Stability Programme of the Slovak Republic for 2019 to 2022

April 2019

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SUMMARY

The medium-term budgetary outlook of the SR is based on strong economic growth, which will slightly moderate towards the end of the period. The Slovak economy reached its cyclical peak at 4.1% in 2018. In 2019 it will grow by 4%. Easing comes with weakening demand abroad, but new car production and the labour market should support the economy. In the following years, 2020 and 2021, the economy retains its dynamics slightly above 3% and will continue to be slightly above its potential level.

In 2018, the general government management reached a deficit of 0.7% of GDP and thus again outperformed the budgetary objectives. In addition to being the historically lowest general government deficit, this result also means a second primary surplus (nominal balance net of interest costs) has been achieved. Higher tax-income revenues, which were partly offset on the expenditure side particularly by higher investment spending from stronger EU funds, also contributed to the better result. After adjusting the budget implementation for the effects of the drawing of European funds, the expenditure side recorded higher than budgeted growth in capital expenditure and compensation for employees.

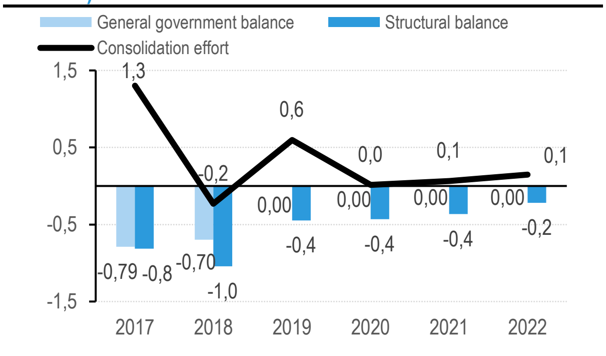
General government gross debt level fell for the fifth consecutive year and is no longer in any sanction threshold defined by the Fiscal Responsibility Act. Gross debt prelimarily reached 48.9% of GDP in 2018. In particular, strong nominal growth and the achievement of a higher-than-budgeted primary government surplus contributed to the debt-to-GDP decline. Net debt declined on year-on-year basis more significantly, reaching 43% of GDP.

The budgetary objective for 2019 at the level of a balanced budget is on track. The differences against budget are mainly due to capital expenditures given faster drawing of EU funds. The revenue side of the budget takes fully accounts for the additional legislative measures approved by the parliament in December 2019. By achieving a balanced budget, public finance performance will create room for counter-cyclical fiscal policy and will have a positive impact on the long-term sustainability of public finances. Since 2010, there will be a structural improvement of public finances by more than 6 p.p. of GDP.

In line with the government's policy statement, the Stability Program envisages maintaining a balanced budget and a medium-term budgetary objective over the entire horizon. Given the closure of the economic cycle, the projected balanced performance in 2020-2022 means a structural consolidation of 0.2% of GDP. From 2020, the medium-term framework also includes policy margins for faster implementation of investment projects and a contingency reserve for a possible slowdown in economic growth. As a new medium-term budgetary objective (MTO), the Stability Programme sets a structural deficit of 1% of GDP.

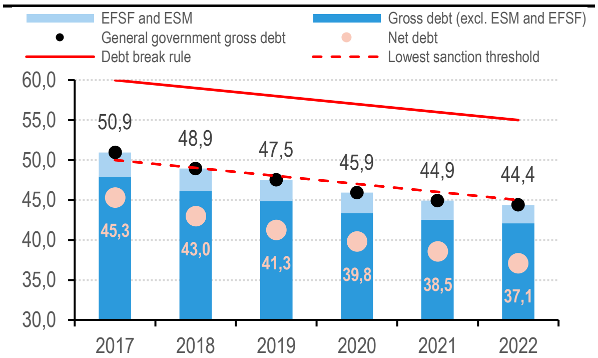
Gross debt will decrease more significantly below the lowest sanction threshold, which will tighten by 1 percentage point of GDP annually until 2027. Gross debt will decline over the entire forecast horizon. The decline in debt will be particularly pronounced in 2020 (by 1.6 p.p. of GDP). At the end of 2022, gross debt will reach 44.4% of GDP, which will be 0.6 p.p. below the lowest sanction threshold. Net debt will decrease significantly below 40% of GDP by 2022. In particular, the primary surpluses and solid economic growth above interest rates will contribute to debt consolidation.

Consolidation effort of the general government (% of GDP)



Source: MoF SR

Gross general government debt (% of GDP)



Source: MoF SR

The European Commission's current public finance sustainability assessment confirms low medium-term risk and medium risk of long-term sustainability. Fulfillment of the budgetary objectives by 2022 will have a positive impact on the sustainability assessment. At the same time, there are changes in old-age pensions with an impact beyond the horizon of the budgetary perspective, especially recently legislated retirement age cap at 64 years. The new measures will have a negative impact on long-term sustainability. However, Slovakia should be still assessed with a medium risk of long-term sustainability.

The fight against tax evasion continues. According to the EC estimates, Slovakia has reduced the VAT gap to 25.7%, which is the fifth fastest closing of the tax gap in 2016 within the EU. Further measures to combat tax evasion have been adopted with effect from 2019. From July, there will be an obligation to record sales via electronic cash registers with an online link to the Financial Administration, the so-called "eKasa".

The institutional framework for budget management will also be strengthened. By the end of the parliamentary term, several options for setting expenditure ceilings, which could be an operational budgetary rule for the future, will be prepared. The Value for Money project is becoming part of the budgetary rules. Since 2020, at least half of public spending will be reviewed every 4 years by means of regular assessments. There is also a system of health financing being introduced based on the real needs of the resort.

1. ECONOMIC OUTLOOK AND PROJECTIONS

The Slovak economy reached its cyclical peak at 4.1% in 2018. In 2019, it will grow by 4%. The loosening comes with weakening demand abroad, but the new car production and labour market should support the economy. The increase in general government wage tariffs, coupled with rapid wage growth in the private sector, will translate into higher household consumption. In 2020 and 2021, the economy will maintain dynamics above 3% and will continue to overheat slightly. Inflation will be anchored close to 2.5% over the forecast horizon. In 2019 and 2020, overheating will culminate at 1.1% of potential GDP, despite the supply impulse of new car production. The risks of the macroeconomic forecast are skewed downwards.

1.1 Economic development in Slovakia in 2018

The Slovak economy reached a cyclical peak in 2018 with growth of 4.1%. The biggest contribution to growth was recorded by investment and household consumption. In particular, Jaguar Land Rover (JLR) and the local governments have made significant investments. Household consumption was based on an increasing wage base. Exports increased mainly due to new production in Volkswagen (VW), while production in JLR started only gradually. Employment increased by almost 50 thousand people year-on-year and exceeded 2.4 million people. Strong employment growth has supported a decline in the unemployment rate to a new low of 6.6% of economically active people. Also the number of working foreigners, who occupied one third of newly created jobs, increased significantly. The nominal wage exceeded EUR 1,000. Wage growth accelerated above 6%, the highest rate since the crisis. Inflation accelerated when CPI prices increased by 2.5%. The rise in inflation was driven mainly by higher prices of services responding to higher wages. However, food and fuel prices have also risen substantially.

1.2 Medium-term forecast of economic development for 2019 to 2022

The current forecast[1] expects the Slovak economy to slow slightly to 4% in 2019. The unfavorable development of foreign demand is also reflected in the export performance of the Slovak economy, which, however, will be partly supported by the continued launch of production in VW and JLR. New production in carmakers will contribute to export growth totaling of 2 p.p., due to which the GDP will increase by 0.5 p.p.. The current development thus recalls the period of 2012 and 2013, when the new production in VW supported the export despite the slowdown in the EU. This year's growth will be supported mainly by household consumption, which, thanks to rising wages and social measures, will keep dynamics comparable with previous years. The unfavorable development of the foreign environment, the cumulative risks and also the base effect will slow down the creation of investments. The output gap will continue to widen, albeit at a slower pace than in the previous year. Pressures on wages and consumer prices will continue to persist.

In 2020, the Slovak economy, together with its potential, will grow by 3.7%. Thus, the output gap will stabilize just above 1% of potential GDP and will not open further. The performance of the economy will be based on domestic consumption and export, which is a classic picture of the Slovak economy in recent years. The export will still benefit from the new production in JLR, where production of the second model is expected to start. Increasing wages, especially in the public sector, will boost household consumption and investment will recover somewhat after a previous fall.

Starting in 2021, the economy will begin to move towards its long-term potential and slow down. Exports will once again be the most important driver when JLR achieves full production. Due to lower wage dynamics, household consumption is also expected to slow. Investments may slightly accelerate with the approaching end of the third programming period. However, stronger creation of public investment funded by EU funds is not expected until next year.

At the end of the monitored horizon, we expect the economy to slow below three percent, with a gradual closing of the output gap. The economy will stand on three pillars. Exports and private consumption will be accompanied by investments reinforced by the approaching end of the programming period and the electoral cycle in the municipalities.

[1] Forecast of the Macroeconomic Forecast Committee

TABLE 1 - Forecast of Selected Indicators of Slovak Economy Development for 2019 to 2022[2]

No.	Indicator		Actual			Forecast		
		Unit	2017	2018	2019	2020	2021	2022
1	GDP, current prices*	EUR bn.	84,9	90,2	96,3	102,2	108,0	113,4
2	GDP, constant prices	%	3,2	4,1	4,0	3,7	3,2	2,5
3	Final consumption of households and NPISH[3]	%	3,5	3,0	3,5	3,2	2,8	2,5
4	Final general government consumption	%	1,7	1,9	1,8	1,7	1,0	1,2
5	Gross fixed capital formation	%	3,4	6,8	1,9	2,9	3,1	3,6
6	Export of goods and services	%	5,9	4,8	6,9	6,1	5,2	4,1
7	Import of goods and services	%	5,3	5,3	5,9	5,3	4,5	3,8
8	Output gap (share of the potential output)	%	0,1	0,9	1,1	1,1	0,9	0,6
9	Average monthly wage in the economy (nominal growth)	%	4,6	6,2	6,8**	6,3	5,3	4,5
10	Average employment growth, LFS	%	1,5	1,4	0,6	0,4	0,2	0,2
11	Average employment growth, ESA 2010	%	2,2	2,0	1,1	0,8	0,6	0,5
12	Average unemployment rare, LFS	%	8,1	6,6	6,0	5,6	5,5	5,3
13	Average registered unemployment rate	%	7,1	5,4	4,8	4,5	4,4	4,3
14	Harmonized index of consumer price (HICP)	%	1,4	2,5	2,6	2,4	2,4	2,4
15	Current account balance (share of GDP)	%	-2,0	-2,5	-2,0	-1,5	-1,1	-1,0

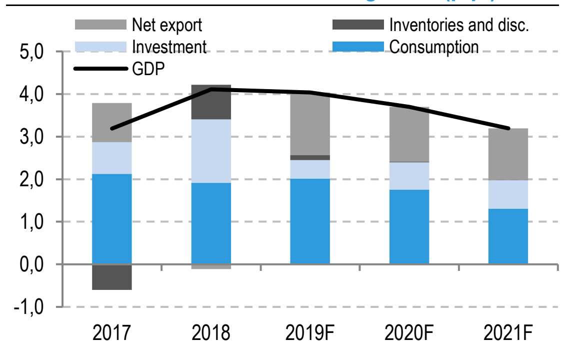
** The forecast for GDP in current prices for 2019 to 2022 was compiled by a chain of year-on-year changes in GDP (published by the Macroeconomic Forecast Committee in January 2019) on the published fact for 2018 according to the SO SR. The new time series is also used in other parts of the document.*

*** Growth is adjusted on the basis of the published reality for 2018.* *Source: MoF SR*

The labour market will slightly ease this year and employment will increase by 1.1%. Almost 30,000 new jobs will be created in the economy - half in the market services sector. The number of active population will reduce slightly, and the number of working Slovaks abroad will also decrease. Reducing the migration balance together with later retirement will contribute to increasing participation rates. **The unemployment rate will drop to 6% this year.** The slowdown in economic activity, coupled with the stagnation of the economically active population in the coming years, will slow employment dynamics to 0.5% at the end of the forecast horizon. The unemployment rate will decrease to 5%.

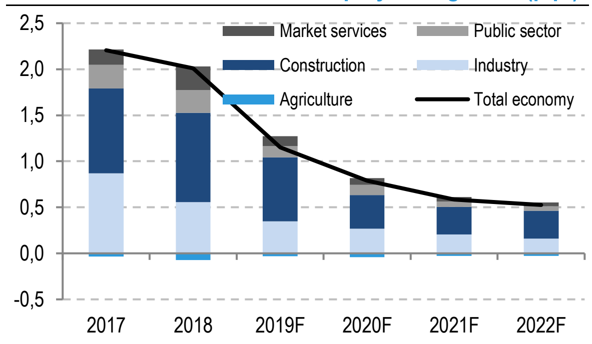
The growth of the average nominal wage in the economy in 2019 accelerates to 6.7%. The general government will outperform the private sector in salary increases in 2019 as a result of salary indexation. In the following years, scissors between the growth of the average wage in the economy and labor productivity will gradually close. **The real wage will increase by 4% in 2019.** In the following years it will increase more slowly and at the end of the forecast horizon the real wage should increase by 2%.

FIGURE 1 – Contributions to GDP growth (p.p.)



Source: SO SR, MoF SR

FIGURE 2 – Contributions to employment growth (p.p.)



Source: SO SR, MoF SR

The balance of payments deficit will start to moderate and should reach -1.0% of GDP towards the end of the forecast period. In particular, the rise in the goods balance surplus, which will be supported by the growth of

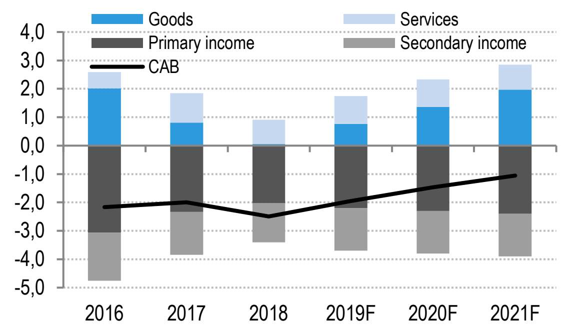
[2] The 2019-2022 forecast was approved by the Macroeconomic Forecast Committee in January 2019 and officially published in February 2019..
[3] In the following text, we will understand household consumption as household and non-profit institutions serving households (NPISH).

exports in the automotive industry related to the launch of new production, will be responsible for the deficit reduction. The balance of services should remain in surplus. On the other hand, dividend payments and foreign investment interest payments will lead to a moderate deepening of the primary income deficit.

Prices will rise by 2.6% in 2019. Labour market overheating pushes up the rise in services prices, which will continue to be the main driver of inflation in 2019. However, legislative changes will also affect prices this year (totaling up to 0.3 p.p.). These include, in particular, the introduction of chain levy[4] and the increase in excise duty on tobacco. Conversely, lunches will be free, especially in kindergartens, and prices will also be slightly reduced for lower VAT rates on accommodation. In particular, regulated prices will increase due to the increase in energy prices, but will be lowered by the above mentioned introduction of free lunches. Fuel prices will fall in response to falling oil prices. Prices of tradable goods will reflect price developments abroad.

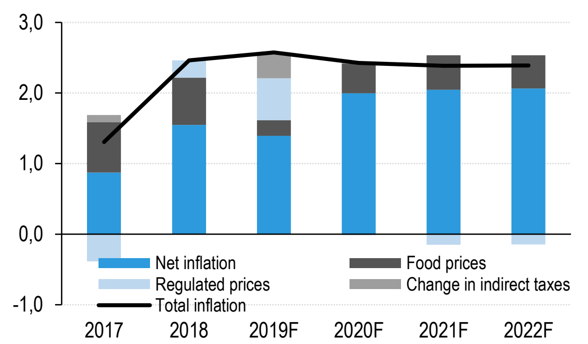
Inflation will be more moderate in the coming years. Energy prices should start to decline gradually after the initial rise, reflecting developments in energy commodity prices on world markets and future contract developments. In 2020, free lunches at primary schools will also affect inflation. The rise in service prices will reflect the continued overheating of the labour market and the related wage developments. Service price dynamics will keep the overall inflation at 2.4% in the medium term horizon.

FIGURE 3 – External imbalances – CAB components (% of GDP)



Source: NBS, MoF SR

FIGURE 4 – Structure of consumer inflation – contribution of components (p.p.)



Source: SO SR, MoF SR

Main risks to the forecast[5]

The balance of forecast risks is tilted downwards. Negative risks dominate the external environment, in particular the possible hard landing of the Eurozone economy, escalating protectionism in international trade and hard Brexit (see risk scenarios in Chapter 3). We estimate that Brexit without agreement, could reduce Slovakia's GDP by 0.7 to 1.4% of GDP in the long run. However, the impact will be most pronounced in the first two years. Weaker demand for cars abroad and a marked slowdown in the labour market may have negative consequences. Growth in employment and wages is solid at the moment, but any stronger labour market response to the easing of foreign demand may result in a slowdown in consumption of Slovak households. The forecast is based on earlier assumptions about government spending and EU funds drawing.[6]

BOX 1 - External environment assumptions

Financial markets continued the downward trend throughout the second half of 2018. The stock market was selling

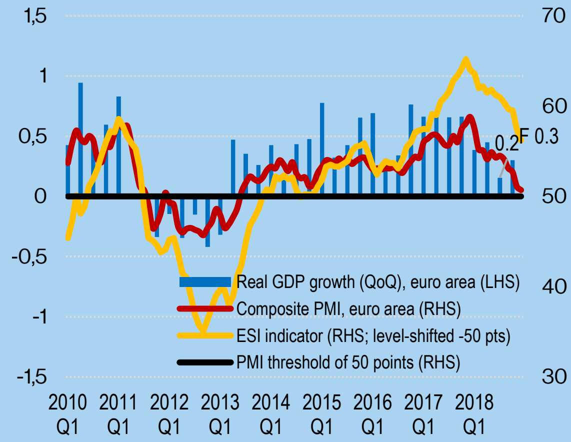
[4] On 3 April 2019, Parliament approved the abolition of the special levy on retail chains. The Stability Programme 2019 is based on the February macroeconomic forecast, which has not taken into account this change in legislation.
[5] Some risk scenarios are included in Chapter 3.1.
[6] The macroeconomic forecast underpinning the Stability Programme 2019 was approved by the Macroeconomic Forecast Committee on 4th of February 2019. The Stability Programme 2019 is based on additional data available in April 2019, as well as government decisions based on an update of macroeconomic developments and current tax and contribution collection. The macroeconomic forecast assumes a higher drawing of EU funds, given that it is based on historical trends as well as the volume of unspent expenditure carried over from previous years. Expenditure financed by EU funds, budgeted in previous years and not spent, can be carried over to the next period. In 2019, EU-funded carry-overs amounted to EUR 2.96 billion. These resources can be used in the next period, even though they are not part of the forthcoming budget for 2020-2022. The Stability Programme 2019 considers a reserve for co-financing costs due to the faster drawing of EU funds.

globally in all regions. Concerns mainly relate to the unfavorable developments in China, where trade disputes with the US could also contribute to losses. Long-term interest rates have also responded to a general downturn and postponing further monetary policy normalization in the US and the Eurozone. The ECB ended its quantitative easing program in December 2018, but the expected first increase in key rates is shifted to the end of 2019 at the earliest. The euro-dollar exchange rate was in a relatively narrow range of around 1.14 EUR / USD.

Together with the financial market, **the price of oil also fell sharply.** The reason was not only slowing down of some regions of the global economy but also increasing production by Saudi Arabia by 1 million barrels per day. At the forecast horizon, we expect a gradual rise in oil prices, which should stabilize at USD 61 a barrell.

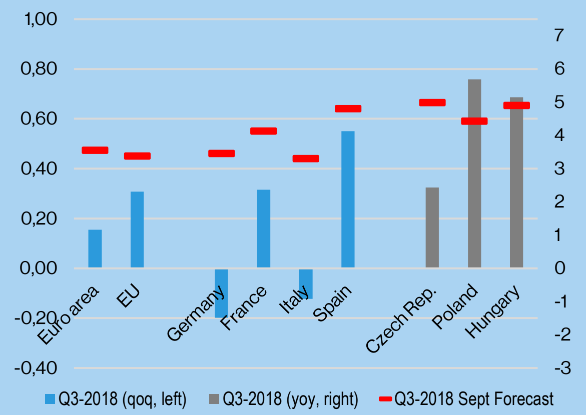
Several regions of the global economy have been hit by slowing performance. The economy of the Eurozone continued in a cyclic cooling in the second half of 2018 (FIGURE 5). In the third quarter of 2018, the Eurozone grew only at 0.2% quarter-on-quarter.[7] The economies of Germany and Italy have even recorded a slight decline. The US economy, stimulated by fiscal measures, achieved stable performance in the third quarter, albeit somewhat slower than in the previous quarter. China's performance slowed by 6.5% year-on-year due to US trade conflicts. V3 has so far resisted adverse developments in the Eurozone (FIGURE 6).[8] Poland and Hungary grew at a fast pace thanks to strong labour markets and wage increases.

FIGURE 5 - Economic indicators in the euro area predict a slowdown



Source: Markit, EC, Eurostat

FIGURE 6 - The V3 countries are still immune to unfavourable developments



Source: IFP, Eurostat

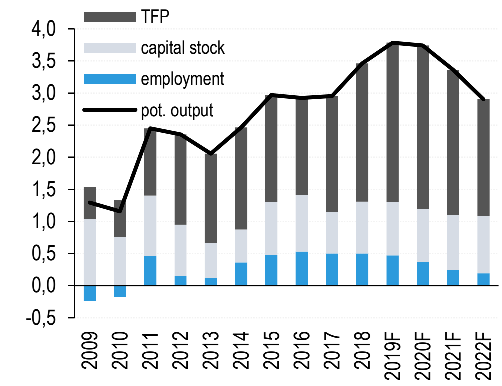
Both the Eurozone and Germany's business cycle surveys suggest slow but positive economic growth. Therefore, in the last quarter of 2018, we expect the Eurozone economy to grow by 0.3% quarter-on-quarter. However, in 2019, we will undertake a significant revision of GDP and imports in almost all major trading partners of Slovakia. The closure of external environment assumptions, including interest rates, commodity prices and exchange rates, was January 15, 2019.

1.3 Cyclical development of the economy

According to the MoF SR estimates, the growth of the economic potential in 2019 will accelerate to 3.8%. The main impetus for potential growth is the increase in the overall productivity of production factors brought by the JLR automobile plant. Increased investment activity also leads to a growing capital contribution. Conversely, the contribution of potential employment will dampen due to demographic developments at the end of the forecast horizon.

[7] This development was also repeated in the fourth quarter (after the deadline of the Committee's forecast assumptions).
[8] Q4 figures were not yet available at the time of the January forecast.

FIGURE 7 – Contribution of production factors to potential growth (pp) – MFSR approach



* overall productivity of production factors

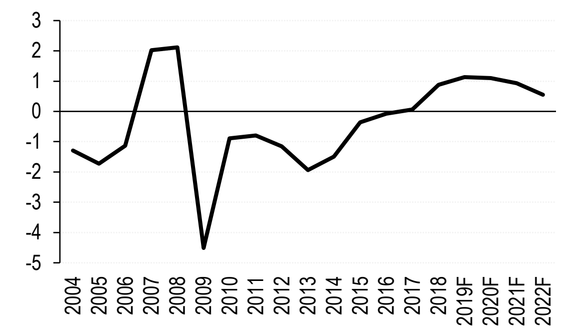
TABLE 2 - Contribution of production factors to potential growth (pp) – MFSR approach

	Pot. GDP (growth, %)	TFP*	Capital stock	Labour
2014	2,5	**1,6**	**0,5**	**0,4**
2015	3,0	**1,7**	**0,8**	**0,5**
2016	2,9	**1,5**	**0,9**	**0,5**
2017	3,0	**1,8**	**0,6**	**0,5**
2018	3,5	**2,2**	**0,8**	**0,5**
2019F	3,8	**2,5**	**0,8**	**0,5**
2020F	3,7	**2,5**	**0,8**	**0,4**
2021F	3,4	**2,3**	**0,9**	**0,2**
2022F	2,9	**1,8**	**0,9**	**0,2**

Source: MoF SR

After a significant opening of the output gap last year, the economy will continue to warm up slightly over the entire forecast horizon. In 2019 and 2020, the positive output gap will culminate at 1.1% of potential GDP, despite the supply impulse of the new car production. The overheating of the economy will start to soften gradually from 2021 onwards.

