CBR
COUNCIL FOR BUDGET RESPONSIBILITY

Addendum to the Evaluation of the General Government Budget for 2022-2024

(based on the changes that have occurred since the approval of the General Government Budget Proposal for 2022-2024 by the Government of the Slovak Republic)

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This report presents the official positions of the Council for Budget Responsibility in line with its mandate laid down in Article 55a of the Slovak Constitution and in Act No. 493/2011 Coll. on Fiscal Responsibility.

This publication is available at the CBR's website (https://www.rrz.sk).

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

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Summary

The Council for Budget Responsibility (the Council, CBR) has prepared an update to its evaluation of the general government budget for 2022-2024. The addendum assesses the differences between the government's budget proposal and the version approved by the National Council of the Slovak Republic (the parliament). The evaluation also takes into account additional documents provided by the Ministry of Finance of the Slovak Republic (the Ministry and/or the Ministry of Finance, MF SR).

Compared to the government's proposal, the version approved by the parliament has undergone only minimal changes and the expected budget balance levels in individual years remained intact. The changes were related to the capital expenditure structure of the state budget chapters without any impact on the level of overall general government revenues and expenditures. The approved budget envisages a deficit of 4.9% of GDP in 2022, 3.4% of GDP in 2023 and 3.3% of GDP in 2024.

Taking into account the changes in comparison with the government's proposal, the Council assesses the budget approved by the parliament as realistic in 2022 as well. However, the positive risks for 2022 are absent when taking into account the most recent developments; following the update, the deficit estimate of the Council has practically increased to a level of some 5.0% of GDP[1] that is on par with the Finance Ministry's target, in particular due to a worse development of the pandemic. The fact remains that, in **2023 and 2024, there are no specific and credible measures facilitating the fulfilment of targets set by the government**. According to the Council’s estimate, the specified measures would help reduce the deficit only to 3.9% of GDP in 2023 and 3.7% of GDP in 2024, instead of 3.4% and, respectively, 3.3% of GDP.

The CBR increased the deficit estimate in 2021 to 7.0% of GDP based on updated assumptions regarding the development of public finances and additionally adopted measures (such as signature of collective agreements increasing the wages in the public sector in 2021 and 2022, introduction of the vaccination bonus for senior citizens) which have partly been **reflected in the subsequent years as well.** The higher deficits assumed at the beginning of the horizon in comparison with the forecast presented in the evaluation of the budget proposal[2] are also due to the higher expenditure on addressing the pandemic because of the negative developments of the epidemiological situation.

[1] The CBR’s estimate amounts to 4.95% of GDP vs. Finance Ministry’s target at 4.94% of GDP:

[2] In the evaluation of the budget proposal, the CBR estimated the general government deficit at 6.7% of GDP in 2021, 4.5% of GDP in 2022 and 3.9% of GDP both in 2023 and 2024.

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

		Addendum to the Evaluation of GG Budget 2022-2024				Evaluation of GG Budget Proposal 2022-2024 (November 2021)			
	2020	2021	2022	2023	2024	2021	2022	2023	2024
General government balance	-5.5	-7.0	-5.0	-3.9	-3.7	-6.7	-4.5	-3.9	-3.9
Structural balance	-3.2	-3.2	-3.2	-3.2	-3.1	-3.3	-3.3	-3.1	-3.1
Government consolidation effort*	-	-	-0.5	-0.1	-0.1	-	-0.6	0.0	-0.1
General government gross debt	59.7	62.1	61.6	59.6	60.7	61.6	60.7	58.9	60.4
General government net debt	49.6	54.4	55.3	55.3	57.6	54.7	55.1	55.1	57.5
Fiscal impulse (+ indicates restriction, - expansion)	-2.7	-1.2	0.9	-1.3	3.0	-1.5	1.3	-1.0	2.6
p.m. output gap	-2.9	-2.1	-0.1	1.0	-0.3	-2.2	0.0	0.8	-1.0

Note.: Columns highlighted in grey represent the crisis years. *Source: CBR*

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

The worsened deficit estimate has also been reflected in a slight rise in the estimated debt increase when the gross debt is expected to reach 60.7% of GDP at the end of 2024[3]. The adjusted estimate of fiscal performance has not resulted in changes in the long-term sustainability risk**. According to the CBR's forecast, the budget in combination with the approval of the pension reform based on the requirements under the Recovery and Resilience Plan could reduce the currently high sustainability risk, but only down to the threshold between the medium and high-risk zone,** while the long-term sustainability indicator itself would reach 4,9% of GDP. The Council points to the fact that the general government budget itself is deteriorating the long-term sustainability by 0.5% of GDP.

