COUNCIL FOR BUDGET RESPONSIBILITY

Addendum to the Evaluation of the General Government Budget for 2014-2016

(Reflecting the changes to the General Government Budget for 2014-2016 adopted by the Slovak parliament on 12 December 2013)

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 The Council for Budget Responsibility is grateful to the Ministry of Finance for the data provided.

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Summary

On 12 November 2013, the Council for Budget Responsibility published its evaluation of the General Government Budget Proposal for 2014-2016[1] as approved by the Slovak government. In light of the changes introduced by the parliament to the government's budget proposal and given the availability of new information on budgetary risks, the CBR considered it necessary to update its evaluation.

The changes in the budget were mainly prompted by the end-November update to the tax revenue forecasts based on the unchanged macroeconomic forecast from September 2013, and by subsequent changes, particularly on the expenditure side of the budget, which **have also improved the target value of the 2014 general government deficit from 2.83% to 2.64% of GDP.**

Apart from the higher tax revenues (by 0.3% of GDP) attributable, in particular, to a better-than-projected collection of value added tax, the 2014 revenues have been revised upwards by 0.1% of GDP due to the one-off refund by the EU of project expenditures incurred in the past. Increases on the expenditure side mostly relate to motorway construction, healthcare provision and the education sector (with an aggregate impact of 0.2% of GDP). These expenditures have been partly funded from the reserve set aside to attain the fiscal objective ("Fiscal Objective Reserve"). The increase in the education sector expenditures has been covered by the existing reserve for wage bargaining in the education sector. In addition, the expenditures of municipalities have also increased, due to higher revenues from personal income tax as a consequence of a temporary increase in the redistribution percentage of the personal income tax.

Even though the budgetary objective for 2014 improved by 0.2% of GDP, the CBR calculations show only a minimum change in the 2014 consolidation effort which remained at -0.5 % of GDP[2] (rounded up). This is due to the increase in the impact of one-off measures by approximately the same amount as deficit reduction itself (allocation of the Fiscal Objective Reserve towards specific expenditures, plus one-off revenues from refunded expenditures on motorway construction). The structural deficit should still reach approximately 4.0% of GDP[3]. **Thanks to the use of the reserve funds and additional revenues to cover the increased expenditures, the amended budget maintains the original pace of consolidation.**

Compared to the original evaluation, the size of identified risks has increased. The fact that the new tax revenue forecast and tax measures were discussed at an extraordinary meeting of the Tax Revenue Forecasting Committee at the end of November should be viewed positively. Beyond the tax revenue forecast discussed at the Committee, the budget also contains additional

[1] Evaluation of the General Government Budget Proposal for 2014-2016 (November 2013)

[2] European Commission methodology. Under the national methodology, where adjustments are made for the impact of the fully-funded pillar, motorway construction and the interest paid, the effort has not changed and remained negative at 0.7% of GDP.

[3] The deficit decreased by €144m and the impact of one-off measures increased by €115m. The impact on the consolidation effort and the amount of structural balance is positive, at €29m, which represents 0.04% of GDP.

tax revenues from increased wage expenditures in the education sector. Given the absence of more specific assumptions for quantification, this measure constitutes a risk for the budget to the tune of EUR 10 million. On the other hand, the collection of VAT in 2013 improved. Should the improvement turn out to be consistent in the long run, VAT revenues represent a positive risk for the general government budget in the years to come. The increase in the funds allocated for healthcare might lower the probability of debt generation by the healthcare system by EUR 50 million. The new risks, to which the Commission also pointed[4], include the financial corrections relating to projects financed from EU funds, plus the analysis by Eurostat of whether the postponed payout of dividends from 2013 to 2014 can be treated as revenue under the ESA95 methodology. In contrast to the budget originally proposed by the government, the one approved by the parliament effectively dissolves the Fiscal Objective Reserve and thus narrows the government's ability to mitigate the higher risks.