FIGURE 8 – Output gap* (% pot. GDP) - MoF SR approach



* it is an estimate from Macro Forecast Committee of February 2019

TABLE 3 – Output gap development* - MoF SR approach

	GDP (real grpwth, %)	Pot. GDP (growth, %)	Output gap (% pot. GDP)
2015	4,2	3,0	**-0,4**
2016	3,1	2,9	**-0,1**
2017	3,2	3,0	**0,1**
2018	4,3	3,5	**0,9**
2019F	4,0	3,8	**1,1**
2020F	3,7	3,7	**1,1**
2021F	3,2	3,4	**0,9**
2022F	2,5	2,9	**0,6**

Source: MoF SR

BOX 2 - Methodological differences in calculation of potential output by MoF SR and EC

As in the Draft Budget Plan for 2019, the estimated potential output and output gap is based solely on the Ministry of Finance's national methodology based on the Macroeconomic Forecast Committee's official forecast. The national methodology approaches the European Commission (EC) estimate for a longer time than the EC methodology with inputs from the MoF SR forecast. At the same time, the results of the national methodology of the MoF SR are more consistent with other indicators of macroeconomic imbalances, such as net inflation or the current account balance. The national methodology is also used in this document to estimate the output gap in the calculation of the structural balance for the establishment of budgetary objectives.

TABLE 4 – Output gap (% of GDP)

	2018	2019	2020
EC 2018 Autumn Forecast	0,7	1,3	1,2
MoF SR National Methodology (February 2019)	0,9	1,1	1,1
EC methodology with forecast of MoF SR (February 2019)	0,9	1,3	1,4

Zdroj: MF SR, EK

The difference in estimates of the EC and MoF SR (national methodology) output gap is generally caused by different forecast horizon and different total factor productivity (TFP). While the EC methodology estimates the output gap for two years ahead, the MoF prognosis forecasts up to four years. The EC methodology is based on trends and filtering variables, so prolonging the forecast horizon may result in different estimates of the output gap in the shorter horizon, although the input macroeconomic forecast is unchanged in the years. Therefore, for a more correct comparison, we shortened the input data horizon to the MoF forecast with the EC methodology to two years. The second difference is mainly in historical figures for total factor productivity (TFP). Although both institutions calculate a potential product using the Cobb-Douglas production function, the MoF SR increases the potential product through TFP between 2019 and 2021 to match the structural changes in the economy brought about by JLR's investment and which cannot be captured by the common method of the EC.

Due to investment activity of JLR, the Ministry of Finance's forecast increased the additional contribution of TFP growth to potential growth in 2019 to 2021 cumulatively by 0.5 p. p.. The increase in the contribution of TFP growth was based on an estimated contribution of exports to GDP growth from the demand side. These adjustments are consistent with the adjustments for the period 2005 to 2008, when several significant investments in the automotive and electrical industries came to Slovakia. As a result of the new investment activity, not only the current growth of the economy, but also its potential will increase abruptly. Therefore, the output gap will only grow to a limited extent. While the national methodology of the Ministry of Finance of the Slovak Republic captures this factor, the EC methodology is likely to indicate a higher overheating of the economy, similarly as it did in 2005-2008. This effect is also indicated by the above-mentioned estimate of the output gap calculated by the EC methodology using the macroeconomic forecast of the Ministry of Finance, which predicts a slightly greater overheating in 2019 compared to the national methodology. It holds also for 2020, where the opening of the output gap even continues.

1.4 Forecast comparison of the MoF SR and other institutions

More recent forecasts of some institutions are slightly more pessimistic compared to the MoF SR in terms of GDP growth in 2019 (see NBS, IMF). The MoF SR forecast is older and does not take into account data from the fourth quarter of 2018, which would decrease GDP growth by 0.2 p.p. in 2019. The inflation forecast is almost identical with other institutions, with the exception of the OECD in 2020. Differences in the current account result mainly from the revision of historical data, but other institutions expect it to close sharply.

TABLE 5 – Comparison of forecasts for the Slovak economy: MoF SR and other institutions

	2018	2019	2020
		Real GDP growth (%)	
MoF SR	**4,3**	**4,0**	**3,7**
Macro Committe (median)	4,2	4,0	3,6
NBS	4,1	3,5	4,0
EC	4,2	4,1	3,4
OECD	4,1	4,3	3,6
IMF	4,1	3,7	3,5
		HICP (%)	
MoF SR	**2,5**	**2,6**	**2,4**
Macro Committe (median)	2,5	2,6	2,4
NBS	2,5	2,5	2,5
EC	2,5	2,5	2,4
OECD	2,7	2,7	3,0
IMF	2,5	2,4	2,2
		Current account (% of GDP)	
MoF SR	**-2,6**	**-2,0**	**-1,5**
Macro Committe (median)	-1,9	-0,9	-0,9
NBS	-2,5	-2,9	-3,1
EC	-	-	-
OECD	-1,2	0,1	0,0
IMF	-2,0	-1,0	-0,7

Source: MoF SR (February 2019), Macroeconomic Forecasts Committee (February 2019), NBS (March 2019), EC (February 2019), OECD (November 2018) and IMF (April 2019).

2 PUBLIC FINANCE POSITION

Fiscal performance exceeded budgetary objectives in 2018, as the general government deficit reached 0.7% of GDP. In 2019, the general government budget will be fully balanced. Additionally, the medium-term budgetary objectives according to European fiscal requirements will be met. The continued improvement of the fiscal position confirms the continuous decline in both gross and net government debt. At the end of 2018, gross government debt reached 48.9% of GDP, and for the first time it dropped below the lowest sanction threshold of the constitutional fiscal responsibility act. Net government debt declined even more, as it reached 43.0% of GDP.

In line with the government's policy manifesto, both headline balanced budget and medium-term budgetary objective should be achieved and maintained until 2022. Gross debt will remain below the sanction thresholds, which will tighten by one percentage point of GDP annually from 2018 to 2027. By the end of 2022, gross debt will reach 44.4% of GDP, which is 0.6 p.p. below the lowest sanction threshold. Thus, from year 2018, gross debt will fall by almost 5 p.p. of GDP. Net debt will decrease faster that gross debt, and in 2022 it will fall to 37% of GDP.

According to the spring notification of Eurostat, the general government deficit in 2018 reached 0.70% of GDP, which is a better outcome than foreseen in the approved budget (0.83% of GDP). Compared to budgetary assumptions, tax collection revenues were significantly better, mainly due to positive growth in the labour market. The continued fight against tax evasion brought higher value added tax revenue. On the other hand, a greater increase in capital expenditure contributed to higher general government spending, mainly due to stronger absorption of European funds for contruction of transportation infrastructure and for local governments. To a lesser extent, expenditure on employee compensation was increased compared to the budget.

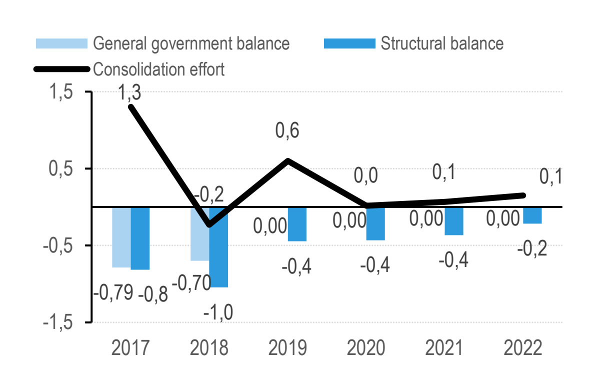
The current estimate of fiscal outurn for this year corresponds to targeted balanced budget. There is a slight decrease in tax and contribution revenue in the updated tax forecast[9] compared to the approved budget, which is due to the more realistic new legislative measures on the revenue side. Conversely, the negative effect of legislation is partially offset by the continued positive situation in the labour market. Overall revenues are higher compared to budget plan because of stronger drowdown of EU funds. For the same reason, the budget exceeds total governmental expenditure, also due to higher coofinancing costs. Similarly, higher expenditure is expected by social insurance system, especially on operating costs. Conversely, these impacts are offset by savings in other current transfers.

The general government will prospectively have a balanced budget from 2020 to 2022. The medium-term budgetary objective will also be maintained. The Stability Programme sets the medium-term budgetary objective (MTO) at a structural deficit of 1% of GDP from 2020. The medium-term budgetary framework expects maintaining balanced budget, amid slight easing of economic growth. Fiscal policy will continue to be neutral and even counter-cyclical, with full compliance with the Stability and Growth pact. Budgetary objectives count with some unnalocated fiscal space in relation to the new medium-term objectives (MTO), with the goal of absorbing a possible slowdown in economic growth without jeopardizing the medium-term fiscal position.

Gross and net governmental debt will continue to decline and will remain below the sanction thresholds of the constitutional fiscal responsibility act. Since 2018, gross debt has been outside of the sanction thresholds established by the Fiscal Responsibility Act. By 2022, gross debt should fall to 44.4% of GDP and will remain below the lowest bound of the sanction threshold's debt brake. Net debt, which is net of gradually rising liquid general government assets, will fall to 37% of GDP (6 p.p. higher than 2018). Expected primary surpluses of of around 1% of GDP and strong support of macroeconomic development (economic growth significantly above the implicit interest rate) will contribute to the decline in gross and net debt.

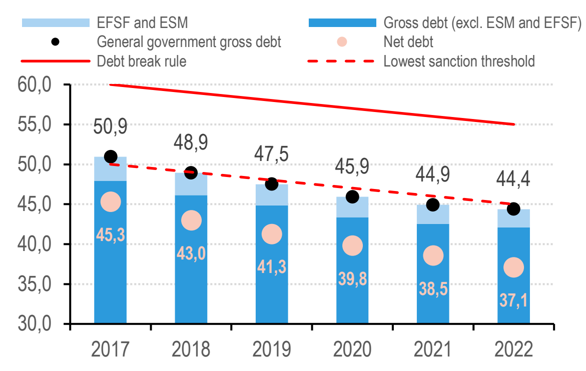
[9] Tax Forecast Committee's forecast of 8.2.2019

FIGURE 9 – Consolidation effort of the general government (% of GDP)



Source: MoF SR

FIGURE 10 – Gross general government debt (% of GDP)

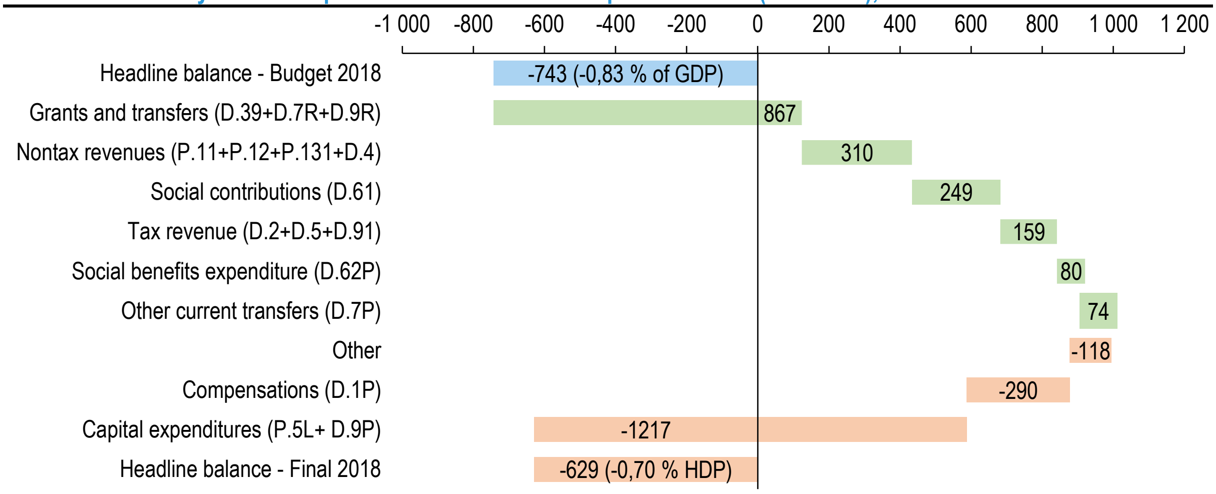


Source: MoF SR

2.1 General Government Balance in 2018

According to data sent to the Eurostat, the general government deficit achieved 0.7% of GDP in 2018. The deficit in the approved budget (0.83% of GDP) was exceeded by 0.13 p.p.. The better result was mainly due to higher tax and contribution revenues. These were partially compensated for on the expenditure side – specifically by higher investment expenditure mainly financed by the EU funds.

FIGURE 11 – Analytical description of GG balance development in 2018 (ESA 2010), contributions in EUR mil.



(+) / (-) means positive/negative influence on GG deficit
Relevant ESA 2010 codes are shown in parentheses.

Source: MoF SR

Revenue side of the budget

Compared to the budget, total revenues were higher by EUR 1584 mill., of which almost half is related to an increase in stronger usage of EU Funds.

Tax revenues surpassed expectations outlined in the budget by EUR 159 mill. This is due to the greater collection of value added tax as well as coroporate and personal income taxes. The positive impact of macroeconomic developments and more efficient collection of most tax items (more detail in BOX 3) compensates the fall in other tax revenues (outside the scope of the Tax Forecasting Committee), specifically income from emission quotas and gambling revenues. Regarding tax revenues, the budget (contrary to reality) also considered an increase in revenues from the storage of emergency oil and oil products.[10]

[10] The budget considered EOSA's revenues on the tax revenue item, but within notification it is classified as non-tax revenue.

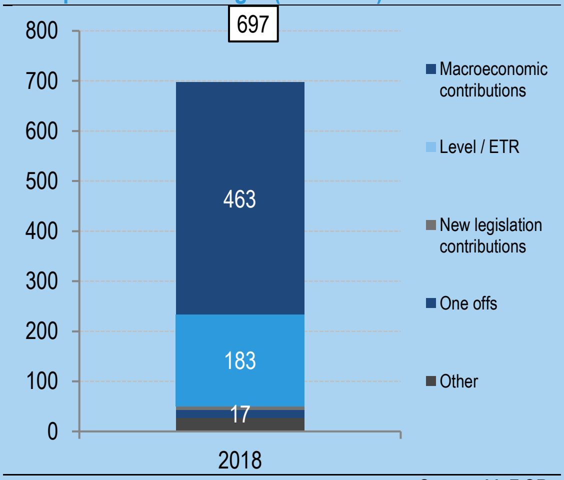
Revenue from social contributions (healthcare and social contributions) **has increased EUR 249 mill. compared to the budget.**[11] Better than expected growth in employment and wages have led to a better outcome on the health and social contributions.

BOX 3 – Evaluation of tax revenues for 2018, which is forecast by the Tax Revenue Forecast Committee

The current estimate of the general government's tax and contribution revenue for 2018 projected by the Tax Forecast Committee is EUR 697 mill. greater than the 2018 budget. From an analytical point of view, differences in the development of individual taxes can be attributed to several factors – the impact of macroeconomic developments, changes in the levels of effective tax rates (ETR), new legislation not included in the budget, and one-off factors. In 2018, these factors were most important:

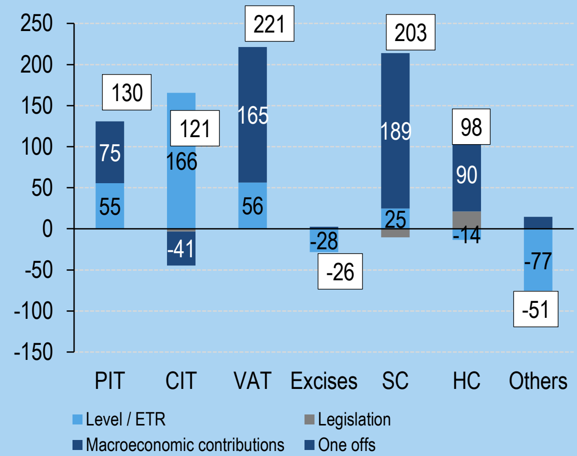
- Approximately two-thirds of higher tax and contribution revenues are due to better than expected macroeconomic developments, especially in the labour market. This affected the personal income tax, and social and health contributions. Higher final household consumption contributed to greater VAT revenue.
- More than one-fifth of higher incomes are due to higher tax collection rates, which is visible mostly in CIT, VAT, and personal income tax[12].
- Corporate income tax incrased (+121 mill.) because final data for 2017 wasn't known when the 2018 budget was created so a lower value was expected.
- Negative developments in other taxes are mainly due to an overestimated expectation of dividend tax revenues (-33 mill. EUR). Other taxes also include levy on compulsory car insurance[13] (EUR 27 mill.).
- The new legislation, which was not included in the 2018 budget, has had a minimal impact on higher revenues.

FIGURE 12 – Change of tax revenues 2018 compared to the budget (EUR mill.)



Source: MoF SR

FIGURE 13 – Change of 2018 GG revenue forecast compared to budget (EUR mill.)



Source: MoF SR

The Tax Forecast Committee assesses only accrual tax and tax revenues, which are considered to be in line with the national economic classification. Unexpected revenues account for roughly 10% of total revenue. The Committee does not say ie. The development of state-paid premiums (approx.. EUR 1.4 billion) which has a neutral impact on the final balance of GG. Thus, it is not possible to simply compare the Committee's forecast to the overall notified tax and social contribution revenue in the ESA methodology without analytical adjustments.

Non-tax revenues significantly outperformed budget expectations (EUR 310 mill.), which is largely due to methodological factors. As in previous years the primary differences are due to mentioned recording of revenues

[11] Revenue earned does not include one-off social insurance revenue related to debt relief of health care facilities (as opposed to a description of the expected reality in the 2019 Budgetary Plan).
[12] This factor also takes into account the success of the collection, the existing exceptions, the exemptions and the change in the behavior of taxpayers, as well as the forecast error.
[13] According to ECBC, the approved tax and contribution income budget did not include the proceeds from the payment of part of the premiums from compulsory motor third party liability insurance. This revenue of 23 mill. EUR was budgeted as non-tax revenue according to ECBC. The contribution has been reclassified to tax and this contribution is already included in the current tax revenue estimate (EUR 26.7 million). For this reason, the impact on the deficit is only EUR 3.7 mill..

from the Emergency Oil Stocks Agency, non-budgeted revenues from business activities of public universities[14] and non-budgeted revenues from accrued interests[15]. Higher than budgeted revenues were recorded in case of local governemnts and to Nuclear and decommissioning company (JAVYS a.s.).

By contrast, the revenue from grants and transfers were significantly higher than budgeted (by EUR 867 mill.), mainly due to stronger usage of EU funds. Other foreign grants also exceeded budget estimates (by EUR 160 mill.).

Expenditure side of the budget

General government spending surpassed the budget by EUR 1471 mill., which is mostly due to faster absorption of EU resources.

Employee compensation rose above the budget by EUR 290 mill. Higher than budgeted earnings allowed increase of employees' compensations, especially in local governments and the social insurance company. Higher compensation compared to the budget is also on the side of the state budget, contributory agencies, and public universities. The increase in spending was covered by a stronger absorption of EU resources.

Contrarily, the budget estimated higher social benefits (-80 mill. EUR), due to higher than expected payments for state policyholders as well as methodological factors[16]. These effects compensate for the slight growth of disability and unemployment benefits (+69 mill. EUR).

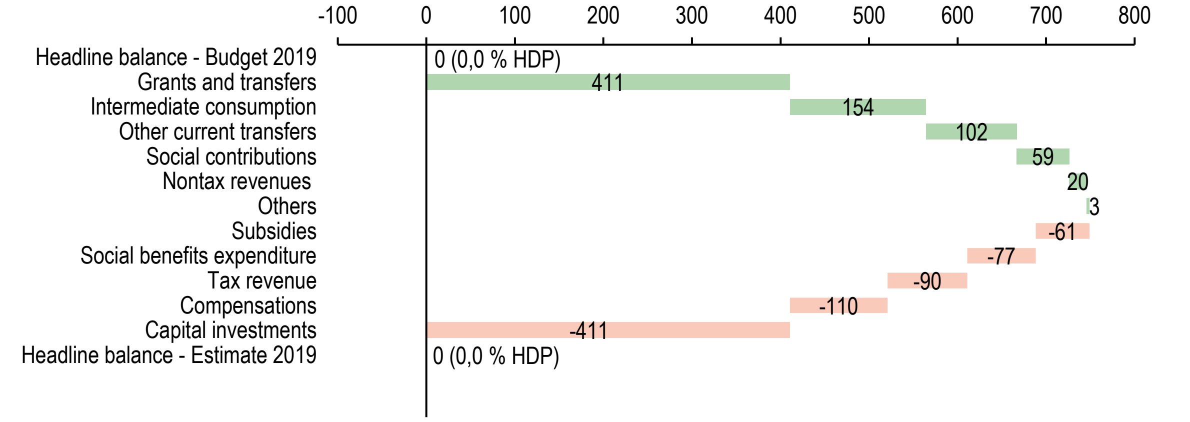
Current transfers also dropped compared to budget estimates (-74 mill. EUR) which is mainly because of the adjustment reducing EU corrections from previous years.

Capital expenditures significantly exceeded budget expectations by EUR 1217 mill. This is mainly due to stronger than forecasted use of EU resources by the National Highway Company, Railways of Slovakia, and local governments. Particularly in case of local governments, national funding also contributed to higher spending for local elections. Higher capital transfers (to the entitites outside of the GG sector) are also due to higher dividend payments to shareholders of health insurance companies.

2.2 Current development in 2019

On the basis of the development thus far, the general government deficit is expected to drop by 0.7 p.p. of GDP year-on-year in 2019 until it reaches the planned balanced economy. Although the approved budget considered a balanced budget, budget items have been reallocated due to legislative changes which were approved in December 2018 (details below). On the expenditure side, the changes in capital expenditures are financed mainly bu EU sources.

FIGURE 14 – Analytical description of GG balance development in 2018 (ESA 2010), contributions in EUR mil.



(+) / (-) represents positive / negative impact on GG balance. The relevant ESA 2010 classification codes are shown in parenthesis. *Source: MoF SR*

[14] These revenues are not budgeted in line with the specific law.
[15] The Debt and Liquidity Management Agency provides net interest only on the expenditure side, while the data reported by Eurostat consider both revenue and expenditure.
[16] The budget considered on this item a transfer of forces components, which is consolidated in the data reported for reality.

Revenue side of the budget

General government total revenue is higher by EUR 400 million than budgeted, which is similarly to last year caused by stronger absorption of EU funds.

The current estimate of GG tax and contribution revenues is EUR 31 mill. less than outlined in the budget. The revisions is affected by the new macroeconomic forecast published in February 2019 and includes new legislative changes. Several legislative measures put forward were approved by Parliament, after voting on the budget[17] (which incorporated a reserve for their impact on the expenditure side).

Taxes from production are EUR 46 mill. lower than budgeted, which is because the planned increase in the charge for the storage of emergency oil and oil has been postponed by one year (EUR -33 mill.) and the decline in excise tax (EUR -17 mill.). These negative effects are slightly offset by higher VAT collection and by the reduction in VAT tax rate on accommodation services (EUR +13 mill. in total).

- **Positive developments in the labour market continue to help increase personal income tax (PIT), which is EUR 29 mill. higher than budgeted.** This positive macroeconomic effect is partly offset by the effects of legislative changes (for example, exemption of holiday checks from taxes and levies, and changes in exemption on 13th and 14th salary).

- **Social and health benefits are EUR 59 mill. higher than expected in the budget**, mostly due to an increase in the state's payment for its policyholders.

- **The decline in corporate income tax compared to the budget (EUR -62 mill.) is a result of a clarification in of the interoreation of legislation from a special tax on retail chains[18].** Decrease in revenue compared to the budget is also affected by lower profitability estimates than macroeconomic indicators predicted and slower economic growth in 2019.

Non-tax revenues are estimated to be slightly higher than budget estimates (EUR 20 mill.), which are mainly due to higher dividends from state-owned enterprises.