No significant changes in the assumed consolidation effort have been made in the approved budget; according to the CBR's estimate, the **2022 budget itself** (not taking into account fiscal reforms) **means slackening the consolidation effort by 0.5% of GDP[4].** This naturally complicates the fulfilment of objectives for the following years 2023 and 2024 and defers the stabilisation of the debt. Without adopting additional consolidation measures, the year 2023 would see a procyclical expansion because the significant inflow of European funds would increase the availability of public funding at a time when overheating of the economy is foreseen. **If the improved development of the budget in 2021 is confirmed, the government should consider an adequate reduction in such slackening despite the attenuating effect on the economy. In order to reduce the deficit below 3% of GDP and**

3 In the CBR's evaluation of the budget proposal in November 2020, the gross debt was estimated at 60.4% of GDP at the end of 2024.

4 The CBR quantifies the "consolidation effort" by comparing the structural balance development against the NPC scenario. This gives a more accurate picture of the "size of measures" de facto adopted by the government through the budget. The Ministry of Finance, as well as the EC, calculate "consolidation" as a year-on-year change in the structural balance. Even though this approach is an internationally accepted standard, it is simplified in that it assumes no year-on-year changes in the structural balance, as long as the government adopts no additional measures. According to the Ministry of Finance, the structural balance will improve by 0.2% of GDP in 2022 (unchanged under the CBR's scenario). Historically, during regular economic times in Slovakia, the structural balance has been improving by some 0.2 p. p. of GDP year-on-year, provided that the government is not taking any active measures except on the basis of how the existing applicable legislation is set (such as indexation of certain expenditure). The macroeconomic parameters expected for 2022 imply that the structural balance would improve by as much as 0.4% of GDP under the NPC scenario.

bring the long-term sustainability risks safely to the medium-risk zone by the end of the parliamentary term, the government should undertake the necessary additional consolidation of 1% to 1.5% of GDP. If the reforms attached to easing the deficit to 4.9% in 2022 are not approved, the government should reduce the deficit to 4% of GDP in order to compensate for unapproved reforms.

If a more negative macroeconomic development persists as a result of the pandemic, the government should continue to support the economy through effective and targeted one-off incentives and by increasing the current investments that will not pose a burden on the long-term sustainability (e.g. by accelerating the drawdown of European funds or by transferring future public investments into the present).

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

The legislative change approved by the parliament with regard to the financing of church and private school facilities has not been incorporated in the budget. It involves an increase in transfers for these entities, while the additional funds will have to be provided by municipalities and self-governing regions from their own budgets. However, the expected increase in expenditure was not reflected in the budget through an increase in budgeted expenditures of local governments. At the same time, this change was not accompanied by any quantification of impacts on public finances or by a specific proposal for covering the increased expenditure.

The manner in which the wage rise is implemented for a large group of public sector employees poses a risk for the future. For 2022, the deadline for the indexation of salaries has been extended from 1 January to 1 July; at the same time, the payment of a special bonus was agreed in 2021. Both these steps will unburden public finances in 2022 (in comparison with standard indexation as from 1 January), however, according to the Council, they may (if the wage process returns to the original setup) increase the baseline level of wage expenditure for collective bargaining in the public sector in the upcoming years. Repeating this approach could also make the evaluation of the budget less transparent in terms of development in the structural balance and adjusted expenditure.

1. Changes in the general government budget

On 14 October 2021, the Slovak government approved the General Government Budget Proposal for 2022-2024 to which the CBR published its detailed evaluation[5] on 16 November 2021. There were some changes since the government approved the budget proposal and, therefore, the CBR prepared an update to its evaluation.

The changes regarding the General Government Budget for 2022-2024 have arisen from the approval of an amending proposal to the 2022 State Budget Act as adopted by the parliament on 14 December 2021.

In comparison with the government's budget proposal, the budgeted general government deficit for 2022 has not changed and represents 4.94% of GDP. For 2023, the general government deficit is budgeted at 3.39% of GDP and, for 2024, at 3.26% of GDP. The approved general government budget for 2022-2024 has not been published yet[6]; the information about keeping the revenue and expenditure in the general government budget at the same levels was provided by the Ministry of Finance[7].

During a parliamentary debate on the 2022 State Budget Act and the general government budget for 2022-2024, the **parliament approved an amending proposal**, which resulted in the following changes in the budgeted structure of state budget expenditures:

- The funds totalling EUR 2.69 million earmarked for the renewal of cultural heritage in 2022 have been moved from the General Treasury Administration chapter to the chapter of the Ministry of Culture of the Slovak Republic and included in the sub-programme “Culture Ministry's Subsidy System".

The change compared with the budget proposal had no impact on the overall level of general government revenues and expenditures or their structure in terms of economic classification between 2022 and 2024.

In addition to the above changes, an amendment to the Act on state administration in education and self-government has been approved, **introducing an obligation for local governments to finance church and private schools at a level equal to that of schools established by local governments**[8]. This change, which is to become effective on 1 January 2022, will increase the deficit by EUR 13 million in 2022, EUR 14 million in 2023 and EUR 15 million in 2024, according to the CBR.