Apart from the risks to the deficit itself, there are also risks as far as the general government debt level is concerned. The ESA2010 methodology, in combination with the likely downward revision of growth forecasts for nominal GDP as a consequence of recent GDP revisions would, **without reducing the cash reserve of the state, bring the debt to over 57% of GDP in 2014.**

The approved 2014-2016 General Government Budget worsens the long-term sustainability of public finances due to the increased structural deficit. The magnitude of the one-off and temporary measures has increased to 1.7% of GDP which, despite the 0.2-percentage improvement in the budgetary objective, has failed to improve fiscal performance on a sustainable basis. The consolidation effort remains negative at 0.5% of GDP and the structural deficit reaches 4.0% of GDP. The target for 2014 is achievable, however, only if the plans for revenues from one-off measures materialise.

[4] European Commission: Commission Opinion of 15.11.2013 on the Draft budgetary plan of Slovakia. In its opinion, the Commission says that the impact on the general government balance of the 2013 sale of emergency oil reserves and the postponed payout of dividends will depend on how these transactions are assessed by Eurostat. It also points at a negative risk associated with the impact on the 2013 general government balance of the financial corrections in respect of projects financed from EU funds.

1. Changes in the general government budget

Compared to the 2014-2016 general government budget proposal, the parliament introduced a number of changes. The changes are based on an updated forecast of revenues from taxes and social contributions, which has affected the entire three-year budget horizon. Nevertheless, adjustments in the budget apply solely to 2014. For this reason, the text below covers only 2014; as for the remaining two years, the CBR bases itself on the objectives set by the government. In the light of the new information concerning the risks which may influence the 2013 fiscal performance, the preface to this chapter briefly describes the most recent developments.

Year 2013

The Ministry of Finance has not altered its original 2013 deficit estimate at 2.98% of GDP. However, the risks which have recently come to light may influence the deficit in both directions. **Tax revenues represent a positive risk.** Compared to the estimate incorporated into the budget proposal, they are expected to be EUR 104 million higher[5]. **The sale of emergency oil reserves** yielded slightly less (€465m) than what the Ministry of Finance had expected (€471m). **The negative risk** of this transaction, as the Commission also pointed out[6], relates to how Eurostat evaluates the way in which it is **reflected in the national accounts**. In other words, it is questionable whether this transaction will influence the general government balance under the ESA95 methodology. **Financial corrections related to the projects financed from EU funds constitute a new negative risk**. It is still unclear when and in which amount these corrections will adversely affect the deficit. This largely depends on the timing of the Commission's final decision[7] and on whether, once the decision has been taken, there will be any further drawdown of funds in respect of the projects affected by financial corrections.

Year 2014

In the budget approved by the parliament, the target value of the 2014 general government deficit has improved from 2.83% to 2.64% of GDP. This has brought the deficit target closer to the value presented in the Stability Programme, yet it is still worse than the target presented in the 2013-2015 budget.

Tab 1: Fiscal targets of general government (% GDP)

	2013	2014	2015	2016
1. General Government Budget 2013–2015	-2.9	-2.4	-1.9	
2. Medium–term Budget Outline 2014–2016	-2.9	-2.6	-2.0	-1.3
3. General Government Budget 2014–2016	-3.0	-2.6	-2.6	-1.5
4. Changes compared to GGB 2013–2015 (3-1)	0.0	-0.2	-0.6	
5. Changes compared to MBO 2014–2016 (3-2)	0.0	0.0	-0.6	-0.2

Source: MF SR, CBR

5 The increase in the estimate of tax revenues in the November forecast by the Tax Revenue Forecasting Committee compared with its September forecast represents €154m. However, the budget proposal approved by the government contained, beyond the September forecast of the Committee, an additional revenue of €50m from a special levy on enterprises in regulated industries. The present forecast of the Committe does not contain this revenue.
6 European Commission: Commission Opinion of 15.11.2013 on the Draft budgetary plan of Slovakia
7 Or acceptance by the Member State of the Commission's objections.

