



Evaluation of Medium-term Budgetary Objectives

May 2015

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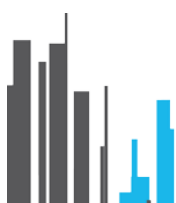


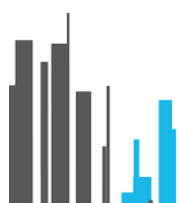
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Summary

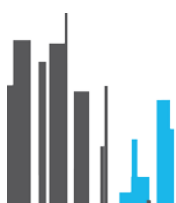
The medium-term objectives approved for 2016–2018 confirm the intention of the government to continue the process of reducing general government deficit and improving the long-term sustainability of public finances. The CBR views as **positive that the government remains consistent in presenting its intention to achieve a nearly balanced budget in 2017** (without temporary and one-off effects). The meeting of this commitment at the European level may increase Slovakia's credibility in the eyes of foreign investors. On the other hand, the suggested way in which the medium-term objective is to be achieved carries certain risks. The CBR views as **negative in particular the following four aspects: 1) relaxation of the deficit targets in nominal terms, 2) optimistic estimates of the economic growth potential, 3) missed opportunity to make use some of the positive effects to step up consolidation, and 4) a relatively high volume of potential risks without indicating the ways in which these risks will be mitigated, averted or offset by other measures.**

In 2016 and 2017, the public finance deficit target has increased by 0.5 % of GDP. The government justifies these less ambitious targets by the worse-than-expected economic development because the structural deficit targets remain more-or-less unchanged. Nevertheless, the CBR views as negative that moving the planned deficits upwards **defers¹ the ambition of bringing public debt below 50 % of GDP.** The basic requirement of the Fiscal Responsibility Act for the government is to propose measures which bring the debt below the first sanction threshold. However, the measures presented hitherto by the government have not been sufficient because the debt should remain within 'sanction brackets' until 2018, which is six years from the overrun of the first threshold in 2012. Moreover, in 2018 the first sanction threshold will drop from 50 to 49 % of GDP.

The second risk factor, according to the CBR, is that **the medium-term budget plan is based on optimistic assumptions as far as the economic growth potential is concerned.** The application of a common European methodology which does not take full account of the specificities of Slovak economy, assumes a relatively strong growth potential, mainly in the post-crisis period. This brings the economy in a considerably higher deceleration than originally expected, which offsets the negative impact of increased deficits. However, such development is very difficult to justify, and the Ministry of Finance admits it. In the Stability Programme, the Ministry of Finance presents its own output gap estimate, which also takes into account national specificities and which is presented on a regular basis before the independent Macroeconomic Forecasting Committee. The results are nearing both the CBR and NBS estimates. According to these more conservative calculations, structural deficit will near zero only after 2017. For this reason, the **CBR sees a significant risk that the fiscal compact objective will not be achieved in 2017.**

The CBR also views as negative **the missed opportunity to step up consolidation effort in times when numerous positive fiscal effects occurred.** The more effective tax collection,

¹ The deferring of consolidation at present increases the magnitude of the necessary consolidation in the future (cost of delay). More in the Report on the Long-term Sustainability of Public Finances of April 2015, p. 24.

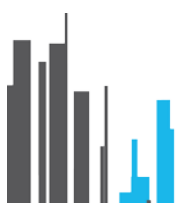


with a positive impact of up to 1.2 % of GDP in 2014, coupled with the lower cost of debt service due to the declining interest rates (by 0.4 % of GDP), are the factors which could have accelerated consolidation and contributed to meeting the medium-term objective. Moreover, since 2012, the government's consolidation effort has benefited from a reduced rate of contributions to the fully-funded pillar of the pension system (annual impact of 0.7 % of GDP). In spite of these positive factors, the present MF SR deficit estimate for 2015 is at the 2013 level.

The medium-term development of public finances **carries a relatively large volume of potential risks** without any accompanying measures designed to mitigate or avert them proposed. In its evaluation, the CBR assesses the risks in both qualitative and quantitative terms in the current fiscal year and in the medium term.

The CBR has updated its assessment of the risks and positives of the budget, taking into account the results for 2014, the updated estimate of the Ministry of Finance, the already announced measures, and the interim budget execution. The government declares its intention to meet the 2015 target of 2.49 % of GDP, even though the government's own estimate at present is 2.55 % of GDP. The CBR estimates the overall budget risks at more than EUR 1.2 billion (1.6 % of GDP), which may be partially offset by positive impacts amounting to EUR 0.6 billion (0.7 % of GDP). **Thus the deficit may – depending on the extent to which certain risks materialise – reach 2.6 to 3.0 % of GDP. Should the risks associated with the PPP project fully materialise (0.5 % of GDP) and financial corrections to EU funds are considerably above the current government expectations, the deficit could attack 3.5 % of GDP.**

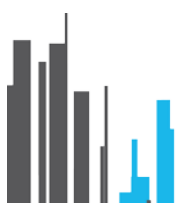
Similarly as in its evaluation of the approved budget for 2015, the CBR sees risks in non-tax revenues, particularly the SPP dividend in the amount of EUR 156 million, because the budgeted revenue from this dividend does not reflect shareholder structure of the SPP's profitable subsidiaries. The currently prevailing prices of CO₂ emission allowances, which are below the budgeted level, represent a risk of about EUR 39 million. The Ministry of Finance presently estimates the 2015 amount of financial corrections to EU funds at the 2014 level, which is EUR 111 million. The total amount of these corrections may be even higher and their potential impacts for the years to come remain unclear. The risk of higher expenditures in the healthcare sector has risen significantly, taking into account the actual figures for 2014. The CBR estimates the negative impact on the balance to reach EUR 106 to 249 million, with the lower value based on the assumption of a zero increase in expenditures. The risks identified after the approval of the budget include higher expenditures of the Social Insurance Agency (€24m) and additional expenditures incurred to prepare the construction of a motorway bypass of Bratislava (€387m). Although the ultimate impact of the transactions relating to the purchase by the government of the debts owed by the *Váhostav-SK* company to its creditors is unclear at present, the initial cost connected with the debt assumption in 2015 may have a zero-to-negative impact on the balance. The government has endorsed a plan to purchase military helicopters, but the details of the transaction and its impact on individual fiscal years have not been published due to its confidential nature. The balance may also be affected by the already-indicated plan of the government to take over the national football stadium construction project; fiscal impact will depend on the new timetable of the project.



The risks may be mitigated by additional tax revenues due to the presently faster drawing of EU funds (up to €196m). Nevertheless, full drawdown of the funds made available under the 2nd programming period is unrealistic. The one-off revenue from the cancellation of bearer deposits (€26m) has been carried over from 2014. Unless the budgeted reserves for worse-than-expected macroeconomic development and tax collection are spent, the government may save EUR 259 million.

A significant change from the net worth perspective is the new possibility to use the revenue from the bank levy also for other purposes, which expands the scope of the risks covered from the budget. The increase in risks, unaccompanied by a corresponding increase in the sources for their coverage, reduces the net worth of the Slovak Republic.

In the 2016 to 2018 horizon, the CBR has identified, already at this stage of the budget process, overestimated revenues from the SPP dividend and from the sale of CO₂ allowances, similarly as in the year 2015. The expected revenues from the launch of the 3rd and 4th unit of the nuclear power plant in Mochovce, whose completion may yet again be delayed, represent another risk. The expenditures on healthcare in the budget are lower compared with the previous one, but no measures have been specified yet. The additional risks relate to the new measures adopted during 2015 (Bratislava motorway bypass, helicopters, football stadium, Váhostav-SK) and their impact will also spill over to the following years.



Introduction

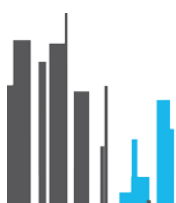
The Fiscal Responsibility Act² obligates the Council for Budget Responsibility (CBR) to monitor and evaluate the development of public finances. **Two phases** of budget preparation are of key importance to evaluating future development: Medium-term Budget Outline and Stability Programme (submitted to the Cabinet in April) and the Budget Proposal, approved by the Cabinet and submitted to the Parliament (by 15 October). The Budget Outline formulates the basic fiscal policy objectives, however, the measures designed to meet them are not always fully specified, whereas the Budget Proposal is a detailed document containing specific measures.

The objective of the CBR is to offer an independent view on the budget and assess whether the fiscal policy setup is sufficient in terms of achieving the targets set and, at the same time, to identify potential risks which need to be eliminated through the adoption of additional measures.

The present CBR opinion is based on the Stability Programme of the Slovak Republic for 2015-2018, approved by the Cabinet on 29 April 2015 and submitted to the European Commission as a binding document in line with the requirements of the Stability and Growth Pact. The draft Medium-term Budget Outline of the general government for 2016-2018 was on the Cabinet's agenda on 22 April 2015, but ministers suspended their debate on the document. Both the Stability Programme and the draft Medium-term Budget Outline are consistent in terms of content.

Pursuant to the Fiscal Responsibility Act, the CBR will publish in November its second evaluation report scrutinising the 2016-2018 General Government Budget Proposal as approved by the Cabinet.

² Act No. 493/2011 on Fiscal Responsibility, Article 4, paragraph 1(d).



1. Risks to meeting the 2015 budgetary objective

The government set the target deficit value for the 2015 budget at 2.49 % of GDP. In its evaluation of the approved budget³ the CBR identified several risks associated with this target and potential sources for their elimination. **The publication of preliminary data for 2014, the revised 2015 deficit estimate by the Ministry of Finance to 2.55 % of GDP, the adoption of additional measures, and the interim budget execution have enabled to update certain risks⁴.**

- **Fine-tuned estimates of certain impacts**

In the case of **dividends from the SPP (Slovak Gas Company)**, an updated estimate by the Ministry of Finance – which is based on more precise profit figures for the previous year and the super dividend quantification – increases the risk by about EUR 20 million. The risk stems from the anticipated payment of dividends from Eustream (SPP subsidiary), which are probably unrelated to the ordinary business of the company⁵. Under the ESA2010 methodology, such dividend revenue should not have a positive impact on the government balance, yet its actual effect will be known once the transaction has been reviewed by Eurostat.

The Ministry of Finance estimates⁶ that **the amount of financial corrections payable due to irregularities in the spending of EU funds** will be the same as in 2014, i.e., EUR 111 million. The total amount of corrections may be even higher and their potential impacts for the years to come remain unclear.

The risk associated with a **shortfall in revenues from the sale of CO₂ allowances** has also been updated. The average auction price in the first four months of 2015 reached approximately €7/t of CO₂. With this price prevailing throughout the year, the shortfall would be lower and reach approximately EUR 39 million.

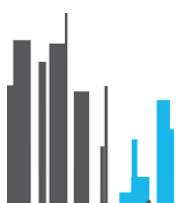
In view of the development of **expenditures in the healthcare sector** in 2014, the CBR has fine-tuned its risk estimate for 2015. Since the government has not presented any concrete measures capable of reining the expenditure growth in the sector, the CBR has based its quantification of the upper limit for this risk on the average expenditure growth rate over the past five years (3.7 % annually). In this situation, the additional negative impacts on public finances could reach almost EUR 250 million. Under the optimistic assumption that healthcare expenditures remain stable at the 2014 level, the additional negative impacts would amount to EUR 106 million.

³ The list of budget risks and reserves for the year 2015 was published in the [Addendum to the Evaluation of the General Government Budget for 2015-2017](#).

⁴ The next part deals solely with the description of changes in the risks and the sources of their coverage in comparison with those identified in the evaluation of the approved general government budget. The risks are quantified against the approved 2015 budget.

⁵ The CBR estimate is based on the proposed dividend distribution for 2014, as published in the 2013 financial statements of Eustream, a.s. The company's 2013 profit reached €319m and the shareholders decided to pay €625m in dividends in the year 2014. The CBR calculates the risk at €156m (taking into account the ownership stake of SPP in Eustream).

⁶ The final amount is yet unknown.



Tab 1: Expenditures in health care sector (€ million)

	2012	2013	2014	2015 B	2015 E of CBR		Differences	
					(0%)	(3.7%)	(0%)	(3.7%)
Health insurance expenditures	3 496	3 672	3 846	3 732	3 846	3 987	114	255
Hospitals' budget balance*	-74	-30	-62	-50	-62	-64	-12	-14
Payout of retained profits	-76	-97	-53	-73	-53	-53	21	21
Total (impact on balance)							-106	-249
<i>p.m. SSC of HIC (EAP+arrears)**</i>	2 426	2 636	2 782	2 708	2 701	2 701	-7	-7

* In 2015, the Ministry of Health budgeted a reserve of EUR 50 mill. to cover losses of hospitals.

