Stability Programme of the Slovak Republic for 2015 - 2018

April 2015

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Summary

The general government deficit of SR remained below 3% of GDP also during the first year after exiting the excessive deficit procedure. According to the notification of Eurostat, it reached the level of 2.87% of GDP in 2014. The general government deficit will continue declining towards a structurally balanced budget (MTO) also in the following years. The draft budget framework for 2016–2018 anticipates a gradual decrease of the deficit to 1.93% of GDP in 2016, 0.88% of GDP in 2017 and 0.53% of GDP in 2018. This plan is reflected in the average structural consolidation efforts at the level of 0.5% of GDP in 2015–2017 and in achieving MTO already in 2017. Public debt should decrease for the first time since the financial crisis from 53.6% in 2014 to 50% by 2018.

In 2014 Slovakia confirmed the deficit decrease below of 3% of GDP. According to the data notified by Eurostat, the general government deficit reached 2.87% of GDP. The original budgetary target was slightly missed (by 0.2 p.p.), mainly due to the absence of a major part of budgeted dividends based on the decision of Eurostat and due to the corrections of EU funds. These effects were offset by much better tax revenues.

The expected general government fiscal performance in 2015 signals a deficit of 2.55% of GDP. This expected result is close to the budgetary objective which **remains unchanged**. Positive budgetary effects are expected mainly due to higher tax and contribution revenues. Corrections of EU funds remain the main negative risk in 2015.

The budgetary framework anticipates an ongoing reduction of the general government deficit until 2018. The draft budget framework for 2016–2018 includes revised target deficits at the level of 1.93% of GDP in 2016, 0.88% of GDP in 2017 and 0.53% of GDP in 2018. The fiscal target revision is mainly due to a more significant output gap of the Slovak economy than was originally expected.

The new budgetary targets maintain the objective of achieving a structurally balanced budget already in 2017 in the form of the structural deficit at the level of 0.5% of GDP with the average consolidation efforts at 0.5% of GDP in 2015–2017. After one of the historically most significant decreases in the structural deficit in 2013 amounting to 2.0% of GDP, a temporary fiscal expansion of 0.6% of GDP followed in 2014. The subsequent consolidation will continue from 2015 to 2017 until reaching MTO in 2017. The expected result in 2015 and the set fiscal targets correspond to the structural consolidation of 0.4% of GDP in 2015 and 2016 and 0.7% of GDP in 2017. In 2018 the fiscal policy should be neutral and should contribute to the subsequent maintaining of MTO.

Consolidation efforts (ESA 2010, % of GDP)[1]

	2013	2014	2015	2016	2017	2018
1. General government budget balance	**-2.6**	**-2.9**	**-2.5**	**-1.9**	**-0.9**	**-0.5**
2. Cyclical component	-1.1	-1.1	-1.0	-0.7	-0.4	0.0
3. One-off effects	0.0	0.3	0.1	0.0	0.0	0.0
4. Structural balance (1-2-3)	**-1.5**	**-2.1**	**-1.6**	**-1.2**	**-0.5**	**-0.5**
5. Consolidation effort according to EC	**2.0**	**-0.6**	**0.4**	**0.4**	**0.7**	**0.0**
6. Investment clause	-	0.4	-	-	-	-
7. Consolidation effort adjusted by the investment clause (5+6)	**2.0**	**-0.2**	**0.4**	**0.4**	**0.7**	**0.0**

Source: MoF SR

The set fiscal targets are in line with the European fiscal rules. After taking into account the conclusions of the current discussion at the European level regarding the flexibility of the Stability and Growth Pact, the European Commission does not require consolidation measures in 2014 and 2015 in Slovakia[2], given the unfavourable economic conditions (significant economic cooldown). Another flexibility aspect is the direct consideration of public investments. Slovakia is one of the few countries to use the so-called investment clause. In practice it means that the temporary fiscal expansion in 2014 amounting to 0.6% of GDP **did not lead to a breach of European rules**.

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[1] Structural and cyclical indicators are estimated according to the EC methodology focused on international comparability. The results of 2014 in the national methodology, which more accurately reflects the Slovak economic conditions, will be published by the Ministry of Finance in compliance with European and national legislation by the end of June 2015.

[2] The summary matrix of EC requirements to consolidate based on the cyclical development of economies is provided in Annex 5.

Planned consolidation efforts (% of GDP)
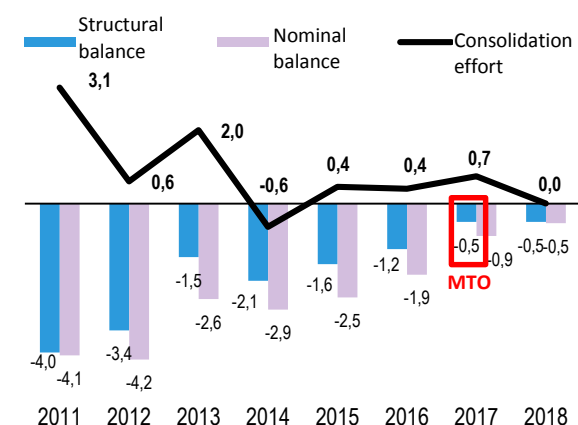
Gross general government debt (% of GDP)
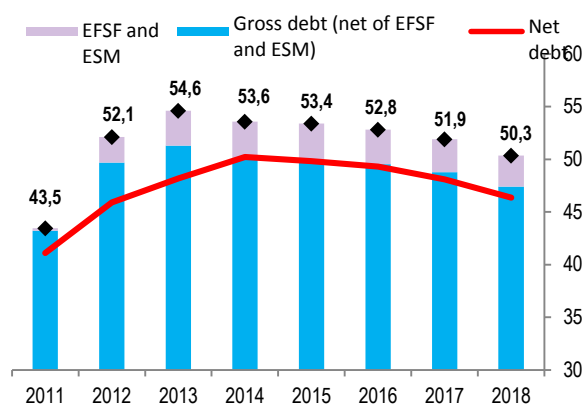
Source: SO SR, MoF SR

Assuming no changes in economic policies, the overall size of measures required to fulfil the budgetary objectives would reach 0.6% of GDP in 2017 and 0.9% of GDP in 2018. To the contrary, in 2016 fiscal space amounting to 0.4% of GDP exists compared to the estimated unchanged economic policies. The space is used mainly to increase investments in municipalities which are no longer limited by the debt brake and to slightly increase intermediate consumption. The current draft budgetary framework has not yet specified measures amounting to 0.5% of GDP needed to achieve the targets in 2017 and 2018.

Overall need for measures to achieve fiscal targets compared to NPC (ESA2010, % of GDP)

	2016	**2017**	**2018**
1. Budget balance – fiscal targets	-1.9	-0.9	-0.5
2. Budget balance – draft GG framework	-1.9	-1.4	-1.0
3. Budget balance – no policy change scenario (NPC)	-1.6	-1.5	-1.4
4. Overall consolidation need (1-3)	**-0.4**	**0.6**	**0.9**
- difference between NPC scenario and draft framework (2-3)	-0.4	0.1	0.4
- difference between draft framework and fiscal targets (1-2)	0.0	0.5	0.5

Source: MoF SR

For the first time since the economic crisis broke out, the public debt decreased in 2014 by 1 p.p. to 53.6% of GDP. Provided the budgetary targets are fulfilled, the debt as a proportion in GDP will gradually decrease in the overall forecast period to the level of 50% of GDP in 2018. In 2015 stabilization and/or a slight decrease of the debt is anticipated. With view to the ongoing consolidation, from 2017 a primary surplus (the general government balance net of interest payments) is expected, which – together with the economic growth – will contribute to a more significant reduction of the debt. At the end of 2014, the net debt reached the level of approximately 50% of GDP and since 2015 will be trending in line with the gross debt trajectory. At the end of the forecast period it should decrease as low as to 46.4% of GDP.

The Stability Programme presents the development of the fiscal position, expected economic development, and a description of the fiscal policy to achieve the set targets in the medium term horizon. It is submitted to the European Commission within the European semester, the objective of which is to improve the coordination of fiscal and structural policies, taking into account the rules set by the Stability and Growth Pact and the Europe 2020 strategy. The Stability Programme is based on the general government budget for 2015–2017 as approved by the National Council of SR in December 2014, as well as on the latest available fiscal position estimate in 2015. For 2016–2018 it draws on the draft budgetary framework of the general government. The Stability Programme presents fiscal objectives for the purpose of European supervision in an understandable and detailed form also for national public discussion.

1   ECONOMIC OUTLOOK AND PROJECTIONS

The Slovak economy in 2014 caught a second wind when its growth accelerated to 2.4% from the previous 1.4% 2013. Unlike in the previous years, the growth was caused by the recovery of domestic demand, with an almost equal contribution of household consumption and investments. Domestic demand led to an increase in imports. Together with a slight slowing down of exports it led to a negative contribution of foreign trade to GDP growth last year[3]. Household consumption growth was related to the improving situation on the labour market and decreasing prices. The reduction of commodity prices and the weak transmission of demand factors in the price level were the main causes of the price fall in 2014.

1.1   External environment

The economic development of the two largest world economies has diverged since the crisis in 2009. The US economy has recovered quite quickly from the crisis. Since 2012 the growth of the US economy has not dropped under 2%. Unemployment in the USA is currently ranging below the long-term average. The Eurozone, however, is going through a much different development pattern and is struggling harder to cope with the consequences of the crisis. Economic growth in Eurozone countries is uneven and is accelerating rather slowly. Unemployment is ranging just below historical highs and in some countries on the periphery it has surpassed the level of 20%.

However, the German economy, i.e. our most important trading partner, is maintaining a satisfactory condition. The positive growth structure of the German economy together with the quickly growing neighbouring countries outside of the Eurozone also helped the growth of the Slovak economy in 2014. The development of the external environment should slightly improve in the upcoming years as regards the gradual acceleration of the economic growth of our main trading partners.

A drop in oil prices and the stabilization of consumer confidence was reflected in the improvement of leading indicators in the first months of this year. Based on the leading indicators (PMI) and the economic sentiment indicators we expect a slight acceleration of economic growth in Eurozone countries in the first quarter of 2015. In 2015, the Eurozone economy should grow faster than last year. The space for a more significant acceleration is limited by high unemployment together with continuing structural and institutional problems faced by the Eurozone.

In its winter forecast, the EC estimates that the growth in Eurozone counties and in EU should accelerate in the next two years. According to the forecast, the Eurozone should achieve growth of 1.3% in 2015. The growth in Germany should also accelerate up to the level of 2% in 2016. The estimated development of the external environment in the MoF SR forecast differs only marginally from the EC forecast.

TAB 1 – External assumptions for the current forecast

	MFSR			EK		
	2014	2015	2016	2014*	2015*	2016*
Economic growth						
EU	1.2	1.7	2.1	1.3	1.7	2.1
Eurozone	0.8	1.2	1.7	0.8	1.3	1.9
Germany	1.4	1.2	1.6	1.5	1.5	2.0
Czech Republic	2.4	2.6	2.6	2.3	2.5	2.6
Poland	3.2	3.2	3.0	3.3	3.2	3.4
Hungary	3.0	2.3	2.1	3.3	2.4	1.9
Long-term interest rates (10Y)						
Germany	1.2	0.6	1.1	-	-	-
ECB key interest rate	0.2	0.1	0.1	-	-	-
Exchange rate (USD/EUR)	1.33	1.13	1.11	1.33	1.17	1.17
Oil prices (Brent, USD/bl)	99.5	56.4	64.7	99.7	53.0	61.5

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[3] For more information see the IFP paper: Export in 2014: six of one, half-dozen of another (http://www.finance.gov.sk/Default.aspx?CatID=10135)

Oil price (Brent. EUR/bl)	74.6,	49.8	58.2	75.0	45.3	52.6
p.m.: Economic growth in Slovakia	*2.4*	*2.9*	*3.6*	*2.4*	*2.9*	*3.6*

*Source: MoF SR February 2015 *EC Winter Forecast February 2015*

During 2014, the situation on the financial markets was positive. Low and in some countries even negative interest rates increased bank activities as regards payments of three-year repo operations (LTRO) from the previous years. Stock markets were on the rise during the entire year, with some corrections mainly as a result of the geopolitical destabilization. Growth was supported by the low interest rates and positive macroeconomic news. In the course of 2014, the Euro was relatively continually depreciating against the US Dollar, as well as against most other currencies with the exception of the Japanese YEN. The EUR/USD exchange rate dropped from 1.36 at the beginning of 2014 almost to 1.23 at the end of the year. This trend also deepened in 2015 when the Euro weakened to the 12-year minimum. The yields of the bonds of Spain and Italy, which represented major risks for the fate of the Eurozone, continued decreasing sharply and steadily got below the level of 2%. On the contrary, the yield of Greek 10-year governmental bonds dramatically increased in the second half of 2014 mainly due to doubts regarding the political development and sustainability of the general government debt. This trend also continues in 2015.

CHART 1 – Yields from bonds of selected countries from 2010
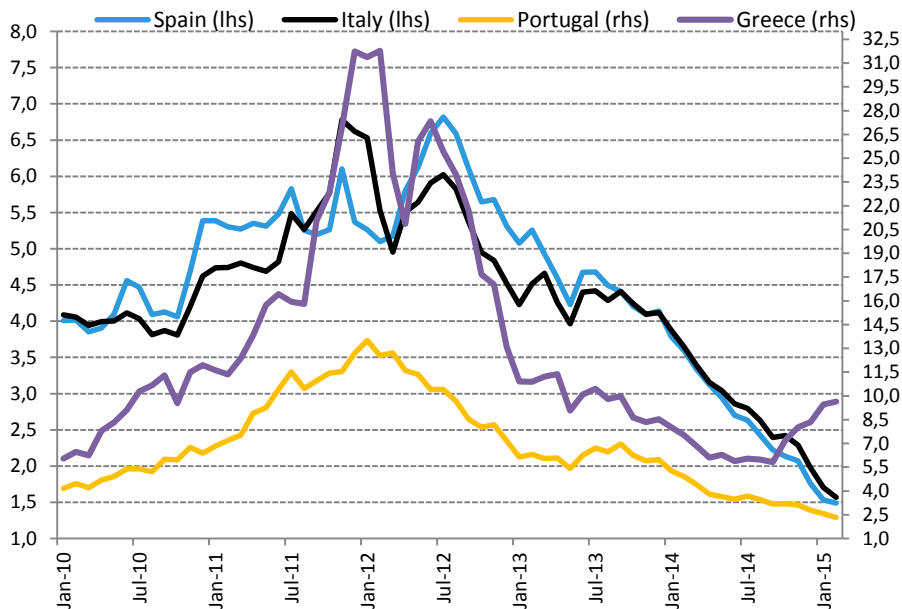
Source: MoF SR

In the course of 2014, the oil price saw a significant drop down to 63.3USD/bl from 110.7 USD/bl (Brent oil) at the beginning of 2014. The oil price drop was mainly caused by supply factors: a surplus on the world markets caused by the extensive oil extraction carried out by OPEC and the discovery of new oilfields or improvement of the methods of extraction, mainly in the USA. However, apart from oil price decreases in dollar terms, the Eurozone is also susceptible to EUR/USD fluctuations. The depreciation of the EUR against the USD that started in April 2014 and endured until the end of the year led to a slower reduction of oil prices on the European market. The dramatic drop of the oil price supported the market anticipation regarding low inflation.

The oil price collapse together with anemic growth of demand caused the price development in the Eurozone to slip into deflation. The January decrease of prices in the Eurozone is the culmination of the deflationary trend observed since 2013. Inflation in the Eurozone has been deviating from the monetary policy target in the long run. The current projections estimate that inflation will also range below the inflation target in 2015 and 2016. The persisting low inflation is complicating the fiscal consolidation strategy and debt reduction. The European Central Bank (ECB) reacted to the insufficient inflation development by the quantitative easing programme.

CHART 2 – BRENT oil (USD/bl) and EUR/USD
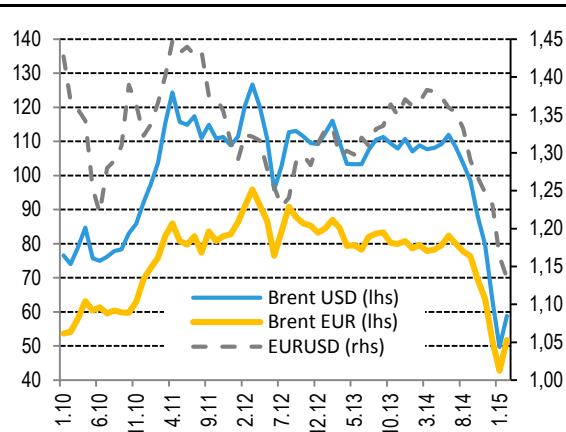
Source: MoF SR, ECB

CHART 3 – Drop in the annual price increase in the Eurozone
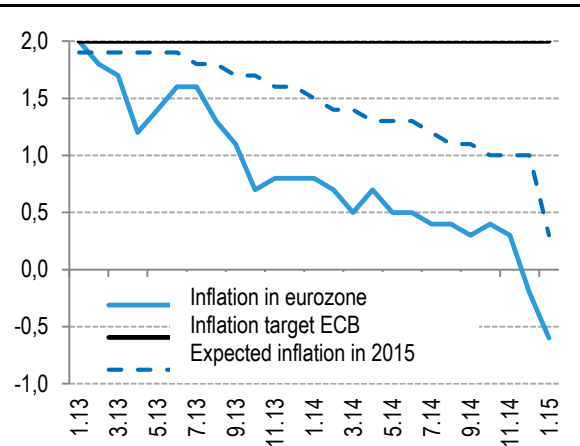
Source: MoF SR, ECB

The monetary policy of most of the central banks in 2014 continued in its expansion. In the course of 2014, the ECB changed the key interest rate two times, i.e. in June from 0.25% to 0.15% and in September further to 0.05% by which it deepened the historical minimum. Moreover, as a reaction to deflation risks in the Eurozone, the ECB decreased the deposit rate from zero to -0.2% in September 2014. The announced quantitative easing of the ECB consists of combined purchases of securities emitted by the private and public sector in the amount of EUR 60 billion per month at least until September 2016. The ECB can basically also purchase obligations with a negative yield to maturity under the condition that the yield is higher than the rate of the individual sterilization transactions. In October 2014, FED terminated the five-year programme of quantitative easing in the course of which it increased its assets by almost USD 3.5 trillion. In the course of 2014, the American FED left the key interest rates without any changes. According to the financial markets, the nearest increase in the rates is anticipated in the course of 2015.

1.2   Economic development in Slovakia in 2014

The growth of the Slovak economy speeded up to 2.4% in 2014, mainly thanks to the recovery of domestic demand. Improvement of the situation on the labour market together with decreasing prices led to an increase in the real disposable income supporting the household consumption.Investments began to grow after two years of falling, which was supported by both private and public sectors. Government consumption also positively contributed to GDP growth. Greater domestic demand led to increased imports that were growing faster than exports. Thus for the first time in five years, foreign trade contributed slightly negatively to GDP growth.

CHART 4 – GDP, adjusted for seasonal and one-off effects*
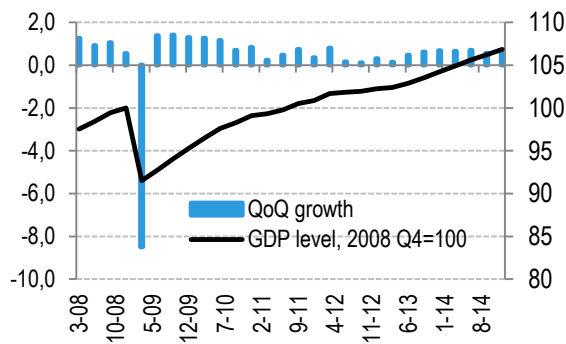
*GDP adjusted for cigarettes stockpiling and one-off VAT payments after the final inspection of the R1 highway   Source: SO SR, calculated by MoF SR

CHART 5 – Contributions to GDP growth in 2013 – 2018
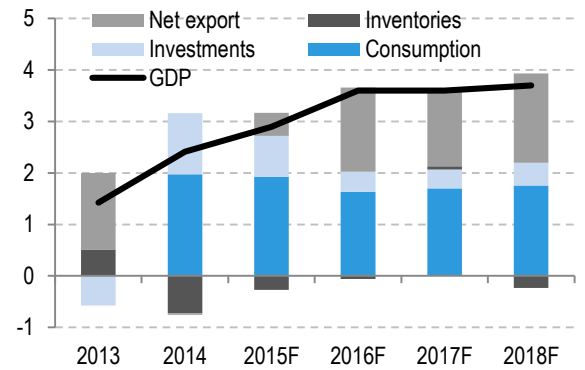
Source: SO SR

CHART 6 – Loans to households and to non-financial corporations (stock at the end of the month, EUR bn.)
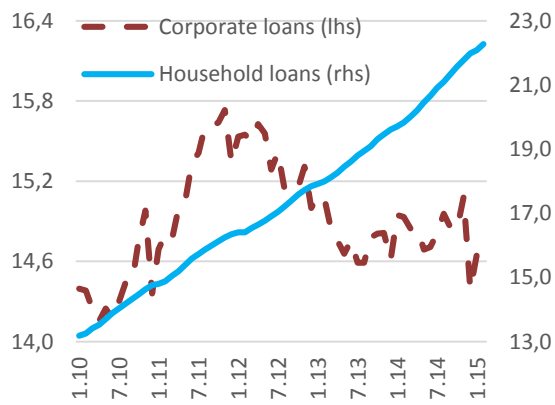
Source: NBS

CHART 7 – YoY growth of private sector employment and GDP growth (in %)
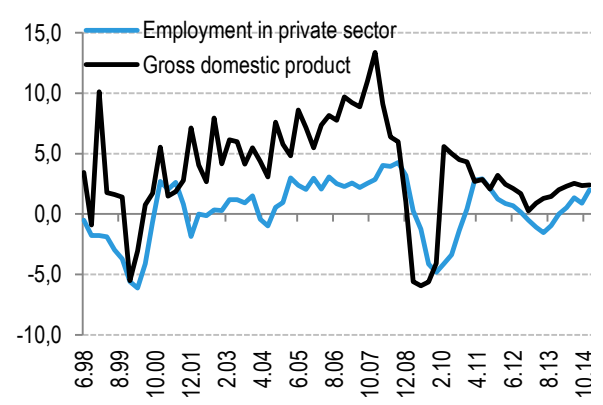
Source: MoF SR

Domestic demand growth in 2014 also contributed to the labour market recovery. According to the ESA methodology the average employment increased by 1.4% to the level of 2,223 thousand persons in 2014. On a year-on-year basis, approximately 31 thousand new jobs were created in the economy. They were created mainly in the industrial sector and also in trade and the general government. Employment mainly accelerated at the end of the year, which also created a base for the positive development in 2015.

The substantial growth of employment was reflected in the reduction of the unemployment rate. It decreased in 2014 by 1 p.p. to the level of 13.2%[4]. The issue of long-term unemployment still continues, when approximately two out of three jobless have been unemployed for longer than one year. The Government responded to this situation by implementing an allowance in health contributions for low-income employees and a temporary retention of benefit in material need for the long-term unemployed who find a job.

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[4] According to the methodology of the Central Office of Labour, Social Affairs and Family (COLSAF) the registered unemployment rate decreased to 12.8% in 2014. In the overall horizon, the estimate is lower than in the methodologies of LFS.

CHART 8 – Contributions of selected sectors to unemployment change (YoY changes in p.p.)
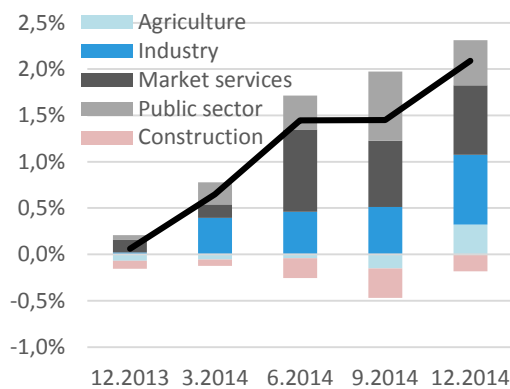
CHART 9 –YoY average wage growth (%)
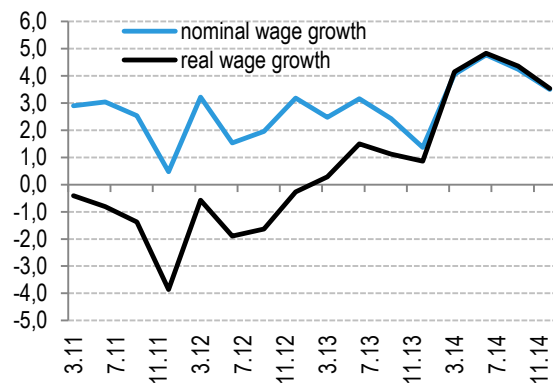
Source: SO SR

Source: SO SR

The average nominal monthly wage of an employee in the economy amounted approximately to EUR 858 in 2014. On the year-on-year basis it increased by 4.1%, which represents the fastest growth since 2008. After several years of lagging growth of wages or labour costs behind productivity, the opposite development was experienced last year. Wages were growing the fastest in education, healthcare, industry and services. Due to the slight decrease in prices the real wage increased by 4.2%.

