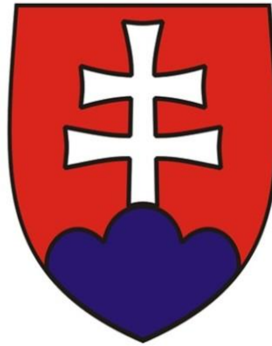


Stability Programme of the Slovak Republic for 2022 to 2025

April 2022

Stability Programme in the version after incorporation of the comments raised at the government meeting on 27 April 2022

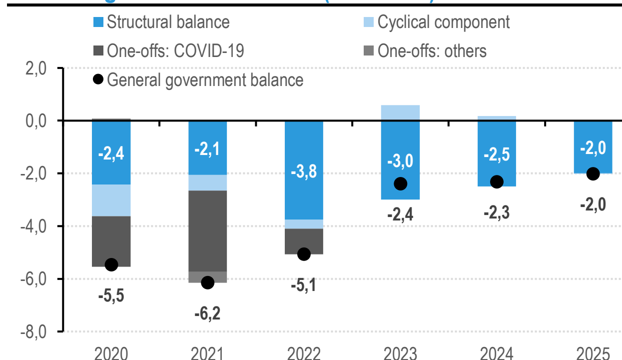
SUMMARY

Despite the persistent uncertainty associated with new global challenges, the Slovak economy is expected to grow over the entire Stability Programme horizon. The economy will gradually recover from the coronavirus pandemic this year, but Russia's invasion of Ukraine will slow the recovery. Nevertheless, gross domestic product (GDP) could grow by 2.1% this year. Exports to Russia, Belarus and Ukraine will fall in March to the second quarter, while demand in the euro area and the V3 countries will also fall. Rising energy prices will translfer into higher prices for consumer goods and services, which will reduce household consumption. The industry will experience a shortage of components and employment will grow only slightly. The GDP will grow by 5.3% next year, underpinned by the post-conflict recovery and the absorption of EU funds. The expected consolidation of public finances will dampen economic developments in the coming years. Growth will drop below 2% and the economy will stop overheating. In 2025, the economy will already be almost a tenth stronger than in the pre-crisis year 2019. However, a more unfavourable course of the war could cut off about a third of this increase.

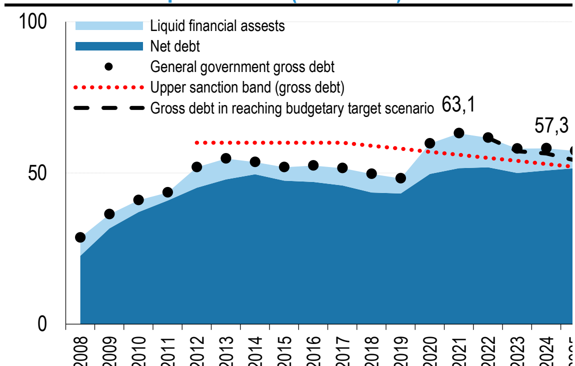
The public administration deficit will drop to 5.1% of GDP this year, from last year deficit of 6.2%. Although the consequences of the COVID-19 pandemic are gradually receding this year in line with budget assumptions, the deficit this year will be 0.2% of GDP higher than planned due to the contribution of the pandemic. The more strongly supported additional financing of the health sector, the carry-over of expenditure from last year by companies under the Ministry of Transport of the Slovak Republic and, to a lesser extent, other factors, increase the projected deficit by a further 0.8% of GDP. At the same time, the current estimate also considers an additional government response to higher inflation with a deficit impact of 0.3% of GDP. These negative effects are in turn offset by higher tax revenues of 0.8% of GDP, underpinned not only by the increase in prices, but also by a further increase in the success rate of tax collection. At the same time, the government plans to raise revenue through additional measures to be presented shortly. In the current year, fiscal policy will have an expansionary effect on the economy. The structural deficit, net of temporary effects, will increase from 2.1% to 3.8% of GDP year-on-year, mainly driven by strong investment growth, EU co-financing, additional health financing and as yet unallocated spending to support the economy.

The government's preliminary plan is to reduce the overall deficit significantly from 2023 onwards, also following the introduction of expenditure limit. The deficit targets will be updated around July, on the basis of the Council for Budget Responsibility's calculation of the expenditure limit, which will be fully binding and will also take into account the possible materialisation of a number of downside risks. The targets in the Stability Programme from 2023 onwards respect the indicative expenditure ceilings calculated so far by the Council for Budget Responsibility as of mid-April. The expenditure limits will require additional consolidation measures amounting to 0.5% of GDP each year in the coming years. For both 2023 and 2024, this provisionally corresponds to a decline in the nominal deficit to 2.4% and 2.3% of GDP, respectively, which, in addition to the planned consolidation, will also be supported by the expected withdrawal of current spending to address the pandemic. For the time being, the preliminary draft budget is prepared with higher deficits, at 3.3% of GDP and 3.2% of GDP for 2023 and 2024. In the meantime, it is expected to dampen expenditure growth mainly on operating costs, with specific measures not yet specified. The government's consolidation plan is more than in line with EU requirements, as the current EC guidance calls for only neutral fiscal policy next year.

General government balance (% of GDP)



Gross and net public debt (% of GDP)



Note: The budgetary targets will be revised in July 2022 according to the June forecasts of the Committee on Macroeconomic Forecasts and the Tax Revenue Forecasts Committee and the current development of the deficit in 2022. These revised targets will also take into account possible materialisation of several negative risks as well as possible new government measures. *Source: MoF SR*

Although the debt ratio will stabilise below 60% of GDP in the coming years, the unfavourable values of the medium- and long-term sustainability indicators imply a need for consolidation in the period ahead. After rising to 63.1% of GDP last year, debt will return to below 60% of GDP in the coming years. After meeting the targets under the public expenditure limit, the gross debt will fall below 55% of GDP by 2025. However, the long-term sustainability indicator S2 will remain in the high-risk zone at over 8% of GDP, reflecting in particular the strong adverse impact of the Slovak population ageing on future pensions and health and long-term care spending. This means that stabilisation or debt reduction beyond the budget horizon will only be possible through further revenue increases or expenditure cuts, or even through more fundamental structural reforms. The pension changes, which were approved by the government in April and are pending in parliament, could parametrically improve the S2 indicator by almost 3 p.p.

Structural reforms to kick-start economic growth can also give a stronger boost to the long-term sustainability of public finances. The implementation of compulsory pre-primary education and the gradual introduction of curriculum reform and changes in the field of higher education will be important in terms of improving the performance of the education system. In order to increase the inflow of highly skilled labour, a simplification of the processes under the residence and labour legislation is under preparation. The creation of centres of excellence will support the link between vocational education and the labour market. In the area of social policies, activities for the integration of Roma communities continue in the fields of education, health, housing and employment. Productivity measures will focus on increasing overall investment in science and research, promoting digitisation by completing infrastructure in areas not covered by the market, improving digital skills and building efficient e-government. Reducing the administrative burden and removing inefficient regulations will have a positive impact on the business environment.

The Stability Programme is the main medium-term budgetary document of the Slovak Republic. Slovakia thus complies with the obligation defined in Article 4 of Council Regulation (EU) 473/2013. The Stability Programme for 2022-2025 was approved by the Government on 27 April 2022 and will also be discussed by the Members of the National Council of the Slovak Republic. The stability programme is based on the March forecast of the Macroeconomic and Tax Revenue Forecasts Committees.

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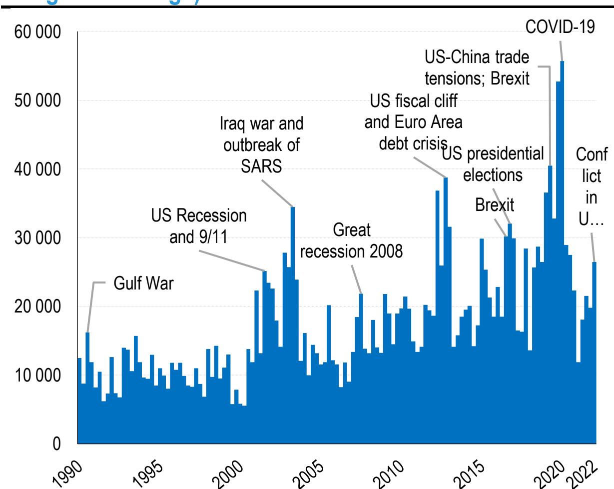
Main economic policy challenges and objectives

In the context of uncertainties in planning the multi-annual budget, the current pandemic crisis is being replaced by a military conflict just outside Slovakia's borders, manifested also by strong price rises and an influx of refugees. The coronavirus pandemic has also had a significant impact on Slovakia's public finances. Total pandemic spending with budgetary implications is expected to reach almost 6% of GDP between 2020 and 2022. Although the pandemic situation is gradually calming down, the budget will have to respond to other challenges this and folowing years. The first is the sharp rise in prices towards double-digit annual growth, which Slovakia last faced in the 20th century (see more in Chapter 1). High inflation, mainly driven by the post-pandemic economic recovery, translates into higher revenues, but also puts pressure on the expenditure side of the public administration budget. The second challenge is Russia's military invasion of Ukraine, which has resulted not only in increased inflationary pressures, but also in direct expenditures in aid to Ukraine in the military conflict and expenditures related to the arrival of refugees in Slovakia (see more in Chapter 3). Thus, uncertainty about future developments remains very high and medium-term planning remains extremely challenging (FIGURE 1). At the same time, both challenges make the objective of a rapid decline in the deficit from the current level of around 5% of GDP to well below the excessive deficit threshold of 3% of GDP, which is also the level needed to stabilise the debt path below 60% of GDP on a more permanent basis, more difficult.

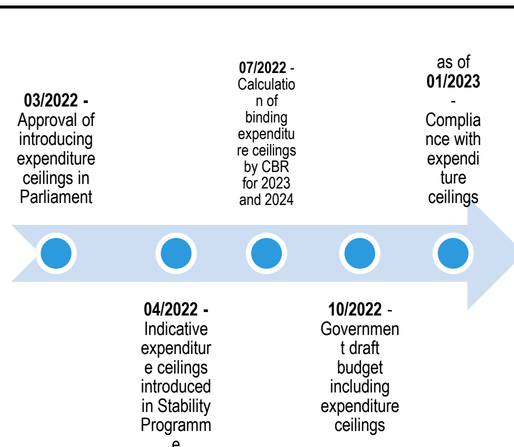
At a time of great uncertainty in the economic environment, the Slovak framework of budgetary rules is also under significant changes aimed at ensuring the long-term sustainability of public finances. (SCHEME 1). From 2023, a numerical rule in the form of multiannual expenditure limit will cap the maximum amount of spending under the government's control. Starting next year, the new rule should require consolidation measures of around half a billion euros (0.5% of GDP). This also implies a tighter framework than the current European fiscal rules, which allow for an approximately neutral fiscal policy for 2023 (see more in Chapter 3). In the current Stability Programme, the expenditure limits set for 2023 and 2024 are still indicative. They will be refined in July on the basis of the June forecasts and last year's identified long-term sustainability risk. The autumn draft budget will already be drawn up in such a way that it fully respects the binding expenditure limits calculated by the Council for Budget Responsibility, which will be approved by the National Council of the Slovak Republic. In the meantime, the shape of the debt brake sanctions from the expected amendment to the law should also be clear, which the expendiutre limits have to take into account anyway. Without an amendment to the debt brake, expected in June this year, a nominally balanced budget would already be needed for 2024, which would imply extremely tight fiscal restraint. The objective of the expenditure limits is to return Slovakia's public finances from the high-risk zone to a state of long-term sustainability, taking the economic cycle into account as much as possible. At the same time, the new framework of rules will also internalise to a significant extent the policies of governments that only take effect in the longer term, i.e. in particular positive and negative changes in the pension system (see more in Chapter 4).

FIGURE 1 – World Uncertainty Index (index, GDP weighted average)



Source: MoF SR, IMF

SCHEME 1 – Introducing expenditure ceilings



Source: MoF SR

Another challenge for the budget will be the use of funds from the European budget, which will mitigate the negative effects of consolidation on the economy. The amount of resources available from the EU budget will be historic, which also means a challenge for the planning and technical preparation of projects. Of the total Recovery and Resilience Plan package of over EUR 6 billion, over EUR 3 billion worth of projects are already expected to be launched this year and next. Next year will also mark the end of the third ESIF programming period, with the aim of drawing down up to half of the total available resources this year and next (see more in Chapter 4).

1 ECONOMIC OUTLOOK AND ASSUMPTIONS

The Slovak economy will be recovering from the third and fourth waves of the coronavirus pandemic in 2022, but the recovery will be slowed by Russia's invasion of Ukraine. Gross domestic product will grow by 2.1% this year. Exports to Russia, Belarus and Ukraine will fall in March and the second quarter and demand in the euro area and the V3 countries will also decline. Rising energy prices will translate into higher prices for consumer goods and services, which will reduce household consumption. The industry will experience component shortages and employment will grow only slightly. In the baseline scenario, we foresee a recovery in the second half of the year. We expect GDP to grow by 5.3% next year, underpinned by the post-conflict recovery and the absorption of EU funds. In the coming years, economic development will be dampened by the expected consolidation of public finances, which the government plans to launch in 2023. Growth will drop below 2% and the economy will stop overheating. In 2025, gross domestic product will be almost a tenth higher than in the pre-crisis year 2019. Because of the large uncertainty, we also present an alternative scenario assuming more severe impacts on supply chains and exports. GDP in 2025 is 3% lower in this scenario than in the baseline forecast.

1.1 Economic development in Slovakia in 2021

The Slovak economy has partially recovered from the sharp downturn and real GDP strengthened by 3% in 2021. Domestic demand in particular contributed to the recovery, while household consumption would have risen even more strongly had it not been for the spread of the pandemic at the beginning and end of the year. Higher government spending boosted both the economy and household disposable income. Although global demand shifted from services to goods during the pandemic, after a promising start of the year Slovak exports were hit by component shortages. The industry thus slowed down in the rest of the year and produced partly to inventories. Employment has not yet experienced a stronger recovery, but wages have grown dynamically. Price growth has started to accelerate, mainly driven by supply-side factors.

1.2 Medium-term[1] economic forecast 2022-2025

Gross domestic product will grow by 2.1% in 2022. Russia's invasion of Ukraine is the main reason for the slowdown in economic growth compared to the February 2022 forecast, which estimated a growth rate of 3.5%. The military conflict and sanctions against Russia will significantly limit Slovak exports to the region and will also cause a slowdown in the economic growth of our trading partners. The war in Ukraine will contribute to further increases in energy prices, which will also be reflected in the prices of consumer goods and services. Higher inflation will dampen domestic consumption not only this year, but also in the years to come. Employment will rise despite lower economic growth. Wages will grow by 6.9%, but they will not keep pace with inflation which will exceed 8% this year.

The forecast assumes that Slovak exports will be most affected by the developments in Ukraine in March-June. Exports to Russia, Belarus and Ukraine will almost completely cease during this period. Foreign trade will also be dampened by slower growth in the euro area and the V3 countries and persistent bottlenecks in supply chains. The functioning of these chains will be complicated by the restriction of air freight traffic over the region and the fact that Russia and Ukraine are major producers of several key commodities. Exports will start to recover in the second half of the year, but not all companies exporting to Russia will be able to find other markets.

In 2023, the Slovak economy will grow by 5.3%. The baseline scenario of the current forecast assumes that the war in Ukraine will end during 2022 and that the economy will be boosted in the following year by a recovery in exports and investment from the drawdown of EU funds due to the end of the third programming period. There will also be an increase in funding from the Recovery and Resilience Plan. In the next few years, economic growth will fall below 2% and the economy will stop overheating. Economic developments will be dampened by the expected consolidation of public finances, which the government plans to proceed with as early as next year. Also contributing

[1] Forecast of the Committee on Macroeconomic Forecasts.

to lower growth will be the return of EU spending to current levels and a slower inflow of young people into the labour market due to demographic changes.

TABLE 1 – Forecast of selected indicators of the Slovak economy for 2022 to 2025[2]

No.	Indicator	unit	Actual 2020	Actual 2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025
1	GDP, current prices	bn. eur	92.1	97.1	106.5	117.9	122.8	127.7
2	GDP, constant prices	%	-4.4	3.0	2.1	5.3	1.8	1.8
3	Final consumption of households and NPISH[3]	%	-1.3	1.2	1.4	2.3	2.8	2.1
4	Final consumption of government	%	0.9	1.9	-3.9	0.2	-0.7	-0.5
5	Gross fixed capital formation	%	-11.6	0.6	15.2	15.1	-2.5	-0.6
6	Export of goods and services	%	-7.3	10.2	1.5	9.0	4.7	3.1
7	Import of goods and services	%	-8.2	11.2	1.8	8.4	3.9	2.3
8	Output gap (share of pot. output)	%	-3.2	-1.6	-0.9	1.6	0.5	-0.1
9	Average montly wage (nominal growth)	%	3.8	6.9	6.9	7.1	4.8	4.1
10	Average employment growth, LFS	%	-2.0	-0.7	1.6	1.6	0.6	0.1
11	Average employment growth, ESA	%	-1.9	-0.6	0.6	1.6	0.6	0.0
12	Unemployment rate, LFS	%	6.7	6.9	6.6	5.6	5.4	5.2
13	Unemployment rate, registered	%	6.8	7.5	7.0	6.0	5.8	5.6
14	HICP	%	2.0	2.8	8.1	6.7	2.0	2.0
15	Current account balance (share of GDP)	%	0.1	-1.0	-1.2	-1.0	-0.7	-0.5

Source: MoF SR

BOX 1 – Estimating the impact of the Recovery Plan on the Slovak economy in the medium term

The MoF SR forecast works with the Recovery and Resilience Plan allocation figures (TABLE 2), which are consistent with the inter-country allocation key. The foreseen allocation does not take into account the failure to meet pre-agreed milestones, which are a condition for drawing money from this instrument.

TABLE 2 – Expected expenditures covered by Recovery and resilience plan of SR (mil. eur, w/o. VAT)

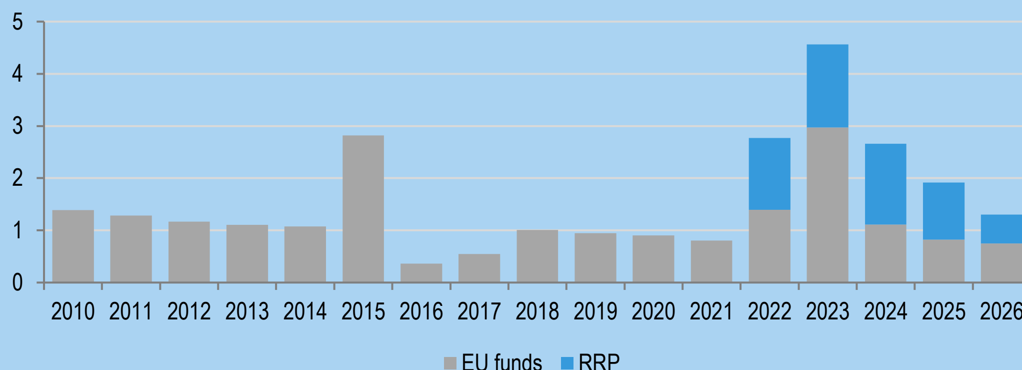
	2021	2022	2023	2024	2025	2026	Total
RRP	6	1 394	1 555	1 548	1 131	596	6 229
Public compensations	2	133	126	126	115	65	569
Intermed. consumption	4	99	66	70	55	41	333
Gov. investment	0	863	1 024	1 024	705	381	3 996
Nat. social transfers	0	2	3	4	5	2	15
Social transfers	0	9	16	23	16	8	73
Corporate investment	0	225	211	189	123	17	766
Household investment	0	63	109	112	112	81	477

Note: The MoF forecast operates with Recovery and Resilience Plan allocation data that are consistent with the inter-country allocation key. The projected allocation does not take into account the failure to meet pre-agreed milestones, which are a condition for drawing money from this Fund. The macroeconomic forecast and the budget projection in the Stability Programme are based on different assumptions on the absorption of EU funds. The budget projection assume that the full amount will be spent by the end of 2023 (about half of the total available allocation). The macroeconomic forecast expects a part of the absorption to be carried over to 2024 (approx. EUR 0.7 billion) and a part of the resources to be forgone (approx. EUR 0.4 billion).
The total spending of EUR 6.23 billion (current prices) for the Recovery Plan was based on assumptions at the beginning of March 2022 and was part of the March macro forecast.

Source: MoF SR

[2] Forecast for 2022 to 2025 was approved by the Macroeconomic Forecasts Committee in March 2022.
[3] In the following text, household consumption will mean the consumption of households and non-profit institutions serving households (NPISH).

FIGURE 2 – Investments from EU (c.p., bil. eur)



Source: MoF SR

The Recovery and Resilience Plan funds will increase Slovakia's GDP by 2.7% and employment by 0.8% by 2026. The impact on GDP will peak in 2025, driven mainly by fixed capital formation and higher factor productivity. Investment is expected to be 8.5% higher in 2024 thanks to the Recovery and Resilience Plan (FIGURE 2). The labour market will respond to the stimulus with a slight lag and the effect will peak in 2025, when employment will be 1.1% higher. The economic impacts presented in TABLE 3 and FIGURES 3 and 4 are estimated by the forecasting model and abstract from the positive impacts of the structural reforms that are part of the Recovery and Resilience Plan.

TABLE 3 – Recovery and resilience plan impact on macro forecast

Change of individual variable compared to no-recovery plan scenario (%)

	Real GDP	Real investments	Total employment
2021	0.0	0.0	0.0
2022	1.5	7.4	0.1
2023	1.9	7.7	0.7
2024	2.8	8.5	1.0
2025	2.9	6.6	1.1
2026	2.7	3.9	0.8

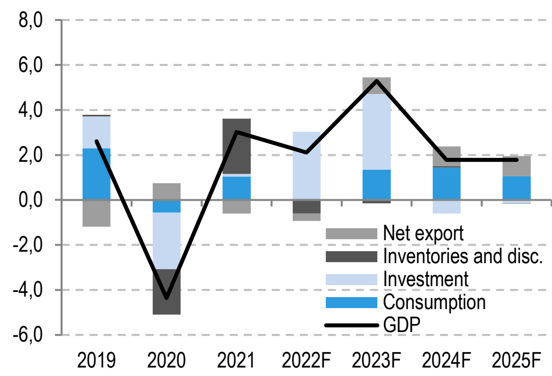
Source: MoF SR

The global economic problems triggered by the military conflict will once again delay the recovery in the labour market. The economic shocks caused by the military conflict will result in weaker job creation, but employment will still grow. During 2022, economic activity and labour demand will be hindered by high input and energy prices and problems in global trade chains. Parts shortages will be particularly felt in industry, where employment will stagnate. Employment will only start to grow significantly in Q2 2023, supported by investments from the Recovery and Resilience Plan and the drawdown of EU funds.

Unemployment stopped falling at the turn of the year after a long period of favourable results. Stagnation or a slight increase in the number of people out of work was expected given the spread of the omicron variant. At the beginning of the second quarter, the unemployment rate is expected to decrease gradually and reach 6.6%. The subsequent more pronounced decline will be supported by investments from the Recovery and Resilience Plan. The faster decline in unemployment over the entire forecast horizon will be dampened by the military conflict and the projected consolidation in the public administration.

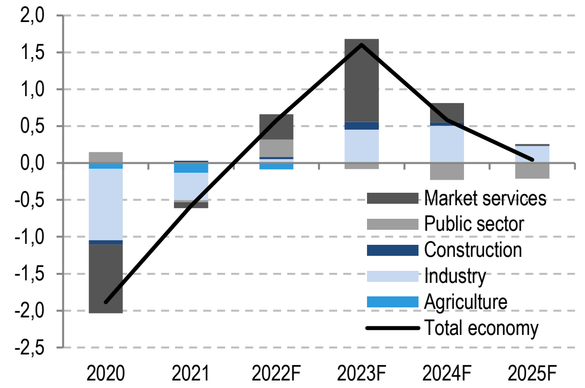
High inflation and the recovery in economic activity will have a positive impact on nominal wages in the coming years, but real wages will fall this year. Wage negotiations will partly reflect the higher rate of inflation and wages will thus grow at a rate of almost 7% in 2022 and 2023. However, higher-than-expected inflation will knock real wages down this year, we forecast a 1.5% decline. In the coming years, price growth should stabilise, bringing real wages back into positive territory. Wages in the public sector will lag behind the rest of the economy due to public spending cuts.

FIGURE 3 – Contributions to GDP growth (pp)



Source: SO SR, MoF SR

FIGURE 4 – Contributions to employment growth (pp)

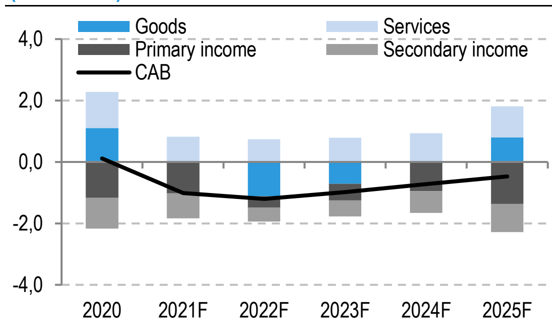


Source: SO SR, MoF SR

Inflation will exceed 8% this year. Prices of energy, agricultural and other commodities, which were already high at the beginning of the year, have been driven even higher by Russia's invasion of Ukraine. Their increase is mainly reflected in food and fuel prices, but more expensive inputs will also raise the prices of other goods and services. These effects are compounded by the January increase in energy prices. Inflation in the first half of this year will also be affected by price increases from last year. This is mainly the impact of the higher tobacco tax, the abolition of free school lunches and the significant increase in imputed rents. These effects should gradually wear off over the course of the year, but inflation will remain high throughout the year.

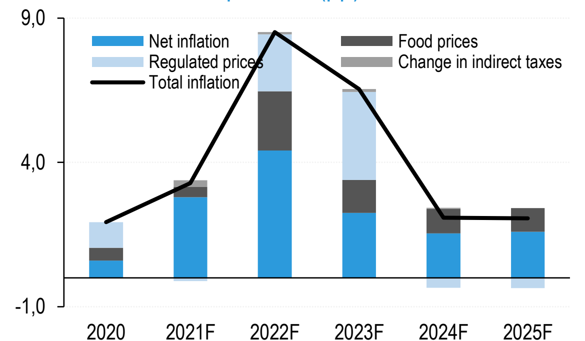
Price growth will reach 6.5% next year. The war in Ukraine, together with the increase in demand for goods due to the pandemic, has significantly raised the prices of future energy commodity contracts. This will lead to an increase in gas and heat prices for households also in 2023 (**BOX 2**). The price of electricity will not be increased after the agreement with Slovenské Elektrárne, a major electricity producer. At the same time, there will be a boost to the economy in the form of investment from EU funds and the Recovery and Resilience Plan, which will lead to a slight overheating of the economy and a rise in prices across sectors. In addition, the approved further rise in tobacco excise tax will add to the price increase. In the coming years, energy prices will fall, albeit to higher levels than in the past, dragging down headline inflation. In the medium term, the planned consolidation of public finances will also dampen price growth.

FIGURE 5 – External imbalances - CAB components (% of GDP)



Source: NBS, MoF SR

FIGURE 6 – Structure of consumer inflation - contributions of components (pp)



Source: SO SR, MoF SR

BOX 2 – Assumptions of the external environment

Equity markets were hitting new all-time highs at the end of 2021. Investors placed less importance on the threat of coronavirus mutations and focused more on positive information on rapid vaccination in several countries. Only Russia's invasion of Ukraine triggered a more severe reaction in the financial markets, while the depth of the stock market decline was uneven depending on the region (**FIGURE 7**). European markets lost the most, while stock markets in America and Asia reacted only moderately. Investors in Europe responded sensitively especially to the discussions on sanctions against Russia. However, equity markets erased much of

the initial losses in the following days.

