COUNCIL FOR BUDGET RESPONSIBILITY

Addendum to the Evaluation of the General Government Budget for 2017-2019

(Based on the amendments to the 2017-2019 General Government Budget adopted by the Parliament on 29 November 2016)

December 2016

This report presents the official positions of the Council for Budget Responsibility in line with its mandate laid down in Act No. 493/2011 on Fiscal Responsibility.

This publication is available at the CBR website (http://www.rozpoctovarada.sk).

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

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Summary

The Council for Budget Responsibility (CBR) has updated its evaluation of the general government budget for 2017-2019 in reaction to the State Budget Act approved by the parliament. The evaluation also reflects supplementary information and, in particular, additional documents provided by the Ministry of Finance, as well as an updated forecast of the Tax Revenue Forecasting Committee.

Compared to the government-approved budget proposal, **there were no changes in the fiscal targets** and, according to the Ministry of Finance, the impact of the approved changes on the budget balance under the ESA2010 methodology should be neutral. On the revenue side, the maximum assessment bases were increased for social insurance contributions and repealed for health insurance contributions. The conditions for non-life insurance levy have been changed as well. On the expenditure side, there was an increase in expenditures on sickness benefits, parental allowance, active labour market measures, capital expenditures in the healthcare sector for the operation and reconstruction of hospitals, whereas the reserves for addressing negative impacts of the above measures have been reduced. On top of these legislative changes, collective bargaining about wage demands in public administration has been concluded and a raise in the fee for the management of emergency oil and oil product stocks was approved.

The risks identified by the CBR in the budget proposal remain relevant also after its adoption by the parliament. Following the reduction of the estimated impact of financial corrections to EU funds, the risks for 2016[1] have declined slightly in comparison with the budget proposal. On the other hand, the risks for 2017-2019 saw a very modest increase, with the annual impact quantified up to 0.1% of GDP. The highest negative impact in comparison with the government-approved budget is expected in the lower-than-budgeted increase in the fee for the management of emergency oil and oil product stocks, the higher-than-expected shortfall due to the abolishment of tax licences and, in 2018, the higher-than-estimated impact of wage increases in the public administration. In 2017, the new risks are partially offset by reduced risks in the healthcare sector due to an increase in expenditures for this sector.

If all risks materialise and the sources of their coverage are used, the 2017 deficit could reach 1.6% of GDP, which is 0.3% of GDP higher than the target value in the approved budget. The medium term budgetary objective should still be, according to CBR's calculations, attained in 2019. The structural deficit under the no-policy change scenario would be at 0.4% of GDP in 2019, which means that the medium term budgetary objective would be reached even without additional measures by the government.

The CBR appreciates that the forecast of tax revenues and social contributions, as approved by the independent Tax Revenue Forecasting Committee[2] (TRFC), was not arbitrarily adjusted by the parliament, as was the case in previous years. On the other hand, **the budgetary implications of tax licences abolished by the parliament were not**

[1] In evaluating the government-approved budget proposal, the CBR quantified the deficit at 2.5% of GDP while assuming that all quantified risks will materialise, the sources of their coverage will be used and no additional measures will be adopted in 2016.

[2] Meeting of the Tax Revenue Forecasting Committee in November 2016

assessed by the TRFC[3]. In CBR's opinion, the clarity of the approved budget is flawed by the fact that the shortfall in tax revenues resulting from the abolishment of tax licences is budgeted as a reserve on the expenditure side of the budget rather than as a decline in revenues.

The manner in which changes are incorporated into the three-year budget[4] suggests that the existing legislative framework for budget approval in the parliament is not satisfactory. The approval of a cash-based state budget by the parliament for the next year is based on a historical tradition, but it is no longer sufficient to capture all changes in public finances in accordance with the European standards defined by the ESA2010 methodology. The CBR has been referring to this fact repeatedly[5].

3 Neither did the Committee formally assess the impact of repealed maximum assessment bases for health insurance payments; however, it was presented as a memorandum item at the meeting held in November, with the CBR subscribing to such quantification of the impact as well.

4 The parliament approved cash-based changes for 2017, but it was not clear how these changes would appear under the ESA2010 methodology between 2017 and 2019. This uncertainty was resolved by the Ministry of Finance which incorporated additional modifications in the budget beyond the framework of changes approved by the parliament. The CBR does not consider additional adjustments in the three-year budget which was approved by the government and acknowledged by the Parliament to be a standard procedure.

