CBR
COUNCIL FOR BUDGET
RESPONSIBILITY

Evaluation of Medium-term Budgetary Objectives for 2016-2019

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This report presents the official positions of the Council for Budget Responsibility in line with its mandate laid down in Act No. 523/2004 on General Government Budgetary Rules.

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Any suggestions or comments on the report are welcome at sekretariat@rrz.sk.

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Summary

In the 2016-2019 Stability Programme, the Slovak government approved its medium-term objectives which assume further general government deficit reductions and improvements in the long-term sustainability of public finances. The meeting of these objectives should steer the public debt by 2019 outside the debt limit sanction zones, despite the progressive decrease in debt thresholds from 2018 onward. The medium-term budgetary framework is based on realistic assumptions on the development of macroeconomic environment and revenues from taxes and social contributions, as approved by the respective committees in February 2016[1]. In comparison with the approved general government budget for 2016-2018, the objectives are less ambitious and the meeting of the medium-term objective has been pushed back by two years, from 2017 to 2019. The Stability Programme specifies mainly deficit-increasing measures, but it falls short of explaining sufficiently enough the measures to be taken for deficit reduction. The Council for Budget Responsibility (CBR) has also identified certain significant risks which increase the need to adopt additional measures if the objectives are to be met. **The CBR estimates that if the government does not adopt any additional measures, general government deficit may reach 2.5 % of GDP in 2016 and then gradually decline to 1.0 % of GDP in 2019.**

The budgetary objectives set for 2014 and 2015 were not met, and the 2015 deficit reached almost 3.0 % of GDP. Above the framework of the approved budget, a number of factors had a positive contribution reaching 1.9 % of GDP in 2014 and 1.0 % of GDP in 2015[2]; in spite of that, the structural balance deteriorated in both years, which was inconsistent with the effort to reach the original medium-term objective in 2017. **In 2016, the Ministry of Finance expects that the budgetary objective will not be met again unless additional measures are adopted. The CBR estimates that its meeting would require the adoption of additional measures amounting to 0.5 % of GDP.**

The worsening of deficit compared to the approved 2016-2018 general government budget by 0.9 % of GDP in 2017 and 0.4 % of GDP in 2018 will increase the level of gross debt. The CBR therefore views negatively that the rising of deficit targets **defers[3] the bringing of public debt outside the sanction brackets of the debt limit**. The basic requirement of the Fiscal Responsibility Act for the government is to propose measures which bring the debt below the first sanction threshold. However, the measures presented so far have not been sufficient because the debt is likely to remain within the sanction brackets until 2019, seven years after the first threshold was overrun in 2012.

The expected positive macroeconomic development, coupled with the consistently low interest rates on financial markets, will considerably facilitate deficit reduction. Assuming that no new measures are adopted after 2015, that public finances develop based on the existing legislation and that the budget items are determined solely by macroeconomic

[1] The new measures in the area of tax revenues specified in the Stability Programme will be discussed at the upcoming meeting of the Tax Revenue Forecasting Committee.

[2] In 2014, this mainly included higher tax revenues, lower expenditures on co-financing and lower transfers to the EU budget; in 2015, mainly higher tax revenues and lower transfers to the EU budget.

[3] The deferring of consolidation at present increases the magnitude of the necessary consolidation in the future (cost of delay). More at the Report on long-term sustainability of public finances from April 2016, p. 24.

development, the deficit will gradually shrink from just below 3.0 % of GDP in 2015 to 1.3 % in 2019.

The CBR has updated its view on the risks and positive effects in the budget, taking into account the 2015 results, the updated government's estimate for 2016, the measures described in the Stability Programme, as well as the measures specified after its approval. The government declares intention to respect the 2016 target at 1.93 % of GDP, even though its own estimate presented in the Stability Programme stands at 2.13 % of GDP. The CBR estimates the total risks compared to the approved 2016 budget at EUR 901 million (1.1 % of GDP), which may be partly offset by positive effects amounting EUR 465 million (0.6 % of GDP). In subsequent years, the risks will increase to EUR 1.3 billion in 2019 (1.3 % of GDP) while the potential positive effects will decline to EUR 0.2 billion (0.2 % of GDP). **Thus, according to the CBR, without the adoption of additional measures the deficit may reach 2.5 % of GDP in 2016 and 2.1 % of GDP in 2017, potentially falling to 1.0 % of GDP by 2019[4].**

The CBR estimates that structural deficit will improve by 1.5 % of GDP by 2019. The improvement will be largely (1.3 % of GDP) attributable to macroeconomic development and a slowdown in the drawing of EU funds. The CBR estimates the net government contribution[5] to a permanent improvement of the balance at 0.3 % of GDP. **To reach the objectives specified in the Stability Programme, which, according to the CBR, will lead to a slight structural surplus in 2019, the government will have to adopt additional measures with a permanent impact in the amount of 1.2 % of GDP**.

The budgetary objectives approved by the government for the years 2016-2019 are associated with numerous risks and their meeting is thus conditional on the adoption of additional measures. The risks are mainly associated with the repeated overestimation of certain non-tax revenues (revenues from dividends and the sale of CO_2 allowances), underestimation of expenditures in the local government sector, in the healthcare system and in the state budget (expenditures on wages, goods, services and investments), and unbudgeted expenditures on financial corrections to EU funds. The next group of risks is associated with the preparation of significant private investments (PPP project D4/R7 motorway and Jaguar Land Rover)[6] and with the approved measures whose impact have not yet been reflected in the Stability Programme (construction of a national football stadium, purchase of an aircraft, expenditures of the Environmental Fund, and pay-rises in the education system). The last group of risks relates to the actual development in 2015, which will have a one-off negative impact on the 2016 deficit (loan repayment by the Cargo company, contributions to the National Resolution Fund and accrualisation of expenditures on social security benefits).

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4 The European Commission estimates the deficit at 2.4 % of GDP in 2016 and 1.6 % of GDP in 2017.

5 The 'government consolidation effort' indicator is linked exclusively to the contribution of government measures towards a permanent change in fiscal position. Its detailed description is provided in the CBR discussion Paper No. 02/2014: How to measure public finance consolidation.

6 The expenditures associated with the investments under preparation represent a risk compared with the 2016 budget. Their estimated impacts are reflected in the government's estimate of the 2016 deficit in the amount of 2.13 % of GDP and in the fiscal framework of the 2017-2019 Stability Programme.

The potential sources for the coverage of risks include the unrealised expenditures on co-financing due to the slower uptake of EU funds compared with the government's estimates[7] and lower expenditures on social benefits in the medium term. The higher tax revenues and lower transfers to the EU budget will also have a positive effect in 2016. The unallocated reserves set aside for better collection of taxes and for the fiscal consequences of the new laws in 2016 represent another potential source for risk coverage.

A view of the fiscal framework through the net worth prism[8] enables us to identify such budgetary items which develop differently in the medium term and differently in the long term. The expected improvement in the budget balance (structural balance including) due to the improving balance of the National Nuclear Fund and revenues from a special levy payable by selected financial institutions until 2019 will, in the long run, be reflected in increased budget expenditures[9]. The next group of items are those which may have a positive or neutral impact on the general government balance in the medium-term, but their negative effects on the budget will be felt in the long run. This, for example, includes the consolidation of public finances through the downsizing of investments, functioning of the traditionally loss-making state corporations, and the approval of a new PPP project.

The CBR is preparing its opinion of Slovakia's Stability Programme for 2016–2019 in line with its mandate stipulated in the Fiscal Responsibility Act[10]. The purpose of the CBR's opinions is to offer an independent view on the budget across all important phases of its preparation, 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.

Apart from the Stability Programme itself, the CBR based its opinion also on additional documents and information provided by the ministries of finance and transport. In the interest of making the Stability Programme more transparent and comprehensible, it would be most useful if the Stability Programme specified the measures in a greater detail and, in particular, explained the method used for their quantification compared with the no-policy change scenario. We also recommend that the programme also present deviations of current estimates from the those used in the budget, without the impact of transfers from the EU which influence both revenues and expenditures (and their structure), but do not affect the overall deficit amount.

7 Compared with the Stability Programme, the CBR estimates a slower drawing of EU funds (at about 85% on average), which is approximately on par with the assumptions used in the macroeconomic forecast from February 2016. Such a level of drawing would reduce expenditures on co-financing, but tax revenues would remain unchanged. A higher drawing of EU funds would increase expenditures on co-financing, but the improved macroeconomic environment would then generate higher tax revenues. The resulting impact would thus be a combination of higher tax revenues and higher expenditures on co-financing.

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

9 The accumulated funds of the National Nuclear Fund should be used in the future towards the cost of decommissioning nuclear facilities. The funds raised from the special levy are earmarked for the coverage of future risks in the financial sectors.

10 Act No. 493/2011 on Fiscal Responsibility, Article 4, paragraph 1(d).

1. Medium-term budgetary objectives

The Stability Programme of the Slovak Republic for 2016 to 2019[11] represents a new fiscal framework for the general government in the upcoming period. It provides initial information on the direction of the fiscal policy, sets the target deficit values for the general government, and quantifies the measures necessary to meet the declared budgetary objectives. The present fiscal framework partly reflects the intentions of the new government set out in its Manifesto.

1.1 General government balance and gross debt

The objectives declared by the government are based on the latest estimate of the 2016 general government deficit at 2.13 % of GDP[12]. The deficit is expected to gradually decline in subsequent years and, **according to the Ministry of Finance calculations**, **the medium-term budgetary objective** (structural deficit up to 0.5 % of GDP[13]) **should be achieved in 2019**.

Tab 1: Fiscal targets (ESA2010, % of GDP)

	2015	2016E	2017SP	2018SP	2019SP
1. GG balance (2016-2018 GGB)	-2.49	-1.93	-0.42	0.00	-
2. GG balance (2016-2019 SP)	**-2.97**	**-2.13**	**-1.29**	**-0.44**	**0.16**
3. Difference (2-1)			-0.87	-0.44	-
4. Gross GG debt (2016-2018 GGB)	52.8	52.1	51.3	48.9	-
5. Gross GG debt (2016-2019 SP)	**52.9**	**52.9**	**52.2**	**49.8**	**47.3**
6. Difference (5-4)	0.1	0.7	0.8	0.9	-

Note: E – estimate, SP – Stability Programme, GGB - General government budget *Source: MF SR*

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. Compared to the approved 2016-2018 General Government Budget, these **targets are less ambitious**. The deficit should reach 1.3 % of GDP in 2017 and 0.4 % of GDP in 2018, which falls behind the original target by 0.9 % of GDP and 0.4 % of GDP, respectively. The surplus of 0.2 % of GDP planned for the year 2019 corresponds to a structural deficit consistent with the medium-term budgetary objective (Box 1). This relaxation of budgetary objectives also **delays the meeting of the medium-term budgetary objective by two years** (the original deadline was in 2017)**.**

[11] The CBR's opinion evaluating the medium-term budgetary objectives is based on the Stability Programme of the Slovak Republic for 2016-2019, approved by the Cabinet on 29 April 2016 and submitted to the European Commission as a binding document in line with the requirements of the Stability and Growth Pact.

[12] The meeting of the deficit target (1.93 % of GDP) requires an additional reduction in deficit by 0.2 % of GDP (approximately € 160 m), yet the Stability Programme does not specify in detail the measures through which this will be achieved. According to the Ministry of Finance, the objective is to be achieved through more efficient collection of taxes and social contributions and through active management of expenditures.

[13] 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), even after having taken into account a different methodology for the assessment of the cyclical component and one-off effects.

According to the European Commission[14], the revised fiscal objectives are broadly in compliance with EU fiscal rules.

Box 1: GG structural balance in SP 2016-2019

Following table presents GG structural balance estimate in line with the EC methodology.

Tab 2: Structural balance according to MF SR (ESA2010, % GDP)

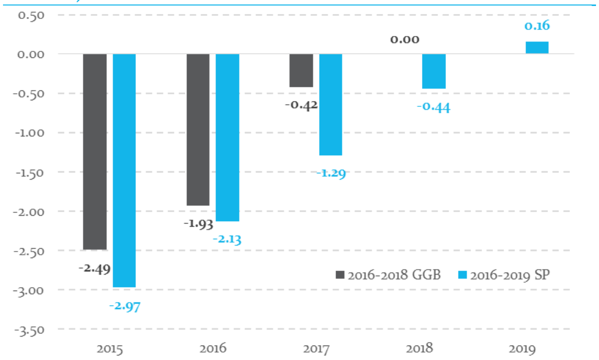
	2015	2016E	2017SP	2018SP	2019SP
1. GG balance	-3.0	-2.1	-1.3	-0.4	0.2
2. Cyclical component (MF SR)	-0.5	-0.4	-0.3	0.1	0.7
3. One-off effects (MF SR)	-0.3	0.0	0.0	0.0	0.0
4. Structural balance (1-2-3)	**-2.17**	**-1.72**	**-1.02**	**-0.52**	**-0.50**
Change in structural balance (Δ4)	-0.25	0.45	0.70	0.50	0.02
*p.m. required improvement in structural balance according to EC**	0.0	0.25	0.5	0.5	

* According to EC evaluation of May 18, 2016 required improvement in the structural balance should reach 0.25 % of GDP in 2016 and 0.5 % of GDP in 2017. According to the EC matrix for specifying fiscal adjustment, the required improvement in 2018 should obtain 0.5 % of GDP.

Source: MF SR

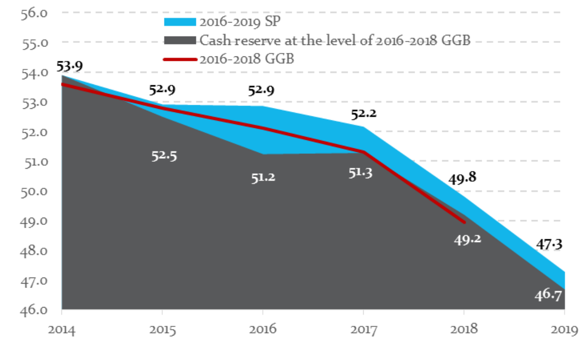
The meeting of the budgetary objectives would lead to a gradual decrease in gross debt from 52.9 % of GDP in 2015 to 47.3 % of GDP in 2019. Thus, the debt should decrease by 5.6 p.p. in the medium term. The present fiscal framework does not foresee any extraordinary revenues. Compared with the approved budget for 2016-2018, the debt forecast has been revised slightly upwards (Figure 2), which is due to the increase in the cash reserve (mainly in 2016) and partly due to the relaxation of the 2017 and 2018 budgetary objectives. If the cash reserve is maintained during 2016–2019 at the level approved in the budget, the present gross debt forecast would be lower at the end of 2019 by 0.6 percentage point.

Figure 1: Change in budgetary targets (% of GDP)



Source: MF SR

Figure 2: Change in gross debt forecast (% of GDP)



Source: MF SR, CBR

[14] According to the evaluation of the European Commission of 18 May 2016, there is a risk of deviation from the path towards the medium-term objective in 2016. In the next year, structural balance should improve in line with the Commission's recommendation. The conclusion of the Commission: „Based on its assessment of the stability programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that Slovakia is expected to broadly comply with the provisions of the Stability and Growth Pact."