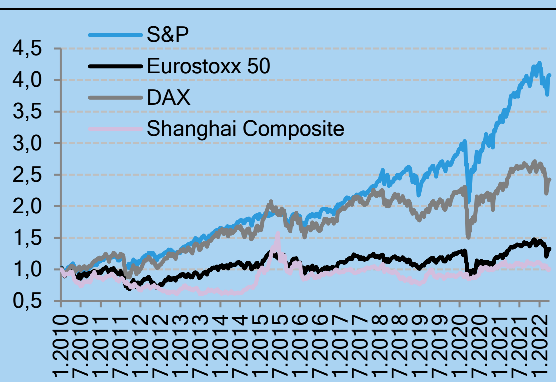
The euro weakened against the US dollar in 2021 due to high inflation in the US and the expected tightening of monetary policy by the US Fed. In response to the threat of sanctions against Russia, the depreciation deepened, but the exchange rate gradually increased. The Brent crude oil price was rising especially in late 2021, but after the attack on Ukraine, it has risen by more than 30% in a matter of days to close to USD 130/bl. In the following days, however, the price of the commodity fell back below USD 100/bl as EU officials refused to cut off Russian energy immediately (FIGURE 8).

The sharp rise in energy prices triggered additional inflationary pressures, which were already strong before the war conflict, mainly due to bottlenecks in supply chains. The bottlenecks, also due to the war conflict, will start to ease later than originally expected. Inflation in the euro area is likely to exceed 5% in 2022, increasing the pressure for a faster tightening of the ECB's monetary policy.

The ECB plans to end the pandemic asset purchases in line with expectations in March 2022, with the first key rate increase expected as early as 2022. Expectations of tighter policies are pushing up bond yields in both Germany and Slovakia. In mid-March, the US central bank, the Fed, raised its key interest rate by a quarter of a percentage point to between 0.25% and 0.5%. A gradual reduction in the size of the US central bank's extraordinarily inflated balance sheet is also expected.

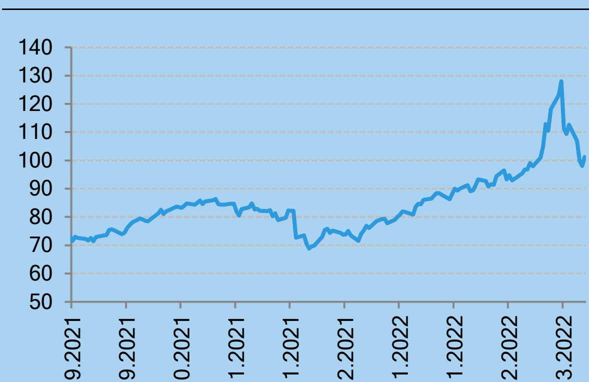
Trade with Russia is relatively low, but Russia is an important supplier of natural gas to EU countries. The military conflict restricts countries' foreign trade through direct trade channels with Russia and indirectly through supply chains. As trade with Russia is relatively low, a reduction in trade with Russia is not a significant threat to our key trading partners. Foreign demand should therefore not fall sharply. Direct exports from Slovakia to Russia, Ukraine and Belarus account for approximately 2.5% of total exports. Although the EU economy is not economically dependent on Russia, Russia is an important supplier of natural gas to EU countries. As the V4 countries import most of their natural gas from Russia (in the case of Slovakia it is almost 100%), they are much more exposed to Russia.

FIGURE 7 – Response of stock indices have (23. feb 2022 = 1)



Source: Bloomberg, IFP

FIGURE 8 – Brent oil price (USD/bl.)



Source: Bloomberg, IFP

The deadline for external environment assumptions, including interest rates, commodity prices and exchange rates, was 7 March 2021.

1.3 Cyclical evolution of the economy

The economy will be subdued this year due to declining exports to Russia and Ukraine and missing components in supply chains, which will dampen potential GDP growth. In the coming years, potential growth will be driven mainly by investments from the Recovery and Resilience Plan and EU standard funds, which will accelerate the growth of the capital stock and factor productivity. Employment will have a rather negative impact on potential growth, mainly due to demographic changes.

FIGURE 9 – Contribution of production factors to potential growth (pp) – MoF SR approach

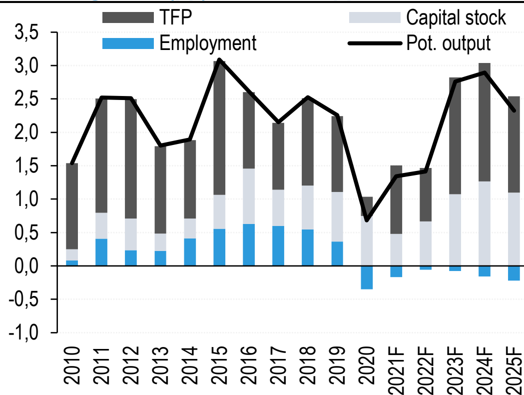


TABLE 4 – Contribution of production factors to potential growth (pp) – MoF SR approach

	Pot. GDP (growth, %)	TFP*	Capital stock	Labor
2017	2.2	**1.0**	**0.5**	**0.6**
2018	2.5	**1.3**	**0.7**	**0.5**
2019	2.3	**1.1**	**0.7**	**0.4**
2020	0.7	**0.3**	**0.7**	**-0.3**
2021	1.3	**1.0**	**0.5**	**-0.2**
2022F	1.4	**0.8**	**0.7**	**-0.1**
2023F	2.8	**1.7**	**1.1**	**-0.1**
2024F	2.9	**1.8**	**1.3**	**-0.2**
2025F	2.3	**1.4**	**1.1**	**-0.2**

** total factor productivity*

Source: MoF SR

The Slovak economy remains undercooled in 2022, but will close roughly half of the output gap compared to the previous year. Investments from the Recovery and Resilience Plan and the drawdown of EU funds in 2023 will contribute to the economy slightly overheating next year. The output gap will then start to close in 2024, mainly due to the end of the EU funds programming period and the expected consolidation of public finances.

FIGURE 10 – Output gap (% pot. GDP) - MoF SR approach

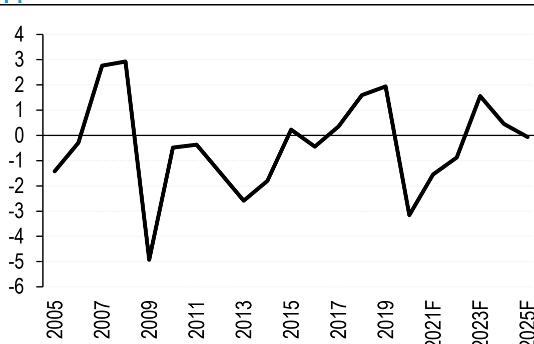


TABLE 5 – Output gap - MoF SR approach

	GDP (real growth, %)	Pot. GDP (growth, %)	Output gap (% pot. GDP)
2018	3.8	2.5	**1.6**
2019	2.6	2.3	**1.9**
2020	-4.4	0.7	**-3.2**
2021	3.0	1.3	**-1.6**
2022F	2.1	1.4	**-0.9**
2023F	5.3	2.8	**1.6**
2024F	1.8	2.9	**0.5**
2025F	1.8	2.3	**-0.1**

Source: MoF SR

1.4 Comparison of the Slovak economy forecasts of the MoF SR with those of other institutions

The forecast of MoF SR (Ministry of Finance of the Slovak Republic) is comparable with other institutions. The latest EC and OECD forecasts were published before the war in Ukraine started. Compared to other institutions (NBS and IMF), the MoF SR expects slower GDP growth in 2022, but on the other hand, it expects a slightly faster recovery in 2023. The uncertainty caused by the war leads to a high dispersion of price level growth estimates among forecasts, especially for 2023, but the MoF SR does not significantly deviate from these estimates. Only the IMF published an updated current account forecast. The IMF had the latest data on developments in the fourth quarter of 2021, which explains the difference in 2021. In addition, the IMF expects the current account deficit to widen significantly.

TABLE 6 – Comparisons of forecasts of MFSR and other institutions

	2021	2022	2023
		Real GDP growth (%)	
MFSR	**3,0**	**2,1**	**5,3**
MFC (median)	3,0	2,0	4,0
NBS (milder war scenario)	3,0	2,8	2,3
EC	3,0	5,0	5,1
OECD	3,2	5,0	4,8
IMF	3,0	2,6	5,0

		HICP (CPI if not available) (%)	
MFSR	**2,8**	**8,1**	**6,7**
MFC (median)	3,2	8,7	5,3
NBS (milder war scenario)	2,8	7,6	9,7
EC	2,8	6,4	2,4
OECD	2,6	4,1	2,5
IMF	2,8	8,5	4,1
		CAB (% HDP)	
MFSR	**-1,0**	**-1,2**	**-1,0**
MFC (median)	-	-	-
NBS (milder war scenario)	-	-	-
EC	-	-	-
OECD	-1,0	-2,2	-1,9
IMF	-2,0	-5,0	-4,8

Source: MoF SR (March 2022), Macroeconomic Forecasting Committee (March 2022), NBS (March 2022), EC (February 2022), OECD (December 2021) a MMF (April 2022).

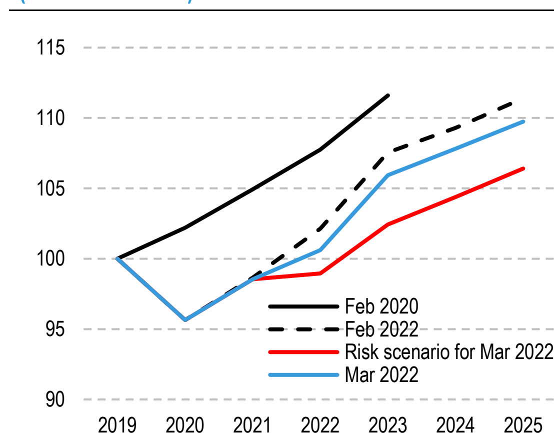
1.5 Risk scenario

The military conflict in Ukraine and the imposed sanctions will significantly reduce international trade with Russia. The risk scenario foresees a halt in exports to Russia, higher price growth and severe disruptions in supply chains, which will negatively affect the economy in the short and medium term.

If the risk scenario materializes, the price level is expected to rise close to 10% this year and next year. The introduction of sanctions will halt the export of goods and services to Russia, leading companies to look for new outlets. We assume that over time the new buyers will offset only half of the exports to Russia, creating a permanent loss in exports and GDP. The Slovak economy will also face severe disruptions in supply chains, which will constrain industry in particular and negatively affect exports. Component shortages will also be reflected in lower factor productivity, which will negatively affect the economy in the medium term. The risk scenario assumes that the energy market does not stabilise and that high energy prices feed through significantly into other prices of goods and services. The price level will increase by 9.3% this year. Inflation will accelerate to 10% next year unless additional measures to reduce energy prices for households are approved. Nominal wage growth over the next 2 years will not be enough to offset inflation, which will reduce household consumption.

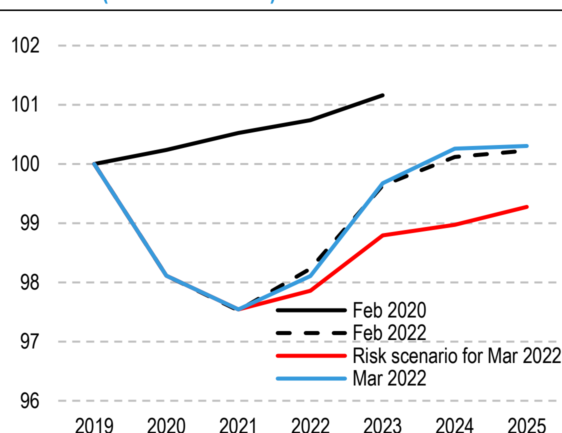
Fulfilling the risk scenario will pull down real GDP growth and 25 thousand fewer people will be employed in 2025. The risk scenario will mainly affect foreign trade and will pull down real GDP growth this year to 0.4% (from 2.1% initially). These negative effects will spill over into 2023 and reduce real economic growth to 3.5% (from 5.3% in the main scenario). The fulfilment of the risk scenario will also slow employment growth in the coming years, resulting in 25 thousand fewer people employed than in the baseline forecast in 2025. This scenario does not take into account the impact of population migration on the labour market and the shortage of energy raw materials.

FIGURE 11 – GDP in baseline forecast and scenarios (index 2019=100)



Zdroj: IFP

FIGURE 12 – Employment in baseline forecast and scenarios (index 2019=100)



Zdroj: IFP

TABLE 7 – Risk scenario with more severe economic impacts of the war

Cumulative change of variables compared to the forecast

	Real GDP	Consumer prices	Private consumption	Public consumption	Real investment	Real export	Total employment	Nominal wages
2022	-1.6	0.7	-0.6	-0.6	-1.6	-5.2	-0.3	-0.3
2023	-3.3	4.1	-2.1	-1.2	-5.1	-6.5	-0.9	-0.5
2024	-3.2	4.4	-1.7	-1.2	-4.9	-5.9	-1.3	1.1
2025	-3.0	4.7	-1.1	-1.2	-5.4	-5.7	-1.0	2.4

Source: MoF SR

2 CURRENT POSITION OF PUBLIC FINANCES

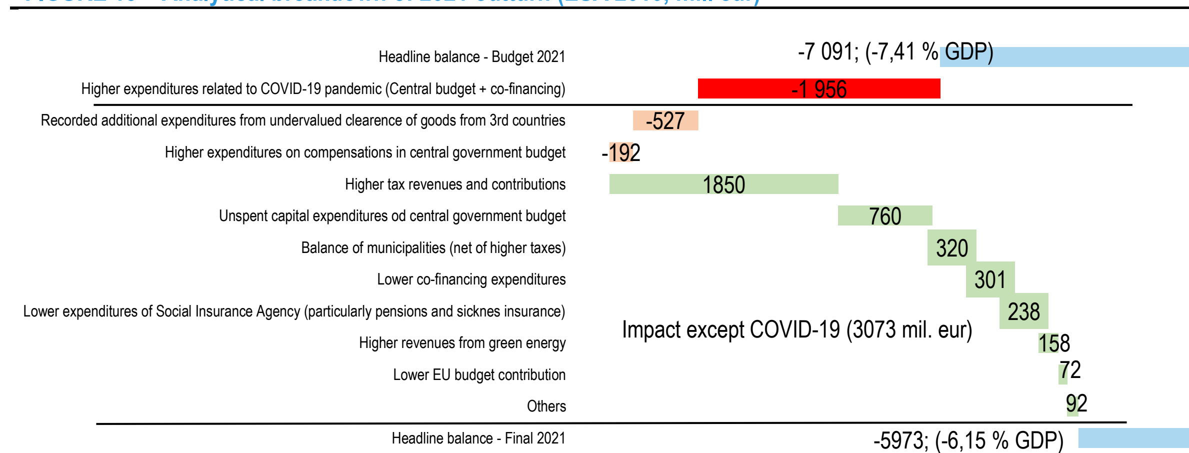
The public administration deficit reached 6.2% of GDP in 2021, according to the Eurostat notification, which is significantly lower than the budget's target of 7.4% of GDP. To combat the COVID-19 pandemic, deficit-impacting expenditure was 2.0% of GDP higher compared to approved budget last year. The deficit was also increased by 0.5 % of GDP by the settlement of a payment for irregularities in the clearance of goods from third countries. However, tax revenues offset these negative effects, contributing to an improvement in the economy of up to 1.9% of GDP, in addition to a faster economic recovery. The main factors were a lower cyclical evolution of corporate income tax, a more positive evolution of VAT thanks to the growth in collection success rates and, similarly, developments in the labour market, which mainly increased social security contributions. *Other deficit-reducing factors compared to budget assumptions include mainly unspent capital expenditure of the state budget (0.8% of GDP) and better performance of municipalities (0.3% of GDP).*

The deficit is projected to fall to 5.1% of GDP this year, 0.2% of GDP higher than the original budget target. Significant additional financing of the health sector, the transfer of unspent non-pandemic expenditures of state-owned enterprises under the Ministry of Transport of the Slovak Republic from last year, as well as other factors, increase the deficit by a total of 1.0% of GDP. The deficit will be additionally increased by higher pandemic expenditure of 0.2% of GDP. At the same time, permanent measures are expected to be taken to compensate for the surge in the price level, for which an additional budgetary space of 0.3% of GDP is being created from this year onwards. These negative effects are mainly offset by higher tax revenues of 0.8% of GDP. The increase compared to the budget is mainly due to the positive macroeconomic environment, including growth in price bases, but also to the further increase in the efficiency of VAT collection. The expenditure related to irregularities in the clearance of goods from third countries was recorded in 2021 (0.3% of GDP). This also reduces the deficit compared to plans.

2.1 Public administration balance in 2021

The public administration deficit reached 6.2% of GDP in 2021, according to the Eurostat notification. Compared to the assumptions of the approved budget, which envisaged a deficit of 7.4% of GDP, this is a significant decrease. The variance from budget can be split between the impact of the pandemic, which was significantly more negative, and other factors, notably the increase in tax revenue and the underspending on capital expenditure, which, together with other factors, more than offset the increased costs of the pandemic.

FIGURE 13 – Analytical breakdown of 2021 outturn (ESA 2010, mil. eur)



Source: MoF SR

Developments in public finances caused by the coronavirus

Last year, on fighting the COVID-19 pandemic were spent 2.0 p.p. more deficit-impacting expenditure than foreseen in the original budget[4]. The total cost of the measures taken (with an impact on the ESA2010 accrual

[4] A provision of EUR 1,041 million was made for this purpose when the budget was established.

deficit) by the government in response to the coronavirus was 3.0% of GDP[5], well in excess of the 1.1% of GDP provision made for this purpose in the budget (**BOX 3** and **Annex 7**). Spending was increased by an amendment to the 2021 state budget bill, but some of the spending was ultimately not spent and is being carried over into 2022.

Approximately half of the total spending resulting from the government's response to the pandemic has been directed towards supporting employment retention. Since its introduction in March 2020, the Short Time Working Scheme (First Aid) has undergone a number of changes which have seen the list of eligible claimants expanded as well as an increase in allowances. Lump-sum contributions continued to be paid to one-person limited liability companies and self-employed persons whose sales fell or who had to close their businesses. Until July 2021, the so-called SOS subsidy, which was used for those who did not qualify for other financial assistance under First Aid, continued to be disbursed. New schemes have also been created to support the most affected sectors. Targeted financial assistance was provided to support workers and entrepreneurs in culture and primary art schools. Significant subsidies have also flowed to support gastronomy and tourism. A scheme to compensate for road transport losses has also been set up. The Business Rent Reimbursement Scheme was designed for businesses that paid rent for operations during the period of difficult use.

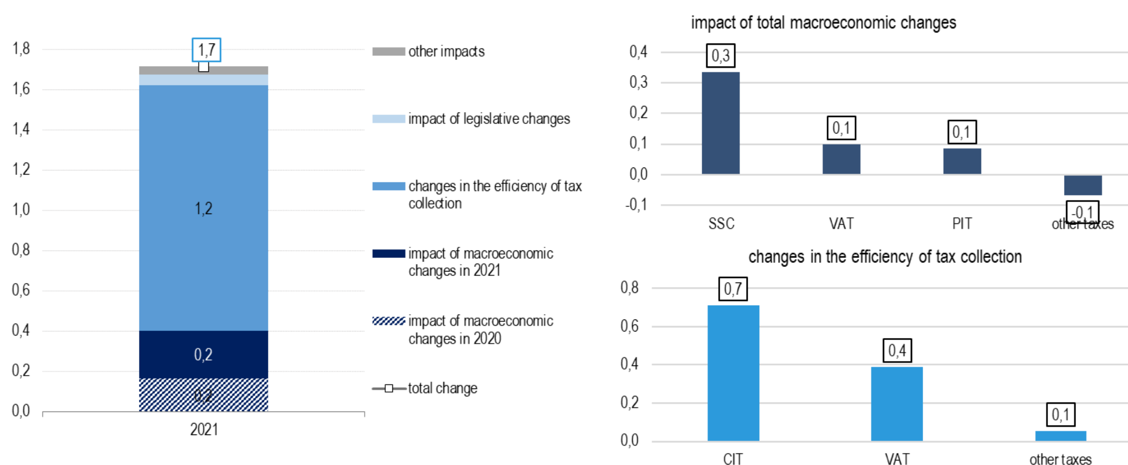
In addition to supporting the maintenance of employment, measures have focused on providing income replacement in the form of social benefits and health care support. Both sick pay and nursing benefit have been increased to replace the employees' net pay during the month of April. The re-extension of unemployment benefit entitlement during March-May was intended to replace income for people who were still unable to find a job due to the worsening labour market situation. A one-off allowance of EUR 333 was paid to families with children who found themselves in material distress as a result of the situation with COVID-19. Other families with children had their child benefit topped up during October to EUR 100. Spending at the end of last year was also boosted by the first tranche of financial assistance for seniors who had received at least one dose of the coronavirus vaccine. Increased spending in the health sector was used to cover the costs of testing, vaccinations and coronavirus drugs. Staff in the health sector working on the frontline and in COVID wards were also paid an extra allowance.

Other factors beyond the coronavirus

In addition to a faster economic recovery, tax revenues contributed to a lower deficit of up to 1.9% of GDP[6]. The main factor was a positive surprise in corporate income tax of 0.7% of GDP. The usually pro-cyclical corporation tax has fallen only marginally despite the pandemic, in contrast to the experience during the global financial crisis[7], which was factored into the Budget forecast. Maintaining the yield is mainly due to selected sectors of the economy, important from the point of view of corporate tax collection, which have done well despite the crisis. The higher revenue was also driven by positive developments in value added tax, where revenue exceeded budget assumptions by 0.4% of GDP, thanks to an increase in collection success, which was not foreseen. The higher effective tax rate is also confirmed by the 2021 tax gap update, which indicates a historically best improvement in collection success of 4.7 percentage points (see section on the quality of public finances). In addition, tax revenues were also significantly affected by the volatility of macroeconomic indicators, resulting in a slight underestimation of macroeconomic developments. Beyond this, the situation continued to evolve dynamically during 2021, with several updates to the macroeconomic forecast. The increase is largely due to the impact of higher wages, which translated into higher receipts from social security contributions and personal income tax (PIT) totalling 0.4% of GDP.

[5] This estimate includes the financing of part of the expenditure from EU funds. This is a financing of EUR 338 million (0.4% of GDP), this refinancing has no impact on the deficit.
[6] This is the revenue projected by the Tax Revenue Forecasts Committee
[7] When was the year-on-year fall in corporation tax of about 24%

FIGURE 14 – Changes in forecast of tax revenues and social contributions of GG in year 2021 compared to GG budget (in % of GDP, ESA2010)



Note: Other taxes include also penalties, tax credits and expenditure on public purpose. *Source: MoF SR*

Unspent capital expenditure of the state budget improves the deficit by 0.8% of GDP. Significant savings are due to the overall low absorption of capital appropriations of the state budget by individual chapters. These are mainly the Ministry of Transport and Construction of the Slovak Republic and the Ministry of Defence of the Slovak Republic. Another factor is the slow uptake of funds allocated in the general treasury for investment. Some of this money has not been spent due to the lack of quality capital project applications submitted by the various budget chapters.

The improved performance of municipalities (0.3% of GDP) contributed significantly to the improved deficit outturn. In the end, the municipalities managed a slight surplus instead of the expected high deficit of over 0.4% of GDP. This is mainly due to a lower uptake of transfers granted from the state budget. The increased transfers did not translate into increased expenditure but covered already foreseen expenditure. Adjusted for the impact of higher tax revenues, the impact on the balance was around 0.3% of GDP.

Expenditure of the Social Insurance Institution not directly related to the impact of the pandemic was 0.2% of GDP lower than budgeted. In particular, pension benefits (0.1% of GDP) and non-pandemic sickness insurance benefits (0.1% of GDP) experienced a decrease in expenditure compared to the budget. For pensions, the main factor was the higher than expected number and higher than expected average benefit of lapsed pensions (indirect impact of COVID-19). Another reason is the lower average amount of newly granted pensions. Expenditure on standard sickness and nursing benefits fell due to higher take-up of pandemic sickness and care of a family member allowance[8]. Expenditure on other sickness benefits also decreased due to lower uptake of maternity benefits by fathers or a slower take-up of maternity benefits by recipients.

The positive impact on the deficit compared to the budget (0.2% of GDP) was also due to subsidies to support renewable energy sources. Behind the positive impact in 2021 was a rapid rise in market energy prices. These have grown at a record pace and have made previously subsidised renewable energy generation (green energy) profitable.

Expenditure related to the European budget increased the deficit by 0.1% of GDP compared to the budget. Weaker absorption of European project funds contributed more than 0.3 p.p. of GDP in the form of lower co-financing. Savings have also been made in the case of the EU levy, mainly due to a conservative approach in the preparation of the budget in view of the uncertainties arising from possible adjustments to the EU budget. Conversely, the settlement of a payment to the EU budget related to the payment of principal and interest for irregularities in the clearance of goods from third countries had a negative budgetary impact of up to 0.5% of GDP.

[8] The fall in expenditure on standard sickness benefits is also affected by the increase in expenditure on pandemic benefits (sick leave and care of a family member), which are shown in the pandemic aid settlement. People who would also fall ill with another illness during the current year and subsequently receive standard sick leave or care of a family member are thus shown in the pandemic expenditure and the standard expenditure on other sick leave will therefore fall.

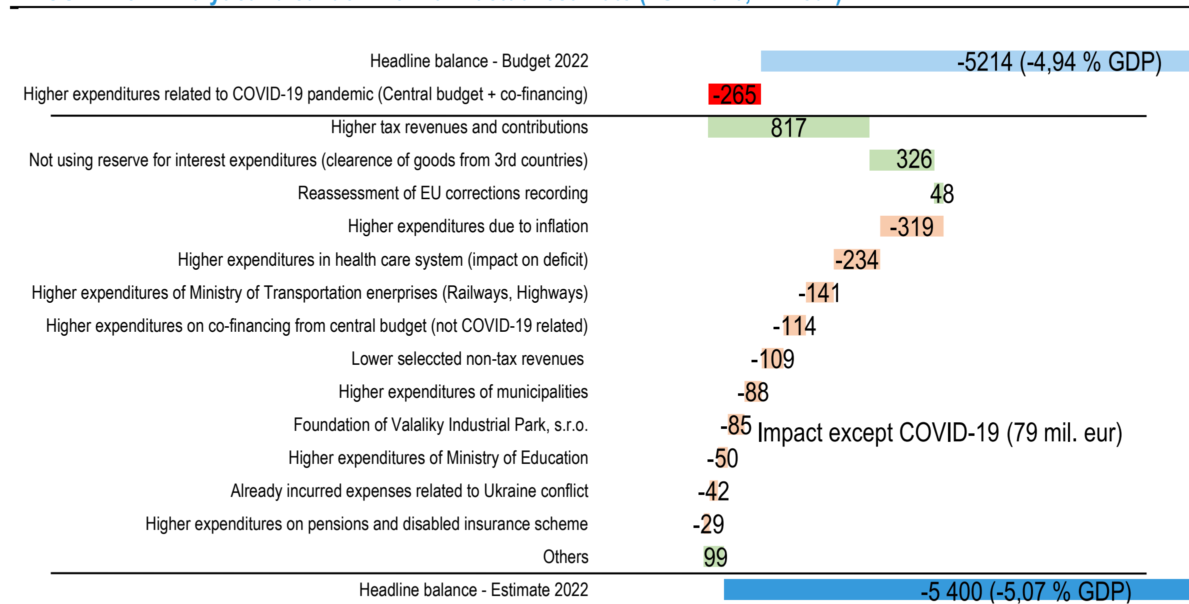
The deficit against the plan is increased by the payment of principal still in 2021 and interest on late payment, which is paid in cash but accrued last year.

Higher wage expenditure in the state budget increased the planned deficit by 0.2% of GDP. In the 2021 budget, the government planned to reduce compensation costs. Savings were to be made through a 10% reduction in the employment of selected officials compared to 2020[9]. However, the realised savings from the reduction in the number of civil servants and public servants were offset at the level of the state budget by new expenditure[10]. One-off remuneration of EUR 350 at the end of the year (0.1% of GDP), which were not foreseen in the budget, also contributed to the increase in compensation expenditure.

