase of expenditures on intermediate consumption of general government (EUR 153 mil.) and capital transfers (EUR 56 mil.). On the revenue side, there will be a faster growth of general government consumption as a consequence of market output increase (EUR 58 mil.).

TABLE 29 - Transmission macroeconomic channels (mil. EUR)

	2017	2018	2019
Total	**314**	**-521**	**-38**
(in % of GDP)	**0.4**	**-0.6**	**0.0**
Direct impact on GDP	**316**	**-566**	**-96**

(in % of GDP)	**0.4**	**-0.6**	**-0.1**
Government consumption	**-71**	**-395**	**77**
Intermediate government consumption	146	-308	153
Compensation of employees	-171	-136	-125
Social transfers in kind (healthcare providers)	-1	2	-8
Market production	-44	47	58
Investments	**422**	**-204**	**-133**
Government	454	-216	-190
Other	-32	12	56
Households	**-202**	**-125**	**-174**
Inflation	**-6**	**24**	**0**

Source: MoF SR

The influence of fiscal policy on main macroeconomic values of the Slovak economy including the secondary effects is quantified through the macroeconomic model IFP for medium-term forecasts. For grants and transfers and changes in contribution to the fully-funded pillar, we consider a zero multiplier, therefore the assumed direct impact on the economy is increased by 0.05% of GDP in 2018 and 0.06% of GDP in 2019.

In 2017, the influence of fiscal policy on the growth of GDP is positive at a level of 0.1 p.p. In 2018, the consolidation measures will reduce the growth of economy by 0.2 p.p., in 2019 the influence of fiscal policy on the economy is negligible. The implied fiscal multiplier will reach 0.4 in 2017. Its value reflects a significant increase in investments and intermediate consumption, which is however suppressed by a drop in compensations. In the next year, the implied fiscal multiplier is a bit lower, at a level of 0.37. It is caused by a lower share of investments and intermediate consumption in the overall volume of measures. Expansive measures on the revenue side act reversely. In 2019, the implied multiplier will reach a considerably lower value of 0.12.

TABLE 30 - Impact of measures on GDP (in p.p.) according to the IFP macro model

	2017	2018	2019
measures with a direct impact on GDP	**0.4**	**-0.6**	**-0.1**
contribution to a CPI change	0.0	0.0	0.0
employment	0.1	-0.2	0.0
nominal wage	-0.5	-0.4	-0.5
gross disposable pension	-0.4	-0.4	-0.4
household consumption	-0.1	-0.1	-0.1
government consumption	-0.5	-1.8	0.5
investments	2.4	-1.3	-0.7
import	0.3	-0.4	-0.1
contribution to the YoY GDP change	**0.1**	**-0.2**	**0.0**

Source: MoF SR

Annex 4 - Structural balance calculation

The first step in the calculation of the **general government structural balance** requires to adjust the nominal (officially notified) general government balance by the **cyclical component**. The cyclical component expresses the response of public finance revenues and expenditures to changes in the output gap. The size of the cyclical component depends on the size of the output gap and on the elasticity of selected revenue and expenditure categories responding to fluctuations in economic activity. The output gap calculation can lead to differing estimates of this indicator depending on the methodology used. In this case the output gap was estimated with the EC methodology with input data taken from the MoF SR forecast. In its estimation of elasticity of the general government balance to the changes in the output gap, the MoF SR fully utilizes the EC's estimates based on the OECD methodology.[80]

The second item the general government balance must be adjusted for is **one-off and temporary effects**. Principles defined by the EC and described more closely in the IFP manual were taken into consideration in their identification.[81] Based on the available information, the following one-of effects may be identified in 2015. No one-off measures have been envisaged according to the EC methodology for 2016 and the remaining forecast years. In order to be consistent, we provide the structural balance in all monitored years.

- **Corrections for EU funds** – in connection with errancy in drawing the resources from EU funds connected with the second programme period, corrections were identified for 2015 in a total amount of EUR 243 mil. Corrections for EU funds[82] affect the amount of the accrual balance of the general government budget.

TABLE 31 - Calculation of the structural balance and one-off measures (ESA2010, % of GDP)

	2014	2015	2016	2017	2018	2019
1. Net lending/borrowing	**-2.69**	**-2.97**	**-2.13**	**-1.29**	**-0.44**	**0.16**
2. Cyclical component	-0.8	-0.5	-0.4	-0.3	0.1	0.7
3. One-off effects	**0.0**	**-0.3**	**-**	**-**	**-**	**-**
- digital dividend	0.2	-	-	-	-	-
- lower contribution to EU budget	0.1	-	-	-	-	-
- pension payment for armed forces	-0.1	-	-	-	-	-
- antimonopoly office' fine for cartel in construction sector	0.1	-	-	-	-	-
- corrections of EU funds	-0.3	-0.3	-	-	-	-
4. Structural balance (1-2-3)	**-1.92**	**-2.17**	**-1.72**	**-1.02**	**-0.52**	**-0.50**

[80] Girouard, N., André, Ch.: Measuring cyclically-adjusted budget balances for OECD countries. OECD Economics department working papers, no. 434, 2005R.

[81] IFP (2014) Manual: One-off effects, http://www.finance.gov.sk/Default.aspx?CatID=9595

[82] EU corrections for the purpose of calculation of structural balance mean only those, which are connected with discrepancies in drawing EU funds and affect the flows related to the receivables from the EU (i.e. the receivables of the SR from the EU are not settled).