1.2 Measures designed to meet medium-term objectives

The medium-term fiscal framework of the Stability Programme contains measures which are not specified in detail. Some measures are explained in detail and they should have an overall negative impact in the medium term. The other measures proposed to improve the balance compared to the no-policy change scenario are not explained. At the same time, some of the measures contained in the government's Manifesto have not yet been incorporated into the fiscal framework.

The measures which are explained and incorporated into the Stability Programme will be implemented mostly on the revenue side of the budget, through legislative changes affecting selected taxes and social security contributions. Starting from 2017, the government is planning to reduce corporate income tax rate from 22 % to 21 %. Effective as of 2018, the government is set to abolish 'tax licences' and extend the period for which firms in regulated industries will continue to pay a special levy[15]. On the expenditure side, the framework incorporates government plans concerning the development of a strategic industrial park near Nitra and the D4/R7 motorway bypass of Bratislava. The overall negative impacts of these measures should reach 0.4 % of GDP in 2017, 0.2 % of GDP in 2018 and 0.1 % of GDP in 2019[16].

The unexplained measures are based on the assumption of a slower growth in wages compared to the private sector (for example, hospitals and public universities) and a freeze on the rise of wages in the state budget. The government plans to achieve the other 'unexplained' expenditure reductions in current transfers and, partially, also in intermediate consumption.

Figure 3: Measures to meet the budgetary objectives – comparison to NPC of SP 2016-2019 (% GDP)

Source: MF SR, CBR

In addition to the measures included in the fiscal framework, the government has announced further measures in its Manifesto (see the Box below). Given the fact that the final shape of these

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15 The impacts of the proposed changes in taxes are taken over from the MoF estimates; however, they have not yet been discussed and approved by the Tax Revenue Forecasting Committee.

16 The Stability Programme also describes the measures (progressive increase in contributions to the fully-funded pillar, change in the taxation of cigars and cigarettes), which were approved before 2016 and whose effects are reflected in the latest forecast of the Tax Revenue Forecasting Committee from February 2016.

measures was unknown at the time when the Stability Programme was prepared, their impact on the balance is not quantified.

Box 2: Measures from the Manifesto not reflected in the 2016-2019 Stability Programme

On the expenditure side:

- Change in the indexation of pensions
- Support to 'social economy' through appropriate financial instruments and legislative framework, including the principle of positive discrimination in public procurement
- Introduction of transparent rules for patients' payments and creation of a multi-source system of financing
- Adoption of rules for the efficient spending of public funds, also by limiting the profits of health insurance companies in keeping with the laws of the EU and Slovakia
- Centralised procurement for state hospitals at the level of the Ministry of Health and the publication of comparative pricelists
- Increase in the wages for pedagogical and specialised staff in the regional schools system and in tertiary education from September 2016, and then every year from January 2018 by 6 % annually on average

Tax measures:

- Increase in the tax rate on cigarettes (excise tax on tobacco)
- Introduction of a single annual settlement of social contributions
- Increased rate of the special levy payable by firms in regulated industries
- Revised rates of the levies and administrative fees payable by gambling

2. Evaluation of the likelihood of meeting the budgetary objectives

The proposed medium-term objectives for 2017-2019 are based on the macroeconomic assumptions approved by the Macroeconomic Forecasting Committee and on the forecast of revenues from taxes and social security contributions approved by the Tax Revenue Forecasting Committee in February 2016.

This part of the CBR's evaluation focuses on the identification of risks and possible sources for their coverage, arising from different-than-expected macroeconomic development, tax revenue forecasts, and the size and nature of the measures, which will allow to estimate the development in the general government balance and gross debt in the medium term. The CBR's estimate will then be compared against the objectives set by the government in order to establish the size of additional measures that need to be adopted. The assessment also involves an estimate of the structural balance, expressing a contribution by government's permanent measures and a no-policy change scenario.

2.1 Identified risks and sources for their coverage

The estimate of risks and their coverage is based on the information published in the Stability Programme of the Slovak Republic for 2016-2019 and on the data and information additionally requested[17] from the Ministry of Finance that helped better quantify the risks. The CBR obtained further information from the Social Insurance Agency and the Ministry of Transport.

The risks and sources for their coverage are separately described in terms of their impact on the general government balance, gross debt and net worth. Their estimated impact represents the most likely estimate of the CBR using the currently available information, thus enabling to estimate the development in deficit and gross debt in the medium term. **The estimate is based on an assumption that no further additional measures will be adopted and constitutes a starting point for the CBR to evaluate the medium-term budgetary objectives.**

The February 2016 macroeconomic forecast by the Macroeconomic Forecasting Committee does not foresee, according to the CBR, any major risks (see Annex 1 for more details).

2.1.1 Impacts on general government balance

The CBR estimated the risks and possible sources for their coverage with an impact on the general government balance in 2016 in comparison against the approved budget[18] and the

[17] The data were requested on 27 April 2016 and supplied by the ministry on 3 May 2016. In response to the data supplied, the CBR sent its questions on 5 May 2016 and the Ministry of Finance replied on 13 May 2016. Additional questions arose during the preparation of the CBR's evaluation that were sent to the ministry on 20 May 2016, answered by the ministry on 25 May 2016.

[18] The 2016-2018 General Government Budget.

estimate presented by the government in the Stability Programme. For years 2017-2019, the estimates were made against the revenues and expenditures from the fiscal framework of the Stability Programme.

Tab 3: Overview of budgetary risks and their coverage (ESA2010, € million)

	2016 B	2016 E*	2017	2018	2019
GG balance in the 2016-2019 SP (€ million)	**-1 557**	**-1 715**	**-1 094**	**-397**	**154**
GG balance in the 2016-2019 SP (% of GDP)	**-1.9**	**-2.1**	**-1.3**	**-0.4**	**0.2**
Risks - total:	**-901**	**-596**	**-869**	**-1 117**	**-1 298**
1. Overestimated non-tax revenues:	-171	-173	-174	-152	-154
- revenues from dividends	-119	-121	-130	-117	-123
- revenues from the sale of CO_2 allowances	-52	-52	-44	-35	-31
2. Financial corrections to EU funds	at least -15	at least -15	no quantification		
3. Underestimated healthcare expenditures	-92	-61	-198	-126	-16
- healthcare expenditures and financial performance of hospitals	-67	-36	-173	-101	9
- payout of retained profits by private health insurance companies	-25	-25	-25	-25	-25
4. Underestimated expenditures of local governments	-97	-97	-179	-245	-212
5. Expenditures related to the D4/R7 PPP project preparation	-173	0	-	-	-
6. Additional measures implemented after the 2016-2018 GGB approval:	-127	-127	-133	-284	-345
- expenditures on the construction of the national football stadium	-17	-17	0	-48	-
- expenditures on the purchase of an aircraft	-42	-42	-	-	-
- expenditures of the Environmental Fund	-35	-35	-35	-35	-35
- increased wages in the education sector	-33	-33	-98	-201	-310
7. Expenditures related to the JLR investment project preparation	-66	0	0	0	0
8. Underestimated state budget expenditures	-49	-46	-186	-311	-571
9. Loan repayment by Cargo	-20	0	-	-	-
10. Contributions to the National Resolution Fund	-34	0	-	-	-
11. Accrual expenditures of the Social Insurance Agency	-56	-56	-	-	-
12. Other impact**	0	-21	-	-	-
Coverage - total:	**465**	**319**	**147**	**227**	**155**
1. Savings in co-financing	36	36	127	207	135
2. Savings in state social benefits	52	20	20	20	20
3. Better tax collection	94	0	-	-	-
4. Risk coverage from non-allocated reserves:	237	237	0	0	0
- reserve on better tax collection	150	150	-	-	-
- reserve on the impact of new legislative acts	87	87	-	-	-
5. Savings in the EU budget levy	20	0	-	-	-
6. Cancellation of bearer deposits	0-26	0	-	-	-
Overall impact on the GG balance:	**-435**	**-277**	**-723**	**-891**	**-1 143**
GG balance - CBR estimate (€ million)	**-1 992**	**-1 992**	**-1 817**	**-1 288**	**-989**
GG balance - CBR estimate (% of GDP)	**-2.5**	**-2.5**	**-2.1**	**-1.4**	**-1.0**

** the risks are calculated in comparison with the GG balance estimated in the Stability Programme (deficit of 2.13 % of GDP)* *Source: CBR*
*** The CBR identifies and calculates the risks for 2016* vis-à-vis *the approved GG budget for 2016. Differences compared to the government estimate are shown under item "Other impact". It consists of several factors with relatively small impact.*
Note: (+) means positive and (-) negative impact on the GG balance

Table 3 contains a summary of quantified risks[19] with an impact on the general government balance and the sources for their coverage in the 2016-2019 period; several groups of risks were identified:

- **Fine-tuned estimates of certain recurrent risks (risks 1-4)**[20]

No major changes occurred in the estimate of risks associated with the revenues from dividends. Some fine-tuning was done with respect to the shortfall in the revenues from dividends paid out by VSE Holding. The estimated risk of shortfall in revenues from SPP dividends has remained unchanged. An additional one-off risk arises from the government-approved[21] provision of grants by several state corporations to the City of Bratislava in 2016 in order to cover the expenditures related to Slovakia's EU presidency **in a total amount of EUR 15 million**, which will decrease profits of those corporations from their ordinary activities, hence the amount of dividends to be paid out in **2017.**

The estimate of **revenues from the sale of emission allowances** has been updated based on an actual average price of auctions in 2015. The risks are still present, mainly due to the fact that the budgeted revenues are not quantified using the ESA2010 methodology[22].

For the 2016-2019 period, the government does not foresee any financial corrections arising from irregularities in the spending of EU funds. The CBR included among the risks the amount of EUR 15 million that had already been paid before the end of March 2016. The risk of further financial corrections related to the spending of EU funds in the second programming period still persists. However, it is impossible at this point to estimate their potential impact and the time at which they will negatively affect the deficit. Applying a simplified approach, which estimates the ratio of financial corrections to the current level of EU fund spending at an average level of 2009-2015, financial corrections could amount to EUR 86 million in 2016[23].

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19 The method applied in order to calculate individual risks is described in Annex 2.

20 They are risks identified during the evaluation of the 2016-2018 general government budget of December 2015, updated based on the fiscal results for 2015 and on additional changes approved by the government. A comparison of the changes in risks is provided in Annex 3.

21 At its session on 16 December 2015, the government approved a document entitled Financial arrangements for the preparations for Slovakia's presidency in the EU Council in the capital city of the Slovak Republic – Bratislava (available only in Slovak) which orders state-owned corporations to provide grants to the City of Bratislava in a total amount of EUR 15 million by the end of January 2016. The largest grant comes from SPP whose contribution totals EUR 12 million.

22 Even though the changed methodology for reporting revenues from the sale of emission allowances was first applied by the Slovak Statistical Office in October 2015, the Stability Programme of April 2016 does not reflect this new approach.

23 The average size of financial corrections in the seven year period represented 4.1% of the funds spent. With the EU fund spending estimated at EUR 2,093 million in 2016, the size of financial corrections should reach said amount if their share remains at the same level as specified in the previous sentence.

Given that the actual 2015 expenditures in the healthcare sector were slightly below what had been estimated when the 2016-2018 budget was presented for approval, the CBR has moderately lowered the risk estimate for 2016-2018.

The risks associated with the **deficits of local governments** have been updated by the CBR based on their 2015 results that remained behind what the government had expected when approving the 2016 budget. In view of an anticipated high growth in local governments' tax revenues and their relatively low level of debt, the CBR expects a higher increase in their expenditure compared to the government's estimates. These will mainly include capital expenditures and expenditures on goods and services. The increase in own capital expenditures compensates an anticipated decline in expenditures financed from EU funds. Despite a higher growth in expenditure, the CBR estimates that the local governments will maintain a positive balance throughout the entire 2016-2019 period.

- **Major investments and additionally adopted measures (risks 5-7)**

The expenditures connected with the preparation of the D4/R7 motorway PPP project (mainly spent on the purchase of lands) amounted to EUR 142 million in 2015. The Ministry of Transport anticipates the expenditures to stand at EUR 173 million in 2016 and at EUR 35 million in 2017. Since the 2016 expenditures were not included in the budget, **an additional risk for 2016 represents EUR 173 million.** Given that the first sections of the motorway are scheduled to be handed over in 2020, the first availability payments will be made beyond the three-year horizon of the current budget.

A portion of **expenditures associated with the preparation of the Jaguar Land Rover investment project** also carries a risk. In 2016, additional EUR 296 million will have to be spent on the preparation of an industrial zone (purchase of lands and zone development) for the car manufacturer. They are partly covered by a reserve created for significant investments in an amount of EUR 176 million, as well as by revenues from the sale of a portion of lands to the investor, amounting to EUR 30 million. **An overall adverse impact will amount to EUR 66 million in 2016.** The expenditures for the preparation of the investment project in subsequent years are included in the Stability Programme. In addition to these expenditures, the government will grant the company an investment aid to cover capital expenditures[24] for 2018-2021, in a total amount of EUR 130 million. For 2018, their amount is expected at EUR 32 million, and for 2019 at EUR 45 million, and has already been included in the budgetary framework.

The Slovak government approved an **increase in expenditures from the Environmental Fund** in a total amount[25] of EUR 35 million in 2016. A major source of funds to cover these expenditures are cash revenues from the sale of emission allowances. Given that between 2017 and 2019 the Fund should have approximately the same revenues as in 2016, the CBR expects its

[24] The investment aid was approved by the government at its session on 11 December 2015 (document available only in Slovak).

[25] The expenditures were increased in two steps. The first increase of EUR 15 million was approved by the government on 20 January 2016, the second increase of EUR 30 million was approved on 2 March 2016. These funds are intended to be spent on increasing energy efficiency of buildings and on the construction of public sewerage and water distribution systems and water treatment plants (documents are available only in Slovak).

expenditures to remain on the same level in the 2017-2019 period, as well. **For 2016-2019**, this would represent **an additional risk of EUR 35 million a year** when compared against the Stability Programme.

The Ministry of the Interior has signed a contract[26] **to purchase an aircraft - a special aircraft for government's purposes** - to be transacted in 2016 at a price of **EUR 42 million**, exclusive of VAT. This transaction was not included in the budget approved for 2016.

The Ministry of Education has signed contracts[27] related to **the construction of a national football stadium in Bratislava**. The maximum price of the stadium, to be completed by the end of 2018, will reach EUR 75.2 million. The funding will be provided from the state budget continuously throughout 2016 and 2017 in the form of subsidies in a total amount of EUR 27.2 million. The remaining amount will be paid once the government decides to buy the stadium. Comparing these amounts against those included in the budget, the CBR estimates **the risks amounting to EUR 17 million in 2016 and to EUR 48 million in 2018.**

Another measure involves **rising wages in the regional and tertiary education sector.** The government approved[28] to rise tariff wages by 6% as of 1 September 2016, with a negative budgetary impact **amounting to EUR 33 million in 2016 and to EUR 98 million in 2017**. The CBR considers it very likely that the wage increases will further continue in the subsequent years at least at the level contemplated in the Manifesto of the Government of the Slovak Republic (i.e., by an annual 6%, starting from January 2018). Therefore, for 2018 and 2019, the CBR extended[29] the estimate of the government-approved wage increase with an additional planned growth in wages, likely to result in negative impacts amounting to **EUR 201 million in 2018 and EUR 310 million in 2019**.