2.2 Recent developments in public finances

The expected deficit this year increases by 0.2% of GDP to 5.1% of GDP compared to budget assumptions. Compared to budget assumptions with a projected deficit of 4.9% of GDP, pandemic expenditure increases by 0.2% of GDP. The provision for measures to compensate for price level increases the deficit by 0.3 % of GDP. Higher spending by companies under the Ministry of Transport of the Slovak Republic, together with higher spending in the health sector, contributes to a higher expected deficit of 0.4% of GDP. Other negative factors, such as higher spending by local governments, spending on the establishment of an industrial park, and lower non-tax revenues, add a total of 0.4% of GDP to the deficit. Increased expenditure and a slight decline in non-tax revenues of public administration are almost entirely offset by higher tax revenues of 0.8% of GDP. Also positive for the deficit is the non-utilisation of the budgeted provision related to irregularities in the clearance of goods from third countries, amounting to 0.3% of GDP, due to the recording of interest paid to year 2021.

FIGURE 15 – Analytical breakdown of 2022 actual estimate (ESA 2010, mil. eur)



Source: M0F SR

Developments in public finances caused by the coronavirus

Expenditure to fight the COVID-19 pandemic is expected to be 0.2% of GDP higher than budgeted this year[11]. The increase in pandemic expenditure from 0.7% to 1.0% of GDP is due to the carry-over of part of the

[9] The target group was civil officers - employees of State Budget chapters in the civil service and public interest. The 10% across-the-board reduction in the number of employees did not affect, in particular, employees of regional education, public health offices, medical employees, employees of centres for children and families, professional parents, employees of the Slovak National Theatre and the Slovak Philharmonic Orchestra, employees of public universities, employees performing activities abroad, civil officers in public office, judicial waiters and legal waiters of the Public Prosecutor's Office. At the same time, civil officers on duty, i.e. police officers, professional soldiers, members of the Fire and Rescue Corps, members of the Mountain Rescue Service and armed and unarmed members of the financial administration, were exempted from the reduction.

[10] Comparing 2020 and 2021 year-on-year, there is almost no change in the number of civil servants and public servants working in state central bodies.

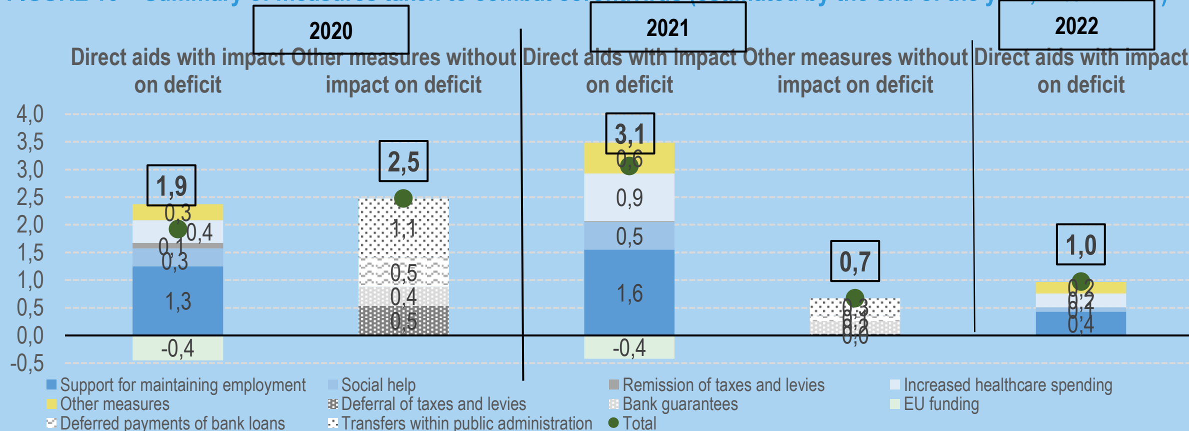
[11] When the budget was drawn up, EUR 768 million were allocated for this purpose.

unspent expenditure earmarked for this purpose from last year, which was partly offset by a reduction in the original earmarked reserve in the budget[12] (**BOX 3** and **Annex 2**). This year, as part of the pandemic measures, employers are being reimbursed for the cost of employee testing, the purchase of medicines and vaccines continues, as well as the payment of additional allowances to health workers working in COVID units. Part of the carry-over expenditure from last year is used to replenish the emergency stocks of the State Material Reserve Administration. These are complemented in particular by personal protective equipment and face masks. Until the end of February 2022, there was an active employment support scheme (the so-called First Aid), which has been replaced by permanent Kurzarbeit since March. However, the allocation and payment of First Aid claims will continue for part of 2022. Pandemic nursing benefit continues to be paid, while pandemic sick pay has been abolished from December 2021[13]. Subsidies continue to be paid to support tourism, road transport and rents to business establishments. Expenditure this year is also boosted by the continuation of financial assistance for seniors who were vaccinated with the 2nd or 3rd dose earlier this year.

BOX 3 – Summary of measures taken to combat coronavirus

Measures taken to combat the coronavirus are in the form of direct aid with a direct impact on the deficit and no direct impact on the deficit, including tax and levy deferrals, bank guarantees for business loans and transfers within the public administration. The deferral of taxes and levies was intended to help firms with liquidity and its impact on the accrual deficit is negligible. In the medium term, the cash impact is also minimised[14]. Loan guarantees, which also help to tide over an adverse period, have an impact on the deficit and debt only if a part of the borrowers stop repaying the loans granted or, in the case of standardised guarantees according to the ESA2010 methodology, it is necessary to take into account the level of default risk on an accrual basis[15]. Transfers within public administrations affect the accrual deficit only if the entity realises the received transfer on expenditure[16]. Loan deferrals are implemented by commercial banks in agreement with the government, thereby helping household liquidity without affecting the government's economic deficit.

FIGURE 16 – Summary of measures taken to combat coronavirus (estimated by the end of the year, in% of GDP)



Source: MoF SR

** The amount of guarantees is stated for guaranteed loans, not the impact on the accrued general government deficit. The same method is chosen in the deferral of taxes and levies.*

[12] The volume of carry-overs was 0.5% of GDP. As the spending to date on pandemic measures does not indicate that the entire initially budgeted reserve and carry-over expenditure will be spent for this purpose, the initially established reserve is reduced by EUR 201.6 million. At the same time, the accrual of "First Aid" expenditure reduces the impact on this year's deficit by EUR 109 million.

[13] You are also entitled to sickness benefit in the event of suffering from coronavirus. However, from December 2021 onwards, the Social Insurance Institution will only pay the benefit from the 11th day of incapacity for work, as it does for all other illnesses. Until December, the Social Insurance Institution paid the pandemic sickness benefit from the 1st day of incapacity for work.

[14] On the social contributions section, we assume an accrual impact of EUR -4.8 million and EUR -6.7 million in 2020 and 2021, respectively, due to the non-payment of deferred contributions in selected risk sectors. In 2022, we expect an impact on the accrual balance of EUR -1.7 million.

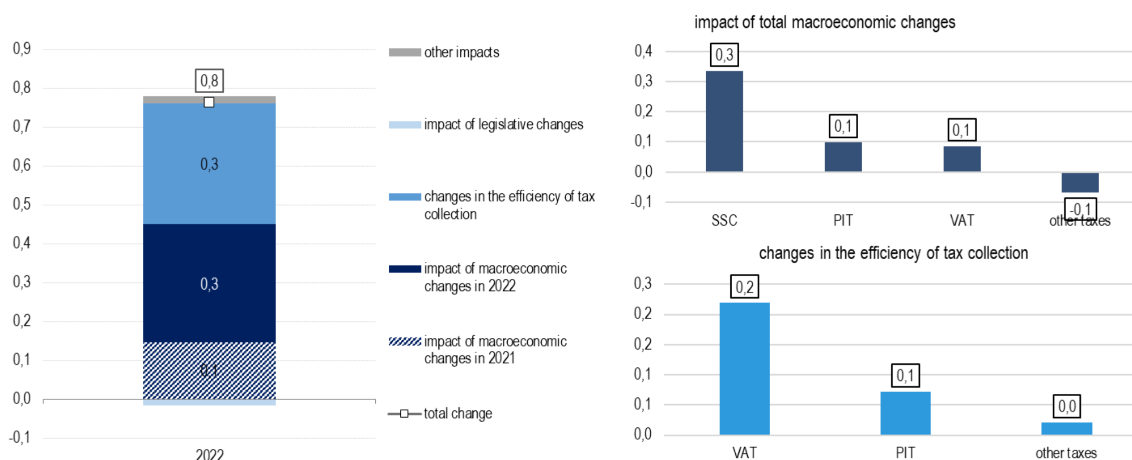
[15] The negative impact from guarantees granted in 2020 and 2021 is EUR 25 million and EUR 23 million respectively.

[16] For example, the Social Insurance Institution receives a transfer from the State Budget, which is largely used to cover pandemic care of family members and sick leave.

Other factors beyond the coronavirus

Tax and social security contributions revenues are 0.8% of GDP higher than in the budget [17] **(FIGURE 17).** Tax revenues are mainly helped by nominal increases in macroeconomic variables. Estimates of macroeconomic developments were more pessimistic at the time of budgeting. The better actual development increased revenue by 0.2% of GDP in 2021, which was subsequently passed on to the revenue estimate for 2022. In addition to the 2021 effects, the macroeconomic forecast with tax effects has been increased by a further 0.3% of GDP. The increase is largely due to the impact of higher inflation and expenditure from the Recovery and Resilience Plan. The labour market and the taxes and social security contribution attached to it are also improving, along with more solid consumption, which is mainly helping VAT revenue. The increase in the collection success rate[18], which is reaching historic levels, is also contributing to the rise in VAT. There was a slight downward revision in corporate taxes due to a slower-than-expected recovery.

FIGURE 17 – Changes in forecast of tax revenues and social contributions of GG in year 2022 compared to GG budget (in % of GDP, ESA2010)



Note: Other taxes include also penaltie, tax credit and expenditure on public purpose. *Source: MoF SR*

Expenditure related to the European budget also reduces the expected deficit compared to the budget by 0.2% of GDP. The higher expected absorption of co-financing of European projects contributes negatively by more than 0.1% of GDP. Conversely, net corrections[19] for irregularities in the absorption of EU funds have a slightly positive impact. The settlement of a payment to the EU budget related to irregularities in the customs clearance of goods from third countries (0.3% of GDP) also has a positive impact on the budget this year. A provision of EUR 326 million has been made in the budget for this purpose to pay the principal. However, the actual principal of EUR 277 million from the underpaid customs clearance was already paid at the end of last year and Eurostat has decided that the interest payment of EUR 250 million will also be recorded already in 2021.

The provision for measures to compensate for the rising price level increases the deficit by 0.3% of GDP compared to budget assumptions. Significantly rising inflation calls for measures to help the hardest affected groups. The government has already announced a one-off support of EUR 100 for families with children as well as selected low-income groups[20]. The permanent measure will be an increase in the child benefit to EUR 30 from July and an increase in the tax bonus to EUR 70 for children up to 15 years of age, or EUR 40 for children over 15 years

[17] This is the tax revenue projected by the Tax Revenue Forecast Committee.
[18] Measured by the effective VAT rate. The reality for 2021 was not known at the time of budgeting. Actual revenue for 2021 was higher not only because of a higher macro base but also because of a higher effective tax rate. Higher effective tax rate increased the current estimate by EUR 233 million.
[19] The corrections are net of the revenue of the paying unit. Due to corrections of payments from EU funds (worsening of the deficit), the claim on the EU has been adjusted. The expenditure was implemented under the EU resource code. However, the European Commission did not reimburse the funds. Instead, the State settled the irregularities, which were subsequently used to reimburse the cumulative payment claims to the State budget revenue under the EU source code. As there was a duplication of the impact on the ESA deficit, it was necessary to introduce an adjusting item - netting out the impact of revenue for EU funds due to the payment of corrections to the cost to the State. The reason for this adjustment is that if a claim on the EU due to a correction decision has been adjusted (reduced) in the past and subsequently revenue (in the amount of the corrections) has been realised from the State's costs, this needs to be eliminated from the calculation of the claim.
[20] The child benefit is to be increased to EUR 100 as a one-off payment. Households in material distress, low-income seniors, caregivers of severely disabled people as well as professional parents caring for children from orphanages will also receive EUR 100 support.

of age (**BOX 7**). At the same time, the rising price level puts upward pressure on wages in the public administration. In fact, the budget assumed zero wage growth in the state budget and only 0.2% of GDP as a reserve for a possible higher indexation. The announced 3% increase in salary for civil officers and employees in the public interest from 1 July 2022 is already broken down in the individual budget chapters.

Higher health spending of 0.2% of GDP also increases the deficit compared to budget assumptions. Expenditures on healthcare increase by up to 0.3% of GDP. The lower impact on the balance is mainly due to a partial saving in the budget's reserve for this purpose[21]. The increased expenditure will be used to refinance public health insurance. In return, the Ministry of Health has committed to 17 cost-saving, systemic and value-based measures that will help to significantly improve the functioning of health care in Slovakia. These include, for example, the computerisation of healthcare (e-lab or e-ordering), transparent rules for drug exemptions or more efficient management of the General Health Insurance Company (Všeobecná zdravotná poisťovňa).

Increased spending by companies under the Ministry of Transport contributes 0.1% of GDP to the higher-than-budgeted deficit[22]. The increase in expenditures of the Železničná spoločnosť Slovensko (Slovak Passenger Railways) and Železnice Slovenskej republiky (Railways of the Slovak Republic) is mainly due to the transfer of unrealised capital projects from previous years. The National Motorway Company, on the other hand, is increasing its current expenditure.

Selected non-tax revenue also negatively affects the deficit compared to the approved budget by 0.1% of GDP[23]. The decrease is mainly due to lower dividends of Stredoslovenské (Central Slovakia's Power Plants Company) and Východoslovenské elektrárne on the basis of unfavourable situation on the commodity market and in the regulatory environment. The National Motorway Company's revenue from the sale of vignettes is also expected to be lower due to a slower return to pre-crisis passenger mobility than originally anticipated. The Environment Fund's revenues from emission permits are also expected to be slightly lower, with the more significant impact of the increase in permit prices only becoming apparent in the coming years. Slightly lower gambling revenues resulting from a decline in the number of video gaming terminals and a slightly worse macroeconomic environment also have a negative impact on the deficit.

The establishment of the Valalika Strategic Industrial Park increases the deficit by 0.1% of GDP compared to budget assumptions. The government decided to establish Valaliky Industrial Park, s.r.o. near Košice. Its owner is the Ministry of Economy of the Slovak Republic. The expenditure is intended for the purchase of the land under the park, the building of infrastructure and other expenses related to the project.

Municipal expenditure increases the deficit by 0.1% of GDP compared to budget assumptions. The current higher estimate is based on actual 2021 expenditures. These were higher than anticipated when the budget was set.

Other expenditure adds a further 0.1% of GDP to the deficit compared to budget assumptions. The Ministry of Education, Science and Research is seeing an increase in spending, mainly due to higher electricity prices, and higher pupil numbers in the regional education system. Expenditure of the Social Insurance Institution is also slightly higher than budgeted, mainly due to a slight increase in pension expenditure[24]. The expected deficit also includes part of the expenditure related to the influx of refugees from Ukraine. It is military and humanitarian aid provided immediately after the outbreak of the conflict.

[21] Higher healthcare spending happens through three channels. Higher health levies on the economically active population (0.1% of GDP) translate equally into higher healthcare spending. Another source of additional funding for healthcare is an increase in the state's payment for its insured, also at 0.1 p.p. of GDP. At the same time, the share capital of Všeobecná zdravotná poisťovňa was increased (0.2% of GDP). The impact on the deficit is lower, as the increase in health spending was partly covered by provisions made in the budget. However, at the same time, there was no overall absorption of the reserve for higher healthcare spending (budgeted at 0.2% of GDP). The remaining part of the reserve is not expected to be used by the end of the year (0.1% of GDP). The deficit-impacting effect of higher health spending is thus its refinancing (0.3% of GDP) minus the unused reserve for this purpose (0.1% of GDP).

[22] These are the three companies National Motorway Company, Železničná spoločnosť Slovensko (Slovak Passenger Railways) and Železnice Slovenskej republiky (Railways of the Slovak Republic) and the impact of financing from the state budget without EU funds and co-financing.

[23] This is the non-tax revenue projected by the Tax Revenue Forecast Committee.

[24] The budgeting assumed a lower number of benefits based on preliminary figures for 2021. In fact, there will be an additional increase in the number of old-age pensions at the end of 2021. This was due to delays in the granting of benefit entitlements. The delay in the granting of benefits was caused by a shortage of staff at the Social Insurance Institution due, among other things, to the pandemic. Consequently, the increased number of pensions awarded in 2021 is reflected in the continued payment of awarded benefits this year.

Risks not included in the baseline deficit estimate

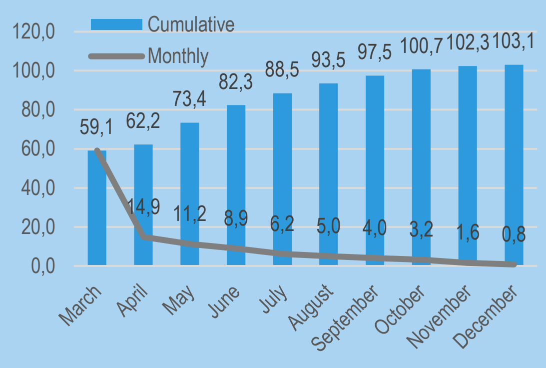
Increased uncertainty about the evolution of the economy is reflected in higher volatility in nominal deficit estimates. The war in Ukraine and the resulting refugee surge could hit public spending up to 0.4% of GDP. The baseline estimate of the deficit assumes that they will be reimbursed from EU funds, but this assumption has not yet been definitively confirmed. Therefore, these expenditures are a downside risk to the budget (more detailed BOX 4). A negative impact on tax revenues could also be the fulfilment of the risk scenario in the macroeconomic forecast, where exports to Russia would cease, along with more severe disruptions in supply chains (see subchapter 1.4). On the contrary, a more positive development would occur with a quicker resolution of the military conflict. Part of the risks can also be mitigated by not using the half a billion in unallocated spending on economic priorities. These unallocated funds, intended for economic priorities, are linked to the agreed three constitutional reforms to be discussed at the June parliamentary session. However, in the event that the intended constitutional reforms are not approved, this expenditure may subsequently be cut proportionately[25].

BOX 4 – Expenditure caused by the influx of refugees from Ukraine

The costs of the refugee crisis caused by the war in Ukraine may reach 0.4% of GDP this year on top of the expenditure already incurred. In particular, the quantification includes expenditure arising from the so-called Lex Ukraine and costs associated with direct contact with refugees. Part of this expenditure is likely to be refinanced by EU funds. Estimate does not include costs associated with military and humanitarian aid sent directly to Ukraine[26]. It also excludes costs related to the integration of Ukrainians into society - language and retraining courses[27].

Most of the expenditure will be related to people seeking temporary shelter in Slovakia (around 90%). Most of the measures from Lex Ukraine that creates for refugees the security of their basic necessities of life are linked to the status of temporary shelter. We expect 103 thousand people from Ukraine to apply for temporary shelter in Slovakia by the end of this year. On the basis of the adopted legislation, refugees are entitled in particular to: emergency health care, housing allowance, social assistance benefits (for children and food supplements), and the possibility to attend school.

FIGURE 18 – Projection of numbers of applicants for temporaray stay in thousands



Sourcej: MoI SR, MoF SR

TABLE 8 – Estimated expenditures in this year triggered by inflow of Ukraine refugees in mil. euros

Expenditures breakdown	
Health care	89
Allowance to accomodation	132
Benefits in material need	63
Allowance to nutrition	6
Pupils in regional education	43
Others (hygiene, nutrition, electricity) - out of Lex Ukraine	46
Total	**379**

Source: MoF SR

Quantification assumptions:

People who do not apply for temporary shelter will not stay in Slovakia for a longer period of time. Those who do not apply for this status will move to other countries or return to Ukraine). As of mid-April, nearly 70

[25] Proportionally, it means that if only two specified reforms are approved, only two-thirds of the finances will be used, etc. (this is the approval of the expenditure limit, the amendment of the debt brake and the pension reform in the form of a constitutional law).
[26] This expenditure is already included in the expected deficit.
[27] The experience of Germany after the refugee wave from Syria shows that these expenditures do not start to take effect until six months after the outbreak of the refugee wave. At the same time, it is assumed that some Ukrainians will not want to stay in Slovakia for the long term and will return to Ukraine after the end of the conflict.

thousand people had applied for temporary shelter, 42% of them children under 18. The forecast expects applications for this status to gradually decline by the end of the year[28].

Lex Ukraine regulates in particular the conditions for health care, the amount of housing allowances and entitlements to social assistance benefit. A refugee is entitled to urgent medical care for 30 days. Once you apply for temporary shelter, you are still eligible after this 30-day period has elapsed. Accommodation allowance is paid at the rate of EUR 7 per day for a person over 15 years, or half – EUR 3.5 for a child up to 15 years[29]. The social assistance benefit is paid at the standard rate as for other claimants. A meal allowance of EUR 1.3 per day per child attending school will be paid for each child attending school. At the same time, however, his parents are in material distress.

Costs in regional education will not be increased by norms until the next school year. A one-off per pupil expenditure of EUR 200 is expected this school year. In the new school year, the forecast assumes spending at the standard per-pupil normative rate in primary and secondary schools. In kindergartens, monthly costs are estimated to be lower.

2.3 Structural balance in 2021 and 2022 ,

The structural deficit is slightly reduced to 2.1% of GDP in 2021 from 2.4% of GDP in 2020. The expenditure measures to combat the coronavirus are of a one-off nature and therefore have no impact on the structural balance (see section 2.2 for more details), nor does the expenditure related to the payment of lost profits to the European Commission from the undervaluation of goods from third countries. Several factors are contributing to the slight decline in the structural deficit, the most significant of which is the year-on-year decline in investment from national state budget sources. This decline may be due to a change in the approach to investment through zero-based budgeting, as individual ministries do not have enough repayable projects ready (see section 5.3 for more details).

In 2022, the structural deficit rises significantly by 1.7 p.p. to 3.8% of GDP. The structural deficit is widening this year, mainly as a result of budgeted reserves and unallocated funding to support the economy. So far, unallocated spending to support the economy amounts to 0.5% of GDP. The provision for measures to compensate for the significant increase in the price level is 0.3% of GDP. The increase in the structural balance was also driven by investment from national state budget sources, which is growing significantly year-on-year, also due to the low uptake of capital expenditure last year. Other factors increasing the expansion are the increased co-financing of EU projects, which is growing mainly due to the end of the possibility to draw resources from the 2nd programming period. Another important factor is the expenditures of state-owned enterprises under the Ministry of Transport of the Slovak Republic, where a large part of the expenditures is shifted from the previous year to the current year. The increase in the structural deficit is also due to the underfunding of the health sector, which is reflected in a strong year-on-year growth of almost 10%.

[28] The quantification assumes that people who apply for temporary shelter will stay in Slovakia until the end of this year.
[29] Conservatively, it is assumed that the state will provide these benefits until the end of this year and also to those who become employed.

3 BUDGET OBJECTIVES

3.1 Medium-term budgetary outlook 2023-2025

The government's preliminary plan is to cut the overall deficit by more than half as early as 2023, which is also slightly more than the European Commission's requirements. The deficit targets will be updated around July, on the basis of the Council for Budget Responsibility's calculation of the expenditure limit, which will be fully binding and will also take into account the possible materialisation of a number of downside risks. The targets in the Stability Programme from 2023 onwards respect the indicative expenditure ceilings calculated so far by the Council for Budget Responsibility as of mid-April. The expenditure limits will require additional consolidation measures amounting to 0.5% of GDP each year in the coming years. For both 2023 and 2024, this provisionally corresponds to a decline in the nominal deficit to 2.4% and 2.3% of GDP, respectively, which, in addition to the planned consolidation, is also supported by the withdrawal of current spending to address the pandemic. For the time being, the preliminary draft budget is prepared with higher deficits, at 3.3% of GDP and 3.2% of GDP for 2023 and 2024. Preliminary draft budget expects to dampen expenditure growth mainly on operating costs, with specific measures not yet specified. The government's consolidation plan is more than in line with EU requirements, as the current EC guidance calls for only neutral fiscal policy next year.

Next year, following the pandemic, the consolidation of public finances resulting from the newly adopted national legislation will take off, leading to a reduction of the deficit by about half. The legislative provision of expenditure limits in the Organic Budget Act means that gradual consolidation will begin next year, despite economically turbulent times. The expenditure limits linked to the required change in the structural balance (see more in Chapter 7) will require a structural consolidation of 0.8% of GDP next year, corresponding to a nominal deficit of 2.4% of GDP. However, the preliminary budget (the so-called fiscal framework) expects a nominal deficit of 3.3% of GDP for the time being (**TABLE 9**). Measures to achieve the necessary level of consolidation will be presented by the autumn so that the budget for next year fully meets the requirements of the targets based on the public expenditure limits[30]. The negative impact of the required consolidation next year will be largely offset by the ramp-up of the EU Recovery and Resilience Fund, as well as the record expected absorption of standard EU funds, confirming the significantly positive fiscal impulse of 1.9% of GDP (see more in subsection 3.2).

BOX 5 – Fiscal rules in the national and European context

The medium-term budgetary objectives are set in the Stability Programme on the basis of the newly adopted expenditure ceilings. In March this year, the National Council of the Slovak Republic approved the Organic Budget Act, which introduces expenditure limits with effect from 1 April 2022. This makes it possible to apply the expenditure limits to the whole process of preparing the 2023-2025 budget, which starts with the setting of the targets in the Stability Programme. The nominal deficit targets for 2023 and 2024 are designed to meet the limits on public expenditure calculated by the Council for Budget Responsibility (the Council). For 2025, the Council has not calculated a expenditure limit for the Stability Programme as the necessary data for that year was not available to the Ministry of Finance at the time the limit was calculated. The limit for the year 2025 will be calculated in July and will be indicative, as regulated by the law, along with updated limits for 2023 and 2024. The updated limits for 2023 and 2024, once approved by the National Council, will become binding until the end of the current government's term of office. The autumn draft budget will already be drawn up in such a way that it fully respects the binding expenditure limit calculated by the Council and approved by the National Council of the Slovak Republic. In the meantime, the design of the debt brake sanctions should also be clear, which the expenditure limits must equally take into account (see Chapter 8).

European fiscal rules are less stringent than national ones after the pandemic, so budget targets are set on the basis of national rules (see FIGURE 19). The COVID-19 pandemic and the triggering of the general escape clause from the EU's fiscal rules have meant a change in the measurement of Member States' fiscal positions. In 2021, in response to the COVID-19 pandemic and the creation of the Recovery and Resilience Fund (RRF), the European Commission moved away from the standard evaluation indicators of the spending rule and the structural balance. European commission now uses a modified fiscal position indicator[31]. Based on the fiscal stance, the Commission assesses whether Member States' fiscal policies are in line with its recommendations. European rules

are currently less stringent than national ones.

