# General Government Budget Results in 2021

(based on data published by the Statistical Office of the Slovak Republic on 21 April 2022 – the spring notification of deficit and debt)

# Summary

April 2022

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

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



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

**In 2021, the general government (GG)[1] deficit reached 6.2% of GDP, a significant improvement in comparison with the target set in the approved budget at 7.4% of GDP[2].** A positive deviation from the budgetary objective, by 1.2% of GDP, means the most remarkable improvement since 2005. **Gross debt reached 63.1% of GDP**, which is 1.9% of GDP below the budgeted forecast. [3]

**Table 1: Development in basic public finance performance indicators (in % of GDP)**

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| General government balance | -2.6 | -1.0 | -1.0 | -1.3 | -5.5 | -6.2 |
| **Structural balance** | **-2.3** | **-1.4** | **-1.9** | **-2.1** | **-3.0** | **-1.9** |
| General government gross debt | 52.4 | 51.6 | 49.6 | 48.1 | 59.7 | 63.1 |
| **General government net debt** | **47.1** | **45.9** | **43.6** | **43.2** | **49.6** | **51.3** |
| *p.m. Cyclical component* | *-0.1* | *0.4* | *0.9* | *0.8* | *-0.7* | *-0.5* |
| *p.m. One-off effects* | *-0.1* | *0.0* | *0.0* | *0.0* | *-1.8* | *-3.7* |
| *p.m. Change in structural balance* | - | *0.9* | *-0.5* | *-0.2* | *-0.8* | *1.1* |
| *p.m. Fiscal impulse* | | *1.0* | *-1.0* | *-0.3* | *-2.8* | *0.0* |

*Source: SO SR, CBR*

**The preparation of the budget for 2021, as well as subsequent developments in public finances, was marked by a significant uncertainty due to the ongoing COVID-19 pandemic.** The worsened epidemiological situation necessitated the repeated introduction of measures restrictive for the economy, as well as higher spending aimed at bolstering the economy and funding the costs of testing and vaccination. On the other hand, even thanks to the support measures of the government, economy was recovering faster in comparison with the initial conservative estimates.

**In the fiscal performance of the general government in 2021, the most significant deviations from the budgetary assumptions were directly related to the uncertainty associated with the pandemic situation.** On the upside, revenue from taxes and social security contributions increased by EUR 1.9 billion (1.9% of GDP), in particular due to higher-than-expected tax revenues in 2020 which directly translated into an increase in revenue in 2021. On the downside, the general government deficit was influenced by higher expenditure for measures aimed at addressing the pandemic, thus increasing the budget deficit by EUR 1,9 billion (1.9% of GDP) after taking the reserve into account.

**Other factors not directly related to the pandemic situation have also significantly contributed to the deviation of the final result from the budgetary target.** Unspent capital expenditures of the state budget reflected in a reduction by EUR 0.8 billion (0.8% of

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1 For the purpose of assessing the development in public finance, the general government consists of the central government (state budget, organisations partly funded from the state budget, and other general government entities), the Social Insurance Agency and health insurance companies, and local governments (municipalities and self-governing regions).

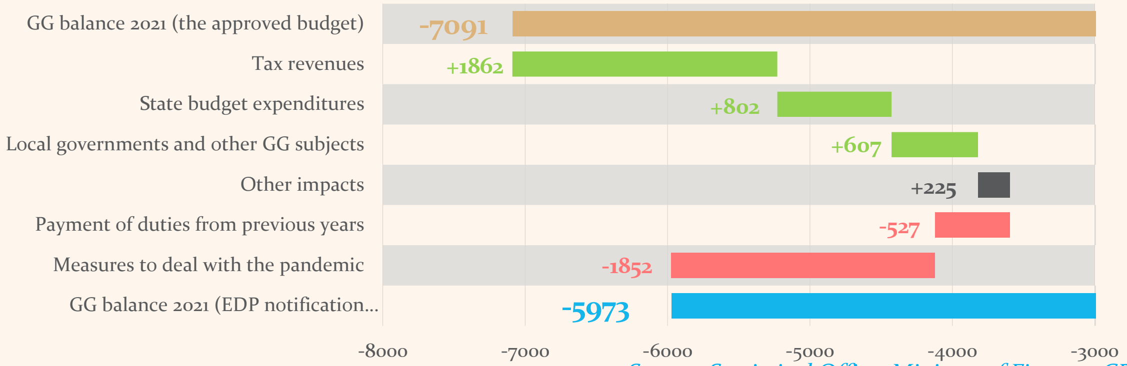
2 The State Budget Act was amended in May 2021 to respond to the negative impacts of the pandemic. Along with this amendment, the Ministry of Finance presented an estimate of general government deficit at the level of 9.9% of GDP in the Stability Programme. This figure, however, was not approved as a new target deficit for the government, and no updated assumptions on the fiscal performance of entities outside the state budget were published. In light of the above considerations, the CBR assesses deviations from the original budget approved in December 2020 in this paper.