In 2014 the current account balance decreased to 0.2% of GDP[5]. The trade balance surplus also slightly decreased, however it still shows high positive values. Although the higher growth of private consumption and investments in constant prices was reflected in faster growing imports, it slowed down in nominal terms due to decreasing prices. The export of goods also slowed down. The automotive industry was the main cause of the weaker performance, as in addition to supply factors it was also negatively affected by the shortfall of demand from Russia. Within the central-European region, Slovak exporters were slightly losing their price competitiveness also due to the strengthening of the real effective exchange rate. The surplus of services decreased, as the nominal export of services was decreasing faster than their import. An increase in revenues leaving SR and flowing to foreign countries led to a significant deepening of the negative revenue balance. The transfer balance slightly decreased.

CHART 10 – External imbalances – components of the CAB (% of GDP for the last 12 months)

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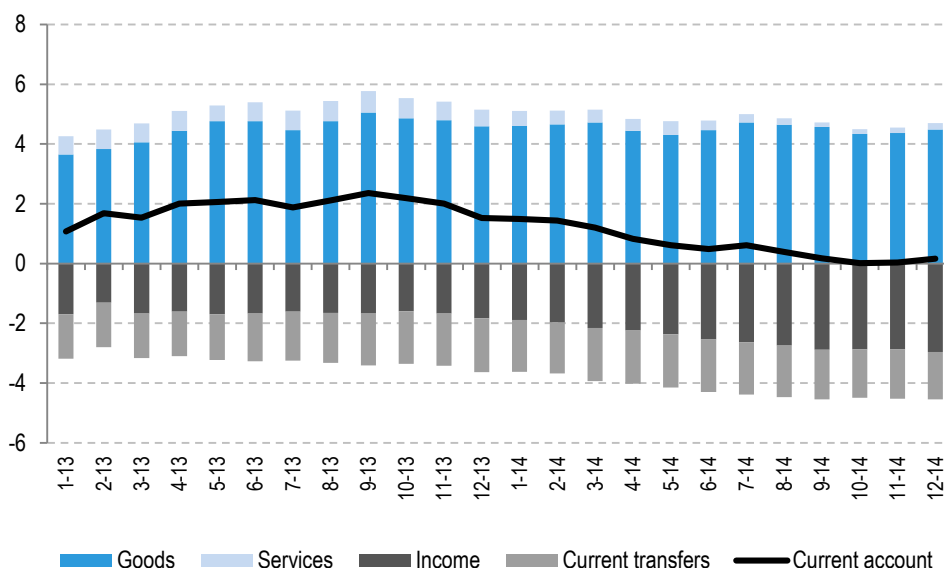
[5] At the beginning of 2015, NBS implemented a new methodology for the compilation of balance of payments statistics, which was accompanied by a revision of the foreign trade data (transactions of non-residents registered in SR only for VAT purposes).

The price level decreased in 2014. Inflation in Slovakia dropped down to -0.1% (HICP), copying the deflation development in the Eurozone. This decrease was caused by domestic and foreign factors. As regards foreign factors, mainly the lowering prices of oil, energy commodities and agricultural products on the world markets together with the disinflation trend coming from the Eurozone contributed to the inflation decrease. The transmission of domestic demand factors in the price level in 2014 was paralysed. The positive results on the labour markets did not transmit into the growth of prices for services. Therefore the development of net inflation copied the overall inflation dynamics.

1.3   Medium-term economic forecast

The updated official MoF SR forecast from February 2015 assumes the 2015 economic growth to reach 2.9%[6]. The drop in oil prices means a positive supply shock which will help companies in the form of lower costs and contribute to higher real household revenues. Increasing household consumption will reflect the continuing improvement of the labour market, consumers' trust and only a very slight decrease of savings from last year's record level. Investments will grow mainly in the private sector. In the second half of the the external demand will recover again and with it the related exports of goods and services. GDP growth will accelerate in the following years and its structure will be more balanced, as net export will again show a more significant contribution.

TAB 2 – Forecast of selected indicators of the Slovak economy for the budgetary framework for 2016–2018

No.	Indicator		Actual			Forecast		
		Unit	2013	2014	2015	2016	2017	2018
1	GDP, current prices	EUR bn.	73.6	75.2	77.3	81.3	85.7	90.6
2	GDP, constant prices	%	1.4	2.4	2.9	3.6	3.6	3.7
3	Final consumption of households and NPISH[7]	%	-0.8	2.2	2.8	2.7	2.8	2.9
4	Final general government consumption	%	2.4	4.4	2.3	1.0	1.2	1.3
5	Gross fixed capital formation	%	-2.7	5.7	3.7	1.8	1.7	2.1
6	Export of goods and services	%	5.2	4.6	1.4	5.9	6.0	6.1
7	Import of goods and services	%	3.8	5.0	1.0	4.5	4.9	4.8
8	Output gap (share of the potential output)	%	-1.7	-1.3	-1.1	-0.5	0.0	0.8
9	Average monthly wage in the economy (nominal growth)	%	2.4	4.1	2.6	3.9	4.4	4.6
10	Average employment growth, LFS	%	0.0	1.5	0.7	0.7	0.8	0.9
11	Average employment growth, ESA95	%	-0.8	1.4	0.6	0.7	0.7	0.8
12	Average unemployment rate, LFS	%	14.2	13.2	12.9	12.2	11.4	10.5
13	Average registered unemployment rate	%	14.1	12.8	11.7	11.0	10.3	9.4
14	Harmonized index of consumer price (HICP)	%	1.5	-0.1	0.0	1.6	1.8	2.0
15	Current account balance (share of GDP)[8]	%	1.4	0.2	1.9	2.9	3.5	4.5

The labour market will continue in the positive development from 2014. Economic growth will lead to the substantial growth of employment by 0.6% and it will accelerate further in the upcoming years (according to ESA 2010). Thus approximately 14 thousand new jobs will be created, mainly in the service sector and in the building industry. The rate of employment growth in industry will decelerate and return to growth mainly by means of labour productivity. Thanks to this development the unemployment rate will decrease under 13% (LFS) in 2015 and by the end of the forecast period it will attack the level of 10%.

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[6] As regards the development of soft indicators of the main business partners of Slovakia, positive risks of the forecast are slightly predominating.

[7] In the following text, household consumption will mean the consumption of households and non-profit institutions serving households (referred to as NPISH).

[8] Real CAB according to the BPM6 methodology. The CAB forecast is based on non-reviewed data according to the BPM5 methodology.

Real wages will grow again, although more slowly than in last year. However, with the level of 2.6%, it will still represent the second biggest growth after the crisis. Their growth is again based on the stagnating inflation which will transmit into the wage negotiations only partially. The wage growth will be supported by a faster growth of labour productivity and as regards institutional factors, it will also be positively influenced by a more significant growth of the minimum wage. Wages should increase evenly across all sectors. In the following years, labour costs and productivity should gradually be alligned, which will represent a gradual acceleration of the wage dynamics in nominal terms.

Prices will not grow in 2015 either. The YoY growth of consumer prices is expected to reach 0%. The decrease of the oil price will support the deflation development experienced in recent months, which will endure until the middle of this year. The price level stagnation is supported by the January decrease of gas, electricity and heat prices and fuel prices will also significantly decrease. Domestic demand pressures together with the looser policy of the ECB will bring about a gradual acceleration of price growth in the second half of the year, mainly as regards services. Despite the gradual acceleration of inflation, consumer prices in 2016–2017 will grow slower than indicated by the high rate of growth of the economy. Inflation will converge to the standard level of 2% growth as late as at the end of the forecast period in 2018.

The current account balance surplus will start to grow again from 2016. Trade in goods will be the main contributor to this growth. The export of goods will profit from the recovered growth of trading partners and will regain its growing trajectory. The repatriation of foreign investment profits will lead to a further deepening of the balance of income deficit, which will not be compensated by the increasing trade surplus.

CHART 11 – External imbalances – components of the CAB (in % of GDP)[9]
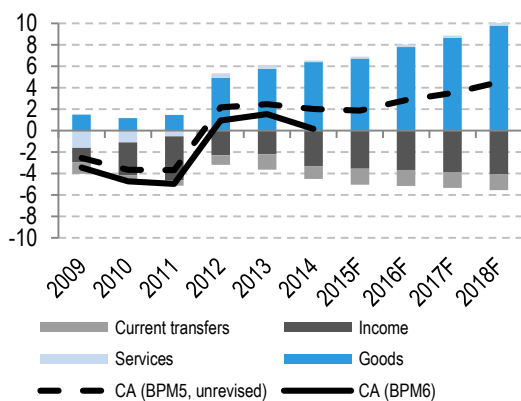
Source: NBS, MoF SR

CHART 12 – Contributions to overall growth of CPI – YoY contribution of CPI components (p.p.)
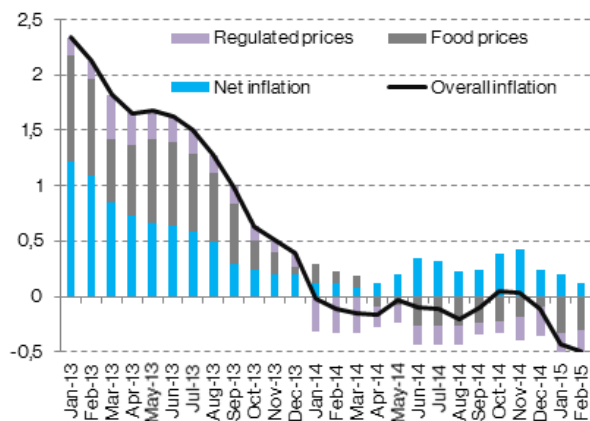
Source: IFP

The main risks associated with the forecast[10]

The risks of the forecast are balanced and depend on the performance of the external environment. Positive risks in nominal values are related to the possible effects of the quantitative easing carried out by the ECB. The real economy can react more significantly to the recovering Eurozone. This possibility is emphasised by the leading indicators and nowcasting values for the first half of 2015. On the other hand, the threat of deflation in the Eurozone countries is still in the forefront and Eurozone stability is also being tested by means of a political dialogue regarding the restructuring of the Greek public debt. The escalating conflict in Ukraine brings other risks in the form of a possible decrease of exports to Russia.

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[9] The CAB forecast is based on non-revised data according to the BPM5 methodology (dashed line).
[10] Certain risk scenarios are contained in part III.

1.4   Cyclical development of the economy

According to the EC methodology and based on the data forecast by the MoF SR, the growth of potential output in 2015 will amount to 2.6% and in the following years will slightly accelerate to 2.8%. All production factors should positively contribute to the potential GDP growth. The total factor productivity (TFP), which should slightly accelerate during the forecast period, should represent the greatest contribution. On the other hand, the contribution of potential employment will be gradually fading, which stems from the demographic development. Despite the recovery, capital stock will not reach pre-crisis growth rates.

CHART 13 - Contributions of production factors to potential output growth (p. p.) **– EC approach**
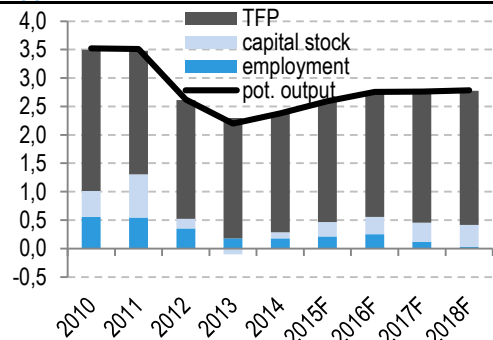
TAB 3 – Contributions of production factors to potential output growth – EC approach

	Pot. GDP rowth, %)	TFP*	Capital stock	Labour
2010	3.5	2.5	0.5	0.6
2011	3.5	2.2	0.8	0.5
2012	2.6	2.1	0.2	0.4
2013	2.2	2.1	-0.1	0.2
2014	2.4	2.1	0.1	0.2
2015F	2.6	2.1	0.3	0.2
2016F	2.8	2.2	0.3	0.3
2017F	2.8	2.3	0.3	0.1
2018F	2.8	2.4	0.4	0.0

* total production factor productivity   *Source: MoF SR*

The output gap according to the EC methodology will reach -2.6% of the potential output in 2015. With view to its significant size, it will close as late as at the end of 2018. Beginning with 2016, the speed of the closing of the output gap will be evenly distributed thanks to the anticipated stable growth of GDP.

CHART 14 – Output gap (% of potential GDP) – EC approach
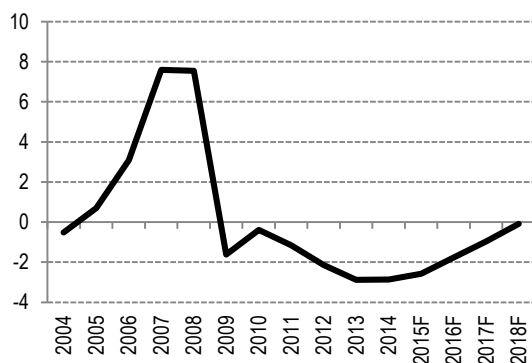
TAB 4 – Output gap – EC approach

	GDP (real growth, %)	Pot. GDP (growth, %)	Output gap (% pot. GDP)
2010	4.8	3.5	-0.4
2011	2.7	3.5	-1.2
2012	1.6	2.6	-2.1
2013	1.4	2.2	-2.9
2014	2.4	2.4	-2.9
2015F	2.9	2.6	-2.6
2016F	3.6	2.8	-1.8
2017F	3.6	2.8	-1.0
2018F	3.7	2.8	-0.1

Source: MoF SR

BOX 1 – 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 EC estimate in the EC methodology is decisive in assessing the structural balance for the purposes of Economic fiscal rules. The MoF SR discloses its own methodology within the Macroeconomic Forecasts Committee.

According to the MoF SR estimates, the growth of the potential of the economy in 2015 will accelerate to 2.7% compared to 2.1% in the previous year. It is mainly caused by the increasing total factors of productivity (TFP) pulled by the launching of new technologies in the automotive industry. The contribution of potential employment will also increase, as this year it will experience a one off stimulus of labour supply thanks to the implementation of deductible health and social insurance contributions for low-income employees. In the medium-term horizon, the MoF SR anticipates a slightly higher potential compared to the EC in the amount of 3% per annum.

CHART 15 – Contributions of production factors to potential output growth (p. p.) – MoF SR approach

total production factor productivity
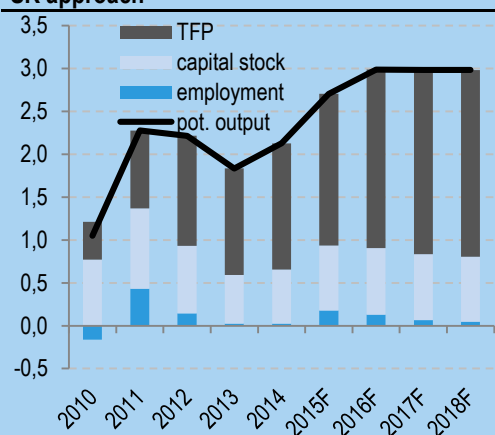
TAB 5 – Contributions of production factors to potential output growth – MoF SR approach

	Pot. GDP (growth, %)	TFP*	Capital stock	Labour
2010	1.0	0.4	0.8	-0.2
2011	2.3	0.9	0.9	0.4
2012	2.2	1.3	0.8	0.1
2013	1.8	1.2	0.6	0.0
2014	2.1	1.5	0.6	0.0
2015F	2.7	1.8	0.8	0.2
2016F	3.0	2.1	0.8	0.1
2017F	3.0	2.2	0.8	0.1
2018F	3.0	2.2	0.8	0.0

Source: MoF SR

The acceleration of growth of the real GDP in 2015 to 2.9% will be reflected in a slight closing of the output gap to -1.1% of the potential output. However, in the following years we expect that the growth of GDP will be faster than the growth of the potential of the economy and the output gap will close in 2017.

CHART 16 – Output gap (% of potential GDP) – MoF SR approach
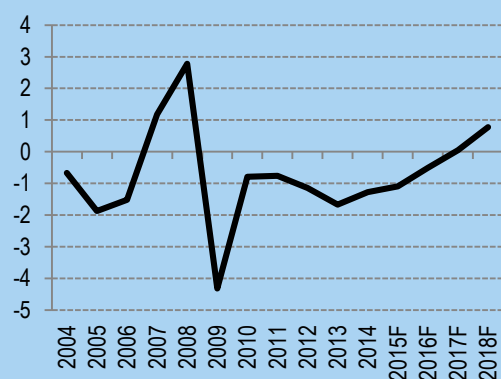
TAB 6 – Output gap – MoF approach

	GDP (real growth, %)	Pot. GDP (growth, %)	Output gap (% pot. GDP)
2010	4.8	1.0	-0.8
2011	2.7	2.3	-0.8
2012	1.6	2.2	-1.1
2013	1.4	1.8	-1.7
2014	2.4	2.1	-1.3
2015F	2.9	2.7	-1.1
2016F	3.6	3.0	-0.5
2017F	3.6	3.0	0.0
2018F	3.7	3.0	0.8

Source: MoF SR

The differences in the MoF SR and EC methodologies apply to almost all items of the calculation, even though 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 when processing data for 2005–2008, 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 approach 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 2007–2008 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 labour costs over the productivity growth. Overestimation of the output gap values by EC in the pre-crisis period led to an underestimation of the demand shock effect in 2009, which negatively implies a significantly more open negative output gap in the current period of 2014–2015 compared to 2009.

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

Compared to the forecasts issued in the fourth quarter of 2014 (OECD) the forecasts issued in this year (IFP, EC, NBS, IMF) estimate a slightly faster growth of GDP in SR in 2015 and 2016. The main reason is the positive view on the development of the external environment and the inclusion of the demand shock effect stemming from the oil prices drop. Older forecasts also estimate a significantly higher inflation rate in 2015. Despite similar anticipations regarding the development of the external environment, the MoF SR forecast is more optimistic as regards the growth forecast for 2015, while the main reason is a higher transmission of lower oil prices in the household consumption.

TAB 7 – Comparison of MoF's and other institutions' forecasts

	2015	2016	2017
Real GDP growth (%)			
MoF SR	**2.9**	**3.6**	**3.6**
Macro committee (median)	2.6	3.1	3.4
NBS	2.9	3.6	-
EC	2.5	3.2	-
OECD	2.3	2.6	-
IMF	2.9	3.3	3.2
HICP (%)			
MoF SR	**0.0**	**1.6**	**1.8**
Macro committee (median)	0.2	1.6	2.1
NBS	0.0	1.4	-
EC	0.4	1.3	-
OECD	1.6	1.9	-
IMF	0.0	1.4	1.7
Current account (% of GDP)			
MoF SR	**1.9**	**2.9**	**3.5**
Macro committee (median)	1.8	1.7	1.7
NBS	1.8	1.6	-
EC	0.8	0.7	-
OECD	0.1	0.1	-
IMF	0.4	0.4	1.1

Source: MoF SR (February 2015), Macroeconomic Forecasts Committee (January 2015), NBS (January 2015), EC (February 2015), OECD (November 2014) a IMF (April 2015)

2   PUBLIC FINANCE POSITION

According to the data notified by Eurostat, the general government deficit reached 2.87% of GDP in 2014. The original budgetary objective was slightly exceeded (by 0.2 p.p.), mainly due to the absence of the major part of budgeted dividends based on the decision of Eurostat and due to the corrections of EU funds. These effects were compensated by much better tax revenues.

The estimated general government deficit in 2015 is at the level of 2.55% of GDP. Compared to the approved budget, the anticipated deficit is approximately 0.1 p.p. higher. The positive budgetary effects are expected mainly from higher tax and contribution revenues. The corrections of EU funds are the main negative effect in 2015.

The decreasing of the deficit will continue also in the following years. The draft budget framework for 2016–2018 anticipates a gradual decrease of the deficit to 1.93 % of GDP in 2016, 0.88 % of GDP in 2017 and 0.53 % of GDP in 2018. Compared to the GG budget for 2015–2017, revisions increased the deficit targets in years 2016 and 2017 by approximately 0.5 p.p. The loosening of the targets is mainly based on the upward revision of output gap estimates of the Slovak economy.

CHART 17 – Planned consolidation effort (% of GDP)
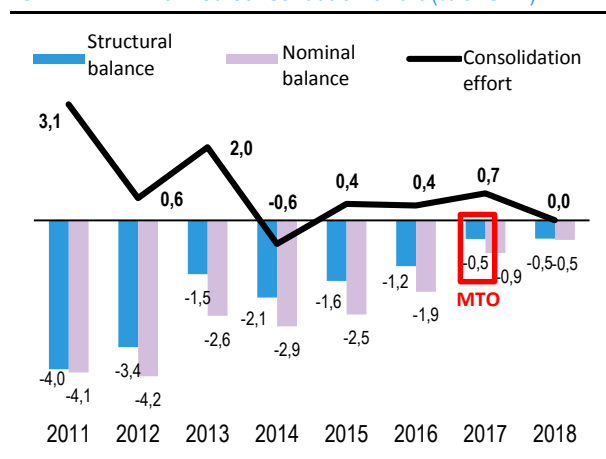
CHART 18 – Gross general government debt (% of GDP)
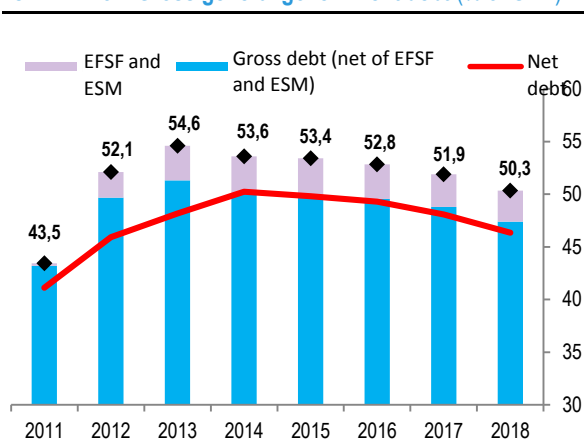
Source: SO SR, MoF SR

The fiscal objectives and preliminary fiscal performance of the general government are in compliance with the European fiscal rules. After one of the historically most significant drops in the structural deficit in 2013 amounting to 2.0% of GDP, a fiscal expansion of 0.6% of GDP was achieved in 2014. Slovakia is one of the few countries which makes use the investment clause within the flexibility in the Stability and Growth Pact. The required consolidation effort in 2014 is therefore reduced by the level of adjusted public investments. Due to this the temporary fiscal expansion does not represent a breach of the preventive part of the Pact. Subsequently, the consolidation will progress from 2015 to 2017 by reaching MTO in 2017. The expected result in 2015 and the set fiscal objectives correspond to the structural consolidation amounting to 0.4 % of GDP in 2015 and 2016 and 0.7 % of GDP in 2017. The neutral fiscal policy in 2018 should contribute to maintaining MTO.

Assuming no changes in economic policies, the overall size of measures required to achieve the budgetary objectives would reach 0.6% of GDP in 2017 and 0.9% of GDP in 2018. To the contrary, fiscal space amounting to 0.4% of GDP exists under the condition of unchanged economic policies in 2016. The space will be used mainly to increase investments in the municipalities which are no longer limited by a debt brake[11] and to slightly increase intermediate consumption. The current draft budget framework has so far not specified measures amounting to 0.5% of GDP, needed to achieve the fiscal targets in 2017 and 2018.

The planned consolidation should not significantly limit economic growth. In 2016 the used fiscal space should contribute to GDP growth by 0.2 p.p. The subsequent fiscal consolidation based on the fiscal targets will decrease GDP growth by 0.5 p.p. in 2017 and by 0.1 p.p. in 2018. This is reflected by the fiscal multiplier of 0.57 in 2016 and 0.46 in 2017. In 2018 the fiscal multiplier will reach 0.39.

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[11] Upon the approval of the GG budget for 2015–2017 by the Government in October 2014, provisions concerning a debt brake for self-governing regions were applicable.

Provided the fiscal targets are achieved, the gross debt level should remain securely below 55% of GDP in the medium-term horizon (see Box 2). In 2015, the general government debt is forecasted to reach 53.4% of GDP. In the following years the debt should be decreasing by approximately 1 p.p. per year. In 2018, the debt is estimated to decrease to the level of 50 percent.

BOX 2 - Application of provisions of the Fiscal Responsibility Act

The official data for Slovak gross debt at the end of 2014 were notified on 21 April 2015. In the national accounts methodology, the gross debt reached 53.6% of GDP in 2014 and is stays within the second debt brake threshold (53% of GDP to 55% of GDP). According to the constitutional Fiscal Responsibility Act[12] the Government has the following sanction duties after surpassing 53% of GDP:

- The Government will submit draft measures to the National Council of SR, adopted to decrease the gross debt.
- The wages of Government members will be reduced to their levels in the previous year (provided that they were lower).