Annex 5 - Flexibility of the Stability and Growth Pact

At the latest meeting of the ECOFIN Council in February 2016, a commonly agreed position on flexibility under the Stability and Growth Pact (SGP), which represents the main pillar of the European fiscal rules, was endorsed. The acceptance represents a reaction to the new Commission's commitment under the chair of Juncker to use the current flexibility of the Stability and Growth Pact with the aim to create space for a pro-growth fiscal position. The aim is to relax the rules concerning the required consolidation speed without legislative amendments and the opening of the excessive deficit procedure. The flexibility concerns three areas:

1. Extension of the investment clause

The extension of the investment clause is anchored around the established European Fund for Strategic Investments (EFSI). The application of the investment clause can therefore be applied to the contributions to EFSI. Compared to the initial interpretation, a requirement to achieve MTO (a structurally balanced budget) within the four years horizon of the Stability Pact has been implemented as well as the loosening of the debt criterion requirements for the activation of the investment clause. For its application, only the cyclical conditions of each individual country must be considered (the output gap significantly below the potential), while the Eurozone development as a whole is not taken into account.

2. Implementation of a structural reform clause

The preventive and corrective arm of the Pact will take into account the costs (fiscal impacts) of major structural reforms with a verifiable impact on long-term sustainability, including the increase in potential growth. The reforms must also fulfil a number of conditions:

- They must be implemented or sufficiently specified (including a planned implementation schedule);
- At the time of the application the structural deficit must not exceed the specified MTO by more than 1.5% of GDP;
- Temporary deviation from the required year-on-year consolidation must not exceed 0.5% of GDP; it must not lead to an excess of the reference deficit value of 3% of GDP, and the MTO must be achieved within a 4-year horizon from the structural clause application.

3. More significant consideration of the cyclical conditions

The EC has transparently published an updated matrix with the required consolidation effort according to the economic conditions, the debt level and the long-term sustainability risk. Compared to the original matrix, the preventive arm of the Pact more extensively considers the option of a counter-cyclical fiscal policy. The new interpretation includes a stricter required rate of consolidation for overheated economies, while relaxing the pace for countries which are significantly under their potential. The assessment in the corrective part has not changed, as it currently already takes into account a number of relevant factors reflecting the economic development and errors in the EC forecast.

	Required year-on-year consolidation	
Condition	Debt under 60% and no sustainability risk	Debt over 60% or a sustainability risk
Real GDP growth < 0 or output gap < -4	No consolidation necessary	
-4 ≤ output gap < -3	0	0.25
-3 ≤ output gap < -1.5	0 if growth below potential, 0.25 if growth above potential	0.25 if growth below potential, 0.5 if growth above potential
-1.5 ≤ output gap < 1.5	0.5	> 0.5
output gap ≥ 1.5	> 0.5 if growth below potential, ≥ 0.75 if growth above potential	≥ 0.75 if growth below potential, ≥ 1 if growth above potential

Annex 6 - Expenditure benchmark

At its meeting in March 2016, the European Commission (EC) presented an updated model[83] of calculation of the expenditure aggregate, based on which compliance with the expenditure benchmark is assessed. The expenditures and expenditure benchmark will be adjusted for the items, which need not be necessarily under the Government's control, and which do not affect the general government balance. Concretely this includes interest payments, expenditures connected with joint programmes with the European Union, expenditures reacting to changes in the economic activity (unemployment benefits).

At the same time, due to a considerably higher volatility of national investments (implementation of investment projects) smoothing will be carried out by applying the four-year average. The adjusted expenditures (primary expenditure aggregate) will be further adjusted for discretionary revenue measures[84] (the list in Annex 7), and at the same time, the price development will be taken into account, expressed in the form of GDP deflator.

The adjusted real expenditure aggregate is compared with the expenditure benchmark, which equals to the difference between the reference rate of medium-term growth of the economy of potential (10-year average taking into account the reality and four-year forecast) and the reference rate for expenditure growth (so-called convergence margin). It is set so that the expenditure growth according to the expenditure benchmark allows a necessary improvement of the structural balance according to the consolidation matrix (Annex 5).

The expenditure benchmark is set by the EC in advance, thus, in the calculations it considers the forecast values (potential output growth, GDP deflator - it takes into account the average value of the spring and autumn forecast of the GDP deflator published in the previous year for the respective year). The real values of adjusted expenditures are then compared to the value set in such way.

TABLE 32 - Expenditure benchmark (ESA 2010)

		2013	2014	2015	2016 Expected	2017	2018	2019
1. Total expenditures	mil. EUR	**30,489**	**31,682**	**35,622**	**32,826**	**33,029**	**33,821**	**34,325**
2. Interest payments	mil. EUR	1,384	1,441	1,389	1,227	1,215	1,249	1,279
3. Expenditures covered by EU funds (total)	mil. EUR	809	1,195	2,600	1,281	1,235	1,486	912
3a. Expenditures covered by EU funds (capital)	mil. EUR	576	1,097	2,157	844	808	851	286
4. Capital expenditures covered by national resources	mil. EUR	1,794	1,796	2,675	2,027	1,895	1,752	1,525
5. Smoothing (national funds, 4-year rolling average))*	mil. EUR	1,828	1,819	2,004	2,073	2,098	2,087	1,800
6. Cyclical expenditures - unemployment benefits	mil. EUR	20	17	11	10	7	-2	-19
7. Expenditures fully matched by automatic revenue increase	mil. EUR	0	0	0	0	0	0	0
8. Primary expenditure aggregate (1-2-3-4+5-6-7)	mil. EUR	**28,310**	**29,053**	**30,951**	**30,355**	**30,775**	**31,422**	**32,427**
9. Year-on-year change of the primary expenditure aggregate (8_t-8_{t-1})	mil. EUR	1,035	744	1,898	-596	420	648	1,005
10. Change in revenues due to discretionary revenue measures	mil. EUR	338	-26	110	-114	-183	-101	-32
11. Nominal increase in the expenditure aggregate adjusted for revenue measures ((8_t-9_t)/7_{t-1})	%	-0.3	2.7	6.2	-1.6	2.0	2.4	3.3
12. Real increase in the expenditure aggregate adjusted for revenue measures	%	-0.8	0.8	5.5	-2.7	0.4	0.3	1.1

