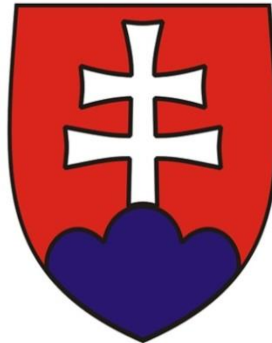


Stability Programme of the Slovak Republic for 2020 to 2023

May 2020

SUMMARY

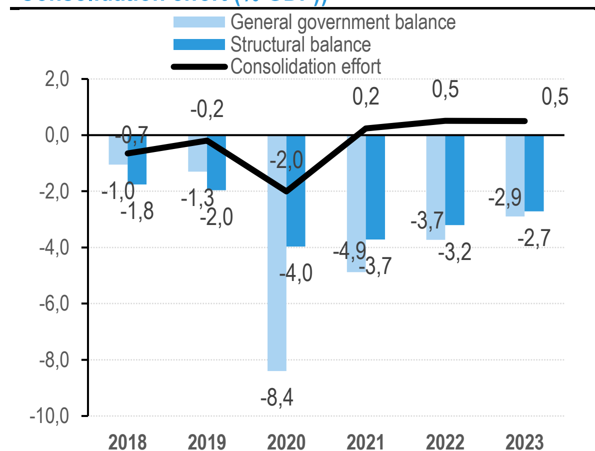
The global Coronavirus outbreak had extremely adverse social and economic impact on Slovakia. Slovakia's early response to public health issues and disciplined response of the population are the factors that contributed to minimising impact of the outbreak. The first economic measures that followed thereafter were focused on mitigation of economic consequences on companies and individuals caused by the spread of the Coronavirus. After the stabilisation phase, the measures are aimed at restoring the economic growth. The measures will be backed by strengthening sustainability of public finances, both in short-term and long-term horizon, as it is the basis for economic stability, sustainable economic growth and development.

This year, Slovak economy is expected to face the strongest economic downturn in its history. Slovakia's GDP is expected to drop by 7.2% in 2020, with the strongest adverse effects in the 2nd quarter due to the shortfall of foreign demand and the effect of social distancing measures. Despite the government's efforts to stabilise employment the severe economic downturn is expected to reduce the number of jobs by 88 thousand and increase the unemployment rate to nearly 9%. The fast and severe onset of economic effects of the outbreak is associated with considerable uncertainty. Prolongation of the pandemic situation or its second wave in the second half of the year would substantially amplify the economic downturn.

The COVID19 outbreak is expected to uncover risks in public finances. In 2019, general government deficit reached 1.3% of GDP, considerably above the balanced budget objective. Moreover, the risks for 2020 were further increased by adopting new tax and social expansionary measures. This year deficit can increase to 8.4% of GDP and the gross public debt may exceed the level of 60% GDP, as a result of the shortfall of tax revenues and the discretionary measures aimed at stabilization of the economy. Moreover, the changes in the pension system, which were adopted last year and early this year, have a strong adverse impact on long-term sustainability of public finance, in light of the ageing of the Slovak population. By 2070 the deficit of the pension system is expected to exceed 7% of GDP. Medium-term and long-term sustainability indicators (S1 and S2) suggest that Slovak public finances are facing a considerable risk. Gradual reduction of the deficit in combination with pension reform will be necessary to address long-term sustainability risks.

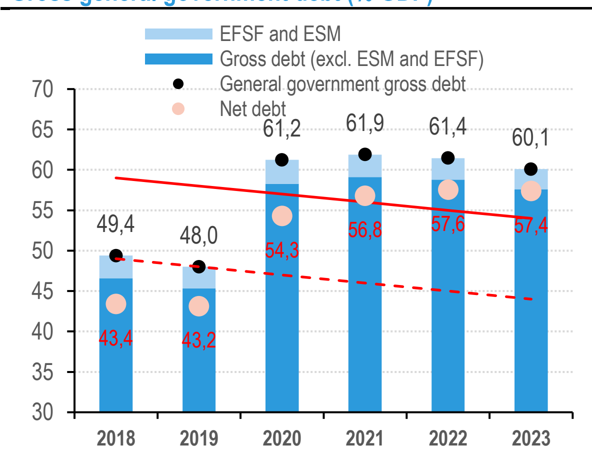
Slovak fiscal policy will respect the existing EU and national budgetary rules, aiming for stabilization of public debt. According to the latest forecast, the deficit of public finance would remain at 6% of GDP and the gross debt would further grow above 66% of GDP under a no-policy-change scenario. To comply with the existing EU fiscal rules, it is necessary to reduce the deficit to 4.9% of GDP in 2021, 3.7% in 2022 and 2.9% in 2023, which would lead to stabilization of gross debt at the level close to 60% of GDP. To achieve this medium term fiscal trajectory, it is necessary to adopt consolidation measures in the amount of 1.1 bn EUR in 2021 up to 3.4 bn EUR in 2023. Considering the large uncertainty about future economic trends, fiscal targets and the necessary consolidation measures may be revised, as necessary. Preference will be given to measures increasing efficiency.

Consolidation effort (% GDP))



Source: MoF

Gross general government debt (% GDP)



Source: MoF

One of the goals in the Government's manifesto is to deliver a reform of the pension system. Measures adopted in 2019 considerably worsened the long-term sustainability of the pension scheme. In the first pillar, the key challenge is to strengthen the link between the pension expenditure and the demographic trends, and to make the scheme fairer and more transparent. In the second pillar, the priority is to increase yields from savings through a better setup of the investment policy. The Government intends to improve predictability and stability of the existing pension scheme by adopting a constitutional law defining the essentials of the first and the second pillar.

Long-term sustainability of public finance will also be supported by structural reforms to enhance economic growth. The measures will be focused on the key structural challenges of the Slovak economy, i.e., healthcare, education, labour market and a more efficient use of economic resources. Efficiency of public finance will be improved through growth-oriented tax mix, reduction of tax evasions on the revenue side and increasing value for money on the expenditure side.

Credibility of the budget and its execution will be supported by introduction of multi-annual expenditure ceilings, by strengthening the Value-for-Money principles and by improving the transparency. The Government's manifesto includes a commitment to ensure effective three-year budgeting. The purpose is to strengthen the anti-cyclical function of public finance through introduction of binding multi-annual expenditure ceilings. The quality of the budget will be supported by extending the scope of items forecasted by analytical committees to include also interest expenditure, selected non-tax revenues and certain mandatory expenditures. The government also intends to increase transparency through a more frequent and clear reporting about preparation and implementation of the budget. Further objectives include better preparation of investment projects with consistent application of the value for money principles and also definition of a new debt management strategy, supported by a cost-risk analysis in accordance with best global practices. During its term, the government intends to evaluate the majority of public expenditure by spending reviews and to implement agreed measures. After their introduction into the legal framework, spending reviews became an integral part of the budgetary process.

The Stability Programme is the key medium-term budgetary document in the Slovak Republic. In this way, Slovakia complies with the obligation imposed in Article 4 of Regulation (EU) No 473/2013 of the European Parliament and of the Council. On 18 May 2020, the Stability Programme for 2020-2023 was approved by the government and will be discussed by the members of the Parliament of the Slovak Republic. The Stability Programme is based on the macroeconomic and tax forecast dated 8 and 16 April 2020, prepared by the Macroeconomic and Tax Forecast Committees.

The Stability Programme includes three spending reviews and a summary implementation report. The spending review of the general government employment (the Public Wage Bill) identified potential savings at 765 mil. EUR and quantified that additional 1.2 bn EUR are necessary to achieve the employment and pay levels equivalent to the EU average. The spending review of people at-risk-of-poverty or subject to social exclusion proposes reallocation measures in the amount of EUR 13.7 mil EUR and identifies that additional EUR 263 mil. EUR is needed. The spending review for IT identified potential saving in annual IT spending by 10-20% (EUR 48-95 mil.). The implementation report for 2019, also included in the Annex, evaluates the progress in the implementation of measures from spending reviews of healthcare, transportation, IT, education, environment, labour market and social policies and agriculture and rural development.

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1. ECONOMIC OUTLOOK AND ASSUMPTIONS

In consequence of the global crisis triggered by the spread of the Coronavirus, Slovak GDP in 2020 is expected to decrease by 7.2%. The economic performance is expected to experience a dramatic decline mainly in the second quarter, across services, industry and building sectors. In the second half of the year, the economy will be slowly reviving and partly closing the gap. As a result, in 2021 the growth of GDP will achieve 6.8%. In next years, the dynamism will slow down and thus, by 2023 the economy could recover approximately half of the loss incurred in 2020. However, high uncertainty persists as to further development. Prolongation of the outbreak or return thereof in the second half of the year would substantially worsen the economic downturn.

1.1 Economic trends in Slovakia in 2019

After considerable overheating in 2018, dynamism of Slovak economy in 2019 relaxed to 2.3%. The adverse trends in foreign demand were reflected mainly in Slovak export-oriented industry. Anyway, the labour market resisted the pressure and under historically low unemployment rates, employees' earnings grew the most since 2008. Households, however, were prudent in spending and the increase in earnings resulted in historically high savings. The stable situation on the labour market encouraged growth in consumer prices which increased by 2.7%. Total government spending increased mainly thanks to growth of tariff salaries of public sector employees.

1.2 Medium-term forecast[1] of economic trends in 2020 - 2023

In 2020, the global outbreak will drag the Slovak economy into recession and GDP will drop by 7.2%. The estimate is based on the assumption that Slovak economy and its foreign business partners are strongly affected by the outbreak over 2 months. The economic performance is expected to experience a dramatic decline mainly in the second quarter, across services, industry and building sectors. We expect that the economy will be gradually reviving during the second half of the year, although the revival will be rather uneven across sectors, as certain limitations may persist. Slovak economy could catch up with the pre-crisis performance by the end of 2021, although the pre-crisis expectations will never be fully met.

In 2020, the GDP will be pressed down not only by investments and by absence of foreign demand but also by limited domestic spending. Although disposable income of the population is not falling that strongly, household spending is influenced through several channels, measures to avoid spread of the infection, concern about infection and uncertainty as to future events. The loss of income is partly compensated by measures adopted by the Government and thus the household savings rate is expected to temporarily grow. Investments will drop as low as during the global financial crisis in 2009 and the economy will be substantially overcooled. Experts will suffer similar losses resulting from the COVID 19 outbreak. As a paradox, the balance of trade may result in black numbers as the lower spending will decrease the quantity of imported goods and services. The government spending will act to cushion the effects of the crisis.

In 2021, the reviving process will continue and by the end of the year, the economy could regain the pre-crisis level. The GDP, supported by domestic and foreign demand, is expected to grow by 6.8%. Lower uncertainty is expected to encourage investment activities. Nevertheless, the economy will remain rather overcooled.

By the end of the forecasted period, the dynamism of GDP will slow down, and the economy will not fully meet the pre-crisis expectations. Thus, Slovakia will manage to catch up with approximately half of the loss incurred in 2020 vs the pre-crisis expectations. The activity in 2023, will be supported by drawing of the remaining available amounts from EU funds at the end of the programming period. That will contribute to nearly closing the negative production gap.

TABLE 1 - Forecast of selected indicators of the Slovak economy for 2019 to 2022

No.	Indicator		Actual			Forecast		
		unit	2017	2018	2019	2020	2021	2022
1	GDP, current prices	bn. eur	89.7	94.2	89.0	95.2	100.5	105.8
2	GDP, constant prices	%	4.0	2.3	-7.2	6.8	4.1	3.2
3	Final consumption of households and NPISH[1]	%	3.9	2.2	-8.4	7.8	4.1	2.9
4	Final consumption of government	%	0.2	3.8	1.8	0.2	1.8	2.6
5	Gross fixed capital formation	%	3.7	4.4	-20.3	17.0	5.2	5.8

[1] Forecast of the Macroeconomic Forecast Committee.

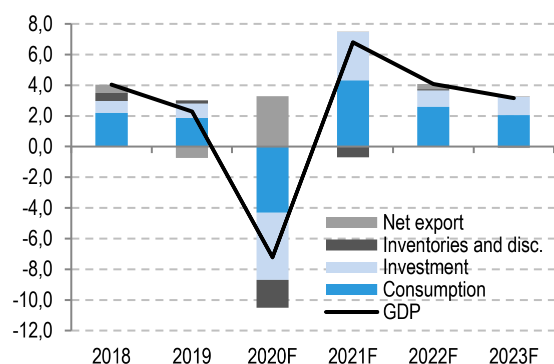
6	Export of goods and services	%	5.4	1.7	-21.4	17.6	6.5	3.6
7	Import of goods and services	%	5.0	2.6	-25.5	19.0	6.5	4.0
8	Output gap (share of pot. output)	%	1.8	1.7	-7.1	-3.0	-1.3	-0.5
9	Average monthly wage (nominal growth)	%	6.2	7.8	1.6	4.0	4.9	4.9
10	Average employment growth, LFS	%	1.4	0.7	-3.5	1.5	1.0	0.2
11	Average employment growth, ESA	%	2.0	1.2	-3.6	1.6	1.0	0.3
12	Unemployment rate, LFS	%	6.5	5.8	8.8	7.7	6.8	6.4
13	Unemployment rate, registered	%	5.4	5.0	7.7	6.7	5.9	5.5
14	HICP	%	2.5	2.8	1.7	0.2	1.9	2.0
15	Current account balance (share of GDP)	%	-2.6	-2.9	2.3	0.3	0.3	-0.5

Source: MoF SR

In 2020 employment will dramatically decline and around 88 thousand of jobs will be lost on the labour market. Jobs will be lost mainly in selected service sectors (tourism, catering services, retail trade or transport), but also in manufacturing and building industry. However, the government measures for stabilisation of employment will cushion the increase in unemployment. We assume that without the measures, redundancies would be more severe and another nearly 20 thousand jobs would be lost. It is expected that the situation on the labour market will improve from the second half of 2020, anyway, things will be improving slowly, and the pre-crisis level of employment will not be reached within the forecasted period. On the other side, in 2020 the unemployment rate will grow to 8.8%. In the next years, the unemployment rate is expected to fall, however, it will still exceed the pre-crisis level.

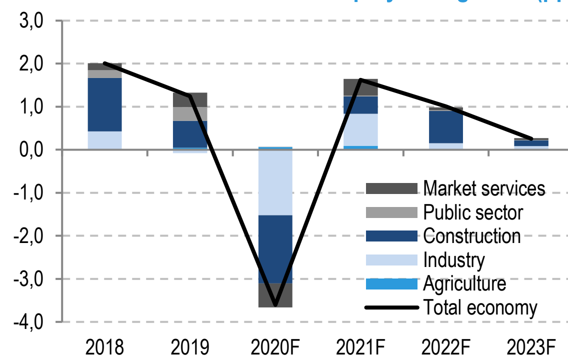
In 2020, the growth rate of average nominal wage will decelerate and will increase only by 1.6%. It means a dramatic slowdown compared to 2019, mainly in the private sector. The trends in the average wage will be cushioned by the number of beneficiaries of nursing benefits and sickness benefits and by lower wages resulting from part-time jobs. Real wages will stagnate owing to outage in economic activity. In the next years, dynamism of wages will be re-established along with improvements on the labour market.

FIGURE 1 – Contributions to GDP growth (pp)



Source: SO SR, MoF SR

FIGURE 2 – Contributions to employment growth (pp)

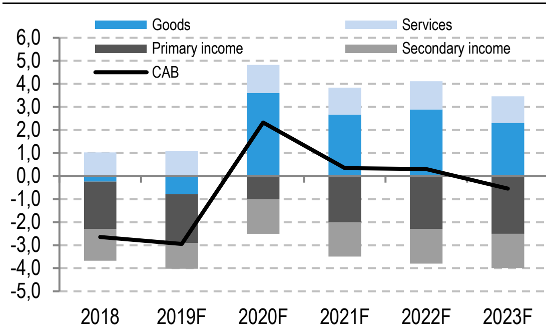


Source: SO SR, MoF SR

The inflation rate in 2020 will slow down to 1.7 %. The decrease will be caused mainly by a strong decline in oil prices owing to lower demand but also owing to price war of oil producers. Lower oil prices will also hinder the growth in food prices due to lower prices of inputs in agriculture. Prices of services and commodities will respond to the economic downturn with certain delay. This year, regulated prices are influenced by the growth in prices of electricity since January.

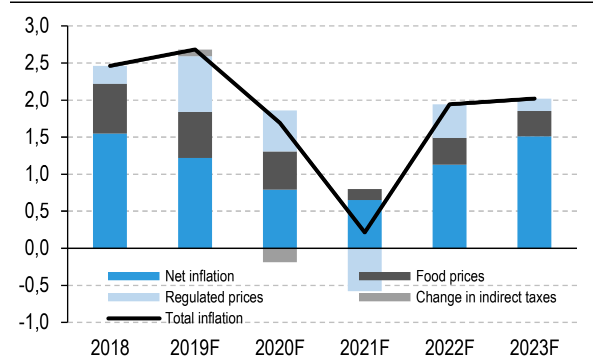
In the following year, the growth in prices will fall to a level close to zero. Low oil prices and trends in energy futures indicate a strong decline in regulated energy prices. It will be associated with slowdown in growth of prices of goods and services caused by the economic downturn and severe overcooling of the economy. The following years will see a gradual revival of the economy and gradual return of demand inflation. In medium-term horizon, prices will grow at a 2 % rate.

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



Source:: NBS, MoF

FIGURE 4 - Structure of consumer inflation - contributions of components (pp)



Source: SO SR, MoF

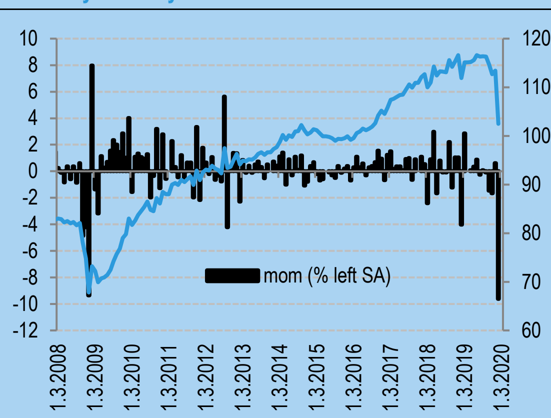
BOX 1 - External environment assumptions

The strained situation resulting from the spread of the Coronavirus has led to sale-offs in global finance markets. From 20 February until mid-March, stock markets in the USA, EU and Japan declined by more than 30%, and, as a result, adding to losses similar to those incurred during the financial crisis in 2008. The abrupt panic activated the indicators of uncertainty and stress in financial markets and caused an increase in credit spreads.

Prompt response of key central banks helped to stabilize the situation. American Fed lowered its key interest rate from 1.5% to 0%. At the same time, the Fed eased the collateral conditions and announced the unlimited purchase of assets and several lending programmes to support businesses. The ECB also adopted an extensive set of measures. As a part of the EUR 750 bn Pandemic Emergency Purchase Programme (PEPP), ECB removed the limit to buy no more than 33% of any country's bonds. At the same time, they decided to ease the collateral standards by adjusting the main risk parameters and promised to purchase corporate-sector bonds as well. The impulse also comes from fiscal policies of several countries. The set of measures temporarily calmed down stock markets which erased a part of their initial losses.

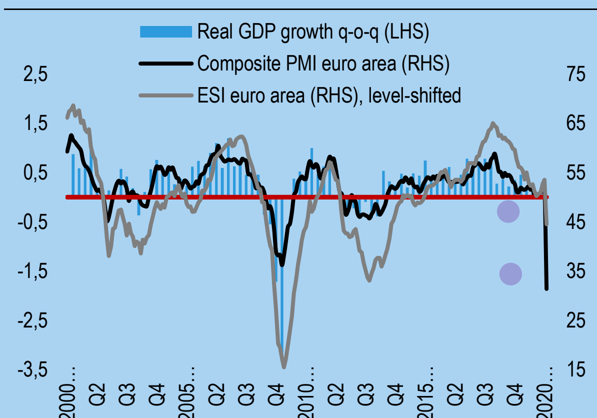
From the beginning of the year, the Brent oil price fell by more than 50%. The factors that contributed to decreasing the price of the commodity to as low as USD 27 per bl. were, besides lower demand, also trade disputes between OPEC+ countries. The foreign-exchange market has also been through a turbulent time. In particular, the exchange rates of so-called emerging countries weakened, but also the exchange rates of the V3 region. Equally dramatic changes were seen in bond markets, as demand for government bonds declined owing to investors' concerns and the spreads temporarily increased.

FIGURE 5 - Global container shipping dropped in February similarly to 2009



Source ISL, IFP

FIGURE 6 - Leading indicators for the euro area point to historical lows



Source: EK, IHS Markit, Eurostat, IFP

The spread of Coronavirus paralyzed the global economy. In February, the global container shipping decreased on a month-on-month basis by 10%, similarly to the time of the financial crisis (*Figure 5*). In the second half of March, the number of applications for unemployment benefits in USA increased by historical 9 million. During the 1st quarter, the economy of the euro area fell into recession, and is expected to remain in recession during the 2nd quarter. Border closures and adoption of protective measures affected in the first place the aviation industry, tourism, restaurants and hotels and services in general. The curb in international trade and outages in supply chains will also trigger a recession in manufacturing. The precise scope of losses caused by the Coronavirus will depend on the duration of the COVID 19 outbreak.

Conjunctural surveys indicate that the recession will be deeper than the financial crisis in 2008 (Figure 6). The composite PMI index in the euro area fell to its historical low. Similarly, sentiment indicators (ESI) in the euro area and Ifo activities in Germany indicate extent of losses comparable to 2008. The estimates of GDP and imports from all of Slovakia's business partners were substantially reduced, assuming approximately 2-month duration of the outbreak.