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5 CBR, Evaluation of the General Government Budget Proposal for 2022-2024.

6 Pursuant to Act No. 532/2004 on general government budgetary rules and on amendments to certain acts, the Ministry of Finance of the Slovak Republic shall publish the state budget and general government budget data not later than 30 days after the state budget act for a relevant calendar year enters into force and effect.

7 The Ministry of Finance’s answers to the CBR’s questions regarding the approved General Government Budget for 2022-2024 are published along with this document.

8 An amendment to Act No. 596/2003 Coll. approved by the National Council of the Slovak Republic on 25 November 2021.

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

In its evaluation of the approved budget, the CBR estimates that the general government deficit could reach 7.0% of GDP in 2021, followed in the subsequent years by a decline to 5.0% of GDP in 2022, 3.9% of GDP in 2023 and 3.8% of GDP in 2024. With this development of the deficit, the gross debt would remain above the upper limit of the debt brake during the entire budgetary horizon and, at the end of 2024, could reach 60.7% of GDP. The changes made since the approval of the budget proposal by the government have also been reflected in the CBR's updated estimates for the general government balance and debt.

Impacts on general government balance

The estimate of the general government deficit in 2021 has increased in comparison with the evaluation of the budget proposal; however, the fiscal performance has worsened in particular due to temporary effects, some of which will also have an impact on the year 2022 (measures for addressing the pandemic). Other areas saw a reduction of the overall negative fiscal impact, **which has also reflected in a decrease in deficit forecasts for 2023 and 2024.** Assuming that no additional measures are undertaken, this means that the deficit, according to the CBR's estimate, will be higher in 2022 and 2023 and lower in 2024 in comparison with the levels expected in the evaluation of the budget proposal. However, the levels are still high and in 2024 the deficit could reach 3.7% of GDP (Table 2, a comparison with the budget values is presented in Figure 1).

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

	2021	2022	2023	2024
A. CBR's GG balance forecast – budget proposal evaluation	-6 570	-4 731	-4 441	-4 556
- in % of GDP	-6.74	-4.48	-3.90	-3.89
B. Total impact of changes on GG balance (1+2)	**-205**	**-496**	**-13**	**163**
1. Impact of changes in the estimate for 2021	138	-64	219	395
a. Measures for addressing the pandemic	-106	-275	0	0
b. Tax revenues (excl. measures)	215	80	90	108
c. Non-tax revenues	46	20	27	-13
d. Social transfers and benefits	14	21	46	49
e. Transactions with the EU budget	91	-46	-154	-50
f. State budget expenditures	-45	-18	47	89
g. Budgets of local governments	19	110	111	156
h. Health care expenditures	15	14	14	13
i. Financial performance of other general government entities	-119	28	35	41
j. Other changes	8	2	2	2
2. Impact of measures*	-343	-432	-231	-232
a. Payment of the transfer to the EU budget (customs duty)	0	-200	0	0
b. Change in the financing of church and private schools	0	-13	-14	-15
c. Expenditures on vaccination bonus for senior citizens	-143	-133	0	0
d. Amendment to the Social Insurance Act	0	-13	-63	-54
d1. Tax revenues	0	0	-70	-62
d2. Expenditures of the Social Insurance Agency	0	-13	7	9
e. Collective bargaining agreement	-200	-73	-154	-163
e1. Personnel expenditures of the state budget	-60	-44	-93	-99
e2. Budgets of local governments	-60	-29	-61	-64
e3. Health care expenditures	-30	0	0	0
e4. Financial performance of other entities	-50	0	0	0
C. The current CBR's forecast of GG balance	-6 775	-5 227	-4 453	-4 393
- in % of GDP	-6.95	-4.95	-3.91	-3.75

** The total impact on the balance is provided, i.e. including the change in expenditures through an adjustment of the tax credits.*

Source: CBR

In comparison with the CBR's forecast in the evaluation of the budget proposal, the **2021 balance estimate decreased by EUR 205 million (0.21% of GDP)**, with the following changes[9]:

- The negative impact of **measures for addressing the pandemic** has increased in 2021 by EUR 106 million in particular due to higher drawdown under measures aimed at boosting the economy affected by the worsened epidemiological situation.

- The estimated **amount of revenues from taxes and social security contributions** in 2021 increased by EUR 215 million. This increase can be primarily attributed to an increase in estimated VAT revenue.

- In **non-tax revenue**, the estimates rose by EUR 46 million, in particular as a result of higher receipts from the levy on gambling.

- The estimated amount of **social transfers and benefits** dropped by EUR 14 million, mostly due to lower expenditure on old-age and disability pensions.

- In terms of **transactions with the EU budget**, the positive impact on the general government deficit has increased by EUR 91 million due to slower spending in co-financing expenditure in comparison with the assumptions under the previous estimate.

