



Evaluation of the General Government Budget Proposal for 2016-2018

November 2015

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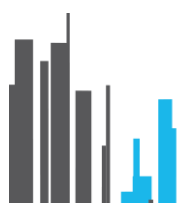
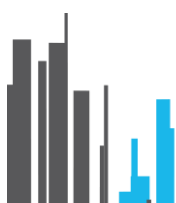


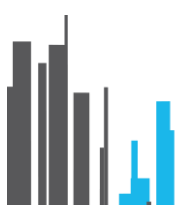
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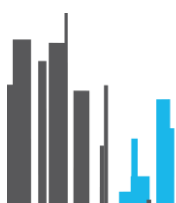


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Summary

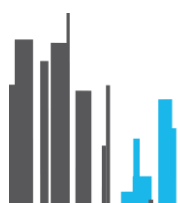
The Council for Budget Responsibility (CBR) views as positive that the government has declared its intention to achieve the medium-term objective by 2017. It is an important milestone which, together with lowering gross debt below the sanction thresholds, could significantly improve the position of Slovakia in the face of the risks emanating from potential crises and the negative impacts of demographic development.

According to the Ministry of Finance, the government's budgetary objectives and the ensuing consolidation are more ambitious than the level of consolidation required under the EU fiscal rules¹. The likely failure to attain the budgetary objective in 2015 and the existence of additional risks which go beyond the estimate presented in the budget proposal represent a risk for the years to come. While the budget proposal is detailed in explaining those government steps which, for the most part, increase the deficit, it lacks a detailed explanation of consolidation measures. Moreover, not all the measures necessary to meet the 2017 and 2018 objectives have yet been specified. The meeting of these objectives may also be influenced by the fact that the budget implementation will be largely in the hands of the new government which will have to adopt sufficient measures in the medium term to attain a structurally balanced budget. According to the budget proposal, the debt level should dip just below the first sanction threshold in 2018. With the expected consolidation incorporated into the economic forecast, the CBR sees the gross debt at the end of 2018, even if the budgetary objectives are met, within the first sanction zone.

The purpose of the CBR's opinions is to offer an independent view on the budget and assess whether the fiscal policy setup is sufficient in terms of achieving the targets set and, at the same time, to identify potential risks which need to be eliminated through the adoption of additional measures. In line with its mandate, the CBR also points at whether the present budget provides sufficient margins for ensuring compliance with the national fiscal rules. With this objective in mind, the CBR points at the following potential risks:

- So far, **no sufficient measures needed to steer the debt outside the sanction zones** (as defined in the Fiscal Responsibility Act) **have been presented**. Fiscal policy should create sufficient room for manoeuvre mainly in the good times when the economy generates higher tax revenue and spends less. The government missed the opportunity to use numerous positive effects to step up consolidation; on the contrary, as part of its three-year budget updates the government would repeatedly revise the target values of budgeted deficits upwards. According to the CBR, the introduction of expenditure ceilings, as contemplated by the Fiscal Responsibility Act, could significantly facilitate consolidation in the good times.
- The sources of consolidation (apart from reduced drawing of EU funds) concentrate mostly around a considerable decrease in investments and intermediate consumption, as well as expenditure cuts in the healthcare sector. Reduced investments may enfeeble the growth potential of the economy and increase the government's investment gap. The explanation of the measures contained in the budget proposal is imbalanced. **While the deficit-increasing items are described and quantified in detail, the consolidation measures are presented only in general terms**. The efficacy of spending is just as important as the level of expenditure itself. From this perspective, it would be appropriate to accentuate the

¹ The compliance of budgetary objectives with the EU fiscal rules is evaluated by the European Commission.



development of analytical capacities designed to measure the efficacy of spending (value for money).

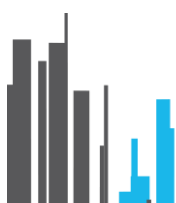
- **The risks in the budget proposal are mostly negative.** According to the CBR, the budget proposal overestimates non-tax revenues (insufficient explanation of higher revenues from dividends and from the sale of CO₂ allowances) and underestimates expenditures in the healthcare and local government sectors, without explaining the cost-saving measures. Likewise, the budget proposal does not factor in any corrections to EU funds. The consolidation strategy would more credible if the risks presented in the budget proposal were better balanced. **Assuming that all the risks materialise and taking into account the potential savings in co-financing, the general government deficit in 2016 might reach 2.7 % of GDP (without the impact of corrections)² and the gross debt might increase to 52.9 % of GDP by the end of 2016.** In order to meet the 2016 objective, the government will have to take new measures and/or make the existing measures more specific and, at the same time, eliminate all identified risks to the maximum extent possible.

Although the 2017 medium-term objective has not changed since 2013, the objectives for 2014 to 2016 were revised towards higher deficits in each update of the three-year budget. **Moreover, the 2014 deficit was, and the 2015 deficit is expected to be higher than planned in the approved budgets. These increases in deficit target values took place at a time when the government could have benefited from a number of positive effects, including the additional revenue from fight against tax evasion.** First and foremost, the accelerating economic growth generated higher tax revenues, the historically lowest interest rates reduced budget expenditures quite significantly, and the budget also benefited from additional revenues from openings of and the reduction of contribution rates to the fully-funded pillar of the pension system. The second significant factor includes the positive additional effects which occurred during the fiscal year and which could have, at least partly, been used to reduce the actual versus budgeted deficit and step up consolidation in the years to come. In this connection, it is necessary to appreciate the measures taken by the government to raise additional revenue by combating VAT evasion (with a secondary positive effect on revenues from corporate income tax) which represent a unique and non-recurring source for deficit reduction. The failure to use of these positive effects for deficit and debt reduction thus pushes the necessary consolidation behind the horizon of the upcoming fiscal year, i.e., into the year 2017.

In addition to the European fiscal rules, also the national rules constitute an important part of the national fiscal framework. Their objective is to set the boundaries the transgression of which poses significant risks for the long-term sustainability of public finances. For the constitutional debt limit, this means keeping the gross debt outside the sanction-triggering thresholds (which were overrun for the first time in 2012). The gross debt to GDP ratio began to decline after 2013, mainly under the influence of the one-off measures taken by the government (cash reserve reduction, receipts from privatisation, revenues from the opening of the fully-funded pension pillar, and extraordinary dividends paid by state corporations) which do not improve Slovakia's net worth. **The debt is expected to decline under the influence of permanent government measures for the first time only in 2016 as a consequence of planned deficit reductions and the acceleration of economic growth.** Despite the fact that the one-off revenues in 2014 and 2015 contributed towards the debt reduction, the meeting of the objectives set out by the government in the consolidation macroeconomic scenario of the Ministry of Finance³ **is not**

² European Commission estimates the 2016 general government deficit at 2.4 % of GDP.

³ According to the scenario in Annex 5 [Draft budgetary plan for 2016](#) the CBR has estimated the amount of debt subject to meeting the objectives and incorporating the consolidation measures into the macroeconomic forecast.



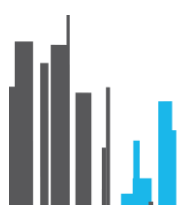
sufficient to bring the debt below the sanction thresholds by 2018 when it is expected to reach 49.2 % of GDP.

The balanced-budget rule requires the government to gradually follow the path set to meet the medium-term objective. The present estimates suggest that, **after fiscal relaxation in 2014 and 2015, the risk of the government diverging significantly from the adjustment path towards the medium-term objective is increasing and that the 2017 medium-term objective will not be met.** The failure to use the positive effects to accelerate consolidation also comes as a consequence of the absence of an effective tool for operational budget management. The expenditure ceilings, whose introduction is foreseen by the Fiscal Responsibility Act, represent one of such tools. However, **the expenditure ceilings, as an operational tool of fiscal policy, have not yet been introduced in Slovakia⁴.**

The 2016-2018 budget proposal is prepared based on the latest estimates of development in 2015. Compared with the budgeted deficit of 2.49 % of GDP the government has indicated deterioration to 2.74 % of GDP. Many of the risks which the CBR pointed out at the end of the last year have materialised (local governments, healthcare sector and corrections to EU funds), while the deficit was reduced thanks to higher taxes and social security contributions, lower transfers to the EU budget and a zero spending from the reserve for the worse-than-expected macroeconomic development). **The present estimate for structural deficit (CBR methodology) stands at 2.8 % of GDP, which is 0.4 % of GDP worse compared with the approved budget.** In the CBR's view, the development of the 2015 deficit will be exposed also to other risks than those identified in the budget proposal, particularly when it comes to local governments, revenues from dividends and the sale of CO₂ allowances, higher corrections to EU funds and the expenditures incurred in connection with the preparation of the D4/R7 PPP project. In its evaluation of the Medium-term Budget Outline for 2016-2018 the CBR estimated the 2015 deficit at 2.6-3.0 % of GDP. **Most of the indentified risks are likely to materialise and, unless the government adopts additional measures by the year-end, the deficit may near 3 % of GDP.**

According to the government, compared with the expected result of the 2015 budget implementation, the 2016 deficit will drop by 0.8 % of GDP to 1.93 %. In order to achieve that reduction, the government would need to adopt measures worth 0.6 % of GDP, since the deficit would have decreased automatically by 0.3 % of GDP under the influence of the existing mechanisms (particularly due to lower co-financing under the given macroeconomic scenario). **The magnitude of the deficit-reducing measures represents 1 % of GDP, whereas the deficit-increasing measures reach 0.5 % of GDP.** Apart from minor changes in taxes, a considerable part of expenditure cuts (0.4 % of GDP) is to be achieved through lower capital expenditures in the state budget and in the budgets of Slovak Railways and the National Motorway Company. With the exception of Slovak Railways, the two remaining budgets are expected to slash expenditures on goods and services (0.3 % of GDP). **The budget itself does not explain these cuts,** thus there is a risk that the expenditures are underestimated or their reduction will have to be offset by increases in the years to come. Similarly as in 2013, 2014 and 2015, also the 2016 budget foresees lower healthcare expenditures (0.2 % of GDP); however, the reduction is not sufficiently explained. The government is also planning higher revenues from

⁴ The expenditure ceilings, introduced as part of the implementation of the balanced-budget rule do not meet the purpose intended by the Fiscal Responsibility Act, because they represent a temporary tool the binding effect and enforceability of which are questionable. Their drawbacks are described in detail in a report prepared by the CBR on the evaluation of compliance with fiscal responsibility rules and transparency rules for the year 2013, August 2014, p. 20, Box 3 (available only in Slovak).



dividends (0.2 % of GDP). On the other hand, the measures having a negative impact on the budget – such as the reduction in the VAT base rate on selected foodstuffs, the government’s “social packages” and the growth in public sector wages above the private sector level – are quantified in detail.

Both Committees⁵ have evaluated the macroeconomic assumptions and tax revenue forecasts as being realistic. The largely negative risks from the external environment may be offset by the positive effects of the Jaguar Land Rover investment, which is currently in the pipeline. **However, contrary to expectations, the 2017-2018 macroeconomic scenario does not contain consolidation measures** which could, depending on the type of the measures involved, slightly deflate economic growth and tax revenues. As a consequence, if the defined objectives are to be met, the government will have to adopt additional measures above and beyond those presented in the budget proposal (by 0.2 % of GDP in 2017 and 0.3 % of GDP in 2018).

Some of the risks identified for 2015 spill over to 2016. The revenue from SPP and VSE dividends, which the government expects at a level above the previous year’s profit from ordinary activities, constitutes a recurring risk. Also, the budget proposal does not reflect a change in the methodology for the recording of revenues from the sale of CO₂ allowances, overestimating them by EUR 52 million. Likewise, it does not contemplate any corrections to EU funds which, given the fact that their drawing from the second programming period is coming to a close, may exceed the present estimate for 2015. The CBR has quantified the risk in the healthcare sector at EUR 150 million, since the budget proposal contemplates only a minor increase in expenditures compared to previous years, without specifying any new measures. The risk of higher expenditures in the local government sector reaches EUR 100 million and is slightly lower compared with the 2015 budget. In order to secure sufficient coverage of the cost incurred in the construction of the national football stadium, the expenditure presented in the budget proposal should be EUR 26 million higher. The other risks include the unclearly budgeted expenditures for the procurement of military equipment and lower expenditures on the decommissioning of nuclear facilities compared with the approved strategy. The completion of the 3rd and 4th unit at the Mochovce Nuclear Power Plant in 2017 and 2018 represents a risk above the framework identified for 2016. The budget proposal also contains information on financial performance of ‘state corporations’, yet a number of them generate losses. It is questionable whether these corporations can operate on market principles. If not, their potential bailouts will have an impact on the government debt and deficit. The consolidation strategy would be more credible if the risks presented in the budget proposal were better balanced. **At this point, negative risks prevail fairly significantly.**

So far, the only identified source for the 2016 risks coverage is the **potential reduction in expenditures on co-financing due to the lower uptake of EU funds**, however, this may be partly offset by the less favourable macroeconomic development attributable to the slower uptake of EU funds. In terms of supporting economic growth, the drawing of funds from the third programming period should begin as soon as possible. Unlike in the last year’s budget proposal, the government has not created a reserve for the worse-than-expected economic development and non-attainment of the budgetary objective.

From the perspective of long-term sustainability, the planned structural balance improvement and debt reduction in 2016 represent a better starting position. If these objectives are met, the long-term sustainability of public finances will improve compared with 2015. On

⁵ Macroeconomic Forecasting Committee and Tax Revenue Forecasting Committee.

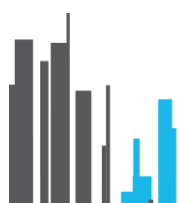


the other hand, this improvement would only compensate for the deterioration of long-term sustainability⁶ in 2014 and 2015 and thus **bring public finances back to the 2013 level.**

The budget proposal meets the statutory requirements for transparency. A more detailed explanation of some of the items would make the budget proposal clearer. In comparison with the 2015-2017 budget, the CBR appreciates the inclusion of additional information on court proceedings initiated during the year, as well as the estimate of implicit liabilities connected with planned PPP projects. There has been some progress in the budgeting of extra-budgetary revenues and expenditures of local governments, which, however, represents only a smaller part of all non-budgeted transactions. Although the budget proposal does contain an analysis of the estimated 2015 deficit, more detailed information is necessary to get a complete picture of the actual situation in public finances. The CBR views as negative that the proposed three-year budget does not contain all the measures necessary to meet the objectives, and only partially explains the measures proposed. There has been no improvement as far as the risks relating to the financial performance of corporations owned by the state and the National Property Fund are concerned.

The CBR's opinion is based on the 2016-2018 General Government Budget Proposal approved by the government on 7 October 2015 and on the Draft Budgetary Plan for 2016 which the government approved on 14 October 2015. Should additional measures be adopted in the course of the parliamentary procedure, the CBR will update its opinion accordingly.

⁶ Measured through a change in the long-term sustainability indicator.



1. Budget development in 2015 and risk assessment

The Ministry of Finance (“ministry”, or “MF SR”) estimates the general government deficit⁷ in 2015 at 2.74 % of GDP, which is 0.25 p.p. above the budgeted deficit of 2.49 % of GDP. Since, unlike in previous years, the ministry is not declaring its ambition to meet the target, the government is likely to miss the budgetary objective for the second year in a row.

Tab 1: Major factors influencing the 2015 GG balance compared to the budget, MFSR estimates (% of GDP)

Positive impact (1.08 % of GDP)		Negative impact (1.45 % of GDP)	
Higher revenues from taxes and social contributions	0.54	Expenditures of municipalities, including public transport companies	-0.39
Cancellation of reserve on worse-than-expected macroeconomic development	0.20	Financial corrections payable to the EU budget	-0.30
Lower EU budget levy	0.14	Expenditures in the healthcare sector	-0.30
Additional revenues of State Fund for Housing Development	0.13	Impact of capital expenditures carried over from the previous years	-0.26
Lower GG interest payments	0.07	Expenditures of the National Highway Company	-0.18

Source: MF SR, CBR

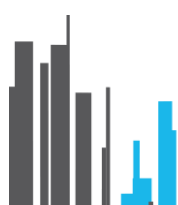
The biggest negative impact comes from the expenditures of local governments, mainly because the ministry based the budget on the assumption of a zero growth in their expenditures⁸. The financial corrections payable for irregularities in the implementation of EU projects will also increase the deficit. The ministry also expects that the budgeted expenditures in the healthcare sector and the National Motorway Company will be exceeded. The capital expenditures carried over from previous years will also affect the deficit adversely⁹.

On the other hand, the estimated increase in revenues from taxes and social contributions will have a discernibly positive impact on the budget. Since the balance is not developing favourably, the government is not likely to make any disbursements from the reserve for worse-than-expected economic development. The actual amount of transfers to the EU budget and the debt interest payments will also be lower than budgeted. The ministry is also expecting additional revenue of the State Fund for Housing Development (ŠFRB) from the EU funds for providing loans in the housing sector.

⁷ The deficit estimate for the current year, including the description of factors, is for the first time a part of the General Government Budget Proposal for 2016-2018. This obligation is specified in the amendment to Act No. 523/2004 on the Budgetary Rules of General Government, which entered into force as of 1 August 2015.

⁸ Adjustment made in light of the sanctions applicable under the Fiscal Responsibility Act when the debt threshold of 55 % of GDP is exceeded. Following the approval of the 2015-2017 budget proposal, the amount of debt was revised and thus fell below the threshold. The budget of local governments did not have to be compiled based on a zero-growth in expenditures. However, during the parliamentary debate over the 2015 state budget proposal, the assumption concerning the budgets of local governments did not change.

⁹ Capital expenditure worth EUR 448 million were transferred to the year 2015, but only EUR 203 million was spent; EUR 64 million is expected to be carried over to the next years. The negative impact in 2015 is estimated at EUR 203 million.



Tab 2: Change in structural balance in 2015 (% GDP)

	2014	2015	2014	2015	difference	difference
	GGB 2015	GGB 2015	GGB 2016	GGB 2016	2014	2015
1. General government balance	-3.0	-2.5	-2.8	-2.7	0.3	-0.3
2. Cyclical component	0.0	-0.2	-0.1	-0.1	-0.1	0.1
3. One-off measures	0.4	0.1	0.1	0.2	-0.4	0.1
4. Structural balance (1-2-3)	-3.5	-2.4	-2.8	-2.8	0.7	-0.4
5. Change in structural balance	-	1.0	-	-0.1	-	-1.1

GGB 2015 – GG budget for 2015-2017

Source: CBR's methodology

GGB 2016 – GG budget proposal for 2016-2018

The general government budget for 2015-2017 assumed that the structural deficit would reach 2.4 % of GDP in 2015. The latest CBR calculations show that the **2015 structural deficit in the budget proposal for 2016-2018 will deteriorate by 0.4 % of GDP**. The 2015 deficit increase has the biggest impact. But also the one-off effects and their upward revision¹⁰ in 2014 will affect the deficit negatively. Structural deficit increased by 0.1 % of GDP year-on-year, which is due to the better-than-budgeted result in 2014.

According to the CBR, the present ministry's estimate (deficit at 2.74 % of GDP) **is exposed to additional risks in 2015¹¹**, which are higher than the sources for their coverage (Table 3). Some of these risks may have negative repercussions also for the years to come (for example, local governments, healthcare sector and dividends), but the potential sources for their coverage are non-recurring in nature.

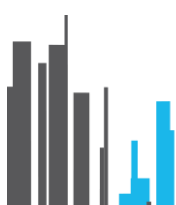
Tab 3: Overview of additional risks in 2015 - differences compared to MF SR estimate (€ million)

Risks	Sum	Coverage	Sum
1. Outcomes of local governments' budgets	0-100	1. One-off reduction in state budget expenditures (carryover to next years)	0-100
2. Higher healthcare expenditures and higher payout of retained profits of private health insurance companies	0-50		
3. Expenditures related to the D4/R7 PPP project	0-100		
4. Additional financial corrections payable to the EU budget	no quantification		
5. Lower revenues from emission allowances	68		
6. Lower revenues from dividends (SPP, ZSE)	0-180		
7. Increase in the registered capital of SEPS	0-23		
8. Revenues of State Fund for Housing Development from the EU budget	0-88		
9. Cancellation of penalty for a cartel agreement in the construction sector	0-45		

Source: CBR

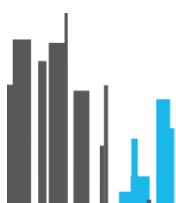
¹⁰ Compared with the CBR's report from December 2014, one-off measures with a total negative impact of 0.3 % of GDP in 2014 have been revised. The change is related to the exclusion of one-off revenues from dividends from the balance and to the identification of new one-off measures (more precise recording of VAT receipts, transfer to the EU budget, retroactive disbursement of pensions in the armed forces and specification of the amount of corrections).

¹¹ In spite of the existing risks for 2015, which are likely to increase the deficit above the MF SR estimate, the CBR is using the deficit figure of 2.74 % of GDP in calculations presented in the remaining parts of this document.



In its evaluation of the 2016-2018 Medium-term Budget Outline, the CBR estimated the 2015 deficit between 2.6 % and 3.0 % of GDP and, in an extreme situation, the deficit could near 3.5 % of GDP¹². **As most of the identified risk appear to be materialising** (detailed evaluation and description of these risks is presented in Annex 1), **the deficit may come close to the 3-percent mark**. If the actual deficit for 2015 turns out to be worse than what the government currently estimates (2.74 % of GDP), the differential may affect the years to come, because most risks are not one-off, which puts the meeting of the 2016 objectives at risk.

¹² In case the risks associated with the PPP project fully materialised (0.5 % of GDP) and financial corrections to EU funds considerably exceeded government expectations.



2. Evaluation of the likelihood of meeting the budgetary in 2016 to 2018

After evaluating the baseline position of the budget proposal, which is the year 2015, in this part of the document the CBR assesses the credibility of presented objectives from different perspectives. First and foremost, the CBR assesses how realistic the macroeconomic and tax forecasts, based on which the overall fiscal framework is formulated, are. The budgetary objectives formulated by the government are then confronted with how they were fulfilled in the past and whether reasons continue to exist for the government to behave in the same way also in the future. The analysis of specific government measures provides information about the resources available to the government and about how the government intends to use them. From the economic growth perspective, it is essential to know whether fiscal policy contributes towards economic stabilisation or deepens macroeconomic imbalances. The final part of this chapter summarises the identified risks and analyses the development of public debt.

2.1 Macroeconomic assumptions

The budget proposal is based on a macroeconomic scenario which was discussed and consensually adopted by the Macroeconomic Forecasting Committee (MFC) in September 2015 (Annex 7). According to the present forecast, Slovakia's economic growth in 2015 will accelerate to 3.2 %, which is 0.6 percentage point above the last year's expectations. The forecast is based on the assumption of a stable economic growth in Germany and in the eurozone, with Slovakia's GDP growth hovering above 3 % also in the years to come (Table 4).

Tab 4: Forecast of the MFC and international institutions

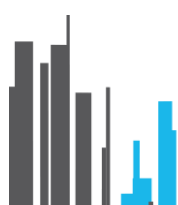
GDP real growth in % Institution	Reality 2014	Forecast				Change from previous year			
		2015	2016	2017	2018	2015	2016	2017	2018
MFC (September 2015 vs. 2014)	2.4	3.2	3.1	3.6	3.6	+0.6	-0.4	+0.1	-
IMF (October 2015 vs. 2014)	2.4	3.2	3.6	3.6	3.3	+0.5	+0.7	+0.5	+0.2
EC (November 2015 vs. 2014)	2.4	3.2	2.9	3.3	-	+0.7	-0.4	-	-
OECD (November 2015 vs. 2014)	2.4	3.2	3.4	3.5	-	+0.4	0.0	-	-

Source: MFSR, IMF, OECD, EC, CBR

Current risks of external and internal environment

The external assumptions of the MFC forecast reflect the present risks stemming from the slowdown of the emerging economies (mainly China and Russia) and the relatively stable growth in both the eurozone and the US. Domestic economy is currently exposed to mostly negative external risks (mainly the influence of the Asian economic slowdown on Slovakia's trading partners, geopolitical situation and the refugee crisis). The positive external risks include the potentially favourable effects of the ECB quantitative easing and the relaxation of conditions for financing of firms in the eurozone.

The domestic environment produces a positive risk of higher-than-expected investment activities financed from EU funds in 2015 and the anticipated launch of the Jaguar Land Rover investment. The potential impact of fiscal consolidation on economic growth in 2017 and 2018 represents a negative risk.