The Government submitted a document to the National Council of SR in November 2014, justifying the level of debt and proposed measures for its reduction. The document identified three main factors that should contribute to lowering the gross debt:

1. **Measures to reduce the deficit included in the general government budget proposal for 2015–2017.** The most significant income measures included in the budget were the amendment of the income tax and the maintaining of the value added tax rate.
2. **Cash reserve management strategy –** Another option how the Slovak Government can partially influence the amount of gross debt is through the cash reserve management strategy. Active liquidity management is made possible by a sound situation on the financial markets, which has been reached thanks to the recovery of public finance and a credible plan of achieving MTO.
3. **Macroeconomic development –** Recovery of GDP growth and inflation converging to the trend levels also contribute to the debt reduction. Both factors have positively influenced the debt level recorded as a share of the output of the Slovak economy, expressed by means of the gross domestic product.

2.1   General government balance in 2014

After a significant consolidation of public finances in 2013, a temporary loosening of the fiscal policy occurred in 2014. The general government deficit reached 2.87% of GDP. This represents a slight undershooting of the target compared to the budgetary deficit of 2.64% of GDP. The difference has mainly been caused due to the non-recognizing of a large part of dividends as accrual income by Eurostat according to the ESA2010 methodology. Negative effects were – to a significant extent – compensated by much more efficient tax collection than expected in the general government (GG) budget.

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[12] 493/2011 Coll.

TAB 8 – Development in 2014 (ESA 2010)

	EUR mill.	% of GDP
1. General government balance – budget	-2,000	-2.64
Changes in total	-156	-0.2
Positive impact	**1,460**	**1.9**
Higher tax and levy revenues	695	0.9
Savings from transferred expenditures	340	0.5
Savings on the co-financing EU funds	257	0.3
Lower contribution paid to the EU budget	167	0.2
Negative impact	**-1,616**	**-2.1**
Non-tax revenue shortfall (the most significant items)	-1,014	-1.3
of which: Shortfall of revenues from dividends	-714	-0.9
of which: SPP	-609	-0.8
of which: Lower income from the sale of emission quotas and from the capital revenues of the state budget	-135	-0.2
of which: Shortfall of revenues from the digital dividend	-86	-0.1
of which: Postponement of Repayment of the returnable subsidy provided to Cargo in 2015 (instead of 2014)	-78	-0.1
Higher expenditures of the public health system	-160	-0.2
Higher expenditures of the Social Insurance Agency	-115	-0.2
of which: one-off payment of pensions to the armed forces	-58	-0.1
EU corrections	-111	-0.1
Fiscal performance of the newly classified government entities	-48	-0.1
Fiscal performance of the state funds	-27	-0.0
Other factors	-141	-0.2
General government budget balance – outcome	-2,157	-2.87

Source: MoF SR

Positive effects:

- **Tax and social security contribution revenues:** Compared to the budget, which already included a reserve of EUR 250 million for more efficient tax collection, the tax and social contribution revenues of the general government were higher by **EUR 695 million**[13]**.** The main positive factor was the development of the tax collection effectiveness and the development of the economic environment also had a slightly positive effect. The ongoing increasing efficiency of value added tax (VAT) collection was the most significant factor of the higher tax revenues. The positive development of VAT was better by EUR 116 million, beyond the approved budget already containing the mentioned reserve for a more efficient tax collection (EUR 250 mill.). The effectiveness of the corporate tax collection also increased with revenues higher by EUR 268 million. A higher effectiveness was also recorded as regards excise taxes from mineral oils and tobacco. The positive trend on the labour market led to a better performance of labour taxes (contributions and personal income taxes). The overall social security contribution payments exceeded the sum estimated in the budget by EUR 181 million.

TAB 9 – Change in GG tax revenues compared to the budget in 2014

	EUR mill.	in % of GDP
Value added tax	116	0.2
Corporate income tax	268	0.4
Excise taxes	71	0.1
Personal income tax	46	0.1
Other taxes and sanctions	14	0.0
Social Security Contributions (incl. sanctions)	181	0.2
Total	**695**	**0.9**
p.m.: In total compared to the forecast of the Tax Revenue Forecasts Committee (TRFC)	945	1.3
p.m.: Value added tax compared to the forecast of TRFC	366	0.5

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[13] They were adjusted for the methodical impact of recording of tax credit according to ESA2010, which was not considered in 2014 upon creation of the general government budget.

- **Savings from the expenditures transferred to the subsequent years:** According to the Budgetary Rules Act of the general government[14] it is possible to transfer state capital expenditures, as well as selected state budget expenditures to the next two years. With view to that, total savings at the level of **EUR 340 million** occurred compared to the budget in 2014. The total amount is a sum of the negative influence of transferred expenditures between 2013 and 2014 at the level of EUR 187 million. and the positive effect of transferred expenditures between 2014 and 2015 in the amount of EUR 527 million.
- **Savings on the co-financing of EU funds:** The current absorption of EU funds in 2014 reached 63.5%. The accompanying effect of lower expenditures on co-financing led to savings of **EU 257 million** compared to the budget.
- **Lower contributions paid to the EU budget:** Based on the particular amendments of the EU budget[15] for 2014 and the transition to the ESA 2010 methodology, savings amounting to EUR 87 million occurred. The total contributions paid to the EU are lower by **EUR 167 million** compared to the budget**.**

Negative influences:
- **Shortfall of non-tax revenues:** The general government deficit was mostly influenced by the shortfall of non-tax revenues mainly in relation to the decisions of Eurostat. **The overall shortfall of the most significant non-tax revenues amounts approximately to EUR 1 billion.**
  - The most substantial negative effect was caused by the **shortfall of dividend revenues** amounting in total to **EUR 714 million.** Lower than budgeted revenues were recorded from Slovenský plynárenský priemysel (SPP) and the shortfall compared to the budget amounted to EUR 609 million. Similarly, the dividend income from Slovenská elektrizačná prenosová sústava (SEPS) was lower by EUR 63 million compared to the budget.
  - **Repayment of the non-returnable financial assistance from Cargo** was postponed to 2015, which represented a shortfall in the revenues in 2014 amounting to **EUR 78 million.**
  - Due to the negative development of the current prices on the European stock market, an overall shortfall of revenues from the sale of emission quotas amounting to EUR 59 million occurred. There was also a shortfall of other capital revenues of the general government amounting to EUR 76 million, mainly incurred by the state budget. **The total income from capital revenues** was lower by **EUR 135 million.**
  - **Lower revenues from the sale of unused frequency bands** caused a shortfall compared to the budget amounting to **EUR 86 million.**
- **Higher expenditures of the health insurance and the Social Insurance Agency:** The deterioration of the current performance compared to the budget in the social security funds was caused by higher expenditures from the public health system by **EUR 160 million.** A similar situation occured to the expenditures of the Social Insurance Agency (SIA) where the total expenditures increased by **EUR 115 million** compared to the budget. Part of this sum represents the payment of pensions to the armed forces amounting to EUR 58 million. Based on the decision of the Supreme Court, SIA also paid pensions from the universal system to eligible applicants.[16]
- **EU corrections:** As a results of auditing the use of EU funds, the European Commission identified inconsistencies in a number of operational programmes, leading to financial corrections amounting to **EUR 111 million.**
- **Entities reclassified into the general government sector:**
  - Based on the decision of Eurostat in relation to the implementation of the new national accounts methodology ESA2010, **public transportation companies** have become a part of the general government sector since 2014. The approved budget did not include their fiscal performance. A negative effect amounting to **EUR 46 million** was mainly caused by higher investments.
  - **The fiscal performance of the other newly classified entities[17] had a neutral effect** on the resulting deficit, as the effects of the reclassified units with positive and negative operating results

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[14] 523/2004 Coll., Section 8.

[15] The savings consists of the surplus from 2013, a higher custom collection at the EU level, increased revenues from sanctions and the transition to the ESA 2010 methodology.

[16] For the purpose of calculating the structural balance it represents a one-off operation. It is described in more detail in Annex 3, in the chapter concerning one-off measures.

[17] In addition to municipal public transportation companies, Národná diaľničná spoločnosť (NDS), Emergency Oil Stocks Agency (EOSA), Eximbanka and selected healthcare facilities are among the entities reclassified in the GG sector.

compensated each other. The main negative impact, amounting to EUR 62 million was caused by healthcare facilities, while the Railways of SR recorded the most significant positive operating result of EUR 31 million.

- **Other negative effects amounting to EUR 141 million** are comprised of the higher liabilities of the state budget, non-recognised extra-budgetary effects and fiscal performance of the other not listed GG entities.

2.2 Developments in 2015

The expected development in 2015 is based on the updated macroeconomic and tax forecast and the development of other items of the general government budget. The estimate of the GG deficit from March 2015 is at the level of 2.55% of GDP, which points to risks of 0.06 p.p. compared to the approved GG budget. **The original objective of 2.49% of GDP remains unchanged.**

TAB 10 – Development in 2015 (ESA 2010)

	EUR mill.	% of GDP
1. General government balance – budget	**-1,940**	**-2.49**
Changes in total	**-29**	**-0.04**
Better tax collection	125	0.16
of which: State budget	105	0.14
Reserve for higher expenditures provided by better tax collection	-105	-0.14
EU corrections	-111	-0.14
Higher revenues of Štátny fond rozvoja bývania (State Housing Development Fund)	103	0.13
Social Insurance Agency fiscal performance	-35	-0.05
Other	-6	-0.01
2. General government balance – current estimate	**-1,969**	**-2.55**
p.m. change in budget balance due to downward revision of nominal GDP estimate (2-1)	*-15*	*-0.02*

Note: (+) means positive effect and (-) means negative effect on GG balance   *Source: MoF SR*

The most significant negative impact compared to the budget is represented by the corrections related to the audit of the drawing of EU funds. By the end of 2014, six operational programmes were not unblocked, which brings about a risk of higher corrections also in 2015. The resulting sum is currently unknown; therefore corrections amounting to the 2014 level of EUR 111 million represent a conservative estimate for 2015.

In order to utilize available financial resources from the 2nd programming period, the Government approved an increase in the revenues of the Štátny fond rozvoja bývania (State Housing Development Fund) from European structural funds. A positive budgetary effect is anticipated from the additional revenues of EUR 103 million in 2015. The resources are designed for soft loans for the housing stock renovation for eligible applicants[18].

The updated macroeconomic and tax revenue forecasts have led to an upward revision of the tax revenue estimate by EUR 125 million (compared with the approved budget). Tax and contribution revenues of the state budget are higher by EUR 105 million compared to the Tax Revenue Forecast Committee[19], mainly due to the improved tax collection of value added tax and corporate income taxes. The Government created a reserve of EUR 300 million in the budget as a provision for improved tax collection without any effect on the deficit (a "blank" counter item was created on the side of expenditures). In the expected the fiscal outcome, the reserve has been aligned to the level of the estimated increase in tax and contribution revenues of the state budget amounting to EUR 105 million.

Smaller effects include greater expenditures on insurance in the Social Insurance Agency. Fiscal performance of the Social Insurance Agency comprises the expected effect of the transfer of cash assets after opening the fully-

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[18] Under the Act on SHDF, eligible applicants include apartment owners, associations of apartment owners, municipalities, city districts, self-governing regions, non-profit organizations providing services in the housing sector, as well as other legal persons.
[19] Of EUR 125 mill., the higher revenues from the contributions in regulated sectors amount to EUR 20 mill..

funded pension pillar[20]. According to the revised methodology ESA 2010 this transaction has no effect on the accrual fiscal performance of the general government.

Other factors are related to an anticipation of slightly worse dividends which should be partly offset by savings from lower interest expenditure related to the state debt and by revenues coming from the cancelling of bearer deposits. A small negative effect is caused by updating the nominal GDP estimate.

2.3 Medium-term budgetary outlook for 2016–2018

The Ministry of Finance of the Slovak Republic has prepared a draft of the General Government Budget Framework for 2016 –2018 with modifications of budgetary objectives compared to the GG budget in 2015–2017. The general government deficit for 2015 remains at the level of 2.49% of GDP. In the following years, the deficit is expected to decline to 1.93% of GDP in 2016, to 0.88% of GDP in 2017, and in 2018 the deficit should reach 0.53% of GDP. The Stability Programme is considered as the national medium-term budget framework in the context of the legislative requirements of the European semester.[21]

Even after the revision of fiscal targets in 2016 and 2017, the new budgetary objectives have been determined in compliance with the fiscal rules of the Stability and Growth Pact using flexibility of the Pact in bad economic times. The target revision is mainly based on a more significant output gap of the Slovak economy in 2016 and 2017 than was originally expected[22]. The determined deficit values should lead to reaching the of MTO in 2017 and its subsequent maintenance in 2018.

TAB 11 – Revision in fiscal targets of the general government (in % of GDP)

	2013	2014	2015	2016	2017	2018
1. GG budget for 2013–2015	-2.94	-2.44	-1.94			
2. GG budget for 2014-2016	-2.98	-2.64	-2.57	-1.50		
3. GG budget for 2015-2017	-2.63	-2.93	-2.49	-1.43	-0.39	
4. Draft GG budget framework for 2016–2018	-2.59	-2.87	-2.55	-1.93	-0.88	-0.53
Change compared to the GG budget 2013–2015 (4-1)	2.94	-0.43	-0.61	-	-	-
Change compared to the GG budget 2014-2016 (4-2)	2.98	-0.23	0.02	-0.43	-	-
Change compared to the GG budget 2015-2017 (4-3)	**0.04**	**0.06**	**-0.06**	**-0.50**	**-0.49**	**-**

Source: MoF SR

2.4 No-policy-change scenario

The no-policy-change scenario should assess the measures needed to fulfil the fiscal targets. To calculate such measures a no-policy-change scenario (NPC) is estimated[23] projecting the development of the general government balance, assuming unchanged legislature and current macroeconomic forecast. Then the general government balance can be forecasted in the medium-term perspective. By comparing this scenario with the targeted balance values we calculate the size of the necessary measures needed to achieve the fiscal targets and the effect of the consolidation on the economy.

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[20] The counterpart of the transfer of cash assets from the fully-funded pension pillar is a decrease in the cash transfer from the state budget to ensure solvency of the basic Social Insurance Agency funds. It concerns a cash transfer without any effect on the resulting general government deficit.

[21] The requirement to publish the national medium-term budget framework results from the Two-pack (473/2013, Art. 4).

[22] The fiscal targets were updated on the basis of changes of output gap estimates between 2015 and 2017. Compared to the original targets in the Draft Budgetary Plan for 2015, the new estimate indicates a significantly slower rate of closing the negative output gap. While in 2015 the output gap of the economy is lower by 0.5 p.p., in 2016 and 2017 the Slovak economy will be significantly below its potential by 0.1 and 0.8 p.p.

[23] The manual to compile NPC scenarios is published on the MoF SR web pages: http://www.finance.gov.sk/Default.aspx?CatID=9301.

The estimation of the NPC scenario was based on the current estimate of the general government deficit in 2015 at 2.55% of GDP[24]. Assuming no changes in economic policies, the general government deficit would amount to 1.6% of GDP in 2016, and to 1.5% of GDP in 2016 and 2017 and would decrease to 1.4% of GDP at the end of the forecast period of 2018.

From the comparison of the NPC scenario and the fiscal targets we get a fiscal space or the extent of measures[25] needed to achieve the targets. There exist fiscal space beyond the NPC scenario of the magnitude 0.4% of GDP (EUR 305 mill.). On the other hand, in the following years it is necessary to adopt measures amounting to 0.6% of GDP (EUR 557 mill.) in 2017 and to 0.9% of GDP (EUR 791 mill.) in 2018 to achieve the targets compared to the NPC scenario.

TAB 12 - Need for measures to achieve fiscal targets (ESA 2010, in % of GDP)

	2016	2017	2018
1. Budget balance – fiscal targets	-1.9	-0.9	-0.5
2. Budget balance – proposed GG framework	-1.9	-1.4	-1.0
3. Budget balance – no policy change scenario (NPC)	-1.6	-1.5	-1.4
4. Overall consolidation need (1-3) *	**-0.4**	**0.6**	**0.9**
- difference between NPC scenario and draft framework (2-3)	**-0.4**	**0.1**	**0.4**
- difference between draft framework and fiscal targets (1-2)	**0.0**	**0.5**	**0.5**

* (-) means higher deficit of GGB compared to NPC (fiscal space); (+) means lower deficit compared to NPC (measures are needed)

To achieve the target there is a fiscal space in 2016 amounting to 0.4% of GDP mainly used by the increased budgeted municipal investments and by increased intermediate consumption. In 2016–2018, municipalities are expected to return to higher levels of capital investment compared to the relatively low base in 2015. The need for measures to achieve the targets in 2017 and 2018 is only partially considered in the draft framework.

- **Significant savings in compensations:** From 2017, the draft budget expects lower growth of wage expenditures by 0.2% of GDP or 0.5% of GDP compared to the NPC scenario. Slower growth of expenditures compared to NPC is primary in the state budget.
- After the growth in 2016, the budget framework contains **moderate savings compared to NPC for intermediate consumption in 2018.**
- **Moderately higher non-tax revenues.** In 2017 and 2018, a slightly higher non-tax income from revenue and grants and transfers are expected compared to the NPC assumptions. Grants and transfers are higher in municipalities, Národný jadrový fond (National Nuclear Fund - NNF) and public universities, while higher revenues are expected in NDS and the Railways of SR.

CHART 19 – Need for measures compared to the no-policy-change scenario (% of GDP)
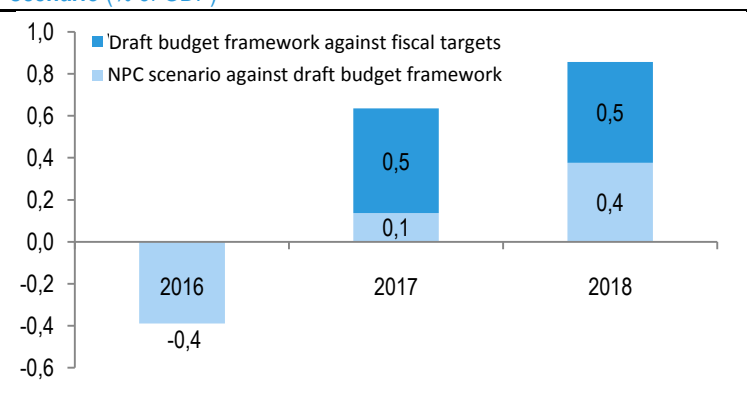
Source: MoF SR

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[24] The estimated outcome of 2015 does not include healthcare facilities. In 2016, the NPC scenario includes the data on healthcare facilities, which are the same as in the budget. In the following years they are indexed in compliance with the methodology.

[25] The general government balance indicator to calculate the measures may provide a somewhat distorted picture, because the meeting of the target values will simultaneously reduce interest payments in comparison with the no-policy-change scenario. Unlike the previous NPC scenarios, however, such a distortion is smaller thanks to smaller nominal balances and lower interest rates.

To achieve the fiscal targets in 2017 and 2018, additional measures beyond the draft budgetary framework will be needed. **The gap between the budget framework and the stated fiscal objectives is to approximately 0.5% of GDP in both years.**

TAB 13 – No-policy-change scenario and general government balance (ESA2010, in % of GDP)

	E	NPC scenario			Budget framework			GGB – NPC		
	2015	2016	2017	2018	2016	2017	2018	2016	2017	2018
1. Total revenues	**36.7**	**36.6**	**36.4**	**36.1**	**36.6**	**36.6**	**36.2**	**0.0**	**0.1**	**0.1**
Tax revenues	17.3	17.0	16.6	16.5	17.0	16.6	16.5	0.0	0.0	0.0
Taxes on production and imports	10.5	10.2	10.0	9.8	10.2	10.0	9.8	0.0	0.0	0.0
- Value added tax	6.7	6.6	6.6	6.5	6.6	6.6	6.5	0.0	0.0	0.0
- Excise taxes	2.6	2.5	2.4	2.3	2.5	2.4	2.3	0.0	0.0	0.0
Current taxes on income, wealth	6.8	6.8	6.7	6.7	6.8	6.7	6.7	0.0	0.0	0.0
- Personal income tax	3.1	3.1	3.1	3.1	3.1	3.1	3.1	0.0	0.0	0.0
- Corporate income tax	3.0	3.0	3.0	3.1	3.0	3.0	3.1	0.0	0.0	0.0
- Withholding tax on capital income	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.0	0.0
Social security contributions	13.3	13.2	13.1	13.0	13.2	13.1	13.0	0.0	0.0	0.0
Non-tax revenues	3.0	4.4	4.2	4.0	4.4	4.3	4.0	0.0	0.1	0.1
Grants and transfers	3.1	2.0	2.5	2.6	2.0	2.6	2.6	0.0	0.1	0.0
2. Total expenditures	**39.2**	**38.1**	**38.0**	**37.5**	**38.5**	**37.9**	**37.2**	**0.4**	**0.0**	**-0.3**
Current expenditures	36.0	35.7	35.3	34.7	36.0	35.1	34.1	0.3	-0.2	-0.6
Compensation of employees	7.2	7.9	7.9	7.8	7.9	7.6	7.2	0.0	-0.2	-0.5
Intermediate consumption	5.0	5.3	5.6	5.4	5.5	5.6	5.4	0.2	0.0	-0.1
Subsidies	0.8	0.7	0.7	0.7	0.7	0.7	0.6	0.0	0.0	0.0
Interest payments	1.7	1.6	1.5	1.5	1.6	1.5	1.5	0.0	0.0	0.0
Total social payments	18.6	18.0	17.6	17.3	18.0	17.7	17.4	0.0	0.0	0.0
- Social transfers other than in kind	13.7	13.2	12.9	12.5	13.2	12.9	12.6	0.0	0.0	0.0
- Social transfers in kind	4.9	4.9	4.8	4.8	4.8	4.8	4.8	0.0	0.0	0.0
Other current transfers	2.7	2.1	2.0	2.0	2.2	2.1	2.0	0.1	0.0	0.0
Capital expenditures	3.3	2.4	2.7	2.8	2.6	2.8	3.1	0.2	0.2	0.3
Capital investments	2.8	2.2	2.4	2.5	2.4	2.6	2.8	0.2	0.2	0.3
- Gross fixed capital formation	2.9	2.3	2.5	2.6	2.5	2.7	2.9	0.2	0.2	0.3
Capital transfers	0.5	0.2	0.3	0.3	0.2	0.2	0.3	0.0	0.0	0.0
3. Net lending/borrowing	**-2.55**	**-1.55**	**-1.53**	**-1.40**	**-1.93**	**-1.38**	**-1.01**	**-0.38**	**0.15**	**0.39**

Note: E 2015 does not include the revenue and expenditure of healthcare facilities, which distorts the year-on-year development for 2014–2015

2.4.1 The impact of consolidation on the economy in 2016–2018

The no-policy-change (NPC) scenario represents a starting point of the quantification[26] of the size of fiscal measures affecting the economy. The effects of the fiscal policy in 2016–2018 are quantified in two scenarios: the first anticipates measures needed to achieve the fiscal targets, while the other scenario quantifies only the effect of the measures already comprised in the draft budget framework.

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[26] More details regarding the impact of fiscal policy in 2016–2018 may be found in Annex 2.