- **Expenditures from the state budget (risk 8)**

The CBR identified **risks** in the following types of expenditures from **the state budget: wage expenditures, expenditures on goods and services, and capital expenditures**. Even though they are expenditures that are most controlled by the government, the planned across-the-board savings not accompanied by sufficiently specified measures may lead to deteriorations in the quality of government services and to a decline in net worth. On the other hand, the ongoing projects aimed at reviewing expenditures and assessing the effectiveness of spending (value for money) may help to achieve the declared savings while the quality of the provision of government services remains unaffected.

For 2016, the government is planning savings in **wage expenditures**, albeit not explained in more detail. Considering that the budgeted wage expenditures were exceeded in each of the past

26 The contract is available only in Slovak.
27 Namely, a pre-purchase contract and amendment to the subsidy contract (documents available only in Slovak).
28 On 25 May 2016, the government approved a draft amendment to the Act on remuneration of some employees performing work in public interest which foresees a wage increase as of 1 September 2016. The estimated effects on the balance are taken from its impact clause (document available only in Slovak).
29 The effects of annual 6% wage increases in 2018 and 2019 were estimated using an assumption that the number of employees will not change. Since the MFC macroeconomic forecast does not foresee any additional consolidation of public finance in the medium term, the CBR did not take into account additional effects of wage increases on the macroeconomic development when estimating the risks.

three years, the CBR does not consider it likely that the declared savings will actually be achieved. The government is considering to freeze wages in state budget-funded organisations for 2017 to 2019 which, given a relatively high expected growth in wages in the private sector (by 15%, cumulatively), would lead to a significantly growing gap between wages in the private and the public sector, with possible adverse impacts on the quality of public sector workforce. Even though the wages in the public sector may grow at a somewhat slower pace due to the necessary consolidation of public finances, the CBR considers their complete freezing for the entire period of three years rather unlikely. The CBR estimates the **risks** (assuming that the growth in wages in the public sector will amount to a half of that in the private sector) **to range between EUR 118 and 220 million in 2017-2019**.

For 2016, the government expects to overrun the budgeted **expenditures on goods and services** (net of budgeted reserves, EU funds and national co-financing) by EUR 49 million. Assuming that the same real level of expenditures is also preserved between 2017 and 2019, the CBR estimates there is a risk that the expenditures specified in the Stability Programme will be exceeded by **EUR 68 million in 2018, by EUR 87 million in 2018, and by EUR 114 million in 2019.**

With respect to **capital expenditures** from the state budget not associated with projects financed from the EU budget, the CBR identified **risks in the amount of EUR 58 million in 2018 and EUR 237 million in 2019.** The CBR based its estimate on an assumption that the share of expenditures in GDP will remain on the 2009-2017 average. The risk anticipated for said years may decrease if the capital expenditures are carried over to subsequent years. In that case, the risks will move beyond the budget horizon, too.

- **One-off risks for 2016 (risks 9-11)**

Compared to the 2016 budget, a **shortfall in revenues from a EUR 20 million loan repayment by Cargo company** will occur, as the loan was already repaid in 2015 and Eurostat decided that these instalments should not be included in revenues under the ESA2010 methodology.

In 2015, a positive impact from the **National Resolution Fund** in the amount of EUR 34 million was recorded. The reason is that financial institutions made their contributions to the national fund in 2015 but the funds were only to be transferred to the Single Resolution Fund as late as at the start of 2016 (the Fund commenced its operation on 1 January 2016) **with a negative impact materialising in 2016 in the amount of EUR 34 million**.

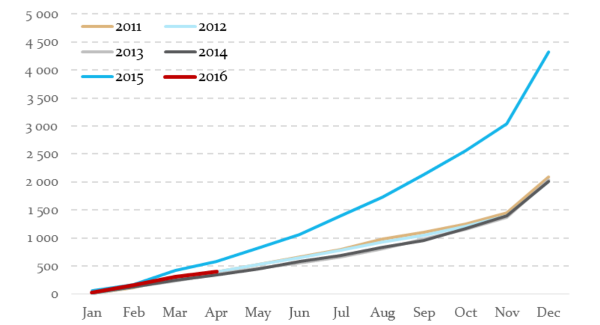
Due to a considerable shift in the **payment of social insurance benefits** from 2016 (benefits payable on 2 and 4 January 2016 were paid at the end of 2015), accrual expenditures in 2015 were lower than cash expenditures (accrual recording had a positive impact on the balance). Since this situation is not supposed to repeat at the turn of 2016/2017 (only the benefits payable on 2 January 2017 will be paid at the end of 2016), **a negative impact of roughly around EUR 56 million caused by accrued expenditures is to be expected**.

The sources for the coverage of risks can be divided into two groups, depending on whether their positive implications are to be felt throughout the entire medium-term horizon or in 2016 only since their positive effects in the subsequent years have already been incorporated in the Stability Programme.

- **Sources for the coverage of risks throughout 2016-2019 (source 1 and 2)**

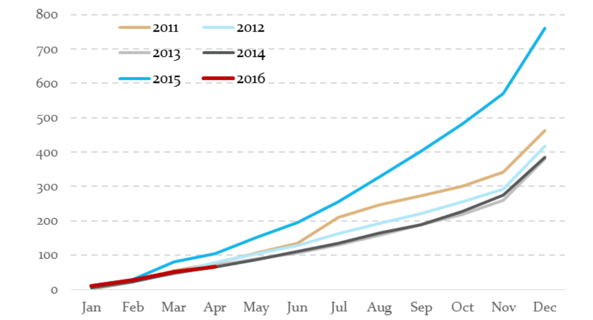
A potential source for the coverage of risks are **expenditures intended for the co-financing** of EU funded projects. The actual figures for the first four months suggest that the drawing of EU funds is slower than in 2015, showing a similar trend as in 2011-2014. The CBR estimates the EU funds to be spent at a slower pace compared to the Stability Programme (at the level of 85% on average), which roughly corresponds to the assumptions included in the macroeconomic forecast of February 2016. This level of drawing would **save EUR 36-207 mil. a year**[30] **on account of national co-financing** while the tax revenues would remain unchanged. Any drawing of EU funds above this level would inevitably reduce the saving on account of national co-financing, but the funds thus invested would improve the overall macroeconomic environment and thereby increase tax revenues. The resulting impact would be a combination of higher tax revenues and lower savings on national co-financing[31].

Figure 4: State budget expenditures from EU funds (€ million)



Source: CBR, State Treasury

Figure 5: State budget expenditures on co-financing (€ million)



Source: CBR, State Treasury

In light of the lower 2015 expenditures and a better-than-expected current development in 2016, **savings in expenditures on social benefits** can be expected. Savings in an approximate amount of EUR 30 million a year should be achieved on expenditures on material need benefits. In contrast, the CBR anticipates higher expenditures, roughly by EUR 10 million a year, in the case of so-called Christmas bonus for pensioners, taking into account the overruns of budgeted expenditures in the past two years (due to the approval of non-budgeted bonuses) and the announced extension of a group of their recipients in 2016.

30 The quantification does not include additional saving due to lower expenditures on accompanying investments from the national sources.

31 Assuming that each euro spent on co-financing increases additional tax revenues by approximately one euro, the estimated overall positive impact on the balance does not change. Although drawdown of EU funds at the budget level would not lead to savings in expenditures on the co-financing, the revenues from taxes would roughly increase by EUR 36-207 million a year.

- **Sources for the coverage of risks in 2016 (sources 3-6)**

The **tax revenue** forecast of February 2016[32] contains a **EUR 94 million** increase in tax revenues for 2016 compared against the approved budget (see Annex 4 for more details). Higher revenues are expected from social and health insurance contributions, up EUR 162 million in total, and from personal income tax, up EUR 62 million. On the other hand, a shortfall of EUR 183 million is anticipated in VAT revenues. The estimate of better tax revenues in 2016 is also reflected in the 2017-2019 period and has been incorporated in the Stability Programme. The tax revenues collected in 1Q2016 suggest that the current forecast is realistic. If macroeconomic assumptions do not deteriorate considerably throughout the year, a moderate upward revision in the forecast can be expected. On the other hand, the effects of new legislative measures included in the Stability Programme have not been assessed by the Tax Revenue Forecasting Committee, hence they carry a higher degree of uncertainty.

The budget approved for 2016 contained **reserves with unallocated[33] expenditures** due to the expected higher collection of taxes in the amount of **EUR 150 million** and for addressing effects of new legal arrangements[34] in the amount of **EUR 87 million** which constitute sources for the coverage of budgetary risks.

The deadline for the planned closure of the payment of balances on bearer deposits has been postponed from to 2015 to 2016. Hence, **a one-off positive effect on balance amounting to EUR 26 million** may occur in 2016.

The government expects **savings in transfers to the EU budget to amount to EUR 20 million in 2016,** representing another source for the coverage of risks in 2016.

The 2017-2019 budgetary expenditures on goods and services contain **further unspecified reserves.** Since it is unknown at this point which specific risks are to be covered[35] and, in 2015, the unallocated provisions were spent on additional expenditures beyond the coverage of existing risks, the CBR, applying an conservative approach, has so far not included them among the sources for the coverage of risks. If these provisions are used to cover the existing risks contained in the CBR's estimate, the need to adopt additional measures in order to meet budgetary objectives will reduce.

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32 Meeting of the Tax Revenue Forecasting Committee of 11 February 2016.

33 The reserves earmarked for a specific purpose (a EUR 50 million reserve for a worse-than-expected development in healthcare facilities and a EUR 176 million reserve for major investments) have been incorporated in corresponding risks under the CBR estimate, decreasing the size of estimated risks in a given year.

34 The reserve should in particular cover the effect of a shortfall in VAT revenues caused by a reduction in the basic rate on selected foodstuffs, since this measure has not been incorporated in the tax revenue estimate contained in the 2016-2018 general government budget. The current estimate of tax revenues reflects the effect of the reduction in the basic VAT rate, therefore, the reserve serves as a source for the coverage of budgetary risks.

35 These can be the risks identified by the CBR in the present document (with a quantified or non-quantified estimate) or other additional risks, and/or a combination of the two types of risks.

Tab 4: Risks related to meeting the budgetary targets (ESA2010, € million)

	2016	2017	2018	2019
1. Budgetary targets	-1 557	-1 094	-397	154
- in % of GDP	**-1.9**	**-1.3**	**-0.4**	**0.2**
2. Size of quantified risks	-901	-869	-1 117	-1 298
3. Size of potential sources of coverage	465	147	227	155
4. GG balance estimated by CBR (1+2+3)	-1 992	-1 817	-1 288	-989
- in % of GDP	**-2.5**	**-2.1**	**-1.4**	**-1.0**
5. Need for additional measures (1-4)	435	723	891	1 143
- in % of GDP	**0.5**	**0.9**	**1.0**	**1.2**

The government estimates the 2016 deficit at 2.1 % of GDP. *Source: MF SR, CBR*

Taking into account the quantified risks and possible sources for their coverage, the CBR estimates the 2016 general government deficit at 2.5% of GDP. Hence, in order to attain the budgetary objective, additional measures in a total amount of 0.5% of GDP will have to be adopted. Since the risks will affect the subsequent years, too, the CBR estimates the 2017 deficit at 2.1% of GDP, gradually falling to 1.0% of GDP in 2019.

On top of said risks and sources for their coverage, the Stability Programme also describes other measures that are included in the Manifesto of the Government of the Slovak Republic, but whose effects have yet not been incorporated in the estimate of general government revenues and expenditures for 2017-2019. They are measures to enhance effective spending in the healthcare sector, increase in social expenditures[36] and changes in taxes (described in detail in Box 1). The Stability Programme also indicates a review of public spending on transport, information society and healthcare.

2.1.2 Impact on general government gross debt

A worse-than-expected estimate of general government deficits for 2016-2019 compared against the goals presented by the government in the Stability Programme will also reflect in the estimate of gross debt development. The quantified risks will annually contribute additional EUR 310 million to 1.1 billion to the gross debt (assuming the size of the cash reserve remains the same as in the government's forecast). After including additional debt interest payments[37], the debt would be nearly EUR 3.0 billion, or 3.0% of GDP, higher at the end of 2019 than as projected in the government's forecast.

[36] The Ministry of Labour is considering changing the indexation of old-age and disability pensions to guarantee at least their 2% increase each year; this would increase the indexation rate in 2017 and 2018 compared against the applicable legislation. The CBR estimates that this change would require additional EUR 106-137 million in 2017-2019. Since the measure has yet not been approved by the government and its legislative framework has not been specified, the CBR did not include it in its balance estimate.

[37] Additional debt interest payments reflect a higher deficit estimated by the CBR compared to the Stability Programme while applying an anticipated interest rate on 10-year bonds in a given year.

Tab 5: Assumptions on the GG gross debt development (€ million)

	2015	2016	2017	2018	2019
1. Gross GG debt forecast	41 306	42 589	44 253	44 922	45 565
- in % of GDP	**52.9**	**52.9**	**52.2**	**49.8**	**47.3**
2. Additional change in debt:		310	672	855	1 115
- risks and sources of their coverage affecting the GG balance*		310	669	845	1 101
- additional cash interest expenditures		0	3	10	15
3. Gross GG debt including the risks (1+2)	41 306	42 899	45 236	46 760	48 518
- in % of GDP	**52.9**	**53.2**	**53.3**	**51.8**	**50.3**
p.m. 10-year government bond yield (MFC, Feb. 2016)	*0.82*	*1.09*	*1.75*	*2.67*	*3.47*

** For the sake of gross debt estimate, cash impacts of risks were taken in account (accrual recording of Social Insurance Agency expenditures, revenues of National Resolution Fund and revenues from the sales of CO2 emission quotas was not taken into account).*

Source: SO SR, MF SR, CBR

In addition to the risks having impacts on the general government balance, the size of debt may also be affected by the **planned bailout of healthcare facilities.** No details of this plan are known at his point, therefore, the CBR presents this step as a scenario based on an assumption of the state taking over all overdue liabilities of central and local healthcare facilities in 2016. These overdue liabilities totalled EUR 550 million at the end of 2015. Since a portion of these liabilities is owed to general government entities, such as the Social Insurance Agency, there is a lesser need to obtain funds on financial markets. The full repayment of loans to the private sector would require additional funds in an approximate amount of EUR 400 million. If the debt of hospitals recorded under the Maastricht debt[38] was also reduced, a net effect would amount to some EUR 370 million (0.5% of GDP).

Dividends from SPP from the retained profits of its subsidiary Eustream are a possible source to cover this bailout**.** Eustream planned to pay out a total of EUR 1.4 billion in dividends in 2015. After deducting the profit from ordinary activities (revenues affecting general government balance) and the stake held by the state, approximately EUR 544 million[39] (0.7% of GDP) could be transferred to the state budget in 2016 in the form of extraordinary dividends.