The cut-off date for external environment assumptions, including interest rates, commodity prices and exchange rates was 31 March 2020.

1.3 Cyclical trends in economy

The growth of the economic potential will decelerate. The potential will be less supported by the labour market as the crisis will affect the employment and participation at the labour market. The development of investments and Investments and capital formation will be limited by several factors, including uncertainty of future events. However, total factor productivity will be affected only mildly as the shock in economic activity is not of a structural nature.

FIGURE 7 - Contribution of production factors to potential growth (pp) – MoF SR approach

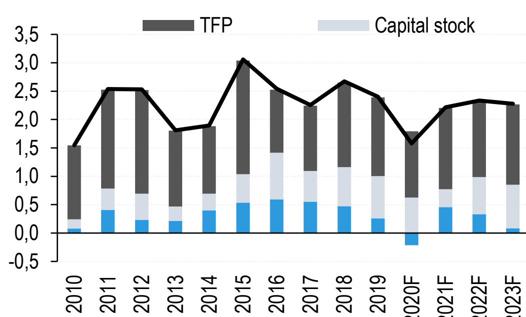


TABLE 2 - Contribution of production factors to potential growth (pp) – MoF SR approach

	Pot. GDP (growth, %)	TFP*	Capital stock	Labour
2015	3.1	**2.0**	**0.5**	**0.5**
2016	2.5	**1.1**	**0.8**	**0.6**
2017	2.3	**1.2**	**0.5**	**0.6**
2018	2.7	**1.5**	**0.7**	**0.5**
2019	2.4	**1.4**	**0.7**	**0.3**
2020F	1.6	**1.2**	**0.6**	**-0.2**
2021F	2.2	**1.4**	**0.3**	**0.5**
2022F	2.3	**1.3**	**0.7**	**0.3**
2023F	2.3	**1.4**	**0.8**	**0.1**

** total factor productivity*

Source: MoF SR

In 2020, Slovak economy will be substantially overcooled. Although the social distancing measures are just temporary, restoration of economic growth will be accompanied by increased unemployment and prudent household spending. Thus, the recovery of Slovak economy and the foreign demand will be just gradual. It will take some time until the output gap is closed, and it is expected to exceed the forecast horizon.

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

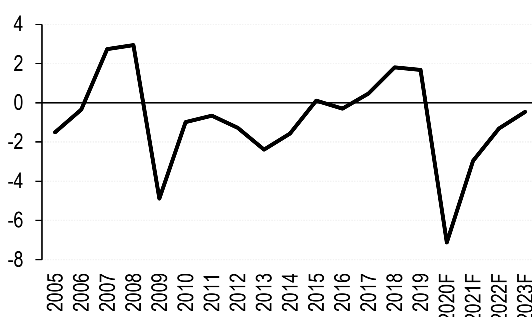


TABLE 3 - Output gap - MoF SR approach

	GDP (real growth, %)	Pot. GDP (growth, %)	Output gap (% pot. GDP)
2016	2.1	2.5	**-0.3**
2017	3.0	2.3	**0.5**
2018	4.0	2.7	**1.8**
2019	2.3	2.4	**1.7**
2020F	-7.2	1.6	**-7.1**
2021F	6.8	2.2	**-3.0**
2022F	4.1	2.3	**-1.3**
2023F	3.2	2.3	**-0.5**

** Estimate from Vamp from April 2020*

Source: MoF SR

1.4 Comparison of MoF SR forecast of Slovak economy vs forecasts of other institutions

MoF SR forecast is just slightly more pessimistic than the forecasts of other institutions reflecting the impact of the Coronavirus. Compared to the EC forecast, the forecast of the MoF SR expects the drop in GDP in 2020 to be by 0.5 p.p. deeper and consumer prices in 2021 to grow more slowly because of decrease in regulated prices. The economic recovery is comparably strong in both forecasts. The difference in the current account balance results from the fact that the MoF SR assumes a severe decrease in household spending, which is expected to reduce imports of goods and services and thus improve the balance of trade.

TABLE 4 - Comparisons of forecasts of MoF SR and other institutions

	2019	2020	2021
		Real GDP growth (%)	
MoF SR	**2.3**	**-7.2**	**6.8**
MFC (median)	2.3	-6.5	6.0
NBS	2.3	-9.3	8.0
EC	2.3	-6.7	6.6
IMF	2.3	-6.2	5.0
		HICP (%)	
MoF SR	**2.8**	**1.7**	**0.2**
MFC (median)	2.7	1.8	1.6
NBS	2.8	1.8	1.0
EC	2.8	1.9	1.1
IMF	2.8	1.1	1.4
		CAB (% of GDP)	
MoF SR	**-2.9**	**2.3**	**0.3**
MFC (median)	-2.9	0.0	0.0
NBS	-	-	-
EC	-2.6	-2.9	-2.4
IMF	-3.2	-3.0	-2.5

Source: MoF SR (April 2020), Macroeconomic committee (April 2020), NBS (April 2020, middle scenario), EC (February 2020) and IMF (April 2020).

1.5 Risk scenarios

High uncertainty persists as to future events and the forecast risks are on the negative side. The uncertain duration of the outbreak and potential returns of the disease even worsen the existing economic downturn. If global supply chains are disrupted, their coordination may take longer and that will slow down the recovery. And last, but not least, corporate risk management will be more focused on the liquidity reserve requirement rather than formation of investments, with more emphasis placed on geographical diversification and proximity of suppliers. Possibilities of further development are analysed in two alternative risk scenarios.

Risk scenario 1: Longer COVID 19 outbreak

The first risk scenario assumes a longer outbreak, lasting for 3 months. A longer duration of the outbreak will result in a more severe decline in production. As we do not expect any serious disruption of supply chains, therefore after the restart a part of the lost production should be recovered as it is assumed under the baseline scenario.

Compared to the baseline forecast, a longer quarantine would cause a cumulative loss of Slovakia's real GDP by 1.5 p. p. by 2023. The quarantine measures in combination with lower foreign demand will be reflected in lower production from local manufacturers and that will immediately slow down Slovak exports. In consequence of lower sales, corporations will have to reduce their wage costs and subdue their investment activities compared to the baseline scenario. Investing activities will be most affected in the short-term and medium-term horizon. Lower earnings and trends in employment will be reflected in lower household spending, which is partly mitigated by spending of the public sector. The decrease in the production gap will then mitigate the inflation pressures in the economy.

TABLE 5 - Scenario 1: Longer quarantine

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

	Real GDP	Consumer prices	Private consumption	Public consumption	Real investment	Real export	Total employment	Nominal wages
2020	-5.7	-0.3	-5.0	0.6	-27.3	-16.5	-1.3	-1.9
2021	-1.8	-0.5	-2.7	-0.6	-25.1	-14.8	-0.8	-2.4
2022	-1.3	-0.6	-2.8	-0.9	-23.3	-13.6	-0.6	-2.6
2023	-1.5	-0.6	-2.8	-1.2	-22.6	-12.2	-0.4	-2.8

** In scenario 1 the level of GDP in 2020 would be 5.7% lower (and in 2023 .5% lower) compared to the baseline scenario*

Source: MoF SR

Risk scenario 2: Slower recovery

The second risk scenario assumes a slower economic recovery. The recovery may be slower, e.g., owing to repeated pandemic waves or uncoordinated restart of foreign trade transactions, as the epidemic affected each country at different times and with different intensity. Supply chains are disrupted, and it will take a rather long time until they are coordinated. Weakening of international economic links, limitation of corporate investments and/or higher preferences to household savings can trigger a growth profile resembling the development after the global financial crisis. Under this scenario, Slovakia's business partners will not achieve the pre-pandemic level over the whole forecast horizon.

Compared to the baseline forecast a slower recovery of global economy would lead to cumulative decrease of Slovakia's real GDP by additional 8.5 p. p. by 2023. Lower production capacities will be reflected in lower investments and exports of Slovak companies along with worsened outlook on the labour market. Considering the impairment of global supply chains, a substantial loss was incurred in foreign trade. The private consumption and government spending are expected to decrease in line with the lower aggregate economic performance. Consumer prices are adversely affected by decrease in wage costs and opening of the production gap.

TABLE 6 - Scenario 2: Slower recovery

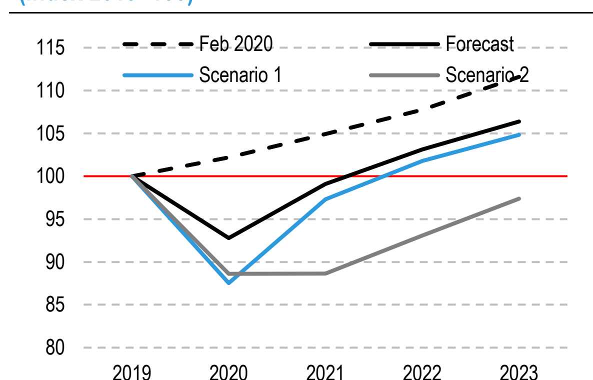
Cumulative change of variables compared to the baseline scenario in p.p.

	Real GDP	Consumer prices	Private consumption	Public consumption	Real investment	Real export	Total employment	Nominal wages
2020	-4.5	-0.1	-3.8	-0.5	-10.2	-13.0	-0.6	-0.3
2021	-10.6	-0.7	-9.2	-3.0	-19.5	-27.0	-2.2	-3.3
2022	-9.7	-1.3	-8.8	-2.3	-18.6	-23.5	-2.0	-4.5
2023	-8.5	-1.4	-7.1	-1.5	-16.0	-22.2	-1.3	-4.5

** In scenario 2 the level of GDP in 2020 would be 4.5% lower (and in 2023 8.5% lower) compared to the baseline scenario.*

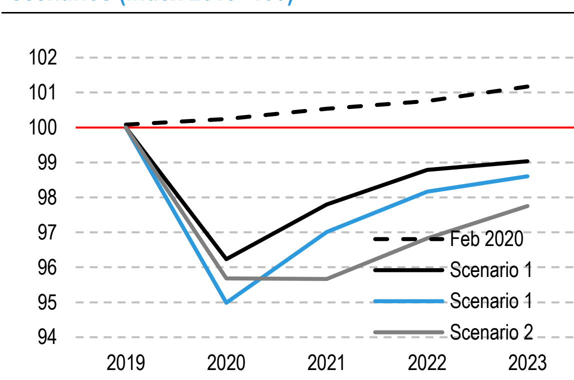
Source: MoF

FIGURE 9 - GDP in baseline forecast and scenarios (index 2019=100)



Source: MoF

FIGURE 10 - Employment in baseline forecast and scenarios (index 2019=100)



Source: MoF

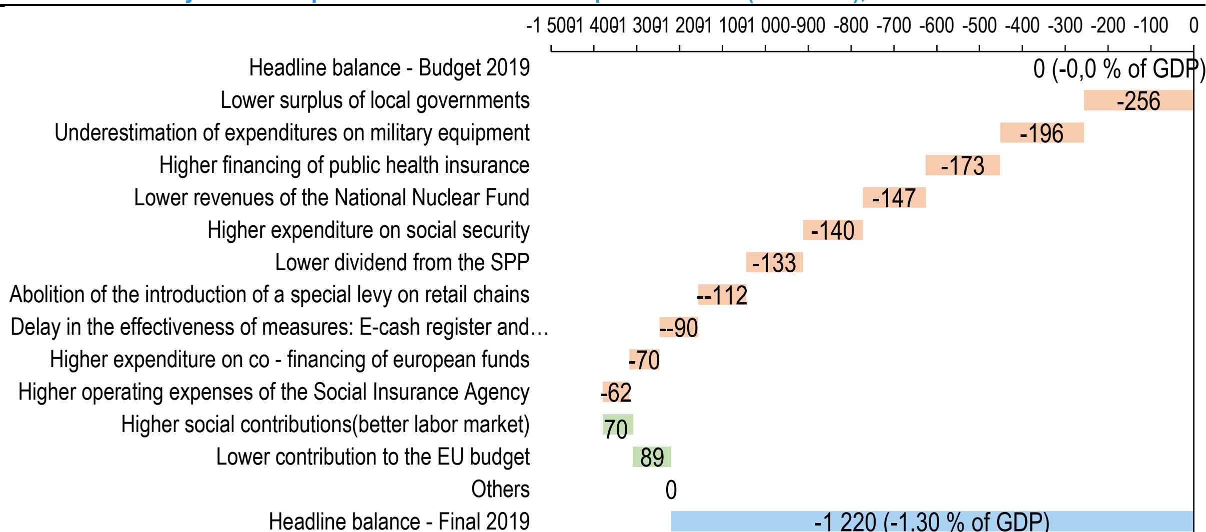
2 CURRENT FISCAL POSITION AND MEDIUM TERM PLAN

The COVID19 pandemic uncovered risks in public finances. In 2019, the general government deficit reached 1.3% of GDP, well above the targeted balanced budget. New tax and social measures, including the 13th pensions, have further deteriorated fiscal position in 2020. The general government deficit will rise sharply due to the outbreak of the COVID19 pandemic. Government measures to combat the spread of the coronavirus and the stabilization of the economy (estimated at 2.5% of GDP), along with the fiscal impact of economic downturn, may increase the deficit in 2020 to 8.4% of GDP. Gross public debt, which is estimated to increase to 61.2% of GDP in 2020, is likely to exceed the highest debt brake threshold. In line with its manifesto, the government plans to reverse the rising debt trajectory, by reducing the headline deficit to 2.9% of GDP by 2023. Gross debt will thus stabilize at around 60% of GDP by 2023. Achieving the medium-term budgetary objectives will require consolidation measures of around 1.1 billion EUR in 2021 to 3.4 billion EUR in 2023 (vis-a-vis the no-policy change scenario). To reach the targets, measures increasing the efficiency of public finances will be preferred. Due to significant uncertainty related to COVID19 pandemic and its effects, deficit targets may be updated in the event of changes to macroeconomic outlook.

2.1 General government balance in 2019

According to the Eurostat, the general government deficit reached 1.30% of GDP in 2019[2]. The objective of a balanced budget has thus not been achieved. The achieved deficit was the result of combination of higher expenditures of the state budget and the social insurance company, a shortfall in tax and non-tax revenues of the state budget and also a lower than budgeted surplus of local governments.

FIGURE 11 - Analytical description of GG balance development in 2019 (ESA 2010), contributions in EUR mil.



(+) / (-) positive / negative impact on government balance. *Source: MoF*

Local governments achieved lower than budgeted surplus, by 256 mil. euros. Local governments recorded higher-than-budgeted expenditures, mainly on compensation (EUR 206 million), current transfers (EUR 188 million) and investments (EUR 540 million). The increased expenditure was also partly due to new obligations (e.g. provision "free lunches" in primary and nursery schools). However, part of the increase in expenditures was not covered by transfers from the state, EU budget, nor by own revenues, which resulted in lower-than-budgeted surplus of local governments.

[2] The current April forecast of the Tax Committee updated the collection of taxes for 2019. There was a reduction mainly in corporate income tax and social security contributions. Together with other factors, the downward revision is 73 mil. EUR. On the top of tax forecast update, the Slovak Parliament approved this year the possibility of including past losses of companies for the years 2015 to 2018 in the tax return for 2019, which represents an additional risk for the deficit for 2019 in the amount of 43 mil. EUR.

Other state budget expenditures[3] also significantly exceeded the budget. One of the reasons is the financial support to the health care system in the amount of 173 mil. EUR, intended to cover the increase in health insurance expenditure. Higher transfer was provided on the back of the non-implementation of part of the identified savings by the Value for Money Unit, as well as a result of the contracting of health insurance companies beyond the budgeted operations[4]. The underestimation of military equipment expenditures, as recorded according to the European methodology[5], also contributed to the budget overrun (EUR 196 million). At the end of the year, the modernization of hospitals and the investment activity of the National Highway Company (NDS) accelerated through a transfer from the state budget. The faster drawdown of investments is also due to carry-overs of unspent funds from previous years[6].

There was also shortfall of several non-tax revenues. The dividends paid from the Slovenský plynárensky priemysel (major gas company with stake of government) was lower by 133 mil. EUR. The National Nuclear Fund recorded a more significant shortfall in revenues, due to the non-recognition of most of its revenues in the ESA 2010 methodology (EUR 123 million)[7] and a further shift in the completion of the Mochovce nuclear power plant (EUR 24 million). The Agency for Emergency Stocks of Petroleum and Petroleum Products (EOSA) also achieved lower revenues due to non-implementation of the budgeted increase in fees for the management of crude oil and petroleum products (EUR 35 million).

The expenditures of the Social Insurance Agency also grew more significantly compared to the approved budget. Higher than budgeted expenditures by EUR 140 mil. were recorded in case of sickness and unemployment benefits. The budgeted values did not reflect the significant increase in benefits in recent years. Sickness benefits also grew more markedly, mainly due to the higher-than-expected number of fathers on maternity leave as well as higher growth in nominal wages, from which maternity benefit is calculated. Unemployment benefits may have risen due to temporary voluntary unemployment as people looked for better jobs during a favourable part of the economic cycle. Compared to the budget assumptions, the Social Insurance Agency also recorded higher operation costs, which were underestimated in the budget in the light of trends from previous years (EUR 62 million).

Lower tax revenues of the state budget[8] also contributed to the deficit. Compared to the approved budget, tax revenues were lower mainly due to implementation lags of several legislative measures designed to combat tax evasion. Electronic cash registers (eKasa[9]) were introduced later than expected and identification substances in fuels (nanomarkers) have not yet been introduced. Their expected impact (a total of € 90 million) was included in the approved budget on the top of the estimates of the Tax Forecast Committee. The shortfall in tax revenues is also related to the abolition of the special levy from retail chains (EUR 112 million net effect, including effects on corporate income tax).

On the contrary, tax revenues from the labour market were a positive surprise, with an impact of 70 mil. euros. Even with slower economic growth, nominal wage growth exceeded budget expectations. Details on the evaluation of tax revenues of the entire general government budget administration vis-a-vis the assumptions of the approved budget are described in Annex 3.

The acceleration drawdown of the EU funds has increased co-financing, which partially offset the savings from lower contribution to the EU budget. Higher drawdown of EU funds by 70 mil. EUR took place mainly in

[3] Expenditures with an impact on the deficit in the ESA2010 methodology, except for the transfer to the social insurance company, expenditures on debt service and outside expenditures related to the EU budget. The difference against budget assumption is also adjusted for the effect of budgeted reserves for new revenue measures (impact of lower VAT on accommodation services as well as the introduction of holiday checks, as these were stated in the budget of the general government on the expenditure side)

[4] See also revision of UHP - Healthcare vol. 2, chapter 3.7. https://www.mfsr.sk/files/archiv/44/revizia_zdravotnictvo_2.pdf)

[5] It is only an accounting revision, i.e. the shift of the total payment between individual years depending on the moment of delivery of military equipment. The delivery of military equipment therefore took place earlier than anticipated in the budget.

[6] In 2019, 1.1% of GDP was spent on expenditure carried over from previous years.

[7] As part of so-called Eurostat's benchmark revision of national accounts by Eurostat, which takes place once a long period.

[8] Total tax revenues adjusted for personal income tax and real estate taxes, which are revenues of local governments under scope of Committee on Tax Forecasts. Excluded are also imputed revenues from the so-called "Green energy" in the amount of 563 mil. euros. Green energy has its expenditure counterpart in the amount of EUR 542 mil. For more details, see BOX 4 in the Draft Budgetary Plan for 2020. The comparison of tax-revenue revenues vis-a-vis the budget is analytically adjusted for the impact of lower VAT on accommodation services as well as the introduction of recreational vouchers, as these were included in the general government budget on the expenditure side and approved by Parliament only later. Furthermore, tax revenues are adjusted for the impact of the exemption of the non-monetary benefit for the employee on accommodation and the reduction of the limit for VAT refunds to tourists, as these measures, were also approved only after the adoption of the budget.

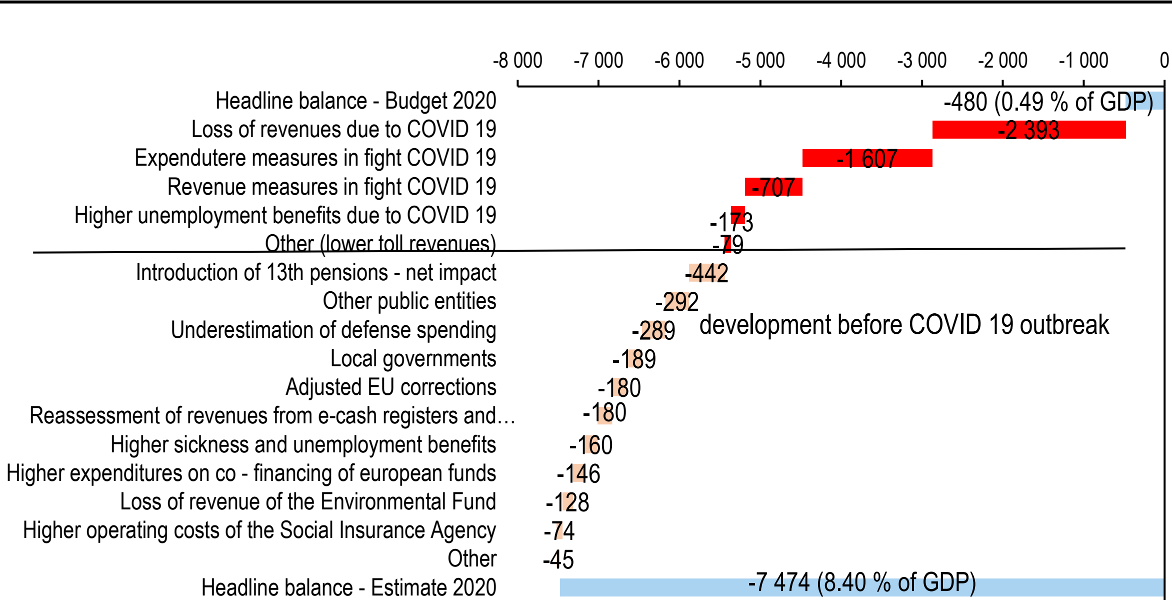
[9] Effective compulsory introduction of eKasa for all entities was moved to 1 July 2019. Fines for non-introduction were later postponed to 1 January 2020 to give operators enough time to switch to a new online cash register, as there was a risk that there would not be enough certified cash registers on the market.

the transport infrastructure sector. However, the negative impact was fully compensated by the transfer to the EU budget, which was lower by 89 mil. EUR

2.2 Current developments in 2020

In 2020 the general government deficit is expected to increase by more than 7 percentage points year-on-year in 2020, up to 8.4% of GDP. With respect to the approved budget, which envisaged a deficit of 0.49% of GDP, current developments are mainly influenced by government measures against the spread of coronavirus and the temporary interruption of economic activity (with an overall impact of 5.6% of GDP). At the same time, in addition to the effects caused by the outbreak of the COVID19 pandemic, the approval of 13th pensions earlier this year is incorporated, as well as the materialisation of other risks from the approved budget such as shortfall of non-tax revenues and higher spending of social insurance agency and local governments.