TAB 14 – Overall consolidation need to achieve fiscal targets compared to NPC (ESA2010, % of GDP)

	2016	2017	2018
1. General government balance – fiscal targets	-1.9	-0.9	-0.5
2. General government balance – draft GG framework	-1.9	-1.4	-1.0
3. General government balance – NPC scenario	-1.6	-1.5	-1.4
4. Cumulative consolidation need – scenario 1 (1-3)	-0.4	0.6	0.9
- year-on-year change	**-0.4**	**1.0**	**0.3**
5. Cumulative consolidation need – scenario 2 (2-3)	-0.4	0.1	0.4
- year-on-year change	**-0.4**	**0.5**	**0.2**

Source: MoF SR

In addition to the draft budget framework, the first scenario also includes revenue measures taking into account the achievement of the budgetary objectives. In 2016, there is a fiscal space amounting to 0.4% of GDP compared to the NPC scenario, whereas according to the GGB framework the fiscal impulse is mainly concentrated into municipal investments. In the following years consolidation measures amounting to 1.0% of GDP in 2017 and to 0.3% of GDP in 2018 are needed to achieve the targeted deficits. **In 2016 the positive effect on GDP growth is estimated to reach 0.2 p.p. The consolidation needed to achieve the budgetary objectives will decrease GDP growth by 0.5 p.p. in 2017 and by 0.1 p.p. in 2018.**

The second scenario only anticipates the implementation of consolidation measures in compliance with the draft budget framework. Implementation of the fiscal impulse in 2016 is equal to the first scenario. However, the extent of measures in the ensuing years included in the second scenario is lower and reaches 0.5% of GDP in 2017 and 0.2% of GDP in 2018. **The anticipated fiscal consolidation based on the draft budget framework will decrease GDP growth by 0.2 p.p. in 2017 and by 0.1 p.p. in 2018.**

The fiscal multiplier in 2016 is anticipated to reach 0.57[27]. Such a multiplier corresponds to the structure of the stimulus which arises on the expenditure side and is distributed between intermediate consumption and the general government investment. **The consolidation package multiplier in 2017 is estimated at 0.46.** In a case of the second scenario without the revenue measures, the multiplier is a bit higher. **In 2018 the implied multiplier reaches 0.39 in the first scenario and 0.40 in the second scenario.**

CHART 20 – Impact of fiscal policy on GDP (in % of GDP)
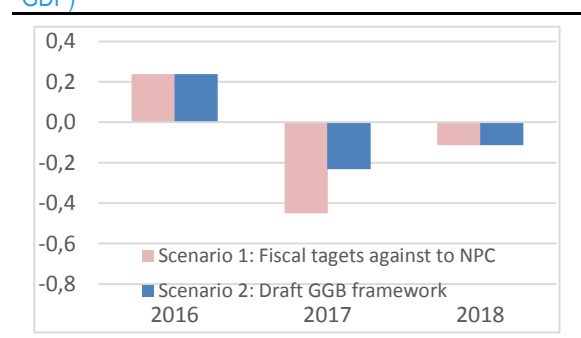
CHART 21 – Fiscal multipliers
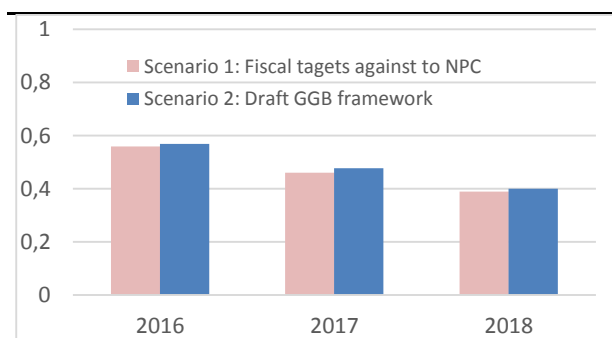
Source: IMF SR

2.5 Structural balance and the expenditure rule

In respect of the closure of the excessive deficit procedure, the fiscal policy of SR since 2014 falls under the preventive part of the Stability and Growth Pact requiring a gradual year-on-year decreasing of the structural

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[27] Due to the transitioning to ESA2010, the multipliers have slightly increased due to the reduced openness of the economy. At the same time, the estimation of the macroeconomic model led to a lower import intensity of household consumption.

balance (consolidation effort) until a balanced budget is achieved. The first step in the calculation of the general government structural balance is the adjustment of the officially notified general government balance for the cyclical component. In the second step, the balance is adjusted for the one-off and temporary effects (for more details see Annex 3). 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 fiscal rules.

The second pillar of the preventive part of the Pact represents the fulfilment of the expenditure rule according to which also the growth of general government expenditure should contribute to towards the required consolidation effort. The analytical indicators presented in this part are estimated according to the EC methodology focused on international comparability.

TAB 15 – Consolidation effort (ESA2010, in % of GDP)

	2013	2014	2015	2016	2017	2018
1. General government balance	**-2.6**	**-2.9**	**-2.5**	**-1.9**	**-0.9**	**-0.5**
2. Cyclical component	-1.1	-1.1	-1.0	-0.7	-0.4	0.0
3. One-off effects	0.0	0.3	0.1	0.0	0.0	0.0
4. Structural balance (1-2-3)	**-1.5**	**-2.1**	**-1.6**	**-1.2**	**-0.5**	**-0.5**
5. Consolidation effort according to EC	**2.0**	**-0.6**	**0.4**	**0.4**	**0.7**	**0.0**
6. Investment clause	-	0.4	-	-	-	-
7. Consolidation effort adjusted by the investment clause (5+6)	**2.0**	**-0.2**	**0.4**	**0.4**	**0.7**	**0.0**

Source: MoF SR

In an effort to support investments and the pro-growth policy, flexibility of the Stability and Growth Pact has been applied to a greater extend. At the beginning of 2015, the European Commission prepared a document[28] describing the application of flexibility within the current European legislature. The published communication mainly supports more flexibility given the economic cycle, an extended use of the investment clause and the implementation of the so-called structural clause (for more details see Annex 5).

One of the flexibility aspects is the direct consideration of public investments. Slovakia was one of the few countries to use the so-called investment clause in 2014. The application of this clause in the given year mean, that the required consolidation effort is adjusted by total expenditure on co-financing of EU funds without the inclusion of expenditure on the common agricultural policy and fisheries policy (see Annex 4). In its winter forecast the EC confirmed[29] that Slovakia had fulfilled the requirements for its application. The required consolidation effort in 2014 is therefore reduced by the level of public investments amounting to 0.4% of GDP. The temporary fiscal expansion of 0.6% of GDP therefore does not mean a significant deviation from the required consolidation effort.[30]

After the temporary easing of the fiscal policy, a continuing decline of the structural deficit takes place in 2015. In structural terms the deficit should decrease to 1.6% of GDP in 2015. With view to the current objectives, the average consolidation in 2015–2017 reaches approximately 0.5% of GDP despite a the state of the economy well below potential; under this circumstances theEC would not sanction a temporary easing of consolidation[31]. A neutral fiscal policy in 2018 should contribute to maintaining the deficit at the MTO level.

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[28] The document is available at http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/2015-01-13_communication_sgp_flexibility_guidelines_en.pdf

[29] Implications of the Commission 2015 winter forecast for budgetary surveillance

[30] According to the EC interpretation, 0.5% of GDP would represent a significant deviation, while taking into account the investment clause means a deviation of 0.2% of GDP.

[31] It concerns the principle of the "freezing" of the consolidation requirements according to which a country cannot be sanctioned if it does not observe a stricter consolidation ensuing from the ex-post review of data. In technical terms, a forecast of the output gap from the spring forecast of EC 2014 is used, according to which Slovakia suffered a negative output gap exceeding three percent and thus, in compliance with the applicable matrix, it does not have to consolidate in 2014 and 2015.

BOX 3 – Fiscal position of Slovakia

The assessment of a country's fiscal position can be based on multiple approaches. The traditional (top-down) approach analyses the change of the structural primary balance. More recent literature measures the fiscal position by means of the impact of governmental budgetary measures (bottom-up). The traditional approach is mainly limited by the impact of additional revenues and expenditures that might not be correctly captured by the cyclical component (e.g. the persisting increase of asset prices or change in the growth components of GDP). Another challenge of the methodology unobservable output gap, which is frequently subject to significant revisions. The bottom-up approach also has its limitations. The underlying problem is the definition of the no-policy-change scenario. Especially with regards to the expenditures, there is an unclear division between the measure and the baseline scenario. For example an increase of benefits above the trend level does not need to be considered as a measure in the bottom-up approach, but from the macroeconomic perspective it represents a stimulus.

An alternative indicator is the so-called discretionary fiscal effort combining the advantages of both the top-down and the bottom-up approach. Regarding revenue, the bottom-up approach quantifies them as a sum of all budgetary measures in the given year. On the expenditure side the fiscal effort is quantified as the difference between public expenditure growth and potential growth. More details concerning the methodology can be found in Carnot et at. (2015)[32].

The fiscal position of Slovakia can be graphically depicted in relation to the structural primary balance change (or discretionary fiscal effort) and the so-called cyclical indicator[33]. It shows whether the fiscal policy of a country is restrictive or expansive when an economy suffers from overheating or undercooling. Based on the current targets of the GG balance it is expected that after a temporary anti-cyclical expansion in 2014, an anti-cyclical restriction with a gradually closing of the output gap should persist from 2015 onwards. To achieve the MTO, a broadly neutral economic policy should prevail in 2018.

CHART 22 – Fiscal position of Slovakia (in % of GDP)
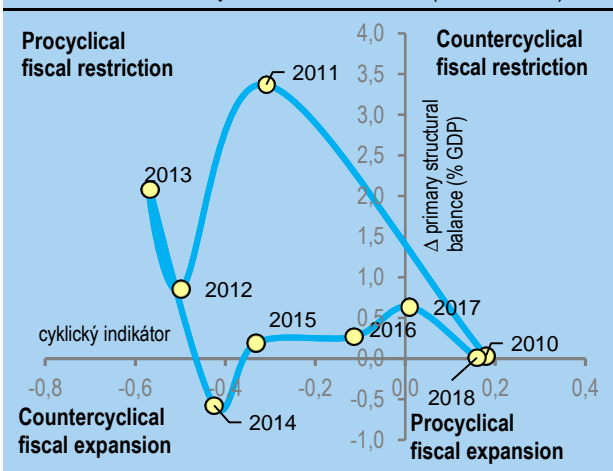
Source: EC, MoF SR

CHART 23 – Discretionary fiscal effort (in % of GDP)
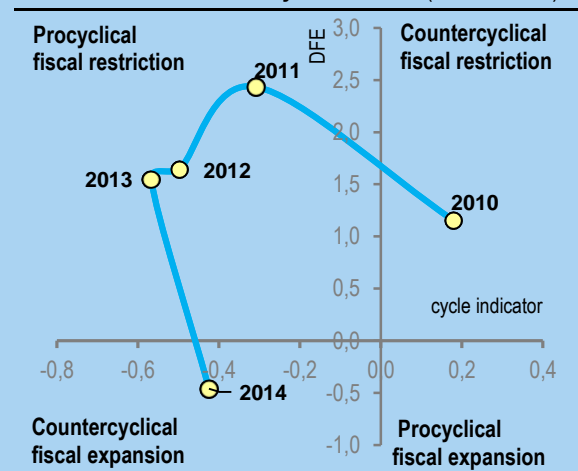
Source: EC, MoF SR

Expenditure benchmark

The reviewed Stability and Growth Pact implemented an expenditure benchmark as a supplementary tool to analyse the fiscal position. **The expenditure benchmark should asses whether the the expenditure growth**

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[32] Carnot, N. and F. Castro: The discretionary fiscal effort: an assessment of fiscal policy and its output effect, available at: http://ec.europa.eu/economy_finance/publications/economic_paper/2015/ecp543_en.htm

[33] The cyclical indicator is an innovation according to Carnot et. al (2015). Instead of using the standard output gap indicator, the authors use a composite indicator consisting of the output gap level and the year-on-year change of the output gap. In the first step, the change between the current output gap and its long-term average is calculated and divided by the standard deviation. The same applies to the output gap change. The result is a normalised indicator using the longest time series possible to prevent distortion due to the economic crisis. In the last step both indicators are weighted. The cyclical indicator only serves for a simplified interpretation of the fiscal position and is not used for the purpose of fiscal evaluation. To calculate the indicators, data notified by Eurostat, EC data from the winter forecast and the general government framework for 2016–2018 were used.

rate corresponds to the average growth of the potential of the economy[34]. For a country such as Slovakia, targeting its medium-term objective, the potential expenditure growth is adjusted[35] by the required consolidation effort. The expenditure benchmark is based on a long-term and more stable estimate of potential growth, such as the structural balance.

When calculating the expenditure benchmark, the nominal expenditure of the general government are adjusted by the items which are not under direct control of the Government and have no impact on the general government balance. The total expenditure are net off interest expenditure on debt, expenditure vis-a-vis the economical cycle and EU funds. The expenditure benchmark takes into account smoothened[36] public investments instead of the actual level. The obtained expenditure aggregate is subsequently adjusted by discretionary income measures (their list is provided in Annex 6). The aim is to enable additional expenditure growth which is backed by additional revenues. In the last step the nominal expenditure growth is translated into real term using the GDP deflator. The expenditure benchmark has been adopted from the EC documents[37].

Due to the non-availability of the data, the expected outcome in 2015 does not include healthcare facility revenues and expenditures and only includes their expected impact on the GG balance. On the other hand, however, the years 2016–2018 and the current data for previous years include the revenue and expenditure of healthcare facilities. To ensure the comparability of the expenditure benchamrk calculation, imputation[38] of their expenditures was also selected in 2015.

The total public expenditure will moderately decrease in 2016 and subsequently their growth trend will pick up. It is caused by a more significant drop in the budgeted expenditures on EU programmes which are entering a new new programming period in 2016. Adjusted total expenditures (the primary aggregate) are a better indicator as they show a 2% growth on average in the forecasted period.

According to the expenditure benchmark, the adjusted general government expenditure could grow[39] by 2.9% in 2015. Expenditures adjusted by discretion measures, i.e. by 0.8% at constant prices, are decreasing[40]. The sufficient negative deviation between these two figures means that the adjusted expenditures do not grow faster than the average potential growth of the economy. With view to the evaluation requirements regarding significant deviation, values in percent of GDP are decisive. **Thus the adjusted expenditure development contributed to consolidation in the amount of 1.4% of GDP in 2015, or on average in the amount of 1% of GDP in 2016–2018.**

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[34] The potential of the economy is expressed as the reference rate of expenditure growth calculated as a 10-year average of the potential growth.

[35] Similarly as in the assessment of the structural balance development, one has to differentiate between countries which have already achieved their MTOs and countries targeting their MTOs. If a country has not met its objective, the expenditure benchmark requires a slower expenditure growth to ensure convergence towards MTO.

[36] Investments can significantly fluctuate depending on the particular project. To ensure a higher stability of the indicator, the four years average is considered instead of the current value of public investments.

[37] A detailed description of the inputs, including the calculation methodology for the expenditure benchmark, is provided in Vade mecum on the Stability and Growth Pact. Until recently, the reference value has been determined by the EC every three years. In its new approach, the EC will update data on the annual basis. For 2016, the fixed amount of the reference value in compliance with the old methodology is applied. As the EC forecast horizon is shorter than the horizon presented by MoF SR, the data for potential growth and for the decreased reference rate was calculated based on the EC winter estimate, taking into account the flexibility matrix.

[38] With view to the quite stable level of expenditures over the years, the data for 2015 is comprised of the simple average of 2014–2016.

[39] The expenditure benchmark takes into account the required consolidation need in compliance with the flexibility matrix (see Annex 5). No consolidation is required for 2014 and 2015 due to the use of the output gap from the spring forecast of 2014 which was at the level of over 3%,i.e. freezing

[40] The imputed year-on-year decrease of healthcare facility expenditures has had almost no impact on the real indicator of the expenditure aggregate. Provided that expenditures are maintained at the same level as in 2014, the expenditure aggregate would decrease by 0.7% instead of 0.8%. When calculating the expenditure rule based on the expected reality in 2015, i.e. without the expenditures on healthcare facilities, the expenditure rule would not be met in 2016. With view to the inconsistent inclusion of healthcare facilities in various years, such a comparison makes no economic sense.

TAB 16 – Expenditure benchmark (ESA 2010)

	m. u.	2013	2014	2015	2016	2017	2018
1. Total expenditure	EUR mill.	**30,193**	**31,410**	**31,660**	**31,310**	**32,516**	**33,701**
2. Interest payments	EUR mill.	1,393	1,447	1,311	1,269	1,253	1,330
3. Gross fixed capital formation	EUR mill.	2,193	2,788	2,228	2,015	2,289	2,610
4. Gross fixed capital formation (average for 4 years)	EUR mill.	2,328	2,437	2,348	2,306	2,330	2,285
5. Government expenditure on EU programmes which is fully matched by EU funds revenue	EUR mill.	957	1,195	1,770	1,038	1,608	1,800
6. Unemployment benefit expenditure at unchanged policies	EUR mill.	25	25	23	17	10	1
7. Expenditures fully matched by revenue increases	EUR mill.	-	-	-	-	-	-
8. Primary expenditure aggregate (1-2-3+4-5-6-7)	EUR mill.	**27,954**	**28,392**	**28,677**	**29,278**	**29,687**	**30,246**
9. YoY change of primary expenditure aggregate (8_t-8_{t-1})	EUR mill.	963	438	285	601	409	559
10. Change in discretionary revenue measures	EUR mill.	1,214	122	315	9	0	0
11. Nominal growth of expenditure aggregate net of revenue measures ((9_t-10_t)/8_{t-1})	%	-0.9	1.1	-0.1	2.1	1.4	1.9
12. Current expenditure aggregate growth net of discretionary revenue measures	%	-2.8	-0.7	-0.8	0.6	-0.4	0.0
13. Expenditure benchmark (lower reference rate of the GDP potential growth)	p.p.	2.9	2.9	2.9	2.7	2.4	2.7
14. Deviation from the expenditure benchmark (12-13)[1]	p.p.	-5.7	-3.7	-3.7	-2.2	-2.8	-2.7
15. Deviation from the expenditure benchmark	% of GDP	**-2.1**	**-1.4**	**-1.4**	**-0.8**	**-1.0**	**-0.9**
16. Two-year deviation from the expenditure benchmark	% of GDP	**-1.7**	**-1.7**	**-1.4**	**-1.1**	**-0.9**	**-0.9**
p. m. GDP deflator[2]	%	*1.9*	*1.9*	*0.7*	*1.5*	*1.8*	*1.9*
p. m. total expenditure of healthcare facilities	EUR mill.		*1,375*	*1,324*	*1.272*	*1.292*	*1,263*

[1] A negative value represents fulfilment of the expenditure rule

[2] An average of two EC forecasts, Macroeconomic forecast of MoF SR from 2016

Source: MoF SR

2.6   Public debt

The gross debt of the general government[41] reached the level of 53.6% of GDP at the end of 2014 according to the Eurostat notification. For the first time after the economic crisis in 2008, the debt in proportion to GDP decreased by 1 p.p. on a year-on-year basis. In nominal terms, the debt increased by EUR 123 million with a comparably low growth last seen in 2006. Under the assumption of achieving the budgetary targets, the debt as a proportion of GDP will gradually decrease in the forecasted period to the level of 50% of GDP in 2018.

The lower than budgeted cash deficit of the state budget, the active management of the cash reserve and the repayment of the Emergency Oil Stocks Agency (EOSA[42]) loan had a positive impact on the debt decrease in 2014. In 2015, the stabilization and/or a slight decrease of the debt is expected[43]. With view to the ongoing consolidation, a primary surplus (the general government balance net of interest payments) is expected from 2017, which – together with the economic growth – will contribute to a more significant decrease of the debt.

To assess a more realistic level of indebtedness, it is also appropriate to monitor the net debt development expressed as the gross debt net of liquid assets. At the end of 2014, the preliminary net debt reached approximately 50.2% of GDP and since 2015 it has been copying the gross debt development.

TAB 17 – General government gross debt (% of GDP, 31.12.)

	2013	2014	2015	2016	2017	2018
Gross general government debt	54.6	53.6	53.4	52.8	51.9	50.3

[41] All reported values were calculated using the methodology applied to the assessment of compliance with the Maastricht criterion on the general government gross debt – the so-called Maastricht debt of the general government. The general government debt is expressed as a share of GDP.

[42] The new ESA 2010 methodology caused the inclusion of the EOSA agency in the public sector due to which the public debt grew by EUR 520 million (0.7% of GDP).

[43] It is mainly conditioned by the use of cash resources from the sale of Slovak Telekom.

- state debt (without the impact of international liabilities)	48.6	48.1	48.2	48.0	47.4	46.2
- SR commitment under EFSF	2.6	2.7	2.6	2.5	2.4	2.2
- contributions to ESM	0.7	0.9	0.9	0.8	0.8	0.7
- debt of other general government entities	2.7	1.9	1.8	1.5	1.3	1.1
p.m. change of gross debt	2.5	-1.0	-0.2	-0.6	-0.9	-1.6
p.m. net debt	48.2	50.2	49.8	49.3	48.1	46.4

Source: MoF SR

The level of cash deficit of the state budget which has to be funded **mainly contributes to the general government debt**. In 2014 the cash deficit of the state budget amounted to EUR 2.9 billion. A more significant decrease to EUR 2.2 billion is expected from 2016 in consequence of the ongoing consolidation. For 2017 and 2018, the debt forecast assumes that the targetedbudget deficits[44] will be achieved with additional measures.

Most other factors contribute to debt reduction. Funding from the State Treasury is an important factor.

International liabilities of Slovakia vis-à-vis the European financial stability tool EFSF) and the European stability mechanism (ESM) should not increase public debt expected in 2016–2018. Mainly in 2012 and 2013, the Slovak debt was influenced by EFSF liabilities which arose in compliance with the provision of financial aid to the programme countries. The EFSF will not enter into new financial programmes, but will continue to manage the settlement of liabilities by debtor countries. Until that time, the EFSF liabilities will have a direct impact on the gross debt according to the Slovak share in EFSF. As regards ESM, the deposits decreased the disposable funds of the State Treasury usable for funding of the state needs and thus they have indirectly contributed to the debt increase.

Methodological adjustments[45], such as a discount on the issuance and redemption of bonds, have to be taken into account for the debt calculation. The total effect of both factors reduces the debt in 2014 and 2015. From 2016, there is a more tangible impact of a higher discount on issuance after the interest rates rebounds from the zero bound.

In the new ESA 2010 methodology, EOSA was included in the public sector and the total EOSA loans increased the public debt in 2013 by EUR 520 million (0.7% of GDP). By the end of 2014, the loan provided by a consortium of banks was repaid from state financial assets, which reduced public debt.

Other changes in the debt forecast are related to the exchange rate differences and the changes in clients' deposits in the State Treasury outside the general government sector.

TAB 18 – Impact on the general government gross debt change (EUR mill.)

	2013	2014	2015	2016	2017	2018
A. Gross debt of general government (as of 1 January)	**37,614**	**40,174**	**40,297**	**41,289**	**42,928**	**44,484**
B. Total YoY change of the GG gross debt	**2,561**	**123**	**992**	**1,639**	**1,556**	**1,120**
- state budget deficit (cash accounting)	2,023	2,923	2,682	2,223	1,682	1,186
- ST funds used to finance state needs	-463	-2,377	-1,575	-529	-207	-244
- SR commitment under EFSF	401	102	19	0	0	0
- Slovak contributions to ESM	264	132	0	0	0	0
- issuance discount	51	6	40	120	257	295
- discount at maturity	-68	-113	-86	-66	-67	-6
- indebtedness of other GG entities	318	-521	-101	-105	-106	-108
of which: Railways of SR	-131	-1	0	0	0	0
of which: NDS	-37	-37	-37	-37	-37	-37

[44] The current fiscal framework contains unspecified measures of EUR 427 million in 2017 and EUR 436 million in 2018. For the purpose of the debt forecast, the assumption of consolidation at the state budget level has been adopted.

[45] The discount on the issuance of state bonds and state treasury bills increases the debt, as of the date of bond emission, the state liabilities increase by the nominal value of the bonds. The state, however, gains a lower amount of cash (decreased by the discount). To 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.

of which: EOSA	520	-520	0	0	0	0
of which: Municipal public transportation companies	-	85	-1	-4	-6	-7
- other	35	-30	14	-3	-3	-3
C. Gross debt of general government (as of 31 December) (A+B)	**40,174**	**40,297**	**41,289**	**42,928**	**44,484**	**45,604**
in % of GDP	**54.6**	**53.6**	**53.4**	**52.8**	**51.9**	**50.3**

Note: Positive items increase the general government debt as of 31 December of the given year, negative items decrease the debt.

Source: MoF SR

Going beyond the breakdown of cash changes, the debt dynamics can be analysed according to the particular contributions to the debt change. The primary balance and the nominal GDP growth have the most significant impact on public debt. In some years, other adjustments[46] beyond the general government deficit are also important.

More distinct differences in 2014 are related to the reduction of cash balances that have been partially compensated by recording a receivable related to EU flows.[47] In 2015, the debt forecast also includes the sale of the state share in Slovak Telekom and the expected increase of cash on the general government accounts. An overview of the factors impacting the debt change in 2016–2018 shows that the decrease is mainly conditioned by the nominal growth in GDP and the improvement of the fiscal performance of the state budget.

CHART 24 – Contributing factors to the debt change (% of GDP)
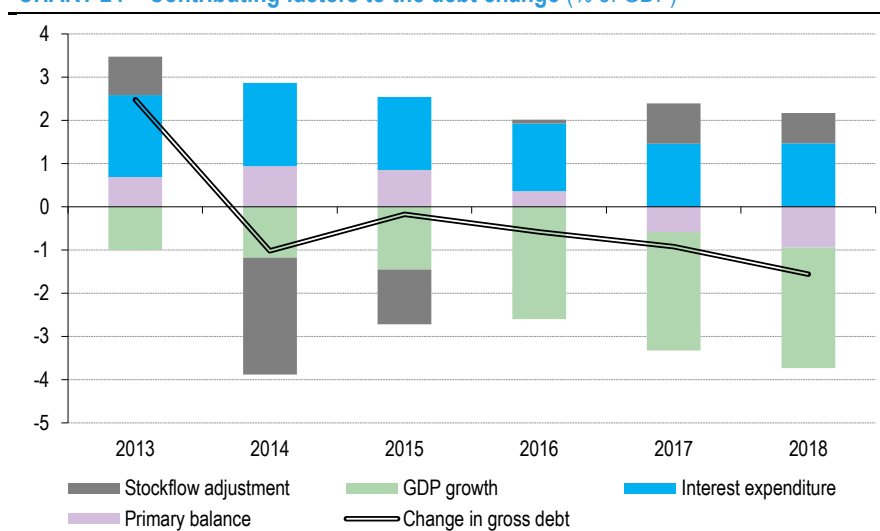
Source: MoF SR

Net debt

To assess a more realistic debt levels, it is also appropriate to monitor the net debt development expressed as the gross debt net of liquid assets (mainly of deposits at the particular GG entity accounts). The Ministry of Finance presents the net debt defined in the EC manual for the formation of the stability programme[48]. This indicator can be supplemented by the ARDAL cash reserve development[49]. The reduction of liquid financial assets in 2014 was mainly caused by utilizing the cash reserve for active debt management. In 2015–2018 it should be 4 p.p. lower on average than the gross debt.

