COUNCIL FOR BUDGET RESPONSIBILITY

Addendum to the Evaluation of the General Government Budget for 2021-2023

(based on the changes that have occurred since the approval of the General Government Budget Proposal for 2021-2023 by the Government of the Slovak Republic)

December 2020

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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. 493/2011 on Fiscal Responsibility.

This publication is available at the CBR website (https://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 (the Council, CBR) has prepared an update to its evaluation of the general government budget for 2021-2023. The addendum evaluates the differences between the government's State Budget Act proposal and the version adopted by the Slovak parliament. The evaluation also takes into account additional documents provided by the Ministry of Finance of Slovak Republic (the Ministry and/or the Ministry of Finance).

In comparison with the government's proposal, the budget approved by the parliament had undergone only minimal changes, including the expected budget balance levels in individual years. The changes resulted from legislative amendments concerning tax revenues. The approved budget envisages a deficit of 7.4% of GDP in 2021, a deficit of 6.2% of GDP in 2022 and a deficit at a level of 5.8 % of GDP in 2023.

Due to minimal changes in comparison with the government's proposal, the budget adopted by the Parliament is also described as realistic by the Council. The positive risks over the entire three-year horizon have in fact increased slightly, in particular due to better development of tax revenues in 2020 and the expected impact of spending funds from the EU recovery fund. In the case of better-than-expected economic development, **it is necessary to ensure that all positive effects be strictly reflected in the improvement of the fiscal performance.**

The deficit estimate has also been slightly reduced by the CBR based on updated assumptions concerning the development in 2020. **According to the Council, the deficit will reach 6.7% of GDP this year and roughly 7.0% of GDP in 2021, followed by a drop to 5.8% of GDP in 2022 and a rise to 6.0% of GDP in 2023.** The deficits assumed below are based on the deficit reduction in 2020 due to cuts in the expenditure of the state budget and local governments. On the other hand, an increase in budget revenues is also contributed to by the abolishment of the tax exemption of the 13th and 14th salary, the reduced threshold for the application of the 15% tax rate for micro taxpayers and the abolishment of several advantages in spas industry.

Table 1: Overview of basic indicators of the budget according to CBR (ESA2010, % of GDP)

	2019	2020	2021	2022	2023
Balance of the general government's fiscal performance	-1.3	-6.7	-7.0	-5.8	-6.0
Structural balance	-2.3	-4.4	-5.4	-5.1	-4.7
Government's consolidation effort*	-	-	-0.4	0.0	0.0
Gross general government debt	48.5	61.9	62.0	63.6	65.3
Net general government debt	*43.3*	*54.1*	*57.4*	*60.8*	*64.1*
Fiscal impulse (+ restriction, - expansion)	-0.4	-3.6	-0.8	1.5	-1.1
p.m. (output gap)	*2.8*	*-5.6*	*-2.2*	*-0.9*	*-0.4*

Note: The crisis years are highlighted in grey. *Source: CBR*

Consolidation effort is defined as a year-on-year change in the structural balance beyond the scope of development under the no-policy-change scenario after taking into account the effect of abolishing the levy payable by financial institutions as from 2021.

An improved estimate of the balance has also been reflected in the reduction of the estimated increase in debt, where the gross debt is expected to stand at 65.3% of GDP[1] at the end of 2023. The adjusted fiscal performance estimate has translated into a slight reduction of the long-term sustainability risk at 0.3% of GDP**. However, it will remain within the high-risk zone even at the end of the budgeted period.**

The envisaged consolidation effort has not undergone changes in the approved budget and will remain at zero during the post-crisis years of 2022 and 2023. **This fact is regarded by the CBR negatively and, for these years, a cumulated consolidation effort of at least 1.5% of GDP is still recommended under the current macroeconomic scenario.**

The transparency of the budgetary process has increased in comparison with the previous years because the total amount of tax revenues in the budget was not adjusted by the parliament beyond the scope of revenues approved by the Tax Revenue Forecasting Committee (TRFC). At the same time, however, the reduction arising from the abolishment of free lunches was not included.

The CBR has repeatedly noted that 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. The approval of a cash-basis 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. An amending proposal only changed the state budget for 2021 and also contained information about the impact of changes on the general government balance under the ESA2010 methodology in the relevant year. The CBR could only identify general government balances for 2022 and 2023 after it had requested additional information from the Ministry of Finance[2].

The legislative change in the financing of subsidies for promoting eating habits of children (the so-called free lunches), which was approved by the parliament, has not been incorporated into the budget. This change involves a significant reduction of the range of beneficiaries and, therefore, will translate into a lower level of spending from the state budget.

Based on previous experience in the evaluation of the submitted and approved general government budgets, the Council presents recommendations in Annex 3, the implementation of which by the Ministry of Finance would be likely to bring even better, more transparent and comprehensible budget proposal.