FIGURE 12 - Analytical description of GG balance development in 2020 (ESA 2010), contributions in EUR mil.



(+) / (-) positive/negative impact on government balance. *Source: MoF*

Developments due to COVID19

As a result of the outbreak of the COVID19 the general government deficit is expected to increase by EUR 5 billion (5.6% of GDP)[10]. The shortfall in total tax revenues caused by the crisis is expected at 2.4 billion. EUR (2.7% of GDP). Government measures aimed stabilise the economy and to reduce of the spread of the virus contribute to a decrease in revenues by 0.7 billion EUR (0.8% of GDP). Expenditure discretionary measures introduced by the government in response to the corona virus increase the deficit by 1.6 billion. EUR (1.8% of GDP) (BOX 2). An increase in unemployment benefits by EUR 173 million will also contribute to the expected increase in the deficit (0.2% of GDP) in a view of the expected increase in unemployment. The impact of the corona crisis will be reflected in several general government entities, especially the state budget, social insurance, local governments and some state-owned enterprises.

BOX 2 - Measures against COVID19 pandemic

Measures taken to combat coronavirus[11] take form of direct aid, tax deferrals and guarantees. The deferral of taxes is intended to help companies with liquidity and will not affect the accrual deficit and, in the medium term nor the general government debt[12]. Guarantees that similarly help to bridge the unfavourable

[10] The impact on the deficit may be lower due to a more significant reallocation of EU funds to combat COVID 19 (from funds previously earmarked for the period after 2020). However, this reallocation will be known only after the submission of the Stability Program. Currently, 197 mil. EUR to support employment are reflected, while the total reallocation of EU funds can be up to 1.2 billion
[11] The government may update the measures in the course of the year
[12] The quantifications do not take into account possible bankruptcies and it is assumed that companies will repay deferred taxes and levies.

period will only have an impact on the deficit and debt if some borrowers stop repaying provided loans (this is a so-called contingent liability). Fiscal balance in accrual terms is thus only affected by direct aid measures, including the indirect negative effects on the revenue side (the aim is to indicate the overall impact of the measures, therefore both revenue and expenditure effects are listed in the table below)

TABLE 7 - List of measures taken to combat coronavirus (mil. EUR)

Measure	Direct aid		Tax and social security contribution deferral	Guarantees	% of GDP
	Revenue	Expenditure			
Nursing benefit during school lockdown and sickness benefit in quarantine or domestic isolation for employees in the amount of 55% of their gross salary	371	308			0.76
Contribution to maintain employment for companies affected by the crisis (80% of gross wages, max. 880 euros, or flat-rate contribution according to the decrease in sales)	193	628			0.92
Contribution to maintain employment for closed enterprises (80% of gross salary, max. 1100 euros)	48	262			0.35
Flat-rate allowance for self-employed, contractual workers, single member LLCs	0	219			0.25
Purchases of medical supplies related to COVID-19	0	160			0.18
Waived social security contributions for closed shops and services	44	0			0.05
Other direct aid	51	31			0.09
Deferral of payment of employer's social contributions in case of a decrease in sales by more than 40%			759		0.85
Deferral of income tax payment in case of a decrease in sales by more than 40 %			346		0.39
Postponement of income tax returns			114		0.13
Other deferral measures			10		0.01
Bank guarantees for loans				1 500*	1.59
Total mil. euro	**707**	**1 607**	**1 229**	**1 500**	
Total % of GDP	**0.79**	**1.81**	**1.38**	**1.59**	**5.57**

* estimated amount of provided loans

Source: MoF

Direct aid measures

- **Reimbursement of salary to employees in quarantine or employees caring for a household member in the amount of 55% of their gross salary[13].** The government introduced possibility to draw sickness benefits due to quarantine or domestic isolation. The state temporarily reimburses sickness benefits from the first day[14] of quarantine or domestic isolation in the amount of 55% of previous income. A working parent with a child younger than 11 year can benefit from nursing benefits throughout the closed period of schools and kindergartens[15]. At the same time, when receiving benefits, tax revenues from personal income tax and levies will decrease.

- **State contribution to maintain employment for companies affected by the crisis**. In mid-April, government introduced a law to reimburse 80% of the employee's gross salary as a result of an obstacle at work[16] (up to a maximum of 880 euros) or a flat-rate contribution contingent on a decrease in sales

[13] With limitation on the maximum daily assessment base

[14] Previously, from the 11th day - the first 10 days were paid by the employer, while the first three days only were paid in the amount of 25% of the previous income.

[15] So far, the nursing benefits were paid for a maximum of 10 days per diagnosis. If the child is ill or disabled, the nursing allowance is disbursed in a similar way for parents with children up to the age of 16 resp. 18 years. During the entire period of receiving nursing benefits, the parent remains socially insured with the current exemption from the obligation to pay insurance premiums.

[16] The provision of an obstacle at work allows employers to reduce employees' gross wages to a maximum of 60% for collective agreements and to just 80% for employees without a collective agreement.

of at least 20% per employee (monthly support is 180 to 540 euros depending on the decrease). It is up to the employer to choose which type of support they apply for.

- **Employment support for closed businesses.** From April, regardless of the size of the company, employers are reimbursed 80% of the employee's gross salary for an obstacle at work (up to a maximum of EUR 1,100).

- **Employment support for workers working under contract basis, single-person companies and the self-employed will amount to EUR 210.** In April, flat-rate contributions for low-income SZČO and single-person s.r.o. At the same time, the so-called S-O-S allowance was introduced for people who found themselves in a crisis situation without income during a coronavirus pandemic. The target group is, for example, employees working on a contract basis.

- **Purchases of medical supplies to combat coronavirus.** An increase in expenditures is expected this year due to the purchase of medical devices and materials in relation to COVID19 pandemic[17].

- **Full waiver for social contributions of employers and self-employed persons for closed business.** The measure can be applied if the plant has been closed for at least 15 days. The government has the option of extending the measure by regulation for further months.

- **Other measures**: 1. Possibility to carry-forward the loss from the years 2015 to 2018 in the tax return for 2019, 2. Suspension of tax inspections and tax proceedings at the request of the tax subject, 3. Postponement of the deadline for filing a tax return for motor vehicle tax (for the 2019 financial year). 4. Extension of unemployment benefits

Liquidity measures (tax deferrals)

- **Deferral of taxes in the event of a decrease in sales by more than 40%.** The deferral concerns social and health contributions of the employer and self-employed persons in case of a 40 % decrease in sales compared to the same month last year. Gradual repayment of deferred taxes should take place from July.[18]

- **Deferral of income tax advances in the event of a decrease in sales by more than 40%.** This is a cash effect, the tax should be settled accrually as part of the annual settlement (in 2021)**.**

- **Other measures:** 1. Postponement of motor vehicle tax advances from April until the end of the pandemic (with settlement when filing the tax return). 2. Optional deferral of the obligation to file a tax return for natural and legal persons (for income tax). 3. Extension of the deadline for employers to pay income tax settlement, child tax bonus and interest tax bonus after annual settlement is made after the end of the pandemic period.

Another banking measure is new bank guarantees, which are to be implemented through five programs. The first three are launched on the basis of a **de minimis scheme**, under which companies are able to draw aid through three institutions since May. The first option is to provide a loan with a guarantee from the state joint-stock company Slovak Investment Holding (SIH). The volume of provided guarantees was announced in the amount of 38 mil. EUR with the possibility of extension by another 57 mil. euros. The loans themselves will be provided to companies by commercial banks. The second institution is EXIMBANKA SR, which will also support large companies in the form of loans, guarantees and remission of guarantee fees. The aid will also be provided by the Slovak Guarantee and Development Bank (ŠZRB) in the form of loans from 10 thousand to 350 thousand euros for small and medium-sized enterprises and for self-employed persons. Eximbanka and ŠZRB plan to provide loans together in the total amount of approximately EUR 50 million with the possibility of further volume increase. The remaining two programs are called **large state aid schemes** are under the new temporary rules

[17] Based on march estimates

[18] The Parliament approved the postponement of taxes from March to July, but through a government regulation created a mechanism for another postponement for another month in the event of a longer duration of pandemic. Quantification within the Committee on Tax Forecasts assumes that there will be a deferral of levies in more than one month due to a pandemic. The impact of the measure will be specified according to current developments.

issued by the European Commission. The large aid scheme is intended to provide funds to small, medium and large enterprises through SIH and EXIMBANKA. Guarantees are estimated at a total volume of 500 mil. EUR per month.

The government also agreed with financial institutions to defer loan repayments for a maximum of 9 months[19]. This applies to people who have been affected by the current pandemic and are asking for a postponement. Deferral is free of charge, but does not mean forgiveness of part of the debt or interest. Clients who request a deferral will not have an entry in the credit register.

Other factors beyond COVID19 pandemic

Compared to the budget, there were several updates that were not related to the pandemic, which are presented separately in this section.

The expenditures of the Social Insurance Agency will be significantly higher than budgeted, beyond the effects of the pandemic. The approval of the 13th pension for all pensioners at the beginning of this year contributed to an increase in expenditures of 442 mil. EUR[20]. Higher expenditures on unemployment benefits, sickness and maternity benefits based on the actual development from 2019 will lead into an increase in by 160 mil. EUR this year. Similarly as in 2019, the Social Insurance Agency expects higher operating expenses of the administrative fund in the amount of 74 mil. EUR.

Other general government[21] entities contribute to the higher-than-budgeted deficit by 292 mil. EUR. Železničná spoločnosť Slovensko (Slovak rail transport Company) contributes 125 mil. EUR due to increases in operation and investment expenses, and an increase in liabilities. Medical facilities worsen their balance by 78 mil. on the back of their ongoing modernization, which began at the end of 2019. Drawing on resources from previous periods, public universities and radio and television increased the deficit compared to the budget by 57 mil. EUR.

Due to a shift in the delivery of military equipment (289 mil EUR), state budget expenditures will also increase. This transaction will thus have counterbalancing positive effect on next years.[22]

The fiscal performance of local governments also contributes to higher deficit beyond the effects of the pandemic, by 189 mil. EUR. Municipalities account for 134 mil. EUR and higher territorial units for 55 mil. EUR. Higher expenditures of local governments are carried over from the developments in 2019, when their budgets were underestimated.

Expenditures related to the EU budget significantly increased the expected deficit compared to the budget. Higher absorption of co-financing funds for European projects contributes 146 mil. EUR. Adjusted corrections[23] for irregularities in the use of EU funds, which were not budgeted, are expected at the level of 180 mil. EUR.

The state budget revenues are in line with the estimate of the Committee for Tax Forecasts. The approved state budget included income from introduction of electronic cash registers (eKasa) and introduction of identification substance for fuels (nanomarkers) in the amount of 180 mil. EUR, which was budgeted beyond the forecast of the Committee on Tax Forecasts. At the same time, the introduction of an identification substance into fuels has not been implemented in practice[24].

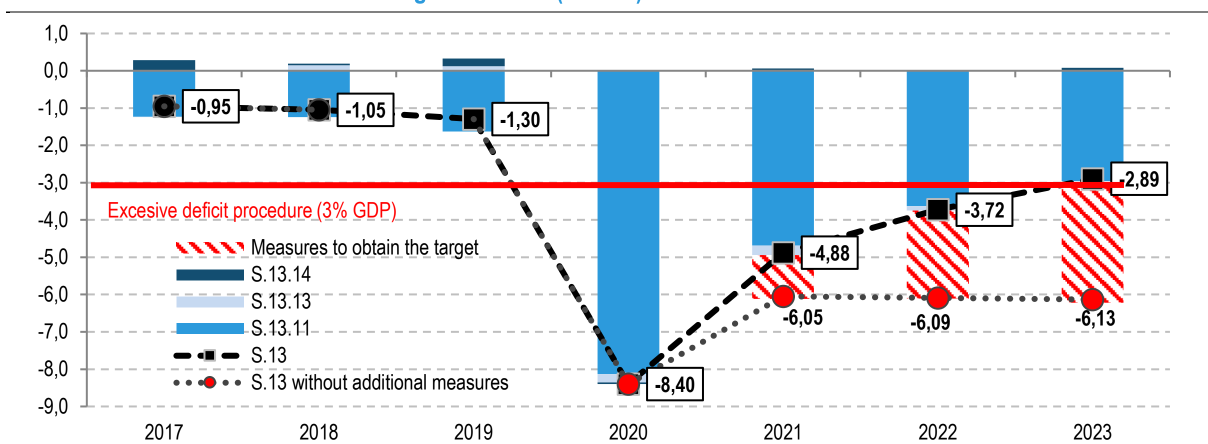
[19] The deferral applies to banks, leasing and non-banking companies for all types of loans, from mortgages to consumer loans, while bank loans can be deferred for 9 months. Non-bank and leasing companies can request a 3-month deferral from clients with the option to request an additional three-month deferral.
[20] Corresponds to the net impact of the measure. At the same time, there are savings in the state budget, as the introduction of the 13th pension abolished the Christmas allowance for pensioners paid from state budget, which was budgeted in the amount of 153 mil. euros.
[21] These are other GG entities that are not mentioned above (i.e. without the Environmental Fund, EOSA, the Social Insurance Agency and local governments)
[22] The supply of military equipment is expected earlier than budgeted
[23] Adjusted for revenues to payment units from budget users
[24] Ongoing consultations on the possibility of introducing so-called the Serbian model of mineral oil labelling does not seem appropriate for Slovakia. The reason is that Slovakia, on the basis of European legislation, cannot create obstacles to the free movement of mineral oil, as is the case in Serbia

Several non-tax revenues are also revised downwards. The environmental fund is expected to record a shortfall of 128 mil. EUR (after applying the ESA2010 methodology on the revenues to full extent). The Agency for Emergency Stocks of Petroleum and Petroleum Products (EOSA) will have lower-than-budgeted revenues due to the repeated non-implementation of the planned increase in fees for the management of crude oil and petroleum products (32 million EUR). These negative effects are partially offset by an estimate of higher dividends from state-owned enterprises by 33 mil. EUR[25].

2.3 Medium term budgetary outlook for 2021 - 2023

Following the expected increase in the deficit to 8.4% of GDP in 2020, the government plans consolidation in line with the EU fiscal rules from 2021, with the aim to stabilize the debt trajectory. The stability programme envisages budgetary headline deficit targets of 4.88% of GDP in 2021, 3.72% of GDP in 2022 and 2.89% of GDP in 2023. These targets reflect required consolidation in line with the Stability and Growth Pact.

FIGURE 13 - Nominal balance according subsectors (% GDP)



Source: MoF

Without consolidation measures, the general government deficit would not fall below 6% of GDP by 2023. The no-policy change scenario (NPC) scenario estimates the development of both revenue and expenditure in line with the latest macroeconomic and tax forecasts[26] and in the light of previously adopted measures[27]. According to the NPC scenario, a deficit of 6.0% of GDP would be achieved in 2021, which also takes into account possible contribution to the EU general budget (around € 300 million) in the context of the European Anti-Fraud Office (OLAF)[28] finding. In 2022 and 2023, the deficit in the NPC scenario would increase slightly, to 6.1% of GDP. The main reason is that revenues will not reach their level in 2019 even at the end of the horizon. Compared to 2019, tax-revenue revenues will decrease by 0.6 p.p by the end of the horizon and non-tax revenues, which normally grow more slowly than the economy, will fall by 0.5 pp. On the contrary, public expenditure will remain well above the level of 2019 without further policy changes, especially in the case of current expenditure, due to only a gradual recovery relative to the economy. Social benefits will increase between 2019 and 2023 by 1.3 p. p, which is mainly due to rising pension expenditure[29].

[25] Of which Slovenský plynárenský priemysel -50 mil. EUR, Stredoslovenská energetika 60 mil. EUR and Slovak Electricity and Transmission System 30 mil. euros.
[26] The government's measures to stabilize the economy are considered one-off and in the NPC scenario do not affect developments beyond 2020.
[27] The starting point for NPC scenario 2021-2023 is the current estimate of the general government budget for 2020. In the following years, budgetary items develop only in accordance with macroeconomic fundamentals and existing legislation before 1 January 2020. On the top of the published methodology, the NPC scenario also includes the impact of 13th pensions (0.4% of GDP) due to their approval in the previous election period (effective as of this year). At the same time, NPC scenarios reflects a reserve for extra contribution to the general budget of the EU (based on the finding of the European Anti-Fraud Office, 0.3% of GDP), as it is considered to be outside the control of the new government.
[28] According to OLAF, there has been a loss of EU own resources in connection with the declaration of the values of Chinese textiles when imported into the EU. The decision on the levy and its amount has not yet been concluded. The unchanged policies scenario considers prudently the amount of the quantified loss to 300 mil. EUR, which the Slovak Republic would eventually pay to the EU budget in 2021.
[29] In particular, the adoption of 13th pensions (0.4% of GDP), the extension of minimum pensions (0.1% of GDP) an increase in the parental allowance (0.2% of GDP)

TABLE 8 - No-policy-change scenario and general government balance (ESA2010, % of GDP)

	Outturn	Estimated Outturn	NPC scenario		
	2019	2020	2021	2022	2023
1.Revenue total	**41.5**	**41.4**	**40.3**	**40.8**	**40.9**
Tax revenue	19.4	18.6	18.3	18.4	18.6
Social contributions	15.2	16.1	15.7	15.5	15.4
Non-tax revenue (P.11+P.12)	5.1	5.2	5.0	4.8	4.6
Grants and transfers (D.7R)	1.7	1.5	1.3	2.1	2.3
- of which EU funds	1.0	1.0	0.8	1.6	1.8
2. Total expenditures	**42.8**	**49.8**	**46.4**	**46.9**	**47.0**
Current expenditure	38.7	45.8	43.7	43.2	43.2
Compensation of employees	10.2	11.3	10.9	10.8	10.7
Intermediate Consumption	5.6	6.4	6.3	6.6	6.9
Subsidies	1.3	1.2	1.3	1.2	1.2
Interest	1.2	1.2	1.1	1.1	1.1
Total Social Transfers	18.5	23.4	21.3	20.7	20.3
- Social benefits other than in kind	13.4	17.6	15.6	15.1	14.7
- Social transfers in kind (healthcare facilities)	5.1	5.8	5.7	5.7	5.6
Other current transfers	1.7	2.2	2.7	2.7	3.0
Capital expenditures	**4.0**	**4.0**	**2.6**	**3.7**	**3.8**
Capital Investment	3.7	3.2	2.5	3.5	3.6
- Gross fixed capital formation	3.6	3.2	2.4	3.4	3.6
Capital transfers	0.4	0.7	0.2	0.2	0.2
3. Additional measures (required)			1.1	2.4	3.2
4. Net lending/borrowing (additional measures included)	**-1.3**	**-8.4**	**-4.9**	**-3.7**	**-2.9**
5. Net lending/borrowing (no additional measures)	**-1.3**	**-8.4**	**-6.0**	**-6.1**	**-6.1**

Source: MoF

To achieve the budgetary objectives of the Stability Program, consolidation measures worth EUR 1.1 billion EUR have to be adopted in 2020 (1.2% of GDP); 2.3 billion EUR (2.4% of GDP) in 2022, and 3.4 billion EUR (3.2% of GDP) in 2023. Given the significant uncertainty about future economic developments, the budgetary targets and the measures to achieve them in the event of change may be updated. Measures to increase the efficiency of public finances will be preferred. On the expenditure side, the priority is the application of the value for money principles, by reassessing the planned purchases of goods and services, evaluating the benefits of investments and auditing activities. On the revenue side, the priority is to enhance the pro-growth tax mix, with an emphasis on simplicity, removing distortions, taxing consumption, property and negative externalities instead of economic activity, as well as achieving internationally comparable results in combating tax evasion.

2.4 The structural balance until 2020

The structural deficit increased to 2.0% of GDP in 2019, while the economy was still slightly above its potential. Expansionary fiscal policy in 2019 fell short of the required consolidation effort by 0.5% of GDP and caused a significant deviation from the rules of the Stability and Growth Pact. After taking into account the development in 2018 as well, the budgetary development failed to meet the required consolidation pace. On two-year horizon the structural balance significantly deviated from the rules of the Pact (by 0.6% of GDP). In both 2018 and 2019, fiscal policy was pro-cyclically expansionary, even when the economy was above its potential and did not need additional fiscal impulse...