Grants and transfers revenue is EUR 411 mill. higher, given the faster absorption of EU funds.

Expenditure side of the budget

The overall expenditure of GG also surpasses budget assumptions (by EUR 400 mill. in total). At the same time, there are slight changes in structure – the share of capital expenditure and staff compensations have both increased.

Compared to the budget assumptions, employee compensation costs are higher by EUR 110 mill., which is mostly due to higher absorption of EU resources (especially in the case of local governments and public universities).

Expenditure on intermediate consumption is EUR 154 mill. lower than budgeted, which is due to the allocation of the reserve for new legislative measures on correspondfing revenues and expenditure items[19]. This effect compensates for the Social Insurance Agency's higher operating costs and higher usage of EU funds (especially local governments and contributory agencies).

Subsidies surpassed the budget by EUR 61 mill. This is due to additionaly allocated expenditures in the agricultural sector. This increase is partially offset by lower than budgeted payments for co-financing agricultural subsidies.

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[17] The Tax Forecasts Committee reported the budgetary impact of the measures in December 2018.
[18] On 3 April 2019, Parliament approved the abolition of the special levy on retail chains. The decision will have an impact on both the budgeted revenue of the levy and the CIT. In order to suspend the law, it will also have to respond to the expenditure side in the course of the year in order to meet the deficit. The Stability Programme 2019 is based on the February tax forecast, which has not yet taken this change in legislation into account.
[19] Recreation vouchers, lower VAT on accommodation services, special levy for retail chains and increased tax bonus for children under 6 years.

Expenditure on social benefits are expected to be EUR 77 mill. higher than budgeted. This is due to the inclusion of an approved increase in the tax bonus for a child (EUR 60 mill). The difference is also caused by higher co-financing for active labor market policies. Higher state budget payments for state policyholders are compensated by the expected savings on other social benefits.

Other current tranfers are lower than the budget plans by EUR 102 mill. This is a result of the reallocation of EU resources as well as co-financing with the state budget.

By contrast, capital expenditure surpasses the budget by EUR 411 mill., especially on the side of local governments, Railways of the Slovak Republic, and the National Highway Company. Compared to the budget, capital transfers have grown (EUR +55 mill.), mostly due to higher co-financing expenditure.

2.3 Medium-term budgetary outlook 2020-2022

The present Stability Plan[20] confirms the commitment to have a balanced budget in 2020 (and its continuation in coming years) while also maintaining country-specific medium-term budgetary objective. Between 2020 and 2022, it is expected that a nominally balanced balance of government revenue and expenditure will be maintained. Fiscal policy will continue to act counter-cyclically while fully complying with the Stability and Growth Pact (further just "pact"). The structural deficit should fall towards 0.2% of GFP by the end of 2022. Envisaged headline fiscal targets reflect the latest macroeconomic forecast, which is expected to slightly moderate the pace of economic growth in relation to the risks of the external environment.

TABLE 6 – Change of fiscal objectives of general government (% of GDP)

	2017	2018	2019	2020	2021	2022
1. GG budget for 2017 to 2019	-1,29	-0,44	0,16	-	-	-
2. GG budget for 2018 to 2020	-	-0,83	-0,10	0,00	-	-
3. GG budget for 2019 to 2021	-	-	0,00	0,10	0,30	
4. Fiscal framework of GG budget in the Stability Programme for 2020-2022	**-**	**-**	**-**	**0,00**	**0,00**	**0,00**
Change compared to 2017 to 2019 GG budget (4-1)	-	-	-	-		
Change compared to 2018 to 2020 GG budget(4-2)	-	-	-	0,00	-	-
Change compared to GG budget 2019 to 2021 (4-3)	**-**	**-**	**-**	**-0,10**	**-0,30**	**-**

Source: MoF SR

2.4 Structural balance

Since 2014, Slovakia's fiscal policy has been guided by the preventive arm of the Pact, for which the goal is to achieve the medium-term budgetary objective (MTO). The country-specific MTO level should correspond to a budgetary position (close to a structurally balanced budget) that is sustainable in the long term and also takes into account the negative effects of an ageing population on public finances. At the same time, in the short term, the MTO should provide the full scope for the anti-cyclical role of fiscal policy, through the operation of automatic stabilizers. For this reason, a gradual year-on-year improvement in the structural balance is required, based on the rules of the Pact (the consolidation effort, described in more detail in Annex 2), until the MTO is reached. The Slovak economy has been in the expansive phase of the economic cycle since 2017, but without significant overheating. According to the rules of the Pact, a year-on-year reduction in the structural deficit of at least 0.5 p.p. is required in this case until the MTO is achieved.

Development of the structural balance by 2019

The structural deficit reached 1.0% of GDP in 2018, in the context of a stronger economy exceeding its potential. The year-on-year impact of the economic cycle on the general government's performance increased by 0.3 p.p. while the nominal balance improved by almost 0.1 p.p.. Stronger than required consolidation in 2017 has compensated approximately neutral fiscal policy in 2018. Therefore, it is more appropriate to assess consolidation efforts over a two-year horizon. The consolidation achieved for account developments in both 2017 and 2018 is

[20] In the context of the legislative requirements of the European Semester, the Stability Program fiscal framework thus established is considered a national medium-term budgetary framework (hereinafter referred to as the fiscal framework). The requirement to publish the national medium-term budgetary framework is based on Regulation of the European Parliament and of the Council (EU) no. 473/2013 from 21 May 2013, Art. 4.

broadly in line with the Pact guidelines (a slight deviation of 0.2% of GDP) and is fully in line with actual consolidation (according to the most recent values)[21].

This year, the structural deficit will fall to 0.4% of GDP. Meeting the budget targer will result in a structural improvement of public finances by more than 6 p.p. of GDP compared to 2010.

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

	2010S	2017F	2018F	2019E	2020PS	2021PS	2022PS
1. General government balance	**-7,8**	**-0,8**	**-0,7**	**0,0**	**0,0**	**0,0**	**0,0**
2. Cyclical component	-0,2	0,0	0,3	0,4	0,4	0,4	0,2
3. One-off effects	-0,6	0,0	0,0	0,0	0,0	0,0	0,0
4. Structural balance (1-2-3)	**-6,7**	**-0,8**	**-1,0**	**-0,4**	**-0,4**	**-0,4**	**-0,2**
5. Consolidation effort		**1,3**	**-0,2**	**0,6**	**0,0**	**0,1**	**0,1**
One year deviation*		**0,4***	**-0,7**	**MTO**	**MTO**	**MTO**	**MTO**
Two-year deviation*		**0,5***	**-0,2**	**MTO**	**MTO**	**MTO**	**MTO**
p.m. Two-year deviation (unfrozen)		*0,4*	*0,0*				
p.m. required consolidation according to EC		*0,5*	*0,5*	*0,5 (or achieve MTO)*	*maintain MTO*	*maintain MTO*	*maintain MTO*

** The deviations in 2017 and 2018 are based on the "fixed" values of the European Commission's Spring Review 2018*

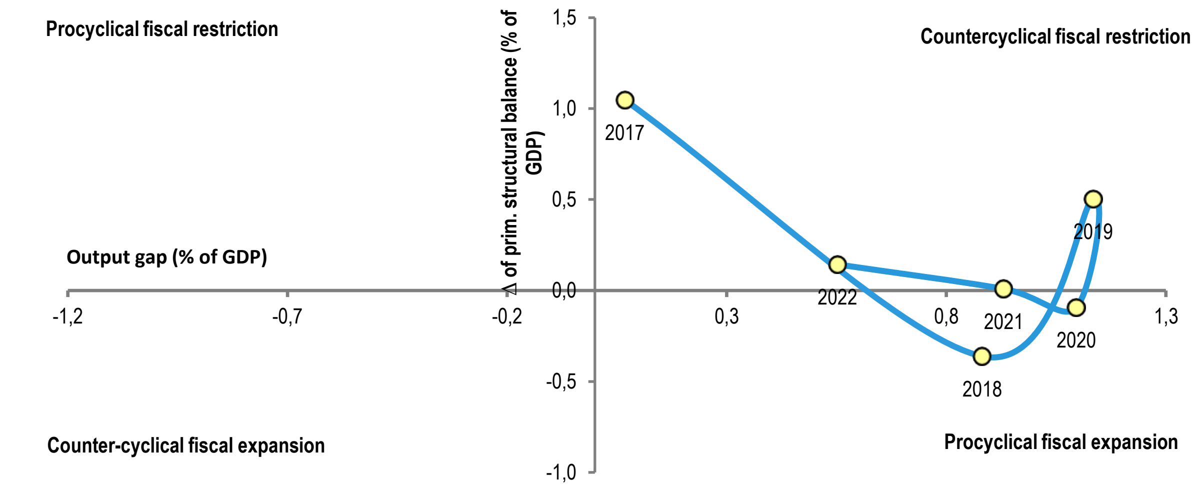
Source: MoF SR

Structural Balance Outlook 2020-2022

The Stability Program established the medium-term budgetary objectives (MTO) at a structural deficit of 1% of GDP. Minimum values of the MTO are determined by the Stability and Growth Pact for each country separately, based on the expected impact of population ageing, the fiscal impact of the standard economic crisis, and Eurozone membership[22]. The government chosen MTO reflects the latest update of the European Commission's entry variables, which set a minimum MTO for Slovakia at a structural deficit of 1% of GDP. The fiscal targets in 2020-2022 do not exploit the whole fiscal space compared to the new level of MTO. Maintaining headline balanced budgets actually corresponds to moderate consolidation in times of shifting trend of economic cycle. The structural deficit should be reduced to 0.2% of GDP by 2022 (from 0.4% of GDP in 2019).

The direction of fiscal policy will be neutral to slightly counter-cyclical over the horizon of the Stability Program. Given the currently identified positive output gap (above 1% of GDP), the additional consolidation effort in 2019 is appropriate. At the end of the medium-term hotizon, the output gap will be gradually closing to reach its potential level, which is addressed by approximately neutral fiscal policy (GRAPH 15).

FIGURE 15 – Change of primary structural balance compared to output gap level (% of GDP)



Source: MoF SR

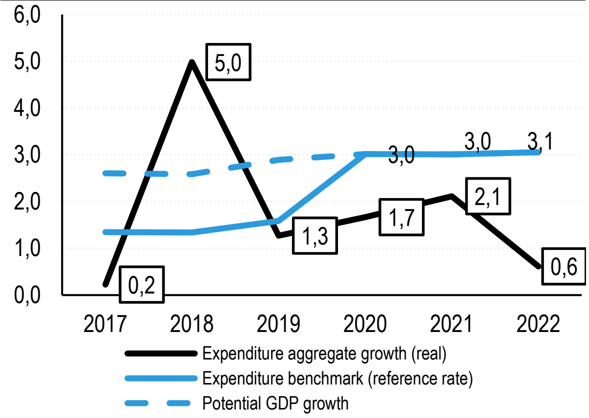
[21] In fact, the consolidation effort achieved on average is 0.5 p. p. of GDP, which means performance without any deviation. The slight deviation is due to the methodological "freezing" of the figures according to the Eurostat Spring Notification 2018, according to which the deficit in 2017 reached 1.04% of GDP, although on the basis of the most recent data it reached a deficit of 0.79% of GDP (i.ee an improvement compared to the budgeted objective by 0,5 p.p.)
[22] More information in Vademecum on Stabilty and Growth Pact.

2.5 Expenditure benchmark

The second pillar of the prevenative part of the Pact is the expenditure benchmark. According to this, GG expenditures (adjusted for items outside governmental control and new income measures[23]) should not grow faster than medium-term potential economic growth[24]. Such a pace should ensure the stabilization of the GG balance. If a country has not yet reached its MTO (the case of Slovakia in 2018), expenditure growth must also take into account the need for gradual convergence towards this objective. In this case, the rule of expenditure is adjusted for the specified convergence rate, which is based on the required structural balance consolidation effort (see Annex 3 for more).

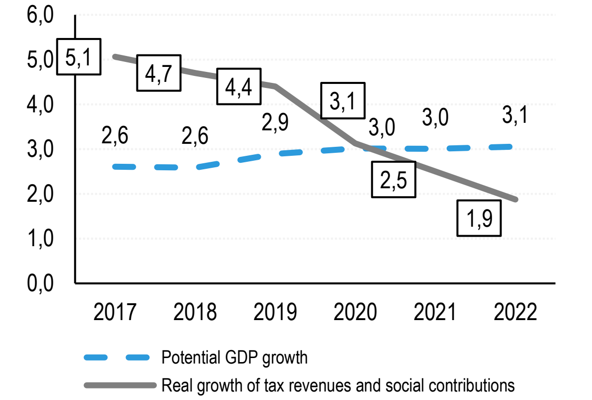
In recent years, the expenditure benchmark has become more important in assessing compliance with the Pact. The advantage of the expenditure benchmark over the structural balance is the assumption of a long-term and more stable estimate of potential growth, which is subject to less significant revisions than estimates of the output gap for individual years. At the same time, the expenditure benchmark ignores not only the supply shocks to the economy, but also the nonstandard dynamics of tax collection (unit elasticity of tax collection is assumed to be against GDP growth). In good times, when tax and contribution revenue is rising faster than GDP and strongly improve fiscal positions, the expenditure benchmark is tighter and more of a counter-cyclical indicator for consolidation effort compared to the structural balance.

FIGURE 16 – Expenditure aggragate comparing to expenditure benchmark (of y-o-y change)



Note: the allowed expenditure growth under the expenditure benchmark increases at the end of the horizon in view of meeting the MTO level
Source: MoF SR

FIGURE 17 – Real growth of tax revenues and social contributions against potential GDP growth (y-o-y change)



Note: The real increase in tax-contribution revenues is quantified over the GDP deflator and net of a change in income due to discretionary income measures
Source: MoF SR

The expenditure benchmark indicates a temporary deviation from the MTO in 2018, but this is also due to better previous year's outcome and some methodological factors. The shift of the Slovak economy since 2017 to the positive phase of the cycle requires a stronger dampening of expenditure growth (at a reference rate of 1.3% a year until MTO is reached). The expenditure aggregate grew faster in 2018 than the allowed real growth rate (by 3.6 pp). This is due to stronger growth in tax revenues over the medium-term potential (FIGURE 16), which, while maintaining its original nominal budgetary target, was higher than spending in terms of expenditure growth. However, stronger year-on-year growth in expenditure is also linked to a better result for 2017, which partly increases the deviation in 2018. At the same time, the deviation in expenditure benchmark, just as the structural balance, is negatively influenced by the methodolocical factor (so-called "freezing" of expenditure development in 2017[25] on the basis of the preliminary spring notification of Eurostat – see the description on the structural balance), without which the development would be more positive and the deviation would be 0.4% of GDP.

In 2019, expenditure is projected to comply with the expenditure benchmark. Given that MTO is expected to be reached in 2019, the expenditure benchmark is primarily intended to identify risks for its maintenance and for ex-post revisions of the business cycle. At a one-year horizon, the expenditure benchmark is fulfilled with a slight

[23] So called discretionary revenue measures represent additional year-on-year budgetary effects of revenue measures (more in Annex 3)
[24] The economy's potential is expressed by the reference expenditure growth rate, calculated as a 10-year average of potential growth (in years t-5 to t+4).
[25] The principle of freezing of expenditure in 2017, based on the spring notification to Eurostat, increases the deviation over a two-year horizon by a further 0.2% of GDP.

margin. On the two-year horizon, a significant deviation is identified, mainly due to the development of spending in 2018.

The Stability Programme fully respects the allowed level of real expenditure growth for years 2020-2022. A looser expenditure benchmark from 2020 is based on the expected fulfillment of the MTO since 2019[26]. The expenditure plan is based on a forecast of tax and contribution revenues that do not grow beyond potential economic growth (FIGURE 17). This reduces the potential risk of revision cyclical component of the fiscal outurn towards greater overheating and hence subsequent diversion from the MTO. The margin against the expenditure benchmark is between 0.3% and 0.8% of GDP and is mainly based on the additional moderate consolidation by 2022. Thus, expenditure is fully in line with the expenditure benchmark.

TABLE 8 – Calculation of Compliance (ESA 2010)

		2017F	2018F	2019E	2020PS	2021PS	2022PS
Expenditure total	mill. eur	34 107	36 646	37 616	39 271	40 950	42 769
Primary expenditure aggregate	mill. eur	32 290	34 356	35 826	37 423	38 879	40 059
Discretionary revenue measures (DRM)	mill. eur	348	-54	156	62	-246	10
Nominal growth of expenditure aggregate, after taking into account DRM	%	1,4	6,6	3,8	4,3	4,5	3,0
Real growth of expenditure aggregate	**%**	0,2	5,0	1,3	1,7	2,1	0,6
Expenditure benchmark (reference rate for expenditure growth)	**%**	**1,3**	**1,3**	**1,6**	**3,0**	**3,0**	**3,1**
Deviation from expenditure benchmark	p. p.	1,1	-3,6	0,3	1,3	0,9	2,4
One year deviation*	% of GDP	0,0	-1,3	0,1**	0,5	0,3	0,8
Two-year variation*	% of GDP	0,1	-0,7	-0,6**	0,3	0,4	0,6
p.m. Two-year non-fixed deviation	*% of GDP*	*0,5*	*-0,4*				

** The deviations in 2017 and 2018 are based on the "fixed" values of the European Commission's Spring Review 2018.* *Source: MoF SR*
*** Deviations since 2019 are informative in view of the expected meeting of the MTO.*

2.6 No-policy-change scenario

The no-policy-change (NPC) scenario presents reference developments in both revenue and expenditure according to the latest macroeconomic developments and under the measures taken before 2019[27]. The basis for the no-policy-change scenario for 2020-2022 is the current estimate of a balanced government budget for 2019[28]. In subsequent years, items evolve only in line with macroeconomic fundamentals and existing legislation before January 1, 2019[29]. By comparing the NPC scenario with the medium-term budgetary framework, the most recently adopted revenue and expenditure measures by the government can be identified.

Without the new measures, the NPC scenario would achieve a budget surplus of 0.4% of GDP in 2020 and 2021, and in 2022 the surplus would drop to 0.2% of GDP. Differences from the planned balanced budgets stem mainly from the measures taken on the expenditure side and to a lesser extent on the revenue side. Expenditure mainly reflects the impact of salary adjustment in public administration in 2020, as well as a stronger increase in spending within the defense sector. Since 2020, the medium-term framerwork also includes reserves for faster implementation of investment projects and for a possible slowdown in economic growth. In 2022, budgeted expenditure appropriations are already growing below macroeconomic fundamentals, thereby moderating the budgetary stimulus.

[26] Since the MTO has been achieved, the growth in expenditure is in line with the potential growth of the Slovak economy of around 3%.
[27] All measures, regardless of the date of approval, are listed in Annex 7.
[28] In order to determine the no-policy change scenario for 2020-2022, the 2019 reserve of EUR 53 million is excluded from the baseline in 2019.
[29] E.g. Intermediate consumption in general government in the NPC scenario is growing according to the expected inflation rate, in line with the latest macroeconomic forecast. More specifically, the NPC scenario assumptions are given in Methodology for building a no-policy change scenario.

TABLE 9 – No-policy-change scenario and general government balance (ESA 2010, % of GDP)

	Expected outcome	NPC scenario			Stability Program (PS)			PS-NPC		
	2019	2020	2021	2022	2020	2021	2022	2020	2021	2022
1.Total revenues	**39,1**	**38,3**	**37,9**	**37,7**	**38,4**	**37,9**	**37,7**	**0,1**	**0,0**	**0,1**
Tax revenues	18,4	18,2	17,9	17,7	18,3	17,9	17,7	0,0	0,0	0,0
Social contributions	14,7	14,4	14,3	14,3	14,4	14,3	14,2	0,0	0,0	0,0
Nontax revenues	4,4	4,3	4,2	4,0	4,4	4,2	4,1	0,1	0,1	0,1
Grants and transfers	1,7	1,4	1,5	1,7	1,3	1,5	1,7	-0,1	0,0	0,0
2. Total expenditures	**39,1**	**37,9**	**37,5**	**37,5**	**38,4**	**37,9**	**37,7**	**0,5**	**0,4**	**0,2**
Current expenditures	**36,2**	**35,2**	**34,7**	**34,1**	**35,5**	**35,1**	**34,3**	**0,4**	**0,4**	**0,2**
Compensation of employees	9,4	9,2	9,2	9,2	9,5	9,4	9,2	0,3	0,1	0,0
Intermediate consumption	5,5	5,1	4,9	4,8	5,0	5,1	4,9	-0,1	0,1	0,1
Subsidies	0,5	0,5	0,5	0,4	0,5	0,5	0,4	0,0	0,0	0,0
Interest payments	1,2	1,1	1,0	1,0	1,1	1,0	1,0	0,0	0,0	0,0
Total social payments	17,7	17,0	16,7	16,4	17,1	16,8	16,5	0,1	0,1	0,1
- Social benefits other than social transfers in kind	12,8	12,3	12,0	11,7	12,3	12,0	11,7	0,0	0,0	0,0
- Social transfers in kind	4,9	4,7	4,7	4,7	4,8	4,8	4,8	0,1	0,1	0,1
Other current transfers	1,9	2,2	2,3	2,1	2,2	2,4	2,2	0,0	0,0	0,1
Capital expenditures	**2,9**	**2,7**	**2,8**	**3,4**	**2,9**	**2,8**	**3,4**	**0,1**	**0,1**	**0,0**
Capital investments	2,7	2,5	2,5	3,2	2,7	2,7	3,3	0,2	0,2	0,1
- Gross fixed capital formation	2,7	2,4	2,3	3,0	2,7	2,5	3,1	0,2	0,2	0,1
Capital transfers	0,3	0,2	0,3	0,3	0,1	0,1	0,1	-0,1	-0,2	-0,1
3. Net lending / borrowing	**0,0**	**0,4**	**0,4**	**0,2**	**0,0**	**0,0**	**0,0**	**-0,4**	**-0,4**	**-0,2**

Source: MoF SR

Revenue developments

The new revenue measures for 2020 to 2022 have marginallt positive impact on the GG balance compared to the NPC scenario. The new legislative measures identified in the area of tax and contribution revenue are slightly expansive, but this mainly compensates for the increase in resources in healthcare facilities beyond the NPC scenario.

- **The amendment to the law governing the provision of the 13th and 14th salary brought a reduction in the minimum renumeration for applying the 13th salary to 500 euros.** This change will result in an additional 30-50 million euro loss in tax and contribution revenue compared to the previous legislation. The previous legislative text defined a minimum amount of the 13th salary as the average salary of an employee for the previous 3 months. Given the higher number of people who claim the 13th salary, the benefit will also affect the number of people entitled to a 14th salary.[30]

- **From 2020 onwards, the revenues will increase by an additional charge of EUR 33 mill. for the management of oil and oil products.** The increase in revenue is based on the additional increase of charge by one euro cent compared to the current situation.

- **Non-tax revenues will grow through higher healthcare facility revenues beyond the NPC scenario.** These are based on stronger growth in health spending compared to the NPC scenario assumptions. Over the entire horizon, this represents an average revenue increase of 0.1% of GDP per year.

[30] If a 13th salary was paid to the employee, he/she will also be exempted from the 14th income tax salary up to € 500. At the same time, cash payments of up to € 500 are also exempt from health contributions.

Development on the expenditure side

The Stability Programme foresees higher spending than the NPC over the horizon by an average of 0.4% of GDP. Capital expenditures, compensation, and social transfers all grow faster than in the NPC scenario.

- **The Stability Programme foresees higher expenditure on compensation of employees than NPC over the entire horizon.** The medium-term framework accounts for another 10% increase of salaries of civil servants in 2020 as in 2019 (by the end of the budgeting period, the gap with NPC closes as the compensations are expected to grow by 2% after 2020).

- **The asymmetrical development of intermediate consumption expenditure over NPC** (lower spending in 2020 and higher spending in 2021 and 2022) is due to an increase in defense modernization expenditures, which is also partly account for on this item.

- **Beyond the NPC, higher spending on social transfers is expected over the entire horizon** (particularly public health expenditure) as a result of higher income from health contributions.