[83] The original model of calculation did not solve sufficiently in particular the availability of accurate data on the expenditures on programmes fully covered by the revenues from EU funds and the resulting technically incorrect smoothing of variability of public investment expenditures due to double adjustment for the investment expenditures covered by EU funds. For the correctness of the calculation, the availability of data on investment expenditures from EU funds divided to capital and current is necessary. In the original model, variability was incorrectly smoothed by adding an average value of the level of public investment expenditures on the horizon of years t to t_{-3}.

[84] The discretionary revenue measures are within the expenditure benchmark quantified by the Tax Revenue Forecasts Committee from February 2016, which contains revenue data more actual than those in the notification.

13. Expenditure benchmark (low reference bound)	p.p.	3.2	4.1	2.9	2.2	1.3	1.3	2.7
14. Deviation from the expenditure benchmark (13 -12)	p.p.	4.0	3.3	-2.5	4.9	1.0	1.0	1.6
15. Deviation from the expenditure benchmark	% of GDP	**1.5**	**1.2**	**-0.9**	**1.9**	**0.3**	**0.3**	**0.5**
16. Two-year deviation from the expenditure benchmark	% of GDP		**1.4**	**0.1**	**0.5**	**1.1**	**0.3**	**0.4**
p.m. GDP deflator	%	*2.0*	*1.9*	*0.7*	*1.2*	*1.6*	*2.1*	*2.2*
p.m. convergence margin	%	*0.0*	*-1.1*	*0.0*	*0.7*	*1.3*	*1.3*	*0.0*

** 4-year floating average (t-3 to t)*

Source: EC, MoF SR

Annex 7 - Discretionary revenue measures

Discretionary revenue measures are recorded according to the EC methodology by means of so-called additional impacts (marginal changes). Permanent or one-off measures are distinguished. A permanent measure is recorded with an impact in the first year (at the moment when it becomes applicable) and with no additional impact in the following years. In other words, changes in the impact of the measure in the following years due to macroeconomic development are not taken into account. If different effects occur due to a postponed application of a measure, only the marginal change is recorded.[85] For one-off revenue measures, the impact is recorded only in one year and in the following year a shortfall of the same amount, i.e. the overall impact of a measure in two subsequent years is zero (for example an extraordinary contribution in the banking sector).

TABLE 33 - Discretionary measures (EUR mil., ESA2010)

	Overall effect						Additional effect					
Description	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Reduction of second pension pillar contribution rate				-26	-55	-87				-26	-29	-32
Non-payment of special levy on selected financial institutions in 4. Q	-42						-42					
Reduction of special levy on selected financial institutions since 2015		-42						-42				
Reduction of bank levy				-42						-42		
Introduction of minimum corporate income tax	82						82					
Abolition of minimum corporate income tax					-72						-72	
Reduction of CIT rate from 23% to 22%	-95						-95					
Stricter rules for amortization of losses	37						37					
Changes in Income tax Act 595/2003	-8						-8					
Changes of the wedge		-8						-8				
Changes in tax depreciation rules		123						123				
Extension of obligation to maintain records of revenues in electronic cash registers		54	72					54	18			
Introduction of thin capitalisation rules		48						48				
Deduction of R&D expenditure from tax base		-24						-24				
Audit of tax expenditures		12						12				
Opening of the second pension pillar – current influence		16	29					16	14			
Health contribution allowance		-41	-157					-41	-117			
Other legislative changes in VAT		-29	11					-29	40	-11		
Excise duties on tobacco - Unified size of cigarettes packages to 20 pieces per package			7	9					7	2		
Excise duty on tobacco – taxation of cigars and based on their weight rather than based on their number				21						21		
Reduced 10% VAT rate on selected foodstuffs			-77						-77			
Reduction of CIT rate from 22% to 21%				-127						-127		
TOTAL	**-26**	**110**	**-116**	**-165**	**-127**	**-87**	**-26**	**110**	**-114**	**-183**	**-101**	**-32**

Note: The measures marked with * entered into force in the 4th quarter in 2012. For the purpose of calculation of the marginal change, only their proportional part in the actual year is taken into account. E.g. the marginal change of a special levy in 2013 is eight months from the annual sum as the measure was in force already in 2012, for 4 months.

[85] The following example illustrates the effect 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 whole amount 200, however, marginally only the difference between the the two effects is recorded, i.e. 100. Cumulatively, the entire effect is 200, only it is distributed into two years.

Annex 8 - Macroeconomic and Tax Revenue Forecasts Committees

The Stability Programme is based on macroeconomic and tax forecasts until year 2019 from January or February 2016. The macroeconomic scenario as well as the forecast tax revenues are subject to preliminary discussion, approval and expert scrutiny by committees composed of national experts from both the public and private sector. The dates for disclosing forecasts as well as the guiding principles of the committees are laid down in the Fiscal Responsibility Act.

After the February 2016 session of the Macroeconomic Forecasts Committee, all of its members assessed the medium-term macroeconomic forecast of the Ministry of Finance of the Slovak Republic as **realistic**.