3 Unless specified otherwise, the data of the Statistical Office of the Slovak Republic (SO SR), the Ministry of Finance of the Slovak Republic (MF SR) and the CBR's calculations were used as sources for outputs presented in this document.

GDP); a positive effect amounting to EUR 0.6 billion (0.6% of GDP) can be attributed to better-than-expected fiscal performance of local governments and other general government entities. On the other hand, the payment of the transfer to the EU budget which was not paid between 2012 and 2019, including the late-payment interest (the "Chinese customs duty" case) increased the general government deficit by EUR 0.5 billion (0.5% of GDP).

CHART 1

**Factors contributing to GG balance deviation from the approved budget (ESA 2010, EUR million)**




*Source: Statistical Office, Ministry of Finance, CBR*

**From the perspective of a medium-term burden on public finance, it is better to focus on the structural deficit indicator** (i.e., permanent deficit that will automatically last even in the future, if no additional measures are adopted[4]**)**. In 2021, the structural deficit declined by 1.1 p.p. of GDP to 1.9% of GDP. In the previous reports, the CBR estimated the impact of the pandemic on the structural deficit at 1.2% of GDP[5]. **The last year's budget result therefore eliminated the negative permanent impact of the pandemic on public finances,** which means that the **structural deficit is returning to levels seen in the years before the outbreak of the coronavirus crisis. However, the level of some 2% of GDP is still too high[6].**

**Gross debt amounted to 63.1% of GDP**, the highest-ever level of Slovakia's public debt. The year-on-year increase in debt by 3.3 p.p. of GDP also means that the **debt further departed from the highest sanction threshold of the debt brake set at 56% of GDP**. However, in addition to the high budgetary deficit, the increase in debt was also driven by more than a 1.7 p.p. of GDP **increase** in the government's **cash reserve**. Therefore, if we want to assess development in debt, it is more advisable to look at **net debt** which showed a **lesser year-on-year increase by 1.7 p.p. to 51.5% of GDP.**

**If no measures were taken by the government to respond to the impacts of the pandemic, larger and longer lasting negative consequences could be expected.** The aim of the government's measures was to prevent the spread of the infection even at the cost of temporarily restricting economic activity, while at the same time helping to compensate the affected groups for the negative impact of the pandemic. Given that the crisis was not caused by economic imbalances, the **protection of economic potential** through support schemes

4 The structural balance does not include one-off and temporary measures that do not represent a burden on public finance in the future.