- **Higher current tranfers compared to the NPC at the end of the horizon are marked for co-financing of uncallocated EU funds.**

- **The Stability Programme foresees higher capital expenditure than the NPC in 2020 and 2021.** Additional expenditure is related to the modernization of defense (as based on the international commitments), measures to support economic growth and a reserve for government measures not yet specified. In 2022, the decline below the NPC is due to a slower increase in capital transfers compared to nominal GDP growth.

TABLE 10 – List of new measures in the fiscal framework for 2020-2022 (ESA 2010, impact on the balance)

			2020		2021		2022	
Measure	**Sub-sector**	**ESA 2010**	mil.EUR	% of GDP	mil.EUR	% of GDP	mil.EUR	% of GDP
Total revenues (1+2+3+4)			**95**	**0,09**	**25**	**0,02**	**60**	**0,05**
1.Tax revenues	S13	D.2 + D.5 + D.91	17	0,0	17	0,0	17	0,0
- Increase of administration fee (EOSA)		D.2	33	0,0	33	0,0	33	0,0
- 13th and 14th salary – amendment to legislation		D.5	-15	0,0	-15	0,0	-15	0,0
2.Social security	S13	D.61	-15	0,0	-35	0,0	-35	0,0
- 13th and 14th salary – amendment to legislation		D.61	-15	0,0	-35	0,0	-35	0,0
3.Non-tax revenues (P.11+P.12)	S13	P.11+P.12+ P.131	146	0,1	76	0,1	120	0,1
-Higher sales of healthcare facilities (VZP)		P.11+P.12	142	0,1	65	0,1	109	0,1
- Other		P.131	4	0,0	11	0,0	11	0,0
4.Grants and transfers (D.7R)	S13	D.39+D.7R+ D.9R	-53	-0,1	-34	0,0	-43	0,0
- Other		D.7R	-53	-0,1	-34	0,0	-43	0,0
Total expenditures (5+6+7+8+9+10)			**-505**	**-0,49**	**-482**	**-0,45**	**-241**	**-0,21**
5.Compensations, of which	S.13	D.1	-338	-0,33	-158	-0,15	40	-0,04
- GG employees salary 10 % increase in 2020			-338	-0,33	-338	-0,31	-338	-0,3
6.Intermediate consumption	S.13	P.2	62	0,06	-161	-0,15	-95	-0,1
7.Subsidies	S.13	D.3p	4	0,0	8	0,01	13	0,01
8.Social transfers, of which	S.13	D.6P	-90	-0,1	-90	-0,1	-103	-0,1
- Social transfers in kind		D.632	-90	-0,1	-90	-0,1	-103	-0,1
9.Other current transfers	S.13	D.7P	-13	-0,01	-24	-0,02	-57	-0,05
10.Capital expenditures	S.13	P.5+D.9P	-132	-0,13	-57	-0,05	42	0,04
Total (volume of consolidation/stimulus compared to NPC)	-	**-**	**-411**	**-0,4**	**-458**	**-0,42**	**-181**	**-0,16**

Note: (+)increase of revenues or expenditure decrease compared to the NPC scenario.

Source: MoF SR

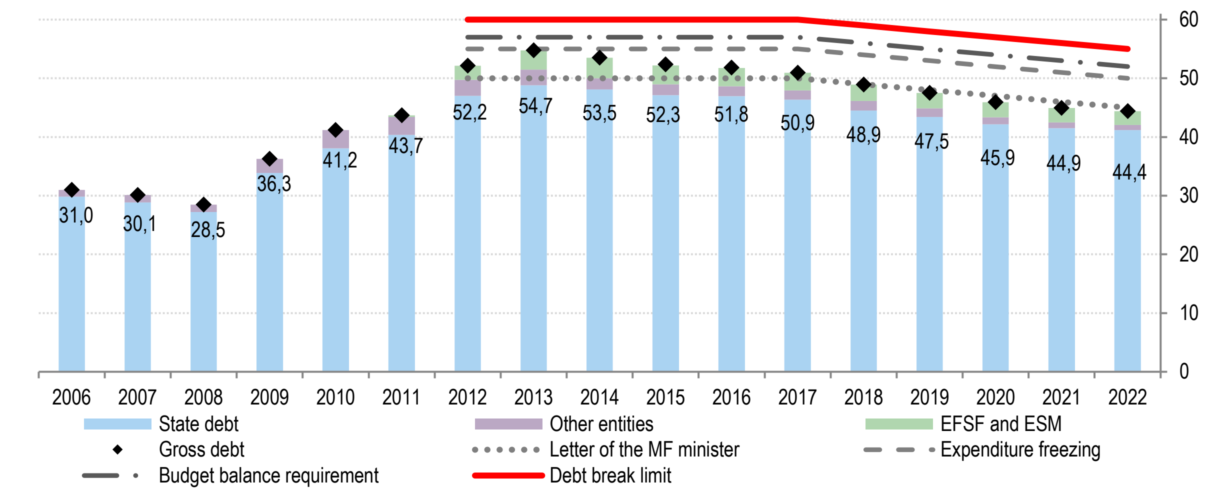
2.7 General government debt

Gross debt

Gross debt of the general government reached 48.9% of GDP at the end of 2018[31] and fell outside debt brake sanctions[32]. The debt ratio decreased by 2.0 p.p. year on year, which exhibits the largest decline since 2006[33]. Strong economic growth, supported by and inflation rate above 2% and achievement of a primary surplus[34] of 0.5% of GDP,contributed to the debt decline . Since the peak of debt in 2013,. government debt has fallen for the fifth consecutive year by a total of almost 6 p.p. of GDP.

Total debt will fall to 47.5% of GDP in 2019 and will remain outside of the debt brake sanction thresholds. The main factor of the year-on-year decline in debt by 1.4 p.p. will be the growth of the economy (FIGURE 19), which will be well above interest rates (GRAF 20). The growing primary government surplus above 1% of GDP will also contribute to debt reduction. The slower decline in debt compared to last year is explained by the difference between the cash and accrual results of general government performance and the rebound in overall cash flow from public administration (so-called “stock-flow adjustment” – BOX 4)[35]. Both factos will continue to dominate the next years of the forecast.

FIGURE 18 – General government gross debt (% of GDP)



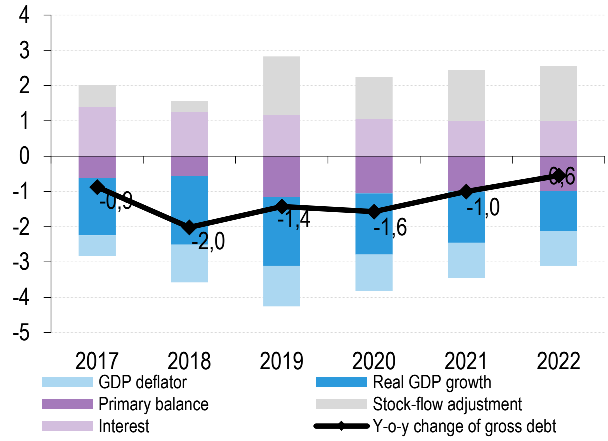
Source: MoF SR

Gross debt will decline more than 3 p.p. between 2020 and 2022 and will fall below 45% of GDP (the lowest debt brake sanction threshold in 2022[36]). The dynamics of debt decline will begin to slow slightly due to a downturn in economic growth towards its potential. Nominal growth of the economy will continue to be significantly above interest rates even in this period, thus helping reduce the debt in relation to GDP through the effect of snowball effect[37]. From 2020 onwards, the primary surplus will stabilize at around 1% of GDP, although the debt dynamics will be affected by cash deficit of the state budget. The state budget itself will manage cash with a deficit of 2.1% of GDP, with a planned decline to 1.2% of GDP in 2022. In addition to defense[38] and other factors, a

[31] The gross debt forecast is also considering a retroactive revision of GDP for 2018 (according to the expected spring notification by Eurostat). By chaining nominal year-on-year GDP growth for 2019-2022 from the last forecast of the Macroeconomic Forecasting Committee, a revised time series of expected GDP levels is compiled. These assumptions are also used for other indicators in relation to GDP.
[32] From the point of view of the assessment of the amount of indebtedness of the GG according to the Constitutional Fiscal Responsibility Act, the decisive value of gross debt is confirmed by Eurostat during the autumn notification.
[33] In 2006, the year-on-year decline in gross debt reached 3 p. p..
[34] The primary balance represents the general government balance net of interest costs.
[35] This effect is mainly due to the opening of the gap between the persisting cash deficit of the GG and the planned achievement of a balanced GG balance sheet in accrual terms. An associated factor is also the insufficient use of the growing free funds of the State Treasury with a positive impact on the state's cash reserve.
[36] Since 2018, the debt brake sanction thresholds have been reduced by 1 p.p. each year until 2027.
[37] Defined as the difference between growth of economy and interest costs.
[38] From the cash point of view, these expenses are included in the balance according to the repayment schedule spanning from 2020 to 2021. The impact on the accrual statement will only become apparent after the delivery of military equipment in 2022.

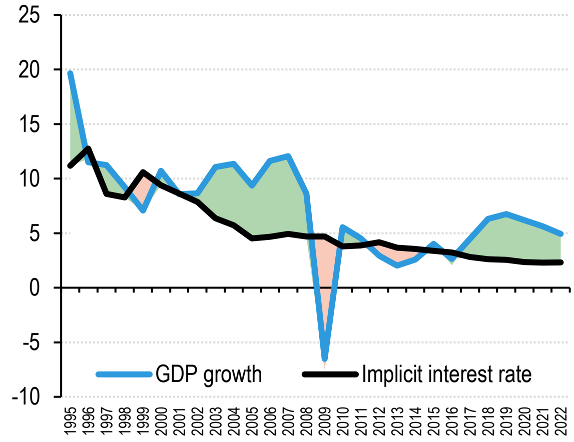
one-off deposit by Slovakia to the European stabilization mechanism in 2020[39] will contribute to the difference in accrual and cash management. The share of debt created by Slovakia's commitments in the European stabilization mechanisms will continue to be greater than 2 p.p. of GDP. The year-on-year slowdown in the decline in debt towards the end of the forecast (to 44.4% of GDP in 2022) stems from a more pronounced increase in cash in the accounts of several public entities, which is not planned to used to reduce liabilities. The debt is expected to be on average of 0.9 p.p. below the lower debt brake sanction threshold between 2020 and 2022.

FIGURE 19 – ontributions of factors to the debt change (% of GDP)



Source: SO SR, MoF SR

FIGURE 20 – Difference between nominal GDP growth and interest rates (% y-o-y growth)



Source: SO SR, MoF SR

Net debt

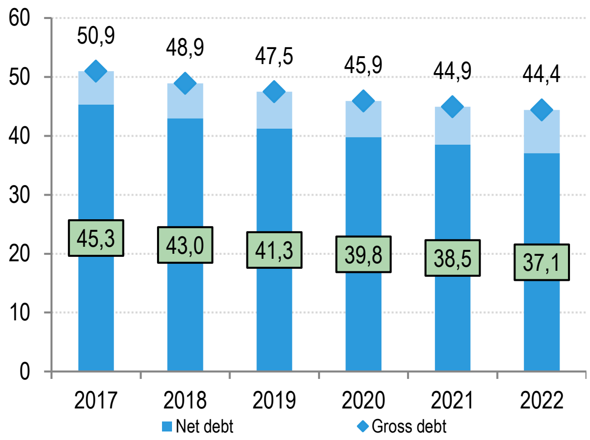
Net debt[40] declined to 43% of GDP in 2018, exceeding the decline in gross debt by 0.3 p.p.. This is mainly due to an increase in financial assets from the cash surpluses of individual GG entities. Unlike net debt, the dynamics of the gross debt decrease has been slow down due to the accumulation of the cash rather than using it to cover the maturing state debt.

Even at the forecast horizon, net debt will decline faster than gross debt and will reach 37.1% of GDP by the end of 2022. The reason for this is again the accumulation of cash in public accounts from the expected surpluses of several entities (mainly state funds, Social Insurance Agency, and local governments) and the higher pre-financing rate with liquidity in 2022 for the coming period (FIGURE 22). General government liquid assets will thus rise from 6.0% of GDP in 2018 to 7.2% of GDP in 2022 by the end of the forecast.

[39] In 2020, the cash fiscal framework foresees a one-off contribution to the European Stability Mechanism (0.1% of GDP) due to the end of the transitional derogation, which temporarily adjusted the amount of deposit paid to ESM for Slovakia. The derogation was intended for countries whose GDP did not reach 75% of the EU average for 12 years starting from their accession to EMU. During this period, these states had a modified key to calculate the cash contribution to the ESM.

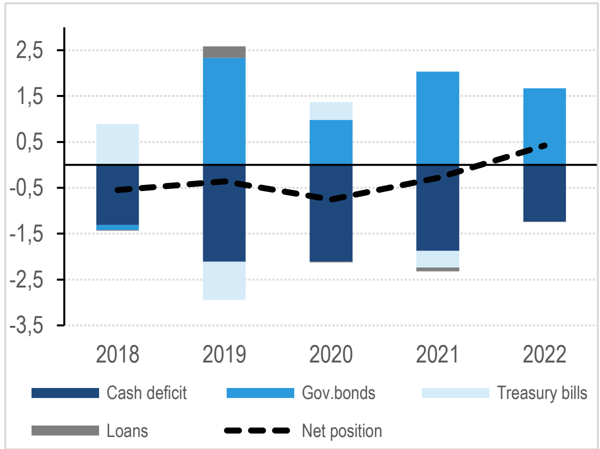
[40] The MoF SR quantifies the net debt as the gross debt value net of liquid financial assets that the general government has historically accumulated. The net financial debt calculated in this way takes into account the cash in the accounts of all government entities. Currently, there are no quoted shares, gold and SDRs recorded in the accounts at present. There is currently no standardized methodology that would clearly define the quantification of net debt. Under the Stability Programme, the concept of the netting of gross debt by liquid financial assets (LFA) is used, in particular deposits in individual GG accounts.

FIGURE 21 – Net debt (% of GDP)



Source: MoF SR

FIGURE 22 – Emission plan assumptions* (% of GDP)



Source: MoF SR

** Net financial position represents the difference between obtained resources of issue of bonds, bills and loans and total financing needs (the sum of the volume of loan maturity and debt and cash budget deficit)*

BOX 4 – Stock-flow adjustment

Stock-flow adjustment (SFA) expresses the value of the discrepancy between the actual (or expected) year-on-year change in the gros debt of the GG and the achieved (or expected) deficit for the entire GG in accrual terms. The main causes are different calculation menthodologies. The general government balance is based on accrual data, while the cash flow is primarily determined by the cash flows of the GG balance sheet. At the same time, the general government balance is based on a net concept (income reduced by expenses), while debt is a gross concept, not reduced by assets. Their use or acquisition affects the amount of debt, but not their balance of GG.

In 2018, the SFA contributed negatively to the ear-on-year change in gross debt. The main reason was the growth of the cash balance in the GG accounts. In particular, the other entities of the GG (local government, state funds, etc.) re-accumulated cash liquidity, which was not fully used to reduce their own liabilities.

Between 2019 and 2022, SFA will also continue to have a negative impact on debt change. On average, the SFA will slow the decline in debt by 1.5 p.p. of GDP. The main factors behind this development should be a positive gap between the accrual and cash balances of GG. This is mainly explained by the purchase of military equipment, which affects the cash deficit, especially between 2019 and 2021, while the impact is only recorded in 2022. The difference between accrual and cash flows is also affected by the accrual of tax revenues and interest costs. Also, between 2019 and 2021, gross debt will decline more slowly as a result of the accumulation of liquidity balances. To a lesser extent, it will hamper the dynamics of debt reduction, as well as the impact of the emission discount on 30- and 50-year bonds with an impact from 2020.

TABLE 11 – Stock-flow adjustment (% of GDP)

	2017	2018	2019	2020	2021	2022
Stock-flow adjustment (1+2+3+4+5)*	**0,6**	**0,3**	**1,7**	**1,2**	**1,5**	**1,6**
1. Difference between cash and accrual data	**0,0**	**-0,3**	**1,2**	**1,0**	**0,7**	**0,1**
2. Change of financial assets	**0,7**	**0,7**	**0,7**	**0,3**	**0,6**	**1,2**
Change of GG cash	0,7	0,8	0,7	0,2	0,6	1,2
Change of other assets (receivable status)	0,0	-0,1	0,0	0,0	0,0	0,0
3. Bond issueance discount	**-0,2**	**0,0**	**0,0**	**0,2**	**0,2**	**0,3**
4. Bond discount at maturity	**0,0**	**0,0**	**0,0**	**-0,1**	**0,0**	**0,0**
5. Other	**0,2**	**-0,1**	**-0,2**	**-0,2**	**-0,1**	**0,0**

* Positive SFA means that debt nominally grows at a faster rate than deficit, or decreases more slowly than expected by the value of the surplus achieved. Negative SFA means that the increase in gross debt is slower than the reported deficit.

3 SENSITIVITY ANALYSES AND COMPARISON WITH THE PREVIOUS UPDATE

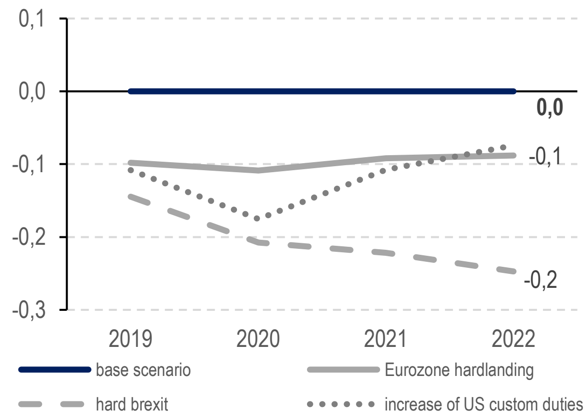
Beyond the basic scenario of economic development contained in the other parts of the Stability Programme, there are additional risks, which implementation would have impact also on public finances. The greatest risk comes from the hard Brexit scenario, which would hit the economy and public finances more strongly and for the longer term. The stagnation of the Eurozone in the first half of 2019 or the higher US tariffs on cars would have a moderate but still significant impact on the economy over the medium term. However, for all risk scenarios, gross debt in relation to GDP would decrease to 45% of GDP, i.e. to the lower sanction threshold of the constitutional act on fiscal responsibility.

The Stability Programme of the Slovak Republic is based on the basic scenario of economic development with exogenous assumptions about the development of the external environment as described in Chapter 1. This section presents selected risk scenarios based on model simulations assuming economic stagnation in the Eurozone countries in the first half of 2019, hard Brexit and US tariff increases on car imports from Europe to 25%.

3.1 Risk scenarios

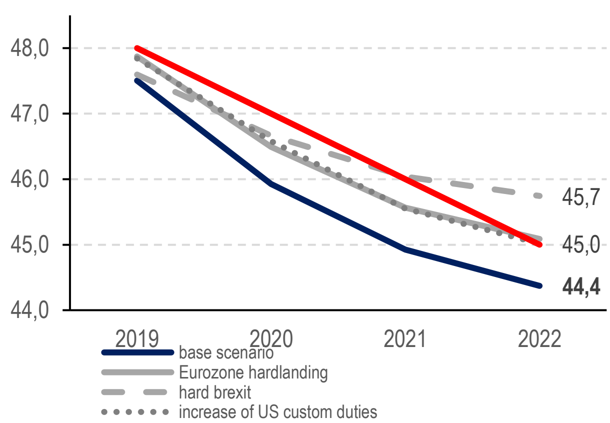
The simulation of selected risk scenarios does not indicate a significant deviation of the forecast of gross debt and deficits of GG from its baseline scenario. The baseline scenario is based on both the fiscal indicators from the current forecast of the Ministry of Finance of the Slovak Republic and from the current budgetary objectives of the government for 2020 to 2022. In the baseline scenario, the Ministry of Finance assumes achieving a balanced budget in 2019 and then its maintenance. The persistence of GG gross debt under the sanction thresholds of the Constitutional Fiscal Responsibility Act assumes a baseline forecast scenario in all years. Gross debt would fall by similar dynamics in case of risky scenarios, but its value would oscillate around the lower sanction threshold depending on the particular scenario. The "hard Brexit" scenario (described in more detail below) appears to be the most risky in this respect, with the gross debt of the GG since 2021 going beyond the lower sanction threshold level.

FIGURE 23 - GG balance in baseline and risk scenarios (% of GDP)



Zdroj: MF SR

FIGURE 24 - GG gross debt in baseline and risk scenarios (% of GDP)



Zdroj: MF SR

Scenario 1: Hard Brexit

In the first scenario, we examine the impact of hard Brexit. The Ministry of Finance's forecast identified hard Brexit as a major negative risk[41]. In the simulation, we expect the UK to leave the EU in the fourth quarter of 2019 without agreement. We predominantly anticipate impact on Slovakia's exports, both directly and indirectly through our main trading partners. We also expect shock to the EUR / USD exchange rate, where we expect a similar response as to the announcement of the results of the British referendum. In the case of interest rates, we simulated the ECB's response in the form of a postponement of interest rate increases by four quarters.

[41] Details in the Box in the Macroeconomic Forecast of the MoF SR from February 2019.

Hard Brexit would decrease Slovakia's real GDP by 1.0 p.p. cumulatively at the forecast horizon. It comes to the accumulation of transitive shock associated with a decline in economic sentiment and structural shock associated with a long-term decline in exports to a country that is one of our major trading partners[42]. In response to lower demand, companies will reassess additional investment and labour costs. The slowdown in aggregate domestic demand will significantly reduce inflationary pressures in the economy. Reducing economic activity, slower price and wage growth as well as higher unemployment rates would lead to **the deterioration of the general government balance by 0.2% of GDP by 2022. General government gross debt would be cumulatively higher by 1.4 p.p. of GDP at the end of the period.**

TABLE 12 - Scenario 1: Hard Brexit

The cumulative change in the value of each variable versus the baseline scenario is in p. p.

	GDP (real)	CPI	Household consumption (real)	Export (real)	Employment	Wages (nominal)	GG balance (% of GDP)	GG debt (% of GDP)
2019	-0,1	0,0	0,0	-0,3	0,0	-0,1	-0,1	0,1
2020	-1,0	-0,2	-0,4	-2,2	-0,2	-0,3	-0,2	0,7
2021	-1,1	-0,5	-0,5	-2,5	-0,3	-0,4	-0,2	1,1
2022	-1,0	-0,8	-0,3	-2,5	-0,4	-0,6	-0,2	1,4

Source: MoF SR

Scenario 2: Eurozone stagnation in the first half of 2019

The second scenario simulates the impact of the economic stagnation of Eurozone countries in the first half of 2019. The latest forecast of the Ministry of Finance of the SR assumes only a gradual decrease in the rate of economic growth in the main export partners in the short and medium term. However, the continued unfavorable development of Eurozone monthly indicators is increasing worries that the slowdown in the Eurozone from the end of the previous year may lead to stagnation in the first two quarters of 2019. In the model we expect not only the aforementioned slowdown in foreign demand, but also a decline in the EUR / USD exchange rate and the ECB's reaction in temporary moderate decline in short-term interest rates over four quarters.

A shortfall in foreign demand would cause a cumulative reduction of real GDP of Slovakia by 2022 by 0.6 p. p.. The simulated shock will be reflected in a decrease in export-oriented enterprises' production and an immediate slowdown in Slovakia's export growth will occur. As a result of lower sales and profitability, businesses will be forced to cut labour costs and dampen investment activity against the baseline scenario. At the same time, lower wages and lower utilization of production capacities of exporting companies would be also resembled in the domestic economy and result in lower consumption and stagnation in the labour market. The slowdown in aggregate domestic demand will reduce inflationary pressures in the economy. The decline in nominal GDP growth, **nominal consumption and wage base would lead to a deterioration of 0.1% of GDP in the general government balance due to lower tax revenues. This effect would also be translated into gross debt development, which would increase cumulatively by 0.7 p.p. of GDP compared to the baseline forecast.**

TABLE 13 - Scenario 2: Eurozone stagnation in the first half of 2019

The cumulative change in the value of each variable versus the baseline scenario is in p. p.