TABLE 34 - Assessment of the February forecast of the MoF SR by the Macroeconomic Forecasts Committee

Committee member	Forecast characteristics
NBS, Infostat, UNICREDIT Bank, VÚB, Tatrabanka, SLSP, ČSOB, Sberbank	realistic
SAV	-

Source: Macroeconomic Forecasts Committee

TABLE 35 - Average forecast of selected indicators of economic development in the SR by members of the Macroeconomic Forecasts Committee (except for MoF SR) and MoF SR forecast

	2015	2016		2017		2018		2019	
in %, unless otherwise stated		**Committee**	**MoF SR**	**Committee**	**MoF SR**	**Committee**	**MoF SR**	**Committee**	**MoF SR**
Gross domestic product, real growth	3.6	3.3	3.2	3.5	3.6	3.6	4.1	3.7	4.6
Gross domestic product in current prices; EUR billion	78.1	80.6	80.6	85.2	84.8	90.0	90.2	94.8	96.4
Final consumption of households; real growth	2.4	3.0	3.2	2.7	2.6	2.6	2.7	2.7	2.9
Final consumption of households; nominal growth	2.3	3.4	3.3	4.5	4.3	4.7	4.8	5.1	5.2
Average monthly wage; real growth	3.2	3.2	3.1	2.5	2.9	2.3	2.5	1.8	2.9
Average monthly wage; nominal growth	2.9	3.4	3.3	4.1	4.5	4.3	4.7	4.3	5.1
Employment (registered) growth	2.0	1.2	1.3	0.8	0.9	0.9	1.1	0.8	0.9
Consumer price index; average growth; CPI	-0.3	0.2	0.2	1.6	1.6	2.0	2.1	2.3	2.2
Current account balance; share of GDP	-1.1	-1.5	-0.5	-1.9	0.2	-2.1	1.0	-1.6	2.6

Source: Macroeconomic Forecasts Committee

Tax Revenue Forecasts Committee

At the meeting of the Tax Revenue Forecasts Committee, MoF SR presented an updated medium-term forecast of tax revenues for 2015–2019. The medium-term forecast of tax revenues and pensions contributions of the MoF SR was indicated by all of the members as **realistic**.

TABLE 36 - Assessment of the MoF SR forecast by the Tax Revenue Forecasts Committee

Committee member	Forecast characteristics
NBS, Infostat, Tatra banka, ČSOB, SLSP, UniCredit Bank, Fiscal Responsibility Council Office (KRRZ)	realistic

Annex 9 – Terms of Reference for informatization spending review

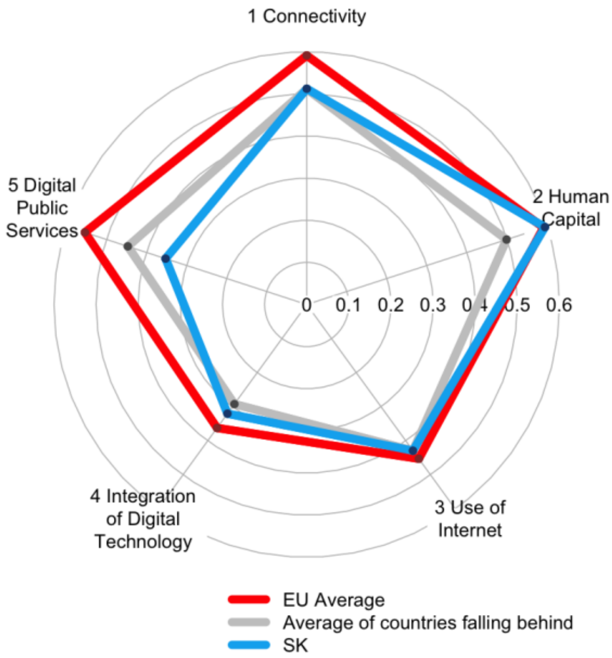
The review of informatization expenditures (0.6% of GDP annually) will propose measures for creating additional fiscal space preliminarily estimated at 30% (0.17% of GDP in 2019) from the planned investment and operation expenditures in a sustainable way. Savings will be achieved by optimising operations and increasing the value of investments in the Operational Programme Integrated Infrastructure (OPII). The objective is to improve the shares of pre-completed forms at the websites of state institutions and life situations of citizens that can be handled on-line

Performance objectives

The performance objectives in*the operation of State IT support services* is to reach service level comparable to the commercial sphere. The indicators will be specified after mapping individual services.

The performance objective *for the investments* is to reduce the lag of Slovakia in the Digital Economy and Society Index,[86] in particular the Digital Public Services sub-index[87]. At least Slovakia should reach the EU average (currently 70 %).

The proposed indicators include the score in pre-completed forms at State websites and the score of share of the life situations that can be handled on-line.



Fiscal objectives

The informatization expenditures will achieve **EUR 2.22 bn.** in the period from 2017 to 2020 **according to the baseline scenario (BS).** The estimated assumed saving that will come into existence by implementing the project, amounts to **EUR 505 mil.**

Investment expenditures largely depend on the actual EU funds spending. In the programme period 2014 to 2020 **EUR 805 mil.** (EUR 947 mil. with co-financing) is earmarked from EU funds within the Operational Programme Integrated Infrastructure (OPII) for informatization.

[86] https://ec.europa.eu/digital-single-market/en/desi

[87] The index consists of indicators measuring the share of citizens communicating with authorities electronically, the number of pre-completed forms, digitisation of life situations and open data.

According to the baseline scenario, **investment expenditures** will achieve **EUR 1.3 bn.** in 2017 to 2020. Investment projects financed from the state budget as well as from EU resources will be assessed by cost-benefit analyses. Investment proposals with the highest value for money in the long-term will be preferred.