This year, the structural deficit will increase to 4.0% of GDP, due to the adoption of several measures in 2019 and shortfall in tax revenues due to the COVID pandemic[30]. Even after adjusting for the impact of the crisis on revenue and expenditure, there will be a significant increase in the structural deficit. Expenditure measures

[30] This structural balance is calculated in the standard way by excluding one-off and temporary effects. The structural balance calculated according to the ad-hoc EC's manual for this year (in which the measures related to COVID 19 are not listed in the one-off measures) is given in Annex 4.

to combat coronavirus are of a one-off nature and the structural balance is adjusted (see section 2.2). The approval of the 13th pensions will contribute to a significant increase in the structural deficit, as well as several measures adopted in 2019, in particular a 10 per cent increase hike in public servants salaries, an increase in parental allowance, an increase in minimum pensions, an increase in the non-taxable part of the tax base and a reduced VAT rate for grocery items.

TABLE 9 - Consolidation effort (ESA2010, % GDP)

	2018 F	2019 F	2020 E	2021 SP	2022 SP	2023 SP
1. GG balance	**-1.1**	**-1.3**	**-8.4**	**-4.9**	**-3.7**	**-2.9**
2. Cyclical component	0.7	0.7	-2.8	-1.2	-0.5	-0.2
3. One-off effects [31]	0.0	0.0	-1.6**	0.0	0.0	0.0
4. Structural balance (1-2-3)	**-1.8**	**-2.0**	**-4.0**	**-3.7**	**-3.2**	**-2.7**
5. Consolidation effort	**-0.7**	**-0.2**	**-2.0**	**0.2**	**0.5**	**0.5**
One-year deviation*	-0.8	-0.5	-	0.0	0.0	0.0
Two-year deviation*	-0.2	-0.6	-	-	0.0	0.0
p.m. Structural balance without additional measures - NPC scenario				-4.9	-5.6	-6.0
*p.m. Required consolidation effort EC****	*0.5*	*0.35*	-	*0.25*	*0.5*	*0.5*

** Deviations in 2018 are based on "fixed" values from the European Commission's spring forecast in 2019. Compliance with the rule will not be assessed in 2020 due to the launch of the general escape clause.*
*** Includes the impact of COVID 19-related measures*
**** From 2021 This is an envisaged consolidation that copies the preventive arm of the Pact. Finally, the EC may ask for higher consolidation, as Slovakia is likely to be in the corrective arm of the Pact from 2020 or 2021, where individual requirements apply. Source: MoF*

BOX 3 - Stability and growth pact rules during corona crisis

The significant weakening of the economy as a result of the fight against coronavirus will cause allowed deviation from the medium-term budgetary objective (MTO). The level of the MTO should correspond to a budgetary position (close to a structurally balanced budget) that is sustainable even in the long term, taking into account the negative impact on public finances from an aging population. For this reason, a gradual year-on-year improvement in the structural balance is required, based on the rules of the Pact, until the MTO is reached (the so-called required consolidation effort, see in more detail in Annex 4). According to European rules, the Slovak MTO level corresponds to a structural deficit of up to 1% of GDP[32]. However, according to the current forecast, the Slovak economy will find itself in a deep recession in 2020. According to the rules of the Pact, a year-on-year reduction of the structural deficit is temporarily not required in this case, based on the activation of the so-called general escape clause proposed by the European Commission on 20 March[33].

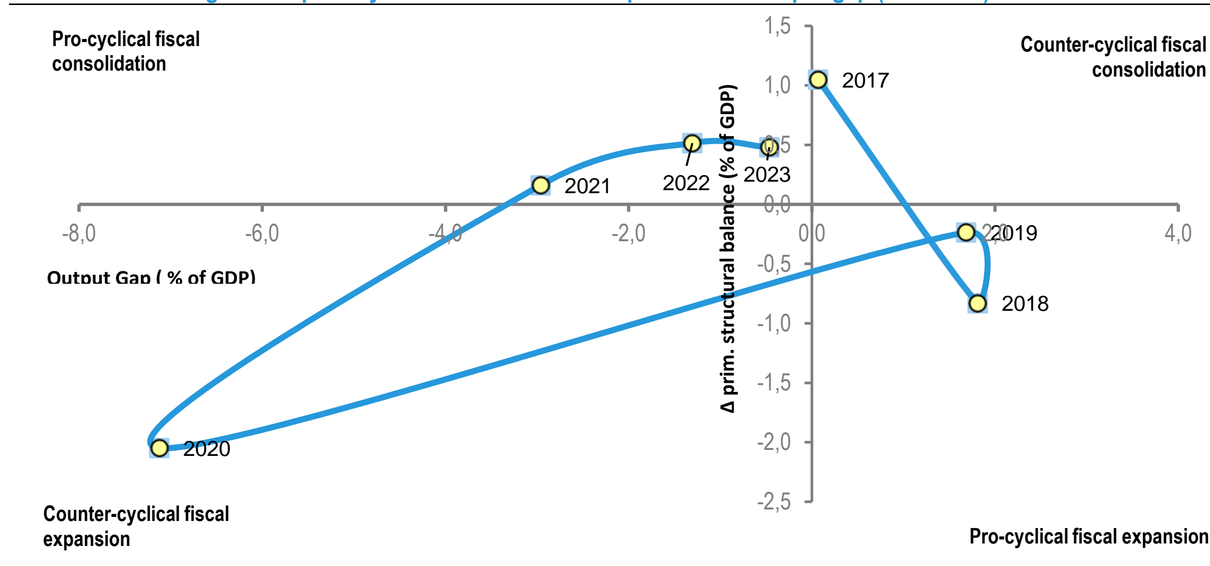
The structural balance outlook for 2021-2023

The reduction of the structural deficit for the years 2021 to 2023 is set in line with the rules of the Stability and Growth pact. By 2023, the structural deficit would decrease cumulatively by 1.25% of GDP[34] and to 2.7% of GDP by 2023. Without further measures, the structural deficit in the NPC scenario would gradually increase until would reach 6.0% of GDP at the end of the budget horizon.

While the government's measures will be counter-cyclical this year, the fiscal policy will be slightly pro-cyclical over the medium term. Given the currently identified negative output gap (above 7% of GDP), fiscal expansion in 2020 has a stabilizing effect on growth. From 2021 to the end of the medium term, the output gap will gradually close, with a slightly restrictive pro-cyclical fiscal policy (see Chart 14). However, consolidation responds to the need to respond to the high risk to long-term sustainability and to stabilize the level of government debt.

[31] Table with one-off measures is included in Annex 4.
[32] The government does not change the level of MTO of 1% of GDP (in the context with European rules) in a view of the significant economic uncertainty.
[33] https://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2020)649351
[34] According to European rules and the required consolidation matrix (Annex 4), Slovakia is to decrease structural budget balance by 0.25% of GDP in 2021 - as this is a "bad" economic times with a closing output gap. In the outer years, the rules require Slovakia to decrease the structural deficit 0.5% of GDP each year – given „normal" economic times from 2021, when our economy will be slightly below its potential, with the output gap of less than 1.5% of GDP.

FIGURE 14 - Change in the primary structural balance compared to the output gap (% of GDP)



Source: MoF

2.5 General government debt

General government debt in 2019

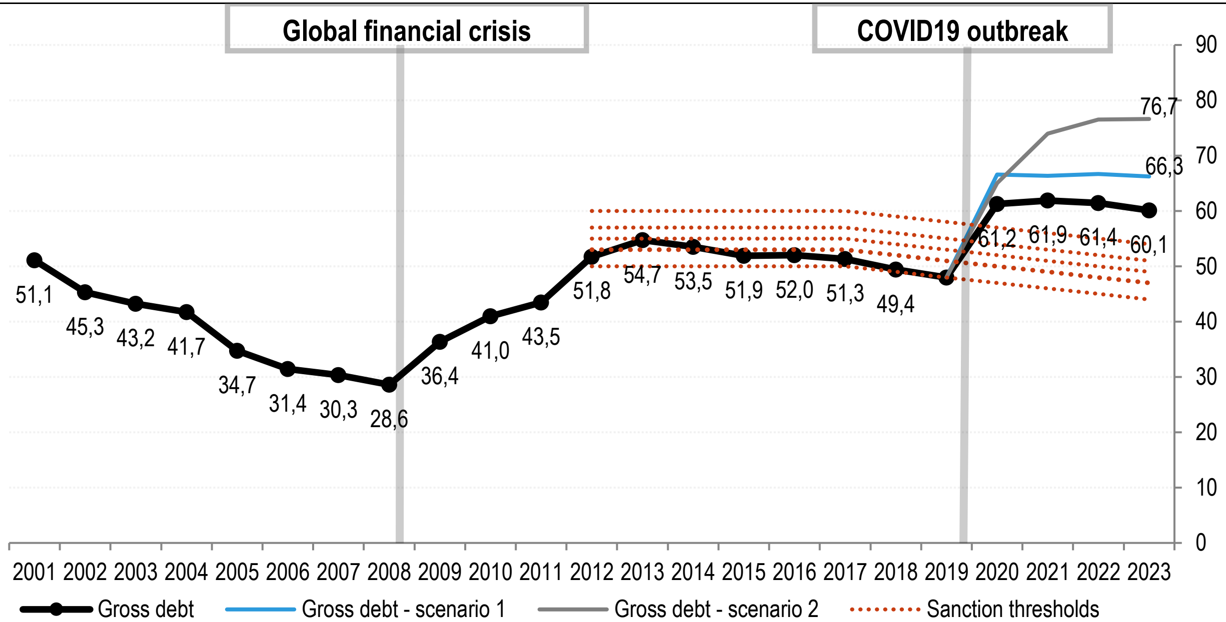
Based on Eurostat's data, general government gross debt reached 48.0% of GDP[35] at the end of 2019 and fell outside the debt brake penalty band[36]. In year-on-year terms, the debt as percentage of GDP decreased by 1.4 p.p.[37]. Solid economic growth and inflation above 2% were among the main factors reducing debt last year. However, gross debt also declined as a result of use of liquid assets, which recorded a year-on-year decline of more than 1% of GDP (Annex 6). On the contrary, the government's fiscal performance itself contributed negatively, when after two years of primary surpluses the primary balance returned to a modest deficit (0.1% of GDP)[38]. Since its peak in 2013, gross debt has decreased by less than 7 percentage points in six years and fell just below the lowest debt brake penalty band (48% of GDP).

General government debt forecast until 2023

Due to the effects of the COVID19 pandemic, gross debt is expected to increase above the highest sanction threshold of the national debt brake and above the Maastricht threshold of 60% of GDP as well. Based on the updated forecasts from April 2020, the Ministry of Finance of the Slovak Republic prepared three scenarios of the development of gross debt until 2023 (a baseline and two risk scenarios). Under the baseline scenario, the deficit reaches 8.4% of GDP in 2020, while risk scenarios of the current pandemic point to a deficit of up to 10% of GDP. All scenarios assume that gross debt will exceed 60% of GDP from 2020 onwards. Compared to the global financial crisis of 2008, the current estimate indicates a more significant increase in debt and only a gradual stabilization in the coming years. The situation differs with respect to the financial crisis in the higher initial level of debt by almost 20 p.p., as debt had not been reduced closer to pre-crisis levels despite favourable period of strong economic growth. In spite of the fact that debt will exceed the sanction thresholds, corrective measures of 3rd up to 5th band will not be triggered at least until 2022 (BOX 4).

[35] The presented gross debt is based on the spring notification from Eurostat and represents the value of 47.99% of GDP when mathematically rounded.
[36] From the point of view of Constitutional Act on Budgetary Responsibility, the value of gross debt as confirmed by Eurostat during the autumn notification is relevant.
[37] The average year-on-year rate of debt reduction since the culmination in 2013 is 1.1 p.p.
[38] The primary balance is the general government balance net of interest expenses.

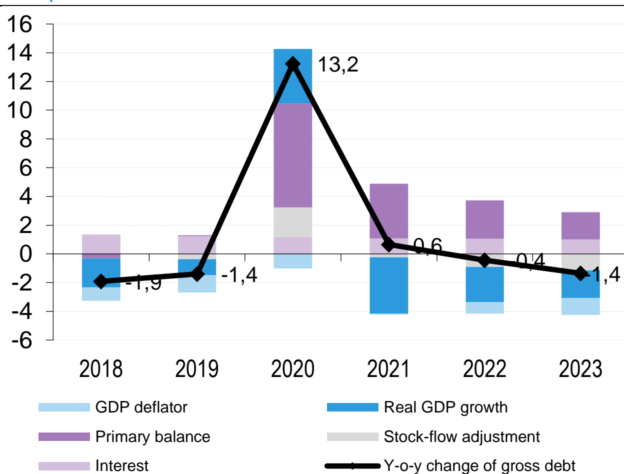
FIGURE 15 - GG gross debt (% of GDP)



Source: MoF

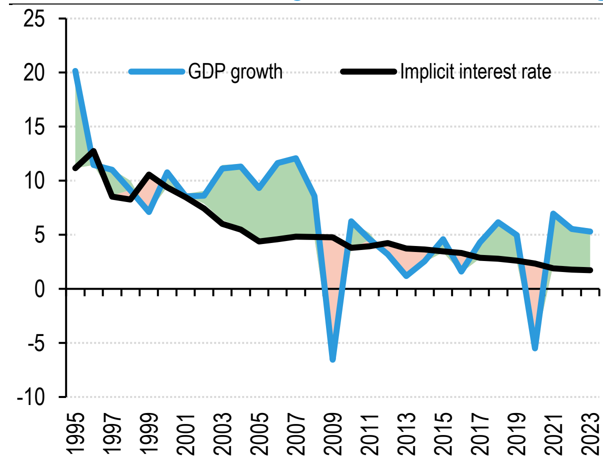
In 2020, the debt will reach 61.2% of GDP and thus will exceed the highest sanction band of the debt brake (57% of GDP). Year-on-year increase in debt by approximately 13 p. b. reflects the increase in the deficit along with the downturn in the economy. The slowdown in economic activity has an effect on total debt, on the one hand, through the denominator effect (debt expressed in relation to GDP)[39] and, on the other hand, by a reduction in total revenue. On the expenditure side, the debt forecast reflects the adoption of government measures to mitigate its negative effects as well as other risks beyond the approved budget that existed before the crisis. This development will also result in a significant widening of the primary balance deficit (7.2% of GDP compared to 0.1% of GDP in 2019). Overall, the need for government financing is expected to increase just below 14% of GDP in 2020[40], which is historically one of the highest funding needs[41] (see Figure 20). Of the estimated needs, the Debt and Liquidity Management Agency (ARDAL) has already managed to secure around 12% of GDP[42].

FIGURE 16 - Contributions to the y-o-y change of debt (% of GDP)



Source: SO SR, MoF

FIGURE 17 - Nominal GDP growth vs interest rates change

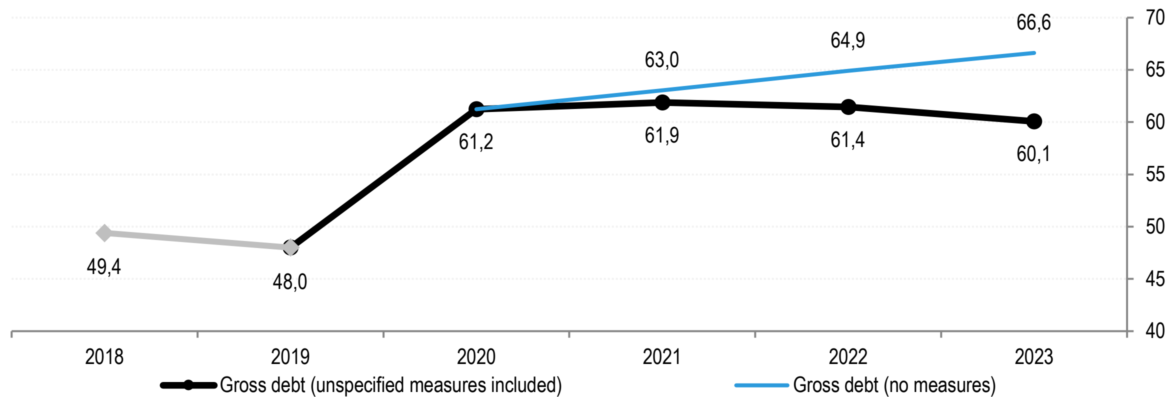


Source: SO SR, MoF

[39] The negative impact of the fall in real GDP on debt is slightly offset by the positive contribution of price level growth slightly below 2%.
[40] Considering also the redemption of the state treasury bills with maturities of 3 and 6 month issued this year.
[41] The gross financing needs indicator (GFN) expresses debt repayment liabilities (principal, interest and new primary deficit) in relation to the economy. The recommendations of the International Monetary Fund state that this indicator should not exceed the value of 15% resp. 20% of GDP (depending on the stage of development of the economy) to ensure debt sustainability. In the case of Slovakia as a developed economy, the 20% limit is relevant.
[42] Status as of 6.5.2020 also including the issuance of state treasury bills with 3 and 6 month maturities issued this year.

Since 2021, the debt trajectory will stabilise amid annual consolidation in line with the rules of the Stability and Growth Pact, but will remain above the sanction bands. As a result of deficits well above 3% of GDP, debt will decline only slowly. The recovery in economic growth towards its potential and back above interest rates will start to have a positive effect on the debt development since 2021 (see Chart 17)[43]. By the end of 2023, debt will fall to 60.1% of GDP, with a stronger effect of the economic recovery, supported by the decrease of the headline deficit below 3% of GDP. The projected evolution of debt assumes the adoption of unspecified consolidation measures to achieve the budgetary targets. Without them, debt would continue to grow at almost 67% of GDP in the baseline macroeconomic scenario.

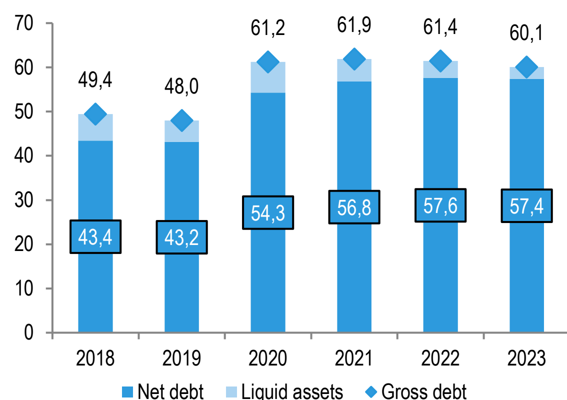
FIGURE 18 - General government debt compared to no-policy-change (% GDP)



Source: MoF

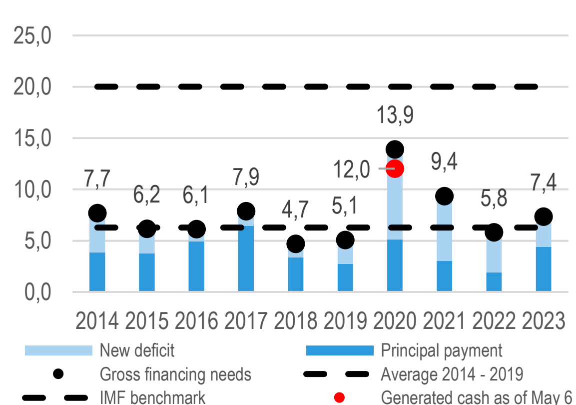
Under risk scenarios[44], the debt would increase more significantly, on the order of more than 6 to 16 pp. GDP by 2023 (Chart 15). The development of debt in the baseline scenario is based on the current macroeconomic and tax forecast of the Ministry of Finance of the Slovak Republic. The first risk scenario considers a deeper economic downturn due to the longer duration of the pandemic in the current year (with an economic downturn of up to 12.5%) and a consequently slightly faster recovery. In this scenario, the deficit would increase to 10% of GDP in 2020 and fall to 3.6% of GDP by 2023, leading to debt at 66.3% of GDP by 2023. The second scenario is based on the duration of the pandemic as in the baseline scenario, but with a subsequent slower economic recovery. The economic downturn would reach 11.4% in 2020 and the deficit would reach 9.4% of GDP. Compared to the first scenario, however, there would be no catching up and in 2021 the economy would stagnate. At the same time, shortfalls in tax revenues would not decrease until the end of the horizon, and the deficit would remain at 5.4% of GDP until 2023. The debt would reach 76.7% of GDP in 2023 and would only stabilize beyond the medium term budgetary horizon.

FIGURE 19 - Net debt (% GDP)



Source: MoF

FIGURE 20 - Gross financing needs (% of GDP)



Source: MoF

[43] The so-called snowball effect is defined as the difference between economic growth and interest costs. Despite the increase in debt, total debt service costs will remain around stable at around 1.1% of GDP over the horizon 2020-2023. The reason is the continuous replacement of maturing bonds for lower-yield issues.

[44] In risk scenarios, only the increase in deficit targets due to estimated shortfalls in taxes, together with the GDP denominator revision, is considered.

The net debt

Net debt will grow above 57% of GDP by 2023, after using part of the liquid financial assets to stabilize gross debt. Net debt reached 43.2% of GDP in 2019 and recorded a lower decline of 1.1 p.p. compared to gross debt. The difference was due to a more significant use of the cash reserve from the accumulated surpluses of individual general government entities (see Chart 19). In 2020, net debt will increase to 54.3% of GDP. The slightly lower increase in net debt compared to gross debt is due to an increase in the cash reserve this year. By 2023, net debt will increase to 57.4% of GDP, especially after liquid assets will be partially used again to reduce debt. The liquid financial assets will fall below 3 % of GDP by 2023.