	GDP (real)	CPI	Household consumption (real)	Export (real)	Employment	Wages (nominal)	GG balance (% of GDP)	GG debt (% of GDP)
2019	-0,6	0,0	-0,2	-1,3	-0,1	-0,2	-0,1	0,4
2020	-0,8	-0,1	-0,3	-1,8	-0,2	-0,1	-0,1	0,6
2021	-0,7	-0,2	-0,2	-1,8	-0,3	-0,1	-0,1	0,6
2022	-0,6	-0,3	-0,1	-1,8	-0,3	-0,1	-0,1	0,7

Source: MoF SR

[42] The United Kingdom is a destination for 6% of Slovak exports (4.7% if we net of gas accounting operations) and is Slovakia's 8th largest export market.

Scenario 3: the US duty on European cars in the amount of 25%

The third scenario assumes an increase in US import duties from Europe from 2.5% to 25% with effect from July 2019. From the perspective of car exports to the USA, Slovakia is potentially the most endangered EU economy, as car exports reach 1.7% of Slovakia's GDP. Indirect impacts are also relatively significant, given that Germany and Hungary are the second and third most exposed countries. Both are the most important business partners of Slovakia with whom we cooperate within the same automobile cluster. The model simulates not only the shock to foreign demand, but also the decline of the EUR / USD exchange rate, to a similar extent to the markets observed at the first announcement of the possible introduction of tariffs. We are also modeling an extension of the current lower rate period by four quarters time period.

The increase in US duties on cars has the potential to reduce the cumulative GDP of Slovakia by 0.5 p.p. in the long run. In the short term, the economy will experience an economic shock with regard to the distribution channels built up when exporting cars that are relatively difficult to change. On the other hand, they are cars with a high profit margin, which has room for reduction if necessary. Moreover, the decrease of the rate in the euro rate will help European exporters. In the longer term, the adjustment of domestic production to alternative markets in Europe or Asia can also be expected. The decline in exports and production in the automotive industry will also be accompanied by a slight decline in wages and stagnation of the labour market, which is also reflected in lower domestic consumption, or price level. A decrease in economic activity, slower price growth and a higher unemployment rate would lead to **a slight deterioration of the general government balance by 0.1% of GDP**. The impact on the general government balance is relatively moderate, mainly because the economic slowdown mainly affects exports, which have no significant impact on tax bases. **GG gross debt would be by 0.6 p.p. higher compared to the baseline forecast until 2022.**

TABLE 14 - Scenario 3: Increasing US duties on European cars to 25%.

The cumulative change in the value of each variable versus the baseline scenario is in p. p.

	GDP (real)	CPI	Household consumption (real)	Export (real)	Employment	Wages (nominal)	GG balance (% of GDP)	GG debt (% of GDP)
2019	-0,5	0,0	-0,2	-0,9	-0,1	-0,3	-0,1	0,3
2020	-0,8	-0,1	-0,4	-1,6	-0,2	-0,4	-0,2	0,7
2021	-0,6	-0,1	-0,3	-1,5	-0,2	-0,2	-0,1	0,6
2022	-0,5	-0,1	-0,2	-1,4	-0,2	-0,1	-0,1	0,6

Source: MoF SR

3.2 Comparison with the previous update

The Stability Programme of the Slovak Republic for 2019 to 2022 contains updated macroeconomic estimates and budgetary objectives. **On this basis, the objective of a balanced general government budget for 2019 is expected to be met.** The balanced balance between GG revenue and expenditure is planned in line with the previous Stability Programme also in the years to come. **The GG debt should decline somewhat slower compared to the assumptions from the last year.** Over the forecast horizon, debt is approximately higher by 1.0 p. p., stemming mainly from slower GDP growth and also from a downward revision of nominal GDP for 2018.

TABLE 15 – Comparison of the previous and updated forecasts

	ESA code	2018	2019	2020	2021	2022
Real GDP growth (%)						
Previous update*		4,2	4,5	3,9	3,4	-
Outcome and current update		4,1	4,0	3,7	3,2	2,5
Difference		-0,1	-0,5	-0,2	-0,2	-
General government balance (% of GDP)	EDP B.9					
Previous update*		-0,80	-0,32	0,00	0,00	-
Outcome and current update		-0,70	0,00	0,00	0,00	0,00
Difference		0,10	0,32	0,00	0,00	-
Gross general government debt (% of GDP)						
Previous update*		49,3	46,5	44,9	43,3	-
Outcome and current update		48,9	47,5	45,9	44,9	44,4
Difference		-0,4	1,0	1,0	1,6	-

*Note: * Stability Programme of the SR for 2018 to 2021* *Source: MoF SR*

4 PUBLIC FINANCE SUSTAINABILITY

The European Commission's current public finance sustainability assessment confirms the low medium-term risk and the medium-term sustainability risk. Meeting the current budgetary objectives by 2022 will have a positive impact on sustainability assessment. Since 2019, there have been changes in old-age pensions, in particular the introduction of a retirement age ceiling. Since 2020, the system of retirement pensions of the armed forces has been temporarily adjusted. The measures taken will have an overall negative impact on long-term sustainability.

4.1 Assessment of the overall sustainability of public finances

The sustainability of public finances assesses the expected impact of ageing populations in the context of the current fiscal position and policy settings. The current policy setting (fiscal position, pension scheme and health system) should ensure long-term sustainability at the current level of indebtedness and general government balance, so that the debt will not rise uncontrollably. In order to assess long-term sustainability, the European Commission (EC) uses the S1 and S2 basic sustainability indicators.

Current European Commission assessment from January 2019 **(based on the forecast by the European Commission for 2020) confirms as in the previous year the low risk sustanilibity in the medium term (S1) and medium risk sustanilibity in the long run (S2)** (BOX 5). The EC assessment is not yet considering new approved measures after the last round of projections of age-sensitive expenditure in 2018. In particular, this relalates to the introduction of a retirement age ceiling (adopted by the end of March by constitutional act).

- **Indicator S1**[43] (medium-term horizon) - presents the value by which the current primary structural balance needs to be permanently changed so that the general government gross debt **by 2033** (t_0+15) **does not exceed 60% of GDP** (taking into account expected future age-related expenditure). In its quantifications on the basis of medium-term objectives, the MoF SR also follows a **stricter national scenario**, which in the long term considers **the debt threshold to be 40% of GDP**, which will be the lowest sanction threshold under the constitutional fiscal responsibility act after the transitional period. At the same time, the MoF also considers the impact of the second pillar on the revenue and expenditure side.[44]

- **Indicator S2**[45] (long term horizon) **-** presents the value by which the primary structural balance needs to change over time in order to match the present value of future primary balances (after taking into account expected future ageing-related expenditures) to the current level of gross debt. Unlike S1, the S2 indicator takes into account population ageing projections **at infinite horizon**, with the required balance change to ensure **the stabilization of the current debt level**. In its quantifications, the MoF SR also considers the impact of the second pillar on the revenue and expenditure side in this indicator.

[43] Risk scales for S1: low risk (<0), medium risk (0 to 2.5) and high risk (>2.5). The negative value of the indicator shows that with the preservation of the current policies, the debt value of 60% of GDP will not be exceeded at the horizon by the target year.

[44] The overall impact of revenues on the second pillar for sustainability assessment is slightly negative by 2032, with a slight positive effect over the long term. The Ministry of Finance of the Slovak Republic considers this approach to be more economically correct, as in the case of capitalization systems its changes have an impact not only on expenditure, but also on pension system revenues.

[45] Risk scales for S2: low risk (<2), medium risk (2 to 6) and high risk (>6).

BOX 5 – Assessment of public finance sustainability according to the European Commission

Current European Commission assessment from January 2019 **confirms the low risk in the medium term (S1) and the medium risk in the long term (S2).**[46]

According to regular assessment reviews of the European Commission, the overall sustainability of public finances in Slovakia is improving. In the medium and long term horizon there is an improvement in the period between 2009 and 2020, in relation to medium-term and long-term sustainability by 8.4 p. p., or 4,9 p. p.. The primary reason is the improvement in the primary structural balance and in 2012 the adopted pension reform, which significantly improved the long-term balance of the pension system at the end of the projections (in 2060) by 4 p. p.[47].

According to the EC, the medium-term sustainability indicator (S1) is negative (-2.9% of GDP), which does not indicate the need for additional consolidation efforts to keep debt below the 60% of GDP reference level (by 2033). On the contrary, a negative value suggests a fiscal space in the medium term horizon[48]. Low risks are mainly related to the favorable level of gross debt expected in 2020 (contribution -1.3% of GDP). Equally significant is the favorable initial budget position (-1.7% of GDP contribution), which, with the expected growth of the economy, causes a continued decline in debt over the medium term horizon. Only the assumption of an increase in ageing costs negatively affects the resulting value of S1 (contribution + 0.1% of GDP).

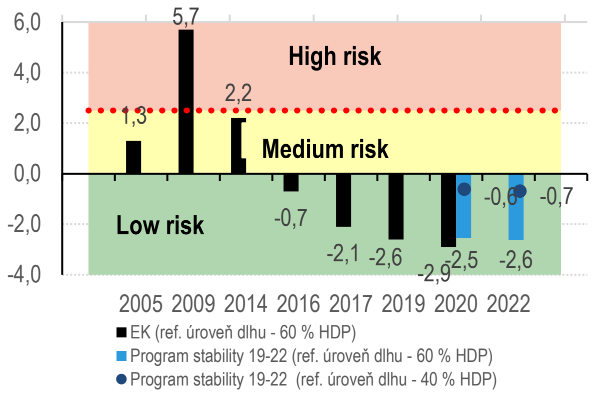
The long-term sustainability indicator (S2), according to the EC, points to medium-term risks in the long term. The result can be interpreted as requiring a cumulative improvement of the primary structural balance of 2.5% of GDP to stabilize the debt level in the long run. The main reason for this is the expected increase in ageing costs, which will be seen mainly in the mid-forties (contribution +2.4% of GDP), as well as a slightly unfavorable initial budgetary position (contribution of +0.1% of GDP). The ageing of the population will in future lead to an increase in the expenditure related to it, such as an increase in the volume of pensions (contribution +0.9% of GDP), health care (contribution +0.9 of GDP) and long-term care (contribution +0.4 of GDP). In the case of indicator S2, the EC also analyzed the more unfavorable development scenario for healthcare and long-term care. Such developments would amount to 4.4% of GDP, which continues to point to medium risks[49].

Accounting for fiscal strategy in the present Stability Programme and taking into account the new measures adopted in the pension system would mean confirming the low risk in the medium term and medium risk in the long term. In the medium term horizon, the S1 indicator indicates a positive fiscal space of 2.5% of GDP[50], which reaches 2.6% of GDP by 2022 when meeting its objectives. The fiscal space for a tighter national debt is approximately one-quarter, at 0.6% of GDP. The S2 sustainability indicator achieves for 2020 after taking into account new measures[51] value of 3.6 % of GDP. The S2 indicator is more strongly influenced by an increase in age-sensitive expenditure, especially in the medium term. After a slight additional structural consolidation by 2022[52] the S2 indicator would decrease to 3.5% of GDP, thus remaining in the medium-risk range.

Compared to the previous Stability Programme, sustainability is thus increased by 0.1 p.p. in the medium term (S1), but in the long term is to deteriorate by 1.1 p. p. (S2). In the case of S1, it is primarily the improvement of the initial budget position (the expected year-on-year decline in the debt of the GG deeper below 60% of GDP and the higher primary surplus of the GG performance). On the contrary, the new measures adopted in the pension system have a negative impact on the long-term sustainability assessment, which will be more pronounced after 2030.

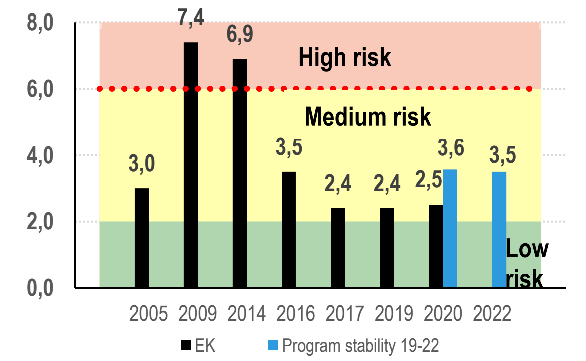
[46] Based on the EC autumn forecast from 2018 for 2020.
[47] IFP Policy Brief 2013/4 - Ageing will increase spending, pension reform helped
[48] The technical assumption is that the fiscal space will be used over five years.
[49] It is a so-called "AWG risk scenario" in which the EC quantifies the risks of increases in health and long-term care costs resulting from non-demographic factors. The sensitivity of ageing-related expenditure to non-demographic factors highlights health and long-term care costs beyond expectations for purely demographic reasons. The upward pressure on these expenditures is usually associated with technological changes (e.g. the development of new medicines and treatments) and institutional factors (e.g. widening healthcare coverage).
[50] Contrary to the assumption of maintaining gross debt below 60% of GDP over the mid-term horizon.
[51] When converting the S2 indicator, we abstract from the effect of lower future GDP from the introduction of the pension ceiling to other expenditure items (e.g. education).
[52] Maintaining a balanced budget until 2022 accounts for an additional 0.2 p.p. improvement in the structural deficit when closing the positive output gap (from 0.4% of GDP in 2020 to 0.2% of GDP in 2022).

FIGURE 25 - Medium-term sustainability S1 (EC, MoF SR % of GDP)*



Source: EC, MoF SR

FIGURE 26 - Long-term sustainability S2 (EC, MoF SR % of GDP)*



Source: EC, MoF SR

** The years on the figures show the baseline year for sustainability assessment in each EC sustainability reports. The methodology and background data for the development of indicators S1 and S2 are given in Annex 5. The EC indicator does not yet take into account the measures approved after the last round of projections of the AWG working group in 2018. The Stability Programme data take into account new measures in the pension system.*

4.2 Current changes in population ageing-sensitive policies

EC projection on age-sensitive expenditures and indicators S1 and S2 are based on the legislative status of 2018. Below are the currently adopted measures that will have an impact on the update of projections in 2021.

Pension system (measures adopted)

The introduction of a retirement age ceiling endorsed by the Constitutional Act at the end of March 2019 will have a significant negative impact on the sustainability of the pension system in the long term. The increase in retirement age will stop at 64 years and the ceiling for women will depend on the number of children raised. Compared to 2016, pension expenditure will rise by around 2.9% of GDP by 2070. In the European comparison, Slovakia will thus be among the countries with the highest growth in ageing-sensitive expenditure. Achieving a general ceiling of 64 years is expected after 2028 with the current increase in retirement age. The measure has a minimal impact on the Stability Programme horizon (around 0.01% of GDP in 2022).

Changes in retirement age determination effective from January 2019 bring more predictability to retirement age increase. The retirement age is newly redefined for 5 years and rounded to full months. With the approval of the capping of retirement age in March 2019, this measure will only have a real effect until 2028. In 2019, the measure will have a negative impact of EUR 6.7 million.

Expenditure on Christmas bonuses to pensioners will almost double from 2019 onwards. Expenditure will thus increase by about 0.1% of GDP. The number of pensioners entitled to Christmas bonus will also increase. While only those pensioners who have a total pension amount of less than 60% of the average wage have been entitled in the past, from 2019 this threshold will be shifted to 65% of the average wage.

Service retirement pensions will only begin to be indexed by pension inflation since 2022. Retirement pensions were to be indexed by pension inflation from July 2019. In March 2019, the Government of the Slovak Republic approved a transitional measure based on which the amount of indexation will be determined in 2019-2021 depending on the number of served years and the average retirement pension paid from the basic system (I. pillar). The measure will reduce the cost of indexation of service retirement pensions by EUR 4.5 million over this period. Consequently, service retirement pensions should be indexed by pension inflation, which guarantees the retention of the purchasing power of all pensions and contributes to improving the sustainability of public finances in the long term.

TABLE 16 - Budgetary impacts of the introduction of new measures in the pension system (% of GDP)

Scenario	Expenditure in 2016	Expenditure in 2070	Change of expenditure	Indicator S2
Pension expenditure projection according to the current Population Ageing Report from 2018	8.6	9.8	1.2	2.4*
Estimated updated projection (including the pension ceiling[53])	8.6	11.5	2.9	3.6*

**The S2 calculation uses the general government budget objectives as the initial budgetary position. In the case of the updated projection, the S2 calculation abstracts from the impact of GDP revision on other items sensitive to ageing.*

Source: MoF SR

[53] The 64-year ceiling for men and childless women + reduced ceiling of 63.5 / 63 / 62.5 for mothers with 1/2/3 or more children

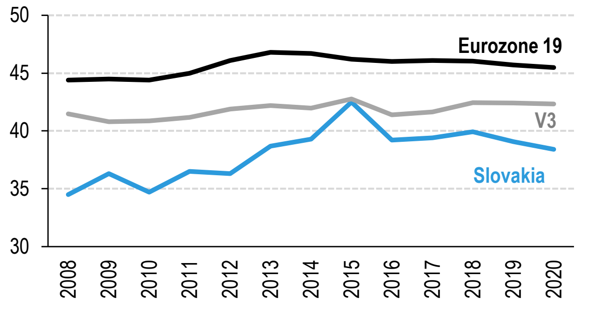
5 PUBLIC FINANCE QUALITY

Slovakia has a share of public revenues and expenditures in GDP below the EU average, which puts more emphasis on the quality of public finances. Over the past period, tax collection efficiency has been significantly increased, especially for VAT, and new measures to combat tax evasion have been implemented since 2019. The assessment of the effectiveness of public spending continues. Expenditure revisions over the past two years assessed public spending at around 24% of GDP and identified measures of almost 0.85% of GDP.

5.1 Revenue objectives of the general government budget

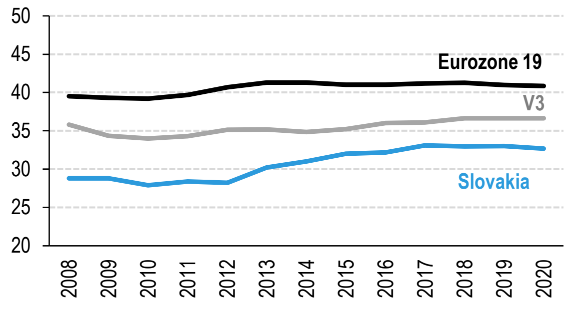
Slovakia achieves a lower total income ratio of GG compared to the Eurozone average and other countries. In the case of comparison of only tax and social contribution revenues (hereinafter referred to as tax revenues)[54], which is a sub-item of total income, the difference is slightly more pronounced and smooth over time (FIGURE 28)[55]. The low level of tax and social revenues continues despite stronger growth in revenues linked to the successful fight against tax evasion and a more efficient labour market, which has generated additional general government revenues. In 2017, tax revenues recorded the third fastest growth within the EU countries[56]. The year 2015 represents a specific exception, when the stronger growth of revenues caused a strong increase of the EU funds drawing from the end of the second programming period, which was for Slovakia the most significant among the neighboring countries.

FIGURE 27 – Total revenues of GG (% of GDP)



Eurozone 19 = Eurozone average Source: Eurostat, AMECO

FIGURE 28 – Tax revenues of GG (% of GDP)

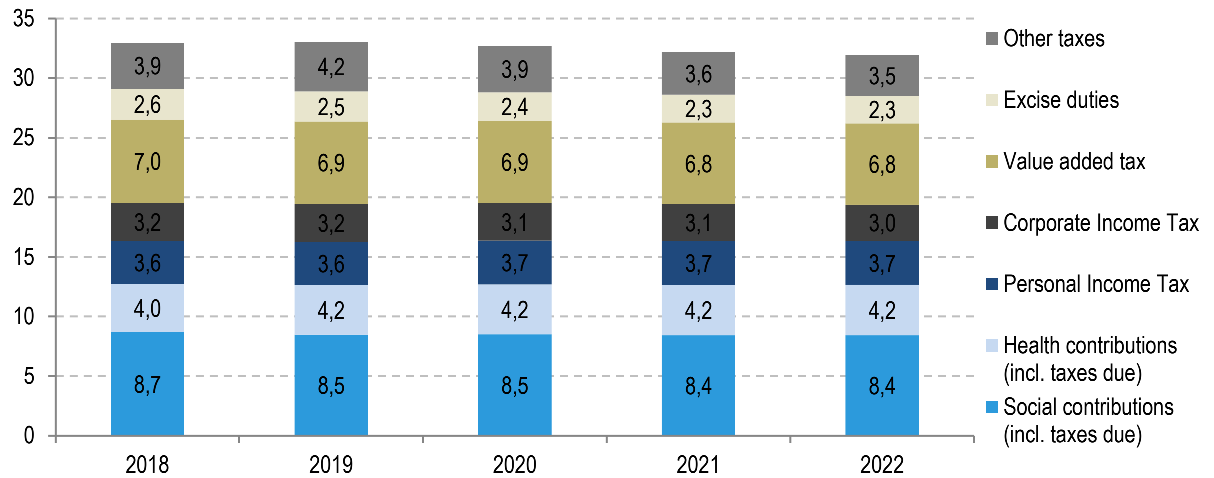


Eurozone 19 = Eurozone average Source: Eurostat

The current tax forecast, on which the Stability Programme is based, assumes a slightly decreasing share of tax and social contribution revenue as s percetange of GDP (FIGURE 29). In the case of VAT, there is a slight decrease in the proportion of taxes as s percentage of GDP, which is caused by the slower growth of the macroeconomic base compared to the overall economic growth. Excise taxes are not subject to automatic indexation, and over time their amount is declining relative to GDP. The development of social contributions to the performance of the economy has been relatively stable since 2019. The robust labour market and the related higher income revenues also contribute to maintaining the revenue. Personal income taxes record an increase in relation to GDP, which is positively influenced by the impact of so-called fiscal drag[57]. Corporate income tax is also declining in relation to GDP due to slower growth in corporate profitability.

[54] Hereinafter referred to as tax revenue, corresponding to the sum of ESA items (D.2REC+D.5REC+D61.REC+D.92REC).
[55] The comparison of tax revenues to the performance of the economy is reflected in the different tax revenues and the fact that a large part of GDP is not taxed (e.g. investments).
[56]Taxation Trends 2019, upcoming publication.
[57] The positive effect on revenue is driven by faster wage growth compared to non-taxable and deductible items. This effect is called fiscal drag. We currently estimate that in 2018, revenue for PIT was higher by EUR 100 million. EUR and EUR 50 mill. on health contributions.

FIGURE 29 – Tax to GDP ratio (% of GDP)



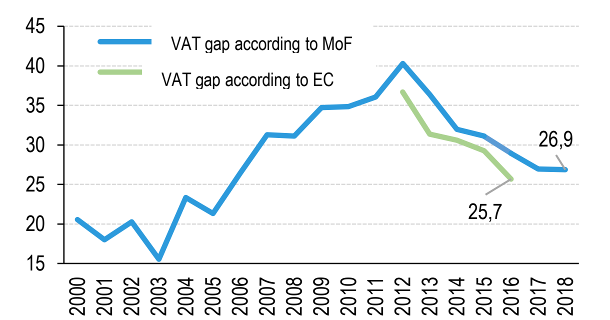
Source: MoF SR, Eurostat

In 2018, a number of measures were approved which intend to prevent practices of tax avoidance with regards to paying corporate income tax. The measures stem from the European efforts to combat tax evasion (ATAD 1 Directive[58]) and thus ensure a minimum level of protection for national corporate taxation systems. In 2018, it was mainly exit tax, where in the case of e.g. the transfer of the business to another state, the fair value of the transferred asset will be taxed. Since 2019, the rules for controlled foreign companies, which require an increase in the income of the parent company in the Slovak Republic by the income of its subsidiary branches which might benefit from low taxation. The combined income is subsequently taxed in the Slovak Republic.

Combating tax evasion

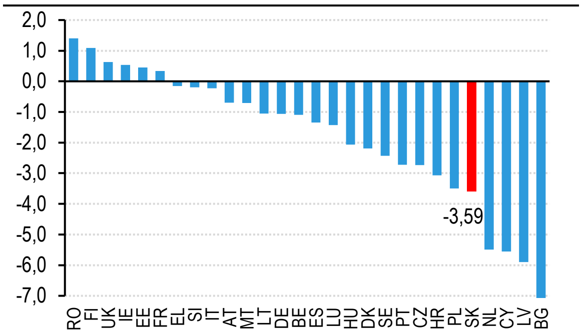
Since 2012, the VAT collection gap has decreased from over 40% of the potential tax collection to 26.9% (FIGURE 30). On the basis of current data from the national methodology, the VAT gap stabilized, while new measures could help to close the gap further. This positive trend is also confirmed by the methodology used within the EU, which for 2016 estimated a tax gap of 25.7%, which is the fifth fastest closing of the tax gap in the given year (FIGURE 31).