TABLE 9 – Consolidation effort (ESA2010, % GDP)

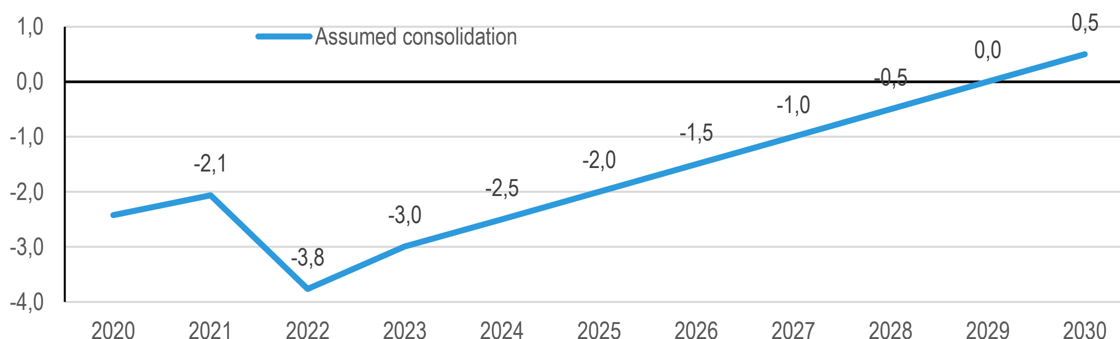
	2020 S	2021 S	2022 OS	2023 PS	2024 PS	2025 PS
1. GG balance	**-5,5**	**-6,2**	**-5,1**	**-2,4***	**-2,3***	**-2,1***
2. Cyclical component	-1,2	-0,6	-0,3	0,6	0,2	0,0
3. One-off effects*	-1,8	-3,5	-1,0	0,0	0,0	0,0
4. Structural balance (1-2-3)	**-2,4**	**-2,1**	**-3,8**	**-3,0**	**-2,5**	**-2,0**
5. Consolidation effort	**-0,4**	**0,4**	**-1,7**	**0,8**	**0,5**	**0,5**
p.m. GG balance from preliminary fiscal framework (fiscal framework - FF)				**-3,3**	**-3,2**	**-3,5**
p.m. Measures needed to reach budgetary targets in mil. euros comparing to FF				**1037**	**1114**	**1850**

** The budgetary targets will be revised in July 2022 according to the June forecasts of the Committee on Macroeconomic Forecasts and the Tax Revenue Forecasts Committee and the current development of the deficit in 2022, as well as the updated public expenditure limits calculated by the CBR. These specified objectives will also take into account the possible materialisation of several negative risks as well as possible new government measures.*

*** Some amounts may differ from the sum of individual components due to rounding.* *Source: MoF SR*

In the coming years, consolidation will continue in line with the requirements of the public expenditure limits until a long-term sustainable position is reached. The fiscal framework in 2024 and 2025 sets the deficit management currently at 3.2% of GDP in 2024 and 3.5% of GDP in 2025. However, these deficits for 2024, as in 2023, do not correspond to the budgetary targets based on the requirements stemming from the public expenditure limits[32]. For 2025, meanwhile, the Stability Programme envisages an additional 0.5% of GDP reduction in the structural balance under the technical assumption, implying a headline deficit of 2.1% of GDP[33]. The consolidation of public finances will continue beyond 2025, in line with the requirements of the public expenditure limits, until a structural surplus of 0.5% of GDP[34] is achieved. For the purposes of the Stability Programme, this value also represents the currently applicable medium-term budgetary objective (MTO), which would be achieved by 2030. Against the assumptions of the fiscal framework, measures in the range of 1% to 2% of GDP need to be specified to achieve the targets.

FIGURE 19 – Planned structural balance towards MTO (no reforms with impact on lon-term sustainability included)



Source: CBR, MoF SR

[30] According to Act No. 523/2004 on Financial Regulation, Section 30aa par. 8: The government is obliged to align the draft public administration budget with the applicable public expenditure limit. If the Government has submitted to the National Council a draft public administration budget that exceeds the applicable public expenditure limit and the National Council fails to approve an amendment or proposal to bring the draft public administration budget into line with the applicable public expenditure limit, the Government is obliged to withdraw it and, within 30 days, submit a draft public administration budget that does not exceed the applicable public expenditure limit.

[31] It aims to quantify the impact of fiscal policy on the economy, financed by both national and European resources, during the period of deactivated rules. The indicator is net of these effects due to temporary expenditure and revenue measures related to COVID-19.

[32] The Council will calculate it in July as well as update the limits for 2023 and 2024.

[33] Given that the Ministry of Finance of the Slovak Republic did not have the data to calculate the expenditure limits for 2025 at the time of the calculation of the expenditure limits by the Council for Budget Responsibility, the Council for Budget Responsibility has so far calculated the expenditure limit only for 2023 and 2024 and the nominal target for 2025 is calculated with a simplified assumption, a reduction of the structural deficit by 0.5% of GDP.

[34] The MTO of a structural surplus of 0.5% of GDP assumes that there is no change in the sustainability of public finances due to a reform of the pension system or other reform affecting the long-term growth of the Slovak economy.

3.2 Overall fiscal position (after EU impulse)

Slovakia, as a low-to-moderately indebted economy, should maintain a neutral fiscal position in terms of both national investment and current government expenditure in 2023, according to the recommendations of the European Commission (EC). As part of the internal expenditure structure, the Commission first recommends that investment expenditure financed from national sources should not be replaced by EU funds. Thus, investment net of EU and Recovery Plan funds is set to increase year-on-year by at least the rate of long-term real GDP growth. According to the EC, it is just above 2 % in Slovakia, and this rate is compounded by price growth[35]. According to the EC recommendations, the evolution of adjusted current expenditure excluding EU resources, net of new revenue measures and net of temporary effects, should also be neutral. On the basis of this process, the Commission assesses whether Member States' fiscal policies are in line with its recommendations[36].

Capital expenditure from national sources will grow more slowly than recommended by the European Commission in 2023, while current expenditure has a slightly expansionary contribution to the fiscal stance in 2023. The preliminary budget for 2023-2025 foresees a slower growth in investment spending compared to what the EC recommends for 2023 (FIGURE 20). The Ministry of Finance assumes that the Commission's recommendations for annual growth in domestic investment should correspond to a rate of 7.4 %. In the enacted budget, investment from domestic sources falls by less than 1 % year-on-year. This slight decline is also due to the unusually high starting level of investment in the current year. In contrast, adjusted current expenditure excluding EU resources is growing slightly faster (8 %) than it should according to nominal medium-term potential growth (7.4 %). The EC recommendation would roughly correspond to achieving an overall deficit of 3.4 % of GDP, which is a looser target than the expenditure ceilings will require (FIGURE 21).

FIGURE 20 – Nationally-financed investments and net primary current expenditures (w/o EU funds) in MTBF and recommendation of EC (% of GDP)

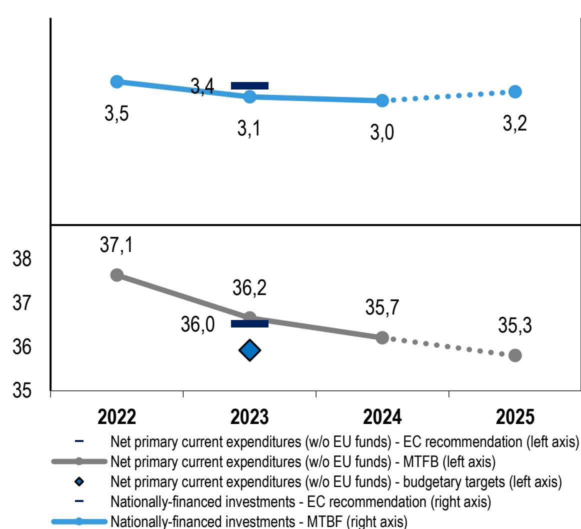
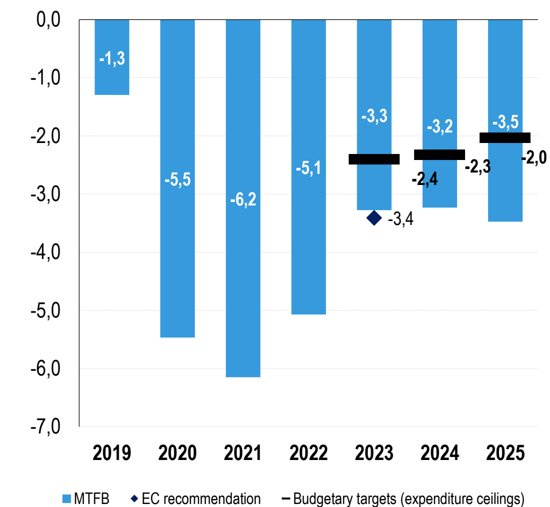


FIGURE 21 – General government deficit in MTBF w/o measures, budgetary targets and deficit in line with the EC* recommendations for 2023 (% of GDP)



Note: Headline deficit according to EC recommendation calculated by MoF SR and based on total expenditures reflecting neutral contribution of nationally-financed investments and adjusted current expenditures to fiscal stance.
Source: MoF SR, EC

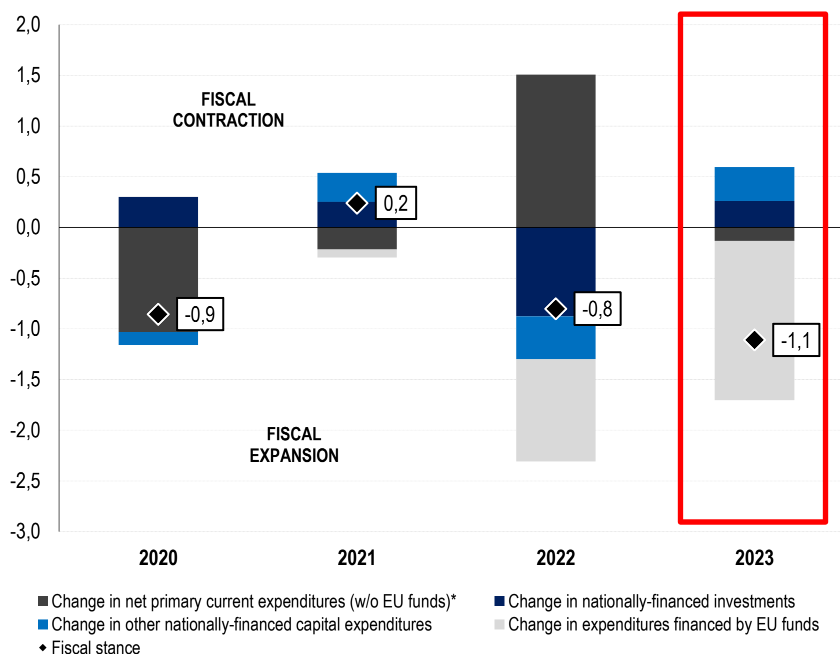
Despite the planned consolidation, the overall fiscal position of the Slovak Republic, including the boost from EU funds, will be expansionary in 2023. With the boost from EU funds, public finances will act as a stimulus to the economy, underpinned by the culmination of the 3rd programming period of EU funds and the strong start of the Recovery and Resilience Plan (RRP), which together will increase by up to EUR 2 billion year-on-year. Their contribution will thus more than compensate for the projected dampening of national expenditure

[35] Technically, this is the medium-term growth rate of nominal potential output, which corresponds to the 10-year average growth rate of real potential output plus the deflator for a given year. The medium-term horizon of real potential growth at time *t* is quantified as the average over *t*-5, *t* and the projection *t*+4. In its recommendation, the European Commission even allows for faster growth of national investments, but with priority directed to the so-called double transformation - to the green and digital economy.

[36] The European Commission's recommendations to Member States for the preparation of the 2023 budgetary frameworks are part of Fiscal policy guidance for 2023.

growth. Nationallly-financed expenditure growth will be further reduced once consolidation measures are further specified. According to the Fiscal Framework, the fiscal stance in 2023 is expansionary, stimulating the economy by over 1 % of GDP. These results do not change fundamentally even if the MoF's impulse methodology is used, which includes the restriction from the withdrawal of pandemic measures (see **BOX 6** for more details).

FIGURE 22 – Contributions to fiscal stance of the Slovak Republic in EC methodology (% of GDP)



Note: Fiscal stance indicates fiscal expansion (-), fiscal contraction (+) respectively. Macroeconomic assumptions of medium-term nominal potential growth are retrieved from EC database. *Source: MoF SR*
** Nationally-financed current expenditure net of interests, COVID-19 measures, one-off expenditure and discretionary revenue measures.*

BOX 6 – Fiscal stance in the methodology of the MoF vs. the EC

The fiscal impulse measured by the methodology of the MoF SR also indicates an expansion for 2023. Beyond the adjusted momentum according to the EC methodology, the MoF SR foresees the effect of COVID-19 related measures between 2020 and 2022 and their subsequent withdrawal. After the pandemic measures, there would be a fiscal retrenchment of around 0.6% of GDP in 2023, but the economy will be stimulated by EU resources from the outgoing programming period and funds from the Recovery Plan. The fiscal impulse measured by the MoF SR methodology therefore expects an expansion for 2023, as is the case for the EC. However, it is lower - at 0.8% of GDP (**TABLE 10**).

TABLE 10 – Fiscal stance in MoF SR methodology (% of GDP)

	2020	2021	2022	2023
1. Structural balance	-2,4	-2,1	-3,8	-3,9
2. Interests	-1,2	-1,1	-0,8	-0,8
3. COVID-19 measures	1,9	3,0	1,0	0,0
4. EU funds contribution (w/o RRP funds), of which:	0,1	0,2	0,4	1,9
- revenues from 2nd and 3rd programming framework of the EU	*1,0*	*1,3*	*1,4*	*2,8*
- contributions to the EU budget	*-1,0*	*-1,1*	*-1,0*	*-0,9*
5. Recovery and Resilience Plan of the SR		0,0	0,7	0,8
6. Adjusted structural balance (1-2-3-4-5)	-3,2	-4,3	-5,0	-5,8
7. Fiscal stance (fiscal impulse) ($6_t – 6_{t-1}$)		**-1,1**	**-0,8**	**-0,8**

Note: Fiscal stance indicates fiscal expansion (-), fiscal contraction (+) respectively. *Source: MoF SR*

3.3 Development of individual budget lines and measures from 2023

For 2023, the government has adopted tax revenue measures with only a moderate budgetary impact so far. From January 2022, a super-subscription for investment in Industry 4.0 has been introduced, while at the same time support for science and research is being reduced. In order to increase investment activity, selected entities may depreciate investments in excess of the standard tax depreciation legislation (increased depreciation of 15 to 55%). Assets linked to automation or digitisation (Industry 4.0) are subject to superdepreciation. The condition for drawdown is that the size of the investment grows over time, i.e. that it is an increase in firms' investment activity (additionality). At the same time, previous support for science and research is being reduced from 300% to 200%. In the past, nearly 500 entities have claimed such a super-deduction. In the area of non-tax revenue, the government has taken no action.

On the expenditure side of the budget, the government has taken measures, most of which are already based on the current year and are only taken into account in the form of budgetary reserves. Measures designed to compensate for the rapid increase in the price level increase expenditure by 0.3% of GDP (see chapter 2.2)[37]. The budget also includes a provision for salary increases of 0.2%. The provision for legislative changes increases expenditure by an additional 0.2% of GDP. A provision of 0.2% in 2023 is also made for expenditure on co-financing EU joint programmes. In recent years, its volume has fallen to around a quarter. This profile is due to the drawdown of money from the second programming period, which will culminate in 2023.

TABLE 11 – Reserves included in fiscal framework of general government in % of GDP (ESA 2010)

	ESA2010	2022	2023	2024	2025
Compensation, of which:	**D.1**	**-0,39**	**-0,34**	**-0,40**	**-0,41**
reserve to address the impact of legislative changes		-0,02	-0,05	-0,06	-0,05
reserve for wages and insurance contributions		-0,16	-0,11	-0,17	-0,19
reserve for compensating inflation		-0,20	-0,18	-0,17	-0,17
Intermediate consumption, of which:	**P.2**	**-0,19**	**-0,24**	**-0,22**	**-0,21**
reserve to address the impact of legislative changes		-0,03	-0,10	-0,09	-0,08
reserve for EU resources and EU contributions		-0,15	-0,13	-0,13	-0,12
reserve to implement court and execution decisions		-0,01	-0,01	-0,01	-0,01
Other current transfers, of which:	**D.7p**	**-0,15**	**-0,33**	**-0,18**	**-0,17**
reserve to address the impact of legislative changes		-0,04	-0,04	-0,03	-0,03
reserve for compensating inflation		-0,10	-0,09	-0,09	-0,08
reserve for expenditures related to co-financing EU projects		0,00	-0,19	-0,05	-0,05
reserve to address the no-war crisis events		-0,01	-0,01	-0,01	-0,01
Total expenditure		**-0,72**	**-0,91**	**-0,80**	**-0,79**

Note: (+) means inceased revenue and reduced expenditures *Source: MoF SR*

Measures have been announced in response to rising inflation, but these are not fully captured in the Stability Programme. As part of measures to compensate for the price level this year, the government has also announced a significant increase in support for families, mainly through the tax bonus and child benefit. However, these measures are not included in the presented budgetary framework of the Stability Programme, as they came just before the discussion of this document by the government. The child tax bonus is to be increased to EUR 100 per month from January 2023 (see **BOX 7** for more details). Child benefit is also to be increased and a system of support for children through leisure vouchers will be set up. The compensatory measures to these proposals will be announced after the publication of the Stability Programme. The Stability Programme foresees a negative impact of only 0.3% of GDP from 2022 onwards as part of measures to compensate for higher prices.

BOX 7 – Proposal to increase family support policy

At the level of the three coalition parties,[38] in the context of the Programme Declaration of the Government, an increase of the child benefit and the tax credit[39] for all dependent children in two phases from 1 July 2022 and subsequently from 1 January 2023 was presented. The amount of support shall be increased according to

[37] This reserve is allocated 2/3 to compensation and 1/3 to other current transfers.
[38] Parties OĽANO, Sme Rodina and Za ľudí.
[39] At the same time, it is proposed to abolish the condition of achieving a minimum income of half of the minimum wage, which determines the entitlement to the tax credit. This is proposed to be replaced by a ceiling on the amount of the tax credit, which will be a percentage (29%) of the tax base of the employee and self-employed person (tax base according to Section 5 and Section 6 (1) and (2) of Act No. 595/2003 Coll. on income tax).

TABLE 12. From 1 January, new vouchers for leisure activities for children aged 5 to 18 will be introduced in the amount of EUR 60 per month. Beyond this, one-off assistance for specific groups is also introduced (e.g. a one-off allowance of EUR 100 per family with a child), which is not described in this section.

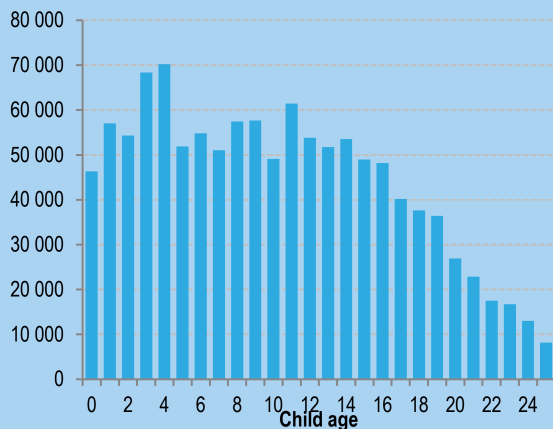
TABLE 12 – Monthly amount of permanent child support (eur per dependent child)

	Do 30.6.2022	Od 1.7.2022	Od 1.1.2023
Child benefit	25,88	30	40
Tax credit – less than 6 years	47,14	70	100
– less than 15 years	43,60	70	100
– voer 15 years	23,57	40	50
Voucher for leisure activities	-	-	60

The reform will affect more than 1.1 million dependent children under the age of 25 (FIGURE 23). In 2023, we estimate that around 16.7% of children under the age of 18 may be at risk of poverty, with Slovakia having the 10th highest risk of child poverty in the EU in 2019[40]. The reform of family support will reduce the overall risk of poverty by 1.8 percentage points on average, but most of all by 4.6 p.p. for children - up to the age of 18 (FIGURE 24).

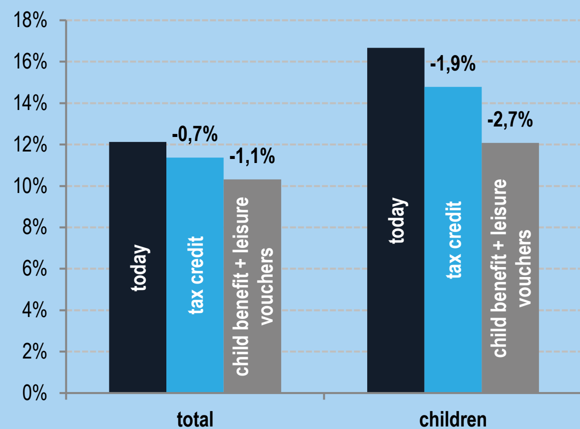
Up to 80% of the increased family support policy budget will affect households in the first 7 income deciles (FIGURE 25). Given the smaller number of children in the higher income deciles, the amount of budgetary resources going to these households is smaller. The measures have a progressive impact on household disposable incomes (FIGURE 26). The 10% of households with the lowest incomes (1st decile) will earn the most, with incomes rising by just under 8%. As household income increases, the percentage change in income decreases.

FIGURE 23 – Number of dependent children by age



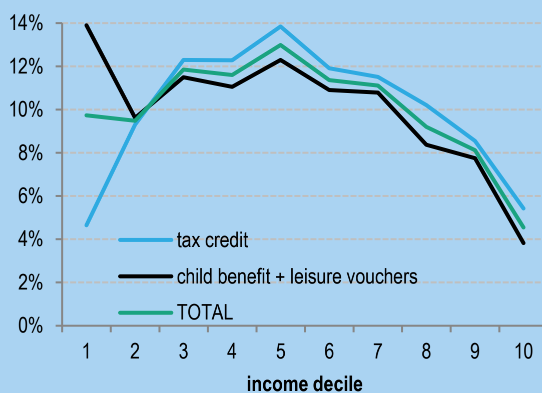
Source: SILC 2020

FIGURE 24 – Impact of the measures on risk of poverty



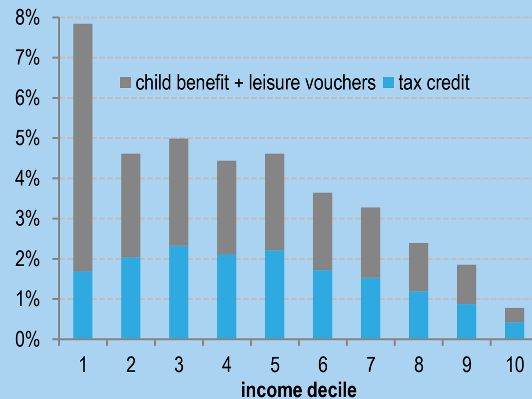
Source:: IFP

FIGURE 25 – Share of expenses on increased family



Source: IFP

FIGURE 26 – Percentage change in disposable



Source: IFP

[40] According to EUROSTAT-u data from EU SILC.

TABLE 12 – Revenues and expenditures of general government (ESA 2010, % of GDP)

				Expected	Fiscal framework		
	2019	2020	2021	2022	2023	2024	2025
1.Revenue total	**39,4**	**39,9**	**40,7**	**40,2**	**40,8**	**38,7**	**38,3**
Tax revenue	19,3	19,4	19,7	19,4	19,1	18,8	18,5
Social contributions	15,3	15,7	16,1	15,3	14,9	14,9	14,9
Non-tax revenue (P.11+P.12)	3,3	3,1	3,3	2,8	2,7	2,6	2,5
Grants and transfers (D.7R)	1,6	1,6	1,6	2,7	4,1	2,4	2,3
- of which EU funds	1,0	1,2	1,2	2,1	3,6	1,9	1,9
2. Total expenditures	**40,7**	**45,3**	**46,8**	**45,3**	**44,1**	**41,9**	**41,8**
Current expenditure	36,7	41,0	43,3	39,8	39,1	37,4	37,2
Compensation of employees	10,2	11,4	11,6	10,4	9,7	9,6	9,4
Intermediate Consumption	5,5	5,7	6,0	7,0	7,9	6,4	6,5
Subsidies	1,0	1,3	1,4	1,1	0,8	0,7	0,7
Interest	1,2	1,2	1,1	0,8	0,8	0,9	1,0
Total Social Transfers	16,7	18,2	18,9	17,9	17,0	17,4	17,3
- Social benefits other than in kind	13,4	14,9	15,4	14,3	13,7	14,1	14,0
- Social transfers in kind (healthcare facilities)	3,3	3,3	3,5	3,5	3,3	3,3	3,3
Other current transfers	1,8	3,0	4,1	2,4	2,8	2,3	2,3
Capital expenditures	4,0	4,3	3,5	5,5	5,0	4,5	4,5
Capital Investment	3,7	3,6	3,2	4,8	4,6	4,3	4,3
- Gross fixed capital formation	3,6	3,5	3,2	4,7	4,5	4,2	4,2
Capital transfers	0,4	0,7	0,3	0,7	0,3	0,2	0,2
3. Additional measures to reach target (4-5)					**0,9**	**0,9**	**1,4**
4. Net lending/borrowing (additional measures included)	**-1,3**	**-5,5**	**-6,2**	**-5,1**	**-2,4**	**-2,3**	**-2,0**
5. Net lending/borrowing (no additional measures)	**-1,3**	**-5,5**	**-6,2**	**-5,1**	**-3,3**	**-3,2**	**-3,5**

Source: MoF SR

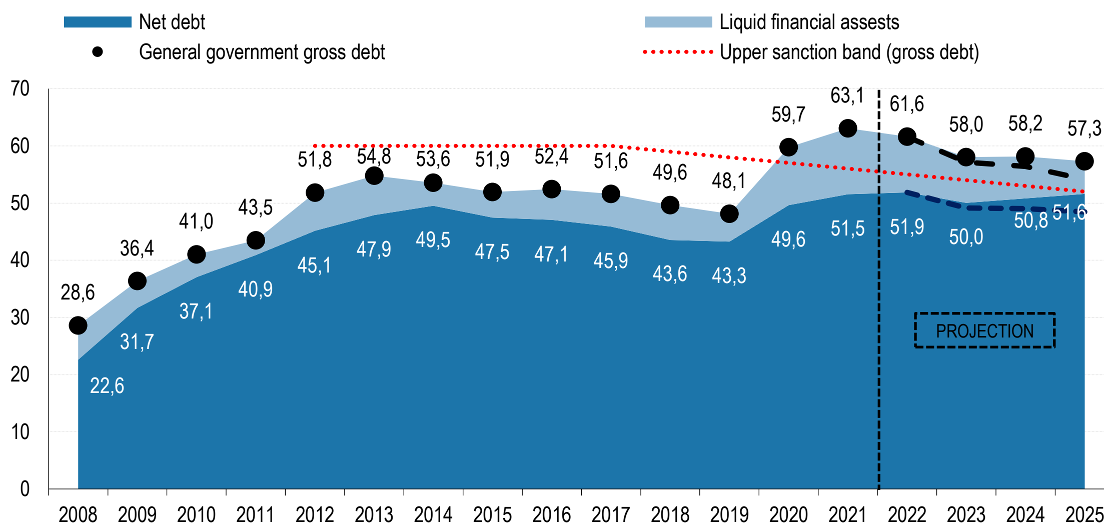
4 PUBLIC DEBT AND FISCAL SUSTAINABILITY

After a rise in gross public debt to 63.1 % of GDP last year, debt will stabilise in the coming years and return further below the 60 % of GDP threshold. However, the long-term sustainability indicator S2 will remain in the high-risk band. This means that stabilisation, or a decline in debt beyond the budget horizon, will only be possible through further revenue increases or expenditure reductions and through structural reforms. The pension system changes, which were approved by the government in April this year and are pending in Parliament, would parametrically improve the S2 indicator by almost 3 p.p. But anchoring the link between retirement age and life expectancy only in the form of an ordinary law poses the potential risk that projected future savings could be reversed later. On the contrary, the cost of the parental bonus will already be felt in the coming years. The persistently unfavourable values of the medium- and long-term sustainability indicators point to the need for consolidation also in the next election term.

4.1 Gross public debt

The gross debt of the Slovak Republic in 2021 rose to an all-time high of 63.1 % of GDP, exceeding the Maastricht threshold of 60 % of GDP[41] for the first time and remaining above the highest sanction band of the debt brake[42]. Debt dynamics has slowed considerably year-on-year, with debt-to-GDP rising by 3.3 percentage points compared to 2020 (FIGURE 27). The most significant driver of the increase in debt in 2021 was the high persistent general government deficit as a result of increased support expenditure to combat COVID-19[43] (FIGURE 28). The second reason for the year-on-year increase in debt, to a lesser extent than in 2020, was an increase in the general government's liquid financial assets, which totalled 11.5 % of GDP at the end of the year. A significant part of the increase (1.7 % of GDP) was accounted for by deposits of non-government entities in the Treasury[44], which increased mainly in the second half of 2021[45]. Adjusting gross debt for liquid financial assets, net debt rose by 1.9 p.p. year-on-year, slower than gross debt. In contrast, the increase in gross debt-to-GDP in 2021 was dampened by the growth of the economy together with the rise in the price level through the denominator effect. In terms of public administration entities, the central government was the most significant contributor to the growth of gross debt in 2021 (6.6 p.p. of GDP), while other public administration entities contributed 0.2% p.p. of GDP to the overall reduction in debt (mainly railway transport companies and National Motorway Company).