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[46] It concerns the so-called stock-flow adjustment. According to the underlying economic concept it occurs due to the fact that a deficit is an accrual term while debt is a cash term. In short, it consists of net acquisition of financial assets (deposits, securities, borrowings and stocks) and adjustments to the Maastricht debt (an increase in liabilities, issuance above or under nominal value, debt appreciation or depreciation in a foreign currency).

[47] The so-called EU receivable, which resulted from EU resources not being repaid by the EU due to blocked operational programmes in 2014.

[48] The methodology is described in more detail in the Stability Programme of the Slovak Republic for 2014–2017, Box 5 on page 44.

[49] The cash reserve is created by deposits deposited by ARDAL on the money market in commercial banks and on the current accounts of the State Treasury in the National Bank of Slovakia. This definition is narrower than liquid assets for the purpose of the net debt calculation. In comparison, the main part of liquid assets is comprised of currency and deposits of all general government entities, including municipalities, hospitals and NDS that are not part of the State Treasury system.

Alternatively, the gross debt can analytically be net off liabilities incurred because of financial aid provided to the programme countries. They mainly increased in 2012 after the implementation of EFSF. In 2012–2018, European liabilities increase the gross debt of Slovakia on average by 3.2% of GDP. The overall impact of foreign liabilities on the debt will gradually decrease[50].

CHART 25 – Net debt and change in the cash reserve (in % of GDP)
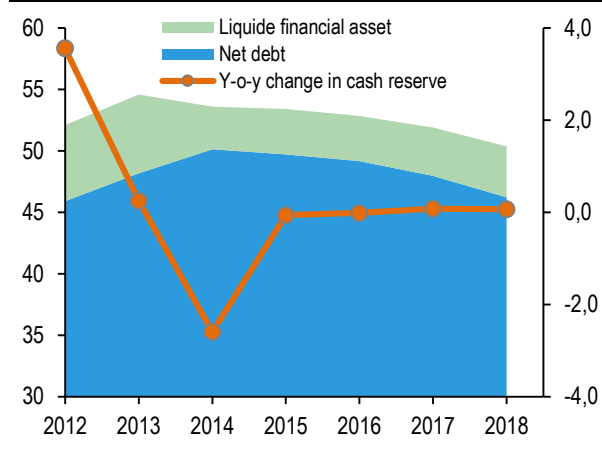
Source: MoF SR

CHART 26 – International ESM and EFSF liabilities (in % of GDP)
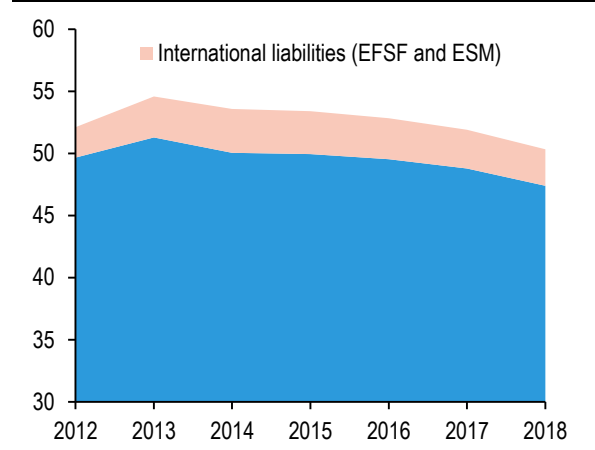
Source: MoF SR

Cash reserve

Since 2006, when[51] ARDAL became operational as a debt management agency, the state cash reserve[52] has been 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 (as the number of months during which all state expenditures would be covered by the existing reserve) the reserve had never exceeded 8 months until 2012. In 2012, it started to quickly grow in nominal terms and as well as 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.

CHART 27 – Cash reserve (number of months of state expenditures covered by the reserve)
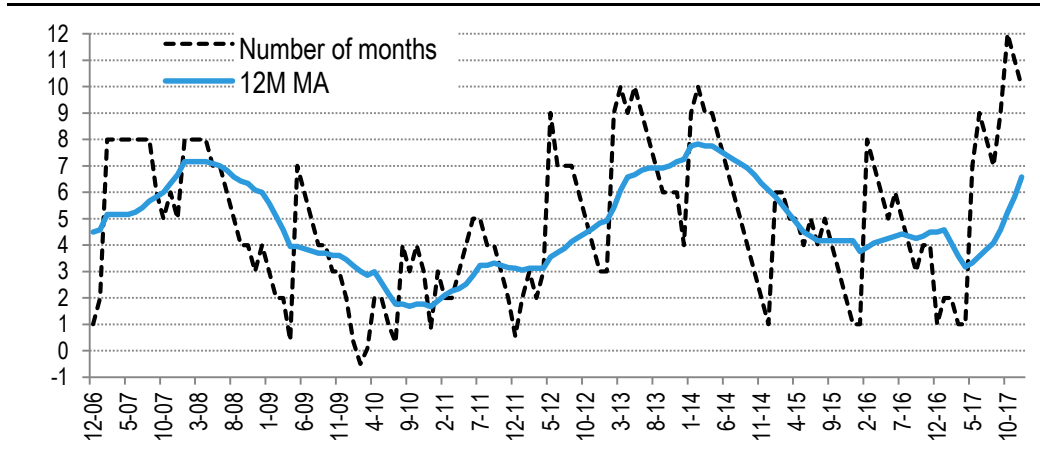
Source: MoF SR

During 2014, the reserve decreased thanks to the recovery of public finance and thanks to the prevailing extraordinary positive situation on the bond market. The situation is stable, the demand at auctions is strong and

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[50] With the increasing nominal GDP, the weight of EFSF liabilities on the gross debt decreases.

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

[52] Debt and Liquidity Management Agency

the rates are at extremely low levels. ECB plays a powerful role in this process, as it moved the deposit rate to the negative numbers and in March 2015 it initiated the quantitative easing programme. It is comprised of combined purchases of securities emitted by the private and public sector amounting to EUR 60 billion per month, at least until September 2016. In such a situation the state is able to borrow money on the financial markets quite speedily and without high costs. This is a prerequisite for a lower cash reserve, for example in comparison with 2013.

3   SENSITIVITY ANALYSES AND COMPARISON WITH THE PREVIOUS UPDATE

The Stability Programme of SR is based on the baseline macroeconomic forecast with exogenous assumptions concerning the external environment, as described in Part 1. This section presents risk scenarios derived from model simulations assuming a higher growth of foreign prices and of oil prices, as well as a depreciation of the euro against the American dollar[53].

Risks in the development of foreign demand, i.e. the weighted imports of our trading partners, currently seem to be balanced. The current short-term forecasts present a more positive development than was anticipated in the February forecast of MoF SR. On the other hand, the Ukrainian conflict and the Eurozone's dealing with the situation in Greece represent negative risks. These risks, which cannot be easily quantified, are the main reason why the sensitivity analysis does not consider the scenario of a higher growth of foreign demand as suggested by the updated leading data on the development of the Eurozone.

3.1   Risk scenarios

1st scenario: Higher oil prices

The first scenario includes the risk of the growth of the oil price. In the February macroeconomic forecast the average oil price in 2015 was determined at the level of 49.8 dollars per barrel based on the January future contract prices. Oil is currently trading at 56 dollars per barrel and the future contract prices imply a possible further growth of prices in the course of this year up to 62 dollars. Thus the current development, together with the oil price estimate, creates a risk of higher prices in comparison to the MoF SR forecast. The scenario simulates the situation of an oil price increase compared to the baseline scenario by 20% in every year of the forecast while other variables remain fixed[54].

The oil price growth will negatively influence the price level, as it increases the energy price and subsequently also other components of the consumer basket. An increase in the price level will result in a decrease of the investment formation and of household consumption due to decreased real wages. The real economy slowdown will decrease employment and negatively impact the unemployment rate. The price increase is the most significant during the first year; in the following years it will be buffered by the aggregate demand decrease. The greatest decrease of GDP will occur in the first two years. At the end of the monitored period the decrease dynamic will gradually slow down but it will still remain under the level of the basic scenario. The oil shock will deteriorate the trade balance deficit, which will negatively impact the external balance. On the other hand, the impact on public finance is slightly positive, as the tax income growth from higher nominal macro-bases more than compensates for the higher expenditures. For the same reason, the simulated growth of oil prices causes an insignificant decrease of the debt.

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[53] 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

[54] A one-country model is used for the simulation in which the foreign Eurozone and V3 countries represent exogenous inputs. Thus the scenarios do not consider changes in the preconditions with regard to the outer environment and so-called spill-over effects. From this perspective the presented scenarios can be underestimated.

TAB 19 – 1st scenario: Permanent growth of oil price by 20%

Cumulative change of variables compared to baseline scenario in p.p.

	Household consumption	Gross fixed investment	GDP	Unemployment rate	CPI	Current account balance (in % of GDP)	General government balance (in % of GDP)	General government debt (in % of GDP)
2015	-0.4	-0.1	-0.14	0.0	0.7	-0.4	0.04	-0.0
2016	-0.6	-0.2	-0.25	0.1	1.0	-0.6	0.03	-0.1
2017	-0.5	-0.3	-0.28	0.1	1.2	-0.7	0.06	-0.1
2018	-0.5	-0.3	-0.29	0.1	1.3	-0.9	0.09	-0.2

Source: MoF

2nd scenario: Depreciation of EUR/USD

The exchange rate of the common European currency is currently at the weakest levels in the last twelve years. In the first half of February, the EUR dropped by 5%. More factors have influenced its sharp decline: the ECB quantitative easing programme, internal destabilisation of the Eurozone in relation to the negotiations concerning the Greek debt and the great condition of the American economy opening the door to an earlier increasing of interest rates. These factors together can cause a further depreciation of the EUR exchange rate until parity in relation to the USD. The following scenario models the EUR/USD depreciation by 10% in 2015. In the remaining years covered by the forecast, the exchange rate will gradually grow to the level of the baseline scenario, i.e. the shock is assumed to be transitory.

The share of goods traded in dollars represents approximately 10% of Slovak imports. They are mainly represented by imports of some commodities, such as oil and oil products. The depreciation of the EUR/USD will therefore increase the energy price, which will subsequently reflect in the growth of production and consumer prices. A decrease of the real wages will negatively affect household consumption. The price increase will also reflect in the lower profitability of companies and it will subsequently limit investment activities. On the other hand, the depreciation of the real exchange rate increases the competitiveness of our exporters. However, with view to the small proportion of goods exported to the areas using the dollar, the positive impact on economic growth is rather minimal. Similarly as in the first scenario, the simulation does not consider the secondary effects ensuing from the growing exports and prices of our foreign trading partners. The greatest impact of the shock on economic growth occurs during the first year and reaches 0.07 p.p. In the following years the impact on growth and prices will decrease as the exchange rate will gradually return to its original level. The depreciation of the EUR/USD will increase the nominal growth of imports, which will contribute to the deterioration of the current account balance. The impact on the general government deficit and debt is not significant in this scenario, as impacts on revenues and expenditures of the general government will be mutually set off.

TAB 20 – 2nd scenario: Depreciation of EUR/USD by 10% in 2015 – a transitive shock

Cumulative change of variables compared to the baseline scenario 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)
2015	-0.2	-0.1	-0.07	0.0	0.4	-0.2	0.03	0.0
2016	-0.3	-0.1	-0.13	0.0	0.4	-0.2	0.00	0.0
2017	-0.1	-0.1	-0.13	0.0	0.3	-0.2	0.01	0.0
2018	0.0	-0.1	-0.12	0.0	0.1	-0.2	0.00	0.0

*Source: MoF
SR*

3rd scenario: Higher growth of foreign prices

In the previous two scenarios the impact on the Slovak economy and the transmission in domestic prices is limited by the energy intensity and the size of foreign trade against the dollar zone. The third scenario considers the risk of accelerating inflation in the Eurozone where the main triggering factor could be represented by the effect of a

quantitative easing mainly in the second half of this year. The following scenario simulates an increased growth rate of foreign prices evenly for the export and import competition by 1 p.p. in 2015.

The increase of foreign export prices or competitive prices on the import side will reflect in an immediate speeding up of import prices, which – by means of a higher imported inflation – will increase the growth rate of all deflators and the overall price level in the economy. The government consumption deflator responds with a slight delay. Through the real exchange rate channel, real imports of our goods and services are slightly growing. A speeding up of the foreign price growth will improve the price competition of our exporters, which will contribute to the formation of investments and to higher production. Simultaneously, thanks to higher job creation, the unemployment rate will slightly decrease. A speeding up of demand and production growth will subsequently contribute to the increasing domestic price level. The higher dynamics of nominal exports compared to imports will reflect in an improvement of the current account balance. Increased nominal tax bases will cause a decrease of the balance and the debt of the general government. A higher price growth decreases the general government deficit approximately by 0.1% of GDP. There is also a slight decrease of the debt in relation to GDP; the cumulative impact in 2018 will reach 0.5% of GDP.

TAB 21 – 3rd scenario: Increase in the growth of foreign prices by 1 p.p. in 2015

Cumulative change of variables compared to baseline scenario 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)
2015	0.1	0.25	0.3	0.0	0.3	0.0	0.09	-0.1
2016	0.0	0.14	0.1	-0.1	0.7	0.2	0.13	-0.2
2017	0.0	0.07	0.0	0.0	0.8	0.2	0.13	-0.4
2018	0.0	0.03	0.0	0.0	0.9	0.1	0.14	-0.5

Source: MoF SR

3.2 Comparison with the previous update

The Stability Programme of the Slovak Republic for 2015–2018 contains updated macroeconomic estimates and budgetary objectives. Compared to last-year's update from April 2014, the forecast of the general government debt improved and the target values of the general government balance in 2016 and 2017 were slightly loosened up.

TAB 22 – Comparison of the previous and updated forecasts

	ESA code	2014	2015	2016	2017	2018
Real GDP growth (%)						
Previous update*		2.3	3.0	3.2	3.4	-
Outcome and current update		2.4	2.9	3.6	3.6	3.7
Difference		0.1	-0.1	0.4	0.2	-
General government balance (% of GDP)	EDP B.9					
Previous update*		-2.64	-2.49	-1.61	-0.54	-
Outcome and current update		-2.87	-2.55	-1.93	-0.88	-0.53
Difference		-0.23	-0.06	-0.32	-0.34	-
General government gross debt (% of GDP)						
Previous update*		55.2	56.2	54.9	53.4	-
Outcome and current update		53.6	53.4	52.8	51.9	50.3
Difference		-1.6	-2.8	-2.1	-1.5	-

*Note: * Stability Programme of SR for 2014 - 2017*   *Source: MoF SR*

4 THE SUSTAINABILITY OF PUBLIC FINANCES

The long-term sustainability of public finances has an economic, ethical and inter-generational dimension. Healthy public finance is a necessary prerequisite for sustainable economic growth and should also contribute to intergenerational fairness. Past deficits and the resulting levels of debt, if not used for productive investments, automatically imply debiting future generations who may not have benefited from previous policies. Therefore, the current generations should not transfer too heavy financial burdens on future generations.

In order to ensure the long-term sustainability of public finance it is necessary that the pension and healthcare system can flexibly respond to the changing needs of the population and to the **challenges related to ageing.** According to the EC report[55], in the next 30 to 50 years all EU Member States will face considerable demographic changes with an ensuing negative impact on the pension and healthcare system. Slovakia belongs to the countries with the greatest demographic changes[56].

Despite the successful consolidation in the previous years and the planned structurally balanced budget, the improvement of the public finance results might not be sufficient to ensure long-term sustainability. It is therefore necessary to appropriately set the pension and healthcare system, as well as the long-term care system funding in view of the fact that they represent the most significant share of public expenditures, sensitive to population ageing.

The Government of the Slovak Republic has adopted several significant amendments to the pension system which improve its long-term sustainability in a comprehensive way.

- In 2012, a major **pension system reform** was adopted. The key changes with a positive impact on public finance include the automatic increase in the statutory retirement age depending on life expectancy, a change in the indexation of pension benefits and the strengthening of solidarity in awarding new pensions and changes to the maximum assessment base for the payment of social insurance contributions. Changes in the fully-funded pillar increase revenues of the pension system on the one hand, but increase its future expenditures on the other. Over the relevant period until 2060, their cumulative impact on the general government balance is positive. In 2060 the pension system deficit should be lower by 4 percentage points compared to the scenario without any reform[57].
- In 2013, **changes in the social security scheme of the police and armed forces** were adopted, with the aim to stabilize expenditure on pensions of these units. The key measures include an increase in the number of years in service necessary to be awarded a pension and changes in the indexation of retirement rents so that they reflect increases in pension benefits in the pay-as-you-go pillar of the pension system and years of seniority.

In addition to parametric or systemic reforms of the pension system, in order to counteract the adverse effects of ageing it is necessary to implement structural reforms promoting growth and employment. Higher employment, productivity and higher economic growth not only improve the living standard of the population, but they may considerably help the sustainability of the pension system and the overall consolidation of public finance. Adequate

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[55] European Commission (DG ECFIN) and the Economic Policy Committee (AWG) (2015–forthcoming) 'The 2015 Ageing report: Economic and budgetary projections for the EU27 Member States (2013–2060), European Economy, No 2, 2015.

[56] According to the latest demographic projections by Eurostat (EUROPOP), Slovakia will be a country with a big change in the age structure of the population. According to the europop 2013 projections the number of persons in work will decrease in the period of 2013–2060 by 1,433,000. The old-age dependency ratio (proportion of the population at post-productive age of 65+ and population at productive age of 20–64) will deteriorate from 20.0% in 2013 to 72% in 2060.

[57] The time horizon until 2060 is too short to objectively evaluate this measure, as its negative effects are manifested with a longer delay. More detailed information about the pension system reform in 2012 is contained in the "Stability Programme of the Slovak Republic for 2013–2016" (http://www.finance.gov.sk/Components/CategoryDocuments/s_LoadDocument.aspx?categoryId=120&documentId=9803) and the IFP brief "Ageing will increase expenditures, the pension system reform has helped", (http://www.finance.gov.sk/Components/CategoryDocuments/s_LoadDocument.aspx?categoryId=8886&documentId=9796, April 2013).

and efficient tax burden, labour market regulation supporting job creation and flexible markets of goods and services are prerequisites for higher employment and productivity.

4.1   Long-term budgetary outlook in the context of population ageing

Long-term projection of age-related public revenue and expenditure

The long-term projections of the expenditures sensitive to ageing identify the general government expenditures that can be positively or negatively affected by demographic changes. The projection is prepared and regularly updated by AWG (Ageing Working Group) in cooperation with the EC. Expenditures include public pension expenditures[58], healthcare[59], long-term care, education and unemployment benefits. The revenue side reflects changes in property income[60] and, in certain countries including Slovakia, changes resulting from pension system reforms. In Slovakia, these include a shortfall in general government revenues brought about by the situation in the fully-funded pillar of the pension system.

CHART 28 – Age-related spending (ESA2010, in % of GDP)
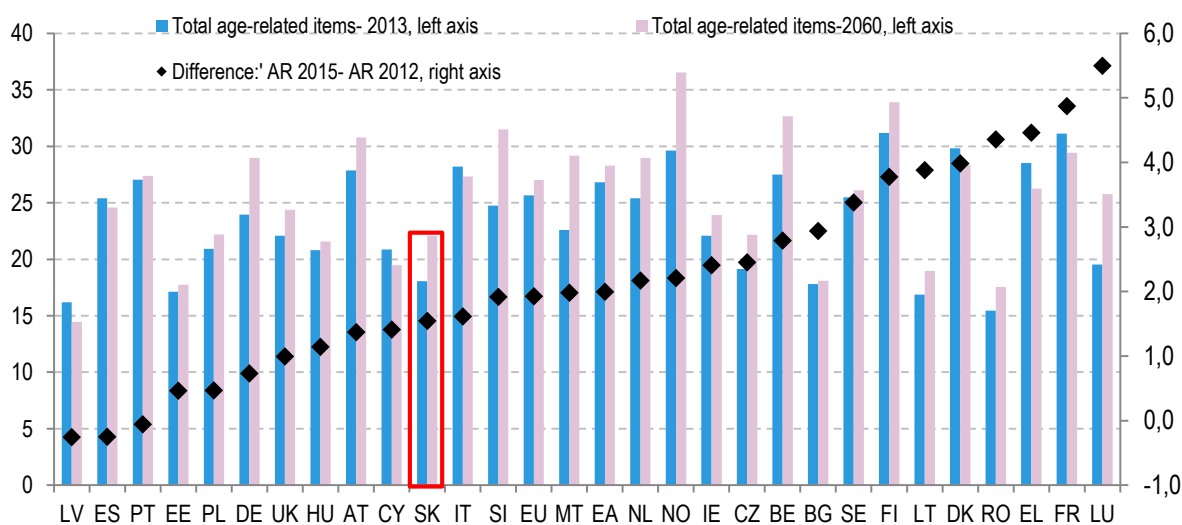
Source: AWG 2015

According to the latest AWG projections, age-related public expenditure will significantly increase by 2060 and will therefore have a negative impact on the GG balance. In 2013 total age-related expenditure was 18.1% of GDP, which is the sixth lowest level in the EU. The spending is projected to increase by 4% of GDP to the level of 22.1% of GDP by 2060. The age-related expenditure change from 2013 to 2060 is the fifth highest among EU member states. Pensions and healthcare are the main determinants of such expenditure growth. Pension expenditure will increase by 2.2% of GDP to 10.7% of GDP by 2060. Healthcare expenditure will increase by 2.0% of GDP to 7.7% of GDP by 2060, which is the third highest growth in EU. The growth of long-term care expenditure is projected to be below the EU average.

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[58] Pension benefits comprise – in addition to old-age pensions, early old-age pensions, disability pensions and survivor pensions - also social assistance. This is due to the fact that the current system does not explicitly guarantee a minimum pension which implies that the effects of ageing could be underestimated for those pensioners who will receive a supplementary social benefit on top of their pension. Updated projections from April 2015 also include expenditures on old-age pensions of armed resorts forming approximately 0.3% of GDP as a part of public pension expenditures, as well as Christmas pensions.

[59] Expenditures on healthcare, long-term care, education and unemployment benefits are defined by the AWG to ensure international comparability and are described in the "2015 Ageing report".

[60] The fall in property income proportion to GDP in the AWG projections is not caused by demographic factors. It is implicitly assumed by the EC methodology that the nominal sum of general government assets will remain fixed over time and that the income from them as a fraction of GDP will be falling. In the event that the ratio of property income should remain stable as a proportion on GDP, additional investments at the expense of the debt would be needed.

CHART 29 – Pension expenditure (in % of GDP)
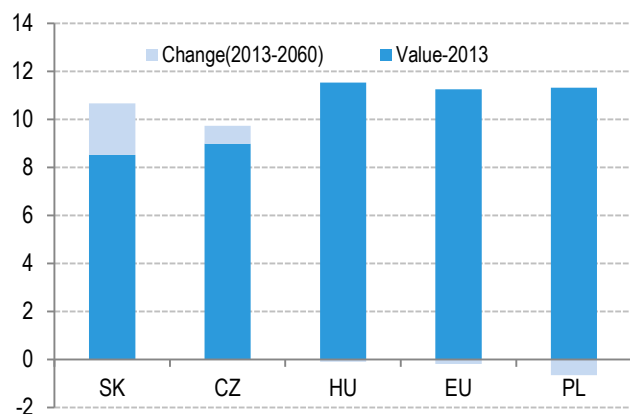
Source: AWG 2015

CHART30 –Healthcare expenditure (in % of GDP)
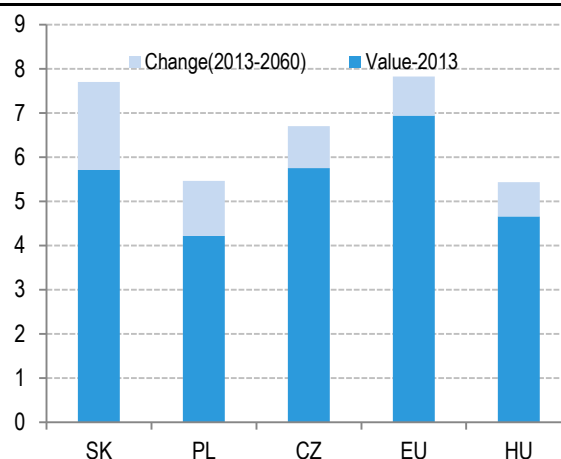
Source: AWG 2015:

In comparison with the previous projection round[61], the negative effect of age-related expenditures is lower. Expenditure growth by 2060 is slower by 1.5% of GDP, although in comparison with other European countries the improvement was below average. The new projection is influenced by an update of the macroeconomic inputs, demography and base year data. Inclusion of the retirement system of armed forces and of Christmas pensions in the projections of expenditure on pensions is a methodological novelty. Significant legislative changes in reforms by 2012 were taken into account in the previous projection.