The main changes relate to higher tax revenues attributable, in particular, to better collection of value added tax and higher revenues from social security contributions in 2013, with a cumulative impact of EUR 215 million[8] (0.28% of GDP). The revenues will also increase by EUR 50 million (0.07% of GDP) due to the one-off refund from the EU of project expenditures incurred in the past. At the same time, the Fiscal Objective Reserve in the amount of EUR 65 million (0.09% of GDP) has been dissolved and most of these funds have been allocated towards specific expenditures. Expenditures on motorway construction will increase by EUR 92 million (0.12% of GDP), expenditures on social services by EUR 10 million (0.01% of GDP) and capital expenditures of the Slovak Academy of Sciences by EUR 3 million. Apart from the state budget, the expenditures of health insurance companies will increase by EUR 55 million (0.07% of GDP) as a consequence of higher health insurance contributions payable by the government for those mandatorily insured by the state[9]. The expenditures of municipalities will increase by EUR 27 million (0.04% of GDP) due to their higher revenues from personal income tax as a conseqence of a temporary increase in the redistribution percentage (from the current 65.4% to 67% at the expense of the state budget).

Tab 2: Changes in GG balance compared to the 2014 budget proposal	€ mill.	% of GDP
GG balance - budget proposal	**-2 144**	**-2.83**
Change in tax revenues and social security contributions	215	0.28
Increase in non-tax revenues (refund of EU sources)	50	0.07
Dissolution of the reserve for achieving the fiscal target	65	0.09
Increase in expenditures on highway construction	-92	-0.12
Increase in expenditures of health insurance companies	-55	-0.07
Increase in expenditures on social services	-10	-0.01
Increase in expenditures of the Slovak Academy of Sciences	-3	0.00
Increase in expenditures of municipalities	-27	-0.04
GG balance - approved budget	**-2 000**	**-2.64**

Source: MF SR, CBR

Beyond these changes, two other balance-neutral changes have been introduced. The first relates to the transfer of funds (EUR 30 million) earmarked for wage increases in the education sector from the 'wage increase' reserve to the budgetary chapter of the Ministry of Education. The second change relates to the finalisation of the sale of emergency oil reserves in 2013 designed to ensure a neutral impact on the general government balance in 2014. The non-tax revenues of the State Material Reserves of the Slovak Republic increased by EUR 100 million, and so did the expenditures (by the same amount) as a consequence of VAT payment from the transaction. This will have a neutral impact on VAT revenues since the Emergency Oil Stocks Agency will offset the VAT paid in the purchase price through VAT refund.

8 The forecast of the tax and social contribution revenues has increased by €212m. After considering the impact of sanctions (+ €2.9m) and expenditures transferred to the third sector (+ €0.2m), the impact of the updated forecast on the general government balance reaches €215m.

9 Even though the health insurance contributions paid by the government for those mandatorily insured by the state are neutral from the general government balance perspective (the state budget expenditures increase, and so do the public health insurance revenues of health insurance companies), the expenditures on public health insurance have a negative impact on the budget.

Gross debt

The improved deficit target for 2014 reduces the cash deficit which – under an unchanged forecast – increases the cash reserve. The reserve can be used for partial debt reduction should the need arise. The negative risks to the future development of Slovakia's general government debt include the new ESA2010 methodology, revisions of nominal GDP, and the assumption of debts from public hospitals.

2. Change in the the general government's structural balance

Compared to the budget approved by the government, the size of the structural balance and consolidation effort have been positively influenced by a reduction in the 2014 target deficit from 2.8% to 2.6% of GDP, and negatively by the dissolution of the Fiscal Objective Reserve in the amount of 0.1% of GDP (originally reducing the amount of one-off measures), and by the additional one-off revenue generated by the refund from EU funds in the amount of 0.1% of GDP. The overall impact of the above-mentioned adjustments does not change the conclusions of the CBR's evaluation because the 2014 deficit reduction will be almost fully offset by an increase in one-off measures.