5 CBR Report on the Long-term Sustainability of Public Finances for 2020. page 14.

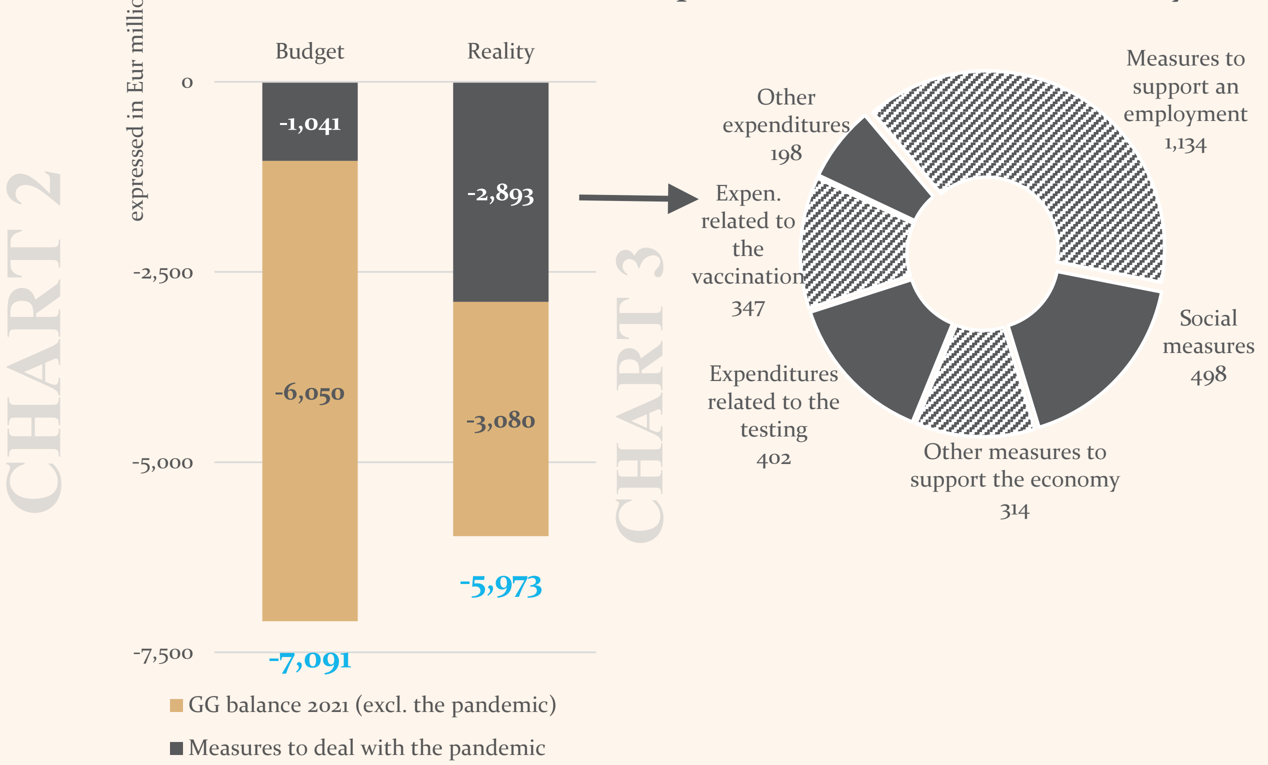
6 The structural deficit at some 2% of GDP means, that without additional measures, public finances in regular economic times would be reaching deficits at around 2% of GDP, i. e., only 1% of GDP less than the maximum admissible value of the Maastricht 3% deficit level..

for the private sector has naturally become, **in addition to the usual counter-cyclical policy, a legitimate objective of the economic policy**.

**Considering that the budgetary policy (along with the European funds) supported the Slovak economy in 2020 with a fiscal impulse of nearly 3% of GDP in 2020, this impulse was not increased in the budgetary policy last year** (a fiscal impulse of 0.0%)**.** Therefore, the fiscal policy was not restrictive and the fiscal impulse has been stabilised in particular through an increase in temporary measures linked to addressing the consequences of the pandemic. Temporary measures are best suited to respond to this type of crisis because once the crisis is over, these measures automatically expire as well and will not burden public finance over the long term. At the same time, the structural balance saw a significant reduction, thus neutralising the level of an additional impulse.

**The government's measures to address the pandemic have increased the deficit by EUR 1.9 billion (1.9 % of GDP). Even though the budget included a reserve of EUR 1 billion for the negative impacts of the pandemic, it was not sufficient to compensate for additional costs of addressing the pandemic[7]. The total amount of incurred costs reached EUR 3.3 billion (3.4 % of GDP); after subtracting the refund from EU funds and accruing of certain expenditures, the impact on the general government balance represented EUR 2.9 billion (3.0 % of GDP) in 2021,** most of which included one-off measures with no impact on the structural deficit.

**Government measures to address the pandemic increased the deficit by EUR 2.9 billion**




**The general government deficit increased, for the most part, as a result of measures to support the economy, totalling EUR 1.9 billion (1.9 % of GDP).** These included, in particular, employment support schemes (the so-called kurzarbeit), as well as additional aid in

7 This was the main argument of the Ministry of Finance of the Slovak Republic as to why the state budget was revisited in the course of the year in order to increase the deficit.

the form of other measures to support the economy, such as rent refund scheme, support for companies in the tourism sector and subsidies in the culture sector. As regards the Social Insurance Agency expenditure, sickness benefits received under quarantine or for taking care of a family member during the pandemic, including the duration of entitlement for unemployment benefits, have been extended. Other measures in the social sector included the payment of a one-off allowance for children in families in material need, as well as a one-off increase in family allowances.

**The government's expenditure to respond to the pandemic, excluding the measures aimed at supporting the economy, have increased the general government deficit by EUR 952 million (1.0 % of GDP).** These expenditures included the costs of testing and vaccination, including the vaccination bonus. Other measures for addressing the pandemic involved, in particular, a bonus for employees working at COVID wards, as well as expenditure for economic mobilisation and for the purchase of medical supplies; their negative impact on the balance amounted to EUR 203 million.