The changes in demography are mainly caused by a lower fertility rate and lower net migration. According to the new projection, the Slovak population in 2060 should amount to 4.5 million compared to the previous projection of 5.1 million. This change has mainly been caused by a decrease in the fertility rate due to a methodological change. The new projection anticipates that the newborns of Slovak citizens living abroad (approximately 10% of the total number) will not return and therefore they are not counted among Slovak newborns.

A lower negative impact of total age-related expenditure is mainly caused by a slower growth of healthcare and pensions expenditure. Expenditure on healthcare will grow slower by 0.9% of GDP, which is by approximately one third better than the original projection of 2.9% of GDP in 2060. The population in 2060 is projected to be 0.5 million lower, which also means a lower number of patients and related healthcare expenditure. The growth of pension expenditure slowed down by 0.5% of GDP (excluding methodological changes). The improved forecast by 2060 is mainly caused by a change in the model inputs in the base year (for a more detail description of these changes see the IFP comment[62]). The change will lead to a lower benefit ratio (the proportion of the average pension benefit to GDP and the hours worked) in 2060, which is the main source of improvement of the forecasted expenditures on pension growth.

The overall impact of age-related expenditure and of additional factors on the GG balance reaches 4% of GDP. Beyond the scope of impact of the age-related expenditures, changes in property (assets) income[63] and the shortfall of income from the implementation of the fully-funded pillar will also affect the GG balance in 2060.

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[61] An extraordinary round of projections for SR was executed in 2013 due to the significant reform of the pension system.

[62] Rizman T., Harvan P., (2015): Rýchlo starnúce Slovenskom [Quckly ageing Slovakia], komentár IFP číslo 11/2015 [the IFP comment number 11/2015|, forthcoming (the material will be published at the time of publication of the EC document, Ageing report 2015, which was the basis for the aforementioned material)

[63] The fall in property income in proportion to GDP in the AWG projections is not caused by demographic factors. It stems from the assumption that besides the impact of the mutual relationship of the average interest rate development and economic growth, the debt dynamics (in % of GDP) is exclusively determined by the general government primary balance. In light of this assumption, it is implicitly assumed that the nominal sum of general government assets will remain fixed over time and that the income from them as a GDP ratio will be falling.

TAB 23 - Change in GG revenue and expenditure induced by demographic changes (% of GDP)

	2013	2020	2030	2040	2050	2060	Change 2013-2060
A. Revenue shortfall due to the fully-funded pillar	**-0.5**	**-0.6**	**-0.7**	**-0.5**	**-0.3**	**-0.2**	**0.3**
B. Age-related expenditure	**18.1**	**18.3**	**18.3**	**19.0**	**20.5**	**22.1**	**4.0**
- pension expenditure	8.5	8.4	8.0	8.5	9.5	10.7	2.2
- healthcare	5.7	6.1	6.7	7.1	7.5	7.7	2.0
- long-term care	0.2	0.3	0.4	0.5	0.6	0.6	0.4
- education	3.4	3.2	3.1	2.8	2.8	2.9	-0.4
- unemployment benefits	**0.2**	**0.2**	**0.2**	**0.1**	**0.1**	**0.1**	**-0.1**
C. Property income	**1.1**	**1.0**	**0.9**	**0.9**	**0.8**	**0.8**	**-0.3**
Impact on the general government balance							**-4.0**

Source: MoF SR, EC

Assessment of long term sustainability using sustainability indicators

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 age-related expenditures (or income decrease) presented in the previous part. The reason is that the current policy set (fiscal discipline, pension system, health care system) is sustainable in the long run (capable of preventing the uncontrolled growth of debt and maintaining its stable level) with the general government debt at its present level. For these purposes, the EC uses the so-called sustainability indicators[64] S1 and S2.

BOX 4 – 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. Initially, the indicator recorded changes in the primary balance by the year 2060. The change compared to the past means that the achieving of the primary structural balance leading to the targeted debt amount is distributed over several years. Based of 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 3 place the countries in the medium risk group and values of more than 3 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 gross debt. Unlike S1, the S2 indicator takes into account projections related to ageing in an indefinite 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.

In addition to the traditional sustainability indicators, the EC also uses the **S0 indicator.** It is an early warning indicator of fiscal risks which could materialize in the short-term 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. In the opinion of the Ministry of Finance, this approach is 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 negative until 2030, while in the long-term horizon they will have slightly positive impact from 2030.

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[64] European Commission – DG ECFIN (2012) 'Fiscal Sustainability Report 2012, European Economy, No 8, 2012.

In the following part the sustainability indicators are calculated according to the MoF SR approach for three scenarios which take into account the positive impacts of the retirement reform implemented in 2012 and 2013.

- **2015 scenario** is based on the forecast of debt and of the primary structural balance for 2015.
- **MTO scenario** is based on the assumption of achieving the medium-term budgetary objective in 2017 in line with the set fiscal objectives until 2017 and the corresponding level of debt and of the primary structural balance.
- **2015 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 2015 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 the level of 47% of GDP in 2030.[65]

TAB 24 – Assumptions used in the calculation of the indicators

	base year (t_0)	SPB	DEBT (t_0)	gradual consolidation	DEBT (t_1)	base year (t_0)
2015 scenario	2015	0.1	53.4	2016-2020	60	2015
MTO scenario	2017	0.9	51.9	2018-2020	60	2017
p.m.: 2015 scenario with debt brake	*2015*	*0.1*	*53.4*	*2018-2020*	*47*	*2015*

SPB – Structural primary balance

In the middle-term horizon Slovakia is classified as a low-risk country according to the S1 indicator. The negative values amounting to -0.4 in the 2015 scenario and to -1.5 in the MTO scenario indicate that in the medium-term perspective additional consolidation measures are not needed, and there is even a fiscal space in the general government balance. The scenario with the debt brake indicates the medium risk of sustainability. This adjusted scenario is stricter, as a more favourable fiscal position is needed for lower debt levels. To decrease the debt level to 47% of GDP in 2030, the current primary structural balance will have to be improved by 0.6% of GDP.

In the long-term horizon Slovakia is assesed as a country with medium risk**.** The sustainability gap based on the calculated values of the S2 indicator represents the value of 2.9. The need for an additional improvement of the primary structural balance is mainly due to the increasing expenditures on healthcare and long-term care (1.5-1.6 p.p.) and pension expenditures which will increase particularly after 2030 (0.7-0.9 p.p.). Provided that MTO is achieved in 2017, the S2 indicator values would achieve 2.0, which represents the borderline between the countries with medium and low risk.

TAB 25 -– Sustainability indicators S1 and S2 (% of GDP)

	S1	IBP	CDA	DR	LE	2P	S2	IBP	PE	HLC	EUB	2P
2015 scenario	**-0.4**	-0.1	0.0	-0.4	0.1	0.2	**2.9**	0.9	0.7	1.6	-0.3	-0.1
MTO scenario	**-1.5**	-0.9	-0.1	-0.6	0.0	0.2	**2.0**	0.1	0.9	1.5	-0.3	-0.1
p.m.: 2015 scenario with debt brake	*0.6*	*-0.1*	*0.1*	*0.4*	*0.1*	*0.1*	*-*	*-*	*-*	*-*	*-*	*-*

Source: MoF SR

Contributions of the components (in p.p.):
IBP – initial budgetary position
CDA – costs of delaying adjustment
DR – debt requirement in the final year
LE – long-term expenditures (ageing costs)

2P – revenue shortfall due to second pillar
PE – pension expenditures
HLC – health and long-term care
EUB –education and unemployment benefits expenditure

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[65] According to the constitutional 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. The above-mentioned limit will be annually decreased by 1 p.p. starting from 2018.

5   PUBLIC FINANCE QUALITY

In July 2014, the European Council approved six guidelines for the Slovak Republic concerning fiscal policy, structural measures and general government efficiency:

1. Continue decreasing the structural balance of public finance until reaching the medium-term objective and to improve financial sustainability;
2. Improve the tax collection efficiency;
3. Address the issues of employment and the labour market more efficiently;
4. Adopt measures to increase the quality of education, science and research;
5. Intensify the efforts to improve the functioning of the energy market;
6. Improve the functioning of the general government.

The Slovak fiscal policy emphasises balanced public finances in the long term as an essential precondition to maintain macroeconomic and financial stability and trust in financial markets without which the sustainable growth of well-being is impossible. In 2015 and 2016, a converging to the medium-term target is again anticipated. Increasing efforts in tax collection creates space for the implementation of structural measures for the labour market, education and public expenditure efficiency.

In 2015, the Government is implementing necessary measures on revenues and expenditures , that will enable achieving the anticipated general government balance of 2.55% of GDP. Under no-policy-change scenario , the general government deficit would amount to up to 3.53% of GDP as early as this year. The overall effect of the measures thus amounts to 0.98% of GDP (EUR 754 mill.) which concerns mostly expenditures (1.09% of GDP). Changes in revenues increase the deficit by 0.12% of GDP.

TAB 26 – Measures included in the GG draft budget for 2015 (ESA 2010, comparing to NPC)

	EUR mill.	% of GDP
Revenue measures	**-90**	**-0.12**
of which EBAs	*-268*	*-0.35*
other	*178*	*0.23*
Expenditure measures	**844**	**1.09**
of which EBAs	*431*	*0.56*
other	*413*	*0.53*
Impact of measures on general government balance	**754**	**0.98**
of which EBAs	*163*	*0.21*
other	*591*	*0.76*

Note: (+) means increased revenues or decreased expenditures   Source: MoF SR

Extra-budgetary accounts (EBAs), which – as ensues from their definition – are not included in the general government budget or in the expected reality for 2015, represent a significant item impacting the changes in comparison to NPC. For the correct assessment of the changes implemented in 2015 it is therefore necessary to monitor these revenues and expenditures independently. The impact of changes in EBAs on the improvement of the general government fiscal performance in 2015 amounts to 0.21% of GDP (EUR 163 mill.).

5.1   Development in revenues

As regards revenues, combating tax fraud remains the most important priority, as it contributes to the higher efficiency and fair taxation. In 2012, the **Action plan to combat tax fraud** was approved, in which 50 measures were adopted in three stages, focused mainly on decreasing VAT evasions. **The measures adopted to combat VAT tax fraud were also reflected in better tax collection**. After several years of a decline in the efficiency of VAT collection, measured as the effective tax rate, started to increase in the third quarter of 2012. The effective tax rate currently amounts to the level of 2008. According to the updated estimatesthe improved effectiveness of VAT

collection in comparison to 2012 brought additional revenues of approximately EUR 250 million (0.3% of GDP) in 2013 and of EUR 650 million (0.9% of GDP) in 2014.

CHART 31 – Effectiveness in VAT collection (EDS)

Source: MoF SR
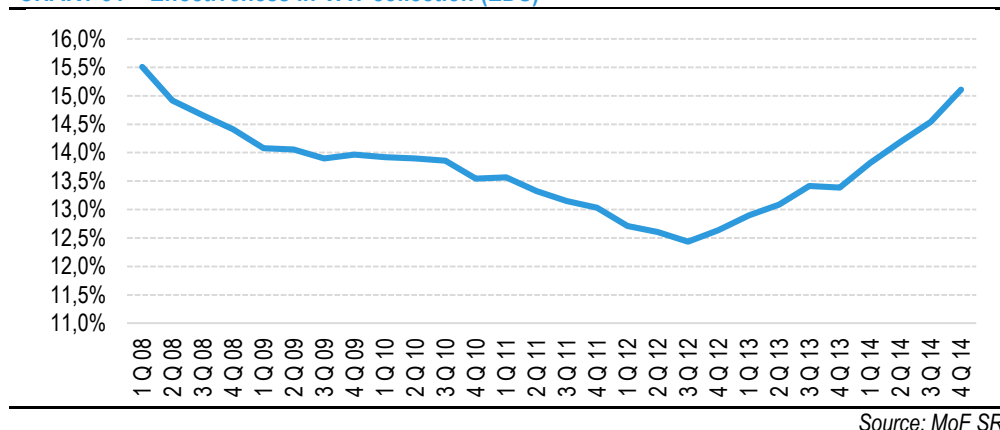
Measures adopted in 2015

In 2015, other measures focused on improved tax collection amounting to EUR 478 million (0.62% of GDP) became effective. Specifically, it concerns changes in property depreciation, implementation of low capitalization rules, an extension of the duty to use electronic cash registers, the implementation of a withholding tax for the performance of pharmaceutical companies and a tax expenditure audit. The VAT rate remains at 20%. Since January 2015, the deduction of expenditures used for research and developments from the income tax base has been allowed, which will decrease tax revenues by approximately EUR 24 million (0.03% of GDP). In addition to tax measures, revenues from social security contributions will decrease by EUR 165 million (0.21% of GDP) after the health contribution allowance for the lowest-income group of employees becomes effective. Non-tax revenues will decrease in 2015 by EUR 378 million (0.49% of GDP).

TAB 27 – Revenue measures included in the GG draft budget for 2015 (ESA 2010, against NPC scenario)

Measure	ESA2010	EUR mill.	% of GDP
1. Maintaining of the VAT rate at 20%	**D.211R**	**237**	**0.31**
2. Changes in the property tax depreciation		**123**	**0.16**
- extension of depreciation of administrative buildings from 20 to 40 years	D.51R	37	0.05
- limitation of accelerated depreciation only for production machinery and equipment	D.51R	29	0.04
- cancelling of advantageous leasing depreciation	D.51R	18	0.02
- depreciation of expenditures non-applied upon VAT deduction with use of a coefficient	D.51R	40	0.05
3. Measures to increase the effectiveness of tax collection (ECR and farmafirms)		**57**	**0.07**
- extension of the duty to keep records of sales in the electronic cash register (ECR)	D.51R	54	0.07
- withholding income tax on financial and non-financial benefits from pharmaceutical companies for doctors	D.51R	3	0.00
4. Introduction of low capitalization rules	**D.51R**	**48**	**0.06**
5. Deduction of the expenditures on science and research from the tax base	**D.51R**	**-24**	**-0.03**
6. Changes in tax eligible expenditures and the harmonization of tax exemption for students	**D.51R**	**12**	**0.02**
7. Contribution tax allowance	**D.61R**	**-165**	**-0.21**
Aggregate legislative tax measures from the Tax Revenue Forecasts Committee (1st – 7th)		**289**	**0.37**
Other changes in expenditures in relation to NPC, of which		**-378**	**-0.49**
State budget		-25	-0.03
EBAs		-268	-0.35
Public universities and other general government entities		-12	-0.02
Local governments		-48	-0.06
Social security contributions		-26	-0.03
Revenues in total		**-90**	**0.08**

1. The amendment to the **value added tax act has maintains the tax rate of 20% since 2015.**

2. A number of **changes in property tax depreciation** have been implemented with the common objective of increasing the effectiveness of tax collection limiting very advantageous conditions of depreciation in international comparison. All changes in depreciation also apply to the property, which has already been depreciated. These measures include the prolongation of the depreciation period for administrative building from the current 20 to 40 years. The current depreciation period for these buildings did not reflect the real life span and usability. Moreover, it was unreasonably short even in comparison to the neighbouring countries which depreciate this property for 50 years (with the exception of Poland with the depreciation period of 40 years). The option of advantageous leasing depreciation has been cancelled.

3. To increase the effectiveness of tax collection, the **duty to record sales in the electronic cash register will be extended** to new areas (hotels and restaurants, expert science and technical activities and general practitioners, specialists, dentists etc.) and the **duty to apply withholding tax on financial and non-financial remuneration from pharmaceutical companies**.

4. The implementation of **low capitalization rules** is a step to limit the possibility of tax fraud and profit-shifting among economically or personally interconnected companies (**transfer pricing**). Low capitalization rules are a basic tool in almost all developed countries. With this change Slovakia will join the countries actively combating unfair practices of profit-shifting abroad with the aim of decreasing the tax duty. The interest on loans from dependent persons will be eligible as tax expenditures only up to 25% of EBITDA. The measure will also be applied to domestic interconnected companies consolidating their profits and losses within the group.

5. The implementation of the deduction of the expenditure used for research and development from the tax base will have a positive impact on **investments into science and research** in Slovakia. The measure includes a direct deduction of expenditures in the total amount of 25% of the overall amount of expenditures, plus 25% of the year-on-year increase of expenditures and 25% of the amount of expenditures on wages of the newly recruited graduates.

6. Based on the **tax audit** Amendment of the Income Tax Act also limits selected various expenditures as tax deductible items . This includes for example the upper boundary for the input price of motor vehicles and taxation of the income from contractual penalties. It also includes the increasing and harmonization of the contribution relief for students.

7. With effect from January 2015, the Government approved a reform of contributions to strengthen incentives for low-wage labour supply and the demand for such labour. It is based on contribution allowance by means of the **health contribution allowance (HCA)**[66], which will fully compensate for the planned increase of the minimum wage (almost by 8% on a year-on-year basis). The implementation of the deductible contribution allowances was meant to achieve the following objectives:

   - To maintain the labour costs of the minimum wage at the level from the previous year;
   - To decrease the labour costs and thus to increase the demand for labour above the minimum wage level (low-income workers);
   - To increase the net wage of low-income workers;
   - To increase the consumption of low-income workers.

   HCA is applicable in the amount of EUR 380 (equally as the minimum wage in 2015). With increasing income, HCA gradually decreases and the entitlement fades out with income above EUR 570 per month. Deductible

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[66] For more information see the IFP comment at: http://www.finance.gov.sk/Default.aspx?CatID=9878

allowances are only applicable for income from employment, while when determining the entitlement other revenues are also considered. The anticipated number of affected employees amounts to 480–620 thousand.

The costs of implementing the deductible allowance caused by reduced contribution revenues of health insurance companies from economically active citizens is estimated to reach EUR 165 million in 2015. To secure the sustainability of fiscal performance of the public health insurance, the cash shortfall of income of insurance companies amounting to EUR 152 million is fully compensated from the state budget.[67]

With the aim to create conditions to ensure secondary school vocational education and the preparation of pupils in compliance with the needs of the labour market, changes with the aim to support **dual education** have been implemented since 2015. Newly created tax incentives should motivate companies to engage in the vocational training system. The main motivating factor should be represented by a flat-rate relief from the tax base (EUR 1,600 per year per pupil who is trained by the employer for 200 to 400 hours per year and EUR 3,200 per year per pupil who is trained by the employer for over 400 hours per year). Other motivation tools are: an option to deduct the costs provided from the employers' funds for the financial and social security of pupils as a tax expenditure, an option to apply the minimum amount of costs to finance practical education as a tax expenditure and the exemption of rewards for the pupils' productive work from health contributions. The negative effect of these exemptions applies gradually with view to the number of engaged pupils and employers in the dual education system, while in 2018 it is anticipated to reach EUR 16 million. With view to the fact that the Dual Education Act was submitted to the legislative procedure as late as during 2015, it is not included in the February tax forecast. The validity of the measure starts in April 2015.

Measures adopted in 2016

Beyond the scope of the included measures, we are also presenting a measure submitted by the government for interdepartmental comments after the budget approval for 2015 with the anticipated validity from 2016.

In relation to the effort to increase the effectiveness of the collection of excise duties, there has been a **change in the way of taxing cigars and cigarillos**. This measure responds to the increasing share of "pseudo-cigars" on the market with the aim of profiting from the lower taxation of cigars in comparison to tobacco. It concerns fake cigars fulfilling the formal requirements of cigars, while their tobacco content is used to make cigarettes by hand. The current way of taxation depending on the amount is proposed to be replaced with taxation based on the weight. The positive impact of this measure on GG is anticipated to amount to EUR 20 million.

Other considered **changes in VAT** respond to this effort to improve the business environment in Slovakia. The implementation of the system enabling VAT payment after the invoice settlement (the "cash accounting scheme", CAS) responds to the insolvency in the business environment, adjusts the conditions regarding the application of tax security and softens the conditions for excessive deduction refunds within a shortened time-limit of 30 days. CAS represents a voluntary system of VAT where the tax duty ensues from the executed payments. It means that the emergence of the tax liability of the delivered goods and services is postponed until the moment of accepting a consideration (and the emergence of the tax allowance right is also postponed).

The concepti of the capital market development as approved by the Government anticipates the adoption of **measures to support a regulated capital market**. These measures include tax advantages provided on securities held for over 1 year, the cancellation of healthcare contributions from securities and dividends from stocks admitted for trading on the regulated market or a tax exemption of a new product of long-term investment savings while observing the lawfully defined conditions. The aforementioned changes will have a negative impact on tax revenues amounting to EUR 6 million per year.

Measures are implemented to stabilize **tax assignments** and to increase the transparency of the used assigned funds. Based on an agreement with representatives of the non-profit sector, a proposal has been made to maintain the motivating element of legal entity assignations at the level of 2% if they provide a gift of 0.5% and a decreased assignation option when not providing any gift. It is related to the requirement to make the non-profit sector funding

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[67] With view to its budgetary-neutral character, this transfer is analytically excluded at an equal amount from the measures concerning both revenues and expenditures.

more transparent by means of an internet register of non-governmental organizations, including the publishing of their revenues and expenditures.

With the aim of increasing the motivation to pay their tax duties, a proposal has been made to change the **way of calculating fines** taking into account the time factor, as well as whether an entity admits an error itself or it is only based on a tax audit.

5.2 Developments on the expenditure side

In 2015, the ongoing consolidation of public finance is also reflected in decreasing expenditures of the general government. The protection of expenditures on education, employment and traffic infrastructure supporting the long-term economic potential of the country according to the Council's recommendation remains the governmental priority. In the upcoming years, they will be supplemented by finances from the third programming period of the European funds.

In 2015, public expenditure in Slovakia will reach 39% of GDP, which will rank us among countries with the smallest public sector within the EU. In 2012, the EU average was in fact over 49% of GDP. According to the COFOG methodology, in comparison to the expenditures of fifteen Member Countries of the Union (EU15) Slovakia has allocated the smallest amount of funds for social contribution for 2015. The amount of funds allocated for health, defence, environmental protection, education housing and community amenities will be relatively lower. As regards education, the budget comprises increased expenditures for teacher wages. **In 2015 higher public expenditures than in EU15 will flow to the economic area (e.g. transport, investment incentives, agriculture) and to public order and security (e.g. police and justice).** The EU15 average will also be exceeded by the Slovak public sector expenditures flowing to general public services (e.g. administration and authorities); however, as regards their share on GDP, they will not reach the EU15 level.

General government expenditures in V3 countries[68] do not achieve the EU15 average, but the average level of 45% of GDP in 2012 indicates that the public sector in these countries is also significantly higher than in Slovakia. The expenditure package in our neighbouring countries is allocated similarly as in SR. A comparable share of expenditures flows to social security, defense and environmental protection. Only a slightly lower amount of Slovak funds will be provided to education, recreation, culture, religion housing and community amenities in 2015. To the contrary, compared to V3 countries, Slovakia allocates relatively more funds to health care, public order and security as well as to general public services.

CHART 32 - General government expenditures (left chart – % of total expenditures, right chart – % of GDP)
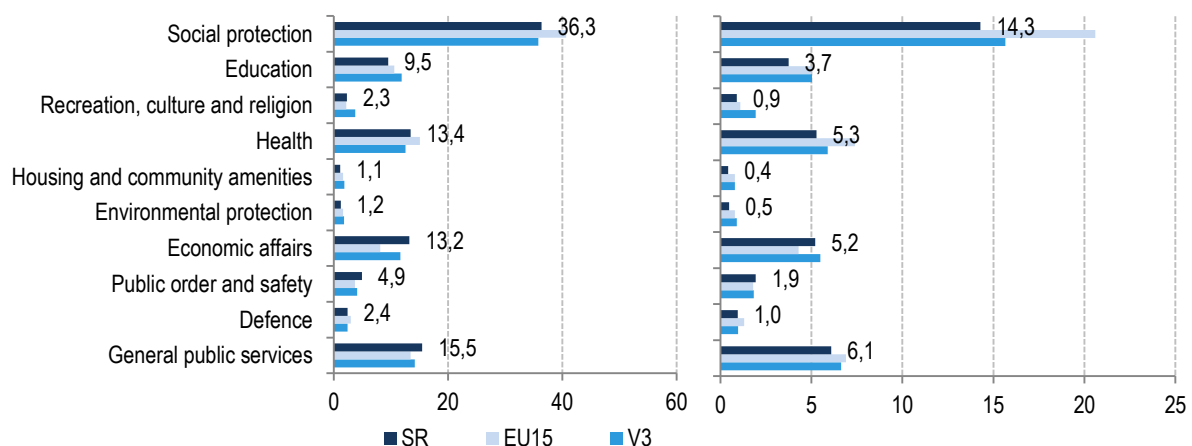
Note: SK=GGB 2015; EÚ15, V3=2012   Source: MoF SR, Eurostat, SO SR

[68] The Visegrad group beside Slovakia

Measures adopted in 2015

In comparison to the no-policy-change scenario, the general government expenditures in 2015 will decrease by EUR 844 million (1.09% of GDP). As regards expenditures, priority measures of the Slovak Government are implemented amounting to EUR 37 million (0.05% of GDP) and wages of regional education teachers are increased (EUR 69 million; 0.09% of GDP). The positive impact of the extra-budgetary expenditure decrease reaches EUR 431 million (0.56% of GDP). Other savings are planned to reach EUR 454 million (0.59% of GDP), mainly as regards capital expenditures and compensations. As regards the state budget, mainly the ESO reform of the general government has been implemented.