5 CBR, Addendum to the Evaluation of the General Government Budget for 2015-2017, p. 14 and CBR, Addendum to the Evaluation of the General Government Budget for 2016-2018, p. 11.

1. Changes in the general government budget

On 5 October 2016, the Slovak government approved the General Government Budget Proposal for 2017-2019 to which the Council for Budget Responsibility (CBR) published its evaluation on 16 November 2016[6]. Several changes have been made since the government approved the budget proposal and, therefore, the CBR prepared an update to its evaluation. These changes specifically involve the approval of a new tax revenue forecast by the Tax Revenue Forecasting Committee on 9 November 2016, the approval of the budget proposal by the parliament on 29 November 2016 with several amendments, the conclusion of a higher level collective agreement for 2017 addressing the remuneration of public administration employees with the exception of pedagogical and professional personnel and teachers in tertiary schools, and other changes occurring after the approval of the budget.

In comparison with the government's budget proposal, no changes were made in the fiscal targets. At the same time, macroeconomic assumptions were left unchanged as well. **The changes incorporated in the approved budget are expected to have a neutral impact on the balance, according to the sponsors of such amendments.**

An extraordinary meeting of the Tax Revenue Forecasting Committee, which was held on 9 November 2016, **approved the impact of an increase in the maximum assessment base for social contributions from 5- to 7-times the average monthly wage in the economy**. The estimated impact of the **repealed maximum assessment base for health insurance contributions** was specified as a memorandum item[7]. Both of these legislative changes were approved by the parliament and incorporated into the budget.

During the parliamentary debate on the Act on the state budget for 2017 and the general government budget for 2017-2019, the **parliament approved two amendments:**

- A joint report by parliamentary committees[8] contained changes by which the effects of additionally approved legislative amendments and government's measures are reflected in cash revenues and expenditures of the 2017 state budget[9]. These specifically involve the above increase in maximum assessment bases in social and health insurance, changes in the conditions for non-life insurance levy, increase in expenditures on sickness benefits (raising the maximum assessment base for the calculation of benefits from 1.5 to 2-times the average monthly wage, increasing the maternity benefit from 70% to 75% of the assessment base), an increase in parental allowance as of 1 May 2017, additional expenditures on active labour market measures, an increase in capital expenditures within the budget chapter of the Ministry of Health

[6] CBR, Evaluation of the General Government Budget Proposal for 2017-2019.
[7] This figure was submitted for information to the Committee members. The impacts of this measure were not incorporated in the Committee's tax revenue forecast and, therefore, its members did not vote on it.
[8] The Joint report (available only in Slovak) of parliamentary committees regarding the results of the debate on the draft Act on the state budget for 2017 and the general government budget proposal for 2017-2019 (print issue 230a).
[9] The impacts of changes within the three-year horizon under the ESA2010 methodology were provided by the Ministry of Finance of the Slovak Republic upon CBR's request and are shown in Table 1.

for the operation and reconstruction of hospitals, and a reduction of reserves for addressing negative impacts of the above measures[10].

- The draft resolution to the budget included a requirement[11] to earmark funds in the amount of EUR 50 million in 2017 within the budget chapter of the General Treasury Administration for the coverage of potential negative impacts in the healthcare sector resulting from the most recent estimates of developments in this sector in 2016 and for the implementation of individual measures under the Value for Money project.

Tab 1: Changes in the 2017-2019 General government budget (ESA2010, € million)

	2017	2018	2019
Total impact:	**0**	**0**	**0**
1. Increase in the max. assessment base for social contributions (from 5 to 7 times the average monthly wage)	57	59	62
2. Repealing the max. assessment base for health insurance contributions	73	76	81
3. Non-life insurance levy	-23	-36	-36
4. Increase in expenditures on sickness benefits	-26	-33	-35
5. Increase in capital expenditures in the healthcare sector	-70	-76	-81
6. Increase in health insurance companies' expenditure on healthcare	-12	0	0
7. Increase in parental allowances	-10	-17	-17
8. Additional expenditures on active labour market policies	-21	-9	-10
9. Lower EU budget levy	33	30	30
10. Lower reserves on wages	0	6	6
11. Changes in other reserves	0	0	0
- increase in the reserve in healthcare	-50	-	-
- lower reserve for 2017	50	-	-

