Evaluation of the General Government Budget Proposal for 2019-2021

Summary

November 2018

www.rozpoctovarada.sk

Basic information about CBR's positions

The Council for Budget Responsibility (CBR) was formed in 2012 as an independent body set up to monitor and evaluate the fiscal performance of the Slovak Republic. Its role is to provide professional, comprehensive and politically unbiased information to the public on the development of public finances. The purpose of CBR's opinions is to offer an independent view on the budget and assess whether the fiscal policy setup is sufficient in terms of achieving the targets set and identify those potential risks which need to be eliminated through the adoption of additional measures. In line with its mandate, the CBR also points out whether the present budget provides sufficient margins for maintaining the long-term sustainability of public finances and compliance with the national fiscal rules.

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.

Summary

The Slovak Government has submitted the General Government Budget Proposal for 2019-2021 in which it declared, in line with its Manifesto, the intention to achieve a balanced budget by 2020. In 2018, the government estimates the general government deficit at 0.6 % of GDP, which is below the budgetary objective of 0.83 % of GDP. In the subsequent years, the deficit is expected to gradually improve from 0.1 % of GDP in 2019 to a slight surplus in the budget at 0.2 % of GDP in 2021. Based on the Ministry of Finance calculations, the submitted budget should lead to meeting the medium-term budgetary objective in 2019.

In line with the declared objectives, the government also expects the debt to decline from the estimated level of 48.7 % of GDP in 2018 to 44.8 % of GDP by 2021, thus bringing the debt below the debt sanction zones in 2018 where it should remain throughout the entire horizon even despite the gradual lowering of debt limit boundaries starting in 2018.

The budgetary objective for 2019 has been gradually revised from a planned surplus of 0.16 % of GDP (General Government Budget for 2017-2019) to a deficit of 0.1 % of GDP (General Government Budget Proposal for 2019-2021)[1]. Worsening of the objective by 0.3 % of GDP, along with the revised estimate of taxes and revenues from social contributions (1.1 % of GDP), new revenue-side legislative measures and a decline in co-financing expenditures, made it possible to implement additional general government expenditures totalling 1.7 % of GDP. On the other hand, despite the worsened objective, the gross debt forecast at the end of 2019 was reduced in the same period from 49.1 % to 47.3 % of GDP.

Favourable economic conditions are significantly contributing to improvements in the fiscal performance of public finances. As regards meeting the objectives under the Fiscal Responsibility Act, the budget proposal of the government does not make full use of these positive effects to achieve the long-term sustainability of public finances[2]. The budgetary objectives are counteracted, in 2019 and 2020, by risks quantified at 0.6 % of GDP which would mean that, if these risks indeed materialise, the medium-term budgetary objective and a balanced budget could be achieved in 2019 and, respectively, 2020, only through the adoption of additional measures. The debt level is expected to drop below the sanction zones in 2018; however, there is a risk that the first threshold could be slightly overrun between 2019 and 2021. The government's planned improvement in fiscal performance in 2019 will contribute to improving the long-term sustainability of public finances. On the other hand, due to the objectives that are worsening the government's fiscal performance between 2020 and 2021 in comparison with the no-policy-change scenario[3], the overall long term sustainability will worsen as well. Transparency and credibility of the budget might be increased by means of strengthening the binding nature of using the tax forecasts approved by the independent Tax Revenue Forecasting Committee and by means of an independent assessment of the amount of non-tax revenues.

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[1] In the Stability Programme for 2018 - 2021 (April 2018), the target for the general government deficit in 2019 was set to 0.32 % of GDP. The currently set target is improved in comparison with this document by 0.22 % of GDP.

[2] Attaining the long-term sustainability in the fiscal performance of the Slovak Republic, as the fundamental objective of the Fiscal Responsibility Act (Article 1, Act No. 493/2011 Coll.), represents the reference point for the CBR's evaluation.

[3] The government's objectives for the general government balance are not sufficiently ambitious in comparison with the no-policy-change scenario (NPC scenario) used for calculating the long-term sustainability indicator. The government seeks to achieve a surplus of 0.2 % of GDP in 2021. Under the CBR's no-policy-change scenario, a surplus of 0.4 % of GDP would be expected in 2021 (according to the Ministry of Finance, this surplus would be even more prominent, at 0.8 % of GDP).

The budget risks for 2018 are being reduced thanks to better economic development and additional tax revenues.

According to the CBR's evaluation[4], the budget approved for 2018 contained risks quantified at 0.6 % of GDP. The CBR's current estimate identifies risks at 0.10 % of GDP[5] in terms of meeting the budgetary objective. An increase in tax revenues above the budgeted level by 0.8 % of GDP is partially compensating for higher expenditures, as well as for the shortfall in non-tax revenues. Assuming that the government does not adopt any measures at the end of the year (for instance, in the state budget expenditures that are under the government's direct control), the general government deficit would reach, according to the latest available information and CBR's assumptions, the level of 0.92 % of GDP in 2018.