The effects of bailing out the hospitals and of possible revenues from extraordinary dividends on the amount of gross debt are shown in the following chart. Since the size of revenues from the extraordinary dividends exceed the estimated bailout costs, the gross debt may be 0.2% of GDP below the CBR's risk scenario at the end of 2019.

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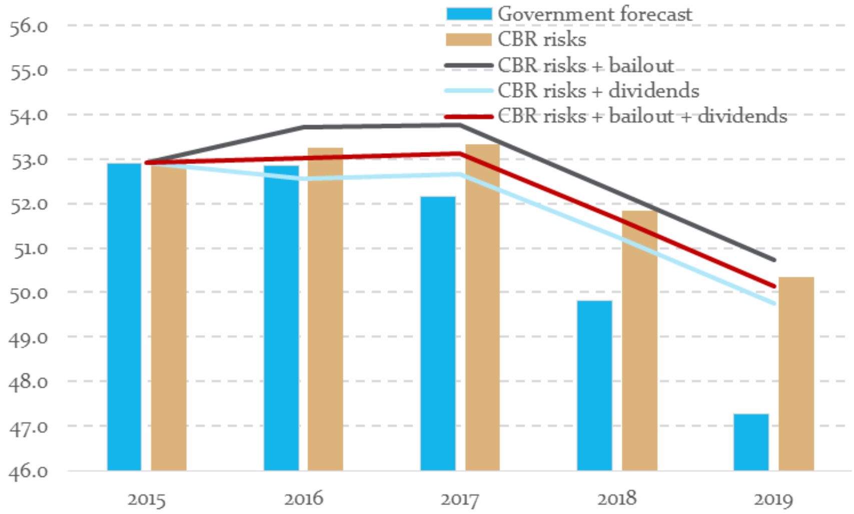
38 The consolidated Maastricht debt of hospitals stood at EUR 24 million at the end of 2015. There is no information available at this point on whether this debt also includes overdue liabilities. However, a majority of overdue liabilities are trade credits that are not part of the Maastricht debt.

39 A proposal to pay out dividends of EUR 1.4 billion in 2015 is included in Eustream's financial reports for 2014, p. 54. Since the 2015 financial reports have yet not been published, the CBR has no information whether the dividends were paid out in said amount. The financial statements of Eustream's parent company SPP Infrastructure as at 30 June 2015 indicate that this payout could have been made in 2015, as the parent company received dividends in a total amount of EUR 1.6 billion, not disaggregated further. However, from the government's point of view, a decisive thing is whether SPP will decide to pay the dividends in this amount to the state budget. According to information provided by the Ministry of Finance, a general meeting of shareholders to decide on the payment of dividends in 2016 has not been held yet.

Figure 6: Development of gross debt - scenarios (% of GDP)



Source: MF SR, CBR

2.1.3 Impacts on net worth

A long-term view through the prism of net worth can identify such items of the budget where the medium-term development is different from the long-term development.

The first group covers **items having a positive impact on general government balance in the medium term, although their impact on net worth in the long term could be roughly neutral if set correctly**. This includes the nuclear decommissioning scheme and special levy payable by selected financial institutions.

- In the current period, the balance of the **National Nuclear Fund** revenues and expenditures has been positive every year, and the accumulated funds are expected to be used for the payment of costs associated with the decommissioning of nuclear facilities in the future. At the same time, the currently budgeted expenditures are lower (down by some EUR 10-20 million a year in the period between 2016 and 2018), as envisaged by the long-term strategy approved by the government in 2015[40]. Because the reduction in expenditures has not been attributed to their ineffectiveness, it is likely that they are being carried over to the subsequent years.

- 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 levy set in an actuarially fair

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

manner has a zero impact on the net worth, even though it improves the current balance of public finances[41].

The second group covers those **items which may have a positive or neutral impact on general government balance in the medium term, but their negative impacts on the budget balance and debt will be observed in the long run**. This includes, for instance, consolidating the public finances through the reduction of investments, continued operation of the traditionally loss-making state corporations , and the approval of a new PPP project.

- By 2019, the budgeted general government expenditures suggest a year-on-year **decrease in investments** from own resources (excluding EU funds and co-financing) by roughly 28% in comparison with 2015. Cuts in capital expenditures 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.

- 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.

- As a result of approving the **D4/R7 PPP project**, there will also be, in addition to initial costs associated with its preparation (purchase of land, in particular), higher expenditures earmarked for instalments to be paid by the state during the **30-year period.** The first availability payment should be made in 2020[42]. By 2019, neither the budget balance nor the debt will be affected by the investment (construction), as opposed to a situation where the investment would be directly carried out by the state. For the purposes of quantifying the impact on net worth, it is therefore necessary to take into account all financial flows related to the PPP project, including the transfer of the asset (the motorway that will be built) into the ownership of the state following its repayment. The final impact on net worth is therefore neutral (or slightly negative[43]).

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.

[41] 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.

[42] Impact clause concerning the Proposal for the conclusion of a concession contract under the public procurement for the concession involving the design, construction, financing, operation and maintenance of the D4 motorway section Jarovce – Rača and the R7 expressway section Bratislava Prievoz – Holice approved by the government on 17 February 2016 (available only in Slovak).

[43] Depending on the total financial cost of the PPP project, based on a combination of potential savings resulting from effective construction and of more expensive financing in comparison with a situation where the investment is directly carried out by the state.

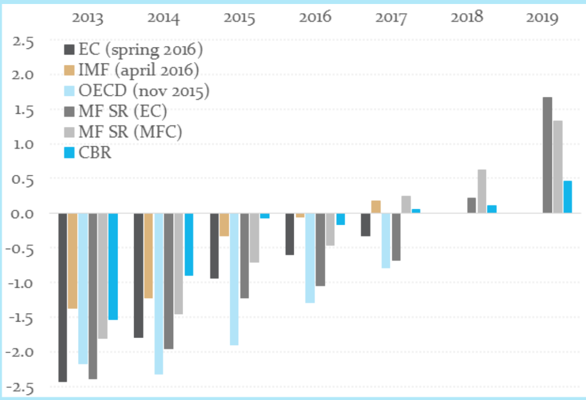
2.2 Structural balance and government consolidation effort

Considering the measures that are currently incorporated into the fiscal framework, the risks identified and the possible sources for their coverage, the CBR estimates that the general government deficit would improve from 3.0 % of GDP in 2015 to 1.0% of GDP in 2019. This development could imply that the **structural deficit might improve by 1.5 % of GDP on a cumulative basis during the next four years, thus reaching 1.1 % GDP in 2019** (Box 3 shows CBR's estimate compared with those of other institutions).**Without additional measures, the government will not meet the medium-term budgetary objective by 2019.**

Box 3: A comparison of general government structural balance estimates

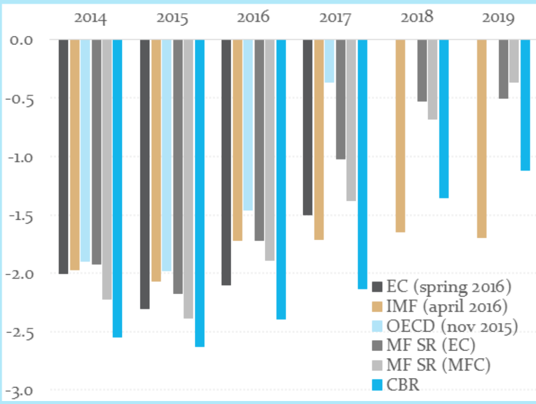
The charts below illustrate the estimates of the output gap and general government structural balance between 2013 and 2019 based on the calculations of the European Commission (the 2016 spring forecast), OECD (November 2015), IMF (April 2016), as well as two estimates by the MF SR and the most recent estimate by the CBR. While the first MF SR estimate (Commission methodology) is used to evaluate structural balance for the purposes of EU rules, the so-called 'national estimate' of the MF SR (presented to the Macroeconomic Forecasting Committee) takes into account Slovakia's specificities. The differences in the size of structural balance are attributable to both the differing output gap estimates and to the different list of the one-off effects considered. In addition, the CBR's structural balance estimate takes into account the fiscal framework which reflects the risks and possible sources for their coverage as identified by the CBR.

Figure 7: Output gap in 2013-2019 (% pot. GDP)



Source: CBR, MF SR

Figure 8: GG structural balance in 2014-2019 (% GDP)



Source: CBR, MF SR

In order to assess the extent to which the estimated structural balance improvement could be attributed to government measures or other external factors, it is necessary to compare its development with the no-policy-change scenario (the NPC scenario prepared by the CBR[44]).

Assuming that no new measures are taken after 2015, public finances development is based on the existing legislation and that the budget items are determined solely by macroeconomic development, the deficit would gradually decline to 1.3 % of GDP in 2019 (Table 6). A decline in

[44] See Annex 5 for more details on the NPC scenario by the CBR.

the deficit to 2.4 % of GDP in 2016 is related to the assumption of a lower uptake of EU funds due to the gradual contracting of projects under the new programming period and the removal of a majority of one-off effects. In the following years, the deficit is expected to decrease in particular due to slower growth in several expenditure items (expenditures for old-age pensions and other benefits, intermediate consumption).

By 2019, the structural deficit will improve by a total of 1.3 % GDP should there be no government interventions. This means that most of the projected structural balance improvement is attributable to macroeconomic development and a lower uptake of EU funds. **The overall net government contribution[45] to a permanent improvement in general government balance will be 0.3 % of GDP.** After taking into account the risks and sources for their coverage as identified by the CBR, the measures with a negative impact in 2017 have been incorporated in the Stability Program at 0.2 % GDP. In 2018 and 2019, the impact of measures on the balance is slightly positive, at 0.1 % or, respectively, 0.3 % of GDP.

Tab 6: Change in structural balance between 2015 and 2019 - CBR estimate (ESA2010, % of GDP)

	2015	2016	2017	2018	2019
1. General government balance estimate (CBR estimate)	**-3.0**	**-2.5**	**-2.1**	**-1.4**	**-1.0**
2. Cyclical component	0.0	0.0	0.0	-0.1	0.1
3. One-offs*	-0.3	-0.1	0.0	0.0	0.0
4. Structural balance (1-2-3)	**-2.6**	**-2.4**	**-2.1**	**-1.4**	**-1.1**
5. Change in structural balance (Δ4)/ Fiscal compact	-	**0.2**	**0.3**	**0.8**	**0.2**
6. General government balance under the NPC scenario	**-3.0**	**-2.4**	**-1.9**	**-1.5**	**-1.3**
7. Change in structural balance in the NPC scenario	-	**0.3**	**0.4**	**0.4**	**0.1**
8. Size of measures (1-6)	**0.0**	**-0.1**	**-0.2**	**0.1**	**0.3**
9. Y-o-y change in size of measures (Δ8)	-	-0.1	-0.1	0.3	0.1
10. Gvoernment consolidation effort (5-7)	-	**-0.1**	**-0.1**	**0.3**	**0.1**
p.m.1: Y-o-y change in special factors:		*0.6*	*-0.1*	*0.1*	*0.0*
- Measures with no impact on long-term sustainability	-	*0.0*	*-0.1*	*0.0*	*0.0*
- PPP projects	-	*0.3*	*-0.1*	*0.0*	*-0.1*
- Interest payments	-	*0.3*	*0.1*	*0.0*	*0.1*
p.m.2: Output gap	*-0.1*	*-0.2*	*0.0*	*0.1*	*0.5*

** Annex 6 contains the list and the description of one-offs.* *Source: CBR*

Assuming that the government meets its budgetary objectives[46] through permanent measures, the medium-term budgetary objective would already be attained in 2018, with a slight structural surplus to follow in the subsequent year. In that case the structural balance would improve by a total of 2.7 % of GDP (which translates into an average improvement by 0.7 % of GDP a year). Compared to the estimates by the MF SR, the attainment of budgetary objectives defined in the Stability Programme would mean that the medium-term budgetary objective will be attained one year earlier (i.e., in 2018).

45 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.

46 According to CBR's estimate, this requires the adoption of additional measures within the range of 0.5 % and 1.2 % of GDP between 2016 and 2019.

The government's overall contribution to this improvement would be 1.4 % of GDP (by 0.4 % of GDP a year on average), **with the remaining 1.3 % of GDP attributed to the positive development in the no-policy-change scenario**. Since the fiscal framework of the Stability Programme includes – after taking into account the existing risks – measures that are improving the structural balance by a total of 0.3 % of GDP, **a slight surplus to be attained in the 2019 structural balance will require additional measures with a permanent impact totalling 1.2 % of GDP**.

At the same time, it should be noted that the structural balance will also be improved by declining debt interest payments and the fact that some of the government's investments fall outside the balance of its revenues and expenditures, as they are implemented through a PPP project. **Without their impact, structural balance would be 0.5 % of GDP worse at the end of 2019.**

Tab 7: Fiscal indicators - meeting budgetary targets (ESA2010, % of GDP)

	2015	2016	2017	2018	2019
1. GG structural balance*	-2.6	-1.9	-1.3	-0.4	0.1
2. Change in structural balance (Δ1)/ Fiscal compact	**-**	**0.8**	**0.6**	**0.9**	**0.4**
3. Size of measures against the NPC scenario	**-**	**0.5**	**0.6**	**1.1**	**1.4**
4. Y-o-y change in size of measures (Δ5)	-	0.5	0.2	0.5	0.3
5. Government consolidation effort*	**-**	**0.5**	**0.2**	**0.5**	**0.3**
p.m. y-o-y impact of special factors	-	*0.6*	*-0.1*	*0.1*	*0.0*

** The estimate assumes that the budgetary targets are met implementing measures with permanent effect.*

Source: CBR, MF SR

3. Evaluation of the budget in terms of fiscal rules

The general government budget should respect national rules, as well as those applicable to Slovakia due to its membership of the euro area. 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 Fiscal Responsibility Act contains a **rule on the gross debt-to-GDP ratio** and defines the sanctions which are activated when specific thresholds are exceeded. Based on statistical data published as part of the Eurostat spring notification of 21 April 2016, **gross general government debt** reached 52.9 % of GDP in 2015 and fell into the first sanction zone of the debt brake defined by the Fiscal Responsibility Act. The sanctions attaching to the first debt threshold oblige the Ministry of Finance to substantiate the debt amount in the national parliament and propose measures for debt reduction. The sanctions continue to apply until the debt falls below the first threshold, i.e., 50 % of GDP. The approval of the new Government Manifesto is without prejudice to the application of sanctions related to the first and second threshold; while the application of sanctions starting from the third threshold is suspended (a debt of at least 55 % of GDP).

According to the debt forecast in the Stability Programme, the debt-to-GDP ratio is expected to gradually fall to 47.2% of GDP at the end of 2019, which implies that, even after taking into account the decline in the sanction limits[47] under the Fiscal Responsibility Act, the gross debt would fall outside the sanction zones (in 2019, the first sanction zone is starting from a threshold of 48 % HDP). However, as implied by the risks identified by the CBR, **debt will not fall below the first threshold by the end 2019 without taking additional measures.**

The act also contains a **debt limit rule for local governments** applicable as of 2015, and its breach triggers fines[48]. This rule is more 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. The results for 2015, including the calculation of the sanction, will be published by the CBR by the end of August[49].