Note: Table shows the impact on the general government balance. *Source: MF SR*

In addition to amendments referred to above, there were also other changes which were not incorporated at all, or incorporated partially, into the general government budget:

- On 30 November 2016 the general meeting[12] of the Emergency Oil Stocks Agency approved a raise in the **fee for the management of emergency oil and oil product stocks as of 2017** from 19.65 EUR/1,000 l (or kg) to 29.65 EUR/1,000 l (or kg). The fee will therefore be raised by 51 %, whereas the budget assumes a 100% increase.

[10] In addition to these changes, the amount of transfer from the state budget to the Social Insurance Agency and health insurance contributions paid by the state underwent changes as well. The impact of both transactions is neutral as the funds are only transferred between individual general government entities.
[11] Amending and supplementing proposal (available only in Slovak) by MPs Juraj Blanár and Ladislav Kamenický to the government's draft Act on the state budget for 2017.
[12] Pricelist effective from 1 January 2017, as published on the agency's website.

- As part of its evaluation[13] of compliance with the balanced budget rule for 2015, the Ministry of Finance updated its **estimate of financial corrections to EU funds in 2016**, reducing their amount from EUR 201 million to EUR 175 million.

- **Collective agreements for civil and public service** for 2017 were signed on 1 December 2016. Based on these agreements, there will be a 4% wage scale increase for employees[14] as of 1 January 2017, followed by an increase in remuneration by 2 % as of 1 September 2017, which is to be paid in the form of bonuses (i.e. this component of the increase will not be reflected in subsequent years). In a memorandum which forms part of collective agreements, a similar adjustment is proposed for 2018, i.e. 4% as of 1 January 2018, and a 2% increase in remuneration as of 1 September 2018. The impacts of pay rises, as estimated by the Ministry of Finance, are shown in Table 2, with the increase in expenditures being covered by existing budgetary reserves and cuts in other unspecified expenditures.

- According to the information presented in the media,[15] state-owned health insurance company **Všeobecná zdravotná poisťovňa** (VšZP) is expected to report a huge loss for 2016, resulting in a negative equity and the need to replenish its cash accounts. No concrete measures to address this situation have been presented so far. According to the information provided by the Ministry of Health of the Slovak Republic, VšZP should submit a recovery plan in December.

Tab 2: Impact of wage increases in general government – MF SR estimate (ESA2010, € million)

	2017	2018	2019
1. Wages in the GG – increase in 2017	-168	-143	-143
- state budget	-120	-102	-102
- of which: transfers to local governments (transferred powers)	-7	-6	-6
- of which: transfers to public universities	-6	-5	-5
- local governments	-48	-41	-41
2. Wages in the GG – increase in 2018		-175	-149
- state budget		-125	-107
- of which: transfers to local governments (transferred powers)		-7	-6
- of which: transfers to public universities		-6	-5
- local governments		-50	-42
Total impact	**-168**	**-318**	**-292**

Note: Table shows the impact on the general government balance. *Source: MF SR*

13 Ministry of Finance, Compliance with the balanced budget rule for 2015 (available only in Slovak), November 2016, p. 22.

14 The increase does not cover pedagogical and professional personnel and teachers of tertiary schools. The education trade unions discussed their pay rise with the Minister of Education. However, they have not reached any agreement so far.

15 For example, the following news articles (available only in Slovak): http://www.etrend.sk/ekonomika/vseobecna-zdravotna-poistovna-je-v-rekordnej-strate.html, http://www.etrend.sk/ekonomika/vszp-chysta-ozdravny-plan-predlozi-ho-v-decembri.html.

2. Assessment of changes and their impacts on meeting the objectives

The changes made in the budget have also been reflected in its evaluation. **Compared to the budget proposal, the risks estimated for 2016 declined, but the CBR worsened its 2017-2019 estimate** (Table 3).