Operating expenditures in 2017 to 2020 will reach **EUR 877 mil** according to the baseline scenario**.** The operation effectiveness will be assessed by benchmarking.

TABLE 37 - Baseline scenario of informatization expenditures (EUR mil.)

	2013 S	2014 S	2015 S	2016 BS	2017 BS	2018 BS	2019 BS	2020 BS
630 Goods and services	184	236	222	209	212	217	222	226
710 Acquisition of capital assets	303	292	562	308	317	328	341	354
Baseline scenario total	**487**	**528**	**784**	**517**	**530**	**545**	**562**	**580**
Value for money scenario	-	-	-	-	477	436	393	406
Assumed savings	-	-	-	-	*53*	*109*	*169*	*174*

Note: 2015 actual spend, other years baseline scenario estimates. Expected saving of the value for money scenario 10% in 2017, 20% in 2018 and 30% of expenditures in 2019.

The Ministry of Finance will be responsible for the final report, which will be worked out in cooperation with other ministries. For the needs of preparation of the analyses of the above areas, the other ministries undertake to provide cooperation in providing complete and detailed data.

Result objective description – value of investments

The Digital Economy and Society Index (DESI) is a composite index that was developed by the European Commission (DG CNECT). It integrates a set of relevant indicators structured in five areas: Connectivity, Human Capital, Use of Internet, Integration of Digital Technology in Business and Digital Public Services. The DESI score ranges from 0 to 1. A higher score means a better result.

The result objective of the informatization spending review is the *Digital Public Services* consisting of indicators measuring the share of citizens electronically communicating with authorities, the share of pre-completed forms, digitisation of life situations and use of open data.

In *Digital Public Services,* Slovakia falls behind the average the EU and the neighbouring countries.

TABLE 38 - Digital public services (DESI 5) - in the aggregate

Score - normalised indicator (0-1)	2015	2016	Year-on-year change	Year-on-year change in %	**Objective in 2020**
SK	0.37	0.35	-0.02	-6%	**EU average**
V3	0.45	0.45	0.00	0%	
EU 28	0.54	0.55	0.01	2%	

Source: EC

TABLE 39 - The number of pre-completed forms at State websites (DESI 5a2)

Score - normalised indicator (0-1)	2015	2016	Year-on-year change	Year-on-year change in %	**Objective in 2020**
SK	0.23	0.20	-0.03	-13%	**at least EU average**
V3	0.39	0.38	-0.01	-3%	
EÚ28	0.46	0.49	0.03	7%	

Source: EC

TABLE 40 - The share of steps of life situations that can be handled on-line (DESI 5a3)

Score - normalised indicator (0-1)	2015	2016	Year-on-year change	Year-on-year change in %	**Objective in 2020**
SK	0.46	0.59	0.13	29%	**at least EU average**
V3	0.60	0.69	0.09	14%	
EÚ28	0.75	0.81	0.06	7%	

Source: EC

BOX 12 - Methodology of calculation of Informatization baseline scenario:

Calculation of expected annual expenditures:

- The base of the baseline scenario consists of investment and operating expenditures on IT pursuant to selected items of economic classification.
- Investment expenditures are calculated as an average of investment expenditures for 2010 to 2015 indexed by GDP adjusted for the elasticity of tax and social contribution revenues.
- Operating expenditures are calculated as an average of operating expenditures for 2010 to 2015 indexed by CPI.

Annex 10 – Terms of refernece for healthcare spending review

The spending review of healthcare expenditures (amounting to 5.24 % of GDP annually) will focus on possible savings in particular in healthcare expenditures. This will identify the resources necessary for required and efficient investments in in-patient facilities. The total healthcare expenditures will not exceed the growth of inflation in the economy (0.17% of GDP in 2017). The objective is to reduce the number of amenable deaths to the average level of V3 countries (Czech Republic, Hungary and Poland).

Result objective

Despite the fact that Slovakia spends a greater share of GDP on healthcare than the average of V3, it lags behind in the result indicators of health status of the population[88]. The result objective for healthcare achievable on the horizon of four years is to reduce the **amenable mortality** to the level of V3.

Fiscal objectives

In the last 10 years, Slovakia has considerably increased its expenditure on healthcare. However, this has not translated into substantial investment in hospitals, the growth was mostly limited to current spending. The spending review will focus on possible savings as well as necessary investments:

- We aim to **limit the growth in expenditure** to inflation growth . **The baseline scenario (BS)** foresees growth of expenditure matching the tax revenues of public health insurance (contributions, payment for the insured by the State, outstanding premium, annual settlement etc.).

- **Investments in bed ward facilities** require additional resources at an estimated volume of EUR 633 mil. during four years. New end hospitals would be constructed for them (in particular the University Hospital Bratislava) or several hospitals would be reconstructed.

TABLE 41 - Healthcare resources after taking into account the savings and necessary investments (EUR mil.)