Another important domestic rule is the **balanced budget rule** which says that Slovakia should be moving towards a balanced budget in the medium term. The deadline for attaining a balanced budget has been postponed by two years, because the year 2019 has been approved by the Government in its Stability Programme as the deadline for meeting the medium-term budgetary

47 As of 2018, the thresholds in the Fiscal Responsibility Act start to decline by 1 % of GDP a year.

48 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 is obliged to 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.

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

objective[50]. The objective of structural deficit reaching 0.5% of GDP remains unchanged. The Ministry of Finance and the CBR evaluate compliance with this rule on the basis of actual data. The CBR will evaluate the 2015 development for the first time in July 2016.

When it comes to the application of EU fiscal rules, the **fiscal policy is governed by the preventive arm of the Stability and Growth Pact** based on which Slovakia should be on the path towards meeting its MTO. The government postponed the deadline for meeting the MTO from 2017 to 2019. According to the European Commission, the revised fiscal targets are broadly in line with EU fiscal rules[51]. Since the CBR does not quantify the change in structural balance strictly according to the methodology defined by the Commission, it does not evaluate the government's budgetary objectives in terms of their compliance with the rules under the Stability and Growth Pact.

50 The evaluation of compliance with the balanced budget rule for 2015 will be assessed in line with the originally set deadline for meeting the medium-term objective, i.e., in 2017.

51 Assessment by the EC: "Slovakia is expected to broadly comply with the provisions of the Stability and Growth Pact. Nevertheless, further measures will be needed to ensure compliance in 2016. To this end, the long-delayed adoption of binding expenditure ceilings and the implementation of the 'value for money' programme to increase efficiency of public expenditure, with planned expenditure reviews in selected areas, would be of critical importance."

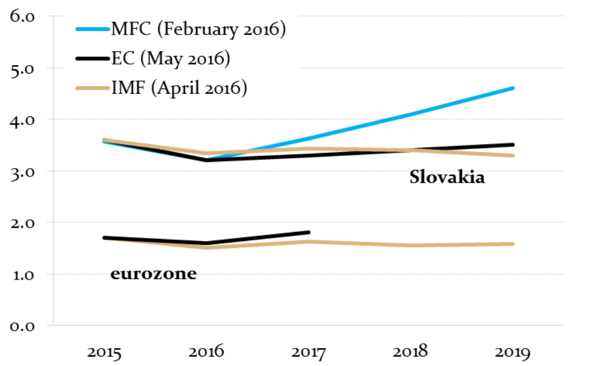
Annex 1 – Macroeconomic assumptions

An independent forecast by the Macroeconomic Forecasting Committee (MFC)[52], as well as forecasts by international institutions, expect a moderate slowdown in economic growth from 3.6% in 2015 to levels slightly above 3% in 2016 primarily due to a lower uptake of EU funds (Figure 9).

Wage growth fuelled by a steeper decrease in unemployment remains the basis of a stable growth of household consumption in the medium term. Considering the high household savings rate, the potential negative risks of energy prices pick up (oil) will be attenuated. Building new export capacities in automotive industry will facilitate an increase in private investments by 2017 and, in the medium term, the contribution of net exports to GDP should be gradually rising (MFC's assumptions as of 2018).

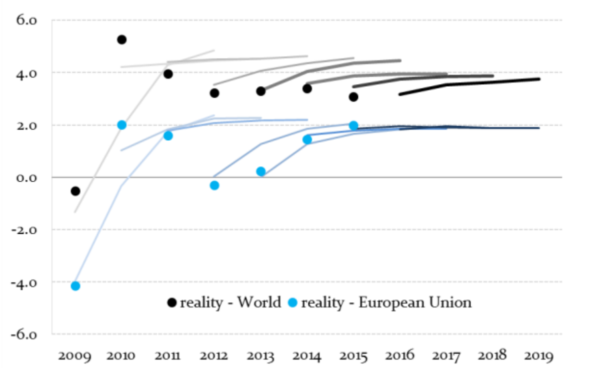
Because of the growing openness of the Slovak economy, the negative risks posed by external environment are gaining momentum as well, in particular due to a potentially stronger slowdown in foreign demand (Figure 10).

Figure 9: Economic growth forecasts for Slovakia and Eurozone (growth in p.p.)



Source: MF SR, IMF, EC (CIRCABC since 2017)

Figure 10: IMF External environment forecasts since 2009 (growth in p.p.)



**Lines represent April IMF forecasts* *Source: IMF*

Tab 8: MFC macroeconomic forecast (February 2016)

Indicator (in %)	Actual	Forecast / Change compared to 2016-2018 Budget (September 2015)			
	2015	2016	2017	2018	2019
GDP, real growth	3.6	3.2/+0.1	3.6/±0.0	4.1/+0.5	4.6/ -
Inflation, year average; CPI	-0.3	0.2/-0.7	1.6/-0.2	2.1/+0.1	2.2/ -
Nominal wage, growth	2.9	3.3/+0.2	4.5/-0.1	4.7/±0.0	5.1/ -
Real wage, growth	3.2	3.1/+0.9	2.9/+0.2	2.5/-0.2	2.9/ -
Employment (ESA), growth	2.0	1.3/+0.4	0.9/+0.2	1.1/+0.3	0.9/ -
Private consumption, real growth	2.4	3.2/+0.4	2.6/-0.1	2.7/-0.1	2.9/ -
Investments, real growth	14.0	0.9/+1.5	1.4/-0.5	0.9/-2.3	2.0/ -
Export of goods and serv., real growth	7.0	4.9/-0.7	6.1/-0.2	7.5/+1.9	8.5/ -

Source: SO SR, MF SR

52 The present forecast by the MFC constitutes the basis for the preparation of the Stability Programme for 2016-2019 and, in February 2016, it was assessed as realistic.

Annex 2 – Assumptions used in the estimate of risks

In estimating several risks with respect to meeting the budgetary objectives between 2016 and 2019, the CBR used the following assumptions and calculations.

Estimate of revenue from dividends

Tab 9: Revenues from dividends in 2016-2019 (ESA2010, € million)

	2016 B	2016 E	2017	2018	2019
SPP					
1. 2016-2019 Stability Programme	300	300	300	300	300
2. CBR estimate	200	200	200	200	200
Risk (2-1)	**-100**	**-100**	**-100**	**-100**	**-100**
VSE Holding					
1. 2016-2019 Stability Programme	34	36	30	32	38
2. CBR estimate	15	15	15	15	15
Risk (2-1)	**-19**	**-21**	**-15**	**-17**	**-23**
Impact of grants given to Bratislava on dividends*	**0**	**0**	**-15**	**0**	**0**
TOTAL RISK	**-119**	**-121**	**-130**	**-117**	**-123**

** The contribution of SPP is EUR 12 mill. in 2016 with a negative impact on the profit of the company. Thus, it will decrease the estimated revenues from dividends in 2017 to EUR 188 mill. (from EUR 200 mill.).* *Source: CBR, MF SR*

Between 2016 and 2019, the government expects the dividends from the **SPP gas company** to stand at EUR 300 million every year. Since undergoing restructuring process in 2013, the company has been generating its profits in particular on the basis of revenues from dividends in 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 to come.

The **VSE Holding electricity distribution company** posted a net profit of EUR 28 million in 2013 and EUR 9 million in 2014. The CBR does not expect an increase in VSE's profits and, in the period between 2016 and 2019, these are expected to remain at EUR 20-30 million. When taking into account the ownership stake in the company (51%), the revenue from ordinary dividends would be EUR 15 million a year. The difference compared to government's estimates is due to different methodology, as the government uses consolidated profit for estimating dividends. As far as other companies are concerned, the dividends from ordinary activities are compared with a company's individual profit[53]. The issue of a different approach taken with respect to the VSE Holding company was also presented to the Statistical Office, but it has not been addressed in the spring notification in April 2016.

[53] Dividends beyond the scope of individual profit made from regular economic activity are deemed extraordinary dividends without impact on general government balance under the ESA2010 methodology.

There is an additional **one-off risk associated with the government-approved grants** provided by some state-run companies to the City of Bratislava in 2016 for expenditures related to the Slovak EU presidency in the total amount of EUR 15 million, which will reduce the profit of these companies and, consequently, the amount of dividends to be paid in 2017. The Stability Programme does not take this one-off decrease into account.

Estimate of revenues from emission allowances

In estimating the revenues from emission allowances between 2016 and 2019, the CBR took over the methodology applied by the Statistical Office of the Slovak Republic in the notification of deficit and debt data to Eurostat in October 2015 for the first time. The new method for the calculation of revenues is based on emission allowances actually used by companies in Slovakia. Their price reflects the fact that a portion of allowances is allocated to companies at no cost and a portion is purchased in auctions. The valuation of CO_2 allowances takes into account the development from the beginning of the trading period (2013-2020, with the first allocation and the first auctions taking place in 2012).

Assumptions used in the calculation:

- allowances allocated to individual companies in Slovakia were estimated based on the national allocation table[54] which was adjusted for annual deviations between 2013-2015 (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 auctioning plan[55], using Slovakia's constant share in individual years calculated on the basis of Slovakia's average share in auctions between 2012 and 2015,
- utilisation of allowances was taken as the average for the years 2012 through 2014,
- between 2016 and 2019, the average for the year 2015 (EUR 7.6/t CO_2) was taken as the average price of auctions.

Tab 10: Estimation of revenues from CO2 emission allowances in 2016 - 2019

Year	Allocated allowances		Allowances auctioned		Allowances surrendered (used)		Average price	Average price of used allowances	Annual tax revenue	Stock of assets/liabilities		Stock of active allowances	
										as of 1.1.	as of 31.12.	as of 1.1.	as of 31.12.
	mil. units	mil. eur	mil. units	mil. eur	mil. units	mil. eur	eur/t CO2	eur/t CO2	mil. eur	mil. eur	mil. eur	mil. units	mil. units
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
2016	14.5	110.5	13.0	99.4	21.2	161.6	7.6	3.0	**64.4**	99.6	134.7	32.8	39.1
2017	14.1	107.4	16.6	126.8	21.2	161.6	7.6	3.4	**72.9**	134.7	188.5	39.1	48.6
2018	13.7	104.5	16.7	127.4	21.2	161.6	7.6	3.9	**82.1**	188.5	233.8	48.6	57.9
2019	13.3	101.7	16.8	128.1	21.2	161.6	7.6	4.0	**85.6**	233.8	276.3	57.9	66.8

Source: CBR

[54] The national allocation table was published by the national administrator of emission allowances (ICZ Slovakia, a.s.) designated by the Ministry of the Environment of the Slovak Republic.

[55] The auctioning plan was published by the European Commission.

In comparison with the Stability Programme which envisages annual proceeds of EUR 117 million between 2016 and 2019, there will be shortfalls amounting to EUR 31-52 million (Table 11), with the highest one expected in 2016.

Tab 11: Estimation of the risk of revenue shortfall from emission allowances (€ million)

	2016	2017	2018	2019
1. 2016-2019 Stability Programme	117	117	117	117
2. CBR estimate	64	73	82	86
3. Difference (risk of revenue shortfall)	**-52**	**-44**	**-35**	**-31**

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 2015, expenditures were growing 3.4% a year on average (Table 12). On this basis, the CBR estimated the expenditures between 2016 and 2019 (using the actual figures for 2015 as the baseline), thus quantifying the magnitude of the risk in comparison with the Stability Programme.

Tab 12: Development healthcare expenditures and financial performance of hospitals (€ million)

	2008	2009	2010	2011	2012	2013	2014	2015
Healthcare expenditures	3 160	3 285	3 482	3 393	3 502	3 664	3 846	3 993
Y-o-y change in healthcare expenditures (%)	-	4.0%	6.0%	-2.6%	3.2%	4.7%	5.0%	3.8%
Financial performance of hospitals*	-48	20	-109	-104	-72	-30	-62	-69
- in % of GDP	-0.07	0.03	-0.16	-0.15	-0.10	-0.04	-0.08	-0.09

** in 2011, excluding the impact of bailout amounting to EUR 350 mill.* *Source: MF SR, SO SR*

In the case of payouts 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 2015, which surpassed EUR 220 million. Because the profit payouts depend on shareholders' decision and are not subject to predefined rules (for instance, instalments under loans may change, retained profits may be paid in the form of dividends), the CBR considered, in calculating the risks, the average amount of payouts between 2012 and 2015 (with an annual average representing EUR 68 million) and the available amount (the remainder of retained profits and expected financial performance in the given year).

The overall risk constituting an increase in health care expenditures in comparison with the Stability Programme is between EUR 92-198 million from 2016 to 2018. The CBR's estimate for 2019 is roughly at the level of expenditures envisaged by the government in the Stability Programme.

Tab 13: Estimation of the risk related to healthcare in the Stability Programme (€ million)

	2016	2017	2018	2019
2016-2019 Stability Programme				
Health insurance expenditures on healthcare	4 079	4 152	4 386	4 643
Financial performance of hospitals	-54	-17	-4	-10
Payments related to retained profits	26	26	26	26
CBR estimate				

Health insurance expenditures on healthcare	4 129	4 269	4 414	4 564
Financial performance of hospitals	-72	-74	-77	-79
Payments related to retained profits	51	51	51	51
Differences (risks):	**92**	**198**	**126**	**16**
- health insurance expenditures and hospitals	67	173	101	-9
- retained profits	25	25	25	25

** The 2016 budget assumed healthcare expenditures amounting to EUR 4.048 bn., which means that the risk against the budgeted figures amounts to EUR 133 mill.*

Source: CBR, MF SR

Local government expenditures

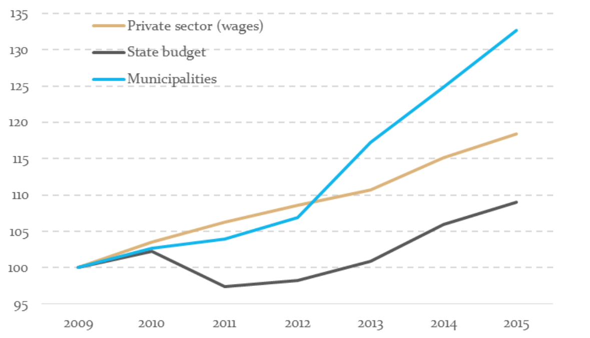
In estimating the risks associated with local government expenditures, the CBR has considered the actual development of revenues and expenditures of municipalities and self-governing regions (excluding semi-budgetary and non-profit organisations of local governments) in 2015, adjusted for EU funds and co-financing.