- The economic activity in 2015 is boosted by the accelerating absorption of EU funds as the 2007-2013 programming period draws to an end. According to MFC forecasts, capital expenditures financed from EU funds increased **from EUR 1.3 billion in 2014 to EUR 2.3 billion in 2015**. However, the drawing of EU funds accelerated significantly in the last months of the year, which represents a **positive risk** for the macroeconomic forecast and the related growth in investments **for the year 2015**. According to the latest CBR assumptions, the volume of capital expenditures financed from EU funds this year will reach **EUR 2.5 billion**. Considering the import intensity of investments¹³, this increase will push the net contribution of EU-funded investments up by extra **0.2 % of GDP in 2015** (Figure 1). The higher-than-expected contribution of EU funds in 2015 will turn negative next year because of the baseline effect.
- If confirmed, the planned investment by Jaguar Land Rover may give the economy additional growth impulses in 2016-2017. In the first phase, during the plant construction, the main contribution will come from investments, the additional positive effects on employment and production on the economy will continue in the years to come.
- The MFC's macroeconomic assumptions do not reflect the potential impact of fiscal measures needed to meet the budgetary objectives defined in the 2016-2018 budget proposal. The Ministry of Finance estimates¹⁴ that these measures will have a negative impact on GDP growth in all three years, with the biggest risk identified for 2017 when GDP may decline by 0.5 percentage point (Figure 2).

Figure 1: The contribution of investment from EU funds to GDP growth (% of GDP)

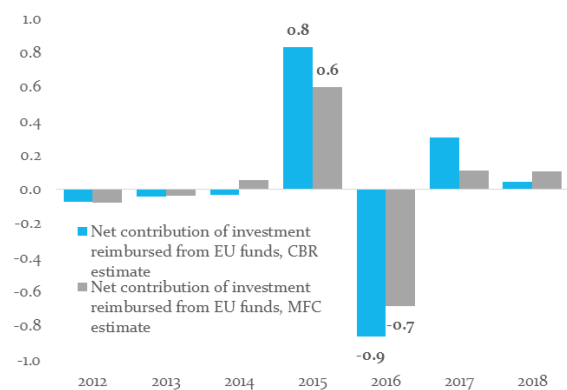


Figure 2: GDP forecasts and budget fiscal scenarios (growth in %)

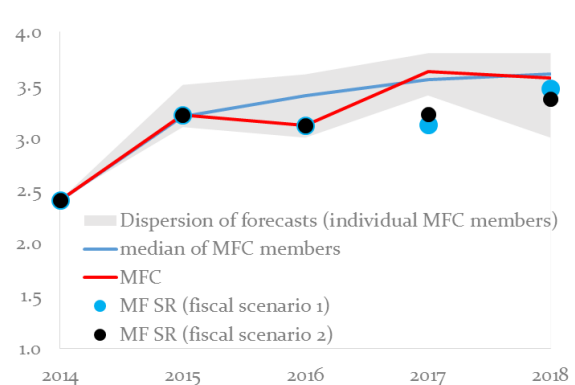


Figure 2: Scenario 1 assumes the volume of all the measures necessary to meet the budgetary objectives. Scenario 2 assumes the impact of only those measures which are already specified in the budget.

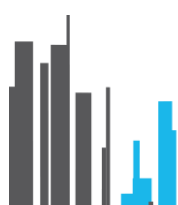
Source: CBR, MF SR

Forecast risks based on historical deviations

The CBR is closely monitoring deviations of the MFC's forecasts from reality. **The objective deviations** of the MFC's forecast from reality are attributable to uncertainties concerning the

¹³ Based on the latest available data, approximately 54.4 % according to the CBR.

¹⁴ According to Annex 5 to the Draft Budgetary Plan for 2016.



incorporation of the actual and expected development and the uncertainties connected with the revision of data¹⁵. The **systematic deviations** from forecasts include the recurring and significant deviations from reality or from forecasts of the majority of relevant independent institutions.

If the **objective deviations from actual development** take on a similar dimension as in the past (in the post-crisis period of 2009-2014), the GDP growth in 2016 will span from 2.4 % to 3.8 % with a 60-% probability with forecast uncertainty rising in the following years (Figure 3). Other sensitivity scenarios reflecting the forecast uncertainties with impact on deficit and debt are presented in Annex 8.

A significant **systematic deviation from forecast** occurs when a forecast falls outside the interval estimated by 50 % of the MFC members (so-called “inter-quantile range”) and, at the same time, the deviation remains significant for several consecutive years¹⁶. From this perspective, the MFC’s forecast of GDP growth and other main indicators can be considered unbiased for one and two years ahead, except for the forecast of government consumption expenditures (GDP forecast – Figure 4, other components in Annex 9).

Figure 3: MFC's GDP forecast risk based on past forecast errors

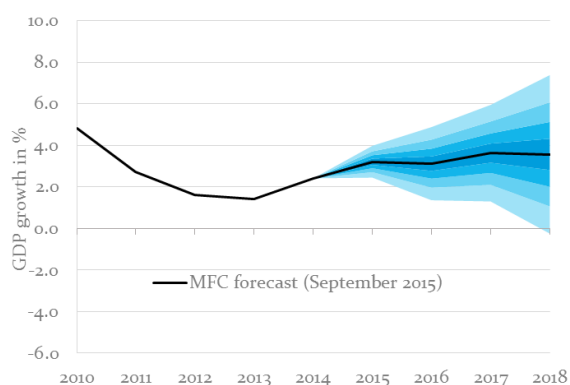
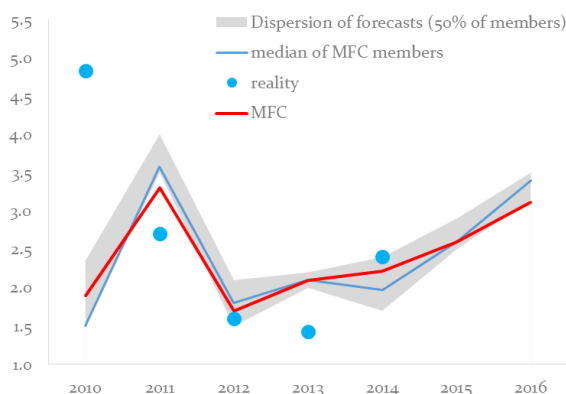


Figure 4: MFC forecasts for the year ahead - evaluation of forecast bias (growth in %)



Source: CBR, MF SR

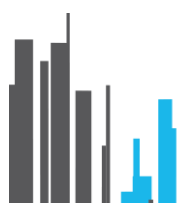
2.2 Forecast of revenues from taxes and social contributions

The forecasts of revenues from taxes and social security contributions (“tax revenue forecasts”) were assessed and approved by **Tax Revenue Forecasting Committee in October 2015**. The Council for Budget Responsibility, as a full member of the committee, evaluated the tax revenue forecast as being realistic, based on the macroeconomic assumptions presented by the Macroeconomic Forecasting Committee.

The fight against tax evasions in recent years has yielded praiseworthy results thanks to which the government is collecting additional revenue from value added tax (VAT) and, most probably,

¹⁵ According to OECD data on revisions of Slovakia’s GDP, the standard deviation of the GDP growth revisions in 2007-2014 oscillates around 0.6 p.p. with approximately zero average for the given period.

¹⁶ Inspired by the analysis of fiscal institution in Spain (AIReF, 2015).



also from the corporate income tax. Between 2013 and 2015, thanks to these measures the government raised additional EUR 1.5 billion in VAT revenue¹⁷ of which EUR 680 million in 2015 alone (0.9 % of GDP). Since the success of tax collection stabilised in the first half 2015, the budget proposal does not foresee further increases, which may represent a positive risk for revenues in the medium term.

On the other hand, the effects of the introduction of the health insurance allowance (“HIA”) are less convincing¹⁸. This measure, which could alleviate certain labour market problems, was supposed to offset the considerable annual increase in minimum wage¹⁹ in terms of labour cost, and even reduce the labour cost in respect of the low-income workers earning up to EUR 570 a month (gross wage). At the same time, the measure was supposed to increase the disposable income of employees. According to the Ministry of Finance, only about 25 % of the eligible employees claimed the allowance on a monthly basis²⁰ during the first year of its existence. The reasons why the HIA is not used are still unclear; most probably, people are discouraged from claiming it due to various legislative and administrative restrictions. From the fiscal perspective, the bulk of the negative impact of the HIA will be felt in 2016 because most employees will claim the allowance on annualised basis. On the other hand, this has had a positive effect on public finances in 2015 compared with the original expectations, leaving more funds available to the healthcare sector. The reason lies in the increase of insurance contributions payable by the state, which was supposed to fully offset the originally planned shortfall in revenues. Should the HIA claimed on a monthly basis increase in any given year, it will commensurately reduce the revenues below their budgeted level, which represents a negative risk.

From the tax revenue forecasting perspective, the most significant negative risk lies in the macroeconomic assumptions for 2017 and 2018 which do not take into account the anticipated public finance consolidation²¹. The higher economic growth assumption means that the budget overestimates tax revenues by about EUR 200 million in 2017 (0.2 % of GDP) and EUR 256 million in 2018 (0.3 % of GDP)²².

Tab 5: Impact of macroeconomic scenarios that include public finance consolidation on tax revenues (ESA2010, € thousands)

	2016	2017	2018
Impact on revenues in macroscenario1 „budgetary target met“	0	-199 539	-256 299
<i>in % of GDP</i>	0.0%	-0.2%	-0.3%
Impact on revenues in macroscenario2 „known consol.measures only“	0	-152 467	-259 148
<i>in % of GDP</i>	0.0%	-0.2%	-0.3%

Source:

¹⁷ Compared with 2012.

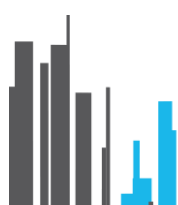
¹⁸ With effect from January 2015, apart from a significant increase in the minimum wage, the government also introduced the health insurance allowance in the amount of EUR 380 per month. The allowance decreases as the salary increases and if the salary reaches EUR 570 per month, the allowance is zero. The negative impact of the HIA on revenues from health insurance contributions is estimated at EUR 180 million, of which EUR 166 million will affect the budget immediately in 2015 through reduced advanced payments towards health insurance (and the remainder next year, after the annual clearing).

¹⁹ Increase by 8 % from 352 to 380 EUR per month.

²⁰ Through reduction of advances towards health insurance.

²¹ The Ministry of Finance, in its Draft Budgetary Plan for 2016, Annex 5, illustrates, on two scenarios, the macroeconomic impacts of public finance consolidation.

²² Quantified through the effective tax rates for individual types of taxes in the forecast of the Tax Revenue Forecasting Committee of October 2015. These were applied to new macroeconomic tax bases which reflect the consolidation of public finances.



2.3 Fiscal framework

The first part of this chapter describes the fiscal framework and its consequences for the development of key fiscal indicators based on the data presented by the government. The CBR scrutinised the credibility of fiscal objectives from different points of view: 1/ impact of the parliamentary elections on the meeting of fiscal objectives; 2/ impact of fiscal rules on the meeting of fiscal objectives; 3/ binding nature of the three-year budget; 4/ size of the consolidation necessary to meet the objectives; 5/ how the government reacts to deviations from the budget.

The objectives declared by the government are based on the latest estimate for the 2015 general government deficit (2.74 % of GDP). The deficit is expected to gradually decline in the subsequent years and, according to the ministry's calculations, the **medium-term budgetary objective** (structural deficit up to 0.5 % of GDP²³) should be achieved in 2017 (EC methodology).

The objectives are based on the rules of the preventive arm of the Stability and Growth Pact (SGP) and the common EU methodology for the calculation of structural balance. The government's budgetary objectives and the ensuing consolidation are, according to the Ministry of Finance, **more ambitious** than the level of consolidation required under the **EU fiscal rules**²⁴. The government has confirmed its intention to respect the original deadline for meeting the medium-term objective in 2017. Nevertheless, **in comparison to the approved 2015-2017 General Government Budget, the budgetary objectives** contained in the 2016-2018 Budget Proposal **are more relaxed**. The target deficit value for 2016 has increased by 0.5 % of GDP while the 2017 objective remains unchanged.

Tab 6: GG targeted balance (ESA2010, % GDP)

	2014	2015E**	2016B**	2017B**	2018B**
1. GGB for 2015-2017*	-2.93	-2.49	-1.21	-0.61	
2. GGB outline for 2016-2018	-2.87	-2.54	-1.93	-1.38	-1.01
3. GGB proposal for 2016-2018		-2.74	-1.93	-0.88	-0.41
4. Targeted balance in GGB proposal for 2016-2018		-2.49	-1.93	-0.42	0.00
5. Change (3-1)		-0.25	-0.72	-0.27	
6. Measures necessary to meet the target (4-3)		0.25	0.00	0.46	0.41
(in € million)		193.7	0.0	394.9	372.5

* In 2014 beyond the 2014 official estimate (-2.93 % of GDP) an impact of a shift of an extraordinary revenues from Cargo from 2014 to 2015 was incorporated. As the 2015 budget already included this transaction, the 2014 estimated was lowered by the same amount. GG deficit target was set to 2.49 % GDP in 2015, 1.43 % GDP in 2016 and 0.39 % GDP in 2017. Source: MF SR

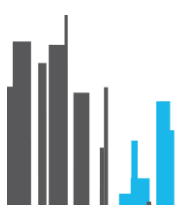
** 2015E in GGBP 2016-2018 means estimate for 2015; B for 2016-2018 stands for budget. This indication is used by CBR in the whole evaluation.

The medium-term objectives of the government are based on gradual deficit reductions and on the less frequent use of one-off measures²⁵. Structural balance will continue to improve also

²³ The meeting of this target, apart from compliance with the preventive arm of the Stability and Growth Pact, would also mean achieving 'balanced budget' defined in the national legislation (implementation of the so-called fiscal compact).

²⁴ The compliance of budgetary objectives with EU fiscal rules is evaluated by the European Commission.

²⁵ See Annex 11 for a detailed list of one-off measures.



thanks to the lower debt interest payments due to declining interest rates on financial markets and the lower risk and liquidity premiums on Slovak government bonds²⁶. The budgetary objectives, as currently set, provide for an average annual structural balance improvement of 0.9 % of GDP between 2016 and 2018²⁷ (Box 1 compares the CBR's estimate with the estimates of other institutions). The fiscal policy relaxation in 2014 and 2015 and the transfer of the bulk of the consolidation effort to the year in which the medium-term objective is to be met, **increases the risk of not meeting the medium-term objective by 2017.**

Tab 7: Change in GG structural balance in 2013-2018 according to CBR's estimate (ESA2010, % GDP)

	2013	2014	2015E	2016B	2017B	2018B
1. General government balance	-2.6	-2.8	-2.7	-1.9	-0.4	0.0
2. Cyclical component ²⁸	-0.5	-0.1	-0.1	0.0	0.0	-0.1
3. One-off measures	0.2	0.1	0.2	0.1	0.1	0.1
4. Structural balance (1-2-3)	-2.3	-2.8	-2.8	-2.1	-0.5	0.0
5. Change in structural balance (Δ4)/ Fiscal Compact	2.1	-0.4	-0.1	0.8	1.5	0.5
6. General government balance - NPC scenario			-2.7	-2.5	-2.3	-2.0
7. Change in structural balance - NPC scenario				0.3	0.3	0.3
8. Size of measures (1-6)			0.0	0.6	1.8	2.0
9. Change in size of measures (Δ 8)				0.6	1.3	0.1
10. Consolidation effort of government (5-7)				0.5	1.2	0.1
<i>p.m. 1 Measures with no impact on longterm sustainability</i>	0.4	-0.1	0.0	0.0	-0.1	0.0
<i>p.m. 2 PPP</i>	-0.1	0.0	0.0	0.0	0.0	0.0
<i>p.m. 3 Interest payments</i>	-0.1	0.0	0.3	0.1	0.1	0.0

Source: CBR's methodology

Assuming that no new measures are adopted after 2015, that public finances develop by existing legislation and that the budget items are determined solely by the macroeconomic development, ('no policy change' scenario, or NPC, prepared by the CBR²⁹), the general government deficit in 2016 will reach 2.5 % of GDP (with the 2015 deficit at 2.74 %). In the subsequent years, the deficit is expected to decline to 2 % of GDP in 2018³⁰, which means that the structural balance will improve annually by 0.3 % of GDP even in the absence of government intervention.

The difference between the NPC scenario and the actual balance defines the size of the measures incorporated into the budget proposal. The measures adopted in 2016 improve the deficit by 0.6 % of GDP. In 2017, the size of the additional measures reaches 1.3 % of GDP, of which 0.5 % of GDP are measures not specified³¹. In 2018, additional measures represent 0.1 % of GDP.

²⁶ Interest rates declined also thanks to the lower risk and liquidity premium on Slovak government bonds, attributable, among other things, also to the positive perceptions of the consolidation achieved (deficit reduction below 3 % of GDP and termination of the excessive deficit procedure) and the declining gross debt.

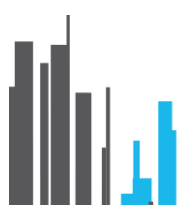
²⁷ The factors which, despite their medium-term effects, do not influence the long-term sustainability of public finances (fully-funded pillar of the pension system, nuclear decommissioning fund, special banking levy) do not materially change the evaluation of medium-term objectives.

²⁸ See Annex 5 for more details on the development of the cyclical component.

²⁹ See Annex 3 for more on the NPC scenario by the CBR.

³⁰ The MF SR estimates the deficit under the NPC scenario at 2.2 % of GDP in 2016, 1.8 % of GDP in 2017 and 1.6 % of GDP in 2018. The differences compared to the CBR are due to different assumptions of how certain items will develop, for example revenues from dividends, expenditures in the healthcare sector and debt interest payments.

³¹ The 2017 budget proposal is based on a deficit of 0.9 % of GDP, but its target value is 0.4 % of GDP.

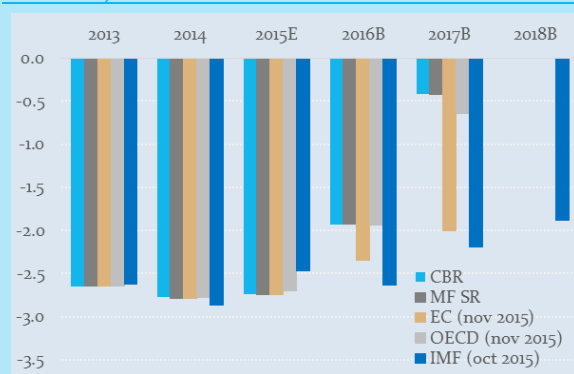


The net government contribution³² to a permanent improvement in the general government balance represents 0.5 % of GDP in 2016. **The meeting of the medium-term budgetary objectives by 2018 will require an average annual government consolidation effort of 0.6 % of GDP.**

Box 1: Comparison of the general government balance and structural balance in 2013 to 2018

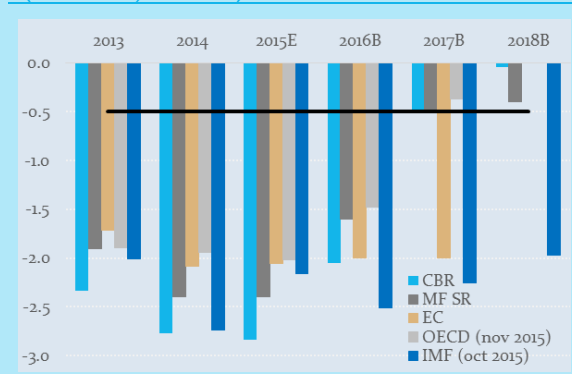
The following figures show the general government balance and estimates of the general government structural balance for 2013-2018 prepared by five institutions: the CBR, the European Commission, the Ministry of Finance (Commission methodology), the International Monetary Fund and the Organisation for Economic Co-operation and Development. The differences in the structural balance are due to different deficit estimates (the Commission bases itself on the NPC scenario), different estimates of the size of the cyclical component (output gap) and the one-off measures taken into account. Except for 2014, when it deviated from the path towards meeting the MTO, and also except for 2015, when the risk of a significant deviation increased, structural balance should be improving according to calculations by both the CBR and Ministry of Finance. In its autumn forecast, the Commission sees the structural balance in 2015-2017 at -2.0 % of GDP.

Figure 5: GG balance in 2013-2018 (ESA2010, % GDP)



Source: CBR, MF SR, EC, OECD, IMF

Figure 6: GG structural balance in 2013-2018 (ESA2010, % GDP)

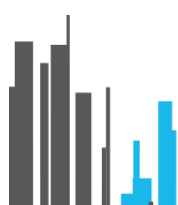


Source: CBR, MF SR, EC, OECD, IMF

The parliamentary elections in March 2016 may influence the meeting of the budgetary objectives. **The meeting of the 2016 objective will depend on the priorities of the new government**, on how smooth the transition of control over the budget will be, and how soon the incoming government becomes aware of the potential positive and negative risks in the budget. The advantage, in terms of meeting the objective, could be that if the new government subscribes to the objective and the risks are confirmed, it will have enough time to react accordingly and adopt additional measures.

The 2014-2015 relaxation of the fiscal discipline has diluted the effect of robust consolidation in 2013. According to the CBR, while the 2014 deviation from the adjustment path towards meeting the medium-term objective by 2017 was only moderate (evaluated cumulatively), the risk of the deviation becoming significant increased in 2015. Under the existing rules, this requires the adoption of corrective measures leading to faster consolidation (see Chapter 3 for more). This

³² The 'government consolidation effort' indicator is linked exclusively to the contribution of government measures towards a permanent change in fiscal position. A detailed description of this indicator is provided in the CBR discussion paper No. 02/2014: [How to measure public finance consolidation](http://www.rozpocetovarada.sk).



national rule may complement the existing debt rule; although the application of the more stringent sanction mechanisms under the debt rule will be suspended for two years from the parliamentary vote of confidence in the new government, they will fully apply when the results for 2017 will be evaluated³³. For this reason, **respecting the currently applicable national fiscal rules, the budget consolidation should continue also in the years to come.**

The extent to which the three-year budget is binding is also important. Although the medium-term budget outline is approved by the government, the parliament only approves (i.e., enacts) the cash balance of the state budget for the forthcoming year. Hence, the government **considers as binding only the budget for the nearest fiscal year.**

Even though the medium-term objective for 2017 has remained unchanged since 2013³⁴, the objectives for the next years of the three-year budget cycle have been revised. Unlike the targets for 2013 and 2014, the deficit targets for 2015 and 2016 have been revised upwards, deferring the consolidation necessary to meet the 2017 objective beyond the horizon of the next fiscal year. The extent to which the meeting of the objectives set beyond the horizon of the nearest fiscal year is realistic must therefore be assessed also in relation to the size of the measures needed to meet them. From 2016 to 2018, the average annual improvement in structural balance is expected to reach 0.9 % of GDP, however, for the MTO to be met by 2017, additional measures amounting to 1.3 % of GDP will have to be implemented above those already planned for 2016. With the impact of consolidation on macroeconomic development taken into account (not included in the Ministry of Finance's macroscenario), the size of these measures increases to 1.5 % of GDP. Although a consolidation of this size did take place within a single year in the past (years 2011 and 2013), **the room for consolidation through tax revenue and expenditure without the adoption of systemic measures is narrower compared to 2011 or 2013.**

Figure 7: Revision of fiscal targets in 3years budgetary framework (% GDP)

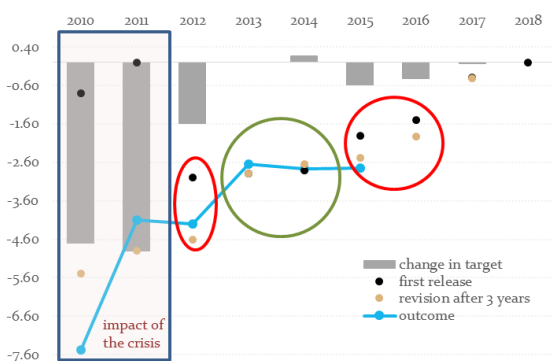


Figure 8: Change in structural balance in 2010-2018 (CBR's estimate) (% GDP)

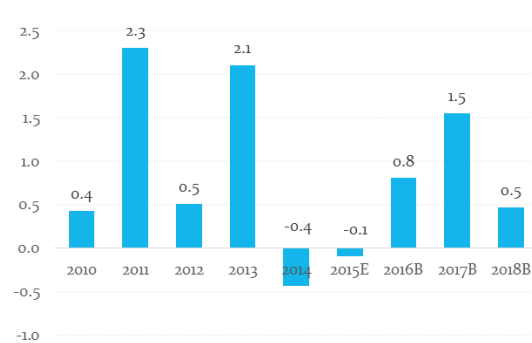
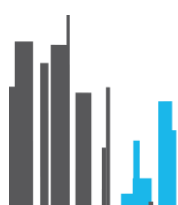


Figure 7: Change in target (bar chart) stands for a difference between the first announcement of targeted GG balance in the respective year and its revision after three years (three-years fiscal framework). For example, targeted deficit in 2015 was firstly set within the approved 2013-2015 GGB, revised under the 2015-2017 GGB by 0.6 % of GDP.

Source: CBR

³³ The sanction mechanism will be again available for use when the 2017 debt is evaluated. Depending on when the parliament votes confidence in the new government, this may be in April or October 2018.

³⁴ Evaluation of the 2013-2016 Stability Programme from April 2013.



The compilation of the general government budget is a relatively complex process and thus deviations from planned revenues and expenditures cannot be ruled out. The distinction between the effects which are partly or wholly outside the government control (“unexpected effects”) and other effects, including discretionary measures, provides the following information: 1/ ability of the government to eliminate negative unexpected effects, 2/ manner in which positive unexpected effects are used, 3/ how realistic the budget is (risks reflected). Understanding the reasons for deviation is also important for the assessment of compliance with the national fiscal rules, mainly the progress achieved in bringing the debt below sanction thresholds.