Source: MF SR, CBR

** The impacts are reflected in the latest tax revenue forecast.

The risks associated with the **expenditures of local governments remain unchanged** (€132-232m). Despite the fact that the Ministry of Finance expects a moderate year-on-year increase in capital expenditures (actual figures for 2014 were lower than expected when the 2015 budget was prepared⁷), the risk lies in the fact that capital expenditures remain below previous years' levels. At the same time, the risk quantification is influenced by wage increases in public administration during 2015, which will partially also affect the budgets of local governments.

- **Expenditures of the Social Insurance Agency**

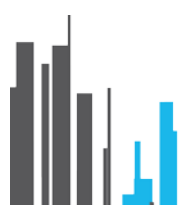
In 2014, the **expenditures of the Social Insurance Agency increased beyond** what was expected when the 2015 budget was approved. This negative surprise is partially⁸ reflected in the 2015 estimate. At the same time, the 2015 budget did not reflect the impact of the introduction of the automatic recalculation of old-age pensions payable to working pensioners as of January 2015. With these impacts taken into account, the Ministry of Finance estimates that the increase in pension expenditures will represent some EUR 24 million above the budget.

- **Additionally adopted measures**

In the course of 2015, the government and/or parliament adopted a number of measures which may influence the government balance and which are not reflected in the approved budget.

⁷ In 2015, the capital expenditures of local governments are budgeted at €737m; in 2014, they reached €678m. The estimate for the year 2014, on which the MF SR based its budget for 2015, represented €952m (which is approximately the average for the last five years).

⁸ The approved budget worked with the assumption that the expenditures of the Social Insurance Agency reach €6.755bn in 2014, but the reality was €6.821bn. A part of the increase is attributable to a one-off retroactive disbursement of pensions, the rest is reflected in the forecast for the following years. The retroactive disbursement of pensions concerned those who, for the most part of their carrier, paid contributions to the specific pension fund of the armed forces and police corps, and who, on leaving the armed forces, worked for a short period of time in the civilian sector without becoming entitled to pension for that part of their carrier. The courts decided that their pensions entitlement must be recalculated with retroactive effect.



The possibility to **exit from the fully-funded pillar** of the pension system is expected to have a positive impact on the balance to the tune of EUR 10 million, which is already incorporated in the present tax revenue forecast.

The government expects a positive impact on the balance at EUR 103 million from the use of **EU funds and national co-financing⁹ towards a credit programme for the renovation of apartment buildings** implemented by the State Fund for Housing Development¹⁰. Given the fact that the ESA2010 rules are based on a general principle whereby the transfers from EU budget have a negative impact on the balance¹¹, the **CBR chose not to include the declared positive impact of EU funds among the sources for risk coverage**. This particular transaction is expected to be reviewed by the Statistical Office of the Slovak Republic and Eurostat.

On the other hand, the **government-approved¹² draft PPP project for the construction of a motorway bypass of Bratislava** is likely to produce significantly negative impacts. In the first phase, involving preparatory works and the purchase of land by the government, the expenditures are estimated to reach EUR 387 million¹³.

In connection with the **restructuring of Váhostav** (construction company), the government has decided to purchase 50 % of the company's debt owed to unsecured creditors and thus acquire an equity stake in the company. The transaction should take place by the end of 2015 and its ultimate impact on the balance remains unclear as it depends on a number of factors, such as the value of *Váhostav* and its future prospects, as well as the number of creditors who will avail themselves of the government's offer (Annex 1). **Given the initial costs connected with the purchase of debt, the transaction may have a neutral-to-negative impact on the balance in 2015.**

The **government-approved purchase of helicopters¹⁴** represents another additional measure. Since the documents underlying the transaction are classified and the Ministry of Defence has not divulged any additional information, **it is unclear when its negative impact**

⁹ The part from EU funds represents €88m and the co-financing part represents €15m.

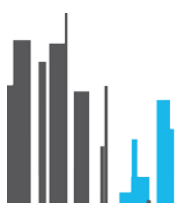
¹⁰ Government [Resolution No. 146/2015](#) of 1 April 2015 (available only in Slovak). The impact on the balance is positive under the assumption that the transfer from the EU budget is recognised as income under ESA2010 and the loans provided by the SFHD are recognised as a financial operation not affecting the balance. A measure of this type was implemented in 2013 (although in a smaller scale) when the SFHD obtained EU funds and national co-financing contribution to provide loans in the aggregate amount of almost €12m.

¹¹ Chapter II.6.2 of the [Manual on government deficit and debt. Implementation of ESA2010](#) (Eurostat, 2014). Eurostat confirmed this principle also in its [preliminary opinion](#) from 2014 concerning similar transactions in Estonia.

¹² Government [Resolution No. 39/2015](#) of 21 January 2015 (available only in Slovak).

¹³ Information from the public finance impact assessment to the government approved document. At this point, the MF SR is not anticipating any additional impact because the expenditures will be effected depending on the actual development of public financing. In other words, these expenditures will be covered from as-of-yet-unspecified savings, or their will be postponed to the next years, which may then raise questions as to whether the calculations on the economic rationale of the PPP model of the project are up to date.

¹⁴ Government Resolution No. 225/2015 of 29 April 2015 (classified document).



on the budget will materialise and whether these expenditures are in fact provided for in the draft Medium-term Budget Outline for 2016-2018.

The decision on the construction of the **national football stadium in Bratislava** is another new measure. The approved 2015–2017 budget originally contemplated government contribution towards the cost of construction in the amount of EUR 27 million, spread from 2014 to 2017. At present, consideration is being given to covering the entire cost of construction (€40 to 45 million) from the state budget. The spread of this amount over years is unknown at this point, but the delays in the construction suggest that the impact on public finances is likely to be felt only after 2015.

- **Revenues from taxes and social security contributions**

Compared with the approved general government budget for 2015–2017, the **revenue from taxes and social contributions in 2015 is expected to be lower by EUR 177 million**. The decline is connected with the fact that the actually budgeted tax revenue was EUR 300 million above the official forecast approved by the independent TRFC due to the expected higher collection of taxes. Adjusted for this impact, the tax revenue is higher by EUR 123 million, which also includes a legislative change adopted in the course of 2015 (impact of the possibility to exit from the fully-funded pillar of the pension system). The improvement is mostly attributable to higher revenues from VAT and corporate income tax (the increased effectiveness of their collection was partially offset by the worse-than-expected development of the underlying macroeconomic bases).

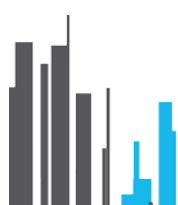
The increase in tax revenues was also connected with the creation of a reserve on the expenditure side of the budget in order to neutralise impact on the balance. The government has not yet specified whether and, if so, how it intends to use the reserve. **Respecting the rule¹⁵ on not overrunning the approved cash-based state budget deficit and assuming that the other parts of the budget remain unchanged, the ultimate impact on the balance under the ESA2010 methodology may span from the negative EUR 25 million¹⁶ (if the reserve for increased expenditures is fully spent) to the positive EUR 123 million (if the reserve is cancelled)**. However, **certain other cash-based changes¹⁷ in the budget may create a room for the spending of the reserve in which case the negative impact may reach up to EUR 177 million**.

- **Drawing of EU funds and co-financing**

¹⁵ The rule is defined in Section 6(2) of Act No. 523/2004 Coll. on the General Government Budgetary Rules, as amended.

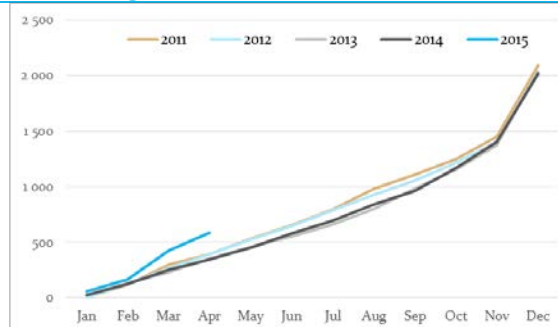
¹⁶ The calculation only assumes a change in the revenues from taxes and disregards changes in other revenue and expenditure items of the budget. The latest estimate for cash revenues from taxes in 2015 is higher by almost €149m compared to the approved budget (excluding the increase above the official tax revenue forecast), which creates room to increase expenditures by the same amount maintaining the deficit at the same level. In such a case, the update of taxes under ESA2010 would produce a negative impact on the balance of €25m (revenues higher by €123m and expenditures by €149m).

¹⁷ As an example, a reduction in transfer from the state budget to a general government entity reduces the state-budget deficit at the expense of such other entity, but the transaction is neutral from the perspective of the general government as a whole.



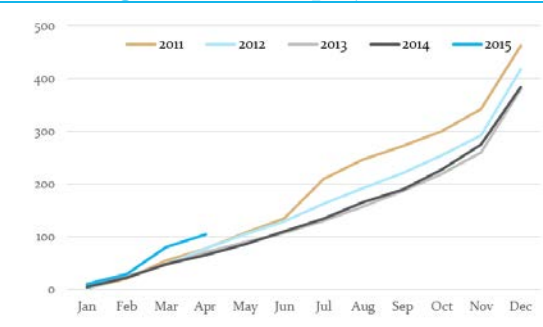
The actual figures for the first four months suggest that the drawing of EU funds is much faster than in the previous year; the increase reaches almost 70 %. With this pace kept throughout the year, the drawing is likely to reach the budgeted value of EUR 3.3 billion¹⁸. However, even this level of drawing (assuming that only funds available under the 2nd programming period are drawn) will not be sufficient to ensure the full absorption of funds available under the 2nd programming period which, in the beginning of 2015, represented approximately EUR 4 billion.

Figure 1: EU-funded expenditures from the state budget (€ million)



Source: State Treasury, CBR

Figure 2: National funds for the co-financing of EU funded projects (€ million)



Source: State Treasury, CBR

Key for the estimation of the overall impact on the balance is that the macroeconomic forecast of the budget is based on the assumption that about 70 % of the budgeted EU funds will actually be drawn. This level of drawing would save EUR 196 million¹⁹ on account of national co-financing and the tax revenues will remain unchanged. Although any drawing of EU funds above this level would inevitably reduce the saving on account of national co-financing, the funds thus invested would improve the overall macroeconomic environment and thereby increase tax revenues. The resulting impact would be a combination of higher tax revenues and higher expenditures on national co-financing.

In its last year's report evaluating the General Government Budget Proposal²⁰ the CBR estimated, based on the figures from 2013, that one euro spent on co-financing generates approximately one euro in additional tax revenues. If this ratio is maintained also in 2015, **the positive impact of EU funds on the balance in 2015 would reach a maximum of EUR 196 million**²¹.

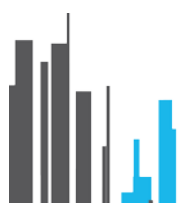
- **Other sources for the coverage of risks**

¹⁸ In 2014, the state budget expenditures financed from the EU budget (structural funds, cohesion fund and agricultural funds) reached €2.014bn.

¹⁹ A simplified calculation based on the assumption that the expenditures on the co-financing of projects funded from the structural funds, Cohesion Fund and the agricultural funds in 2015 are €654m. The saving of 30 % represents €196m. The quantification does not include additional savings due to lower expenditures on accompanying investments from the national sources.

²⁰ Annex 2 to the [Evaluation of the General Government Budget Proposal for 2015-2017](#).

²¹ Although at the budget level there would be no saving in expenditures on the co-financing of EU funded projects, the revenue from taxes would increase by €196m since the macroeconomic forecast anticipated only a 70-percent level of drawing of EU funds.



The deadline for the planned closure of the payment of balances on bearer deposits has been postponed from 2014 to 2015. Hence the **one-off positive impact on the 2015 balance** is expected to reach **EUR 26 million**.

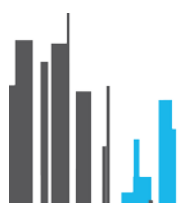
• **Risks from the net worth perspective**

In connection with the **special levy payable by selected financial institutions**, the government has extended²² the purpose for which this particular revenue may be spent to include also equity investments in wholly-owned state corporations. If these funds (at the end of 2015, their accrued amount will reach €632m) are also used for this new purpose without generating adequate future revenues, the net worth will decline.