BOX 4 - Constitutional act on fiscal responsibility during the corona crisis

Due to the appointment of the new government, the sanctions from the 3rd highest debt brake penalty bands do not apply until 2022, and this can possibly extend possibly until to 2024 or 2026 due to the COVID19 pandemic. Following the vote of confidence for the new government in the National Parliament, the first escape clause has been activated, during which the highest legal sanctions (3rd to 5th penalty zone of the debt brake) are not automatically applied throughout the next 24 months. This transitional period should therefore last until May 2022[45]. In addition, from 2021, the launch of additional escape clauses may be activated, with a longer (36-month) period when the 3 upper bands do not apply in the same way. So far, with regards to the trigger of the great economic recession clause, the current estimate of the economic downturn in 2020 is not sufficient[46]. Similarly, the current COVID19 pandemic (with an estimated budgetary impact on expenditure of 1.8% of GDP[47]) does not currently meet the condition of a natural disaster[48] clause with a reference negative impact on public expenditure of at least 3% of GDP[49]. However, given the current uncertainty and risks on the negative side, these conditions could eventually be met. Their evaluation could be assessed only in the spring of 2021 with the publication of Eurostat's notification of the amount of debt for 2020. The 36-month period would thus last until April to May 2024 at the latest. At the same time, a new government is expected to be formed again in 2024, which would trigger transitional period of another 24 months and the top three sanction mechanisms would not have to be triggered until the first half of 2026.

The sanction thresholds of the national debt brake

As of 2018, the constitutional bands[50], which trigger sanction mechanisms, are reduced by 1 p.p. each year until the upper band reaches 50% of GDP in 2027.

- **Debt amounting to 50–53% of GDP** – the Ministry of Finance must deliver to the Parliament a written justification of the debt amount, including the measures proposed for debt reduction.
- **Debt amounting to 53–55% of GDP** – the Government will submit to the Parliament a proposal for debt-reduction measures and reduce the salaries of Cabinet members to the previous fiscal year's level.
- **Debt amounting to 55–57% of GDP** – the Ministry of Finance must block 3% of total state budget expenditures (without expenditures on government debt service, EU funds, transfers to EU budget and transfers to the Social Insurance Agency); at the same time, the Government may not submit to the Parliament any budget proposal that would entail a year-on-year nominal growth in total government expenditures (except for expenditures on government debt service, EU funds, transfers to EU budget, co-financing in addition to EU funds, and expenditures to remedy damages caused by natural disasters); local governments shall be obliged to approve their budget expenditures at a level no higher than in the previous year.
- **Debt amounting to 57–60% of GDP** – the Government may not submit to the Parliament any general government budget proposal with budgeted deficit, and local governments may adopt only a balanced or surplus budgets for the next fiscal year.
- **Debt exceeding 60% of GDP** – in addition to the steps outlined above, the Government shall ask the Parliament for a vote of confidence.

[45] The confidence to the new Government of the Slovak Republic was expressed by the National Parliament on April 30, 2020.
[46] The Constitutional Act defines the fulfilment of this condition when the Statistical Office of the Slovak Republic (SO SR) finds that the year-on-year GDP growth has decreased by at least 12 percentage points. SO SR usually publishes information on the year-on-year change in GDP for the previous year at the end of March of the current year, which would mean the launch of an escape clause in April 2021 with a duration until April 2024.
[47] Including an increase in unemployment benefits, in addition to discretionary expenditure measures
[48] A legal opinion will be needed to determine whether a pandemic is considered a natural disaster in the context of the debt brake.
[49] The Constitutional Act defines the fulfilment of this condition when the Ministry of Finance of the Slovak Republic finds that expenditures from public funds associated with the elimination of the consequences of natural disasters that affected the territory of the Slovak Republic exceeded a total of 3% of GDP. In this case, the moment of triggering this escape clause would depend on the publication of expenditures of the Ministry of Finance of the Slovak Republic (but that should be no later than Eurostat notification in April 2021).
[50] This is an approximate description of the individual sanction zones. Their exhaustive content is part of the Constitutional Act on Budgetary Responsibility.

The Ministry of Finance of the Slovak Republic and the Council for Budget Responsibility (CBR) will analyse the current functioning of the Constitutional Act on Budget Responsibility, including the possible transition of sanction bands into the concept of the net debt, escape clauses and clarification of expenditure ceilings, and submit proposals necessary for its improvement.

3 SUSTAINABILITY OF PUBLIC FINANCE

In 2020, the pension scheme was amended, and the adopted changes are expected to considerably increase future pensions spending. The major change is adoption of retirement age cap. Considering further adopted measures (across-the-board increase of minimum pension, change in calculation of the 2nd pillar pensions and across-the-board adoption of 13th pensions instead of Christmas bonus) and impairment of the starting position owing to consequences of the outbreak will increase medium-term and long-term sustainability risk from medium to high level of risk. Until 2070, pension expenditures will increase above 14% of GDP, compared to the current value of less than 9% of GDP. Fulfilment of the present budget strategy of the Stability Programme through reduction of the general government deficit below 3% of GDP by 2023 without changes in the pension scheme will just slightly mitigate the sustainability risks. Therefore, the Government, in accordance with the Manifesto, intends to reform the existing pension system to improve its sustainability. In the first pillar, the purpose of the amendments is to strengthen the link between the pension expenditure and the demographic trends, and to make the scheme fairer and more transparent. In the second pillar, the priority is to increase yields from savings through better setup of the applied investment policy.

3.1 Assessment of total sustainability of public finance

Sustainability of public finance is based on assessment of the expected effects of ageing of the population in the context of the initial fiscal position and the development of the existing policies under current legislative. Considering the present level of debt and the general government balance, the current setup of policies (fiscal position, pension and health insurance system) should ensure a long-term sustainability, so that the debt expected under the baseline scenario is not growing in an uncontrolled manner. For this purpose, both EC and MoF SR use sustainability indicators S1 (medium-term horizon) and S2 (long-term horizon)[51].

Slovak public finances are expected to face high-risk of medium (S1) and long term (S2) sustainability after recent pension measures and impact of COVID19 are taken into account. The assessment prepared by the MoF SR incorporates all changes adopted in the pension scheme (for more details see BOX 5), which have not yet been reflected in regular updates of long-term projections of ageing-sensitive spending (AWG projections). The latest assessment reflects the starting position in 2021 based on assumptions of the Stability Programme[52] (Annex 7).

In medium-term outlook, sustainability of public finance is considerably impaired. The S1 indicator implies consolidation needs of around 2.7% of GDP, i.e., approximately 0.2 p.p. above the medium risk categorisation (EU methodology)[53]. The key reason for the negative development is mainly the worsening of the initial fiscal position in 2021 and, to a lesser degree, also increase in pension expenditure. The sustainability risks is revised from the low-risk zone from the previous assessment above the high-risk threshold. After meeting the headline deficit targets up to 2023, the remaining consolidation need will be reduced to 1.9% of GDP. S1 indicator will thus reach medium-risk category. To keep the debt below the lowest sanction threshold of the more stringent national debt brake (40% of GDP) the consolidation need is approximately double, at 4.7% of GDP in 2021 or 3.8% in 2023 (high-risk level).

From the long-term perspective, increase of risks is even more pronounced. The long-term sustainability indicator (S2) for 2021 requires implementation of permanent measures in the amount of 8.4% GDP. The expected increase in pension expenditures is more felt in long-term horizon. The S2 indicator is strongly influenced by ageing of population, which is notable mainly beyond the medium-term horizon. S2 indicator will decrease to 7.6% of GDP after headline deficit targets are reached, and will thus remain in the high-risk zone.

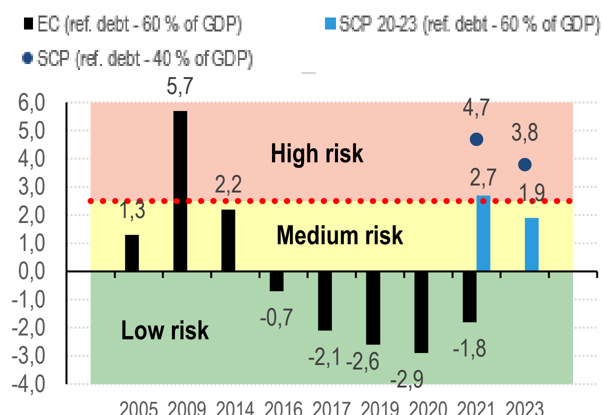
[51] S1 (medium-term horizon) - presents the value by which the current primary structural balance needs to be permanently changed so that the gross debt of the general government by 2034 (t_0+15) does not exceed 60% GDP (considering the expected future expenditure related to ageing of the population). The quantifications prepared by the MoF SR based on medium-term goals also follow a stricter national scenario, which, in long-term horizon, takes 40% of GDP as a debt ceiling, which, after expiration of the transition period, will be the lowest sanction zone under the Constitutional Act on budget responsibility. The MoF SR, at the same time, considers the effect of the second pillar on both revenue and expenditure side.
S2 (long-term horizon) - presents the value by which the primary structural balance needs to be permanently changed so that the present value of future primary balances (considering the expected future expenditure related to ageing of the population) equals the present level of gross debt. Unlike S1, indicator S2 reflects projections related to ageing of population within an endless horizon, and the required change of the balance is to ensure stabilization of the present debt level. With this indicator, quantifications prepared by the MoF SR consider the effect of the 2nd pillar on both revenue and expenditure side.

[52] This goal reflects effects of the spread of COVID19 and the changes adopted in the pension system in 2019 and early 2020.

[53] It is presumed that the level of gross debt will be maintained at 60% of GDP over the whole medium-term horizon.

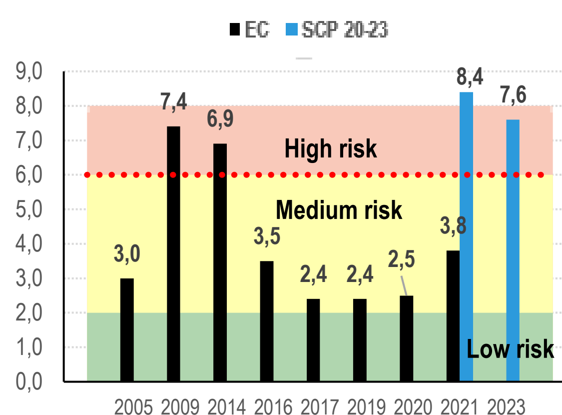
Assessment of the European Commission of January 2020[54] shows, similarly to last year, a low risk of sustainability of public finance within medium-term horizon (S1) and a medium level of risk within long-term horizon (S2). Despite similar qualitative assessment, the European Commission identified weakening of both indicators caused by worsened position of the initial balance of revenues and expenditures (Annex 8). The assessment however, does not take account of the new approved measures after the last round of projections of ageing-sensitive spending of 2018. This includes mainly introduction of the cap on retirement age, extension of minimum pensions[55] and payment of 13th pensions[56].

FIGURE 21 - Medium-term sustainability S1 (EC, % of GDP) *



Source: EC, MoF

FIGURE 22 - Long-term sustainability S2 (EC, % of GDP) *



Source: EC, MoF

** The years indicated on figures present the reference year for assessment of sustainability. Details of the methodology and the data underlying detection of trends in S1 and S2 indicators are in Annex 7. The EC indicator so far does not reflect the measures approved after the last round of AWG projections in 2018. Data from the Stability Programme reflect new measures in the pension scheme.*

To achieve a level close to low risk of sustainability, it is necessary to implement a combination of reforms of the pension system, accompanied by other structural reforms and also substantial reduction of the deficit. Long-term sustainability will remain subject to high risk, even if several measures from past years are reversed. Even when assuming the pension system goes back into the position from two years ago (before establishing the cap on retirement age, extension of minimum pensions and 13th pensions) S2 indicator would be lower just by 2.5 p.p., i.e., still at the risk threshold. Hence, it is also necessary to decrease the structural deficit, which will remain high after the Corona crisis unless additional consolidation measures are implemented.

TABLE 10 - S2 breakdown

	SCP 2018*	SCP 2020*
Initial budgetary position	-0.1	3.5
Pension expenditures	1.0	3.5
Health & Long-term care expenditure	1.3	1.3
Education & Unemployment expenditures	0.1	0.1
S2	**2.3**	**8.4**

* S2 in base year t+1, e.g. in 2019 and 2021

Priorities in the pension scheme

In its 2020-2024 Manifesto, the Government undertook to adopt a reform of the pension scheme. The priority in the first pillar is to improve its long-term financial sustainability and to strengthen the fairness of the system. Under the existing setup, future pension expenditures would be double the amount of revenues collected from contributions and around a half of old-age pensioners would have the same pension irrespective of the amount of contributions paid. The sustainability will be supported by linking the pension spending to

[54] Based on the autumn EC forecast for 2021 and projections of ageing-sensitive expenditure of 2018
[55] Approved by EC Working Group on Ageing.
[56] So far not approved by the EC Working Group.

demographic trends. To make the system fairer, pensions should better reflect the length of the contribution period, and the amount of contributions paid to the system. **To improve the predictability and stability of the pension system, the Government also undertook to enact a constitutional act defining basic elements of the first and the second pillar.**

In the second pillar, the priority is establishing a well formatted and a more profitable investment strategy. The key problem of the second pillar is the ineffective allocation of savers' assets, depriving the savers of higher yields. Therefore, the reform is mainly focused on better allocation of assets, using international benchmarks aiming to increase pensions from the second pillar. Preparation of the default saving strategy based on the life-cycle principle[57] also continued with the aim of increasing yields in the second pillar. As a part of the changes it is necessary to also consider the payout phase of saving in the second pillar.

An automatic entry into the 2nd pillar will be adopted for the individuals aged below 35 years and the policy on fees in the 2nd pillar funds will be amended. The automatic entry into the 2nd pillar diversifies the source of income of the retired individuals. The insured person will, however, have the possibility to stay exclusively in the 1st pillar, if he/she decides so. The fee policy should distinguish between passive and active investing in pension funds. In case of passive investing the saver should not pay fees for appreciation of assets. By contrast, in case of active investing, the fee for appreciation of assets should be linked to achieving a higher yield than achieved by a comparable passive investment index.

Providing standardized information about pension entitlements from all three pillars will increase awareness of the insured persons and improve transparency of the pension system. The 2020-2024 Manifesto of the Government includes the Government's commitment to develop a pension entitlement information sheet. Thus, each insured person will every year receive an electronic statement informing about his/her specific expected pension. Based on such information, people will be able to better prepare for leaving the labour market. Since 2021, better information will be provided about the 2nd pillar pension. The innovated statement from personal pension account will also include an individualised forecast of total amount saved and of a life annuity. Moreover, pension fund management companies will provide and publish key information about each established and managed pension fund. Publishing key information will contribute to increasing efficiency in saver's decision about selection of the best-fit pension fund, considering the risk profile and the life-cycle of the investment[58].

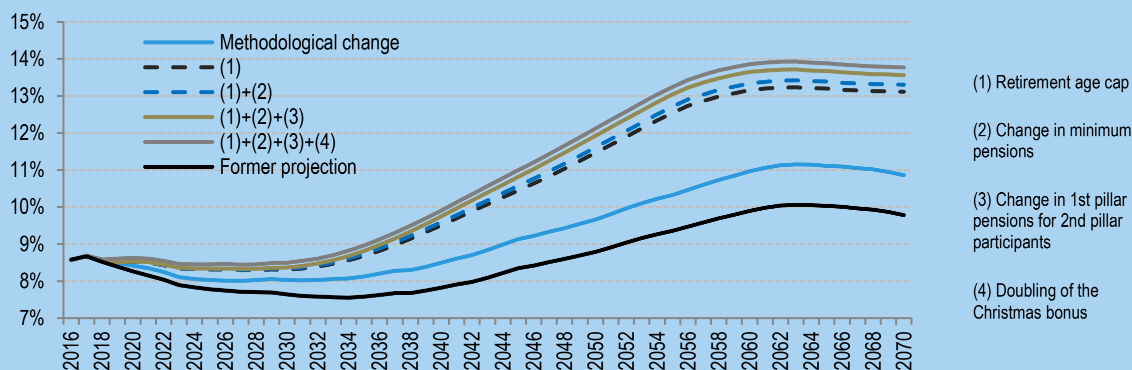
BOX 5 - Updated forecast of expenditures sensitive to population ageing

Based on the projections update of 2020, spending sensitive to population ageing is expected to grow from 18.9% of GDP in 2016 to 26.8% of GDP in 2070. The 2018 Ageing Report expected increase to only 21.9% of GDP. The update was triggered by substantial changes in the pension system adopted in 2019. The results were presented to the European Commission's Ageing Working Group, and then approved by the EC's Economic Policy Committee.

The projection of pension expenditures[59] in 2070 increased compared to the last projection of 2018 by 4 p. p. of the GDP, from 9.8% of GDP to 13.8%[60]. Thereof, 2.9% of GDP change was triggered by measures adopted in the pension scheme. It is mainly the cap on retirement age, an increase and a change in indexation of minimum pensions, change in reduction of pensions from the 1st pillar for participants in the 2nd pillar and doubling the Christmas bonus. Thus, in 2070, the deficit of the pension system will be 6.9% of GDP. If there were no changes in legislation, in the next few years the pension expenditures would drop from the current 8.6% of GDP to 8% of GDP. The remaining portion of the increase in the projection for 2070 (1.1% of GDP) resulted from the changed methodology in quantification of minimum pensions[61].

[57] IFP Analysis (2019): Default strategy in pension saving: The case of Slovakia.
[58] The draft measures are expected to come into force in the first half of 2020, with effective date 1 January 2021.
[59] Pension expenditures include social insurance pensions (old-age, early old-age, disability, widow's, widower´s and orphan's), additional expenditures (minimum pension and Christmas benefit) and expenditures on pensions for police officers and soldiers.
[60] The quantification was based on the AWG methodology. The methodology links indexation of minimum pensions and the Christmas bonus to growth of average wage irrespective of the existing legislation. The projections were approved by the AWG and then also by the Economic Policy Committee (EPC) in February 2020. For details about new projections see update of long-term AWG projections. The quantification used the AWG assumptions: The 2018 Ageing Report: Underlying Assumptions and Projection Methodologies.
[61] The methodological change was the correction of the previously used calculation which understated total spending on minimum pensions. For details about new projections see update of long-term AWG projections.

FIGURE 23 - Effect of pensions measures on pension expenditures (in % of GDP)



** Former projection is already adjusted for methodological change*

Source: IFP

In 2019, a new constitutional law put a cap on the retirement age. Future retirement age is set to increase until reaching the level of 64 years and subsequently ceases to increase despite further increasing life expectancy. Moreover, the retirement cap is lower for women who raised children; the retirement age will be reduced by 6 months for each child raised, up to three children. Additionally, the increase of the retirement age was reduced compared to the initially expected increase. After reaching the capped retirement age, people will spend longer time in retirement, leading to higher pension expenditures.

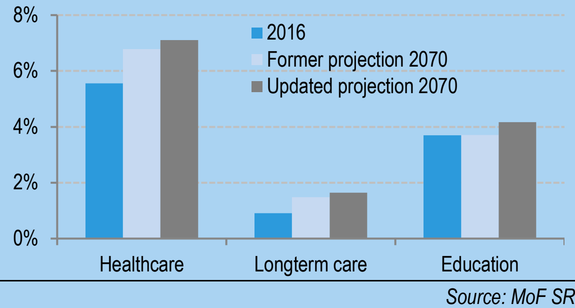
Level of minimum pensions increased and indexation changed to average wage growth. Only those who worked at least 30 years are entitled to minimum pension[62], and the amount of the pension increased with number of years worked. The amount of minimum pension is derived from the minimum subsistence level, the growth of which approximately copies the inflation rate. Effective from 2020, the minimum pension level increased from 136% of the minimum subsistence level to 33% of the average wage for 30 years worked. Additional increase for a longer career remained unchanged. Thus, minimum pensions increased by approximately EUR 48.4[63], and, under the new rules, minimum pension is linked to the growth of average wage.

Higher pension expenditures was also caused by the change in reduction of pensions from the 1st pillar[64] and by doubling the Christmas bonus[65]. For savers in the 2nd pillar, pensions from the 1st pillar are reduced based on the proportion of contributions paid into each scheme. Until 2019, only the old-age pension insurance was considered for that purpose. Since 2020, the rule was amended to include contributions into the Reserve Fund of Solidarity. Higher Christmas bonus increased the expenditures by approximately 0.1% GDP as well as the number of pensioners entitled to receiving the Christmas bonus[66].

The changes in the pension system also increased other ageing-related expenditures relative to GDP (Figure 24). Establishing a cap on retirement age will reduce the working population and thus also the future GDP. The productivity of labour and consequently the average wage will however remain nearly the same. Thus, the expenditure in relation to GDP will increase in labour-intensive sectors. The largest increase will be in expenditures on education, from 3.7% of GDP to 4.2% of GDP in 2070. Spending on healthcare will increase from 6.8% of GDP to 7.1% of GDP in 2070, which is a lower growth compared to education, owing to higher capital expenditures which are growing at the GDP growth rate. The expenditures on long-term care will increase in 2070 from 1.5% of GDP to 1.6% of GDP in 2070.