In a number of its previous reports³⁵ the CBR stated that the government failed to adopt sufficient measures to reduce the debt below the sanction thresholds despite the fact that the minister of finance and the government should have adopted them³⁶. The present budget proposal for 2016-2018 does not contain all the measures required to meet the deficit targets which, according to the Ministry of Finance, should steer the debt outside of the sanction zones by 2018. Moreover, the incorporation of consolidation into the macroeconomic scenario will increase the need to adopt additional measures above and beyond those presented in the budget proposal. Due to this, it should be pointed out that the three-year budget approved by the government does not constitute a sufficiently binding document presenting a credible path towards bringing the debt below the sanction-triggering thresholds. In this context, the CBR views as negative the upward revisions of deficits from one year to another. These revisions defer the point in time at which the public debt will fall below the first sanction threshold.

The public finance deficit target for 2016 has increased by 0.5 % of GDP. This increase was not motivated by unexpected negative effects outside the government control, quite the contrary, the budget may benefit from a number of positive effects (Annex 15). In spite of that, the government failed to eliminate a number of significant risks (see Chapter 2.6 for more) from the 2016 budget proposal, nor did it create a reserve to offset their impact.

Box 2: Unexpected effects and their impact on the balance

In the course of budget execution, unexpected deviations may occur and the government reacts to them. If the effects are positive, the government may use the additional revenue to reduce the debt and deficit (accelerated consolidation) or may take new measures which increase the deficit (through higher expenditures) and offset the risks. If, on the other hand, the unexpected effects are negative, the government may either take additional measures so as to meet the budgetary target or increase the deficit to reflect these effects. In most cases, the result is a combination of reflecting the unexpected effects, risk coverage and government measures.

The contribution of these unexpected effects to deficit reduction represented 1.8 % GDP in 2014, 0.7 % of GDP in 2015 and 0.8 % of GDP in 2016. Had these positive unexpected effects been used in each of the three years to improve the respective deficits (assuming no rollover of positive effects), the deficit could have been below 1 % of GDP in 2014 and about 0.4 % of GDP in 2016. Likewise, with these positives factored in, gross debt would have been lower by 3.2 % of GDP at the end of 2016. These positive effects were not used to step up consolidation because of the significant risks built into the

³⁵ Reports evaluating compliance with the fiscal responsibility rules and transparency rules for the years 2013 (August 2014) and 2014 (August 2015). The reports are available only in Slovak.

³⁶ The obligation to adopt measures arises when the first and second sanction thresholds are exceeded.



budgets, which the CBR identified and pointed at, and also due to the fact that the government implemented additional measures which these positive effects enabled it to take.

Figure 9: Impact of unexpected effects and other items on the GG balance (% GDP, ESA2010)

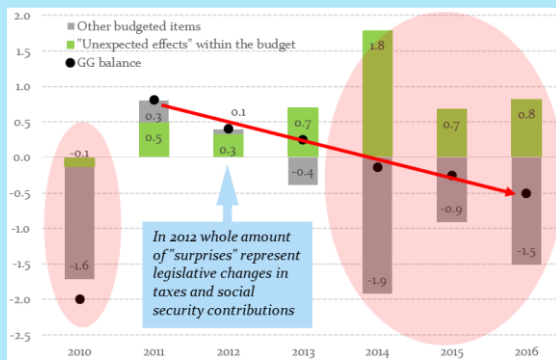


Figure 10: Potential GG balance taking into account unbudgeted effect (% GDP, ESA2010)

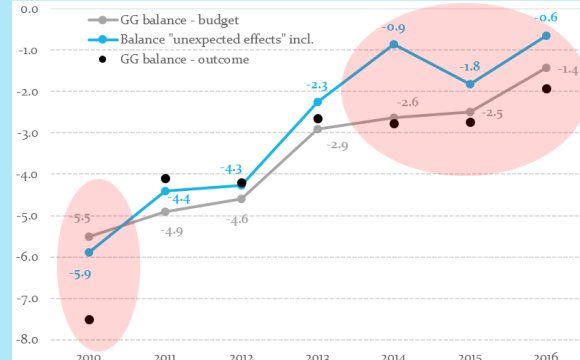


Figure 9: Unexpected effects in the budget represent the difference between the budget and the outcome of budgetary items including: performance of local governments (years 2010-2015, in 2016 change in balance stands for a more realistic estimate of budget), tax revenues and social contributions, cofinancing and induced investment, EU financial corrections (only in 2013, in further years these could be expected), levy to EU budget, interest payments. Legislative changes incorporate those, which were adopted during the year or which had a different impact compared to the budget. Concerning the year 2016, the 2015-2017 GGB (deficit 1.2 % of GDP) is compared to the current 2016-2018 GGBP (1.93 % of GDP). For more details see Annex 14.

Figure 10: In 2010 approved budget was amended, reasoned by unrealistic figures of the initial budget. The balance adjusted for unexpected effects is calculated only in respective year, i.e. unexpected effects in one year are not transferred to the next year.

2.4 Impact of fiscal policy on the economic cycle

Apart from the fiscal performance of the government and its budgetary objectives, also the assumptions concerning the drawing of EU funds are important from the viewpoint of potential impacts on economic growth. These funds originate abroad and, adjusted for Slovakia's transfers to the EU budget, represent a net contribution to the change in domestic demand. In view of the expected consolidation and the presently relaxed monetary policy of the ECB (including the quantitative easing programme), the financing of deficits does not play a significant role in terms of the impact it has on domestic demand (interest rate influence).

Since termination of the second programming period, the uptake of EU funds towards the end of 2015 is expected to culminate (increase by 1.8 % of GDP year-on-year). The drawing of funds will temporarily slacken in the course of 2016 until the contracting of projects funded under the new programming period phases in. In the years to come, the use of EU funds should regain momentum and thus accelerate economic growth. According to the Ministry of Finance's macroeconomic forecast presented to the Macroeconomic Forecasting Committee, the drawing of EU funds will only partially attenuate the need for fiscal policy tightening in 2017 and 2018. Compared with the estimates of the ministry, the CBR assumes a tighter fiscal restriction in 2016, particularly due to the expected considerable decline in the inflow of EU funds.

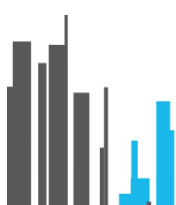


Figure 11: Fiscal impulse in 2014-2018 (% GDP)

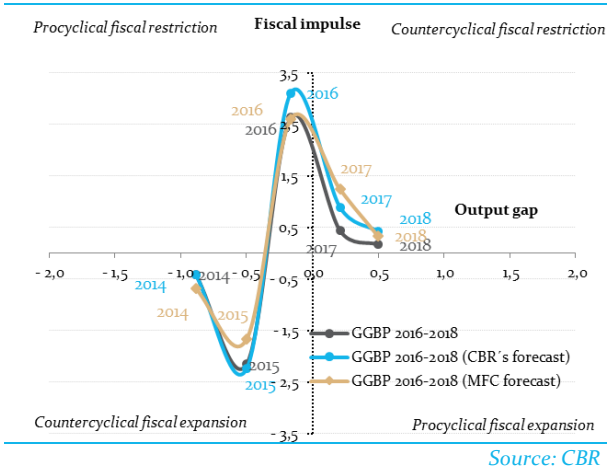
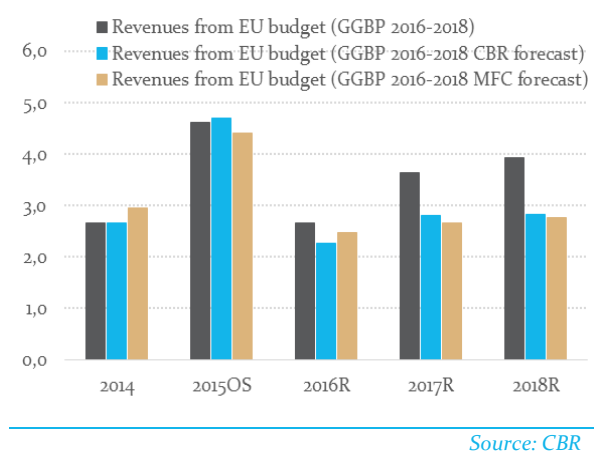


Figure 12: Anticipated drawn of EU funds in GGP (2016-2018) (% GDP)



2.5 Consolidation measures

The budget proposal assumes annual deficit reductions by 0.8 % of GDP, from the estimated 2.74 % of GDP in 2015 to 1.93 % of GDP in 2016. This improvement is mostly attributable to the state budget. The significantly positive contribution of the Social Insurance Agency (which is a part of the social security funds) is mainly attributable to the annual increase³⁷ in transfers from the state budget to cover the deficit of the pay-as-you-go pillar of the pension system. Also in the years to come, the state budget will remain the main contributor to deficit improvements.

Figure 13: Contributions to the y-o-y change in GG balance in 2016 - 2018 (% of GDP)

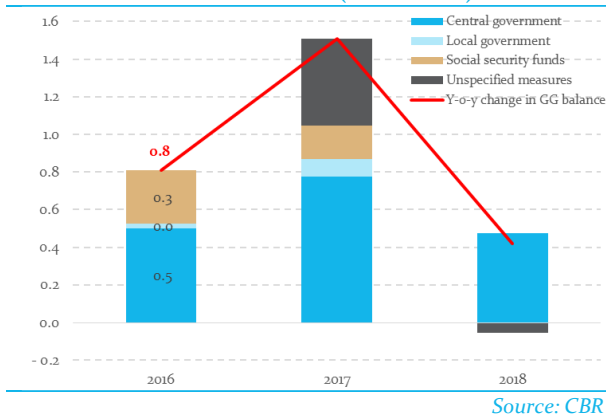
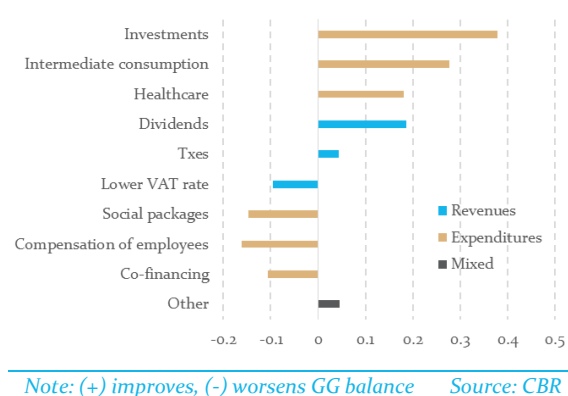


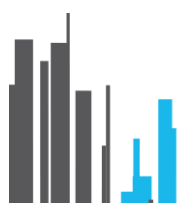
Figure 14: The most important measures in 2016 - budget proposal (% of GDP)



The CBR estimates that the 2016 budget proposal contains measures³⁸ whose aggregate impact represents 0.6 % of GDP compared to the NPC scenario. The negative impact of those measures

³⁷ In 2015, the transfer from the state budget to the Social Insurance Agency was reduced because the Social Insurance Agency received one-off revenues (not classified as revenues under ESA2010) from those who decided to transfer their savings from private pension funds.

³⁸ The measures incorporated in the budget proposal are described in [Draft budgetary plan for 2016](#). It is an analytical document prepared by the Ministry of Finance. Once approved by the government, the document is transmitted to the European Commission which assesses the draft budgets of individual eurozone members.



which the budget proposal explains in detail represents 0.4 % of GDP. On the other hand, the unexplained measures (without sufficient substantiation) are expected to improve the balance by 1 % of GDP (Table 8, more in Annex 3).

Tab 8: Change in GG balance between 2015 and 2016 (ESA2010)

	% of GDP
1. GG balance estimate in 2015	-2.74
2. Adjustments in 2015 (mainly one-offs)	0.21
3. Adjusted GG balance in 2015 (1-2)	-2.95
4. NPC scenario for 2016	0.42
- of which: co-financing	0.00
5. Measures in the GG budget proposal	0.60
Explained measures:	-0.36
- wages	-0.16
- social packages	-0.15
- lower VAT rate	-0.10
- tax revenues and social contributions	0.04
Unexplained measures:	0.96
- dividends	0.19
- healthcare	0.18
- intermediate consumption	0.28
- investments	0.38
- co-financing	-0.11
- other	0.05
6. Budgeted GG balance in 2016 (3+4+5)	-1.93

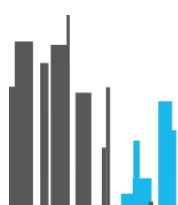
Source: CBR

The measures that are explained in detail concern wages and the so-called ‘social packages’. They include, in particular, **increase in the wages in state administration and in schools** by 4 % in 2016, which is above the anticipated wage increase in the private sector (2.7 %). Wages in the healthcare sector are also set to rise. The other measures concern the government’s **social packages**, such as one-off refunds to households for gas consumption, subsidies for thermal insulation of family houses, or contribution towards the cost of outdoor schooling camps and skiing courses for children (see Annex 3 for the list of measures and their impacts on the budget).

On the revenue side, the government introduces changes in taxes. **The basic VAT rate on selected foodstuffs is reduced (-0.1 % of GDP)** and revenues are expected to increase mainly as a consequence of the opening of the fully-funded pillar of the pension system in 2015 (the impacts of these measures were assessed by the Tax Revenue Forecasting Committee).

The budget proposal does not contain any detailed explanation of the other measures to be adopted compared with the NPC scenario³⁹. On the revenue side, **revenues from dividends** have the most significant impact (**0.2 % GDP**). The budget proposal assumes their level above

³⁹ The risks of the budget proposal identified by the CBR are described in section 2.6.



the level corresponding to the 2015 profits from the ordinary business activities of state corporations.

On the expenditure side, the most significant reductions occur in **investments (0.4 % of GDP) and in intermediate consumption (0.3 % of GDP)**. Compared with the NPC scenario, the steepest decline occurs in capital expenditures (without EU funds and co-financing) of the state budget, followed by the Slovak Railways and National Motorway Company. The cuts in expenditures on goods and services will affect the National Motorway Company (decrease by almost 50 % with the 2015 increase in trade receivables taken into account) and the state budget.

The government is also planning considerable cost reductions in the healthcare sector (0.2 % of GDP) as the insurers' expenditures on health care will rise by 1.1 % in 2016, which is below the long-term average.

2.6 Risks to meeting the medium-term objectives

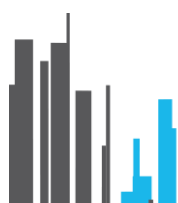
Some of the risks identified for the year 2015 spill over to the next years; these risks have been identified repeatedly in the evaluation of budget proposals for the past two years. In 2016 alone, their negative impact may exceed EUR 700 million. The next group of risks relates to the potentially unprovided-for expenditure measures and the carryover of certain expenditure items into the years beyond the budget horizon. For 2017 and 2018, the negative impact of the inclusion of the budget proposal's consolidation measures into the macroeconomic forecast has also been estimated.

Unlike in the last year's budget proposal, the government has not created any reserve for worse-than-expected economic development and non-attainment of the budgetary objective. One of the identified sources for risk coverage in 2016, which the CBR estimates at no more than EUR 90 million, is a potential reduction in expenditures on co-financing due to the lower uptake of EU funds; however, this may be partly offset by the less favourable macroeconomic development due to the slower drawing of EU funds.

Assuming that all the risks materialise and taking into account the potential savings, the 2016 general government deficit may reach 2.7 % of GDP (without the impact of corrections)⁴⁰ and gross debt may increase to 52.9 % of GDP by the end of 2016⁴¹.

⁴⁰ The European Commission estimates the 2016 general government deficit at 2.4 % of GDP.

⁴¹ For the year 2016, the budget proposal assumes the debt at 52.1 % of GDP. With the deficit higher by 0.8 % of GDP taken into account, the debt would increase to 52.9 % of GDP.



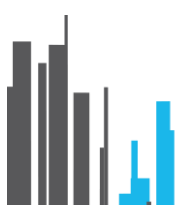
Tab 9: Estimated risks and their coverage in 2016-2018 (EUR million)

Budget risks with impact on the balance	2016	2017	2018	Risk coverage in 2016
1. Overestimated non-tax revenues:	171	154	145	Potential saving in co-financing max. 90
- revenues from SPP and VSE dividends	119	115	117	
- revenues from the sale of CO ₂ allowances	52	39	28	
- revenue from the levy for the operation of Units 3 and 4 of Mochovce nuclear power plant	0	no quantification		
2. Financial corrections to EU funds	no quantification			
3. Underestimated healthcare expenditures	145	245	185	
- expenditures on healthcare provision and the financial performance of hospitals	120	220	160	
- discharge of liabilities payable to the shareholders of private health insurance companies	25	25	25	
4. Underestimated expenditures of local governments	0-100	no quantification		
5. Impact of potential expenditure cuts in 2015 (e.g., carryover of capital expenditures)	no quantification	-	-	
6. Impact of the potential carryover of expenditures originally budgeted for 2015 in connection with PPP project D4/R7	0-287	-	-	
7. Expenditures on the construction of the national football stadium	26	26	-	
8. Accrued cash expenditures in the defence sector	no quantification			
9. Expenditures of the National Nuclear Fund on the decommissioning of nuclear facilities	no quantification			
10. Recapitalisation of the traditionally loss-making state corporations	no quantification			
11. Impact of the worse macroeconomic scenario as a consequence of consolidation	0	202	256	
Risk from the net worth perspective without impact on the balance				
1. Impairment in the value of government assets due to restriction on capital expenditures	no quantification			
2. Use of the assets accrued from the levy paid by financial institutions to finance current expenditures, occurrence of new contingent liabilities	no quantification			

Source: CBR

The budget proposal **overestimates certain non-tax revenues, which poses a negative risk of EUR 171 million in 2016**. They specifically include:

- Expected **revenues from SPP** (Slovak Gas Company) **and VSE** (electricity distributor in eastern Slovakia). In the CBR's opinion, these revenue items are budgeted based on optimistic profit assumptions for both companies. If the 2015 dividends due from the profit from the ordinary activities of both companies (and their subsidiaries) is taken



into account, the **risk reaches almost EUR 120 million per year**. The annual increase in profitability, which the budget proposal implicitly counts on, is not explained.

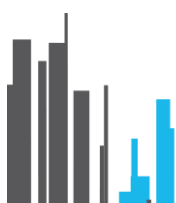
- Budgeted revenue from the **sale of CO₂ allowances** reaches EUR 116 million a year. The budget proposal does not reflect the new ESA2010 methodology for the recording of revenues from the sale of CO₂ allowances. Therefore, based on the CBR assumptions (Annex 2), the **negative risk represents EUR 30-50 million annually**.
- In 2017 and 2018, Units 3 and 4 of the Mochovce nuclear power plant are expected to be put in operation. The budget proposal assumes revenues from the levy payable by the operator (EUR 11 million in 2017 and EUR 28 million in 2018). Given the need to increase the funding for the completion of both units (presented in the media) and because of the ongoing sale of the shares of Slovenské elektrárne (Slovak Electricity Company), the commissioning of both units may be postponed, which will also **defer the planned revenue**.

The **financial corrections payable for irregularities in the implementation of EU funds** represent another potential risk. Since the negotiations between the European Commission and Slovak government on the conditions under which the suspended payments from EU funds will be released are still underway, it is impossible at this point to estimate their potential impact and the time at which they will negatively affect the deficit. At the same time, the need to draw large amounts of EU funds in a relatively short time-span (until the end of 2015) may give rise to potential financial corrections in the future.

The budget proposal assumes that the **expenditures of health insurance companies on healthcare provision** in 2016 will increase by 1.1% year-on-year, while the financial performance of hospitals will remain unchanged. Although the budgeted expenditures are more or less in line with the anticipated growth in revenues, they are below the long-term average expenditure growth rate in the sector. The CBR is of the view that, without the adoption of vigorous and clearly defined measures, such a scenario **represents a risk of EUR 120 million in 2016** (compared with the budget proposal) **which will increase in the following years** (see Annex 2 for the risk calculation). These negative risks may increase the expenditures of health insurance companies or, if health insurance companies stick to their budgeted means, negatively affect the budgets of hospitals.

The budget proposal foresees the payout of **retained profits of private health insurance companies** at EUR 26 million annually, which represents the already known expenditure on the instalments of a loan taken in the past by Dôvera (health insurance company) to discharge its liabilities towards the company's shareholders. The retained profits of this particular insurance company represent approximately EUR 200 million (at the end of 2014), which may lead to further payouts in 2016 to 2018. The CBR estimates the additional risk at **EUR 25 million annually**.

In the case of **local governments**, the budget proposal assumes relatively high surpluses attributable to the significant annual increase in local government revenues from taxes, assuming that their operating expenditures remain limited (mainly for municipalities) and the capital expenditures financed from their budgets remain low. If we take into account how their operating expenditures developed in the past, reflect the faster increase in capital expenditures (which have been low on a long-term basis) and estimate the risk for the whole of 2015 based on



how local government expenditures developed in the first half of 2015, the **fiscal performance of local governments in 2016 may be EUR 100 million worse** than what the budget expects.

Under the General Government Budgetary Rules Act, unspent **capital expenditure items may be carried over to the next year**. If the impact on the 2015 deficit is positive (i.e., unspent expenditures carried over to 2016 are higher than those carried over to 2015), the risk of their spending in the following years increases. Hence the potential risk for 2016 depends on the actual result for the year 2015.

The 2015 expenditures connected with the preparation of the **PPP project D4/R7** motorway were estimated⁴² at EUR 387 million. According to the information provided by the Ministry of Transport, the amount of the expenditures incurred in 2015 will reach EUR 100 million. Since the 2016 budget does not have a line covering the difference, the **potential risk may represent EUR 287 million**.

The government has announced a plan to build a **national football stadium** by the end of 2017 (funded from the state budget). The cost is estimated at EUR 68 million which, taking into account the expenditure contained in the budget proposal, represents a **risk of budget overrun by EUR 26 million annually, i.e., both in 2016 and 2017**.

In 2014 and 2015, the **Ministry of Defence** signed agreements on the purchase of multi-purpose helicopters and transport aircrafts. Since these procurement transactions are classified, the CBR does not have the information necessary to assess the potential risks associated with them.

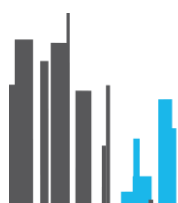
Each year, the budget contains a line for the expenditures of the National Nuclear Fund on the decommissioning of nuclear facilities, but the amount earmarked in the budget proposal is lower than that foreseen by the recently approved long-term strategy⁴³. The decline, reaching EUR 26-40 million annually, has not been explained by the ineffectiveness of these expenditures. This means that they have been shifted to the following years, most likely behind the horizon of the present budget.

Some companies **fully controlled by the state** (for example, *Slovenský vodohospodársky podnik, Bratislava Airport, Hydromeliorácie*) have made losses constantly since 2010 and even their business plans until 2018 do not foresee any change in this trend. Such a situation is not sustainable in the long run. If the state wants to keep them afloat, they will have to be recapitalised in the future. This is a long-term risk which will not necessarily materialise during the 2016-2018 period.

The **macroeconomic forecast**, on which the budget proposal is based, does not contain the impacts of fiscal consolidation in 2017 and 2018. If these impacts were included, the economic growth and other indicators would be less favourable, which would translate into lower tax

⁴² Information from the 'impact clause' contained in a document approved by the government. The MF SR has not provided information about the expenditures included in its estimate of the 2015 general government balance. The 2015 budget does not contain any expenditure item connected with this PPP project.

⁴³ The "National Programme for the Disposal of Spent Nuclear Fuel and Radioactive Waste in the Slovak Republic", approved by the government on 8 July 2015 (available only in Slovak), contains a long-term projection of expenditures connected with the decommissioning of the existing and planned nuclear facilities.



revenues. **The CBR estimates the shortfall in tax revenues⁴⁴ at EUR 202-256 million in 2017 and 2018.**

The **unrealised expenditure on the co-financing of EU-funded projects, which the CBR estimates at EUR 90 million**, represents a potential source of for the coverage of risks. This is due to the fact that the budget proposal expects that the start-up curve in the drawing of EU funds under the new programming period will be much steeper than it was in the previous programming period. This assumption is partly substantiated by the experience gained so far, as well as by the implementation of certain infrastructure projects which have been divided into two phases and are funded from both programming periods. On the other hand, the strain which the closure of the current programming period (end of 2015) puts on the administrative capacities has pushed back the preparation and publication of calls for project proposals under the new programming period. For this reason, the CBR expects that the start-up curve in the drawing of EU funds will be less steeper than what the budget proposal assumes. The failure to draw EU funds undermines the potential for economic growth and has adverse budgetary impacts (for example, lower revenue from taxes). This risk is reflected in the macroeconomic forecasts of the budget proposal only partially⁴⁵.

Certain risks from the net worth perspective

The budget proposal contains items which improve the deficit at present, but may be linked to higher expenditures in the future. A long-term view through the prism of net worth can identify such items.