Many of the originally identified risks are materialising even under the Ministry of Finance estimate (expenditures of local government, the ŽSSK railway company, the Social Insurance Agency's administrative expenditures, certain non-tax revenues), while the deficit was reduced by positive additional revenues from taxes and social contributions arising from better-than-expected development on the labour market. Beyond the estimate contained in the budget proposal, the CBR is of the opinion that there are additional risks totalling EUR 287 million (0.3 % of GDP) for the deficit development in 2018. These include, in particular, the risks in revenues from CO2 allowances (EUR 103 million), expenditures on national co-financing of EU funds (EUR 92 million), state budget expenditures on wages and investments in particular (EUR 93 million) and investments of local governments (EUR 117 million). At the same time, the CBR expects a positive impact of revenues from dividends against the assumptions of the budget proposal (lower shortfall by EUR 71 million). Unlike in previous years, risks in the health care sector were eliminated in particular due to expenditure-side measures related to the recovery plan of the VšZP health insurance company.

Not covered by reserves, the risks in non-tax revenues and in expenditures of other entities outside the state budget are increasing the risk of failure to meet the budgetary objectives between 2019 and 2021

In order to cover certain risks and measures between 2019 and 2021, the budget contains reserves[6] in a volume ranging from EUR 1.5 billion in 2019 and 2.4 billion in 2021. The risks identified by the CBR in terms of increasing wages in the general government sector (not budgeted in the relevant chapters), higher expenditures on national co-financing of EU funds, in the healthcare sector in 2019 and in terms of uncertain effects of new expenditure measures and tax measures[7] are largely covered by such created reserves.

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4 CBR: Dodatok k hodnoteniu Rozpočtu verejnej správy na roky 2018 až 2020 (January 2018) – available only in Slovak.

5 In comparison with the Ministry of Finance most recent estimate, i.e., with deficit at 0.6 % GDP, the risks identified by the CBR are higher, reaching 0.32 % of GDP.

6 Including the blockage of expenditures related to the as-yet unapproved levy for retail chains amounting to EUR 119 million a year.

7 Expenditure measures: an increase in Christmas bonuses to pensions, tax bonus per child, free school meals
Tax measures: lower VAT on accommodation, introduction of recreational vouchers, on-line sales revenue registration (eKasa), labelling fuel with identification substance (nanomarkers), levy for retail chains

Beyond these risks that are covered by reserves, the CBR has also identified additional risks totalling EUR 577 million (0.6 % of GDP) in 2019:

- In **non-tax revenues,** the risks are totalling EUR 297 million in 2019, and are expected to drop to approximately half the amount in the subsequent years. These risks include insufficiently explained expectations of higher revenues from dividends, an unspecified new measure[8], unspecified proceeds from the sale of assets and the so-far unapproved increase in the fee for the management of emergency oil stocks. In comparison with the previous years, the risks from the sale of CO_2 allowances have declined. On the other hand, new risks have appeared for 2019 in terms of revenues from gambling and revenues from the launch of the 3rd and 4th unit of the nuclear power plant in Mochovce.
- Underestimated **expenditures of the general government entities** (classified outside the state budget) are increasing the risks by EUR 230 million both in 2019 and 2020. In 2021, the risks are expected to decline to EUR 150 million. The CBR assumes higher current expenditures and capital expenditures of local governments, as well as operating costs of the Social Insurance Agency and the ZSSK railway company.
- Assuming that the planned revision of payments for categorized drugs[9] takes place, the CBR is not identifying significant risks in **healthcare expenditures** in 2019. In the subsequent years, the risks are amounting to EUR 246 million and EUR 285 million due to the budgeted low growth in expenditures of insurance companies and hospitals without specifying the measures and non-budgeted payments of liabilities by private insurance companies. The risks are also based on the fact that, following the first bailout phase, the debt-relieved hospitals are not stabilised yet, as they continue generating liabilities that are past due. The uncertainty in the estimate of risks in all years is also due to the fact that the budget proposal, as well as the CBR's estimate of risks, assumes that part of expenditures in the healthcare sector (beyond the impact of wages and unspecified measures) will be growing only at the inflation rate. This approach might not sufficiently reflect additional specific needs in the sector that can be connected to efforts aimed at increasing the availability and quality of healthcare.
- Beyond the quantified risks, there are also other risks in the medium-term horizon which might pose a threat to the adjustment path and attainment of the medium-term objective by 2021. Corrections related to irregularities in the uptake of EU funds that have been affecting the general government balance every year since 2013 are the most important. The Ministry of Defence is currently procuring military equipment, but since these procurement transactions are classified, the CBR does not have the information necessary to assess the potential risks associated with them. Uncertainty is also based on the fact that, under the ESA2010 methodology, expenditures are recorded at the time of delivery rather than at the time of cash payments. This time mismatch is also included in the budget proposal as the cash expenditures amounting to some EUR 1.5 billion (EUR 500 million every year between 2019 and 2021) will negatively affect the balance under the ESA2010 methodology only after 2021.

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8 The proceeds from this measure are recorded under other non-tax revenues (sub-item 292027 of the economic classification) in the amount of EUR 106 million in 2019, EUR 28 million in 2020 and EUR 20 million in 2021.