Tab 3: Risks and sources of their coverage in comparison to the budget proposal (ESA2010, € million)

	2016	2017	2018	2019
1. Updated impact of financial corrections to the EU budget	26	-	-	-
2. Lower revenues of the Emergency Oil Stocks Agency	-	-30	-31	-32
3. Impact of abolished CIT tax licences	-	-	-30	-30
4. Wages in the state budget	-	-7	-27	-2
5. Lower risks in healthcare expenditures	-	12	-	-
6. Financing additional expenditures from reserves	-	-	-6	-6
Total impact on the GG balance	**26**	**-24**	**-63**	**-39**
Current estimate of the GG balance	**-2 042**	**-1 341**	**-809**	**-66**
- in % of GDP	**-2.5**	**-1.6**	**-0.9**	**-0.1**

Source: CBR

The CBR included an **update on the impact of financial corrections to EU funds** in its 2016 estimate, since the Ministry of Finance expects that their negative effect on the balance will be less than previously estimated by EUR 26 million.

In 2017-2019, a negative effect will be felt from **increased fee for the management of emergency oil and oil product stocks.** The budget anticipates a 100% increase in the fee, which will rise 51% from 2017, resulting in a shortfall in revenues approximately at a level of EUR 30 million a year.

The Ministry of Finance expects that the negative effect of the abolishment of tax licences for the corporate income tax will be felt from 2018 in the form of budgetary revenues lower by nearly EUR 70 million (in the budget, included as a cash reserve on the expenditure side). The CBR estimates this negative effect may be even higher, by some EUR 30 million[16] a year.

The CBR also updated the effect of **wage increases in the general government sector in 2017 and 2018** to reflect the signed collective agreement. In terms of the state budget expenditures, the CBR updated its assumptions (growth at a level of the estimated growth in wages in the private sector) with the Ministry of Finance's estimate; this increased the risk by EUR 2-27 million in the 2017-2019 period. The estimated impacts of wage increases on other

[16] The quantification of the effects of the abolishment of tax licences was discussed at a Tax Revenue Forecasting Committee meeting on 23 June 2016 where the CBR Secretariat noted that the quantification was underestimated (Minutes of the Tax Revenue Forecasting meeting of June 2016 – available only in Slovak).

entities (local governments in particular) have not changed the expected size of risks in the case of these entities.

In addition, the CBR also reduced the estimate of risks in **the expenditures of health insurance companies on the provision of healthcare** in 2017. The parliament increased the expenditures by EUR 12 million during the budget approval procedure, but the increase is not driven by any particular additional measure[17]. On the other hand, **reserves, as the sources for coverage of risks, decreased** as a portion of them (EUR 6 million in 2018 and 2019) will be spend to cover additional expenditures under the approved budget.

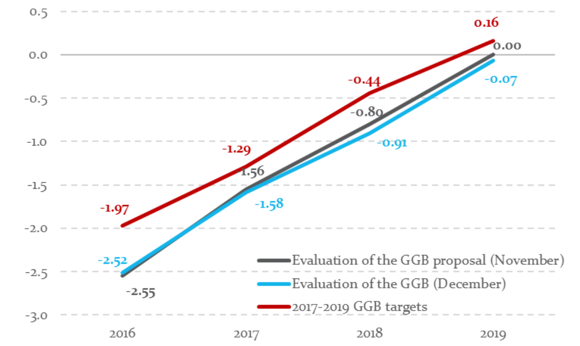
The coverage of the loss incurred by health insurer VšZP in 2016 (for example by increasing its equity and/or covering the missing cash) should have no effect on the general government deficit and gross debt, according to the CBR, as it would only involve a transfer of funds between individual general government entities. The CBR already included the increased healthcare spending in its original quantification of overall risks in the sector.

The remaining risks and sources for their coverage identified by the CBR in the budget proposal remain relevant (the complete list is shown in Annex 1).

Taking into account additional risks and sources for their coverage, and assuming that the government adopts no additional measures, the general government deficit could stood at 1.6% of GDP in 2017, exceeding the objective set in the general government budget by 0.3% of GDP. There is almost no change compared to the CBR's estimate contained in the evaluation of the budget proposal approved by the government (November 2016).