Tab 2: Overview of budgetary risks and reserves for 2015 (€ million)

Budget risks with impact on balance	December 2014		May 2015	
	Risks	Risk coverage	Risks	Risk coverage
1. Overestimated non-tax revenues:				
- Revenue from SPP and VSE dividends	169	190 (potential saving in co-financing)	189	max. 196* (impact of higher drawing of EU fund and savings in co-financing)
- Revenue from the sale of CO ₂ allowances	52		39	
2. Financial corrections to EU funds	no quantification		111 (MF SR estimate)	
3. Underestimated healthcare expenditures	50		106-249	156 (reserve for macroeconomic development)
4. Underestimated expenditures of local governments, mainly capital expenditures	132-232		132-232	
5. Impact of lower-than-budgeted spending in 2014 (e.g., transfer of capital expenditures)	no quantification		no quantification	
6. Additional measures adopted after approval of the 2015-2017 budget:		156 (reserve for macroeconomic development)		26 (revenue from cancelled bearer deposits)
- Expenditures related to a PPP motorway bypass ring of Bratislava	-		max. 387 (impact assessment approved by government)	
- Purchasing receivables of unsecured creditors from Váhostav	-		no quantification	max. 123** (better tax collection, unspent reserve)
- Expenditure on helicopters	-		no quantification	
- Expenditure on the construction of the national football stadium	-	no quantification		
7. Higher expenditures of the Social Insurance Agency	-		24 (MF SR estimate)	
Risk from the net-worth perspective without impact on budget balance				

²² The funds were originally designed to cover the risks in the financial sector which, if the contributions are set fairly in actuarial terms, means a zero impact on the net worth (assets on one side, potential future liabilities on the other), even though the levy improves the actual government balance.



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

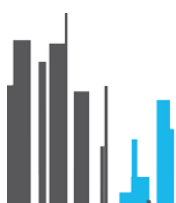
* The higher than expected (macroeconomic forecast assumes the drawing of EU funds at 70 % of budgeted level) drawing of EU funds will be reflected in higher tax revenues, which may be partially captured also in another source of funds for risk coverage (better tax collection). Source: CBR, MF SR

** Maximum impact applies under the present tax revenue forecast and on the assumption that the reserve for increased expenditures is not spent.

*** The impact on the balance depends on the purpose for which the funds are used. Annex 1 illustrates probable impacts on the balance if the government purchases the receivables of unsecured creditors from Váhostav.

Provided that all indentified positive risks materialise (assumptions concerning the drawing of EU funds, unspent reserves, higher tax revenues), the 2015 deficit will span from 2.6 to 3.0 % of GDP depending on the extent to which the risks in fact materialise²³. Should the risks associated with the PPP project fully materialise (0.5 % of GDP) and financial corrections to EU funds are considerably above the current government expectations, the deficit may near 3.5 % of GDP.

²³ See Annex 2 for detailed quantification.



2. Evaluation of budgetary objectives

The Medium-term Budget Outline represents the first step in the process of defining the general government's fiscal framework for the next three years (2016 to 2018). The outline provides initial information on the direction of the government's fiscal policy, sets the target deficit values for the period covered, and the necessary measures to be taken to meet the declared budgetary objectives. Since this is the initial phase of the budgeting process, the measures designed to meet the fiscal objectives are not exhaustive and their description is not specific enough. The role of the CBR is to assess whether the objectives set by the government, including the measures proposed, are sufficient and respect the fiscal rules.

2.1 Fiscal framework

The objectives declared by the government are based on the latest estimate for the 2015 general government deficit, i.e., 2.55 % of GDP²⁴. The medium-term fiscal framework for the forthcoming period assumes gradual deficit reduction and, according to the Ministry of Finance's calculations, the **medium-term budgetary objective** (structural deficit up to 0.5 % of GDP²⁵) **should be achieved in 2017**.

The objectives are based on the rules of the preventive arm of the Stability and Growth Pact (SGP) and the common EU methodology for structural balance calculation. An evaluation by the European Commission confirms that the objectives are in line with SGP rules²⁶. The CBR views as positive that the government has not availed itself fully of the margins available under the SGP for the required pace of annual consolidation. Hence Slovakia's budgetary objectives are more ambitious than what the EU rules require in order to stick to the original ambition of meeting the MTO in 2017.

Tab 3: GG targeted balance (ESA2010, % GDP)

	2014	2015E	2016O	2017O	2018O
1. Approved GG budget for years 2015-2017	-3.03	-2.49	-1.43	-0.39	
2. GG budget outline for years 2016-2018*	-2.87	-2.55	-1.93	-1.38	-1.01
3. GG targeted balance for years 2016-2018		-2.49	-1.93	-0.88	-0.53
4. Change (2-1)		-0.06	-0.50	-0.99	
5. Measures needed to meet the objectives (3-2)		0.06	0.00	0.50	0.48
(measures needed to meet the objectives in mill. eur)		43.5	0.0	426.9	435.7

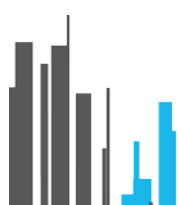
*The general government budget outline contains higher than targeted deficits both in 2016 and 2017. The difference represents the size of measures which have not been specified yet.

Source: MF SR

²⁴ The meeting of the deficit target (2.49 % of GDP) requires an additional improvement of 0.06 % of GDP (approx. €44m), but the Stability Programme does not specify the measures through which this will be achieved.

²⁵ The meeting of this target, apart from compliance with the rule of the preventive arm of the Stability and Growth Pact, would also mean achieving the 'balanced budget' defined in the national legislation (implementation of the so-called Fiscal compact).

²⁶ Draft [Council recommendation concerning Slovakia's 2015 national reform programme and delivering a Council opinion on Slovakia's 2015 stability programme](#) of 13 May 2015, p. 3



In comparison to the approved 2015–2017 General Government Budget, the budgetary objectives contained in the draft 2016–2018 Budget Outline are more relaxed. The target deficit values in 2016 and 2017 have increased by 0.5 % of GDP, respectively, which the Ministry of Finance justifies by higher-than-expected deceleration of the economy. The thus set objectives are based on the output gap forecast prepared in line with the Commission’s methodology which, however, does not reflect the specificities of the Slovak economy and which is difficult to interpret in economic terms²⁷ (Box 1). A look at the output gap forecast which the Ministry of Finance presents to the independent Macroeconomic Forecasting Committee suggest that the medium-term budgetary objective will not be achieved even in 2018. **This considerable mismatch between the size of structural balances targets, coupled with the assumption of backloading the acceleration of consolidation to the last years of the medium-term horizon, increase the risk of deferring the deadline for meeting the MTO.**

Box 1: Difference in the estimates of structural balances in the years 2010-2018

The following figures illustrate the estimates of structural balances in 2010-2018 and of the output gap, and potential output respectively, from 2009 to 2018 based on calculations by the CBR and MF SR. While the first MF SR estimate (EC methodology) is used to evaluate structural balance for the purposes of EU rules, the MF SR presents to the Macroeconomic Forecasting Committee the so-called ‘national estimate’ where the output gap takes into account Slovakia’s specificities. The differences in the size of structural balance are attributable to both the different output gap estimates and to the different list of the one-off effects considered. The output gap estimate by the MF SR according to the Commission methodology is, also according to the MF SR, non-intuitive²⁸, where the estimated growth of potential GDP reaches too high values in the crisis period compared with the national estimate (the CBR estimates similar values) and, consequently, the output gap closes at a later point in time. As a consequence, the MF SR estimate of structural balance, reflecting the Commission’s rules, foresees the meeting of the MTO already in 2017 (thanks to the negative output gap), but the present MF SR estimate which takes into account country-specifics, does not foresee its meeting even in 2018.

²⁷ For illustration, under this methodology the current deceleration of the economy is significantly worse than in the crisis year 2009 (negative output gap of 2.9 % of the potential output in 2014 compared with the negative 1.8 % in 2009).

²⁸ A more detailed description of methodological differences appears in the document of the MF SR: Stability Programme of Slovakia for 2015-2018, Box 1. The MF SR interprets the differences in the output gap estimates as follows: “The output gap overestimation by the Commission in the pre-crisis period effectively underestimated the impact of the demand shock in 2009, which non-intuitively implies for the present 2014-2015 period a considerably wider negative output gap compared with 2009.”

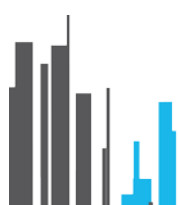
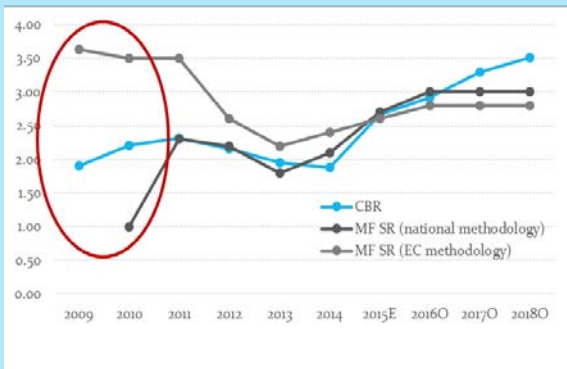
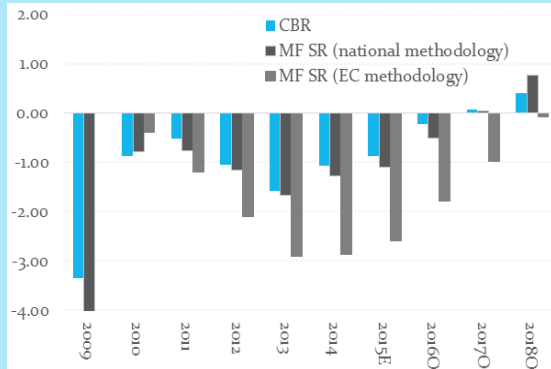


Figure 3: Potential GDP growth between 2009-2018 (%)



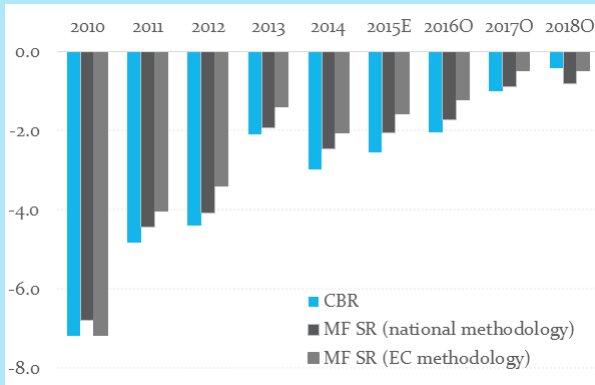
Source: CBR, MF SR

Figure 4: Output gap between 2009-2018 (ESA2010, % pot. GDP)



Source: CBR, MF SR

Figure 5: GG structural balance between 2010-2018 (ESA2010, % GDP)



Source: CBR, MF SR

Tab 4: GG structural balance comparison between 2015-2018

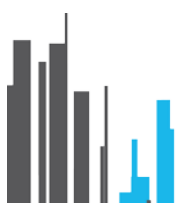
	2015E	2016V	2017V	2018V
CBR	-2.6	-2.0	-1.0	-0.4
MF SR (national methodology)	-2.1	-1.7	-0.9	-0.8
MF SR (EC methodology)	-1.6	-1.2	-0.5	-0.5
MTO			-0.5	

Source: CBR, MF SR

Given the current setup of the budgetary objectives, the CBR calculations also show that the MTO will not be achieved in 2017. The medium-term objectives are based on gradual deficit reductions and, to a lesser degree, on the use of one-off measures²⁹. The structural balance improvement will also be facilitated by lower debt interest payments in reaction to the declining interest rates on financial markets. Against the backdrop of the proposed objectives, the average annual fiscal restriction amounts to 0.6 % of GDP, which means that the MTO will be achieved only in 2018³⁰. Its meeting in 2017 would require an average annual fiscal restriction of 0.8 % of GDP.

²⁹ See Annex 3 for a detailed list of one-off measures.

³⁰ The factors which, despite their impact in the medium term, do not influence the long-term sustainability of public finances (fully-funded pillar of the pension system, nuclear decommissioning fund, special banking levy) do not materially change the evaluation of medium-term objectives.



Tab 5: Change in GG structural balance between 2014-2018 according to CBR (ESA2010, % GDP)

	2014	2015E	2016O	2017O	2018O
1. Net lending/borrowing	-2.9	-2.5	-1.9	-0.9	-0.5
2. Cyclical component	0.0	-0.1	0.0	0.0	-0.2
3. One-off measures	0.1	0.2	0.2	0.1	0.1
4. Structural balance (1-2-3)	-3.0	-2.6	-2.0	-1.0	-0.4
5. Change in structural balance (Δ_4) / Fiscal compact	-0.9	0.4	0.5	1.0	0.6
6. GG balance in NPC scenario	-2.9	-3.4	-3.1	-3.4	-3.4
7. Change in structural balance in NPC scenario	-	-0.4	0.3	-0.3	0.3
8. Size of measures (1-6)	0.0	0.9	1.2	2.6	2.9
9. Change in size of measures ($\Delta 8$)	-	0.9	0.3	1.3	0.3
10. Consolidation effort of government (5-7)	-	0.8	0.3	1.4	0.3
<i>p.m. 1 Measures without an impact on long-term sustainability</i>	-0.1	0.0	0.0	-0.1	0.0
<i>p.m. 2 PPP projects</i>	0.0	0.0	0.0	0.0	0.0
<i>p.m. 3 Interest payments</i>	0.0	0.2	0.1	0.1	0.0

Source: CBR methodology

Assuming that no new measures are taken after 2014, that public finances development is based on the existing legislation and that the budget items are determined solely by macroeconomic development, (the ‘no policy change’ scenario, NPC, prepared by the CBR³¹), the deficit would exceed 3 % of GDP in each of the years. The moderate deficit decline in 2016 is connected with the assumption of a lower uptake of EU funds due to the gradual contracting of projects under the new programming period³².