	2015 S	2016 Expected	2017 BS	2018 BS	2019 BS	2020 BS
Resources in healthcare - baseline scenario	4,318	4,331	4,449	4,696	4,980	5,283
Investments in university hospitals (from healthcare resources)			158	158	158	158
Necessary measures (savings compared to the BS)			143	293	471	757
Healthcare resources - Value for Money scenario	**4,318**	**4,331**	**4,307**	**4,404**	**4,509**	**4,526**
Resources in healthcare - GG budget			4,445	4,690	4,970	
Difference in comparison with GG budget			-138	-286	-462	

Source: MoF SR , IFP

Focus

Based on a comparison of international health data and data on the economy of hospitals we have identified the areas with the greatest room for savings:

- Economic rent in the insurance market and from non-transparent relations and interactions between insurance companies and providers.
- Overconsumption, induced and erroneous prescription, and cost-ineffective reimbursement of pharmaceuticals, healthcare aids and specialised healthcare material.
- Operating costs of hospitals (excessive capacities and overpriced purchases)

[88] http://www.finance.gov.sk/Default.aspx?CatID=8789

- Emergency rescue (considerably higher costs in comparison with neighbouring and best practice countries suggest room for more efficient competition for licences)
- Laboratories and diagnostic imaging (considerably higher costs in comparison with neighbouring countries).

The Ministry of Finance of the SR will be responsible for the final report, which will be prepared in cooperation with the Ministry of Health of the SR. To prepare the analyses of the above-mentioned areas, the Ministry of Health of the SR undertakes to cooperate in providing complete and detailed (non-anonymised) data on healthcare providers, as well as the data from the register of healthcare employees and providers.

Avoidable mortality indicator description

Avoidable mortality represents the number of deaths (for specific age groups and specific diseases defined in the ICD classification[89]), which can be avoided. There are two types of deaths - amenable and preventable.

Amenable deaths mean the deaths that could be avoided by high-quality healthcare. These deaths are monitored by the indicator **amenable mortality**, which was selected as a result objective. The preventable mortality indicator consists of deaths, which could have been prevented by means of measures in healthcare aimed at affecting behaviour and lifestyle, social-economic status and environmental conditions.

The result objective for healthcare is to achieve on the horizon of four years the reduction of amenable mortality to the level of V3. Which means the reduction of mortality by 15% (1,872 deaths) in comparison with 2012.

TABLE 42 - Amenable mortality

- standardised rate of mortality per 100 thousand inhabitants	2011	2,012	Year-on-year change	Year-on-year change in %	Objective in 2020 per population
SK	237.90	236.60	-1.30	-0.55%	**-1872**
V3	206.30	201.93	-4.37	-2.12%	
EU28	125.20	122.90	-2.30	-1.84%	

Source: Eurostat

A more detailed structure of expenditures in public healthcare:

TABLE 43 - Baseline scenario of healthcare resources (EUR mil.)

	2015 S	2016 Expected	2017 BS	2018 BS	2019 BS	2020 BS
Total	**4,318**	**4,331**	**4,449**	**4,696**	**4,980**	**5,283**
Public health insurance - economically active population	2,881	2,888	3,066	3,268	3,487	3,720
Public health insurance - the insured by the State	1,349	1,350	1,291	1,334	1,394	1,460
Contribution to OS ZZS activities (Rescue Service Command Centre)	13	14	14	14	15	16
Contribution to NCZI activities (National Health Information Centre)	10	16	17	17	18	19
Expenditures of the chapter of the Ministry of Health SR without above-mentioned (without EU and COFIN)	64	62	61	63	66	68

Source: MoF SR , IFP

TABLE 44 - Baseline scenario of public health insurance (EUR mil.)

[89] International Statistical Classification of Diseases and Related Health Problems 10th Revision http://apps.who.int/classifications/icd10/browse/2015/en

	2015 S	2016 Expected	2017 BS	2018 BS	2019 BS	2020 BS
Total revenues	**4,274**	**4,268**	**4,388**	**4,632**	**4,911**	**5,210**
Tax revenues	4,237	4,238	4,357	4,602	4,880	5,180
EAP	2,881	2,888	3,066	3,268	3,487	3,720
The insured by the State	1,349	1,350	1,291	1,334	1,394	1,460
Grants and transfers	0	0	0	0	0	0
Non-tax revenues	36	30	30	30	30	30
Total expenditures	**4,220**	**4,304**	**4,444**	**4,690**	**4,970**	**5,268**
Healthcare expenditure from insurance	3,993	4,079	4,206	4,442	4,711	4,997
Other expenditures	227	225	238	248	259	271
Wages	46	46	50	52	55	58
Goods and services	76	93	78	79	81	83
Of which: current transfers	56	52	59	62	66	69
Contributions for the activity of HCSA, NHIC, OS ZZS (Rescue Service Command Centre)	52	48	55	58	61	65
Other	4	3	4	4	4	4
Capital expenditures	49	34	52	55	58	61
Difference	**54**	**-36**	**-56**	**-58**	**-59**	**-57**

Source: MoF SR , IFP

TABUĽKA 45 – Hospitals (mil. eur)

	2 010	2 011	2 012	2 013
Wages and contributions	720	747	846	880
Goods and services	667	708	694	751
Depreciations	98	99	108	105
Total	**1 485**	**1 554**	**1 648**	**1 736**

**including the outpatient departments of hospitals*

BOX 13 - Baseline scenario - methodology

The preparation of the baseline scenario (BS) is based on the manual for No-Policy-Change Scenario (NPC manual). NPC is a scenario of development of public finance provided that the Government or Parliament does not adopt any measures and their development is only conditioned by macroeconomic development and existing policies including effective legislation.