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[1] In its evaluation of the budget proposal in November 2020, the CBR estimated the gross debt at 67.8 % of GDP at the end of 2023.

[2] The Ministry of Finance of the Slovak Republic is required to publish the state budget and general government budget data not later than 30 days after the State Budget Act for a relevant budgetary year enters into force and effect.

1. Changes in the general government budget

On 14 October 2020, the Slovak government approved the General Government Budget Proposal for 2021-2023 (GGBP) to which the CBR published its detailed evaluation[3] on 16 November 2020. The budget has undergone changes since its approval by the government and, therefore, the CBR prepared an update to its opinion.

The changes concerning the General Government Budget Proposal for 2021-2023 emanated from the approval of an amending proposal to the 2021 State Budget Act which the parliament approved on 9 December 2020.

Compared to the government's budget proposal, the budgeted general government deficit for 2021 saw a slight decrease from 7.44% of GDP to 7.41% of GDP. In 2022, the general government deficit is budgeted at 6.22% of GDP and, in 2023, at 5.76% of GDP. The approved general government budget for 2021-2023 has not been published yet[4]; the data concerning the impacts of changes on the general government budget were provided by the Ministry of Finance[5].

During a parliamentary debate on the 2021 State Budget Act and the general government budget for 2021-2023, an **amending proposal was approved by the parliament**, resulting in the following changes in the budgeted taxes and contributions:

- Abolishment of tax exemption of the 13th and 14th salary.
- Reduction of the threshold for applying a 15% tax rate for micro tax payers, i.e., legal entities or self-employed persons with annual income not exceeding EUR 49,790.
- As regards spa care, preferential depreciation regime and tax allowance in an amount not exceeding EUR 50 a year have been abolished.
- Reduction of the interest rate for postponed payments of taxes/instalments from 10% to 3% with a minimum impact on sanctions collected.
- At the same time, tax bonus per child above six years of age until reaching the age of 15 has been increased to 1.7-fold of the basic tax bonus as from July 2021 and, subsequently, to 1.85-fold as from 2022. This measure increases the deficit through the expenditure side of the budget.

Due to these changes, the general government revenues from taxes and social security contributions saw an increase by EUR 73 million in 2021, EUR 72 million in 2022 and EUR 73

[3] CBR, Evaluation of the General Government Budget Proposal for 2021-2023.
[4] In line with amendment to Act No. 523/2004 on general government budgetary rules, approved on 27 November 2020, the Ministry of Finance of the Slovak Republic is required to publish the state budget and general government budget data not later than 30 days after the State Budget Act for a relevant budgetary year enters into force and effect.
[5] The Finance Ministry's answers to the CBR's questions regarding the approved General Government Budget for 2021-2023 are published along with this document.

million in 2023 in comparison with the forecast presented in the budget proposal; at the same time, the changes in the tax bonus will cause the general government expenditure to increase by EUR 46 million in 2021, EUR 112 million in 2022 and EUR 114 million in 2023.

The changes related to the tax measures were approved during the 18th parliamentary session on 2 December 2020. Their effects were assessed by the **Tax Revenue Forecasting Committee** at its meeting **on 4 December 2020**. **The Committee's forecast was assessed as realistic by its members except for the CBR Secretariat which, under the given macroeconomic scenario, described it as conservative.**

In addition to the changes referred to above, a **universal allowance for promoting eating habits in children, the so-called free lunches[6], has been abolished** through an amendment to the Act on subsidies which falls within the remit of the Ministry of Labour, Social Affairs and Family. This change, which is expected to take effect from 1 August 2021, will reduce the general government deficit by EUR 46 million in 2021, EUR 112 million in 2022 and EUR 114 million in 2023.

[6] Amendment to Act 544/2010 Coll. approved by the parliament on 26 November 2020 preserves the subsidy for children from households receiving assistance in material need.

2. Evaluation of changes and their impact on the CBR's estimate

In evaluating the budget proposal, the CBR estimated that the general government deficit may reach 7.7% of GDP in 2020, followed by a drop to 7.1% of GDP in 2021, 6.1% of GDP in 2022 and by a rise to 6.3% of GDP in 2023. Considering such development of the deficit, the gross debt will exceed the upper ceiling of the debt brake already in 2020 and will remain above this level in the subsequent years, reaching 67.8% of GDP at the end of 2023. The changes made since the approval of the budget proposal by the government have also been reflected in the CBR's updated estimate for the general government balance and gross debt.