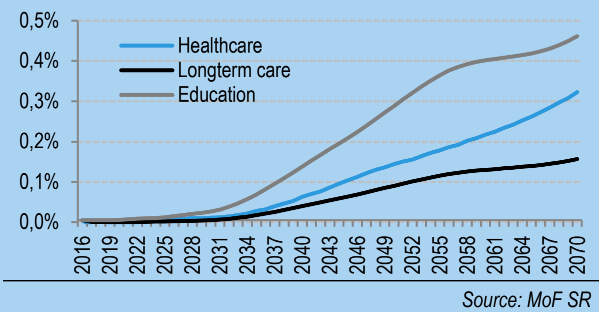
[62] The years granting an entitlement are only those years when contributions were paid for the person from the assessment base equal at least to 24.1% of the average wage reported two-years-ago. This condition has been omitted by the new legislation.
[63] Thus, the minimum pension for 30 years worked increased by 17%.
[64] The change in reduction of pensions from the 1st pillar applies also to already granted pensions.
[65] In February 2020, the Christmas bonus was replaced by the so-called thirteenth pension. However, this measure was adopted after the update of the long-term projection of the pension expenditures and therefore it is not included in the projection.
[66] While in the past, entitled to the Christmas benefit were only pensioners whose sum of pensions did not exceed 60% of the average wage, since 2019 the threshold will be increased to 65% of the average wage.

FIGURE 24 - Update of projections sensitive to ageing due to retirement age cap (% of GDP)



Source: MoF SR

FIGURE 25 - Additional increase in expenditures sensitive to ageing due to retirement age cap (% GDP)

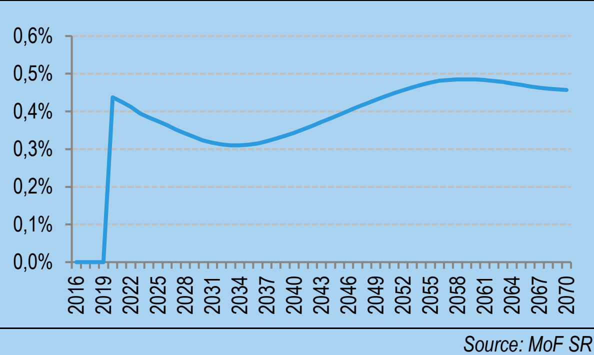


Source: MoF SR

Measures not included in the update of long-term expenditures

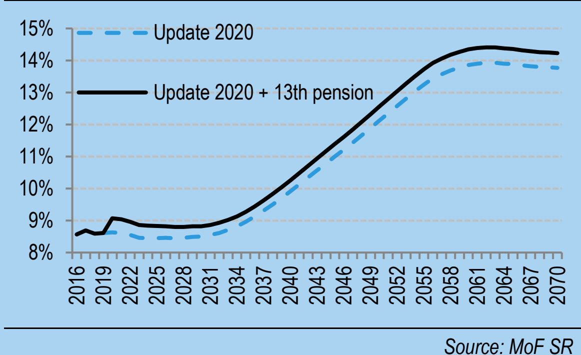
In 2020, the thirteenth pension was adopted to replace the Christmas bonus. The change was adopted in February 2020 and therefore it is not included in the updated projections[67]. While the amount Christmas bonus decreases with higher pensions, the thirteenth pension will be granted to every pensioner in the amount of the average pension[68]. In 2020, additional expenditure will be EUR 442 mil., i.e., approximately 0.4% of the GDP. The measure is to increase the pension expenditures by 0.3% - 0.5% of GDP over the whole projection[69]. Thus, in 2070, spending on pensions will increase from 13.8% of GDP to 14.2% of GDP.

FIGURE 26 - Effect of 13th pension on pension expenditures (% of GDP)



Source: MoF SR

FIGURE 27 - Effect of 13th pension on pension expenditures (% of GDP)



Source: MoF SR

[67] Ageing-sensitive spending were updated and then approved by the EC's Economic Policy Committee before adoption of this measure.

[68] An average pension of the respective type, e.g. an old-age pensioner will receive an average old-age pension.

[69] The assumption underlying the projection is that the Christmas bonus will increase at the average wage rate. As the average wage grows faster than average pension, additional spending will not be growing over the whole projection. Owing to strong growth of the average wage in the first 20 years of projection, spending on 13th pensions will be falling when expressed as a percentage of GDP, as the Christmas benefit would be growing fast in this time.

4 INSTITUTIONAL ASPECTS OF PUBLIC FINANCES

In line with its manifesto the government committed itself to ensuring functional three-year budgeting and improving the counter-cyclical function of public finances by introducing multi-annual binding expenditure ceilings. The budgetary process will be enhanced by the extension of the range of items forecasted by the Macroeconomic and Tax Forecast Committees, which will include interest expenditures, selected non-tax revenues and selected mandatory expenditures. The government will ensure better preparation of investment projects with consistent application of value for money principles. The government will also define a new debt management strategy based on risk and cost analysis, in line with best practice in the world. The government will also increase the transparency of the budget by providing more frequent and comprehensible information on its preparation and execution.

The role of effective fiscal frameworks is to achieve a long-term sustainable budgetary position, a counter-cyclical fiscal policy response and to ensure the efficient use of public resources. The national budgetary framework defines a set of rules, regulations and procedures that affect the implementation of the national budgetary policy in the form of its planning, approval, monitoring and evaluation[70]. They concern in particular national fiscal rules, medium-term budgetary frameworks[71] and independent fiscal institutions[72].

Multiannual expenditure ceilings

In line with its manifesto the government committed itself to ensuring functional three-year budgeting and improving the counter-cyclical function of public finances by introducing multi-annual binding expenditure ceilings. Binding multiannual budgetary rules will be introduced through expenditure ceilings and program budgeting. Expenditure ceilings will be set over the medium term and will reflect the objective of long-term sustainability of public finances. They will cover wide range of the general government expenditures, while taking into account also additional revenue measures. Clear rules will also be put in place for the creation and use of budgetary reserves and also for the recognition of implicit liabilities. Expenditure ceilings will also support the concept of value for money. The importance of the expenditure ceiling increases also in the light of the uncertain development of the economy in the post-COVID19 period, where potential economic growth may also decline.

Spending reviews will be incorporated into the budget by adjusting the baseline scenarios of the line ministries. The difference between aggregated baseline scenarios and the numerically set aggregated expenditure ceilings will determine the need for additional consolidation or the possibility of new government spending.

Strengthening of the independent forecast committees

The credibility of the budget will be enhanced by clearer separation of political decision-making from expert input. Forecasts of macroeconomic development, tax revenues and other budget items, which are based mostly on economic and demographic development and are not subject to political decision-making, will be prepared exclusively by independent experts. The current scope of the independent committees for macroeconomic and tax forecasts will be extended to items such as: interest expenditure, some non-tax revenues (such as dividends) and some mandatory expenditures (social benefits, pensions, health insurance expenditures, etc.). These forecasts will be fully reflected in the general government budget.

New debt management strategy

The government will define a new debt management strategy based on risk and cost analysis, in line with the best practice. The strategy will be based on key factors influencing the cost of sovereign debt: the close economic link between the Slovak economy and the euro area, the monetary policy set by the European Central

[70] National fiscal rules are also based on standards at European level (especially the Vade Mecum on the Stability and Growth Pact). The main national numerical fiscal rules in the Slovak Republic include the Constitutional Act on Budgetary Responsibility and the Act on Budgetary Rules of Public Administration (Section 30a), which determine the numerical rules for gross debt and the general government balance. All budgetary rules are also described in more detail in the documents of the Council for Budget Responsibility, which assesses their observance (e.g. the Report on the evaluation of compliance with the rules of budgetary responsibility and the rules of budgetary transparency for 2017).
[71] Which ensure the preparation, implementation, monitoring and of multiannual dimension of budgetary plans.
[72] Producing independent macroeconomic and fiscal forecasts, they monitor and evaluate fiscal policy developments and compliance with the rules of budgetary responsibility and transparency.

Bank, the relatively high credit premium at long maturities and the fact that Slovakia is a relatively small issuer of government bonds within the euro area. In addition the new strategy, the government will introduce an annual implementation report as part of the debt management process.

Budget transparency and its comprehensibility

The government will strengthen results-oriented budgeting and information on public policy objectives. The result targets for individual ministries will be set in the public administration budget and will be regularly evaluated publicly.

The government will increase the transparency and comprehensibility of the budget by more frequent and information about the budget, its executions and additional budgetary measures. The government will also report on the ongoing implementation of the general government budget, including the Ministry of Finance's estimates for general government revenue, expenditure, balance and debt, in the "Mid-year budget implementation report" and The " Citizen's Budget " will ensure the clarity of the budget for everyone, informing them in accessible language about the budget priorities and of its sustainability and sources of funding. The government will also support external transparency by publishing clear, open, machine-processable data on public finances by the Ministry of Finance, the Statistical Office of the Slovak Republic on public finances as well as today's unpublished data on the management of state-owned enterprises.

Strengthening of the Fiscal Council

A stronger dialogue with the Council for Budget Responsibility (CBR) at partner level and in accordance with the "comply or explain" principle will promote transparency of public finances. The opinions of the CBR on the draft budget of the public administration and the report on the long-term sustainability of public finances will be presented at the meeting of the Government and the National Parliament. The Chairman of the CBR will be able to speak at a meeting of the subcommittee for Finance and Budget and at a meeting of the Government at his own request.

Better public investment management

The government will ensure better preparation of investment projects with consistent application of value for money principles. In long-term strategic plans, the government will define clear, analytically based priorities (prioritization will become mandatory for all ministries), standards for project preparation will be unified so that they are comparable with each other, and transparency of project preparation will increase. Transparent and prioritized investment preparation plans will be regularly evaluated and regularly updated.

The government will strengthen the role of the Ministry of Finance and the Value for Money Unit in managing investments. New capacities will be established for the preparation and control of projects during all phases of the investment life cycle, from preparation to final handover. The investment process will be simplified and methodologies will be finalized with the aim to select the best projects. To optimize costs and achieve the best benefits of investment projects capacities in departments will be strengthened and legislation and rules will be reviewed. In this way, the best possible efficiency of investment projects over EUR 1 million will be systematically ensured.

5 STRUCTURAL POLICIES

A long-term sustainability of public finance will also be supported by structural reforms to kick-start economic growth. The measures will be focused on the key structural challenges of the Slovak economy, i.e., education, labour market and a more efficient use of economic resources and healthcare. Efficiency of public finance will be improved through focusing on a growth-oriented tax mix, reduction of tax evasions on the revenue side and increasing value for money on the expenditure side. The key priorities include also fight against corruption and effective operation of courts.

Long-term underfunding in combination with lack of support for teachers results in low performance of the primary and lower secondary school system. According to the Manifesto of the Government, the priority in education remains to increase teachers' salaries within the possibilities of the government budget. A new act on funding of schools and school facilities is under preparation to improve the efficiency of spending. The spending review of groups being at-risk-of-poverty or social exclusion proposes measures aimed at strengthening the inclusive approach in education. The Government will support implementation of mandatory pre-primary education. The Government will continue existing efforts of better alignment of secondary vocational schools with the labour market. The efforts will include preparation of vocation-oriented bachelor's study programmes. The scheduled activities also include approval and gradual implementation of accreditation standards. In lifelong learning, the Government intends to launch implementation of skills verification system with respect to skills gained outside the formal education system.

The COVID 19 outbreak is expected to have a negative impact on the labour market and the situation requires intervention. Several employment-support measures have been implemented during the outbreak to cushion the impact on employment. The conditions for entitlement to social transfers have been modified in order to support disposable income of households and childcare. Regular assessment of active labour market policies will contribute to improving efficiency of employment services which are also necessary to cushion impacts of the crisis. At the same time, profiling of clients of public employment services will be fully implemented to avoid transition into long-term unemployment.

The Government will make parental support more flexible in order to encourage mothers in rejoining the labour force and to reduce gender inequality. Along with these measures support will be aimed at quality and availability of childcare facilities to facilitate the transition from nursery schools to pre-school education. Along with improving nursery school capacities new legislative bill intends to establish entitlement to pre-school education for every child aged 3+ years.

The Government intends to strengthen fight against corruption and improve the effectiveness of courts. In order to increase competitiveness of the country, the Government committed itself to improve the rank of Slovakia in the Corruption Perceptions Index (CPI) by 20 positions. Slovakia will implement more sophisticated asset control mechanism and a functional system of liability for assets and punishing irregularities detected in actions of public officials in handling public assets. Public tenders will be more transparent after implementation of a consistent selection process across the general government. New measures will be implemented to improve control over public procurement. In order to improve transparency in the general government, the Government will implement publishing of annexes and amendments to contracts and information about public functions and decisions made by local governments. Transparency of selection procedures will be improved in order to increase credibility of courts and prosecution. Priorities in the judicial system are shortening of delays in litigations and increasing the population's trust in the judicial system. Work is underway on preparation of a judicial map and specialization of courts and judges.

In the business environment, the key challenge is reduction of the administrative burden and response to structural challenges of the economy. The Manifesto includes the Government's commitment to adopt measures for elimination of administrative burden in the business environment under accelerated proceedings in 2020. By October 2020, the Government intends to prepare and submit for approval new building regulations having effect on position in the Doing Business ranking. The Government also intends to simplify the communication between companies and the financial administration and the Commercial Register.

The Government is committed to reform the network of hospitals and to define the basic free health care package with respect to the time and geographical constraints. The goal is to create a sustainable system of hospital funding adequate to cover their fixed costs and, at the same time, to create financial sources for systematic

replacement of their equipment and infrastructure. Capital investments will be directed to renovation and construction of hospitals in Banská Bystrica and Martin. Besides hospitals, new measures will be focused on improving availability of outpatient care from general medical practitioners and improving urgent care. The Government will implement mechanisms to increase attractiveness of occupations in the health care sector and to promote repatriation of Slovak healthcare professionals from abroad. The spending review identified saving measures for 2020 in total amount of EUR 148 mil. The major saving potential is in spending on pharmaceuticals, medical devices and common examination and treatment components.

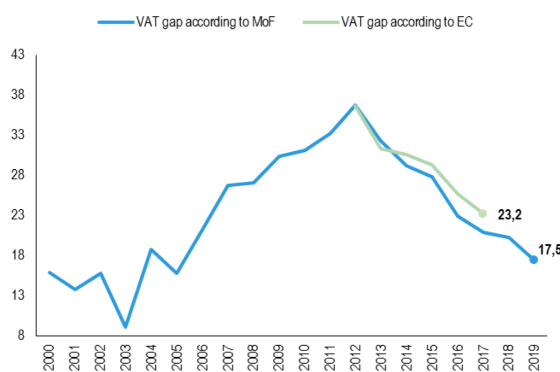
Measures in environmental policy will place more emphasis on separation of the economic growth from degradation of the environment. The measures will be a response to the published *European Green Deal* defining an action plan aiming at transition to fully carbon neutral EU economy[73]. Continued implementation of measures identified in the environmental spending review will increase the value for money from measures focused on improvement of the environment. The approved strategic documents create a framework providing guidance for specific environmental policies and suggesting systemic solutions for major environmental challenges in Slovakia – quality of air, waste management and forest management. The Government will support transition to low-carbon circular economy. The Government will support the role of green public procurement, green economy and education.

Effective tax collection

The Government's priority is to establish a simplified growth-oriented tax system. In the area of taxes and contributions emphasis will be placed on measures having a potential to increase Slovakia's economic growth. Preference will be given to increasing the share in taxation of consumption, property and negative externalities, rather than taxation of economic activity. The existing exemptions and reliefs in payment of taxes and contributions will be subject to evaluations, as currently the total amount of tax expenditures is around EUR 1.6 bn**.** The Government intends to revive the vision of unified collection of taxes, customs duties and social security contributions (UNITAS Programme) aiming to have a single institution responsible for doing so– the Financial Administration of the Slovak Republic.

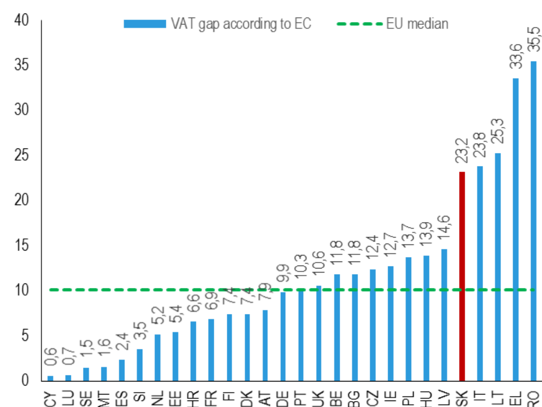
Another priority is to achieve internationally comparable results in the fight against tax evasions and increasing efficiency of financial administration. Since 2012, the gap in VAT collection decreased from the peak of around 37% of potential tax collection to 17.5%, which is a reduction by more than a half. Based on the latest data from the national methodology, VAT gap was reduced again in 2019. Additionally, the level of the VAT gap was adjusted downwards by 3 p.p. owing to statistical changes of national accounts (benchmark revision). The positive falling trend has been confirmed by the EU methodology under which the tax gap for 2017 has been estimated at 23.2%, which, however, is still the fifth largest VAT gap among EU countries in that year.

FIGURE 28 - VAT gap (% potential revenues, national and European methodology)



Source: MoF

FIGURE 29 - VAT gap in the EU (2017)



Source: MoF

73 European Green Deal published in December 2019.

Fulfilment of the objectives of the Financial Administration will be assessed every year in the Annual Report. The objectives will be structured in areas involving integrity of information about registered taxpayers, risk management, support to voluntary tax payment, early filing of tax returns and early tax payment, correct information in tax returns, resolution of tax disputes, management of collection of tax revenues and transparency and liability towards the public and the Government. The efforts will be focused on increasing transparency and accountability to the public and the Government. The Government also intends to strengthen analytical functions of the Financial Administration to support targeted measures for higher efficiency of tax collection. In consequence of this, a detailed report will be published each year about the size of tax evasions and reasons for the evasions.

In the near future, narrowing of the tax gap will mostly depend on possible analytical use of data from the newly established *eKasa* tool (online fiscal registers). The tool is expected to have a positive impact on narrowing the VAT gap, in particular in retail trade, services and accommodation and catering services. Implementation of *eKasa* project was slightly delayed. Businesses were gradually connected to *eKasa* during 2019. The original deadline for mandatory use of *eKasa* for all business entities was postponed from July 2019 to January 2020, aiming to provide taxpayers with more time to purchase certified cash registers. *eKasa* project is currently fully operational.

Latest spending reviews

The spending review of IT identified measures which can potentially save 10-20% (EUR 48-95 mil.) of annual IT spending; and identified building of internal resources as an efficient investment. The savings is to be achieved through implementation of analytical monitoring of IT spending, establishing price limits for purchases of goods and services and a better control of contracts for operation and development of the existing systems.

The spending review suggests that the resulting financial funds are reinvested into building internal IT capacities in order to satisfy own IT needs at better prices **(External Annex 1).**

The spending review of groups being at-risk-of- poverty or social exclusion proposes reallocation measures in the amount of EUR 13.7 mil. and concluded that additional EUR 263 mil. is needed. The spending review identified lower spending on zero grades, special-needs schools and activation works. Two thirds of additional funds (EUR 174 mil.) should be directed to early childhood education and care, mainly on extension and improving quality of human resources to work with disadvantaged children. Around 20% (EUR 52 mil.) should be spent on a higher and better available housing allowance and for assistance to homeless people. Another 12% (EUR 31 mil.) have been earmarked for a more efficient assistance to disadvantaged job seekers and for social policies, mainly for mitigation of poverty faced by children. Around 2% (EUR 7 mil.) of total package should be directed to the remaining areas **(External Annex 2).**

The spending review of the general government employment and pay (the Public Wage Bill) identified **structural discrepancies between employment and the society's needs.** Potential savings **have been estimated at EUR 765 mil. and quantified that additional EUR 1.2 bn are necessary to achieve the employment and pay levels equivalent to the EU average.** Savings can be achieved by reduction of the number of police officers (EUR 96 mil.), optimization of ministries and state-owned enterprises (EUR 214 mil.) and through reform of local government (EUR 396 mil.). It is necessary to gradually increase numbers of nurses, teachers' salaries and numbers and salaries of social workers. The spending review recommends making pay rules more flexible in the part referring to increase in the variable component of salaries for positions with higher extent of responsibility and a more centralised management of public employment **(External Annex 3).**

ANNEXES

Annex 1 – Mandatory tables of the Stability Programme

TABLE 11 (Table 1a) - Macroeconomic prospects (ESA2010, EUR bn.)