9 The budget proposal assumes a EUR 50 million reduction of expenditures resulting from the revision of categorised medicines as from 2019 because the amount of payment for certain drugs has not been set (in contrast with the legislation) at the level of the cheapest medicine in the reference category. The decision regarding the implementation of this measure has not been made to date.

Taking into account the quantified risks, the possible sources for their coverage, and assuming that no additional measures are adopted, the CBR is of the opinion that the deficit may reach 0.7 % of GDP[10] in 2019 and subsequently decline to 0.6 % of GDP in 2020 and 0.2 % of GDP in 2021. If the quantified risks materialise, compliance with the budgetary objectives would require additional measures amounting to 0.6 % of GDP in 2019 and 2020 and to 0.4 % of GDP in 2021.

If no additional measures are adopted to eliminate the risks identified by the CBR, the general government deficit would drop by 0.6 % of GDP between 2017 and 2021. During the same period, tax revenues relative to GDP would decline (in particular value added tax and excise duties) by 0.6 % of GDP and non-tax revenues by 0.5 % of GDP. The contribution of the planned wage increase will be negative, at 0.4 % of GDP, and the wage increase in the state budget will outpace the long-term developments in wages in the private sector. The most important savings are expected to occur in social and healthcare expenditures (1.3 % of GDP). As majority of social security benefits are linked to inflation or a government decision/change in legislation and, over the recent years, they were not subject to significant adjustments, their potential revision might have a negative impact on the budget. The government's own capital expenditures will also be reduced, which will be partially compensated by increased drawing of EU funds and the related increase in expenditures on co-financing (the net positive effect amounting to 0.4 % of GDP). The deficit will also be improved by a reduction in debt interest payments by 0.3 % of GDP due to continuously low interest rates on financial markets and the anticipated decline in debt relative to GDP. The developments in other current expenditures will also have a slightly positive impact (0.2 % of GDP).

Should the risks identified by the CBR materialise, additional measures would have to be adopted after 2018 in order to keep the debt outside the sanction zones specified in the Fiscal Responsibility Act. The CBR estimates that, after taking into account the risks of the budget proposal, the debt will be declining at a slower pace than expected in the budget proposal. The debt will fall to 48.7 % of GDP at the end of 2018 and will reach 46.3 % of GDP at the end of 2021. This means that 2018 will be the first year when the debt leaves the sanction zones since 2012. Between 2019 and 2021 the debt might slightly overrun the first threshold of the sanction zone. In good times when the economy generates higher tax revenue and spends less, fiscal policy should regain sufficient margins for manoeuvre. The positive factor is, even after including the risks, the debt would be declining as a result of the government's permanent measures which are improving Slovakia's net worth.

Concerning the development of the macroeconomic environment, the CBR uses the output of the Macroeconomic Forecasting Committee (MFC) as the official forecast. Merely on the basis of uncertainty connected with the forecasts of macroeconomic indicators (the sensitivity scenario) and the ensuing amount of revenues from taxes and social contributions for 2019, we are able to quantify, on average, the positive and negative risk for the general government balance at 0.3 % of GDP and for the general government debt at 0.7 % of GDP[11].

[10] The European Commission estimates the 2019 general government deficit at 0.3 % of GDP.

[11] The calculation is based on errors in the forecasts of nominal GDP growth and weighted bases for budget revenues since the crisis in 2009 at 60 % probability of materialisation of deviations from the actual figures. More details are given in Annex 4 of the Hodnotenie Návrhu rozpočtu verejnej správy na roky 2019 až 2021 (Analytical Document available only in Slovak).

The favourable economic conditions are significantly contributing to improved fiscal performance of the general government which, on the other hand, is worsened by the overall impact of measures adopted by the government.

- The policy setup in 2018 and a favourable macroeconomic development are considerably contributing to deficit reduction and to achieving the medium-term objective. If the government does not adopt any new measures after 2018, the CBR estimates that the deficit would improve by 1.4 % of GDP by 2021 and the medium-term budgetary objective would be attained in 2019. This means that the existing policy setup and macroeconomic developments would contribute to structural balance being improved more than assumed in the budget proposal. After taking into account measures that are affecting other factors, the net contribution of measures adopted by the government to the permanent improvement of the general government balance will be negative, totalling -0.6 % of GDP for the period of three years.

- If the identified risks materialise and the government does not adopt additional measures, the CBR estimates that the general government deficit would improve from 0.9 % of GDP in 2018 to 0.2 % of GDP in 2021. This development would imply that structural deficit cumulatively improves by 0.8 % of GDP over the next four years and reaches 0.2% of GDP in 2021. Based on CBR's calculations, the medium–term budgetary objective can be attained in 2019 only through adopting additional consolidation measures.

- Between 2018 and 2021 the adjusted expenditures of the budget proposal are expected to be growing, in real terms, by 2.9 % (in nominal terms by 5.4 %) on average every year, which is below the economy's potential growth for the same period (by 4 % every year). This pace of expenditure growth will contribute to the structural balance improvement by 1.8 % of GDP in total. On the other hand, the revenues of the general government will be increasing at a pace lower than the growth of the potential output[12], which means that the estimated structural balance improvement would reach 0.8 % of GDP over the same period.