Impacts on general government balance

Compared to the evaluation of the budget proposal, the balance estimated for 2020 has improved, which has also been reflected in the reduction of deficits projected for 2021 through 2023. This means that, according to the CBR estimate, the deficit in the years ahead will be lower compared to the levels envisaged in the evaluation of the budget proposal, provided that no additional measures are adopted. However, the levels will continue to be high and, in 2023, the deficit may reach 6.0% of GDP (Table 1, a comparison with the budgeted values can be found in Figure 1).

Table 2: Changes compared to the budget proposal evaluation (ESA2010, impacts on the balance, EUR million)

	2020	2021	2022	2023
A. CBR's forecast of the GG balance – evaluation of the budget proposal	**-6,873**	**-6,769**	**-6,123**	**-6,598**
- % of GDP	**-7.69**	**-7.10**	**-6.15**	**-6.29**
B. Total impact of changes on GG balance (1+2+3)	**846**	**136**	**319**	**318**
1. Impact of changes in the estimate for 2020	846	103	286	283
a. Measures to address the pandemic	*124*	*-221*		
b. Tax revenues (except for measures)	*123*	*92*	*76*	*82*
c. Non-tax revenues	*3*	*14*	*14*	*14*
d. Social transfers and benefits	*103*	*21*	*27*	*33*
e. Transactions with the EU budget	*42*	*17*	*0*	*-38*
f. State budget expenditure (except for the abolishment of the measure)	*357*	*82*	*87*	*66*
g. Financial performance of local governments	*97*	*64*	*90*	*126*
h. Healthcare expenditure	*67*	*75*	*35*	*33*
i. Financial performance of other general government entities	*-69*	*-42*	*-43*	*-44*
j. Other changes	*0*	*180*	*170*	*192*
2. Updated impact of tax measures*	0	-12	-80	-79
3. Abolishment of the "free lunches" measure	0	46	112	114
C. The current CBR forecast of the GG balance	**-6,027**	**-6,633**	**-5,804**	**-6,280**
- in % of GDP	**-6.75**	**-6.96**	**-5.83**	**-5.99**

** Total impact on the balance, i.e. including changes in expenditure through tax credit adjustment.* *Source: CBR*

In comparison with the CBR's forecast made during the evaluation of the budget proposal, the **2020 balance estimate has improved by EUR 846 million (0.95% of GDP)**, with the following changes[7]:

- The negative impact of **measures to address the pandemic** dropped by EUR 124 million in 2020 in particular due to lower spending under several measures aimed at boosting the economy.

- The estimated **amount of revenues from taxes and social security contributions** in 2020 increased by EUR 123 million. This increase was primarily attributable to a rise in estimated revenues from corporate income tax on the basis of better-than-expected settlements for 2019, as well as higher estimated revenue from VAT.

- In **non-tax revenue**, the estimated revenues rose by EUR 3 million, in particular as a result of higher receipts from the levy on gambling.

- The estimated amount of **social transfers and benefits** dropped by EUR 103 million, primarily due to lower spending under sickness insurance and unemployment benefits beyond the scope of measures associated with the pandemic.

- As regards **transactions with the EU budget**, the positive effect on the general government deficit has increased by EUR 42 million compared to the assumptions under the previous estimate as a result of slower implementation of co-financing expenditures.

- The updated estimate of the **state budget expenditure** contributed positively to the change in the balance by EUR 357 million, in particular due to slower implementation of capital expenditure. In terms of capital expenditure, the risk for the deficit has decreased by EUR 284 million because of lower investment spending in the defence sector, as well as due to a decline in the expected amount of transfers for funding the investments of the National Motorway Company (NDS) and hospitals caused by slower spending. In personnel expenditures (wages and insurance premiums), the estimate was reduced by EUR 7 million. Based on an accelerated pace of growth in expenditure on goods and services, the estimated amount of spending increased by EUR 76 million. A decrease in the estimated amount of other current expenditure of the state budget, by EUR 142 million, was driven in particular by a slower drawdown of subsidies falling outside the scope of measures associated with the pandemic.

- Based on preliminary data, in the third quarter of 2020, the implementation of capital expenditure of municipalities has slowed down slightly in comparison with the previous period, and the growth of income from non-tax revenues was slower as well. The estimated impact of the **financial performance of local governments** on the general government balance has thus improved by a total of EUR 97 million.

[7] The update of the estimate for 2020 incorporates the most recent data. While the preparation of the forecast for the evaluation of the budget proposal relied on the available data recorded during the first eight months of 2020 (nine months in the case of the state budget), the current estimate is based on information about ten months of the current year and the state budget covers the preliminary data for 11 months. More detailed information is published within the so-called Budgetary Traffic Light available on the CBR website.

- Slower spending as regards health care expenditure has translated into a reduction of the negative **impact of the health care sector** on the general government balance by EUR 67 million.