The net contribution of the government³³ to the permanent deficit improvement represents 0.8 % of GDP in 2015. Compared with the change in structural balance (0.4 % of GDP) it is higher mainly because the basic VAT rate should have been reduced as of 2015 to 19 % (which would have automatically led to the deterioration of structural balance by 0.3 % of GDP), but the government decided to keep the rate at 20 %. In contrast, the government’s consolidation effort in 2016 is lower as a consequence of anticipated slowdown in the drawing of EU funds, which reduces expenditures on co-financing and automatically, without any government intervention, improves the structural balance. **The meeting of the medium-term budgetary objectives by 2018 will require an average annual consolidation effort of 0.7 % of GDP.**

³¹ See Annex 4 for more details on the NPC scenario by the CBR.

³² The MF SR estimates the deficit in the NPC scenario at 1.6 % of GDP in 2016. The differences compared to the CBR are due to different assumptions of how certain items will develop, for example revenues from dividends, expenditures in the healthcare sector and debt interest payments. Also, the two institutions work with different starting positions. While the CBR bases its estimates on the actual figures for 2014, the MF SR uses the estimate for 2015 which reflects a number of adopted measures (e.g., changes in taxes).

³³ The indicator ‘government consolidation effort’ relates solely to the contribution of government measures towards a permanent change in deficit. Its detailed description can be found in CBR discussion paper No. 02/2014: [How to Measure Public Finance Consolidation](http://www.rozpocetovarada.sk).

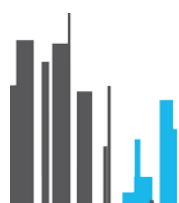
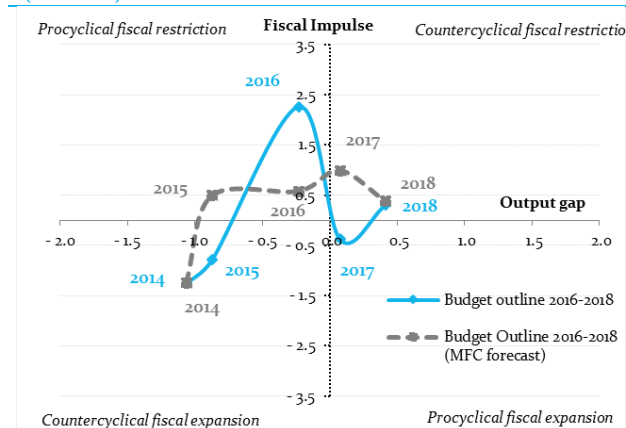
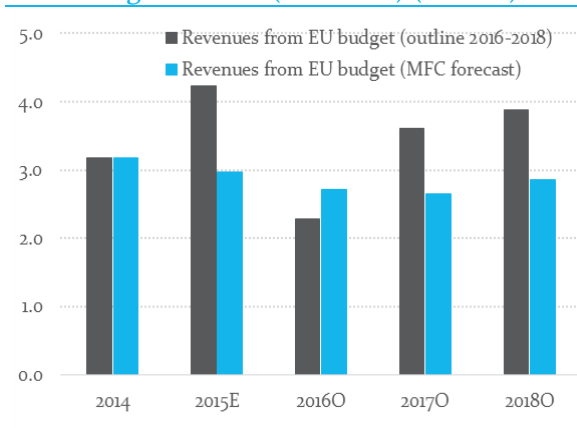


Figure 6: Fiscal impulse between 2014-2017 (% GDP)



Source: CBR methodology

Figure 7: Anticipated EU funds drawing in the budget outline (2016-2018) (% GDP)



Source: MF SR

Apart from the set budgetary objectives, also the assumptions concerning the drawing of EU funds are important from the viewpoint of potential impacts on economic growth. Since the second programming period is drawing to a close, the uptake of EU funds towards the end of 2015 is expected to culminate (increase by 1 % of GDP year-on-year). The drawing of funds will temporarily slacken in the course of 2016 pending the contracting of projects for the new programming period. In the following years, the use of EU funds should regain the original momentum, which may accelerate the economic growth and, at the same time, attenuate the negative effects of consolidation. According to the MF SR macroeconomic forecasts presented to the Macroeconomic Forecasting Committee, the drawing of EU funds will necessitate fiscal policy tightening across the entire medium-term horizon.

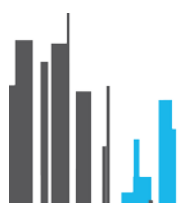
2.2 Consolidation measures

The draft Medium-term Budget Outline for 2016–2018 does not contain all the measures necessary to meet the objectives. Compared with the NPC scenario, the impact of the measures already proposed amounts to 1.2 % of GDP in 2016 and increases to 2.4 % of GDP in 2018. **While these measures would be sufficient to meet the objective in 2016, its meeting in 2017 will require the adoption of additional measures representing 0.5 % of GDP.** Provided that the measures adopted for 2017 are of a permanent nature, they will most likely suffice to meet the deficit target in 2018.

Tab 6: Measures needed to meet the objectives (ESA2010, % GDP)

	2016O	2017O	2018O
1. Targeted GG balance for years 2016-2018	-1.9	-0.9	-0.5
2. GG budget outline for years 2016-2018	-1.9	-1.4	-1.0
3. GG balance in NPC scenario (<i>CBR methodology</i>)	-3.1	-3.4	-3.4
4. Total measures needed (1-3)	1.2	2.6	2.9
5. Measures included in the outline 2016-2018 against NPC scenario (2-3)	1.2	2.1	2.4
6. Measures needed to meet the objectives (1-2)	0.0	0.5	0.5

Source: MF SR, CBR methodology



The consolidation measures focus particularly on the expenditure side of the budget, with investment representing the most significant item (Table 7). Apart from investment, the draft Medium-term Budget Outline contains lower expenditures on wages and healthcare. On the revenue side, the tax measures adopted as of 2015 contribute towards deficit reduction.

Tab 7: Impact of the measures incl. in the budget outline against the CBR 's NPC scenario (% GDP)

	2016	2017	2018
Taxes	0.4	0.4	0.4
Wages	0.5	0.8	1.1
Goods and Services	-0.4	-0.5	-0.4
Healthcare	0.4	0.5	0.5
Investment	1.1	1.1	0.9
Others	-0.7	-0.1	-0.1
Total impact of the measures	1.2	2.1	2.4

Note: impact on the GG balance

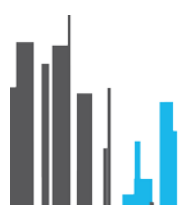
Source: CBR, MF SR

Above the framework of the already incorporated measures, the government has indicated a number of tax-related legislative amendments and quantified their impact on 2016. The new taxation system for cigars and cigarillos should improve the collection of the excise tax on tobacco. The current taxation system is based on the quantity, whereas the new one should be based on weight. The new legislation will also probably affect the VAT through changes in the conditions applicable to tax refunds within shortened time limits, as well as the system for VAT payment (only after the invoice is paid). The government is proposing measures concerning the tax assignment mechanism for the corporate income tax; at the same time, in order to increase transparency of the NGO sector, the government intends to create a register of NGOs. A change in the calculation of penalties should increase the motivation and willingness to declare tax liabilities. Other measures should affect the capital market; however, they will have a negative impact on tax revenues (abolished health insurance contributions from securities and dividends).

2.3 General government debt

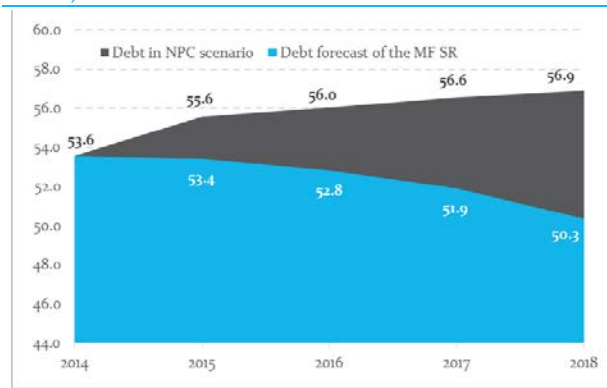
The Medium-term Budget Outline assumes, subject to meeting the budgetary objectives, a gradual decrease in the gross debt from 53.6 % of GDP in 2014 to 50.3 % of GDP in 2018. In the medium term, the debt should therefore decrease by 3.3 % of GDP. Apart from meeting the budgetary objectives, the forecast is contingent on the government receiving EUR 1 billion for the sale of its minority stake in Slovak Telecom in 2015.

Provided that no new measures are adopted after 2014, the gross debt would surge to 56.9 % of GDP at the end of 2018. In comparison with the Medium-term Budget Outline, the debt would be higher by 6.6 % of GDP. The projected debt decline is mostly attributable to the measures incorporated in the 2015 budget and in the draft 2016-2018 Medium-term Budget Outline (cumulative impact of 6.4 % of GDP). The contribution of the hitherto unspecified measures to the debt decrease represents 1 % of GDP. The other factors, such as change in financial assets



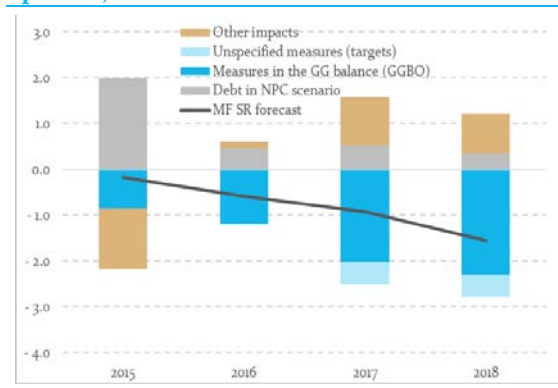
and differences between cash-based and accrual flows³⁴ will increase the debt in the medium term by 0.8 % of GDP.

Figure 8: Comparison of the MF SR's debt forecast with the CBR's NPC scenario (% of GDP)



Source: CBR, MF SR

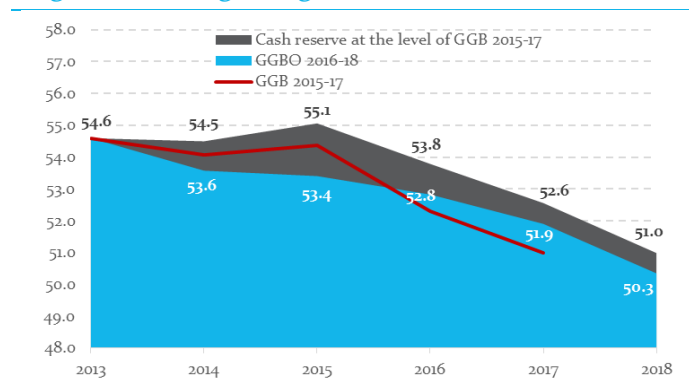
Figure 9: Contributions to the change in debt level v in the MF SR's forecast (perc. points)



Source: CBR, MF SR

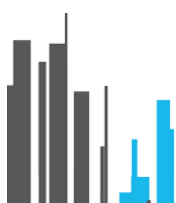
In comparison with the approved budget for 2015–2017, the debt forecast in 2015 declined quite significantly (Figure 10), which is due to the lower cash reserve assumption. In the following years, the forecast goes slightly up as a consequence of more relaxed budgetary objectives. If the cash reserve is maintained at the level of the approved budget during 2014–2017, the present gross debt forecast would be higher by 1 percentage point on average in the medium-term horizon.

Figure 10: Changes in gross debt forecast (% of GDP)



Source: CBR, MF SR

³⁴ While government deficit is expressed in accrual methodology, gross debt is defined in cash-based methodology. From the perspective of debt development, cash flows in public finances are therefore of key importance. The differences between the cash-based and accrual flows thus explain the different debt development in a given year in comparison with the amount of deficit.