- Between 2017 and 2018 the estimated level of unexpected positive effects[13] was above 0.5 % of GDP. Had these positive unexpected effects been used in each of these years to improve the balance in the respective years (assuming no rollover of positive effects), the deficit could have been below 1 % of GDP since 2014. In comparison with the approved 2018-2020 budget , the unexpected positive effects (higher tax revenues in particular) account for 1.3 % of GDP, while the balance has only improved by 0.2 % of GDP. In order for these effects to be fully reflected in the improvement of the balance, the achieved surplus would have to stand at 0.9 % of GDP in 2019. The situation where these positive effects did not lead to a faster improvement of the fiscal performance of public finances has occurred as a consequence of the fact that significant risks identified by the CBR in advance have indeed materialised and the government used these positive effects to implement additional measures.

- According to the CBR, the introduction of expenditure ceilings, as foreseen by the Fiscal Responsibility Act, would significantly contribute to a more efficient management of public

[12] The expenditure rule assumes the real growth of general government revenues (excluding the impact of new legislation) at the level of the potential output growth.

[13] The purpose of calculating unexpected effects is to evaluate the government's available funds, in comparison with the budget assumptions, from resources that are not under direct control of the government. Among these resources, the CBR includes tax revenues and social contributions excluding the effects of new legislative changes, effects of transactions with the EU budget, including expenditures on co-financing, changes in debt interest payments, as well as changes in the fiscal performance of local governments in comparison with the assumptions of the budget.

finances and implementation of a counter-cyclical economic policy. The CBR appreciates that the Ministry of Finance presented, in September 2018, a discussion paper describing a proposal to introduce expenditure ceilings in line with the requirement of the Fiscal Responsibility Act. The Ministry of Finance has backed away from the public testing of this proposal during the upcoming fiscal year (2019), as announced in the Stability Programme for 2018 – 2021. It would be desirable for the Ministry of Finance to propose a timetable and process geared towards their implementation. Testing the proposal using historical data could be part of the timetable, thus shortening the implementation deadline.

In order to improve long-term sustainability, it would be necessary to set more stringent targets in 2020 and 2021

The materialisation of risks identified in the budget proposal would contribute to worsening the long-term sustainability by 0.6 % of GDP. If the government adopts additional measures with permanent effects that would guarantee the fulfilment of its objectives in terms of general government balance, the impacts on the long-term sustainability would be less severe. Reaching a deficit of 0.1 % of GDP in 2019 would help improve the long-term sustainability by 0.2 % of GDP. On the other hand, in 2020 and 2021, the targets set would contribute to the worsening of long-term sustainability because the government's measures are deteriorating the budget balance in comparison with the no-policy-change scenario. Attaining a surplus of 0.2 % of GDP in 2021 would worsen the long-term sustainability by 0.2 % of GDP[14].

In terms of long-term sustainability, it would be advisable to refrain from adopting measures that are weakening the key elements of the pension reform adopted in 2012, in particular setting the pension age ceiling without simultaneously adopting countervailing measures.

Transparency and credibility of the budget might be increased by means of strengthening the binding nature of using the tax forecasts approved by the independent Tax Revenue Forecasting Committee and by means of an independent assessment of the amount of non-tax revenues

- The plausibility of macroeconomic assumptions and tax revenues has been assessed by independent committees in accordance with the Fiscal Responsibility Act. An increase in tax and social contribution revenues in excess of the amount approved by the independent Tax Revenue Forecasting Committee (TRFC) is regarded negatively. In aggregate, revenues have been increased by EUR 209 million in 2019, EUR 299 million in 2020, and EUR 309 million in 2021. Non-inclusion of the most recent TRFC's forecasts and additionally increasing forecasts without their approval cannot be deemed by the CBR as credible; such conduct has been witnessed several times in the past[15]. This also decreases the functionality of the fiscal rule designed to allow an increase in cash expenditures of the state budget by up to 1 %[16].

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14 Under the CBR's no-policy-change scenario (described in more detail in the Analytical Document, Annex 8), a surplus of 0.4 % of GDP in 2021 could be reached (according to the Ministry of Finance, this surplus would be even more prominent, at 0.8 % of GDP). In comparison with the NPC scenario, the government's target is less stringent, standing at 0.2 % of GDP.

15 By letter to the TRFC members, the Ministry of Finance announced that it planned to call, in November 2018, a meeting regarding those measures that have not been discussed yet. By the closing date of this document, the meeting was not held.

16 By increasing revenues beyond the TRFC's forecast along with creating a corresponding reserve in expenditures, the base for cash expenditures of the state budget is being increased (in comparison with a situation where only the TRFC's forecast is taken into account in the state budget). With state budget revenues at higher-than-budgeted levels, these expenditures can be fully used. At the same time, the 1 % margin for an increase in

- In comparison with the budget proposal for 2018-2020, several identified shortcomings have not been remedied (missing information on financial performance of companies falling under the MH Manažment, a.s., and healthcare facilities with equity participation of the Ministry of Health of the Slovak Republic, part of revenues and expenditures of public universities not covered by the budget[17]).