- The updated estimate of the **state budget expenditure** contributed negatively to the change in the balance, by EUR 45 million, in particular due to the faster spending in capital expenditures. In terms of capital expenditures, the risk for the balance increased by EUR 101 million which is primarily attributable to higher spending in investments within the defence and transport sectors. On the other hand, the current expenditure made a positive contribution to the estimate of the balance. Due to a slowdown in the pace of growth in expenditure on goods and services, the estimated amount of spending was reduced by EUR 57 million. A positive effect has also been identified in other current expenditures of the state budget where the reduction of the estimated level represents some EUR 28 million.

- In the third quarter of 2021, the preliminary data showed a slight slowdown in spending as regards the current and capital expenditures of self-governing regions in comparison with the previous period, as well as a slight slowdown in the growth of income from non-tax revenues. The estimated impact of the **fiscal performance of local governments** on the general government balance has thus improved by EUR 19 million in total.

- Slower spending in health-care expenditures implies a reduction of the negative impact of the **health care sector** on the general government balance, quantified at EUR 15 million.

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9 The updated estimate for 2021 reflects more recent data. While at the time of preparation of the forecast for the evaluation of the budget proposal the only available data were those recorded for the first eight months of 2021 (nine months for the state budget), the current estimate is based on information for ten months of the current year, whereas the budget reflects the preliminary data for 11 months. More detailed information is published within the so-called budgetary traffic lights ("Rozpočtový semafor") available on the CBR's website.

- The impact of the **fiscal performance of other entities** on the general government balance has worsened by EUR 119 million. The negative contributors primarily included an increase in current expenditures of organisations partly funded from the state budget, as well as higher expenditures of the National Motorway Company (NDS) on goods and services (mostly as a result of the payment of corrections in relation to the drawdown of EU funds) and a capital transfer from the state financial assets due to irrecoverability of some of the state's receivables from abroad. On the other hand, the estimated impact on the general government balance improved due to the fiscal performance of the ZSSK railway company, in particular as a result of lower investment.

The estimated deterioration of the general government balance in 2021 will only have a significant impact on 2022, because it is mostly attributable to one-off effects (in particular, measures for addressing the pandemic). In 2023, the deficit will increase only to a minimum extent from the previous forecast, whereas in 2024, the fiscal performance is expected to improve.

Beyond the effects arising from the fiscal performance in 2021, there are also other factors having an impact on the development of the balance between 2022 and 2024:

- In the tax revenues of the state budget as well as in the expenditures of the Social Insurance Agency, the CBR took into account the **government-approved amendment to the Social Insurance Act**, the impacts of which have not been incorporated in the budget approved in the parliament. This involves, in particular, the abolishment of the planned introduction of annual settlement of social contributions, changes in the assessment of entitlement to certain benefits, and changes in the health insurance allowance. These measures will reduce **revenues by EUR 70 million in 2023 and by EUR 62 million in 2024;** as regards expenditures of the Social Insurance Agency, an increase by EUR 13 million is expected in 2022, followed by a reduction amounting to EUR 7 million in 2023 and 9 million in 2024.

- Within the framework of collective bargaining, the **higher-level collective agreements for the public and civil service sectors** have been agreed for **2022**. Under these agreements, in addition to other social benefits, a 3% indexation of wages for public and civil servants from July 2022 has been agreed. As part of the agreement, amendments to the relevant collective agreements have been approved so as to incorporate an entitlement to a one-off bonus of EUR 350 paid for December 2021 in January 2022 (civil service) or in the first half of 2022 (work in public interest).

- **As regards the transfer to the EU budget, the CBR increased its estimate for the amount related to the non-payment of customs duty to the EU budget**[10] **based on information from a document approved by the government.** The transfer, including the late payment interest, is expected to exceed EUR 526 million, which

[10] The Slovak Republic incurred this liability in connection with the investigation of the European Anti-Fraud Office (OLAF). The European Commission is of the view that, during the period from 2012 to 2019, underpriced clothes and shoes from China were imported to the Slovak Republic.

represents an increase in expenditure by EUR 200 million in 2022[11] in comparison with the CBR's previous forecast as well as the budgeted reserve.

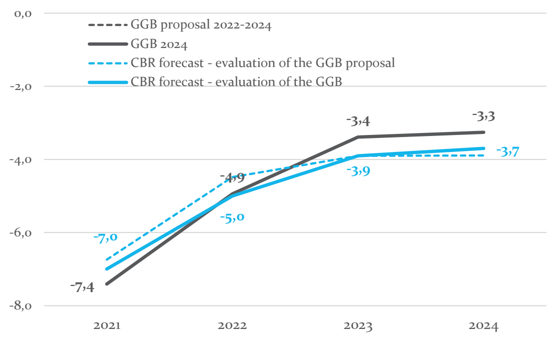
- **Changes in the financing of church and private schools will increase the expenditures of local governments**[12]. Estimated expenditures have increased by EUR 13 million for 2022, EUR 14 million for 2023 and nearly EUR 15 million for 2024.