Tab 3: Change in structural budget balance in 2010-2016 (ESA95, % GDP)

	2010	2011	2012	2013E	2014B	2015B	2016B
1. **Budget balance** (net lending/borrowing)	**-7.7**	**-5.1**	**-4.5**	**-3.0**	**-2.6**	**-2.6**	**-1.5**
2. Cyclical component	-0.4	-0.1	-0.1	-0.4	-0.3	-0.2	0.0
3. One-offs	-0.1	-0.2	0.5	1.0	1.7	0.4	0.4
- exit from the fully-funded pension pillar			0.1	0.3			
- PIT (temporary increase of basic tax allowance)	-0.3						
- tax on excess emission allowances		0.0					
- rev. of Social Insur.Agency from debt bailout in healthcare		0.1					
- VAT revenue from a PPP project		0.3	0.0	0.0	0.0	0.0	0.0
- revenues from the sales of telecommunication licenses		0.1					
- remission of receivables towards non-finan. corporations	-0.1						
- costs of natural disasters (drought/floods)	-0.2						
- accrualisation of high-risk state guarantees	0.4	-0.9					
- extraordinary levy in banking sector (incl. CIT)			0.1				
- temp. entrepreneurial levy in reg. industries (incl. CIT)			0.0	0.2	0.1	0.1	0.1
- taxation of retained earnings before 2004				0.0			
- extraordinary rev. from the Telecommunication Authority					*		
- extended levy in banking sector			0.0	0.1	0.1	0.1	0.1
- selling of emergency oil reserves outside the GG sector				0.6	0.0	0.0	0.0
- cancelled "bearer deposits"					0.0		
- dividends	0.0	0.2	0.3	-0.4	0.8	0.2	0.2
- revenues from sales of state property					0.1		
- JAVYS (voluntary grant)				0.0			
- reimbursement of EU sources in transport sector					0.1		
- repayment of loans of Cargo a.s. (capital transfer in 2009)			0.0	0.0	0.1	0.0	0.0
- repayment of loans of Vodohospodárska výstavba. š.p. (capital transfer before 2002)	0.0	0.0	0.0	0.0	0.1		
4. Structural balance (methodology of EC) (1-2-3)	**-7.2**	**-4.7**	**-4.9**	**-3.6**	**-4.0**	**-2.8**	**-1.9**
5. Change in structural balance (Δ4)/ Fiscal effort according to EC methodology	**-0.7**	**2.4**	**-0.2**	**1.3**	**-0.5**	**1.3**	**0.9**
6. Change in fully-funded pension pillar	0.0	0.0	0.2	0.4	0.0	0.0	0.0
7. Change in structural balance net of fully-funded pension pillar (5-6)	**-0.7**	**2.4**	**-0.4**	**0.9**	**-0.5**	**1.3**	**0.9**
8. Change in interest payments	0.1	-0.2	-0.3	0.0	0.0	-0.1	-0.2
9. Change in construct. of motorways outside of GG	0.3	-0.4	-0.4	-0.2	0.1	0.0	0.0
10. Change in structural primary balance net of fully-funded pension pillar and construction outside GG – national methodology (7-8-9)	**-1.1**	**3.0**	**0.3**	**1.0**	**-0.7**	**1.3**	**1.0**

11. Change in EU relations	0.9	0.1	-0.3	-0.3	1.6	-0.4	-1.2
- *revenues from EU budget*	0.7	0.2	-0.2	-0.2	1.5	-0.5	-1.2
- *contributions to EU budget*	-0.2	0.1	0.1	0.1	-0.1	0.0	0.0
12. Fiscal impulse (10-11)	**-2.0**	**2.9**	**0.6**	**1.3**	**-2.2**	**1.8**	**2.2**
p.m. output gap	*-1.1*	*-0.4*	*-0.4*	*-1.3*	*-1.0*	*-0.6*	*0.1*

* Due signals in financial markets not released. *Source: CBR*

In 2014, the structural deficit[10] will increase by 0.5% of GDP to 4.0% of GDP despite the sizeable decrease in the actual general government deficit to 2.6% of GDP (by 0.4% of GDP) and the more favourable economic outlook. The deficit reduction is largely attributable to the increase in one-off measures (by 0.7% of GDP compared to 2013), a substantial part of which represent postponed payouts of dividends from state-owned corporations and the expected revenue of the Telecommunications Regulatory Authority from the auction of telecom licences.

Given the fact that the deficit targets in the years to come have not been revised and that no adjustments with impact on the structural balance calculation are contemplated, the average **consolidation effort in 2015 and 2016 will reach 1.1% under the Commission's methodology**, provided that the measures adopted are of a permanent nature.