- In terms of transparency, applying the ESA2010 methodology consistently with how data is reported by the Statistical Office of the Slovak Republic after verification by Eurostat is important as well. The CBR has been repeatedly pointing to the fact that the budget proposal is not compiled in line with the ESA2010 methodology in the case of several items (emission allowances, debt interest payments), as also confirmed by actual data notified by Eurostat.

- As regards overall comprehensibility of the fiscal framework, the communication of the size of measures through the no-policy-change scenario has improved. The method of estimating the healthcare expenditures, which is influenced by the government's measure setting the level of insurance contributions paid by the state[18], can be seen as a downside of the current scenario.

- The method used for the budgeting of health insurance companies' expenditures on healthcare in 2019 is a good example of how the Value for Money (VfM) project can be linked with the budgetary process. In the future, it would be necessary to extend this approach to the remaining years of the three-year budget, as well as to other components of the general government budget. A stronger link between the budget and the results from the VfM project in other areas would significantly contribute to a more effective spending of public funds.

- The budget contains several measures, whose final shape and impacts were not known at the time when the budget proposal was approved by the government. Therefore, along with the measures that are increasing the wages in the public sector, most of the essential changes in government's policies are budgeted under the budget chapter of the General Treasury Administration. The high volume of reserves also reduces the transparency of the budget due to the absence of rules as regards the manner how and for what expenditures they can be used, while their actual use is not published either[19].

- Non-tax revenues of the state budget are not subject to independent assessment, which results in insufficient explanation of their budgeted levels and repeated overestimation. In particular as regards revenue from SPP and VSE Holding dividends, the budgeted figures do not reflect the less favourable developments in actual or estimated dividends

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expenditures is calculated from a higher base. In the past, the evaluation of compliance with this rule was not published.

17 Unbudgeted revenues and expenditures are taken into account in the latest estimate of the public universities' fiscal performance for 2018.

18 Health insurer's expenditures on the provision of healthcare are indexed based on the rate of growth of revenues, which are affected by social contributions from economically active population and by insurance contributions paid by the state for persons defined by law. In the draft Act on the state budget, the government specifies the amount of contributions paid by the state, which was also reflected in the rate of growth in expenditures under the NPC scenario.

19 The reserve for crisis situations, the use of which is defined by law, is an exception. In the period between 2019 and 2021, this reserve is budgeted every year at EUR 11 million and accounts for less than 1 % of the total volume of reserves. In terms of publication, the use of the reserve of the Government of the Slovak Republic, reserve of the Prime Minister of the Slovak Republic as well as the reserve for EU funds and financial corrections (between 2019 and 2021, this accounts for 8-16 % of total reserves) are an exception.

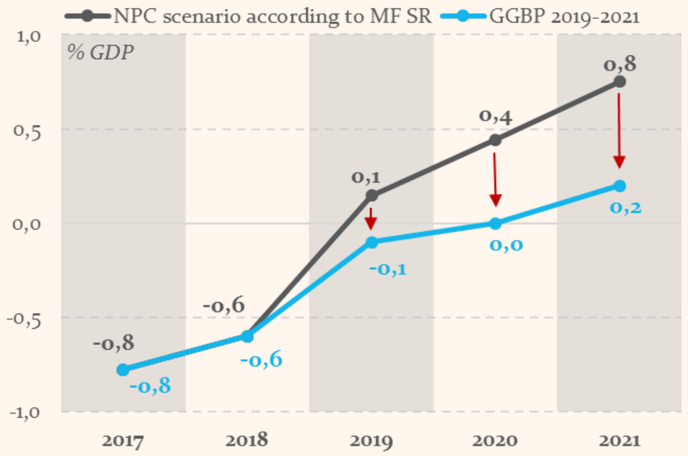
in the respective year, while the CBR is of the opinion that neither the budget proposal nor the additionally requested data from the Ministry of Finance and the Ministry of Economy provide grounds for optimistic assumptions about their trends. Non-transparency in the budgeting of non-tax revenues is also intensified by the fact that, according to the budget proposal, the government hopes to obtain the additional funds from an unspecified measure without any further clarification.

Evaluation of the General Government Budget Proposal for 2019-2021

What does the General Government Budget Proposal for 2019-2021 say

According to the Ministry of Finance, the overall effect of measures in the budget proposal worsens the balance compared to the no-policy-change scenario.

FIGURE 1



NPC – no–policy-change scenario

If the government took no new measures and public finances developed in line with the existing legislation framework and macroeconomic assumptions, the MoF expects a surplus of 0.8 % GDP in 2021.