FIGURE 30 – VAT gap (% of potential), national and EC methodology



Source: MoF SR, EC

FIGURE 31 – Tax gap change on VAT in the EU (2016)



Source: EC

Further measures to combat tax evasion have been adopted with effect from 2019. From July 2019, there will be an obligation to record sales via electronic cash registers with an online link to the Financial Administration, so called ēKasa. The obligation applies to all business entities that have so far registered sales through cash registers. Starting April 1, 2019, all newly created businesss must be connected to the eKasa system. An alternative option that minimizes deployment costs is to use a virtual cash register. The aim of the measure is to eliminate the non-attribution of revenues (or adjust sales before the data is stored in the fiscal memory) in the retail, services, accommodation and restaurant sectors, thereby reducing the VAT gap. Connectiong the financial administration systems and the online sales information will, over time, also allow more effective controls of sales recording.

[58] ATAD – as Anti-Tax Avoidance Directive.

Based on the approved legislative framework for the introduction of a labeling system for fuels sold in the Slovak Republic by an identification substance, the so-called nanomarker, and after fulfilling the statutory conditions it will be implemented into practice. The aim of the measure is, in particular, to increase the efficiency of the collection of excise tax on mineral oils, but also to increase the quality of fuel sold and to improve the competitive environment in the production and sale of fuel. Currently, steps are being taken to ensure the identification substance / nanomarker supplier, with the subsequent testing phase of the propellant labeling system.

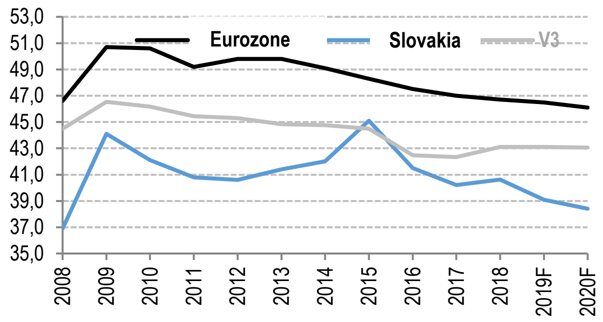
The Financial Administration enhances the pro-client approach to taxpayers and increases electronic communications. For the first time in 2019, all 2018 taxpayers will submit the tax returns in electronic form, which will significantly reduce the error rate of the returns submitted.

5.2 Expenditure objectives of the general government budget

The ratio of total GG expenditure to GDP in Slovakia has long been below the Eurozone average. Since 2015, when the EU fund drawing from the second programming period peaked, the share of public spending on GDP declines. The share of expenditures to GDP also decreased in 2017 due to strong GDP growth and persisting weak drawing of EU funds. This trend is also accounted for in the upcoming years as the budget does not incorporate the full amount of resources from the programming period being spent. Positive risk is the absorption of transferred EU funds from previous years.

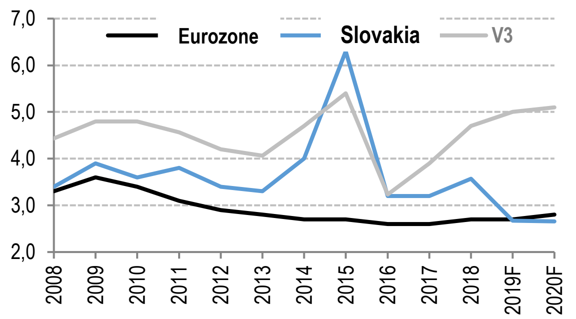
Capital expenditure-to-GDP ratio is higher than the Eurozone average, but comparable to other V4 countries. The drawing acceleration of EU funds in Slovakia, as well as in the remaining V4 countries, led to a significant increase in public investment in 2014 and 2015. The capital expenditure ratio normalized between 2016 and 2018 (see Figure 33). The level of capital expenditure increases over the Stability Programme horizon, as it includes investments to defense modernisation, which will be accounted for in the year when military equipment is delivered.

FIGURE 32 – GG expenditures (% of GDP)



Eurozone 19 = Eurozone average *Source: Eurostat, AMECO*

FIGURE 33 – Gross fixed capital formation (% of GDP)[59]



Eurozone 19 = Eurozone average *Source: Eurostat, AMECO*

Expenditure objectives of the general government according to their function[60]

International comparison of the structure of expenditures according to their function[61] vis-à-vis neighboring V4 countries shows that Slovakia dedicates a lower share of expenditure on education, recreation, culture and religion and the economic area. The share of expenditure on GDP is higher in social security compared to the other V4 countries average. When compared to the Eurozone average, the share of social security expenditure is lower. This is due to the relatively lower spending on long-term care and other social

[59] Gross fixed capital formation
[60] The methodology for recording expenditure by functional classification may vary from country to country. This may cause different data to appear in different countries within the same item (e.g., taxed and non-taxed pensions).
[61] The latest available COFOG data are from 2017.

services[62] such as active labour market policies. On the contrary, compared to the Eurozone average, Slovakia spends higher share of expenditures on public order and safety.

Over the medium-term budgetary framework, the share of total expenditure will decrease below 40% of GDP. Education expenditure will increase, as it has been identified as one of the priorities, and will be above 4% of GDP. Additional expenditure is allocated for the modernization of defense, as based on the international commitments. COFOG defense expenditure will surpass the average level of other V4 countries as well as the Eurozone average. The share on GDP of residual items will decline or stagnate, mainly due to strong expected GDP growth and slow drawing of EU funds.

TABLE 17 – General government expenditures according to COFOG classification

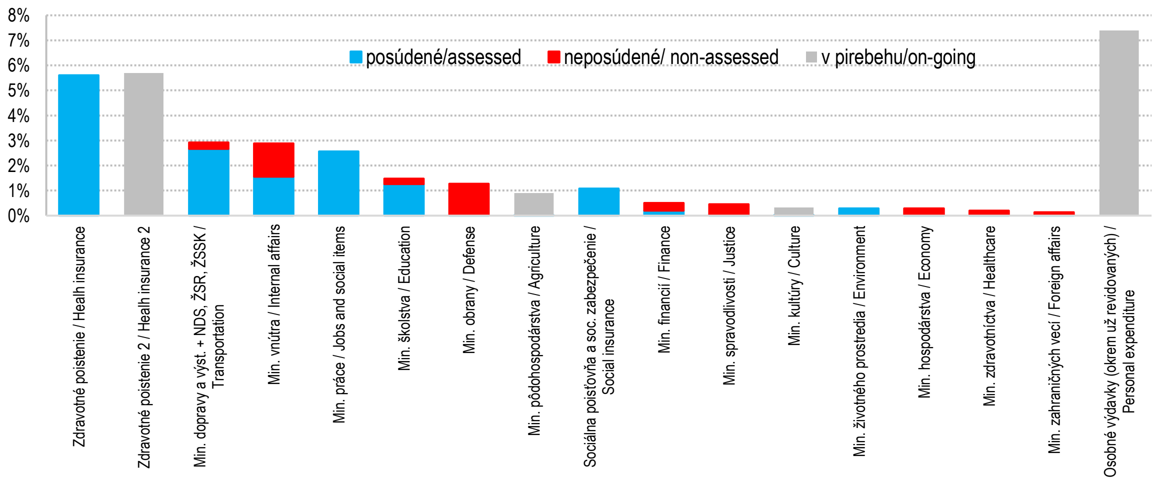
Functions	COFOG code	SK (F 2017)	SK (PS 2022)	V3 (F 2017)	EA 19 (F 2017)
		% of GDP	% of GDP	% of GDP	% of GDP
1, General public services	1	5,6	4,8	5,4	6,1
2, Defence[63]	2	1,0	1,5	1,2	1,2
3, Public order and safety	3	2,1	2,2	2,1	1,7
4, Economic area	4	4,1	3,6	5,8	4,2
5, Environmental protection	5	0,7	0,6	0,5	0,8
6, Housing and amenities	6	0,5	0,4	0,7	0,6
7, Health care[64]	7	7,1	6,9	5,7	7,1
8, Recreation, culture and religion	8	0,8	0,9	2,0	1,1
9, Education	9	3,8	4,1	4,9	4,5
10, Social security	10	14,5	12,6	14,1	19,8
Total expenditures	**TE**	**40,2**	**37,7**	**42,3**	**47,0**

Source: MoF SR, Eurostat

Spending review

One of the tools of the government to increase the efficiency of public spending has been the Value for Money project since 2016. Reviews have assessed public spending of around 24% of GDP since 2016, identifying measures at around 0.9% of GDP. In 2019, final reports on reviews on health, agriculture, employment and remuneration in general government and public administration, public spending with an impact on social inclusion of groups at risk of poverty and social exclusion, and ongoing management of the review of culture spending will be completed. The Stability Programme foresees reviews in the defense and interior sectors for the coming years (Annex 8 and Annex 9).

FIGURE 34 - General government spending assessed by spending review (% of GDP)[65]



[62] For example, taking care of children, and people in crisis.
[63] Budgeted cash spending on the Ministry of Defense chapter represents 2% of GDP in 2022, but part of this expenditure is not reflected in the ESA 2010 methodology.
[64] The figure for public health care expenditure of 7.1% of GDP is based on the COFOG and ESA 2010 methodology. According to the System of Health Accounts (SHA) methodology, health care spending is 5.7% of GDP. COFOG and ESA 2010 count twice the costs of public hospitals.
[65] Reviewed spending volume - Review 2016 and Review 2017 actual of the year, review during 2018 expected reality of the year, non-reviewed draft budget.

Source: MoF SR

Spending review measures implementation

Implementation of measures identified by spending reviews increasing value for money in 2018 slightly improved. However, financial savings were not implemented. Implementation of 184 measures is slow, budgeted planned savings in health care and the environment for 2018 of EUR 232 mill. was not achieved. Neither were achieved savings in other sectors.

Meaures aimed at increasing value were implemented significantle better than in 2017. It is possible to highlight the announced concept of stratification in the health sector or increase the fees for landfilling waste in the environment. The implementation challenge for 2019 represents the setting of analytically-based investment priorities (prioritization) in the transport sector, the implementation of measures to increase the efficiency of pension savings, and the consideration of the introduction of flexible parental allowance for the labour sector. Finally, the remuneration of young teachers in the education sector will be a challenge.

In 2018, the process of selecting and evaluating investment projects in IT improved. Updated assessment methodology and unification of rules for projects financed from the state budget and OP II is a prerequisite for a better selection of future IT projects. The task remains to unify the methodologies for assessing IT project proposals in other operational programs (e.g. OP QE) and the development of sectoral CBA methodologies objectifying sector specificities in the selection of other investment projects.

Data quality, availability and validation remain a challenge for all sectors. At the same time, the sharing of data between individual central state administration bodies and their subordinate organizations is crucial for a good monitoring of measures implementation and public policy making, e.g. in completing the spending review in passenger rail transport.

Implementation of measures in accordance with the Implementation Plans is most often hindered by sticking to sectoral silos (e.g. Long-term Health Care Act), time lags in the legislative process (e.g. stratification of hospitals or the Act on Educational and Professional Employees), but also the lengthy public procurement process (investments in hospitals and transport). Therefore it is necessary to accelerate the work on individual measures and prioritize them within the agenda of individual ministries. The results need to be met in line with the Implementation Plans for 2019.

6 INSTITUTIONAL ASPECTS OF PUBLIC FINANCE

By the end of the parliamentary term, several options for setting expenditure ceilings for the forthcoming parliamentary term will be prepared. From 2020 onwards, the Value for Money project is anchored in budgetary practice. Also, since 2020, a new healthcare financing system is being introduced. Healthcare budget negotiatiosn will start from the the needs of the sectort, instead of availability of funds. From 2019 onwards, the scope of compulsory budgeted expenditures and revenues for the municipalities is expanding.

The role of effective fiscal frameworks is to achieve a sustainable budgetary position over the long term, an anti-cyclical fiscal policy response and to ensure efficient public spending. The National Fiscal Policy Framework defines a set of rules, regulations and procedures that affect the implementation of national budgetary policy in the form of its planning, approval, monitoring and evaluation. In particular, we are talking about:

1) National fiscal rules[66], that create fiscal policy constraints through defined binding objectives for major budgetary aggregates (public revenue, public spending, deficit and debt). They contribute to strengthening budgetary discipline, coordinating public policies and reducing uncertainty about future fiscal policy developments.

2) Medium-term budgetary frameworks, which ensure the preparation, implementation, monitoring and commitment of budgetary policy on a multiannual horizon.

3) Independent fiscal institutions, which produce independent macroeconomic and fiscal forecasts, monitor and assess the development of fiscal policy and the implementation of budgetary accountability and transparency rules.

Budget management through expenditure ceilings

On the basis of a study by the Ministry of Finance of the Slovak Republic[67] from the end of 2018, the public debate on expenditure ceilings continues as a potential operational budgetary rule. Following a discussion study, a workshop with domestic and foreign institutions was held in February 2019[68], whose output serves to build consensus within the professional community.

After taking into account the ongoing dialogue with the professional public, the Ministry of Finance will prepare options for setting expenditure limits by the end of the current electoral term. Individual alternatives will be based on existing European and national budgetary rules and will be elaborated in detail to simulate their functioning as well as the necessary institutional changes. The discussion on choosing the most appropriate alternative will take place during the next election cycle. Based on the simulation, the upcoming government will be able to decide on the best alternative for Slovak budgetary practice and to adjust legislation.

Anchoring the Value for Money project in the Budgetary Rules Act

At the end of 2018, an amendment to the Act on Budgetary Rules of the General Government was approved, which institutionalizes the Value for Money project (effective from 1 January 2020).

- The obligation of the MoF SR to assess all investments of budgetary and subsidized organizations and selected enterprises above EUR 40 mill. (EUR 10 million for IT) is legislatively anchored[69], while the law also directly requires the cooperation of other chapters.

[66] National fiscal rules are also based on standards at European level (in particular: Vade Mecum on the Stability and Growth Pact). The main national numerical fiscal rules in Slovakia are Constitutional Act on Fiscal Responsibility and Act on Budgetary Rules of General Government (§ 30a), which determine the numerical rules for gross debt and the general government balance. The budgetary rules are also described in more detail in the Council's Budgetary Responsibility Documents, which assess their compliance (e.g. Report on the assessment of compliance with the budgetary responsibility and budgetary transparency rules for 2017).
[67] The Ministry of Finance published a discussion study in October 2018, which opened a public debate on the possible form of expenditure ceilings in Slovakia
[68] On 21 February 2019, the Ministry of Finance of the Slovak Republic in cooperation with the European Commission Representation in Slovakia organized a workshop on the implementation of expenditure ceilings. More on MoF SR website.
[69] The legislative value of the investment is not explicitly stated in the Act, but according to § 19a par. 3 of Act no. 523/2004 Coll. it will be established by the government by regulation. Values EUR 40 mill. for investments and concessions and EUR 10 mill. for investments in informatisation are the standard that determines the investment threshold already under government resolution no. 453/2018.

- During the four years following the approval of the Government Manifesto, expenditure will be reviewed to at least 50% of general government expenditure[70]. The law also directly requires the cooperation of other chapters.
-
- The Ministry of Finance, together with the draft general government budget, will also present an assessment of the implementation of the measures proposed in the spending review (Implementation report).
- Newly, the general governement entity[71] will be required to develop and publish a feasibility study[72] on investment and concession[73]. The evaluation of the feasibility study itself will be developed and published by the Ministry of Finance.

Outcome budgeting in health care

Changing the way healthcare is funded will help to better determine the overall healthcare expenditure package. Public health insurance is currently funded by contributions from working insured persons and state payments for economically inactive policyholders (e.g., children, pensioners, students) who are linked to the average wage. This system follows the economic cycle, allowing higher spending when the economy grows and forcing lower spending when the economy shrinks. With the new system, the real needs of the sector will be the starting point in the debate on the annual payment of the state, thus reducing the link to the economic cycle. The change was approved by the parliament in November 2018[74] and will take effect from 1.1.2020.

During 2019, preparations are underway to implement a results-based budgeting system. The emphasis on healthcare outcomes can be enhanced by improving the way healthcare expenditures are budgeted. An effective tool of this system is the program budgeting, which has so far been applied only to the expenditure chapters of the Ministry of Health of the Slovak Republic. The Health Insurance budget 2020 will be for the first time in a detailed program structure with measurable and evaluated indicators for each health sector.

Continuation of the implementation of the amendment to the Budgetary Rules Act 2016

With effect from January 1 2019, the obligation for municipalities to budget revenue and expenditure related to their business activities is introduced. This change has increased the transparency of the budgetary procedure, as the amount of funding that has not yet been budgeted has been reduced. In addition, it will also contribute to a better analytical comparison of the approved budget compared to the results actually achieved.

[70] To the extent of at least 50% of the general government expenditure published by the European Commission in April for the year preceding the year in which the government program declaration was approved
[71] With the exception of municipalities and higher territorial units or budgetary and contributory agencies established by them.
[72] It does not apply in the case of Classified Information where the Feasibility Study is sent directly to the Ministry of Finance.
[73] The investment refers to the cost of acquiring tangible assets and intangible assets (even if they are excluded from depreciation, including rental expenses with the right to purchase the leased item, operating lease expenses). The value of the investment and concession for which feasibility studies are developed and published and the conditions for their elaboration shall be laid down by the Government by regulation.
[74] Health Insurance Act 580/2004 Coll.

7 STRUCTURAL POLICIES

The Government responds to the biggest challenges of the Slovak economy education, labour market and healthcare – with a set of structural measures to support economic growth and employment. In education, measures focus on increasing the attractiveness of the profession of teacher, linking vocational education with practice and improving the quality of university education. Positive labour market developments are supported by individualized employment services and new active labour market instruments, particularly targeted at disadvantaged groups. The reconciliation of family and work life will be encouraged by building up childcare facilities up to three years of age. Several projects support the social integration of people from marginalized Roma communities. Implementation of measures from the spending review on healthcare continuously improves the cost effectiveness of selected parts of the healthcare system. The second review of healthcare expenditure in 2019 will bring further proposals for measures to increase health efficiency, improve the quality of care provided and improve results.

The structural measures planned especially in the next two years are detailed in the National Reform Programme of the Slovak Republic 2019 (NRP). The comprehensive approach of setting priorities, which in addition to GDP takes into account other aspects of quality of life, also identified in 2019 as an ongoing major challenges Slovak economy such as education, healthcare and labour market.

Labour market supported by a several measures achieves best ever results. Almost 50,000 new jobs were created in 2018[75] and the unemployment rate fell to the lowest level since the SR was created (yearly average of 6.6% in 2018). To reduce the long-term unemployment the implementation of the action plan and its measures will continue in 2019. The retraining and requalification of employees and job seekers projects are being implemented. The capacity building of childcare facilities under three years will be encouraged to help mothers in parental leave return to the labour market. The implementation of measures to improve the social integration of people from marginalized Roma communities will also continue in the next years.

The Government-approved *National Programme for the Development of Education and Training* is a strategic framework for improving the quality of education in the 10-year horizon. The attractiveness of the teaching profession continues to increase, mostly due to salary increases, which exceeds the framework declared by the Programme Declaration of the Government of the Slovak Republic. Additional funds have been highlighted in the state budget for raising salaries for early teachers since September 2019. The new Act on Educational and Vocational Employees[76] aims to improve the link between teacher remuneration and the quality of their teaching by adjusting the attestation procedure, which is a prerequisite for career growth. Changes in dual education support the participation of schools and employers by reducing barriers to enter into the system. In the field of university education, the accreditation process is being reformed in order to meet European standards, and the evaluation of university education research activities by external experts will be possible. The planned support for vocationally oriented university education programs will ensure better links with the labour market. It will continue to implement measures to compensate for differences in student outcomes affected by their socio-economic background.

The gradual implementation of measures in the area of reimbursement of medicines and aids and procurement of medical equipment in hospitals continuously improves the cost effectiveness of selected parts of the healthcare system. Healthcare spending is growing in line with international trends. However, Slovakia is lagging behind in the performance indicators and, compared to the OECD average, Slovak healthcare system remains less effective in the long term. The introduction of a result-based budgeting system will help link resources to results. The system of payment for hospitals by diagnosis (DRG) and the upcoming price regulation of all health services will increase the transparency and fairness of payments. The stratification project for institutional healthcare will continue in 2019 with the approval of the necessary legislation and the publication of a detailed plan in the hospital network. At the same time, the reconstruction and restoration of equipment from state budget sources beyond health insurance is under way in hospitals. In 2019, screening programs for early detection of cancer will be launched. The second review of spending in 2019 will bring further proposals for measures to increase health efficiency, improve the quality of care provided and improve results.

[75] According to the concept of national accounts (ESA).
[76] Approved by the Parliament in April 2019.

An action plan will be prepared to strengthen the fight against corruption. Since 2017, a joint project with the OECD on anti-corruption measures together with the effectiveness and coherence of the general strategies to manage fraud and corruption risks, the implementation of control activities, the identification and assessment of fraud-related risks has been implemented. In 2019, the main output of the project will be an action plan to strengthen the fight against corruption and fraud linked to the absorption of EU funds.

Several measures should bring better functioning of general government and justice. In March 2019, a new legal regulation on the protection of *whistleblowers* is being put into effect. Attention in the judiciary will be focused on addressing the problem of old enforcement proceedings and preparing civil code reform. Improvements in the provision and availability of legal aid through the Legal Aid Center will continue. In accordance with the Programme Declaration of the Government of the Slovak Republic, the Act on Judicial State Service will be prepared.

Several measures are being implemented to reduce the administrative burden on the business environment. The expansion of support for electronic and automated communication with financial administration, implementation of measures from already approved anti-bureaucratic business packages, or further optimization of business register services is being promoted. Since September 2018, *the one-time principle* has been put into practice, thus abolishing the obligation to re-submit paper statements of several types to public authorities. The Ministry of Finance will prepare a draft of Income Tax Act that will help small and medium-sized enterprises to meet their tax obligations. There will also be an increase in super-deducation on research and development from the current 100 to 150% in 2019, and to 200% in 2020. The Ministry of Economy will continue to coordinate legislation auditing from a *gold plating* perspective in order to eliminate the identified unjustified regulatory burden on business entities.

The institutional anchoring of the Value for Money project and the fight against tax evasion will also help to improve the sustainability and quality of public finances, along with a further round of spending review (described in more detail in Chapter 5 and Chapter 6).

ANNEXES

Annex 1 – Required tables of the Stability Programme

TABLE 18 (Table 1a) – Macroeconomic prospects (ESA 2010, in EUR bn.)