The general government expenditures budgeted for 2016 suggest a year-on-year decrease in **investments** (excluding EU funds and co-financing) by 23 % and, if the optimistic assumptions concerning the absorption of EU funds are not met, the decrease may be even more substantial. Additional cuts in capital expenditures (e.g., lower absorption of EU funds) or the sale of assets might not necessarily make up for a sustainable strategy in the long term. Effective public investments increase the capital stock and underpin long-term economic growth. Their reduction has the opposite effect.

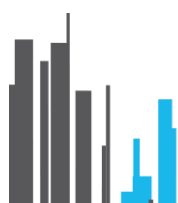
The net worth approach offers a different view on revenues from the **special levy payable by selected financial institutions**. If we assume that these funds should be used to cover the future risks in the financial sector, the levies set in an actuarially fair manner have a zero impact on the net worth, even though they improve the current balance of public finances⁴⁶.

Also other net worth components are affected by public finances, such as the environmental debt or natural wealth. Due to the absence of data and methodology for their quantification, the CBR's evaluation does not include these components.

⁴⁴ The calculation also reflects the denominator effect, i.e. maintaining the same deficit-to-GDP ratio at a lower GDP level will also require a lower deficit.

⁴⁵ The macroeconomic forecast for 2016 foresees the drawing of EU funds slightly below the assumption contained in budget proposal (93 % of what the budget proposal assumes), whereas the CBR expect the drawing at 85 % of the budget proposal level.

⁴⁶ One side records the assets, the other records the potential liability if the funds need to be used in the future. At present, there is no clear quantification of potential risks in the financial sector available. What is also unclear is whether the liability is contingent or implicit.



2.7 General government debt

The budget proposal assumes, subject to meeting the budgetary objectives, a gradual decrease in gross debt from 53.6 % of GDP in 2014 to 48.9 % of GDP in 2018. In the medium term, the debt should decrease by 4.7 % of GDP. The forecast does not reflect the actual development of certain items (development of the EFSF debt and unfavourable exchange rate of the euro to the currencies in which the debt is denominated), which may reduce the debt level by 0.1 % of GDP annually from 2015 onward (see Annex 4 for more). On the other hand, the inclusion of the expected consolidation into the economic forecast would increase the debt in 2017 and 2018 by 0.3 % of GDP (denominator effect). With these effects taken into account, gross debt would reach 49.2 % of GDP at the end of 2018.

The revision of the nominal GDP and debt level in the October notification by Eurostat represents a positive risk of the forecast⁴⁷. The revision has reduced the debt-to-GDP ratio in 2014 by 0.1 % of GDP⁴⁸ which, once incorporated into the macroeconomic forecasts, will probably affect also the years to come.

In addition to the risks associated with the meeting of budgetary objectives, the **high healthcare sector debt represents a major negative risk for the development of debt⁴⁹.** According to the budget proposal, healthcare providers will continue to run deficits also in 2015 and 2016; and it does not contain any specific measures to reverse this trend. This increases the risk of their potential bailouts in the medium term quite significantly.

Figure 15: Debt development under the CBR's NPC scenario (% of GDP)

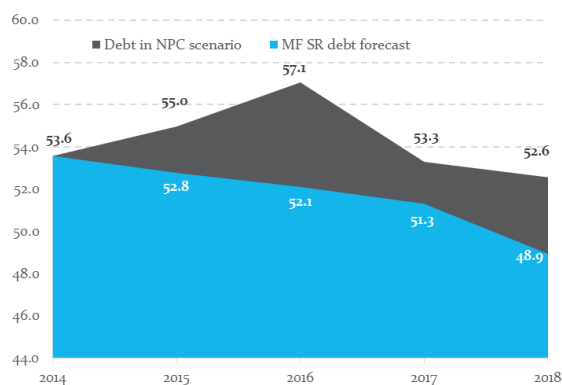
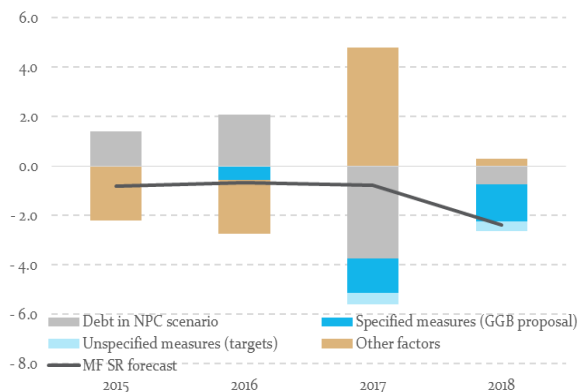


Figure 16: Contributions to change in debt - MF SR forecast (perc. points)



⁴⁷ In 2014, the increase in nominal GDP had a positive impact on the gross debt-to-GDP ratio (denominator effect) in the amount of 0.2 % of GDP, which was partly offset by the increase on debt by about 0.1 % of GDP.

⁴⁸ The CBR, similarly as the budget proposal, uses the unrevised 2014 debt amount in its further calculations.

⁴⁹ The overdue liabilities of the healthcare providers falling under the responsibility of the Ministry of Health reached EUR 334 million at the end of 2014 (0.4 % of GDP) and, in the past three years, increased at an average rate of EUR 90 million annually (0.1 % of GDP). Even though hospitals are classified within the general government sector, their liabilities do not affect the Maastricht gross debt limit.

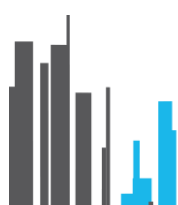


Figure 15: Debt development in the NPC scenario depends on the general government balance in the NPC scenario and on the assumption of cash reserve covering liabilities (redemption of government bonds, treasury bills and loans, and financing the state budget deficit) in the following 4 months. The steep growth of gross debt at the end of 2016 reflects also the need to hold higher cash reserve (compared to the debt forecast) to cover liabilities in the first 4 months of 2017. Level of the cash reserve significantly decreases at the end of the following years (2017, 2018).

Figure 16: Figure shows the contributions to a year-on-year change in debt in the MF SR's forecast. In 2017, significant decline in debt in the NPC scenario due to lower need of cash reserve is compensated with a slight y-o-y decline of cash reserve in the MFSR's forecast due to its low level already in 2016.

Source: MFSR, CBR

If no new measures were adopted after 2015, the gross debt would initially increase to 57.1 % of GDP in 2016 and then decline gradually to 52.6 % of GDP at the end of 2018. In comparison with the budget proposal, the debt would be higher by 3.6 % of GDP. The debt decline is mostly attributable to the measures incorporated into the 2016-2018 GGB proposal (cumulative impact of 3.5 % of GDP). The contribution of the hitherto unspecified measures to the debt decrease represents 0.9 % of GDP. The other factors, such as change in financial assets and differences between cash-based and accrual flows⁵⁰ will increase the debt in the medium term by 0.7 % of GDP.

In comparison with the approved budget for 2015-2017, the debt forecast in 2015 declined quite significantly (Figure 17), which is due to the lower cash-reserve assumption. In the next years, the forecast is approximately the same. The relaxation of the 2016 budgetary target is compensated for by a lower cash reserve at the end of 2016.

Figure 17: Change in GG gross debt forecast (% of GDP)

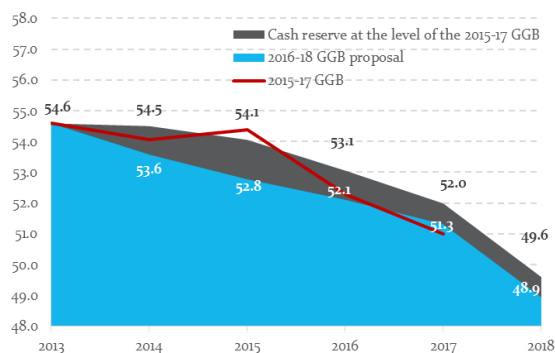


Figure 18: Y-o-y change in debt (% of GDP)

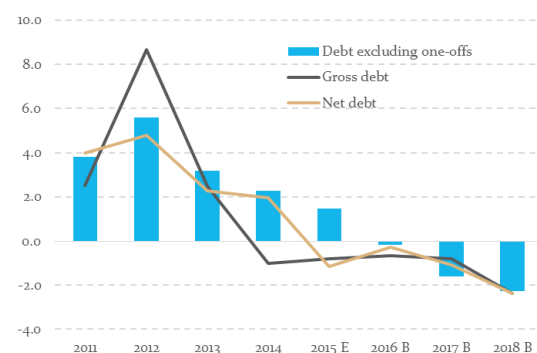
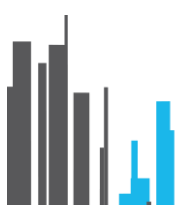


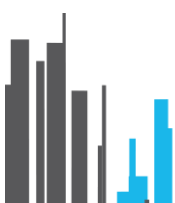
Figure 18: The estimated change in debt excluding one-offs does not take into account the impact on interest payments (higher level of debt in one year compared to the outcomes would lead also to increase in interest payments).

Source: MFSR, CBR

⁵⁰ While general government deficit is expressed in accrual methodology, gross debt is defined in cash-based methodology. From the perspective of debt development, cash flows in public finances are therefore of key importance. The differences between the cash-based and accrual flows thus explain the different debt development in a given year in comparison with the amount of deficit.



The gross debt-to-GDP ratio began to decline after 2013, however, the decline is largely attributable to one-off measures adopted by the government, which do not improve the net worth of Slovakia's public finances. This includes, for example, the one-off reduction in the accumulated cash reserve, receipts from privatisation, income from private pension funds, and dividends from state corporations above their ordinary profits (Annex 6). With these non-recurring factors taken into account, the debt would have increased by 2.3 % of GDP in 2014 and by 1.5 % of GDP in 2015. **The moderate debt decline should become sustainable from 2016 onward as a consequence of the planned deficit reduction and economic growth acceleration.**



3. Evaluation of the budget in terms of fiscal rules

The general government budget should respect the national fiscal rules, as well as those applicable to Slovakia as a eurozone member. The most important national legislation includes the **Fiscal Responsibility Act** and the **balanced budget rule** which implements the international Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. At the EU level, compliance with the requirements of the Stability and Growth Pact and the related regulations is of particular importance.

The constitutional Fiscal Responsibility Act contains a **rule on the development of the gross debt-to-GDP ratio** and defines the sanctions to be invoked when specified thresholds are exceeded. According to the statistical data in the autumn notification of Eurostat released on 21 October 2015, **Slovakia's gross general government debt in 2014 reached 53.5 % of GDP** and remained within the **second sanction zone**⁵¹.

If the present forecast for 2015 proves to be correct (52.8 % of GDP), the debt will land in the first sanction zone⁵². The debt trajectory presented in the budget proposal expects that the debt-to-GDP ratio will decline gradually and fall just below the first sanction threshold in 2018 (debt at 48.9 % of GDP). However, the budget proposal does not contain all the measures necessary to meet the budgetary objectives. Moreover, if the assumption of meeting these objectives are incorporated into the economic forecast, while taking into account the latest information on debt development as well, the CBR estimates the gross debt at the end of 2018 at 49.2 % of GDP⁵³. Bringing the debt below 49 % of GDP would require tightening of budgetary objectives in 2017 and 2018 (cumulatively at least by 0.3 % of GDP) or reduction in the planned cash reserve of the state.

In terms of compliance with the requirements of the Fiscal Responsibility Act, the CBR concludes that the government has not introduced sufficient measures to steer the debt outside the sanction zones⁵⁴.

The rule whereby those local governments which exceed the debt limit will be penalised⁵⁵ **entered into force in 2015** (compliance with this rule will be evaluated for the first time in the course of 2016 based on the actual data from the end of 2015⁵⁶). **This rule is more**

⁵¹ Gross debt over 53 % of GDP and below 55 % of GDP. The sanctions applicable when the second debt threshold is exceeded obligate the government to submit to the parliament a proposal for measures designed to reduce the debt and reduce the salaries of cabinet members to their previous year's level. The 2015-2017 GGB assumed that the 2015 salaries of cabinet members are frozen at their 2014 level.

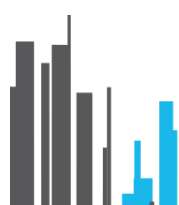
⁵² The Ministry of Finance is obliged to send to the parliament a written justification of the debt level including the measures proposed to reduce it.

⁵³ Section 2.7 lists the risks associated with the debt forecast (revision of data on nominal GDP in October 2015 is a positive risk, while the rising debt in the healthcare sector is a negative risk).

⁵⁴ According to the debt-brake rules, if the threshold of 55 % of GDP is exceeded, the more stringent sanctions will be temporarily deactivated for a period of 24 month from the parliamentary vote of confidence in the new government and its manifesto (Article 12(9) of the Fiscal Responsibility Act).

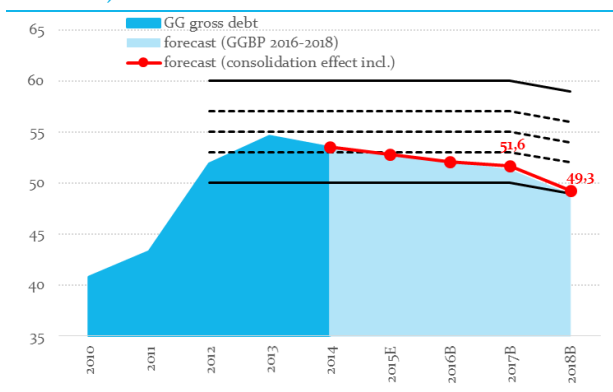
⁵⁵ If the total amount of debt of a municipality or self-governing region reaches or exceeds 60 % of its actual current revenues in the previous fiscal year, the municipality or self-governing region concerned shall pay a penalty imposed by the Ministry of Finance amounting to 5 % of the difference between the total debt amount and 60 % of its actual current revenues in the previous fiscal year.

⁵⁶ The evaluation will be a part on the CBR's report on compliance with the fiscal responsibility and transparency rules published each year by the end of August.



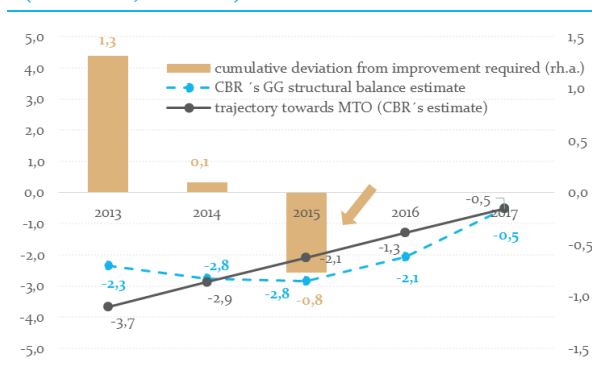
stringent than the debt limit for general government (with the same upper threshold of 60 %) because it is assessed in proportion to local governments' current revenues rather than to their economic performance.

Figure 19: GG gross debt in 2010-2018 (ESA2010, % GDP)



Source: Eurostat, MF SR, CBR

Figure 20: GG structural balance in 2013-2017 (ESA2010, % GDP)



Source: CBR methodology

Another important domestic rule is the **balanced budget rule** according to which Slovakia should be moving towards a balanced budget in the medium term (the objective is to achieve structural deficit of 0.5 % of GDP by 2017). The Ministry of Finance and CBR evaluate compliance with this rule on the basis of actual data. In its report from July 2015⁵⁷ the CBR stated that although a deviation from the adjustment path occurred in 2014, it was not evaluated as significant⁵⁸. Since the 2015 objective will most likely not be achieved⁵⁹, the latest CBR calculation show that the risk of the **deviation from the path towards a balanced budget becoming significant** has increased⁶⁰. The ensuing activation of **corrective mechanisms** should ensure the return to the adjustment path towards meeting the medium-term objective.

According to the **preventive arm of the Stability and Growth Pact**, Slovakia should be moving towards its medium-term budgetary objective and attain it in 2017. According to the Ministry of Finance, the government's budgetary objectives and the ensuing consolidation are more ambitious than the level of consolidation required under the EU fiscal rules⁶¹. The 2016-2018 budget proposal assumes gradual fiscal policy tightening; the consolidation planned for 2016 represents 0.8 % of GDP and, in 2017, with fiscal restriction reaching 1.3 % of GDP, the medium-term objective expected to be achieved. The CBR does not quantify the change in structural balance according to the methodology defined by the European Commission and it therefore does not evaluate the budget proposal's objectives in terms of compliance with the rules of the Stability and Growth Pact.

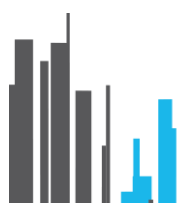
⁵⁷ Evaluation on compliance with the balanced budget rule in 2014, CBR report of July 2015.

⁵⁸ The deviation is evaluated on a cumulative basis; classified as 'significant' is a deviation of at least 0.5 % of GDP from the level of structural balance calculated on the basis of its required annual improvement.

⁵⁹ The present estimate of the Ministry of Finance stands at 2.74 % of GDP.

⁶⁰ At a deficit of 2.74 % of GDP, the one-off effects under definition of the Ministry of Finance (without dividends, revenues from the ŠFRB and EU, with EU financial corrections assigned to relevant time periods) and the cyclical component of the Ministry of Finance, the 2015 deviation will oscillate around the 'significant deviation borderline'.

⁶¹ The compliance of budgetary objectives with the EU fiscal rules is evaluated by the European Commission.



4. Fiscal transparency rules

The preparation of the budget, as well as the approved documents, should respect the transparency rules defined in the Fiscal Responsibility Act. The Act requires independent assessment of macroeconomic assumptions and the tax revenue forecast as a prerequisite for making the fiscal framework realistic. The requirements concerning the publication of data are there to ensure better information about the overall situation in the budget and the policies that are being implemented.

The Macroeconomic Forecasting Committee and the Tax Revenue Forecasting Committee are responsible for ensuring that the macroeconomic and tax revenue assumptions are realistic. The two committees operate independently. **In 2015, the committees held three sessions and published their forecasts in compliance with the constitutional Act.**

Tab 10: Draw up of the macroeconomic and tax forecasts by the Committee in 2015

		1. Mandatory term till 15.2.	2. Mandatory term till 30.6.	3.
Macroeconomic Forecasting Committee	session of the MFC	29.1.2015	15.6.2015	16.9.2015
	release of the forecast	3.2.2015	17.6.2015	21.9.2015
Tax Revenue Forecasting Committee	session of the TRFC	10.2.2015	23.6.2015	23.9.2015
	release of the forecast	13.2.2015	26.6.2015	1.10.2015

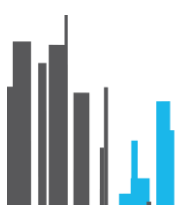
Source: MF SR

The General Government Budget Proposal for 2016-2018 **formally contains** all the data defined in the constitutional Act⁶²; however, in terms of content, **the information presented was not sufficiently explained and justified, which makes the evaluation and identification of potential risks more difficult**⁶³.

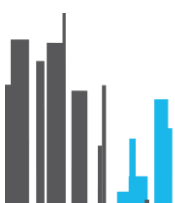
The budget proposal contains a number of changes. The document provides information on the **latest estimate of the general government deficit for 2015**. The differences between the actual estimates and approved budgetary items are summarised in an attached table and also briefly described. However, a better understanding and evaluation of the 2015 development in public finances requires additional information. **In addition to the existing implicit liabilities**, the document also contains estimated impacts of the planned PPP projects (motorway bypass D4 and the R7 motorway, university hospital in Bratislava). The table of contingent liabilities monitors their situation at the end of 2014 and the text part of the document provides information also on the **new liabilities which arose in the course of 2015** (lawsuit by *Slovenské elektrárne*). The risks associated with the performance of **state corporations and companies in the portfolio of the National Property Fund** cannot be evaluated because of the absence of information on their profit/loss and a brief commentary as well. The explanation of the measures proposed to meet the budgetary objectives is insufficient. In the case of local governments, the document incorporates the assumptions for their unbudgeted revenues and expenditures. However, **unbudgeted revenues and expenditures**

⁶² See Annex 10 for more on the data.

⁶³ The CBR requested access to the data and answers to additional questions. The ministry accommodated the request and certain topics were discussed in depth.



of other entities (for example extrabudgetary accounts of central government, public universities, contributory organisations of the state budget) complicate the comparability of data (budget vs outcome) and make the interpretation of government measures more difficult.



5. Impact on the long-term sustainability of public finances

The long-term sustainability of public finances is affected by the development of **the general government balance, existing debt and future liabilities**⁶⁴, in particular those under the influence of population ageing.

The CBR evaluates long-term sustainability twice a year. In spring, the Report on the Long-term Sustainability of Public Finances provides a detailed long-term sustainability quantification based on the actual fiscal performance and adopted measures **for the previous year**. In autumn, as part of the evaluation of the budget proposal, the expected impact on the **upcoming year** is stated in a qualitative manner, taking into account the targets and measures proposed.

In its April sustainability report the CBR **evaluated the year 2014 negatively, particularly due to worse fiscal performance of the government** which also impaired the long-term sustainability of public finances.

On the other hand, in its last year's evaluation of the 2015 budget proposal the CBR expected improved fiscal performance which would at least partly offset the 2014 intermission in consolidation. **However, the budgetary objective for 2015 is not being met.** In addition, in the category of long-term expenditures, the government introduced (in 2015) the **concept of minimum pension** designed to increase the old-age pensions for those who have worked 30+ years and whose pension is low⁶⁵. Since the measure increases the pension system expenditures without increasing its revenues, it is expected to have a slightly negative impact on the long-term sustainability of public finances. Based on the above, **the long-term sustainability is expected to worsen also in 2015.** The CBR will publish a detailed quantification in its Sustainability Report in April 2016.

Tab 11: Budgetary objectives affecting long-term sustainability (% GDP, ESA2010)

	2013	2014	2015	2016	2017	2018
Structural primary balance*	0,0	-0,3	-0,6	0,0	1,5	1,9
General government gross debt	54,6	53,6	52,8	52,1	51,3	48,9

*EC methodology adjusted for items not affecting long-term sustainability

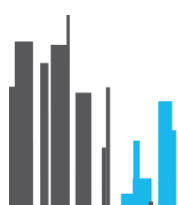
Source: CBR

In 2016, the general government's fiscal performance should improve the long-term sustainability of public finances. This will mainly be due to the structural primary deficit which should decline **from -0.6 % of GDP in 2015 to 0 % in 2016**. The decline in public debt to **52.1 % of GDP in 2016** will also improve long-term sustainability, although its contribution will be less significant. In addition to the existing implicit liabilities, the budget proposal for 2016 also contains estimated impacts of two planned PPP projects⁶⁶. If recorded outside the general

⁶⁴ Mainly through increased expenditures on pensions and health care.

⁶⁵ The minimum old-age pension for those who had paid pension insurance for 30 years is set at 136 % of the subsistence minimum. For each additional year of the pension insurance, it increases by 2 p.p. and, if the insurance period exceeded 39 years, by 3 p.p.

⁶⁶ The D4 motorway bypass, the R7 Motorway, and the University Hospital of Bratislava.

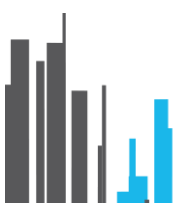


government balance, these liabilities will not, in the medium term, affect the deficit and debt⁶⁷, yet they do imply future payments from public finances. The implementation of the newly planned PPP projects will therefore have a slightly negative impact on the long-term sustainability⁶⁸.

Provided that the budgetary objectives are met, the **long-term sustainability will improve in 2016**, mainly due to the improved fiscal performance of general government. Thus, after two years of relaxed fiscal discipline, the sustainability of public finances should regain the 2013 level.

⁶⁷ The first availability payment from the state budget is expected only in 2019.

⁶⁸ The impact on implicit liabilities would be similar if the government directly financed these projects, as the expenditures related to investment and operation of PPP projects have not been included in the budget proposal yet. The main difference would stem from distribution of expenditures over time. In case of direct financing, the majority of expenditures would be spent at the construction phase, i.e. at the beginning of the project. On the other hand, realisation of a PPP project recorded outside the general government accounts would spread the payments related to the investment costs throughout the whole duration of the contract, i.e. over several decades.



Annex 1 – Risks to general government balance in 2015

Beyond the scope of the most recent estimate by the Ministry of Finance which expects the general government deficit to reach 2.74 % of GDP in 2015, the CBR has identified the following risks.