Assumption for BS preparation:

- Resources in healthcare and expenditures of the chapter of the Ministry of Health SR
  - contributions from EAP are taken from the tax committee forecast
  - payment for the insured by the State is indexed by the growth of the average wage in the year two years prior to the base year and by the change of the number of the Insured by the State, the initial base must be adjusted for one-off measures (such as debt relief for hospitals, wage increase etc., which are financed by payment for the insured by the State only transitionally, through an increase in the base rate)
  - contributions for the activity of other organisations in healthcare (e.g. NCZI, OS ZZS etc.) adjusted identically as current transfers according to the NPC manual

- the expenditures of the chapter are adjusted by the respective index, depending on whether they are expenditures on wages, goods, services, subsidies and transfers, or capital expenditures (more in the NPC manual)

- Revenues of public health insurance

  - contributions from EAP are taken from the tax committee forecast
  - payment for the insured by the State is indexed by the growth of the average wage in the year two years prior to the base year and by the change of the number of the Insured by the State, the initial base must be adjusted for one-off measures (such as debt relief for hospitals, wage increase etc., which are financed by payment for the insured by the State only transitionally, through an increase in the base rate)
  - other revenues of public health insurance are indexed by the respective index according to their economic classification

- Expenditures of public health insurance

  - insurance expenditures depend on the growth of tax revenues of public health insurance
  - other expenditures are adjusted by the respective index on the basis of the economic classification (more in the NPC manual)
  - contributions for the activity of other organisations in healthcare (e.g. NCZI, OS ZZS etc.) are adjusted the same way as expenditures of public health insurance related to insurance as their volume directly depends on the amount of tax revenues of individual insurance companies

Annex 11 - Terms of Reference for transport spending review

The spending review of transport expenditures amounting to 2.7% of GDP annually will propose measures increasing the efficiency of the current investment envelope while preserving its size and increasing the efficiency of unit operating costs in a sustainable way (approximately 0.14% of GDP annually) for transport in the chapter of the Ministry of Transport, Construction and Regional Development (MoTCaRD SR). The objective of public transport investments and policies is to develop transport so that it will enable transportation of goods and persons quickly, safely, at high quality, with the lowest possible negative externalities and for affordable prices in the areas, where the private sector cannot provide it.

Result objectives

The main objective of public transport investments and policies is to develop the transport infrastructure and modes so that they will enable transportation of goods and persons quickly, safely, at high quality, with the lowest possible negative externalities and for affordable prices in the areas, where the private sector cannot provide it. There is no optimum result indicator for this objective. However, the substitute, mostly output indicators, such as a higher share of highways and speedways in the road network, a lower share in the first-class roads in non-conforming condition, better utilisation of public transportation and a higher share of cargo railway transport in the overall freight transport, will contribute to its improvement.

TABLE 46 - Objectives and result indicators in transport

Objective	Indicator
Speed (safety)	*Share of highways and speedways in the road network (%)*
Quality	*Share of first-class roads in non-conforming condition*
Efficiency	*Modal split of cargo railway transport*
Externalities	*Modal split of cargo railway transport*

Fiscal objectives

The amount of average annual investment expenditures on transport from the state budget except the EU funds will be reassessed with the objective of stabilisation on the horizon of four years. The expenditures on projects implemented from EU funds allocated to the programme period 2014 to 2020 will have been exhausted by 2020. The largest investment projects financed from the state budget also within OPII will be evaluated through a cost-benefit analysis. Those, which will bring the highest value for money in the long-term, will be prioritised.

The other expenditures of the Ministry of Transport, Construction and Regional Development of the Slovak Republic (MoTCaRD SR) include in particular subsidies to railway transport, expenditures on maintenance and repairs of roads and highway, and payment for the PR1BINA PPP project availability. The objective of the spending review (review of spending structure) is to increase the effectiveness of expenditures on operation and maintenance. Transfer of resources from construction to maintenance of the infrastructure will represent a medium-term objective.

TABLE 47 - Baseline scenario of transport expenditures (EUR mil.)

	2014 S*	2015 S	2016 R**	2016 BS***	2017-2020 BS total
OPT and OPII investments in total	826	1,771	1,081	1081	3,137
MoTCaRD SR investments except EU funds	76	183	46	105	456
MoTCaRD SR other expenditures except EU funds and investments	771	703	716	722	2,972
Total: Baseline scenario	**1,673**	**2,656**	**1,843**	**1,908**	**6,565**
Total: Value for Money scenario				**1,794**	**6,094**

**real expenditures **approved budget ***baseline scenario expenditures*
Other details (BOX 14), methodology of baseline scenario creation

The Ministry of Finance of the SR will be responsible for the final report, which will be worked out in cooperation with the ministry of transport. For the needs of preparation of the analyses of the above areas, the MoTCaRD SR undertake to provide cooperation in providing complete and detailed data from the area of transport.

Initial data

TABLE 48 - Baseline scenario Investments connected with OPT and OPII (EUR mil.)

	2014 S	2015 S	2016 R	2016 BS	2017-2020 BS total
OPT and OPII investments in total	**826**	**1,771**	**1,081**	**1081**	**3,137**
EU funds	516	1,329	740	740	2,399
Co-financing state budget	90	229	130	130	424
State budget except co-financing - rate of financing deficit and necessary costs (above GAP)	138	210	211	211	313
Preparation of project financed from EU funds	81	4	0	0	0

TABLE 49 - Baseline scenario of MoTCaRD SR expenditures in the area of transport except OPII and OPT (EUR mil.)