- **Expenditure on the vaccination bonus for senior citizens** (aged 60 years or more) is estimated by the CBR at more than EUR 276 million, while the impacts on the general government balance will be split between 2021 and 2022[13]. In 2021, the deficit should increase by EUR 141 million and, in 2022, by EUR 135 million.

- On top of the factors stated above, **several measures with an expected negative impact on the budget balance have been approved** (such as higher financial support for the co-financing of crisis intervention social services, an amendment to the Environmental Fund Act, as well as the approval of the Higher Education Internationalisation Strategy). Considering the low level of additional expenditures arising from these measures (up to EUR 5 million per individual measure), the CBR assumes that they will be financed from non-allocated funds of the reserve for addressing the impacts of legislative changes.

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

Figure 1: Development of the general government balance (ESA2010, % of GDP)



Source: MF SR, CBR

[11] According to the impact clause concerning the document approved by the government, the cash payment of EUR 277 million should be made already in 2021, while EUR 249 million is expected to be paid in 2022. However, in line with the budgeting of the applicable reserve, the CBR assumes that the overall impact will be included in the general government balance in 2022. The final recording of this impact remains the subject of discussion between the Statistical Office of the Slovak Republic and Eurostat. At the same time, the final amount of payment is still being negotiated with the European Commission.

[12] Based on the existing legislation, local governments were able to apply a different coefficient (0.88) for the financing of church and private schools in comparison with the schools falling within their remit as founders.

[13] The vaccination bonus amounting to EUR 300 can be claimed by those who received their booster shot; otherwise, EUR 200 is available for those who received the first or the second dose in accordance with the conditions prescribed by law.

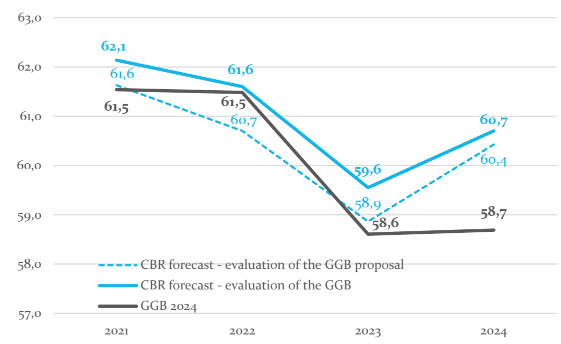
Impacts on the gross and net debt of the general government

The CBR has updated the gross and net debt estimate in connection with the changes in the deficit estimate for 2021 to 2024. At the same time, the estimate reflects the actual development of the government debt as at the end of November 2021. In the previous months, the liabilities for deposits in the State Treasury belonging to entities classified outside the general government have increased significantly (a higher gross debt with no change in net debt), as did balances of other general government entities which may be used for active debt and liquidity management (a net debt reduction).

In comparison with the evaluation of the budget proposal, the gross debt estimate has increased over the entire forecast period and is expected to reach 60.7% of GDP (Figure 2) at the end of 2024. **Nonetheless, without adopting additional measures, the gross debt will remain above the upper limit of the debt rule under the constitutional Fiscal Responsibility Act throughout the entire period.**

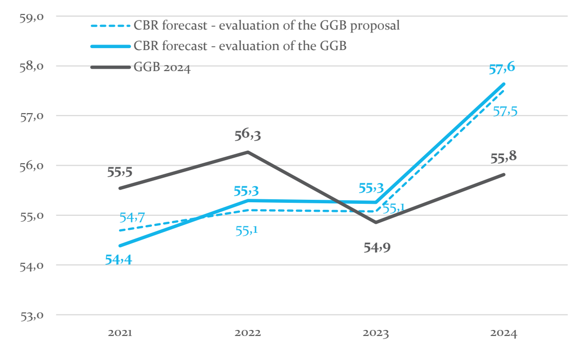
The estimate of the net debt following the initial reduction in 2021 (in comparison with the budget proposal) has been slightly increased in the subsequent years in particular due to a higher estimate of the deficit in 2022. At the end of 2024, the net debt should reach 57.6% of GDP.

Figure 2: GG gross debt development (in % of GDP)



Source: CBR, MF SR

Figure 3: GG net debt development (in % of GDP)



Source: CBR, MF SR

Impacts on the structural balance of general government

In comparison with the evaluation of the budget proposal, there were only minor changes in the estimate of the structural balance which is adjusted for economic fluctuations and other one-off and temporary measures (Table 3)[14]. Taking into account the above changes, the CBR estimates the structural deficit of the general government at 3.2% of GDP in 2021. In the following three years, the CBR expects the **structural deficit to improve cumulatively by a total of 0.1% of GDP**.

[14] In addition to a change in the risks affecting the general government balance, the cyclical component has also been updated (more details in Annex 2). At the same time, several one-off effects have been presented with more accuracy as well (more details in Annex 2).