Even though the ministry has incorporated the anticipated higher **expenditures of the local governments** into the deficit, the ultimate negative impact may be even higher. In the ministry's most recent update, the wage costs are underestimated and a low level of capital expenditure financed from own resources is assumed (roughly at 50 % of the levels seen before the crisis), as also confirmed⁶⁹ by the development of these expenditures in the first half of 2015. The tax revenues of local governments are rising by more than 9 % year-on-year, thus representing an additional source of funding for the said expenditures without the need to increase the total debt of local governments. **The additional negative impact may reach EUR 100 million.**

The situation is similar in the health care sector where there is a risk of expenditures exceeding the ministry's estimate. The Ministry of Finance expects a slightly slower pace in the growth of healthcare expenditure in comparison with the average expenditure growth seen between 2009 and 2014 (3.5 % a year). If the currently estimated level of expenditure is preserved, this would probably have, based on previous experience, a negative impact on the debt of healthcare facilities in that it would increase more in comparison with the ministry's estimate. At the same time, when compared to previous years, the Ministry of Finance expects a lower payout of retained profits of the private health insurance companies. **The additional risk in the health sector represents EUR 50 million.**

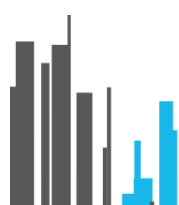
The government-approved⁷⁰ draft PPP project for the construction of a motorway bypass in Bratislava is likely to produce significant negative impacts. In the first phase, involving preparatory works and the purchase of land by the government, the expenditures were estimated to reach EUR 387 million⁷¹ in 2015. According to information provided by the Ministry of Transport, Construction and Regional Development, the expenditures should reach some EUR 100 million in 2015. Because the budget proposal does not contain any information about the portion of expenditures included in the estimate of the balance for 2015 and also because the Ministry of Finance did not provide any additional information requested by the CBR, **the risk is estimated by the CBR in the amount of up to EUR 100 million⁷²** due to the fact that no expenditures are envisaged in the 2015 budget. At the same time, lower expenditure in 2015 means that the risk will be carried over to 2016.

⁶⁹ In the first half of 2015, the wage costs of municipalities (less EU funds and co-financing) rose by 5.6 % and capital expenditures by 2.2 %. In its estimate for 2015, the Ministry of Finance expects an increase in wage costs by 2.4 % and a decline in own capital expenditures by 16.2 %. In the first half of the year, the wage costs of self-governing regions rose by 3.3 % year-on-year, whereas the ministry expects a decline by 2.3 % for the whole year.

⁷⁰ Government Resolution No. 39/2015 of 21 January 2015 (available only in Slovak).

⁷¹ Information from the impact clause to the government approved document

⁷² In case this amount is included in the balance estimate for 2015, the risk is zero. If such expenditure is not included in the estimate, the risk is amounting to EUR 100 million.



Likewise, the negative impact of **financial corrections related to irregularities in the drawing of EU funds** may be higher than expected. The current estimate already contains the corrections that are already known; to date, however, there are still three operational programmes with suspended drawing of funds. The lifting of the suspension may require corrections. Apart from their amount, what remains uncertain is also the year in which they increase the deficit. This depends on when the blocked payments are released, as well as which period a particular correction relates to.

The **estimate of revenues from the sale of emission allowances** will not be met. The budget envisaged an average price of EUR 10.5 per tonne of CO₂, whereas the average price during the period of less than ten months of this year was EUR 7.45. At the same time, the methodology of recording these revenues in national accounts has been changed in that instead of using the quantity of emission allowances sold, the actual consumption in a given year, valued at a price reflecting its past developments⁷³, will be taken into account (in previous years, the price was lower than today). **The shortfall in these revenues is estimated by the CBR at EUR 68 million.**

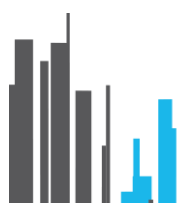
A part of estimated revenue from the SPP and VSE dividends also constitutes a risk. In 2015, both companies expect to be paying out dividends; however, their amount is also affected by extraordinary profits of their subsidiaries. The recording of these revenues under the ESA2010 methodology is not clear⁷⁴. Because these dividends are not based on the companies' ordinary activities, the **CBR estimates a negative risk of up to EUR 180 million.**

Another category of risks is associated with **disputed transactions, the final impact of which will be known after their assessment by Eurostat.** This involves, in particular, the following:

- The Ministry of Finance considers increasing the **registered capital of the SEPS transmission grid operator**, with the company's full profit being simultaneously paid out in dividends (EUR 66 million), in which case it considers the EUR 23 million increase in registered capital to be a financial transaction with no impact on the balance. The overall positive impact on the balance would therefore be EUR 66 million. From an economic perspective, this would be the same as if a lower amount has been paid out in dividends (EUR 43 million) without the need for an additional increase in the registered capital; according to CBR, the impacts under the ESA2010 methodology should be the same in both cases as well. **For this reason, the risk is quantified at EUR 23 million.**
- The Ministry of Finance expects a positive impact on the balance at EUR 88 million from the use of EU funds towards a credit programme for the renovation of apartment buildings implemented by the State Fund for Housing Development. In the CBR's opinion, this would run counter to the general principle applied under ESA2010, according to which the impact of such funds on the balance should be neutral. This **neutral impact, if recorded, would worsen the balance by EUR 88 million against the ministry's estimate.**

⁷³ The method for calculating the shortfall in revenues from the sale of emission allowances, including the CBR's assumptions, is discussed in Annex 2.

⁷⁴ The method of recording extraordinary dividends, which has been used so far, does not take into account the source of subsidiaries' profit (i.e., profit from ordinary activities or from an extraordinary source), which means that, if leaving this method unchanged, there would be no shortfall in revenues in comparison with the ministry's estimate.



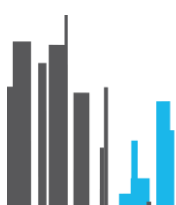
- In June 2015, the Constitutional Court overturned the decision concerning a penalty of EUR 45 million imposed on construction companies for engaging in a cartel agreement and referred the case back to the Supreme Court of the Slovak Republic. In 2014, a positive impact of EUR 45 million on the balance has been recorded. The ministry does not envisage, in its estimate for 2015, any negative impact on the balance, which therefore implies a risk quantified at the above amount. At present, the year in which this negative impact should be recorded is not clear.

The risks may also be covered by **additional savings in government spending**, such as through higher transfers of capital expenditures to the following years or by postponing the implementation of certain operating expenditures to the next year. However, these savings would **not be of a permanent nature**, which increases the risk of overrunning the expenditures in the subsequent years.

The table below contains a summary of risks for 2015, as identified by the CBR during the individual budget evaluation phases (approval of the budget in December 2014, estimate of the balance in May 2015 and the current estimate). The impacts use the approved 2015 budget as a baseline.

Tab 12: Overview of budgetary risks and reserves for 2015 (€ million)

Budget risks with impact on balance	December 2014	May 2015	November 2015
1. Overestimated nontax revenues:			
- revenue from SPP and VSE dividends	169	189	29 – 209 (MF SR estimates 29)
- revenue from the sale of CO ₂ allowances	52	39	68
2. Corrections to EU funds	no quantification	111 (the MF SR estimate)	min. 235 (the MF SR estimate)
3. Underestimated health care expenditures	50	106-249	234-284 (MF SR estimates 234)
4. Underestimated expenditures of local governments, mainly investments	132-232	132-232	296-396 (MF SR estimates 296)
5. Impact of potential expenditure savings in 2014 (for example, carry-over of capital expenditures)	no quantification	no quantification	no quantification
6. Additional measures adopted after the approval of the 2015-2017 general government budget:			
- expenditures related to a PPP project for the D4/R7 motorway	-	387 (estimate in the impact clause)	0-100 (the remaining amount, i.e., 287, is carried over to risks in 2016)
- purchase of the accounts payable by Váhostav	-		0 (the MF SR estimate)
- expenditure on helicopters	-	no quantification	no quantification
- expenditure on the construction of the national football stadium	-		-9 (the MF SR estimate)*
7. Increase in the registered capital of SEPS	-	-	0-23
8. Recording of the cancelled penalty for a cartel agreement in the construction sector	-	-	0-45 (MF SR estimates 0)
Coverage of risks			



1. Savings in co-financing	190	max. 200	47 (the MF SR estimate)
2. Reserve for macroeconomic development	156	156	156
3. Revenue from cancelled bearer deposits	-	26	26 (the MF SR estimate)
4. Better tax collection, unspent reserve	-	max. 123	416 (TRFC)
5. Additional ŠFRB revenues from EU funds	-	0	0 - 88

Risks from a net-worth perspective without impact on budget balance

1. Reduced value of general government assets due to reduced capital expenditures	no quantification	no quantification	no quantification
2. Use of the revenue from bank levy to finance current expenditures, equity acquisitions and occurrence of contingent expenditures	105	632	636**

* The budget envisaged expenditures amounting to EUR 9 million. Due to the delayed launch of construction works, the final impact on the balance in 2015 is positive.

Source: CBR, MF SR

** The impact on the balance depends on the purpose for which the funds are used.



Annex 2 – Assumptions used for estimating certain risks in the budget proposal

In identifying certain risks in the estimate of the general government balance for 2015 and the budget proposal for 2016 – 2018, the CBR relied on specific calculations. These involved, in particular, an estimate of revenues from dividends and from emission allowances, as well as an estimate of the developments in healthcare expenditures.

Estimate of revenue from dividends

Tab 13: Dividends in 2015 - 2018 (ESA2010, € million)

	2015E		2016B		2017B		2018B	
	GGB	CBR	GGB	CBR	GGB	CBR	GGB	CBR
Slovenský plynárenský priemysel, a.s.								
1. Estimate/GGBP	289	289	300	300	300	300	300	300
2. Anticipated ordinary dividends	280	123	300	200	300	200	300	200
3. Extraordinary dividends*	9	165	-	100	-	100	-	100
<i>Eustream, a.s.</i>	-	156	-	-	-	-	-	-
<i>Nafta, a.s.</i>	-	9	-	-	-	-	-	-
Východoslovenská energetika, a.s								
1. Estimate/GGBP	28	28	34	34	30	30	32	32
2. Anticipated ordinary dividends	28	4	34	15	30	15	32	15
3. Extraordinary dividends	-	24	-	19	-	15	-	17
Ostatné								
1. Estimate/GGBP	3.5	3.5	-	-	-	-	-	-
2. Anticipated ordinary dividends	0.5	0.5	-	-	-	-	-	-
3. Extraordinary dividends	3	3	-	-	-	-	-	-

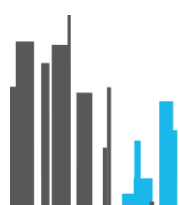
E – estimate, B – budget proposal

Source: CBR

* 2015 estimate as indicated in GGBP is a superdividend according to ESA2010 methodology.

In 2015, the dividends received from SPP amounted to EUR 289 million, of which EUR 123 million were dividends paid from the profit from ordinary activities in the previous year and EUR 165 million represented extraordinary dividends from the payout of retained profits of the company's subsidiaries Eustream, a.s. (EUR 156 million) and Nafta, a.s. (EUR 9 million) in 2014. At the same time, the dividends received from the Východoslovenská energetika (VSE) company in an amount of EUR 24 million were also identified as extraordinary dividends in 2015. In the course of 2014 the company has integrated, as part of its restructuring (unbundling) processes, the selected divisions into its subsidiaries and posted an accounting profit from continuing activities in the amount of EUR 9 million. The dividends paid beyond the scope of accounting profit are treated by the CBR as extraordinary dividends.

The General Government Budget Proposal for 2016–18 continues to count on dividends from SPP worth EUR 300 million. Since undergoing a restructuring process in 2013, the company has been generating its profits in particular on the basis of revenues from dividends from its subsidiaries. For the past years, the aggregate net profit for all of its subsidiaries was EUR 600 million at



a maximum. Given the SPP's stake in these companies (51 %), the maximum revenue from ordinary dividends from its subsidiaries can be expected at some EUR 300 million. When taking into account the expected operating losses from selling gas to households, as well as the tax burden, the CBR does not expect SPP's net profit to exceed EUR 200 million in the years ahead. The dividends paid beyond the scope of accounting profit are treated by the CBR as extraordinary dividends.

In the case of VSE, the revenue from dividends is envisaged at some EUR 30 million between 2016 and 2018. VSE posted a net profit of EUR 28 million for 2013 and EUR 9 million for 2014. The CBR does not envisage an increase in VSE's profits and, in the period between 2016 and 2018, the company's profits are expected to remain between EUR 20-30 million. When taking into account the stake in the company (51 %), the revenue from ordinary dividends is expected to reach EUR 15 million.

Estimate of revenues from emission allowances

In estimating revenues from emission allowances between 2015 and 2018, the CBR applied the procedure used by the Statistical Office of the Slovak Republic for the Eurostat's notification of deficit and debt data in October 2015⁷⁵. The reason was that the changes in the revenue calculation method have not been incorporated in the budget proposal which still uses the original recording method, i.e., treating the auctioning revenues received in cash for a given year as revenues under the ESA2010 methodology.

The new method for calculating the revenues is based on emission allowances actually utilised by companies in Slovakia. Their price reflects the fact that a portion of emission allowances is allocated to companies free of charge, while another portion is acquired by companies through auctions. In the valuation of emission allowances, the developments since the beginning of the trading period (2013-2020, with the first allocation and first auctions being held in 2012) are taken into account.

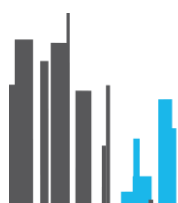
Assumptions used in the calculation:

- allowances allocated to individual companies in Slovakia were estimated based on the national allocation table⁷⁶ which was adjusted for annual deviations between 2013 and 2015 (the deviations amounted to 0.2 % on average);
- the quantity of allowances sold through auctions at European Union level was estimated on the basis of the published auction plan⁷⁷, with Slovakia's constant share in individual years calculated on the basis of Slovakia's average share in auctions between 2012 and 2015,
- the utilisation of allowances was taken as the average for the years 2012 through 2014,
- the average price in auctions in 2015 was based on the actual prices covering a period of less than 10 months of the year, whereas for the remainder of the year, the price was assumed at the level of the last auction held (EUR 8.32/per tonne of CO₂, on 20 October 2015),

⁷⁵ The previous method of recording revenues from the sale of emission allowances (cash revenues from auctions) has been revised in this manner.

⁷⁶ [National Allocation Table](#), as published by the national administrator of emission allowances (the ICZ Slovakia, a.s. company) with authorisation by the Ministry of the Environment of the Slovak Republic.

⁷⁷ [Auction Plan](#), as published by the European Commission.



- for the years 2016 through 2018, the price was assumed at the level of the last auction held in 2015,
- the stock of active allowances and the stock of assets and liabilities as at 1 January 2015 was taken from the data of the Statistical Office of the Slovak Republic.

Tab 14: Estimation of revenues from CO₂ emission allowances in 2015 - 2018

Year	Allocated allowances		Allowances auctioned		Allowances surrendered (used)		Ø price	Ø price of used allowances	Annual tax revenue	Stock of assets/ liabilities		Stock of active allowances	
	mil. units	mil. eur	mil. units	mil. eur	mil. units	mil. eur				as of 1.1.	as of 31.12.	as of 1.1.	as of 31.12.
1	2	3=2*8	4	5=4*8	6	7=6*8	8	9=11/13	10=6*9	11	12=11+5-10	13	14=13+2+4-6
2015	15.0	114.0	11.0	83.8	21.2	161.1	7.6	2.3	48.3	63.0	98.5	27.6	32.5
2016	14.6	121.1	13.0	108.1	21.2	176.2	8.3	3.0	64.3	98.5	142.3	32.5	38.8
2017	14.2	117.8	16.6	138.1	21.2	176.2	8.3	3.7	77.6	142.3	202.8	38.8	48.4
2018	13.8	114.6	16.7	138.8	21.2	176.2	8.3	4.2	88.7	202.8	252.8	48.4	57.7

Source: CBR, SO SR

In comparison with the budget proposal which envisages proceeds of EUR 117 million a year between 2015 and 2018, there will be shortfalls amounting to EUR 28-68 million every year (Table 15), with the highest shortfall expected in 2015.

Tab 15: Estimation of the risk of revenue shortfall from emission allowances (€ million)

	2015	2016	2017	2018
1. GGB proposal 2016-18	117	117	117	117
2. CBR's estimate	48	64	78	89
3. Difference (risk of revenue shortfall)	-68	-52	-39	-28

Source: CBR, MF SR

Expenditures in the healthcare sector

An estimate of the risk of overrunning expenditures in the healthcare sector is based on the historical development of expenditures. Between 2008 and 2014, expenditures were growing by 3.5 % a year on average (Table 16). On this basis the CBR estimated the expenditures between 2015 and 2018 (using the actual figures for 2014 as the baseline), thus quantifying the magnitude of the risk to the budget proposal.

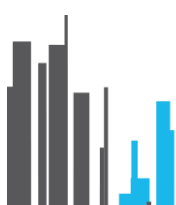
Tab 16: Development healthcare expenditures and financial performance of hospitals (€ million)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Health insurance expenditures on healthcare	3 160	3 285	3 386	3 363	3 496	3 672	3 882	4 005	4 048
- y-o-y change (%)	14.9%	4.0%	3.1%	-0.7%	3.9%	5.0%	5.7%	3.2%	1.1%
Financial performance of hospitals*	-48	20	-109	-104	-72	-30	-62	-50	-54
- in % of GDP	-0.07	0.03	-0.16	-0.15	-0.10	-0.04	-0.08	-0.06	-0.07

* In 2011, the impact of bailout amounting to EUR 350 mill. is excluded.

Source: MF SR, SO SR

2015 - estimate of the MF SR, 2016 - budget proposal



As regards the payout of retained profits of private health insurance companies, the CBR used the amount of retained profits and liabilities towards shareholders as at the end of 2014, which exceeded EUR 220 million.

Tab 17: Development of retained profits of private insurance companies (€ million)

	2009	2010	2011	2012	2013	2014
Dôvera Health Insurance Company						
Liabilities towards shareholders and retained profits as of 1 January	29 825	469 046	478 059	337 838	335 693	233 787
Payout of retained profits	-29 825	0	0	0	0	0
Profit/loss	469 046	16 238	39 278	47 856	46 498	2 262
Liabilities paid to shareholders financed by loans	0	0	-179 500	0	-87 405	0
Liabilities paid to shareholders in the form of dividends*	0	0	0	-50 000	-61 000	0
Decreasing the statutory reserve fund*	0	0	0	0	0	-15 115
Other changes	0	-7 225	0	0	0	0
Liabilities towards shareholders and retained profits as of 31 December	469 046	478 059	337 838	335 693	233 787	220 933
- repayment of loans*	0	0	-11 738	-25 807	-19 357	-26 250
Union Health Insurance Company						
Retained profit/loss as of 1 January**	-39 916	-56 432	-58 697	-49 697	-35 513	19 392
Profit/loss	-16 513	-2 265	9 000	15 984	6 605	-8 926
Payout of retained profits from registered capital	0	0	0	0	68 516	0
Dividends paid to shareholders*	0	0	0	0	-17 020	-11 179
Increasing the statutory reserve fund from profits	0	0	0	-1 800	-3 197	0
Other changes	-4	0	0	0	0	0
Retained profit/loss as of 31 December.**	-56 432	-58 697	-49 697	-35 513	19 392	-714

* impact on GG balance

** equity less registered capital and statutory reserve fund

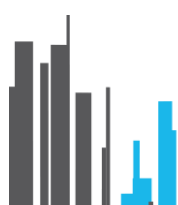
Source: Health Care Surveillance Authority, annual reports of the Dôvera and Union health insurance companies

The overall risk constituting an increase in health care expenditures against the budget proposal is between EUR 51 - 243 million. The lowest risk is expected in 2015, as the Ministry of Finance has already incorporated the overrunning of budgeted expenditures by EUR 234 million in its most recent estimate.

Tab 18: Estimation of the risk related to healthcare in the budget proposal (€ million)

	2015	2016	2017	2018
General government budget proposal 2016-18				
Health insurance expenditures on healthcare	4 005	4 048	4 137	4 355
Financial performance of hospitals	-50	-54	-17	-4
Payments related to retained profits	26	26	26	26
CBR's estimate				
Health insurance expenditures on healthcare	4 018	4 158	4 303	4 453
Financial performance of hospitals	-64	-66	-69	-71
Payments related to retained profits	51	51	51	51
Difference (risks):	51	147	243	190
- health insurance expenditures and hospitals	26	122	218	165
- retained profits	25	25	25	25

Source: CBR, MFSR



The development in the healthcare sector needs to be seen also in the light of how the budgeted figures were met in the previous years. **In the last three years when the CBR has been warning about the risks in healthcare expenditures, the budgeted values were always overrun (Table 19, Figure 21), and the amount of overrunning was quantified at 0.3 % of GDP per year for 2014 and 2015.**

Tab 19: Comparison of budgeted and final expenditures in healthcare (€ million)

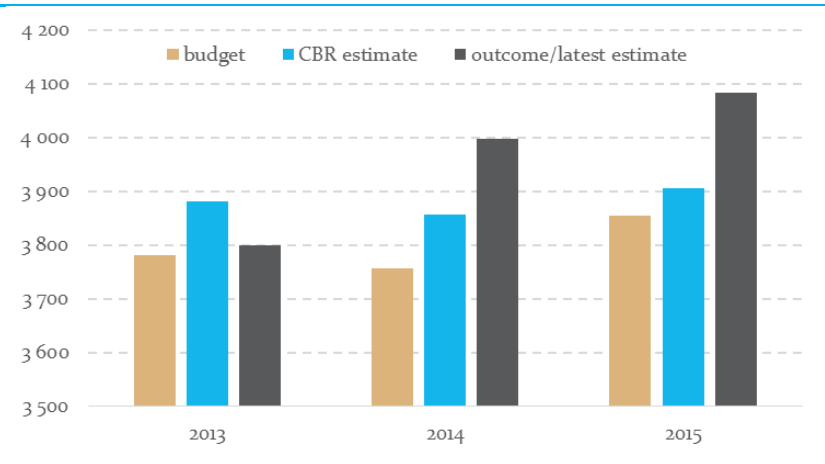
	2013 B	2013 CBR	2013 F	2014 B	2014 CBR	2014 F	2015 B	2015 CBR	2015 E*
1. Health insurance expenditures on healthcare	3 781	3 781	3 672	3 756	3 856	3 882	3 732	3 782	4 005
2. Financial performance of hospitals	0	-100	-30	0	0	-62	-50	-50	-50
3. Payments related to retained profits	0	0	97	0	0	53	73	73	26
4. Total (1-2+3)	3 781	3 881	3 800	3 756	3 856	3 997	3 855	3 905	4 082

Note: B - approved budget for the given year, CBR - CBR's estimate at the time of budget approval, F - final data, E - estimate

Source: MF SR, CBR

* In 2015, it is the estimate of the MF SR, CBR expects additional risks amounting to EUR 50 mill.

Figure 21: Development in healthcare expenditures (€ million, ESA2010)



Source: Statistical Office, MF SR, CBR



Annex 3 – No-policy change scenario and measures in the 2016 budget proposal

The no-policy-change scenario (NPC) is a standard part of CBR's outputs. It is used during the preparation of the Report on the Long-term Sustainability of Public Finances which is published every year in April and in which the long-term sustainability indicator is estimated by means of the baseline scenario (projection for the upcoming 50 years). It is compiled from the detailed actual data on public finances, which serve as the basis for defining detailed rules for the projection of individual general government revenue and expenditure items.

The NPC scenario can also be used in the evaluation of the general government budget. The main difference against the scenario prepared in April is that it relies on an estimate of the general government balance for 2015 which, however, is less detailed than the actual data; for this reason, the scenario contains simpler rules for the developments in the individual items of the general government balance⁷⁸. The scenario compiled in this manner makes it possible to estimate the size of measures incorporated in the budget proposal and the contribution of the government's measures to permanent improvements in the balance.

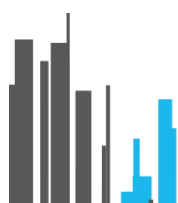
CBR's assumptions

The NPC balance of general government revenues and expenditures for 2016–2018 has been itemised in accordance with ESA2010, and the indexation rules are also applied to such individual items. It does not consider a different macroeconomic scenario as a result of higher deficits in the NPC scenario (the forecasts of the Macroeconomic Forecasting Committee are used). It is based on the Ministry of Finance estimate for 2015 at 2.74 % of GDP, adjusted for the impact of debt interest payments that are responding to debt developments under the NPC scenario, as well as the impact of tax measures which were adopted in the course of 2015 and had an impact on this year's balance.

Despite the fact that the CBR has identified the risks for 2015 (Chapter 1), some of which may be reflected in the subsequent years, they were not included⁷⁹ in the estimate. At the same time, the Ministry's estimate was adjusted for unbudgeted items with a neutral impact on the balance. These include, in particular, the impact of extra-budgetary accounts of the state, local governments, public universities and contributory organisations of the state budget (Table 20). In addition, the baseline year has been adjusted for one-off effects (Table 21) and the CBR used its own estimate for the drawing of EU funds (Table 22).

⁷⁸ The method of compiling the scenario has not been changed in comparison with the last year's budget and is described in the [Evaluation of the General Government Budget Proposal for 2015-2017](#), November 2014, Annex 5

⁷⁹ In the entire document, the CBR's calculations rely on the estimate of the balance as compiled by the Ministry of Finance.