	2014 S	2015 S	2016 R	2016 BS	2017-2020 BS total
Investments in road and railway infrastructure total, of which	76	183	46	105	456
Development and modernisation of railway track	*15*	*74*	*8*	*30*	*132*
NDS investments	*53*	*102*	*31*	*65*	*283*
SSC investments	*9*	*7*	*6*	*8*	*37*
Maintenance and repairs of roads and highways, of which	72	66	*70*	79	331
NDS - repairs and maintenance of highways and speedways from the state budget	*29*	*18*	*29*	*29*	*123*
SSC - repairs and maintenance of first-class roads and operating expenditures SSC	*43*	*47*	*41*	*50*	*208*
Railways of the SR - contract of railway infrastructure operation	272	272	273	273	1,145
ZSSK Contracts on transport services in public interest	265	218	218	218	882
Air transport	8	6	1	6	26
Water transport	0.2	0.2	0.2	0.2	1
Payment for PPP R1* availability	122	124	127	127	510
preparation and completion of PPP projects*	3	5	8	8	27
Central authority - MoTCaRD SR	22	7	15	7	29
Regulation and state supervision	7	5	5	5	21
Total	**847**	**885**	**761**	**827**	**3,429**

Other expenditures preliminarily not included in the spending review

TABLE 50 - Baseline scenario of expenditures of municipalities in the area of transport of economic classification of budgetary classification EKRK (non-consolidated, EUR mil.)

	2014 S	2015 S	2016 R	2016 BS	2017-2020 BS total
610 Wages, salaries, service income and other personal compensations	1	1	1	1	5
620 Premium and contribution to insurance companies	0.4	0.4	0.4	0.4	2
630 Goods and services	63	60	64	60	253
640 Current transfers	117	120	118	120	504

710 Acquisition of capital assets	96	174	105	179	777
720 Capital transfers	5	10	11	11	46
650+810+820	1	2	2	2	7
Total	**284**	**367**	**301**	**373**	**1,593**

TABLE 51 - Baseline scenario of expenditures of higher territorial units in the area of transport of economic classification of budgetary classification EKRK (non-consolidated, EUR mil.)

	2014 S	2015 S	2016 R	2016 BS	2017 to 2020 BS total
610 Wages, salaries, service income and other personal compensations	17	18	8	18	82
620 Premium and contribution to insurance companies	6	7	3	7	31
630 Goods and services	77	85	56	86	359
640 Current transfers	170	170	160	170	715
710 Acquisition of capital assets	28	55	54	56	244
720 Capital transfers	2	3	9	3	15
650+810+820	0	0	0	0	0
Total	**300**	**338**	**291**	**341**	**1,446**

TABLE 52 - Baseline scenario of investments within the framework of CEF - Connecting Europe Facility, EUR mil.

	2016 BS	2017 to 2020 BS total
Investments through the CEF total	**248**	**991**
EU funds	149	595
Co-financing SB + SB except co-financing	99	396

TABLE 53 - Expenditures of NDS and Railways of the SR from own resources

	2014 S	2015 S
NDS: expenditures on the construction of highways and speedways from public resources	20	20
NDS: repair and maintenance of highways and speedways from public resources	17	30
Railways of the SR: expenditures on the reconstruction and modernisation of the railway infrastructure from public resources	99	125
Railways of the SR: expenditures on the administration and maintenance of the railway infrastructure from public resources	143	145

BOX 14 - Methodology of calculation of transport baseline scenario

1. Calculation of the annual expected volume of investments within the OPII 2014 to 2020:

- The volume of finances earmarked within the OPII 2014 to 2020 for the area of transport is in individual years divided as follows: in 2016 to 2018, it is stated according to the approved budget, in 2019 and 2020, the remaining volume of finances is divided uniformly (EU resources and co-financing from the state budget)
- The expenditures within the OPII from the state budget except co-financing are in 2016 to 2018 stated according to the approved budget, in 2018 and 2019 they are calculated as the percentage from the earmarked volume of EU resources in the given year and the percentage share is equal to the average percentage share of state budget expenditures except co-financing from EU resources within the OPII in 2016 to 2018 according to the approved budget

2. **In 2016, payments from OPT are still made, they are included according to the approved budget**

3. **Expenditures of the MoTCaRD SR on transport except OPII and OPT**

   - Investment expenditures are calculated as an average from 2013 to 2015, indexed by GDP*elasticity
   - Expenditures on maintenance and repairs of roads and highways are calculated as the average of the years 2013 to 2015, indexed by CPI
   - ZSSK Contracts on transport services in public interest - in 2016 to 2018, the amount is stated according to the approved budget, in 2019 and 2020 the amount from 2018 indexed by CPI
   - Railways of the SR - contract of railway infrastructure operation - reality 2015 indexed by CPI
   - Payments for PPP R1 availability are stated based on the planned nominal flows
   - The baseline scenario does not take into account the expected costs connected with the PPP project D4/R7
   - Other expenditures are indexed in compliance with the NPC manual

4. **Expenditure of municipalities and higher territorial units on transport**

   - The expenditures are not consolidated, i.e. the volume of finances paid to municipalities and higher territorial units from the resources of the MoTCaRD SR, is not identified, they are indexed in compliance with the NPC manual

5. **Investments within the framework of CEF - Connecting Europe Facility**

   - Within the programme period 2014 to 2020, resources from the financial instrument CEF amounting to EUR 743 mil. were earmarked for the transport sector. The preliminary volume of co-financing from the state budget and the volume except co-financing from the state budget is at an approximate level of 40 %. The mentioned resources (EU and state budget) are not included in the budget of the MoTCaRD SR chapter. The total volume of finances within the CEF is uniformly divided to 2016 - 2020 (EU resources and resources from the state budget).

6. **Integrated regional operational programme 2014 to 2020, Priority Axis No. 1: Safe and ecological transport in regions**

   - The Ministry of Agriculture and Rural Development of the Slovak Republic is in charge of this programme, EU resources amounting to EUR 439 mil. are allocated to Priority Axis No.1. Implementation in the area of transport and transport policies is coordinated with the OPII programme and MoTCaRD SR.
   - Investment expenditures within the IROP programme are not included in the baseline scenario