The CBR foresees the following development of individual local government revenue and expenditure items from 2016 to 2019:

- tax revenues – the forecast of tax revenues was taken from the forecast prepared by the Tax Revenue Forecasting Committee. Between 2016 and 2019, tax revenues are expected to grow on average by 6.9% a year for municipalities and by 7.5% a year for self-governing regions;
- non-tax revenues and grants and transfers – the CBR linked the rate of growth in these items to the expected inflation rate taken from the forecast by the Macroeconomic Forecasting Committee (MFC);
- gross wages – the wage growth rate is linked to the projected growth rate of wages in the private sector (MFC). The CBR is also taking into account the fact that, after 2009, wage expenditures in local governments were growing at a pace that significantly surpassed the wage growth in the state budget (Figures 11 and 12).
- expenditures on goods and services – the rate of growth in expenditures on goods and services reflects the expected high growth in tax revenues and the higher-than-inflation growth in expenditures, as observed in the past.
- current transfers – the rate of growth in expenditures on current transfers was linked to the projected inflation rate and the wage growth rate in the private sector (MFC), both of which were given the same weight.
- interest expenditure – because of surpluses expected by local governments, which should reduce their indebtedness, as well as the projected increase in interest rates, the CBR assumed that interest expenditure would remain at the level seen in 2015;
- capital expenditure – in this case, the CBR expected such growth rates that would make capital expenditures approach the pre-crisis levels in 2019. The growth rates also reflected the expected increases in tax revenues. For instance, a higher increase in tax revenues in 2016 also translated into a higher increase in capital expenditures in that year.
- The CBR also took into account the dates of municipal elections[56] by assuming higher growth in expenditures during the election year and slower growth in the subsequent year.

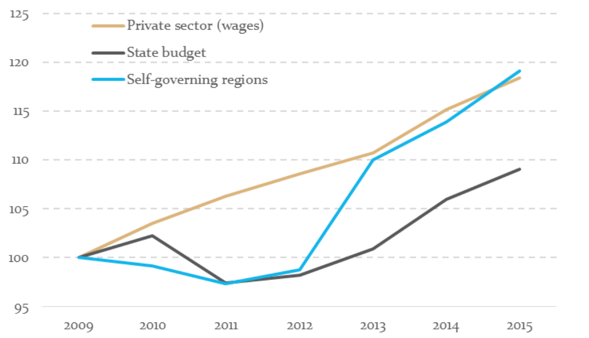
[56] Elections to the bodies of self-governing regions will be held in 2017, municipal elections in 2018.

Figure 11: Wage expenditures in municipalities (excl. EU funds and co-fin., 2009 = 100)



Source: SO SR, MF SR, CBR

Figure 12: Wage expenditures in self-governing regions (excl. EU funds and co-fin., 2009 = 100)



Source: SO SR, MF SR, CBR

By comparing the CBR's estimate with the government's assumptions in the Stability Programme, it was possible to quantify the risks for individual years (Table 14).

Tab 14: Estimation of risks in local governments (ESA2010, € million)

	2016	2017	2018	2019
1. Balance of municipalities (2016-2019 SP)	110	136	154	154
2. Balance of self-governing regions (2016-2019 SP)	103	116	111	111
3. Balance of municipalities (CBR estimate)*	50	40	-41	-9
4. Balance of self-governing regions (CBR estimate)*	67	34	60	62
Total risks (3+4-1-2)	**-97**	**-179**	**-245**	**-212**

** Detailed revenue and expenditure structure of local governments is shown in the attached data file.* *Source: MF SR, CBR*

Expenditures related to the construction of the national football stadium

In estimating the risk related to the construction of the national football stadium, the CBR used the expenditures earmarked for this purpose in the budget (EUR 5 million a year from 2016 to 2017). The CBR compared the data with the amounts of expenditures due for payment by the Ministry of Education on the basis of the contract for the construction of the stadium. The first portion of expenditures consists of a construction subsidy amounting to EUR 27 million which is spread from 2016 to 2017. The second portion represents expenditures for the acquisition of the stadium. As stipulated in the contract, the maximum amount at which the stadium can be bought represents EUR 75.2 million excl. VAT, and the provided subsidy will be offset against this amount. In estimating the risk, the CBR expects the state to exercise its purchase option in 2018, i.e., at the time when the construction of the stadium should be completed.

Tab 15: Estimation of risks related to the construction of national football stadium (€ million)

	2016	2017	2018	2019
1. Expenditures in the 2016-2019 Stability Programme	5	5	0	0
2. Estimation of expenditures based on signed contracts	22	5	48	0
3. Total risks (1-2)	**-17**	**0**	**-48**	**0**

Source: MF SR, CBR, Central Register of Contracts

Expenditures of the Environmental Fund

In 2016, the government increased the expenditures of the Environmental Fund by EUR 35 million above the estimate presented in the Stability Programme, thus increasing the risk of overrunning the expenditures in 2016. At the same time, the CBR expects the expenditures to remain at this level also in the years ahead, which implies a risk of EUR 35 million every year.

This assumption is based on the expectations of the Fund's relatively high cash revenues from the sale of emission allowances, which will provide sufficient funds for the financing of environmental activities[57]. A higher use of revenues can be evidenced by the development in 2015 when the year-on-year increase in revenues from emission allowances was accompanied by higher spending in environmental subsidies.

Tab 16: Selected revenue and expenditure items of the Environmental Fund (€ million)

	2013	2014	2015	2016 E*	2017 SP
Cash expenditures of the Environmental Fund	23	32	49	24	24
- current and capital transfers	20	29	46	20	20
- other expenditures	3	3	3	4	4
Cash revenues from the sales of CO_2 allowances**	12	17	84	117	117
Risks related to expenditures (CBR estimate)	-	-	-	**35**	**35**

** The government estimate for 2016 does not contain the increase in expenditures of the Environmental Fund by EUR 35 mill. approved by the government.*

Source: SO SR, MF SR, CBR

*** In 2013 and 2014, only 20 % of revenues from the sales of CO_2 allowances went to the Environmental Fund´s budget, the remaining 80 % went to the budget of the Ministry of Environment.*

Expenditures related to the preparation of the Jaguar Land Rover investment

Alongside the economic benefits of the Jaguar Land Rover investment, the estimate of which is reflected in the macroeconomic forecast by the MFC and the tax revenue forecast by the TRFC, public finances will also be burdened by expenditures that are related to this investment. Direct expenditures consist of investment aid in the form of capital transfers which is to be provided from 2018 to 2021 in the total amount of EUR 130 million. Additional, indirect expenditures will include the costs for the preparation of the industrial park (purchase of land, development of the site, infrastructure) in which the investment will be located and which may also be used by other investors. Based on estimates by the Ministry of Finance, the total amount of indirect expenditures might reach EUR 655 million between 2015 and 2018, with some of the land plots expected to be purchased by the investor for some EUR 30 million (Table 17).

Tab 17: Expenditures related to the preparation of the JLR investment (direct and indirect, € million)

	2015	2016	2017	2018	2019	2020	2021
Preparation of the industrial park	-42	-272	-333	-8	0	-	-
Purchase of land by the investor	-	30	-	-	-	-	-
Investment aid	-	-	-	-32	-45	-45	-8

Note: (+) means positive and (-) negative impact on the GG balance

Source: MF SR, SO SR

57 The main mission of the Fund is to provide funds to applicants in the form of subsidies or loans to support projects as part of activities focused on accomplishing the objectives of the national environmental policy at the national, regional or local level.

Since the arrival of the Jaguar Land Rover investment has been finalised after the approval of the general government budget for 2016–2018, the 2016 budget only contained a portion the currently estimated expenditures (containing a reserve for significant investments). For this reason, the risks compared with the 2016 budget are estimated at EUR 66 million.

Tab 18: Estimation of risks related to the preparation of the JLR investment (€ million)

	2016 B	2016 E	2017	2018	2019
Reserve on important investment projects	176	0	-	-	-
Revenues from the sales of land	30	0	-	-	-
Expenditures related to the preparation of the industrial park	-272	0	-	-	-
Total risk	**-66**	**0**	**0**	**0**	**0**

Note: Expenditures on investment aid in 2018 and 2019 are included in the fiscal framework of the 2016-2019 Stability Programme. *Source: MF SR, CBR*

Expenditures from the state budget

In the state budget, the CBR identified risks in wage expenditures, expenditures on goods and services and expenditures on the acquisition of capital assets.

- **Wage expenditures**

In estimating the wage expenditures in 2016, the CBR compared their development with the budget in the previous years. Since 2013, the budgeted values have been exceeded every year and, for this reason, the CBR did not take into account the unexplained reduction in expenditures as envisaged by the government in the Stability Programme. In 2016, the CBR foresees the expenditures at the budgeted levels.

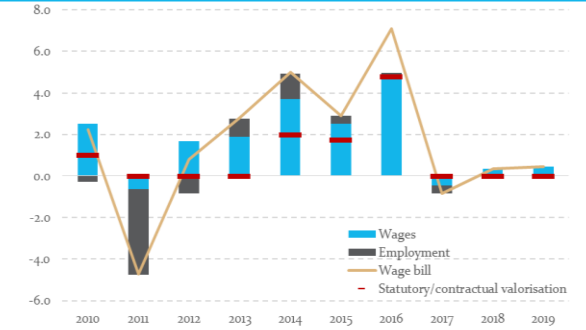
Tab 19: Development of wage expenditures (cash, € million)

	2009	2010	2011	2012	2013	2014	2015	2016
1. Approved budget	2 113	2 068	1 954	1 984	1 980	2 065	2 086	2 353
2. Outcome*	2 015	2 060	1 963	1 979	2 034	2 135	2 197	2 307
3. Difference (2-1)	**-98**	**-8**	**9**	**-5**	**54**	**70**	**111**	**-46**

** In 2016, it is a government estimate.* *Source: MF SR, SO SR*

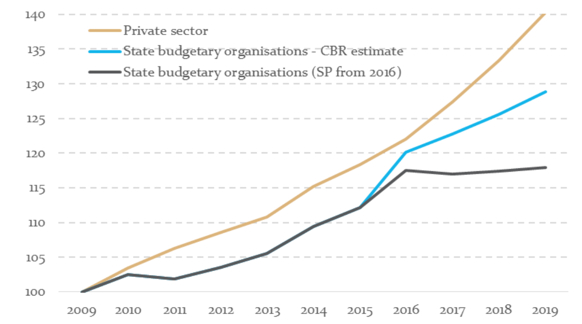
From 2017 to 2019, the Stability Programme envisages an approximately zero increase in wage expenditures in organisations funded from the state budget in comparison with the estimate of expenditures for 2016. As no significant changes are expected in the number of employees, this will, at the same time, imply a wage freeze.

Figure 13: Y-o-y change in wage expenditures (in %)



Source: MF SR, SO SR

Figure 14: Development of wages in private sector and state budget (2009 = 100)



Source: SO SR, MFC, MF SR, CBR

To estimate the risks, the CBR considered the development of wages in the private sector. Between 2009 and 2015, the wage growth as per the state budget was approximately in line with the wage growth in the private sector. The wage freeze after 2016 would mean that the wages could start significantly lagging behind this development, with possible negative impacts on the quality of staff in the public sector. This development will not be sustainable in the medium term. For this reason, the CBR (taking into account the need for consolidation) estimated the risks while assuming a 50% growth of wages in comparison with the private sector. The magnitude of the risk is between EUR 46–220 million.

Tab 20: Risks in state budget wage expenditures (€ million)

	2016	2017	2018	2019
1. Stability Programme	2 307	2 287	2 295	2 305
2. CBR estimate	2 353	2 405	2 461	2 525
3. Size of risks - impact on GG balance (2-1)	**-46**	**-118**	**-166**	**-220**

Source: MF SR, SO SR

- **Expenditures on goods and services**

In order to estimate the risk, the CBR used the estimates of state budget expenditures on goods and services in 2016, which were adjusted for EU funds, co-financing and budgeted reserves. The size of expenditures in 2016 is EUR 49 million higher compared to the 2016 budget and remains between the levels seen in 2014 and 2015[58]. Between 2017 and 2019, the CBR expected the expenditures to grow at the projected pace of inflation (preserving the same actual quantity of purchased goods and services as that in 2016), thus determining the size of the risk in individual years in comparison with the fiscal framework of the Stability Programme.

[58] In 2014, expenditures reached EUR 1,224 million and increased to EUR 1,288 million in 2015 also due to the need to replenish the financing of EU projects from own resources under the state budget chapters. Given the low projected inflation rate and a one-off increase in expenditures in 2015, the CBR considers the government's estimate of expenditures for 2016 to be realistic.

Tab 21: Risks in state budget expenditures on goods and services (€ million)

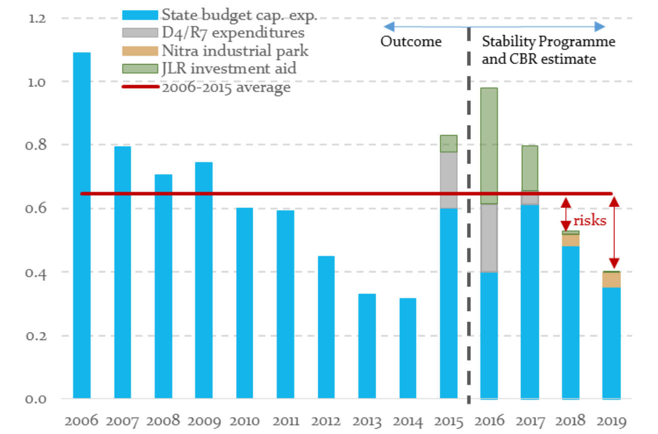
	2016B	2016	2017	2018	2019
1. Stability Programme (excluding expenditures on reserves)	1 191	1 240	1 192	1 199	1 200
2. CBR estimate	1 240	1 240	1 260	1 287	1 315
3. Size of risks - impact on GG balance (2-1)	**-49**	**0**	**-68**	**-87**	**-114**
inflation rate - forecast (%)		0.2	1.6	2.1	2.2

Note: B - approved 2016-2018 general government budget *Source: MF SR, CBR, SO SR*

- **Acquisition of capital assets**

In estimating the risk, the CBR considered the development of state budget expenditures on the acquisition of capital assets, adjusted for expenditures financed from EU funds, co-financing and accompanying investments related to these projects. The comparison also includes large investment projects related to the preparation of the PPP project and the arrival of Jaguar Land Rover.

Figure 15: Risks in capital expenditures (% of GDP)



Source: MF SR, MDVRR SR, CBR

Because investments may significantly vary in individual years, the CBR based its estimate of potential risks on their average amounts during a ten-year period spanning from pre-crisis years characterised by high investments to the years marked by the consolidation of public finances. The average level of expenditures reached 0.6% of GDP between 2006 and 2015. Because the government intends to implement a significant portion of expenditures related to major investment projects between 2016 and 2017, which will leave less room for other investments, the CBR has not identified a risk in other expenditures[59] during this period. From 2018 to 2019, the CBR expects the average level of expenditures to remain the same, i.e., approximately at the level of expenditures in 2017 (without large investments). When taking into account the additional risk encompassing the purchase of the national football stadium in 2018 (also

59 The risks related to the preparation of the PPP project and the Jaguar Land Rover investment are quantified separately.

representing a capital expenditure of the state budget), the risk in that year will reach EUR 58 million. In 2019 the CBR estimates the risk at EUR 237 million.