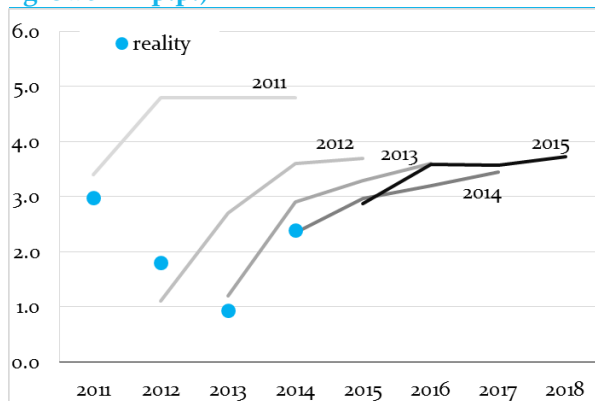
3. Evaluation of the likelihood of meeting the budgetary objectives

The proposed medium-term objectives for 2016-2018 are based on the macroeconomic assumptions approved by the Macroeconomic Forecasting Committee and on the forecast of revenues from taxes and social security contributions approved by the Tax Revenue Forecasting Committee. Given the initial phase of budget preparation, the Stability Programme provides only a limited overview and description of the measures designed to reach the objectives. This part of the evaluation focuses on the identification of risks arising from different-than-expected macroeconomic development, on tax revenue forecasts, and on the size and nature of the measures.

3.1 Macroeconomic assumptions

According to an independent forecast by the Macroeconomic Forecasting Committee (MFC)³⁵ the outlook for Slovakia's economic growth for the years to come has stabilised (Figure 11), while international institutions concur with this opinion (Figure 12). The acceleration of GDP growth from 2.4 % in 2014 to above 3 % since 2016 is based on a steady growth of domestic demand, supported by higher employment, rising real income of households, and low inflation. Assuming stronger foreign demand and low prices of oil, the contribution of net exports to economic growth will be restored gradually.

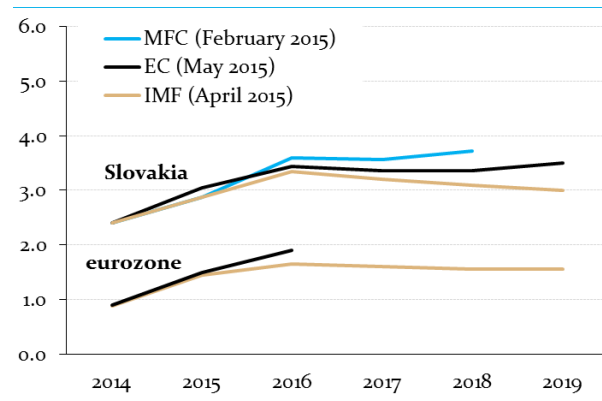
Figure 11: MFC forecast of economic growth for Slovakia since 2011 (Winter forecast, growth in p.p.)



* ESA95 until 2013

Source: ŠO SR, MF SR

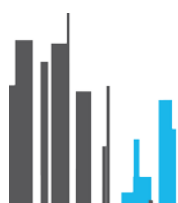
Figure 12: Forecast of economic growth for Slovakia and eurozone (growth in p.p.)



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

The consistently favourable economic environment which stimulates the creation of new jobs represents a positive risk for domestic demand. However, against the backdrop of strong

³⁵ The actual forecast by the MFC constituted the basis for the preparation of the draft Medium-term Budget Outline of General Government for 2016-2018 and, in February 2015, all but one MFC member assessed the forecast as realistic.



domestic demand (or rising oil prices), the recovery of net exports growth contributions may be slower than expected (approximately neutral impact in 2014).

Tab 8: MFC macroeconomic forecast (February 2015)

Indicator (in %)	Actual	Forecast / Change compared to 2015-2017 Budget (September 2014)			
	2014	2015	2016	2017	2018
GDP, real growth	2,4	2,9/+0,3	3,6/+0,1	3,6/+0,1	3,7/ -
Inflation, year average; CPI	-0,1	0,0/-1,0	1,6/-0,3	1,8/-0,3	2,0/ -
Nominal wage, growth	4,1	2,6/-0,7	3,9/-0,3	4,4/±0,0	4,6/ -
Real wage, growth	4,2	2,6/+0,5	2,3/+0,1	2,5/+0,2	2,6/ -
Employment (ESA), growth	1,4	0,6/+0,2	0,7/+0,2	0,7/+0,1	0,8/ -
Private consumption, real growth	2,2	2,8/+0,4	2,7/±0,0	2,8/+0,6	2,9/ -
Investments, real growth	5,7	3,7/+1,0	1,8/+0,4	1,7/-0,2	2,1/ -
Export of goods and serv., real growth	4,6	1,4/-2,9	5,9/-0,1	6,0/-0,1	6,1/ -

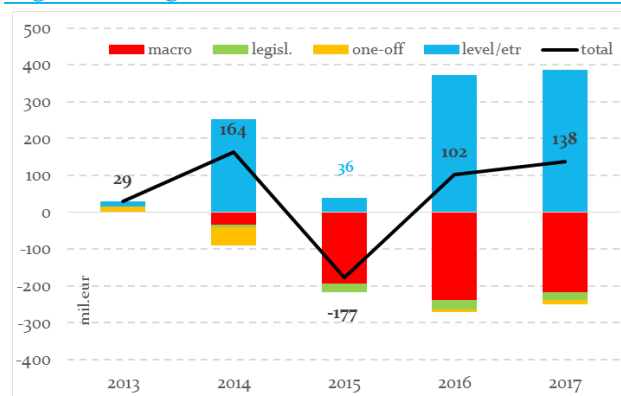
Source: SO SR, MF SR

Considering the **negative and positive risks of the domestic and international development**, the risks connected with the macroeconomic assumptions used in the preparation of the budget for the years to come are **balanced**.

3.2 Forecast of revenues from taxes and social contributions

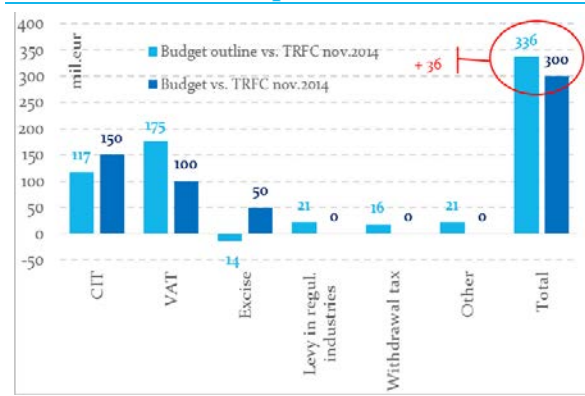
The forecast of revenues from taxes and social security contributions in the medium-term Budget Outline is realistic. Compared with the approved budget, the forecast of revenues in 2015 decreased by **EUR 177 million (0.2 % of GDP)**. On the other hand, the forecasts for 2016 and 2017 increase revenues by EUR 102 million and EUR 138 million, respectively.

Figure 13: Change in tax and SSC revenues against budget (mill. eur)

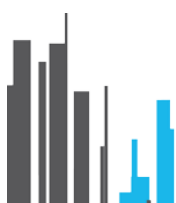


Source: MF SR

Figure 14: GG budget 2015 already included increase in tax compliance (one-off)



Source: MF SR



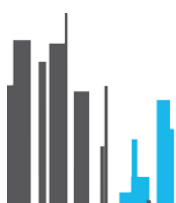
- **The updated macroeconomic assumptions** compared to the budget have a negative contribution (by €200m). Although the economy is growing faster than expected, the inflation outlook is considerably lower, which undercuts the tax revenue in nominal terms.
- **The impact of legislative measures** has reduced the tax revenue outlook (by €20m). This is mainly due to the downward revision of the estimated positive effects of certain legislative measures already incorporated in the approved budget. This concerns the estimate of revenues from corporate income tax influenced by the new system of depreciation of buildings, and the estimate of the impact of the health insurance contributions payable on dividends: both had to be revised downwards. On the other hand, the medium-term budget outline already reflects the positive impact which the opening of the fully-funded pillar will have on the revenues from social contributions (by €20m). Those who exit the fully-funded pillar of the pension system will be transferring the contributions they have so far paid to the supplementary pension scheme to the Social Insurance Agency, which will increase government revenues.
- In comparison with the previous TRFC forecast of November 2014, the update is influenced by **better-than expected revenues** (higher effective tax rate) from VAT and corporate income tax, in particular³⁶. This effect has increased the forecast of revenues by EUR 250-400 million in the 2015-2017 horizon. However, the additional revenue (compared with the budget) in 2015 represented only EUR 36 million. This is due to the fact that the parliament, through amendments tabled by MPs, increased the 2015 forecast of revenues above the TRFC forecast, assuming higher revenues from corporate income tax, VAT and excise taxes by EUR 300 million, in aggregate.

3.3 Risks to meeting the medium-term objectives

The risks associated with the meeting of the medium-term objectives will also largely depend on development in 2015, because the unfavourable development of certain items may have repercussions for the years to come. For 2017 and 2018, a proper account should be taken of the fact that not all measures needed to meet the objective have been specified. At this stage, the CBR has indentified the following medium-term risks:

- Similarly as in 2015, the **revenue from SPP dividends** planned for 2016 to 2018 represent a risk. Given the amount of dividends from ordinary activities estimated by the CBR in 2015 (€133m), the medium-term budget outline expects more than twice as much between 2016-2018 (€300m annually); however, such an increase has not been justified. Along the same lines, the **revenue from the sale of emission allowances** appears to be overrated: similarly as in 2015, the estimated price exceeds quite considerably the going market price (average price in the first four months of 2015 oscillated around EUR 7 /t of CO₂, whereas the Medium-term Budget Outline

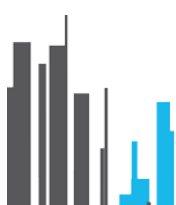
³⁶ Still an estimate in the case of the corporate income tax, hence it carries a degree of uncertainty.



anticipates EUR 10.5/t of CO₂). Another uncertainty stems from the **planned revenue from the levy payable by the operators of nuclear power plants, specifically the 3rd and 4th unit of the Mochovce nuclear power plant**. The Medium-term Budget Outline foresees revenues as of 2017, yet the completion of construction and the commissioning of the two blocks remains questionable.

- Compared to the approved 2015–2017 budget, the draft Medium-term Budget Outline is more realistic when it comes to the **current expenditures of municipalities and self-governing regions** in 2016 to 2017; however their **capital expenditures declined**. Nevertheless, the impact of the fiscal performance of local governments will also depend on the 2015 development; here, the Ministry of Finance expects equally low expenditures.
- In the **healthcare sector**, the 2016 and 2017 expenditures are lower than those in the approved budget³⁷, and the impact of the public healthcare facilities is expected to be slightly positive. Since this change has not been explained by any specific additional measure, it increases the risk in the medium term quite considerably.
- **The measures adopted in the course of 2015** may lead to increased expenditures also in 2016 to 2018, although they are not necessarily included in the draft Medium-term Budget Outline. These include, in particular, expenditures related to a PPP project (motorway bypass of Bratislava), as well as the expenditures on the construction of the national football stadium and the purchase of helicopters.
- **Financial corrections to the projects financed from EU funds**, which may have a negative impact also after 2015, represent another potential risk.

³⁷ The budgeted 2016 expenditures of health insurance companies on healthcare, after taking into account the deficits of public healthcare providers, are slightly lower than the actual expenditures in 2014.



4. Evaluation of the budget in terms of fiscal rules

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

The Fiscal Responsibility Act contains a rule on the **gross debt-to-GDP ratio** with defined sanctions which are activated when specific thresholds are exceeded. Based on the statistics released in April of this year ('spring notification' by Eurostat), **the gross general government debt in 2014 reached 53.6 % of GDP** and remained within the **second debt threshold**³⁸ which triggers a duty on the part of the government to submit to the parliament a proposal for measures designed to reduce the debt and freeze the salaries of cabinet members at the previous year's level³⁹.

The debt forecast in the Stability Programme assumes gradual decline in the debt-to-GDP ratio to 50.3 % of GDP by the end of 2018. If this target is to be achieved, the debt would hover above one of the statutory thresholds each year, which means that the government **has so far not submitted a proposal for ensuring sufficient debt reduction**.

The act also contains a **debt limit rule for local governments** applicable as of 2015, and its breach triggers sanctions⁴⁰. This rule is more stringent than the debt limit for general government (with the same ceiling of 60 %) as the debt is put in relation to the current revenues of local government and not to their economic performance. The CBR will publish the results for 2014 by the end of August⁴¹.

Another important national rule is the **balanced budget rule** based on which Slovakia should be moving towards a balanced budget in the medium term (the target is to reach structural deficit of 0.5 % of GDP by 2017⁴²). The MF SR and CBR evaluate compliance with this rule

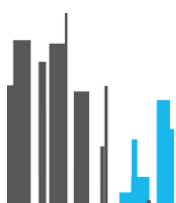
³⁸ Gross debt over 53 % of GDP and below 55 % of GDP.

³⁹ Since the 2014 debt forecast was above 53 % of GDP, the approved General Government Budget for 2015-2017 freezes the salaries of Cabinet members in 2015 at the 2014 level.