The following table compares the estimates of structural balance and its changes calculated by various institutions. The conclusions of the CBR's evaluation report of November 2013 are confirmed. **The year 2014 is a year of eased fiscal discipline. In order to meet the medium-term budget objective in 2017, set as the structural deficit of general government at 0.5% of GDP, the CBR calculations (in line with the methodology of the Commission) show that the average consolidation effort in 2015-2017 would have to reach 1.2% of GDP, which is very ambitious.**

Tab 4: Change in structural budget balance in 2012-2015 (ESA95, % GDP)

	2012	2013E	2014B	2015B
CBR (methodology of EC)*				
Structural balance	-4.9	-3.6	-4.1	-2.8
Change in structural balance		1.3	-0.5	1.3
CBR (national methodology)*				
Change in structural balance		1.0	-0.7	1.3
European Commission *				
Structural balance	-4.0	-2.3	-3.1	-2.9
Change in structural balance		1.7	-0.8	0.2
MF SR (methodology of EC)*				
Structural balance	-4.4	-2.9	-3.0	
Change in structural balance	0.1	1.5	-0.1	

*CBR: GGB 2014-2016 (approved Dec 12,2013)
EC: autumn forecast
MF SR (FPI commentary 2013/14)

Source: CBR, MF SR, EC

[10] According to CBR calculations based on the Commission's methodology.

3. Risks to meeting budgetary objectives

All the risks identified in the evaluation of the government's budget proposal remain valid. However, in light of the new information, certain new risks have appeared and/or the assessment of their impact has changed.

In spite of the extraordinary meeting of the Tax Revenue Forecasting Committee, the CBR has identified certain positive and negative risks in revenues from taxes and social security contributions. The negative risks include the **dynamic effects of corporate income tax** which may result from the adoption of several legislative changes at the same time (introduction of licence fees, tax rate reduction, and changes in rules for loss carry-over). The second negative risk relates to the planned **one-off increase in revenues on account of higer wages in public administration as a result of collective bargaining.** This measure was not discussed by the Tax Revenue Forecasting Committee; the CBR estimates that the risk may amount to up to EUR 10 million[11]. On the other hand, the collection of VAT in 2013 improved. Should the improvement turn out to be consistent in the long run, the VAT revenue represents a positive risk for the general government budget in the years to come.

Compared to the budget proposal approved by the government, the parliament has increased 2014 **healthcare expenditures** which, if the conditions remain unchanged, is likely to decrease the pace of growth of healthcare providers´ debt (liabilities) which is adversely affecting the general government balance. However, the approved budget contemplates a zero change in liabilities (as does the government's budget proposal), which means that this could reduce the negative risk originally identified by the CBR at EUR 100 million. Since this development does not have to materialise fully and the debt amount depends on the scope of healthcare actually provided, the **CBR estimates the risk at somewhere between EUR 50-100 million.**

In the case of **local governments,** the quantification of risks remains unchanged. Unlike in the evaluation of the government's budget proposal, the CBR did have data on their fiscal performance for Q3/2013 at its disposal. The data confirmed the current development and conclusions for the year 2014.

A new risk, to which the Commission has also pointed[12], lies in the **postponed payout of dividends**. The 2014 budget contemplates the payout of dividends by SPP (Slovak Gas Company) and SEPS (Electricity Grid and Transmission Company) from their profits for both 2013 and 2012. However, neither of the two companies is planning the payout of ordinary dividends in 2013. Such a procedure may not necessarily be in line with the ESA95 rules for the recording of dividends, since it does not serves the purpose of dividend smoothing. This means that a portion of dividends attributable to the 2012 profit (€437m) does not have to be considered a dividend, but rather a super-dividend i.e. it would not constitute government revenue in 2014

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11 The uncertainty stems from the fact that the measure is not consistent with the present macroeconomic forecast. A purely mechanical calculation based solely on additional wage expenditures may overestimate the positive impact on the balance, because the macro-economic scenario could have included, for example, expenditures on intermediate consumption which would have otherwise been a source of VAT.

12 European Commission: Commission Opinion of 15.11.2013 on the Draft budgetary plan of Slovakia

according to ESA95. Should these transactions materialise, Eurostat will assess whether they have been recorded methodologically correctly.