- The impact of **financial performance of other government entities** on the general government balance has worsened by EUR 69 million. It was in particular the higher estimate of NDS investments going beyond the scope of funding from the state budget, as well as the fiscal performance of the ŽSR railway company, which contributed negatively to this result. On the other hand, the results of public universities helped improve the estimated balance of the fiscal performance.

The improvement in the estimate of the balance in 2020 will be reflected significantly in the coming years, because only a small part of it is attributable to one-off effects (measures to address the pandemic; partially, social transfers paid by the Social Insurance Agency). Furthermore, additional factors will also have an impact on the development of the balance between 2021 and 2023:

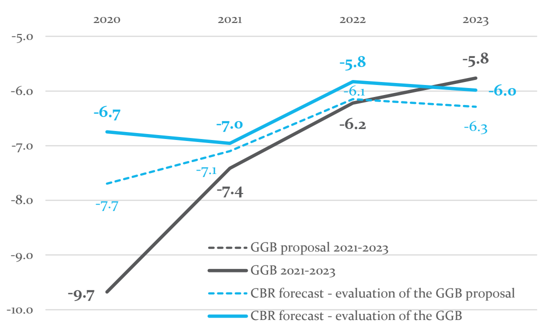
- Within the **tax revenues of the budget,** the CBR took into account the approved amendment to the Income Tax Act, the impacts of which have been incorporated in the budget approved by the parliament. This involves the abolishment of the tax exemption of the 13th and 14th salary, the reduced threshold for the application of the 15% tax rate for micro taxpayers and the abolishment of several advantages in spas industry. These measures will **increase tax revenues by EUR 60 million in 2021**, with a decline by EUR 1 million and an increase by EUR 3 million to follow in 2022 and, respectively, 2023. Because the CBR had already included the preliminary draft of this amendment in its previous forecast, the difference in comparison with the evaluation of the budget proposal is different, while the updated impact of the measure will gradually reduce the tax revenues by EUR 12 million in 2021, EUR 80 million in 2022 and EUR 79 million in 2023.

- **Abolishment of universal subsidies for promoting eating habits** will reduce the state budget expenditures by EUR 46 million in 2021, EUR 112 million in 2022 and EUR 114 million in 2023, while the estimated levels are based on an increase in the tax bonus in accordance with the quantification approved by the TRFC[8].

- The complete and updated list of **risks and the sources of their coverage, as identified by the CBR in the approved general government budget**, is provided in Annex 1.

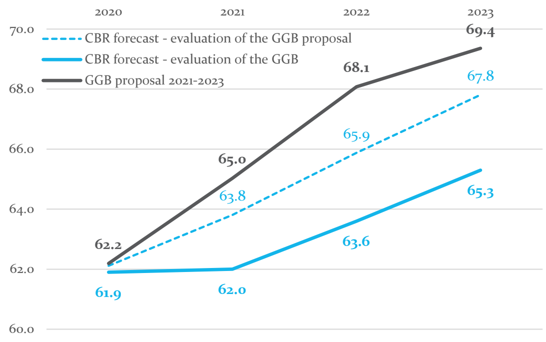
8 Tax bonus increase

Figure 1: Development of GG balance (ESA2010, % of GDP)



Source: CBR, MF SR

Figure 2: Development of GG gross debt (% of GDP)



Source: CBR, MF SR

Impacts on the general government gross debt

The CBR has updated the estimate of gross debt development to incorporate the improved balance estimate for 2020 and the reduced level of risks between 2021 and 2023. In comparison with the evaluation of the budget proposal, the gross debt estimate has declined over the entire forecast period and is expected to stand at 65.3% of GDP (Figure 2) at the end of 2023. **Nonetheless, without adopting additional measures, the gross debt will remain above the upper limit of the debt rule under the Fiscal Responsibility Act for the entire period.**

Impacts on the structural balance of general government

There were slight changes in the estimate of structural balance (Table 2)[9]. Over the next three years, the **structural deficit will cumulatively worsen by 1.2% of GDP**, reaching the level of 5.6% of GDP in 2023. In its interpretation, however, it is necessary to take into account **purchases of military equipment in the defence sector** with an impact of almost 1% of GDP in 2023, which is considered by the CBR as a one-off and temporary effect. Considering the investments in the defence sector, the **structural deficit of the general government will reach 4.7% of GDP in 2023, thus deteriorating by 2.4% of GDP in comparison with the pre-crisis year of 2019.**

In order to assess the extent to which the estimated change in the structural balance has been affected by government's measures or by other external factors, it is necessary to compare the development with the no-policy-change scenario. **Without the government's intervention, following a deterioration in 2021, the structural deficit would be improving in the subsequent years and would reach 4.4% of GDP in 2023. This level is the same as in 2020.**

[9] In addition to a change in the risks affecting the general government balance, the cyclical component has also been updated (more details in Annex 2). At the same time, the amount of expenditure associated with the COVID-19 pandemic has been reassessed.