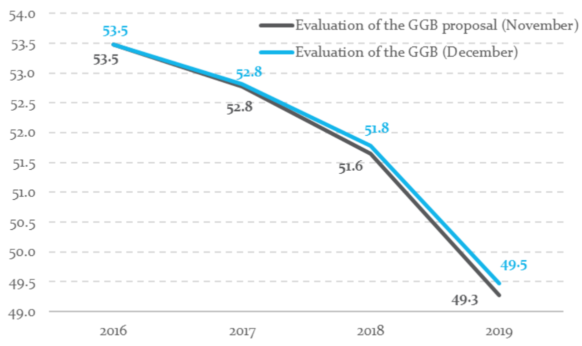
When compared to the CBR's evaluation of November 2016, the 2018 and 2019 deficits could be some 0.1% of GDP higher, which will also reflect in the gross-debt-to-GDP ratio. The gross debt estimated for the end of 2019 increased by 0.2 p.p., from 49.3% to 49.5% of GDP.

Figure 1: Changes in GG balance reflecting updated risks (ESA2010, % of GDP)



Source: CBR, MF SR

Figure 2: Changes in gross debt reflecting updated risks (% of GDP)



Source: CBR

[17] A technical adjustment not backed by a specific measure, which ensured that the approved changes in the budget have a neutral effect on the general government balance in 2017.

The changes in the balance have also reflected in the development of structural balance[18]. **According to CBR's calculations, the medium-term budgetary objective (set as a structurally balanced budget) is still to be attained in 2019. The structural deficit under the no-policy change scenario would be at 0.4% of GDP in 2019, which means that the medium-term budgetary objective would be reached even without government's interventions.**

[18] In addition to the change in the general government balance, the cyclical component was also updated for the entire forecast period, along with the one-off effects in 2015 (see more in Annex 2).

3. Budget transparency

The CBR appreciates that the forecast of tax revenues and social contributions (hereinafter tax revenues), which was approved by the independent Tax Revenue Forecasting Committee[19] (TRFC), **was not arbitrarily adjusted by the parliament, as was the case in previous years**[20].

On the other hand, the budgetary implications of tax licences repealed by the **parliament were not assessed by the TRFC**[21]. The consequence is that the effect of abolished tax licences has been undervalued.

The clarity of the approved budget is flawed, in CBR's opinion, by the fact that **the shortfall in tax revenues caused by the abolishment of tax licences is not reflected on the revenue side of the budget**. The negative effect of this measure is recorded on the expenditure side of the budget in the form of a reserve. Even though this measure was expected[22], the Ministry of Finance failed to incorporate it in the budget in a transparent way[23].

The existing **legislative framework governing the budget approval procedure in the parliament does not fit** the scope and content of the documents that are being approved, a fact that the CBR has repeatedly noted. The approval of a cash-based state budget by the parliament for the next year is based on a historical tradition, but is no longer sufficient to capture the key monitored parameters of public finances and all changes in public finances in accordance with the European standards defined by the ESA2010 methodology.

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19 Tax Revenue Forecasting Committee meeting of November 2016

20 The parliament increased the tax revenue forecast under the 2015 general government budget by EUR 300 million and that under the 2016 general government budget by EUR 250 million, while, at the same time, the effect of the reduction of VAT rate for selected foodstuffs to 10% was not incorporated.

21 The effect of the cancellation of maximum assessment bases for health insurance was not officially assessed by the Committee, either, but was presented as a memorandum item at its November meeting, with the CBR having agreed with the quantification of this effect.

22 Evaluation of the General Government Budget Proposal for 2017-2019

23 The proper manner of recording would involve dissolving the reserve (reduction in expenditures) and reducing the revenue from the corporate income tax.

Annex 1 – Risks and sources for their coverage in 2016-2019

Tab 4: Overview of budgetary risks and their coverage in 2016-2019 (ESA2010, € million)