	ESA 2010	2018	2018	2019	2020	2021	2022
		Level	Rate of change	Rate of change	Rate of change	Rate of change	Rate of change
1. Real GDP	B1*g	85,0	4,1	4,0	3,7	3,2	2,5
2. Nominal GDP	B1*g	90,2	6,3	6,7	6,2	5,6	4,9
Components of real GDP							
3. Private consumption expenditure	P.3	43,7	3,0	3,3	2,9	2,2	1,7
4. Government consumption expenditure	P.3	15,2	1,9	1,8	1,7	1,0	1,2
5. Gross fixed capital formation	P.51	19,1	6,8	1,9	2,9	3,1	3,6
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	1,4	1,7	1,7	1,7	1,6	1,6
7. Export of goods and services	P.6	86,8	4,8	6,9	6,1	5,2	4,1
8. Imports of goods and services	P.7	81,0	5,3	5,9	5,3	4,5	3,8
Contribution to real GDP growth							
9. Final domestic demand (total)		79,3	4,0	2,5	2,4	2,0	1,8
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	1,4	0,5	0,1	0,0	0,0	0,0
11. External balance of goods and services	B.11	5,8	-0,1	1,5	1,3	1,2	0,7

Source: MoF SR

** The general government final consumption forecast is based on the February MFSR macroeconomic forecast. The Macroeconomic Forecasts Committee endorsed the forecast of the economic development before the 2018 release. For the purposes of the general government budget, the valid level of nominal GDP is approved by the Committee.*

TABLE 19 (Table 1b) - Price developments (ESA2010)

	ESA 2010	2018	2018	2019	2020	2021	2022
		Level	Rate of change	Rate of change	Rate of change	Rate of change	Rate of change
1. GDP deflator		1,1	2,1	2,6	2,4	2,4	2,4
2. Private consumption deflator		1,1	2,3	2,6	2,4	2,4	2,4
3. HICP		2,5	2,5	2,6	2,4	2,4	2,4
4. Public consumption deflator		1,2	4,2	4,4	4,2	2,9	2,7
5. Investment deflator		1,0	2,3	3,1	2,5	2,5	2,4
6. Export price deflator (goods and services)		1,0	1,8	2,3	2,2	2,2	2,1
7. Import price deflator (goods and services)		1,1	2,4	2,4	2,4	2,5	2,3

Source: MoF SR

TABLE 20 (Table 1c) - Labour market development (ESA2010)

	ESA kód	2018	2018	2019	2020	2021	2022
		Level	Rate of change	Rate of change	Rate of change	Rate of change	Rate of change
1. Employment, persons (thousands) [1]		2 420	2,0	1,1	0,8	0,6	0,5
2. Employment, hours worked (thousands) [2]		4 108	1,1	1,1	0,8	0,6	0,5
3. Unemployment rate (%) [3]		6,6	6,6	6,0	5,6	5,5	5,3
4. Labour productivity per persons (EUR) [4]		35 129	2,1	2,9	2,9	2,6	2,0
5. Labour productivity per hours worked (EUR) [5]		21	3,0	2,9	2,9	2,6	2,0
6. Compensation of employees (EUR mill.)	D.1	37 073	7,9	7,9	7,1	5,9	5,0

7. Compensation per employee (EUR)	17 675	5,4	6,7	6,3	5,3	4,4

[1] Total occupied population, domestic concept – national accounts definition
[2] National accounts definition
[3] Harmonised definition according to Eurostat; levels
[4] Real GDP per person employed
[5] Real GDP per hour worked

Source: ŠÚ SR, MoF SR

TABLE 21 (Table 1d) - Sectoral balance (ESA2010, % of GDP)

	ESA kód	2018	2019	2020	2021	2022
1. Net lending / borrowing vis-à-vis the rest of the world	B.9	-0,9	-0,4	0,1	0,5	0,6
of which:						
- Balance on goods and services		0,9	1,7	2,3	2,8	3,0
- Balance of primary incomes and transfers		-3,4	-3,7	-3,8	-3,9	-4,0
- Capital account		1,6	1,6	1,6	1,6	1,6
2. Net lending / borrowing of the private sector	B.9	-0,2	-0,4	0,1	0,5	0,6
3. Net lending / borrowing of general government (budgetary target)*	EDP B.9	-0,7	0,0	0,0	0,0	0,0
4. Statistical discrepancy						

* Outturn 2018

Source: MoF SR

TABLE 22 (Table 2a) - General government budgetary prospects

	ESA kód	2018 level	2018 % HDP	2019 % HDP	2020 % HDP	2021 % HDP	2022 % HDP
Net lending (EDP B.9) by subsector							
1. General government	S.13	-629,5	-0,7	0,0	0,0	0,0	0,0
2. Central government	S.1311	-910,3	-1,0	-0,6	-0,8	-0,8	-0,8
3. State government	S.1312	-	-	-	0,0	0,0	0,0
4. Local government	S.1313	117,2	0,1	0,4	0,4	0,3	0,2
5. Social security funds	S.1314	163,7	0,2	0,2	0,4	0,5	0,6
General government (S13)							
6. Total revenue	TR	36 016,5	39,9	39,1	38,4	37,9	37,7
7. Total expenditure	TE [1]	36 646,0	40,6	39,1	38,4	37,9	37,7
8. Net lending/ borrowing	EDP B.9	-629,5	-0,7	0,0	0,0	0,0	0,0
9. Interest expenditure	EDP D.41	1 175,7	1,3	1,2	1,1	1,0	1,0
10. Primary balance	[2]	546,2	0,6	1,2	1,1	1,0	1,0
11. One-off and other temporary measures	[3]	0,0	0,0	0,0	0,0	0,0	0,0
Selected components of revenue							
12. Total taxes (12=12a+12b+12c)		16 382,0	18,2	18,4	18,3	17,9	17,7
12a. Taxes on production and imports	D.2	9 803,1	10,9	11,0	10,9	10,6	10,5
12b. Current taxes on income, wealth, etc	D.5	6 578,9	7,3	7,3	7,3	7,3	7,2
12c. Capital taxes	D.91	0,0	0,0	0,0	0,0	0,0	0,0
13. Social contributions	D.61	13 356,5	14,8	14,7	14,4	14,3	14,2
14. Property income	D.4	654,4	0,7	0,6	0,6	0,5	0,5
15. Other	[4]	5 623,6	6,2	5,4	5,1	5,2	5,2
16=6. Total revenue	TR	36 016,5	39,9	39,1	38,4	37,9	37,7
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)	[5]	29 738,6	33,0	33,0	32,7	32,2	32,0
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1+P.2	13 287,7	14,7	14,6	14,6	14,4	14,1
17a. Compensation of employees	D.1	8 395,1	9,3	9,5	9,5	9,4	9,2
17b. Intermediate consumption	P.2	4 892,6	5,4	5,0	5,0	5,1	4,9

18. Social payments (18=18a+18b)		16 334,2	18,1	17,1	17,1	16,8	16,5
of which Unemployment benefits	[6]	183,8	0,2	0,2	0,2	0,2	0,2
18a. Social transfers in kind - purchased market production	D.632	4 477,8	5,0	4,8	4,8	4,8	4,8
18b. Social transfers other than in kind	D.62	11 856,3	13,1	12,3	12,3	12,0	11,7
19.=9. Interest expenditure	EDP D.41	1 175,7	1,3	1,2	1,1	1,0	1,0
20. Subsidies	D.3	399,3	0,4	0,5	0,5	0,5	0,4
21. Gross fixed capital formation	P.51	3 218,2	3,6	2,7	2,7	2,5	3,1
22. Capital transfers	D.9	324,8	0,4	0,1	0,1	0,1	0,1
23. Other	[7]	1 906,2	2,1	1,9	2,4	2,6	2,5
24=7. Total expenditure	TE [1]	36 646,0	40,6	39,1	38,4	37,9	37,7
p.m.: Government consumption (nominal)	P.3	17 445,7	19,3	19,2	19,2	18,9	18,7

[1] Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9
[2] Primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9)
[3] A plus sign means a deficit-reducing one-off measure
[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)
[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.
[6] Includes cash benefit (D.621 and D.624) and in kind benefits (D.631) related to unemployment benefits
[7] D.29+D4 (other than D.41)+ D.5+D.7+P.52+P.53+K.2+D.8

TABLE 23 (Table 2b) - No-policy-change scenario

	2018 level	2018 % of GDP	2020 NPC % of GDP	2021 NPC % of GDP	2022 NPC % of GDP
1. Total revenue at unchanged policies	36 017	39,9	38,3	37,9	37,7
2. Total expenditure at unchanged policie	36 646	40,6	37,9	37,5	37,5

Note: The base for the NPC purposes for 2020 to 2022 is the actual estimate for 2019.
Note 2.: 2018 outturn.

Source: MoF SR

TABLE 24 (Table 2c) - Amounts to be excluded from the expenditure benchmark

	2018 level	2018 % of GDP	2019 % of GDP	2020 % of GDP	2021 % of GDP	2022 % of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue	1011	1,1	0,7	0,6	0,8	1,0
1.a. of which investment fully matched by EU funds revenue	749	0,8	0,3	0,1	0,0	0,3
2. Cyclical unemployment benefit expenditure	-9	0,0	0,0	0,0	0,0	0,0
3. Effect of discretionary revenue measures	-54	-0,1	0,2	0,1	-0,2	0,0
4. Revenue increases mandated by law	0,0	0,0	0,0	0,0	0,0	0,0

Source: MoF SR

TABLE 25 (Table 3) - General government expenditures by function (% of GDP)

	COFOG	2017	2019 B	2022
1. General public services	1	5,6	4,7	4,8
2. Defence	2	1,0	1,2	1,5
3. Public order and safety	3	2,1	2,0	2,2
4. Economic affairs	4	4,1	4,0	3,6
5. Environmental protection	5	0,7	0,6	0,6
6. Housing and community amenities	6	0,5	0,4	0,4
7. Health	7	7,1	7,2	6,9
8. Recreation, culture and religion	8	0,8	0,9	0,9
9. Education	9	3,8	4,1	4,1
10. Social protection	10	14,5	13,5	12,6
11. Total expenditures	**TE**	**40,2**	**38,7**	**37,7**

B – Official budget	*Source: Eurostat, MoF SR*

TABLE 26 (Table 4) - General governement debt development (% of GDP)

	ESA	2017	2018	2019	2020	2021	2022
1. Gross debt		50,9	48,9	47,5	45,9	44,9	44,4
2. Change in gross debt ratio		-0,8	-2,0	-1,4	-1,6	-1,0	-0,6
Contributions to change in gross debt							
3. Primary balance*		-0,6	-0,6	-1,2	-1,1	-1,0	-1,0
4. Interest expenditure		1,4	1,3	1,2	1,1	1,0	1,0
5. Stock-flow adjustment		0,6	0,3	1,7	1,2	1,5	1,6
of which:							
- differences between cash and accruals		0,0	-0,3	1,2	1,0	0,7	0,1
- net accumulation of financial assets		0,7	0,7	0,7	0,3	0,6	1,2
of which: revenues from privatisation		0,0	0,0	0,0	0,0	0,0	0,0
- valuation effects and others		-0,1	-0,1	-0,2	-0,1	0,2	0,3
p.m. implicit interest rate on debt		2,8	2,6	2,5	2,4	2,3	2,3
Other relevant variables							
6. Liquid financial assets		5,6	6,0	6,3	6,1	6,4	7,3
7. Net financial debt (7=1-6)		45,3	43,0	41,3	39,8	38,5	37,1
8. Debt repayment (existing debts) from previous year		-5,3	-3,5	-1,7	-2,9	-0,9	-1,2
9. Share of debt denominated in foreign currency**		3,7	3,0	2,5	2,0	1,8	1,7
10. Average maturity (years)***		7,9	8,7	9,7	10,3	10,5	10,8

** The 2018 primary balance is based on the 2018 estimate* — *Source: MoF SR*

*** Lloans included.*

**** Maturity of state debt as of 31.12. For 2018 average maturity as of 17.4.2019*

TABLE 27 (Table 5) - Cyclical developments

(% GDP)	ESA 2010	2018	2019	2020	2021	2022
1. Real GDP growth (%)		4,1	4,0	3,7	3,2	2,5
2. Net lending of general government*	B.9	-0,7	0,0	0,0	0,0	0,0
3. Interest expenditure	D.41	1,3	1,3	1,1	1,0	1,0
4. One-off and other temporary measures	[1]	0,0	0,0	0,0	0,0	0,0
Of which:						
One-offs on the revenue side: general government		0,0	0,0	0,0	0,0	0,0
One-offs on the expenditure side: general government		0,0	0,0	0,0	0,0	0,0
5. Potential GDP growth (%)		3,5	3,8	3,7	3,4	2,9
contributions:						
- labour		0,5	0,5	0,4	0,2	0,2
- capital		0,8	0,8	0,8	0,9	0,9
- total factor productivity		2,2	2,5	2,5	2,3	1,8
6. Output gap		0,9	1,1	1,1	0,9	0,6
7. Cyclical budgetary component		0,3	0,4	0,4	0,4	0,2
8. Cyclically-adjusted balance (2 - 7)		-1,0	-0,4	-0,4	-0,4	-0,2
9. Cyclically-adjusted primary balance (8 + 3)		0,3	0,9	0,6	0,6	0,8
10. Structural balance (8 - 4)		-1,0	-0,4	-0,4	-0,4	-0,2

[1] A plus sign means deficit-reducing one-off measure — *Source: MoF SR*
*Current estimate in case of 2019

TABLE 28 (Table 6) - Comparison between the previous forecast and the updated forecast

	ESA 2010	2017	2018	2019	2020	2021	2022
Real GDP growth (%)							
Previous update*		3,4	4,2	4,5	3,9	3,4	-
Current update		3,2	4,1	4,0	3,7	3,2	2,5
Difference		-0,2	-0,1	-0,5	-0,2	-0,2	-
General government balance (% of GDP)	**EDP B.9**						
Previous update*		-1,04	-0,80	-0,32	0,00	0,00	-
Current update**		-0,79	-0,70	0,00	0,00	0,00	0,00
Difference		0,25	0,10	0,32	0,00	0,00	-
General government gross debt (% of GDP)							
Previous update*		50,9	49,3	46,5	44,9	43,3	-
Current update		50,9	48,9	47,5	45,9	44,9	44,4
Difference		0,0	-0,4	1,0	1,0	1,6	-

Note: Stability Programme for 2018 - 2021* *Source: MoF SR*

**Current estimate in case of 2019

TABLE 29 (Table 7) - Long-term sustainability of public finances (% of GDP)*

	2020	2030	2040	2050	2060	2070
Total expenditure	38,4	38,7	39,9	41,9	43,7	43,4
Of which: Age-related expenditures	18,6	18,9	20,1	22,1	23,9	23,6
A. Pension expenditure**	8,3	7,8	8,6	10,2	11,6	11,5
a) Old-age and early pensions	6,5	6,1	6,7	8,1	9,3	9,1
b) Other pensions (disability, survivors)	1,8	1,7	1,9	2,1	2,3	2,4
B. Health care	5,8	6,2	6,6	6,9	7,0	6,8
C. Long-term care	0,9	1,1	1,3	1,4	1,5	1,5
D. Education expenditure	3,5	3,6	3,5	3,6	3,8	3,7
E. Other age-related expenditures	0,1	0,1	0,1	0,1	0,1	0,1
Of which: Interest expenditure	1,0	1,6	1,6	3,4	6,4	10,1
Total revenue	**38,4**	**38,4**	**38,3**	**38,3**	**38,3**	**38,3**
Of which: Property income (D.4)	0,6	0,5	0,5	0,5	0,4	0,4
Of which: Pensions contributions	14,4	14,4	14,4	14,4	14,4	14,4
Pension reserve fund assets	-	-	-	-	-	-
Of which: Consolidated public pension fund assets	-	-	-	-	-	-
Systematic pension reforms						
Social contributions diverted to voluntary private scheme	0,7	0,9	0,8	0,7	0,7	0,7
Pension expenditure paid by voluntary private scheme	-	-	-	-	-	
Assumptions						
Labour productivity growth	3,0	3,1	2,3	1,8	1,7	1,5
Real GDP growth	2,5	2,8	1,8	1,2	1,2	1,5
Participation rate males (aged 15-64)	79,0	78,2	78,0	79,1	79,5	79,7
Participation rate females (aged 15-64)	67,5	68,6	68,5	69,7	70,3	70,4
Total participation rate (aged 15-64)	73,3	73,5	73,3	74,5	75,0	75,1
Unemployment rate (aged 15-64)	8,4	9,1	8,5	7,9	7,9	7,9
Population aged 65+ over total population	24,9	32,9	39,7	51,5	59,4	56,8

** Age-related expenditures as well as macroeconomic assumptions were updated after issuing Ageing report 2018.* *Source: MoF SR*

*** New measures affecting public pensions expenditure included.*

TABLE 30 (Table 7a) - Contingent liabilities

	2016	2017	2018
	% GDP	% GDP	% GDP
Public guarantees	15,9	16,3	11,8
of which: linked to EFSF and ESM	9,0	8,9	8,4

** 2018 estimate is incomplet.*

Source: MoF SR

TABLE 31 (Table 8) - Basic assumptions

	2018	2019	2020	2021	2022
Short-term interest rate EONIA (annual average)	-0,36	-0,22	0,06	0,34	0,59
Long-term interest rate 10Y-SLOVGB (annual average)	0,97	1,20	1,71	2,06	2,31
USD/€ exchange rate (annual average) (euro area and ERM II countries)	1,18	1,17	1,23	1,26	1,28
World excluding EU, GDP growth	-	-	-	-	-
EU GDP growth	2,02	1,94	1,94	-	-
Growth of relevant foreign markets	2,74	2,27	2,11	1,89	1,92
World import volumes, excluding EU	-	-	-	-	-
Oil prices (Brent, USD/barrel)	71,53	60,67	61,16	60,93	61,17

Source: Common external assumptions, MoF SR

Annex 2 – Structural Balance

Structural balance is the difference between general government revenue and expenditure excluding one-off and temporary effects, and assumes that the economy is moving at its potential level. The structural balance shows the country's medium-term fiscal position more reliably compared to the nominal balance.

The Stability and Growth Pact is based on the premise that member states should achieve a symmetrical approach to fiscal policy in line with cyclical development of the economy. The overarching objective is to increase budgetary discipline in times of economic recovery, in order to avoid the pro-cyclical nature of fiscal policy and to gradually achieve its medium-term budgetary objective.[77] The result should be the creation of a fiscal space for periods of economic slowdown along with a reduction of public debt at a reasonable pace, which should therefore positively influence the long-term sustainability of public finances.

The following matrix specifies the Stability and Growth Pact's requirements for fiscal consolidation with its preventative section. The matrix distinguishes between greater consolidation efforts to be made in better times, and less efforts required when the economy is below its potential.

		Required year-on-year consolidation	
	Condition	**Debt below 60% and low to moderate sustainability risk**	**Debt ober 60% or high sustainability risk**
Exceptionally bad period	Real GDP growth < 0 or output gap < -4	No need for consolidation	
Very bad period	-4 ≤ output gap < -3	0	0,25
Bad period	-3 ≤ output gap < -1,5	0 for opening output gap, 0,25 for closing output gap	0,25 for opening output gap, 0,5 for closing output gap
Normal period	-1,5 ≤ output gap < 1,5	0,5	> 0,5
Good period	output gap ≥ 1,5	> 0,5 for opening output gap, ≥ 0,75 for closing output gap	≥ 0,75 for opening output gap, ≥ 1 for closing output gap

Valuation of compliance (deviation in % of GDP) versus the required decline in the structural balance is assessed from one and two year perspectives (based on the average over the years considered). One-year deviation with limit of -0.5% of GDP and a two-year deviation with a limit of -0.25% of GDP.

Structural balance calculation

Step 1 – The nominal government balance is net of with the help of cyclical components of the impact of economic performance fluctuations[78]. The output gap estimate is based on the Ministry of Finance of the Slovak Republic's current macroeconomic forecast of Febrary 2019. The Ministry of Finance takes full account of the general government sensitivity balance estimates and changes in the output gap, which are based on OECD methodology [79]from the European Commission.

Step 2 – adjusted balance is adjusted for one-off and temporary measures[80], whose fiscal impact is not repeated in the following years. For the purposes of the draft budget plan, the Ministry of Finance of the Slovak Republic shall proceed in their identification in accordance with European Commission methodology[81].

No one-off and temporary measures were identified in 2017-2022 for the purpose of calculating the structural balance in the Stability Programme.

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[77] The Stability and Growth Pac tis based on the premise that member states should achieve a symmetrical approach to fiscal policy in line with the cyclical developments of the economy.

[78] Estimated by the output gap as the difference between actual and potential GDP levels.

[79] The methodology was presented in Girouard, N., André, Ch. (2005): Measuring cyclically-adjusted budget balances for OECD countries. In 2014, the process of updating the methodology and incorporating new data for the calculation of elasticity took place. The methodology was approved by the Member States in September 2014.

[80] The European Commission's (EC) methodology characterizes a one-off measure as a temporary measure, which is not permanent in nature, and is independent of government decisions. The EC has created a directive on the classification of on-off measures - Vade Mecum on the Stability and Growth Pact – 2018 Edition – Guiding principles pg.28.

[81] All typical one-off measures are described in the 2015 Report of Public Finances in EMU, Chapter 3.3. In addition, the EC has identified specific exemptions and procedures whereby an impact that violates the aforementioned principles can also be considered a one-off measure, as are those cases in that chapter.

Annex 3 – Expenditure benchmark

The revised Stability and Growth Pact introduced an expenditure benchmark as an additional tool to assess the progress towards the medium-term budgetary objective. It conveys the year-on-year growth in the expenditure aggregate adjusted for revenue measures, which will allow the assessment of fiscal consolidation progress to be evaluated in a similar way to the evolution of the structural balance compared to the reference value of approved expenditure growth.

According to the expenditure benchmark, government spending in real terms should not grow faster than average potential economic growth. These expenditures can only grow at a higher pace if additional revenue measures are implemented (i.e. discretionary measures)[82]. For countries that have achieved their MTO, the growth of specified expenditures can reflect economic potential. For countries that have not yet reached MTO, expenditure growth rate must also reflect the consolidation necessary to achieve it. In this case, the potential growth rate of the economy is corrected for the required consolidation effort according to the approach in the structural balance.

The evolution of expenditure is net of factors that are beyond government control. These include interest expenditure, changes in unemployment benefit expenditure resulting from the current economic cycle, and expenditure financed by EU funds. Given the high volatility of government investment, their level is approaching the average level for the current and previous three years[83]. The nominal growth of such adjusted expenditure is converted to real growth through a GDP deflator in order to be comparable with the expenditure benchmark.

The assessment of the expenditure benchmark implementation is made by quantifying the one-year deviation (difference between the expenditure aggregate and the expenditure benchmark in % of GDP with a limit of -0.5% of GDP) **and the two-year deviation** (the two-year average with a limit of -0.25% of GDP). Significant non-compliance with the expenditure benchmark occurs when the deviation is higher than the specified limit.

TABLE 32 – Expenditure benchmark

	2017 F	2018 F	2019 E	2020 PS	2021 PS	2022 PS
1. Total expenditures	34 107	36 646	37 616	39 271	40 950	42 769
2. Interest payments	1 179	1 176	1 122	1 079	1 080	1 127
3. Expenditures covered by EU resources (capital)	440	749	321	127	13	334
3a. Total expenditures covered by EU resources	632	1 011	699	585	812	1 104
4. Capital expenditures covered by national resources	2 259	2 469	2 250	2 589	2 691	3 159
5. Smoothed capital expenditured (national resources 4-year floating average)	2 252	2 356	2 268	2 392	2 500	2 672
6. Cyclical unemployment benefit expenditure	-1	-9	-13	-13	-12	-7
7. Expenditures fully matched by automatic revenue increase	0	0	0	0	0	0
8. Primary expenditure aggregate (1-2-3a-4+5-6-7)	32 290	34 356	35 826	37 423	38 879	40 059
9. Year-on-year change of the primary expenditure aggregate (8t-8t-1)	786	2 066	1 470	1 597	1 456	1 181
10. Change in revenues due to discretionary revenue measures	348,4	-53,9	155,5	62,5	-245,7	10,4
11. One-off revenue measures	0	0	0	0	0	0
12. One-off expenditure measures	0	0	0	0	0	0
13. Methodical adjustments	0	0	0	0	0	0
14. Nominal increase in the expenditure aggregate adjusted for revenue measures ((9t-10t)/8t-1)	1,4	6,6	3,8	4,3	4,5	3,0
15. Real increase in the expenditure aggregate adjusted for revenue measures	0,2	5,0	1,3	1,7	2,1	0,6
16. Expenditure benchmark (reduced reference rate of potential GDP growth)	1,3	1,3	1,6	3,0	3,0	3,1
17. Deviation from the expenditure benchmark (16-15)	1,1	-3,6	0,3	1,3	0,9	2,4
One-year deviation – fixed	0,0	-1,3	0,1	0,5	0,3	0,8
Two-year deviation – fixed	0,1	-0,7	-0,6	0,3	0,4	0,6
p. m. GDP deflator	1,2	1,5	2,5	2,6	2,4	2,4
Deviation limit for 1-yr. horizon	-0,5	-0,5	-0,5	-0,5	-0,5	-0,5
Deviation limit for 2-yr. horizon	-0,25	-0,25	-0,25	-0,25	-0,25	-0,25

* Consolidation efforts and deviations in 2017 are based on the "cut-off"values from the last European Commission evaluation. Source: MoF SR

[82] Positive cyclical incomes at a time of boom (not realized through discretionary measures) allow for an increase in spending over the economy's potential. The spending rule monitors this unwanted fiscal impact as the temporary increase in revenue from unrealized measures should be used to reach the MTO.
[83] Vade Mecum on Stability and Growth Pact, pg. 30.