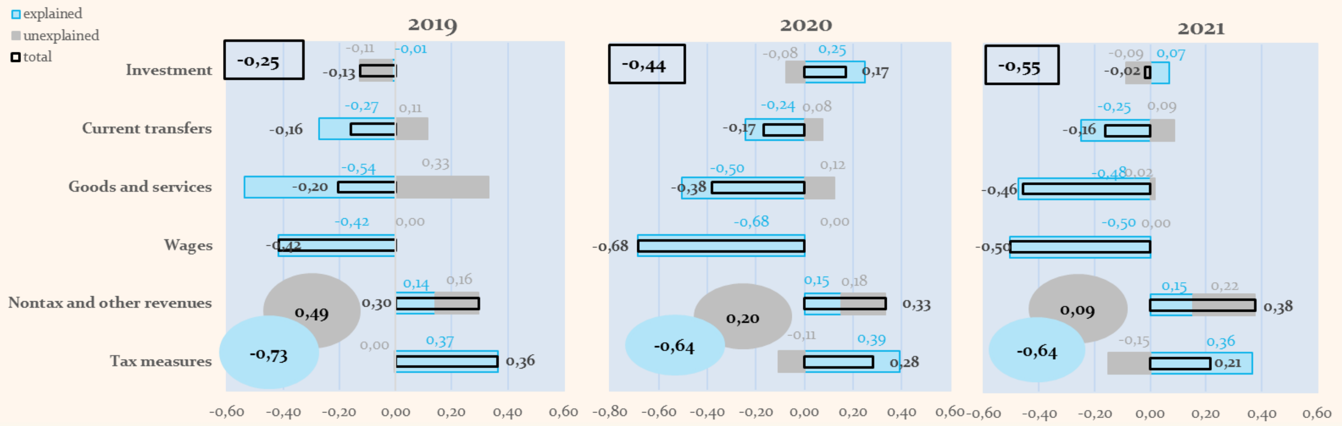
The budget proposal contains measures, the aggregate effect of which, according to the MoF, deteriorates the general government balance.

Source: General government budget proposal 2019 - 2021

The deterioration of the balance would be, inter alia, due to higher expenditures on wages, investments in defence and transport sectors, higher expenditures on goods and services, including legislative measures that are underway, (e.g. free meals in kindergartens and primary schools) and on current transfers (the incorporated changes in wage in the healthcare sector).

Measures related to taxes (e.g., changes in the taxes on gambling) and non-tax revenues (higher waste disposal fees) would have the opposite effect.

FIGURE 2



Source: General government budget proposal 2019 - 2021, CBR

The CBR has identified several negative risks which, even with the positive factors taken into account, necessitate the adoption of additional measures for the objectives to be met.

CBR´s evaluation and comparison

FIGURE 3

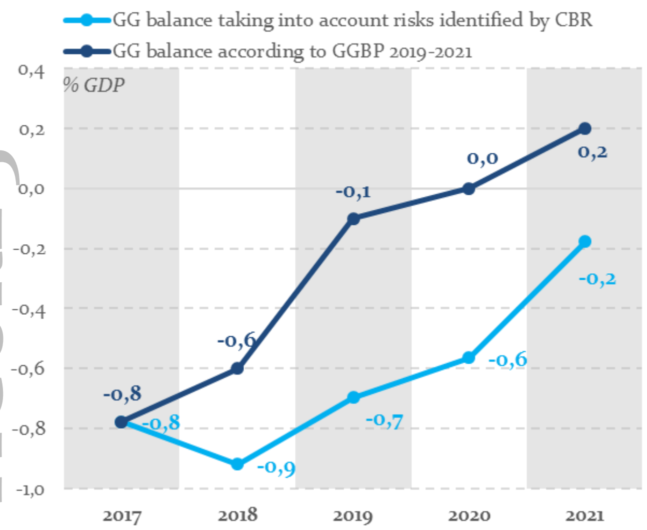
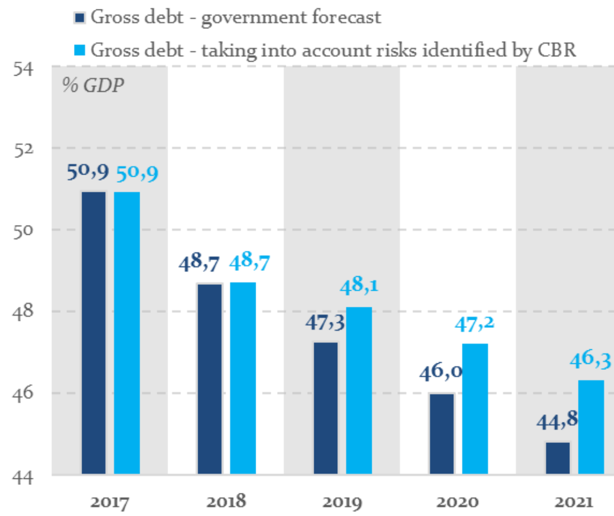