	2016	2017	2018	2019
GG balance in the 2017-2019 GGB proposal (€ million)*	**-1 587**	**-1 084**	**-390**	**151**
GG balance in the 2017-2019 GGB proposal (in % of GDP)*	**-2,0**	**-1,3**	**-0,4**	**0,2**
Risks - total:	**-569**	**-879**	**-1 042**	**-1 107**
1. Overestimated non-tax revenues:	-198	-193	-174	-178
- revenues from dividends**	-168	-115	-117	-123
- revenues from the sale of CO_2 allowances	-30	-61	-57	-55
- revenues from administrative fees	-	-17	-	-
2. Financial corrections to EU funds	**26**	-186	-145	-145
3. Underestimated state budget expenditures	-283	-109	-383	-577
- increased wages in state administration and education sector	0	**-107**	**-307**	**-496**
- expenditures on goods and services	-175	-2	-58	-37
- capital expenditures	-108	0	-18	-45
4. Underestimated healthcare expenditures	-102	-224	-177	-94
- healthcare expenditures and financial performance of hospitals	-98	**-196**	-149	-66
- payout of retained profits by private health insurance companies	-4	-27	-27	-27
5. Impact of higher expenditures of municipalities	-12	-137	-102	-51
6. Impact of EU funds on other GG entities (except the state budget)	no quantification			
7. Defense expenditures under secrecy	no quantification			
8. Recapitalisation of the traditionally loss-making state corporations	no quantification			
9. Revenues of the Emergency Oil Stocks Agency	-	**-30**	**-31**	**-32**
10. Impact of abolished CIT tax licences	-	-	**-30**	**-30**
Coverage - total:	**114**	**622**	**623**	**890**
1. Savings in co-financing	50	106	194	145
2. Savings in state social benefits	10	23	14	10
3. Risk coverage from reserves:	20	493	415	734
- reserve on the coverage of new legislative initiatives	5	22	23	19
- reserve on 2017	-	**50**	-	-
- reserve on EU funds drawdown and financial corrections	-	186	145	145
- reserve on financial performance of hospitals	15	**74**	27	27
- non-specified reserves	-	161	**220**	**544**
4. Accrual contributions to the National Resolution Fund	34	-	-	-
Overall impact on the GG balance:	**-455**	**-257**	**-389**	**-187**
GG balance - CBR estimate (€ million)	**-2 042**	**-1 341**	**-809**	**-66**
GG balance - CBR estimate (in % of GDP)	**-2,5**	**-1,6**	**-0,9**	**-0,1**

Note: (+) positive and (-) negative impact on the GG balance, changes vs. the budget proposal are shown in bold. *Source: CBR*

** In 2016, the differences are shown vis-à-vis the government estimate published in the 2017-2019 GG budget proposal.*
*** When quantifying dividends payable by state corporations under the ESA2010 methodology, the source of profits are examined (i.e., whether generated from their ordinary or extraordinary business operations) also in the case of subsidiaries. Only dividends generated from ordinary business are considered GG revenues under the ESA2010 methodology. Final decision on the level of dividends under the ESA2010 methodology will be made by the national Statistical Office and Eurostat in the 2017 April EDP notification.*

Annex 2 – Update on government's consolidation effort

The general government deficit could, taking into account the risks and sources for their coverage and without any additional government's measures, improve from 2.5 % of GDP in 2016 to 0.1 % of GDP in 2019. The **structural deficit would cumulatively improve by 2.6 % of GDP** over the next four years, reaching the level of 0.0 % of GDP in 2019. According to CBR's calculations, the medium-term budgetary objective should be attained in 2019.

Without government's interventions, the structural deficit will improve cumulatively by 2.2 % of GDP by 2019; it means that the medium-term objective would be achieved by 2019 even under this scenario. This means that most of the projected structural balance improvement is attributable to the existing setup of policies, macroeconomic development and a slower uptake of EU funds. **The net contribution of the government to the permanent improvement in the general government balance is expected to reach, after taking into account measures with effects on other factors, a total of 0.2 % of GDP for the three years.**

Tab 5: Change in GG structural balance in 2015-2019 according to CBR (ESA2010, % GDP)