The net contribution of the measures adopted by the government towards a permanent change of the general government balance will be negative in 2021 and is expected to reach 0.2 % of GDP. In the post-crisis years of 2022 and 2023, the government's consolidation effort will be at zero levels.

Table 3: Change in the GG structural balance in 2019-2023, according to CBR (ESA2010, % of GDP)

	2019	2020	2021	2022	2023
1. General government balance	**-1.4**	**-6.7**	**-7.0**	**-5.8**	**-6.0**
2. Cyclical component	1.0	-1.1	-0.4	-0.3	-0.3
3. One-off effects	0.0	-1.2	-1.2	0.0	0.0
4. Structural balance (common approach) (1-2-3)	**-2.3**	**-4.4**	**-5.4**	**-5.5**	**-5.6**
5. Change in the structural balance (Δ4)/ Fiscal compact	**-0.3**	**-2.1**	**-1.0**	**-0.1**	**-0.2**
6. One-off investments in the defence sector	0.0	0.0	0.0	-0.4	-0.9
7. Structural balance (4-6)	**-2.3**	**-4.4**	**-5.4**	**-5.1**	**-4.7**
8. Change in structural balance (Δ7)	**-0.3**	**-2.1**	**-1.0**	**0.3**	**0.4**
9. General government balance under NPC scenario		**-6.7**	**-6.6**	**-5.5**	**-5.7**
10. Structural balance under NPC scenario		-4.4	-5.1	-4.7	-4.4
11. Change in structural balance under NPC scenario			**-0.7**	**0.3**	**0.3**
12. Size of measures (1-9)			**-0.4**	**-0.4**	**-0.3**
13. Government consolidation effort (8-11)			**-0.4**	**0.0**	**0.0**
14. Other factors	0.1	-0.2	-0.1	0.0	0.0
- Measures with no impact on long-term sustainability	-0.1	-0.2	-0.2	0.0	0.0
- PPP projects	0.0	0.0	0.0	0.0	0.0
- Interest payments	0.1	0.0	0.1	0.0	0.0
15. Government measures having an impact on other factors**	0.0	0.0	-0.1	0.0	0.0
16. Change in structural balance after considering other factors (8-14)	**-0.3**	**-1.9**	**-0.9**	**0.4**	**0.4**
17. Refined consolidation effort (13-15)			**-0.2**	**0.0**	**0.0**
18. Public investments (defence)	0.2	0.2	0.4	0.8	1.3
19. Fiscal impulse	-0.4	-3.6	-0.8	1.5	-1.1

** The calculation of structural balance and its change based on the methodology for evaluating the balanced budget rule (Fiscal Compact).*

*** Including the effect of abolishing the levy payable by financial institutions as from 2021.* *Source: CBR's methodology*

Note: The crisis years are highlighted in grey.

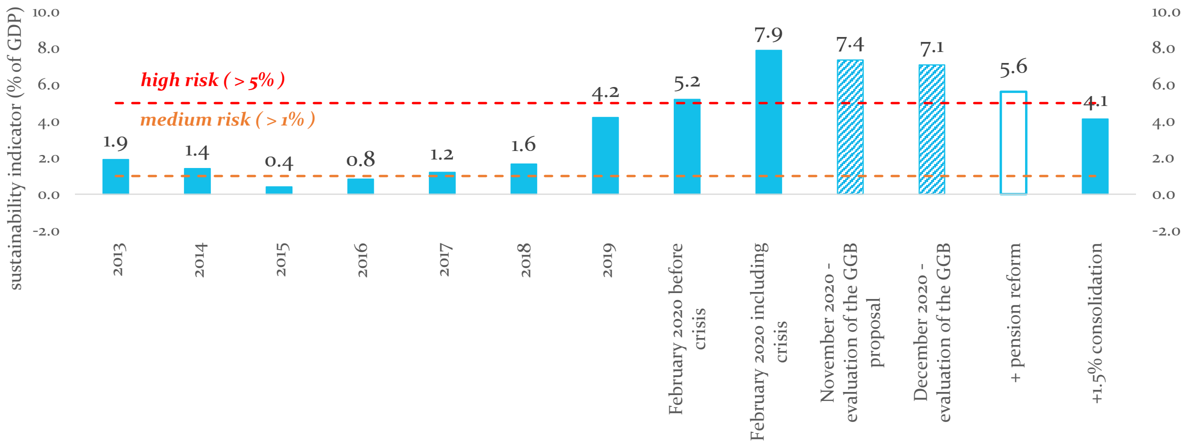
Impacts of changes in CBR's general government balance forecast on the sustainability of public finances

Due to the improved development of the general government balance envisaged by the CBR, the high risk in terms of long term sustainability has slightly decreased in comparison with the evaluation of the budget proposal, and the long-term sustainability indicator has improved by 0.27 p. p. of GDP. Taking into account the changes in the forecast of the general government deficit for the years 2020 through 2023, the **CBR is of the view that the medium-term development planned in the budget** (adjusted for the effects of pension-related measures) **is slightly improving the sustainability of public finances** (by 0.2 p. p.).