FIGURE 4



Source: General government budget proposal 2019 - 2021, CBR

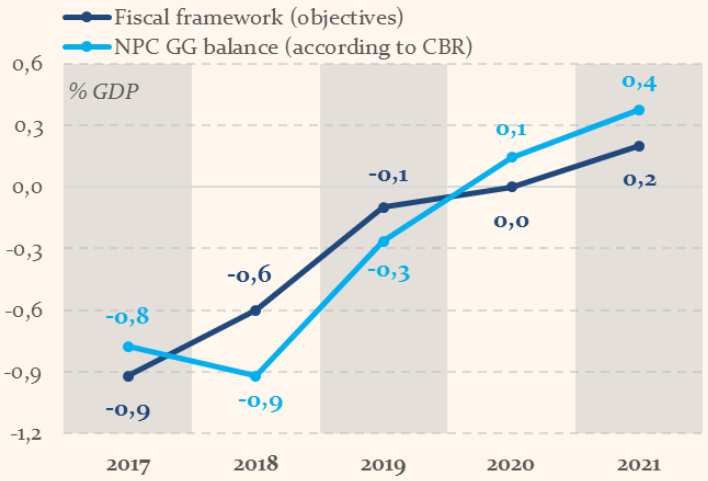
CBR COUNCIL FOR BUDGET RESPONSIBILITY

Evaluation of the General Government Budget Proposal for 2019-2021

What does the CBR´s evaluation say

Similarly to the MF SR, the CBR has also calculated that the measures adopted by the government worsen the overall fiscal position.

FIGURE 5



NPC – no–policy-change scenario

According to the CBR, the meeting of the 2019-2021 budgetary objectives will require the adoption of consolidation measures amounting to 0.2 % of GDP in 2019.

Assuming that the budgetary objective is met in 2019 through permanent measures, no additional cost-saving measures would be necessary when considering the set targets of the budget proposal in 2020 and 2021.

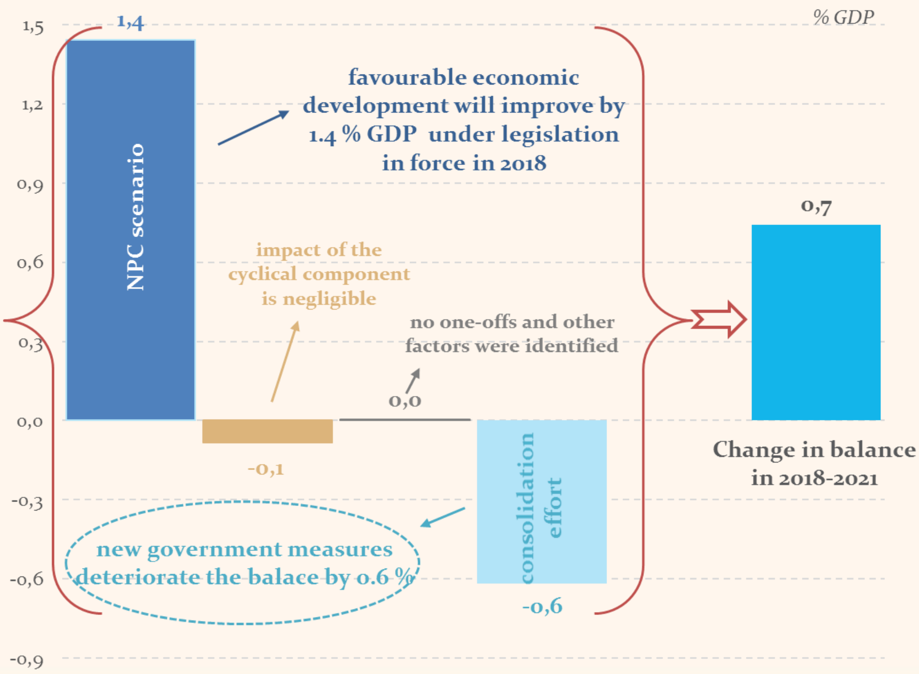
Source: General government budget proposal 2019 - 2021, CBR

Structural balance will improve by 0.8 % of GDP between 2018 and 2021.

By 2021, the expected favourable macroeconomic developments will contribute to the improvement of the structural balance by 1.4 % of GDP.

On the other hand, the net contribution of government's measures, after taking into account the risks identified by the CBR, will worsen the structural balance by 0.6 % of GDP.

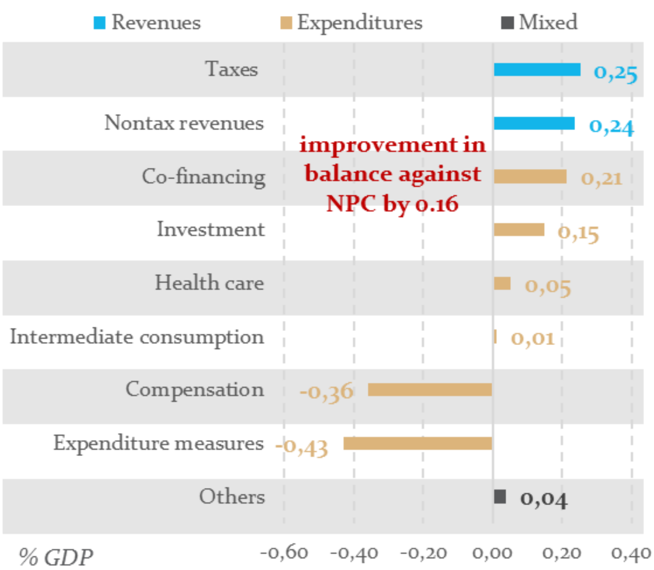
FIGURE 6



Source: General government budget proposal 2019 - 2021, CBR

Measures for 2019 included in the budget proposal will improve the general government balance by 0.2 % of GDP

FIGURE 7



The targets set in 2020 and 2021 will worsen the long-term sustainability.