⁴⁰ If the total amount of debt of a municipality or self-governing region reaches or exceeds 60% of its actual current revenues in the previous fiscal year, the municipality or self-governing region concerned shall pay a penalty imposed by the Ministry of Finance amounting to 5% of the difference between the total debt amount and 60% of its actual current revenues in the previous fiscal year.

⁴¹ The evaluation will be a part on the report on compliance with the fiscal responsibility and transparency rules which the CBR publishes each year by the end of August.

⁴² [Ministry of Finance: Fiscal compact – evaluation of compliance with the balanced budget rule \(November 2014, available only in Slovak\)](#)

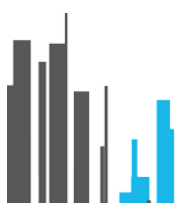


based on actual data⁴³. **However, the present budgetary objectives suggest that the balanced-budget will not be achieved in 2017⁴⁴.**

From the perspective of compliance with the EU fiscal rules, the **abrogation of the excessive deficit procedure in respect of Slovakia in 2014** represented an important step. This means that the **fiscal policy is governed by the preventive arm of the Stability and Growth Pact** based on which Slovakia should be on the path towards meeting its MTO in 2017. The Stability Programme declares compliance with these rules; the 2014 relaxation of fiscal rules was justified by the application of the so-called 'investment clause'. Since the CBR does not quantify the change in structural balance strictly according to the methodology defined by the Commission, it does not evaluate the government's budgetary objectives in terms of their compliance with EU fiscal rules.

⁴³ In December the CBR stated in its [evaluation](#) (available only in Slovak) that no significant deviation had occurred in 2013 and public finances were on the path towards a balanced budget. The CBR will evaluate the 2014 development for the first time in July 2015.

⁴⁴ The CBR estimates that if the budgetary objectives are met, a balanced budget will be achieved in 2018. According to the calculations based on the latest MFC forecast, which the Ministry of Finance uses to evaluate compliance with the balanced budget rule, and given the budgetary objectives set, this target will not be achieved in 2018.



Annex 1 – Potential impacts on public finances of the assumption by the government of the debts owed by Váhostav to creditors

The assessment of the potential impacts which the restructuring of *Váhostav* may have on public finances is based on a memorandum signed by representatives of the government, Slovak Guarantee and Development Bank (SGDB), the company *Váhostav-SK, a.s.*, lending banks, the president of the Slovak Association of Small Traders, and representatives of the creditors of *Váhostav*, at a meeting which took place in Bratislava on 22 April 2015. Media coverage of the case has also been used as an additional source of information⁴⁵.

Main assumptions:

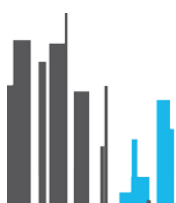
- The available information is insufficient to assess the value of *Váhostav's* assets, i.e., the extent to which the company will be able to satisfy its creditors' claims under the restructuring plan. For this reason, the opinion contemplates **two borderline situations**: 1) **the value of *Váhostav's* assets is very low and thus the company cannot operate further, or 2) *Váhostav* will go successfully through the restructuring process and will become a profitable company in the future.**
- It is unknown at this point how many of the unsecured creditors will use the offer of the government to purchase their claims and *Váhostav* shares. Based on the information presented in the media, we can assume that a majority of creditors will accept the offer. The text below is based on the assumption that all **creditors will avail themselves of the government offer**; the lower the percentage of those who will do so, the lower the impact on public finances.
- **The precise time horizon of the future impacts is not defined**, i.e., the years in which the transaction will affect public finances. This is mainly because the restructuring process⁴⁶ and subsequent payments from the company's profit, if any, may take several years.
- **Another unknown at this point is the entity which will, on behalf of the government, purchase the creditor's claims.** That entity may, but does not have to be, a part of the general government sector. In certain situations, the impacts on public finances may differ depending on how such entity is classified.

Description of potential impacts on the balance, debt and net worth of the Slovak Republic

The state will provide funds towards the purchase of the creditors' claims from the 'state financial assets' (probably from the accrued revenue from the special levy on financial institutions) and buy the totality of the creditors' claims and a corresponding portion of

⁴⁵ The information are available only in Slovak: <http://hn.hnonline.sk/ekonomika-a-firmy-17/firmy-odkazuju-vahostavu-vase-akcie-nehceme-738000>
<http://agentury.sme.sk/c/7730150/vahostav-sk-predlozil-vyboru-veritelov-upraveny-restrukturalizacny-plan.html>

⁴⁶ The restructuring plan of *Váhostav* spreads over 5 years. Therefore, the overall impact, together with future payments from profits, will exceed the five-year period.



Váhostav shares in the amount equal to 50 % of the nominal value of claims⁴⁷. In terms of impacts on public finances, the population of possible scenarios can be delineated by two: one pessimistic and one optimistic. These two scenarios represent borderline impacts on the budget (the impacts of other scenarios would be somewhere in between):

1. **The first scenario assumes that the value of *Váhostav* is very low⁴⁸** and all creditors will choose to sell their claims to the state. This situation would immediately⁴⁹ trigger expenditures without any future revenues. This will increase the government deficit and net debt⁵⁰ and, simultaneously, reduce the net worth of the Slovak Republic (the part 'general government') because the state will not obtain any consideration for the thus acquired claims. The impact on the gross debt is not unambiguous because these increased expenditures can either be covered from cash reserves (decrease in assets) or through the issue of bonds⁵¹ (increase in gross debt). This is the worst possible scenario from the public finance perspective. In this case, the impact on public finances is the same regardless of the classification of the entity⁵² which will execute the purchase transaction.
2. **The second borderline scenario is based on the assumption that *Váhostav*, after restructuring, will become a profitable company and will gradually pay all its debts from profits.** After the initial cost incurred due to the purchase of claims (at a half of their value) the state would recover funds equal to the full value of the claims and would also benefit from its equity stake in *Váhostav*, either through dividends or through income from the sale of shares. Hence the immediate negative impacts caused by the purchase of claims will be offset by future revenues. In the long term, this scenario would have a positive impact on the deficit and net government debt, as well as on the net worth of Slovakia. The impact on the gross debt is questionable also in this case, because the additional revenues may be used to redeem the existing debt or increase the cash reserve.

Financing of initial costs

The potential impacts outlined above do not take account of the way(s) in which the purchase of claims will be financed. Media reports suggest that the cost could be covered from the

⁴⁷ The claim comprises of two parts: up to 50 % of the amount due the claim is enforceable as a pecuniary claim and the creditor may demand its satisfaction on the completion of restructuring (provided that the creditor's claim satisfaction within the restructuring period is below 50%) and the remaining 50 % represent the equity right making the creditor entitled to a share in profits and other income of *Váhostav*.

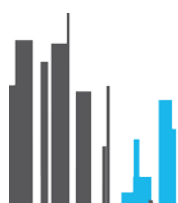
⁴⁸ These assets may also be used to satisfy the claims of secured creditors (banks).

⁴⁹ The deadline for the purchase of creditors' claims is at the end of 2015.

⁵⁰ The net debt in this case is defined as gross debt adjusted for liquid financial assets (mainly cash).

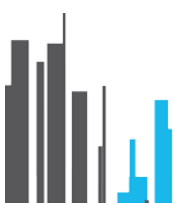
⁵¹ While the issuance of bonds increases gross debt, the reduction in cash reserves has no impact on gross debt. On the other hand, if we disregard other factors, a lower cash reserve increases the risk of refinancing the debt at the currently low debt interest payments.

⁵² If the entity is not classified as a part of the general government (for example, the SGDB), the transfer of funds from the account of 'state financial assets' would be classified as a government expenditure because the funds would be spent to acquire worthless receivables. An additional risk to the general government debt might arise if the entity is reclassified as a part of the general government sector provided that the entity owes debts to entities outside the general government sector.



accrued revenue from the special levy on financial institutions; should this be the case, the additional revenue will be generated automatically by extending the period for which the higher rate of the banking levy will continue to apply⁵³. The fact that this mechanism is automatic does not mean that it should not be viewed as an additional tax burden. For this reason, it is not appropriate to declare that the purchase of claims under the pessimistic scenario will have no impact on the deficit, debt or net worth of the Slovak Republic.

⁵³ The rate of the levy depends on the amount of funds accrued on the account of 'state financial assets'. The decrease in the balance of funds (in order to finance the purchase of creditors' claims) will mean that the higher rate of levy will continue to apply for a longer period of time compared with the situation where the balance would be unaffected.



Annex 2 – Risks to meeting the 2015 objective

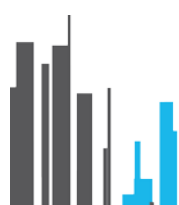
The CBR usually estimates the risks and sources of their coverage in intervals; in other words, their impacts on the balance may significantly differ depending on whether the risk materialises fully or partly. The impact of all quantified risks on the balance may then be illustrated on two borderline scenarios (minimal and maximal impact of risks).

Tab 9: Estimation of the impact of risks and their coverage on the GG balance in 2015 (ESA2010, € million)

	max.	min.
GG balance - budget	-1 940	-1 940
(% of GDP)	-2.49	-2.49
Sources of risk coverage:	501	501
(% of GDP)	0.6	0.6
- impact of EU fund drawing	196	196
- reserve for macroeconomic development	156	156
- revenue from cancelled bearer deposits	26	26
- better tax collection, unspent reserve	123	123
Quantified risks:	-1 231	-601
(% of GDP)	-1.6	-0.8
- overestimated non-tax revenues	-228	-228
- financial corrections to EU funds	-111	-111
- underestimated healthcare expenditures	-249	-106
- underestimated expenditures of local governments, mainly capital expenditures	-232	-132
- additional measures adopted after approval of the 2015-2017 budget	-387	0
- higher expenditures of the Social Insurance Agency	-24	-24
GG balance - estimate	-2 671	-2 040
(% of GDP)	-3.5	-2.6
GG balance estimate excluding the impact of PPP project	-2 284	-2 040
(% of GDP)	-3.0	-2.6

Source: CBR

As far as the sources of risk coverage are concerned, the CBR takes only into account such impacts which are most likely to materialise (impact of the EU funds' drawing, higher tax revenue estimates) and they are therefore reflected in both scenarios in their full amount. At the same time, since the budgetary objective will not be achieved under either of the two scenarios, the assumption is that the reserve for macroeconomic development and the reserve for better tax collection will not be used.



The 2015 general government deficit, after including all quantified risks and sources for their coverage and without considering additional measures, would span from 2.6 % to 3.5 % of GDP. The width of the span is influenced mainly by the estimate of expenditures in connection with a PPP project for the motorway bypass of Bratislava. The expenditures are estimated at EUR 387 million, which may negatively influence the 2015 deficit. According to the Ministry of Finance, the expenditures will be effected depending on what the budget and its targets allow, which could, in an extreme case, postpone them to the following years with a zero impact on 2015. In such a case, the upper limit of the deficit estimate would reach 3.0 % of GDP.



Annex 3 – List of one-off measures

This updated list of the one-off measures considered in the calculation of the structural balance reflects the discussions with the Ministry of Finance which should result in the adoption of a joint national methodology for their identification⁵⁴. Its outcome does not have to be necessarily identical with the following list of one-offs since, in certain cases, the institutions may have differing views on, for example, the legal force or substance of certain transactions⁵⁵.

Tab 10: One-off measures between 2014-2018 (ESA2010, % GDP)

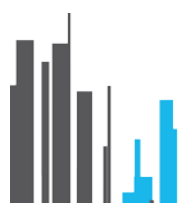
	2014	2015E	2016O	2017O	2018O
VAT revenue/payment from a PPP project (Granvia)	-0.01	-0.01	-0.01	-0.01	-0.01
digital dividend	0.22	-	-	-	-
dividends	-	0.23	0.14	0.13	0.13
accrualisation of VAT receipts	-0.13	-	-	-	-
financial correction to EU funds	-0.15	-0.14	-	-	-
adjusted amount of transfer to the EU budget	0.12	-	-	-	-
penalty of the Antimonopoly Office of the SR	0.06	-	-	-	-
repayment of loans Cargo	0.03	0.13	0.02	-	-
repayment of loans Vodohospodárska výstavba	0.06	-	-	-	-
retroactive disbursement of pensions in the armed forces	-0.08	-	-	-	-
Total	0.12	0.20	0.16	0.13	0.12

Source: CBR

- VAT receipt from a PPP project** - in 2011, the imputation of a claim towards the Granvia company as a consequence of VAT payment in connection with a PPP project for the R1 motorway in the amount of EUR 174 million had a one-off positive effect on the deficit. In the next 30 years, the balance of the advance payment will be reduced every year by an aliquot portion amounting to EUR 5.79 million. This amount will have a negative effect on the general government budget during the 30-year period.
- Digital dividend** – in 2014, the sale of frequency bands through auction, the so-called digital dividend, had a one-off positive effect on non-tax revenues. The positive impact of the sale on the 2014 balance reached EUR 163.9 million.
- Dividends** – these are one-off transfers of revenues from dividends unrelated to the respective fiscal year, and/or special agreements on the payout of dividends between the state and other shareholders which do not have to be recognised under the ESA2010 methodology. According to CBR calculations, these revenues in 2015 translate into EUR 178

⁵⁴ In its evaluation of the structural balance for the purposes of the European fiscal rules, the MF SR (e.g., Stability Programme of the Slovak Republic for 2015-2018) takes into account only those measures which are in line with the Commission's interpretation of one-off measures. The Commission does not publish a detailed methodology and a list of one-off measures together with justification.