Table 3: Change in the GG structural balance between 2020 and 2024, according to CBR (ESA2010, in % of GDP)

	2020	2021	2022	2023	2024
1. General government balance	**-5.5**	**-7.0**	**-5.0**	**-3.9**	**-3.7**
2. Cyclical component	-0.6	-0.6	-0.4	-0.1	0.0
3. One-off effects	-1.8	-3.1	-1.4	-0.7	-0.7
- of which: extraordinary investments in the defence sector				-0.7	-0.6
4. Structural balance (1-2-3)*	**-3.2**	**-3.2**	**-3.2**	**-3.2**	**-3.1**
5. Change in the structural balance (Δ4)/ Fiscal compact*	**-0.7**	**0.0**	**0.0**	**0.1**	**0.1**
6. General government balance under NPC scenario		**-7.0**	**-4.5**	**-3.4**	**-3.1**
7. Structural balance under NPC scenario		-3.2	-2.8	-2.6	-2.5
8. Change in structural balance under NPC scenario			**0.4**	**0.2**	**0.2**
9. Other factors (p.m.2)**			-0.1	0.1	-0.1
10. Government measures having an impact on other factors***			0.1	0.0	0.0
11. Size of measures (1-6)			**-0.4**	**-0.5**	**-0.6**
12. Change in the structural balance after taking into account other factors (5-9)			0.0	0.0	0.2
13. Government consolidation effort (5-8-10)			**-0.5**	**-0.1**	**-0.1**
p.m.1 structural balance (incl. defence sector investments)			-3.2	-3.8	-3.7
p.m.2 other factors (year-on-year effects):			-0.1	0.1	-0.1
- Measure with no impact on long-term sustainability			0.0	0.0	-0.1
- PPP projects			-0.1	0.0	0.0
- Interest payments			0.1	0.1	-0.1

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

Source: CBR's methodology

*** Other factors represent those impacts which are not, by default (internationally), taken into account in the calculation of the structural balance, in particular due to being specific for individual countries. However, the CBR took them into account in order to provide the most accurate quantification of the government's actual effort.*

**** Includes the impact of introducing support for short-time work (kurzarbeit) as from 2022.*

Note.: Columns highlighted in grey represent the crisis years.

In order to assess the extent to which the estimated change in the structural balance can be attributed to government measures or other external factors, it is necessary to compare its development with the no-policy-change scenario. **Without government's interventions, the structural deficit would improve by a total of 0.8% of GDP in comparison with 2021, reaching** 2.5% of GDP in 2024.

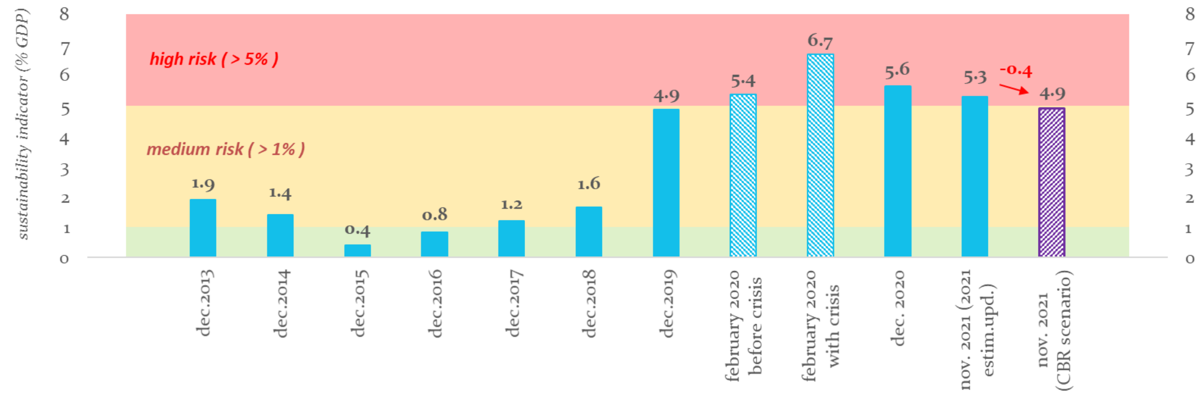
The government's measures, according to the CBR's estimate, contribute to the deepening of the deficit, as the net contribution of measures to the permanent change in the general government balance will be negative in 2022, **amounting to 0.5% of GDP. In the following two years, the measures will continue contributing to an increase in deficit, by 0.1% of GDP annually.**

Impacts on the sustainability of public finances

In comparison with the evaluation of the budget proposal, the updated development of the primary structural balance of the general government as envisaged by the CBR does not have an essential impact on the long-term development of public finances. **Therefore, the fact**

remains that – in case the CBR's scenario assuming only sufficiently specified measures and the adoption of two out of three reforms[15] will have materialised – the government's fiscal policy would cause the long-term sustainability to improve by 0.4% of GDP, i.e., from 5.3% of GDP to 4.9% of GDP. This could reduce the long-term sustainability only slightly below the upper threshold of the medium-risk zone.