- Meeting the target set by the government at 0.1 % of GDP in 2019 would bring an improvement in the long-term sustainability due to government's measures by 0.2 % of GDP.
- Meeting the target set in 2021 (a surplus of 0.2 % of GDP) will not improve the long-term sustainability (which will worsen by 0.2 % of GDP), because measures being adopted worsen the budget balance in comparison with the NPC scenario.
- The materialisation of risks identified in the budget proposal would contribute to the worsening of the long-term sustainability by 0.6 % of GDP.

Source: General government budget proposal 2019 - 2021, CBR

Table 1: Risks between 2018 and 2021 (ESA2010, € million)

	2018	2019	2020	2021
Balance of the GG Budget Proposal for 2019-2021*	**-543**	**-97**	**0**	**219**
- in % of GDP	**-0.6**	**-0.1**	**0**	**0.2**
Total risks not covered by reserves:	**-243**	**-557**	**-631**	**-563**
- in % of GDP	**-0.3**	**-0.6**	**-0.6**	**-0.5**
1. Overestimated non-tax revenues:	**-39**	**-297**	**-158**	**-126**
- revenues from dividends (SPP, VSE)	71	-68	-68	-68
- revenues from an unspecified new measure	0	-106	-28	-20
- revenues from sale of state property	-31	-33	-33	-33
- revenues of the state budget from gambling	18	-17	0	19
- revenues from the sale of CO2 allowances	-103	-18	4	no quantif.
- an increase in revenues of the Emergency Oil Stocks Agency	1	-32	-27	-23
- revenues from the 3rd and 4th unit of the Mochovce NPP	3	-23	-5	0
2. Underestimated health care sector expenditures:	**-19**	**-29**	**-246**	**-285**
- health care expenditures	38	13	-123	-165
- financial performance of hospitals	10	-42	-72	-70
- repayment of liabilities to shareholders of private health insurers	-67	-50	-50	-50
- reserve in healthcare	0	50	0	0
3. Underestimated expenditures of other GG entities:	**-185**	**-231**	**-228**	**-152**
- local governments	-117	-145	-123	-38
- Social Insurance Agency's expenditure on social transfers	-51	-	-	-
- Social Insurance Agency's Administrative Fund	-11	-55	-69	-72
- ŽSSK railway company (goods and services)	-6	-31	-36	-42
Total risks partly covered by reserves:	**-44**	**-13**	**64**	**163**
- in % of GDP	**0.0**	**0.0**	**0.1**	**0.1**
4. Transactions with the EU	**-17**	**37**	**276**	**34**
- higher expenditures on co-financing	-92	-206	-14	-151
- reserve on EU funds drawdown and corrections	48	218	260	184
- impact of the uptake of EU funds on tax revenues	0	25	30	1
- transfers to the EU budget	26	-	-	-
- financial corrections to EU funds	0	no quantification		
5. State budget expenditures:	**-33**	**-143**	**-310**	**-377**
- wage expenditure (between 2019 and 2021, including education)	-47	-642	-1 195	-1 336
- reserve for wages and social contributions	16	592	1 138	1 265
- government's new legislative measures covered by reserve	0	-400	-400	-400
- reserve for the coverage of new legislative initiatives	4	400	400	400
- goods and services (excl. reserves)	41	-25	-98	-131
- capital expenditures (incl. reserves)	-153	-68	-155	-176
- social benefits	19	0	0	0
- other effects, including other current reserves	86	0	0	0
6. Tax revenues:	**6**	**93**	**98**	**506**
- revenues from the introduction of eKasa and nanomarkers	0	-90	-180	-190
- revenues from the levy for retail chains	0	-119	-119	-119
- other tax revenues	-2	33	98	196
- reserve for 2019 and for economic cycle developments	0	150	180	500
- blockage of revenues from the levy from retail chains	0	119	119	119
- reserve for worsened tax and non-tax revenues	8	-	-	-
Other non-quantified risks:				
- defence expenditures under secrecy	-	no quantification (negative effect of EUR 1.5 billion after 2021)		
- recapitalisation of the traditionally loss-making state corporations	-	no quantification		
Overall impact of risks on the general government balance:	**-287**	**-570**	**-567**	**-399**
Change in interest expenditure due to risks	**0**	**-7**	**-14**	**-14**
Budget balance reflecting the risks noted by CBR	**-830**	**-674**	**-581**	**-194**
- in % of GDP	**-0.9**	**-0.7**	**-0.6**	**-0.2**

** Taking into account the impact of revised GDP on the forecast.* *Source: CBR*

Note: a plus and minus sign is used to show the impact on the general government balance. The distribution of risks among individual groups (covered or not covered by reserves) is aimed at evaluating the budget proposal targets for 2019-2021. More detailed information concerning the estimate of risks for 2018 is presented in Chapter 2.3 of the analytical document.

Council for Budget Responsibility

Imricha Karvaša 1
Bratislava 1
813 25
Slovakia