FIGURE 27 – General government gross and net debt (% of GDP)



Note: Debt porojection is based on bond issuance reflecting MTBF deficits for 2023 to 2025 corresponding to general government acrrual deficits at 3.3; 3.2 and 3.5 % of GDP for 2023 to 2025. *Source: MoF SR*

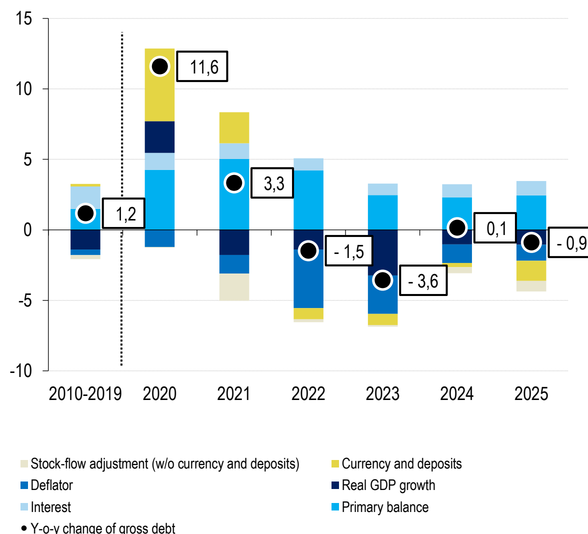
[41] The notified gross public debt in 2020 at 60.6 % of GDP was revised downwards below the 60 % threshold to 59.7 % of GDP after the autumn notification by Eurostat.
[42] The highest sanction band for 2021 of the debt brake currently in place was 56% of GDP.
[43] Total spending allocated to pandemic-related measures reached up to 3.1% of GDP in 2021.
[44] Due to the nature of deposits as liabilities, this is a liability of the Treasury as a public administration entity to non-sector entities, which is part of gross debt.
[45] The reason for the growth of deposits in the State Treasury was a less unfavourable fee policy for current deposits compared to private financial institutions, where, according to the NBS, average annual interest rates reached negative levels by the end of 2021.

In 2022, gross debt-to-GDP will stabilise and decline year-on-year for the first time since the outbreak of the pandemic. The impact of a continued high government deficit in 2022 will be fully offset by the significant effect of inflation and the use of accumulated cash in public administration accounts. The decline in debt will be additionally underpinned by real GDP growth through the denominator effect. At the same time, the Ministry of Finance assumes that the volume of deposits in the accounts of entities outside the public administration sector will decline and stabilise around the level of the first quarter of 2022, which will have a positive impact on gross debt of about 0.5% of GDP. Under the combined effect of these factors, gross debt will rise overall in nominal terms in 2022, but fall by 1.5 p.p. as a share of GDP to 61.6% of GDP.

Over the Stability Programme horizon to 2025, the downward trend in the debt-to-GDP ratio will continue, but debt will remain above the upper sanction band of the debt brake. The most significant decline in debt over the Stability Programme horizon is expected in 2023 as a result of a decline in the public administration deficit to 3% of GDP, but also due to the impact of economic growth and persistently higher inflation. While the contribution of inflation to the decline in debt will weaken compared to 2022, real GDP growth will have a significantly higher effect under the influence of the expected replenishment of resources from traditional EU funds. Nominal economic growth will have a smaller impact on debt developments in the last two years of the forecast. However, it will still offset the impact of the persistent public administration deficit. The gradual unwinding of liquid assets up to around 5% of GDP will contribute to the decline in the debt-to-GDP ratio over the whole horizon, thereby narrowing the gap between net and gross public administration debt. While gross debt will be close to 57% of GDP over almost the entire horizon, net debt will start to rise slightly from 2023 and will be above 51% of GDP in 2025.

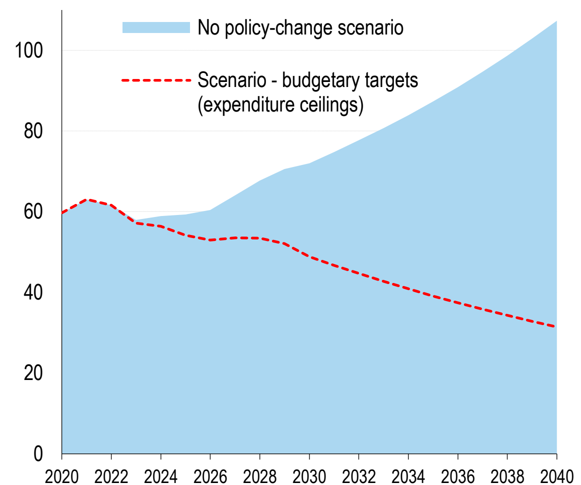
In a no-policy-change scenario without additional consolidation measures from next year onwards, the projection suggests that gross debt would rise above 100% of GDP by 2040. Debt stabilisation will require consolidation measures beyond the Stability Programme horizon. They should be secured from 2023 onwards by expenditure limits as an operational instrument for managing public finances towards long-term sustainability. Without consolidation measures, a rising deficit as a result of the rising costs of an ageing population would start to weigh on debt just over the horizon to 2025. Over the next two decades, debt would exceed 100% of GDP.

FIGURE 28 – Contributions of factors to the debt change (% of GDP)



Source: MoF SR

FIGURE 29 – Gross debt in no policy-change scenario versus scenario of budgetary targets (% of GDP)



Source: MoF SR

Note: No policy-change scenario assumes headline deficits with no consolidation effort since 2023 including costs of population ageing. Scenario of budgetary targets (expenditure ceilings) assumes bond issuance adjusted for measures needed to reach budgetary targets since 2023. Long-term macreconomic projection is retrieved from current macroeconomic prognosis and AWG.

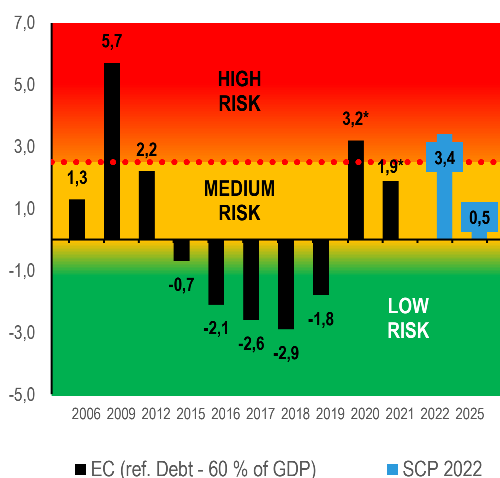
4.2 Sustainability of public finances

Indicators of the sustainability of public finances quantify the risks stemming from the current budgetary position with respect to the costs of population ageing . Like the European Commission, the Ministry of Finance

uses two indicators for assessing sustainability - the medium-term indicator S1 and the long-term indicator S2[46]. Their essence is to assess whether public indebtedness will be kept under control over the longer term, given the current level of debt and the general government budget balance and the current set-up of ageing-sensitive policies[47]. Following the introduction of expenditure limits, an alternative indicator, the sustainability gap, calculated by the Council for Budget Responsibility, will gradually increase its role in the analysis of the state of public finances, with the degree of risk determining the need for consolidation for the next parliamentary term.

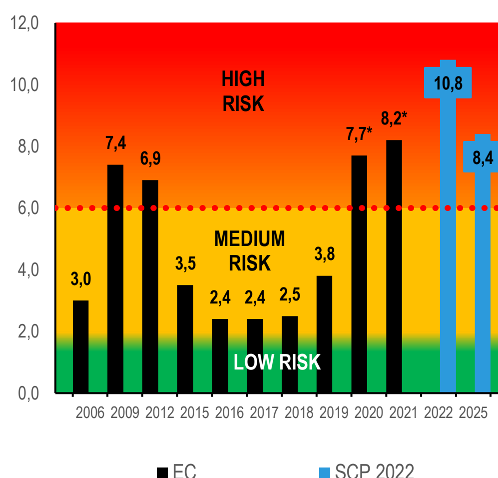
The reduction of the general government deficit under the impact of expenditure limits will have a significant impact on improving sustainability by 2025. The high expected structural balance in 2022 affects the higher level of both sustainability indicators. Over the Stability Programme horizon to 2025, the sustainability of S1 is expected to improve to a medium-risk level, driven by a decline in the primary structural balance and a stabilisation of gross debt below 60 % of GDP. This trend will also be strongly reflected in the long-term indicator S2, which will decline by less than 2.5 p.p. to 8.2 % of GDP over three years. The decomposition of indicator S2 thus shows that stabilising the pension system remains the biggest challenge to achieving sustainability, but similarly high upward pressure on spending is also created by future expected costs in health care and long-term care. This forecast does not yet take into account the reform of the pension pillar, which, although approved by the government in spring 2022, has not yet been discussed in Parliament (more details in the next section).

FIGURE 30 – Indicator of sustainability S1 (% of GDP)



Source: EC, MoF SR

FIGURE 31 – Indicator of sustainability S2 (% of GDP)



Source: EC, MoF SR

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

** In 2020 and 2021, the EC temporarily adjusted S1 and S2 quantification methodology due to exceptional circumstances related to the pandemic. Unlike in the past when the indicators illustrated the need for an immediate reduction in the current primary structural balance, indicators temporarily express the required adjustment to the structural primary balance anchored to the baseline taking place once the structural primary balance reaches its pre-crisis forecast value.*

TABLE 13 – Decomposition of S2 indicator in 2022 and 2025 (% of GDP)

	S2 Indicator (2022)	**S2 Indicator** 2024, after expected consolidation	**S2 Indicator** (2025)
S2 value	**10,8**	**9,0**	**8,2**

[46] S1 (medium-term horizon of 15 years) - presents the value by which the current primary structural balance needs to change permanently in order for the gross public debt not to exceed 60% of GDP over a 15-year horizon (after taking into account expected future age-related expenditure). At the same time, the calculation also assumes the impact of the second pillar on both the revenue and expenditure side. S2 (long-term horizon) - presents the value by which the primary structural balance must permanently change in order for the present value of future primary balances (after taking into account expected future age-related expenditures) to equal the current level of gross debt. In contrast to S1, indicator S2 takes into account projections related to population ageing over an infinite horizon, with the required change in the balance to ensure that the current level of debt is stabilised. In its quantifications, the MoF SR considers the impact of the second pillar on both the revenue and expenditure side.

[47] These are the current budgetary position or its short-term target, and long-term projections for the pension, health, long-term care and education systems.

of which:			
Initial budgetary position	3,0	1,6	1,0
Pension expenditures	4,2	4,1	4,1
Health care expenditures	1,7	1,6	1,5
Long-term care expenditures	1,7	1,6	1,6
Education expenditures	0,4	0,4	0,3
Others	-0,2	-0,3	-0,3

Note: Expected impact of 1st Pillar reform is decreased S2 by 2,8 p.p. of GDP. *Source: MoF SR*

Changes adopted in ageing-sensitive policies

The long-term sustainability of public finances will be affected by changes in the Constitution of the Slovak Republic, which will need to be implemented in common law. In order to improve the long-term sustainability of public finances, an amendment to the Slovak Constitution[48], was adopted in December 2020, removing the cap on the retirement age. At the same time, three new principles have been added to the Constitution: 1. possibility of retirement after a set number of years worked, 2. childcare cannot have a negative impact on the amount of the pension, 3. possibility for working children to allocate part of their taxes or contributions to their parents (the so-called parental bonus). Along with the principles in the pension system, a commitment to protect the long-term sustainability of the Slovak Republic's economy based on transparency and efficiency in the use of public funds has also been included in the Constitution of the Slovak Republic[49]. The changes will enter into force on 1 January 2023, so it is necessary to implement them during the current year.

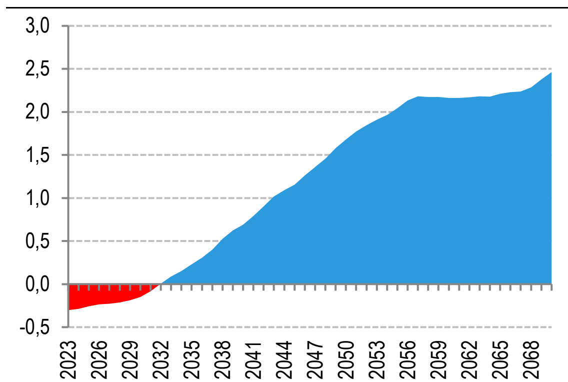
The constitutional changes strengthening the sustainability of the pension system and public finances are followed by the reform measures of the Recovery and Resilience Plan. As part of these measures, the Slovak Republic has committed itself to re-linkage of the increase in the retirement age to the increase in life expectancy. In addition, an actuarially neutral[50] early retirement pension benefit will be introduced for persons who have completed a minimum number of years of statutory service. These reforms follow the abolition of the constitutional guarantee of the retirement age cap and the first of the constitutional principles relating to the pension system [51]. The contribution of the changes in the pay-as-you-go first pension pillar to the improvement of the long-term financial sustainability indicator S2 would, in aggregate, correspond to at least 1.8 p.p. of GDP. The necessary legislation must be passed with effect from 1 January 2023.

Most of the measures resulting from the constitutional changes and the Recovery and Resilience Plan relating to the first pillar[52] are contained in the reform of the first pillar[53] approved by the Government in April. The main objective of the reform is to improve the long-term financial sustainability of the pay-as-you-go pension pillar. In its current form, the reform helps to meet this objective, but in the short term it increases spending. The main reason for this is the immediate increase in spending due to the introduction of the so-called parental bonus and, at the same time, the gradual introduction of measures which, on the contrary, reduce pension expenditure. A backbone measure to improve the long-term sustainability of the first pillar is to restore the link between retirement age and life expectancy growth. According to the current proposal, this method of raising the retirement age should be fully in effect after 2030. The amendment also maintains the reduced retirement age for mothers[54]. Another measure to improve long-term sustainability is the slowing of the growth of the current pension value to 95% of the growth rate of average wage, which is proposed to compensate for the increased expenditure of the parental bonus. While the expenditure lower[55] than in the original proposal, it still leads to an increase in expenditure between 0.2% of GDP and 0.3% of GDP over the entire projection horizon up to 2070. The last measure of the reform is the introduction of the possibility of early retirement after 40 years of work. The current proposal

[48] Act No. 422/2020 Coll., https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2020/422/20250101.html
[49] Amended in Article 55a.
[50] The benefit will be reduced so that the pensioner is paid the same amount in total regardless of when he or she decides to start drawing the pension.
[51] Act No. 460/1992 Coll., Article 39(3), as in force from 1 January 2023, https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/1992/460/20230101.html
[52] The constitutional principle that child care cannot have a negative impact on the amount of pension granted is not addressed in the reform. Its introduction will be necessary in this calendar year anyway.
[53] https://rokovania.gov.sk/RVL/Material/27091/1
[54] Depending on the number of children raised by 6/12/18 months in the case of raising 1/2/3+ children.
[55] The original wording of the proposal referred to a parental bonus of 2.5% of the child's assessment base for each parent. Expenditure would then amount to 0.5% of GDP. The new wording reduced the amount of the benefit to 1.5% of the assessment base, taking into account a maximum assessment base of 1.2 times the average wage in the economy.

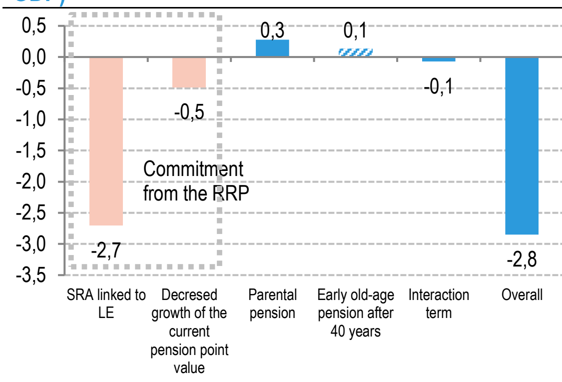
foresees a 0.3% cut in the pension granted for every 30 days before retirement age[56] and, as such, will lead to a 0.2% of GDP increase in spending in 2070. The impact of all changes would improve the S2 indicator by about 2.8 p.p. of GDP.

FIGURE 32 – Impact of the 1st pillar reform on pension system expenditures (in % of GDP)



Source: IFP

FIGURE 33 – Change in S2 due to introduction of individual measures and reform as a whole (in p. p. GDP)



Source: IFP

Note: All measures are calculated as an effect on the current setting, except for the effect of leaving the labor market earlier after 40 years. This is taken as an additional effect to restore the growth of SRA with LE. With the current SRA settings, this effect would be minimal.

Planned measures in the pension system

Improving the adequacy of the pension system through an effective funded second pillar and improved information for savers can help reduce the pressure on the first pillar. Although the reform of the first pillar aims to improve long-term sustainability, the deficit in the pay-as-you-go pension system will grow due to the ageing of the population. An efficiently functioning second pillar, generating higher pensions, could create room for consolidation in the first pillar and thus contribute to improving the long-term sustainability of public finances. Similarly, increased information for savers about the size of their future pensions can help them make better decisions to maximise their retirement income.

A comprehensive reform of the second pillar is planned to increase its efficiency. In connection with it, on 29 June 2021, preliminary information defining the broader range of changes to be made to the second pillar[57] was submitted to the legislative process. A key reform in terms of improving the efficiency of the second pillar is the introduction of a default investment strategy based on a lifecycle, in line with the commitment of the Recovery and Resilience Plan. The legislative change will be adopted during the current year with effect from 1 January 2023. Important proposed changes beyond the Recovery and Resilience Plan are the introduction of automatic entry into the second pillar for savers up to the age of 35, or changes to the fee policy structure. The forthcoming changes will also include a modification of the payout phase with a reinforcement of the long-term nature of the payment of savings. This will increase the positive synergies arising from the default life-cycle strategy being introduced and thus contribute to improving the adequacy of the second pillar pensions. The adoption of these changes is not time-bound to the Recovery and Resilience Plan, but it is anticipated that they will be jointly implemented.

In line with the objective of the Recovery Plan, measures will be taken to improve citizens' information on the expected amount of their future pensions from the entire pension system (the so-called "orange envelope"). A prerequisite is the implementation of the necessary measures in the first pillar, to which the Social Insurance Institution has committed itself within the framework of the Social Insurance Institution's Strategic Objectives for the period 2021-2026 approved by the National Council of the Slovak Republic[58]. The aim of the Social Insurance Institution is, as a first step, to provide clients with information on the projected state and

[56] The amendment also maintains the current reduction of the amount of early retirement pension by 0.5% for every 30 commenced days if the person does not obtain 40 years of service. According to the OECD Economic Survey for the Slovak Republic 2022, the actuarially neutral malus for early retirement should be at the level of approximately 5.5% per year (or approximately 0.46% per month) in the case of a retirement age of 64 years, while the amount of the malus should also increase as the retirement age rises.
[57] Act No. 43/2004 Coll., https://www.slov-lex.sk/legislativne-procesy/SK/PI/2021/122
[58] https://www.nrsr.sk/web/Default.aspx?sid=zakony/zakon&ZakZborID=13&CisObdobia=8&CPT=486

development of material old-age security from the pay-as-you-go pension system. This objective will be fulfilled through the Individual Insured Account Development Project with a planned implementation by the end of 2022. An orange envelope with full information about future pensions from the whole pension scheme should be introduced in the upcoming years.

4.3 Comparison with previous update

Compared to last year's forecast, the update of the Stability Programme shows a more favourable evolution of public finances than initially expected. In 2021, the Stability Programme expected a sharper economic recovery in 2022 and a gradual deceleration of growth over the whole horizon. Current developments in the world are lowering the growth estimate for the Slovak economy this year and pushing back a stronger recovery to 2023, supported by the ending programme period of EU funds and the Recovery Plan. The significantly lower-than-expected general government deficit in 2021 is reflected in lower gross debt. Compared to the Stability Programme assumptions in 2021, the debt level is expected to be lower and to stabilise below 60 % of GDP over the forecast horizon. This development will be significantly helped by economic growth coupled with higher inflation through the denominator effect, which was not yet foreseen in the previous forecast.

TABLE 14 – Comparison of the previous and updated forecasts

	ESA code	2021	2022	2023	2024	2025
Real GDP growth (%)						
Previous update		3,3	6,3	2,8	0,3	-
Outcome and current update		3,0	2,1	5,3	1,8	1,8
Difference		-0,3	-4,2	2,5	1,5	-
General government balance (% of GDP)	EDP B.9					
Previous update		-9,9	-5,1	-4,1	-3,8	-
Outcome and current update**		-6,2	-5,1	-2,4	-2,3	-2,0
Difference		3,7	0	1,7	1,5	-
Gross public debt (% of GDP)						
Previous update		64,1	65,5	64,6	65,8	-
Outcome and current update		63,1	61,6	58,0	58,2	57,3
Difference		-1,0	-3,9	-6,6	-7,6	-

*Note.: * Stability Programme for 2021 - 2024. ** Deficits according to budgetary targets 2023 to 2025.* *Source: MoF SR*

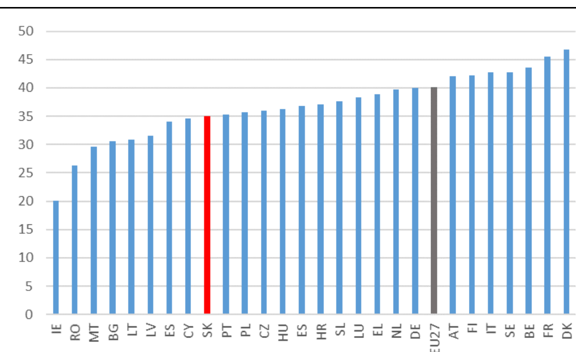
5 QUALITY OF PUBLIC FINANCES

On the revenue side, the challenge remains to improve the structure of the tax mix so that it has a more pro-growth effect on the economy. Closing the VAT loophole is positive news, indicating a 4.7 percentage point improvement in collection success for 2021, the best year-on-year improvement ever. An additional tool to improve tax compliance is the introduction of e-invoicing. From the current year, investments from the Recovery and Resilience Plan will also be fully launched, which will reduce the investment debt in science, research and education, health, and support the digitalisation of public administration and the green transformation of the economy. The ongoing reform of investment management aims to increase the economic value of newly implemented investment projects and get a better return for every euro.

5.1 Revenue targets for the general government budget

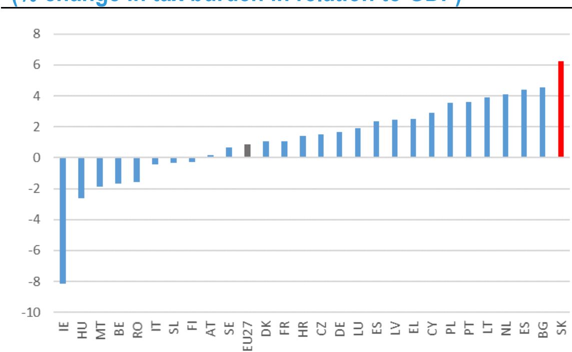
Tax revenues reach 35% of GDP in 2020 (FIGURE 34). In terms of tax burden, Slovakia is one of the countries with a lower level of taxes per GDP compared to EU countries. In the last decade, however, the tax burden has grown at the fastest rate (FIGURE 35).

FIGURE 34 – Total tax revenues in 2020 as % of GDP



Source: Eurostat

FIGURE 35 – Change in the tax burden 2020 vs. 2012 (% change in tax burden in relation to GDP)



Source: Eurostat

In terms of the structure of the tax mix, labour taxes in particular, generally considered to be the most damaging to economic activity, have been rising. At the level of the wage distribution, taxation grew most significantly for high and low wage employees. Compared to the international literature, the growth in tax burden of labour does not have a significant impact on the number of hours worked (IFP, 2021) the so-called intensive margin. In terms of employability, the so-called extensive margin, the high cost of labour can be a barrier for people with low labour skills.

Fiscally neutral tax reform from labour to property and green taxes (FIGURE 36) has the potential to boost economic growth by 0.2% to 1% (Heady and coll. 2009; IMF 2012; IMF 2015). It would also help increase the sustainability of public finances in the long term in the face of an ageing population and a declining working population. The Slovak tax system does not sufficiently exploit the potential of property taxes (especially real estate taxes), which have lower negative impacts on economic activity. A technical obstacle to harnessing the potential of property taxes is the lack of price maps providing information on the market price of real estate, which is essential for the effective setup of the system. At the same time, the Slovak tax system does not create sufficient incentives to transform the economy towards greener alternatives.

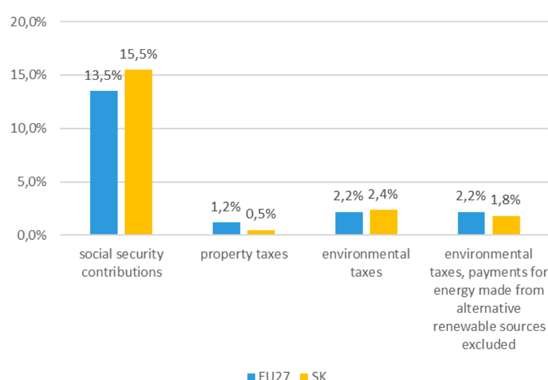
The level of excise duties on mineral oils and pollution-intensive energy is below the EU average when taking into account payments for electricity generation from renewable sources (FIGURE 36). These are classified under excise duties as green taxes in the national accounts. Despite this, there have been no specific legislative changes that would lead to a higher tax burden on pollution. Conversely, in some cases the tax system favours fossil fuels, notably in the form of so-called facultative exemptions for coal and gas. Due to the lack of indexation of tax rates, the tax burden has been declining over time relative to revenue growth.

The European Commission's proposal for an Energy Directive undertakes to remedy these shortcomings of the tax system. The Energy Directive is one element of a package to reduce EU emissions by 55% below 1990 levels by 2030. The proposal removes the possibility of tax exemptions from taxation and increases the level of minimum rates on mineral oils and energy depending on their energy content across EU countries. The proposal also introduces indexation of rates in order to maintain the effective level of taxation over time. An important part of the package is the emphasis on the need to compensate low-income households and selected sectors of the economy. In line with the Government's Programme Statement, a concept of energy poverty needs to be developed for targeted assistance.

The update of the VAT gap estimate indicates a 4.7 percentage point improvement in collection success to 12.1%, representing the best ever year-on-year improvement of EUR 360 million (FIGURE 37). The Financial Administration continues to fight tax evasion. Control and prevention activities are also focused on cleaning the VAT register in order to reduce inactive entities. In line with the recommendations of the TADAT project[59], the targeting of inspections is being adjusted in order to reduce the incidence of inspections of inactive entities. The boom in online sales, coupled with the shift away from cash payments to card and mobile payments, which do not allow the same scale of evasion in the form of non-recognition of sales as cash payments, is contributing positively to the reduction of the gap[60]. The pandemic has also caused a shift in consumption from sectors with traditionally high VAT loopholes, such as restaurants and hotels, to retail. In the international context, Slovakia is still above the EU average[61] (10.3% on the latest available data from 2019), while an additional reduction to the EU average would increase VAT revenue by around another EUR 150 million. The current estimate of the tax gap will still be subject to change during 2022 if the Statistical Office revises the macroeconomic data in the National Accounts.

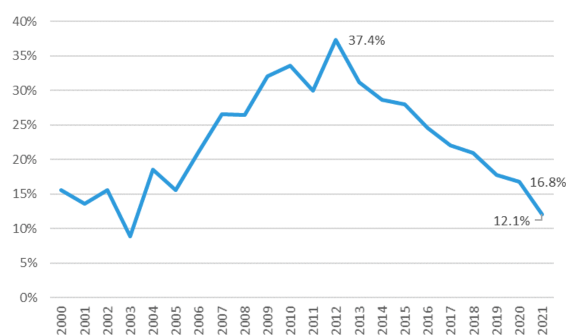
Another milestone in the fight against VAT evasion is the introduction of the electronic invoice, the so-called e-invoicing. The implementation date of June 2022 has been postponed due to work on the preparation of legislation and to create time for the business sector to prepare for the introduction of the e-invoicing.