⁵⁵ One of the points where the views differ are revenues from SPP dividends.



million from the dividends paid by *Slovenský plynárenský priemysel*⁵⁶ (SPP) and *Východoslovenská energetika* (VSE).

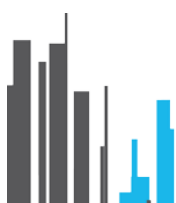
Tab 11: Anticipated income from dividends between 2015-2018 (ESA2010, € million)

	2015E	2016O	2017O	2018O
SPP				
1. Anticipated outcome/Budget outline proposal	289	300	300	300
2. Anticipated regular dividends	133	200	200	200
one-off effect (1-2)	156	100	100	100
VSE				
1. Anticipated outcome/Budget outline proposal	37	32	30	32
2. Anticipated regular dividends	15	15	15	15
one-off effect (1-2)	22	17	15	17
Total	178	117	115	117

Source: CBR

- 4. Accrualisation of VAT receipts** - ESA2010 uses the method of accrued cash receipts based on which cash receipts are attributed to individual periods with a fixed time lag. This approach, however, does not fully reflect reality, particularly when it comes to excess tax refunds. Tax audits and the related suspensions of the excess tax refunds may significantly influence VAT accrual receipts under ESA2010. Due to this, the negative effect on VAT revenues in 2014 reached EUR 100.7 million.
- 5. Financial corrections to EU funds** – Due to irregularities identified in the spending of EU funds, the costs of certain projects are not reimbursed from EU funds despite the fact that Slovakia has already received the corresponding EU allocation or the costs have been pre-financed from the national budget. Once the correction is imposed and accepted, it has a negative impact on the balance. In 2014 alone, financial corrections to EU funds reached EUR 111 million. It may thus be expected, also due the ongoing audit and suspension of EU payments under some operational programmes, that financial corrections will have a negative impact on the balance also in 2015. For 2015, the CBR took the estimate of financial corrections provided by the MF SR.
- 6. Adjusted amount of transfer to the EU budget** – The amount of transfer payable to the EU budget from sources based on VAT and GNP is estimated annually by the Commission. Based on the calculations done in September 2014, the original amount has been significantly revised and the deadline for payment by member states has been set to 1.12.2014, and 1.9.2015 respectively. The revision should be recorded on accrual basis into the year 2014. The calculations done so far show that the revision had a positive impact on the 2014 budget in the amount of EUR 87.4 million

⁵⁶ The CBR estimate is based on the proposed dividend distribution for 2014, as published in the 2013 financial statements of Eustream, a.s. The company's 2013 profit reached €319m and the shareholders decided to pay €625m in dividends in the year 2014. The CBR has calculated the one-off impact at €156m (taking into account the ownership stake of SPP in Eustream).



7. **Penalty imposed by the Antimonopoly Office** – in October 2006, the Antimonopoly Office ruled that the companies of Strabag a.s., Doprastav, a.s., BETAMONT s.r.o, Inžinierske stavby, a.s., Skanska DS a.s., and Mota - Engil, Engenharia e Construção, S.A. concluded a cartel agreement in conflict with the provisions of the Antimonopoly Act and the Treaty on the Functioning of the European Union. The cartel agreement concerned a public tender for the construction of the first section of the D1 motorway (Mengusovce – Jánovce). The Supreme Court of the Slovak Republic confirmed the legality of the fine in the amount of EUR 44.8 million on 30 December 2013. The receipt from the fine increased non-tax revenues in 2014.
8. **Repayment of a loan provided to Cargo, a.s.**⁵⁷ - on 4 March 2009, the government approved the use of state financial assets for the provision of a 'repayable financial assistance' to Cargo Slovakia a.s. in the amount of EUR 166 million, which had a negative impact on the budget in 2009. Under a contract with the Ministry of Finance and the Ministry of Transport, Post and Telecommunications, Cargo used the assistance to finance its payroll and personnel expenditures, charges for the use of the railway infrastructure, and its own financial expenses. The payment of interest was set to begin in 2009, the payment of principal in 2011, and the entire loan matures in 2016. In 2014, the instalment paid by Cargo had a positive impact of EUR 20 million. In 2015, Cargo will repay EUR 98 million, which also includes an extraordinary instalment.
9. **Repayment of a loan provided to Vodohospodárska výstavba, š.p.** – in 2014, the balance of the last two instalments of the repayable financial assistance provided to Vodohospodárska výstavba (state corporation) before 2002 was paid, which increased revenues by EUR 48 million. Because, in the past, the loan was treated as a capital transfer with negative effect on the deficit under the ESA95 methodology, the transaction had a positive impact on the general government balance in 2014.
10. **Retroactive disbursement of pensions in the armed forces** – in 2014, based on a court decision the Social Insurance Agency made a retroactive calculation of pension entitlements for certain categories of pensioners. The court ruled on a retroactive disbursement of pensions to those who, for the most part of their carrier, paid contributions to the specific pension fund of the armed forces and police corps, and who, on leaving the armed forces, worked for a short period of time in the civilian sector without becoming entitled to a pension at all, or to a very low pension for that part of their carrier. The one-off retroactive pension disbursement had a negative impact on the budget in the amount of EUR 58.5 million.

⁵⁷ Even through individual instalments do not reach 0.05 % of GDP in each year, the CBR believes that the booking of these transactions should be consistent. The instalments are thus spread over the entire loan term and have a positive impact on the balance.



Annex 4 – General government balance under baseline scenario – CBR estimate

As a part of its [Report on the Long-term Sustainability of Public Finances](#) from April 2015, the CBR prepared a baseline scenario of public finance development. It is a projection of general government revenues and expenditures assuming no change in policies and taking into account the applicable legislation. The medium-part of the scenario, based on the actual figures for 2014, may be viewed (with certain adjustments) as an NPC scenario of public finance development in the years covered by the three-year government budget.

The main difference between these scenarios lies in the legislation they reflect. While the baseline scenario, as an estimate based on the actual figures for 2014, reflects the legislation applicable as of 31 December 2014 (i.e., including the legislative changes approved in the course of 2014 which will take effect during 2015), the NPC scenario needed to estimate medium-term indicators should not reflect such legislation in order to capture the impact of the government in individual years. In other words, the NPC scenario for the calculation of medium-term indicators based on the 2014 figures should reflect only legislation which took effect until the end of 2014. For this reason, the balance in the baseline scenario in individual years has been adjusted for the impact of such legislative changes which, although adopted during 2014, produce effects only in 2015 (Table 12).

Tab 12: Balance adjustment in baseline scenario (ESA2010, % of GDP)

	2015	2016	2017	2018
1. General government balance in baseline scenario	-3.0	-2.7	-3.0	-3.0
2. Effects of changes in tax revenues and SSC (approved in 2014,	0.4	0.4	0.4	0.4
3. Adjusted GG balance in NPC NPC scenario (1-2)	-3.4	-3.1	-3.4	-3.4

Source: CBR

In the next step, the thus adjusted balance in the NPC scenario was cleared of the factors necessary to quantify the change in structural balance. Individual data differ quite considerably from those used for the structural balance estimate based on budgetary targets, mainly in the case of one-off effects. This is because these measures, for the most part, have a short-term impact and they are decided on year by year basis; hence the NPC scenario features them only to a very limited extent.

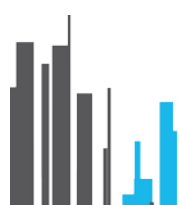
Tab 13: Change in general government structural balance in NPC scenario (ESA2010, % of GDP)

	2014	2015	2016	2017	2018
1. General government balance	-2.9	-3.4	-3.1	-3.4	-3.4
2. Cyclical component	0.0	-0.1	0.0	0.0	-0.2
3. One-offs	0.1	0.1	0.0	0.0	0.0
4. Structural balance (1-2-3)	-3.0	-3.4	-3.1	-3.5	-3.2
5. Change in structural balance (Δ4)	-	-0.4	0.3	-0.3	0.3

Source: CBR

When interpreting the results of medium-term indicators based on such NPC scenario (government's consolidation effort and the size of measures), one should bear in mind that the first year of the scenario captures them most precisely. The subsequent years are rather indicative and depend on the impact of the measures adopted in the previous year⁵⁸.

⁵⁸ For example, when considering a permanent measure with positive impacts in the first year at 0.3 % of GDP and in the second and each subsequent year at 0.5 % of GDP, the additional need to adopt measures in the second year reduces by 0.2 % GDP.

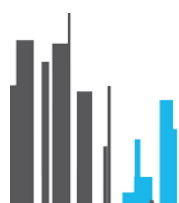


Annex 5 – Balance of general government revenues and expenditures

Tab 14: General government balance (ESA2010, € million)

	2015B	2015E	2016O	2017O	2018O
Total Revenue	28 474.4	28 367.7	29 741.9	31 335.2	32 785.3
Tax revenue	13 554.5	13 340.8	13 818.6	14 259.1	14 967.1
Taxes on Production and Imports	8 227.6	8 091.3	8 309.9	8 545.2	8 885.0
- VAT (excl. VAT directed to the EU)	5 199.1	5 167.0	5 365.1	5 623.2	5 920.4
- Excise taxes	2 092.7	2 029.8	2 046.3	2 059.8	2 075.5
- Import duty	0.0	0.0	0.0	0.0	0.0
- Taxes on Land, Buildings and Other Structures	233.6	234.4	239.3	245.6	245.6
Current Taxes on Income, Wealth etc.	5 326.9	5 249.6	5 508.7	5 713.9	6 082.1
- PIT	2 393.7	2 391.7	2 534.1	2 682.7	2 849.2
- CIT	2 462.4	2 354.2	2 453.3	2 597.3	2 785.8
- Withholding Tax - budgetary classification	145.6	158.9	168.8	177.8	187.3
- Income Tax - emissions	0.0	0.0	0.0	0.0	0.0
- Property Taxes and Others	107.9	108.3	110.5	113.4	113.4
Capital taxes	0.0	0.0	0.0	0.0	0.0
Social Security Contributions (SSC)	10 316.3	10 285.2	10 718.7	11 203.8	11 784.7
Actual Social Security Contributions	10 186.9	10 155.8	10 572.5	11 057.8	11 638.8
Imputed SSC	129.3	129.3	146.2	146.0	145.9
Nontax revenue	2 283.9	2 309.0	3 547.7	3 648.1	3 650.0
Sales	1 702.6	1 748.6	3 013.0	3 106.3	3 093.8
Property Income, of which	581.3	560.4	534.7	541.7	556.1
- Dividends	495.0	474.4	441.2	448.0	446.2
- Interest	39.2	39.0	45.9	46.4	62.6
Grants and transfers	2 319.7	2 432.7	1 656.9	2 224.3	2 383.5
of which: from EU	1 681.7	1 769.7	1 037.6	1 607.5	1 799.7
Total Expenditure	30 414.5	30 336.2	31 310.3	32 516.4	33 701.0
Current expenditure	27 684.7	27 799.3	29 212.9	30	30 903.8
Compensation of employees	5 541.8	5 540.6	6 458.8	6 526.5	6 552.3
Intermediate Consumption	4 073.0	3 889.3	4 489.4	4 789.1	4 859.8
Taxes	34.1	34.1	34.5	34.4	34.4
Subsidies and transfers	598.1	599.4	554.8	573.9	584.1
Property Income	1 327.0	1 310.7	1 269.1	1 253.2	1 329.7
Interest	1 327.0	1 310.7	1 269.1	1 253.2	1 329.7
Total Social Transfers	14 025.6	14 352.6	14 651.7	15 146.9	15 736.4
Social benefits other than in kind	10 293.6	10 573.6	10 735.8	11 048.2	11 373.3
Active Labor Market Measures	62.2	62.2	21.8	28.6	31.2
Sickness benefits	416.5	404.8	415.4	429.5	442.4
Old-age and disability pensions	6 356.0	6 398.6	6 554.3	6 780.8	7 012.6
Unemployment benefits	157.3	150.8	146.7	141.8	134.8
State social allowances	1 376.3	1 376.3	1 416.4	1 437.8	1 459.0
Insurance premiums for spec.groups based on law	1 534.2	1 534.2	1 540.1	1 581.2	1 642.9
Social transfers in kind (healthcare facilities)	3 732.0	3 779.0	3 915.9	4 098.7	4 363.1
Other subsidies and transfers	2 085.1	2 072.6	1 754.7	1 757.0	1 807.0
o/w: Levies to the EU budget (w/o VAT - EU source)	738.0	737.9	753.3	751.3	790.6
Capital Expenditure	2 729.8	2 536.9	2 097.3	2 435.5	2 797.2
Capital Investment	2 181.8	2 181.5	1 960.9	2 238.2	2 559.2
Capital transfers	548.0	355.4	136.5	197.2	238.0
Net lending/borrowing	-1 940.1	-1 968.6	-1 568.4	-1 181.1	-915.8
Measures needed to reach the targeted GG balance			0.0	426.9	435.7
Targeted balance in % GDP			-1 568.4	-754.2	-480.0