The long-term sustainability of public finances thus continues to remain within the high-risk zone and, in order to bring it to a medium-risk level, an additional 2.1% of GDP would be necessary according to the current estimates. **Based on the CBR's recommendations published in the evaluation of the budget proposal, in order for**

sustainability to improve, it will be necessary to seek and find – in addition to the consolidation of public finances and changes improving the sustainability of the pension system –also measures in other areas (health care, long-term care, boosting the growth potential, e.g., through the changes in the tax mix or a school reform).

Figure 3: Long-term sustainability development (% of GDP, including the recommended scenario)



Source: CBR

3. Budget transparency

The CBR has repeatedly noted that 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. The approval of a cash-basis 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. Changes made in the budget proposal with regard to the general government balance in 2022 and 2023 are also an example of missing information. An amending proposal changed the state budget for 2021 and also contained information about the impact of changes on the general government balance under the ESA2010 methodology in the relevant year. The budgeted deficits for 2022 and 2023 have not been published and the CBR could only identify them by requesting additional information from the Ministry of Finance.

The legislative change in the financing of subsidies for promoting eating habits of children (the so-called free lunches), as approved by the parliament, has not been incorporated in the budget. This change involves a significant reduction of the range of beneficiaries and, therefore, a lower level of spending from the state budget. However, the expected reduction has not been reflected in the budget through a reduction in the budgeted expenditures. Less transparent decision-making as regards the inclusion of measures in the general government budget makes it difficult to evaluate the budget in terms of compliance with the declared objectives for the budget balance, development in structural balance and adjusted expenditure.

The total amount of budgetary tax revenues was approved by the Tax Revenue Forecasting Committee (TRFC)**.** The meeting of the TRFC to discuss the effects of legislative changes was held shortly before the approval of the budget by the parliament. Unlike in previous years, additional measures beyond the framework of those assessed by the TRFC (such as e-Kasa and nanomarkers in the budget for 2020 through 2022) were not incorporated in the budget by the parliament.

Annex 1 –GG balance in the budget vs. CBR's forecast

Table 4: Differences in GG balance between the approved budget and the CBR's forecast (ESA2010, EUR million)

	2020	2021	2022	2023
GG balance under the 2020-2022 GGB, in EUR million	-8,672	-7,091	-6,214	-6,066
GG balance under the 2020-2022 GGB, in % of GDP	-9.68	-7.41	-6.22	-5.76
Impacts on general government balance – total:	2645	457	410	-214
- in % of GDP	2.96	0.48	0.41	-0.20
1. Measures to address the pandemic:	**669**	**-189**	**0**	**0**
2. Revenues from taxes and social security contributions	**95**	**290**	**461**	**605**
3. Non-tax revenues	**-36**	**-115**	**-59**	**22**
- dividends – state budget and MH Manažment	-27	-97	-91	-32
- levy on gambling	6	-36	-27	-15
- emission allowances	6	14	29	38
- other non-tax revenues (other non-tax revenues of the state budget, EOSA fee)	-21	4	30	32
4. Social benefits and transfers:	**186**	**102**	**153**	**146**
- expenditures of the Social Insurance Agency	285	93	126	92
- social benefits of the Ministry of Labour	-99	9	28	54
5. Transactions with the EU budget	**175**	**247**	**459**	**164**
- transfer to the EU budget	42	0	0	0
- co-financing expenditure	83	140	352	57
- reserve for contributions to the EU budget and EU funding	50	107	107	107
- financial corrections to EU funds	0	0	0	0
6. State budget expenditures:	**1104**	**-168**	**-919**	**-1430**
- current reserves (excl. wages)	89	141	131	131
- wage costs of the state budget (incl. reserves)	37	-16	-120	-296
- goods and services (excl. reserves)	154	-11	-30	-35
- current transfers to general government entities	131	-567	-657	-833
- other current expenditures	258	14	-5	-38
- capital expenditures	435	272	-239	-359
7. Performance of local governments (excl. tax revenues):	**68**	**285**	**424**	**467**
- municipalities	96	305	420	463
- self-governing regions	-28	-21	5	4
8. Expenditures in the healthcare sector:	**142**	**54**	**-54**	**-121**
- health care expenditures	187	35	-45	-93
- liabilities paid to shareholders of private health insurers	-15	-30	-50	-50
- financial performance of hospitals	-32	66	59	45
- operating costs of health insurance companies	2	-17	-18	-23
9. Financial performance of other GG entities:	**236**	**-60**	**-68**	**-80**
- ŽSR	-28	-41	-39	-40
- ZSSK	55	-81	-82	-81
- NDS	-38	1	-2	-6
- organisations partly funded from the state budget	47	14	-6	-11
- Environmental Fund	-18	-55	-35	-41
- public universities	136	79	76	71
- Jadrová a vyraďovacia spoločnosť	30	20	13	13
- Other entities	51	2	7	15
10. Other effects	**6**	**12**	**12**	**13**
General government balance – CBR's forecast, EUR million	-6,027	-6,633	-5,804	-6,280
General government balance – CBR's forecast, % of GDP	-6.75	-6.96	-5.83	-5.99