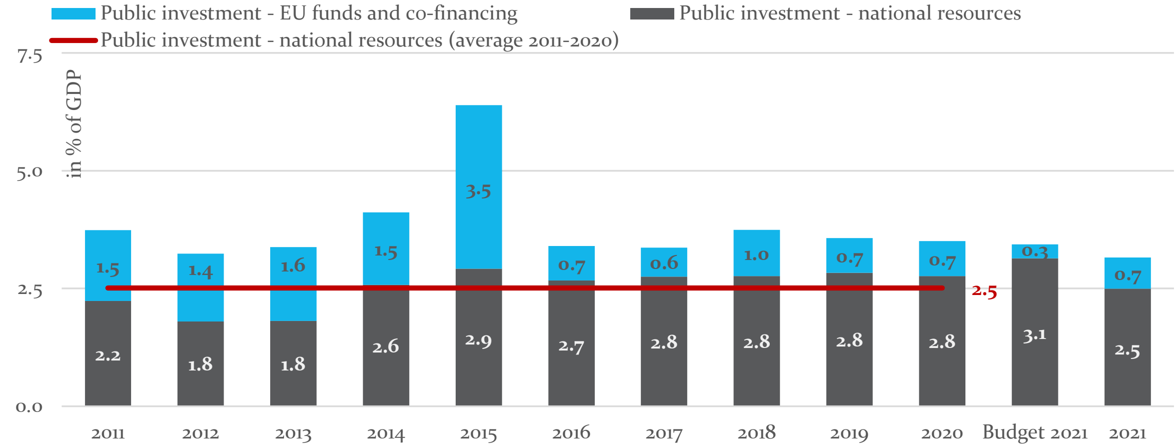
**The budget contained significant positive risks already at the time of its approval.** In December 2020 the CBR identified positive impacts in the approved budget both on the expenditure and revenue side with a total expected impact on the balance amounting to 0.5% of GDP. **In the course of 2021, the positive risks identified by the CBR have materialised, and in the case of certain items, their positive impact on the balance even surpassed the original expectations of the CBR.** This involved, in particular, higher-than-budgeted tax revenues, better results of other entities and local governments, as well as lower spending of capital expenditure of the state budget.

CHART 4

From the perspective of long-term sustainability, the long-term economic growth is important. It can be supported by the formation of new capital through effective public investments. Because the flow of European funds depends on a longer-term spending plan, the development of domestic public investments will be interesting to observe. **In 2021, the spending of these investments saw a year-on-year decline despite a high volume of capital expenditures included in the budget.** Even though domestic investments were spent at a level of the historical average since the previous crisis, the spending relative to GDP dropped by 0.3 percentage points[8] compared to the values seen in the pre-pandemic years. **Against the budget, there were unspent funds amounting to 0.6 % of GDP, which, on the one hand, contributed to a decline in structural balance, but, on the other hand, indicate that the government failed to fully use the budgeted resources for investments necessary for the economy.**

[8] If, in 2021, public investment from domestic resources would reach the same level (relative to GDP) as in 2019, the structural deficit would have been 2.2% of GDP instead of the actual level of 1.9% of GDP.

## Public investment sees a decline compared to the pre-pandemic period




*Source: SO SR , CBR, MF SR*

**Most of areas of the general government fiscal performance with a positive or negative impact on the budget balance in 2021 have been correctly identified by the CBR already at the time of its approval; however, the resulting deviation from the budget assumptions has significantly surpassed the CBR's initial estimate.** At the same time, in some cases, these deviations were not a result of uncertainty in developments, but rather due to overly optimistic or conservative assumptions in that respect. For this reason, the **CBR views positively the extension of the mandate of the Tax Revenue Forecasting Committee** which, as of 2021, is independently assessing the assumptions for the budgeting of the most important non-tax revenues and selected general government expenditures in the social sector. Also, the **CBR welcomes the fact that it was able become a member of the working group of the Statistical Office of the Slovak Republic**, as it has been striving for such membership since its establishment[9].

9 In years between 2015 and 2019, the CBR did not have access to detailed information about the profit/loss of general government entities under the ESA2010 methodology even though it attempted to gain such access. In 2020, a quadripartite agreement between the Statistical Office of the Slovak Republic, the Ministry of Finance of the Slovak Republic, the National Bank of Slovakia and the CBR/the CBR Secretariat concerning the exchange of information with a view to improving the quality of data notified to Eurostat for Slovakia was signed.

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