FIGURE 36 – Potential for growth oriented tax reform



Source: IFP, Eurostat

FIGURE 37 – VAT gap (% of potential yield)



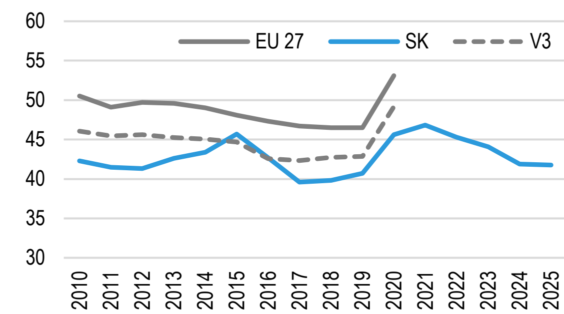
Source: Financial Administration SR

5.2 Expenditure objectives of the general government budget by function

[59] Evaluation of financial administration through an International Monetary Fund project. Available from https://www.tadat.org/assets/files/Slovak_Republic_FINAL_PAR.pdf
[60] The year-on-year growth of VAT in online shops reached 13%.
[61] This is a different methodology, but it is the same for all EU countries. Published with a two-year delay.

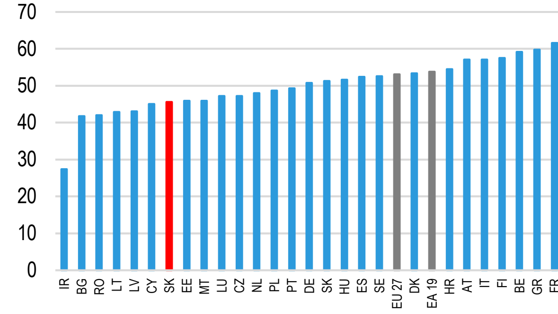
The pandemic and economic crisis has turned into strong growth in total general government spending in 2020 and 2021. Spending as a share of GDP was rising slowly since 2017, but significant increase occured mainly due to the COVID-19 crisis in 2020. This increase was caused not only by measures ordered to mitigate the crisis, but also by strong drop in GDP. Total expenditure as a share of GDP will gradually decline over the upcoming years, despite the drawdown of the current programming period of EU funds (ending in 2023) and investments from the Recovery and Resilience Plan.

FIGURE 38 – Development of total general government expenditures (% of GDP)



Source: Eurostat

FIGURE 39 – Total expenditures of general government in 2020 (% of GDP)



Source: Eurostat

A comparison of expenditure by function shows that Slovakia spends a lower share of expenditure on social security. As we are currently one of the EU countries with more favourable demographic, social security spending in old age is lower in Slovakia compared to the EU average. This expenditure is expected to grow strongly in the future, as a result of ageing population. However, we also lag behind the EU in spending on social security for survivors, families and children, unemployment, housing and social assistance in material need and social distress. On the contrary, Slovakia spends significantly more on financial assistance for illness and severe disability.

Smaller differences in the expenditure trends relate to general public services, public order and safety, and the economic area. Compared to the EU average, we spend more resources on the day-to-day running of the public administration and its offices[62], offset by lower spending on foreign economic aid or public debt transactions. Despite comparable spending on police[63], fire-protection services and law courts, we are one of the few countries to spend significant additional funds on public order and safety not elsewhere classified. In the economic area, we promote expenditure on transport and projects to ensure sufficient amounts of fuel and energy, but we lag behind in supporting research and innovation and in the general economic, commercial and labour affairs[64].

Investment gap also remains in health, education and housing, but projects from the Recovery and Resilience Plan will help to reduce it. In all these areas, we spend less as a share of GDP than the EU average. The backbone of the healthcare reform will be the optimisation of the hospital network, which will be followed by the reform of the ambulance services and outpatient care providers. In the field of education, capacity building of both kindergartens and primary schools is envisaged, as well as extensive reconstruction, debarrierisation and retrofitting with digital technologies. Housing affordability will be increased as a result of more efficient building regulations and an expansion of rental housing capacity. In addition, a significant part of the investments will be spread across different sectors in the economy, especially in form of digitisation of public administration or the green transformation of the economy.

[62] Area 01.1 - Executive and legislative organs, financial and fiscal affairs, external affairs. Area 01.3 - General services.
[63] According to the Value for Money review of spending on the Interior, the proportion of resources actually spent on policing is slightly higher, at 1.27% of GDP.
[64] Area 04.5 - Transport. Area 04.3 - Fuel and energy. Area 04.8 - Research and development economic affairs. Area 04.1 - General economic, commercial and labour affairs.

TABLE 16 – General government expenditure by COFOG classification

Functions	COFOG code	SK (2020)	V3 (2020)	EU 27 (2020)
		% of GDP	% of GDP	% of GDP
1. General public services	1	6,2	5,9	6,2
2. Defence	2	1,4	1,3	1,3
3. Public order and safety	3	2,5	2,2	1,8
4. Economic affairs	4	5,8	8,6	6,1
5. Environmental protection	5	0,9	0,8	0,9
6. Housing and community amenities	6	0,5	0,7	0,6
7. Health	7	6,3	7	8
8. Recreation, culture and religion	8	1,2	2,2	1,2
9. Education	9	4,6	5	5
10. Social security	10	16,3	15,4	21,9
Total expenditure	**TE**	**45,6**	**49,2**	**53,1**

Source: Eurostat

5.3 Investments in line with value for money

The ongoing reform of investment management aims to increase the economic value of newly implemented investment projects and get a better return for every euro. The main parts of the reform are economic evaluations of projects before their implementation, setting priorities and investment plans of the ministries and including only ready and repayable projects in the budget of the public administration.

In order to better plan and execute the budget, the following activities have already been or are being implemented:

- **The transparency and quality of the debate on investment projects has been improved through the publication of feasibility studies.** Studies for all large projects over EUR 40 million (or EUR 10 million in the IT sector) are legally required[65] to be published online from 2019. Based on these, the MoF SR subsequently publishes evaluations and recommendations on the projects. The Investor is obliged to publish the study at the beginning of the investment process and to update it before the next major follow-up.
- **At the same time, the Government of the Slovak Republic, in the form of a resolution[66] introduced a compulsory assessment of investments with expected total expenditures exceeding EUR 1 million including VAT by the Ministry of Finance of the Slovak Republic (MoF SR).** Entities of public administration, except local self-government and organizations established by it, are obliged to submit to the MoF SR for consideration at least a detailed project budget and documents demonstrating the compliance of the project with the sector strategy, or clearly demonstrate the need (demand) for the project.

[65] The obligation has been approved in Section 19a of Act No. 523/2004 Coll. on the Budget Rules of the Public Administration, as amended.
[66] The obligation has been approved by Government Resolution 649/2020 in Task C.5 and C.6.

BOX 8 – Overview of projects evaluated in 2021

In 2021, the MoF SR evaluated 251 projects with an identified saving of EUR 489 million. Evaluations for a total of EUR 6.3 billion brought recommendations towards optimising the technical solution or making projects cheaper. The median saving of the evaluated projects is 7% of the estimated cost.

TABLE 15 – Evaluated projects in 2021 by ministries (mil. euros)

	Number of projects	Investment costs	Savings potential	*Of which savings:*	
				identified at the beginning of the feasibility studies	*identified before procurement*
TOTAL	**251**	**6302**	**489**	**176**	**313**
of which above 1 mil. euros up to 40 mil. euros	*227*	*1323*	*304*	*N/A*	*304*
of which above 40 mil. euros	*24*	*4979*	*185*	*176*	*9*
Transportation	**76**	**2947**	**372**	**151**	**221**
of which above 1 mil. euros up to 40 mil. euros	*65*	*634*	*212*	*N/A*	*212*
of which above 40 mil. euros	*24*	*2313*	*160*	*151*	*9*
Defense	**33**	**2429**	**N/A**	**N/A**	**N/A**
of which above 1 mil. euros up to 40 mil. euros	*29*	*107*	*N/A*	*N/A*	*N/A*
of which above 40 mil. euros	*4*	*2322*	*N/A*	*N/A*	*N/A*
IT	**78**	**507**	**75**	**11**	**64**
of which above 1 mil. euros up to 10 mil. euros	*71*	*346*	*64*	*N/A*	*64*
of which above 10 mil. euros	*7*	*161*	*11*	*11*	*N/A*
Buildings	**42**	**141**	**12**	**N/A**	**12**
of which above 1 mil. euros up to 40 mil. euros	*42*	*141*	*12*	*N/A*	*12*
of which above 40 mil. euros	*N/A*	*N/A*	*N/A*	*N/A*	*12*
Health	**5**	**10**	**0,3**	**N/A**	**0,3**
of which above 1 mil. euros up to 40 mil. euros	*5*	*10*	*0,3*	*N/A*	*0,3*
of which above 40 mil. euros	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
Others	**17**	**268**	**30**	**14**	**16**
of which above 1 mil. euros up to 40 mil. euros	*15*	*85*	*16*	*N/A*	*16*
of which above 40 mil. euros	*2*	*183*	*14*	*14*	*N/A*

Source: VfMD

- **According to the same government resolution, ministries prepare investment strategies, which include prioritisation methodologies and investment plans.** Clear priorities and long-term plans will improve project preparation and increase the accuracy of investment budgeting.

BOX 9 – State of development of investment strategies

Most ministries have published methodologies and investment plans, others are currently under preparation Ministries are obliged to develop an investment strategy: (1) a prioritisation methodology, (2) a prioritised list of projects, (3) an investment plan. The obligation was approved by Government Resolution 649/2020 in Tasks C.2 and C.3. The investment plan is to be updated annually by the ministries by 30 May. This obligation was approved by Government Resolution No. 577/2021 in Task C.2.

TABLE 16 – Status of methodology process and investment plans

Ministry	Methodology (status)	Investment plan (status)
Ministry of Transportation (roads)	Published	Published
Ministry of Transportation (railways)	Published	Published
Ministry of Transportation (others)	Not published	Not published (being prepared)
Ministry of Defense	Published	Published
Ministry of Interior	Published	Not published (being prepared)
Ministry of Finance	Published	Zverejnená
Ministry of Health	Published	Not published (being prepared)
Ministry of Justice	Published	Published
Ministry of Culture	Published	Not published (being prepared)
Ministry of Economy	Not published (being prepared)	Not published (being prepared)
Ministry of Investments	Published	Published
Ministry of Education	Published	Published
Ministry of Environment	Published	Published

Sourcej: VfMD

Project	TOTAL	before 2022	2022	2023	2024	2025	2026	after 2026
Railway Poprad - Spišská Nová Ves	**510,0**	12,8	0,0	0,0	80,0	208,6	208,6	0,0
Railway Devínska Nová Ves - SR/Czechia, part Malacky - Kúty	**447,5**	2,5	0,0	0,0	55,0	115,0	110,0	165,0
Railway Devínska Nová Ves - SR/Czechia, parts outside Malacky - Kúty	**275,9**	3,5	62,8	179,7	30,0	0,0	0,0	0,0
Highway R2 Kriváň - Mýtna	**265,1**	6,7	56,1	89,2	93,6	18,6	0,6	0,4
Finalization of junction Žilina	**310,8**	68,8	88,2	120,3	33,5	0,0	0,0	0,0
Highway D1 Turany - Hubová	**1195,2**	0,1	0,3	1,6	1,3	84,9	144,9	962,1
Highway R4 Prešov, northern bypass, 2nd part	**286,8**	0,4	1,2	23,5	67,7	70,4	66,8	56,7
Lietavská Lúčka – Višňové – Dubná Skala – road and tunnel	**265,2**	31,0	121,7	80,7	16,2	2,5	0,0	13,2
Highway D1 Hubová - Ivachnová	**260,5**	52,1	90,8	61,7	34,1	0,8	0,1	20,9

Source: Investment plans of ministries

- **There have also been changes in the way the public administration budgets for capital expenditure. Only demonstrably socially viable and ready projects are included in the budget from 2021 onwards, in addition to ongoing projects.** Other planned projects are earmarked in the General Treasury's budget under the investment stack and can only be disbursed after the assessment of MoF SR.
- **The Government of the Slovak Republic approved the Methodology of preparation and evaluation of investment projects[67].** The material helps investors (ministries) to better prepare projects and plan investments. The Methodology does not add new tasks, it only clarifies and further explains the current obligations. Standardised processes and the selection of suitable projects at an early stage will ensure a higher quality of their preparation and a better basis for decision-making on their implementation.

The implementation of the reform is the responsibility of the MoF SR in coordination with all ministries. In order to complete the reform, it is necessary to strengthen the central coordinating authority at the MoF SR and to complete the analytical capacities responsible for the analytically based investment plans of the ministries. There is also a need to simplify the preparatory process, refine methodologies and streamline procurement.

[67] The methodology was approved by Government Resolution No. 181/2022 and is available online on the website of the Ministry of Finance of the Slovak Republic.

All major decisions of the state, not only in the field of investment projects, should be analytically supported. Systematic preparation of ex-ante analyses of new planned policies and regulations would increase value for money and transparency of decisions.

6 INSTITUTIONAL ASPECTS OF PUBLIC FINANCE

The most anticipated change in the management of public finances in 2022 was the approval of the introduction of expenditure ceilings as a systemic tool to strengthen counter-cyclicality and long-term sustainability of public finances. The implementation of the limits is already foreseen in the 2023 and 2024 budgets and will be binding for every government throughout the electoral cycle from the next parliamentary elections onwards. Linked to the expenditure limits is the process of introducing departmental no-policy-change scenarios, which should improve the quality of the budgetary process. The limits will also take on a major role in moving towards a balanced budget as a rule taken from European legislation and should provide the necessary corrections for deviations from this objective. The government's ambition in 2022 remains to complete the process of amending the Constitutional Act on Budget Responsibility by making changes to the debt brake and constitutionally anchoring expenditure limits. The shift to a net debt indicator, the strengthening of debt brake sanctions and greater flexibility, in tandem with expenditure limits, should strengthen the long-term sustainability of public finances. Improving the efficiency of public spending and identifying further savings will continue with further spending reviews. During 2022, a review of subsidy spending will be undertaken and the measures identified by the Health Spending Review will be updated. The results orientation of public administration is strengthened by linking the outcome indicators used in the government's strategic materials, in particular the National Reform Programme and the General Ledger of the Public Administration Budget.

Limit on public administration expenditures

The most important change adopted to strengthen the sustainability of public finances is the approval of multiannual limits on public expenditures. Expenditure ceilings will become the main operational instrument for managing public finances[68], ensuring greater counter-cyclicality of fiscal policy in order to reduce long-term sustainability risks and create sufficient fiscal space for stimulus in the event of future crises. The government approved the introduction of expenditure limits in the spring in an amendment to the current law on budgetary rules, but continues to declare its intention to anchor expenditure limits also in the constitutional Act on the Budget Responsibility in the course of 2022.

The implementation of the limits is already foreseen in the public administration budget for the years 2023 to 2025, and they will be binding for each government for the entire electoral cycle. The limit on government expenditure will be set by the Council for Budget Responsibility in the form of an adjusted structural balance[69] taking into account the risks to long-term sustainability as reflected in the GAP indicator[70]. The structural balance shall be adjusted to improve the long-term sustainability indicator by 0.5 % of GDP annually at high and medium risk, by 0.25 % at low risk and to zero in the absence of sustainability risks. The Council will submit the expenditure limit for the whole electoral period to the Parliament within 60 days after the approval of the programme statement of the new government after the elections to the National Assembly of the Slovak Republic. The maximum level of the structural surplus so achieved is limited to 0.5 % of GDP.

The Council for Budget Responsibility will regularly assess and update the implementation of the expenditure limit for the previous period by 30 June each year, or within a month of the Government's request, in relation to the new measures adopted. The update of the limits is intended to take account of legislative changes adopted (in particular legislation affecting the level of revenue)[71], but also provides for a complete correction of any non-compliance with the limits from the previous period. Conversely, normal additional revisions in the revenue forecast due to external factors will not be taken into account. The exception is if the difference between actual revenue projections and those originally forecast exceeds 3 % of GDP in any one year. In this case, the limit originally set shall be completely recalculated on the basis of the latest forecasts. The Council

[68] For more information on the implementation of the expenditure limits, see Chapter 3.
[69] The structural balance is adjusted for local government expenditure, expenditure related to the financing of EU joint programmes (including the Recovery Plan), the EU budget levy and public debt servicing expenditure when quantifying the expenditure limit.
[70] The GAP long-term sustainability indicator is an indicator of national fiscal rules used by the Council for Budget Responsibility, which indicates how much the primary structural balance (the government deficit net of interest costs, the impact of cyclical economic developments and one-off effects) would have to be reduced today to maintain gross debt at 50 % of GDP 50 years from now. It also includes projections of age-related expenditure trends.
[71] The update of the limits also takes into account legislative changes that affect long-term sustainability. Their positive impact on the structural balance will be taken into account up to a maximum of 0.5 % of GDP over the whole electoral period if the debt is above the sanction bands.

submits the updated limit to the Finance and Budget Committee and the Economic Affairs Committee for approval. Failure to meet the expenditure ceilings for two consecutive periods by more than 1 % of GDP implies that the government will ask the National Council of the Slovak Republic for a vote of confidence [72]. At least once a quarter, the Ministry of Finance is also legally obliged to monitor the implementation of the expenditure limit in the current year. The amendment also required the Council for Budget Responsibility to strengthen its access to data under ordinary laws because of its assessment of compliance with the limits.

Part of the expenditure is also a mechanism of escape clauses, in case of exceptional events. The limit may be exceeded in the event of the declaration of an extraordinary circumstance. It can be declared by the government for 12 months if there is a statistical decline in real GDP[73]. If the year-on-year decline in GDP is greater than 3 %, the exceptional circumstance will last for 24 months. For the duration of the emergency, the government may exceed the expenditure limit, subject to the approval of the National Council of the Slovak Republic.

BOX 10 – Expenditure ceilings in 2023 and 2024

For the remainder of the current government's term, the law provides for a test regime of expenditure limits. The public expenditure limit will be calculated by the Council for Budget Responsibility for the first time in 2022. The Council will then submit the limit to the National Council of the Slovak Republic for approval. An update of this limit will be approved in the future in the committees of the National Council of the Slovak Republic. Resolutions of the National Council of the Slovak Republic and committees are not published in the Collection of Laws in 2023 and 2024. The limit on public expenditure is also binding for the government in the test regime - the Ministry of Finance will take the limit into account when preparing the state budget and the budget of the whole general government. After the update of the limit and its reduction, the MoF SR, on the basis of a government decision, commits the expenditures of the budget chapters in accordance with the updated limit.

The general government budget for 2023 to 2025 will already meet the requirements of the expenditure limit. After the approval of the submitted expenditure limit for 2023 in the National Council of the Slovak Republic, the Ministry of Finance (MoF SR) will prepare the budget for 2023-2025 in order to comply with the overall ceiling on public expenditure in accordance with the limit. The MoF SR will continuously monitor the fulfilment of the limits at the level of chapters or public administration entities at least once a quarter and will call for measures to be taken in case of exceeding them. Penalties in the form of a written justification for non-compliance with the limits, or a request for a vote of confidence to the government in the event of a deviation of more than 1 % of GDP, will not be applied in the case of a breach of the limits in the previous period in the 2023 and 2024 expenditure limits test regime.

No-policy-change scenarios at budget chapter level

The amendment to the budget rules also legislatively anchors the no-policy-change (NPC) scenarios drawn up at the level of individual budget chapters, which will enhance transparency and more efficient allocation of resources. Part of the amendment to the Finance Act approved in 2022 includes budgeting based on departmental NPC scenarios. Such budget preparation promotes a transparent revenue and expenditure planning model for line ministries. It is possible to better predict the resources to implement existing policies over the longer term. By using uniform principles, the process of allocating resources to existing policies is consistent and fair in terms of the distribution of resources across chapters and entities. Thus, the forecast of already existing policies increases the adequacy of the level of the limit set also at the level of the chapters of the state budget and other public administration entities.

Balanced budget rule

At the same time, expenditure ceilings will become a tool for achieving a balanced budget under European fiscal rules. Slovak legislation also includes a balanced budget rule, which transposes the fiscal rules of the 2014 European Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. Its role is to

[72] In the case of a request for a vote of confidence in the government in the National Council of the Slovak Republic, the sanction does not apply in the year in which the government's programme statement was approved and in the following year.
[73] The government may declare an extraordinary circumstance if the Statistical Office of the Slovak Republic publishes that real GDP for the previous quarter declined year-on-year and the next forecast of the Committee for Macroeconomic Forecasts confirms that annual real GDP will decline year-on-year.

ensure a path towards the medium-term budgetary objective (MTO)[74] of a balanced budget and to apply a correction mechanism in case of a deviation from the MTO or the trajectory towards it. The purpose of the balanced budget rule will not be affected by the adopted amendment to the budgetary rules and the introduction of expenditure limits, only the operational tool to achieve it will be changed.

The idea of a correction mechanism towards a balanced budget will also be fulfilled by a cap on public expenditure from 2023 onwards. As a new national fiscal rule, the expenditure limits under the adopted 2022 amendment will partly take over the role of the corrective mechanism of the balanced budget rule. This change is also reflected in the amendment to Act No. 523/2004 in the section on the balanced budget rule. The Ministry of Finance foresees that the multiannual expenditure limits, including the automatic correction mechanism, will at the same time fulfil the role of correcting a significant deviation from the balanced budget path stemming from the European rules. Should the European Commission's consolidation requirement be stricter than required by the expenditure limits, the Ministry of Finance will propose to the government a correction mechanism beyond the public expenditure limit, in accordance with the law. The limits will thus ensure the elimination of the layering of rules and the desired correction resulting not only from national legislation but also from the adopted European legislation in the form of the balanced budget rule.

Changes to the debt brake and other parts of the constitutional Act on Budgetary Responsibility

In 2022, the National Council of the Slovak Republic is expected to approve an amendment to the Constitutional Act on Budget Responsibility, which will adjust the debt brake penalty bands and the resulting corrective measures and also make debt management more efficient by switching to net debt. The government's proposal to amend the Constitutional Act, prepared in 2020, is based on the experience with the functioning of the current Constitutional Act, which has shown the need for several changes. The first is the transition from a fiscal indicator of the level of gross debt to net debt, which is intended to streamline liquidity management in servicing government debt by adjusting the indicator mainly for the cash buffer[75]. The amendment should reduce the number of sanction bands to four and, in contrast to the current wording of the constitutional law, should require consolidation efforts measured by the structural balance already at the lowest band[76]. By reaching the highest sanction band of the debt brake, the law will allow the government to avoid the sanction of presenting a structurally balanced budget and a vote of confidence in case of compliance with the sanctions in the previous period[77]. In order to strengthen the counter-cyclicality of the debt brake, the modification of the escape clauses foresees the suspension of the debt brake sanctions already in the event of a year-on-year downturn in the economy. Conversely, the period of suspended sanctions due to the arrival of the new government will be tightened. The individual details of the government's proposal will still be discussed, with a final agreement expected in early summer.

The legislative changes to the constitutional law will also extend the remit of the independent macroeconomic and fiscal forecasting committees and strengthen the role and independence of the Council for Budget Responsibility[78]. The aim of the legislative anchoring of the changes in the committees' remit is to build on the ongoing process of expanding the forecasts of budget items, in line with the stated ambition in the government's programme statement. This ensures more transparent preparation and more accurate estimation of budget developments. The individual details of the government's proposal will still be discussed, with a final agreement expected in early summer.

[74] Act No. 523/2004 on the Budget Rules of the Public Administration sets the medium-term budgetary objective of the Slovak Republic of a balanced budget at a structural deficit of 0.5 % of GDP. In the Stability Programme of the Slovak Republic for 2021-2024, the government introduced a new level of the medium-term objective - a structural surplus of 0.5 % of GDP, which reflects the state of public finances after the COVID-19 pandemic, the high level of debt and the sustainability risks associated with the costs of an ageing population.

[75] The government's cash reserve is part of the public administration's liquid financial assets. In 2020, gross debt of the Slovak Republic increased by 11.6 p.p. y-o-y, of which 5.1 p.p. was due to the impact of the increase in cash assets as a result of high expected deficits and the desire to frontload at a time of high uncertainty about the further development of the COVID-19 pandemic. By switching to a net debt indicator, the public administration's liquid financial assets would be net of gross debt.

[76] Moreover, the current text of Constitutional Act No. 493/2011 targets a nominal public administration deficit that is not net of business cycle and one-off effects. The amended law already provides for a structural balance that more objectively assesses the government's contribution to the public administration deficit.

[77] In this case, the maximum required improvement in the structural balance is 1 % of GDP per year.

[78] The current proposed changes are part of the government-approved amendment to the Constitutional Act No. 493/2011 on Budget Responsibility. Aktuálne návrhy.

Revisions to expenditure

Improving the efficiency of public spending and identifying further savings will continue with further expenditure reviews. The continuation of the review of public administration expenditure is also supported by legislation that requires at least 50% of public administration expenditure to be reviewed within four years of the adoption of the government's programme statement. During 2022, a review of subsidy spending will be undertaken (see Annex 1) and the actions identified by the Health Spending Review will be updated.

In the current 2020-2024 parliamentary term, spending revisions worth EUR 14.4 billion (39% of public expenditure) have been approved. The revisions approved in 2020 identified savings measures with a potential of EUR 1.13 billion, mainly in employment and pay in the public administration (EUR 765 million). The revisions also identified areas with a need for additional resources worth EUR 1.5 billion, in particular for a gradual increase in the number of nurses, teachers' salaries and the number and salaries of social services workers (EUR 1.2 billion). A review of spending on groups at risk of poverty or social exclusion identifies a need for an additional EUR 263 million. **In 2021, EUR 799 million could have been saved structurally if the ramp-up of savings of all measures from the revisions had been maintained. The interim implementation report foresaw savings of EUR 143 million by June 2021[79].**

BOX 11 – Mandate to review expenditure on subsidies

The role and motivation for the use of subsidies is to address externalities and market imperfections. The state in Slovakia supports selected entities and sectors with subsidies worth EUR 1.3 billion per year (1.3% of GDP), including direct subsidies worth EUR 840 million, tax expenditures worth EUR 320 million and competitive transfers to the third sector worth EUR 136 million. It is not possible to measure the impact of subsidies across the board, as there is no single instrument to measure their effectiveness due to the wide dispersion of themes and forms of the different instruments. The review will map state subsidies, evaluate each scheme separately and propose their optimisation as a contribution to the consolidation of public finances or in terms of the wider benefits they can provide.

Programme budgeting

The reform of programme budgeting should strengthen the result orientation of the budget. In line with the Government's 2020 Programme Statement, the Ministry of Finance continues to strengthen programme budgeting in the budgetary process. The new principles of programme budgeting have been incorporated in the 2022 budget on a pilot basis and will be continuously updated with the intention of moving towards medium- and long-term goals in individual areas - to improve the quality of education, to support science, research and innovation, to improve safety and quality of life through increased protection of the environment, access to the labour market and health care. The reorganisation of the programmes should increase the clarity of the purpose of expenditure as well as facilitate the use of data for analytical purposes. The results orientation of public administration is also strengthened by linking the outcome indicators used in the government's strategic materials, in particular the National Reform Programme and the General Ledger of the General Government Budget.

Budgeting of capital expenditure

The ongoing investment management reform aims to increase the social return on newly implemented investment projects and to plan projects on the basis of clearly identified analytical priorities. The main parts of the reform are economic evaluations of projects before their implementation, setting priorities and investment plans of the ministries and including only ready and repayable projects in the budget of the public administration. See Chapter 5.3 for details on the changes to the investment management process.