The next risk includes **financial corrections related to the projects financed by EU funds**. In this case, neither their amount nor the timing of their adverse impact on the deficit are yet known.

In terms of **risk coverage**, the Fiscal Objective Reserve has been dissolved, which reduces the options for their coverage.

Tab 5: Overview of risks in the budget in 2014 (€ million)

<table>
<tr><th colspan="2">Risks to meet budgetary targets</th><th colspan="2">Risk coverage</th></tr>
<tr><td>1. Lower additional tax revenues from wage bargaining in the education sector</td><td>10</td><td rowspan="3">no estimate</td><td rowspan="3">Better tax collection</td></tr>
<tr><td>2. Underestimation of current expenditures of local government</td><td>120-180</td></tr>
<tr><td>3. Underestimation of costs in healthcare sector (increase in liabilities which were not budgeted)</td><td>50-100</td></tr>
<tr><td>4. Contributions to registered capital (Eximbanka, SZRB)</td><td>max. 100</td><td rowspan="8">200-300</td><td rowspan="8">Potential savings in co-financing in 2014</td></tr>
<tr><td>5. Shortfall in revenues from sale of emission allowances</td><td rowspan="3">50-100</td></tr>
<tr><td>6. Lower impact from ESO (lower income from sale of state owned assets and lower savings in expenditures)</td></tr>
<tr><td>7. Negative impact from carry-over of unspent expenditure in 2013 to the subsequent year</td></tr>
<tr><td>8. Carry-over of unspent EU funds and co-financing to the subsequent years*</td><td>400</td></tr>
<tr><td>9. Postponed payout of dividends not recorded as ESA95 revenue affecting the GG balance</td><td>437</td></tr>
<tr><td>10. Financial corrections related to the projects financed from EU funds</td><td>no estimate</td></tr>
<tr><td>11. Change in methodology ESA2010</td><td>no estimate</td></tr>
<tr><th colspan="2">Risks viewed through the prism of net worth without budget impact</th><th colspan="2">Risk coverage</th></tr>
<tr><td>1. Decrease in net worth due sale of assets (ESO)</td><td>54</td><td rowspan="4" colspan="2"></td></tr>
<tr><td>2. Decrease in net worth due capital expenditures constraints</td><td>no estimate</td></tr>
<tr><td>3. Sale of assets (Cargo) and use of these revenues on current expenditures</td><td>98</td></tr>
<tr><td>4. Use of revenues from special levies payable by selected financial institutions on current expenditures and creation of contingent liabilities</td><td>160</td></tr>
</table>

** Risk is calculated for the entire period 2014-2016 and might not be detected right in 2014* *Source: CBR*

Annex 1 – Changes in the 2014 Budget

Tab 6: Changes in GG balance compared to the 2014 budget proposal	€ mill.	% of GDP
GG balance - budget proposal	**-2 144**	**-2.83**
Change in tax revenues and social security contributions	215	0.28
- state budget	161	0.21
- state financial assets	0	0.00
- municipalities	26	0.03
- self-governing regions	-2	0.00
- Social Insurance Agency	23	0.03
- health insurance companies	6	0.01
Increase in non-tax revenues (refund of EU sources)	50	0.07
Increase in expenditures of health insurance companies	-55	-0.07
Increase in expenditures on social services	-10	-0.01
Increase in expenditures on highway construction	-92	-0.12
- financed from refunded revenues	-50	-0.07
- financed from reserve for achieving the fiscal target	-42	-0.06
Increase in expenditures of the Slovak Academy of Sciences	-3	0.00
Increase in expenditures of municipalities	-27	-0.04
Dissolution of the reserve for achieving the fiscal target	65	0.09
- allocated on social services	10	0.01
- allocated on higway construction	42	0.06
- allocated on expenditures of the Slovak Academy of Sciences	3	0.00
- allocated on a transfer to self-governing regions	1	0.00
- not allocated (improving the GG balance)	9	0.01
Transfer of funds related to wage bargaining in the education sector	0	0.00
- dissolution of the reserve on wage bargaining in the education sector	34	0.05
- increase in expenditures of the Ministry of Education on wages in education sector	-30	-0.04
- increase in the reserve on wage bargaining	-4	-0.01
Finalisation of emergency oil reserves sale	0	0.00
- non-tax revenues of the State Material Reserves of the SR	100	0.13
- VAT payment by the State Material Reserves of the SR	-100	-0.13
Other changes	0	0.00
GG balance - approved budget	**-2 000**	**-2.64**