	ESA code	2019	2019	2020	2021	2022	2023
		Level	Rate of change	Rate of change	Rate of change	Rate of change	Rate of change
1. Real GDP	B1*g	89.3	2.3	-7.2	6.8	4.1	3.2
2. Nominal GDP	B1*g	94.2	5.0	-5.5	7.0	5.5	5.3
Components of real GDP							
3. Private consumption expenditure	P.3	49.6	2.2	-8.4	7.8	4.1	2.9
4. Government consumption expenditure	P.3	15.9	3.8	1.8	0.2	1.8	2.6
5. Gross fixed capital formation	P.51	19.3	4.4	-20.3	17.0	5.2	5.8
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	2.2	2.4	0.6	-0.1	0.0	0.0
7. Export of goods and services	P.6	85.5	1.7	-21.4	17.6	6.5	3.6
8. Imports of goods and services	P.7	83.2	2.6	-25.5	19.0	6.5	4.0
Contribution to real GDP growth							
9. Final domestic demand (total)		84.8	2.8	-8.7	7.5	3.7	3.2
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	2.2	0.2	-1.8	-0.7	0.1	0.0
11. External balance of goods and services	B.11	2.4	-0.7	3.3	0.0	0.3	-0.1

Source: MoF

TABLE 12 (Table 1b) - Price developments (ESA2010)

	ESA code	2019	2019	2020	2021	2022	2023
		Level	Rate of change	Rate of change	Rate of change	Rate of change	Rate of change
1. GDP deflator		1.1	2.6	1.9	0.2	1.4	2.1
2. Private consumption deflator		1.1	2.7	2.0	0.2	1.9	2.0
3. HICP		2.8	2.8	1.7	0.2	1.9	2.0
4. Public consumption deflator		1.2	5.6	4.9	2.4	2.5	2.6
5. Investment deflator		1.0	1.2	0.9	0.4	1.8	2.4
6. Export price deflator (goods and services)		1.0	0.0	0.3	0.5	1.7	2.1
7. Import price deflator (goods and services)		1.0	0.2	-0.3	0.5	1.8	2.3

Source: MoF

TABLE 13 (Table 2a) - General government budgetary prospects

	ESA code	2019	2019	2020	2021	20022	2023
		level	**% of GDP**	**% of GDP**	**% of GDP**	**% of GDP**	**% of GDP**
Net lending (EDP B.9) by subsector							
1. General government	S.13	-1 219.7	-1.3	-8.4	-4.9	-3.7	-2.9
2. Central government	S.1311	-1 532.2	-1.6	n.a	n.a	n.a	n.a
3. State government	S.1312	n.a	n.a	n.a	n.a	n.a	n.a
4. Local government	S.1313	115.5	0.1	n.a	n.a	n.a	n.a
5. Social security funds	S.1314	196.9	0.2	n.a	n.a	n.a	n.a
General government (S13)							
6. Total revenue	TR	39 084.7	41.5	41.4	n.a	n.a	n.a
7. Total expenditure	TE [1]	40 304.4	42.8	49.8	n.a	n.a	n.a
8. Net lending/ borrowing	EDP B.9	-1 219.7	-1.3	-8.4	-4.9	n.a	n.a

9. Interest expenditure	EDP D.41	1 157.1	1.2	1.2	n.a	n.a	n.a
10. Primary balance	[2]	-62.6	-0.1	-7.2	n.a	n.a	n.a
11. One-off and other temporary measures	[3]	0.0	0.0	0.0	n.a	n.a	n.a
Selected components of revenue							
12. Total taxes (12=12a+12b+12c)		0.0	0.0	18.6	n.a	n.a	n.a
12a. Taxes on production and imports	D.2	11 377.3	12.1	12.0	n.a	n.a	n.a
12b. Current taxes on income, wealth, etc.	D.5	6 895.2	7.3	6.6	n.a	n.a	n.a
12c. Capital taxes	D.91	0.0	0.0	0.0	n.a	n.a	n.a
13. Social contributions	D.61	14 337.3	15.2	16.1	n.a	n.a	n.a
14. Property income	D.4	564.7	0.6	0.7	n.a	n.a	n.a
15. Other	[4]	5 910.2	6.3	6.0	n.a	n.a	n.a
16=6. Total revenue	TR	39 084.7	41.5	41.4	n.a	n.a	n.a
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)	[5]	32 609.8	34.6	34.6	n.a	n.a	n.a
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1+P.2	14 839.7	15.8	n.a	n.a	n.a	n.a
17a. Compensation of employees	D.1	9 596.2	10.2	n.a	n.a	n.a	n.a
17b. Intermediate consumption	P.2	5 243.5	5.6	n.a	n.a	n.a	n.a
18. Social payments (18=18a+18b)		0.0	0.0	n.a	n.a	n.a	n.a
of which Unemployment benefits	[6]	214.2	0.2	n.a	n.a	n.a	n.a
18a. Social transfers in kind - purchased market production	D.632	12 599.4	13.4	n.a	n.a	n.a	n.a
18b. Social transfers other than in kind	D.62	4 842.2	5.1	n.a	n.a	n.a	n.a
19. =9. Interest expenditure	EDP D.41	1 157.1	1.2	1.2	n.a	n.a	n.a
20. Subsidies	D.3	1 030.2	1.1	n.a	n.a	n.a	n.a
21. Gross fixed capital formation	P.51	3 350.9	3.6	n.a	n.a	n.a	n.a
22. Capital transfers	D.9	370.6	0.4	n.a	n.a	n.a	n.a
23. Other	[7]	2 114.3	2.2	2.3	n.a	n.a	n.a
24=7. Total expenditure	TE [1]	38 190.1	40.6	49.8	n.a	n.a	n.a
p.m.: Government consumption (nominal)	P.3	18 444.4	19.6	22.0	n.a	n.a	n.a

[1] Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9 *Source: MoF*
[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 14 (Table 4) - General government debt development (% of GDP)

	ESA code	2019	2020	2021	2022	2023
1. Gross debt		48.0	61.2	61.9	61.4	60.1
2. Change in gross debt ratio		-1.4	13.2	0.6	-0.4	-1.4
Contributions to change in gross debt						
3. Primary balance*		0.1	7.2	3.8	2.7	1.9
4. Interest expenditure		1,2	1.2	1.1	1.0	1.0
5. Stock-flow adjustment		-0.4	2.0	-0.2	-0.9	-1.2
of which:		0.0	0.0	0.0	0.0	0.0
- differences between cash and accruals		-0.2	0.1	1.0	-0.1	-0.5
- net accumulation of financial assets		0.0	2.0	-1.4	-1.0	-1.0
of which: revenues from privatisation		0.0	0.0	0.0	0.0	0.0
- valuation effects and others		0.0	0.0	0.0	0.0	0.0
p.m. implicit interest rate on debt		2.6	2.3	1.9	1.8	1.7
Other relevant variables						
6. Liquid financial assets		4.8	7.2	5.6	4.7	3.8
7. Net financial debt (7=1-6)		43.2	54.1	56.3	56.7	56.4

8. Debt repayment (existing debts) from previous year		n.a	n.a	n.a	n.a
9. Share of debt denominated in foreign currency**		n.a	n.a	n.a	n.a
10. Average maturity (years)***	n.a	n.a	n.a	n.a	n.a

* The 2020 primary balance is based on the 2020 estimate

Source: MoF

Annex 2 - Discretionary measures adopted/announced in response to COVID-19 outbreak

List of measures	Description	ESA Code (Expenditure / Revenue component)	Adoption status	Accounting	Budgetary impact (change from previous year)			
					level 2020	% of GDP 2020	level 2021	% of GDP 2021
Employment support (closed business, 80 % of gross wage max 1100 euros)	Allowance for employers, in case they do not furlough workers while being closed as a result of the governmental ruling. The allowance will cover for 80 percent of the gross salary of workers (max. gross salary of 1100 eur).	Expenditure	adopted	accrual	-261.6	-0.3	261.6	0.3
Self-employment support based on decline of revenues	Flat rate transfer to self-employed individuals, the rate depends on the drop in profits. Flat rate transfers amounting to 180/300/420/560 eur associated with 20/40/60/80 percent drop in profits.	Expenditure	adopted	accrual	-110.0	-0.1	110.0	0.1
Compensation of the employee's salary (business affected by coronavirus, 80 % of gross wage, max. 880 euros)	Allowance for employers, in case they do not furlough workers while being hit by the crisis. The allowance will cover for 80 percent of the gross salary of workers (max. gross salary of 880 eur).	Expenditure	adopted	accrual	-508.0	-0.6	508.0	0.5
Compensation of the employee's salary (business affected by coronavirus, flat-rate allowance based on revenue decline)	Flat rate transfer to employees, the rate depends on the drop in profits of the company. Flat rate transfers amounting to 180/300/420/560 eur associated with 20/40/60/80 percent drop in profits.	Expenditure	adopted	accrual	-120.0	-0.1	120.0	0.1
Flat - rate allowance of 210 eur/month	Allowance for people without income (e.g. part-time workers), low-income self-employed with no SSC/HSC and 1-person Ltd. companies	Expenditure	adopted	accrual	-109.0	-0.1	109.0	0.1
Sickness and nursing benefit scheme changes (55 % of salary)	**of which**	**Total**	**adopted**		**-307.6**	**-0.3**	**307.6**	**0.3**
	- sickness benefit; workers who are not allowed to work due to the pandemic will be eligible for the sickness benefits during the whole time of the crisis	Expenditure	adopted	accrual	-143.6	-0.2	143.6	0.2
	- nursing benefit; due to the facts that schools are closed, parents who stay at home with their children are eligible for nursing benefits during the whole time of the crisis	Expenditure	adopted	accrual	-164.0	-0.2	164.0	0.2
Possibility to include losses from 2014 (loss-carry forward) already in the current 2019 tax returns	Companies can claim past losses in their 2019 tax return	corporate tax	adopted	accrual	-42.5	0.0	42.5	0.0
Increase in unemployment benefits by 1 month	Persons eligible for the unemployment benefit will be able to receive the benefit up to 7 months, instead of the usual maximum limit of 6 months.	Expenditure	adopted	accrual	-15.0	0.0	15.0	0.0
Suspension of tax audits and tax proceedings		tax income	adopted	accrual	-13.0	0.0	13.0	0.0
Waiver for tax returns for vehicle taxes		tax income	adopted	accrual	-5.0	0.0	5.0	0.0
General pardon on social contributions (closed business)	In case business were closed by state order, employer social contributions are waived	Social Security Contributions	adopted	accrual	-44.5	0.0	44.5	0.0
Assistance in material need	It is expected that more people will drop into poverty and will be eligible for assistance in material need	Expenditure	adopted	accrual	-5.1	0.0	5.1	0.0

Extended parental benefits for parents with children turning 3 years old		**Total**	**adopted**	**accrual**	**-10.9**	**0.0**	**10.9**	**0.0**
	of which							
	- possibility to draw nursing benefit after the end of parental leave during crisis	Expenditure	adopted	accrual	-3.0	0.0	3.0	0.0
	- extension of parental allowance for parents with children turning 3 years old during crisis	Expenditure	adopted	accrual	-7.9	0.0	7.9	0.0
Purchases of medical supplies in relation to COVID19		Expenditure	adopted	accrual	-160.0	-0.2	160.0	0.2
TOTAL					**-1712.2**	**-1.9**	**1712.2**	**1.8**

Annex 3 - Evaluation of tax income for 2019 (forecasted by the Tax Revenue Forecasts Committee)

Total general government revenues from taxes and social security contributions for 2019 are by EUR 18 mil. higher than the approved budget[74] (Figure 30). Differences between taxes result from effects of macroeconomic trends, effective tax rate (ETR), new legislation not included in the budget and one-off factors.[75] :

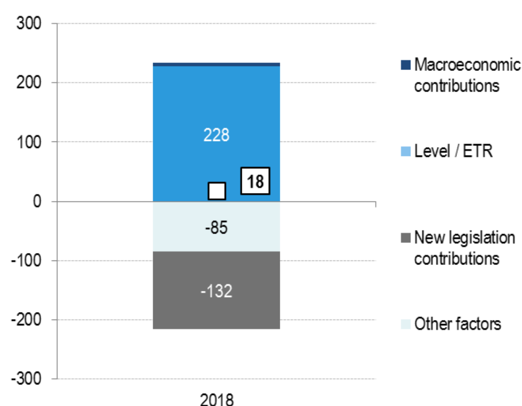
- **The 2019 revenues from taxes and social security contributions linked to the labour market were higher, but, on the other side, corporate taxes and excise taxes did not met the expectations (Figure 31).** Despite a slower economic growth, the labour market was a positive surprise and the growth of the wage base exceeded the expectation by 1.3 p.p. The positive trends were translated into higher revenues from personal income taxes, social security and health insurance contributions. The growth in nominal GDP, which was by 2.1, p.p. lower than expected (at 5% level), resulted in lower revenues from corporate income taxes. The dynamics of the real economy (2.2 p.p. below the budget estimate), had a negative impact on revenues, e.g., excise duty on mineral oils.

- **Collection of personal income tax from employment and VAT surprised positively as both exceeded the macroeconomic trends.** In case of personal income tax, these results were caused by the existing legislative setup, as a slower growth in the non-taxable part of the tax base contributed to higher growth of tax revenues.

- **Legislative changes that came into force during the year had a negative impact on collection of taxes.** These changes include, in particular, cancellation of the special levy imposed on retail chains (net effect EUR 112 mil.), yet no revenues were realised. Another factor that contributed to lower collection of income taxes and social security contributions were the amended conditions for entitlement to a 13th salary (EUR -20 mil.).

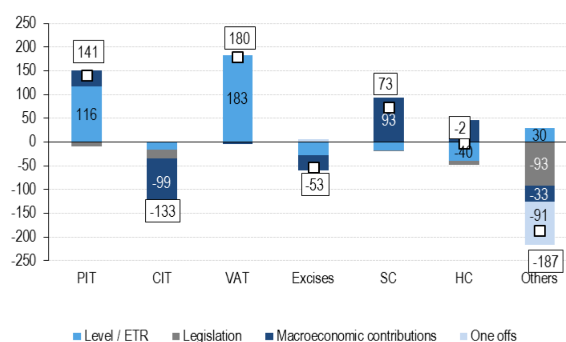
- **The expected budget revenues from establishing the *eKasa* and nano-markers were not achieved.** The project of application of nano-markers in fuels was not implemented in practice (see chapter on the public finance developments in 2020) and *eKasa* was implemented with a delay as the effective date was postponed to the beginning of 2020.

FIGURE 30 - Change of 2019 GG revenue forecast compared to budget (EUR mil.)



Source: MoF SR

FIGURE 31 - Change of 2019 GG revenue forecast compared to budget (EUR mil.)



Source: MoF SR

Tax Revenue Forecasts Committee (VpDP) acting in accordance with its Statute only examines accrual tax and social security revenues which are regarded as taxes under the existing national economic classification. The non-forecasted income covers approximately 10 % of total general government revenues. The committee does not make forecasts for e.g., trends in insurance premiums paid by the government (approx. EUR 1.4 bn), which has a neutral effect on the resulting balance of the general government. Thus, it is impossible to make a simplified comparison without any analytical adjustments between a forecast prepared by the committee a total notified tax and social security revenues under ESA methodology.

[74] For this purpose, approved budget shall beam the budget approved by the parliament in December 2018 and adjusted by effect of legislative measures approved by the parliament in December 2018 after the budget was already approved.

[75] The tax revenues forecasted by the Committee do not include effects of the so-called “green energy” in the amount of EUR 563 mil. on the revenue side. This is a methodological effect of reflecting revenues from support of renewable energy sources and a highly efficient combined electricity generation as imputed in the notification.

Annex 4 - Structural balance

Structural balance is the difference between general government revenues and expenditure, excluding one-off and temporary effects, assuming that the economy is operating at its potential level. Compared to nominal balance, structural balance gives a more fair view of the medium-term fiscal position of the country.

The assumption underlying the Stability and Growth Pact is that the member states should achieve a symmetric approach to fiscal policy in line with cyclical trends in the economy. The key objective is a stronger orientation on the budget discipline in periods of economic recovery, aiming to avoid the pro-cyclical nature of fiscal policy and gradually achieve its medium-term budget objective[76]. The result should be creation of a fiscal margin for periods of economic downturn and, at the same time, reduction of the public debt at an appropriate pace and thus encourage long-term sustainability of the public finance.

The following matrix specifies requirements of the Stability and Growth Pact on fiscal consolidation within the preventive part. The matrix distinguishes between stronger consolidation effort which is to be applied in better times and a lower effort required during downturn of economy below its potential.

		Required y/y consolidation	
	Condition	**Debt below 60% and low-to-medium sustainability risk**	**Debt above 60% or high risk of sustainability**
Extremely bad period	Real GDP growth < 0 or production gap < -4	No consolidation needed	
Very bad period	-4 ≤ production gap (PG) < -3	0	0.25
Bad period	-3 ≤ production gap (PG) < -1,5	0 in case of opening PG, 0.25 in case of closing PG	0.25 in case of opening PG, 0.5 in case of closing PG
Normal period	-1,5 ≤ production gap (PG) < 1,5	0.5	> 0.5
Good period	production gap (PG) ≥ 1,5	> 0.5 in case of opening PG, ≥ 0.75 in case of closing PG	≥ 0, in case of opening PG, ≥ 1 in case of closing PG

Evaluation of compliance (deviation in % of GDP) compared with the required decrease of the structural balance is made from one-year and two-year perspective (based on average of the years considered). One-year deviation with limit -0.5% of GDP and two-year deviation with limit of -0.25% GDP.

Calculation of the structural balance

Step 1 – cyclical component is applied to nominal balance of public finance to eliminate the effect of economic fluctuations[77]. The estimate of production gap is based on the actual macroeconomic forecast of the Ministry of Finance SR from February 2019. The Ministry of Finance SR fully accepts from the EC the estimated sensitivity of the general government's balance to changes in the production gap, based on the OECD methodology[78].

Step 2 – the adjusted balance is then netted of one-off and temporary measures[79], fiscal effects of which are not recurring in the next years. For the purpose of preparation of the draft budget, the Ministry of Finance SR identified such measures in accordance with the EC methodology[80].

For calculation of the structural balance for 2020, the following measures were assessed as having just one-off effect:

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[76] The assumption underlying the Stability and Growth Pact is that the member states should achieve a symmetric approach to fiscal policy in line with cyclical trends in the economy.
[77] Estimated using production gap as the difference between actual and potential GDP level.
[78] The initial methodology was presented in Girouard, N., André, Ch. (2005): Measuring cyclically adjusted budget balances for OECD countries. In 2014, the methodology was updated, and new data were included for elasticity calculations. The methodology was approved by member states in September 2014.
[79] The methodology of the European Commission (EC) characterises a one-off measure as a temporary measure which does not have a permanent nature and has been developed independently of Government resolutions. EC has developed a guidance on classification of one-off measures - Vade Mecum on the Stability and Growth Pact – 2018 Edition – Guiding principles str.28.
[80] All typical one-off measures are described in 2015 Report of Public Finances in EMU[80], Chapter 3.3. Moreover, EC defined specific exemptions and procedures as to when an effect contradicting the above-mentioned principles can be regarded as a one-off measure; such cases are also described in the Chapter.

TABLE 15 - One-off measures

		mil. EUR	% of GDP
1	Payment of sick leave in quarantine or domestic isolation for employees in the amount of 55% of their gross salary	308	0.35
2	Contribution to maintain employment for companies affected by the crisis (80% of gross wages, max. 880 euros, or flat-rate contribution according to the decrease in sales)	628	0.71
3	Contribution to maintain employment for closed enterprises (80% of gross salary, max. 1100 euros)	262	0.29
4	Contribution for self-employed (closed operations + decrease in sales)	110	0.12
5	1-person LLC., self-employed without contributions - 210 euros	109	0.12
6	Purchases of medical supplies related to COVID 19	160	0.18
7	Forgiveness of payment of levies for closed shops	44	0.05
8	Extension of unemployment benefit by two months	15	0.02
9	Extension of parental allowance	11	0.01
10	Assistance in material need	5	0.01
	Total (EU funds excluded)	**1 455**	**1.63**
	Part of some one-off measures financed through EU funds	-197	-0.22

Source: MoF

The EC issued a manual for calculation of structural balance for this year's Stability Programme, under which one-off measures related to the spread of COVID 19 are classified as a general escape clause. I.e., these measures do not influence the amount of structural balance through one-off measures. For that reason, the structural reason is given below also in accordance with this year's EC manual.

TABLE 16 - Consolidation effort according special EC guideline (ESA 2010, % of GDP)

	2018 F	2019 F	2020 E	2021 SP	2022 SP	2023 SP
GG balance	**-1.05**	**-1.30**	**-8.4**	**-4.9**	**-3.7**	**-2.9**
Cyclical component	0.7	0.7	-2.8	-1.2	-0.5	-0.2
One-off effects	0.0	0.0	0.0	0.0	0.0	0.0
Structural balance	**-1.8**	**-2.0**	**-5.6**	**-3.7**	**-3.2**	**-2.7**
Consolidation effort	**-0.7**	**-0.2**	**-3.6**	**1.9**	**0.5**	**0.5**
General escape clause			-1.6			
Required consolidation effort**	0.5	0.4	0.0	0.3	0.5	0.5
One-year deviation*	-0.8	-0.5		0.0	0.0	0.0
Average deviation)*	-0.2	-0.7		-	0.0	0.0

Source: MoF

** Deviations in 2018 are based on "fixed" values from the European Commission's spring evaluation in 2019. Compliance with the rule will not be assessed in 2020 due to a coronavirus pandemic.*

*** This is the expected consolidation of the Ministry of Finance of the Slovak Republic, the EC may provide us with another consolidation, as Slovakia will be in the corrective part of the Pact.*

Annex 5 – Expenditure rule

The second pillar of the preventive part of the Pact is the expenditure rule, which, compared to the structural balance rule is a stronger anti-cyclical indicator reflecting effects controlled by the Government. Under the expenditure rule, general government expenditures (net of items being out of the Government's control and new revenue measures[81]) shall not grow faster than the medium-term potential economic growth[82]. The expenditure rule, at the same time, disregards supply shocks in the economy – such as occurred this year, and other than standard (average) dynamism of tax collection[83]. In good times when revenues from taxed and social security contributions grow faster than GDP and more strongly improve the fiscal position, the expenditure rule – when compared to structural balance – is a more strict and anti-cyclical indicator for assessment of consolidation efforts. On the other side, in worse times it offers a better platform for economic stabilisation.

In 2018 and 2019, the expenditure rule identified even more apparent deviation from fulfilment of MTO than the deviation identified by structural balance. Compared to deviation identified by structural balance in 2019, one-year deviation in the expenditure rule is by 0.7 p. p. of GDP higher.

In 2020, year-on-year real growth of adjusted expenditure is expected to achieve 5.6% level. This year, the Government announced a package of measures to fight the spread of Coronavirus and to support the economy, which resulted in additional increase in expenditure aggregate by nearly 7 p. p. (thus, total growth would be 12.4%)[84]. This effect, however, has been eliminated from the expenditure aggregate through one-off expenditure and revenue measures.