Tab 20: Overview of changes in 2015 compared to the MF SR estimate

	ESA item	€ million
GG revenues		512
Tax revenues	D.2 R	29
Social contributions	D.61 R	185
Sales	P.11+P.12+P.131	61
Current transfers	D.7 R	237
GG expenditures		508
Compensation of employees	D.1 P	77
Intermediate consumption	P.2	221
Social transfers	D.62 P	201
Interest expenditure	D.41 P	9
Current transfers	D.7 P	0
Gross fixed capital formation	P.51 G	0
Capital transfers	D.9 P	0
GG balance		4

Source: CBR

Tab 21: List of one-offs in the NPC scenario (% of GDP)

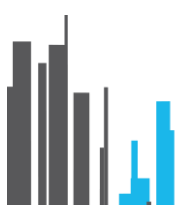
	ESA item	2015	2016	2017	2018
Financial corrections to EU funds	D.9 PAY	-0.28	-	-	-
Repayment of a loan by Cargo, a.s.(cap. transfer in 2009)	D.9 REC	0.13	0.02	-	-
Revenues of State Fund for Housing Development from the EU budget	D.7 REC	0.11	-	-	-
Dividends	D.4 REC	0.23	-	-	-
Transfer of funds resulting from the cancellation of bearer deposits	D.9 REC	0.03	-	-	-
Payment of VAT from a PPP project	D.9 PAY	-0.01	-0.01	-0.01	-0.01
Total (impact on GG balance)		0.22	0.02	-0.01	-0.01

Source: CBR

Tab 22: Assumptions on EU funds drawdown in the NPC scenario of the CBR (% of GDP)

	2015	2016	2017	2018
Breakdown by funds and programming periods	4.70	2.27	2.80	2.82
- structural funds and Cohesion Fund - 2 nd PP	3.72	0.15	0.00	0.00
- structural funds and Cohesion Fund - 3 rd PP	0.07	1.30	1.96	2.05
- agricultural funds	0.92	0.82	0.84	0.78
Breakdown by final recipient	4.70	2.27	2.80	2.82
- general government	2.76	1.33	1.44	1.40
- entities outside the general government sector	1.95	0.93	1.36	1.42
Expenditures on co-financing	0.79	0.38	0.47	0.46

Source: CBR, MF SR



NPC scenario compiled by the CBR

Under the no-policy change scenario, the CBR estimates a slight improvement in the deficit, from 3.0 % of GDP in 2015 (net of one-off effects) to 2.5 % of GDP in 2016. In the subsequent years, it should even improve to around 2.0 % of GDP.

Tab 23: Comparison of the NPC scenario prepared by the CBR (% of GDP)

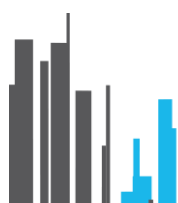
	2015 E	2015 E (adj.)*	2016 NPC	2017 NPC	2018 NPC	Difference** 2016 GGBP
GG revenues	40.9	40.4	38.6	38.1	37.8	-0.2
Taxes on production and imports	10.7	10.7	10.5	10.2	10.1	0.0
Current taxes on income, wealth	7.1	7.1	7.1	7.0	7.1	0.0
Capital taxes	0.0	0.0	0.0	0.0	0.0	0.0
Social security contributions	14.0	14.0	13.8	13.7	13.6	0.0
Property income	0.8	0.5	0.5	0.5	0.5	0.2
Sales	4.1	4.1	4.0	4.0	3.9	-0.2
Revenues from EU funds	2.9	2.8	1.3	1.4	1.4	0.0
Other transfers	1.4	1.3	1.3	1.2	1.1	-0.2
GG expenditures	43.6	43.4	41.1	40.4	39.8	-0.8
Compensation of employees	8.6	8.6	8.4	8.3	8.2	0.3
Intermediate consumption	6.1	6.1	5.7	5.5	5.3	-0.5
Social transfers (excl. healthcare)	14.0	14.0	13.7	13.3	13.0	0.0
Healthcare expenditures	5.2	5.2	5.2	5.3	5.3	-0.2
Subsidies	0.8	0.8	0.7	0.7	0.7	0.0
Interest expenditures	1.6	1.7	1.6	1.5	1.5	-0.1
Gross fixed capital formation	4.6	4.6	3.4	3.5	3.5	-0.6
Capital transfers	0.6	0.4	0.2	0.3	0.3	0.0
Current transfers and other expenditures	2.2	2.2	2.1	2.0	2.0	0.3
GG balance	-2.7	-3.0	-2.5	-2.3	-2.0	0.6
Primary GG balance	-1.1	-1.3	-0.9	-0.8	-0.5	0.5
Gross GG debt	52.8	55.0	57.1	53.3	52.6	-

* adjusted for one-offs

Source: CBR, MF SR

** differences compared to the budget proposal are adjusted for non-budgeted items

The improvement in the 2016 deficit under the no-policy change scenario (by 0.4 % of GDP) can be primarily attributed to expenditures on co-financing which were lower year-on-year due to an expected slowdown in the drawing of EU funds. At the same time, savings are also expected to occur in current expenditures. However, these will be partially offset by a year-on-year reduction in taxes and social contributions relative to GDP. The table below shows the transition from the estimated general government deficit in 2015 through the no-policy change scenario in 2016 to the budgeted deficit in 2016 in more detail.



Tab 24: Change in GG balance between 2015 and 2016 (ESA2010)

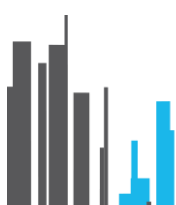
	% of GDP
1. GG balance estimate in 2015	-2.74
2. One-off, non-recurrent factors in 2015	0.22
- financial corrections to EU funds	-0.28
- repayment of a loan by Cargo, a.s.(cap. transfer in 2009)	0.13
- revenues of State Fund for Housing Development from the EU budget	0.11
- dividends	0.23
- payment of VAT from a PPP project	-0.01
- transfer of funds resulting from the cancellation of bearer deposits*	0.03
3. Change in the GG balance in 2015 - NPC scenario	0.01
- legislative changes in taxes approved in 2015 with impact in the same year	0.02
- interest payments in NPC scenario	-0.01
4. Adjusted GG balance in 2015 (1-2+3)	-2.95
5. NPC scenario for 2016	0.42
- co-financing	0.41
- tax revenues and social contributions	-0.33
- sales	-0.06
- compensation of employees	0.10
- intermediate consumption	0.06
- social transfers	0.21
- other	0.04
6. Measures in the GG budget proposal	0.60
Explained measures:	-0.36
- compensation of employees	-0.16
- social packages	-0.15
- lower VAT rate	-0.10
- tax revenues and social contributions	0.04
Unexplained measures:	0.96
- dividends	0.19
- healthcare	0.18
- intermediate consumption	0.28
- investments	0.38
- co-financing	-0.11
- other	0.05
7. Budgeted GG balance in 2016 (4+5+6)	-1.93

* It is a non-recurrent revenue, which does not meet the minimum threshold for one-offs (0.05 % of GDP). Therefore, it is not excluded in the structural balance calculation.

Source: CBR

The measures incorporated in the budget proposal for 2015 have a positive impact on the balance, at 0.6 % GDP. However, most of them are not sufficiently explained. The unexplained measures should have a positive impact of 1 % of GDP on the balance (against the no-policy change scenario), the measures that have been explained in detail are worsening the balance by 0.4 % of GDP (a more detailed description is provided in the following section).

On the revenue side, the budget proposal counts on several legislative changes. The new taxation system for cigars and cigarillos should improve the collection of the excise tax on tobacco. The current taxation system is based on the quantity, whereas the new one should be based on



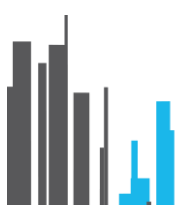
weight. There will also be more extensive legislative amendments affecting the VAT through changes in the conditions applicable to tax refunds within shortened time limits (30 day time limit), as well as the system for VAT payment (only after the invoice is paid, the so-called cash accounting scheme). At the same time, the Government has announced a reduction in VAT from 20 % to 10 % for selected basic food commodities, with VAT revenue shortfalls expected to be covered by a reserve of EUR 78 million earmarked in 2016, some 81 million in 2017 and almost 85 million in 2018.

The Government is also introducing measures aimed at stabilising and encouraging a tax assignment model for the corporate income tax (CIT). The method of collecting the withholding tax from in-kind considerations provided to physicians has been changed: as of 2016, the tax is to be paid once a year. Revenues of up to EUR 2,000 in the form of social assistance from the social fund are exempt from tax. The negative impact on revenues is also expected due to a reduction in vehicle registration fee of up to 50 % for multi-passenger vehicles and for families with at least four children. On the capital market, several legislative changes are expected to cause a shortfall in tax revenues (cancellation of health insurance contributions from securities and dividends on shares; income from the transfer of securities traded on a regulated market will be exempt from tax after one year). Effective from 2016, the entire revenue from the personal income tax (PIT) will be distributed from the state budget between municipalities and self-governing regions in a ratio of 70:30. However, in terms of revenues in the general government budget proposal, the impact of this legislative change is neutral.

The expenditures in the budget proposal include the government's "social packages" amounting to some EUR 125 million. The impact of an increase in maternity benefit from 65 % to 70 % of the daily assessment base and an increase in parental allowance from EUR 230 to 280 per month has been quantified at EUR 10 million. Provided to pupils of primary and secondary schools, the contribution towards the costs of skiing courses will increase the general government expenditure by EUR 20 million. For support to the least developed districts (with an unemployment rate of more than 20 %), the government has allocated EUR 10 million in each year. EUR 48 million has been allocated for gas refunds to households. The programme for thermal insulation for family houses will require an expenditure of some EUR 30 million. A further increase in expenditures by EUR 131 million will be necessitated by a 4 % indexation of wages of civil servants and employees performing work in the public interest.

Tab 25: Government measures incorporated in GGBP for 2016 – 2018 (ESA2010, € million, difference against NPC)

	2015E	2016B	2017B	2018B
Revenue-side measures	-13	-42	-27	-32
Personal income tax		-5	-5	-5
Corporate income tax		3	3	
Withholding tax		-5		
VAT	-29	-65	-79	-83
Excise taxes		6	29	29
Social security contributions		-2	-2	-2
Contributions to healthcare insurance schemes		-2	-3	-3
Exit from the fully-funded pillar	16	28	30	32
Expenditure-side measures		248	70	71
Social package		118	70	71
Contributions towards the cost school ski trips		20	20	20

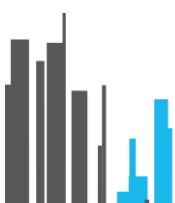


Support for less developed regions	10	10	10
A scheme for thermal insulation of family houses	30	30	30
Gas refunds for households	48	0	0
Increase in maternity benefit to 70 % of the assessment base	9	10	10
Parental allowance*	1	1	1
Indexation of wages of civil servants and employees performing work in the public interest**	131		
Total impact	-13	-290	-97
			-103

* CBR's estimate based on MF SR documents

Source: MF SR, CBR

** An estimate based on the CBR's no-policy-change scenario



Annex 4 – Assessment of the General Government Gross Debt Forecast

In assessing the gross debt forecast, the CBR compares the forecast with the published data and with the data requested from the Ministry of Finance. For instance, this includes the issuance plan of state bonds by the Debt and Liquidity Management Agency (ARDAL), the assumptions in the budget proposal regarding the indebtedness of other general government entities, as well as expected trends in the EFSF debt and the actual debt development over the course of the relevant year.

In the budget proposal for 2016-2018, the CBR has identified differences attributable to the actual development in several components of the debt. These include, in particular:

- Debt development due to the EFSF impact – the debt forecast expects this impact to increase by EUR 19 million in 2015. However, the most recent developments indicate a year-on-year drop by EUR 116 million. This is due to Greece having returned, in February 2015, a part of unspent financial aid intended for the recapitalisation of its banks, with no new financial aid under this facility expected to be provided in the future.
- Depreciation of the euro against foreign currencies – a part of the general government debt is denominated in foreign currencies and hedged against exchange rate fluctuations by currency swaps (the debt is recorded in the national accounts at the exchange rate which has been agreed at issue). Despite that the changes in the euro exchange rate do have an impact on the amount of the gross debt in that the swap is being continuously revaluated. If the euro depreciates, ARDAL will receive funds (collateral⁸⁰) from an entity with which it had signed a swap agreement. Because these funds come from entities falling outside general government, the gross debt will rise. On the other hand, the funds acquired in this manner can be used to actively manage the debt. This was actually the case at the beginning of 2015 and, according to the Ministry of Finance data as at 30 September 2015, the amount of the collateral received was EUR 146 million. In the Ministry's forecast, this assumption was quantified at EUR 76 million at the end of 2015. In order for this assumption to materialise, the euro would have to appreciate markedly against the relevant currencies in the last two months of this year.

Tab 26: MF SR debt forecast - comparison with the latest data (€ million)

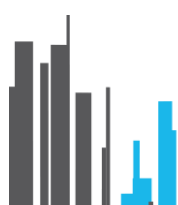
	MF SR estimate as of 31.12.2015	Outcome as of 30.9.2015	difference
1. EFSF	19	-116	-135
2. Revenues from collateral	76	146	70
Total	95	30	-65
- in % of GDP	0.12	0.15	0.03

Note: (+) increase, (-) decrease in debt

Source: MF SR, EFSF, Eurostat

* Impact on gross debt might be lower if the debt management agency (ARDAL) decreases the planned issuance of new debt as a result of higher revenues from collateral.

⁸⁰ Collateral is used to allow ARDAL, in case the counter-party goes bankrupt, to ensure the specified exchange rate when issuing bonds (by signing a new swap contract).



Annex 5 – Development of the cyclical component

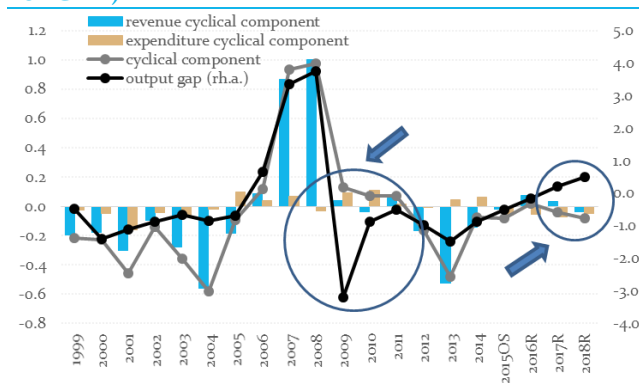
This section explains the trends in the cyclical component and the output gap⁸¹ between 1999 and 2018, as estimated according to CBR’s methodology. The CBR is applying the so-called disaggregated approach⁸² where the individual revenues and expenditures are directly linked to development in the individual macroeconomic bases.

Both the personal income tax and social security contributions paid to the Social Insurance Agency respond to employment and compensations of employees in the private sector. Revenues from the corporate income tax are affected by profitability of companies. Indirect taxes respond to changes in private consumption. The unemployment benefits are influenced by unemployment, whereas pension benefits are, due to indexation, linked to overall compensations of employees in the private sector in the previous year. For the purpose of calculation, deviations from equilibriums are first computed for each base and the overall cyclical component is then calculated using the estimated budgetary elasticities.

During the 2009 crisis when the Slovak economy fell deep below its potential level, the cyclical component did not indicate a crisis period. Quite the contrary, it was positively affected by two factors. The positive impact of indirect taxes outweighed the negative impacts of other revenue components, with pensions providing an additional positive impetus on the expenditure side (still benefitting from the compensations indexed in 2008).

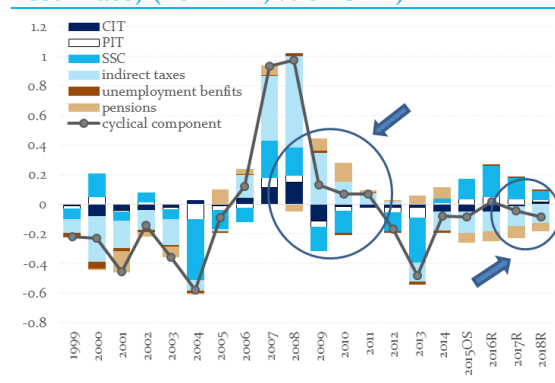
Under the current medium-term outlook, the output gap is expected to gradually close in the course of 2017. While most of the revenue items are starting to recover after the 2009 crisis (growth in employment and wages and, gradually, an increase in profitability), the cyclical component continues to be negatively affected by household consumption which affects indirect taxes. The effect is amplified by pension benefits which, due being linked to the past developments, fail to respond fast enough to an improving macroeconomic environment. Due to different trends in its individual elements, the cyclical component remains negative. However, since 2013 it has been improving year-on-year (by 0.5 % of GDP until 2016), thus automatically contributing to better results in the general government’s fiscal performance.

Figure 22: GG cyclical component and output gap in 1999-2018 (CBR’s estimate) (ESA2010, % of GDP)



Source: CBR

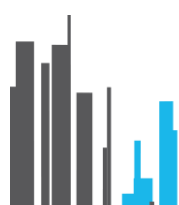
Figure 23: GG cyclical component detailed breakdown in 1999-2018 (CBR’s estimate) (ESA2010, % of GDP)



Source: CBR

⁸¹ For more information, see CBR document: [Finding Yeti \(2014\)](#)

⁸² For more information, see CBR document: [The „True“ Deficit \(2014\)](#)



Annex 6 – One-off effects in the debt development until 2018

In order to bring the debt development analysis more in line with the net worth concept⁸³, the CBR identified those **one-off and temporary factors having an impact on cash, which do not improve net worth or their impact on net worth is only temporary** (Table 27). By adjusting the gross debt for these factors it is possible to get more insight on debt development caused by government's permanent measures.

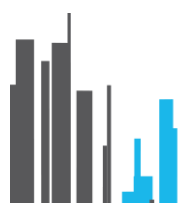
The first group of adjustments comprises **one-off effects which, under the ESA2010 methodology, have an impact on the general government balance** in a given year. As opposed to the list of one-off effects published by the CBR for budget evaluation purposes, only effects that have a cash impact are taken into account.

The second group **includes one-off effects which do not affect the general government balance but have an impact on cash**. These are the factors which cause the amount of cash to change simultaneously with changes in other (non-liquid) assets or such liabilities that are not part of the gross debt. The CBR identified transactions involving state corporations, such as privatisation of the state's stake (Slovak Telekom), payment of dividends beyond the scope of profit made from ordinary economic activity (in particular SPP and ZSE), state's revenues from repaid loans which the relevant company substituted by taking out loans from private banks (Vodohospodárska výstavba). It includes also changes related to the fully-funded pillar of the pension system. Even though cash in general government accounts has been increased by transferring the pension savers' assets from private pension asset management companies to the general government sector, this still involves expenditures associated with the payment of pensions to these persons in the future.

Another group of factors which the CBR took into account covers the **flows which are related to the drawing of EU funds**. Because of the time lag between the actual payment of financial resources from the state budget for the financing of EU projects and their reimbursement from EU's budget, there might be significant differences, in individual years, between the cash revenues⁸⁴ and expenditures associated with the drawing of EU funds. This factor is beyond the control of the government; however, it affects cash balances in general government accounts and, consequently, the debt level. As regards cash flows, the CBR also took into account the financial corrections related to irregularities in the drawing of EU funds, as these reduce the country's eligibility for funds payable by EU's budget. The cash balance is also affected by advance payments (not included in the budget) which are cleared at a later time.

⁸³ The reasons are described in detail in the [Report on Compliance with the Fiscal Responsibility and Fiscal Transparency Rules for the Year 2014](#), August 2015, Annex 3 (available only in Slovak).

⁸⁴ The impact on the balance under the ESA2010 methodology is amounting to zero, because the cash difference between revenues and expenditures is offset by a change in the amount receivable from the EU budget. If expenditures exceed revenues, there will be an increase in the amount receivable and vice-versa.



Tab 27: Changes in deposits of the general government with no impact on net worth (€ million)

	2014	2015	2016	2017	2018
1. One-off cash impacts on GG balance	160	433	90	115	117
- Revenues from the sale of telecommunication licences	164	-	-	-	-
- One-off dividends	-	189	119	115	117
- Retroactive disbursement of pensions in the armed forces	-58	-	-	-	-
- Penalty imposed by the Antimonopoly Office	45	-	-	-	-
- Revision of EU budget levy	-58	58	-	-	-
- Repayment of a loan provided to Cargo, a.s..	20	98	20	-	-
- Repayment of loans provided to Vodohospodárska výstavba	48	-	-	-	-
- Support for housing through ŠFRB from EU funds	-	88	-	-	-
- Refunds to households for gas consumption	-	-	-48	-	-
2. Other one-offs (without impact on the GG balance)	495	1 390	0	-535	0
- One-off impact from opening of the fully-funded pillar of pension scheme	-	578	-	-	-
- Superdividends	337	12	-	-	-
- Privatisation	-	800	-	-	-
- Repayment of loans provided to Vodohospodárska výstavba	158	-	-	-	-
- VAT self-assessment at customs	-	-	-	-535	-
3. Impacts of EU funds drawing and reimbursement	-423	204	0	0	0
- Included in the budget	-756	-31	0	0	0
- Financial corrections to EU funds	111	235	-	-	-
- Not included in the budget (advance payments)	222	-	-	-	-
4. Changes in deposits without impact on net worth (1+2+3)	232	2 028	90	-420	117
- In % of GDP	0.3	2.6	0.1	-0.5	0.1

Note.: (+) increases and (-) decreases the cash in general government accounts

Source: MF SR, CBR, SO SR

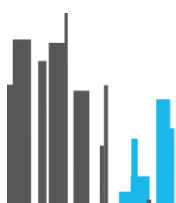
The reduction of the cash reserve accumulated over the course of 2012 resulted in a decline in gross debt in 2014 when, despite a deficit of slightly below 3 % of GDP, the debt dropped by 1 % of GDP. When adjusting the debt development for changes in cash reserve and one-off factors, the debt increased by 2.1 % of GDP in 2014.

In 2015, the debt is not expected to stabilise. This is due to a one-off increase in cash which is particularly attributable to privatisation and exit from the fully-funded pillar of the pension system. When adjusted for these changes, the debt will increase by 1.4 % of GDP year-on-year. The year 2016 should be the first to see a slight decrease in the debt relative to GDP due to government's permanent measures. This will be the case if the budgetary objective is met and the pace of economic growth matches the forecast.

Tab 28: Debt development until 2018 (y-o-y changes, % of GDP)

	2014	2015 E	2016 B	2017 B	2018 B
1. Gross debt	-1.0	-0.8	-0.7	-0.8	-2.4
2. Liquid financial assets	-3.0	0.3	-0.4	0.3	0.0
3. Net debt (1-2)	2.0	-1.1	-0.3	-1.1	-2.4
4. One-offs (without impact on net worth)	-0.3	-2.6	-0.1	0.5	-0.1
5. Debt excluding one-offs (3-4)	2.3	1.5	-0.2	-1.6	-2.3
- impact of EFSF	0.1	0.0	0.0	0.0	0.0
- other factors	2.1	1.4	-0.2	-1.6	-2.3

Source: CBR, MF SR, SO SR

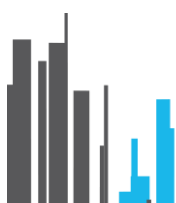


Annex 7 – Macroeconomic forecasts of the MFC

Tab 29: Forecasts of the MFC

Indicator (in %)	Reality	Forecast (September 2015)				Change (September 2014)		
	2014	2015	2016	2017	2018	2015	2016	2017
GDP, real growth	2.4	3.2	3.1	3.6	3.6	0.6	-0.4	0.1
Consumer prices, year average	-0.1	-0.2	0.9	1.8	2.0	-1.2	-1.0	-0.3
Nominal wage, growth	4.1	2.4	3.1	4.6	4.7	-0.9	-1.1	0.2
Real wage, growth	4.2	2.5	2.2	2.7	2.7	0.4	0.0	0.4
Employment (ESA), growth	1.4	1.8	1.0	0.7	0.8	1.4	0.5	0.1
Unemployment rate (ILO)	13.2	11.5	10.6	9.8	9.0	-1.5	-1.6	-1.5
Private consumption, real growth	2.2	2.1	2.7	2.7	2.8	-0.3	0.0	0.5
Investment, real growth	5.7	7.6	-0.7	2.0	3.2	4.9	-2.1	0.1
Export, real growth	4.6	6.1	5.6	6.3	5.6	1.8	-0.4	0.2
Weighted bases for budget revenues	3.9	3.4	3.8	4.9	5.0	-0.1	-0.7	0.3

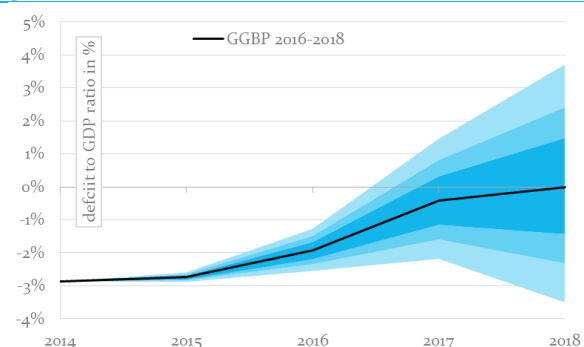
Source: MF SR, CBR



Annex 8 – Budget sensitivity scenarios

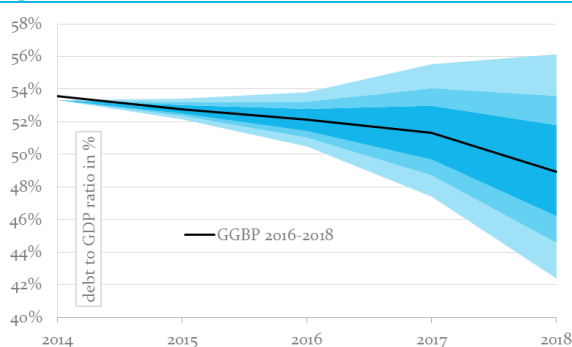
In the event of a weaker or stronger economic growth, the relative amount of the deficit and debt is actually affected by a change in the nominal GDP and by a change in fiscal balance through the amount of revenues from taxes and social contributions which follow the developments in the economy. If these effects are added together, there is a risk the 2016 deficit might change against the planned 1.9 % of GDP by as much as 0.6 p.p. (at 80 % probability). Under that scenario, the debt-to-GDP ratio could change by up to 1.7 % of GDP (the debt target for 2016 is 52.1 % of GDP).