Source: MF SR, CBR

Annex 2 – Updated forecast of revenues from taxes and social security contributions

On 27 November 2013 the Ministry of Finance convened an extraordinary meeting of the Tax Revenue Forecasting Committee to discuss the new forecasts of revenues from taxes and social security contributions and update the General Government Budget Proposal for 2014-2016. **The 2014 forecast of total government revenues from taxes and social security contributions has increased by EUR 212 million.** The main reasons include **higher-than-projected tax revenues** in 2013, as well as the fiscal **impact of changes in the tax and social security legislation**. The macroeconomic forecasts have not been updated and the budget is based on exactly the same macroeconomic assumptions as the budget proposal of the government.

The updated forecast of government revenues from taxes and social security contributions on account of their higher-than-planned collection increases the 2014-2016 revenue by more than EUR 200 million (0.3% of GDP), mainly due to the upward revision of the VAT revenue forecast.

Tab 7: Change in the forecast of revenues from taxes and social security contributions, **B 2014-2016 vs BP 2014-2016 (impact of the revenue developments in 2013)**

	Forecast		
ESA95, '000 EUR	2014 B	2015 B	2016 B
Personal income tax from dependent activity (employment)	-5 493	-5 783	-6 091
Personal income tax from business and self-employed activity	-1 566	-1 665	-1 750
Corporate income tax	-1	0	0
Withholding income tax	0	0	0
Value added tax	182 019	188 566	195 927
Excise taxes	0	0	0
Special and extraordinary levy on selected financial institutions	-250	-177	-187
Special levy on enterprises in regulated sectors	0	0	0
Social Insurance Agency	31 714	32 908	34 196
Health insurance companies	10 078	6 436	6 701
Revenues from taxes and social security contributions	216 502	220 286	228 797
Revenues from taxes and social security contributions (% of GDP)	0.3	0.3	0.3

Source: MF SR

In its evaluation report, the Council for Budget Responsibility noted that the government's budget proposal contains several legislative measures which had not been discussed at the September meeting of the Tax Revenue Forecasting Committee. The CBR has also pointed at certain risks concerning the estimates of impacts of the legislative changes in corporate income tax (in particular, the reduction of the corporate income tax rate to 22%). The ministry revised these measures and the Tax Revenue Forecasting Committee discussed them at its November meeting. The update reflecting the impact of the measures contained in the budget proposal has reduced the forecast of 2014 tax revenues by about EUR 28 million.

Beyond the framework of the government's budget proposal, the present forecast also reflects the new legislative measures affecting the income tax, as well as the social security contribution relief for the long-term unemployed (the CBR did advise that this measure should have been included in the budget). In terms of additional tax revenues, the most significant new measure concerns the new rules for the redemption of loss. Under the new rules, the loss redemption period has been curtailed from 7 to 4 years and loss must be redeemed evenly (unlike nowadays, when companies may choose the amount of the loss they redeem against their profits and the year(s) in which they do so). The new legislative measures were discussed at the extraordinary meeting of the Tax Revenue Forecasting Committee. According to the Ministry of Finance, these measures are expected to increase government revenues by EUR 23 million in 2014.

The Council for Budget Responsibility identified two non-systemic tax forecast elements in the government's budget proposal, which were not discussed by the Tax Revenue Forecasting Committee. They relate to the one-off increase in the 2014 tax forecast (solely in 2014) due to anticipated improvement in VAT collection by EUR 250 million (together with the creation of a provision for expenditures in the same amount) and additional revenues due to wage increases in public administration as a consequence of collective bargaining. The general government budget still reflects these measures (neither of which has been discussed and approved by the Tax Revenue Forcasting Committee) at unchanged amounts.