TABLE 17 - Expenditure rule

	2018 S	2019 S	2020 OS
1. Expenditures**	**37 501**	**40 304**	**44 295**
2. Interest	1 207	1 157	1 053
3. Expenditures covered by EU funds (capital)	749	587	483
3a. Expenditures covered by EU funds (total)	957	890	854
4. Capital expenditures covered by national funds	2 604	2 763	2 386
5. Smoothing (national funds, 4-year rolling average)	2 504	2 507	2 541
6. Cyclical expenditures - unemployment benefits	-19	-18	73
7. Expenditures covered by automatically increased revenues	0	0	0
8. Primary expenditure aggregate (1-2-3-4+5-6-7)	**35 256**	**38 020**	**42 470**
9. y-o-y change of primary expenditure aggregate (8t-8t-1)	2 050	2 764	4 450
10. DRM**	-130	0	-260
11. One-off revenue measures	0	0	4
12. One-off expenditure measures	0	0	-1 607
13. Methodical corrections	0	0	0
14. Nominal growth of expenditure aggregate net of DRM ((9t-10t)/8t-1)	6.6	7.8	8.2
15. Real growth of expenditure aggregate net of DRM	5.0	5.2	5.6
16. Expenditure benchmark (low reference bound)	1.3	2.0	2.8
17. Deviation from expenditure benchmark (16-15)	-3.6	-3.2	-2.8
Deviation from expenditure benchmark *	**-1.2**	**-1.2**	**-**
Two-year deviation from expenditure benchmark *	**-0.6**	**-1.2**	**-**
p. m. GDP deflator	*1.5*	*2.5*	*2.5*
Limit for deviation (1y)	-0.5	-0.5	-0.5
Limit for deviation (2y)	-0.25	-0.25	-0.25

* Consolidation efforts and deviations in 2018 are based on "frozen" values from the latest forecast of the European Commission.
** In 2020, the expenditure measures from the following table that have an impact on revenue are not included.
Note: The table does not show the years 2021 to 2023 as additional measures need to be taken to achieve the budgetary targets, which have not yet been specified.

Source: MoF

[81] The discretionary revenue measures are additional year-on-year budget effects of revenue measures.
[82] Economic potential is expressed in reference rate of expenditure growth, calculated as a 10-year average of potential growth (in year's t-5 through t+4). Such rate should ensure stabilisation of the level of the general government balance. If the country has not yet achieved its MTO, the growth of spending shall also reflect the necessity of gradual convergence to that objective. In such case the expenditure rule is adjusted each year by so-called convergence rate which is derived from the required consolidation effort of the structural balance.
[83] Assumed unit elasticity of tax collection vs GDP growth.
[84] Including all effects on both the expenditure side and the revenue side.

Discretionary revenue measures

Discretionary revenue measures are defined by EC methodology as measures of legislative nature with impact on general government revenues. These measures are assessed through additional effects (marginal changes) of the measures. Each measure is classified as either a permanent or a one-off measure. Permanent structural measures are recorded including their effect in the first year (at the moment of coming into force) and for the other years without effect. Macroeconomic developments of the following years are disregarded. If effects are different owing to postponed effective date of the measure, then only the marginal, year-on-year change is recorded.[85] For one-off revenue measures, only the effect in one year is recorded and in the following year deficit of the same amount is recorded, so that total effects in two consecutive years is zero.

The MoF SR made the following changes in methodology compared to the latest Stability Programme:

- Discretionary measures for t-2 year (i.e., 2018) are taken over from the last Evaluation of Compliance with the Balanced Budget Rule (November 2019). The remaining years (t-1 through t+3) are based on the latest Tax Forecasts Committee.

TABLE 18 - Discretionary revenue measures (mil. EUR, ESA2010)

List of measures	2018	2019	2020	2021	2022	2023
Abolition of minimum CIT (tax license)	-100	0	0	0	0	0
Introduction/amendment of 13th and 14th salary	-2	-30	-10	-44	3	0
Recreational vouchers	0	-58	0	0	0	0
Tax relief for employees for accommodation	0	-16	6	0	0	0
Taxation of dividends - 7% rate	24	29	0	0	0	0
Exemption from income taxation from the sale of ownership shares	0	-5	-23	0	0	0
Change of VAT collection efficiency	-57	308	0	0	0	0
Lower VAT rate for accommodation services	0	-24	0	0	0	0
Measures related to tobacco products	3	36	0	0	0	0
Tax settlement from social contributions	0	0	0	0	0	49
Health insurance contribution allowance	35	37	0	0	0	0
Fully-funded pension pillar (II. pension pillar)	-32	-41	-45	-45	-48	-53
Insurance taxation related measures	14	65	0	0	0	0
Special levy rate in regulated sectors	0	-29	0	-28	0	0
Special levy in banking sector	0	0	125	0	0	0
Changes in the R&D allowance	-15	-4	0	0	0	0
Introduction of gambling licenses	0	12	3	0	0	0
Increase in the limit for advance payments (from 2 500 to 5 000 EUR)	0	0	0	-11	0	0
Carry-forward tax losses for other non-microcompanies (max. 50 % tax base in 5 years)	0	0	0	36	-6	0
Individual volume of depreciation of assets for micro companies	0	0	0	-15	0	0
15 % rate of corporate income tax for companies with turnover up to 100 th., 21% for others	0	0	-42	0	0	0
Increase of the non-taxable part of the tax base to 21 times of the subsistence minimum	0	0	-135	0	0	0
Personal income tax (business) reduced to 15% with turnover up to EUR 100 th.	0	0	-19	0	0	0
Reduced VAT rate for other foodstuffs	0	0	-77	0	0	0
Non-cash benefit for employees for transport (100 euro)	0	0	0	-12	0	0
Measures to promote labour mobility	0	0	-34	0	0	0
Suspension of tax audits and tax proceedings	0	0	-13	13	0	0
Waiver for tax returns for vehicle taxes	0	-5	5	0	0	0
General pardon on social and health contributions (closed business)	0	0	-44	44	0	0
Possibility to include losses from 2015 - 2018 loss-carry forward) already in the current 2019 tax returns	0	-43	43	0	0	0
Employment support (closed business)*	0	0	-48	48	0	0
Compensation of the employee's salary (100% of compensation, max. 880 euros)*	0	0	-193	193	0	0
Sickness and nursing benefit scheme changes (55 % of salary for employees)*	0	0	-371	371	0	0
Total	**-130**	**232**	**-872**	**550**	**-51**	**-4**

* These measures do not enter into the calculation of the expenditure rule through DRM, as these have an indirect effect of the expenditure measures on the revenue side.

[85] The following example illustrates effect of marginal changes. Total effect of the measure is 200. As the measure was adopted in the middle of the year, the effect in that year is 100. In the following year, the effect on the amount will grow to full effect 200, however, from marginal view, recognised will be just the difference of the two effects, i.e., 100. Total, cumulative effect is 200, only that it is split between two years.

Annex 6 – Forecast of gross debt of the general government by cash flows

Considering cash factors influencing dynamism of the nominal debt level, prevailing will be activities aimed at coverage of the increased cash deficits caused by the COVID 19 outbreak. In 2020, the cash deficit of the government budget is expected to be slightly below EUR 8 bn, which is almost double the deficit of 2010, when Slovak public finance was hit by the global financial crisis. Besides the growing deficit, the debt level will also be affected by accumulation of excess cash gained from activities at financial markets. In 2020, Slovakia is to settle the request of the European Stability Mechanism for payment of the outstanding part of the increased cash contribution, as the temporary 10-year exemption expired. Since 2021, assuming adoption of additional consolidation measures, the cash balance is expected to gradually decrease to EUR 3 bn (which is, however, still above 1 bn above the 2019 level). Besides bond emissions on the financial market, which increase nominal debt level, cash deficit of the government budget will be also financed using the excess cash accumulated in the Treasury during previous years in the amount of more than EUR 4 bn. Other general government entities will also contribute to reduction of total nominal debt, by using their cash balances from past years to reduce their liabilities. The debt level over the budget horizon will also be affected by methodological adjustments such as discounts upon emission and redemption of bonds. Negative impacts result mainly from emission discounts on bonds with longer maturity. Other changes in the debt forecast result from exchange differences and changes in deposits in the Treasury made by clients outside the general government.

TABLE 19 - Contributions to gross debt (mil. EUR)

	2018 F	2019 F	2020 E	2021 SP	2022 SP	2023 SP
A. GG gross debt (as of 1.1.)	**43 370**	**44 322**	**45 202**	**54 498**	**58 905**	**61 737**
B. y-o-y gross debt change	**952**	**880**	**9 297**	**4 407**	**2 832**	**1 834**
- state budget deficit (cash accounting)	1 182	2 201	7 810	6 023	3 949	3 130
- of which SR contribution to ESM	0	0	134	0	0	0
- State Treasury funds used to finance state needs	-498	-1 586	1 523	-1 568	-1 106	-1 455
- indebtedness of other GG entities	111	248	12	-52	-52	-14
of which: municipalities	92	46	2	35	35	35
of which: NDS	-37	-42	-37	-37	-37	0
of which: Railways of the SR (ŽSR) and ŽSSK	34	117	25	-65	-65	-65
of which: municipal public transportation companies	-4	-15	5	4	4	4
- EFSF guarantees	0	-21	0	0	0	0
- issuance discount	7	4	13	16	56	220
- discount at maturity	-7	1	-62	-10	-14	-49
- others	157	33	0	-2	-1	1
C. Gross debt of general government (as of 31 December) (A+B)	**44 322**	**45 202**	**54 498**	**58 905**	**61 737**	**63 571**
in % GDP	**49.4**	**48.0**	**61.2**	**61.9**	**61.4**	**60.1**

Note: Positive items increase general government debt as at 31 December of the relevant year, the negative items reduce the debt.

Source: MoF

Annex 7 – Assumptions underlying calculation of sustainability indicators

MoF SR exceeds the scope of EC assessment in analysing medium-term and long-term sustainability based on latest data from the fiscal framework for the Stability Programme for 2021 - 2023 (to estimate the general government balance and the general government debt in the reference year) and the latest measures (above the scope of AWG 2018 projections) influencing the ageing-sensitive expenditures. The difference compared to the EC methodology is also inclusion of the impact of the 2nd pillar not only on the expenditure but also on the revenue side.[86] The remaining assumptions have been taken over from the latest forecast of ageing-sensitive expenditures pursuant to the Ageing Report 2018.

Several scenarios have been analysed for the purpose of the Stability Programme (Chapter 3). For assumptions underlying the calculation and the analytical breakdown of how each of the factors contributed to the resulting S1 and S2 values see the tables below.

TABLE 20 - S1 baseline assumptions

	Baseline (t_0)	Primary structural balance	Debt (t_0)	Consolidation horizon	End year (t_1)	Debt (t_1)	2nd Pillar	S1 outcome	Sustainability assessment
Y 2021	2021	-2,6	61,9	2022 to 2026	2034	60	**yes**	**2.7**	**high**
Y 2021 – Debt break	2021	-2,6	61,9	2022 to 2026	2034	40	**yes**	**4.7**	**high**
Y 2023	2023	-1,7	60,1	2024 to 2028	2036	60	**yes**	**1.9**	**medium**
Y 2023 – Debt break	2023	-1,7	60,1	2024 to 2028	2036	40	**yes**	**3.8**	**high**

Source: MoF

TABLE 21 - S1 breakdown

	Y 2021	Y 2021 – debt break	Y 2023	Y 2023 – debt break
S1 (% of GDP)	**2.7**	**4.7**	**1.9**	**3.8**
Of which:				
Initial budgetary position	1.6	1.6	1.0	1.0
Cost of delaying adjustment	0.4	0.7	0.3	0.5
Debt requirement	0.2	1.8	0.0	1.6
Long-term care expenditure	0.4	0.4	0.6	0.6
Second pillar	0.1	0.1	0.0	0.0

Source: MoF

TABLE 22 - S2 baseline assumptions

	Baseline (t_0)	Primary structural balance	Debt (t_0)	2nd Pillar	S2 outcome	Sustainability assessment
Y 2021	2021	-2,6	61,9	**yes**	**8.4**	**high**
Y 2023	2023	-1,7	60,1	**yes**	**7.6**	**high**

Source: MoF

TABLE 23 - S2 breakdown

	Y 2021	Y 2023
S2 (% of GDP)	**8.4**	**7.6**
Of which:		
Initial budgetary position	3.5	2.6
Pension expenditures	3.5	3.8
Health & Long-term care expenditures	1.3	1.2
Education & Unemployment expenditures	0.1	0.1
Second pillar	0.0	-0.1

[86] Until 2034, total effect of revenues of the 2nd pillar on assessment of sustainability is rather negative. In long-term horizon, however, the effect seems to be slightly positive. MoF SR takes this approach as more fairly as changes in capitalisation systems influence not only expenditures but also revenues of the pension system.

Annex 8 – Assessment of sustainability of public finance per the European Commission

Assessment of the European Commission of January 2020 concluded that sustainability of Slovakia's public finance has worsened. Despite more negative values, sustainability indicators retained the position in the low-risk zone within the medium-term horizon (S1) and/or medium-risk zone from long-term perspective (S2). A considerable limitation of the latest assessment by the EC is the failure to take account of the adopted legislative measures of 2019 and 2020 and also the expected dramatic deterioration of economic trends caused by the COVID19 outbreak, which will become evident through worsened reference revenue and expenditure balance.

Regular assessments by the European Commission in the past few years concluded that Slovakia shows stable results in sustainability of public finance. In these days, however, the performance has considerably worsened compared to last year. The major reason is a more pessimistic estimate of trends in public finance, mainly the primary balance and the gross debt. Components sensitive to ageing of the population show just minimum changes, as the current assessment is based on assumptions nearly the identical to previous assumptions underlying long-term projections of spending on ageing of the population (AWG 2018).

The indicator of medium-term sustainability (S1) is negative (-1.8% of GDP). Compared to the previous assessment, the indicator has worsened by 1.1% of GDP. The value still does not indicate a necessity of additional consolidation to keep the debt below the reference level of 60% of GDP (by 2034). The change of S1 was to a large extent caused by worsening the contribution of the initial budget position by 1.0 p.p. in relation to the updated EC forecast (contribution -0.7% of GDP). Risks resulting from the amount of gross debt expected for 2021 (contribution -1.2% of GDP) and the assumptions regarding change in costs of ageing (contribution +0.1% of GDP) had only minor effect on the change of S1 indicator (change by 0.1 p.p.).

The indicator of long-term sustainability (S2) according to EC further indicates medium risks over a long-term horizon (+3.8% of GDP). Compared to the previous assessment, the value of the indicator worsened by 1.3% of GDP. Similarly to S1 indicator, the key reason is the update of the initial budget position which contributed to worsening of S2 by 1.2% of GDP (contribution +1.3% of GDP). Other components, such as increase in spending on pensions (contribution +1.1 % of GDP), healthcare (contribution +0.9 % of GDP) and long-term care (contribution +0.4 of GDP) caused just minimum changes of the indicator (change by 0.2 p.p.).

In the recent assessment, EC again analysed the worse-case scenario of development of S2 indicator, through considering more risky developments in healthcare and long-term care. This scenario indicates S2 value at 5.8% of GDP, i.e., just below the high-risk threshold for long-term sustainability[87].

[87] This is so-called AWG risk scenario, used by the EC to quantify risks of increase in spending on healthcare and long-term care caused by other than demographic factors. Sensitivity of ageing-related spending on non-demographic factors is emphasized through spending on healthcare and long-term care above the level of expectation based on purely demographic reasons. As a rule, pressure on growth of those expenditures is accompanied with technological changes (e.g. development of new pharmaceuticals and treatment procedures) and institutional factors (e.g. better coverage by healthcare).

Annex 9 – List of measures with impact on the general government balance in 2020 - 2023

No-policy-change scenario describes development of items in line with the macroeconomic forecast, but also accounts for measures, adopted before 1 January 2020. The table below provides a list of all budgetary measures with impact on the general government balance in 2020 - 2023 (compared to 2019), irrespective from the date when the measure had been officially adopted. Measures adopted in relation to the COVID 19 outbreak are not included in the table below as those are just one-off measures.

TABLE 24 - List of measures (vis-à-vis 2019 baseline, mil. EUR)

Revenue measures - SCP 2020 (against 2019 baseline)	2020	2021	2022	2023
Introduction/amendment of 13th and 14th salary	-10	-53	-50	-50
Tax relief for employees for accommodation	6	6	6	6
Exemption from income taxation from the sale of ownership shares	-23	-24	-26	-26
Tax settlement from social contributions	0	0	0	49
Fully-funded pension pillar (II. pension pillar)	-45	-90	-138	-191
Special levy rate in regulated sectors	0	-28	-28	-28
Special levy in banking sector	125	128	152	159
Introduction of gambling licenses	3	3	3	3
Increase in the limit for advance payments (from 2 500 to 5 000 EUR)	0	-11	-11	-11
Carry-forward tax losses for other non-micro companies (max. 50 % tax base in 5 years)	0	36	30	30
Individual volume of depreciation of assets for micro companies	0	-15	-15	-15
15 % rate of corporate income tax for companies with turnover up to 100 th., 21% for others	-42	-44	-45	-45
Increase of the non-taxable part of the tax base to 21 times of the subsistence minimum	-135	-136	-137	-137
Personal income tax (business) reduced to 15% with turnover up to EUR 100 th	-19	-19	-21	-22
Reduced VAT rate for other foodstuffs	-77	-81	-84	-88
Non-cash benefit for employees for transport (EUR 100)	0	-12	-12	-12
Measures to promote labour mobility	-34	-34	-34	-34
Revenue total	**-250**	**-374**	**-409**	**-412**

Expenditure measures (against 2019 baseline)	2020	2021	2022	2023
Free lunches at schools	56	64	64	64
13th pensions (instead of the Christmas pension transfer)	442	477	513	553
Double tax bonuses for parents of children below 6 years of age	79	81	81	81
Valorisation of wages by 10% in 2020 (effect vs. zero growth)	546	674	699	724
Amendment of Act on Compensations to Severe Disabled Persons – higher allowances for compensation of severe disablement and for nursing	26	28	29	30
Amendment of Act on Social Insurance – slowdown in growth of retirement age	19	37	47	46
Increased parental allowance	164	169	173	177
Allowance for first-graders at primary schools (amendment of the Act on Child Allowance)	6	6	6	6
Change in compensation system for members of armed forces	79	104	118	134
Minimum pensions increase	80	119	147	177
Mandatory education in kindergartens	16	47	47	47
Sport support fund	20	20	20	20
2021 Census	25	20	3	0
Payments for road D4/R7	0	0	22	53
Long-term care	15	21	27	35
Establishment of new type of ambulances providing urgent care	13	13	13	13
Expenditure total	**1586**	**1880**	**2009**	**2160**

Annex 10 – Main budgetary items for 2019 and 2020

TABLE 25 - Comparison of budgetary items

		Budget 2019 vs Outturn 2019		Budget 2020 vs Estimate 2020	
	ESA 2010 code	mil. EUR.	% of GDP	mil. EUR	% of GDP
Total revenue		**1868**	**2.0**	**-2024**	**-2.3**
Tax revenue	**D.2+D.5+D.91**	**490**	**0.5**	**-1918**	**-2.2**
Taxes on Production and Imports	D.2	711	0.8	-811	-0.9
Current Taxes on Income, Wealth etc.	D.5	-221	-0.2	-1107	-1.2
Capital taxes	D.91	0	0.0	0	0.0
Social Security Contributions	**D.61**	**284**	**0.3**	**-497**	**-0.6**
Nontax revenue	**P.11 + P.12 + P.131 + D.4**	**615**	**0.7**	**85**	**0.1**
Sales	P.11 + P.12 + P.131	636	0.7	39	0.0
Property Income	D.4	-21	0.0	46	0.1
Grants and transfers	**D.39+D.7+D.9**	**479**	**0.5**	**306**	**0.3**
Total expenditure	**TE**	**3088**	**3.3**	**4970**	**5.6**
Current Expenditure	**D.1 + P.2 + D.29 + D.5 + D.3 +D.4 + D.6 + D.7**	**1668**	**1.8**	**3498**	**3.9**
Compensation of employees	**D.1**	**696**	**0.7**	**359**	**0.4**
Intermediate Consumption	**P.2**	**-186**	**-0.2**	**379**	**0.4**
Taxes	**D.29+D.5**	**98**	**0.1**	**0**	**0.0**
Subsidies	**D.3**	**575**	**0.6**	**617**	**0.7**
Property Income	**D.4**	**32**	**0.0**	**-4**	**0.0**
Total Social Transfers	**D.6**	**483**	**0.5**	**2443**	**2.7**
- Social benefits other than in kind	D.62	399	0.4	2418	2.7
- Social transfers in kind	D.632	84	0.1	25	0.0
Other current transfers	**D.7**	**-30**	**0.0**	**-296**	**-0.3**
Capital Expenditure	**P.51G + P.5M + NP + D.9**	**1420**	**1.5**	**1471**	**1.7**
Capital Investment	P.51G + P.5M + NP	1243	1.3	1042	1.2
Capital transfers	D.9	177	0.2	430	0.5

External Annex 1 - SPENDING REVIEW FOR IT

External Annex 2 - SPENDING REVIEW OF GROUPS AT-RISK-OF- POVERTY OR SOCIAL EXCLUSION

External Annex 3 - SPENDING REVIEW OF THE GENERAL GOVERNMENT EMPLOYMENT AND PAY (THE PUBLIC WAGE BILL)

External Annex 4 - SUMMARY IMPLEMENTATION REPORT FOR 2019 (healthcare, transportation, IT, education, environment, labour market and social policies and agriculture and rural development)

The documents are external annexes to the Stability Programme of the Slovak Republic for 2020-2023