From 2021 onwards, only demonstrably socially viable and ready projects should be included in the budget, in addition to ongoing projects. Funds for other planned projects are earmarked in the budget as part of the investment stack and can only be drawn down after an assessment by the MoF SR (zero-based budgeting). The aim is to gradually reduce the stack (reserve) and allocate funds directly to chapters for ready and priority projects. Inaccurate planning and frequent changes in priorities in the past meant that unprepared projects blocked a large chunk of money for a long time at the expense of ready and better investments across sectors. Therefore, only

[79] https://www.mfsr.sk/files/archiv/83/Priebeznaimplementacnasprava2021.pdf

ready and repayable projects are financed in accordance with the prioritised investment plans and to the extent of the budgetary resources available in each year. The project preparation and capital expenditure budgeting process is precisely described in the Government-approved Methodology for the Preparation and Evaluation of Investment Projects (see Chapter 5.3 for details).

7 STRUCTURAL POLICIES

Structural reforms to kick-start economic growth will also support the long-term sustainability of public finances. Slovakia's biggest structural challenges are education, the labour market and allocative efficiency due to the country's innovation potential and the efficient performance of public administration. The identified structural challenges are to a large extent addressed by the measures in the ambitious Recovery and Resilience Plan, the successful implementation of which will be crucial for re-accelerating Slovakia's convergence and improving the quality of life of its citizens in the coming years. The implementation of compulsory pre-primary education and the gradual introduction of curriculum reform and changes in the field of higher education will be important in terms of improving the performance of the education system. In order to increase the inflow of highly skilled labour, a simplification of the processes under the residence and labour legislation is under preparation. The creation of centres of excellence will support the link between vocational education and the labour market. In the area of social policies, activities for the integration of Roma communities continue in the fields of education, health, housing and employment. Productivity measures will focus on increasing overall investment in science and research, promoting digitisation by completing infrastructure in areas not covered by the market, improving digital skills and building efficient e-government. Reducing the administrative burden and removing inefficient regulations will have a positive impact on the business environment.

The government's priority is to return to sound public finances, while respecting both European and national budgetary rules. The forthcoming reform of the first pension pillar will re-link the retirement age to the increase in life expectancy and thus contribute significantly to improving the long-term sustainability of our public finances. The same objective is pursued by the implementation of expenditure limits from 2023 onwards. At the same time, the quality of public finances has been strengthened by approved changes aimed at prioritising investments and monitoring them on an ongoing basis. The amendment of the debt brake should bring stabilisation and debt reduction in the form of stricter sanctions, but also create room for efficient liquidity management by switching to a net debt ratio. Increasing the efficiency of tax collection remains a long-term priority of the government's tax policy. The planned introduction of e-invoicing should further reduce the VAT gap.

The education system in Slovakia needs to significantly improve outcomes across all levels. Improving inclusiveness, in particular the implementation of compulsory pre-primary education and the expansion of enrolment through legal entitlement progressively for children as young as 3 years old, remain key challenges. Curriculum reform in education will gradually transform the content of education with an emphasis on the development of necessary skills, including digital skills. It will be accompanied by changes in teacher training and professional development, textbook reform and mentoring support for the implementation of the new curriculum in the newly established regional centres. Improvements in higher education should come from new accreditation standards for internal quality assurance systems, reform of the internal management of schools, and changes in funding to support performance in research and creative activity.

Despite the low employment rate of mothers with young children and the low-educated, the employment rate in Slovakia has reached the EU average. In order to increase the inflow of highly skilled labour, a simplification of the processes under the residence and labour legislation is under preparation. The creation of centres of excellence will support the link between vocational education and the labour market. In the area of social policies, activities for the integration of Roma communities continue in the fields of education, health, housing and employment. The forthcoming pension reform will bring significant changes beyond improving sustainability. In particular, it will improve the adequacy of the second pillar pensions by introducing a default investment strategy on a life-cycle basis and improving the provision of information on current and expected future pension entitlements from all three pillars.

Housing is one of the biggest challenges in terms of quality of life in Slovakia. Affordable housing in centres of economic activity has the potential to positively impact not only quality of life, but also to promote labour mobility. The adoption of the *Housing Policy of the Slovak Republic until 2030* together with the Action Plan aims to improve the physical and affordable accessibility of housing in Slovakia and its quality. The new Construction Act and Planning Act will streamline the construction process and support an increase in the overall level of housing construction.

Rising productivity as a result of innovation is one of the prerequisites for long-term sustainable economic growth. Measures will focus on increasing overall investment in science and research, including incentives for increased private sector expenditure. The supra-ministerial coordination of science and research and the evaluation of publicly funded projects will be professionalised. Public policies to increase productivity will focus on promoting digitisation by completing infrastructure in areas not covered by the market, improving digital skills and building efficient e-government.

Reducing the administrative burden and removing inefficient regulations will have a positive impact on the business environment. By adopting a one-in-two-out mechanism, for every increase in the costs of the business environment, the costs of the business environment will be reduced by at least twice the amount. The administrative burden will also be progressively reduced thanks to other anti-bureaucratic packages. Public procurement reform will bring greater transparency to the business environment. The fight against money laundering will be supported by a new law on asset seizure. Reform of the judiciary, the court map and the specialisation of the courts will bring faster trials and greater confidence in the judicial system.

The backbone of the healthcare reform will be the optimisation of the hospital network. Its aim is to create a modern, accessible and efficient network that will ensure quality healthcare. The availability of emergency medical services will be increased, building on the needs of the new hospital network. In long-term care, the focus will be on quality, accessibility and coordination of services. It will integrate health and social long-term care and improve supervision of the services provided. At the same time, calls will be announced for the reconstruction and expansion of residential, community or home care capacities, with an emphasis on the deinstitutionalisation of services.

Green transformation measures aim to improve air quality, promote renewable energy sources (RES) and the circular economy, decarbonise industry and adapt to climate change. Reforms of the rules in the field of electricity and RES support will contribute to further increasing the share of RES in the energy mix of the Slovak Republic. Investment in clean transport (especially rail and cycling) and support for the development of infrastructure for alternatively fuelled vehicles will also have a positive impact on greenhouse gas emissions and quality. In order to improve energy efficiency, investments will be made in the renovation of public and private buildings.

ANNEXES

Annex 1 – Mandatory Stability Programme tables

TABLE 17 (Table 1a) – Macroeconomic prospects (ESA2010, EUR bn.)

	ESA code	2021 Level	2021 Rate of change	2022 Rate of change	2023 Rate of change	2024 Rate of change	2025 Rate of change
1. Real GDP	B1*g	88,0	3,0	2,1	5,3	1,8	1,8
2. Nominal GDP	B1*g	97,1	5,5	9,6	10,7	4,2	3,9
Components of real GDP							
3. Private consumption expenditure	P.3	50,0	1,2	1,4	2,3	2,8	2,1
4. Government consumption expenditure	P.3	16,4	1,9	-3,9	0,2	-0,7	-0,5
5. Gross fixed capital formation	P.51g	17,3	0,6	15,2	15,1	-2,5	-0,6
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	2,2	2,5	1,8	1,6	1,7	1,6
7. Export of goods and services	P.6	86,5	10,2	1,5	9,0	4,7	3,1
8. Imports of goods and services	P.7	84,5	11,2	1,8	8,4	3,9	2,3
Contribution to real GDP growth							
9. Final domestic demand (total)		86,0	3,8	2,3	4,7	0,9	0,9
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	2,2	2,7	-0,7	0,0	0,1	0,0
11. External balance of goods and services	B.11	2,0	-0,6	-0,3	0,7	0,9	0,9

Source: MoF SR

TABLE 18 (Table 1b) – Price developments (ESA2010)

	ESA code	2021 Level	2021 Rate of change	2022 Rate of change	2023 Rate of change	2024 Rate of change	2025 Rate of change
1. GDP deflator		1,1	2,4	7,4	5,1	2,4	2,1
2. Private consumption deflator		1,1	3,3	8,2	6,6	2,0	1,8
3. HICP		2,8	2,8	8,1	6,7	2,0	2,0
4. Public consumption deflator		1,3	3,9	9,8	5,0	2,6	2,2
5. Investment deflator		1,1	2,2	7,1	3,4	3,4	2,7
6. Export price deflator (goods and services)		1,1	5,1	9,3	3,0	3,1	2,5
7. Import price deflator (goods and services)		1,1	6,0	10,3	3,1	3,0	2,4

Source: MoF SR

TABLE 19 (Table 1c) – Labour market development (ESA2010)

	ESA code	2021 Level	2021 Rate of change	2022 Rate of change	2023 Rate of change	2024 Rate of change	2025 Rate of change
1. Employment, persons (thousands) [1]		2 385	-0,6	0,6	1,6	0,6	0,0
2. Employment, hours worked (thousands) [2]		3 776	0,1	-1,5	4,4	-1,9	-2,2
3. Unemployment rate (%) [3]		6,9	6,9	6,6	5,6	5,4	5,2
4. Labour productivity per persons (EUR) [4]		36 893	3,6	1,5	3,6	1,2	1,7
5. Labour productivity per hours worked (EUR) [5]		23,3	2,9	3,7	0,9	3,8	4,1
6. Compensation of employees (EUR mill.)	D.1	42 855	4,8	7,5	8,8	5,4	4,5
7. Compensation per employee (EUR)		20 861	5,9	7,1	7,1	5,0	4,6

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

TABLE 20 (Table 1d) – Sectoral balance (ESA2010, % of GDP)

	ESA code	2021	2022	2023	2024	2025
1. Net lending / borrowing vis-à-vis the rest of the world	B.9	0,7	0,1	0,3	0,6	0,8
of which:						
- Balance on goods and services		0,8	-0,4	0,1	0,9	1,8
- Balance of primary incomes and transfers		-1,8	-0,8	-1,1	-1,7	-2,3
- Capital account		1,7	1,3	1,3	1,3	1,3
2. Net lending / borrowing of the private sector	B.9					
3. Net lending / borrowing of general government (budgetary target)*	B.9	-6,2	-5,1	-2,4	-2,3	-2,0
4. Statistical discrepancy		-	-	-	-	-

Source: MoF SR

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

	ESA code	2021 level	2021 % of GDP	2022 % of GDP	2023 % of GDP	2024 % of GDP	2025 % of GDP
Net lending (EDP B.9) by subsector							
1. General government	S.13	-5 973	-6,2	-5,1	-2,4	-2,3	-2,0
2. Central government	S.1311	-6 219	-6,4	-5,0	-2,6	-2,5	-2,3
3. State government	S.1312						
4. Local government	S.1313	-24	0,0	-0,1	0,2	0,1	0,2
5. Social security funds	S.1314	270	0,3	0,0	0,1	0,1	0,1
General government (S13)							
6. Total revenue	TR	39 512	40,7	40,2	41,2	39,1	39,0
7. Total expenditure	TE [1]	45 485	46,8	45,3	43,6	41,4	41,0
8. Net lending/ borrowing	B.9	-5 973	-6,2	-5,1	-2,4	-2,3	-2,0
9. Interest expenditure	D.41	1 083	1,2	1,0	0,9	0,9	1,1
10. Primary balance	[2]	-4 891	-4,9	-4,1	-1,5	-1,4	-1,0
11. One-off and other temporary measures	[3]	-3 394	-3,5	-1,0	0,0	0,0	0,0
Selected components of revenue							
12. Total taxes (12=12a+12b+12c)		19 173	19,7	19,4	19,6	19,2	19,3
12a. Taxes on production and imports	D.2	12 000	12,4	11,9	12,0	11,8	11,9
12b. Current taxes on income, wealth, etc	D.5	7 172	7,4	7,5	7,5	7,4	7,4
12c. Capital taxes	D.91	-	0,0	0,0	0,0	0,0	0,0
13. Social contributions	D.61	15 620	16,1	15,3	14,9	14,9	14,9
14. Property income	D.4	703	0,7	0,4	0,4	0,4	0,4
15. Other	[4]	4 719	4,9	5,5	6,8	5,0	4,8
16=6. Total revenue	TR	39 512	40,7	40,2	41,2	39,1	39,0
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)	[5]	34 793	35,8	34,7	34,5	34,2	34,2
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1+P.2	17 057	17,6	17,4	17,1	15,5	15,1
17a. Compensation of employees	D.1	11 243	11,6	10,4	9,5	9,4	9,0
17b. Intermediate consumption	P.2	5 814	6,0	7,0	7,6	6,2	6,1
18. Social payments (18=18a+18b)	D6	18 376	18,9	17,9	17,0	17,4	17,3
of which Unemployment benefits	[6]	290	0,3	0,3	0,2	0,2	0,2

18a. Social transfers in kind - purchased market production	D.632	3 405	4,1	2,4	2,8	2,3	2,3
18b. Social transfers other than in kind	D.62	14 971	14,8	15,5	14,2	15,0	15,0
19.=9. Interest expenditure	D.41	1 083	1,1	0,8	0,8	0,9	1,0
20. Subsidies	D.3	1 369	1,4	1,1	0,8	0,7	0,7
21. Gross fixed capital formation	P.51g	3 064	3,2	4,7	4,5	4,2	4,2
22. Capital transfers	D.9	292	0,3	0,7	0,3	0,2	0,2
23. Other	[7]	4 244	2,3	2,6	2,6	2,5	2,0
24=7. Total expenditure	TE [1]	45 485	46,8	45,3	43,6	41,4	41,0
p.m.: Government consumption (nominal)	P.3	20 921	21,5	20,7	19,7	19,3	18,8

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

[2] Primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9)

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

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)

[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.

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

[7] D.29+D4 (other than D.41)+ D.5+D.7+P.52+P.53+K.2+D.8

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

	2022 NPC	2022 NPC	2023 NPC	2024 NPC	2025 NPC
	level	% of GDP	% of GDP	% of GDP	% of GDP
1. Total revenue at unchanged policies			40,8	38,7	38,3
2. Total expenditure at unchanged policie			44,8	43,1	43,0

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

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

	2021	2021	2022	2023	2024	2025
	level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue	1053	1,1	2,1	3,6	1,9	1,9
1.a. of which investment fully matched by EU funds revenue	564	0,6	1,2	1,4	1,2	0,9
2. Cyclical unemployment benefit expenditure	23	0,0	0,0	0,0	0,0	0,0
3. Effect of discretionary revenue measures	474	0,5	0,0	0,0	-0,1	0,0
4. Revenue increases mandated by law	0	0,0	0,0	0,0	0,0	0,0

Source: MoF SR

TABLE 24 (Table 3) – General government expenditure (% GDP)

	COFOG code	2020	2025
1. General public services	1	6,2	7,0
2. Defence	2	1,4	2,3
3. Public order and safety	3	2,5	1,9
4. Economic affairs	4	5,8	3,7
5. Environmental protection	5	0,9	0,7
6. Housing and community amenities	6	0,5	0,5
7. Health	7	6,3	6,2
8. Recreation, culture and religion	8	1,2	0,9
9. Education	9	4,6	3,8
10. Social protection	10	16,3	14,7
11. Total expenditure	**TE**	**45,6**	**41,8**

Source: Eurostat, MoF SR

TABLE 25 (Table 4) – General governement debt development (% of GDP)

	ESA code	2021	2022	2023	2024	2025
1. Gross debt		63,1	61,6	58,0	58,2	57,3
2. Change in gross debt ratio		3,3	-1,5	-3,6	0,1	-0,9
Contributions to change in gross debt						
3. Primary balance		5,0	4,2	2,5	2,3	2,5
4. Interest expenditure		1,1	0,8	0,8	0,9	1,0
5. Stock-flow adjustment		0,3	-1,0	-0,9	-0,7	-2,2
of which:						
- differences between cash and accruals		-2,0	0,2	-0,3	-0,8	-1,1
- net accumulation of financial assets		3,2	-0,8	-0,8	-0,3	-1,1
of which: revenues from privatisation		0,0	0,0	0,0	0,0	0,0
- valuation effects and others		-0,8	-0,5	0,2	0,3	0,0
p.m. implicit interest rate on debt		2,0	1,5	1,5	1,7	1,8
Other relevant variables						
6. Liquid financial assets		11,5	9,7	8,0	7,4	6,0
7. Net financial debt (7=1-6)		51,5	51,9	50,0	50,8	51,3
8. Debt repayment (existing debts) from previous year		2,7	1,2	3,9	4,1	5,0
9. Share of debt denominated in foreign currency		3,1	0,9	0,6	0,4	0,4
10. Average maturity (years)		8,9	8,5	8,5	8,5	8,3

Source: MoF SR

TABLE 26 (Table 5) – Cyclical developments

(% of GDP)	ESA code	2021	2022	2023	2024	2025
1. Real GDP growth (%)		3,0	2,1	5,3	1,8	1,8
2. Net lending of general government*	B.9	-6,2	-5,1	-2,4	-2,3	-2,0
3. Interest expenditure	D.41	1,1	0,8	0,8	0,9	1,0
4. One-off and other temporary measures	[1]	-3,5	-1,0	0,0	0,0	0,0
Of which:						
One-offs on the revenue side: general government		0,1	0,0	0,0	0,0	0,0
One-offs on the expenditure side: general government		-3,4	-1,0	0,0	0,0	0,0
5. Potential GDP growth (%)		1,3	1,4	2,8	2,9	2,3
contributions:						
- labour		-0,2	-0,1	-0,1	-0,2	-0,2
- capital		0,5	0,7	1,1	1,3	1,1
- total factor productivity		1,0	0,8	1,7	1,8	1,4
6. Output gap		-1,6	-0,9	1,6	0,5	-0,1
7. Cyclical budgetary component		-0,6	-0,3	0,6	0,2	0,0
8. Cyclically-adjusted balance (2 - 7)		-5,6	-4,7	-3,0	-2,5	-2,0
9. Cyclically-adjusted primary balance (8 + 3)		-4,4	-3,9	-2,2	-1,6	-1,0
10. Structural balance (8 - 4)		-2,1	-3,8	-3,0	-2,5	-2,0

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

Source: MoF SR

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

	ESA code	2021	2022	2023	2024	2025
Real GDP growth (%)						
Previous update*		3,3	6,3	2,8	0,3	-
Current update		3	2,1	5,3	1,8	1,8

Difference		-0,3	-4,2	2,5	1,5	-
General government balance (% of GDP)	EDP B.9					
Previous update*		-9,9	-5,1	-4,1	-3,8	-
Current update		-6,2	-5,1	-2,4	-2,3	-2,0
Difference		3,7	0,0	1,7	1,5	-
General government gross debt (% of GDP)						
Previous update*		64,1	65,5	64,6	65,8	-
Current update		63,1	61,6	58,0	58,2	57,3
Difference		-1,0	-3,9	-6,6	-7,6	-

*Note: * Stability Programme for 2021 – 2024* *Source: MoF SR*

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

	2022	**2030**	**2040**	**2050**	**2060**	**2070**
Total expenditure	**45,3**					
Of which: Age-related expenditures	**20,2**	**21,9**	**24,2**	**26,9**	**29,2**	**29,1**
A. Pension expenditure**	9,5	10,2	11,6	13,4	14,5	14,2
a) Old-age and early pensions	7,2	7,5	8,6	10,4	11,6	11,4
b) Other pensions (disability, survivors)	2,3	2,7	3,0	3,0	2,9	2,8
B. Health care	6,3	6,9	7,5	7,9	8,2	8,2
C. Long-term care	1,0	1,2	1,7	2,1	2,5	2,9
D. Education expenditure	3,3	3,6	3,5	3,6	3,8	3,8
E. Other age-related expenditures						
Of which: Interest expenditure	0,8	0,9	1,1	3,8	4,0	4,0
Total revenue	**40,2**					
Of which: Property income (D.4)	0,4	0,4	0,4	0,4	0,4	0,4
Of which: Pensions contributions	7,2	7,0	7,2	7,4	7,5	7,5
Pension reserve fund assets						
Of which: Consolidated public pension fund assets						
Systematic pension reforms						
Social contributions diverted to voluntary private scheme	0,9	1,0	0,9	0,7	0,6	0,6
Pension expenditure paid by voluntary private scheme	-	-	-	-	-	-
Assumptions						
Labour productivity growth	2,1	2,5	2,2	2,0	1,8	1,5
Real GDP growth	2,0	1,7	1,2	1,0	1,3	1,2
Participation rate males (aged 20-64)	84,7	84,4	82,3	83,0	84,2	83,9
Participation rate females (aged 20-64)	71,6	71,0	67,7	67,3	68,9	68,6
Total participation rate (aged 20-64)	78,2	77,8	75,1	75,3	76,8	76,4
Unemployment rate (aged 20-64)	6,7	7,8	7,3	6,7	6,7	6,7
Population aged 65+ over total population	17,9	21,1	24,6	29,6	32,6	31,7

* Age-related expenditures as well as macroeconomic assumptions were updated after issuing Ageing report 2021. *Source: MoF SR*

TABLE 29 (Table 7a) – Contingent liabilities

	2021 % of GDP	**2022** % of GDP
Public guarantees	**12,1**	**-**
of which: linked to EFSF and ESM	8,7	-
of which: linked to international financial institutions	1,3	-
of which: linked to anti-COVID19 guarantees	2,1	2,1

of which: linked to state-owned financial institutions (other than anti-COVID19)	-	0,2

Source: MoF SR

TABLE 30 (Table 8) – Basic assumptions

	2021	2022	2023	2024	2025
Short-term interest rate €str (annual average)	-0,6	-0,6	-0,4	-0,2	0,0
Long-term interest rate 10Y-SLOVGB (annual average)	-0,1	0,9	1,5	1,9	2,2
USD/€ exchange rate (annual average) (euro area and ERM II countries)	1,2	1,1	1,2	1,2	1,2
Nominal effective exchange rate	0,6	0,7	0,7	0,2	0,0
World excluding EU, GDP growth	-	-	-	-	-
EU GDP growth	4,3	-	-	-	-
Growth of relevant foreign markets	4,7	3,8	3,2	2,2	2,0
World import volumes, excluding EU					
Oil prices (Brent, USD/barrel)	70,8	104,4	94,1	86,3	81,1

TABLE 31 (Table 9a) – RRF impact on program (grants)

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

Source: MoF SR

TABLE 32 (Table 9b) – RRF impact on program (loans)

	ESA	2021 (% of GDP)	2022 (% of GDP)	2023 (% of GDP)	2024 (% of GDP)
Cash flow from RRF loans projected in the programme					
1. Disbursements of RRF LOANS from EU					
2. Repayments of RRF LOANS to EU					
Expenditure financed by RRF loans					
3.TOTAL CURRENT EXPENDITURE					
of which:					
- Compensation of employees	D.1				
- Intermediate consumption	P.2				
- Social Payments	D.62+D.632				
- Interest expenditure	D.41				

- Subsidies, payable	D.3
- Current transfers	D.7
4. TOTAL CAPITAL EXPENDITURE	
of which:	
- Gross fixed capital formation	P.51g
- Capital transfers	D.9
Other costs financed by RRF loans	
5. Reduction in tax revenue	
6. Other costs with impact on revenue	
7. Financial transactions	

Source: MoF SR

TABLE 33 – Stock of guarantees adopted/announced

	Measures	Date of adoption	Maximum amount of contingent liabilities	Estimated take-up
In response to COVID-19	anti-Covid19 guarantees (cumulative 2020 and 2021)	2020	2,1	0,9
	Subtotal		2,1	0,9
Others	EFSF and ESM		8,7	
	International financial institutions		1,3	
	State-owned financial institutions			0,2
	Subtotal		10,0	0,2
	Total		**12,1**	**1,1**

Source: MoF SR

Annex 2 – Discretionary measures taken to combat pandemic COVID-19

TABLE 34 – List of measures taken to combat the COVID 19 pandemic (2022 is an estimate at the end of the year)

			2020		2021		2022		Total	
	EKRK	ESA	mil.	% GDP	mil.	% GDP	mil.	% GDP	mil.	% GDP
Direct support together			**2185**	**2,37**	**3385**	**3,49**	**1034**	**0,97**	**6604**	**6,83**
Support for maintaining employment			**1151**	**1,25**	**1506**	**1,55**	**453**	**0,43**	**3111**	**3,23**
Total measures 1 to 4B (Kurzarbeit)	640	D.75	997	1,08	1266	1,30	288	0,27	2551	2,66
Kurzarbeit for kindergartens and schools of the arts	640	D.75	59	0,06	18	0,02			77	0,08
Entrepreneurship promotion in tourism and hospitality sector	644	D.3p	6		120	0,12	115	0,11	241	0,23
Entrepreneurship promotion in culture and creative industry	644	D.3p			8	0,01			8	0,01
Reimbursement of rents	644	D.3p	40	0,04	94	0,10	51	0,05	184	0,19
Support for job applicants	642	D.62	49	0,05					49	0,05
Social assistance (including pandemic allowance for care of a family member and sick pay)			**301**	**0,33**	**485**	**0,50**	**91**	**0,09**	**877**	**0,91**
SOS allowance	642032	D.62	15	0,02	66	0,07	12	0,01	93	0,10
Parental allowance (extension of the period of receipt)	642041	D.62	13	0,01	49	0,05	8	0,01	70	0,07
Unemployment benefit (extension of the acquisition period)	642033	D.62	32	0,04	40	0,04			73	0,08
One-off parental allowance	642	D.62			76	0,08			76	0,08
Humanitarian aid	642	D.62			8	0,01			8	0,01
Sick pay - paid above the level of 2019 (indexed)	642015	D.62	106	0,12	211	0,22	61	0,06	378	0,39
Allowance for care of a family member - paid above the level of 2019 (indexed)	642015	D.62	133	0,14	35	0,04	11	0,01	180	0,19
Remission of taxes and levies			**90**	**0,10**	**17**	**0,02**	**2**		**108**	**0,11**
Remission of social security contributions for April		D.61	57	0,06					57	0,06
Deduction of company losses from 2015-18		D.51B	28	0,03					28	0,03
Unpaid part of deferred levies		D.61	5	0,01	7	0,01	2	0,00	13	0,01
Zero value added tax on FFP2/3 respirators		D.211			10	0,01			10	0,01
Increased healthcare expenditures			**377**	**0,41**	**834**	**0,86**	**262**	**0,25**	**1473**	**1,51**
Rewards for healthcare employees	610, 620	D.1	13	0,01	54	0,06	5	0,00	72	0,07
Payment to medical specialists		D.99	138	0,15					138	0,15
Increased expenditures - ventilators and other	630	P.2	39	0,04	25				64	0,04
Testing expenditures	630, 710	P.2, P.51	124	0,13	332	0,34	75		531	0,48
Costs of medicines and vaccination	630	P.2		0,00	162	0,17	182	0,17	344	0,34
Equipment and other expenditures of healthcare facilities	630	P.2	63	0,07	261				323	0,07
Other measures			**266**	**0,29**	**543**	**0,56**	**225**	**0,21**	**1035**	**1,06**
Creation of emergency stocks (excluding tests)	630	P.2	33	0,04	15	0,02	65	0,06	113	0,11
Rewards to frontline workers (excluding the Ministry of Health)	610, 620	D.1	64	0,07	9				73	0,07
Goods and services related to COVID-19 (disinfection, other)	630	P.2	22	0,02	17				39	0,02
Subsidy schemes for various sectors / entities	644	D.3p	16	0,02	76	0,08			92	0,10
Economic mobilization measures	630	P.2	24	0,03	112	0,01	22	0,02	58	0,06
Contribution to the capital of the Slovak Guarantee and Development Bank		D.99	50	0,05					50	0,05
Contribution to the capital of Air Traffic Services		D.99	13	0,01					13	0,01
Vaccination premium and negotiation bonus	640	D.7			28				28	0,00

Financial aid to vaccinated seniors	642	D.62			216	0,22	130	0,12	347	0,35
Others	630	P.2	43	0,05	70	0,07	9	0,01	122	0,13
Financing from EU resources			**413**	0,45	**388**	0,40			**802**	**0,85**
Direct support together without EU funds			**1771**	**1,92**	**2997**	**3,09**	**1034**	**0,97**	**5802**	**5,98**
									0	**0,00**
p.m. Deferment of taxes and levies (without impact on the deficit)			**489**	**0,53**	**30**	**0,03**	**7**	**0,01**	**526**	**0,57**
Postponement of DPPO tax return			187	0,20					187	0,20
Deferral of income tax advance payments in case of a decrease in revenues exceeding 40%			249	0,27					249	0,27
Postponement of health contributions			6	0,01					6	0,01
Postponement of social security contributions			47	0,05	30	0,03	7	0,01	84	0,09
p. m. Bank guarantees (without direct effect on the deficit)			**645**	**0,66**	**187**	**0,19**			**831**	**0,86**
SZRB - contracted de minimis scheme			112	0,12	63	0,06			175	0,19
Eximbanka - contracted de minimis scheme			44	0,05	28	0,03			71	0,08
SIH - contracted de minimis scheme			0	0,00	0	0,00			0	0,00
Great scheme			489	0,53	96	0,10			584,9	0,63
p.m. Deferred installments (banking sector measure)			**489**	**0,53**	**96**	**0,10**			**585**	**0,63**
p.m. Transfers within public administration			**979**	**1,06**	**334**	**0,34**			**1 313**	**1,41**
Transfers to ŽSR, ŽSSK and NDS			120	0,13					120	0,13
Returnable fin. assistance to municipalities			152	0,16					152	0,16
Contribution to General Health insurance company			198	0,22					198	0,22
Transfer to Social Insurance company			459	0,50	300	0,31			759	0,81
Various increased current transfers for other public administration entities			50	0,05	34				84	0,05
All measures together			**4 786**	**5,16**	**4 032**	**4,15**	**1 041**	**0,98**	**9 859**	**10,29**

** The impact of PN and OČR is quantified through the increase in benefits compared to 2019, when indexing the basis for the calculation for 2021 and 2022. Thus, some PN and OČR, which were not classified as pandemic, are also included.