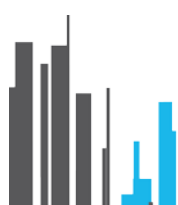
Source: MFSR



Tab 15: General government balance (ESA2010, % GDP)

	2015B	2015E	2016O	2017O	2018O
Total Revenue	36.5	36.7	36.6	36.6	36.2
Tax revenue	17.4	17.3	17.0	16.6	16.5
Taxes on Production and Imports	10.6	10.5	10.2	10.0	9.8
- VAT (excl. VAT directed to the EU)	6.7	6.7	6.6	6.6	6.5
- Excise taxes	2.7	2.6	2.5	2.4	2.3
- Import duty	0.0	0.0	0.0	0.0	0.0
- Taxes on Land, Buildings and Other Structures	0.3	0.3	0.3	0.3	0.3
Current Taxes on Income, Wealth etc.	6.8	6.8	6.8	6.7	6.7
- PIT	3.1	3.1	3.1	3.1	3.1
- CIT	3.2	3.0	3.0	3.0	3.1
- Withholding Tax - budgetary classification	0.2	0.2	0.2	0.2	0.2
- Income Tax - emissions	0.0	0.0	0.0	0.0	0.0
- Property Taxes and Others	0.1	0.1	0.1	0.1	0.1
Capital taxes	0.0	0.0	0.0	0.0	0.0
Social Security Contributions (SSC)	13.2	13.3	13.2	13.1	13.0
Actual Social Security Contributions	13.1	13.1	13.0	12.9	12.8
Imputed SSC	0.2	0.2	0.2	0.2	0.2
Nontax revenue	2.9	3.0	4.4	4.3	4.0
Sales	2.2	2.3	3.7	3.6	3.4
Property Income, of which	0.7	0.7	0.7	0.6	0.6
- Dividends	0.6	0.6	0.5	0.5	0.5
- Interest	0.1	0.1	0.1	0.1	0.1
Grants and transfers	3.0	3.1	2.0	2.6	2.6
of which: from EU	2.2	2.3	1.3	1.9	2.0
Total Expenditure	39.0	39.2	38.5	37.9	37.2
Current expenditure	35.5	36.0	35.9	35.1	34.1
Compensation of employees	7.1	7.2	7.9	7.6	7.2
Intermediate Consumption	5.2	5.0	5.5	5.6	5.4
Taxes	0.0	0.0	0.0	0.0	0.0
Subsidies and transfers	0.8	0.8	0.7	0.7	0.6
Property Income	1.7	1.7	1.6	1.5	1.5
Interest	1.7	1.7	1.6	1.5	1.5
Total Social Transfers	18.0	18.6	18.0	17.7	17.4
Social benefits other than in kind	13.2	13.7	13.2	12.9	12.6
Active Labor Market Measures	0.1	0.1	0.0	0.0	0.0
Sickness benefits	0.5	0.5	0.5	0.5	0.5
Old-age and disability pensions	8.2	8.3	8.1	7.9	7.7
Unemployment benefits	0.2	0.2	0.2	0.2	0.1
State social allowances	1.8	1.8	1.7	1.7	1.6
Insurance premiums for sp.groups based on law	2.0	2.0	1.9	1.8	1.8
Social transfers in kind (healthcare facilities)	4.8	4.9	4.8	4.8	4.8
Other subsidies and transfers	2.7	2.7	2.2	2.1	2.0
o/w: Levies to the EU budget	0.9	1.0	0.9	0.9	0.9
Capital Expenditure	3.5	3.3	2.6	2.8	3.1
Capital Investment	2.8	2.8	2.4	2.6	2.8
Capital transfers	0.7	0.5	0.2	0.2	0.3
Net lending/borrowing	-2.5	-2.5	-1.9	-1.4	-1.0
Measures needed to reach the targeted GG balance			0.0	0.5	0.5
Targeted balance in % GDP			-1.9	-0.9	-0.5

Source: MFSR

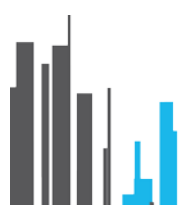


Annex 6 – Structure and development of general government expenditures

Tab 16: Structure of adjusted general government expenditures (ESA2010, € million)

	2015E	2016O	2017O	2018O
Total expenditures	30 336.2	31 310.3	32 516.4	33 701.0
EU related expenditures	1 681.7	1 037.6	1 607.5	1 799.7
Co-financing	657.3	344.1	540.4	622.6
Interest payments	1 310.7	1 269.1	1 253.2	1 329.7
SSC paid by state	1 534.2	1 540.1	1 581.2	1 642.9
Levies to the EU budget	737.9	753.3	751.3	790.6
Adjusted expenditures	24 414.5	26 366.0	26 782.7	27 515.5
Mandatory	10 962.9	12 631.7	12 588.4	12 646.6
y-o-y change (%)		15.2	-0.3	0.5
Compensation of employees	5 492.8	6 426.9	6 484.3	6 510.1
Wages	4 028.3	4 694.0	4 742.2	4 761.2
Employe social security contributions	1 464.6	1 732.8	1 742.1	1 748.9
Intermediate consumption	3 013.8	4 100.1	4 013.3	4 035.9
Taxes	34.1	34.5	34.4	34.4
Subsidies	510.9	484.2	477.6	477.8
Agricultural subsidies	17.9	3.9	4.9	4.9
Transport subsidies	328.0	325.4	320.6	320.8
Rail transport	218.5	218.4	218.4	218.4
Bus transport	108.5	107.0	101.2	101.4
Other	165.0	155.0	152.1	152.1
Social transfers	646.8	641.0	648.4	650.4
Other current transfers	1 264.5	944.9	930.4	937.9
Facultative	12 201.2	12 507.2	12 948.0	13 472.4
y-o-y change (%)		2.5	3.5	4.1
Social benefits	12 144.3	12 454.8	12 892.2	13 412.8
Social benefits other than transfers in kind	8 365.4	8 538.8	8 793.5	9 049.7
Active labour market policy	34.9	6.0	3.6	1.0
Sickness benefits	404.8	415.4	429.5	442.4
Old-age and disability pensions	6 398.6	6 554.3	6 780.8	7 012.6
Unemployment benefits	150.8	146.7	141.8	134.8
State benefits and social assistance	1 376.3	1 416.4	1 437.8	1 459.0
Child allowance	318.7	318.6	322.2	327.6
Allowance for newborns	14.6	42.2	42.6	43.0
Parental allowance	358.4	358.1	363.8	369.8
Material needs benefits	256.1	238.5	243.0	244.8
Cash subsidies on compensation	248.2	253.9	260.2	266.7
Other	180.3	205.1	205.9	207.0
Social transters in kind (Helathcare)	3 779.0	3 915.9	4 098.7	4 363.1
Other current transfers	56.9	52.4	55.8	59.6
of which: 2% of income tax to 3rd sector	56.9	52.4	55.8	59.6
Capital expenditures	1 250.4	1 227.1	1 246.3	1 396.5
y-o-y change (%)		-1.9	1.6	12.1
Capital investment	1 017.1	1 130.1	1 149.1	1 288.7
Capital transfers	233.3	97.0	97.2	107.8

Source: MF SR, CBR



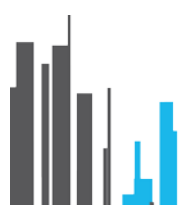
Annex 7 – Fiscal performance of general government entities

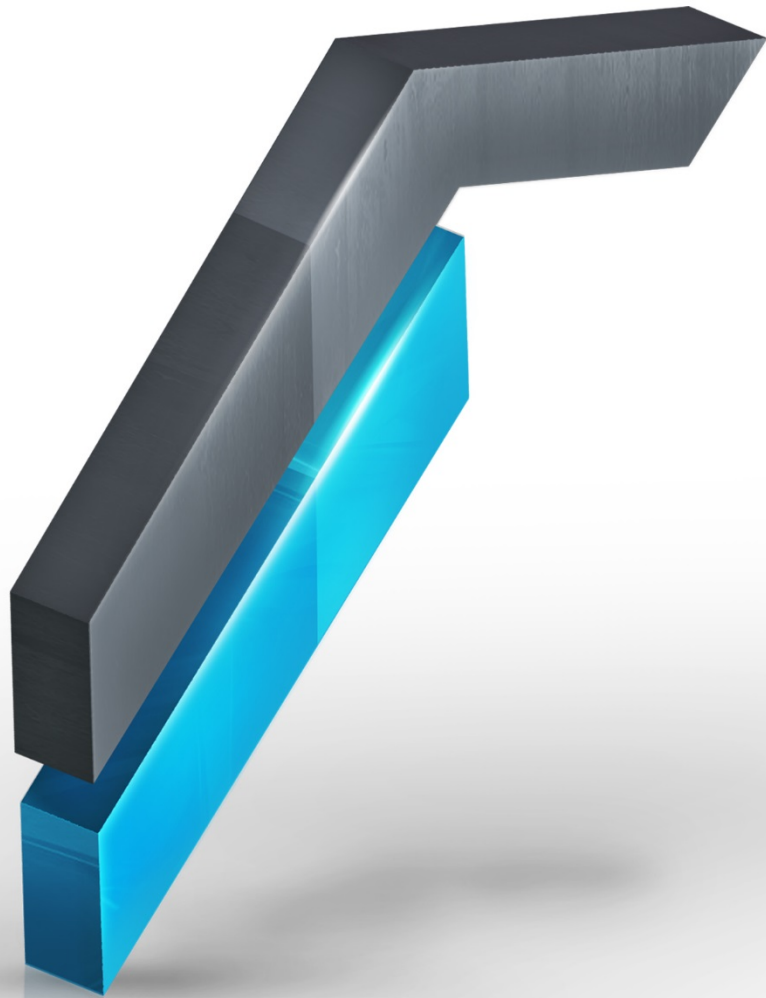
Tab 17: General government performance (ESA2010, € thousands)

	2015B	2015E	2016O*	2017O*	2018O*
A. State Budget	-2 623 829	-2 475 536	-2 137 426	-1 866 089	-1 557 156
B. Other subjects of GG	683 721	506 950	569 071	684 953	641 405
Municipalities	145 037	145 037	80 741	113 050	129 865
Transport companies (BA, BB, KE, ZA)	1 827	1 584	4 901	6 640	7 561
Higher territorial units	123 838	123 838	82 475	112 933	110 390
Social Insurance Agency	33 900	-232 221	32 551	35 816	38 334
Health insurance companies	33 256	26 163	9 788	14 168	-31 491
Nuclear decommissioning fund	101 875	95 951	128 398	147 054	158 987
National Property Fund	-11 417	-11 417	-5 202	-4 450	-4 071
Environmental fund	132 380	132 380	132 266	132 317	132 373
State fund for housing development	80 167	183 172	49 632	49 589	49 552
Healthcare Surveillance Authority	39	39	246	909	909
Slovak Land Fund	6 407	6 407	8 114	7 124	8 574
Slovak consolidation agency	1 837	1 837	4 533	3 228	3 088
Public universities	100	100	101	101	101
Broadcasting and television	1 050	1 050	744	168	168
TASR	175	175	147	141	130
Audit Surveillance Authority	-5	-5	4	4	4
Audiovisual Fund	0	0	0	0	0
Council for Budget Responsibility	59	59	86	116	144
Slovak Railways	0	0	0	0	0
National Highway Company, a. s.	37 177	37 177	35 890	53 009	36 965
EOSA	-3 247	-3 247	10 465	11 750	-2 286
Fund for education support	--	0	195	168	214
Eximbanka	395	0	63	300	543
Recycling Fund	--	0	-7 028	-2 974	-3 754
Healthcare facilities	--	0	2 878	4 325	5 638
Contributory organisations	-1 129	-1 129	-2 917	-533	-533
C. General government balance	-1 940 108	-1 968 586	-1 568 355	-1 181 136	-915 751
(% GDP)	-2.49	-2.55	-1.93	-1.38	-1.01

* without measures

Source: MFSR





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