Tab 22: Estimation of risks related to state budget capital expenditures (€ million)

	2018	2019
1. Capital expenditures (Stability Programme)*	476	385
- in % of GDP	0.5	0.4
2. Capital expenditures at the average of 2006-2015	582	622
- in % of GDP	0.6	0.6
3. Additional expenditures (stadium)	48	0
4. Total risk (1-2+3)	**-58**	**-237**

** including the expenditures related to D4/R7 PPP project and Nitra industrial park*

Source: MF SR, CBR

Annex 3 – Comparison of risks for 2016

Tab 23: Overview of risks and their coverage in 2016 (€ million)

Budget risks with impact on the GG balance	December 2015		May 2016	
	Risks	Coverage	Risks	Coverage
1. Overestimated non-tax revenues:	171	max. 90 (potential saving in co-financing)	171	36* (impact of higher EU funds drawdown or savings in co-financing)
- revenues from SPP and VSE dividends	119		119	
- revenues from the sale of CO_2 allowances	52		52	
2. Financial corrections to EU funds	no quantification		at least 15	
3. Underestimated healthcare expenditures	145		92	244 (better tax collection including the impact of the reserve)
- expenditures on healthcare provision and the financial performance of hospitals	120		67	
- discharge of liabilities payable to the shareholders of private health insurance companies	25		25	
4. Underestimated expenditures of local governments	0-100	150 (reserve for better tax collection)	97	
5. Impact of potential expenditure cuts in 2015 (e.g., carryover of capital expenditures)	no quantification		no quantification	87 (reserve on the impact of new legislative acts)
6. Impact of the potential carryover of expenditures originally budgeted for 2015 in connection with PPP project D4/R7	0-287		173	
7. Expenditures on the construction of the national football stadium	26		17	
8. Accrued cash expenditures in the defence sector	no quantification		no quantification	52 (savings in state social benefits)
9. Expenditures of the National Nuclear Fund on the decommissioning of nuclear facilities	no quantification	11 (lower impact of reduced VAT rate on selected foodstuff)	no quantification	
10. Recapitalisation of the traditionally loss-making state corporations	no quantification		no quantification	
11. Overestimated tax revenues	250		0	20 (savings in the EU budget levy)
12. Expenditures on significant investments	no quantification		66	
13. Expenditures on the purchase of an aircraft	-		42	
14. Expenditures of the Environmental Fund	-		35	
15. Increased wages in the education sector	-		33	0-26 (cancellation of bearer deposits)
16. Underestimated state budget expenditures	-		49	
17. Loan repayment by Cargo	-		20	
18. Contributions to the National Resolution Fund	-		34	
19. Accrual expenditures of the Social Insurance Agency	-		56	

** Higher EU funds drawdown compared to the assumptions used in the macroeconomic forecast will increase tax revenues which might be already captured in another source of risk coverage (better tax collection).*

Source: CBR, MF SR

Annex 4 – Forecast of revenues from taxes and social contributions

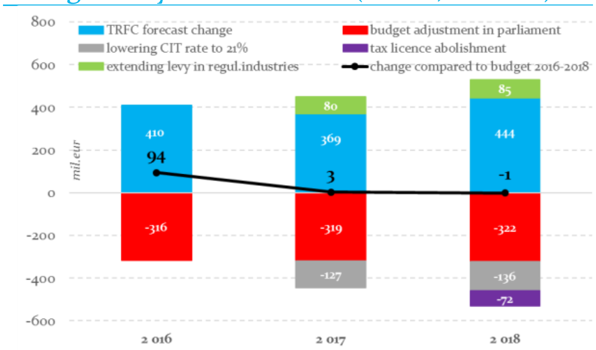
The forecast of revenues from taxes and social contributions, as presented in the Stability Programme, is **based on a February 2016 forecast by the Tax Revenue Forecasting Committee** (assessed by the TRFC as realistic) and supplemented with **three new legislative measures**. These measures have not been discussed by the committee to date, and their fiscal impacts have not been assessed yet. **In comparison with the approved general government budget for 2016–2018,** the forecast of tax revenues underwent the following changes:

- **Inclusion of the impact resulting from a reduction in the VAT base rate on selected foodstuffs to 10%**: The TRFC incorporated this measure in the forecasts already in November 2015, but the shortfall in revenues from VAT, based on the amendment introduced by the parliament, was not included in the budget. Unlike the approved budget, the Stability Programme, which is based on the TRFC's February forecast, already includes this impact.
- **Most upward revisions due to parliamentary amendments are not confirmed by current forecasts:** the parliament simultaneously increased the revenues from VAT and excise taxes beyond TRFC's forecast by EUR 250 million. In the Stability Programme, a larger portion of this increase has not yet been confirmed by the latest forecasts (Chart 14).
- **Inclusion of new legislative measures:**
    - the reduction in the corporate income tax from 22% to 21% as of 2017
    - abolishment of tax licences (introduced in 2014) for the corporate income tax as of 2018
    - extended period of application of the levy in regulated industries after 2016

Compared with the approved budget, the **revenues from taxes and social contributions in 2016 are expected to be higher by EUR 94 million** (0.12% of GDP). For 2017 and 2018, the latest revenue forecasts are at the level of the approved budget.

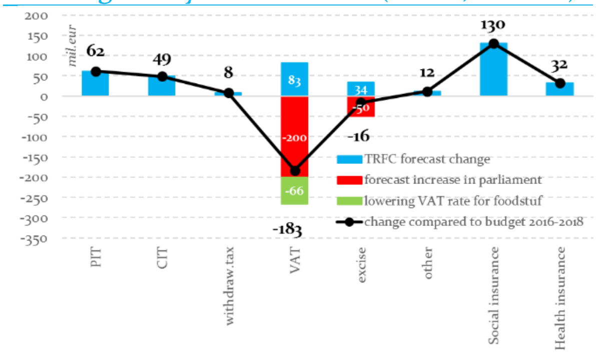
In 2016, the first-quarter figures for tax revenues indicate that the present forecast is realistic. In the event that macro-economic assumptions do not become significantly worse during the year, it is reasonable to expect its slight upward revision.

Figure 16: Tax forecast change compared to budget for years 2016–2018 (ESA10, mil.eur)



Source: MF SR

Figure 17: 2016 tax forecast change compared to budget for years 2016–2018 (ESA10, mil.eur)

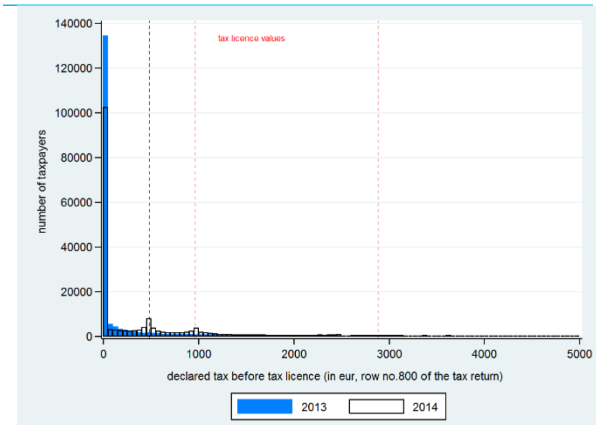


Source: MF SR

Uncertainty in the forecasts of revenues from taxes and contributions

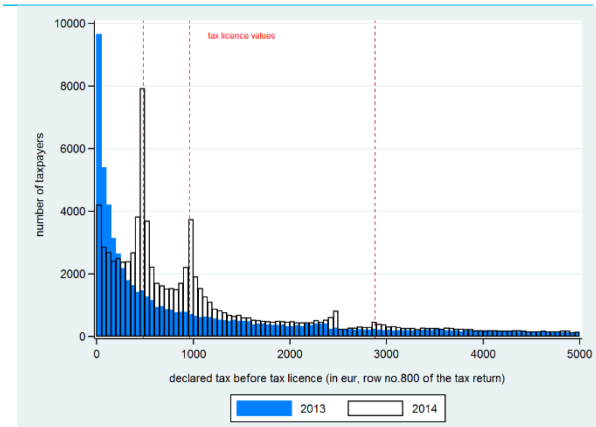
The new legislative measures incorporated in the Stability Programme have not been assessed by the Tax Revenue Forecasting Committee and, for this reason, they carry a higher degree of uncertainty. From this perspective, the most interesting measure is the one involving the **abolishment of tax licences**, in which case a **shortfall of** EUR **72 million is expected in 2018**. In this quantification, the impact of the difference between the declared tax (line 800 in the tax return) and the value of the corresponding amount of the tax licence is only taken into account. However, following the introduction of the tax licence, a **portion of taxable persons have changed their behaviour and declared a higher tax in their tax returns** (thus "optimising" their tax liability by stating a value approaching the value of the licence)[60]. In this manner, the "supplement" to the tax licence is smaller and, therefore, its fiscal impact seems to be lower.

Figure 18 : Distribution of CIT in years 2013 and 2014 – all taxpayers



Source: microdata FS SR

Figure 19: Distribution of CIT in years 2013 and 2014 – excluding taxpayers with zero CIT

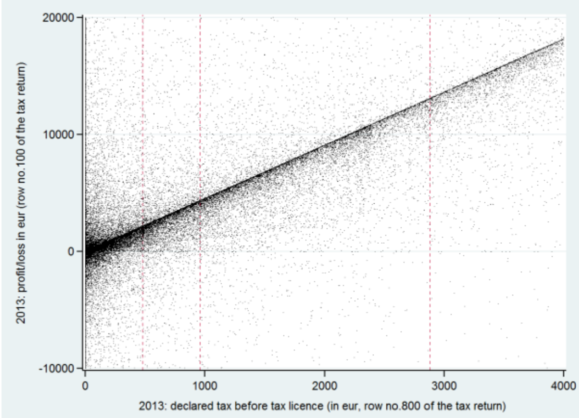


Source: microdata FS SR

The tax optimisation rate is well illustrated by the relationship between the profit and the tax liability (Charts 17 and 18) in 2013 and in the period after the introduction of licences in 2014. In principle, it can be stated that some of the taxable persons have optimised their tax liability through items modifying the tax base (i.e., not only in a standard manner through profit/loss).

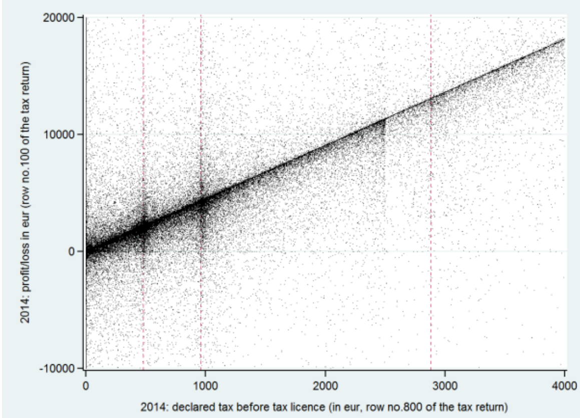
60 We can only speculate on the reasons for such behaviour because, in the end, these taxable persons would pay the corporate income tax in the amount of the tax licence. One explanation may be that, by optimising the tax liability (line 800) with a view to approaching the tax licence amount, i.e., minimising the supplement to the tax licence, they did not want to draw the attention of the Financial Administration of the Slovak Republic to themselves.

Figure 20: Relationship between CIT and profit/loss in 2013



Source: microdata FS SR

Figure 21: Relationship between CIT and profit/loss in 2014



Source: microdata FS SR

If, following the abolishment of the tax licence, taxable persons start following the same pattern as that seen before its introduction, the **shortfall attributable to the abolishment of tax licences may be higher by some EUR 30 million.**

The **Tax Revenue Forecasting Committee** is expected to address the new legislative measures, including a discussion on the above uncertainty, at the end of June 2016.

Annex 5 – General government balance under baseline scenario – CBR estimate

As a part of its Report on the Long-term Sustainability of Public Finances of April 2016, the CBR prepared a baseline scenario of public finance development. It is a projection of general government revenues and expenditures assuming no change in policies and taking into account the applicable legislation. The medium-term part of the scenario, based on the actual figures for 2015, may be viewed (with certain adjustments) as an NPC scenario in the years covered by the medium-term fiscal framework under the Stability Programme.

The main difference between the two scenarios lies in the inclusion of pension expenditures. The baseline scenario includes the output of the CBR's model designed for long-term projections. The downside is that it might not necessarily capture the trends in expenditures in the medium term. For this reason, the CBR applied, in the NPC scenario, an estimate of expenditures which was taken from the Stability Programme and adjusted for the risk arising from the accrualisation of pensions in 2016. In the subsequent years, the CBR is not seeing any risks related to the current legislation; therefore, no adjustments were necessary. The change in expenditures was also reflected in the debt interest payments. The second change entailed the inclusion of an assumption under which the cash reserve is kept at the level of financing needs for the next four months, thus changing the projection of debt interest payments and gross debt (Table 24).

Tab 24: Balance adjustment in baseline scenario (ESA2010, % of GDP)

	2016	2017	2018	2019
1. General government balance in baseline scenario	-2.3	-2.1	-2.0	-1.9
2. Impact of changes in pension expenditures	-0.1	0.2	0.4	0.7
3. Change in interest payments (cash reserve at 4-month level, pension expenditures)	0.0	0.0	0.0	0.0
4. Adjusted GG balance - NPC scenario (1+2+3)	**-2.4**	**-1.9**	**-1.5**	**-1.3**
5. Gross GG debt - baseline scenario	53.6	53.1	52.0	50.6
6. Gross GG debt - NPC scenario	**55.7**	**51.9**	**50.9**	**52.6**

Source: CBR

In the next step, the thus adjusted balance in the NPC scenario was cleared of the factors necessary to quantify the change in structural balance. In this case, one-off effects and the cyclical component were equal to those in the CBR's medium-term forecast based on the Stability Programme.

Tab 25: Change in general government structural balance in NPC scenario (ESA2010, % of GDP)

	2015	2016	2017	2018	2019
1. General government balance	**-3.0**	**-2.4**	**-1.9**	**-1.5**	**-1.3**
2. Cyclical component	0.0	0.0	0.0	-0.1	0.1
3. One-offs	-0.3	-0.1	0.0	0.0	0.0
4. Structural balance (1-2-3)	**-2.6**	**-2.3**	**-1.9**	**-1.5**	**-1.4**
5. Change in structural balance (Δ4)	**-**	**0.3**	**0.4**	**0.4**	**0.1**

Source: CBR

When interpreting the results of medium-term indicators based on such NPC scenario (government's consolidation effort and the size of measures), one should bear in mind that the first year of the scenario captures them most precisely. The subsequent years are rather indicative and depend on the impact of the measures adopted in the previous year[61].

[61] For example, let´s consider permanent measures with positive impact in the first year at 0.3 % of GDP, while their impact in the second and each subsequent year reaches 0.5 % of GDP. In such a case, the additional need to adopt measures in the second year reduces by 0.2 % GDP.

Annex 6 – List of one-off measures

The table below shows the identified one-off effects between 2015 and 2019 which were taken into account in the calculation of structural balance in accordance with the CBR's methodology[62].

Tab 26: List of one-offs in 2015-2019 (ESA2010, % GDP)

	2015	2016	2017	2018	2019
Imputation of VAT from a PPP project	-0.01	-0.01	-0.01	-0.01	-0.01
Accrualisation of VAT receipts	-0.07	-	-	-	-
Financial corrections to EU funds	-0.24	-	-	-	-
Refunds paid to households for gas consumption	-	-0.06	-	-	-
TOTAL	**-0.32**	**-0.07**	**-0.01**	**-0.01**	**-0.01**

Source: CBR

1. **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. For the next 30 years, the amount of the advance payment will be reduced every year by an aliquot portion amounting to EUR 5.79 million. Every year, this amount will continue to affect the general government budget negatively for a period of 30 years.