TAB 28 – Measures regarding general government expenditures in 2015 (ESA 2010, compared to NPC)

Measure	ESA2010	EUR mill.	% of GDP
1. Government priority measures		**-39**	**-0.05**
- compensations	D.1P	-16	-0.02
- subsidies	D.3P	-13	-0.02
- capital expenditures	P.5	-10	-0.01
2. Increase in wages in the educational system	D.1P	**-69**	**-0.09**
3. Healthcare	D.632P	**67**	**0.09**
Other changes in expenditures in relation to NPC, of which		**885**	**1.14**
EBAs	D.1P	431	0.56
Compensations*	D.1P	313	0.40
Intermediate consumption*	P.2	-297	-0.38
Current transfers*	D.7P	-104	-0.13
Capital expenditures*	P.5	476	0.60
Other (D,3P, D.9P, D.2P, D.5P, D.4P,D.62P)*		74	0.10
Expenditures in total		**844**	**1.09**

Note: (+) means increased revenues or decreased expenditures   Source: MoF SR
EBAs = extra-budgetary accounts
* Without EBAs

1. Expenditures for **governmen priority measures** amounting to EUR 37 million (0.05% of GDP) have been included in the draft, especially:

   - Since 17 November 2014, several groups of inhabitants can **travel by train for free**. The ticket for free transport can be obtained by children, pupils, students under 26 years of age and persons receiving pensions. The funds allocated to this measure amount to EUR 13 million in 2015.
   - To fulfil the Social Assistance Act, 840 new jobs for field workers cooperating with persons receiving benefits will be created in Labour Offices in 2015. The anticipated costs amount to approximately EUR 9 million.
   - In 2015 the allocation for **teacher assistants in regional educational system** was increased by EUR 7 million. It concerns the securing of wage costs for teachers' assistants who will be allocated to schools with disadvantaged pupils according to their needs. The schools' demand should be fully covered.
   - The Government has determined an objective to extend the **capacities of pre-school facilities** with the aim to increase the employment of women, as well as the integration of children from socially disadvantaged environments. In 2015 funds amounting to EUR 10 million were allocated to this measure.
   - To support the long-term unemployed, the **concurrence of assistance in material need and wage** has been implemented since 2015. The entitlement will apply to the long-term unemployed or inactive job applicants upon the occurrence of employment (at least a part-time job) provided that they are also members of households to which assistance in material need is provided or in relation to which the assistance has been terminated due to the occurrence of employment. Income from the new job can

maximally amount to double the minimum wage. For the first 6 months, such employees will obtain EUR 126.44 and for the following 6 months this amount will decrease to EUR 63.07. An individual currently loses the entitlement to assistance in material need as soon as he/she finds a job, even if the provided wage is minimal. The costs to cover the increased general government expenditures will amount approximately to EUR 3 million in 2015.

2. After the increase of wages in regional educational system in 2013 and 2014, the tariff wages of teachers were increased by 5% in 2015. Increased wages should provide motivation toward a higher level of performance and attract better teachers. The tariff wages of non-teaching staff will also be increased by 1.5% in January 2015 and by 1.0% in 1 July 2015. The budgetary costs will amount to EUR 69 million.

3. Compared to NPC, the increase of public expenditures in healthcare in 2015 will be attenuated by measures amounting to 0.09% of GDP, although the funds in health care will still increase. The measures in health care will focus on achieving the highest possible efficiency without endangering the availability and quality of healthcare. Their aim will mainly be to prevent further indebtedness of the 13 state university and faculty hospitals. Price referencing of significant items (instruments, energy, drugs, catering, etc.) will contribute to the recovery of state hospitals and price limits for purchases will be implemented. The financial reports of these hospitals will be audited by an independent auditor and the virtual market place will be used for less costly purchases. With the exception of the University Hospital in Bratislava, public healthcare facilities should achieve a balanced fiscal performance by the end of 2015. As regards the provision of health care, in 2017 a transition to diagnosis-related group (DRG) payments is under preparation.

Excluding the aforementioned quantified measures, the general government expenditures in 2015 will decrease by EUR 885 million (1.14% of GDP) compared to NPC. EUR 431 million (0.56% of GDP) of these expenditures are represented by decreased unbudgeted extra-budgetary expenditures. In addition to this change, the most significant savings will be achieved in capital investments that will decrease by EUR 467 million (0.6% of GDP) compared to NPC, the greatest part of which will concern the state budget (EUR 212 mill.) and self-governing regions (EUR 144 mill.). Employee compensations will mainly decrease in self-governing regions (EUR 188 mill.). Compensation in the entire general government will decrease by EUR 313 million (0.4% of GDP). Intermediate consumption will represent an increasing category of expenditures and will increase within the entire general government by EUR 297 million (0.38% of GDP), mainly in the state budget. Current transfers will also grow by EUR 104 million (0.13% of GDP).

CHART 33 – Savings on general government expenditures according to ESA category (EUR mill., ESA 2010, compared to NPC)
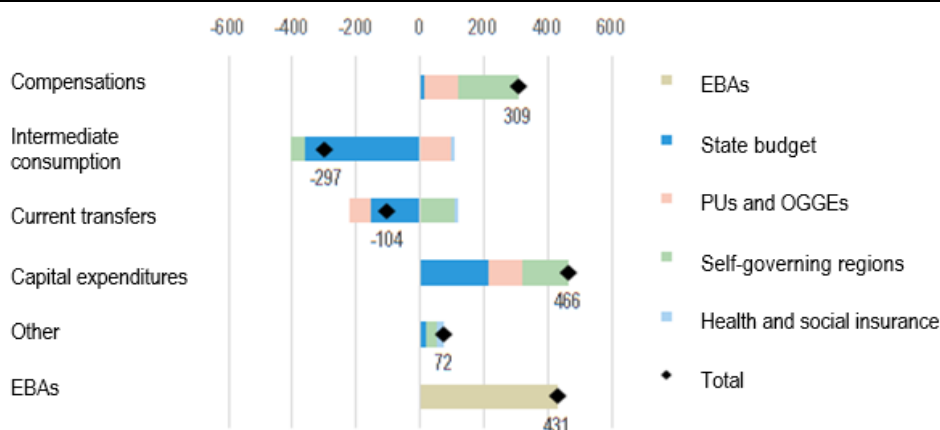
Note: (+) means increased revenues or decreased expenditures   *Source: MoF SR*
EBAs = extra-budgetary accounts
PUs = public universities
OGGEs = other general government entities

Savings on current expenditures of the state budget related to the ESO reform will be compensated by an increase of the items not included in the reform. The Ministry of Interior of the Slovak Republic as the sponsor of the ESO

reform performed an analysis of contributory and budgetary organizations chapter. Based on the analysis of expenditures, processes and activities of the contributory and budgetary organizations, mainly by comparing the costs of wages and goods and services per employee, possible areas for expenditure saving were identified and subsequently reflected in the draft state budget.

The ESO reform is also related to other organization changes enabling the further increasing of the state administration efficiency. Thus in 2015, some 46 offices of labour, social affairs and family will lose their legal subjectivity and will come under the direct management of the Central Office of Labour, Social Affairs and Family. Thus the Government will gain better control over the expenditures of these offices, their closing and establishing. The human resource management flexibility will also increase as it will be able to respond to the differing capacity needs of the employment services provided in the particular regions. In addition to the changes in local governments, the organizations of the Slovak Academy of Science will transform into a new form of independent legal entities – public research institutions.

EU funds

The allocation of EU resources represents a crucial resource for the investment and growth priorities of Slovakia. The general government budget for 2015 and the budget framework for 2016–2018 therefore assumes a drawdown of EU resources from the second programming period and a speedy start to the use of finances from the new multi-year framework.

In June 2014, SR concluded a Partnership Agreement with the EC on the using of European structural and investment funds in 2014–2020. The priority of Slovakia is to focus investments on key growth sectors, such as transport infrastructure, research, development and innovations, support to small and medium companies, environmental protection, digital agenda, energetic efficiency and renewable energy resources, as well as employment, education, social inclusion and the increasing of the general government efficiency. Within the 2014-2020 ESIF target "Investing in growth and employment", the EC has approved seven operational programmes funded form the structural funds and the Cohesion Fund and the Rural Development Programme funded from the European Agricultural Fund for Rural Development. The Operational Programme Fisheries is prepared for approval.

TAB 29 – EU funds according to OPs

Operational programmes	Governing body	Allocations from EU funds (EUR mill.)
Research and Innovations	MoESRaS SR	2,267
Integrated Infrastructure	MoTCaRD SR	3,967
Human Resources	MoLSAaF SR	2,205
Environmental Quality	MoEnv SR	3,138
Integrated Regional OP	MoARD SR	1,754
Effective General Government	MoI SR	278
Technical aid	GO SR	159
Rural Development Programme	MoARD SR	1,560
Fisheries	MoARD SR	16
In total		**15,344**

Within the target European territorial cooperation, Slovakia will be engaged in the implementation of 11 programmes and will serve as the governing body for four programmes in 2014–2020: Slovak Republic – Czech Republic, Slovak Republic – Austria, Slovakia – Hungary and INTERACT. As concerns other programmes, an appointed entity will perform the functionof the national authority or the national contact point. Slovakia is involved in five programmes of cross-border cooperation, two programmes of multinational cooperation and four programmes of inter-regional cooperation.

Compared to the previous period, the total number of OPs has decreased. On the other hand, a higher number of intermediate bodies was created as a result of reflecting all thematic objectives and new ESIF elements, which will create a greater requirement for coordination within the system, among operational programmes and among managing authorities and intermediate bodies of individual programmes.

The fundamental legislative framework for implementation is established by the law on contribution provided from the European structural and investment funds (ESIF). During 2014, the Slovak Government also approved key documents enabling the coordination of ESIF implementation in the Slovak Republic (for example entity structure, governance system and financial management system) The central coordination body at the Government Office of the Slovak Republic regularly submits drafts and issues guidelines and recommendations ensuing from the ESIF management system 2014–2020.

A new monitoring system called ITMS 2014 + is being intensely elaborated, which should enable the ESIF contribution beneficiaries to submit documents and information in electronic form. The aim is to ensure the electronic document and information exchange among receivers and the managing authority, the certification authority, the audit authority and the facilitating bodies according to the e-Cohesion principles by the end of 2015.

6   INSTITUTIONAL ASPECTS OF PUBLIC FINANCE

Fiscal compact

In the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, the fiscal compact embodies European fiscal rules in the national legislation. Slovakia implemented the fiscal compact by an amendment of the General Government Budgetary Rules Act [69] with effect from January 2014. Two new budgetary duties result from the Act, especially the rule of balanced budget[70] and the application of a correction mechanism in the event of a significant deviation from this rule.

Two assessments of the balanced budget rule in compliance with the fiscal compact were carried out in 2013. For the first time the assessment was submitted in June 2014 on the basis of the April Eurostat notification. An updated assessment carried out in November 2014 also took changes in the methodology of national accounts (ESA 2010) into account, supplementing in comparison to the April notification inter alia a review of GDP, the general government debt and deficit.

The assessment stated that in 2013 no significant deviation had been identified. Although Slovakia did not reach a balanced budget, it was on a trajectory towards this objective. The consolidation efforts have been much greater than required by the fiscal compact and the development of adjusted public expenditures has fulfilled the expenditure rules. Simultaneously, no extraordinary circumstance took place in 2013. The Council for Budget Responsibility (CBR) as an independent institution also carries out assessments of a possible significant deviation (so-called assessment of the balanced budget rule) and its findings were in compliance with the assessment of the MoF SR.

With view to the differing interpretation upon the application of European (Stability and Growth Pact) and national fiscal rules (the fiscal compact) EC and CBR may assess the fiscal policy with different conclusions. The differences mainly result from the following two factors. The first is the methodology of the structural balance calculation, using the national methodology of MoF SR or CBR for the fiscal compact purposes, in comparison to the EC unified methodology[71]. Another reason is different interpretations of convergence towards the MTO.

Fiscal Responsibility Act

Since January 2015, local governments are constrained by a limitation which was a part of the Fiscal Responsibility Act and its entering into force had been postponed. A municipality or a higher territorial unit must pay a fine provided that its total amount of debt amounts to 60% or above of the current revenues from the previous budgetary year. The local governments must pay 5% of the difference between the total debt and 60% of the actual current revenues from the previous financial year.

General government and local government Budgetary Rules Act

In April 2015 the Ministry of Finance submitted to the Governent an amendment of the act[72] governing some duties in the budgetary process of the general government, while it also reacted to the classification of new entities in the general government sector.

According to the draft act, the compilation of the general government budget proposal will be based on the Stability Programme approved by the Slovak government, instead of the general government budget framework that will not be elaborated as an independent document. With view to the classification of new entities in the general government sector according to the methodology of national accounts ESA 2010, as regards compilation of the general government budget, the Ministry of Health of the Slovak Republic must elaborate a draft budget for the general government healthcare facilities. The submitting of budgets of the new general government entities is also ensured to serve as a basis for the compilation of the budget.

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[69] Act No. 436/2013 Coll. amending Act No. 523/2004 Coll., on general government budgetary rules and on the amendment of some acts, as amended, became effective on 1 January 2014.
[70] According to the fiscal compact, the balanced balance is defined for Slovakia instructural terms in the amount of -0.5% of GDP (so-called medium-term budgetary objective). This objective is based on the recommendations of the EU Council from June 2013 and it is expected to be achieved by 2017.
[71] Particular differences can be seen in the calculation of the production methodology, the cyclical component and the list of one-off measures.
[72] The complete wording has been published at http://www.rokovania.sk/Rokovanie.aspx/BodRokovaniaDetail?idMaterial=24451

7 STRUCTURAL POLICIES

The measures in structural policies, that the Government plans to implement in the next two years, are described in detail in the National Reform Programme of the Slovak Republic 2015 (NRP). The new complex approach to the priorities identification taking into account GDP, as well as other life quality aspects, identified the labour market, the health care system and primary education as the niggest challenges of the Slovak economy.

The efficiency of tax collection has improved and the gap in VAT collection decreased by one quarter in the period from 2012 to 2014. The Government will continue **improving tax collection efficiency**, not only as regards VAT. A number of other Financial Administration (FA) measures will contribute to a decrease in the administrative burden.

The adopted pension system reforms and the consolidation of public finance have led to an **improvement in long term sustainability**. A number of changes will take place in the pension system in 2015. Minimum pensions will be implemented and the second pension pillar will be opened for a temporary period of three months.

Structural changes in the area of education will be mainly focused on the **interconnection of vocational education and practice** (dual education), the extension of **kindergarten capacities** and support for the integration of marginalized communities. Measures to support science, research and innovation should increase expenditures and the efficiency of public funds use.

In 2014 the situation on the labour market further improved and the unemployment rate decreased. The Government will continue with **the public employment service reform,** as well as in the implementation of active labour market policy tools (ALMP) within the initiative of providing a guarantee to young people under 29 years of age and to support the long-term unemployed. Projects focused on the support of community centres and field social work in municipalities with a Roma population will continue.

Transparent price ceilings for the purchase of the most important items, **mandatory external audits** and the optimization of the hospital bed fund will contribute to the increased efficiency of management and prevent the further indebtedness of the 13 state hospitals. An integrated model of health care provision will be implemented, efficiency of the health care provider funding process will be improved by means of payments for a diagnostic group and medical procedures will be unified.

Construction of **missing sections of motorways and expressways**, as well as the construction, renewal and **maintenance of A-class roads** are key measures in the transport sector. The systematic increasing of the significance of railway transportation, as well as the improvement of public passenger transport efficiency are important objectives.

The modernisation of public administration will continue through the **ESO reform** (Efficient, Reliable and Open Public Administration) focused on the optimization of regional offices, which should improve the efficiency of activities and services provided to citizens and entrepreneurs. Computerisation is one of the tools. Analytical capacities in public administration will be strengthened. Public administration reform will bring its de-politicisation as well as increased transparency at all levels, from hiring staff to remuneration.

The judiciary system will be improved mainly by a review of the Civil Legal System, re-codification of the civil procedure and specialization of the court system and of judges. The ongoing computerisation of case files, the Legal Code and the Registry of Insolvent Entities and the monitoring of the accused and sentenced will contribute to the speeding up of judicial activities.

ANNEXES

Annex 1 – Compulsory tables

Table 1a – Macroeconomic overview (ESA2010, in EUR bn.)

	ESA code	2014 Reality	2014 growth rate	2015 growth rate	2016 growth rate	2017 growth rate	2018 growth rate
1. Real GDP	B1*g	72.8	2.4	2.9	3.6	3.6	3.7
2. Nominal GDP	B1*g	75.2	2.2	2.9	5.1	5.5	5.7
Components of real GDP							
3. Final consumption of households and NPISH	P.3	39.2	2.2	2.8	2.7	2.8	2.9
4. Final general government consumption	P.3	13.2	4.4	2.3	1.0	1.2	1.3
5. Gross fixed capital formation	P.51g	15.7	5.7	3.7	1.8	1.7	2.1
6. Changes in inventories and the net acquisition of valuables (% of GDP)	P.52 + P.53	-	-0.2	0.1	0.0	0.0	0.0
7. Export of goods and services	P.6	69.2	4.6	1.4	5.9	6.0	6.1
8. Import of goods and services	P.7	64.2	5.0	1.0	4.5	4.9	4.8
Contribution to real GDP growth							
8. Final domestic demand (total)		-	3.2	2.7	2.0	2.1	2.2
9. Changes in inventories and the net acquisition of valuables	P.52 + P.53	-	-0.7	-0.3	-0.1	0.1	-0.2
10. External balance of goods and services	B.11	-	0.0	0.5	1.6	1.5	1.7

* The forecast of final government consumption is based on the February macroeconomic forecast of MoF SR. The Macroeconomic Forecasts Committee had approved the economic development forecast before publishing real data for 2014. Updating of the real data creates inconsistency in the nominal GDP level for 2015–2018 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.

Source: SO SR, MoF SR

Table 1b – Price developments (ESA2010)

	ESA code	2014 Reality	2014 growth rate	2015 growth rate	2016 growth rate	2017 growth rate	2018 growth rate
1. GDP deflator		1.0	-0.2	0.0	1.5	1.8	1.9
2. Private consumption deflator		1.1	-0.1	0.0	1.6	1.8	2.0
3. HICP		-0.1	-0.1	0.0	1.6	1.8	2.0
4. Public consumption deflator		1.1	0.4	1.0	1.6	1.8	2.0
5. Investment deflator		1.0	-0.1	-0.3	1.7	1.9	2.0
6. Export price deflator (goods and services)		1.0	-3.3	-0.4	1.7	2.1	2.2
7. Import price deflator (goods and services)		1.0	-3.4	-0.7	2.0	2.2	2.2

Source: MoF SR

Table 1c – Labour market indicators (ESA2010)

	ESA code	2014 Reality	2014 growth rate	2015 growth rate	2016 growth rate	2017 growth rate	2018 growth rate
1. Employment, persons (thous.) [1]		2,223	1.4	0.6	0.7	0.7	0.8
2. Employment, hours worked (thousands)[2]		3,920	0.9	1.2	0.7	0.7	0.8
3. Unemployment rate (%)[3]			13.2	12.9	12.2	11.4	10.5
4. Labour productivity per person (EUR)[4]		32,764	1.0	2.3	2.9	2.8	2.9
5. Labour productivity per hours worked (EUR)[5]		18,582	1.5	2.3	2.9	2.8	2.9
6. Compensation of employees (EUR mill.)	D.1	28,963	5.6	3.2	4.6	5.1	5.4
7. Compensation per employee (EUR)		15,280	3.4	2.6	3.9	4.4	4.6

[1] Total employment, national accounts – home concept
[2] According to national accounts definition
[3] Harmonized rate according to Eurostat, status
[4] Real GDP per person employed
[5] Real GDP per hour worked

Table 1d – Sectoral balance (ESA2010, % of GDP)

	ESA code	2014	2015	2016	2017	2018
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	2.9	3.2	4.2	4.9	6.0
of which:						
- Goods and services[1]		6.5	6.9	8.0	8.9	10.1
- Primary incomes and transfers[1]		-4.5	-5.0	-5.2	-5.4	-5.6
- Capital account[1]		0.8	1.3	1.4	1.4	1.4
2. Net lending/borrowing of other sectors	B.9	5.7	5.7	6.1	5.8	6.5
3. Net lending/borrowing of the general government (governmental objectives)	B.9	-2.9	-2.5	-1.9	-0.9	-0.5
4. Statistical discrepancy						

[1] the forecast is based on non-reviewed data   *Source: MoF SR*

Table 2a – General government budgetary prospects

	ESA code	2014 level	2014 % of GDP	2015** % of GDP	2016 % of GDP	2017 % of GDP	2018 % of GDP	2015* % of GDP
Net lending (B.9) by general government sub-sectors								
1. General government	S.13	-2,156.7	-2.87	-2.55	-1.93	-1.38	-1.01	-2.55
2. Central government	S.1311	-2,004.1	-2.7	-2.6	-2.2	-1.7	-1.3	-2.6
3. State government	S.1312	-	-	-	-	-	-	-
4. Local government	S.1313	-43.9	-0.1	0.3	0.2	0.3	0.3	0.3
5. Social security funds	S.1314	-108.6	-0.1	-0.3	0.1	0.1	0.0	-0.3
General government (S13)								
6. Total revenues	TR	29,253	38.9	38.3	36.6	36.6	36.2	36.7
7. Total expenditures	TE[1]	31,410	41.8	40.9	38.5	37.9	37.2	39.2
8. Net lending/borrowing***	B.9	-2,157	-2.87	-2.55	-1.92	-1.36	-0.99	-2.55
9. Interest payments	D.41	1,447	1.9	1.7	1.6	1.4	1.4	1.7
10. Primary balance	[2]	-709	-0.94	-0.85	-0.37	0.08	0.46	-0.85
11. One-off and temporary measures	[3]	238	0.3	0.1	0.0	0.0	0.0	0.1
Selected components of revenues								
12. Total taxes (12=12a+12b+12c)		12,927	17.2	17.3	17.0	16.6	16.5	17.3
12a. Taxes on production and imports	D.2	7,948	10.6	10.5	10.2	10.0	9.8	10.5
12b. Current taxes on income, wealth, etc.	D.5	4,980	6.6	6.8	6.8	6.7	6.7	6.8
12c. Capital taxes	D.91	0	0.0	0.0	0.0	0.0	0.0	0.0
13. Social security contributions	D.61	10,289	13.7	13.3	13.2	13.1	13.0	13.3
14. Property income	D.4	642	0.9	0.8	0.7	0.6	0.6	0.7
15. Other	[4]	5,395	7.2	7.0	5.7	6.2	6.0	5.4
16=6. Total revenues	TR	29,253	38.9	38.3	36.6	36.6	36.2	36.7
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)	[5]	23,217	30.9	30.6	30.2	29.7	29.5	30.6
Selected components of expenditures								
17. Compensation of employees + intermediate consumption	D.1+P.2	10,662	14.2	13.8	13.5	13.2	12.6	12.2

17a. Compensation of employees	D.1	6,571	8.7	8.1	7.9	7.6	7.2	7.2
17b. Intermediate consumption	P.2	4,091	5.4	5.7	5.5	5.6	5.4	5.0
18. Total social payments		14,354	19.1	18.6	18.0	17.7	17.4	18.6
of which: unemployment benefits	[6]	155	0.2	0.2	0.2	0.2	0.1	0.2
18a. Social transfers in kind	D.632	3,846	5.1	4.9	4.8	4.8	4.8	4.9
18b. Social transfers other than in kind	D.62	10,507	14.0	13.7	13.2	12.9	12.6	13.7
19=9. Interest payments	D.41	1,447	1.9	1.7	1.6	1.4	1.4	1.7
20. Subsidies	D.3	717	1.0	0.8	0.7	0.7	0.6	0.8
21. Gross fixed capital formation	P.51g	2,788	3.7	3.0	2.5	2.7	2.9	2.9
22. Capital transfers	D.9	288	0.4	0.5	0.2	0.2	0.3	0.5
23. Other	[7]	1,153	1.5	2.7	2.1	2.0	2.0	2.7
24=7. Total expenditures	TE [1]	31,410	41.8	40.9	38.5	37.9	37.2	39.2
p.m.: Government consumption (nominal)	P.3	14,099	18.7	18.3	18.0	17.6	17.1	18.3

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

[2] The primary balance is calculated as (B.9, item 8) plus (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

[6] Includes cash benefits (D.621 and D.624) and in kind benefits (D.631) related to unemployment benefits

[7] D.29+D4 (other than D.41)+ D.5+D.7+P.52+P.53+K.2+D.8
* The expected fiscal performance of the GG does not contain revenue and expenditure of healthcare facilities, only a total budgeting item for worse fiscal outcome of hospitals (-EUR 50 mill.). Consistently, this version is used throughout the document.
** For the sake of comparability of data, a second expected outcome with inputed expenditure and revenue of healthcare facilities has been added. The budget balance is maintained (higher expenditures by EUR 50 mill. than revenue). The imputation concerns all the ESA items, given the breakdown between the years 2014 a 2016.
*** The table shows the balance of the general government budget framework for 2016–2018. The resulting general government balances differ from the governmental objectives. Additional measures will be adopted to achieve the budgetary targets in 2017 and 2018.