Figure 24: Macroeconomic risks - general government balance



Source: CBR

Figure 25: Macroeconomic risks - general government debt

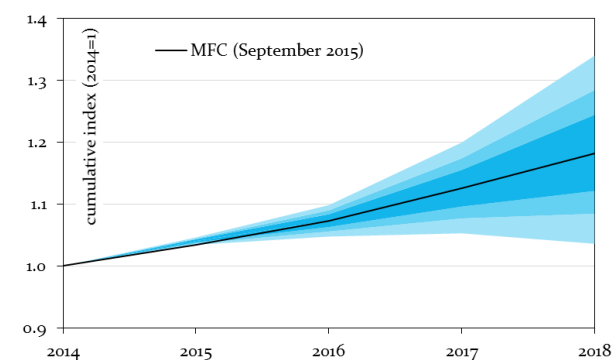


Source: CBR

Tab 30: Forecast risks of weighted bases for budget revenues

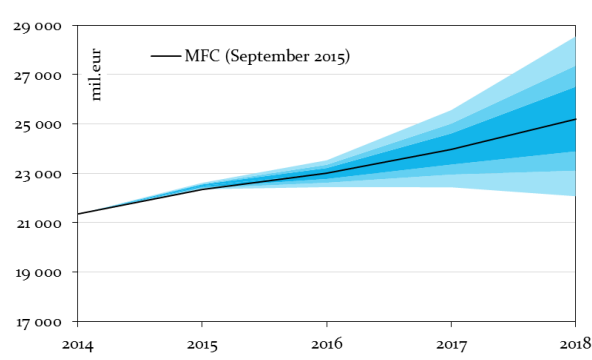
Indicator	Reality	Forecast (September 2015) + confidence intervals				
	2014	2015	2016	2017	2018	
Weighted bases for budget revenues (MFC)	3.9	3.4	3.8	4.9	5.0	
- 40 % probability	3.9	3.2-3.7	3.0-4.5	3.1-6.6	2.3-7.7	
- 60 % probability	3.9	3.0-3.8	2.5-5.0	2.0-7.7	0.7-9.4	
- 80 % probability	3.9	2.8-4.0	1.9-5.6	0.5-9.2	-1.6-11.7	

Figure 26: Tax bases

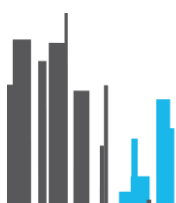


Source: CBR

Figure 27: Tax revenues



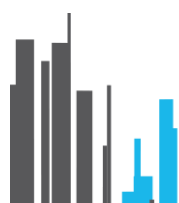
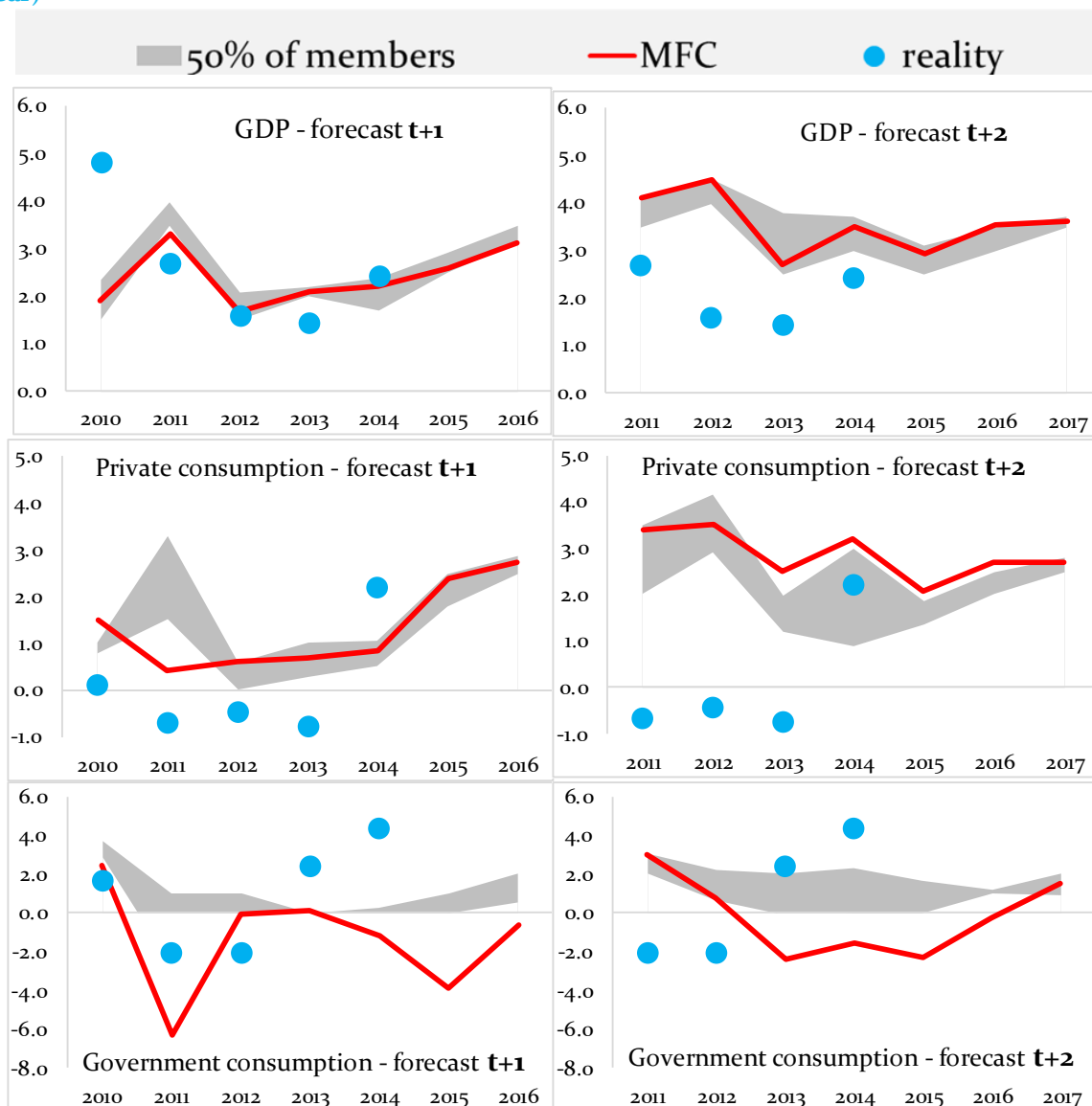
Source: CBR

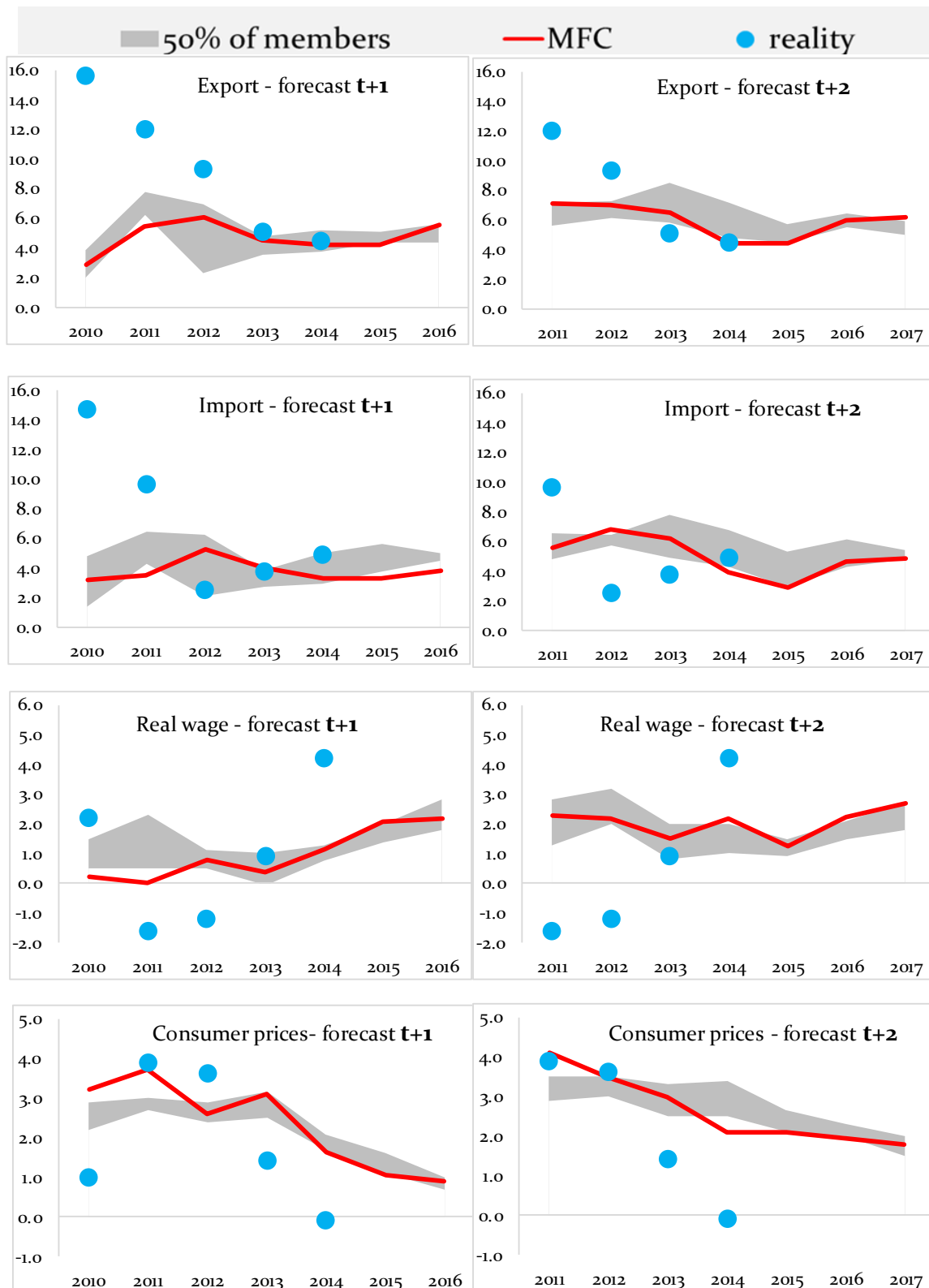


Annex 9 – Assessment of deviations of forecasts

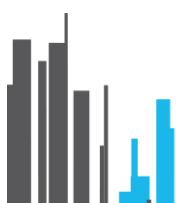
Autumn forecasts of the Committee (MFC) for individual components in comparison with the actual figures.

Figure 28: Assessment of deviations of forecasts (percentage change against the previous year)





Source: CBR, MFSR



Annex 10 – Transparency rules – data requirements

The general government budget proposals should include data for a six-year horizon. They should contain the consolidated balance of the general government budget, the government debt management strategy, tax expenditures, implicit liabilities, contingent liabilities, one-off effects and the fiscal performance of state corporations.

The General Government Budget Proposal for 2016-2018 (GGBP 2016-2018) contains a basic breakdown of general government revenues and expenditures. However, in order to get a more comprehensive picture of the government's intentions in particular in terms of expenditure policies, a **more detailed breakdown of expenditures** is required (down to the level of sub-items, such as those falling under social transfers and subsidies).

The **non-inclusion of several items**⁸⁵ in the budget is seen as a shortcoming in the budget preparation process as it makes it difficult to assess budget execution in the current year or expected developments in such items for the years ahead. In comparison to the 2015-2017 General Government Budget, some improvement in the reporting of items under extra-budgetary accounts has been made – in the General Government Budget Proposal 2016-2018, the items under extra-budgetary account have been incorporated into the current estimates in case of local governments; however, this is still not the case of contributory organisations of the state budget and public universities.

The GGBP 2016-2018 has been supplemented with an **analysis of the development in public finances in 2015**. The differences between the expected actual figures for 2015 and the approved budget are showed for key items in the attached table, with the text containing a short explanation of these differences. In order to get a better understanding of the government's fiscal performance in 2015, a more detailed analysis is necessary.

The Update to the **Government Debt Management Strategy** does not alter the objectives defined in the Government Debt Management Strategy⁸⁶ for 2015 – 2018, nor does it expect, considering the current macroeconomic developments, any essential changes against the original proposal of this strategy, not even in deflationary developments.

The publication of **tax expenditures** makes it possible to better assess the costs of policies pursued by the government. The obligation to report tax expenditures and their impact on tax revenues is also stipulated by Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States. The calculation of tax expenditures in the General Government Budget Proposal for 2016-2018 is in line with the Finance Ministry's manual.

Implicit liabilities represent hidden indebtedness of general government beyond the official debt statistics. The scope of implicit liabilities which currently includes the expenditures

⁸⁵ At the initiative of the CBR, the Ministry of Finance is now keeping a close eye on unbudgeted items which are recorded in the extra-budgetary accounts of the state budget. Regular collection of data on these accounts will serve as a basis for a more detailed analysis to be prepared by the Ministry which can lay the groundwork for issuing, if necessary, a methodological guidance for the administrators of the individual chapters of the state budget.

⁸⁶ The government debt management strategy is submitted once in four years. As part of the General Government Budget for 2015-2017, a new strategy for the next four years, i.e., 2015-2018, has been submitted.



associated with ageing population (expenditures on pensions, healthcare, long-term care and education) and the costs associated with the decommissioning of nuclear power plants, has been extended to include the planned PPP projects (the D4 bypass and the R7 expressway, a new university hospital in Bratislava). In the future, the overall implicit liabilities should also include any PPP projects implemented by local governments, as well as risks arising from the fiscal performance of state corporations and companies of the National Property Fund (FNM).

Contingent liabilities of the general government are defined as other liabilities of an accounting entity which records them in the notes to individual financial statements. Their potential impacts on public finances are often very difficult to quantify and are, for the most part, described only in qualitative terms. At the end of 2014, they were quantified by the Ministry of Finance at EUR 13.4 billion, up 11.2 % year-on-year. Beyond the scope of liabilities recorded at the end of 2014, the document also provides information on new liabilities arising in the course of 2015.

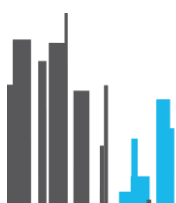
One-off effects are discussed in a special section in the 2016-2018 budget proposal. As identified by the ministry, the one-off and temporary measures between 2013 and 2018 (complying with the definition of European fiscal rules) are summarised in an attached table, more details about the individual measures are provided in the text.

Annex 3 to the budget proposal contains basic information about the **financial performance of state corporations** (equity, profit/loss). State corporations are broken down by ownership stake structured by state budget chapters; however, except for the state-owned health insurance company (Všeobecná zdravotná poisťovňa), the indicators on fiscal performance of other companies falling under the Ministry of Health of the Slovak Republic are missing. No detailed explanation is provided with respect to the expected developments in state corporations for the upcoming years, which makes it difficult to evaluate the potential risks for the general government in terms of their fiscal performance. In order to be able to thoroughly evaluate the risks, it is advisable to also include indicators concerning the financial performance of the National Property Fund companies, along with a brief description of expected developments.

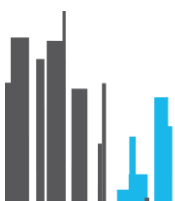
As required by the European Commission, the **Draft Budgetary Plan of the Slovak Republic for 2016**, offering an analytical view of the general government's fiscal performance, has been submitted simultaneously. It defines the government's targets for the upcoming period and provides a more detailed quantification of measures aimed at achieving the targets set, as well as a quantification of alternative fiscal indicators such as structural balance of the budget, expenditure benchmark, or no-policy change scenario. As with the previous year, the contents of this document partially compensated for the lack of information in the budget proposal.

Box 3: CBR recommendations to enhance transparency of the general government budget

- Improve the budgetary process so that the budget contains all revenue and expenditure items that are actually occurring, to ensure comparability of the budgeted and reported items.
- Provide a more detailed picture of the current development in public finances.
- Supplement the implicit liabilities with PPP projects undertaken by local governments, as well as with the risks arising from the fiscal performance of state corporations and NPF companies.
- Broaden the circle of entities reporting contingent liabilities (Deposit Protection Fund), place emphasis on new liabilities that have arisen in the course of the year. Improve the calculation methodology.



- Publish the financial performance indicators for all state corporations and NPF companies. Supplement the financial performance of companies with a commentary on the payment of dividends and the impact on revenues from corporate income tax. Attempt to assess, at least in qualitative terms, the risks arising from the financial performance of state corporations and NPF companies.



Annex 11 – List of one-off effects

The table below shows one-off effects identified between 2014 and 2018 which were taken into account in the calculation of the structural balance in line with the CBR's methodology⁸⁷.

Tab 31: One-off effects in 2014 and 2018 (ESA2010, % GDP)

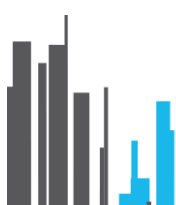
	2014	2015OS	2016R	2017R	2018R
VAT revenue/payment from a PPP project	-0.01	-0.01	-0.01	-0.01	-0.01
Digital dividend	0.22	-	-	-	-
Dividends	-	0.23	0.15	0.14	0.13
Accrualisation of VAT receipts	-0.11	-	-	-	-
Financial corrections to EU funds	-0.18	-0.28	-	-	-
Adjusted amount of transfer to the EU budget	0.08	-	-	-	-
Penalty imposed by the Antimonopoly Office	0.06	-	-	-	-
Refunds paid to households for gas consumption	-	-	-0.06	-	-
Support for housing through ŠFRB from EU funds	-	0.11	-	-	-
Retroactive disburs. of pensions in the armed forces from the SIA	-0.08	-	-	-	-
Repayment of loans - Vodohospodarska výstavba	0.06	-	-	-	-
Repayment of loans - Cargo a.s.	0.03	0.13	0.02	-	-
TOTAL	0.07	0.19	0.10	0.13	0.12

Source: CBR

- VAT receipt from a PPP project** – in 2011, the imputation of a claim towards the Granvia company as a consequence of VAT payment in connection with a PPP project for the R1 motorway in the amount of EUR 174 million had a one-off positive effect on the deficit. In the next 30 years, the balance of the advance payment will be reduced every year by an aliquot portion amounting to EUR 5.79 million. This amount will have a negative effect on the general government budget for 30 years.
- Digital dividend** – in 2014, the sale of frequency bands through auction, the so-called digital dividend, had a one-off positive effect on non-tax revenues. The positive impact of the sale on the 2014 balance reached EUR 163.9 million.
- Dividends** – these are one-off transfers of revenues from dividends unrelated to the respective fiscal year, and/or special agreements on the payout of dividends between the state and other shareholders which do not have to be recognised under the ESA2010 methodology. According to CBR calculations, in 2015 these revenues account EUR 180 million from the dividends paid by Slovenský plynárenský priemysel⁸⁸ and Východoslovenská energetika. In the years ahead, the one-off effect caused by revenues from dividends will be amounting to EUR 117 million on average.

⁸⁷ In its evaluation of the structural balance for the purposes of the EU fiscal rules, the MF SR (e.g., Stability Programme of the Slovak Republic for 2015-2018 or the Draft Budgetary Plan for 2016) takes into account only those measures which are in line with the Commission's interpretation of one-off measures. The Commission does not publish a detailed methodology and a list of one-off measures including the explanation.

⁸⁸ The CBR estimate is based on the proposed dividend distribution for 2014, as published in the 2013 financial statements of Eustream, a.s. The company's 2013 profit reached €319m and the shareholders decided to pay €625m in dividends in the year 2014. The CBR has calculated the one-off impact at €156m (taking into account the ownership stake of SPP in Eustream).



Tab 32: Anticipated income from dividends in 2015-2018 (ESA2010, € million)*

	2015E	2016B	2017B	2018B
SPP	156	100	100	100
VSE	24	19	15	17
Total	180	119	115	117

* in more detailed see Annex 2, Tab 13

Source: CBR

4. **Accrualisation of VAT receipts** - ESA2010 uses the method of time-adjusted cash receipts based on which cash receipts are attributed to individual periods with a fixed time lag. This approach, however, does not fully reflect the reality, particularly when it comes to excess tax refunds. Tax audits and the related suspensions of the excess tax refunds may significantly influence VAT accrual receipts under ESA2010. Due to this, the negative effect on VAT revenues in 2014 reached EUR 100.7 million.
5. **Financial corrections to EU funds** - Due to irregularities identified in the spending of EU funds, the costs of certain projects are not reimbursed from EU funds despite the fact that Slovakia has already received the corresponding EU allocation or the costs have been pre-financed from the national budget. Once the correction is imposed and accepted, it has a negative impact on the balance. In 2014 the corrections in respect of EU funds totalled EUR 134.0 million and, for 2015, their impact is estimated at EUR 216 million⁸⁹.
6. **Adjusted amount of transfer to the EU budget** - The amount of the transfer payable to the EU budget from sources based on VAT and GNP is estimated annually by the European Commission. Based on the calculations done in September 2014, the original amount has been significantly revised (revision of the GNP time series for the period between 1995 and 2013) and the deadline for payment by Member States has been set to 1 December 2014 and 1 September 2015, respectively. In case of Slovakia the adjusted amount has a positive impact on GG balance in 2014 in the amount of EUR 58 million.
7. **Penalty imposed by the Antimonopoly Office** - In October 2006, the Antimonopoly Office ruled that the companies of Strabag a.s., Doprastav, a.s., BETAMONT s.r.o., Inžinierske stavby, a.s., Skanska DS a.s., and Mota – Engil, Engenharia e Construcao, S.A. concluded a cartel agreement in conflict with the provisions of the Antimonopoly Act and the Treaty on the Functioning of the European Union. The cartel agreement concerned a public tender for the construction of the first section of the D1 motorway (Mengusovce–Jánovce). The Supreme Court of the Slovak Republic confirmed the legality of the fine in the amount of EUR 44.8 million on 30 December 2013. The penalty increased non-tax revenues in 2014.
8. **Refunds to households for gas consumption** - In 2016, the general government expenditures will be affected by a one-off government measure. The gas refund to households comes as part of the first “social package” and accounts for roughly 6 % of the households' annual payments for the supply of gas. The measure will affect all

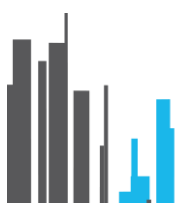
⁸⁹ The amounts of corrections are taken from the ministry's documents ([Draft Budgetary Plan of the Slovak Republic for 2016](#), Box 2). The impact of corrections in the relevant years is identified as the difference between the officially recorded amount of the correction and an analytically adjusted correction (correction assigned to the year in which it has occurred).



households which use gas for cooking, hot water, or heating. The impact on the general government balance accounts EUR 48 million in 2016.

9. **Housing support through ŠFRB from EU funds** - In 2015, based on Government Resolution No. 146/2015, the revenues of the State Fund for Housing Development (ŠFRB) were increased by EUR 88 million from the Jessica II project. The financial resources from EU Funds are intended for the provision of subsidised loans for the renovation of buildings (in particular used for the thermal insulation of apartment buildings), and the ministry has incorporated the positive impact of these financial resources in its latest estimate for 2015.
10. **Retroactive disbursement of pensions in the armed forces** – in 2014, based on a court decision, the Social Insurance Agency made a retroactive calculation of pension entitlements for certain categories of pensioners. The court ruled on a retroactive disbursement of pensions to those who, for most of their careers, paid contributions to the specific pension fund of the armed forces and police corps, and, on leaving the armed forces, worked for a short period of time in the civilian sector without becoming entitled to pension at all, or to a very low pension for that part of their career. The one-off retroactive disbursement had a negative impact on the budget in the amount of EUR 58.5 million.
11. **Repayment of loans provided to Vodohospodárska výstavba, š.p.** – in 2014, the balance of the last two instalments of the repayable financial assistance provided to Vodohospodárska výstavba (state corporation) before 2002 was paid, which increased the revenue by EUR 48 million. Because, in the past, the loan was treated as a capital transfer with negative impact on the deficit under the ESA2010 methodology, the transaction had a positive impact on the general government balance in 2015.
12. **Repayment of loans provided to Cargo, a.s.**⁹⁰ – on 4 March 2009, the government approved the use of state financial assets for the provision of a ‘repayable financial assistance’ to Cargo Slovakia a.s. in the amount of EUR 166 million, which had a negative impact on the budget in 2009. Under a contract with the Ministry of Finance and the Ministry of Transport, Construction and Regional Development, Cargo used the assistance to finance its payroll and personnel expenditures, charges for the use of the railway infrastructure, and its own financial expenses. The payment of interest was set to begin in 2009, the payment of principal in 2011, and the entire loan matures in 2016. In 2014, the instalment paid by Cargo had a positive impact of EUR 20 million. In 2015, Cargo will repay EUR 98 million, which also includes an extraordinary instalment.