Note: a plus or minus sign is used in order to show the impact on the general government balance. *Source: CBR*

Annex 2 – Update to the structural balance

In comparison with the evaluation of the budget proposal (November 2020), several changes have been made in the estimate of the general government structural balance between 2020 and 2023. The CBR updated its estimate of risks and sources for their coverage in the budget based on available information, which affected the size of the general government balance between 2020 and 2023. Within the cyclical component, the CBR's output gap estimate has been updated, and the most recent output gap estimate by the National Bank of Slovakia (medium-term forecast P4Q) has been incorporated, whereas both are used as inputs for the final output gap estimate by the CBR[10] (Table 5). The measures related to the COVID-19 pandemic have been updated under one-off effects. The differences in the estimate are shown in Table 6.

Table 5: Change in the GG structural balance (2020-2023) – difference compared to the evaluation of the General Government Budget Proposal (ESA2010, % of GDP)

	2020	2021	2022	2023
1. General government balance	**0.9**	**0.1**	**0.3**	**0.3**
2. Cyclical component	0.2	0.1	0.1	0.0
3. One-off effects	0.2	-0.2	0.0	0.0
4. Structural balance (1-2-3)	**0.5**	**0.3**	**0.2**	**0.3**
5. Change in the structural balance (Δ4)/ Fiscal compact	**0.5**	**-0.2**	**-0.1**	**0.1**

Source: CBR methodology

Table 6: Estimate of the output gap (% of pot. GDP)

	2020	2021	2022	2023
output gap (December 2020)	-5.6	-2.2	-0.9	-0.4
change compared to the evaluation of GGBP (November 2020)	1.1	0.9	1	0.4

Source: CBR

Table 7: One-off effects in 2020-2023 (ESA2010) – difference compared to the evaluation of the General Government Budget Proposal

	2020	2021	2022	2023
costs related to the COVID-19 pandemic (EUR million)	208	-221	-	-
- in % of GDP	0.23	-0.23	-	-

Source: CBR

Table 8: Fiscal impulse in 2019-2023 (% of GDP)

	2019	2020	2021	2022	2023
1. change in the structural balance	-0.3	-2.1	-1.0	0.3	0.4
a. one-off effects (COVID-19)	-	-1.1	-1.3	-	-
b. change in other factors*	0.1	-0.2	-0.1	0.0	0.0
2. change in the SB reflecting additional factors (1+Δa-b)	**-0.3**	**-3.0**	**-1.1**	**1.7**	**0.4**
3. year-on-year change in transactions with EU budget	0.0	0.6	-0.3	0.2	1.5
Fiscal impulse (2-3)	**-0.4**	**-3.6**	**-0.8**	**1.5**	**-1.1**

**taking into account the contributions to the fully-funded pillar of the pension system, extended bank levy, PPP projects for the construction of motorways and expressways, and interest payments*

Source: CBR

[10] 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.

Annex 3 – How to improve the budget?