Source: MoF SR

Annex 3 – Structural balance

The structural balance is the difference between government revenue and expenditure, net of one-off and temporary effects, and assuming that the economy is at its potential level. The structural balance is a more faithful representation of the country's medium-term fiscal position compared to the headline balance.

The Stability and Growth Pact is based on the premise that Member States should achieve a symmetric approach to fiscal policy in line with the cyclical evolution of the economy. The underlying objective is an increased focus on budgetary discipline in periods of economic recovery in order to avoid the pro-cyclical nature of fiscal policy and to gradually achieve its medium-term budgetary objective[80]. The result should be to create fiscal space for periods of economic downturn, while at the same time reducing public debt at an appropriate pace and thus positively affecting the long-term sustainability of public finances.

Calculation of the structural balance

Step 1 - cyclically adjusts the nominal general government balance for the impact of economic fluctuations[81]. The estimate of the output gap is based on the current macroeconomic forecast of the Ministry of Finance of the Slovak Republic from March 2022. The estimate of the sensitivity of the public administration balance to changes in the output gap based on the OECD[82] methodology is fully adopted by the Ministry of Finance of the Slovak Republic from the EC.

Step 2 - the adjusted balance is netfi of one-off and temporary measures[83], whose fiscal impact does not recur in subsequent years. For the purposes of the draft budget plan, the Ministry of Finance of the Slovak Republic proceeds with their identification in accordance with the EC methodology [84].

For the calculation of the structural balance, the following measures have been assessed as one-off effects.

TABLE 35 – List of one-off measures

		2020	2021	2022	2023	2024	2025
1	Total measures 1 to 4B (Kurzarbeit)	-997	-1266	-288	-	-	-
2	Kurzarbeit for kindergartens and art schools	-59	-18	-	-	-	-
3	Business support in tourism and gastronomy	-6	-120	-115	-	-	-
4	Entrepreneurship support in the field of culture and creative industries	-	-8	-	-	-	-
5	Rent repayment	-40	-94	-50,6	-	-	-
6	Support for jobseekers	-49	-	-	-	-	-
7	First aid allowance	-15	-66	-12	-	-	-
8	Parental allowance (extension of the period of receipt)	-13	-49	-7,6	-	-	-
9	Unemployment benefit (extension of the acquisition period)	-32	-40	-	-	-	-
10	One-off parental allowance	-	-76	-	-	-	-
11	Humanitarian aid	-	-	-	-	-	-
12	Sickness (PN) - benefits paid above the level of 2019 (indexed)	-106	-211	-61	-	-	-
13	Nursing allowances (OČR) - benefits paid above the level of 2019 (indexed)	-133	-35	-11	-	-	-
14	Waiver of social security contributions for April	-57	-	-	-	-	-

[80] The Stability and Growth Pact is based on the premise that Member States should achieve a symmetric approach to fiscal policy in line with the cyclical evolution of the economy.
[81] Estimated using the output gap as the difference between actual and potential GDP levels.
[82] The original 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 elasticities took place. The methodology was approved by Member States in September 2014.
[83] The European Commission (EC) methodology characterises a one-off measure as a temporary measure that is not permanent and has arisen independently of government decisions. The EC has established a directive on the classification procedure for one-off measures - Vade Mecum on the Stability and Growth Pact – 2018 Edition – Guiding principles p. 28.
[84] All typical one-off measures are described in the 2015 Report of Public Finances in EMU[84], chapter 3.3. In addition, the EC has identified specific exceptions and procedures to these where an impact that undermines the above principles can also be considered as a one-off measure, these cases are also listed in the chapter.

15	Deduction of company losses from 2015-18	-28	-	-	-	-	-
16	Non - payment of part of deferred levies	-5	-7	-2	-	-	-
17	Zero VAT on FFP2 / 3 respirators	-	-10	-	-	-	-
18	Remuneration of health care workers	-13	-54	-5	-	-	-
19	Payment to a medical specialists	-138	-	-	-	-	-
20	Increased expenses - fans and others	-39	-25	-	-	-	-
21	Testing expenses	-124	-332	-75	-	-	-
22	Drug and vaccine costs	0	-162	-182	-	-	-
23	Equipment and other expenses of medical facilities	-63	-261	-	-	-	-
24	Creation of emergency stocks (excluding tests)	-33	-15	-65	-	-	-
25	Remuneration of employees in the first line (outside the Ministry of Health)	-64	-9	-	-	-	-
26	Goods and services related to COVID-19 (disinfection, other)	-22	-17	-	-	-	-
27	Subsidy schemes for various sectors / entities	-16	-76	-	-	-	-
28	Economic mobilization measures	-24	-112	-22	-	-	-
29	Contribution to the capital of the Slovak Guarantee and Development Bank	-50	-	-	-	-	-
30	Contribution to the capital of Air Traffic Services	-13	-	-	-	-	-
31	Vaccination premium and negotiation bonus	-	-28	-	-	-	-
32	Financial aid to vaccinated seniors	-	-216	-130	-	-	-
33	Called-out COVID guarantees	-25	-23	-	-	-	-
34	Others	-18	-48	-9	-	-	-
35	EU funding	413	388	-	-	-	-
36	Special levy to EU budget - undervalued clearence of goods from 3rd countries	-	-527	-	-	-	-
39	VAT payment of D4/R7 Project concessionaire	71	130	-	-	-	-
	Total	**-1698**	**-3394**	**-1034**	**0**	**0**	**0**

Source: MoF SR

Discretionary revenue measures

Discretionary revenue measures are defined by the EC methodology as measures of a legislative nature with an impact on public administration revenue. They are evaluated using the additional impacts (marginal changes) of these measures. A distinction shall be made as to whether the measure is permanent or one-off. Permanent structural measures will be recorded with an impact in the first year (at the time of entry into force) and no impact in the other years. Macroeconomic developments in the following years are not taken into account. If there are differential impacts due to the postponement of the measure, only a marginal, year-on-year change will be recorded.[85] For one-off revenue measures, there is an impact in one year and a shortfall of the same amount in the following year - the total impact in two consecutive years is zero.

TABLE 36 – Discrecionary revenue measures - yoy incremental changes (mil. euros, ESA2010)

List of measures	2020	2021	2022	2023	2024	2025
Introduction/amendment/abolition of 13th and 14th salary	11,1	20,6	0,0	0	0	0
Exemption from income taxation from the sale of ownership shares	-23	0	0	0	0	0
Change of VAT collection efficiency	-114	385	0	0	0	0
Measures related to tobacco products	0	121	76	63	0	0
Fully-funded pension pillar (II. pension pillar)	-49	-28	-90	-75	-83	-25
Abolition of special levy rate in regulated sectors	0	-17	0	0	0	0
Special levy in banking sector and his abolition in mid 2020	1	-120	0	0	0	0
Increase in the limit for advance payments (from 2 500 to 5 000 EUR)	0	-11	0	0	0	0
Carry-forward tax losses for other non-microcompanies (max. 50 % tax base in 5 years)	0	36	-6	0	0	0
Individual volume of depreciation of assets for microcompanies	0	-15	0	0	0	0
15 % rate of corporate income tax for companies with turnover up to 100 th./amendment up to 49,79th., 21% for others	-57	19	0	0	0	0
Increase of the non-taxable part of the tax base to 21 times of the subsistence minimum	-111	0	0	0	0	0
Reduced VAT rate for other foodstuffs	-81	0	0	0	0	0
Non-cash benefit for employees for transport (100 euro)	-6	-12	0	0	0	0
Measures to promote labor mobility	-34	0	0	0	0	0
Changes of tax rates of Property taxes	74	2	0	0	0	0
COVID-19 measure: Suspension of tax audits and tax proceedings	-13	13	0	0	0	0
COVID-19 measure: General pardon on social and health contributions (closed business)	-57	57	0	0	0	0
COVID-19 measure: Possibility to include losses from 2014 (loss-carry forward) already in the current 2019 tax returns	-28	28	0	0	0	0
COVID-19 measure: Deffered of social insurance in 2020 and 2021	-35	17	27	4	-3	-3
COVID-19 measure: Temporary exemption of respirators FFP2 and FFP3 from VAT	0	-10	10	0	0	0
Correction of the VAT base on the supply of goods or services	0	-22	0	0	0	0
Abolition of the VAT exemption for shipments up to 22 euros from third countries	0	11	12	0	0	0
Changes in motor vehicle taxation	-23,7	0	0	0	0	0
Changes in superdeduction	0	0	15	-15	0	0
Total	**-545,8**	**474,0**	**43,4**	**-22,6**	**-85,4**	**-28,7**

Source: MoF SR

Discretionary expenditure measures

TABLE 37 – Discretionary expenditure measures - yoy incremental changes (mil. euros, ESA2010)

Expenditure measure - SCP 2020	2021	2022	2023	2024	2025
Increased tax credit for parents with children below 15 years of age	26	73	0	0	0
Amendment on Act on Compensations to severely disabled persons	26	0	0	0	0
Amendment on Act on Social Insurance	18	10	0	0	0
Minimum pensions freeze	-59	0	0	0	0
Mandatory education in kindergartens - intermediate consumption	35	0	0	0	0
Contribution to the upbringing and education of children in kindergartens	15	11	0	0	0
Payments for road D4/R7	0	26	27	0	0
Reserve for impacts of new legislation	0	128	101	-14	-5
Reserve for measures compensating higher prices (inflation)	0	319	0	0	0
Improvement of remuneration of employees of ÚVZ SR and RÚVZ	24	0	0	0	0

[85] Illustration of the impact of marginal changes: the total impact of the measure is 200. Since it is introduced in the middle of the year, the impact in that year is 100. In the following year the impact increases to 200, only the difference of the two impacts, i.e. 100, is recorded marginally. Cumulatively, the total impact is 200, just spread over two years.

Increase of maintenance funds of 1st class roads managed by Slovak Road Administration	60	-10	0	-10	0
Early retirement for persons who raised children (born in 1957-1965)	105	31	-47	-7	-14
Introduction of a new pregnancy allowance	32	20	0	0	0
Increase in financial contribution to social services facilities	21	0	0	0	0
Abolition of co-payments for medicines for children, pensioners and disabled people	37	0	0	0	0
COVID-19 expenditure measures	1323	-1559	-1032	0	0
Permanent kurzarbeit scheme	0	17	0	0	0
Support for housing development	20	0	0	0	0
Subsidies to support family functions and to support volunteering	50	0	0	0	0
Increase in financial contribution to social services facilities	0	16	0	0	0
Amendment on Act on Compensations to severely disabled persons	12	17	0	0	0
Establishment of SLOVAKIA TRAVEL agency	0	22	0	0	0
Increased funding to Ministry of Justice	18	0	0	0	0
Public sector wage freeze	0	0	-201	-173	-209
ŽSR - sale of redundant assets	0	0	-35	35	0
Remuneration bonus to public servants	169	-169	0	0	0
Amendment on Act on Compensations to severely disabled persons	0	8	11	0	0
Increased transfer from HIC to social services facilities	0	11	11	0	0
Expenditure total	**1931**	**-1029**	**-1165**	**-170**	**-228**

Source: MoF SR

Annex 4 – Forecast of gross public debt by cash flow

In terms of cash developments, gross debt will be mainly influenced by the need to finance the persistently high cash deficits projected in the 2023-2025 budget. The main driver of nominal debt growth in the coming years will be the ever-present cash deficits. The gradual unwinding of the cash reserve over the forecast horizon will help to cover them, which will contribute to stabilising gross debt below 60% of GDP. In particular, significantly higher nominal economic growth will contribute positively to debt-to-GDP. Indebtedness of other entities will make a slightly positive contribution to debt growth over the forecast horizon, mainly due to transport undertakings and local governments. The value of debt at the budget horizon will also be affected by methodological adjustments such as bond issuance and redemption discounts.

TABLE 38 – Cash developments in nominal gross public debt (mil. euros)

	2020	2021	2022	2023	2024	2025
A. GG gross debt (as of 1.1.)	45 277	55 012	61 259	65 595	68 393	71 453
B. y-o-y gross debt change	9 735	6 247	4 336	2 798	3 060	1 676
- state budget deficit (cash accounting)	7 758	7 014	5 960	4 269	3 693	3 886
- of which SR contribution to ESM	134	0	0	0	0	0
- State Treasury funds used to finance state needs	1 767	-2 365	-1 273	-1 735	-1 001	-2 639
- indebtedness of other GG entities	**97**	**-150**	**83**	**57**	**37**	**30**
of which: municipalities	-3	18	52	33	24	15
of which: NDS	-30	-43	-37	0	0	0
of which: Railways of the SR (ŽSR) and ŽSSK	56	-140	-2	-8	-12	-12
of which: municipal public transportation companies	10	-6	39	35	28	24
- change in guarantees within EFSF	0	0	0	0	0	0
- issuance discount	28	18	153	258	337	399
- discount at maturity	-16	-2	-11	-49	-6	0
- others	**113**	**120**	**-2**	**-2**	**0**	**0**
C. Gross debt of general government (as of 31 December) (A+B)	**55 012**	**61 259**	**65 595**	**68 393**	**71 453**	**73 128**
in % of GDP	**59,7**	**63,1**	**61,6**	**58,0**	**58,2**	**57,3**

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

** consisting in particular changes in analytical forecast and notified Maastricht debt in the ESA2010.*

Annex 5 – Assumptions for calculating sustainability indicators

In analysing medium- and long-term sustainability, the MoF SR worked with actual data from the expected reality in the Stability Programme for 2022 to 2025 (for the estimation of the general government balance and the gross public debt in the base year 2022) and the latest update of age-sensitive expenditure projections for 2021. The MoF SR includes in the projections the impact of the second pillar not only on the expenditure side but also on the revenue side.[86] The calculation assumptions and the analytical analysis of the contributions of each factor to the resulting S1 and S2 values are presented in the tables below.

TABLE 39 – MoF SR assumptions for calculation of S1 indicator

	Baseline (t_0)	Primary structural balance	Debt (t_0)	Consolidation period*	End year (t_1)	Debt (t_1)	2nd pillar	S1 outcome	Sustainability assesment
Expected 2022	2022	-2,9	61,6	2023 to 2027	2035	60	**YES**	**3,4**	**high**
Fiscal framework 2023-2025	2025	-1,1	54,1	2026 to 2030	2038	60	**YES**	**-1,0**	**medium**

Source: MoF SR

TABLE 40 – S1 indicator breakdown

	E 2022	FF 2023-2025
S1 Indicator (% of GDP)	**3,4**	**0,5**
of which:		
Initial budgetary position	1,2	-0,6
Cost of delaying adjustment	0,5	0,1
Debt requirement	0,1	-0,5
Long-term care expenditure	1,6	1,6
Second pillar	0,1	0,0

Source: MoF SR

TABLE 41 – MoF SR assumptions for calculation of S2 indicator

	Baseline (t_0)	Primary structural balance	Debt (t_0)	2nd pillar	S2 outcome	Sustainability assesment
Expected 2022	2022	-2,9	61,6	**YES**	**10,8**	**high**
Fiscal framework 2023-2025	2024	-1,7	56,4	**YES**	**9,0**	**high**
Fiscal framework 2023-2025	2025	-1,1	54,1	**YES**	**8,2**	**high**

Source: MoF SR

TABLE 42 – S2 indicator breakdown

	E 2022	FF 2023-2025	FF 2023-2025
S2 Indicator (% of GDP)	**10,8**	**9,0**	**8,2**
of which:			
Initial budgetary position	3,0	1,6	1,0
Pension expenditures	4,2	4,1	4,1
Health & Long-term care expenditures	3,4	3,2	3,2
Education & Unemployment expenditures	0,4	0,3	0,3
Second pillar	-0,2	-0,3	-0,3

Source: MoF SR

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

Assumptions for the calculation of planned measures in the pension system

TABLE 43 – Assumptions for calculating the impact of the planned reforms.

Reforms	Assumptions
Linking retirement age to life expectancy	The retirement age increases for the relevant age cohorts since the retirement age ceiling would come into force under the current setting. As the retirement age increases, the change in life expectancy is monitored in seven reference periods, with each reference period following a change in life expectancy at the 5-year horizon. For women with children, the retirement age continues to be reduced by 6 months for each child, by a maximum of 18 months (applies to women who have raised three or more children).
Decreased growth of the current pension point value	The growth of the current pension point value will correspond to 95% of the growth of the average wage in the economy, compared to the current 100%.
Parental pension	The benefit for each parent is determined as 1.5% of one twelfth of the total assessment bases of the child, up to a maximum of one twelfth of 1.2 times the general assessment base. Everyone entitled to the benefit is expected to receive it.
Earlier exit from the labor market after working 40 years	GDP is adjusted for the individuals from the labor force who decide to leave the labor market earlier. Thanks to the actuarial principle, the overall volume of pension expenditure should not be significantly affected by this change. At the same time, the calculation assumes the already established linking retirement age to life expectancy*.

** his is therefore an additional effect to the linking of retirement age to life expectancy and not to the current setting. Compared to the current setting, the effect would be lower, as fewer people could use this option. Due to the growing share of time spent in education and the unchanged retirement age (due to the cap), working careers will be shorter, so fewer and fewer people will reach 40 years of working career..*

Annex 6 – Preliminary calculation of public expenditure limits by the Council for Budget Responsibility for the purposes of the Stability Programme

TABLE 44 – Calculation of planned structural balance (% of GDP)

	2023	2024
1. Sustainability risk	high	high
- requirement for conslidation	0,50	0,50
2. Debt brake (debt for t-2)	-	-
- requirement for change in structural balance	0,00	0,00
3. Pension reform reflection	0,00	0,00
Structural balance in baseline scenario of CBR (% of GDP)	-3,3	-3,6
- annual change in structural balance in baseline scenario	-0,26	-0,36
Structural balance for calculation of expenditure ceilings	**-2,8**	**-2,6**
- additional requirement of permanent measures (comparing to baseline)	0,50	1,00

Note: Claculation of limits does not take into account pension reform (approved by the Government in April, but yet not discussed in Parliament) by applying the process according to par. 6/37m of law of budgetary rules No 523/2004.

TABLE 45 – Calculation of expenditure ceiling for 2023 and 2024 (euro, ESA 2010)

	2023	2024
(-) Planned structural balance of GG	-3 264 356 491	-3 229 462 984
(-) Consolidated expenditures on debt service of GG	1 071 146 751	1 178 514 176
(-) Expenditures of central govnermnet budget for co-financing EU projects*	1 132 699 294	851 228 429
(-) Contribution to EU budget	1 023 001 000	1 042 649 000
(+) Expected balance of local governments	-16 591 497	48 382 749
(+) Expected consolidated tax revenues net of one-offs, cycle and local governments	35 333 318 991	36 651 808 025
(+) Expected consolidated non-tax revenues net of one-offs, EU funds, RRF funds and local governments	2 498 599 548	2 545 207 033
Expenditure ceiling (according to par. 3)	**37 852 836 489**	**39 402 469 186**
One-off expenditures out of the ceiling included in baseline data	**12 442 903**	**12 442 903**
- imputation of aliquot part of VAT for PPPs (R1, D4/R7)	12 442 903	12 442 903

** VAT from RRF included*

Source: CBR

TABLE 46 – Calculation of preliminary budgetary target according to MoF SR based on expenditure celings calculated by the CBR

	2023	2024
(-) Expenditure ceiling (according to par. 3)	**37 852 836 489**	**39 402 469 186**
(-) One-off expenditures out of the ceiling included in baseline data	**12 442 903**	**12 442 903**
(-) Expenditures from EU funds, RRF included	4 254 267 000	2 354 624 000
(-) Expenditures from central government budget for co-financing EU projects	1 266 828 573	691 826 261
(-) Contribution to EU budget	1 034 790 000	1 066 300 000
(-) Interest costs	962 406 000	1 133 095 000
(+) Cyclical expenditures	6 975 134	32 360 112
(+) Expected balance of local governments	227 829 000	155 378 000
(+) Expected consolidated tax revenues net of local governments	35 445 260 751	36 652 159 289
(+) Expected consolidated non-tax revenues with EU funds net of local governments	6 876 469 896	4 966 366 371
Budgetary target in euros	-2 827 036 183	-2 854 493 578
Budgetary target (% of GDP)	**-2,40**	**-2,32**

Source: MoF SR, CBR

Annex 7 – MANDATE TO REVIEW EXPENDITURE ON SUBSIDIES

The role and motivation for the use of subsidies is to address externalities and market imperfections. In Slovakia, the state supports selected entities and sectors with subsidies worth EUR 1.3 billion per year (1.3% of GDP). It is not possible to measure the impact of subsidies across the board, as there is no single instrument to measure their effectiveness due to the wide dispersion of themes and forms of the different instruments. The review will map state subsidies, evaluate each scheme separately and propose their optimisation as a contribution to the consolidation of public finances or in terms of the wider benefits they can provide.

Subsidies[87] most often correct externalities and market imperfections by redirecting resources to areas that the market cannot efficiently provide. An example is investment in green energy, which is still often financially unrewarding for the private sector, but can have high societal benefits. Subsidies can also be used to support domestic industries (e.g. support for start-ups).

Subsidies increase the rate of redistribution in the economy, raising questions of fairness, particularly with regard to the specific choice of areas and actors supported in the economy. Subsidies can often lead to inefficient allocation of resources if they are provided in a competitive market, do not reach the desired group or if their effectiveness is not regularly reviewed.

Results

There are no comprehensive outputs mapping the effectiveness of subsidies and selected transfers provided in Slovakia. There is no composite indicator for subsidies, such as the DESI for the digital economy, which covers several sub-areas, nor indicators that capture the situation without intervention, such as the risk of poverty before and after the provision of social transfers. No measurable indicators are tracked in the public administration budget for subsidies, only qualitative indicators are tracked for selected transfers in the programme budget. Existing materials mainly assess transparency according to specific themes (e.g. transparency of transfers to non-profit organisations[88] and transfers for the development of sport,[89] etc.).

Objectives and approaches

The main objective of the review will be to assess the justification and effectiveness of the subsidy schemes and to make proposals for improving their effectiveness. The main approach will be to identify the economic problems, assess the suitability of subsidies as a solution and then analyse the effectiveness of individual schemes in more detail. In addition to the above, the evaluation will also focus on the objectives of the individual schemes, the setting and evaluation of measurable indicators, comparisons with foreign countries and alternative ways of meeting the objectives.

Areas of review

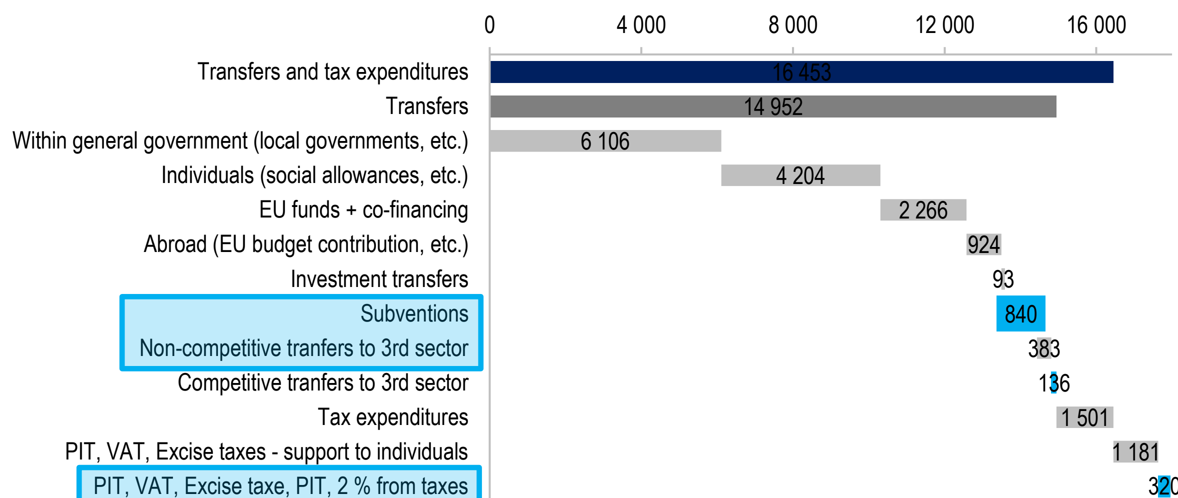
The review will assess EUR 1.3 billion worth of subsidies per year (including EUR 840 million of subsidies, EUR 320 million of selected tax expenditures and EUR 136 million of competitive transfers to the third sector), and may also assess other selected large expenditure titles. Public expenditure made without the recipients providing any benefits or goods (transfers) in return is on average EUR 15 billion per year. In addition to direct expenditure, the state also supports individuals and the private sector through tax expenditures totalling EUR 1.5 billion.

[87] Subsidies can be defined as any government aid that allows consumers to purchase goods and services at prices below those offered by the perfectly competitive private sector or increases producers' incomes above what they would have earned without such intervention. This government assistance can either be in the form of government spending (subsidies), tax breaks, loans or regulations. Conversely, transfers to households are usually not considered to be subsidies, as they do not involve the sale of goods and services, nor do they adjust their prices (Schwartz a Clements, 1999).

[88] Existing procedures and methodologies of subsidies provided from the state budget in terms of efficiency, transparency and effectiveness, MoI SR 2020

[89] Funds provided from selected budget chapters for the development of sport, SAO 2021

FIGURE 40 – Transfers of general government, tax expenditures and selected parts of revision (blue) (average 2018 – 2021, mil. euros)



Source: BIS, GG Budget, MoF SR

The state administration provided an average of EUR 0.8 billion per year in direct subsidies in 2018-2020. The review will assess more than 80% of the total package of subsidies and will focus in particular on the assessment of the largest schemes by resource allocation (RES support, Support for reduction of the final price of electricity for enterprises, Green Diesel, Flood protection, Support to SMEs, etc.). Expenditure on extra COVID-19 measures in 2020 and 2021 is not part of the review.

Of the total tax expenditure (EUR 1.5 billion per year), the review will focus on EUR 0.3 billion, which is mainly intended to support businesses and the private sector respectively. Among the largest are the optional exemption from excise duties on natural gas and coal (EUR 46 million per year), support for recreation and accommodation (EUR 41 million per year), support for research and development (EUR 35 million per year), and reduced excise duty rates on wine and beer (EUR 31 million). The review will also consider the assimilation of 2% of the tax paid. The review will not address tax expenditures that are intended to support individuals.

In particular, the review will assess competitive transfers (EUR 0.1 billion) for the development of sport, to civic associations, non-profit organisations, etc. An average of EUR 0.5 billion is provided annually in the form of other current transfers, but the review does not include non-competitive transfers to the 3rd sector - norms for pupils in non-state schools (EUR 211 million), transfers to non-state social service institutions (EUR 106 million), contributions to political parties (EUR 17 million), etc.

Responsibilities and deadlines

The interim report of the expenditure review will be prepared and published by the MoF by the end of August 2022. The final report will be published by the MoF SR and submitted to the Government of the Slovak Republic for approval by the end of February 2023.