⁹⁰ Even through individual instalments do not reach 0.05 % of GDP in each year, according to CBR the transactions should be recorded consistently. The instalments are thus spread over the entire loan term and have a positive impact on the balance.



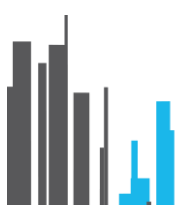
Annex 12 – Balance of general government revenues and expenditures

Tab 33: General Government Budget (ESA2010, € million)

	2015B	2015E	2016B	2017B	2018B
Total revenue	28 474.4	31 160.4	30 428.1	31 732.3	33 334.2
Tax revenue	13 554.5	13 745.4	14 213.7	14 722.0	15 469.8
Taxes on production and imports	8 227.6	8 263.8	8 486.0	8 731.4	9 048.2
- VAT (incl. VAT directed to the EU)	5 199.1	5 236.1	5 423.8	5 645.1	5 907.3
- Excise taxes	2 092.7	2 082.2	2 112.5	2 171.8	2 208.4
- Taxes on land, buildings and other structures	233.6	227.8	233.5	241.3	250.5
Current taxes on income, wealth etc.	5 326.9	5 481.6	5 727.7	5 990.7	6 421.6
- PIT	2 393.7	2 422.6	2 554.9	2 708.7	2 885.6
- CIT	2 462.4	2 575.1	2 676.9	2 846.2	3 078.8
- Withholding tax	145.6	159.0	166.8	179.8	197.1
- Property taxes and others	107.9	105.0	107.6	111.0	115.1
Social security contributions	10 316.3	10 656.4	10 907.7	11 322.6	11 885.2
Actual social security contributions	10 186.9	10 519.4	10 762.9	11 175.6	11 738.9
Imputed SSC	129.3	137.0	144.8	147.0	146.3
Nontax revenue	2 283.9	3 687.9	3 580.9	3 663.4	3 689.2
Sales	1 702.6	3 103.9	3 020.3	3 114.7	3 128.6
Property income	581.3	584.0	560.7	548.7	560.6
- Dividends	495.0	483.5	465.3	454.5	452.6
- Interest	39.2	52.2	47.1	45.7	59.6
Grants and transfers	2 319.7	3 070.7	1 725.8	2 024.2	2 289.9
of which: from EU	1 681.7	2 184.4	1 093.9	1 432.3	1 719.0
Total expenditure	30 414.5	33 284.3	31 984.6	32 484.6	33 706.7
Current expenditure	27 684.7	29 528.3	29 631.8	29 873.3	30 753.6
Compensation of employees	5 541.8	6 493.9	6 857.3	6 991.2	7 143.0
Intermediate consumption	4 073.0	4 545.3	3 975.3	3 869.7	3 874.1
Taxes	34.1	34.1	44.1	44.8	45.4
Subsidies	598.1	598.6	612.5	626.6	620.0
Interest	1 327.0	1 275.2	1 248.2	1 199.6	1 256.3
Total social transfers	14 025.6	14 578.2	14 946.6	15 128.5	15 658.5
Social transfers other than in kind	10 293.6	10 572.7	10 898.7	10 991.9	11 303.2
- Active labour market policy	62.2	54.7	45.5	53.3	52.4
- Sickness benefits	416.5	416.5	441.3	454.6	466.1
- Retirement and disability pensions	6 356.0	6 398.6	6 545.9	6 711.5	6 941.1
- Unemployment benefits	157.3	157.3	147.1	138.6	130.9
- State social allowances	1 376.3	1 374.9	1 395.4	1 410.7	1 432.8
- SSC on behalf of certain groups	1 534.2	1 508.5	1 610.9	1 551.8	1 599.5
Social transfers in kind (Healthcare)	3 732.0	4 005.5	4 047.9	4 136.6	4 355.3
Other current transfers	2 085.1	2 003.1	1 947.8	2 012.9	2 156.3
of which: Levies to the EU budget	738.0	680.6	726.7	718.7	756.7
of which: 2 % of income tax to 3rd sector	54.4	60.0	56.0	59.4	63.8
Capital Expenditure	2 729.8	3 756.0	2 352.8	2 611.3	2 953.1
Capital investment	2 181.8	3 295.0	2 164.9	2 384.1	2 692.6
Capital transfers	548.0	461.0	188.0	227.3	260.5
Net lending/borrowing	-1 940.1	-2 123.9	-1 556.5	-752.4	-372.5
Measures needed to reach the targeted GG balance				394.9	372.5
Net lending/borrowing - target	-1 940.1	-2 123.9	-1 556.5	-357.5	0.0

Source: MF SR

2015B – GG Budget 2015-2017, 2015E – recent MF SR estimate, 2016B-2018B – GG Budget Proposal 2016-2018

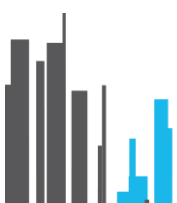


Tab 34: General Government Budget (ESA2010, % of GDP)

	2015B	2015E	2016B	2017B	2018B
Total revenue	36.5	40.2	37.7	37.3	37.1
Tax revenue	17.4	17.7	17.6	17.3	17.2
Taxes on production and imports	10.6	10.7	10.5	10.3	10.1
- VAT (incl. VAT directed to the EU)	6.7	6.8	6.7	6.6	6.6
- Excise taxes	2.7	2.7	2.6	2.6	2.5
- Taxes on land, buildings and other structures	0.3	0.3	0.3	0.3	0.3
Current taxes on income, wealth etc.	6.8	7.1	7.1	7.0	7.1
- PIT	3.1	3.1	3.2	3.2	3.2
- CIT	3.2	3.3	3.3	3.3	3.4
- Withholding tax	0.2	0.2	0.2	0.2	0.2
- Property taxes and others	0.1	0.1	0.1	0.1	0.1
Social security contributions	13.2	13.8	13.5	13.3	13.2
Actual social security contributions	13.1	13.6	13.3	13.1	13.1
Imputed SSC	0.2	0.2	0.2	0.2	0.2
Nontax revenue	2.9	4.8	4.4	4.3	4.1
Sales	2.2	4.0	3.7	3.7	3.5
Property income	0.7	0.8	0.7	0.6	0.6
- Dividends	0.6	0.6	0.6	0.5	0.5
- Interest	0.1	0.1	0.1	0.1	0.1
Grants and transfers	3.0	4.0	2.1	2.4	2.5
of which: from EU	2.2	2.8	1.4	1.7	1.9
Total expenditure	39.0	43.0	39.7	38.2	37.5
Current expenditure	35.5	38.1	36.7	35.1	34.2
Compensation of employees	7.1	8.4	8.5	8.2	7.9
Intermediate consumption	5.2	5.9	4.9	4.5	4.3
Taxes	0.0	0.0	0.1	0.1	0.1
Subsidies	0.8	0.8	0.8	0.7	0.7
Interest	1.7	1.6	1.5	1.4	1.4
Total social transfers	18.0	18.8	18.5	17.8	17.4
Social transfers other than in kind	13.2	13.6	13.5	12.9	12.6
- Active labour market policy	0.1	0.1	0.1	0.1	0.1
- Sickness benefits	0.5	0.5	0.5	0.5	0.5
- Retirement and disability pensions	8.2	8.3	8.1	7.9	7.7
- Unemployment benefits	0.2	0.2	0.2	0.2	0.1
- State social allowances	1.8	1.8	1.7	1.7	1.6
- SSC on behalf of certain groups	2.0	1.9	2.0	1.8	1.8
Social transfers in kind (Healthcare)	4.8	5.2	5.0	4.9	4.8
Other current transfers	2.7	2.6	2.4	2.4	2.4
of which: Levies to the EU budget	0.9	0.9	0.9	0.8	0.8
of which: 2 % of income tax to 3rd sector	0.1	0.1	0.1	0.1	0.1
Capital Expenditure	3.5	4.8	2.9	3.1	3.3
Capital investment	2.8	4.3	2.7	2.8	3.0
Capital transfers	0.7	0.6	0.2	0.3	0.3
Net lending/borrowing	-2.49	-2.74	-1.93	-0.88	-0.41
Measures needed to reach the targeted GG balance				0.46	0.41
Net lending/borrowing - target	-2.49	-2.74	-1.93	-0.42	0.00

Source: MF SR

2015B – GG Budget 2015-2017, 2015E – recent MF SR estimate, 2016B-2018B – GG Budget Proposal 2016-2018



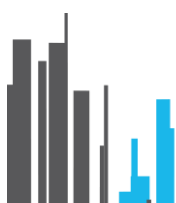
Annex 13 – Structure and development of general government expenditures

Tab 35: Structure and development of GG expenditures (ESA2010, € million)

	2014	2015E	2016B	2017B	2018B
Total expenditures	31 461.5	33 783.4	32 545.3	33 072.6	34 324.7
- EU expenditures	1 196.0	2 096.4	1 093.9	1 432.3	1 719.0
- Co-financing	383.5	609.9	392.1	564.7	648.3
- Interest paid	1 441.0	1 275.2	1 248.2	1 199.6	1 256.3
- SSC on behalf of certain groups	1 447.1	1 595.4	1 610.9	1 551.8	1 599.5
- Transfers to the EU budget	595.8	680.6	726.7	718.7	756.7
Adjusted expenditures	26 398.2	27 526.0	27 473.6	27 605.4	28 345.0
Mandatory	10 298.7	10 837.8	11 024.1	11 036.0	11 132.4
year on year (%)		5.2	1.7	0.1	0.9
Compensation of employees	6 348.7	6 376.3	6 763.9	6 842.6	6 938.2
Unbudgeted compensation of employees	74.3	77.1	93.4	101.4	109.9
Intermediate consumption	3 597.3	4 129.3	3 867.4	3 784.8	3 768.7
Unbudgeted intermediate consumption	194.2	221.0	255.3	262.4	270.3
Taxes	84.2	34.1	44.1	44.8	45.4
Facultative	8 751.7	8 995.2	9 186.1	9 386.1	9 658.1
year on year (%)		2.8	2.1	2.2	2.9
Social transfers	8 606.2	8 837.5	9 032.0	9 228.1	9 495.4
Active labour market policy	26.9	26.9	30.6	29.9	25.5
Sickness benefits	380.8	416.5	441.3	454.6	466.1
Old-age and disability pensions	6 242.0	6 398.6	6 545.9	6 711.5	6 941.1
Unemployment benefits	154.7	157.3	147.1	138.6	130.9
State social allowances	1 360.9	1 374.9	1 395.4	1 410.7	1 432.8
Pension system of armed forces	176.6	201.0	212.0	224.1	237.9
Tax bonus and employee premium	264.3	262.3	259.7	258.7	261.1
Transfer to pension system of armed forces	93.4	97.6	98.0	98.5	99.0
2 % of income tax to 3rd sector	52.2	60.0	56.0	59.4	63.8
Other current expenditures	5 510.2	5 735.7	5 783.2	5 784.9	6 029.8
year on year (%)		4.1	0.8	0.0	4.2
Subsidies	631.2	524.2	495.9	488.7	487.3
Social transfers	439.1	399.8	452.3	411.2	418.7
Other current transfers	593.5	806.2	787.2	748.4	768.5
Social transfers in kind (Healthcare)	3 846.4	4 005.5	4 047.9	4 136.6	4 355.3
Capital expenditures	1 837.6	1 957.3	1 480.2	1 398.4	1 524.7
year on year (%)		6.5	-24.4	-5.5	9.0
Capital investment	1 505.8	1 595.1	1 333.4	1 270.3	1 391.5
Capital transfers	331.7	362.2	146.8	128.1	133.2

* Estimate of unbudgeted items is from CBR's NPC scenario

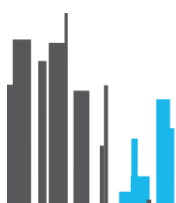
Source: MFSR, CBR



Tab 36: Structure and development of GG expenditures in NPC scenario (ESA2010, € million)

	2014	2015E	2016NPC	2017NPC	2018NPC
Total expenditures	31 461.5	33 783.4	33 146.4	34 360.7	35 792.3
- EU expenditures	1 196.0	2 096.4	1 076.5	1 223.1	1 261.0
- Co-financing	383.5	609.9	306.5	397.4	411.7
- Interest paid	1 441.0	1 275.2	1 308.3	1 248.2	1 359.8
- SSC on behalf of certain groups	1 447.1	1 595.4	1 661.2	1 701.9	1 754.2
- Transfers to the EU budget	595.8	680.6	748.3	747.5	789.9
Adjusted expenditures	26 398.2	27 526.0	28 045.6	29 042.6	30 215.7
Mandatory	10 298.7	10 837.8	11 140.4	11 531.3	11 980.0
year on year (%)		5.2	2.8	3.5	3.9
Compensation of employees	6 348.7	6 376.3	6 542.5	6 857.1	7 189.8
Unbudgeted compensation of employees	74.3	77.1	93.4	101.4	109.9
Intermediate consumption	3 597.3	4 129.3	4 214.7	4 275.2	4 374.2
Unbudgeted intermediate consumption	194.2	221.0	255.3	262.4	270.3
Taxes	84.2	34.1	34.6	35.2	35.9
Facultative	8 751.7	8 995.2	9 148.0	9 367.1	9 659.9
year on year (%)		2.8	1.7	2.4	3.1
Social transfers	8 606.2	8 837.5	9 008.1	9 226.8	9 519.1
Active labour market policy	26.9	26.9	27.2	27.7	28.2
Sickness benefits	380.8	416.5	433.5	456.7	482.2
Old-age and disability pensions	6 242.0	6 398.6	6 545.9	6 711.5	6 941.1
Unemployment benefits	154.7	157.3	146.6	141.1	133.5
State social allowances	1 360.9	1 374.9	1 383.1	1 406.9	1 435.1
Pension system of armed forces	176.6	201.0	212.0	224.1	237.9
Tax bonus and employee premium	264.3	262.3	259.7	258.7	261.1
Transfer to pension system of armed forces	93.4	97.6	83.9	80.9	77.1
2 % of income tax to 3rd sector	52.2	60.0	56.0	59.4	63.8
Other current expenditures	5 510.2	5 735.7	5 952.6	6 262.7	6 585.8
year on year (%)		4.1	3.8	5.2	5.2
Subsidies	631.2	524.2	522.2	531.9	550.0
Social transfers	439.1	399.8	404.9	413.1	422.2
Other current transfers	593.5	806.2	829.5	845.2	862.7
Social transfers in kind (Healthcare)	3 846.4	4 005.5	4 196.0	4 472.6	4 750.9
Capital expenditures	1 837.6	1 957.3	1 804.6	1 881.6	1 990.1
year on year (%)		6.5	-7.8	4.3	5.8
Capital investment	1 505.8	1 595.1	1 661.5	1 755.6	1 857.3
Capital transfers	331.7	362.2	143.2	126.0	132.8

Source: MF SR, CBR



Annex 14 – Differences against the budget between 2010 -2016

Tab 37: Comparison of the budgeted amounts with outcomes (ESA2010, € million)

	2010	2011	2012	2013	2014	2015	2016
1. General government balance	-1 159	564	285	233	-97	-184	-560
2. Balance of local governments (a+b-c)	-599	33	156	-22	-119	-80	-198
a) budgeted local government entities (budgetary and semi-budgetary organisations of municipalities and self-governing regions)	-591	40	160	18	-25	-59	-199
b) non-budgeted local government entities (non-profit organisations, public transport companies, hospitals)	-6	-7	-6	-4	-54	-21	1
c) impact of transfers from the state budget for devolved powers	2	1	-2	36	40	0	0
3. Balance of other GG entities (1-2)	-560	531	128	255	22	-104	-362
Tax revenues and social contributions excluding the impact legislative changes	-405	-300	-603	53	895	393	487
Impact of legislative changes	-36	-39	243	49	-74	0	-42
Selected non-tax revenues	62	166	13	-322	-932	3	40
- dividends	65	76	-18	-93	-713	-2	18
- capital revenues	-45	5	77	-157	-209	-4	20
- administrative fees of the state budget	16	-2	-10	37	52	-3	-6
- from the levy on gambling (state budget)	27	-1	4	22	23	13	8
- from the sale of telecommunication licences	0	88	-40	-130	-86	0	0
Financial corrections to EU funds	0	0	0	-124	-209	-235	0
Selected expenditures (with impact on the balance)	950	656	441	564	650	213	203
- co-financing from the state budget	263	232	223	260	257	47	97
- induced investments (excluding road maintenance company SSC)	0	121	132	207	211	24	-12
- EU budget levy	294	80	44	16	147	108	29
- state budget interest payments less issuance premia	394	223	42	81	35	33	89
Cash expenditures of the state budget	-649	-752	190	-63	-72	-101	-577
- compensation of employees	-161	-188	-159	-177	-259	10	-207
- intermediate consumption	-137	-27	209	301	325	178	-128
- subsidies	-133	-356	6	-107	-3	0	-5
- acquisition of capital assets	-218	-181	134	-79	-135	-290	-237
Receivables and liabilities of the state budget +state financial assets, extra-budgetary accounts)	-23	152	-180	-93	-151	40	17
Healthcare expenditures	-61	-245	58	19	-137	-227	-12
Balance of hospitals	-109	226	-22	-30	-63	0	-55
Social transfers	47	157	88	54	-14	-24	-14
Balance of the highway construction company NDS	48	48	65	147	7	-158	-111
Balance of the railway infrastructure company ŽSR	0	215	47	58	31	-15	-25
Development of other revenues and expenditures	-384	246	-211	-58	91	6	-273
4. Unexpected effects in the budget*	-90	350	237	520	1 352	526	671
- of which: legislation	-36	-39	243	49	-74	0	0
5. Other budgeted items (1-4)	-1 069	214	48	-288	-1 449	-710	-1 231
A. Budgeted balance**	-3 873	-3 449	-3 324	-2 187	-2 000	-1 940	-996
B. Hypothetical balance, balance adjusted for unexpected effects (A+4)	-3 873	-3 449	-3 323	-2 186	-1 999	-1 940	-325
C. Final GG balance**	-5 032	-2 885	-3 039	-1 954	-2 098	-2 124	-1 557

Note: * In 2016, unexpected effects also include the negative impact on new general government entities in the amount of EUR 31 million.

Source: MF SR, CBR, SO SR

** In 2016, the budgeted balance means the balance of the general government budget for 2015 - 2017 and the actual balance means the General Government Budget Proposal for 2016 - 2018



Annex 15 – Changes in the budget proposal for 2016

As is shown by a comparison between the 2016 budget, approved in 2014 as part of the General Government Budget for 2015 - 2017, and the current budget proposal for 2016, the unexpected impacts, in particular in the form of additional tax revenues (including better tax collection), accounted for 0.8 % of GDP. The negative factors totalling 1.5 % of GDP include, in particular, more realistic expenditures in several areas, as well as new measures of the government. With expenditures surpassing the positive factors, the resulting gap is compensated for by an increase in the budgeted deficit by 0.7 % of GDP.

Figure 29: Budget for 2016 – factors contributing to a change in the deficit of the current budget proposal for 2016 against the 2016 budget within the 2015 – 2017 budget

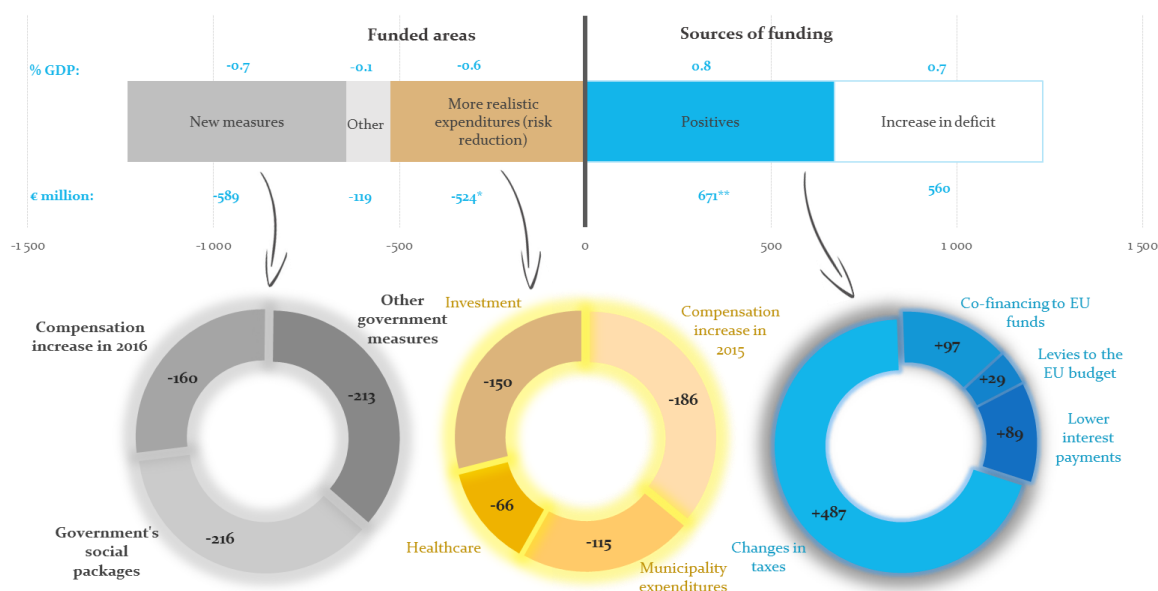
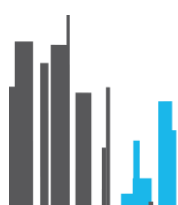
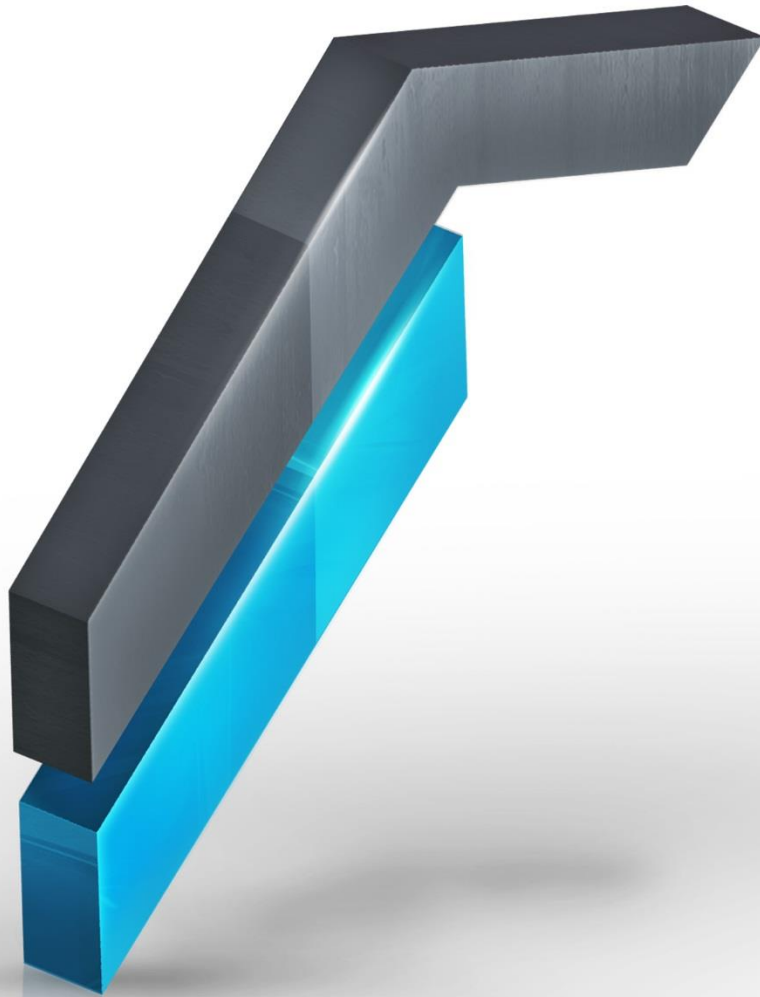


Figure 29: The amount (*) also includes, beyond the scope of items in the lower section of the figure, other impacts quantified at EUR -6 million, whereas the amount (**) in the category of positive aspects also includes the impact of new entities EUR-31 million.

Source: MF SR, CBR





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