Figure 4: Long-term sustainability development (% of GDP)



Source: CBR

In terms of individual factors, **the long-term sustainability improvement by 0.4% of GDP** would be a result of two effects in opposite directions:

- **According to the CBR's estimate, the budget is causing the long-term sustainability of public finances to worsen by 0.5% of GDP**.
- **On the contrary, the adoption of the pension reform** in line with the Recovery and Resilience Plan **should improve sustainability by 0.9% of GDP (1.8% for the S2 indicator).** This roughly amounts to half the improvement of sustainability in comparison with the pension reform scenario recommended by the CBR, i.e., returning the long-term financial stability of the pension system back to the situation seen in 2018.

[15] As with the evaluation of the budget proposal, the CBR applied a technical assumption that two out of three reforms will be endorsed by the parliament (pension reform and expenditure ceilings, with no changes in the debt brake).

3. Budget transparency

In evaluating the budget proposal, the CBR noted that the process of compiling the budget had somewhat improved in comparison with the previous year. In addition to more transparent budgeting of the tax and non-tax revenues, the continued effort to streamline public investments through zero-based budgeting has also been regarded positively by the CBR. In this document, the CBR focused on how transparency had been influenced by changes made during the approval procedure in the parliament.

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

The legislative change approved by the parliament with regard to the financing of church and private school facilities has not been incorporated in the budget. This amendment will lead to an increase in transfers for these entities, but the additional funds will have to be provided by municipalities and self-governing regions from their own budgets. However, the expected increase in expenditure was not reflected in the budget through an increase in budgeted expenditures of local governments. At the same time, this change was not accompanied by any quantification of impacts on public finances or by any specific proposal for covering the increased expenditure. Less transparent decision-making as regards the inclusion of measures in the general government budget makes it difficult to evaluate the budget in terms of compliance with the declared objectives for the budget balance, development in structural balance and adjusted expenditure.

The manner in which the wage rise is implemented for a large group of public sector employees poses a risk for the future. For 2022, the deadline for the indexation of salaries has been extended from 1 January to 1 July[16]; at the same time, the payment of a special bonus was agreed in 2021. Both these steps will unburden public finances in 2022, but they may establish higher expectations for the level of wage expenditure in the subsequent years. Repeating this approach could also make the evaluation of the budget less transparent in terms of development in the structural balance and adjusted expenditure.

The total amount of tax revenues in the budget was approved by the Tax Revenue Forecasting Committee (TRFC). The budgeted revenues are based on the TRFC's session held in September. Since then, the proposed amendment to the Social Insurance Act has been approved by the government and, in the first reading, by the parliament. It contains the abolishment of the annual settlement of social insurance payments, thus causing a shortfall in

[16] Every time the wage scales of civil servants have been increased during the past ten years, the changes have always been applied as from 1 January. The year 2015 was the only exception when the wages were increased both as from 1 January and 1 July.

revenues in 2023 and 2024. To date, the legislative amendment has not been assessed by the TRFC [17] and is not reflected in the approved budget for 2022-2024.

As from 2021, selected non-tax revenues are also falling within the TRFC's remit. The approved budget contains revenues from dividends in an amount that is not in line[18] with the TRFC's forecast.

[17] According to the Ministry of Finance, considering the current phase of the legislative process, the amendment will be the subject of quantification at the upcoming session of the TRFC slated for February 2022.

[18] The change in revenues in the approved budget was communicated by the chair of TRFC in a letter dated 17 December 2021.