	2015	2016E	2017P	2018P	2019P
1. General government balance	**-2.7**	**-2.5**	**-1.6**	**-0.9**	**-0.1**
2. Cyclical component	-0.1	-0.1	0.0	0.0	0.0
3. One-off measures	0.0	-0.1	0.0	0.0	0.0
4. Structural balance (1-2-3)	**-2.7**	**-2.4**	**-1.6**	**-0.9**	**0.0**
5. Change in structural balance (Δ4)/ Fiscal Compact	**0.0**	**0.3**	**0.8**	**0.7**	**0.9**
6. General government balance - NPC scenario	**-2.7**	**-2.5**	**-1.8**	**-1.0**	**-0.5**
7. Structural balance - NPC scenario	-2.7	-2.4	-1.8	-1.0	-0.4
8. Change in structural balance - NPC scenario	**-**	**0.3**	**0.6**	**0.8**	**0.6**
9. Size of measures (1-6)		**0.0**	**0.2**	**0.1**	**0.4**
10. Change in size of measures (Δ9)			0.2	-0.1	0.3
11. Consolidation effort of government (5-8)			**0.2**	**-0.1**	**0.3**
12. Other factors:	0.1	0.2	0.5	0.0	0.1
- measures with no impact on long-term sustainability	-0.1	0.0	0.0	0.0	0.0
- PPP projects	0.0	0.0	0.3	-0.1	0.0
- interest payments	0.1	0.2	0.2	0.1	0.1
13. Government measures incl. impacts of other factors*			0.0	0.0	0.1
14. Change in structural balance taking into account impact of other factors (5-12)		**0.0**	**0.3**	**0.7**	**0.7**
15. Government consolidation effort taking into account impact of other factors (11-13)			**0.2**	**-0.1**	**0.2**

** Including impact of increased levy of financial institutions, shift in term of completion of the 3rd and 4th unit of nuclear power plant Mochovce, change in interest payments due the consolidation.*

Source: CBR methodology

Box 1: Differences in the estimates of structural balance until 2019

Moderate differences have been made in the estimate of the general government structural balance for 2015-2019 against the CBR's report of November 2016. The CBR updated its estimate of risks and sources for their coverage based on available information, which has affected the size of general government balance in the 2016-2019 period. Within the cyclical component, the CBR's output gap estimate was updated[24] by GDP revisions (quarterly time series) while, at the same time, reflecting the most recent output gap estimate by the Ministry of Finance[25]. Time-adjusted corrections to EU funds were excluded from the list of one-off effects[26] and the estimate of VAT accruals was revised based on additional controls. The differences in estimates are summarised in the following tables.

Tab 6: Change in GG structural balance in 2015-2019 compared to GGBP 2017-2019 (ESA2010, % GDP)

	2015	2016	2017	2018	2019
1. General government balance	**0.0**	**0.0**	**0.0**	**-0.1**	**-0.1**
2. Cyclical component	0.0	0.0	0.0	0.0	-0.2
3. One-offs	0.3	0.0	0.0	0.0	0.0
4. Structural balance (1-2-3)	**-0.3**	**0.0**	**0.0**	**-0.1**	**0.1**
5. Change in structural balance (Δ4)/ Fiscal compact	**-0.1**	**0.3**	**-0.1**	**-0.1**	**0.2**

Source: CBR methodology

The impact of the revision of one-off effects in 2015 is shown in the following table. One-off effects have not changed in the subsequent years.

Tab 7: Change in one-offs in 2015 (ESA2010, % GDP)

	Evaluation - Dec. 2016	Evaluation - Nov. 2016	difference
EU financial correction	-	-180.0	180.0
Accrualisation of VAT receipts	31.5	6.2	25.3
Total	**31.5**	**-173.8**	**205.3**
Total (% GDP)	0.0	-0.2	0.3

Source: CBR, MF SR

[24] The CBR applies several approaches to estimating the output gap, which are ultimately averaged into a final estimate. More details in CBR paper (2014): Finding Yeti.

[25] The so-called national output gap estimate for the purposes of Ministry of Finance's material: Compliance with the balanced budget rule for 2015.

[26] Even though the proper recording of corrections to EU funds (i.e., recording the corrections at the time when a particular project subject to the corrections was implemented, instead of recording them at the time when a decision on the financial correction was made) would give a more precise size of the structural balance, the CBR did not include them among one-off effects. The process to verify the correct use of EU funds is demanding, the size of corrections corresponding to a given time period may change even several years after the closure of a programming period. Excluding these corrections eliminates the magnitude of their effect in a future period, avoiding, at the same time, extensive retroactive revisions in the current period. Moreover, the CBR has no underlying data necessary to verify the assumptions used by the Ministry of Finance at its disposal at the moment and, at the same time, the assumptions used by the Ministry are not available in time for the CBR to apply them consistently in its evaluations concerning the monitoring of the development in public finances. (see the Ministry's reply to question No. 72 concerning the General Government Budget Proposal for 2017-2019).

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