Tab 8: Change in the forecast of revenues from taxes and social security contributions, **B 2014-2016 vs BP 2014-2016 (new or updated legislation impact)**

ESA95, ‘000 EUR		B 2014-2016			change compared to BP 2014-2016		
		2014	2015	2016	2014	2015	2016
1. Licence fee for corporations	U	112 041	108 150	104 596	-8 718	-18 647	-28 541
2. CIT rate from 23 % to 22 %	U	-56 448	-60 000	-63 397	-19 923	-21 177	-22 375
3. Special levy in regulated industries - extension of the period (net effect)	U	79 707	83 768	88 044	1 022	1 074	1 129
TOTAL (1-3)		**135 299**	**131 918**	**129 243**	**-27 620**	**-38 750**	**-49 787**
4. Loss carry forward rules change - the income tax law amendment	N	37 163	26 430	24 604	37 163	26 430	24 604
5. Social contributions exemption for the long-term unemployed	N	-5 351	-8 909	-9 313	-5 351	-8 909	-9 313
6. Motor vehocle income taxation change – the income tax law amendment	N	-7 809	-7 809	-7 809	-7 809	-7 809	-7 809
7. Other changes in the income tax law	N	-675	-698	-719	-675	-698	-719
TOTAL (4-7)		**23 328**	**9 014**	**6 762**	**23 328**	**9 014**	**6 762**
8. PIT and SSC due to collective bargaining	X	34 473	0	0	0	0	0
9. VAT - one-off increase in collection efficiency	X	250 000	0	0	0	0	0
TOTAL (8-9)		**284 473**	**0**	**0**	**0**	**0**	**0**
TOTAL (1-9)		**443 100**	**140 932**	**136 005**	**-4 292**	**-29 736**	**-43 025**

U – quantification update of those measures that were included in the BP 2014-2016 – these was discussed at an extraordinary TRFC *Source: MF SR*
N – new measures that were not included in the BP 2014-2016

X – measures that were not approved by the TRFC

Although the updated tax forecast has improved, in particular, the outlook for VAT collection, the present forecasts of tax revenues are significantly worse, by 0.7% and 1.8% of GDP in 2014 and 2015, respectively, compared to the 2013-2015 General Government Budget.

Tab 9: Change in the forecast of revenues from taxes and social security contributions, **the 2014-2016 Budget vs the 2014-2016 Budget proposal**

ESA95, '000 EUR	2014	2015
Personal income tax from dependent activity (employment)	-84 177	-169 141
Personal income tax from business and self-employed activity	-24 771	-27 942
Corporate income tax	-310 236	-398 936
Withholding income tax	-39 714	-60 497
Value added tax	292 814	-257 733
Excise taxes	-144 105	-203 518
Special and extraordinary levy on selected financial institutions	-42 351	11 525
Special levy on enterprises in regulated sectors	102 188	107 395
Social Insurance Agency	-169 625	-258 298
Health insurance companies	-101 769	-151 980
Revenues from taxes and social security contributions	**-532 973**	**-1 425 684**
Revenues from taxes and social security contributions (% of GDP)	**-0.7**	**-1.8**

Source: MF SR

In terms of negative risks to the 2014-2016 forecast of the tax and social contribution revenues, **the estimate of the budgetary impact of changes in the corporate income tax carries the highest degree of uncertainty.** This is due to the fact that several significant changes have been adopted simulaneously (introduction of tax licences, reduction in corporate income tax rates and new rules for the redemption of losses) which, cumulatively, may cause dynamic effects which have not been taken into consideration. In the CBR's view, these **dynamic effects** represent uncertainty in terms of revenues induced by these changes.

Another risk from the tax and social contribution revenue perspective lies in the **one-off tax revenue increase due to wage increases in public administration as a consequence of collective bargaining**. Provided that this measure is financially covered by savings in other expenditures (for example, goods and services) which are subject to VAT, the additional tax revenues stem only from the tax burden differential of such expenditures (wages vs consumption). According to the CBR, the risk represents approximately EUR 10 million.

On the other hand, there are indications that the collection of VAT has improved. If the improvement turns out to be consistent in the long run, **the VAT revenue in the years to come represents a positive risk for the general government budget**.

CBR

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