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

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

	2021	2022	2023	2024
CBR's general government balance, 2022-2024, EUR million	**-7 718**	**-5 213**	**-3 864**	**-3 815**
CBR's general government balance, 2022-2024, in % of GDP	**-7.92**	**-4.94**	**-3.39**	**-3.26**
Impacts on general government balance – total:	**943**	**-14**	**-589**	**-578**
- in % of GDP	**0.97**	**-0.01**	**-0.52**	**-0.49**
1. Measures adopted to address the pandemic:	**-54**	**-84**	**0**	**0**
2. Expenditure on economic measures:	**0**	**168**	**333**	**168**
3. Revenues from taxes and social security contributions	**308**	**249**	**171**	**248**
4. Non-tax revenues	**-66**	**107**	**57**	**92**
- dividends – state budget and MH Manažment	8	87	16	12
- receipts from gambling	-3	2	-13	-21
- emission allowances	-2	-15	-11	29
- other non-tax revenues (other non-tax revenues of the state budget, EOSA fee)	-70	32	65	71
5. Social benefits and transfers:	**-67**	**7**	**97**	**181**
- expenditures of the Social Insurance Agency	-70	-38	14	39
- social benefits, Ministry of Labour, Social Affairs and Family	3	45	83	143
6. Transactions with the EU budget	**147**	**-127**	**-17**	**279**
- transfer to the EU budget	53	-167	6	-10
- co-financing expenditure	170	24	-28	288
- reserve for contributions to the EU budget and EU funding	1	156	155	155
- financial corrections from EU funds drawdown	-77	-140	-151	-155
7. State budget expenditures:	**593**	**40**	**-466**	**-541**
- current reserves (excl. wages)	14	102	151	199
- wage costs of the state budget (incl. reserves)	-66	-55	-310	-486
- other current expenditures	240	140	69	84
- capital expenditures	406	-146	-376	-337
8. Financial performance of local governments (excl. tax revenues):	**329**	**-1**	**-77**	**-116**
- municipalities	218	-19	-113	-143
- self-governing regions	111	19	36	27
9. Expenditures in the healthcare sector:	**-262**	**-129**	**-238**	**-247**
- health care expenditures	-38	4	-55	-11
- repayment of liabilities to shareholders of private health insurers	-20	-50	-50	-50
- financial performance of hospitals	-163	-51	-98	-150
- operating costs of health insurance companies	-40	-32	-35	-36
10. Financial performance of other GG entities:	**9**	**-224**	**-414**	**-603**
- ŽSR railway company	89	-77	-126	-178
- public universities	40	-99	-164	-199
- organisations partly funded from the state budget	-122	-157	-178	-215
- ZSSK railway company	-28	-73	-124	-150
- JAVYS (nuclear decommissioning company)	39	41	47	28
- Other entities	-10	141	131	111
11. Other effects	**5**	**-22**	**-37**	**-39**
Budget balance reflecting the CBR risks (EUR million)	**-6 775**	**-5 227**	**-4 453**	**-4 393**
Budget balance reflecting the CBR risks (% of GDP)	**-6,95**	**-4,95**	**-3,91**	**-3,75**

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

Annex 2 – Updated structural balance

In comparison with the evaluation of the budget proposal (November 2021), several changes have been made in the estimate of the general government structural balance between 2021 and 2024 (Table 5). The CBR updated its estimate of risks and sources for their coverage in the budget based on available information, which affected the size of the general government balance between 2021 and 2024. The changes in the cyclical component were primarily due to an updated CBR's output gap estimate reflecting the most recent output gap estimate by the National Bank of Slovakia (medium-term P4Q forecast)[19] (Table 6). As regards one-off effects, several items have been presented with more accuracy, as shown in Table 7.

Table 5: Change in GG structural balance (2021-2024) – difference in comparison with the Evaluation of the Budget Proposal (ESA2010, % of GDP)

	2021	2022	2023	2024
1. General government balance	**-0.21**	**-0.47**	**-0.01**	**0.14**
2. Cyclical component	0.00	-0.02	0.04	0.13
3. One-off effects	-0.29	-0.56	0.00	0.00
4. Structural balance (1-2-3)	**0.09**	**0.11**	**-0.05**	**0.01**
5. Change in the structural balance (Δ4)/ Fiscal compact	**0.08**	**0.02**	**-0.16**	**0.06**

Source: CBR's methodology

Table 6: Output gap estimate (% of pot. GDP).

	2021	2022	2023	2024
Output gap (December 2021)	**-2.13**	**-0.09**	**1.00**	**-0.32**
Change from the Evaluation of the Budget Proposal (November 2021)	0.06	-0.05	0.22	0.67

Source: CBR

Table 7: One-off effects (2021-2024) – difference in comparison with the Evaluation of the Budget Proposal (ESA2010, EUR million)

	2021	2022	2023	2024
Costs related to the COVID-19 pandemic	-261	-390	-	-
Extraordinary transfer to the EU budget (customs duty)	-	-200	-	-
Remission of receivables from the successor states of Yugoslavia	-24	-	-	-
Total	**-285**	**-591**	**0**	**0**
- in % of GDP	-0.29	-0.56	0.00	0.00

Source: CBR

Table 8: Fiscal impulse between 2020-2024 (% of GDP)

	2020	2021	2022	2023	2024
1. Change in structural balance	-0.7	0.0	0.0	0.1	0.1
a. One-off effects (COVID-19)	-1.9	-3.2	-0.8	-	-
b. Change in other factors*	0.0	-0.1	-0.1	0.1	-0.1
2. Change in structural balance in terms of additional factors (1+Δa-b)	**-2.6**	**-1.3**	**2.4**	**0.8**	**0.2**
3. Year-on-year change in transactions with the EU budget	0.1	-0.1	1.5	2.1	-2.8
Fiscal impulse (2-3)	**-2.7**	**-1.2**	**0.9**	**-1.3**	**3.0**

** reflecting the contributions to the fully-funded pillar of pension system, extended bank levy until 2020, PPP projects for the construction of motorways and express ways, and interest payments*

Source: CBR

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

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