Discretionary revenue measures

Discretionary revenue measures are defined by EC methodology as measures of a legislative nature with an impact on general government revenues. They are evaluated by a means of additional effects (marginal changes) of these measures. Permanent or one-off measures are distinguished. A permanent measure is recorded with an impact in the first year (at the moment when it becomes applicable) and with no additional impact in the following years. Macroeconomic developments in the coming years are not taken into account. If there are different effects due to a postponed application of a measure, only the marginal, year-on-year change is recorded.[84] For one-off revenue measures, the impact is recorded only in one year, and in the following year a shortfall is recorded in the same amount, i.e. the overall impact of a measure in two consecutive years is zero.

Since the current Stability Programme, MoF SR has adopted the following methodological changes:

- Only measures above EUR 10 mill. in at least one of the years will qualify for the dinal list of discretionary revenue measures
- The year-on-year effects of individual measures relate strictly to “level changes” (abstracted from, i.e., the effect of the gradual decline of fiscal effects compared to base levels). In the transitional period (the current Stability Program 2019-2022), only data from 2018 is updated. For previous years, data remains as published in the Draft Budget Plan for 2019.

TABLE 33 – Discretionary revenue measures – year-on-year effects of measures (in EUR mil, ESA2010)

Description of measure	2017	2018	2019	2020	2021	2022
Reduction of the CIT rate to 21%	-121,3	0	0	0	0	0
Cancellation of tax license	0	-115,0	0	0	0	0
An increase of flat-rate expenses for self-employed persons	-34,3	0	0	0	0	0
Introduction of 13th and 14th salary (introduction from 2018, legislative changes from 2019)	0	-2,0	-44,5	-15,1	-61,6	0
Exemption of vacation checks from taxes and contributions	0	0	-57,7	0	0	0
Exemption of non-monetary benefits for an employee for accommodation	0	0	-15,4	6,4	0	0
Taxation of dividents by 7% withholding tax	0	23,7	0	0	0	0
Exemption of revenue from sale of shares and market shares	0	0	-5,3	-22,8	0	0
Set of measures to increase VAT efficiency	188,7	22,2	0	0	0	0
Reduced VAT rate for accommodation services	0	0	-24,3	0	0	0
Fuel identification substance + eKasa	0	0	90,0	90,0	10,0	10,0
Increasein excise tax on tobacco products	29,6	2,9	35,9	0	0	0
Cancallation of max. assessment base for health insurance	96,5	0	0	0	0	0
Increase max. assessment base for social contributions	70,4	0	0	0	0	0
Planned annual social insurance settlement	0	0	0	0	0	50,0
Introduction of PPE and subsequent changes (change of PPE application, abolition of PPE for employer, introduction of PPE for pensioners) [85]	21,0	42,8	58,8	0	0	0
Gradual increase of the levy to the 2nd pillar (automatically from 2017 by 0.25 pp/year)	-28,1	-32,2	-40,1	-43,0	-47,7	-49,6
Non-life insurance – introduction of contributions and replacements of excise tax on the insured	16,3	3,7	53,6	0	0	0
Doubling the rate of special tax in regulated sectors, followed by a reduction (2019, 2021)	62,6	0	-38,2	0	-24,4	0
Planned cancellation of bank tax	0	0	0	0	-128,2	0
Introduction of an individual charge on chains*	0	0	84,9	0	0	0
Fee for waste disposal	0	0	9,7	11,5	6,3	0
Higher gambling revenue (change in tax amount)	9,8	0	0	0	0	0
Introduction of gambling licenses and other changes in gambling taxation	0	0	11,7	2,8	0	0
Increase in service fees - EOSA	37,2	0	0,0	32,6	0	0
Income from the National Nuclear Fund (launch of the third unit of the Mochovce Nuclear Power Plant)	0	0	36,4	0	0	0
Total	**348,4**	**-53,9**	**155,5**	**62,5**	**-245,7**	**10,4**

* On April 3, 2019, Parliament approved the abolition of the chain of custody retail chains. THe decision will have an impact on both the budgeted revenue of the tax and CIT. In order to suspend the law, it will also have to respond to the expenditure side in the course of the year in order to meet the deficit.

[84] The following example illustrates the effect of marginal changes. The overall impact of the measure is 200. Since it is introduced mid-year, it has an impact in the given year of 100. In the following year, the impact as a whole will increase by 200, but only the marginal difference between these two impacts, i.e. 100, is recorded. The cumulative total impact is 200, only split into two years.

[85] With the application from 2019, the MoF SR only shows incremental impacts directly related to the legislative measure. In 2018, incremental impacts of legislation on the macroeconomic base appear in individual DRMs (i.e. in PPP, the incremental impact of legislation, which is related to the gradual decline of negative impact of PPE between 2015 and 2021, is only presented in 2017).

Annex 4 – Forecast of general government gross debt based on cash flow

Focusing on the cash flow factors that affect the nominal debt level, the need to cover the cash deficit will be predominant. The state budget deficit (SR) is expected to be slightly above EUR 2 billion in the first two years of the forecast (2020 and 2021), with a projected fall below this level at the end of the horizon. In addition to bond issues in the financial market, which increase the nominal debt level, the state budget deficit will also be continuously funded by active management of funds by the Treasury. Other general government enitities will make a significant contribution to reducing the overall nominal debt, using part of their expected surpluses to reduce their liabilities. The value of the debt on the budget horizon will also be influenced by methodological adjustments such as discount on issues and repayment of bonds. In particular, issue discounts on bonds with a longer maturity result in a negative impact. Other changes in the debt forecast are related to exchange rate differences and changes in client deposits in the State Treasury, outside the general government sphere.

TABLE 34 – Cash effects on change in nominal government gross debt (in mil. EUR)

	2017S	2018S	2019 OS	2020 PS	2021 PS	2022 PS
A. General government gross debt (as of January 1)	**42 053**	**43 231**	**44 137**	**45 742**	**46 960**	**48 527**
B. Total year-on-year change of GG gross debt	**1 178**	**906**	**1 605**	**1 219**	**1 567**	**1 775**
- cash deficit of SR	1 220	1 182	2 031	2 157	2 022	1 408
Of which: SR contribution to ESM	0	0	0	68	0	0
- Treasury funds used to finance state needs	1	-498	-391	-882	-565	142
- indebtedness of other GG enitites	3	111	-47	-164	-144	-109
Of which: Municipalities and self-governing regions	50	92	-43	-103	-81	-51
Of which: NDS	-36	-37	-37	-37	-37	-37
Of which: ŽSR + ŽSSK	8	34	0	-2	-27	-27
Of which: Transport companies	-4	-4	-3	-4	-4	-1
- issuance discount	68	7	12	170	261	347
- discount at maturity	-62	-7	1	-59	-7	-11
- other	-54	111	-2	-2	-1	-2
C. Gross debt of general government (as of December 31)	**43 231**	**44 137**	**45 742**	**46 960**	**48 527**	**50 302**
in % of GDP	**50,9**	**48,9**	**47,5**	**45,9**	**44,9**	**44,4**

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

Annex 5 – Prerequisites for calculating sustainability indicators

Beyond the EC evaluation, MoF SR carried out an analyses on the medium and long-term sustainability using the fiscal framework presented in Stability Programme for 2019-2022 (for the estimate of the general government balance and debt for the base year) and the latest measures (beyond the AWG 2018 projections) affecting ageing-sensitive spending. The methodological difference compared to the EC is also the inclusion of the 2nd pillar's impact on not only the expenditure side, but also on the revenue side.[86] Other assumptions are taken from the most recent forecast of ageing-sensitive expenditure according to the 2018 Ageing Report.

Several scenarios were analyzed for the Stability Programme. The assumptions for the calculation of the individual factors affecting both S1 and S2 are presented below.

TABLE 35 – MoF Assumptions for Sustainability Indicator Calculation S1

	Base year (t_0)	Structural primary balance	DEBT (t_0)	Gradual consolidation*	Final year (t_1)	DEBT (t_1)	2nd pillar included	S1	Sustainability Risk
2020	2020	0,6	45,9	2021 to 2025	2033	60	**yes**	**-2,5**	**low**
2020 – Debt brake	2020	0,6	45,9	2021 to 2025	2033	40	**yes**	**-0,6**	**low**
2022	2022	0,8	44,4	2023 to 2027	2035	60	**yes**	**-2,6**	**low**
2022 – Debt brake	2022	0,8	44,4	2023 to 2027	2035	40	**yes**	**-0,7**	**low**

Source: MoF SR

** In the case of negative result value S1 it is the use of identified fiscal space gradually in given years*

TABLE 36 - S1 Sustainability Indicator Analysis

	2020	2020 – debt brake	2022	2022 – debt brake
S1 Indicator (% of GDP)	**-2,5**	**-0,6**	**-2,6**	**-0,7**
of which:				
Initial budgetary position	-1,3	-1,3	-1,4	-1,4
Cost of delaying adjustment*	-0,4	-0,1	-0,4	-0,1
Debt required in the final year	-1,2	0,5	-1,3	0,4
Long-term expenditures (ageing costs)	0,2	0,2	0,4	0,4
Revenue shortfall due to the second pillar	0,2	0,2	0,1	0,1

Source: MoF SR

**In the case of negative result value S1 it is the use of identified fiscal space gradually in given years*

TABLE 37 – MoF SR Assumptions for Sustainability Indicator Calculation S2

	Base year (t_0)	Structural primary balance	DEBT (t_0)	2nd pillar included	S2	Sustainability Risk
2020	2020	0,6	45,9	**yes**	**3,6**	**medium**
2022	2022	0,8	44,4	**yes**	**3,5**	**medium**

Source: MoF SR

TABLE 38 – S2 Sustainability Indicator Analysis

	2020	2022
S2 Indicator (% of GDP)	**3,6**	**3,5**
of which:		
Initial budgetary position	0,0	-0,1
Pension expenditures	2,0	2,3
Health and long-term care expenditure	1,3	1,2
Education and unemployment benefits expenditure	0,1	0,1
Revenue shortfall due to second pillar	0,0	-0,1

[86] Total impact of revenue on the 2nd pension pillar is slightly negative by 2032. In the long run, it is showing a slightly positive effect. The MoF SR considers this approach to be more correct because changes in capitalization systems do not only have an impact on expenditures and income of the pension system.

Annex 6 – Macroeconomic and Tax Revenue Forecasts Committees

The Stability Programme is based on macroeconomic and tax forecasts up to 2022, which were published in February 2019. The macroeconomic scenario, as well as the forecasted tax revenues, are subject to continuous discussion, approval, and expert scrutiny by committees composed of national experts from both the public and private sector. The dates for disclosing forecasts and the committees' guiding principles are laid out in the Fiscal Responsibility Act.

After the January 2019 session of the Macroeconomic Forecasting Committee[87], most members assessed the medium-term macroeconomic forecast of the MoF SR as **realistic**, and two members described it as **optimistic**.

TABLE 39 – Assessment of the February forecast of the MoF SR by the Macroeconomic Forecasts Committee

Committee Member	Forecast characteristics
NBS, ČSOB, Infostat, SAV, SLSP, VÚB	realistic
Tatrabanka, UNICREDIT Bank	optimistic

Source: Macroeconomic Forecasts Committee

TABLE 40 – Average forecast of selected indicators of Slovak economic development by Macroeconomic Forecasts Committee (except MoF SR) and the forecast of the MoF SR

	2018 *	2019		2020		2021		2022	
in %, unless otherwise stated		**Committee**	**MoF SR**	**Committee**	**MoF SR**	**Committee**	**MoF SR**	**Committee**	**MoF SR**
Gross domestic product, real growth	4,1	4,0	4,0	3,4	3,7	2,9	3,2	2,7	2,5
Gross domestic product in current prices; EUR billion	90,2	96,2	96,3	101,5	102,2	106,5	108	111,4	113,4
Final consumption of households; real growth	3,0	3,2	3,3	2,7	2,9	2,4	2,2	2,2	1,7
Final consumption of households; nominal growth	5,4	5,8	6,0	5,1	5,3	4,7	4,7	4,4	4,1
Average monthly wage; real growth	3,6	3,9	4,0	3,2	3,8	2,8	2,9	2,3	2,0
Average monthly wage; nominal growth	6,2	6,5	6,7	5,5	6,3	4,9	5,3	4,4	4,5
Employment growth (statistical reporting)	1,9	1,1	1,1	0,8	0,8	0,3	0,6	0,4	0,5
Consumer price index; average growth; CPI	2,5	2,6	2,6	2,3	2,4	2,1	2,4	2,1	2,4
Current account balance; share of GDP	-2,5	-0,9	-2,0	-0,7	-1,5	-0,7	-1,1	-0,3	-1,0

Source: Macroeconomic Forecasts Committee

** According to the spring notification, actual GDP for 2018 was revised slightly downwardscompared to the forecast. By usingnominal GDP growth for 2019-2022 from the forecast (Macroeconomic Forecasts Committee from January 2019), a series of year-on-year changes was compiled with a time series corresponding to the new level of GDP. This time series is also used in other parts of the document.*

Tax Revenue Forecasts Committee

At the Tax Revenue Forecasts Committee meeting in February 2019, the MoF SR presented an updated medium-term forecast of tax revenues for 2018-2022. The medium-term forecast of tax revenues and pension contributions by the MoF SR was indicated by all of the members as **realistic**.

TABLE 41 – Assessment of the MoF SR forecast by the Tax Revenue Forecasts Committee

Committee member	Forecast characteristics
NBS, Infostat, Tatra banka, ČSOB, KRRZ, SLSP, UniCredit Bank	realistic

[87] The Macroeconomic Forecasts Committee met in January 2019, while the forecast itself was officially published in February 2019.

Annex 7 – List of measures affecting the general government balance between 2019 and 2022

The no policy change scenario not only describes the progress of items according to the macroeconomic forecast assumptions, but is also based on measures decided upon before January 1, 2019. The table below lists all budgetary measures affecting the change in the GG balance between 2019 and 2022 (compared to 2018), without observing the date on which the decision for the given measure was made.

TABLE 42 – List of measures (impact compared to 2018 base), EUR mil.

Income measures	**2019**	**2020**	**2021**	**2022**
Introduction of a special tax on retail chain turnover	84,9	101,2	106,0	110,5
Extension and adjustment of the original excise tax fee	53,6	55,8	58,1	60,4
Cancellation of the tax deductible item for employers	67,9	59,8	52,9	47,0
Increase of excise tax on tobacco products (from 1.2.2019)	36,0	37,0	37,0	38,0
Introduction of gambling licenses	11,7	14,5	14,5	14,5
Fee for waste disposal	9,7	21,2	27,5	26,3
Cancellation of bank tax (in 2021)	-	-	-128,2	-128,2
Increase in management fee (EOSA)	-	32,6	32,6	32,6
Annual accounting of social contributions	-	-	-	50,0
Increase in super-deduction for research in development to 100%	-2,0	-4,3	-6,3	-8,5
Introduction of a tax deductible item for pensioners	-9,7	-10,0	-10,3	-11,5
Exemption of benefits for employee accommodation	-15,4	-9,0	-9,0	-9,0
Reduced VAT rate for accommodation services	-24,3	-25,4	-26,6	28,0
Reduction of special tax rate in regulated sectors (from 2019 to 2021)	-33,0	-29,0	-57,0	-57,0
Increase in the contribution to the social insurance agency to the 2nd pillar (automatically from 2017 by 0.25 pp annually)	-40,0	-83,1	-130,8	-180,5
Introduction of 13th and 14th salary (introduction from 2018, legislative changes from 2019)	-44,5	-59,6	-121,2	-120,8
Exemption of holiday checks from taxes and contributions	-57,7	-59,0	-60,2	-61,5
Expenditure measures				
Free school meals	70	85	91	91
Increase in Christmas pensions	61,3	61,3	61,3	61,3
Double the tax bonus for parents with children younger than 6 years old	58	79	81	81
Expenses from the special tax on retail chains	84,9	101,2	106,0	110,5
Indexation of wages by 10% in 2019, by another 10% in 2020, Indexation of wages by 10% in 2019, by another 10% in 2020, and 2% in 2021, including the provisions related to the new legislation regarding renumeration (impact versus zero growth)	592,2	1137,7	1265,5	1290,81
Reserves created (economic cycle development)	-	270	295	225
Reserves created (faster execution and more EU financed projects)	213	383	433	164

Annex 8 – Terms of Reference: Defense spending review

The review of defense spending will assess expenditure covering 1.7% of GDP annually. The goal of the review is to analyze expenditure and propose measures to improve the effectiveness of all defense spending, including the increase in investment expenditure in line with the general government budget.

Results

The basic objective of the Slovak Republic's defense policy is to preserve the sovereignty, territorial integrity, and inviolability of borders, which are essential for maintaining the security of the state and its inhabitants. The Defense Strategy of the Slovak Republic calls for a strategic adaptation of national defense in a deteriorated security environment by increasing its own defense capabilities and contributing to the enhancement of NATO and EU's ability to act.

According to the White Paper on Defense, the main indicator of success of the Armed Forces of the Slovak Republic will be the increase of their combat capabilities. The operational readiness of the Armed Forces, the deployability and sustainability of land and air forces, and the number of troops deployed on international crisis management operations, represent indicators that contribute to the achievement of the objective. The review will propose further indicators to better inform of the results of defense.

TABLE 43 – Defense expenditure

		Aim	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Defense expenditure as a share of GDP	**SK**	2	1,09	1,09	0,98	0,99	1,13	1,12	1,10	1,21*	1,73**	1,81**	1,91**
(in %, constant 2010 prices)	**NATO**	2	2,97	2,81	2,64	2,48	2,39	2,39	2,32	2,36*			
Major equipment expenditure and R&D devoted to major equipment as a share of defense expenditure	**SK**	20	7,15	9,56	7,39	11,12	18,28	15,32	17,74	22,27*			
(in %, still in 2010 prices)	**NATO**	20	24,39	24,36	23,50	23,39	23,00	22,77	23,64	23,92*			

Source: NATO, Public Administration Budget 2019-2021. Processing: Value for Money Division

** estimate ** according to PAB 2019-2021*

Fiscal objectives and review areas

The task of the review will be to assess the expenditure of the Ministry of Defense of the Slovak Republic (MoD SR) and defense-related interdepartmental programs[88] with an emphasis on achieving greater effectiveness of both planned investments and operations and maintenance expenditures. An important prerequisite is compliance with the approved level of defense spending as a share of GDP and with the commitments undertaken by NATO member states. The review will propose measures to increase expenditure effectiveness through reallocation. The first prerequisite is identification of cost-saving measures. On the other hand, the review will offer measures to improve the results of the MoD SR. It will also evaluate the planned investments of the MoD SR.

The review will examine the effectiveness of all defense spending, i.e. the Ministry of Defense, the Armed Forces, their subordinate organizations, and the related interdepartmental programs. It will focus on assessing the planned investments as part of increased defense spending, and on expenditure covering operations and maintenance. Particular emphasis will be placed on the remuneration system of civilian and military personnel of the MoD SR.

Responsibilities and deadlines

The MoF SR is responsible for the final report, which will be prepared in cooperation with the MoD SR. For the purposes of the analysis, the MoD SR and MoF SR are committed to cooperating in the timely provision of complete and detailed data, with special regard to sensitive and classified information. The analytical phase of the review will begin in the second half of 2019, preceded by data collection and review conceptualization. The spending review will be prepared and published by the end of April 2020.

[88] 06E Defense support, 06H Economic mobilization, 0AU Deployment of civilian experts on international crisis management activities

Annex 9 – Terms of Reference: Ministry of Interior of Slovakia Spending Review

Effective and reliable general government and citizen safety are the most important functions of the Ministry of Interior of Slovakia. These activities are carried out by civil servants, police, and firefighters. The Ministry of Interior's spending review will focus the expenditure of EUR 1.3 bil. (1.4% of GDP) used to ensure functioning of the general governemnt, protection of public order, protection of borders and saving lives and health. Results

The Ministry of Interior of the Slovak Republic (MoI SR) ensures the agenda of internal administration through client centers and district offices. The goal of the MoI SR in this area is to provide high quality and accessible public administration services for the citizens. Additionally, the MoI SR ensures security and protection of public order, border protection, and saving lives and health. Activities are carries out by members of the Police Corps and Fire and Rescue Corps.

The review will analyze the result indicators of the main functions of the MoI SR. 51% of the population does not trust the Slovak police, whereas the EU average is 24% (Eurobarometer data). In other MoI indicators, the number of thefts, deliberate murders, or road accident victims is more favourable compared to international data. The quality of internal administration services for citizens will be assessed through indicators such as time spent at the offices and the number of visits to the district offices per year. The review will propose further indicators that will better inform of the results of the sector.

The review of MoI SR spending will focus on the effective use of financial resources and employment in the provision of general government services to citizens. In activities provided by the police force, the spending review will focus on reviewing the activities performed, the result achieved, the number of police officers, and the effectiveness of spending. **Fiscal objectives and review areas**

The MoI SR has a budget of EUR 2.7 bil, of which 52% is directed towards general government, police, and rescue services. The spending review will analyze all expenditures of the MoI, except education transfers (Education and Youth Training budget program). It will focus on two main activies of the MoI SR – general government services through disctrict offices and client centers, and the safety and protection of public order and saving lives and health.

The spending review will propose measures aimed at improving the efficiency of spending. The main goal is to identify saving measures. The review will offer measures to improve the sector's results. It will also evaluate the planned invetments of the MoI SR.

Within the police force, the review will emphasie the effectiveness of the financial resources spent in protecting public order and saving lives and health. Attention will be paid to territorial distribution of police officers, with regard to the possibility of effective intervention by police and firefighters. The review also aims to examine the cost and time-efficiency of administrative proceedings by the police force.

In the general government area, the spending review will focus on institutions under the responsibility of the MoI SR, which fulfill the sectional tasks of the general government. In addition to evaluating the provision of services by public authorities, the spending review will also focus on the competences of individual components, with the goal of optimizing processes within the general government and satisfaction of the citizens.

TABLE 44 – Budget of MoI SR, except for transfers to education

	2017	2018	2019 R	2020 R	2021 R
Total	**1 263**	**1 469**	**1 285**	**1 375**	**1 375**
Effective and reliable state administration	**1 189**	**1 359**	**1 217**	**1 205**	**1 196**
Protection of public order and security	657	730	744	744	744
Saving lives and health – rescue components	127	174	114	114	114
District offices	123	129	107	108	108
Central support	209	247	168	168	168
Management and control	55	62	53	53	53

Other[89]	19	17	30	18	9
Other programs[90]	**73**	**110**	**67**	**170**	**178**

Zdroj: RIS

Responsibility and deadlines

The MoF SR is responsible for the review, which will be developed in cooperation with the MoI SR. For the purposes of analyzing the aforementioned areas, the MoI SR and MoF SR are obliged to cooperate in providing complete and detailed data and information. Spending review of the Ministry of Interior SR will be prepared and published by the end of April 2020.

[89] Includes subprograms 0D604 Archives, 0D605 Asylum Policy, 0D609 Elections, 0D60A European Union Projects, 0D60B Technical Assistance, 0D60C Environmental Quality Operational Program

[90] Programs 002 Civil Emergency planning in Slovakia, 05T Development cooperation, 06E Defense support, 06G Human resources, 06H Economic Mobilization, 097 Slovak Contributions to International Organizations, 0AR MPRV SR – Antidrug Policy, 0AS Critical Infrastructure Protection in Slovakia,0DB Effects of 2 stages of implementation of the International Health Regulations of the World Health Organization in Slovakia, 0E9 Operational Program for Effective Public Administration, 0EJ Information Society Interdepartmental Program 2014 - 2020, 0EK Information technologies financed by the state budget

External annex 1 – SUMMARY IMPLEMENTATION REPORT FOR 2018 (health, transport, informatisation, education, environment, labour market, and social policies)

The material is an external annex to the Stability Programme of Slovakia for 2019-2022.