Table 2b – No-policy-change scenario

	2014 EUR mill.	2014 % of GDP	2015 % of GDP	2016 % of GDP	2017 % of GDP	2018 % of GDP
1. Total revenue at unchanged policies	29,253	38.9	36.7	36.6	36.4	36.1
2. Total expenditure at unchanged policies	30,193	41.8	39.2	38.1	38.0	37.5

Note: The basis for the NPC purposes is the current estimate for 2015. Data for 2014 is the actual outcome for expenditures and revenues.   *Source: MoF SR*

Table 2c – Amounts to be excluded from the expenditure benchmark

	2014 EUR mill.	2014 % of GDP	2015 % of GDP	2016 % of GDP	2017 % of GDP	2018 % of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue	1,195	1.6	2.3	1.3	1.9	2.0
2. Cyclical unemployment benefit expenditure not related to governmental measures (cyclical component)	25	0.0	0.0	0.0	0.0	0.0
3. Effect of discretionary revenue measures	122	0.2	0.4	0.0	0.0	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 (% of GDP)

	COFOG code	2012	2015 B	2018*
1. General public services	1	5.9	6.1	-
2. Defence	2	1.0	1.0	-
3. Public order and safety	3	2.4	1.9	-
4. Economic affairs	4	3.5	5.2	-
5. Environmental protection	5	0.9	0.5	-

6. Housing and community amenities	6	0.7	0.4	-
7. Healthcare	7	6.1	5.3	-
8. Recreation, culture and religion	8	1.0	0.9	-
9. Education	9	3.8	3.7	-
10. Social protection	10	11.9	14.3	-
11. Total expenditures	**TE**	**37.2**	**39.3**	**-**

* Given the early stage of the budgetary process, data for 2018 in COFOG classification is not available.

Source: Eurostat, MoF SR

Table 4 – General government debt development (% of GDP)

	ESA code	2014	2015	2016	2017	2018
1. Gross debt		53.6	53.4	52.8	51.9	50.3
2. Change in gross debt		-1.0	-0.2	-0.6	-0.9	-1.6
Contributions to change in gross debt						
3. Primary balance		-0.9	-0.9	-0.4	0.1	0.5
4. Interest expenditures	D.41	1.9	1.7	1.6	1.4	1.4
5. Stock-flow adjustment		-2.7	-1.3	0.1	0.9	0.7
of which:						
- Differences between cash and accruals		0.5	-0.6	-0.1	0.3	0.0
- Net accumulation of financial assets		-3.1	-0.8	0.2	0.5	0.4
of which: revenues from privatisation		0.0	-1.3	0.0	0.0	0.0
-Valuation effects and others*		-0.2	0.1	0.0	0.2	0.3
p.m.: Implicit interest rate		3.6	3.3	3.1	2.9	3.0
Other relevant variables						
6. Liquid financial assets		3.5	3.7	3.7	3.9	4.1
7. Net financial debt (1-6)		50.1	49.7	49.2	48.0	46.2
8. Debt repayment (current debts) from previous year		5.4	4.7	5.7	4.9	3.6
9. Share of debt denominated in foreign currency**		4.3	3.5	3.1	2.9	2.4
10. Average maturity (years)***		7.0	7.0	-	-	-

* Other items comprising discounts upon redemption and the issuance of bonds.
** In % of GDP, incl. loans
*** It concerns the maturity of state debt as of 31.12.

Source: MoF SR

Table 5 – Cyclical developments

(in % of GDP)	ESA code	2014	2015	2016	2017	2018
1. Real GDP growth (%)		2.4	2.9	3.6	3.6	3.7
2. Net lending of the general government	B.9	-2.9	-2.5	-1.9	-0.9	-0.5
3. Interest payments	D.41	1.9	1.7	1.6	1.4	1.4
4. One-offs and other temporary measures	[1]	0.3	0.1	0.0	0.0	0.0
5. Potential GDP growth (%)		2.4	2.6	2.8	2.8	2.8
contributions:						
- labour		0.2	0.2	0.3	0.1	0.0
- capital		0.1	0.3	0.3	0.3	0.4
- total factor productivity		2.1	2.1	2.2	2.3	2.4
6. Output gap		-2.9	-2.6	-1.8	-1.0	-0.1
7. Cyclical budgetary component		-1.1	-1.0	-0.7	-0.4	0.0
8. Cyclically-adjusted balance (2 - 7)		-1.7	-1.5	-1.2	-0.5	-0.5
9. Cyclically-adjusted primary balance (8 + 3)		0.2	0.2	0.3	0.9	0.9
10. Structural balance (8 - 4)		-2.1	-1.6	-1.2	-0.5	-0.5

[1] A plus sign means a deficit-reducing one-off measure

Source: MoF SR

Table 6 – Comparison between the previous forecast and the updated forecast

	ESA code	2014	2015	2016	2017	2018
Real GDP growth (%)						
Previous update*		2.3	3.0	3.2	3.4	-
Outcome and current update		2.4	2.9	3.6	3.6	3.7
Difference		0.1	-0.1	0.4	0.2	-
General government balance (% of GDP)	B.9					
Previous update*		-2.64	-2.49	-1.61	-0.54	-
Outcome and current update		-2.87	-2.55	-1.93	-0.88	-0.53
Difference		-0.23	-0.06	-0.32	-0.34	-
General government gross debt (% of GDP)						
Previous update*		55.2	56.2	54.9	53.4	-
Outcome and current update		53.6	53.4	52.8	51.9	50.3
Difference		-1.6	-2.8	-2.0	-1.5	-

*Note: * Stability Programme of SR for 2013–2016*　　　　　　　　　　　　　　　　　　　　　　　*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 pension	8.1	8	7.6	8.1	9.1	10.2
a) Old-age and early pensions	6.1	6.2	5.7	6	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 expenditure**	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	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 2015

Table 7a: Contingent liabilities

	2013	2014*	2015
	% of GDP	% of GDP	% of GDP
Public guarantees	16.39	3.12	-
of which: linked to the financial sector	0.0	0.0	-

The estimate for 2014 is available only for the MoF SR chapter (EFSF and Achmea arbitration). The data for 2015 has not been finalized

Source: MoF SR

Table 8 – Basic assumptions

	2014	2015	2016	2017	2018
Short-term interest rate (annual average, %)	0.21	0.09	0.10	0.26	1.01
Long-term interest rate (annual average, %)	1.93	1.32	1.93	2.73	3.37
USD/€ exchange rate (annual average) (euro area and ERM II countries)	1.33	1.12	1.11	1.13	1.15
World excluding EU, GDP growth (%)	3.70	4.00	4.40	4.40	4.40
EU GDP growth (%)	1.30	1.70	2.10	2.10	2.10
Growth of relevant foreign markets (%)	2.10	1.80	2.10	2.20	2.30
World import volumes, excluding EU (%)	2.10	4.20	5.30	5.30	5.30
Oil prices (Brent, USD/barrel)	99.51	56.39	64.68	69.21	71.48

Source: Common external assumptions, MoF SR

Annex 2 – The impact of fiscal policy on the economy in 2016–2018

1. Fiscal consolidation scenarios

The first scenario for 2016–2018 anticipates the achieving of the fiscal targets. The extent of the necessary fiscal measures is calculated compared to the no-policy-change scenario based on the expected budget balance of the general government for 2015. **In 2016, the budgetary target against the NPC scenario takes into account a fiscal impulse amounting to 0.4% of GDP, which represents EUR 308 million.** In the following years, the need for consolidation measures amounting to 0.6% of GDP in 2017 and to 0.9% of GDP in 2018 has been qualified. 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 865 million (1.0% of GDP) in 2017 and EUR 234 million (0.3% of GDP) in 2018.**

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

	2016	2017	2018
1. Budget balance – fiscal targets	-1.9	-0.9	-0.5
2. Budget balance – draft GG framework	-1.9	-1.4	-1.0
3. Budget balance – NPC scenario	-1.6	-1.5	-1.4
4. Cumulative consolidation need – scenario 1 (1-3)	-0.4	0.6	0.9
- need for additional consolidation measures in the given year (year-on-year change)	**-0.4**	**1.0**	**0.3**
5. Cumulative consolidation need – scenario 2 (2-3)	-0.4	0.1	0.4
- need for additional consolidation measures in the given year (year-on-year change)	**-0.4**	**0.5**	**0.2**

Source: MoF SR

In 2017 and 2018, the consolidation in scenario 1 contains two groups of measures:

- The GGB framework compared to NPC contains additional measures amounting to 0.5% of GDP in 2017 and 0.2% in 2018
- The measures beyond the GGB framework to achieve the objectives amount to 0.5% of GDP in 2017

As the measures in the GGB framework are almost exclusively focused on expenditures, the measures out of the scope of the GGB framework are assumed on the revenue side. A proportional distribution of revenue growth is anticipated among direct and indirect taxes and contributions, i.e. a tax-contribution mix according to the notified real revenues of general government for 2014.

1st scenario: Transmission macroeconomic channels (EUR mill.)

	2016	2017	2018
Total	**308**	**-865**	**-234**
(in % of GDP)	**0.4**	**-1.0**	**-0.3**
Direct impact on GDP	**341**	**-847**	**-266**
(in % of GDP)	**0.4**	**-1.0**	**-0.3**
Government consumption	**163**	**-352**	**-351**
Intermediate government consumption	184	-168	-69
Compensation of employees	9	-214	-283
Social transfers in kind (healthcare providers)	-30	30	0
Public Investment	**145**	**-36**	**100**
Government	151	31	102
Other	-5	-67	-2
Households	**53**	**-217**	**-4**
Inflation	**0**	**-135**	**-1**
Other	**-20**	**-107**	**-10**

The second scenario for 2016–2018 estimates the macroeconomic impact of achieving the deficits according to the GGB framework. In 2016 the fiscal impulse amounting to EUR 308 million (0.4% of GDP) is similar to the first scenario. The need for consolidation measures to achieve the deficits according to the budget framework is slightly lower and amount to 0.1% of GDP in 2017 and 0.4% of GDP in 2018. With the assumption of permanent measures, the **overall need for measures would amount to EUR 435 million (0.5% of GDP) in 2017 and EUR 225 million (0.2% of GDP) in 2018**.

2st scenario: Transmission macroeconomic channels (EUR mill.)

	2016	2017	2018
Total	**308**	**-435**	**-225**
(in % of GDP)	**0.4**	**-0.5**	**-0.2**
Direct impact on GDP	**341**	**-417**	**-258**
(in % of GDP)	**0.4**	**-0.5**	**-0.3**
Government consumption	**163**	**-352**	**-351**
Intermediate government consumption	184	-168	-69
Compensation of employees	9	-214	-283
Social transfers in kind (healthcare providers)	-30	30	0
Public Investments	**145**	**16**	**101**
Government	151	31	102
Other	-5	-15	-1
Households	**53**	**-71**	**-4**
Other	**-20**	**-10**	**-3**

Source: MoF SR

2. Quantification of the macroeconomic impact of the fiscal scenarios

The following part calculates the overall impact of the fiscal policy on the main macroeconomic values of the Slovak economy, including secondary impacts, using the macroeconomic IFP model for medium-term forecasting. As regards grants and transfers, we assume a zero multiplier, so the expected direct impact on the economy is increased by 0.04% of GDP in 2016, 0.02% of GDP in 2017 and -0.04% of GDP in 2018 similarly in both scenarios.

Based on the first scenario, the impact of fiscal policy on GDP growth is positive in 2016 and amounts to 0.2 p.p. In the subsequent period, however, it will decrease economic growth by 0.5 p.p. in 2017 and by 0.1 p.p. in 2018. In 2016, mainly government consumption and investments contribute to GDP growth with the highest expected multiplier. In 2017, the most significant slowdown is anticipated in government consumption and household consumption due to reduced disposable income. It is negatively affected by increased taxes and contributions, increased price level due to an increase in indirect taxes and a decreased wage package in the general government. In 2018, a significant decrease of general government expenditures will continue, mainly as regards intermediate consumption and compensations. The implied fiscal multipliers achieve 0.57 in 2016, 0.46 in 2017 and 0.39 in 2018.

Impact of measures on GDP (in p.p.) according to the IFP macro model – scenario 1

	2016	2017	2018
measures with a direct impact on GDP	**-0.4**	**1.0**	**0.3**
contribution to a CPI change	0.0	0.4	0.0
employment	0.2	-0.5	-0.5
nominal wage	0.1	-0.4	-0.4
household consumption	0.1	-0.8	-0.3
government consumption	1.1	-1.4	-1.1
investments	1.1	-0.7	0.5
import	0.3	-0.3	-0.1

contribution to the YoY GDP change	0.2	-0.5	-0.1

Source: MoF SR

The second scenario only assumes the implementation of consolidation measures which have been included in the GGB framework for 2017 and 2018. **Consolidation measures will decrease the economic growth in 2017 by 0.2 p.p. and in 2018 by 0.1 p.p.** Within the GDP structure, the most significant difference compared to the first scenario is in 2017, where, the second scenario does not assume any consolidation measures on the revenue side. The implied fiscal multiplier is therefore slightly higher, i.e. at the level of 0.48.

Impact of measures on GDP (in p.p.) according to the IFP macro model – scenario 2

	2016	2017	2018
measures with a direct impact on GDP	**-0.4**	**0.5**	**0.3**
contribution to a CPI change	0	0	0
employment	0.2	-0.4	-0.5
nominal wage	0.1	-0.3	-0.4
household consumption	0.1	-0.5	-0.3
government consumption	1.1	-1	-1.1
fixed investment	1.1	-0.1	0.5
import	0.3	-0.2	-0.1
contribution to the YoY GDP change	**0.2**	**-0.2**	**-0.1**

Source: MoF SR

Annex 3 – 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 on the EC's estimates based on the OECD methodology[73].

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[74]. Based on the available information, the following one-of effects may be identified in the period of 2014 and 2015. No one-off measures have been envisaged according to the EC methodology for the remaining forecasted years. In order to be consistent, we provide the structural balance in all covered years.

- **Digital dividend** – The Regulatory Authority for Electronic Communications and Postal Services made an auction to sell frequency licences for the operation of mobile networks of the fourth generation. In 2014, the non-tax revenues thus increased by 0.2% of GDP.
- **Repayment of non-returnable financial assistance by Cargo** – An exceptional increase in the repayment of the returnable financial subsidy from Cargo is considered to have a one-off impact as well. Compared to the repayments in the previous period, the repayment in 2015 are increased by 0.1% of GDP in 2015. The measure is classified as one-off based on the Government decision and an impact exceeding 0.05% of GDP.
- **Lower contributions paid to the EU** – According to the Eurostat guideline, the revision of contributions paid to the EU[75] should be recognised on an accrual basis in 2014, regardless of the cash transfers which were also partly pay out in 2015. The overall revision of contributions amounts to 0.12% of GDP (EU 87 mill.).
- **One-off pensions to armed forces** – In the past, the Social Insurance Agency (SIA) used to decline payment of pensions for armed forces who had not worked for the minimum period necessary in order to receive pension from the general pension system. Based on the court ruling of the Supreme Court[76] in 2013–2015, SIA granted pensions to the armed forces. The paid sum exceeded the level of 0.05% of GDP only in 2014 (criterion for classification among one-off impacts) with the overall impact amounting to 0.08% of GDP (EUR 58 mill.).
- **Fine of the Antimonopoly Office** – In the beginning of 2014, the lawsuit of the Antimonopoly Office with construction companies suspected of a cartel agreement was lawfully completed.

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

	2013	2014	2015	2016	2017	2018
1. Net lending/borrowing	**-2.59**	**-2.87**	**-2.55**	**-1.93**	**-0.88**	**-0.53**
2. Cyclical component	-1.13	-1.12	-1.01	-0.69	-0.38	-0.03
3. One-off effects	**-**	**0.32**	**0.10**	**-**	**-**	**-**
- digital dividend		0.22				
- repayment of the non-returnable financial assistance from Cargo			0.10			
- lower contributions paid to the EU budget		0.12				

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

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

[75] The revision ensues from the adjustment of VAT and GNP as a baseline for the calculation of the contributions paid to the EU for the entire period 1995–2013. Also, based on the EU budget amendments, the national contributions for 2014 have been decreased.

[76] Based on the case law, the Highest Court of SR decided that the entitlement of armed forces to retirement or disability pension must always take into account the entire period of pension insurance, including the period of seniority pension. The members of armed forces are entitled to the proportional part of the pension in the general pension system.

- one-off payment of retirement pensions to armed forces	-0.08					
- fine of the Antimonopoly Office	0.06					
4. Structural balance (1-2-3)	**-1.45**	**-2.06**	**-1.64**	**-1.24**	**-0.50**	**-0.50**

Annex 4 – Investment clause

The table provides a current estimate of expenditures for co-funding operational programmes which are taken into account under the investment clause. In comparison to the version in the Draft Budgetary Plan, an update has been due to the actual draw downof EU funds.

Expenditure for co-funding according to OP (EUR mill.)	
	2014 Outcome
2nd programming period, of which	**300.9**
ERDF	138.8
ESF	43.7
CF	89.0
EAGF	1.1
EAFRD	27.6
EFF	0.7
3rd programming period, of which	**72.2**
ERDF	0.0
ESF	0.0
CF	0.0
EAGF	54.6
EAFRD	17.7
EMFF	0.0
Structural funds and Cohesion Fund in total	**271.5**
Agricultural funds in total	101.6
Other co-funding of EU resources	11.1
Co-funding in total (excluding agricultural funds)	**282.6**
% of GDP	**0.38**

Annex 5 – Stability and Growth Pact flexibility

On 13 January 2015, the European Commission published a communication extending the flexibility of the Stability and Growth Pact (SGP), the main pillar of European fiscal rules. The report 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:

A. **Extension of the investment clause**;
B. **Implementation of a structural reform clause**;
C. **More significant consideration of the economic cycle**;

A. 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 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.

B. 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.

C. 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 part 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.

Condition	Required year-on-year consolidation	
	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 potencial; 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 potencial; ≥ 0.75 if growth above potential;	≥ 0.75 if growth below potencial; ≥ 1 if growth above potential;

Annex 6 – Discretionary revenue measures

Discretionary measures are recorded according to the EC methodology by means of so-called incremental change. The quantification is adjusted according to the nature of the measures - whether they are permanent or one-off. . 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 (a number of measure became applicable in the last quarter of 2012), only the incremental change is recorded.[77] Regarding 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).

Revenue discretion measures (EUR mill., ESA2010)	overall effect				additional effect			
Description	2013	2014	2015	2016	2013	2014	2015	2016
Increase and unification of the maximum assessment bases	160				160			
Increase in social security contributions for the self-employed and other related changes	27				27			
Health and social insurance contributions for workers by agreement	130				130			
Decreasing the rate in the 2nd pillar of the pension system *	507				338			
Extension of special contribution in the banking sector (including the corporate income tax)	92				21			
- extraordinary one-off contribution	0				-40			
- special contribution *	92				61			
Introduction of a levy on business in regulated industries‡	71	72			42	72		
Increasing the tobacco excise tax	20				20			
Increasing the vehicle registration fee*	27				21			
Changes in the taxation of gambling	0				-1			
Change in the corporate income tax rate from 19% to 23% in the measures approved by the National Council of SR	-9				-9			
Changes in income tax rates – corporate income tax 23%, personal income tax 19% and 25%	401				401			
Special income tax rate for constitutional actors	0				0			
Deputy income exemption	0				0			
Exemption of property sale revenues for municipalities and higher territorial units	-10				-10			
Re-introduction of television/radio licence fee	71				71			
Change in the bond taxation	0				0			
Taxation of undistributed profits before 2004	4				4			
Exemptions in respect of contributions for the long-term unemployed *	0	-1			0	-1		
Introduction of a tax license in respect of the corporate income tax	0	110			0	92		
Decreasing the corporate income tax rate to 22%	0	-86			0	-71		
Stricter rules for loss redemption	0	37			0	31		
Maintaining of the VAT rate at 20%			237				237	
Changes in the property tax depreciation			123				123	
Measures to increase the effectiveness of tax collection (ERP and farmafirms)			57				57	
Introduction of low capitalization rules			48				48	
Deduction of the expenditure on science and research from the tax base			-24				-24	
Tax expenditure audit and other			12				12	
Opening of 2nd pillar – common impact			10	19			10	9
Contribution tax allowance			-148				-148	
TOTAL	**1,490**	**132**	**315**	**19**	**1,214**	**122**	**315**	**9**

Source: MoF SR

The measures indicated with* became applicable during the year and only their proportional part is included in the quantification.

‡ The special levy from enterprising in regulated sectors was originally implemented in 2012 with the effect until 2013. In 2013 its applicability was extended until 2016. For this reason it is classified as a new discretionary measure since 2014.

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[77] The following example illustrates the impact of incremental changes. The overall effect of the measure amounts to 200. If it is implemented in the middle of the year, its effect in the given year amounts to 100. In the following year the effect increases to the full amount of 200, but incrementally only the difference between these two effects is recorded, i.e. 100. Aggregately, the overall effect achieves 200 but it is distributed in two years.

Annex 7 – Macroeconomic and Tax Revenue Forecasts Committees

The Stability Programme is based on macroeconomic and tax forecasts until year 2018 from January or February 2015. The macroeconomic scenario as well as the forecasted 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.

At the January 2015 session of the Macroeconomic Forecasts Committee, most of its members assessed the medium-term macroeconomic forecast of the Ministry of Finance **as realistic and one member as optimistic**.

Assessment of the MoF SR's February forecast by the Macroeconomic Forecasts Committee

Committee member	Forecast characteristics
NBS	realistic
Infostat	realistic
VUB	realistic
Tatrabanka	optimistic
SLSP	realistic
UNICREDIT Bank	realistic
CSOB	realistic
Sberbank	realistic
SAV	-

Source: Macroeconomic Forecasts Committee

Average forecast of selected indicators of economic development in SR

by members of the Macroeconomic Forecasts Committee (except for MoF SR) and MoF SR forecast

in %, unless stated otherwise	2014	2015		2016		2017		2018	
		Committee	MoF SR	Committee	MoF SR	Committee	MoF SR	Committee	MoF SR
Gross domestic product, real growth	2.4	2.6	2.9	3.1	3.6	3.4	3.6	3.2	3.7
Gross domestic product in current prices; EUR billion	75.2	77.1	77.3	81	81.3	85.2	85.7	89	90.6
Final consumption of households; real growth	2.2	2.6	2.8	3.1	2.7	3.4	2.8	3.2	2.9
Final consumption of households; nominal growth	2.1	2.5	2.7	2.4	4.4	2.5	4.6	2.5	5
Average monthly wage; real growth	4.2	2.6	2.6	2.3	2.3	2.5	2.5	2.6	2.6
Average monthly wage; nominal growth	4.1	3	2.6	3.5	3.9	4.2	4.4	4.2	4.6
Employment (registered) growth	1.3	0.6	0.6	0.6	0.7	0.6	0.7	0.7	0.8
Consumer price index; average growth; CPI	-0.1	0.3	0	1.7	1.6	2.2	1.8	2	2
Current account balance (share of GDP)	0.1	2	1.9	1.9	2.9	2.2	3.5	1.8	4.5

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 2014–2018. The medium-term forecast of tax revenues and pensions contributions of MoF SR was indicated by most of the members as **realistic and one member of the Committee indicated it as optimistic**.

Assessment of the MoF SR forecast by the Tax Revenue Forecasts Committee

Committee member	Forecast characteristics
NBS	realistic
Infostat	optimistic
ING Bank	realistic
Tatrabanka	realistic
CSOB	realistic
SLSP	realistic
UNICREDIT Bank	realistic

Source: Tax Revenue Forecasts Committee