Approach to budget preparation

- **Realistic budgeting over the entire three-year horizon** should be introduced, along with the specification of measures necessary for meeting the targets set.
- The budgeted amounts should reflect, **in every area**, an estimate in the baseline year, the development under the **NPC scenario and the measures adopted** (so far, this is the case only with taxes and expenditure in the healthcare sector).
- **Measures** incorporated in the budget (not only legislative changes, but also any changes compared to the no-policy-change scenario) should be **enumerated in the relevant chapters of the budget book** and, if their assumed impact is higher (for instance, more than 10% of the level in the baseline year), they should be justified by enumerating and describing specific measures along with the timeframe for their adoption.
- Important legislative changes are also adopted by the government after it had already approved the budget and submitted it to the parliament, yet the budget does not contain the impacts of such measures (legislative changes in the Income Tax Act that are currently being prepared may serve as an example).
- The transparency of the budgeting process involving dividend income should be increased – the data from documents provided by the Ministry of Economy are passively taken over by the Ministry of Finance without assessing whether their assumptions are realistic.
- **Non-budgeting of expenditure for loan instalments with regard to the Dôvera insurance company**– the amounts of instalments and the repayment period are already known but this item has not been included in the budget.
- The **assumed reductions of operating costs** in the chapters of the state budget or general government entities should be budgeted **in realistic amounts**. For instance, in 2021, the budget proposal assumes a year-on-year reduction in the expenditure on goods and services of the ZSSK railway company by 45% (from EUR 254 million in 2020 to EUR 140 million in 2021), which would be clearly unrealistic without significantly reducing the volume of transport operated by the ZSSK.
- All items need to be budgeted in accordance with the ESA2010 methodology: revenues from the sale of emission allowances are already budgeted in line with ESA2010, but this is not the case with **government debt interest payments,** because interest on bonds issued at a premium are not posted in the budget in a methodologically sound manner (this distorts the comparability of the primary balance, i.e. actual situation vs. budget).
- The comparability of the budgeted and actual data has improved. However, there is still room for further improvement as regards the budgeting of the assumed impact of the EFSF, the budgeting of universities' business activities (requiring a legislative change), the budgeting of revenue and expenditure of certain central government organisations (with their total number being 42, according to the budget) – the budgeting of these items will also be important in terms of introducing expenditure ceilings.

Comprehensibility of the budget

- It is necessary to better justify the differences between the expected actual figures and the relevant budget in connection with the three-year budget, where the Ministry of

Finance refers, in its arguments, to the previous budget, in particular as regards significant differences between the expected actual figures and the budget. (*For instance, capital revenues of the state budget are budgeted at EUR 24 million for 2021, representing roughly twice the level of expected income in 2020. However, the Ministry of Finance has failed to justify this increase, referring to a year-on-year decline compared to the level of EUR 51 million budgeted for 2020. The fact remains that the budgeted level for 2020 has been overestimated, as also noted by the CBR already during the budget approval process in the autumn of 2019.)*

- Information about municipalities and self-governing regions or other general government entities should be concentrated in one place within the document. (*For instance, revenues other than tax revenues reflect the revenues of local government organisations funded or partly funded from the state budget, yet the description does not make it clear why only the revenues of municipalities, self-governing regions, public transport companies are increasing/decreasing – pg. 49. Expenditures are specified on page 163. The situation is similar with other entities where revenues and expenditures are specified in different parts of the main book. The data for individual entities are available in tables in an annex, but without any description. There is thus no comprehensive information about the budget assumptions for a particular entity).*
- The main book of the budget does not specify information about adjusting entries of the state budget (transition from the cash-basis to accrual-basis balance of the budget; such data was contained in the budgets in previous years) – this is important in terms of understanding the budget under the ESA2010 methodology, because the budget is then described on a cash basis.
- Presenting the budget proposal by area is not yet sufficiently transparent in terms of understanding the budget, assessing the possible risks and incorporated measures (no distinction is made between the sources for financing the expenditures – also included are those expenditures which are not treated as expenditure under the ESA2010 methodology; and a description of development in 2021 is absent in several cases; it is not always clear which expenditure is considered to be that of the state budget or of other general government entities) – several written questions that the CBR had sent the Ministry of Finance have been raised only because of these ambiguities).
- **It is necessary to raise awareness of the fiscal performance of corporations owned by the state and corporations falling under MH Manažment. There is an absence of a brief commentary describing the assumptions regarding the development of these corporations' fiscal performance,** moreover, also absent are fiscal performance results for individual healthcare facilities with capital participation of the Ministry of Health of the Slovak Republic.

The process of budget evaluation preparation by the CBR

- **The provision of data by the Ministry of Finance should be automated; after the budget proposal is approved by the government, the CBR always requests the same type of data**, this process of data provision, in particular information not published through the Budgetary Information System (such as assumptions about expected actual figures in a given year) should be performed automatically and as early as possible (ideally when the budget proposal is published, but no later than at the time when it is approved by the government).

- The process of sending written questions to the Ministry of Finance requiring several rounds of information exchange is not effective in view of the need to shorten the time for the preparation of the budget proposal evaluation (moreover, the Ministry's answers are not always precise)**. After the questions are formulated**, **it seems more advisable to organise a meeting attended by stakeholders in person** (in order to comply with transparency requirements, formal minutes of the meeting would have to be made for the purposes of publication).
- The API (application programming interface) on the website rozpocet.sk is regarded positively. We recommend that data be extended to the scope as applied within the Budgetary Information System (at least the cash-basis/accrual-basis/consolidated perspective using a three-year horizon, by all variables). Ideally, the database should be published in such a scope that would allow adding, to each table in the budget, a script (selection) with which the relevant content has been generated.

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