2. **Accrualisation of VAT receipts** - ESA2010 uses the method of accrued 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 excess tax refunds may significantly influence VAT accrual receipts under ESA2010. Due to this, the negative effect on VAT revenues in 2015 reached EUR 55 million.

3. **Financial corrections to EU funds** - Due to various irregularities ascertained in the drawing of EU funds, Brussels withheld the reimbursement of expenditures in respect of a number of projects despite the fact that Slovakia did already receive payments from the EU and/or such projects had already been pre-financed from the national budget. Once the correction is imposed and accepted, it has a negative impact on the balance. In 2015, the impact of corrections was estimated at EUR 187 million[63].

4. **Refunds paid to households for gas consumption** - In 2016, the general government expenditures will be affected by a one-off government measure of July 2015 under the first social package. The measure affects all households which use gas for cooking, hot water, or

[62] In its evaluation of the structural balance for the purposes of the European 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 together with explanation.

[63] The amount of corrections is based on documents provided by the Ministry of Finance (Draft Budgetary Plan for 2016, Box 2). The impact of corrections in individual year is identified as a difference between the officially recorded correction and the analytically adjusted correction (correction assigned to the year in which it originated).

heating. Households started receiving the gas refund from the Ministry of Economy at the end of January 2016, and its amount represented roughly 6% of a household's annual payment for gas supply. The impact on the general government balance represents EUR 48 million in 2016.

Annex 7 – Balance of GG revenues and expenditures

Tab 27: General government balance (ESA2010, € million)

	2016B	2016E	2017SP	2018SP	2019SP
Total Revenue	30 678.1	31 111.1	31 934.1	33 424.0	34 479.7
Tax revenue	**14 463.7**	**14 394.8**	**14 795.1**	**15 425.9**	**16 317.7**
Taxes on Production and Imports	8 736.0	8 547.2	8 833.5	9 078.1	9 519.1
- VAT (excl. VAT directed to the EU)	5 623.8	5 440.4	5 617.3	5 863.3	6 200.2
- Excise taxes	2 162.5	2 146.9	2 220.0	2 279.4	2 349.1
- Import duty	0.0	0.0	0.0	0.0	0.0
- Taxes on Land, Buildings and Other Structures	233.5	237.3	244.0	248.8	252.5
Current Taxes on Income, Wealth etc.	5 727.7	5 847.6	5 961.6	6 347.8	6 798.6
- PIT	2 554.9	2 616.7	2 775.8	2 962.0	3 160.2
- CIT	2 676.9	2 726.1	2 743.0	2 848.3	3 075.6
- Withholding Tax - budgetary classification	166.8	174.8	182.5	193.5	210.7
- Income Tax - emissions	0.0	0.0	0.0	0.0	0.0
- Property Taxes and Others	107.6	109.5	112.4	114.3	116.1
Capital taxes	0.0	0.0	0.0	0.0	0.0
Social Security Contributions (SSC)	**10 907.7**	**11 073.0**	**11 487.9**	**12 095.7**	**12 776.6**
Actual Social Security Contributions	10 762.9	10 928.2	11 338.7	11 947.2	12 627.5
Imputed SSC	144.8	144.8	149.2	148.5	149.1
Nontax revenue	**3 580.9**	**3 704.2**	**3 783.5**	**3 794.8**	**3 877.0**
Sales	3 020.3	3 146.8	3 237.0	3 258.1	3 281.1
Property Income, of which	560.7	557.4	546.5	536.7	595.8
- Dividends	465.3	461.7	454.6	453.2	459.3
- Interest	47.1	47.2	43.4	35.1	88.1
Grants and transfers	**1 725.8**	**1 939.1**	**1 867.6**	**2 107.6**	**1 508.4**
of which: from EU	1 093.9	1 280.6	1 235.4	1 486.3	912.3
Total Expenditure	32 234.6	32 825.8	33 028.6	33 820.9	34 325.5
Current expenditure	**29 781.8**	**29 850.1**	**30 199.9**	**31 010.8**	**32 225.9**
Compensation of employees	6 857.3	7 019.9	7 161.7	7 395.9	7 639.7
Intermediate Consumption	4 125.3	4 284.3	4 394.2	4 181.1	4 436.9
Taxes	44.1	44.1	44.8	45.4	45.4
Subsidies and transfers	612.5	419.7	417.0	410.4	411.4
Property Income	1 248.2	1 226.5	1 214.7	1 249.1	1 279.4
Interest	1 248.2	1 226.5	1 214.7	1 249.1	1 279.4
Total Social Transfers	14 946.6	14 945.8	15 043.3	15 580.0	16 197.5
Social benefits other than in kind	10 898.7	10 866.7	10 891.1	11 194.3	11 554.9
Active Labor Market Measures	45.5	44.0	54.1	51.3	54.9
Sickness benefits	440.9	447.8	466.0	487.1	506.9
Old-age and disability pensions	6 545.9	6 505.5	6 646.0	6 869.1	7 126.2
Unemployment benefits	147.1	159.9	144.3	132.2	121.4
State social allowances	1 395.4	1 371.9	1 374.8	1 389.1	1 408.9
Insurance premiums	1 610.9	1 610.9	1 531.6	1 582.1	1 653.3
Social transfers in kind (healthcare facilities)	4 047.9	4 079.0	4 152.2	4 385.7	4 642.6
Other subsidies and transfers	1 947.8	1 909.9	1 924.2	2 148.9	2 215.5
o/w: Levies to the EU budget source	726.7	706.7	718.7	756.7	778.0
Capital Expenditure	**2 452.8**	**2 975.6**	**2 828.7**	**2 810.1**	**2 099.6**
Capital Investment	2 264.9	2 784.1	2 649.0	2 569.2	1 776.7
Capital transfers	188.0	191.5	179.7	240.9	322.9
Net lending/borrowing	-1 556.5	-1 714.6	-1 094.5	-396.8	154.2

Source: MF SR

Tab 28: General government balance (ESA2010, % GDP)

	2016B	2016E	2017SP	2018SP	2019SP
Total Revenue	38.04	38.61	37.64	37.06	35.77
Tax revenue	**17.93**	**17.86**	**17.44**	**17.10**	**16.93**
Taxes on Production and Imports	10.83	10.61	10.41	10.07	9.88
- VAT (excl. VAT directed to the EU)	6.97	6.75	6.62	6.50	6.43
- Excise taxes	2.68	2.66	2.62	2.53	2.44
- Import duty	0.00	0.00	0.00	0.00	0.00
- Taxes on Land, Buildings and Other Structures	0.29	0.29	0.29	0.28	0.26
Current Taxes on Income, Wealth etc.	7.10	7.26	7.03	7.04	7.05
- PIT	3.17	3.25	3.27	3.28	3.28
- CIT	3.32	3.38	3.23	3.16	3.19
- Withholding Tax - budgetary classification	0.21	0.22	0.22	0.21	0.22
- Income Tax - emissions	0.00	0.00	0.00	0.00	0.00
- Property Taxes and Others	0.13	0.14	0.13	0.13	0.12
Capital taxes	0.00	0.00	0.00	0.00	0.00
Social Security Contributions (SSC)	**13.53**	**13.74**	**13.54**	**13.41**	**13.25**
Actual Social Security Contributions	13.35	13.56	13.36	13.25	13.10
Imputed SSC	0.18	0.18	0.18	0.16	0.15
Nontax revenue	**4.44**	**4.60**	**4.46**	**4.21**	**4.02**
Sales	3.75	3.91	3.82	3.61	3.40
Property Income, of which	0.70	0.69	0.64	0.60	0.62
- Dividends	0.58	0.57	0.54	0.50	0.48
- Interest	0.06	0.06	0.05	0.04	0.09
Grants and transfers	**2.14**	**2.41**	**2.20**	**2.34**	**1.56**
of which: from EU	1.36	1.59	1.46	1.65	0.95
Total Expenditure	39.97	40.74	38.93	37.50	35.61
Current expenditure	**36.93**	**37.05**	**35.59**	**34.38**	**33.43**
Compensation of employees	8.50	8.71	8.44	8.20	7.93
Intermediate Consumption	5.12	5.32	5.18	4.64	4.60
Taxes	0.05	0.05	0.05	0.05	0.05
Subsidies and transfers	0.76	0.52	0.49	0.46	0.43
Property Income	1.55	1.52	1.43	1.38	1.33
Interest	1.55	1.52	1.43	1.38	1.33
Total Social Transfers	18.53	18.55	17.73	17.27	16.80
Social benefits other than in kind	13.51	13.49	12.84	12.41	11.99
Active Labor Market Measures	0.06	0.05	0.06	0.06	0.06
Sickness benefits	0.55	0.56	0.55	0.54	0.53
Old-age and disability pensions	8.12	8.07	7.83	7.62	7.39
Unemployment benefits	0.18	0.20	0.17	0.15	0.13
State social allowances	1.73	1.70	1.62	1.54	1.46
Insurance premiums	2.00	2.00	1.81	1.75	1.72
Social transfers in kind (healthcare facilities)	5.02	5.06	4.89	4.86	4.82
Other subsidies and transfers	2.42	2.37	2.27	2.38	2.30
o/w: Levies to the EU budget (w/o VAT - EU source)	0.90	0.88	0.85	0.84	0.81
Capital Expenditure	**3.04**	**3.69**	**3.33**	**3.12**	**2.18**
Capital Investment	2.81	3.46	3.12	2.85	1.84
Capital transfers	0.23	0.24	0.21	0.27	0.33
Net lending/borrowing	-1.93	-2.13	-1.29	-0.44	0.16

Source: MF SR

Annex 8 – Adjusted general government expenditures

Tab 29: Structure of adjusted general government expenditures (ESA2010, € million)

	2016E	2017SP	2018SP	2019SP
Total expenditures	**32 825.8**	**33 028.6**	**33 820.9**	**34 325.5**
EU related expenditures	1 280.6	1 235.4	1 486.3	912.3
Co-financing	392.1	528.0	601.7	565.2
Interest payments	1 226.5	1 214.7	1 249.1	1 279.4
SSC paid by state	1 610.9	1 531.6	1 582.1	1 653.3
Levies to the EU budget	706.7	718.7	756.7	778.0
Adjusted expenditures	**27 609.0**	**27 800.2**	**28 145.0**	**29 137.3**
Mandatory	**12 994.0**	**13 131.8**	**13 130.8**	**13 643.4**
y-o-y change (%)		*1.1*	*0.0*	*3.9*
Compensation of employees	7 010.1	7 140.2	7 378.8	7 622.6
Wages	5 140.5	5 239.5	5 421.3	5 580.9
Employee social security contributions	1 869.6	1 900.6	1 957.5	2 041.8
Intermediate consumption	3 761.3	3 865.5	3 413.4	3 678.8
Taxes	44.1	44.8	45.4	45.4
Subsidies	304.2	284.9	282.6	283.6
Agricultural subsidies	4.6	4.6	4.6	4.6
Transport subsidies	140.0	140.9	141.6	142.6
Rail transport	9.0	8.9	8.6	8.6
Bus transport	130.0	131.0	132.0	133.0
Other	159.6	139.4	136.5	136.5
Social transfers	726.7	674.4	683.4	683.4
Other current transfers	1 147.6	1 122.2	1 327.3	1 329.7
Facultative	**12 648.1**	**12 871.0**	**13 350.7**	**13 896.1**
y-o-y change (%)		*1.8*	*3.7*	*4.1*
Social benefits	12 593.3	12 813.1	13 288.8	13 829.5
Social benefits other than transfers in kind	8 514.2	8 660.9	8 903.1	9 186.9
Active labour market policy	29.1	29.9	25.5	23.5
Sickness benefits	447.8	466.0	487.1	506.9
Old-age and disability pensions	6 505.5	6 646.0	6 869.1	7 126.2
Unemployment benefits	159.9	144.3	132.2	121.4
State benefits and social assistance	1 371.9	1 374.8	1 389.1	1 408.9
Child allowance	311.7	318.0	322.7	328.8
Allowance for new-borns	36.1	41.8	42.0	42.2
Parental allowance	360.2	355.0	360.3	367.0
Material needs benefits	224.6	227.3	228.1	231.1
Cash subsidies on compensation	239.3	232.1	234.8	237.6
Other	199.9	200.5	201.3	202.3
Social transfers in kind (Healthcare)	4 079.0	4 152.2	4 385.7	4 642.6
Other current transfers	54.8	57.9	61.8	66.6
of which: 2% of income tax to 3rd sector	54.8	57.9	61.8	66.6
Capital expenditures	**1 966.9**	**1 797.3**	**1 663.5**	**1 597.8**
y-o-y change (%)		*-8.6*	*-7.4*	*-4.0*
Capital investment	1 796.7	1 699.1	1 569.8	1 442.3
Capital transfers	170.2	98.3	93.7	155.4

Source: MF SR, CBR

Annex 9 – Fiscal performance of GG entities

Tab 30: Fiscal performance of GG entities (ESA2010, ths. eur)

	2016B	2016E	2017SP	2018SP	2019SP
A. State Budget	-1 987 357	-2 039 491	-1 782 493	-1 078 029	-553 594
B. Other subjects of GG	430 854	324 857	688 012	681 180	707 821
Municipalities	109 882	109 882	136 123	153 625	153 625
Transport companies (BA, BB, KE, ZA)	4 901	4 054	3 420	9 270	2 999
Higher territorial units	103 463	103 463	116 213	111 008	111 008
Social Insurance Agency	-94 437	-142 212	37 639	41 317	44 936
Health insurance companies	-6 953	-6 953	8 054	8 879	18 282
Nuclear decommissioning fund	117 963	117 963	109 875	128 533	154 434
National Property Fund	-9 892	-9 892	-3 950	-3 041	-2 650
Environmental fund	132 240	132 240	134 526	132 414	132 495
State fund for housing development	49 632	49 632	48 055	47 678	47 451
Healthcare Surveillance Authority	246	160	924	979	965
Slovak Land Fund	8 114	8 114	9 179	9 194	9 154
Slovak consolidation agency	4 518	4 518	-864	-459	-755
Public universities	101	101	178	178	178
Broadcasting and television	744	744	168	168	168
TASR	147	147	141	130	130
Audit Surveillance Authority	4	4	0	0	0
Audio-visual Fund	0	0	-228	-183	-120
Council for Budget Responsibility	86	86	-148	2	1
Slovak Railways	0	0	0	0	0
ZSSK	0	-57 289	-4 256	-6 719	-17 449
National Highway Company, a. s.	35 890	35 890	53 009	36 965	36 965
EOSA	10 465	10 465	11 442	13 506	15 147
Fund for education support	195	195	203	224	224
Eximbanka	163	163	100	90	80
Recycling Fund	-31 043	-31 043	-2 182	0	0
Healthcare facilities	-4 208	-4 208	-2 423	8 688	2 733
Contributory organisations	-1 367	-1 367	2 608	2 594	2 294
MH Invest	0	0	30 206	-13 860	-4 474
General government balance	-1 556 503	-1 714 634	-1 094 481	-396 849	154 227
(% GDP)	*-1.93*	*-2.13*	*-1.29*	*-0.44*	*0.16*

Source: MF SR

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